Finance and Inequality: Evidence from Brazil

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Abstract

We examine in this paper the impact that financial development had on earnings inequality in Brazil in the 1980s and 1990s. The empirical evidence presented—based initially on time series, and then on panel time series and panel data and analysis—shows that broader access to financial and credit markets had a significant and robust effect in reducing inequality during the period. We suggest that this is not only because the poor can invest the acquired credit in either short or long-term productive activities, but also because those with access to financial markets can insulate themselves against recurrent poor macroeconomic performance, which is exemplified by high rates of inflation. The main practical implication of the results is that a seemingly non-distortionary policy, such as more widespread finance, alleviates the high inequality (and therefore improves welfare) present in Brazil without distorting economic efficiency. (JEL: D31, E44, O11, O54).

Keywords: Financial development and markets, credit, inequality, Brazil.

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