

Germany: The public sector in the financial and debt crisis

European Journal of
Industrial Relations
19(4) 359–374

© The Author(s) 2013

Reprints and permissions:

sagepub.co.uk/journalsPermissions.nav

DOI: 10.1177/0959680113505037

ejd.sagepub.com



Berndt Keller

Universität Konstanz, Germany

Abstract

In this article I analyse the changing contours of public sector employment relations in Germany during and after the financial and debt crisis. In order to understand what is distinctive in German experience and what is similar with that elsewhere, I provide a comparative perspective of selected EU member states, especially Austria. First, I describe in some detail the impact of various austerity measures on public sector employees. Second, I analyse collective consequences and challenges for corporate actors and labour market institutions, especially unions and collective bargaining. Third, I offer a brief prognosis for future developments.

Keywords

Austerity measures, employment relations, financial and debt crisis, public sector

Introduction

It is obvious that EU member states are unevenly affected by the severe financial and debt crisis, the causes of which differ across states (ranging from property bubbles to the collapse of private banks). Therefore, national measures and instruments of adjustment are differentiated and diverse. The public sector was hit less than private industry *during* the (first, financial and, after its mutation, sovereign debt) crisis but has been hit harder *after* the officially declared end of the ‘Great Depression’.

Initial empirical analysis shows that there are no simple means of classifying experience (European Commission, 2011, 2013; Glassner, 2010; Glassner and Watt, 2010; Lodge and Hood, 2012; Vaughan-Whitehead, 2012). There are obviously certain clusters: policy responses in Greece, Ireland and Portugal (and, more recently in Italy and Spain) are more encompassing and more severe than in the Scandinavian countries, Germany or Austria. Eastern European countries constitute a third cluster.

Corresponding author:

Berndt Keller, Windscheidstr. 22, 45147 Essen, Germany.

Email: berndt.karl.keller@uni-konstanz.de

This article analyses the changing contours of public sector employment relations in Germany during and after the crisis. In order to understand what is distinctive in German experience and what is similar with that elsewhere, I provide a comparative perspective of selected EU member states, especially Austria, without attempting a systematic comparative analysis. First, I analyse the (individual or micro-) consequences of austerity measures for public sector employees in some detail. Second, I examine (collective and macro-) consequences and challenges for corporate actors and labour market institutions, especially unions and collective bargaining. Third, I offer a brief prognosis for future developments.

An important caveat

Our focal countries, Germany and Austria, as well as some others such as Sweden and the Netherlands, and some Eastern European ones such as Hungary, demonstrate that it is problematic to focus on a fairly limited period of time. In some, broad retrenchment measures and major reform initiatives occurred well before the current crisis. In other words, the financial and debt crisis was not the trigger in all EU member states. We should thus explicitly distinguish the timing of measures taken *before* and the reasons of measures taken *because* of the crisis. In the first case, the impact is more limited and less severe; adjustment processes seem to be less ad hoc and/or more sustainable. Measures were initiated by domestic political decisions, not as a result of the crisis and international pressure from the Troika.

Characteristic features of the public sector in Germany

It is important to note the distinction between two groups of employees, civil servants (*Beamte*) and public employees (*Tarifbeschäftigte*). For the former, the 'customary principles of officialdom of civil servants' (*hergebrachte Grundsätze des Berufsbeamtentums*) are based on a unique, public law status that includes life-long guarantee of employment as a special obligation of the corporation in exchange for permanent and loyal service. Like their functional counterparts in other states, *Beamte* are allowed to join unions and interest associations but not to bargain collectively or to strike. The legislature has the right to establish all terms and conditions more or less unilaterally. For the latter, employment conditions are regulated by civil law and by the same mechanisms as in private industry. They have the unrestricted right to collective bargaining and to strike.

In comparative perspective, three variants of public sector regulation are to be distinguished: collective bargaining, unilateral regulation and mixed forms (Masters et al., 2008; Traxler et al., 2001). Germany definitely belongs to the third group of hybrid governance. In legal perspective, unilateral and bilateral forms have co-existed for decades and have not changed in the recent past. In empirical terms however, differentiated patterns of close interaction developed over time. Both groups were treated equally. The results of collective bargaining rounds were applied to all *Beamte* by decisions of the legislature (*Bundestag*). Thus, working and living conditions of both groups were similar despite the persistence of significant legal differences. In times of long-term shrinking employment in the public sector, the percentage of civil servants has remained relatively

stable at under 40 percent, an average figure in comparative perspective (Demmke, 2005).

More recently, this strict *de facto* linkage has been loosened, interestingly enough without major changes of the regulatory framework. In the past decade, overall employment conditions have deteriorated from the employees' point of view. In contrast to (at least some) other EU member states, encompassing strategies of cost-cutting have not been initiated during the recent crisis. However, they have taken place in a longer perspective.

Austerity measures and their impact on public sector employees

As far as individual employees are concerned there are common strategies to cut public expenditure in times of severe crisis. Individual measures can be grouped as follows: wages and benefits, working time (weekly working hours and length of the working life), pensions, downsizing.

Wages and social benefits

Wage freezes or even wage cuts have taken place on a more or less widespread scale in the majority of EU member states (European Commission, 2011, 2013; Glassner and Watt, 2010; Vaughan-Whitehead, 2012). These measures constitute one dominant pattern of immediate reaction towards the lasting crisis and slow economic growth (European Foundation, 2012; ILO, 2012a; OECD, 2012).

