

The debate about public sector reform is heating up. During the boom, surging tax revenues from the property sector allowed the Government to meet the increased demand for public services without major improvements in productivity. The meltdown in the public finances means that a more radical programme of reform is needed if spending cuts are not to translate into painful reductions in services.

Unfortunately, evidence-based commentary on the quality of public spending is in short supply. Much like the debate a few years ago about the sustainability of house prices, media discussions about the public sector often don't move beyond glib sound bites and tired clichés.

Some commentators are peddling the populist message that public servants are overpaid and underworked. They are calling for substantial pay cuts and large-scale redundancies. Their slash and burn rhetoric is based on several arguments, all of which are flawed.

They argue that public servants earn more than private sector workers; that the public sector should not be immune to the economic downturn; and that the public sector is crowding out wealth-generating parts of the economy.

They overlook that two of every three public servants work in the health and education sectors. These sectors require employees with above-average human capital, which justifies above-average pay. That there exists a pay differential tells us nothing.

They forget that public servants pay taxes and are affected by tax increases. Moreover, they ignore what's happening to the demand for public services. The demand for housing and financial services has tanked, so pay and employment in those sectors is adjusting. The demand for health and education services is still growing.

They miss that public services are counted as part of the country's GDP -- and therefore provide useful support to the economy at a time when other sectors are dragging it down.