



PUBLIC SECTOR PAY AND PROCUREMENT IN HUNGARY

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European Commission project: 'Public sector pay and social dialogue during the fiscal crisis'
VS/2011/0141, October 2012

EXECUTIVE SUMMARY

The current period of austerity for the Hungarian public sector came earlier than in other European countries, with restrictions on expenditures, investment and pay since 2006 coupled with an IMF-EU bailout. Ongoing fiscal problems in 2011 and 2012 have placed further strains on public sector pay and raise questions about the appropriate model of organisation for the delivery of public services. This report investigates the nature and consequences of this relatively long period of austerity measures for pay and procurement and traces emerging lines of segmentation between distinctive groups of the public sector workforce, including civil servants, public service workers and employees of government owned companies.

The distinctive legal status of public sector workers

Labour legislation in Hungary establishes five separate groups of employees within the central and local government funded public sector, each subject to different legislation:

1. professionals and contract agents in defence and law enforcement;
2. civil servants (*köztisztviselők*) in the state and municipal administrations;
3. public service employees (*közalkalmazottak*) in budgetary institutions (e.g. health and social care, education);
4. employees of state and municipally owned enterprises mainly providing community services (e.g. waste management, local transport); and
5. people working in public works programmes (*közfoglalkoztatottak*)

Groups 1-3 are considered the public sector workforce, narrowly defined (also referred to as the budgetary sector). Their right to strike and collective bargaining and workplace participation is restricted. By contrast, employment relations for workers employed by government owned companies (group 4) are regulated by the Labour Code that applies to the private sector also.

Changing patterns and processes of social dialogue

The public sector (groups 1-3 above) is characterized by the presence of high-level forums for groups of different employees where trade unions may consult with the government. These bodies provided the framework for what we refer to in the report as 'quasi collective bargaining' on pay until 2010. Since the right-wing government came into power in 2010, however, labour law and social dialogue institutions have undergone reforms which have curbed trade unions' involvement and bargaining power in all sectors of the economy.

Trade union density in the public sector is somewhat above 20%, well above the national average. Nonetheless, public service unions carry out fewer industrial actions than those in the private sector. Instead they tend to organise demonstrations, despite the fact that public service

employees (not civil servants) have the right to strike. The scope of collective bargaining is limited due to budgetary constraints and headcount control.

Employment trends

According to the official statistics on trends in the public sector (groups 1-3), the share of public sector employment in total employment decreased from 29% to 27% between 2000 and 2011 (considering employers with at least five employees). If we also include the estimated number of employees of government owned enterprises, then the share of public sector employment dropped from 39% in 2000 to 35% in 2011.

Among the different categories of public sector workers, civil servants witnessed the highest level of stability in numbers employed during the last decade, and accounted for around 15% of the budgetary sector workforce by 2011. By contrast, numbers of public service employees have fallen by an average of 3% per year since 2004, amounting to a drop of some 100,000 employees by 2011.

The public sector pay system and imposition of pay cuts

Each group of public sector workers, except group 4 that is covered by the Labour Code, is covered by a mandatory classification and salary system based on the seniority principle. Performance-related pay proved to be a temporary phenomenon in the civil service: the system was applied from 2006 to 2009 only.

Prior to the crisis, wage tariffs were increased annually but the scale of hikes usually lagged behind inflation. There were two breaks in this trend: in 2001-2 public sector wages were substantially raised and since 2006 the pay scale has been frozen. Moreover the 13th month salary was abolished in 2009.

Nevertheless, concurrent with these changes the two statutory national minimum wages (the standard and the skilled minima) were increased and in fact have overtaken around half of the pay scale defined by the 2012 wage tariff, including some that require a higher education degree. The basic salary is in all cases supplemented by further mandatory salary elements, although these vary by civil service/public service employment status. As such, the wage systems raise a number of challenges for the defence of equal opportunities for public service employees working under different laws.

A worsening public sector pay penalty

The crisis has affected mainly white-collar public service employees and civil servants and contributed to a decline in average public sector pay since 2008. In Hungary, public sector workers earn a wage penalty not a wage premium over similar workers in the private sector. The wage gap is especially high among college and university graduates.

Pay inequality between men and women is smaller in the public sector (groups 1-3) where mandatory tariffs are applied. Among workers in the private sector the gender pay gap is wider, although it narrowed temporarily during the 2000s as a consequence of upratings in the statutory national minimum wage. The government owned enterprise sector follows a similar pattern with a one-year delay.

Use of procurement

Since 2004, public procurement has been regulated by legislation that conforms with the EU directive (2004/18/EC). The TUPE directive (Transfer of Undertakings, Protection of Employment) was also transposed and special regulations apply for transfers of employees

between employment. Procurement of public services via outsourcing chiefly gained ground in the fields of health care, social care and education. In health and social care procurement has targeted particular service activities (such as laundry, catering and cleaning), while in education the church and other non-profit institutions have assumed responsibility for running an increasing share of primary and secondary schools.

