

Does Political Ideology Matter for Financial Inclusion?

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Left-wing



Right-wing

Introduction

- Political Ideology
 - Left-wing: Pro-intervention, Pro-welfare distribution
 - Right-wing: Pro-free market, Pro-social hierarchy
- Financial Inclusion
 - The access to formal financial services (Demirgüç-Kunt et al., 2018; Allen et al., 2016)

Financial Inclusion: Why is it Important?

- Financial Exclusion
 - Deepens income inequality (Benabou, 1996)
 - Intensifies poverty (Bruhn and Love, 2014)
 - Increases the likelihood of predatory lending (Geisst, 2017)
 - Makes liquidity management difficult (Lusardi, 2011)
 - Increases financial risk (Gross, Hogarth, Manohar, and Gallegos, 2012)
 - Raises the likelihood of money laundering and terrorist financing (FATF, 2011)

Background of the motivation

- The World Bank's Global Findex
 - A cross-country triennial survey database
 - Released since 2011
- The survey participants are
 - Non-institutional individuals
 - At least 15 years of age
 - Selected randomly

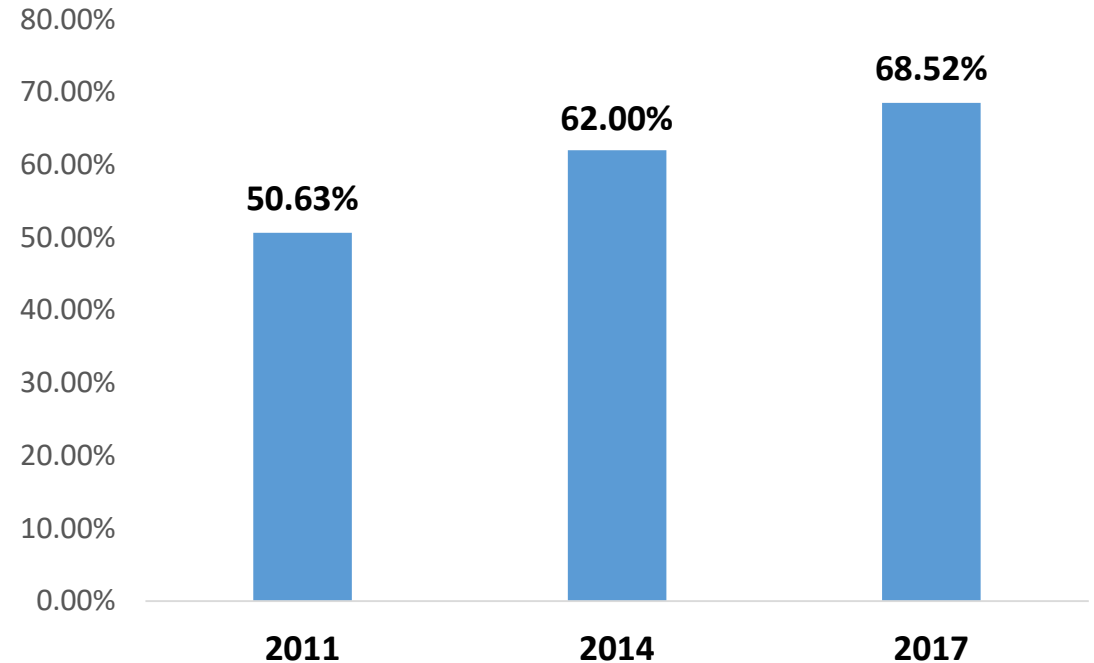
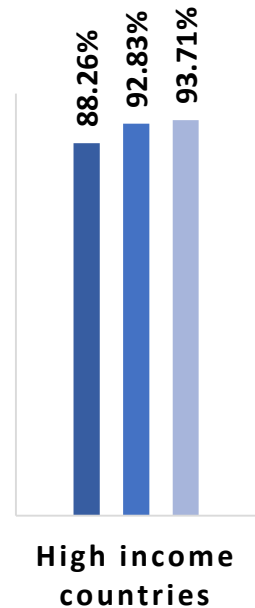


Figure: Global Financial Inclusion

Motivation (Cont'd)

