

WAGES OF CIVIL SERVANTS*

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1. INTRODUCTION

In Portugal, general government compensation of employees has been growing more than output, reaching approximately 15 per cent of gross domestic product in 2000 (see Table 1). This was the result, on the one hand, of the trend of employment in general government, education and health, which recorded unprecedented net changes vis-à-vis the other sectors of activity and, on the other hand, of the increase in wages of civil servants at rates above those recorded in the private sector of the economy.

Despite the significant impact that the decisions on the wages of civil servants have on public finance balances, no other studies have been developed so far on the determining factors behind the wages of general government employees. This paper will be a first approach to the analysis of this problem.

In the analysis of the wages of civil servants – in line with a long tradition of studies – the wage structure of workers in the private sector of the economy will be used as a comparison benchmark. In this context, the key issue will be measuring the wage differential between the public sector and the private sector. Given the specific nature of the public sector decision-making mechanisms, economists have attempted to analyse to which extent civil servant wages are isolated from the competition observed in the private sector. Or, in other words, is there a wage differential (a premium) favourable to general government employees?

This paper quantifies and analyses wage differentials between private sector and public sector workers. The following section briefly covers the specificity of the public sector labour market. The third section establishes international comparisons for wage differentials. The fourth section examines the determining factors behind public and private wages. Finally, the last section presents some conclusions.

2. THEORETICAL CONTEXT

In the public sector labour market the decision-makers, the nature of the goods and services produced and the decision evaluation mechanisms differ from those in the private sector. The understanding of the process of civil servants' wages formation requires a conceptual framework different from that considered for the private sector of the economy.

While the theoretical framework applied to the private sector implies an objective function characterised by profit maximisation (cost minimisation) of firms, with a clearly identified production function – in terms of both inputs and outputs –, the production of goods and services by the public sector is determined by distinctive principles (of the objective function of both policy makers and bureaucrats), with ill-defined production functions (in which the link between the utilisation of inputs and the measure of the output is ambiguous or, often, unknown). In addition to operating with different objective functions and technologies, the competitive environment of private corporations and public departments is also often different. The public sector provides public goods and services

* The opinions expressed in this paper are those of the authors and are not necessarily those of the *Banco de Portugal*.

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Table 1

GENERAL GOVERNMENT COMPENSATION OF EMPLOYEES IN THE EUROPEAN UNION

As a percentage of GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Belgium	11.2	11.4	11.5	11.9	12.0	12.0	11.9	11.8	11.7	11.6	11.3
Germany	-	9.0	9.2	9.3	9.0	9.0	8.9	8.7	8.4	8.3	8.1
Greece	12.7	11.6	11.1	11.1	10.8	11.3	10.7	11.6	11.7	11.5	11.7
Spain	-	-	-	-	-	11.3	11.3	10.9	10.7	10.5	10.3
France	-	-	13.0	13.5	13.6	13.7	13.9	13.8	13.7	13.7	13.7
Ireland	10.4	11.0	11.3	11.4	11.0	10.2	9.6	9.2	8.8	8.3	7.9
Italy	-	-	-	-	-	11.2	11.5	11.6	10.7	10.7	10.5
Luxembourg	10.1	9.8	10.0	9.8	9.5	9.6	9.6	9.2	9.1	9.0	8.3
The Netherlands	-	-	-	-	-	10.8	10.4	10.2	10.2	10.2	9.8
Austria	11.7	11.9	12.2	12.6	12.6	12.6	12.3	11.4	11.4	11.5	11.3
Portugal	-	-	-	-	-	13.8	13.7	13.9	14.0	14.4	15.1
Finland	15.1	17.6	18.0	16.8	15.9	15.4	15.6	14.6	13.9	13.6	13.1
Denmark	17.7	17.7	17.8	18.1	17.5	17.3	17.3	17.2	17.4	17.3	17.1
Sweden	-	-	-	19.1	18.2	17.3	17.8	17.5	16.9	16.7	-
United Kingdom	12.0	12.2	12.3	11.1	9.4	8.8	8.3	7.8	7.4	7.4	7.5

Source: European Commission.

in monopoly that, given their specific nature, not only are not subject to the disciplinary device implied by competition, but also makes it impossible to carry out any type of performance comparison (Gregory and Borland, 1999).

