

The impact of financialization on labour market institutions

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Abstract

This paper reviews the link between financialization and the deregulation of labour market institutions. As financialization we define the growing importance of the financial activities and transactions as part of overall economic activity. The labour market institutions that we will consider are the collective wage bargaining and the minimum wage. According to the conventional view, the labour market institutions cause economic inefficiency because they increase the labour cost and as a consequence cause involuntary unemployment. However in this paper we promote labour market institutions as very useful instruments for enhancing economic and financial stability. Financialization through different processes such as the expansion of financial over productive sector of the economy, the dependence of non-financial firms to financial sector and the new paradigm of corporate governance, limits the role of labor market institutions. We conclude that financialization acts as a cause for the deregulation of labor market institutions.

Keywords: Financialization, labour market institutions, wage bargaining, minimum wage