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Financial Inclusion and Income Inequality: An Evaluation on Cause-and-Effect Relationship

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ABSTRACT

This study discusses the financial inclusion mechanisms that function under a capitalist production. Financial inclusion is a field which is given importance due to being a central element of the new conception of development and a way to overcome recession in the capitalist system. In the new development conception, the removal of barriers to access to finance, that is, financial inclusion has become important to reduce inequality. Being a form of financialization, financial inclusion has also become widespread in many countries in recent years as a way of overcome recession that emerges in the functioning of capitalism by supporting demands. The objective of this study is to investigate the causes of financial inclusion and its interactions with inequalities using descriptive analysis. The study argues that inequality-based functioning of the capitalist system triggers income inequalities, it needs mechanisms like financial inclusion to eliminate these inequalities (to the extent that it complicates the functioning of the system), and financial inclusion increases inequalities instead of reducing them.

Keywords
Financialization,
Financial inclusion,
Income inequality

JEL Classification
E44, G51, O16

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1. Introduction

Around the world, 1.4 billion people did not possess an account in a financial institution or digital currency providers[1] in 2021. This rate equals to approximately 24% of the global adult population. In the World Bank report of 2021, although participants regarding the reasons for not having a bank account provided the following economic and cultural reasons: not having enough money (62%), financial services being too expensive (36%), not being able to access financial services (31%), at least one family member having a bank account (30%), missing documents required for opening a bank account (27%), lack of confidence (23%), and belief (10%), in the most general sense, the majority of people outside the banking system live in developing countries. Due to their population sizes, India and China are at the top of the list with 230 and 130 million people, respectively. The highest number of people is 115 million in proportion to the population in Pakistan. In Indonesia, 100 million people do not have any account in any financial institution or digital currency provider, and it is followed by Bangladesh, Egypt and Nigeria. These seven countries include 54% of the total population outside the banking system with nearly 740 million people (Demirgüç-Kunt et al., 2022: 33).

Approximately 54% of the population outside the banking system with 740 million people consists of women[2]. Globally, the poorest 40% of households account for nearly half of those who do not possess a bank account[3]. Also, there is a significant relationship between not having a bank account and unemployment[4]. Worldwide, 64% of adults without a bank account have primary education or lower. This rate goes up to 90% in countries such as Mozambique, Ivory Coast or Tanzania. Furthermore, the distinction of urban-rural is also a factor in determining the population excluded from the banking system[5]. In Sub-Saharan Africa, for example, approximately 105

[1] In the World Bank report, this concept is referred to as “mobile money provider”.

[2] This rate was around 980 million women in 2017. For example, while one quarter of adults, 71% of who were female, in Turkey did not have a bank account in the year 2021. More than half of the nonbank public in Egypt, Guinea and Pakistan are women. Approximately two thirds of women are not included in the banking system in Kenya, while this rate is about 60% in China and India (Demirgüç-Kunt et al., 2022: 34).

[3] The poorest 40% of households comprise 53% of adults without a bank account in the East Asia and Pacific region and 60% in China (Demirgüç-Kunt et al., 2022: 34).

[4] In the Middle East and North Africa, 70% of those adults are unemployed and outside the labor force. The rate of adults in Egypt who do not have a bank account is 73% and 65% of them are unemployed or outside the labor force. Considering such unemployment or being outside the labor force in terms of gender, all rates are higher among women (Demirgüç-Kunt et al., 2022: 35).

[5] Approximately 62% of adults without a bank account in Sub-Saharan Africa live in rural areas. Other African countries have similar rates (Demirgüç-Kunt et al., 2022: 35).

million people do not even have a birth certificate. In South Asia, about half (240 million people) of the nonbank public (430 million people) own a mobile phone. Therefore, financial inclusion, which is defined as having a bank account in the most general sense, starts an important debate as an objective of development policy: What are the causes of financial inclusion processes in reducing inequalities through development and what are their mutual effects on inequalities?

Financial inclusion, which is also defined as financial democratization, financial deepening, and financial inclusiveness, is also included in the 2007 World Bank report with the thought that "a better financial access helps to increase economic growth, fight poverty and reduce income gaps between the rich and the poor" particularly after the 2008 global financial crisis. This statement complies with the final declaration, which was agreed after the World Summit for Social Development 1995 - the United Nations, includes the observance of a sustainable and fair development and emphasizes that development is a multidimensional process. This summit is important in terms of putting social problems such as poverty, unemployment, and exclusion at the top of the agenda and initiating a worldwide discussion. This is because such discussions form the basis of what can be done to reduce inequality through development.

In this sense, financial inclusion is considered a concept that lies at the heart of the call for a new development strategy with reference to the transformation in the development conception and includes removing barriers to financial inclusion in order to reduce inequality. Particularly based on studies (Agyemang-Badu et al., 2018; Brune et al., 2011; Honohan, 2007; Kim, 2016; Park & Mercado, 2018; Tsouli, 2022a) in the mainstream literature reporting that income inequality decreases as financial inclusion increases in different countries or country groups, the role and importance of reforms that spark access to financial services are emphasized, and therefore, financial inclusion mechanisms are encouraged as a development policy. However, several reports regarding income and wealth inequality (Credit Suisse, 2019; Oxfam, 2020; World Bank, 2020) show that inequalities at both local and global levels are increasing rather than decreasing. Therefore, it is important to discuss whether it is possible to actually reduce inequalities and poverty, which is the concrete result of inequality, by use of financial mechanisms.

