

Finance & Opportunity

Ross Levine

Brown University

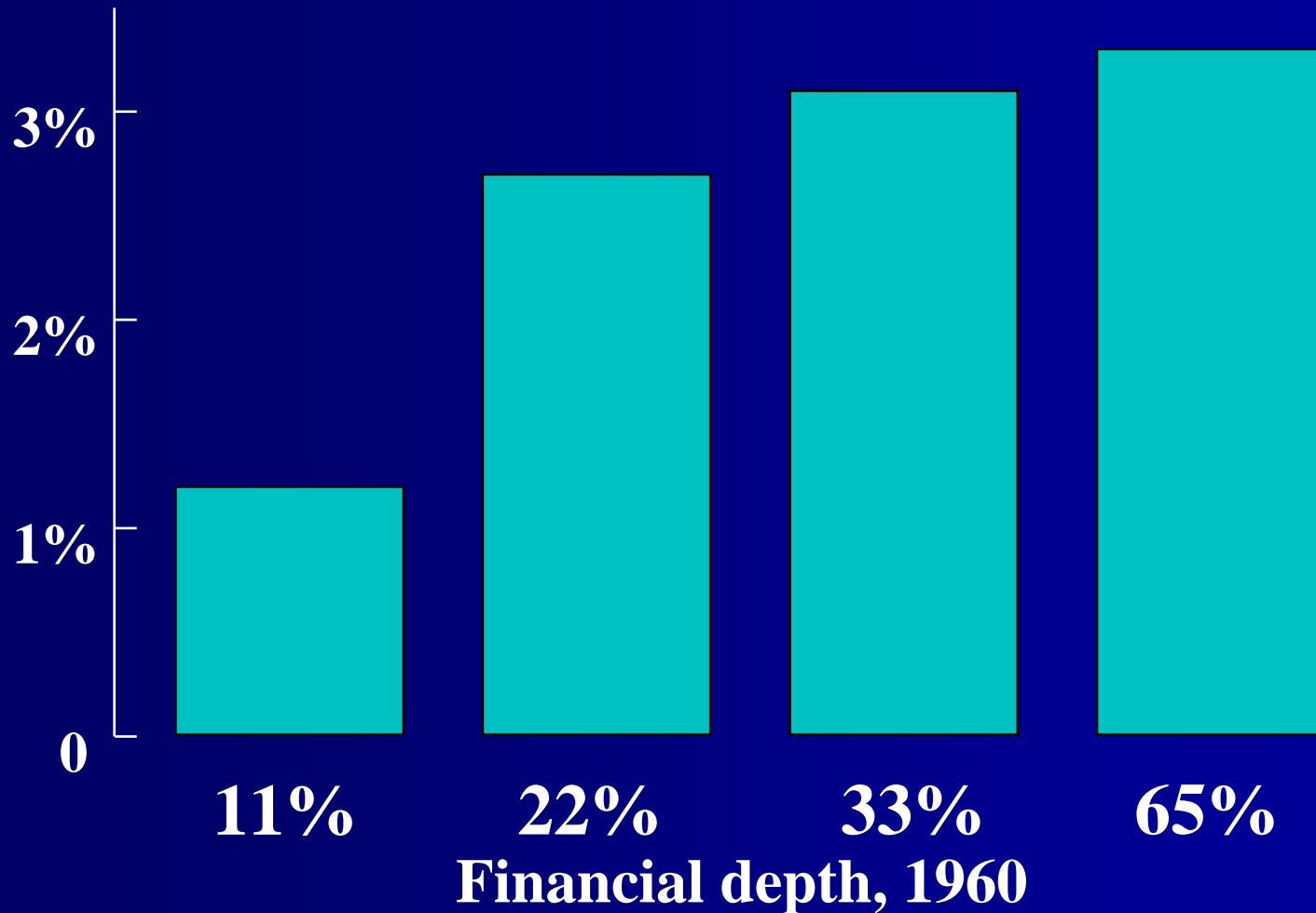
1. Is finance important for economic development?

Development economics: “No”

- For many decades:
 - Books
 - Literature reviews
 - Nobel Laureates
- In the 90s, however the World Bank found ...

