


[Home](#) > [Wage-led Growth](#) > Chapter

# Financialization, the Financial and Economic Crisis, and the Requirements and Potentials for Wage-led Recovery

| Chapter

| pp 153–186 | [Cite this chapter](#)

 [Save chapter](#)

[View saved research](#) >



## Wage-led Growth

[Eckhard Hein](#) & [Matthias Mundt](#)

 Part of the book series: [Advances in Labour Studies](#) ((AILS))

 835 Accesses  19 Citations

## Abstract

In 2008/09 the world economy was hit by a decline in real GDP, the scale of which had not been seen for generations. The so-called ‘Great Recession’ started with the collapse of the sub prime mortgage market in the United States in summer 2007, and it gained momentum following the collapse of Lehman Brothers in September 2008. Under the conditions of deregulated and liberalized international

financial markets, the financial and real crisis spread rapidly across the world, reaching another climax with the euro crisis which began in 2010. Although recovery has already started in late 2009 — albeit with different speeds in different countries — the world economy is far from having overcome the causes of the crisis which are rooted in long-run developments since the early 1980s. We hold that the severity of the present crisis is due to the following medium- to long-run developments, in particular in the advanced capitalist economies but also affecting the emerging market economies: the inefficient regulation of financial markets; an increasing inequality in the distribution of income; and rising imbalances at the global (and at the euro area) level.<sup>1</sup> These developments have been dominated by the policies aimed at the deregulation of labour markets, the reduction of the level of government intervention in the market economy and of government demand management, the redistribution of income from (lower) wages to profits and top management salaries, and the deregulation and liberalization of national and international financial markets.

---

Many **thanks go to** Matthieu Charpe, **of the** International Labour Office and the International Institute **for Labour Studies**, **for** providing data on functional **income distribution for non-OECD countries**. **A preliminary version of** the paper was presented at the Regulating for Decent Work Network Conference **on ‘Regulating for a Fair Recovery’, 6-8 July 2011, ILO, Geneva, and at a** workshop of the **project ‘New Perspectives on Wages and Economic Growth’, 9 July 2011, ILO, Geneva**. **We are** grateful to the participants for helpful comments and **suggestions**, **in** particular by the other contributors to this project, Marc Lavoie, **Özlem Onaran, Engelbert Stockhammer, Servaas Storm**, Simon Stum and Till van **Treock, and, most** importantly, to Sangheon Lee. We have also benefitted from comments by **Jens Christiansen**. Remaining errors **are, however, exclusively ours**.

---

## Access this chapter

Log in via an institution →

## Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans →

## Buy Now

^ Chapter

**EUR 29.95**

Price includes VAT (Poland)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

Buy Chapter →

^ eBook

**EUR 85.59**

Price includes VAT (Poland)

- Available as EPUB and PDF
- Read on any device
- Instant download
- Own it forever

Buy eBook →

^ Softcover Book

**EUR 106.99**

Price includes VAT (Poland)

- Compact, lightweight edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

Buy Softcover Book →

^ Hardcover Book

**EUR 106.99**

Price includes VAT (Poland)

- Durable hardcover edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

Buy Hardcover Book →

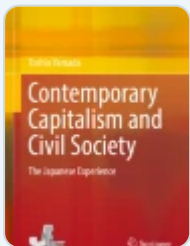
Tax calculation will be finalised at checkout

[Institutional subscriptions](#) →

## Preview

Unable to display preview. [Download preview PDF.](#)

### Similar content being viewed by others



#### **Economic Crises and Growth Regimes**

Chapter | © 2018



#### **Sub-Prime Mortgages and the Global Financial Crisis of 2007–2009**

Chapter | © 2025



#### **Global Financial Markets Integration: A Comparative Study Between Developed and Emerging Economies**

Chapter | © 2017

### Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Economic History](#)

[European Economics](#)

[Financial Crises](#)

[Financial Economics](#)

[Financial History](#)

[Globalization](#)

[Financial Cycles and Crisis Dynamics](#)

## References

Arestis, P. and Sawyer, M. 2004. 'On fiscal policy and budget deficits', *Intervention. Journal of Economics*, vol. 1(2), pp. 61–74.

Barba, A. and Pivetti, M. 2009. 'Rising household debt: its causes and macroeconomic implications — a long-period analysis', *Cambridge Journal of Economics*, vol. 33, pp. 113-37.

Bhaduri, A. 2006. 'Endogenous economic growth: a new approach', *Cambridge Journal of Economics*, vol. 30, pp. 69-83.

