PUBLIC SECTOR ADJUSTMENTS IN EUROPE

SCOPE, EFFECTS AND POLICY ISSUES

CONFERENCE ORGANIZED BY THE INTERNATIONAL LABOUR OFFICE
IN COOPERATION WITH THE EUROPEAN COMMISSION

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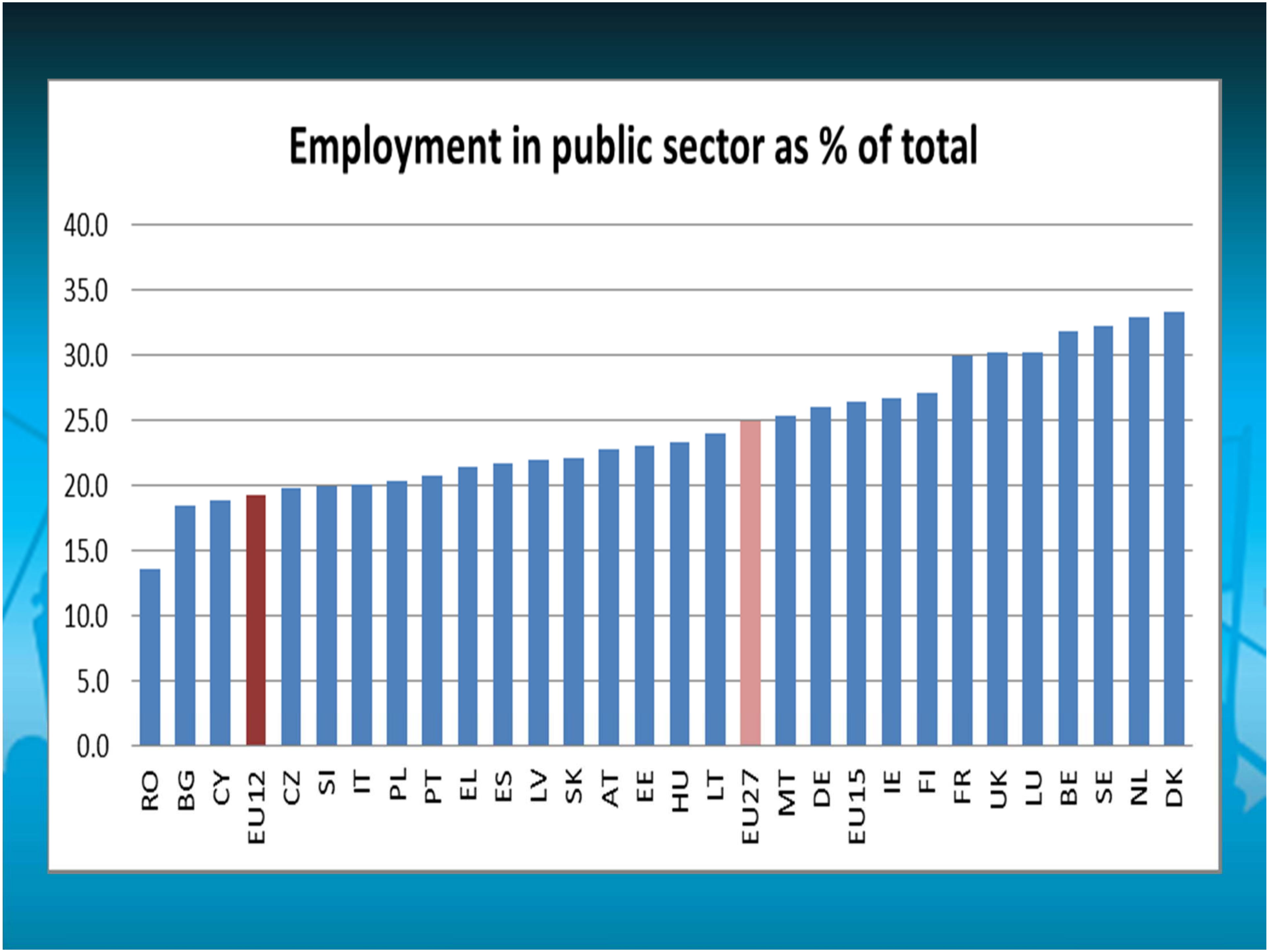
Hotel Crowne Plaza Rogier, Vision Room

Objectives of the project

- Document recent public sector adjustments
- Provide evidence on their short-term and long-term effects
- Illustrate these effects through concrete examples
- Identify eventually some policy ingredients for successful reforms in the public sector

The scope of the project

- **Definition of the public sector**: Core public sector based on state-ownership (excluding state-owned enterprises) covering sectors such as Public administration, Education, Health care and social services
- **30 European countries** (EU27 + Croatia, FYRM and Turkey) invited in this conference
- High level expertise on **15 selected countries** including those with most adjustments (Greece, Portugal, Romania , Spain, UK etc.)