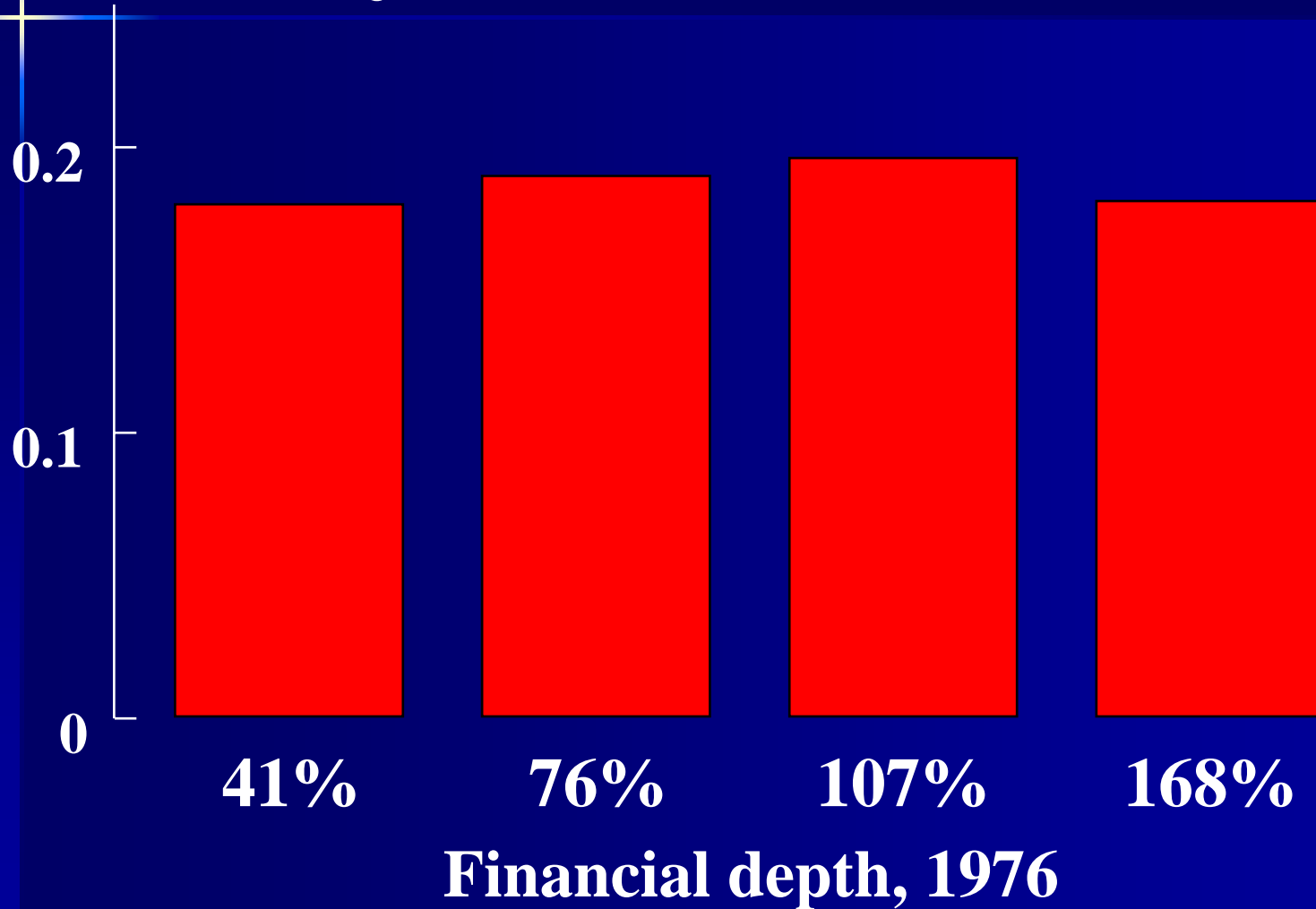
Finance boosts growth

Per capita GDP
growth, 1960-05



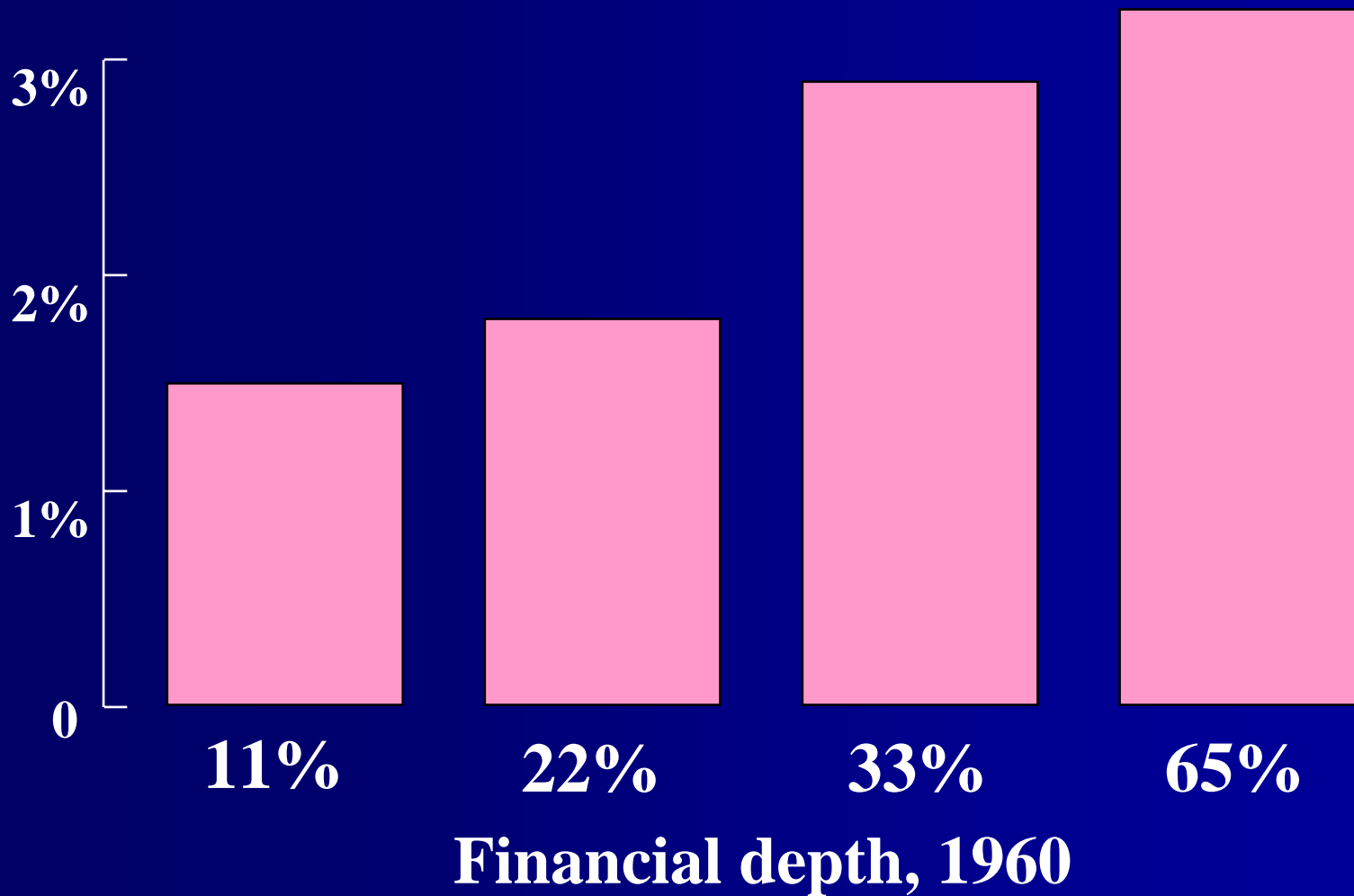
But, finance does not boost savings

Private saving, 1976-05



Finance boosts productivity

Productivity growth, 1960-05



Finance promotes growth by ...

- **Mobilizing capital: "immense works"**
- **Allocating capital & Monitoring firms**
 - "... the banker authorizes the entrepreneur in the name of society to innovate ..."
- **Managing liquidity & risk**

Still skepticism ...

- ❖ What about the poor?
- ❖ Does finance promote growth primarily by enriching the rich?

2. Finance and the poor

- ❖ Concepts are there.
- ❖ But, little empirical exploration.

Do opportunities reflect:

- Parental wealth?
- Parental connections?

