Report on **Bachelor / Master Thesis**

Institute of Economic Studies, Faculty of Social Sciences, Charles University

Student:	**Bc. Anežka Svěchotová**
Advisor:	**prof. Roman Horváth, Ph.D.**
Title of the thesis:	**Globalization, Rule of Law and Wealth Inequality**

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

The author uses BMA to find which country-level variables are linked to the degree of wealth inequality. She finds five variables robustly related to wealth inequality: three financial development indicators, GDP growth, and geographical dummy for Latin America and the Carribean. The author interprets the findings causally but the only potential source of causality – using the average over 1980–2009 for explanatory variables and the average over 2010–2016 for the dependent (wealth inequality) variable – is, in my opinion, very questionable. I address this issue in larger detail below.

Contribution

The author states four contributions to the existing literature in the Introduction: 1. extensive dataset; 2. use of BMA to address model uncertainty; 3. addressing endogeneity by applying lagged explanatory variables and IV BMA; 4. use of different measures of globalization among the explanatory variables (at least I think so, because the author writes „we examine the effects of different measures of wealth inequality" (p. 2) but from the context it seems to me that she meant different measures of globalization).

The first contribution – extensive dataset – doesn't in my view constitute a significant value added for a master thesis. Moreover, the author doesn't explain how using „more data" improves our knowledge of wealth inequality determinants. Use of BMA is nothing new because it was used already, for example, by Hasan et al. (2020). A reference that the author cites in her literature review. Hasan et al. (2020) also use IV BMA to address endogeneity. But, more importantly for my assessment of the thesis, the author does not use IV BMA in her analysis at all! In fact, the section 5.3 Endogeneity issues consist solely of a fragment of two sentences: „We find 2 major issues concerning our analysi . here I will describe them and briefly state how to address them nevertheless, employing them is out of the scope of the thesis" (p. 51). From this point of view, I regard the thesis unfinished (see also below for more details). Therefore, the only contribution I was able to identify was the use of different aspects of globalization. In my opinion, this is rather weak for a master thesis.

Methods

The author uses BMA to address model specification uncertainty. Even though it is a valid approach in cases when we do not have a strong theory upon which to build the model, it has also a significant downside: Selecting variables without any theoretical reasoning is, in fact, data mining. Which makes causal interpretation of the results even harder and makes the estimation more prone to endogeneity bias. In fact, on p. 7 the author mentions Bhagat (2020) who argues that rule of law is a crucial determinant of income inequality. But taking rule of law into account changes the results (negative correlation between inequality and GDP per capita disappears). This shows that institutions (proxied for by the rule of law) very probably influences both inequality and wealth/income. I would expect that this is, in fact, the reason why the Latin America dummy has a statistically significant positive relationship – Latin America is known for its history of exclusive (opposite to inclusive) institutions.

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The intention and endeavor to interpret the results causally is clear throughout the whole thesis:

"To find what determines wealth inequality, we examine a rich dataset of 39 different explanatory variables (including six measures of globalization) across 89 countries." (p. 2)

„Nevertheless, the to the complexity of this connection, some aspects of globalization may lead to higher inequality, while other aspects cause the opposite." (p. 28)

„In other words, those five variables are considered to be the determinants of wealth inequality." (p. 41)

„Our findings of *financial markets efficiency* suggest that large financial markets, increase differences in wealth." (p. 46)

The only aspect of the identification strategy, which could lead to causal interpretation, is the use of lagged explanatory variables. But I am afraid that the majority of the used variables is so stable that their average over the past 30 years rather signal a general development level of the respective country, rather than a potential cause of current wealth inequality. I find it very hard to believe that neither reverse causality nor omitted variables (such as the institutional sources of wealth inequality – market transactions vs. rent seeking vs. taxes/other policies vs. political power etc.) could be influencing the results. In this regard, I would, for example, try to include interactions of the explanatory variables with some of the above-mentioned institutional proxies. Then, theory could be used to interpret the result causally.

Also, the methodological choices are, in my opinion, insufficiently explained. For example the use of cross-sectional averages, instead of panels. Or, why not use the change over the observed periods, instead of average? This could have maybe revealed how, e.g. the change in globalization translated into inequality.

Literature

The author provides sufficient overview of the literature dealing with both wealth and income inequality. Even though I would be also interested in theoretical literature on the topic. But a much larger problem is the author's work with sources.

