

The public-private sector pay debate

Torsten Müller (ETUI) & Thorsten Schulten (WSI)

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Public sector wages and the EU crisis management

Basic assumption: Debt and Competitiveness crisis



1. Austerity: public sector wage cuts to reduce public spending to stabilize state budgets and to reassure bond markets

2. “Structural reforms“ to improve cost competitiveness by ensuring moderate wage developments in the private sector

Public sector pay and private sector competitiveness

Key argument:

Excessive wage developments
in public sector drive up wages
In exposed private sector thereby
undermining cost competitiveness



European tools to keep public sector pay down:

- Euro-Plus Pact 2011
- Country-specific recommendations
- Memoranda of understanding

Underlying assumptions of policy to cut and freeze public sector pay

1.) There is excessive wage development leading to “unjustified” wage premium



2.) There is public sector wage leadership driving up private sector wages



3.) Improving cost competitiveness is the key to get out of the crisis

Literature on public-private sector pay gap

Public sector **pay premium** in many western European countries plus Slovenia



Public sector **pay penalty** in CEE countries plus France, Denmark and Finland

➤ Results are diverse and often inconsistent

Factors that explain variations in findings on pay gaps:

- Data sources and methods
- Definition of public sector
- Time period covered
- Type of wages considered: hourly vs. monthly wage
- Difficulty to assess the whole pay package: problems of fringe benefits and non-monetary components



Public-private sector wage gap 2012

Public sector wages in % of private sector wages

WSI

	<i>Year</i>	<i>Month</i>	<i>Hour</i>		<i>Year</i>	<i>Month</i>	<i>Hour</i>
Czech Rep.	95.7	95.7	96.5	Bulgaria	96.1	96.2	101.0
Denmark	86.0	86.0	92.6	Netherlands	96.1	96.1	109.1
Estonia	87.6	87.7	91.3	Poland	99.7	99.7	115.7
Germany	91.9	91.9	92.3	Spain	99.0	99.0	109.4
Finland	87.8	87.8	94.0	UK	98.4	98.4	101.5
France	80.9	80.9	86.3	Croatia	108.8	108.8	111.1
Hungary	80.5	80.5	81.2	Cyprus	100.1	100.1	111.1
Latvia	90.2	90.2	92.5	Ireland	116.1	116.1	134.4
Romania	88.9	89.0	90.0	Italy	100.0	100.0	117.4
Slovakia	82.6	82.5	86.8	Lithuania	105.3	105.3	112.0
				Luxembourg	102.7	102.7	109.7
				Portugal	106.9	106.9	116.7
EU 28	93.3	93.3	98.9	Slovenia	107.0	107.0	109.6

