Wage-Led vs. Profit-Led Growth: A Comprehensive Empirical Analysis

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The relationship between labour share and economic growth is a popular topic of research in economic policy. However, several country-based studies in the existing literature obtained contradictory findings. In this paper, we intend to make a comprehensive analysis and utilise a large panel data set of wages, profits and growth. We construct time-series data sets for a number of countries and then investigate on a country-by-country basis whether growth is wage-led or profit-led. Then in the next step of the analysis, using logistic regressions we will also look for various economic, social, cultural, institutional and political factors that makes a country wage-led or profit-led. The regressions control the average values of trade openness, GDP per capita, years of education, capital intensity, and time for the periods considered in the second phase. In our estimations, we find that the countries with greater trade openness are more likely to be profit-led. This is consistent with the theoretical frameworks of Blecker (1989) and Marglin and Bhaduri (1990) and empirical work of Onaran and Galanis (2012) which show open economies are more likely to be profit-led as a wage-led expansion might damage a country's export competitiveness.