It should be added that public sector ownership is dispersed among voters, providing weak incentives for collecting information and monitoring the performance of policy makers and bureaucrats. The elections, as an imperfect mechanism of control and discipline over politicians, tend to operate in the same line. In order to obtain a more clear perception of the developments over time of the wages of civil servants, other economic models of a political-electoral nature should perhaps be considered (Borjas, 1980).

3. WAGE NEGOTIATIONS

The Portuguese system of centrally negotiated agreements continues to be, after more than 25 years, strongly linked to the corporative structures of the previous political regime⁽¹⁾. Wage negotiations are chiefly conducted at a sectoral and re-

gional level. In the negotiation process, the union representation mandate is clear: every union represents its associate members. This form of representation involves four implications:

- Given the weak rate of union membership, an important share of the working population is not represented in the negotiations (except in sporadic negotiations at corporation level);
- Wages of most workers are, in this framework, defined through an extension of the signed agreements to the workers that are not represented in the negotiation process;
- Negotiations are frequently developed in an uncoordinated and often competitive manner among the different unions;
- In many situations, the representativeness of each union is not fully known. In other words, the representation mandate is often ambiguous.

In general terms, the institutional architecture of centrally negotiated agreements does not favour the claiming capacity of the unions. In effect, it can be said that, in Portugal, the power of the unions, i.e., their capability to gain advantages through the

(1) For a more detailed characterisation of the Portuguese wage negotiation system, see Bover *et al.*, 2000.

possibility of imposing costs on the employers (e.g., strikes) is, in relative terms, rather limited.

The formal right to wage negotiations was just recently recognised to general government employees. The calculation of their wages was chiefly considered as a result of political balances established among political parties in the approval of the *Orçamento do Estado* (OE) (State Budget). The major difficulty in replicating private sector negotiations results, on the one hand, from the non-existence of an arbitrator (a function usually performed by the Government), and, on the other hand, from the inadequacy of giving the Parliament the role of negotiator. Over recent years, formal negotiations between unions and government representatives have preceded the approval of the State Budget. In general, agreements have been reached with some union representatives on the rate of change applicable to the wage scales that are the reference base for calculating the wages of civil servants. Once an agreement has been established with some union(s), given the nature of the general government wage system, that agreement will determine the contractual conditions of all civil servants. From the industrial relations point of view, corporative agreements (“regular carrier upgrades”) established between professional unions and the government seem to be the most relevant.

4. INTERNATIONAL COMPARISONS

The recent availability of individual data from the European Union Household Panel, a harmonised survey led by the Eurostat, makes it possible to compare wages across European Union countries. Based on the individual observations of employees from the 1995 wave, two samples were built with 17,270 women and 25,969 men. The information obtained on individual hourly wages was made comparable and weighted by the purchasing power parity index.

According to this survey, Portuguese wages are the lowest in the European Union. Thus, for example, the average wage of a male (female) worker in Germany exceeds the average wage of a male (female) Portuguese worker by 112.8 per cent (66.7 per cent). When compared with the Portuguese wages, the average wage of a Spanish worker is

Table 2

INTERNATIONAL COMPARISON OF THE WAGES OF PRIVATE SECTOR WORKERS

Index Portugal = 1.000

Countries	Men	Women
Portugal	1.000	1.000
Germany	1.857	1.718
Denmark	1.934	2.117
The Netherlands . .	1.947	2.049
Belgium	1.782	1.911
Luxembourg	2.771	2.831
France	1.871	1.811
United Kingdom . .	1.852	1.849
Ireland	1.889	1.842
Italy	1.631	1.661
Greece	1.227	1.185
Spain	1.604	1.880
Austria	1.939	1.923

Source: European Union Household Panel, Eurostat (individual records).

Note: Values are computed from country fixed effects on a wage regression.

72.4 per cent higher for a male worker and 61.3 per cent higher for a female worker.

