

EFFECT OF THE ECONOMIC CRISIS ON PUBLIC ADMINISTRATION

The recession has generated increased demand for government intervention and public services at the same time as it has reduced governments' capacity to respond

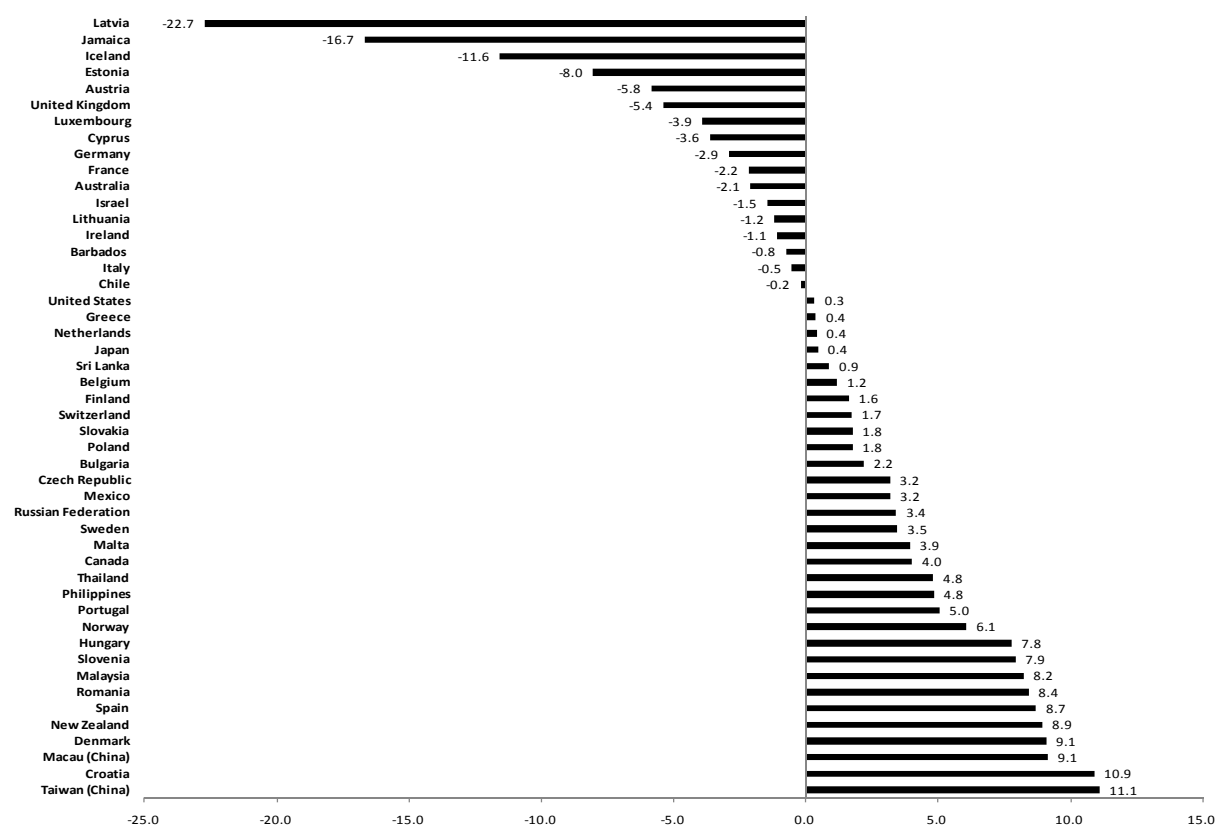
1. Many economic stimulus packages have included public employment as an objective, but the decline in economic activity has reduced government revenue and the ability of individuals to pay for services. National treasuries have had to address crises in many sectors and have been stretched to meet essential service and pension obligations. At the same time, demand for public services has increased in order to offset loss of employment and lower personal income.

