



## The effects of pay reforms and procurement strategies on wage and employment inequalities in the public sector: the case of France

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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.