The Impact of Austerity Measures on the Public -Private Sector Wage Gap in Europe*

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ABSTRACT

Considering the year prior to the international and sovereign crises (2007) as a benchmark and studying all years until the crises receded in most of the 31 European countries (2013), we use the EU SILC dataset to examine the impact of public sector pay reforms on the public-private sector pay gap; we do so at the mean and along quantiles of the wage distributions, using decomposition methods to identify the explained and unexplained components of the gap. We study and code the measures taken in the 31 countries into the categorical variables Freeze and Cut and consider their impact on quantile features of the public-private pay gap using static and dynamic panel methods. Our estimates suggest that public sector freezes and/or cuts had negative and statistically significant impacts on the unexplained public-private sector pay gap, particularly evident at the median and the 90th quantile. At the 10th quantile, the impact of the measures was positive but statistically weaker. The 90th minus 10th quantile effects are negative, reflecting attempts by many countries to protect the low-paid, regardless of the initial public-private pay gap for this group. Countries which received external financial assistance had high pay gaps before the crises and displayed a variety of adjustments during the crises. Our findings are robust to definitions of the pay gap other than the unexpected one, to estimation based on a balanced panel and to the panel method used. They should aid in the formation of wage policies pertinent to public sector employees.

Keywords: Europe, Crises, Public-Private Sector Pay Gaps, Quantiles, Decomposition

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