



Public sector pay and procurement in Europe during the crisis: The challenges facing local government and the prospects for segmentation, inequalities and social dialogue

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COMPARATIVE REPORT - EXECUTIVE SUMMARY

Background

In the wake of the 2008-9 financial crisis and subsequent sovereign debt crisis, governments across EU member states have, to varying degrees, acted to reduce government expenditures in an attempt to restore their fiscal position. While the scale of the crisis has been experienced very differently - with the most severe, Troika-led pressures for fiscal consolidation and structural reforms occurring in Greece, Ireland, Portugal and Spain – there has been a surprising convergence of reforms towards cutting back government spending, in marked contrast to previous recessions when government spending was widely considered a valuable tool to boost aggregate demand. Because a large proportion of government spending covers the salaries of the public sector workforce, many countries have implemented measures to downsize jobs and to cut or freeze pay. But pressures to impose reforms quickly have encouraged many governments to implement reforms unilaterally, sidestepping formal or customary processes of social dialogue. Moreover, restructuring of services has led to the elimination of some public services, challenging longstanding norms of universal provision, as well as encouraging a renewed focus on outsourcing and privatisation in contexts where the private sector offers the promise of cost reductions.

Project aims and research questions

Against this background, the general aim of this comparative research project was to investigate the nature of public sector pay reforms and the associated strategies of procurement during the current period of fiscal austerity and to understand the challenges facing social partners. The project focused in particular on pay and procurement strategies within local government in a context of often increasing segmentation and inequalities. The programme of research was designed to address five specific research questions:

- i) What are the patterns of public sector pay reforms and pay settlements since 2005 (at national, regional and local levels)?
- ii) What are government and social partner strategies towards public sector pay and to what extent have there been changes in processes of social dialogue and in the industrial relations climate in the public sector?

- iii) Has government use of public sector procurement changed and if so how and what are the implications for pay and employment conditions both for workers in the private sector who provide the commissioned public services and for public sector workers?
- iv) What are the implications of public sector pay reforms and procurement strategies for indicators of wage and employment inequality, with a focus on gender, public-private and low-wage/high-wage inequalities?
- v) What are the lessons from the comparative research evidence for improving the mechanisms for, and quality of, social dialogue?

The project brought together a team of experts from five countries - France, Germany, Hungary, Sweden and the UK, selected to cover old and new members of the EU, as well as different models of public sector pay and vulnerability to the austerity crisis. Each country team has produced a national report, drawing on secondary quantitative data and original qualitative data from case studies of local government municipalities. These five reports form the core source of data for the comparative report.

Pay cuts in the public sector

Against a context of rising debt to GDP ratios in all but a handful of EU member states during 2007-11, governments have implemented austerity measures ranging from moderate to severe, involving in some countries interventions by the Troika in exchange for bailouts. Austerity measures have been fuelled by neoliberal economic assumptions that lower government spending is an indicator of an economy's health, despite its well-known longer-term role in supporting economies out of recession. Most countries have made cuts to real pay:

- 18 out of 27 countries implemented austerity-related pay reforms during 2008-2012 involving combinations of pay freezes and/or pay cuts;
- 13 out of these 18 countries implemented pay adjustments in two or three consecutive years leading to major cumulative pay cuts;
- the largest annual nominal pay cuts were in Romania (25%-50%, 2010), Greece (varying up to 20%, 2010-14), Latvia (up to 20%, 2008-10), Estonia (up to 15%, 2009-10); and
- among the five selected countries, France froze the index points (2010-12), Hungary cut pay by 7% (2008-10) and cut the 13th month salary (2009), Sweden neither cut nor froze pay and the UK froze pay during 2010-12 (with a small supplement for low-wage central government workers).

Patterns of employment

Harmonised Eurostat data suggest the public sector accounts for one in four of the EU27 workforce, and ranges from 23% in Hungary to 33% in Sweden among the five countries selected. There is a relatively close alignment between level of government spending as a percentage of GDP and public sector employment. National data provide the best source for accurate monitoring of recent trends: France and the UK shared a trend increase until 2010 followed by a small decline (France) and an abrupt downsizing (UK); Germany experienced a long-term decline since the early 1990s but a small rise during 2008-11; Hungary has displayed an erratic trend since 1990, including a decline after 2004, a rise from 2008 to 2010 and a significant fall during 2010-11; and Sweden has experienced a slow shrinking share of total public sector employment since the mid-1990s up to

2011. Countries have experienced shifts in the composition of civil servants and non civil servants and between permanent and temporary contracts, opposing tendencies at central and local government levels and new regulations on hiring and firing.

Comparing employment conditions in the public and private sectors

i) Public sector pay premium?