Bhaduri, A. 2011a. 'Financialisation in the light of Keynesian theory', *PSL Quarterly Review*, vol. 64(256), pp. 7-21.

Bhaduri, A. 2011b. 'A contribution to the theory of financial fragility and crisis', *Cambridge Journal of Economics*, **vol. 35**, pp. **995-1014**.

Bhaduri, A., Laski, K. and Riese, M. 2006. 'A model of interaction between the virtual and the real economy', *Metroeconomica*, vol. 57, pp. 412-27.

Bibow, J. 2008. 'The international monetary (non-)order and the "global capital flows paradox"', in E. Hein, T. Niechoj, P. Spahn and A. Truger (eds), *Finance-led Capitalism? Macroeconomic Effects of Changes in the Financial Sector* (Marburg: Metropolis).

Boone, L. and Girouard, N. 2002. 'The stock market, the housing market and consumer behavior', *OECD Economic Studies*, no. 35, pp. 17-200.

Cassetti, M. 2003. 'Bargaining power, effective demand and technical progress: a Kaleckian model of growth', *Cambridge Journal of Economics*, vol. 27, pp. 449-64.

Clarida, R., Gali, J. and Gertler, M. 1999. 'The science of monetary policy: a New Keynesian perspective', *Journal of Economic Literature*, vol. 37, pp. 1661-707.

Crotty, J. 1990. 'Owner-management conflict and financial theories of investment instability: a critical assessment of Keynes, Tobin, and Minsky', *Journal of Post Keynesian Economics*, vol. 12, pp. 519-42.

Cynamon, B. and Fazzari, S. 2008. 'Household debt in the consumer age: source of growth-risk of collapse', *Capitalism and Society*, vol. 3(2), pp. 1-30.

Davidson, P. **2009**. *The Keynes Solution: The Path to Global Economic Prosperity* (Basingstoke: Palgrave Macmillan).

Dreger, C. and Slacalek, J. 2007. 'Finanzmarktentwicklung, Immobilienpreise und Konsum', *DIW Wochenbericht*, vol. 74, pp. 533-6.

Dutt, A.K. 2005. 'Conspicuous consumption, consumer debt and economic growth', in M. Setterfield (ed.), *Interactions in Analytical Political Economy. Theory, Policy and Applications* (Armonk, NY: M.E. Sharpe).

Dutt, A.K. 2006a. 'Maturity, stagnation and consumer debt: a Steindlian approach', *Metroeconomica*, vol. 57, pp. 339-64.

Dutt, A.K. 2006b. 'Aggregate demand, aggregate supply and economic growth', *International Review of Applied Economics*, vol. 20, pp. 319-36.

Epstein, G.A. (ed.). 2005. *Financialization and the World Economy* (Cheltenham: Edward Elgar).

Fitoussi, J.-P. and Stiglitz, J. 2009. 'The ways out of the crisis and the building of a more cohesive world', *OFCE Document de Travail*, no. 2009-17 (Paris: OFCE).

Girouard, N., Kennedy, M. and Andre, C. 2007. 'Has the rise in debt made

households more vulnerable?', OECD Economics Working Paper, No.535 8 ECO/WKP(2006)63.

Goodfriend, M. and King, R.G. 1997. 'The New Neoclassical Synthesis and the role of monetary policy', in B.S. Bernanke and J.J. Rotemberg (eds), *NBER Macroeconomics Annual: 1997* (Cambridge, MA: MIT Press).

Guttman, R. 2009. 'Asset bubbles, debt deflation, and global imbalances', *International Journal of Political Economy*, vol. 38(2), pp. 46-69.

Guttman, R. and Plihon, D. 2010. 'Consumer debt and financial fragility', *International Review of Applied Economics*, vol. 24, pp. 269-83.

Hein, E. 2012. *The Macroeconomics of Finance-dominated Capitalism — and its Crisis* (Cheltenham: Edward Elgar).

Hein, E. and Mundt, M. 2012. 'Financialisation and the requirements and potentials for wage-led recovery-a review focussing on the G20', *Conditions of Work and Employment Series No. 37* (Geneva: ILO).

Hein, E. and Stockhammer, E. 2010. 'Macroeconomic policy mix, employment and inflation in a Post-Keynesian alternative to the New Consensus model', *Review of Political Economy*, vol. 22, pp. 317-54.

