PRODUCT AND LABOR MARKET REGULATIONS, PRODUCTION PRICES, WAGES AND PRODUCTIVITY

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ABSTRACT

This study is an attempt to evaluate the effects of product and labour market regulations on industry productivity through their various impacts on changes in production prices and wages. In a first stage, the estimation of a regression equation on an industry*country panel, with controls for country*industry and country*year fixed effects, show that multi-factor productivity is negatively and significantly influenced by both indicators of industrial prices from same industry and weighted average of industrial prices from other industries, and by indicators of country wages weighted by industry labour shares for low and high skilled workers. In a second stage, an economic policy simulation of the implications these results on the basis of their calibration by the OECD product and labour market anti-competitive regulation indicators suggests that nearly all countries could expect sizeable gains in multifactor productivity from deregulation reforms.

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An online appendix is available at:
http://www.nber.org/data-appendix/w20563

I. Introduction

A large body of literature investigates the productivity impacts of product and labour market imperfections, and of the anti-competitive regulations establishing and supporting them (see Aghion and Howitt 2009 for a survey). This paper greatly extends the scope of two previous studies by the authors (Bourlès *et al*., 2013, and Cette, Lopez and Mairesse, 2013) that focus only on the indirect impact of non-manufacturing regulations. By considering the effects of product and labour market regulations on industry productivity through their various impacts on production prices and wages, it allows to assess and compare the relative size of the different channels of direct and indirect impacts of product and labour market imperfections. The paper relies on country*industry panel that is basically the same as in the other two previous studies. It also takes advantage of the rich information provided by the OECD regulation indicators, but it does so only indirectly for economic policy calibration and simulation purposes.

The originality of our new approach is twofold. First, to our knowledge, it is the first attempt to assess the consequences on productivity of anti-competitive regulations in product and labour markets through their impacts on production prices and wages.[1] Second, it does so by considering in conjunction the six channels through which regulations impact MFP: direct and indirect influence of product market regulations in manufacturing and non-manufacturing industries, and direct influence of labour market regulations on the rent sharing process between firms on the one hand and skilled and unskilled workers on the other.

Our approach is theoretically grounded in the model developed by Blanchard and Giavazzi (2003). In their own words, "their model is built on two basic assumptions*:* monopolistic competition in the goods market, which determines the size of rents; and bargaining in the labour market, which determines the distribution of rents between workers and firm."(pp. 879-880). In other words, firms can take advantage of the market power permitted by product market anti-competitive regulations to charge higher production prices and generate rents that they can be kept in the form of increased profits. Workers can also capture in the form of higher wages a share of these rents, which varies with their bargaining power, itself largely influenced by labour market regulations. Our empirical framework is a straightforward attempt to assess such relations on our country*industry panel. It can be simply explained by the diagram of Figure 1, which we shall now comment.

[1] The study by Askenazy, Cette and Maarek (2013) also rely on similar assumptions.

INCLUDE FIGURE 1 about HERE

The right side of the diagram outlines the regression equation central to our investigation. It shows the channels by which the six price and wage indicators, key in the analysis, relate to Multifactor Productivity (*MFP*). The left side of the diagram shows the calibration relationships, which validate our use of six price and wage indicators as proxies of the product and labour market imperfections impacts, and allow us to perform simulations of the (*MFP*) gains resulting from structural reforms of product and labour markets, as gauged by the OECD indicators for Non-Manufacturing Regulations (*NMR*), Harmonized tariffs (*HT*) and Employment Protection Legislation (*EPL*).

The regression equation assumes that product market imperfections in an industry generate higher production prices and rents, which have a "direct" impact on *MFP* in the same industry and an "indirect" impact on *MFP* in other industries. The two price indicators of direct impacts measure the extent to which what we label "Manufacturing" industries and Non-Manufacturing" industries are able to charge relatively high prices. They thus benefit from large rents and have fewer incentives to improve their efficiency and to innovate but also more financial resources to do so. We can thus expect an impact on *MFP* which could be either negative or positive. A negative sign may a priori seem more likely for non-manufacturing industries generally sheltered from foreign competition and often protected from national competition by product market regulations. But this may also be true for manufacturing industries when they are protected from foreign competition by high tariff barriers. The two price indicators of indirect impacts are similarly indicative of weaker incentives to improve efficiency and to innovate by "downstream" industries when the rents they can generate are appropriated by "upstream" industries that have market power and can charge them relatively high prices for the intermediate inputs they must use. In this case, however, the expected impact on *MFP* is unambiguously negative. Again and for the same reasons this should be more likely when the upstream industries are non-manufacturing industries than manufacturing industries.

