

Gerhard Bosch

# Public sector policies in Germany

*EC / ILO, 21-22 June 2012*

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# 1.1 Macro-economic indicators on the public sector in Germany

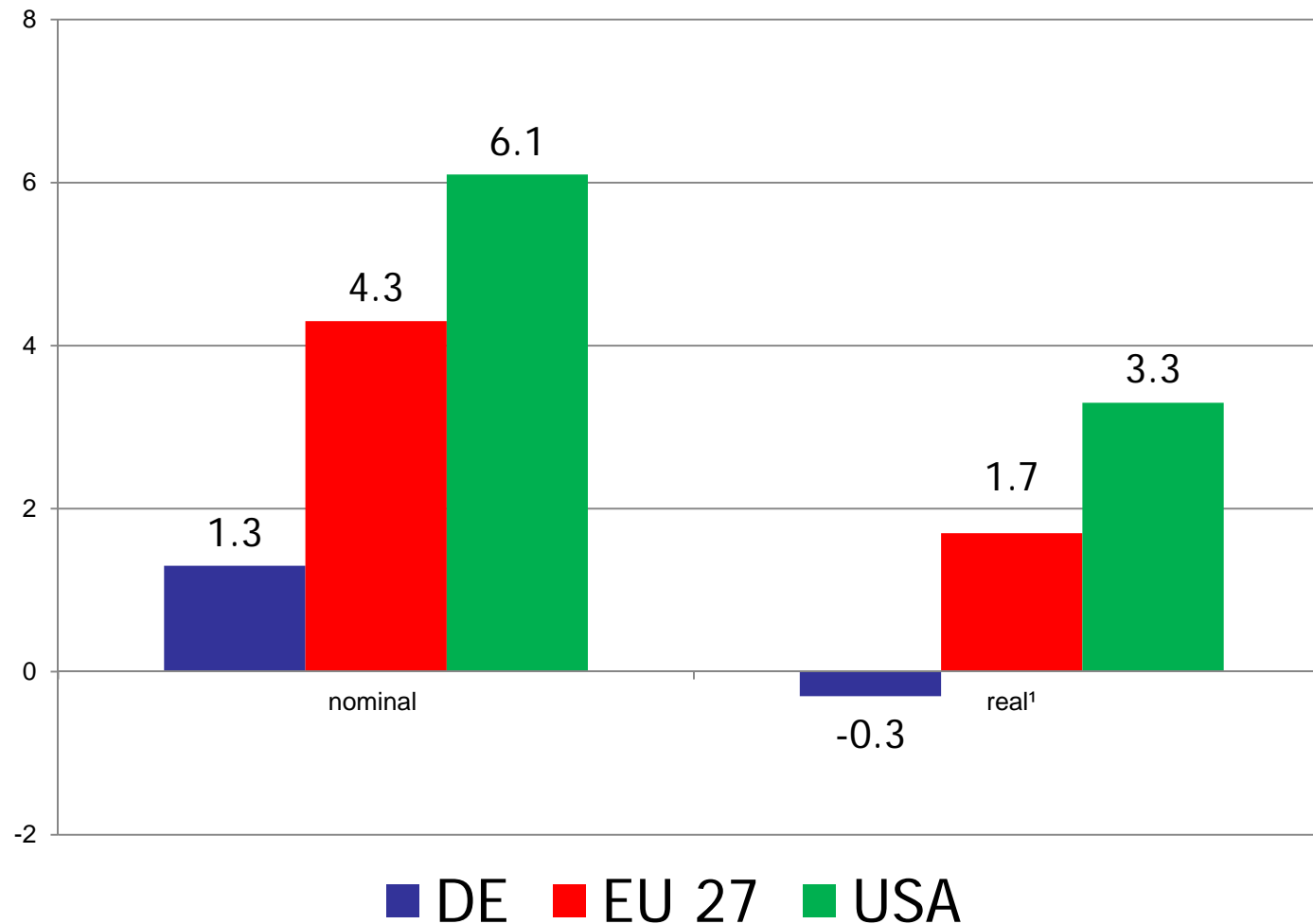
Adjustments in the German public sector took place before the financial crisis

