6. Conclusion

Our findings lend strong support to the political economy approach to functional income distribution. Technological change had an impact, especially in Austria and for the total country sample, 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. In terms of economic significance, the decline in the wage share in Austria was most strongly driven by a deterioration of bargaining power as captured by union density and different measures of financialisation. The relevance of these variables differs considerably across countries, lending support to our approach of country specific estimations.

We find that globalisation had a strong impact on the wage share in all countries. The effect of globalisation on the wage share was least strong in Denmark. In Austria, Germany and, less robust, in the UK, the effect is due to outward FDI as well as intermediate import penetration which reflects the impact of international outsourcing practices. Intermediate imports penetration had no significant impact in Spain while FDI played a smaller role in France and the US. Equivalently, and in opposition to the predictions of standard trade theory, globalisation also had a negative impact in ‘low-wage’ countries. There, intermediate imports and, especially, intermediate exports to high-wage countries appear to be drivers of the negative impact on the wage share.

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 had the most pronounced effect in Austria the UK and the US, while it appears to be also 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.

We fail to find a robust negative effect of variables aiming to measure technological change, and we do not find any evidence of skill-bias in terms the effect of technological change, which constitutes the core of the mainstream explanation for increasing inequality. For some individual country estimations 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.

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 globalization is likely to be significantly moderated and/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 labor 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 addressing possible issues that make other instruments of workers bargaining power ineffective. Furthermore, our results suggest that a simple attempt to reduce income inequality through skill-upgrading will not work as technological change does not seem to be the most relevant factor determining the distribution between labour and capital.