

WHY DO CAPITAL INTENSIVE COMPANIES PAY HIGHER WAGES?

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An obvious answer to this question is the capital-skill complementarity hypothesis originally proposed by Zvi Griliches (1969). But the relatively poor performance of this hypothesis suggests that other explanations are needed. Here we consider the labour union behaviour in the wage bargaining process as such an alternative. The explanation is based on the observation that capital intensive companies are more akin to strike threat and may thus more easily give in for union wage demand. Thus, the bargaining power of unions is related to the capital-labour ratio. This paper provides some tests for these hypotheses with panel data for Finnish companies. The results give support to the wage bargaining hypothesis

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