

Finance and Growth: Schumpeter Might Be Right

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Abstract

We present cross-country evidence consistent with Schumpeter's view that the financial system can promote economic growth, using data on 80 countries over the 1960–1989 period. Various measures of the level of financial development are strongly associated with real per capita GDP growth, the rate of physical capital accumulation, and improvements in the efficiency with which economies employ physical capital. Further, the predetermined component of financial development is robustly correlated with future rates of economic growth, physical capital accumulation, and economic efficiency improvements.

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