# Chapter 4: The consequences of the crisis for public sector industrial relations

*Public sector employees in virtually all countries have been affected by the crisis as governments seek to reduce the size and scope of the public sector. Adjustments have included pay freezes, pay cuts and reductions in staffing levels, although countries generally seem to fall into two clusters— those that have been severely affected and have put into place austerity measures, and those that have been affected to a lesser extent. The future appears to point towards more centralisation and unilateralism in public sector industrial relations.*

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## 4.1. Introduction

It has become commonplace to argue that public sector industrial relations have undergone major changes over the past two decades, precipitated by a process of liberalisation and marketisation and pressure to enhance service quality in response to increased citizen expectations (Bordogna 2008; Schulten *et al.* 2008). These changes have been associated with new public management (NPM) reforms and attempts to deprivilege public sector industrial relations, but despite these measures labour relations regimes and outcomes continue to vary widely between countries (Bach and Bordogna 2011; Pollitt and Bouckaert 2011). In the past two decades some Member States have decreased public sector employment, such as in Germany and Sweden but others, including Greece and Spain, have continued to increase public employment and welfare provision. General government national accounts data, by contrast, shows that employee compensation is increasing in absolute terms in Germany and Sweden, but decreasing in Spain and Greece.

Has the crisis reinforced diversity in models of public sector industrial relations as identified in Chapter 3, or has a new orthodoxy prevailed, based on 'internal devaluation' through cuts in public expenditure, wages and employment? Since the onset of the economic and financial crisis, the institutional framework and character of public sector industrial relations has been put under strain. A stronger scrutiny of the effectiveness and efficiency of public expenditure has emerged; the role of key stakeholders such as public sector trade unions has been challenged: and formally autonomous employers, with devolved authority, have been subject to tight financial and managerial control from the centre of government.

The catalyst for these changes has been the deepening economic and financial crisis after 2008, which required governments to redirect their attention from a focus on initiatives to maintain aggregate demand to concentrating on deficit reduction as Member States' budget deficits increased. The causes of the crisis are not rehearsed here (see Krugman 2008; Lounsbury and Hirsch 2010; Stiglitz 2010), but what is indisputable is that governments have targeted the public sector as a key sector for adjustment. As this chapter identifies, governments have drawn extensively on wage freezes and wage cuts, reductions in employment and changes to pension arrangements to deal with budget deficits. The immediate consequences of these measures are clearly identifiable and in the majority of countries longstanding terms and conditions of public sector employment are being undermined and the size of the public sector workforce is being reduced. These changes have frequently been formulated and implemented with limited involvement of the social partners; a sharp reversal of the trend towards extensive negotiation and consultation that has become the prevailing pattern in the public sector over recent decades (Bordogna 2008; Demmke and Moilanen 2010).

The short term consequences of these programmes are visible not least in the protests and strikes that have been a widespread response. The longer term implications for service quality, social cohesion and attractiveness of the public sector as an employer are harder to discern. Many of the measures described in this chapter only started to take effect from around 2010 and in many countries will continue in some form until the latter part of this decade. If the consequences of austerity reach far into the future, it is also necessary to look backwards to take account of the historical legacy of public sector reform to understand the strength of the pressures being confronted by different Member States and the type of austerity measures being implemented (Vaughan–Whitehead 2012). Consequently, examining the severity of external pressure to address current deficits and taking account of existing public sector reforms, we distinguish between two broad clusters of countries in terms of how they have responded to the crisis in reshaping public sector industrial relations.

The first group of countries are implementing the largest programmes of adjustment and are seeking to frontload changes in pay and conditions to maximise expenditure reductions. These are countries that are under the most direct pressure to reduce public expenditure rapidly, and because there is a limited tradition of structural reform, there is an emphasis on immediate results via cutback management (Dunsire *et al.* 1989). This refers predominantly to quantitative reductions in the paybill by cuts in wages and employment, reinforced over the longer term by restructuring of the public sector. A common feature of these countries is that they confront strong external pressure towards fiscal consolidation. This can be direct pressure because they come under economic adjustment programmes backed by the EU and the IMF, or indirect, because of unfavourable market sentiment and the spectre of external intervention linked to concerns about their public debt sustainability.

These countries are at the centre of the sovereign debt crisis and this pattern is most strongly exemplified by developments in Greece, Ireland, Portugal and Spain. In a differing political and economic context, austerity programmes in the Baltic States, especially Latvia, but also Hungary and Romania, also exemplify this pattern of adjustment.

A second cluster of countries have not been immune from austerity measures, but the timing and form of these programmes has been more directly under the control of their own national governments and has frequently involved the adaptation or continuation of structural reforms that have sought to boost the efficiency and effectiveness of public services. Due to the severity of the economic and financial crisis, austerity measures still have a marked impact on the public sector workforce, but there is often less discontinuity with previous organisational and managerial reforms. These countries have still used cutback management measures, but they are often in more dilute forms— pay freezes rather than pay cuts, restrictions on hiring rather than immediate reductions in staffing and more focus on human resource management reforms such as the strengthening of systems of performance management. An important difference from the first group of countries is not the size of the public sector but its capacity to modernise. This cluster includes Germany and Scandinavian countries such as Denmark and Sweden and in addition France, the Netherlands and with some caveats the United Kingdom. Italy is a less clear-cut case because it has had a lengthy engagement with NPM reforms, but its high levels of debt makes it more exposed to financial markets and more susceptible to austerity measures than the other countries in this cluster.

This chapter develops this analysis building on the definition, structure and dynamics of the public sector outlined in Chapter 3, concentrating on developments since the onset of the crisis in 2008 but noting prior reforms as relevant. The definition of the public sector used in this chapter focuses on core public services as covered by the NACE classification system, i.e. category O (Public administration and defence; compulsory social security), category P (Education) and category Q (see Box 1.1 in Chapter 1). This chapter outlines trends in public expenditure and recent public sector reforms before considering austerity measures. These include pay freezes, pay cuts and reductions in employment. The process of change, in terms of the extent of social dialogue, and the responses of the social partners, especially in terms of the extent of mobilisation, are also analysed.

**Box 4.1 Information sources**

The data in this chapter, unless otherwise indicated, is drawn from: Eurostat, Eurofound's European Industrial Relations Observatory; EPSU Reports; ETUI collective bargaining newsletter; Financial Times; Labour Research; OECD country studies; and the private subscription service Planet Labor.

## 4.2. Public expenditure trends and public sector reform

The economic crisis emerged in earnest during 2008 with governments extending financial support to ensure the solvency of the banking sector. The shock to the financial system, however, caused a sharp slowdown in economic activity and many governments responded by adopting large stimulus packages to boost aggregate demand, output and employment.

As Table 4.1 indicates, general government expenditure, which includes central, state and local governments and social security funds, amounted to 49.1% of EU-27 GDP in 2011, around EUR 6 200 billion (European Commission 2012d). There has been considerable variation over the last decade. Between 2002–2007 government spending relative to GDP was on a downward trajectory, but there were exceptions, with a rise of more than 2 percentage points of GDP in Greece, the UK, Romania and Ireland and a rise of over 1 percentage point in Portugal and Cyprus. By contrast, countries such as Germany, Sweden and the Czech Republic reduced government expenditure as a proportion of GDP by more than 4 percentage points in this period and as discussed below, the first group of countries have confronted the strongest pressure to reduce public expenditure.

Following the onset of the crisis, the picture altered markedly as countries sought to sustain economic growth and prevent a sharp rise in unemployment, alongside the need to inject resources into the ailing financial sector. In addition to short-term pressure to deal with deficits, over the medium term demographic change, especially the ageing population, is placing pressure on governments to address debt problems as the workforce supports a higher proportion of retired workers (European Commission 2012a). From 2008 onward there was an increase in government expenditure as a proportion of GDP and this trend became much more pronounced during 2009. This trend was mainly accounted for by the decline in the denominator— GDP— after 2008. Subsequently, since 2010 government expenditure as a percentage of GDP started to decrease but with some notable variations around the mean.

## Table 4.1 Total general government expenditure, 2002–2011

| | % GDP 2011 | Percentage point of GDP change | | | | |
|---|---|---|---|---|---|---|
| | | 2002–2007 | 2007–2008 | 2008–2009 | 2009–2010 | 2010–2011 |
| EU-27 | 49.1 | -1.0 | 1.5 | 4.0 | -0.5 | -1.5 |
| EU-15 | 49.7 | -0.9 | 1.6 | 4.1 | -0.4 | -1.5 |
| BE | 53.3 | -1.6 | 1.6 | 3.9 | -1.2 | 0.8 |
| BG | 35.6 | -0.4 | -0.8 | 3.0 | -4.0 | -1.8 |
| CZ | 43.0 | -4.6 | 0.1 | 3.6 | -1.0 | -0.7 |
| DK | 57.9 | -3.8 | 0.7 | 6.5 | -0.1 | 0.0 |
| DE | 45.3 | -4.4 | 0.6 | 4.1 | -0.5 | -2.4 |
| EE | 38.3 | -1.8 | 5.7 | 5.8 | -4.8 | -2.4 |
| IE | 48.1 | 3.3 | 6.3 | 5.6 | 17.4 | -18.0 |
| EL | 51.8 | 2.4 | 3.1 | 3.4 | -2.5 | 0.3 |
| ES | 45.2 | 0.3 | 2.3 | 4.8 | 0.0 | -1.1 |
| FR | 56.0 | -0.3 | 0.7 | 3.5 | -0.2 | -0.6 |
| IT | 49.9 | 0.5 | 1.0 | 3.3 | -1.5 | -0.5 |
| CY | 46.1 | 1.3 | 0.8 | 4.1 | 0.0 | -0.1 |
| LV | 38.4 | 0.0 | 3.1 | 4.6 | -0.3 | -5.0 |
| LT | 37.4 | 0.0 | 2.6 | 6.5 | -2.9 | -3.4 |
| LU | 42.0 | -5.2 | 2.8 | 5.5 | -1.8 | -0.8 |
| HU | 49.6 | -0.8 | -1.5 | 2.2 | -1.6 | -0.2 |
| MT | 42.3 | 0.1 | 1.2 | 0.3 | -0.8 | -0.2 |
| NL | 49.8 | -0.9 | 0.9 | 5.2 | -0.2 | -1.4 |
| AT | 50.5 | -2.1 | 0.7 | 3.3 | 0.0 | -2.1 |
| PL | 43.6 | -2.1 | 1.0 | 1.4 | 0.8 | -1.8 |
| PT | 49.4 | 1.3 | 0.4 | 5.0 | 1.5 | -1.9 |
| RO | 37.9 | 3.2 | 1.1 | 1.8 | -1.0 | -2.2 |
| SI | 50.7 | -3.8 | 1.9 | 4.8 | 1.2 | 0.4 |
| SK | 38.2 | -10.9 | 0.7 | 6.6 | -1.5 | -1.8 |
| FI | 55.1 | -1.6 | 1.8 | 6.9 | -0.3 | -0.7 |
| SE | 51.2 | -4.6 | 0.7 | 3.2 | -2.6 | -1.1 |
| UK | 48.5 | 2.3 | 4.0 | 3.6 | -0.9 | -1.9 |

*Source:* Eurostat (2012), Government revenue, expenditure and main aggregates, http://epp.eurostat.ec.europa.eu/.

The main items of general government expenditure comprise the compensation of government employees, intermediate expenditure (e.g. rents), capital formation, social benefits and debt payments. In 2011, 22 % of total expenditure in the EU-27 consisted of employee compensation (European Commission 2012b). Table 4.2 indicates an upward trend in total general government expenditure between 2002 and 2007. This increase continued after 2007 but at a lower rate. Moreover, after an initial increase after the start of the 2008 crisis, the shift in sentiment towards fiscal tightening and the onset of austerity measures was abundantly clear by 2011.

