

INTRODUCTION

LÁSZLÓ NEUMANN

Compared to the market sector, the public sector is a neglected area of research in terms of both the labour market and industrial relations, namely the institutions determining the terms and conditions of employment and wages. Disproportionately less attention has been given traditionally to the public sector in Hungary despite the fact that, as in other Member States of the European Union, the employer of one-third to one quarter of employees is – directly or indirectly – the state.¹ Such a swelling in the size of the public sector is connected historically to the expansion of the public-sector services and the emergence of the welfare state, even if sometimes we tend to forget this in the Eastern European version of it, called “premature” by János Kornai, because of the poor quality of the services and inequalities in our access to them. Regardless of the positive or negative perception of the community services, in many ways they play a key role in the reproduction of the labour force, especially through the public education sector, and in the spheres of health, cultural and social services.

The reform and modernization of the public sector has been at the centre of attention in the world of public policy ever since the 1970s. There is no doubt that the traditional Weberian “closed” model of bureaucracy and public service provision is expensive, since here public servants and public service providers have to receive reliable, sustained income of an appropriate standard, even after they retire. The price of their incorruptibility and loyalty is also to provide them with a so-called “lifelong career” – long-term promotion opportunities and ongoing training –, which, at the same time, protects them against unjustified dismissal.

Modernization was a necessity brought about by greater or lesser economic crises – such as the 2008–2010 financial and economic crisis, or more precisely the budget problems emerging as a result. The obvious way of reducing budget expenditures is by cutting public service spending. This can be achieved simply by reducing the number of civil servants, by curbing their benefits and/or improving their efficiency, for example by bringing the public service HR closer to that of the business sector. This is what the so-called *New Public Management* trend does. As a result of the reforms the “closed”, “career-based” system is replaced by hiring/dismissal, evaluation and incentives for a position or a task – in other words: the “open” public sector. The instruments of more flexible employment – already applied before the recent crisis – are not limited to fixed-term contracts, but include also the privatization of some

¹ Through the central government or various levels of local government apparatus or companies owned by the state/local governments.

services or outsourcing some tasks to private companies or to the appearance of atypical, precarious employment relations known from the private sector.

The public sector is also a determining entity from the perspective of the analysis of labour market phenomena. Since in the public sector the proportion of employed women, university graduates and older people is above the average, the level of earnings of public employees and its fluctuation strongly influence overall wage inequalities, the wage differentials between gender and age groups and the rate of return of higher education. Although the public sector is becoming less and less the world of lifelong “retirement jobs”, it still offers a relatively safe and predictable career. Both the civil servant body and health as well as social services require a sense of vocation and commitment from employees, for whom this provides a sense of social usefulness. This opens up particular employee preferences and selection mechanisms, whether regarding career choices, staying in the profession or leaving it.

Of course the need for commitment and maintaining the “public service ethos” – particularly within the bureaucratic body – required also some specific legal regulation of the employment conditions, and public sector labour law was born from the regulations traditionally belonging more to the administrative law. In the last decades the regulation of public sector employment has come closer to that of the private sector driven by the needs of the New Public Management, while the labour law of the private sector itself has also changed due to the reforms supporting more flexibility.

The public sector is also special from the point of view of industrial relations since here the state as employer is at the same time the creator of the rules regarding negotiations and consultations with trade unions, therefore it is difficult to ensure in labour relations – particularly in collective bargaining – the independence of the partners as required in the private sector. In fact in areas where state power is exercised in the public sector – to a different extent in various countries and ages – the collective rights of employees, the freedom of association, the right of collective bargaining and strike can be limited. The direct or indirect employer role of the state represents also a certain amount of interference in the private sector conditions – beyond the fact that public sector wages affect the private sector labour market. Therefore the state is widely considered to have a *role model* provider as an employer for the private sector, too.

The traditional attitude of the public sector trade union – due to the special selection of the employees already described – has been less confrontational than that of the private sector. In the last few decades, however, in many Western countries – particularly ones exposed to budget problems during the recent crisis – the public sector trade unions have become stronger and more “militant” exactly because of the challenges brought about by the modernization of the public sector and the crisis management afflicting its employees.²

2 The importance of this issue is shown by the fact that the last volume of the biennial series of the European Commission, entitled *Industrial Relations in Europe*, is dedicated mainly to the public sector and the crisis.

