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.
Comment 2: Mechanism

- 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)
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)

- **After selling off**
  - less sensitive to the inequality risk

- Might check these predictions.
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.