

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

Damian Grimshaw

EPSU conference December 2012

EWERC, Manchester Business School
University of Manchester

Outline of talk

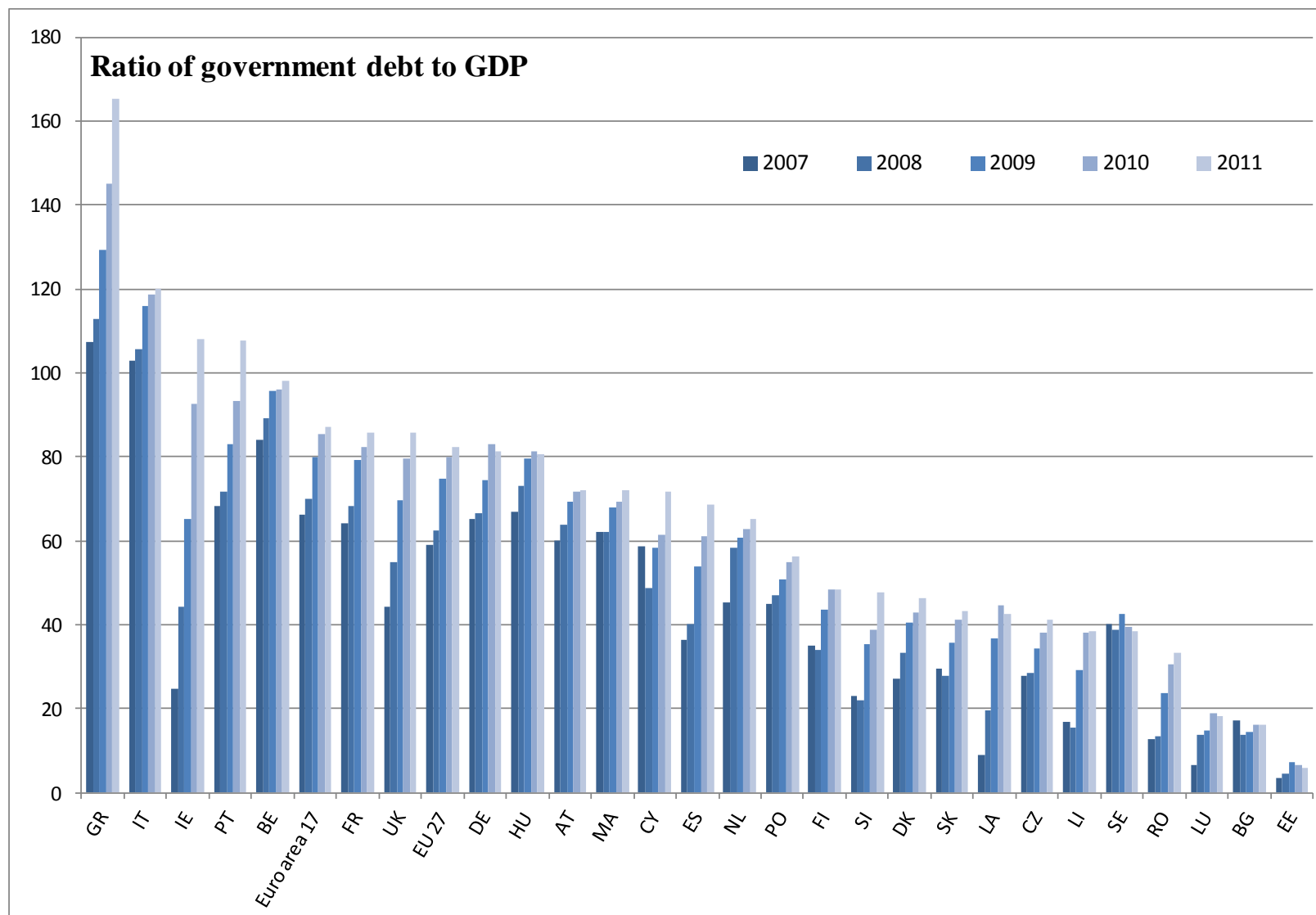
- Background to the EC funded research project
- Research aims and design
- Key issues:
 - Employment and gender equality impacts
 - Public-private sector pay gaps
 - Country models of public sector pay
 - Procurement and influence of labour market rules
- Questions for policy and practice

The austerity crisis

- Banking bailouts, recession-induced falls in tax revenues combined to raise debt and deficit levels across most of Europe
- Policy approach: Strong focus on austerity measures – spending cuts, tax rises
- Supra-national response: 2011 Euro-Plus Pact, ‘six-pack’, central role of Troika
- Policy responsiveness: Belated recognition of ‘pro-growth’ policies - but financial markets still not ‘reassured’, political legitimacy of EU weakened



Figure 1.1. Ratios of government debt and deficits to GDP, 2007-2011, EU



The crisis affecting the public sector

- Renewed argument that public spending crowds out private sector investment – eg. used in Euro Plus Monitor as indicator of country's 'health rating'
- Wide variation in spending levels – from 35% of GDP (Bulgaria) to 55+ (France, Denmark)
- Large drops in public spending in countries under Troika conditions or where level already very low (CEE countries)

➤ But extreme caution needed since:

- i. Spending can be a foundation for economic growth
- ii. Size of the public sector reflects diverse welfare state systems developed to meet social and economic needs

The crisis affecting the public sector

Pay freeze

Bulgaria (2009-11)
Cyprus (2011-14)
France (index point)
(2010-12)
Poland (2011-12)
UK (2011-13)

