

The effects of pay reforms and procurement strategies on wage and employment inequalities in France's public sector

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EXECUTIVE SUMMARY

The French public service has undergone important changes in recent decades, but it was only in 2007, with the election of president Sarkozy, that the government decided to introduce far-reaching ‘new public management’ reforms, as well as to reduce the number of staff employed in central government administration. The official objective was not to retrench public services activity but instead to increase its productivity and quality – the slogan at the time was ‘doing better with less’. Nevertheless, outsourcing of support activities to the private sector was strongly encouraged and significant downsizing of jobs in central government public administration induced *de facto* withdrawal of some public service activities, although some of these activities have subsequently been taken up by public authorities at the local level. The economic crisis that began in 2008 has reinforced the budgetary constraints and therefore increased the pressures on government to implement quantitative adjustments in terms of employment and pay in an effort to cut public spending. However, the impact of the crisis on structural reforms has been more ambiguous.

This report has two overall objectives:

1. It focuses on the impact of recent changes in the public service pay system and in the externalization of public service activity;
2. It analyses the impacts of public sector reforms through case studies of two large municipalities.

Special status of civil servants

The share of workers employed in the ‘services of public interest’ *largo sensu* which include general public administration (covering security, defense, justice...), education, health and social services – is not higher in France than in other large European countries, such as the United Kingdom and Germany, and tends to be lower than the Nordic countries. What is more specific to France is the way public services are provided. Most employees (i.e. about 85%) responsible for the delivery of public services are civil servants and benefit from a very specific employment status, namely the *statut de la Fonction Publique*. This special employment status was introduced to guarantee the independence of public employees from both political power and the market. Beyond the bureaucratic organizational rules that regulate recruitment, career paths and pay progression, this special employment ‘status’ usually correlates with a very strong and specific public service ethos.

Public sector pay reforms during the crisis

Even if the French public service has undergone important changes in recent years, there has been no general trend so far towards cuts in pay, large programmes of downsizing or externalisation through procurement.

Concerning pay, the ‘across-the-board’ wage policy, based on a process of fixing the value of the ‘index point’ of the Wage Grid of the *Fonction Publique*, has tended to play a lesser role. However, the trend had already started in the early 1980s and therefore is not new. Public sector pay policy today tends to target specific categories of employee - according to their

bargaining power and the ease of recruitment and retention of specific occupations (such as, for example, nurses or school teachers) - and seeks to better remunerate individual competencies and performance.

An important structural reform in recent years has been the attempted introduction of the 'Function and Performance Based Premium' (*Prime the Fonction et de Résultat - PFR*), which represents another potential step towards the individualisation of wage fixing. Nevertheless, three years after it was introduced, the implementation of the PFR remains limited mainly to top managers. Overall, for most public service employees the basic principles of the pay system have remained unchanged.

Beyond the apparent stability of the global pay structure, important changes in terms of wage differentials within and between occupational groups

Key features of stability of public services pay structures include:

- sustained use of automatic wage increases (for seniority, promotions) as well as specific compensating measures adopted during the last five years mean that those employees who have been in continuous employment and/or benefited from career advancement have not experienced a decline in real earnings;
- global inequalities (as measured by the interdecile ratio, for example) have remained stable (or even slightly decreased); and
- the share of low-wage workers in the public services sector has declined.

Nevertheless, the decrease in the purchasing power of the 'index point' of the Wage Grid, in addition to the linking of the base minimum wage for the public services to the statutory national minimum wage (SMIC), has had several important consequences in terms of wage differentials within and across occupations, some of them unintended, in particular at local level. At the low pay level, it has induced a compression of wages among employees of different lengths of tenure (that is, a flattening of the age-earnings profile). At the same time, however, the starting wage of many skilled occupations in public services has decreased notably in real terms, reducing the gap with the starting wage of people entering low skilled occupations. A further consequence of these changes is increasing inequalities between cohorts; in many intermediate or high skilled occupations in the public services a new entrant in 2010 earned around 10% less in real terms than a person entering in 2000 ten years before.

➤ Evidence from local government

Data from case studies of two large municipalities (in the north and south of France) suggest these unintended consequences (invisible at a macro level) contribute to a devaluing of the public service sector and raise issues for both employee motivation (at all levels of pay, but especially among the low paid) and the attractiveness of public service jobs (especially for high skilled occupations). The following issues were identified:

- Since more than 75% of their workforces are in low skilled occupations, wage policy in the two municipalities was in particular targeted at low paid employees;

- Wage policies sought to compensate (at least partially) for the consequences of the flattening of age-earnings profiles and the limited possibilities of promotion in several ways including fast track advancement for all employees, high levels of bonuses and premiums and new fringes benefits; and
- The case-study data suggest these sorts of wage policies had a cost, which may have generated an additional incentive for procurement in some cases.

Procurement trends? The special case of ‘internal externalisation’

There is no evidence of an increasing trend towards more procurement of public services in France. Instead, the French specificity concerns what the report refers to as ‘internal externalisation’, which refers to management efforts to increase flexibility by circumventing the rules of the public service system while remaining within the perimeter of ‘public service’, or at the very least at its margins. Two practices characterise ‘internal externalisation’:

1. to recruit non civil servant employees. Indeed their number has increased in recent years, despite unions’ strong opposition. A law was adopted in 2012 that should reduce the number of fixed-term contracts, and many temporary workers should get access to permanent contracts, but not necessarily to civil servant status;
2. to grant more autonomy to public entities, which are on the one hand subject to budgetary pressures, but on the other may benefit from derogatory rules such as the ability to recruit non civil servants.

➤ Evidence from local government

The absence of a general increasing trend towards procurement at global level is confirmed in our two case studies:

- In one municipality, procurement of services remains very limited (reflecting in part political reasons), even if there has been some externalisation at the margin in recent years for both reasons of costs and quality of the service provided;
- At the other municipality, it is more widespread, but there is some tendency to ‘reinternalise’ some services, and, overall, the approach is quite pragmatic.

The two cases were also interesting to show that the employment and pay conditions of employees were not systematically worse in the private sector subcontractors; pay even tended to be higher in some activities such as water provision. The explanation lies partly in the relatively strong protective rules regulating procurement and the transfer of employees. It also reflects a political concern since the issue of terms and conditions of employment was taken into account by the local authorities when choosing the providers.

Regarding the practice of ‘internal externalisation’, local authorities, and in particular municipalities, can create several types of semi-public (semi-private) joint venture

entities under their control that employ non civil servants and therefore exercise a large degree of autonomy in fixing pay and other employment conditions. Even in the case of reinternalisation, one of the two case-study municipalities preferred to use such entities – a sort of ‘external (re-) internalisation’.

Lessons for policy and practice

Changes in the wage policy have to date had no negative impact on global wage inequalities in the public service sector. But induced consequences for wage differentials within and between occupational groups may cause increasing problems for employee motivation (especially at low skill levels) and the attractiveness of jobs (in particular at high skill levels). The ongoing structural reforms concerning the introduction of a performance-based pay premium is opposed by many unions and public sector employees.

Rather than massive downsizing and/or externalisation through procurement, the strategy adopted so far in France has consisted instead of what this report refers to as ‘internal externalisation’ – in particular, by increasing the number of non-civil servant public employees. This may lead to increasing dualisation in the forthcoming years.

Overall, ongoing changes within the public services challenge the traditional model of the French *Fonction Publique*, which is based on a specific conception of what constitutes *public service* and how it should be delivered.

Introduction

The share of “services of public interest” – that cover general public administration (including security, defense, justice, etc.), education, health and social services – is not higher in France than in other big European countries, such as the United Kingdom and Germany, and tends to be lower than in Nordic European countries (Audier and Bacache-Beauvallet 2007). What is more specific to France is the way these services are provided: they are mainly public services in which most of the employees are civil servants, benefiting from a very specific employment status (*statut de la Fonction Publique*), that has been introduced to guarantee the independence of public employees from both political power and the market. Beyond the rules regulating recruitments, careers and pay, this “status” is also usually correlated with a very strong and specific ethos.

France’s Public Service (see the precise definition used here below) has undergone important changes in the recent decades, but it was only in 2007, with the election of President Sarkozy, that the political powers decided to introduce profound “new public management” reforms. Private consulting firms played a crucial role in the conception and the implementation of the so-called “general review of public policies” (*Révision Générale des Politiques Publiques* or RGPP) put in place that year in Central government administrations: “rationalisation” and “modernisation” being two key concepts. Even if officially the objective was not the retrenchment of public service activity but the increase in its productivity and quality (“doing better with less” being the government’s slogan), outsourcing of support activities was strongly encouraged, and significant job cuts in public administration induced *de facto* withdrawals of some public service activities (Gautié, 2012). The crisis that started in 2008 has reinforced the budgetary constraints, and therefore increased the incentives to implement quantitative adjustments in terms of employment and pay, in order to cut public spending. But its impact on structural reforms has been more ambiguous.

This report focuses specifically on the impact of the recent changes in the public service pay system and on the externalization of public service activities. In Part 1, we provide a general overview. Even if the basic principles of the pay have so far not been destabilized by the recent reforms, changes in wage policy have induced important consequences in terms of wage profiles and wage differentials among public employees. While at the aggregate level there is no obvious evidence of an increasing trend in public procurement, closer inspection reveals a trend of what this report refers to as “internal externalization” within the perimeter of the public services. In Part 2, we illustrate these phenomena by analyzing two local level case studies of large municipalities.

Part One: The outlook for pay reforms and procurement practices and their consequences

Figure 1 provides an overall picture of the French Public Sector, introducing a distinction between the public sector in the broad sense, public administration and public service (in the strict sense). The latter, the *Fonction Publique* (**PS**, for Public Service), on which we will mainly focus in what follows, covers central government administrations (**CPS**, for Central Public Service), sub-central government administrations (**LPS**, for Local Public Service) and the public health sector, mainly public hospitals (**HPS**, for Health Public Service). At the end of 2009, the number of employees in the three branches of the public service amounted to about 5.41 million (in other words, about 21% of total employment in France).

In Section 1, we set out the main features of the traditional Public Service employment and pay system in France, before presenting, in Section 2, the important changes and reforms it has undergone during the past twenty years.

1. An overview of France's Public Service employment and pay system

1.1. The basic features of the civil servant status

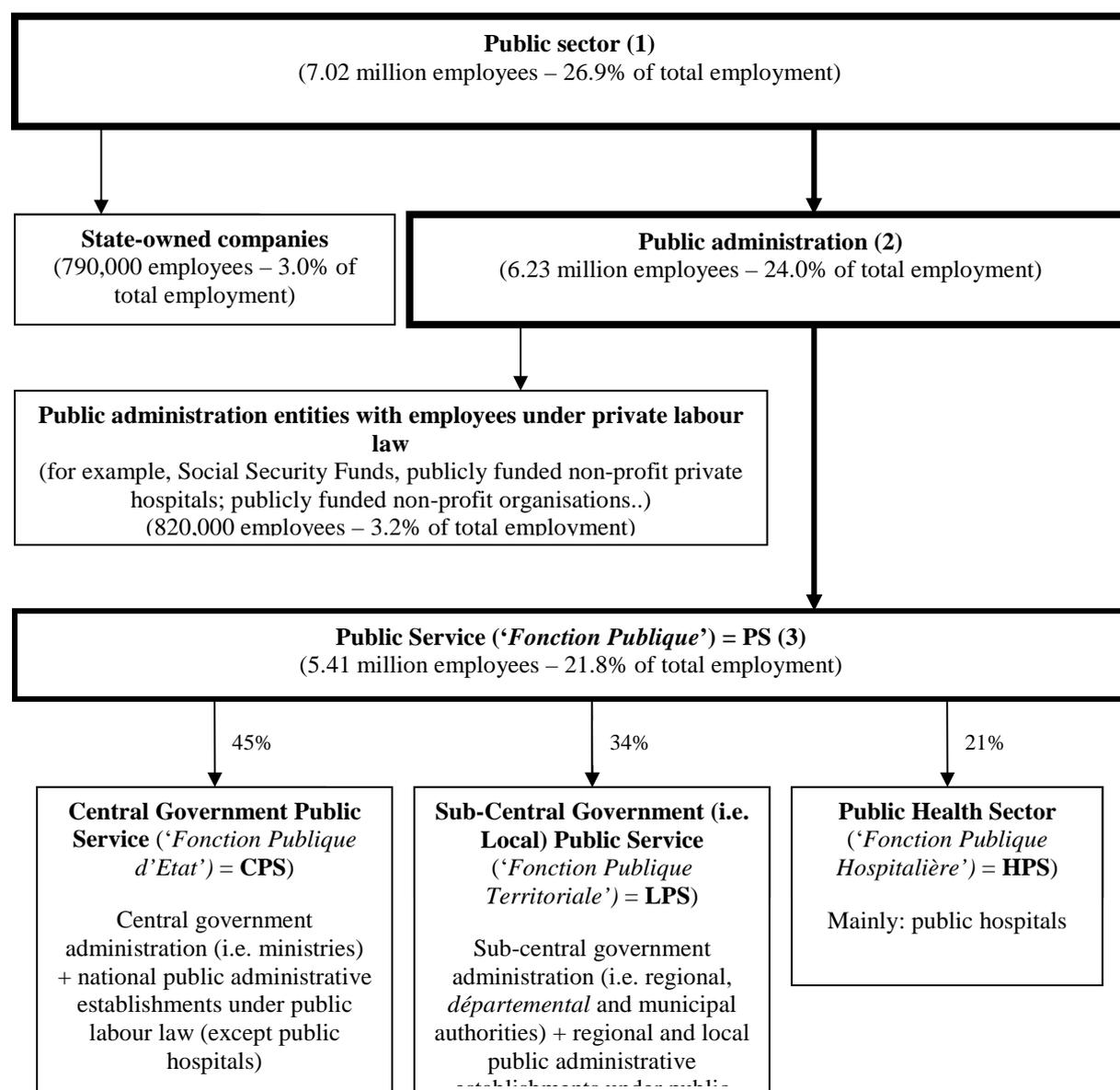
Most public employees in the French Public Service (the *Fonction Publique* i.e. Public Service, **PS** in what follows) are civil servants (about 84% in 2009). This means they benefit from a specific employment status (the *statut de la Fonction Publique*) which is quite different from the rules governing private employment in France, and which differs also from the terms and conditions of employment in many other OECD countries' public sectors: but it is close, in many aspects, to the “*Beamte*” civil servant status in Germany.

Civil servants are recruited through the selective procedures of national competitive examinations (*concours*),¹ and join a *corps* which corresponds to an occupation (or a group of occupations) or a technical skill, at the lowest level or *grade* – see also Box 1. They do not have any labour contract with their employer (i.e. the public authority), and therefore are not covered by the Labour Code (*Code du Travail*) which regulates the terms and conditions of employees in the private sector. The French Public Service employment system is clearly a *career-based* (as opposed to *position-based*) system. This has several implications. Civil servants benefit from a very high degree of job protection – which is in fact a protection from both politics and the market. People can complete their entire careers within the Public Service, unless found guilty of important misbehaviour, and the concept of “career” is a cornerstone of the traditional employment system. A civil servant's base wage depends only on his/her *corps* and *grade*, and not on the position held. This means that if the employee moves to another job, his/her base wage remains unchanged, while the length of tenure plays a crucial role in wage progression.²

¹ Competitive examinations at regional level in the case of **LPS**, see Part 2 below.

² Wages are not supposed to pay for an output nor a performance within a contractual exchange. This is why, in terms of terminology, there used to be specific words to designate the civil servant remuneration (“*traitement*”,

Figure 1. The public sector, public administration and public service in France, at the end of 2009³



Source: adapted from DGAFP, *Rapport annuel sur la Fonction Publique 2010-2011*, p.297.

“solde” for the military personnel) and to make a clear distinction with “salary” (*salaire*). The latter designates the price of the work supplied on a market in the framework of a contractual exchange, while the civil servant’s remuneration is determined by general rules.

³ The following figure includes the temporary employees in the public service who are beneficiaries of labour market policy schemes (the so called *emplois aidés dans le secteur non marchand*, which correspond to the “direct job creation” in the OECD classification of labour market policy schemes). Public employees of the *départements et communautés d’outre mer* (i.e. in French overseas territories) are also taken into account here, as well as employees working in embassies and consulates.

Box 1. Occupational categories, corps and grades

According to his/her occupation, an employee is classified in one of the three categories: “C” for low skilled occupations, “B” for the intermediate skilled / middle management staff, “A” for the high skilled / upper management staff.⁴ Some rules concerning the recruitment process and pay depend on these broad occupational categories, which are themselves subdivided into *corps*. The *corps* result from the technical division of work, and each one corresponds to an occupation (or a group of occupations) or a technical skill. There may be several *corps* for the same occupation: this is the case for instance for teachers in the secondary schools, where there are two *corps*, the “*certifiés*” and the “*agrégés*”, the latter having a more difficult competitive exam for recruitment, and hence being paid more than the former for doing similar work. Conversely, some *corps* may cover a very wide range of occupations, such as the “*attachés territoriaux*” in local authorities.

Each *corps* is a kind of internal sub-labour market: it has its own hiring procedure, based on a formalised and selective process and, until recently (see below Section 1.2), the mobility between *corps* was very difficult and quite limited. Each *corps* also has its own rules of career advancement – with seniority playing the main role in all the *corps*. Each *corps* is itself usually divided into two or three different *grades*,⁵ themselves composed of different *échelons* – i.e. levels. There is a selective process to move up from a lower to a higher *grade*. The progression inside a given *grade* through the *échelons* is mainly based on the seniority in the *grade*. As many bonuses also depend on the *corps*, overall, these play a crucial role in the pay system.

The grading system is associated with a unified pay scale – the so-called Public Service wage grid (*grille de la Fonction Publique*). This scale defines the index of base wages for all employees (the so called *traitement indiciaire*, from the lowest level (base wage index level 308 at the end of 2012), to the highest (the maximum base wage index of the scale = 1501). The index unit, the so-called “index point” (*point d’indice*), is worth a given amount in euros.⁶ In this system, pay progression is mainly seniority-based, as noted above, in correlation with length of tenure, a civil servant moves up different levels (*échelons* – see Box 1) of the pay ladder. But the speed in climbing the pay ladder may vary from one *corps* to another. Promotions based on performance do play a role of course, but they are also restricted by conditions concerning the length of service: i.e. it is not possible to apply for a promotion to a higher “grade” if a certain amount of length of service has not been attained.