In Germany, nominal public sector wages have not been cut or even frozen. Throughout the 2000s, however, wage increases have been moderate and lower than in major parts of private industry (Vesper, 2012; WSI-Tarifarchiv, 2009). Therefore the wage gap between both sectors that existed already throughout the 1990s has widened. The relative position of the public sector has deteriorated: between 2000 and 2012, collectively agreed pay rates rose by 26.6 percent in public services, just above the increase in retail prices (24.2%); but pay increases economy-wide were 30.1 percent. Traditionally the wage distribution has been more compressed in the public sector (with some relative advantages at the bottom and some disadvantages at the top of the earnings distribution).

In the mid-2000s, social benefits (including Christmas and vacation bonuses) were considerably reduced or even completely abolished. These specific retrenchments of overall compensation hit *Beamte* more than other public employees. In contrast to previously established 'custom and practice', the government made use of its unilateral regulatory power as 'sovereign employer' and argued publicly that the legally guaranteed employment security of *Beamte* required certain concessions of 'fairness' in precarious times of shrinking budgets and high, especially long-term unemployment.

Working time

The (more or less gradual) extension of *weekly working hours* (plus their further 'flexibilization' despite the existence of an already high degree of flexibility) constitutes

another frequently applied instrument. 'Harmonization' with private industry is one official reason, not only in Greece.

In the early 1990s a unitary 38.5-hour week was agreed for all public employees and civil servants. Since the mid-2000s, working hours have increased and become more diversified for specific groups. *Beamte* were affected first, by a unilateral government decision; after a strike in 2006, other public employees were also hit (Keller, 2010). Today there are differences across levels of government (federal level 41 hours, local and *Land* levels 39–42 hours). These extensions mean a deterioration of working conditions and a loss of real wages. Again, one has to keep in mind that they were introduced before and not because of the crisis.

A related working time strategy is the gradual *extension of work life* with a rise in the statutory retirement age (in most cases from 65 to 67 years) or the number of active years required to qualify for pensions. Such reforms are on the political agenda in almost all EU member states because of demographic trends (European Commission, 2013).

For such demographic reasons as well as increasing public expenditure on pensions, the age of retirement in Germany is to be gradually raised from the traditional 65 to 67 years for all employees (that is to say equally for men and women) in private industry as well as in the public sector. These changes that are to have fairly long phasing-in periods (2012–2029) are fixed and explicitly include *Beamte*. Furthermore, individual access to voluntary early retirement schemes has been severely restricted in the recent past: where approved, certain deductions (0.3% per month or 3.6% per year for a maximum of three years) are imposed. All in all, early 'exit' is nowadays more difficult and more expensive than it has been for several decades.

Pension cuts

Pension cuts frequently play a prominent role in austerity programs. They are designed to have long-term and lasting consequences whereas, wage freezes and/or cuts are supposed to have short-term effects. The economic reason for these 'reforms' is that pensions constitute a major part of overall public expenditure, which will most likely even increase further because of the age structure of employees in many EU member states. The relatively higher percentage of older employees in the public sector compared to the private is easy to explain: the expansion of the welfare state in the 1960s and 1970s resulted in a major increase in the number of public employees who are now about to retire.

There have been no recent direct cuts in pension schemes in Germany. In the long term, however, under the pressure of deteriorating public budgets and increasing debts there have been gradual adjustments, or to be more precise scale-backs, towards the general conditions applying to employees in private industry. Average pensions are higher in the public sector than in private industry because of employees' higher levels of education and skills. Long-term structural reforms include the level of pension as well as the age of statutory retirement, and stress the need for additional private insurance in the future.

Comparisons within the public sector are difficult because of the existence of two different pension systems, one for public employees and the other for *Beamte*. Like their

counterparts in the private sector, employees pay direct, individual contributions to the pension system (*Rentenversicherung*) and earn entitlements corresponding to the level and the length of their payments. *Beamte* however do not pay individual contributions because of their special legal status. Since the late 1990s their maximum entitlements have been gradually reduced from 75 to 71.75 percent of final salary.

In comparative perspective these adaptations are by no means extraordinary. Other EU member states have introduced similar strategies of curtailment, in both private and public sectors (Ebbinghaus, 2011). However, in contrast to other countries, the crisis has not accelerated the pension reforms in Germany.

Downsizing

In a number of EU member states the number of public sector employees had been considerably reduced even before the crisis. Direct layoffs are not often a short-term strategy in the public sector because of job security provisions. However, non-replacement of retired employees and freezing of vacancies are available measures. The latter, 'soft' policy options of hiring reductions or even freezes are selected because they do not provoke immediate reactions by existing employees. Their time frames can be temporary or more or less permanent, and they can be of a general or selective nature (and exclude certain sensitive occupations, such as police). Furthermore, these interrelated strategies will most likely be implemented on a larger scale because of the older age structure in the public sector (Altis and Koufen, 2011; European Commission, 2013).

