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# Austerity measures and municipalities: the case of Denmark

JOURNAL ARTICLE

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## Abstract

Danish municipalities have gone through a number of austerity-related government initiatives with consequences for job levels and public services. Moreover, the ‘regulation mechanism’, which ties public sector wages to wage development in the private sector, has worked as an indirect austerity measure leading to a quasi-pay freeze during the public sector collective bargaining rounds in 2011 and 2013. It is difficult, however, to isolate crisis-related consequences from other factors such as demographic development, outsourcing and pre-crisis reform. Social dialogue has played a very limited role in relation to the direct austerity measures, though case studies show that social dialogue at the local level has played a role in the implementation of austerity and restructuring measures. In the education area, working time was removed from the local bargaining agenda after a lock-out and government intervention in the 2013 bargaining round, but beyond this area no major changes in social dialogue institutions have taken place.

## Introduction

Denmark entered the economic crisis in seemingly good condition with very low unemployment and years of stable growth. However, unemployment nearly tripled in the first years of the crisis and recovery has since been slower than in neighbouring countries such as Germany and Sweden. Nevertheless, the public sector and the public finances remain in relatively good condition, with a com-

paratively low level of general government consolidated gross debt (47 per cent of GDP in 2011) and a low level of general public deficit (1.7 per cent of GDP)

(Bach and Stroleny, 2013). Nevertheless, austerity measures with consequences for public sector job levels and social dialogue are not absent in Denmark.

These consequences will be analysed in this article, focusing on three research questions:

- How has the economic crisis affected municipalities and what austerity measures have been adopted?
- How have these measures been implemented and to what extent has social dialogue contributed to the adjustment process at municipal level?
- What are the outcomes of collective bargaining and employee participation activities in terms of changes in, first, the employment conditions of municipal employees, and, secondly, public services at local level?

Following this introduction, the second section will provide some basic information about industrial relations in the public sector in Denmark with a special view to the situation in municipalities. The third section presents various forms of austerity measures relevant for municipalities and the social partner role in these. The fourth section focuses on the local level, addressing the impact of austerity measures on job levels, wages and working conditions, and social dialogue, as well as their impact on public services in municipalities. The conclusions are found in the fifth section.

## **Background information on social dialogue institutions and municipalities**

### **Basics of the Danish public sector employment relations system**

Some 32 per cent of the Danish workforce is employed in the public sector. This comparatively high share has remained relatively stable over the past 20 years despite increasing outsourcing (Ibsen et al., 2011). Public employees work within a three-tier public sector structure.

In Denmark, the austerity measures and other responses to the crisis have been implemented through a public sector employment relations model characterized by relatively limited legislation, bipartite collective agreements at all levels with high coverage rates, (ad hoc) tripartite social dialogue, an extensive system for employee involvement, and relatively strong trade unions. In model terms, the Danish public sector employment relations model comes closer to the ‘model employer’ than the continental ‘sovereign employer’ (Bach and Bordogna, 2011). In the latter, employment relations are unilaterally determined by the government, and collective bargaining is absent or severely restricted. In the former, the public sector is less isolated from conventional employment relations processes, such as collective bargaining, though the state poses an exam-

ple to other employers. Research on the pre-crisis public sector has found that ‘new public management’ (NPM) reforms have been introduced in Denmark, though these have been described as ‘moderate’ and as not having bypassed or sidelined trade unions (e.g. Ejersbo and Greve, 2005; Ibsen et al., 2011).

The collective agreements cover wages and all issues of working and employment conditions, as well as a well-developed co-determination system. Social partners establish general wage scales and terms and conditions at an overall level (state, region or municipalities) which are then integrated into individual agreements for different occupations. However, wage reforms since the 1990s have introduced local-level wage bargaining, allowing for individual or group supplements at the administrative unit/workplace. One important feature of the Danish employment relations model is the declining and limited number of civil servants with special statutory employment protection, with civil servants now generally covered by collective bargaining, not unilateral regulation (Due and Madsen, 2009).

