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A Kaleckian approach to financialization and functional income distribution: Austria and Finland in comparative perspective

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A Kaleckian approach to financialization and functional income distribution: Austria and Finland in comparative perspective

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Abstract:

In this paper, we examine if and to what extent the Kaleckian theory of mark-up pricing can explain changes in functional income distribution in an environment of financialization. Following this approach, we expect financialization to influence the aggregate wage share through three channels: (1) sectoral recomposition, (2) financial overhead costs and rentiers' profits claims, and (3) bargaining power of trade unions and workers. We empirically analyze the long-term trends for each of the channels before and after the Great Financial Crisis and the Great Recession for Austria and Finland. Overall, we find evidence for all three re-distributional channels contributing to the changes in functional income distribution. The explanatory power of the individual channels, however, differs strongly due to the heterogeneity of the countries.

JEL codes: D31; D33; D43

Key words: Finance-dominated capitalism; financialization; distribution; financial and economic crisis; Kaleckian theory of distribution

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1 Introduction

Ample empirical evidence captures a decline of wage shares across OECD countries since the 1980s, implying a more unequal functional income distribution in favor of profits (e. g., Hein et al., 2018; Kohler et al., 2019; Stockhammer, 2017). To explain the increasingly unequal functional income distribution, defined as the shares of total income that accrue to different social classes such as workers, managers, rentiers, and capitalists, post-Keynesian and Marxist scholars alike point towards neoliberal economic policies which have been implemented since the late 1970s. Financial liberalization and deregulation in particular gave rise to an era of finance-dominated capitalism (Akçay et al., 2022; Kohler et al., 2019; Lapavitsas, 2009). Therefore, a growing body of heterodox scholarship interrogates the relationship between income distribution and financialization, which describes “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005, p. 3).

Kaleckian mark-up pricing theory allows us to distinguish between three channels through which financialization impacts income shares (Hein, 2015). First, the rising predominance of the financial sector in comparison to the non-financial sector and/or a decline in government involvement shift the sectoral composition of the economy, which decreases the economy-wide wage share. Second, enlarged management salaries and shareholder profit claims contribute to higher overhead costs and thus a lower wage share of direct labor. Third, labor market deregulation and a shift in corporate strategies towards shareholder value orientation and short-termism compromise the bargaining power of trade unions, limiting their leeway to bid up real wages.

However, the relationship between the growing dominance of financial markets and functional income distribution is not uniform across all OECD countries, with notable differences for instance regarding how they responded to the global financial crisis (GFC) of 2007–09 (Hein et al., 2017, 2018). These divergent patterns arise due to different domestic policy regimes that respond to and mediate the effects of financialization and globalization. We select the two countries for our analysis in accordance with the welfare state regimes by Hay and Wincott (2012), who refine the traditional classification of Esping-Andersen (1990), and will compare a Continental European/Corporative welfare regime (Austria) with a Scandinavian one (Finland). Thereby, we seek to contribute to the scholarship on financialization and income inequality by examining countries that have not received in-depth coverage from previous studies (Dünhaupt, 2017; Hein & Detzer, 2015; Hein et al., 2017, 2018). The comparison between Austria and Fin-

land promises to be particularly enlightening because, despite their different welfare models, both exhibited export-led mercantilist growth regimes before the GFC. Hein et al. (2021) argue that such countries countered globalization with the so-called *compensation thesis*, in which social expenditure was reduced to a lesser extent than in other regimes in order to compensate domestic losers of globalization. Interestingly, the countries shifted to different growth regimes after the GFC: Austria became weakly export-led while Finland became a domestic demand-led growth regime (Hein et al., 2021).

The comparative case study is guided by the overarching research question: *How does the relationship between financialization and functional income distribution differ between Austria and Finland in the period 1995–2019?* We draw on post-Keynesian theory to hypothesize that each of the three Kaleckian channels holds explanatory value for these countries' financialization–distribution nexuses. Nevertheless, in line with previous empirical investigations, we expect the relative importance of these channels to differ between the countries, and particularly before and after the GFC. We conduct a descriptive empirical analysis using data from various sources. After scrutinizing the trajectories of both countries' adjusted wage shares, we operationalize each Kaleckian channel through multiple indicators and examine their development over time.

The remainder of the paper is structured as follows. In section 2, we delineate Kaleckian markup pricing theory and derive three channels that relate financialization to functional income distribution. After discussing the findings of previous studies in section 3, the comparative case study in section 4 contrasts the development of the three Kaleckian channels for Austria and Finland. Section 5 comprises a discussion of these results in light of our hypotheses and answers the research question. Finally, section 6 concludes.

2 A Kaleckian theory of financialization and functional income distribution

Post-Keynesian scholars have established theoretical links between financialization and income distribution between workers and capitalists through Kaleckian mark-up pricing theory. According to this approach, which was first developed by Kalecki (1954, chapters 1 & 2, 1971, chapters 5 & 6), income shares are determined by active mark-up pricing of firms with a certain degree of price-setting power under conditions of oligopolistic or monopolistic competition.¹ Specifically, the mark-up is applied to marginal costs, which are assumed to be constant until full capacity output. In other words, firms mark up constant average variable costs, where unit variable costs are constituted by direct labor costs and material costs. The mark-up serves two purposes: first, to settle overhead costs, including salaries of overhead labor (e. g. management) and depreciation of fixed capital; and second, to cover firms' gross profits, including interest and dividend payments as well as retained profits (Hein, 2015, pp. 920f.).

According to Hein (2015, pp. 922f.), functional income distribution is determined by this price-setting behavior in the following way. The pricing equation of a vertically integrated domestic industrial or service sector j , which imports raw materials and semi-finished goods and employs capital and labor, can be formulated as

$$p_j = (1 + m_j)(wa_j + p_f e \mu_j), \quad m > 0 \quad (1)$$

where p_j is the output price in sector j , m_j denominates its mark-up, w the nominal wage rate, a_j the labor-output ratio, p_f denotes the unit price of imported raw materials or semi-finished products in foreign currency, e is the exchange rate, and μ_j the ratio between imports and output.

With the relationship between unit material costs and unit labor costs, z_j , derived as

$$z_j = \frac{p_f e \mu_j}{wa_j}, \quad (2)$$

¹ Prices are cost-determined only in the industrial and service sectors, where fluctuations in demand can be met by adjusting output and hence the rate of capital utilization. In the primary and agricultural sectors, which will be neglected in the following analysis, Kalecki (1954, p. 11) assumes demand-determination of prices because firms have to react to demand fluctuations via price-setting behavior.

we can rewrite the pricing equation:

$$p_j = (1 + m_j)[wa_j(1 + z_j)]. \quad (3)$$

Rearranging equation (3) results in the gross profit share h_j of sector j in relation to its gross value added:

$$h_j = \frac{(1 + z_j)m_j}{(1 + z_j)m_j + 1}. \quad (4)$$

Finally, the economy-wide gross profit share h amounts to the weighted average of the sectoral profit shares

$$h = \frac{(1 + z)m}{(1 + z)m + 1} \quad (5)$$

and the related wage share of direct labor $(1 - h)$ can be derived as

$$(1 - h) = \frac{1}{(1 + z)m + 1}. \quad (6)$$

Therefore, the distribution of income between profits and wages is determined by the mark-up, the ratio of unit material costs to unit labor costs, and the economy's sectoral composition. Assuming constant technology, i. e. \bar{a} and $\bar{\mu}$, an increasing gross profit share can hence be the result of five macroeconomic changes: a lower nominal wage rate; rising import prices of raw materials or intermediate products denominated in foreign currency; depreciation of the domestic currency; or a shift in sectoral composition towards high-profit-share sectors, resulting in a larger economy-wide profit share by altering the sectors' respective weights. Finally, a redistribution towards profits can be caused by firms applying larger mark-ups.

Kalecki (1954, p. 17) identifies four factors that influence the "degree of monopoly" and hence the size of the mark-up. The first two – a positive association with the degree of concentration within the industry or sector and a negative one with the relative importance of price competition – can be condensed into the category "degree of price competition among firms in the goods market" Hein (2015, p. 923). Third, the mark-up is negatively related to the power of trade unions, and fourth, it is positively affected by the volume of overhead costs, which tend to squeeze gross profits and prompt firms to increase the mark-up to meet their gross profit target. The upper part of Table 2.1 summarizes the five determinants of the profit share which are relevant in the context of financialization.

