A Kaleckian approach to financialization and distribution: Austria and Finland in comparison

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ABSTRACT

In this paper, we examine if and to what extent the Kaleckian theory of markup 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' profit claims, and (3) bargaining power of trade unions and workers. We empirically analyse the long-term trends for each of the channels before and after the Global Financial Crisis and the Great Recession for Austria and Finland. Overall, we find evidence for all three redistribution channels contributing to the changes in functional income distribution. However, the explanatory power of the individual channels differs strongly due to the heterogeneity of the countries.

KEYWORDS

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 in wage shares across OECD countries since the 1980s, implying a more unequal functional income distribution in favour of profits (e.g. Stockhammer 2017; Hein et al. 2018; Kohler et al. 2019; Guschanksi/Onaran 2024). 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 to 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 (Lapavitsas 2009; Kohler et al. 2019; Akçay et al. 2022).[1] 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, 3).

A Kaleckian approach allows us to distinguish between three channels through which financialization impacts income shares (Hein 2015). First, the rising predominance of the financial sector compared 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 labour. Third, labour 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. This approach has been utilized by multiple authors conducting comparative country studies as well as panel regression analyses (Hein/Detzer 2015; Dünhaupt 2017; Hein et al. 2017, 2018; Dünhaupt/Hein 2019; Barradas 2019). We build on these papers and seek to contribute to the scholarship on financialization and income inequality by examining countries that have not received in-depth coverage from these previous studies. Furthermore, we extend the analysis by placing greater emphasis on how the effects of financialization are mediated by the countries' distinct welfare states.

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

1 As such, neoliberalism and financialization are intertwined phenomena, with some even considering financialization a historically specific form of neoliberalism, termed financial neoliberalism (Palley 2013). We will adopt this broad understanding but intentionally avoid an in-depth theoretical discussion. Where necessary, we will clarify whether we are referring to neoliberalism in its general form as a political and economic philosophy or to its specific manifestation as finance-dominated capitalism.

domestic policy regimes that respond to and mediate the effects of financialization and globalization. We selected the two countries for our analysis in accordance with the welfare state regimes by Hay/Wincott (2012), who refine the traditional classification of Esping-Andersen (1990) and compare a Continental European/corporative welfare regime (Austria) with a Scandinavian one (Finland). The comparison between Austria and Finland 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 both types of countries countered globalization with the so-called compensation thesis, in which social expenditure was reduced to a lesser extent than in other regimes 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, particularly before and after the GFC. Our study will investigate the research question using descriptive empirical methods and data from various sources, leaving causal inference to future research.

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 empirical findings of previous studies as well as the institutional and political-economic context of Austria and Finland in section 3, section 4 presents our data and methodology and contrasts the development of the three Kaleckian channels for the two countries in a comparative case study. Section 5 comprises a discussion of these results in light of existing theoretical and empirical work and answers the research question. Finally, section 6 concludes the paper.

2. Theoretical concepts on financialization and income distribution

Post-Keynesian scholars have established theoretical links between financialization and functional income distribution between workers and capitalists through Kaleckian markup 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 the active markup pricing of firms with a certain degree of price-setting power under conditions of oligopolistic or monopolistic competition.[2] Specifically, the markup 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 labour costs and material costs. The markup serves two purposes: first, to settle overhead costs, including salaries of overhead labour (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, 920–921).

According to Hein (2015, 922–923), functional income distribution is determined by this price-setting behaviour 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 labour, can be formulated as:

$$p_j = (1 + m_j)(wa_j + p_j e\mu_j), \qquad m > 0 \tag{1}$$

where p_j is the output price in sector j, m_j denominates its markup, w the nominal wage rate, a_j the labour-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 labour costs, z_j derived as

$$z_j = \frac{p_f e\mu_j}{wa_j}, \tag{2}$$

we can rewrite the pricing equation as:

$$p_j = (1 + m_j)[wa_j(1 + z_j)] \tag{3}$$

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

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

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

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

2 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, 11) assumes demand-determination of prices because firms must react to demand fluctuations via price-setting behaviour.

and the related wage share of direct labour (1 – *h*) can be derived as

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

Therefore, the distribution of income between profits and wages is determined by the markup, the ratio of unit material costs to unit labour 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 markups.

Kalecki (1954, 17) identifies four factors that influence the "degree of monopoly" and hence the size of the markup. 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, 923). Third, the markup 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 markup 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.

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 behaviour of firms according to Kaleckian theory are summarized as stylized facts 1 to 7 in the first column of table 1. As mentioned in the introduction, finance-dominated capitalism is a product of neoliberal economic policies, two of whose most prominent dimensions are also explicitly included in the table as stylized facts 8 and 9. The potential effects of these nine characteristics of finance-dominated capitalism and neoliberalism on the gross profit share are indicated by plus and minus signs.

As Hein (2015, 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 the 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 labour-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.

Table 1: Financialization, neoliberalism, and the gross profit share in Kaleckian theory

Stylized facts of financialization (1–7) and neoliberalism (8–9)	Determinants of the gross profit share (including management salaries)				
	Markup				
	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 labour market		+			
9. Downsizing of government		+			+

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

Kaleckian markup 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 markups 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) centred on 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 favouring 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 labour markets and restricting government intervention, 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 markups and the gross profit share. Most importantly, the corporate management strategy 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 in (top) management salaries accompanying financialization (Hein 2015), suggesting that firms will charge larger markups 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 by definition zero in the government sector (Dünhaupt 2012).

3. Literature review

The post-Keynesian approach presented in the previous section allows us to distinguish between three transmission channels from financialization and neoliberalism towards functional income distribution. Yet, financialization is not a uniform phenomenon – rather, the distinct historical, institutional, and social characteristics of each country decisively shape its financialization trajectory (Becker et al. 2010) and potentially its relationship to income distribution. Therefore, it is of paramount importance to consider country-level specificities. To that end, this section provides the foundation for a comparative country study by, first, reviewing key findings from previous empirical research and, second, delineating the institutional characteristics and political-economic structures of Austria and Finland.