## Table 4.2 Total general government expenditure at current prices (EUR)

*Annual % change*

| | 2002–2007 | 2007–2011 | 2007–2008 | 2008–2009 | 2009–2010 | 2010–2011 |
|---|---|---|---|---|---|---|
| EU-27 | 4.1 | 2.4 | 3.9 | 2.1 | 3.6 | -0.1 |
| EU-15 | 3.8 | 2.2 | 3.1 | 2.8 | 3.3 | -0.2 |
| BE | 3.9 | 5.0 | 6.5 | 6.1 | 2.2 | 5.4 |
| BG | 12.4 | 3.3 | 12.8 | 6.4 | -6.8 | 1.7 |
| CZ | 7.3 | 5.6 | 17.3 | 0.1 | 3.4 | 2.3 |
| DK | 2.8 | 4.6 | 4.8 | 7.2 | 5.0 | 1.6 |
| DE | 0.7 | 2.7 | 3.2 | 5.0 | 4.0 | -1.4 |
| EE | 14.4 | 2.8 | 17.9 | -2.8 | -6.9 | 4.8 |
| IE | 9.7 | 2.4 | 10.7 | 1.9 | 31.8 | -26.0 |
| EL | 8.5 | 0.5 | 11.3 | 5.7 | -8.3 | -5.5 |
| ES | 7.8 | 3.8 | 9.2 | 7.5 | 0.1 | -1.1 |
| FR | 4.0 | 3.0 | 3.8 | 3.9 | 2.3 | 2.1 |
| IT | 3.8 | 1.6 | 3.4 | 3.0 | -0.8 | 0.8 |
| CY | 8.2 | 6.0 | 10.0 | 7.8 | 3.1 | 3.2 |
| LV | 16.4 | 0.7 | 18.4 | -9.5 | -3.3 | -0.9 |
| LT | 13.7 | 3.7 | 21.3 | -3.5 | -3.3 | 2.2 |
| LU | 6.4 | 7.1 | 7.6 | 10.0 | 6.3 | 4.6 |
| HU | 6.8 | -0.4 | 3.1 | -9.5 | 2.3 | 2.9 |
| MT | 3.7 | 4.3 | 10.3 | -1.3 | 4.6 | 3.8 |
| NL | 3.8 | 3.8 | 6.2 | 7.3 | 2.2 | -0.4 |
| AT | 3.6 | 3.4 | 4.7 | 4.2 | 3.6 | 0.9 |
| PL | 7.2 | 5.3 | 19.7 | -11.7 | 16.2 | 0.0 |
| PT | 4.4 | 2.9 | 2.6 | 8.8 | 5.6 | -4.7 |
| RO | 22.9 | 2.0 | 15.1 | -11.5 | 2.7 | 3.6 |
| SI | 5.3 | 5.7 | 12.5 | 5.7 | 2.5 | 2.5 |
| SK | 9.9 | 8.9 | 19.9 | 16.0 | 1.0 | 0.2 |
| FI | 3.9 | 5.2 | 7.2 | 5.8 | 3.1 | 4.6 |
| SE | 3.0 | 3.6 | 0.1 | -6.8 | 14.0 | 8.4 |
| UK | 5.1 | -1.5 | -4.4 | -6.4 | 6.7 | -1.5 |

*Source:* Eurostat (2012), http://epp.eurostat.ec.europa.eu/.

### 4.2.1. Fiscal consolidation

The data on government debt and deficits across the EU presented below has led to concerns about the sustainability of some countries' sovereign debt burden.

Table 4.3 provides an overview of the economic and public finance situation across the EU in 2011 and trends since 2007, which is the last year of growth before the current crisis and a particularly challenging benchmark for performance thereafter. Economic trends present quite a varied picture as many countries succeeded in coping with the economic downturn and achieved some growth. Countries at the centre of the sovereign debt crisis and the Baltic economies have recorded the most significant falls in GDP.

In terms of government deficit to GDP ratios, the position deteriorated in most countries from 2008 to 2009. Even in 2008, there were only seven countries with a surplus, namely Bulgaria (1.7 % of GDP), Denmark (3.2 %), Cyprus (0.9 %), Luxembourg (3.3 %), the Netherlands (0.5 %), Finland (4.3 %) and Sweden (2.2 %) and the situation deteriorated thereafter. As Table 4.3 indicates, in 2011 Estonia, Hungary and Sweden were the only EU 27 countries with a surplus (1.2 %, 4.3 % and 0.2 % of GDP respectively). The highest deficit (as % of GDP) and most negative trajectory occurred in Ireland (2008: -7.4 %; 2009: -13.9 %; 2010: -30.9 %; 2011: -13.3 %), a consequence of supporting its banking sector. Greece (-9.5 %), Spain (-9.4 %) and the UK (-7.8 %) also continued to maintain sizeable deficits in 2011. Overall, the deficit in the EU as a whole stood at -4.4 % of GDP in 2011 compared with -6.5 % in 2010.

In terms of general government debt in 2011 and changes since 2007, there is considerable variation between countries. Greece was the most indebted EU country at 171 % of GDP in 2011, followed by Italy (121 %), Portugal (108 %), Ireland (106 %), Belgium (98 %), France (86 %), the UK (85 %), and Germany and Hungary (81 %). The lowest level of government debt in 2011, measured as a percentage of GDP, was recorded in Estonia (6 %) as well as in Bulgaria (16 %) and Luxembourg (18 %). The Czech Republic, Latvia, Lithuania, Slovakia and Sweden documented debt levels around 40 % of GDP, with Romania slightly lower.

### 4.2.2. Public sector reform

The capacity of governments to finance their deficit had a crucial influence on the timing and form of fiscal consolidation packages adopted, but government action and market sentiment have also been influenced by other considerations. In particular, the legacy of previous public sector reforms to enhance productivity has mitigated the shock of the crisis and encouraged a degree of continuity with programmes of modernisation (Vaughan-Whitehead 2012). For many years, an important strand of public sector industrial relations analysis has focused on the extent to which Member States have reformed their public sector and moved employment regulation closer to patterns prevailing in the private sector, broadly associated with the adoption of NPM reforms (Bordogna 2008; Demmake and Moilanen 2010). Although it is widely recognised that there has been no convergence between countries in the adoption of NPM measures, the pursuit of structural reforms or modernisation has reformed public sector industrial relations in many countries including Denmark, France, Germany, Italy, Sweden and the UK, albeit to a varying extent (Bach and Bordogna 2011; Bordogna and Neri 2011; Ibsen 2011; Keller 2011). These prior reforms have assisted countries in maintaining public finances more under control and created more scope for governments in these Member States to respond to the crisis in ways that fit prior patterns of structural reform. This has especially been the case in Germany, Sweden and Denmark. The UK is an unusual case because it has been subject to extensive structural reform over the last decade, but this was accompanied by rapid expansion of public employment and expenditure (Bach and Kessler 2012). Moreover, it has not joined the Euro, providing more scope for policy options other than internal devaluation. It has continued public sector restructuring, via initiatives such as outsourcing, but in contrast to many in this cluster it has resorted vigorously to cutback management, with large reductions in public employment.

These responses contrast with Member States that have experienced limited public service modernisation, in which the crisis has created pressure for far-reaching structural reforms of the public sector in the aftermath of more immediate cutback management. The analysis of public management reforms in countries including Greece, Portugal and Spain point to pervasive difficulties in improving operational effectiveness because of rudimentary systems of governance, a strong tradition of patronage in public service appointments and missed opportunities to deal with unjustifiable reward practices (Alba and Navarro 2011; Lasierra 2007; Ongaro 2008; Tzannatos and Monogios 2012).

To summarise, concerns about rising government deficits in the aftermath of the first round economic and financial crisis in 2007/2008 have had an impact on most EU Member States. Against that backdrop, concern for the sustainability of rising government debt amidst continued high deficits altered around 2010, and fiscal consolidation measures aiming at putting government debt on a sustainable basis became the favoured policy response of the affected countries, supported by IMF, OECD and European Commission. Two clusters of countries have been identified. The first contains those that have faced the most severe pressure for budget consolidation, reflected in their recourse to external assistance, and a legacy of limited public sector reform, as the cases of Greece and Portugal illustrate most clearly. They have been required to make rapid adjustments, focused on straightforward cutback management techniques— reducing headcount and wages whilst seeking to put in place longer-term structural reforms of the public sector. In the second cluster of countries, most clearly exemplified by the experience of Germany, Sweden and Denmark, longstanding patterns of public sector reform have been maintained and the crisis had a less severe impact with less recourse to cutback management. This categorisation is used to discuss differencing experiences of fiscal consolidation in the next section.

**Table 4.3. Economic growth, government debt and deficit/surplus, 2007–2011**

| Country | GDP | Deficit/surplus (% of GDP) | | Debt (% of GDP) | |
|---|---|---|---|---|---|
| | % change 2007–2011 | 2011 | % point change 2007–2011 | 2011 | % point change 2007–2011 |
| EU-27 | -0.4 | -4.4 | -3.5 | 82.5 | 23.5 |
| BE | 2.4 | -3.9 | -3.8 | 97.8 | 13.8 |
| BG | 2.5 | -2.0 | -3.2 | 16.3 | -0.9 |
| CZ | 2.8 | -3.2 | -2.5 | 40.8 | 12.9 |
| DK | -3.9 | -2.0 | -6.8 | 46.6 | 19.5 |
| DE | 2.9 | -0.8 | -1.0 | 80.5 | 15.3 |
| EE | -7.8 | 1.2 | -1.2 | 6.1 | 2.4 |
| IE | -6.8 | -13.3 | -13.4 | 106.4 | 81.3 |
| EL | -14.7 | -9.5 | -2.7 | 170.6 | 63.2 |
| ES | -2.8 | -9.4 | -11.3 | 69.3 | 33.0 |
| FR | 0.1 | -5.2 | -2.4 | 86.0 | 21.8 |
| IT | -4.5 | -3.8 | -2.2 | 120.7 | 17.4 |
| CY | 3.5 | -6.3 | -9.8 | 71.1 | 12.3 |
| LV | -16.9 | -3.4 | -3.0 | 42.2 | 33.2 |
| LT | -5.8 | -5.5 | -4.5 | 38.5 | 21.7 |
| LU | -0.4 | -0.3 | -4.0 | 18.3 | 11.6 |
| HU | -3.1 | 4.3 | 9.4 | 81.4 | 14.4 |
| MT | 5.5 | -2.7 | -0.4 | 70.9 | 9.0 |
| NL | 0.7 | -4.4 | -4.6 | 65.5 | 20.2 |
| AT | 2.3 | -2.5 | -1.5 | 72.4 | 12.2 |
| PL | 15.8 | -5.0 | -3.1 | 56.4 | 11.4 |
| PT | -2.6 | -4.4 | -1.2 | 108.1 | 39.7 |
| RO | 1.3 | -5.5 | -2.6 | 33.4 | 20.6 |
| SI | -3.0 | -6.4 | -6.4 | 46.9 | 23.8 |
| SK | 8.3 | -4.9 | -3.1 | 43.3 | 13.7 |
| FI | -2.6 | -1.1 | -6.4 | 49.0 | 13.8 |
| SE | 4.3 | 0.2 | -3.4 | 38.4 | -1.8 |
| UK | -2.3 | -7.8 | -5.0 | 85.0 | 40.8 |

*Source:* Eurostat (2012), http://epp.eurostat.ec.europa.eu/.

## 4.3. Fiscal consolidation: austerity measures in the Member States

The first grouping of countries have all undertaken sharp fiscal consolidation and this has been brought about by external pressure. The role of the providers of financial assistance— the EU (including the ECB) and the IMF— has been a very significant influence on programmes to reduce public expenditure in Greece, Hungary, Ireland, Latvia, Portugal, and Romania. These countries have all been required to pursue 'internal devaluation', but the scale of the challenges they face and their capacity to reduce public expenditure rapidly has differed. Greece has been at the centre of the European debt crisis and has been required to implement an ambitious programme of fiscal consolidation and structural reforms. In May 2010, following severe market turbulence, the euro area Member States and the IMF agreed to lend EUR 110 billion to Greece over the period 2010-2012 under strict conditions which included measures to improve tax collection, accelerate privatisation and reduce public spending over the medium term. Nonetheless, market sentiment turned against Greece during 2011, and additional financial assistance was required during 2011 and 2012.

Portugal required financial assistance in 2011, when EUR 78 billion was made available, and this was accompanied by commitments to reduce the government deficit in a permanent way.

Spain in particular but at various points also Belgium and Italy have not been immune to the pressure exerted by the bond markets. The public sector in Spain was traditionally relatively small and decentralised with public expenditure below levels in other Mediterranean countries (Table 4.1). The economy contracted severely and unemployment almost tripled to 22 % by early 2012. In May 2010, the Spanish government, under sustained pressure from the financial markets, the European Central Bank and the IMF radically altered course and committed to EUR 15 billion of spending cuts in 2010/11 followed by further measures to cut the deficit to 6 % of GDP from 11.1 % in 2009— a target that was missed (Deepiane and Hardiman 2012; Muñoz de Bustillo and Antón 2012).

Ireland also experienced strong growth in its public sector during the 2000s, increasing about 30 % between 2001 and 2009 and with few signs of concerted public sector modernisation (O'Connell 2012). This employment growth was accompanied by substantial pay increases, with a significant pay premium in comparison with the private sector which increased markedly between 2003 and 2006 (Geary and Murphy 2011). The economic and financial crisis hit Ireland very hard because of the scale of the bursting of the housing bubble and the very large measures it took to subsequently support its banking system. That led to sharp increases in its government debt even if from relatively low levels. In late 2010, Ireland required EUR 85 billion in November 2010 from the EFSM, EFSF and IMF. It was the severe deterioration of the public finances reinforced by the legacy of substantial increases in public sector pay and employment that required Ireland to pursue a vigorous programme of fiscal consolidation, focused initially on public sector pay cuts.

Hungary and Romania both received EUR 20 billion support packages from the IMF, the EU and the World Bank in 2008 and 2009 respectively. Whereas the government of Hungary pursued less severe expenditure cuts than most countries subject to external assistance, Romania made much deeper cuts in wages and employment, reflecting a legacy of muddled attempts at public sector reform and a desire to avoid further recourse to IMF loans (Glasner 2010; Vasile 2012).

The Baltic states of Estonia, Latvia and Lithuania confronted a different legacy with relatively small public sectors and, in the case of Estonia, a cautious fiscal policy during the boom years. These economies, however, were immediately hit by the economic crisis, with sharp falls in GDP, exacerbated in Latvia's case by the nationalisation of the indebted Parex bank. In 2008 Latvia secured a EUR 7.5 billion loan from the IMF and EU, but this was accompanied by very large reductions in government expenditure, public sector wage cuts and employment reductions. Lithuania was also swept up in the crisis and in 2009 and implemented wage and job cuts. Estonia moved early in 2008, reflecting its commitment to balanced budgets, introducing public sector wage reductions (Masso and Espenberg 2012; Rastrigina and Zasova 2012).

