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AUSTERITY MEASURES IN THE PUBLIC SECTOR IN SLOVENIA AND OTHER SELECTED EUROPEAN COUNTRIES

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Abstract

The global financial and economic crisis has placed a heavy burden on the public finances of EU Member States, including Slovenia. The current priority of each country is to ensure the sustainability of public finances. In 2012 the majority of EU countries still officially had an excessive deficit, i.e. one that exceeded the permitted level of 3% of GDP. In most EU countries, measures to consolidate public finances are aimed at reducing government expenditure, and mainly include changes to the organisation of the public sector, social security and pension schemes. Most countries have had to face public sector wage reductions, combining wage cuts and wage freezes with employment reductions and other changes to employment conditions.

The aim of this paper is to outline and compare the current state of public finances in selected EU countries – Slovenia, the Netherlands, France and Italy – and to outline and compare the austerity measures in these countries' public sectors, particularly as they affect civil servants. Our comparison will give an insight into the similarities and differences in the austerity measures of the selected countries.

Key words: global financial and economic crisis, fiscal consolidation, austerity measures, public sector, international comparison

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1. Introduction

The global financial and economic crisis has resulted in large macroeconomic imbalances, a sharp contraction of economic activity and a rapid deterioration in the fiscal position of European countries. At the outset, European governments were directed towards stimulus measures; however, attention was soon redirected towards fiscal consolidation. Financial markets and other key actors in the global economy have put pressure on governments to move quickly to correct budget deficits. The current priority is therefore to ensure the sustainability of public debt in order to create greater macroeconomic stability. Radical structural interventions and structural reforms are needed if public finances are to be sustainable. These solutions must include a rationalisation of the public sector, with structural measures to increase efficiency, and restructuring that focuses on strengthening the role of development expenditure in order to ensure long-term sustainability.

The preoccupation with public expenditure has directed attention towards a key component of government spending, which is the public sector wage bill. To meet the limits imposed by the Maastricht Convergence criteria, governments have faced pressure to reduce public expenditure, and have responded with differing levels of intensity and in different ways, but it is widely recognised that wage bill reductions have often combined wage cuts and wage freezes with employment reductions and other changes to employment conditions. The size of expenditure reductions and the timeframes adopted vary depending on their fiscal position (Bach & Stroleny, 2013).

The countries compared in the paper were selected on the basis of the share of public sector employees, as the austerity measures related to cutting public expenditure are focused in particular on public sector wage bill costs, which are mostly employment-related and salaries. In the European Union the public sector comprises a quarter of the workforce, but there are big differences between countries. France and the Netherlands have an almost identical share of public employment, around 29% of total employment, while Italy's share is around 20% and Slovenia's around 22% (Bach & Stroleny, 2013; Statistical Information, 2012). Between 20 and 30% of the total workforce is employed in the public sector in the selected countries. As there are small differences in the shares of public employment between the selected countries, this paper will examine whether there are differences in the austerity measures being applied to the public sector in these countries.

2. Fiscal consolidation

Most EU countries have been faced with a deteriorating deficit and debt position since 2008. The reasons lie in a combination of the effects of a sharp contraction in economic activity, which has reduced government revenues but has not been matched by a fall in expenditure, owing to an increase in social security and unemployment benefits. As a consequence, there has been a rapid deterioration in the fiscal position of most EU countries (Bach & Stroleny, 2013). The global financial and economic crisis is therefore placing strong constraints on most EU economies. A system of economic governance in the context of the so-called 'European semester' has been in place since 2011 aimed at strengthening fiscal discipline and introducing broader economic supervision and control. Under this scheme, Member States are obliged to follow the public finance situation more closely and to take the necessary steps to remedy the situation (draft Balancing of Public Finances Act, 2012).

