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### 34. Financialization and the Increase in Inequality

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Abstract: Recent literature provides substantial evidence that the growth of financial activity has led to more inequality in market societies in recent decades. The most obvious channel is that financial market activity, fuelled by an ongoing process of financial deregulation, created a niche with very high wages. In those niches, financiers exercise a “hold up power” over their firm: they appropriate key assets (knowledge, teams and clients) and can move them or efficiently threaten to move them to a competitor offering higher wages. This bargaining power increases the finance wage premium gap and is sufficient to produce, on its own, a sharp increase in wage inequality. Other channels also indirectly affect inequality beyond the financial sector. The growing submission of non-financial firms to shareholder value imperatives increases within-firm inequality. Households investment in financial securities and moreover their growing indebtedness have contrasted effects. Inequality fuels in return, however in modest proportion, securitization and indebtedness.

Two major evolutions of capitalism marked the two decades preceding the global financial crisis: financialization and a severe increase of inequalities. On the one hand, finance has a growing hold on economic activity, both directly, as shown by near doubling of its share of GDP (moving hence from 5 to 8% in the United States between 1980 and 2007), and indirectly by transforming the management of firms and the savings of households. On the other hand, inequalities in income, wealth and even more wages increased sharply in developed countries, with the top 0.1% of the highest paid workers in the United States tripling their share of income, from 1.6% in 1980 to 5% in 2007.

The temporal coincidence of these two transformations did not go unnoticed. On the one hand, social movements such as Occupy Wall Street accused finance of being the main vector for increasing inequality. On the other hand, some have also argued that rising inequality was at the root of the 2008 financial crisis: faced with the obvious enrichment of the elite, modest US households reportedly tried to maintain their position by resorting massively to debt. Does this temporal coincidence imply correlation? Does correlation imply causality? And, if there is a causal link between the two trends, what is its direction?

This chapter summarizes recent literature that has studied the link between finance and inequality. It will provide substantial evidence that the growth of financial activity led to more inequality in market societies in recent decades. The most obvious channel is that financial market activity, fuelled by an ongoing process of financial deregulation, created niches with very high wages for some of its professionals. Indeed, in those niches, financiers acquire a “hold-up power” over their firm: they appropriate key assets (knowledge, teams, and clients) and can move them or efficiently threaten to move them to

a competitor. This enhanced bargaining power increased the finance wage premium and can already produce on its own a substantial increase in inequality. Other channels, more indirect, also count. The growing submission of non-financial firms to “shareholder value” imperatives increases within-firm inequality. Households’ investments in financial securities and, moreover, their growing indebtedness have contrasting effects: the development of credit cards and subprime mortgages enabled lower-income households to access credit. However, this access comes with higher risks of over-indebtedness and higher financial costs than for higher-income households. Finally, it can be seen that inequality conversely contributed (albeit modestly) to financialization, through increased securitization as well as growing indebtedness via “keeping up with the Joneses” mechanisms.

## More Finance, More Inequality

### *Cross-country Evidence*

The growth of finance and the growth of inequality are clearly correlated in developed countries. Many studies have documented this phenomenon for OECD countries with various aggregate measures of national inequality and of financial activities, such as volume of stocks traded, bank profitability, and securities under bank assets (Kus 2012), capitalization and financial incomes of non-financial firms (Dünhaupt 2014), credit intermediation and capitalization (Denk and Cournède 2015), capitalization and finance’s operating surplus (Flaherty 2015), and size of the FIRE sector and of its labor force (Roberts and Kwon 2017). In my own research (Godechot 2016), which I will summarize below, I offer a systematic comparison of the relative impact of a set of measures of financial activities on a set of measures of inequality. My study focuses on 18 OECD countries for which I have measures of both inequality and financialization.<sup>1</sup>

As dependent variables I used the OECD income inequality decile ratios such as the ratio of the median to the bottom 10% threshold (i.e. D5/D1), the ratio of the top 10% threshold to the bottom 10% threshold (i.e. D9/D1) and the ratio of the top 10% threshold to the median (i.e. D9/D5), and from the World Top Income Database the top 10%, 1%, 0.1% and 0.01% of income shares.<sup>2</sup> The increase in inequality over my sample has been general and obvious from 1980 to 2007: the ratio D9/D1 multiplied by 1.1, moving from 2.9 to 3.2, the top 1% income share multiplied by 1.6, moving from 6.5% to

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<sup>1</sup> I used the following countries: Australia, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The top 0.1% share is not defined for Finland, nor is the top 0.01% share for Finland, Ireland, New Zealand or Norway.