In Focus views the public sector from two perspectives: the labour market processes and their institutional background. However, this duality has imposed thematic limitations: while the authors of the sub-chapters analyse several professional and sectoral areas and subdivisions, they have had to largely ignore the perspective of the policies and disciplines dealing specifically with these areas – mainly those related to the service performance, quality or effectiveness. *In Focus* is structured in four chapters.

In the first chapter *János Köllő* writes about the most important facts in the Hungarian public sector, dealing with areas such as the headcount, the composition and the trend of wage level. The most distinctive feature of the Hungarian public sector when compared internationally is the extreme fluctuation – unprecedented in the OECD countries – of wage levels relative to the private sector, and – in the light of the current trends – the increasingly significant wage disadvantage compared to private sector employees with similar (demographic, educational, labour market, etc.) characteristics. The study also deals with the impact of income hikes and cuts on wage ratios between different groups, with the specific wage-path of university graduates over their life-long career and the methodological difficulties of studying public sector statistics. In writings in boxed texts (brief highlights) *László Neumann* and *Kitti Varadovics* present the trends of state/local government owned companies' headcounts and wages, *Ágota Scharle* deals with the size and costs of a segment of the labour market of the wider public sector – that of the public works programme. These two areas deserve special attention because in recent years their size has shown a significant increase due to the government's labour market policy and property policy that has reversed the previous privatization trend.³

Chapter 2 analyses the public sector mainly from the perspective of labour economics. The majority of recent research published here addresses the interaction between the various labour markets as well as the labour market flows. Most of the studies investigate the issue of the public-private wage gap which also influences the quality of the services and workforce selection. The paper of *Szilvia Altwicker-Hámori* and *Anna Lovász* examines the differences between private and public sector wages in the various segments of wage distribution before and after the big 2002 wage hike. The writing in boxed text by *Anna Lovász* deals with labour market discrimination in the public and private sector: with the gender wage gap and with occupational segregation through hiring and promotion. The next three sub-chapters focus on the interactions between the labour markets of the public and the private sector. *Álmos Telegdy* analyses the influence of the public sector wage increase from 2001–2002 on business sector wages. *János Köllő* is concerned with the influences of the widely varying wage gap between the two sectors – particularly the large increases before and after the 2002 elections – on the number

³ It should be noted that the majority of the studies limit their analysis to the public sphere – to the civil servants referred to under changing names and public service employees – in the strict sense; it is indicated, if otherwise. It is also worth noting that within the public sector in the strict sense different laws have been applying to government and municipality civil servants as well as armed forces personnel in executive power and for employees providing public service (e.g. in health care, education, social care.) See in detail in sub-chapters 3.1 and 3.2.

and quality of professionals coming from the private to the public sector. The papers of *Péter Elek* and *Péter Szabó* show the opposite direction transitions, presenting the composition and subsequent labour market behaviour of public sector leavers, including the chances of their re-employment in positions suitable to their educational attainment. The two papers written by *György Molnár* and *Zsuzsa Kapitány* contribute to the research on the already mentioned specific selection mechanisms of the public sector. One presents those non-monetary motivations and risk-minimizing family strategies that favour the choice of jobs in the public sector. The second piece a boxed text examines whether the general trend, that public sector employees are more satisfied than other workers, is valid in Hungary.

