

Discussion of  
“Public Sector Pay in Spatial Equilibrium”

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# Nice paper!

- ▶ Public sector pay across space is very different than private sector pay
  - ▶ Surprisingly understudied!
- ▶ Key economic claim: local public sector has significant monopsony power
- ▶ National wage setting schemes can limit the monopsony power

# The Public Sector

- ▶ The public sector almost certainly has some monopsony power, as shown by these cool new facts:
  - ▶ Largest employer in most commuting zones is in the public sector
  - ▶ Public sector is over 20% of the wage bill across different types of cities

# The Public Sector

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  - ▶ Largest employer in most commuting zones is in the public sector
  - ▶ Public sector is over 20% of the wage bill across different types of cities
- ▶ But it is also special in other ways
  - ▶ Contracts are more often collectively bargained
  - ▶ Voters can be very sympathetic to public servants (i.e. decision-makers less motivated by extracting surplus)
  - ▶ Workers are often highly specialized: universities and hospitals are some of the largest public sector employers
  - ▶ Fiscal policies are sometimes designed to “create” public jobs
  - ▶ Often incentives for public jobs are back-loaded (low pay, generous pensions)
- ▶ How important are these other differences?
- ▶ How do they interact with the monopsony power?

# Who are the competitors for public sector workers?

- ▶ Household preferences for location-sector are modeled as a nested logit of location and then sector
- ▶ In other words, they internalize the local labor supply curve and are competing with the private sector
- ▶ Given the specialization, I wonder whether the more relevant margin is public sector jobs in other regions
  - ▶ This could be personal bias...
- ▶ Likely lots of spatial heterogeneity in how much competition local governments face
  - ▶ Won't come out of a simple logit model
  - ▶ Will be in a model with moving costs or a model that thinks about spatial correlation in idiosyncratic preferences

# Wage Indexation

- ▶ Authors present wage indexation as a way to solve monopoly power
- ▶ My prior was that wage indexation enhances monopoly power
  - ▶ Related to the previous point that some of the competition for public sector employees comes from other public sector firms
- ▶ Employers “should” love it if competitors are unable to offer higher wages than they can
- ▶ Authors have most of the framework they would need to analyze what *national* wage voters would choose for public sector workers

# Contributions

- ▶ Important understudied topic
  - ▶ Lays down some important facts about the public sector, especially regarding its size and pay across space
  - ▶ I hope this will kick off a literature
- ▶ Contributes to literature thinking about monopsony power across space
  - ▶ Spatial frictions are a (the?) big source of market power
  - ▶ This study adds to our understanding of (a) how to model that market power and (b) how large that market power is in the public sector

## Small comments for the authors

- ▶ I'm probably just slow, but I don't understand the flows from private to public versus public to private argument. It seems like this is another way of saying that people start their careers in the private sector and end their careers in the public sector, or that the public sector is growing. Either way, is that really evidence of monopsony power? The first thing I think of is pensions.
- ▶ I'm confused about the assumption that “there is enough supply of workers in the public sector to satisfy demand” (p.23). How is this consistent with the model of demand that you laid out?