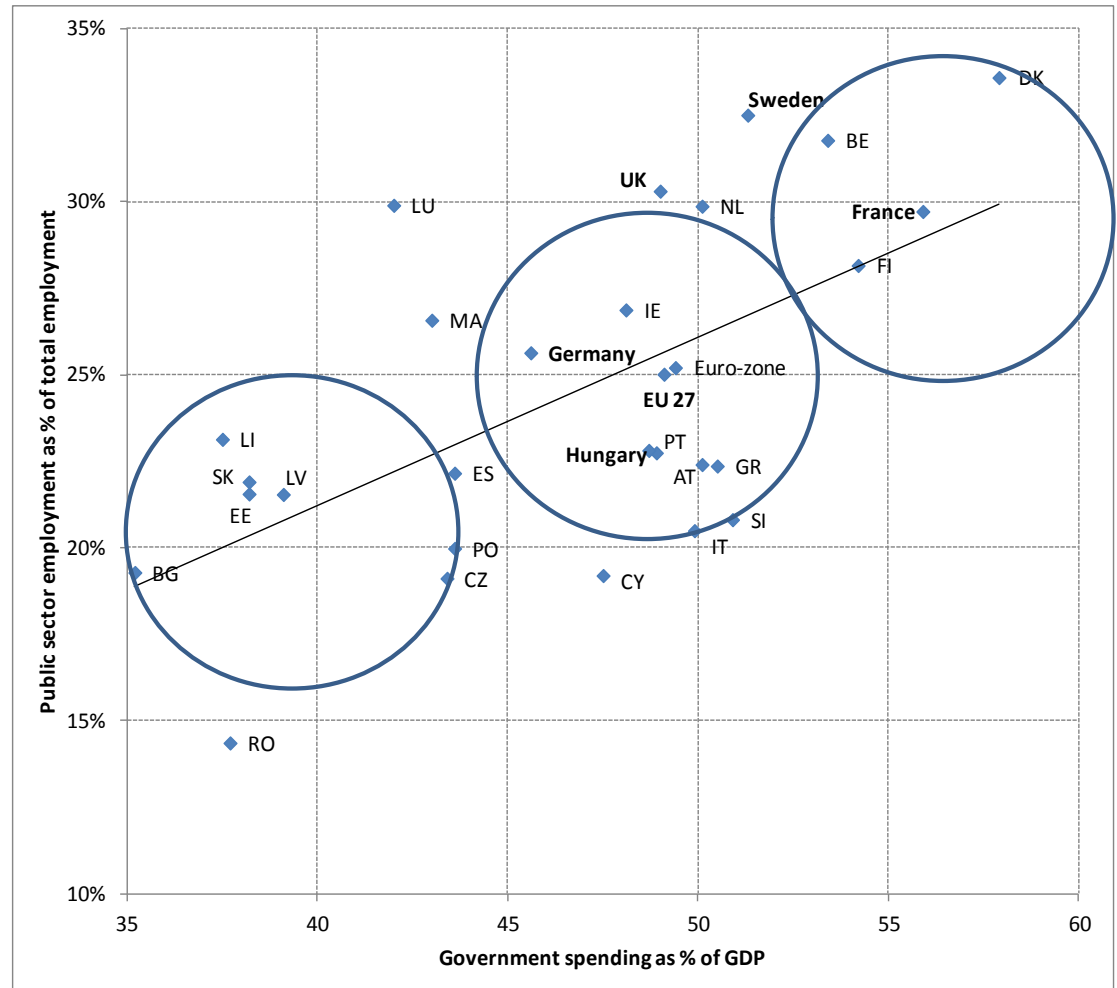
Pay cuts

15% Estonia (2010)
17% Greece (2012-14)
7% Hungary (2008-10)
5%-8% Ireland (2009-10)
5-10% Italy (high paid, 2010)
5% Spain (civil servants 2010, 2011)
10% Czech Rep. (excluding teachers 2011)
8-10% Lithuania (civil servants 2009)
3.5-10% Portugal (>€1500 2011)
25-50% Romania (temporary, 2010)
4% Slovenia (2011-12)
5-20% Latvia (2009)

The crisis affecting the public sector

Figure 2.2. Comparison of public spending and public sector employment, 2011

- Ongoing major impact on public sector jobs
- Wide variation in size of public sector workforce
- Inadequate data
- Austerity effect depends on prior trends

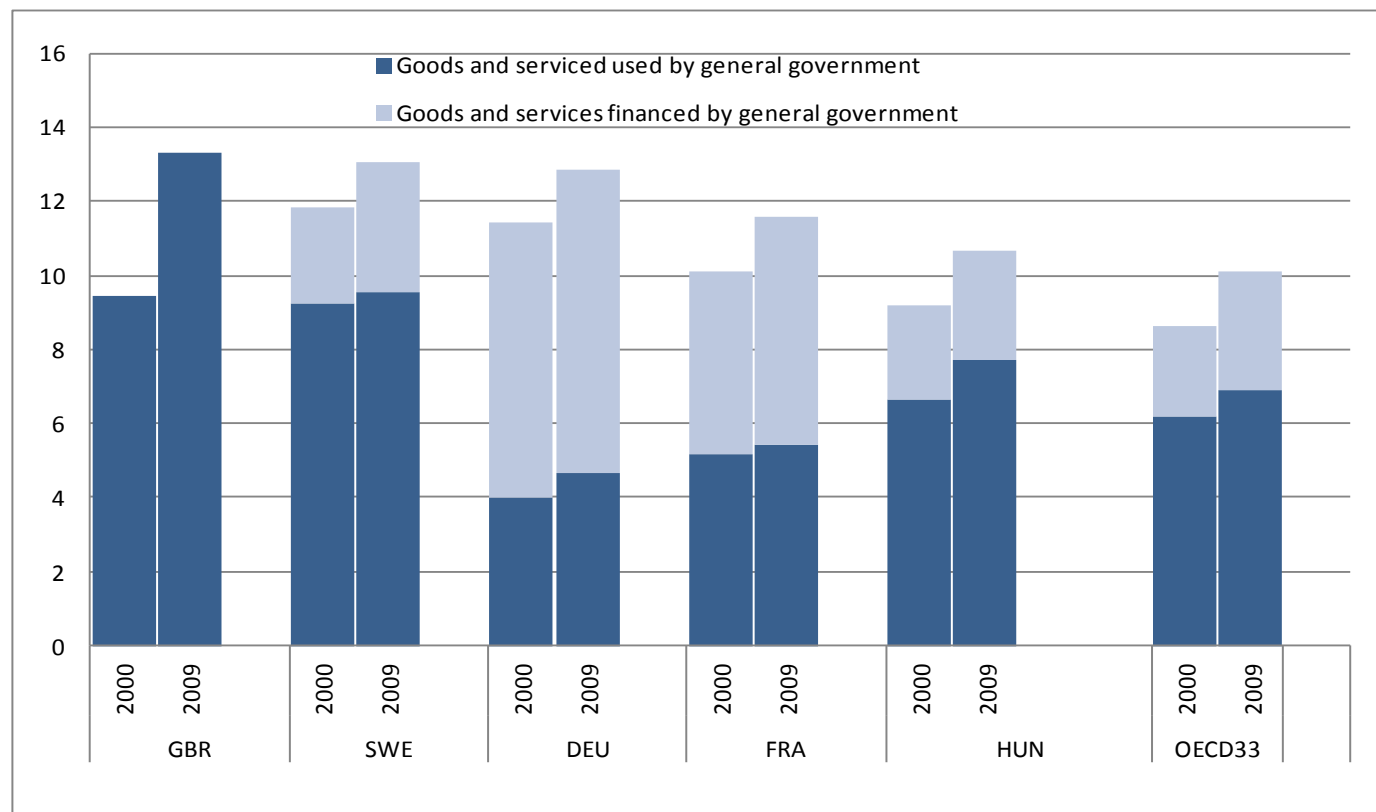


Source: Eurostat data, own compilation, public sector employment defined as NACE O, P, Q.

