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## The heterogeneous impact of taxation on economic development: New insights from a panel cointegration approach

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### Highlights

- In the theoretical part, we develop a stylized model based on Barro (1990), in which taxation has two contradictory roles in the standard Solow (1956) setup.
- In the empirical part, the role of different tax types on growth is estimated using the common correlated effects panel cointegration approach, which allows for cross-sectional dependencies.
- The panel findings indicate that only consumption tax has a statistically significant negative effect on long-run income, though with a very small magnitude.
- The type and sign of the tax coefficients become heterogeneous when country-specific results are considered.

### Abstract

In this paper, we study the role of taxation on long-run income performance. In the theoretical part of the study, we develop a stylized model based on Barro (1990), in which income taxation has two contradictory roles in the standard Solow (1956) setup: on the one hand, taxation appropriates resources that would otherwise be used for physical capital

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