2.1 State of public finances in the selected EU countries

One important measure for assessing the sustainability of public finances is the level of public debt and deficit. A high government deficit over several years leads to an accumulation of government debt. If the government debt becomes sufficiently large, governments may not have enough revenues to service it; deficit-reduction measures are then required in order to safeguard the fiscal sustainability of public finances. Fiscal sustainability concerns the long-term ability of governments to meet the financial obligations linked with their current debts and future expenditures (Zaidi & Rejniak, 2010). In 2012 most EU countries still formally had a deficit that exceeded the upper limit of 3% of GDP permitted under the Stability and Growth Pact. All EU member states are required to ensure their government deficits do not exceed 3% of GDP and their debt levels do not exceed 60% of GDP. The Stability and Growth Pact sets out the parameters in which EU countries are required to manage their finances, and the enforcement measures that the EU may take if these parameters are breached (Bach & Stroleny, 2013). For most countries, including Slovenia, the European Commission has imposed a deadline of 2012 and 2013 for reducing the deficit below the limit (Economic Issues. Fiscal Developments and Fiscal Policy, 2012).

In 2009 and 2010 the general government deficit in the eurozone and the EU exceeded 6%. In 2011 the situation improved markedly, with the deficit in the eurozone area falling to 4.5% of GDP (EU average of 4.1%). In 2012 most EU countries still formally had an excessive deficit. Public debt increased significantly in 2009 in the EU (74.8% of GDP) and the eurozone (79.9% of GDP), growth was slower in 2010 and 2011, and for 2012 the European Commission’s estimate is for a continuation of the growth of public debt, reaching 86.2% of GDP in the EU and 91.8% of GDP in the eurozone. The European Commission estimates that, throughout this period, increased borrowing has primarily been caused by high deficits and rising interest expenditure, along with the financing of the extra-budgetary expenditures which the Member States introduced to ensure the stability of the financial system, particularly the recapitalisation of financial companies, as part of measures to tackle the crisis (Economic Issues. Fiscal Developments and Fiscal Policy, 2012).

Table 1: Budget deficit and public debt in the selected EU countries, 2009–2012 (% of GDP)

	2009		**2010**		**2011**		**2012***	
	Budget deficit	**Public debt**	**Budget deficit**	**Public debt**	**Budget deficit**	**Public debt**	**Budget deficit**	**Public debt**
Slovenia	-6.0	35.0	-5.7	38.6	-6.4	46.9	-4.3	54.7
Netherlands	-5.6	60.8	-5.1	62.9	-4.7	65.2	-4.4	70.1
France	-7.5	79.2	-7.1	82.3	-5.2	86.0	-4.5	90.5
Italy	-5.4	116.4	-4.5	119.2	-3.9	120.7	-2.0	123.5
EMU	-6.4	79.9	-6.2	85.6	-4.1	88.0	-3.2	91.8
EU-27	-6.9	74.8	-6.5	80.2	-4.5	83.0	-3.6	86.2

Source: Economic Issues. Fiscal Developments and Fiscal Policy, 2012.
*European Commission estimate

In Slovenia in 2009 the budget deficit increased sharply to 6% of GDP. There was no significant shift in 2010, but in 2011 the state of public finances worsened further, with the deficit reaching 6.4% of GDP. Due to past excessive deficits that exceeded 3% of GDP, the European Commission launched an excessive deficit procedure for Slovenia at the end of 2009, with the country being obliged to reduce the deficit below 3% of GDP by 2013 (draft Balancing of Public Finances Act, 2012). In 2009, compared to Slovenia, the budget deficit was higher in France (-7.5% of GDP) but lower in Italy (-5.4% of GDP) and the Netherlands (-5.6% of GDP). In 2010 and 2011 the deficit fell in all the selected countries, except in Slovenia in 2011. In 2011 France reached a deficit of 5.2% of GDP, Netherlands 4.7% of GDP and Italy 3.9% of GDP. The European Commission saw positive results in 2012 towards a reduction in the budget deficit: in Italy this reached 2% of GDP, in Slovenia 4.3% of GDP, in the Netherlands 4.4% of GDP and in France 4.5% of GDP.

On the other hand, public debt in these countries is increasing, and did so throughout the whole period 2009–2011 period, reaching 46.9% of GDP in Slovenia in 2011, 65.2% in the Netherlands, 86% in France and 120.7% in Italy. The estimate for 2012 does not show any improvement, with public debt being predicted to increase even further in all these countries. Slovenia has a much lower public debt, which is still below the permissible limit of 60% of GDP, while France, Italy and the Netherlands have exceeded the permissible limit throughout the whole period in question.

