

Netherlands:

Wage cuts not a constructive option anymore
a long-run perspective

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Adjustments in the Public Sector in Europe

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“Been there before”

- So far relatively little **pressure for public wage cuts**, but heated political debate about large budget cuts – subject to uncertainty, economic (2nd dip) and political (elections) (includes a continued wage rates freeze in 2012-13)
- The Dutch public sector has preceded many countries’ current experiences, **lowering pay and freezing rates in the 1980s** (deep preceding recession), esp. in education. Total direct public-sector wage bill fell from 14% of GDP to 9-10% since 1990
- This policy also targeted pay in the (privately organised) **health care sector** – a good reason for a broad public-sector definition (*public administration + education + health care*), but realise the effects (details in chapter)

Two cases with general effects

Pay cuts in education of the 1980s were based on a systematic plan, but put in practice during the crisis (savings already booked). Costs were borne by the weakly organised (1st grade teachers) with long-run negative effects on work force and educational system as a result which are still being repaired ... 2014.

⇒ *Dangers of structural change in a time of cuts (cf. municipalities agreement).*

⇒ *As a result of protests across the public sector one-sided aggregate wage determination was replaced with decentralised collective labour agreements in the early 1990s; that system can no longer be changed one-sidedly.*

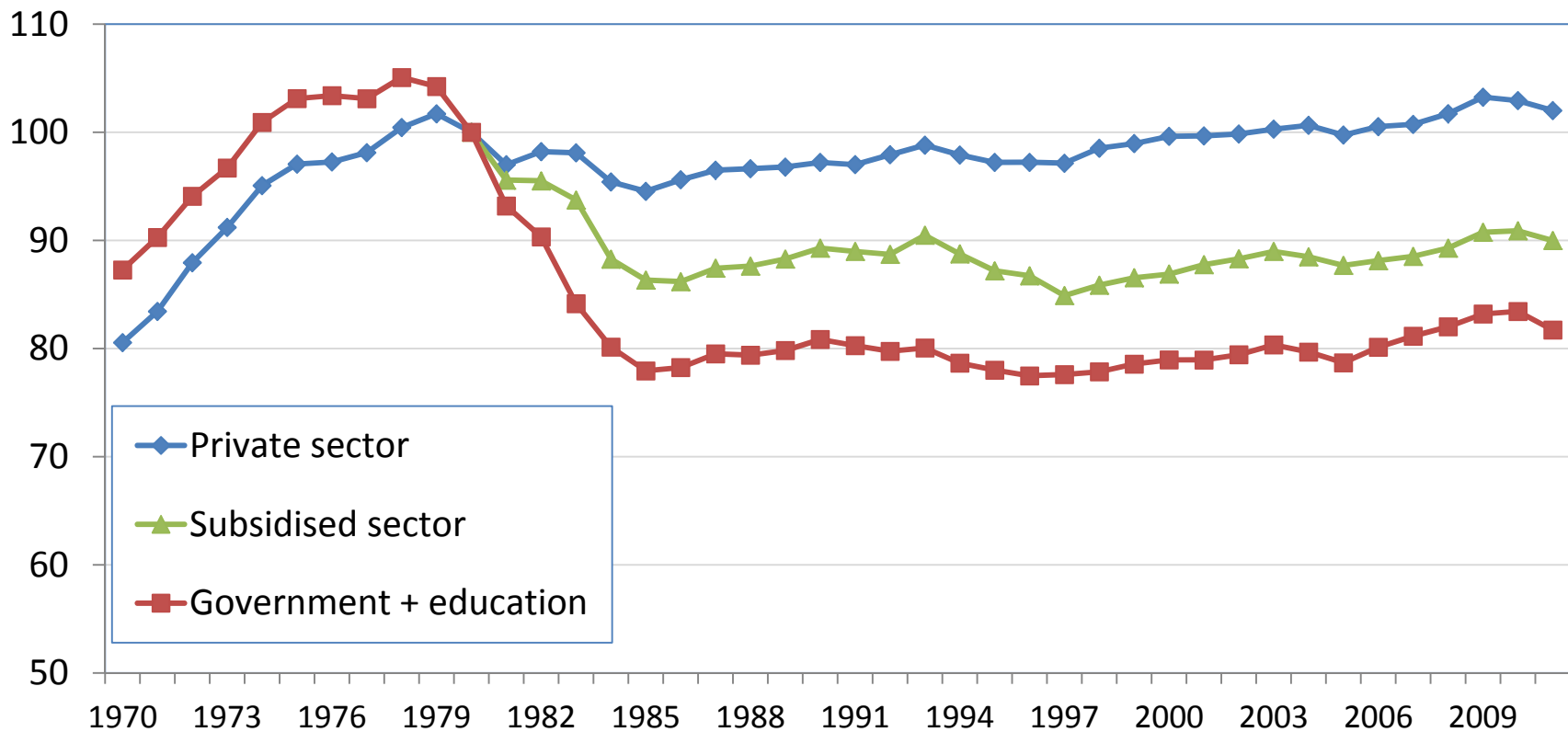
Health care pay policy infringed on freedom of wage negotiations, ultimately restored in 1990s after unions took recourse to the ILO.

