Ross Levine and Yona Rubinstein: Surprising findings about bank deregulation’s effect on the poor.
Ross Levine did not set out to be an economist. His youthful ambition was to become a commentator on politics and society – “like New York Times columnist William Safire.” As an undergraduate at Cornell, he sampled math, engineering, and computer science before settling on economics. When Levine decided to leave the World Bank for academia in 1999, his father asked him to formulate a goal for the first five years of his scholarly career. He responded that he would address the question, “What financial-sector policies will enhance human welfare?”

This research question had its roots in an already remarkable career that had immersed Levine in practical issues – of domestic and global finance, banking regulation, and financial policy – on a handful of continents. The journey he began as an economist with the Board of the Federal Reserve in 1987 soon took an international turn. He spent most of the 1990s as a principal economist for the World Bank, where he worked on economic issues in Russia and Czechoslovakia as the Soviet era was ending and made 20 working trips to Mexico in one year during the country’s banking crisis.

“My World Bank experience expanded my horizons,” says Levine. “Most of the people I collaborated with were not economists, were not from the U.S., and were policy advisors rather than researchers. The combination of multidisciplinary approaches to problems and international perspectives made an enduring difference in the way I work.”

Writing and publishing widely over the past two decades, Levine has focused on the relationship between finance and economic development; the impact of government regulation on competition in banking; transparency in banking as an antidote to corruption; and the relative effectiveness of financial policies as practiced in countries around the world – timely topics for today’s economic landscape.

The basis for findings in Levine’s second book, Rethinking Bank Regulation: Till Angels Govern, is a comprehensive database of banking regulations from 250 countries, the first global database of its kind, which he assembled with his co-authors. They used the data to assess how various approaches to regulation affect bank efficiency, the incidence of corruption, levels of development in financial systems, and the probability of banking crises. Their overriding conclusion, which a reviewer for The Economist called “striking” and “surprising,” was that “simply strengthening direct official oversight of banks may very well make things worse, not better, in the vast majority of countries.”

Ranked by the Journal of Economics and Business among the ten most cited experts on world finance, Levine is a regular consultant at the World Bank and the International Monetary Fund, which have funded his work, as well as at the Federal Reserve Bank of New York. He has received research support from regional and national banking systems in Asia and Latin America and is a research associate with the National Bureau of Economic Research.
Levine joined the Brown faculty in 2005 — part of the wave of faculty expansions set in motion by the Plan for Academic Enrichment — after achieving academic prominence as the Curtis L. Carlson Chair in Finance at the University of Minnesota and a professor at the University of Virginia. In September of 2007 he was named to a newly endowed Brown chair, the James and Merryl Tisch Professorship in Economics. A few months later he was called upon to direct an important new entity at the Watson Institute for International Studies, the William R. Rhodes Center for International Economics.

A scholar deeply engaged in teaching, Levine sees his work in the classroom as “linked with learning and research in an enjoyable cycle. It is very satisfying to see students gaining a new perspective on the world, finding a clearer way of understanding human interactions.” Three undergraduates and four Ph.D. students collaborate in Levine’s research. He has developed an especially productive research partnership with his colleague, Assistant Professor of Economics Yona Rubinstein, a labor economist whom Levine refers to as “an exceptional researcher, with a stunningly insightful intellect, and one of the great, great surprises of my professional life. He is among the many colleagues in the department who have pushed me to learn more economics and do better work.”

Since he came to Brown, the question of how finance affects human wellbeing has become more compelling than ever for Levine, and his partnership with Rubinstein has been a catalyst for a new approach to looking at “some really valuable questions.” Principal among these is “elucidating the dynamic between finance and opportunity” — the extent to which “a person’s economic opportunities are determined by individual skill and initiative, or by parental wealth, social status, and political connections. My goal,” Levine says, “is to identify which financial-sector policies, laws, and regulations enhance the operation of financial intermediaries and markets, because these factors have an influence on human welfare.”

For some time Levine has asserted that financial development in poor nations not only accelerates economic growth but also broadens access to credit and narrows income disparities. Increasingly, he

Ross Levine on finance and the wealth gap

“The financial system influences who can start a business and who cannot, who can pay for education and who cannot, who can attempt to realize economic aspirations and who cannot. Finance can shape the gap between the rich and the poor and the degree to which that gap persists across generations.”
is turning his research lens on poverty in the United States and finding, as he does in studies with Rubinstein and Ph.D. student Alex Levkov, that bank deregulation yields proportionally greater benefits for the poor, in part because it enhances competition, thereby reducing entry barriers and keeping fees low. It also reduces racial and gender discrimination, which are rendered counterproductive in an environment of intense competition among banks.

Taking this perspective a step further has encouraged Levine to make a cross-disciplinary leap consistent with his reputation for eliciting surprise. He and Rubinstein have developed a research project examining the impact of bank regulations on human development. Since banks affect the flow of capital, they have an influence on families’ access to education, homes, jobs, income, and health care. The project posits that insofar as the way banks do business helps determine the context in which families live and raise children, bank regulation contributes to both short-term outcomes (such as the ability to pay for higher education) and broader social outcomes for individuals and communities (such as the relative incidence of risky behaviors and crime). Levine and Rubinstein have applied to the National Institutes of Health for funding to continue the project.

At this point in U.S. financial history, when financial regulations are certain to be rewritten, Ross Levine sees his research as especially important – and multidisciplinary. With a smile, he adds, “The thought of me, given my background, requesting money from the NIH is a big surprise.”