2.2 General overview of measures for fiscal consolidation

The measures to consolidate public finances in place in most EU countries aim to reduce public expenditure, mainly by streamlining the public sector, imposing employment restrictions, and introducing interventions in wage policy, social transfers and pension transfers. At the same time, countries are also applying measures on the revenue side, mainly by raising and introducing new taxes (Setnikar Cankar & Petkovšek, 2012). In the short term, austerity measures are a necessary step to reduce the deficit below 3% of GDP. At the same time, these measures do not provide for a sustainable reduction in the government deficit, as they can, in certain segments, lead to a deterioration in the quality of public services in the medium term. Public sector employment measures in particular are focused on restricting new employment; this can, in light of the predicted retirement conditions and the medium-term restrictive wage policy, lead to a deterioration in the quality of public services (Economic Issues. Fiscal Developments and Fiscal Policy, 2012).

Radical structural reforms and interventions are needed if public finances are to be sustainable. That includes further rationalisation of the public sector and restructuring that focuses on strengthening the role of development expenditure in order to promote competition and ensure the long-term sustainability of social security systems. The challenge also remains to create a sustainable solution in terms of public sector employment that would, using a combination of more flexible employment and wage policies, ensure a more congenial environment for employees and employee efficiency. Active employment policy measures and measures to promote economic growth are solutions which, together with measures to balance public finances, could lead countries out of the fiscal and economic crisis (Economic Issues. Fiscal Developments and Fiscal Policy, 2012; Setnikar Cankar & Petkovšek, 2012).

3. Austerity measures in the public sector in Slovenia

The first set of austerity measures was adopted in December 2008, followed by a new set of measures in February 2009. Public sector measures consisted mainly of the reconstruction of public infrastructure and the construction of broadband for public institutions. Measures in the public sector covered wage costs, organisational and staff-related measures, and measures to reduce the costs of material and technology for the functioning of state and public administration bodies (Measures of the Government of the Republic of Slovenia in Response to the Financial and Economic Crisis, 2012). In March 2012 Slovenia adopted a package of proposed austerity measures to balance the public finances. These were measures relating to internal savings in the public sector, as well as a raft of programmes and policies. The proposed internal savings measures included organisational measures to streamline costs, along with a number of other rationalisation measures. The proposed public sector measures included adjustments to the functioning of the public sector and adjustments in civil servants' salaries. The proposed measures relating to programmes and policies covered investment, subsidies and programmes, labour market policy and social security policy. The government sought to optimise public spending through organisational measures; these included the abolition of certain government bodies and the transfer and redistribution of tasks to existing government bodies. Through rationalisation, the government aimed to merge and transform a number of public institutions, as well as to reduce budget funding (draft Balancing of Public Finances Act, 2012).

The rationalisation of costs is one of the main segments of public sector austerity measures. The Slovenian government began to consolidate the expenditure side of the budget in 2012, which partly addressed public sector costs. The measures would reduce transport costs, phase out some types of education and reduce the price-technical standards for medical devices, preventing or reducing the costs of operations that involve public expenditure. With these measures the government aims, among other things, to tighten the criteria for the allocation of company vehicles, prevent the establishment of new organisational units, transfer and merge public sector functions, cut allowances to members of parliament and reduce the size of consular offices. In addition, adjustments to the public sector could also be included in public sector rationalisation, as the public sector has failed to adjust to the requirements of society in the past. Due to the inflexibility of the system, the government prepared a set of adjustments to allow for the best possible performance (Balancing of Public Finances Act, 2012).

In May 2012 Slovenia adopted the Balancing of Public Finances Act (hereinafter: the Act), which aims to achieve the following objectives: ensure sustainable public finances, provide a legal framework for the effective management of public finances, ensure macroeconomic stability, provide for the sustainable and stable development of the national economy, and establish rules for greater fiscal discipline. The Act follows the principles of prudent use of resources and the achievement of maximum impact in the implementation of certain tasks using minimum resources. One general solution introduced by the Act is a reduction in public expenditure, with measures to reduce expenditure covering all areas. Under the Act, the government has made much larger cuts to the salaries and other benefits of civil servants. The basic salaries of civil servants were progressively reduced by 8%, the protected salary was abolished, and performance-related pay for increased workload in 2012 and 2013 shall not exceed 20% of the basic salary. The Act also restricts promotion to a higher pay grade and more senior job title. The Act sets the payment of the salary bonus for 2012 and a reduction in the bonus for 2013; it also specifies a reduction in travel expenses, expenses for meals, long-service awards, social assistance, severance pay and mileage, reduces daily subsistence allowances and limits the duration of service contracts. A maximum number of days of annual leave is also determined (Balancing of Public Finances Act, 2012).

