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Austerity and Cutback Management in the Public Sector: A Case Study for Slovenia

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Abstract

This paper describes cutback-management practices in the Slovenian public sector in the period 2008-2013 and focuses both on an analysis of measures being implemented and on governance issues when managing austerity. Austerity measures in the public sector were introduced almost immediately after the crisis emerged. The first incumbent government (2008-2011) implemented cutback measures related to the public sector that were rather incremental and oriented towards only parts of the structure, whereas the second incumbent government (2012) introduced a more holistic approach in their cutback measures, which was reflected through the fiscal balance-act implementation. Nonetheless, the third incumbent government (2013) faced predominantly market-based pressures for fiscal consolidation in order to avoid potential bailout. Accordingly, budgetary flexibility was lost, and tax hikes were increasingly utilized to balance the budget. The crisis has also affected decision-making mechanisms of the government, as concentration of powers within the Ministry of Finance occurred, centralization pressures reinforced, and the politicization of governance increased.

Key words: fiscal crisis; public sector; governance; austerity measures; cutback management; Slovenia

1. Introduction

Literature on cutback management was initiated by a pioneering work by Levine (1978). He basically defined cutback management as a bundle of managerial interventions that cause organizational change with lower levels of resource availability and utilization. Although this stream of research originated more than three decades ago, only the recent economic crisis pushed the topic on the research agenda more intensively. Some authors even call this period the era of cutback management (Pandey 2010). The concept of cutback management is closely related to the concept of fiscal consolidation. Fiscal consolidation describes concrete policies aimed at reducing government deficits and debt accumulation, which can be done either by increasing revenues or reducing spending, and cutback budgeting as part of cutback management refers to the latter. At the operational level, the existing literature tends to state that in the current economic slowdown, responses favoring budget cuts and restructuring are preferred over tax increases (Scorsone and Plerhoples 2010; Klase 2011).

In fact, recent literature on cutback management actually addresses two main issues, that is: (a) contents of austerity measures and policies being implemented and (b) decision-making and governance issues when managing austerity (see Kickert et al. 2013). If measures and policies undertaken in managing austerity are scrutinized, the existing literature puts forward several typical managerial interventions with the aim of reducing organizational expenditures, which can be divided into two main types of cutback instruments, i.e. cutting of operational expenditures (personnel and non-personnel costs) and cutting of program and investment expenditures (Raudla et al. 2012; OECD 2011). Operational expenditures typically include hiring or pay freezes, wage and staff reduction, reorganization and efficiency cuts, whereas program expenditures include welfare-state payments cuts, public-services provision cuts and investment cuts.

If decision-making and governance issues related to managing austerity are scrutinized, existing literature is predominantly preoccupied with modes of governance during times of crisis, involving the politicization and coordination of policy-making. Pollitt (2010) describes three broad strategies for managing austerity, namely the so-called cheese slicing, assurance of efficiency gains and, finally, centralized priority-setting. Recent literature dealing with these issues has pointed out that in the majority of countries a long-term forward-looking strategic orientation of anti-crisis policy-making prevails, although the decision-making process has been intensively politicized (Cepiku and Bonomi Savignon 2012). Furthermore, the literature also addresses issues like the pressure to improve coordination within the public sector during crisis and the pressure to bring about shifts of substantial powers onto the center of government (Peters et al. 2011).

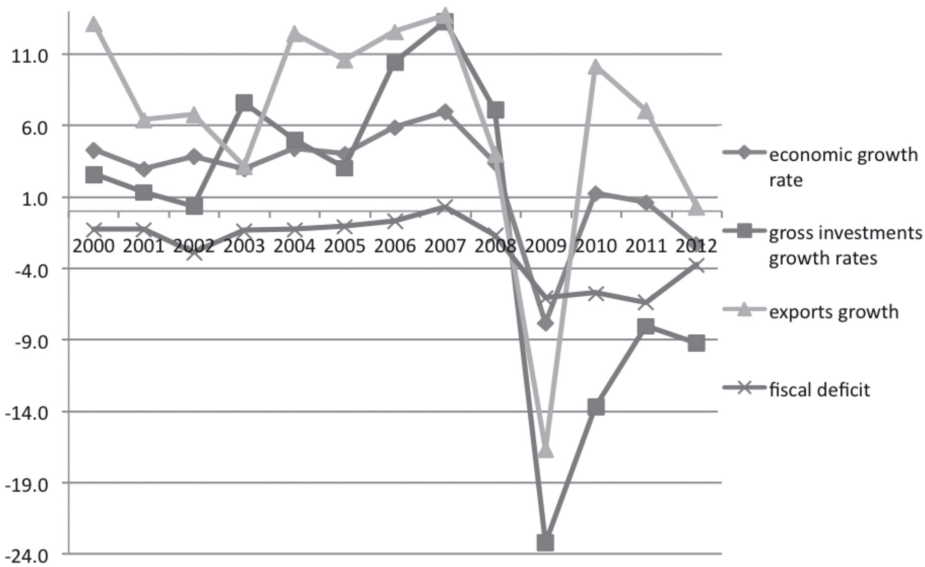
This paper describes cutback-management practices in the Slovenian public sector in the period 2008-2013 and focuses both on an analysis of measures and policies being implemented and on strategy and governance issues when managing austerity. In fact, the paper presents the main implemented cutback strategies, the management of government during the crisis period and the effects of cutback-management practice on the functioning of the public sector, where emphasis is also put on the evaluation of the effectiveness of cutback measures. This is actually the first study that comprehensively addresses cutback management in the Slovenian public sector. This is important for several reasons. First, Slovenia is one of the countries that were heavily affected by the recent economic downturn, and its fiscal position was also challenged. Second, Slovenia used to be a transformational and transitional country, but unlike other post-socialist countries of Central and Eastern Europe, the transition process was substantially different, leading to the notion of an alternative approach to transforming economy and society. Slovenia was determined to retain local control of its economic assets and utilize a gradualist approach to politico-economic reforms. This has caused the Government to retain substantial control over the economy (Bilefsky 2013), which raised issues arising from the crony capitalism system where success in business depends on close relationships between business people and government officials (McCormick 1981). Third, the period of 2008-2013 saw the rule of three different coalition governments in Slovenia, which can be relatively easily split into the 2008-2011 period with social-democratic government, the 2012 period with conservative government and the year 2013 with a leftist liberal government. Therefore, it would be of great interest and would add great value to compare the policy-making of these three governments in their tackling of economic and fiscal crisis issues.

