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

This report was compiled the Labour Research Department, commissioned by EPSU and financed by the European Commission.

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Foreword

This publication tells the stories of Ivo from Estonia, Sotiria from Greece, Shane from Ireland, and others who have told us how the austerity packages imposed by their governments affect them and their families. These individual stories can be multiplied hundred thousands of times to reflect the impact that cuts are having on public service workers across Europe. They are the individuals behind the headlines in the newspapers and on the television when governments announce another round of pay and job cuts. Governments came to the rescue of the international finance sector that was threatened by collapse but now these governments are forcing public service workers mostly on low and middle incomes to pay for the bailouts. EPSU and its affiliates condemn such policies.

The past two years have seen unprecedented attacks on hundreds of thousands of public sector workers across Europe. Job cuts and recruitment freezes have often been accompanied by pay freezes in many countries. But some public sector employers have not stopped there. They have often ignored collective bargaining procedures and traditions and imposed pay cuts on their workers and in several cases have come back to demand further pay cuts.

Governments are hitting the wrong target. It wasn't public sector workers or public sector borrowing that was the cause of the economic and financial crisis. And the economic recovery will not be guaranteed if governments across Europe co-ordinate their austerity measures at the behest of a European Commission that focuses so narrowly on the debt and deficit targets set by the Stability and Growth Pact.

This report by the Labour Research Department, commissioned by EPSU (with the financial support of the European Commission), chronicles these attacks on public sector workers in eight countries – Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Romania and Spain. It explains how the cuts have been implemented and the impact they have had on public sector workers' pay.

The report highlights some key points:

- Repeated cuts – often the first round of cuts is judged to be insufficient and pay is reduced again and again;
- Elimination or reduction of bonuses and additional payments – these are generally the first items targeted;
- Attempts to protect the lower paid – pay is sometimes cut more for the higher paid, although the lower paid also lose pay;
- The cuts are often linked to attempts to reform the pay system – this seems particularly to be the case where the IMF is involved;

- The cuts are normally imposed rather than agreed with the unions – although in Ireland and Lithuania there were agreements (in Ireland, after the latest round of cuts);
- The mechanisms used to cut pay, or at least some of them, have almost always been decided on centrally – Estonia is the one exception.

For EPSU and its affiliates the priorities now must be to prevent the spread of these cuts to other countries, to stop any further cuts in the countries affected and to ensure that there steps are taken to re-establish previous pay levels as soon as possible. Fundamentally, we need to re-affirm the importance of collective bargaining and the right of public sector unions to negotiate with their corresponding employers.
The European Commission is in the process of establishing a system of economic governance among Member States that will involve greater surveillance of national economies and an increased emphasis on meeting the Stability and Growth Pact targets. The new focus on examining "macroeconomic imbalances" will also put the focus on wage determination.

It is extremely worrying that we are heading into this process at a time when the European Commission, in league with the International Monetary Fund, has been intervening directly in the collective bargaining processes in several countries. The challenge for trade unions, not just in the public sector, is to campaign hard to defend our collective bargaining structures and processes and lobby for changes in the economic governance legislation that allows for democratic discussion of economic priorities at national and European level with a clear role for the social partners.

With this publication we also pay tribute to Luis-Miquel (Spain), Evita (Latvia), Lina (Lithuania) and Silvia and Paul (Romania). They and many tens of thousands of their colleagues have protested against the imposed cuts over the last two years. They were joined by 100,000 protesters on the streets of Brussels on 29 September 2010. This publication is about them and how the crisis affects them. It is also for them and our common social struggle to change Europe for the better

Carola Fischbach-Pyttel
EPSU General Secretary

Executive summary

This report looks at eight countries in the EU which have cut the pay of their public sector employees.

Background

In most of the countries examined, the pay of at least some of those working in the public sector is set by legislation. However, often there is collective bargaining for employees on normal employment contracts (for example the Baltic states and Hungary), or there is collective bargaining whose results are subsequently implemented through legislation (Romania and Spain). Details of the past situation in each of the eight states, together with the numbers employed in the public sector, are set out below.

- **Estonia**: the pay of those with special status is set by regulation; for other employees (the majority) there is collective bargaining where the unions are strong enough. (150,000 in the public sector)
- **Greece**: the pay of those working in the public sector is set by law, but unions have been able to bring pressure to bear on the overall level of pay increases and local union organisations can reach informal agreements on pay within individual public sector bodies. (760,000 in the public sector)
- **Hungary**: the pay of those classed as government officials is set by legislation; but there is collective bargaining over the pay of other public sector employees. (790,000 in the public sector according to official statistics, but the unions say 600,000 is a more accurate figure)
- **Ireland**: pay of those working in the public sector is negotiated at national level in each of the services, although since 1987 it has been set within the parameters of a series of social partnership agreements, with a mechanism for tackling areas where pay falls behind. (350,000 in the public sector)
- **Latvia**: the pay of those with special status as civil servants is set by legislation, but there is collective bargaining for those in local government and state owned companies, although in local government this is constrained by regulations setting maximum pay levels. (315,000 in the public sector)
- **Lithuania**: the pay of those with special status as civil servants is set by legislation; for other public sector employees there is collective bargaining where the unions are strong enough. (340,000 in the public sector)
- **Romania**: the pay of those working in the public sector is set by legislation, although before the regulations are issued there will be negotiations on the overall pay increases. The unions have also pressed for the introduction of a uniform salary structure. (1,300,000 in the public sector)
- **Spain**: the pay of public sector employees is normally agreed through negotiations before being fixed in legislation, but the state reserves the right to modify or suspend the agreements in certain circumstances. (2,699,000 in the public sector)

Government action

In half of the eight countries examined, governments started to cut public sector pay shortly after the financial crisis erupted in the autumn of 2008, although Estonia acted earlier and in Romania, Greece and Spain the cuts came later. Four states, Latvia, Hungary, Romania and Greece, received financial support from the IMF and other international financial institutions.

Although developments in each country have been different, a number of elements are present which are common to several states. These are:

- Repeated cuts – often the first round of cuts is judged to be insufficient and pay is reduced again and again;
- Elimination or reduction of bonuses and additional payments – these are generally the first items targeted;
- Attempts to protect the lower paid – pay is sometimes cut more for the higher paid, although the lower paid also lose pay;
- The cuts are often linked to attempts to reform the pay system – this seems particularly to be the case where the IMF is involved;
- The cuts are normally imposed rather than agreed with the unions – although in Ireland and Lithuania there were agreements (in Ireland, after the latest round of cuts);
- The mechanisms used to cut pay, or at least some of them, have almost always been decided on centrally – Estonia is the one exception.

The situation in each country is set out below:

Estonia: a series of overlapping budgetary measures first to freeze and then to cut personnel costs began in April 2008, with the decision to freeze pay in 2009 and 2010. This was followed by an 8% cut in July 2008, 10% in February 2009, 8% in June 2009 and 9% for 2010. The overall impact is that the total paybill in 2010 is 15% below that of 2008. However, in contrast to other states, in Estonia individual ministries and agencies could choose their own means of cutting personnel costs. The methods used included: cuts in employment; the abolition or reduction of performance related supplements and other additional payments; unpaid leave; and cuts in basic pay. In some cases these measures were agreed with the unions, in other cases imposed.

Greece: measures began in November 2009 with a pay freeze for public sector workers earning more than €2,000 per month; in January 2010 there was a 10% cut in allowances, and in March 2010 this was increased to a 12% cut and the 14th month salary was cut by 60%. Those working in state-owned companies also had their 14th month payment reduced by 60% and saw their pay cut by 7%. In May the IMF and other financial institutions became involved and the cut in allowances went up from 12% to 20%, while the 13th and 14th month salaries were reduced to three flat rate payments worth a total of €1,000 (and abolished completely for those earning more than €3,000). Those in state-owned companies experienced the same cuts to their 13th and 14th month salaries and their pay was cut by another 3%, making a 10% cut overall. In October 2010, the government estimated the overall impact of the cuts, which were all introduced through legislation, was equivalent to a 15% pay cut in nominal terms in 2010. Legislation worsening the pension provision of those working in the public sector was passed in July 2010 and starts coming into effect in January 2011. As part of the agreement with the IMF the government has also promised to introduce a new payments system covering all public sector employees, which it expects will save money.

Hungary: the IMF was involved almost from the start and in November 2008 the government proposed freezing public sector pay in 2009 and eliminating the 13th month payment for all employees. Following opposition from the unions it was agreed in January 2009 to reinstate a payment of equivalent value for lower paid employees (70% of total), with higher paid employees getting a lower amount. A new package of austerity measures was introduced in April 2009, under which the 13th month payment was permanent abolished and replaced by a flat rate payment for the majority of public sector employees; their wages were frozen for 2010. In October 2010, the government said it was extending the pay freeze to 2011.

Ireland: in February 2009, after the failure of negotiations between the unions and government, the government announced that the planned 3.5% increase for the public sector in September 2009 would not be implemented and that it would impose an average 7.5% pensions levy on all public service employees, with the higher paid contributing more and the lower paid contributing less. With the financial situation worsening, in December 2009 the government introduced new cuts in pay, again after failing to reach agreement with the unions. These cut pay by at least 5%, with the higher paid losing more. For someone on average earnings in the public sector, the reduction was 6.0%. Negotiations with the unions restarted in March 2010, resulting in an agreement under which the government promised that, barring unforeseen circumstances, there would be no further pay cuts before 2014 and that there would be no compulsory redundancies. In return the unions agreed to cooperate with service modernisation.

