5
Conclusion

In this paper, we show that public employment is an important source of social insurance. In our preferred experiment, although optimal public employment is nearly flat, ranging from 8 to 12 percent, if public employment was reduced from 12 to 8 percent of the workforce, losses due to a decrease in the degree of insurance would be nearly 2 percent of benchmark lifetime consumption. Of course, this effect is counteracted by welfare gains due to inequality and level effects. Importantly, the welfare gains due to uncertainty are fairly robust to a misspecification of the production technology associated with the public sector. Finally, we also find that individuals with college education are the group most benefited by an increase in public employment. In particular, the public sector provides a more effective insurance scheme, through public wages, to this group.