The recession has had an uneven impact on employment in public administration

2. Public administration is one of the largest sectors for formal sector employment in almost all countries. Recent data show that it accounted for almost 43.4 million workers in 42 countries with available data in the third quarter of 2009. Between September 2008 and September 2009, almost a quarter of the measures taken by 52 governments included increases in public employment.¹ Employment in public administration in 49 countries and regions within countries with available data ranged from a gain of 11.1 per cent in Taiwan (China) and of 10.9 per cent in Croatia to a drop of 23.8 per cent in Latvia (figure 7). The average increase of 1.1 per cent shows a slower pace of growth than observed in the year before June 2009. Public sector employment decreased in 17 of these countries, most of which also reduced public budgets considerably. Eleven countries increased employment in public administration during the year but decreased in the last quarter, some after exhausting their fiscal space for stimulus hiring; five other countries behaved the opposite way, possibly driven by increased demand for services. The Global Jobs Pact confers priority attention to employment promotion and creation through, among other approaches, provision of quality public services. As seen in the examples below, many governments have used public employment as a means to achieve this. However, since many social, political and economic factors influence public employment, not every fluctuation is attributable to the current crisis.

¹ ILO: *Protecting people, promoting jobs: A survey of country employment and social protection policy responses to the global economic crisis*, an ILO report to the G20 Leaders' Summit, Pittsburgh, 24–25 September 2009.

Figure 7. Public administration: Percentage change in employment from 2008 to 2009 Q3 (selected economies)

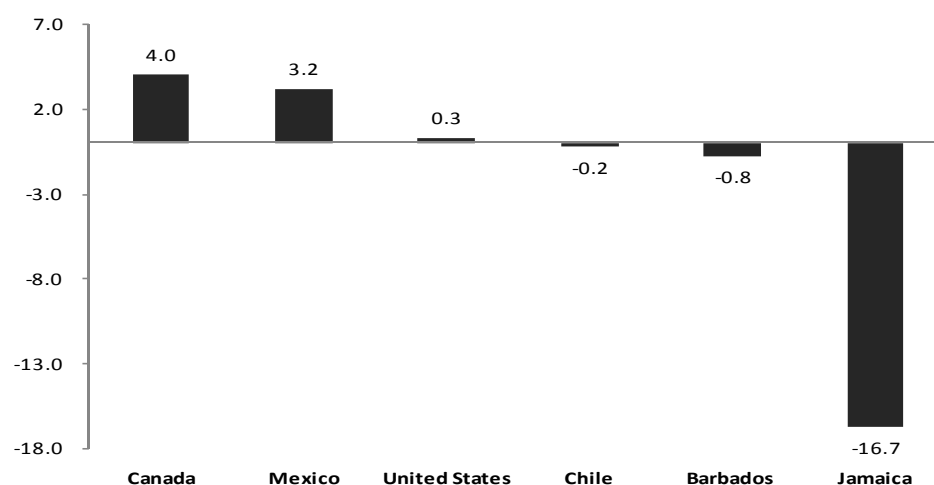


Source: National Labour Force Surveys and official estimates of each country. Data for EU countries are provided by Eurostat.

3. Five of the six countries sampled in the Americas increased employment in public administration. This did not necessarily result from countercyclical measures since the same trend was also observed in 1995–2008, except in Mexico. However, government employment growth slowed down or was reversed in the United States (where state and local governments have reduced expenditures), Barbados, Chile, Canada, Jamaica (figure 8) and the main metropolitan areas in Brazil.² Mexico has recently laid off public employees while the Dominican Republic attempted to develop labour-intensive employment opportunities.

² Official estimates: Instituto Brasileiro de Geografia e Estatística (IBGE).

Figure 8 Public administration: Percentage change in employment in the Americas Q3 2008–09 (selected economies)