Latvia: the crisis began in October 2008, with almost immediate IMF and EU involvement. The government agreed to cut pay by 15% in 2009, although with protection for the lower paid. The large number of those whose pay was protected meant that the impact of the cuts was less than planned and in June a second round of cuts was adopted, cutting pay by 20% for the higher paid and by 15% for the lower paid; many bonuses were abolished and there was widespread use of unpaid leave. As part of the package agreed with the IMF, the government has introduced a single remuneration system for those in central and local government institutions, which cut pay in 2010 by an average of 5% compared with 2009.

Lithuania: the government's anti-crisis programme was agreed in December 2008 and included an average 12% reduction in salary appropriations for most employees. In May 2009 the money for pay was cut by a further 11.2%, which institutions achieved by cutting additional payments and supplements and introducing unpaid leave. The next round of cuts, planned to begin in August 2009 initially involved cuts in basic pay of 10%. However, following opposition from the unions this was changed, with the 10% reduction still being achieved, but through a 5% reduction in the basic salary with other payments being cut by more. The result was that the higher paid lost a higher proportion of their pay. Following discussions a national agreement was reached between the government, unions and employers in October 2008, which confirmed the cuts. In June 2010 these pay reductions which had initially only been supposed to last until the end of 2010 were extended to the end of 2012.

Romania: cuts to public sector pay and conditions began in April 2009 as part of a package of measures agreed with the IMF. Promised pay increases would not be implemented and most bonuses would be eliminated or consolidated into the basic wage over three years as part of a unified pay system for the public sector. In August 2009 further cuts in additional payments and bonuses were announced and employees were compelled to take two weeks unpaid leave between October and December 2009. In May 2010 the government introduced a temporary 25% cut in public sector pay to run from 1 July 2010 until the end of December 2010. In the longer term – from January 2011 the government intends to replace this temporary cut with the promised unified system of public sector pay, which will eliminate a wide range of bonuses and the 13th month pay.

Spain: the government announced its intention to cut public sector pay by an average of 5.0% in May 2010. The reduction came into effect on 1 June 2010 and pay is frozen at this lower level throughout 2011. For those public sector employees with special status, some elements of pay are cut by more than 5% for the higher paid and by less than 5% for the lower paid, but for those on normal employment contracts – around 40% of the total – the 5% applies to all equally.

Impact of cuts

The repeated rounds of cuts, as well as the uneven distribution of pay over the year in many states (largely the result of bonuses and other additional payments) make it difficult to estimate the impact of the cuts on earnings in the public sector. However, it is clear that it has been substantial, particularly if inflation, which has continued in all states with the exception of Ireland, is taken into account.

Figures from official earnings statistics, with the exception of Greece, Ireland and Spain, where they are estimates based on government actions, are set out in the table. These official figures show that cuts over two years have ranged from 5.2% in Lithuania, to 15.3% in Latvia and 27.1% in Romania.

Country	Extent of pay cuts (gross pay)	Inflation over period	Period
Estonia (local government)	6.0%	2.8%	Two years – 2nd quarter 2008 to 2nd quarter 2010
Greece	15.0%	5.2%	One year – government estimate
Hungary	7.1%	9.2%	Two years – 1st half of 2008 to 1st half of 2010
Ireland	13.5% (includes pensions levy)	-0.3%	Estimate over two years
Latvia	15.3%	3.8%	Two years – 1st half of 2008 to 1st half of 2010
Lithuania	5.2%	5.9%	Two years – 2nd quarter 2008 to 2nd quarter 2010
Romania (public administration etc)	27.1%	12.6%	Two years – July 2008 to July 2010
Spain	5.0%	2.3%	Estimate over one year
Sources: see full report			

Introduction

This report[1] looks at eight countries in the EU which have cut the pay of their public sector employees. They are Estonia, Greece, Hungary, Ireland, Latvia, Lithuania, Romania and Spain.

In most of the countries examined, the pay of at least some of those working in the public sector is set by legislation. However, often there is collective bargaining for employees on normal employment contracts (for example the Baltic states and Hungary), or there is collective bargaining whose results are subsequently implemented through legislation (Romania and Spain). In Ireland public sector pay has since 1987 been set within the parameters of a series of social partnership agreements and in Greece, as well unions being able to bring pressure to bear on the overall level of pay increases, local union organisations have reached informal agreements on pay within individual public sector bodies.

All of the countries examined have cut public sector pay, and in four of the eight cases this occurred shortly after the financial crisis erupted in the autumn of 2008. The exceptions are: Estonia, where the first cuts in administrative costs were agreed in July 2008: Romania, where cuts began in April 2009; Greece, where pay cuts were part of the country's new economic programme, published in January 2009; and Spain, where the cuts were announced in May 2010 and came into effect in June 2010.

Four states, Latvia, Hungary, Romania and Greece, received financial support from the International Monetary Fund (IMF) and other international financial institutions.

Although developments in each country have been different, and a wide range of methods has been used to cut pay (including cuts in basic pay, reductions in additional payments and bonuses, and unpaid leave) a number of elements are present which are common to several states. These are:

- Repeated cuts – often the first round of cuts is judged to be insufficient and pay is reduced again and again. So far, Spain is the only country to have announced a single round of cuts;
- Elimination or reduction of bonuses and additional payments – these are generally the first items targeted. Only Ireland and Spain have not sought to reduce or eliminate these;
- Attempts to protect the lower paid – pay is sometimes cut more for the higher paid, although the lower paid also lose money. There have been efforts to protect the lower paid to a greater or lesser extent in Greece, Hungary, Ireland, Latvia, Lithuania and Spain;
- The cuts are often linked to attempts to reform the pay system – this seems particularly to be the case where the IMF is involved. Greece, Latvia and Romania, have all agreed with the IMF that they will introduce a standardised system of pay;

[1] This document has been prepared with the financial support of the European Commission. However, the Commission is not responsible for its contents or the use that may be made of it.

- The cuts are normally imposed rather than agreed with the unions – although in Ireland and Lithuania there were agreements (in Ireland, after the latest round of cuts);
- The mechanisms used to cut pay, or at least some of them, have almost always been decided on centrally – Estonia is the only country that left it entirely to individual public bodies to decide how to achieve the required cut in personnel costs.

The repeated rounds of cuts, as well as the uneven distribution of pay over the year in many states (largely the result of bonuses and other additional payments) make it difficult to estimate the impact of the cuts on earnings in the public sector. However, it is clear that it has been substantial, particularly if inflation, which has continued in all states with the exception of Ireland, is taken into account.

There are official earnings statistics on public sector pay except in Greece, Ireland and Spain. These figures show that cuts over two years have ranged from 5.2% in Lithuania (whole public sector), to 6.0% in Estonia (for local government), 7.1% in Hungary (whole public sector), 15.3% in Latvia (whole public sector) and 27.1% in Romania (public administration).

The detailed situation covering the normal methods of setting pay, the action governments have taken to cut pay, and the impact of these cuts, including the human consequences on the basis of individual case studies, is set out in the individual country reports.

The Labour Research Department expresses its thanks to the many public sector trade unionists in the countries concerned who helped with the compilation of information and case studies for this report.

Estonia

The human impact

Ivo Paulus is a firefighter in Tallinn, Estonia. Aged 34 he is married with three children, the twins Jaanus and Önne, aged eight, and Lilli, who is two. His wife, Karin, who works as a journalist, is expecting their fourth child and the whole family lives in a flat in the north of the city. His salary has been directly affected by the country's financial crisis. It was cut by 8% from 12,400 kroons a month to 11,400 in July 2009, and his take home pay is now only 9,300 kroons – about €595 a month. The family has already felt the impact of the cut in Ivo's pay. They try to buy cheaper food, have stopped going out to restaurants and rarely take trips in the car. In the fire and rescue service some of Ivo's colleagues have lost their jobs and they have less equipment to work with. It all makes an already hard job even harder.

Background

There are some 150,000 people employed in the public sector in Estonia, with slightly more employed by central than by local government. Figures from the Ministry of Finance indicate that there were 141,000 employees in the public sector situation in 2009, based on full-time equivalents (see table), while figures from the national statistical office, Statistics Estonia, show there were 158,600[2]. The figures from Statistics Estonia are for both full-time employees and include some employees on long term leave (principally maternity leave).

Area of service	Number of employees
Central government (state)	
State agencies	35,269
State-owned companies	16,947
Other state bodies, including foundations and not-for-profit organisations	20,194
Local government	
Local government agencies	51,571
Companies with local government participation	10,998
Foundations and not-for-profit organisations	6,185
Total	141,164
Source: Public Service Yearbook 2009, Ministry of Finance of the Republic of Estonia, 2010	

Of the 150,000 working in the public sector, 28,600 have a special status as public servants (23,300 in central government and 5,300 in local government). Their terms and conditions are set by regulations – by the national government for those working for the central government and by the relevant local authority for those working for local government. However, particularly for higher paid public servants, the basic rates set by regulation, account for only a part of total earnings, with additional payments, linked to performance or additional skills, often being worth much more. The terms and conditions of other employees in the public sector – vast majority, including medical and teaching staff, and those working state-owned companies, are governed by the employment legislation that applies to private sector employees, and for them additional payments make up a much less important component of earnings. There is collective bargaining with the unions on pay in those

[2] Statistics Estonia table ML0205, figures are an annual average.

ministries, such as the ministry of the interior, and other institutions, such as parts of the health services, where the unions are strong enough to compel the employers to negotiate.

