

The Economics of Public Employment: An Overview for Policy Makers

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Comments by:

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Outline

➤ **Excellent report on the renaissance of the Public Employment debate after the Great Recession and in the midst of the Great Contagion**

“Lazy bureaucrats to be cut” vs. “ Providers of public policies to be protected”

➤ **Three goals**

- **Establishing the facts about **g**-sector (vs. **p**-sector)**
- **Reviewing the literature (in a critical way)**
- **Providing policy recommendations & a roadmap for reforms**

Facts

Observable heterogeneity dimensions in **g**-sector

- Females (+40%), Older (peak at 50-60), High Skilled (+60%), Poorer regions (+ crowding in...except Alesina and nepotism)
- Wage compression (wage premium for LS vs. wage penalty for HS)
- Less wage compression in Northern than Southern EU countries
- Higher (but declining) unionization in **g** than **p** everywhere
- Lower turnover in **g** (higher job stability)
- Lower gender gap in **g**

Unobservable heterogeneity dimensions in **g**-sector

- *“Hire best person for the job” vs. “Hire right person for the job”*
- HS women may prefer **g** (less statistical discrimination than in **p**)
- HS men may prefer **g**, especially in countries with high degree of over-education.
- For HS women: $\uparrow W_g$...while for HS men: $\downarrow W_g$

Models

Theories on wages (W) and employment (E) at g

- RBC: $\rightarrow \uparrow E_g \rightarrow \downarrow E_p$ (crowding out) $\rightarrow \uparrow W_p$...
- SaM (random): $\rightarrow \uparrow W_g \rightarrow \uparrow W_R$ (res. wage) $\rightarrow \uparrow W_p \rightarrow \downarrow E_p$
- SaM (directed): $\uparrow W_g \rightarrow$ long queues in $g \rightarrow \downarrow V_p \rightarrow \downarrow E_p$
- Lack of “demonstration” effects of W_g on W_p if $E_g = \text{constant}$ (nice result on a highly ideological debate)
- Scarcity of job-ladder models where low W_g for HS may enhance contacts that improve prospects in p (*revolving doors*)

Policies

Recommendations

W_g = W_p... Monopsony !! (L: low skilled, H: high skilled)

$$\min_{L,H} [w_L L(w_L) + w_H H(w_H)] \quad s.t. \quad Y = H^\alpha L^{1-\alpha}$$

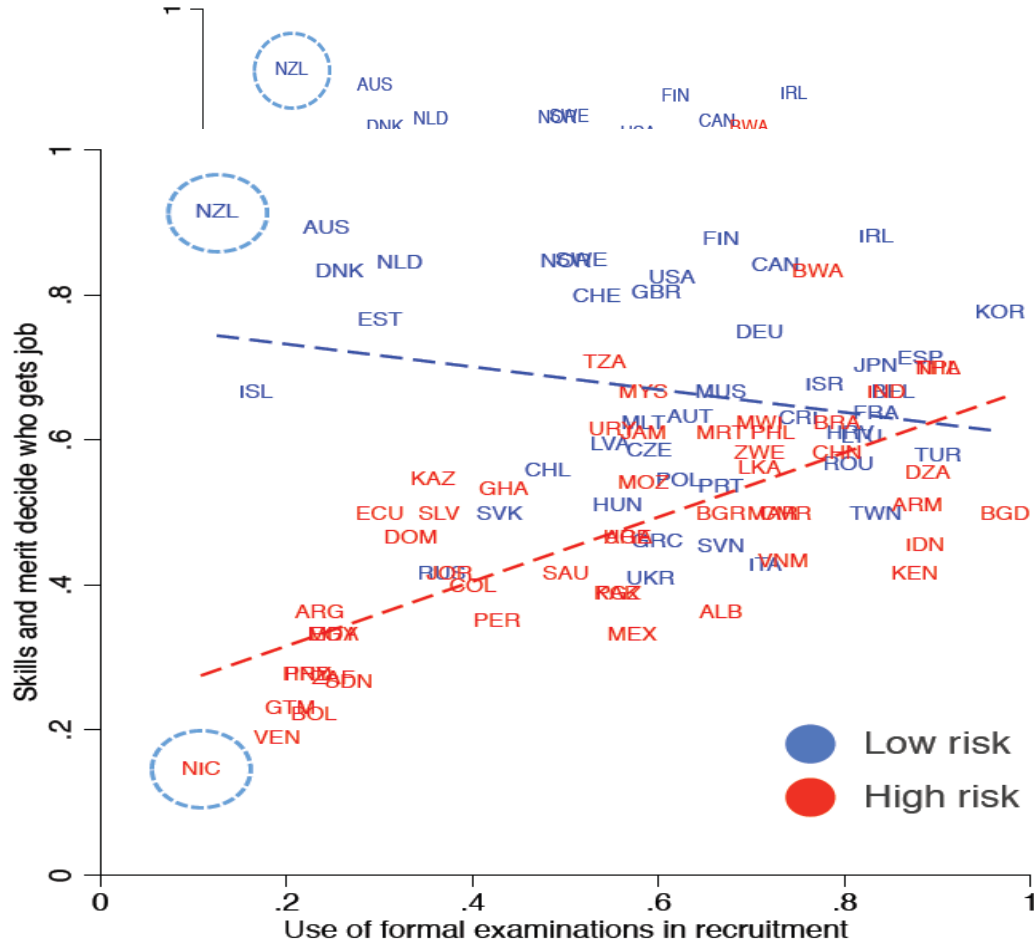
$\varepsilon_i = \text{elasticity labour supply with } \varepsilon_H < \varepsilon_L$

