

Editorial on Public Sector Employment

Bembady Bharathi*

Department of Public Administration, Osmania University, Hyderabad, Telangana, India

EDITORIAL

Governments choose to supply goods and services produced directly by public personnel, which results in the creation of public sector jobs. Governments, on the other hand, may decide to limit the expansion of the public sector in order to maintain desired national employment levels. Economic research, on the other hand, reveals that these impacts are ambiguous and highly dependent on how public wages are chosen. Flexible public sector wages have a stabilising influence on private employment, whereas rigid public sector salaries have the opposite effect. Employment in the public sector has significant productivity and redistributive impacts. Governments can have a variety of effects on the private sector economy.

The impact of public-sector employment policies on private-sector employment and unemployment is one crucial but little-studied factor. The following are key questions in this regard, which are addressed in this contribution. What effect does the size of the public sector's workforce have on private-sector employment? What impact do wage-setting rules in the public sector have? Is it possible for public-sector employment programmes to reduce overall unemployment? Is it possible for the public sector to increase overall productivity? In answering these questions, it will become clear that working in the public sector has other significant consequences.

These consequences could be expected outcomes of government policy, or they could be unintended and undesirable outcomes. The policy and the institutional structure through which it is implemented combine to form the result. For example,

governments can effectively boost the incomes and employment levels of disadvantaged groups, such as racial and ethnic minorities, through public sector employment programmes. This could be the consequence of deliberately targeting these groups and giving them preference for public sector employment—for example, affirmative action in the United States—or it could be the outcome of simple and clear wage and hiring standards that provide less room for discrimination.

Employment in the public sector can also be a source of resource redistribution. When governments, for example, establish more public sector jobs in less advantaged locations with higher unemployment and lower incomes, they may be tacitly diverting resources from more advantaged sections of the same economy to pay for those jobs. When tax collection is consolidated and wages in the public sector are more uniform, this occurs. Furthermore, the development of public sector jobs has significant compositional impact on the economy's various sectors. When a hospital is created, for example, it will require a variety of private-sector inputs such as building materials, desks, beds, and housekeeping and food. Finally, the public sector is more competitive with some sectors of the economy (usually the tradable sector—whose output (goods or services) is traded internationally, or could be traded internationally given a plausible variation in relative prices—which is also generally more productive) and more complementary with others (usually the non-tradable sector—whose output (goods or services) is traded internationally, or could be exchanged internationally provided a plausible variation in relative prices—which is also generally more productive) (typically the non-tradable sectors).

Correspondence to: Bembady Bharathi, Department of Public Administration, Osmania University, Hyderabad, Telangana, India, Tel: +92-323 - 9991029; E-mail: bharathisinu2007@gmail.com

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