Regarding the *levels* and *scope* of bargaining, all three main bargaining levels – state, regions (health) and municipalities – have a two-tier structure, whereby the first (highest) tier is subdivided in two. The most important part of the first tier is sector-level bargaining, normally taking place every second or third year. During these bargaining rounds state, regional and municipal employers respectively bargain with bargaining cartels (coalitions) made up of trade union representatives. The first tier also includes organizational bargaining, which takes place more or less simultaneously with the sector-level bargaining. Here the individual trade unions bargain themselves on all occupation-specific wage components, pensions and working conditions within a set financial framework. Moreover, the development of various projects is often agreed at this level. In times of tight budgets, there is often very little to bargain on at this level. The local level is the second bargaining level, and has gained in importance due to partial decentralization (Hansen, 2011). As a general rule it is a trade union-related shop steward who does the bargaining, with issues including wages, working time, training and policies for senior employees.

Regarding *coverage*, collective agreements cover no fewer than 98 per cent of employees in the state sector. The remaining 2 per cent represents employees with individual contracts or whose pay and conditions are unilaterally regulated by legislation (Due and Madsen, 2009: 360). No statistics exist for the regional and municipal sectors, but collective bargaining coverage is estimated to be at least as high as in the state sector.

These high percentages do not imply, however, that collective agreements are the sole form of regulating pay and conditions. Legislation plays a role, most importantly when it comes to employment conditions (terms of notice, etc.), annual leave allowances, leave of absence due to childbirth and working environment issues. Moreover, in the higher parts of the job hierarchy individual agreements supplementing collective agreements are widespread.

Two other forms of social dialogue are worth mentioning in connection with public sector employment relations. One is ad hoc tripartite social dialogue,

which also involves social partners from the public sector, while the other is the co-determination system, including co-determination committees at all levels.

### Key features of the municipalities

Responsibilities for the three main areas of public services were changed by the so-called Structural Reform of 2007, under which 273 municipalities were amalgamated into 98, and 14 counties eliminated, being replaced by five regions with a narrow range of responsibilities. The reform's aim was to create economies of scale and to improve welfare services by reshuffling the division of responsibilities between the three main areas. The municipalities were a net gainer of the reform, with their responsibilities now encompassing – in order of budget size – schools; day care; care of the elderly; administration; the disabled; other services; children and young people with special needs; the environment, traffic, etc.; health.

The number of employees in the municipal sector is 443,000, and there are 122,000 employees in the regional sector and 183,000 in the state sector (Statistics Denmark, 2012). Hence, the municipal sector is by far the largest employer of the three. Danish municipalities also play a major financial role in comparative terms. Measured as a percentage of GDP, local government expenditure in Denmark is 37 per cent, more than three times the EU average (Bach and Stroleny, 2013).

The subcontracting of public services is possible in the majority of public service areas and is used to a large extent. KL, the interest organization of Danish municipalities, agreed in 2007 that 25 per cent of municipal public services (of the services it is legally possible to subcontract) should be 'exposed to competition', meaning that they should be contracted out, but that it would also be possible for the municipality itself to put in a bid. A non-binding target was set in 2011 aimed at increasing the share to 31.5 per cent. In 2011, 25 per cent of all municipal public services legally possible to subcontract were exposed to competition. In the municipal sector, the de facto volume of services subcontracted to private providers reached 24.9 per cent in 2011 (Økonomi- og indendrigsministeriet, 2013). It is worth noting that the level of outsourcing (measured as the percentage of spending on services exposed to competition) remained the same before and after the crisis. As indicated in Table 1, exposure to competition increased substantially, but this occurred before the crisis and was a reaction to a political demand to increase exposure in connection with the Structural Reform.

**Table 1.** Public services exposed to competition, 2006–2011.

	2006	2007	2008	2009	2010	2011
IKU 2012 definition	19.5	22.6	24.0	24.1	24.9	25.0

Note: IKU = services exposed to competition as a percentage of all services which it is legally possible to expose. Source: KL (2012).

## **Austerity measures relevant for municipalities**

This section looks at austerity measures pertaining to municipalities. Some are ‘direct’ in the sense that they explicitly aim to reduce public spending whereas others are ‘indirect’ in that they do not explicitly aim to cut public spending, though this nevertheless occurs as a consequence thereof. Since the terms ‘austerity’ and ‘austerity measures’ are not accurate in all cases, other terms such as ‘crisis-related policies’ are also used.