Turning to the second cluster of countries with less harsh austerity measures and more continuity in patterns of reform, Germany has been characterised by cumulative, evolutionary change, underpinned by a rapid recovery from the 2008 crisis. Public expenditure increased only very modestly during the past decade and Germany is distinctive in terms of the decline of public sector employment up to 2009 and its subsequent growth after the crisis, reflecting investment in key services including schools and childcare (Bosch et al. 2012). Over the past decade, important changes have occurred in public sector collective bargaining and work organisation, with the growth of outsourcing and temporary contracts. The most significant long term government measure was the 2009 Constitutional amendment incorporating a 'debt brake' that strictly limits debts and requires balanced budgets by 2016, which may result in downsizing, especially at municipal level (Bosch 2012; Keller 2011).

The process of adjustment in the Nordic countries has also been marked by continuities with earlier periods of public sector reform. In Sweden there have been no specific measures to cut wages and employment (Anxo 2012). Denmark has implemented some budget reductions for the municipalities, but it is difficult to disentangle these changes from existing programmes of restructuring. The case of France shares some of the same characteristics in terms of the continuation of existing cautious new public management style initiatives and a rather delayed response to the crisis. In 2011, plans were published to reduce expenditure with consolidation measures focused on restrictions in replacing staff to reduce headcount and other operational efficiencies (Gautié 2012). The Netherlands has also experienced a lengthy period of public sector reform and the main preoccupation has been to meet the requirements of the European Stability and Growth Pact by 2013. In autumn 2010, austerity measures intended to save EUR 18 billion by 2015 were announced, which included plans for wage moderation and employment reductions in the public sector.

The UK is an unusual case because it stands out for its sizeable consolidation programme stemming partly from the high levels of support it provided to the finance sector and the subsequent sharp deterioration in its public finances. By 2015, GBP £80.5 billion cuts in public expenditure are planned, intended to reduce the deficit from 8.4 % in 2009 to 0.4 % of GDP by the end of its parliamentary term in 2015. In Italy a series of deficit reduction measures have been introduced, focused especially on reducing municipal and regional government expenditure with EUR 26 billion reductions planned for 2012–15.

## 4.3.1. Key issues and trends

Three observations follow from this overview of austerity measures. First, the underlying reasons for fiscal consolidation programmes and their size and scope differ significantly between countries, with implications for social partner engagement. In countries that have confronted the severest external pressure to reduce public sector employment and wages, governments have rarely been able to fully accommodate the interests of the social partners and the timing of social dialogue. In particular countries, the economic crisis proved to be a catalyst to address longstanding problems of public debt and to tackle a disproportionate reliance on public employment that had become unsustainable— Greece being the outlier in this regard. However, other countries at the centre of the sovereign debt crisis have also been portrayed as having a bloated public sector. By contrast, the Nordic countries and Germany have been less exposed to the crisis, and there is much less preoccupation with reducing public expenditure; the emphasis has been on longer-term modernisation of public sector industrial relations.

Nonetheless, as the situation in France and the Netherlands illustrates, a continuing process of modernisation does not preclude the need to meet the requirements of the Stability and Growth Pact, fostering the implementation of consolidation measures, albeit in less harsh forms and with more scope for debate and social dialogue. In contrast are countries forced by the rapidity and scale of the sovereign debt crisis to tackle their fiscal problems with very tough programmes of adjustment. This has major implications for the extent to which the social partners can influence the scope and scale of austerity measures.

Second, despite some differences in start dates, austerity programmes stretch into the medium term with structural reforms starting to have major consequences for pay and working conditions in the public sector. Although some austerity measures stretch back as far as 2006, for example in Hungary, in the majority of countries programmes started around 2009–2010 or even later in Cyprus, Denmark, France, the Netherlands and the UK. In the case of pay freezes or pay cuts (see below), except in the extremes, there has usually been a lag between the announcement of the policy and its implementation in the following year's pay round. In this regard the crisis has affected the public sector and its workforce in a delayed way in comparison to the abrupt reduction in demand and rapid response of private sector firms in the immediate aftermath of the 2008 crisis. Another contrast with the experience of the private sector, however, is that the impact of austerity programmes for the public services stretch far into the future with supplementary measures often put in place. In other words, austerity measures are not one-off initiatives but have a long-term and cumulative effect.

Third, there is an irreducible political dimension to the implementation of austerity measures in the public sector. Governments have been aware of the unpopularity of austerity and have tried to curtail the scope for opposition or delayed austerity measures until after elections have been held (Kickert 2012). Despite this manoeuvring, the political fallout from austerity programmes has been considerable and their unpopularity has contributed to electoral defeat in many countries, including Greece, Spain, Portugal, Ireland, France, Denmark, Finland and the Netherlands. Many governments have passed emergency budgets and put in place revised fiscal frameworks, strengthening finance ministries, to enhance budgetary discipline and ensure the effective implementation of austerity measures. In 2012, the Spanish government introduced measures to enhance control over the budgets of the autonomous regions, which control a major component of public expenditure. The Italian government imposed a binding financial recovery plan on Sicily to avoid defaults by local authorities. In Greece, the consolidation measures have the force of law, but it is not only countries with the worst fiscal outlook that have used legislation.

In France and Italy, the government proposed a revision to the Constitution that would embed the principle of balanced budgets, a measure taken by Germany as well. In the UK in 2010, the government established an Office of Budgetary Responsibility (OBR) to provide independent forecasts and monitor adherence to new fiscal rules. These measures are designed to reassure investors, increase transparency and redefine political choices as technocratic decisions.

Consequently, EU governments have focused on paybill reductions which can take many forms. These include: pay cuts or pay freezes; reductions or abolition of bonuses and allowances; changes in pension provision; alterations in working time (both increases and decreases); changes in employment, including modifications in the use of temporary and atypical workers; and reductions in employment often brought about by restrictions on hiring and replacement of existing workers. Table 4.4 provides a summary of the key measures within the European Union.

## 4.3.2. Pay cuts

Indicating the severity of the crisis, since 2008, at least 9 EU Member States have directly reduced the public sector wage bill. There have been significant variations in the level of cuts, related to the weakness of the fiscal context and the scope for manoeuvre of the government concerned. The response of the social partners, parliament and the media has also influenced government decisions on pay cuts. Take the case of Lithuania: its government initially announced plans in June 2009 for a 13% cut for around 250 000 public sector workers such as teachers that do not enjoy civil service status and a 10% cut in pay for 60 000 civil servants. Dissent in parliament led to this reduction being scaled back to a 5% cut in basic pay with more substantial reductions in other allowances. Countries where nominal pay has been reduced, at least for some groups, include the Czech Republic, Estonia, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Portugal, Romania, Slovakia, Slovenia, Spain and the UK. This group includes all countries subject to EU/IMF assistance and the remainder are predominantly countries subject to strong bond market pressures to cut their deficit.

After the substantial increase observed in the 2000–2009 period, Greece has experienced the largest reductions, with cumulative and increasingly deep pay cuts introduced since the start of 2010, targeting the complex system of allowances as well as basic pay. Starting with a pay freeze in 2010 for those earning over EUR 2 000 a month, the policy shifted towards reductions in allowances for public sector workers, with some variations between occupational categories. The so-called 13th and 14th month salaries were reduced before being abolished for public sector workers. In February 2012, as a prerequisite for additional financial assistance from the EU and the IMF, the Greek parliament approved a new and unified public wage grid with the aim to further reduce wages by 20% on average and introducing some merit-based performance bonuses. Later on, special wage regimes, which were not affected by the new wage grid and used to lead to higher-than-average wages, were reduced by 12% on average starting in August 2012.

**Table 4.4 Pay cuts, pay freezes and other measures affecting public sector employment in selected countries 2008–2012**

| | Pay cut | Pay freeze | Other measures |
|---|---|---|---|
| BG | | | Proposed replacement of seniority advancements with bonuses. Employment in central government fell by 12% between 2009-2011. |
| CZ | 10% cut in wages in 2011 | Until 2014 | |
| DK | | No real wage increase in 2010 | Removal of seniority bonuses in 2011 |
| DE | | 6.3% wage *increase* between 2012–2014 for 2m public sector employees | |
| EE | Cut in basic payoff around 6%— larger reductions in public administration between 2008 and 2010. | 2009 and 2010 | Abolition or reduction of performance-related supplements and other additional payments |
| IE | At least 5%, 10% for new recruits | | |

| | Pay cut | Pay freeze | Other measures |
|---|---|---|---|
| EL | A series of on-going pay reductions and a new pay structure | Pay freeze for public sector workers earning more than €2,000 per month (2009) | Reduction and subsequent elimination of 13th and 14th monthly salary and new pay structure with a total effect of minimum 15–20% pay reductions. Complete change of collective bargaining system and shift to elements of incentive pay. In 2011, increased working hours from 37.5 to 40 hours per week. Planned reductions in employment of 150,000 (20%) by 2015 |
| ES | 5% pay cut in 2010 | 2011 and 2012 | In 2012 increase in working hours from 35 to 37.5 hours per week and increased contract hours for teachers |
| FR | | Pay scales frozen for 2 years | Replacement of 1 in 2 staff that leave the public sector |
| IT | 5% on salaries over EUR 90 000, 10% over EUR 150 000 for 2011-2013 | Wages frozen at 2010 level for 2011–2013 with possible extension to include 2014 | Collective bargaining suspended 2010–2012<br>Workforce attrition— only 1 in 5 workers replaced in 2011–2013 period with possible extension until the end of 2014 |
| CY | Proposed in 2011 | 3 years | |
| LV | 15% in 2009; 2010 pay cut by 20% for higher paid & by 15% for lower paid | | As part of package agreed with the IMF: introduction of single remuneration system for those in central & local government institutions, which cut pay in 2010 by on average 5% compared with 2009. |
| LT | Cut of 15% | Until 2012 | |
| HU | Cut by 7% in 2008-2010 | Pay freeze since 2009 | Abolition of 13th month salary (8% of annual salary) replaced by lower flat-rate payment for most public sector workers (2009/10)<br>7000 government job cuts announced in 2012 |
| NL | | No wage agreement concluded in central government since 2011— a wage freeze | Planned job reductions in central government by 2015<br>Ending of LIFO principle in 2012, making it easier to dismiss central government workers |
| PL | | For two years | Teachers excluded from pay freeze (pay has increased) |
| PT | 5% pay cut in 2011<br>For 2012 13th and 14th month payments suspended for medium and high salaries, despite a challenge in the Constitutional Court | 2 year pay freeze from 2011 until 2013 | Reductions in health benefits. |
| RO | 25% temporary cut in 2010 partly restored under new pay system | 2012 | The new pay system introduced in 2012 eliminates a range of bonuses and abolishes the 13th month pay |
| SI | 4% in 2011, additional cuts of 8% on average in 2012 | 2011 and 2012 (six months) | |
| SK | Paybill cut by 10% in 2011 | | Teachers and some other groups are not affected by the pay cut |
| SE | | No wage moderation | Reductions in employment of staff on fixed-term contracts |
| UK | Cuts in premium payments and allowances, especially in local government | 2010–2012 some exemptions for lower paid | Cap on pay rises of 1% planned for 2013/14<br>Large reductions in employment underway— in excess of 10% between 2010–2015. |

*Sources:* see list of information sources.

Estonia, Latvia, Lithuania, Hungary, Romania, Ireland, Portugal and Spain amongst others have also made substantial pay cuts, often as part of the lending conditions established by the international community. Latvia provided undertakings to the IMF to reduce central and local government funding for wages by 15 % in 2009, with limits to additional payments. Protection for the low paid resulted in a smaller public sector paybill reduction of around 5 % in the first half of 2009. Continuing economic difficulties prompted further pay cuts in a supplementary budget from June 2009 and an average 18 % pay cut by late 2009 with teachers worst affected. In Hungary during 2009 the 13th month salary was removed, worth around 8 % of annual pay. Romania also moved towards the removal of 13th month payments and holiday bonuses, but in addition passed a temporary six-month 25 % across-the-board reduction in pay for the second half of 2010 as a precursor to longer structural reforms of pay determination. In Ireland the first phase of pay reductions in 2009 took the form of a differentiated pension levy which on average reduced pay by 7.5 %, with cuts in basic pay on an income-related scale of between 5–15 % implemented in January 2010. Subsequently no additional pay cuts have been introduced as a result of the Croke Park agreement (see Box 4.2). In Portugal pay cuts of 5 % were introduced later, at the start of 2011, but a deteriorating fiscal position led to further pay reductions brought about by the suspension of the 13th and 14th month salaries for those workers earning above EUR 1 100 per month with lesser deductions for those below this threshold. The Spanish government also introduced an average 5 % pay cut in June 2010, and this was followed by a pay freeze at the new lower level for 2011. The government elected in autumn 2011 immediately extended the pay freeze for 2012 and took additional measures to reduce public expenditure.

### 4.3.3. Pay freezes

A related method of adjustment has been the use of pay freezes. These measures have often operated alongside pay cuts and have frozen public sector pay or significant components of pay. In some countries this has been an important component of the government's response, such as in Cyprus, Denmark, France, Italy, Poland and the UK, indicating a less drastic response to the crisis. The first pay freezes were introduced in 2008–9, and because of the severity of the crisis in Greece and Ireland, agreed pay increases were annulled. Pay freezes for two years have been common, but in the Czech Republic and Italy such measures are planned to continue for four years until the end of 2014.

