

The impact of the NSW public sector wage cap on public and private sector wages

Summary Report - AlphaBeta

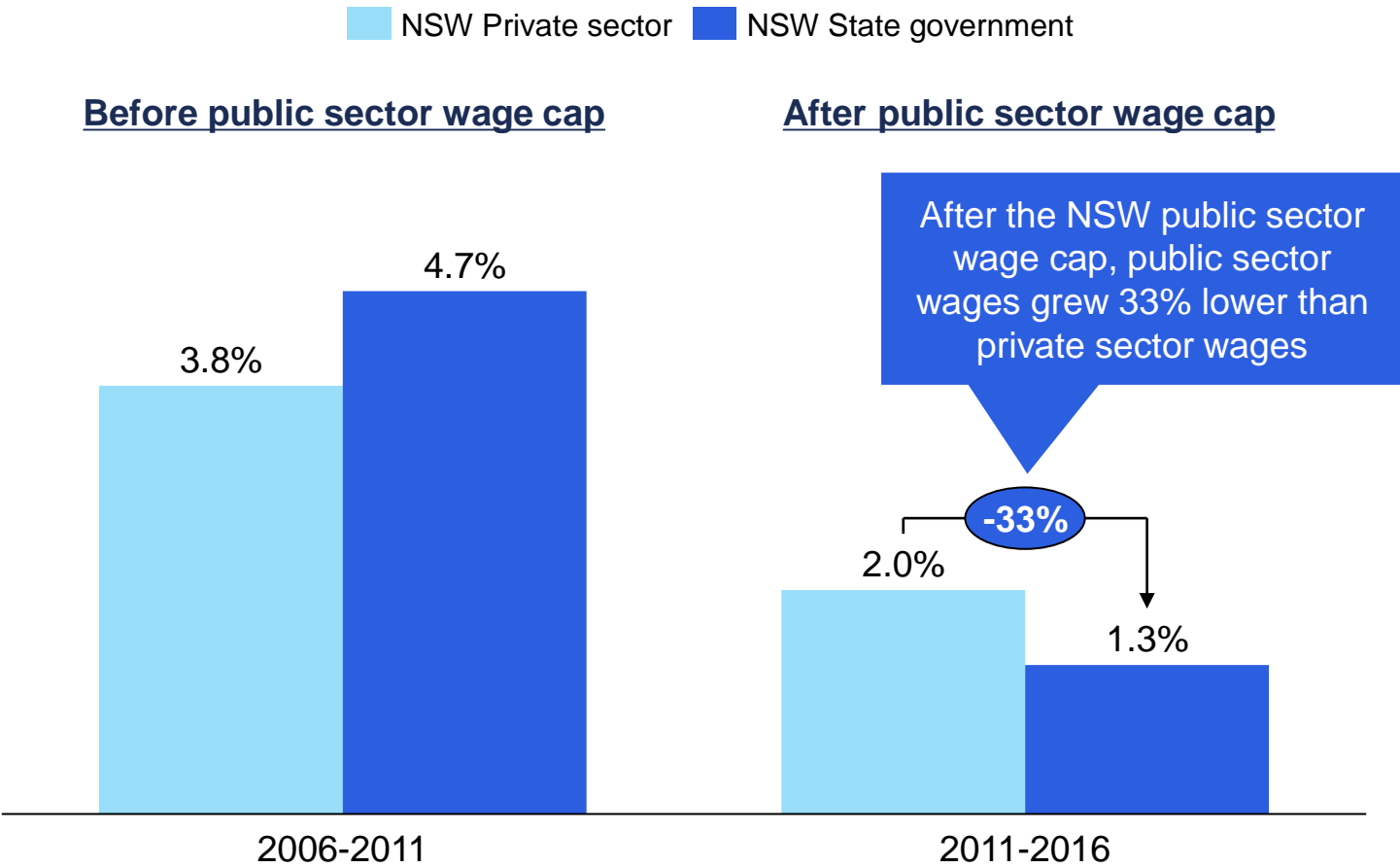
Do public sector wage caps reduce private sector wages growth?

