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Inequality, Current Account Imbalances and Middle Incomes

Océane Blomme & Jérôme Héricourt

Highlights

- Based on a dataset for 52 developed and developing countries over the period 1990-2019, this paper investigates the complex relationship between current account balance and income inequality, putting specific emphasis on the potential sources of non-linearities in the latter.
- An increase in various income inequality indicators do not generate a any significant impact on average.
- Those average impacts are distorted along the distribution of economic and financial development variables.
- The decrease in the current account balance is 1.2 to 1.4 times more important in countries with higher financial development or more open capital account when the increase in inequality is driven by the income of top earners relative to the middle class rather than by the increase in top earners' incomes at the expense of the lowest percentiles of the distribution.

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Abstract

This paper investigates the complex relationship between current account balance and income inequality, putting specific emphasis on the potential sources of non-linearities in the latter. Based on a dataset for 52 developed and developing countries over the period 1990-2019, we first show a one-standard-deviation increase in various income inequality indicators generates a decrease in the ratio of current account over GDP by -0.5 to -0.9 percentage points in developed countries, but no significant impact when the sample is expanded to include emerging and developing countries. We then show those average impacts are distorted along the distribution of economic and financial development variables: for those countries displaying low GDP per capita, low levels of financial deregulation and of capital account openness, additional income inequality actually improves the current account balance. Conversely, the impact of income inequality on current account is all the more negative that financial markets are bigger, more deregulated and more open. In addition, the decrease in the current account balance is 1.2 to 1.4 times more important in countries with higher financial development or more open capital account when the increase in inequality is driven by the income of top earners relative to the middle class rather than by the increase in top earners' incomes at the expense of the lowest percentiles of the distribution. Those results are robust to various robustness checks for endogeneity concerns, possible impact of the Great Financial Crisis, and variable definitions.

Keywords

Current Account, Finance, Inequality, Middle Class.

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D31, E25, E44, F32.

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Inequality, Current Account Imbalances and Middle Incomes[1]

Océane Blomme[2] and Jérôme Héricourt[3]

1. Introduction

Global imbalances have been substantially widening since the mid-1990s (Gourinchas and Rey, 2014), to become a major source of concerns in the first decade of the 21st century. The Great Financial Crisis and the sovereign debt crisis in the euro area forced their reduction, but these imbalances stabilized at a sufficiently high level to trigger intense policy debates in many advanced economies facing large current account deficits fed by deindustrialization. Simultaneously, inequalities have increased sharply since the 1980s, arousing the interest of economists. Atkinson, Piketty and Saez (see Piketty, 2003, Piketty, 2014 or Atkinson, Piketty, and Saez, 2011) have made seminal contributions emphasizing the rise of top incomes, and the concentration of wealth over the past 40 years, in developed but also in some emerging economies. In 2020, inequality within countries is significantly higher than inequality between countries (Chancel et al., 2022).

It is obviously tempting to imagine a relationship between those two phenomena, due to the well-known macro link between external and internal equilibrium, the latter being defined as the balance between aggregate savings and investment. However, the direction of such a relationship is unclear. Kumhof, Ranciere, and Winant (2015) provide a theoretical framework where a permanent income inequality shock transferred income from bottom to top earners. Due to their preference for wealth, top earners will save most of their additional income to increase their financial wealth through loans to bottom earners. This phenomenon amplifies the credit supply and leads to a more and more indebted demand (Mian, Straub, and Sufi, 2021). In practice, however, the sum of these two opposite effects (additional savings by top earners versus dissaving, or higher leverage, of low- and middle-income households), that is,

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the impact on aggregate net savings, and consequently on the external equilibrium, is unclear. For example, income inequality has been increasing over the past decades in both Germany and the USA, the former displaying a huge current account surplus and the latter an increasing deficit.

This paper aims to gain a deeper understanding of this complex relationship between current account balance and income inequality, putting specific emphasis on the potential factors of non-monotonicity in the latter. Based on a dataset for 52 developed and developing countries over the period 1990-2019, we first show a one-standard-deviation increase in various income inequality indicators generates a decrease in the ratio of current account over GDP by -0.5 to -0.9 percentage points in developed countries, but no significant impact when the sample is expanded to include emerging and developing countries. We then provide evidence of nonlinearities in the relationship between income inequality and current account balance, along the distribution of several economic and financial development indicators, and identify thresholds of economic development and financial market liberalization at which the relationship between income inequality and current account changes direction. Firstly, an increase in income inequality in less developed countries improves the current account balance, while in developed countries the relationship turns negative. Secondly, the impact of income inequality on current account is all the more negative that financial markets are bigger, more deregulated and more open. More specifically, in countries with a highly regulated financial sector and closed capital account, an income inequality shock will trigger an upward shift in the current account balance, while the opposite is true for a highly financially liberalized country, with an open capital account.

In addition, our results also support a differential quantitative impact of the income inequality shock on current account when top incomes grow richer at the expense of the middle class, rather than at the expense of low incomes, depending on specific features of financial development. More specifically, it appears that a one-standard deviation increase in the ratio of top incomes to middle incomes (meaning an impoverishment of middle classes relative to the top 10%) brings a higher deterioration of the current account than the one stemming from an increase in the ratio of the top 10% to the bottom incomes in financially developed countries, and in countries with a more open capital account. More specifically, the decrease in current account balance is 1.2 to 1.4 times more important in countries with higher financial development when income is transferred from middle income to top incomes, rather than from bottom incomes ; similarly, the decrease in the current account balance is up to 1.3 times more important in countries with more open financial account when income is transferred from middle income to top incomes, rather than from bottom incomes. Finally, when func-

tional inequality increases (i.e., when the labor share decreases), the current account will lean towards a surplus, in line with Klein and Pettis' (2022) analysis.

Our research relates to a burgeoning literature investigating the relationship between current account and inequality. Based on a panel of 20 developed countries for the 1972-2007 period, Behringer and Van Treeck (2018) find that a country facing an increase in income inequality would tend to experience a deterioration of its current account. While Ascione and Schnetzer (2021) reach similar conclusions, Kumhof et al. (2019) provide evidence of a more complex relationship: the direction of the latter could depend on both the size of financial markets and the type of income (labor or dividends) transferred to top incomes. In this regard, our paper also provides direct empirical tests for their intuitions. We also contribute to the growing literature addressing concerns about the global consequences of income inequality taking advantage from a large sample of countries on the pre and post-Great Financial Crisis (GFC) period. In addition, following Bazillier, Héricourt, and Ligonnière (2021) findings on the importance of the middle class in the leverage mechanism implied by an inequality shock, we distinguish middle and bottom incomes. More generally, this paper sheds light on specific determinants for the different country trajectories, by focusing on the non-linearities in the nexus inequality-global imbalances, as well as a wide range of inequality indicators, combining personal (distribution of income across households) and functional (distribution between wages and capital income) inequalities.

The remainder of the paper is organized as follows. We confront in section 2 the literature on the possible effects on the current account of a permanent income shift from low to top incomes. Section 3 then details the data and the inequality measures used in the paper, while section 4 describes the methodology used. Section 5 presents the main results, and several sensitivity checks are presented in section 6. The last section concludes.

2. Related Literature and Theoretical Background

2.1. An ambiguous relationship...

Since global imbalances reflect an unbalanced relationship between savings and investment at the aggregate level, inequality can affect the current account through several channels. On the one hand, an inequality shock increases savings at the higher end of the income distribution, but on the other hand, it may imply a decline in savings, or increased leverage, from bottom (middle and low) incomes, that is, dissaving at the aggregate level. Thus, different mechanisms impacting the saving-investment equilibrium in opposite directions are at work simultaneously,

and there is no clear direction of the effect of inequality on the current account.

The uncertainty about this macroeconomic relationship reflects in part the inconclusiveness of the theoretical and empirical literature on income inequality and aggregate savings' nexus. Indeed, mixed results suggest a particularly complex and ambiguous relationship. On one side, a permanent income transfer from bottom and middle-income households to top-income households brings an increase of the financial wealth of the richest households. As their propensity to save of the wealth is higher than low and middle earners' one, an increase in income inequality should translate, at the aggregate level, into an increase in savings (Keynes, 1936; Dynan, Skinner, and Zeldes, 2004). In the same way, an inequality shock could also trigger precautionary savings by households at the bottom of the distribution, to smooth out a possible impoverishment, as they would be more risk averse (Carroll and Kimball, 1996). Moreover, borrowing constraints can also limit the consumption of the modest households. In their empirical study, Koo and Song (2016) conclude a rise in inequality leads to an increase of the aggregate saving ratio.

Nevertheless, the additional savings by the wealthy may not be sufficient to dominate the additional borrowing (dissaving) by the middle and lower incomes, delivering a deterioration of the current account balance. Relying on a DSGE model with two household groups (top and bottom earners), Kumhof, Ranciere, and Winant (2015) show that an inequality shock, characterized by a permanent income transfer from bottom to top incomes, can deliver a supply-induced increase in credit. Formally, top earners display a preference for wealth, which enter directly their utility function. The latter implies a positive marginal propensity to save out of permanent-income shocks. Put differently, top earners will use most of their additional income to increase their financial wealth through loans to bottom earners, whose marginal propensity to save following a permanent income shock is assumed to be zero. Consequently, the share of top earners in aggregate income has increased, together with higher leverage of bottom-income households allowing the latter to support their consumption level. On the credit-demand side, another explanation is, at odd with the standard permanent income theory, that an inequality shock would not automatically lead to a downward adjustment of middle and poor households' consumption, whose income falls relatively to top incomes. Rajan (2010) argues that the rise in income inequality in the U.S. prior to the Great Recession was offset by a significant increase in the less wealthy households' indebtedness. The latter allowed them to smooth their consumption, at the expense of financial stability. An increasingly unequal distribution of income may thus imply a decline of the current account through an increase in leverage of middle and low income households.

Such a conclusion is also supported by the relative income hypothesis (Duesenberry, 1949) which states that the consumption of individuals depends on the level of their peers' consumption. Thus, excess permanent consumption (i.e., permanently above long-run income) can be rationally motivated by a social comparison. Frank, Levine, and Dijk (2014) argue that the top income's enrichment would lead to a "expenditure cascade" as each individual bases his level of consumption on those belonging to the social group immediately above. Furthermore, the "trickle-down consumption" argument (Bertrand and Morse, 2016) also suggests that an increase in the income of the richest induces an increase in the consumption of the poorest, potentially driven by an increase in conspicuous consumption, i.e. through an increase in demand, or an increase in the availability of these goods on the market, i.e. via the supply-side. Alvarez-Cuadrado and El-Attar Vilalta (2018) find evidence confirming the importance of upward-looking interpersonal comparisons. Thus, social status would be a determining factor in the consumption - savings private balance, and therefore excessive global imbalances could be related to this pattern triggered by a rise in inequality. Also, concerning the middle class, consumption habits can be so strong (Chetty and Szeidl, 2007) that individuals may rationally prefer to go into debt to counterbalance their relative wage drop and maintain their standard of living. As for low incomes, Ramezanifar and Bajalan (2020) note that: "*With the exception of France and Luxembourg, most low-income households in Europe have no savings capacity or have negative saving ability. 76% of low-income households therefore cannot rely on their personal financial resources to cope with an income shock or an unexpected expense.*" Thus, it may explain why the share of debt is very high for low-income households, as they sometimes have no choice but to borrow to compensate for their relative permanent income loss.

Thus, the mechanisms behind inequality's consequences on macroeconomic imbalances are theoretically and empirically ambiguous. The diversity of household behavior in response to a permanent shift of income from low- to high-income households prompts us to investigate the underlying non-linearities at an aggregate level.

2.2. ... depending on several key sources of non-monotonicity

Several empirical studies investigating the link between inequality and current account find an average negative relationship (Al-Hussami and Remesal, 2012; Kumhof et al., 2012). Based on a panel of 20 developed countries for the 1972-2007 period, Behringer and Van Treeck (2018) also conclude that a country facing an increase in inequality would tend to experience a deterioration of its current account, through an accumulation of poor and middle classes' debt, in line with the expenditure cascade hypothesis. Ascione and Schnetzer (2021) find similar results on an extended sample of 31 OECD countries, over a period (1972-2017)

including post-GFC years, and highlight the important role of household debt in the nexus before the crisis.

Both papers are consistent with the results of Bofinger and Scheuermeyer (2019), who highlight several sources of non-linearity in the relationship between inequality and aggregate savings: the credit availability, the state of financial liberalization and the income level of the economy. They note that, after an inequality shock, the downward trend in aggregate savings is higher for highly financially liberalized countries with easier access to credit, which are typically the developed countries investigated by Behringer and Van Treeck (2018) and Ascione and Schnetzer (2021). A straightforward implication is that the degree of capital account openness should also appear as a source of non-linearity in the current account-inequality nexus: inequality should have an increasingly negative impact on the current account, conditional on the openness of the capital account. Al-Hussami and Remesal (2012) also support that current account deficits are exacerbated in countries with high levels of credit-to-GDP ratio whereas the impact of inequality on the current account is positive for less financially developed countries.

Similarly, Kumhof et al. (2019) note the important influence of financial liberalization on excessive deficits. In their approach, based on a DSGE modelling similar to the one by Kumhof, Ranciere, and Winant (2015), whether a country has an export-led growth-strategy or a finance-led growth-strategy will crucially impact the direction of the relationship between the current account balance and inequality shock, the latter being defined again as a redistributive shock permanently transferring income from top to bottom earners.

On the one hand, when the redistributive shock has a large positive impact on incomes derived from financial assets, this pushes up primarily dividend and interest incomes, mainly benefitting top earners. Due to their preference for wealth, the latter have a higher marginal propensity to save out of permanent income increases, and invest a substantial part of this additional financial income in tradable assets. This leads to an increase in their actual wealth holdings exceeding the increase in desired wealth triggered by higher incomes. In the model, this excess wealth cannot be directly consumed, as it is the case for wealth increase driven, e.g., by house-prices booms. Therefore, the only way for top earners to consume their excess additional wealth is to borrow more. The amount they need to borrow exceeding the lending capacities of bottom incomes, top earners also borrow significantly from foreign investors. The result is a current account deficit, which will be magnified for countries with large financial markets, the wealth revaluation effects being even stronger. On the other hand, when the redistributive shock increases mostly labor incomes of top earners relatively to the bottom ones, the preference

for wealth of top earners will generate a desire to accumulate additional wealth. As top earners exhibit preferences for wealth, the increase in their labor income generates a desire to accumulate additional tradable wealth in the form of consols. However, the ability of bottom earners to borrow is limited and therefore insufficient to absorb all this additional savings. Consequently, domestic top earners also supply additional credit to foreign households. These exports of savings create a current account surplus, all the more so for countries that have small financial markets, in particular because high financial frictions prevent to channel the additional top earner savings to domestic rather than foreign households.[4]

It appears from these various setups that the development (both qualitative and quantitative) of the financial sphere is key in explaining the direction of the impact of inequality on current account balance. The overall level of economic development should also be considered as a potential source of non-linearity: beyond the fact it encompasses certain aspects of financial development (especially the quantitative dimension), GDP per capita also reflects to a certain extent the divide between export- and finance-led growth strategies. On average, export-led growth strategies are more the prerogative of emerging countries, while finance-led strategies have been more widely selected by advanced economies.[5]

We now characterize the common testable prediction of these various insights regarding the link between current account balance and income inequality.

Testable Relationship 1: Income inequality will have an increasingly negative impact on current account balance, conditional on the level of development, the size of the financial sphere, the degree of financial deregulation or capital account openness. Symmetrically, an inequality shock will generate current account surpluses for countries characterized by low levels of those measures.

2.3. The role of the middle class

Straightforward extensions of previous theoretical arguments would point to inequality shocks hitting the middle class as the major source of current account variation in sufficiently financially developed economies, whether through the demand- or supply-side channels detailed

[4]This configuration reflects well the case of China, according to Klein and Pettis (2022): China generates massive, net aggregate savings due to a very unequal split between labor and capital income. Savings has finally outstripped investment and the country cannot absorb domestically the excess output. This domestic demand weakness is thus externalized, especially in advanced economies with big, deregulated financial spheres, causing global imbalances.

[5]Of course, there are some obvious counter-examples, e.g., Germany for the first category, and Hong-Kong for the second.

in the previous section. Relying on the above-mentioned strands of the literature, Bazillier, Héricourt, and Ligonnière (2021) discuss these possible extensions in the case of the inequality-household credit relationship. In the Kumhof, Ranciere, and Winant's (2015) environment, distinguishing within bottom incomes between middle and low incomes brings a higher marginal propensity to save for the middle class as a natural assumption. Due to the latter, the middle class should dissave (and therefore borrow) more, following the same income loss as the low incomes. In addition, middle-class households are, by definition, higher in the income distribution, so that they have higher past levels of income and consumption, and their reference group is closer to top incomes. In other words, relative income and relative consumption approaches presented above would predict that the middle class has a higher level of consumption to support, requiring higher borrowing than bottom incomes.

Bazillier, Héricourt, and Ligonnière (2021) empirically confirm those intuitions, and show the leverage response is 1.5 to 1.8 times more important when the middle-income households are affected by the inequality shock, compared to low incomes facing the same permanent income loss. All other things equal, this higher impact on aggregate credit by the relative impoverishment of middle classes should generate a higher current account deficit. However, Bazillier, Héricourt, and Ligonnière's (2021) results are based on a sample of 30 developed countries where financial development is high. Consistently with the main insights from Kumhof et al. (2019), we should expect a higher, deteriorating role of middle incomes impoverishment on the current account only with developed/open financial markets. The latter are a necessary condition to channel funds to be lent to impoverished households. In addition, middle classes are a feature of developed and more advanced emerging economies. In other, less advanced countries, bottom incomes represent a more homogenous category, and are much too far below the top-income group for relative-consumption approaches to apply. Put differently, because the middle class in emerging and developing economies is not as developed as it is in advanced economies (see Kochhar, 2015), no specific effect of middle class impoverishment on the current account is expected in countries with smaller GDP per capita or financial development.