The added value of this paper is delivered in the context of contemporary cutback-management literature, in which existing studies indicate the diversity of the governmental responses to the crisis, which means that we have as many responses to the crisis as there are countries (see Kickert et al. 2013). Thus cutback management is apparently determined by politics rather than science. The present study takes the crisis as an independent variable and does not address its sources specifically. Therefore only the effects of the crisis on the public sector are discussed. The first dependent variable, if we assume the classical modeling context, is represented by cutback-budgeting strategies. The second dependent variable is related to changes in the governance and decision-making mechanism when tackling the crisis. The study does not specifically address pre-crisis governance but rather the variations in the responses of three different governments to the crisis. The third dependent variable is related to the effectiveness of cutback-management practices in terms of achieving the final goals of debt reduction and economic recovery. The paper is organized as follows: Chapter 2 briefly describes the economic and fiscal crisis in Slovenia; Chapter 3 presents an overview of the austerity measures undertaken during the 2008-2013 period; Chapter 4 defines the decision-making process and management of government during the 2008-2013 period; and Chapter 5 sets the case-study-analysis findings into a broader theoretical and practical comparative context. Chapter 6 portrays the effect of austerity measures on the public sector as well as their effectiveness, followed by final reflections.

2. A brief overview of the crisis

The latest economic crisis has shaken the vast majority of national economies around the world, although the inception of the crisis process had a markedly different mechanism in each country (see IMF 2009; Pevcin and Drezgić 2011). The first financial impacts of the crisis were observed in countries most integrated in the global economy. Subsequently, export-oriented countries were hit by the sharp reduction of aggregate spending. The final wave then struck economies with specific macroeconomic imbalances, external exposure and unresolved structural issues. Slovenia belongs into this third group of countries.

The severity of the effects of the crisis on the Slovenian national economy can be observed in Figure 1. Slovenia experienced stable economic growth for more than a decade before the crisis, and this growth was driven predominantly by growth in exports. However, the economic slowdown started in the second half of 2008, leading to recession in the first part of 2009, when a reduction of GDP by 8 percent was experienced. Although signs of recovery were seen in the second half of 2009 and in 2010, economic slowdown re-emerged in 2011 and led to further contraction in 2012 and early 2013. Extensive contraction occurred particularly in the industrial production sector due to the export orientation of the economy. As export was reduced by more than one sixth and investments by almost one quarter in 2009, this has led to a substantial rise in unemployment. Registered unemployment has more than doubled in the period from September 2008 to February 2013. The numbers were well below 60 thousand in 2008 but have surpassed 120 thousand at the beginning of 2013 (Employment Service of Slovenia 2013).



Source: SORS 2013, Eurostat 2012.
Figure 1: **Selected economic indicators for Slovenia, 2000-2012 (in %)**

Economic slowdown started to affect the fiscal position of the country through the channel of automatic stabilizers. As economic slowdown increases the payments of various social-security payments, Keynesian policies are used to stabilize the economy, thus limiting the fall in consumption (Hall et al. 2010). From 2009 onwards, the fiscal deficit was well above the criteria prescribed by the Maastricht treaty, and public debt started to grow very rapidly. Slovenia was among the countries that began to receive criticism for the level of their public deficit and debt. Subsequently, market pressures increased the cost of public finance since the ability to finance the deficit was questioned. For instance, in late 2008 the yield on 10-year government bonds reached almost 6%, yet by the end of 2011 this yield surpassed even 7% and in August 2012 reached an all-time high of 7.4% (Tradingeconomics.com 2014). This means that Slovenia was part of a group of countries that were rather limited in conducting antirecessionary economic policies due to credit constraints imposed by high costs of borrowing in the capital markets and a high level of indebtedness. Countries in this group therefore needed to start following fiscal-consolidation plans almost at the outbreak of the crisis. Those plans made it possible to balance the governmental budgets and caused the reduction of fiscal stress. Consequently, cutback budgeting, and broadly cutback management, became more influential in governmental policy-making.

