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# The wrong target – how governments are making public sector workers pay for the crisis

A report compiled by the Labour Research Department – commissioned by EPSU and financed by the European Commission

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Labour Research Department

# Issued to be covered

- The countries involved
- The previous situation
- The actions governments have taken
- The common features
- The impact of the cuts

# Countries involved

- Only those cutting pay in EU in nominal terms
  - Means that the countries that have frozen pay and cut it in real terms, taking inflation into account, are not included – for example Italy and UK
- Project drawn up in July
  - Means does not include countries where cuts came later – Portugal and Czech Republic

# 10 EU states have cut or plan to cut public sector pay – 5 with IMF

- Czech Republic*
- Estonia
- Greece (IMF)
- Hungary (IMF)
- Ireland (IMF now)
- Latvia (IMF)
- Lithuania
- Portugal*
- Romania (IMF)
- Spain

* Not included in report

# The previous situation – bargaining plays a role

- In most countries pay of those with special status in public sector set by legislation
- But pay of others set by collective bargaining
  - Estonia, Hungary, Latvia & Lithuania, if unions are strong enough
- Or there is bargaining over overall pay increase before legislation
  - Romania & Spain
- Other arrangements
  - Greece: informal agreements at local level and union pressure on overall increase
  - Ireland: public sector pay within framework of negotiated social partnership

# Pay cuts: Czech Republic

- September 2010: government announced it plans to cut public sector pay by 10%
- Method for doing this still not decided

# Pay cuts: Estonia

- Series  of measures cutting public sector paybill
  - Starts June 2008, with further reductions in December 2008, February 2009, June 2009, November 2009 & December 2009
- Left it to individual institutions to decide how to  make savings
- Measures used:
  - Job cuts, reductions in additional pay, unpaid leave, cuts in basic pay
- By 2010 paybill is 15% lower than in 2008

# Pay cuts: Greece

- January 2010: 10% cuts in allowances paid to public service employees – equivalent to 4% reduction in pay
- March 2010: allowance cuts will be 12% rather than 10% and 14th month salary reduced
- May 2010: allowance cuts will be 20% rather than 12% and 13th and 14th month salary reduced
- July 2010: public (& private) sector pensions worsened
- Similar cuts imposed on those in publicly-owned companies
- Equivalent to 14% to 15% pay cut over year

# Pay cuts: Hungary

- November 2008: government plans to eliminate 13th month salary
- January 2009: following union protest government replaces 13th month salary with supplement
- April 2009: government abolishes 13th month salary from 2010 and replaces it with much lower payment – extends pay freeze for another year to 2010
- October 2010: announces plans to freeze pay for 2011

# Pay cuts: Ireland

- February: 2009 government imposes average 7.5% pension levy on public sector
  - Hits highest paid harder but all lose at least 3%
- December 2009: government imposes cut in pay of an average of 6%-7% from January 2010
  - Hits highest paid harder but all lose at least 5%
- June 2010: union agreement with government that no more pay cuts until 2014 and no compulsory redundancies
- November 2010: government cuts pay for new entrants to the public sector by 10% and cuts public sector pensions by 4%

# Pay cuts: Latvia

- December 2008: government announces 15% cut in pay (from January 2009) but low paid protected
- June 2009: government introduces more cuts
  - Many bonuses and supplements abolished
  - Widespread use of unpaid leave
  - Cuts in pay of 20% (for higher paid) and 15% for lower paid)
  - Previous protection for low paid abolished
- December 2009: new overall pay system from (from January 2010) cuts maximum basic pay by 5%
- January 2010: IMF says "government has applied average 18% pay cut"

# Pay cuts: Lithuania

- December 2008: 12% reduction in money for most salaries in 2009
- May 2009: further 11% cut in money for salaries
  - Leads to 2 weeks unpaid leave and cuts in additional payments
- July 2009: government tries to push through 10% cut in basic wage, but following protests this is changed to a 5% cut with supplements cut by more to achieve the 10% overall reduction
  - Means bigger cuts for higher paid
- October 2009: national agreement confirms that basic wage will not be cut
- June 2010: parliament extends pay freeze until end 2012

# Pay cuts: Portugal

- September 2010: Portuguese government announces 5% pay cut from start of 2011
  - Highest paid hit hardest
  - Those on €1,500 to €2,000 lose 3.5%
  - Those under €1,500 not affected

# Pay cuts: Romania

- April 2009: plan to reform pay structure over 3-year period and cut bonuses
- August 2009: emergency measures including further cuts in additional payments and 2 weeks unpaid leave
- May 2010: temporary 25% cut in pay till end 2010
- November 2010: debates on unitary pay system in parliament; planned pay levels will be below those of before May

# Pay cuts: Spain

- May 2010: government announces 5% cut in public sector pay from 1 June 2010
- Pay then to be frozen at lower level until end of 2011
  - In some parts of public sector highest paid hit hardest
  - In other parts all lose equally

# Common features: repeated cuts

- Governments keep coming back for more
  - Situation in all states except Czech Republic, Portugal and Spain, where just happened
  - Often cuts intensify over a few months, for example Greece

# Common features: attack on additional payments

- Generally first items to be targeted
  – So far only Ireland, Portugal and Spain have not tried to do this
- 13th month and holiday bonuses abolished or reduced
  – Greece, Hungary, Latvia
- Other bonuses abolished or reduced elsewhere
  – Estonia, Greece, Latvia, Lithuania, Romania
- Can be very important to pay
  – Greece: equivalent to 14% to 15% of pay
  – Even if average is lower some individuals may be very badly affected - Romania

# Common features: protecting lower paid

- Found in some countries:
  - Hungary (at least initially)
  - Ireland
  - Latvia (although initial protection reduced)
  - Lithuania (after union intervention)
  - Portugal
  - Spain
- But lowest paid still lose (except Portugal)

# Common features: linked to reform of pay system

- 3 countries:
  - Greece: new pay structure combined with new body making payments
  - Latvia: single remuneration structure for local and central government
  - Romania: originally union demand but now being used to cut pay
- In all 3 cases this is a commitment made to IMF

# Common features: cuts imposed not agreed

- Governments ignore past practice on negotiations and simply impose cuts
- Exceptions
  - Lithuania: national agreement in October 2009
  - Ireland: Croke Park agreement in June 2010 – but only after cuts had been imposed and more cuts followed
  - Other partial agreements – for example Estonia Ministry of the Interior

# Common features: methods decided centrally

- Estonia is one exception
  - Left to individual institutions
- Other countries chose central method
  - But sometimes combined with local ways of reducing pay
    - Unpaid leave – Latvia & Lithuania

# Impact: earnings figures (2 years)

| Country | Pay cut over 2 years | Inflation over 2 years |
|---|---|---|
| Estonia (local govt) | 6.0% | 2.8% |
| Hungary | 7.1% | 9.2% |
| Latvia | 15.3% | 3.8% |
| Lithuania | 5.2% | 5.9% |
| Romania (pub admin) | 27.1% | 12.6% |

# Impact: government forecasts & estimates

| Country | Pay cut | Inflation |
|---|---|---|
| Czech Republic | 10.0% | 2.0% (October 2010) |
| Greece | 15% | 5.2% (October 2010) |
| Ireland | 14% (2 years) | -0.3% (over 2 years) |
| Portugal | 5% | 2.3% (October 2010) |
| Spain | 5% | 2.3% (October 2010) |

# Concluding comments

- Thank those who helped to complete this study
- Interested in your comments and corrections

- Thank you for your attention

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