On top of the base wage, specific allowances (family and housing allowances mainly), as well as bonuses and premiums (so-called *traitement indemnitaire*) are paid. Until recently, these depended only on the particular work post and/or the position held, as well as the specific administration of the civil servant, and not on performance. The share of bonuses can vary a lot from one administration to another: for instance, bonuses are much higher in Ministry of Finance administrations than in the educational system. But it is almost impossible to have detailed data, and the precise distribution of bonuses across the different administrations is

⁴ No diploma is required to apply for the “C” category, whereas the high school diploma level (“*baccalauréat*”) is required for entering the “B” category and three years of tertiary education (college degree) is required for the “A” category. Such requirements do not apply for internal promotion.

⁵ In universities, for instance, associate professors / lecturers and full professors are two separate *corps* and for a full professor, there are three grades (2nd class, 1st class and “exceptional class”)

⁶ Since July 2010, the (annual) value of the “index point” has been €55.5635. This means that the annual gross base wage of an employee whose wage is for example indexed at 308 will amount to $308 \times 55.5635 = €17,114$ (i.e. about €1,426 per month).

one of the best kept secrets of the *Fonction Publique*,⁷ in order to avoid spill-over effects between different *corps* or administrations, and not to upset too much the egalitarian values that are widely held among public employees. Overall, even if bonuses and premiums are highly regulated by procedural (and some substantive) rules, their amount may differ a lot across public employers, as we will see in the case of local authorities in Part 2.

In this highly regulated and centralised pay system, collective bargaining and unions nevertheless do play a role in wage determination. However, while the wage bargaining power of unions appears to be significant – the unionization rate is approximately 20% (about four times as high as in the private sector) – and strikes and mobilisation often concern a higher share of public employees, their overall role is limited. There is indeed a strong ambiguity here as the State is both the entity which sets the rules of the game and one of the players of the game (as employer and paymaster). This is crucial for understanding why, if there is bargaining over wages (and other issues) in the French Public Service, there are no legally binding collective agreements as in the private sector. In other words, the public sector employer remains legally free not to implement an agreement. While the industrial relations system has progressively shifted from unilateral state regulation system towards a more collective bargaining system in recent decades,⁸ wage determination has been a highly controversial issue since the mid-1980s. This is particularly the case concerning the across-the-board increases in the base wage. Every year there is a bargaining round at the central level (i.e. nationally and covering the whole **PS**) in order to fix the value of the “index point”, which is the cornerstone of the whole wage grid (as pointed out above). Nevertheless, unilateral government decisions have prevailed, and as we show below, unions have not been able to prevent the real value of the “index point” from decreasing notably.

The role of unions concerning wages may appear as more important at the level of a given administration and/or occupational category. The bargaining process may influence directly compensation through changes in bonuses and premiums, or through the upgrading in the pay ladder of a given occupation: for example, when the *corps* of nurses was upgraded from the “B” to the “A” occupational category (see also below). But above all, union representatives participate in consultative committees (“*comités techniques*”) which play a key role – within given administrations, or given *corps* – in the fixing of rules concerning careers, as well as in the determination of individual wage careers (job assignments and promotions).

1.2. Important features of differentiation and dualism

As pointed out above, the existence of the different *corps* introduces a high degree of fragmentation of employment and pay systems within the civil service. Since the early 2000s, one priority has been to reform the public service internal labour market, by accelerating the reduction in the number of occupational *corps*: from more than 1,500 in 2000, their number

⁷ Only very aggregated data are available. For instance, in 2009, the share of bonuses and premiums in total pay (excluding overtime hours) amounted to about 18.6%, ranging from an average of about 6% for teachers to around 45% for top civil servants (*ingénieurs des grands corps*).

⁸ See Bechter and Brandl (2012) for a comparative perspective on industrial relation systems in the public sectors in Europe. It was only in 2010 that a new law was adopted to reform the industrial relations system in the Public Sector, in particular to formalise more explicitly the bargaining process over issues other than wages. Concerning the latter, since 2008, it has been decided to hold more formal bargaining every three years.

declined to about 380 in 2010. The internal labour market has also been promoted by facilitating the mobility between the different *corps* and administrations with the adoption in 2009 of the “law on mobility and professional career paths” (*loi sur la mobilité et les parcours professionnels*). Some harmonization between different *corps* pay scales has also taken place, in particular in the “C” category (2006). Still, the differentiation of bonus and premium systems remains important, in particular in sub-central government public service (**LPS**) as explained in Part 2.

But the main factor of differentiation and even dualism is the gap between civil servants and non-civil servant public employees (also called “statutory” and “contractual” employees, respectively). If civil servants constitute the great majority of public service employees, the share of non-civil servants is not negligible as it amounted to more than 16% in 2010. Legally, civil servant status is supposed to be the rule (“regular” employees) and non-civil servants the exception. Until the mid-2000s, “contractual” employees used to be only temporary workers, and it is still the case for most of them. The hiring of temporary workers is highly regulated (the public employer must justify that it cannot find a civil servant to fill the job or to meet specific needs). But these rules are often not respected. There are now also open-ended contracts (i.e. non-civil servant permanent workers who can be dismissed if their activity disappears). This follows a law, adopted in 2005, in order to comply with the European Directive on fixed-term contracts⁹ that requires public administrations to transform a fixed-term contract into an open-ended contract after six years of service without any interruption (i.e. a continuous succession of fixed-term contracts during the period).¹⁰

The terms and conditions of employment of non-civil servants are very heterogeneous. Some of them, usually highly skilled, and often coming from the private sector, even if they hold a temporary contract, benefit from good pay conditions (and sometimes even a higher salary than a civil servant’s *traitement* in a comparable occupation). But the majority are on much shorter temporary contracts (in the education system, to fill vacancies or replace civil servants on leave, or, mostly at local public service level, in leisure, extra-curricula and social activities). Their pay conditions are much less favourable than for civil servants. As for many temporary workers, in some aspects, their condition may appear to be even worse than that in the private sector, as their temporary contracts may be renewed up to six years (and often much more),¹¹ before being transformed in an open-ended contract (whereas its cumulated duration cannot exceed 18 months in the private sector). Nor do they benefit from the “precariousness” premium which exists in the private sector.¹² Even on permanent contracts (i.e. open-ended contracts), non-civil servant public employees often do not benefit from seniority based wage increases and other career advancements (or if they do, much less than their civil servant colleagues), and they are not paid bonuses and premiums.

⁹ European Directive 1999/70/CE, adopted 28th June 1999.

¹⁰ Note that to comply with the European Directive, another solution would have been to transform fixed-term contracts into civil servant status after the same duration (six years).

¹¹ In the educational system, for instance, temporary workers are usually fired during the summer holidays (living on unemployment compensation), and re-hired in September. As a consequence, they can never reach the 6 years threshold of “continuous activity in the same job” required by the 2005 law.

¹² In the private sector, employees on open-ended contracts or temporary agency contracts benefit from a 10% wage bonus if, at the end of their contract, the employer does offer them an open-ended contract.

2. Evolution of pay practices and pay system reforms

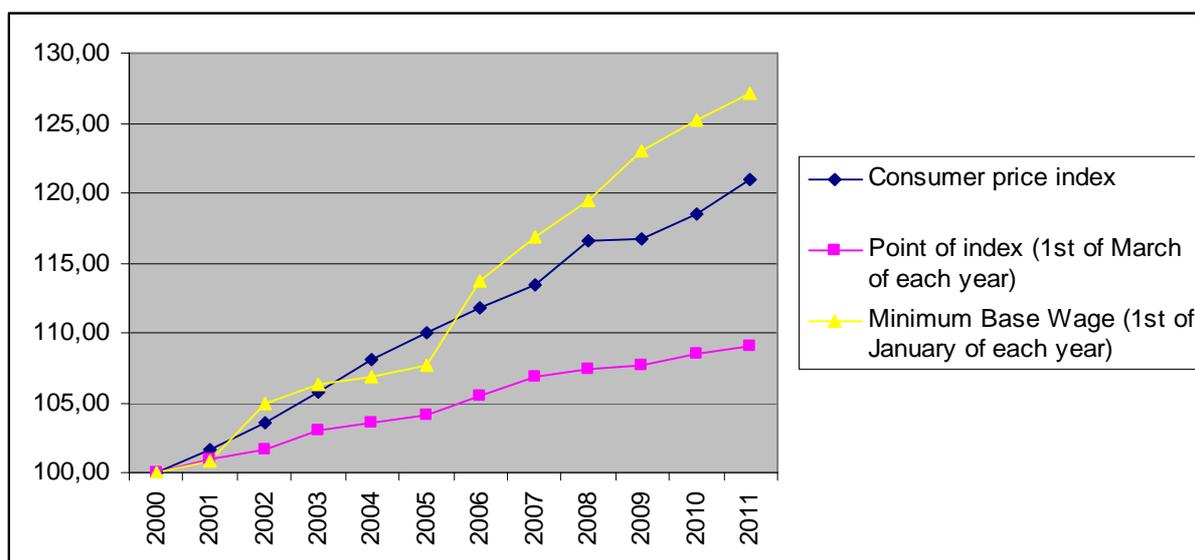
2.1. Changes in the wage policy and structural reforms

Adjustments in the base wage

The annual across-the-board wage increase mechanism was profoundly transformed at the beginning of the 1980s (Meurs 1993), in order to fight against inflation and to control better the growth of the public service wage bill. In spite of strong opposition from unions mentioned above, it was decided in 1983 to cancel the automatic indexation of the “index point” (i.e. the reference unit of the wage grid, see Section 1.1) on inflation, and to take as a target a given increase in the total wage bill of the public service. The first result of this new wage policy was that the real value of the “index point” started to decline from then. Note that the across the board wage increases were hardly affected during the first years of the crisis that started in 2008. If the annual nominal increase in the “index point” was slightly lower during the 2008-2010 period than during the 2003-2007 period (about 0.7% against 0.9%), its annual change in real terms was in fact higher, but still negative (-0.8% against -1.0%), because of lower inflation than during the five previous years. It was only at the end of 2010 that a complete freeze of the index point was decided for 2011 and 2012.

Between 1985 and 2010, while the consumer price index increased by 73%, the rise in the index point was only 38%. During the more recent period, though prices increased by 21.0% between 2000 and 2011, the value of the “index point” increased by only 9.1% (see Graph 1).

Graph 1. Evolution of the “index point” of the base wage and of the Minimum Base Wage (monthly) in the PS compared to the evolution of consumer price index



Source: updated from Gautié (2012). Author’s calculations from DGAFP and INSEE data. For the definition of the “index point” see Section 1.1. Since July 2010, the (annual) value of the “index point” has been €55.5635. The “monthly minimum base wage” is the monthly minimum gross wage a full time civil servant has to be paid. It is de facto indexed to the legal minimum wage of the private sector (the “SMIC”).

Nevertheless, before assessing the potential negative impact of the “index point” wage policy on the “purchasing power” of public employees, other countervailing or compensating factors have to be taken into account (“purchasing power” is the common expression used in French to refer to real disposable income).

First, individual wage increases due to automatic seniority-based increases or promotions (i.e. the so-called “career effect” on wages) still applied and have overall not been affected by changes in the government wage policy (and where they have been, it has in most cases been positively, see Section 2.3 below).

A second factor is that for those public sector employees who had not benefited from a wage increase during the period that was sufficient to compensate for the rise in inflation (after taking into account the career effect and the nominal increase in the value of the index point), the government decided in 2008 to introduce a specific bonus, the “individual guarantee of purchasing power” (*Garantie Individuelle de Pouvoir d’Achat*) as a compensatory measure. The public sector employees whose individual wage had increased less than the consumer index price during the four year period (2003-2007) received a bonus filling the gap between the two in 2008. This measure was renewed for the years 2009 to 2013.

A third element to take into account is that other compensatory measures were also introduced, as a consequence of the quantitative adjustments to employment. From 2007, it was decided to replace only one out of two public employees leaving for retirement in Central Government public services (**CPS**). The official objective (beyond cutting expenses), was to rationalize public spending and improve productivity (“doing better with less” being the big motto of the reform process) by relying on less but better paid employees. To motivate remaining employees and facilitate job cuts, the government committed itself to redistribute to them 50% of the wage bill of non-replaced retirees. In fact, during the three first years of implementation, more than 50% was redistributed, and the “redistribution rate” was higher in some Ministries than in others. In 2010, for instance, about 65% of the wage bill of non-replaced public employees leaving for retirement was redistributed to the remaining employees in the Ministry of Finance, compared to only 30% in the Ministry of agriculture. This redistribution took the form of specific measures for some occupational categories: such as an increase in starting wages (for teachers, see below Section 3.1); occupational skills upgrading (as for nurses, who were transferred for the “B” to the “A” occupational group, with a resulting increase in their index level, see below Section 3.2); an increase in the promotion rate etc. The aim here was also to increase the attractiveness of some occupations (such as teachers and nurses).

Eventually, a fourth factor concerns more specifically the low paid public employees. There is a minimum base wage (defined in monthly terms, for a full time worker) in the Public Service. Since the end the 1980s, it has been *de facto* indexed to the national minimum wage (the so-called SMIC), and which increased by almost 33% during the 2000-2012 period: i.e. much more than the consumer index price, even after 2008 (see Graph 1).¹³

¹³ The base minimum wage in the **PS** increased from the base wage index 253 in 2000 to the base wage index of 308 at the end of 2012. As the value (in €) of the index point also increased over the period, overall, the monthly minimum base wage increased from €1,074 in January 2000 to €1,426 in July 2012.

Beyond the freeze of the across-the-board wage increases, another policy measure may also be considered as a quantitative adjustment resulting from the fiscal consolidation process, even if it has been presented by the government as a structural reform to restore fairness between public and private employees. It was decided in 2010 to increase progressively the public employees' contribution rate to their pay-as-you go pension system from 7.85% of gross wage in 2010 to 10.55% in 2020: i.e. the same rate as for employees in the private sector.¹⁴ It means that in 2020 the wage (net of social contributions) will be about 3.5% lower than it would have been without the reform.¹⁵

Structural reform of the pay system

More structural reforms of pay and career advancement were also introduced, in line with “new public management” reforms. The old system of the annual evaluation of employees was replaced from 2007 by a new individual assessment process, which is supposed to play a much greater role in promotions. Along similar lines, merit based bonuses began to be introduced for top managers in 2004, and the objective was to progressively spread merit bases bonus systems to all employees from the end of the 2000s.

In 2009, a new premium was introduced, the *prime de fonction et de résultat* (PFR) based partly on an employee's position, and partly on individual performance. The aim is twofold. First, rationalisation and simplification: the PFR is a unified premium which is supposed to replace partially and progressively the very complex bonuses and premiums system. Second, as part of the premium was indexed to performance, it was supposed to provide incentives.

Overall, the introduction of the PFR can be considered as a step further in the individualisation process of wage fixing in the public service, and may be seen as complementary to the lesser role of an across-the-board wage policy.

Most of the unions were strongly opposed to this measure. The reluctance to connect compensation to any individual assessment process is very strong in the traditional French public sector culture, which remains very attached to impersonal general substantive rules (such as seniority-based wage increases and promotions). In a poll conducted in 2011,¹⁶ 51% of respondents declared that the adoption of a bonus based on individual performance was (or would be) “a good idea”, but “difficult to implement” (“*difficilement réalisable*”), and 31% stated that it would be “a bad idea”. While only a (large) minority was opposed to the principle, the majority also expressed the fear of inadequate implementation leading to arbitrary and unfair decisions.

This may explain why, three years later (in 2012), the PFR premium apparently only concerned a very tiny proportion of public employees, in particular in the public hospitals (**HPS**) and Sub-Central government public administrations (**LPS**), where only directors were concerned. But, to our knowledge, no data were available at the time of writing this report.

¹⁴ The pension system of public employees is run by the State.

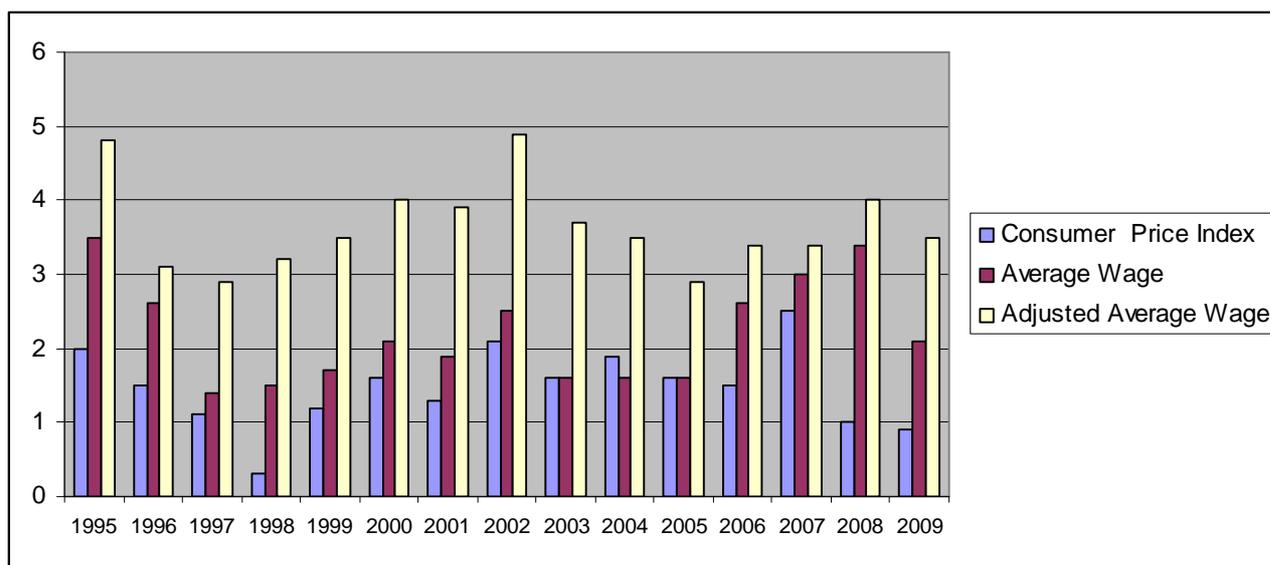
¹⁵ It was also decided to increase the minimum retirement age from 60 to 62 years old, for both the public and the private sectors.

¹⁶ Source: *Salsa-Fonction Publique*. The Salsa-FP survey was run in early 2011, on a representative sample of about 3000 employees of the **PS** (both civil and non-civil servant employees); it focused on the way public employees perceived their wages and working conditions.

2.2. The actual and potential impact on compensation

At the individual level, once the “career effect” and the rise in the index point, as well as the different compensating measures described in the previous paragraph are taken into account, the average wage of public employees (and even more, the adjusted average wage) has increased notably in the past fifteen years, and even during the post-2008 period (see Graph 2).

