1. Public sector shock in Europe: Between structural reforms and quantitative adjustment

Daniel Vaughan-Whitehead

1. INTRODUCTION

The public sector has always been considered a cornerstone of European societies and, as such, also an essential lever for economic growth and political stability. It is also considered to be an essential element of the European Social Model, with many EU provisions serving as a useful framework for the good functioning of the public sector in EU member states. The public sector also represents a priority for public budgets. It is certainly also because of its central role that the public sector has been the constant object of reforms and restructuring over recent decades. All European countries have gone through a series of restructurings and reforms of their public sector and public expenditure.

However, of late we have experienced what we might call a ‘public sector shock’. The budget deficits with which most European countries find themselves – and which have been aggravated, even provoked and fuelled by the latest financial and economic crisis, which started in 2008 – have plunged the public sector into a wave of ‘adjustments’, unprecedented not only in terms of their pace but also the scale of the attendant cuts in expenditure, employment and wages.

The magnitude of these adjustments has motivated the comparative work that we present in this volume. Its aim is precisely to document the nature, type and size of the adjustments being carried out in European countries and to provide concrete evidence on their effects. The aim is not to contest the objectives and any foreseen advantages of such adjustments – especially their immediate impact on the budget through curbing expenditure and making savings. Our aim is rather to document their social effects in the longer term, mainly with regard to the quality of jobs and working conditions in the public sector, but also throughout the economy, as well as – although this was not our primary objective –
their effects on the future quality of public services. A group of high-level national experts have tried to explain the ‘public sector adjustments’ story in their country based on information at national level that they have complemented and illustrated with case studies. These concrete examples are aimed at illustrating such adjustments in a particular sector – for instance, education, health or public administration – or to shed light on a specific issue or impact helpful for extending our knowledge of current public sector adjustments and their effects. We cover here 15 countries: 14 countries from the EU27 and one candidate country.

By producing a comparative panorama, we hope to enlarge the perspective of current public sector adjustments, help to identify some important policy elements or ingredients and cast some light on the best policy mix to reform the public sector efficiently. This could lead to positive outcomes not only on the budgetary side, but also in other policy areas, thereby enhancing the social, economic, political and general welfare of European citizens. The role of the actors shaping the process and final outcomes is an object of particular concern.

In this introductory chapter we summarize the main features of public sector adjustments and reforms before summarizing the most important findings on their effects. Chapter 2 explores the importance of the public sector for gender issues and thus analyses in detail the potential effects of such adjustments for women.

Subsequent chapters present the public sector adjustments in particular countries, each following a similar structure. Each starts with a brief introduction defining the public sector and its extent in terms of employment and activities, followed by a presentation of the adjustments/reforms recently introduced and some evidence of their effects, notably through a series of case studies. Each chapter also presents policy considerations and recommendations on public sector adjustments and reforms.

2. PUBLIC SECTOR ADJUSTMENTS ALL OVER EUROPE

2.1 Definition of the Public Sector across Europe

2.1.1 Diversity in definition
One of the difficulties of this comparative work consists in defining the public sector. It obviously comprises different activities and occupations in different countries. For instance, in Romania and Portugal but also France, the public sector traditionally includes state-owned enterprises, while in others it does not. To avoid such differences, we confined our
analysis to the ‘core’ public sector, that is, excluding state-owned enterprises but including the three main public sectors (also following the Eurostat NACE (Nomenclature générale des Activités économiques dans les Communautés européennes) distinctions): (i) public administration (or general government employment); (ii) education; and (iii) health care and social services. Figure 1.1 presents the extent of employment in these sectors\(^1\) in the EU, including the 15 countries covered in this study.

2.1.2 The public sector and European (and national) social model(s)

Since the Single Act was adopted in 1986, the EU has implemented liberalization in the public sector, transport and energy in an attempt to boost efficiency in areas often supposedly adversely affected by the domination of local, regional or national monopolies. But it has also progressively strengthened its commitment to good-quality services in these important areas. It has defined objectives of general interest in the relevant sectors and has set up a number of monitoring mechanisms and control agencies. More generally, EU institutions have committed themselves to services of general economic interest (SGEI) and have put in place a range of regulations to govern them.

The Treaty of Lisbon, Protocol No. 26 on Services of General Interest (EU 2009: 307) and Article 36 of the European Charter of Fundamental Rights (EU 2009: 204) clearly underline the importance of services of
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general interest in the EU, and set out principles to guide the EU approach to these services.

Protocol No. 26 on Services of General Interest imposes on the EU and the member states a shared responsibility for ‘a high level of quality, safety and affordability, equal treatment and the promotion of universal access and of user rights’ in public services, including public administration.

The Protocol also establishes, for the first time at primary law level, the fundamental principles which apply to services of general interest. The Treaty thus creates the possibility for the Union to legislate in this field by laying down the principles and conditions – particularly economic and financial conditions – which enable them to fulfil their missions, using regulation and the ordinary legislative procedure. At the same time, it acknowledges that the organization, delivery and financing of such services are primarily for member states to decide at national, regional or local level.

The Charter of Fundamental Rights also includes the right to good administration, while the 2001 White Paper on European Governance has set out major principles of good governance, which is relevant also for the public sector (openness, participation, accountability, effectiveness and coherence; EC 2001). More recently, the European Commission has issued a ‘quality framework’ for social services of general interest (SSGI) to ensure that citizens have access to essential services. It will review the situation on a regular basis and promote quality initiatives, in particular for social services that address particularly important needs (EC 2011). At the same time, it aims to increase clarity and legal certainty with regard to the EU rules that apply to these services, especially with regard to the current trends addressed in this volume.

Such basic principles and conditions have been enshrined in national legislation, including a strong and high-quality public service as part of the national social model. Other European directives also apply to the public sector. For instance, the European Community (EC) Directive on fixed-term work was agreed by the European Council in 1999 to prevent fixed-term employees from being less favourably treated than similar permanent employees, and to limit the use of repeated fixed-term contracts.

The right to strike is also laid down in the European Social Charter and has been adopted in some countries, such as the Netherlands since the 1980s. Some public sector employees still do not benefit from the right to strike, however, such as civil servants in Germany.

2.2 Context of the Crisis and Fiscal Deficits

Over the past few years, most EU governments have implemented various measures to overcome the economic crisis and kick-start economic
recovery. While many initiatives were taken to sustain economic growth and create jobs – especially in the first period in 2007–09 – many governments have also realized the need to introduce reforms to address rising debts. In fact, government measures to rescue the financial sector, to sustain the economy during the crisis and to minimize social costs – notably through the use of automatic social stabilizers, such as social assistance and unemployment benefits – combined with sharply reduced revenues have left governments with sizeable deficits. These deficits, combined with low economic growth, have sharply increased debt levels in many countries, which in some cases were also present before the crisis. On average, debts in OECD countries increased from 55.6 per cent of GDP in 2007 to 74.2 per cent of GDP in 2010 (OECD 2011a, 2011b).

In this context, fiscal consolidation has become the cornerstone of the current policy debate across Europe, especially in those countries where the debts are most severe, such as Greece, Ireland and Portugal.

Within this fiscal consolidation, there have been policy debates on public expenditure, especially in the public sector, and more generally on what should be the appropriate role of the government in the economy and in society as a whole. While most EU countries had already started public sector reforms before the crisis, the slowdown of economic growth and increased public debt accompanying the crisis has suddenly called into question the relative stability of public sector jobs and wages. A series of adjustments and reforms have been proposed and rapidly implemented. It is this process that the present volume proposes to document in 14 EU countries and one candidate country (Croatia), while also providing evidence on their short- and long-term effects.

2.3 Diversity in the Timing and Nature of the Reforms

It is first essential to distinguish the timing of public sector adjustments. Some reforms started well before the crisis and have merely been continued in recent years without much influence from the crisis, as in Sweden and Germany. In the Netherlands, many public sector adjustments had already taken place in the 1980s and 1990s, including significant wage and employment cuts. Consequently, until early 2012 no wage and employment adjustments had been undertaken in the Netherlands. These may come later, however, as from 2013. In other countries, it is the crisis that has generated or accelerated the need for reforms in the public sector, as is evident in Greece, Portugal and Romania.

There is also a distinction to be made concerning the nature of these adjustments, especially between structural reforms and quantitative adjustments (see Table 1.1).
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In some countries, significant public sector reforms are being carried out, notably to improve productivity and overall efficiency, while other countries are implementing mainly quantitative adjustments, notably with regard to employment, wages and public expenditure in general. The latter type of adjustment seems to be a common feature in the current period, especially within the framework of austerity packages aimed at reducing budgetary and fiscal deficits. The following chapters will show that this type of adjustment currently prevails in Greece, Hungary, Ireland, Portugal, Romania, Spain and the United Kingdom.

Other countries had already started significant reforms of their public sector even before the crisis, such as Sweden and the Nordic countries in general, but also France, Germany and the United Kingdom, although in very different ways.

Some countries are characterized rather by a mix of public sector structural reforms and quantitative adjustments, such as Estonia, the Netherlands and Portugal. While these can reinforce each other, they can also conflict. As emphasized by Helena Rato in Chapter 11 on Portugal, the quantitative adjustments imposed during the crisis may have halted the reform process already under way in the public sector.

Quantitative adjustments generally lead to significant cuts or freezes in public expenditure, wages and employment. Current plans in most European countries focus on reducing programme expenditure. This generally consists of reducing spending on, for example, social benefit

Table 1.1 Adjustments/reforms in the public sector, selected countries, 2000–2010

<table>
<thead>
<tr>
<th>Structural reforms</th>
<th>Low</th>
<th>Middle</th>
<th>High</th>
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<tbody>
<tr>
<td>Quantitative</td>
<td></td>
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<tr>
<td>adjustments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Croatia</td>
<td>Netherlands*</td>
<td></td>
</tr>
<tr>
<td>Middle</td>
<td>Latvia</td>
<td>Estonia</td>
<td>France</td>
</tr>
<tr>
<td></td>
<td>Lithuania</td>
<td>Germany</td>
<td>Sweden**</td>
</tr>
<tr>
<td>High</td>
<td>Greece</td>
<td>Ireland</td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td>Hungary</td>
<td>Portugal</td>
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<td></td>
<td>Romania</td>
<td>Spain</td>
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* Quantitative adjustments carried out in the 1980s–90s. ** Structural reforms had already taken place in Sweden during the 1990s with employment downsizing that continued in the 2000s.