- Nominal increases of government expenditures 1999-2007 below EU and OECD average
- Substantial tax cuts early 2000 – with tax laws of 1999 state revenue in 2010 would be higher by 51 Billion €

## Results

- State net investments negative
- Pay freezes and substantial reduction of public sector employment
- Increasing share of highly indebted municipalities and Länder

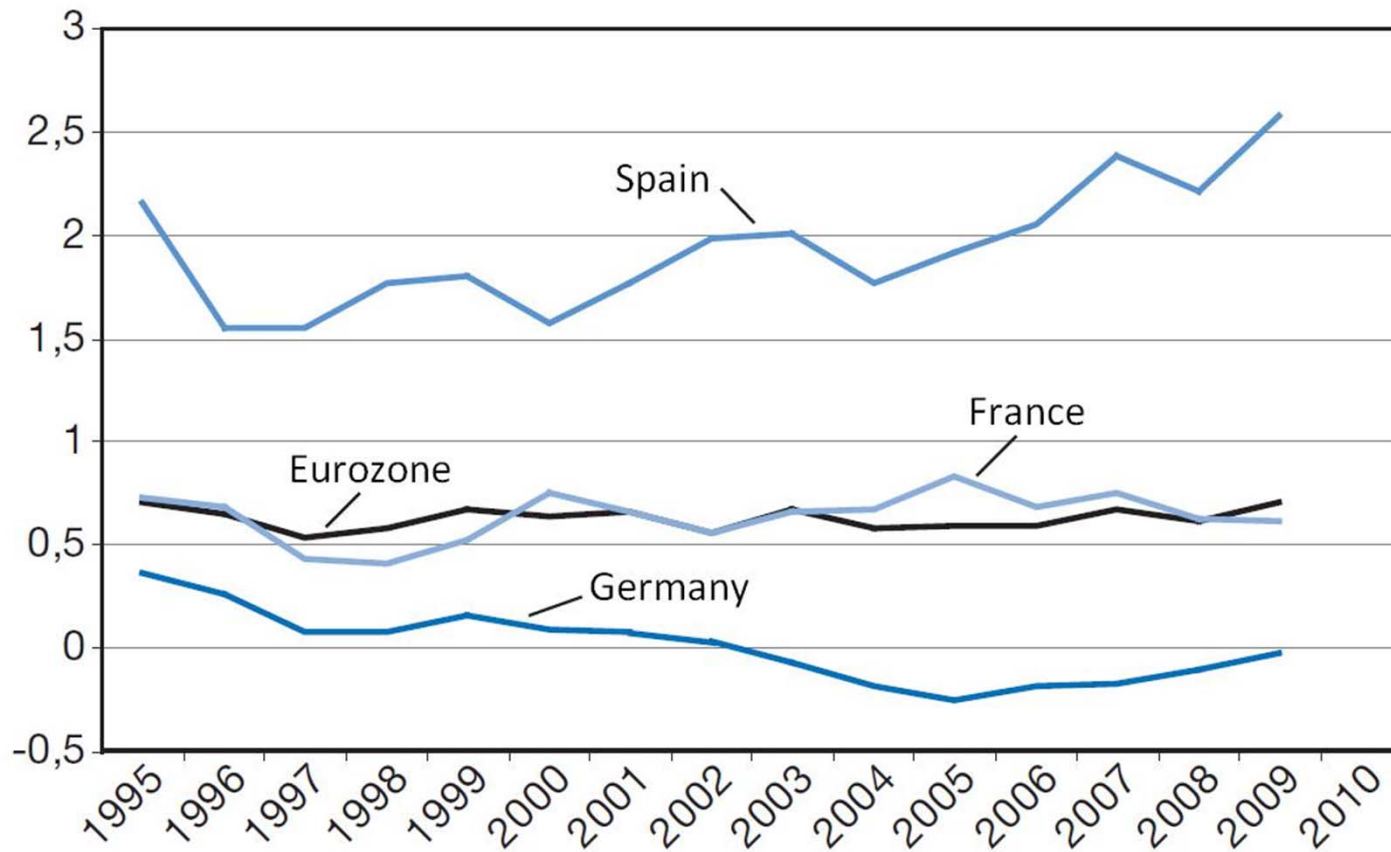
## 1.2 Government expenditure in DE, EU27 and USA - 1999 - 2007 (average annual growth rate in %)



