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Working Paper 2010.07

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Working Paper 2010.07
european trade union institute

Brussels, second, updated print, December 2010
©Publisher: ETUI aisbl, Brussels

Print: ETUI Printshop, Brussels

D/2010/10.574/25
ISSN 1994-4446 (print version)
ISSN 1994-4454 (pdf version)

The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

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Abstract

As a consequence of government responses to the economic crisis, aimed at re-stabilising financial markets, maintaining employment and mitigating the effects of unemployment, public budgets have come increasingly under strain. The debt crisis that shook the Euro area in spring this year, and is far from having been surmounted, has prompted governments to embark on a policy of strict budgetary austerity. All over Europe the public sectors have been the main target of governments' consolidation policies. Public sector employers have bypassed established collective bargaining procedures and wages and jobs have been cut or frozen, most frequently by unilateral state decision.

Against the background of governments' consolidation strategies, this paper provides an overview of recent developments in terms of wages, job cuts and reforms of the pay system in the public sector, viewing these recent developments and strategies in the light of mid-term, i.e. pre-crisis, public sector employment and wage developments. It is argued that one-sided expenditure cuts that focus primarily on reducing the public sector wage bill, without considering the revenue side of public finances, endanger a sustainable recovery in Europe. What is more, cuts and freezes of public sector wages imposed unilaterally by the state adversely affect the bargaining power of unions in the private sectors, resulting in increasing pressure for wage restraint. For this reason, the re-establishment of collective bargaining as a mechanism to settle public sector pay is of vital importance in order to prevent downward pressures on wages, maintain workers' purchasing power and contribute to a stable and balanced economic development within the Eurozone and across the business cycle.

Keywords

Economic crisis, public sector, collective bargaining, wage-setting, public austerity programmes

Acknowledgement

The author thanks Richard Pond for his helpful comments.

Introduction

The magnitude and nature of the economic crisis that first hit Europe in mid-2008 have changed over time. The crisis had its origins in collapsing US financial markets and quickly spread to Europe, resulting in the largest banking-sector crisis since the world economic crisis of 1929. During the second phase of the crisis, real output was contracting throughout Europe, and companies were plunging into bankruptcy due to the slump in demand and limited access to credits. Although industrial output has been once again increasing in most EU countries since the last quarter of 2009, the labour market effects of the crisis are still being felt.

The bailing out of failed banks, the stabilisation of the financial sector and increasing unemployment put public budgets under severe strain. According to the European Commission's autumn economic forecast, government deficits in the EU (excluding Ireland) will rise from around 2% in 2008 to 6.8% in 2010. Gross government debt will increase from about 60% to 80% of GDP over the same period (European Commission 2010a). Beginning in 2009, EU countries began to draft, and some already to implement, 'exit strategies' to address rising state deficits. In countries such as Hungary and Latvia, and later on Romania, that received emergency loans from the IMF, the World Bank and the EU in autumn 2008 and spring 2009, respectively, pressures to reduce government spending increased early on in the crisis. More recently, the fiscal crisis in a number of European countries has pushed governments in high-debt and/or high-deficit countries, such as Ireland, Italy, Greece, Portugal and Spain, to reestablish trust in the financial sustainability of their budgets. From the spring of 2010 such austerity measures increasingly became the priority of international bodies such as the IMF, the OECD, the G20 and also the European Commission, in a turnaround from previous recommendations by such organisations that most countries should maintain stimulus until recovery was assured (European Commission 2010b). The public sectors were the main target of governments' consolidation policies all over Europe. Thus, wages of public sector employees were frozen or cut, most often by unilateral state decision.

In line with the changing nature of the crisis, the political and bargaining climate has changed. At the onset of the crisis, there was far-reaching consensus between organised labour, the government and employers on the necessity of maintaining employment and avoiding lay-offs. The role of the state in providing support for the maintenance of employment and the protection of workers' purchasing power through various policy instruments such as short time working and partial unemployment (Glassner and Galgóczi 2009; Rychly 2009; Glassner and Keune 2010) was viewed positively by workers and their organisations. In Germany, for instance, such measures helped to keep unemployment stable during the crisis (Leschke and Watt 2010).

While income losses in the private sectors were widely averted during the year 2009 in those EU countries where collective bargaining is rather centralised (i.e. at inter-sectoral and sectoral levels), well-articulated between levels and inclusive with regard to bargaining coverage, nominal wages declined in those countries that were particularly hard hit by the crisis and where collective bargaining institutions are weak (i.e. in the Baltic countries nominal wages decreased by between around 4 and almost 12% in the third quarter of 2009 as compared to the same quarter of the previous year, see O'Farrell 2010). Wage losses are expected to be even higher in the public sector due to unprecedented wage cuts and freezes. Collective bargaining as a mechanism to determine public sector pay was disregarded by governments in a number of countries. However, wage cuts and freezes implemented unilaterally by governments were met with trade union opposition. In general, trade unions successfully channelled public discomfort with governments' austerity programmes and organised mass demonstrations and strikes. Two worrying consequences can be drawn. First, the declining bargaining power of unions from the public sector which used to be the stronghold of trade union organisation, will further weaken organised labour in the private sectors. Secondly, one-sided austerity measures focusing on public expenditure (and much less on the revenue-side), including pension reforms, the cutting of social security benefits and public sector wages, are likely to undermine sustainable and demand-driven economic recovery in Europe.

This paper addresses two main questions. First of all, what is the role of social partners and collective bargaining as a mechanism for the determination of wages and working conditions in the public sectors in Europe? And, in relation to this, has this role changed under the constraint of governmental austerity and budget consolidation policies? Secondly, what are the future perspectives for the determination of wages and working conditions in the public sector under the restrictions resulting from the consolidation of public finances in the EU?

The paper is structured as follows. The first section gives an overview of employment and wage developments in the public sector in Europe between the late 1990s and, insofar as data is available, up to the present year. Section 2 briefly describes the institutional systems for the determination of wages in the public sector in the EU countries. Recent developments with regard to wages, employment and the reform of pay systems in the public sector against the background of the current debt crisis are summarised in section 3. The longer-term effects of public sector wage restraint on collective bargaining in general are presented in section 4. Section 5 concludes.

1. Employment and wage developments in public administration in Europe: before and after the crisis hit

There is large variation between EU countries in the size of public sector employment. Likewise, remuneration of public sector employees and civil servants differs widely across countries. For methodological reasons, employment data is considered separately up to the year 2008 and for the short period of the first quarter of 2008 to the second quarter of 2010.[1] The availability of data on wages, disaggregated by economic activity, is limited with regard to countries and the time period covered. Thus, this section gives an overview of wage and employment developments in the public sector, as compared to all NACE sectors or the business sector (i.e. industry and private services) of the economy *before* the crisis, and separately for the short period *during* the time of *the crisis*, i.e. beginning of 2008 to mid-2010. The definition of 'public sector employment' corresponds to the NACE activity classification used by Eurostat and comprises public administration, defence and compulsory social security. Thus, it is a narrow concept of the public sector as economic activities such as health services and education that are often provided by public sector employees are not considered.[2] Rather, this sectoral definition follows pragmatic considerations. The aim of this section is to provide a comparative (i.e. between sectors and countries) insight into the mid-term development of employment and remuneration in the public sectors in the EU, with particular reference to the most recent developments against the background of public austerity.

Figure 1 indicates the share of employment in public administration in total employment (all NACE activities) in the EU countries.[3] In Finland and Ireland the share of employment in public administration in total employment is less than 5% on average in the 2006 to 2008 period, whereas in Luxembourg, France and Belgium more than 11% and 9%, respectively, of all employment was in the public sector during the same period. Interestingly, in the large majority of countries, employment in the public sector grew over the entire

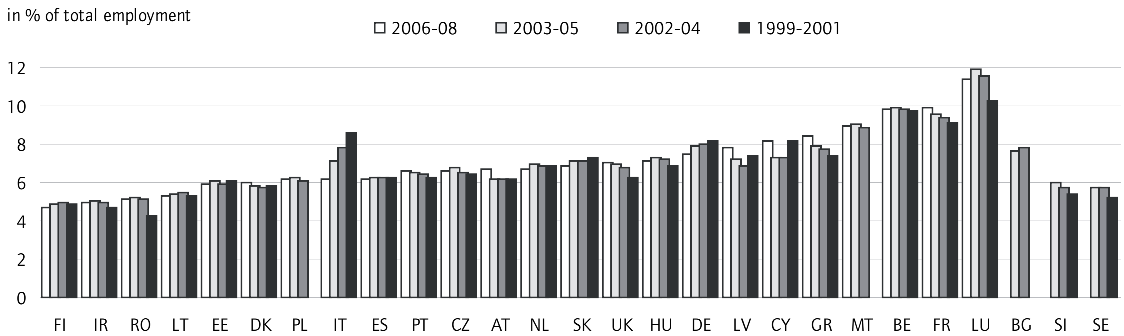
1. Data on employment by economic activity according to NACE rev. 1 is derived from the Eurostat Labour Force Survey 1997 to 2008. Due to a change in the categorisation of economic activity according to NACE rev.2 in Eurostat's Labour Force Survey (covering data from 2008 onwards), data is analysed for two distinct periods, i.e. Q1 1998 or 1999 up to Q4 2008 and Q1 2008 to Q2 2010 (the most recent available during the time of writing).