These differences, on the one hand, reflect an uneven distribution of qualifications of workers across the different countries and, on the other hand, are the result of the aggregation of the public and private sectors. Admitting that the level of education, professional experience, seniority, access to professional training and the type of contract have a similar influence on wage formation in every European Union Member States, it is possible to obtain an estimate of wages for an equal allocation of workforce qualifications. For instance, it is possible to establish a comparison between the wages of Portuguese and Spanish workers, assuming that they have the same level of education, the same professional experience, etc.

Such a comparison of wages clearly indicates that, in its essence, the gap between Portuguese and Spanish wages is not explainable by the qualifications deficit (particularly in the level of education) characterising the Portuguese labour market. In other words, the schooling level gap of Portuguese workers explains only a small fraction of the

Table 3

**WAGE DIFFERENTIAL BETWEEN
THE GENERAL GOVERNMENT
AND THE PRIVATE SECTOR**

Countries	Men	Women
Portugal.	0.376	0.646
Germany.	-0.008	0.137
Denmark.	-0.090	-0.071
The Netherlands	0.028	0.057
Belgium.	0.036	0.029
Luxembourg.	0.310	0.365
France.	0.077	0.147
United Kingdom	0.028	0.105
Ireland.	0.323	0.410
Italy.	0.103	0.258
Greece.	0.103	0.220
Spain.	0.197	0.348
Austria.	-0.023	0.119

Source: Source: European Union Household Panel, Eurostat (individual records).

Nota: Values are computed from the coefficient of the interaction between country and general government dummy indicators.

wage differential between Portugal and other European Union countries. Even if identical qualification levels were assumed for both Portuguese and Spanish workers in the private sector of the economy, Spanish wages would be higher than Portuguese ones by 88 per cent in the case of women and by 60.4 per cent in the case of men (see Table 2). Similarly, the average wage of a German male (female) worker would be 85.7 (71.8) per cent higher than the wage of a Portuguese worker.

The same exercise makes it possible to estimate the wage differential between the private sector and the public sector in European Union countries. It is interesting to observe that Portugal is the country where the wage differential is wider. Considering identical worker's characteristics, a Portuguese woman working in the general government will receive an hourly wage approximately two thirds higher than that earned by a woman working in the private sector (see Table 3). The wage premium for men corresponds to just 37.6 per cent.

The countries where the wage differential is wider are, in addition to Portugal, Ireland, Luxembourg, Spain and Italy. In the opposite end of the distribution are Denmark, Belgium, Germany and Austria. Note also that the wage differential is almost always (except Belgium) more favourable to women than to men.

This is an indication that the wage gap of general government workers in Portugal and other EU countries is much smaller. For example, a general government female (male) worker in Germany will earn a wage 18.7 per cent (33.9 per cent) higher than the corresponding Portuguese worker, with similar observed characteristics. Interestingly enough, is the comparison with Greece. In this case, the relative position of Portuguese wages change, being higher than those of comparable Greek workers, 13.9 per cent for a female worker and 1.7 per cent for a male worker.

5. WHO ARE THE CIVIL SERVANTS?

It is possible to obtain a more exhaustive and updated characterisation of the wage structure of Portuguese workers using the micro-data of the "Inquérito ao Emprego" the Portuguese Labour Force Survey developed by the *Instituto Nacional de Estatística* (National Institute of Statistics). A sample of 126,233 individuals was obtained from individual data of the surveys carried out between the first quarter of 1998 and the fourth quarter of 2000. A significant advantage of the utilisation of this database is the precise identification of civil servants, based on the reply to a specific question on the nature of the employer. In a purely descriptive manner, this sample makes it possible to characterise the share of general government employees vis-à-vis corporate sector workers (Table 4), as being:

- more qualified (the share of graduate employees in general government is 17 per cent for men and 24.8 per cent for women, against 3.5 per cent and 5.1 per cent);
- more experienced (the average professional experience, measured by the number of years since the first job is 24.4 years for men and 20.7 years for women, which compares with 21.8 and 19 years in the corporate sector);

