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**Inequality and Economic Growth Over the Business Cycle
: Evidence From U.S. State-Level Data**

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Abstract:

The purpose of this paper is to re-examine the empirical relationship between income inequality and economic growth using U.S. State-level data during the post-war period. The use of state-level data provides a sample that is relatively homogeneous in many non-economic characteristics, unlike the international data used in most previous work. Building upon prior research, this study addresses the issues of potential non-linearities in the relationship between inequality and growth, the influence of the cyclical condition during the year sampled, and possible bias in the measurement of economic growth. We find, using GMM estimators, that inequality is harmful to growth, and that the deleterious effects of inequality are greater for lower income states.