In this regard, the aim of this study is to investigate the causes of financial inclusion and its mutual effects with inequalities using descriptive analysis. The study argues that inequality-based functioning of the capitalist system triggers income inequalities, it needs mechanisms like financial

inclusion to eliminate these inequalities (to the extent that it complicates the functioning of the system), and financial inclusion increases inequalities instead of reducing them. The study's main policy proposal is to enforce direct income increasing wage, employment and fiscal policies instead of policies that reduce inequality and poverty through financial mechanisms.

The concept of financial inclusion is discussed in the second part of the study following the introduction part. The third part explains the concepts of income inequality and poverty, which are important for the objective of the study. The fourth, fifth and sixth parts form a basis to explain the causes of financial inclusion process and the relationship of this process with inequalities in the context of the dimension discussed in this study. The fourth part discusses the relationship between capitalism, inequality and financial inclusion, while the fifth part discusses financial inclusion as a form of financialization. The sixth part focuses on the relationship of financial inclusion through debiting mechanism. The main emphasis of these parts are as follows: financial inclusion is a form of financialization, which expresses the transformation of debt and capitalism through financial mechanisms, has a role in the new development conception, and financial inclusion has become widespread in many countries in recent years as a way to overcome the recession by supporting demand in the functioning of capitalism. The seventh part includes the evaluation of the empirical literature that focuses on the relationship between financial inclusion and inequality. The final part consists of conclusion and evaluation.

2. Financial Inclusion: Conceptual Framework

The World Bank, Europe and Central Asia Economic Update states that well-functioning financial systems contribute to economic development by providing individuals with greater access to resources in order to meet their financial needs, such as savings for their retirement, investing in their education, taking advantage of job opportunities and responding to shocks through savings, payment, credit and risk management services (Demirgüç-Kunt et al., 2017; World Bank, 2019; 2014). Thus, the financial development is underlined and the relationship between financial inclusion of individuals and development is focused.

Similarly, The Central Bank of the Republic of Turkey (TCMB), in its Financial Stability Report published in 2019 (2019: 71), stated that financial development can increase social welfare, reduce income inequality, and contribute to an inclusive and sustainable development. It discusses financial development on three different definitions that are *financial access* which refers to

accessibility to finance needed; *financial deepening* which refers to diversification of markets; and *financial inclusiveness* which focuses on meeting the basic financial needs of individuals like opening a bank account. The report defines financial inclusiveness as "*the process of including individuals or groups who are outside the financial system for any reason in an economy*". From this perspective, financial inclusiveness is deemed the first step to financial development.

Both reports reveal the relationship of financial inclusiveness with income inequality and underline that the mentioned process and mechanisms reduce income inequality. Financial inclusion is a common and accepted concept, and this study envisions that it has unbiased content like income distribution in the mainstream studies. However, if the income distribution concept is like a veil that belies income inequality, financial inclusion reveals the financial mechanisms and its effects and covers its consequences.

Financial inclusion is defined having a bank account in the most general sense. Non presence of barriers to accessing financial services and actively benefiting financial services (Güngen, 2021: 88) refers to a broader tackling of financial inclusion. In this regard, Güngen (2018: 331) states that removing barriers to access to formal finance through financial inclusion allows the poor to benefit and evokes their entrepreneurial spirit, thus contributes to development by enabling households and small and medium-sized enterprises (SMEs) to access the financial system. Besides that, as stated by Güngen, access to developmental targets regarding financial inclusion entails transformation of people into financial consumers or investors. This means that people should actively use their accounts to benefit from financial campaigns and services. Thus, financial savings and investment promotion, financial education and ensuring digitized payments can be deemed aspects of financial inclusion.

While Demirgüç-Kunt et al. (2017) conceptualize financial inclusion as the use of formal financial services by different groups who bring benefit to the well-being of many individuals; the World Bank (2014) focuses on the share of households and firms that financial services in financial inclusion. There are studies (Amidzic et al., 2014) that consider financial inclusion as an economic condition in which no one's access to primary financial services is refused based on motivations other than productivity criteria; on the other hand, there are studies (Chibba, 2009; Omar & Iniba, 2020; Sahay et al., 2015; Sarma, 2012) that define financial inclusion as initiatives to make official financial services accessible and cost-effective, primarily for low-income and vulnerable segments

of society. From another perspective, financial inclusion is also considered as the inclusion of people who have no financial trace, thus even the poorest segments in the system, and subjecting them to the axiomatic logic of capital accumulation by focusing on the role of finance in the efficiency and accumulation processes of the capitalist system, (Dişbudak & İnci, 2019: 70; Genç, 2018: 4; Soederberg, 2016). In a similar vein, Akçay (2019: 59) defines financial inclusion as "inclusion of the large segments of the society, who particularly have not been identified with the banking system, in the financial system". Beken (2020: 417) describes financial inclusion as a preferred policy intending to reach population not included in the finance by expanding financial services and deepen them, thus enable inclusive growth.

Omar and Iniba (2020), focusing on the relationship between financial inclusion and development, emphasize that financial inclusion is perceived as a dynamic tool and seems to be an incremental and complementary approach to meeting the Millennium Development Goals of the United Nations for macroeconomic stability, sustainable and inclusive economic growth, employment generation, poverty reduction and income equality among developed and developing countries. As they suggested, this is why financial inclusion has been at the top of the global reform agenda and has drawn great interest for its potential to break the vicious circle of poverty and reduce income inequality.

