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Financial liberalization and global inequality



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49. Financial liberalization and global inequality

Stephany Griffith-Jones and E. A. Brett

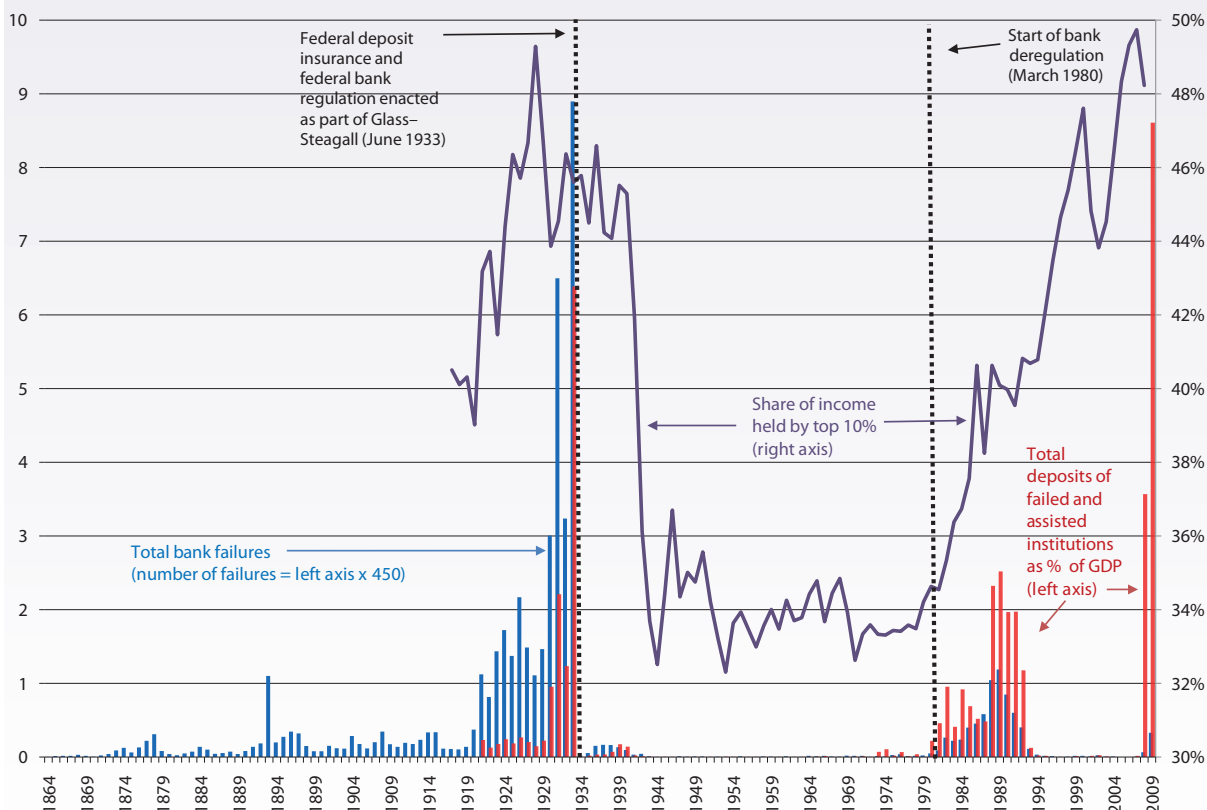
The increasingly deregulated, liberalized and globalized financial system created over the past thirty years has been a major cause of inequality, nationally and internationally, through a number of channels.

Finance tends to increase inequality in boom times, when excessive credit is given. There is a bias towards financing the largest companies, the richest individuals and the richest economies, while small and medium-sized enterprises tend to suffer from lack of finance, especially in poorer countries. In such a context, the risk of crisis increases as rising credit and debt levels are thought necessary to maintain a high

rate of growth (Turner, 2015). Indeed, when credit is given to poorer people or countries it is often done in an unsustainable way, leaving them often poorer after the bust, and undermining financial stability.

The USA is an illustrative case. Financial liberalization has contributed to financial sector growth from 2.8 per cent of GDP in the 1950s to 7.6 per cent in the mid-2000s (Stiglitz, 2015). This has further increased inequality, since the sector's high profits represent a very high share of total corporate profits, and it pays senior employees very high incomes (Figure 49.1).

Figure 49.1 Bank failures, regulation and inequality in the USA



Source: Moss (2010).

On the other hand, the number of bank failures dramatically increased after the process of financial regulation in the 1980s (*Figure 49.1*).

Booms have increasingly been followed by busts, resulting in crises which damage development and impoverish nations. The rich can often protect themselves, through capital flight and other measures, but the poor cannot, so they suffer the losses. Further, financial crises are often managed by imposing austerity on crisis countries. These have historically been developing and emerging economies, and most recently Eurozone countries such as Greece and Spain. This not only damages employment and investment, but disproportionately hurts the poor, through wage and pension cuts, and reductions in public health, education and welfare spending.

A radical restructuring of the finance sector and its regulation is required to reverse this trend. This essential step is politically difficult, since the growth of the finance sector has increased its political influence and power. This can only be overcome by progressive social and political forces pushing a clear reform agenda.

The necessary changes include tighter regulation of the private financial sector, and a larger role for public development banks which can fund public infrastructure and the businesses needed to generate sustainable and equitable development.

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