

CAN A 50% INCREASE IN PUBLIC-SECTOR PAY IMPROVE ITS EMPLOYEES' POSITION IN THE LONG RUN? AN ASSESSMENT OF HUNGARY'S PUBLIC/PRIVATE INCOME GAP

Szilvia Altwicker-Hámori and Anna Lovász

The paper provides descriptive analysis of long-term effects of a 50 per cent public-sector pay increase initiated by the government in 2002 to improve the relative position of public-sector employees. The aim was to attract high-quality employees to the sector and counteract a “brain drain” of highly skilled employees to jobs abroad. In studying the effects on the public/private pay gap – and on the highly skilled in particular – the authors employ empirical methods to consider differences in the entire pay distribution (quantile regressions), workforce and firm composition (decomposition), and various potential biases. They found a large income premium in favour of the private sector at the higher end of the distribution, especially if employee and firm attributes are considered. This suggests that the same type of employee earns substantially less in the public sector. The effect is especially pronounced for the highly skilled. The 50 per cent increase initially improved the relative pay in the public sector, but in the longer run, income gaps returned close to the original level and distribution differences persisted.

PUBLIC-SECTOR PAY AND FLOWS FROM THE PRIVATE TO THE PUBLIC SECTOR IN 1997–2008

János Köllő

The paper looks at the effect of exceptional fluctuations in the level of public-sector pay on the number and quality of workers moving from the private to the public sector in Hungary. Emphasis is put on the unique pay rises given before and after the 2002 elections. The study is based on a large panel of administrative data covering 1997–2008. The data suggest that flows to the public sector fell during and after the pay hikes. Repeated cross-section and panel wage regressions suggest that the quality of entrants, measured by their residual wages achieved in the private sector prior to departure, temporarily improved. A one per cent increase in expected public-sector pay increased the mean residual private-sector pay of those leaving for the public sector by more than half a per cent. This selection effect was markedly stronger with young workers. But the decline of inward mobility substantially reduced the potentially benign impact of positive selection on the total public-sector workforce.

PUBLIC-SECTOR PAY SPILLOVERS IN HUNGARY: IDENTIFICATION FROM A LARGE SECTORAL PAY INCREASE

Álmos Telegdy

The author identifies pay spillovers from the public to the corporate sector through a large public-sector pay increase of 40 per cent over a two-year period. This changed average relative public pay from a shortfall of 10.5 per cent to a premium of 12.5 per cent. The spillover effect is identified through the variation in the share of public-sector employment by gender, experience and occupation. Analysis shows that 10 per cent higher share for public-sector workers within an employee type increases corporate pay by 1.5 per cent. The spillover effect correlates positively with the public-pay premium, with low corporate wages, with occupations abundant in the public sector, and with services. It is also larger in labour-market cells in the public sector that show a high number of vacancies, and for corporate workers hired after the pay increase.

THE EFFECT OF A PUBLIC-SECTOR PAY INCREASE ON TEACHERS' ATTRITION

Júlia Varga

The paper investigates teachers' decisions to leave the profession. It first examines the role in such decisions of pay compared with earnings in alternative occupations, and then discusses how the public-sector pay increase of 2002 affected exit decisions by teachers. Duration models were estimated using large merged administrative data sets. First binary-choice Cox proportional hazard models (leaving teaching profession or not), then competing risk models that distinguish exits to another occupation and exits to a non-working state. Results show that earnings matter. Higher wages reduce the probability of exiting teacher profession to go to another occupation or to non-employment. The public-sector pay increase decreased the probability of inexperienced teachers leaving the teacher profession temporarily, but the effect disappeared after one or two years. For experienced teachers over 51 years old, the wage increase was found to reduce attrition.

AN ANALYSIS OF THE LABOUR OUTFLOW FROM THE PUBLIC SECTOR IN HUNGARY

Péter Elek and Péter András Szabó

Based on the microbased panel datasets of the Labour Force Survey between 1998 and 2010 and the administrative Pension Fund data between 2000 and 2006 we analyse the number, composition and subsequent labour market behaviour of former public sector employees in Hungary. We show that the greater stability of the public sector stems from the fact that the transition probabilities from it to unemployment and to other economic branches / occupations are both about half of the corresponding probabilities from the public sector. Meanwhile, the exit probabilities to inactivity do not differ substantially between the two sectors. By analysing the reemployment probabilities of the laid-off workers with Jenkins' discrete time hazard model we find that those who lost their jobs in the public sector find a new job with a 5–25 percent smaller intensity – i.e. by 5–25 percent more slowly – than their private sector counterparts. However, this difference disappears among the higher educated. Finally, after controlling for education, those who leave the public sector for the private sector do not become overeducated in their new job with a significantly higher probability than similar workers switching jobs within the private sector.