<sup>2</sup> Cf. <http://topincomes.parisschoolofeconomics.eu/>

10.2% and that of the top 0.01% multiplied by 2.7, moving from 0.5% to 1.4%.

As a first proxy, financialization can be measured using the evolution of the share of the financial sector (comprising both finance and insurance) in economic activity (i.e. GDP), as reported in industry national accounts gathered and standardized by the OECD. Three arguments support this approximation. First, the most iconic financial transformations of financialization (like the financial markets boom) occurred precisely in the finance sector. Second, most financial transformations taking place outside the financial sector also translate into financial transactions and therefore contribute to the value added of this sector. Third, the finance and insurance sectors have the advantage of being more precise than the often used “FIRE” sector – finance, real estate and service to business – (Krippner 2005; Flaherty 2015; Roberts and Kwon 2017) which also includes many subsectors unrelated to finance.

Looking across the 18 countries, financialization has no effect on inequality at the bottom of the income hierarchy (i.e. D5/D1 ratio) but it drives inequality at the top: an increase in the share of finance in GDP by one standard deviation increases the top 10% share by 0.12 standard deviation, the top 1% share by 0.23, the top 0.1% share by 0.28 and the top 0.01% share by 0.41. To put this another way, if one focuses on the 1980–2007 sequence of rising inequality, based on my regressions, one can estimate that one fifth of the increase of the incomes of the top 1%, one quarter of that of the top 0.1% and fully two fifths of that of the top 0.01% share can be attributed to the increase in the size of the financial sector (Table 34.1). These first results show that the impact of the size of finance on inequality grows stronger as one moves up the income distribution scale. It increases the income gap between the top and the very top much more than the gap between the middle and the bottom strata.

**Table 34.1.** Contribution of Financialization to the 1980–2007 Period of Increasing Inequality in 18 OECD Countries

	1980	2007	Counterfactual 2007 level in the absence of financialization	Contribution of financialization to the increase in inequality
Finance/GDP	4.66	6.59		
D5/D1	1.65	1.66	.	.
D9/D5	1.71	1.89	1.87	15%
D9/D1	2.83	3.17	3.10	20%
Top 10% share	28.96	34.48	33.81	12%
Top 1% share	6.46	10.23	9.47	20%
Top 0.1% share	1.61	3.62	3.07	27%
Top 0.01% share	0.50	1.37	1.01	41%

Note: I use the aforementioned regression parameters to calculate the average evolution of inequality for 18 countries (17 for the top 0.1% and 12 for the top 0.01%) that would have prevailed in the absence of financialization between 1980 and 2007. Between 1980 and 2007, the top 1% share increased from 6.5% of income to 10.2%. If finance’s share of GDP had remained constant, the counterfactual share of finance would have been 9.5% according to my model. Financialization therefore accounts for 20% of the evolution of this inequality measure.

Generally, other studies (Kus 2012; Dunhaupt 2014; Denk and Courneade 2015; Flaherty 2015; Roberts and Kwon 2017) find similar results. The intensity of the correlation varies with the inequality measure, the variable proxying financialization, and the type of model. Only Huber, Huo and Stephens (2017) claim that they find no impact of financialization when they introduce the share of finance in the GDP in their regressions modelling the top 1% share. However, they already control for capitalization to GDP, highly significant in all models, which is also a good proxy of financialization.

Growth in financial activity indicators is thus positively tied to growth in income inequality. Can we interpret this correlation causally as the impact of financialization on inequality, or could it be due to reverse causal effect of inequality on financialization? Thanks to “dynamic panel regressions,” most aforementioned studies also account for possible reverse causality mechanisms and still find a positive contribution of finance on inequality. Hence, we may conclude that more finance leads to more inequality.

Scholars diverge, however, on the causal mechanism through which financialization impacts inequality. Some insist on the institutional impact of financialization, such as its interaction with the weakening of labor institutions like unions and work councils (Darcillon 2015 and 2016; Flaherty 2015; see

also McCarthy in this volume), and their combination with varieties of capitalism. Others highlight the emergence of a new ideological regime, for instance with ideologies of shareholder value (Lazonick and O'Sullivan 2000) having changed the conduct of non-financial firms (Lin and Tomaskovic-Devey 2013; Dunhaupt 2014; see Erturk in this volume). However one of the most robust drivers of inequality, especially when approached with the notion of top income shares, are indicators of stock market activity such as capitalization to GDP (Kus 2012; Dunhaupt 2014), or stock trading volume to GDP (Godechot 2016).