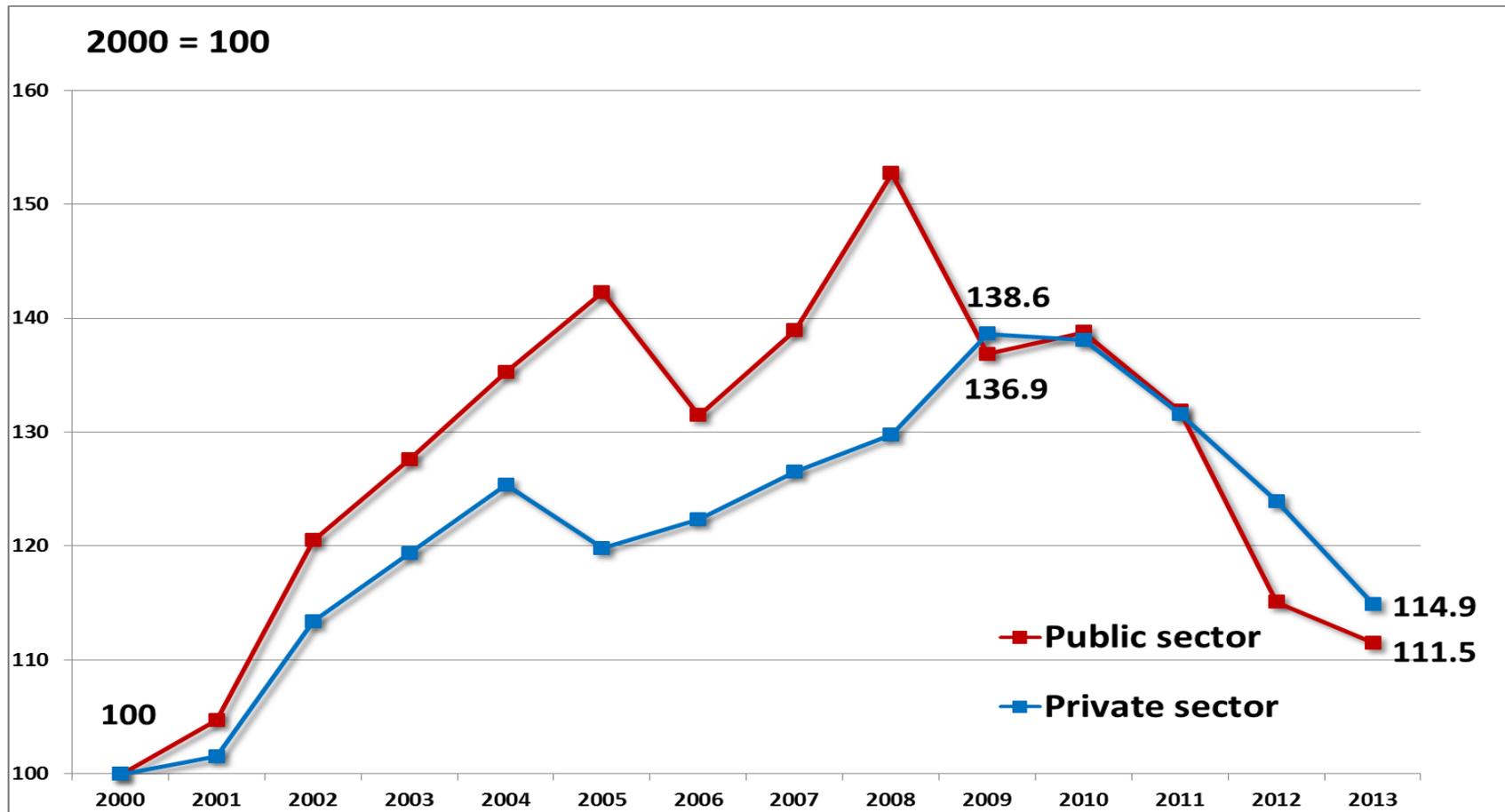
Is there public sector wage leadership?

Previous studies from ECB and DG ECFIN:

- Results are rather differentiated and often inconsistent
- Often a mutual influence of private and public sector wage developments
- Private sector leadership is more common !



Public and private sector wages in Greece, 2001-2013 (in % points)