2. Employment figures in some countries vary considerably 'public administration' and the more encompassing 'public sector' as such. For instance, the municipal sector in Finland alone accounts for 20% of overall employment. Figures for the other Nordic countries are estimated to be similar (EPSU 2010).

3. As quarterly employment data fluctuates, *annual averages* based on quarterly data are used.

period of observation, i.e. 1999 to 2008. In France the share of employment in public administration in total employment grew constantly over the entire period, i.e. 1999 to 2008. Likewise, employment in public administration increased relative to total employment in Greece, the United Kingdom, Austria and Denmark, and up to the mid-2000s in Hungary, the Czech Republic, Portugal, Sweden and Slovenia. The share of employment in public administration in total employment remained stable over the years 1999 to 2008 in Ireland, Lithuania, Poland and Belgium. Only in Italy, Germany, Slovakia and Finland was this share constantly declining. It was in Italy that the share of employment in public administration in total employment shrunk most, i.e. from an average of 8.6% from 1999 to 2001 to an average of 6% in 2006 to 2008.

Figure1 **Share of employment in public administration in total employment, 1999-2008**



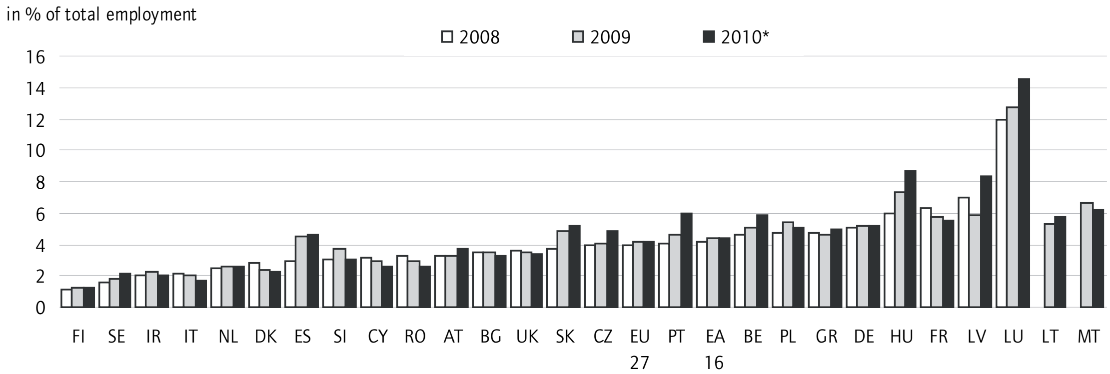
Source: Eurostat, Labour Force Survey, Employment by economic activity, by NACE rev. 1.

However, most recent data on the development of the share of employment in public administration in total employment is based on a changed Eurostat categorisation and refers to the classification of economic activities based on NACE rev. 2.[4] Therefore, data depicted in Figure 1 and Figure 2 is *not* comparable. However, Figure 2 indicates that the share of employment in public administration total employment increased in the majority of EU countries between 2008 and mid-2010. In Luxembourg, Hungary, Portugal, Slovakia and Spain this share grew most strongly, whereas only in Italy, Denmark, Cyprus and Romania did it shrink over the entire three-year period. The overall increase in employment in public administration in relation to total employment in most EU countries recorded for the year 2010 is due to two reasons. First, and most importantly, job losses have so far been lower in the public than in the private sectors. Secondly, employment cuts in the pubic sector that were planned in a number of EU countries (see Table1), such as for example in Germany and the Czech Republic, are not yet visible

4. The widely used NACE system for the statistical classification of economic activities in the EU was changed in 2008 from NACE rev. 1 to NACE rev. 2.

in data recorded by the national and European statistical authorities (also see Figure 4). Plans to freeze and reduce public sector employment are typically scheduled to run over several years and are just beginning to become effective.

Figure 2 **Share of employment in public administration in total employment, 2008 -2010**

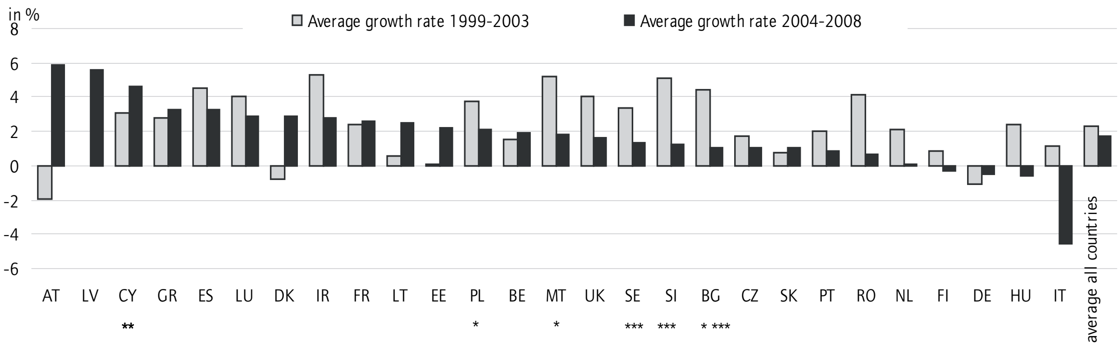


* %-change 2010 for Q1-Q2
Source: Eurostat, Labour Force Survey, Employment by economic activity, by NACE rev. 2.

Figure 3 shows average employment in public administration in the EU countries during two periods, i.e. from 1999 to 2003 and from 2004 to 2008. Average growth rates are based on annualised quarterly employment data.[5] On average (for all countries considered)[6], employment in the public sector grew more between 1999 and 2003 (i.e. by 2.3%) than during the ensuing five years (i.e. by 1.8%). While employment in public administration grew most strongly during the first period in Ireland, Malta, Slovenia, Spain, Bulgaria, Romania, the UK and Luxembourg (i.e. by 4 to 5 %), it decreased most steeply in Austria (-2%), Germany and Denmark (both by around - 1%) on average between 1999 and 2003. Employment in the public sector increased most strongly in Austria (by 6%), Latvia (by around 6%) and Cyprus (by almost 5%) in the period between 2004 and 2008, while for the same period the largest declines in employment in public administration were reported for Italy (by almost - 5%), Hungary and Germany (by around - 0.5%).

5. For a few countries (quarterly) data was not available for entire years in the two periods of observation. Therefore the period averages vary slightly with regard to the years covered, see footnote to Figure 2.
6. Aggregates for the EU-17 or the Euro area were not provided by Eurostat, due to missing quarterly data for some countries.

Figure 3 **Changes in average growth of employment in public administration, 1999-2008**



* Average growth rate 2001-03; ** Average growth rate 2000-03; *** Average growth rate 2004-07
Source: Eurostat, Labour Force Survey, Employment by economic activity, by NACE rev. 1