While the institutional factors that a political economy approach pinpoints may also matter, the importance of stock market activity that the statistical relationships above highlighted should lead us to focus on more direct mechanisms. In fact, behind stock market activity, there is a community of financiers that make a living out of it. The financial labor market (Zaloom 2006; Ho 2009; Ortiz 2014; Godechot 2017), with its high wages and its flamboyant bonus culture, is the elephant in the room that many institutional studies ignore.

### ***Isolating the Role of the Financial Labor Market***

Micro data on individual income and wages can help to make clearer the link between finance and inequality, simply by enabling to measure the contribution of financial workers to the growth of inequality. Between 1989 and 2006, the average bonus on Wall Street increased 8.9 times, rising from 25,000 dollars to 225,000 dollars (Godechot 2017). In France, the income of the 100 highest paid finance managers increased nine-fold between 1996 and 2007, from 535,000 to 4.7 million euros. Meanwhile the remuneration of the 100 highest paid CEOs increased threefold over the same period (Godechot 2012).

The existence of a financial wage premium is now well documented. Philippon and Reshef (2012) show, controlling for skills, how finance in the United States paid its workers more than other sectors throughout the twentieth century. The wage premium peaked in the early 1930s at 40%, declined to 0% from 1945 to 1980, and increased tremendously reaching +50% in the mid-2000s. Similarly, Denk (2015) finds that the financial wage premium in 2010 averaged at 28% in European countries. Based on US Current Population Survey data, Lin (2015) studies more in depth the heterogeneity of the wage gap and its evolution between finance and other sectors: at the bottom of the wage hierarchy workers in finance were substantially better paid in the 1970s than in other industries but they lost their advantages in the 2000s. Conversely, top earners were not better paid in finance than elsewhere in the 1970s but they widened considerably the gap during the last 30 years. Consequently, the financial wage premium which used to be important for female and minority workers now peaks for white male top earners (Lin and Neely 2017). This confirms, on a larger scale, earlier results

from Roth (2006), which compared the wages in finance in the 1990s of males and females coming from the same business school and found that the gender gap amounted to 40%, surpassing the gap in other sectors.

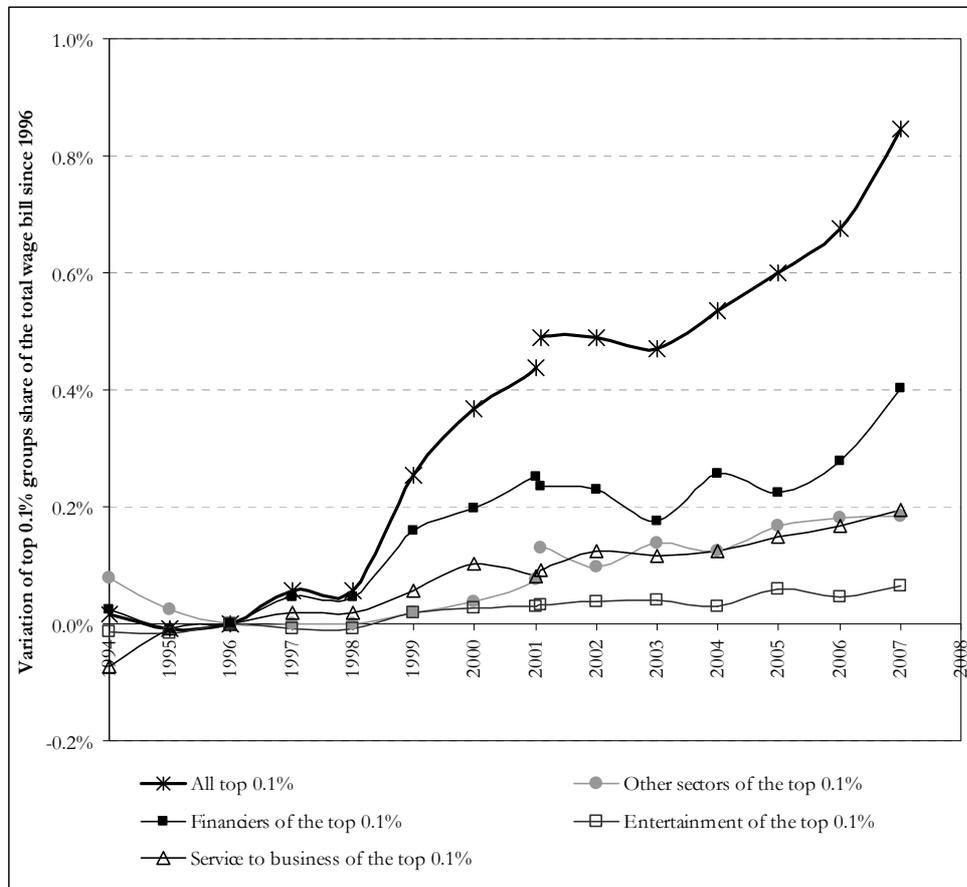
This high wage gap is not without distributional consequences. Decomposition exercises show that 70% of the rise of top 1% wage share in United Kingdom between 1998 and 2008 benefited those working in finance (Bell and Van Reenen 2014). Bakija Cole and Heim (2012) calculated that finance's contribution to the increase in top income shares was of 32% in the United States between 1997 and 2005.