Since German unification in 1990, overall employment has been reduced by about one third, from 6.7 to 4.5 million. Reductions were much higher throughout the 1990s than in the 2000s. Municipalities in the new *Länder* in the east were hit harder than those in the west, because of the size of their public administration. These specific consequences of unification dominated the transitional stage of the 1990s. *Beamte* were less affected than other employees because of the existence of strict dismissal protection. Furthermore, the local/municipal level suffered more from these cuts than the *Land* and federal level (Bartl, 2011; Keller, 2011). Improvements in the local infrastructure that had been introduced until the 1980s but proved more expensive than originally expected, were stopped. About one half of the cuts in employment are attributable to the gradual privatization of the federal railway system (*Deutsche Bahn AG*) and the postal service (*Deutsche Post AG*).

Trends in public sector employment are presented in Table 1. The official figures provide the total headcount, irrespective of whether employment is full-time or part-time. The considerable increase in part-time employment (from about 16% in 1991 to about 32% in 2010) means that the overall decrease is in real terms even more significant than the highly aggregated figures indicate.

Major cutbacks occurred when growth rates were sluggish, structural deficits soared and unemployment remained persistently high. The unique challenge of unification imposed an enormous strain on public budgets. Furthermore, Germany was bound (at least in theory) by the ambitious deficit criteria of the Maastricht Treaty. In comparative perspective, the overall consequence of this long-term shrinkage of the public sector has been the creation of a lean government and a lean public sector (European Commission,

Table 1. Trends in public sector employment (000s, June).

	1980 ^a	1990 ^a	1991	2000	2005	2006	2007	2008	2009	2010	2011
Federal Republic	330	332	652	598	561	555	551	537	534	530	525
<i>Länder</i>	1823	1935	2572	2391	2298	2287	2273	2263	2284	2317	2337
Local administration	1200	1358	2051	1572	1373	1358	1341	1331	1350	1355	1367
Deutsche Bahn ^b	341	250	474	74	51	50	48	47	46	45	n/a
Deutsche Bundespost ^c	501	537	663								
Indirect public services ^d	227	264	325	488	652	678	779	790	827	844	n/a
Total	4420	4676	6738	4909	4599	4576	4540	4505	4547	4586	4602

^aUntil 1990: West Germany.

^bFrom 1994: Eisenbahn-Bundesamt.

^cPrivatization 1995.

^dFrom 2000, change in classification.

Note: Since the year 2000, total figures do not correspond with the sum because of changes in classification.

Source: Statistisches Bundesamt.

2013; Vesper, 2012). The popular, frequently made reproach that public sector labour markets are rigid, highly 'inflexible' and unable or at least unwilling to adapt to changing environmental conditions is belied at least by more recent trends. In purely quantitative terms, this drastic reorganization in Germany is almost without parallel, at least in the EU.

In contrast to previous expectations there has been no further decrease in overall public sector employment but even a slight increase in consecutive years since 2009, especially in education and child care (Statistisches Bundesamt, 2011). These fairly small increases are the first since the early 1990s. Whether they indicate a reversal of the long-term shrinkage or only a short-term deviation remains to be seen. The characteristics of the new contracts (temporary rather than permanent, part-time rather than full-time) are also important for any evaluation (Altis and Koufen, 2011). At least the option of future cuts exists, partly because the percentage of temporary contracts is even higher than in private industry (Bosch, 2012; Czerwick, 2007).

A preliminary assessment: Germany in comparative perspective

There is no doubt that public sector employees in Germany have been affected by retrenchment measures; but all in all, less severely than their counterparts in other EU member states. In comparative perspective, Germany constitutes one of the few outliers as far as the implementation of austerity programs is concerned. The consolidation measures announced for the period 2010–2014 are relatively small in relation to GDP, because of the favourable situation of the economy (Heise and Lierse, 2011).

It remains to be seen, however, what will be the consequences if (or when) the weak growth rates prevailing throughout the EU and OECD world finally reach Germany, whose economy is rather vulnerable and fragile because of its strong export-orientation

and high degree of openness. Furthermore, the financial and debt crisis could produce additional risks not only for the financial sector but for the economy in general and public budgets in particular (Deutsche Bundesbank, 2011).

In the political European discourse the long-term consequences of retrenchment measures for the development of macro-economic variables (such as aggregate demand, overall employment, inflation, or future growth) are hardly taken into account. There is the imminent danger that they prove to be counterproductive because they might lead to an 'austerity trap'. The decisive question is if the strict priority of spending cuts and fiscal austerity is the most appropriate strategy for deficit reduction and fiscal consolidation. They are, without any doubt, necessary in the long run but probably not most urgent or even counterproductive in the short and medium term. The economic consequences of this traditional (or orthodox) strategy could be the further reduction of already weak overall demand and even less public expenditure and investment – instead of stimulating economic growth and creating new employment opportunities in an era of high and even growing unemployment (ILO, 2012b).

Austerity measures and their consequences for employment relations

An overview of recent trends

The public sector was certainly not the cause of the original financial and continuing sovereign debt crisis, but is forced to make substantial contributions for its solution. Trade unions and interest associations have to react. In contrast to the 'golden age' of employment relations they are now in a purely defensive position, and must make an effort to prevent or at least to mitigate major retrenchments.

The danger of losing political influence as well as bargaining power leads to more or less vigorous reactions, not only in Greece and Italy. If unions cannot trust in established collective bargaining rights but have only the option of consultation or lobbying, their action will be more limited. Unilateralism as a sector-specific mode of governance has been advancing in some EU member states. It permits the direct imposition of retrenchment measures instead of their conclusion by collective bargaining and other forms of bilateral and, therefore, consensual procedures (European Commission, 2013). Any rigid implementation of severe austerity programmes will probably lead to a (further) deterioration of the 'climate' of employment relations, possibly resulting in a growing number of strikes either by specific groups working in core sub-sectors such as transport or by all public employees.