Government action

The Estonian government started to take action to reduce government spending in April 2008, and this was followed by a series of budgets, supplementary budgets and budget consolidation measures, in June 2008, December 2008, February 2009, June 2009, November 2009 and December 2009. The combined of the 2009 measures alone was equivalent to 9% in GDP.[3]

In the area of personnel costs in, the stages were: a requirement to keep personnel costs at the level of 2008 for the next two years, agreed in April 2008; an 8% reduction in administrative costs, agreed in July 2008; a 10% reduction in personnel costs in the first supplementary budget in February 2009; and a further 8% reduction in these costs in the second supplementary budget in June. The budget agreed for 2010 required ministers to reduce personnel costs by 9% compared with 2009. The overall effect of these overlapping changes is that the total paybill in 2010 is 3% smaller than in 2007 and 15% smaller than 2008.[4]

However, in contrast to many other states, the Estonian government did not use a single central mechanism, such as an across the board pay cut or a pensions levy, to achieve these reductions. Instead it was left to each ministry and government agency to achieve the cuts in its own way, and several methods were used, often in combination. They included: cuts in employment, sometimes linked to structural reform, as in the Ministry of Finance, or the mergers of government agencies, as in the abolition of the Office of Population and Ethnic Affairs; reductions in performance related supplements and other additional payments – as the Ministry of Finance points out "while in 2008 many state and local government institutions, paid the premiums and benefits, … in 2009 these payments were almost absent in the public sector"[5]; periods of unpaid holiday – the Social Insurance Board, which deals with pensions, required its staff to take 24 days unpaid leave (two days a month) over 12 months in 2010, equivalent to around a 9% pay cut; and cuts in basic pay. In some cases these cuts in basic pay were negotiated, as in the Ministry of the Interior, where it was agreed to cut basic pay by 8% in the summer of 2009; in other cases they were imposed.

Impact

Figures on earnings from the national statistical office give an indication of the impact of the cuts on earnings. They show that between the second quarter of 2008 and the second quarter of 2010 gross monthly earnings fell by 2.5% in the state sector (central government) and 6.0% in local government. At a time when prices rose by 2.8% (2nd quarter 2008 to 2nd quarter 2010 Consumer price index Statistics Estonia), this shows a real decline of 5% or more. However, it almost certainly does not show the whole of the income loss, as in most cases it fails to include the unpaid leave, which employees were forced to take, but which they may not have taken in the second quarter of 2010.

Earnings in the public sector: 2008 and 2010

[3] Estonia: Macro fiscal assessment, European Commission, March 2010.
[4] Public Service Yearbook 2009, Ministry of Finance of the Republic of Estonia, 2010
[5] Public Service Yearbook 2009, Ministry of Finance of the Republic of Estonia, 2010

Gross monthly earnings kroons (2nd quarter)					
State or local government	2008	2009	2010	%age change 2008 to 2009	%age change 2008 to 2010
State	16,645	16,202	16,228	-2.7%	-2.5%
Local government	12,882	12,735	12,110	-1.1%	-6.0%
Includes employees with an employment contract, a service contract and those working under the Public Service Act.					
Statistics Estonia, Table WS31: Average monthly gross wages					

Greece

The human impact

"The present situation is already tragic and the prospects for the future are even worse," that's the view of Sotiria Dalla, who works as head of administration in a hospital in Athens, in Greece. The cuts imposed by the government have resulted in her annual take home pay falling by 11% from €21,400 in 2009 to just over €19,000 this year. In two rounds of cuts, the allowances linked to her job and her position of responsibility have been cut by 20% (€910 a year) and she has lost €1,480 from the bonuses she used to get at Christmas, Easter and for her holiday in the summer. All this has come at a time when the amount of work has increased dramatically, as the government has frozen posts and many of her colleagues have left so as not to lose out under the new pension scheme. Sotiria, who lives in rented accommodation on her own, and has a master's in health administration, has already changed to a cheaper supermarket for her weekly shop, as higher VAT rates have pushed prices up, at the same time as her income has fallen. She buys unbranded goods where she can and has cut down on what she spends on clothing and entertainment.

Background

There are estimated to be some 760,000 permanent public service employees in Greece. The breakdown between different parts of the public services, which is based on preliminary data, is set out in the table. However, more precise figures, on both numbers employed and pay, should be available at the end of December 2010 as a result of the census which was carried out in July 2010.

Permanent employees in the public sector: 30 June 2010

Area of employment	Number
Central administration	391,825
Other entities (excluding hospitals)	47,508
Local authorities	83,664
State owned enterprises	77,561
Security officers	64,967
Churchmen	10,811
Military personnel	81,159
Total	757,522
Source: The Economic Adjustment Programme for Greece, Hellenic Republic Ministry of Finance, July 2010	

The pay and pensions of those working in the public sector are set by law. Public services employees have collective bargaining rights under legislation passed in 1999 (Law 2738/1999). However, these rights specifically exclude pay and pensions, with the result that formal collective agreements are limited to issues such as leave, working time, training and trade union facilities. However, ADEDY, the union confederation for public service employees, has in the past been able to bring pressure to bear on the overall level of pay settlements at national level. In addition, at local level, union federations and local union bodies (second and third level union organisations in the Greek union structure) have been able to reach informal agreements on pay within individual public sector bodies. These informal agreements have been important in adding to overall levels of pay.

Government action

The first moves to cut to pay and conditions for those in public services came in November 2009, when the newly elected government, facing a unexpectedly large budget deficit of 12.7%, presented its first budget. This provided for a pay freeze in 2010 for those in public services, whose basic pay was more than €2,000 a month, with a 1.5% pay increases for all other public employees.

The squeeze was tightened in subsequent statements and in the update to the country's stability and growth programme published in January 2010, the government set outs its proposals to make further savings in the public sector wage bill. These included an almost complete recruitment freeze in 2010, to be followed by a policy of replacing only 20% of those leaving the public services from 2011 onwards, the reduction of short-term contracts in the public sector by one third, a reduction in overtime and a promise to make changes to pension entitlements in public (and the private) sector and to introduce a new mechanism for paying wages through a single body (see below).
However, the largest item was a 10% cut in allowances paid to public sector employees, with the exception of family allowances, payments for children, allowances for postgraduate degrees and performance-linked bonuses.[6] The government estimated that this 10% cut in allowances, which affected those in central and local government and the broader public sector, was equivalent to a 4% average reduction in gross pay. The fact that some of these allowances, which had previously been subject to special taxation regimes, were to be taxed in the normal way meant that the real cost of this cut was on average 5.5%.[7]

By March 2010, the government had decided that these cuts were not enough and an additional package of measures was announced. On public sector pay this involved a further 2% cut in allowances, in addition to the 10% already announced and a 60% reduction in the 14th month salary that public sector employees receive. In publicly owned companies, where employees do not normally receive the allowances paid in other parts of the public sector, pay was to be cut by 7% and they also lost 60% of their 14th month salary. At the same time a freeze was imposed on budgeted pension increases for both the public and private sector.

The government estimated that the two cuts packages together, which were backdated to 1 January, reduced wages by a total of 8% in nominal terms and 10% in real terms.[8] The measures were adopted by the Greek parliament on 5 March 2010 and the legislation (Law 3833/2010) was published in the Official Gazette on 15 March 2010.

Despite this, pressure from the financial markets on Greece intensified, and on 3 May 2010 the Greek government agreed a revised economic policy with the IMF and Euro area member states in return for financial support. This brought further cuts the area of public service pay and conditions. Allowances, which had already been reduced by 12% (10% plus 2%), were cut by a further 8%, bringing the total reduction to 20%. The 13th and 14th month salaries were reduced to a flat rate of €250 at Easter, €250 in the summer and €500 at Christmas, but only paid to those earning less than €3,000 a month. Employees in publicly owned companies had their 13th and 14th month salaries reduced in a similar way and their pay, which had already been reduced by 7% was reduced by a further 3%, making a 10% cut

[6] Update of the Hellenic Stability and Growth Programme including an updated reform programme, Ministry of Finance, 15 January 2010
[7] Hellenic Stability and Growth Programme Newsletter, Ministry of Finance, 17 February 2010
[8] Hellenic Stability and Growth Programme Newsletter, Ministry of Finance, 9 March 2010

overall.[9] The government estimated that these additional measures were equivalent to a 7% pay cut in nominal terms, with all of the 2010 reductions being equivalent to 14% cut in pay in nominal terms[10] (more in real terms, taking account of the higher rates of tax). Legislation to implement the pay cuts was adopted by the Greek parliament on 6 May and published in the Official Gazette as Law 3845/2010 on the same day.

In addition, as part of its May agreement with the IMF, the government committed itself to the creation of a simplified remuneration system for public sector employees, which would cover basic wages and allowances potentially payable to all public servants. This was to ensure that pay reflected both productivity and the tasks undertaken. The process was to be started by September 2010 and legislation implementing the new payments system was to be adopted by June 2011. This is being combined with the introduction of a single payment authority to pay and monitor all salaries in the public sector. This is expected to be operational by February 2011.

