Two tales of wage adjustment

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It is well known that in the last five years Greek wages have collapsed both in the public and in the private sector. What is perhaps less known, owing in part to the attention of much of the policy debate on the cuts in the public sector, is that the wage adjustment in the two sectors has been equally deep. In fact, the private sector experienced if anything more radical changes in its pay-structure, with elements of increasing commodification, while the public sector continues to offer advantageous wages to privileged groups, despite the policy focus on the "rationalization" of pay in the sector.

During the crisis, the Greek government initiated three major waves of public wage reform. In 2010, all wages were cut horizontally (by 10%) and holiday bonuses were also reduced. In 2011, pay-scales for the so-called "narrow" public sector were unified – a process which involved a marginal increase in basic pay combined with the abolition of most non-basic benefits. At that time, the unified scales did not apply for civil servants paid under special pay-scales, or for public law contracts in utilities and entities. The unified pay-scales were extended to these categories of workers in 2012.

In the private sector, labour reforms came later – after 2011 – when the government prioritized the reduction in the current account deficit and the increase in wage competitiveness. Among others, the government degraded collective bargaining agreements, drastically cut the minimum wage (by 22%), and selectively opened some of the so-called 'closed-professions' (deregulation of occupational licensing).

Despite the extensive debates that these developments have spurred, there is a lack of detailed analysis regarding the speed, depth, and qualitative characteristics of the wage adjustment in the two sectors. We conducted such an analysis using data from the Greek Labour Force Survey (see Research Paper No. 9 published by the Crisis Observatory).

Our analysis shows that the average monthly wage (for regular pay, i.e., excluding bonuses) in the private sector fell equally and sooner than in the public sector. The overall reduction in the public sector over 2009-2013 was 22.5% and took place mostly after the enforcement of the unified pay-scales (post-2011). The corresponding wages in the private sector fell slightly more (by 23.2%) and with a stable speed for the duration of the crisis. That is, they started falling before the decrease in minimum wages and the deregulation of collective bargaining. The decline in hourly pay in the private sector was slightly smaller, but it was combined with a large decline in average weekly hours of work.

As a result, not only was the public wage premium sustained during the crisis, but also increased by a small margin. In 2009, public sector employees earned on average 8.8% higher pay than private sector employees with the same characteristics (education, experience, family status, region of residence, occupation and sector of employment, type of contract etc.). In 2011 this percentage increased to 14.6% and in 2013 it fell to 9.3%.

As our econometric analysis shows, the wage adjustment had different qualities in the two sectors. In the private sector, the fall in demand exerted a downward pressure on wages that was two to three times larger than the actual wage adjustment observed in the data. This is because the downward pressures were counterbalanced by drastic changes in the valuation of worker and job characteristics (education, sex, experience etc) in this sector, which caused skills like education to be rewarded much better today than before the crisis. For example, one extra year of education affords today a 2.3% higher wage in the private sector, while in 2009 the corresponding reward was 1.5%. Likewise, the returns to an extra year of labour market experience increased from 1.5% to 2.4%.

This development brings forward a very positive message: the higher rewards to skills associated with higher productivity have the potential to stimulate a significant sectoral reallocation of labour as the country starts exiting the crisis and employment trends recover. If the ‘rationalisation’ and ‘commodification’ of pay in the private sector is to be maintained past the crisis, , this will mean that private-sector employment will become less and less a “solution of last resort”, thus attracting more – and rewarding better – skilled workers, helping in this way wane the long practice of “queuing” for a public sector job.

In contrast to the changes in the private sector, the public sector wage cuts were accompanied by very marginal adjustments in the valuation of worker and job characteristics. The returns to characteristics such as education, experience, and occupation remained roughly unchanged throughout the crisis – and, as a result, the public sector continued to be, as it was before the crisis, more generous towards the unskilled and more frugal towards the skilled. In this sense, despite the policy changes and their intentions, public wage cuts were largely horizontal. This is perhaps a factor that explains the recent pressure from the troika for further wage reforms.

Of course, the LFS data do not reflect all dimensions of the wage changes during the crisis. They do not capture, for example, the cuts in non-regular public wages or the informal wage cuts in the private sector. However, they allow two safe conclusions: first, that – considering the decline in private-sector wages and employment combined – the crisis impacted more the private sector workers relative to public sector workers; and, second, that despite the extensive – and painful – reforms, the rationalization of the public-sector pay system has not really materialized.

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