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The Comparative Effect of Corruption and Piketty's Second Fundamental Law of Capitalism on Inequality

Adnan M. S. Fakir¹, Azraf Uddin Ahmad, K M Masnun Hosain, Mostafa Rafid Hossain & Ridhim Sadman Gani

Abstract

We hypothesize that corruption, viewed as an institutional distortion has comparatively larger effects on inequality than the second fundamental law of capitalism proposed by Thomas Piketty. Reaffirming that corruption affects inequality in a non-linear fashion, we also find evidence that $r - g$ increases inequality in the short run, indicating that pre-existing holders of capital derive greater shares of income. However, the effect of $r - g$ is not as strong as that of corruption and is insignificant in highly unequal countries. This suggests that institutional factors play a more important role than the second fundamental law of capitalism in presence of high inequality.

Keywords

corruption; inequality; $r - g$; Piketty; second fundamental law of capitalism; gini

JEL Codes

D63; E02; E22; O11

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Author Contributions

Adnan M. S. Fakir and Azraf Uddin Ahmad wrote the paper and conducted the analyses; K M Masnun Hosain generated the dataset and steered the descriptive statistics; Ridhim Sadman Gani and Mostafa Rafid Hossain helped conduct the literature review, and proof read the preliminary paper.

Conflict of Interest

The authors declare that they have no conflict of interest.

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