



# The public sector pay “premium”/gap



EPSU Collective Bargaining and Social Dialogue Conference  
Brussels, 16-17 December 2013

# European institutions target wages

## Annual Growth Surveys 2011-2014

- “strict and sustained wage moderation”
- modernising public administration including rationalisation of the public sector pay system

## Euro Plus Pact – Competitiveness Pact - Pact for the Euro – 2011

- “ensure that wages settlements in the public sector support the competitiveness efforts in the private sector (bearing in mind the important signalling effect of public sector wages).”



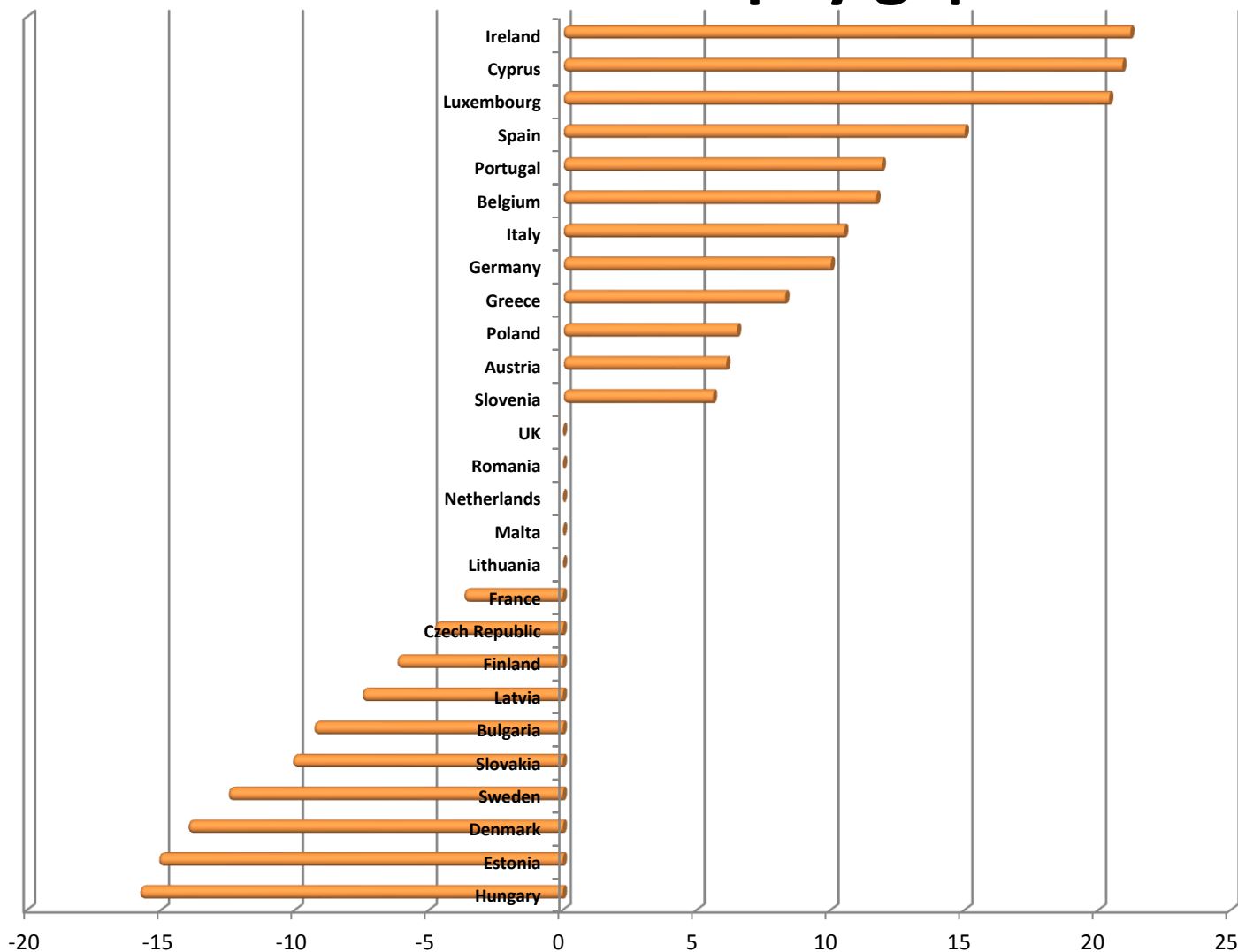
## DG ECFIN Economic Paper, October 2013

- “... cuts in public wages tend to be considered less detrimental for growth than other government expenditure items (e.g. public investment that impacts the productivity of the economy).”
- “Clearly a high wage gap raises the possibility that a reduction in the public wage bill would be accomplished mainly via wage cuts; however such a conclusion should not be drawn unless it is accompanied by a thorough assessment of productivity differentials in both sectors.”



