

Session 2:
What immediate effects of public sector adjustments in
the world of work?

Case study 3:

Continuous flow of public sector reforms in Romania



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Conference on
*“Adjustments in the public sector in Europe:
Scope, effects and policy issues”*

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Commission*



Continuous reform in PS...

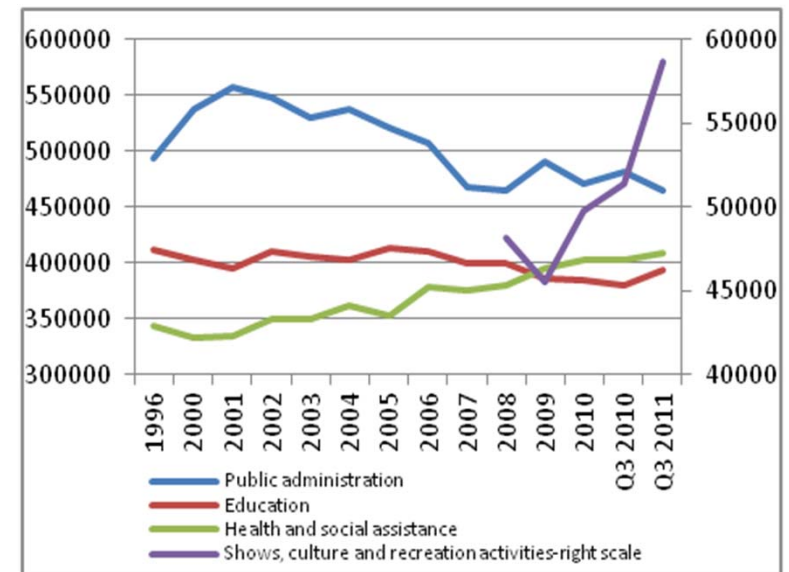
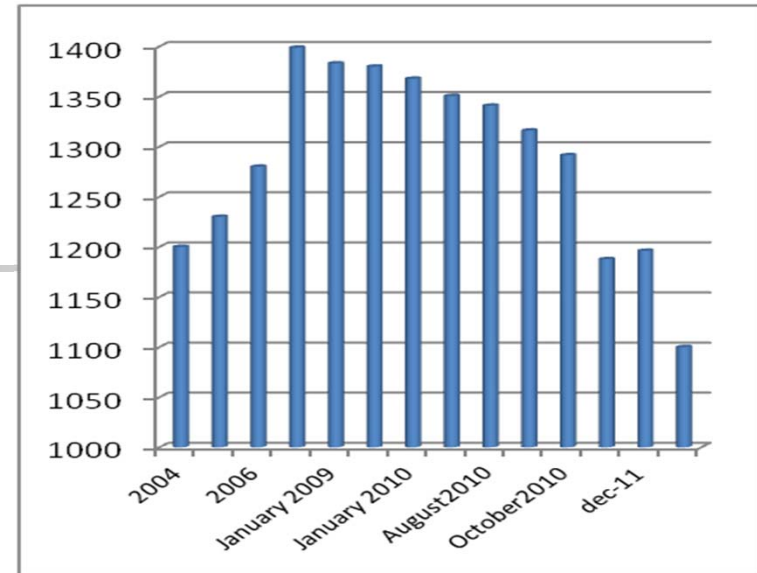
- measures required to adjust the government sector to the market economy,
- Measures to meet the demands of EU accession,
- and finally to measures to overcome the crisis → a **mix of quantitative adjustments and structural reforms**, some aimed at improving efficiency and others part of the restrictive IMF package.

..... The result is that Romania has been characterized by continuous reforms in the public sector, **not all with positive outcomes**

