

# Finance and Income Inequality Revisited

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Comments

P.L. Siklos

# Main Findings

- The positive impact of financial development is higher on inequality is financial development is higher
- Better political institutions reduce income inequality
- Results do not suggest that the impact of finance on inequality is conditioned by the quality of economic institutions

# Main (?) Objective

- “...shed some light on the reasons why studies reach different conclusions.”
  - Maybe but left out in conclusions so we don't really know.

# Back to the Beginning: Theory

- Confusing or confused?
  - Information, transactions costs, regulation highlighted at first
  - Quality of institutions comes later
  - Initial conditions? Unclear (and none in the empirical work)
  - Is theory always about *inequality* or something else?
- Is any inequality bad? How much is bad enough? Is there a threshold? A Trend effect?

# Back to the Beginning: Empirics

- Even more confusing
  - Literature, for the most part, fairly recent (no surprise here)
  - Literature cited has *very* different samples, country groupings, conditioning variables, sampling frequency
  - Good news? Econometric technique (panel) generally the same (estimation method differs of course)

# Comments I:

## Not in order of Importance

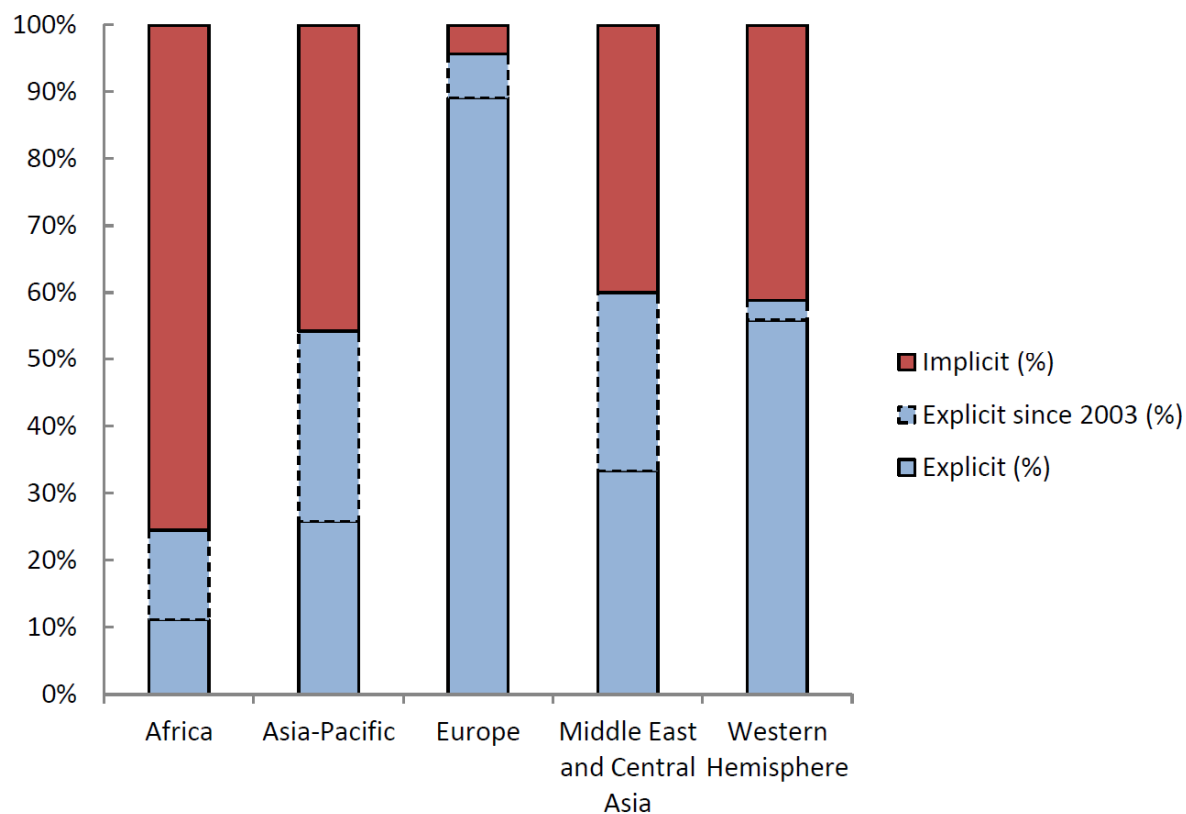
- Crises (but only banking?) play an important role and causal relationship with inequality discussed more than once but...no real attempt to sort out this issue here. Why? Separate paper? Not possible?
- “The crisis dates enumerated by each source are quite different.”
  - The use of a dummy is a rather blunt instrument

# Comments II: Missing Variables? Information?

- Deposit insurance?

