Austerity Measures in the Public Sector in Slovenia and Other Selected European Countries

*Stanislava Setnikar Cankar**
*Veronika Petkovšek***

UDK 336.13(4)EU
339.923:061.1>(4)EU
Review scientific paper / pregledni znanstveni rad
Received / primljeno: 3. 6. 2013.
Accepted / prihvaćeno: 21. 3. 2014.

The global financial and economic crisis has placed a heavy burden on the public finances of EU Member States, including Slovenia. The current priority of each country is to ensure the sustainability of public finances. In most EU countries, measures to consolidate public finances are aimed at reducing government expenditure. The aim of this paper is to outline and compare the current state of public finances in the selected EU countries – Slovenia, the Netherlands, France and Italy – and to outline and compare the austerity measures in these countries' public sectors, particularly as they affect civil servants. The comparison gives an insight

* Prof. dr. sc. Stanka Setnikar Cankar, profesorica na Fakultetu za upravu Sveučilišta u Ljubljani, Slovenija (Professor of the Faculty of Administration, University of Ljubljana, Slovenia, e-mail: stanka.setnikar-cankar@fu.uni-lj.si)

** Veronika Petkovšek, asistentica na Fakultetu za upravu Sveučilišta u Ljubljani, Slovenia (assistant of the Faculty of Administration, University of Ljubljana, Slovenia, e-mail: veronika.petkovsek@fu.uni-lj.si)

into the similarities and differences of the austerity measures in the selected countries as a first step to stabilization of economic situation. The need for measures, which would be a sufficient condition for economic growth, recovery, and unemployment reduction, is also indicated in the paper.

Key words: global financial and economic crisis, fiscal consolidation, austerity measures, public sector, international comparison

1. Introduction

The global financial and economic crisis has resulted in large macroeconomic imbalances, a sharp contraction of economic activity and rapid deterioration in the fiscal position of European countries. The current priority is, therefore, to ensure the sustainability of public debt in order to create greater macroeconomic stability. Radical structural interventions and structural reforms are needed if public finances are to be sustainable. These solutions must include the rationalisation of the public sector, with structural measures to increase efficiency. Governments have faced pressure to reduce public expenditure. The size of expenditure reductions and the timeframes adopted vary depending on their fiscal position.

The countries compared in the paper have been selected according to the share of public sector employees, as the austerity measures related to cutting public expenditure are particularly focused on public sector wage bill costs and salaries, which are mostly employment-related. In the European Union (EU), the public sector comprises a quarter of the workforce, but there are big differences between countries. France and the Netherlands have an almost identical share of public employment, around 29 per cent of total employment, while Italy's share is around 20 per cent and Slovenia's around 22 per cent (Bach, Stroleny, 2013; Statistical Information, 2012). As there are small differences in the shares of public employment between the selected countries, this paper will examine whether there are differences in the austerity measures being applied to their respective public sectors.

2. Fiscal Consolidation

Most EU countries have been faced with a deteriorating deficit and debt position since 2008. The reasons lie in a combination of effects of a sharp

contraction in the economic activity, which has reduced government revenues but has not been matched by a fall in expenditure, owing to an increase in social security and unemployment benefits. Consequently, there has been a rapid deterioration in the fiscal position of most EU countries (Bach, Stroleny, 2013). The global financial and economic crisis is therefore placing strong constraints on the majority of EU economies. A system of economic governance in the context of the so-called 'European semester' has been in place since 2011, aimed at strengthening fiscal discipline and introducing broader economic supervision and control. Under this scheme, Member States (MS) are obliged to follow the public finance situation more closely and to take the necessary steps to remedy the situation (Draft, 2012).

2.1. State of Public Finances in the Selected EU Countries

An important measure for assessing the sustainability of public finances is the level of public debt and deficit. A high government deficit over several years leads to accumulation of government debt. If the government debt becomes sufficiently large, governments may not have enough revenues to service it; deficit-reduction measures are then required in order to safeguard the fiscal sustainability of public finances. Fiscal sustainability concerns the long-term ability of governments to meet the financial obligations linked with their current debts and future expenditures (Zaidi, Rejniak, 2010). In 2012, most EU countries still formally had a deficit that exceeded the upper limit of 3 per cent of GDP permitted by the Stability and Growth Pact (SGP). All EU Member States' government deficits must not exceed 3 per cent of GDP and their debt levels must not exceed 60 per cent of GDP. The SGP sets out the parameters in which EU countries are required to manage their finances, and the enforcement measures that the EU may take if these parameters are breached (Bach, Stroleny, 2013). For most countries, including Slovenia, the European Commission (EC) imposed a deadline of 2012 and 2013 for reducing the deficit below the limit (Economic Issues, 2012).