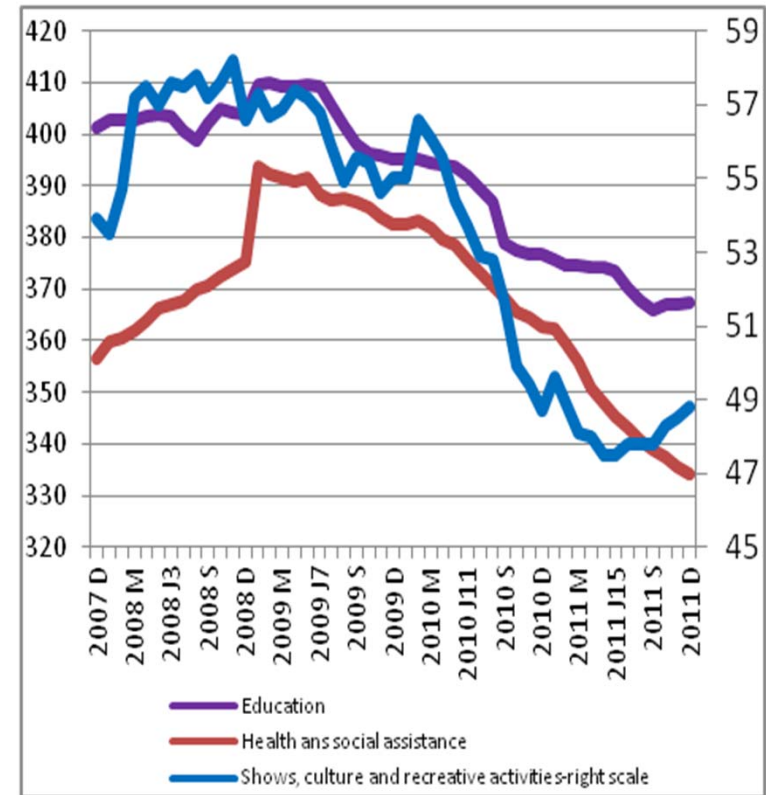
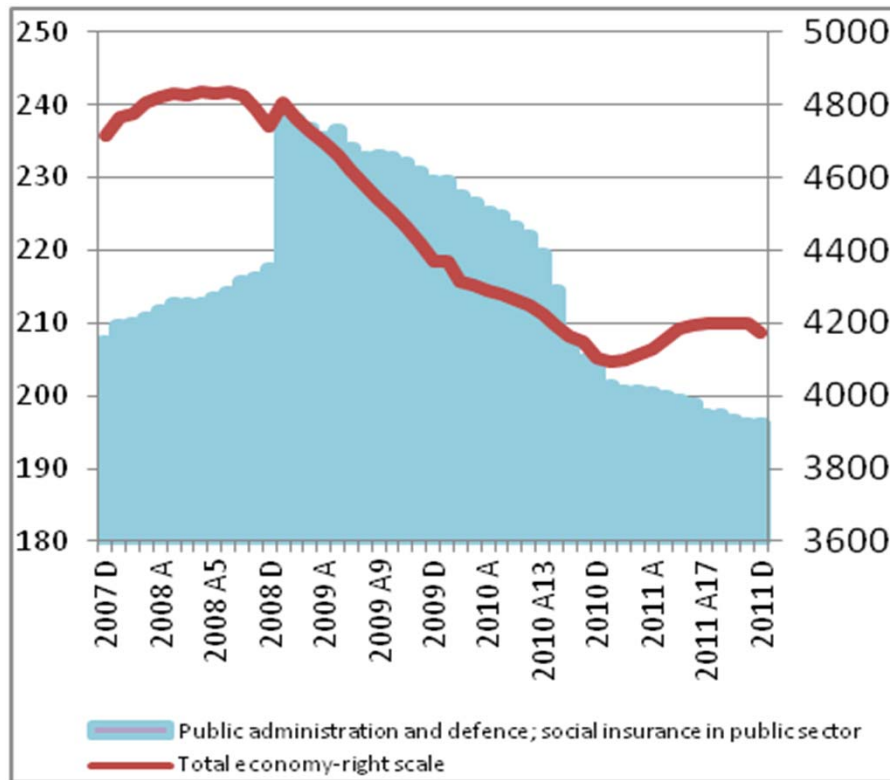
Measures	Effects
<p>Administrative reorganisation of the public entities by reducing number of agencies and structural reorganisation (141 agencies) – layoffs and forced retirement</p>	<p>Job cuts & employment structural changes (on education level and age groups)</p> <p>Forced retirement of persons over the statutory retirement age</p>
<p>Employment cuts in PS Limitation of the entry into in the public sector – 1 to 7 replacement rate through re-employment</p> <p>Wage austerity</p>	<p>Reducing job vacancy rate</p> <p>Lower employment flexibility (fixed/temporary or part time contracts)</p> <p>Lower PS expenditures for personnel</p>