# DG ECFIN Economic Paper, October 2013

## Public sector pay gap



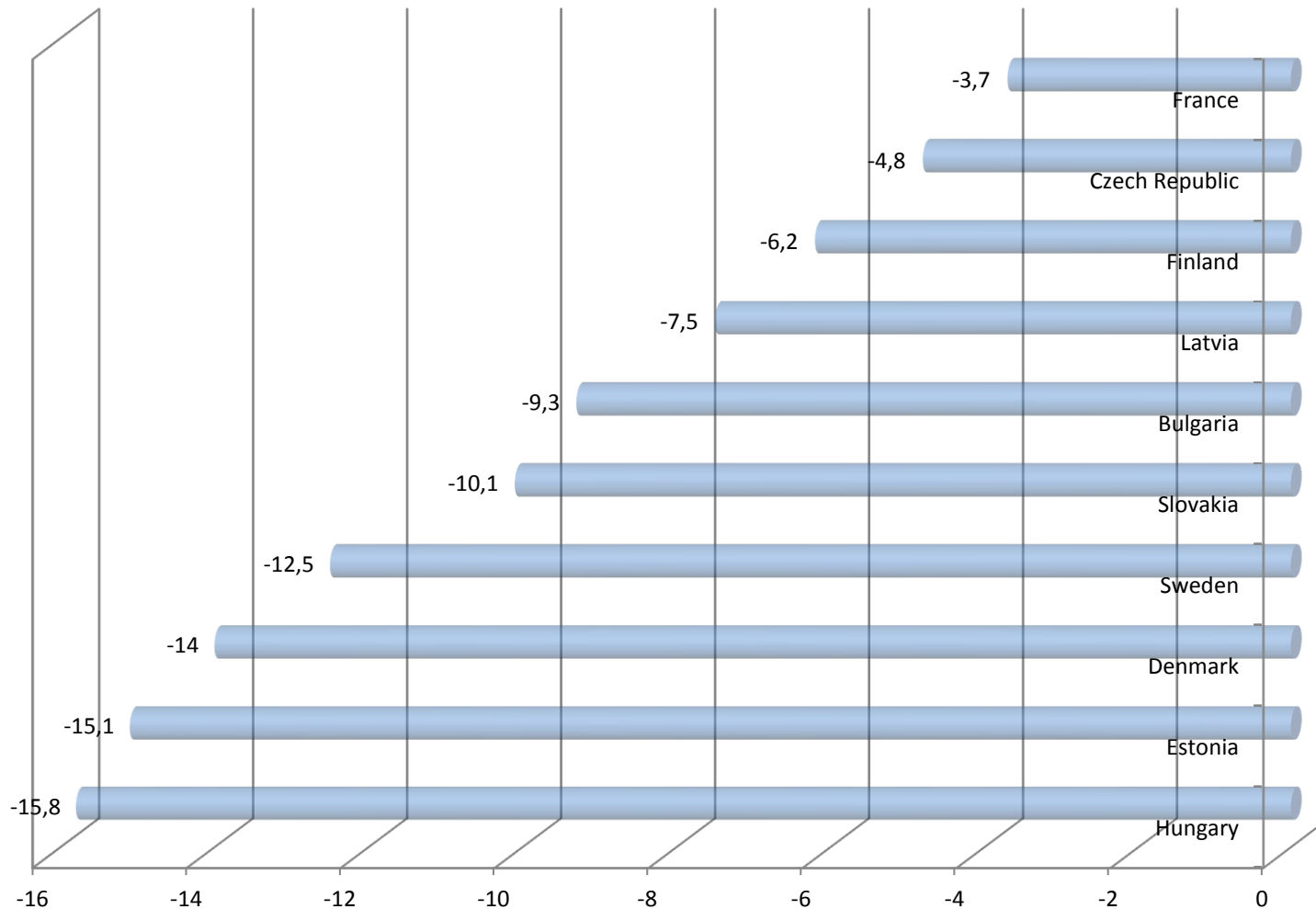