⇒ *Diminished grip of central government on pay developments, only indirectly via budget (but spinning out of control after 2006 ZVW reform extended to total population and handed cost supervision over to private insurance companies).*

Negotiated pay in the two sectors 1

From 'trend' up to 1978, to deep public declines up to 1985 - less in health care - and return to the 'trend' (which has remained virtually flat)

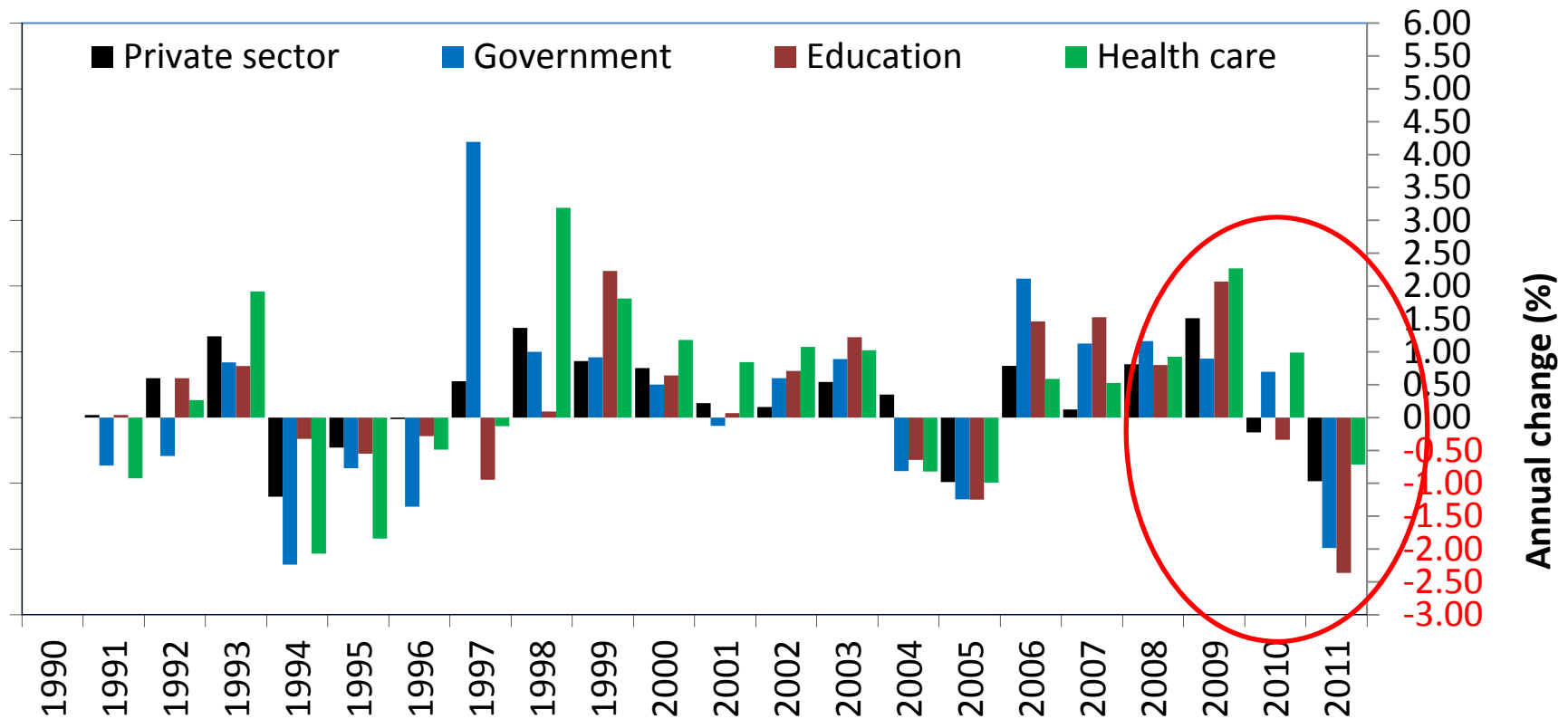
Negotiated real monthly wage rates, 1979=100, 1970-2011



Negotiated pay in the two sectors 2

Government drive to postpone negotiations is an easy instrument
Health-care pay is falling later and less; education has fallen deeply

