

## COLLECTIVE LABOR RELATIONS IN CZECH PUBLIC ADMINISTRATION IN AN ERA OF AUSTERITY

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**Abstract.** Industrial relations in public administration are under severe pressure across EU countries. Government priorities shifted towards fiscal consolidation with consequences for employment and labor relations. The paper deals with collective labor relations in Czech public administration and explores whether and how the institutions of social dialogue have moderated the impact of public expenditure reductions on industrial relations. Austerity measures of the Government include: 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 of the pay system; cuts seem to be the first round of cuts as it is judged to be insufficient; 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. The major findings based on observations, data mining, and statistics analyses show that social dialogue in public administration was not applied as a method of weakening of austerity measures in 2008-2011.

**Keywords:** collective labor relations, public administration, local governments, trade unions, employers, collective bargaining, pay system.

**Jel classification:** J45, J51, J52, M50.

### 1. 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 (Bach, Kessler, White 2005; Baccaro *et al.* 2010; Onaran 2011). 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.

The paper aims to analyze collective labor relations in Czech public administration in the era of austerity measures. The question is how the crisis in 2008-2011 has affected employment and wage conditions in the sector, what measures are taken in the pay system and whether social dialogue plays any role in weakening consequences of budget cuts. Findings are included into the two projects: firstly „Social dialogue and the public services in the aftermath of the economic crisis: strengthening partnership in an era of austerity”, reg. No. VP/2011/001/0460, financed by the European Commission, and secondly „Competitiveness” registered by the Ministry of Education, Youth and Sport under reg. No. IP300040; part „Resources and perspectives of European economy development”. The methodology of this paper is based on observations, analyses of official statistics, and data mining in the area of collective labor relations.

## **2. Collective labor relations in public administration of the Czech Republic**

### **2.1. Social partners**

#### **2.1.1. Trade unions**

Citizen associations, trade unions and social partnership – the Tripartite are major mediators and interest-representing institutions beside political parties (Crouch 2000; Dvorakova *et al.* 2012). 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 (Kroupa *et al.* 2004). 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 30 trade unions, including the Trade Unions of State Authorities and Organizations (OSSOO). 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 organized in the unions, while “in 2003 approximately 30% of employees belonged to trade unions” (Čornejová, Fassmann 2004). In the first decade of the 21<sup>st</sup> century political, economic as well as social conditions did not encourage the manual and administrative staff to set up trade union organizations or become trade union members. In fact, an

average citizen was not faced with a critically escalated labor or social situation until 2008 (Meardi *et al.* 2009; Hala 2009). Therefore, neither membership of trade unions nor involvement in trade union activities was considered as efficient ways to protect rights and/or negotiate better conditions.

The relations between the Government and the CMKOS are currently due to the ongoing reduction of the state budget rather strained and in recent years they resulted in several protests and strikes. Despite this apparent disagreement of trade unions with government proposals the reforms and budget cut measures are usually enforced by the right-wing government that has a support by the majority of right-wing parties in the Chamber of Deputies of the Czech Republic.

Among the important activities of trade unions are projects in which the CMKOS and its member unions play a significant role, and that have considerable importance in the area of collective bargaining. Among the most important activities in recent years include the following projects:

- Strengthening social dialogue, with emphasis on the modernization of institutions, human resources development and the development of quality services provided by social partners (2008 - 2010),
- Expanding and improving the range and quality of services provided to employees through social dialogue and development of human resources of the social partners - CMKOS and ASO (2010 - 2012).

CMKOS is active among others in the collection of statistical data relevant to public awareness, social partners and other institutions. It is a member of the Commission, which manages and coordinates work connected with „Information system of the labor cost”, which includes „Information system on working conditions” (ISPP). This is a regular annual survey on wage and working conditions in collective agreements for the relevant year, the output of which is a list of commitments that were agreed upon in collective agreements, business and public sectors (Informační systém o pracovních podmínkách 2008, 2009, 2010, 2011). For specifics, which characterize bodies of municipalities and regions were specially allocated data relating to these organizations. Obligations arising from collective agreements are put down by trade unions or regions. Responsibility for data collection is carried out by the Ministry of Labor and Social Affairs.

The Act imposes an obligation to save higher-level collective agreements on the Ministry of Labor and Social Affairs and in no way it regulates any storage of enterprise collective agreements. Therefore CMKOS created its own system of monitoring enterprise collective agreements, through which monitors the extent of collective bargaining at the level of basic (local) trade unions and the number of employees to which the content of collective agreements apply. Initially, data were collected manually, but in 2010 as a part of the project “Expanding and improving the range and quality of services provided to employees through social dialogue and development of human resources of the social partners” there was introduced an “On-line system on the scope of collective bargaining” which makes collecting data significantly easier.

### **2.1.2. Employers associations**

Several employer organizations operate in public services, nevertheless, their associations are focused on defending interests of their members especially at the level of government and other institutions involved, or they pursue also other aims (e.g. they carry out education, expert activities, they represent their members externally, etc.). None of these organizations is involved in collective bargaining.

## **2.2. Collective bargaining – an important part of social dialogue**

Common legal provisions on collective bargaining were laid down in the time of overall social reforms. The Act 2/1991 of Coll., on Collective bargaining regulates collective labor 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 (Hala, Kroupa, Veverkova 2008; Hala 2010). 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.

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 (Čornejová *et al.* 2011). 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 (Dvorakova *et al.* 2012). 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 and covers confederations of trade union sectors. They act as a delegation in the Tripartite with the aim of mediating and harmonizing labor 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 authorized 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 realize 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 (Baccaro, Simoni 2010; Mitchell, Parker, Giles 2011; Resick *et al.* 2011). 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 decentralized and be held at the enterprise or even plant level. Thus labor, wages and social terms collectively agreed are more closely adjusted to budgets and social partners are able to respond flexibly to the market context (Veverkova 2009). 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 (Hala, Kroupa, Veverkova 2008). For example, since 2008 no strike alerts or strikes appear in public administration.

