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PRESS RELEASE

Inter-industry wage differentials: How much does rent sharing matter?

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In this paper, three central questions are addressed: i) Are sectoral differences persistent over time, showing a trend or cyclical effects?, ii) How large is the elasticity between wages and profits, controlling for the endogeneity of profits, and does it change over time?, iii) What is the contribution of rent-sharing to the observed industry wage differentials, and is it stable over time? These questions have been investigated on the basis of a unique matched employer-employee data set covering the period 1999-2005. This data set derives from the combination of the Structure of Earnings Survey and the Structure of Business Survey. The former contains detailed information on firm characteristics (e.g. sector of activity, size of the firm, and level of wage bargaining) and on individual workers (e.g. gross hourly wages, bonuses, age, education, sex, and occupation). The latter provides firm-level information on financial variables (e.g. gross operating surplus and value added per capita).

Our findings show the existence of large wage differentials among workers with the same observed characteristics and working conditions, employed in different sectors. These differentials are persistent and no particular downward or upward trend is observed. Further results indicate that ceteris paribus, workers earn significantly higher wages when employed in more profitable firms. The elasticity between wages and profits is found to be quite stable over time. It appears that ceteris paribus the wage of a worker would increase by approximately one-third if she/he switched jobs from a firm whose profits are two standard deviations below the mean of profits to another firm whose profits are two standard deviations above the mean.

Finally, results show that substantial wage differentials are still recorded in all years between workers employed in different sectors after controlling for rent-sharing. Also noteworthy is that the hierarchy of sectors in terms of wages remains almost unchanged. We also find that the dispersion in inter-industry wage differentials drops by about 25 percent when profits are taken into account. These findings suggest that rent-sharing accounts for a large fraction of inter-industry wage differentials.