THE REDISTRIBUTIVE IMPACT OF THE FINANCIALIZATION OF HOUSEHOLDS: EVIDENCE FROM MICRO-DATA FOR TURKEY

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As finance capital took on a decisive role in the economy, more debates came into agenda. With the structural transformation in economies, financial sector began to include households more intensively through loans and financial incomes. Along with the state and corporate sectors, the household is one of the three basic sectors of the economy. In addition to purchasing housing and automobiles, households sometimes take out loans for their basic needs and invest their savings in various financial instruments. The expansion of the financial sector to include households has brought up an important question: How does greater adaptation to the financial sector affects the household's share of income and wealth?

This paper aims to analyze the impact of financialization on income distribution utilizing Turkey's Household Budget Survey data (2002-2020). The study tests the effect of income from financial instruments other than the income from the household's primary job. Raw data shows that households earn extra income from the financial sector; interest from deposits and bonds, capital gains and dividends from stocks. The descriptive statistics show that those incomes exist at every income level. However, more detailed analyzes show that higher income groups receive a higher share, and their shares increase overtime.

I.INTRODUCTION

Financialization, which refers to the process in which financial markets, financial actors and financial institutions have more influence on economic policy and economic outcomes, can have profound effects on income distribution.

Financialization is conceptualized in a variety of ways, often with emphasis on its systemic features, including the increasing dominance of financial incentives, financial markets, and financial instruments over the real economy. Researchers such as Epstein (2005) and Palley (2007) emphasize that financialization shifts the focus of value creation from productive investments to speculative financial activities. The growing importance of the financial sector raises questions regarding its impact on wage dynamics, capital distribution and overall economic justice.

There are some different explanations for the impact of financialization on income distribution. Wealth concentration is one of them. Some studies point out that financialization is the driving force of increasing wealth concentration. Piketty (2014) argues that returns to capital outpace economic growth, leading to greater wealth accumulation among the rich. This trend relates to a distribution of income sources from wages to capital gains that disproportionately benefits higher-income households.

Another explanation relates to wage stagnation. Stockhammer (2013) and similar studies show that financialization contributes to wage stagnation, especially for middle- and low-income earners. Increasing shareholder pressure and prioritizing stock buybacks over wage increases decouples productivity from real income growth. This change often leads to the erosion of the bargaining power of the workforce and reduced wage increases.

Debt and financial dependency is another explanation. The proliferation of consumer finance drags low- and middle-income families into a cycle of debt, reducing their ability to save and invest in opportunities that can increase their economic mobility. As a result, increased financial dependence further increases socioeconomic inequalities (Bobek et al, 2023).

Finally, the relationship between investment patterns and economic growth is suggested as an important explanation. Focusing on financial returns sometimes results in diminished productive investments. Bhaduri and Marglin (1990) argue that financialization can lead to underinvestment in the real economy, which can hinder job creation and wage growth and further deepen inequality.

II. THE PROBLEM

Türkiye experienced a severe economic crisis in 2001. The economy, which grew for a while with the financial liberalization that started in the 1980s, faced a serious fluctuation in the 1990s. The economy hit rock bottom in 2001 as a result of the increasing debt burden, inflation and monetary expansion. As a result of the stabilization policies subsequently implemented, it regained a growth path with fiscal and monetary discipline. The Turkish economy, which achieved growth of nearly 10% in 2004, was negatively affected by the 2008 mortgage crisis and shrank by nearly 5% in 2009. After this short-term negative impact, it again achieved growth of over 10% in 2011. The economy, which continued to grow above the potential growth rate of 4%, fell below 1% in 2019 due to the impact of the Covid epidemic.

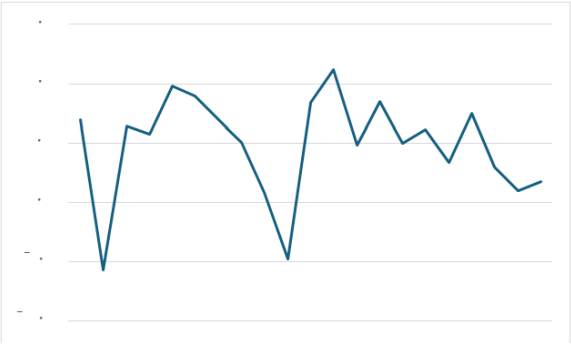


Figure 1. Economic growth in Turkey

One of the debates in Turkey is the impact of the "financial deepening" expected with the financial liberalization that started in the 1980s. Financial deepening is the increase in financial services to meet the needs of all segments of society. In other words, it is the rate at which funds in the financial sector are transferred to the real sector. With financial deepening, money supply increases and this positively affects the economic growth. While financial deepening is just over 50% on global average, this rate is over 100% in developed countries. In developing countries, it is below 40%. In the upper middle income group like Türkiye, it is close to 60%. Although it is true that financial services affect growth positively, this effect becomes controversial in the short and medium term due to the delay in structural transformation. One of the fundamental questions is the impact of financialization on income distribution.