In 2009 and 2010, the general government deficit in the eurozone and the EU exceeded 6 per cent. In 2011, the situation improved markedly, with the deficit in the euro zone falling to 4.5 per cent of GDP (EU average of 4.1 per cent). In 2012, most EU countries still formally had an excessive deficit. Public debt increased significantly in the EU in 2009 (74.8

per cent of GDP) and the eurozone (79.9 per cent of GDP), growth was slower in 2010 and 2011; and for 2012 the EC estimated a continuation of the growth of public debt, reaching 86.2 per cent of GDP in the EU and 91.8 per cent of GDP in the eurozone. The EC has estimated that, throughout this period, increased borrowing was primarily caused by high deficits and rising interest expenditure, along with the financing of extra-budgetary expenditures which the MS introduced to ensure the stability of their respective financial systems, particularly the recapitalisation of financial companies, as part of measures to tackle the crisis (Economic Issues, 2012).

Table 1. *Budget deficit and public debt in the selected EU countries, 2009–2012 (% of GDP)*

	2009		2010		2011		2012*	
	Budget deficit	Public debt	Budget deficit	Public debt	Budget deficit	Public debt	Budget deficit	Public debt
Slovenia	-6.0	35.0	-5.7	38.6	-6.4	46.9	-4.3	54.7
Netherlands	-5.6	60.8	-5.1	62.9	-4.7	65.2	-4.4	70.1
France	-7.5	79.2	-7.1	82.3	-5.2	86.0	-4.5	90.5
Italy	-5.4	116.4	-4.5	119.2	-3.9	120.7	-2.0	123.5
EMU	-6.4	79.9	-6.2	85.6	-4.1	88.0	-3.2	91.8
EU-27	-6.9	74.8	-6.5	80.2	-4.5	83.0	-3.6	86.2

Source: Economic Issues. Fiscal Developments and Fiscal Policy, 2012
* European Commission's estimate

In Slovenia in 2009, the budget deficit increased sharply to 6 per cent of GDP. There was no significant shift in 2010, but the state of public finances worsened further in 2011, with the deficit reaching 6.4 per cent of GDP. Due to past excessive deficits that exceeded 3 per cent of GDP, the EC launched an excessive deficit procedure for Slovenia at the end of 2009; with the country being obliged to reduce the deficit below 3 per cent of GDP by 2013 (draft Balancing of Public Finances Act, 2012). In 2009, compared to Slovenia, the budget deficit was higher in France (-7.5 per cent of GDP) but lower in Italy (-5.4 per cent of GDP) and the Netherlands (-5.6 per cent of GDP). In 2010 and 2011, the deficit fell in all the selected countries, except in Slovenia in 2011. In 2011, France reached

a deficit of 5.2 per cent of GDP, Netherlands 4.7 per cent of GDP and Italy 3.9 per cent of GDP. In 2012, the EC saw positive results towards reduction of the budget deficit: in Italy, it reached 2 per cent of GDP, in Slovenia 4.3 per cent of GDP, in the Netherlands 4.4 per cent of GDP and in France 4.5 per cent of GDP.

On the other hand, public debt in these countries was increasing throughout the period 2009–2011 period, reaching 46.9 per cent of GDP in Slovenia in 2011, 65.2 per cent in the Netherlands, 86 per cent in France and 120.7 per cent in Italy. The estimate for 2012 does not show any improvement, with public debt being predicted to increase even further in all these countries. Slovenia has a much lower public debt, which is still below the permissible limit of 60 per cent of GDP, while France, Italy and the Netherlands have repeatedly exceeded the permissible limit.

2.2. General Overview of Measures for Fiscal Consolidation

The measures to consolidate public finances in place in most EU countries aim at reducing public expenditure, mainly by streamlining the public sector, imposing employment restrictions, and introducing interventions in wage policy, social transfers and pension transfers. At the same time, countries are also applying measures on the revenue side, mainly by raising and introducing new taxes. In the short term, austerity measures are a necessary step to reduce the deficit below 3 per cent of GDP. At the same time, these measures do not provide for a sustainable reduction in the government deficit, as they can, in certain segments, lead to deterioration in the quality of public services in the medium term. Public sector employment measures are particularly focused on restricting new employment; this can, in light of the predicted retirement conditions and the medium-term restrictive wage policy, lead to deterioration in the quality of public services (Economic Issues, 2012).

