

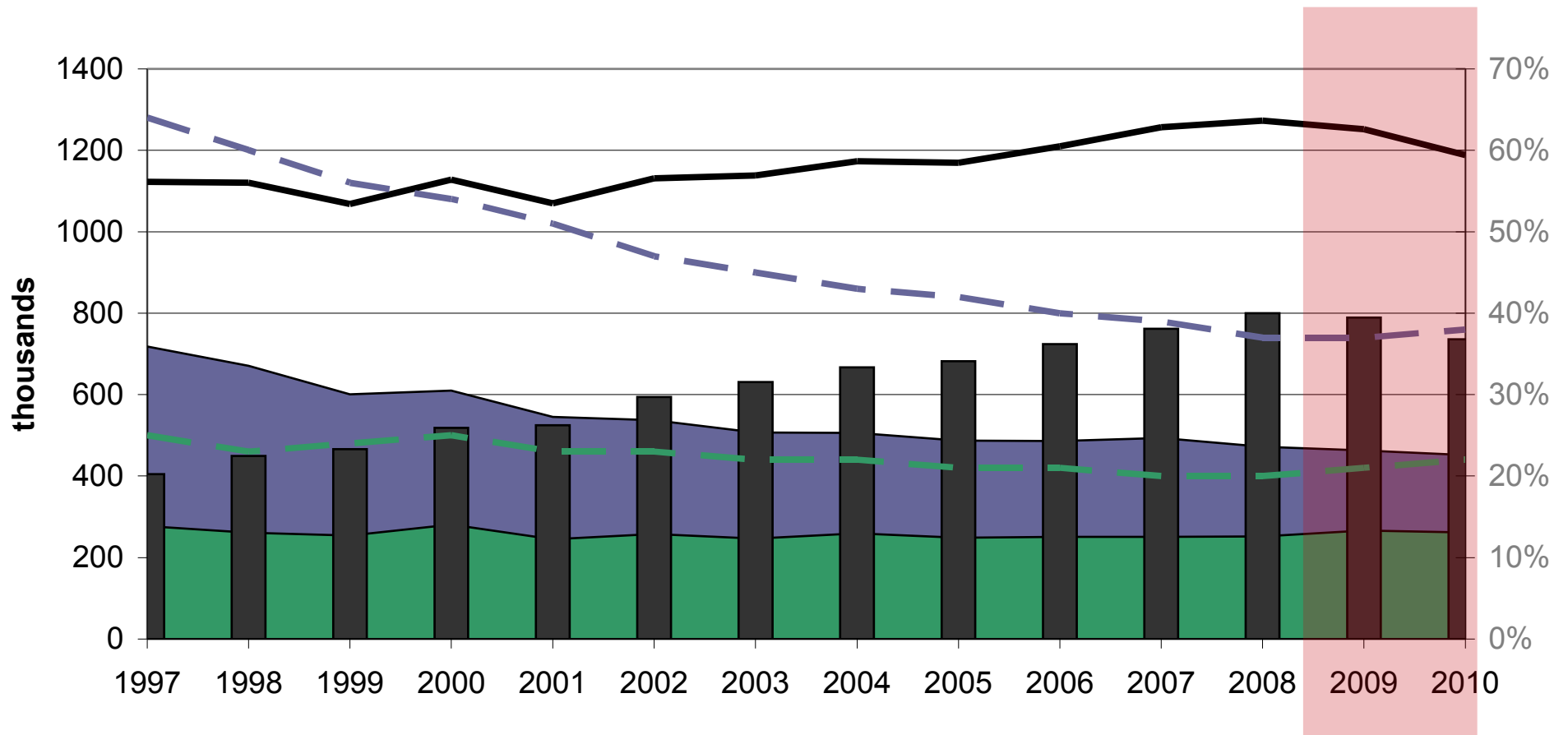
Croatia: Between short-term adjustments in public sector and structural crisis

**Adjustments in the Public Sector in Europe:
Scope, Effects and Policy Issues**

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Vojmir Franičević
Teo Matković
University of Zagreb

STATE OF PLAY IN PUBLIC SECTOR CROATIA



- Total public employment (incl. public owned enterprises)
- Public employment in general government sector (public administration and defence, health, education)**
- Total number of private sector employees*
- Total number of employees
- % employees working in state-owned institution (right scale)
- % employees working in GGS (right scale)

STATE OF PLAY IN PUBLIC SECTOR CROATIA, MID-2000S

Perception of bloated public sector employment

But not overtly large public service sector, relative to EU-27

- However, considerable over-employment in public companies
- long-term trend of decrease of share of state employment has been reversed since 2009, while PSE's share has remained stable
- In the background, substantial decline in private sector during the recession