Hein, E. and Tarassow, A. 2010. 'Distribution, aggregate demand and productivity growth — theory and empirical results for six OECD countries based on a Post-Kaleckian model', *Cambridge Journal of Economics*, vol. 34, pp. 727-54.

Hein, E. and Truger, A. 2010. 'Financial crisis, global recession and macroeconomic policy reactions — the case of Germany', in S. Dullien, E. Hein, A. Truger

and T. van Treeck (eds), *The World Economy in Crisis — The Return of Keynesianism?* (Marburg: Metropolis).

Hein, E. and Truger, A. 2011. 'Finance-dominated capitalism in crisis — the case for a Keynesian New Deal at the European and the global level', in P. Arestis and M. Sawyer (eds), *New Economics as Mainstream Economics*, International Papers in Political Economy series (Basingstoke: Palgrave Macmillan).

Hein, E., Truger, A. and van Treeck, T. 2012. 'The European financial and economic crisis: Alternative solutions from a (Post-)Keynesian perspective', in P. Arestis and M. Sawyer (eds), *The Euro Crisis*, International Papers in Political Economy series (Basingstoke: Palgrave Macmillan).

Hein, E. and van Treeck, T. 2010. "'Financialisation" in Post-Keynesian models of distribution and growth — a systematic review', in M. Setterfield (ed.), *Handbook of Alternative Theories of Economic Growth* (Cheltenham: Edward Elgar).

Herr, H. 2011. 'Making an unstable financial system work, reform options', *International Journal of Labour Research*, vol. 3, pp. 133–55.

Horn, G., Droge, K., Sturn, S., van Treeck, T. and Zwiener, R. 2009. 'From the financial crisis to the world economic crisis: The role of inequality', IMK Policy Brief, October. Dusseldorf: Macroeconomic Policy Institute (IMK) at Hans Boeckler Foundation.

Kalecki, M. 1944. 'Three ways to full employment', in Oxford University Institute of Statistics (ed.), *The Economics of Full Employment* (Oxford: Basil Blackwell).

Kalecki, M. 1971. *Selected Essays on the Dynamics of Capitalist Economy, 1933–1970* (Cambridge: Cambridge University Press).

Keynes, J.M. 1936. *The General Theory of Employment, Interest, and Money* (London: Macmillan)

Keynes, J.M. 1942. 'Proposal for an International Clearing Union', in *The Collected Writings of J.M. Keynes*, Vol. 25 (London: Macmillan, 1980).

Keynes, J.M. 1943. 'The long-term problem of full employment', in *The Collected Writings of J.M. Keynes*, Vol. 27 (London: Macmillan, 1980).

Kregel, J. 2009. 'Some simple observations on the reform of the international monetary system', Policy Note, 2009/8. Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

Lazonick, W. and O'Sullivan, M. 2000. 'Maximizing shareholder value: a new ideology for corporate governance', *Economy and Society*, vol. 29(1), pp. 13-35.

Lerner, A. 1943. 'Functional finance and federal debt', *Social Research*, vol. 10, pp. 38-51.

Ludvigson, S. and Steindel, C. 1999. 'How important is the stock market effect on consumption?', *Federal Reserve Bank of New York Economic Policy Review*, July, pp. 29-51.

Marquetti, A. 2004. 'Do rising real wages increase the rate of labor-saving technical change? Some econometric evidence', *Metroeconomica*, vol. 55, pp. 432-41.

Mehra, Y.P. 2001. 'The wealth effect in empirical life-cycle aggregate consumption equations', *Federal Reserve Bank of Richmond Economic Quarterly*, vol. 87(2), pp. 45-68.

Naastepad, C.W.M. 2006. 'Technology, demand and distribution: a cumulative growth model with an application to the Dutch productivity growth slowdown', *Cambridge journal of Economics*, vol. 30, pp. 403-34.

Onaran, Ö., Stockhammer, E. and Grafl, L. 2011. 'Financialisation, income distribution and aggregate demand in the USA', *Cambridge journal of Economics*, vol. 35, pp. 637-61.

Orhangazi, Ö. 2008. 'Financialisation and capital accumulation in the non-financial corporate sector: a theoretical and empirical investigation on the US economy, 1973-2003', *Cambridge journal of Economics*, vol. 32, pp. 863-86.

Palley, T. 1994. 'Debt, aggregate demand, and the business cycle: An analysis in the spirit of Kaldor and Minsky', *journal of Post Keynesian Economics*, vol. 16, pp. 371-90.

