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

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Outline of talk

• Background to the EC funded research project
• Research aims and design
• Key issues:
  ▫ Public-private sector pay gaps
  ▫ Country models of public sector pay
  ▫ Procurement and influence of labour market rules
• Questions for policy and practice
The austerity crisis

- Banking bailouts, recession-induced falls in tax revenues combined to raise debt and deficit levels across most of Europe
- Policy approach: Strong focus on austerity measures – spending cuts, tax rises
- Policy responsiveness: Belated recognition of ‘pro-growth’ policies - financial markets still not ‘reassured’, political legitimacy of EU declined
Figure 1.1. Ratios of government debt and deficits to GDP, 2007-2011, EU
The crisis affecting the public sector

- Renewed argument that public spending crowds out private sector investment – eg. Euro Plus Monitor indicator of country’s ‘health rating’
- Wide variation in spending levels – from 35% of GDP (Bulgaria) to 55+ (France, Denmark)
- Large drops in public spending in countries under Troika conditions or where level already very low (CEE countries)
- Caution needed since spending can be a foundation for economic growth and underpins welfare measures to meet social needs
The crisis affecting the public sector

Pay freeze

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

Pay cuts

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

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

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

- Renewed focus on procurement policy under austerity – **increasing spend** and **mixed-economy approach** to delivery of public services
- Potential for productivity/innovation, but risk of poor contracts, poor servicing of vulnerable users, employment standards

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

- What are the characteristics of pay settlements and wider ranging reforms of public sector pay?
- What are social partner strategies towards public sector pay? How and to what extent does public sector wage-setting provide scope for social dialogue?
- Has governments’ approach towards procurement changed? How does procurement policy interact with labour market conditions and labour market rules?
- How do forms of worker segmentation shape policies of pay and procurement?
- Is the public sector a ‘good employer’? What does this mean and is at risk during austerity? What implications for inequalities?
- What lessons for policy and practice in areas of public sector pay, procurement and social dialogue?
Design of research project

• Teams of experts from **five countries:**
  - France
  - Germany
  - Hungary
  - Sweden
  - UK

• **Stage 1:** country analysis of austerity measures, public sector pay, procurement of public services, wage inequalities
• **Stage 2:** case studies of local government municipalities
• **Stage 3:** analysis of data to address specific questions:
  ▪ How has austerity impacted local government?
  ▪ What responses to pay practices (centralised/local/public-private)?
  ▪ What approach towards procurement (ownership/organisational form/employment status)?
  ▪ What implications for inequalities and for social dialogue?
Is there a public sector pay premium?

Unadjusted, national pay data

- UK
- Sweden
- Hungary
- Germany
- France

- All employees
- Male full-time
- Female part-time
- Female full-time
- Male
- Female
- All employees**
- Male public service workers
- Female public service workers
- Male civil servants
- Female civil servants
- All employees
- Male full-time
- Female part-time
- Female full-time
- Male full-time
- Female part-time
- Female full-time
Is there a public sector pay premium?

Stylised portrait of the adjusted public sector pay premium along the wage distribution
How do country models of public sector pay compare?

- Interplay between a country’s institutional arrangements for setting pay and a government’s need for budgetary control and public accountability
- Previous studies argue for merits of coordinated and integrated systems for effective pay control -- but sensitive to country complexities (OECD, Meurs, Marsden)
  - Unilateral pay fixing may provide greater control but without social dialogue lacks conditions for legitimating change
  - Centralised wage restraint may protect standards but may also generate problems of coordination with private sector labour markets
  - Integrated pay systems may ensure consistent outcomes (eg. for male-dominated and female-dominated groups, low-wage/high wage) but may offset demands for flexible responses and varying social partner strategies
How do country models of public sector pay compare?

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

Source: adapted from Marsden (1994: figure 1).
How do country models of public sector pay compare?

*Figure 6.2. A continuum of centralised and decentralised pay systems*
How do country models of public sector pay compare?

*Figure 6.3. A continuum of integrated and fragmented public sector pay systems*
What are the interactions between labour market rules and procurement practice?

