

Different institutional variables appear to be relevant for each country. Germany exhibits the most robust positive effect of union density on the wage share, and there is also some positive effect of union density in Austria, while collective bargaining coverage plays a more important role in France and the UK together with social government spending.

Financialisation, as captured by household debt, had the most pronounced effect in Austria, the UK and the US, while financial income appears to be relevant in Germany. Estimations for other countries are inconclusive and require analysis using data on a more disaggregated level.

We find mixed results for the effect of personal income inequality on the wage share. However, there is indicative confirmation for a negative effect in Austria, Germany and the UK.

While variables capturing technological change are significant in selected specifications for Austria, Italy and the US, they do not appear to be very robust to the application of different estimation techniques or the split of the sample in services and manufacturing sectors. Furthermore, we do not find strong evidence of skill-bias in terms the effect of technological change, which constitutes the core of the mainstream explanation for increasing inequality. For some specifications we observe that these variables are especially sensitive to the inclusion of country-level measures of financialisation or bargaining power. However, these results are not robust to the application of different estimation methodologies. This suggests that while technological change surely has increased value added, the negative impact on the wage share is more likely to be an effect of reduced bargaining power of workers, brought about by globalisation and a deterioration of bargaining conditions.

## 6. Conclusion

Our findings lend strong support to the political economy approach to functional income distribution. Technological change had an impact, especially in Austria, Italy, the US, but the effects are not robust with respect to the use of different specifications and the wage share in most countries in our sample appears to be driven by different variables reflecting the bargaining power of labour such as union density, adjusted bargaining coverage and government spending. Furthermore, we don't find strong support for the skill-biased technological change hypothesis which implies an adverse effect for low skilled workers and a beneficial effect for high-skilled workers. Indeed, the high significance of institutional variables suggests that the negative effect of technological change on income distribution stems from the fact that workers weren't able to capture the gains of increased productivity due to a weak bargaining position. In terms of eco-

conomic significance, the decline in the wage share in Austria is most strongly driven by a deterioration of bargaining power as captured by union density and different measures of financialisation. However, the most relevant institutional variables differ considerably across countries, lending support to our approach of country specific estimations.

Our findings have important policy implications. Rising inequality is not an inevitable outcome of technological change. Tackling income inequality requires a restructuring of the institutional framework in which bargaining takes place and a levelled play-ground where the bargaining power of labour is more in balance with that of capital. The impact of globalisation is likely to be significantly moderated or offset by stronger bargaining power of labour via an improvement in union legislation, increasing the coverage of collective bargaining, increasing the social wage via public goods and social security and international labour standards embedded in a broader strategy of global cooperation for high road labour market policies and macroeconomic policy coordination. Each country would have to address specific issues supporting the strongest positive drivers of the wage share while mitigating factors that reduce workers' bargaining power. Furthermore, our results suggest that a simple attempt to reduce income inequality through skill-upgrading will not work as skill-biased technological change does not seem to be the most relevant factor determining the distribution between labour and capital.

## Endnotes

- 1 Atkinson, Piketty and Saez (2011).
- 2 The time period is determined by data availability at a detailed sectoral level.
- 3 More detailed results and discussion on countries other than Austria can be found in Guschanski and Onaran (2016a).
- 4 Stockhammer (2009).
- 5 EC (2009).
- 6 Kaldor (1955).
- 7 Kalecki (1954); Hein (2015).
- 8 Country-level analysis always faces the question as to whether the decline in the wage share captures changes in sectoral composition rather than a simultaneous decline of the wage share in all sectors; therefore, in order to abstract from mere reallocation effect and focus on a distributional analysis it is crucial to isolate the within sector development of the wage share. This can be illustrated simply by writing the aggregate wage share as a function of weighted sectoral wage shares (EC [2009]):

$$WS_t^C = \frac{LC_t^C}{VA_t^C} = \sum_{i=1}^n \frac{VA_{i,t}}{VA_t^C} * \frac{LC_{i,t}}{VA_{i,t}} \quad Eq. (1)$$

where  $i$  stands for the sector and  $t$  for the year.  $WS_t^C$  stands for the aggregate wage share of country  $C$ , which is defined by labour compensation  $LC_t^C$  as a ratio to total domestic value added ( $VA_t^C$ ) or GDP, and can be expressed as the sum of within sector wage shares  $\frac{LC_{i,t}}{VA_{i,t}}$  weighted by the sectors' contribution to total value added  $\frac{VA_{i,t}}{VA_t^C}$ . Conse-