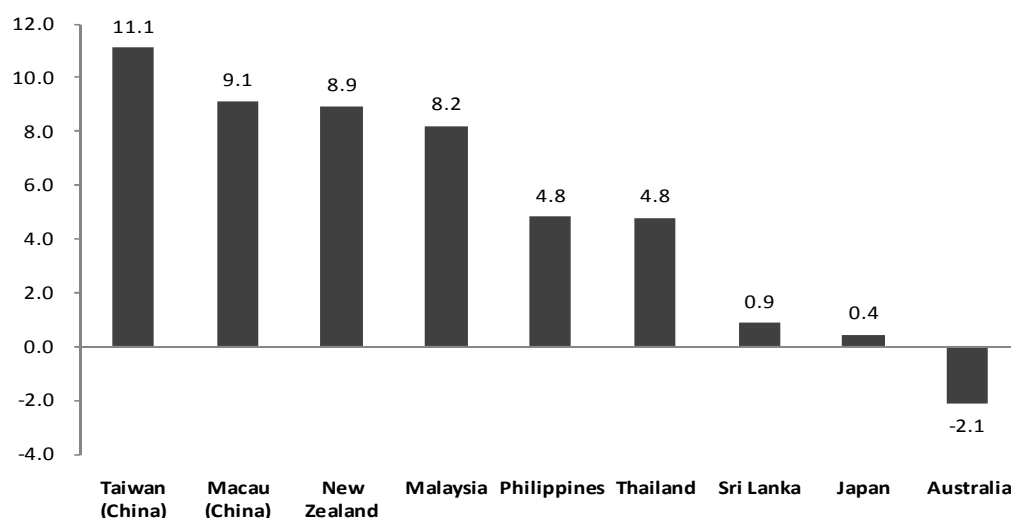


Source: National Labour Force Surveys and official estimates of each country.

4. In 1995–2008 most of the countries in Asia and the Pacific increased public employment, and six of the seven selected countries and Hong Kong (China) and Taiwan (China) did so in the year ending in September 2009 (figure 9). Japan has faced a decade of slow economic growth, but its central Government offered financial support to local governments hiring jobseekers. Bangladesh, China, India, Indonesia, Nepal and Pakistan included measures to increase public employment in their stimulus packages. Only Australia and Israel continued reducing their payroll during the third quarter. This could be a sign of recovery of public finances in other countries, although the Government of Kazakhstan imposed a hiring freeze in 2009. Thailand also recovered in the third quarter from a reduction in the previous quarter. The International Institute of Labour Studies has reported that, in some Middle Eastern countries, “the relatively large share of public sector employment in total employment has buffered the negative effect of the crisis on employment”.³

³ International Institute of Labour Studies: “World of work 2009: Snapshot of the Middle East”.

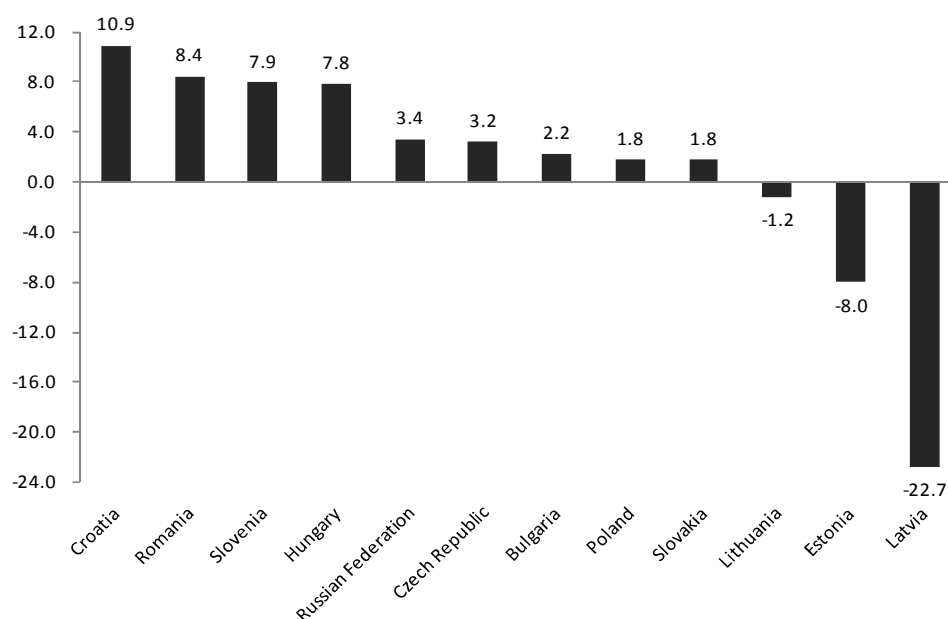
Figure 9. Public Administration: Percentage change in employment in Asia and the Pacific Q3 2008–09 (selected economies)



Source: National Labour Force Surveys and official estimates of each country.