Table 2.1: Financialization, neoliberalism, and the gross profit share in Kaleckian theory

Stylized facts of financialization (1–7) and neoliberalism (8–9)	Determinants of gross profit share (including management salaries)				
	Mark-up				
	1. Degree of price competition in the goods market	2. Bargaining power and activity of trade unions	3. Overhead costs and gross profit targets	4. Price of imported raw materials and semi-finished products	5. Sectoral composition of the domestic economy
1. Increasing shareholder value orientation and short-termism of management		+	+		
2. Rising dividend payments			+		
3. Increasing interest rates or interest payments			+		
4. Increasing top management salaries			+		
5. Increasing relevance of financial to non-financial sector (investment)		+			+
6. Mergers and acquisitions	+				
7. Liberalization and globalization of international finance and trade	-	+		+/-	+/-
8. Deregulation of the labor market		+			
9. Downsizing of government		+			+

Notes: + positive effect on the gross profit share, – negative effect on the gross profit share
 Source: Hein (2015, p. 921)

Financialization is a multifaceted phenomenon that describes a radical shift towards a finance-dominated accumulation regime starting in the late 1970s (Stockhammer, 2008). A vast body of research has identified an array of ensuing structural changes along various dimensions of social and economic life (for an overview, see Epstein, 2015; Van Der Zwan, 2014); those that are relevant for the price-setting behavior of firms according to Kaleckian theory are summarized as stylized facts in the first column of Table 2.1. The overview moreover displays the potential effects of these nine characteristics of finance-dominated capitalism and neoliberalism on the gross profit share.

As Hein (2015, p. 925) points out, two of the five channels establish ambiguous links between the stylized facts of financialization and the profit share. On the one hand, the *degree of price competition in the goods market* declines as a result of mergers and acquisitions leading to higher industrial concentration; on the other hand, it may increase due to liberalization and globalization of international finance and trade. Similarly, the change in the *prices of imported raw materials and intermediate products* in relation to wage costs is undetermined: While prices of labor-intensive intermediate products tend to fall as firms relocate to low-wage regions, those of raw materials tend to rise because of increased global demand. Since the expected effects of these two channels are not clear *a priori*, we will focus on the remaining channels with an unambiguous relation to the profit share.

Kaleckian mark-up pricing theory hence allows us to identify three channels that capture potential medium to long-run effects of financialization on income redistribution towards capitalists. First, firms are able to enlarge their mark-ups because the *bargaining power and activity of trade unions* have been adversely affected by four developments: a corporate governance strategy of non-financial corporations (NFCs) centered around the maximization of shareholder value and a fixation on short-term profits (Lazonick & O’Sullivan, 2002); the rising importance of financial *vis-à-vis* productive investment favoring the financial sector (Krippner, 2005), where unionization is traditionally significantly lower; liberalization and globalization leading to intensified competition with low-wage regions and threats of outsourcing and relocation; and the dominant policy paradigm since the late 1970s – neoliberalism – deregulating labor markets and restricting government intervention and demand management, which significantly increased unemployment and eroded the bargaining power of trade unions (Stockhammer, 2004, chapter 4; Whalen, 2021).

Second, *overhead costs and gross profit targets* have increased through financialization and therefore exerted a positive influence on mark-ups and the gross profit share. Most importantly, the corporate management strategy intending to “downsize and distribute” (Lazonick & O’Sullivan, 2002) to enhance short-term financial profits requires a larger share of firms’ revenues going towards dividend and interest payments (Dallery, 2009). Moreover, scholars have observed a disproportionate rise of (top) management salaries accompanying financialization (Hein, 2015), suggesting that firms will charge larger mark-ups to cover these increased overhead costs.

The third channel refers to changes in the *sectoral composition of the economy* reflected in an expanded share of the financial sector in total value added relative to the NFC sector as well as diminished government activity. These two effects impact an economy’s overall profit share positively if the sectoral profit share is assumed to be higher in the financial than in the NFC sector, given that it is zero by definition in the government sector (Dünhaupt, 2012).

To summarize, the post-Keynesian approach presented above allows us to distinguish between three transmission channels from financialization and neoliberalism toward functional income distribution. Yet, financialization is not a uniform phenomenon – instead, the distinct historical, institutional, and social characteristics of each country decisively shape its financialization trajectory (Becker et al., 2010) and therefore potentially its relationship to income distribution. Therefore, it is of paramount importance to consider country-level specificities, as we will do in the comparative case study after the following literature overview.

3 Empirical evidence of the financialization–distribution nexus

Numerous empirical studies have recorded a general trend of functional income redistribution at the expense of labor and in favor of capital in most advanced capitalist countries since the 1980s, and hence concurrent with neoliberalism and finance-dominated capitalism (e. g., Hein et al., 2018; Kohler et al., 2019; Stockhammer, 2017).² In this section, we thus survey the empirical literature to determine the driving forces behind this trend. Taking the Kaleckian theory of pricing and functional income distribution as our vantage point, we first compile evidence for the three channels identified by Hein (2015) and then give an overview of the in-depth country studies that have employed this approach to date.

² Increasing Gini coefficients in most OECD countries indicate that personal income, in particular market income, has seen a similar trend towards a more unequal distribution (Dünhaupt, 2014). The data also reveal rising inequality regarding disposable income, i. e. market income net of taxes and social policies, in most of these countries – except for Belgium, France, Greece, Ireland, and Spain (Hein, 2015).

Dünhaupt (2012) was the first to present evidence for the channel capturing changes in the sectoral composition of the domestic economy. Specifically, the author demonstrated that an increasing share of financial corporations in value added, relative to NFCs, raised the economy-wide gross profit share in the US (1970–2008). The decreased labor share of income in Germany (1980–2008), meanwhile, is largely due to the falling wage share in NFCs themselves, while a small shift towards the financial sector took place only in the 2000s. The relevance of this channel was confirmed by numerous country-specific studies to which we will return later.

Second, increasing overhead costs and gross profit targets have been researched in much more detail. The first wave of studies by Epstein and Power (2003), Epstein and Jayadev (2005), Dumenil and Levy (2005), and Lin and Tomaskovic-Devey (2013) generally detect a negative relationship between rentiers' financial earnings/ firms' financial payments and the wage share. Overall, "these results strongly suggest that neoliberalism and financialization pay for those owning financial assets" (Epstein & Jayadev, 2005, p. 67). However, Dünhaupt (2012) contends that these studies neglect dividend payments of NFCs to private households. She therefore splits the profit share into retained earnings and net property income and finds that in Germany, the continuous increase in the rentiers' share since the 1990s primarily results from an increasing share of dividend income. In the US, the rentiers' income share increased in the 1980s – mainly due to net interest income – and remained constant thereafter, while the share of net dividend income became more pronounced. Examining the role of interest payments specifically, Hein and Schoder (2011) find a significant and strong effect of net interest payments of NFCs on the profit share, lending evidence to an interest payments elastic mark-up which influences the distribution between capital and labor. Finally, Hein (2015) surveys the evidence regarding rising top management salaries and concludes that while this development was most remarkable for top incomes in the US, it has also been observable in some European countries, most importantly Spain and the Netherlands, and to a small degree in Germany and Italy. Representing only a correlation, however, these findings cannot be interpreted as a causal effect. In the most recent study, Kohler et al. (2019) similarly reveal robust negative effects of NFC financial payments on the wage share.

Third, the declining bargaining power and activity of trade unions appear to be an important driver of recent redistributive trends. To begin, international institutions such as the International Monetary Fund (2007) and the European Commission (2007) emphasize skill-biased technological change in determining the wage share, concluding that trade union bargaining power does

not significantly affect functional income distribution. Yet, Stockhammer (2009) detects grave econometric problems in these studies and instead finds significant positive effects of union density on the labor income share in non-Ghent countries, while the globalization of trade and financial globalization affect the wage share negatively. Stockhammer's (2017) recent assessment of the role of financialization, welfare state retrenchment, globalization, and technological change for income redistribution uncovered that financial globalization, indicated by foreign assets and liabilities as a ratio of GDP, is the primary contributor to the falling wage share, while declines in government consumption and trade openness also have negative effects. The role of technological change is relatively small. Furthermore, Kristal (2010) also suggests that the declining bargaining power of the working class is the most important explanatory factor for falling labor income shares. Since Lin and Tomaskovic-Devey's (2013) proxy for financialization – the ratio of financial receipts (interest, dividends, and capital gains) to business receipts, capturing increasing shareholder value orientation and short-termism of management – is inversely related to workers' bargaining power, their US study can be interpreted as lending further support to the third Kaleckian channel. Alvarez (2015) extends their approach to France and infers that the rising involvement of NFCs in financial markets is negatively related to the wage share because of increased shareholder value orientation.

