FINANCIALIZATION AND INCOME INEQUALITY*

Yunus SAVAŞ[1], Senem ÇAKMAK ŞAHİN[2]

[1]Research Assistant, Bitlis Eren University
ORCID Code: 0000-0002-9642-4734
[2]Associate Professor, Yildiz Technical University
ORCID Code: 0000-0003-3395-9122

ABSTRACT

The recent era had characterized with the rise of finance and income disparities and the emergence of recent financial crisis caused focusing on the interaction between financialization and income inequality. Within this line, this study aimed to determine whether financialization have influence on income inequality or not by using panel corrected standard errors in 16 countries for the time period of 1995-2017. One of the novel approaches in this study is to focus on not only the rise of upper income earners, to investigate the lower income earners as well. In this context, the Gini index is used to determine the reasons behind the inequality and to compare the former researches. Private credit by deposit money banks and other financial institutions to gdp (%), stock market capitalization to gdp (%), household debt, interest payments and distributed profits as a share of net value added are used as financialization variables. Then, the income shares of highest 1 %, 10%, middle 40 % and bottom 50% had separately analyzed in order to determine the how financialization affected different income shares.

In addition, several control variables are employed; government spending, education, female participation rate, trade openness, unemployment rate, union rate, technology, top marginal tax rate. In this context, we check the financialization that would have influence on different economic actors with wide range of control variables.

The result of the researched conveyed in this paper is that financialization have important influence on different income shares apart from bottom 50 % income share, which mostly have affected from real side effect of economies. Nonetheless, the financialization have important contribution in upper income earners, however, middle 40 % income share demonstrated a mixed effect, household debt and financial payments of NFCs have positively affected , on the other hand, private credit by deposit money banks and other financial institutions to gdp (%), stock market capitalization to gdp (%) negatively affected.

Keywords: Financialization, Income Inequality, PCSE

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