Table 4
DESCRIPTIVE CHARACTERISATION
Inquérito ao Emprego, INE, 1998-2000

	Private sector		General Government	
	Men	Women	Men	Women
Net hourly wages (in 1999 escudos)	544.727	459.154	795.034	834.126
Public corporations. =1 when the employee works in a public corporation	0.075	0.099		
Level of education				
Elementary education =1 when the academic degree corresponds to elementary education	0.628	0.575	0.461	0.296
Lower secondary education =1 when the academic degree corresponds to lower secondary education	0.159	0.512	0.160	0.145
Upper secondary education. =1 when the employee has completed upper secondary education	0.104	0.132	0.140	0.158
Technical education =1 when the employee has completed technical education	0.012	0.030	0.043	0.135
College education =1 when the employee has completed college education	0.035	0.051	0.170	0.248
Professional training =1 when the employee has had professional training	0.074	0.083	0.136	0.124
Hours usually worked.	41.141	38.016	37.077	34.260
Part-time.	0.014	0.076	0.016	0.034
Professional experience (in years)	21.838	18.953	24.581	20.713
Seniority in the job (in years)	9.802	8.980	13.673	13.428
Fixed-term contract =1 when the employee has been hired for a fixed-term	0.110	0.154	0.099	0.149
<i>Algarve</i> =1 when the place of residence of the employee is located in the <i>Algarve</i>	0.122	0.130	0.144	0.134
<i>Centro</i> =1 when the place of residence of the employee is located in the <i>Centro</i> region	0.118	0.109	0.157	0.189
Lisbon and <i>Vale do Tejo</i> =1 when the place of residence of the employee is located in the Lisbon and <i>Vale do Tejo</i> region	0.246	0.274	0.249	0.260
<i>Norte</i> =1 when the place of residence of the employee is located in the <i>Norte</i> region	0.427	0.408	0.249	0.254
<i>Alentejo</i> =1 when the place of residence of the employee is located in the <i>Alentejo</i>	0.087	0.079	0.201	0.163
Number of observations	59861	47364	8302	10698

Source: Individual records from "Inquérito ao Emprego" INE, the Portuguese Labour Force Survey.

- less users of hours (with an average weekly schedule of 37.1 hours for men and 34.3 hours for women, vis-à-vis 41.1 and 38 hours, respectively).
- better remunerated (the average net hourly wage for men is 795 escudos and for women 834 escudos, compared with 545 escudos and 459 escudos, respectively, in the private sector of the economy);
- more "female" (56.3 per cent women, compared with 44.2 per cent);
- more stable (with an average seniority of 13.7 years for men and 13.4 years for women, which compares with 9.8 and 9 years, respectively, in the private sector); and
- regionally unbalanced (note, in particular, the very strong presence of civil servants in the *Alentejo* region, wherefore the share of its representation in *Alentejo* is close to that in the Lisbon and *Vale do Tejo*).

Table 5

REGRESSION EQUATION OF WAGES BY GENDER

	Women	Men
Explanatory variables		
General government	0.235*	0.121*
=1 when the employee works in the general government	(0.004)	(0.004)
Public corporation	0.228*	0.147*
=1 when the employee works in a public corporation	(0.005)	(0.006)
Level of education		
Elementary education	0.117*	0.153*
=1 when the academic degree corresponds to elementary education	(0.007)	(0.006)
Lower secondary education	0.349*	0.372*
=1 when the academic degree corresponds to lower secondary education	(0.007)	(0.007)
Upper secondary education	0.526*	0.559*
=1 when the employee has completed upper secondary education	(0.008)	(0.007)
Technical education	0.999*	0.966*
=1 when the employee has completed technical education	(0.009)	(0.012)
College education	1.177*	1.195*
=1 when the employee has completed college education	(0.008)	(0.009)
Professional training	0.074*	0.099*
=1 when the employee has had professional training	(0.005)	(0.005)
Professional experience (in years)	0.019*	0.027*
	(0.0004)	(0.0004)
Professional experience squared	-0.00003*	-0.00004*
	(0.000008)	(0.000007)
Seniority in the job (in years)	0.012*	0.01*
	(0.0005)	(0.0001)
Seniority squared	-0.0001*	-0.0001*
	(0.00001)	(0.00001)
Fixed-term contract	-0.023*	-0.015*
=1 when the employee has been hired for a fixed-term	(0.004)	(0.007)
<i>Algarve</i>	0.028*	-0.034*
=1 when the place of residence of the employee is located in the <i>Algarve</i>	(0.006)	(0.006)
<i>Centro</i>	-0.033*	-0.046*
=1 when the place of residence of the employee is located in the <i>Centro</i> region	(0.006)	(0.006)
Lisbon and <i>Vale do Tejo</i>	0.052*	0.058*
=1 when the place of residence of the employee is located in the Lisbon and <i>Vale do Tejo</i> region	(0.005)	(0.005)
<i>Norte</i>	-0.024*	-0.087*
=1 when the place of residence of the employee is located in the <i>Norte</i> region	(0.005)	(0.005)
Constant	6.954*	7.0754*
	(0.009)	(0.008)
Number of observations	58061	68162
R square	0.653	0.497
Standard error	0.318	0.344