3.1 Empirical literature on the postulated nexus

Numerous empirical studies have recorded a general trend of functional income redistribution at the expense of labour and in favour of capital in most advanced capitalist countries since the 1980s, and hence concurrent with neoliberalism and finance-dominated capitalism (e.g. Stockhammer 2017; Hein et al. 2018; Kohler et al. 2019).[3] 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 studies of countries that have employed this approach to date.

Dünhaupt (2012) was the first to present evidence for the channel capturing changes in the sectoral composition of the domestic economy. Specifically, she demonstrated that an increasing share of financial corporations in value added raised the economy-wide gross profit share in the US (1970–2008). The decreased labour 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 further confirmed by numerous country-specific studies to which we will return later.

Regarding the second channel, increasing overhead costs and gross profit targets have been researched in much more detail. The first wave of studies by Epstein/Power (2003), Epstein/Jayadev (2005), Dumenil/Levy (2005), and Lin/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 financialisation pay for those owning financial assets" (Epstein/Jayadev 2005, 67). However, Dünhaupt (2012) contends that these studies neglect the 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. In an econometric study of Germany and the US (1960–2007), Hein/Schoder (2011) examine the role of interest payments specifically. They find a significant and strong effect of net interest payments of NFCs on the profit share, lending evidence to a markup that is elastic to interest payments which influences

3 Furthermore, authors have attested to rising personal income distribution inequality due to deepening financialisation in most OECD countries (Dünhaupt 2014; Huber et al. 2022). 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).

the distribution between capital and labour. Hein (2015) surveys the evidence regarding rising top management salaries and concludes that while this development was most striking 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. Similarly, Kohler et al. (2019) reveal robust negative effects of NFCs' financial payments on the wage share. Finally, Guschanski/Onaran (2024) analyse the effect of corporate financialization – proxied by increased dividend and interest payments as well as financial profits – on the labour share using firm-level data for 14 European countries in 1995–2016 and find a negative relation. In another recent study on 15 EU countries from 1999 onwards, Gouzoulis et al. (2024) argue that higher shareholder value orientation (SVO) and increasing non-financial corporate indebtedness, which were both part of the EU integration process, contributed to a diminishment in union bargaining power. Financialized NFCs are constrained by debt repayments and pressures to maximize returns. By undermining workers' representation, costs may be shifted from firms to workers, leading to lower wage shares.

Thus, concerning the third channel, 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 labour income share in non-Ghent countries, while the globalization of trade and financial globalization affect the wage share negatively. Using a panel regression including 43 developing and 28 advanced economies (1970–2007), Stockhammer (2017) hence assessed the role of financialization, welfare state retrenchment, globalization, and technological change for income redistribution. He 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 labour income shares. Since Lin/Tomaskovic-Devey's (2013) proxy for financialization – the ratio of financial receipts (interest, dividends, and capital gains) to business receipts, capturing increasing SVO 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 SVO.

In a similar fashion, Pariboni/Tridico (2019) argue that financialization was part of a strategy by the dominant classes in advanced economies to regain political power and higher national income shares in the 1980s. They estimate a panel regression for 28 OECD countries (1975–2016) and find that the fall in the labour share was indeed triggered by financialization, deepened by structural change and mediated by the corresponding welfare states in the observed countries. Wood (2017) points to a negative relation of household mortgage credit and wage share by conducting a panel regression for the US, the UK, Sweden and Denmark (1979–2012). While the relation is always negative, he notes that the effects are stronger in the two liberal markets, which underlines the importance of institutional setting. In a long-term study (1891–2000) for France and Sweden, Gouzoulis (2021) confirms that higher household mortgage debt decreases the wage share and that bargaining institutions might mediate the extent of the effect. More recently, Cauvel/Pacitti (2022) utilize a bounds-testing approach to estimate the relation between bargaining power and labour shares in the US and attest that the decline in the labour share is driven by workers' declining bargaining power. Furthermore, their analysis points to increasing inequality in the US due to lower bargaining power, structural change, and weak economic performance.

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/Detzer (2015) were the first to apply this approach to Germany in 1980–2013, finding that all three channels had 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 of France, Germany, and Spain in the period 1990–2015, arriving at a similar conclusion to 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/Hein (2019) compares three Baltic states, namely Denmark, Estonia, and Latvia (1995–2016), concluding that the financialization-distribution nexus differs between the countries both 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. Furthermore, Barradas (2019) applies the Kaleckian channels to a panel regression to estimate the effect of financialization and neoliberalism on the labour share for 27 EU countries (1995–2013). The results suggest that the main drivers of falling labour shares for the observed period were falling general government activity and rising SVO.

3.2 Literature on the institutional and political economic conditions in Austria and Finland

Austria's political-economic and institutional landscape is characterized by a distinctive system of social partnership, a corporatist tradition, and a highly coordinated market economy. Austria has been described as corporatist, conservative, Continental, or male-breadwinner welfare state model, with a strong focus on employment relations and the family nexus (Österle/Heizmann 2019). At the core of Austria's economic governance is its collective bargaining system, which ensures high wage coordination and broad coverage through legally binding agreements between social partners, particularly unions and employer associations. The Austrian framework avoids decentralization of wage-setting while maintaining some flexibility for firm-level negotiations. This system of industrial relations is rooted in historical developments, where representatives of labour and capital sought to avoid the class conflicts that had characterized earlier political turmoil following World War II. This led to the institutionalization of economic decision-making through a cooperative model involving the Austrian Economic Chambers (WKO) and the Chamber of Labour (AK), ensuring that wage negotiations and industrial policies are closely coordinated (Zuckerstätter 2025). These dynamics have contributed to economic stability by synchronizing wage policies and balancing supply- and demand-side considerations, rather than purely increasing labour costs or unemployment (Traxler/Brandl 2011).

Financialization trends have also influenced Austria's institutional framework, with state asset management shifting towards greater reliance on financial markets. While Austria has historically maintained strong public-sector involvement in economic affairs, recent decades have seen a transition whereby state-owned enterprises generate increasing revenue from financial activities, aligning more closely with private investment strategies. Similarly, public debt management has been increasingly subjected to financialization pressures, leading to a stronger emphasis on market-oriented debt strategies (Schwan et al. 2021). Since the late 1990s and entry into the European Union, Austria's welfare state and institutional setting has been subject to incremental as well as substantial change, such as the pension reform in the early 2000s, labour market deregulation policies, and expansive family policies (Österle/Heizmann 2019).

