Impacts on Income Inequality from the aftereffects of Financial Crisis

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Introduction

- Inequality exists within the income distribution of an economy.
- Usually following an economic crisis (e.g., COVID-19 recession, Great Recession, etc.), those at the lower income percentiles become poorer, while the affluent seem to be accumulating more wealth.
- Existing research on the relationship between income inequality & financial crisis is limited by insufficient temporal or geographical data coverage.
- Few works offer comparable cross-national analysis on influencers of income inequality.

Literature Review

Goda (2013), Bernstein (2013)
- **Living standards rise** but income is distributed unevenly
- **Increased borrowing** invites risks

→ *Evidence from the US, UK, China, etc.*

Idoko & Ochidi (2016), Jensen & Johannesen (2017), Chwieroth & Walter (2019)
- Rising costs **depress consumption**, which can persist ⇒ recession loop

→ *Evidence from Nigeria, Denmark, the US*

Sieron (2017), Mumtaz & Theophilopoulou (2017), Cairó & Sim (2018)
- **Monetary policies** can affect the income gap both ways, or even sever link between income inequality & aggregate demand

→ Modelled on US data, evidence from the UK

Blau et al. (2021), Biglaiser & McGauvran (2021)
- Inequality increases stock volatility
- **Greater human capital**, higher income inequality, **stabler stock**

→ Evidence from US shares in 37 countries
- **Bond downgrades** raise income gap

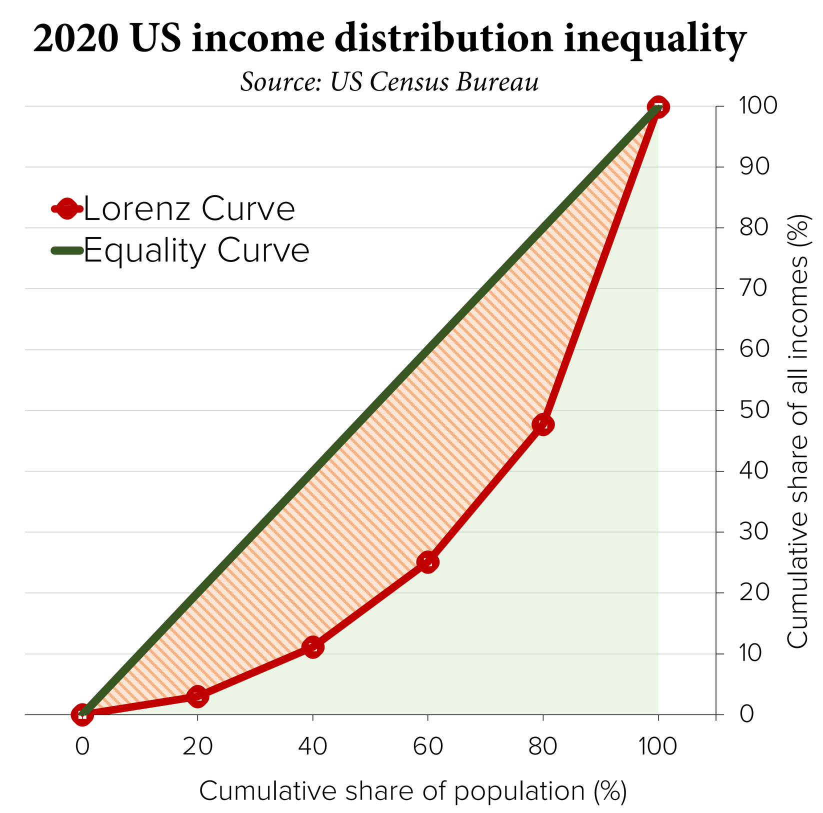
→ Evidence from 70 developing economies

and other works

Data

Sets: 15 nations, 15 years → 3 groups, 75 observations each
Groups: Upper-high, lower-high, and middle income
Period: 2004–2018, annually
Sources: Standardized World Income Inequality Database, Federal Reserve Economic Data, Investing.com, World Bank, International Monetary Fund, United States Census Bureau

