

The gap between public and private wages: new evidence for the EU

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The purpose of this paper is to assess the size of the wage gap between the public and private sectors in the economies of European Union countries, i.e. one of the two elements allowing a justification of the choice of reducing wages in the public sector. 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.

This paper relies on the European Structure of Earnings Survey (SES henceforth), compiled by Eurostat for the years 2006 and 2010. On average, public sector employees have different characteristics to private sector workers in terms of educational skills, age and job positions. Such differences are related to the nature of the work but also to a number of institutional features which condition workers preferences and choices. It is a well-established result in the literature that public sector employees are, on average, older, more educated and more likely to take managerial positions than private sector ones, and thus tend to enjoy a higher wage level because their characteristics normally bring a higher-than-average wage. Therefore, an accurate measurement of the wage gap calls for controlling for individual characteristics such as age, gender, and educational attainment. Relatively high per-capita wages in the public sector, if not justified by differences in labour skills or occupational position, may entail inefficiencies on several fronts.

A first analysis assesses the wage gap for the EU as a whole, based on panel estimates and the Blinder-Oaxaca decomposition to measure the gap not explained by the different characteristics between private and public workers. Secondly, we deepen our analysis by assessing the public sector wage gap by groups defined by some specific characteristics. This type of analysis is done both at the country and the EU levels.

The main finding of the paper is that in 2010 public sector employees in the EU enjoyed on average higher wages than their counterparts in the private sector. This result is observed in the majority of the countries analysed, with exceptions seen in many eastern European and Nordic countries as well as France. A higher wage premium is found for woman in “old” member states only. In line with the literature, the public wage premium is, in general, higher for workers with lower levels of education and, correspondingly, negative public wage premia are found for workers at higher positions, whereas the positive and sometimes large overall public wage gaps are mainly explained by the sizeable gaps observed at lower job positions.

In view of these findings, fiscal consolidation measures aiming at reducing the public wage bill may find difficult trade-offs between the efficiency and equity goals.