Despite these shifts, Austria's economic model retains significant institutional continuity, particularly in its approach to collective bargaining and industrial democracy. This framework for industrial relations ensures that employer and employee representatives still play a substantial role in shaping labour policies and wage negotiations (Zuckerstätter 2025). Furthermore, despite shifts in the welfare state system during recent decades, Austria did not break with the social partnership tradition regarding employment relations (Österle/Heizmann 2019).

Finland's political-economic development has been shaped by its late industrialization and gradual integration into the Nordic welfare model. Unlike the other Scandinavian countries, Finland remained predominantly rural until the 1960s and only fully developed its welfare state in the 1970s and 1980s (Jungerstam/Wentjärvi 2019; Kuhnle/Alestalo 2018). Despite this delayed trajectory, Finland eventually became a mature industrial economy and adopted the hallmarks of the Nordic model, including universal public services and social benefits, an emphasis on full employment and gender equality, and high taxation to support welfare provisions. However, some argue that in recent decades, it has moved towards a more liberal Continental welfare state (Jungerstam/Wentjärvi 2019), as privatization trends in pensions, healthcare, and social care have introduced elements of mixed welfare provision.

A defining feature of Finland's political-economic system is its tradition of corporatism and consensual governance, where policy decisions are informed by tripartite negotiations between government, trade unions, and employer organizations. The foundation for this system was laid after the Winter War (1939–40) when Finland's first major agreement between labour and employers was reached (Kuhnle/Alestalo 2018). The corporatist model has historically ensured strong labour market coordination, contributing to economic stability and social cohesion.

However, as a small open economy, Finland is highly exposed to developments in the global economy and has experienced significant fluctuations in economic growth (Kuhnle/Alestalo 2018). The country's most severe economic and financial crisis occurred in the early 1990s, triggered by financial deregulation, excessive credit expansion, and the collapse of the Soviet Union, its key trading partner (Honkapohja/Koskela 1999; Honkapohja 2009). The crisis had long-lasting effects on both Finland's financial sector and its labour market, which saw significant transformations, particularly in labour market coordination and welfare policies. In its aftermath, Finnish policy objectives shifted from generating and providing welfare to fostering international competitiveness and productivity (Ahlqvist/Moisio 2014; Wuokko 2021). Amongst other things, this shift was reflected in considerable cuts to social services, schooling, and healthcare (Marjanen et al. 2018). Since the mid-1990s, Finland has thus experienced declining collective bargaining coverage, a decentralization of wage-setting mechanisms, and an erosion of trade union influence (Traxler/Brandl 2011; Christiansen 2018). Labour market reforms have increasingly emphasized activation policies aimed at reducing unemployment through stricter benefit conditions and greater incentives for labour force participation, shifting away from passive income support (Kuhnle/Alestalo 2018). Despite these challenges, Finnish unions remain among the most organized in the world and continue to exert influence on policymaking (Binderkrantz et al. 2015; Christiansen 2018).

Financialization does not impact all economies uniformly. Its negative consequences may be mediated by state intervention, regulation, and welfare expenditure, depending on a country's welfare state regime (Hay/Wincott 2012). Analysing globalization processes, Pariboni/Tridico (2019) identify two contrasting ways in which governments can respond to such overarching developments. The efficiency thesis argues that, due to pressures from globalization, welfare states should be scaled back to maintain high levels of employment and encourage private sector investment. In contrast, the compensation thesis postulates that welfare states should rather be expanded to compensate those who have experienced economic losses and a decline in welfare due to globalization. Indeed, the same distinction can be made with regard to financialization: Hein et al. (2021) contend that export-led economies that are at the same time Continental European/corporative or Scandinavian welfare states have faced financialization through the latter strategy. Thus, one can assume that in Austria and Finland, which correspond to these characteristics, the decline in the wage share that is commonly associated with finance-dominated capitalism was more mediated than in other countries, as these institutional structures shape both the extent to which financialization pressures translate into wage repression and the degree to which social policies can cushion its impact.

4. Comparative case study of Austria and Finland

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 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. 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 have selected 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 have chosen to compare Austria and Finland because, while they follow different welfare models, both exhibited export-led mercantilist growth regimes before the GFC, implying that they countered financialization and globalization by sustaining social expenditure to compensate the domestic losers of these processes (Hein et al. 2021). 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. Ultimately, we 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?*

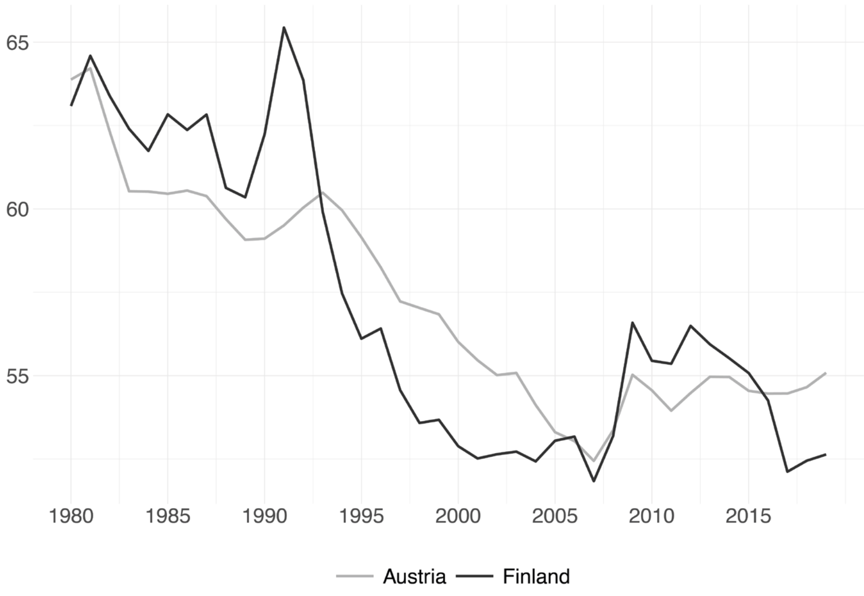
This paper combines data from the OECD Annual National Accounts, Table 14A; the World Inequality Database (WID); the Eurostat and AMECO databases provided by the European Commission; and the OECD/AIAS database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS). The analysis covers the years from 1995 to 2019 due to limited data availability in earlier decades. We thus chose to harmonize the time frame for both countries to ensure comparability. Additionally, we excluded data from 2020 onwards because the economic fluctuations caused by the Covid-19 pandemic and the Russian invasion of Ukraine render the identification of medium- to long-term trends impossible. At the time of writing, no new stable macroeconomic regime has emerged from these multiple crises that would justify adding a third time period.