The increase in unemployment, lower wages and a lack of liquidity, as well as the current method of adjusting pensions, have given rise to additional transfers from the state budget to pension funds. Pension and disability insurance measures provide for the harmonisation of pensions and other pension and disability insurance benefits in such a way that, by the end of 2014, pensions and other benefits will no longer be indexed and pension supplements will be temporarily reduced (Draft Balancing of Public Finances Act, 2012). In December 2012 Slovenia adopted a new Pension and Disability Insurance Act, aimed at reforming the pension system, which entered into force in January 2013. New pension legislation foresees the adjustment of the existing pension system to the new demographic and economic circumstances, ensures its long-term fiscal sustainability and stability, and provides for decent pensions for current and future generations of pensioners. The new pension legislation brings some vital changes to the pension system, which include: a gradual increase in the retirement age to 65 by 2020 (until now the retirement age has been 58 for men and 57 for women), a halt to the further decline in pensions, personal information records (greater transparency for greater solidarity), incentives for prolonged employment and the prevention of early retirement, the raising of the accounting period for pension assessment to 24 years, increased flexibility and openness for partial retirement, pension adjustment (60% of the average growth in gross wages and 40% growth in average consumer prices), adjustments to the occupational scheme, and additional insurance to provide additional income (New Pension Legislation, 2012).

4. Austerity measures in the public sector in selected EU countries

In most EU countries, measures to consolidate public finances are aimed at reducing government expenditure; these mainly include changes to the way the public sector is organised and to pension transfers. Most countries have begun to streamline the public sector and to freeze or reduce employment in that sector, with several countries also reducing public sector pay.

4.1 Netherlands

Structural fiscal consolidation measures are required to secure fiscal sustainability in the Netherlands; these focus on structural spending measures combined with reforms to boost employment and participation rates. The government is also preparing the business sector to face the ongoing challenges of globalisation, and to adapt labour market institutions to an ageing and shrinking labour force (OECD Economic Surveys Netherlands, 2012).

The Netherlands adopted a programme of austerity measures in 2010 which aimed to balance the budget by 2015 and identified the potentials for reducing public expenditure. The biggest cuts were foreseen in the field of healthcare and social security, defence, the environment, and research and innovation. The measures also included reduction in the number of buildings owned by the government and a reduction in employment (Review of measures and reforms to address the financial and economic crisis, by country, 2012). The measures foresee a reduction of around 10% of government jobs. Government finances were affected more than had been anticipated, so in November 2012 new austerity measures, with extra cuts, were announced. The measures included efficiency cuts and legislation to harmonise provisions on the dismissal of public sector employees. The measures have had an impact on wages, with a wage freeze for public sector employees (central government and primary education) being introduced for 2012 and 2013. Local government has also felt the impact of austerity measures because of the reduction in central government funding of local authorities (Bach & Stroleny, 2013).

The savings had been expected to result in a gradual increase in the retirement age to 66 years by 2020 and to 67 years by 2025; however, under the new measures adopted in November 2012, the pension age was raised to 66 by 2019 and to 67 by 2024. More employees will therefore have to work longer and pay taxes instead of receiving a pension; this is beneficial for the state budget (Bach & Stroleny, 2013).

4.2 France

France responded to the crisis quickly and effectively, with good macroeconomic policies designed to prevent greater deterioration in public finances (OECD Economic Surveys France, 2011). The measures presented in 2012 will ensure a reduction of the budget deficit for the current period and a reduction in the country's public debt. Fiscal consolidation remains a priority and deficit reduction efforts are to continue as planned. Moreover, public spending as a percentage of GDP is very high and needs to be reduced over time (OECD Economic Surveys France, 2013). By increasing competitiveness and exports, the measures would help increase employment and reduce unemployment (Review of measures and reforms to address the financial and economic crisis, by country, 2012).