Radical structural reforms and interventions are needed if public finances are to be sustainable. That includes further rationalisation of the public sector and restructuring that focuses on strengthening the role of development expenditure in order to promote competition and ensure a long-term sustainability of social security systems. There is also the challenge of creating a sustainable solution in terms of public sector employment that would, using a combination of more flexible employment and wage policies, ensure a more congenial environment for employees and employee

efficiency. Active employment policy measures and measures to promote economic growth are solutions which, together with measures to balance public finances, could lead countries out of the fiscal and economic crisis (Economic Issues, 2012)

3. Austerity Measures in the Public Sector in Slovenia

The first set of austerity measures was adopted in December 2008, followed by a new set of measures in February 2009. Public sector measures consisted mainly of the reconstruction of public infrastructure and the construction of broadband for public institutions. Measures in the public sector covered wage costs, organisational and staff-related measures, and measures to reduce the costs of material and technology for the functioning of state and public administration bodies (Measures, 2012). In March 2012, Slovenia adopted a package of proposed austerity measures to balance the public finances. These were measures related to internal savings in the public sector, as well as a raft of programmes and policies. The proposed internal savings measures included organisational measures to streamline costs, along with a number of other rationalisation measures. The proposed public sector measures included adjustments to the functioning of the public sector and adjustments in civil servants' salaries. The proposed measures referring to programmes and policies covered investment, subsidies and programmes, labour market policy and social security policy. The government sought to optimise public spending through organisational measures. These included the abolition of certain government bodies and transfer and redistribution of tasks to other government bodies. Through rationalisation, the government intended to merge and transform a number of public institutions, as well as to reduce budget funding (Draft, 2012).

The rationalisation of costs is one of the main segments of public sector austerity measures. The Slovenian government began to consolidate the expenditure side of the budget in 2012, which partly addressed public sector costs. The measures would reduce transport costs, phase out some types of education and reduce the price-technical standards for medical devices, preventing or reducing the costs of operations that involve public expenditure. With these measures the government aims, among other things, to tighten the criteria for the allocation of company vehicles, pre-

vent the establishment of new organisational units, transfer and merge public sector functions, cut allowances to members of parliament and reduce the size of consular offices. In addition, adjustments to the public sector could also be included in public sector rationalisation, as the public sector has failed to adjust to the requirements of society in the past. Due to the inflexibility of the system, the government prepared a set of adjustments to allow for the best possible performance (Balancing of Public Finances Act, 2012).

In May 2012, Slovenia adopted the Balancing of Public Finances Act (hereinafter: the Act), which aims to achieve the following objectives: ensure sustainable public finances, provide a legal framework for the effective management of public finances, ensure macroeconomic stability, provide for the sustainable and stable development of the national economy, and establish rules for stricter fiscal discipline. The Act follows the principles of prudent use of resources and the achievement of maximum impact in the implementation of certain tasks using minimum resources. One of the general solutions introduced by the Act is a reduction in public expenditure, with measures to reduce expenditure covering all areas. The Act has enabled the government to make much larger cuts to the salaries and other civil servants' benefits. The basic salaries of civil servants have been progressively reduced by 8 per cent, the protected salary has been abolished, and performance-related pay for increased workload in 2012 and 2013 ought not to exceed 20 per cent of the basic salary. The Act has restricted promotion to a higher pay grade and senior job title. It set the payment of the salary bonus for 2012 and reduced the bonus for 2013. The Act has also specified reductions in travel expenses, expenses for meals, long-service awards, social assistance, severance pay and mileage. It has reduced daily subsistence allowances and limited the duration of service contracts. The maximum number of days of annual leave has also been determined.

The increase in unemployment, lower wages and a lack of liquidity, as well as the current method of adjusting pensions, have given rise to additional transfers from the state budget to pension funds. Pension and disability insurance measures provide for the harmonisation of pensions and other pension and disability insurance benefits in such a way that, by the end of 2014, pensions and other benefits will no longer have been indexed and pension supplements will have been temporarily reduced (Draft, 2012). In December 2012, Slovenia adopted a new Pension and Disability Insurance Act, aimed at reforming the pension system, which entered into force in January 2013. New pension legislation foresees the adjustment

of the existing pension system to the new demographic and economic circumstances, ensures its long-term fiscal sustainability and stability, and provides for decent pensions for current and future generations of pensioners. The new pension legislation has introduced some vital changes to the pension system, which include: a gradual increase in the retirement age to 65 by 2020 (before the new Act was adopted, the retirement age had been 58 for men and 57 for women), a halt to the further decline in pensions, personal information records (greater transparency for greater solidarity), incentives for prolonged employment and the prevention of early retirement, raising of the accounting period for pension assessment to 24 years, increased flexibility and openness for partial retirement, pension adjustment (60 per cent of the average growth in gross wages and 40 per cent growth in average consumer prices), adjustments to the occupational scheme, and additional insurance to provide additional income (New Pension Legislation, 2012).

