

DOES FINANCE ALTER THE RELATION BETWEEN INEQUALITY AND GROWTH?

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© 2018 Western Economic Association International This paper introduces a model in which greater inequality reduces growth in economies with low levels of financial development but that this effect is attenuated in economies with more developed systems. The model also predicts that individuals in economies with developed financial markets have a higher tolerance to inequality. Using a panel dataset that covers a large number of countries, this paper shows empirical evidence that is consistent with the main predictions of the model. Overall, this paper's major findings highlight that some of the pernicious effects of inequality can be attenuated by improving access to credit. (JEL D3, E6, P1, O4, I2).