Source: Compiled by the author.
systems, health care, old-age pensions or development aid – and reducing compensation costs, through either staff reductions or wage and benefit cuts. Government can also be reorganized through across-the-board efficiency cuts or overall spending freezes. The reforms also generally aim at reducing pension costs, a reform that also concerns future retirees in the public sector.

There are also different types of structural reforms that we have regrouped under four major headings.

Among the structural reforms, most countries have engaged, first, in decentralization of political power and spending responsibilities to regional or municipal governments. This was the case in Sweden, but also Spain, Germany and many other European countries.2

A second institutional change consists in reforming human management practices in order to improve employees’ job satisfaction and efficiency. This can incorporate skills strategies and redesign of work, and also the introduction of pay systems related to performance, alongside evaluation systems rather than seniority. We shall see in this volume that most European countries have adopted one or the other or all of these measures.

A third type of structural reforms consists in merely adjusting (generally downsizing) operations to maximize economies of scale, a trend particularly implemented in the education and health-care sectors.

This may also be related to a fourth institutional change, which is the shifting of part of the activities previously carried out by the state to the private sector, through either privatization, or outsourcing and agentification. Although there is a general trend in this direction in most European countries, the United Kingdom has exemplified this move both in the 1980s and in the most recent period. This involves a radical redesign and streamlining of service provision or, at the extreme, withdrawal from areas of provision. The other possibility is to carry out quantitative adjustments, that is, reductions in spending involving employment or wage cuts.

Obviously, the effects of such changes in the public sector – which we investigate in the next section – may differ greatly according to the relevant policies.

We shall see throughout this volume that this overview of types of public sector adjustments could help us to better define the drivers of such policy changes. Why are such changes currently taking place in the public sector? Distinguishing between the different motives is useful: first, there is a primary budgetary motive, with the need to cut public expenditure; second, an economic motive with the aim of making public services more modern and efficient, also with greater mobility between the public and private spheres; third, a political motive within the debate on redesigning the role and size of the state and privatization/outourcing of public
utilities; and finally, we might mention a demographic motive given the emerging population pressures. Other drivers may also be discerned. The global context and the role in particular of international organizations, such as the International Monetary Fund (IMF) but also the EU and the European Central Bank (ECB) should also be taken into account and may explain national differences currently observed throughout Europe.

In a number of countries public sector adjustments have been imposed by the budgetary situation, while in others they intervened under various constraints. Distinctions can be drawn between countries such as Greece, Romania and Ireland, and those in which the budgetary situation had been consolidated before the crisis, such as Sweden, the Netherlands and, to some extent, also Croatia. We should also distinguish between countries in which some adjustments had already taken place, such as outsourcing in the United Kingdom, Germany and Sweden, the high percentage of public sector employees already under temporary contracts, as in Sweden and Spain, or the abolition of the wage indexation system for public sector employees, as in France. All these changes made before the crisis may explain its more modest impact on public sector adjustments, although in Spain and the United Kingdom quantitative adjustments have been drastic, despite previous reforms.

Table 1.1 shows the different mixes of structural and quantitative changes. The objective of such a combination of quantitative adjustments and more structural reforms in the public sector is to ‘do more with less’ (in France, ‘do better with less’), on the assumption that cuts and rationalization of spending and human and financial resources may lead to better and not lower quality of public services. The aim of this volume is to attract the reader’s attention to the risks of seeing this set of adjustments – also depending on their scale and nature – as leading to ‘doing less with less’, or even, if the adjustments are not well thought through, to end up ‘doing less with more’ because of the budgetary implications of the reforms and their unexpected long-term social and economic costs.

### 2.4 Diversity in the Implementation of Reforms/Adjustments

Not only the nature of the adjustments may differ between European countries, but also the manner in which they are implemented.

#### 2.4.1 Implementation or not of prior reviews and cost–benefit analyses

First, the reforms may be the result of a complete series of reviews or be implemented without prior review. In principle, any reforms in the public sector should be preceded by evidence and data on decision-making and measure all the likely benefits, costs and effects of government decisions.
and policies. Evidence in countries such as Sweden in the 1990s shows that the implementation of programme reviews, value-for-money assessments and cost–benefit analyses have helped to identify how much is being spent, what is being produced and with what outcomes for different parts of society. This has served to define the best ways to generate savings while not losing efficiency (see OECD 2011a, where the example of Canada is also presented).

Chapter 7 on Greece highlights that no such reviews had been carried out before imposing serious public sector adjustments. Other chapters in this volume – for instance, Rafael Muñoz de Bustillo and José-Ignacio Antón for Spain (Chapter 13), in relation to health sector reform – also highlight a lack of pre-reform measures of performance, which can serve as a baseline against which to measure reform progress.

2.4.2 Existence or lack of an institutional framework
Second, reforms may be laid down once and for all and be subject to a long-term implementation programme, or, at the other extreme, be changed frequently with no particular road map or clear direction. The existence of a strong institutional framework for decision-making – in particular a medium-term expenditure framework – helps to ensure that governments stick to the reforms, while giving investors and businesses confidence in its capacity to manage public finances (Schick 2010). In contrast, many EU governments have modified their initial framework and plans several times, often within the same year, thus creating confusion, lack of transparency and confidence.

This was the case in Greece where a new plan and new measures on employment and wage cuts were announced – generally increasing the magnitude of adjustments – every few months. We shall see that Romania (Chapter 12) has also been characterized by incessant sets of new reforms/ adjustments in the public sector, with several changes of direction.

2.4.3 Unilateral or negotiated
Reforms can be the result of a long process of negotiations at national and, sometimes, local level, or they may be the result of hasty decision-making. They may have involved a number of actors in the process – in particular, workers’ representatives – or they may have been decided by the government unilaterally. Communication with regard to reforms helps to build credibility, keep civil servants and citizens informed and thus eventually increase people’s sense of ‘ownership’ of reforms. A lack of communication, combined with a lack of government assessment of the potential impact of regulations, can only lead to loss of trust and discontent.

The role of communication and social dialogue is thus also investigated.
in this volume. Has there been sufficient communication around public sector adjustments? Have they been discussed or negotiated with the trade unions and employers’ representatives?

Clearly, public sector adjustments have been decided without much prior consultation or negotiations in countries such as Greece, Portugal, Romania, Spain and many others. In contrast, there were negotiations on public sector reforms in Sweden and Ireland.

The same country may also be characterized by different methods in different periods. While the first years of the crisis in Ireland did not lead to many negotiations on the anti-crisis policy responses, which were decided mainly by the government alone, a tripartite agreement was signed in 2010 to determine reforms in the public sector until 2015.

Generally, however, the various chapters in this volume conclude that the most recent adjustments in the public sector have been decided fairly quickly, without involving the social partners, something that trade unions in the public sector have denounced and which has fuelled waves of protest in these countries. Similarly, according to the OECD (2011a), ‘social dialogue has been insufficiently used in current public sector reforms’.

Among the three Baltic states (Chapter 3), only Estonia seems to have been making use of extensive tripartite consultations between government and social partners on public sector reforms. This has helped to limit wage cuts and seems to have led to a more coordinated and balanced approach – and also fewer strikes. By contrast, reforms in Lithuania have focused mainly on wage cuts unilaterally decided by the government, leading to immediate protests by the trade unions and the general public. However, more consultation has helped rather than impeded Estonia in designing rapid policy responses to the crisis, including a fairly strict austerity package.

### 2.4.4 Differentiated roles of international actors

Finally, some countries have been subject to the influence of international actors more than others. Current public sector policies in Croatia – as in Romania or Bulgaria a few years ago – have been influenced by the forthcoming EU accession, which requires strong administrative capabilities to take on board the Community *acquis*, while also managing EU structural funds. Other countries are receiving direct assistance from the IMF, such as Hungary and Romania, which have signed Memorandum agreements with the IMF, but also Greece, which is under the direct monitoring of a ‘Troika’ composed of the IMF, the EU and the ECB.

For instance, the macroeconomic motivations behind the fiscal policies of the three Baltic countries were also quite different, dominated by the
need to satisfy the Maastricht criteria to join the Eurozone in the case of Estonia and to satisfy the loan conditionalities of the IMF in the case of Latvia, while Lithuania, under less international pressure, has managed to increase its deficit during the crisis.

2.5 Recent Focus on Quantitative Adjustments

Most governments across Europe have announced workforce reduction measures and/or cuts to salaries and benefits in the public sector.

2.5.1 Employment: non-replacement, job cuts and changed work contracts

We see in this volume that a number of countries – such as France, Croatia and Portugal but also many others – have set replacement ratios (usually one for two) to fill the gaps left by employees leaving for retirement. This has often been complemented by cuts in the labour force, sometimes on a massive scale. The new coalition government in the United Kingdom, partly driven by an ideological belief that this will lead to more efficiency in public services, has applied massive and unprecedented employment cuts and a pay freeze across all areas of the public sector for 2011–13. At the other extreme, Nordic countries, such as Sweden, as shown by Dominique Anxo (Chapter 14), have not announced any employment or wage cuts in the crisis – although employment in the public sector has fallen in the 1990s and 2000s in Sweden. They have also been limited so far in the Netherlands, Croatia and Germany.