- Still, the number widely varies across countries



■ 2011 ■ 2014 ■ 2017

Figure: Account Ownership Across Countries

Research Question and Contributions

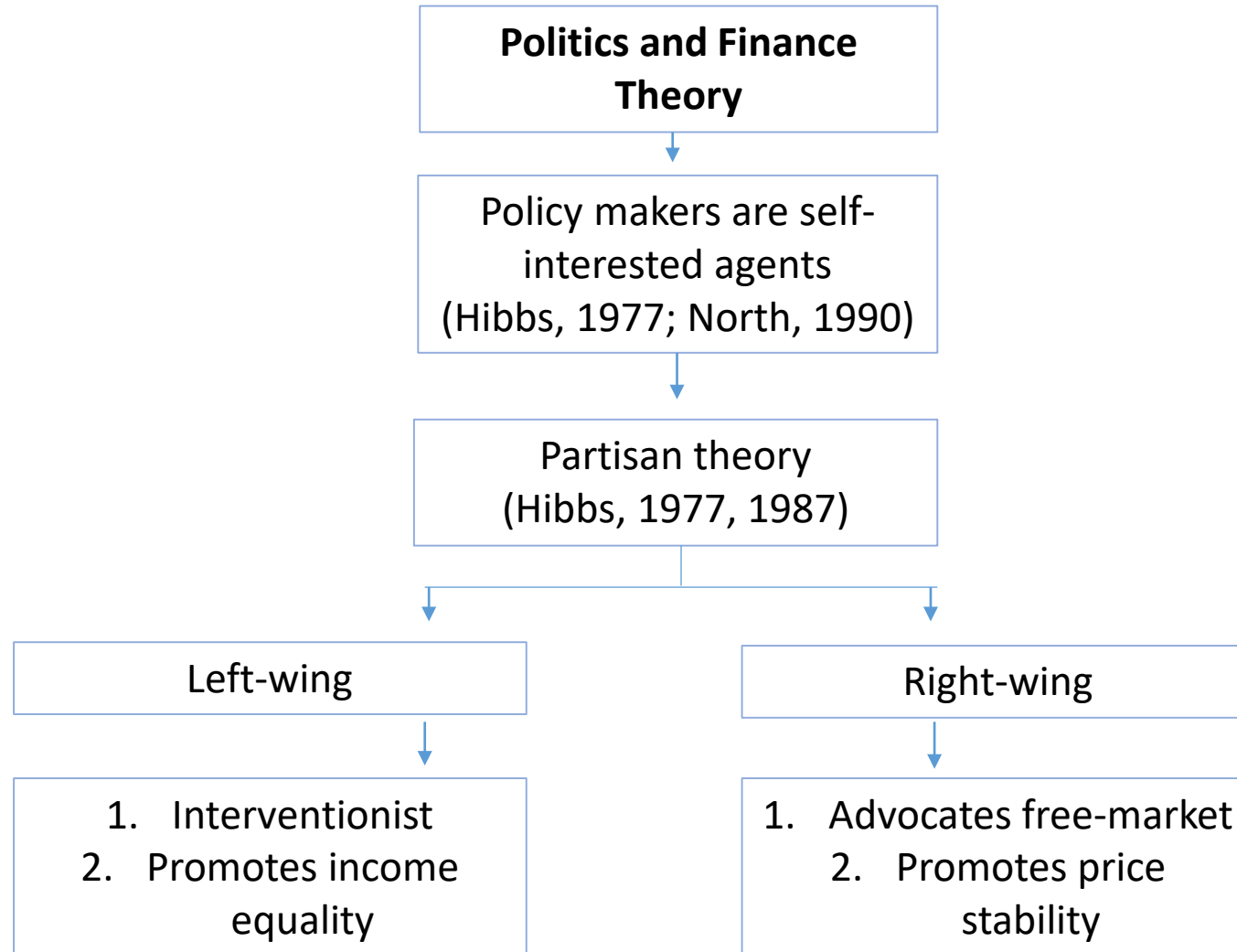
Does Political Ideology Matter for Financial Inclusion?

Examines relation between political ideology and financial inclusion

Proposes a novel instrumental variable for political ideology.

Finds that countries with right-wing parties are likely to observe higher account ownership

