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Collective Bargaining in the Public Sector

On October 22 and 23, collective bargaining in the public sector will enter its third and possibly decisive round. The trade union ver.di is demanding 4.8 percent more pay, or at least EUR 150, for federal and municipal employees. While collective wage settlements apply only to salaried employees in the first instance, they are usually also adopted for civil servants. What should we make of this demand – and what is an appropriate wage settlement in the current situation?

A Settlement with Considerable Impact

How much the approximately 4.9 million employees and civil servants in the public sector earn is a key concern for Germany's entire population, for two reasons: first, those public sector wages are financed by all citizens through the taxes and duties they pay. In 2019, the public sector wage bill amounted to EUR 308 billion – almost as much as the entire federal budget. Second, all citizens benefit from high-quality public services. But quality isn't cheap – and that's why, understandably, trade unions put the emphasis solely on the performance side. ver.di, for example, is entering the bargaining round with the slogan "We're keeping things running." In contrast, the spotlight is very much on the cost side for interest groups such as the German Taxpayers' Association, which complained after the last public sector wage increase that "The big losers in the latest collective wage settlement for the public sector are taxpayers across Germany."

What Justification Is There for Sizable Wage Increases?

One argument in favor of wage increases is that it is important to support overall economic demand, especially in the current recession. However, there is a question mark over how effective a higher public sector wage settlement can really be in this regard. Government employees and civil servants are not among those who were obliged to spend less during the crisis due to a loss of income. Moreover, as a rule they do not have to fear dismissal. If they did reduce their spending, it is probably because the coronavirus pandemic meant shops were closed and vacations had to be cancelled. As a result, they saved more than usual. This means it is highly unlikely that a higher wage settlement will push up their consumption to any great degree.

Another argument for higher wages is that the public sector needs to be an attractive employer if it is to provide the quality and quantity of services that citizens expect. Complaints abound that it is difficult for public employers to recruit personnel such as IT experts, high-caliber lawyers, and health care professionals. Particularly in conurbations with a high cost of living, a job in the public sector is no longer considered desirable. This is a compelling argument. But it calls for greater differentiation by qualifications and regions rather than across-the-board wage increases.

What Are the Arguments Against?

Wage moderation is necessary, especially in view of the current state of public finances. In 2019, back when the economy was in better shape, the trade unions had demanded a wage increase of 6 percent for employees of Germany's federal states. Frank Bsirske, who was ver.di trade union president at the time, reasoned as follows: "The Länder do particularly well when the economic and employment situation is good. They should let employees share in this. Given how tax revenue has grown, the money is definitely there to finance a significant wage increase."

Going by this argument, wage increases would probably have to be skipped in 2020, now that the economy is faltering and tax revenues are collapsing.

And what about the popular suggestion that the public sector wage settlement should take wage trends in the rest of the economy into account? One could argue that raises for the civil service would be fair if its wages had lagged behind general wages in recent years. But this is not the case. From 2009 to 2018, collective earnings in the public sector rose by around 24 percent in nominal terms. The average across the entire economy was 25 percent, so the civil service is not far behind. At the same time, there is no denying that public sector employees have benefited greatly from their job security in the current crisis. This, too, is an argument for restraint in wage increases, which must also be financed by those taxpayers who are worried about their jobs.

Nuanced and Moderate Wage Increases

Overall, the arguments are stronger for a moderate wage round. However, it should be nuanced. In areas where the civil service has difficulty in attracting qualified staff, it makes sense to have more scope for better pay.

One of the great traditions of collective bargaining in Germany is that it factors in responsibility for the economy as a whole. It is particularly important to continue this tradition in the current bargaining round.

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