Our regression equation also assumes that, in conjunction with product market imperfections in an industry, labour market imperfections may result in higher wages and lower profits, entailing a negative impact on the industry *MFP*. Employment protection legislation, professional agreements and standards, shortage of qualified workers, etc., contribute to higher wages, implying that rents, which could have been fully appropriated by firms' owners and shareholders, are shared with workers. In turn, firms have fewer incentives and financial resources to improve their efficiency and to innovate. We can thus expect that the low- and high-skilled wage indicators have a negative impact on *MFP*. Since high-skilled workers have a stronger bargaining power than low-skilled workers, it is also likely that the negative impact would be larger for the former than the latter.

In Section 2, we describe our country*industry panel data sample, define in detail the six production price and wage impact indicators, and discuss in depth the econometric specification of our regression model. Our main estimation results are presented and discussed in Section 3. They show that the estimated coefficients of our six impact indicators are all negative and are both statistically and economically significant. In Section 4 we consider an illustrative policy simulation based on these results and on their calibration by the OECD product and labour market anti-competitive regulation indicators, which suggests that nearly all countries could expect sizeable gains in multifactor productivity over the years from an economic policy of deregulation reforms. Section 5 offers a short conclusion, stressing the plausibility of our results but also their fragility and limitations, largely inherent in the aggregate nature of our framework and supporting data.

II. Sample, variables and regression model

Our analysis is based on an unbalanced country*industry*year panel data sample covering fourteen OECD countries and eighteen industries: thirteen mainly in "Manufacturing" and five mainly in "Non-Manufacturing". Due to the lack of data for several countries and/or sectors in the earlier years, it is relatively unbalanced ranging for each country*industry time series from 1987 to 2007 at maximum, 6 years at minimum and about 12 years on average. The fourteen countries are: Austria, Canada, Czech Republic, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Spain, Sweden, the United Kingdom and the United States. For the sake of convenience, "Manufacturing" refers here to: food products, textiles, wood products, paper, chemicals products, non-metallic mineral products, metal products, machinery not elsewhere classified (n.e.c.), electrical equipment, transport equipment, manufacturing n.e.c., as well as construction and hotels & restaurants; while "non-manufacturing" refers to: energy, transport & communication, retail distribution, banking services and professional services. Overall, our panel data sample contains 2,820 observations, when we exclude the United States that we have taken in our analysis as the country of reference to control for unobserved technical changes at the industry level.

Production prices, intermediate consumption and data used to calculate Multifactor Productivity (*MFP*) come mainly from OECD databases, while wages by skill level and physical investments by assets (used to calculate *MFP*) come from the EUKLEMS database. The regulation indicators that we use to assess the economic significance of our results and to calibrate simulations of the potential impacts of structural reforms are constructed on the basis of the OECD indicators for Non-Manufacturing Regulations (*NMR*), Harmonized Tariffs (*HT*) and Employment Protection Legislation (*EPL*). Appendices A and B provide detailed information on the panel composition, the construction of variables and the OECD indicators. They also show some simple descriptive statistics.

As shown in the Diagram, in our regression model, *MFP* expressed in logarithm and noted as mfp_{cit} for country *c*, industry *i* and year *t*, is related to four impact indicators based on production price data, two "direct" impact indicators DM_p_{cit} and DNM_p_{cit} for manufacturing industries and non-manufacturing industries respectively, and two "indirect" impact indicators IM_p_{cit} and INM_p_{cit} for impacts on "downstream" industries originating from "upstream" manufacturing and non-manufacturing industries respectively. They also consist of two impact indicators based on low-skilled (*L*) and high-skilled (*H*) wage data noted JL_w_{cit} and JH_w_{cit}.

The direct impact country*industry price indicators are simply defined as:

$$DM\_p_{cit} = p_{cit} \text{ with } i \in M \quad DNM\_p_{cit} = p_{cit} \text{ with } i \in NM$$

where p_{cit} is the logarithm of the production price index relative to the GDP price index, for country *c,* industry *i* and year *t*, normalised to be equal to 1 in year 2000 (with $i \in M$ for the manufacturing industries and $i \in NM$ for the non-manufacturing industries). Because of the aggregate nature of our panel sample, the direct impact price coefficients we can expect to estimate with good precision are two average country*industry elasticities (not separate elasticities by country or industry, or country*industry).