Negotiated real hourly wage rates, annual changes (%), 1990-2011



Pay differential to the private sector

Controlled differential declined in 1980s and is structurally negative

	1979	1989	1996	2002	2004	2009
Raw pay gap	15%	9%	20%	19%	14%	16%
Controlled differentials						
All	7%	-6%	2%	-1%	-1%	-2%
Government	7%	-8%	2%	2%	1%	-3%
Education	19%	-2%	3%	-6%	-7%	-2%
Health care	-2%	-7%	1%	0%	0%	-1%
Men	6%	-10%	-6%	-8%	-8%	-11%
Elementary			5%	6%	-3%	-9%
Lower			1%	7%	4%	-2%
Secondary			-2%	-1%	-1%	-4%
Higher, vocational			-10%	-15%	-14%	-16%
Higher, academic			-14%	-20%	-19%	-19%
Women	7%	-2%	7%	2%	3%	2%
Elementary			16%	10%	10%	10%
Lower			12%	8%	9%	7%
Secondary			6%	3%	4%	4%
Higher, vocational			4%	0%	-1%	-1%
Higher, academic			6%	-5%	-4%	-3%

Structure and worry

Political parties widely share a **focus on structure**: employment and services, and less on pay (*new public management*)

- decentralisation to local government (with budget constraints)
- shifting to agencies at arm's length
- privatisations (*increasingly doubted*)
- productivity increases (assumed)
- more benign to health care

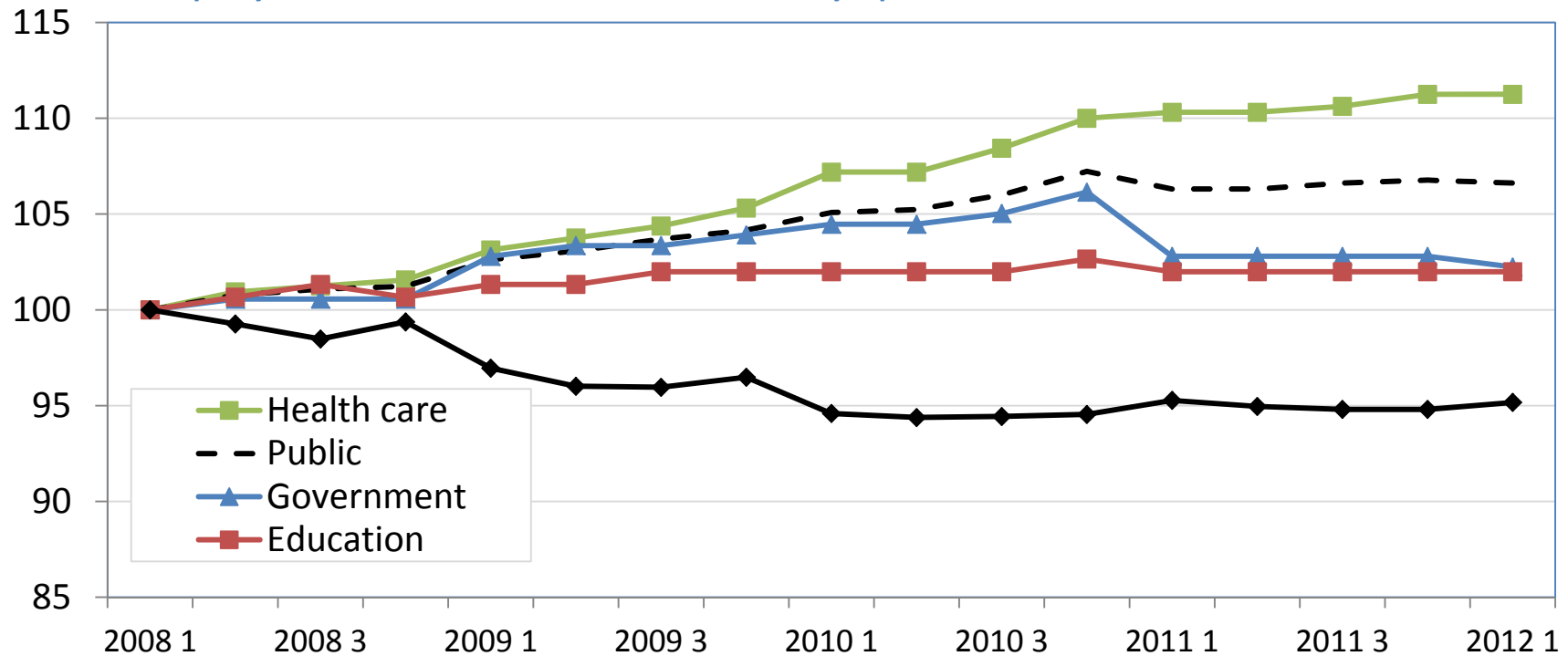
Labour-market worries at the top of the civil service

