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The Financial Kuznets Curve in European Union

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ABSTRACT

The new phenomenon called as financial Kuznets curve hypothesis indicates that financial development initially leads to deterioration in income distribution and income inequality reduces with the certain level of financial development by providing easy access to financial instruments for the low income households. This study investigates the existence of financial Kuznets curve hypothesis in 20 European member countries for the period from 1992 to 2013. In addition with financial development, we also used real GDP per capita and period dummy for 2008 financial crisis as an explanatory variable. The panel long-run estimator results show that economic growth leads to increase in income inequality. Moreover, income distribution is negatively affected by 2008 financial crisis. When the results are evaluated with the main aim of the study, it is concluded that inverted U-shaped financial Kuznets curve hypothesis is valid in EU member countries.

KEYWORDS Financial Development; Inequality; Kuznets

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