Pay freezes take different forms and do not invariably result in pay reductions because other aspects of remuneration apart from base pay may increase. France and the UK have implemented two year pay-scale freezes. In France, this has been set against improvements in some other elements of pay, such as performance-related pay. In the UK, pay scale freezes have not stopped progression in sectors such as the health service, enabling workers to continue to gain nominal wage increases by moving up the pay scale. The end of the UK pay freeze in 2013 will be marked by a slight easing of pay policy with the government anticipating that pay awards will average 1 % in 2013–2014. Other methods in which wage freezes have been introduced are by the suspension of collective bargaining as in Italy or by the failure to negotiate a collective agreement as occurred in the Netherlands in central government after 2011.

Another important variant on pay freezes relates to their coverage, with specific groups or sectors excluded. Although the structure and financing of public services varies between countries (see Chapter 3 of this report), governments exercise the tightest control over central government and especially the civil service workforce. This stems from the tight alignment between the role of government as a policy-maker and its role as an employer. Consequently, the scope for the strongest control over public sector pay exists where the government is the direct employer, has political authority over policy decisions, and controls expenditure directly. The Netherlands illustrates this dynamic with a pay since from January 2011 implemented in central government, but in local government and hospitals wage agreements provided for 1.5 % and 2 % pay increases respectively. In some countries specific groups have been excluded, notably teachers in Poland and Slovakia. Overall, the relative advantage of a pay freeze for government is that it is easy to understand, straightforward to implement and for politicians sends a signal to the electorate that public sector workers are not exempt from the type of wage adjustments that have occurred in the private sector during the crisis.

Although austerity is a phrase that has permeated discussion of the public sector across Europe, some countries have been less affected by the crisis and have not opted for pay freezes and wage reductions. These countries are exemplified by strong traditions of social dialogue and often a prior legacy of public sector modernisation. Austria, Germany and the Nordic countries illustrate these developments. In Austria, public employers were seeking a pay freeze for 2010, but trade unions secured a wage increase of around 1 % and gained higher increases in 2011 (Glassner 2010) with pay claims of around 4 % submitted for 2012. There have also been pay raises in Denmark, Finland and Sweden with some variation between sub-sectors. Germany has also been shielded from pay cuts and ver.di, the trade union that bargains on behalf of the public sector workforce, obtained a 6.3 % increase over two years (2012–2014), influencing agreements in other parts of the economy. Nevertheless, it should be remembered that this was preceded by a three-year pay freeze from 2005–2007 and a low increase in 2011.

A number of other themes can be discerned. First, there have been attempts to target pay reductions for the higher paid. In certain cases, the lowest paid have been fully or partially exempted from pay freezes or wage cuts. For example, in the UK the two-year pay freeze excluded workers earning less than £21 000 (around €26 000) a year except in the case of local government workers covered by a separate agreement. In Ireland, during 2008–2009 a series of measures reduced public sector pay, but when further reductions were announced in December 2009 to take effect on January 1st 2010 these were on a sliding scale with a 5% cut of salaries of EUR 30 000 increasing to a 15% reduction for those earning above EUR 200 000 (Stewart 2011: 223). Similarly in Greece, Italy, Portugal and Spain, higher earners have been targeted for larger reductions in pay.

Second, in contrast to the private sector, where pay is usually decided at company or sectoral level, these exceptional wage measures often require parliamentary approval. Consequently it is not the direct employer or an employer's association making pay decisions but rather national politicians with a variety of incentives and answerable to a broader range of stakeholders. Governments therefore have sometimes amended plans to curtail public sector pay and have been reluctant to provoke the public sector workforce, especially in election years; planned measures do not always equate to outcomes. In Slovenia, plans to cut basic pay by 4% at the end of 2011 were rejected (although in 2012 the Public Finance Balance Act decreased wages in the public sector by 8% on average), whilst in Portugal an amendment to the 2012 budget law raised the monthly salary threshold for suspension of the 13th and 14th month salary payments from EUR 1 000 to EUR 1 100 (European Commission 2011). In Denmark, more contentious aspects of pay reforms such as the individualisation of pay negotiations were not pursued during 2011, an election year. Nevertheless, despite some concessions, the unpopularity of austerity programmes has not prevented the collapse of governments.

### Table 4.5 Compensation of public administration employees, 2002–2011

| | % of GDP | Annual average % change in EUR or national currencies | | |
|---|---|---|---|---|
| | 2011 | 2002–2011 | 2002–2007 | 2007–2011 |
| EU-27 | 10.8 | 2.8 | 4.0 | 1.4 |
| EU-15 | 11.0 | 2.6 | 3.7 | 1.3 |
| BE | 12.6 | 4.0 | 4.0 | 4.1 |
| BG | 9.0 | 9.0 | 11.2 | 6.2 |
| CZ | 7.3 | 4.3 | 7.0 | 1.0 |
| DK | 18.5 | 3.4 | 3.1 | 3.8 |
| DE | 7.7 | 1.5 | 0.4 | 2.9 |
| EE | 11.1 | 9.3 | 13.8 | 3.8 |
| IE | 12.0 | 5.3 | 10.7 | -1.0 |
| EL | 12.4 | 4.6 | 8.0 | 0.5 |
| ES | 11.6 | 6.0 | 8.1 | 3.5 |
| FR | 13.2 | 2.7 | 3.0 | 2.3 |
| IT | 10.7 | 2.3 | 3.6 | 0.8 |
| CY | 16.1 | 7.6 | 9.0 | 5.8 |
| LV | 9.5 | 9.4 | 21.1 | -3.7 |
| LT | 10.3 | 7.1 | 10.6 | 3.0 |
| LU | 8.0 | 6.4 | 6.5 | 6.3 |
| HU | 10.2 | 3.4 | 6.8 | -0.7 |
| MT | 13.4 | 3.9 | 2.7 | 5.4 |
| NL | 9.8 | 2.9 | 2.8 | 3.0 |
| AT | 9.4 | 3.3 | 3.3 | 3.3 |
| PL | 9.8 | 6.1 | 5.4 | 7.1 |
| PT | 11.4 | -0.3 | 0.5 | -1.3 |
| RO | 7.6 | 14.6 | 25.6 | 2.1 |
| SI | 12.8 | 6.2 | 6.3 | 6.1 |
| SK | 7.1 | 4.3 | 3.9 | 4.8 |
| FI | 14.2 | 3.9 | 4.0 | 3.7 |
| SE | 13.9 | 2.7 | 3.9 | 1.1 |
| UK | 11.1 | 4.8 | 6.8 | 2.3 |

*Source:* Eurostat (2012), Government revenue, expenditure and main aggregates, http://epp.eurostat.ec.europa.eu/.

Third, as Table 4.5 indicates, the crisis has led to a slowdown in the rate of increase in compensation, and in some countries the effects of wage freezes and pay cuts are starting to become evident. These measures, however, represent short- or medium-term responses that have a finite time limit. As economic growth returns, restricting public sector pay may lead to staff shortages, emigration and difficulties in attracting talented individuals into public service. Many governments have sought to use the crisis to bring about structural reforms of pay determination and wider labour market reforms that will have significant long term consequences for public sector employment relations. In the UK, the government proposed changes in public sector pay determination to take more account of regional variations in pay rates. In Bulgaria, a new pay system in public administration has replaced traditional seniority-based pay with a system that takes more account of performance, and in Luxembourg performance management and progression of civil servants have been reformed.

Overall, virtually no country has been immune from pressures to curb wages, but the degree of moderation has varied between countries. The experience of different countries confirms the differences between the two clusters of countries outlined earlier. In the first, the deepest cuts are evident, with the most sizeable reduction occurring in Greece but with large pay cuts also taking place in Hungary, Ireland, Latvia, Lithuania, Portugal, Romania and Spain. In the second cluster of countries Germany is a separate case in terms of the absence of pay cuts, with somewhat similar developments in the Nordic countries and in some of the agreements concluded in the Netherlands. In the UK, the pay scale freeze has not precluded some pay uplift for low paid workers and those able to progress to higher salary points. In France various bonuses have partly compensated for the freezing of pay scales. The upshot is that while there are some variations between countries *within* each cluster, very important differences remain in the experience of wage moderation between the two country groupings.

### 4.3.4. Pensions

Pensions comprise a very large and rising share of public expenditure (European Commission 2012b). Pension provision has been under pressure not only because of fiscal pressures but also from demographic trends (Ghellab et al. 2011). Most countries have reviewed pension arrangements and have increased the statutory pension age for men and women in the public and private sectors. A key measure is to increase the threshold age for the payment of a statutory pension, delaying payment for up to five years, typically raising the threshold from 60 to 65 with plans to raise the threshold further in a range from 66–68 over subsequent decades, often linked to increased life expectancy. In addition, contribution rates have frequently been raised.

Alterations in public sector pension arrangements, however, may require agreement from the social partners, who often have a key role in managing pension funds. Complex negotiations have resulted in changes (i.e. increases) in the retirement age of public sector workers, with differences remaining between countries and between occupational groups within each country. Pension reforms that have been especially prevalent in the public sector include: an increase in the retirement age with a narrowing or closing of the gap between men and women and between the public and the private sectors; abolition or at minimum an increase in the age of mandatory retirement for specific occupational groups such as police officers; increased contributions via special levies or permanent increases in employee contribution rates; new— usually less favourable— pension provision for new starters in public sector jobs; reductions in benefits, with short-term reductions often reinforced by structural reforms that alter accrual mechanisms. Pension reforms and the social partners' response are discussed more fully in Chapter 6 of this report.

## 4.4. Employment, working time and flexible labour utilisation

Reducing the public sector pay bill by a combination of pay freezes, pay cuts and adjustments to pensions have been the most prevalent methods for achieving savings. In addition, a variety of other measures have been used to reduce public expenditure. In general terms the scope for governments to reduce public sector employment is related to nationally specific employment statutes. As noted in Chapter 3, many public sector workers have permanent employment status and high levels of job security incorporated into specific public sector labour codes that are difficult to reform. The crisis, however, is being used as an opportunity to alter labour codes often portrayed as protecting privileged public sector workers, for example in relation to dismissal. More broadly, despite the uncertain results of public sector reforms (Bach and Bordogna 2011), responses to the crisis seem to have reinforced efforts to introduce some of the principles, if not the core practices, of NPM, with considerable interest in the use of outsourcing, performance management and attempts to increase flexible labour utilisation to control the paybill. An important difference, however, in the latest phase of reform is that instead of an emphasis on the decentralised management of change, both the measures and their consequences have been substantially predetermined at the centre, reflecting the overriding priority to achieve financial objectives.

In many countries there has been no tradition of the collective dismissal of public sector workers, Spain and Italy being typical examples, and prior to the crisis employers often hired substantial numbers of temporary employees to provide additional flexibility in labour utilisation. This trend, however, has been reversed in countries such as Italy with the employment of temporary workers restricted by austerity measures. By contrast, a climate of retrenchment has been significant in encouraging the increased use of temporary labour in some countries such as France, Germany and Sweden (Vaughan-Whitehead 2012). In the United Kingdom, in which there is no separate public sector employment statute, public employees can be made redundant relatively easily, reducing incentives to employ large numbers of temporary workers. Irrespective of specific employment protections, in the past governments have been wary about increasing unemployment and dampening aggregate demand by reducing public sector employment during a deep recession. Such aspirations continue, but deficit reduction and fulfilling the requirements of the European Stability and Growth Pact are dominant policy objectives, and consequently there has been greater willingness to reduce public employment than in the past.

### 4.4.1. Employment cuts

Reductions in employment have usually been brought about indirectly by hiring freezes rather than directly via voluntary or mandatory cuts in employment. A number of countries have introduced hiring freezes or replacing a small proportion of public sector workers in relation to leavers. In France only one in two civil servants are being replaced, and in Italy the proportion is one in five. The same ratio was used in Greece during 2010, but was amended to one in 10 for 2011 and a similar one-in-10 ratio is being used in many parts of the public sector in Spain. In Ireland the Public Service Agreement 2011–2014 (the 'Croke Park agreement') severely restricted recruitment, and promotion and public sector employment fell from its peak in 2008 of 319 000 to 308 000 in 2010 and is envisaged to diminish to 295 000 by 2014 (OECD 2011). Another mechanism used to reduce public sector employment is to transfer surplus workers into a labour reserve, usually accompanied by wage reductions, and if after a set period— one to two years— alternative employment is not available, the individual is dismissed. These arrangements were introduced in Greece, but plans to place 15 000 employees in the labour reserve by the end of 2012 were not achieved, and there was little use of the scheme. It has been re-launched as a mobility scheme intended to accelerate the restructuring and downsizing of the public sector, and a new target of 27 000 transfers to the mobility scheme should have been achieved by the end of 2013. Affected employees are provided with one year of reduced pay, and if they fail to find another public sector position, they will be dismissed (IMF 2013). These measures are often a precursor to plans to reform dismissal procedures within the public sector, which are on-going at the time of writing in countries such as the Netherlands and Spain. For example, in the Netherlands, legislation proposed in 2012 outlines measures to harmonize dismissal regulations in the public sector in line with those in the private sector (Leisink, Weske and Knies 2012).