The indirect impact country*industry price indicators are composite indicators of the same production prices but for the upstream industries, and are defined as:

$$IM\_p_{cit} = \sum_{j \in M \,\&\, j \neq i} p_{cjt} * USE_i^j \qquad INM\_p_{cit} = \sum_{j \in NM \,\&\, j \neq i} p_{cjt} * USE_i^j$$

where USE_i^j is the intensity-of-use of intermediate inputs, defined as the ratio of the intermediate consumption from industry j to industry i over the production of industry i and measured on the basis of the 2000 input-output table for the USA, taken as country of reference in our analysis. Here also, the coefficients that can be precisely estimated are two average country*industry elasticities with respect to the manufacturing and non-manufacturing industries. For that purpose, interacting the log upstream industry price with the intermediate input intensity-of-use ratio is an appropriate way to take into account the intrinsic heterogeneity of their potential impact on downstream multifactor productivity, assuming that the higher this ratio, the higher the impact of a given change in upstream industry price. Note also that we prefer to use the USA 2000 input-output table as a weighting fixed reference in the computation of the intensity-of-use ratios to avoid endogeneity biases that might arise from potential correlations between the country*industry changes in such ratios and productivity. For a similar reason we also exclude the intra-industry intermediate consumption in the computation.

The impact low- and high-skilled country*industry wage indicators are defined as:

$$JL\_w_{cit} = w_{ct}^L * SHARE_i^L \qquad JH\_w_{cit} = w_{ct}^H * SHARE_i^H$$

where w_{ct}^L and w_{ct}^H are the country's real wage index, in logarithms, for the low- and high-skilled workers of country c, and $SHARE_i^L$ and $SHARE_i^H$ are the corresponding shares of labour costs in the production value of industry i for the USA in 2000. As in the case of the direct and indirect impact price indicators, the coefficients we can hope to estimate accurately enough are two average country*industry elasticities. Similarly to what we do to construct the indirect impact price indicators, we deem appropriate to interact the log country's low- and high-skilled wages with the corresponding labour costs shares in production at the industry level for the USA in 2000, assuming that the higher these changes, the higher the impact of a given change of a given change in low and high skill industry wage. To also avoid potential endogeneity biases we rely on the USA 2000 industry shares as fixed reference. Note finally that since we found that the estimated elasticities of the indicators based on separate low- and medium-skilled wages were not statistically different, we pool them for the sake of greater precision as one indicator, to which we simply refer here as the low-skilled wage indicator.

Finally, our regression preferred specification is the following:

$$\begin{aligned} mfp_{cit} = {} & \alpha\, DM\_p_{ci(t-1)} + \beta\, DNM\_p_{ci(t-1)} + \gamma\, IM\_p_{ci(t-1)} + \delta\, INM\_p_{ci(t-1)} \\ & + \lambda\, JL\_w_{ci(t-1)} + \mu\, JH\_w_{ci(t-1)} \\ & + \theta\, mfp_{US\,i(t-1)} + \eta_c + \eta_i + \eta_t + \eta_{ci} + \eta_{ct} + \varepsilon_{cit} \qquad (1) \end{aligned}$$

In addition to the six impact price and wage indicators defined above, we included the log USA multifactor productivity for industry i and year *(t-1)* $mfp_{US\,i(t-1)}$ in order to control mainly for exogenous technical changes at the industry level. We chose the USA, which is at the world productivity frontier in most industries, as an appropriate reference country for our analysis. $\alpha, \beta, \gamma, \delta, \lambda$ and μ are our elasticity parameters of interest. ε_{cit} is the idiosyncratic random error of the regression. η_c, η_i and η_t denote the one-way country, industry and year fixed effects that are usually included in regression models estimated on panel data samples such as ours in order to control for distinctive country, industry or period characteristics, which could affect the estimates of the parameters of interest. η_{ci} and η_{ct} stand for two-way country-industry and country-year fixed effects. They are an important component in our regression specification for reasons we shall make clear in explaining our estimation method.