### **Crisis-related policies and the role of the social partners**

The liberal-conservative government in power from November 2001 until September 2011 initially responded to the crisis in 2008 by introducing stimulus packages and bank packages. These packages were followed by budget cuts and welfare reforms combining austerity measures with measures to increase labour supply in the long term. The liberal-conservative government’s main policy response to the crisis of relevance to municipalities was the *2010 Recovery Plan (including unemployment benefit reform)*. The Plan was implemented *inter alia* via the 2010 and 2011 budgets and was the first real austerity measure. It postponed some of the tax reductions foreseen in the 2009 tax reform; introduced a 0.5 per cent spending cut for all ministry budgets; introduced a ceiling on tax reductions for unemployment insurance contributions; and included an unemployment benefit reform reducing the maximum unemployment benefit period from four to two years.

In 2011, municipal budget cuts – as a result of the Recovery Plan – totalled €0.6bn. KL has shown that 20 per cent of municipalities experienced cuts in their budget of 4 per cent or more between 2009 and 2011 (KL, 2011).

The Social Democrat-led centre-left government that came into office in September 2011 continued the tight budget policy, but also introduced a *stimulus package (‘Kickstart’)* for 2012–2013. The aim here was to stimulate the economy by investing €2.3bn in public infrastructure and other public spending measures in 2012 and 2013. The package was part of the 2012 and 2013 budgets. The aims of improving public finances and increasing labour demand are found in the government initiatives included in their ‘2020 Plan’ (Regeringen, 2012). This was also the case for the (failed) *tripartite negotiations*. The social partners and the government conducted tripartite talks in late May and early June 2012 with the aim of reaching agreement on improving competitiveness, growth and employment. More specifically, the aim was to create 20,000 new jobs and improve public finances by €0.5bn. However, the talks broke down mainly due to trade union disapproval of increasing working time. Trade unions found it difficult to explain to their members why labour supply should be increased in times of relatively high unemployment. Another important example of the combined aim included in the 2020 Plan was the *reform of disability pensions and flex-job scheme* 1 in line with a proposal

put forward by the previous government. The reforms virtually block access to disability pensions for people under 40, reduce wage subsidies for high-income flexi-jobbers and introduce new ways to support the disabled to return to the regular labour market. Estimated savings of €0.3bn per year are expected to be achieved when fully implemented.

More exclusively related to the public sector is the 2020 Plan's section on *Modernizing the public sector*. Here, the government calls for greater use to be made of performance measurement, management by results and evaluations. Furthermore, the government calls for initiatives to streamline work processes and eliminate unnecessary tasks. One of the aims is to show more 'trust' in public sector employees, enabling them to focus more on core tasks and less on reporting. However, a possible clash between this aim and the aim to increase the use of evaluation and measurement by results has been pointed to. Other relevant measures include the call to increase working hours in general (part-time work is very widespread in the public sector) and in education in particular (see below for how this aim was fulfilled).

Also directly related to the public sector is another plan, '*Growth Plan DK – Strong companies, more jobs*' (Regeringen, 2013). In the plan, the government states that it will 'set free' €1.6bn in the public sector for 'new initiatives' and 'targeted improvements in the public sector'. Furthermore, the government will aim for 'balanced growth' in the public sector of between 0.4 and 1.0 per cent per year until 2020. Certain public sector trade unions see the sum of these formulations and calculations as de facto austerity, leading to them refusing to cooperate with the government (also because of the 2013 bargaining round described below), whereas other unions do not see any dramatic measures here and are willing to cooperate. No matter which of these interpretations is right, it is clear the public sector collective bargaining system will increasingly be leveraged to make the public sector more efficient (Mailand, 2013).

Regarding *the role of the social partners*, the failed tripartite negotiations in 2012 were the only above-mentioned government initiative where trade unions were more than superficially involved. Some of the other policies – not least the unemployment benefit reform and the reform of the voluntary early retirement scheme – were even introduced by the previous liberal-conservative government despite strong protests from the trade unions. This lack of involvement of (both) social partners has also been seen in relation to other work- and employment-related initiatives. There seems to be a trend towards de-corporatization, despite a three-year period (2004–2007) under the same liberal-conservative government when the social partners enjoyed a certain amount of involvement (Mailand, 2011). Nevertheless, the relation between the government and the private sector employers' organizations – especially the powerful Danish Industry (DI) – seems to be strong.