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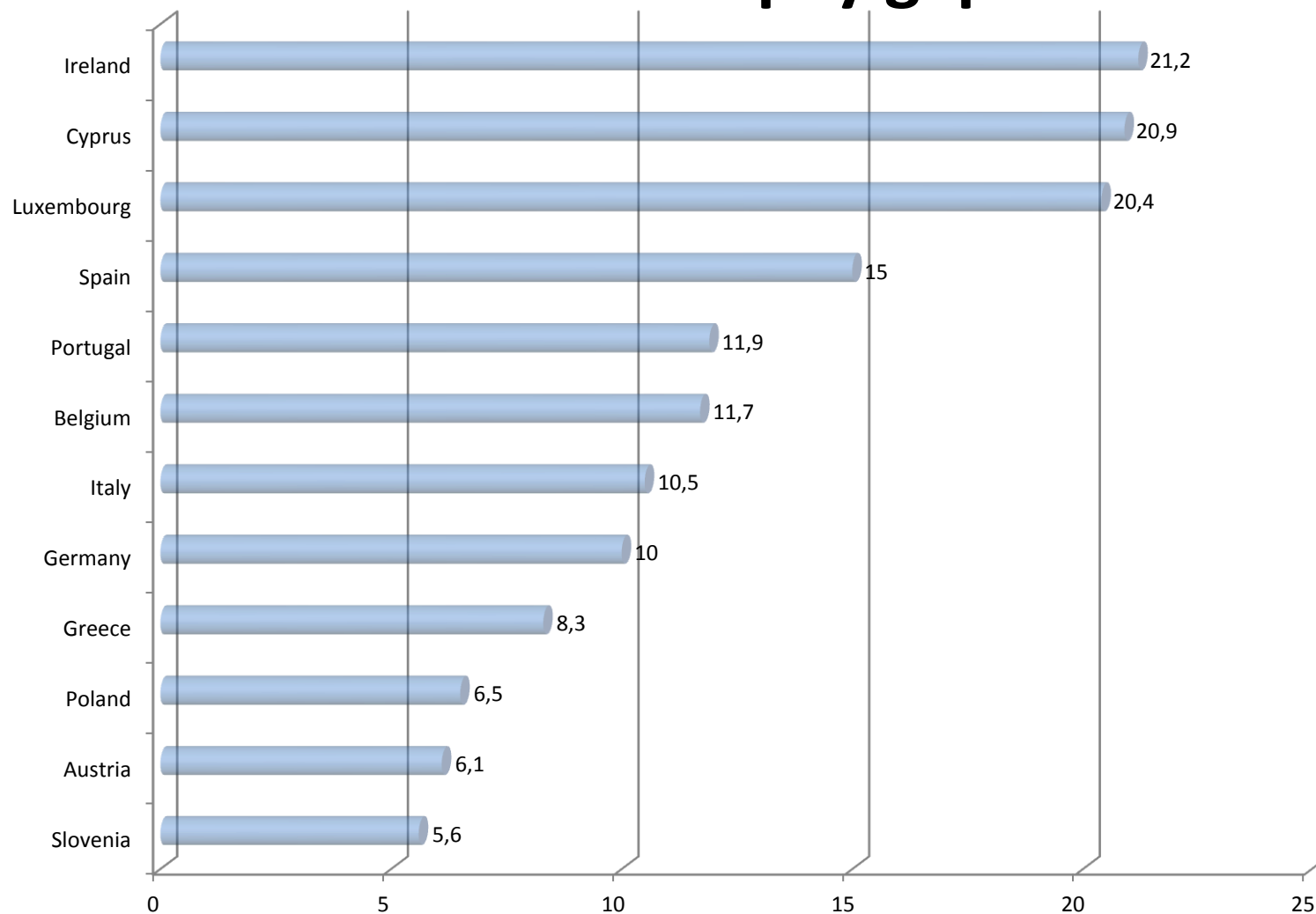


