COMMENTS ON
“FINANCE, INEQUALITY AND THE POOR”
BY THORSTEN BECK, ASLI DEMIRGUC-KUNT
AND ROSS LEVINE

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Comments on
“Finance, Inequality and the Poor”
by Thorsten Beck, Asli Demirguc-Kunt and Ross Levine

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Key Features

- Challenges unsolved question: Does financial development help the poor?
- Careful choice of a variable for financial development: “private credit”, instead of commonly used “M2”
- GMM method as well as OLS
- Thorough robustness tests: reverse causality, outliers, country-specific effects
- One of the earliest studies using WIDER (2005) ⇒ the most useful database of income inequality for cross-country analyses

(Beck et al. also use inequality data from Dollar and Kraray(2002))
WIDER (2005)
World Income Inequality Database version 2.0a

◆ Advantages
- Released in June 2005
- Popular, trusted data: Earlier version used in many empirics
- World-wide coverage of countries (152 countries and areas)
- Internationally-comparable database of income inequality

◆ Limitations
- Lack of data availability is severe (Many blanks)
- Various different definitions of “income” inequality
  (i.e., “Income” definition: Consumption/Disposable income/Gross income)
  ⇒ Forces researchers to compare “consumption” inequality of Country A and “gross income” inequality of Country B
**e.g., Bangladesh in WIDER database**

- Five yearly observations over the period 1995-2000
  (4 observations in 1996, 1 observation in 2000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini</th>
<th>Income Definition</th>
<th>Source</th>
</tr>
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<tbody>
<tr>
<td>1996</td>
<td>38.2</td>
<td>Consumption</td>
<td>D&amp;S, WB2004</td>
</tr>
<tr>
<td>1996</td>
<td>41.2</td>
<td>Income, Gross</td>
<td>D&amp;S, WB2004</td>
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<td>1996</td>
<td>43.0</td>
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<td>1996</td>
<td>33.5</td>
<td>Consumption</td>
<td>WB-PMD</td>
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<td>2000</td>
<td>31.7</td>
<td>Consumption</td>
<td>WDI 2004</td>
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</table>
Questions to Mr. Beck

- How have you overcome the potential problem of inconsistency of inequality data caused by limited data availability and different definitions of “income” inequality?

- Would you provide any suggestions on using inequality data in policy-making and future research?