<sup>1</sup> Adjusted for inflation with the (harmonized) consumer price index CPI

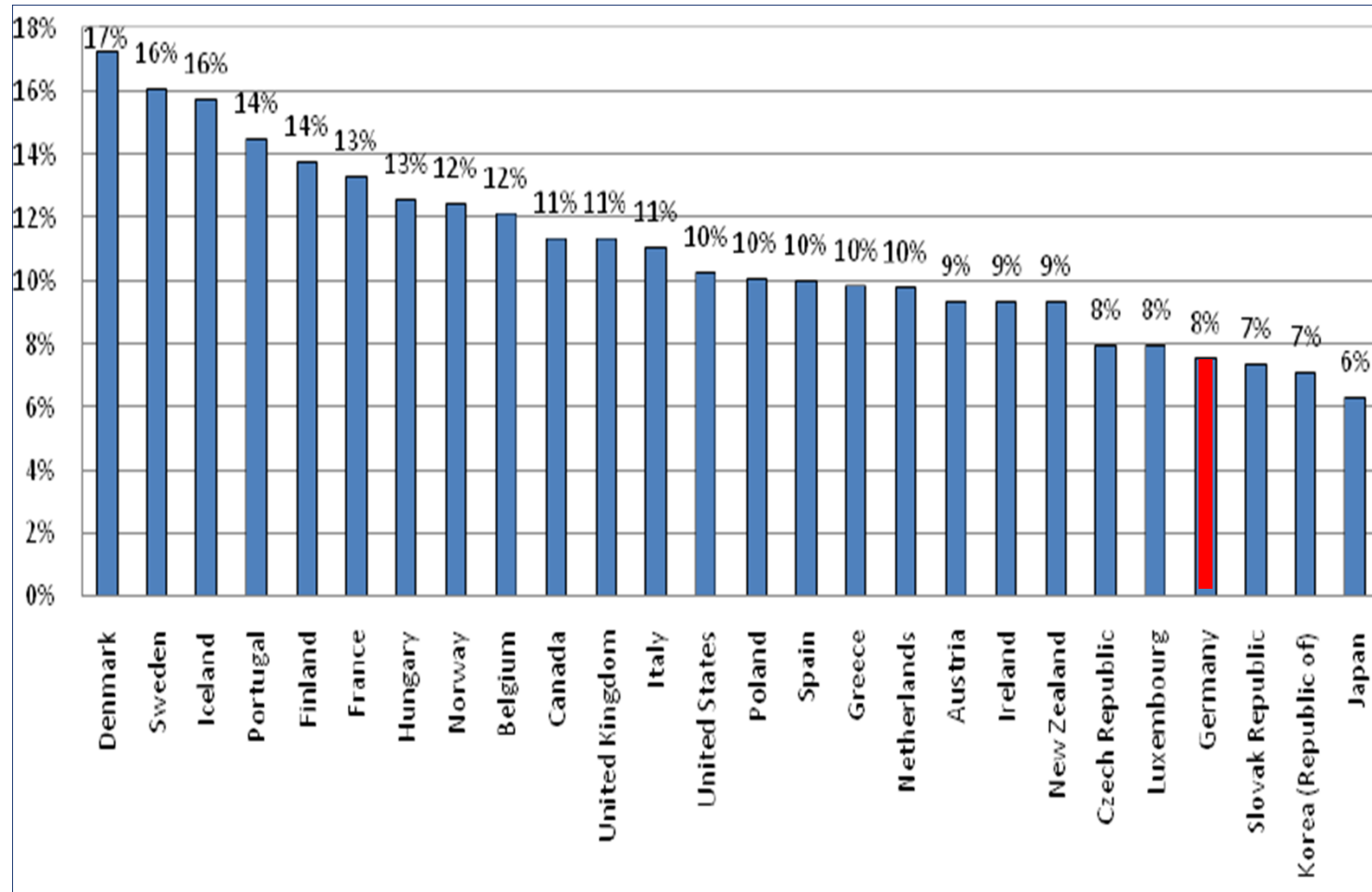
Source: Horn et al 2010: 9 (AMECO-database of the European Commission (as of April 20th, 2010); calculations by the IMK-Düsseldorf)