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- “... the real unexplained wage gap is not so sizeable. In fact, in most EU countries the wage gap as measured by the "unexplained" component amounts to only around one-third of the total wage difference (3.6% vs. 10.5%), as the most sizeable part can be explained by differences in the characteristics (the so-called "endowments effect").”
- “On average, it seems that the public wage premium is positive and relatively high, (some 14%) for less skilled workers and negative, in most cases, (almost -6%) for workers with tertiary education. “



## DG ECFIN Economic Paper, October 2013

“... although a positive wage gap is found for public sector workers, this is mainly concentrated on lower-skilled workers, typically occupying lower job positions. Hence, fiscal consolidation measures aiming at reducing the public wage bill may find difficult trade-offs between the efficiency and equity goals.”

Economic Paper 508, October 2013, *The gap between public and private wages: new evidence for the EU*



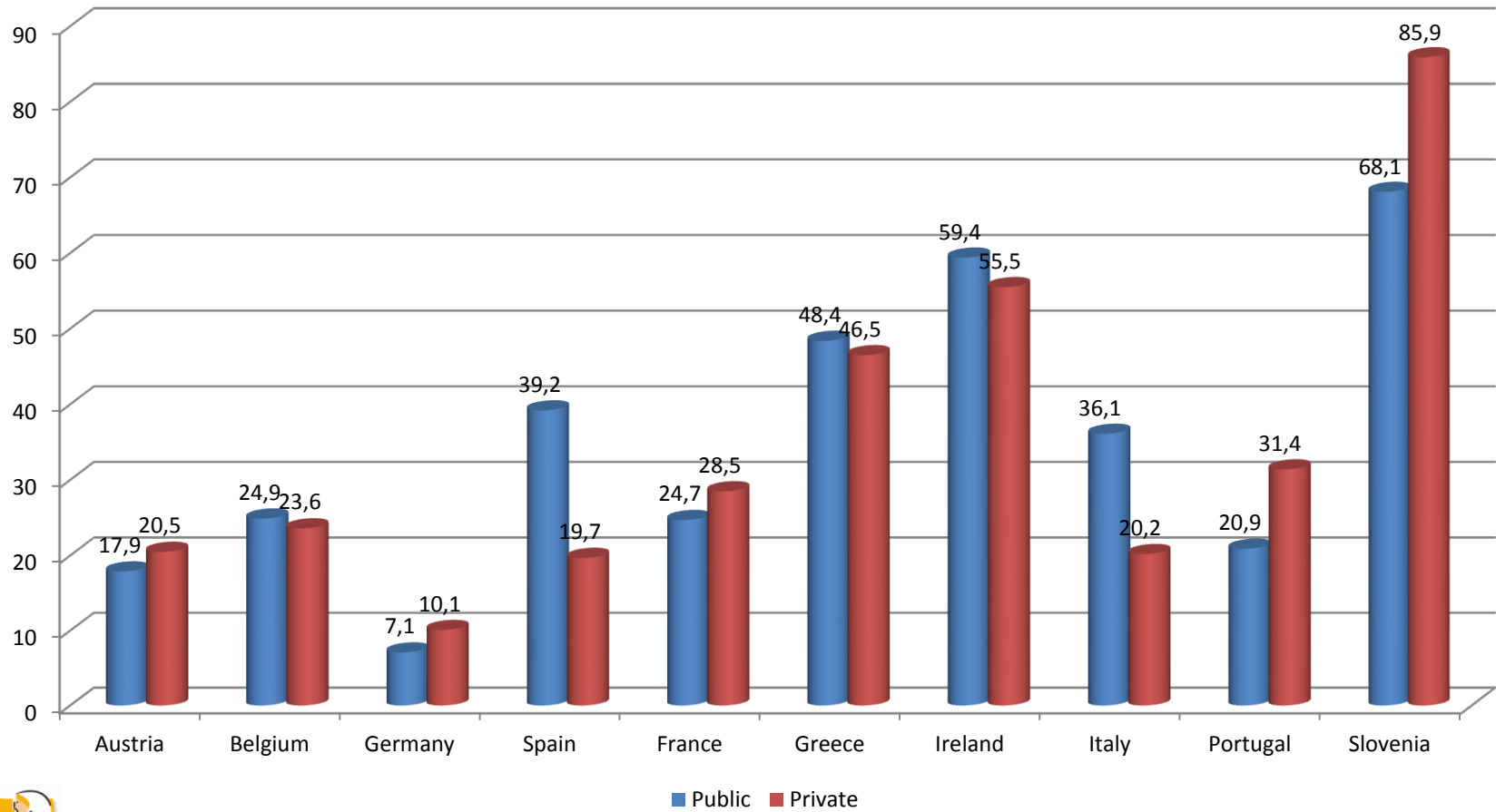
# The view from the European Central Bank

- it is well documented that public sector employees are generally older, better educated and are more likely to take managerial positions. In addition, wage dispersion is much higher in the private sector than in the public sector.



# The view from the European Central Bank

## Public and private pay increases 1998-2007



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# The view from the European Central Bank

- In most cases, the public sector wants to be a good employer and may be willing to pay higher wages to its employees, especially to its lower-skilled workers. By contrast, the government might be reluctant to award higher wages to high-skilled workers, as the public may not want to see public servants earning more than comparably trained and experienced private sector counterparts.
- The pursuit of these actions could have a serious impact on labour market efficiency.



# The view from the European Central Bank

- The results point to a conditional pay differential in favour of the public sector that is generally higher for women, for workers at the low end of the wage distribution, in the Education and the Public administration sectors rather than in the Health sector. The differential generally decreases when considering monthly wages as opposed to hourly wages and if we restrict our comparison to large private firms.



# The view from the European Central Bank

- “premium”... might not be entirely appropriate, as there may be other relevant characteristics that affect the differential, which, because of data limitation, cannot be controlled for ... but such a “premium” can justify wage cut and/or hours increase
- And further reservation: “Of course, when making these general prescriptions operational, sectoral and country-specific features as well as efficiency considerations must be taken in due account.”



# The view from the European Central Bank

## Relationship between public and private sector pay developments

- An ECB working paper from 2008 refers to a "dominant pattern of private sector leadership" or at least common trends where pay tends to follow prices while an ECB occasional paper from June 2010 says: "For the most part, private sector wages seem to exert a stronger influence on public wages than vice versa."
- But persistent theme of wage moderation with public sector as "model" for private sector