The reduction of public sector employees can be done progressively or rapidly: several countries covered in this volume have chosen the latter option. The nature of employment adjustments can also take various forms: dismissals, reduced working hours, outsourcing, privatization, changes in work contracts, for instance from permanent to temporary or from full- to part-time. The size and features of such adjustments, which we document in the various chapters, often depend on the initial size of public sector employment in individual countries. In Spain and Romania, for example, the public sector is considered too large. Similarly, employment cuts may not have the same effects if they take place in a large state and public sector, as in France, or in an already small state and public sector, as in Ireland. Finally, employment cuts in the public sector must also be considered in the context of a serious fall in employment in the private sector because of the crisis.

In this volume our aim is to document employment changes in the public sector by segments – ministries and other national administrations, local/regional administration, hospitals and so on – but also by gender, skills or qualifications and also central/local level. We also try to
distinguish between public sector employment reductions due to the crisis (in 2008–10) and longer-term employment reductions (since 2000).

Quantitative adjustments have also been accompanied and often preceded by more structural adjustments in the composition of employment, mainly due to various trends such as the recourse to more fixed-term contracts and also the outsourcing of a number of public service jobs. The number of temporary contracts in the public sector has increased rapidly throughout Europe. The highest increase has been observed in Spain (up to 24 per cent), but other countries have seen significant increases, such as Sweden since the early 1990s, with temporary contracts accounting for 18 per cent of jobs in the public sector, 16 per cent in central administration and nearly 19 per cent in local administration. In France, such employment increased by nearly 14 per cent between 2005 and 2009, thus representing a share of 15 per cent of employment in the public sector. In Germany, such jobs increased from 10 per cent in 2002 to 15 per cent in 2010.

Countries such as Portugal have also modified the status of public sector employees, allowing fixed-term contracts to develop. By contrast, fixed-term contracts in Croatia, although introduced in public administration – where they represent 8 per cent of total employment – have not developed much in the public sector as a whole. The situation is similar in Romania.

Another way to gain flexibility and also to reduce spending is to replace jobs previously carried out in the public sector by new jobs in the private sector through outsourcing and privatization of public services. Governments’ use of outsourcing has also rapidly increased in OECD countries, from 8.7 to 10.3 per cent between 2000 and 2009. This process has been implemented on a large scale in the United Kingdom, but also in Germany, as shown in this volume.

This has led to a reduction in the share of government expenditure and also public sector employment, for instance in Germany. The trend is thus leading to reduced expenditure. It is important to look at the potential risks of this approach.

2.5.2 Wages: cutting basic wages, bonuses and benefits
Almost all European countries have announced plans to freeze or cut public sector wages. Only in the Netherlands, so far, have both employment and wages continued to slowly increase in 2008–11, which is explained by the quantitative adjustment already carried out in the decades before the crisis.

This volume shows that the reforms in the public sector have completely transformed both the wage levels and the wage structure of public sector employees.
According to OECD data, wages represent 80 per cent of total compensation. The rest can take the form of performance-related pay. There are also thirteenth- or fourteenth-month payments for public sector employees. In addition, the government contributes to retirement plans or pensions, as well as private health insurance costs or other social contributions. Table 1.2 summarizes the changes identified in the 15 countries covered in this volume. It shows that there have been significant cuts and that they have been implemented in various ways, either through a basic wage freeze or cut in Estonia, Ireland, Latvia, Lithuania, Romania and many others, or through the abolition of bonuses previously enjoyed by public sector employees, such as the thirteenth-month payment in Hungary and the thirteenth- and fourteenth-month payments in Greece.

Interestingly, public sector wages have not fallen in the Netherlands during the crisis, for a number of reasons. First, because wage cuts already took place in the 1980s and 1990s. Second, because of this past experience the government decided this time to focus less on pay reductions and tried to find other adjustment measures (see Chapter 10 on the Netherlands). This trend may already have stopped, however. While nominal wages continued to increase in 2008–11, they were allowed to lose some ground with regard to inflation, with a 1.1 per cent decrease in the public sector real wage in 2011. Job growth also ceased in all three major public sectors, education, health and public administration. New measures announced in mid-2012 seem to confirm this change of direction.

The magnitude of the wage cuts in 2009–11 varied by country, from no cuts in Germany (except the Christmas bonus), the Netherlands (just a slight decrease in real terms) and Sweden, to 5–10 per cent in Croatia, Estonia and the United Kingdom, 10–15 per cent in Lithuania and Portugal and as much as 25 per cent in Latvia. The most significant reductions, however, have been in Greece (15–20 per cent in 2010 alone, with 15 per cent more cuts announced for 2012), Romania (25 per cent in 2010) and Hungary (37 per cent for unskilled workers).

While some countries have cut wages across the board by the same amount along the wage scale – as in Hungary and Romania – others have implemented a regressive cut, with reductions proportionally higher for higher-income employees and lower for low-income employees. We shall see in the next section that the impact on wage inequality is obviously different in the two cases.

A number of non-monetary benefits have been abolished, such as for housing or meals in Portugal and Romania or for sick leave in Spain. Pension entitlements have also been cut in countries such as Greece and Spain, but also others.
### Table 1.2 Adjustments to wages and employment, selected European countries

<table>
<thead>
<tr>
<th>Case study</th>
<th>Employment</th>
<th>Wage cuts and structure</th>
</tr>
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</table>
| Croatia    | New recruitment frozen | –6% in 2009; return to 2008 level; then freeze  
|            |            | –15% for state officials |
| Estonia    | –1% in 2008–09 | Cuts concerned 71% of public sector employees  
|            |            | –10% in public administration and  
|            |            | –3% in education in 2009–10 |
| France     | –7% in 2008–12 in central government public service  
|            | Staff reductions in hospitals | About 10% real loss for starting wages in many jobs in 2000–10 due to across-the-board wage increases and an ‘index point’ lower than inflation  
|            |            | Increase in the social contribution pension equal to a 3.5% loss in net wages  
|            |            | Wage individualization  
| Germany    |            | Performance-related pay up to 8% of total wage bill  
|            |            | Increase in low paid  
|            |            | New lower pay scale to avoid outsourcing  
|            |            | Christmas bonus reduced; reduction of yearly bonus |
| Greece     | First target of –20% by 2015 modified to –26%, mainly through cuts in fixed-term contracts  
|            | Already –15% by 2011 | –15–20% in 2011 (–21% for military personnel)  
|            |            | Abolition of thirteenth- (paid in December) and fourteenth- (Easter and summer) month payments  
|            |            | New cuts in 2012 (–15%) |
| Hungary    | Downward trend until 2008, then an increase of 4.7% in 2008–10; and slight decrease by –1.7% in 2010–11 | Abolition of thirteenth-month payment in 2009 and of subsidies for housing, heating and travel  
|            |            | Cuts between –37% for unskilled and –13% for high skilled in 2008–10 |
| Ireland    | No layoffs so far but no replacement of retirees and no renewal of many temporary contracts  
|            | –5.2% in 2009–11 | Wage cuts introduced in December 2009 from –5% (for lowest wage) to –15% (for highest wages)  
|            |            | –4.7% on average in 2010 |
| Latvia     | –4.3% in 2008–09 | –25% in public administration and  
|            |            | –20% in education in 2009–10 |
| Lithuania  | –1.1% in 2008–09 | –15% in public administration in 2009–10 |
**Table 1.2** (continued)

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<th>Case study</th>
<th>Employment</th>
<th>Wage cuts and structure</th>
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<tbody>
<tr>
<td><strong>Netherlands</strong></td>
<td>Continued to increase in 2008–10 (by 6%) especially part-time</td>
<td>Wage cuts progressive in the 1980s Real wage decline in 2010–11 by –1 to 2% (by –2% in public administration to –2.5% in education)</td>
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<td>Significant cuts planned up to 2014</td>
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<td><strong>Portugal</strong></td>
<td>–9.5% in public administration in 2005–10</td>
<td>–2.5% of real wage in public administration in 2010 Further cut of 3.5–10% in 2011</td>
</tr>
<tr>
<td></td>
<td>Public sector unemployment growth of 20%</td>
<td>In 2012 suspension of thirteenth- and fourteenth-month payments (for holiday and Christmas bonuses); corresponds to –16% for most skilled</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>–9.5% in 2008–11 Further cuts in 2012</td>
<td>–25% in 2010</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cut of thirteenth-month pay and abolition of most bonuses –10% in 2011 despite some attempts to compensate for former cuts</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>–18,000 in 2010 in public administration No new recruitment in 2012</td>
<td>Wage freeze in 2012 –5% in 2010 Frozen in 2011 and 2012 Result: –10% real wages in 2010–11 Same in autonomous regions</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>Previous reduction of 17.7% in 1991–2007 Cut by 1.4% in 2008–10 (95% of them short-term contracts) Also cuts in part-time employment. Higher cuts at local level</td>
<td>Similar wage growth as in private sector (3.3% in 2005–09)</td>
</tr>
<tr>
<td><strong>United Kingdom</strong></td>
<td>–10% planned over 5 years (2010–14); largely exceeded in 2010–11 (–6.1%) so double cut may be forecast by 2014 In 18 months (2010–11) already –9% in public administration, –4% in education and –3% in health</td>
<td>Wage freeze in 2010–12 has led to –5% real wage in 2010–11 1% cap on basic wage rises in 2013–14</td>
</tr>
</tbody>
</table>
3. EFFECTS OF SUCH ADJUSTMENTS: SHORT AND LONG TERM

One of the aims of the project reflected in this volume was to identify some of the effects already observed or expected from current public sector adjustments. Since the public sector reforms are still in process it was too early to benefit from a comprehensive database. We have tried to cope with this data deficit by giving concrete examples from each country and also carrying out a number of case studies to report on the changes already observed at local level (Table 1.3). These case studies are aimed at illustrating the nature of public sector adjustments in each country and document all their effects (either already observed or expected).

