

Public Sector Jobs

“Working in the public sector.
Evidence from Europe and the US”

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Working in the public sector

Evidence from Europe and the US

*“This crisis has reminded us that Government matters,
has reminded us that good Government matters
has reminded us that facts and science matter”*

(Barak Obama, 14/4/2020)

- Covid-19 crisis has put the State and its functions back at the center stage of the political debate
- public sector has a unique role in coordinating activities, regulating market behavior, mobilizing resources across sectors and areas
- improving public sector efficiency is one of the main challenge for most countries
- the report focuses on the way internal labour market and personnel policies contribute to public service provision
 - such as education, health care and other government services

Plan of the talk

Working in the public sector: Europe vs. US

- Who is in the Public sector ?
- The Public-Private Pay Differential: Some stylized facts
- Incentives and Collective Bargaining
- Job Quality, Employment Prospects and Absenteeism
- Discrimination and Obnoxious Behaviors
- Policy implications and conclusions

Who is in the Public sector?

What do we do ?

- Investigate the main determinants of the likelihood of being employed in the public or private sector of the economy (i.e. *Public* dummy recording individual's affiliation)
- use data from *6th European Working Conditions Survey* and *2nd American Working Conditions Survey* (both fielded in 2015)
- estimate a linear probability model regressing public sector affiliation, on demographic characteristics and personality traits
 - pro-social attitudes to contribute to a “social cause”
 - intrinsic motivation for “useful work” as an implicit reward (Bénabou & Tirole 2006)

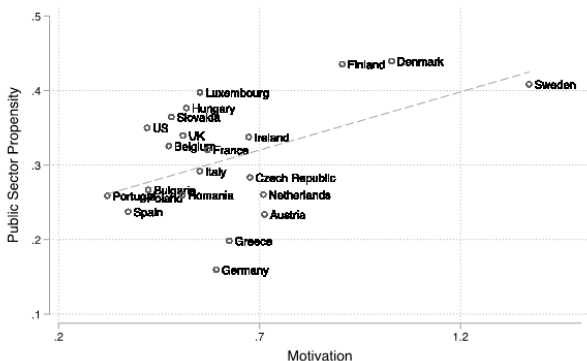
Who is in the Public sector? Europe vs. US

- In **Europe** (and Italy) the public sector generally attracts more women, employees are older, more educated and more likely to be unionized, while immigrants are less represented
 - sorting in the public sector is significant in Europe (more in Nordic and less in Mediterranean countries)
 - prosocial behavior and intrinsic motivation matter
- In the **US** individuals' characteristics are more evenly distributed across public-private, with non-white minorities more likely to be represented in the public sector
 - prosocial behavior and intrinsic motivation play a much smaller role

Public sector employment propensity score

Prosocial behavior and intrinsic motivation

- Cross-country correlation: public sector employment propensity (score) and prosocial behavior and intrinsic motivation (score)
 - where commitment to societal problems and motivation to do useful work is stronger also propensity to work in the public sector is higher (caution: reverse causality)



Source: AWCS and EWCS data

Empirical Analysis of Public-Private Pay Differentials

Incentives, Pay and Performance-Related-Pay

- The analysis of pay and sector choice constitutes a formidable challenge for public-private sector comparison
- pay differentials can make public sector jobs relatively attractive (or unattractive) with implications for recruiting and retaining employees
 - note: differences between public and private sector jobs go beyond pay levels (i.e. job attributes, working conditions and pension rights)
- better-quality job, higher intrinsic motivation, more satisfaction from work, etc. involve trade-offs between pay and the utility associated with the non-pecuniary aspects of the job
 - i.e. more risk-averse individuals may value job protection and regulated career advancements and willing to sacrifice some pay for that
- depending on the distribution of job amenities and pecuniary incentives, the attractiveness of public sector jobs may change (i.e. with job type and along the wage distribution)

- We compare the distribution of pay levels in the public and private sector in both Europe and the US
- we specify a standard wage equation