Changes in Germany

In Germany, as in the vast majority of other EU member states (Bordogna, 2008; European Commission, 2011) union density ratios and bargaining coverage rates, two basic indicators for any description and evaluation of institutionalized employment relations, have always been considerably higher in the public sector than in private industry. Both are highly correlated in Germany. Coverage rates are far above 90

percent; in contrast to the private sector, they have not deteriorated in the recent past (Ellguth and Kohaut, 2011). Density ratios are also above average. Unions' rights of collective bargaining are guaranteed in the constitution, the *Grundgesetz* (Basic Law); in contrast to some other countries they are unlikely to be severely curtailed or restricted.

A decade ago, the financial and economic environment changed and forms of 'concession bargaining' occurred not only in private industry (Massa-Wirth, 2007) but, for the first time, specific variants also took place in the public sector. Budgetary problems intensified and challenged established forms of social partnership. However, in contrast to other EU member states there is no evidence of a general undermining, let alone a complete collapse of long-term collective bargaining relationships. In contrast to some other countries, employers' organizations, management and politicians have not attempted to marginalize public sector unions as established institutions of interest representation; there is at present no hidden or public anti-union agenda based on ideological political beliefs. There have been no fundamental attacks on the legitimacy of unions, their legal rights and demands in collective bargaining.

Collective bargaining

The traditional system was highly *centralized*, with bargaining exclusively at national level (Keller, 1993). On the employers' side, an encompassing bargaining coalition of federal, *Land* and local employers persisted for decades despite the fact that there were always heterogeneous, sometimes even opposing interests. In comparative perspective the existence of unified employers' associations constitutes an exception (European Commission, 2013).

This centralized and coordinated pattern remained stable, and changed only in the mid-2000s when the association for the *Länder* (*Tarifgemeinschaft deutscher Länder*, TdL) decided to bargain independently (Keller, 2010; Schmidt et al., 2011). As a consequence the vast majority of *Länder* (with the exception of Hesse and, until 2012, Berlin) formed a less encompassing coalition. The TdL bargains on their behalf and concludes a separate collective agreement, the *Tarifvertrag für den öffentlichen Dienst der Länder* (TV-L). Hence there are now two legally independent collective agreements, one for the *Länder*, the other for the federal and local levels (*Tarifvertrag für den öffentlichen Dienst*, TVöD). On the employees' side the most important union is ver.di (*Vereinte Dienstleistungsgewerkschaft*), formed by merger in 2001 and the second largest affiliate of the DGB union confederation. However, the main representative of *Beamte* is the DBB (*dbb beamtenbund und tarifunion*), which is not affiliated to the DGB. In 2007 the two organizations formed a bargaining coalition.

For several decades, collective contracts signed in the early 1960s (*Manteltarifverträge* and the *Bundes-Angestellentarifvertrag*) remained valid for all public employees at all three levels. The TVöD of 2005 was supposed to constitute 'a centennial reform' and a 'milestone' towards the intended modernization of the public sector. Its implementation has taken much longer than expected and is still incomplete (Schmidt et al., 2011). Despite these major changes, occupational variation remains rather limited.

The major ingredients are as follows. All traditional legal differences between blue- and white-collar workers (*Arbeiter* and *Angestellte*) were abolished. The TVöD eliminated all traditional grading principles, such as length of service/seniority or marital status, and introduced unitary, identical job classification descriptions and criteria for all employees (*Tarifbedienstete*) who are not *Beamte*. It introduced a new low-wage grade in order to prevent further privatization measures and to create employment opportunities, though at present under 1 percent of employees are in this group. Last but not least, the TVöD established procedural rules for the introduction of performance-related pay (PRP) in order to reward individual or group-related performance on a temporary or permanent basis (for a detailed summary, see Keller, 2011).

The implementation process of PRP rules has to cope with very similar difficulties as in most comparable countries (OECD, 1997, 2005). It is likely that the overall significance and impact of this specific element of the TVöD was overestimated from the beginning. Local employers' organizations are still in favour, and try to use PRP as a means of further modernization, whereas employees and their unions voice major reservations. Existing efforts of implementation are marked by continuing conflicts of interest (Trittel et al., 2010). At *Land* level the implementation of PRP was completely abandoned.

Trends towards decentralization, resulting from the abandonment of vertical coordination across federal, *Land* and municipal employers, are emerging but are not far-reaching in comparative perspective. They were favoured by Germany's federal constitution and by other recent changes in the relationship between central government and the *Länder*. However, they had no adverse effects on density ratios or coverage rates; unions are still involved in collective bargaining as the dominant form of bilateral exchange. Applying Traxler's broadly accepted categorization (1998), decentralization has been 'organized' and definitely not 'disorganized'. These recent changes have nothing in common with tendencies towards 'fragmentation', 'deinstitutionalization' or 'erosion' that have occurred in parts of the private sector. In substantive terms they initiated a slowly increasing degree of heterogeneity which did not formerly exist, not only in working conditions but, as a consequence, also standards of living of public sector employees. The overall result is a less integrated system. It remains to be seen whether these differences will continue to grow.