Renewed focus on procurement policy under austerity

- Why? **increasing spend** and **mixed-economy approach** to delivery of public services
- Potential for productivity/innovation, but risk of poor contracts, poor servicing of vulnerable users, employment standards

Table 7.1. Expenditures on public procurement of goods and services (% of GDP), 2000-2009



Design of research project

- Teams of experts from **five countries:**

France **Germany** **Hungary** **Sweden** **UK**

- **Stage 1:** country analysis of austerity measures, public sector pay, procurement of public services, wage inequalities
- **Stage 2:** case studies of local government municipalities
- **Stage 3:** analysis of data to address specific questions:

Questions to explore in this presentation:

1. What evidence for austerity impact on employment?
2. Challenges for gender equality?
3. The attack on 'privileged' public sector pay?
4. How have governments implemented pay reforms?
5. Has austerity changed the approach of public sector organisations towards procurement?

1. Varied impact of the crisis on public sector employment - national data

	Size of public sector employment	Austerity impact?
France	22% (5.4 million) (<i>Fonction Publique</i> , excludes state-owned corporations)	Trend increase until 2010, but a small decline in 2011 Rise in the share of <i>contractual</i> workers (up to 15% in 2011)
Germany	11.2% (4.6 million)	Downward trend since early 1990s; small rises in 2008-2010 at Länder and Municipality levels; further small rise in 2010-2011 (+0.4%) Increasing share of <i>Beamte</i> (26% to 34% to 37%, 1991-2000-2011)
Hungary	26-30% (civil servants and public service employees)	Trend decline since 2004 punctuated by upward/downward swings; evidence of recovery during 2008-2010 but then a 5% fall during 2010-2011 Cuts target public service employees (19% reduction) rather than civil servants
Sweden	32% (1.32 million)	Stable numbers employed since 1996 but shrinking share of total employment - from 38% to 35% to 32% (1996-2006-2011)
UK	20% (5.9 million)	Trend increase from 1999-2010 followed by an abrupt downsizing by 7% during Q1 2010 to Q1 2012 11% cut in Local Government workforce (2.3 to 2.0 million) over the same period

2. Austerity challenges gender equality objectives

- Direct employment impact depends on:
 - a) the concentration of women's employment
 - b) the importance of public sector for high-level jobs

Table 5.1. Female employment in the public sector in five countries (NACE O, P, Q), 2010

	France	Germany	Hungary	Sweden	UK
Share of the public sector:					
in total employment	30	25	22	32	28
in female employment	42	36	33	51	43
in high-educated female employment	48	56	56	66	59
in medium-educated female employment	39	31	24	45	37
in low-educated female employment	37	26	23	33	31
Share of women in total public sector employment	67	66	69	76	70

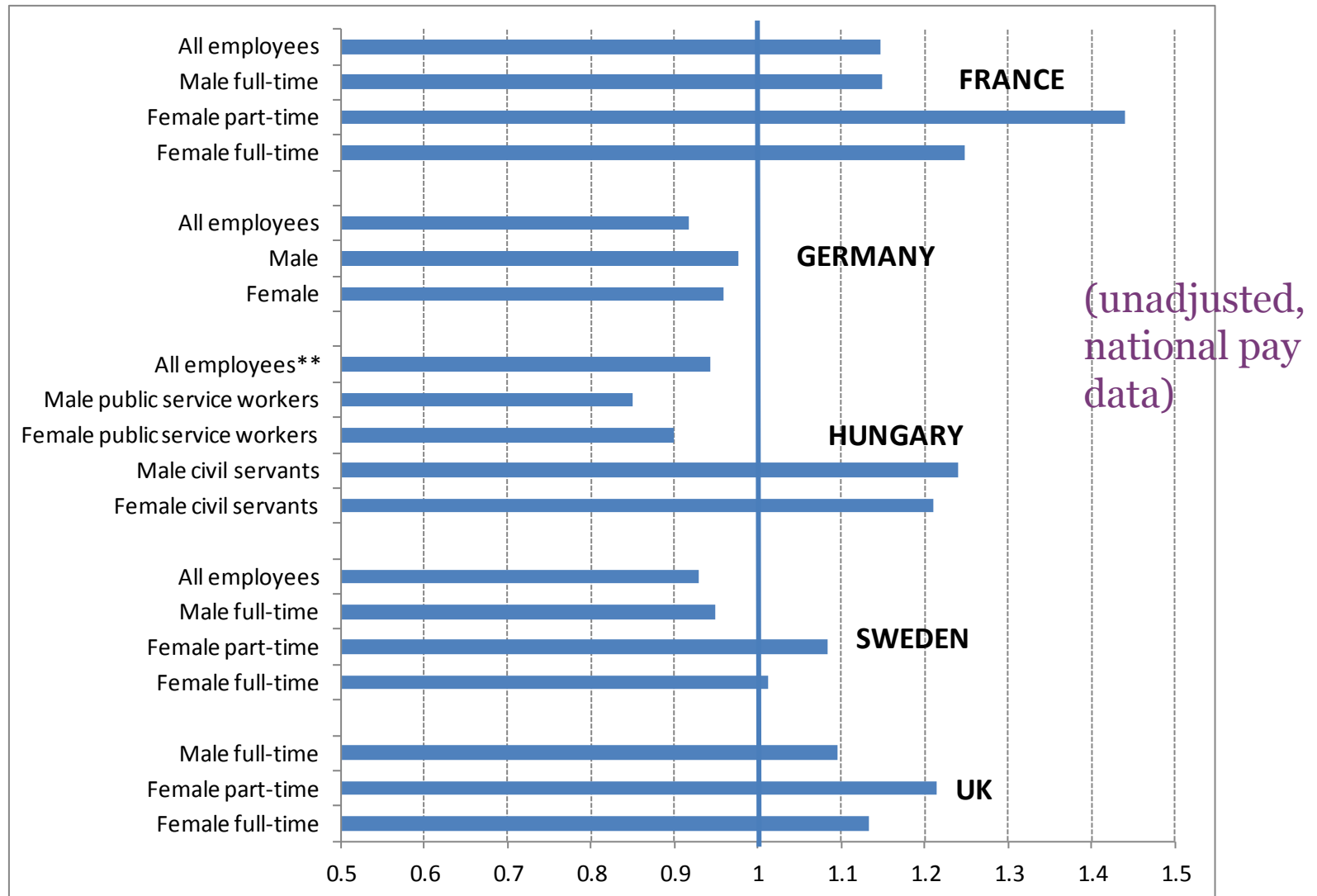
Source: ELFS 2010.