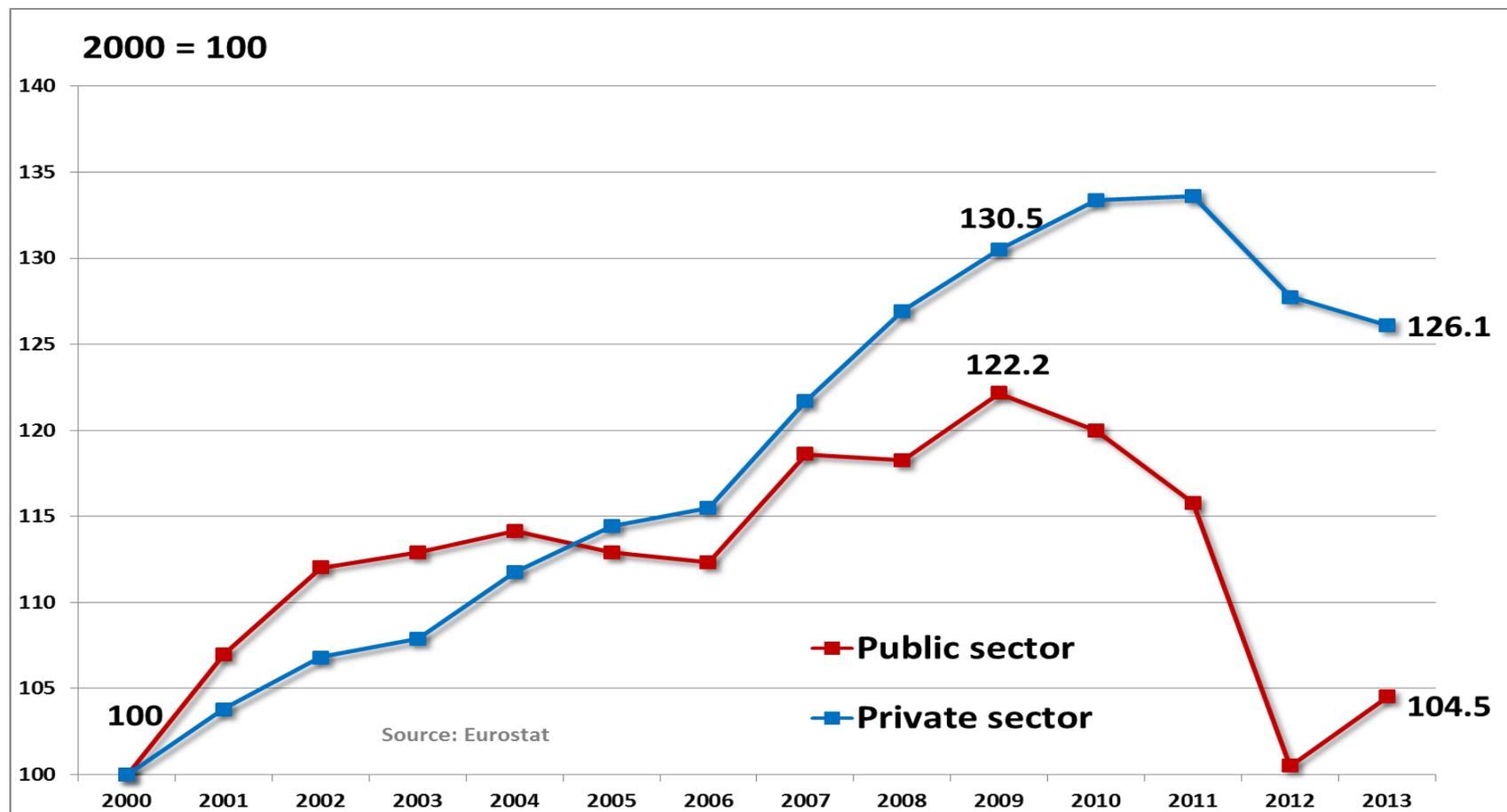


Private Sector: NACE Code B-N (Business economy)

Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)

Source: Eurostat Labour Costs Index, calculations by the authors

Public and private sector wages in Portugal, 2001-2013 (in % points)