Unilateral regulation: Beamte

A sector-specific kind of unilateralism is by no means a new form of governance but existed long before the present crisis. The legislature has the right to establish regulations concerning all employment conditions of *Beamte* who, as already mentioned, have traditionally possessed a special public law status. In practice these differences are more of legal and historical than of factual importance (Bull, 2006; Keller, 1993). Interest organizations have legally provided rights of consultation and can make representation to the legislature, though these mechanisms have been less effective since the mid-2000s.

In contrast to some other EU member states (such as Greece), however, there have been no recent attempts to broaden the scope for legislative intervention or to replace bilaterally concluded arrangements by unilaterally imposed measures for the sake of

fiscal consolidation. Furthermore, this traditional form of unilateralism does not mean that confrontational policies prevail. There have been no major changes in the operation of the traditional model of regulation, and they seem unlikely in the future.

From the early 1970s, the federal government had the exclusive and ultimate constitutional authority to make all decisions concerning the employment conditions of *Beamte* at all three levels (the so-called 'harmonization' of federal, *Land* and local levels). The resulting 'unity of working and living conditions' of all *Beamte* constituted a major political objective shared by all corporate actors, in contrast to the situation in most of other EU member states. However, in 2006 the political infrastructure was transformed from 'cooperative' to 'competitive' federalism. The major constitutional reform (*Föderalismusreform I*) included, among other changes, the devolution of the right to regulate the employment conditions of *Beamte* at *Land* level from the federal government. As a consequence, individual *Länder* now have the autonomous power to regulate the major terms and conditions of their *Beamte* by their own legislation, without having to take into consideration the general frame of reference established at federal level.

This entailed a sector-specific, politically motivated form of devolution affecting major parts of the employment relations of *Beamte*. As a consequence, the degree of heterogeneity of working conditions now emerging in both parts of the public sector constitutes a new phenomenon in Germany but remains of limited extent so far. In comparison to other federalist states, above all the anglophone ones, decentralization is still fairly limited (Keller, 2013).

In practical terms it remains to be seen whether, and how far, major long-term differences in working and, therefore, living conditions will result from this major step towards more complex governability. Some variation has already come into existence between poorer (northern) and richer (southern) *Länder* as the result of significant differences in their budgetary conditions. These differences have emerged not only in increases of basic salaries but also in bonus payments, PRP, opportunities for promotion and career progression (*Stufenaufstieg*), job classification (*Einstufung* or *Eingruppierung*), introductory pay (*Eingangsbesoldung*) as well as weekly working hours. Before the reform these used to be the same for all *Beamte*; now they vary between 39 and 42 hours. Furthermore, devolution has led to differences in pension systems.

Long-term consequences could involve increased competition between public employers for scarce and highly educated applicants (such as young teachers or IT experts), especially in times of demographic change as well as increasing fiscal austerity. Poorer *Länder* keep complaining about the (potentially) additional costs of devolved legal regulation, although they originally agreed to the changes. Unions argue that salary and wages policies turn more and more into personnel management policies.

Industrial unrest

The right to strike (as well as actual strikes) has always been a critical ingredient of public sector employment relations, because of the immediate impact of stoppages on large groups of citizens and consumers. Over recent decades there has been a sectoral shift in strike action, from manufacturing to services, and especially public services (Vandaele, 2011).

The number and impact of public sector strikes in Germany has traditionally been very low; there have been only three major strikes since the Second World War (1974, 1994 and 2006). All took place at local level, because of its greater strike-sensitivity and the vulnerability of large consumer groups (Keller, 2010). The first were very short and lasted only a couple of days, whereas the last lingered on for months. In its levels of conflict the public sector is completely in line with private industry: Germany has never been a 'strike prone' country. Short, so-called warning strikes (*Warnstreiks*) are more frequent than regular strikes, and take place mainly after collective bargaining rounds have been initiated. There have been occasional demonstrations by public sector employees; but in contrast to other EU member states, there have been hardly any forms of more vigorous social protest in recent years.

A preliminary assessment: Germany in comparative perspective

The most plausible explanation for the present situation, somewhat surprising in comparative perspective, has already been indicated: Germany is one of the EU member states that have been less seriously affected than most by the financial and sovereign debt crisis. Germany has recovered comparatively fast after one of the deepest recessions among industrialized countries, after a considerable fall in GDP (more than 5% in 2009). Various instruments of (more or less) active labour market policy cushioned the immediate impact of the (relatively muted) recession, such as short-time working arrangements (*Kurzarbeitergeld*) and working-time accounts (*Arbeitszeitkonten*) (Möller, 2010). Overall employment has since increased to a considerable, rather unexpected degree, as have public revenues. Hence, in contrast to other EU member states, there has been no urgent need for new initiatives towards a new round of structural reforms and modernization of the public sector (OECD, 2012: 65).

Faced with a choice between 'cutback management' (the imposition of limited economies) and more radical structural reform, the first option will predominate. In hard times of (existing and probably even increasing) fiscal pressure, more or less accidental policies of 'muddling through' will remain the underlying political priority. There are no obvious indicators for the design, not to mention the even more complicated implementation, of a political master plan aiming at more systematic or strategic reform packages that could replace the mere continuation of existing policies of gradual adjustment. It seems rather unlikely that any new trajectories of profound structural reorganization of the public sector will be installed; path dependencies of incremental and piecemeal adjustments will prevail. There is, in contrast to other EU member states, a certain reform fatigue as well as no urgent need for the political development of a long-term trajectory of strict modernization and structural reforms.

