

Inequality, Financial Development and Economic Growth in the
OECD, 1870-2011

Jakob B. Madsen , Md. Rabiul Islam , Hristos Doucouliagos

PII: S0014-2921(17)30215-5
DOI: [10.1016/j.euroecorev.2017.11.004](https://doi.org/10.1016/j.euroecorev.2017.11.004)
Reference: EER 3087

To appear in: *European Economic Review*

Received date: 5 October 2016
Accepted date: 10 November 2017

Please cite this article as: Jakob B. Madsen , Md. Rabiul Islam , Hristos Doucouliagos , Inequality, Financial Development and Economic Growth in the OECD, 1870-2011, *European Economic Review* (2017), doi: [10.1016/j.euroecorev.2017.11.004](https://doi.org/10.1016/j.euroecorev.2017.11.004)



This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Inequality, Financial Development and Economic Growth in the OECD, 1870-2011¹

Jakob B. Madsen^{a,*}, Md. Rabiul Islam^a, Hristos Doucouliagos^b

^a Department of Economics, Monash University, 900 Dandenong Road, Caulfield East, Victoria 3145, Australia

^b Department of Economics and the Alfred Deakin Institute for Citizenship and Globalisation, Deakin University, 221 Burwood Highway, Burwood, Victoria 3125, Australia

Abstract. Inequality's effect on growth remains elusive, largely due to endogeneity, complex interactions, and lead-lag relationships. We revisit this issue by examining the four main channels through which inequality transmits to growth: savings, investment, education, and knowledge production. We construct new panel data for 21 OECD countries spanning 142 years. External communist influence is used as a new time-varying instrument for inequality and the effects of inequality on the outcome variables are made conditional on the stage of financial development. Our results show that inequality hampers growth at low to moderate levels of financial development but has little effect on growth at advanced levels of financial development.

Keywords: inequality, financial development, transmission channels

JEL codes: E20, O15, O40

1. Introduction

One of the long-standing questions in macroeconomics is whether income inequality impairs or promotes growth. Despite a burgeoning literature on the growth effects of inequality, the empirical evidence remains inconclusive and a definitive assessment of the effects of inequality on growth remains elusive.² This impasse is not surprising given that the relationship between inequality and growth is masked by various channels that transmit to growth with markedly varying lags, inequality

¹ We gratefully acknowledge helpful comments and suggestions from participants at the Australasian Public Choice Conference 2015, the Australasian Development Workshop 2015, the European Public Choice Society Annual Meeting 2017, seminar participants at the University of Southern Denmark, and the University of Sydney. We are particularly indebted to Cecilia García-Peñalosa and Theo Eicher (editors), two anonymous referees, and Toke Aidt, Axel Dreher, Erich Gundlach, and Roman Horvath. Aart Kraay kindly provided the GAUSS code to implement weak exclusion restriction tests. Stoja Andric, Thandi Ndhlela, Paula Madsen, and Cong Wang provided excellent research assistance. Financial support from the Australian Research Council, grants DP150100061 and DP170100339 is also gratefully acknowledged.

*Corresponding author.

E-mail addresses: Jakob.Madsen@monash.edu (J. B. Madsen), Md.Rabiul.Islam@monash.edu (Md. R. Islam), douc@deakin.edu.au (H. Doucouliagos).

² Studies that investigate the relationship between inequality and growth include Barro (2000), Forbes (2000), Panizza (2002), Banerjee and Duflo (2003), Voitchovsky (2005), Easterly (2007), Berg *et al.* (2012), and Halter *et al.* (2014). Most studies conclude that the empirical evidence is ambiguous.

Download English Version:

<https://daneshyari.com/en/article/7351714>

Download Persian Version:

<https://daneshyari.com/article/7351714>

[Daneshyari.com](https://daneshyari.com)