

Finance and Inequality: Channels and Evidence, by Stijn Claessens (CEPR/IMF) and Enrico Perotti (CEPR/UNU-MERIT).

Forthcoming in the *Journal of Comparative Economics*, this paper provides a conceptual review of recent literature on financial access, and their links with inequality.

Abstract

We provide a framework to interpret the recent literature on financial development and inequality. In many developing countries, access to funding and financial services by firms and households is still very skewed. Recent evidence suggests that poor access does not only reflect economic constraints but also barriers erected by insiders. Inequality affects the distribution of political influence, so financial regulation often is easily captured by established interests in unequal countries. Captured reforms deepen rather than broaden access, as small elites obtain most of the benefits while risks are socialized. Financial liberalization motivated to increase access may in practice increase fragility and inequality, and lead to political backlash against reforms. Thus financial reforms may succeed only if matched by a buildup in oversight institutions.