# Deposit Insurance

Figure 2. Explicit Deposit Insurance by Region, 2013



Deposit Insurance Database

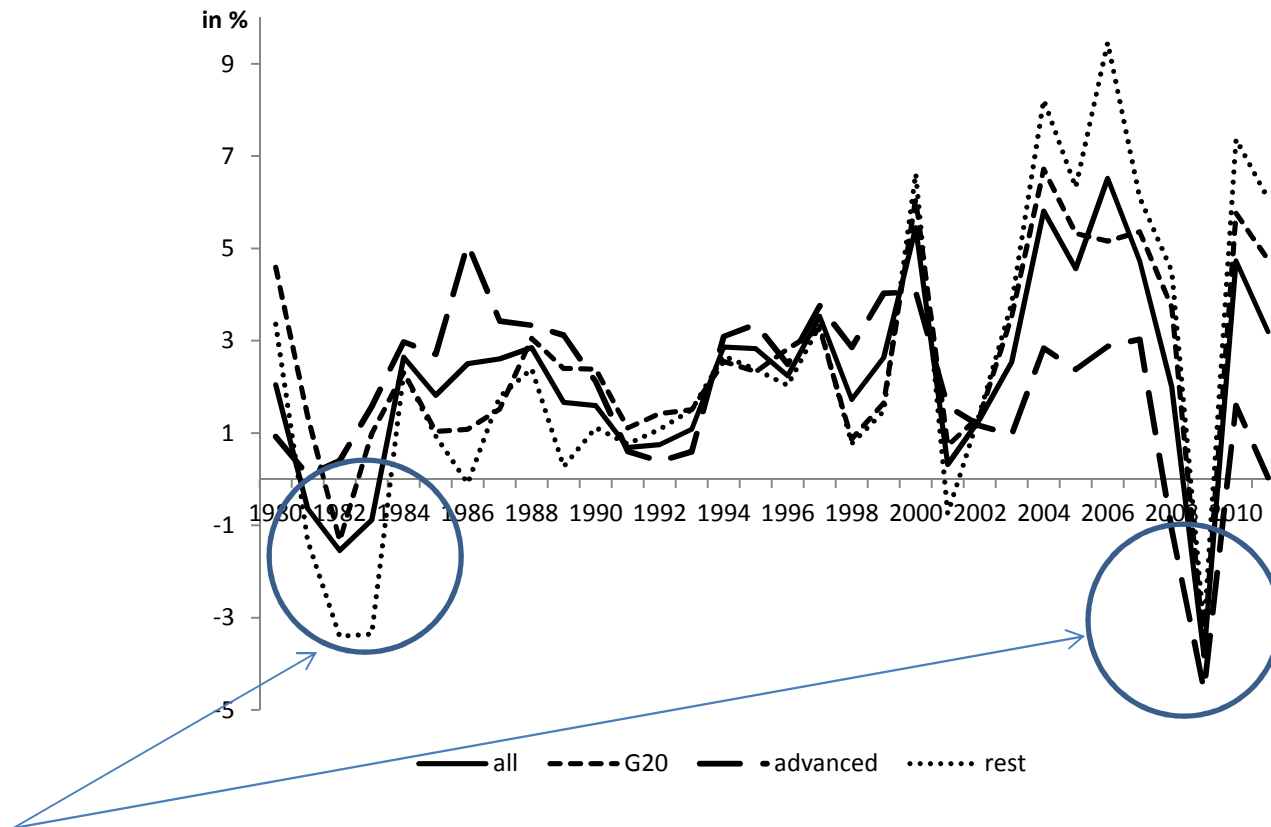
*Asli Demirgüç-Kunt, Edward Kane, and Luc Laeven*



# Comments II: Missing Variables? Information?

- Deposit insurance?
- What samples matter? Why?
- Not just inequality *levels* but the speed of change