Source: Individual records from "Inquérito ao Emprego" INE, the Portuguese Labour Force Survey.

Note:

* Represents statistical significance at the 1 per cent level;

6. HOW MUCH DO CIVIL SERVANTS EARN?

Taking into account the observed characteristics of the workers, it can be estimated that, in Portugal, women working in the general government benefit from a wage differential of 26.5 per cent vis-à-vis private sector workers (see Table 5). The

corresponding differential for men is 12.9 per cent⁽²⁾. It is interesting to note that these differentials are of the same magnitude of additional earnings of public company workers. Similarly to other

(2) The figure 12.9 is the conversion of the instantaneous growth rate in its discrete counterpart ($12.9 = [\exp(0.121 - 1)] \times 100$).

Table 6

REGRESSION EQUATIONS OF WAGES BY GENDER AND EMPLOYMENT SECTOR

	Private sector		General government	
	Men	Women	Men	Women
Explanatory variables				
Public corporation	0.153*	0.245*		
=1 when the employee works in a public corporation	(0.006)	(0.005)		
Level of education				
Elementary education	0.153*	0.101*	0.124*	0.125*
=1 when the academic degree corresponds to elementary education	(0.006)	(0.007)	(0.023)	(0.024)
Lower secondary education	0.364*	0.320*	0.393*	0.410*
=1 when the academic degree corresponds to lower secondary education	(0.007)	(0.008)	(0.025)	(0.026)
Upper secondary education	0.55*	0.498*	0.593*	0.594*
=1 when the employee has completed upper secondary education	(0.008)	(0.008)	(0.025)	(0.026)
Technical education	0.954*	0.942*	0.948*	1.048*
=1 when the employee has completed technical education	(0.014)	(0.011)	(0.029)	(0.026)
College education	1.187*	1.140*	1.195*	1.233*
=1 when the employee has completed college education	(0.010)	(0.010)	(0.025)	(0.026)
Professional training	0.110*	0.080*	0.058*	0.058*
=1 when the employee has had professional training	(0.006)	0.005	(0.010)	(0.009)
Professional experience (in years)	0.027*	0.019*	0.024*	0.016*
	(0.0004)	(0.0004)	(0.001)	(0.001)
Professional experience squared	-0.0004*	-0.0003*	-0.0004*	-0.0003*
	(0.000008)	(0.00001)	(0.00002)	(0.00002)
Seniority in the job (in years)	0.009*	0.012*	0.013*	0.018*
	(0.0005)	(0.0005)	(0.001)	(0.001)
Seniority squared	-0.0001*	-0.0002*	0.0001*	-0.0004*
	(0.00001)	(0.00002)	(0.00004)	(0.00003)
Fixed-term contract	-0.011**	-0.009**	-0.049*	-0.064*
=1 when the employee has been hired for a fixed-term	(0.005)	(0.005)	(0.014)	(0.010)
<i>Algarve</i>	-0.039*	0.024*	-0.013	-0.008
=1 when the place of residence of the employee is located in the <i>Algarve</i>	(0.006)	(0.007)	(0.012)	(0.011)
<i>Centro</i>	-0.057*	-0.076*	-0.009	0.038*
=1 when the place of residence of the employee is located in the <i>Centro</i> region	(0.006)	(0.007)	(0.012)	(0.010)
Lisbon and <i>Vale do Tejo</i>	0.060*	0.059*	0.015	0.023*
=1 when the place of residence of the employee is located in the Lisbon and <i>Vale do Tejo</i> region	(0.006)	(0.006)	(0.011)	(0.010)
<i>Norte</i>	-0.099*	-0.041*	-0.003	0.011
=1 when the place of residence of the employee is located in the <i>Norte</i> region	(0.004)	(0.006)	(0.011)	(0.010)
Constant	7.091*	6.999*	7.151*	7.079*
	(0.009)	(0.009)	(0.028)	(0.036)
Number of observations	59860	47363	8301	10697
R square	0.433	0.537	0.650	0.716
Standard error	0.346	0.316	0.318	0.311