I investigated in detail financiers' contribution to inequality in France thanks to French Social Security DADS (Déclaration Annuelle de Données Sociales) dataset (Godechot 2012).<sup>3</sup> Contrary to the view put forward by many social scientists, who generally consider France to be a good example of stability in terms of maintaining lower levels of inequality during the last 30 years – as shown by the declining D9/D1 ratio –, the DADS data show a sharp surge at the very top of the wage distribution in the mid-1990s. Hence, the top 0.1% increased its share of the total wage bill by 0.85 percentage points, moving up from 1.1% in 1996 to 1.95% in 2007. Half of this increase accrued to finance, whereas service to business and other sectors each contributed nearly 23%, and entertainment to 8% of the rise (Figure 34.1). When moving into the top 0.01%, I find that incomes earned in the financial industry made a contribution of 57% to the increase in the share of the working rich. The impact of finance on the increase of the top 1%'s share was also high, with a contribution of around 40%.

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<sup>3</sup> Access to the DADS data was obtained through the CASD (*Centre d'Accès Sécurisé aux Données*) dedicated to researchers authorized by the French *Comité du secret statistique*.

**Figure 34.1.** The Contribution of Different Sectors to the Rise in Inequality in France



Note: Between 1996 and 2007, the top 0.1% increased its share of the total wage bill by 0.8 percentage points. During the same period the financiers belonging to the top 0.1% increased their share of the total wage bill by 0.4 percentage point.

The French case (where finance contributes to half of the increase in inequality), which stands between UK (finance contributing to two-thirds) and US (one third), is all the more interesting as it is not in line with classical analysis of French political economy. Here, despite a strong state, coordinating the economy with unions and firms, in a way that is generally viewed as limiting inequality, finance served as a disruptive force challenging the otherwise more equalitarian norms in pay.

## Understanding the Financial Wage Gap

The investigation of the links between finance and national income inequality lead us therefore to isolate the surge in financial wages as one of the main driving mechanisms. This invites us to explore the underlying reasons of

such a surge. Several factors, reviewed hereafter, were put forward in order to account for the financial wage gap: deregulation, talent, and hold-ups.

### *Deregulation*

Many researches stress the crucial importance of deregulation. States deliberately promoted financial markets as a means of overcoming the breakdown of the Bretton Woods international monetary order, as well as for addressing the demands of minority or consumerist social movements, and compensating for the growing ineffectiveness of interventionist economic policies and the high cost of welfare state systems (Krippner 2011 for the USA; Lagneau-Ymonet and Riva 2015 for France).

Hence, Philippon and Reshef (2012) found that the financial wage premium was notably higher in the US during two periods of financial deregulation: the interwar period and the last three decades. Consequently, they estimate that deregulation alone explains 23% of the gap. Boustanifar, Grant and Reshef (2018) confirm a similar result for OECD countries: one standard deviation of their deregulation index increases the wage gap between finance and non-finance by 0.2 to 0.3 standard deviations. Flaherty (2015) shows consequently that financial deregulation also contributed to inequality in OECD countries through an increase in the share of the top 1%.

