

Countering European economic policies through meaningful European social dialogue on local and regional government

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The economic and financial crisis and the European and national policies implemented in response thereto have had a major impact on local and regional government across Europe. The repercussions are still being felt and will be for some time to come, especially as the system of economic governance established by the European institutions has not only fiscal consolidation at its core but also a focus on ‘modernizing public administration’, a euphemism for liberalization and deregulation.

This article takes up some of the issues explored elsewhere in this issue, focusing on the European level and examining not only the implications of economic governance but also the role of European sectoral social dialogue in addressing the major challenges facing local and regional government. It also looks at the impact on health and social services – a sector run by local and regional administrations in many countries and the target of many of the country-specific recommendations issued as part of the economic governance process.

The system of economic governance gives the European institutions an increased monitoring role over Member State budgets and – in the case of euro area members – the possibility of applying sanctions if they do not comply with certain rules. While the European trade union movement has agreed that some form of economic governance is required, particularly in relation to managing a common currency, the problem lies in the way the system has been set up. At its heart are strict controls on public finances and a monitoring of macroeconomic developments that see wages and particularly the need for downward flexibility in wages as a key variable in creating the conditions for economic growth.

The European institutions have given a belated nod to the need to take account of social developments but so far these remain on the sidelines and there is no indication that the European Commission will revise its calls for greater flexibility in wage determination and labour markets generally.

The economic governance process has an annual timetable – the European Semester – that begins with the European Commission publishing the Annual Growth Survey in November. This sets the priorities for the following stages of the Semester – the drafting of National Reform Programmes by Member State governments (by April) and the drawing up of country-specific recommendations by the Commission which are then sent to the European Council for agreement in June.

The common theme of Annual Growth Surveys has been the call for fiscal consolidation although this has been transformed more recently into ‘growth-friendly fiscal consolidation’. The other main theme with a direct impact on local and regional government is the demand to ‘modernize’ public administration.

The intention behind ‘growth-friendly fiscal consolidation’ is that public finances and particularly cuts to public spending can be targeted in a way not harming prospects for growth. The problem is that it is not clear at all that this is being achieved.

The European Commission's Joint Employment Report, published as background to the 2014 Annual Growth Survey, reported that 10 Member States had reduced education expenditure in absolute terms and 20 had reduced it as a percentage of GDP, with implications for long-term growth prospects.

Moreover, the latest data on public investment also raise concerns. Eurostat figures for public investment (general government gross fixed capital formation) show a decline for the European Union from 2.9 per cent of GDP in 2009 to 2.3 per cent in 2012 and from 2.8 per cent to 2.1 per cent over same period for the euro area. There have been particularly sharp falls in Ireland (3.7 per cent to 1.9 per cent), Greece (3.1 per cent to 1.8 per cent), Spain (4.5 per cent to 1.7 per cent) and Portugal (3.0 per cent to 1.7 per cent). Confirming this, the November 2013 report on draft budgetary plans of euro area governments noted that: '... the general trend of decreasing public capital expenditure observed in the past few years, while stabilizing, is not being reversed.'

The push for 'modernizing' public administration fits in with the European Commission's general deregulatory agenda, running parallel to its 'REFIT' programme which is now also a feature of the Annual Growth Survey, evaluating European legislation with a view to reducing 'regulatory burdens' on business. The CSRs do not specifically target local and regional government, preferring instead to work on a sector-by-sector basis independent of the way government is organized. One of their main focuses is on the health and social services sector, which in many countries is a major responsibility for local and regional authorities.

The impact of the economic crisis on local and regional government

Local and regional government in the European Union is currently operating in a very difficult economic and financial context, with little prospect of this improving in the short term. Pressure on local and regional administrations to reduce their expenditure – a significant part of overall government expenditure (33.6 per cent on average in 2010 on the basis of CEMR/Dexia figures¹) – can thus be expected to continue.