Graph 2. Annual increases (in %) of consumer price index, average wage, and adjusted average wage in the CPS (1995-2010)



Source: Updated from Gautié (2012). DGAFP data. The Consumer Price Index does not include the price of tobacco. The adjusted average wage is calculated here holding constant the staff from one year to another: i.e. taking into account in the calculation of the average wage in year N only the employees already present in year N-1.

Nevertheless, the feeling of a loss in “purchasing power” (or real disposable income) has been widespread among the public employees. According to the above mentioned poll conducted in 2011,¹⁷ 55% of them declared that they had not benefited from any across the board increase in their wage during the past five years,¹⁸ and moreover, up to 66% had the feeling their purchasing power had decreased during the same period (only 9% declared it had increased). This apparent paradox may have several explanations.

A first motive of frustration concerning wages has been well expressed by the unions. As we have seen, the majority of them are still strongly in favour of across-the board increases through the value of the index point. Beyond the purchasing power issue, the opposition of unions to the government wage policy also resulted from the attachment to one of the pillars of the career-based public service pay system. As a leader of one of the most representative unions in the public service (UNSA) stated: to include the career effect (and not only the across-the-board wage increases) when measuring the evolution of the individual purchasing

¹⁷ Source: Salsa-FP. See the previous footnote.

¹⁸ Which was not true in nominal terms, as the point of index was frozen only from 2010.

power of public employees to determine the wage policy can be considered as a “denial of the right to career advancement”.

Beyond the effects on annual individual wage increases, it is indeed worth assessing the effects of changes of pay policies and practices on wage careers, on the one hand, and on wage differentials within and between cohorts and occupations.

The loss of purchasing power of the index point hurts particularly new entrants (as compared to incumbents) in the occupations where entry wages have remained unchanged in terms of the base wage index level. In these occupations, in terms of cumulated wage during the whole career, a civil servant who entered public service in 2010 should earn about 10% less (other things being equal) than colleague who entered the service in 2000, and even less if the increase in the pension contribution, which was progressively put in place from 2010, is taken into account.

As for the low skilled public employees, as the minimum base wage (indexed to the SMIC – see above) has increased more rapidly than the value of the index point, there has been an important flattening of the wage profile, leading in particular to a low wage trap during the first years of career (see Box 2 for the details of the mechanisms at play). As the SMIC acts *de facto* as a wage floor, an increasing number of low paid workers have been overtaken by the SMIC, and an increasing number of pay levels (“*échelons*”) of their pay scale have fallen under the SMIC level, and have had to be adjusted to reach the SMIC level. This means that when climbing pay levels with length of tenure, a public employee has had no wage increase until the wage level he/she had reached in the pay scale was higher than the SMIC. Since the mid-2000s, the bottom of the wage scales have been automatically adjusted after every SMIC increases, with some ripple-effect, but wage progression with length of service remains very low.

This has led to a compression of the wage differentials within occupations, between employees with different lengths of tenure. In the illustrative case of *adjoints administratifs* (the lowest paid occupation) detailed in Box 2, while the wage of an employee with ten years of service was 14% higher than the wage of a new entrant in 2003, the difference had fallen to only 2.3% in 2012. This is likely to have contributed to the substantial frustration among low paid public employees concerning their prospects for pay progression and career advancement.

Another consequence of both the low increases (since the 1980s) and freeze (since 2010) of the index point and the impact of the minimum wage increases has been a wage compression between low paid and high paid occupations, in particular in the first years of careers. For instance (see Box 2 for details), while the starting wage of an “*administrateur*” (high paid category) was 72% higher than the starting wage of an “*adjoint administratif*” in 2003, it was only 47% higher in 2012, and during the period, had decreased by about 9% in real terms. This may have raised a problem in terms of motivation, and attractiveness for the high skilled jobs in the public service.

Box 2. The impact of wage policies and practices on wage profiles and wage differentials within and across occupations

1. The impact of the increases of the SMIC on the pay scale of low paid occupational categories

To illustrate the basic mechanism, let us take a numerical example: suppose the pay scale of the corresponding occupation is the following (taking €48 for the value of the index point on annual terms: i.e. €4 in monthly terms, and presenting only the first pay levels):

Numerical illustration

Pay levels PL (“échelons”)	Base wage index	Duration in the pay level (months)	Corresponding monthly growth wage (€)
PL 1	250	12	1000
PL 2	275	18	1100
PL 3	305	24	1220
PL4	340	24	1360

Suppose that the SMIC is set at €1,250 (monthly, full time worker). All the employees of the three first pay levels (i.e. from PL1 to PL3) have to be paid €1,250; they have to reach PL4 to get an effective wage increase. For a new entrant, this would mean waiting 54 months (i.e. 4.5 years), given that the value in euros of an index point is held constant. The magnitude (in terms of duration) of the effective stagnation will depend on the evolution of the value (in euros) of the index point, and on the evolution of the pay scale (base wage indexes at each pay level can be modified).

Since the 2000s, each time the SMIC increases, the government not only adjusts the base wage index of the first pay level (PL1) to equate the nominal value of the SMIC, but also adjusts (less proportionally, and with declining increase in % when climbing in the pay scale) the following pay levels, institutionalising, in a way a “ripple-effect”, to avoid a complete flattening of wage career during the first phases of new starters’ wage career, and to maintain a difference between employees with different lengths of service. Still, this does not prevent from a certain degree of flattening of wage profiles at each minimum wage increase. In July 2012, for instance, the SMIC increased by 2%, and rose to the equivalent of base wage index 308, which corresponded to more than the base wage index of pay level 6 (307 in January 2012) in the pay scale of the lowest paid “C” occupations. In this pay scale, one has to have at least 8 years of service to reach pay level 6. So all pay levels base wage indexes were adjusted up to pay level 7, (PL1 from 302 to 308, PL2 from 303 to 309, PL3 from 304 to 310, PL4 from 305 to 311, PL5 from 306 to 312, PL6 from 307 to 313, PL7 from 312 to 315), but remained stable from PL8 to the PL11, the last level of the pay scale for this grade (after 22 years of service by the fast track). Overall, the PL11 over PL1 base wage ratio declined slightly, after the July 2012 MW increase, from 1.168 to 1.153.

2. The impact on wage differentials across and within occupations: an illustration

These effects may be illustrated by taking the example of two occupational groups in the Sub-central Government public service (**LPS**) – but the same would apply for similar categories in the **CPS** and the **HPS**. We will take here the lowest paid occupation (“*adjoints administratifs*”), classified in the “C” occupational category, and a high paid occupation (“*administrateurs*”, i.e. high rank managers), classified in the “A” occupational category. The following Tables (a) and (b) present the evolution of base wages between 2003 and 2012 (i.e. bonuses and premiums not taken into account).

(a) Low paid occupation (“*adjoint administratif*”, 2nd class: i.e. lowest grade), “C” occupational category.

2003 pay scale		Base Index Wage Level	Annual Gross Wage (nominal)	Difference with starting wage
	Starting wage	263	€13,806	-
	Wage after ten years of	300	€15,748	+ 14,1%

	service*			
2012				
pay scale	Starting wage	308	€17,114	-
	Wage after ten years of service*	315	€17,503	+ 2.3%

(*) This is the highest wage level after ten years of service, supposing the employee benefited from the fast track seniority advancement, but supposing he/she has not been promoted to an upper grade or *corps*.

(b) High paid occupation (“*administrateur territorial*”, *classe normale*: i.e. lowest grade), “A” occupational category.

		Base Index Wage Level	Annual Gross Wage (nominal)	Difference with starting wage
2003				
pay scale	Starting wage	451	€23,674	-
	Wage after ten years of service*	733	€38,478	+ 62,5%
2012				
pay scale	Starting wage	452	€25,115	-
	Wage after ten years of service*	734	€40,836	+ 62.4%

(*) This is the highest wage level after ten years of service, supposing the employee benefited from the fast track seniority advancement, but supposing he/she has not been promoted to an upper grade or *corps*.

As for the lowest paid category, the base wage index of the starting wage has increased notably between 2003 and 2012, as it is indexed to the increase in the SMIC. Overall, during the period, the real increase in the starting wage was about 6.2% (24% in nominal terms). But the compression of the wage distribution between employees of different lengths of service appears clearly: whereas the wage of an employee with ten years of service was 14% higher than the wage of a new entrant in 2003, the difference had fallen to only 2.3% in 2012. The impact on individual careers (i.e. the longitudinal dimension) across the different cohorts is more complex to assess. The effective change in the wage of an employee during his/her first 10 years of career depends on both the change in the pay scale (i.e. the base wage indexes) and the increase in the value of the index point during the period. In our illustration, an employee who started in 2003 with wage level €13,806, is paid €17,503 ten years later (i.e. in 2012): a 26.8 % (nominal) increase. One would need to know the 2021 pay scale to estimate the wage profile of a new entrant in 2012, and to compare the wage career between the two cohorts.

As for the high paid category, as the base wage indexes of its pay scale have (almost) not changed during the period, both the starting wage and the wage after ten years of service lost about 9% in purchasing power. Note that for all cohorts of new entrants during the period, the difference between the base wage of employees with ten years of service and the base wage of new entrants remained unchanged (about 62.5%). This difference is much higher than for the low paid category (2.3% for the “*adjoints administratifs*”).

But at the same time, there has been an important wage compression between the two categories: while the starting wage of an “*administrateur*” was 72% higher than the starting wage of an “*adjoint administratif*” in 2003, it was only 47% higher in 2012.

3. Special illustrations: teachers, nurses and police

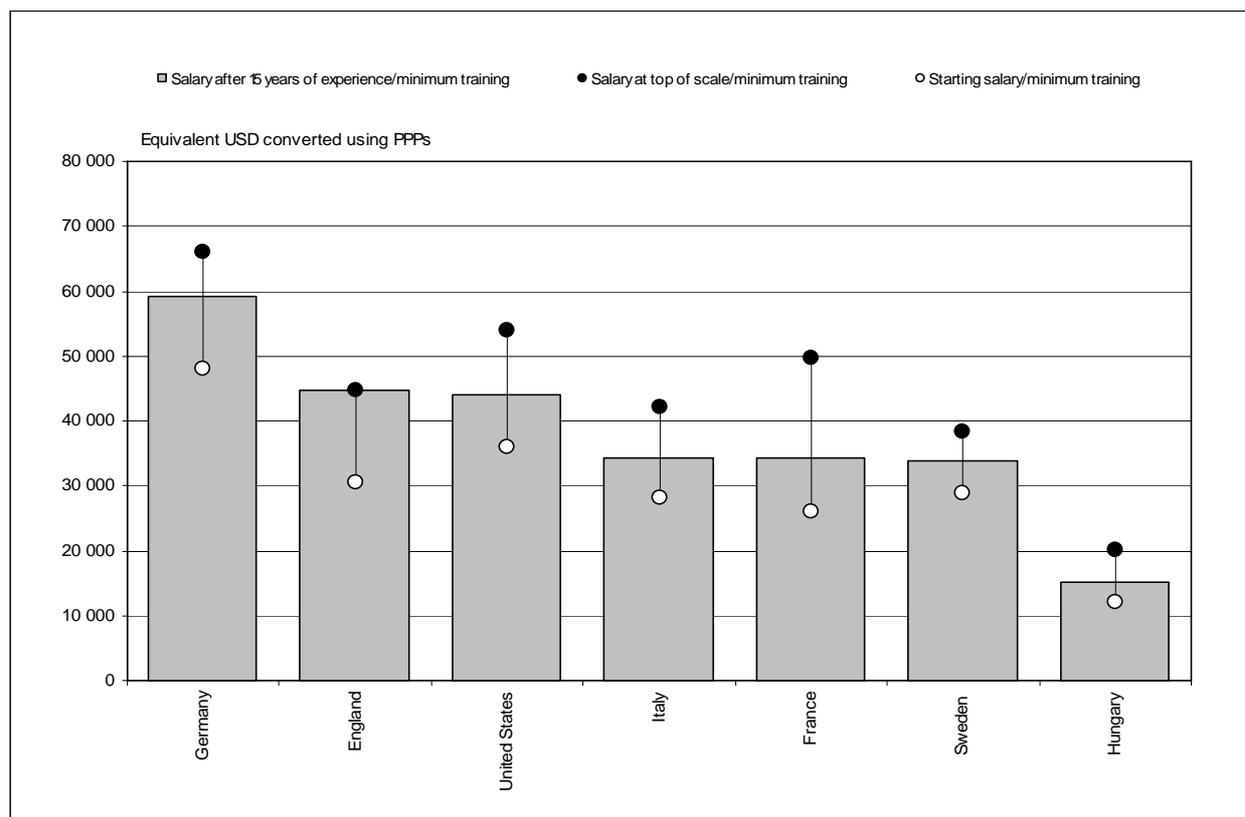
3.1. The case of teachers

According to the OECD (2011) comparative study, teachers are not very well paid in France, especially in terms of their starting wage (see Graph 3). In 2012, the starting gross monthly base wage of the teachers (lowest *grade* and *corps*) of primary and secondary schools¹⁹ was €1,616 (but jumping to €1,740 after 3 months of service, and €2000 after one year); after 15 years of service, they may earn about €3,047 (if they benefited from the fast track).

Teachers, lowest grade

	Base wage index level	Monthly gross base wage (full-time)
Starting gross base wage	349	€1,616
Base wage after 15 years (fast track)	658	€3,047

Graph 3: Teachers' salaries in lower education (public sector) in 2008



Source: OECD (2010), *Education at a Glance*.

The educational system has been hit particularly in terms of job cuts since 2007. In the primary schools, the number of teachers has decreased by 1.9% between 2007 and 2011 while the number of pupils increased slightly. But the decline was significantly higher in the

¹⁹ *Certifiés* and *professeurs des écoles, classe normale*.

secondary schools. It amounted to -5.9% during the 2007-2010 period, a much bigger fall than the decline in the number of pupils (about -2%).²⁰ One consequence was that the decrease in the number of civil servant employees had to be partially offset by the increase in the number of temporary workers. Whereas their share among teachers remained very low in primary education (less than 0.1%), their number increased significantly in the secondary education (+ 37.5% between 2007 and 2010), to reach a share of 4.4% of all teachers in 2010. While this trend had started before, it accelerated notably from 2008. Missing employees had also to be replaced by increasing number of overtime hours of incumbents (+9.5% between 2008-2009 and 2009-2010).

But in terms of compensation, the post-2007 period was rather favourable for civil servant teachers. As in other sectors, accompanying measures of staff reductions were also adopted, mainly in terms of increased compensation. A new “career contract” (*“pacte de carrière”*) for teachers was introduced. The (nominal) starting wage was increased by 18% between 2007 and 2012. The wage of other teachers having up to 7 years of tenure was also increased. Compensating premiums for specific activities (such as tutorship of new teachers, tutorship of disabled pupils, etc.) were introduced or increased. Many teachers also benefited from the exemptions of income tax and social contributions on their (increased) overtime hours (due to a law introduced in 2007, applying to all the workers, to promote the “work more to earn more” slogan of the newly elected President Sarkozy).

As for non-civil servants, even those benefiting from an open-ended contract, their compensation and wage career prospects remains significantly poorer. According to a top leader of the most representative union (SNES) in secondary education, their cumulated earnings throughout the whole career are about 30% lower than the cumulated wage of the civil servant teachers. Note that employees on permanent contracts are a minority among contractual (i.e. non-civil servant) teachers, who are largely on temporary contracts (fixed-term contracts). In addition, there are also workers who are paid on an hourly basis, and that are not considered as public employees (and therefore do not appear in the employment figures mentioned above). Their hourly wage rate has been frozen since 1989, inducing a 40% loss in purchasing power.

Overall, teachers offer a very interesting illustration of the strong and even increasing dualism (up to 2011) in pay systems and pay trends, which have been strongly denounced by the teachers’ unions.

3.2. The case of nurses

Public hospitals are the main French employer of nurses. Nonetheless, nurses may also practice in private clinics, in homes for the elderly, in various administrations, and in schools, etc. Public employee nurses mainly belong to the **HPS** but may also be part of the **CPS**. The number of nurses in **HPS** was 352,372 in 2007 (up from 289,768 in 2001), and the total number of nurses in France was 483,380 in 2007 (397,506 in 2001).

²⁰ It is worth noting that the decrease in the number of teachers had begun before 2007 (the peak number of teachers had been reached in 2005 in the primary schools, and in 2002 in the secondary schools).

Since 1991, the *baccalauréat* (i.e. upper secondary diploma) has been the minimum level of qualification to enter a nursing school (previously it was the *BEPC*: i.e. the lower secondary diploma). Post-baccalaureate training was extended to 3 years in 1992, when nursing schools became "training institutes in nursing". Nurses have a generalist training and become graduates of State (IDE) or specialized nurses if they have a specialization diploma: anaesthesia (IADE), surgery (IBODE) or child care. The specialist degree is required only for anaesthesiologists: only a third of nurses working in operating theatres are IBODE.

Since the reforms of the 2000s, the job has been characterized by tensions between doctors, on the one hand, and other less-trained employees (nursing assistants, cleaners etc), on the other hand, as well as tensions between the medical profession and the administrative management staff. Since the early 2000s, reforms in the hospital sector (for instance the *hospital plan* in 2007) have put a focus on management. Many reports have emphasized the need for cost control and measurement of "performance" (de Singly 2009; Acker, 2007). These reforms have added to nurses' missions, the management and economic performance of nursing units (on top of care).

The labour market is characterized by recruitment difficulties particularly in certain regions (the North, or Ile-de-France / Greater Paris). Over 30% of students drop out of training before graduation. Turnover is also a major issue: young nurses seek employment with good working conditions and this search may take a long time before settling in a particular post. The population of nurses is either young or old because many middle-aged persons have left the profession.

Budget rationalisation has had various impacts on nursing. Contracts for the return to financial balance (CREF) signed since 2004 between hospitals and regional hospital agencies have led to job cuts (more than 2000 in the *Assistance Publique des Hôpitaux de Paris*). But more generally, budget constraints have induced the non-replacement of retirees, reducing the number of fixed-term contracts, and hence an intensification of work and a deterioration of working conditions.

Since 1959, pay in the **HPS** has been based on status on the one hand and individual evaluation on the other. Moreover, hospital staff receive statutory allowances and a fixed bonus (since 24 March 1967), that equals 7.5% of an establishment's payroll. Following the reforms in higher education as part of the European Bologna process and the requalification of a nursing degree, the profession of nursing fits theoretically in occupational category A (for which a higher education degree (Licence / Bachelor's degree) is required: i.e. after three years of studies), and no longer into occupational category B (where nurses were classified before as they had only two years of tertiary education). The law of July 2010 (Article 37) changed the status of nurses and reclassifies them in category A. Nurses of the HPS can choose between the two options: they can either stay in category B and can retire at the age of 55, or switch to category A and have a salary increase but then defer their right to retirement until the age of 60. According to the Ministry of Health, only half of all nurses have accepted the change of status.

