

2011-12-14

PRESS RELEASE

Public sector wages

(Article for the December 2011 Economic Review)

Remuneration paid by public administrations in Belgium amounted to one-quarter of their primary expenditure in 2010. Because current conditions call for fiscal consolidation, it is important to examine whether this component of spending could be a source of budget savings, including by adjusting wages.

After covering the level of public sector employment in a previous article¹, this article examines principally wage gaps between the public sector and the private sector. It focuses mainly on the situation in Belgium as compared with nine other euro area countries (Austria, France, Germany, Greece, Italy, Ireland, Portugal, Slovenia and Spain), a study of which using microeconomic data was recently completed.

In most of the countries analysed, wages are higher in the public sector than in the private sector, regardless of whether macroeconomic or microeconomic data are used. With the former, it is not possible to consider differences in the characteristics of the populations working in each of the two sectors. Indeed, the public sector – notably in Belgium – is made up of more women, older workers, and people with a higher level of education, but public sector employees work fewer hours and are less likely to occupy a managerial position. To take these factors into consideration when comparing wages between the two sectors, microeconomic data from the EU-SILC survey were used. The observations based on the microeconomic and macroeconomic data overwhelmingly corroborate each other.

The analysis shows that the countries where the average wage gap is the biggest in favour of the public sector's employees are also the countries experiencing the toughest budget woes. According to microeconomic data, wage gaps – expressed in net hourly terms – are over 20 % in Portugal, Spain, Italy and Greece. The gap in Ireland is 14 %. As part of fiscal consolidation efforts in those countries, which are under particular pressure from financial markets, steps have been taken to limit the total wage bill of public administrations.

In most of the countries studied, the wage advantage enjoyed by public sector workers holds for every sub-set of workers, although to differing extents. Thus, wage gaps are the widest for women, for lower levels of income, for those who do not have supervisory functions, and in the branches of administration and education. The impact of education level on wage gaps varies from one country to the next.

The wage gap between sectors in Belgium is one of the narrowest of any country studied, regardless of what data are used. According to macroeconomic data, it tends to be slightly in favour of the private sector's employees. According to microeconomic data, in which wages are adjusted to control for individual characteristics – gender, experience or age, education level and managerial duties – wages are slightly higher in the public sector than in the private sector. For many groups of workers, the gaps are so limited in Belgium that they are not statistically significant. The gaps are relatively narrow in Belgium principally because average wages in the private sector are relatively high, as public sector wages are close to those of most other European countries.

As the level of public sector wages in Belgium appear justified when compared with those in the private sector, given the respective characteristics of employees in the two sectors, any reduction in public spending on public sector payroll, as part of the necessary clean-up of public finances, should favour limiting public employment.

¹ Bisciari P., B. Eugène and L. Van Meensel (2009), "Public employment in Belgium", NBB, Economic Review, 55–70, June.