

Effects of Financialization on Income and Wealth Inequality

Across Income Deciles in the United States

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What Is Financialization?

The increasing role of financial markets, motives, actors, and institutions in the economy — where profits accrue through financial channels rather than production of goods and services.

— Epstein, 2005; Krippner, 2005



MACRO

Credit to private sector exceeding 100% of GDP linked to lower growth — the 'too much finance' effect (Arcand et al., 2015).



FIRM

Corporations prioritize short-term shareholder value over long-term sustainable growth (Epstein, 2001; Krippner, 2005).



HOUSEHOLD

Declining wage share and rising capital income as financial returns outpace labor earnings (Piketty, 2014; Stockhammer, 2017).

Asset Ownership Concentration

49.8%

of corporate equities & mutual fund shares
held by the top 1%

Source: FRED, 2025

79%

of total U.S. household wealth held by the
top 10%

Source: OECD, 2024

Piketty's Core Framework

When the rate of return on capital (r) exceeds the economy's growth rate (g), wealth tends to concentrate absent countervailing intervention. Financialization amplifies this by expanding available financial assets and elevating asset-based income relative to labor income.

Firm Behavior & Labor Share

KEY FINDINGS

1 Rising Markups

De Loecker, Eeckhout & Unger (2020) document a substantial rise in U.S. markups — higher markups are consistent with a lower labor share.

2 Declining Labor Share

Lin & Tomaskovic-Devey (2013) find financialization within nonfinancial firms is associated with declining labor share and rising income concentration.

3 Cross-Country Evidence

Stockhammer (2017) finds financialization negatively associated with wage shares across countries, after controlling for globalization and technology.

THE MECHANISM

1

Firms shift toward financial channels for profit



2

Shareholder returns prioritized



3

Compensation shifts upward in pay structures



4

Wage stagnation for lower/middle workers

Household Debt & Unequal Exposure

The Debt Channel

High household debt redistributes spending power from borrowers (higher propensity to consume) to creditors (lower propensity), reducing aggregate demand.

When wage growth is weak and households rely on borrowing to sustain consumption, financial expansion temporarily supports demand while increasing vulnerability to credit tightening.

— Mian, Straub & Sufi, 2021

Divergent Outcomes

ASSET HOLDERS

Stable asset access, benefit from price appreciation, positioned to weather shocks



WAGE-DEPENDENT

Debt-financed balance sheets, interest payments absorb income, vulnerable to credit tightening

Three Channels of Inequality

How financialization structurally reinforces divergent income trajectories

01

Asset Ownership Concentration

Asset price inflation disproportionately benefits the top decile through concentrated equity and wealth holdings.

FRED, 2025; OECD, 2024; Piketty, 2014

02

Firm Behavior & Market Power

Shifts in corporate priorities and rising markups contribute to a declining wage share and redistribution toward profits.

De Loecker et al., 2020; Lin & Tomaskovic-Devey, 2013

03

Household Debt & Credit Expansion

Credit expansion reshapes demand and balance-sheet outcomes, creating unequal exposure to financial conditions.

Mian et al., 2021; Arcand et al., 2015

Methods & Future Direction

CURRENT APPROACH

Literature review examining the channels through which financial sector expansion produces divergent income and wealth trajectories. Synthesizes evidence from macroeconomic, firm-level, and household-level research to argue that financialization structurally reinforces inequality.

PROPOSED EXTENSION

- Cross-country panel analysis of OECD member states
- Test whether higher financialization is associated with greater income inequality across advanced economies
- Micro-level household and firm data to isolate causal relationships

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Thank You

Questions & Discussion

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