# Average of Real Per Capita GDP Growth



Both GLOBAL  
But recoveries different

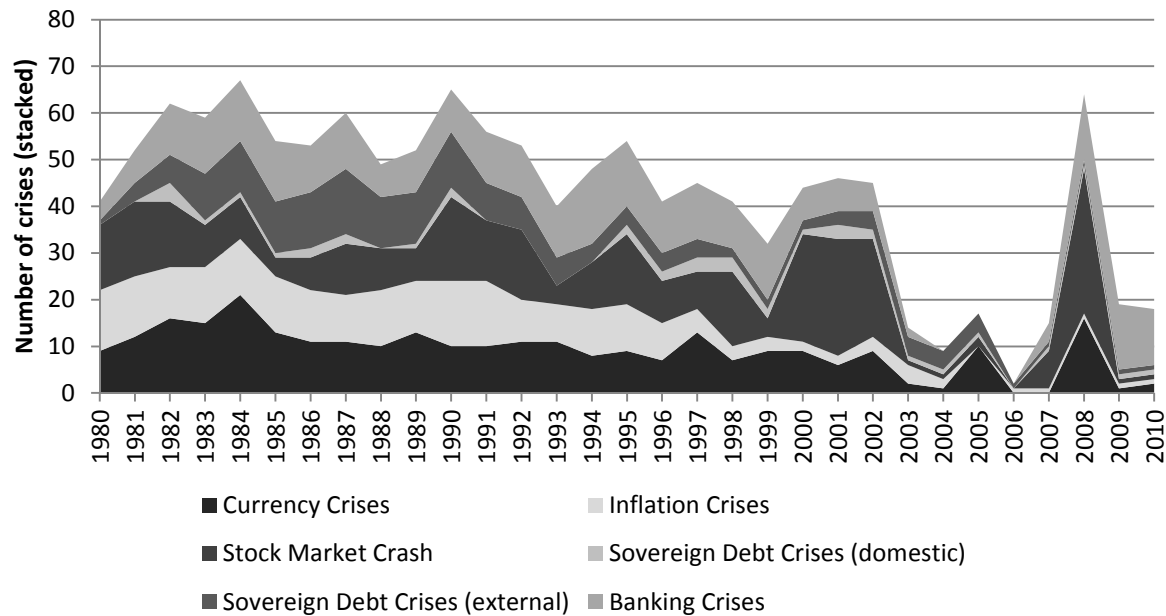
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Martin T. Bohl \*, Philip Michaelis \*, and Pierre L. Siklos \*\*  
AUGUST 2014

# Comments II:

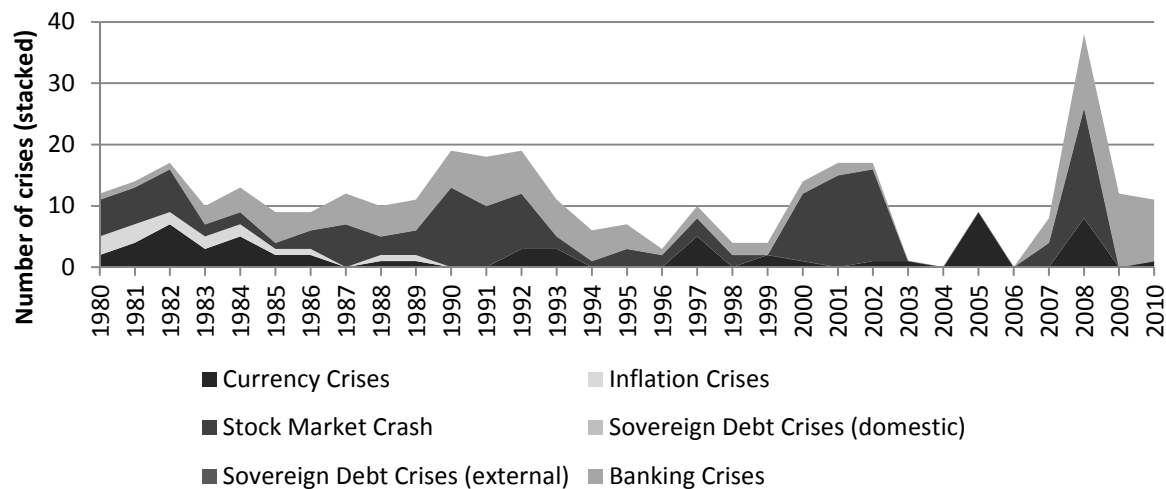
## Missing Variables? Information?

- Deposit insurance?
- What samples matter? Why?
- Not just inequality *levels* but the speed of change
- Are the estimates different in different parts of the world?
- Why just banking crises?