Legislation on public sector pensions (Law 3865/2010) was passed in July 2010 and published in the Official Gazette on 21 July. (This follows legislation (Law 3863/2010) on private sector pensions published in the Official Gazette on 21 July.) The new public sector pensions law introduces a unified statutory retirement age of 65 for both male and female employees by December 2013, starting the process in January 2011, with most other changes being introduced from 1 January 2011. For those entitled to receive a pension after 1 January 2015, the legislation reduces the annual pension accrual rate – the proportion of salary paid for each year of service – from between 2% to 3%, depending on the scheme, to 0.8% to 1.5%, depending on length of service – the rate increases with length of working life. It bases pensions on career average earnings rather than the top five years in the last 10. It requires 40 years' of contributions for full benefits and reduces the pension by 6% for each year that an individual retires before 65 without 40 years' contributions. It links the increase of pensions to prices rather than earnings – pensions are frozen for 2011 – and it integrates public servants into the general employees' pension scheme, with new employees joining the unified scheme from 1 January 2011. The list of arduous occupations permitting earlier retirement is also sharply reduced. [11]

The 2011 budget announced on 4 October did not include any further individual measures to cut public sector pay or pensions. However, it did indicate the impact of the measures taken so far and their ongoing effect in 2011. Between 2009 and 2010 it estimated that expenditure on wages in the public sector would fall by 12.2% – from €17,989 million to €15,792 million. In 2011, it is expected that the introduction of the single payments authority with save €100 million, while the overall cost of public sector wages will fall again by 2.1%, going down from €15,792 million in 2010 to €15,461 million in 2011.[12]

Impact

There are no earnings figures for the public sector that would allow the impact of the government's action on the average earnings of public sector workers to be demonstrated. However, in a press release accompanying the 2011 draft budget the Ministry of Finance

[9] Note on the Economic Policy Programme relating to the Eurogroup and the IMF support mechanism, Ministry of Finance, 2 May 2010
[10] Hellenic Stability and Growth Programme Newsletter, 17 May 2010
[11] See The economic adjustment programme for Greece, Ministry of Finance, July 2010 and Greece: First review under the stand-by arrangement, IMF, September 2010.
[12] Draft budget 2011, Ministry of Finance, October 4 2010

stated that there had been a "15% reduction in public sector wages [and] a 10% reduction of pensions in the public and private sectors."[13] This is at a time when prices are going up on an annual basis by 5.2% (October 2010).

[13] Press release on draft budget 2011, Ministry of Finance, 4 October 2011

Hungary

Background

Official statistics indicate that there are 790,000 employees in public services (described as budgetary institutions) in Hungary, although the unions feel that this figure is overstated and that currently there are around 600,000 public servants in Hungary. The figures for the second quarter of 2010 from the Hungarian Central Statistical Office are set out in the table.

Area of service	Number of employees
Public administration, defence and compulsory social security	267,600
Education	246,200
Health	82,300
Social work	137,400
Other	54,200
Total	787,700
Source: Hungarian Central Statistical Office: STADAT, Table 2.1.24, Average statistical staff number of employees in the budgetary institutions; figures for April to June 2010	

The budgets determining the pay of those working in the public sector in Hungary are set by legislation, although decisions are normally taken following discussions between the unions and the government at national level. Those employees classed as government officials (108,500 in the first six months of 2010, almost all working in public administration, defence and compulsory social security) have a different employment status to other public service employees. The pay and conditions of government officials are not subject to collective bargaining. Their pay is set by law, based on qualifications and years of service. However, there is collective bargaining over the pay of other employees in the public service, primarily those working in education and health.

Government action

The first steps towards cuts in public sector pay were taken in October 2008, when Hungary became one of the first countries to be seriously affected by the global financial crisis[14]. The Hungarian government quickly opened discussions with the International Monetary Fund, the European Union and the World Bank and in November 2008 these bodies agreed to provide financial support to Hungary in return for a package of measures, which, among other things aimed to cut public spending.

In the letter of intent sent to the IMF on 4 November 2008, the government promised to freeze wages in the public sector in 2009 and in addition to eliminate the 13th month salary

[14] This was not the first time that public sector pay had been frozen. The government froze public sector pay in 2007, although to soften the blow and following union protests, it agreed to pay half the 13th month payment, which normally would have been due in January 2008, on a monthly basis in the second half of 2007. See EIRO, Tensions continue over restructuring in public sector, http://www.eurofound.europa.eu/eiro/2008/08/articles/hu0808029i.htm

for all public service employees. Limits were also imposed on the 13th month payment made to pensioners and other public expenditure was also to be reduced.

However, these measures had not been agreed with the unions and were rejected by the opposition party FIDESZ. Following major rallies and the threat of a strike on 12 January 2009, the government reached agreement with the unions in the public sector to replace the 13th month payment with a supplement equivalent to the entire amount of the 13th month payment for those earning less than 180,000 HUF a month, around 70% of those employed in the public sector[15]. For those earning more than 180,000 HUF a month, the value of the supplement was less than that of the 13th month payment. In the months that followed the value of the supplement was reduced in a series of steps.

In April 2009 the government, now led by Gordon Bajnai, introduced a new package of austerity measures. As well as cuts in pensions and social payments and increased taxes, it announced that it was permanently abolishing the 13th month payment from 2010 onwards, replacing it with a payment linked to national growth, for those earning less than 340,000 HUF a month. This was worth 98,000 HUF and was paid in two parts at the start of 2010. The government also stated it was freezing pay for public sector employees for 2010 as well as 2009.[16]

A new government elected in April 2010 failed to reach agreement with the IMF on its plans, choosing instead to impose taxes on first the banks (July 2010) and then other major companies (October 2010). In terms of public sector pay, the government placed a 2 million HUF cap on public sector salaries (hitting the highest earners, including the head of the central bank) and imposed a 98% tax on severance payments of over 2 million HUF. This last measure was declared by the constitutional court to be unconstitutional in October 2010.

The government also told the tripartite National Interest Reconciliation Council (OÉT) in October that it planned to freeze public sector pay again in 2011, without providing details of its proposals.

Impact

Official figures clearly show the impact of the government's cuts in public sector pay on earnings in the public sector. However, the picture is distorted by the uneven distribution of pay over the year, and by the an increase in the number of low paid workers included in the public sector as a result of the government's employment promotion scheme.

The first columns in the table show the difference in average monthly earnings between the whole of 2008 and the whole of 2009. There is a decline of 7.9% for the whole of the public services, with a 5.4% decline for those employed in social work, a 4.6% decline for those in health, a 5.1% decline for those in education and a 12.4% decline for those in public administration, defence and compulsory social security. The other figures are for average gross monthly earnings in the first six months of 2008, 2009 and 2010. Overall, the figures show a fall in each of the years, although, looking at the individual services, this is only the

[15] See IMF Country Report No. 09/21, January 2009 and EIRO Recent unrest in transport sector raises questions about strike regulations, 26 June 2009, http://www.eurofound.europa.eu/eiro/2009/03/articles/hu0903019i.htm

[16] See Letter of intent to IMF, 11 June 2009 and Supplemental memorandum of understanding (Second addendum to the memorandum of understanding) between the European Community and the Republic of Hungary, 15 June 2009

case for social work. However, even though the figures for earnings for public administration, education and health are higher in 2010 than 2009, they are still below the figures for 2008. This is over a period when prices rose by 9.2% between the first half of 2008 and the first half of 2010.

Area of service	Average gross monthly earnings over year (HUF)			Average gross monthly earnings January to June (HUF)			
	2008 (12 months)	2009 (12 months)	%age change 2008 to 2009	2008 (6 months)	2009 (6 months)	2010	%age change 2008 to 2010
Public administration defence and compulsory social security	267,657	234,339	-12.4%	263,320	239,005	250,796	-4.8%
Education	205,940	195,501	-5.1%	210,300	198,241	203,756	-3.1%
Health	188,812	179,893	-4.7%	192,161	181,819	187,380	-2.5%
Social work	151,239	143,017	-5.4%	153,996	143,029	116,496	-24.4%
Total	219,044	201,632	-7.9%	219,502	204,093	203,894	-7.1%
Source: Hungarian Central Statistical Office: STADAT, Table 2.1.30, Average gross monthly earnings in the budgetary institutions							

Ireland

The human impact

Shane Lambert is 30, and lives with his partner Audrey in a rented flat in Baltinglass, County Wicklow, about 60 km from Dublin. He works for South Dublin County Council as an assistant staff officer, providing IT assistance in the law department. His pay has effectively been cut twice, with a 7% pensions levy in March 2009 and a 7% salary reduction in January 2010, and his net pay is now around €24,000 a year. Audrey has also suffered, as the downturn in consumer spending that followed the 2009 austerity budget meant that she lost her job in a restaurant. She was unemployed for seven months before getting a new job working in a crèche. As a result Shane and Audrey have had to move from Tallaght, close to Shane's work, to their new accommodation in Balltinglass, more than an hour from Dublin by car. The rent is less, but Shane now spends a lot more on petrol. The lack of money means that they have not had a holiday, Shane has stopped his sporting activity – he's no longer a member of the football club he used to belong to, they don't buy newspapers or magazines and they limit themselves to one night out a month. They save money on food by choosing cheaper options, cooking larger amounts to last a week and taking packed lunches to work. They have put off visits to the doctor and things like dental treatment have become more expensive, because state contributions towards their cost have been cut. Shane now feels he has little prospect of owning his own home and that his debts will increase. At work staff morale is at an all time low, with vacant posts remaining unfilled and individuals fearful of what will happen next. These days work colleagues rarely socialise and there is growing despondency about what is to come. Shane is worried about his own and Audrey's future and sees little hope for the Irish economy. "It's all out of our hands and it's really scary," he says.

Background

There are around 350,000 people employed in public services in Ireland[17], although government policy is to reduce this number. The breakdown between different services is as set out in the table, although this is based on full-time equivalents rather than a head count.

Public service employees 2010 (2nd Quarter)

Type of service	Numbers (FTE)
Civil Service	34,942
Defence Sector	10,551
Education Sector	92,902
Health Sector	109,381
Industrial Civil Service	1,716
Justice Sector	14,971
Local Authorities	31,757
Non Commercial Semi State Bodies	12,149
Total	308,370
Source: Department of Finance	

[17] Report of the Special Group on Public Service Numbers and Expenditure, 2009

The pay and conditions of employees in public services in Ireland are negotiated rather than being set by legislation. Conditions are negotiated at national level within each of the services, although conditions negotiated for civil servants will often influence those negotiated elsewhere.