There is one major caveat. There have been more recent demands for the revitalization of the public sector. Most importantly, there are expectations to hire additional employees in specific sub-sectors, such as care for the elderly (because of the ageing population), education (because of repeatedly poor grades in international-comparative studies), pre-school education (*Kindergarten*) (because of severe shortages in the number of available places despite existing legal requirements and because of the increasing participation of women in the labour force) or tax administration (because of poor

implementation of existing tax laws and unsatisfactory tax revenues). From a public policy point of view it will be difficult not to provide additional financial resources for these urgent public services – which according to Vesper (2012) require some 100,000 full-time jobs – by merely continuing the strategy of cutting expenditure. In other words, the posture that ‘there is no alternative’ could be difficult to maintain.

Germany and Austria: Comparative aspects

In a comparative perspective of employment relations systems, Germany and Austria traditionally constitute ‘most similar cases’. This is the case not only in private industry, which has been frequently analysed, but also in the public sector. Both countries constitute coordinated market economies and conservative welfare states. Furthermore, both are federal states whose public sectors typically consist of three levels with a clearly defined division of public tasks (federal, state/regional, local/municipal). In a comparative perspective their public sectors are today relatively small and below the EU average (Bordogna, 2008; OECD, 2009, 2011); both are ‘lean’ states. Their employment structures (in terms, for example, of female employment, part-time working, age structure) are rather similar (European Commission, 2013).

Both possess ‘dual systems’ of employment relations with mandatory institutions for participation at the workplace level which are formally independent from trade unions (Allinger, 2013). Both have a series of special rules for the three levels of the public sector (*Personalvertretungsgesetze*). These legal prescriptions for information and consultation of employee representatives are similar for both private and public sectors, and contribute to the establishment and preservation of cooperative industrial relations. In both countries, bargaining coverage rates are high in the public sector, and in Germany significantly higher than in the entire economy. Both national systems of collective bargaining are fairly centralized and comparatively homogeneous at sectoral level (European Commission, 2013).

Comprehensive trends of decentralization and differentiation can, however, be observed in the nowadays liberalized and privatized parts of the former public sector (*Ausgliederungen* and *Privatisierungen*), including the electricity, postal and telecommunications services and public transport. Their collective agreements are now independent of the traditional public sector trajectory, and their results show more similarities with ‘flexible’ arrangements in private industry than before (Hermann, 2008). Frequently, wages and salaries are lower, employment security is less, and union density in new companies is lower than in the public sector.

There are further legal-institutional similarities because of the long *Rechtsstaat* tradition. In both countries there are traditionally two status groups of employees. Public employees with regular contracts (in Austria *Vertragsbedienstete*, in Germany *Tarifbeschäftigte*) have a private law relationship whereas the special status of career civil servants (*Beamte*) is defined by public law (in Austria *Beamten-Dienstrechtsgesetz*, BDG). In Austria, almost all public sector employees have no right to bargain collectively or to go on strike; their terms and conditions of employment are set by unilateral decisions and legal enactment (Salary Act or *Gehaltsgesetz* and Contract Public Employee Act or *Vertragsbedienstetengesetz*), though with informal impact, not to say informal bargaining, by trade unions (Adam, 2008).

Since the early 2000s, the overall number of Austrian *Beamte* was to be reduced to a considerable degree (so-called *Pragmatisierungsstopp*) where contractual alternatives exist. The long-term results of this incomplete change of employment status remain to be seen. In both countries, public sector union density is much higher than in private industry; a number of union mergers took place in both cases. (*Vereinte Dienstleistungsgewerkschaft* in Germany, *Gewerkschaft der Gemeindebediensteten, Kunst, Medien, Sport und freie Berufe* in Austria) (Allinger, 2013; Keller, 2005). In contrast to some other EU member states, strikes and other forms of industrial unrest are, for legal as well as practical reasons, of minor importance. They have not significantly increased because of the comparatively limited impact of the crisis. In the Bismarckian tradition there are two legally different pension systems, but trends towards harmonization exist. Both countries face the very similar challenge of an ageing public sector workforce (OECD, 2011).

In both countries the recession caused by the financial and debt crisis was deep but short; its long-term impact, including increases in unemployment, remained moderate in comparative perspective (Hermann, 2011). Current cuts in public budgets and expenditure are moderate in comparison with the severe austerity measures in many other countries. In contrast to other EU member states, the social partners were at least informally involved in strategies of crisis management and economic recovery, without the governmental unilateralism that occurred in some other countries. Thus existing patterns of social partnership prevailed during the contraction, and were conducive in implementing austerity measures after the crisis (Hermann and Flecker, 2012). In neither country were there major job cuts in the public sector. Quite the contrary: additional jobs were created in similar sub-sectors, in Austria including education, health and social services. Furthermore, in the Austrian public sector (in clear contrast to private industry), working time was not an issue, while there was no wage freeze (Glassner, 2010); on the contrary, there were nominal and even real wage increases, supporting attempts to maintain overall purchasing power and private demand (Hermann, 2011).