Testable Relationship 2: When the share of top incomes increases relative to bottom incomes, the bulk of the impact of this rising inequality on current account is driven by the middle class rather than by lower incomes in financially developed/open countries.

3. Data

3.1. Functional and personal inequalities

Personal inequality within countries, or top-end inequality, i.e. focusing on the distribution of income between households, is increasingly important. In 2020, at the global level, the average income of the top 10% is 38 times higher than the average income of the bottom 50% (Chancel et al., 2022). Besides, there is a second kind of country-level inequality: the functional inequality, which captures the decline in the labor share in the total national income, in favor of capital income. Following Behringer and Van Treeck (2018), we differentiate these two types of inequality in our paper. They show that these two measures are not interchangeable, which seems to be the case in our dataset, where the correlation between the two variables is only -0.4. Though our empirical tests of non-linearities will mainly focus on income inequality to stick to the directly related literature (Kumhof et al., 2019; Bazillier, Héricourt, and Ligonnière, 2021), we will systematically include a measure for functional inequality, which will also be useful to reduce the omitted variable bias.

The variable measuring countries' wage share to GDP comes from the Penn World Table (Feenstra and Inklaar, 2021). Concerning personal (income) inequality, we use several measures: Gini and income shares (top 1%, top 5%, top 10%). Also, rather than combining middle and low income households into a single category, as often done in the literature, we choose to divide them into two distinct groups to analyze their respective effects. For this purpose, and following Bazillier, Héricourt, and Ligonnière (2021), we implement the following distinctions: first, the low incomes are represented by either the first three or the first five deciles[6] of the income distribution; second, the middle class represents incomes between either the third or the fifth, and the eighth deciles of the income distribution. We then build the two respective top income to middle class ratios and the two respective top income to bottom class ratios. All the underlying data are provided by the WIID Companion (UNU-WIDER, 2022). The global dataset provides adjusted data, allowing comparisons of levels of inequality over time and between countries. In the selection process, inequality and data experts gave priority to post-tax income data: this implies our estimates take into account the effect of fiscal redistribution on disposable income, in contrast to previous studies based on the WID or SWIID datasets (Behringer and Van Treeck, 2018; Ascione and Schnetzer, 2021).

[6]This definition of bottom incomes as the first five deciles is the one retained, e. g., by the World Inequality Database.

3.2. Other Variables

The dependent variable is the current account balance over GDP provided by the World Development indicators (WDI) database from the World Bank. Furthermore, following most papers in the related literature, we will include various determinants of the current account, following the International Monetary Fund (IMF)'s External Balance Assessment (EBA) methodology (Rabanal et al., 2019). As noticed by Kumhof et al. (2019), the EBA approach is meant to be as exhaustive as possible, reducing the risk of an omitted variable bias and allowing therefore for an accurate identification of the effect of income inequality on the current account. Table A.1 in Appendix A details all included variables, together with the various data sources.

3.3. Sample

Our analysis relies on an unbalanced panel of 52 developed and developing countries for the period 1990-2019 - the complete list is reported in Appendix B. Compared to Behringer and Van Treeck (2018) or Ascione and Schnetzer (2021), we indeed extend the analysis to a bunch of emerging countries in order to achieve identification of the abovementioned non-linearities. Countries are divided into three groups ("Lower-middle", "Upper-middle" and "High" income) according to the historical classification by income provided by the World Bank, with switches between groups over time. Due to poor quality of data, countries from the fourth category ("Low incomes") could not be included in the sample. More generally, countries that were not included in the database either had excessive missing or unreliable data, or had a current account balance that differed considerably from the average, such as tax heavens. Regarding the variable labor share, we were confronted in some occasions to time-invariant, interpolated data. In order to minimize measurement error, we decided to remove the concerned observations from the database.

Finally, Tables 1 and 2 report some basic (demeaned) descriptive statistics for our inequality indicators, respectively for the complete sample and the sample restricted to developed countries. Standard deviations, in particular, are useful in computing meaningful and comparable quantifications for our estimations (see section 5 below). Table 3 replicates the exercise for the dependent variable, the ratio of current account over GDP, as well as for our main indicators of economic and financial development. Table A.2 in Appendix A reports the same descriptive statistics for all, non-demeaned variables.

Table 1 – Descriptive Statistics: all countries

	Mean	Min	1st quartile	Median	3rd quartile	Max	S.D.within	S.D. between
Gini	-0.022	-0.163	-0.082	-0.043	0.037	0.187	0.019	0.078
Top 1%	-0.003	-0.035	-0.018	-0.01	0.007	0.068	0.006	0.02
Top 5%	-0.007	-0.089	-0.043	-0.023	0.02	0.134	0.013	0.046
Top 10%	-0.009	-0.114	-0.054	-0.029	0.027	0.169	0.016	0.059
Top 10/Middle 30-90	-0.009	-0.224	-0.12	-0.064	0.058	0.483	0.039	0.135
Top 10/Bottom 0-30	-0.221	-1.931	-1.226	-0.781	0.423	6.274	0.435	1.378
Top 10/Middle 50-90	-0.007	-0.259	-0.123	-0.067	0.076	0.577	0.046	0.155
Top 10/Bottom 0-50	-0.075	-0.796	-0.47	-0.304	0.192	2.089	0.159	0.54

Note: 1309 observations.

Table 2 – Descriptive Statistics: developed countries sample, demeaned variables

	Mean	Min	1st quartile	Median	3rd quartile	Max	S.D.within	S.D. between
Gini	-0.061	-0.16	-0.097	-0.058	-0.035	0.06	0.012	0.045
Top 1%	-0.013	-0.03	-0.02	-0.014	-0.009	0.014	0.003	0.007
Top 5%	-0.031	-0.072	-0.046	-0.031	-0.02	0.033	0.008	0.018
Top 10%	-0.04	-0.093	-0.062	-0.04	-0.026	0.027	0.009	0.026
Top 10/Middle 30-90	-0.083	-0.178	-0.122	-0.084	-0.054	0.065	0.02	0.047
Top 10/Bottom 0-30	-0.911	-1.721	-1.343	-0.972	-0.671	0.849	0.166	0.533
Top 10/Middle 50-90	-0.092	-0.206	-0.136	-0.093	-0.055	0.091	0.024	0.052
Top 10/Bottom 0-50	-0.352	-0.684	-0.519	-0.369	-0.27	0.353	0.066	0.205

Note: 506 observations. This sample replicates the one of Behringer and Van Treeck (2018), but South Africa.

4. Empirical methodology

Our main objective is to identify how income inequality and its structure affect current account at the country level, conditional on several measures of development and financial deregulation. We estimate a specification of the following form:

$$CA_{i,t} = \beta_0 + \beta_1 PID_{i,t} + \beta_2 FID_{i,t} + \Gamma X_{i,t} + \lambda_t + \varepsilon_{i,t} \quad (1)$$

where $CA_{i,t}$ represents the current account to GDP ratio of country i in year t. We assess the impact of income (personal) inequality $PID_{i,t}$ through various measures (Gini index, share of top incomes, ratios of deciles of income) in order to clarify the role of the structure of income distribution, in particular regarding middle and low income shares. $FID_{i,t}$ is the functional inequality measure, i.e. the labor share to GDP ratio, λ_t are year dummies, $\varepsilon_{i,t}$ is the error term, and $X_{i,t}$ refers to a common set of determinants used in the main current account methodologies offered by various institutions (see Table A.1 in Appendix A for the complete list of those controls).

In a second step, we study how the relationship between current account over GDP and income

Table 3 – Descriptive Statistics: development variables

	Mean	Min	1st quartile	Median	3rd quartile	Max	S.D. wit.	S.D. bet.
Current account/GDP	-0.006	-0.197	-0.035	-0.009	0.023	0.175	0.032	0.036
Log GDP/capita	9.322	5.708	8.324	9.631	10.386	11.542	0.466	1.222
Credit market deregulation	8.658	3.667	8	9.006	9.582	10	0.683	0.986
Private credit	1.115	0.069	0.472	1.072	1.598	3.535	0.247	0.699
Chinn-Ito index	0.715	0	0.417	0.88	1	1	0.152	0.291

Note: 1309 observations, except for credit market deregulation (1039).

inequality may be distorted along country-level development, by including interactions in the previous specification, as follows:

$$CA_{i,t} = \beta_0 + \beta_1 PID_{i,t} + \beta_2 FID_{i,t} + \beta_3 (PID_{i,t} \times DVP_{i,t}) + \Gamma X_{i,t} + \lambda_t + \varepsilon_{i,t} \quad (2)$$

where $DVP_{i,t}$ represents the variables used to proxy countries' economic and financial development, namely, the GDP per capita, the ratio of private credit over GDP, the index of capital-account openness provided by Chinn and Ito (2006), and the index of credit market deregulation provided by the Fraser Institute (the latter relates especially to the private ownership of banks, the existence of interest rate controls and negative real interest rates).[7]

We estimate equations 1 and 2 with a pooled generalized least squares method, together with a panel-wide AR(1), necessary to take into account the autocorrelation of the current account. In this regard, three points deserve specific attention regarding estimation.

Firstly, we estimate the model on a yearly basis. Some papers rely on non-overlapping averages over a specific period of time, usually 4 or 5 years (Chinn and Prasad, 2003; Lee, 2008; Ascione and Schnetzer, 2021), to tackle the possible influence of the business cycle on current account variations and to handle the autocorrelation. Nevertheless, it implies a sharp reduction of the degrees of freedom of the estimation, while several controls for business cycle are included in Equations 1 and 2 (such as output growth and output gap, see Appendix A for more details) and autocorrelation is taken into account in the estimation method. Besides, according to the last version of the IMF's External Balance Assessment Methodology (Rabanal et al., 2019), results vary substantially depending on the period chosen to apply the averages. Thus, in order to maximize the number of observations and the accuracy of the results, this paper relies on the method developed by Phillips et al. (2013), based on yearly data. This second methodology, favored by the IMF but also by the European Commission (2018), maintains annual data and accounts for cyclical variations by incorporating cyclical control explanatory

[7] See https://www.fraserinstitute.org/economic-freedom/approach.

variables, as we do.

Secondly, following the bulk of the literature on current account empirical analysis (Chinn and Prasad, 2003; Behringer and Van Treeck, 2018; Cubeddu et al., 2019; Kumhof et al., 2019), country-fixed effects are not included in the baseline estimations. Indeed, they remove most of the cross-country variations by absorbing the effect of fundamental variables that vary slightly over time. Thus, a deliberate removal of country-fixed effects is recommended despite a potential omitted variable bias. That said, the latter is plausibly very limited thanks to the various included controls following the EBA approach. We also discuss in section 6.1 results of estimates including country-fixed effects, and the implications of the few differences with our main results. Note also these fixed-effects specifications are useful to control for potential country-specific trend: this helps to alleviate potential non-stationarity issues in the data, though it is unclear from the related literature if this is really an issue (Lee, 2008; Phillips et al., 2013), especially on our sample including post-GFC years, characterized by substantial rebalancing of current accounts.

Thirdly, considering the interdependence of countries' current accounts, i.e. the current account deficits of some countries are explained by the current account surpluses of others, the common method consists in weighing the explanatory variables relatively to the world average. The data therefore reflect country specificities since only the deviation from the overall movement is taken into account for most of the independent variables (see Table A.1 in Appendix A for more details).[8] For example, for a given year t and country i, the labor share data will be negative if the share of total national income allocated to wages is lower than the average in all countries of the sample, and conversely if the labor share of a country i in a year t is higher than the world average, the value will be positive.

5. Results

5.1. A negative relationship?

In this section, we discuss estimates of Equation 1, that is, we focus on the average impact of income inequality on the current account balance over GDP. For comparison purposes, Table 4 report results for a sample of countries restricted to the one used by Behringer and Van Treeck (2018), excluding "South Africa", which we have removed from our sample because of outlier values for the ratios involving the middle and bottom classes. Column (1) reports results based

[8]The inclusion of year dummies in Equation 1 might be considered as redundant in such a context. Note however that not all right-hand side variables are demeaned that way. In any case, running estimates without year dummies delivered almost exactly identical results.

on the Gini index (which gives an idea of the "average" inequality of the income distribution), while columns (2), (3), and (4) rely on top income shares - respectively, Top 1, Top 5, and Top 10%. The second group of columns ((5) to (8)) focuses on the variations of top 10% incomes relatively to middle (columns (5) and (7)) and low (columns (6) and (8)) incomes.

This table shows that, whatever inequality indicator is considered, the average impact is negative: for example, a one-standard deviation of inequality as proxied by our various indicators deteriorates current account over GDP by 0.5 to 0.9 percentage points (pp). The same qualitative conclusion applies to the labor share: a decrease by 10 pp of the latter brings an increase of the current account over GDP by around 1.6 pp. Those results are very similar to those found in Behringer and Van Treeck (2018). This emphasizes differences we may find in the remainder of the analysis are not due to our specification or our period of analysis including years beyond 2007. Among other things, we will be interested in the potential quantitative differences between the impoverishment of middle and bottom incomes relative to the top 10%. On this specific sample made of developed countries, if anything, the relative impoverishment of bottom incomes seems to have slightly higher quantitative impact on the deterioration of the current account, compared to the impoverishment of middle incomes.

Turning to control variables, they are generally less significant than in related studies. Starting with the significant ones, the (lag of) net international investment position is, as expected, positively associated to the current account balance over GDP. The lag of relative productivity displays a negative coefficient, while its interaction with capital account openness is positive: more productive (or richer) countries are expected to export capital to poorer countries by running current account surpluses while the opposite would be expected for poorer economies, provided that the degree of capital mobility is sufficient to allow the flow of capital from richer to poorer countries (Rabanal et al., 2019). The sum of the parameters for the two business cycle variables is consistently negative: higher internal demand brings more imports, all other things equal. In details, the output gap (respectively GDP growth) variable impacts negatively (respectively positively) the current account balance. While the positive impact of GDP growth could be interpreted as the correlation between supply-side (export) dynamics and the current account balance, we will see in section 6.1 it becomes insignificant with the introduction of country-fixed effects, without any consequences on our key results. In this regard, this positive coefficient between GDP growth and current account balance merely reflects a country-specific trend, and the output gap variable appears more relevant for identifying business cycle drivers of the current account balance.

A related motive brings also a negative estimate for population growth: more internal demand

generates, all other things equal, a deterioration of the current account. The dependency ratio shows a positive correlation with the dependent variable. Other control variables are not significant. This is not really surprising considering our period of estimation involves more than a decade after the GFC, which may have altered some relationships, as suggested by results reported in Table B.3 in Appendix B, showing estimates for a period stopping in 2007. In the latter, private credit shows the expected, negative association with the current account: more private credit fuels higher domestic demand, i. e., is synonymous to a decrease in net savings, bringing therefore a deficit of the trade balance. Similar results also emerge from specifications including country-fixed effects (Table 10). Symmetrically, the fiscal balance displays a positive impact on current account, arising from the direct relationship between external and internal equilibrium. The latter appears even more obviously when the potential reverse causality bias from current account to fiscal balance is accounted for with Instrumental Variables (see section 6.2).

Finally, the most important point here is that the key relationship between inequality (both functional and personal) and current account balance does not seem to be altered whether we include (Table 4) or not (Table B.3) the years following the Great Financial Crisis, sign, significance and size of the related parameters being very similar in both tables. Once again, this makes us confident that evidence of non-linearities detailed hereafter are not an artefact arising from the estimation period.