It is, however, important to point out that the share of local and regional government in overall government expenditure varies widely between Member States. It is higher in countries with a strong federal structure, where important powers are devolved: the CEMR/Dexia figures² show that local and regional government accounts for 41.8 per cent of total government expenditure in Belgium, 44.1 per cent in Germany and 53.2 per cent in Spain. By contrast, in Greece, the figure is 5.6 per cent and in Ireland 10.3 per cent. More typical values, of around 25 per cent, are found in the Czech Republic (27.0 per cent), Estonia (24.7 per cent), Hungary (25.6 per cent), Latvia (25.6 per cent), Lithuania (27.6 per cent), Romania (23.9 per cent) and the United Kingdom (27.8 per cent).

There are also important differences in tasks undertaken by local and regional administrations. In most countries, education for instance is an important local and regional responsibility, accounting for 20.8 per cent of total expenditure at this level. Health accounts for around a quarter of local and regional spending in Denmark, Finland and Sweden, as well as in Austria and Spain, and 44.2 per cent in Italy, but in other states, including the Czech Republic, France, Germany, Romania and the UK, local and regional government spending on health is very small or non-existent, as responsibility lies elsewhere.

Though these differences have to take spending trends into consideration, there are clear indications that, in some countries, local and regional government has been more heavily affected by cuts than the public sector as a whole.

1 EU subnational governments: 2010 key figures. CEMR and Dexia, 2011.

2 Future of the Workplace project: Funding of Local and Regional Government: key challenges, solutions to growth and alternatives. Labour Research Department, 2012. Available at: <http://www.epsu.org/a/8449>

A study by a Council of Europe body, the European Committee on Local and Regional Democracy, concluded that ‘in more than half of the countries for which we have data, local budgets dropped more on aggregate than the corresponding central ones, at least in one of the two years of the crisis.’ It went on to point out that, ‘in a number of these countries, in particular Central and Eastern European countries as well as some old Member States, there is evidence that the central governments have deliberately applied pressure on local budgets in order to create fiscal space at the centre in order to deal with the effects of the crisis, either by cutting transfers and local borrowing or forcing local governments to run surpluses’.³

A strategic social dialogue for the local and regional government sector

There are several provisions of the European Treaty and European labour law aimed at strengthening social dialogue and the role of social partners at European, national, local and company level. The Treaty in principle strengthens social dialogue, institutionalizing it at EU level. Sectoral social dialogue has developed, and there are at present 44 European sectoral social dialogue committees.

With regard to local government and services, a social dialogue committee was created in 2004 by EPSU, the European Federation of Public Service Unions, and CEMR, the Council of European Municipalities and Regions, representing the European employers. A steering group consisting of the two chairs (one for the employer and one for the trade union side), vice-chairs and secretariats coordinates the activities that take place in the form of working groups and two plenary meetings a year. As the body responsible for setting up the Sectoral Social Dialogue Committees, the European Commission requires that organizations must meet a number of representativeness and capability criteria before they can take part in sectoral social dialogue at European level. A representativeness study is currently being conducted, the first conclusions of which establish that EPSU and CEMR are the main organizations at European level capable of representing local and regional government workers and employers.

Local and regional government is of great importance in Europe. In the different countries of the EU it delivers a wide range of services, including – depending on the country – health care, child care, elderly care, public transport, education, police services, fire services and water supply. In almost every country it provides services – from social care to refuse collection, from libraries to parks – which are central to daily and local life.

The work of the sectoral social dialogue committee provides a forum for consultation and joint recommendations. These may be in response to EU policy – such as EU public procurement rules or EU policies on restructuring – or they may be policies that EPSU and CEMR affiliates at national level want to discuss more intensively – as in the last years the impact of the economic crisis on local and regional government.

Structure and overview of social dialogue in local and regional government in Europe

Due to their particular tasks, local public services may be subject to specific norms regarding employment, industrial relations and social dialogue. Whilst public authorities play a key role

3 Local government: responses to recession across Europe. European Committee on Local and Regional Democracy (CDLR), August 2011.

in the definition, organization and regulation of public services, the role of the state and local public authorities in social dialogue and bargaining varies considerably in Europe. There are also differences in representativeness and industrial relations, in particular between publicly controlled activities or enterprises and private operators. Certain public service areas in certain Member States are not covered by collective bargaining, i.e. there is a great diversity within the EU.

