POLICY OPTIONS AND CHALLENGES
FOR DEVELOPING ASIA—
PERSPECTIVES FROM THE IMF AND ASIA
APRIL 19-20, 2007
TOKYO

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

AKIRA NISHIYAMA
KEIO UNIVERSITY, JAPAN

Paper presented at the Conference: POLICY OPTIONS AND CHALLENGES FOR DEVELOPING ASIA—PERSPECTIVES FROM THE IMF AND ASIA
Organized by the International Monetary Fund (IMF) and
Japan Bank for International Cooperation (JBIC)
April 19-20, 2007
Tokyo, Japan

Comments on "Finance, Inequality and the Poor, by Thorsten Beck, Asli Demirgüc-Kunt and Ross Levine"

Akira Nishiyama
Associate Professor, Keio University

Good afternoon. My name is Akira Nishiyama from Keio University.

Thank you very much, Mr. Beck, for a thought-provoking presentation. I think it provides us with a very good starting point for further discussion.

I am going to try to highlight a few points which Mr. Beck raised in his presentation, and I hope we can proceed with our discussion afterwards.

Mr. Beck's article seeks to answer an unsolved question: Does financial development help the poor? It features careful choice of a variable to explain financial development. "Private credit" is used for it, instead of a commonly used variable, "M2". GMM as well as OLS are employed for analysis. Thorough robustness tests are appropriately exercised so that concerns of reverse causality, outliers and country-specific effects are mitigated. Importantly, this is one of the earliest studies using the UNU-WIDER (2005) database. I would like to focus on this point.

The WIDER database has some advantages and limitations over other sources. As one of the advantages, it was released in June 2005, so it is one of the latest databases of inequality. It is a popular, trusted database. Its earlier version is used in many empirical studies. It has coverage of 152 countries and areas. It is also known as an internationally-comparable database of income inequality.

However, there are some limitations, too. Lack of data availability is very severe. There are many blanks in the database. It contains various different definitions of "income" inequality. The database mainly uses three different definitions of "income" such as consumption, disposable income and gross income. Therefore, it sometimes forces researchers to compare "consumption" inequality of Country A and "gross income" inequality of Country B. For example, for Bangladesh over the period 1995 to 2000, five yearly observations are available. Four of the observations in the year 1996 and one observation in 2000. Income definitions are different among observations. Scores of the Gini coefficients vary largely among observations even in the same year.

Deininger and Squire (1996) reports "the mean difference between income-based and expenditure-based Gini coefficients is about 6.6"(p.582). Therefore, to make their dataset more comparable, 6.6 was added to expenditure-based Gini coefficients. However, this average of 6.6 is sample-specific so that this may or may not be applicable to Mr. Beck's dataset. Unfortunately, there is no more widely accepted method of data transformation than this.

In concluding my comments, I would like to address a few questions to Mr. Beck. How have you overcome the potential problem of inconsistency of the inequality data, caused by limited data availability and different definitions of "income" inequality? Could you provide any suggestions for using inequality data in policy-making and future research?

Thank you very much.

References

Deininger, K. and L. Squire. (1996). “A new dataset measuring income inequality”, *World Bank Economic Review* 10(3), 565-91.

UNU-WIDER. (2005). World Income Inequality Database, Version 2.0a.