Table 4 – Current Account and Inequality, Developed Countries

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Current Account Balance/GDP							
Income ineq. measure	Gini	Top 1%	Top 5%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Income inequality	-0.206**	-0.671**	-0.302**	-0.323***	-0.159***	-0.016**	-0.124***	-0.045***
	(0.081)	(0.341)	(0.139)	(0.115)	(0.056)	(0.007)	(0.046)	(0.017)
Labor Share ($\frac{W}{GDP}$)	-0.166**	-0.159**	-0.159**	-0.160**	-0.157**	-0.167**	-0.157**	-0.164**
	(0.072)	(0.070)	(0.070)	(0.071)	(0.070)	(0.072)	(0.070)	(0.071)
NIIP$_{t-1}$ (% of GDP)	0.037***	0.036***	0.037***	0.037***	0.037***	0.037***	0.036***	0.037***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Dummy NIIP	-0.011	-0.009	-0.010	-0.011	-0.011	-0.009	-0.010	-0.010
	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
Relative productivity$_{t-1}$	-0.074**	-0.070**	-0.071**	-0.073**	-0.073**	-0.077**	-0.071**	-0.078**
	(0.036)	(0.036)	(0.036)	(0.036)	(0.036)	(0.037)	(0.036)	(0.036)
Relative productivity$_{t-1}$ x capital openness	0.112**	0.116**	0.115**	0.113**	0.115**	0.116**	0.114**	0.117**
	(0.050)	(0.049)	(0.049)	(0.049)	(0.049)	(0.050)	(0.049)	(0.049)
Output growth	0.306***	0.312***	0.311***	0.309***	0.312***	0.307***	0.311***	0.310***
	(0.117)	(0.117)	(0.117)	(0.117)	(0.116)	(0.117)	(0.116)	(0.117)
Old age dependency ratio (% of working-age population)	0.145*	0.187**	0.183**	0.157**	0.166**	0.149*	0.179**	0.139*
	(0.083)	(0.077)	(0.077)	(0.079)	(0.077)	(0.084)	(0.076)	(0.083)
Population growth	-1.247***	-1.324***	-1.305***	-1.267***	-1.283***	-1.305***	-1.290***	-1.294***
	(0.447)	(0.448)	(0.448)	(0.447)	(0.446)	(0.444)	(0.447)	(0.445)
Reserve currency share (% of total world reserves)	-0.019	-0.026	-0.025	-0.020	-0.022	-0.019	-0.024	-0.018
	(0.019)	(0.018)	(0.018)	(0.018)	(0.018)	(0.019)	(0.017)	(0.019)
Output gap (% of potential GDP)	-0.334*	-0.340*	-0.341*	-0.341*	-0.343*	-0.334*	-0.343*	-0.339*
	(0.178)	(0.178)	(0.178)	(0.177)	(0.177)	(0.178)	(0.177)	(0.178)
Commodity terms of trade gap x trade openness	0.055	0.056	0.055	0.055	0.055	0.056	0.055	0.055
	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
Private credit (% of GDP)	0.005	0.009	0.008	0.006	0.007	0.006	0.008	0.006
	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Fiscal balance$_{t-1}$ (% of GDP)	0.031	0.045	0.043	0.035	0.038	0.039	0.041	0.037
	(0.085)	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)	(0.083)	(0.084)
Quantification								
S.D. income inequality	0.045	0.007	0.018	0.026	0.047	0.533	0.052	0.205
$\beta_{Ineq} * S.D._{between}$	-0.009	-0.005	-0.005	-0.008	-0.007	-0.009	-0.006	-0.009
Middle/Bottom					0.88		0.7	
Obs.	506	506	506	506	506	506	506	506
Countries	19	19	19	19	19	19	19	19
R^2	0.305	0.313	0.313	0.313	0.316	0.304	0.316	0.309

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

As pointed in section 2 however, those results are probably driven by the sample, restricted to developed countries, with a high level of financial development and deregulation (for most of them). We therefore extend the analysis by including in the sample less developed countries. Results for this extended, complete sample of 52 countries are reported in Table 5. Regarding controls, terms of trade gap interacted with trade openness, as well as the dummy variable pointing to a highly debtor international investment position, are now signed as expected, and strongly significant which makes sense in a sample including a number of developing countries. Apart from the net international investment position and the output gap, which remains significant and impact the current account balance in the expected direction, all other

control variables are insignificant.

More importantly, the wage share remains negative and very significant, though with a slightly smaller effect (around -0.13): independently of the level of economic or financial development, lower wage share compresses internal demand, increases corporate savings, and brings higher current account (Behringer and Van Treeck, 2018). Conversely, point estimates of the impact of income inequality on current account remain negative, but turn massively insignificant, in contrast with Table 4. Based on the intuitions developed in section 2, these results point to the existence of non-linearities in the relationship between income inequality and current account balance, that we investigate in the next section.

Table 5 – Current Account and Inequality, Complete Sample

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Current Account Balance/GDP							
Income ineq. measure	Gini	Top 1%	Top 5%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Income inequality	-0.037	-0.179	-0.091	-0.074	-0.031	-0.001	-0.029	-0.004
	(0.037)	(0.136)	(0.062)	(0.051)	(0.021)	(0.002)	(0.019)	(0.005)
Labor share ($\frac{W}{GDP}$)	-0.127***	-0.130***	-0.131***	-0.130***	-0.130***	-0.125***	-0.132***	-0.126***
	(0.034)	(0.035)	(0.035)	(0.034)	(0.034)	(0.034)	(0.035)	(0.034)
NIIP$_{t-1}$ (% of GDP)	0.043***	0.043***	0.043***	0.043***	0.043***	0.043***	0.044***	0.043***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.056***	-0.056***	-0.057***	-0.057***	-0.057***	-0.055***	-0.057***	-0.056***
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	-0.004	-0.004	-0.005	-0.005	-0.005	-0.002	-0.005	-0.003
	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
Relative productivity$_{t-1}$ x capital openness	0.030*	0.030*	0.030*	0.030*	0.030*	0.029*	0.030*	0.029*
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Output growth	0.066	0.065	0.065	0.065	0.065	0.067	0.064	0.066
	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)
Old age dependency ratio (% of working-age population)	0.059	0.056	0.053	0.052	0.053	0.066	0.052	0.063
	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)
Population growth	-0.078	-0.055	-0.045	-0.046	-0.044	-0.098	-0.037	-0.081
	(0.294)	(0.295)	(0.295)	(0.295)	(0.295)	(0.293)	(0.295)	(0.294)
Reserve currency share (% of total world reserves)	-0.008	-0.008	-0.007	-0.007	-0.007	-0.010	-0.007	-0.009
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Output gap (% of potential GDP)	-0.406***	-0.405***	-0.405***	-0.406***	-0.405***	-0.406***	-0.405***	-0.406***
	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)
Commodity terms of trade gap x trade openness	0.067***	0.067***	0.066***	0.067***	0.067***	0.067***	0.066***	0.067***
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Private credit (% of GDP)	0.003	0.003	0.003	0.003	0.003	0.004	0.003	0.003
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.041	0.040	0.040	0.041	0.041	0.043	0.041	0.042
	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Obs.	1309	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52	52
R^2	0.207	0.208	0.208	0.208	0.208	0.207	0.209	0.207

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

5.2. Non-linearities in the current account-inequality nexus

In this section, we discuss estimates of Equation 2, that is, we investigate how the impact of income inequality on the current account balance over GDP varies conditionally to several economic and financial development indicators discussed in section 2.2. Note that, to save space, we do not report results based on Top 5% incomes, as they are always very similar to those relying on the two other top income indicators.

Level of economic development. Table 6 reports estimates for Equation 2 where the $DVP_{i,t}$ variable is the log of GDP per capita, the common proxy for measuring the economic development of countries. Overall, all estimates for interactions are strongly significant across specifications, and support the impact of an inequality shock on the external balance strongly depends on the level of development: the impact is actually positive for the less developed countries, and becomes negative beyond a GDP per capita threshold reported at the bottom of the table. Between 1,700 and 4,800 US dollars a year, the threshold revolves around 2,500-3,400 dollars in most specifications. This confirms the results of a negative impact of income inequality on external balance reported in previous studies (Behringer and Van Treeck, 2018; Ascione and Schnetzer, 2021) partly come from their focus on developed countries. We also report in the following developments other important dimensions implying some non-linearities in the inequality-current account nexus.

Table 6 – The Role of Development (GDP per capita)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
ln(GDP/capita) x income ineq.	-0.116***	-0.416***	-0.160***	-0.071***	-0.007***	-0.060***	-0.017***
	(0.024)	(0.093)	(0.033)	(0.015)	(0.001)	(0.013)	(0.004)
Income inequality	0.983***	3.357***	1.297***	0.557***	0.052***	0.472***	0.138***
	(0.216)	(0.813)	(0.292)	(0.127)	(0.012)	(0.110)	(0.032)
Log GDP per capita	-0.002	-0.002	-0.001	-0.001	-0.002	-0.001	-0.002
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Labor Share ($\frac{W}{GDP}$)	-0.125***	-0.131***	-0.128***	-0.132***	-0.133***	-0.132***	-0.133***
	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
NIIP$_{t-1}$ (% of GDP)	0.042***	0.043***	0.043***	0.043***	0.043***	0.043***	0.043***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.052***	-0.053***	-0.053***	-0.053***	-0.051***	-0.053***	-0.052***
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	0.012	0.009	0.007	0.006	0.010	0.006	0.009
	(0.023)	(0.023)	(0.023)	(0.023)	(0.024)	(0.023)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.011	0.016	0.014	0.016	0.013	0.016	0.013
	(0.017)	(0.016)	(0.016)	(0.016)	(0.017)	(0.016)	(0.016)
Output growth	0.074*	0.068*	0.069*	0.067*	0.071*	0.066	0.070*
	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)
Old age dependency ratio (% of working-age population)	0.031	0.029	0.019	0.016	0.027	0.020	0.019
	(0.054)	(0.054)	(0.054)	(0.054)	(0.056)	(0.054)	(0.056)
Population growth	-0.308	-0.266	-0.277	-0.252	-0.278	-0.244	-0.271
	(0.293)	(0.293)	(0.293)	(0.293)	(0.292)	(0.293)	(0.293)
Reserve currency share (% of total world reserves)	-0.004	-0.004	-0.003	-0.004	-0.004	-0.004	-0.003
	(0.015)	(0.014)	(0.014)	(0.014)	(0.015)	(0.014)	(0.015)
Output gap (% of potential GDP)	-0.411***	-0.407***	-0.408***	-0.404***	-0.404***	-0.403***	-0.405***
	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)
Commodity terms of trade gap x trade openness	0.066***	0.066***	0.066***	0.066***	0.067***	0.066***	0.066***
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Private credit (% of GDP)	0.000	0.001	0.000	0.000	0.000	0.001	0.000
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.033	0.040	0.036	0.038	0.037	0.038	0.037
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Quantification							
S.D. income inequality	0.078	0.02	0.059	0.135	1.378	0.155	0.54
$\beta_{Ineq} * S.D._{between}$	0.077	0.067	0.077	0.075	0.072	0.073	0.075
Middle/Bottom				1.04		0.97	
Threshold (current $)	4789	3196	3315	2553	1683	2608	3353
Obs.	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52
R^2	0.223	0.224	0.226	0.225	0.219	0.226	0.221

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

The role of financial development and financial openness. We now investigate how the relationship between current account balance and income inequality is distorted by the country-level heterogeneity in the financial sphere. The latter is understood through size (proxied with the ratio of private credit to GDP, the most current and widespread measure of

financial development, as pointed by Levine (2005), the level of financial markets liberalization (proxied by the index of credit market deregulation provided by the Fraser Institute) and the degree of capital account openness as measured by the well-known Chinn and Ito's (2006) index. Results incorporating the interactions between these three variables and our various measures of income inequality are reported, respectively, in Tables 7, 8, and 9.

Table 7 – The Role of Quantitative Financial Development (Private Credit/GDP)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Private credit x income ineq.	-0.145***	-0.658***	-0.249***	-0.123***	-0.010***	-0.105***	-0.029***
	(0.053)	(0.223)	(0.073)	(0.034)	(0.004)	(0.029)	(0.009)
Income inequality	-0.110**	-0.568***	-0.219***	-0.112***	-0.008***	-0.097***	-0.025***
	(0.045)	(0.190)	(0.065)	(0.030)	(0.003)	(0.026)	(0.008)
Private credit (% of GDP)	-0.005	-0.004	-0.006	-0.005	-0.005	-0.005	-0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Labor Share ($\frac{W}{GDP}$)	-0.113***	-0.116***	-0.113***	-0.114***	-0.115***	-0.116***	-0.114***
	(0.035)	(0.035)	(0.035)	(0.034)	(0.034)	(0.035)	(0.034)
NIIP$_{t-1}$ (% of GDP)	0.041***	0.042***	0.041***	0.041***	0.041***	0.041***	0.041***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.053***	-0.056***	-0.055***	-0.055***	-0.053***	-0.056***	-0.053***
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	-0.004	-0.006	-0.007	-0.008	-0.005	-0.008	-0.007
	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
Relative productivity$_{t-1}$ x capital openness	0.030*	0.032**	0.032**	0.033**	0.032**	0.032**	0.032**
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Output growth	0.071*	0.066	0.067*	0.066	0.068*	0.065	0.068*
	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)
Old age dependency ratio (% of working-age population)	0.058	0.055	0.049	0.047	0.057	0.048	0.052
	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)	(0.052)	(0.053)
Population growth	-0.157	-0.135	-0.133	-0.119	-0.152	-0.116	-0.141
	(0.296)	(0.294)	(0.295)	(0.294)	(0.294)	(0.294)	(0.295)
Reserve currency share (% of total world reserves)	-0.007	-0.007	-0.006	-0.006	-0.008	-0.006	-0.007
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Output gap (% of potential GDP)	-0.417***	-0.418***	-0.418***	-0.416***	-0.416***	-0.416***	-0.416***
	(0.068)	(0.067)	(0.067)	(0.067)	(0.068)	(0.067)	(0.068)
Commodity terms of trade gap x trade openness	0.066***	0.065***	0.066***	0.065***	0.067***	0.065***	0.066***
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Private credit (% of GDP)	-0.005	-0.004	-0.006	-0.005	-0.005	-0.005	-0.006
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.034	0.037	0.034	0.036	0.036	0.037	0.035
	(0.050)	(0.050)	(0.050)	(0.049)	(0.050)	(0.049)	(0.050)
Quantification							
S.D. income inequality	0.078	0.02	0.059	0.135	1.378	0.155	0.54
$\beta_{Ineq} * S.D._{between}$	-0.009	-0.011	-0.013	-0.015	-0.011	-0.015	-0.013
Middle/Bottom				1.4		1.2	
Obs.	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52
R^2	0.210	0.214	0.215	0.217	0.210	0.218	0.211

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 8 – The Role of Credit Market Deregulation

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Credit market deregulation x income ineq.	-0.053***	-0.190***	-0.065***	-0.025***	-0.003***	-0.022***	-0.006***
	(0.018)	(0.064)	(0.023)	(0.010)	(0.001)	(0.008)	(0.002)
Income inequality	0.403***	1.456**	0.479**	0.188**	0.021**	0.162**	0.050**
	(0.156)	(0.571)	(0.206)	(0.086)	(0.008)	(0.074)	(0.022)
Credit market deregulation (0-10)	-0.001	-0.001	-0.001	-0.000	-0.001	-0.000	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Labor Share ($\frac{W}{GDP}$)	-0.074**	-0.076**	-0.076**	-0.076**	-0.074**	-0.077**	-0.075**
	(0.034)	(0.035)	(0.035)	(0.035)	(0.034)	(0.035)	(0.034)
NIIP$_{t-1}$ (% of GDP)	0.045***	0.046***	0.046***	0.046***	0.045***	0.046***	0.045***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.043**	-0.044**	-0.044**	-0.044**	-0.042**	-0.044**	-0.042**
	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)
Relative productivity$_{t-1}$	0.006	0.006	0.004	0.004	0.008	0.003	0.007
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Relative productivity$_{t-1}$ x capital openness	0.020	0.021	0.021	0.022	0.019	0.022	0.020
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output growth	0.134**	0.133**	0.133**	0.133**	0.137**	0.133**	0.135**
	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)
Old age dependency ratio (% of working-age population)	0.023	0.028	0.022	0.026	0.035	0.025	0.032
	(0.049)	(0.049)	(0.049)	(0.049)	(0.048)	(0.049)	(0.049)
Population growth	-0.196	-0.201	-0.183	-0.185	-0.229	-0.182	-0.212
	(0.285)	(0.285)	(0.286)	(0.287)	(0.284)	(0.287)	(0.286)
Reserve currency share (% of total world reserves)	-0.003	-0.004	-0.003	-0.004	-0.006	-0.004	-0.006
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Output gap (% of potential GDP)	-0.485***	-0.485***	-0.484***	-0.484***	-0.483***	-0.484***	-0.483***
	(0.091)	(0.091)	(0.091)	(0.091)	(0.091)	(0.091)	(0.091)
Commodity terms of trade gap x trade openness	0.064***	0.063***	0.063***	0.063***	0.064***	0.063***	0.064***
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Private credit (% of GDP)	0.001	0.002	0.002	0.002	0.002	0.002	0.002
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.052	0.055	0.054	0.056	0.057	0.056	0.056
	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)
Quantification							
S.D. between income inequality	0.076	0.02	0.058	0.132	1.341	0.151	0.527
$\beta_{Ineq} * S.D._{\cdot between}$	0.031	0.029	0.028	0.025	0.028	0.024	0.026
Middle/Bottom				0.89		0.92	
Threshold (0-10)	7.6	7.7	7.4	7.5	7	7.3	8.3
Obs.	1039	1039	1039	1039	1039	1039	1039
Countries	52	52	52	52	52	52	52
R^2	0.231	0.232	0.232	0.231	0.229	0.231	0.229

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

The analysis of the three tables point to interesting similarities, but also differences. As for financial development (Table 7), interactions are always significant and negative: the impact of an income inequality on current account is all the more negative that financial markets are bigger and more deregulated. However, all other things equal, countries with small financial markets still exhibit a negative impact of income inequality on current accounts. Conversely,