The mechanisms that drive the positive impact of financial deregulation on inequality still need to be understood. If deregulation leads to more market competition, it should diminish the banks' revenues resulting from a monopolistic position, which would be shared out between workers and shareholders. For instance, the US airline deregulation in the 1980s decreased airline employees' high wages. Moreover, not all forms of financial deregulation go in the same direction. Previous work showed for instance that, in the US, the progressive removal of restrictions on intrastate branching for retail banks in the 1980s diminished bankers' pay by 4% and overall inequality also by 4% (Beck, Levine and Levkov 2010). However, the financial deregulation typical of financialization is more one that enables finance to develop new products and new markets rather than one that enhances competition in existing markets.

Philippon and Reshef (2012) consider here that this type of deregulation ought to enhance workers' creativity in the design of new financial products and intensify employers' competition for this type of "talent." However, in reality the financial sector is far from truly competitive. For instance, Goldstein and Fligstein (2017) discovered that the concentration of the subprime market among very few Mortgage Backed Securities issuers and originators was very high, and that it intensified in the years preceding the financial crisis. The dismantlement of the Glass-Steagall act in the 1990s, and the relaxing of anti-trust regulations did not enhance competition, but on the contrary enabled a growing vertical integration. Financial market deregulation therefore worked to

create lucrative financial niches that financial players managed to protect with multiple barriers to entry, such as vertical integration and the increasing complexity of products.

### ***Human Capital***

Human capital is a second factor often put forward for explaining increasing inequality. Modern growth is often said to be skill-biased: demand for skills increases faster than the supply of those skills, leading to a growing wage gap between skilled and unskilled workers. This argument has also been made for finance. This sector went through an important revolution in the 1980s, with the mathematization of portfolio management, following the Black and Scholes formula, and its computerization (Coombs and Van der Heide in this volume). This led to the recruitment of very skilled workers (including rocket scientists) coming from mathematics, physics, economics and computer science (Godechot 2001; Zaloom 2006; Ho 2009). Indeed, the share of high-skilled workers in the financial sector increased tremendously (Philippon and Reshef 2012; Boustanifar Grant and Reshef 2018). Célérier and Vallée (2017) try to demonstrate that high wages in finance are only due to “talent” – for which they use the rankings of French engineering schools as a proxy. It is true that the return to “talent” is much higher in Finance than in other sectors. However, they overlook the financial wage premium itself, and the fact that less “talented” workers, according to their proxy measure, still earn much higher wages in the financial sector than more “talented” workers working outside finance. This simple phenomenon remains difficult to reconcile with their suggestion of a “competitive market framework” explaining earnings differentials. The much better careers obtained by students from elite schools who entered the job market during times of financial boom, compared with those who entered during times of financial crisis, also offer quasi-experimental proof of the rent component of financial wages (Oyer 2008).

### ***Superstars***

A sophisticated variant of the human capital argument has been proposed with the “superstar” mechanism (Rosen 1981; Gabaix and Landier 2008; Célérier and Vallée 2017). The size of financial activities could multiply the productive impact of talent. Finance is a sector characterized by scalability. If a financial operator can obtain a return on a portfolio that is a fraction higher than that of her colleague, then it is profitable to allocate a larger portfolio to the former, and she can claim additional remuneration from this fraction multiplied by the size of the portfolio she manages. This market theory might well explain local earnings’ hierarchies within trading rooms. However, it rests on unrealistic assumptions, such as a perfect matching between “innate” talent hierarchies and portfolio sizes. It also fails to explain the difference of wages between sectors for people of similar talent, without referring to some form of market imperfection.

## ***Hold-up***

The concept of “hold-up” was introduced by neo-institutionalist economics in order to characterize post-contractual renegotiation between two actors where one can opportunistically leverage threats of ending the collaboration and consequently devaluating the partner’s investments (Klein Crawford and Alchian 1978; Williamson 1985). More than elsewhere, some financial workers, for instance traders, can appropriate the financial firms’ key assets, especially the immaterial assets that the firm cannot fully protect, such as human capital (knowledge, know-how, etc.) and social capital (clients, teams). Financiers can move these assets or efficiently threaten to move them to a competitor offering higher wages. Hence, I described how, in a 2001 wage renegotiation, the head of a trading room and his deputy were granted 10 and 7 million euros, respectively, by effectively threatening to move their whole teams, and therefore the core of the firm’s financial activity, to a competitor (Godechot 2017). Therefore, the “hold-up” mechanism offers a more realistic explanation for some very high salaries. It differs from the idea of superstars capturing all the gains, by extending the notion of “talent” not only to “innate” talent (or talent acquired during education), but also to “talent” acquired on the job and more generally to all the resources accumulated in the financial enterprise. Employees who can transport profit-making financial activity with them can bargain to receive considerable remuneration.