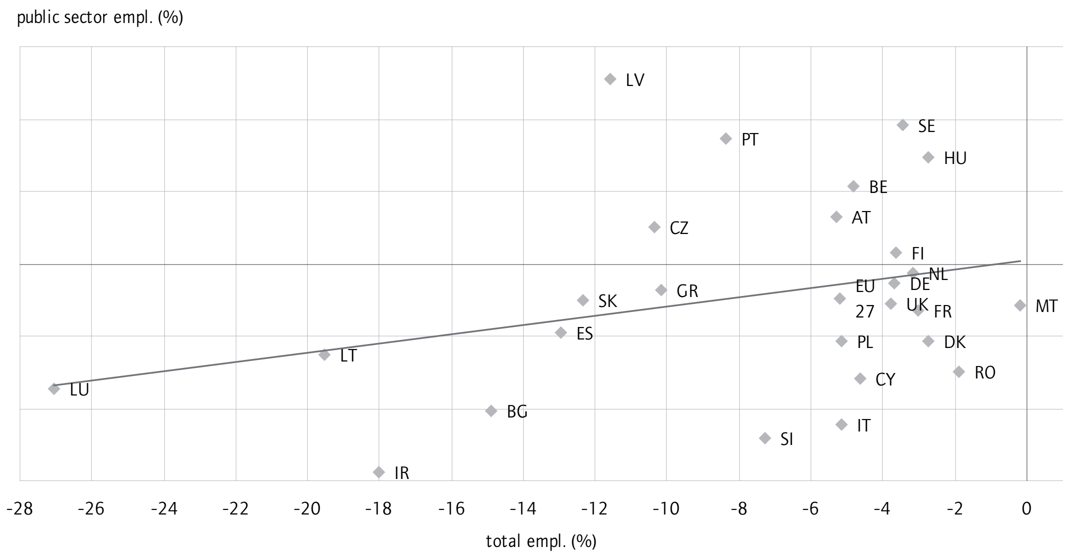
Average annual changes in total employment and employment in public administration from (Q1-Q4) 2009 to mid-2010 (Q1-Q2) are depicted in Figure 4.[7] In the majority of countries employment in both the public and private sectors decreased over the period under consideration. Luxembourg, Lithuania, Ireland and Bulgaria experienced the largest total losses (i.e. -15 to 27%) and losses in employment in public administration (i.e. around -30 to 12%), while in Sweden, Hungary, Finland, Belgium and Austria employment in public administration grew (i.e. between 1.6 and 19%) in relation to comparatively moderate losses in total employment (i.e. between -3 to 5%). In the EU-27 both total and employment in public administration declined by around 5%. The growth in employment in public administration in Latvia and Portugal (by 26 and 17% respectively), two countries particularly hard hit by the economic crisis and subject to far-reaching governmental austerity programmes, should be regarded with caution as they are based on one-time increase in the first quarter of 2010.[8] The same applies to the case of Hungary where employment in public administration grew despite the country being a recipient of an IMF and EU loan. Public sector job losses may be underestimated as a result of the data being provided under the narrow sector definition used by Eurostat, for, in countries such as Romania, Lithuania and Latvia, certain professional groups of public sector workers, such as teachers and health care workers, which are not included in the rather narrow definition of Eurostat's category for public sector activities, were particularly affected by lay-offs. This contrasts with the situation in Denmark and Poland, where pronounced declines in employment in public administration were recorded and GDP decreased comparably moderately (i.e. by around 5%) or even slightly increased (as in Poland) in 2009, and public deficits are lower or

7. Please note that data in Figure 4 is based on the 'new' NACE system for the classification of economic activities (i.e. NACE rev. 2) and are therefore not comparable with data showed in the previous figures.

8. More detailed data for selected countries provided by the European Commission indicate, for example, a fall of over 22,500 jobs in central government in Latvia between June 2008 and June 2010 and an overall decline of 50,000 across the whole Latvian public sector in this period (EPSU 2010).

in accordance with the EU27 average (i.e. around -3 and 7%, respectively, see Table 2). In Italy, the recent decline in employment in public administration seems to be in line with a longer-term trend towards the reduction of the public sector workforce (see Figure 3) – though the limited comparability of the two data series needs to be kept in mind.

Figure 4 **Change (%) in employment in public administration and total employment 2009-2010**



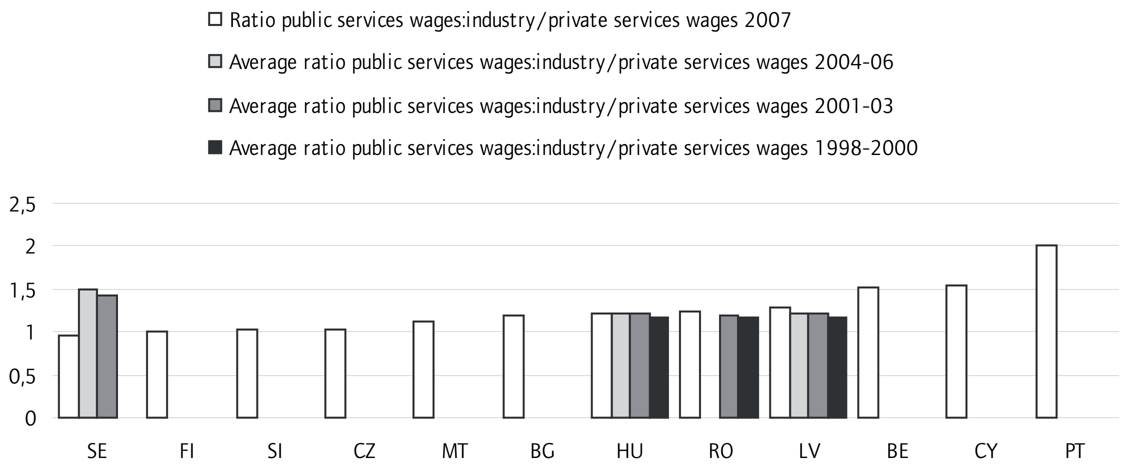
Source: Eurostat, Labour Force Survey, Employment by economic activity, by NACE rev. 2.

The freezing and cutting of public sector workers' wages was a common response of governments in the effort to restore sound public finances (see section 3). Wage cuts and freezes frequently become effective at a later period than when they were first announced or imposed. However, it can be expected that far-reaching reductions of public sector employees' pay will soon become observable in public statistics of a number of countries. Unfortunately, recent data on wages, disaggregated by economic sectors, is available only for a limited number of EU countries. Therefore, wage developments up to 2007/8 will be considered in the following sections. Wage levels are generally higher in the public than in the private sector (e.g. Eurostat 2010, OECD 2010).[9] Figure 5 shows the ratio of gross annual earnings in the public sector (i.e. public administration, defence and compulsory social security) to average gross annual earnings in industry and private services (except public administration, community services, activities of households and extra-

9. Empirical evidence makes it very clear that wages and working conditions in the public sector are more favourable for workers than those in the private sector (e.g. Ponthieux and Meurs 2005; Lucifora and Meurs 2006). For a more recent comparison of employment characteristics in the public and private sector in Germany and the UK, see Leschke and Keune 2008, and, for an anlysis of the the public sector 'wage premium' in Ireland, see Geary and Murphy (2010).

territorial organisations) for 2007 and for three 3-year periods from 1998 to 2006. Unfortunately, data is available only for a very limited number of countries. Earnings of public sector workers were slightly lower than earnings in industry and private services only in Sweden (i.e. a ratio of 0.95). In Finland, Slovenia and the Czech Republic, average earnings in the public sector are the same as those in industry and private sectors. In the majority of countries for which data was available, the ratio of public to private sector earnings was between 1.1 and 1.5; only in Portugal was this ratio 1.2 in 2007. Over the entire period of observation, the ratio of public to private sector earnings remained stable in Hungary, Romania and Latvia, while in Sweden the ratio declined. According to other sources (and for a different set of countries), the ratio of pubic to private sector wages in the *Euro area* increased between 1998 and 2005 from around 1.2 to 1.3 (Holm-Hadulla et al. 2010:10).

Figure 5 **Ratio average gross annual earnings, public services and industry/private services, 1998-2007**

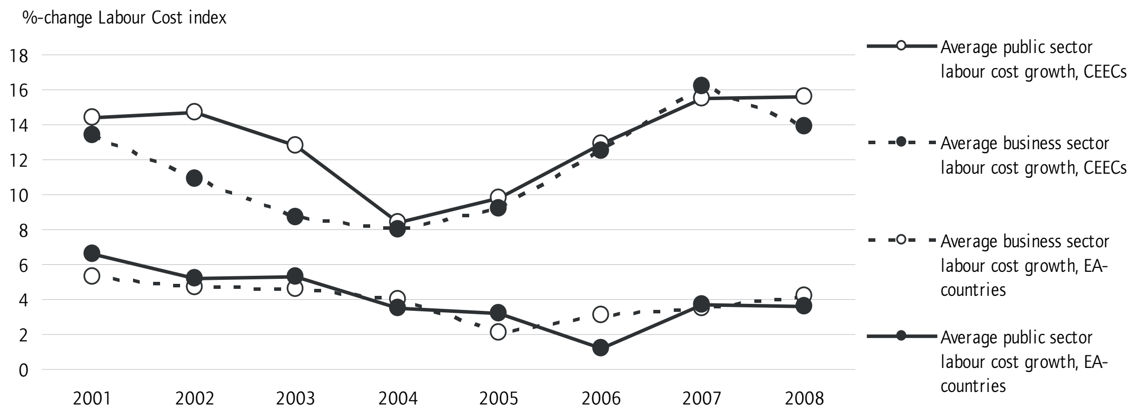


Source: Eurostat, Labour Force Survey, Employment by economic activity, by NACE rev. 1.