3. Austerity measures typically aim to level down 'privileged' conditions in the public sector

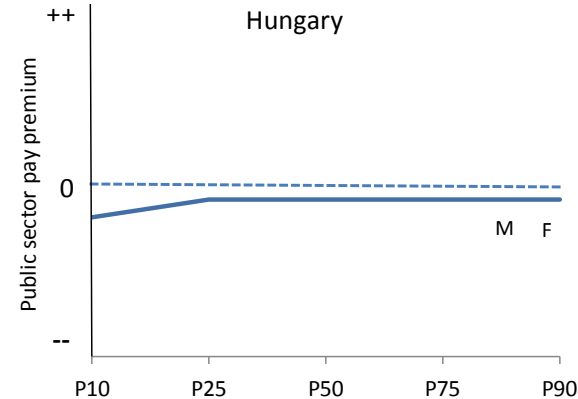
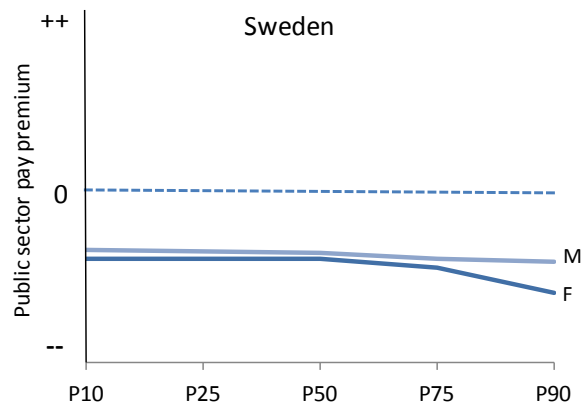
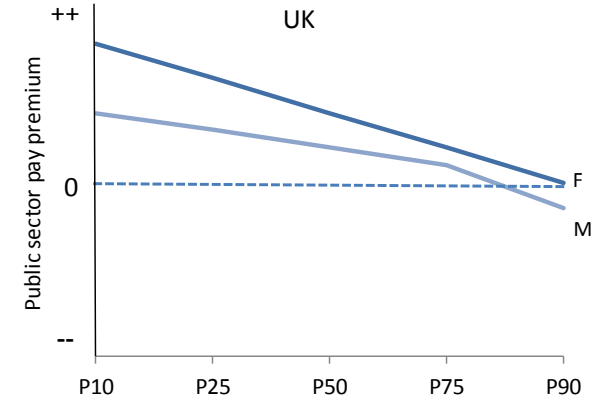
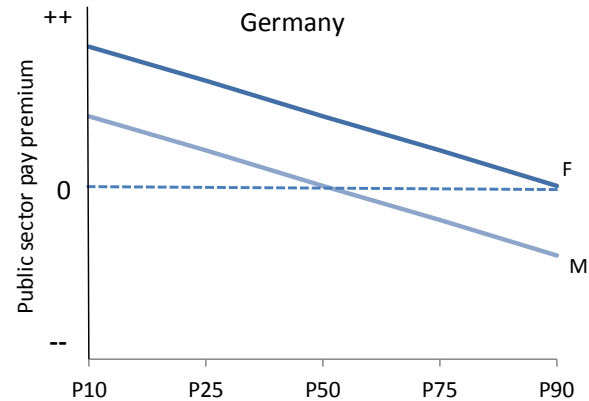
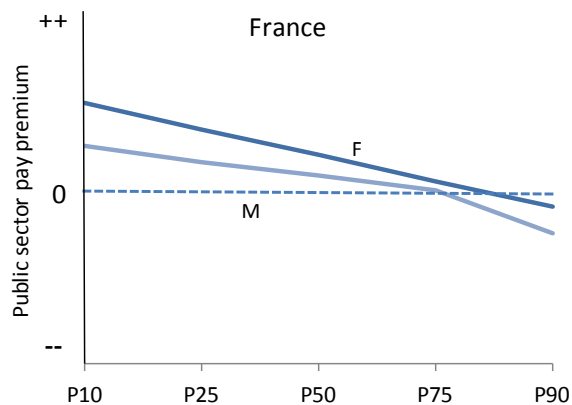
But public-private wage comparisons are complex:

1. Differences in composition
2. Private sector misuse/overuse of the statutory minimum wage as a going rate
3. Wider unexplained gender pay gap (ie. Sex discrimination) in private sector
4. Differences in age-earnings profiles – dynamic comparisons narrow pay gaps
5. Pay is only one part of the reward package