The austerity crisis has centred attention on the levels of public sector pay relative to the private sector. The report reviews the results of international econometric studies that decompose the pay gap after controlling for educational and demographic differences among public and private sector workers. The results suggest the following pay patterns in the five countries:

- France: a small public sector pay premium at the median wage that especially benefits female and lower paid workers;
- Germany: a public sector premium for women not men at the median wage, of greater benefit to low-wage workers;
- Hungary: varying gap over time but a public sector penalty since 2007;
- Sweden: a public sector pay penalty for men and women; and
- UK: a significant public sector pay premium at the median wage, greater for women and for the lowest paid.

ii) Is the public sector a ‘good employer’?

A comparison of public and private sector workplaces ought not to be restricted to pay. The report includes a detailed analysis of whether or not the state acts as a ‘good employer’ in the five selected countries with attention to six features: job security; income security (eg. sick pay, pensions); fair level of pay based on fair comparisons; employee voice and collective bargaining; due process; and adoption of equal opportunity policies. The analysis highlights not only the major inter-country differences but also the vulnerability of public sector employment conditions and standards to political change and the power of the state to impose changes on the public sector even in contexts where there is a legacy of long established traditions of fair employment standards. For civil servants in Hungary, France and Germany changes can be made by government decree. In Germany and the UK, despite relatively strong trade unions in the public sector they have not been able to withstand the erosion of its pay premium and its role as a standards’ setter. In Hungary, the public sector has not established itself as a standard setter and is subject to volatile swings in government policy. In France and Sweden there are limited or no pay privileges for working in the public sector and it is the statutory minimum wage that guards against low pay in France and in Sweden the private sector has set pay trends for the public sector for several years.

iii) Does the public sector promote gender equality?

Six characteristics are analysed: women’s employment concentration (including highly educated women); female wage premiums; women’s pension income; work-life balance policies; affordable public services (especially childcare); and gender equality commitments and policies. A detailed appraisal of the five countries is used to generate an aggregate country profile reproduced here:

Table 4.4. Summary country profile of gender equality provided for by the public sector

	Employment	Working Conditions	Active Promotion of Gender Equality
Employment quantity	Public sector provides women with employment opportunities (female share and female concentration in public sector) <ul style="list-style-type: none"> • low – Germany, Hungary • medium – France, UK • high - Sweden 	Public sector provides women with work-life balance options that facilitate employment continuity <ul style="list-style-type: none"> • medium – Hungary • high – France, Germany, Sweden, UK 	Public sector provides services such as childcare which facilitates labour market participation <ul style="list-style-type: none"> • low - Hungary, Germany, UK • high - France, Sweden
Employment quality	Access to higher quality jobs (high concentration of women graduates in public sector) <ul style="list-style-type: none"> • medium - France • high – Germany, Hungary, Sweden, UK 	Pay and pension premia especially for lower skilled (compared to discrimination in private sector) <ul style="list-style-type: none"> • low – Hungary • medium - France, Sweden • high – Germany, UK 	Active promotion of gender equality through specific duties and policies or through effective implementation of national policies <ul style="list-style-type: none"> • low - Hungary • medium - France, Germany, UK • high - Sweden

This analysis demonstrates the importance of the public sector for gender equality but also the variations in this role across countries. Cuts to the public sector are primarily, however, hurting women and even where there are pay premiums, these may offset very low and discriminatory wages in the private sector

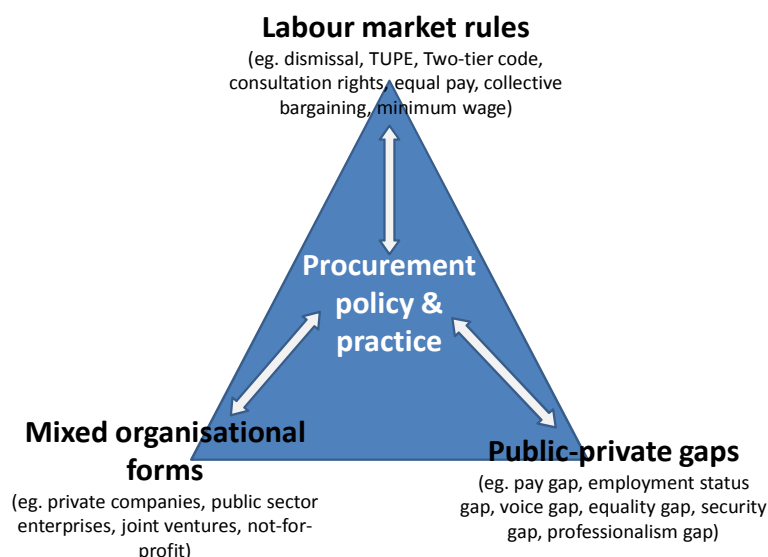
Comparing country institutions for setting public sector pay

