AN EMPIRICAL TEST OF THE INEQUALITY TRAPS CONCEPT

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Abstract:

The new concept of inequality traps (Rao, 2006), is recently appeared in the economic development literature, and highlights the reproduction of economic, political and socio-cultural intergenerational inequalities. This phenomenon is due to the persistence of the poor initial conditions, in the presence of both market and institutional imperfections. Until now, the existence of these inequality traps has not been proved empirically. Therefore, the aim of this paper is to test the validity of this concept by the mean of a dynamic panel data model. The Generalized Method of Moments estimation is used to study the inequalities reproduction and the lagged impact of gender, political and economic liberties on the inequality. The dependent variable is defined by the Estimation of the Household Inequality and Inequity index (EHII) that makes it possible to compare inequality in a large panel of countries. Our study, based on a sample of 71 countries from 1965 to 2000, proves the existence of such traps at an international level. Moreover, our results underline the significant influence of the credit market and wealth access initial levels over a generation.

Keywords: inequality traps, market imperfections, dynamic panel analysis, initial conditions, Estimation of the Household Inequality and Inequity.

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