Main PS problems not size, but

- **Poor governance** (including clientelistic staffing)
- **Poor efficiency** (cost, service provisions)
- **And, increasingly, questionable viability**
- ◆ Emerging from decreasing activity, ageing, low productivity, foreign-debt increase
- ◆ Made urgent with strong and lasting impact of recession/depression

TWO DIRECTIONS OF REFORMS ONGOING PRIOR TO CRISIS

Efficiency and governance

(mostly IFI-driven, since late 1990s)

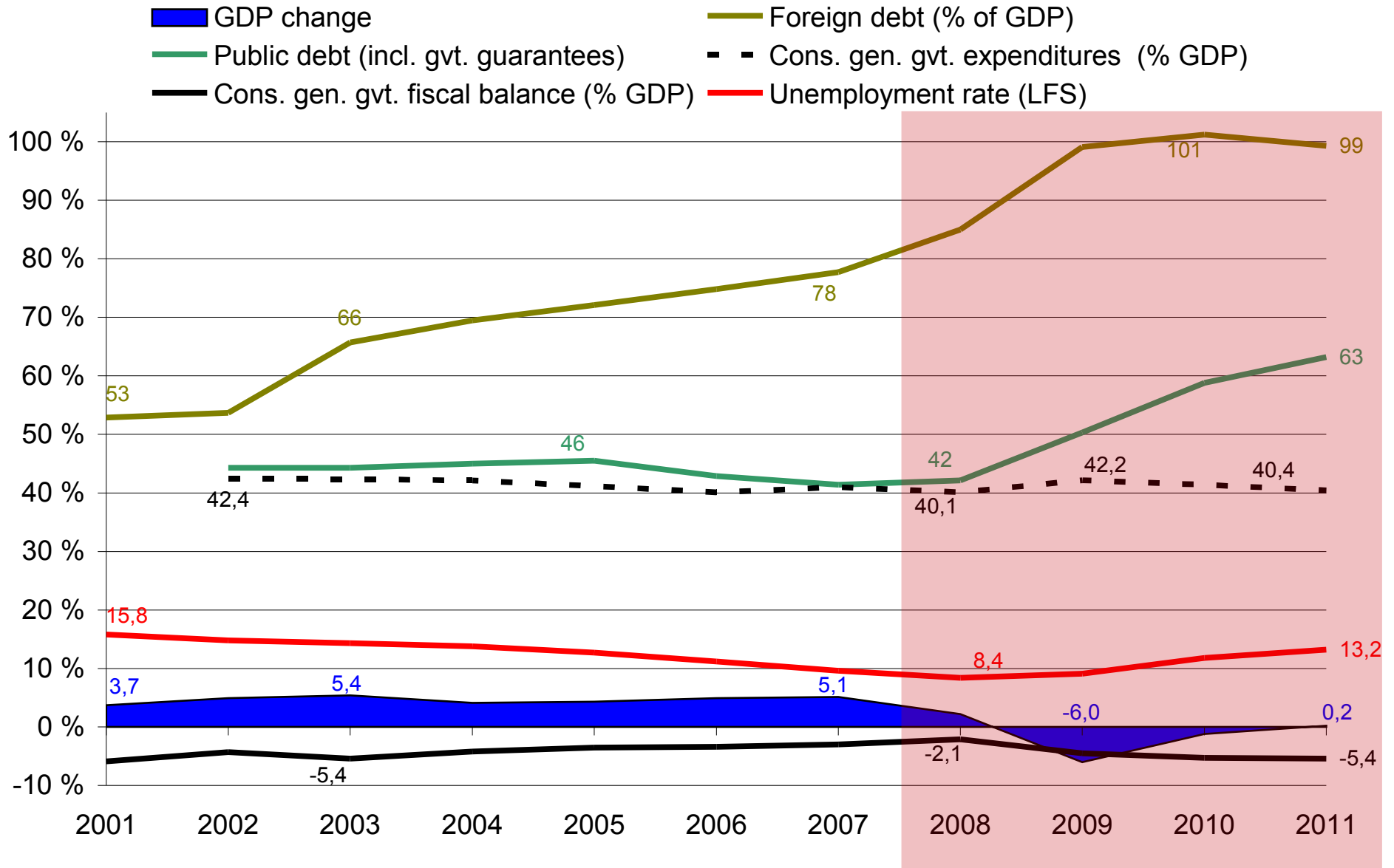
- E.g. primary health reform with quasi-privatization
- Pay and promotion system reform in PA
- Outsourcing in PA
- Public-private partnership etc.