- shares the view of worsened pay differentials
- worry about the attractiveness to labour supply of working in the public sector
- fear of the 'great exit': 75% personnel turnover because of retirement and voluntary labour mobility expected until 2020

Threats of austerity 1

Since start of Financial Crisis we have seen larger counteracting contribution of public consumption than ever before – mitigated employment effects relative to economic decline so far

Total employee hours worked in sectors by quarter, 2008Q1=100



Threats of austerity 2

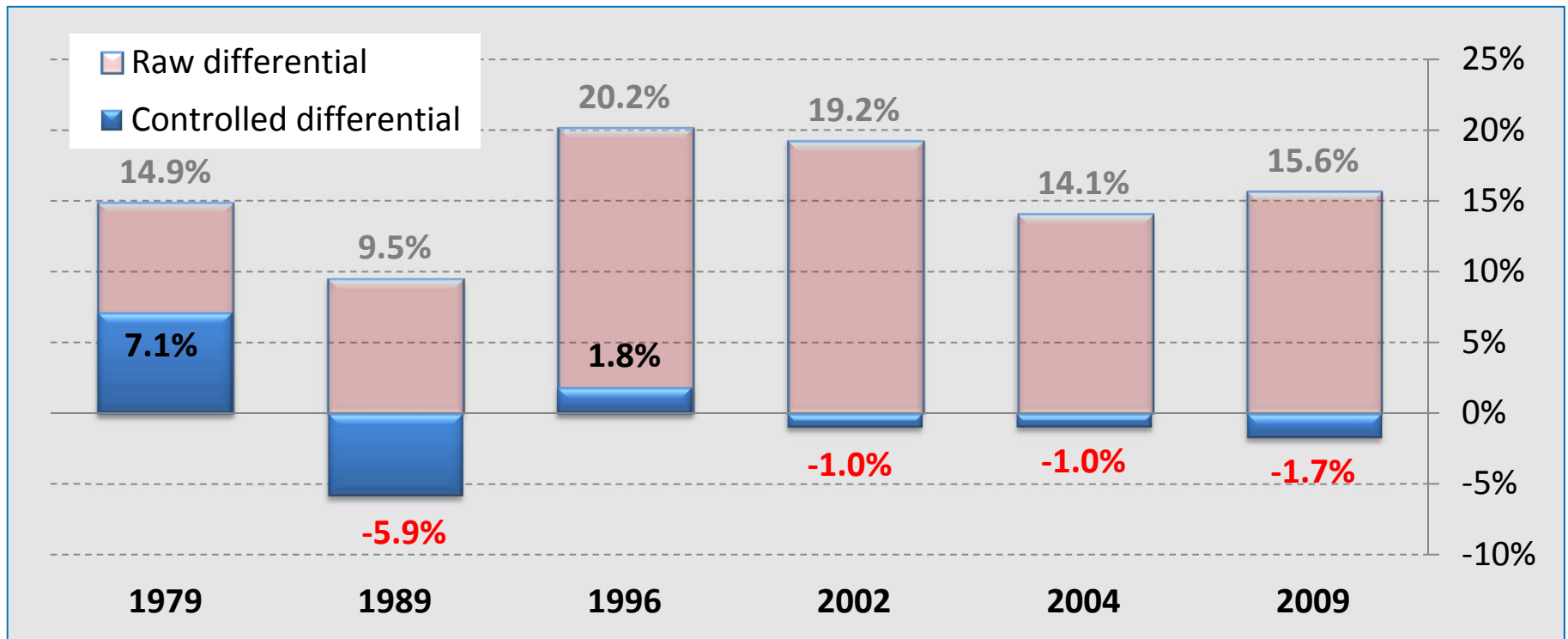
- Strongly based on expansion of health-care spending, a new automatic stabiliser
- Also puts on the table the public sector as a growing channel for individual consumption, almost doubling (14 > 27% of all consumption, ½ in 2000s) and its appropriate governance
- Together with different perspective on wage cuts this puts the austerity debate in a shifting context

Thank you

Pay differential to the private sector 1

Raw pay gap controlled for work force composition, 1979-2009

Controlled differential has declined in 1980s and become structurally negative



Male differentials have fallen strongly ahead of females

Men	+6.1 %	-10.2 %	-5.8 %	-7.6 %	-8.3 %	-10.5 %
Women	+6.7 %	-2.0 %	+7.0 %	+2.4 %	+2.7 %	+2.2 %

Pay differential to the private sector 2

Important educational gradient, 2009

All educational levels negative for males, including lower

Female differentials point to worse treatment in private sector