Financial inclusion can be handled at different levels depending on the mechanisms of action and be subject to different effects. For example, inclusion of people, who have no bank account, in other words, who have no financial trace, in the banking and financial system (Ozili, 2017) is a form, whereas differences in the saving assessment of people through a regular income is another form (Beck et al., 2007). In fact, involvement of those with a regular or irregular income with the inclusion of people who do not have a bank account in the system, in credit relationship through borrowing, not being able to provide their social reproduction with their current income defines different inclusion mechanisms and effects. From another perspective, households' borrowing real estate credit for urban transformation or demand for pension funds and obligation to borrow for their basic needs to live on are the arguments of different inclusion mechanisms. We can say that inclusion of households in the financial system in a number of ways may also affect growth through consumption, saving, and wealth as well as domestic demand channels. However, inclusion through micro-credits and micro-financing is expected to influence investment and

growth through job opportunities/entrepreneurship (Galor & Moav, 2004). Furthermore, we can say that income levels of countries have various impacts on financial inclusion and these impacts change depending on the country in question. In addition, inclusion of a government in debiting mechanisms through securitization can be discussed as another functioning mechanism. Therefore, it is possible that these different mechanisms have different consequences. For example, when financial inclusion mechanism occurs through financial assets like borrowing or expansion of pension funds in the operation of financial inclusion through households, the expected microeconomic effects will differ. The aforesaid effects also depend on the financialization level of the country or group of countries in question and the functioning channels of financialization.

In this sense, the present study discusses financial inclusion particularly in terms of households' borrowing, that is, their inclusion in the financial system through bank loans. Financial inclusion mechanisms such as microloans or pension funds are not included in the study.

3. Income Inequality and Poverty

Income inequality is a term that emphasizes the unequal, unjust sides of the income distribution, and consequently, it is not a neutral term (Çelik, 2004: 59), and in terms of its results it should be considered together with the poverty. According to Furman & Orszag (2015), when the income is expressed as the total share obtained from the production by the labor and capital, there are three factors which result in income inequality: The first one is the increase in the share obtained by the capital. This increase widens the inequality gap as on average the households with relatively higher incomes receive larger shares. The second one is the increase in the income of capital. The income and profit based wealth sources of the capital further grows the income inequality. The third one is the increase in the inequalities in labor income. This represents the differences in the income inequality between the people with varying levels of incomes. Hence, the income of labor can only be explained by more and more skewed distributions.

In this context it can be seen that "the income inequality lasts within all dimensions of class, individual, regional, and global level and the income distribution itself became the income equality". In the detection of income inequality, two basic types of inequality rooted from the income distribution are used. These are the individual income distribution and functional, in other words, class income distribution. The sectoral and regional subtypes of income distributions are based on these two basic inequalities/distributions (Çelik, 2004: 59).

Functional or class income inequality represents the distribution of income among different social classes. This distribution is dividing the total income created after the production process between the factors contributed participated in (labor, capital, agriculture, entrepreneur). As this distribution took place between labor and other factors in the production process, there are also individual contrasts among the laborers. The qualities, organizations, expertise of laborers are effective on these individual differences (Çalışkan, 2010: 93; Kepenek & Yentürk, 2005: 458). Individual income inequality, on the other hand, examines the distribution of income among the individuals and households. Moreover, the individual income inequality studies also provide the social class the households belong, hence can give information related to the class income inequality (Çelik, 2004: 59-60). Further classification of the individual income distribution related to the individual's socioeconomic status, profession, sector, education levels is made based on social stratification (Boratav, 2005: 10).

Moving on, another inequality that can be discussed is global income inequality. Global income inequality is a scale that illustrates the inhomogeneity of the income distribution among wealthy and poor countries and regions (Milanovic, 2006). Türel (2021: 348) stated that the inequality in global income distribution is the sum of two components: the average income difference between countries and the personal income difference within each country. Türel also added that measures such as the Gini Coefficient and entropy indices were developed to measure the relative inequality in income distribution. Nevertheless, according to Türel (2021: 348-349) the relative inequality indicators such as these are insufficient in illustrating the absolute income inequality, a subject of interest to the society. Because such indicators of relative inequality; in a way obscures the moral and political debates on absolute inequality and causes the political power relations and conflicts of interest between the center and the periphery in the world system to be ignored.

Another important issue in income inequality studies is whether the inequality should be studied based on personal inequalities or functional/class inequalities. The main criticism in functional income inequality is that individuals no longer only earn labor income as in the first years of the industrial revolution, but there are also other income sources available for the society in general. However, Çelik (2004: 60) states that inequality in class income distribution and the determinant of social dynamics did not cease to exist. When evaluated over personal inequalities,

only including variables such as per capita/per worker or average income leave many other social variables out of the analysis. Although income inequality is an economic phenomenon, it is the direct result of policy choices and the development of historical and social conditions in a particular place over time. People are not just considering income and consumption, but also other factors such as the quality of education-health services, environmental pollution, public safety. These considerations cannot be captured with per capita income figures. Therefore, functional income inequality is encountered at the macro level, whereas individual income inequality is at the micro level. Inequality, on the other hand, emerges as a holistic result of the determinants of many economic and social phenomena such as the ownership of the means of production, the level of public services, social relations, the level of organization among laborers, their horizontal and vertical mobility, and the forms of political participation. Therefore, understanding the distribution relations requires a conceptual framework related to social classes (Çelik, 2004: 60; Özyiğit, 2021: 32-33).

Another dimension of the debates on income inequality is the poverty. The first studies tried to define the poverty and how it should be measured went back to the nineteenth century Great Britain. While poverty was initially considered as an income-related phenomenon, today it is evaluated from a broader perspective, including non-income conditions (Özyigit & Mazgit, 2021: 62). Another difference is that, although traditionally the poverty is considered as absolute and relative poverty, interdisciplinary studies and increasing interest show that different definitions and measurement methods were generated such as income poverty, human poverty, objective and subjective poverty, rural and urban poverty (Şenses, 2017: 99; Zülfikar, 2010: 26).

