

SOCIAL DIALOGUE AND CZECH LOCAL AND REGIONAL GOVERNMENT IN AN ERA OF AUSTERITY

Zuzana Dvořáková

Abstract

Industrial relations in public administration are under severe pressure across EU countries. The nature of the economic crisis has evolved and government priorities have shifted towards fiscal consolidation with major consequences for employment and labour relations in the public services. The paper is aimed at social dialogue in local and regional authorities in the CR. In the period 2008 - 2011 the institutions of social dialogue have not moderated the impact of public expenditure reductions and restructuring on the dimensions of industrial relations. Austerity measures of the Government include the following policies and practices: the cuts are normally imposed rather than agreed with the unions; the mechanisms used to cut pay have almost always been decided on centrally; the cuts are linked to reform the pay system; cuts seem to be the first round of cuts as it is judged to be insufficient and pay is reduced again and again; elimination or reduction of variable pays, benefits and other indirect personnel costs; attempts to increase wage gaps between the higher paid and the lower paid, although the budgets are cut.

Key words: Public administration, trade unions, collective bargaining, collective agreements.

JEL Code: J45, J51, M50.

Introduction

Since 2007 the global financial crisis has an influence on the economy, it also appears to have harmed the social and political life of many countries (Baccaro, Boyer, Crouch, et al., 2010). Public services are not the cause of the financial and economic crisis, but governments tend to compensate losses of public budgets by cutting pays in public administration (EPSU/ FSESP/EGÖD, 2010). Austerity measures of European governments cover the following (Ibid.): repeated cuts – often the first round of cuts is judged to be insufficient and pay is reduced again and again; elimination or reduction of bonuses and additional payments; attempts to protect the lower paid – pay is sometimes cut more for the higher paid, although

the lower paid also lose pay; the cuts are often linked to attempts to reform the pay system; the cuts are normally imposed rather than agreed with the unions; the mechanisms used to cut pay, or at least some of them, have almost always been decided on centrally.

This paper aims to analyze what situation exists in collective bargaining in local authorities, how the crisis has affected employment and wage conditions in the sector, what measures are taken in the pay system and what is the role of social dialogue.

1 Social dialogue in public administration

1.1 Trade unions

Citizen associations, trade unions and social partnership – the Tripartite are major mediators and interest-representing institutions beside political parties. Trade unions and the Tripartite were established at the beginning of the 90's and during the past decade trade unions have become the only important partner of the Government in the process of shaping social policy, most frequently on the basis of tripartite negotiations. The position of trade unions is determined by their declared independence from political parties, Government, employers as well as other institutions. They are highly concentrated and centralized. A quick look at the trade union structure shows that on the Czech scene one dominant trade union confederation and a number of smaller associations and unions are active. The most powerful body is the Czech-Moravian Confederation of Trade Unions (CMKOS). It unites 30¹ trade unions, including main public administration trade unions². The Confederation claims to be a voluntary and independent association of unions. Its primary mission is to protect the rights and interests of people whose lives are tied to work and whose wages or salaries are (or were) the main source of their income. The CMKOS is the only national headquarters in the CR coordinating the process of its members in collective bargaining. Independent unions operating beyond the framework of the CMKOS basically have a marginal position.

Trade unions' power has been weakened by a considerable decrease in membership. Until 1989 almost all economically active citizens were organised in the unions, while “in 2003 approximately 30% of employees belonged to trade unions” (Čornejová, Fassmann, 2003, p. 92). Opinion surveys – carried out for the CMKOS by the Public Opinion Research Centre³ in the years 1994, 1996, 1997, 1999 and 2000 - documented shifts in the trade unions'

¹ Trade unions members of the CMKOS. 23 June 2012. <http://www.cmkos.cz/svazy>.

² Trade unions of state authorities and organizations (statorg.cmkos.cz).

³ The Public Opinion Research Centre (Centrum pro výzkum veřejného mínění) was established on 1 January 2001 by transferring the Public Opinion Research Institute (Institut pro výzkum veřejného mínění) from the Czech Statistical Office. See: <http://www.cvvm.cas.cz/index.php?lang=1&disp=kdojsme>.

position in labour relations (Kadava, 2001). Most Czech citizens positively evaluate the role of trade unions as an interest mediator and protector of workers' rights, but there is a increasing number of respondents who hold the view that trade unions are useless and even damage labour relations (from 9 % of respondents in 1997 to almost 16 % in 2000 according the above mentioned surveys). This is probably related to the average living standards and the social security system that satisfies the needs of a high proportion of workers to a considerable extent. In the first decade of the 21st century political, economic as well as social conditions did not encourage the manual and administrative staff to set up trade union organisations or become trade union members. In fact, an average citizen was not faced with a critically escalated labour or social situation until 2008. Therefore, neither membership of trade unions nor involvement in trade union activities were considered as efficient ways to protect rights or negotiate better employment conditions. Since the beginning of the new millennium the growing activity of trade unions is gradually observed, in particular in the public sector - the reasons being limited quality of management (railways) and growing wage gaps as compared with the private sector (health, social and education services). In spite of unemployment (the total unemployment rate was 8,8 % in 2000, 8,1 % in 2001, 7,3 % in 2002, 7,9 % in 2005, 5,3 % in 2007 and 4,4% in 2008⁴), the process of privatisation (banks, gas companies, production and distribution of electricity) and the process of reforms in public administration (2002), there was no strike organised by trade unions joined in the CMKOS in these years.