3. Cutback budgeting in the Slovenian public sector in the period 2008-2013

During the period of economic slowdown and fiscal crisis in 2008-2013, Slovenia saw three different governments. After regular general elections were held in autumn 2008, the “left-wing” coalition government led by the Social Democrats took power in November 2008. At that time the financial crisis was at its peak and the economy started to show signs of expected downturn. Already in December 2008, the group prepared the first package of anti-crisis-oriented stimulatory measures to boost economic activity (Government of the Republic of Slovenia 2008b). In February 2009, the second anti-crisis oriented package was prepared and also included measures aimed at reducing public expenditures (Government of the Republic of Slovenia 2009a and 2009b). The main intention of this policy package was to limit the expenditures of the public sector through reduction of operational expenditures of the Government by limiting spending on equipment, business trips, salaries, etc.

Specifically, measures for decreasing labor costs in the public sector included the withholding of the planned wage increases, a reduction of the total number of employees in state administration by 2%, a reduction of costs related to subcontracting by 20%, the reduction of basic salaries of governmental officials by 4%, a reduction of governance-related fees and other payments, etc. The focus of these measures had certain political connotations, as the general opinion was that the public sector should show some solidarity when tackling the crisis, since the major burden of the economic crisis at that time was borne only by the private sector, in which decreased demand severely affected revenues and consequently profits and employment levels (RTV SLO 2010).

In 2010, certain additional efforts towards fiscal balancing were undertaken. The Ministry of Finance supported the idea that during the crisis period only spending should be reduced and no additional taxes should be levied since a reduction of expenditures were considered to be more viable than increases in revenues (Fiscal Council of the Republic of Slovenia 2011). At the time, some scholars argued that fiscal adjustments based on spending cuts rather than on tax increases are more likely to reduce deficits and debt and are less likely to create further recession (see Alesina and Ardagna 2009). Consequently, the Stability Program was amended in January 2010 in the provisions regarding rationalization of the public sector and combined with the reform of the pension and health-care system that should ensure fiscal sustainability in the long run (Court of Audit of the Republic of Slovenia 2011). Besides, the so-called Exit Strategy for Slovenia was launched by the Government in February 2010. This document envisioned that public spending should be reduced by 1.2 billion EUR in the next three years in order to achieve the goal of reducing the public deficit below 3% of GDP till the end of 2013. Spending cuts would also be achieved through increased efficiency of the public sector, as well as partly through reengineering of processes (Exit Strategy for Slovenia 2010).

Subsequently, the Government also tried to implement structural reforms in 2011 (Government Communication Office 2011). Although the pension and labor-market reforms were approved by the parliament, the referendum initiative organized in May 2011 prevented their implementation. Consequently, the Government introduced several "mild" recovery measures to tackle fiscal problems, such as cutback measures in the health-care system and the special act on social transfers (Act Amending and Supplementing the Social Protection Benefits Act 2011) that were introduced in late 2011. This represented a rather radical approach to welfare-state benefits as, for example, various pension-related payments were re-categorized as social benefits, etc. The Government also prepared a special act that introduced additional austerity measures in the public sector that should enter into force in 2012 (Additional 2012 Intervention Measures Act 2012). Basically, this law prescribed freezes of wages and other work-related benefits and any new or substitution-based permanent employment in state administration requiring the approval of the Government. This has actually substantially reduced the autonomy of various governmental bodies.

Since the Government was not able to competently and credibly tackle economic and fiscal problems, it was not able to finish the mandate, and preliminary general elections were held in November 2011. As the pace of the rise of public-sector indebtedness was becoming problematic (it doubled, in % of GDP, in less than three fiscal years) and interest rates on governmental bonds reached very high levels, public-sector downsizing became a real issue for the newly formed "right-wing" coalition government in February 2012. Actually, ensuring fiscal sustainability has been one of the main goals set by the incumbent Government and was already stated in the coalition agreement. The provision was adopted to ensure both a rise in governmental revenues and a reduction in spending in order to balance the budget. The Government started to prepare a package of austerity measures that effectively altered 39 existing laws and eventually resulted in the document entitled the Fiscal Balance Act (2012), which was adopted by the parliament in May 2012.

The main purpose of this mega act was to enable a comprehensive and substantial reduction of governmental spending of about 500 million EUR in 2012, 800 million EUR in 2013 and approximately 1 billion EUR in 2014. The act aimed to optimize public expenditures, and the most substantial cost-cutting measures were targeted at public servants' salaries and other work-related benefits, as an across-the-board 8 percent reduction of wages was implemented. Furthermore, additional employment was set to be allowed only upon special permission. The measures also targeted the material costs of government related to work-related costs (i.e. subsidization of costs for business trips of public servants was limited; the maximum amount of holidays was limited; and the obligatory retirement of public servants achieving the retirement criteria was introduced).

