

We would like to thank the reader for his/her apt and constructive criticisms. We agree with all the comments without any exceptions and made substantive revisions along the lines suggested by the referee. Please see my point-by-point responses below - all in bold.

- In many countries, wages are determined at the sector level (e.g. Sweden) which implies that the wage-productivity gap in each sector reflects sector specific conditions, such as sector specific parameters in the production function, sector specific unionization rates and (possibly) sector specific unemployment rates. To me, this suggests that a study of the wage-productivity gap should be made at the relevant sector level where the wage bargaining actually takes place. By this I mean that the calculations of wage-productivity gaps should be based on the wages observed in the relevant sectors and on estimates of parameters of the sector specific production functions. However, in the paper, the authors use aggregate data from manufacturing in each country in the estimations. If manufacturing in each country does not correspond to the relevant level where the wage bargaining takes place, then I am not convinced that the estimations give us relevant estimates of the relationship between, e.g. the wage-gap productivity gap and unemployment. Therefore I suggest that the authors discuss this issue and provide a justification for why estimates based on aggregate data are viable.

Response: We want to notice that the wage series for OECD economies is only available for aggregate manufacturing in a cross-country panel data setting. Therefore, our choice of this sector in an aggregate manner is necessitated by the availability of data. As suggested by the referee, we now discuss this limitation in the text and provide several arguments for why estimates based on aggregate data from manufacturing are viable. *“Our choice of the manufacturing sector is necessitated by the availability of the data as wage data is only available for this sector. Noticeably, this is limiting as the other variables used in regressions are not sector-specific. However, we very much believe that estimates based on aggregate data from manufacturing are still viable due to several reasons: First, in each of the 31 countries manufacturing constitutes a significant portion of overall GDP thereby it wouldn’t be far-fetched to use ratio of aggregate wages to productivity from this sector in an analysis with aggregate unemployment, inflation, capital deepening and unionization. Second, as evident from the labor economic literature, among other sectors, unionization is most prevalent in the manufacturing sector. That is, if any, most of the collective wage-bargaining happens in this sector. Finally, with all these features manufacturing is also the sector which is most representative for an economy in a cross-country setting. This is also why indicators from this sector is used very frequently in empirical economic literature.”*

A minor comment regards the choice of functional form of the production function. Are the results sensitive w.r.t. what type of production function that is used in the estimations? What would happen if, for example, the production function would be CES?

Response: We now include a short discussion of our choice of the production function and also comment on how our results would be affected if we use different forms such as the CES, suggested by the referee. Specifically we now mention in a footnote that *“We also replicated the same analysis with a constant elasticity of substitution production function with reasonable values for the elasticity of substitution between capital and labor and obtained qualitatively similar results.”* However, we did not report these results as they significantly increase the length of

the paper. (Moreover, in the CES case one also needs to justify the value of the elasticity of substitution parameter which further

Another minor comment is that in Table 1, the minimum observed unemployment rate is 0.00. Maybe this could be commented in the paper.

Response: We should mention that the country with zero unemployment in 1960 and 1961 is New Zealand. (Also see Nickel et al. (2005) for the same number.)

Nickel, S., Nunziata, L. and Ochel, W. 2005. Unemployment in the OECD since the 1960s. What do we know? *The Economic Journal*, 115, 1-27.