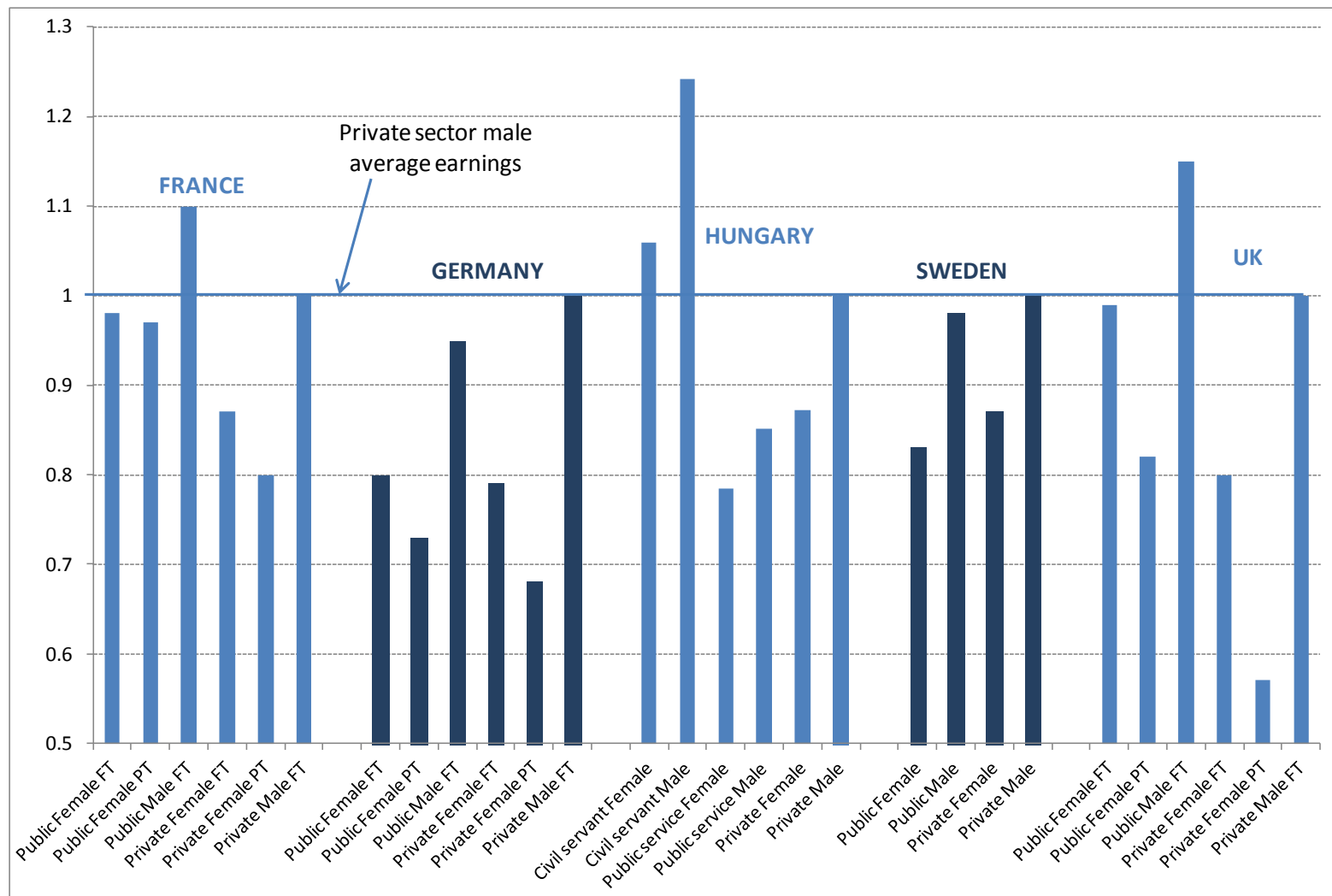
The raw, unadjusted wage data reveal a variation of pay premiums and penalties



Adjusting for age/education/experience suggests some public sector workers in France, Germany and the UK enjoy a pay premium - *but what does this adjusted pay premium represent?*



Rather than compare within workforce groups, why not compare to a standard private sector male full-time benchmark?

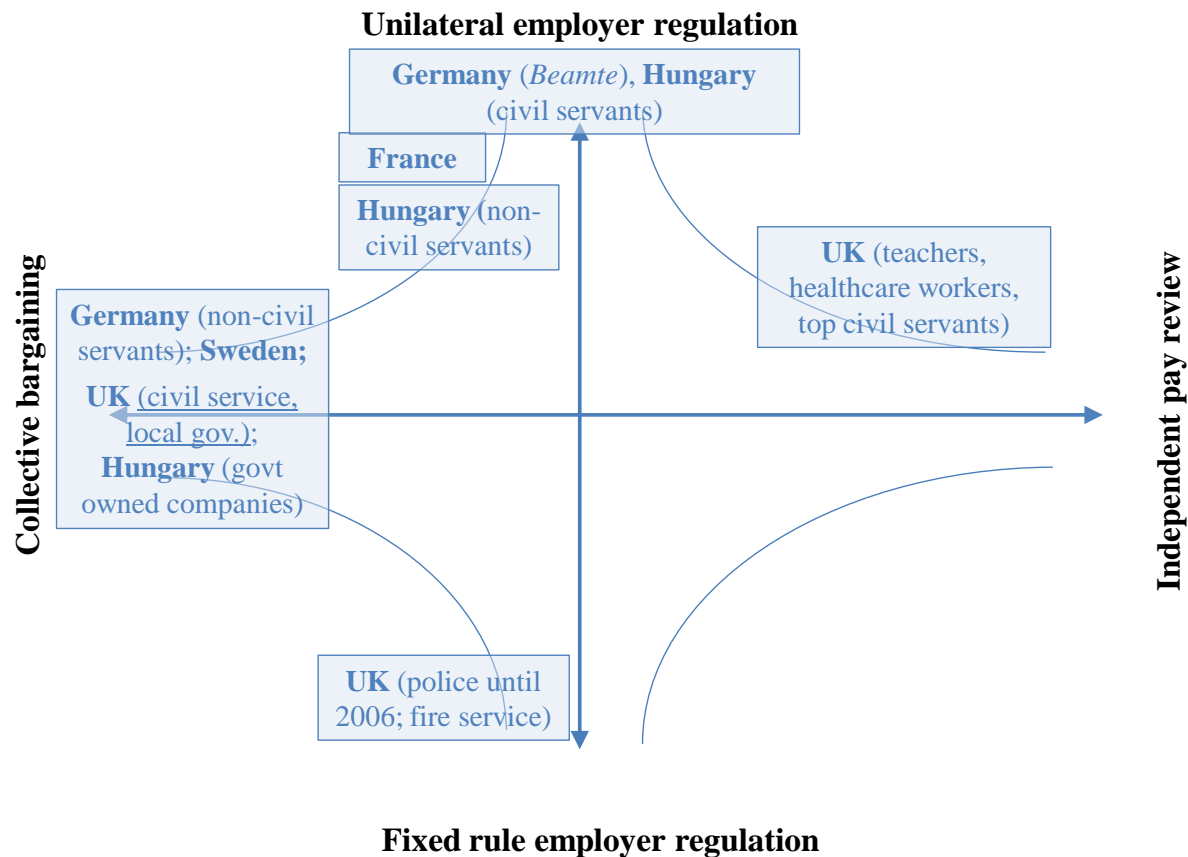


4. How have governments implemented pay reforms?

- Governments/Troika seek budgetary control and respond to pressures for public accountability
- Possibilities depend on the institutional arrangements for setting pay
 - **Unilateral pay fixing** - may provide greater control but without social dialogue lacks conditions for legitimating change
 - **Centralised wage restraint** – may generate problems of coordination with private sector labour markets
 - **Integrated pay systems** - may ensure consistent outcomes (eg. for male-dominated and female-dominated groups, low-wage/high wage) but may counteract flexible responses and varying social partner strategies

