

Wage Adjustment for Public Employees: Concerning Issues of the Agreement

Although reaching an agreement is a very positive achievement for the government, the adjustment involves a great fiscal cost. It is useful to fully analyze the adjustment's fiscal cost, since it shows certain aspects that can remain concealed in the immediate discussion, such as the negotiation being much more than an increase figure and that the strong expansive trend of the former government's adjustments is apparently continuing in the current administration.

For the first time since 2007, the government came to an agreement with the main trade union organization for public employees (the ANEF) upon the wage adjustment for 2013. This is no doubt good news, since it helps mitigating the social conflict atmosphere of the last two years.

At first, we could think that the government obtained a relevant triumph, considering that the ANEF requested an 8.5% increase, the Government offered 4% and they finally accepted 5%, a figure closer to the initial government's position. However, true facts of the last six years show that public employees have obtained important benefits, above the nominal adjustment, which account for the results derived from the comparison of different CASEN Surveys.

As we showed in Public Issues Nr 1.087ⁱ, the income situation of public employees has significantly improved, compared with those of the private sector; in 2011 there was a 4.2% gap in favor of the former.ⁱⁱ Table 1 details the fiscal cost of the adjustment and other benefits for the period 2006-2013, where we appreciate the extent of the figures. The adjustment granted for 2013, for example, has a fiscal cost of US\$1,900 millions, that is, a twofold equivalent of the tax reform. Finally, the discussion about the fiscal adjustment is by far the most expensive bill every year, which shows its extreme importance for the stability and sustainability of public finances.

If we see it this way, the 2013 adjustment was high, considering that this cost was given in a moderate inflation context. In this perspective, it was quite superior from that of the two previous years, which could explain the lesser complexity of the discussion. The higher cost is partly explained by the allocation of a holidays bonus which had not been granted before (US\$94 millions), and the trouble is that it could set a precedent hereon.

When integrally analyzing the fiscal adjustment, we observe that its cost sharply increased during the former government (another sample of the expansive fiscal policy of that period). Moreover, the adjustment given at the end of 2009, with a 12-month negative inflation at the moment, was quite generous in terms of fiscal cost, partly because additional benefits were granted.

If we closely observe the adjustment, we can see that during the current government's first year a pretty significant moderation of the fiscal cost was achieved, but it tended to reverse in the last two years, and the adjustment for 2013 is the second most elevated of the period measured in constant currency.

Another issue which calls our attention is the great number of items included in the adjustment, which makes the discussion quite more complex, since there are many laws involved in the negotiation. From these figures we can conclude that the wage adjustment, which is what it is publicly known, represents an average close to 58% of the total cost of the process, which calls for the evident need of also keeping control over the rest of the discussed matters. Underlying this, there is the real administrative tangle behind the labor relationships in the public sector. For example, does it have any sense to agree contributions for higher education institutions within this negotiation, even if they have labor purposes? Probably not.

The high complexity and cost which normally goes with this negotiation process shows the need to advance towards a labor reform in the public sector, aimed at tending to equal the labor conditions of public and private employees, with previously agreed adjustment formulas, with the most known and observable possible criteria.

Figures allow showing the importance of keeping the adjustment in line with a possible average between past and expected inflation,

since if this criterion is not fulfilled, as in 2009, the fiscal cost is very high.

Table 1

FISCAL COSTS OF THE ADJUSTMENT AND OTHER BENEFITS FOR THE PUBLIC SECTOR (CLP\$ MILLION OCTOBER 2012)

	2006	2007	2008	2009	2010	2011	2012	2013
Wages & Subsidies Adjustment	197,339	359,938	491,663	718,325	385,587	346,538	485,481	526,420
Christmas Bonus	17,766	18,831	17,696	21,685	24,033	26,384	29,137	31,004
Special Bonus	33,415	74,984	190,703	146,214	152,588	0	139,404	122,813
Contribution to Higher Education Institutions	2,963	3,055	3,068	3,072	3,273	3,329	3,308	3,365
Extraordinary Bonus for Non-Doctor Professionals of Health Services	94							
Education Assistants Allowance						11,097		
Holidays Bonus								44,594
Schooling Bonus	32,757	34,434	19,640	23,256	26,359	37,393	26,892	29,585
Welfare Contribution	620	690	961	1,583	831	724	1,008	1,133
National Holidays Bonus	25,069	26,355	25,991	30,335	33,420	37,174	40,199	42,849
Family and Maternity Allowance	3,335	9,537	4,479					
Family Single Subsidy	1,453	10,989	9,408					
Winter Bonus	26,763	27,967	28,734	39,376	45,323	37,580	33,877	32,791
National Holidays Bonus Passive Sector	21,074	21,565	21,525	26,540	30,455	31,102	30,326	32,622
Christmas Bonus Passive Sector	25,013	24,951	25,475	31,095	35,437	37,028	35,625	38,121
Extraordinary Bonus Law Nr 19,356	2,781	2,866	3,403	3,601	3,838	3,902	3,971	4,051
Extraordinary Bonus Non-Teaching Staff	458							
JUNJI Performance Bonus	199							
Other Benefits			212		15,419		240	3,249
Extreme Zone Bonus				4,859			435	
Allowance Increase Alto Bio Bio Zone				77				
SERCOTEC Allowance				85				
GORES Allowance				210				
Article 12 Law Nr 19,041				4,646				
TOTAL COST	391,101	616,162	842,957	1,054,960	756,564	572,252	829,903	912,597
12-month Inflation October	4.1%	2.1%	6.5%	9.9%	-1.9%	2.0%	3.7%	2.9%
Nominal Wage Adjustment	5.0%	5.2%	6.9%	10.0%	4.5%	4.2%	5.0%	5.0%

Source: Prepared by L&D based on DIPRES, Financial Reports

On the other hand, although the bonus delivery has the advantage of not generating increases in the basis of the adjustment, it turns the process more complex and it makes it less transparent to public opinion, therefore it does not always seem a recommendable scheme.

Conclusions

Although reaching an agreement is a very positive achievement for the government, the adjustment's fiscal cost is high, superior to that of the previous two years; thus, we cannot say that the ANEF has lost.

It is useful to closely analyze the adjustment's fiscal cost, since it shows aspects that can remain concealed in the public discussion. First, the negotiation is much more than an increase figure, since it only represents somewhat more than half of the cost. Second, it contextualizes the history of these adjustments, showing the strong expansive trend of the former government, which is apparently continuing in this government.

In brief...

WAGE ADJUSTMENT FOR PUBLIC EMPLOYEES:

- We could think that the government obtained a relevant triumph, since the ANEF requested an 8.5% increase, the Government offered 4% and they finally accepted 5%; however, true facts of the last six years show that public employees have obtained important benefits, above the nominal adjustment.
- The adjustment granted for 2013 has a fiscal cost of US\$1,900 millions, that is, a twofold equivalent of the tax reform.
- In the current government's first year a pretty significant moderation of the fiscal cost was achieved, but it tended to reverse in the last two years, and the adjustment for 2013 is the second most elevated of the period measured in constant currency.

ⁱ *“Reajuste empleados públicos 2012: Un petitorio cada vez más lejos de la realidad”*
(Public Employees Adjustment 2012: A request increasingly far away from reality)

ⁱⁱ This calculation compares worker's incomes which are equivalent in age, sex and labor experience, differentiated by if their employer is the Government and municipalities or the private sector. Domestic service and Armed Forces are excluded.