However, since 1987, collective bargaining on pay in the public services, as elsewhere in the economy, has been conducted within the parameters of a series of social partnership agreements.[18]

These have set fixed overall percentage pay increases for the whole of the public services (and the private sector), although sometimes with higher increases for the lower paid. In addition, since the agreement signed in 2000, there has been a formal procedure to deal with areas where it was felt that pay in the public sector was out of line with private sector earnings. The Public Service Benchmarking Body, which reviews and compares pay for specific occupational groups, has reported twice, in 2002 and 2007. The 2002 review led to significant increases for some groups.

The most recent social partnership agreement, *Towards 2010: Review and Transitional Agreement 2008-2009*, which was finally agreed in September 2008, provided for an 11-month pay pause, followed by a 3.5% increase on 1 September 2009, and a 2.5% increase (3.0% for the lower paid) from 1 June 2010, plus a partial payment of increases made under the benchmarking process.

Government action

Cuts in the pay and conditions of those working in the public services were first announced on 3 February 2009. The government had been engaged in negotiations with unions and employers on how to tackle Ireland's financial and economic crisis since December 2008, and on 28 January 2009 all parties agreed a statement setting out a general framework on how to move forward.[19] However, further talks on concrete implementation collapsed without an agreement, and the government introduced its own proposals. These were that the 3.5% pay increase for public service employees, due on 1 September 2009, would not be implemented, and that a pension-related pay deduction levy would be imposed on all public service employees.

This pensions levy was equivalent to 7.5% of pay on average, but the reduction for individuals varied. There was a 3.0% levy on the first €15,000 of annual salary, a 6.0% levy on the next €5,000, and a 10.0% reduction on the rest. This meant that someone earning €25,000 a year lost 5.0% as a pensions deduction, someone on €50,000 lost 7.5% and someone on €125,000 lost 9.0%. The legislation to implement the pensions levy was the Financial Emergency Measures in the Public Interest Act 2009, which was approved on 27 February 2009, and the first deductions were made in March.

Talks between the unions and the government reopened in March 2009 but no agreement was reached. In December 2009 the unions put forward their own proposals to cut the public sector paybill, which involved staff savings through more flexible working and, for 2010, a 12-

[18] The agreement in 2000, known as the Programme for Prosperity and Fairness, set up a Public Service Monitoring Group (PSMG), whose role was to oversee the implementation of public service pay agreements, and to "deal with any overarching issues that arise in implementing these agreements as well as any other issues which both sides agree would help to improve the operation of public service pay and industrial relations arrangements."

[19] Framework for a Pact for Stabilisation, Social Solidarity and Economic Renewal, 28 January 2009

day period of unpaid leave. However, the government rejected this as insufficient and introduced its own proposals, which were announced on 9 December 2009 when the government presented its budget for 2010. These proposals were implemented through legislation, the Financial Emergency Measures in the Public Interest (No. 2) Act 2009, which was approved on 20 December 2009.

Under the Act, which came into effect on 1 January 2010, salaries of those employed in public services were cut by 5% for the first €30,000 of annual salary, 7.5% on the next €40,000 and 10% on the next €55,000. For those earning more than €125,000 a year, the cuts were 8% up to €165,000, 12% between €165,000 and €200,000 and 15% on salaries of €200,000 or more. This meant that someone on €25,000 a year saw their pay cut by 5.0%, someone on €50,000, around average earnings, lost 6.0% of their pay and someone on €125,000 8.0%.

In addition the government announced changes to the pension arrangements of those joining the public services from 2010 onwards, raising the minimum retirement age from 65 to 66, with the possibility of further increases to 70, and basing pension payments on career average earnings rather than final salary. The government also said that it was considering linking future pension increases to rises in the consumer price index rather than earnings.
The measures were strongly opposed by the unions and there was industrial action at the start of 2010. However, talks with the government restarted in March 2010 and on 30 March the negotiators reached an agreement, known, because of where it was signed, as the Croke Park agreement. This guaranteed: that there would be no further pay reductions over the lifetime of the agreement – from 2010 to 2014; that pay would be reviewed in the Spring of 2011 and each year thereafter to see whether the saving made through public service modernisation might allow for pay to be increased (if this is the case priority will be given to those with pay rates of €35,000 or less); that there would be no compulsory redundancies; and that the 2010 pay reductions would be disregarded for the purposed of calculating pensions for those retiring in 2010 and 2011 (the December 2009 announcement only said that they would be disregarded for those retiring in 2010). In return the unions agreed to cooperate fully in redeployment within the public services as part of a modernisation of the public services allowing staff numbers to be reduced.[20]

Following concerns among some unions, this agreement was clarified in a statement from the facilitators from the Labour Relations Commission who helped to draw it up. The key points included in this clarification were that government accepted that the clause in the agreement that its implementation was “subject to no currently unforeseen budgetary deterioration” would be implemented in good faith; in other words the government would not use it to escape from the terms of the agreement; and that the government confirmed that there would be no change in the mechanism used to index public service pensions during the lifetime of the agreement; in other words they would continue to be increased in line with pay rather than prices.

On the basis of these clarifications, the Croke Park agreement was accepted by the Public Services Committee of the Irish Congress of Trade Unions on 15 June 2010, with unions representing a majority of union members in public services voting in favour.

[20] Public Service Agreement 2010-2014

Impact

The latest figures are for gross earnings in the public services in 2008 (see table) and therefore they do not show the impact of the pensions levy or the pay cut. However, on average earnings of almost €50,000 a year, the combined impact of the levy and pay cut is a loss of around 13.5% in gross pay. Over the two years October 2008 to October 2010 prices changed little, falling by 0.3%.

Type of service	Gross weekly earnings 2008 (now lower)
Education	€946.47
Civil Service	€916.06
Defence	€808.45
Police (An Garda Siochana)	€1,207.24
Local authorities	€833.37
Public sector (excluding health)	€948.91
Source: Central Statistics Office Ireland: Public sector average weekly earnings	

Latvia

The human impact

Evita is 33. Married with two small children she lives in a two-room flat in the Latvian capital, Riga, with her husband Maris. She has worked for 12 years in the State Social Insurance Agency (VSAA), initially as a statistician and since 2004 as a section head. Her main duties are the preparation of the regular statistics and answering requests about VSAA services and functions. Before the cuts in August 2009, she earned 800 LVL (about €1,125) gross a month, 600 LVL (€845) net. Now her gross salary is 640 LVL (€900) gross and she takes home 470 LVL (€660). In addition, from July 2010 until September 2010 she, like all her colleagues, had to take one day's unpaid leave a month and although this has now stopped, it is likely to restart next year as the budget for pay in 2011 will be the same as this year's. The one month's pay all employees used to get as a holiday bonus has been scrapped and there are no extra payments for replacing someone who is sick or for other extra duties. Evita's income is crucial to the family because, although Maris is a director of a company selling computer games, as yet he does not earn much money. The family's net income has also been hit by a rise in the rate of income tax, which went up from 23% to 26% in January 2010. The result is that they go out at the weekend much less frequently than in the past. All their spending is precisely calculated and they try to save money by buying things in advance, when they are often cheaper. For example, all the things their eldest son needed for school were purchased long before the start of the new school year. The savings they had before the cuts started have all gone. Evita is very fearful of the future because she knows the section she works in does not provide a direct service to employers. "I know the HR department is looking to see how many people they need to fire and I am very worried," she says.

Kristine is 31 and has just married Ansis. They share a two-room flat in Riga, which they are buying with a mortgage. Kristine works at the Ministry of Finance and Ansis works as a carpenter. His earnings after tax fluctuate between 300 LVL (about €425) and 650 LVL (€915) a month, but as a section director at the Ministry of Finance, hers used to be significantly higher. Before the cuts, she earned 1,320 LVL (€1,860) gross – 914 LVL (€1,290) net. Now, after pay cuts in July 2009 and January 2010, she earns 1,000 LVL (€1,410) gross – 640 LVL (€900) net, around 30% less. She has also lost her pay supplements and the government no longer pays her health insurance. With an increase in the income tax rate from 23% to 26% in January 2010, money is very tight. After paying the mortgage, utility bills and other living costs, there is almost no money left for anything else. They don't go to restaurants or concerts at all; a visit to the cinema is a two-monthly treat; and big-ticket purchases, like a fridge or a washing machine have been postponed indefinitely. At work, her section has been cut from five employees to four and has taken on new responsibilities from other agencies. Everyone is worried about who will be the next to be dismissed. Kristine is very anxious about her own future. As she says, "I am just waiting to see what the next reorganisation will bring."

Background

Figures from the central statistical bureau in Latvia, Latvijas Statistika, show that there are some 250,000 employees in the public sector, well down on the peak of 300,000 in July 2008.[21] Figures from September 2008, drawn from a different source provide a breakdown of the numbers of employees in the public sector, and show that the largest area of employment is local government, accounting for 39% of all employees, followed by commercial companies (32%) and central government (29%). Around one third of those working in local government are teachers.

Area of activity	Number of employees
Central government institutions	91,600
Local government institutions	122,900
Commercial companies	100,700
Total	315,200
Source: Informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, February 2009	

A minority of those employed in the public sector have a special status, as civil servants, members of the armed forces, police officers and so on. Civil servants are not covered by collective bargaining; their pay and conditions are set by regulations. The pay and conditions for these employed in local government and state owned companies are subject to negotiations, although negotiations in local government are constrained, as government regulations set maximum levels for basic pay rates and other payments. Performance related bonuses, normally paid in April and November, have been a significant part of overall pay in the past, as have holiday bonuses, normally paid in June.