Measures relating to civil servants in France include: a restriction on employment; a reduction in the number of civil servants, alongside reorganisation or the non-replacement of one in two retiring civil servants; abolition of the index-linking of point values in relation to the retail price index; a freeze on salaries of members of the government and the President of the Republic in order to balance public finances; a reduction in the cost of government operations and ministries; and a 5% reduction in the upper limit for the reimbursement of election campaign costs and financial assistance to political parties (Bach & Stroleny, 2013; Review of measures and reforms to address the financial and economic crisis, by country, 2012).

Measures affecting pensioners include a speeding-up of pension reform from 2010, which should raise the retirement age to 62 years for a full pension or 67 years if the statutory 41.5 working years are not completed. This pension policy has brought civil servants partly into line with the less favourable conditions applying to the private sector (Bach & Stroleny, 2013; Overview of key austerity measures in the EU Member States, 2012).

4.3 Italy

In Italy the global financial and economic crisis has caused a deep recession and one which is placing particular constraints on economic growth. Therefore, under the plans of the Italian government, the priorities are structural reforms to enhance economic growth potential and the maintenance of a stable fiscal framework (OECD Economic Surveys Italy, 2011). The Italian government began to adopt measures to tackle the crisis in December

2011. Measures in Italy are divided into three major packages: the first (December 2011) contains measures to reduce public debt (stringent cuts and a reduction in public spending), pension reform measures, tax measures and real estate control; the second (January 2012) addresses the deregulation and liberalisation of the economy and a simplification of the bureaucratic system; and the third is concerned with economic growth, including measures to boost growth and competitiveness (Review of measures and reforms to address the financial and economic crisis, by country, 2012).

Reforms relating to civil servants are part of the third package. Since 2008 recruitment has been curtailed in accordance with strict replacement ratios (10% in 2009, 20% in 2010 and 2011, 50% in 2012). Special rationalization measures have been introduced in relation to schools and staff with flexible employment contracts. The freeze on recruitment was strengthened and extended in 2010, with cuts in the overall employment level of around 10% expected by 2014. The national wage freeze was extended from 2010–2011 to 2013 and 2014. In the 2011–2013 period, the wages and salaries of individual employees may not exceed the level of 2010. The economic benefits of career promotion have also been frozen, with the partial exception of the variable component linked to merit or performance pay. Cuts have been applied to higher salaries: a cut of 5% on gross salaries of between EUR 90,000 and 150,000, and a cut of 10% on gross salaries of over EUR 150,000 (Bach & Stroleny, 2013). In addition to these measures, there is a prohibition on the acceptance of gifts valued at more than EUR 150, and on expensive and non-urgent social events; seminars have also been abolished (Review of measures and reforms to address the financial and economic crisis, by country, 2012).

With regard to pensioners, the following measures may be highlighted: a reform of the pension system for both private and public sector employees; a raising of the retirement age in 2012 from 61 to 66, to increase, in line with life expectancy, to 67 years for men and women by 2021. The value of pensions was reduced by lowering the protection afforded to them from inflation (Bach & Stroleny, 2013; Review of measures and reforms to address the financial and economic crisis by country, 2012).

5. Comparison between the main austerity measures in the public sectors of the selected countries

Austerity measures affecting civil servants in the fields of employment and salaries do not differ greatly between the countries studied. In the field of public sector employment, all these countries face employment restrictions, an employment freeze or even a reduction in employment. The Netherlands faces a 10% reduction in total government employment and Italy, in addition to an employment freeze, expects a 10% reduction in overall employment by 2014. Slovenia and France have restricted employment, in France more specifically through the non-replacement of one in two retiring civil servants. The situation is very similar in respect of civil servants' salaries. The countries in question are facing measures to reduce or freeze salaries. Slovenia has reduced salaries by 8% and Italy has reduced higher-level salaries by 5% (for salaries between EUR 90,000 and 150,000) and 10% (over EUR 150,000); Italy has also frozen salaries by 2014. Similarly, the Netherlands froze salaries for central government and primary education employees in 2012 and 2013, and France has frozen salaries for members of the government and the President of the Republic.