Scholars have applied the Kaleckian framework developed by Hein (2015) to investigate the association between financialization and functional income distribution in specific countries. Methodologically, these comparative studies visualize and qualitatively interpret the development of indicators corresponding to each of the three Kaleckian channels during the period of finance-dominated capitalism. Hein and Detzer (2015) were the first to utilize this approach to study Germany in 1980–2013, finding that all three channels played a role in functional income redistribution since the mid-1990s. Hein et al. (2017) compare the financialization–distribution nexus in the US, the UK, and Sweden (1990–2015) before and after the GFC. Broadly speaking, this study demonstrates that the relevance of the three Kaleckian channels varies considerably between countries: The redistributive trends before the crisis were very similar but driven by different channels. As these differences continued in the post-crisis period, functional income distribution has developed differently in the studied countries since then. Hein et al. (2018) apply the approach to the major Eurozone economies France, Germany, and Spain in the period 1990–2015, arriving at a similar conclusion as the previous publication: Before the financial and economic crisis, the wage share decreased in all three countries, with important differences regarding the main drivers. After the crisis, the countries saw distinct developments in their wage

shares, which further decreased in Spain, stayed constant in Germany, and increased in France. The most recent study by Dünhaupt and Hein (2019) compares three Baltic Sea countries, namely Denmark, Estonia, and Latvia (1995–2016), concluding that the financialization–distribution nexus differs between the countries as well as before and after the financial crisis. Following this tradition of research, we will juxtapose our results with those of previous studies to outline similarities and differences.

Finally, Dünhaupt (2017) applies regression analysis to jointly examine the effects of the Kaleckian channels for a sample of 13 OECD countries (1986–2007). She clusters the indicators into three categories – trade and financial globalization, financialization, and workers’ bargaining power – and the results of the panel error correction model lend support to the existence of all three Kaleckian channels in the sampled countries.

4 Comparative case study of two OECD countries

Following a description of our data and methodology, this section is dedicated to a comparative analysis of the redistributive effects observed in two selected OECD countries during financialization, exploring the relevance of each of the three Kaleckian channels.

4.1 Data and methodology

Our analysis addresses three hypotheses derived from the Kaleckian theory of distribution as outlined in section 2. Specifically, we assess each of the three channels that moderate the effects of financialization and neoliberalism on functional income distribution:

H 1. *The wage share is negatively associated with the relative size of the financial sector relative to the non-financial sector and the government sector.*

H 2. *The wage share is negatively associated with financial overhead costs and rentiers’ profit claims.*

H 3. *The wage share is positively associated with the bargaining power of workers.*

While we hypothesize that each of the three channels holds explanatory power for understanding trajectories of financialization and distribution, previous empirical investigations suggest that the relative importance of these channels differs markedly between countries. Therefore, we select two OECD countries based on their distinctive welfare state regimes (Hay & Wincott, 2012): Austria, a Continental European/Corporative welfare state, and Finland, a Scandinavian

one. Moreover, our analysis examines the redistributive trends before and after the GFC and the Great Recession of 2007–09, which can be considered a crisis *of* financialization and may hence have presented a potential disruption to the financialization–distribution nexus (Hein, 2012, chapter 8). Correspondingly, we choose to compare Austria and Finland because, while they follow different welfare models, both exhibited export-led mercantilist growth regimes before the GFC (Hein et al., 2021), implying that they countered globalization by sustaining social expenditure to compensate domestic losers of globalization. Interestingly, the countries shifted to different growth regimes after the GFC: Austria became weakly export-led while Finland became a domestic demand-led growth regime (Hein et al., 2021). Ultimately, we hence seek to answer the question: *How does the relationship between financialization and functional income distribution differ between Austria and Finland in the period 1995–2019?*

Multiple data sources are necessary to operationalize the three hypotheses, which is why our paper combines data from the OECD Annual National Accounts, Table 14A; the World Inequality Database (WID); the Eurostat and AMECO databases provided by the European Commission; and the OECD/AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS). The analysis covers the years from 1995 to 2019.

Our choice of indicators is based on the studies surveyed in section 3. For the *sectoral composition* channel, we use sectoral shares in gross value added, which proxy the relative size of the non-financial, financial, and government versus other sectors, and sectoral gross operating surplus as a share of gross value added, which indicates the respective sectors' profit shares. Regarding the *financial overheads costs/rentiers' profits claims* channel, we include income shares in net national income, plotting the compensation of employees against net property income (rentiers' income) and retained earnings, and decompose the components of rentiers' income as a share in net national income. To analyze *trade unions' and workers' bargaining power*, we consider five indicators: unemployment as a percentage of the active population; trade union density; bargaining or unions coverage; the household debt to GDP ratio, indicating workers' financial vulnerability; and trade openness, capturing how trade globalization exerts pressure on workers' income claims. For these indicators, we split the time frame into five-year periods and calculated respective averages. Since our research interest is related to medium- and long-term trends of income distribution, our descriptive comparative analysis abstracts from cyclical variations in the data.

4.2 Redistributive trends in 1995–2019

Before investigating the redistributive effects of the Kaleckian channels in the three country studies, we must inspect the redistributive trends before and after the GFC. According to the literature, the period from the late 1970s/early 1980s until the crisis was marked by a redistribution from labor towards capital (Hein et al., 2018). This process is illustrated in Figure 4.1, which displays the development of the adjusted wage share for both countries in 1960–2022.

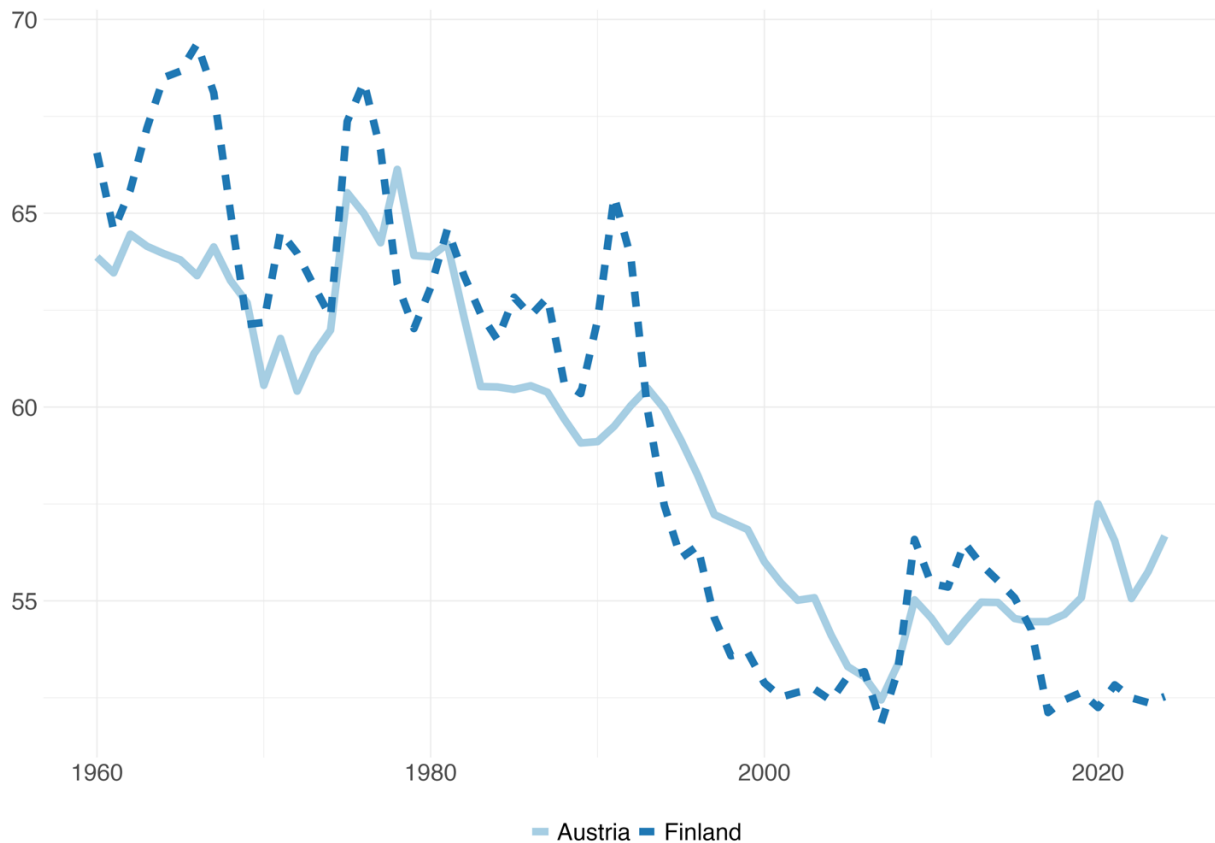


Figure 4.1: Adjusted wage share in Austria and Finland, 1960–2022 (% of GDP)

Source: European Commission (2023a), authors' calculations

Note: The adjusted wage share is defined as compensation per employee as a share of GDP at factor costs per person employed (Hein et al., 2018, p. 3)

Except for some cyclical fluctuations, both countries exhibit a falling adjusted wage share in the given period. The decrease is especially pronounced between the early 1980s and the GFC. Concerning the period specified in the research question, Austria's adjusted wage share fell constantly between 1995 and the GFC. The trend briefly reversed during the crisis; afterward, the wage share remained roughly constant at 55%. A comparable downwards trend can be observed for Finland. However, after a slight recovery during the GFC, the Finnish adjusted wage share fell back to its pre-crisis level of roughly 53%.

4.3 Austria

In the following, we discuss the influence of financialization operating through the three channels according to Kaleckian theory. We first consider the pre-2008/09 dynamics and then address the developments after the crisis.

