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The Shape of the Income Distribution and Economic Growth: Evidence from Swedish Labor Market Regions

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Abstract:

We analyze the association between inequality and growth across 72 labor market regions in Sweden 1990-2006. Highly accurate measures of growth and inequality (gini, Q3, p9075, p5010) are derived from population register data. The regional approach also reduces problems with omitted variable bias and endogeneity found in cross country comparisons since the regions within a country share the same redistributive policies and institutions. The findings suggest that inequality between the 90th and 75th percentiles enhances regional growth. This result no longer holds when we take into account changes in commuting patterns. Although only suggestive, the finding is interesting in that it is consistent with the hypothesis that inequality enhances growth by stimulating commuting incentives.

Text: See [Discussion Paper No. 5486](#)

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