Government action

The financial crisis came to a head in Latvia in October 2008, with a run on the Latvia's second largest bank, Parex Banka. However, the Latvian government had already started to take steps to cut spending on public sector pay, having decided on 23 September 2008 to cut the number of positions in public administration by 10% in 2008-2009, as compared with 1 January 2008.[22] As the crisis worsened, the Latvian government approached the International Monetary Fund and other international institutions asking for support in November 2008, and the IMF agreed a loan just before Christmas 2008, with EU support being agreed in January 2009.[23] In its letter of intent to the IMF sent on 18 December 2008, the Latvian government committed itself among other things to "cut average compensation (wages and bonuses) in the entire public sector by an additional 15 percent in 2009 (relative to the originally adopted budget) with further reductions in 2010-2011." The government had already taken action to reduce the money available for wages and salaries at a cabinet meeting on 25 November 2008.[24]

[21] The precise figure, which excludes foundations and some commercial companies, was 251,809 in July 2010. In July 2008 the equivalent figure was 300,512: Table DS14,Latvijas Statistika
[22] Informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, February 2009
[23] See IMF Working Paper, Adjustment under a currency peg: Estonia, Latvia and Lithuania during the global financial crisis 2008-09, Catriona Purfield and Christoph B Rosenberg, 2010
[24] Fourth informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, May 2009

These cuts were to be achieved through the *Law on the Remuneration of Officials of the State and Local Government Institutions in 2009*, which was adopted on 12 December 2008 and came into effect on 1 January 2009. This law required that state and local government institutions should reduce their funding for employees' wages by 15% as compared with the original 2009 budgets, and that the budget for wages and salaries should be cut by 23.5% as compared with 2008.However, those earning less than 360 LVL (twice the minimum wage of 180 LVL) were protected from pay cuts. In addition, the law, which led to changes in other legislation on pay, abolished holiday bonuses for 2009 and limited other additional payments, such as those paid for replacing other staff members, as well as payments made on the birth of a child or the death of a relative.[25]

The large numbers of those earning less than 360 LVL (48.5% of in local government[26]) meant that the impact of the pay cuts in the first half of 2009 was less than planned, with the public sector paybill falling by 5% in the first six months rather than the 35% assumed in the government's initial programme.[27]

With the economic situation continuing to worsen, in June 2009, the government introduced a supplementary budget (originally planned for March) making further severe cuts. Unions and employers accepted some of the proposals, but there was opposition to the plans to cut education spending – largely teachers' wages – by 50% and health spending by one third,[28] as well as to the proposed cuts in pensions and other social benefits. As a result the unions organised a mass protest on 18 June. On public sector pay, new legislation, *Amendments to the Law on Remuneration for Civil Servants and Employees of Central and Local Government Institutions in 2009*, was introduced without any negotiations with unions and came into effect on 29 June 2009. This abolished further bonuses and supplements, included performance related pay additions, as well as allowing public institutions to save money by cutting working time (in practice this often meant unpaid leave.). Redundancy payments were reduced and there were amendments to the regulations setting the maximum basic pay of different groups of central government employees. These were cut by 20% for pay above 300 LVL a month and 15% for pay below this level. The protection for those earning less than 360 LVL was removed.[29]

These measures had a dramatic effect on public sector pay. As the IMF noted in its January 2010 report "The central government laid off almost 6,000 workers in the third quarter, and applied an 18 percent average wage cut to the remainder. The burden has fallen heavily on teachers, who now earn less than half the public-sector average."[30]

Employers have also used the working time provisions in the legislation to introduce unpaid leave. For example, in the state revenue services every Friday was unpaid leave in 2009, while many institutions, including the state environmental service and most municipalities,

[25] Informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, February 2009
[26] Sixth informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, May 2009
[27] Republic of Latvia: First review and financing assurances review under the stand-by arrangement, IMF, October 2009
[28] Republic of Latvia: First review and financing assurances review under the stand-by arrangement, IMF, October 2009
[29] Sixth informative report on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, May 2009
[30] Republic of Latvia: Second review and financing assurances review under the stand-by arrangement, IMF, March 2010

continue with the practice of two to five days of unpaid leave a month to keep within their pay budgets.

The Law on the Remuneration of Officials of the State and Local Government Institutions in 2009 included a commitment to develop a single remuneration system for those working in central and local government institutions. In addition, the production of a report on revisions to the wage grid was one of the structural benchmarks agreed with the IMF.[31] Legislation introducing a revised system of remuneration for working in central and local government was finally passed by the parliament on 1 December 2009, with details implemented through government regulations that took effect on 1 January 2010. The legislation included transitional provisions retaining the limits on bonuses, including the holiday bonus for 2010 and 2011, and the regulations, which developed two pay scales, one for ministries and one for bodies subordinated to ministries, cut the maximum basic pay by 5% on average as compared with the previous pay scales.[32]

Impact

Figures on earnings from the central statistical bureau show the impact of the government's pay cuts, although the picture is complicated by the traditionally uneven nature of pay over the year as bonuses are paid. The figures show that, using annual figures pay in the public sector fell by 11.1% between 2008 and 2009. However, the decline continued in 2010, and comparing the first six months of 2008 with the first six months of 2010, the fall was 15.3%. Over the same period (1st half of 2008 compared with 1st half of 2010) prices rose by 3.8%.

Ministries and central state institutions have seen their pay fall by more that those in local government over two years, experiencing a fall 23.6% between the first six months of 2008 and the first six months of 2010. However, local government pay, which rose at the start of 2009, in part because of a pay rise for teachers in October 2008, fell more rapidly than pay in central government between 2009 and 2010.

These figures are in line with the latest report on pay from the finance ministry which estimates that average pay for the 62,000 employed in state budgetary institutions in March and April 2010 was 25% below the "average indicators in 2008".[33]

Looking at the different areas of activity, it is clear that, comparing the first six months of 2008 with the same period in 2010, public administration defence and compulsory social security has seen the largest fall in pay – down 23.8%, compared with a fall of 16.6% in health and social services and 16.1% in education, with a slight rise of 0.9% in water supply and waste. However, the sharp fall in pay in education between 2009 and 2010, when it declined by 20.5% over a year, from 473 LVL to 376 LVL, is also very evident.

Average monthly salaries in public sector: 2008 to 2010

Area of activity	Annual average	Average for first six months

31 Republic of Latvia: Second review and financing assurances review under the stand-by arrangement, IMF, March 2010

32 Eleventh and Twelfth informative reports on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, December 2009 and January 2010

33 Sixteenth informative reports on changes to wages and salaries and employment in the state, as well as optimization measures in the public sector, Ministry of Finance, May 2010

	2008 (LVL)	2009 (LVL)	%age change	2008 (LVL)	2009 (LVL)	2010 (LVL)	%age change 2008-2010
Ministries and central state institutions	642	527	-17.9%	631	558	482	-23.6%
Local government and local government institutions	470	419	-10.9%	434	451	368	-15.2%
Public administration, defence and compulsory social security	683	561	-17.9%	673	590	513	-23.8%
Education	487	434	-10.9%	448	473	376	-16.1%
Health and social work	493	435	-11.8%	383	457	403	-16.6%
Water supply, sewerage and waste management	495	482	-2.6%	467	484	471	0.9%
Public sector	567	504	-11.1%	543	527	460	-15.3%
Source: Average monthly wages and salaries of employees by month, recalculated to produce annual and six monthly averages, Tables DS01 and DS04,Latvijas Statistika							

Lithuania

The human impact

Lina is 41 and lives with her husband Vidas and her two children aged 16 and 10 in a detached house in the Lithuanian capital Vilnius. He works in auto servicing and earns around 1,600 LTL (about €465) a month. However, as a senior tax inspector dealing with corporate taxation, she earns more. She used to get 3,296 LTL (€955) a month, but after cuts in January and August 2009, she now only gets 2,974 LTL (€860) – a 10% reduction in her pay. With fewer staff employed in the tax inspectorate her workload has increased but her real concern relates to her own family's finances. An increase in VAT from 18% to 21% in January 2009 pushed up prices and electricity costs have also gone up. With money short the family no longer go out for meals or to the cinema and the children's pocket money has been reduced. Although the house is not fully furnished, they have stopped buying any furniture. If Lina's pay is cut again they will probably not be able to afford to keep their home and they will be forced to move back in with their parents just to save money.

Background

There are some 340,000 employees in the public sector in Lithuania, including substantial numbers in the supply of electricity, gas and water and transport. The figures from Statistics Lithuania, the official national statistics office, show the position in October 2009, although since then the numbers have fallen.[34]

Number of employees in the public sector; October 2009			
Area of activity	Full-time	Part-time	Total
Public administration, defence and compulsory social security	65,822	2,081	67,903
Education	107,302	18,332	125,634
Health and social work	57,177	8,219	65,396
Electricity gas and water supply and waste management	15,900	117	16,017
Transportation and storage	21,025	3,452	24,477
Arts, entertainment and recreation	10,851	2,199	13,050
Professional, scientific and technical activities	9,737	1,135	10,872
Other	17,715	2,159	19,874
Total	305,529	37,694	343,223
Source: Statistics Lithuania, from db1.stat.gov.lt/M3060829 for full-time employees and db1.stat.gov.lt/M3060830 for part-time employees who have a direct employment contract and work at the main workplace all the month (October) and receive remuneration.			

[34] Other figures produced by Statistics Lithuania (db1.stat.gov.lt/M3060708) give a higher figure of 417,000. However this is for all employees working at the main or secondary workplace under an employment contract and potentially includes some double counting.

Reforms introduced by the Law on Public Service in 1999, further amended in 2002, divided those working in the public sector in Lithuania, both in central and local government, into two main categories, civil servants and public employees.