The long-term trend, however, is marked by major cutbacks that took place well before the crisis and were thus not caused by the recession. These measures were introduced because of domestic political decisions. Therefore, they are probably longer lasting and more sustainable than in countries where cuts have been enforced by external pressure from the 'Troika'. Any analysis must adopt a long-term perspective rather than a purely short-term focus on the crisis period. The public sector faces similar future problems in both countries including a workforce with a higher average age than in private industry, the need to adapt to demographic changes, gender mainstreaming and equality, and changes in human resource management (in the case of Austria, see Bundeskanzleramt Österreich, 2012). In the long run the need will remain to reduce public debts and undertake consolidation and restructuring, not to mention modernization and structural reforms, but will not be dominated by emergency measures and radical changes.

Summary and outlook

As an overall consequence of recent retrenchment measures, the public sector in EU member states will be a less attractive employer than in the past, when it was (almost) the 'employer of last resort' as well as a 'model employer' (Bach and Kessler, 2007), setting

a positive example for the economy as a whole (as, for example, with the adoption of equal opportunities policies). Today the constellation is completely different: the public sector is expected to embrace the governance principles and employment and industrial relations strategies of private industry. And (in combination with drastic demographic changes in almost all EU member states and, therefore, more competition for qualified but scarce labour in the future) it will face major difficulties of recruitment, and probably serious skill shortages in some sub-sectors (such as health or education). The long-term implications are unclear but will probably intensify.

It seems likely that fiscal consolidation and cost-cutting will dominate future political priorities, rather other pressing needs such as demographic change, diversity management, technological challenges or social inclusion. These problems are, of course, inter-related but their politically perceived urgency varies. Our hypothesis is that coping with the crisis will crowd out other more or less urgent topics of structural reforms.

The retrenchment strategies will have severe implications not only for public sector employees, their trade unions and the provision of goods and services but, in a broader perspective, also for the future of existing welfare states and their social policies. Fiscal constraints, the resulting cuts in public expenditure, and their impact on social protection and benefits, will remain a dominant issue on the political agenda. The growing inequality of incomes is likely to be compounded by significantly reduced spending on social protection.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

References

- Adam G (2008) *Industrial relations in the public sector: Austria*. Available at: <http://www.eurofound.europa.eu/eiro/studies/tn0611028s/at0611029q.htm>
- Allinger B (2013) *Austria: Industrial relations profile*. Available at: <http://www.eurofound.europa.eu/eiro/country/austria.pdf>
- Altis A and Koufen S (2011) Entwicklung der Beschäftigung im öffentlichen Dienst. Steigendes Durchschnittsalter, mehr Frauen in leitenden Positionen, mehr Zeitverträge. *Wirtschaft und Statistik* 11: 1111–1116.
- Bach S and Kessler I (2007) HRM and the new public management. In: Boxall P, Purcell J and Wright M (eds) *The Oxford Handbook of Human Resource Management*. Oxford: Oxford University Press, pp. 469–488.
- Bartl W (2011) *Personalpolitik in schrumpfenden Kommunen: Ostdeutschland, Westdeutschland und Polen im Vergleich*. Wiesbaden: VS Verlag.
- Bordogna L (2008) Moral hazard, transaction costs and the reform of public service employment relations. *European Journal of Industrial Relations* 14(4): 381–400.
- Bosch G (2012) Public sector adjustments in Germany: From cooperative to competitive federalism. In: Vaughan-Whitehead D (ed.) *Public Sector Adjustments in Europe: Scope, Effects and Policy Issues*. Geneva: ILO, pp. 115–140.
- Bull HP (2006) *vom Staatsdiener zum öffentlichen Dienstleister: Zur Zukunft des Dienstrechts*. Berlin: Sigma.