As previously indicated, the adjustments in the public sector mainly follow budgetary objectives which certainly need to be achieved. But while we do not question these objectives and the positive effects they may bring for macroeconomic outcomes, we try to attract the reader’s attention to some of the risks of such a policy in terms of social conflicts,

Table 1.3  Case studies carried out in 2011–2012 in the selected European countries (see individual chapters)

<table>
<thead>
<tr>
<th>Case study</th>
<th>Case study 1</th>
<th>Case study 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>Upper secondary education</td>
<td>Wage moderation process in 2008–11</td>
</tr>
<tr>
<td>Estonia</td>
<td>Health-care services</td>
<td>Rescue sector</td>
</tr>
<tr>
<td>France</td>
<td>Public sector reform process</td>
<td>Education</td>
</tr>
<tr>
<td>Germany</td>
<td>Public procurement</td>
<td>Local budgetary adjustments in the city of Duisburg</td>
</tr>
<tr>
<td>Greece</td>
<td>Health care</td>
<td>Education</td>
</tr>
<tr>
<td>Hungary</td>
<td>Health sector: doctors’ situation</td>
<td>Education</td>
</tr>
<tr>
<td>Ireland</td>
<td>Services to the unemployed</td>
<td>Education</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Effects of past wage moderation</td>
<td>Health-care wage regulation</td>
</tr>
<tr>
<td>Portugal</td>
<td>Health</td>
<td>Education (two schools)</td>
</tr>
<tr>
<td>Romania</td>
<td>Education</td>
<td>Wage reforms in the public sector</td>
</tr>
<tr>
<td>Spain</td>
<td>Health system</td>
<td>Education</td>
</tr>
<tr>
<td>Sweden</td>
<td>Elderly care in Växjö municipality</td>
<td>Local public employment agencies</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Job search services to the unemployed</td>
<td>Local government</td>
</tr>
</tbody>
</table>
as already witnessed by the waves of strikes all over Europe, but also new wage dynamics that could increase the proportion of low-paid workers and inequalities, lower-quality jobs and working conditions in the public sector, with further risks of lower motivation and increased migration, which could ultimately lead to a fall in the quality of public services.

3.1 Widespread Waves of Protest

More than ever before, the latest series of reforms and adjustments in the public sector has provoked an unprecedented wave of protests and even riots in a number of European countries, which we document systematically in each national chapter of this volume, which all provide a table on public sector strikes/demonstrations from 1998 to mid-2012. The protests were most extensive in countries in which the most restrictive policies were implemented, such as Greece, Portugal, the United Kingdom and Spain, but also in countries where the adjustments have been less severe, such as France and Croatia.

Not only have there been demonstrations at national level, in many cases well beyond the public sector, but also at local level and in specific sectors or professions. Besides demonstrations by employees in health (doctors, nurses) or in education (teachers) we have observed for the first time demonstrations by occupations generally little inclined to demonstrate or organize strikes, such as the police (for instance, in France, Greece and other countries).

This chain of demonstrations throughout Europe was the most immediate and striking effect of the adjustments implemented in the public sector, whose implications and costs – high both socially and economically – have yet to be evaluated. They have had a direct impact on public sector employees’ motivation and productivity, and on the overall quality of public services. Interestingly, a rapid deterioration of the social climate seems to have been avoided in the countries where the government has managed to organize tripartite consultations, as in Estonia, as distinct from Latvia and Lithuania, and in Ireland over the most recent period, from the agreement concluded in 2010.

3.2 New Wage Dynamics

Wage moderation in the public sector started before the financial crisis in most European countries. For instance, the abolition in the 1980s or 1990s of public sector pay inflation indexation mechanisms in some countries – for instance, France – were aimed at progressively reducing the public sector wage bill. However, the recent decision to freeze or even cut wages
in the public sector in a more systematic and significant way – we have seen all components of the wage structure, such as basic wage, bonuses and benefits affected – in almost all European countries has rapidly modified wage dynamics in the public sector and their position with regard to private sector wages.

3.2.1 From a ‘wage premium’ to a ‘wage penalty’ for public sector employees?

There is generally scant evidence on wage differences between the public and the private sectors. We have tried in this volume to present the available evidence and to try as far as possible to decompose the differences that might be due to different qualifications or positions, and those due to intrinsic differences pertaining to the public sector.

Generally, there is a recognition that public sector wages should be higher than in the private sector since it generally attracts the most educated labour force. Because of this higher educational level, together with longer seniority (greater length of service), a wage premium is to be expected in the public sector and has generally been confirmed by the available data. For instance, in the United Kingdom half of the public sector premium is associated with the higher share of professionally qualified and higher-skilled employees in the public sector (see Bozio and Disney 2011 for the United Kingdom). In Germany the premium is due to a higher skill level, but also because many high- and medium-level activities, such as education, the judiciary or tax offices are concentrated in public services. Higher pay for the low skilled and for nearly all public sector groups are also found in eastern Germany because of the generally low wage levels in the private sector there.

We have also generally observed throughout Europe a wage premium which is higher for the low skilled and which becomes negative compared to the private sector for the most-skilled and highest-income deciles.

It is obviously difficult to compare average wages in the public and private sectors because of the different labour force characteristics. The possible impact of compositional effects should be particularly highlighted. For example, increasing the outsourcing of low-skilled public sector activities in order to cut public sector expenditure may artificially increase average wages in the public sector (also in comparison to the private sector) without reflecting an improvement of the wage situation of remaining employees. At the same time, the failure to replace those – generally more highly skilled and better paid – who are retiring may lead to an artificial increase in the average wage in the public sector, despite cuts in the wages of those remaining and lower wages for new recruits.

The comparison made in Table 1.4 should thus be treated with caution
### Table 1.4 Public/private pay gap, selected European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Public/private sector pay gap</th>
<th>Part of public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>From +34% in 2000 to 24% in 2008 and 31% in 2010</td>
<td>+17% in health, 10% in public administration and 1% in education in 2011</td>
</tr>
<tr>
<td>Estonia</td>
<td>From -4% in 2006 to +2% in 2010</td>
<td>For low paid, from +8.5% in 2001 to 0% in 2007</td>
</tr>
<tr>
<td>France</td>
<td>N.A.</td>
<td>Public sector wages slightly lower than in private sector except for unskilled and women, and most East Germans</td>
</tr>
<tr>
<td>Germany</td>
<td>Public sector wages slightly lower than in private sector except for unskilled and women, and most East Germans</td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>11% public sector premium has fallen since 2010 and may have disappeared</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>From 15% in 2004 to -12% in 2009</td>
<td>In 2008–10 wages of doctors in public sector fell from 90 to 70% of doctors’ wages in private sector</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In 2008–10, wages of public sector teachers fell from 43 to 38% of the private sector wage</td>
</tr>
<tr>
<td>Ireland</td>
<td>According to benchmarking body it has fallen behind private sector wages</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wage premium in public sector of 26% in 2006, according to various studies. Has fallen since then to 22% (2009)</td>
<td></td>
</tr>
<tr>
<td>Latvia</td>
<td>From +21% in 2006 to +9% in 2010</td>
<td>Rates for government and education lagged behind the private sector by 19%, health care by 11% in the 1990s</td>
</tr>
<tr>
<td>Lithuania</td>
<td>From +23% in 2006 to +15% in 2010</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Public sector wages scales were strongly reduced relative to the private sector in the 1980s. Controlling for workforce composition</td>
<td></td>
</tr>
</tbody>
</table>
Public sector shock

since it generally refers to average wage figures. This is also why we complement this gross comparison whenever possible with more detailed analysis that allows us to decompose what differentials might be due to skill differences and what might be due to employment in one or the other sector.

Despite its limitations, a comparison over time of average wages in the two sectors provides a number of instructive elements illustrative of trends.

The evidence collected so far is fairly clear. We have witnessed over recent years a radical transformation in the hierarchy of wage levels between the public and the private sector.

The most important new dynamic is the freezing or cutting of public sector wages, which has brought about a decline in comparison to private sector wage dynamics. The trend is dramatic in countries in which the wage premium that prevailed before the crisis has been converted over the course of two or three years – but sometimes even less – into a wage penalty for those working in the public sector. This is the case in Romania, where the advantage of 45 per cent in 2009 was converted into a loss of 15

Table 1.4 (continued)

<table>
<thead>
<tr>
<th>Public/private sector pay gap</th>
<th>Part of public sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>public sector pay is 2% below the private sector (2011)</td>
<td>The current pay penalty pay in the public sector (controlled by skills composition) is 9–16% for education, 4% for government and nil for health care</td>
</tr>
<tr>
<td>Portugal</td>
<td>In 2000–09 real wages fell by –3.6% in the public sector compared to +9.4% in the private sector</td>
</tr>
<tr>
<td>Romania</td>
<td>From +44.5% in 2009 to –15.6% in 2010 (a loss of 60.1 percentage points)</td>
</tr>
<tr>
<td>Spain</td>
<td>From +17% in 2009 to +7% in 2011 (gap reduced by 60%)</td>
</tr>
<tr>
<td>Sweden</td>
<td>Wage premium in the public sector declined slightly in 2000–10 Convergence of wage levels in the public sectors towards those in the private sector</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Wage premium in the public sector declined in 2010–12</td>
</tr>
</tbody>
</table>
per cent – that is, a loss of more than 60 percentage points – by the end of 2010. In Hungary, the premium of 15 per cent in 2004 was transformed into a penalty of 12 per cent, which has increased even further in 2010–12. If it continues, the trend towards a reduction of the wage premium – as shown in Table 1.4 – may also lead to a wage penalty in other European countries in the near future, in 2013.

In the Netherlands this disappearance of the wage premium in the public sector has occurred over a long time, from a 21 per cent premium in 1979 right down to 1 per cent in 1996 and even −0.4 per cent in 2004. This shift was most significant in education, where employees gradually lost their wage premium of 21 per cent in 1979 to reach a disadvantage of −6 per cent in 2004.