4. Austerity Measures in the Public Sector in Selected EU Countries

In most EU countries, measures to consolidate public finances are aimed at reducing government expenditure; these mainly include changes to the way the public sector is organised and to pension transfers. Most countries have begun to streamline the public sector and to freeze or reduce employment in that sector, with several countries also reducing public sector pay.

4.1. Netherlands

Structural fiscal consolidation measures are required to secure fiscal sustainability in the Netherlands. These focus on structural spending measures combined with reforms to boost employment and participation rates. The government is also preparing the business sector to face the ongoing challenges of globalisation, and to adapt labour market institutions to an ageing and shrinking labour force (OECD–Netherlands, 2012).

In 2010, the Netherlands adopted a programme of austerity measures that aimed to balance the budget by 2015 and identified the potentials for

reducing public expenditure. The biggest cuts were foreseen in the field of healthcare and social security, defence, the environment, and research and innovation. The measures also included reduction in the number of buildings owned by the government and reduction in employment (Review, 2012). The measures foresaw a reduction of around 10 per cent of government jobs. Government finances were affected more than it had been anticipated, so in November 2012 new austerity measures, with extra cuts, were announced. These included efficiency cuts and legislation to harmonise provisions on the dismissal of public sector employees. The measures had an impact on wages, with a wage freeze for public sector employees (central government and primary education) being introduced for 2012 and 2013. Local government has also felt the impact of austerity measures because of the reduction in central government funding of local authorities (Bach, Stroleny, 2013).

The savings had been expected to result in a gradual increase in the retirement age to 66 years by 2020 and to 67 years by 2025. However, the new measures adopted in November 2012, raised the retirement age to 66 by 2019 and to 67 by 2024. More employees will therefore have to work longer and pay taxes instead of receiving a pension; this is beneficial for the state budget (Bach, Stroleny, 2013).

4.2. France

France responded to the crisis quickly and effectively, with good macroeconomic policies designed to prevent greater deterioration in public finances (OECD–France, 2011). The measures presented in 2012 should ensure a reduction of the budget deficit for the current period and a reduction in the country's public debt. **Fiscal consolidation remains a priority and** deficit reduction efforts are to continue as planned. Moreover, public spending as a percentage of GDP is very high and needs to be reduced over time (OECD–France, 2013). By increasing competitiveness and exports, the measures would help increase employment and reduce unemployment (Review, 2012).

Measures relating to civil servants in France include: restrictions on employment; reductions in the number of civil servants, alongside reorganisation or non-replacement of one in two retiring civil servants; abolition of the index-linking of point values in relation to the retail price index; a freeze on salaries of members of the government and the President of

the Republic in order to balance public finances; reductions in the cost of government operations and ministries; and a 5 per cent reduction in the upper limit for the reimbursement of election campaign costs and financial assistance to political parties (Bach, Stroleny, 2013; Review, 2012).

Measures affecting pensioners include a speeding-up of pension reform from 2010, which will increase the retirement age to 62 years for a full pension or 67 years if the statutory 41.5 years of pension contributions are not completed. This pension policy has brought civil servants partly into line with the less favourable conditions applying to the private sector (Bach, Stroleny, 2013; Overview, 2012).

4.3. Italy

In Italy the global financial and economic crisis has caused a deep recession, which is placing particular constraints on economic growth. Therefore, under the plans of the Italian government, the priorities are structural reforms to enhance economic growth potential and the maintenance of a stable fiscal framework (OECD–Italy, 2011). The Italian government began to adopt measures to tackle the crisis in December 2011. Measures in Italy are divided into three major packages: the first (December 2011) contains measures to reduce public debt (stringent cuts and reductions in public spending), pension reform measures, tax measures and real estate control; the second (January 2012) addresses the deregulation and liberalisation of the economy and simplification of the bureaucratic system; and the third is concerned with economic growth, including measures to boost growth and competitiveness (Review, 2012).

Reforms considering civil servants are a part of the third package. Since 2008, recruitment has been curtailed in accordance with strict replacement ratios (10 per cent in 2009, 20 per cent in 2010 and 2011, 50 per cent in 2012). Special rationalization measures have been introduced in relation to schools and staff with flexible employment contracts. The freeze on recruitment was strengthened and extended in 2010, with cuts in the overall employment level of around 10 per cent expected by 2014. The national wage freeze was extended from 2010–2011 to 2013 and 2014. In the period 2011–2013, the wages and salaries of individual employees may not exceed the level of 2010. The economic benefits of career promotion have also been frozen, with a partial exemption of the variable component linked to merit or performance pay. Cuts have been ap-

plied to higher salaries: a cut of 5% on gross salaries of between €90,000 and 150,000, and a cut of 10 per cent on gross salaries of over €150,000 (Bach, Stroleny, 2013). In addition to these measures, there is a prohibition on the acceptance of gifts worth more than €150, and on expensive and non-urgent social events; seminars have also been abolished (Review, 2012).

