Purchase - **$8**   CEPR Subscribers Download (http://cepr.org/active/accounts/login.php)

☆ Add Paper to My Library

Share: f 𝕏 ✉ 🔗

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 ⌄

---

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)

2. R Barro
    Determinants of Economic Growth: A Cross-Country Empirical Study Posted: 1998
    Crossref (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
    Crossref (https://doi.org/10.3386/w8982)

0 Citations

Fetch Citations

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=2615882)

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   ⌄

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

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