
Income inequality, finance and space. A cross-country analysis.

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Résumé

In this paper we expand the literature on the causes of household income inequality to include the distribution of finance across space, based on a dataset of national and urban data for 138 developed and developing economies, for the period 2000- 2014. Our main research hypothesis is to investigate whether the impact of finance upon inequality at the national level varies according to the degree of concentration of financial activity in the largest city of a country. Our contribution is interdisciplinary in nature, encompassing insights from heterodox economics and economic geography. Our results confirm the positive and statistically significant relationship between finance and inequality. All else the same, the larger the overall size of the financial sector in a country, the higher the inequality recorded. Moreover, we provide evidence showing that the impact of finance on inequality emerges in its most intensified form in countries with highly concentrated financial systems. In line with relevant literature, we identify four potential explanations for this finding. First, financial concentration might lead to increased inequality due to the erosion of regional financial services. This can happen out of the take-over of small regional banks and the creation and spread of a more aggressive money culture. Second, in their capacity to develop a global scope, large financial centres might augment inequality due to the detachment of domestic finance from the financing needs of areas outside those centres. Third, large financial centres, and the advanced business services that co-locate with finance, can facilitate the tax evasion of top-income households. Lastly, financial concentration might be reflective of countries' intended efforts to make themselves attractive destinations for foreign capital. Those efforts have been traditionally tied to the nurturing of neoliberal reforms and financial deregulation, aspects long identified as important determinants of inequality.

Mots-Clés: finance, financial concentration, financial centres, income inequality.

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