This act also included measures to curb program expenditures with the reduction or even elimination of several benefits relating to social security and family policies (e.g. child-support transfers, unemployment benefits, retirement benefits, etc.), and significant tax hikes were envisaged for the first time in four years. Among other measures, the corporate income tax and capital gains tax rates have been increased from 20 to 25%; a new personal income tax bracket taxing 50% of annual gross income above 70,000 EUR has been introduced; and the concession fee on student work has been raised from 12 to 23%. In addition, various additional taxes on "luxurious" goods (larger watercraft, powerful cars, high-value real estate, capital gains from change in land use, etc.) have been introduced. Moreover, this Government was also able to implement a pension-system reform (Pensions and Disability Insurance Act 2012) in December 2012, which would enable a reduction of expenditures on pensions in the amount of almost 400 million EUR in the years 2013 and 2014. The Act introduced a provision for the retirement age to be gradually raised to 65 years until 2020, and the minimum age for possible retirement (if the criterion of 40 year of insurance period is met) has been set to 60 years of age. The Act also set new standards for the determination of the amount of pension received in accordance with the principle of net contributions paid.

In late 2012, with the credit crunch still persisting, the Government started to address the issue of the banking sector, which was plagued by bad loans. Nevertheless, due to allegations of corruption a new coalition Government was installed in March 2013, again oriented more towards the "left-wing". Although initial steps towards fiscal consolidation were taken already in 2012, political instability affected market pressures, and yield on government bonds started to rise again, causing problems with the fiscal deficit and debt-financing. As indications of a possible need for international support started to emerge, fiscal consolidation plans were promoted further. Besides classical spending limitations and cuts, a substantial increase in taxes levied was put in place. Value-added tax rates, the most important single revenue source of the Government, for example, were increased from 8.5% (20%) to 9.5% (22%), and the Government also increased social security contributions, road toll and court fees and introduced a new real estate tax (see Government of the Republic of Slovenia 2013b). One of the emerging problems was related to the crisis in the banking sector. Stress tests of banks revealed that the capital shortfall of the financial sector in Slovenia amounted to almost 5 billion EUR (Spiegel 2013). Slovenian banks were plagued by bad loans, results of crony capitalism issues, non-economic practices when giving loans and a lack of operational supervision of banks by the central bank, causing a prolonged credit crunch. Eventually in late 2013, bad loans were transferred to a newly established bad bank and the Government provided 3 billion EUR of capital injections to state-owned banks.

To summarize; the deepening of the crisis also affected policy-making prioritization and the insensitivity of austerity measures itself. For instance, the first government preferred mild measures (wage freezes or reductions) rather than "true" downsizing, since any downsizing attempts would result only in additional unemployment. There were no measures undertaken to substantially reduce benefits related to the existing welfare-state arrangements, and no new taxes were introduced, the exception being increases in excise taxes (on alcohol, tobacco and fuels). In contrast, the second government undertook more holistic and radical austerity measures, following the roadmap of classical cutback budgeting.

The major difference is that external pressures for fiscal consolidation started to prevail in this period, as the measures implemented by the Government in 2012 were a direct extension of the six directions of the European Commission that Slovenia received in 2011. These directions involved achieving necessary fiscal consolidation and improved fiscal management through the cutting of public spending, implementing reforms of the pension system and labor market, ensuring business-environment improvement and enabling the recovery of the banking system (European Commission 2012). The internal impetus for fiscal consolidation was almost entirely replaced by external factors in 2013. Mistrust of foreign investors in financial markets and serious warnings addressed in various reports issued by the troika of international lenders (European Commission, European Central Bank and International Monetary Fund) created additional pressure for reforms. This external impetus was also recognized in the National Reform Program 2013-2014, issued by the Government of the Republic of Slovenia (2013a).

4. Governance and the analysis of decision-making in the 2008-2013 period

As noted above, the Republic of Slovenia saw three different governments during the crisis period of 2008-2013. The decision-making processes adopted by those three governments substantially differed, not just because of the deepening of the crisis, but also due to differences in the manner of governing and managing the government. For instance, the first main point was that the first government (period 2008-2011) did not anticipate the crisis, which was evident also from the Coalition Agreement 2008-2012 (Government of the Republic of Slovenia 2008a). The priorities and goals stated in the coalition agreement were drawn with the premise of sound macroeconomic circumstances, and the issues addressed were related predominantly to welfare policy and business-sector development. With the occurrence of the economic slowdown in late 2008, this agreement needed to be altered, and stimulus packages for the economy and anti-crisis social-policy instruments were set as a new priority. The lack of preparedness also had managerial consequences, and a decision was made to establish a special "anti-crisis" group of Government Ministers to tackle the problems related to the emerging economic crisis. This group was led by the Minister for Development and European Affairs and included the Minister for the Economy, the Minister for Labor, Family and Social Affairs and the Minister for Higher Education, Science and Technology.

The primary feature of public governance in this period was related to the selective policy-making initiatives and a relative "partition" and "decentralization" of the responsibilities given to the ministers when combating crisis-related problems. Since anti-crisis policy-making was organized within the special group of ministers, certain measures undertaken were under the supervision of two or even three different ministers, which caused various organizational problems. Interestingly, the leader of the group of "crisis ministers" was not the Minister of Finance but rather the Minister for Development and European Affairs, who was actually the minister without a portfolio. Therefore the anti-crisis policy-making was headed by the government office which did not implement any of the stimulatory and austerity measures. This caused accountability problems, and policies undertaken were sometimes even contradictory. For instance, the government increased the amount of money given through the system of social transfers in the period 2009-2011 (Government Communication Office 2011); however it later introduced a reform of that system that heavily reduced the amount of transfers given in 2012. It seems that policy-making was rather confused during that period. It was in fact inconsistent. It is unusual that the Government planned to introduce usually unpopular structural reforms in the second part of its mandate, contradicting established theory regarding political business cycles (see Nordhaus 1975). This could indicate that the Government had problems with its own organization and prioritization of policy-making.