1.2 Collective bargaining – the legal framework and reality

Common legal provisions on collective bargaining were laid down in the time of overall social reforms. The Act 2/1991 of Col., on Collective Bargaining regulates collective labour relations in both business and public sectors and without a substantial amendment it has been in force until today. In the view of the Government, collective bargaining is supposed to be the major instrument to achieve and retain social peace and collective agreements represent the legal way of its implementation. State influence shows up solely in setting up binding rules for collective bargaining, stipulating procedures to be observed, including the handling of collective disputes. Under the mentioned Act, the partners of collective bargaining are free when negotiating the contents of collective agreements.

⁴ Employment and unemployment since 1993. Czech Statistical Office. 23 July 2012.
<http://vdb.czso.cz/vdbvo/tabparam.jsp?voa=tabulka&cislotab=PRA1010CU&&kapitola_id=3>.

The subject of collective bargaining may be anything of partners' interests. The contents of the collective agreement must not be at odds with legal regulations and must not provide any interpretation of legal rules. Provisions of collective agreements involve all the employees of the given organization and/or sector notwithstanding their membership in trade unions. Collective agreements cover standard commitments, e.g. rights and obligations both of individual employees and the trade union organization. They become the source of law. In addition, agreements contain legally binding provisions, establishing the claims of all employees and delineating rights and commitments of parties to the agreement.

The participants of the bargaining are trade union bodies and employers respectively with the possible participation of the State. Trade unions can only bargain and conclude collective agreements for the benefit of all employees. The trade union body acts on behalf of a trade union organization, having been empowered in line with its Articles.

There are three levels of trade union bodies set down by Czech law. The State does not intervene in trade unions' rights on its autonomous stipulation of their internal matters. Still, levels are provided to specify what legal relations can be established among trade union organizations, employers and the State. The level of central trade unions' bodies is the narrowest range. This represents the top bodies of trade unions and covers confederations of trade union sectors. They act as a delegation in the Tripartite with the aim of mediating and harmonising labour and capital interests under state participation. The level of the sector trade unions has a broader range. This is the body, acting outside particular employers and it has a higher position than those working within. They are authorised to engage in collective bargaining with the employers' association on higher-level (sector) collective agreements. These are binding for all employers, on behalf of whom the agreement is concluded. It concerns also employers having no trade union organization or with a rank and file organization reporting to no higher body. Higher-level collective agreements should play the role of the source for law. For this reason the Act enables the extension of a higher-level collective agreement to be binding also for those employers who are not members of any employers' association. Trade union bodies at an enterprise or plant level are the broadest ranges. They represent employees, bargaining an enterprise collective agreement with an employer. The enterprise agreements guarantee at least that range of claims to employees requested by a particular higher-level collective agreement if in force and applicable. In the CR higher-level collective agreements cannot be negotiated in the public administration because no employer's social partner on such a level is established.

In these days prerequisites are created for the management to defend the rights of the State or owners. Also trade unions have become capable of accommodating their requirements to the economic situation and the employer's prospects. They have come to realise their own responsibility for the organization's efficiency and prosperity that are vital for maintaining and developing the quality of working as well as personal lives. It could be said that trade unions have embarked on cultivating relationships with the employer. Such relationships may eliminate confrontations and enable communication, discussion, partnership and participation at all levels, driven by the effort to achieve the objectives. Trade unions also concentrate on the application of legal mechanisms at regional, sector as well as enterprise level. At the same time collective bargaining tends to become decentralised and be held at the enterprise or even plant level. Thus labour, wages and social terms collectively agreed are more closely adjusted to budgets and social partners are able to respond flexibly to the market context. On the other hand, the attitude of Czech society to social dialogue can be characterized by words of TU representatives that citizens are still pretty cautious and that the rapid change of the political climate is difficult to expect (Hála, Kroupa, Veverková, 2008, p. 101-102). For example, since 2008 no strike alert or even strikes occur in the public administration.

In public services some sector trade unions do not have a corresponding employers' association, e.g. in public administration, so that trade unions cannot bargain for working, social and wage conditions in higher-level collective agreements and shift collective bargaining at the enterprise level.

