4. Estimation Methodology

Our basic specification of the within sector wage share has the following form:

\[
WS_{i,t} = \alpha_i + \alpha_g GROWTH_{i,t} + \alpha_k KnonICT_{i,t} + \alpha_{kict} KICT_{i,t} + \alpha_{barg} BARGAINING_{i,t} + \\
\alpha_{glob} GLOBAL_{i,t} + \alpha_{welfare} WELFARE_t + \alpha_{financial} FINANCIALISATION_t + \\
\alpha_{ineq} INEQUALITY_t + \varepsilon_{i,t}
\]  

Equation (3)

where \(i\) is the sector index; \(t\) is the time index; \(WS\) is the wage share in sector \(i\). \(GROWTH\) is the growth of the value added of the sector in order to control for the counter-cyclical dynamics of the wage share. \(KICT\) and \(KnonICT\) are ICT (information and communication technology) and non-ICT capital services as a ratio to value added in sector \(i\); these capture the effects of technological change. \(\alpha_i\) is a sector specific coefficient. We do not include period effects in our baseline estimation since several of our bargaining variables are only available on the country level and are thereby statistically similar to year dummies while carrying more meaningful information.

\(GLOBAL\) is a set of variables which capture the effects of globalization, such as intermediate import penetration and inward and outward FDI intensity. Intermediate import penetration is closely linked to the wage share insofar as intermediate imports are related to the process of outsourcing to foreign companies. However, our data for intermediate imports is based on the conversion of commodity indices to sector indices and thereby doesn’t allow us to calculate how much of the imported product is actually used by each sector, which would constitute a proper outsourcing measure and requires the use of Input-Output tables. However, assuming that the use of imported goods stays relatively constant across sectors intermediate import penetration is a relevant measure for the reallocation of production abroad. We expect a negative effect on the wage share for low skilled sectors in capital abundant countries (as rich OECD countries are usually assumed to be), brought about either by downward pressure on wages to maintain competitiveness, through trade-induced labour-saving technological change, or a reallocation of employment abroad or towards more capital-intensive sectors in the economy (Onaran, 2011). The expected effect for high skilled sectors is more ambiguous, given that imports can also increase output if they are complementary to domestic production or reduce costs. The effect is theoretically even more ambiguous if one considers imports of final goods that are not produced domestically.