In contrast, the second government (year 2012) focused the policy-making of its mandate on achieving "true" fiscal consolidation. First of all, it introduced the aforementioned fiscal balance act, which can be taken as an example of an almost holistic approach to achieving fiscal consolidation. This government also substantially changed the mechanisms of decision-making. The number of ministers was reduced substantially (to 12), and the central role in fiscal-consolidation plans was assigned to the Ministry of Finance. Besides, before the fiscal balance act was introduced, intensive negotiations took place with social partners as the Government insisted that social partners should have an active role in delivering policy proposals in order to avoid potential referendum initiatives opposing them (RTV SLO 2012). Ultimately, an agreement was made with social partners, and the central role in negotiations was given to the Minister of Labor, Family and Social Affairs. The new government also prioritized the consolidation of public finances in the coalition agreement, meaning that organizational issues related to the implementation of reforms were considered. The government demarcated responsibilities of ministers in the process of reform preparations. The parliament also took a more active supporting role in the process of fiscal consolidation, since the majority of laws with direct fiscal consequences were accepted under the rule of urgent procedure, although all the proposed reforms were focused on achieving predominantly mid-term effects (Delo 2012).

Similarly, the decision-making process of the third government (year 2013) was also heavily influenced by the persistent crisis, although this government currently still holds the mandate, and evaluation is therefore difficult. Moreover, the central role in tackling the crisis was taken by the Minister of Finance, and the long-term focus of policy-making was institutionally limited to one year, as was clearly indicated in the National Reform Program 2013-2014 (Government of the Republic of Slovenia 2013a). This government should normally hold the mandate until the end of 2015, but its policy-making prioritization was set for only one year, perhaps because the government pessimistically anticipated that finishing its mandate was not a viable option.

5. Cutback management in Slovenia – a comparative context

Table 1 presents an overview of cutback measures undertaken by different governments of Slovenia during the 2008-2013 period. Although in nominal terms program expenditures were reduced more, reductions were predominantly achieved through investment expenditures, which is one of the most flexible and politically unchallenging categories of spending. However, if investments, which could in fact even be considered a separate cutback category, are taken aside, it is evident that the main focus of cutback measures was on operational expenditures like wage reductions, hiring and pay freezes as well as staff reductions. The focus on these spending categories was particularly intensive during the first and the second governments, and during this period welfare-state arrangements remained almost intact. Interestingly, this clearly suggests that internal factors were prevalent in cutback management since governments favored policies that are politically more acceptable. Clearly, public servants as a group were far less affected by the crisis in comparison to other socio-economic population groups, so they were required to bear their share of the crisis. Consequently, reforms of the welfare state and public service and tax increases were not delivered, since they were politically less acceptable. They were challenged only recently (particularly in 2013), when external pressure for reforms started to mount.

Table 1: **Cutback management and fiscal consolidation measures of Slovenian governments**[1]

Practice / Period	First government (2008-2011)	Second government (2012)	Third government (2013)
Operational expenditure reduction measures			
Hiring or pay freezes	+++	+++	+++
Wage reductions	+	+	0
Staff reduction	+	++	+
Reorganization	0	+	0
Efficiency cuts	+	+	+
Program expenditure reduction measures			
Social security/welfare state	+	++	+
Investments	+++	+++	+++
Fiscal consolidation overview			
Revenue enhancement proposals	+	++	+++
Main category of public finance restoration	Modestly needed	Pre-emptive	Market-pressure based
Main type of fiscal consolidation	Predominantly expenditure-based	Predominantly expenditure-based	Expenditure- and revenue-based
Cutback management practice			
Main types of measures	Relatively small measures	Implementation of across-the-board and efficiency cuts	Imported prioritization of cuts/consolidation
Prevailing cutback decision-making	Incremental, small and gradual steps, incoherent	Political priority-setting, centralized, systematic	Short-term quick fixes to ease market pressures, drastic decision-making

Sources: own presentation and evaluation based on descriptions in Chapters 3 and 4, following outline in OECD (2011) and Peters et al. (2011).

[1] Note: measures prepared and implemented under the regime of specific government are evaluated. 0 refers to no or insignificant measures, + refers to soft measures, ++ refers to medium-scale measures, +++ refers to hard measures.

The findings of the case study of cutback strategies of Slovenian governments in the 2008-2013 period must be considered in a broader theoretical and practical context. It could be observed that the insensitivity of implemented cutback measures has increased, favoring the foundations of the administrative response model of cutback management in which the adoption of more drastic measures usually results from deeper and longer revenue declines (Levine et al. 1981). According to the analysis presented in Chapter 3, one could argue that the severity of responses has increased over time due to rising fiscal problems, although extremely severe measures were not undertaken yet in this period. This corresponds to the exposition delivered by Kickert et al. (2013), whereby based on cutback-management practices Slovenia actually belongs to the mainland European cluster of countries. In those countries only small consolidation measures were initially applied since fiscal consolidation was not imperative as in the countries that needed to apply for external assistance or countries where effects of the crisis were initially less severe, e.g. the Baltic countries. However, since Slovenia is continuing to experience a prolonged economic downturn, it appears to be moving towards the cluster of the countries in which external assistance may be required. The issue of fiscal consolidation is becoming increasingly politically and economically important, and subsequent radical cutback measures are becoming a real policy option.

