

Referee report on

Wage-Productivity Gap in OECD Economies

The purpose of the paper is to estimate a relationship between the wage-productivity gap and unemployment (plus some additional variables such as the degree of unionization among the workers) in a panel made up of 31 OECD countries over the period 1960-2009. The key results are that there is a positive relationship between the wage-productivity gap and unemployment but a negative relationship between the wage-productivity gap and unionization.

Comments

The paper addresses an interesting issue that has important implications for policy. Therefore, the paper is relevant but I have one concern that I would like the authors to address:

In many countries, wages are determined at the sector level (e.g. Sweden) which implies that the wage-productivity gap in each sector reflects sector specific conditions, such as sector specific parameters in the production function, sector specific unionization rates and (possibly) sector specific unemployment rates. To me, this suggests that a study of the wage-productivity gap should be made at the relevant sector level where the wage bargaining actually takes place. By this I mean that the calculations of wage-productivity gaps should be based on the wages observed in the relevant sectors and on estimates of parameters of the sector specific production functions. However, in the paper, the authors use aggregate data from manufacturing in each country in the estimations. If manufacturing in each country does not correspond to the relevant level where the wage bargaining takes place, then I am not convinced that the estimations give us relevant estimates of the relationship between, e.g. the wage-gap productivity gap and unemployment. Therefore I suggest that the authors discuss this issue and provide a justification for why estimates based on aggregate data are viable.

A minor comment regards the choice of functional form of the production function. Are the results sensitive w.r.t. what type of production function that is used in the estimations? What would happen if, for example, the production function would be CES?

Another minor comment is that in Table 1, the minimum observed unemployment rate is 0.00. Maybe this could be commented in the paper.