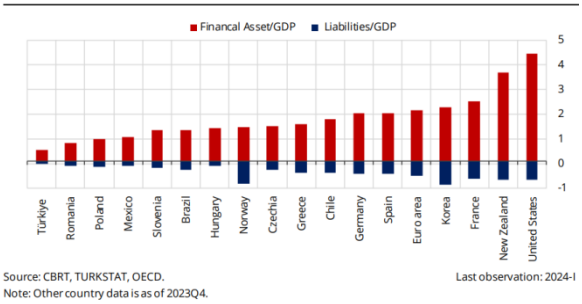


Figure 2. Cross-country comparisons for households

One of the two main arguments is that financialization spreads capital to the base through savings and distributes wealth to society. The opposing view is that financialization benefits the upper income group and worsens the situation of those with insufficient savings. In this study, I will analyze how financial income affects income distribution by using household data.

III. PRELIMINARY RESULTS

Four data sets were used in the analysis, including two contraction and two expansion years in the post-2001 crisis period. Household data are collected by the Turkish Statistical Institute and made available to researchers. The data set includes data obtained from sources other than individuals' total income and primary job. In this study, total income and income from financial instruments were separated and used. 2004 was the first year in which the highest growth was achieved after the crisis. 2009 was a year of contraction due to the mortgage crisis. Afterwards, the highest growth occurred in 2011. 2019 is the last year for which household data is available, and also representing quite a low growth. The data set initially included detailed information such as interest income obtained in banks in local currency, interest income obtained in foreign currency, dividends, interest income obtained from bills and bonds. However, in the following years, financial incomes were asked collectively in a single question. Therefore, in order for comparisons to be meaningful, total income and financial income were separated and used in the analysis. According to the individual data, while financial income was 1.7% of total income on average in 2004, it exceeded 5% in 2009 and continued to remain above 4% in the following years. The Gini coefficient of the variables obtained by separating total income and financial income and the relative share of income groups were calculated. The results are reported in Table 1. In terms of total income (TINC), according to the Gini coefficient, while inequality was around 47% in 2004, it increased to 51% in the contraction of 2009. Afterwards, it decreased to 49% and 44%. Looking at this trend, it can be seen that income distribution has improved when the Gini coefficient is taken as a measure.

	P90/P10	**P10/P50**	**Gini**
	2004 (%1,7)		
Total income (TINC)	15,48	0,17	0,47
Non-financial income (NFI)	15,02	0,17	0,46
Financial incomes (FININC)	13,23	0,34	0,68
	2009 (%5,7)		
Total income (TINC)	24,60	0,11	0,51
Non-financial income (NFI)	23,51	0,12	0,49
Financial incomes (FININC)	25,37	0,16	0,65
	2011 (%4,8)		
Total income (TINC)	23,09	0,12	0,49
Non-financial income (NFI)	22,29	0,12	0,48

Financial incomes (FININC)	23,36	0,16	0,62
	2019 (%4,2)		
Total income (TINC)	13,32	0,19	0,44
Non-financial income (NFI)	12,75	0,19	0,43
Financial incomes (FININC)	48,00	0,14	0,69

Table 1. Gini coefficients and percentiles
The shares of financial incomes in the parentheses.

A similar situation is observed when the relative shares of income groups are taken into account. The P90/P10 ratio compares the income of those at the top (90th percentile) with those at the bottom (10th percentile). A higher ratio indicates greater income inequality, as it shows that the income of the top earners is significantly larger relative to the income of the bottom earners. Given this ratio, it seems that the richest group get about 15 times more than the poorest group. This ratio increase to about 24, and then decrease to about 13. So, this ratio confirms the gini outcomes. The P10/P50 ratio compares the income of those at the lower end (10th percentile) with the income of the median (50th percentile) earners. A lower ratio indicates that low-income earners are closer to the median income level, suggesting a more equitable income distribution among the lower-income group. Conversely, a higher ratio indicates a larger gap between the lowest earners and the median, suggesting greater income inequality. According to this ratio, despite that there is a reasonable improvement in income distribution, this does not particularly benefit the poorest. The coefficients for non-financial incomes (NFI) show slightly more equitable distribution, probably because of the redistributive impact of financial incomes. A closer look at the coefficients for financial incomes shows considerable evidence fort he redistributive impact of financial incomes.

The Gini coefficient for financial incomes is 0,68 in 2004, indicating that inequality is much higher than the total income (more than 20%). This slightly decreases in 2009 and 2011, and increase again to 0,69. This increase coinside with the rise in the ratio of financial incomes to total incomes. P90/P10 is 48 in 2019, meaning that the financial incomes of the rischest is 48 times of the poorest.

IV. CONCLUSION

The preliminary evidence show that the financialization of households increase the inequality in terms of various measures of redistribution. One explanation is the higher propensity to save in high income groups which create the opportunity to gain extra income from the financial markets. Financial incomes are only a part of the financialization. Households also get loans for mortgage and automobiles, and this may also create wealth effect. So, further reserach is required to asses a more comprehensive impact of financialization.

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