2 Reform of the pay system in public administration

The common practice in collective bargaining in public administration is negotiation on the enterprise level with the aim to enter into a company collective agreement. However, the labour law as well as public budgets constrain social partners to set up changes in the statutory system of remuneration (Čornejová – Fassmann, 2004, p. 94).

Since 1st January 2007 the compensation of employees in public administration is regulated by Act No. 262/2006, the Labour Code⁵. The employee is ranked in the pay grade, according to the job description and required qualifications, and on a pay level in accordance with seniority. Pay scale is thus made up of grades (16) and levels (12) with fixed rates. The

⁵ Act No. 262/2006, Labour Code, as amended, and other regulations, including Government regulation No. 564/2006 Coll., of salaries in public services and administration, as amended, and Government regulation No. 222/2010 Coll., which defined the catalogue of jobs.

law thus determines strict rules for determining the guaranteed salary and the employer must necessarily follow them. However, there are some ways to appraise performance, i.e. depending on work results, using a merit pay, managerial extra pay or bonus. The employee, who achieves very good performance in the long term, the employer may provide a merit pay up to 50 % salary rate of the highest pay level in the grade in which the employee is ranked. If an employee is a highly qualified professional and included in the tenth grade and higher, his/her merit pay can reach up to 100 % salary rate. Grades are a total of 16, but in local and regional authorities employees are ranked up to 15 grades because job requirements for the highest grade meet only jobs in civil service.

From 1st January 2011 there is a legislation change dealing with determination of the amount of salaries in public administration. This is a consequence of the austerity measures of the government in connection with a curtailment of public budgets - the planned reduction of salaries by 10% for territorial authorities. Municipalities and counties may determine salaries of its employees within a range of pay tariffs and further they may negotiate with the employee ranked in the 13th grade and above a contractual salary⁶. Collective bargaining thus has a greater scope for achieving more favorable compensation package for employees of local and regional authorities. This opened the way for greater opportunities for collective bargaining in the area of salaries, for example, regarding the remuneration system and rules for utilizing tariff margins. So far collective bargaining was rather focused on non-guaranteed pays as well as benefits funded by the social funds.

3 Employment, salaries and labour costs in the period 2005-2010

Government policies and austerity measures are reflected in employment data, average wages and structures of labor costs in public administration. Statistical data are published by Czech Statistical Office for public administration, defense, and compulsory social security according to the CZ-NACE Section classification. In the period 2005-2010 employment in this sector decreased from 293 thousand of full-time equivalent (FTE) employees to 287 thousand, but it kept the same share of employment in the national economy, roughly at the level of 7,4 % (see Table 1). The most significant decrease is observed at 285.8 thousand FTE employees in 2008.

⁶ CMKOS. Knowledge of the economic environment and knowledge from practice - the basis of successful collective bargaining in public services and administration.5 July 2012.
<http://www.cmkos.cz/data/articles/down_3135.pdf>.

Tab. 1 Average number of employees (Thousand full-time equivalent employees)

	2005	2006	2007	2008	2009 ^{*)}	2010 ^{*)}
Total in the national economy	3 915,2	3 952,4	4 015,3	4 039,0	3 826,5	3 787,2
	100,0	100,95	102,56	103,16	97,73	96,73
Public administration and defence; compulsory social security (CZ-NACE Section)	293,0	294,5	291,5	285,8	291,0	287,2
	100,0	100,51	99,49	97,54	99,32	98,02

^{*)} Preliminary data in January 2012.

Source: Czech Statistical Office. 24 July 2012. Labour Statistics: Time Series Basic Indicators January 2012. <http://www.czso.cz/csu/2012edicniplan.nsf/engpubl/3107-12-eng_p1_2012>. Calculation by author.

Average monthly gross wages and salaries of employees are 22.245 CZK in 2005 and 26.998 CZK in 2010, which is traditionally above average wages in the national economy. However, the wage gap between public administration and the national economy becomes narrower year by year, mainly since 2008 when dynamics of average wages in the national economy surpasses the same indicator in public administration and in 2010 it reaches more than 9 percentage points (see Table 2).

Tab. 2 Average monthly gross wages and salaries of employees (CZK/full-time equivalent employees)

	2005	2006	2007	2008	2009 ^{*)}	2010 ^{*)}
Total in the national economy	18 283	19 447	20 927	22 653	23 425	23 949
	100,0	106,37	114,46	123,90	128,12	130,99
	.	106,37	107,61	108,25	103,41	102,24
Public administration and defence; compulsory social security (CZ-NACE Section)	22 246	23 292	25 042	26 367	26 818	26 998
Salaries in public administration/wages in the national economy (%)	121,68	119,77	119,66	116,40	114,48	112,73
	100	104,70	112,57	118,52	120,55	121,36
	.	104,70	107,51	105,29	101,71	100,67

^{*)} Preliminary data in January 2012.

