

Discussion

Financial Globalization vs. Income Inequality: The Surprising Role of Delegated Portfolio Flows in Taming the Top 1%

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Interesting topic: Income inequality and global fund flows

- Consider the impacts of financial globalization on local income inequality.
 - Examine foreign fund flows (foreign indirect investment) resulted from financial globalization.
 - Fire sales/purchases of foreign funds are exogenous to the local economy.
 - Study the effects on local rich families (top 1%).
- Find that foreign fund flows decrease the income of the rich and local income inequality.

Measures and mechanism

- Two income inequality measures
 - World Wealth and Income Database: country level
 - Cash flow rights inequality, computed from firm sales: country-industry level
- Suggest a misallocation channel.
 - The rich families tend to sell profitable assets to foreign funds.
 - Rule out lots of alternatives.

Comment 1: Domestic vs. foreign fund flows

- Foreign fund flows
 - can identify profitable firms.
 - negatively relate to the allocation efficiency of the rich families.
- But domestic funds can't.
- Foreign funds
 - Do they have better skills than domestic funds?
 - Sample issues?
 - Are foreign funds from FEW countries only?
 - Coincide with market openness in emerging economies?
 - Do they increase inequality in their domicile countries?

Comment 2: Mechanism

- Misallocation channel: Selling off profitable firms from the rich could decrease local inequality.

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- Misallocation channel: Selling off profitable firms from the rich could decrease local inequality.
- Why the buyer identity matters?
- Need more evidence to connect foreign funds with the underlying firms.

Comment 3: Inequality premium and underlying firms

- Inequality premium: Models
 - Complete markets with heterogenous agents
 - Dumas, 1989; Chan, Kogan, 2002; Longstaff, Wang, 2012; Garleanu, Panageas, 2015
 - Incomplete markets with uninsurable income risks or limited market participation
 - Constantinides and Duffie, 1996; Basak and Cuoco, 1998; Gomes and Michaelides, 2008
- Inequality premium: Empirical results
 - Positive risk premium
 - Storesletten, Telmer and Yaron, 2007; Balduzzi, Yao, 2007; Zhang, 2014, Brogaard, Detzel and Ngo, 2015
 - Negative risk premium
 - Johnson, 2012; Favilukis, 2013; Toda and Walsh, 2016; Gomez, 2017

Comment 3: Inequality premium and underlying firms

Underlying firms' exposure to inequality risk

- Before selling off
 - positive exposure to inequality risk
 - lower returns, since inequality risk is negatively priced (Johnson, 2012)

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Underlying firms' exposure to inequality risk

- Before selling off
 - positive exposure to inequality risk
 - lower returns, since inequality risk is negatively priced (Johnson, 2012)
- After selling off
 - less sensitive to the inequality risk
- Might check these predictions.

Conclusions

Very interesting thoughts and results!

- A very promising area: the impacts of financial globalization on income inequality.
- A significant amount of work on compiling data.
- Illustrating that foreign fund flows decrease local income inequality.