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 sectors, and sectoral gross operating surplus as a share of gross value added, which indicates the respective sectors' profit shares. Regarding *financial overhead costs/rentiers' profits claims,* 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 analyse *trade unions' and workers' bargaining power,* we consider five indicators: unemployment as a percentage of the active population; trade union density; bargaining or union 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 calculate respective averages. Since our research interest is related to medium- and long-term trends of income distribution, the 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 two 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 labour to capital (Hein et al. 2018). This process is illustrated in figure 1, which displays the development of the adjusted wage share for both countries in 1960–2019.

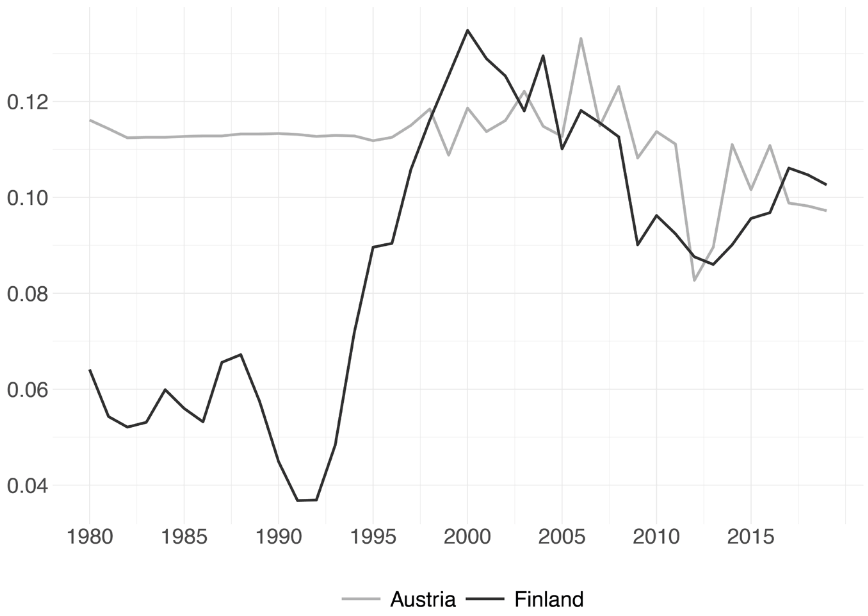
Figure 1: Adjusted wage share in Austria and Finland, 1980–2019 (% of GDP)



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, 3)
Source: European Commission (2023a), authors' calculations

Except for some cyclical fluctuations, both countries experienced a falling adjusted wage share in the given period. The decrease was especially pronounced between the early 1980s and the GFC. During the more limited period specified in the research question, 1995–2019, Austria's adjusted wage share followed a U-shape: it declined steadily between 1995 and the GFC, but partially rebounded during the crisis. This countercyclical pattern of the wage share is a well-documented phenomenon that arises because profits tend to decline more sharply than wages during economic downturns, given that the latter are relatively rigid due to contractual agreements and institutional factors (Hein 2014). After the crisis, the wage share remained roughly constant at 55%, such that we can cautiously speak of a partial reversal of the previous decline. A comparable downward trend from 1995 until the crisis can be observed for Finland. However, after a similar recovery during the GFC, which temporarily re-established its 1995 level, the Finnish adjusted wage share fell back to its pre-crisis level of roughly 53%. Therefore, with regard to the medium- to long-term trend, the Finnish wage share corresponds to the shape of a negative logarithmic function. In contrast to the situation in Austria, the crisis-induced gains could not be sustained.

Figure 2: Top 1% of income share in Austria and Finland, 1980–2019 (share of pre-tax income)



Note: Top income shares relate to the tax units
Source: WID (2025), authors' calculations

As explained in section 2, post-Keynesian theory stipulates that overhead labour costs (i.e. management salaries) are covered by markups and should thus be considered part of the profit share. However, national accounts record management salaries as part of employee compensation, such that they are incorporated into the calculation of the wage share. As a result, researchers have pointed out that the share of direct labour – excluding top management salaries – has declined even more dramatically than can be observed through conventional measures such as the adjusted wage share (e.g. Hein/Detzer 2015).

To remedy this, figure 2 visualizes the income share of the top 1% of income earners, which proxies managerial salaries, in both economies. Except for a slight decline during the years of the GFC, top earners' income share appears to be relatively stable in Austria; if anything, it has decreased over the observed period. In Finland, the share of top 1% of income earners increased sharply during its 1990s crisis, peaked in 2000 and subsequently started to decline. From then on, the share followed a U-shape that reached its trough at the end of the GFC. Looking at the specified time frame, the share has now approximately returned to its 1995 level. This development confirms that the adjusted wage share should be interpreted as an upper bound on the actual level of the wage share: corrected for these managerial salaries, the Finnish wage share would have decreased even further in the periods 1995–2000 and 2013–2017. The share of direct labour in Austria, too, is lower than indicated by the adjusted wage share; but the latter's development is not strongly influenced by changing management salaries. Overall, it is important to bear in mind that the data we use structurally overestimate the wage share.

4.3 Austria

In the following, we discuss the influence of financialization operating through the three channels according to Kaleckian theory in Austria. 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 favour of the financial sector or at the detriment of the government sector, as both shares in value added remained roughly constant (figure 3). 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. Contrary to what is assumed in the literature, the financial sector's profit share – proxied by its share of gross operating surplus in gross value added – was *lower* than that of the non-financial sector (figure 4). The non-financial sector's profit share can be described as an inverted U-shape over the entire time period, with its peak at the start of the GFC. Therefore, NFCs' profit share increased steadily in the years before the crisis while that of financial corporations did not follow a clear trend. Considering these developments together, 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.

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 5). Thus, the decreasing wage share occurred partly in favour 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 6). 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 2). 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.