PS dimensions

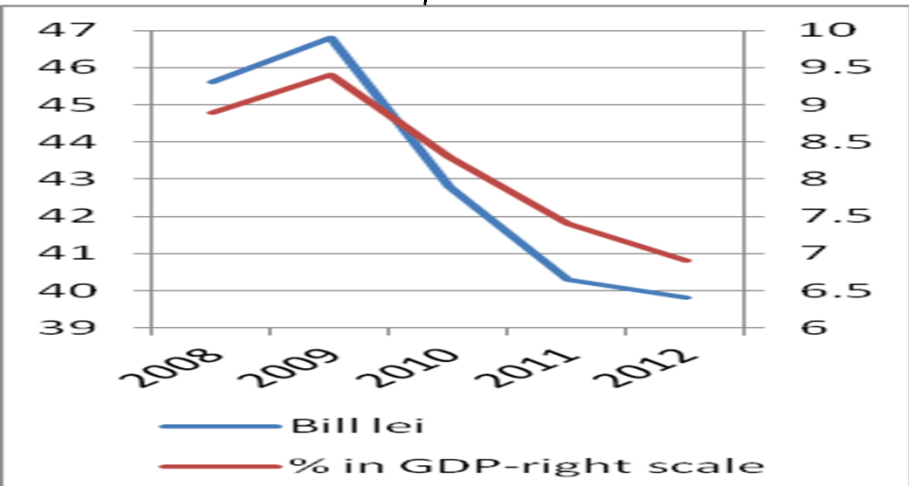
- employment increased significantly, with jobs paid from the state budget increasing from about 800,000 at the beginning of the transition to almost **1.4 million** before the crisis, then decreasing again to **below 1.2 million**
- The PS concentrates about **21 per cent of the labour force**
- the total wage fund represents about **25 per cent of budgetary expenditure.**



Employees (end of each month)



Adjustment measures in public payment system because of the crisis

Measure	implementation	Impact																		
<p>Ceiling the expenditures for personnel</p>  <table border="1"> <caption>Data for the line graph</caption> <thead> <tr> <th>Year</th> <th>Bill lei (left axis)</th> <th>% in GDP (right axis)</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>45.5</td> <td>9.5</td> </tr> <tr> <td>2009</td> <td>46.5</td> <td>9.5</td> </tr> <tr> <td>2010</td> <td>43.5</td> <td>8.5</td> </tr> <tr> <td>2011</td> <td>40.5</td> <td>7.5</td> </tr> <tr> <td>2012</td> <td>39.5</td> <td>6.8</td> </tr> </tbody> </table>	Year	Bill lei (left axis)	% in GDP (right axis)	2008	45.5	9.5	2009	46.5	9.5	2010	43.5	8.5	2011	40.5	7.5	2012	39.5	6.8	<p>9.5% of GDP in 2009, 6.94% of GDP in 2011 and 6.8% in 2014 (in 2012)</p>	<p>layoffs; mandatory retirement at statutory age; limitative access to employment of the pensioners</p> <p>Mimimum wages in PS below national level: 2009 – similar; 2010 -2011 – public 600/ private 670; 2012 – public 600/ private 700</p>
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Adjustment measures in public payment system because of the crisis

Measure	implementation	Impact
Unpaid leave	2009, Yes 2 weeks (Oct-Dec) 2009-2014 No	Reducing monthly earning, lower public expenditures
Compensating overtime by free time	2009 -2012 Yes 2013-2014 (Fiscal strategy) Yes	Increasing productivity Lower incomes Work intensity (increased social productivity but less work quality)

