Does inequality affect investment in a nonlinear way? A Cross-Country Analysis
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➢ This paper explores the relationship between inequality and investment based on a panel of 95 countries.

➢ This work contributes to the investment determinants literature because (i) it controls by a wide set of variables contrasting different theoretical approaches; (ii) it tests for a possible nonlinear relationship; and (iii) the sample includes advanced and developing countries.

➢ We find a "U-shape" relationship between inequality and investment. At low levels of initial inequality, an increase in inequality is associated with a lower investment; but at high levels of initial inequality, the relationship is positive.

➢ Given the high correlation between the wage share and income dispersion, policies of wage restriction increase inequality, thus generating lower investment and growth in countries with low or middle levels of initial inequality.

➢ With high levels of initial inequality, the result is the opposite, so it is possible, if such countries are open economies (i.e. "export-led"), that they can fall into a trap of high growth with high inequality, where only government policy can push the country to the other side of the "U."