New evidence from local government

The report analyses original empirical evidence from two case studies of municipalities - one in a small town (A), quite typical in many respects, and another in a larger town (B) with county status. In municipality B, municipal elections were held in 2009 and right-wing politicians won. The newly elected mayor jump-started the implementation of the right-wing agenda in the town's context and this in fact became the pilot programme of reforms that was rolled out on a national scale the following year.

➤ Fiscal crisis at a local level

The 'Hungarian model' of local government resembles the Mediterranean one with respect to its fragmented nature, and yet is similar to the Scandinavian system as far as the wide range of assigned functions are concerned. State subsidies for local government functions, however, have been continuously decreasing since 1995. Moreover, the brunt of the costs of stabilizing the state budget was borne by local government following EU accession in 2004. Municipalities reacted to the austerity measures by raising considerable external funds, predominantly by issuing bonds denominated in foreign currencies. In some towns bankruptcy is an everyday threat. Provision of public services has become increasingly centralised since 2010 with several activities shifted from local to central government control.

➤ What methods of procurement are used?

Legislation specifies the services that local government is obliged to provide but municipalities are free to decide how service provision will be organised. A traditional arrangement is to maintain institutions with public service employees. Alternatively, a local government may choose among the following methods of procurement:

1. establish and jointly operate a business enterprise with a private investor (widely deployed in the privatisation of public utilities from the mid-1990s and a feature of the current policy of 're-municipalisation');
2. select an enterprise for service provision in a public procurement procedure (characteristic of auxiliary activities - eg. cleaning, security and maintenance – for which in-sourcing and renegotiation of contracts is common);
3. conclude an agreement, generally with civil organisations or a church, for providing the mandatory tasks (typical in health/social care and education where per-capita state subsidies are higher for the church than for municipalities); or
4. co-operate with other municipalities to provide shared services (eg. utilities and social care).

➤ What consequences for pay, job security and social dialogue?

In fact, the private sector and non-profit sector companies that provide outsourced public services are considered to be reputable employers, largely because wage payment is guaranteed and they provide exceptional employment stability even at times of crisis. This image prevails despite the fact that evidence from the two case studies

indicates rationalization (at both public and private sector workplaces), leading to a shrinking of the scope of services and job cuts, albeit small scale.

With respect to prospects for pay and wage bargaining after privatisation, the two case studies permit only limited conclusions. Outsourcing, then the subsequent re-municipalisation of public utility services in municipality B, where trade unions have a strong bargaining position, had practically no impact. In contrast, in municipality A, wages are low, irrespective of whether the service is run by the municipality or a private company. The striking regional wage differentials are thus replicated in the case of outsourced services, while the public sector wage scale - although at a very compressed wage level - has had a levelling effect.

Lessons for research, policy and practice

The main problems of the public sector highlighted in this report can not be separated from the state of the Hungarian economy and the problems associated with the current right-wing political regime. However, focusing on the public sector only, the main lessons and policy recommendations are as follows.

- The long-lasting pay freeze has eroded public sector wages so much that the negative consequences of a pay penalty is already palpable: migration of highly skilled employees; lack of motivation among employees; and a deteriorating quality of services. In addition, the forthcoming austerity measures and prospective lay-offs will further aggravate the crisis in the public sector. So far, government promises about securing the 'career path model' in different occupations (civil servants, teachers) remain dead letters. Therefore, reducing the pay penalty and restoring the reputation of public sector jobs are matters of urgency.
- Pay restraint has also caused too much a compression of the public sector wage scale. Therefore, policy should also seek to reform the wage system by improving the seniority-based system and introducing an element of performance-based pay with appropriate management techniques and controlled by social dialogue institutions.
- The current wave of centralisation of public services and transfers of institutions to the church (especially in health care, education and social services) is overly motivated by ideological and political considerations rather than by professional impact studies and thorough negotiations with stakeholders. A rethinking of institutional change is therefore required, involving all stakeholders, including the social partners.
- The autonomy of municipalities has been undermined by fiscal measures and the recent centralisation of institutions. Their freedom should be restored in order to take local stakeholders' interests into consideration since this would have a positive influence on the quality and scope of services.
- Social dialogue needs to be strengthened by not only restoring the centralised quasi-bargaining on pay and consultation on labour legislation, but also granting greater scope for collective bargaining. Beyond the decentralised (local) level, the preconditions for sectoral collective bargaining (that is, the establishing of representative bodies of employers) should be created in the public service sector too.
- Finally, the processes of procurement (including privatisation and 're-municipalisation') are seriously burdened by corruption and political considerations at central and local levels. Anti-corruption initiatives, such as the projects of the State Audit Office, should be continued and their recommendations should be implemented.