Title: Macroeconomic determinants of inequality and finance : evidence from Brazil
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Abstract:

In this Thesis we examine firstly how macroeconomic performance, mainly in the role of high rates of inflation, affected earnings inequality in the 1980s and early 1990s in Brazil. The empirical evidence presented shows that the extreme inflation, combined with the incomplete indexation coverage existent at the time, had a regressive and significant impact on inequality. The results-based initially on national time series, and then on subnational panel time-series data and analysis-are robust for different concepts of inflation, inequality measures, estimators and specifications. Thus, sound macroeconomic policies, which keep inflation low and stable in the long run, are to be a necessary first step of any public policy package implemented to alleviate high inequality and improve welfare in Brazil. Secondly, we examine the impact that financial development had on earnings inequality in Brazil in the 1980s and 1990s. The empirical evidence presented-based also initially on time series, and then on panel time-series and panel data and analysis-shows that broader access to financial and credit markets had a significant and robust effect in reducing inequality during the period. We suggest that this is not only because the poor can invest the acquired credit in either short or long-term productive activities, but also because those with access to financial markets, or the indexation provided by them, can insulate themselves against recurrent poor macroeconomic performance, which is exemplified in the case of Brazil by high rates of inflation. The main implication of the results is that a seemingly non-distortionary policy, such as more widespread finance, alleviates the high inequality - and therefore improves welfare - present in Brazil without distorting economic efficiency. Thirdly, we examine the impact of inflation on financial development in Brazil. The data available permit us to cover the eventful period between 1985 and 2002 and the results-based firstly on time series and then on panel time series data and analysis, and robust for different estimators, specifications and financial development measures-suggest that high rates of inflation presented deleterious effects on finance at the time. The main policy implication arising from the results is that poor macroeconomic performance, exemplified in this case by high rates of inflation, can only have detrimental effects to finance, a variable that is important for directly affecting, e.g. economic growth and development, and income inequality. Therefore, low and stable inflation, or a much-improved macroeconomic performance, is a necessary first step to achieve a more inclusive and active financial sector with all its attached benefits on crucial variables not only in Brazil but in any developing country. All in all, we stress in this Thesis the importance of a sound and well-coordinated fiscal and monetary framework so that inflation is brought under control, and stable macroeconomic performance is achieved with all the attached benefits, i.e. lower inequality and more importantly, a more developed, inclusive and sophisticated financial sector, and all that it encompasses.