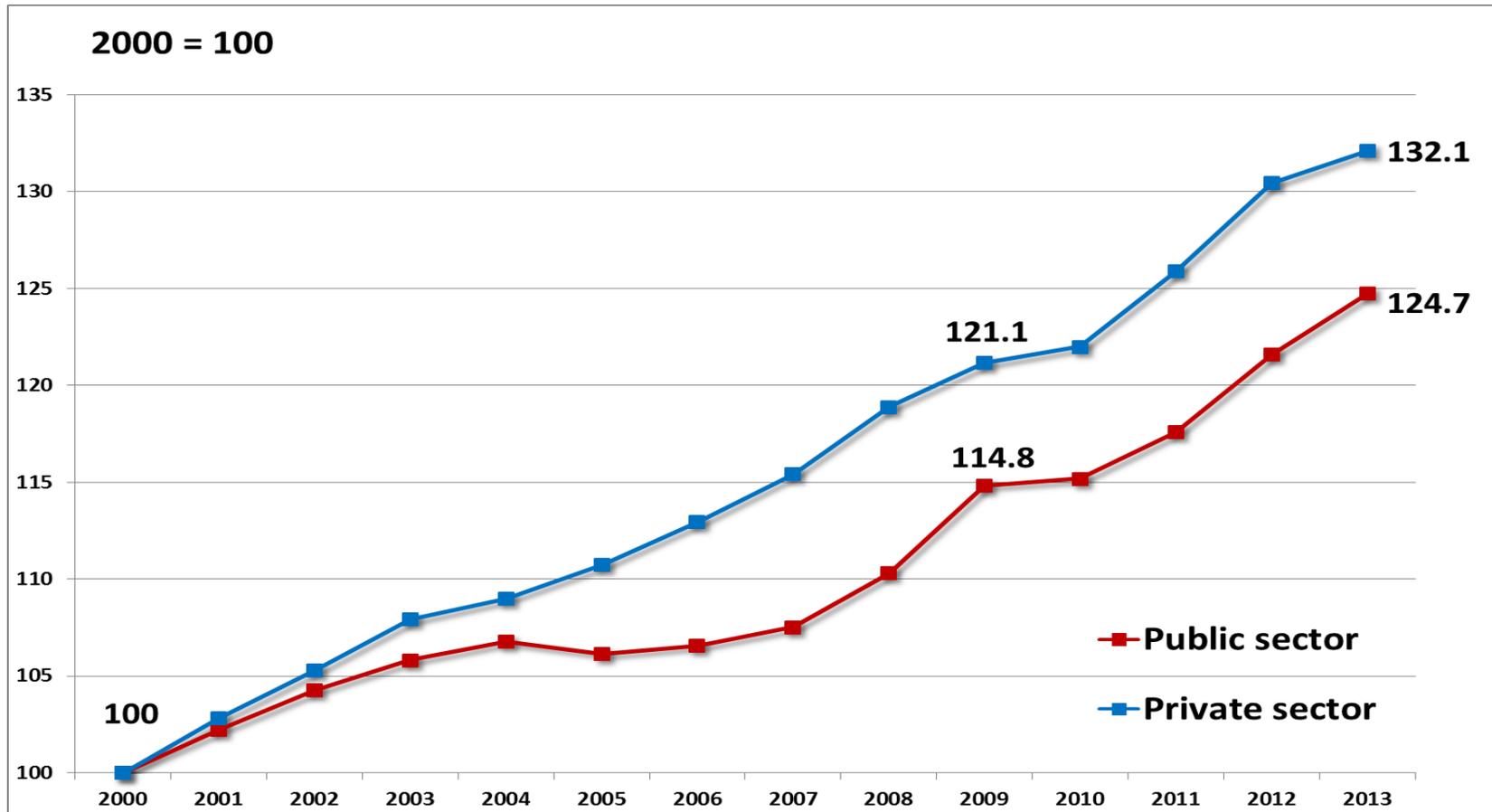


Private Sector: NACE Code B-N (Business economy)

Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)

Source: Eurostat Labour Costs Index, calculations by the authors

Public and private sector wages in Germany, 2001-2013 (in % points)