- Individual skills?
- Individual initiative?

**Finance affects
comparative roles**

Theory → Finance is key!

- Is credit restricted to the rich?
- Does finance flow to the best ideas?
 - Good for the poor directly
 - Good for the poor indirectly
- Finance helps both equity & efficiency

Financial systems can either protect the wealthy or expand opportunities.

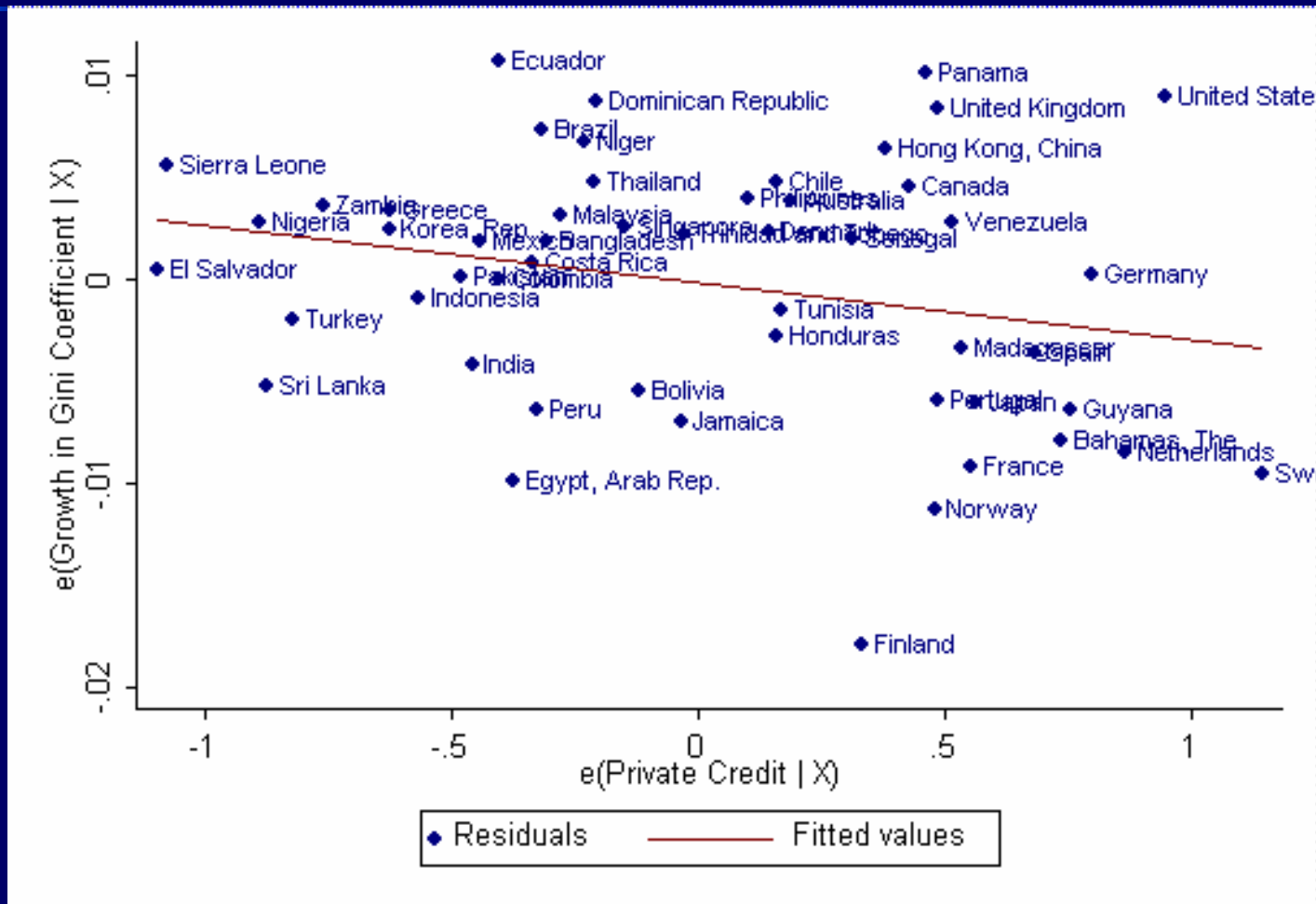
But ...