Absolute poverty is a type of poverty that expresses the situation of those who live in poverty and spend their income only to survive, and it has a threshold measured by the inability of households or individuals to reach the minimum income and expenditure level they need to maintain their biological existence (Erdem, 2003: 6).

While the relative poverty is mostly evaluated in a society scale. According to Ayata (2020: 12), relative poverty is a type of poverty that reflects the disorder in income distribution and social inequality. Therefore, relative poverty focuses on the relationship between those who cannot achieve the minimum level of welfare in a given society and those who have medium and high welfare levels.

Reducing income inequality and poverty is essentially a problem of reining the market through income redistribution based on liberal mainstream approaches. As Çelik (2004: 58) states, inequality is the driving force of growth; and that growth is also the best way to eradicate poverty.

In this context, the World Bank introduced the concept of inclusive growth in the early 2000s, emphasizing more firmly on poverty alleviation rather than the redistribution of income through comprehensive reforms. The concept of inclusive growth also brings to the agenda various reforms that can be considered heavy in terms of capital in improving income inequality. Thus, it focused on alleviating poverty with limited interventions by playing a facilitating role on the state in the fight against absolute poverty, instead of redistributing social wealth and eradicating poverty through various reforms (Güngen, 2021: 81). Therefore, the relationship between financial inclusion, income inequality, and poverty is established through growth and development policies that are claimed to be inclusive.

4. Capitalism, Inequality, and Financial Inclusion

Understanding and analyzing the economic dynamics of inequalities in capitalist production relations is the subject of political economy as a scientific endeavor, and inequalities occur in many different ways in the context of economic, ideological, and political relations in the social sphere. In order to reveal the relationship between income inequality and the poverty embodied in it, and financial inclusion, it is important to understand the economic, political, and ideological structures in which poverty and inequality are embedded, and to explain the mechanisms of the capitalist process that facilitate the manifestations of poverty (inequality). Yücesan-Özdemir (2020: 57) named this situation as “the political economy of poverty”. Hence, an evaluation without giving any consideration on the mechanisms of capitalist process will be insufficient.

Kalaycıoğlu (2020: 86-88) states that although inequality is a very broad concept, it can be aggregated in two basic approaches: Structural and cultural approach. In structural approach, inequality is determined by structural differences and positions in the social division of labor. The inequality in this trend is not due to cultural and personal differences, but to what kind of job and reward opportunities are created in the social structure, how they are determined, and the institutional power and power structures that establish this structure. On the contrary, in the cultural approach, inequality is defined through personal differences and values. Here, what determines

inequality is people's performance and success in the labor market, which in turn depends on their cultural approach, motivation, and educational resources.

In this context, both the World Bank and the United Nations have put forward policies that will overcome the disadvantaged positions of individuals, based on the cultural approach in the fight against inequality. 2005 is the International Year of Microcredit by the United Nations, 2008 was declared an inclusive financial period by the World Bank with its Financial Report for All, and 108 countries officially declared that they would implement their financial inclusion policies with the Maya Declaration in 2011. According to Güngen (2021: 89), at the end of the 20th century, the individual's acquiring more equipment in the market, having more options, and increasing one's own capital constitute the pillars of the new definition of 'development'.

Capitalist market structure, in the words of Çelik (2004: 53-62) in its nature founded on inequalities. The liberal characteristic of the capitalist market system, advocated by the mainstream approach, causes all kinds of regulations and interventions in the market to meet with resistance. In this case, the decrease in regulation and supervision over the market mechanism plays a role that further grows income inequality.

The basis of the internal dynamic of capitalism is the accumulation drive of capital. Moreover, the profitability is vital for the capital accumulation. Although capitalism's drive for accumulation based on high profits requires constant pursuit of innovation through competition, this situation causes a blockage in capital accumulation after a certain period. In the process, as the technology that reveals the innovations intensifies, the labor/capital ratio changes against labor, leading to an increase in labor productivity, while at the same time causing an increase in the unemployment rate. As it can be understood from here, the capital, which is driven by the profit and accumulation, provides an important advantage in terms of increasing the surplus value that is the basis of profit by suppressing real wages, while later capitalism causes a squeeze in profits due to the contraction of product markets because of unemployment it generated in the first place. (Tellalbaşı, 2011: 92). In this context, it has become important to overcome the stagnation in the functioning of capitalism by supporting demand and to find its mechanisms.

5. Financial Inclusion as a Type of Financialization

To overcome the accumulation crises, capitalism has to put in place mechanisms that will ensure the continuation of the system and postpone the crisis. In this context, neoliberalism and financialization can be seen as ways out of crisis in capitalism.

In the original expression of Türel (2021), neoliberalism is a new and incomplete stage in the development of capitalism and encompasses a very broad and incompatible range of ideas rather than a well-designed and defined ideology. It also represents a transformation beyond power shifts between capital and labor in general, and between various types of capital in particular. And neoliberalism in practice is based on transforming the nature of public interventions rather than reducing public intervention in the context of Keynesian welfare state practices (Türel, 2021: 41-44). In this context, it can be considered as a 'new and implicit social contract', which is based on regressing the gains of labor in the period characterized as the Golden Age of capitalism and openly favoring capital. Thus, neoliberalism is a capitalist phase that takes place in favor of capital and has a devastating effect on labor forces.

In this scope, neoliberal policies have weakened the role of the state in the Keynesian period, such as the regulation of markets, production of public goods, consumer rights, investor support, social security, and environmental protection in ensuring fair distribution (Ayata, 2020: 21). It is seen that the roles of governments in the field of labor relations have also changed since the early 1980s, especially within the framework of neoliberal policies. Erdoğdu (2020: 136) expresses this situation as governments trying to meet the flexibility requirements of globalization by eliminating the 'rigidities' regarding working conditions in the field of individual labor law, on the one hand, and reducing the expenditures of welfare states by increasing the contributions of the workers in social security systems and reducing the benefits, on the other hand.