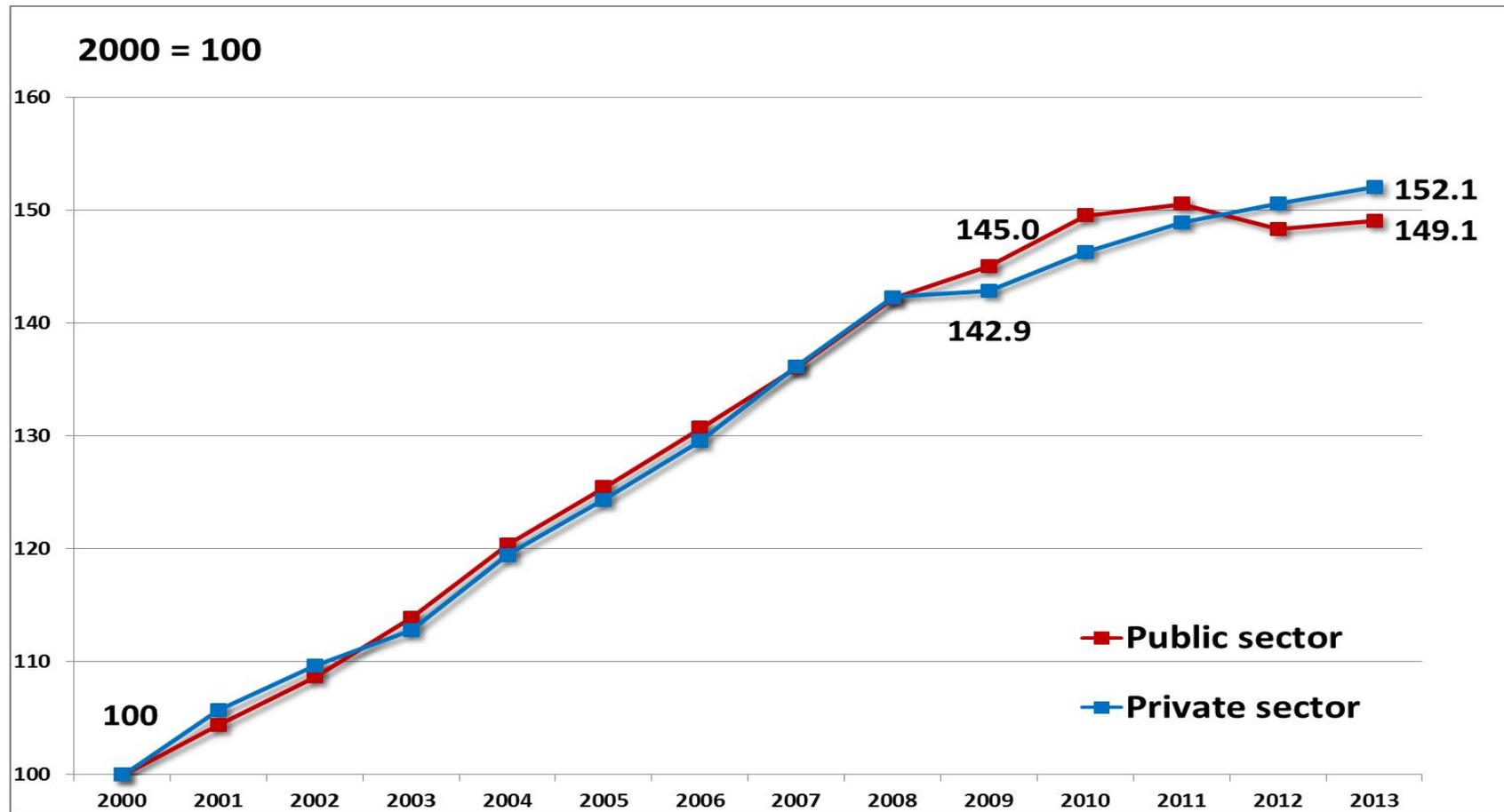


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Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)

Source: Eurostat Labour Costs Index, calculations by the authors

Public and private sector wages in the UK, 2001-2013 (in % points)