Table 2: Comparison between the main austerity measures in public sectors of the selected countries

	Measures by field			
Country	**Employment**	**Salaries**	**Other benefits and restrictions**	**Retirement**
Slovenia	employment restrictions	8% salary reduction	reduction in the salary bonus, reduction in travel expenses, meal expenses, long-service awards; restriction of performance-related	abolition of the index-linking of pensions and other benefits, reduction in pension supplements, gradual increase in the

			pay, restrictions in promotion to higher pay grades, maximum number of days of annual leave	retirement age to 65 by 2020
Netherlands	10% reduction in the total number of government jobs	salary freeze for 2012 and 2013 for central government and primary education employees	efficiency cuts, harmonisation of the provisions for the dismissal of public sector employees, reduced funding from central government to local authorities	gradual increase in the retirement age to 66 by 2019 and to 67 by 2024
France	employment restrictions, non-replacement of one in two retiring civil servants	salary freeze for members of the government and the President of the Republic	reduction in costs of government operations and ministries, reduction in the reimbursement of election campaign costs and financial assistance to political parties	retirement age of 62 (67 if the statutory 41.5 years are not completed)
Italy	employment freeze, with expected cuts in overall employment of 10% by 2014	salary freeze by 2014, higher-level salaries cut by 5% (gross salary of EUR 90,000–150,000) and 10% (gross salary of over EUR 150,000)	ban on accepting gifts valued at more than EUR 150, abolition of expensive and non-urgent social events, seminars	retirement age of 66, increasing to 67 by 2021

Source: Bach & Stroleny, 2013; Review of measures and reforms to address the financial and economic crisis by country, 2012.

More differences appear in the field of other benefits or restrictions for civil servants. Slovenia, for example, has reduced the salary bonus, travel expenses, meal expenses and long-service awards, restricted performance-related pay and promotion to higher pay grades, and set a maximum number of days of annual leave. The Netherlands have made efficiency cuts, harmonised provisions on the dismissal of public sector employees, and reduced funding from central government to local authorities. France has reduced the costs of government operations and ministries, and reduced the reimbursement of election campaign costs and financial assistance to political parties. Italy has banned the acceptance of gifts valued at more than EUR 150, and abolished expensive and non-urgent social events and seminars. With regard to pension-related measures, there is again not a great deal of difference between the selected countries. All countries studied have increased the retirement age: France to 62 years, Slovenia to 65 by 2020, the Netherlands to 66 by 2019 and 67 by 2024, and Italy to 66 (with a further increase to 67 by 2021).

6. Conclusion

The global financial and economic crisis is placing strong constraints on most EU Member States. The crisis has brought about new policy challenges and the necessity of structural reforms has become more apparent. The need to consolidate public finances and to manage pressure from the sovereign debt crisis in a more sustainable way has led governments to announce and implement structural reforms in the areas of civil servants, pension schemes, labour market policies and social transfers. These reforms will help promote economic growth potentials and restore price competitiveness and fiscal sustainability (Structural reforms in times of crisis, 2012).

In 2011 the EU countries examined in this paper still had a deficit that exceeded the upper limit of 3% of GDP permitted under the Stability and Growth Pact. The European Commission estimated positive results in 2012 towards a reduction in the budget deficit, but of the countries examined only Italy is expected to achieve this level in 2012. With regard to public debt, all the selected countries, with the exception of Slovenia, exceed the upper limit of 60% of GDP, with estimates for 2012 showing no improvement.

Owing to the excessive budget deficit and public debt, austerity measures designed to consolidate public finances are a necessary step towards reducing the deficit below 3% of GDP. Measures to consolidate public finances aim to reduce public expenditure, mainly by streamlining the public sector, imposing employment restrictions, and introducing interventions in wage policy, social transfers and pension transfers.

A comparison between the austerity measures shows us that those measures affecting civil servants in the fields of employment and salaries do not differ greatly between the countries studied. In the field of public sector employment, all the countries studied face employment restrictions, an employment freeze or even reduction in employment. The situation is very similar in the field of civil servants' salaries. These countries are faced with measures to reduce or freeze salaries. More significant differences appear in relation to other benefits or restrictions for civil servants. With regard to pension-related measures, there is again not a great deal of difference between the selected countries, with all raising the retirement age. As the results of the comparison only show minor differences between the countries, we can assume that the consequences of the measures for public sector employees will not differ a great deal from country to country, as the shares of public employment in total employment do not differ much also.

The measures that have been adopted in relation to employment, salaries and other benefits in the public sector will contribute to the long-term sustainability of public finances. If the 3% deficit limit is to be achieved, an intervention in employment, salaries and other employee benefits in the public sector cannot be avoided.

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