This hold-up mechanism accounts for the capture and distribution of the income from financial activity and makes it possible to understand why, at “market equilibrium,” the remuneration of this sector is higher than elsewhere. It helps to understand how the ordinary functioning of the financial labor market can contribute to global inequality.

## **Financialization Beyond the Financial Sector**

However, finance is not just a specific niche labor market. By organizing the match between financial needs and financial supply, it plays a special role vis-à-vis other institutional sectors such as non-financial firms or households. Providing credit to firms and households, organizing and reorganizing ownership, is not without distributional consequences. Therefore, beyond the labor market of stock exchange professionals, we find also other channels of lesser quantitative importance, through which financialization fuels the increase in inequality.

### ***Financialization of Non-financial Firms***

Looking beyond the financial sector itself, non-financial firms have been deeply transformed by the managerial doctrine of shareholder value (Lazonick and O’Sullivan 2000). This doctrine was promoted not so much by shareholders per se but rather by a set of actors working in financial or

consulting firms and speaking in the name of shareholders, including corporate raiders in the early 1980s (Heilbron, Verheul and Quak 2014), consultants (Froud et al. 2000), financial analysts (Zuckerman 1999), and institutional investors (Jung and Dobbin 2016; Erturk in this volume). These actors contributed to the “performation” of Jensen and Meckling’s (1976) theory of the firm as an organization devoted uniquely to maximize the return to its owners, the shareholders. They implemented, if not all the recommendations, at least those that would match their personal interests in their professional position (Jung and Dobbin 2016).

Among the recommendations, the shareholder value doctrine prioritizes the remuneration of shareholders over all other ways in which corporate earnings could be used, such as for self-financing investment. It also encourages corporations to take on more debt (as a source of financing and as a disciplining mechanism) and argues for incentive plans for executives, often in the form of stock options. It pushes firms to de-diversify, restructure themselves around core activities, and outsource and downsize all activities which are non-central.

In addition to the application of the canon of shareholder value, non-financial companies also have come to devote a significant portion of their activities to financial operations (Krippner 2005; Lin and Tomaskovic-Devey 2013). They thus acquire large portfolios of securities and combine the sale of goods and services with the sale of consumer credit, as, for instance in the case of the automobile industry.

One of the most striking results of financialization is the increase in executive pay, which contradicts the anti-managerialist early spirit of shareholder value (Goldstein 2012). Firms which engage the most in downsizing, merger and acquisitions (Goldstein 2012), or industries relying the most on financial incomes (Lin and Tomaskovic-Devey 2013) pay higher wages to their executives. Firms, especially those owned mostly by institutional investors and where CEOs are highly incentivized to maximize through short-term profit thanks to stock options, also put pressure on the salaries of the middle or of the bottom of the wage hierarchy through downsizing (Jung 2016).

### ***Financialization of Households***

Many scholars of financialization have also emphasized changes to households, particularly in how they increasingly engage in financial modes of calculation. The promotion of “popular capitalism” in the 1980s by political leaders like Margaret Thatcher and even more so of households’ participation in private pension funds (Montagne 2006) increasingly reoriented household savings towards the purchase of financial securities (Fligstein and Goldstein 2015). Moreover, in a context of low interest rates, banks redeployed their mortgage and consumer credit activity towards the households with the most

modest means –including “sub-prime” borrowers– from whom higher interest rates could be charged, at limited risk – as was then thought – thanks to securitization.

Poor households, unlike rich households, cannot access the most lucrative and diversified financial products for their savings (Piketty 2014; see also Gonzalez in this volume). When there is a boom, they often enter the stock or the real estate market later, and suffer relatively more from the following crash (Kus 2012). When they borrow, they do so under very unfavorable conditions and expose themselves to over-indebtedness and the subsequent risk of eviction from their homes. This classic mechanism of cumulative inequality exacerbates an already skewed distribution of wealth (Piketty 2014).