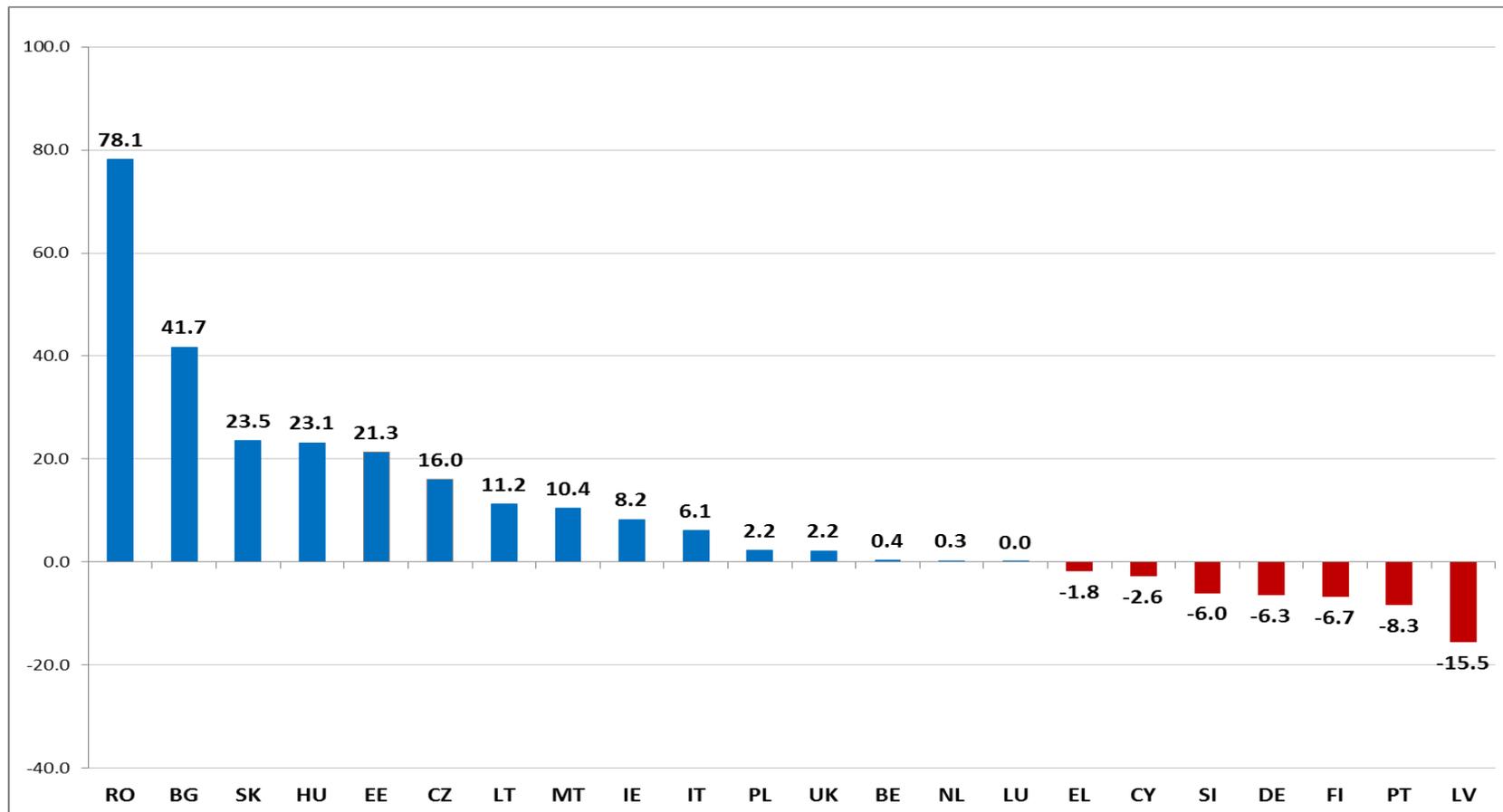


Private Sector: NACE Code B-N (Business economy)

Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)

Source: Eurostat Labour Costs Index, calculations by the authors

Differences in public and private sector wage growth, 2001-2009 (in % points)