With regard to pensioners, the following measures may be highlighted: a reform of the pension system for both private and public sector employees, raising the retirement age in 2012 from 61 to 66, to increase, in line with life expectancy, to 67 years for men and women by 2021. The value of pensions has been reduced by lowering the protection from inflation (Bach, Stroleny, 2013; Review of measures and reforms to address the financial and economic crisis by country, 2012).

5. Comparison between the Main Austerity Measures in the Public Sectors of the Selected Countries

Austerity measures affecting civil servants in the fields of employment and salaries do not differ significantly between the countries studied. In the field of public sector employment, all these countries face employment restrictions, an employment freeze or even a reduction in employment. The Netherlands faces a 10 per cent reduction in total government employment and Italy, in addition to an employment freeze, expects a 10 per cent reduction in overall employment by 2014. Slovenia and France have restricted employment, in France more specifically through the non-replacement of one in two retiring civil servants. The situation is very similar in respect to civil servants' salaries. The countries in question are facing measures to reduce or freeze salaries. Slovenia has reduced salaries by 8 per cent and Italy has reduced higher-level salaries by 5 per cent (for salaries between € 90,000 and 150,000) and 10 per cent (over € 150,000); Italy has also frozen salaries by 2014. Similarly, the Netherlands froze salaries for central government and primary education employees in 2012 and 2013, and France has frozen salaries for members of the government and the President of the Republic.

Table 2. *Comparison between the main austerity measures in public sectors of the selected countries*

	Measures by field			
Country	Employ-ment	Salaries	Other benefits and restrictions	Retirement
Slovenia	employment restrictions	8 per cent salary reduction	reduction in the salary bonus, reduction in travel expenses, meal expenses, long-service awards; restriction of performance-related pay, restrictions in promotion to higher pay grades, maximum number of days of annual leave	abolition of the index-linking of pensions and other benefits, reduction in pension supple-ments, gradual increase in the retirement age to 65 by 2020
Nether-lands	10 per cent reduction in the total number of government jobs	salary freeze for 2012 and 2013 for central government and primary education employees	efficiency cuts, harmoni-sation of the provisions for the dismissal of public sector employees, reduced funding from central government to local authorities	gradual increase in the retirement age to 66 by 2019 and to 67 by 2024
France	employment restrictions, non-replace-ment of one in two retiring civil servants	salary freeze for members of the government and the President of the Republic	reduction in costs of government operations and ministries, reduction in the reimbursement of election campaign costs and financial assistance to political parties	retirement age of 62 (67 if the statutory 41.5 years are not completed)
Italy	employment freeze, with expected cuts in over-all employ-ment of 10 per cent by 2014	salary freeze by 2014, higher-level salaries cut by 5 per cent (gross salary of €90,000–150,000) and 10 per cent (gross salary of over €150,000)	ban on accepting gifts worth more than € 150, abolition of expensive and non-urgent social events, seminars	retirement age of 66, increas-ing to 67 by 2021

Source: Bach, Stroleny, 2013; Review, 2012.

More differences appear in the field of other benefits or restrictions for civil servants. Slovenia, for example, has reduced the salary bonus, travel expenses, meal expenses and long-service awards. It has restricted performance-related pay and promotion to higher pay grades, and set a maximum number of days of annual leave. The Netherlands has made efficiency cuts, harmonised provisions on the dismissal of public sector employees, and reduced funding from central government to local authorities. France has reduced the costs of government operations and ministries, and the reimbursement of election campaign costs and financial assistance to political parties. Italy has banned the acceptance of gifts worth more than € 150, and abolished expensive and non-urgent social events and seminars. With regard to pension-related measures, again there is not much difference between the selected countries. All countries studied have increased the retirement age: France to 62 years, Slovenia to 65 by 2020, the Netherlands to 66 by 2019 and 67 by 2024, and Italy to 66 (with a further increase to 67 by 2021).

6. Economic Effects of Austerity Measures

The measures that have been adopted in relation to employment, salaries and other benefits in the public sector will contribute to the long-term sustainability of public finances. If the 3 per cent deficit limit is to be achieved, an intervention in employment, salaries and other employee benefits in the public sector cannot be avoided.