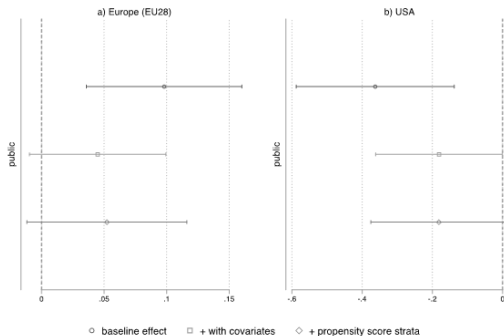
$$\log Y_{ic} = \alpha_c + \beta \text{Public}_{ic} + X'_{ic} \delta_c + \theta_c + \epsilon_{ic}$$

- $\log Y_{ic}$ is the outcome of worker i in country c (e.g. log of gross monthly wages)
- X'_{ic} is a vector of individual characteristics (gender, age, citizenship, education) and job attributes (part-time, type of contract, main occupation and industry dummies)
- θ_c are country fixed-effects
- $\hat{\beta}$ is the coefficient of interest (i.e. public-private differential)
- use sampling weights and cluster standard errors by country
- also estimate separate equations by country clusters: US vs. Europe (Nordic, Continental, Anglo-Saxon, Mediterranean and Eastern)

Public-private pay differential

Europe vs. US

- Compare a “typical” public vs. private-sector employee (EU28 & US)

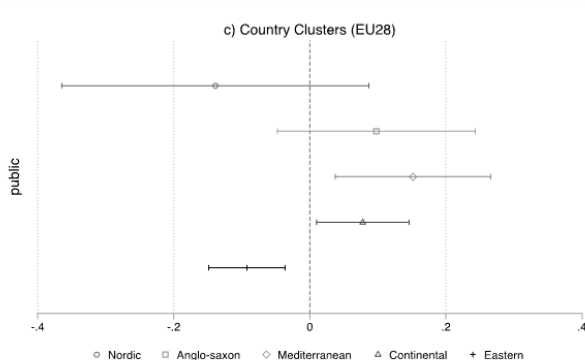


1. baseline: public sector dummy + country fe
2. baseline+covariates (individual & job controls)
3. baseline+covariates+PS strata (matching with propensity score)

Public-private pay differential

EU28 clusters

- EU28 clusters: Nordic, Anglo-Saxon, Mediterranean, Continental and Eastern

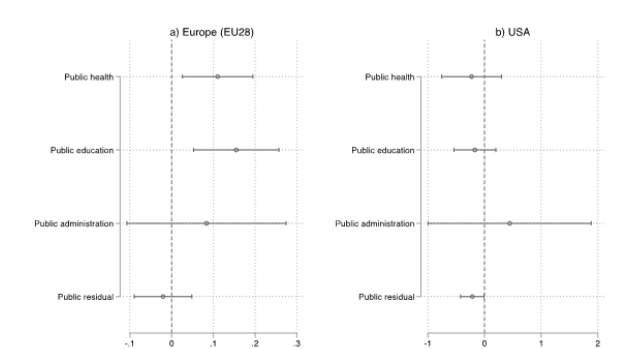


Source: AWCS and EWCS data. See Table A2 in the appendix for controls included and SE clustering.

Public-private pay differential

Healthcare, Education and Public Administration

- US vs. EU28 (Healthcare, Education and Public Administration)



Source: AWCS and EWCS data. The reference category for each service is given by comparable private sector employees. See Table A2 in the appendix for controls included and SE clustering.