Chapter 3 covers the institutional background of the public sector labour market. Due to limited space we could not aim to present public sector labour law and the interest reconciliation system as separate treatises, instead here too, we focussed on the latest trends. *Beáta Nacsa's* sub-chapter reviews the most important changes since 2010 from the perspective of labour law: the rules of dismissal without justification, their repeal by the Constitutional Court, the new regulations from 2011, which has in essence re-established – through the dismissal cause of loss of confidence and indignity – the pre-repeal situation. *Erzsébet Berki's* paper presents the mechanisms of interest reconciliation and wage determination in the public sector, also highlighting the post-2010 changes. The collective agreements' coverage data of the *Statistical Data* chapter referring to the public service employees' field are related to this sub-chapter (*Table 10.9*). The boxed text looks at collective bargaining in the state-local government owned business sector. It also deals with the expected effect of the new law that limits the possible themes of collective bargaining at “community owned” companies. The next sub-chapters present an outlook on the reform efforts of the public sector taking place in Europe. *László Váradi* writes from a human resource management approach to describe the objectives and instruments of the *new public management*, and the neo-Weberian approaches that seek to simultaneously comply with the requirements of efficiency and of impartiality that ensure a professional and fair functioning of the public service. *Márk Edelényi* and *László Neumann* give an overview of the European Union countries' public sector labour law models and wage determination systems and the role of social dialogue, respectively their recent changes, including the reactions following the 2008 economic and financial crisis. *László Neumann* and *Márk Edelényi's* other study focuses on the local government sector. Firstly, it introduces the efforts of privatization, outsourcing and reorganizing within the European Union countries, as well as their effects on employment and the regulatory attempts connected to this. Secondly, it gives a brief review of similar efforts in Hungary and an insight into the labour relations of the local government-run in-

stitutions and local government-owned companies. This is complemented by a boxed text with two case studies from 2012 connected to the sub-chapter describing the labour-related consequences of outsourcing – in-sourcing and of handing over to the church.

Chapter 4 of *In Focus* presents the sub-markets of some principal occupations of the public sphere, combining the institutional approach with that of labour economics. *Júlia Varga* writes about teachers' wages, selection and those leaving the profession, while *János Köllő* and *Imre Szabó* consider the situation of physicians. The first deals with wages, tips and gratuities and with leaving the career path, the latter about the peculiarities of the interest reconciliations of the health sector, also providing, at the same time, a regional outlook on similar processes in the Czech Republic, Poland and Slovakia. *Erzsébet Berki*, *Éva Czethoffer* and *Endre Szabó* also publish two papers about the labour market position of those leaving their profession. They analyse the occupational trajectory of nurses and other health care professionals after their departure from the state health care-system and they also look at law enforcement employees after their retirement, whether they worked, and if so, in what field and how much they earned. In both cases they present the regulation changes within the field: the new pay scale in the area of health care and the abolition of the early retirement scheme, which triggered perhaps the biggest wave of protests of the post-2010 government measures in the public sector.

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The studies in *In Focus* have various time frames: labour economics analyses are largely from 2008 to 2010, the statistics generally are available until 2013, and some descriptive studies were also able to attempt to deal with the latest developments. Each chapter, then, where possible, shows the main statistical data on time series up until 2013 and analyses the changes in the interest reconciliation institutions also up to 2013. In addition – following the tradition of the annals – we publish in *In Focus* the results of previous research that have already been published by their authors in professional journals. Their publication here is justified by our endeavour to share their important findings on the processes of the public sector in a more comprehensible form with the wider public. Although these studies explore the period between 2008 and 2010, or are based on international data collection that does not have a more recent available database, the results – according to the opinion of the editors – are still relevant today. Where possible, the authors have updated their previous studies with assessments that take into account the changes (for example, the effects of the crisis, the growing disadvantage of public sector salaries against the private sector, the erosion of the job security advantages due to the frequent reorganizations and the further impairment of the

principle of irremovability), and have evaluated their relevance in the light of these results, respectively the likely deviations resulting from the changes.

The studies do not seek to directly make public policy recommendations, although, of course, their approach is far from being value-neutral. *In Focus* is not homogenous in this respect either: the various authors do not only touch upon public policy decisions to a different extent, and approach the public sector from different disciplines, but they also have different attitudes to the very same phenomenon (for example to the modernization of employment relations). The aim of the editors of the book was to bring the authors' different approaches into contention in order to present a diverse picture to the readers interested in public policy. Of course, as always in science, and on this occasion too, the authors are the only ones responsible for the views expressed in their study and for the possible factual errors and mistakes.