One difference is the number of levels of administration involved in local and regional government, excluding the decentralized parts of the national administration. Most EU countries (21 out of 28) have either two or three levels of local and regional government. Only five countries – Estonia, Lithuania, Luxembourg, Slovenia and Bulgaria – have a single level, although the distinctions are not always clear. Also the arrangements for local and regional government in the capital city are not the same as those for the rest of the country. Isolated and geographically distant areas are treated differently. Even where local government units have the same legal status, variations in population mean that the reality is very different.⁴

Another key element is the context in which unions in local and regional government operate, negotiate and become involved in social dialogue and the status of those working in local and regional government (employment status). This status is important in terms of industrial relations as it can affect the extent to which pay and terms and conditions are subject to collective bargaining or set unilaterally by the government through legislation. In certain countries, this legislation also determines whether or not a worker is able to take industrial action.

In 16 of 27 EU Member States, at least some of those working in local and regional government have a specific employment status substantially differing from those found in the private sector. Only in 11 States (Cyprus, the Czech Republic, Ireland, Italy, Latvia, Malta, the Netherlands, Poland, Slovakia, Sweden and the UK) is this not the case. This does not mean, however, that in all these countries there are no differences in status between local and regional government employees and private sector employees.⁵

Local public sector worker representation can be very diverse (see Figure 1), as seen in Romania (23 unions), Denmark (17 unions), Spain (16 unions), and Sweden (11 unions), reflecting specific features of local and regional government in terms of service delivery and employment status. This diversity is also due to the strong presence of industrial unions covering specific sectors and services, and to the presence of particular public sector professions, e.g. in health and teaching, where occupational or professional trade unions operate. On the employer side, the representation system is as follows. In 14 cases, a national organization is present (Bulgaria, Cyprus, Czech Republic, Spain, Finland, France, Ireland, Lithuania, Luxembourg, Latvia, Malta, Poland, Sweden and Slovakia). The highest number of organizations can be found in Hungary (seven associations), Germany (six associations) and Belgium (five associations). Such multiple organizations can be linked to the division of local government into different types of local authorities (Hungary), the territorial division associated with the federal structure of the state (Belgium), and the combination of territorial division and functional distinction between national associations, national employer organizations and the national section of CEMR.

4 Social Dialogue in the local and regional government sector: an overview. CEMR and EPSU, April 2009.

5 Social Dialogue in the local and regional government sector: an overview. CEMR and EPSU, April 2009.

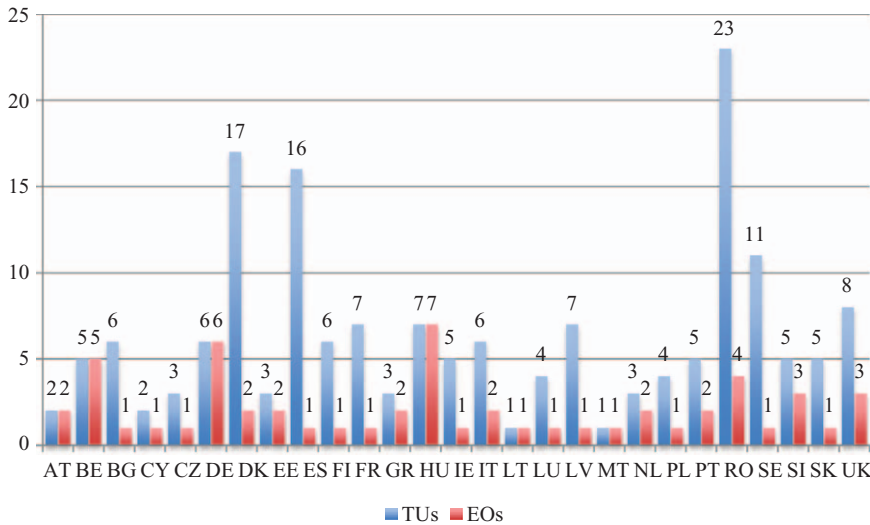


Figure 1. Trade unions and employer organizations in EU-27, 2013.

