

Institutions and World Income Distribution

Erol Türker Tümer

Dokuz Eylül University, Turkey
turker.tumer@deu.edu.tr

Abstract:

This paper examines the roles of economic and political institutions in evolution of income distribution across countries for the period 1950-2014. In this respect, a two-stage strategy is employed. First, countries are grouped into five income categories according to their GDP per capita levels. Then, each country's movement across income groups is observed through time by means of transition matrices to reveal the stylized facts about prominent patterns of global income distribution. Analyses based on Penn World Tables 9.0 dataset show that cross-country income differences are striking and persistent across time. While countries initially belonging to lowest income class are struggling for moving up, majority of the nations belonging to top class keeps their seats over time. Moreover, countries that were initially belonging to the middle segment of the income ladder move across income categories more often, suggesting initial conditions are not binding for all countries. The study, secondly, focuses on the role of institutional quality in these empirical regularities. On that note, institutional differences between "climbing", "falling" and "stagnating" countries are evaluated through independent sample t-tests. According to results, institutional quality in economic and political areas matters for countries' economic fates. In comparison to falling or stagnating countries, nations that succeed in climbing up have significantly better institutional scores in political and economic areas. In particular, analyses show that the association between economic performance and institutions is more pronounced for initially poor nations. These results provide supportive evidence for the view that developing an inclusive environment is key to promote economic progress in the long run.

Keywords: Economic Development, Institutions, Property Rights

JEL Codes: O11, O43, P48