In a few countries, such as Portugal and Romania, the minimum wage in the public sector has been set below that in the rest of the economy, illustrating the new wage dynamics generated by recent public sector adjustments and austerity measures.

Croatia is one of the only countries here where the public sector premium has continued to increase rather than decrease, from 24 to 31 per cent between 2008 and 2010.

3.3 Inequalities and Vulnerable Groups

Wages have traditionally been found to be more compressed in the public sector, with lower wages being generally higher than in the private sector, and then a progression along the wage scale, however, with wage levels generally less generous for the most-skilled occupations than in the private sector.

The different chapters of this book confirm that wage disparity between the top and the bottom is smaller in the public sector than in the private sector – for instance in Croatia, Germany, Spain, Sweden and the United Kingdom. In Sweden, for instance, the wage dispersion is lower for both state and local authorities compared to the private sector.

On this basis, what have been the effects of recent public sector adjustments on wage inequality in the public sector? Not only the magnitude of wage cuts, but even more the distribution of those wage cuts across the wage scale has influenced the outcome.

As the OECD has recently remarked, across-the-board wage cuts may be inefficient and less likely to lead to permanent cuts in expenditure (OECD 2011a: 50). In addition, they can affect segments of the population unevenly, for instance those at the bottom of the wage scale. The effects on inequality in the public sector thus depend on the progressivity of across-the-board wage adjustments.
In certain countries, wage cuts were implemented at the same rate across the board. This was the case in Romania where a cut of 25 per cent was imposed in 2010 uniformly on all public sector employees. In other countries, such as Portugal, the wage cuts have been progressive, thus increasing along the wage scale and contributing to reducing wage inequalities between the top and the bottom.

Public recognition in Romania that the uniform reduction of 25 per cent was a mistake (see Chapter 12 on Romania) led to some readjustments in 2012.

In France, the traditional ‘index point’ has not been sufficiently adjusted to inflation and has thus led to a loss in purchasing power for several occupations (of approximately –10 per cent for the 2000–10 period). This was accompanied by some compensation, with plans to redistribute 50 per cent of the wage savings due to employment cuts to remaining employees.

This volume shows that the impact of wage cuts has been different by country according to the type of cuts implemented. Where the cut was progressive along the wage scale, the impact on inequality was lower. Where the cut was uniform across occupations and skill levels, this had the effect of disadvantaging low-income groups. The abolition of bonuses, such as thirteenth- or fourteenth-month payments, corresponds to a uniform cut and has produced increased inequality, as in Hungary where the cut of the thirteenth-month payment led to a 12 per cent decline in the public sector wage and a 37 per cent fall among the low skilled, but only a 13 per cent fall among the most skilled.

Increased inequalities because of adjustments have also come from the different work contracts and different pay and working conditions proposed to new employees. Lower pay levels for new recruits in Ireland, for instance, have increased inequalities and brought a sort of dual market in the public sector. Similarly in France the decrease of starting wages in real terms in many occupations de facto leads to intergenerational inequality. Germany also has a strong internal labour market with lifelong employment, but at the same time an increasing number of peripheral employees with temporary contracts.

In most European countries – Spain being the most extreme case – the increase in the proportion of temporary workers who do not enjoy the same working conditions (especially in terms of job stability) is also creating increasing inequality among the public sector labour force.

Another way of looking at inequality is also to identify whether the adjustments are having disproportionate effects on certain categories of workers, especially those considered the most vulnerable. No doubt, certain categories of workers have been more affected by public sector adjustments. Lower employment prospects will directly hit those
categories that tend to work in the public sector, especially women, young people and migrant workers for some professions.

The chapter on gender by Jill Rubery (Chapter 2) provides the reasons why women will be harder hit than men by the current public sector adjustments. Women represent a major part of public sector employees, but the public sector also traditionally provides women greater access to highly skilled positions and better pay: the gender pay gap documented in the various chapters of this book is traditionally lower in the public sector. There are also more flexible working-time arrangements and work–family life reconciliation practices. These disproportionate effects of public sector adjustments on women require a dedicated chapter, taking a transversal and cross-country approach.

3.4 Impact on Low Pay and Poverty among Public Sector Employees

The cuts in employment and wages have had some impact on security among public sector employees, for a number of reasons, including their difficulty in getting re-employed in either the public or the private sector; their shift to part-time and temporary contracts, as in Greece; and the cut or abolition of overtime payments. The cuts in pension benefits also increase poverty rates: a 10 per cent increase in public pension expenditure is associated with a 1.5 percentage point increase in older people’s relative income (OECD 2009).

The most dramatic development has been in Hungary where the abolition of the thirteenth-month payment has led to a rapid increase of low-paid employees in the public sector. As documented in Chapter 8 on Hungary, low pay affected 31 per cent of public sector employees with less than secondary education in 2008, but 55 per cent in 2010. This means that more than one unskilled public sector employee out of two had fallen below the poverty threshold by May 2010.

Severe wage cuts in Lithuania also led to an immediate increase in low-paid employees in the public sector. Specifically, female jobs seem to have been hit by the increased proportion of low paid, for example, teachers.

In Romania, although there are more low-paid employees in the private than in the public sector, the dramatic fall in wages in the latter suddenly increased the proportion of employees below the poverty threshold (see Chapter 12 on Romania). A minimum wage lower in the public sector than in the rest of the economy has further contributed to this, with a similar trend in Portugal.

In Germany, the increase of casualization (fixed-term, part-time) in the public sector has led to a rapid increase of low-paid workers, as documented by Gerhard Bosch in Chapter 6 on Germany, also in the
case studies at the municipal level. At the same time, outsourcing and low wages in the private sector have also contributed to a race to the bottom in terms of wages and work contracts. Typically in Germany in order to avoid outsourcing lower entry wages for low skilled were decided in the public sector. The author concludes that ‘the state has increasingly become a major driver in the expansion of a low-wage sector as a result of outsourcing and privatization and also as a contracting authority’.

Similarly in the United Kingdom, the shift of many public sector employees from full-time to involuntary part-time has led to an increased proportion of low-paid workers among public sector employees.

3.5 Indirect Effects on Working Conditions

Reductions in employment and wages have also had indirect effects on working conditions, summarized in Table 1.5. First, labour force reductions combined with the same volume of services to be delivered will obviously lead to increased workloads and higher work intensity. This has also led to a greater number of working hours in countries such as Estonia, Germany, Greece and Spain. The problem is that this increased number of working hours has often been accompanied by a reduction in the hourly overtime rate, as in Greece, Hungary and Portugal. One of the most important changes in working conditions for public sector employees in Portugal – apart from significant wage cuts – was the reduction of overtime rates that clearly affected those working longer, with also those working at night suddenly losing their premium compared to those working during the day.

Overtime payments have even been abolished, as in the education sector in Estonia, or for all public sector employees in Romania, where they are now compensated with free time. There are similar restrictions in Croatia and Estonia.

While for some countries, working hours have been increasing in the public sector, often alongside a decrease in hourly overtime rates, some other countries have reduced working hours in the public sector as an adjustment mechanism in the crisis, notably through the shift from full- to part-time contracts. In the three Baltic countries, working hours’ adjustments were lower than in the private sector.

Finally, training has also been allowed to decline, with lower career progression, frozen in a number of countries.

Case studies in individual chapters provide a number of illustrations of these trends, for instance in education and health care.

In France, lower resources including less employment have led to an intensification of work: the remaining employees have to work harder to
Table 1.5  Effects on working conditions and social dialogue, selected European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Working conditions</th>
<th>Social dialogue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>Restrictions on overtime</td>
<td>Fewer strikes than in the other two Baltic states</td>
</tr>
<tr>
<td>Estonia</td>
<td>Training cuts by 60%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-paid overtime in education</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>Work intensification in many services due to job cuts</td>
<td>Lack of social dialogue in the reforms</td>
</tr>
<tr>
<td>Germany</td>
<td>New working conditions arrangements in the new generation of collective agreements: working-time flexibility, performance-related pay, prolongation of weekly working hours</td>
<td>Fragmentation of social dialogue: decentralization from national to many local agreements</td>
</tr>
<tr>
<td>Greece</td>
<td>Increase in working hours and reduction in overtime rates</td>
<td>Continuous waves of general protests and strikes but also for all public sector occupations and sectors</td>
</tr>
<tr>
<td></td>
<td>Freeze of automatic progression</td>
<td></td>
</tr>
<tr>
<td></td>
<td>New payroll grid and job-ranking system</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lower pension entitlements</td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>Reduction in the number of working hours and also of hourly rates</td>
<td>Lack of social dialogue in the reforms Dismantling of the previous tripartite structures Reduced use of collective bargaining in public sector</td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td>Pay increase scheduled in national agreement cancelled in March 2009. Disputes and protests against wage freeze and pension levy in first half of 2009 Public sector agreement 2010–14 in March 2010 for some public sector reforms, but no further wage cuts and no compulsory redundancies. Industrial peace maintained</td>
</tr>
<tr>
<td>Latvia</td>
<td></td>
<td>Several protests and strikes Softening of the rules of collective bargaining</td>
</tr>
</tbody>
</table>
Table 1.5 (continued)