In terms of *trade union reactions*, there have – apart from protests aired in the media – been a number of protests, including a one-day large-scale protest

demonstration on 8 June 2010, organized by the largest Danish trade union confederation (LO) and a number of their member organizations. But in general, demonstrations and other forms of protest have been few in numbers – and there have not been any general strikes.

### The annual Financial Agreements – indirect austerity measures?

Apart from the national crisis-related policies described above, two other types of regulation include elements of austerity for local government. The first are the annual Financial Agreements (‘økonomiaftale’) negotiated between the government (Ministry of Finance) and the KL (column 2 in Table 2). Municipality compliance with the agreement is controlled by the government in two rounds. First, with regard to the extent to which municipalities respect the Financial Agreement in their *budgets* (planned spending, column 3 in Table 2), which are finalized in June each year. Secondly, it is controlled through annual accounts (i.e. de facto spending reported early in the following year, column 4 in Table 2) having to remain within the limits of the Financial Agreements. Non-compliance with the budget has consequences for the financial resources allocated to the municipalities the following year. These sanctions have been gradually tightened since 2009. From 2013 the control and sanctions are not only collective: 60 per cent of the cuts in financial resources allocated will only apply to municipalities which have overspent (Birkvad, 2013).

**Table 2.** Municipality budgets in nominal prices.

	Financial Agreement, total (billion Danish krone)	Budget, net public services (billion Danish krone)	Annual accounts, net public services (billion Danish krone)
2009	286 (219 net public services)	228	233
2010	310 (228 net public services)	231	233
2011	315 (233 net public services)	228	222
2012	340 (247 net public services)	241	236
2013	344 (232 net public service)	231	n.a.
2014	347 (230 net public service)	n.a.	n.a.

Sources: Regeringen/KL: Aftale om kommunernes økonomi (forskellige årgange) – *Government and Local government Denmark: Agreement on municipal finances* (various years) and [www.oao.dk](http://www.oao.dk) (various publications on municipal finances).

Within this financial framework municipalities have extensive freedom to set their own priorities. Although Financial Agreements are specified for individual municipalities, certain municipalities are allowed to spend more if others spend less, as it is the aggregate level that counts, although the 2013 amendment has introduced an individual component to the sanctions.

These features reflect the relative autonomy of a municipality which – despite centralization in recent years – still applies in many regards. The autonomy includes the right to set municipal taxes, accounting for more than 50 per cent of municipal revenues. The responsibility deriving from this tax system provides incentives for individual municipalities not to run deficits.

The development in the Financial Agreements, the total budgets of municipalities and their annual accounts in recent years are shown in Table 2. The



table shows varying, but modest increases in the *Financial Agreements* in the years following the economic crisis when measured in *nominal prices* (financial resources not adjusted for inflation). However, regarding public services in *real prices* (financial resources adjusted for inflation, not shown in the table) this represents a 4 per cent reduction from 2009 to 2012. In real terms the reduction in the *budget* for public services is 5 per cent for 2009–2011 and 10 per cent for the *annual accounts* for the same period (using the Statistics Denmark price index).

Moreover, the table shows that the Financial Agreements for 2013 for the first time provided for declining financial resources (in nominal terms) for public services. It can also be seen that municipalities planned to spend substantially less on public services in 2011 and 2012 than they were allowed to under the Financial Agreement, but ended up spending even less than budgeted on public services. There are several possible explanations for this ‘self-imposed austerity’. First, it might simply indicate that municipalities had learned from the crisis, increasing – with the help of KL – the attention paid to overspending, widespread until a few years ago. Secondly, it might be that the government simply did not know how bad the financial situation in municipalities had been and therefore had allowed them to spend more money than they should (Ugebrevet A4, September 10, 2012). Thirdly, tightening sanctions might have worked.

No matter which of the explanations is right, the government has over the last two years taken the unusual step of asking municipalities to spend more. The message seems to have come across in that the total municipal budget for public services in 2013 ended up much closer to the Financial Agreement (OAO, 2012).