Public sector reforms, which should improve the efficiency of public spending, are expected to improve productivity performance in the long term. They are quite attractive at a time of fiscal consolidation (EPR, 2013). Accepted reforms and measures in the public sectors of the selected countries have positive and negative economic effects on budget deficit, public debt, GDP growth rate, unemployment rate and total domestic demand. Projections of economic effects of austerity measures show equal trends in all four selected countries in the years 2013 and 2014. Projections show that austerity measures will have positive effects on budget deficit, real GDP growth rate and total domestic demand. On the other hand, they will have negative impacts on public debt and unemployment rate in the selected countries.

Table 3. *Projections of economic effects of austerity measures in the selected countries*

	Budget deficit (per cent of GDP)		Public debt (per cent of GDP)		Real GDP growth rate (per cent)		Unemployment rate (per cent)		Total domestic demand growth rate (per cent)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Slovenia	-7.8	-3.4	63.8	68.1	-2.3	0.1	10.2	10.3	-5.2	-1.8
Netherlands	-3.7	-3.6	72.8	74.2	-0.9	0.7	6.4	7.0	-1.6	0.0
France	-4.0	-3.5	94.5	97.2	-0.3	0.8	10.7	11.1	-0.4	0.5
Italy	-3.0	-2.3	131.7	134.3	-1.8	0.4	11.9	12.5	-3.1	-0.7
Effect*	positive		negative		positive		negative		positive	

Source: OECD Outlook, 2013
* Economic effect is the same in all selected countries for each economic category.

Slovenia has made progress towards fiscal consolidation, as the government adopted an ambitious fiscal consolidation package with emphasis on cutting expenditures. Positive effects are also expected from the adopted pension reform in 2012. While the budget deficit in Slovenia is expected to fall further, the public debt will still rise, so fiscal consolidation should be continued. The fall in domestic demand will decrease in 2014 and the GDP growth rate will show a weak recovery in 2014 (in 2013 a negative growth rate is still expected). Unemployment in Slovenia will rise further. Policy decisions in Slovenia have mostly relied on temporary measures, cuts in public wage bill and reductions in discretionary expenditures. More structural reforms (besides pension and labour market reforms) and measures are needed (OECD Outlook, 2013; OECD–Slovenia, 2013).

The Netherlands implemented fiscal consolidation in 2013, but further measures have been intended for 2014, together with structural improvements in the budget. The budget deficit is still expected to exceed 3 per cent of GDP in 2013 and 2014. Public debt will continue to rise as well as the unemployment rate. The fall in domestic demand will stabilize in 2014, but remain weak. Therefore, only slow economic growth is expected in 2014 (slightly negative in 2013). Long-term fiscal sustainability will be secured by implementation of planned measures, such as increasing the retirement age in the state pension system, reducing the ageing-related spending growth etc. (OECD Outlook, 2013; OECD–Netherlands, 2012).

France is undertaking substantial fiscal consolidation efforts, as well, but there is still need for structural reforms that should include reducing inefficient public spending. One of the priorities is to reduce costs of the pension system in the short and medium terms. The budget deficit is expected to fall to 3.5 per cent of GDP in 2014, while the public debt will continue to rise. The unemployment rate is projected to continue to grow in 2013 and 2014. The domestic demand growth rate will become positive in 2014, as well as GDP growth rate. There are still many risks to worsen the economic situation if structural reforms are not sufficiently implemented (OECD Outlook, 2013; OECD–France, 2013).

Italy is expected to continue with fiscal tightening, together with government plans to keep the budget deficit at 3 per cent of GDP in 2013 and around 2.3 per cent of GDP in 2014. Policy should focus on limiting public spending and policy measures need to raise value-for-money. The government has already adopted several measures towards spending control in the future. Reductions in public spending refer to the entire public administration. An ambitious pension reform has been introduced and over the next decade, the main savings will come from higher retirement age, which will contribute to the long-term sustainability of public finances. However, while the budget deficit is expected to go under 3 per cent of GDP in 2014, Italy's public debt will continue to rise, reaching 134.3 per cent of GDP in 2014. The unemployment rate is also expected to rise further, which will have a negative impact on private consumption as well as on total domestic demand. The GDP growth rate is projected to increase slightly in 2014, while in 2013 it is still expected to be negative (OECD Outlook, 2013; OECD–Italy, 2013).

The situations from the selected countries show that continuing high unemployment rates can point to a risk that cyclical unemployment could become structural in the long term. Long-term unemployment will or maybe already has reduced short-term potential growth, due to consumers' savings and cutting back on consumption even further because of high unemployment rates (OECD Outlook, 2013).