<table>
<thead>
<tr>
<th>Working conditions</th>
<th>Social dialogue</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lithuania</strong></td>
<td>Unilateral wage cut in June 2009 without consultation, followed by strikes and national agreement in October 2009</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td>From central agreement to 8 subsector wage agreements already in 1993, and subsequently to 14 agreements</td>
</tr>
<tr>
<td><strong>Portugal</strong></td>
<td>Cut of overtime pay rates</td>
</tr>
<tr>
<td></td>
<td>Additional supplements for housing, meals, travel, unhealthy activities frozen</td>
</tr>
<tr>
<td></td>
<td>Progression criteria tightened</td>
</tr>
<tr>
<td></td>
<td>Career progression frozen in 2011</td>
</tr>
<tr>
<td></td>
<td>Pay progression by merit also stopped in 2011</td>
</tr>
<tr>
<td></td>
<td>Fall in vocational training by 50%</td>
</tr>
<tr>
<td><strong>Romania</strong></td>
<td>No payment of overtime but compensation by free time</td>
</tr>
<tr>
<td></td>
<td>Abolition of previous compensations (for meals etc.)</td>
</tr>
<tr>
<td></td>
<td>Decrease in vocational training</td>
</tr>
<tr>
<td><strong>Spain</strong></td>
<td>Increase in weekly hours</td>
</tr>
<tr>
<td></td>
<td>Abolition of employees’ pension funds (~0.3% of total wage)</td>
</tr>
<tr>
<td></td>
<td>Abolition of wage complement for sick leave in region of Madrid (~40% of previous wage in case of sick leave); same in regions of Valencia and Galicia</td>
</tr>
<tr>
<td></td>
<td>New law on social dialogue in 2011 that brings a number of changes, such as an increased representativeness threshold, abolition of national collective contract and reduction of automatic extensions previously used at sectoral level</td>
</tr>
<tr>
<td></td>
<td>2010 agreement on wage increase in public sector broken by government</td>
</tr>
<tr>
<td></td>
<td>Increased conflicts</td>
</tr>
<tr>
<td></td>
<td>Reduction of role of trade unions and social dialogue in public sector</td>
</tr>
<tr>
<td></td>
<td>Reduction of hours employees released to perform trade union activities in many regions</td>
</tr>
</tbody>
</table>
Public sector shock in Europe

Table 1.5  (continued)

<table>
<thead>
<tr>
<th>Working conditions</th>
<th>Social dialogue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>Sweden Little impact from the crisis</td>
</tr>
<tr>
<td>High share of short-term contracts in public sector (17–18%)</td>
<td>Sweden Slight decrease in training</td>
</tr>
<tr>
<td>Working time slightly increased in the crisis</td>
<td>Sweden Negotiated flexibility leading to individualization and differentiation of wages</td>
</tr>
<tr>
<td>Slight decrease in training</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>United Kingdom Increased workload alongside significant job cuts</td>
</tr>
<tr>
<td></td>
<td>United Kingdom Protests in the public sector</td>
</tr>
</tbody>
</table>

meet demand which is often increasing rather than decreasing, as shown in the examples on education and health care provided by Jérôme Gautié in Chapter 5 on France. In Spain, public sector employees have experienced not only abolition of the job stability principle – along the systematic issuing of fixed-term contracts for new recruits – but also longer working hours and larger workloads, and wage levels have been allowed to fall below private sector wages in a number of sectors.

A case study on elderly care in a municipality in Sweden (Chapter 14) also shows some intensification of work for employees in this sector.

In Germany (Chapter 6), the state and the Länder unilaterally increased the weekly working hours of civil servants to 42 hours (Bavaria and Thuringia), while weekly working hours were also increased by collective agreements for the non-civil servant public employees. The cut of the Christmas bonus was applied to all.

Increased workload and increased working hours (above 12 hours a day) among doctors and nurses is well documented in Chapter 8 on Hungary, while those on France (Chapter 6) and Portugal (Chapter 11) describe the same problem for teachers. A case study in two schools in Portugal (Chapter 11) clearly shows the increased workload on teachers alongside employment cuts, mainly through the non-renewal of fixed-term contracts, with increased stress, excessive class sizes and lower motivation, which have adversely affected the quality of the education provided. The same process is described in Croatia (Chapter 4) and other countries.

This trend towards deteriorating working conditions has been aggravated by changes in the functioning of collective bargaining, also described in Table 1.5, notably with the abolition of previous extension clauses in Romania (Chapter 12) and the reduced recourse to social dialogue in the
public sector in Hungary (Chapter 8), where tripartite institutions were also modified.

3.6 Effects on Human Capital and Long-term Quality of Jobs and Pay

The reduction in training but also lower expenditure on human capital in general bring long-term risks of human capital losses in the public sector.

Training was reduced by a record 50 per cent in Portugal in terms of both total number of training hours and number of trainees. In Croatia, training, which is traditionally higher in the public sector, has plummeted since 2008 to private sector levels. Training expenditure was also reduced by 60 per cent in the Baltic states over the past few years. Vojmir Franičević and Teo Matković for Croatia (Chapter 4) show how investment in human capital has decreased in the public sector, especially in education, leading to a lack of professionals and skills in a number of schools.

Alongside cuts in expenditure in human capital, more difficult career progressions due to austerity programmes may also have an impact. Career development was frozen in Portugal and the United Kingdom, with career services even dismantled in the latter. Similarly in Greece, career progression has become more difficult due to the obstacles hindering public sector employees from moving up the ranking scale even if all their performance evaluations are successful.

Lower career prospects combined with cuts in wages and benefits risk affecting the public sector’s ability to attract and retain staff, with high performers leaving to pursue higher-paid opportunities with private companies or abroad. Such effects are already observable and reported in the various chapters.

One case study in the United Kingdom (Chapter 15) shows how outsourcing unemployed services to private providers has led to a loss of previously qualified employees in this area.

Jaan Masso and Kerly Espenberg in Chapter 3 on the three Baltic countries (Estonia, Latvia and Lithuania) show how long tenure in the public sector has made possible a significant accumulation of job-specific human capital, while shortened tenure due to fiscal consolidation measures has started to reduce such capital, with the most experienced employees leaving, especially in education and public administration.

In Germany (Chapter 6), the case study of the municipality of Duisburg highlights the difficult budgetary situation of, in particular, old industrial cities that have to finance a large part of the costs of long-term unemployment even though their revenues are shrinking. As a result, they are highly indebted and must cut basic services, while lowering pay and working conditions in the public sector.
In the Netherlands (Chapter 10), experience in the 1980s illustrates the negative effects that a significant deterioration in pay and working conditions can have on public sector attractiveness. It has significantly reduced the willingness of young well-educated people to work in education. Key civil servants report that an ‘area of tension’ has developed between the existing public wage structure and wage cuts motivated by budgetary problems (BZK 2011). Especially the combination of labour force ageing – in 2008, 35 per cent were aged 50 and over – and unattractive labour conditions is likely to discourage younger employees, leading to an expectation that 70 per cent of all employees in government and education (30 per cent retirement, 40 per cent mobility) will leave and need replacing by 2020.

In Portugal (Chapter 11), the retirement of public employees is most detrimental with regard to the highest-qualified staff, who are not replaced or are replaced by less-skilled employees, a process that has also led to a lowering of human capital.

Chapter 7 on Greece also documents the reduction in the number of higher-ranking public sector officials, from 30,000 to 10,000.

From these examples, we can thus expect that the magnitude of current public sector adjustment together with decreasing public expenditure – notably on training – will lead to significant changes in the skill composition of public sector employees.

3.7 Transformation of the Public Sector’s Image

To date, the public sector has been regarded as an important element of the European Social Model. However, the image of the public sector has changed radically over the past few years. As shown in this volume, public sector employees have been the target of campaigns aimed at depicting them as almost parasites of the labour market, enjoying strong trade unions and unjustified better pay and working conditions – despite their reported ‘low productivity’ – which allegedly have contributed to the huge budget deficits that most European states now face.

Certain professions have come under particular attack, such as public administration, but also education and health care.

This type of campaign has focused on public sector advantages – especially in the context of the economic crisis – and seems to have influenced the image of the public sector in public opinion, as shown in Spain and other countries, thus facilitating acceptance of radical adjustments and reforms. The change of image and perceptions of the role of the public sector has in fact been much more radical in the countries facing the biggest budget deficits. The image of public sector employees is today radically different in, say, Greece compared to that in Sweden.
While such denigration of public sector jobs and conditions may be partly explained by the current economic context, it will have a long-term impact on the public’s perception of the public sector.

Such a deterioration of the public image and prestige of public employees – combined with their deteriorating working conditions – will have a negative impact on the recruitment of young qualified people, the motivation of its existing labour force and the quality of services produced.

Denigration of public sector occupations may also progressively undermine the guiding role that the public sector has played in progress on workers’ rights and entitlements in general. Most labour improvements and equity arrangements – for instance, for reconciling work and family life or part-time arrangements – were generally first introduced in the public sector and then extended to the private sector. This was also the case with pension and health insurance. By removing such a pilot function, one important lever for improving working conditions might progressively disappear in Europe, and the public sector will tend to copy labour conditions in the private sector.

3.8 Migration

Worsening wages and working conditions in several occupations in the public sector has also led to waves of emigration. This volume provides evidence on doctors from countries such as Hungary and Romania, but the same movement has been reported in the Czech Republic and Poland. In Romania, almost 10 per cent of doctors have emigrated since 2007 (Holt 2010). In Hungary, as reported by Szilvia Altwicker-Hámori and János Köllő (Chapter 8), 500 to 600 doctors left every year between 2004 and 2008 compared to 750–800 graduates per year, a figure which has since been on the rise. In 2011, 100 doctors per month applied for a certificate of goodwill required for working abroad.

This situation has led to a 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 and also went on strike. A case study in the chapter on Hungary describes this doctors’ revolt and its effects. Evidence of emigration of public sector employees from the Baltic states is also provided, in occupations such as doctors, police and armed forces, and rescue workers, with a case study on this important occupation. A case study on the deteriorating pay and working conditions of doctors in Estonia is also presented, with their immediate effects, including emigration to Finland. Emigration of nurses and health sector employees in general has also been reported by trade unions.
3.9 Industrial Relations

The types of reform selected for the public sector may lead to differentiated use of social dialogue. Negotiations and consultations with the social partners seem to have been rare in the face of significant quantitative adjustments to reduce the budget deficit, generally carried out hastily.