- Recently various Australian governments have moved to restrain public sector wages growth through freezes and caps on the wages of public sector workers.
- These actions raises the question of whether restraints on public sector wages will have a flow on effect to private sector wages over time.
- This short paper uses data from the introduction of the public sector wage cap in 2011 in NSW to analyse the effect of public sector wages on private sector wages.
- To determine the impact of public sector wages on private sector wages, this paper first ranks every private sector occupation in NSW according to its 'connection' to the public sector.
 - Connection to the public sector is defined as the number of workers in a private sector occupation who previously worked in the public sector. This measures the extent to which any private sector occupation shares a common labour pool with the public sector.
 - If public sector wages affect private sector wages it will likely be most pronounced in areas of the labour market where there is significant movement of workers between the private and public sector.
 - Examples of private sector occupations with high connections to the public sector include private Education Professionals, Child Carers, Personal Carers, Midwives, Nurses in the private sector, and School Teachers in the private sector.
- This paper then compares the wages growth of different types of private sector workers.
 - It shows that public sector wage caps did have a significant effect on private sector wages.
 - Private sector workers in occupations that were more connected to the public sector had wage growth that was one third slower than private sector workers who have less connection to the public sector.
- This is evidence that public sector wage restraint has a negative impact on private sector wages.

Public sector wages grew 33% slower than private sector wages after the introduction of the NSW public sector wage cap

Wages growth

Wage growth p.a., NSW private and public sector workers



The wage cap also affected private sector workers ... wages grew 34% slower for private sector workers in jobs 'connected' to the public sector

Private sector wages

Average wage growth p.a. in private sector occupations.

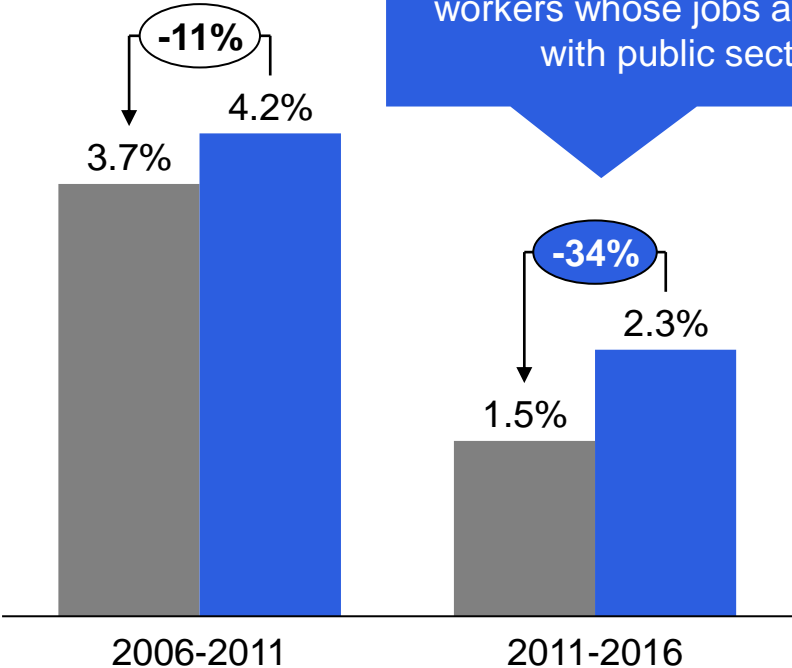
- Occupations with LARGE public sector connection
- Occupations with SMALL public sector connection

For each private sector occupation in NSW we define its 'connection' with the public sector by measuring movements of workers between jobs.

Private sector jobs where workers regularly move between the private sector and public sector are called 'high connection' occupations.

Examples of high connection occupations include:
 Education Professionals,
 Child Carers, Personal Carers,
 Midwives, Nurses, School Teachers

Private sector workers whose jobs are connected to the public sector had **34% lower wage growth** than private sector workers whose jobs are less connected with public sector workers.



Workers in the public sector experienced much lower wage growth than workers doing the same job in the private sector

Differential wage growth in the same occupation

Wage growth p.a. 2011-2016, private and public sector workers (Selected occupations ranked by difference between state gov and private sector wage growth)