In 2012, the gross monthly starting base wage of the nurses was €1,584. After 15 years of service, they may earn about €2,255. Their wage profile is therefore much flatter than for teachers (see above).

Nurses, lowest grade

	Base wage index level	Monthly gross base wage (full-time)
Starting gross base wage	342	€1,584
Base wage after 15 years	487	€2,255

3.4. The case of the police

The French Revolution of 1789 was at the origin of a modern municipal police, serving mayors, which had the mission of "good policing" and "security". For this, it was made up of a "national guard" composed of citizens. A century later, the law which brought democracy at the municipal level (election of a mayor etc.) defined a mixed status for the police: the Commissioners were appointed by the Central government, while mayors appointed police inspectors and agents, whose status was common. But during the inter-war years, the mayors of some very big cities demanded and obtained the nationalization of their police. This was generalized. And it was only in 1999 that the status of the municipal police and its role was renovated, with a dual mission: to be close to people combined with a more traditional police mission, due in part to a form of Central government divestiture.

Today, the police service in France has specific characteristics, since it is performed by three types of personnel: the National Police, which is part of the Ministry of the Interior, the *gendarmerie*, which is part of the army but has recently come under the same command as the National Police, and finally the municipal police. The latter is under the responsibility of mayors at municipality level, but also under the control of national police officials in the region. This is facilitated by the fact that the Ministry of the Interior in France also supervises local authorities. Almost all of the corresponding staff are civil servants, and their status depends on the authority to which they belong.

In 2010-2011, the National Police was composed of about 128,000 employees, with among them about 1,800 officials and police commissioners. These positions are quite attractive, and every year, the (external) competitive examination to become police commissioner attracts about 1,000 applicants holding a Master's degree, for only 30 open positions.

It is worth noting that among policemen/women about 12,000 (in 2010), called *adjoints de sécurité* (ADS, *deputy security officer*) were not civil servants, as they were employed on 3-year fixed-term contracts. But they were considered as policemen/women because they were invested by the law as persons with public authority in the same way as a "normal" police, and because the position of an ADS is a path to tenure (they have undertaken some training to become ADS, and they are also trained during the 3-year period for the competitive examination to become law enforcement officers). In 2005, a new way to become an ADS was created: recruits can become "Cadets" of the National Police ("Cadets de la République"). This is a way to help young people leaving education prematurely to be trained and get a diploma. The scheme is one of the labour market policy programmes. About 900

cadets have been recruited each year: they received a study allowance equal to half the minimum wage during the first year. From the second year, they were paid like any other ADS: i.e. the minimum wage (equal to the SMIC).

Around 10% of the about 36,000 municipalities had a municipal police force in 2011, which employed about 18,000 agents. Their number has doubled since 1984, and the staff concerned have more than tripled.

In general, the hierarchy of grades of the municipal police is much lower than that of the national police force, although it has improved considerably in the recent years (but it is still concentrated on the “C” category: i.e. lowest skilled). Initially, almost all municipal police staff were classified in the “C” category. But recently a new grade (classified in the “B” category) was created. In addition, a position of "Director" was created where the number of staff is higher than 20. Bonus and premiums of municipal police officers are fixed at the municipality level. But as with other municipal employees (see below, Section 6), legally, their overall compensation cannot be superior to that of their colleagues in Central Public Service (i.e. National Police officers) Even if the pay is lower, the municipal police can be attractive for national police officers, as it may be a way of choosing the location of their activity (whereas they can be deployed throughout France in the National Police), and also of avoiding the most dangerous and violent areas.

In the beginning of 2012, a new premium was introduced for the lowest grades in the municipal police (“C” category) amounting to 20% of base wage, plus an extra of 5% based on performance. The career path has also been extended by the introduction of an extra pay level for certain grades, in which the highest pay level is now at base index level 529 – an estimated gain of €120 per month.

As can be seen in the following tables, concerning the base wage, it is still more profitable to work in the national police than in the municipal police, especially after a long career and if one climbs the hierarchy.

Police officer, lowest grade (i.e. law enforcement officers “gardiens”)

	National Police	Municipal police
Starting base wage	€1,445 (base index wage level: 312)	€1,431 (base index wage level: 309)
After 15 years (fast track)	€1,750 (base wage index level: 378)	€1,551 (base wage index level: 335)

4. Patterns and trends in public sector pay

Producing evidence concerning wage inequality in France between the public and private sector is not an easy task. The administrative statistical sources are not homogenous: pay data of the DGAFP²¹ and DADS²² for instance. As this section aims at comparing public and private sector wages, we decided to focus on a homogeneous source for the two sectors: the French Labour Force Survey (INSEE). The main drawback of this survey is that the collection is based on individual declarations of monthly wages and is not as precise as an administrative source. Moreover the amount of working hours is also declared by individual employees.²³ The main advantage is that the collection method is the same for the public and the private sector and a computation of hourly wages is possible on this basis. We retained here a computation of hourly earnings based on legal working time and the terms of the worker's contract (full-time or the percentage of part-time).²⁴ This choice has been made to remain consistent with the other countries of the study, independently of the legal working time, the percentage of part-timers and the distribution of the intensity of part-time work (as a percentage of full-time work) across country. In this view, the hourly wage analysed here is a kind of comparable monthly wage and does not reflect the effective working hours which are not contractual in France for some classes of workers, notably the managers and intermediates managers (*cadres*).

Graph 4 shows trends in the median hourly earnings in the public sector, compared to the private sector for various workforce groups.²⁵ During the 2003-2010 period, the trends were the same for these groups: the existing hierarchy in the median hourly wage of the different subgroups remained unchanged.²⁶

Beyond the discussion of the evolution of the median wage, a key issue is how the distribution of wages differs across the public and the private sector for different workforce groups. Considering the wage dispersion (Graph 5), there is a small difference for male full-timers between sectors: at the median, the 10th and the 90th percentile the public sector pay premium remains relatively small: respectively 10%, 6% and 1%. The public sector pay premium for female full-timers is higher at the bottom of the distribution: it amounts to 13% for the 10th percentile and the median. However, at the 90th percentage there is a small

²¹ The *Direction Générale de l'Administration et de la Fonction Public* (DGAFP) have access to public employment pay data and publishes an annual report.

²² The *Déclarations Annuelles de Données Sociales* (DADS) is a compulsory administrative form containing a list of employees and annual wages. They are filed in at the plan level and do not contain other variables on the workers' characteristics or the different components of annual wages.

²³ However, it has been used, as for instance in Lucifora and Meurs (2006) or Barguain and Melly (2008).

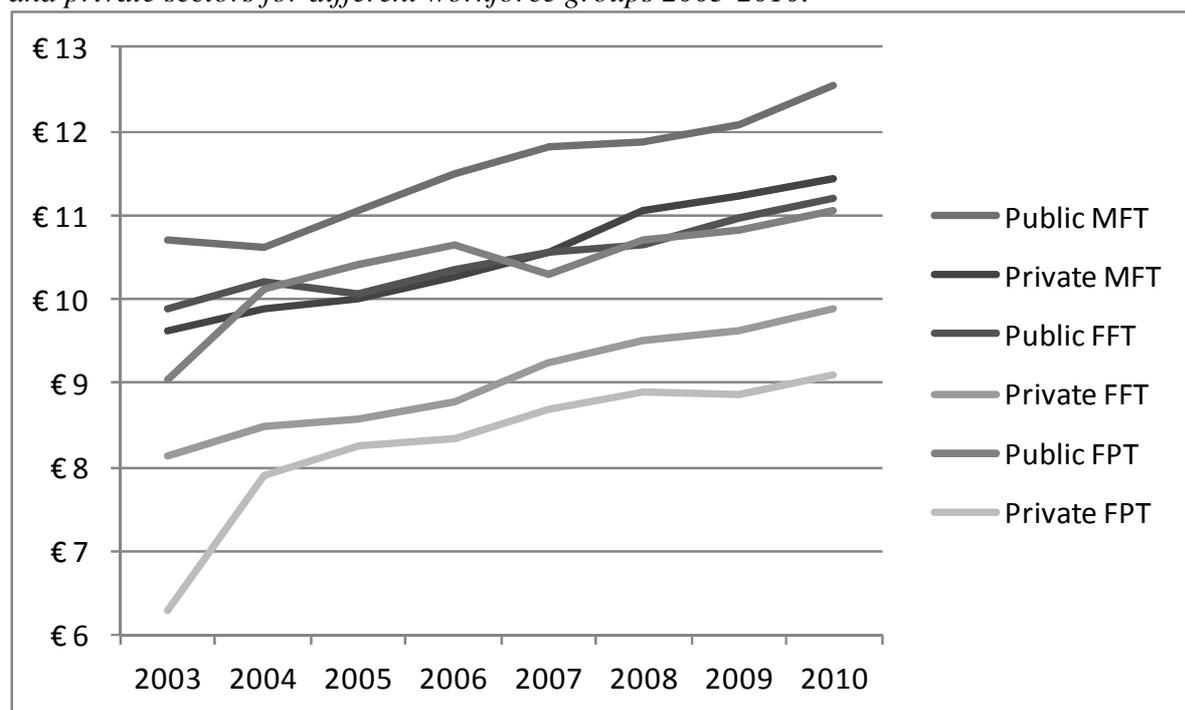
²⁴ Two variables are retained here to compute an hourly wage based on the monthly wage available: the working hours of the contract and the declared working hours.

²⁵ For the full-timer, the monthly wage is divided by 151.67: this monthly wage includes potential overtime hours that we cannot control for as such in the estimations. For the part-timer the monthly wage is multiplied by 0.9 when he/she declares "working more than 80% full time", by 0.8 when he/she declares "working 80% full time", by 0.65 when he/she declares working between 50% and 80% full time", by 0.5 when he/she declares "working 50% full time", by 0.25 when he/she declares "working less than 50% time". Unfortunately the variable used for this computation is not available as such for 2003: the net hourly pay for 2003 for part-timers is not directly comparable with the other years.

²⁶ These common trends are also verified when one looks at the monthly net wages, but the hierarchy in the median net wage changes when one does not control for the number hours of the labour contract.

premium for the private sector (2%). The pay premium of the public sector is relatively higher for the female part-timers. It amounts to 26% at the 10th percentile, 22% at the median level and 12% for the 90th percentile. In this view, the public sector is more favourable for the female part-timers than the private sector. This finding is consistent with the general results of other studies analysing the public private wage-gap: the public premium is generally larger at the bottom of the wage distribution but could be negative at the top of the wage distribution.²⁷ The differences in wage dispersion for the other categories remain small.

Graph 4. Change in median hourly pay (current €) net of social contributions in the public and private sectors for different workforce groups 2003-2010.

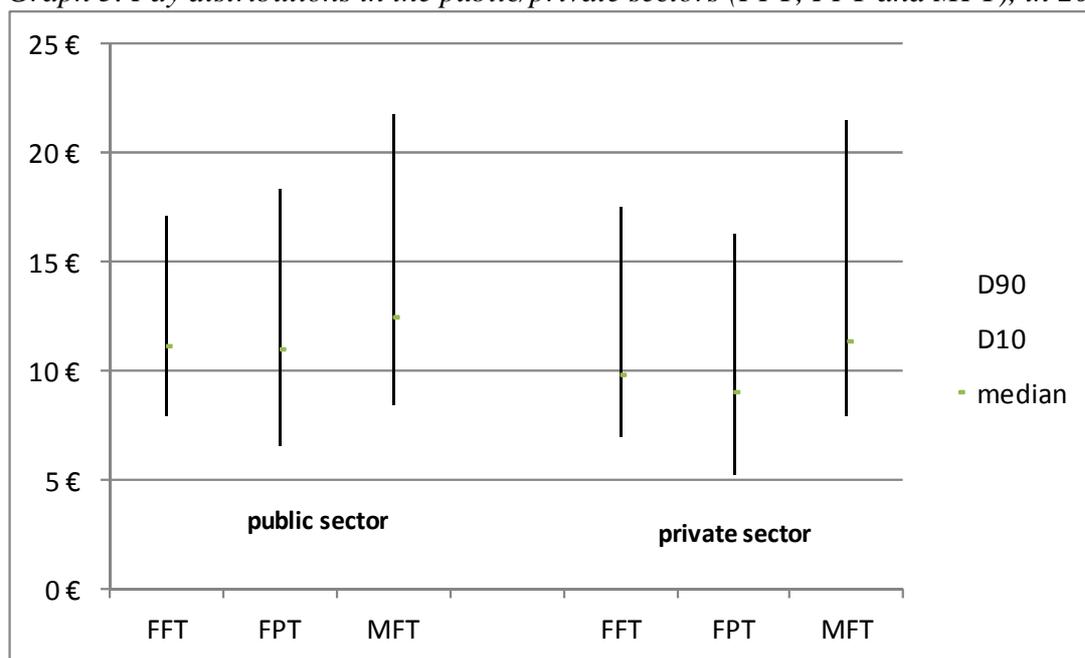


Source: French Labour Force Survey (Insee): authors' calculations.

Relative to the median hourly pay of all the employees in the economy (€10.83 in 2010), the public sector seems protective especially of women. The median hourly pay for female part-timers is equal to the median pay, whereas for the female full-timer it corresponds to 110% of the median pay of all employees. As shown in the Graph 6, this pattern was also evident in 2004. However, the premium for women in the public sector has eroded during the period. The median pay of women in the public sector is closer to the median pay of all the employees. More generally, Graph 6 shows that between 2004 and 2010, the distribution was compressed by some cuts at the top of the distribution for all workforce categories except the female full-timers of the private sector who experienced an increase in the 90th percentile of hourly pay.

²⁷ It is noteworthy that this result holds also across studies which aim at controlling for other variables. However the length of the French public-private gap may vary across estimations depending on the variable and the methodology retained. For instance, this gap is small in Lucifora and Meurs (2006) but close to zero when individual fixed effects are introduced: Bargain and Melly (2008).

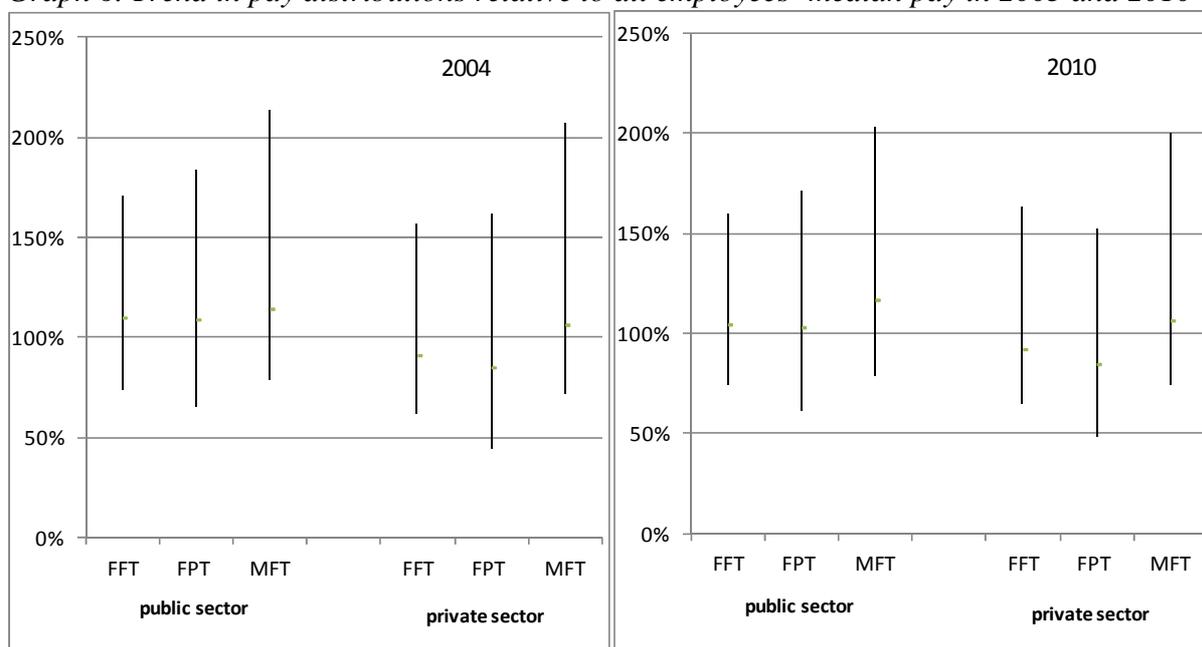
Graph 5. Pay distributions in the public/private sectors (FFT, FPT and MFT), in 2010.



Source: French Labour Force Survey (Insee): authors' calculations.

Note: hourly wages. FFT: Female Full Time, FPT: Female Part Time, MFT: Male Full Time,

Graph 6. Trend in pay distributions relative to all employees' median pay in 2003 and 2010



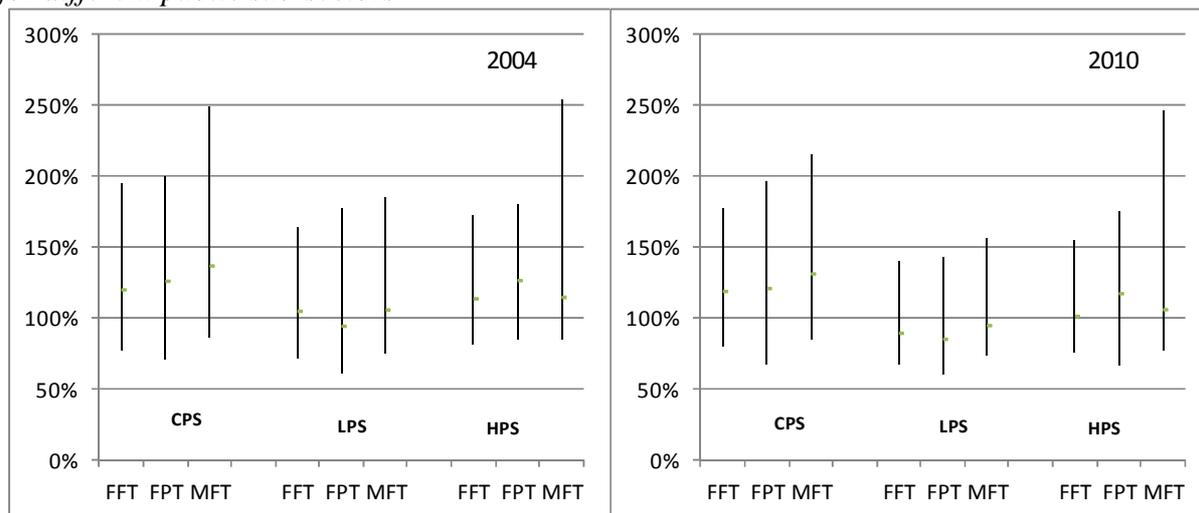
Source: French Labour Force Survey (Insee): authors' calculations.

