
Abstract

The tasks of the public sector as an employer in a welfare state are twofold. First, the public sector has to provide services, which are regarded as indispensable for society. Here, the public sector competes for qualified staff with the private sector. In order to attract qualified personnel the public sector competes with a package, often comprised off lower remuneration accompanied by higher job security. Second, public sector employment may be used as a tool to support disadvantaged groups on the labor market. Especially woman and unqualified workers tend to get higher remuneration compared to an employment in the private sector. Consequently, for high skilled a negative and for low skilled or disadvantaged a positive public-private wage gap exists. Nevertheless the question remains whether the existing wage gap and a shrinking public sector causes a rise or decline the overall inequality of the wage distribution in Germany. Recent findings show a rising inequality for high-income groups. This could in parts be explained by an increasing (negative) wage gap for higher wage deciles, and therefore, lower remuneration in the public sector might result in more pronounced wage inequality. On the other hand, public sector employment tends to compress the overall wage distribution. Hence, this may lead to a more equal distribution of wages. In our study we investigate the evolution of public-private wage gap and the equalizing role of public employment over the period 1984 to 2010 separately by gender and region. We calculate the private-public wage gap for the mean of each decile. To decompose the wage gap we estimate the potential private sector wages for public sector employees by least square regression and propensity score matching. We then calculate and decompose inequality measurements to investigate the role of the wage gap. Indeed, we find that the diminishing of public sector employment reduces its equalizing capabilities.

Keywords: public-private wage gap, wage distribution, inequality decomposition

JEL-Classification: D30, J31, J45