III. Estimation and main results

Before presenting our main results, we must explain how they have been estimated to take care of various sources of potential biases, and in particular why we entered two-way country-industry and country-year fixed effects in our regression model.

The purpose of including η_{ci} and η_{ct} is to correct for the biases which could be due to the omission of relevant explanatory variables and also to attenuate biases potentially arising from other sources of endogeneity. It does so at the cost of reducing the variability of the data on which our estimates are actually based and at the risk of exacerbating downward biases from measurement errors in variables.[2] Actually, entering η_{ci} in regression (1) is a necessity in the present context since our price and wage indicators do not measure absolute levels of price or wage but are indices of evolution normalized to be equal to 1 in a given reference year (in our case 2000).The evidence on which we rely for estimation is thus only based on the within country*industry changes over time of the variables in the regression, implying an important cut back in their standard-deviation conditional on η_{ci} (as shown in Table A1 of Appendix A). Including also the country*year fixed effects η_{ct} entails an additional reduction of variability, especially large for the indirect impact price and impact wage indicators. It is, however, a useful precaution protecting from a variety of sources of potential estimation biases, such as differences in country multifactor productivity not related to product or labor market imperfections (and not captured by the presence of mfp_{US}), and endogeneity biases due to changes in prices and wages in response to country productivity shocks. It is also possible to go one more step further and substitute industry*year fixed effects η_{it} to mfp_{US} to control more fully for industry technical changes and other variation in industry multifactor productivity unrelated to product or labor market imperfections. As discussed in Cette, Lopez and Mairesse (2013), we can view the regression results obtained when including only η_{ct} or both η_{ct} and η_{it} as providing respectively upper and lower bound estimates. We also explain that we can put some more confidence on the upper estimates, and we will mainly consider them here. However, we present the two types of estimates in Table C1 of Appendix C. we find that, in spite of the inherent uncertainties of our analysis, the estimates of the six prices and wages impact indicators elasticities obtained in the two cases appear fairly robust overall: all six are negative as expected and three out of the six are in fact not statistically different from one another at the 5% or 10% confidence level.[3]

Besides controlling for interacted fixed effects in our regression, we prefer not to rely on the Ordinary Least Squares (OLS) estimator but to implement the Dynamic OLS (DOLS) estimator proposed by Stock & Watson (1993). This estimator has the advantage to make sure that the estimated elasticities are not biased by short-term correlations between the variables and the idiosyncratic error ε_{cit}, and that we can consider them as long-term parameters. When the variables used are non-stationary, the DOLS estimator eliminates these short-term

[2] See Griliches and Mairesse (1998) who document and strongly stress such risk in the context of the identification of production function on panel data.

[3] Precisely, as documented in Table C1, the estimated elasticities, when we control for both η_{ct} and η_{it} , are significantly smaller for DM_p , INM_p and JL_w than when we only control for η_{ct}., and they remain significantly negative for the two first elasticities but not statistically different from zero for the third one.

correlations by including in the regressions leads and lags of the first differences of the potentially endogenous explanatory variables.[4] The OLS and DOLS estimates of all elasticities are in fact quite close (see Table C1 in Appendix C); the Hausman test indicates that they differ statistically very significantly (with a p-value of 0.006).[5] Finally, note that we have lagged in regression (1) all explanatory variables by one year as another safeguard to avoid spurious contemporaneous correlations with productivity changes.

Our estimation results are shown in Table 1, in the last column 6, for the full specification of regression (1) which is more informative, and in the columns 1 to 5 for simpler specifications in which the direct and indirect impact production price indicators and the impact wage indicators are introduced for all industries (without separating manufacturing and non-manufacturing industries, and low and high-skilled) and sequentially one by one.

INCLUDE TABLE 1 about HERE

We can see that the estimated elasticities for all impact indicators in the full specification are negative and statistically very significant, with standard errors roughly proportional to their size (i.e. with comparable Student t-statistics and relative precision). We find that they are almost unaffected, or only slightly, by the presence of other types of indicators, in the simpler specifications not differentiating between direct and indirect price impacts in or from manufacturing and non-manufacturing industries, nor between low and high-skilled wages impacts. In the full specification distinguishing these components, we find very large and significant differences between them: the estimated elasticity is twice for DNM_p than the one for DM_p (about 0.8 versus 0.4), it is ten times higher for INM_p than for IM_p (about 5.0 versus 0.5), and almost twice for JH_w than for JL_w (3.0 versus 1.7).