Note: hourly wages. FFT: Female Full Time, FPT: Female Part Time, MFT: Male Full Time,

Graph 7 shows that there is a great heterogeneity for the wage distribution within the public sector. Compared to the median hourly pay, **CPS** workers are relatively well paid whatever their workforce group is: female part-timer or full-timer, etc. The less favourable distribution concerns the **LPS** workers. Compositional effects are the main driving factor of these differences, as, on average, the occupational skills level is much higher in the **CPS** than in the

LPS. Graph 7 shows that their relative situation has worsened since 2004, because the share of low skilled staff has increased due to the transfer of some low skilled occupations from **CPS** to **LPS**. In 2004, the median hourly pay for female part-timers was below the median pay of the economy. In 2010, this is also true for female and male full-timers. Compared to **LPS** workers, **CPS** workers have preserved their relative situation, except at the top of the distribution for male full-timers.

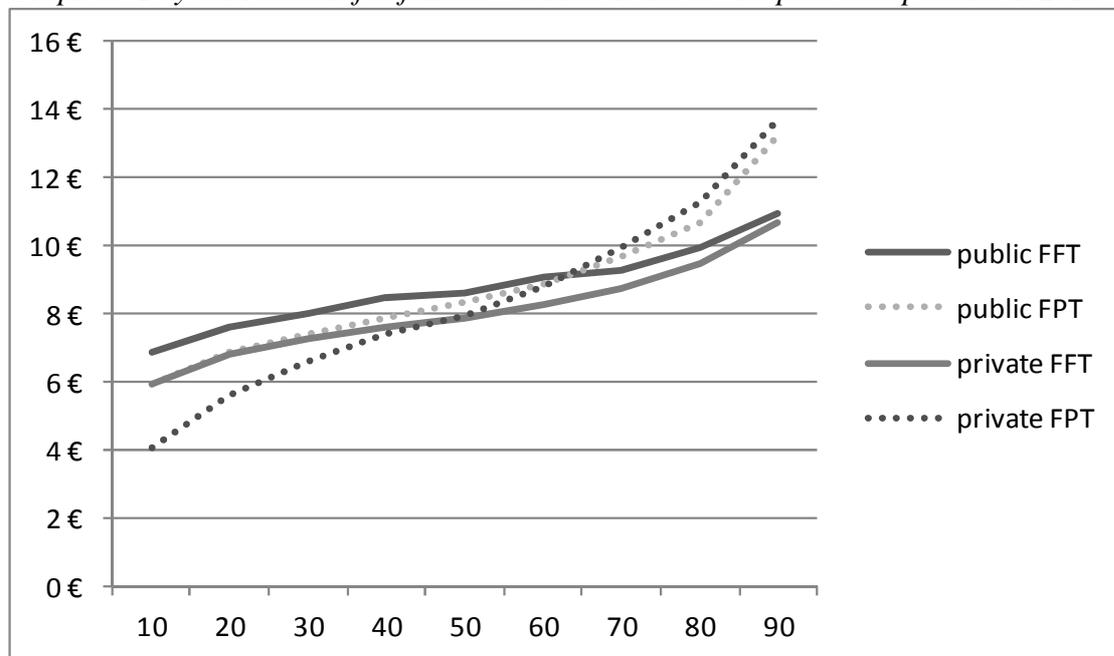
Graph 7. Trend in pay distributions relative to all employees' median pay in 2003 and 2010, for different public sub-sectors



Source: French Labour Force Survey (Insee): authors' calculations.

Note: hourly wages. FFT: Female Full Time, FPT: Female Part Time, MFT: Male Full Time, LPS: Local Public Services, CPS: Central Public Services, HPS: Health Public Services

Graph 8. Pay distribution for female workers in the lowest paid occupations in 2010



Source: French Labour Force Survey (Insee): authors' calculations.

Note: individuals corresponding to ISCO code 9. The legal minimum hourly wage net of social contributions amounted to €6.96€ in 2010. For part-timers, hourly pay below minimum hourly wage is due to the fact that we do not know exactly the number of hours of the contract.

Graph 8 focuses on the distribution of hourly wages across the lowest paid occupation for females (cleaners, etc.). First of all, the figure shows that the distribution is more compressed for female full-timers than for part-timers: the heterogeneity of hourly pay is far greater among female part-timers. Then there is a premium for the public sector, except for female part-timers at the top of the distribution. In this view, being in full-time employment smooths the hourly pay for women. Being in the public sector, for female part-timers at the bottom of the distribution provides a high premium. It is noteworthy that the bottom part of the distribution is below the legal minimal hourly wage net of social contributions in 2010 (€6.96/hour). For part-timers this is mainly due to the approximation of the contractual working time that we used (see above). For the full-timers, this could only be due to errors in the individual declaration of the monthly wage.

Table 1 shows that wage inequality is higher in the private sector than in the public sector. However, it mainly concerns the upper part of the wage distribution: D5/D1 has the same value whatever the sector is. From 2004 to 2010, the wage inequality ratios have decreased slightly. This is mainly due to a small compression in the top part of the wage distribution. Table 1 also shows that there is some heterogeneity across subsectors of public services. The **CPS** meets the highest level of wage inequality as measured by the ratio D9/D1. This inequality level is mainly due to the dispersion of wages at the top of the distribution—the D5/D1 ratio is closer when one compares **CPS**, **LPS** and **HPS**. Over time, the D9/D1 ratio for **CPS** has decreased from a level closer to the private sector level in 2004 to a level corresponding to the public sector standard in 2010.

Table 1. Inter-deciles ratios of hourly pay (current €) net of social contribution across sectors (2004, 2010)

Sectors	2004			2010		
	D9/D1	D9/D5	D5/D1	D9/D1	D9/D5	D5/D1
private	2.85	1.89	1.51	2.78	1.86	1.49
public	2.56	1.68	1.52	2.44	1.66	1.47
<i>CPS</i>	2.78	1.77	1.57	2.41	1.56	1.54
<i>LPS</i>	2.50	1.69	1.48	2.17	1.60	1.35
<i>HPS</i>	2.22	1.55	1.43	2.31	1.64	1.40

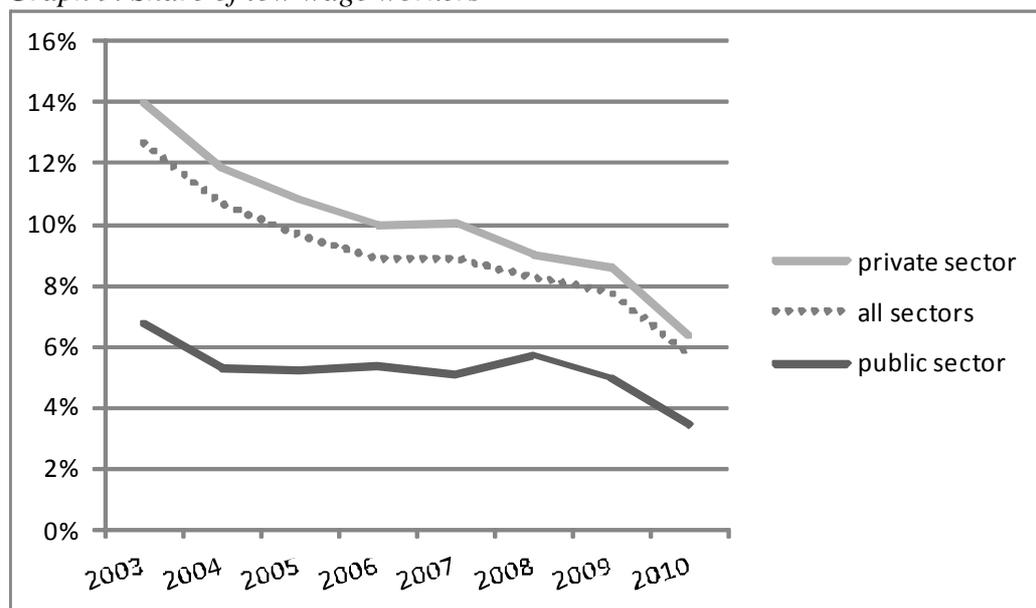
Source: French Labour Force Survey (Insee): authors' calculations.

Note: LPS: Local Public Services, CPS: Central Public Services, HPS: Health Public Services.

We now turn to the low wage issue. To preserve comparability with previous work on the issue of computing low wage statistics, we follow the methodology of Caroli and Gautié (2008).²⁸ It is noteworthy that the number of hours worked used for this computation does not correspond to the legal working time of the contract that was used in the previous statistics.²⁹

²⁸ The net hourly wage is computed using the monthly net wage (SALRED) divided by the number of hours corresponding to the declared monthly net wage (NBHEUR). However, data for this variable is often missing (between 31% and 41% across the period). It is noteworthy that the non-responses are over-represented in the higher monthly wage deciles and in the public sector. To tackle this problem, we decided to complement the missing variables by the 'usual number of hours per week for the main job' (HHC), when this variable is not missing. We compute a usual number of hours per month (HHC×30/7) with the assumption that the observed month has 30 days. This methodology does not take into account the fact that there may be a second job and

Graph 9. Share of low wage workers



Source: French Labour Force Survey (Insee): authors' calculations.

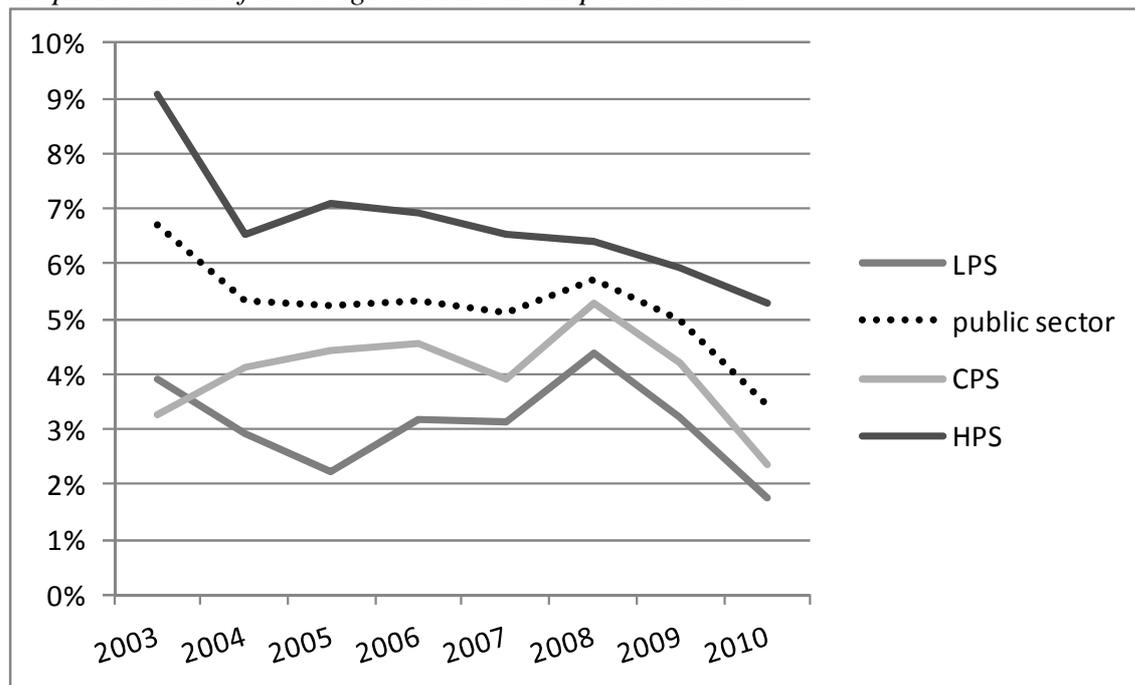
Note: the cut-off level corresponds to two-thirds of median net hourly wage of all employees, except apprentices.

Graph 9 shows a decrease in the share of low wage workers since 2003. For the whole period, the decrease mainly concerns the private sector. For the public sector, the curve is relatively flat with two decreases: on the one hand at the beginning of the period in 2003 and 2004, and on the other hand at the end of the period, from 2008 to 2010. Graph 10 shows that there is a great heterogeneity within the public sector. The sub-central government public service workers (**LPS**) have a higher share of low wage employees (5.3% in 2010) than the Central Government public service workers (**CPS**) and the public health workers (**HPS**): respectively 2.4% and 1.8% in 2010. There is no convergence trend inside the public sector. There has been a sharp decrease in the share of low wage employees since 2008, for the central administration and the public health workers, while the decrease has been smaller for **LPS** workers.

potentially a third/fourth job.²⁸ Moreover we cannot be sure that there is a perfect consistency between the hours declared (as usual hours) and the wage declared (as current wage of the month). But, the share of the missing value fell strongly (between 0.9% and 1.2% across the period). It is noteworthy that after this process, the remaining missing values are over-represented in the lower monthly wage deciles and in the private sector.

²⁹ The working time of the contract was chosen to favour comparison with the administrative data that are used for the other countries of the report.

Graph 10. Share of low wage workers in the public sector



Source: French Labour Force Survey (Insee): authors' calculations.

Note: the cut-off level corresponds to two-thirds of the median net hourly wage of all employees except apprentices. LPS: Local Public Services, CPS: Central Public Services, HPS: Health Public Services.

5. Externalisation policy and practices

5.1. Increasing “internal externalisation”

When studying the potential impact on the terms and conditions of employment, one has to analyse the complexity of the “externalisation” concept. The dichotomist view of two entities with, the “public sector” on the one hand and the “private sector” on the other hand, which are clearly distinct, and homogeneous in terms of employment and pay conditions (supposedly better in the public sector) is an oversimplification. This is particularly true in the case of France, where, as we have seen, the heterogeneity in terms of employment and pay conditions is important within the public sector. Pressures for fiscal consolidation could lead public sector employers to exploit this heterogeneity by replacing, more or less directly, employees with high pay and protection with employees with lower pay and protection – a process which we refer to here as one of “internal externalisation”.

Increasing opportunities, pressures and/or incentives...

In recent years, some reforms have contributed to loosening the rules restricting the use of contractual employees, such as the “law on mobility and professional career paths” (*loi sur la mobilité et les parcours professionnels*) introduced in 2009, which in particular legalized the use of temporary agency workers that was forbidden until then. Some new specific employment statuses were also introduced, such as the “*adjoints de sécurité*” in the police (see Section 3.3 above). Other laws (adopted in 2007 and 2009) authorized the direct recruitment of employees on open-ended contracts by universities and public research entities.³⁰

Overall, because of cost cutting pressures and facilitating rules, there may be some incentives to substitute more expensive “statutory” workers (i.e. civil servants) with cheaper “contractual employees”. This is all the more the case that the pressure has tended to be decentralised in the recent years. In particular, there has been an increasing tendency to give more and more autonomy to intermediate public bodies and to transform public administrations into public establishments or “agencies”, contracting with central government administrations for both their (declining) resources and their (more demanding) targets. These public establishments tend to have a higher share of non-civil servants than the other public administrations (66% compared to 6% in 2009 within the **CPS**, for instance).³¹

The health sector (**HPS**), even if it is quite specific, is also a good illustration of the on-going trends. It has undergone numerous reforms since the beginning of the 1990s, and a new in-depth reform was introduced in 2007, with the creation of autonomous Regional Health Agencies (see also above). These are supposed to govern the health system at the regional

³⁰ So far, except in some “derogatory public establishments” (*Etablissements Publics Administratifs Dérogatoires*, such as *Pôle Emploi*, the Public Employment Service), only temporary workers could be hired, as permanent positions had to be fulfilled by civil servants. The public employees on an open-ended contract were those who had been continuously previously employed on the same job as temporary workers during six years (see above section 1.1.2).

³¹ In some cases, especially for skilled occupations, recruiting a non-civil servants is also a way to offer higher compensation and to circumvent the recruitment procedures and the career advancement rules.

level, while the autonomy of public hospitals has also be reinforced. At the same time, as mentioned above, strong budgetary pressure has been put on hospitals, as many of them were in deficit, and they were required to reach a balanced budget by 2012. So many hospitals had to implement a “*plan de retour à l'équilibre*”, a budget consolidation plan. But cutting costs was not the only suitable strategy, as they could also try to increase their resources in the new system. Since the end of the 2000s, instead of receiving a global annual budget for all their activities, hospitals now receive payments for the different activities they have provided during the year: each type of medical activity being “priced” by the regulator. As a consequence, to maintain or even increase its activity (i.e. its market share), each hospital has to be attractive, and therefore the quality of the medical service provided is a key factor as there is strong competition between health (public and private) providers, and as reputation is crucial for the “health” consumers. Overall, there is a trade-off: using peripheral workers (such as foreign non-civil servant medical staff) may be good for cutting costs (because of the existing wage gap with civil servant staff), but bad for increasing activity if it is perceived as a sign of a declining quality of service.

Tertiary education also provides an interesting illustration. A new law adopted in 2007 transformed universities in autonomous public establishments. Before the reform, both the level of staff and its composition (in term of occupations) was fixed at the Ministry level, and the possibility of recruiting non-civil servants was more limited. Since the reform, universities receive a global budget for their wage bill, they have to respect a limit in the number of staff determined by the Ministry (“*plafond d'emploi*”), but within these limits (in budget and number of staff), they are free to allocate their wage bill as they want between different categories of workers, and at the same time have a greater margin to recruit non-civil servant employees (as mentioned above). In the primary and secondary educational system, the directors of schools now also have a greater autonomy of recruitment (but they do not have, so for budget autonomy), and also a greater margin to recruit non-civil servant teachers. As we have seen (in Section 3.1 above on teachers), the number of non-civil servant teachers on temporary contracts has increased to replace missing civil servant employees because of job cuts.

Another potential modality of “internal externalisation” is the transfer of staff between different public entities which may differ according to the pay and employment conditions offered, even if these issues are not are not the main reasons for deciding the transfer. In particular, in recent years, several thousands of employees have been transferred (without changing jobs) from Central government public service (**CPS**) to local authority administrations (**LPS**). The **LPS** employment system is more a “position-based” rather than a career-based system, and local authorities have a higher degree of autonomy in wage determination, in particular for bonuses and premiums. If transferred employees could opt for the maintenance of the terms and conditions of employment they had in the **CPS**, new entrants in the corresponding occupation are now submitted to the pay system of local authorities, where heterogeneity is high, as we will see in Part 2. Other indirect and *de facto* transfers (i.e. substitutions) have taken place in the past decades. For instance, as there were job cuts in the National Police (and “*gendarmerie*”), municipalities have tended to develop

their own local police forces, with different (and often less favourable) employment and pay conditions as compared to the national police forces (see also Section 3.3).