Civil servants, who in turn are split between statutory civil servants (25,200 with a special status, working as police officers customs officers, diplomats and in the armed services) and other civil servants (29,700[35]), carry out a range of core tasks linked to policy making and the operation of state power. They cannot be dismissed, except for serious breaches of discipline, and their pay is set by legislation rather than through collective bargaining

Public employees are primarily involved in the provision of public services such as education and health, although there also around 25,000 in public administration and their employment contracts are similar to those employed in the private sector. Their pay and conditions are subject to collective bargaining. However, these negotiations are decentralised to the level of individual institution or service, so in practice they only take place where there is a sufficient union presence. Where there are no unions, pay and conditions are determined by the employers alone.

Government action

The first steps were to cut the pay of those working in the public sector were taken on 9 December 2008 when the Lithuanian Parliament (Seimas) approved an anti-crisis programme presented by the newly elected government led by the Prime Minister Andrius Kubilius. This provided for an average 12% reduction in the salary appropriations for 2009 for both central and local (municipal) budgets with the exception of teachers and social work staff as well as in culture and arts, scientific and academic staff. These groups, for whom substantial pay increases had recently been agreed by the previous government, were still to receive a pay rise but at a lower level than agreed earlier. For example, the additional funding provided for teachers' salaries was cut by 21% from LTL 1,091 million to LTL 861 million.[36] In the case of the teachers, the revised increase was 10% and in the case of social work staff the revised increase was 12%.[37] The anti-crisis programme also promised to reform the payroll systems of companies controlled by central government and the municipalities "to prevent higher than market salaries".

However, the government decided this was not enough, and amended the 2009 budget on two further occasions, in May 2009 and July 2009.

The May changes, which were approved by the parliament on 7 May 2009, reduced salary appropriations by 11.2%. These cuts applied to all those employed both central and municipal government, with the exception of teachers and social workers, health care specialists, statutory civil servants (police officers, customs officers and others) and military personnel. The government was able to achieve these cuts through forcing institutions to reduce additional payments and supplements paid on top of salary levels set by collective agreements or by legislation. In addition there was a widespread requirement for those working in the public sector to take two weeks unpaid leave in 2009.

[35] Figures for both types of civil servant are for January 2010 and come from the Civil Service Department, http://www.vtd.lt/index.php?1424807728
[36] Action Programme of the Fifteenth Government of the Republic of Lithuania: Annex to Resolution No XI-52 of 9 December 2008 by the Seimas of the Republic of Lithuania
[37] Republic of Lithuania, News release 30.12.2008

The second set of changes, which were approved by the parliament on 23 July 2009, made direct cuts in the pay of public sector employees. The government had initially proposed that the basic salary level in the civil service, the reference figure used to calculate pay for other public servants, should be cut from 475 LTL to 430 LTL, a 10% cut. However, strong opposition from the unions, who argued that the higher paid should shoulder a greater burden, led to a change in policy, and on 3 July the government put forward revised proposals. Under these, the overall 10% reduction was still achieved, but the basic salary was reduced by 5%, from 475 LTL to 450 LTL while other items were reduced by more. For example the supplements linked to the level of qualification required for employment were reduced by between 30% and 50% for those Group A (higher university education), by 20% to 30% for those in Group B (higher non-university education) and for only 10% to 15% for those in group C (secondary education). In addition the pay based on the 20 job grades in the civil service was also cut, with higher deductions applying to those in the higher grades. (Overall, someone close to the top on grade 19, for example, saw their pay fall by 23%.) These cuts, which were implemented through legislation, were to apply from 1 August 2009 until the end of 2010. In addition from 1 September 2009 there was an 8% reduction in the salary appropriations for budgetary institutions and organisations.[38]

Further discussions between the government, the unions and the employers led to the signing of a national agreement on 28 October 2010. As well as covering a wide range of issues, this confirmed the average 10% in pay for state officials and civil servants and the average 8% pay cut for those employed in other publicly funded bodes. In return, the government promised that, during the period of the national agreement, there would be no further reduction in the basic salary level in the civil service.

In June 2010, the parliament approved an extension of these pay reductions for a further two years until the end of 2012.[39]

Impact

Official figures from Statistics Lithuania indicate the effect of the pay cuts on those working in the public sector (see table). At a time when prices, as measured by Statistics Lithuania, increased by 5.9% (from 2nd quarter 2008 to 2nd quarter 2010) the average gross earnings of those employed in the public sector fell by 5.2%, implying a cut of more than 10% in real terms. However, the figures also indicate that the impact of the cuts has varied from group to group, with those working in education, where teachers benefitted from a significant increase in 2009, earning 4.6% more in the second quarter of 2010 than in the same period of 2008. In contrast those working in public administration, defence and compulsory social security have seen their pay fall by 13.2%. Within this group, some have done even worse. The earnings of those involved in state administration (administration of the state and the economic and social policy of the community) have fallen from an average of 3,123.8 LTL a month in the second quarter of 2008 to 2,634.4 LTL in the same period two years later – a 15.7% decline.

Gross monthly earnings LTL (2nd quarter)					
Area of activity	2008	2009	2010	%age change 2008 to	%age change 2008 to

[38] Republic of Lithuania, News release 3.7.2009
[39] IMF Working Paper, Adjustment under a currency peg: Estonia, Latvia and Lithuania during the global financial crisis 2008-09, Catriona Purfield and Christoph B Rosenberg, 2010

				2009	2010
Public administration, defence and compulsory social security	3,022.2	2,849.4	2,620.0	-5.7%	-13.3%
Education	1,901.0	2,153.7	1,987.7	13.3%	4.6%
Health and social work	2,149.8	2,188.8	2012.4	1.8%	-6.4%
Electricity and gas supply	2,928.5	3,027.0	2,894.7	3.4%	-1.2%
Water and waste management	1,965.4	1,954.8	2,003.9	-0.5%	2.0%
Transportation and storage	2,499.0	2,276.3	2,360.3	-8.9%	-5.6%
Professional, scientific and technical	2,723.1	2,548.6	2,478.3	-6.4%	-9.0%
Arts and entertainment	1,624.5	1,692.0	1,572.3	4.2%	-3.2%
Total	2,287.2	2,316.8	2,167.4	1.3%	-5.2%
Source: Statistics Lithuania, from db1.stat.gov.lt/M3060315					

Romania

The human impact

Silvia Puskas works for the tax authorities in Covasna, a local authority (county) around 200 km north of the Romanian capital Bucharest. Aged 42, she is divorced and the sole provider for her nine-year old son, with whom she lives in a three-room apartment. She has a law degree and a highly responsible job which involves dealing with tax authorities in other EU states as well as auditing some national expenditure. She has been working for her current employer since 2006 and before that she was a secondary school teacher. Before the pay cuts Silvia's gross earnings were 2,104 lei a month (about €490 on current exchange rates), but that figure has been reduced dramatically. The big reduction came in August and September 2010. First, there was a temporary 25% across the board cut in salary, which applied to her pay for July 2010, paid out on 10 August. Second, under a presidential decree, bonuses, known as "stimulente" were stopped. As a result by September 2010 her gross pay had fallen to 922 lei (€215) a month, leaving her with only 673 lei (€156) a month after taxes. As she explains, this is only enough to pay her accommodation and heating costs and it won't be enough for that when the heating costs are higher (from November to March). "Normally there is NOTHING left for food, clothes and the extra-curricular activities the child and parent needs (education, cultural activities, swimming courses, trips etc)," she adds. She is only able to survive at a minimum standard of decency through financial help from her family and she fears that she might soon have to move in with her mother as she can no longer afford to pay the bills. With increasing pressure at work as colleagues leave, Silvia is very concerned about the future and she feels that many people working in the public sector have been "deeply humiliated and de-motivated".

Paul Velcu (32) is married and lives with his wife and six-year old child in the Romanian capital Bucharest. He is an auditor in the National Agency for Fiscal Administration and has worked there for nine years. His net pay, including all the additions, used to be around 3,000 lei a month (around €700 on current exchange rates), but a series of cuts – in January 2009, July 2009 and then the big one in July 2010 – have produced a dramatic reduction. He now only gets 664 lei (€154) after taxes, as, among other things, he has seen a 25% cut in his basic pay and lost all of his incentive bonuses, known as "stimulente". Although he has slashed his spending, buying cheaper food and cutting out things like entertainment, he has been forced to borrow money. "I fear not being able to take care of my family in the future," he says.

Background

There are some 1.3 million employees in the public sector in Romania[40]. A breakdown between different types of employment for 2008 is set out in the Table, and since then employment has been cut.

Area of activity and type of employment	Numbers employed*
Central government – civil servants	78,153
Central government – specialists (military, police, fire etc)	263,325

[40] International Monetary Fund: Romania, Fifth Review, 10 September 2010

Central government – normal employment contracts	37,535
Local government – civil servants	78,002
Local government – normal employment contracts	240,289
Schools and nurseries (pre-university)	339,688
Universities	68,203
Health	224,458
Agencies and others	165,944
Total	1,495,597
* These figures are based on authorised rather than actual numbers, which were around 10% lower	
Source: Public Sector Pay Practices in Romania, World Bank 2008	

Pay for all those working in the public sector in Romania is set by legislation and there are many different pieces of legislation governing the pay of specific groups of employees, and the various components of their pay. Although the precise situation varies depending on the employee concerned, a high proportion of total pay is made in the form of allowances and bonuses, including merit pay, service related additions, supplements linked to working conditions and payments for management responsibilities, among others. In 2008, a World Bank Report estimated that base salaries accounted for 54% of total pay in central government, 60% of pay in local government and only 42% of pay among the police, gendarmerie, fire service and the judiciary.[41]

Although pay is set by legislation, in many areas there have been negotiations between the government, primarily the Ministry of Administration and Interior (MAI) assisted by the ANFP the national public service agency, which is part of MIRA and has a specific duty to participate in these negotiations, and the unions. Following negotiations the government has normally implemented pay increases through government ordinances (ordonante).