Source: Czech Statistical Office. 24 July 2012. Labour Statistics: Time Series Basic Indicators January 2012. <http://www.czso.cz/csu/2012edicniplan.nsf/engpubl/3107-12-eng_p1_2012>. Calculation by author.

In the structure of labour costs of employees in the public sector a dominant share accounts for direct costs and this share increases slightly - from 68.7% in 2005 to 69.73% in 2010 (See Table 3). Indirect labor costs represent less than 1/3 of total costs in the period and their share decreases from 31.3% to 30.27%. The main part of indirect labour costs accounts for obligatory social costs and expenditures. The share of social benefits paid from the Fund of cultural and social needs (civil service) and the social fund (local authorities) declines as

well it is also reduced personnel costs. It can therefore be concluded that despite the reform of remuneration system it is hard to find an evidence of a shift of budgets from salaries to benefits and cuts are negatively reflected in savings in indirect costs.

Tab. 3 Structure of labour costs

		in %							Přírůst ek v p.b. 2010- 2005
		NACE Section				CZ-NACE Section			
		2005	2006	2007	2008	2008	2009	2010	
Costs in public administration and defence, compulsory social security									
Direct costs (Wages and salaries + wage compensation)		68,70	68,83	68,60	68,56	68,55	69,41	69,73	1,03
Indirect costs total		31,30	31,17	31,40	31,44	31,45	30,59	30,27	-1,03
Social benefits		3,69	3,62	3,92	3,89	3,90	3,62	3,55	-0,14
Social costs and expenditures		24,93	25,24	25,57	24,99	24,99	24,23	25,25	0,32
incl.	Statutory social security contributions	23,92	24,44	24,38	24,06	24,05	23,92	24,13	0,21
	Other	1,01	0,80	1,19	0,93	0,93	1,30	1,12	0,11
Personnel costs		2,87	2,52	2,05	2,89	2,90	2,32	1,92	-0,95
Taxes and subsidies		-0,19	-0,21	-0,14	-0,33	-0,33	-0,58	-0,46	-0,27
Total labour costs		100	100	100	100	100	100	100	.

Source: Czech Statistical Office. 24 July 2012. Labour Statistics: Time Series Basic Indicators January 2012. <http://www.czso.cz/csu/2012edicniplan.nsf/engpubl/3107-12-eng_p1_2012>. Calculation by author.

4 Collective bargaining in the period 2008-2011

The Information system of working conditions (2008-2011) analyzes collective agreements in the public service and administration, but not separately for territorial authorities. Notwithstanding it provides a picture of trends in collective bargaining in the area of remuneration. In the period 2008-2011 collective agreements register annual growth of average earnings and in 2011 for the first time negotiating pay cuts. The number of collective agreements, in which an annual salary growth is agreed, gradually decreases (37 collective agreements in 2008, 22 in 2009, 11 in 2010 and 5 in 2011). The same decreasing tendency exists in negotiating an average salary growth rate that is at the level of 4.2 % in 2008 and 2.5 % in 2011. As mentioned above about a change in 2011, a reduction of an annual salary is negotiated in 6 collective agreements by cuts of the total amount of pay funds and in 5 agreements by cutting some pay components. In this year the total number of collective

agreements negotiated in the public service and administration is also reported for the first time (322 collective agreements) and there are analyzed ways of pay negotiation. Salaries are managed according to the practice in 71 collective agreements, ranges of pay tariffs in 80 agreements and a contractual salary includes 4 agreements. Budget cuts thus have a negative impact on indexation of wages, and implementation of ranges of pay tariffs may determinate wage gaps which are hardly justified by performance appraisal with respect to characteristics of jobs in public administration.

Conclusion

In the era of the global financial crisis the Czech public administration is under severe cuts. Social partners in local authorities can negotiate working, pay and social conditions in the frame of strict law regulations. Social dialogue continues on the organizational levels, but collective agreements are not capable to contribute to weakening pay cuts. Austerity measures implemented by the Government are characterized by the following:

- the cuts are normally imposed rather than agreed with the unions,
- the mechanisms used to cut pay have almost always been decided on centrally,
- the cuts are linked to reform the pay system,
- cuts seem to be the first round of cuts as it is judged to be insufficient and it is predicted that pay will be reduced in coming years,
- elimination or reduction of variable pays, benefits and other indirect personnel costs,
- attempts to increase wage gaps between the higher paid and the lower paid due to the reform of pay system, although the budgets are cut.

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Contact

Zuzana Dvorakova

University of Economics, Prague, Department of Human Resource Management

W. Churchill Sq. 4, 130 67 Prague 3, Czech Republic

zdvorak@vse.cz