4 We have found that it is enough to keep only one lead and one lag of these first differences.

5 To support our long-term interpretation of our estimation results and our reliance on the DOLS estimators, we performed Levin, Lin and Chu (2002) and Im, Pesaran and Shin (2003) panel data unit-root tests on our dependent and explanatory variables and Pedroni (1999, 2004) panel data cointegration tests. All the unit-root tests confirm that our variables are I(1), whereas the cointegration tests are somewhat less clear-cut, with four out of seven rejecting the no-cointegration null hypothesis. However, because of the short time dimension of our panel data sample, the power of these tests is relatively weak.

IV. Simulation of the potential impact of structural reforms

The estimation results for regression (1) appear quite satisfactory, i.e. with productivity elasticities of all our price and wage indicators of the expected sign, statistically significant and reasonably robust. However, they cannot unambiguously be interpreted in terms of productivity impacts of anti-competitive regulations in the product and labour markets, and thus cannot directly be used to assess the potential effects of structural reforms in these markets. Moreover, despite the great care we have taken to avoid specification error biases in estimating our regression model, it is indeed important to confirm that our production price and wage indicators indirectly capture the impacts of regulations. We address these two issues by calibrating them in relation to the OECD Non-Manufacturing Regulations (*NMR*) and Harmonized tariffs (*HT*) indicators on the one hand and to the OECD Employment Protection Legislation (*EPL*) indicators on the other hand. As documented in some details in Appendix B, the OECD indicators are constructed on the basis of very detailed information on laws, rules and market, country and industry settings, and they have thus the advantage of being directly related to underlying policies and they can be considered, at least to a major extent, to be exogenous to productivity developments.

The calibration we have performed simply amounts to four distinct OLS projections on the OECD indicators: two on the *NMR* and *HT* indicators respectively for manufacturing and non-manufacturing production prices, and two on the *EPL* indicators for low- and high-skilled wages separately. The projection coefficients estimates we find corroborate our hypotheses that changes in production prices and wages are positively and significantly related to changes in the OECD regulation indicators. These estimates are shown in Appendix D.

By means of this calibration we can interpret and assess the estimates of regression (1) in terms of two illustrative simulations of the potential long-term *MFP* gains by country. The first is an ex-post evaluation of the long term effects of the observed regulatory changes on the product and labour markets during the 2008-2013 period. This simulation, also detailed in Appendix D, shows that the *MFP* gains attributable in the long term to these changes are about 0.6% on average and are mainly due to reforms on product markets, with the higher gains (of about 2%)for Austria and Italy.

The second simulation that we present now is an ex-ante evaluation of the potential long term effects of extreme, hypothetical, regulatory reforms if they had been implemented all at once in 2013. We suppose for the purpose of this simulation that the "lightest practice" regulations observed as of 2013 could be immediately enforced in all industries, where "lightest practices" are defined as the averages of the three lowest levels of regulations in the fourteen countries of our sample.[6] Such pervasive and simultaneous switch to lightest practices is thus an overly extreme, simplified, illustration of structural reforms in product and labour markets, ignoring of course the many and great institutional and political difficulties of implementation. The results of this simulation are presented in the chart of Figure 2, where the height of bars indicates the long-term overall *MFP* impacts of adopting lightest practices for each country, and the breath of their components corresponds to the contributions of adopting the lightest practices related to the *NMR*, *HT* and *EPL* regulations respectively.

INCLUDE Figure 2 about HERE

We see that the average *MFP* long term gains are of about 4.4%, but that they vary broadly across countries, depending on the initial regulation levels, from 1.1% in the UK to 7.0% in the Czech Republic. The regulatory components of these gains differ widely across countries from one another in absolute size but are close enough in relative terms. The average *MFP* gains from product market reforms amount to 2.5%, and they arise for 60% and 26% from respectively the indirect and direct impacts of the *NMR* and *HT* reforms in non-manufacturing industries, and for only about 6% and 8% from respectively the indirect and direct impacts of these reforms in manufacturing industries. The average gains from the *EPL* reforms are of about 2.0%, resulting for 75% and 25% from respectively the low-skilled and high-skilled labour market reforms. It is also interesting to point out the positive correlations between the size of the simulated *MFP* gains from the *HT* and *EPL* reforms and from the *NMR* and *EPL* reforms: respectively 0.26 and 0.21 as computed over fourteen countries. This is significant evidence of the complementary linkage between the productivity impacts of regulations on the product and labour markets which is stressed in Blanchard and Giavazzi (2013).