### **The 2011 and 2013 bargaining rounds – another form of indirect austerity measures?**

Apart from direct reactions to the government’s austerity measures and other crisis-related policies, one reaction has a lot to do with the renewal of the sector-level collective agreements. The results of the *public sector collective bargaining round in 2011* – that took place when job cuts were expected, but mostly still not implemented – were very meagre from a trade union perspective. With regard to wages, the outcome was a wage freeze for 2011 and very limited wage increases in 2012 in all three main sectors. To some extent this was expected due to the economic context and the so-called ‘regulation mechanism’, which ties public sector wages to wage development in the private sector, although with a certain delay. In a rare situation, as the present, where economic conditions went from very favourable to very unfavourable within a very short period, the ‘regulation mechanism’ has worked as a hidden austerity measure.

Apart from the agreement on wages (which also implied that no national-level financial resources were allocated for local wage setting), the result included, *inter alia*, the flexibilization of the central co-determination commit-

tees' agendas, increased job security for shop stewards, and – in the agreement for municipalities – a security fund for certain employees made redundant.

Trade unions were only able to push through a limited number of their demands. Nevertheless, it can be argued that they succeeded in blocking the employers' aims regarding, e.g. increasing the share of wages set at local level, increased working time, and a movement from collective to individual bargaining at local level. Most trade unions had expected some kind of compensation in the form of job, employment or income security or other benefits in exchange for the wage restraint. However, all union demands for greater job security (e.g. prolonged terms of notice, redundancy payments) were rejected. These demands were clearly related to the crisis and the increasing number of redundancies in the public sector, and were inspired by similar agreements concluded in the private sector in 2010. However, in the municipal sector KL came up with the proposal at the very end of negotiations for a 'security fund' to finance further training for workers made redundant as a kind of compensation for all the rejected demands.

In sum, the outcome of the 2011 bargaining round was not very dramatic. Although employers took advantage of their enhanced bargaining power and acted tougher than usual, the bargaining round did not lead to any dramatic changes.

*Between the 2011 and the 2013 bargaining rounds* there were mixed signs on the development of social dialogue. On the one hand, there was increasing pressure on KL from the Ministry of Finance, some of the larger municipalities and other stakeholders to act 'tougher' and emphasize the management prerogative. These actors had long seen KL as too willing to compromise with trade unions. The crisis was seen as a not-to-be missed opportunity to change this approach. On the other hand, the period showed that the public sector social partners could still take new joint initiatives. Hence, in winter 2011–2012 the social partners in the municipal sector defined four topics to be discussed in the period prior to the 2013 collective bargaining round, preparing them in working groups. The four topics were labour supply, skill development/further training, quality and job content, and the inclusive labour market.

It was, however, the first-mentioned signs that gave the best indication of what was about to happen. The *2013 bargaining round* became unusually conflict-prone, at least in some bargaining areas. Among state employers – the de facto trendsetters in public sector collective bargaining – a key demand for the 2013 bargaining round was the termination of the 'regulation mechanism' in order to decouple the public sector from private sector wage developments and instead link to them to productivity. The trade unions feared that this could lead to reductions in nominal wages. At the end of the day, the regulation mechanism remained in place – at least in this round. The general agreement in the state sector included very limited wage increases and few other changes. Since bargaining in the municipal sector increasingly takes place in the 'shadow of the

state' – a shadow secured through informal coordination between the state and the municipal employers and the timing of the negotiations in the two areas – municipal negotiators were not left much room for manoeuvre.

Another noteworthy employer demand was the termination of all existing local agreements on working time for teachers in schools (children up to the age of 15) (municipal employers' demands) and in most post-15 education institutions (state employers' demand) in order to strengthen management prerogative and to facilitate and finance a large-scale reform of schools. After failed arbitration, a three and a half week lock-out without a prior call for strikes<sup>3</sup> and – finally – government intervention by law, the employers' demand was met. This process has been described by some public sector trade unions as violating the self-governing principle of the Danish employment relations model, with them criticizing the dual role of the Minister of Finance as chief negotiator and legislator and accusing the Ministry of Finance and KL of having intentionally arranged the whole process for it to end with state intervention. Among trade unions these events have become a cause of concern for coming public sector collective bargaining rounds. They wonder whether lock-outs without prior calls to strike will be used again – or whether this was a one-off event caused by education becoming high politics and by the inclusion of local-level bargaining rights unseen in other parts of the public sector.