Full sample  
47 economies

Sources: Reinhart and Rogoff (2009), and Leaven and Valencia (2008)



Advanced

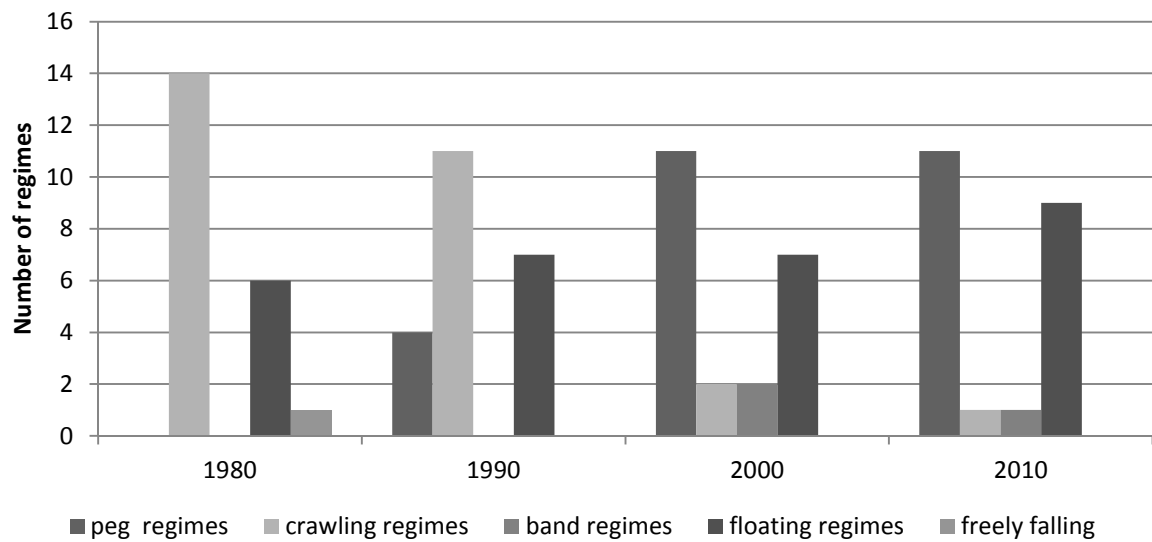
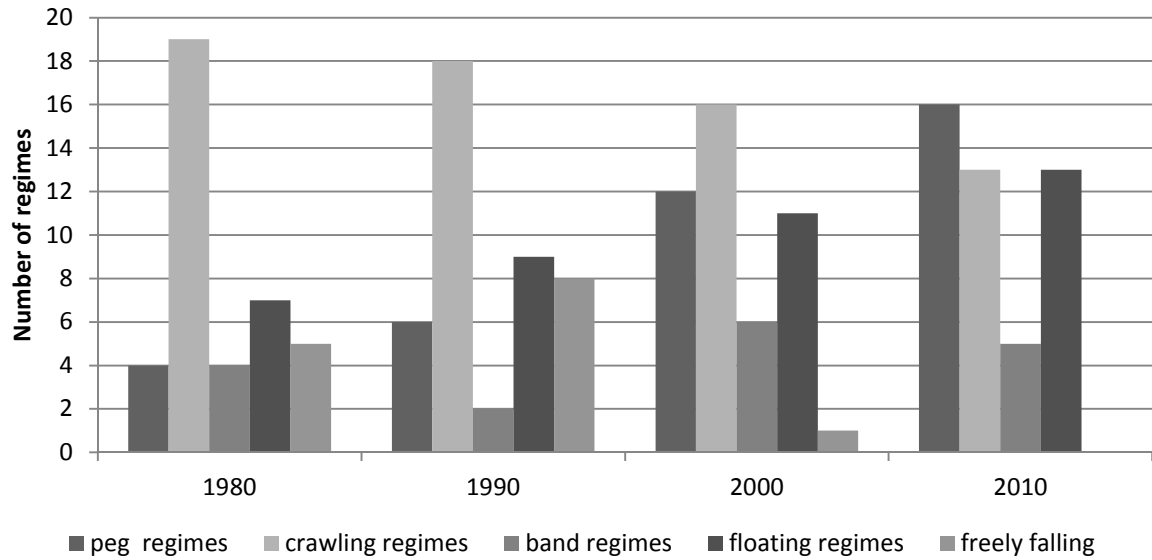
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# Comments II:

## Missing Variables? Information?

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- What samples matter? Why?
- Not just inequality *levels* but the speed of change
- Are the estimates different in different parts of the world?
- Why just banking crises?
- Financial openness seems to matter little: why buried in a footnote?
  - Would seem at odds with financial development in EME in recent decade
  - Exchange rate regimes instead?



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Economic Modelling (2015)