# Executive Summary

International Labour Organization

# Public Sector Shock

## The Impact of Policy Retrenchment in Europe

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After a first series of policy responses to the 2008–09 crisis aimed at sustaining domestic demand, most European governments – starting with Greece, Ireland, Bulgaria and Romania, and followed by many others – have since put in place a series of restrictive budgetary policies aimed at reducing deficits. With these new policies, a significant number of jobs and wages have been cut in the public sector, as have a number of expenditure items related to education and training. These reforms have given rise to waves of protest throughout Europe.

In this new volume, Daniel Vaughan-Whitehead and a group of high-level national experts examine the impacts of this "public sector shock". The book comprises 12 country-specific chapters and two chapters which give a comparative overview. It explores such questions as: What types of reform have been implemented in the public sector? What are their short- and long-term implications? On the economic side, what will be these reforms' impact on wages, and on job quantity and quality? On the social side, what will their effects be on inequality and social cohesion, as well as on social dialogue?

### Main findings: Diversity between countries, but a general trend towards hasty quantitative adjustments

One main finding is that there is great diversity in public sector adjustments in Europe. Differences can be explained a number of key factors: whether a country has already experienced significant public sector adjustments in the past (e.g. Germany, the Netherlands and Sweden); whether a country has large-scale public sector employment; and the country's budgetary situation and its vulnerability to the crisis. Generally, the higher the debt is, the greater the public sector adjustments are – as witnessed in Greece, Ireland, Portugal and Spain.

The authors' research also shows that the immediate and urgent pressure for savings and reductions of public expenditure in most European countries has led most policy-makers in Europe to favour quantitative adjustments, mainly cuts in public sector expenditure, but also in jobs and wages. Employment security is thus no longer the norm in the public sector, and an increasing number of employees are hired under temporary work contracts. Wage cuts have been implemented in various ways, for instance a basic wage freeze or cut (Estonia, Ireland, Latvia, Lithuania, Romania and others), or through the abolition of bonuses previously enjoyed by public sector employees (e.g. the thirteenth month payment in Hungary and the thirteenth and fourteenth month payments in Greece). For the first time, the minimum wage was cut in Greece, by 22 per cent. While in some cases these adjustments could efficiently complement structural reforms in the public sector (such as better wage-fixing systems and more efficiency), they can also limit the effects of these institutional reforms, and even halt them. This is what happened in Portugal and Romania.

## What is the evidence so far on the impact of such adjustments?

The wages and working conditions of public sector employees are obviously being modified by the magnitude of the changes involved. In a number of countries, public sector employees have lost the wage premium they have traditionally had over the private sector, justified by their higher education levels. In Romania, for example, the premium over the private sector fell from 40 per cent in 2010 to -15 per cent in 2011. Such dynamics may well lower skills and human capital levels in public sector occupations. In a number of European countries the public sector has stopped attracting the young qualified graduates that hitherto had been its lifeblood.

At the same time, uniform wage cuts along the wage scale have increased inequality and hit lower grades harder, thus plunging many workers below the poverty threshold. Working poor in the public sector has become a new phenomenon in Europe. In Hungary, this affects more than 50 per cent of public sector employees below secondary education level.

There has also been an increased migration of public sector employees. The book documents a massive wave of emigration comprising doctors, nurses and teachers from Hungary, the Czech Republic and Poland. As protests against austerity measures spread in southern Europe – especially in Greece, Spain and Portugal – more and more people are moving to northern countries in search of decent jobs.

Gender inequality has also been fuelled by public sector adjustments, as a result of the traditional importance of the public sector for women's employment, access to higher positions and more flexible time, work and family arrangements. The volume devotes one chapter to studying the impacts of the growing gender gap across Europe.

The volume also details how job losses in the public sector have contributed to increasing the workload and working hours of those remaining in public sector, while payment rates for overtime have been reduced or even frozen in a number of countries. The simultaneous reduction in expenditure has reduced the human and material resources available for carrying out services, and these either remained the same or increased – as in health and education.

The neglect of social dialogue in the reform process and the abolition of a number of provisions that encouraged collective bargaining have also contributed to lowering working conditions in the public sector. The sector has lost its role as a model employer with job security, collective bargaining, employee participation in decision-making, and good pay and working conditions, and is instead converging with private sector practices. These changes and the way they have been implemented have triggered a wave of demonstrations and strikes by public sector employees – often joined by other social groups – throughout Europe.

### Will the quality of public services be lower in the future, and what can be done?

All these changes – especially the greater mismatch between increasing demand and falling supply – do not bode well for the future quality of public services. A number of individual case studies in the volume provide indications of what may lie ahead, for instance lower ratios of teachers to students and the waiting lists for admission to hospitals, with similar trends in public administration. As the public sector reform process continues in Europe, it will be vital to continue monitoring and evaluating the effects of the current reforms as more data become available. A number of lessons learned can already be highlighted, however. First, current evidence underscores the need to use social dialogue as a reform tool and to involve workers' representatives more closely in the reform process. Second, gradual and progressive adjustments are more effective and less damaging than employment and wage adjustments attempted over one or two years. Third, a more balanced combination of quantitative adjustments and structural reforms is needed, as is a better mix between fiscal and other important considerations, such as equality, social dialogue, job prospects, working conditions and the future efficiency and quality of public services. Only under these conditions can public services in Europe continue to provide an important source of both social cohesion and economic growth.

The volume's central message is clear: the current adjustments in the public sector have been decided hastily, notably under pressure of budgetary deficits with the objective of "doing more with less". This explains the priority given to quantitative adjustments – with massive cuts in expenditure, jobs and wages – over structural reforms. These policy choices, however, have direct effects not only on the social side (increasing low pay and deteriorating working conditions among public sector employees), but also on the economic side (decreased human capital and poorer-quality public services). The evidence collected here highlights that governments will certainly "pay less but also get less" out of this process. If the adverse effects continue in the long term, European countries may even end up "paying more for getting less" in the public sector, thus achieving the total opposite to the objective initially pursued.



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