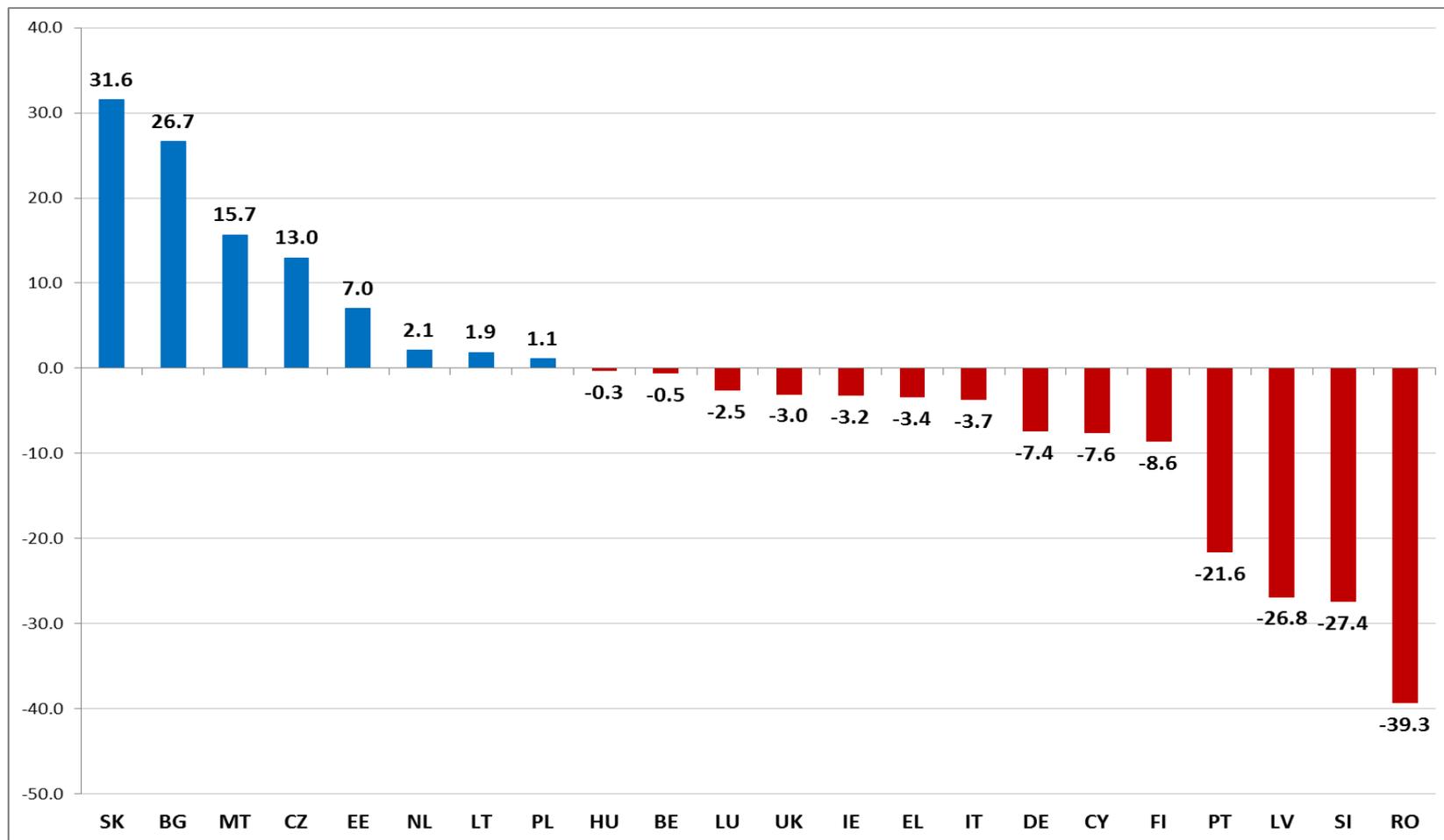


Private Sector: NACE Code B-N (Business economy)

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Source: Eurostat Labour costs Index, calculations by the authors

Differences in public and private sector wage growth, 2001-2013 (in % points)