According to the OECD (2011a: 35), 'while consultation processes on proposed regulations have improved, consultation in the area of procurement is not as widespread', with only one-third of OECD member states involving citizens at some point in the procurement process, most often to monitor the integrity of the award process or to monitor implementation.

This assessment is confirmed for EU countries where social dialogue has generally been poor. In a series of countries initial tripartite agreements have not been respected. This was the case in Spain, for example, where the agreement for 2010 not to cut wages was broken by the government, which then unilaterally imposed a 5 per cent reduction. Zafiris Tzannatos and Yannis Monogios in Chapter 7 on Greece also show how social dialogue was completely excluded from the negotiations on rescue and austerity packages. This neglect of dialogue in the reform process has certainly contributed to the mushrooming of protests and strikes as an alternative outlet.

At the same time, the process of radical adjustments and reforms seems to have had an impact on collective bargaining, especially where the reforms themselves have modified the functioning of collective bargaining mechanisms and rules.

In Latvia, the crisis has led to a weakening of the rules on collective bargaining. In Croatia, attempts to reduce the scope of collective agreements led to trade union mobilization and withdrawal of proposed changes (see Chapter 4 on Croatia). In Romania, the new Law on Social Dialogue abolished the collective agreement at national level, but also tightened up the representativeness conditions, thus rendering trade unions action more difficult, and also dismantled the automatic extension of collective agreements at sectoral level, which will limit the scope of collective bargaining.

Similarly, in Greece the contents of collective agreements were not respected, which led to a high-level mission by the ILO in 2011 (ILO 2011b). In Hungary, the new Labour Code not only dismantled the tripartite council, which had some say in minimum wage fixing and wage recommendations, but also modified collective bargaining provisions.

This current period has contributed to lowering trade unionization in the public sector, as documented here and there in this volume, for example, in the three Baltic states.

This trend will be further aggravated by the structural shifting of
collective bargaining in many European countries away from nationally fixed agreements to decentralized agreements by subsectors, as had already happened in Sweden and the Netherlands in the 1990s, but more recently in Germany and Romania. This fragmentation of collective bargaining in Germany to the 16 federal states has led to a lower trade union impact on local working conditions. There are also more similarities in Germany between private industry and public sector industrial relations than there were in the past (Keller 2011).

The current austerity packages have contributed to undermining collective bargaining in the public sector in different ways. First, by the abolition of extension clauses – as in Romania and Greece – or the non-renewal of collective agreements, or the reduction of hours made available for trade union activity, as in Spain.

This trend is to be seen as an important loss for public sector employees. Evidence in this volume shows that wages and working conditions can be better protected where workers are represented by strong trade unions and benefit from comprehensive collective agreements.

Countries with strong trade unions in the public sector, such as France, have managed to limit wage cuts while the absence or weakening of trade unions has led to higher wage cuts. A tradition of collective bargaining in Sweden has also allowed a high degree of flexibility and efficiency gains at local level. The very low trade unionization in countries such as Estonia – in both the private and public sectors – may also explain why the wage rates of the two sectors have progressively converged.

3.10 Potential Effect on Service Quality: Lower Quality and Fewer Resources

The examples in this volume show that in many cases it has not been possible to achieve the aim of most of the reforms, as indicated by the OECD (2011a), namely to ‘improve efficiency . . . using fewer resources’. The examples show that resources have certainly fallen, but that this has also brought a deterioration in performance and service quality.

The case studies on the health sector show that there is often a decrease in efficiency with a deterioration of inputs. As shown in the case of France in both education and health care, this has led to a mismatch between demand and supply, and the cuts and reforms could not be achieved without sacrificing quality. A case study in Estonia shows a rapid increase in medical waiting lists and a rapid decrease in the number of doctors, technical equipment and operating theatres.

In Croatia, workers’ satisfaction and motivation in the public sector have decreased, as shown in the case studies presented.
One of our case studies in Romania shows restricted access for teachers and the impossibility of career advancement. This has also led to a lower number of qualified employees, with a direct impact on the quality of services provided.

The different case studies on services to the unemployed show some of the adverse effects of outsourcing in the United Kingdom: the interests of the service providers do not always coincide with the public interest. In Germany as well, underspending and underinvestment are expected to affect the efficiency of the public sector and also to make many local municipalities incapable of delivering proper public services.

The chapters on the United Kingdom (Chapter 15) and Ireland (Chapter 9) also show how lower resources in the public sector have disproportionately affected disadvantaged groups. Cuts in the budget and quality of education in Ireland have hit lower-income families who have no other choice than the state system. Similarly, government spending cuts have affected families in the lowest-income regions in the United Kingdom. A case study in Germany reveals the impact of cuts in one low-income region. Similarly in Hungary spending cuts in education have led to poorer services for low performers, so that their dropout rate has increased. Selection by social background has also increased. Similarly, all programmes for improving the integration of Roma children into the education system were either interrupted or significantly reduced.

This volume offers many instances of falling quality in public services: cuts in security services leading to increased insecurity; longer delays in judicial decision-making, along with pay reductions, leading to increased corruption; lack of skills, including IT, in the public sector due to reduced investment; lower services also in health care, including the closure of emergency centres; and in education larger class sizes and fewer teachers in France, Romania and many other countries.

### 3.11 Detrimental Effects on Longer-term Reforms in the Public Sector?

The examples presented in individual chapters also highlight that quantitative cuts are often presented as necessary for restructuring the public sector, but in some cases may contradict or impede structural reforms needed to improve overall efficiency.

For example, the efficiency of reforms aimed at encouraging and facilitating mobility between institutions to better allocate human resources – implemented in most EU countries, including France – may be frustrated and even penalized by more recent adjustments aimed at using mobility as a door to exit the public sector, as in Portugal. In this country, the new special mobility status decided under budgetary pressure and to avoid
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Redundancies in the public sector is not really encouraging the mobility sought before the crisis to improve public sector efficiency.

Similarly, all measures aimed at facilitating career progression and better recognition of skills, performance and merit – also alongside new public management (NPM) changes and more performance-related pay – have been undermined by recent measures to stop or limit career advancement and progression. The greater recourse to fixed-term employment contracts may also reduce employees’ willingness to move from one institution to the other due to the risk of losing their job. In Germany, recent changes in the public sector do not seem to have been much influenced by concepts of NMP (Keller 2011).

Structural reforms of pay in the public sector may also be halted by immediate wage cuts or freeze.

In Romania, the structural reform of introducing a simpler and unified wage scale – with fewer grades – clashed directly with the 25 per cent across-the-board wage cuts and a lower minimum wage in the public sector.

Similarly, performance-related pay cannot be used if possible wage increases are frozen, a conflict that occurred recently in Portugal.

Interestingly, in some cases public sector wages have declined during the crisis as a result of the reduction of profit-sharing bonuses that have fallen automatically, thus acting as a buffer to avoid employment cuts. This has happened in Estonia, where it can partly explain why pay adjustments were higher than in the private sector, but also why employment cuts were also lower in the public sector. This type of downward adjustment – of course with a need to limit their negative impact on lower incomes – may be more efficient than wage cuts across the board. This type of effect might legitimate increased recourse to these schemes in public sector reforms in a number of European countries – as they started in France – not only as a tool to motivate performance in the public sector, but also to allow some wage flexibility in an economic downturn. Of course, one key condition is to introduce such performance-based pay not in a period of crisis but rather in a period of growth so that employees can first see the advantages of these schemes and not associate them with wage cuts. It is typically a structural reform in pay systems that should be dissociated from quantitative adjustments, in other words, wage cuts.

The case study on education in Romania highlights the permanent tensions between structural reforms and quantitative adjustment in education.

The efficiency of some of the structural reforms themselves could be questioned. Outsourcing as a structural solution to increase public sector efficiency and reduce costs – for instance, by taking advantage of expertise outside the public sector – remains unproven. While this move is expected
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4. POLICY CONSIDERATIONS: FOR A BETTER POLICY MIX?

4.1 More Predictable and Gradual Adjustments

The negative effects of wage cuts on inequality could also be reduced if such cuts were more progressive along the wage scale and if they were applied gradually over time, as shown by Philip O’Connell in the case of Ireland (Chapter 9). As pointed out by the OECD (2011a), ‘most successful consolidation plans involve progressive and multi-year adjustments’.

In this respect, we shall see that the example of the Netherlands is instructive. Because they had already adjusted through significant wage cuts in the past with limited success – it led to distortions by converting the previous public sector premium into a wage penalty and contributing to a reduction in human capital there – they decided not to adjust through wage moderation in the 2008–10 crisis. Interestingly, the Hungarian government is currently trying to provide compensation to public sector employees at the bottom of the wage scale after the abolition of their thirteenth-month payment hit them disproportionately hard, plunging many of them below the poverty threshold. Similarly in Romania, as reported by Valentina Vasile (Chapter 12), there was political recognition in 2011 that the uniform 25 per cent wage cut for all public sector employees implemented in 2010 had been a mistake that the government in Romania is now trying to put right (in 2012 the basic wage in the public sector was increased in nominal terms by 8 per cent in June and 7 per cent...
in December), a process which is also visible in Hungary and a few other countries.

This indicates a policy lesson, namely that if wage reductions are to be implemented, they need to be progressive and not across the board.

4.2 More Negotiated Reforms

The evidence presented in this volume tends to show that transparency in public sector adjustments can help build trust and enables employees and the public to judge the relative effects of these plans on specific income or skills categories, sectors or regions. This requires that reforms be discussed and possibly negotiated with the trade unions. This would also reduce conflicts of the kind that recently paralysed most European countries and have contributed to undermining the economic recovery.