Table 9 – The Role of Capital Account Openness

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Chinn-Ito index x income ineq.	-0.243***	-0.670***	-0.290***	-0.108***	-0.009**	-0.092***	-0.025***
	(0.071)	(0.257)	(0.094)	(0.040)	(0.003)	(0.035)	(0.009)
Income inequality	0.106*	0.179	0.087	0.026	0.003	0.020	0.009
	(0.060)	(0.201)	(0.077)	(0.031)	(0.003)	(0.027)	(0.007)
Chinn-Ito index (0-1)	-0.004	-0.002	-0.000	0.000	-0.003	0.001	-0.002
	(0.007)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Labor Share ($\frac{W}{GDP}$)	-0.121***	-0.125***	-0.124***	-0.124***	-0.121***	-0.126***	-0.121***
	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)	(0.033)
NIIP$_{t-1}$ (% of GDP)	0.044***	0.045***	0.045***	0.045***	0.044***	0.046***	0.045***
	(0.006)	(0.007)	(0.006)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.056***	-0.057***	-0.057***	-0.058***	-0.056***	-0.058***	-0.056***
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	0.007	0.003	0.003	0.002	0.005	0.001	0.005
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Relative productivity$_{t-1}$ x capital openness	0.017	0.022	0.020	0.021	0.021	0.021	0.020
	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
Output growth	0.069*	0.067	0.067	0.067	0.069*	0.067	0.068*
	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)	(0.041)
Old age dependency ratio (% of working-age population)	0.031	0.032	0.021	0.024	0.045	0.023	0.039
	(0.052)	(0.052)	(0.052)	(0.052)	(0.052)	(0.052)	(0.052)
Population growth	-0.165	-0.113	-0.125	-0.105	-0.134	-0.100	-0.127
	(0.292)	(0.292)	(0.293)	(0.293)	(0.291)	(0.293)	(0.292)
Reserve currency share (% of total world reserves)	-0.006	-0.006	-0.005	-0.006	-0.008	-0.006	-0.007
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Output gap (% of potential GDP)	-0.411***	-0.411***	-0.411***	-0.410***	-0.411***	-0.411***	-0.410***
	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)	(0.068)
Commodity terms of trade gap x trade openness	0.068***	0.067***	0.068***	0.067***	0.068***	0.067***	0.068***
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Private credit (% of GDP)	0.001	0.002	0.001	0.002	0.002	0.002	0.002
	(0.006)	(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.047	0.050	0.049	0.050	0.049	0.050	0.049
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Quantification							
S.D. income inequality	0.078	0.02	0.059	0.135	1.378	0.155	0.54
$\beta_{Ineq} * S.D._{\cdot between}$	-0.019	-0.013	-0.017	-0.015	-0.012	-0.014	-0.014
Middle/Bottom				1.25		1	
Threshold (normalized index 0-1)	0.44	0.28	0.3	0.24	0.33	0.22	0.36
Obs.	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52
R^2	0.220	0.218	0.220	0.219	0.216	0.219	0.216

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

countries with an index of financial deregulation below a threshold around 7-8 show a positive impact of income inequality on current account balance (see Table 8). For example, over the considered period, the overall sample median index is equal to 9 (see Table 3), but the mean index is 6.45 for China, 8.03 for Germany, and 9.04 for the USA, that is, China and Germany

are well below the sample median, and the USA, just above. In addition, a detailed country-level view of the financial deregulation indexes show that Chinese index is below 8 for all the sample period (max is at 7.26), while the German index lies between 7.17 and 8.33. Conversely, the US index is above 8 for most of the considered period, with a maximum value at 9.99. Consistently with the intuitions detailed in section 2.2, while China and Germany exhibited growing inequality and current account surpluses over the past decades, rising inequality in the US happened together with a growing current account deficit. Similarly, Table 9 supports the direction of the impact of income inequality on the current account balance over GDP is strongly conditioned on the degree of capital account openness as proxied by the Chinn and Ito's (2006) index: countries with an index above a threshold around 0.2-0.4 (see the bottom of the table) see a deterioration of their current account balance following an income inequality shock; for the other ones, the same inequality shock brings an improvement of this balance. With an index between 0 and 0.164 during all the considered period, well below the sample median (equal to 0.88), China falls undoubtedly in the latter category. Conversely, Germany and USA display over all the considered period the maximum value for the index, equal to 1.

Last but not least, as expected from the discussion in section 2.3, it appears that a one-standard-deviation increase in the ratio of top incomes to middle incomes (meaning an impoverishment of middle classes relative to the top 10%, columns (4) and (6)) brings a higher deterioration of the current account than the one stemming from an increase in the ratio of the top 10% to the bottom incomes in financially developed countries, or countries with a more open capital account. More specifically, the decrease in current account balance is 1.2 to 1.4 times more important in countries with higher financial development when income is transferred from middle income to top incomes, rather than from bottom incomes ; similarly, the decrease in current account balance is 1 to 1.3 times more important in countries with more open financial account when income is transferred from middle income to top incomes, rather than from bottom incomes.

Consequently, Tables 6, 7, 8, and 9 deliver results consistent with testable relationships presented in section 2. As for Relationship 1, the direction of the impact of income inequality variations on current account balance depends of the level of economic development, financial regulation, and financial openness - but not on the size of financial markets, as proxied by the ratio of private credit to GDP. When financial markets are deep, deregulated, and opened, an income inequality shock permanently transferring income to top incomes deteriorates the current account. Conversely, when the economy is insufficiently developed, or when financial markets are insufficiently deregulated, the same income inequality shock improves the current account balance. Concerning Relationship 2, our results are consistent with those by Bazillier,

Héricourt, and Ligonnière (2021), who emphasize, on a sample of developed countries, a more substantial impact of inequality shock hitting middle classes on household credit: indeed, estimates in Table 7 and 9 support developed and open financial markets are a key condition to channel higher domestic and foreign savings to impoverished households, the impact being quantitatively more important when the income transfer happens at the expense of middle incomes: as pointed in section 2.3, higher marginal propensity to (dis)save and higher consumption levels to support deliver a higher decrease of net savings at the aggregate level, and therefore a more important deterioration of the current account. Interestingly, no such a phenomenon is visible regarding financial deregulation (Table 8), suggesting it is more the size of available credit which matters, rather than the level of competition and the existence of various channels for accessing credit.

6. Robustness Checks

6.1. Endogeneity Concerns (1): Country-fixed effects

As pointed out in section 4, the inclusion of country-fixed effects for the issue at stake raises several, non-trivial concerns. However, it remains interesting to see how our main results behave in a within-country context. Therefore, Tables 10 to 14 report results based on our complete sample of 52 countries, for modified versions of Equations 1 and 2, including country-fixed effects. Firstly, the impact of labor share on current account balance remains significantly negative, whatever specification considered, with a semi-elasticity around -0.22: a 10% increase in labor share brings a 2.2 pp deterioration of the current account balance. This quantification is higher than in our baseline results. Secondly, the unconditional impact of income inequality on the external balance (Table 10) remains insignificant when income inequality is capture through the Gini index (column (1) or proxies of impoverishment of bottom incomes relatively to top incomes (columns (6) and (8)). Conversely, the estimated parameter becomes significantly negative for other proxies. In particular, it appears the quantitative impact is now 2 to 3 times stronger when the income inequality shock favors top incomes at the expense of middle ones. Note however the size of these impacts arising from the within-country variation is much smaller than the one previously identified: a one-standard deviation increase in income inequality generates a deterioration of the current account balance lying between 0.1 and 0.4 pp. This was expected: as pointed out by Chinn and Prasad (2003) or Phillips et al. (2013), this confirms most of the previously identified effects stem from cross-country variations, and in some cases, sustained distortions of current account balances, provided that the omitted variable bias is unlikely considering the large bunch of controls included.

Turning now to conditional impacts, results are very similar to our baseline regarding the distorting roles of economic (Table 11) and financial (Table 12) development, as well as of financial deregulation. Thresholds above which the impact of an income inequality shock on current account balance becomes negative are lower in this specification: between 700 and 3,000 dollars for GDP per capita, between 5 and 7 for financial deregulation. Interestingly, there is no more evidence of a distorted impact along the openness of capital account: Table 14 reports all interactions between the latter and income inequality proxies are insignificant. Put differently, Table 9 shows a higher capital account openness across countries does matter for the direction of the impact of income inequality on the current account balance, while Table 14 highlights the country-level increase of capital account openness over time (within-country variation) is insignificant - i.e., a deviation of the Chinn-Ito index from the country-level mean does not bring an additional deterioration of the current account following an inequality shock.

Table 10 – Current Account and Inequality, Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Current Account Balance/GDP							
Income ineq. measure	Gini	Top 1%	Top 5%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Income inequality	-0.100	-0.454***	-0.231***	-0.217***	-0.090***	-0.003	-0.079***	-0.015**
	(0.061)	(0.169)	(0.077)	(0.069)	(0.026)	(0.002)	(0.022)	(0.007)
Labor Share ($\frac{W}{GDP}$)	-0.219***	-0.222***	-0.223***	-0.222***	-0.223***	-0.220***	-0.225***	-0.220***
	(0.042)	(0.042)	(0.041)	(0.041)	(0.041)	(0.042)	(0.041)	(0.042)
NIIP$_{t-1}$ (% of GDP)	0.005	0.006	0.006	0.006	0.006	0.006	0.006	0.006
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.021	-0.022	-0.022	-0.023	-0.023*	-0.020	-0.024*	-0.021
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Relative productivity$_{t-1}$	-0.065***	-0.065***	-0.066***	-0.067***	-0.065***	-0.062**	-0.066***	-0.062***
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.007	0.007	0.007	0.007	0.007	0.006	0.007	0.006
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Output growth	-0.024	-0.024	-0.023	-0.022	-0.021	-0.025	-0.021	-0.023
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
Old age dependency ratio (% of working-age population)	0.501***	0.511***	0.512***	0.516***	0.519***	0.501***	0.517***	0.513***
	(0.095)	(0.095)	(0.095)	(0.094)	(0.095)	(0.096)	(0.094)	(0.096)
Population growth	0.101	0.127	0.135	0.134	0.136	0.098	0.141	0.110
	(0.291)	(0.291)	(0.291)	(0.291)	(0.291)	(0.290)	(0.291)	(0.290)
Reserve currency share (% of total world reserves)	0.026	0.027	0.028	0.028	0.029	0.026	0.030	0.027
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Output gap (% of potential GDP)	-0.376***	-0.376***	-0.377***	-0.379***	-0.379***	-0.373***	-0.379***	-0.375***
	(0.060)	(0.059)	(0.059)	(0.059)	(0.059)	(0.060)	(0.059)	(0.059)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.016*	-0.016*	-0.016*	-0.015*	-0.016*	-0.016*	-0.016*	-0.016*
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Fiscal balance (% of GDP)	0.057	0.056	0.058	0.058	0.057	0.054	0.057	0.054
	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)
Quantification								
S.D. income inequality	0.018	0.006	0.013	0.015	0.037	0.405	0.045	0.147
$\beta_{Ineq} * S.D._{\cdot within}$	-0.002	-0.003	-0.003	-0.003	-0.003	-0.001	-0.004	-0.002
Middle/Bottom					3		2	
Obs.	1309	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52	52
R^2	0.558	0.560	0.563	0.564	0.563	0.556	0.565	0.557

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include Country-fixed effects and year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 11 – The Role of Development (GDP per capita), Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
ln(GDP/capita) x income ineq.	-0.094***	-0.316***	-0.116***	-0.053***	-0.005***	-0.042***	-0.015***
	(0.029)	(0.096)	(0.035)	(0.015)	(0.002)	(0.012)	(0.004)
Income inequality	0.713***	2.264***	0.783**	0.350***	0.040***	0.276***	0.105***
	(0.267)	(0.851)	(0.314)	(0.125)	(0.013)	(0.106)	(0.034)
Log GDP per capita	0.026*	0.009	0.025*	0.017*	0.005	0.018*	0.009
	(0.013)	(0.009)	(0.013)	(0.010)	(0.008)	(0.010)	(0.008)
Labor Share ($\frac{W}{GDP}$)	-0.208***	-0.212***	-0.210***	-0.211***	-0.214***	-0.212***	-0.212***
	(0.041)	(0.041)	(0.040)	(0.040)	(0.041)	(0.040)	(0.041)
NIIP$_{t-1}$ (% of GDP)	0.004	0.003	0.003	0.003	0.004	0.003	0.004
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.016	-0.016	-0.017	-0.017	-0.015	-0.017	-0.016
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Relative productivity$_{t-1}$	-0.074***	-0.072***	-0.075***	-0.074***	-0.070***	-0.073***	-0.073***
	(0.026)	(0.025)	(0.025)	(0.025)	(0.026)	(0.025)	(0.025)
Relative productivity$_{t-1}$ x capital openness	0.011	0.011	0.012	0.012	0.010	0.012	0.011
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Output growth	-0.022	-0.024	-0.021	-0.021	-0.023	-0.020	-0.022
	(0.037)	(0.037)	(0.037)	(0.037)	(0.037)	(0.037)	(0.037)
Old age dependency ratio (% of working-age population)	0.408***	0.437***	0.436***	0.446***	0.418***	0.451***	0.426***
	(0.099)	(0.097)	(0.097)	(0.096)	(0.099)	(0.095)	(0.099)
Population growth	0.047	0.096	0.092	0.095	0.037	0.107	0.049
	(0.292)	(0.292)	(0.292)	(0.292)	(0.293)	(0.292)	(0.292)
Reserve currency share (% of total world reserves)	0.020	0.023	0.023	0.024	0.021	0.025	0.021
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Output gap (% of potential GDP)	-0.350***	-0.348***	-0.353***	-0.354***	-0.347***	-0.354***	-0.350***
	(0.061)	(0.061)	(0.061)	(0.061)	(0.061)	(0.061)	(0.061)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.018**	-0.018**	-0.018**	-0.018**	-0.017**	-0.018**	-0.018**
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Fiscal balance (% of GDP)	0.059	0.061	0.063	0.064	0.059	0.064	0.061
	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)
Quantification							
S.D. income inequality	0.018	0.006	0.015	0.037	0.405	0.045	0.147
$\beta_{Ineq} * S.D._{within}$	0.0017	0.0019	0.0017	0.002	0.002	0.0019	0.0022
Middle/Bottom				0.97		0.86	
Threshold (current $)	1969	1293	854	738	2981	714	1097
Obs.	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52
R^2	0.566	0.569	0.573	0.575	0.565	0.576	0.568

Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies.
*, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 12 – The role of Quantitative Financial Development (Private Credit/GDP), Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Private credit x income ineq.	-0.164**	-0.479**	-0.212**	-0.104***	-0.013***	-0.078***	-0.036***
	(0.070)	(0.231)	(0.083)	(0.036)	(0.004)	(0.029)	(0.011)
Income inequality	0.036	-0.070	-0.050	-0.021	0.003	-0.025	0.005
	(0.083)	(0.241)	(0.095)	(0.035)	(0.003)	(0.030)	(0.009)
Private credit (% of GDP)	0.039	0.007	0.039	0.028	0.012	0.027	0.020
	(0.026)	(0.015)	(0.025)	(0.019)	(0.014)	(0.020)	(0.015)
Labor Share ($\frac{W}{GDP}$)	-0.213***	-0.211***	-0.210***	-0.207***	-0.213***	-0.209***	-0.209***
	(0.042)	(0.041)	(0.041)	(0.040)	(0.041)	(0.040)	(0.040)
NIIP$_{t-1}$ (% of GDP)	0.003	0.004	0.003	0.003	0.004	0.004	0.003
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.019	-0.021	-0.021	-0.021	-0.017	-0.022	-0.018
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Relative productivity$_{t-1}$	-0.074***	-0.070***	-0.074***	-0.072***	-0.073***	-0.071***	-0.074***
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.007	0.007	0.007	0.007	0.008	0.007	0.008
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Output growth	-0.030	-0.028	-0.028	-0.027	-0.029	-0.026	-0.030
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
Old age dependency ratio (% of working-age population)	0.416***	0.449***	0.436***	0.439***	0.408***	0.448***	0.408***
	(0.100)	(0.099)	(0.098)	(0.097)	(0.102)	(0.096)	(0.101)
Population growth	0.059	0.099	0.093	0.097	0.056	0.104	0.064
	(0.293)	(0.293)	(0.293)	(0.292)	(0.292)	(0.292)	(0.292)
Reserve currency share (% of total world reserves)	0.025	0.027	0.027	0.028	0.024	0.029	0.025
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Output gap (% of potential GDP)	-0.375***	-0.376***	-0.379***	-0.379***	-0.377***	-0.380***	-0.378***
	(0.059)	(0.059)	(0.059)	(0.059)	(0.059)	(0.059)	(0.059)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Fiscal balance (% of GDP)	0.064	0.063	0.068	0.068	0.063	0.068	0.066
	(0.045)	(0.045)	(0.044)	(0.044)	(0.044)	(0.044)	(0.044)
Obs.	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52
R^2	0.564	0.565	0.570	0.571	0.562	0.572	0.565

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 13 – The role of Credit Market Deregulation, with FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Credit market deregulation x income ineq.	-0.048***	-0.173***	-0.057***	-0.020**	-0.002**	-0.018**	-0.005**
	(0.017)	(0.061)	(0.022)	(0.009)	(0.001)	(0.008)	(0.002)
Income inequality	0.353**	1.191**	0.329*	0.104	0.014*	0.092	0.031
	(0.156)	(0.544)	(0.197)	(0.080)	(0.008)	(0.068)	(0.021)
Credit market deregulation	0.018**	0.010**	0.016**	0.010*	0.005	0.011**	0.005
	(0.007)	(0.004)	(0.007)	(0.005)	(0.003)	(0.005)	(0.004)
Labor Share ($\frac{W}{GDP}$)	-0.188***	-0.188***	-0.192***	-0.195***	-0.189***	-0.195***	-0.192***
	(0.042)	(0.042)	(0.042)	(0.042)	(0.043)	(0.042)	(0.042)
NIIP$_{t-1}$ (% of GDP)	-0.004	-0.004	-0.004	-0.003	-0.003	-0.003	-0.003
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.000	-0.001	-0.002	-0.002	-0.000	-0.003	-0.001
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	-0.055**	-0.050**	-0.052**	-0.050**	-0.051**	-0.050**	-0.050**
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.011	0.009	0.009	0.008	0.009	0.008	0.008
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Output growth	0.005	0.005	0.006	0.007	0.007	0.006	0.007
	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Old age dependency ratio (% of working-age population)	0.439***	0.455***	0.465***	0.479***	0.449***	0.477***	0.464***
	(0.098)	(0.098)	(0.098)	(0.098)	(0.100)	(0.097)	(0.100)
Population growth (annual %)	-0.003	0.010	0.013	0.023	0.011	0.022	0.018
	(0.275)	(0.276)	(0.275)	(0.277)	(0.277)	(0.277)	(0.277)
Reserve currency share (% of total world reserves)	0.000	-0.001	0.000	0.002	0.002	0.002	0.001
	(0.029)	(0.029)	(0.029)	(0.029)	(0.029)	(0.029)	(0.029)
Output gap (% of potential GDP)	-0.444***	-0.447***	-0.450***	-0.451***	-0.444***	-0.451***	-0.447***
	(0.078)	(0.078)	(0.078)	(0.079)	(0.078)	(0.079)	(0.078)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.000***	0.001***	0.000***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.022**	-0.022***	-0.022**	-0.022***	-0.022***	-0.022***	-0.022***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Fiscal balance (% of GDP)	0.058	0.064	0.066	0.070	0.064	0.071	0.065
	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)
Quantification							
S.D. income inequality	0.016	0.005	0.014	0.035	0.386	0.042	0.139
$\beta_{Ineq} * S.D._{within}$	0.0008	0.0009	0.0008	0.0007	0.0008	0.0008	0.0007
Threshold (0-10)	7.4	6.9	5.8	5.2	7	5.1	6.2
Obs.	1039	1039	1039	1039	1039	1039	1039
Countries	52	52	52	52	52	52	
R^2	0.631	0.634	0.637	0.637	0.628	0.638	0.630

