

Finance and income inequality revisited

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Abstract

Using a panel fixed effects model for a large sample of countries, we examine how financial development, financial liberalization and banking crises are related to income inequality. Our results suggest that all finance variables increase income inequality. In addition, the impact of financial liberalization on inequality seems to be conditioned by the level of financial development. There is evidence that the quality of political institutions conditions the impact of finance on income inequality, in contrast to the quality of economic institutions. Our main finding is robust for using random effects, cross-country regressions and legal origin as instrument for financial development.

Key words: income inequality, financial liberalization, financial sector size, financial crises
JEL-codes: D31, D63, F02, O11, O15

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