


Purchase - \$8

CEPR Subscribers Download (http://cepr.org/active/accounts/login.php)

 Add Paper to My LibraryShare:    

Why Does Financial Sector Growth Crowd Out Real Economic Growth?

CEPR Discussion Paper No. DP10642

33 Pages

Posted: 9 Jun 2015

Stephen G. Cecchetti (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=33665)

National Bureau of Economic Research (NBER); Brandeis International Business School; Centre for Economic Policy Research (CEPR); European Systemic Risk Board

Enisse Kharroubi (https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=395980)

Bank for International Settlements (BIS)

 There are 2 versions of this paper

Date Written: June 2015

Abstract

We examine the negative relationship between the rate of growth of the financial sector and the rate of growth of total factor productivity. Using a panel of 20 countries over 30 years, we establish that there is a robust correlation: the faster the financial sector expands, the slower the real economy grows. We then proceed to build a model in which this relationship arises from the fact that investment projects that are easier to pledge as loan collateral have lower productivity. As the financiers improve their ability to recover collateral in default, entrepreneurs expect credit to grow more quickly. As a consequence, they choose to invest in more pledgeable/less productive projects, reducing total factor productivity growth. We take this theoretical prediction to the data and find that financial growth disproportionately harms industries the less tangible their assets or the more R&D intensive they are.

Keywords: asset tangibility, credit booms, financial development, growth, R&D intensity**JEL Classification:** D92, E22, E44, O4[Suggested Citation](#) >[Show Contact Information](#) >

CEPR Subscribers Download (http://cepr.org/active/accounts/login.php)

Purchase - \$8

21 References

1. P Aghion , A Banerjee , T Piketty
Dualism and macroeconomic volatility
The Quarterly Journal of Economics , volume 114 , p. 1359 - 97 Posted: 1999
[Crossref \(https://doi.org/10.1162/003355399556296\)](https://doi.org/10.1162/003355399556296)
2. R Barro
Determinants of Economic Growth: A Cross-Country Empirical Study Posted: 1998
[Crossref \(https://doi.org/10.3386/w5698\)](https://doi.org/10.3386/w5698)
3. T Beck , R Demirgüç-Kunt , Levine
A new database on financial development and structure
World Bank Economic Review , volume 14 , p. 597 - 605 Posted: 2000
4. T Beck , R Levine
~~Industry growth and capital allocation: does having a market or bank-based system matter?~~
Journal of Financial Economics , volume 64 , p. 147 - 180 Posted: 2002
We use cookies that are necessary to make our site work. We may also use additional cookies to analyze, improve, and personalize our content and your digital experience. For more information, see our [Cookie Policy \(https://www.elsevier.com/legal/cookiepolicy\)](https://www.elsevier.com/legal/cookiepolicy)

Load more

[Cookie Settings](#)

Accept all cookies



Do you have negative results from your research you'd like to share?

Submit Negative Results (<https://www.ssrn.com/index.cfm/en/Negative-Results/>)

Paper statistics

DOWNLOADS	3
ABSTRACT VIEWS	4,051

21 References

PlumX Metrics



(https://plu.mx/ssrn/a/?ssrn_id=2615862)

Related eJournals

CEPR Discussion Paper Series (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=223788)

Follow ⓘ

Economic Growth eJournal (https://papers.ssrn.com/sol3/JELJOUR_Results.cfm?form_name=journalBrowse&journal_id=1504332)

Follow ⓘ

View more >

Feedback

Submit a Paper > (<https://hq.ssrn.com/submissions/CreateNewAbstract.cfm>)

- SSRN Quick Links
- SSRN Rankings
- About SSRN

(<https://www.facebook.com/SSRNcommunity/>)

([https://www.linkedin.com/company/493409?](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A0)

[trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A0](https://www.linkedin.com/company/493409?trk=tyah&trkInfo=clickedVertical%3Acompany%2CentityType%3AentityHistoryName%2CclickedEntityId%3Acompany_493409%2Cidx%3A0)

(<https://twitter.com/SSRN>)

(<http://www.elsevier.com/>)

Copyright (<https://www.ssrn.com/index.cfm/en/dmca-notice-policy/>)

Terms and Conditions (<https://www.ssrn.com/index.cfm/en/terms-of-use/>)

Privacy Policy (<https://www.elsevier.com/legal/privacy-policy>)

We use cookies to help provide and enhance our service and tailor content.

To learn more, visit [Cookie Settings](#).



(<http://www.relx.com/>)

(<https://papers.ssrn.com/sol3/updateInformationLog.cfm?process=true>)