Overall, the French context is characterised by a great variety of employment statuses, and increasing heterogeneity and autonomy of public sector entities, with the associated decentralisation of budget consolidation requirements in some cases. As a consequence, there may be some incentives to increase the number of “contractual employees”, and/or to transfer staff from public entities with better employment conditions to ones with poorer conditions. The share of “contractual” (i.e. non-civil servant) employees has indeed increased in the recent years, in particular in the Central Public Services (**CPS**) and the public health sector (**HPS**) (see Table 2).

Table 2. Evolution of the share of non-civil servant (i.e. “contractual”) employees in the Public Service since 2000 (in %)

	2000	2002	2004	2005	2006	2007	2008	2009
CPS	12.6	13.5	12.2	12.3	12.7	13.4	14.3	15.1
LPS	20.3	20.3	20.4	20.2	20.9	20.8	20.2	19.7
HPS	13.3	13.7	14.0	13.8	14.4	15.1	16.0	15.9
Total	14.9	15.5	15.0	15.0	15.6	16.1	16.6	16.8

Source: DGAFP. Rapport annuel sur l'état de la Fonction Publique, vol.1, 2011.

HPS = Public Hospitals; LPS = Regional and local public services; CPS = Central public services

... but strong safeguards and countervailing factors

Even though some “exit options” have been introduced, and even if the rules are sometimes circumvented, the obligation to recruit a civil servant to fill a permanent position nevertheless remains a basic principle of the French public service.

Another strong countervailing factor is the fierce opposition of unions to the weakening of the civil servant status, and their mobilisation against “*précarisation*”: i.e. the increasing number of non-civil servants and the increasing dualism between civil servants and non-civil servants.

As a consequence, a new law was adopted in March 2012. Many temporary workers should enjoy access to an open-ended contract (while remaining as non-civil servants), whereas the access to civil servant status will at the same time be eased for non-civil servant employees. The law also strengthened a trend to reducing the gap between the employment and pay conditions of permanent (i.e. open-ended contract) non-civil servant employees and civil servants: they should be entitled to some seniority based wage increases, as well as some social benefits previously restricted to civil servants. At the time of writing, concrete modalities had to be defined, and the degree of convergence remains an open question.

In the coming years, increasing heterogeneity among civil servants will become another (if not the main) key issue. Even if the base wage fixing system remains highly centralised and uniform, with pay scales for each occupational category which applies to all employees of the category whatever their public employers, (potential) increasing heterogeneity will result from the increasing autonomy of the different public entities in the determination of bonuses and premiums (which can represent up to 45% of total compensation for some categories in

the CPS), but also in the determination of promotions. It is therefore likely that some processes of “internal externalisation” will continue.

5.2. Procurement policy and practice

Competitive public procurement practices were thought to be crucial for efficiency in public spending. They would help public authorities acquire services at lower costs. Hence positive developments were expected to follow from the European public procurement directives, such as market transparency, boarder competition and cost savings. In the French case, the argument for cost cutting has been weakening. There used to be a wage premium for low skilled workers in the public sector, however with the increase of the minimum wage in the private sector and the freeze of pay in the public sector, there has been a convergence of starting wages between the two sectors in the lowest skilled categories.

Procurement was also thought to increase productivity and quality of the public service, because of absenteeism or lack of motivation of the public workforce. But, this argument has tended to be less relevant because of work intensification in the public sector.

European and French Legislation

Strictly speaking, externalization through procurement can take various legal forms. Public authorities can subcontract segments of the supply chain (catering, cleaning, ICT, etc., or subcontract an entire public service activity itself). They can subcontract *via* three main formal means: “delegation” (*délegation de service public*),³² “buying” (*marchés publics*) or “partnership” (*partenariat public-privé*).

The “buying” procedure refers to procurement of public services via public contracts that allow the administration to buy services or goods from private firms. They correspond to the definition of procurement as accounted for by the OECD: the purchase by governments and state-owned enterprises of goods, services and works. The private entity is paid the price of the service purchased by the administration. At the European level two directives regulate the purchase of services and goods by the public authorities: Directive 2004/17/CE regulates public procurement in water, energies, transport and postal services; and Directive 2004/18/CE regulates other public contracts.³³ European Directives (2004-17/CE and 2004/18/CE) have been implemented in France through the following texts: French Public Procurement Code (*Code des Marchés Publics*) – *décret* 2006- 975 of August 1st, 2006 that

³² As defined by 1997 law, “la loi Sapin”.

³³ The European regulation established a single classification system: the Common Procurement Vocabulary (CPV). This classification endeavours to cover all requirements for supplies, works and services. Public contracts (whose value exceeds the thresholds in the Directive) are subject to obligations regarding information and transparency. Certain contracts are excluded from the scope of the directive, such as broadcasting programmes, central bank services, employment contracts, etc. Contracting authorities award their public contracts following transparent criteria: the lowest price; or, various criteria such as quality, technical merit, delivery date, etc. The 2004/18/CE directive applies to public works contracts, public supply contracts and public service contracts for which the value (excluding VAT) exceeds the following thresholds:

- €137,000 for public supply and service contracts awarded by central government authorities;
- €211,000 for authorities which are not central government authorities; or for specific services such as research and development (R&D), telecommunications, hotels and catering, transport, provision of personnel, vocational training, investigation and security, social and sanitary, recreational, cultural and sporting services; and
- €5,278,000 in the case of works contracts.

applies to public contracts and ordinance 2005-649 of the June 6th, 2005 which applies to non-public entities that must nevertheless observe publication and competition requirements set out in the EU directives (for instance *Electricité de France, SNCF, Banque de France*, etc.).³⁴

Public delegations are public contracts that confer on a public or private entity the management and provision of a given public service for a specific period. In this case, the private beneficiary of the public delegation is paid directly by the user and can receive the total profit or losses of its activity. *Stricto sensu*, the administration is not purchasing a good or a service in this case. It is a temporary privatisation. For instance in 2010, about 90% of all local transport has been delegated in France, and this share has been stable since 1990. Three large groups share most of the delegated management of water in France (69% of the distribution of drinking water): Vivendi, Suez and Bouygues-Saur.

The third legal form of procurement is (public-private) partnership or PPP (*partenariat public-privé*). Partnership is relevant when the public entities (central or local government) must bear fixed cost, for instance for important investments. From 2005 to 2012, 104 contracts of PPP were signed in France for an amount of €10 billion which represented more than 7% of total procurement. In case of PPP, the private firm buys the infrastructure or builds it at its own expenses. The public administration then rents the buildings and pays a fee, usually for 20 or 30 years. What are the advantages of this mechanism? For the local authority, it can build the infrastructure without borrowing, which may be important, as the law stipulates that a local authority cannot run a budget deficit (including the expenses for the debt), and therefore introduces a strong incentive to limit public debt at local level: see also below. As for the private firm, it can benefit from the procurement of services (cleaning, catering, etc.) without any competitive procedure.

Public Procurement in France: magnitude and evolution

Public Procurement, measured using data from the OECD National Accounts Database, based on the System of National Accounts (SNA), is defined as the sum of intermediate consumption, gross fixed capital formation and social transfers in kind.³⁵ France has an intermediate position in Europe with more or less 15% of procurement, between Sweden (20% of GDP) and Italy (around 11%). Public procurement has been rather stable in recent years. It increased at the beginning of the period from 17% to 18.4% in 2009, but has decreased since and again was approximately 17.9% in 2011. Hence, one can see no direct impact of the economic crisis on the share of public procurement in France.

³⁴ All contracts above € 4000 (for services) are subject to publication modalities according to the value and object of the contract. Supplies and services, from €90000 to €135,000 for the State and from €90,000 to €211,000 for local entities, and works from €90,000 to €5,270,000, must be published in the *‘Bulletin officiel d’annonces des marches publics’* or in the *“Journal d’annonces légales”*. Supplies and services above €135,000 for the State and above €210,000 for territorial entities and public works above €5,270,000 must be published in OJS / TED database.

³⁵ However, these data are not always clear about the public procurement that comes from public enterprises and one can note some discrepancies between the two figures, depending on whether public enterprises are included in public procurement or not.

Table 3: Public procurement in France (last quarter of each year, except 2011: third quarter)

	Total public Procurement, % of GDP
2007	16,9
2008	17,4
2009	18,4
2010	18,0
2011	17,9

A second measure is used by the European Commission, based on the total value of tenders and the values of contract awards reported by countries in a bottom-up analysis. The survey is conducted annually (*Observatoire économique de l'achat public*). In 2010, 102,246 contracts were signed for a total amount of €67.3 billion. Central government purchased 60% of this total amount (and 27% of the number of contracts).

What sectors are concerned? Construction and roadworks represent nearly half of total procurement by local authorities and hospitals, followed by medical and pharmaceutical material (13%) and sanitation. Repair and maintenance, architecture, and ICT represent each 3% of total local procurement. In contrast, construction represents only 13% of central government procurement, whereas maintenance approximates 15%. Safety and defence equipment represents 21% of total procurement, and ICT more than 5%.

The General Review of Public Policies (RGPP), an administrative process that started in 2007, consists in a systematic search for cost cutting. Hence, procurement could be used as a means to reduce public expenses. However, in the more recent period it appeared that procurement did not always lead to a reduction in expenses, and one can observe a reverse trend, for instance in Hospitals (cleaning). The same reverse trend can be observed regarding the delegation of public services and not only of segments of the supply chain. For instance, in some municipalities water provision has been re-internalized. Since 2003, 7 local transport networks in big municipalities have also been re-internalized: they were previously “delegated” to the private sector. Concerning water, many public reports criticized delegation because of the oligopolistic structure of the market: the price of water increased with no obvious improvement of quality. Lastly, the PPP procedure (partnership) was criticized because even if PPP is less costly in the short run (to rent is cheaper than to buy) the total cost could be higher in the longer run. A decrease of this form of procurement in the coming years could be likely since the newly appointed government is looking for other, less expensive ways of procurement.

The potential impact of public procurement in terms of employment and pay conditions

What happens to labour contracts when a public (private) organization becomes private (public)?

First, when a private firm becomes public or when a public service previously provided by a private entity (through “delegation”) is internalized and managed by a public administration, employees basically have the right to retain their previous labour contract. The European

regulation (n° 2001/23/CE) sets out this principle of continuity meaning that the public administration has to provide a comparable level of compensation and labour rules and respect the previous labour contract.

European regulation n° 77/187/CEE has been transposed into French law (article L. 122-12, Code du travail) and in common law by the *Cour de Cassation*³⁶ and the *Tribunal des conflits* (the jurisdiction that regulates conflicts between private and public entities).³⁷ Moreover, according to this article, L. 122-12, does not give a right to become a civil servant, but only to benefit from a contract comparable to the previous one concerning the terms and conditions of employment. More recently, legislation adopted in 2005 (Article 20, law of the 26 July 2005) stated that the public administration can choose to propose a contract under public law (*contrat de droit public*) to employees previously employed in the private sector but could also give them civil servant status.³⁸ In other terms, to become a civil servant, one has to go through and succeed in the competitive examination.

It is significant for our research that an internal reorganisation is not subject to this European regulation: for instance when public employees shift from Central Public Service (CPS) to Local Public Service (LPS), the local authorities have no specific obligation.

What happens the other way round, when public employees are transferred to a private firm? It depends if public employees are civil servants or non-civil servants.

Non-statutory workers are protected by the TUPE regulation. When a public administration needs to outsource an activity, the private firm must offer to contractual (non-statutory) employees a labour contract similar to that in their previous employment (law of 3 August 2009). In practice, in the procurement procedure, the public administration can ask for a “*reprise du personnel*”, that is the hiring of previously public employees, who then must sign a contract under private law.

The issue is more complicated concerning civil servants, since a private firm can only hire under private labour law and since civil servants cannot be easily fired and have the right to keep their public status. These employees must be willing to leave the public administration which otherwise has to propose an alternative activity. Historically, when a public enterprise has been privatized, its employees have kept their previous public contracts under a specific law modifying their status. This was for instance the case when telecommunications activity, which was an administration of the Ministry of Postal Services and Telecommunications, was privatized to become France Telecom.

In practice there are formal ways for the civil servants to work for a private firm without losing their status. Statutory public employees often choose to work for the private firm but keep their public status (*détachement*), which means that they can return at some point in the

³⁶ Cass. soc., 7 oct. 1992, SA Cie eaux et Ozone – Cass. soc., 25 June 2002, AGS Paris c/ H.

³⁷ T. confl., 19 Jan. 2004, D. and a. c/ Cne Saint-Chamond.

³⁸ When a private firm has a contract (*délégation*) to provide a public service, its employees cannot be considered as civil servants (T. confl., 15 Jan. 2007, C3589, A. c/ Sté Direction constructions navales et État). The private sector enterprise can only have a labour contract (*contrat de droit privé*). Indeed, a common law in 2004 (*arrêt du Conseil d'État "Lamblin"*, 22 October 2004) modified the common law “*Berkani*” that previously stated that all agents providing public service can benefit from labour contracts regulated by administrative law (*contrat de droit public*).

future to their previous *corps* and administration if they want, and they still benefit from their seniority advancement and pension rights in the public service during the period of *détachement*. They can also leave their public status under the *disponibilité* procedure which allows them to quit and then return to the public administration five or even ten years later. However, in this latter case, they do not benefit from seniority advancement during the period.

Note that a law in 2009³⁹ introduced a breach in the status of statutory public employees: a public administration can force a civil service employee to be reassigned to another service or administration if their competence is no longer needed, typically after a procurement procedure (*Statut général, Titre II, art. 44 bis*). This major modification has not yet been observed in practice.

³⁹ Law n° 2009-972 n° 1, art. 7. – D. n° 2010-1402, 12 Nov. 2010 : *Journal Officiel* 16 November 2010

Part two: A focus on sub-central government public service and the case studies of two municipalities

6. An overview of local public services and choice of the two cases

6.1. An overview of local public services (LPS)

There are three main levels of sub-central government: the “Regional councils” (*Conseils Régionaux*) at the regional level (France is divided in 22 regions in 2012); the “General councils” at the *département* level (101 in 2012), and the municipalities at local level (about 36,700 in 2012). Other entities could be mentioned, such as the “community of municipalities”, which mutualise some activities of a group of municipalities on a voluntary basis (such as public transport, and water provision for instance). Overall, there are 43,600 public entities which are part of the **LPS**, almost 80% of them have less than 20 employees.

Following several waves of decentralisation, the range of competencies of these entities (in particular the Regional Councils and the General councils) has expanded notably during the past 30 years. But it should be noted that while most of the administrative staff of schools have been transferred to **LPS**, teachers are still employees of the **CPS** (i.e. the Ministry of Education),

An important wave of decentralisation took place in the mid-2000s, with a large transfer of staff from **CPS** employers to **LPS** employers: about 128 000 employees (full-time equivalent) were transferred. The employees (most of them are civil servants working in elementary schools) could choose between keeping their current employment and pay conditions, or being integrated into the employment and pay system of their new employer (while remaining civil servants), with, in some cases, some adaptations. Most of them chose the second option, which appeared more favourable. Overall, the number of employees in **LPS** has increased notably between the end of the 1990s and the late 2000s (Table 4).

It is worth noting that more than 76% of **LPS** employees were members of the lowest occupational category (“C”) at the end of 2009, a much higher share than in **CPS** and **HPS** (respectively 21% and 49%).

Even if in 1984 a law tended to reduce the differences between the status of three branches of public services (i.e. **CPS**, **LPS** and **HPS**), the employment and pay system of **LPS** retains some important specificities, concerning recruitment, mobility and careers, and wage fixing.

While the **CPS** is the best illustration of a “career based system”, the **LPS** also has many features of a “position based system”. **CPS** civil servants are recruited through selective “competitive examinations” (*concours*) at national level; when selected for a “*corps*”, the laureates usually choose among a list of vacancies according to their rank in the competitive examination,⁴⁰ and the administrations in which the vacancies are opened have no influence

⁴⁰ I.e. the first laureate chooses the first, then the second, then the third....

over which laureate will be allocated to them. In the case of **LPS**, local administrations have a wider margin of manoeuvre concerning recruitment.

Table 4: Employment in the sub-central Public Services (LPS)

Level / public entities (number in France)	Number of employees at the end of 2010	Increase in the total number of employees (1998-2010) including job transfers
Regional level “Regional Councils” (22)	79,700	+ 739 %
“ <i>Département</i> ” level / “General Councils” (101) and public establishments	291,500	+81 %
Local level / Municipalities and other entities (about 36,700) and public establishments	1,368,600	+30 %
Total	1,812 Share of non-civil servants : 19.7% Share of women: 60.4% Share of A occupational category: 8.4% Share of B occupational category: 13.0% Share of C occupational category: 76.1%	+43%

First, they can recruit civil servants in the lowest categories without opening a competitive examination. Second, for the other occupations, competitive examinations are also opened, but once selected the laureates are not automatically integrated in the *Fonction Publique*. Instead, they have to find an open vacancy in a local administration. The obligation for these local administrations is to choose among the laureates of the competitive examination. For specific jobs, they are also allowed to recruit non-civil servants, usually on a three-year, fixed-term contract that can be renewed. Concerning their human resource policy, while local authorities do have some autonomy, they have to respect common rules, and are controlled by local structures, the “*Centres de Gestion*”. These play a crucial role in organising competitive examinations for recruitment, in organising the mobility of workers between different local entities (municipalities, *Conseils Généraux* and *Conseils Régionaux*), in training policies and in structuring social dialogue. Overall, the **LPS** employment system is based on a subtle balance between the necessary autonomy of local authorities (which have their own elected “government”) and some common rules. These rules partly refer to the general status of the whole *Fonction Publique*, and are partly more specific to the *Fonction Publique Territoriale*.

This, in particular, applies to the pay system at local level (its main features are summarised in Table 5). The very basic common rule is that, for a given occupational level, no public employee in **LPS** should earn more (including all bonuses and premiums) than a public employee in the **CPS**. Other guideline rules concerning premiums and bonuses (such as the list of premiums, the maximum authorised amount, the maximum number of overtime hours and their rate of pay)⁴¹ are fixed at the national level. But local authorities, including at

⁴¹ An employee cannot work more than 25 hours of overtime per month.

municipal level and operating within the framework of these common rules, have a relatively wide margin of manoeuvre for choosing the bonuses to implement and for fixing their levels.

