



**Sam Houston State University  
Department of Economics and International Business  
Working Paper Series**

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**Income Inequality and Economic Growth in the U.S.  
:A Panel Cointegration Approach**

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SHSU Economics & Intl. Business Working Paper No. SHSU\_ECO\_WP05-03  
March 2005

**Abstract:**

The purpose of this paper is to examine the empirical relationship between income inequality and economic growth using U.S. state-level data during the post-war period. We construct a sample of 48 U.S. states with annual observations over the period 1945 to 2001. With this sample the number of time series observations is relatively large and of the same order of magnitude as the number of groups. This allows for the exploitation of new cointegrated dynamic panel data techniques. Our findings indicate that the long-run relationship between inequality and growth is negative in nature, though this negative relationship appears to be larger for low-income states.