# Special feature: Compensation reforms since 2008

Compensation reforms are used to alter the size and structure of pay and benefits packages for the public sector workforce and have a direct impact on the overall cost of government. The 2008 financial crisis presented a dual challenge for most OECD governments: how to restore financial sustainability while also maintaining high quality service delivery in times of rising demand. Given that employee compensation accounts for 45.6% of OECD countries' production costs, compensations reforms have been a common response to these challenges. Significant reforms to employees' compensation packages can be difficult to undertake, as they often involve union negotiations and other legal and political complexities. Additionally, when compensation reductions are implemented, they can have negative repercussions on worker motivation, which can undermine productivity and efficiency.

Between 2008 and 2013, almost all OECD countries introduced compensation reforms in their central governments. Altogether 15 OECD countries have frozen remuneration (sometimes for certain categories of staff), and seven countries cut remuneration levels for all categories of staff.

Portugal implemented wage cuts, suspended performance bonuses and decreased overtime pay. Spain has implemented a salary cut and in 2012 the extra December payment was not paid, although 25% of this payment was later refunded. In Poland, since 2009, pay in the civil service has been frozen, the pay scale has been changed and a special bonus was eliminated. Hungary eliminated the 13th month salary. Estonia abolished career-based salary components, such as additional remuneration for tenure, foreign languages and academic degrees. In Belgium the reforms slowed down the career advancement of employees. In Germany, seniority is no longer taken into account for middle and top management in setting their pay. In Czech Republic the average salaries for top-level managers increased while the overall budget for remuneration was decreased by 10%, resulting in a decrease of salaries for many regular staff and an increase in salaries for some managers. Italy introduced limits to top-level managers' wages and also reduced compensation levels especially for the top-level. Ireland reduced the cost of its public service paybill by 20% in seven years through universal and progressive wage cuts, a pay freeze, a pay cap for senior officials, reduced rates for new entrants, eliminating performance bonuses and certain allowances, and reducing rates of overtime and other non-core pay.

Some countries, however, did not experience drastic reforms. Australia, Austria, Belgium, Chile, Germany, the Netherlands, New Zealand, Norway, Sweden, Switzerland and the United States have not cut remuneration levels.

Performance-related pay, which has become a more common practice in many OECD governments in recent years, may be declining as a result of budgetary constraints. Since 2008, nine OECD countries have reduced bonuses, allowances and performance-related pay. However Greece introduced performance-related pay in 2014.

### *Methodology and definitions*

Data were collected through the 2014 OECD Survey on Managing Budgetary Constraints: Implications for HRM and Employment in Central Public Administration. Respondents were predominantly senior officials in central government HRM departments, and data refer to the HRM practices in central government undertaken between 2008 and 2013. The survey was completed by all OECD countries except Denmark, Iceland, Israel, Luxembourg, and Turkey. Central public administration is defined, for the purposes of this survey, as organisations that are directly subordinated to national political power and are at the service of the central executive. The size and breadth of central public administrations vary significantly across countries and should be considered when making comparisons. In Table 6.1 the difference between moderate and frequent use was not quantitatively defined.

## Further reading

Said, T., J. Le Louarn and M. Tremblay (2007), "The Performance Effects of Major Workforce Reductions", *International Journal of Human Resource Management*, Vol. 18, No. 12, pp. 2075-94.

Vaughan-Whitehead, D. (ed.) (2013), *Public Sector Shock: The Impact of Policy Retrenchment in Europe,* Edward Elgar Publishing Ltd, Cheltenham.

## Figure notes

For the explanation of the options included in the category "Other", please refer to the statlink: *http://dx.doi.org/10.1787/888933248795*.

**Australia**: The reforms contributed to cost control and containing wage growth. **Austria**: No reforms have been undertaken, but remuneration was affected by a series of wage increases below inflation. **Japan**: The National Public Service Act stipulates that the remunerations of national public employees may at any time be changed by the Diet to bring them into accord with general conditions of society. **New Zealand**: Public sector wage growth has been slowed down and specifically has lagged private sector wage growth since 2010. **Slovenia**: There have been restrictions of promotions. **Colombia**: According to the jurisprudence of the constitutional court, it is not possible to reduce the salaries of public sector workers.

### 6.1. Compensation reforms implemented since 2008

| | Implementation of remuneration reforms in the central public administration since 2008 | Type of remuneration reforms implemented: | | | | | |
|---|---|---|---|---|---|---|---|
| | | Reduction of remuneration specifically for top-level | Reduction of remuneration for all staff | Reduction or abolishment of allowances (e.g. Christmas allowance, 13th month salary) | Reduction of performance-related-pay/bonuses | Pay freeze | Other |
| Australia | ● | | | | | | ✓ |
| Austria | ❍ | | | | | | |
| Belgium | ● | | | | | | ✓ |
| Canada | ● | | | ✓ | | | |
| Chile | ❍ | | | | | | |
| Czech Republic | ● | | | | | ✓ | ✓ |
| Estonia | ● | | | ✓ | ✓ | ✓ | ✓ |
| Finland | ❍ | | | | | | |
| France | ● | | | | | ✓ | |
| Germany | ● | | | | | | ✓ |
| Greece | ● | ✓ | ✓ | ✓ | | ✓ | |
| Hungary | ● | ✓ | | ✓ | ✓ | ✓ | |
| Ireland | ● | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Italy | ● | ✓ | | | ✓ | ✓ | |
| Japan | ● | | | | | | ✓ |
| Korea | ● | | | | | ✓ | |
| Mexico | ● | ✓ | | | | ✓ | |
| Netherlands | ❍ | | | | | | |
| New Zealand | ● | | | | | | ✓ |
| Norway | ❍ | | | | | | |
| Poland | ● | | | | ✓ | ✓ | |
| Portugal | ● | | ✓ | ✓ | ✓ | ✓ | |
| Slovak Republic | ● | | | ✓ | | ✓ | |
| Slovenia | ● | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Spain | ● | | ✓ | ✓ | | ✓ | |
| Sweden | ● | | | | | | ✓ |
| Switzerland | ❍ | | | | | | |
| United Kingdom | ● | | | | ✓ | ✓ | |
| United States | ❍ | | | | | | |
| **OECD Total** | | **5** | **5** | **9** | **8** | **15** | **9** |
| ● Yes | 22 | | | | | | |
| ❍ No | 7 | | | | | | |
| Brazil | ● | ✓ | | | | | |
| Colombia | ● | | | | | | ✓ |
| Latvia | ● | | ✓ | ✓ | ✓ | | |

*Source:* 2014 OECD Survey on Managing Budgetary Constraints: Implications for HRM and Employment in Central Public Administration, OECD, Paris.

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