# 1.3 Net investment of the state in % of GDP



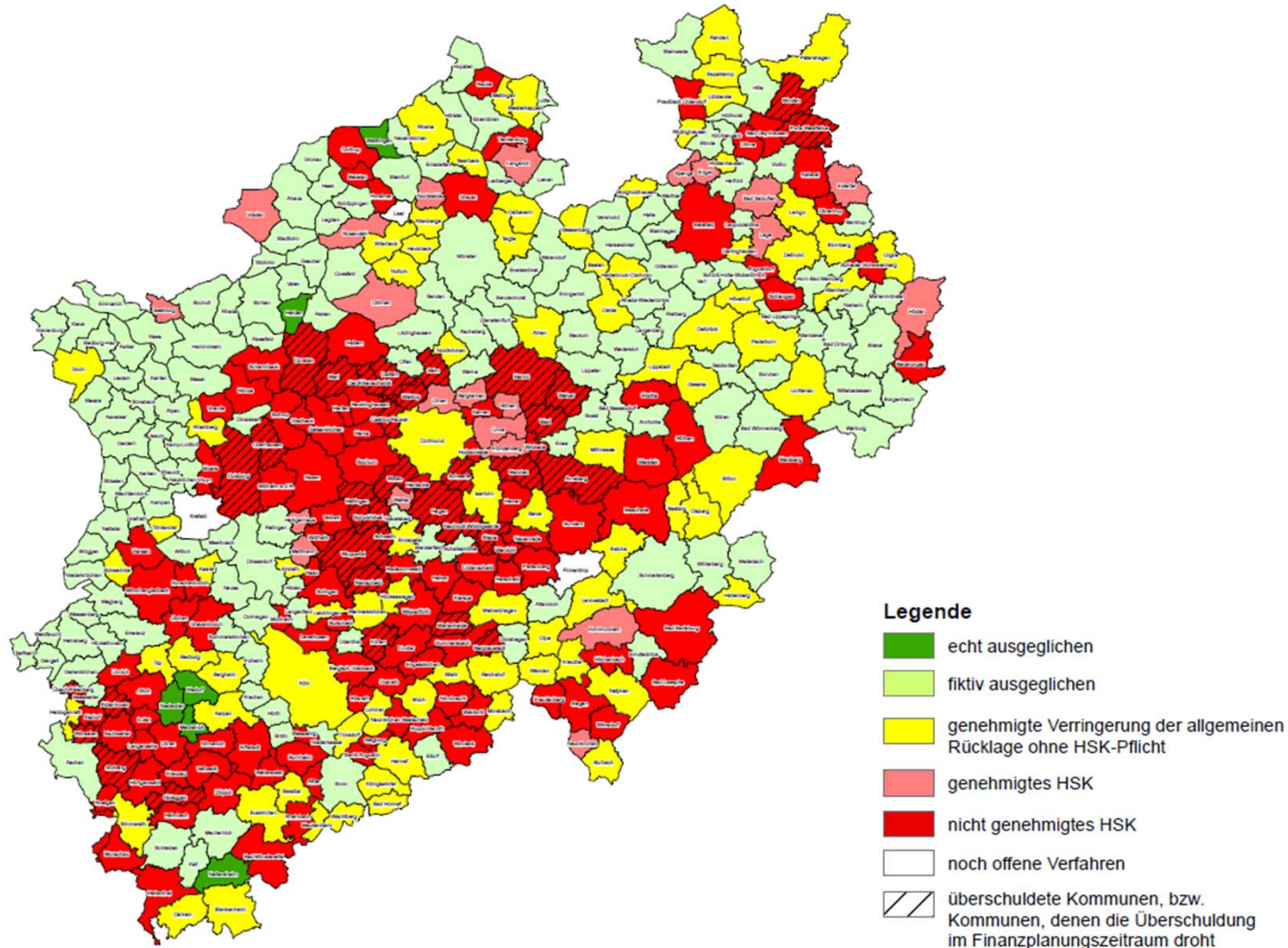
Source: Dullien/ Schieritz 2011: 459 (AMECO)