In fact, if we follow the exposition of OECD (2011) and recognize four categories of countries based on the necessity to follow consolidation plans, it becomes evident that the fiscal position of Slovenia has deteriorated so far during the 2008-2013 period that the country moved from the category of countries with comparatively low fiscal-consolidation needs to the category of countries that require consolidation due to market pressures. Slovenia in fact even experienced a fiscal surplus in 2007, and public debt remained very low until 2008, so at the time no practical need existed to even consider consolidation. However, the fiscal position of the country deteriorated drastically at the outbreak of the crisis, and by 2009 it was estimated that a consolidation may be required. Yet, substantial consolidation plans were delivered only in 2012, and they focused on preemptive medium-term fiscal-consolidation measures due to the existence of a substantial fiscal deficit. It became evident in 2013 that fiscal consolidation is actually driven predominantly by market pressures, and front-loaded measures started to prevail.

A significant rise in the severity of implemented austerity measures also indicates a significant loss in budgetary flexibility, since expected tax hikes in 2012 and 2013 may actually have further negative fiscal and economic effects, as suggested by Alesina and de Rugy (2013). This corresponds to findings for American states during the last recession, as presented by Klase (2011), where the use of more severe measures was positively associated with the rise in budget shortfall. The loss of budgetary flexibility escalated further as fiscal retrenchment was used almost simultaneously with the start of the economic slowdown. This happened because structural imbalances were partially caused by fiscal policy orientation prior to the crisis (see Pevcin 2013), namely the policy of expansionary fiscal policies being delivered prior to the crisis had a negative effect on the necessary budgetary flexibility in a period of crisis, as the history of boom and boost cycles suggests.

With regard to governance issues of cutback management, Peters et al. (2011)

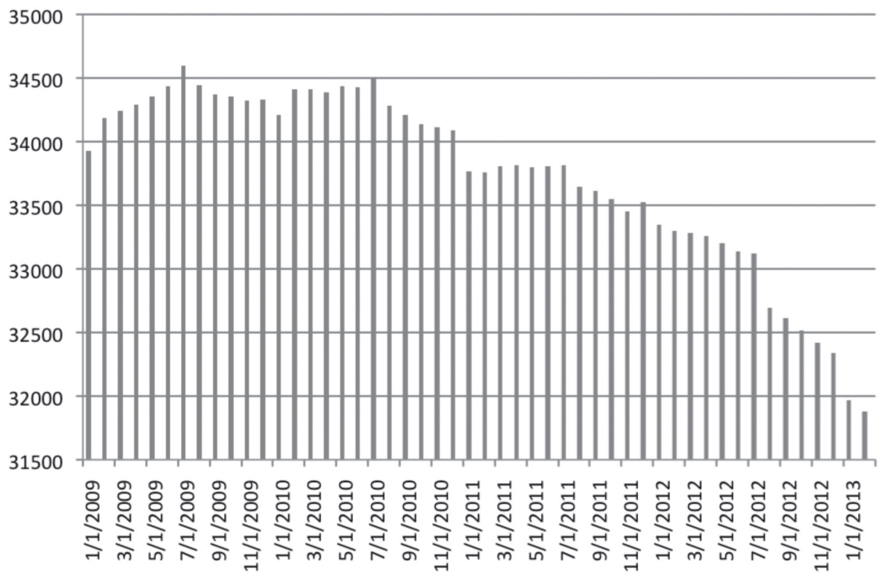
suggest that five areas of crisis-related governance issues should be addressed: path dependence, coordination and coherence, time perspective, centralization and politicization. Consequently, it could be expected that the fiscal crisis may help public-sector reforms to be accepted and implemented; may boost the concentration of power within ministries of finance; may cause increased coordination of policies; may shift the political focus towards short-term fixes and quick solutions for existing problems; may create additional pressure for centralization within the government; and may cause politicians to favor policies being implemented by the ruling parties' supporters rather than by "neutral" public servants.

The above exposition could also be validated in the case of Slovenia, where several reforms were put forward under the umbrella of crisis-related cutback management (e.g. welfare arrangements, public-sector reorganization etc.). A concentration of powers within the Ministry of Finance also occurred, but only after 2012, when the coordination of policy-making was improved. A shift towards re-centralization was observed especially in 2012 in contrast to a more relaxed approach to tackling the crisis seen earlier. For instance, the limitation in staff employment has followed the principles of administrative state philosophy, in which re-centralization is seen as a fundamental principle for improving the efficiency of the public sector. The move towards more centralized governance was observed particularly in the functioning of the executive branch of government (e.g. process reengineering towards more centralized tendering systems), although pressure for recentralization existed also on the micro level in the form of a drive to reorganize institutions within the sector to ensure efficient work organization through specialization. Contracting in the public sector was severely limited, particularly in consulting, vocational and supporting activities. In fact, the limitation of contracting was perceived as one of the easiest ways to reduce operational costs of the sector and served as the cornerstone of planned reorganization.