Austria before the crisis

As outlined above, Austria experienced a fall in the adjusted wage share before the GFC, indicating a more unequal functional income distribution. However, we do not find evidence that the sectoral composition changed in favor of the financial sector or at the detriment of the government sector in the years since 1995 as both shares in value added remained roughly constant (Figure 4.2). Instead, the share of the non-financial sector exhibits an increasing trend while the share of the household sector declined in the years before the crisis. Furthermore, the financial sector’s share of gross operating surplus in gross value added was lower than the profit share in the non-financial sector (Figure 4.3). Ceteris paribus, the change in sector composition decreased the aggregated wage share and increased the aggregated profit share, if – following Hein et al. (2018) – we assume that the adjusted wage share was higher in the household sector than in the corporate sector. However, neither the financial nor the government sector was part of this redistribution.

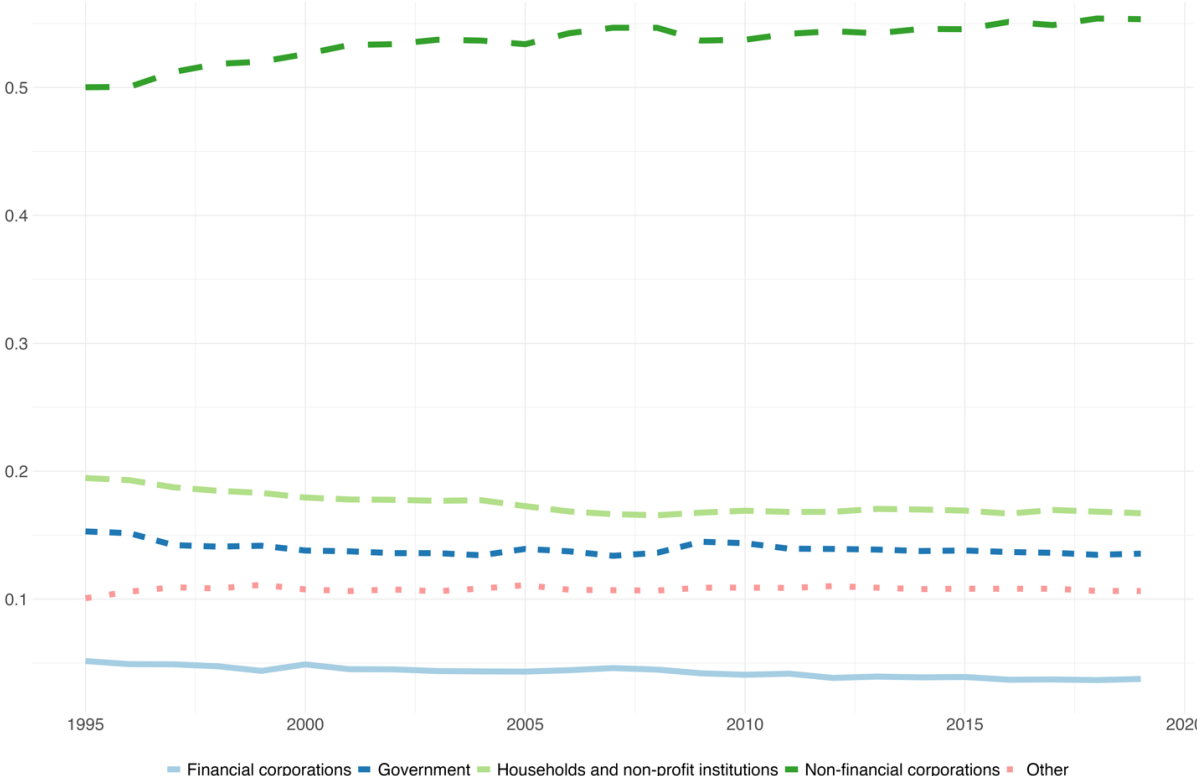


Figure 4.2: Sectoral shares in nominal gross value added, Austria, 1995–2019
Source: OECD (2023), authors’ calculations

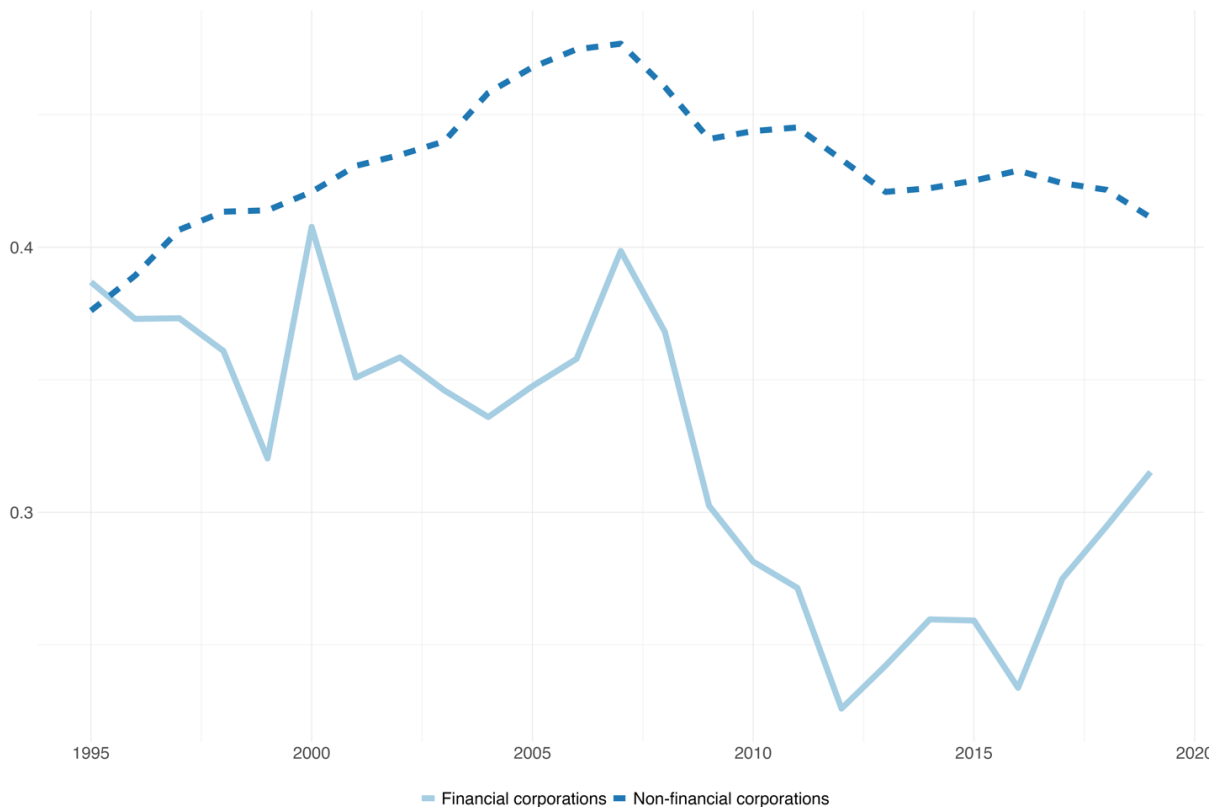


Figure 4.3: Sector gross operating surplus as a share of sector gross value added, Austria, 1995–2019

Source: OECD (2023), authors' calculations

With regard to the second channel, the financial overhead costs/rentiers' profit claims channel, we consider two indicators. Starting with the income shares in net national income, we observe a slight decrease in the compensation of employees and an increase in both the net property income share and the share of retained earnings in the years before the crisis (Figure 4.4). Thus, the decreasing wage share occurred partly in favor of rentiers' profit claims. When decomposing the rentiers' income share it becomes clear that the increase was exclusively driven by the rise in dividend income: While the share of net interest and property income was roughly constant in the years before the crisis, the share of dividends increased steeply during the early 2000s (Figure 4.5). This indicates a rise in the power of finance and shareholders in Austria during this period, providing evidence for the second channel.

We find some evidence for the third channel, the depression of trade unions' and workers' bargaining power (Table 4.1). On the one hand, the unemployment rate in Austria was quite low in the years before the crisis while the bargaining coverage rate was very high throughout the whole period. On the other hand, union density decreased in the pre-crisis period while the household debt to GDP ratio increased by almost ten percentage points. Furthermore, trade openness increased sharply.

