



EPSU Note for Macroeconomic Dialogue Technical Level

22 October 2012

The economic and social value of public services and the costs of austerity

EPSU is concerned that the continuing focus on fiscal consolidation fails to recognise the economic contribution made by public services and the extent to which austerity measures are not only weakening any signs of recovery in the short term but are also threatening to undermine important factors affecting medium and long-term economic growth.

Evidence for this has been compiled in research commissioned by EPSU (see below) but has also been comprehensively detailed in a major International Labour Organisation (ILO) report, *Public Sector Adjustments in Europe: Scope, Effects and Policy Issues*, published jointly by the European Commission and the ILO and discussed at a major conference in Brussels on 21-22 June this year.

The report argues that investor and business confidence is best supported when governments have clear direction and medium-term expenditure framework. However, the analysis of the ILO researchers shows that:

“In contrast, many EU governments have modified their initial framework and plans several times, often within the same year, thus creating confusion, lack of transparency and confidence.”

Furthermore, the tendency is to proceed with reforms without any proper impact assessment. The ILO report argues that:

“In principle, any reforms in the public sector should be preceded by evidence that and data on decision-making and measure all the likely benefits, costs and effects of government decisions and policies.”

The report says that Sweden in the 1990s provides a good example of this, whereas such assessments have been noticeably absent in countries like Greece and Spain.

The failure to ensure a proper process of social dialogue in the reform process in many countries is highlighted as contributing to a wave of protests and strikes, as trade unions have been effectively been given no other option to express their views:

“This chain of demonstrations throughout Europe was the most immediate and striking effect of the adjustments implemented in the public sector, whose implications and costs – high both socially and economically – have yet to be evaluated. They have had a direct impact on public sector employees’ motivation and productivity, and on the overall quality of public services. Interestingly, a rapid deterioration of the social climate seems to have been avoided in the countries where the government has managed to organise tripartite consultations...”

For the longer term, the report warns of the impact on recruitment and retention of a skilled workforce:

“The reduction in training but also the lower expenditure on human capital in general bring long-term risks of human capital losses in the public sector”

“Lower career prospects combined with cuts in wages and benefits risk affecting the public sector’s ability to attract and retain staff, with high performers leaving to pursue higher-paid opportunities with private companies or abroad. Such effects are already observable and reported in the various chapters.”

The evidence from the ILO report raises serious questions about across-the-board cuts and freezes and provides evidence of declining quality in public services:

“...cuts in security services leading to increased in security; longer delays in judicial decision-making, along with pay reductions, leading to increased corruption; lack of skills, including IT, in the public sector due to reduced investment; lower services also in health care, including the closure of emergency centres; and in education higher class sizes and fewer teachers in France, Romania and many other countries.”

The research also argues that the quantitative cuts seen as necessary for restructuring “may contradict or impede structural reforms needed to improve overall efficiency”. As one of its key conclusions the introductory overview by Professor Daniel Vaughan-Whitehead points out that:

“... in terms of the nature of the adjustments, this work points to the need to promote a more balanced combination between quantitative adjustments and structural reforms in the public sector, but also a better mix between fiscal and other important considerations, such as equality, social dialogue, employment prospects, working conditions and the future efficiency and quality of public services. Only under these conditions could public services in Europe continue to provide an important source of both social cohesion and economic growth.”

A series of research reports commissioned by EPSU also reveals the damage inflicted by austerity measures on public services. Public services are crucial to the growth agenda but we are seeing safety and environmental services among those under serious threat from cutbacks.

In an economy in recession workers are increasingly vulnerable to employers who try to save money by cutting corners. It is all the more important that properly funded labour inspectorates are on hand to enforce health and safety regulations and other elements of employment legislation. [Labour Inspection Services](#) (a study for EPSU by Syndex).

Also, the crisis is being used as an excuse to stop the effort for Green transition. Cuts in public spending undermine work of environmental protection agencies. The EU will not achieve its targets for a green economy and the long term negative consequences for the environment can be disastrous. Relaxing oversight means companies escape control and surveillance which will lead to accidents. [Environmental Protection Agencies](#) (a study for EPSU by Syndex).

An analysis of national reforms programmes carried out for EPSU by the ETUI research organisation reveals how countries are, in fact, faced with a “bewildering mix of often overlapping targets and guidelines” and it is questionable whether the “measures identified in

each NRP are really connected to European goals.” More worrying is the selective reporting of the NRPs with little or no mention of “major cuts to public services, the freezing or cutting of public sector workers’ pay and the reduction in employment and/or freezing of recruitment.”

[Public Services and the European Semester – an overview of the National Reform Programmes of 2011](#) (a report for EPSU by the ETUI trade union research institute) December 2011.

Europe is picking on public sector workers, and especially women workers. A crisis that was caused by an inadequately regulated financial sector was turned into a problem of public sector debts and deficits and cuts to public sector workers’ pay and jobs became part of the solution. By 2009 several countries had already imposed pay cuts and, updated to the end of 2011, EPSU’s Wrong Target report sets out how governments in 10 EU Member States have undermined social dialogue and imposed pay cuts and pay freezes on their public sector employees.

[The wrong target – how governments are making public sector workers pay for the crisis](#) (an updated report for EPSU by the Labour Research Department) January 2012.

Moreover, the majority of public sector workers across Europe are women and so they are increasingly at the sharp end as governments impose cuts. Widening the gender gap puts the spotlight on four countries and reveals how job cuts and pay cuts are undermining the positive contribution that many public service organisations have made to increasing gender equality. The fear is that this early assessment is only an indicator of a much deeper and wider erosion of equality across the European Union.

Among other findings the report noted that: cuts in public sector employment have led to tens of thousands of women losing their jobs, particularly in Romania and Latvia, and in some areas, such as public administration in both Ireland and Latvia, women have been more affected than men; and cuts have also had a direct impact on equality structures, with the Ministry of Equality being abolished in Spain and funding for programmes for women being sharply reduced in Ireland.

[Widening the gender gap : the impact of public sector pay and job cuts on the employment and working conditions of women in four countries](#) (a report for EPSU by the Labour Research Department) June 2011.

This policy is destroying Europe and its culture Europe’s austerity policies threatens Europe’s cultural heritage and general education level of population according to an EPSU report on culture services. When libraries, museums and general cultural activities lose funding groups there is a clear risk of society becoming more vulnerable to the spread of bigotry, racism and extreme right-wing views.

[Culture: the trade union response to the problems facing the sector](#) (a report for EPSU by the Labour Research Department) October 2011.