Wage formation in the public sector is generally subject to market forces to a lesser extent than in the private sector of the economy. Thus, it can be concluded that wage growth in the public sector that is sheltered from international competition exceeds wage growth in the private sectors. But also institutional factors, such as the generally stronger organisational strength of trade unions in the public sector compared to unions in the private sectors, account for a wage-pushing effect of public sector wages (Crouch 1990; Traxler et al. 2001; Traxler et al. 2008a and 2008b). On the other hand, public sector wage growth strongly depends on political factors, e.g. the partisanship of the government, restraints on public budgets (in particular the limits for public deficits and debt ratios stipulated in the Stability and Growth Pact), and is thus more volatile. Empirical evidence, however, indicates the volatility of both public and private sector wage developments (albeit more strongly so in the case of public sector wages). Volatility of both public and private sector wages has shown a tendency to decrease since the advent of European

Monetary Union, i.e. since the late 1990s. In the Euro area wage growth in the public sector exceeded wage growth in the private sector between 2000 and 2005 (Holm-Hadulla et al. 2010:10). Figure 6 depicts the *%-changes* of Eurostat's Labour Cost Index for the public sector and the business economy in two groups of countries in the period between 2000 and 2008. Both public and business sector labour costs showed less increase in the group of Euro area countries for which data was available, i.e. Belgium, Germany, Cyprus, Luxembourg, Malta, Netherlands, Portugal and Slovenia, than in the group of non-Euro area countries comprising Hungary, Romania, Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania and the United Kingdom.

Figure 6 **Average labour cost growth, public and business sectors, 2001-08**



Source: Eurostat, Labour Cost Index, Index, 2008=100, Annual data, by NACE rev.2.

Labour costs increased more in the public sector only in the years 2006 to 2008 in the non-Euro area countries. In all the Eurozone countries for which data was available the increase in labour costs in the public and business sectors was rather similar during the whole of the 2001-2008 period.

2. Institutional setting for wage determination in the public sector

Wage formation in the public sector differs considerably from that in the private sector. Free collective bargaining between the state as employer and public sector unions takes place in only a few countries and/or for a segment of public sector workers. In some countries, all (as in Austria) or certain groups (e.g. armed forces and police in Italy, certain groups of civil servants in the central public administration in Spain) of public sector employees are *formally* excluded from collective bargaining (Traxler et al. 2001; Eurofound 2007). Three basic mechanisms of wage determination in the public sector can be distinguished (Traxler et al. 2001). First, wage determination may rely formally on *collective bargaining* between the government and public sector unions; Secondly, wages are settled in *de facto* negotiations between the state and the unions on a institutionalised basis and the outcomes of these negotiations are formally decided upon by the government, the parliament or another public authority; Thirdly, wages are settled by *purely* unilateral state decision in cases where the role of the public sector unions is limited to making recommendations and claims without entering into direct negotiations with the public authorities. Hereafter, collective bargaining and de facto negotiations are subsumed under one category, and purely unilateral state decision will constitute the second category of a mechanism for wage determination in the public sector (see Table 1 in the Annexe). It is important to note, however, that in some countries free collective bargaining and unilateral state decision actually coexist and settle wages for different groups of public sector employees, most frequently differentiated by the level of public administration. In Italy and Spain, for example, wages for central state employees are settled both by free collective bargaining and unilateral state decision depending on the occupational status of the workers concerned and on the sectors of employment (e.g. public administration, health, education). In general, the state plays an important role in public sector wage-setting in the vast majority of countries. In countries that include Austria, Luxembourg, Greece and Spain wages for all or a part (as in the latter country) of public sector employees are negotiated by unions and public authorities and are implemented by a *formal decision* of the *government* (or other public bodies). In the United Kingdom the practice of determining civil servants' pay in 'Pay Review Bodies' where unions launch their recommendations and wage demands can be considered a form of de facto negotiation. The state also plays a strong – but rather indirect – role in many of the central and eastern European countries. For instance, in the Baltic countries, the pay of public sector workers is implemented by government decree or other statutory measures.

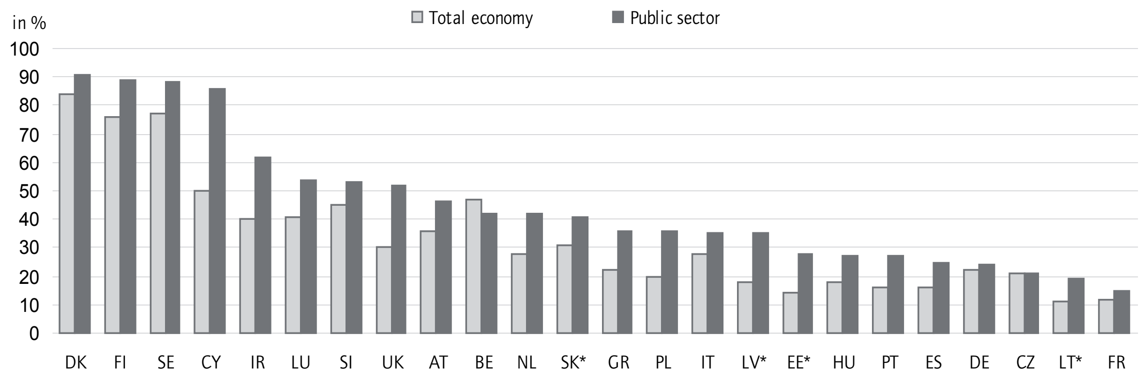
With budgetary austerity policies having been adopted throughout Europe, the mode of pay determination in the public sector has changed. Wage cuts and freezes were usually implemented by purely unilateral state decision (see Table 1). The states' unilateral decision to cut or freeze pay marks a break with the previous tradition of free collective bargaining in the public sector in countries such as Ireland, Portugal, Spain, Italy and the United Kingdom. But even in those countries where the state traditionally has a stronger role in public sector wage-setting – such as the Baltic countries, Bulgaria and Romania – unions' demands and recommendations were not considered at all.

Government decisions to unilaterally cut wages were accompanied by trade union protest and even strikes in many countries (see Table 1). The unions' strong mobilisation capacity in the event of public sector austerity measures is enhanced by the fact that the public sector represents a traditional stronghold of union organisation. Socio-economic processes such as the tertiarisation of the economy and the development of the welfare state resulted in the rise of white-collar unions (Ebbinghaus and Visser 2000). Certain professional groups of public sector employees, in particular teachers, were at the forefront of the trade union movement. Additionally, sectors such as public utilities, railways and postal services were characterised by strong unionisation. The rise of public sector unions was also due to the fact that public sector workers were often excluded by statute from joining a union. Even nowadays, the right of association for public sector employees with a special employment status (e.g. 'career' or 'statutory' civil servants) or certain occupational groups (e.g. armed forces, police, judges) is restricted in some countries such as Italy, France, Portugal, Greece, the Czech Republic, Slovakia and Latvia (Eurofound 2007). Nevertheless, union densities in the public sector generally exceed those in the private sectors (e.g. Ebbinghaus and Visser 2000, European Commission 2006).

Figure 7 shows union density rates in the total economy and in the public sector in 2003.[10] In all EU countries, with the exception of Belgium, union density was higher in the public sector than in the economy as a whole. The difference between total economy and public sector union density was most striking in Ireland and Cyprus. Public sector union densities range from above and around 90% in Denmark, Finland, Sweden and Cyprus, to between 20 and 30% in Germany, Spain, Portugal, Hungary and Estonia and below 20% in the Czech Republic, Lithuania and France. In general, the organisational strength of trade unions follows the common divide between the Nordic countries (and to a lesser extent the central western European corporatist economies with the exception of Germany) on the one hand, and the Southern statist market economies (with the exception of Cyprus) and eastern European economies (with the exception of Slovenia) in transition towards the statist or liberal model (e.g. Esping-Andersen 1990, Hall and Soskice 2001, European Commission 2008) on the other hand.

10. Comparative data, disaggregated so as to separate the public sector, was available for *all EU countries* only for the year 2003 (or 2002), see Figure 7.

Figure 7 **Total net union densities and public sector a net union densities, 2003**



[a] Public administration, health & social services; CY, EE, LV, LT, SK: Only public health & social services.
* 2002
Source: European Commission 2006

3. Settling public sector pay in times of crisis: recent developments

The following section will present recent developments in public sector pay and employment in the light of governments' consolidation programmes aimed at restoring financial credibility and reducing public expenditure.[11] Since the onset of the economic crisis in mid-2008, the wages of public sector workers have been frozen or cut, public sector jobs have been cut or hiring stops implemented, and systems for public sector pay have undergone reform.

