Financialization, Democracy and Income Inequality

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Recent cross-national studies of income inequality have a debate that financialization might exacerbate or ameliorate the income gap. This article reexamines the association between financialization and income inequality from the perspective of comparative politics. Using fixed-effects models including 113 countries during 1990–2012, the statistical results show that financialization generally increases Gini coefficients across countries. It supports the theory expanding credit is exploited by the economic elites and state elites who mobilize credit to obtain enormous revenue, thus enhancing income inequality. Furthermore, the access to credit is decided by political leaders under distinct political regimes. We claim that the financialization in democracies results in less income inequality because the access to credit is different from autocracies. While in autocracies credit is confined in political coalitions, in democracies the credit is more accessible to citizens’ requisitions. Statistical analysis substantiates this claim that the interaction between democracy and the credit to the private sector decreases Gini coefficients. Similarly, the interaction between democracy and the credit to SOEs also decreases it. Hence except the main effects of financialization, the credit expansion of the private sector and SOEs reduces income inequality in democratic countries. The results imply that the financial expansion policies in democracies can be more evenly distributed than in autocracies.

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