Summary Report: Inequality of opportunity, inequality of income and economic growth

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2025-04-16

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1 Summary

This study [1] looks to see if income inequality has an impact on growth. The authors of this paper found that the is significant negative impact on the growth when the state poses more income inequality than those that poses less income inequality.

2 Data sources

The main database use is the Global Database on intergeneration Mobility from the World Bank [2].

3 Methodology

$$growth_{i\tau} = \rho y_{i\tau-1} + (\theta_1\theta_2 IM_i) \cdot GINI_{i\tau-1} + \Gamma X_{i\tau-1} + u_i + \gamma_\tau + \epsilon_{i\tau} \tag{1}$$

where:

1. $growth$ is the 55-year non overlapping average of real per capita gdp growth
2. i is the country
3. τ is the time period starting in 1960
4. y is the log real GDP per capita
5. u_i and γ_τ denotes country fixed effects and period specific dummies
6.

The dataset consists of:

1. 166 countries
2. spans from 1950 to 2015
3. this includes 4437 separate GINIS.
4. X is the matrix of covariates that are standard across-country

Table 1
Effect of Income Inequality on Per Capita Growth: System-GMM Estimates. Non-Overlapping Five-Year Periods.

Dependent variable:	(1)	(2)	(3)	(4)	(5)
Real GDP per capita growth (in percent)					
Gini	−0.00303	0.0647	0.0669	0.267*	−0.0982
	(−0.0258)	(0.514)	(1.294)	(1.701)	(−0.777)
Gini × Intergenerational elasticity (earnings): GDIM (2018)		−0.211**			
		(−1.998)			
Gini × Intergenerational elasticity (earnings): Corak (2016)			−0.169**		
			(−2.324)		
Gini × Intergenerational elasticity (education): GDIM (2018)				−0.848**	
				(−2.094)	
Gini × Intergenerational elasticity (education): Hertz et al. (2007)					−0.392**
					(−2.018)
Lagged real per capita GDP, log	−2.364*	−5.748**	−5.724**	−5.012**	−1.839*
	(−1.914)	(−−2.348)	(−2.327)	(−2.560)	(−1.872)
Investment-to-GDP	0.107*	0.0194	0.108	0.168	−0.110
	(1.944)	(0.191)	(1.146)	(1.508)	(−0.965)
Trade openness	0.0184**	0.0218	0.0103	0.0485**	−0.0274*
	(2.180)	(1.532)	(1.326)	(2.088)	(−1.753)
Education (secondary school, log)	3.128**	5.964*	4.207	4.894	−2.180
	(2.150)	(1.678)	(1.118)	(1.527)	(−0.605)
Intercept	16.03	45.91**	48.43**	37.72**	41.26***
	(1.235)	(2.129)	(2.055)	(2.035)	(2.870)
Threshold level of intergenerational elasticity		0.30	0.39	0.32	..
Percentage of countries above the intergenerational threshold		75%	60%	70%	..
AR[2]: p-value	0.728	0.444	0.709	0.737	0.760
Sargan/Hansen OID: p-value	0.023	0.217	0.707	0.386	0.736
No of instruments	31	33	23	36	28
Observations	428	270	149	412	201
Number of countries	101	55	22	89	36

z-statistics in parentheses.*** p < 0.01, ** p < 0.05, * p < 0.1.

Figure 1: Caption for Table 1

4 results

5 Conclusions

The main conclusions of this paper is that there is a negative relationship with income inequality on the countries growth. That is to say and increase in income inequality of a particular country would be correlated with a decrease in the countries growth

References

[1] Shekhar Aiyar and Christian Ebeke. “Inequality of opportunity, inequality of income and economic growth”. In: *World Development* 136 (2020), p. 105115.

[2] C GDIM. “Global database on intergenerational mobility”. In: (2018).

Table 2
Effect of Income Inequality on Per Capita Growth: System-GMM Estimates. Controlling for Squared Gini. Non-Overlapping Five-Year Periods.

Dependent variable:	(1)	(2)
Real GDP per capita growth (in percent)		
Gini	−0.345	0.227
	(−0.825)	(0.765)
Gini × Intergenerational elasticity (earnings): GDIM (2018)	−0.184**	
	(−2.356)	
Gini × Intergenerational elasticity (education): GDIM (2018)		−0.370**
		(−1.998)
Gini squared	0.00488	−0.000618
	(0.909)	(−0.175)
Lagged real per capita GDP, log	−7.274***	−3.494***
	(−3.621)	(−3.171)
Lagged investment-to-GDP	0.0814	0.157***
	(1.213)	(2.956)
Trade openness	0.00775	0.0300*
	(0.265)	(1.884)
Education (secondary school, log)	12.15***	3.486**
	(3.646)	(2.053)
Intercept	62.07***	22.32**
	(3.026)	(1.967)
AR[2]: p-value	0.879	0.919
Sargan/Hansen OID: p-value	0.550	0.118
No of instruments	32	34
Observations	294	412
Number of countries	56	89

z-statistics in parentheses.
*** p < 0.01, ** p < 0.05, * p < 0.1.

Figure 2: Caption for Table 2