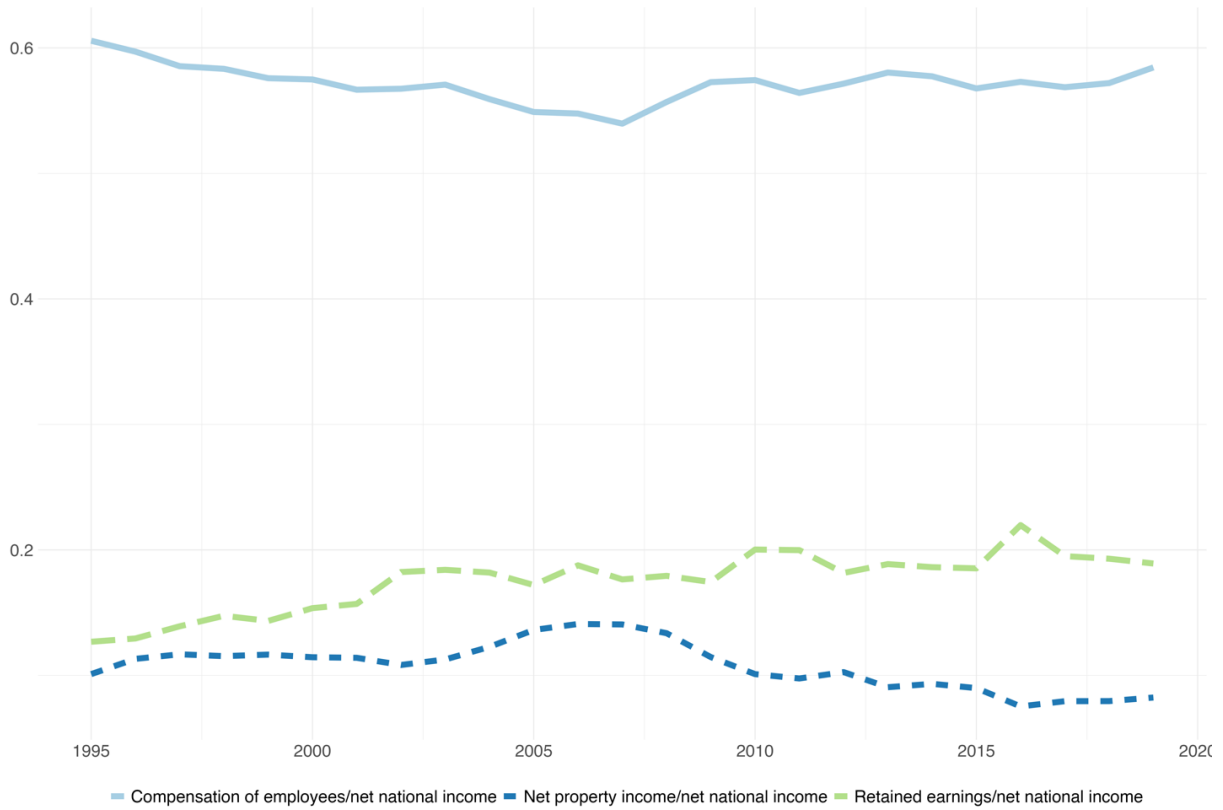


Figure 4.4: Income shares in net national income, Austria, 1995–2019

Source: OECD (2023), authors' calculations

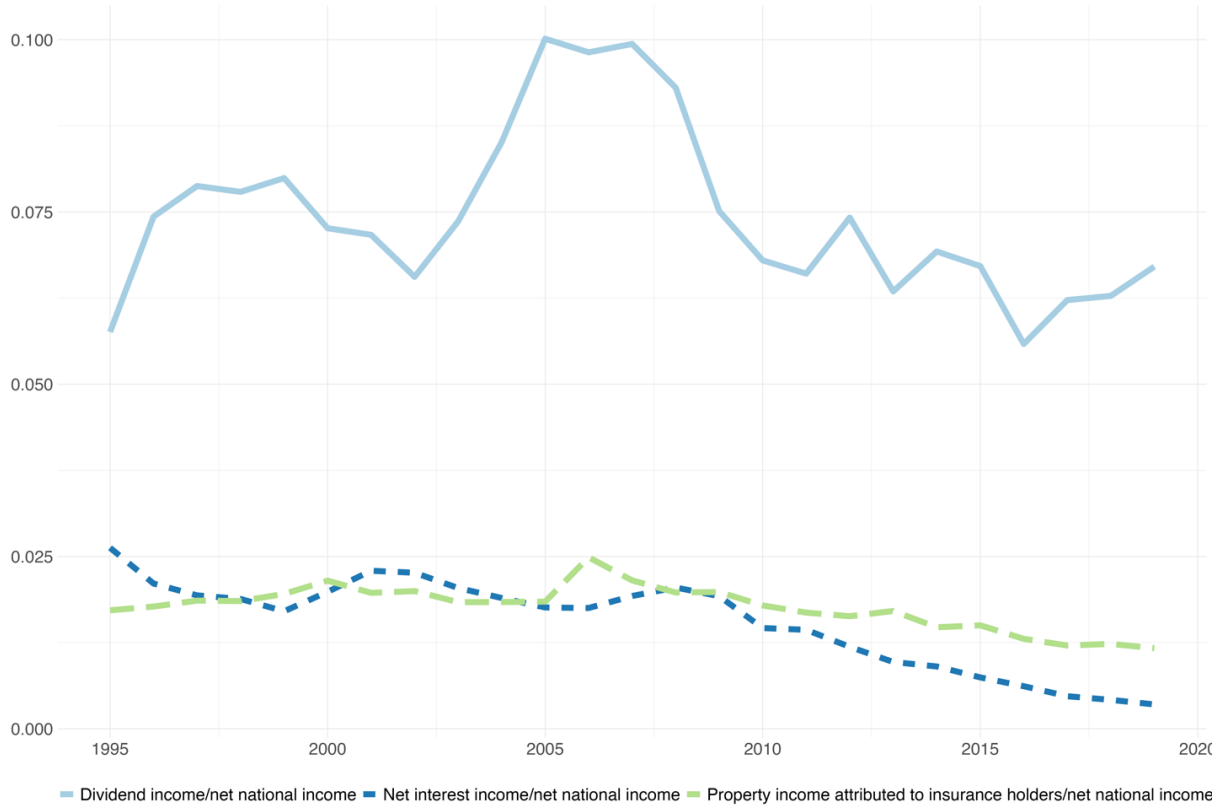


Figure 4.5: Components of rentiers' income as a share in net national income, Austria, 1995–2019

Source: OECD (2023), authors' calculations

Table 4.1: Selected indicators for bargaining power, Austria, 1995–2019

	1995–99	2000–04	2005–09	2010–14	2015–19
Unemployment rate (%)	4.6	4.5	5.4	5.4	5.7
Union density rate (%)	39.3	35.7	30.9	28.1	26.7
Bargaining coverage rate (%)	98.0	98.0	98.0	98.0	98.0
Household debt (% of GDP)	42.9	46.1	52.3	52.4	50.3
Trade openness (% of GDP)	73.7	87.4	96.4	103.4	104.8

Notes: Unemployment as a percentage of active population; bargaining (or union) coverage rate: proportion of employees who are covered by (collective) wage agreements (adjusted for sectors without bargaining rights); union density rate: proportion of employees who are members of a trade union among all employees; trade openness: imports and exports as a share of GDP

Source: OECD (2023), OECD and AIAS (2021), and European Commission (2023b), authors' calculations

Austria in the course and after the crisis

In the course of the crisis, the Austrian adjusted wage share experienced an upwards trend but remained roughly constant afterward. With regard to sectoral composition, the share of the government increased slightly in the course of the crisis but remained roughly constant afterward. The share of NFCs decreased during the crisis but recovered quickly and the financial sector experienced a minimal decrease during the crisis but has remained rather constant ever since (Figure 4.2). Since the profit share accrued in the financial sector remained below that of the non-financial sector and the gap between the two shares widened significantly after the crisis (Figure 4.3), this channel has contributed to the slight increase in the wage share during the crisis but has lost relevance thereafter.

The pressure from the overhead costs channel seems to have decreased in the course of the crisis, as compensation of employees rose while net property income decreased (Figure 4.4). Furthermore, dividend income and net interest income both decreased strongly during and after the crisis (Figure 4.5). These dynamics may have contributed to the slight increase in the Austrian wage share.

Workers' bargaining power shows a declining tendency in the post-crisis period (Table 4.1): Unemployment, the bargaining coverage rate, and the household debt to GDP ratio remained rather constant while union density decreased slightly and trade openness increased further after the crisis.

4.4 Finland

As noted above, the Finnish economy experienced a fall in the adjusted wage share before the crisis. It then increased during the GFC but decreased from 2012 onwards.

Finland before the crisis

The distributional effects of the sectoral composition channel are reflected in Figure 4.6 and Figure 4.7. The non-financial corporate share in value added increased until the early 2000s and remained roughly constant until the GFC. In parallel, financial corporations' share decreased slightly in the late 1990s and remained roughly constant until the crisis. The government sector behaved contrary to the non-financial corporate sector, as its share in gross value added decreased between 1995 and 2009. The household and non-profit sector remained rather constant throughout this period. Except for one significant decrease in the early 2000s, the profit share of the financial sector exceeded that of the non-financial sector in the pre-crisis period. Therefore, we find partial evidence for the sectoral composition channel starting in the mid-1990s: *Ceteris paribus*, the sectoral recomposition with regard to gross value added led to a decrease in the wage share because the NFC sector increased at the expense of the government sector while the former's profit share increased steadily. However, the depression of the wage share was not driven by the change in the relative size of the financial sector.