Table 2: Selected indicators for bargaining power, Austria, 1995–2019

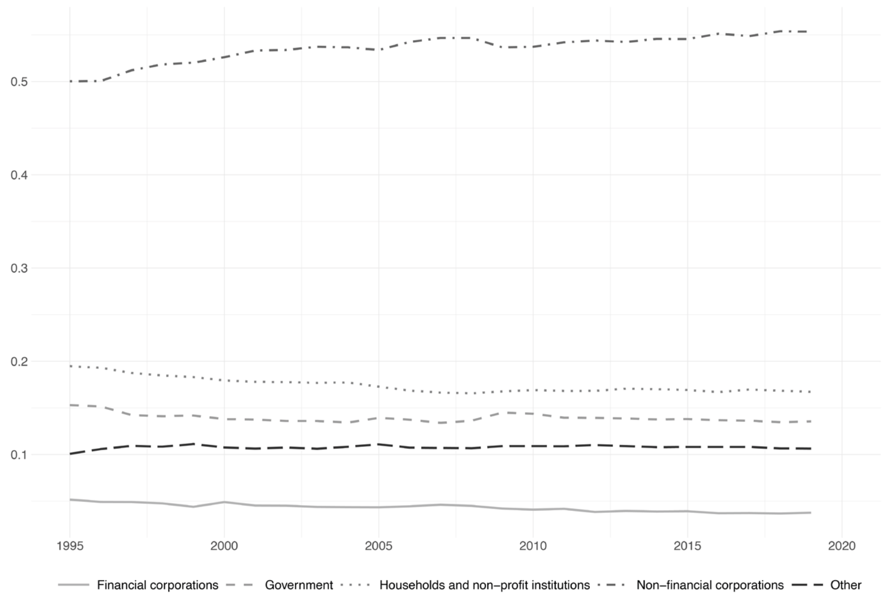
	1995–99	2000–04	2005–09	2010–14	2015–19
Unemployment rate (%)	4.6	4.5	5.4	5.4	5.7
Union density rate (%)	39.3	35.7	30.9	28.1	26.7
Bargaining coverage rate (%)	98.0	98.0	98.0	98.0	98.0
Household debt (% of GDP)	42.9	46.1	52.3	52.4	50.3
Trade openness (% of GDP)	73.7	87.4	96.4	103.4	104.8

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 of and after the crisis

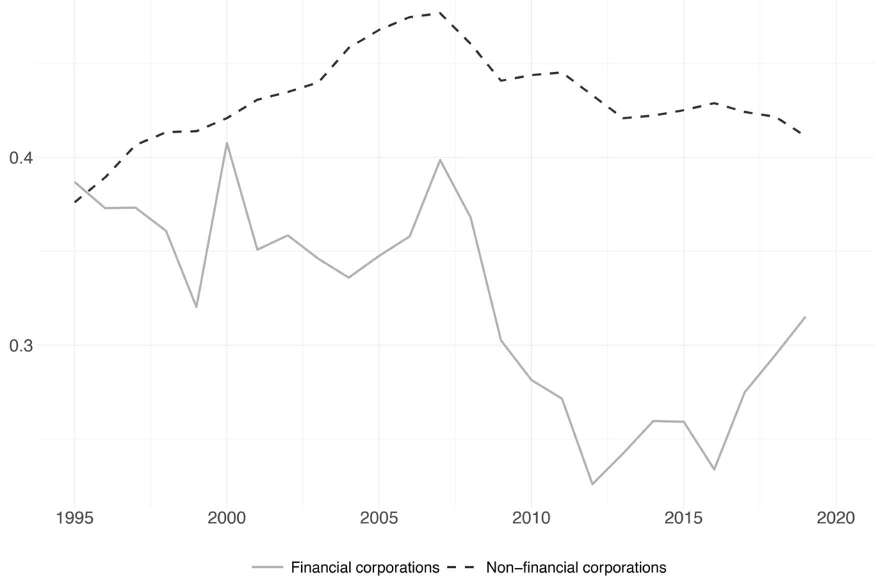
In the course of the crisis, the Austrian adjusted wage share experienced an upward trend but remained roughly constant afterward. With regard to sectoral composition, the share of the government increased slightly in the course of the crisis but remained roughly constant afterwards. The share of NFCs 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 3). Additionally, the profit share in the financial sector remained below that of the non-financial sector (figure 4). However, while the profit share of the non-financial sector declined steadily from 2007 onwards, the financial sector's profit share followed a U-shaped

Figure 3: Sectoral shares in nominal gross value added, Austria, 1995–2019



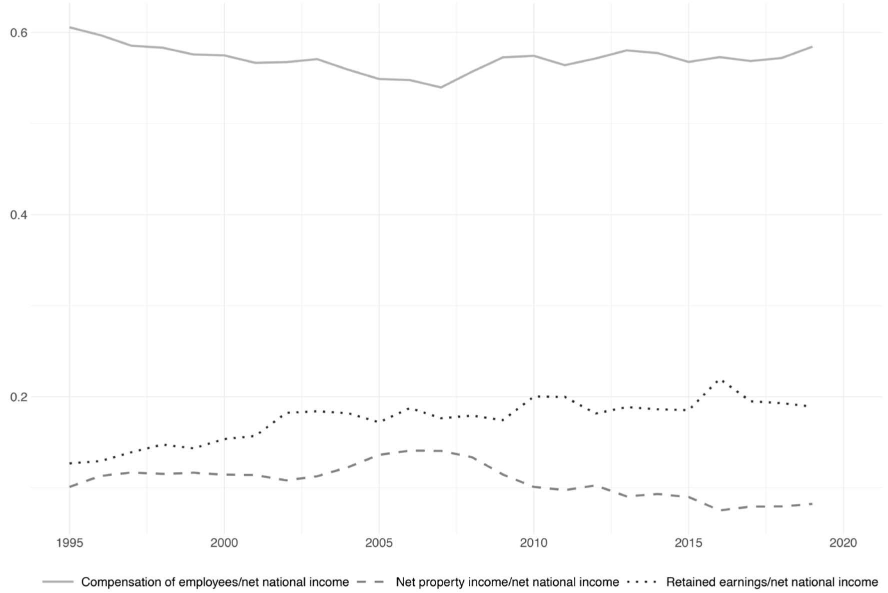
Source: OECD (2023), authors' calculations