Employment reductions have also been targeted for specific groups and employment categories rather than applied in a uniform fashion. Temporary workers have been vulnerable to non-renewal of their contracts in countries such as Italy. One common characteristic of employment reductions is that some occupational groups, especially managerial and administrative staff, have been targeted for employment reductions as part of broader strategies to rationalise and streamline public service delivery via the merging or restructuring of administrative units. For example, the outsourcing and sharing of information technology, finance, legal and human resource management services has become more prevalent. Reductions in managerial positions often accompany these changes as has been the case in Portugal, the UK and Ireland. To facilitate worker redeployment and effective staffing patterns there have been moves to harmonise terms and conditions of employment across the public services, such as in Ireland.

Employment cuts, however, are not always cost neutral, as longer-term savings have to be balanced against the short-term costs of early retirement schemes in which public sector workers may gain immediate access to their pension even if they have not reached statutory pension age. This has caused concern in some countries, such as Ireland, especially if there is suspicion that managers are being re-hired on favourable contractual terms. Moreover the loss of experienced workers may diminish the skills available to organisations in a period in which managerial talent is at a premium in bringing about complex changes in public service provision. Indeed, some countries have become so concerned about the level of early retirement requests that they have altered their regulations. In Portugal there were around 11 000 early retirement requests in the civil service during 2011. In April 2012 a law was passed with immediate effect to suspend early retirement rules until 2014 to prevent further loss of civil service expertise and to improve fiscal control.

Overall, as Table 4.6 indicates, there has been a shift since 2007 with employment in public administration starting to decrease as a proportion of total employment, although variations between countries and over time are influenced by the severity of adjustment in the private sector. In keeping with the overall argument of this Chapter, countries subject to IMF agreements and external pressure have often been required to commit to larger reductions in employment, although it has not always been straightforward to achieve these reductions. Greece, for example, pledged to reduce public employment by at least 150 000 between 2011 and 2015, but the reduction in employment during 2011 was slower than anticipated.

## 4.4.2. Working hours

Finally, governments have used a variety of other changes in working arrangements to increase flexible labour deployment and bring about pay bill savings. In contrast to experience in the private sector, as reported in the *Industrial Relations in Europe 2010* report, there has not been widespread recourse to short-time working. In the private sector, short-time working reflected attempts to preserve employment in a period of sharply reduced aggregate demand. In the public sector the underlying pressures are different, stemming from budgetary restrictions rather than a lack of demand for services. Indeed the reverse may be true because demand pressures on staff often increase in a period of recession (e.g. requests for social security benefits or employment assistance). Consequently, to meet growing demand but also boost productivity, governments have increased working hours. In Spain in 2012, a 37.5 hour working week was imposed on all public sector employees, despite some regional and local governments agreeing shorter working hours for their workforce. These workers were able to maintain their shorter working week, but their pay was reduced in proportion to hours worked. In Ireland, many public sector workers are working longer hours, the so called 'Croke Park hours', with teachers and lecturers working an additional 26 to 36 hours per year to improve educational standards.

### Table 4.6. Number employed in public administration, 2002–2011

| | % of total | Annual average % change | |
|---|---|---|---|
| | **2011** | **2002–2007** | **2008–2011** |
| EU-27 | 6.7 | 0.5 | -0.4 |
| EU-15 | 6.8 | 0.1 | -0.5 |
| BE | 9.5 | 1.3 | 0.2 |
| BG | 6.5 | 2.6 | -1.6 |
| CZ | 5.6 | 0.3 | -2.3 |
| DK | 5.8 | -0.2 | 0.0 |
| DE | 6.4 | -0.9 | -1.3 |
| EE | 7.2 | 2.1 | 1.5 |
| IE | 5.7 | 3.3 | -0.7 |
| EL | 9.1 | 3.0 | -1.2 |
| ES | 7.9 | 1.5 | 1.5 |
| FR | 9.2 | 0.2 | -0.2 |
| IT | 5.4 | -1.1 | -0.7 |
| CY | 9.6 | 1.0 | 1.0 |
| LV | 6.5 | 1.7 | -6.2 |
| LT | 6.1 | 0.7 | -0.8 |
| LU | 5.2 | 2.7 | 2.2 |
| HU | 7.5 | 2.8 | -1.4 |
| MT | 7.4 | 0.0 | -0.3 |
| NL | 5.7 | -1.0 | 1.0 |
| AT | 6.5 | 0.3 | 0.1 |
| PL | 6.6 | 3.5 | 2.6 |
| PT | 6.5 | -0.3 | -0.4 |
| RO | 5.1 | -0.4 | 0.0 |
| SI | 5.6 | 2.1 | 0.3 |
| SK | 6.7 | 2.7 | -0.8 |
| FI | 6.9 | 0.1 | -0.6 |
| SE | 5.4 | 0.5 | -0.7 |
| UK | 5.3 | 1.0 | -1.8 |

*Source:* Eurostat Accounts and Labour Force Survey.
*NB:* All figures are based on National Accounts data except as noted here. For Bulgaria and Romania, data come from the LFS; for Portugal, the change 2010–2011 is estimated from LFS data; for the UK, data relate to the number of jobs rather than number of persons employed. The EU totals are based on the sum of employment in Member States.

## 4.5. The implementation of austerity measures: Limited social dialogue and widespread mobilisation

### 4.5.1. Social dialogue

Social dialogue, interactions between organisations representing employers and workers and public authorities, does not occur in a vacuum and has been profoundly influenced by the economic crisis and moves towards fiscal consolidation. As reported in Chapters 1 and 3, there are strong traditions of negotiation and consultation in the public sector, reflecting much higher levels of union density than in the private sector. Public sector union density and influence is less evident in central and eastern European Member States, with certain exceptions, such as Poland (Bernaciak *et al.* 2011). In general, social dialogue has come under pressure. It has been challenging to build trust and gain agreement between parties with differing interests and when austerity measures invariably involve making concessions that the social partners may not be willing or able to concede.

At the same time the contentious nature of austerity measures makes negotiation and consultation even more important because austerity measures cannot be implemented effectively without some level of acceptance and ownership by the social partners. This is particularly true in the case of policies with longer-term implications such as pensions— see Chapter 6 of this report. Social dialogue provides opportunities for the social partners to share information with each other, enables government to improve policy design and implementation, and often ensures the most vulnerable are shielded from the consequences of austerity measures. Nonetheless, in many countries a sense of ownership has been absent, and the implementation of austerity measures has resulted in severe social strife. Despite these strains, in some countries traditions of negotiation and consultation have remained intact, facilitating more effective implementation and reduced conflict.

Public services social dialogue occurs at a number of levels. At the European level the response of the sectoral level committees to the crisis is documented in Box 4.2.

At the national level there have been wide variations in the role played by social dialogue in contributing to the process and implementation of austerity plans. In the 1990s, a period of economic adjustment during the establishment of economic and monetary union, there were numerous agreements between governments, employers and trade unions on incomes, employment and social security reforms (Baccaro and Lim 2007; Natali and Pochet 2009). It has been noted, however, that a period of economic crisis on its own is a poor predictor of concerted joint action. Specific political and institutional conditions, especially weak governments and their poor electoral prospects and the capacity of unions to deliver on their side of the

**Box 4.2 EU level public services sectoral social dialogue joint statements on the crisis**

There are four European sectoral social dialogue committees which cover the public sector. The committee for local and regional government comprises the European Federation of Public Service Unions (EPSU) and the Council of European Municipalities and Regions (CEMR). In education, the social partners are the European Trade Unions Committee for Education (ETUCE) and the European Federation of Education Employers (EFEE). For hospitals, EPSU meets with the European Hospital and Healthcare Employers' Association (HOSPEEM), and in central government the Trade Unions' National and European Administration Delegation (TUNED) is linked with the European Union Public Administration Employers.

The local and regional government social partners (CEMR and EPSU) sent a joint message to the European Council meeting in March 2009, emphasising the importance of maintaining employment in the sector and the resource implications of increased demand for services. Further joint statements were issued on the economic crisis, reinforcing these points, to a European Council meeting in February 2010 and December 2010.

In October 2011, CEMR and EPSU reminded the European Council ahead of its 26 October meeting that: 'the austerity policy followed by dramatic cuts in public services… will continue to undermine labour markets and the social model.' The joint statement encouraged the European Council to take a long-term perspective to strengthen and enhance social dialogue, including support for 'sustainable employment measures in Local and Regional Government and investment in training, skills and decent work'.

The central government administrations social partners (TUNED and EUPAN) issued a statement on 31 December 2011 and noted that 'in a majority of European Countries the administrations are subject to austerity measures affecting their global budgetary means, their workforce and/or its remunerations, and that can influence working conditions'. The Committee stressed 'the proven importance of the public sector in general and of the public administrations in particular, in the present difficult times, to strengthen, monitor and consolidate the sustainable recovery of our economies'. They reaffirmed that 'what constitutes the administrations are the people who work in them and that if we don't place them at the heart, in every moment of the transformations we are going through, we are certain not to attain the objectives'.

The social partners concluded that: 'in the framework of such transformations, the recognition and promotion of social dialogue is essential and absolutely necessary, as well as the need to uphold public sector values of universal access, accountability, transparency, integrity and equal treatment'.

bargain are important conditions influencing the establishment of social pacts in crisis conditions (Avdagic *et al.* 2011; Hamann and Kelly 2007). In the highly turbulent economic and political conditions that have prevailed since 2008, there has been no return to the social pacts of the 1990s.

Even in countries with established traditions of social dialogue, the severity of the austerity measures proposed has made it very difficult to develop coordinated responses to the crisis. Governments have often acted in haste because of pressure from financial markets and felt the necessity to develop waves of austerity measures, often in a reactive way, undermining the confidence of employers and trade unions in government action. This is not a conducive context in which to pursue agreement with the social partners, since it exposes one of the main limitations of negotiation and consultation: it requires time and often additional resources to effect change, and it involves compromises. For governments the need to implement austerity measures quickly has made them more cautious about the value of social dialogue because of the difficulties in reaching agreement on complex and contentious issues in a timely manner.

### Box 4.3 Ireland: Public services social dialogue in the crisis: The Croke Park agreement

Ireland represents a distinctive case of adjustment to the financial crisis. The collapse of the property boom and the implosion of the Irish banking system led to unprecedented austerity measures. Initial deductions of pay for public sector workers of between 3–9.6% in spring 2009 were followed by further pay cuts on a sliding scale of between 5% to 15%, linked to earnings from January 2010. These measures prompted strikes and demonstrations throughout 2009 and during 2010. In December 2010 the crisis culminated in large-scale EU/IMF financial support of EUR 85 billion accompanied by government agreement to undertake further fiscal consolidation.

Prior to the crisis, Ireland had been central to industrial relations analysis and debates about the scope for social dialogue in particular institutional contexts. Commentators had been puzzled by the establishment from 1987–2006 of a series of three-year national economic and social partnership agreements between employers, trade unions and successive governments that contributed to a highly centralised and coordinated approach to wage determination in a context in which few of the institutional preconditions for social partnership appeared to be present (Roche 2007). For sceptics, the onset of the crisis seemed to confirm the fragility of the Irish social partnership model as social concertation unravelled during 2009, the implication being that social partnership was not embedded in the Irish system and that the scale of adjustments required precluded scope for social partnership (Regan 2011; Doherty 2011).

In 2009 negotiations on a national pact broke down after an agreed national wage settlement was abandoned because employers and the government regarded it as too costly in a rapidly deteriorating economic context. The Irish Congress of Trade Unions (ICTFU) accepted the need for public sector reform and adjustments to public finances but also proposed tax increases for higher earners alongside stimulus measures. The ICTFU agreed to a EUR 4 billion cut in current expenditure based on productivity increases and short-time working, but the government did not accept the ICTFU proposals and unilaterally imposed pay cuts via a supplementary budget in April 2009. As public finances deteriorated, the government signalled it was seeking further reductions and this prompted a one day strike on 6 November 2009.

Discussions between the public sector trade unions and the government with employer involvement led to a four-year (2010–2014) Public Service Agreement (the Croke Park Agreement). The agreement stated that there would be no further public sector pay cuts before 2014 in exchange for a phased reduction in public sector staff numbers and a substantial commitment to reform, including changes in work organisation and working conditions, especially for new starters. The trade unions also guaranteed industrial peace, if necessary using existing binding dispute resolution mechanisms to prevent strike action. These reforms were to be monitored by an implementation board that would publish annual reports on progress, supported by sectoral groups (such as in health and education) to support employers and unions in implementing changes in working practices and enhancing productivity. Despite considerable unease within the trade union movement, in June 2010 the ICTFU Public Services Committee accepted the agreement with only one affiliate, the Irish Federation of University Teachers, initially not signing the agreement.

Considering the existing pay reductions and continuing staff reductions, some trade union members have been ambivalent about the agreement and concerned that their scope to influence employer decisions would be limited. There has been unease that a large number of early retirements and a recruitment moratorium are leading to staff shortages. The implementation body, however, reported in June 2012 that savings in the order of EUR 891 million had been achieved during 2011–12 in addition to the EUR 597 million delivered in 2010–11. Staff numbers had fallen substantially, service reconfiguration had commenced and industrial peace had been maintained. There has been some questioning of the appropriate balance to be struck between cutting public service staffing and reducing pay, and there is some uncertainty about whether cuts in allowances would breach the agreement. In November 2012, talks between the government and trade unions began on an extension of the agreement. The new talks centre on fresh reforms to extract a further €1 billion worth of savings from public sector costs by the end of 2015. The government says the cuts are vital, but acknowledges that the process will not be easy.