Considering the financial overhead costs/rentiers' profit claims channel for Finland, we find only a very slight increase in net property income as a share of national income until the early 2000s, remaining roughly constant thereafter (Figure 4.8). The compensation of employees decreased in the early 1990s and did not recover until the crisis, while the contrary picture is drawn with regard to retained earnings as a share of national income, which increased until the early 2000s. The decomposed shares of rentiers' income are very volatile: The shares of dividends and property income experienced an overall positive trend, while that of net interest income declined before the crisis (Figure 4.9). In conjunction, these findings indicate that the depression of the wage share was not significantly driven by increasing rentiers' profit claims.

Our findings regarding trade unions' and workers' bargaining power are ambiguous (Table 4.2). The unemployment rate was relatively high in 1995–1999³ but decreased in the periods before

³ This dynamic can be explained by the economic crisis which struck Finland in the 1990s, partly due to external shocks – most importantly the fall of the UdSSR in 1991 – whose effects were exacerbated by a domestic financial crisis resulting from financial deregulation (Honkapohja & Koskela, 1999).

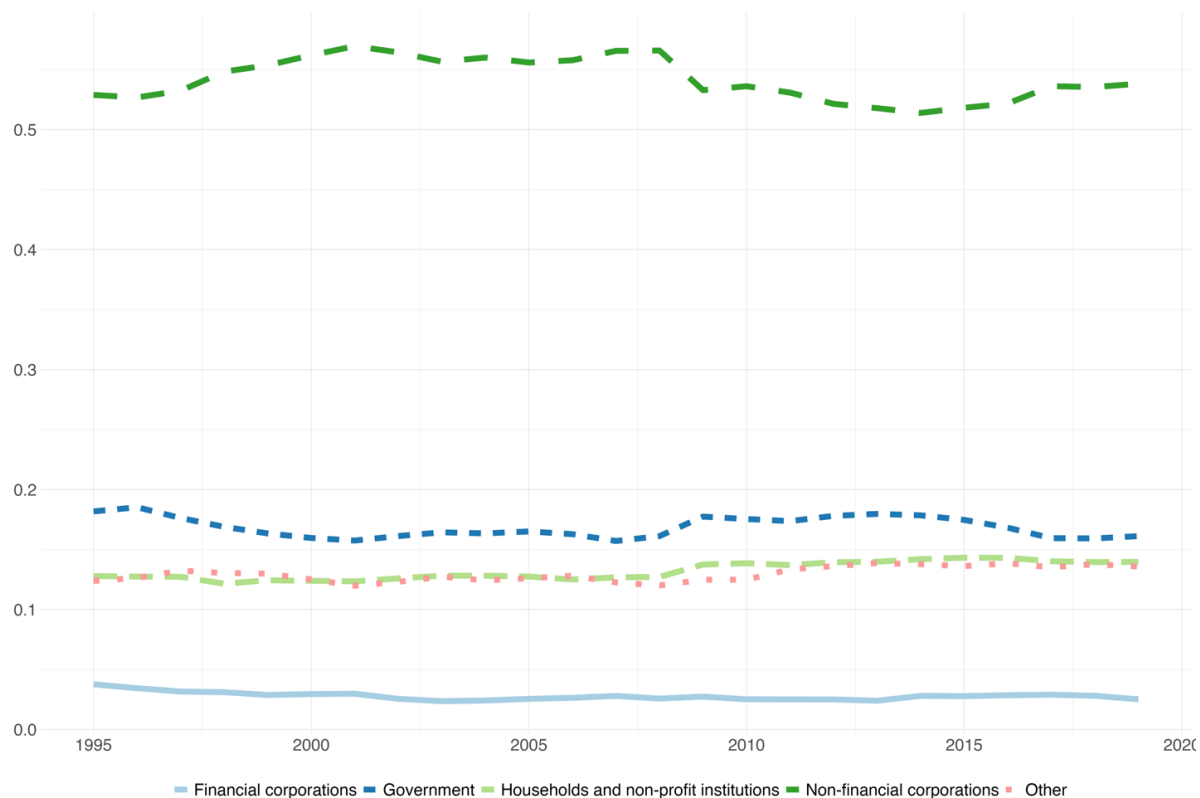


Figure 4.6: Sectoral shares in nominal gross value added, Finland, 1995–2019

Source: OECD (2023), authors' calculations

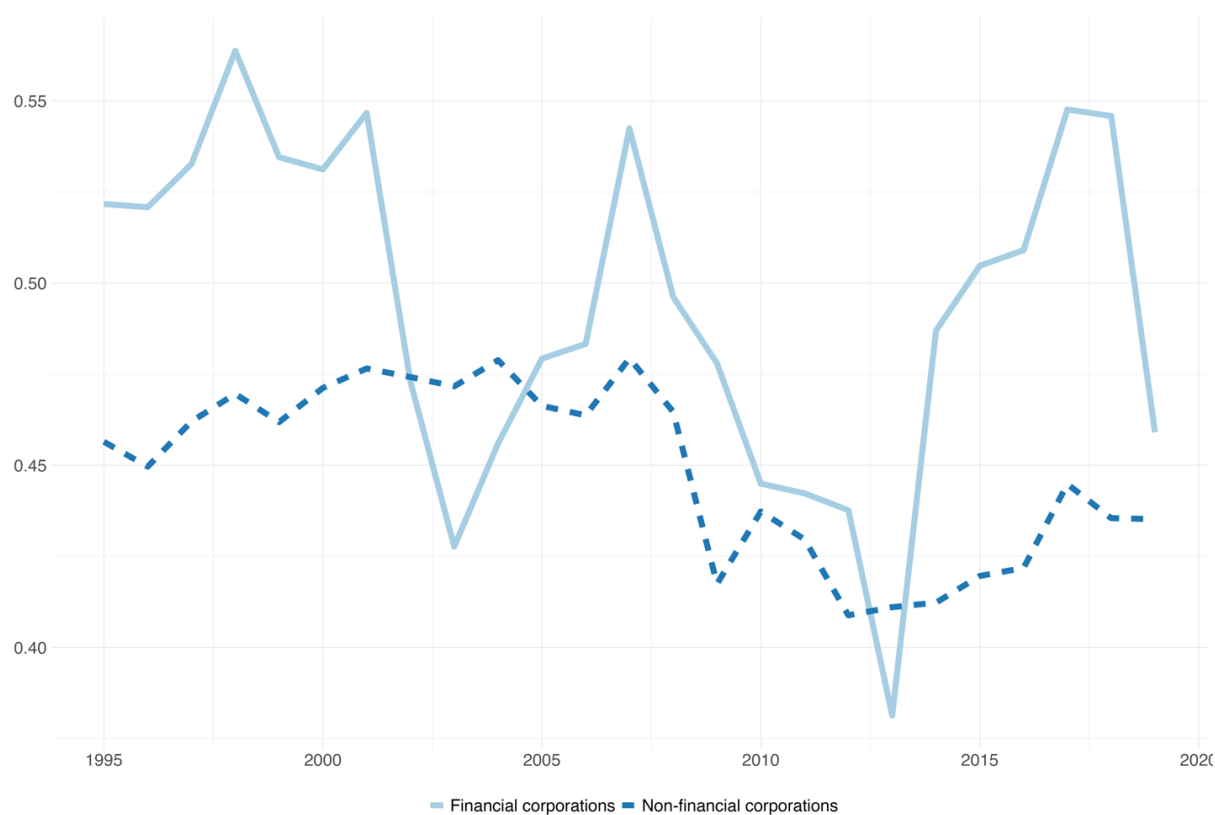


Figure 4.7: Sector gross operating surplus as a share of sector gross value added, Finland, 1995–2019