[6] Although the USA is taken as the reference country and excluded from our estimation sample, we can include it in the simulation and the definition of lightest practices, thus extending to this country the average estimates obtained for the thirteen countries used in the sample.

The average and country simulated *MFP* impacts from a sudden shift to the lightest regulatory practices shown in Figure 2 are long term gains. As also detailed in Appendix D, on the basis of a complementary approximate analysis of the respective adjustments of the changes in *MFP*, production prices and wages and OECD indicators, we can have an idea of the overall speed of evolution to the long term equilibrium. The results are illustrated by the graphs in Figure 3 for the five following large European countries: France, Germany, Italy, Spain and the UK. They suggest that on average about 30% of the long-term *MFP* gains could be achieved after six years on average.

INCLUDE Figure 3 about HERE

V. <u>To conclude</u>

This study is an attempt to assess the productivity consequences of anti-competitive regulations in product and labour markets by investigating them through the lens of an analysis of the relationships between changes in production prices and wages and changes in multifactor productivity. In our analysis, production prices and wages are indicative of rent building and sharing processes, which impede productivity in different ways and to different extents, and which stem from market imperfections as gauged by the OECD product and labour market regulations indicators. The results are encouraging notwithstanding the great difficulties of the approach and limitations of relying on a macroeconomic country*industry panel. Two simulations, respectively ex-post and ex-ante, based on these results suggest that nearly all countries, particularly European countries, can expect significant gains in multifactor productivity over the years from economic policies reforming anticompetitive regulations on the product and labour markets.

Our estimates and simulations suffer clearly from various weaknesses, due in particular to the data limitation, with implications of course on the econometric methods implemented. They should be taken with particular caution and the policy indications that they suggest considered as tentative. In particular, the ex-ante simulation of an extreme, hypothetical of a programme of product and labour market reforms consisting in the immediate adoption of country lightest regulation practices must only be viewed as illustrative. We also do not consider in our analysis the great institutional, political and social difficulties that the implementation of such ambitious structural reform programmes usually encounters.

We can stress, however, that the evidence concerning the indirect impact of product market regulatory changes in non-manufacturing, which is strongest in our present results analysis, is very much consistent with our previous two evaluations based on an approach largely different in important respects from the one followed here (see Bourlès *et al*., 2013, and Cette, Lopez and Mairesse, 2013). We can also mention that a number of historical country experiences seem to confirm that ambitious structural reform programmes implemented over the last decades have had very large multifactor productivity impacts. This is the case of the reform programmes implemented in the Netherlands in the early 1980 or in Australia, Canada and Sweden in the early 1990 that have been followed in the subsequent decade by a much faster growth in multifactor productivity (see Bergeaud, Cette and Lecat, 2014).