- Development economists have not focused on ...
 - Financial policies
 - Access
- How important is it?

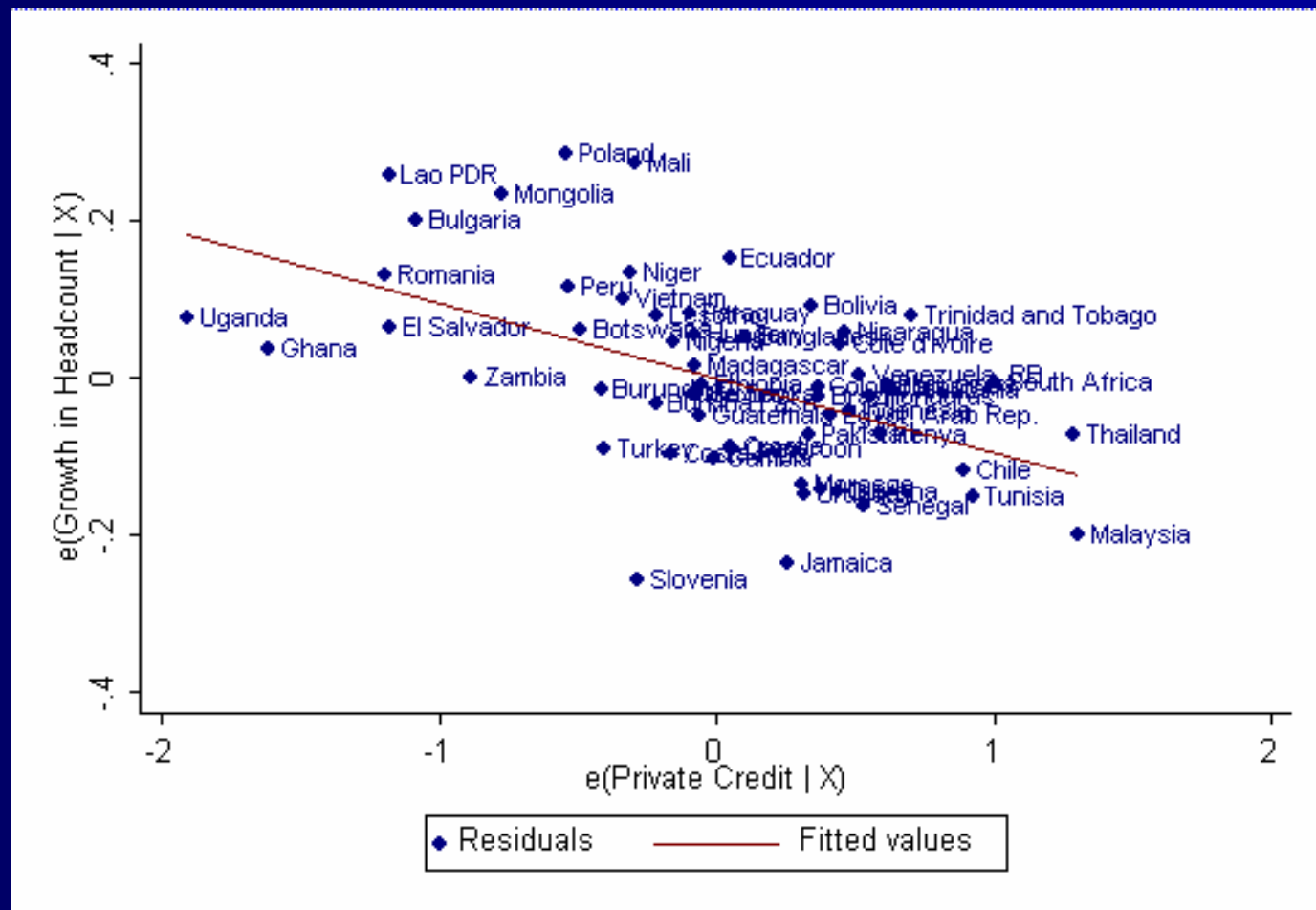
3. What about evidence?

❖ Recent research shows ...

Finance disproportionately helps the poor



Financial development reduces poverty



Next steps ...

- Does finance help through direct access?
- What policies boost access?
- What policies foster pro-poor financial development?