$$\rightarrow \frac{w_H}{w_L} < \text{perfect comp} \quad \& \quad \frac{H}{L} > \text{perfect comp}$$

That would explain wage compression and H – intensity

But what if monopsony power is higher in **p** (Alan Manning's EEA Marshall Lecture) ? Should **g** follow **p** ?

How are the best recruitment practices in **g**?

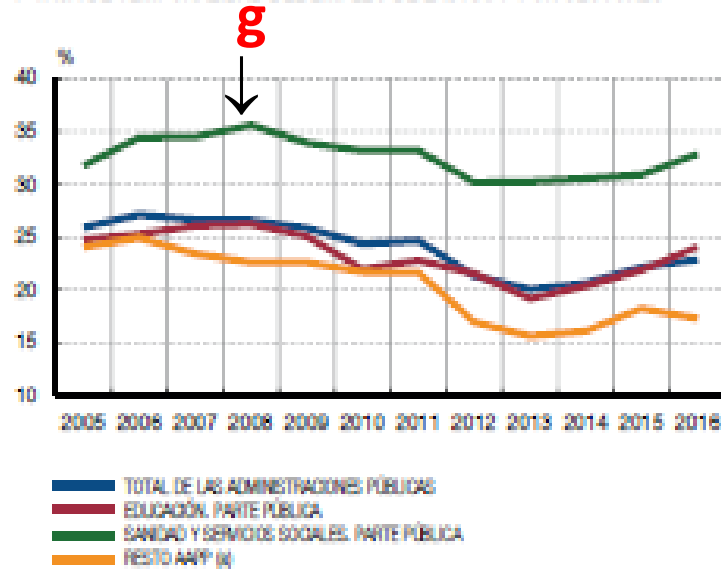


Austerity and job stability: the surge of TC in **g** (Spain)

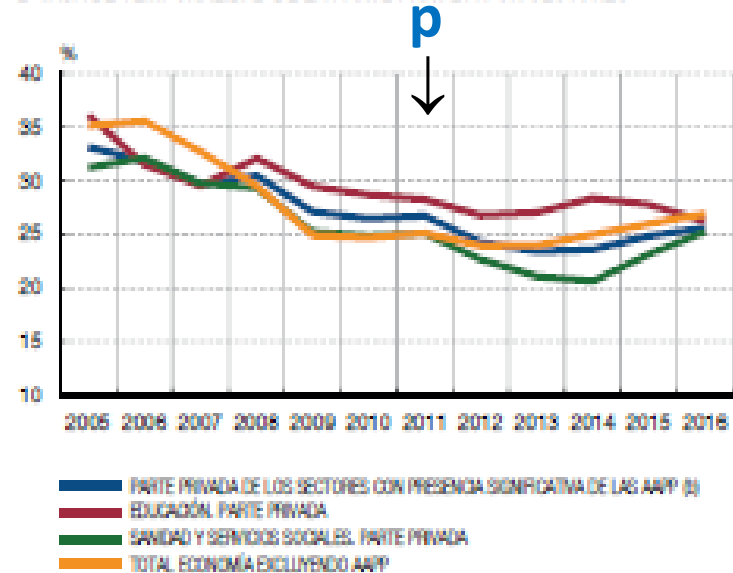
TASA DE TEMPORALIDAD EN LOS SECTORES PÚBLICO Y PRIVADO

GRÁFICO 6

1 TASA DE TEMPORALIDAD DEL EMPLEO DE LAS AAPP POR SECTORES



2 TASA DE TEMPORALIDAD DE LA PARTE PRIVADA POR SECTORES



FUENTE: Encuesta de Población Activa (INE).

Thanks for your attention