



Spatial Economics Research Centre

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The labour market impact of public sector employment

I have been doing some research (with my colleague Giulia Faggio) looking at the impact of public sector employment on local labour markets.

Looking at changes in Local Authority public sector employment from 2003-2007 suggests two things. First, at least during that period, we don't find much evidence of crowding out in terms of *overall* private sector employment. Second, public sector employment appears to have a multiplier effect on local service sector employment but an offsetting crowding out effect on manufacturing employment.

In some ways, this isn't that surprising. Public sector employment creates demand for local goods and services. At the same time, public sector employment creates a supply distortion that hits local firms (and is more pronounced the bigger the public sector wage premium). For services, the demand effect appears to outweigh the supply effect. The demand effects for local manufacturing are much smaller (because the public sector and its workers don't demand much from local manufacturing firms). As a result, for local manufacturing, the supply distortion dominates.

As I said, the result isn't that surprising but what is surprising is that it doesn't appear to have been carefully documented before. This raises a question about existing research on the impact of the public sector on local labour markets. So far, we have tracked down the following: some material from the states looking at the impact of specific pieces of public sector employment (particularly the closure of military bases); UK research from LSE colleague and others on the impact of national pay on public sector service quality (negative); UK research from IFS and others on the extent of the public sector pay premium (pretty big except for males in the south east). We would be very grateful for any pointers on additional material. For various reasons, this kind of question isn't considered much in the huge literature on regional input-output models. There's also some broadly descriptive stuff on previous government relocation. However, what we are after is references to research that tries to get at the *causal* impact of public sector on local labour markets. Very grateful for any suggestions (either as comments below or email to my usual address).

Posted by [Prof Henry G. Overman](#) on [Tuesday, February 14, 2012](#)

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