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include Country-fixed effects and year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 14 – The Role of Capital Account Openness, Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Chinn-Ito index x income ineq.	-0.101	-0.241	-0.112	-0.041	-0.004	-0.033	-0.011
	(0.072)	(0.250)	(0.091)	(0.038)	(0.003)	(0.033)	(0.009)
Income inequality	-0.042	-0.314	-0.153*	-0.067**	-0.001	-0.061**	-0.009
	(0.075)	(0.224)	(0.087)	(0.033)	(0.003)	(0.028)	(0.008)
Chinn-Ito index (0-1)	0.034	0.010	0.029	0.017	0.008	0.017	0.010
	(0.029)	(0.018)	(0.029)	(0.022)	(0.013)	(0.024)	(0.015)
Labor Share ($\frac{W}{GDP}$)	-0.221***	-0.223***	-0.223***	-0.224***	-0.221***	-0.225***	-0.221***
	(0.042)	(0.042)	(0.041)	(0.041)	(0.042)	(0.041)	(0.042)
NIIP$_{t-1}$ (% of GDP)	0.006	0.006	0.006	0.006	0.006	0.006	0.006
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.021	-0.022	-0.023*	-0.024*	-0.021	-0.024*	-0.022
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Relative productivity$_{t-1}$	-0.060**	-0.061**	-0.062***	-0.060**	-0.057**	-0.061**	-0.057**
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.002	0.003	0.002	0.003	0.002	0.003	0.002
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Output growth	-0.022	-0.022	-0.020	-0.020	-0.022	-0.019	-0.021
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
Old age dependency ratio (% of working-age population)	0.495***	0.507***	0.508***	0.513***	0.499***	0.512***	0.509***
	(0.095)	(0.095)	(0.095)	(0.095)	(0.096)	(0.094)	(0.096)
Population growth	0.080	0.115	0.119	0.124	0.085	0.129	0.097
	(0.291)	(0.291)	(0.291)	(0.291)	(0.290)	(0.291)	(0.290)
Reserve currency share (% of total world reserves)	0.023	0.026	0.026	0.027	0.024	0.028	0.025
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Output gap (% of potential GDP)	-0.380***	-0.380***	-0.384***	-0.383***	-0.377***	-0.384***	-0.380***
	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.016*	-0.016*	-0.016*	-0.016*	-0.017**	-0.016*	-0.016*
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Fiscal balance (% of GDP)	0.057	0.057	0.059	0.058	0.054	0.058	0.055
	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)
Obs.	1309	1309	1309	1309	1309	1309	1309
Countries	52	52	52	52	52	52	52
R^2	0.559	0.561	0.566	0.565	0.556	0.567	0.557

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

6.2. Endogeneity Concerns (2): Instrumental Variables and Country-Fixed Effects

Another potential endogeneity concern relates to the very fundamental link between the current account and domestic net savings, the latter being the sum of private and government savings, e.g., the fiscal balance. With the many control variables and fixed effects, we control for a variety of shocks and unobserved factors that may jointly determine external and internal equilibrium. However, as pointed by Behringer and Van Treeck (2018), there still remains a potential issue of reverse causality from the current account on the fiscal balance. Indeed, governments may be unhappy with the trajectory of the current account balance, and use fiscal policy to alter the latter - for example, governments may want to tighten fiscal policy in response to accelerating domestic demand growth and a rising current account deficit (Bluedorn and Leigh, 2011). Consequently, the bias in standard least squares estimations should be negative: a deterioration of the current account will trigger an increase in the fiscal balance, creating a downward bias in the estimated parameter.

We control for this potential issue by re-estimating Equations 1 and 2 using two-stage least squares (jointly with fixed effects, in order to control simultaneously for omitted variable and reverse causality biases), instrumenting the fiscal balance with two instrumental variables. The first one is the Polity2 index, which is a revised and consolidated version of the POLITY score indicator, capturing the spectrum of political regime authority on a scale of -10 (hereditary monarchy) to 10 (consolidated democracy).[9] Transparency, quality, and efficiency of the fiscal process are expected to grow with the intensity of democracy in the considered country, so that fiscal balance should be positively correlated with the latter (see e.g. Agnello and Sousa, 2009, who show fiscal deficit volatility is typically associated with higher levels of political instability and less democracy). The second one is the exchange-rate regime classification proposed by Ilzetzki, Reinhart, and Rogoff (2019) and Ilzetzki, Reinhart, and Rogoff (2022). Standard macro theory based on the Mundell–Fleming model, as well as more recent approaches (see e.g. Born, Juessen, and Müller, 2013) emphasize fiscal policy effectiveness is closely related to the exchange-rate regime: fiscal policy is more efficient under fixed exchange rates, and less, or not efficient at all, under flexible exchange rates. Therefore, these two variables, Polity2 index and exchange-rate regime index are expected to be strong predictors of fiscal balance.[10]

Tables 15 to 17 report these 2SLS estimates for our complete sample of 52 countries - note we do not report results regarding the distorting impact of financial markets deregulation,

[9] See https://www.systemicpeace.org/polityproject.html

[10] These IVs are also used by Behringer and Van Treeck (2018), together with several only time-varying others, such as the world output gap or the US credit spread. We obviously cannot include the latter, since our specifications always include year-fixed effects, soaking up all of the considered variation.

as estimates were very noisy. For other specifications, Kleibergen-Paap heteroskedasticity- and cluster-robust statistics confirm both instruments are strong predictors of fiscal balance, and Hansen's J-test cannot reject the overidentifying restrictions. All tables report a strongly significant and positive impact of fiscal balance on the current account: a 1 pp increase of the former brings an improvement of 0.5 to 0.7 pp of the latter. This confirms the insignificant estimates found for fiscal balance in most standard least squares estimates reported until now are due to the expected downward bias. More importantly, our main results are unchanged: the impact of income inequality on the current account balance remains increasingly negative with the level of GDP per capita and financial development, and is positive for the less developed countries.

Table 15 – Current Account and Inequality, IV and Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Current Account Balance/GDP							
Income ineq. measure	Gini	Top 1%	Top 5%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Income inequality	-0.124**	-0.581***	-0.298***	-0.271***	-0.114***	-0.004**	-0.103***	-0.016***
	(0.058)	(0.177)	(0.080)	(0.067)	(0.025)	(0.002)	(0.021)	(0.006)
Labor Share ($\frac{W}{GDP}$)	-0.186***	-0.193***	-0.194***	-0.195***	-0.200***	-0.190***	-0.202***	-0.193***
	(0.035)	(0.034)	(0.034)	(0.035)	(0.034)	(0.035)	(0.034)	(0.035)
Fiscal balance (% of GDP)	0.556**	0.588**	0.606**	0.617**	0.598**	0.504**	0.616**	0.523**
	(0.259)	(0.255)	(0.257)	(0.255)	(0.249)	(0.244)	(0.251)	(0.244)
NIIP$_{t-1}$ (% of GDP))	0.012**	0.012**	0.011**	0.012**	0.012**	0.012**	0.011**	0.012**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Dummy NIIP	-0.037**	-0.036**	-0.036**	-0.036**	-0.036**	-0.038**	-0.036**	-0.038**
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	-0.006	-0.012	-0.015	-0.017	-0.015	0.002	-0.018	-0.001
	(0.036)	(0.036)	(0.036)	(0.036)	(0.035)	(0.034)	(0.035)	(0.034)
Relative productivity$_{t-1}$ x capital openness	0.020*	0.023**	0.024**	0.023**	0.024**	0.018	0.025**	0.019*
	(0.012)	(0.012)	(0.012)	(0.012)	(0.011)	(0.011)	(0.011)	(0.011)
Output growth	-0.199**	-0.207**	-0.210**	-0.212**	-0.207**	-0.186**	-0.211**	-0.190**
	(0.094)	(0.094)	(0.094)	(0.094)	(0.093)	(0.091)	(0.093)	(0.091)
Old age dependency ratio (% of working-age population)	0.169**	0.176**	0.172**	0.170**	0.175**	0.178**	0.171**	0.182**
	(0.081)	(0.080)	(0.080)	(0.080)	(0.080)	(0.082)	(0.079)	(0.081)
Population growth	-1.428***	-1.411***	-1.410***	-1.408***	-1.378***	-1.401***	-1.376***	-1.393***
	(0.330)	(0.331)	(0.334)	(0.335)	(0.331)	(0.320)	(0.333)	(0.323)
Reserve currency share (% of total world reserves)	-0.007	-0.007	-0.006	-0.007	-0.006	-0.006	-0.006	-0.006
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
Output gap (% of potential GDP)	-0.462***	-0.459***	-0.458***	-0.460***	-0.459***	-0.462***	-0.458***	-0.462***
	(0.084)	(0.084)	(0.085)	(0.085)	(0.085)	(0.083)	(0.085)	(0.083)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.024***	-0.023***	-0.023***	-0.022***	-0.022***	-0.025***	-0.022***	-0.025***
	(0.007)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
$KPF-stat$	15.496	15.688	15.627	15.938	16.376	16.817	16.276	16.791
$Hansen-stat$	0.000	0.000	0.007	0.038	0.008	0.042	0.009	0.012
$Hansen-p-value$	0.988	0.996	0.935	0.846	0.930	0.838	0.923	0.912
Obs.	1240	1240	1240	1240	1240	1240	1240	1240
Countries	51	51	51	51	51	51	51	51
Adj. R^2	0.198	0.191	0.186	0.182	0.192	0.216	0.187	0.212

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies. Fiscal Balance is instrumented with the Polity2 index and the exchange-rate regime classification by Ilzetzki, Reinhart, and Rogoff (2019). *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 16 – The Role of Development (GDP per capita), IV and Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
ln(GDP/capita) x income ineq.	-0.111***	-0.414***	-0.152***	-0.070***	-0.006***	-0.055***	-0.019***
	(0.030)	(0.103)	(0.037)	(0.016)	(0.002)	(0.013)	(0.005)
Income inequality	0.802***	2.891***	1.003***	0.455***	0.047***	0.351***	0.134***
	(0.256)	(0.870)	(0.319)	(0.131)	(0.014)	(0.110)	(0.037)
Log GDP per capita	0.033**	0.014*	0.035***	0.025***	0.008	0.025**	0.015*
	(0.013)	(0.008)	(0.012)	(0.010)	(0.007)	(0.010)	(0.008)
Labor Share ($\frac{W}{GDP}$)	-0.165***	-0.170***	-0.164***	-0.167***	-0.175***	-0.169***	-0.171***
	(0.037)	(0.037)	(0.038)	(0.037)	(0.038)	(0.037)	(0.038)
Fiscal balance (% of GDP)	0.649**	0.659**	0.708***	0.710***	0.637**	0.709***	0.671**
	(0.280)	(0.272)	(0.273)	(0.271)	(0.279)	(0.270)	(0.278)
NIIP$_{t-1}$ (% of GDP)	0.010*	0.008	0.008	0.007	0.010*	0.007	0.009
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Dummy NIIP	-0.026	-0.024	-0.023	-0.023	-0.024	-0.023	-0.023
	(0.017)	(0.017)	(0.017)	(0.017)	(0.018)	(0.017)	(0.017)
Relative productivity$_{t-1}$	-0.019	-0.016	-0.027	-0.027	-0.012	-0.025	-0.021
	(0.042)	(0.040)	(0.040)	(0.040)	(0.041)	(0.039)	(0.041)
Relative productivity$_{t-1}$ x capital openness	0.019	0.021*	0.023*	0.024**	0.015	0.025**	0.018
	(0.012)	(0.012)	(0.012)	(0.012)	(0.011)	(0.012)	(0.012)
Output growth	-0.214**	-0.213**	-0.221**	-0.219**	-0.212**	-0.219**	-0.215**
	(0.098)	(0.095)	(0.096)	(0.096)	(0.097)	(0.095)	(0.097)
Old age dependency ratio (% of working-age population)	0.052	0.069	0.057	0.062	0.060	0.066	0.055
	(0.092)	(0.087)	(0.088)	(0.086)	(0.094)	(0.085)	(0.093)
Population growth (annual %)	-1.819***	-1.775***	-1.805***	-1.791***	-1.829***	-1.749***	-1.870***
	(0.387)	(0.378)	(0.388)	(0.387)	(0.398)	(0.382)	(0.402)
Reserve currency share (% of total world reserves)	-0.015	-0.013	-0.015	-0.014	-0.014	-0.014	-0.015
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.022)
Output gap (% of potential GDP)	-0.430***	-0.425***	-0.428***	-0.427***	-0.427***	-0.425***	-0.430***
	(0.086)	(0.086)	(0.087)	(0.088)	(0.087)	(0.088)	(0.087)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.024***	-0.025***	-0.024***	-0.024***	-0.024***	-0.024***	-0.024***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
$KPF-stat$	13.494	13.955	14.331	14.553	13.701	14.743	13.800
$Hansen-stat$	0.050	0.016	0.002	0.004	0.041	0.011	0.026
$Hansen-p-value$	0.823	0.898	0.964	0.952	0.839	0.915	0.872
Obs.	1240	1240	1240	1240	1240	1240	1240
Countries	51	51	51	51	51	51	51
Adj. R^2	0.176	0.179	0.158	0.161	0.179	0.162	0.169

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies. Fiscal Balance is instrumented with the Polity2 index and the exchange-rate regime classification by Ilzetzki, Reinhart, and Rogoff (2019). *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 17 – The Role of Quantitative Financial Development (Private Credit/GDP), IV and Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Private credit x income ineq.	-0.281***	-0.950***	-0.380***	-0.174***	-0.020***	-0.136***	-0.053***
	(0.059)	(0.227)	(0.081)	(0.036)	(0.004)	(0.030)	(0.010)
Income inequality	0.083	0.155	0.028	0.008	0.006**	-0.002	0.014
	(0.076)	(0.243)	(0.097)	(0.037)	(0.003)	(0.032)	(0.009)
Private credit (% of GDP)	0.071***	0.024*	0.077***	0.053***	0.020	0.055***	0.031**
	(0.023)	(0.014)	(0.024)	(0.019)	(0.013)	(0.020)	(0.014)
Labor Share ($\frac{W}{GDP}$)	-0.160***	-0.158***	-0.154***	-0.156***	-0.169***	-0.157***	-0.163***
	(0.037)	(0.038)	(0.039)	(0.039)	(0.037)	(0.039)	(0.038)
Fiscal balance (% of GDP)	0.714**	0.696**	0.768***	0.765***	0.691**	0.760***	0.730***
	(0.285)	(0.276)	(0.282)	(0.279)	(0.276)	(0.277)	(0.280)
NIIP$_{t-1}$ (% of GDP)	0.004	0.006	0.004	0.004	0.005	0.004	0.004
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Dummy NIIP	-0.025	-0.027	-0.024	-0.024	-0.022	-0.025	-0.021
	(0.017)	(0.017)	(0.018)	(0.018)	(0.018)	(0.017)	(0.018)
Relative productivity$_{t-1}$	-0.031	-0.024	-0.035	-0.034	-0.028	-0.033	-0.032
	(0.040)	(0.038)	(0.039)	(0.039)	(0.039)	(0.038)	(0.039)
Relative productivity$_{t-1}$ x capital openness	0.018	0.020*	0.021*	0.021*	0.017	0.022*	0.018
	(0.012)	(0.011)	(0.012)	(0.011)	(0.011)	(0.011)	(0.011)
Output growth	-0.250**	-0.238**	-0.258**	-0.254**	-0.243**	-0.250**	-0.251**
	(0.103)	(0.100)	(0.102)	(0.102)	(0.101)	(0.101)	(0.102)
Old age dependency ratio (% of working-age population)	0.041	0.083	0.056	0.064	0.033	0.075	0.031
	(0.092)	(0.089)	(0.090)	(0.089)	(0.095)	(0.088)	(0.094)
Population growth	-1.786***	-1.724***	-1.790***	-1.772***	-1.820***	-1.738***	-1.841***
	(0.386)	(0.374)	(0.396)	(0.396)	(0.395)	(0.392)	(0.401)
Reserve currency share (% of total world reserves)	-0.015	-0.014	-0.016	-0.016	-0.016	-0.015	-0.018
	(0.021)	(0.021)	(0.022)	(0.022)	(0.021)	(0.021)	(0.022)
Output gap (% of potential GDP)	-0.445***	-0.452***	-0.445***	-0.445***	-0.446***	-0.447***	-0.444***
	(0.087)	(0.086)	(0.089)	(0.089)	(0.087)	(0.089)	(0.088)
Commodity terms of trade gap x trade openness	0.001***	0.001**	0.001**	0.001**	0.001***	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
$KPF-stat$	14.026	13.766	14.079	14.220	14.472	14.288	14.350
$Hansen-stat$	0.200	0.197	0.107	0.120	0.176	0.105	0.167
$Hansen-p-value$	0.655	0.657	0.743	0.729	0.675	0.746	0.683
Obs.	1240	1240	1240	1240	1240	1240	1240
Countries	51	51	51	51	51	51	51
Adj. R^2	0.146	0.158	0.126	0.131	0.157	0.134	0.143