# 1.4 Compensation costs of employees in government as a % of GDP, in 2005



Source: National Accounts, OECD

# 1.5 Budgetstatus of Municipalities in North-Rhine-Westphalia (December 31, 2010)



Quelle: Ministerium für Inneres und Kommunales des Landes Nordrhein-Westfalen

## 2.1 Evolution of public sector employment

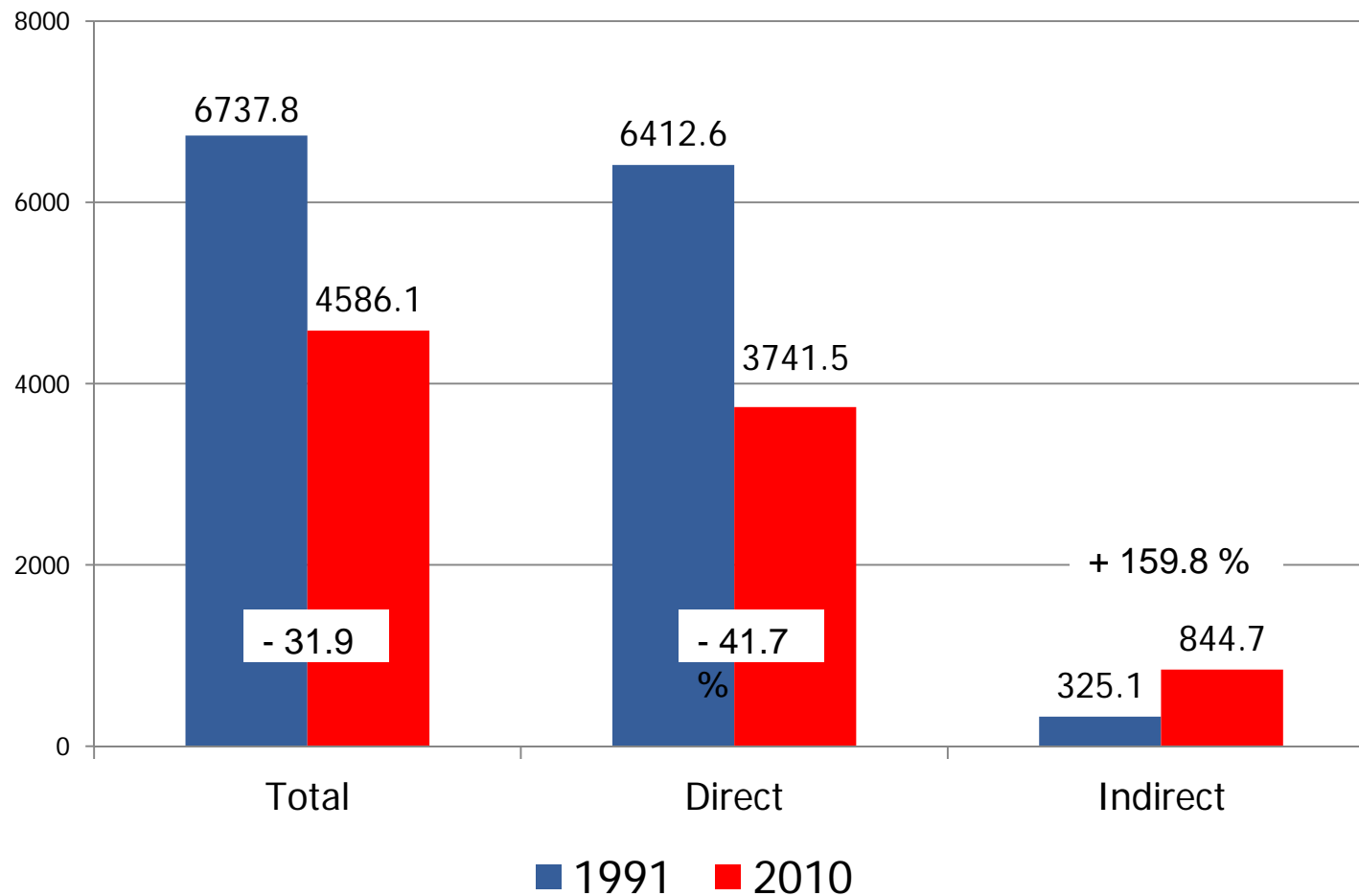
Staff reductions 1991- 2010 by 31,9%, most reductions before 2000