Because public sector pay accounts for a significant proportion of public expenditures, the institutional arrangements for public sector pay determination are greatly influenced by a government's need for budgetary control and public accountability for its wage decisions. Other important influences include the historical legacies of ensuring the political independence of public civil servants and patterns of mimicry of private sector pay institutions. There is a range of systems in place across the five European countries and limited evidence of convergence despite the common pressures of austerity facing governments. Following Marsden's early work for the OECD, the report traces the five countries' models along three dimensions: i) unilateral employer regulation versus collective bargaining; ii) centralised versus decentralised pay systems; and iii) integrated versus fragmented pay systems. The mapping of country differences helps to illuminate the factors that enable or hinder problems arising from actions on pay restraint during austerity including whether collectively negotiated wage fixing may provide for a more flexible and legitimate model for reform, whether coordinated public and private sector pay settlements can avoid problems of recruitment and retention in the public sector, and whether more integrated public sector pay systems are better suited to avoiding a worsening of gender pay inequalities.

Comparing country approaches towards public services procurement

Government efforts to cut public spending during the current crisis also involve indirect measures that impact on employment conditions in sectors that rely upon government contracts to supply public services. The key mechanism is procurement - that is, the commissioning of external organisations to deliver public services. Many areas of public services involve a mixed-economy approach, although the extent varies among the five countries. Moreover, countries adopt different regulatory approaches to procurement, designed either to protect against deterioration of employment conditions or to extend and/or displace the negative effects of spending cuts. The report develops a novel framework for understanding the key interactions and uses it in an appraisal of the five countries.

Figure 7.1. A framework for understanding pressures on procurement policy



Pay and procurement in local government

The report draws on original case studies of local government in all five countries in an effort to better understand the dynamics of wage-setting, the impacts of pay reforms, approaches towards procurement of public services and the resulting consequences for pay and employment inequalities inside and outside the public sector. Following a brief overview of the diversity in local government functions and organisation across the five countries, in relation to services delivered, funding arrangements and employment organisation the report presents the results in four sections.

i) Models of pay determination: *the shifting national and local terrains*

A comparison of wage-setting in local government across the five countries identifies key differences along the three dimensions associated with unilateral government regulation/collective bargaining, centralised/decentralised, and integrated/fragmented wage-setting. A detailed appraisal is followed by further investigation of the scope for local level influence on pay, drawing on the case-study evidence. This identifies four factors or mechanisms through which there is some local discretion to adjust pay (with varying use across the five countries): pay grade classification; low pay; merit payments; and other supplements and bonuses. The strongest evidence of local level pay adjustments is found in Sweden, in keeping with its highly decentralised model, and the weakest evidence found in Hungary and Germany, again in line with their national characterisation. The local level data for Germany suggests new areas of contested terrain over the application of the new nationally negotiated low pay grade but limited discretion in practice. In France, municipalities have not taken up the opportunity to introduce local merit payments, at least not as intended, but do make local adjustments to the complex system of pay supplements and bonuses. Also in the UK, municipalities appear to have reacted against a three-year national pay freeze by negotiating local collective agreements that increase rates of pay for the lowest paid.

ii) Varieties of Procurement: *Organisational forms and employment segmentation*

The case studies of procurement of local government services suggest three significant results for our analysis of procurement:

- first not all procurement is undertaken to lower wage costs and in some cases it may be used to provide flexibility for higher pay;
- second, the causes and consequences of procurement are shaped in part by the varying legal statuses and costs for different employment groups. Divisions include those between central and local public sector employment status, civil servants and non civil servants (or employment under public or private legal codes), and flexible contracts (temporary, part-time) and standard contracts. The lines of segmentation are continuously shifting in response to public sector wage settlements and reforms to the models of wage-setting; and
- third, procurement involves a variety of practices and organisational forms. Procurement of local government services can be direct or it may be organised indirectly, such as through shared commissioning, devolution to a public sector unit under its control or, at the extreme, divesting of responsibilities to other organisations. Both direct and indirect procurement can involve a range of organisational forms, including private for-profit companies, a variety of shared public-private joint ventures, not-for-profit organisations and publicly owned companies.