Employment in public sector as % of total
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
RO
BG
CY
EU12
CZ
SI
IT
PL
PT
EL
ES
LV
SK
AT
EE
HU
LT
EU27
MT
DE
EU15
IE
FI
FR
UK
LU
BE
SE
NL
DK

The methodology

Difficulties due to:

- A lack of comparative statistics on public sector; and
- The fact that adjustments are currently carried out

Faced through:

- Case studies at sectoral or institution level;
- Evidence also from past adjustments in the public sector (UK, Netherlands)

Case studies	Case study 1	Case study 2
Croatia	Upper secondary education	Wage moderation process in 2008–2011
Estonia	Health care services	Rescue sector
France	Public sector reform process	Education
Germany	Public procurement	Local budgetary adjustments in the city of Duisburg
Greece	Health care	Education
Hungary	Health sector: doctors’ situation	Education
Ireland	Services to the unemployed	Education
Netherlands	Effects of past wage moderation	Health care wage regulation
Portugal	Education (secondary school in high income area close to Lisbon)	Education (primary school in depressed area close to Lisbon)
Romania	Education	Wage reforms in the public sector
Spain	Health system	Education
Sweden	Elderly care in Växjö municipality	Local public employment agencies
United Kingdom	Job search services to the unemployed	Local government

First result: Great diversity

- In **timing**: Before *versus* Because of the crisis (Sweden and Germany compared to Greece , Portugal and Romania)
- In **nature**: Quantitative adjustments *versus* structural reforms (Greece, Hungary, Ireland compared to Sweden and Nordic countries: mix systems in Estonia or the Netherlands)
- In **implementation**: with or without prior reviews or costs/benefits analyses, through negotiation or not; etc.

Structural reforms

- Decentralization
- Reforming human management practices
- Adjusting operations to facilitate economies of scale
- Shifting services from the state to the private sector

Quantitative adjustments

- Public expenditure reduction
- Wage cuts
- Employment cuts

Recent focus on quantitative adjustments

- **Employment** – unprecedent cuts as in the UK, modification of employment status as in Portugal to encourage temporary work, outsourcing or as in Greece to part-time and temporary work

UK: 10% over five years already exceeded so double expected by 2014; -25% in Greece; - 10% in Portugal and Romania;

- **Wages** – cuts of basic wages (-10% in France and Spain; -15% in Lithuania and -25% in Latvia, -25% in Romania in 2010); additional months (13^{th}, 14^{th} as in Greece, Hungary, Portugal and Romania), bonuses (Christmas as in Germany, etc.)
- Cuts in **pensions** (Greece, Spain etc.) and in **non monetary benefits** as for housing, meals (Portugal and Romania) or for sick leaves (Spain)

Immediate effects

- Widespread **waves of protests** (documented in the volume) – lower where more social dialogue
- **Wage dynamics modified** with regard to private sector: from a wage premium to a wage penalty: Romania: from +45% in 2009 to -15% in 2010 (+ than 60% points); Hungary: from +15% to -15%; common trend; minimum wage lower in PS in Romania and Portugal
- **This will continue**: further cuts or at the best wage freeze in almost all European countries

Inequality and vulnerable groups

- Wages traditionally more compressed in the public sector
- Wage cuts across the board have **increased inequality** (Hungary, Romania) compared to progressive wage cuts along the wage scale (Portugal) – so different impact
- Inequality also from different work contracts and pay and working conditions for new employees – **dual labour markets** as in France, Germany and Ireland
- **Increase in temporary workers** also a source of inequality(Spain)
- **Categories most hurt**: women, young workers, migrant in some occupations