Üzar (2017) revealed the practices of neoliberal policies, which deepen inequalities and cause the need for financial inclusion mechanisms, in the context of their effects on the labor market. Flexibility of labor markets, significant restrictions on categories such as wages, social rights, unionization, inclusion of public services such as education and health, which will strengthen human capital, into the free-market mechanism are examples of these practices. (Üzar, 2017: 112). According to Üzar, these practices caused wage stagnation and deepening of inequalities by breaking the relationship between wages and productivity. Therefore, the policies

followed caused employment losses, erosion of wages, rise in financial profits and increased household indebtedness, thus widening the gap between labor and capital incomes. In other words, the policies that cause the widening of inequality gap have also become the cause of financial inclusion mechanisms.

In terms of macroeconomics, the increase in economic inequality also affects the differentiation in consumption trends, triggering a redistribution from households with a high consumption trend to those with a low consumption trend. The decrease in aggregate demand puts downward pressure on aggregate demand and income. In case of insufficient aggregate demand or under-consumption, capitalist economies cause a decrease in profit rates, thus lower investment and higher unemployment rates. It is also stated that high or increasing inequalities cause unstable debt accumulation that will increase financial fragility (Perugini et al., 2015). This crisis-prone vicious circle can be somewhat postponed through financialization and financial inclusion and lending. Financial inclusion allows households to both realize the consumption that they cannot realize at the minimum level and reach the consumption levels they desire (Özyiğit, 2021: 231-232). However, in a system that constantly creates crisis, more participation of individuals in the market mechanism; Considering that risks are socialized through financial transactions and costs are distributed against the non-capitalists in times of crisis (Güngen, 2021: 25), the positive effects of financial inclusion on income distribution and development may not materialize as expected.

With financialization, it can be aimed to overcome this underconsumption phenomenon, which negatively affects the macroeconomic functioning, by lending households. However, these relations also increase the crisis tendency of the economy by creating a higher leverage (the ratio of household liabilities to assets) and a more fragile financial environment on the household scale (Russo et al., 2016). In the event of a crisis, increasing inequalities in household indebtedness can drag economies into an economic conjuncture where deep crisis conditions persist throughout long periods of recession (Russo et al., 2016). In this context, the inclusion of households with financial inclusion methods by the financialized economy with increasing indebtedness conditions and economic inequality relations emerge as a relationship that should be examined when a stable and sustainable dynamic macroeconomic conjuncture is aimed.

It is therefore important to reveal the role of financialization in terms of financial inclusion mechanisms and inequalities in the context of household lending. There is an extensive literature

and numerous hot topics in research on the definitions of financialization. However, in terms of this study, financialization is defined as a process in which financial balances deteriorate, optimistic expectations about economic welfare decrease, financial asset owners are getting richer, and the share of workers who do not have these assets from national income gradually decreases. In this context, the period of financialization has created sectors that are dependent on borrowing and indebtedness, and the spread of financing opportunities to the base has been expressed as the democratizing aspect of finance. With the financial inclusion process, which is emphasized as the democratizing aspect of finance, households have started to be included in the financial system, thus financial risks have spread to the bottom (Aslan, 2019: 181-182).

The decrease in the wage share in GDP and the increasing concentration of wealth and wealth incomes in the hands of a smaller segment of the society lead to a decrease in the level of consumption and a structural demand gap. Türel (2021) citing the study of Akyüz (2006) stated that financialization triggers various mechanisms that change the functional income distribution against labor, Türel expresses these mechanisms as follows:

- The company's business conduct and organization rules, labor market legislation and taxation policies favor capital, specifically financial capital,

- Since the financial sector is a field of activity where the share of labor is relatively low, the expansion of its share in GDP causes a decrease in the share of labor in the product,

- The negative impact of financialization’s exclusionary stance against new investment on employment and wages, with its short-term perspective and basis on maximizing shareholder asset.

Therefore, as the accumulation regime of capitalism, accompanied by neoliberal policies financialization produces results against low-income wage earners, in other words, households that have to borrow money, as income and wealth are increasingly concentrated in the hands of a small minority of the society. Especially in the period after the 2008 global financial crisis, the abundance of liquidity in the global economic system seems to have funded excessive growth in financial asset markets, expansion in financial speculative movements and debt accumulation. According to Voyvoda (2020: 46) this new financialization process emerges as a process that sharpens the inequalities accumulated by the global system in the neo-liberal period.

Lazzarato (2014) states that it is more appropriate to use the concept of debt economy instead of financialized capitalism because the production of debt is seen as the driving force of economies dominated by neoliberalism. According to Karataş (2017: 77) it is also possible to interpret the financialization on the transformation of indebtedness and the development of lending network. In this context, the power relationship between debtors and creditors has been planned as the strategic center of neoliberal policies. Moreover, rather than the separation between virtual and real economy, it is necessary to read the causes of the crises in terms of the power relations between creditors and borrowers. In this sense, financialization has served as both an important compensation mechanism for neoliberal regimes and a tool that disciplines the poor, especially through indebtedness (Akçay, 2019: 51). At this point it should be kept in mind that credit provisions (or more properly, making people taking loans) is a mechanism of financial inclusion.