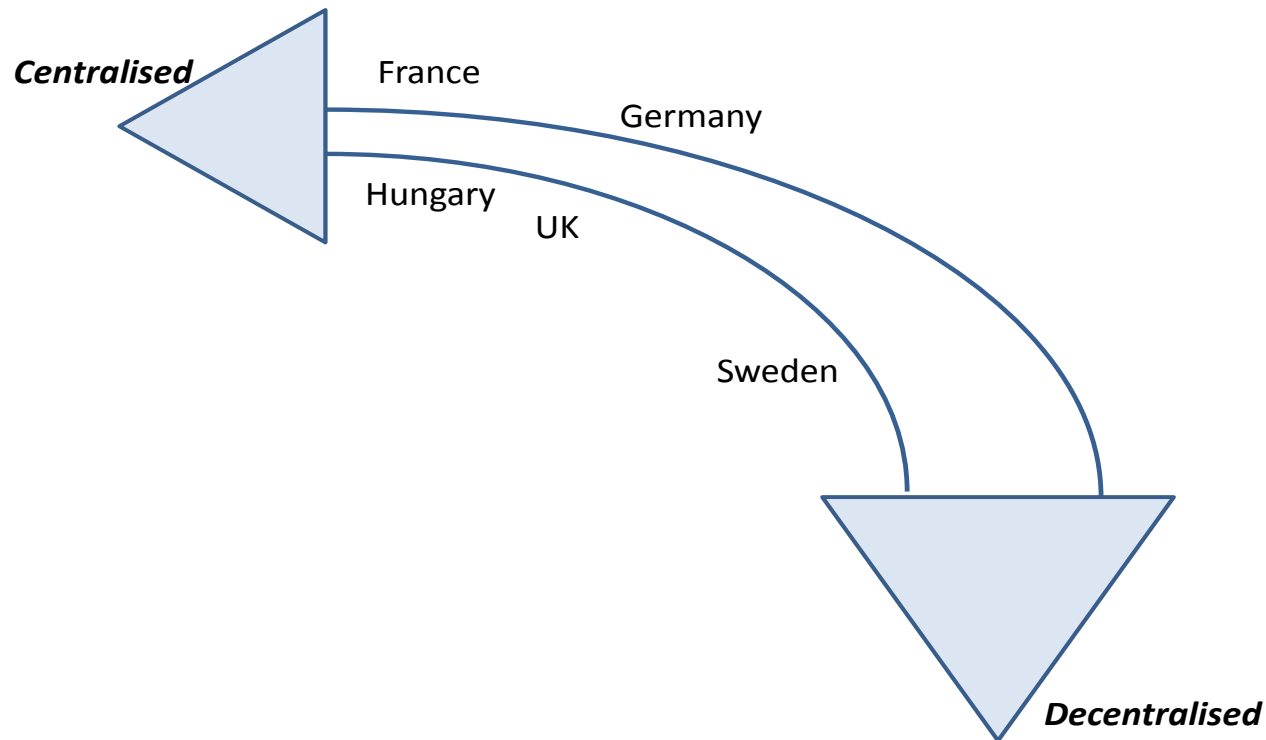
How do country models of public sector pay compare?

Figure 6.1. Patterns of unilateral and joint wage-setting in the public sector in five countries



How do country models of public sector pay compare?

Figure 6.2. A continuum of centralised and decentralised pay systems



How do country models of public sector pay compare?

Figure 6.3. A continuum of integrated and fragmented public sector pay systems



Evidence from local government - country differences in extent of local discretion and local resistance to pay reforms

- **Germany**

- indebted municipalities try to avoid classifying employees in higher grade jobs
- many jobs now described as involving 'extremely simple activities' to fit new low-wage grade 1 (2005 agreement)
- conflicts over job definitions, local audits

- **UK**

- Living wages - many municipalities have uprated the collectively agreed base rate in response to the frozen national collective agreement
- Local responses to alleviating poverty, reducing staff turnover, compensating higher work effort

Evidence from local government - country differences in extent of local discretion and local resistance to pay reforms

- **France**

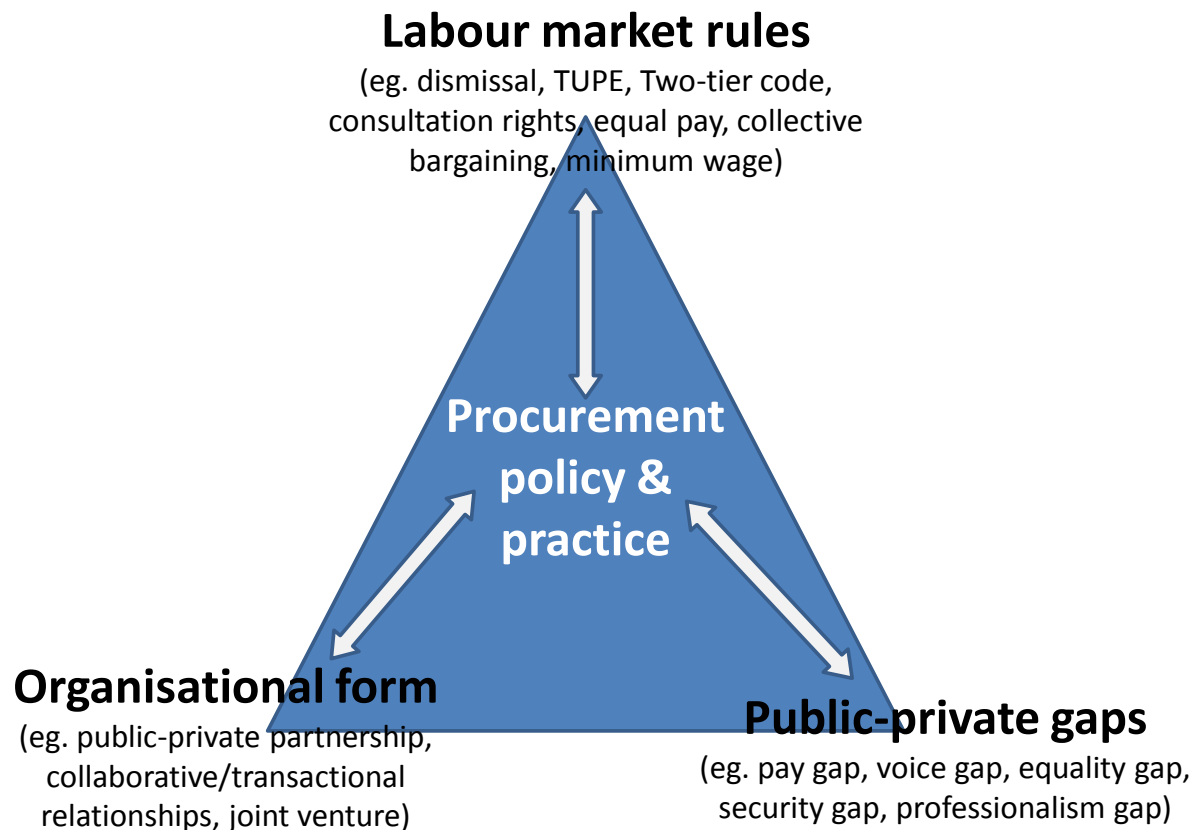
- Local level practices to improve and consolidate payment of bonuses and premiums (no flexibility to adapt basic pay)
- Bottom-weighted pay deals - benefits to lowest paid where paid as fixed cash sum rather than percentage
- Limited enthusiasm for merit pay