Incentives, Pay and Performance-Related-Pay

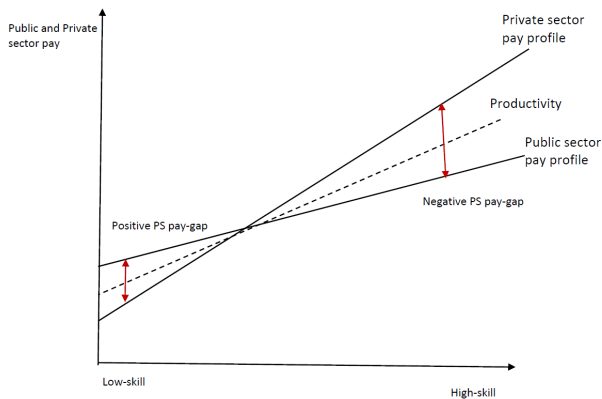
Occupations and skills

- Focus on the “typical” employee can be misleading given the wide range of skills
 - **healthcare service** - wide range of occupations (& skills) such as nurses, technicians, physicians, scientist, administrative staff, etc. which the public and private sector have to recruit on the market
 - **education** - porters, teachers, school principals, university professors and researchers
- if pay dispersion is larger in private sector, “high skilled” employees less likely to apply to *public* sector jobs, or move to *private* sector jobs (the reverse applies to the “low skilled”)
 - due to high unionization rates, collective bargaining and equal pay policies, in general the public sector pays more low-skilled employees, less the high-skilled
 - simple Roy model predicts positive (negative) selection at the bottom (top) of the skill distribution

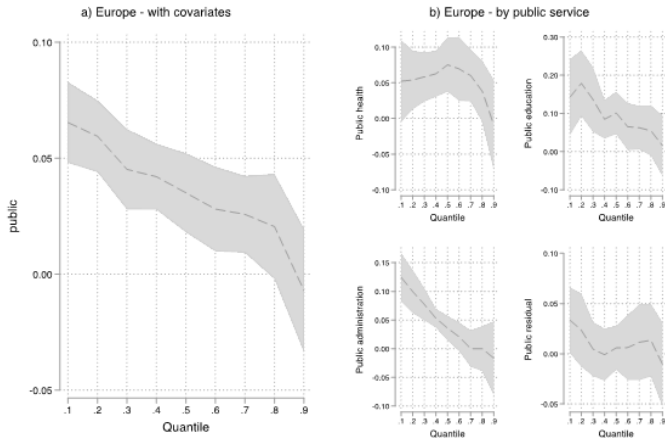
Personnel economics of the State

public-private pay differential along the skill distribution

- Public-private sector pay differentials along the skill distribution

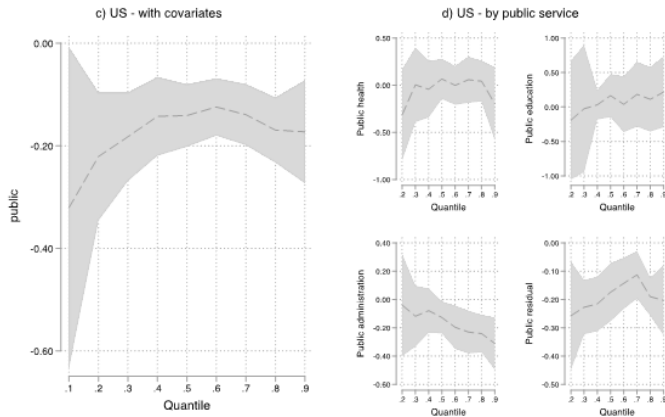


Incentives, Pay and Performance-Related-Pay Europe



Incentives, Pay and Performance-Related-Pay

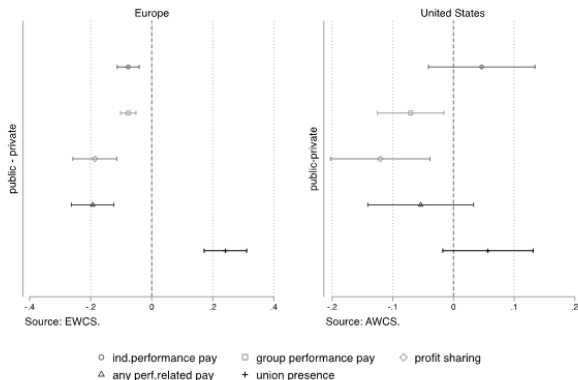
US



Source: AWCS and EWCS data. Each regression controls for broad industry fixed-effects.