Palma, J.C. 2009. 'The revenge of the market on the rentiers. Why neo-liberal reports of the end of history turned out to be premature', *Cambridge journal of Economics*, vol. 33, pp. 829-69.

Sapir, J. 2009. 'From financial crisis to turning point. How the US "subprime crisis" turned into a world-wide one and will change the global economy', *Internationale Politikund Gesellschaft*, vo1. 1/2009, pp. 27-44.

Stockhammer, E. 2004. "'Financialisation" and the slowdown of accumulation', *Cambridge journal of Economics*, vol. 28, pp. 719-41.

Stockhammer, E. 2010a. 'Income distribution, the finance-dominated accumulation regime, and the present crisis', in S. Dullien, E. Hein, A. Truger and T. van Treeck (eds), *The World Economy in Crisis — the Return of Keynesianism?* (Marburg: Metropolis).

Stockhammer, E. 2010b. 'Neoliberalism, income distribution and the causes of the crisis', Research on Money and Finance, Discussion Paper No. 19, Department of Economics, SOAS.

United Nations Conference on Trade and Development (UNCTAD). 2009. *The Global Economic Crisis: Systemic Failures and Multilateral Remedies* (New York and Geneva: UNCTAD).

United Nations Conference on Trade and Development (UNCTAD). 2010. *Trade and Development Report 2010* (New York: United Nations).

Van Treeck, T. 2008. 'Reconsidering the investment-profit nexus in finance-led economies: an ARDL-based approach', *Metroeconomica*, vol. 59, pp. 371–404.

Van Treeck, T. 2009. 'The political economy debate on "financialisation" — a macroeconomic perspective', *Review of International Political Economy*, vol. 16, pp. 907–44.

Van Treeck, T., Hein, E. and Dühaupt, P. 2007. 'Finanzsystem und wirtschaftliche Entwicklung: neuere Tendenzen in den USA und in Deutschland', IMK Studies 5/2007.

Vergeer, R. and Kleinknecht, A. 2007. 'Jobs versus productivity? The causal link from wages to labour productivity growth', TU Delft Innovation Systems Discussion Papers, IS 2007-01.

Wade, R. 2009. 'From global imbalances to global reorganisations', *Cambridge journal of Economics*, vol. 33, pp. 539–62.

## Data sources

Bank for International Settlements (BIS). Bank for International Settlements, Property Price Statistics, <http://www.bis.org/statistics/pp.htm> (accessed 20 May 2011).

International Labour Office and International Institute of Labour Studies (ILO/ILLS). 2011. ILO data on wage shares.

European Commission. 2011. AMECO Database, [http://ec.europa.eu/economy\\_finance/db\\_indicators/ameco/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/ameco/index_en.htm) (accessed 21 May 2011).

International Monetary Fund (IMF). 2011. World Economic Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx> (accessed 21 May 2011).

World Bank. 2011. World Development Indicators and Global Development Finance Database, <http://databank.worldbank.org/ddp/home.do?Step=1&id=4> (accessed 21 May 2011).

## Author information

---

### Authors and Affiliations

**Berlin School of Economics and Law, Germany**

Eckhard Hein (Professor of Economics) & Matthias Mundt

### Editor information

---

### Editors and Affiliations

**Department of Economics, University of Ottawa, Canada**

Marc Lavoie (Professor) (Professor)

## Copyright information

---

© 2013 International Labour Organization

## About this chapter

---

### Cite this chapter

Hein, E., Mundt, M. (2013). Financialization, the Financial and Economic Crisis, and the Requirements and Potentials for Wage-led Recovery. In: Lavoie, M., Stockhammer, E. (eds) Wage-led Growth. Advances in Labour Studies. Palgrave Macmillan, London. [https://doi.org/10.1057/9781137357939\\_7](https://doi.org/10.1057/9781137357939_7)

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

DOI	Publisher Name	Print ISBN
<a href="https://doi.org/10.1057/9781137357939_7">https://doi.org/10.1057/9781137357939_7</a>	Palgrave Macmillan, London	978-1-349-47092-1

Online ISBN	eBook Packages
978-1-137-35793-9	<u>Palgrave Economics &amp; Finance</u>
	<u>Collection</u>
	<u>Economics and Finance.(R0)</u>

## Keywords

[Current Account](#)

[Euro Area](#)

[Aggregate Demand](#)

[Current Account Deficit](#)

[Income Ratio](#)

*These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.*

## Publish with us

---

# Search

Search by keyword or author



## Navigation

[Find a journal](#)

[Publish with us](#)

[Track your research](#)