In recent years, the main point at issue for the unions, in addition to improving pay levels, has been the introduction of a uniform salary structure for public servants to make pay clearer and more transparent and so lessen the possibility of individual pay being influenced by personal or political bias. This was agreed in principle between the unions and the government in 2005 but framework legislation to implement it was only introduced in November 2009, in part as a response to the financial crisis.

Government action

Cuts to public sector pay and conditions began in April 2009, as part of a package agreed with the International Monetary Fund. The government agreed not to implement further pay increases in the public sector in 2009 (worth 5%) or make equivalent savings through job cuts, as well as reducing overall levels of public sector employment by replacing only one in seven of those leaving. It also promised to establish a unified and simplified pay scale and to reform the bonus structure, placing a limit of 30% on all non-wage personnel expenditure, ending non-monetary bonuses and eliminating or consolidating the majority of monetary bonuses into the basic wage. The intention was that implementation would be phased in over a three-year period and action would be taken to protect the lowest paid.[42]

The next steps came in August 2009 when the government announced that it would take emergency measures to cut the public sector wage bill. These included substantial cuts in overtime hours and premia and the imposition of a two-week period of unpaid leave between

[41] Public Sector Pay Practices in Romania, World Bank, 2008
[42] Letter of intent to International Monetary Fund, 24 April 2009

October and December 2009. The constitutionality of these measures was challenged, but the Constitutional Court accepted that they were lawful and legislation to implement them was passed on 9 November 2009.

The legislation establishing a framework for the introduction of a uniform salary structure for public servants was also finally passed in November 2009 (Framework Law No. 330 5 November 2009) after more than six months of negotiations with the unions. However, although the unions were in favour of the change in principle, the final package was not agreed with the unions but imposed by the government. Among the issues of concern to the unions were: the proposed abolition of many of the bonuses that public sector workers received; the initial starting point from which all the other rates were to be calculated; and where individual jobs were placed on the grid.

The government made it clear that the framework law was only the first step and that the further legislation would be introduced by the end of September in 2010. This was to set out the details of the new system, including the pay scale, which would be benchmarked on private sector wages by way of a salary survey. The overall cost of the package was to be assessed by independent experts, before being submitted to parliament, to ensure that public sector pay could be reduced to 7% of GDP by 2015.

However, on 6 May 2010, before this legislation could be introduced, the government took further action to cut public sector pay, announcing a temporary 25% reduction across the board, although it promised that no wages would be cut below the level of the minimum wage. These pay cuts were combined with other measures, such as a 15% cut in pensions and other social benefits. Following a challenge, the Constitutional Court ruled that the pension cuts were unlawful – to make up the shortfall the government increased VAT from 19% 24% – but the other measures were judged to be legal. Legislation introducing a temporary 25% cut until 31 December 2010 was passed on 30 June (Law No. 118).

The government is currently (October) working on the detailed legislation on the uniform pay structure for the public sector, which it hopes will be passed by the end of October 2010 and will come into effect in January 2011. The legislation is in two parts: one is an implementing framework law with the new pay system; the second is specific annual legislation setting wage parameters. The legislation will also reform the productivity bonus system "stimulente" which will be included in the basic wage, and eliminate the 13th month salary and the holiday bonus that public sector workers receive. The government's stated intention is "recovering the real value of civil servants' compensation"[43] after the 25% cut. However, the unions are unhappy with the government's proposals, in particular that the starting point appears not to be public sector pay rates as at the start of 2010, but public sector rates after the 25% cuts, and that existing benefits are being abolished without adequate compensation.

Impact

The government's actions on public sector pay, particularly the 25% across the board cut, which came into effect in July 2010, have had a clear impact on public sector earnings.

In public administration and defence gross earnings fell by 27.1%% between July 2008 and July 2010. In health, they fell by 14.2% over the same period, and in education by 20.8%. In all three cases the bulk of the fall came in the final month, as the 25% cut took effect.

[43] Letter of intent to International Monetary Fund, 9 September 2010

This is a very sharp drop in pay, and the position is clearly much worse, if rising prices are taken into account. These went up by 12.6% between July 2008 and July 2010.

Gross monthly earnings (lei)

	July 2008	July 2009	July 2010	Percentage change 2008-2010
Public administration & defence	3156	2914	2301	-27.1%
Health	1653	1805	1418	-14.2%
Education	1983	2077	1570	-20.8%
Sources: Monthly Statistical Bulletin, National Institute of Statistics Romania				

Spain

The human impact

Luis Miguel Peña Fernandez is employed full time as a maintenance worker for the Community of Madrid, in Spain. Aged 43, he is married with three daughters and the family live in their own apartment. He earned €1,300 a month before the cuts, but since 1 July 2010 this has fallen to €1,265 after the government decision to cut pay by 5%. The consequence is that he goes out less frequently to the cinema or to restaurants, and he buys cheaper food. He is "pretty fearful" for the future.

Background

There are almost 2.7 million people employed in the public services in Spain. Official figures for January 2010 provide the breakdown set out in the table.

Type of service	Number employed
National level	
Central government	241,152
Security (national level)	137,087
Armed forces	132,486
Justice (national level)	23,968
Publicly owned companies	56,866
Regional level	
Regional administration	246,321
Non-university teaching	549,171
Health	490,351
Justice (regional level)	37,789
Security (regional level)	24,860
Local level	
Local government	657,905
Universities	100,672
Total	2,698,628
Source: Boletín Estadístico del Personal al Servicio de las Administraciones Públicas Registro Central de Personal, January 2010	

The structure of negotiations for the whole of the public service in Spain was changed with new legislation in 2007, which introduced a new top-level negotiating committee for the whole of the public administration (Mesa General de Negociación de las Administraciones Públicas). Before this change, only employees of central government had been covered by this top level negotiating body. The new structure provides a mechanism to negotiate on issues covering the whole of the public service, including the general pay increases for public employees. This is then included in legislation.

Below this level there are similar negotiating bodies at regional and local level. As well as these general negotiating bodies, each administration can set up sectoral negotiating bodies which deal with particular groups of employees.

Although the legislation makes it clear that most issues will be covered by collective agreements, it also establishes that some issues, such as the rights of users of public services, are excluded from collective bargaining. On pay it also states that while normally agreements will be honoured, the state reserves the right to suspend or modify them in cases where “substantial changes in the economic circumstances” result in a serious threat to the public interest.[44]

The most recent national agreement between the government and the unions was signed on 25 September 2009 for the period 2010 to 2012. It provided for a 0.3% increase for 2010 and a revision clause, which was intended to ensure that the purchasing power of those employed in the public services was not undermined by unexpectedly high levels of inflation over the three years for which the agreement was to be valid.

Government action

The government’s intention to cut the pay of those working in the public services became clear when José Luis Rodríguez Zapatero, the leader of the government, announced the reduction in a speech to the Spanish parliament on 12 May 2010. The pay cut was part of a package of measures, which included freezing pensions in 2011 and cuts in social provisions and other areas, in an attempt to reduce Spain’s budget deficit.

The reduction from 1 June 2010 and the consequent freezing of public service pay at this lower level in 2011 was introduced through a decree (RDL 8/2010), which in its introduction made specific reference to the powers given to the government in the 2007 legislation to alter pay rates already agreed. As part of the process, on 20 May the government met the unions that had signed the 2009 agreement to explain the details of the changes, although the unions subsequently complained that the information they received was inadequate.

The intended effect of the pay reduction is to reduce the paybill by 5% in annual terms. However, certain elements making up total pay are reduced by more than this for higher paid employees and less than this for the lower paid. There are also differences in the way that the cuts are implemented for those with a special employment status (functionarios) and those on normal employment contracts, and potentially differences between those employed at national level and those employed at regional and local levels.

Those with special status (about 1.6 million) see their basic pay reduced by between 4.5% at the top of the scale (Group A1) and 0.25% close to the bottom (Group C2). The basic pay of those at the very bottom of the scale (Group E) is not reduced at all. Almost the same level of reductions applies to the increments that are paid automatically every three years (trienios). The additional monthly payment made in December (there are two additional monthly payments in Spain – one in the first half of the year and one in the second) is cut by much more, with cuts ranging from 43.6% (Group A1) to 1.3% (Group C2); no reduction for Group E. The result is that those at the top of the scale (Group A1) will receive 10% less in terms of these payments in the second six months of 2010 than in the first six months. The loss for those at lower levels will be less.

However, these are not the only elements in pay. As important in many cases are the payment linked to the specific post (complemento de destino), which runs from 30 at the top to 1 at the bottom, and the payment which reflects working conditions (complemento

[44] Estatuto Básico del Empleado Publico Law 7/2007, Article 38

especifico). Both of these are reduced by 5.0% for all employees with specific status. The overall effect of this is that pay levels in the second six months of 2010 are likely to be around 7% lower for high earners and between 3% and 2.5% for those on the lowest earnings.

All these changes apply directly to those with special employment status at national level. However, only those relating to basic pay, increments and pay linked to the specific posts apply directly to those at regional and local levels, although it is likely that most administrations at these levels will introduce them for the other elements as well.[45]

The situation is much more straightforward for those on normal employment contracts, around 40% of all those working in the public sector. All the elements in their pay are reduced by a common figure of 5.0%.

Impact

There are no separate figures on the earnings of those working in the public sector, so it is not possible to provide details of the impact of the average 5% cut in pay on earnings levels. Between October 2009 and October 2010 prices rose by 2.3%

[45] For more details see the note produced by the technical staff of FSC-CCOO (RDL 8/2010 Decretazo salario empleados públicos 24 May 2010)