Table 5: The basic features of the pay system in LPS

Central state regulation and national rules	<p>Pay scales for the base wage of the different occupations.</p> <p>Basic rule: the total compensation of a public employee in the LPS cannot be superior to the total compensation of a public employee in the CPS in the same (or equivalent) occupation.</p> <p>General guidelines for the fixing of bonuses and premiums.</p> <p>Some control on the overall evolution of the total wage bill, and on some ratios such as the share of the wage bill in operational budget expenses.</p>
Local level (regional, “general” or city councils)	<p>Important autonomy in the fixing of bonuses and premiums, and their allocation among employees, below the maximum allowed.</p> <p>Important autonomy in the fixing of the compensation of non-civil servants.</p> <p>Fixes the promotion rate and the list of employees eligible for promotions.</p>
Collective bargaining and the role of unions	<p>Collective bargaining (without formal collective agreement) at the local level concerns training, work, conditions etc. but not on base wage. Unions may have some influence on the bonus and premium system, depending on their bargaining power.</p>

The issue of externalisation is complex. It depends on the local history and political choices. It may be noted that to prevent outsourcing, many municipalities have chosen to mutualise some activities in order to share the costs. The complexity results mainly from the fact that the frontier between “public” and “private” entities is somewhat blurred, especially at the municipal level,

First, there is a wide range of “semi-public (or semi-private)” entities funded and controlled by local authorities which can deliver some public service activities, mainly utilities (local transport, waste, water, etc.). The most mixed type of organisational forms are the *Sociétés d’Economie Mixte* (SEM), with both public and private shareholders.⁴² Another example of such entities are the *Sociétés Publiques Locales* (SPLs), a new legal status created in 2010. These are entirely owned by public entities (at least two entities). A key difference with the SEMs is that the SPLs are (under some conditions) considered as in-house entities according to the EU laws on competition, and therefore the local authority can outsource an activity to an SPL without being obliged to use a tender. But the common feature is that in both SEMs and SPLs, employees are under private labour law: i.e. they are not public employees.

⁴² Local authorities and associations of such authorities hold a majority of the share capital. They must hold over half the capital of the SEM, and vote in the deliberative bodies up to a limit of 85% of that capital. A second group, constituted by shareholders other than local authorities and by at least one private entity, holds a minority of the capital, which cannot be less than 15%.

Second, non-profit organisations (the so-called *associations*), which also recruit employees under private labour law, sometimes play an important role at local level, for example in the delivery of small child or elderly care, school related and other social activities. These activities can be considered as both complements and substitutes of services provided by local authorities. These *associations* are therefore often heavily publicly subsidised, directly by local authorities, or indirectly by tax credits for their users.

Overall, there are a lot of entities which are potentially strong vectors of “internal externalisation” (see Section 5.1), that is, a mechanism to externalise some public activities without using the simple procurement procedure with (entirely) private providers. However, often the aim of using such entities is not to cut costs, especially in the case of semi-public companies. Instead, they are used to obtain more flexibility, including in some cases to pay higher wages than in the public service in order to attract skilled and competent employees.

Of course, procurement of local government services from private sector providers also exists, and is in fact quite widespread for some activities such as local transport, water and waste (see Section 5.2). Cutting costs and improving the quality in service delivery are the usual two motives for procurement. As mentioned above, “social dumping” strategies of private providers are harder to implement in the French context because of both the relatively high level of the statutory minimum wage and the relatively strict regulations of procurement. Nevertheless, outsourcing may be used by public sector employers directly or indirectly as a “discipline device” to bargain over wages and productivity. The case of the waste collectors in Paris provides a striking illustration (Jaaidane, Gary-Bobo, 2008), even if it is specific, as the municipality of Paris has more autonomy than other municipalities concerning its wage policy. The municipality began to outsource waste collection in part, during the early 1980s. The number of strikes among the remaining public sector workers fell dramatically in the following years. Also, while the starting total compensation of public employees collecting waste was 46% higher than the SMIC in 1978, the differential had fallen to only 10%, 25 years later (2003).

Nevertheless, there seems to be no evidence to suggest that there is any trend towards increasing externalisation through procurement. On the contrary, as previously stated, in some activities like water provision, the trend seems to be the reverse: an increasing number of large municipalities have decided to “re-internalise”. For water provision, as with other utilities, the private providers’ market is highly oligopolistic, inducing negative consequences in terms of price and quality.

6.2. Introducing the two municipalities of the case study⁴³

In order to illustrate the mechanisms and trends presented in Part 1, we chose two municipalities (**MunA** and **MunB**) that have similarities and differences concerning their main characteristics, in order to control for some factors that may impact on municipal policy. The two case studies are relatively contrasting in terms of their pay systems and procurement

⁴³ The case studies presented here are based on in-depth interviews (up to 3 hours in some cases) with 10 managers, unionists, employees and members of the municipal councils, as well as on documents provided by these persons.

policies, as we discuss below. Table 6 presents a summary of the key characteristics of the two municipalities.

MunA is located in the suburbs (“*banlieue*”) of Paris. It is quite big (about 100,000 inhabitants), and its population has got some strong particularities: young inhabitants (50% are less than 30 years old), rather poor (the average household income level is less than 50% of the average income in the *Ile-de-France* region), with a high proportion of immigrants (no data available). In comparison, **MunB** may appear more as an “average” municipality, as its population is more representative of the whole French population, both in terms of age structure and sociological features. While middle-aged persons / middle-income households dominate, there are also some low income households (with immigrants) concentrated in some neighbourhoods.

Table 6: Overview of the two municipalities

	MunA	MunB
Population Size	100,000	60,000
Main population characteristics	Young Low income Immigrants	Balanced demographic structure, Mainly middle and upper middle class
Location and relations with other municipalities	Suburbs of Paris Member of a “community of municipalities”	Outskirts of a large city (>200,000 inhabitants) Member of a “community of municipalities”
Economic activity	Manufacturing and service activities	Very few manufacturing activities and some service activities
Tax resources	Not bad	Limited
Public services	High demand for social services	High demand for cultural and leisure activities
Current budget situation	No need for budget consolidation	Some budget consolidation in the near future

There is some similarity in terms of location: both municipalities are in the suburbs or outskirts of a big city. They are members of a “community of municipalities” (respectively **ComA** and **ComB**), which includes a big city in the case of **MunB**. A “community of municipalities” is an institutional entity (i.e. with its own public employees) created by a group of municipalities to mutualise some activities (like water supply, public transportation etc.). **ComA** is constituted by 8 municipalities (i.e. about 350,000 inhabitants), whereas 27 municipalities take part in **ComB** (more than 500,000 inhabitants).

But the contrast is important, most notably the differing economic activity and the resulting financial circumstances. To oversimplify, one could summarize it by stating that if the population is poor in **MunA**, tax resources are relatively high as compared with municipalities of the same size, whereas it is exactly the reverse for **MunB**. This apparent paradox results from the fact that in France, tax resources at local level depend mainly on the business activity located in the municipality. **MunA** benefits for its economic activity from its proximity to Paris. **MunB** is a pleasant city to live in (in particular with a low density of construction and a lot of nature) but with few businesses (especially in the manufacturing sector), while two public hospitals (which do not pay tax to the municipality) are the main employers.

The structural constraints on the public expenses derive, in the two municipalities, from the socio-demographic characteristics of their population. **Mun A** faces a strong demand in terms of social allowances and services. The population has increased by about 20% in the past decade. As the population is rather young and often from ethnic minorities, the birth rate is high, and the municipality has had to open seven new elementary schools during the past decade. As the population is poor, the municipality runs four municipal medical centres: France's national social insurance covering only part of the expenses of these centres. In **MunB**, where the population is stable, the demand concerns more cultural and leisure activities (sports infrastructures, subsidies for cultural activities).

Until now, the two municipalities have not faced any seriously difficult financial situations, and have not been forced to implement any (strong) budget consolidation: but **MunB** may be forced to increase the taxes on households in the coming years to maintain a balanced budget. Overall, the two municipalities are seeking to limit the increase in public spending.

7. The pay system and pay practices in the two municipalities

7.1. An overview of human resources characteristics and issues in the two municipalities

Table 7 draws the broad picture of human resources in the two municipalities. About two thirds of employees are women in the two municipalities, in which about 45% of the workforce does not benefit from the civil service status. As for the other municipalities, permanent employees are largely classified in the lowest skilled category (“C”), which represents respectively 73% and 81% of permanent staff in **MunA** and **MunB**.

The high average length of service of employees due to the age structure has been raised as an issue, especially in **Mun A**, because of the high labour costs induced by the seniority based system. In both municipalities, this also raises an issue in terms of motivation, in particular among the “C” category employees, as many of them have reached the top level of their grade.

Table 7: Human resources in the two municipalities at a glance (2009 for MunA and 2010 for MunB)

	MunA	MunB
Total number of employees	3126	1535
Permanent employees (% of total) / [share of women]	2222 (71%) [68%]	987 (64.3%) / [70%]
- “A” category	215 (9.7%) [68%]	99 (10%) / [55%]
- “B” category”	327 (14.7%) [60%]	85 (9%) / [67%]
- “C” category	1680 (75.6%) [73%]	803 (81%) / [72%]
Employment status (% of total) / [share of women]		
- civil servants	1731 (55%) [68%]	845 (55%) / [69%]
- non-civil servants permanent	491(16%) [69%]	142 (9%) / [73%]
- non-civil servants temporary	904 (29%) [68%]	548 (36%) / [N.A]
Evolution in the number of employees (2005-2010)		
- civil servants	-1,7%	About 0.4% annual increase of permanent employees
- non-civil servant permanent	N.A	
- non-civil servant temporary	N.A	
Age structure of permanent employees		
- < 30	13.3%	
- 30-45		12.7%
- 45-55	} 58.8	37.6%
- over 55 (over 50 for MunA)	27.9%	35.3%
		14.4%
Labour turn-over (permanent employees)	N.A	11%
Absenteeism	N.A	7.7%

7.2. Some differences in municipalities’ wage policies

MunA: Maintaining the main features of the traditional pay system

In response to the political choices of the municipality and the resistance of unions, the general pay policy of **MunA** is characterised by two main features: a focus on low paid

categories, and the reluctance to introduce individualisation, performance pay and other elements of “new public management”.

Concerning the low paid occupations (“C” category), the municipality uses its margin of manoeuvre (see also Table 6 above for the general rules) to do as much as it can: implementing fast track seniority-based advancement for the base wage (also to compensate for the flattening of wage careers for these categories, see Section 2.2 above), and a quite generous system of bonuses and premiums as well as longer holidays (see also below). But conversely, in comparison with other municipalities and **LPS** administrations, the amount of bonuses and premiums is not very high for managers (“A” category), and the municipality reports problems in attracting them.

The system of premiums is based on the base wage scale of each occupational category. For instance, for the lowest grade of the “*adjoints administratifs*” (employees of the “C” category) it amounted to €239 (gross) a month in 2012. On top of these premiums, come different compensating bonuses for: working outdoors, dealing directly with the population, working weekends or nights etc., which are not based on individual activity but linked to an occupation), etc.⁴⁴ There is also a lump-sum €1,000 annual premium for all the employees (i.e. including the non-civil servants, which is not the case for the other bonuses and premiums). Overall, the bonuses and premiums represent between 20% and 30% of total compensation.

Employees also benefit from a generous system of days off and holidays: 60 days a year (i.e. twelve weeks), and one week in addition after 25 years of service.

There is no performance-related pay system. In particular, the new PFR (“*prime de fonction et de performance*”, see Section 2.1 above) has not been implemented, even for managers. As the director of the municipal administration stated “*relating pay to performance is against our culture*”. Three years ago a new performance assessment system was introduced, with an annual appraisal between the employee and his/her manager. The employee is supposed to be awarded a grade (10, 14 or 18 out of 20) after a discussion with his/her manager, and according to the grading, his/her bonuses can be cut by 25% and up to 100% if he/she gets less than 14. But this almost never happens, as, in fact, more than 90% of employees are graded 18, and almost nobody receives a 10. It should also be noted that there is no wage penalty for absenteeism.

Managers acknowledge the incentive issue they face. This is all the more important since many employees have reached the highest pay level in their category, and feel very frustrated because of the stagnation of their remuneration. To try to compensate for the latter, the municipality is currently thinking of introducing new fringe benefits for its employees, such as a complementary health system, an allowance for child care, etc.

MunB: Rationalizing the pay system to promote more equity and efficiency

MunB decided to rationalize its pay system in the beginning of the 2000s. The reform was implemented in two steps (2002 and 2006), and was extended to non-civil servants. It

⁴⁴ For instance, all the municipal employees working in parks receive the same “weekend” bonus, whatever the actual number of weekends they have worked during the month.

consisted of harmonizing and simplifying the system of bonuses and premiums by introducing a common scale in which all the different occupations could be graded. The objective was to promote the transparency and equity concerning the criteria of the fixing of bonuses and premiums, but also to facilitate horizontal mobility at each skill level.⁴⁵ Six occupational group levels were defined, according mainly to the level of responsibility (management), and for each group level a given amount of bonuses and premiums was fixed, applying to all employees of the corresponding group level (see in Table 7).

Table 7. Scale of monthly (gross) premiums in MunB (2012), according to the occupational group level

Level 1	€269
Level 2	€345
Level 3	€420
Level 4	€497 (if the employee is member of the “B” category) €576 (if the employer is member of the “A” category)
Level 5	€795
Level 6	€1200 (higher for specific occupations)

The introduction of the new system was contested by many employees of the “C” category and the municipality had to cope with a significant strike in 2006. The reason was that initially managers wanted to harmonize the amount of the premiums at level 1 (that covers the majority of employees) by increasing all the existing premiums to the maximum value set at this level at that time (i.e. €150). But those who already earned this amount considered it was unfair, and that even if they did not lose out in absolute terms, they were losing out in relative terms. The municipality finally decided to increase the unified amount to €250 for all employees at Level 1. This induced a substantial increase in the total wage bill (an increase of 12.1% between 2006 and 2007). **MunB** could afford it, according to the Human Resource Manager because it had created less jobs than comparable municipalities in the region during the previous decade. This suggests there has been at least an implicit wage/employment trade-off.⁴⁶ Indeed, during the 2005-2010 period, the average annual increase in the number of employees was limited to 0.4%.

At the end of 2012, the lowest starting compensation (monthly base wage plus €269 premium) amounted to €1,691 (without taking into account the annual premium see below), which was higher than the first 3 months starting wage of teachers (see above). The harmonized Level 1 premium represents 16% of total pay, or 19% of the base wage.⁴⁷ As in **Mun A**, specific bonuses come on top of these premiums (for working weekends etc.) The amount of the premium is relatively high compared to comparable municipalities in the area

⁴⁵ In the previous system, since bonuses and premiums were mainly attached to the occupation, changing occupation may induce a loss in compensation.

⁴⁶ Because of a very cautious policy (in terms of recruitment among other things), **MunB** had a budgetary surplus in the mid-2000s and a debt almost reduced to zero. The pressure (both from the unions and left-wing parties) to spend more, and in particular, to increase the compensation of municipal employees, had therefore become very strong.

⁴⁷ The share in compensation of wage and premiums is higher for higher skilled / higher paid occupations, up to the equivalent of 50% of the base wage for some engineers, for instance, to make these jobs more attractive in the labour market.

(where it ranges from €38 to €112 for the lowest grades). The system of indexation also favours the lowest paid, as every year the total amount of premiums (that is, of all employees) is indexed to inflation, but the corresponding increase is divided by the number of employees and each employee therefore receives the same amount (as a fixed cash amount) of premium increase. In other words, the lower the level of pay, the higher the increase in percentage. In common with **MunA** (and partly for the same reason, namely, the strong frustration of a relatively flat wage career), priority is also given here to the least paid employees.⁴⁸ The premium is even higher for the lowest paid in **Mun A** (€269 compared to €250), but the number of days-off and holidays is lower in **Mun B** than in **Mun A** (33 compared to 60, see above).

The annual premium is paid on top of total compensation, which is a lump-sum (€1,338 in **MunA**, in 2012). The premium is the same amount for all employees. But it can be reduced in case of absenteeism. To cope with the latter, a specific premium has also been introduced. It amounts to €23.30 a month, and it is lost after four days-off for sick leave. According to the HRM, it has had a sizeable impact on the duration of sick leave.

Like **MunA**, **MunB** has been so far very reluctant to introduce the PFR premium, because of lack of adequate assessment tools according to the HRM, but also because of the political opposition by the city council.

For equity reasons, both the bonuses and premiums system (as mentioned above), but also the “individual guarantee for purchasing power” (GIPA – see section 2.1) applies to non-civil servants.

Concerning industrial relations, like in all the municipalities, there is no formal collective bargaining on wages. But as for other sensitive issues, a committee composed of members of the city council, HRM and employee representative meets frequently for discussions.

⁴⁸ As in **MunA**, the fast-track seniority-based increase is also implemented.

8. Externalisation and procurement in the two municipalities

Table 8 provides an overview concerning outsourcing and procurement in the two municipalities. Note that since each municipality is a member of a wider “community of municipalities”, some activities have been mutualised with other municipalities, introducing a higher decision level.

Table 8: Externalisation in the two municipalities

	MunA		MunB	
	Decision level	In-house / extern.	Decision level	In-house / extern.
Local transport	Region	Ext. (state-owned company)	Community of municipalities	Ext. (private company) but in discussion to be re-internalised
Water	Region and Community of municipalities	Ext. (public company)	Community of municipalities	Ext. (private company) but in discussion to be re-internalised
Waste	Community of municipalities	Ext. (private company)	Community of municipalities	In-house
Cleaning	Municipality	Mainly in-house, but some externalisation (private company)	Municipality	In-house
Early child/ Elderly care	Municipality	In-house for early child care, but also non-profit and private providers	Municipality	In-house, but also non-profit and private providers
School catering	Municipality	In-house	Municipality	Ext. (semi-public local company (SEM) up to August 2012, private company since Sept. 2012)
Municipal Police? / security	Municipality	Yes	Municipality	Yes / and some externalisation for the security of public buildings

8.1. MunA: externalisation “at the margin”

In the case of **MunA**, as for almost all the municipalities of the Parisian area, some activities have been transferred to entities at regional level, in particular public transportation (the RATP, which is a state-owned company, is in charge the Paris metro, the buses as well as some local trains) and water (also provided by a public entity).

Waste has been transferred to the “community of municipalities” (**ComA**) in which **MunA** participates. **ComA** has decided to outsource it to a private company.

