

Public Versus Private Sector Wage Leadership: Incorporating the Role of Asymmetry

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Abstract

Until recently the analysis of private and public sector wages was focused on the estimation of public sector wage premiums using microeconomic data. Approximately a decade ago a new line of enquiry emerged, analysing the co-movements, dynamics and spillovers between private and public sector wages using macroeconomic time series data. Such analyses typically employed vector error correction models (VECMs) to identify and quantify aspects of the interrelationship between private and public sector wages. While the Scandinavian model asserted that the private sector should be the wage leader, empirical analyses of European economies provided mixed results, with the public sector often identified as the wage leading sector. However, results varied across studies, seemingly dependent upon both the model specification as well as time period analysed. In order to obtain a more thorough and nuanced understanding of wage setting patterns and the dynamics between private and public sector wage time series, the current study analyses the role of asymmetry and non-linear adjustment to wage shocks using a threshold vector error correction model (TVECM) specification. Using quarterly data from 1998 to 2025 for Australia as a whole, as well as for eight individual States and Territories, results show that the dynamic adjustment of private and public wages to wage shocks are dependent upon both the sign and size of such shocks. These findings provide important insights into why wage adjustments between private and public sectors vary over time in response to different economic conditions and in response to the nature of different wage shocks. These findings provide insights into understanding of wage dynamics and the relationship between private and public wages, providing important policy implications for public wage setting as a macroeconomic management tool.

Keywords: public sector, wage leadership, asymmetry, threshold vector error correction model

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