The Baltic countries have felt the economic downturn most immediately and dramatically. In Latvia and Estonia, GDP started to decline as from the last quarter of 2007 (O'Farrell 2010) with annual GDP decreasing in 2009 by 18% in the former and 14% in the latter country (European Commission 2010a). In responding to pressures to consolidate state budgets, wages in the public sector have been the prime adjustment parameter. In **Estonia** a reduction of 7% in government expenditure was ratified by the parliament in February 2009, incurring freezes or cuts of public sector wages (Eurofound 2010). For the years 2010 and 2011 a general wage freeze was imposed (EPSU 2010). Social partners and the government in **Lithuania** concluded a national 'austerity agreement' in October 2009. This agreement includes wage and job cuts in the civil service sector, drastic cuts in pension and an increase in VAT and social contributions (Planet Labor 2010). The parliament in **Latvia** ratified a tough programme to cut government expenditure in December 2008 as a consequence of the €7.5 loan provided by the IMF and the EU. In spring 2009 the government imposed a 15% wage cut across the public sector (EPSU 2010). Likewise, pensions were cut considerably, – e.g. by 10% for old-age pension benefits and by 70% for working pensioners (Eurofound 2010). The education sector has been most affected by savings measures. Teachers' wages were cut by almost one third from September 2009 onwards, and wage cuts have also been implemented in the health sector. Spending on education was reduced by 25% in 2009 compared with 2008. The public school system is subject to reform measures aimed at increasing the cost-efficiency of the education system, as part of which teachers' and civil servants' remuneration system have been changed (Eurofound 2010). For 2010 a 22.5% decrease in the financial support to local and regional governments for the remuneration of teachers is planned. The sector's union has repeatedly – and so far unsuccessfully – appealed to the government to refrain from these cuts.

11. This section draws on a former article written by the author together with Andrew Watt (Glassner and Watt 2010b). It is based on a secondary analysis of data provided by sources such as Planet Labour, EIRO, Epsucob@NEWS and the ETUI-AIAS Collective Bargaining Newsletter, which were consulted between June and November 2010.

According to the European Federation of Public Service Unions (EPSU), in Estonia gross monthly earnings fell by 2.5% in the state sector (central government) and 6.0% in local government between the second quarter of 2008 and the second quarter of 2010. In Hungary average monthly earnings in the two-year period of 2008 to 2009 declined by 7.9% across the whole of the public services, with a 5.4% decline for those employed in social work, a 4.6% decline for health care workers, a 5.1% decline for those employed in education and a 12.4% decline for those in public administration, defence and compulsory social security. In Latvia wages fell by 15.3% across all public services, based on the comparison between average wages in the first half of 2010 and average wages in the first half of 2008. Workers in the Lithuanian public sector had to face a fall in average gross earnings of 5.2% from the second quarter of 2008 to the second quarter of 2010 (EPSU 2010). Nominal wages in the *business sector* (i.e. in industry and private services) of the Baltic countries have also fallen sharply (O'Farrell 2010).

In **Ireland**, the government withdrew from the national pay agreement settled in November 2008 that foresaw a 6% wage increase over all sectors, and unilaterally decided to freeze civil servants' pay until at least 2010. Likewise, employers in the private sector declared a formal deferral of all pay increases for at least 12 months (Eurofound 2010). The government's announcement of a public sector pay freeze provoked the resistance of the public sector union which called for a large demonstration in February 2009. In the same month there was a breakdown of the talks between the social partners and the government about how to reduce public spending by €1 billion. The main points of conflict were a 'pension levy' which is expected to reduce after-tax income of all public sector employees by 5 to 7% on average and a 6% wage cut of employees in the public healthcare and education sectors, as well as in local and national administration, police and the armed forces. Renewed negotiations between the social partners and the government collapsed in December 2009 against the background of the largest rise in public deficit in the EU (i.e. -14.3% in 2009, Eurostat 2010). The government finally presented a proposal to settle the ongoing conflict over public sector pay in March 2010 after several weeks of industrial action by the public sector unions. Finally, in June 2010 an agreement, which largely corresponds to the proposal presented earlier, was signed by the public sector unions and the Irish government. The agreement strikes a balance between the maintenance of employment and pay levels, and the modernisation and reform of public services. In return for the government's guarantee to abstain from compulsory redundancies and further wage cuts until 2014, public sector pay will be reviewed annually from spring 2011 onwards with the aim of re-establishing pay levels for workers earning less than €35,000/year, and the recruitment and promotion freeze will be continued until employment goals in all sectors of public services are reached. The review procedure provides for the possibility of the recruitment of new staff in the event of specific shortages, and the reversal of pay cuts if efficiency savings in the public sector have been achieved (EPSU 2010). To increase both flexibility and job security, redeployment plans for workers within and across different sectors of public services will be adopted. Furthermore, to enhance skills and productivity, increased efforts to hire appropriately skilled persons from outside the public sector will be made. A 'rescue package' of approximately €85 billion provided by the EU and the IMF in order to stabilise Ireland's banking sector was decided upon while this paper was being written. International financial authorities have urged the Irish government to address the soaring public sector wage bill by further reducing public sector pay, as well as other measures such as tax reforms and the cutting of statutory minimum wages.

In **Hungary**, which received a €20 billion loan from the IMF, the EU and the World Bank in September 2008, cuts in public spending have been less draconian than in the Baltics or Ireland. A conflict arose over the government's proposal to cancel the 13th month pension and public sector salary. After a mass rally and an announced strike an agreement was reached in December 2008. In a 'memorandum of understanding' issued by the parties to the negotiation body (i.e. the National Public Service Interest Reconciliation Council), a *de facto* wage freeze for 2009 was agreed. However, the 13th month salary will be paid to public sector workers earning less than €608/month (as at 5 April 2009) while those earning higher salaries receive a reduced bonus (Eurofound 2010).

In **Romania** budget deficit reduction measures were adopted in November 2009 in response to the €20 billion aid provided in March 2009 by the IMF, the EU, the World Bank and the European Bank for Reconstruction. Measures for the reorganisation and rationalisation of the public sector, including considerable job cuts, and the possibility of a 10-day period of compulsory unpaid leave for public sector employees, together with reduced working hours, were introduced. In spring 2010, even more drastic measures were introduced. The salaries of public sector employees were to be cut by 25% from 1 June onwards, and their 13th month bonus was to be cancelled. The government announced plans to cut 100,000 jobs in the public sector as well as significant cuts in welfare benefit and an increase in VAT from 19 to 24% (Planet Labor 2010). As a result of these measures, including the cut in bonuses and other additional payments (e.g. food allowances, rent subsidies), workers will suffer an effective wage decrease of 50%. The stated aim of the Romanian government is to avoid having to call on the IMF for another loan. The trade unions have expressed their strong opposition to the cost-saving measures adopted by 'emergency' decree (Eurofound 2010).

In spring 2010 growing fears of public debt default by countries such as Greece, Portugal and Spain triggered 'emergency' measures at the EU level such as the purchase of government bonds by the ECB to stabilise financial markets. In May 2010 the EU member states and the IMF adopted a package of measures, worth €750 billion, to preserve financial stability in Europe. In spite of such measures to shore up confidence, governments throughout Europe responded to the threat of speculative attacks by financial markets and downgrades by ratings agencies by announcing and adopting harsh austerity measures.

In **Greece** pressures to cut public spending were particularly strong as the country received a loan of €110 billion from the EU and IMF. In order to reduce the budget deficit from 12.7 to 8.7% of GDP in 2010 and 2.8% by the end of 2013, the government announced, among other measures such as an increase in VAT and pension reforms, a cut in public sector wages, a 30% cut in special bonuses (e.g. holiday and Christmas bonus), a reduction in overtime pay and the suspension of recruitment of new workers. It is estimated that cuts in wages and bonuses will result in a de facto loss of income for public sector workers of 12 to 20% (EPSU 2010). The choice of measures at least partly reflected the EU's recommendations. Trade unions strongly rejected the 'emergency package' and repeatedly took industrial action, including several general strikes in 2010, with the most recent in October.

The **Spanish** government presented an austerity programme providing for a €5 billion reduction in public expenditure in 2010 and a further €10 billion reduction in 2011, the aim being to reduce the deficit from 11.2% of GDP in 2009 to 6.5% in 2011. The emergency package includes, among other measures, a 5% cut in civil servants' wages and a freeze of their pay in 2011. Pensions will likewise be frozen in 2011, and it was announced that a restrictive reform of partial retirement would be implemented immediately rather than in 2014 (Planet Labor 2010). The number of new jobs in the public sector will be reduced by 87% compared to the previous year on the basis of a government decree (Eurofound 2010). The public sector unions FSC-CC.OO and FSP-UGT rejected the government's savings plans and decided to call a general strike in September, with further action planned for December.

In **Portugal** the government likewise aims to reduce the public deficit from 9.4 to 7.3% of GDP in 2010 and to 4.6% in 2011 in order to save a total of €3 billion. In order to reach the planned goals in spending reductions the government announced a freeze of the wages of civil servants and employees in public companies (Planet Labor 2010). In response to this announcement, the public sector unions STAL and SINTAP organised a strike of public sector workers in March of this year and called a series of demonstrations and protest marches. The most recent action was a general strike on 24 November called jointly by both the main trade union confederations in opposition to austerity measures and the cuts in public sector pay and employment (EPSU 2010).