Source: OECD (2023), authors' calculations

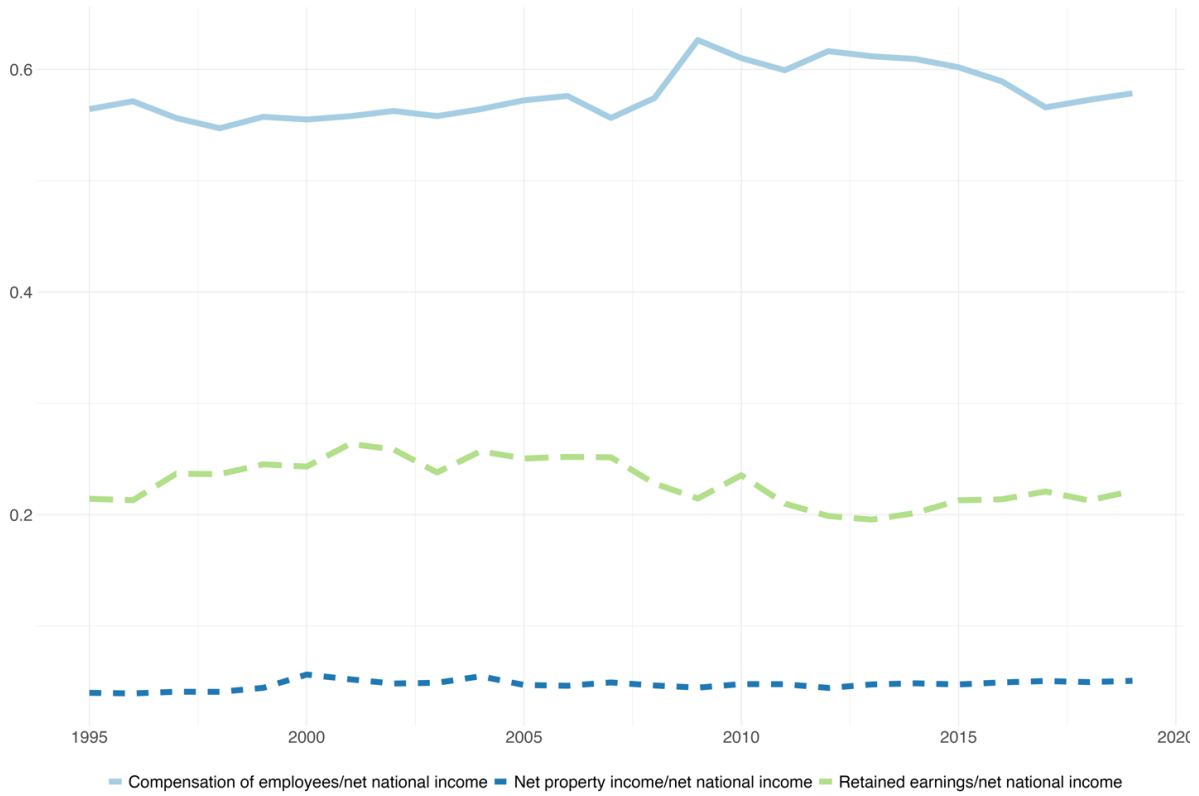


Figure 4.8: Income shares in net national income, Finland, 1995–2019

Source: OECD (2023), authors' calculations

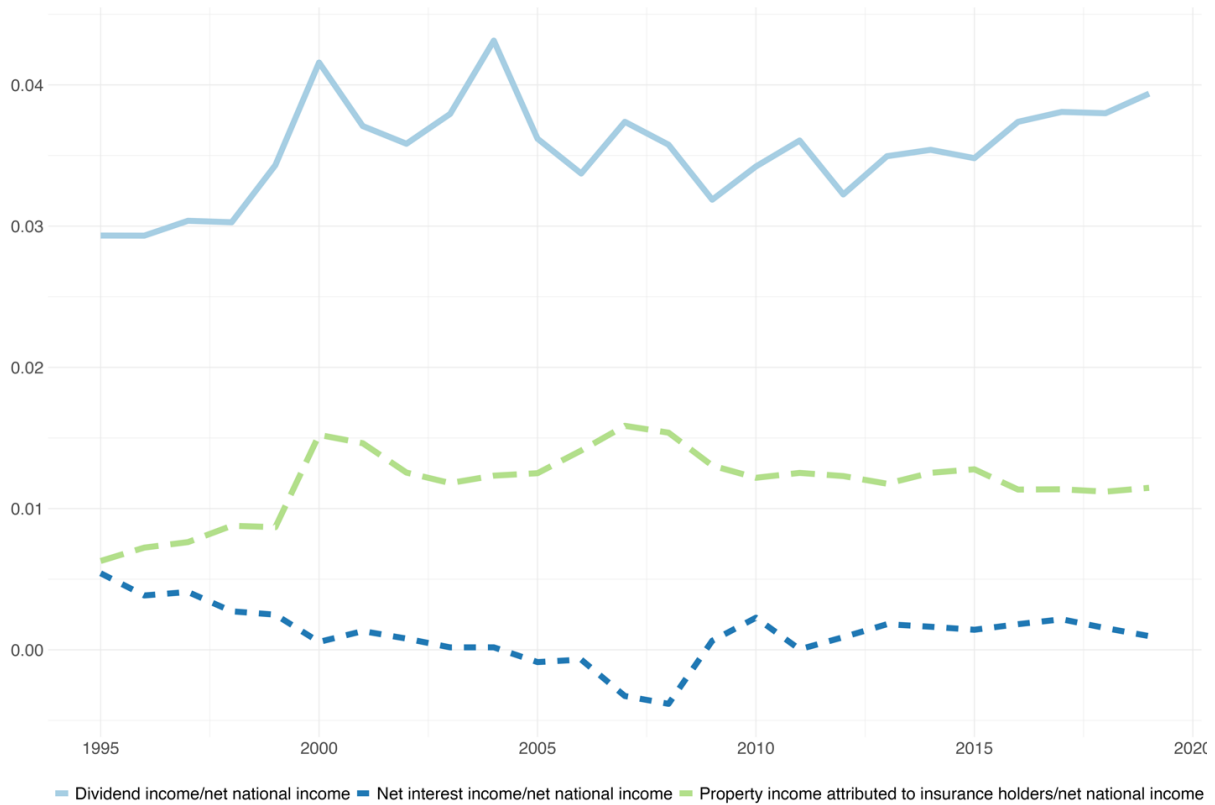


Figure 4.9: Components of rentiers' income as a share in net national income, Finland, 1995–2019

Source: OECD (2023), authors' calculations

the crisis. Simultaneously, the proportion of employees who were members of a trade union decreased in the given period while bargaining coverage increased. Both the household debt to GDP ratio and trade openness increased significantly in the periods before the crisis.

Table 4.2: Selected indicators for bargaining power, Finland, 1995–2019

	1995–99	2000–04	2005–09	2010–14	2015–2019
Unemployment rate (%)	13	9.3	7.6	8.3	8.3
Union density rate (%)	78.2	74.9	71.6	69.1	63.0
Bargaining coverage rate (%)	83.0	89.1	87.6	91.9	88.8
Household debt (% of GDP)	32.1	35.0	50.2	60.6	64.6
Trade openness (% of GDP)	66.2	70.7	79.5	76.9	75.0

Notes: Unemployment as a percentage of active population; bargaining (or union) coverage rate: proportion of employees who are covered by (collective) wage agreements (adjusted for sectors without bargaining rights); union density rate: proportion of employees who are members of a trade union among all employees; trade openness: imports and exports as a share of GDP

Source: OECD (2023), OECD and AIAS (2021), and European Commission (2023b), authors' calculations

Finland in the course and after the crisis

While the sectoral shares of financial corporations and households remained rather constant during and after the crisis, the share of non-financial corporations decreased during the crisis and remained at a lower level afterward (Figure 4.6). The share of the government sector increased slightly but stayed roughly constant in the following years. Simultaneously, the profit share of financial corporations decreased sharply in the course of the crisis but started rising in 2013, resuming pre-crisis levels right before the COVID-19 pandemic (Figure 4.7). Furthermore, for the majority of years, the profit share in the financial sector was higher than in the non-financial sector. Hence, the increase in the government sector and the fall of the profit share in the financial sector have presumably increased the economy-wide wage share.

We find no evidence for the financial overhead costs channel. While the compensation of employees has increased during the crisis, mirrored by a decrease in retained earnings, the share of net property income has remained roughly constant (Figure 4.8). Dividend income started increasing in the mid-2010s and while net interest income rose during the crisis, property income fell (Figure 4.9). However, those dynamics should be interpreted with caution because of the high volatility of the shares.

Overall, the data regarding the bargaining power of workers are ambiguous in the course and after the crisis (Table 4.2): The household debt to GDP ratio increased while union density

decreased. However, the rather constant unemployment and bargaining coverage rates show no sign of weakening bargaining power, and trade openness was moderated in the years after the crisis.

5 Re-examining the three Kaleckian channels

Table 5.1 summarizes the results of our empirical analysis, showing the re-distributive trends and the role of each of the Kaleckian channels for Austria and Finland. Since changes in the sectoral composition of the economy may either indicate growing financialization (a larger financial sector) or be induced by neoliberal policies (a smaller government sector), where each of these shifts increases the profit share, we use a + to denote both phenomena.