- **Sweden**

- National agreements provide for minimum paybill rise – rate of pay, design of payscale and job allocation are negotiated locally

5. Austerity may change the approach towards procurement of public services

Figure 3.1. Procurement policy and the labour market



Changing labour market rules shape the approach towards procurement

- **Statutory minimum wage**

- Establishes a floor to wage competition (reduces variability of costs in countries with a high MW or with a high share of low-wage work)
- Trend in MW versus public sector pay (catch up problems?)

- **TUPE regulations**

- 1977 Directive provides protection for transferring workers
- Range of interpretations of legislation grant different worker rights

- **Social clause**

- ECJ Rüffert ruled against including pay clauses in procurement
- But some examples of use
 - German regions (minimum wage and/or collectively agreed payscale)
 - living wage agreements in UK municipality procurement (but ad hoc, voluntary approach)

Eg. Differences in worker rights under TUPE legislation

Table 7.1. The rights of workers in public services procurement transfers

	Employee right to refuse transfer?	Refusal considered as resignation?	Employment contract maintained with transferor?
France	No, except from private to public	Yes, except from private to public entity	No, except from private to public entity
Germany	Yes	No, legal right to redeployment/dismissal	Yes
Hungary	Yes where a transfer involves a change in legal status that worsens employment conditions (as in some public-public, public-private transfers)	Yes, no entitlement to standard redundancy payments	No
Sweden	Yes	No, legal right to redeployment/dismissal	Yes
UK	Yes	Yes, no entitlement to redundancy payments	No

Source: adapted from text in Hartzen et al. (2008).

Evidence from municipalities

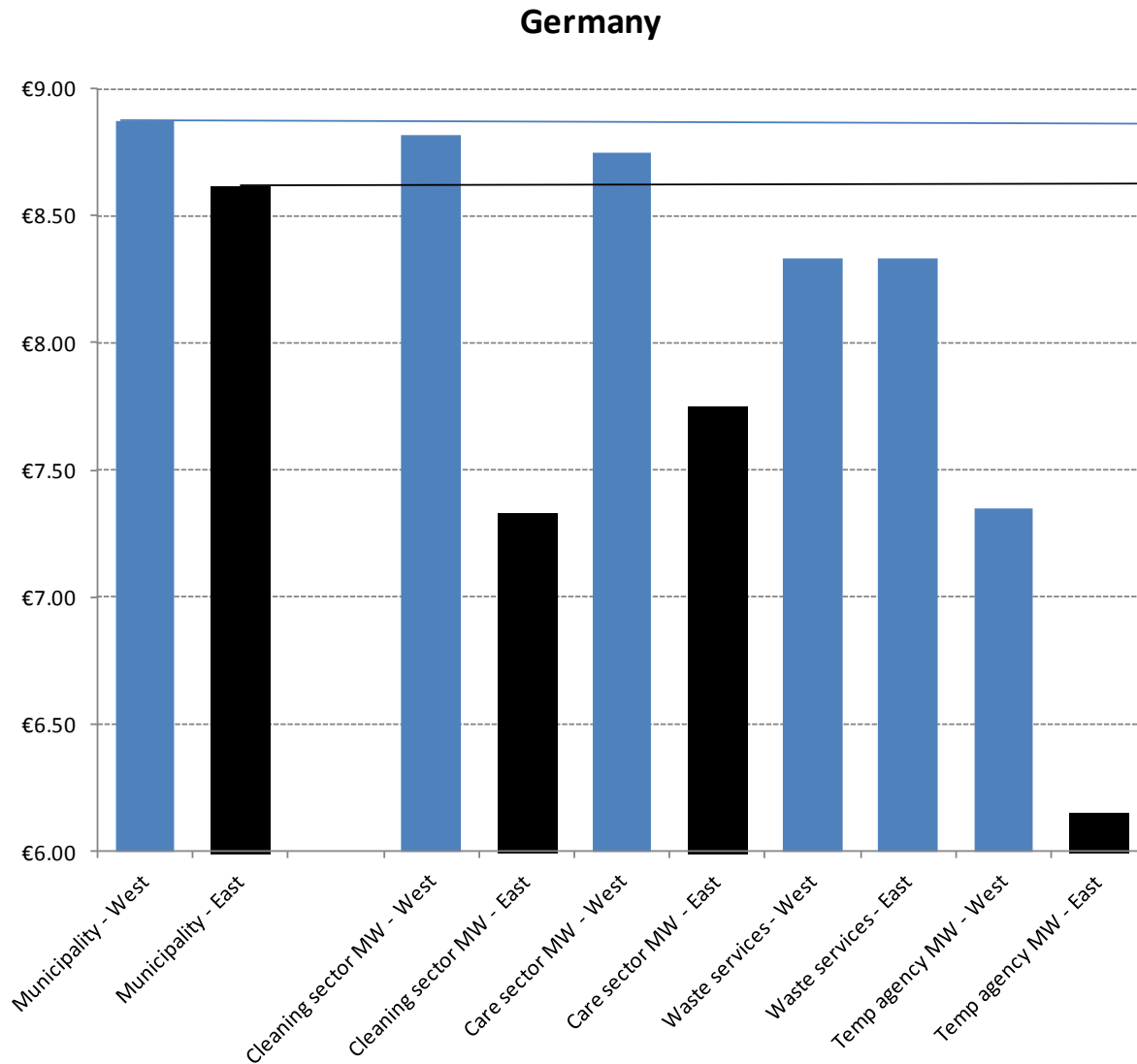
- France

- Wide range of public-private organisational forms
- Some initiatives to insource services
- Trade union concerns over loss of benefits in private to public transitions and treatment of seniority entitlements

