many studies in the mainstream economic tradition derives directly from their theoretical approach. There are two critical assumptions in this framework: fully competitive markets and full-capacity utilisation. As soon as the assumption of perfect competition is dropped, i. e. if firms and workers act in oligopolistic markets as is mostly the case, relative bargaining power is influenced by the price setting power (mark-up power) of firms.[4] There is a substantial literature in the New Keynesian tradition that derives from this.[5] Empirically, this approach is most prominently represented by the International Monetary Fund (2007), the European Commission (2007), Bassanini and Manfredi (2012), and Karabarbounis and Neiman (2012). Indeed their findings indicate that technological change is the primary determinant of falling wage shares followed by globalisation. However, Stockhammer (2015) argues that a close examination of the reported findings reveals serious robustness issues regarding the effects of technology. Indeed both the IMF (2007) and the EC (2007) report that the technology variables are not robust to the inclusion of time effects. However, they do not interpret the non-robust effects of technology with caution, but rather make a strong case that the fall in the wage share is an unavoidable outcome of technological progress.

Consistent with the nature of modern capitalist economies, the relaxation of the assumption of full-capacity utilisation gave birth to Keynesian macroeconomics which emphasise the role of effective demand in determining output, income and employment. Consequently, functional income distribution is governed by consumption of workers and capitalists and, more importantly, by the propensity to invest which is driven by aggregate demand and business expectations, i. e. the animal spirits of the private investors.[6] Most heterodox authors accept this analysis but augment the emphasis on animal spirits by additional factors governing the balance of power between employers and employees as suggested by Marxist or Institutionalist economists. Technology might affect the contributions of the factors of production but technological change itself is an endogenous outcome of conflict in the labour process. Wages are negotiated between employers and employees and are therefore subject to social norms and relative bargaining power. Consequently scholars in this tradition have offered a more thorough analysis of the determinants of bargaining power. Marxist economists emphasise the sphere of production as the source of surplus and the core determinant of income distribution. Economists working in a post-Keynesian or Kaleckian tradition start directly from the assumption of oligopolistic markets and focus on the sphere of circulation. They emphasise the degree of monopoly in a market, which is determined by the degree of competition between firms, union power and, in a more recent interpretation of the literature by the strength of the financial sector.[7]