Apart from this conflict over teachers' working hours, the bargaining round in the municipal sector, as in the state sector, was not very dramatic. No agreement was reached on a number of controversial KL demands, such as reducing the number of shop stewards, changing the special rules for employees older than 60 and flexibilizing working time rules. Similarly, a number of trade union demands were rejected, including an extension of paternity leave and greater employment security. Again the result was a quasi-wage freeze<sup>4</sup> and few other minor changes.

## **Impact of austerity measures in municipalities**

### **Variations in municipal budget-cutting programmes and consequences for job levels**

Though budgets were cut in most municipalities, it is important to emphasize how these cuts varied between different municipalities, as seen in the figures for 2009–2012:

- seven municipalities experienced service budget cuts of more than 7 per cent;
- 18 faced 5–7 per cent service budget cuts;
- 50 faced 2–5 per cent cuts;
- 19 experienced 0–2 per cent cuts;
- four municipalities increased service budgets (KL Momentum, 14 February, 2012).

One conclusion from these figures is that most municipalities avoided – on average across welfare areas – the dramatic cuts seen in other EU Member States.

Regarding the impact on employment levels, there is no doubt that the crisis-related policies contributed to declining levels. Public sector employment peaked in 2Q 2010 at 842,000 employees. Net job losses reached 18,000 (2.1 per cent) in 3Q 2011, bringing public sector employment down to 824,000 (AE Rådet, 2011). Compared to similar developments in many other EU countries, this reduction in public sector employment was fairly limited, hardly having an impact on the situation where 30 per cent of the total Danish workforce work in the public sector.

### **Consequences for pay, working conditions, social dialogue and public service – case studies**

At local level, the tight budgets combined with the meagre outcomes of the 2011 and 2013 collective bargaining rounds severely restrained local wage development, even though local wage bargaining had been conducted to a limited extent over the last few years. Progress towards achieving the government's aim of increasing the share of wages set at local level had more or less stalled.

The following two municipal case studies highlight how the crisis interacted with other structural factors (such as the 2007 Structural Reform and demographic developments) and the role of local-level social partners in addressing the crisis.<sup>5</sup> Both case studies focus on schools, one of the biggest areas of municipal responsibility.

The 4.8 per cent cut in the service budget of *Mariagerfjord Kommune* for 2009–2011 contributed to a 2.5 per cent reduction in municipal headcount. A few months after the annual budget negotiations for 2010 closed, they were reopened to allow for further cuts. Though the municipality's co-determination committees – at various levels – were involved in the processes of making cuts, their timing was a matter of controversy, with representatives calling for earlier involvement in order to have a real opportunity to put forward proposals for rationalization and cuts (Hovedudvalg, 2009).

The school budget suffered only minor cuts when four municipalities were amalgamated into *Mariagerfjord Kommune* in 2007. However, when the 2010 budget was reopened, it was decided that the school budget should be cut by 4 per cent (DKK 15m, €2m) and that 10 of the 18 schools should be closed. This decision was influenced by demographics, a teaching philosophy supporting larger units, and the tighter budget. The new school structure implied a further 4 per cent budget reduction which, together with additional cuts, brought the (permanent) reduction in the school budget up to 10 per cent. The cuts were gradually implemented in 2010 and 2011.

Furthermore, in 2011 a local agreement between the municipality and the local trade unions on teachers working time was concluded. In brief, the agree-

ment included budget cuts and work intensification, as well as the allocation of financial resources for further training to help limit redundancies (see below).

When the budget was reopened in 2009 the municipality's school unit contacted the trade unions to discuss what action could be taken to limit the number of redundancies and to implement the necessary dismissals as correctly and gently as possible. The school unit suggested a scheme including either a severance payment of a few months (not normal practice in the sector) or an increase in pensions (of around €70 per month). The scheme targeted employees close to retirement. The trade unions agreed to limit their demands for severance payments in order to limit the number of redundancies. Teacher uptake of the scheme was high and 65 older employees signed up for it – more than 10 per cent of all employees.