Source: Individual records from "Inquérito ao Emprego" INE, the Portuguese Labour Force Survey.

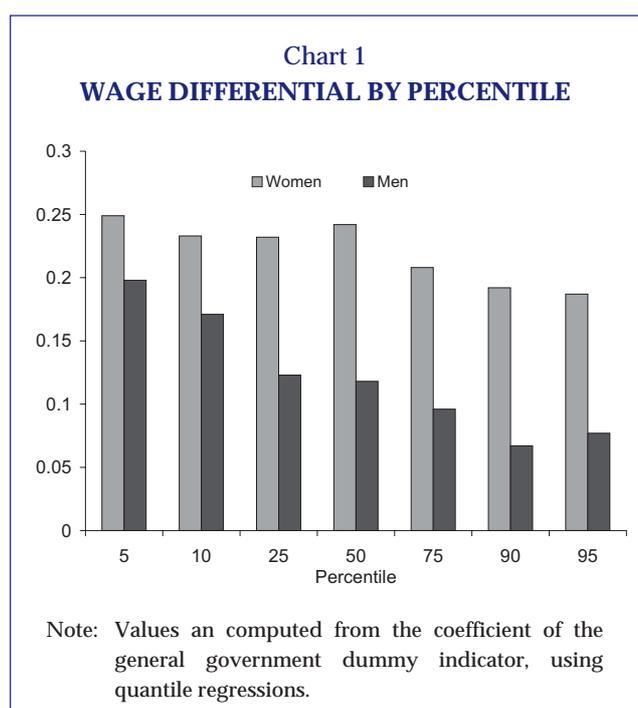
Notes:

* Represents statistical significance at the 1 per cent level;

** Represents statistical significance at the 5 per cent level;

studies on Portuguese wages, empirical evidence has been obtained that investment in formal education is remunerated at very high rates of return⁽³⁾. Therefore, a college graduate woman (man) obtains a remuneration that is 91.7 per cent (88.5 per cent) higher than a woman (man) with full secondary education. This result makes it clear that

- (3) The impressive magnitude of the coefficients of the variables measuring the level of education explains the fact that, in the international comparisons, the wage differential between general government employees and private sector employees is especially high in the Portuguese case. In most European countries the wage premium associated with college education varies between 30 and 40 per cent.



the Portuguese market continues to register a very high demand for qualified workers, in particular college graduate workers⁽⁴⁾. Finally, it is interesting to stress the similarity of most regression coefficients in the equations of wages by gender. Given the proximity of these estimates, the difference between the independent terms may be interpreted as a measure of gender discrimination in the private sector of the economy (12.9 per cent).

Assuming that the impact of wage determining factors may differ between the general government and the corporate sector, separate wage regression equations were estimated (Table 6). In general, there are no significant differences between the private sector and the public sector in the remuneration of human capital investment, at both the general level (measured by the level of education and professional experience) and specific level (measured by the seniority effect)⁽⁵⁾. However, there are three significant differences that are worth noting:

(4) It is also possible that the intense recruitment of graduates by the general government is contributing to the increase in the level of wages paid to graduates in the private sector.

(5) The chief distinction between general and specific human capital (or training) lies in the possibility of transferring that investment from one employer to another, i.e., the transferability of training. This comparison does not include any indication of the actual existence of professional training, since it probably indicates different contents of training in both sectors.