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies. Fiscal Balance is instrumented with the Polity2 index and the exchange-rate regime classification by Ilzetzki, Reinhart, and Rogoff (2019). *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table 18 – The Role of Capital Account Openness, IV and Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Chinn Ito index x income ineq.	-0.141**	-0.505**	-0.182**	-0.077**	-0.007**	-0.064*	-0.019**
	(0.065)	(0.257)	(0.089)	(0.039)	(0.003)	(0.034)	(0.009)
Income inequality	-0.041	-0.288	-0.166*	-0.073**	-0.001	-0.068**	-0.007
	(0.074)	(0.241)	(0.089)	(0.034)	(0.003)	(0.029)	(0.008)
Chinn-Ito index (0-1)	0.046*	0.024	0.047*	0.033	0.014	0.036	0.018
	(0.026)	(0.016)	(0.026)	(0.020)	(0.014)	(0.022)	(0.015)
Labor Share ($\frac{W}{GDP}$)	-0.183***	-0.186***	-0.189***	-0.193***	-0.184***	-0.194***	-0.187***
	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)
Fiscal balance$_{t-1}$ (% of GDP)	0.558**	0.584**	0.618**	0.602**	0.513**	0.619**	0.530**
	(0.260)	(0.255)	(0.256)	(0.252)	(0.248)	(0.253)	(0.248)
NIIP$_{t-1}$ (% of GDP)	0.013**	0.012**	0.013**	0.012**	0.013**	0.012**	0.013**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Dummy NIIP	-0.036**	-0.035**	-0.035**	-0.036**	-0.037**	-0.035**	-0.037**
	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)	(0.016)
Relative productivity$_{t-1}$	0.002	-0.002	-0.007	-0.006	0.009	-0.009	0.006
	(0.032)	(0.030)	(0.031)	(0.030)	(0.030)	(0.030)	(0.030)
Relative productivity$_{t-1}$ x capital openness	0.011	0.014	0.014	0.015	0.011	0.016	0.011
	(0.013)	(0.014)	(0.014)	(0.014)	(0.013)	(0.014)	(0.013)
Output growth	-0.195**	-0.199**	-0.205**	-0.200**	-0.183**	-0.204**	-0.186**
	(0.093)	(0.091)	(0.092)	(0.091)	(0.090)	(0.091)	(0.090)
Old age dependency ratio (% of working-age population)	0.170**	0.183**	0.175**	0.182**	0.180**	0.179**	0.185**
	(0.081)	(0.079)	(0.080)	(0.079)	(0.082)	(0.079)	(0.081)
Population growth	-1.492***	-1.479***	-1.477***	-1.445***	-1.451***	-1.443***	-1.448***
	(0.329)	(0.334)	(0.337)	(0.334)	(0.321)	(0.337)	(0.324)
Reserve currency share (% of total world reserves)	-0.007	-0.007	-0.007	-0.006	-0.007	-0.007	-0.006
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
Output gap (% of potential GDP)	-0.467***	-0.466***	-0.467***	-0.467***	-0.467***	-0.465***	-0.469***
	(0.083)	(0.084)	(0.084)	(0.084)	(0.083)	(0.084)	(0.083)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.024***	-0.023***	-0.022***	-0.023***	-0.025***	-0.022***	-0.025***
	(0.007)	(0.006)	(0.007)	(0.006)	(0.006)	(0.006)	(0.006)
$KPF-stat$	15.586	15.601	15.859	16.094	16.547	16.018	16.479
$Hansen-stat$	0.000	0.002	0.018	0.001	0.027	0.001	0.009
$Hansen-p-value$	0.987	0.962	0.892	0.976	0.870	0.981	0.926
Obs.	1240	1240	1240	1240	1240	1240	1240
Countries	51	51	51	51	51	51	51
Adj. R^2	0.199	0.194	0.184	0.192	0.214	0.187	0.211

NIIP = Net International Investment Position. Robust standard errors are in parentheses. Intercept not reported. All estimations include country-fixed effects and year dummies. Fiscal Balance is instrumented with the Polity2 index and the exchange-rate regime classification by Ilzetzki, Reinhart, and Rogoff (2019). *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

6.3. Additional Checks

Appendix B reports the results of additional sensitivity checks. In section C, we devote specific attention to the 2007-2008 financial crisis, which may have affected the relationship we are interested in: for this reason, we report in Tables B.3 to B.8 estimates for Equations 1 and 2 over a period restricted to years before 2008. They confirm our results are mostly unaltered by the dynamics arising from the GFC and the Great Recession of 2007-2008: an one-standard-deviation income inequality shock still deteriorates on average the current account balance for developed countries, with an impact between -1.2 and -1.9 pp, quantitatively more important than for the whole period (Table B.3). Again, this result vanishes on the complete sample, including emerging and developing countries (Table B.4). Tables B.5, B.6 and B.8 confirm the negative impact of an income inequality shock external balance is strongly conditioned on economic and financial development, as well as capital account openness. An interesting exception is credit market deregulation (Table B.7), which does not seem to have any role anymore in the current account-inequality nexus, in contrast to what Table 8 reports for the 1990-2019 period. A possible explanation lies in the strengthening of financial and, in particular, banking regulation after 2008, as opposed to the previous period, which was characterized by a fairly global movement towards deregulation.

In Appendix D, we check how our results behave when we substitute the ratio of household credit over GDP to our main proxy for financial development, private credit over GDP. Indeed, a good part of theoretical approaches underlying the inequality-finance nexus, and consequently, the income inequality-current account relationship points to household credit as a relevant indicator of financial expansion following an increase in income inequality (Bazillier, Héricourt, and Ligonnière, 2021). Tables B.9, B.10, and B.11 confirm the negative impact of income inequality on the current account balance over GDP also increases with household credit, whether for our main specification (Table B.9), the alternative including fixed effects (Table B.10), or for a period restricted to 1990-2007 (Table B.11).

Finally, section E reports estimates for a modified version of Equation 2, with the idea to check for potential non-linearities involving the labor share. However, Tables B.12 and B.13 do not find much evidence of the latter: most interactions between labor share and our proxies for economic and financial development are insignificant. The only exception is reported in column (4) of Table B.13: labor share impact on current account is increasingly negative with the ratio of household credit to GDP. Below a value of 64% for the latter, this impact turns positive.

7. Concluding remarks

Based on a country-level yearly dataset combining current account balances and detailed information on income distribution from the WIID database for 52 developed and developing countries over the period 1990-2019, this paper shows a one-standard-deviation increase in various income inequality indicators generate a decrease in the ratio of current account over GDP by -0.5 to -0.9 percentage points for developed countries. Conversely, there is no evidence of a significant impact of income inequality on the current account when the analysis includes emerging and developing countries. Interestingly, the labor share impact on external balance remains consistently negative on both samples, with close quantifications (between -1.3 and -1.6 percentage points for a 10 percentage points increase in the labor share).

We then provide evidence of nonlinearities in the relationship between income inequality and current account balance, along the distribution of several economic and financial development indicators. Firstly, an increase in income inequality in less developed countries improves the current account balance, while in developed countries the relationship turns negative. Secondly, the impact of income inequality on current account is all the more negative that financial markets are bigger, more deregulated, and more open. More specifically, in countries with a highly regulated financial sector and closed capital account, an income inequality shock will trigger an upward shift in the current account balance, while the opposite is true for a highly financially liberalized country, with an open capital account.

Finally, our results also support a differential quantitative impact of the income inequality shock on current account when top incomes grow richer at the expense of the middle class, rather than at the expense of low incomes. More specifically, it appears that a one-standard-deviation increase in the ratio of top incomes to middle incomes (meaning an impoverishment of middle classes relative to the top 10%) brings a higher deterioration of the current account than the one stemming from an increase in the ratio of the top 10% to the bottom incomes in financially developed countries, or countries with a more open capital account. More specifically, the decrease in current account balance is 1.2 to 1.4 times more important in countries with higher financial development when income is transferred from middle income to top incomes, rather than from bottom incomes ; similarly, the decrease in current account balance is up to 1.3 times more important in countries with more open financial account when income is transferred from middle income to top incomes, rather than from bottom incomes.

All those results are mostly driven by cross-country variations, and are robust to various sensitivity exercises, especially regarding endogeneity issues. They are also mostly unaffected by

the period following the 2007-2008 financial crisis. Our work has interesting policy implications regarding global imbalances. In particular, our findings suggest a reduction in income inequality would help reducing current account imbalances, all the more so in financially developed and deregulated countries. In those countries, policies targeting inequality at the middle of the income distribution would be even more efficient.

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Appendix

Appendix A: Description of the Data

A. Variables

Table A.1 – Included Variables and Data Sources

Variable	Dem.	Lag	Definition	Data source
Current account / GDP			The current account balance is equal to the sum of the trade balance, of goods and services, net primary income balance and net secondary income balance. The variable is divided by the GDP.	World Bank - WDI database (04/2022 version)
Net International Investment Position (NIIP) / GDP		✔	This ratio of NIIP (excluding gold) to GDP (values converted to domestic currency) denote the difference between countries' total external financial assets and total external liabilities.	External Wealth of Nations database (09/2021 version) developed by Lane, Philip R. and Gian Maria Milesi-Ferretti (2018)
Dummy NIIP		✔	Dummy taking the value 1 when the NIIP exceed -60% of the GDP.	External Wealth of Nations database (09/2021 version) developed by Lane, Philip R. and Gian Maria Milesi-Ferretti (2018)
Output per worker, relative to top 3 economies	✔	✔	The relative productivity is computed using the ratio of the real GDP at chained PPPs in constant 2005 U.S. Dollars to the working age population (aged 15 to 64), and then removing the average per year of the top 3 economies, i.e. USA, Germany and Japan. This variable is also interacted with countries' degree of capital mobility as it determines the intensity of capital transfers.	GDP variable : PWT (10.0 version), Working age population : World Bank - WDI database (04/2022 version), Indicator for the capital account openness : Chinn Ito database (08/2021 version)
Output growth	✔		Annual percentage growth rate of real GDP is used to proxy GDP growth's impact on the saving-investment balance.	World Bank - WDI database (04/2022 version)
Old age dependency ratio	✔		This ratio shows the proportion of people older than 64 per 100 working-age population (aged 15 to 64).	World Bank - WDI database (04/2022 version)
Population growth	✔		The annual population growth rate, as the old age dependency ratio, proxy the demographic situation of countries.	World Bank - WDI database (04/2022 version)
Reserve currency status			This variable gives the share of a country's currency in world foreign exchange reserves.	IMF COFER (03/2022 version) is used as a base, then we apply the growth rate of earliest data provides by the External Balance Assessment Methodology (06/2021 version)
Output gap			To obtain this variable, countries' real GDP at constant 2017 national prices is HP filtered (with parameter $\lambda = 6.25$) in order to keep the cyclical component and thus purge the current account from the effect of the cycle.	Penn World Table (version 10.0)
Commodity terms of trade gap * trade openness	✔		A HP filter (with parameter $\lambda = 6.25$) is applied to the new commodity terms of trade index offered by the IMF, which estimates countries' gains and losses associated with changes in world prices. The result is then interacted with countries' trade openness in per cent of GDP.	IMF, B. Gruss and S. Kebhaj database (03/2022 version), trade openness : World Bank - WDI database (04/2022 version)

Variable	Dem.	Lag	Definition	Data source
Private credit / GDP	✔		The private credit the ratio of the total amount of loans and debt securities issued by households and nonfinancial corporations to the GDP.	IMF - Global Debt Database (12/2021 version)
Fiscal balance	✔	✔	The fiscal balance is the total general government revenue minus the total general government expenditures as a share of GDP.	IMF - World Economic Outlook database (10/2021 version), and OECD for Australia, Finland, France, Korea and USA (08/2021)
Log of GDP			The log of GDP is interacted with personal inequality measures.	Penn World Table (version 10.0)
Personal inequality measures	✔		All personal inequality measures, gini and income shares, are post-tax data, and are provided by the new WIID companion, which is construct to allow comparability across countries and over time.	UN - WIID (05/2021 version)
Wage share / GDP	✔		The functional inequality is proxied by the share of labor compensation in per cent of GDP in current national prices.	Penn World Table (version 10.0)
Credit market deregulation	✔		The Fraser institute gives a rate from 0 to 10 to assess the ease of accessing credit, based on indicators related to private ownership of banks, the existence of interest rate controls and negative interest rates, as well as the extent to which government borrowing crowds out private borrowing.	Fraser institute (2021 version)
Polity index			The annual polity index indicates countries' level of autocracy / democracy thanks to a score going from -10 to 10 (higher values mean more democratic. This variable is used as an instrument.	Polity IV dataset (2019 version)
Exchange rate regime			This variable of de facto exchange rate arrangement classification is used as an instrument.	Ilzetzki, Reinhart, and Rogoff (2022)

Table A.2 – Descriptive Statistics: all variables (non-demeaned)

	Mean	Min	1st quartile	Median	3rd quartile	Max	S.D. wit.	S.D. bet.
Current account/GDP	-0.006	-0.197	-0.035	-0.009	0.023	0.175	0.032	0.036
Log GDP/capita	9.322	5.708	8.324	9.631	10.386	11.542	0.466	1.222
Credit market deregulation	8.658	3.667	8	9.006	9.582	10	0.683	0.986
Private credit	1.115	0.069	0.472	1.072	1.598	3.535	0.247	0.699
Chinn-Ito index	0.715	0	0.417	0.88	1	1	0.152	0.291
NIIP	-0.247	-2.001	-0.478	-0.239	-0.054	2.199	0.247	0.388
Dummy NIIP	-0.047	-1.401	0	0	0	0	0.122	0.12
Relative productivity	-0.428	-0.952	-0.748	-0.475	-0.138	0.988	0.082	0.35
Rel. prod. x capital open.	-0.225	-0.886	-0.372	-0.187	-0.106	0.988	0.116	0.226
Output growth	0.032	-0.148	0.016	0.032	0.05	0.252	0.029	0.016
Old age dependency ratio	0.188	0.054	0.104	0.196	0.247	0.471	0.026	0.075
Population growth	0.008	-0.038	0.002	0.007	0.013	0.039	0.004	0.007
Reserve currency share	0.076	0	0	0	0.179	0.715	0.062	0.132
Output gap	0	-0.104	-0.008	-0.001	0.007	0.099	0.017	0.001
Commodity tot x trade open.	0	-0.354	-0.023	-0.001	0.018	0.487	0.061	0.002
Fiscal balance	-0.023	-0.321	-0.0443	-0.023	-0.001	0.186	0.027	0.026
Labor share	0.547	0.31	0.502	0.558	0.607	0.71	0.032	0.077
Household credit	0.481	0.001	0.2	0.433	0.692	1.379	0.137	0.296

B. Included Countries

Country	Period	Income group (WB)
Argentina	1990 - 2019	Upper middle income
Australia	1990 - 2019	High income
Austria	2005 - 2019	High income
Belgium	2002 - 2019	High income
Canada	1998 - 2019	High income
China	1990 - 2019	Upper middle income
Colombia	1996 - 2019	Upper middle income
Croatia	1996 - 2019	High income
Cyprus	1995 - 2019	High income
Czech Republic	1996 - 2019	High income
Denmark	1990 - 2019	High income
Equador	1995 - 2019	Upper middle income
Egypt	1999 - 2019	Lower middle income
Estonia	1996 - 2019	High income
Finland	1990 - 2019	High income
France	1990 - 2019	High income
Germany	1990 - 2019	High income
Greece	1999 - 2019	High income
Guatemala	1995 - 2019	Upper middle income
Honduras	1990 - 2019	Lower middle income
Hungury	1995 - 2019	High income
India	1990 - 2019	Lower middle income
Indonesia	1990 - 2019	Lower middle income
Ireland	2005 - 2019	High income
Israel	1996 - 2019	High income
Italy	2005 - 2019	High income
Japan	1996 - 2019	High income
Kazakhstan	2002 - 2019	Upper middle income
Korea	1990 - 2019	High income
Lithuania	1996 - 2019	High income
Malta	2000 - 2019	High income
Mexico	1990 - 2019	Upper middle income
Moldova	1996 - 2019	Upper middle income
Morocco	1990 - 2019	Lower middle income
Netherlands	1990 - 2019	High income
New Zealand	2000 - 2019	High income
Norway	1990 - 2019	High income
Philippines	1990 - 2019	Lower middle income
Poland	1995 - 2019	High income
Portugal	1990 - 2019	High income
Russia	1998 - 2019	Upper middle income
Slovakia	1996 - 2019	High income
Slovenia	1996 - 2019	High income
Spain	1990 - 2019	High income
Sri Lanka	1990 - 2019	Lower middle income
Sweden	1990 - 2019	High income
Switzerland	1996 - 2019	High income
Thailand	1990 - 2019	Upper middle income
Turkey	1990 - 2019	Upper middle income
United Kingdom	1990 - 2019	High income
United States	1990 - 2019	High income
Uruguay	1990 - 2019	High income