- Bundeskanzleramt Österreich/Bundesministerium für Frauen und Öffentlichen Dienst (2012) *Personalbericht. Das Personal des Bundes 2012. Daten und Fakten*. Vienna: Bundeskanzleramt Österreich.
- Czerwick E (2007) *Die Ökonomisierung des öffentlichen Dienstes: Dienstrechtsreformen und Beschäftigungsstrukturen seit 1991*. Wiesbaden: VS Verlag.
- Demmke C (2005) *Die europäischen öffentlichen Dienste zwischen Tradition und Reform*. Maastricht: EIPA.
- Deutsche Bundesbank (2011) Monatsberichte 63, December.
- Ebbinghaus B (2011) The role of trade unions in European pension reform: From 'old' to 'new' politics? *European Journal of Industrial Relations* 17(4): 315–331.
- Ellguth P and Kohaut S (2011) Der Staat als Arbeitgeber: Wie unterscheiden sich die Arbeitsbedingungen zwischen öffentlichem Sektor und der Privatwirtschaft? *Industrielle Beziehungen* 18(1): 11–38.
- European Commission/Directorate-General for Employment, Social Affairs and Inclusion (2011) *Industrial Relations in Europe 2010*. Brussels: European Commission.
- European Commission/Directorate-General for Employment, Social Affairs and Inclusion (2013) *Industrial Relations in Europe 2012*. Brussels: European Commission.
- European Foundation (2012) *Pay developments: 2011*. Available at: <http://www.eurofound.europa.eu/docs/eiro/tn1204012s/tn1204012s.pdf>
- Glassner V (2010) The public sector in the crisis. Working Paper 2010.07, ETUI, Brussels.
- Glassner V and Watt A (2010) Cutting wages and employment in the public sector: Smarter fiscal consolidation strategies needed. *Intereconomics* 45(4): 212–219.
- Heise A and Lierse H (2011) Wirtschaftskrise, Austeritätspolitik und das Europäische Sozialmodell. *Wirtschaft und Gesellschaft* 37(2): 201–230.
- Hermann C (2008) Durch Privatisierung zum Ausnahmefall: Fragmentierung der Arbeitsbeziehungen in öffentlichen Dienstleistungen in Österreich. In: Brandt T, Schulten T, Sterkel B and Wiedemuth J (eds), *Europa im Ausverkauf: Liberalisierung und Privatisierung öffentlicher Dienstleistungen und ihre Folgen für die Tarifpolitik*. Hamburg: VSA, pp. 212–232.
- Hermann C (2011) *Collective Bargaining and Balanced Recovery: The Case of Austria*. Geneva: ILO.
- Hermann C and Flecker J (2012) The Austrian model and the financial and economic crisis. In: Lehndorff S (ed.) *A Triumph of Failed Ideas. European Models of Capitalism in the Crisis*. Brussels: ETUI, pp. 121–136.
- ILO (2012a) *World of Work Report 2012: Better Jobs for a Better Economy*. Geneva: ILO.
- ILO (2012b) *Euro zone job crisis: Trends and policy responses*. Available at: http://www.ilo.org/global/research/publications/WCMS_184965/lang-en/index.htm
- Keller B (1993) *Arbeitspolitik des öffentlichen Sektors*. Baden-Baden: Nomos.
- Keller B (2005) Union formation through merger: The case of ver.di in Germany. *British Journal of Industrial Relations* 43(2): 209–232.
- Keller B (2010) *Arbeitspolitik im öffentlichen Dienst. Ein Überblick über Arbeitsmärkte und Arbeitsbeziehungen*. Berlin: Sigma.
- Keller B (2011) After the end of stability: recent trends in the public sector of Germany. *The International Journal of Human Resource Management* 22(10–12): 2331–2348.
- Keller B (2013) The public sector in the United States and Germany: Comparative aspects in an employment relations perspective. *Comparative Labor Law and Policy Journal* 34(2): 415–442.
- Lodge M and Hood C (2012) Into an age of multiple austerities? Public management and public service bargains across OECD countries. *Governance: An International Journal of Policy, Administration, and Institutions* 25(1): 79–101.
- Massa-Wirth H (2007) *Zugeständnisse für Arbeitsplätze? Konzessionäre Beschäftigungsvereinbarungen im Vergleich Deutschland–USA*. Berlin: Sigma.

- Masters MF, Gibney R, Shevchuk I and Zagenczyk T (2008) The state as employer. In: Blyton P, Bacon N, Fiorito J and Heery E (eds) *The SAGE Handbook of Industrial Relations*. London: SAGE, pp. 305–324.
- Möller J (2010) The German labor market response in the world recession: De-mystifying a miracle. *Zeitschrift für ArbeitsmarktForschung* 42(4): 325–336.
- OECD (1997) *Trends in Public Sector Pay in OECD Countries*. Paris: OECD.
- OECD (2005) *Performance-Related Pay Policies for Government Employees*. Paris: OECD.
- OECD (2009) *Economic Outlook*. Paris: OECD.
- OECD (2011) *Government at a glance 2011*. Available at: www.oecd.org/gov/indicators/govata-glance
- OECD (2012) *Public Sector Compensation in Times of Austerity*. Paris: OECD.
- Schmidt W, Müller A and Trittel N (2011) *Der Konflikt um die Tarifreform des öffentlichen Dienstes. Verhandlungsprozesse und Umsetzungspraxis*. Berlin: Sigma.
- Statistisches Bundesamt (2011) *Mehr Beschäftigung im öffentlichen Dienst für Bildung und Kinderbetreuung*. Press release, 26 July.
- Traxler F (1998) Collective bargaining in the OECD: Developments, preconditions and effects. *European Journal of Industrial Relations* 4(2): 207–226.
- Traxler F, Blaschke S and Kittel B (2001) *National Labor Relations in Internationalized Markets. A Comparative Analysis of Institutions, Change and Performance*. Oxford: Oxford University Press.
- Trittel N, Schmidt W, Müller A and Meyer T (2010) *Leistungsentgelt in den Kommunen: Typologie und Analyse von Dienst- und Betriebsvereinbarungen*. Berlin: Sigma.
- Vandaele K (2011) Sustaining or abandoning ‘social peace’. Strike developments and trends in Europe since the 1990s. Working Paper 2011.05, ETUI, Brussels.
- Vaughan-Whitehead D (2012) Public sector shock in Europe: Between structural reforms and quantitative adjustment. In: Vaughan-Whitehead D. (ed.) *Public Sector Adjustments in Europe: Scope, Effects and Policy Issues*. Geneva: ILO, pp. 1–22.
- Vesper S (2012) *Finanzpolitische Entwicklungstendenzen und Perspektiven des Öffentlichen Dienstes in Deutschland*. Berlin: IMK.
- WSI-Tarifarchiv (2009) *Öffentlicher Dienst: Unterdurchschnittlicher Anstieg der Tarifverdienste*. Available at: http://www.boeckler.de/320_102228.html

Author biography

Berndt Keller was Professor of Employment Relations at the University of Konstanz, Germany.