
Why did the wage share fall? Industry level evidence from Austria

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1. Introduction

There has been a significant decline in the share of wages in GDP in both developed and developing countries since the 1980s. This was accompanied by another trend towards greater inequality in personal income distribution, particularly by increases in income shares of the top 1% of the distribution.¹ These developments indicate a clear reversal of the trends towards relatively egalitarian income distribution during the post-war era. This paper analyses the determinants of the wage share (labour compensation as a ratio to value added) using sectoral data for Austria, while also comparing our results with selected OECD countries.

Previous research has highlighted processes such as technological change, financialisation, globalisation, changes in government policy, personal income inequality, and labour market institutions to explain the decline in the wage share. Since many of those factors are either determined on a sectoral level or have developed differently across sectors and countries, a sector-by-country analysis has several advantages over previous research that uses country-level data or pools countries with different institutional frameworks. Furthermore, while country-level analysis always faces the question whether the decline in the wage share captures changes in sectoral composition rather than a decline of the wage share within sectors, we are able to isolate the within sector development of the wage share, and are able to abstract from changes in the sectoral composition. In fact, we find little evidence to attribute the decline in the country-level wage share to a change in the sectoral composition of the economy, since the wage share decreased in most of the sectors simultaneously.

We compile a comprehensive sector-level dataset of nine OECD countries (Austria, Denmark, France, Germany, Italy, Spain, Sweden, the UK, the US) for the period of 1970 to 2011,² which allows us to trace the developments in the wage share across high and low skilled sectors and within manufacturing and service industries. Our findings provide new insights with regard to the drivers of falling wage share. By conducting country specific estimations, we analyse how institutional differences in industrial rela-