Theoretical Background

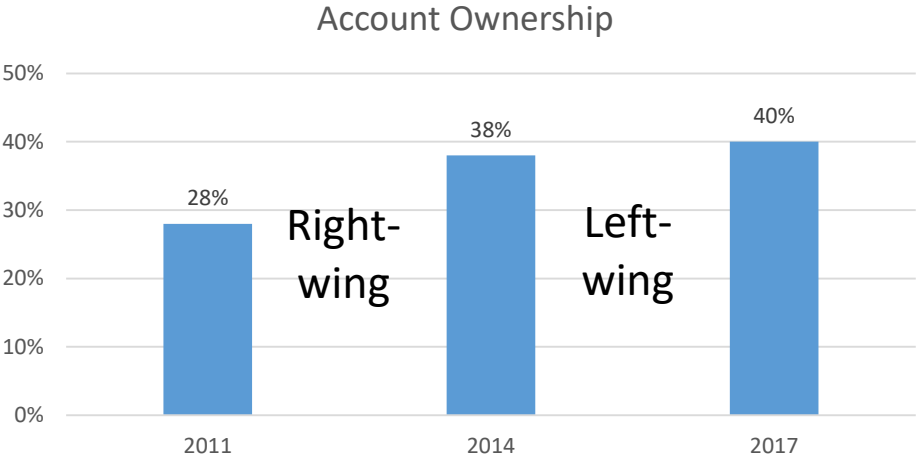


Which political party is more likely to promote financial inclusion?

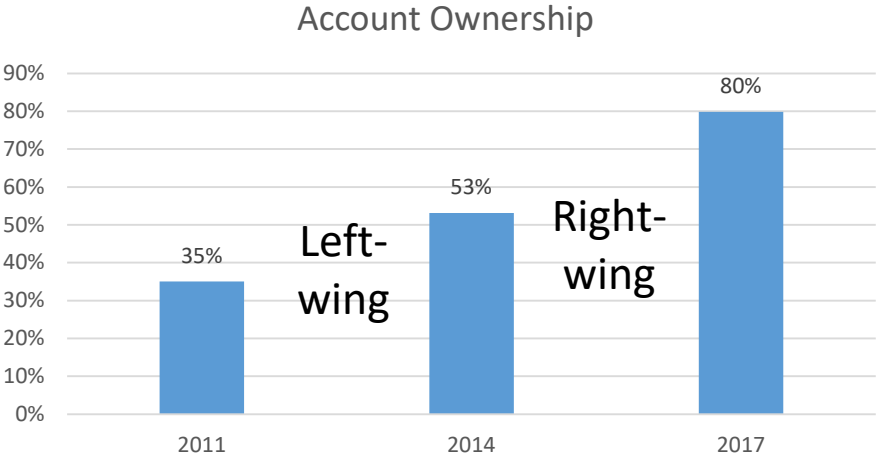
Macroeconomic stability
Demand-side barriers
Supply-side barriers

Right-wing
reduce inflation
encourage education enhancing policies
invest heavily in infrastructure development

Albania



India



Data

- Data source
 - Account ownership– Global Findex Database
 - Political ideology – Database of Political Institutions (DPI)
- Sample
 - 39 countries
 - 101,077 observations

Methodology

- Following Solt (2008) and Fairbrother (2014) – Multilevel logistic regression

$$\text{logit}(FI_{i,t,c}) = \gamma_{000} + \gamma_1 R_{t-1,c} + \gamma_2 X_{i,t,c} + \gamma_3 Z_{t-1,c} + \delta_t + u_{0,t,c} + e_{i,t,c}$$

- Where
 - i indexes individuals
 - c indexes countries
 - t indexes time
 - R is the main explanatory variable
 - X is the vector of individual-level controls
 - Z is the vector of country-level controls
 - δ_t is the wave fixed effect
 - $u_{0,t,c}$ and $e_{i,t,c}$ are country and individual specific error terms, respectively

Summary Statistics

Individual-level Variables

Variables	Obs	Mean
Account Ownership	101,077	39.6%
Mobile banking account	86,205	9.1%
Account used for savings	35,005	51.2%
Frequency of withdrawal	18,624	20.4%

Summary Statistics (cont'd)

	FI in countries where the major party in power is right- wing	FI in countries where the major party in power is left- wing	Difference
Account Ownership	44.6%	37.2%	13.895***
Mobile banking account	10.9%	8.2%	3.724***
Account used for savings	52.3%	51.4%	1.7222
Frequency of withdrawal	26.0%	22.9%	4.462***