The results of the Turnitin analysis indicate a rather large degree of similarity with other sources. Going through the Turnitin report and comparing the incriminated parts of the thesis with the other sources, I revealed a couple of instances where the author did copy some parts of other authors' texts. For example, on p. 8, the author summarizes Dreher & Gaston (2008) by writing that they use "data on industrial wage inequality, household income inequality as well as measures of the economic, social and political dimensions of globalization", which is directly copied from their abstract. Or, on p. 12, the sentence „the distribution has also shifted to the right—the incomes of many of the world's poorest citizens have increased and extreme poverty has fallen." Is copied from ourworldindata.org, where the author takes the described figure 1. Or, on p. 21, the sentence „Lastly, the Index estimates the level of cultural affinity to the global mainstream through the means of the number of McDonald's ad Ikea's branches, book imports and exports in relation to GDP." is almost copied (some words were changed) from the referred source Gygli et al. (2019), but again no quotation marks are used.

I do not thing that the author intentionally plagiarized the mentioned sources. But, nevertheless, it reveals unsatisfactory work with sources.

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Manuscript form

The manuscript form is very far from perfect. The thesis is plagued with a large number of typos and stylistic/logical inconsistencies: "In this case," (at the very end of p. 1); semicolon before "however" where it makes no sense (p. 1, p. 5, p. 45); "wider gab" (p. 1), "large gab" (p. 25), "wealth gab" (p. 52); repeated explanation which package and statistical software was used for the BMA on p. 39 and 40; Figure 6 (p. 43) horizontal axis with cumulative model probabilities ends at 0.08 instead of 1 (why?); the already mentioned abrubt ending of the thesis at p. 51. To put it in a nutshell, it appears that the thesis was hastily finished and the author not only did not have time to finish the promised analysis (IV BMA), but also did not do proper proofreading.

I was also rather confused by the overall motivation for the study. The very first paragraph of the thesis states that: "In 2021, the world's top 1.2 % of adult population owned approximately 47.8 % of total wealth, whereas the poorest 53.2 % of adults possessed only 1.1 %. Moreover, the aggregate wealth of a group of the richest has grown significantly this century, from $41.4 trillion in 2000, to $221.7 trillion in 2021, i.e., five-fold. As for the global wealth's share, it has increased from 35 % to 48 %. With wealth comes power which is; however, concentrated in the hands of only a few people resulting in a wider gab between both groups. (Shorrocks et al., 2022)"

But 1% of world's adult population is something like 60 million people! I do not find it correct to state that the wealth is being concentrated in the hands of only a few people. A very similar statement, again addressing the wealthiest 1% of adult population (i.e. 60 million people), is on p. 13: „The size of the top tier is relatively small. It comprises of high-net-worth individuals (or USD multimillionaires) who, in terms of total wealth holding and their global wealth share, appear to be very dominant."

I also found it rather strange to define inequality using the concept of (un)fairness: „Inequality refers to an unfair and/or unequal distribution of resources and opportunities among the people within a society." (p. 10). Whether something is or is not fair is outside the boundaries of economics. If the author wrote a thesis on the concept of fairness, presenting the political economy arguments, I would be totaly fine with it. But it is not only unfair, but in my opinion even incorrect to use the word unfair without further explanation.

Overall evaluation and suggested questions for the discussion during the defense

To sum up, I am afraid that the thesis suffers from a significant number of deficiencies. The three most important, in my opinion, are these: It is clearly unfinished; the author promises things she doesn't do; the author doesn't cite other sources correctly.

Therefore, in my view, the thesis does not fulfill the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University, and I do not recommend it for the defense.

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	15
Methods (max. 30 points)	20
Literature (max. 20 points)	5
Manuscript Form (max. 20 points)	5

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TOTAL POINTS	*(max. 100 points)*	**45**
GRADE	**(A – B – C – D – E – F)**	**F**

NAME OF THE REFEREE: PhDr. Jiří Schwarz, Ph.D.

DATE OF EVALUATION: 24.1.2023

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Referee Signature

CONTRIBUTION: _The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis._

METHODS: _The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed._

LITERATURE REVIEW: _The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way._

MANUSCRIPT FORM: _The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography._

**Overall grading:**

TOTAL	GRADE
91 – 100	**A**
81 - 90	**B**
71 - 80	**C**
61 – 70	**D**
51 – 60	**E**
0 – 50	**F**