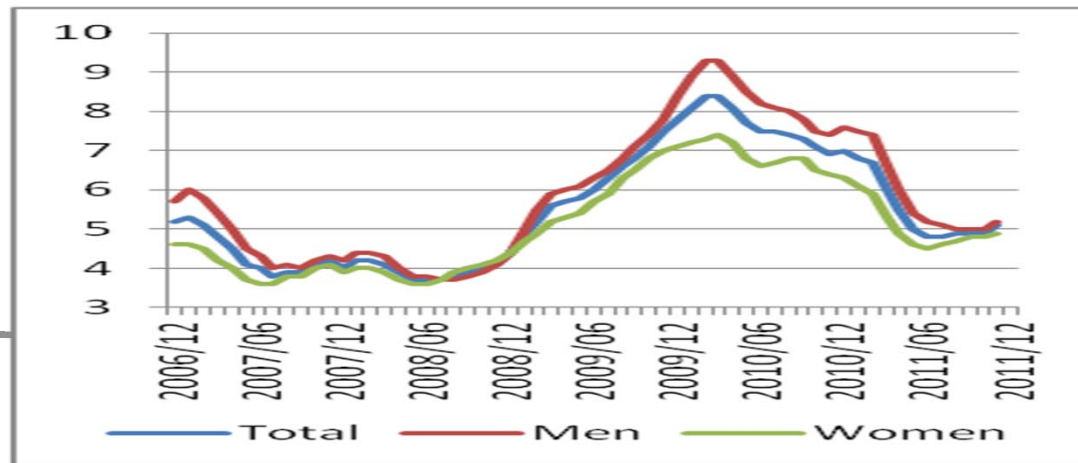
Adjustment measures in public payment system because of the crisis

Measure	implementation	Impact
13th month pay	2009 Partial payments 2010 The sums unpaid in 2009 and for 2010-2014 No payments	Lower incomes
Restrictions in granting benefits, bonuses and holiday and lunch vouchers	2009 – yes 2010- present No	Lower incomes
Prohibiting cumulating pension with wage from the state. if the pension exceeded a certain ceiling	2009- No 2010-2014 Yes	Decreasing re-employment, reducing share of older personnel in the public sector Restricted active ageing

Adjustment measures in public payment system because of the crisis

Measure	implementation	Impact
<p>Wage decreasing</p>	<p>April 2009- Elimination of the most of the bonuses August 2009 - further cuts in additional payments and bonuses Jan 2010 - Consolidate bonuses into wage base July 2010 - -25% from July to Dec 7.1% of GDP in 2013 and 6.8% in 2014 In 2005–2008, spending on public wages and pensions nearly doubled and public wage growth has outpaced growth in private wages. A cut of 25 percent in personnel compensation would result in compensation falling to between 2007 and 2008 levels in nominal terms and the 2006 level in percent of GDP (July 2010, IMF Country Report No. 10/227, p 15)</p>	<p>Decreasing and inversed the pay gap by property form Increase the proportion of persons at low incomes (no transparence, no statistical data) Increasing poverty among lower qualified personnel in the public sector No real coherence in the system, more confusing in the implementation period (gradual implementation- insufficient resources) – increased inequities Specialists leave the system: private sector or migration (medical staff-specialists and nurses) Employment deficit & over employment No stimulus for the graduates to develop a career in PS</p>

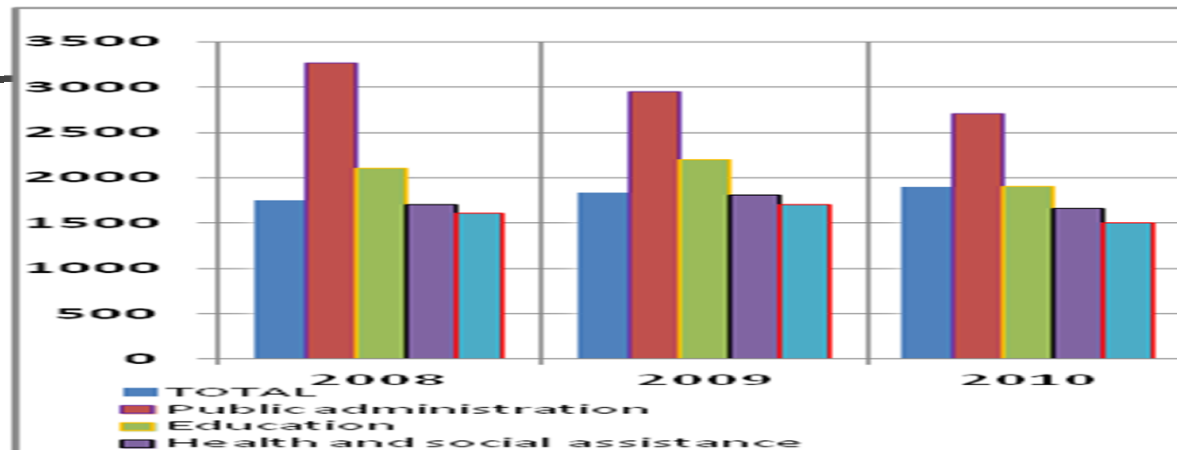
Effects?