***, **, and * denote significance at the 1%, 5%, and 10% level, respectively

Baseline results

Variables	(1)	(2)	(3)	(4)
	Account	Account	Account	Account
Right-Wing	0.501***	0.602***	0.525***	0.496***
Age		0.012***	0.011***	0.011***
Secondary education		0.860***	0.862***	0.863***
Tertiary education		2.029***	2.033***	2.039***
Income: second 20%		0.197***	0.198***	0.201***
Income: middle 20%		0.417***	0.419***	0.422***
Income: fourth 20%		0.670***	0.672***	0.675***
Income: richest 20%		1.109***	1.110***	1.113***
Female		-0.287***	-0.288***	-0.288***
Employment			-0.005	-0.010*
Domestic credit			-0.001	0.003*
GDP per capita			0.000***	0.000*
Inflation			-0.018***	-0.008**
Manufacturing			0.020***	0.023***
Rule of Law				-0.425***
Gov effectiveness				0.434***
Political Stability				0.242***
Corruption				0.854***
Observations	101,077	101,077	101,077	101,077
Log-likelihood	-60675.00	-54751.23	-54720.17	-54626.84
Icc	0.159	0.174	0.175	0.166
Time fixed effect	Yes	Yes	Yes	Yes

Baseline results with five and ten-year averages

Variable	5 Year average	10 Year average
	Account Ownership	Account Ownership
Rightist_avg	0.431***	0.228***
Age	0.011***	0.011***
Secondary education	0.857***	0.855***
Tertiary education	2.031***	2.043***
Income: second 20%	0.199***	0.195***
Income: middle 20%	0.420***	0.416***
Income: fourth 20%	0.673***	0.668***
Income: richest 20%	1.111***	1.106***
Female	-0.284***	-0.289***
Employment	-0.018***	-0.041***
Domestic credit	0.003	0.035***
GDP per capita	0.000***	0.000***
Inflation	0.017***	0.011***
Manufacturing	0.025**	0.158***
Rule of law	-1.149***	-2.575***
Gov effectiveness	0.509***	0.575**
Pol stability	-0.015	-0.660***
Corruption	1.193***	1.118***
Observations	101,077	101,077
Log-likelihood	-54725.74	-54718.26
Icc	0.181	0.601
Time fixed effect	Yes	Yes

Is this association causal?

- IV analysis is used to examine causality
- IV-individualism
 - A cultural component
 - Proposed by Hofstede (1984)

Is this association causal?

Variables	(1) 1st stage	(2) 2sls
Right-Wing Individualism	0.056***	0.820***
Age		0.010***
Secondary education		0.791***
Tertiary education		2.031***
Income: second 20%		0.197***
Income: middle 20%		0.384***
Income: fourth 20%		0.626***
Income: richest 20%		1.057***
Female		-0.342***
Employment	-0.002*	-0.007
Domestic credit	-0.009***	-0.014***
GDP per capita	0.000***	0.000
Inflation	-0.041***	0.008
Manufacturing	0.002**	0.007
Rule of Law	-1.278***	-0.166
Gov effectiveness	0.473***	0.331**
Political Stability	-0.120***	0.241***
Corruption	-0.119***	0.547***
Observations	62,464	62,464
Adj R-squared	0.776	
Log-likelihood		-34951.988
Time fixed effect	Yes	Yes

Mobile banking

Variables	(1) Mobile	(2) Mobile	(3) Mobile
Right-Wing	0.800***	0.773***	1.340***
Individual level controls	No	Yes	Yes
Country level controls	No	No	Yes
Wave fixed effect	Yes	Yes	Yes
Observations	86,205	86,205	86,205

Standard errors are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively

Is political orientation associated with account use?

- Use of account
 - Savings
 - Frequency of account use
- If the market-oriented policies drive the use of accounts-
 - Savings ↓
 - Frequency of account use ↑
- Should observe opposite if driven by societal policies

Savings and frequency of account use

	(1)	(2)	(3)
Variable	Savings	Savings	Savings
Right-Wing	-0.393***	-0.320***	-0.270***
Individual level controls	No	Yes	Yes
Country level controls	No	No	Yes
Wave fixed effect	Yes	Yes	Yes
Observations	35,005	35,005	35,005

Standard errors are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively

Does the poorest benefit from the right-wing government's enhancing inclusion?

	(1)	(2)	(3)
Variables	Account	Savings	Frequency
Right-Wing	0.675***	-0.288***	2.474***
Individual level controls	Yes	Yes	Yes
Country level controls	Yes	Yes	Yes
Wave fixed effect	Yes	Yes	Yes
Observations	35,287	8,710	3,988

Standard errors are in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% level, respectively

Conclusion

- We examine the relation between political ideology and financial inclusion
- Access to the financial sector are likely to be higher (8.78%) during the rightist regime
 - Interventionist strategy of the leftist parties is more likely to increase savings
 - Establish causality by proposing a new IV-individualism
- Policy implication-
 - Market-oriented policies are more likely to enhance financial inclusion
 - Exclusion: voluntary vs involuntary
 - involuntarily exclusion requires specific policy actions

Thank You!