- Germany

- New low pay grade has reduced incentives to outsource municipal services
- Also, new private sector minimum wages have improved pay and reduced cost incentives to outsource
- Some evidence of insourcing, but on new low-wage job grade

Figure 11.1. Varying statutory and collectively agreed wage floors affecting public procurement in Germany, 2012

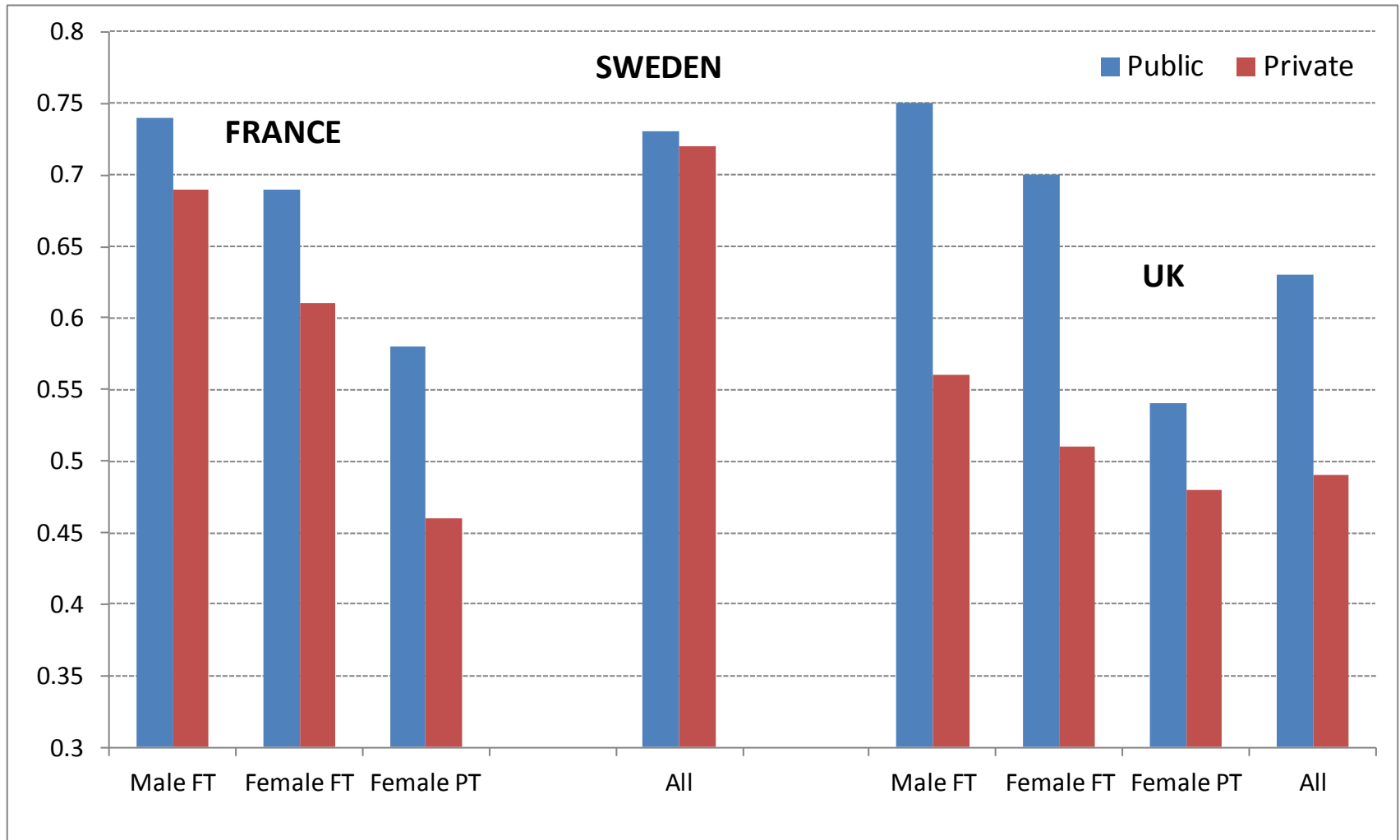


Evidence from municipalities

- Hungary
 - High degree of financial precariousness means some examples of outsourcing can look attractive to employees
 - However, switch in legal employment status increases vulnerability
 - Context of high incidence of low pay in public and private sectors
- Sweden
 - Inclusive IR system reduces wage incentives - -strong union membership and convergence of wage-setting trends
 - Sector agreement for catering and cleaning is integrated across public and private sectors
- UK
 - Local interventions to raise lowest wage
 - National wage freeze
 - Neutral net effect on procurement

Narrow public-private pay gaps in Sweden, high in the UK

Bottom decile wage as a ratio of male median pay in the private sector



Questions for discussion

1. Is a one-size fits all approach to austerity and fiscal consolidation useful or appropriate in a context of diversity of public sectors in Europe?
 - no commonalities in public sector pay premium
 - differences in size and trend growth of public sector
 - varying incentives for outsourcing and type of public-private mix
2. Do continued unilateral reforms endanger social dialogue (traditions and early-stage development)?
 - workers with specific skills are at risk of monopsony power of the state
 - local forms of social dialogue may offer protection but need overarching regulatory framework

Questions for discussion

3. Is there sufficient understanding of the adverse effects of austerity on gender equality?
 - Many women enjoy a public sector pay premium, especially low skilled
 - Women's premium may reflect weak position (and sex discrimination) in private sector
 - Many higher skilled and professional women at risk of wage penalties or falling premiums
 - Gender dimension to other inequalities (eg. civil servant status, part-time, temporary)
4. Does procurement policy take adequate account of the complexity of organisational forms and the range of motivations for outsourcing?
 - Wage cost issues matter but also politics, investment and legacy effects (insourcing and outsourcing)
 - Outsourcing may raise pay in certain circumstances
 - Country variation in use of social clauses and interpretation of Transfer of Undertakings Directive