The factors influencing choice of organisational form may include an assessment of implications for employment status; for example, publicly owned enterprises may be set up to circumvent constraints incurred through the special employment status of public sector workers or civil servants in situations where such enterprises operate under private law or outside specific collective agreements. As such, outsourcing ought to be considered as a choice along a spectrum rather than a simple public-private choice. Moreover, the report details a number of examples of re-municipalisation and identifies the key factors shaping decisions to return previously outsourced activities in-house. These examples demonstrate that not all outsourcing is cost effective and that where municipalities are not under pressure from central government to outsource come what may, decisions may change on where the balance of advantage between in-house and out of house provision may lie, even from simply a cost perspective.

iii) The mutual interaction between pay and procurement

Analysis of procurement in local government reveals three features of pay systems of relevance for outsourcing and insourcing actions:

- the presence of pay premiums or penalties in comparison with the private sector (private sector contractors tend to offer higher pay in France, Hungary and Sweden but lower in Germany and the UK);
- the strength of collective bargaining among private sector contractors (similar in the inclusive industrial relations models of France and Sweden but segmented in the UK, Germany and Hungary); and
- the value of the statutory minimum wage (including new sector minimum wages in Germany which have narrowed pay gaps and the dual minimum wage in Hungary which levels pay among a sizeable share of workers in both public and private sector organisations).

Finally, pay conditions are influenced by the application of TUPE rules (Transfer of Undertakings for the Protection of Employment), as well as innovative use of social clauses in procurement. Evidence from Germany and Sweden is used to illustrate changing practices.

iv) Social dialogue: varying roles and prospects

The five countries have differing institutional arrangements for social dialogue, involving a range of forums for negotiation, consultation and exchange of information and views between trade unions, municipality employers and government. National collective agreements and legal stipulations provide varying institutional spaces for trade unions to engage in wage setting at local level, ranging from strongly participative in Sweden to weak in Hungarian municipalities. Analysis of procurement decisions also reveals a variety of forms of union influence. For example, while unions in the UK campaign consistently against outsourcing of public services because it is associated with downgrading of employment conditions, in France the trade unions, building on a similarly strong mobilisation of members, adopt a pragmatic approach that takes into account the precise circumstances of organisational form and pay conditions. The case studies point to the resilience and relevance of social dialogue; in some cases it alleviates the effects on workers of austere national agreements and in others it encourages better scrutiny and monitoring of procurement contracts.

Conclusions: Lessons for policy and practice

There are a wide variety of pay systems and pay levels in the public sector in Europe. Not all public sector employees are well paid, some are relatively low paid and may even face a pay penalty for working in the public sector, particularly the higher skilled. Even when there is an apparent pay premium this may reflect low pay (and possibly pay discrimination) in the private sector - for example in the case of women's pay. Cuts to public sector pay will increase the gender pay gap as most public sector workers are women.

Social dialogue arrangements are relatively weak in the face of major budget cuts and a determination of the state to enforce changes to wage systems. Where social dialogue has remained strong, for example in Sweden, there is less pressure on public sector budgets than in the other countries considered here. However even when major cuts are being introduced public sector managers may still need to find ways to engage the remaining staff in the delivery of vital public services often with lower staffing ratios; various strategies including local pay arrangements may be introduced alongside major deteriorations in pay and conditions.

There are major differences between the pressures on municipalities in the five country cases as to whether to outsource or retain services in-house, as well as variations in between. Where there are distinct wage cost advantages the pressures tend to be stronger but the more important factor is the general political climate at both local and central levels shaping outsourcing pressures. Where there is no ideological commitment to outsourcing it may still take place but more for efficiency, flexibility or investment reasons (although even here the benefits are not fully subject to scrutiny and certainly mainly bypassing social dialogue arrangements). Insourcing may also take place against a range of conditions – eg. where wage cost advantages narrow or disappear, where there are problems of service delivery, where expected additional benefits of the contract fail to materialise, where the economic case for outsourcing changes, or where the political climate changes. Our data show that outsourcing may be used both to raise pay where public sector pay is restrictive and to reduce pay.

Policy lessons:

- not all public sectors pay positive pay premiums, nor do all public sector workers benefit, yet where there is higher pay this may be justifiable (eg. because it offsets wage discrimination in the private sector against some groups);
- public sector workers are traditionally viewed as protected, but at a time when governments are implementing fiscal consolidation programmes they may be particularly vulnerable to monopsonistic employer power, which social dialogue may only counterbalance in the good times, and the power of governments to prioritise fiscal concerns over the needs of service users and the rights of the employees;
- better scrutiny of outsourcing decisions should be introduced involving social dialogue systems to ensure a proper business case exists;
- monitoring of the actual delivery after outsourcing should be more effectively scrutinised and be part of social dialogue as some services may need to be re-internalised and outsourcing should not be considered a one way process;
- the extent to which quality human resource practices can be included in tender arrangements in the EU needs clarifying - and if necessary changes to EU competition law passed to allow, for example, calls for tenders to insist on appropriate pay and grading, training and staffing levels as a minimum condition in tenders; and
- attention needs to be paid to minimum wage levels prevailing in the private sector to ensure these provide reasonable levels of remuneration and to ensure that outsourcing is not encouraged simply in response to cyclical adjustments in minimum wage rates.