In **Italy** government debt (as a ratio to GDP) reached 117% in 2009, the highest level in the EU (Eurostat 2010). In the midst of the Euro crisis, the government agreed, in spring 2010, on an emergency package that provides, among other measures, for a three-year public sector wage freeze. The pay of the highest income groups in the public sector is to be cut by 5% (for annual earnings of €90,000 or higher) or 10% (for an annual income of €130,000 or higher). Wages of judges exceeding €80,000/year will be cut by 10% (Planet Labor 2010). The CISL and UIL trade unions were to some extent supportive of the austerity measures that also include a tax increase on stock options and managers' bonuses as well as a reduction of income tax and employers' social contributions for low-wage-earners. The CGIL trade union has called for a general strike in late June 2010.

The public deficit in the **United Kingdom**, equivalent to 11.5% of GDP, was also one of the highest in the EU in 2009 (i.e, Eurostat 2010). In the run-up to the general elections in May 2010, all three political parties proposed public spending cuts including a pubic sector wage freeze. For local government employees a moderate pay increase of 1% had been agreed for one year in 2009. When this agreement expired, the local government employers' association unilaterally imposed a wage freeze for the following 12 months without entering into negotiations with the unions (EPSU 2010). In June 2010 the new government coalition announced an extensive budget consolidation programme, including an increase in VAT from 17.5 to 20%, and cutbacks in some social benefits. As an important part of this programme, public pensions will be reformed and the state pension age increased. Wages of public sector employees will be frozen for the next two years for higher wage-earners (i.e. those earning more than £21,000/year). Those on lower incomes will receive a flat pay increase of £250 over two years. Recently, the government proposed to reform the public sector pay system in order to allow for lower wage increases in regional public administration and services.

In other countries, such as Bulgaria and the Czech Republic, governments adopted austerity programmes including cuts or freezes of public sector pay despite rather low ratios of government debt to GDP (i.e. around 15% in Bulgaria and 35% in the Czech Republic in 2009, Eurostat 2010). In **Bulgaria** the government demanded a 10% reduction of costs in ministries and publicly-funded bodies between 2009 and 2011, resulting in job cuts and a wage freeze for employees working in these institutions (EPSU 2010). Likewise, in early 2010 the **Czech** government decided upon a pay cut of 4% for senior legal officials and other civil servants in 2010 as part of the government's measures to reduce public spending. For 2011 a further wage cut of around 10% is planned by the government. The national trade union confederation responded by organising a national demonstration on 21 September calling on private sector workers to support their public sector colleagues. The public sector unions then called a national public sector strike on 8 December (EPSU 2010). In **Slovenia** the government and public sector unions agreed on an austerity pay agreement as from early 2009 in order to avoid exceeding the goal of a government deficit of 3% of GDP as stipulated in the Stability and Growth Pact. Measures include a reduction of public sector jobs and the suspension of pay increases during 2009 and 2010 for public sector employees in order to reduce public spending on wages (Eurofound 2010).

In some countries, such as Germany and Austria, governments' consolidation plans did not *yet* explicitly target wage-setting in the public sector. However, bargaining rounds proved difficult. For instance, although governments in **Austria** and **Finland** pushed for pay freezes in negotiations at the end of 2009 and beginning of 2010, unions managed to secure marginal increases of around 1%. Recently, for 2011, unions and the Austrian government agreed on a wage increase of between 0.85 and 2.1%, based on a minimum increase for wage-earners on the lowest pay scale (EPSU 2010). Likewise, in the **Netherlands** a 1.5% pay increase was settled in the municipal sector after several months of targeted industrial action by unions. In **Germany**, a moderate wage increase (2.3% over 26 months) was agreed for public sector employees at the central and community levels in February 2010 following industrial action by the trade unions. However, in June 2010 the German government presented an austerity package that aims at saving €80 billion by 2014 with cuts concentrated in social services and welfare benefits. In the public administration large-scale job cuts are planned, and public sector employees will not receive their Christmas bonus in 2011, which will result in an income loss of around 2.5%. And in **Denmark**, a country characterised by comparatively sound public finances (see Table 2 in the Annexe), bargaining in the public sector in 2011 is expected to be very to be very tough. Unions believe that the government will demand a zero-increase for 2011 when the current three-year agreement expires at the end of March 2011, while in the state sector employers may look for more decentralisation and individualisation of pay determination (EPSU 2010). In **Poland**, which has remained relatively unaffected by the economic downturn, the government recently announced that for 2011 it will implement a zero-increase for public sector employees (EPSU 2010) in view of the growing public deficit (see Table 2).

In a number of countries wage cuts and freezes were imposed together with reforms of public sector workers' pay systems (see Table 1). In some cases this related to pay systems regulating the remuneration of certain segments of the public sector such as ministries (e.g. in Bulgaria, Lithuania) or certain occupational groups, such as teachers (Latvia), while in Ireland, Romania, the Czech Republic, Slovenia and Greece the pay reforms are more encompassing in character and aim at the harmonisation of pay regulation throughout the public sector as a whole. Important elements of such reforms are caps and limits for the highest pay grades (e.g. in Bulgaria, Romania), while the wages of lower income groups are to be increased (e.g. in Ireland).

4. Longer-term effects of public sector wage restraint on collective bargaining

The previous sections have shown that, across Europe, cuts in public sector pay and other entitlements, as well as in employment, form – albeit to a varying extent – a key element in most governments' fiscal austerity measures. A general observation was that collective bargaining as a mechanism to settle wages in the public sector was decreasing in relevance. In all countries, with the exception of Hungary and Lithuania where public sector wage restraint was agreed in tripartite national pacts between the government, unions and employers' organisations, cuts and freezes of public sector workers' wages were unilaterally imposed by the state. Recent developments in collective bargaining against the background of the economic crisis, on the one hand, follow established trajectories of collective bargaining. On the other hand, changes in the power configuration between public sector industrial relations actors are observable. In line with established patterns of collective bargaining and social policy concertation, social partners in most of the central and eastern European countries were too weak to enter into tripartite negotiations with the state and conclude social pacts to address the effects of the crisis (Glassner and Keune, 2010). Even in those countries where tripartite agreements were concluded, for instance Hungary and Lithuania, trade unions' demands were taken into account only partially. In countries such as Ireland, Portugal, Spain, Italy and the United Kingdom public sector employers have bypassed established collective bargaining procedures and imposed pay cuts and pay freezes unilaterally.

In contrast to the private sectors, collective bargaining outcomes in the public sector – if they emerge at all – are rather distributive in character. The reason for this is that employment security in the public sector is obviously not tradable against wage moderation. Integrative bargaining solutions are thus limited in the public sector; in almost all countries where public sector jobs were cut, this step goes in hand with pay reductions. Cutting jobs on a large-scale is a measure that has not yet been taken in the public sector in most European countries. The special employment status of (a part of) public sector employees protects them against redundancy. However, past reforms have lessened the specificity of pubic sector employment making it more precarious in a number of countries (Keune et al. 2008). As such, employment freezes and the replacement of only a fraction of retired workers have been common policy responses – and in forthcoming years these measures will continue to be included in austerity packages in a number of countries. The in some cases harsh and far-reaching cuts in public sector wages (that tend to exceed wage restraint in the private sectors in most EU countries) reflect the prior goal of governments as public employers *and* as agents for fiscal consolidation, in other words, short-term cost reduction. Although skill levels of public sector employees are generally higher than in the private sectors, the retention of trained labour would appear to be less of a concern in the financially strained public sectors. This contrasts with the situation in the private (manufacturing) sectors where employers have perceived it as being very much in their interest to retain skilled and experienced workers in employment. Likewise, the quality of public services as an important public good seems to be of relatively little concern to political actors. The crisis clearly showed that the role of the state as provider of high-quality and encompassing public services has become subordinate to the goal of restoring sustainable public budgets.

When it comes to assessing the effects of the shifting nature of the determination of wages and working conditions in the public sector on collective bargaining in general, only tentative conclusions can be drawn. In fact, wage-setting in the public sector was often a focus for conflict in those countries where tripartite or state-sponsored collective bargaining at the national level broke down. Most notably, in Ireland and Spain, the collapse of public sector bargaining coincided with the breakdown of negotiations between social partners in the private sectors. In Ireland, however, this is expected to result in a further decentralisation of collective bargaining, with single-employer bargaining gaining in importance due to the withdrawal of the Irish Business and Employers' Confederation (IBEC) from national collective bargaining in December 2009. In Spain social partners resumed bipartite national collective bargaining in early autumn 2009. The Spanish government's decision to cut public sector wages may rather mirror the 'emergency character' of the current economic situation than the demise of collective bargaining, as wages were regularly settled by unilateral state decision for a part of public sector employees. Due to the still recent character of the public sector crisis, it would be premature to hazard any conclusion as to whether the growing incidence of one-sided wage freezes and reductions follows already established trajectories (i.e. collective bargaining vs. more authoritative wage-setting), with cutting or freezing pay as a temporary response to the crisis, or whether it marks the beginning of a trend towards stronger state influence in public sector wage-setting.

