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Inequality and growth: what can the data say? (English) Zbl 1054.91556

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Summary: This paper describes the correlations between inequality and the growth rates in cross-country data. Using non-parametric methods, we show that the growth rate is an inverted U-shaped function of net changes in inequality: changes in inequality (in any direction) are associated with reduced growth in the next period. The estimated relationship is robust to variations in control variables and estimation methods. This inverted U-curve is consistent with a simple political economy model but it could also reflect the nature of measurement errors, and, in general, efforts to interpret this evidence causally run into difficult identification problems. We show that this non-linearity is sufficient to explain why previous estimates of the relationship between the level of inequality and growth are so different from one another.

MSC:

[91B62](#) Economic growth models

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