But also on European harmonization

(since 2003 SSA)

- Capacity building and governance in PA
- *Including human capital upgrade through training*
- 'Knowledge-society' agenda in education
- *Bologna reform adoption*
- *Pedagogical standards improvement*
- *National curriculum*

DEEP IMPACT OF CRISIS



CRISIS ADJUSTMENTS

ROUND 1: 2008-2010

Change of priorities:

from reforms towards fiscal consolidation and viability

- *Trade Unions: Agenda of "sharing the burden"*
- *Government: Agenda of wage bill containment*

Strong bargaining performance of PS unions led to **only modest adjustments and overall stability** in employment and wages

- fortified in 2010 and 2011 general and collective agreements containing promise of post-crisis wage convergence
- leaving a difficult legacy for the government to come, now a matter of contestation

Many reforms postponed, delayed or abandoned/stalled, in particular controversial ones (PA pay reform, education reform)

Only reforms contributing to fiscal adjustment were continued (Health system, outsourcing in PA)

CRISIS ADJUSTMENTS

ROUND 1: 2008-2010

Structural, service-quality or work-quality issues were not on agenda of government, trade unions nor public in general.

Therefore, PS expense adjustments were followed in:

- Reduced public goods & service procurement
- Reduced training funding
- Outsourcing of peripheral and new activities/services
- Decreased funding of non-governmental provisions
- Stoppage of new employment (abandoned in election year 2011)

...possibly producing adverse structural effects

Such **outcomes of moderate adjustments and postponed major structural reforms** emerged mostly due to particular combination of:

- **the government crisis** (due to high-level corruption)
- **and political cycle** (2011 parliamentary election)

...both strongly **reinforcing position of public sector trade unions**

CRISIS ADJUSTMENTS ROUND 2: 2012-201?

Zero growth in 2011 and negative in 2012, with bleak forecasts prevailing

- In association with EU recession trends
- Again putting PS employment and working conditions in the policy focus

Public opinion after 2011 elections increasingly geared up against the "public sector excesses"

A number of adjustments took, or is taking place, as:

- First ever real-term budget decrease with impact on working conditions and social service provisions
- Decrease in PS employment announced
- Shedding of civic and temporary contracts in public sector
- Outsourcing in health sector to be further pursued
- Most importantly and controversially, PS wages and benefits are being re-negotiated, with government strongly determined on their reduction

MUDDLING THROUGH OR EMBARKING ON THE REFORM PATH?

There is 'urgency' of reform, there is clear loss of viability, there is increasing dissatisfaction with public services provision/quality

Nominally **high public support to reforms**, but **even if 'window of opportunity' may seem opened**

Built-in barriers to renewal of reform agenda:

- **Low level of trust between stakeholders leading to risk aversion**
- **Shying away from uncertainty (TU) and expenses (Gvt) coming with structural reforms**
- **Questionable government's capacity to deal with PSE reforms' complexities and involved risks**

MUDDLING THROUGH OR EMBARKING ON THE REFORM PATH?

- **Importantly, further economic deterioration cannot be excluded, due to:**
- Foreign debt crisis, rating downgrade, collapse of exports
- Increasing difficulties of private sector firms, unemployment growth, decrease of incomes and consumption...

Such developments may drastically change the ambient of reform, reducing them to emergency cost-cuts to address the “fiscal crisis of the state”

- Cuts of this kind would impose greatest pressures on PS employees, but also on PS clients and services provision
- In the face of that, PS unions are most likely to adopt defensive position
- while reforms width and depth may (as in 2009) be reduced to issues of wages, benefits, contracts etc.

LONG TERM STRUCTURAL EFFECTS AND RISKS OF PURSUING SUCH A NARROW APPROACH

- Drop in capacity (flight/obsolescence of human capital)
- Decline in working conditions in public sector
- Decrease in public sector employment size
- Decrease/retrenchment in public service provisions

In particular:

- "defensive restructuring" of the PS protecting "core" practices and workers (*pushing disproportional adjustment burden on peripheral employees*)
- "closing the tap" with grave structural/generational consequences (*PS workforce is ageing and sector is becoming sealed for labour market entrants*)
- privatization of PS (*in particular peripheral and lucrative functions*)

NARROW APPROACH MIGHT BE INADEQUATE TO DEAL WITH MOUNTING CHALLENGES OF

- **Ageing population**
- **High youth and long-term unemployment, low activity rate**
- **(Post) industrial transformation and productivity increase**
- *As the only avenue on which stable PS and public services can be built*

Addressing those issues requires a broader and inclusive agenda based on wider social dialogue and shared understanding

- Of 'good but viable society', of proper size and design of 'public domain'
- Of both vision and strategy of reforms

However, this is very demanding in view of present weaknesses of social actors and conflicts of incentives they are facing.

IN CONCLUSION

It seems quite clear that Croatain crisis is increasingly turning into structural/PE model crisis

- Current situation is asking for deeper changes and reforms
- It is still unclear which path will be taken.

The path taken, however, will have long-lasting impact not only on PS employment, working conditions, but its clients and services.