Figure 4: Sector gross operating surplus as a share of sector gross value added, Austria, 1995–2019



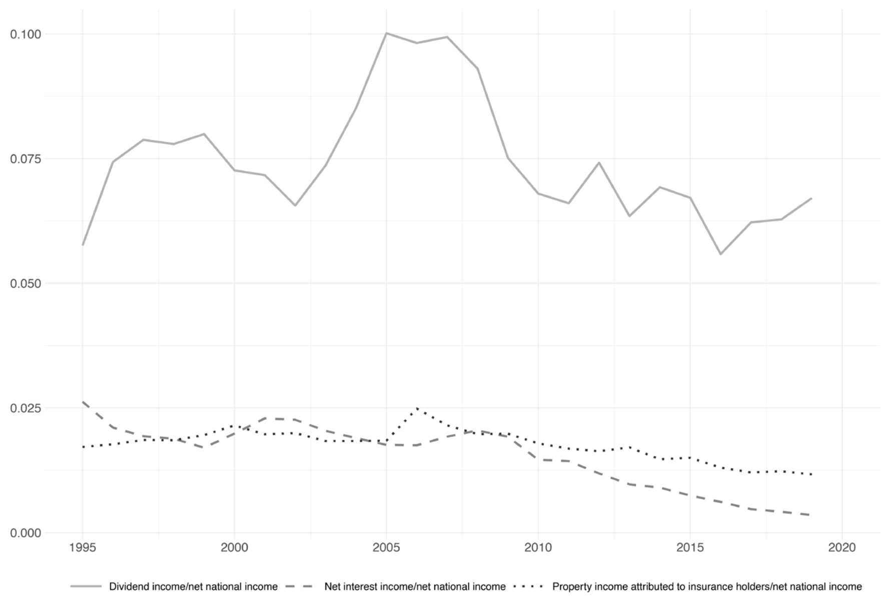
Source: OECD (2023), authors' calculations

Figure 5: Income shares in net national income, Austria, 1995–2019



Source: OECD (2023), authors' calculations

Figure 6: Components of rentiers' income as a share in net national income, Austria, 1995–2019



Source: OECD (2023), authors' calculations

pattern, beginning to rise after the recovery from the GFC. In the years immediately following the crisis, therefore, the gap between the two shares widened significantly, but it subsequently narrowed once more. As a result, this channel contributed to the slight increase in the wage share during the crisis but lost relevance thereafter.

The pressure from the overhead costs channel seems to have decreased during the crisis, as compensation of employees rose while net property income decreased (figure 5). Moreover, dividend income and net interest income both decreased strongly during and after the crisis (figure 6). 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 2): unemployment, the bargaining coverage rate, and the household debt to GDP ratio remained largely constant while union density decreased slightly and trade openness increased further.

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 7 and figure 8. 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 largely 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 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 9). The compensation of employees decreased in the early 1990s and did not recover until the crisis, while the opposite is the case 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 a positive trend overall, while that of net interest income declined before the crisis (figure 10). In conjunction, these findings indicate that the depression of the wage share was not strongly driven by increasing rentiers' profit claims.

Our findings regarding trade unions' and workers' bargaining power are ambiguous (table 3). The unemployment rate was relatively high during and after the Finnish financial crisis (1995–1999) but decreased in the subsequent periods. 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 3: 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

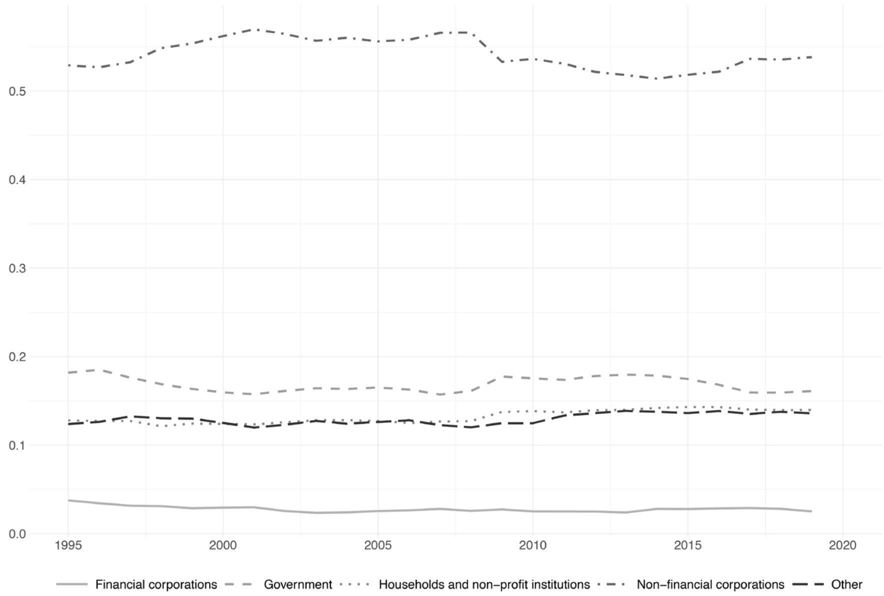
Notes: Unemployment as a percentage of active population; bargaining (or union) coverage rate: proportion of employees who are covered by (collective) wage agreements (adjusted for sectors without bargaining rights); union density rate: proportion of employees who are members of a trade union among all 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 of 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 afterwards (figure 7). The share of the government sector increased slightly but stayed roughly constant in the following years. Simultaneously, financial corporations' profit share decreased sharply in the course of the crisis but started rising in 2013, resuming pre-crisis levels right before the Covid-19 pandemic (figure 8). Furthermore, for most 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.