Impact on low paid

- Leading factors: cuts in wages, bonuses, overtime, pensions; precarity and difficulty getting re-employed; shift to part-time
- Rapid increase in low paid workers as in Hungary where low paid workers among public sector employees with lower than secondary education increased from 31% in 2008 to 55% in 2010 along the abolition of the 13th month; same trend in Romania, Lithuania , Germany, the UK
- A lower minimum wage in the public sector further contributes to this trend (Portugal, Romania)
- Problem identified among specific professions like teachers
- Outsourcing and low wages in the private sector contributed to a race to the bottom

Deteriorating working conditions

- Less jobs and same volume of services lead to **increased workloads and higher work intensity** (case studies on education and health care in France, Spain, Portugal but also Sweden)
- Often **increased number of working hours** but along **overtime rates reduced** (Greece, Hungary, Portugal) or abolished (Estonia, Romania, Croatia)
- Deteriorating working conditions aggravated by **changes in collective bargaining** with the abolition of previous extension clauses (Romania) or no respect of collective agreements (Greece) or changes in social dialogue institutions (Hungary, Latvia)

The poor use of social dialogue

- Quantitative adjustments to reduce the budget deficit generally carried out hastily without negotiations and consultations with the social partners
- In a series of countries initial tripartite agreements have not been respected (ex in Spain where 2010 agreement not to cut wages not respected by the government; in Greece social dialogue excluded from the negotiations on rescue and austerity packages).
- Some positive examples: agreement in Ireland, collective agreements in France and Sweden etc.

Longer term effects on human capital and quality of jobs

- **Reduction of training** (reduced by 50% in Portugal, but also in Croatia and Baltics) and lower expenditure on human capital
- **Career progression frozen** (Portugal for instance for teachers, Greece) **or dismantled** (UK)
- Lower career prospects + wage cuts affect **PS ability to attract and retain staff** with higher performers leaving: already observed in our case studies (Estonia, UK etc.)
- In the Netherlands this process combined with labour force ageing will lead to 70% of all employees in government and education to leave by 2020
- Older staff replaced by lower skilled employees (Portugal) so **change in skill composition**

Increased migration

- Worsening wages and working conditions also led to waves of emigration (doctors from Hungary and Romania, but also from the Czech Republic and Poland) (Romania: -10% of doctors since 2007; Hungary: 600 doctors left every year in 2004-08 compared to 800 graduates per year
- Also series of protests in these countries: in 2011, thousands of Czech, Slovak, Hungarian and Polish doctors deposited notices of resignation as a sign of protest (case studies for Hungary and also Baltics)

Effects on the quality of services

- Mismatch between (increasing) demand and (decreasing) supply in almost all case studies (many examples of falling quality: education and health care in France ; increasing medical waiting lists in Estonia; increased insecurity, longer judicial delays, corruption, rescue services in danger as in Estonia etc.)
- Resources have fallen but also performance and service quality (confirmed by OECD)
- Private sector providing public services also not always coinciding with the public interest (unemployment services in UK)
- Disproportionate effects on disadvantaged groups (cuts in education in Ireland, low income regions in Germany, education of Roma children in Hungary etc.)

Longer term effects on structural reforms

- **Contradiction between quantitative adjustments and reforms: many examples** :
- **Ex. 1**: Measures to facilitate career progression and **better recognition of skills** undermined by recent measures to **stop or limit career advancement**
- **Ex. 2**: Reforms to **encourage mobility** discouraged by greater **recourse to fix-term employment** that reduces motivation to move (example Portugal)
- **Ex. 3**: Structural reforms to **link pay to performance** and merit have been halted by **wage cuts or freeze** (Romania)
- **Limits of certain structural reforms themselves** questioned (outsourcing in the UK in terms of accountability, transparency, efficiency and services delivery). The state must continue to play a role (ex. Sweden)

Will the initial objectives of adjustments be met?

- **Budgetary** along the need to cut public expenditure
- **Economic** by making services more modern and efficient
- **Political** along the redesign of the role of the state

This mix is aimed at 'doing more with less' but there is a risk of 'doing less with less' or even 'doing less with more'

Policy considerations

- The speed and predictability of adjustments
- The method itself: transparency, negotiation important to avoid conflicts
- The combination between quantitative adjustments and structural reforms
- The balance between raising revenues and cutting expenditure
- The future role of public services for the economy and for society