

## FINANCIALIZATION AND ITS LINK WITH LONG-RUN GROWTH

Agnė Šetikienė

*Šiauliai university, Lithuania  
agne.setikeine@icloud.com*

### Abstract

Each country's financial system is a part of the global financial system. Economies of all countries become more and more globalized including their financial systems. Financialization, i.e. the process in which financial markets and their participants gain more influence over the functioning of enterprises/companies and the framework of the financial system, changes the functioning of the economic system, both at the macro- and microeconomic level. It results not just in increasing the importance of the financial sector in relation to the real sector, but as well as in transferring the income from the real economy to the financial sector, contributing to the growth of income inequality and stagnant wages (Orhangazi, 2008; Tamašauskienė et al., 2016).

**Purpose** – this paper deals with the question concerning global aspects of financialization and its aim is twofold: (i) overviewing recent contributions in this field to define financialization, briefly narrate its genesis emphasizing problems caused by financialization and (ii) to analyse the globalization aspect of financialization over the last half of the century at country level examining whether and to what extent this aspect of globalization is spread out across different regions and income groups and how it is linked with long-run growth.

**Methodology** – dynamic analysis of countries' financial globalization across different regions and income groups. Correlations between financial globalization and economic growth in the long-run.

**Finding** – Based on theoretical assumptions and retrospective empirical studies, it can be argued that financialization can lead to positive, negative, statistically not significant and U-shaped impacts on countries' economic development. In empirical studies financialization is often expressed in terms of financial flows or interest rate, credit and others indicators. To examine relationships between financial globalization and long-run growth, I use the index of financial globalization across different regions and income groups. I found that financial globalization increased across all regions and income groups. Examination of the impact of financial globalization on the long-run

growth across has revealed that generally there is no significant impact over the long-run.

**Practical implications** – this article reviews evidence on the consequences of financialization across different regions and income groups. There was found that financial globalization increased across all regions and income groups. Examination of the impact of financial globalization on the long-run growth across has revealed that generally there is no significant impact over the long-run.

**Originality/Value** – Globalization is one of the most important processes that influence the everyday life of our society, as well as of the world economy. The process of financialization is also becoming global, irrevocable, and unstoppable throughout the world. Growing global importance of finance, financial markets, and financial institutions to the economy are typical for the financialized world economy. Financialization has brought many issues of its impacts to economic growth. There are a large number of studies dealing with financialization that confirm its impact on household borrowing (Lavoie, 2012), consumption and demand (Onaran et al., 2011), income distribution (Zalewski & Whalen, 2010; Jaumotte et al., 2008), investment in „real“ production (Orhangazi, 2008). However, there is still confusion about the nature and dynamics of financialization’s global aspects, including its impact on the economy.

**Keywords:** financialization, financial globalization, economic growth.

**Research type:** research paper.

**References:**

- Lavoie, M. (2012). Financialization, neo-liberalism, and securitization, *Journal of Post Keynesian Economics*, 35(2), pp. 215-233.
- Onaran, O., Stockhammer, E., and Grafl, L. (2011). Financialization, income distribution and aggregate demand in the USA, *Cambridge Journal of Economics*, 35 (4), pp. 637-661.
- Orhangazi, Ö. (2008). Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003, *Cambridge Journal of Economics*, 32(6), pp. 863-886.
- Tamašauskienė, Z., Šeputienė, J., Balvočiūtė, R., Beržinskienė-Juozainienė, D. (2016). *Darbo pajamų dalies kitimo poveikis bendrajai paklausai*. Mokslo studija. Šiauliai: Šiaulių universitetas.
- Zalewski, D. A. and C. J. Whalen (2010). Financialization and Income Inequality: A Post Keynesian Institutional Analysis, *Journal of Economic Issues*, 44(3), pp. 757-777.