Figure 1: Diagram of the overall framework

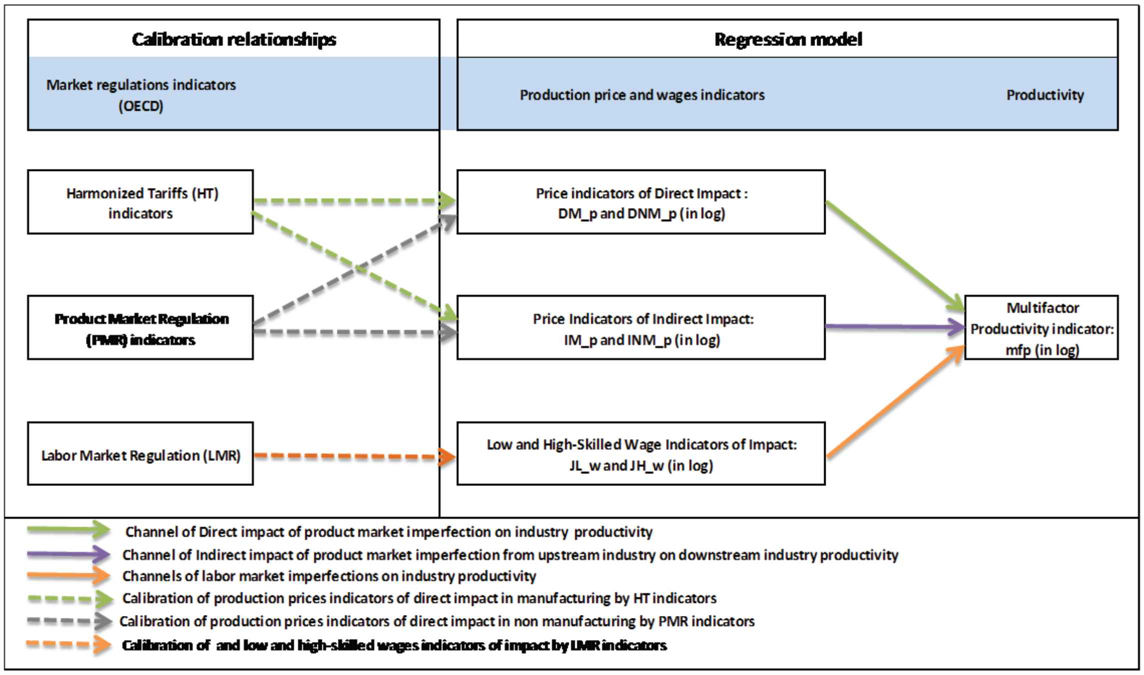
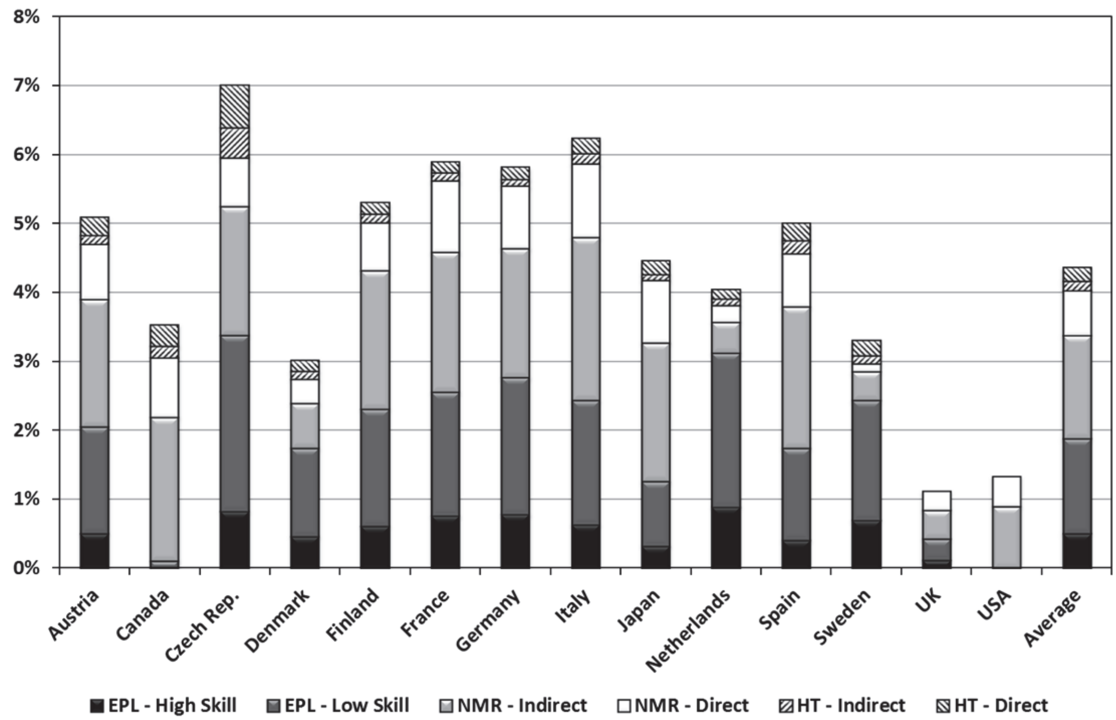


Figure 2: Simulated long-term impacts on *MFP*
from the adoption of the lightest practices by country



EPL – High-Skilled **and** ***EPL – Low-Skilled***: Long-run impacts through high and low-skilled wages, respectively.
NMR – Indirect **and** ***NMR – Direct***:: Long-run indirect and direct impacts through production prices in non-manufacturing industries, respectively.
HT – Indirect **and** ***HT – Direct*:** Long-run indirect and direct impacts through production prices in manufacturing industries, respectively.