The process of consultation and negotiation has focused on the level of the sector and has been less dominated by traditional collective bargaining over wages, concentrating on discussions of complex issues such as pension reform, employment reductions and flexible labour utilisation. In a similar way to the preceding analysis, it has been more difficult to reach accords in countries most affected by the sovereign debt crisis, especially Greece, Lithuania, Portugal, Spain and Romania. Ireland, however, stands out in this regard (and not only in relation to our first cluster of countries) because it has been the only European country that has concluded a comprehensive long-term (four-year) agreement between the public service trade unions and the government, exchanging job cuts for wage stability, backed up by targets and the monitoring of outcomes. Although this agreement is a pale imitation of the series of social pacts agreed during the 1980s and 1990s, it remains a very rare example of a national sectoral-level agreement that addresses austerity in a relatively inclusive manner and with much less conflict than in similarly indebted countries (see Box 4.3). This response has been attributed to the legacy of social partnership, which encouraged the search for compromise; the importance of inward investment and the emphasis on maintaining Ireland's global competitiveness; and a public belief that the public sector had been treated generously in terms of pay and pensions in the recent past (Dukelow 2011; Geary and Murphy 2011; Stewart 2011).

In other countries also affected by severe fiscal consolidation, a much less positive picture emerges, frequently blending elements of government unilateralism, unsuccessful attempts at consultation, and some agreements on specific components of reform such as pension provision. The case of Greece indicates the absence of social dialogue, and policy has been decided unilaterally by emergency decree with virtually no attempt to involve the social partners. The fragile and uneven institutionalisation of collective bargaining in the public sector has been suspended, resulting in sustained, politicised mobilisation against austerity (Ioannau 2012). Severe restrictions on social dialogue and failure to reach agreement on a new public sector pay system has also characterised the experience of Bulgaria and Romania (Vasile 2012).

In Spain, the government was committed to social dialogue and set out a joint response to the crisis in summer 2008. It was the unveiling of austerity measures in May 2010, including public sector pay cuts, that precipitated industrial action. This put pressure on the government, and in January 2011 a social pact was agreed with separate elements, including a tripartite agreement on the reform of the pensions system and a bipartite agreement between the government and the trade unions to reform the public sector. The trade unions gained some concessions on the shift towards a pension age of 67— also for private sector workers— (see also Chapter 6 of this report) and social dialogue was restored for civil servants. Despite this agreement, the fragility of consultation and negotiation has become apparent in autumn 2011 with deeper budget cuts, triggering mass demonstrations and general strikes (see Table 4.9).

Similarly, in Belgium, Italy and Portugal amongst others there has been very little consultation on measures that impact the public sector workforce, and in Hungary during 2011 the country's Council of Interest Representation was dissolved and replaced with a weaker consultative body (Hámori and Köllő 2012). In some countries there has been little formal consultation, but informal dialogue over austerity has taken place, such as in Austria (Theodoropoulou and Watt 2011). In other cases consultation has been tokenistic, seeking the social partners' endorsement for measures largely decided by government and with little scope for modification. In some of these countries it has been the weakness of organised labour that has persuaded trade unions to accept austerity packages, such as in Latvia and Lithuania during 2009, rather than risk losing residual authority as a legitimate social actor (Bohle 2011).

In countries less affected by austerity with ongoing processes of public sector modernisation and established traditions of social dialogue, something resembling established collective bargaining has continued, as is evident from the experience of Germany and Sweden. In Denmark as well, wage negotiations have continued and in Finland the social partners are actively engaged in discussions in relation to pension reform. Even in countries where there has been strong disagreement with the government over austerity measures there has been scope for social partner engagement. President Hollande of France, elected in 2012, has committed to making social dialogue a major plank of policy with a conference held in summer 2012 with social partners to discuss pensions and wider labour market reforms. In Latvia, during 2012, agreement was reached with education trade unions to raise teacher salaries despite several rounds of difficult negotiations with the threat of planned strikes removed. In the UK, contentious discussions took place, but eventual agreement has been reached in relation to pension reform. The UK government altered the normal pension which is moving up in steps from 65 to 67 to 68 by 2044/5; workers' contributions are increasing; and pension schemes are shifting from final salary to career average based schemes. These proposals led to strikes in 2011 and provoked industrial action by doctors in 2012 for the first time since 1975. Trade unions extracted some concessions, safeguarding the low paid and negotiations resulted in overwhelming trade union support to accept government proposals, ending pension disputes in most parts of the public sector. For more details on social partner involvement in pension reform, see Chapter 6 of this report.

## Box 4.4 Public sector adjustments in Europe and their effects

A first evaluation of public sector adjustments in Europe was carried out in 2011–12 by the ILO, co-financed by the European Commission, to contribute to a better understanding of the nature and extent of such adjustments in different European countries and to identify some of their effects. A conference on this topic was organized in Brussels on 21–22 June, 2012, with the participation of government, employer and worker representatives from 30 European countries. The results of this study are summarised here and have been published as *Public Sector Shock - The impact of policy retrenchment in Europe*, D. Vaughan-Whitehead (Ed.), Edward Elgar-ILO, 2013.

Research carried out by high-level national experts shows a great diversity in public sector adjustments in Europe. Beyond common trends in public sector reforms before the crisis, including outsourcing, a greater incidence of fixed-term contracts and rationalisation, current adjustments have varied significantly according to their nature and magnitude, timing and the policy mix. Such differences might be explained by whether the individual country has already experienced significant public sector adjustments in the past, as in the Netherlands or Sweden. The scale of adjustment may also depend on whether or not it takes place in countries with large-scale public sector employment. One key factor in diversity of approach was vulnerability to the economic crisis: countries that had healthier public finances before the crisis, such as Sweden and Germany, have been under less pressure to cut public expenditure. They were in an even better position if they had already started public sector reforms and adjustments, as was the case in Sweden and, albeit differently, the Netherlands. By contrast, the public sector has come under most pressure in the countries with the largest budget deficits, namely Greece, Portugal, Spain, Romania, Hungary, Ireland and a few others. Public sector retrenchment can also reflect the conviction that the private sector operates more efficiently and at lower cost than the public sector, as in the United Kingdom.

This immediate and urgent pressure to make savings and reduce public expenditure tends to favour quantitative adjustments, mainly cuts in expenditure, but also jobs and wages in the public sector, which are summarised below. Wage cuts have been implemented in various ways, either through a basic wage freeze or cut in, for example, Estonia, Ireland, Latvia, Lithuania, Romania, or through the abolition of bonuses previously enjoyed by public sector employees, such as the thirteenth month payment in Hungary and the thirteenth and fourteenth month payments in Greece. For details, see Table 4.7

### Table 4.7: Employment and wage cuts in the public sector in selected European countries

| | Employment reductions | Wage cuts and structural changes |
|---|---|---|
| Croatia | New recruitment frozen | –6 % in 2009; return to 2008 level; then freeze<br>—15 % for state officials |
| Estonia | –1 % in 2008–09 | Cuts concerned 71 % of public sector employees<br>—10 % in public administration and –3 % in education in 2009–2010 |
| France | –7 % in 2008–12<br>Staff reductions in hospitals | 10% loss in real wages due to freeze of index points since 2010<br>Increase in the social contribution pension equal to a 3.5 % loss in net wages<br>Wage individualisation |
| Germany | | Performance-related pay up to 8 % of total wage bill<br>Increase in low paid<br>New lower pay scale to avoid outsourcing<br>Christmas bonus reduced; reduction of yearly bonus |
| Greece | First target of –20 % by 2015 modified to –26 %, mainly through cuts in fixed-term contracts<br>Already –15 % by 2011 | –15–20 % in 2011 (–21 % for military personnel)<br>Abolition of thirteenth (paid in December) and fourteenth month (Easter and summer) payments<br>New cuts announced for 2012 (–15 %)<br>11 % public sector premium has fallen since 2010 and may have disappeared by end 2012 |
| Hungary | Downward trend until 2008, then increase by 4.7 % in 2008–2010; and slight decrease by –1.7 % in 2010–2011 | Abolition of thirteenth month payment in 2009<br>and of subsidies for housing, heating and travel<br>Cuts between –37 % for unskilled and –13 % for high skilled in 2008–2010<br>Public sector premium fell from 15% in 2004 to –12% in 2009 |

| | Employment reductions | Wage cuts and structural changes |
|---|---|---|
| Ireland | No layoffs so far but no replacement of retirees and no renewal of many temporary contracts<br>—5.2% in 2009–2011 | Wage cuts introduced in December 2009 from –5%<br>(for lowest wage) to –15% (for highest wages)<br>—4.7% on average in 2010 |
| Latvia | –4.3% in 2008–2009 | –25% in public administration and –20% in education in 2009–2010<br>Public sector premium fallen from +21% in 2006 to +9% in 2010 |
| Lithuania | –1.1% in 2008–2009 | –15% in public administration in 2009–2010 |
| Netherlands | Continued to increase in 2008–2010 (by 6%) especially part-time. Significant cuts planned up to 2014 | Wage cuts progressive in the 1980s<br>Real wage decline in 2010–2011 by –1 to 2%<br>(by –2% in public administration to –2.5% in education); |
| Portugal | –9.5% in public administration in 2005–2010<br>Public sector unemployment growth of 20% | –2.5% of real wage in public administration in 2010<br>Further cuts of 3.5% to 10% in 2011<br>In 2012 suspension of thirteenth and fourteenth month payments (for holiday and Christmas bonuses) for medium and high wage earners; corresponds to –16% for most skilled<br>In 2000–2009 real wage fall by –3.6% in public sector compared to +9.4% in private sector |
| Romania | –9.5% in 2008-2011<br>Further cuts in 2012 | –25% in 2010<br>Cut of thirteenth month payment and abolition of most bonuses<br>—10% in 2011 despite some attempts to compensate for former cuts<br>Freeze of wages in 2012<br>Public sector wage premium fallen from +44.5% in 2009 to –15.6% in 2010 (a loss of 60.1 percentage points) |
| Spain | –18,000 in 2010 in public administration<br>No new recruitment in 2012 | –5% in 2010<br>Frozen in 2011 and 2012<br>Result: –10% real wages in 2010–2011<br>Same in autonomous regions<br>Fall in public sector wage premium from +17% in 2009 to +7% in 2011 (gap reduced by 60%) |
| Sweden | Previous reduction of 17.7% in 1991–2007<br>Cut by 1.4% in 2008–2010 (95% of them short-term contracts)<br>Also decrease in part-time employment<br>Higher cuts at local level | Similar wage growth as in private sector<br>(3.3% in 2005–2009) |
| United Kingdom | –10% planned over 5 years (2010–2014); largely exceeded in 2010–2011 (–6.1%) so double cut may be forecast by 2014<br>In 18 months (2010–2011) already –9% in public administration, –4% in education and –3% in health | Wage freeze in 2010–12 has led to –5% real wage in 2010–2011<br>1% cap on basic wage rises in 2013–2014 |

While in some cases these adjustments can efficiently complement structural reforms in the public sector (such as improved wage determination systems and increased efficiency), they were also found to limit the effects of these institutional reforms and even halt them, as was the case in Portugal and Romania. A disproportionate focus on quantitative adjustment therefore brings a number of risks and leads to adverse effects in the social and economic spheres.

The wages and working conditions of public sector employees are clearly being modified by the magnitude of the changes involved. In a number of countries, public sector employees have lost the wage premium they traditionally had over the private sector, which was empirically justified in many countries by higher education levels for public sector employees. In Romania, for example, the premium fell from 40 per cent in 2010 to -15 per cent in 2011. Not surprisingly, these dynamics may now have the effect of lowering skills and human capital levels in public sector occupations. At the same time, wage cuts have contributed to increasing wage inequalities and increasing the number of low-paid public sector workers (see Table 4.8 below).

### Table 4.8: Low-paid public sector workers in selected EU countries

| | |
|---|---|
| **Germany** | Increase in low-paid workers in the public sector both at national and municipal levels due to a greater incidence of fixed-term and part-time contracts. |
| **Greece** | Impoverishment of public sector employees (fall in wages by 15–20 per cent in 2011 and new cuts of an additional -15 % in 2012), due to the abolition of 13th and 14th month salaries, and a cut in the minimum wage. |
| **Hungary** | In 2010, 55 per cent of public sector employees with education below secondary level were below the poverty threshold compared with 33 per cent in 2008. |
| **Lithuania** | Increase in low-paid employees in the public sector due to a 15 per cent cut in 2009–2010. |
| **Portugal** | The number of low-paid workers in the public sector has increased due to wage cuts. |
| **Romania** | Low- paid workers have increased in the public sector due to a wage cut of 25 per cent in 2011. |
| **United Kingdom** | Increase in low-paid workers in the public sector due to a shift of many public sector employees from full-time to involuntary part-time working. |

Gender inequality has also been fuelled by public sector adjustments as a result of the traditional importance of the public sector for women's employment, access to higher positions and more flexible time and work and family arrangements.

Job losses in the public sector have also contributed to increasing the workload and working hours of those public sector employees who remain, while overtime rates have been reduced or frozen in a number of countries. The simultaneous reduction in expenditure has also reduced the human and material resources available for delivering public services, which have generally remained at the same levels or have actually increased— as is the case in health and education.