6. Financial Inclusion through the Lending Mechanism

Financial inclusion through the lending mechanism is a form of financialization and is also seen as a way to overcome the stagnation in the functioning of capitalism by supporting demand. In this context, the solution to the decline in aggregate demand through facilitating access to credit especially for poor households to finance their consumption describes the mechanism of financial inclusion. Although the decrease in profit rates can be postponed for a certain period with credit facilities, lower interest rates and increasing indebtedness of poor households further aggravate financial fragility. The increase in income inequality reveals higher fragility in financial conditions due to the increase in household leverage (ratio of liabilities to assets). It is stated that household debt is an important factor with increasing economic inequalities and income inequality before periods of large-scale financial collapses, such as 1929 and 2007-08 (Palagi et al., 2017; Piketty, 2014; Russo et al., 2014, 2016; Van Treeck, 2009).

As can be seen in the "Global Debt Monitor" report published by the Institute of International Finance for 2021, the factors that create inequality and, moreover, the spread of indebtedness, which is the basis of financial incomes in terms of an income transfer from debtors to creditors, continues to increase. According to the report, the amount of global debt increased by 24.1 trillion dollars compared to 2019 and reached 281.5 trillion dollars by the end of 2020. The ratio of global debt to total GDP of countries increased by 35 points in 2020, reaching over 355%. According to the report, the increase in this rate is far beyond the increase seen in the global

financial crisis in 2008. Looking at the distribution of debt, household debts are 51.1 trillion dollars by the end of 2020, debts of non-financial companies are 80.6 trillion dollars, public debts are 82.3 trillion dollars, and debts of financial companies such as banks are 67.5 trillion dollars. Another remarkable finding is that the share of household debts in GDP increased from 60.4% to 64.4% in 2021.

Here the processes leading to the indebtedness are also important. According to the mainstream opinion, the main factors determining household lending are borrowing opportunities, household income, household structure, household assets, household consumption behavior and price changes (Çımat et al., 2016: 45-48). On the other hand, the marketization of social gains such as retirement, free education, and health caused by neoliberal economic policies[6], the additional costs created by these, the limitation of the increase in real wages by suppressing wages in accordance with the inflation targeting strategy, insecurity and the decrease in the cost of labor for capital due to the gradual increase in part-time work or unemployment, the weakening of labor bargaining power and worker solidarity constitute the structural conditions for borrowing. (Ayata, 2020: 22; Genç, 208: 84). Therefore, while there is no increase in wages, the increase in the effective demand take place through (making others) indebted.

According to Akçay (2019: 61) the increase in the number of households in debt is, on the one hand, the result of neoliberal policies, on the other hand, a reflection of "Privatized Keynesianism", which makes it possible to increase expenditures under stagnation of incomes. At the same time, it is important to emphasize that borrowing is not a choice but a necessity (Akçay, 2019: 62), especially in neoliberal economic policies and financialization mechanisms. After the 1980s, people had to meet their needs by borrowing more, both with the widening of the gap between productivity and real wages, and with the inflation targeting strategy aimed at price

[6] At this point, it should be noted that the demand policy of the neoliberal era is 'Privatized Keynesianism'. This practice, also called "privatized Keynesianism," is a new way to support demand and drive economic growth in an environment where wages are not rising. According to Akçay (2019: 50-51), in this way, inflation, which is claimed to be caused by wage increases, would be brought under control, and the side effects of controlling inflation, such as the decrease in growth rates, would also be eliminated. On the other hand, Dönmez Atbaşı (2014: 402-405) describes the privatized Keynesian practice as 'a new phase of the capitalist accumulation process' and emphasizes that in this new era, expenditures have become independent of income. According to her, this new era of capitalist accumulation, in which effective demand was politically managed directly through debt-financed expenditures and led by the USA, was based more and more on financialization and deregulation in labor markets. *"This course of events was not only to increase the income and wealth inequality gaps, but also to amplify the debt-based consumption."* (Dönmez Atbaşı, 2014: 405).

stability, which suppressed real wages by indexing wages to the expected low inflation. According to Genç (2018: 93) this is something that is not just forced upon by people, but encouraged by the financial system and debt welfare states along with a strategy.

The financialization of households can affect inequalities through various channels. Foremost among these are wealthy households' access to debt at lower cost and their increased tendency to invest speculatively compared to the rest of society, investing in riskier mutual funds and derivatives (De Vita & Lou, 2021: 1921; Fligstein & Goldstein, 2015; Stockhammer, 2015). The inclusion of households in financial relations with debt makes the welfare of households open to speculative activities and causes economies to become highly sensitive and fragile. Moreover, as stated by Güngen (2018: 343) financial architecture has tried to integrate the poor into the financial system without prudent control mechanisms. After the 1999 "Financial Services Modernization Act", the use of financial services by ethnic minorities and low-income groups was enabled. In addition, different wage strata and increased credit defaults by disadvantaged segments of society contributed to the 2007-8 financial crisis.

There appeared two growth models against the stagnancy in the demand: Wage-driven growth and export-based growth. However, debt-driven growth seems to have more impact on irregular relationships. As a result of the debt-driven model; this led to higher household debt as low- and middle-income households tried to keep up with social consumption norms despite recession or falling real wages. Stockhammer stated that (2015: 936) under the debt-driven growth model, low-income or working-class households accumulate more debt in order to maintain social consumption norms due to stagnant or falling real wages. In addition, considering that low-income households have higher costs of accessing financial resources (Kumhof et al., 2015), flexibilization of employment relations caused by financialization in macroeconomic conditions, suppressed wages, marketization of public services, efforts to maintain customary consumption norms, and income-based access to financial resources causes an increase in inequalities with its difference in costs based on income.

In this context, the fact that the inclusion of large segments of society, especially the poorest, in the financial system, who did not have access to the credit market before, creates a partial welfare effect in an environment where real wages do not increase significantly, should actually be seen (Akçay, 2019: 62) as the virtual welfare effect created by financial inclusion.