Appendix B: Additional Estimates

C. Period of estimation

Table B.3 – Current Account and Inequality, Developed Countries, 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Current Account Balance/GDP							
Income ineq. measure	Gini	Top 1%	Top 5%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Income inequality	-0.408***	-1.572***	-0.657***	-0.598***	-0.290***	-0.033***	-0.227***	-0.087***
	(0.066)	(0.292)	(0.120)	(0.099)	(0.050)	(0.006)	(0.042)	(0.015)
Labor Share ($\frac{W}{GDP}$)	-0.260***	-0.262***	-0.266***	-0.266***	-0.263***	-0.253***	-0.261***	-0.260***
	(0.055)	(0.055)	(0.055)	(0.055)	(0.054)	(0.055)	(0.055)	(0.055)
NIIP$_{t-1}$ (% of GDP)	0.084***	0.077***	0.078***	0.081***	0.079***	0.080***	0.077***	0.081***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Dummy NIIP	-0.118***	-0.112***	-0.113***	-0.116***	-0.114***	-0.113***	-0.112***	-0.116***
	(0.020)	(0.022)	(0.022)	(0.021)	(0.021)	(0.020)	(0.022)	(0.020)
Relative productivity$_{t-1}$	-0.029	-0.027	-0.026	-0.026	-0.026	-0.040	-0.026	-0.037
	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)	(0.036)	(0.036)	(0.035)
Relative productivity$_{t-1}$ x capital openness	0.072	0.085*	0.080	0.070	0.073	0.090*	0.076	0.082
	(0.050)	(0.051)	(0.051)	(0.050)	(0.051)	(0.050)	(0.051)	(0.050)
Output growth	0.185*	0.205**	0.200**	0.189*	0.198**	0.208**	0.197**	0.207**
	(0.097)	(0.099)	(0.098)	(0.097)	(0.098)	(0.100)	(0.098)	(0.099)
Old age dependency ratio	-0.173	-0.099	-0.110	-0.155	-0.138	-0.153	-0.108	-0.176*
	(0.106)	(0.105)	(0.106)	(0.106)	(0.106)	(0.107)	(0.106)	(0.107)
Population growth	-2.139***	-2.589***	-2.550***	-2.414***	-2.548***	-2.435***	-2.565***	-2.466***
	(0.532)	(0.522)	(0.522)	(0.522)	(0.521)	(0.535)	(0.523)	(0.529)
Reserve currency share (% of total world reserves)	-0.013	-0.020	-0.020	-0.014	-0.017	-0.011	-0.021	-0.011
	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)	(0.017)
Output gap (% of potential GDP)	-0.417**	-0.411**	-0.407**	-0.413**	-0.411**	-0.425**	-0.399**	-0.431**
	(0.163)	(0.162)	(0.161)	(0.161)	(0.162)	(0.170)	(0.161)	(0.168)
Commodity terms of trade gap x trade openness	0.001**	0.001**	0.001**	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit, in % of GDP	-0.017**	-0.011	-0.011	-0.013*	-0.010	-0.014*	-0.009	-0.014*
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Fiscal balance$_{t-1}$, % of GDP	0.075	0.110*	0.108*	0.097	0.109*	0.092	0.113*	0.096
	(0.060)	(0.061)	(0.061)	(0.060)	(0.061)	(0.060)	(0.061)	(0.060)
Quantification								
S.D. income inequality	0.046	0.008	0.02	0.027	0.049	0.517	0.055	0.203
$\beta_{Ineq} * S.D._{\cdot between}$	-0.019	-0.013	-0.013	-0.016	-0.014	-0.017	-0.012	-0.018
Middle/Bottom					0.8		0.7	
Obs.	278	278	278	278	278	278	278	278
Countries	19	19	19	19	19	19	19	19
R^2	0.633	0.623	0.622	0.629	0.627	0.631	0.618	0.637

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.4 – Current Account and Inequality, All Countries, 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dep. Var.	Current Account Balance/GDP							
Income ineq. measure	Gini	Top 1%	Top 5%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Income inequality	-0.038	-0.128	-0.056	-0.047	-0.017	-0.002	-0.017	-0.004
	(0.041)	(0.147)	(0.069)	(0.057)	(0.024)	(0.002)	(0.021)	(0.005)
Labor Share ($\frac{W}{GDP}$)	-0.150***	-0.150***	-0.151***	-0.150***	-0.149***	-0.147***	-0.150***	-0.147***
	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.033)	(0.034)	(0.033)
NIIP$_{t-1}$ (% of GDP)	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***	0.068***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.120***	-0.121***	-0.121***	-0.120***	-0.121***	-0.121***	-0.121***	-0.121***
	(0.020)	(0.021)	(0.021)	(0.020)	(0.021)	(0.020)	(0.021)	(0.020)
Relative productivity$_{t-1}$	0.008	0.009	0.009	0.009	0.009	0.009	0.009	0.009
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Relative productivity$_{t-1}$ x capital openness	0.072***	0.071***	0.071***	0.071***	0.071***	0.072***	0.071***	0.071***
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output growth	0.048	0.048	0.049	0.049	0.049	0.049	0.049	0.049
	(0.049)	(0.050)	(0.049)	(0.049)	(0.049)	(0.050)	(0.049)	(0.049)
Old age dependency ratio (% of working-age population)	-0.112	-0.112	-0.112	-0.112	-0.110	-0.110	-0.111	-0.110
	(0.069)	(0.069)	(0.069)	(0.069)	(0.069)	(0.068)	(0.069)	(0.068)
Population growth	-0.199	-0.202	-0.204	-0.200	-0.209	-0.206	-0.205	-0.206
	(0.370)	(0.364)	(0.365)	(0.367)	(0.365)	(0.363)	(0.364)	(0.364)
Reserve currency share (% of total world reserves)	-0.033*	-0.034*	-0.034*	-0.034*	-0.034*	-0.035*	-0.034*	-0.035*
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output gap (% of potential GDP)	-0.404***	-0.406***	-0.406***	-0.405***	-0.406***	-0.408***	-0.406***	-0.407***
	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.003	-0.002	-0.002	-0.003	-0.002	-0.002	-0.002	-0.002
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.054	0.056	0.056	0.056	0.057	0.058	0.057	0.058
	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)
Obs.	685	685	685	685	685	685	685	685
Countries	52	52	52	52	52	52	52	52
R^2	0.322	0.324	0.324	0.323	0.324	0.325	0.324	0.325

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.5 – The Role of Development (GDP per capita), 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Log(GDP/cap.) x income ineq.	-0.092***	-0.303***	-0.118***	-0.049***	-0.004***	-0.042***	-0.011***
	(0.025)	(0.102)	(0.036)	(0.016)	(0.002)	(0.014)	(0.004)
Insome inequality	0.753***	2.380***	0.940***	0.379***	0.034**	0.327***	0.088**
	(0.229)	(0.879)	(0.316)	(0.140)	(0.013)	(0.122)	(0.035)
Log GDP per capita	-0.008	-0.007	-0.007	-0.006	-0.008	-0.006	-0.007
	(0.005)	(0.005)	(0.005)	(0.006)	(0.005)	(0.006)	(0.005)
Labor Share ($\frac{W}{GDP}$)	-0.158***	-0.160***	-0.158***	-0.159***	-0.162***	-0.159***	-0.161***
	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
[0.5em] NIIP$_{t-1}$ (% of GDP)	0.069***	0.070***	0.069***	0.069***	0.069***	0.069***	0.069***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.115***	-0.116***	-0.115***	-0.115***	-0.115***	-0.115***	-0.115***
	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
Relative productivity$_{t-1}$	0.039*	0.035	0.033	0.032	0.038	0.031	0.037
	(0.023)	(0.023)	(0.023)	(0.024)	(0.024)	(0.024)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.050***	0.056***	0.054***	0.055***	0.053***	0.056***	0.054***
	(0.019)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output growth	0.063	0.058	0.060	0.058	0.057	0.057	0.057
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Old age dependency ratio	-0.093	-0.094	-0.093	-0.094	-0.097	-0.092	-0.097
	(0.075)	(0.075)	(0.075)	(0.076)	(0.077)	(0.075)	(0.077)
Population growth	-0.418	-0.391	-0.399	-0.375	-0.365	-0.373	-0.362
	(0.369)	(0.366)	(0.370)	(0.368)	(0.365)	(0.367)	(0.367)
Reserve currency share (% of total world reserves)	-0.027	-0.028	-0.027	-0.029	-0.029	-0.028	-0.029
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output gap (% of potential GDP)	-0.396***	-0.396***	-0.394***	-0.392***	-0.389***	-0.392***	-0.391***
	(0.086)	(0.086)	(0.086)	(0.086)	(0.086)	(0.086)	(0.086)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.003	-0.002	-0.003	-0.002	-0.003	-0.002	-0.003
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.051	0.065	0.058	0.062	0.055	0.063	0.057
	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)
Quantification							
S.D. income inequality	0.083	0.022	0.063	0.147	1.549	0.168	0.6
$\beta_{Ineq} * S.D._{between}$	-0.06	-0.05	-0.06	-0.06	-0.05	-0.5	-0.05
Middle/Bottom				1.06		1.04	
Obs.	685	685	685	685	685	685	685
Countries	52	52	52	52	52	52	52
R^2	0.343	0.344	0.343	0.341	0.337	0.342	0.338

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.6 – The Role of Quantitative Financial Development (Private Credit/GDP), 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Private credit x ineq	-0.140**	-0.609**	-0.214**	-0.104**	-0.008*	-0.090**	-0.023**
	(0.061)	(0.249)	(0.087)	(0.041)	(0.004)	(0.035)	(0.011)
Income inequality	-0.110**	-0.514**	-0.176**	-0.089**	-0.008**	-0.077**	-0.021**
	(0.051)	(0.210)	(0.076)	(0.036)	(0.004)	(0.031)	(0.010)
Private credit (% of GDP)	-0.010	-0.009	-0.009	-0.009	-0.009	-0.009	-0.010
	(0.007)	(0.006)	(0.007)	(0.006)	(0.007)	(0.006)	(0.007)
Labor Share ($\frac{W}{GDP}$)	-0.134***	-0.138***	-0.135***	-0.137***	-0.138***	-0.137***	-0.137***
	(0.035)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)	(0.034)
NIIP$_{t-1}$ (% of GDP)	0.066***	0.068***	0.067***	0.067***	0.067***	0.067***	0.067***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.117***	-0.119***	-0.118***	-0.118***	-0.118***	-0.118***	-0.118***
	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
Relative productivity$_{t-1}$	0.010	0.007	0.007	0.006	0.008	0.006	0.007
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Relative productivity$_{t-1}$ x capital openness	0.072***	0.073***	0.073***	0.073***	0.074***	0.073***	0.074***
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output growth	0.054	0.050	0.051	0.049	0.049	0.048	0.049
	(0.049)	(0.050)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Old age dependency ratio	-0.122*	-0.120*	-0.121*	-0.121*	-0.124*	-0.120*	-0.125*
	(0.069)	(0.068)	(0.069)	(0.069)	(0.068)	(0.069)	(0.069)
Population growth	-0.312	-0.296	-0.306	-0.295	-0.269	-0.295	-0.273
	(0.371)	(0.365)	(0.368)	(0.366)	(0.365)	(0.365)	(0.366)
Reserve currency share (% of total world reserves)	-0.030*	-0.030*	-0.030*	-0.030*	-0.031*	-0.030*	-0.031*
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output gap (% of potential GDP)	-0.415***	-0.414***	-0.413***	-0.410***	-0.413***	-0.410***	-0.412***
	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)	(0.084)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Fiscal balance$_{t-1}$ (% of GDP)	0.042	0.050	0.046	0.049	0.047	0.050	0.047
	(0.055)	(0.054)	(0.055)	(0.054)	(0.055)	(0.054)	(0.055)
Quantification							
S.D. income inequality	0.083	0.022	0.063	0.147	1.549	0.168	0.6
$\beta_{Ineq} * S.D._{between}$	-0.009	-0.011	-0.011	-0.013	-0.012	-0.013	-0.012
Middle/Bottom				1.06		1.03	
Obs.	685	685	685	685	685	685	685
Countries	52	52	52	52	52	52	52
R^2	0.324	0.329	0.326	0.328	0.324	0.329	0.325

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.7 – The Role of Credit Markets Deregulation, 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Credit market deregulation x ineq	-0.047*	-0.128	-0.049	-0.014	-0.001	-0.013	-0.003
	(0.026)	(0.094)	(0.034)	(0.014)	(0.001)	(0.012)	(0.004)
Income inequality	0.345	0.977	0.372	0.108	0.007	0.101	0.017
	(0.226)	(0.835)	(0.299)	(0.127)	(0.012)	(0.110)	(0.031)
Credit market deregulation	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Labor Share ($\frac{W}{GDP}$)	-0.084**	-0.087**	-0.086**	-0.087**	-0.087**	-0.086**	-0.088**
	(0.036)	(0.036)	(0.036)	(0.036)	(0.035)	(0.036)	(0.035)
NIIP$_{t-1}$ (% of GDP)	0.082***	0.082***	0.082***	0.081***	0.082***	0.081***	0.081***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.138***	-0.141***	-0.139***	-0.141***	-0.145***	-0.141***	-0.145***
	(0.029)	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)	(0.030)
Relative productivity$_{t-1}$	0.006	0.005	0.005	0.005	0.004	0.005	0.004
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.021)	(0.022)
Relative productivity$_{t-1}$ x capital openness	0.076***	0.078***	0.077***	0.079***	0.080***	0.079***	0.080***
	(0.022)	(0.022)	(0.022)	(0.021)	(0.022)	(0.021)	(0.022)
Output growth	0.142*	0.145*	0.145*	0.150**	0.143*	0.150**	0.147*
	(0.075)	(0.077)	(0.076)	(0.076)	(0.077)	(0.076)	(0.076)
Old age dependency ratio	-0.139**	-0.125*	-0.126*	-0.117*	-0.124*	-0.117*	-0.122*
	(0.066)	(0.066)	(0.066)	(0.066)	(0.066)	(0.066)	(0.067)
Population growth	-0.145	-0.200	-0.197	-0.235	-0.177	-0.238	-0.196
	(0.345)	(0.343)	(0.345)	(0.343)	(0.340)	(0.343)	(0.341)
Reserve currency share (% of total world reserves)	-0.023	-0.026	-0.026	-0.028	-0.026	-0.028	-0.027
	(0.019)	(0.019)	(0.019)	(0.019)	(0.018)	(0.019)	(0.019)
Output gap (% of potential GDP)	-0.591***	-0.597***	-0.594***	-0.601***	-0.604***	-0.600***	-0.604***
	(0.136)	(0.138)	(0.137)	(0.138)	(0.138)	(0.138)	(0.137)
Commodity terms of trade gap x trade openness	0.001**	0.001**	0.001**	0.001**	0.001**	0.001**	0.001**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Private credit (% of GDP)	-0.010	-0.009	-0.009	-0.008	-0.009	-0.008	-0.008
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.147**	0.160**	0.157**	0.162**	0.166**	0.162**	0.163**
	(0.073)	(0.072)	(0.072)	(0.072)	(0.072)	(0.072)	(0.072)
Obs.	415	415	415	415	415	415	415
Countries	52	52	52	52	52	52	52
R^2	0.445	0.444	0.443	0.441	0.445	0.441	0.442

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.8 – The Role of Capital Account Openness, 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Chinn-Ito index x ineq	-0.253***	-0.643**	-0.278***	-0.093**	-0.008**	-0.081**	-0.021**
	(0.075)	(0.280)	(0.101)	(0.044)	(0.004)	(0.039)	(0.010)
Income inequality	0.103	0.163	0.086	0.023	0.002	0.018	0.006
	(0.064)	(0.219)	(0.084)	(0.035)	(0.003)	(0.030)	(0.008)
Chinn-Ito index (0-1)	0.012	0.015	0.015	0.016*	0.014	0.017*	0.014
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
Labor Share ($\frac{W}{GDP}$)	-0.145***	-0.149***	-0.147***	-0.148***	-0.144***	-0.149***	-0.144***
	(0.032)	(0.032)	(0.033)	(0.033)	(0.032)	(0.033)	(0.032)
NIIP$_{t-1}$ (% of GDP)	0.071***	0.072***	0.072***	0.071***	0.071***	0.071***	0.071***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.122***	-0.123***	-0.123***	-0.123***	-0.122***	-0.123***	-0.122***
	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)	(0.021)	(0.020)
Relative productivity$_{t-1}$	0.000	-0.003	-0.003	-0.003	-0.002	-0.004	-0.002
	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)	(0.021)
Relative productivity$_{t-1}$ x capital openness	0.072***	0.077***	0.074***	0.076***	0.077***	0.076***	0.077***
	(0.022)	(0.021)	(0.022)	(0.021)	(0.021)	(0.021)	(0.021)
Output growth	0.050	0.048	0.048	0.048	0.048	0.048	0.048
	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)	(0.050)
Old age dependency ratio	-0.154**	-0.157**	-0.161**	-0.157**	-0.148**	-0.159**	-0.150**
	(0.066)	(0.067)	(0.067)	(0.068)	(0.067)	(0.067)	(0.067)
Population growth	-0.309	-0.274	-0.287	-0.276	-0.268	-0.274	-0.270
	(0.366)	(0.362)	(0.365)	(0.363)	(0.361)	(0.362)	(0.363)
Reserve currency share (% of total world reserves)	-0.032*	-0.033*	-0.032*	-0.034*	-0.036**	-0.033*	-0.035*
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Output gap	-0.413***	-0.413***	-0.413***	-0.412***	-0.412***	-0.413***	-0.412***
	(0.085)	(0.086)	(0.085)	(0.085)	(0.085)	(0.085)	(0.085)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003	-0.003
	(0.006)	(0.005)	(0.006)	(0.005)	(0.005)	(0.005)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.069	0.071	0.071	0.070	0.069	0.071	0.069
	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)	(0.054)
Obs.	685	685	685	685	685	685	685
Countries	52	52	52	52	52	52	52
R^2	0.346	0.341	0.343	0.339	0.339	0.340	0.338