7. Possibilities for Overcoming the Negative Effects of Austerity Measures

A comparison between austerity measures in the selected countries has made it possible to determine the differences and similarities between

them. At the same time, however, it has drawn attention to a number of effects of fiscal constraint that have been overlooked or at least not sufficiently considered. The public sector also generates GDP and has a significant impact on aggregate demand. Most of the measures adopted to restore public finances have had a negative impact on changes in the volume of demand.

In economic theory, there are different types of elasticity of demand that measure the size of the change in the volume of demand resulting from changes in demand factors. The austerity measures adopted have resulted in a decrease in government spending, which has affected demand in the market of goods and services. The cuts have reduced state demand (lower capital costs, postponement of new investments, decreased volume of public sector services, job cuts in the public sector), which has had a negative impact on economic activity in the private and public sectors: This has led to a major fall in GDP. Owing to a reduction in actual and expected income, the OECD estimates of the coefficient of income elasticity of demand were clearly too low (OECD Outlook, 2012).

In countries where governments have taken measures accompanied by strong downward predictions and threats, the response rate of demand has been even more pronounced. Household demand has also fallen, with a negative impact on total domestic consumption. A number of economists, including Stiglitz and Krugman, have warned of the negative effects of the radical austerity measures taken to balance public finances in 2012 and 2013 (Monastiriotis et al., 2013). Data for Slovenia for 2012 showed a decline in total domestic consumption, a reduction in average wages, particularly in the field of education and healthcare, a decline in government revenues, shrinking industrial production, a growth in living costs, and a fall in loans to domestic enterprises and households. Several promising shifts in demand were seen in January 2013 (Bole et al., 2013).

Even more worrying is the fact that unemployment is growing, not only in Slovenia but also in the EU as a whole and throughout the rest of the world. Selling more goods can only be secured by increasing demand. When governments adopt radical austerity measures or increase the competitiveness of the economy, more and more people remain jobless. Labour demand depends primarily on the economic activity and the employment system of the country, and only to a lesser extent on the price of labour. Until the economic crisis, the highest unemployment rate was recorded in the 'new' EU MS, chiefly in Poland, and between 2008 and 2012 in Spain, Greece and Cyprus (Bole et al., 2013). Unemployment increased the most in MS with flexible and administratively unregulated la-

bour markets, and with the move of production to cheaper environments. Countries which have managed to maintain their industrial production at home (Netherlands, Austria) have the lowest unemployment rates.

On one hand, unemployment is structural due to the privatisation processes; on the other hand, unemployment is also cyclical due to negative demand shock caused by the global economic crisis. The European social labour market changed significantly following the introduction of a capitalist economy to transition countries. In the traditional socialist model, full employment was the rule, regardless of economic performance. The system was therefore economically uncompetitive, as it sought to ensure a high level of social protection of the population. The economic crisis has brought a strong negative change in the labour market in particular, with the strongest impact of the downturn now being felt by temporary employees, part-time employees and the self-employed. Austerity measures in the countries studied have had an additional negative impact on employment opportunities, particularly for first-time jobseekers. Measures taken to tackle the biggest problem in modern society – the growing unemployment – have been ineffective.

Fiscal policy is one of the tools with which national authorities support an active economic policy of macroeconomic stabilization (Mencinger, Aristovnik, 2013). The measures adopted to restore public finances are defined as a necessary first step – one that needs to be followed by measures to create jobs and employment opportunities for the unemployed and first-time jobseekers. Governments need to allocate additional resources to the promotion of self-employment and enterprise by offering assistance in starting a business, investing in the necessary infrastructure and financing new projects. Financing new projects for existing companies through the banking system has to become a common form of business. Stabilisation of the banking system, without new borrowing in public finance, is therefore necessary. The policy of privatising profits from the past and socialising current losses in the economy resulting from privatisation is socially unacceptable.

8. Conclusion

The global financial and economic crisis is placing strong constraints on most EU Member States. The crisis has brought about new policy challenges and the necessity of structural reforms has become more apparent.

The need to consolidate public finances and to manage pressure from the sovereign debt crisis in a more sustainable way has led governments to announce and implement structural reforms in the areas of civil servants, pension schemes, labour market policies and social transfers. These reforms will help promote economic growth potentials and restore price competitiveness and fiscal sustainability (Structural Reforms, 2012).

In 2011, the EU countries examined in this paper still had a deficit that exceeded the upper limit of 3 per cent of GDP permitted under the Stability and Growth Pact. The European Commission estimated positive results in 2012 towards reduction of the budget deficit. However, among the countries examined only Italy was expected to achieve this level in 2012. With regard to public debt, all the selected countries, with the exception of Slovenia, exceed the upper limit of 60 per cent of GDP, with estimates for 2012 showing no improvement.