Note: EU-27 countries. Croatia could not be included as it was not a Member State when the study was launched.

Source: EIRO 2013.

Recent policies developed by the Sectoral Social Dialogue Committee for Local and Regional Government

With the local and regional government under fiscal pressure and austerity measures transforming employment relationships, EPSU and CEMR jointly underlined, in their response to the Green Paper on restructuring in 2012, the need to recognize the important role of local and regional administrations as employers and public service providers. Acknowledging that local and regional government employees had been affected by cutbacks and the economic crisis, the joint position also highlighted a number of national agreements reached for example in Ireland, Lithuania or Slovenia.

In December 2012, CEMR and EPSU signed a European Framework of Action for Local and Regional Government, identifying certain policy priorities towards which the national social partners undertake to work. These priorities serve as benchmarks and the social partners report annually on the action taken to follow up these texts.

In the context of the challenges posed by the current European social, economic and political crisis for local and regional authorities as employers and trade unions, the social partners EPSU and CEMR have renewed their joint commitment to strengthen European sectoral social dialogue in local and regional government.

The overarching objective is better to prepare local and regional administrations (as employers) and their employees for future scenarios. It has six major funding areas, including strengthening the role of socially responsible procurement and monitoring the impact of the crisis in local and regional government. With regard to recruitment and retention a joint position has been developed, calling on the European Council to promote measures encouraging public sector employers to increase the number of high-quality, secure jobs available to young workers in a sector where

promoting the entry of such people is needed. CEMR and EPSU further emphasized the need to invest in social care and services of general interest infrastructures, with an aim to promoting youth employment in the public sector against the backdrop of demographic change.

Another important joint issue addressed by employers and employees alike is the environment, where possibilities for creating sustainable ‘green jobs’, ensuring employee and employer representativeness in sustainable development and better involving workers in environmental discussions are being discussed. A last field in which the social dialogue partners are currently working is migration, on the one hand to promote the integration of migrants into the local and regional government workforce and to fight anti-discrimination, and on the other to counteract recruitment barriers by developing joint guidelines.

EPSU and CEMR are currently implementing this Framework in the context of the Europe 2020 Strategy, the ‘New Skills for New Jobs’ and relevant EU legislative and policy proposals in the area of employment and social affairs throughout 2013 and 2014.⁶

Alternative ways of providing public services in local and regional government and the outlook for creating employment

Re-municipalization

Since the 1980s the direct public sector provision of services has been subjected to various forms of privatization, in the form of either the direct sale of enterprises such as energy companies to private owners, or the outsourcing of a wide range of services, from water supply and waste management to cleaning and catering. This process has been driven by political, legal and fiscal factors and has gained impetus through the economic crisis and pressure to reduce public spending.

While the European Commission continues its campaign to liberalize services and maintains its agnosticism on ownership, pressure to privatize is never far from the surface. The troika, made up of the Commission, the European Central Bank (ECB) and the International Monetary Fund, has for example called for water privatization in Greece. ECB medicine for Italy was revealed in 2011 when a leaked letter to the Italian government included a range of demands for reforms including the privatization of local services.

By contrast, EPSU has recently been seeing a trend towards the re-municipalization of public services. After many years of privatization, contracting-out and outsourcing, several studies are now pointing to increasing evidence of a trend in the opposite direction. The economic context of austerity measures and uncertainty requires flexibility rather than being locked into long-term contractual arrangements to provide public services. Municipalities in several European countries are now reversing previous decisions, insourcing (‘re-municipalizing’) their services. This trend is supported by the European Court of Justice ruling of June 2009 which backed in-house provision in the case of inter-municipal cooperation on a waste company.