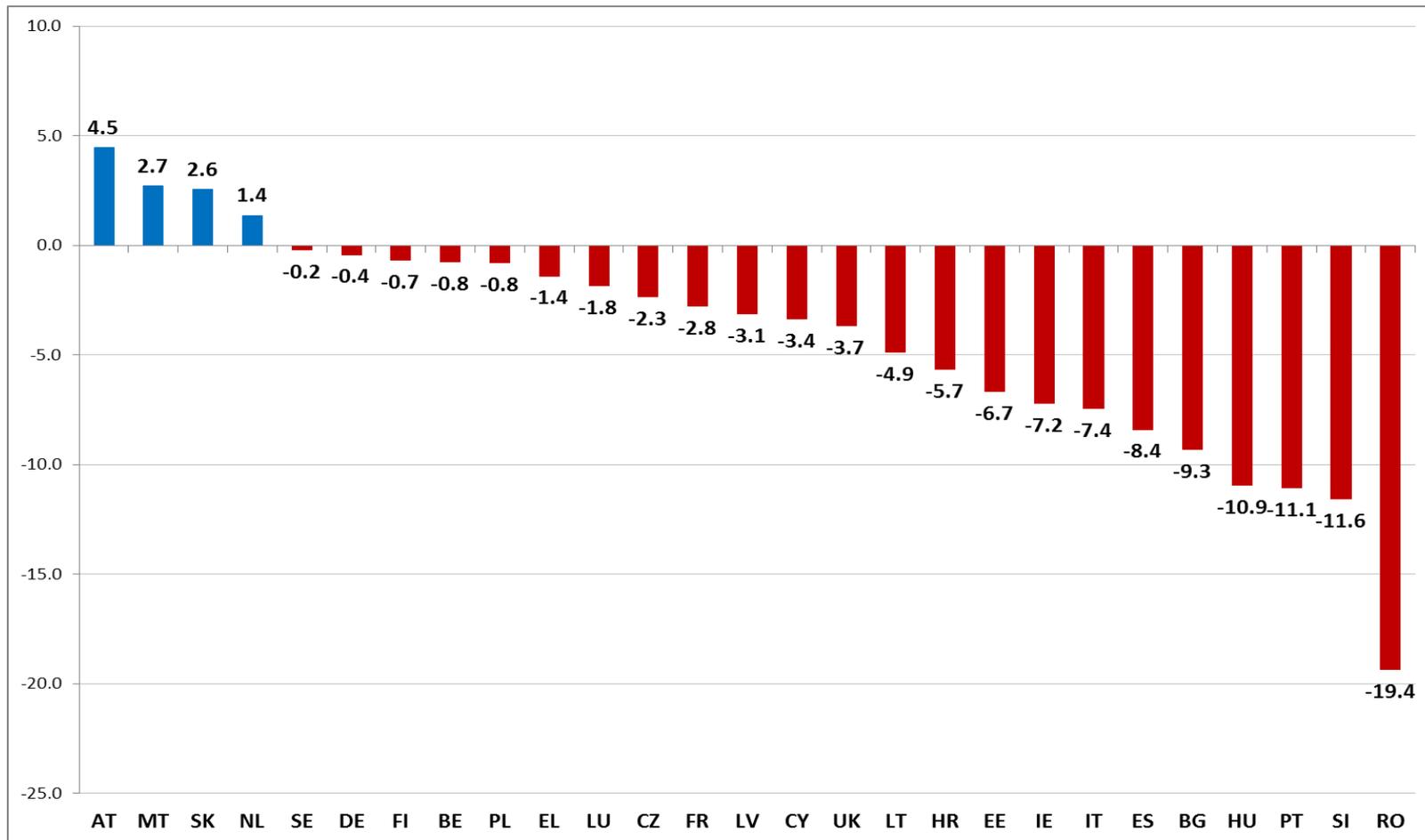


Private Sector: NACE Code B-N (Business economy)

Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)

Source: Eurostat Labour Costs Index, calculations by the authors

Differences in public and private sector wage growth, 2010-2013 (in % points)



Private Sector: NACE Code B-N (Business economy)

Public Sector: NACE Code O-S (Public administration and defence; compulsory social security; education; human health and social work activities; arts, entertainment and recreation)

Source: Eurostat Labour Costs Index, calculations by the authors

Findings of analysis of recent figures

- **No clear evidence for claim of public sector pay premium: diverse picture**
- **No clear evidence for public sector wage leadership in pre-crisis period: mixed picture**
- **Pressure on public sector wages during crisis: public sector wages much harder hit than private sector wages**

Cutting public sector wages to improve private sector competitiveness and to boost exports not promising



- **No empirical evidence for public sector wages undermining competitiveness**
- **Narrow focus on cost competitiveness**
- **Narrow conception of role of wages**
- **Overestimating role of exports for growth**

Alternative approach...



A strong public sector

- to boost aggregate demand
- to provide a modern public infrastructure as a major precondition for a competitive economy



Thank you very much for your attention!!!

WSI



Dr. Torsten Müller

ETUI

Bld. du Roi Albert II, 5

1210 Brussels

Belgium

tmueller@etui.org



Dr. Thorsten Schulten

WSI

Hans-Böckler-Straße 39

40476 Düsseldorf

Germany

Thorsten-Schulten@boeckler.de