Increase of part-time from 15,8% in 1991 to 32,3% in 2010

Most staff reductions fell upon non civil servants:

- cheaper in the short run because no employers contributions have to be paid
- but higher pensions entitlements to be paid out of annual budgets
- cost shifting into the future

## 2.2 The evolution of employment in the civil service (civil servants and non-civil servants), Germany, 1991 - 2010



Source: Destatis (2011), p. 100; author's calculations



## 3.1 New IR-Model since 2005

Until 2005: Joint national agreement for federal state, Länder, municipalities – Pattern agreement

Fragmentation of actors:

Unions: own negotiations of doctors, train drivers, pilots

Employers: since 2005 separate negotiation committees of 1. Federal State and Municipalities 2. Länder and 3. Defection of states (Hessia, Berlin)

**End of PS pattern agreement:** Civil servants treated differently, own agreements for charity organizations

**But negotiated fragmentation:** Coverage still 98%

**Opening clauses for Länder:** Increasing differentiation of salaries, Xmas bonuses and weekly working hours

**From cooperative to competitive federalism**

## 3.2 Major reform of the Collective Agreement for the public service 2005

### Most important changes:

- Introduction of low pay grades
- Abolition of seniority principle and family allowances (a „revolution“)
- Performance related pay
- Joint wage grid for blue and white collar workers

## 4. Public sector still a good employer?

Compared to the private sector:

- High compliance
- Average gross earnings per year slightly lower for men and slightly higher for women
- Wages higher for low skilled, for East-Germans up to higher deciles, for West-German women up to higher deciles and for West-German men in the lower deciles
- Pensions are substantially higher (civil servants one-tier system, mandatory occupational pensions for non-civil servants)

But: Increase of temporary contracts from 10% in 2002 to 14,7% - Increasing dualization

**Overall - still a good employer – but for less employees**

# Conclusions

- Two „decades of denationalisation „ - reduction of employees, pay freezes and investment cuts gradually over the last 20 years
- Today German PS comparatively small
- Public underinvestment may harm future growth
- Value of services outsourced by the state above OECD average: Introduction of prevailing wage laws in many German Länder
- Level of MW corresponds to the lowest public sector wages (state should not underbid itself)

Finally, but most important:

- **German “Debt Brake” and EU “Fiscal Pact” leaves only choice between expenditure cuts or tax increases**