

Does productivity pay off? The link between productivity and compensation in the European Union.

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Abstract

The aim of this paper is to investigate whether labor productivity and worker's compensation have decoupled over time in the European Union. The relationship between labor productivity and worker's compensation has become weaker over the last 50 years and decoupled in the majority of EU countries. The descriptive analysis compares growth rates of productivity and compensation of an unbalanced dataset consisting of 28 EU countries from 1960 to 2018. Using an econometric analysis, a country- and year-fixed effects model is estimated. The econometrical findings suggest that unemployment and a declining union density played a role in this development which is caused by an ongoing institutional change partly due to the hegemony of neoliberalism, financialization and globalization.