Despite fiscal pressures there are thus clear signs that municipalities are continuing to move towards re-municipalization rather than privatization in a number of countries in Europe, including Germany, France and the UK, as reflected by a 2011 study of over 100 German municipalities by Leipzig University, which concluded that there was a trend towards greater provision by the public sector. In France, the homeland of private water companies, an increasing number of municipalities and regions are re-municipalizing water services and public transport. Even in the UK, where the national government is still pushing through privatization measures in health care and prisons

6 See Framework of Action for Local and Regional Government. Available at: <http://www.epsu.org/a/9193>

and demanding cuts in local government spending, municipalities are often bringing services back in-house as a way of achieving savings, with the *Financial Times* suggesting that local authorities have grown sceptical about the savings outsourcing can deliver, as well as fearing a backlash against private companies making large profits from the taxpayer.⁷ In Finland also, many municipalities have recalled work previously outsourced.⁸

In Paris (France), water re-municipalization became effective in 2012; a recent study on the 1998–2008 period covering about 75 per cent of the French water market (where more than 60 per cent of the water services market is under private management) observed that 107 local authorities switched from private to public management, while 104 switched from public to private. According to the authors, switches may be driven by economic rationale, as well as by political reasons. As regards the economic rationale, the study considers that potential efficiency improvements are the main factor prompting municipalities to change organizational forms.

Eshien Chong, Stéphane Saussier and Brian S Silverman, 'Water under Bridge: City Size, Bargaining Power, Prices and Franchise Renewals in the Provision of Water'. Paper presented at the Seminar 'Smart Governance & regulation of water services in Europe', 7–8 February 2013, Florence. http://chaire-eppp.org/smart_governance_and_regulation_water.

Looking at a German example, in Bergkamen in North Rhine-Westphalia (51,000 inhabitants), only wastewater management was public. All other local services had long been provided by private companies in the wake of calls for tender. Starting in 1995, the city decided to re-municipalize electricity, gas, district heating and water supply (start of distribution in 2010), street cleaning in 2002 and waste collection in 2006. A public multi-service enterprise was established together with the municipalities of Kamen (42 per cent of the capital) and Bönen (16 per cent of the capital), which today serves their territory and operates the supply of water, electricity, natural gas and urban heating, as well as leisure facilities and, through its subsidiary GSWcom, telecommunication services. According to the mayor, 'municipal provision of public services is often the best way' and 'municipalization is an entrepreneurial decision, in particular in liberalized markets'. He added that 'the municipality takes responsibility for risks, hazards, failures, mismanagement, strikes – and unpopular decisions, too'.

Presentation of Roland Schäfer, Mayor of Bergkamen, President of the German Association of Towns and Municipalities, at the Annual Conference of the Local and Regional Government organized by the European Federation of Public Service Unions (EPSU), 8 May 2012, Riga, Latvia.

Under current European legislation, local authorities may choose, after having defined the aims and purpose of a service, between the direct 'in-house' management thereof and delegating it.

For a European framework for socially responsible public procurement

The EU public procurement directives set out the rules under which public bodies – local and regional governments – purchase goods, services and works, in principle aiming to guarantee equal

7 PSIRU Briefing: Remunicipalising municipal services in Europe. Available at: <http://www.epsu.org/a/8683>

8 See www.jhl.fi/portal/en/news/archive/?bid=1640&y=2011

access to and fair competition for public contracts. Public procurement is considered a market in the EU, playing a significant role in EU national economies. Approximately one-fifth of the EU's GDP is spent every year by public authorities and by entities governed by public law on procuring goods, works and services. Approximately 20 per cent of this concerns public procurement exceeding the thresholds above which EU public procurement rules apply. The Commission estimated the total value of calls for tenders above those EU thresholds to be approximately €425bn in 2011.⁹

Together with not-for-profit NGOs, EPSU has for a long time lobbied against the marketization of public services in order to strengthen European, national and local frameworks, in particular for sustainable procurement. First of all, as the largest procurers in Europe, local public authorities should focus on maintaining and developing public service value-for-money through national or local choices on how public services are provided, including a right to direct public provision – the so-called ‘in-house’ option – and also allowing public-public cooperation. EPSU has consistently upheld this principle with a view to limiting the scope of procurement directives (no compulsory tendering) and countering the arguments that liberalization and competition improve the quality of employment and/or the services. Where procurement is used, social and environmental criteria should be taken into account alongside economic ones, and sustainable procurement should be the norm. This has led to a joint EPSU-CEMR statement in support of the introduction of social criteria in the context of recasting procurement rules.