*Figure 3.1. Procurement policy and the labour market*

**Labour market rules**
- (eg. dismissal, TUPE, Two-tier code, consultation rights, equal pay, collective bargaining, minimum wage)

**Organisational form**
- (eg. public-private partnership, collaborative/transactional relationships, joint venture)

**Procurement policy & practice**

**Public-private gaps**
- (eg. pay gap, voice gap, equality gap, security gap, professionalism gap)
What are the interactions between labour market rules and procurement practice?

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

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

- Public-private differences in pay and industrial relations

- Social clause in procurement
What are the interactions between labour market rules and procurement practice?

Differences in worker rights under TUPE legislation

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

<table>
<thead>
<tr>
<th></th>
<th>Employee right to refuse transfer?</th>
<th>Refusal considered as resignation?</th>
<th>Employment contract maintained with transferor?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>France</strong></td>
<td>No, except from private to public</td>
<td>Yes, except from private to public entity</td>
<td>No, except from private to public entity</td>
</tr>
<tr>
<td><strong>Germany</strong></td>
<td>Yes</td>
<td>No, legal right to redeployment/dismissal</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Hungary</strong></td>
<td>Yes where a transfer involves a change in legal status that worsens employment conditions (as in some public-public, public-private transfers)</td>
<td>Yes, no entitlement to standard redundancy payments</td>
<td>No</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td>Yes</td>
<td>No, legal right to redeployment/dismissal</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>Yes</td>
<td>Yes, no entitlement to redundancy payments</td>
<td>No</td>
</tr>
</tbody>
</table>
What are the interactions between labour market rules and procurement practice?

- Statutory minimum wage

- TUPE regulations

- **Public-private differences in pay and industrial relations**
  - Union density is higher in public sector all European countries (except Belgium) but gap varies (wide in UK)
  - Competition between industrial relations regimes is limited by inclusive collective bargaining/ high minimum wage (Schulten and Brandt 2012)
  - Pay gap can be a strong incentive to procure low-wage services (austerity cost-saving approach)
  - Policy reforms and pay bargaining strategies to narrow the gap (leading to better and worse pay prospects for public sector) or to defend the public sector premium

- Social clause in procurement
What are the interactions between labour market rules and procurement practice?

Bottom decile wage as a ratio of male median pay in the private sector
What are the interactions between labour market rules and procurement practice?

- Statutory minimum wage
- TUPE regulations
- Public-private differences in pay and industrial relations
- **Social clause in procurement**
  - 1949 ILO Convention 94 on labour clauses in public contracts
  - ECJ Rüffert ruled against including pay clauses in procurement
  - Varying country approaches -- increased use in German regions in public services procurement (minimum wage and/or collectively agreed payscale), living wage agreements in UK municipality procurement (but ad hoc, voluntary approach)
Questions for this 2-day conference and for European policy and practice

1. Is a one-size fits all approach to austerity and fiscal consolidation useful or appropriate in a context of diversity of public sectors in Europe?
   - no commonalities in public sector pay premium
   - differences in size and trend growth of public sector
   - varying incentives for outsourcing and type of public-private mix

2. Do continued unilateral reforms endanger social dialogue (traditions and early-stage development)?
   - workers with specific skills are at risk of monopsony power of the state
   - local forms of social dialogue may offer protection but need overarching regulatory framework
Questions for this 2-day conference and for European policy and practice

3. Is there sufficient understanding of the adverse effects of austerity on gender equality?
   - Many women enjoy a public sector pay premium, especially low skilled
   - Women’s premium may reflect weak position (and sex discrimination) in private sector
   - Many higher skilled and professional women at risk of wage penalties or falling premiums
   - Strategies of internal flexibilisation impact on inequalities (eg. civil servant status, part-time, temporary)

4. Does procurement policy take adequate account of the complexity of organisational forms and the range of motivations for outsourcing?
   - Wage cost issues matter but also politics, investment and legacy effects (insourcing and outsourcing)
   - Outsourcing may raise pay in certain circumstances
   - Country variation in use of social clauses and interpretation of Transfer of Undertakings Directive