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

D. Household Credit

Table B.9 – The Role of Quantitative Financial Development (Household Credit/GDP)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Household credit x income ineq.	-0.337***	-1.288***	-0.470***	-0.218***	-0.024***	-0.174***	-0.063***
	(0.118)	(0.488)	(0.166)	(0.078)	(0.008)	(0.066)	(0.021)
Income inequality	-0.156***	-0.687***	-0.269***	-0.129***	-0.011***	-0.109***	-0.031***
	(0.046)	(0.188)	(0.066)	(0.031)	(0.003)	(0.026)	(0.008)
Household debt (% of GDP)	-0.001	0.004	0.005	0.006	-0.004	0.008	-0.002
	(0.020)	(0.019)	(0.020)	(0.019)	(0.020)	(0.019)	(0.019)
Labor Share ($\frac{W}{GDP}$)	-0.124***	-0.136***	-0.136***	-0.140***	-0.126***	-0.143***	-0.128***
	(0.038)	(0.038)	(0.038)	(0.038)	(0.037)	(0.038)	(0.037)
NIIP$_{t-1}$ (% of GDP)	0.036***	0.037***	0.037***	0.037***	0.036***	0.037***	0.036***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.025	-0.028	-0.027	-0.027	-0.024	-0.028	-0.025
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Relative productivity$_{t-1}$	-0.041*	-0.048**	-0.049**	-0.053**	-0.043*	-0.053**	-0.047**
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
Relative productivity$_{t-1}$ x capital openness	0.077***	0.084***	0.084***	0.087***	0.080***	0.087***	0.083***
	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
Output growth	0.041	0.035	0.035	0.033	0.038	0.031	0.037
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Old age dependency ratio	0.088	0.091*	0.082	0.083	0.089	0.086	0.082
	(0.056)	(0.055)	(0.055)	(0.055)	(0.056)	(0.055)	(0.055)
Population growth	-0.402	-0.382	-0.358	-0.346	-0.407	-0.346	-0.380
	(0.308)	(0.306)	(0.307)	(0.306)	(0.306)	(0.305)	(0.307)
Reserve currency share (% of total world reserves)	-0.017	-0.019	-0.017	-0.019	-0.018	-0.020	-0.018
	(0.016)	(0.016)	(0.016)	(0.016)	(0.017)	(0.016)	(0.016)
Output gap (% of potential GDP)	-0.380***	-0.380***	-0.378***	-0.375***	-0.375***	-0.374***	-0.376***
	(0.079)	(0.079)	(0.079)	(0.079)	(0.079)	(0.079)	(0.079)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.004	-0.003	-0.005	-0.005	-0.003	-0.004	-0.004
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Fiscal balance$_{t-1}$ (% of GDP)	0.047	0.052	0.047	0.050	0.052	0.050	0.051
	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)	(0.055)
Quantification							
S.D. income inequality	0.074	0.019	0.055	0.125	1.3	0.142	0.506
$\beta_{Ineq} * S.D._{between}$	-0.012	-0.013	-0.015	-0.016	-0.014	-0.015	-0.016
Middle/Bottom				1.13		0.99	
Obs.	1074	1074	1074	1074	1074	1074	1074
Countries	46	46	46	46	46	46	46
R^2	0.236	0.240	0.239	0.241	0.234	0.241	0.238

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.10 – The Role of Quantitative Financial Development (Household Credit/GDP), Country-FE

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Household credit x income ineq.	-0.458***	-1.256***	-0.495***	-0.210***	-0.028***	-0.155**	-0.072***
	(0.135)	(0.474)	(0.172)	(0.074)	(0.008)	(0.064)	(0.020)
Income inequality	0.143*	0.288	0.060	0.015	0.005*	0.005	0.010
	(0.079)	(0.244)	(0.097)	(0.038)	(0.003)	(0.033)	(0.009)
Household credit (% of GDP)	0.158***	0.068**	0.135***	0.096**	0.062**	0.093**	0.075***
	(0.050)	(0.031)	(0.051)	(0.039)	(0.025)	(0.042)	(0.028)
Labor Share ($\frac{W}{GDP}$)	-0.343***	-0.333***	-0.331***	-0.328***	-0.338***	-0.326***	-0.337***
	(0.049)	(0.049)	(0.048)	(0.048)	(0.048)	(0.048)	(0.048)
NIIP$_{t-1}$ (% of GDP)	-0.000	-0.000	-0.000	0.000	0.000	0.000	0.000
	(0.007)	(0.008)	(0.008)	(0.008)	(0.007)	(0.008)	(0.007)
Dummy NIIP 0.006	0.005	0.004	0.004	0.006	0.004	0.005	
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
Relative productivity$_{t-1}$	-0.093***	-0.089***	-0.090***	-0.088***	-0.093***	-0.087***	-0.093***
	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
Relative productivity$_{t-1}$ x capital openness	0.029**	0.026**	0.026**	0.026**	0.029**	0.025*	0.029**
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Output growth	-0.087**	-0.080*	-0.079*	-0.078*	-0.084**	-0.076*	-0.083*
	(0.043)	(0.043)	(0.043)	(0.043)	(0.042)	(0.043)	(0.043)
Old age dependency ratio (% of working-age population)	0.357***	0.386***	0.385***	0.396***	0.372***	0.410***	0.370***
	(0.108)	(0.109)	(0.108)	(0.108)	(0.109)	(0.108)	(0.109)
Population growth (annual %)	0.012	0.039	0.036	0.039	-0.012	0.048	-0.002
	(0.295)	(0.296)	(0.297)	(0.297)	(0.297)	(0.297)	(0.297)
Reserve currency share (% of total world reserves)	0.019	0.025	0.025	0.026	0.022	0.027	0.023
	(0.025)	(0.026)	(0.026)	(0.026)	(0.025)	(0.026)	(0.025)
Output gap (% of potential GDP)	-0.327***	-0.336***	-0.339***	-0.341***	-0.331***	-0.343***	-0.334***
	(0.069)	(0.069)	(0.069)	(0.069)	(0.069)	(0.069)	(0.069)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Fiscal balance (% of GDP)	0.117**	0.119**	0.120**	0.121**	0.118**	0.119**	0.121**
	(0.049)	(0.050)	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Obs.	1074	1074	1074	1074	1074	1074	1074
Countries	46	46	46	46	46	46	46
R^2	0.596	0.592	0.594	0.594	0.595	0.593	0.594

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.11 – The Role of Quantitative Financial Development (Household Credit/GDP), 1990-2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dep. Var.	Current Account Balance/GDP						
Income ineq. measure	Gini	Top 1%	Top 10%	$\frac{Top10}{Mid.30-90}$	$\frac{Top10}{Bot.0-30}$	$\frac{Top10}{Mid.50-90}$	$\frac{Top10}{Bot.0-50}$
Household credit x income ineq	-0.441***	-1.583***	-0.594***	-0.261***	-0.025***	-0.218***	-0.066***
	(0.116)	(0.470)	(0.167)	(0.080)	(0.009)	(0.068)	(0.022)
Income inequality	-0.130***	-0.560***	-0.197***	-0.096***	-0.010***	-0.079***	-0.026***
	(0.049)	(0.189)	(0.070)	(0.032)	(0.004)	(0.027)	(0.009)
Household credit (% of GDP)	-0.025	-0.019	-0.021	-0.017	-0.018	-0.016	-0.017
	(0.019)	(0.018)	(0.019)	(0.018)	(0.018)	(0.018)	(0.018)
Labor Share ($\frac{W}{GDP}$)	-0.099***	-0.112***	-0.107***	-0.113***	-0.111***	-0.113***	-0.112***
	(0.037)	(0.035)	(0.037)	(0.036)	(0.035)	(0.036)	(0.035)
NIIP$_{t-1}$ (% of GDP)	0.060***	0.061***	0.060***	0.060***	0.060***	0.061***	0.060***
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Dummy NIIP	-0.095***	-0.098***	-0.096***	-0.096***	-0.094***	-0.096***	-0.095***
	(0.023)	(0.024)	(0.023)	(0.024)	(0.023)	(0.024)	(0.023)
Relative productivity$_{t-1}$	-0.044*	-0.052**	-0.050**	-0.054**	-0.052**	-0.055**	-0.053**
	(0.025)	(0.024)	(0.025)	(0.024)	(0.025)	(0.024)	(0.025)
Relative productivity$_{t-1}$ x capital openness	0.163***	0.170***	0.167***	0.170***	0.169***	0.170***	0.170***
	(0.026)	(0.026)	(0.026)	(0.026)	(0.026)	(0.026)	(0.026)
Output growth	0.030	0.028	0.027	0.023	0.021	0.023	0.021
	(0.058)	(0.059)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)
Old age dependency ratio (% of working-age population)	-0.022	-0.012	-0.014	-0.010	-0.022	-0.008	-0.020
	(0.075)	(0.075)	(0.075)	(0.075)	(0.076)	(0.075)	(0.076)
Population growth	-0.488	-0.463	-0.471	-0.448	-0.425	-0.455	-0.416
	(0.397)	(0.389)	(0.393)	(0.390)	(0.393)	(0.388)	(0.394)
Reserve currency share (% of total world reserves)	-0.052***	-0.055***	-0.054***	-0.056***	-0.055***	-0.057***	-0.056***
	(0.015)	(0.015)	(0.015)	(0.015)	(0.016)	(0.015)	(0.015)
Output gap (% of potential GDP)	-0.393***	-0.399***	-0.393***	-0.390***	-0.384***	-0.390***	-0.386***
	(0.097)	(0.098)	(0.097)	(0.097)	(0.097)	(0.097)	(0.097)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.007	-0.006	-0.006	-0.007	-0.008	-0.006	-0.008
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Fiscal balance$_{t-1}$ (% of GDP)	0.061	0.079	0.070	0.075	0.071	0.077	0.071
	(0.059)	(0.058)	(0.058)	(0.058)	(0.059)	(0.058)	(0.059)
Household credit (% of GDP)	-0.025	-0.019	-0.021	-0.017	-0.018	-0.016	-0.017
	(0.019)	(0.018)	(0.019)	(0.018)	(0.018)	(0.018)	(0.018)
Quantification							
S.D. income inequality	0.08	0.021	0.059	0.135	1.474	0.154	0.564
$\beta_{Ineq} * S.D._{between}$	-0.01	-0.012	-0.012	-0.013	-0.015	-0.012	-0.015
Middle/Bottom				0.88		0.83	
Obs.	522	522	522	522	522	522	522
Countries	46	46	46	46	46	46	46
R^2	0.436	0.443	0.439	0.439	0.432	0.440	0.435

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

E. About the Labor Share

Table B.12 – Test for Non-Monotonicity with the Labor Share Indicator

Dep. Var.	Current Account Balance/GDP				
	(1)	(2)	(3)	(4)	(5)
Development indicator	GDP	Credit market dereg.	Private credit	HH credit	Chinn-Ito index
Labor Share x development indicator	0.048*	0.001	0.022	0.031	-0.017
	(0.025)	(0.014)	(0.055)	(0.118)	(0.077)
Labor Share ($\frac{W}{GDP}$)	-0.546**	-0.094	-0.123***	-0.157***	-0.119**
	(0.213)	(0.113)	(0.045)	(0.045)	(0.055)
Top 5% income share	-0.107*	-0.092	-0.097	-0.199***	-0.085
	(0.061)	(0.063)	(0.063)	(0.075)	(0.061)
NIIP$_{t-1}$ (% of GDP)	0.042***	0.047***	0.043***	0.037***	0.044***
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.056***	-0.050***	-0.057***	-0.024	-0.056***
	(0.016)	(0.019)	(0.016)	(0.019)	(0.016)
Relative productivity$_{t-1}$	0.011	-0.001	-0.005	-0.051**	-0.001
	(0.024)	(0.018)	(0.017)	(0.023)	(0.018)
Relative productivity$_{t-1}$ x capital openness	0.025	0.028	0.031**	0.084***	0.027
	(0.016)	(0.018)	(0.016)	(0.023)	(0.017)
Output growth	0.074*	0.138**	0.066	0.025	0.066
	(0.041)	(0.055)	(0.041)	(0.049)	(0.041)
Old age dependency ratio (% of working-age population)	0.065	0.034	0.052	0.098*	0.059
	(0.053)	(0.050)	(0.053)	(0.059)	(0.052)
Population growth (annual %)	-0.054	-0.152	-0.040	-0.310	-0.035
	(0.293)	(0.290)	(0.295)	(0.309)	(0.295)
Reserve currency share (% of total world reserves)	-0.009	-0.003	-0.007	-0.027*	-0.006
	(0.015)	(0.015)	(0.015)	(0.016)	(0.015)
Output gap	-0.388***	-0.492***	-0.405***	-0.359***	-0.409***
	(0.068)	(0.092)	(0.068)	(0.078)	(0.068)
Commodity terms of trade gap x trade openness	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	0.003	0.002	0.003	-0.002	0.003
	(0.006)	(0.006)	(0.006)	(0.010)	(0.006)
Fiscal balance$_{t-1}$ (% of GDP)	0.040	0.058	0.040	0.045	0.043
	(0.050)	(0.059)	(0.050)	(0.056)	(0.050)
Log GDP per capita	-0.004				
	(0.005)				
Credit market deregulations		-0.001			
		(0.002)			
Household debt (% of gdp)				0.019	
				(0.021)	
Chinn-Ito index (0-1)					-0.005
					(0.009)
Obs.	1309	1039	1309	1074	1309
Countries	56	56	56	46	56
R^2	0.212	0.223	0.206	0.218	0.211

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.

Table B.13 – Test for Non-Monotonicity with the Labor Share Indicator, Country-FE

	(1)	(2)	(3)	(4)	(5)
Dep. Var.	Current Account Balance/GDP				
Development indicator	GDP	Credit market dereg.	Private credit	HH credit	Chinn-Ito index
Labor Share x development indicator	0.018	0.001	-0.033	-0.428***	-0.075
	(0.026)	(0.016)	(0.050)	(0.120)	(0.070)
Labor Share ($\frac{W}{GDP}$)	-0.380*	-0.212	-0.194***	-0.195***	-0.180***
	(0.224)	(0.131)	(0.056)	(0.062)	(0.057)
Top 5% income share	-0.238***	-0.149*	-0.223***	-0.084	-0.227***
	(0.076)	(0.084)	(0.077)	(0.088)	(0.077)
NIIP$_{t-1}$ (% of GDP)	0.005	-0.001	0.005	-0.005	0.005
	(0.007)	(0.008)	(0.007)	(0.007)	(0.007)
Dummy NIIP	-0.020	-0.008	-0.021	0.006	-0.022
	(0.014)	(0.016)	(0.013)	(0.015)	(0.014)
Relative productivity$_{t-1}$	-0.053**	-0.052**	-0.067***	-0.059**	-0.062**
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
Relative productivity$_{t-1}$ x capital openness	0.007	0.008	0.006	0.026**	0.002
	(0.009)	(0.012)	(0.010)	(0.013)	(0.011)
Output growth	-0.019	0.003	-0.026	-0.075*	-0.026
	(0.037)	(0.050)	(0.036)	(0.042)	(0.038)
Old age dependency ratio (% of working-age population)	0.499***	0.469***	0.496***	0.474***	0.515***
	(0.096)	(0.098)	(0.096)	(0.102)	(0.094)
Population growth	0.171	0.053	0.157	0.115	0.168
	(0.291)	(0.281)	(0.289)	(0.291)	(0.290)
Reserve currency share (% of total world reserves)	0.027	0.009	0.029	0.033	0.029
	(0.022)	(0.029)	(0.021)	(0.025)	(0.022)
Output gap (% of potential GDP)	-0.349***	-0.453***	-0.375***	-0.359***	-0.379***
	(0.061)	(0.079)	(0.060)	(0.069)	(0.060)
Commodity terms of trade gap x trade openness	0.001***	0.000***	0.001***	0.000***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Private credit (% of GDP)	-0.018**	-0.022***	0.003	-0.022*	-0.015*
	(0.009)	(0.009)	(0.031)	(0.011)	(0.008)
Fiscal balance$_{t-1}$ (% of GDP)	0.057	0.085	0.059	0.111**	0.059
	(0.045)	(0.058)	(0.045)	(0.048)	(0.045)
Log GDP per capita	-0.021				
	(0.013)				
Credit market deregulations		-0.002			
		(0.008)			
Household debt (% of GDP)				0.276***	
				(0.069)	
Chinn-Ito index (0-1)					0.034
					(0.036)
Obs.	1309	1039	1309	1074	1309
Countries	56	56	56	46	56
R^2	0.562	0.637	0.567	0.602	0.565

NIIP = Net International Investment Position. All variables demeaned, except Reserve currency share, Commodity terms of trade gap x trade openness, and Dummy NIIP. Robust standard errors are in parentheses. Intercept not reported. All estimations include year dummies. *, **, and *** denote, respectively, significance at the 10%, 5%, and 1% levels.