The autonomy of public organizations was also limited, and the government increased control over them, particularly in terms of costs. Austerity measures actually prescribed the ability of public organizations to cover work-related costs of public servants, formulate employment plans, determine public-servant salaries and the framework for resource-spending, etc. The politicization of governance increased during the period of the second government with the parliament starting to actively support fast implementation of policy proposals, notwithstanding the fact that external political and economic pressures for cutback reforms increased. Similarly, quick fixes and short-term focusing appear to be on the rise in policy-making, particularly in 2013. Although tax hikes should not be considered a sound option to achieve fiscal consolidation, they were ultimately introduced, predominantly to indicate that the Government is trying to consolidate public finances. Besides, the political focus of governments substantially shortened during the period, and long-range planning was severely limited. This was reflected in the initial plans of the third government as it did not even set its mandate to four (three) years, but rather to one year, as further political instability was anticipated.

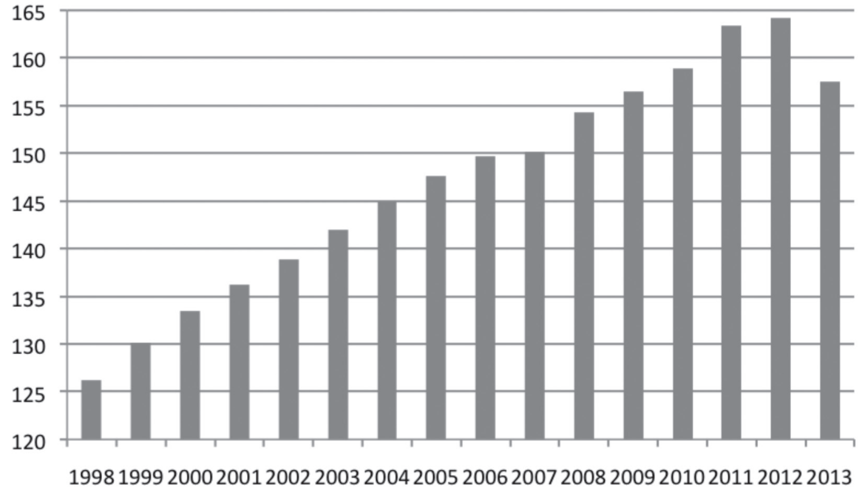
6. Effects of austerity measures on the Slovenian public sector

This chapter presents an analysis of cutback-management practices in the Slovenian public sector. Although austerity measures were delivered in an almost ongoing manner, the real question remains what the effect of those measures on the public sector in Slovenia actually was. First of all, since the measures were oriented predominantly towards cutting expenditures through wage freezes or reductions and limitations on hiring, the following text utilizes and analyzes existing data in order to portray the effect of the measures on public-sector wages and employment. It is evident that total employment was actually reduced, particularly in state administration. This was the first part of the public sector in which downsizing measures were introduced and implemented, so employment levels started to fall from 2009 onwards (see Figure 2). A particularly significant fall of employment in state administration occurred in the middle of 2012 when the fiscal balance act was introduced with (obligatory) retirements and work-load redistributions. The introduction of the fiscal balance act also caused a decrease in total employment in the public sector for the first time (see Figure 3). Statistical data shows that the number of employed persons started to fall in late 2012, and the number of employed persons fell by 3% from May 2012 to February 2013, if monthly data is considered (Government of the Republic of Slovenia 2013a).



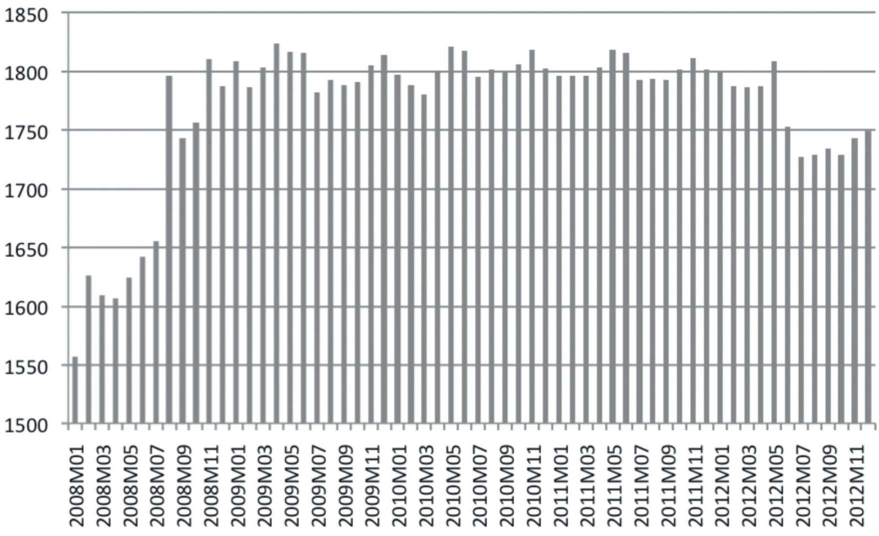
Source: State Portal of the Republic of Slovenia 2013.