The absence of social dialogue in the reform process and the abolition of a number of provisions that encouraged collective bargaining in the public sector have also contributed to a worsening of working conditions in the public sector. The public sector could therefore be seen as having lost its role as a model employer, offering job security, collective bargaining, codetermination and good pay and working conditions instead converging with private sector practices.

These changes and the way they have been implemented have triggered a wave of demonstrations and strikes by public sector employees— often joined by other social groups— throughout Europe.

Future prospects for human capital and job quality in the public sector are also under threat. Not only have deteriorating wages and working conditions in the public sector and high unemployment led to significant emigration— especially among doctors, nurses and teachers— but the public sector has stopped attracting the quantities of young qualified graduates which hitherto have been its lifeblood.

All of these changes— especially when resulting in a growing mismatch between increasing demand and falling supply— cannot be neutral for the future quality of public services. This is already being observed in education and healthcare in some countries— on indicators such as a lower ratio of teachers to students in the classes and longer waiting lists for admission to hospitals – but it also threatens the efficiency of the public administration.

While the public sector reform process continues in Europe, it will be important to continue such monitoring, especially as it will be possible to evaluate the effects of the current reforms in more detail only as more data becomes available over the course of time.

### 4.5.2. Responses of social partners

In this context there have been important differences between the social partners in terms of their perspectives on the necessity and type of austerity measures pursued. In general, trade unions have been fiercely opposed to austerity measures and have viewed them as unfair because they suggest that public sector workers did not cause the financial crisis but are being singled out in terms of a worsening of their terms and conditions of employment and are in the vanguard of a race to the bottom. Public sector trade unions also stress the negative effects on employment and aggregate demand of the shedding of labour in the public sector at a time of low growth and have expressed concerns about the effects of austerity on particular segments of the workforce, especially women (see Rubery 2012). In general, public sector employers have been more receptive to austerity measures, accepting the need for fiscal consolidation, and appear especially interested in reforms that bring public sector employment conditions closer to those prevailing in the private sector in terms of ease of dismissal, wage flexibility, and less generous pension provision.

These differences, however, mask important areas of common concern between the social partners. In particular employers and trade unions, especially at municipal level, that are slightly more detached from central government policy-makers recognise that they face a common challenge in dealing with budgetary reductions imposed with often limited consultation by central government. There has therefore been some scope for employers and trade unions to work together to devise joint solutions to budgetary constraints to enhance productivity and service quality, for example in Italy, or by more effective utilisation of information technology, facilitated by agreements such as in Ireland. In addition, both trade unions and employers are concerned about longer-term recruitment and retention in a context of austerity and negative media coverage of the public sector.

The response to austerity measures has also revealed some differences of perspective within national trade union movements. Union pluralism is not a new phenomenon but is often reinforced by challenging circumstances. Trade union differences in responding to austerity often stem from representing distinct occupations and differing political alignments. In Portugal the CGTP has been less willing to go along with austerity measures than the UGT (Campos Lima and Artiles 2011), and there have also been important differences of perspective in the UK amongst civil service and teacher trade unions. Social democratic trade unions have reluctantly accepted the need for some budgetary reductions and have been prepared to make some concessions in countries such as France, Ireland, the Netherlands and the UK to safeguard the basic tenets of public employment. In France the government was scheduled to launch a consultation in autumn of 2012 on the general revision of public policies (RGPP), adopted in 2007, in order to restore balance in public accounts, in particular by applying the rule of not replacing one in two civil servants.

Nonetheless, rival trade unions have organised joint industrial action such as in Italy and the UK, but it has been tempting for governments to try to take advantage of the fragile unity of competing trade unions.

### 4.5.3. Strikes and demonstrations

Undoubtedly the clearest response to austerity, exacerbated by the failure of social dialogue in the majority of countries, has been an unprecedented wave of protests (Vaughan-Whitehead 2012). It has been especially notable not only because of the emphasis within industrial relations scholarship on the end of strikes (see Godard 2011), but also because of the wide distribution of protests. Public sector worker mobilisation also has to accommodate restrictions on strike action for particular occupations, such as the police; obligations to maintain essential services in many countries; and the unlawfulness of political strikes in some countries—restrictions introduced before the crisis (La Macchia 2011 and Chapter 1). Despite these restrictions, demonstrations, protests and strikes have been very widespread in response to public spending cuts and specific measures that have had a negative impact on the public sector workforce. As Table 4.9 indicates, occupations such as police and tax collectors that do not usually get drawn into strike action have been involved in protests against government policy. The overall aim of protests and strikes has been to put pressure on governments to alter austerity measures, but the protest movements also reflect a wider anxiety that political elites have capitulated to economic liberalism and have accepted that social exclusion and inequality will inevitably increase (Psimitis 2010). In this regard the division often made between economic and political objectives has been blurred in the mobilisation against austerity.

## Table 4.9 Examples of protests & strikes against austerity measures in the public sector 2008–2012

| Country | Protest & strikes | Specific sector or occupational groups | Year | Comment |
|---|---|---|---|---|
| Austria | *Few reports of mobilisation* | | | |
| Belgium | *Limited mobilisation* | Belgium's three key unions (CSC, FGTB and CGSLB) called for a general strike. | Jan 2012 | Protest against the government's austerity measures, as unions argue that dialogue has come to a standstill. |
| Bulgaria | *Major protests against austerity measures* | National protest against pension reform. Thousands of trade union members participated. | Nov 2011 | Protest against increasing the retirement age without consultation of the social partners. Subsequently, proposals were withdrawn. |
| Cyprus | *Two main strikes reported* | Education unions went ahead with a two-hour work stoppage in all schools, while most trade unions called off strike action after reaching a framework agreement with the Minister of Finance. | Dec 2010 | Opposition against package of fiscal recovery measures, in particular public sector job losses, plans to calculate public sector pensions on the basis of average pay instead of final salary, and concerns about wage moderation. |
| | | General strike | Jan 2011 | Against reform package, incl. proposal of a cut in civil service salaries by up to 40% |
| Czech Rep. | *Series of marches, protests, demonstrations and strikes* | Mass demonstration organised by NOS PČR and supported by opposition politicians and many other trade unions… Approx. 45 000 attended. | Sep 2010 | Demonstrators rejected: planned pay cuts for public and state employees; plans to reduce funds allocated to civil servants by 10% in 2011; amendment of the Labour Code which would potentially affect pay and rewards |
| | | Anti-reform demonstrations organised by ČMKOS.<br>Previously, TU's suspended tripartite negotiations. | May 2011 | Against proposed government reforms to the pension system, healthcare, taxation and the labour code |
| | | Hospital sector: Medical unions launched new protest campaign | Nov 2011 | Demanding pay raises and secure funding for wages |
| | | Public sector employees (mainly public administration, schools, health and cultural institutions)- organised by ČMKOS | Dec 2011 | Against planned budget and wage cuts ( = 10% of the public wage bill) and against changes in the remuneration scheme for public servants. |
| | | Unions and civic organizations held major demonstrations— the largest since 1989 with approximately 120 000 attendees | Apr 2012 | Protests due to ambitious fiscal tightening programme |
| Denmark | *Limited mobilisation* | Unions planning protest meetings. | Apr 2011 | Against heavy cutbacks in defence spending: up to 12 000 full-time (of 70 000) jobs to go (50% forced redundancies) |
| Estonia | *Protests and strikes against austerity* | Demonstrations, followed by a three-day strike organised by the Education Personnel Union in education | 2011-2012 | Main strikes in education as unions demand 20% increase in teachers' wages in 2012 and 15% in both 2013 & 2014 |
| Finland | *Few reports of mobilisation* | | | |

| Country | Protest & strikes | Specific sector or occupational groups | Year | Comment |
|---|---|---|---|---|
| France | *Significant mobilisation—striker days increased markedly* | Series of public sector strikes | 2010 | Against increase of retirement age from 60 to 62; dissatisfaction concerning pay, job cuts, restructuring and deteriorating working conditions |
| | | Day of action of public sector unions within the CGT confederation: circa 270 000 participants in 150 demonstrations | Oct 2011 | Call for an increase in salaries and for policies to tackle precarious employment. |
| | | Several national strikes | 2009–2012 | Relatively high participation rates among DGFiP employees |
| Germany | *A limited number of public sector warning strikes* | Municipalities: Approx. 150 000 social workers and nursery school teachers participated in a warning strike | 2009 | Demanding wage increases and improvement in working conditions |
| | | Two waves of warning strikes involving federal and federal state employees in the public sector, including teachers | 2011 | Dispute over pay |
| | | Warning strike: Federal State and municipalities, approximately 300 000 participants | 2012 | Demands of wage increases for period of 2 years |
| Greece | *Extensive and sustained protests, demonstrations and strike action- 838 strikes between Jan 2011 and Apr 2012, including 46 general strikes, of which 30 were in the public sector* | Numerous public sector strikes and protests involving teachers, transport workers, health workers, magistrates and tax collectors | 2010 | Against austerity measures including wage cuts, labour market reforms and tax changes; involving trade unions and mobilisation by citizen groups |
| | | Unions organise strike in June and July | 2011 | Against new package the government agreed with the IMF, European Commission, and ECB in June |
| | | 48-hour general strikes and a 24-hour strike, organised by GSEE jointly with ADEDY | Oct 2011 | Protests against the austerity package imposed by 'Troika', e.g. the abolition of the National Collective Labour Agreement and other 'anti-labour' & 'anti-union' legislative measures already enforced |
| | | Public service workers protests; main demonstration organised by GSEE and ADEDY | Dec 2011 | Against austerity cuts. Custom official, Tax offices, courts, and schools were shut down, and hospitals operated on an emergency basis only. |
| Hungary | *Significant mobilisation* | Series of demonstrations by police-and firemen, professional soldiers | 2011 | Protesting against reform of their early retirement schemes. |
| | | Demonstration outside parliament by unions | Sep 2011 | Against abolition of country's council (OET) and its replacement with a new one; unions see their role diminished and a threat to tripartite arrangements |
| | | Demonstrations by unions in the LIGA confederation | Nov 2011 | Roadblock demonstrations across the country in protest of the draft labour code. |
| | | *A Fidesz*-organized march | Jan 2012 | Against Hungary's alleged 'colonization' by the EU and the IMF |
| Ireland | *Significant increase in protests in late 2009, subsequently subsided after 2010* | One-day strike and street protests by public sector unions | Nov 2009 | Against wage freeze and pension levy and anticipation of harsh measures |
| | | Rally/march supported by ICTU, SIPTU, UNITE, Mandate | Nov 2011 | Against austerity plans, including spending cuts and attacks on social welfare |

| Country | Protest & strikes | Specific sector or occupational groups | Year | Comment |
|---|---|---|---|---|
| Italy | *Series of strike actions* | General strike and various other days of protests at sectoral level; a one-day strike and other strikes, organised by CGIL and UIL-PA | Jun/Jul 2010 | Reason: May 2010 financial intervention package/decree: however, other unions (e.g. CISL) consider decree to be inevitable |
| | | Protest organised by largest TU confederation CGIL | Jun 2010 | Against pay freeze for 4 years until end of 2013 announced in budget statement (although not supported by other major TU confederations) |
| | | General strike called by CGIL | Jun 2010 | In protest against retirement changes applying to female civil servants |
| | | 8-hour public sector worker strike (approx. 20 000 attended); simultaneous protest by members of Italian Pensioners Union | Oct 2011 | Due to threat to public services and collective bargaining and in protest against planned changes to pension system— increase of pension age |
| | | unitary strike action; civil service strike, called by CGIL, Cisl & Uil | Dec 2011 | Against austerity program and due to lack of dialogue |
| Latvia | *Protests against austerity* | Education and Healthcare sector | 2009/2011 | Protest action following budget and wage reductions, particularly in the education and healthcare sector, but in 2012 education dispute resolved |
| Lithuania | *Protests against austerity measures* | Public and private trade unions (circa 5 000– 7 000 participants) | Early 2009 | General protest action due to government's lack of consultation and dialogue. |
| | | Lithuanian Trade Union Confederation (LPSK) | Mid 2009 | Hunger strike due to decision to cut basic monthly pay without consultation |
| | | Four sectoral TU's and the Pensioner's Party | Oct 2009 | Five simultaneous protests against wage cuts for public sector employees |
| Luxembourg | *Few reports of mobilisation/ strikes* | | | |
| Malta | *Limited mobilisation* | | | |
| Netherlands | *Targeted protests predominantly in education* | Local government sector demonstrations | Nov 2011 | In protest over the breakdown of collective bargaining |
| | | Secondary teachers' strike, called by the FNV-affiliated teachers' union, the AOb (approx. 21 000 teachers participated) | Jan 2012 | Against changes in working hours, holiday entitlements, increased workloads |
| | | teachers' protest/ national manifestation | Mar 2012 | Against planned budget cuts in education |
| | | Protest of 15 000 people | Mar 2012 | Against cuts in the provision of sheltered workplaces |
| Poland | *Limited mobilisation* | Trade union protest (several hundred people) | Mar 2012 | Against pension reform (raising of pension age); demands for a national referendum |