Owing to the excessive budget deficit and public debt, austerity measures designed to consolidate public finances are a necessary step towards reducing the deficit below 3 per cent of GDP. Measures to consolidate public finances aim to reduce public expenditure, mainly by streamlining the public sector, imposing employment restrictions, and introducing interventions in wage policy, social transfers and pension transfers.

A comparison between the austerity measures shows us that those measures affecting civil servants in the fields of employment and salaries do not differ significantly between the countries studied. In the field of public sector employment, all the countries studied face employment restrictions, employment freeze or even reduction in employment. The situation is very similar in the field of civil servants' salaries. These countries are faced with measures to reduce or freeze salaries. More significant differences appear in relation to other benefits or restrictions for civil servants. With regard to pension-related measures, there is not much difference between the selected countries – all of them have increased the retirement age. As the results of the comparison only show minor differences between the countries, we can assume that the consequences of the measures for public sector employees will not differ a great deal from country to country, as the shares of public employment in total employment do not differ much either.

The public sector also generates GDP and has a significant impact on aggregate demand. Most of the measures adopted to restore public finances have had a negative impact on changes in the volume of demand. The austerity measures adopted have resulted in a decrease in government

spending, which has affected demand in the market of goods and services. The cuts have reduced state demand, which has had a negative impact on economic activity in the private and public sectors. Austerity measures are the first step, which should be followed by the measures to promote employment, to make new jobs available and to make new chances of employment.

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AUSTERITY MEASURES IN THE PUBLIC SECTOR IN SLOVENIA AND OTHER SELECTED EUROPEAN COUNTRIES

Summary

The global financial and economic crisis has placed a heavy burden on the public finances of EU Member States, including Slovenia. The current priority of each country is to ensure the sustainability of public finances. In 2012, the majority of EU countries still officially had an excessive deficit, i.e. one that exceeded the permitted level of 3 per cent of GDP. In most EU countries, measures to consolidate public finances are aimed at reducing government expenditure, and mainly include changes to the organisation of the public sector, social security and pension schemes. Most countries have had to face public sector wage reductions, combining wage cuts and wage freezes with employment reductions and other changes to employment conditions. The aim of the paper is to outline and compare the current state of public finances in the selected EU countries – Slovenia, the Netherlands, France and Italy – and to outline and compare the austerity measures in these countries' public sectors, particularly as they affect civil servants. The comparison gives an insight into the similarities and differences of the austerity measures in the selected countries as a first step to stabilization of economic situation. The negative consequences of the adopted austerity measures have to be taken into consideration, too. The need for measures, which would be a sufficient condition for economic growth, recovery, and unemployment reduction, is also indicated in the paper.

Key words: *global financial and economic crisis, fiscal consolidation, austerity measures, public sector, international comparison*

MJERE ŠTEDNJE U JAVNOM SEKTORU U SLOVENIJI I DRUGIM ODABRANIM EUROPSKIM ZEMLJAMA

Sažetak

Globalna financijska i ekonomska kriza iznimno je opteretila javne financije država članica EU, uključujući i Sloveniju. Trenutačni prioritet svake zemlje jest osigurati održivost javnih financija. Većina zemalja članica EU je 2012. godine službeno još uvijek imala prekomjerni deficit odnosno deficit im je prela-

zio dozvoljenu razinu od 3% BDP-a. Mjere za konsolidaciju javnih financija usmjerene su na smanjivanje javne potrošnje te uglavnom uključuju promjene u organizaciji javnoga sektora, socijalne sigurnosti i načinima umirovljenja. Države članice morale su se suočiti sa smanjivanjem plaća u javnom sektoru, kombinirajući smanjivanje i zamrzavanje plaća sa smanjenjem zapošljavanja te drugim promjenama uvjeta zapošljavanja. Cilj rada je prikazati i usporediti sadašnje stanja javnih financija u odabranim državama članicama EU – Sloveniji, Nizozemskoj, Francuskoj i Italiji – te prikazati i usporediti mjere štednje u javim sektorima navedenih zemalja, posebno one koje se tiču javnih službenika. Usporedba daje uvid u sličnosti i razlike mjera štednje koje primjenjuju odabrane zemlje kao prvi korak prema stabilizaciji gospodarskog stanja. Negativne posljedice usvojenih mjera štednje također se moraju uzeti u obzir. U radu se navodi i potreba za mjerama koje bi potaknule gospodarski oporavak i rast te smanjile nezaposlenost.

Ključne riječi: *globalna financijska i ekonomska kriza, fiskalna konsolidacija, mjere štednje, javni sektor, međunarodna usporedba*