First, the wage penalty associated with fixed-term contracts is higher in the public sector (-6.2 per cent for women and -4.8 per cent for men) than in the private sector (-0.9 per cent and -1.1 per cent, respectively). This result may be due to the utilisation of fixed-term contracts with different purposes. While the private sector resorts to fixed-term contracts as a mechanism for the selection of workers (Varejão and Portugal, 2001), there are some signs of persistent utilisation of fixed-term contracts in the general government.

Second, the regional dispersion of wages is significantly lower in the general government. This results from the nation-wide uniform definition of the civil servants' wage scales. Therefore, while wage differences in the private sector between Northern regions and the Lisbon and *Vale do Tejo* correspond to approximately 17.2 per cent (men) and 10.6 per cent (women), in the public sector they reach 1.8 per cent and 1.2 per cent, respectively. This situation should not be interpreted as favourable, since it chiefly reflects the insensitivity of wages to local labour market conditions, introducing significant distortions in the allocation of resources.

And third, the distribution of wages in the private sector tends to show a higher dispersion than the corresponding distribution of wages of general government employees.

A more comprehensive characterisation of the distribution (dependent on the characteristics of the workers) of the wage differential between the public and the private sectors may be obtained through the estimation of a quantile regression. With this approach, it is possible to obtain the wage premium of general government employees in different points (percentiles) of the wage distribution, and thus determine whether the wage premium is lower or higher for better or worse paid workers. While the wage premium for women tends to equally favour both better and worse paid workers, in the case of men, the wage premium decreases as the wage level increases (Chart 1). Behind this situation may be the fact that alternative wages in the private sector are relatively higher for better-paid jobs, or that general government faces difficulties in competing for highly qualified workers.

7. CONCLUSIONS

In Portugal, the wages of general government employees, especially women, are significantly above wages of private sector workers with equal qualifications. The existence of a wage premium for general government employees is common to most European Union countries. The magnitude of such premium is indeed the most remarkable aspect in the Portuguese case. Amongst European Union countries, Portugal registers by far the highest wage differential between public sector and private sector workers.

There may be good economic reasons to expect higher wages for State employees. First, the tasks carried on in the public sector, by their nature, may require more stringent qualifications or heavier or riskier working conditions. Second, due to the need to avoid an excessive rotation of workers in some functions, public decision-makers may opt for a higher wage policy, thus ensuring a low rate of volunteer leaves. Third, governments may follow a strategy of "efficiency wages", offering wage levels above those in the market, in order to maintain a conscientious and diligent working force. And forth, taking into account the difficulty in monitoring a large number of workers (the State is almost always the biggest employer), it may be advantageous to offer wages above competition, in order to attract applications from more productive workers.

In turn, some arguments would lead to anticipate lower wages in the general government, i.e., negative wage differentials between the public and the private sectors. Due to less stressing working conditions, more flexible working schedules or extra-wage benefits (for instance, access to health services), according to the compensating differentials theory, wages should be lower, in order to re-establish labour market equilibrium. Similarly, a more generous pension system or a more advantageous employment protection framework should have as a counterpart lower wages. In view of these two different wage distributions, more productive workers will tend to choose, according to Roy's auto-selection model, the sector that permits to have access to higher wages (with lower wage compression), inducing higher average wages in this sector.

Nevertheless, there may be other reasons (less advisable) that may also tend to generate wage premiums and that seem to be equivalent to those mentioned above: rent extraction from tax-payers; bureaucratic behaviour of (budgetary) size maximisation of public departments; rent extraction due to monopoly situations; advantages obtained due to asymmetric information; obtaining electoral advantages, etc.

Although it is not possible to evaluate the influence of all these factors, it seems nonetheless safe to maintain the suggestion that the wage system of civil servants is more favourable than that of private sector workers. This conclusion is reinforced by the near non-existence of voluntary leaves of general government workers and by a very significant number of job applications whenever new vacancies are advertised in the general government.

Due to their size, decisions on the employment and wages of civil servants influence considerably the behaviour of the whole labour market. In certain circumstances, the definition of wage policy for the general government may determine the general development of wages. Taking into account the constraints affecting the general government wage policy, it might be sensible to consider the implementation of new mechanisms to determine general government workers compensation which make them not shielded to the evolution of the labour market.

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