As for activities that depend on the municipal level, for the same ideological reasons mentioned above, **MunA**, at first sight is very attached to the traditional “Public Service” culture, and *a priori* is very reluctant about any form of externalisation and privatisation. Nevertheless, some forms of externalisation have taken place in recent years, and our interview data suggest the pressure is growing for more. The two factors that in some cases constitute a strong incentive to externalise are the lack of quality of some of the services provided and the high cost: the two issues illustrating the potential drawbacks and limits of the traditional public service system. Another motivation has been to outsource some activities to reallocate the corresponding wage bill towards the recruitment of new employees with specific skills. But this strategy has strong limits, because if (civil servant) employees do not accept to be “outsourced”, the municipality has to keep them and reassign them to other activities

The result is a lack of quality, at least partly, due to limited HR incentive tools. In some services, absenteeism is high and overall productivity low. As for the high labour costs, these are a consequence not only of the generous compensation system described above, but also of workforce ageing with a seniority-based pay system.

In recent years, some cleaning activity has been outsourced to a private company. Quality issues were at stake here. Even if few jobs were concerned (about 5), and if the public employees were reallocated to other services in the municipality, the measure was quite symbolic and was opposed by the unions.

Another interesting example is the outsourcing of the municipal swimming pool. As absenteeism was high and opening hours quite erratic, a decision to reallocate employees to other services and outsource the activity appeared to **MunA** managers as the only way to maintain the provision of the service.

A decision to outsource simply to cut costs is perceived by **MunA** managers as a less legitimate motive as the municipality could be accused by unions of acting like the private sector. As a consequence, to date very few activities have been externalised. But the opportunity to externalise early child care to cut costs was under discussion at the time of this case study, albeit not yet on the agenda. The issue has remained very sensitive, for political reasons.

This case also suggests it is easier to “outsource” new activities. For example, the municipality, in association with local public housing companies and an association of local storekeepers, has created a new public entity to employ “night mediators”, workers who have the responsibility of reducing insecurity at night. Even though 85% of the funding for this entity comes from the municipality, its employees are employed under private labour law (in other words, they are not public sector employees).

Overall, outsourcing and procurement remains very marginal as well as “at the margin” in **MunA**. If, for pragmatic reasons, senior managers of the municipal administration believe it should be extended, there is still a strong reluctance from both unions and many members of the city council.

8.2. Between externalisation and re-internalisation: the case of MunB

An overview

The case of **MunB** is far more distinctive in terms of the approach taken towards externalisation. The issue was in discussion (and sometimes much debated) with regard to several service activities at the time this case study was undertaken, with projects (or even on-going processes) of re-internalisation. But a particularly interesting point is that the terms and conditions of employment of employees was a critical element in distinguishing and explaining the positions of the different actors involved, namely, the municipality (or the community of municipalities **ComB**), the private providers, and the workers and their unions.

Like many other large municipalities, **MunB** has retained in-house certain important social services through its *Centre Communal d'Action Sociale* (CCAS), which is a public establishment with budgetary autonomy, though it depends directly on the municipality for its funding and employees who are for mostly municipal civil servants. As pointed out above, in this sector the interactions with non-profit organisations are important and they therefore have representatives on the board of the CCAS. Services provided include elderly care (60 employees) and early child care (also around 60 employees). There has been some discussion in the city council about the opportunity to externalise (at least part of) elderly care, but so far no decision had been taken. Conversely, in recent years, some re-internalisation of child care services has taken place, involving integration of some non-profit day-nurseries into the CCAS.

The municipality externalised *school catering* in 1992. The decision was taken after a very negative inspection report on health and safety. As a major investment was required to improve standards, and as the municipality budget was tight, the newly elected city council decided to create a *Société d'Economie Mixte* (a SEM, see Section 6.1 above), headed by one deputy-mayor. It would have the authority to borrow money and to build and run a new catering facility (designed as a central kitchen for the whole municipality).⁴⁹ About 20 public employees were transferred to this new entity. They therefore became employees under private law, but they kept their existing employment and pay conditions (with *de facto* very high employment protection), and overtime their pay increased even faster than pay in the municipality: in 2012, their pay was about 10% higher than the pay of equivalent employees in the municipality.

In 2012, at the end of the procurement contract, **MunB** managers did consider re-internalisation for a while, but this option found little support (including among the employees, because they feared they would lose in terms of pay conditions, see also Box 3 below) and finally a new call for tender was launched. The incumbent SEM was among the applicants, but a private company was chosen instead. Two main rationales underpinned the decision. First, the private company promised a substantial improvement in service quality. Second, it committed itself to maintain levels of employment and pay conditions. Moreover, employees were given the guarantee they would not be transferred to another entity of the company outside **MunB**.

⁴⁹ The SEM also runs the municipal aquatic leisure centre that was created the same year.

More than half of the municipal services of **MunB** were transferred to the community of municipalities (**ComB**), when the community was created in the late 1960s. Transferred services included local transport, water and waste.

Local transport (mainly buses and tramways, with about 2,500 employees full-time equivalent) have been continuously provided by a private company during the past three decades and have established a reputation of providing relatively good conditions of work and pay, as well as fostering strong unions. Still, there have been important developments since the mid-2000s. In 2008, with the renewal of the procurement contract, **ComB** selected a new firm for the 2009-2014 period, henceforth referred to as company **TraB**. It appears that this company had developed something of a negative reputation, at least among some unions, for its behaviour in other local government contracts. In other municipalities, **TraB** had been quite aggressive by denouncing the legality of existing company agreements when taking up the procurement contract. In response to the decision at the end of 2008 to award the contract to **TraB**, therefore, the public transport employees went on strike (with a record mobilisation rate of almost 99% employees according to the unions), and unions went to see the president and the council members of **ComB** to express their opposition and fears. As a result, **TraB** committed itself to maintaining the existing employment and pay conditions during the whole life of the six-year contract: i.e. until 2014.

According to the unions, this agreement was relatively good in comparison with other local transport companies, including other subsidiaries of **TraB**, because in many respects the existing company level agreements were much more favourable than the industry collective agreements. For example, the starting base wage of bus conductors in 2012 was approximately 27% higher than the one set by the industry collective agreement, amounting to around €1,870 (gross): i.e. higher than the starting base wage of a secondary education teacher. Also, seniority-based wage increases ran for 30 years, whereas usually, in the private sector, the seniority premium (when it still applies) stops increasing after 15-17 years of tenure. The base wage is topped up by an annual premium (the so-called “13th month”) coupled with a “holiday premium”, the combination of the two amounting to about €2,000 a year. There were also night premiums, such that a conductor, on average could make up to about an extra €200 monthly. Employees were paid for 7 hours and 36 minutes each day, whatever their actual working time. But according to **TraB** managers, actual daily working time was, on average, only 5 hours and 14 minutes, though this figure was contested by the unions. Concerning days-off, employees benefited from 13 extra days off since the implementation of the “35 hours a week” law, on top of the statutory annual 5 weeks paid leave.⁵⁰

According to the unions, as **TraB** was not able to suppress or modify substantially existing conditions, it reacted by work intensification, as well as demanding more and more multitasking and multi-skilling, with a resulting degradation of working conditions. It should be noted that this is quite a common pattern in the French context where (permanent) workers are relatively well protected in terms of job security and pay, but with often a counterpart in terms of bad working conditions (Caroli and Gautié, 2008).

⁵⁰ I.e., as in many companies, instead of working less on a weekly basis, they had more days-off.

The case of *water supply* was quite similar. Water was provided and distributed by a large private company (**WatB**). According to (young) workers we interviewed, pay conditions were relatively good. A young blue collar could earn up to about €2,200 as a monthly gross wage: the level a teacher in secondary education could reach only after 10 years of service. This is because on top of base wage (about €1,600 gross monthly), employees earn many bonuses and premiums, such as the “13th month”, and the profit sharing wage premium (the equivalent of a monthly wage), as well as some specific compensating premiums, etc. They also benefit from the company’s complementary health care plan, and from other advantages, provided by the Works Council (*Comité d’Entreprise*) of **WatB**: for example a €800 “Christmas bonus” if they have children, two extra monthly salaries if they get married during the year, one extra month salary when having a first child (1.5 for the second child, and 2 for the third child). The only issue the two blue-collar workers we interviewed complained about was that they could not benefit from paid overtime hours, as overtime hours had to be compensated by extra days off. According to them, this was not the case in the subcontractors that **WatB** intensely used for the maintenance of the water network, and as a consequence, they knew (young) colleagues that preferred to work in the subcontracting companies rather than in **WatB**.

As for *waste services*, collection was still an in-house activity and almost all employees employed by **ComB** had civil service status. Wages were low, with a gross monthly starting wage of €1,426 and a maximum wage of €1,643 for persons with 22 years experience and over, in 2012. But weekly hours are relatively short (as employees can go home as soon they have finished collection, whatever the duration of the collection), and work productivity is rather low. Absenteeism, moreover, is high, especially during certain periods (the hunting season for instance). In the older generation, many employees had a second job, which was less the case among younger workers.

Re-internalisation: the issues at stake (and some paradoxes?)

As indicated in Table 9 above, the tendency in **MunB** and **ComB** was to re-internalise some activities.

In **MunB**, as mentioned above, the decision to re-internalise *school catering* was discussed in 2012 but many employees working for the private sector provider were reluctant, as they thought they could lose in terms of their prospects for pay progression and career development, as well as other benefits: see also Box 3 on the general conditions of re-internalisation. As noted, their current wage was indeed about 10% higher than the wage of public employees of **MunB** in similar occupations.

Box 3. Some implications of re-internalisation for employees

According to the law, when a company is integrated into the public service, the (permanent) employees cannot become civil servants directly (they have to go through a formal selection process to do so). But they can benefit from an open-ended contract under public law. Their wage is maintained at the same level: i.e. taking into account total compensation (all wages and bonuses included) they received the year before the integration. This means in particular that if in that year their profit sharing bonus was low, they have a wage penalty for the rest of their career.

But the employees lose two complementary fringe benefits that may be particularly important, depending on the company: 1) the company complementary health care; 2) all the fringe benefits provided by the Works Council of the company.

The valuation of the length of service is also an important issue. Up to 2005, new entrants from the private sector started from zero, whatever their length of service in the previous firm. To understand the consequences in terms of wage career, let us take the example of a secretary who would be integrated from a private firm and classified in the *adjoint administrative* public employee category. Suppose her gross monthly compensation is €1,500; this corresponds to a pay level between pay levels PL (*échelons*) 8 and 9 in the *adjoint administratif* pay scale. Using the fast track, it takes 16 years of service for a new entrant to reach PL9. This means that during the period (i.e. 16 years), the wage of the new entrant should be frozen at €1,500€ (+ the annual across-the-board wage increases). Since 2005, up to half of the length of service in their previous company of new entrants (in an open-ended contract) coming from the private sector can be taken into account. In our example, if the secretary has 10 years of service, she will have to wait “only” 11 years before getting a new seniority-based wage increase.

Recently, before we undertook our case study, **ComB** revealed its intention to re-internalise both water and local transport in the coming years.

For *local transport*, the re-internalisation decision (in 2014) is the result of a complex process. Three parallel committees were constituted to collect evidence and to make recommendations; the first was constituted by members of the **ComB** elected council, the second by users of local transport and the third by *associations*. Unions from **TraB**, among others, were invited to give evidence, and some of them, but not all, argued intensively in favour of the reintegration. This was followed by a vote in the council of **ComB** in favour of re-internalisation (for reasons of costs, quality and working conditions, but ideological positions also played a role), but without deciding about the modalities. And this was a key issue. Some council members (from leftwing parties) were in favour of a “total” reintegration: that is, the company would become a department of **ComB**, and the (permanent) employees would all become public employees (on open-ended contracts, although not civil servants: see Box 3). Other council members (including some representatives of leftwing parties) favoured another solution: the creation of a specific public establishment, using the recently created legal status of Local Public Company (*Société Publique Locale*), or SPL. The argument was that this would have two advantages: 1) under some conditions, an SPL was considered as an *in-house* entity, and therefore not covered by the EU competition laws on services, so **ComB** would have kept total control over the activity, without being obliged to make regular tenders; and 2) the SPL employees were working under private law.

In other words, this alternative option would have established a kind of “external internalisation”, to avoid, in particular, integrating highly unionised employees, with a strong tradition of social mobilisation. As suggested, some unions were strongly in favour of re-internalisation as they hoped all the existing advantages (in particular concerning pay) would be maintained, and that the pressure on work intensification and working conditions would be reduced (given perceptions that the public employer would supposedly be more “worker friendly”). But other unions were more sceptical about the consequences of integration into **ComB**. They feared a progressive harmonization over the long run with the employment and pay conditions of the other public employees of **ComB**, which were much less favourable. As for the SPL option, there were doubts about whether or not the new company would offer better conditions than **TraB**. Overall, union officials thought that because of the tight budgetary situation, **ComB** had no room for manoeuvre to improve or even maintain the

existing employment and pay conditions of local transport employees. Eventually, another paradox was that **TraB** managers were not completely opposed to re-internalisation. They perceived that it might open up an opportunity for the outsourcing of the management of human resources (especially of bus conductors), leaving **TraB** to take control of the rest of the service activity of transport (the infrastructure, the organisation of the lines and the maintenance of the network).

The case of the *water supply and waste water system* had some similarities with local transport. The intention to re-internalise in 2017 has been announced, but with no formal decision taken so far. Some employees (in particular the two young blue collars we interviewed) were reluctant to be integrated into the public service. As we have seen above, their current employment and pay conditions were relatively favourable, and they feared they would lose some of the fringe benefits they have in **WatB**, in particular the ones provided by the Works Council (see also Box 3).

9. Summary of findings and concluding remarks

Even if the French Public Service has undergone important changes during the recent years, there has been no general trend so far towards cuts in pay and major downsizing or externalisation through procurement.

Concerning pay, the “across-the board” wage policy, based on the fixing of the value of the “index point” of the wage grid of the *Fonction Publique*, has tended to play a lesser role, but the trend had started in the beginning of the 1980s, and therefore is not new. Wage policy is now more targeted at specific categories, according to their bargaining power, also in connection with the issue of attractiveness (such as for nurses or teachers, for instance), and tries to remunerate better individual competencies and results. An important structural reform in the recent years has been attempted with the introduction on the “Function and Performance Based Premium” (*Prime the Fonction et de Résultat - PFR*), which is another step towards the individualisation of wage fixing. Nevertheless, three years after it was introduced, the implementation of the PFR has remained limited mainly to top managers. Overall, for most public employees, the basic principles of the pay system have remained unchanged: the base wage is fixed according to the pay scale of the *corps* and *grade*. Seniority still plays a very important role in climbing the ladders of the pay scale (including for promotions to another grade), and on top of base wage come statutory (i.e. not based on individual merit nor results) premiums and bonuses. These bonuses and premiums may differ notably between *corps* and administrations, and for instance between municipalities, as we have seen in our case studies.

Overall, because of automatic wage increases due to seniority and promotions and also compensating measures that were adopted, most of public employees have not undergone a loss in purchasing power in the past 5 years. Moreover, overall inequalities (for instance measured by the inter-decile ratios) seem to have remained stable (or even slightly decreased), and the share of low wage workers has also declined. Nevertheless, the decrease in real terms of the “index point”, in addition to the indexation of the base minimum wage in the Public Service to the legal national minimum wage (SMIC) has had several consequences in terms of wage differentials. At low pay level, it induced a wage compression between employees of different lengths of tenure (i.e. the base wage after ten years of tenure is now about 2.5% higher than the starting wage in the less-skilled occupations, whereas the differential amounts to more than 60% in high-skilled occupations). But at the same time, the starting wage of many skilled occupations has decreased notably in real terms, reducing the gap with the starting wage of the low-skilled occupations, but also inducing increasing inequalities between cohorts in a given occupation: a new entrant into these occupations in 2010 earns more or less 10% less in real terms than an entrant in 2000, ten years before). Now, employees recruited in the “B” category (i.e. with a high-school diploma or *baccalauréat*) earn only slightly more than the minimum wage, just like those without any diplomas (the “C” category).

These trends, which are invisible at the macro level, devalue the public service, and raise issues in terms of motivation (at all pay levels, but especially at low pay levels), and

attractiveness (in particular for high-skilled occupations). We have seen in our case studies that both issues were raised, but as more than 75% of their employees are in low skilled occupations (“C”), the wage policies in the two municipalities were in particular targeted at low paid employees. These policies tried to compensate partially for the consequences of the flattening of wage profiles and the limited possibilities of promotions, by several means such as: fast track advancement for all employees, high levels of bonuses and premiums, new fringes benefits, etc. But these policies have had a cost, and may have played as an incentive for procurement in some cases.

Concerning the externalisation of public service activities, we may conclude from our study that procurement is not a big issue in France. The absence of a general increasing trend towards procurement is confirmed in our two case studies. In the first one (MunA), it remains very limited (also for political reasons), even if there has been some externalisation at the margin in the recent years, for both reasons of costs and quality of the service provided. In the second municipality (MunB), it is more widespread, but there is some tendency to re-internalise, and, overall, the approach is quite pragmatic. The two cases were also interesting in showing that the employment and pay conditions of employees were not systematically worst in the private provider firms (pay tended even to be higher in some activities like water provision). This was because of the protective rules regulating procurement and the transfer of employees, but also because of political concerns, and the fact that these issues are taken into account by the local authorities.

The French specificity is maybe more about “internal externalisation”: that is, trying to increase flexibility by circumventing the rules of the public service system sometimes at the expense of employment and pay conditions, but retaining services within the perimeter of “Public Service”, or at its margins. A first way to achieve this is to recruit non-civil servant employees. Indeed their number has increased in the recent years, but unions remain highly opposed to this trend. New legislation was adopted in 2012 which should reduce the number of fixed term contracts, and many temporary workers should get access to permanent contracts, but not necessarily to civil servant status. It may be recalled that in the past, there have been several waves of “*titularisation*” (i.e. the transformation of non-civil servants into civil servants), even under conservative governments. A second way is to give increasing autonomy to public entities which may benefit from derogation to standard practices (in particular for the recruitment of non-civil servants), and to increase at the same time budgetary pressure on them. Local authorities, and in particular municipalities, can create several types of semi-public (semi-private) entities under their control (such as the *sociétés d’économie mixtes*), which themselves employ non-civil servants, and which therefore have a large autonomy in fixing pay and other employment conditions. Even in the case of re-internalisation, some municipalities (such as MunB) prefer to use such entities – a sort of “external (re-) internalisation”.

Overall, the main changes that may affect the terms and conditions of employment in forthcoming years are likely to take place within the public sector, with an increasing number of public employees who are not covered by civil servant status.

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