Moreover, 'job bank' arrangements were established. In some cases, these included a guarantee that persons made redundant would be offered a new job (temporary or open-ended) in the case of vacancies, insofar as they possessed the right formal qualifications. For other groups the arrangement only involved a guaranteed job interview in the case of vacancies.

Finally, a job rotation project was introduced in 2012. As a result of the restructuring which had led to fewer and larger schools, a larger number of teachers were sent on further training courses. The financial resources for these courses were provided by the working time agreement mentioned above. The job rotation project helped reduce the number of vacancies.

*Silkeborg Kommune* is one of the municipalities that faced the largest cuts in its service budget. In early 2010, liquidity was so low that the municipality was in danger of being put under the financial administration of the Ministry of Internal Affairs. This situation was linked first to the fact that water supply assets had been 'removed' from the municipal balance sheet on privatization, and secondly to higher-than-expected expenditure on the disabled, an area for which municipalities had become responsible as part of the Structural Reform. To get the local economy back on the right track the city council agreed to reduce the 2011 budget by DKK 250m (€33.5m). A hiring freeze was introduced and the selection of employees to be made redundant started in spring 2010.

The local trade unions were involved in the process of cuts through the Central Co-determination Committee (HovedMED), attending meetings in which participants were informed of the reasons for the city council's decision to reduce the budget and given the opportunity to influence the general guidelines for the redundancies. The common aim of the social partners was to maximize the share of redundancies that could take place in the form of so-called 'natural wastage', i.e. retirements, employees moving to jobs outside the municipality and not being replaced, temporary positions not replaced by new temporary positions, etc.

Contrary to the way redundancies were dealt with in Mariagerfjord Kommune, no severance payments, extra pensions or other 'baits' were used, with

both the employer and trade unions in agreement that the number of redundancies should not be increased by increasing the cost of each redundancy. The cuts led to a reduction in the number of employees in the municipality.

Regarding cuts in the school area, it should be noted that the demographic development in this municipality was no problem, as the number of school-age children had remained stable for some years. The city council's Committee for Children and Young People nevertheless decided to cut the school budget by DKK 65m (€8.7m), to be implemented gradually during 2011 and 2012. On top of this, further cuts for 2013 of DKK 13m (€1.7m) were decided, bringing the total reduction up to approximately 10 per cent of the budget compared to its 2010 level.

In the school area, trade union involvement took place both through the Local Co-determination Committees and more informally through contacts involving the school unit in the municipality and the trade unions. The common aim of the social partners here as well was to maximize the share of 'natural wastage' redundancies, with more than 50 per cent taking this form in the school area. Actual redundancies were reduced to little fewer than 50 persons.

In connection with the redundancies job banks were also established, covering not just schools but the whole municipality. They gave former employees (made redundant in 2010 and 2011) privileged access to new permanent and temporary jobs before commencement of open recruitment. The job banks in Silkeborg Kommune included no job or job interview guarantee. Even so, they saved the jobs of a few employees who had already received their notice.

Finally, a job rotation scheme covering all municipality teachers was initiated in 2011 to make schools more 'inclusive', i.e. equip them better to include pupils with various forms of learning problems. Some 1400 teachers were sent on a one-week course, and 150 on a six-week course. The courses created temporary job openings – equal to 24 full-time positions for one year – offered to unemployed teachers through the local job centre.

In *sum*, these two case studies demonstrate that the impact of the crisis at municipal level is mixed with other causal factors. Furthermore, the two studies illustrate that the social partners (de facto the trade unions) can play a constructive role in implementing redundancies in local authorities. They also reveal the beneficial use of such tools as (limited) remunerations and supplementary pensions, natural wastage, job banks and job rotation schemes. They stress the importance of open attitudes, early trade union involvement and clear divisions of labour and time schedules to minimize the damage caused by redundancies.<sup>6</sup>

As to the consequences of social dialogue for public services – addressed in the third research question – the case studies indicate that the public service itself is not a subject dealt with directly in local-level social dialogue institutions. However, in the case studies local-level social dialogue played a role in implementing austerity and restructuring measures, in some cases reducing their negative consequences. Even so, the decisions to introduce local-level austerity

and restructuring measures were taken beforehand and in decision-making bodies other than those where social dialogue takes place.