Spill-over effects from the public to the private sector with regard to the determination of pay and conditions are expected to be rather limited in terms of procedural changes in collective bargaining. The institutional mechanisms and practices of collective bargaining, and wage-setting in particular, differ between the public and the private sectors. However, and more importantly, spill-overs with regard to substantial issues of collective bargaining are more likely. The bargaining power of unions in general vis-à-vis employers is weakened. The reduced bargaining power of public sector unions will have a moderating effect on wage developments in the private sectors. Trade unions that were already in a defensive bargaining position before the crisis will be faced with employers' demands for further wage restraint. Pay cuts in the public sector may serve them as an argument for achieving the necessary reduction in costs without any substantive compensation. Although, in general, measures were adopted first, and mainly via collective bargaining, in the private and only subsequently (often by unilateral state decision) in the public sector (see Glassner and Watt 2010b, Leschke and Watt 2010, O'Farrell 2010), nominal wages were decreasing or stagnating in those countries where wage restraint in the public sector was most pronounced and continued over a longer period of time (e.g. in the Baltic countries and Ireland).

The European Commission has taken up the argument, promoted particularly by the European Central Bank (see Holm-Hadulla et al. 2010), that cuts in public sector wages are a means of improving international competitiveness. Accordingly, public sector pay restraint should set an example for wage developments in the private sectors. As argued elsewhere (Glassner and Watt 2010a and 2010b), the 'competitiveness argument' disregards the diverging developments of external trade balances of EU countries. While public wage restraint in deficit countries would contribute to a reduction of unit labour costs, a more dynamic wage development is needed in surplus countries in order to strengthen internal demand and permit a balanced and sustainable recovery. Unless concentrated on high income-earners, public sector pay cuts are likely to have serious negative repercussions for aggregate demand and thus, ultimately, for the success of the consolidation effort.

Conclusions

The nature and scope of the economic crisis in Europe changed over time. Responses to the crisis by governments and social partners also changed. At the onset of the financial crisis and during the ensuing output crisis that primarily hit the export-dependent manufacturing sectors, governments, trade unions and employers agreed on the importance of maintaining employment. Social parters, when supported by public labour market policy measures and strongly institutionalised collective bargaining institutions at the national and sectoral level, were largely successful in arriving at negotiated bargaining solutions that aimed at the protection and promotion of employment, the safeguarding of purchasing power and the enhancement of skills and employment flexibility. The recent debt crisis, however, changed the stance of the state in collective bargaining and social policy concertation. With fiscal austerity becoming the main priority of governments, collective bargaining became more conflictual or was completely abandoned as a mechanism for the settlement of public sector wages. The reduction of the public sector wage bill was one of the most important budget consolidation measures in EU countries, a policy also promoted by the European Union in a number of countries.

Workers in Europe, in both the public and private sectors, are already feeling the effects of pay cuts and losses in income and purchasing power. Whereas the consolidation of public budgets requires a balanced and well-timed mix of both revenue and expenditure side measures, the harsh austerity programmes launched by many European governments are in many cases precipitous and disproportionately based on cuts in social transfers as well as pay and employment cuts in the public sectors.

The cutting of public sector wages and services was met by fierce trade union resistance. Mass rallies and demonstrations against public austerity programmes were organised by unions in a large number of countries, and industrial action, in particular in the public sector, was frequent. The public sector represents a traditional stronghold of unions and strike activity against crisis-induced cost-saving measures was higher in this sector than in the private sectors. In Greece, Italy, Spain, Portugal and France trade unions were able to channel protest against plans to cut social expenditure and mobilise citizens for general strikes. However, governments' attempts to reduce public sector employment will certainly weaken the political influence of unions in the medium term. Wage moderation may spill over from the public to the private sectors in those countries where trade unions' weakness constitutes an institutional characteristic of the industrial relations regime, as is the case in the majority of the central and eastern European economies and the United Kingdom. But even in those countries with inclusive systems of multi-employer bargaining (as in the central western European and Nordic countries) unions will also be confronted with employers' demands, often supported by the government, for continued wage restraint in order to restore and improve international competitiveness.

Turning now to the implications for collective bargaining, an announcement that pay will be cut or frozen by unilateral state decision marks a break with previous traditions of wage settlement in the public sector. Beyond the issue of the wage outcomes, government unilateralism in pay-setting and/or the recommendation for a far-reaching decentralisation of pay bargaining represent matters of grave concern. First, wage bargaining coordination across sectors and between employee groups, as practised across much of continental Europe, is a means of ensuring that pay rises are in line with productivity growth and inflation (e.g. Soskice 1990, North 1990, Flanagan 1999, Traxler and Kittel 2000, Traxler et al. 2001, Traxler 2003). Secondly, a system in which public sector pay is subject to strict budgetary restraints and wage determination in the private sector is completely uncoordinated would entail a worrying increase in the pro-cyclicality of wage movements and give rise to risks of unsustainable divergences between pay in the two sectors. Thirdly, and more broadly, this unilateralism is incompatible with the European social model and high quality industrial relations based on (among other things) the right to collective bargaining and strong employee participation.

It is vital for European unions, in *both* the private and the public sectors, to pursue a wage policy that is geared to medium-run productivity increases and moderate inflation. This prevents downward pressures on wages and maintains workers' purchasing power. It also contributes to a stable and balanced economic development within the Eurozone and across the business cycle, thereby helping to avoid imbalances in international competitiveness with their potentially disastrous consequences. The precondition for this is, however, the re-establishment of free collective bargaining for the settlement of public sector wages in those countries where this has been abandoned, and, in general, the effective coordination of collective bargaining between sectors and different groups of employees.

Table 1: Wage cuts and pay determination mechanisms in the public sector (2009-2010)

Country	Percentage cut in nominal wages, wage freeze (year of decision and freezes/cuts discussed/proposed by government [a])	Sector/s	Unilateral state decision (yes/no)
Austria	+0.85 to 2.1% (min. increase for lowest wage groups) (2011)		
Belgium	–		
Bulgaria	+0% (2009-2011)	Ministries and publicly funded bodies	Yes
Czech Republic	-4% (2010) -10% (2011) planned by government	Senior legal officials, other civil servants	Yes
Cyprus	–		
Denmark	Tough bargaining round in municipal services, government expected to demand zero-increase for 2011		
Estonia	-8% to -10% (2009) +0% (2010-2011)	General public sector Healthcare sector	Yes
Finland	Wage freezes expected to be discussed/proposed by government in forthcoming negotiations		
France	Wage freeze (2010-2012) to be imposed, as part of the announced austerity package		
Germany	Wage increase central and community administration 2.3% (2010), but cancellation of Christmas bonus for 2011 results in income loss of 2.5%		
Greece	-12 to -20% (2010) +0% (2011-2012)	General public sector Civil servants	Yes
Hungary	Cut of 13th month salary (2009)	General public sector	No
Ireland	-5 to -7% cut in net pay as result of pensions levy inversely related to level of income (2009) -5% to -8% as cuts inversely related to level of income (2010) +0% (2010-14)	All public sector workers	Yes

Legend: CB – collective bargaining; USD – unilateral state decision; IA – industrial action, including strike action; D – demonstration, mass rally, picketing

Notes:

[a] Measures discussed/proposed by the government refer *exclusively to wage freezes/cuts* in the public sector; no other measures such as job cuts/stoppages or the reduction of public welfare benefits; X = yes, – = no or no information available.

[b] If more than one mechanism, predominant one in bold; – = no comparative data available.

[c] X = yes, – = no or no information available.