5. In 1995–2008, every country in Eastern Europe except Hungary reduced public employment. Nonetheless, employment increased in 75 per cent of the countries of this region (where data are available), including in countries of the Commonwealth of Independent States, but four of them reversed part of the increase during the third quarter of 2009 (figure 10). The region is one of the worst hit by the crisis, which has affected public finances, forcing several countries to look for international loans. As a result, seven of the countries reduced public employment in the third quarter of 2009, five of which had increased employment in the previous three quarters. Hungary, Romania and Serbia increased public employment as a countercyclical measure.

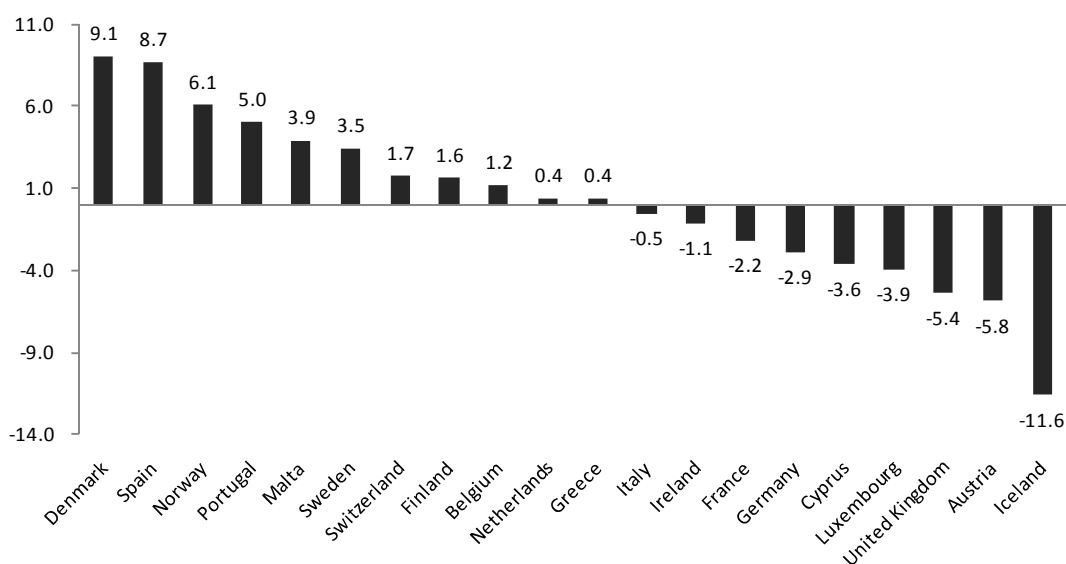
Figure 10. Public administration: Percentage change in employment in Eastern Europe and the Commonwealth of Independent States Q3 2008–09 (selected economies)



Source: National Labour Force Surveys and official estimates of each country. Data for EU countries are provided by Eurostat.

6. In 1995–2008, ten of 13 countries in Western Europe for which data are available increased public employment. In 2009, 55 per cent of the countries did so (figure 11), some to stimulate the economy while others reduced employment to reduce spending. The changes ranged from a 9.1 per cent countercyclical increase in Denmark to an 11.6 per cent decrease in Iceland, which faced a severe economic downturn and obtained an IMF loan. It is reported that the Irish Government may cut as much as 5 per cent of public employment while the United Kingdom may cut up to 380,000 jobs by 2015. Four of the countries that increased employment in the year started reducing it in the third quarter, but five of those that reduced employment in the year reversed course in the third quarter.
7. Despite limited data availability from Africa, there are reports that show signs of stress in public administration employment. For instance, Ghana has announced plans to freeze net hiring in public administration to comply with conditions for a US\$300 million loan. On the other hand, South Africa increased public employment as part of its stimulus package.

Figure 11. Public administration: Percentage change in employment in Western Europe Q3 2008–09 (selected economies)



Source: National Labour Force Surveys and official estimates of each country. Data for EU countries are provided by Eurostat.

The crisis has also affected public sector salaries and pensions unevenly, but not hours of work

8. In terms of salaries, while Latin American governments tended to increase wages, Western European governments tended to freeze them to allow for fiscal space and Eastern European governments tended to reduce them to obtain international loans (table 1). Since public administration is a high-multiplier sector, its wage levels influence effective demand, which the Global Jobs Pact promotes as a way to accelerate jobs recovery.