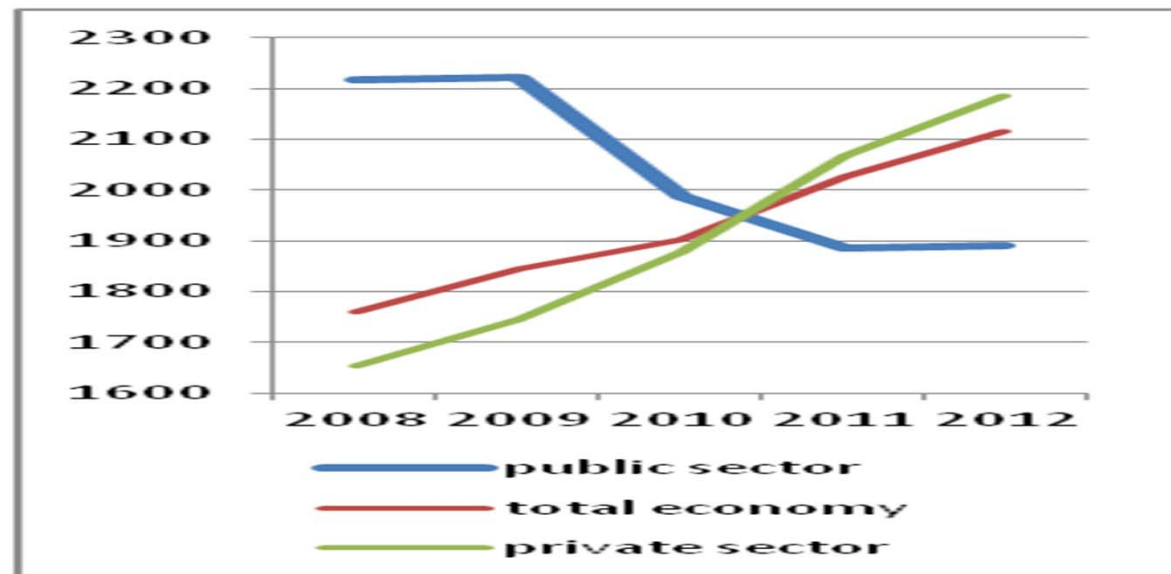
- Decreasing number of employees (total, -12.5% and in PS)
- no significant changes in the proportion of the employees with higher wages (oct 2011, 97000 of PS employees received wages higher than 1180 euro/month, similar with 2008) – total employees with higher wages on national economy=190000 persons
- Over 1 million PS employees and 6 millions of pensioners – incomes lower than 1000 euro/month
- Average labour cost/ month decreased with 4% in Q1 2012 /Q4 2011

Main effects of the wage reform

- Gross salary per employee (lei/month)



- Pay gap



New policy measures to overcome very slowly recovering after crisis

Expected results

Restoration of the purchasing power of wages and stimulate recovering the consumption demand level before 25% wage cut

No qualitative adjustments – uniform cut+ uniform increase for 2010 level recovering



Partial recovery

- of the wage cut in PS (June 2010)
 - **Jan 2011**: 15% increase
 - June 2012: 8% increase of the level of May 2012
 - December 2012: 7.4% increase of the level of Nov 2012
 - For all (except personnel employed under Act 284/2010 new law on wages in PS not affected of the Act 118/2010 provisions – wage cuts in PS)
- Employment “1 to 7 jobs” but in a differentiated proportion on PS activities (increase in health care, education)



Supplementary taxes for higher wages in PS

- Supplementary 16% tax for wages and pensions higher than 4500lei/month (around 1000 euro/month) – 2013 a sort of “solidarity tax” will affect 103720 persons (paid from state budget 56000 from public companies, 47000 from public administration, education and health and 720 pensionnaires)
- Ceiling of highest wages in state companies



Expectations

- To find the right policy mix in the current reforms carried out in the PS
- Good effects on short term but with a certain sustainability of quality reforms on long term (!)