	Pay determination mechanism in public sector[b]:	Reform of pay system	Job cuts and employment stoppages	Collective action (sector, date)[c]
	CB			D (private health service workers, Jan.2009 and 2010)
	CB, plus indexation mechanism			–
	CB for some public employees (excl. civil servants)	Reform of pay system (limiting income of highest pay groups in ministries and publicly funded organisations) discussed	Jobs expected to be cut to ensure 10% reduction of wage bill in ministries and publicly funded organisations	–
	–	For parts of public sector (i.e. health care, artistic professions, manual workers and workers receiving lowest base pay rates)	Job cuts expected to achieve 10%-reduction of public sector wage bill	D (public and private sector, Sep. 2010) IA (public sector, planned Dec. 2010)
	CB and indexation			–
	CB	State employers expected to call for more decentralisation and individualisation of pay		–
	CB in some ministries, USD			–
	CB			D (parts of public sector, Feb. 2010)
	CB			D (public sector, Jan., March, May 2010) IA (public and private sector unions, strike action and mass demonstrations, Oct. 2010)
	CB		10,000 jobs expected to be cut in central public administration by 2014 as part of announced consolidation packet	IA (warning strikes in local/federal government prior to pay agreement 2010)
	CB, USD	Reform of pay structure across public sector	No recruitment in 2010. Replace one in five from 2011 to 2013.	IA (public sector strike, Dec. 2008) IA (public sector strike, Feb. 2009) IA (public & private sector strikes, April 2010) IA (general strike, May 2010) D + IA (all sectors, June 2010) IA (public sector strike, July 2010) IA (public sector strike, October 2010)
	CB			D (Nov. 2008) IA (strike in parts of public sector, Dec. 2008 -Jan. 2009)
	CB	Annual pay reviews (from spring 2011 onwards, referring to saving goals in public sector spending); Monitored by bipartite 'Implementation Body'.	Recruitment ban and promotion freeze	IA (public sector strike, Feb. 2009) IA (public sector strike, Nov.2009) D (public sector strike, Dec.2009) IA (incl. strikes in parts of public sector, Jan.-March 2010)

Table 1: Wage cuts and pay determination mechanisms in the public sector (2009-2010) (continued)

Country	Percentage cut in nominal wages, wage freeze (year of decision and freezes/cuts discussed/proposed by government [a])	Sector/s	Unilateral state decision (yes/no)
Italy	+0% (2010-2012) and cut in productivity payments -5% to -10% (2010)	Public sector employees High-wage earners public sector	Yes
Latvia	Unspecified wage cuts (2008) -15 to -30% (2009)	Public sector employees	Yes
Lithuania	-8 to -10% (2009)	Civil servants	No
Luxembourg	–		
Malta	–		
Netherlands	Wage freezes expected to be discussed/proposed by government in forthcoming negotiations		
Poland	+0% (planned for 2011)		
Portugal	+0% (2010-2013) -5% for higher paid civil servants (2010) -3.5% to -10% for salaries above €1500 a month (2011)	Civil servants, employees in public companies	Yes
Romania	- 25% (2010), but cut in bonuses and other additional payments means cuts of up to 50%	Public sector employees	Yes
Slovakia	Cuts/freeze planned for 2011		
Slovenia	+0% (2009)	Public sector employees (2009 and 2010)	No
Spain	-5% (2010) +0% (2011)	Civil servants (2010) Civil servants (2011)	Yes
Sweden	-		
UK	+0% (2010-2011) (£250 increase for those earning less than £21,000 a year)	Public sector employees	Yes

Legend: CB – collective bargaining; USD – unilateral state decision; IA – industrial action, including strike action; D – demonstration, mass rally, picketing

Notes:

[a] Measures discussed/proposed by the government refer *exclusively to wage freezes/cuts* in the public sector; no other measures such as job cuts/stoppages or the reduction of public welfare benefits; X = yes, – = no or no information available.

[b] If more than one mechanism, predominant one in bold; – = no comparative data available.

[c] X = yes, – = no or no information available.

Pay determination mechanism in public sector[b]:	Reform of pay system	Job cuts and employment stoppages	Collective action (sector, date)[c]
CB, **USD**		Replace 1 in 5 (170,000 fixed-term jobs in education expected to be cut), budget for fixed-term employment cut by 50%	IA (general strike, Dec. 2009) IA (general strike, June 2010) D (public sector, Nov. 2010)
CB, USD	Reform of public sector teachers' pay system as part of reform of financing system of public schools (2009) and standardisation of pay structure across public sector	Job cuts in the public health services expected (as a consequence of the reduction of health care budget by 21%)	D (parts public sector, Jan. 2009) D (parts public & private sector, Oct. 2009)
CB, USD	Reform of pay system in some ministries	Job cuts expected as a consequence of reductions in health expenditure	D (parts public & private sector, Jan. 2009)
Indexation			–
–			–
CB			IA (strike in parts of public sector, May 2010)
CB, USD		Job cuts expected to reach goal of keeping public expenditure at max. of 1% above inflation	D (public sector, Sep. 2010)
CB			D (public sector, Feb. 2010) IA (public sector strike, March 2010) D (public sector, Nov. 2010) IA (general strike planned end Nov. 2010)
CB, USD	New uniform remuneration system for employees paid from public funds (2009): limiting wage growth in highest pay scales, coupling wage increases to macro-economic development, etc.	Total of 250,000 workers expected to be laid-off, 70,000 of them in 2010; Limiting replacement rate (1 in 7)	IA (public sector strike, Oct. 2009) IA (public sector strike, Feb.2010) IA (public sector strike May 2010) D (public and private sector, October 2010)
CB			D (private and pubic sector, Oct. 2010)
CB	Plans to amend the Law on the Pay System in the Public Sector and the intersectoral Collective Agreement for the Public Sector		IA (public sector unions, Oct. 2010)
CB, USD		Limiting replacement rate in general state administration and other public bodies (only 1 in 10 vacated jobs to be replaced)	IA (public sector strike, June 2010) D (all sectors, June 2010) IA (strike in all sectors, September 2010)
CB			D (public sector, March 2010)
CB (mainly national and local government), Pay Review Bodies (health, education, prisons)		490,000 jobs to be cut by 2014	IA (public sector strike, March 2010) D (private and public sector, Oct. 2010)

Sources: Eurofound 2007; Traxler et al. 2001; Eurofound 2010, Planet Labour 2010, EPSU 2010, ETUC 2010

Table 2: Government deficit and debt 2008-2010, annual change GDP 2009 and 2010, EU27

Country	Government deficit (% of GDP)			Government debt (% of GDP)			Annual change GDP (%)	Annual change GDP (%)
	2008	2009	2010[a]	2008	2009	2010[a]	2009	2010[a]
EA16	-2	-6.3	-6.3	69.8	79.2	84.1	-4.1	1.7
EU27	-2.3	-6.8	-6.8	61.8	74.0	79.1	-4.2	1.8
Belgium	-1.3	-6.0	-4.8	89.8	96.2	98.6	-2.8	2.0
Bulgaria	1.1	-4.7	-3.8	13.7	14.7	18.2	-4.9	-0.1
Czech Republic	-2.7	-5.7	-5.2	30.0	35.3	40.0	-4.1	2.4
Denmark	3.4	-2.7	-5.1	34.2	41.4	44.9	-5.2	2.3
Germany	0.1	-3.0	-3.7	66.3	73.4	75.7	-4.7	3.7
Estonia	-2.8	-1.7	-1.0	4.6	7.2	8.0	-13.9	2.4
Ireland	-7.3	-14.4	-32.3	44.3	65.5	97.4	-7.6	-0.2
Greece	-7.7	-13.6	-9.6	99.2	115.1	140.2	-2.3	-4.2
Spain	-4.2	-11.1	-9.3	39.8	53.2	64.4	-3.7	-0.2
France	-3.3	-7.5	-7.7	67.5	78.1	83.0	-2.6	1.6
Italy	-2.7	-5.3	-5.0	106.3	116.0	118.9	-5.0	1.1
Cyprus	0.9	-6.0	-5.9	48.3	58.0	62.2	-1.7	0.5
Latvia	-4.2	-10.2	-7.7	19.7	36.7	45.7	-18.0	-0.4
Lithuania	-3.3	-9.2	-8.4	15.6	29.5	37.4	-14.7	0.4
Luxembourg	3.0	-0.7	-1.8	13.6	14.5	18.2	-3.7	3.2
Hungary	-3.7	-4.4	-3.8	72.3	78.4	78.5	-6.7	1.1
Malta	-4.8	-3.8	-4.2	63.1	68.6	70.4	-2.1	3.1
Netherlands	0.6	-5.4	-5.8	58.2	60.8	64.8	-3.9	1.7
Austria	-0.5	-3.5	-4.3	62.5	67.5	70.4	-3.9	2.0
Poland	-3.7	-7.2	-7.9	47.1	50.9	55.5	1.7	3.5
Portugal	-2.9	-9.3	-7.3	65.3	76.1	82.8	-2.6	1.3
Romania	-5.7	-8.6	-7.3	13.4	23.9	30.4	-7.1	-1.9
Slovenia	-1.8	-5.8	-5.8	22.5	35.4	40.7	-8.1	1.1
Slovakia	-2.1	-7.9	-8.2	27.8	35.4	42.1	-4.8	4.1
Finland	4.2	-2.5	-3.1	34.1	43.8	49.0	-8.0	2.9
Sweden	2.2	-0.9	-0.9	38.2	41.9	39.9	-5.1	4.8
United Kingdom	-5.0	-11.4	-10.5	52.1	68.2	77.8	-5.0	1.8

Sources: Eurostat 2010, European Commission 2010a
[a] Prognosis

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