Figure 3: **Simulated evolution of impacts on *MFP* from the adoption of the lightest practices for France, Germany, Italy, Spain and the United Kingdom**

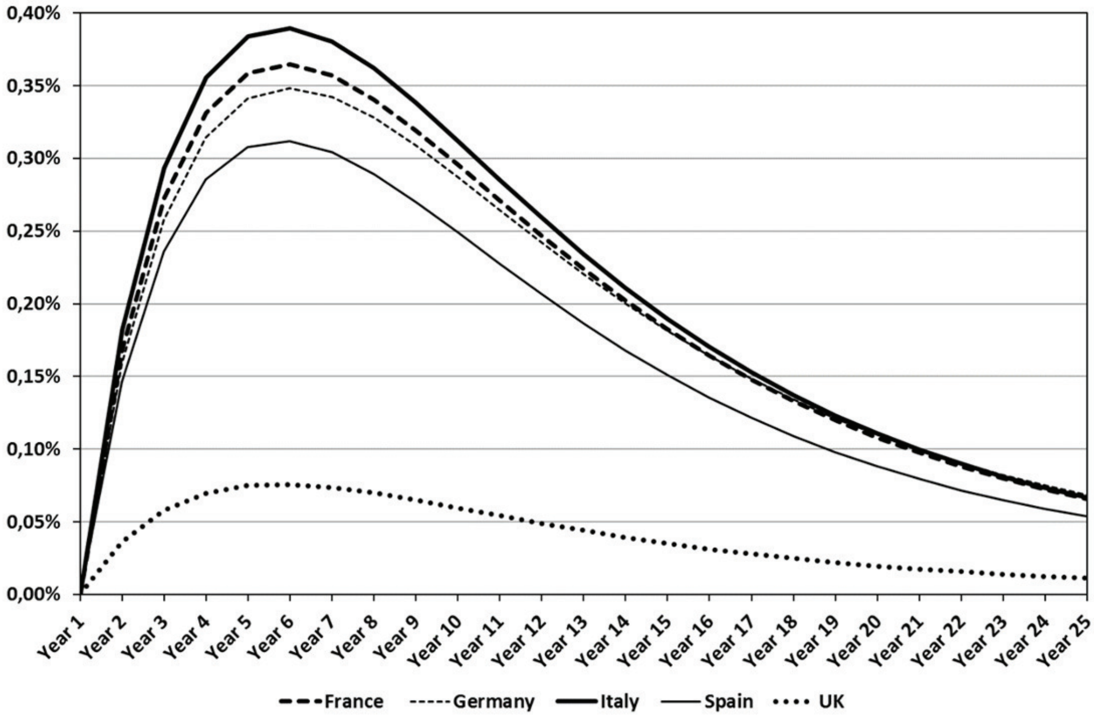


Table 1: Main estimation results

Dependent variable: mfp		(1)	(2)	(3)	(4)	(5)	(6)
US MFP (mfp^{US})		0.688***	0.821***	0.704***	0.808***	0.720***	0.756***
		[0.014]	[0.013]	[0.014]	[0.012]	[0.014]	[0.015]
Direct prices in	All industries	-0.513***		-0.523***		-0.441***	
		[0.034]		[0.033]		[0.033]	
	Manufacturing industries (DM_p)						-0.379***
							[0.037]
	Non-Manuf. industries (DNM_p)						-0.827***
							[0.090]
Indirect prices from	All industries		-0.486***	-0.546***		-0.479***	
			[0.074]	[0.070]		[0.068]	
	Manufacturing industries (IM_p)						-0.446***
							[0.069]
	Non-Manuf. industries (INM_p)						-5.060***
							[0.898]
Country wages * industry labour share	All Skills				-2.338***	-2.091***	
					[0.165]	[0.170]	
	High-Skilled (JH_w)						-3.043***
							[0.329]
	Low-Skilled (JL_w)						-1.743***
							[0.215]
Observations		2820	2820	2820	2820	2820	2820
R-squared		0.779	0.760	0.785	0.774	0.798	0.804

*** Significant at 1%; ** significant at 5%; *significant at 10%. Standard errors between brackets. Country*industry and country*year fixed effects included. All the explanatory variables are one year lagged. Estimator: DOLS estimates performed with one lag and one lead (corresponding coefficients not presented).

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