Which in reality; with the involvement of the debt relationship, the consumption of future savings, the savings gap that this will bring, and an increase in income inequality will be the results. In other words, the main effect of financialization on economic inequality is that low- and middle-income households continue their lives with debt. On the contrary, high-income groups will have the opportunities for extra wealth accumulation depending on their savings. Society is divided into two segments, on the one hand, the first segment allocates some of their income to debt interest payments to continue their consumption or has to reduce their wealth due to debt payments; on the other hand, the second one receives additional returns from their savings. In this context, financialization deepens economic inequalities, especially over wealth (Özyiğit, 2021: 272).

The fact that the employees have to pay the interest payments of the consumer loans they use from the future wage incomes that they have not yet obtained, results in the confiscation of a part of the income of the debtor employees regardless of the loan they use. Lapavitsas (2009) emphasizes that this process contributes to the further deterioration of income distribution through financial confiscation. Ayata (2020: 22-23) states that the obligation of employees to pay debts further increases their livelihood problems arising from loss of income, and that many families who increase their consumption and welfare levels by borrowing have to dispose of their savings due to increasing unemployment and wage reduction.

The mainstream approach argues that factors such as low and stable inflation, low interest rates, higher income levels, demographic changes and financial liberalization are usually the determinants behind the increase in consumer credit and household indebtedness (Karaçimen, 2014: 161). However, the mainstream approach ignores or excludes how the inequality-based functioning of the capitalist process, the practices of neoliberal economic policies against laborers, and financialization make borrowing compulsory for laborers. On this, there is a contribution from the fact that the economical perspective of the mainstream is apolitical. However, as it is known, all economic decisions, preferences and policies have political consequences, in other words, class consequences.

The fact that wage earners use consumer loans as a substitute for wages due to insufficient wages and use credit cards as a substitute for consumer loans when they cannot access consumer loans for various reasons are noteworthy in terms of the mechanisms of financial inclusion and the dimensions of financialization. Genç (2018: 95) states that credit cards, as a debt instrument, have

become the basic means of subsistence in order to sustain life. In this context Özküralpli (2019: 63-64) underlines the fact that credit card is also a kind of loan, and the loan is considered as the money given by the bank to the customer within the framework of a certain legal contract, the loan that the customer is obliged to pay, in other words, the loan-money, and therefore the loan is basically a borrowing relationship that expresses the receivable of the bank. As a result, although rising inequality has increased the speculation tendency of mostly the richer strata of society, the poor strata tend to hold risky financial assets. Thus, fragilities or instability in financial markets, in other words, the irregular structure of the markets and capital ownership cause more inequality.

7. Financial inclusion and Inequality: Empirical Findings

In the studies dealing with financial inclusion and income inequality, it is seen that the mentioned relationship is mainly discussed in three basic dimensions: the measurement of financial inclusion, the determinants of financial inclusion, and the links between financial inclusion-poverty and income inequality[7]. However, the major studies in the table below are discussed and tabulated only in terms of the results of the relationship between financial inclusion-poverty and income inequality.

Table 1

Several Studies on the Relationships among Financial Inclusion-Poverty-Income Inequality

Author/Authors	The study area/region	The purpose of the study	The main results of the study
Park & Mercado (2015)	37 developing Asian economies	To test the factors affecting financial inclusion and the significance of financial inclusion in reducing poverty and income inequality	It has been found that per capita income, rule of law and demographics increase financial inclusion, while high age-dependency ratio significantly reduces financial inclusion. Primary education completion and literacy rates do not have a significant effect on the level of financial inclusion in developing Asia, and that financial inclusion significantly reduces poverty.
Park & Mercado (2018)	The economies of 151 countries	Assessing the cross-country impact of financial inclusion on poverty and income inequality across country income groups	It covaries significantly with higher financial inclusion, higher economic growth, and lower poverty rates. However, these results apply only to high- and middle-high-income economies, not middle-low and low-income countries. Moreover, they did not find that financial inclusion in any income group had a significant effect on income inequality.

[7] For instance Tsouli (2022b), Omar and Inaba (2020).

Honohan (2007, 2008)	The economies of 162 countries	To examine the relationship between the proportion of the adult population using formal financial intermediaries, and poverty and inequality.	Results indicated that financial access by itself significantly reduces poverty and income inequality.
Cabir et al., (2017)	35 countries in sub-Saharan Africa	Analyzing the impact of financial inclusion on poverty reduction at the low-income household level	Financial inclusion has significantly reduced the level of poverty in sub-Saharan Africa by providing net wealth and greater welfare benefits to the poor.
Swamy (2014)	India	Analyzing the impact of financial inclusion on welfare, taking into account the effect of the gender dimension	The study found that the participation of poor women in financial inclusion programs in general had a strong impact on increasing household income and improving family well-being.
Burgess & Pande (2005)	India	Analyzing the impact of financial inclusion on poverty	They found that the expansion of state-led bank branches into rural areas where banks are not available significantly reduces rural poverty through access to formal sector credit and savings opportunities.
Brune et al., (2011),	Malawi	Analyzing the impact of financial inclusion on welfare	They found that financial inclusion practices for poor farmers had a significant impact on their well-being by facilitating access to funds for agricultural inputs.
García-Herrer & Turégano (2015)	Eastern Europe, Asia, Latin America, and Africa	Assessing the role of both dimensions of financial development (financial sector size and financial inclusion) in reducing income inequality	They found that the financial inclusion contributed to the decrease in the income inequality.
Dabla-Norris et al., (2015)	Latin America and Carribeans	Analyzing the impact of financial inclusion on growth	They found that financial inclusion, lowering costs, and loosening collateral restrictions also help stimulate growth and reduce inequality.
Salazar-Cantu et al., (2015)	Mexico	Exploring the impact of financial (participation) inclusion on income inequality	It has shown that higher financial participation will initially lead to greater income inequality, but then significantly reduce inequality as financial participation continues to increase.
Omar & Inaba (2020)	116 developing countries (36 from Asia, 53 from	Analyzing whether financial inclusion has an impact on	Financial inclusion had a significant positive effect on reducing poverty and income inequality.