In public administration trade unions do not have a corresponding employers' association so trade unions cannot bargain for working, social and wage conditions and conclude higher-level collective agreements. Collective bargaining is therefore shifted at the enterprise level.

### **3. Measures affecting wages in public administration**

#### **3.1. Legislative framework of labor relations**

Changes made in the area of employee relations in public administration in the 90s years are now assessed as inadequate (Hendrych *et al.* 2012; Odvarkova 2012). No system of dealing with employee relations was implemented, but formed legal regulations related to various groups of public employees. For example, there was a supplement of the Labor code covering the obligation to act and make decisions impartially, to maintain confidentiality, not to accept gifts and other benefits, limit business activities, etc., or was modified remuneration for public sector workers. The remains of this trend are seen even today. Important laws concerning public services were adopted in 2002 - the Act No. 218/2002 Coll., on Civil service, and Act No. 312/2002 Coll., on Public servants of self-governing territorial units.

Employment relations in municipal authorities have a private nature with public elements (terms of employment). These relations regulate the Labor code and the mentioned Act No. 312/2002 Coll. Employees of public enterprises, public services and workers performing auxiliary and service activities in public administration have in most cases the same employment conditions as employees in the private sector.

Currently past approaches to the reform of public administration are reviewed, incl. a draft of a single legal regulation of employment relations of civil servants and officials of territorial self-governing units (Odvárkova 2012). The Government approved the legislative intent of a new act on officials and employees of public administration. This act should replace the Act No. 218/2002 Coll. and the Act No. 312/2002 Coll. The Ministry of Interior in relation to the draft prepared a proposal of thesis of the mentioned act, which the Government approved in February 2012. An articulated version of the act should finish the Ministry by the end of September 2012.

The decision to create a specific legal regulation is conditioned by trends in approaches to Czech public management, which are based on implementation of management techniques and introduction of elements of the contract system in public services. As follows from the analysis of complex adjustments of the legal status of employees in public administration, carried out by the Ministry of Interior, the preferred variant is that in the new legislation employment relations will be subject to the Labor code and the new act will only regulate necessary public elements. This would result in penetration of employment elements of the private sector into public management, and to a greater inclination to the contract system. This liberal approach is to some extent applied in the Act No. 312/2002 Coll., on public servants of territorial self-governing units.

The result of the reform should be to achieve the efficiency of resources allocation and cancellation of the system that rewards obedience more than creating new values and which promotes inefficient practices because it values activities below the required level of quality. Therefore, this represents a concept of a greater

blurring of boundaries between state (public) and private spheres and the application of Labor code in employment of public servants.

### **3.2. Reform of the pay system**

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. The labor law and public budgets constrain social partners to set up changes in the statutory reward system (Čornejová, Fassmann 2004).

Since 1<sup>st</sup> January 2007 the compensation in public administration is regulated by Act No. 262/2006 Coll., Labor code, as amended. 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 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 1<sup>st</sup> 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 salary (Čornejová *et al.* 2011). 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.

## **4. Collective agreements in public administration in years 2008-2011**

The Information system of working conditions (2008-2011) analyzes collective agreements in public administration, but not separately for local governments. Notwithstanding, it provides a realistic 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.

## **5. Attitude of trade unions to compensation in public administration**

The Trade Unions of State Authorities and Organizations unions (OS SOO) defend the interests of employees in public administration as a whole. Representatives of the Union, like the CMKOS leaders, comment on current events and present their proposals to the forthcoming legislation.

The TU attitudes to the Government measures carry in most cases a very negative manner. Opinions of the Union are evident negative attitudes, in particular towards current measures related to public budget cuts. An example might be a situation that occurred in 2010, when the Government came up with suggestions on how to achieve their goals because of its commitment to reduce the amount of salaries in the public sector, and opinions of the Union was always fundamental disagreement with all the submitted proposals.

Wage conditions bargained in collective agreements by OS SOO during the years 2008-2011 documented a decreasing trend of liabilities - annual wage increases gradually declined from year to year. In 2008 the wage increases were agreed in 20 collective agreements and in 2011 it was only one case of this commitment. This phenomenon is caused by implementing government measures that limited budgets on salaries. As regards the conditions associated with merit pays, bonuses and other rewards, the trend is still the same during the last years. Even in other areas, which include creation of a social fund, conditions for trade union activities or enterprise social care, the situation is not significantly changed and it can be observed a very similar trend.

In 2011 the ISPP had to modify analyzed data - because of legislative changes in the pay system – and new areas of screening were included in this information system, among which were annual salary reductions and practices of determining



or negotiating salaries. Four cases of collective agreements in 2011 recorded cuts of salary budgets and the same number of cases also a reduction of some pay components. A commitment to determine salaries by the number of years of eligible work appeared in 26 collective agreements and a commitment to determine salaries by applying the pay range was negotiated in 18 collective agreements and one collective agreement covers an obligation to negotiate a contractual salary.

## 6. Conclusions

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 with many obstacles 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:

1. Cuts are normally imposed rather than agreed with the unions,
2. Mechanisms used to cut pay have almost always been decided on centrally,
3. Cuts are linked to the reform of the pay system,
4. Cuts seem to be the first round of cuts as it is judged to be insufficient and it is predicted that pays will be reduced in coming years,
5. Elimination or reduction of variable pays, benefits and other indirect personnel costs,
6. Policies to broaden wage gaps between the higher paid and the lower paid due to the reform of the pay system, although budgets are cut.

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