Regarding the effects of the changes in the bargaining power of labour, the IMF (2007) and the EC (2007) both use standard indices for labour market institutions such as union density, employment protection legislation, unemployment benefit generosity and the tax wedge designed to measure labour market rigidities rather than to measure the bargaining power of labour.[11] EC (2007) finds that while minimum wages have a positive effect, higher employment protection legislation has negative effects on the wage share; their interpretation of the results is that tighter employment protection legislation leads to higher bargaining power of workers and an increase in wages, but it does not increase the wage share, since the labour demand is very elastic. IMF (2007) finds negative effects of unemployment benefits and the tax wedge. Numerous studies also include direct bargaining variables such as union density, strike activity and collective bargaining regimes into their empirical analysis. Strike activity has been found to have a positive impact on the wage share,[12] while ILO (2011) argues that collective bargaining arrangements and minimum wages could have positive effects on the wage share. Union density is the most commonly used variable with the best data availability and the most robust effect. It has been found to increase the real wage[13] – especially in countries with a low level of bargaining coordination,[14] reduce wage dispersion, and limit the size of top income shares. Additionally, stronger labour unions are likely to exercise political pressure in favour of redistribution policies, thereby decreasing *net* income inequality (after taxes and transfers).[15] Nevertheless, it has been argued that the actual effect of unions may be underestimated in empirical studies since collective bargaining coverage greatly exceeds union membership in some countries. However, poor data availability limits the employability of this variable,[16] at least for the sectoral level. Stockhammer (2015) fails to find any statistically significant effect of the labour market institution variables such as employment protection legislation, minimum wages, unemployment benefit replacement ratio, unemployment benefit duration, and the tax wedge.

The mainstream literature does not control for the effects of welfare state retrenchment or financialisation. In the political economy literature, welfare state retrenchment is found to be an important determinant of the fall in the wage share;[17] however the measure used is often only aggregate government spending as a ratio to GDP, and is too broad to reflect the details of the welfare reforms essential to the bargaining power of labour. Kristal (2012) uses government civilian spending, which nevertheless does not capture the details of spending that is particularly important for the social wage and bargaining power of labour such as public spending on social protection or health and education.

There have been only few studies investigating the impact of financialisation on functional income distribution. The term is not unambiguously