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Debt, Seigniorage, and the Growth Laffer Curve in developing countriesHélène Ehrhart,[#] Alexandru Minea* and Patrick Villieu[†]

Abstract: The endogenous growth literature established the existence of an inverted-U curve between taxes and economic growth, namely a Growth Laffer Curve, but empirical evidence on this relationship in developing countries is rather limited. Given that seigniorage and public debt are also important means of financing public spending in these countries, we take into account in this paper their respective impacts on growth, as they might deform the existing relationship between taxes and growth. To this end, we develop a growth model with public investment as the engine of perpetual growth, and look for the effect of debt, tax and money financing on economic growth. We study in particular the way fiscal and monetary policies deform the Growth Laffer Curve in developing countries. An empirical section based on a panel of 100 developing countries over the period 1980-2010 provides both OLS-Fixed Effects and GMM-system estimations that support our theoretical conclusions, namely the existence of Growth Laffer Curves indexed by the levels of debt and of seigniorage.

Keywords: Growth Laffer Curve, taxes, debt, seigniorage, developing countries.

JEL codes: E52, E63, H62

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