Performance appraisal, monitoring

- In the US 2 out of 3 of workers have a performance-related pay scheme, in Europe only 1 out of 4
- union presence and collective bargaining are more likely in Europe, compared to the US



Job Quality and Working Conditions

- Public sector may attract those with greater motivation, wanting more autonomy, better work-life balance and willing to trade “job quality” and pay
- analyze “job quality” (perceived) between the public and private sector
 - JQ attributes: work satisfaction, work intensity (working high speed, tight deadlines, work-life balance), autonomy (routine task, involvement), intrinsic motivation, skill and training
- **Results** public sector employees perceive:
 - comparable levels of satisfaction, a more relaxed work pace and a better work-life balance
 - more autonomy & lower routinization *but* lament less involvement (i.e. “responsibility without having a say”)
 - higher intrinsic motivation and social usefulness
 - inadequacy of skill level but more on-the-job training

Employment prospects and absenteeism

- Public jobs are characterized by stronger job security (at least in Europe)
- better prospects in terms of employability
- career paths are typically based on seniority and not on competences and merit
 - public employees perceive the labour market as segmented: a typical employee enters the public sector and progresses in the ILM
- **Results**
 - public employees are less concerned about losing the job
 - net of compositional effects they work less hours per week (approximately -1.7)
 - in terms of “desired” hours of work in Europe they report to be satisfied, in the US they would like to work more (almost an additional hour)
 - across all Europe public employees tend to be more absent (not so in the US)

Discrimination and obnoxious behaviors

- The State is expected to be a “fair” employer
- access and career development regulated through public competitions
lower discretion
- unions presence should prevent discriminatory behavior
 - use as “fairness” indicators: cooperation, respect, discrimination, harassment
- **Results**
 - in Europe public employees do not report higher employer fairness (not statistically significant difference)
 - in US public employees perceive to be more discriminated relative to the private sector
 - evidence of obnoxious attitudes and harassment
 - threats and humiliating behavior (in US), verbal abuse (in Europe)

Concluding remarks

- After decades of retrenchment, financial and epidemiological crises have renewed attention to the importance of the State
- The unprecedented change in the size and importance of the Public sector has shown its unique role in coordinating activities, regulating market behavior, mobilizing resources across sectors and areas, most of which the private sector is unwilling or unable to do
- The evidence presented has focused attention on public sector's (internal) labour market and personnel policies
 - We have shown that most public sector employees have permanent contracts with a special statute, typically enjoy lifetime job, enjoy better working conditions, lower working time and higher pay (though not in all countries)
 - Such mix of privileges coupled with an imperfect observability of employees' performance often makes standard incentive schemes ineffective or even counter-productive

- Improving public sector's efficiency has been one of the main challenges for most countries, though achieving it has proven extremely difficult
- **One take up of this analysis** is that the reforms inspired by the “New Public Management”, fell short of expectations
 - gave public sector managers more autonomy, incentives and power, without really holding them responsible for achieving results
 - failed to incorporate important functions such as coordinating resources and acting as insurer of last resort
- **A second message** is that “intrinsic motivation” and “prosocial attitudes” are important features of public sector employment and a key element of public sector efficiency (especially in Europe)
 - reliance on impersonal public competitions (in recruitment) and on seniority (in promotions), may crowd-out motivation and personal attitudes

- **A third message** is that the more compressed wage distribution, compared to the private sector, implies that public sector employees receive a pay premium at the bottom end of the wage distribution, and a negative differential at the top
 - this creates a perverse self-selection of employees, whereby low-skilled queue up to be selected in public sector jobs
 - while the high-skilled shy away for better remunerated private sector jobs
- **Fourth** we document a striking difference between Europe and the US in terms of performance-pay-related schemes
 - in US two out of three employees have their pay linked to performance
 - in Europe only one out of four has pay linked to performance
- **Last** we found no clear evidence that the public sector ensures a fairer environment
 - cooperation at the workplace is rather poor
 - discrimination (US) or obnoxious attitudes (Europe) appear to be quite diffused

Thank you

The Report can be downloaded from the fRDB website:

<https://www.frdb.org/eventi/il-lavoro-nella-pubblica-amministrazione/>