The method by which the adjustments were decided and implemented often explains the unsatisfactory outcomes and general discontent found in this volume about public sector adjustments. In particular, there was an impoverishment of social dialogue in this process at a moment when we would have needed an enrichment of it. But far from it, evidence is provided that social dialogue and collective bargaining institutions have been dismantled in a number of countries and that it would be important first to stop this process, and second to start rebuilding social dialogue. The case of Ireland also showed that only a national agreement made it possible to continue public sector reforms without major social conflicts, and that it even helped to start focusing on more structural reforms while minimizing quantitative adjustments. Reforms in the public sector in Europe will thus have to be carried out in the coming years in a more sound, transparent and negotiated way, and involve all actors directly and indirectly concerned.

4.3 Better Combination of Quantitative Adjustment and Structural Reforms

As indicated by the OECD, public sector adjustments within fiscal consolidation plans should normally aim at doing more with less. If they clash with other policy goals, however, they may end up doing less with less, or even doing less with more. Overall efficiency may be undermined. This volume presents several examples of how public sector reforms may lead to a lower quality of human capital and skills, poorer working conditions and, ultimately, a decrease in the quality of public services, due to a mismatch between demand and supply. We saw in particular that fiscal and budgetary goals should not be attained at the expense of other public sector reforms.
We also underline the need not to forget more structural reforms in the public sector: too large and too rapid quantitative adjustments – especially if they impede any career or system reforms – may hinder the attainment of reforms aimed at improving public sector efficiency. Resource rationalization must be weighed against service delivery in attempts to achieve savings.

Reforms should thus take into account cost rationalization in the long term rather than attempt simply to make quick savings in the public sector, thereby leading to higher costs in the future. It might be very costly, for example, to re-open hospitals or schools at a later date, as happened in previous reforms in the Netherlands but also other European countries.

4.4 Reforms Should Not Call into Question the Traditional Role of the Public Sector for Society

Reforms in the public sector can be implemented without questioning its importance for society as a whole. The government and media campaigns aimed at denigrating certain public sector occupations, reported here for individual countries are not healthy and gain nothing in terms of productivity and efficiency. In any case, public sector reforms cannot be achieved against the employees but with them, and they should be involved in the process.

Moreover, in these public debates on the public sector little is said about its contribution to employment and wage conditions, not to mention social developments: we have seen how public sector developments with regard to working conditions often lead the way for the rest of the economy. The public sector also has an important role in generating economic growth.

It is because of its experience of the adverse effects of wage cuts on demand during the public sector reforms in the 1980s that the Netherlands has partly resisted further wage and employment cuts more recently: indeed, employment increased by 6 per cent in 2008–11. Wiemer Salverda (Chapter 10) shows that this has helped to mitigate the effects of the recession so far. One of the case studies on health care shows the interaction between public consumption and economic growth.

Damian Grimshaw in Chapter 15 on the United Kingdom also shows how the cuts in spending and wages in the public sector have contributed to reducing a major source of demand in regions where the public sector usually drives economic growth.

4.5 Raising Revenues as well as Cutting Expenditure

As emphasized by the OECD (2011a: 39), ‘two-thirds of fiscal consolidation has been weighted so far towards spending cuts and one-third...
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[towards] revenue enhancements’. We may question whether this structure is balanced. First, we have seen that cutting expenditure may be counter-productive and does not always lead to efficiency gains. Second, we have seen that public sector reforms based on cuts alone may not ultimately achieve improvements in public services. Revenues can be increased by fighting tax evasion, but also by raising taxes. In the latter case, however, it is important to evaluate the impact of different taxes in terms of equality: flat rate taxes and increased consumption taxes disadvantage lower incomes, but also affect employment since such taxes reduce consumption and thus employment across the board.

4.6 For a Monitoring Process

More generally, the results of this comparative volume highlight the need to put in place a better monitoring or assessment process of both the short- and long-term effects of all types of public sector adjustments, in terms of efficiency and quality of service delivery, but also in terms of the quality of work, inequality and the costs and outcomes for the states’ budget. This assessment does not seem to have been carried out systematically in most European countries despite the magnitude of public sector adjustments and reforms. This monitoring process, if it is to be effective, should be carried out by an independent body but then lead to a general consultative exercise involving the social partners.

5. CONCLUSION

While it is difficult to offer conclusions on a process that is still going on in most European countries, the comparative work on public sector adjustments we present here should be seen as a contribution to a better understanding of the nature and extent of such adjustments in different European countries, making it possible to identify some of their effects.

First, significant diversity was found between European countries. This may concern the nature and extent of these adjustments, their timing or the policy mix. Such differences might be explained by whether the individual country has already experienced significant public sector adjustments in the past, like the Netherlands or Sweden. The scale of adjustment may also depend on whether it takes place in countries with large-scale public sector employment or not. We should also distinguish between countries in which the burden of the adjustments has fallen mainly on public sector employees – as in Greece – and those where the burden was redistributed more equally among all sectors/actors, as in Ireland.
Another key factor in diversity is clearly identified in this book: whether the country is under budgetary pressure so that large-scale adjustments seem unavoidable in the face of the public deficit. Countries that had healthier public finances before the crisis, such as Sweden but also to a lesser extent Germany, have been less under pressure to cut public expenditure. They have been in an even better position if they had already started both public sector reforms and adjustments in an earlier phase, as was the case with Sweden and, in a different way, the Netherlands. By contrast, the public sector has come under most pressure in the countries with the largest budget deficits, namely Greece, Portugal, Spain, Romania, Hungary, Ireland and a few others. Finally, we have also seen that public sector retrenchment can reflect an ideological belief that the private sector operates more efficiently and at lower cost than the public sector, as in the United Kingdom.

This volume also shows that this immediate and urgent pressure to make savings and reduce public expenditure tends to favour quantitative adjustments, mainly cuts in expenditure, jobs and wages in the public sector. While in some cases these adjustments could efficiently complement structural reforms in the public sector, we have also seen that they can limit the effects of these institutional reforms and even halt them, as in some cases in Portugal and Romania. Clearly, more consideration is required for the reconciliation of quantitative adjustments and structural reforms when designing and before implementing policy changes in the public sector.

At the same time, the need to reduce current deficits should not be the only consideration when deciding on the type and extent of public sector adjustments in Europe today. Evidence collected in this volume shows that a disproportionate focus on quantitative adjustment brings a number of risks and leads to adverse effects in the social and economic spheres.

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 traditionally had over the private sector, which was empirically justified by higher education levels in the public sector.

Not surprisingly, such dynamics may now lower skills and human capital levels in public sector occupations. At the same time, uniform wage cuts along the wage scale have hit lower grades harder and thus have contributed to increasing wage inequalities, while plunging many workers below the poverty threshold. 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 and work and family arrangements.
Job losses in the public sector have also contributed to increasing the workload of the remaining public sector employees and their working hours, while payment rates for overtime have been reduced, even frozen in a number of countries. The simultaneous reduction in expenditure has also reduced the human and material resources available for carrying out public services, which generally remain the same or even increase – as in health care and education.

The neglect of social dialogue in the reform process and the abolition of a number of provisions that encouraged collective bargaining in the public sector have also contributed to lowering working conditions in the public sector. The public sector has also lost its role as a model employer with job security, collective bargaining, codetermination and good pay and working conditions, instead converging with private sector practices.

These changes and the way they have been implemented have triggered an immediate and massive wave of demonstrations and strikes by public sector employees – often joined by other social groups – throughout Europe. Beyond the immediate economic costs of such protests, the worsening social climate in the public sector must be seen as ringing an alarm bell concerning the future.

As we have seen, the future prospects for human capital and job quality in the public sector are also under threat. Not only have deteriorating wages and working conditions in the public sector compared to those in the private sector led to significant emigration – especially among doctors and nurses, but also teachers – but the public sector has stopped attracting the quantities of young qualified graduates which hitherto have been its lifeblood.

Examples provided in the various chapters of this book also highlight that all these changes – especially when resulting in an increasing mismatch between greater demand and falling supply – cannot be neutral for the future quality of public services. This is already to be observed in education and health care, but also threatens in public administration.

The aim of this work, under the auspices of the European Commission and the ILO, and following a first project on inequalities in the crisis (Vaughan-Whitehead 2011), was to monitor the public sector reform process currently being carried out in Europe and to provide evidence on its effects. There is an obvious need to continue such monitoring, especially since it will be possible to evaluate the effects of the current reforms in more detail only as more data become available in the course of time. A number of conditions can already be highlighted on the basis of this comparative work, however. First in terms of method, the evidence provided highlights the need to use social dialogue as a reform tool and to involve workers’ representatives in this process more closely. Second,
in terms of timing, it also points to the need to consider more gradual and progressive adjustments rather than carrying out all employment and wage adjustments over one or two years. Third, in terms of the nature of the adjustments, this work points to the need to promote a more balanced combination between quantitative adjustments and structural reforms in the public sector, but also a better mix between fiscal and other important considerations, such as equality, social dialogue, employment prospects, working conditions and the future efficiency and quality of public services. Only under these conditions could public services in Europe continue to provide an important source of both social cohesion and economic growth.

The slightly new perspectives put forward in early May 2012 by the ECB President, Mario Draghi, on the need ‘to put growth back at the centre of the agenda’ and to ‘sustain Global Demand’, and some European leaders’ requests for more growth-enhancing policies, rather than just austerity packages, might constitute the right opportunity to reconsider public sector adjustments and reforms in a more balanced, negotiated and thorough way, so that they not only help to reduce budget deficits, but also contribute fully and effectively to the models of economic growth and welfare that the European Union would like to follow in the longer term.

NOTES

1. With regard to these sectors unfortunately Eurostat does not draw a distinction between organizations operating in the private sector and those operating in the public sector. These figures can thus only be an approximation or proxy of the size of the public sector (individual chapters provide a more detailed portrayal). While public administration includes mainly public employees, the education and health-care sectors can also include private sector organizations and employees.

2. In some cases, however, responsibilities for financing services have been decentralized without adequate additional funding. This was clearly the case in Germany which might have been a way to force the municipalities and the Länder to cut expenditure.


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