| Country | Protest & strikes | Specific sector or occupational groups | Year | Comment |
|---|---|---|---|---|
| Portugal | *Extensive strikes/ protests* | Two main union confederations (CGTP&UGT) call for 2nd general strike3 and major demonstrations by public sector unions | Nov 2011 | In opposition to austerity plans, including massive cuts in bonuses for public sector workers earning over €1 000 a month (which equals a two months' pay) |
| | | 24-hour national strike called jointly by CGTP & UGT, including shut down of public services in many parts of the country | Nov 2011 | Against austerity measures imposed by government as a condition of the EU/IMF bailout |
| | | Call for general strike by union confederation GCTP3 | Mar 2012 | Against austerity measures imposed by the 'troika'& the draft Labor Code reform |
| | | STAL public service union plans for a national demonstration | Feb 2012 | Against austerity measures being imposed by the troika, including public sector pay cuts and increased workloads |
| Romania | *Extensive protests* | 2 hour protest by 40 000 public employees; human chain by 20 000+ union members of all main 5 national trade unions | May/Jun 2010 | In opposition to government reforms. |
| | | Protests (by tax officials and finance workers; workers in pension, health insurance and employment offices, teachers etc) | Oct 2010 | In opposition to a reduction of salaries of all public employees by 25 % and a 40 %-70 % wage cuts for tax officials and finance workers (because of cuts in bonuses) |
| | | Marches organised by main national TU confederations | 2011 | In opposition to new labour laws |
| | | Protest of five national union federations by removing themselves temporarily from all social dialogue; four national employers' organisations joined protest. | 2011/2012 | Protest against the new Social Dialogue Act, passed unilaterally by the government in 2011, which effectively put an end to collective bargaining. Ultimately protests led to the Prime Minister's and cabinet resignation in February 2012 |
| Slovakia | *Some protests, especially in healthcare* | Healthcare sector— day of protest— 1 hour doctors' strike | Mar 2011 | Against the poor financial situation in the sector and demands for wage increases |
| | | 2 400+ physicians handed in their notices & continuing protests | Sep–Dec 2011 | In protest of planned transformation of hospitals into joint-stock companies; action was called off after an amendment to the law on healthcare providers |
| Slovenia | *Protests in the public sector* | Public sector union (KSJS) calls for strike action.<br>General public sector strike | Oct 2011 | In protest against a 4 % pay cut, which would affect 160 000 workers, and lack of dialogue.<br>In April 2012: general public sector strike against austerity measures. |

| Country | Protest & strikes | Specific sector or occupational groups | Year | Comment |
|---|---|---|---|---|
| Spain | *Extensive and widespread mobilisation and strikes* | General strike | Sep 2010 | against employment law changes |
| | | Protests of Spain's main unions1 CCOO & UGT1 and setting of general strike | Sep 2011 | Against changes to Spanish constitution, changes to employment law (regarding compensation and dismissal) and pensions & speed with which changes were introduced |
| | | mass demonstration of teachers, parents & students | Oct 2011 | Against cuts in education budget |
| | | FSP-UGT public services federation organised protest action | Oct 2011 | Against deterioration of pay and conditions in the Public Employment Service; Inadequate staffing, increased workloads, problems in relation to pay levels and other working conditions |
| | | UGT & CCOO announced mass protests with local protests held in 57 cities and legal action against the law | Feb 2012 | Against government's labour law reform which increased flexibly in hiring and firing practices |
| | | Public sector unions planning series of demonstrations | Jan–Feb 2012 | Against further pay freezes across public sector and regional government budget cuts |
| | | Workers' Commissions & UGT call for 24-hour general strike; 2nd general strike since crisis began | Mar 2012 | Against labour reform; against austerity program with public spending cuts of over €35 billion |
| Sweden | *Few reports of protests* | | | |
| UK | *Large-scale strikes in the public sector, focused on pension reform, jobs and wage cuts* | 1 day strike staged by 4 trade unions (NUT; ATL; UCU; PCS) over public service pension reform | Jun 2011 | Against proposed changes to pension schemes and changes such as the use of CPI instead of RPI as basis for increasing pensions, and raising employee contributions |
| | | 'Day of Action'— large public sector coordinated strikes and marches/ rallies— organised by the TUC and its affiliated unions | Nov 2011 | Around 2 million public sector workers (including NHS workers, civil servants and teachers) participated in response to a lack of progress on negotiations over pension reform |

Virtually no country has been immune to industrial action, although widespread demonstrations have been especially prevalent in countries hit hardest by austerity measures, especially Greece, Portugal and Spain and to a lesser extent the UK and France. These protests are almost always directed at governments, or indeed international agencies such as the IMF, rather than the immediate employer and are designed to demonstrate the strength of feeling against austerity measures and to try to wring concessions from governments. Beyond the generalised political dimension to these protests, there are subtle differences of emphasis. There are relatively few cases in which strikes represent a traditional part of the bargaining process to try to gain improved pay offers from employers. Instead most protests are highly defensive attempts to limit the scale of concessions extracted from the workforce and to prevent privatisation and other forms of restructuring.

Second, in some countries new actors are mobilising against austerity measures because these programmes impact public services and welfare provision with major consequences for service users. This has created opportunities for coalitions, often using forms of social media, to combine service users and trade unions to counter austerity measures. These coalitions are partly intended to prevent trade union demonstrations being portrayed as simply focused on the interests of 'producers' that are seeking to maintain the interests of their members. In some countries these developments have gone further and have been fuelled by a deep-seated hostility and loss of trust in the political process and wariness towards the trade union movement. The best-known case is that of the *Indignados* (indignant) movement in Spain, comprised of young people that occupied public spaces in many Spanish cities and directed their anger at the political elites, including the trade unions, and have sought a wide ranging programme of change.

Third, protests and strikes have been combined with a variety of other responses to challenge austerity measures. The most common approach has been to launch legal challenges to aspects of austerity programmes because the constitutional validity of government policy has been questioned. In the UK, the Public and Commercial Services Union (PCS), for example, challenged an agreement between the government and selected unions that reduced the maximum redundancy compensation available to civil servants. Similar tactics have been used by trade unions in Latvia and Romania to overturn aspects of government austerity and pension reforms (Ghellab *et al.* 2011). In Greece there has also been widespread recourse to legal challenges.

## 4.6. Conclusions

This chapter has assessed the impact of the economic and political crisis for public sector industrial relations. These consequences extend beyond the impact on the workforce itself because the public sector provides services that are integral to maintaining competitiveness and social cohesion within Member States. The onset of the crisis led to a sharp increase in public deficits, leading Member States to adopt fiscal consolidation measures that almost without exception have had an impact on the public sector workforce. Although the extent of change has varied significantly between countries, a common trend is for an increase in the number of countries seeking to reduce the size and scope of the public sector. Moreover, additional austerity measures have been added to those already in train, and timescales for austerity programmes have been extended.

The process of adjustment has been very different from the remedies pursued by the private sector as described in the *Industrial Relations in Europe 2010* report. The economic downturn affected private sector firms and workers through reduced demand, and short-time working and related initiatives were used to maintain skills in anticipation of an upturn in demand. In contrast, the public sector experienced increased pressure as demands on social security and health services increased, reinforcing demands on staff and jeopardising service quality as the workforce was reduced. This has occurred because fiscal consolidation has focused on spending reductions with budgets adjusted to economic circumstances rather calibrated to shifting demand. This inherently political process of setting public sector budgets and wages has been influenced by citizen and workforce responses. Attempts to influence government austerity policy have been evident in the waves of protests and demonstrations in many Member States, but the scope for political manoeuvre by governments has been constrained by external pressure from the international financial markets and tight fiscal rules.

This chapter has outlined how this process of adjustment has focused on reducing the public sector pay bill via pay cuts, pay freezes and reductions in employment, with staffing reduced by various means, including the use of staff replacement ratios. Other measures include widespread interventions to manage pension expenditure, often focused on the postponement of the retirement age and increased contributions and the alignment of conditions with those existing in the private sector. In addition, working time has been extended and work re-organised via outsourcing and other measures. Over the medium term, sustained expenditure reductions will require further changes in work organisation and patterns of service delivery that extend beyond the 'downsizing' of the public sector workforce; there are some signs of continuing modernisation and restructuring of public services in some Member States.

It has been suggested that although all Member States have suffered impacts from the crisis, the process and severity of adjustment has differed between countries and there is no straightforward North European versus Mediterranean country divide as is often assumed. A first cluster of countries, exemplified by Greece, Ireland, Portugal and Spain, have the largest programmes of adjustment because they face the most direct pressure to reduce public expenditure rapidly and have required external assistance. There is a limited tradition of structural reform of the public sector and there is an emphasis on immediate fiscal results brought about by reducing the pay bill by reductions in wages and employment. In a differing political and economic context, austerity programmes in the Baltic states, especially Latvia, but also Hungary and Romania also exemplify this pattern of adjustment. In these cases, with the exception of Ireland, governments have scarcely tried or have failed to bring about agreed changes in public sector industrial relations by a process of social dialogue. Instead, unilateral changes in pay and working conditions, usually on more than one occasion, have been imposed on the public sector workforce. This has provoked widespread protests and disenchantment with government. The most sustained mobilisation has occurred in countries that have faced the harshest adjustment programmes, and no serious attempt to engage in dialogue with the workforce has occurred, most notably in Greece.

A second cluster of countries has also implemented some austerity measures with variations in terms of severity between countries. What differentiates this cluster is that the timing and form of these programmes have been more directly under the control of their own national governments and have frequently involved the adaptation or continuation of structural reforms that have sought to boost the efficiency and effectiveness of public services. Due to the severity of the economic and financial crisis, austerity measures still markedly impact the public sector workforce, but there is often less discontinuity with previous organisational and managerial reforms. These countries have made some use of cutback management measures but often in more dilute forms. An important difference from the first group of countries is not the size of the public sector but the legacy of modernisation. This cluster is exemplified by Germany and the Nordic countries but also France, the Netherlands and with some caveats the United Kingdom. These countries did not confront the immediate fiscal crisis and market turbulence experienced by countries such as Greece, but many of them have implemented some austerity measures to bear down on public debt and continue longer-term reforms of public sector industrial relations. Social dialogue has often been strained, but there have been more concerted efforts to consult and negotiate with the public sector workforce to bring about agreed changes in pay and working conditions. In this regard, protests and strikes have occurred, but they have been less severe than in the first cluster of countries.

Finally, what does the response to austerity indicate about longer-term trends in public sector industrial relations? In other words, are these recent interventions having a more profound i.e. structural influence on employment and industrial relations in the public sector? To respond to this question it is necessary to both look back at the changes that were implemented before the crisis and examine whether the medium- to long-term trends have been diverted or even reversed by the current reform wave. Since the mid-1990s (and in some countries well before that time), several EU countries have moved along a path marked by two main policies: on the one hand, the introduction of market-like incentives in public sector industrial relations and attempts to emulate private sector practice; and on the other, a shift to more decentralised and pluralistic forms of governance, again mimicking the functioning of the market and its responsiveness to local conditions. It is notable that these policy recipes, associated with NPM reforms, were being recalibrated before the crisis. This arose because outcomes did not seem to fulfil expectations as the capacity to control public expenditure and/or improve the productivity and quality of the public sector was uncertain. The effectiveness of decentralisation was a particular weakness of earlier attempts at private sector type reforms, such as forms of incentive pay and other pay flexibility mechanisms, because either there was very limited genuine devolution or because enforcement mechanisms at decentralised levels were eroded, encouraging opportunistic behaviour and diluting budgetary control and productivity improvements. Consequently, signs of recentralisation were evident, especially in the field of pay and compensation, by the mid-2000s (Bach and Bordogna 2011; Bach and Kessler 2012).

The austerity measures considered in this chapter seem to consolidate moves towards centralisation and unilateralism in public sector industrial relations. This represents a return to patterns of public sector industrial relations that preceded the recognition of collective bargaining in the public sector that occurred in the decades prior to the crisis, but at the same time confirms the tendency to promote the introduction of private sector HRM practices. Indeed, there are two basic features linked to the public finance priority of reducing expenditure that prioritises pre-determined expenditure envelopes and fiscal monitoring that limits the sphere of industrial relations activity and therefore greatly reduces the autonomy of decentralised actors. First, the room for manoeuvre of public managers is being substantially reduced. This is because public managers have fewer resources to invest in human resource management and development but are under pressure to meet fiscal targets. This is encouraging strategies that reduce labour costs with fewer staff employed working under worse terms and conditions of employment, raising questions about the extent to which the public sector remains a model employer. Related to this, strategies that merge organisations, outsource services and/or share services between employers all curb managerial authority at local level. Moreover, strategies that have empowered managers in the past, such as the use of individual performance-related pay, are very difficult to operate in a context of wage freezes and wage cuts.

Second, the joint and autonomous regulation of the employment relationship through collective bargaining is highly constrained both through the reduction of available resources— which are the usual and basic ingredient of negotiations— and due to direct wage freezes and the suspension of normal bargaining mechanisms. In a sense, a new centralised unilateralism is emerging, which resembles the traditional unilateral regulation of the public sector industrial relations by central political authorities, with a new emphasis on effectiveness and efficiency rather than impartiality and equity. The public sector has not abandoned attempts to be a model employer, but this principle has a far lower priority than in the past. The role of public sector trade unions has been seriously weakened and there have been limited attempts to encourage employee voice. The risk is that when economic growth returns the public sector in many countries might no longer be viewed as an employer of choice, and this could seriously jeopardise efforts to recruit and retain a talented workforce that will help deliver high quality public services that maintain competitiveness and social cohesion.

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