Table 5.1: Distributional trends and effects of financialization on these trends before and after the GFC

			Austria	Finland
Distributional trends	Adjusted wage share	Before	–	–
		After	0	0/–
Channels for the effects of financialization	Sectoral composition	Before	0	+
		After	0	–
	Financial overheads	Before	+	0
		After	–	0
	Bargaining power	Before	–	~
		After	–	~

Notes: + tendency to increase, – tendency to decrease, 0 no tendency, ~ ambiguous tendencies of different indicators, –/+ or 0/– or 0/+ changing tendencies over the given period, before: 1995 until the crisis of 2007–09, after: after the crisis of 2007–09

Source: Adapted from Hein et al. (2018)

In the Austrian case, we find evidence for two of the three Kaleckian channels in the pre-crisis period, namely increasing overhead costs and decreasing workers' bargaining power. The initial high levels of bargaining coverage are in line with a strong tradition of social partnership in Austria (Famira-Mühlberger & Leoni, 2013). These results are comparable to those in another Continental European/Corporative welfare state with an export-led mercantilist growth regime, Germany, where the pre-crisis decline of the wage share can also be attributed to increasing financial overhead costs, primarily due to rising dividend payments of the non-financial sector (Dünhaupt, 2012; Kohler et al., 2019), and weakened trade unions (Hein & Detzer, 2015; Hein et al., 2018). The adjusted wage share in Austria increased during the crisis, but remained rather constant in the post-crisis period, which is another parallel to the German case (Hein et al., 2018). This can be explained by the decreasing pressure through the financial overhead costs channel,

whereas workers' bargaining power continued to decline. Overall, the post-crisis reversal of financial overhead costs was thus not large enough to lead to an increase in the wage share.

In pre-crisis Finland, the decline in the adjusted wage share was mainly driven by sectoral re-composition; it is the result of a retreating government sector in combination with an increasing profit share in the non-financial corporate sector. We thus conclude that before the financial crisis, neoliberal policies were introduced in Finland despite its Scandinavian welfare regime. Especially after the economic depression of the 1990s, the Finnish policy objectives shifted from generating and providing welfare to fostering international competitiveness and productivity (Ahlqvist & Moisio, 2014; Wuokko, 2021). Amongst others, this shift was reflected in considerable cuts to social services, schooling, and health care (Marjanen et al., 2018). For the other two channels, there is no or only ambiguous evidence. Similarly, we only find evidence for a sectoral re-composition in Finland after the GFC. The government sector increased at the expense of the non-financial sector, but this positive effect on the wage share was offset by increasing profit shares in both corporate sectors, explaining the slight decrease of the wage share in the late 2010s. This exceptional relevance of the sectoral re-composition channel is mirrored by the developments in another Baltic Sea country, Estonia (Dünhaupt & Hein, 2019). However, the decline of the Estonian adjusted wage share was further promoted by the two other channels, while it can solely be explained through the first channel in the Finnish case. Interestingly, our findings do not resemble those for Sweden, which corresponds to the Scandinavian welfare model and exhibited an export-led mercantilist growth regime before the GFC, just like Finland (Hein et al., 2017): The pre-crisis fall of the Swedish adjusted wage share is fully explained through the bargaining power channel, which was not significantly influential in Finland.

Overall, we find evidence for all three channels through which financialization and neoliberalism influence functional income distribution. Despite a strikingly similar trajectory of Austria's and Finland's adjusted wage shares, the degree to which the Kaleckian channels help explain the observed patterns in income redistribution differs strongly between the two countries, which supports the conclusion of previous case studies (Hein et al., 2017, 2018; Dünhaupt & Hein, 2019). The sectoral composition channel shows no tendency in Austria, which may be explained by the fact that a substantial part of sectoral re-composition occurred in the initial phase of financialization in the 1980s. In Finland, the change in sectoral composition contributed decisively to the falling wage share before the crisis, whereas the effect was offset by other channels in the post-crisis period. The re-composition of the Finnish economy was primarily driven by a retreating government sector, decreasing its relative size while increasing the NFC sector's

relative size, while that of the financial corporate sector stayed relatively constant. This finding lends empirical support to H1. Financial overhead costs and rentiers' profit claims, on the other hand, have played an important role in Austria throughout the whole time frame. Bargaining power and activity of trade unions, whenever the indicators show a clear tendency, have the expected relationship with the trajectory of the wage share in Austria. Therefore, we also find empirical evidence for H 2 and H 3.

Concerning the temporal dimension, in most of the instances when we find clear evidence for one of the channels, the tendency changed after the crisis of 2007–09. This indicates a disruption in the financialization–distribution nexus, presumably as a result of policy responses reversing some of the previous trends in the recovery period. Nevertheless, the changes did not exhibit a uniform pattern between the two countries – similar to the conclusions regarding the predominance of the channels, the dynamics after the crisis were country-specific. In Austria, policymakers addressed the crisis by reinvigorating the country's tradition of social partnership, seeking to secure employment and cushion the effects of unemployment (Famira-Mühlberger & Leoni, 2013). Not exhibiting a stabilizing trend such as the Austrian one, the Finnish wage share returned to its pre-crisis low ten years later; this may be due to the crisis response foreshadowing the liberal structural reforms and austerity measures implemented by the right-wing coalition government which was elected in 2015 (Harjuniemi & Ampuja, 2018). Finland's economic recovery was exceptionally slow compared to other Nordic states, amongst others because of a productivity crisis unfolding in its information and communications technology cluster as well as for demographic reasons, and the competitiveness decline has resulted in the country becoming a net borrower in 2011 (Vaaitinen & Vanne, 2020).

Welfare regimes in the tradition of comparative political economy as well as post-Keynesian demand and growth regimes capture countries' diverse responses to the ramifications of financialization and globalization. While the former differentiate strategies on the socio-institutional level, the latter refer to the macroeconomic sources of demand and growth as well as their financing. According to Hein et al. (2021), most Continental European/Corporate as well as Scandinavian welfare states followed export-led mercantilist or weakly export-led growth regimes before the GFC. Countries of this type, and Austria and Finland in particular, are characterized by a relatively high degree of welfare provision throughout the whole period to compensate the losers of globalization and financialization. Functional income redistribution at the expense of labor implied low domestic demand dynamics and rising external competitiveness which resulted in current account surpluses. In these countries, financialization was relatively less pronounced.

Crucially, the authors posit that while the crisis constituted a break for financialization and globalization dynamics, most Continental European/Corporate and Scandinavian welfare states preserved their demand-led growth regimes throughout the GFC and in its aftermath – Finland constituting an important exception.

These results are reflected by our findings. In the Finnish case, we find that the switch to a domestic demand-led growth regime was accompanied by an increasing importance of the government sector (Hein et al., 2021). In this case, the shift can be traced back to the government running deficits to support the economic recovery (Official Statistics of Finland, 2023). Like other countries of the Continental European/Corporate welfare regime, Austria only slightly shifted to a weakly export-led regime. It could be argued that the strategy of external competitiveness in Austria continued even after the GFC, although with less force than before the crisis. This dynamic is in line with our findings regarding a further deterioration of workers' bargaining power after the crisis.

Summarizing our findings, we have shown that the relationship between financialization, operationalized through the three Kaleckian channels, and functional income distribution differs greatly across the two countries; nonetheless, the overall tendency has been negative. In neither of the countries, irrespective of their welfare regime, were workers able to protect their wage share before the crisis. Despite successfully averting a further deterioration of their wage share in the post-crisis period, workers were unable to reverse the previous decline.

6 Conclusions

In light of persistent functional income inequality since the 1980s, we examined the relationship between functional income distribution and financialization through a post-Keynesian lens. After deriving three hypotheses from Kaleckian mark-up pricing theory, we conducted an empirical investigation into Austria and Finland between 1995 and 2019 to analyze the long-term trends in their financialization–distribution nexuses. Before the GFC, the overall trajectory of the adjusted wage share was negative; however, this pre-crisis redistribution was driven by different channels in the two countries. These dynamics were disrupted by the GFC and changed in the aftermath but did not develop uniformly, as different channels continued to be relevant in each country. Therefore, we conclude that there is partial evidence for each of our hypotheses, but that no Kaleckian channel has distinctive explanatory power because their importance and direction depend on the specific country and the time period.

Our conclusions must be viewed in light of at least two limitations. First, the descriptive method does not allow us to make causal claims about the effects of financialization on functional income distribution because the analysis merely showcases temporal concordance. Second, we most likely underestimated the profit share because the national accounts include (top) management salaries as a part of employee compensation. Therefore, they are incorporated into the calculation of the wage share as opposed to the profit share, which would be suggested by our theoretical approach (Hein & Detzer, 2015). While we chose to include the differences between theory and national accounts classifications into our interpretations, a possible way forward is to correct the empirical national accounts wage share for top management salaries (Atkinson, 2009; Dünhaupt, 2011; Glyn, 2011).

Preliminarily, we find that Austria's and Finland's distinct welfare regimes in combination with the relative importance and magnitude of the three Kaleckian channels of re-distribution help to explain their changes in demand and growth regimes after the GFC. While these results are still initial, we believe the connection between these strands of theory could be enlightening. We, therefore, propose that future research should systematically draw a theoretical connection between the welfare state regime approach and the research paradigm centered around the distribution–financialization nexus. Furthermore, these findings should be incorporated into a demand and growth regime framework according to Hein et al. (2021). Such an undertaking could contribute to a more granular understanding of the relevance of the three channels derived from Kaleckian theory in different policy regimes. Moreover, it could explain why financialization and neoliberalism are such coercive forces, at times dominating the moderating effects of welfare states.

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