Figure 2: **Employment in state administration of Slovenia, monthly data for January 2009-February 2013**



Source: SORS 2013; Government of the Republic of Slovenia 2013a.
Figure 3: **Public-sector employment, average annual data 1998-2013 (in thousands)**[2]

The effects of austerity measures can be observed in the wage structure within the public sector. Figure 4 reveals that a substantial reduction in the level of average gross wage in the public sector occurred just after the fiscal balance act was introduced (June 2012). Accordingly, the amount of money paid for wages of public servants on a monthly basis decreased by approximately 20 million EUR from May 2012 to February 2013, representing an approximately 7% nominal reduction.



Source: SORS 2013.
Figure 4: **Average monthly gross wages, public sector 2008-2012 (in EUR)**

2 Data for 2013 refer to February 2013.

Table 2 reveals some interesting changes in the public-sector wage structure during the period of crisis. Although data exists only for the years 2009 and 2010, it can be observed that a substantial increase in the number of public servants with wages in the first four wage classes occurred between 2009 and 2010, whereas the number of private-sector employees with wages belonging to those four classes decreased. Quite the opposite happened at the upper side of the wage scale, where the number of public servants belonging to wage classes 13-20 decreased. The same occurred to some extent also in the private sector, although the decrease was much more modest and not uniform. Actually, the increase in the number of public-sector employees occurred in wage classes 1-12. This is a clear example of wage compression where the effect of austerity measures in the public sector is associated with a decrease of variance in wage levels, having potentially further negative effects on efficiency and productivity within the sector (see, e.g., Ul Haque et al. 1998).

Table 2: **Wage distribution in public and private sector, 2009 and 2010**[3]

Year	2009		2010	
Wage classes	Public sector	Private sector	Public sector	Private sector
1-4	6,381	108,095	8,467	100,628
5-8	13,809	95,759	15,769	88,078
9-12	22,722	79,312	24,189	72,362
13-16	37,630	61,019	36,188	58,651
17-20	51,469	50,577	48,488	49,748

Source: SORS 2013; author's calculations.

The effectiveness of cutback-management practices remains the ultimate question. They were intended to consolidate public finances, so the investigation should focus on their fiscal effects. It is evident that spending was reduced, and consequentially the fiscal deficit was reduced (see Figure 1 in Appendix), yet it remains above 3% of GDP. It is expected, according to the latest estimations and prognosis by SORS that the fiscal deficit will remain at 3.8% of GDP even in 2013. Nevertheless, cutback management was ineffective when considering public debt. In fact, Table 3 indicates that the growth of debt was significant last year, even reaching 76.5% at the end of 2013.

[3] Note: The table represents the number of employees in each wage class, where, e.g., class 1 represents gross monthly wage below 614 EUR in 2009 (701 EUR in 2010), and class 20 represents gross monthly wage above 3,240 EUR in 2009 (3,328 EUR in 2010).

Table 3: **General government gross debt in Slovenia, 2006-2013 (% of GDP)**

2006	2007	2008	2009	2010	2011	2012	2013
26.4	23.1	22.0	35.0	38.6	46.9	54.1	76.5

Sources: Eurostat 2012; SORS 2013; Spiegel 2013.

The Eurostat (2013) analysis even indicates that Slovenia is among the countries with the highest increases in the debt-to-GDP ratio in 2013, as this ratio increased from 54.8% in Q1 of 2013 to 76.5% of GDP in Q4 (although this increase was predominantly due to the injection of capital into state-owned banks). Moreover, the economic growth rate in 2013 is expected to be negative (-2.0%), which indicates the severity of the crisis. As the fiscal-consolidation measures of 2012 and particularly of 2013 also included tax hikes, this might suggest that those consolidation measures negatively affected economic recovery. This evidence could be supported by developments in countries with similar policies where the debt-to-GDP ratio actually worsened and economic slowdown was experienced after taxes were increased (see Alesina and de Rugy 2013).

7. Conclusion

This paper portrays the effects of the current economic and fiscal crisis on the public sector in Slovenia. Due to the crisis, a public-sector reform became an urgent issue in the policy-making of Slovenian governments. Austerity measures related to the public sector were proposed almost immediately after the crisis emerged, but they were at first only incremental, and only minor reductions in operational costs were expected. Meanwhile the public provision of social services and welfare-state arrangements remained almost intact, particularly during the period 2008-2011. In 2012 a more holistic approach of cutback management was utilized, reflected through the fiscal-balance-act implementation, whereas in 2013 also revenue-enhancing measures were delivered in order to balance the budget. Fiscal crisis has provided the impetus for several public-sector reforms in the context of cutback-management policies. The crisis also changed decision-making mechanisms of the government, as basically concentration of powers within the Ministry of Finance occurred, centralization pressures were reinforced, and the politicization of governance increased during the report period.

The available data indicates that public-sector employment decreased due to the cutback measures, and the average wage in the public sector decreased, leading to wage compression. Further consolidation measures are still needed, as the fiscal deficit remains too large and the debt-to-GDP ratio is still worsening. To conclude, further research on country-specific impacts of the economic and fiscal crisis on public-sector governance is suggested, as scholars recognize that the variety of responses to the crisis reflects both differences in the concepts of managing government and differences in economic and fiscal positions of the country under consideration. Since the effect of the crisis seems to be prolonged in some (especially European) countries, additional case studies analyzing continuous responses of governments to overcome the crisis would be highly appreciated.

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