	Africa and 27 from Latin America and the Caribbean)	reducing poverty and income inequality	
Tsouli (2022b)	122 country economies (32 high-income countries, 38 high-middle-income countries, 38 low-middle-income countries and 14 low-income countries)	Investigating the impact of financial inclusion in reducing poverty and income inequality	A link has been found between financial inclusion and income inequality in high- and low-middle-income countries.

The studies in the table above are several selected studies that focus on the relationships between financial inclusion, poverty, and income inequality, as mentioned earlier. However, for the purpose of this study, it is necessary to take a look at some studies that consider household indebtedness to reveal the possibility that financial inclusion will increase income inequality rather than reducing it via increasing household indebtedness:

In their study for India, Sikarwar et al. (2020), found that people who do not have a regular income source or who have insufficient income could not repay their loans and there was a negative relationship between household indebtedness and economic growth. In this respect, the study emphasized that increasing indebtedness is a source of global-scale concern, and stated that the results obtained should be taken into account by the country's policy makers when formulating policies regarding financial inclusion among the needy segments of society.

Jacop et al. (2022) conducted a study that aimed to analyze the state of financial inclusion, extent and causes of indebtedness of rural households, repayment capacity, and sustainability of debt management by rural households in a part of rural India and reached the following conclusions: Although the flow analysis shows that, on average, households have the capacity to pay the loan interest from their income, this is not the case for the low-income households that make up the majority of the sample. In addition, dependence on agriculture as the main source of livelihood makes rural household incomes variable. This may cause households to fall into the debt trap in the sense of not being able to pay or manage their debts. In this context, one of the policy recommendations should be the promotion of financial literacy.

As stated by Üzar & Oktar (2018: 46) in addition to these studies, Stockhammer's (2015) study, which relates the last financial crisis to the increase in inequality deepened by financialization, and which provides a relationship between the increase in household indebtedness,

income distribution and borrowing tendency, is important in terms of its results. According to the study, the poor households are obliged to take loans in order to secure their present consumption patterns (Stockhammer, 2015: 935). Moreover, Iacoviella (2008: 957), Barba & Pivetti (2009: 114), Palley (2010: 29), Cynamon & Fazzari (2016: 374) and Köhler et al. (2016: 9) with similar perspectives, indicated that the pressure in the wages and the reduced effectiveness of social state resulted in the indebtedness of more and more people and increased the ratio of debt to income. In this context, considering the lack of studies in literature on the relationship between financialization and income distribution, it is seen that Dünhaupt's (2017) study contributes to fill the gap by analyzing the role of financialization in explaining the decrease in the labor share, based on the Kaleckian approach to the determination of income shares.

As can be seen, capitalism deepens inequalities through neoliberal policies and financialization and makes indebtedness a way of life for the low-wage. Thus, inequality, poverty, and indebtedness become both a cause and a consequence of financial inclusion. In this context, contrary to the mainstream literature, it can be said that the relationship between financial inclusion and inequalities produces mutually supportive results, not one-way from financial inclusion to inequality or in the opposite direction.

8. Results and Evaluation

The casual relationship between financial inclusion and income inequality will be different according to which mechanism the financial inclusion is provided and the dynamics behind the income inequality. An evaluation aiming to analyze this will be insufficient and lacking without considering the events from a comprehensive framework including the mechanism of capital accumulation and historicity of capitalism. For this reason, this study tackles the financial inclusion as a form of financialization which expresses the transformation of capitalism through financial mechanisms. Financial inclusion as a form of financialization was explained with a mechanism based on household indebtment in a period with the neoliberal policies and that the consumption is put forth as never seen before. Therefore, in this study the indebtment of households represents the financial relationship appeared mostly after the indebtment opportunities which facilitate the financial inclusion and the income inequality. The obligation to take loans necessitated by income and wealth insufficiency is closely related with the consumer loans and credit cards given to the poor that might be considered a type of loan.

In this context, indebtedness is an element of the global economy which is growing gradually stronger and posing a danger at the same time. Because a significant resource is transferred from households to the financial sector via indebtedness and financial inclusion mechanisms. This transfer generates results that further aggravates the inequality through reducing the income of the labor and increase the capital through financial inclusion mechanisms. Moreover, this stands as an obstacle on the path of escape from the circle of poverty. As a result, rather than eliminating, the poverty becomes a concept that was targeted to be managed. In other words, the actual aim of the financial inclusion policies is not being beneficial to the poor people, but sustaining the capitalism throughout the management of poverty. The findings of the study based on descriptive statistics are compatible with the critical literature which discusses the financial inclusion within the scope of capitalist production system.

Considering all these together, it can be a good starting point in the fight for removing the economic dimensions of inequality and poverty to displace the policies aiming to manage the inequality and poverty via financial mechanisms and put the new ones that directly increase the income with wage, employment, and financial policies and materializing globally debated citizenship income.

The technological developments took place on recent years accelerated the digitalization of finance further. Digital financial inclusion applications aim to include the poor within the global wealth accumulation strategies through lending. Future studies that consider the digital finance dragged by the Fin-Tech companies and its relation with the inequality can expanse the findings of this study and its interpretation. Other than the mainstream research studies claiming that the inequalities created by the novel technologies are transient and with the further development of the technology they will disappear, the studies done in the scope of critical literature will assist in deciphering the lurking inequalities hidden in the shadows of technology.

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