The recent revision of these rules now also allows a focus to be put on qualitative aspects such as social and environmental considerations and including accessibility, staff training, production processes or delivery conditions and will allow public authorities to give preference to bidders offering better working conditions to their workers, promoting the integration of disadvantaged workers and offering sustainably produced goods. Reflecting longstanding EPSU demands, these new socially responsible rules for public procurement mean that public authorities now have to evaluate tenders using the Most Economically Advantageous Tender (MEAT) criterion, which is determined on the basis of the price or cost but may also include the best price-quality ratio using qualitative, environmental and social criteria. Thus, public authorities can organize public procurement in a sustainable manner with a focus on quality instead of the cheapest offer. Regrettably, there is no legal obligation for authorities to include quality criteria, and they can still purchase on the basis of the cheapest option. It is up to the Member States to consider making qualitative and social aspects compulsory when implementing the new provisions. Regarding the procurement of services in the social and health care sectors, less strict procurement procedures will be applicable.

Implications for health care, long-term care and child care

The European Commission's Social Investment Package acknowledges the importance of health care and social services in the European economy and especially in relation to current and future employment growth. EPSU has however a number of concerns about the Commission's approach and has called on the EU institutions to develop the necessary policy frameworks to ensure a coherent policy approach to investment and to support this with financial instruments such as EU Structural Funds.

The country-specific recommendations have so far included several references to health care, long-term care and child care with the emphasis very much on improving efficiency and cost

9 Report from the Commission to the Council and the European Parliament, EU Anti-Corruption Report. See: http://ec.europa.eu/dgs/home-affairs/e-library/documents/policies/organized-crime-and-human-trafficking/corruption/docs/acr_2014_en.pdf

effectiveness. In general terms these need not be interpreted negatively and certainly the recommendations focusing on keeping pharmaceutical costs down would appear entirely sensible. However, the concern is that in the current environment the focus is more on cost reduction, potentially at the expense of affordability, access and quality. Taking child care for example, the focus appears to be more on the impact of increased child care on boosting labour market participation than on what good-quality child care can provide in relation to a child's pre-school education.

Conclusions

First, the effects of austerity measures have had various effects on public services in local and regional government and are very much dependent on the services provided in this sector. While local and regional government administration has been heavily affected in terms of cuts in employment as e.g. in the UK, France or Germany could profit from growing employment but partly via decentralization measures rather than targeted investment.

While public services are increasingly needed at local level to cushion the effects of the increasing poverty, unemployment and vulnerability of a growing proportion of the EU population, cuts in employment and wage freezes lessen the attractiveness of the public sector as an employer at local level. Local and regional governments have been confronted with budget cuts directly hitting the users of public services. In a vicious circle, they find themselves increasingly unable to adjust to imposed austerity plans, thereby triggering further economic decline and unemployment.

Secondly, local and regional government, as the main funders of health care, long-term care and child care in the EU, is confronted with increasing needs for elderly care, child care and social care due to both demographic changes and new political priorities in certain EU countries, positively impacting employment. But imposed austerity is hindering the development of publicly funded services and thus risks excluding those most in need of quality social services. In addition, the new public procurement rules should – if properly implemented – allow local and regional governments to enhance service quality through providing socially and environmentally friendly public services. The trend towards providing these services in-house rather than through procurement is set to increase.

European social dialogue for local and regional government has served as a vehicle for addressing the various policy challenges affecting this sector and has been working together with national and local social partners to propose practical solutions to them. European social dialogue has developed into an essential and strategic tool for developing joint views and defining policy alternatives, but also for anticipating the changing requirements and structures needed to provide high-quality, safe, accessible and universal local public services serving the general interest rather than running against it.

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