

“Public-private sector wage gap in a group of European countries: an empirical perspective”

Kamila Sławińska, Warsaw School of Economics and Narodowy Bank Polski

Non-Technical Summary

This paper *Public-private pay gap in a group of European countries: an empirical perspective* investigates the evolution of wages in the public and the private sectors over the recession of early 2010s and the changes in the public-private pay gap that occurred in this period in a group of 26 EU countries.

The economic crisis of early 2010s is depicted as the most severe economic crisis since ‘the great recession’ of 1930s. The recent downturn is associated not only with a negative economic growth in the global economy but it was followed by the indebtedness crisis that impelled governments in most of the EU countries to implement fiscal consolidation measures in order to slow down further debt growth. Both worsening economic conditions and fiscal consolidation measures, namely wage bill containment, could have an impact on wages in the public and the private sectors.

The article’s approach to answering these questions is based on the framework proposed by Oaxaca (1973) and Blinder (1973), i.e. the paper compares wages offered by the public and the private sectors before (in 2008) and after (in 2013) the crisis and indicates if those changes can be attributed to differences in workers’ characteristics or to economic conditions and implemented fiscal measures.

The study indicates that in most of the countries the real wages declined in both sectors over the analysed period and the drop in wages was especially remarkable in the peripheral Euro Area countries. The observed decrease in earnings was mostly attributable to different valuation of characteristics by a particular sector before and after the recession. The paper suggests that generally, public sector employees are better remunerated in comparison to the private sector workers. But the difference in earnings results mainly from superior characteristics of the public sector employees. The presented findings imply an existence of a regional pattern – the positive premium paid to public sector workers is much larger in case of the Southern European countries than among other EU member states. The overall public-private pay differences decreased or remain unchanged in most of the countries. The major factors that contributed to these changes are worsening of economic conditions and implemented fiscal consolidation measures.

Keywords: public-private sector wage gap, decomposition method, wage determination, fiscal policy