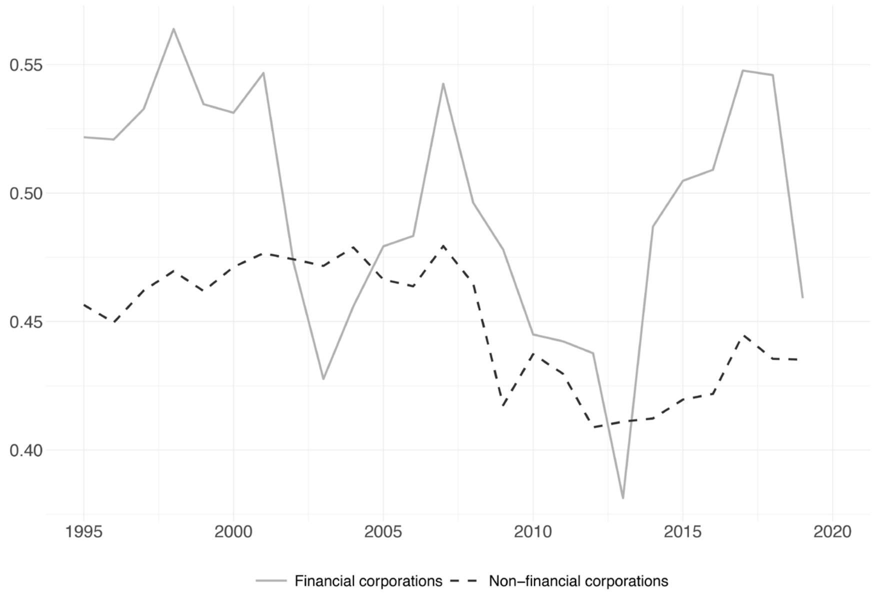
We find no evidence for the financial overhead costs channel. While the compensation of employees increased during the crisis, mirrored by a decrease in retained earnings, the share of net property income remained roughly constant (figure 9). Dividend income started increasing in the mid-2010s and while net interest income rose

Figure 7: Sectoral shares in nominal gross value added, Finland, 1995–2019



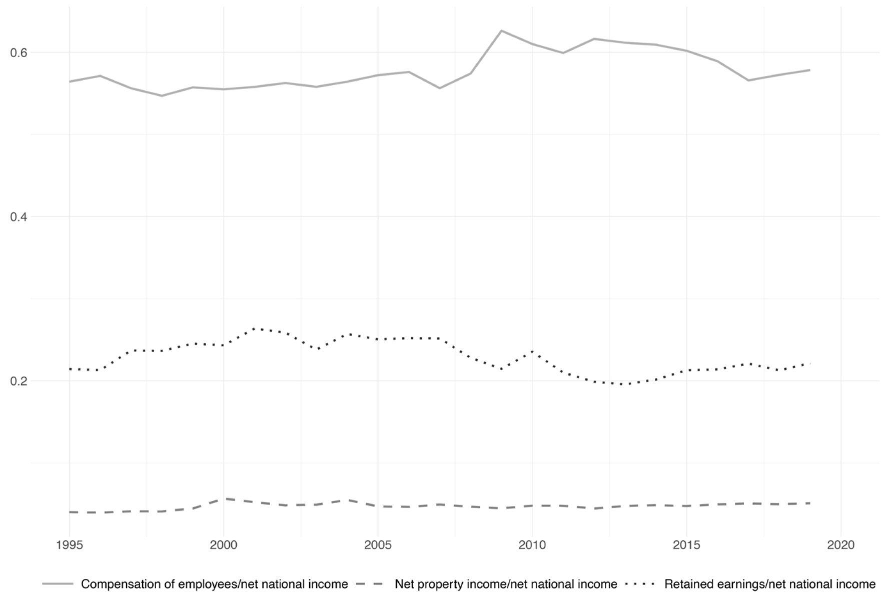
Source: OECD (2023), authors' calculations

Figure 8: Sector gross operating surplus as a share of sector gross value added, Finland, 1995–2019



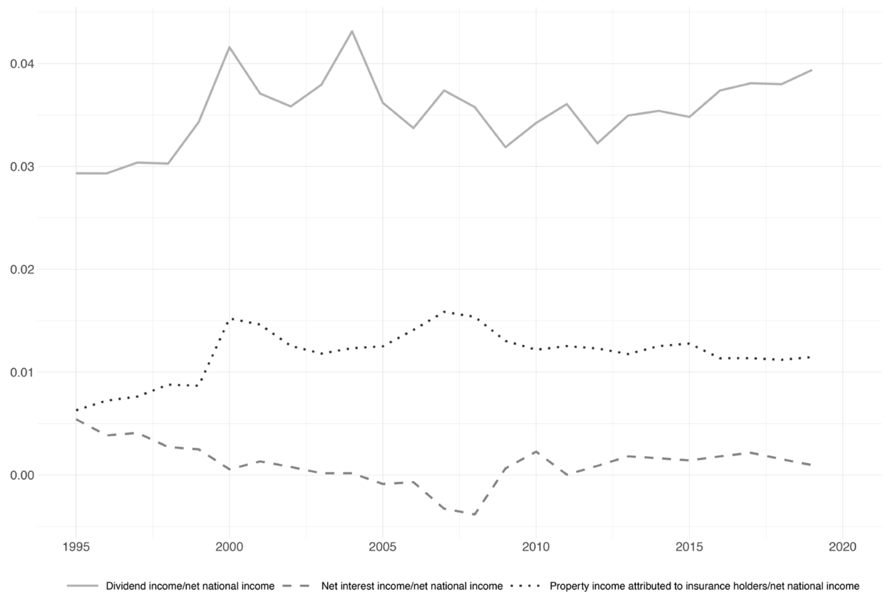
Source: OECD (2023), authors' calculations

Figure 9: Income shares in net national income, Finland, 1995–2019



Source: OECD (2023), authors' calculations

Figure 10: Components of rentiers' income as a share in net national income, Finland, 1995–2019



Source: OECD (2023), authors' calculations

during the crisis, property income fell (figure 10). However, those dynamics should be interpreted with caution because of the high volatility of the shares.

Overall, the indicators of workers' bargaining power are ambiguous in the course of and after the crisis (table 3): the household debt to GDP ratio increased while union density decreased. However, the largely 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. Discussion of results: Re-examining the three Kaleckian channels

Table 4 summarizes the results of our empirical analysis, showing the redistributive trends and the role of each Kaleckian channel in Austria and Finland. Regarding changes in sectoral composition, we use a + to denote a larger financial sector as well as a smaller government sector, since both increase the aggregate profit share.