## **Summary and conclusions**

This article has analysed austerity measures and other crisis-related policies in Denmark, looking at the role of the social dialogue and the policies' impact on municipalities. Regarding the first research question it was argued that, although a number of crisis-related government initiatives could be considered to contain austerity elements, these typically also had other aims (e.g. increasing labour supply). Moreover, it is disputable whether the high-profile government plans actually set forth austerity targets in relation to the public sector. Austerity is found in the annual Financial Agreements between the government and the interest organization of the municipalities (KL). In real prices – but not in nominal prices – these agreements imply that municipalities should spend less than before the crisis, although the change is small. However, municipalities have in recent years chosen to spend less than allowed by the Agreements, thereby increasing the consequences for employment and public services. Indirect austerity is found in the public sector collective bargaining rounds of 2011 and 2013 where the 'regulation mechanism', which ties public sector wages to wage development in the private sector, led to pay agreements close to pay freezes. From a comparative perspective, however, all these plans, policies, initiatives and agreements are not very dramatic.

Furthermore, it was argued that, when estimating the impact of the crisis on municipalities, it is difficult to separate this impact from other factors such as demographic developments, digitalization, outsourcing and the reform of the sub-national governance structure (the 2004–2007 Structural Reform). The crisis and these additional drivers have led to a drop in public sector employment and indirect pressure on wages and working conditions.

Regarding the second research question, the analyses show that social dialogue has played a very limited role in relation to the direct austerity measures, whereas the dialogue was of importance for the indirect austerity measures (the collective bargaining rounds). Both the 2011 and the 2013 rounds resulted in quasi-wage freezes, few benefits for employees and few other changes. An important exception to this general pattern was the education area, where the trade unions – after conciliation attempts, lock-out and intervention by law – lost their right in 2013 to negotiate on the use of working time. This process and its outcome have led to concern in some trade unions over the future of the collective bargaining-based Danish employment relations model. At local level social dialogue seems to have played a role in implementing the austerity and restructuring measures. Furthermore, the dialogue has in some cases helped reduce the negative consequences of the crisis-related initiatives. However, the decisions to

introduce local-level austerity and restructuring measures are taken in advance and in decision-making bodies other than those involving the social partners.

With regard to the third research question the article shows that although austerity measures and other crisis-related policies have had an impact on job levels, wages and working conditions, the impact is relatively limited. Regarding the consequences of social dialogue for public services, the local-level case studies indicate that the local-level dialogue did not have any direct impact on the services, in that the public service itself is not a subject dealt with directly in local-level social dialogue institutions. However, social dialogue in the local-level case studies did play a role in the implementation of austerity and restructuring measures, in some cases reducing their negative consequences.

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## Notes

1. The flex-job scheme features permanent wage-subsidized jobs on reduced hours and special conditions for disabled people. In 2011, 70,000 persons were employed in flex-jobs, half of them in the public sector.
2. The source of the 2011 collective bargaining analysis is Mailand (2012). The sources of the analysis of the 2013 bargaining round are Mailand (2013) and interviews conducted in relation to an as yet unpublished project.
3. A lock-out without a prior call for strike is very rare in public sector industrial relations. In some countries, e.g. Portugal, it is not even legally possible for public sector employers to initiate a lock-out without a prior strike.
4. As with the 2011 agreement, the 2013 agreement included very limited wage increases, though this time below the development in consumer prices, i.e. a reduction in real wages.
5. The two cases were selected as municipalities hit by the crisis and where the social partners played important roles. Silkeborg Kommune experienced a 7.1 per cent cut in the municipal service budget 2009–2012, whereas Mariager Fjord Kommune witnessed a 4.8 per cent reduction in the same period. The sources of the case studies are telephone interviews with representatives from trade unions and civil servants from the two municipalities as well as various reports and minutes.
6. The findings from these case studies with regard to the role of the social partners and importance of the Structural Reform as a driver are largely



confirmed by two other municipal case studies (Hansen and Mailand, 2013).

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