Assessing the specific contribution of the household credit boom to inequality is nevertheless difficult. Easing access to credit has long been a policy for building a more inclusive society, especially in countries where social welfare is underdeveloped (Prasad 2012). In the United States, in the 1970s, feminist and minority groups mobilized to ban the use of ethnic and gender categories in the scoring methods used by banks in order to grant credits (Krippner 2017). Those mobilizations combined with fragmented retail banks favored the adoption of the Fair and Isaac credit score, which scores people on the basis only of their credit history (Poon 2009).

This new way of setting equivalences changed not so much the level of inequality in access to credit as its structure, and its set of winners and losers (Fourcade and Healy 2013). Banks now assign their customers the average risk profile of persons with a similar credit history instead of assigning the average risk profile of persons with the same ethnic and gender categories. The development of new credit products, especially the subprime loans after the 2000s, probably enabled some parts of the population that had traditionally been excluded from formal loans to gain access to credit and enter the real estate market or start a business, thus diminishing income and wealth inequality at the state level in the United States (Beck, Levine and Levkov 2010). However, with the crisis, many faced very high interest rates, suffered credit repayment incidents and finally lost their house, thus increasing inequality (Fligstein and Rucks-Ahidiana 2015).

We still need a global assessment of the impact of the differences in access to and payments for credit on inequality, combining both pre-crisis and post-crisis periods. OECD cross section data show that mortgage growth is tied to increased gaps between upper-middle class households (the top decile) and the rest of the population. However, this mechanism has little to say about the even greater distortion at the very top of the income hierarchy. Moreover, the contribution of mortgage lending to inequality disappears once we control for stock market activity, suggesting that mortgage lending’s impact on inequality in fact results from securitization and the resultant gains for those who earn their incomes working in the financial industry (Godechot 2016).

## Does Inequality Cause Financialization?

What about the reverse causality? One obvious effect of growing inequality is the constitution of a class of increasingly wealthy households which, unlike the middle classes, whose wealth is primarily held in real estate, save primarily in the form of financial securities (Piketty 2014). This fuels demand for financial services. The richest households can hire wealth managers who select the most favorable financial arrangements, often located in tax havens, to protect wealth not only from taxation but also from socio-political risks, family disputes and even creditors (Harrington 2016; Alstadsæter, Johannesen and Zucman 2017).

The hypothesis of a reverse effect of inequalities on financialization was formulated mainly to account for the 2008 financial crisis and the strong growth in debt that preceded it. Indebtedness can be viewed as a way of resolving or managing distributional conflicts between rich and poor (Streeck 2014), especially when no redistributive welfare state is ready to step in (Prasad 2012). The suggestion is that modestly situated households, faced with stagnant or even falling incomes, were nevertheless dragged into status competition with richer strata, and reacted to the increase in inequalities by increasing their indebtedness, particularly in relation to real estate. This would have fuelled the household over-indebtedness that ultimately provoked the financial crisis.

This mechanism of “keeping up with the Joneses” has often been formulated theoretically (Kumhof, Ranci ere and Winant 2015) but empirically often remains unverified (for an exception, see Gonzalez in this volume). Some research confirms it, but also nuances claims about its magnitude. The most unequal urban areas are those where concerns about the quality and size of housing matter most and where debt is growing most strongly (Fligstein, Hastings and Goldstein 2017). But it is above all the upper middle classes (the 80–98% fractiles) that have engaged in such strategies, notably via home equity loans, in order not to be left behind by the real elites (Fligstein and Goldstein 2015); less the working classes, who are confined to subprime loans. Therefore, rising inequalities contributed also to the growth of debt, and consequently to securitization and therefore to financialization, but probably in proportions that remain quite modest.

## Conclusion

Financialization and growing inequality are thus linked through multiple channels that fuel a cumulative dynamic. The financial labor market, particularly between 1995 and 2007, is undeniably a main source.

Despite the cumulative and convergent results of recent literature in this area, many questions remain open on the link between finance and inequality. More precision is still needed particularly on the global impact on inequality of

non-financial firms' financialization or households' investment in pension funds or increased access to credit. Building bridges with literature on the role of finance in developing countries could also help to measure the threshold where finance starts becoming a curse (see Karwowski in this volume).

Finally, the impact of the 2007–2008 global financial crisis still needs to be assessed. The crisis reduced both the size of the financial sector and the scale of inequality (especially measured as top income shares). Has the finance-inequality link remained unchanged despite the downturn? Or does the resilience of financial wages in times of crisis also prevent any return of inequality to the pre-financial boom levels?

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