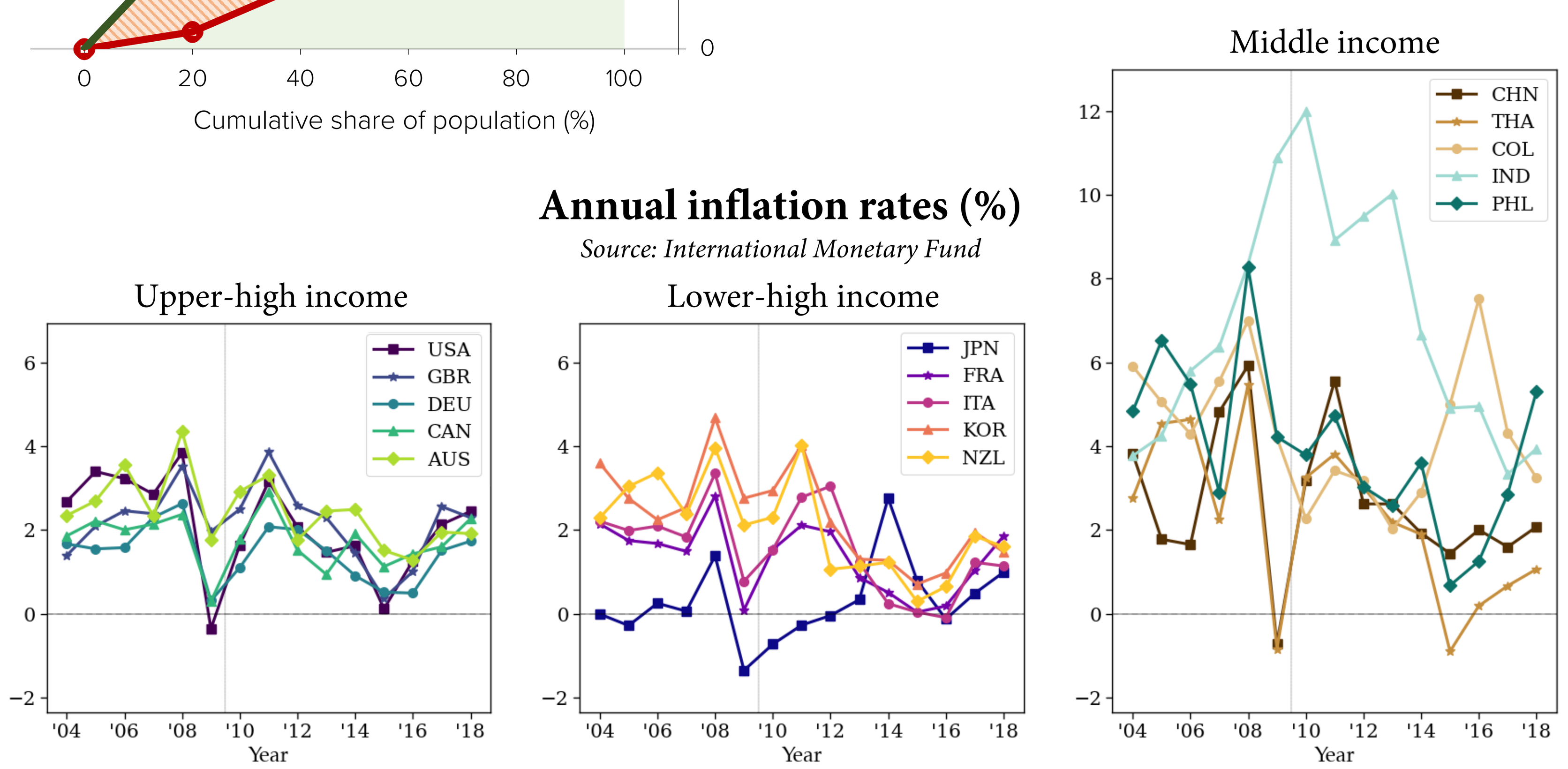
Methodology



Perfect Equality: 50% of the population is expected to account for 50% of the economy's gross income, etc.

As **income becomes more evenly distributed**, the striped area becomes smaller, **Gini coefficient approaches 0**.

Hypotheses:
1. *As **unemployment rises**, expected income **inequality grows**.*
2. *Paradoxically, **expansionary monetary policies** are expected to **widen the income gap** due to arbitrage and sticky wages.*



Rationale behind Panel Groups
- Higher incomes are expected to behave similarly, yet there are still inherent differences.
- Middle income is hugely diverse.

Results

Dependent variable: *Gini Coefficient*	I	II	III
Income Group:	Upper-High	Lower-High	Middle
Post-Crisis effect	86.52 *	43.39	52.91 ***
Real M3†	-1.41 ***	-0.19 ***	-0.26 **
Post-crisis real M3†	1.61 **	-0.02	0.17
Unemployment	-0.33	-0.39 ***	0.81 ***
Post-crisis unemployment	1.00 *	0.38 **	0.37 **
Real GNI per capita†	14.63 ***	2.95 *	2.85 **
Post-crisis real GNI per capita†	-12.23 ***	-5.54	-5.89 ***
Control variables‡	*Yes*	*Yes*	*Yes*
Constant	-54.47 *	12.05	19.27 **
R^2	0.86	0.26	0.91

* p<0.05
** p<0.01
*** p<0.001

† measured in *natural log*

‡ *Control variables* include yield spread, real stock price index, stock volatility index, annual inflation, and corresponding post-crisis interaction effects

☆ The dummy factor represents the period post Great Recession

☆ As Woolridge tests detect serial correlation in the data, regressions were run with Driscoll-Kraay standard errors for panel analysis

Results & Conclusions

- Income inequality is **overall increasing**, more so in real terms.
- Countries of **lower-high incomes** were the least affected.
- Post-crisis **unemployment hikes** increase inequality, but post-crisis **rising per-capita income** bridges the income gap.
- **Expansionary monetary policies** can produce **stabilizing effects** on the income gap in all country income groups involved.
- The average household may have **altered the composition of income** following the Great Recession.

Policy Suggestions

- ✓ Public dissemination of information on certain assets or other investment vehicles, providing **more accessibility to platforms for financial investment**.
- ✓ Balancing between maintaining healthy inflation and **nurturing gap-bridging redistribution of wealth**.

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… more works referenced & reviewed to be found in the paper.