Table 4: 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 workers' decreasing bargaining power. The initially high levels of bargaining coverage are in line with a strong tradition of social partnership in Austria (Famira-Mühlberger/Leoni 2013; Österle/Heizmann 2019; Zuckerstätter 2025). These results are comparable to those in another Continental European/corporative welfare state: Germany, where the pre-crisis decline in the wage share can also be attributed to increasing financial overhead costs, primarily due to rising dividend payments by 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 largely 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 slightly. Overall, the post-crisis reversal of financial overhead costs was thus not large significant 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 recomposition; it is the result of a retreating government sector in combination with an increasing profit share in the non-financial corporate sector. Essentially, the policy response to the Finnish financial crisis and the ensuing economic depression of the 1990s entailed the introduction of neoliberal policies, such as cuts to social spending, despite Finland's Scandinavian welfare regime (Ahlqvist/Moisio 2014; Kuhnle/Alestalo 2018; Marjanen et al. 2018; Wuokko 2021). For the other two channels, the evidence remains inconclusive. Especially regarding workers' bargaining power, it is noteworthy that the deregulation of the Finnish labour market was counterbalanced by its strong institutional legacy of wage coordination and corporatism. Regarding the years after the GFC, we similarly only find evidence of a sectoral recomposition. 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 in the wage share in the late 2010s. This exceptional relevance of the sectoral recomposition channel is mirrored by the developments in another Baltic state: Estonia (Dünhaupt/Hein 2019). However, the decline in the Estonian adjusted wage share was further promoted by the two other channels, while in the Finnish case it can solely be explained through the first channel. 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 in the Swedish adjusted wage share is fully explained by the bargaining power channel, which was not particularly 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 – except the recovery period after the GFC – 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 recomposition 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 recomposition 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 suggests that neoliberal austerity measures were the primary drivers of change in Finland. Financial overhead costs and rentiers' profit claims, on the other hand, played an important role in Austria throughout the entire time frame. The bargaining power and activities of trade unions, whenever the indicators show a clear tendency, have the expected relationship with the trajectory of the wage share in Austria. In this case, Austria's institutional inertia (Österle/Heizmann 2019) has acted as a stabilizing force by mitigating the decline in bargaining power and, consequently, cushioning the impact of financialization on the wage share.

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 because 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 that in Austria, 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 other factors because of a productivity crisis unfolding in its information and communications technology cluster as well as for demographic reasons, and the decline in competitiveness resulted in the country becoming a net borrower in 2011 (Vaittinen/Vanne 2020).

Welfare regimes in the tradition of comparative political economy capture countries' diverse responses to the ramifications of financialization and globalization (Pariboni/Tridico 2019; Hein et al. 2021). According to Hein et al. (2021), most Continental European/corporative 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 (Pariboni/Tridico 2019). The shift of income from wages to profits weakened domestic demand but boosted external competitiveness, which resulted in current account surpluses. In these countries, financialization was relatively less pronounced. Crucially, the authors posit that while the GFC constituted a break for financialization and globalization dynamics, most Continental European/ corporative and Scandinavian welfare states preserved their demand-led growth regimes throughout the GFC and in its aftermath. However, this is only partially reflected by our findings. Finland's exceptional switch to a domestic demand-led growth regime was accompanied by the 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/corporative welfare regime, Austria only slightly shifted to a weakly export-led regime. 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 in 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 the wage share below pre-crisis levels in the years after the GFC, Finnish workers could not reverse the previous decline. Only in Austria were the crisis-induced gains in the wage share stabilized; however, this was insufficient to compensate for the prior decline. This divergence suggests that welfare state regimes alone do not fully explain differences in how financialization impacts wage shares. While Finland's more progressive welfare model might have been expected to offer greater protection, rising corporate profit shares ultimately outweighed its cushioning effects. Austria's comparatively stable wage share, despite financialization pressures, points to the role of institutional inertia in slowing down structural changes that could have otherwise intensified wage repression.

The fact that we find evidence for the Kaleckian explanation of the ubiquitous shifts in functional income distribution in favour of profits cannot be interpreted as counterevidence for alternative explanatory approaches. However, our study reinforces the literature that challenges skill-biased technological change and market concentration as primary drivers of declining wage shares (e.g. Stockhammer 2009, 2017; Kristal 2010; Guschanski/Onaran 2024). By situating our findings within this broader debate, we contribute to a growing consensus that finance-dominated capitalism and neoliberal economic policies play a decisive role in shaping contemporary income distribution trends.

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 channels of influence from Kaleckian markup pricing theory, we conducted an empirical investigation into Austria and Finland between 1995 and 2019 to analyse 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 the Kaleckian channels, but that none of them has distinctive explanatory power; their importance and direction depend on the specific country and the time period.

Despite both being candidate countries for the compensation thesis, Austria and Finland responded to financialization and the GFC in different ways. Paradoxically, the recent decline in the wage share was more pronounced in Finland, the Scandinavian welfare state, than in Austria, the Continental European/corporative welfare state. This divergence can likely be attributed to the greater economic instability Finland experienced, compounded by a looming transition to a more liberal welfare model.

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 reveals 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 in 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 in 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 redistribution 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 centred on the distribution-financialization nexus. Furthermore, these findings should be incorporated into a demand and growth regime framework as per 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.

Given recent developments such as political fragmentation, geopolitical tensions, climate change, and broader economic uncertainty, it is essential to examine structural changes that have fundamentally reshaped national economies, institutions, and economic relations, making them either more or less vulnerable to these adverse circumstances. Significant heterogeneity among countries underscores that there is no universal approach to addressing different crises – however, several key lessons emerge from the present analysis. First, welfare state regimes play a crucial role in mediating the financialization process, highlighting the need for a holistic policy approach that incorporates political economy considerations. Effective policy analysis should adopt a long-term perspective to ensure sustainable and just outcomes. Second, the persistent decline in the wage share is well-documented and widely acknowledged. From a heterodox and aggregate demand management perspective, this trend is concerning, as falling labour shares can have detrimental effects on a country's growth prospects (Hein 2023, chapter 6). A balanced compromise between labour and capital would therefore be beneficial for overall economic stability. Finally, these considerations may also offer insights into counteracting the rise of far-right voting behaviour (van Kessel 2025; Weber 2025). By refocusing on the distribution of national income between social classes, the growing bifurcation of society may be mitigated.

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