Table 1. Changes in public administration salaries, selected countries

Country	Salary increases	Salary reductions	Salary freezes	Reduced increases
Argentina	X			
Australia	X			X
Plurinational State of Bolivia	X			
Botswana				X
Bosnia		X		
Brazil	X			
Canada	X			
Chile	X			
China			X	
Croatia		X		
Cyprus	X			
Dominican Republic	X			
Estonia		X		
Greece			X	
Ireland		X		
Jamaica			X	
Latvia		X		
Lithuania		X		
Mexico		X		
Moldova			X	
Peru	X			
Russian Federation	X			
Serbia			X	
Spain				X
Sweden			X	
Thailand		X		
Ukraine	X			
United Kingdom			X	
United States local governments		X	X	X

9. Some austerity measures have been carried out by means other than monthly salary reductions. In Ireland, a new pension levy reduced net pay, and a proposed pay schedule review may diminish pay levels. Greece initially compensated partly for its salary freezes by giving allowances to specific categories of employees, but has announced reductions in 2010. The Dominican Republic and Peru increased Christmas bonuses for 2009, instead of raising wages. Local governments in the United States and Australia have reduced employment, while their federal counterparts increased it.

10. Concerning pensions, contributions have shrunk as a result of the decline in employment and wage levels in the wake of the crisis. The crisis has also affected public pension investments, including personal savings for retirement. In Serbia, the Government agreed with the IMF to freeze pensions until 2011. Retirement incomes are especially in jeopardy for workers who must retire before the recovery, who lack a pension scheme or whose pensions are not adjusted to the fluctuations of wages and prices. The Global Jobs Pact encourages “providing minimum benefit guarantees in countries where pension or health funds may no longer be adequately protected and considering how to better protect workers’ savings in future scheme design”.
11. In terms of hours of work, the data available concerning 39 countries indicate a shortening of the working week in public administration by an average of 0.04 hours by the third quarter of 2009, which is not significant in relation to overall hours in this sector. However, local governments in the United States are currently implementing or considering plans to schedule days without pay in lieu of lay-offs.

The public sector has used social dialogue and other measures to mitigate the impact of the crisis, with mixed results

12. Several countries adopted social dialogue measures to confront the crisis. In Croatia, Germany and Slovenia, government and workers’ representatives reached wage agreements to address the effects of the crisis. In Latvia and Romania, attempts to reach agreement failed and governments enacted unilateral measures. In the Dominican Republic, the Government organized a summit meeting during which business, civil society, Government and workers discussed measures to preserve jobs and to ensure social protection. In the United States, public sector unions at the state and local levels have made concessions in collective bargaining. In Botswana, where collective bargaining takes place, unions toned down their demands for salary increments during 2009.
13. Some countries have also used the public services to alleviate unemployment in other sectors. Ukraine established a nationwide public works programme to provide job opportunities to the unemployed. Hungary established a retraining programme which required long-term unemployment insurance beneficiaries to participate in public works. Kenya emphasized enhanced training for public servants in place of dismissals. These training programmes invest in skills development, skills upgrading and reskilling to improve employability as proposed by the Global Jobs Pact.

The public sector faces strong challenges in the recovery from the crisis

14. A recent ILO working paper reached a number of conclusions regarding the future of public administration, notably that public sector workers could face freezes or even wage cuts for the next several years in the context of the negative impact of huge stimulus packages on public finance, spiralling budget deficits and public sector pay continuing to account for an important part of public spending.⁴ The consequences would be particularly important in countries where public servants are not protected by collective bargaining rights. The Asian Development Bank has suggested that governments should

⁴ L. Rychly: *Social dialogue in times of crisis: Finding better solutions*, Working Paper No. 1, Industrial and Employment Relations Department, ILO, May 2009.

expect to reverse stimulus spending in order to enhance its impact.⁵ Should such prospects materialize, social dialogue will be essential for governments and social partners to manage social conflict and avoid breakdowns in services.

⁵ P.C. Padoan: *Fiscal Policy in the Crisis: Impact, Sustainability and Long-Term Implications*, Working Paper Series No. 178, Asian Development Bank Institute, Dec. 2009.