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REVIEW ARTICLE

The Relationship between Income Inequality and Economic Growth: A Review of Theoretical Approaches and Empirical Findings

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ABSTRACT

The relationship between income inequality and economic growth has been debated in economics for over half a century without a settled consensus. This paper reviews the major theoretical approaches to this relationship, from Kuznets's early hypothesis of an inverted-U relationship between development and inequality, through political-economy models predicting that inequality harms growth by constraining redistribution and human capital investment, to new growth theory perspectives emphasizing credit constraints and imperfect capital markets. The review then examines the empirical literature, which has produced conflicting findings depending on time period, country sample, and inequality measure, before considering more recent work, including the historically grounded analysis of Piketty and the cross-country panel studies conducted by the International Monetary Fund, that has moved toward a more contingent, context-dependent understanding of the relationship. The review concludes that the theoretical and empirical literature no longer supports either the older assumption that inequality is a necessary by-product of growth or its inverse, that redistribution can be pursued without any growth cost, and instead points toward a research agenda focused on identifying the specific institutional and policy conditions under which inequality and growth are complements or substitutes.

Keywords: income inequality, economic growth, redistribution, growth theory, development economics

1. INTRODUCTION

Few questions in economics have generated as sustained and contentious a literature as the relationship between income inequality and economic growth. At stake is not merely a technical empirical question but a foundational disagreement about how economies develop and about the proper role of redistributive policy. Early post-war development economics, following Kuznets (1955), tended to treat some degree of rising inequality as a natural, even necessary, feature of early industrialization, to be resolved automatically as economies matured. This view was substantially challenged by later political-economy and new growth theory models, which identified specific mechanisms through which inequality could itself impede growth, and by empirical work that failed to consistently confirm Kuznets's original pattern.

This review traces the evolution of this debate across three phases. The first phase, associated with Kuznets (1955) and the broader modernization tradition in development economics, treated inequality primarily as a consequence of growth and structural transformation. The second phase, developing from the 1990s onward, produced a family of theoretical models in which causality runs in the other direction, from inequality to growth, through mechanisms including political redistribution, credit market imperfections, and social conflict (Alesina & Rodrik, 1994; Galor & Zeira, 1993; Persson & Tabellini, 1994). The third phase, associated with more recent empirical and historical work, has moved toward more contingent conclusions, emphasizing that the sign and magnitude of the inequality-growth relationship depends substantially on context, time horizon, and the specific channels through which inequality operates (Ostry, Berg, & Tsangarides, 2014; Piketty, 2014).

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The review is organized to trace this evolution. Section 2 presents the Kuznets hypothesis and its empirical reception. Section 3 examines political-economy and credit-market theories predicting that inequality harms growth. Section 4 reviews empirical studies testing these competing predictions, including more recent panel-data and historical work. Section 5 discusses normative and policy-relevant perspectives, including Rawlsian and welfare-economic framings of the trade-off. The paper concludes by identifying the conditions under which the inequality-growth relationship appears to vary and by outlining implications for future research and policy.

1.1 Measuring Inequality: Data and Methodological Considerations

A methodological point warrants clarification before turning to the substantive literature: the empirical findings reviewed throughout this paper depend considerably on how inequality itself is measured, and inconsistency in measurement across studies is a recurring source of the conflicting findings this review documents. Most studies, including Kuznets's (1955) original analysis and Barro's (2000) panel study, rely on the Gini coefficient, a summary statistic ranging from zero, perfect equality, to one, maximal inequality, calculated from the full income or consumption distribution, but studies vary considerably in whether they measure inequality before or after taxes and transfers, a distinction central to Ostry, Berg, and Tsangarides's (2014) findings discussed in Section 4, whether they use income or consumption data, and whether the underlying survey data are consistently comparable across the countries and time periods included in cross-country panels.

Deininger and Squire's (1998) contribution to the literature, discussed in Section 4.1, was significant partly for methodological reasons: their assembly of a more consistent, higher-quality cross-country inequality dataset than had previously been available directly enabled the more reliable empirical findings their study reported, illustrating a broader pattern in this literature in which methodological and data-quality improvements have driven at least as much of the field's evolving empirical consensus as any single theoretical advance. This measurement dependency is a useful interpretive caution for the entire review that follows: apparent contradictions between studies, including the Forbes (2000) reversal discussed in Section 4.2, should be evaluated partly in light of the specific inequality measures, data sources, and time horizons each study employs, rather than treated solely as evidence of a genuinely unstable underlying relationship.

2. THE KUZNETS HYPOTHESIS AND ITS EMPIRICAL RECEPTION

Kuznets (1955) proposed what became one of the most influential hypotheses in development economics: that income inequality follows an inverted-U pattern over the course of economic development, rising during early industrialization as labor shifts from low-productivity agriculture to higher-productivity but unevenly distributed industrial employment, and subsequently falling as the industrial sector matures, wages rise broadly, and redistributive institutions develop. This hypothesis was based on limited historical data for a small number of countries and was explicitly presented by Kuznets as tentative, but it exerted substantial influence on development policy for decades, providing a rationale for treating rising inequality in developing economies as a transitional and self-correcting phenomenon rather than a policy problem requiring direct intervention.

Subsequent empirical testing of the Kuznets curve produced mixed results. Cross-country studies conducted in subsequent decades found inconsistent support for the inverted-U pattern once a broader set of countries and time periods was examined, with some countries exhibiting rising inequality well into advanced stages of development and others exhibiting declining inequality without following the predicted trajectory. Barro (2000), examining a large panel of countries, found that the relationship between inequality and growth itself, as distinct from the relationship between development level and inequality, varied by income level, with inequality appearing to reduce growth in poorer countries while showing a weaker or even positive association in richer countries, a finding that complicated any simple

universal statement of the Kuznets relationship and pointed toward the more contingent, conditional findings that would characterize later literature.

The Kuznets framework's limitations are significant for the present review because they mark the transition from a view in which inequality is primarily an outcome of growth to be tolerated or managed, toward theoretical models in which inequality is treated as a potential cause of growth outcomes, the perspective examined in the next section.

3. THEORETICAL MECHANISMS LINKING INEQUALITY TO GROWTH

Beginning in the early 1990s, a family of formal models emerged proposing specific mechanisms through which inequality could causally affect growth, rather than merely resulting from it. Alesina and Rodrik (1994) and Persson and Tabellini (1994) developed political-economy models in which higher inequality increases political demand for redistributive taxation, which in turn reduces incentives for investment and capital accumulation, implying a negative relationship between inequality and subsequent growth operating through the political process rather than through market mechanisms directly. These models formalized an intuition present in earlier political-economy writing: that societies with highly unequal income distributions face stronger political pressure for redistribution, and that this redistribution, whatever its welfare merits, carries an efficiency cost in models where taxation distorts investment decisions.

A second and analytically distinct family of models emphasized credit market imperfections rather than the political process. Galor and Zeira (1993) showed that when capital markets are imperfect, individuals born into poverty cannot borrow to finance human capital investment even when such investment would be profitable, so that the initial distribution of wealth affects the aggregate level of human capital investment and hence long-run growth, independent of any political-redistributive mechanism. Banerjee and Duflo (2003) extended this line of reasoning, arguing that both very high and very low levels of inequality could be associated with lower growth, since extreme concentration of wealth may itself signal the kind of credit-market failures that prevent productive investment by the majority of the population, implying a non-monotonic relationship quite different from either Kuznets's inverted-U or the straightforwardly negative relationship implied by the political-economy models.

3.2 Intergenerational Human Capital Transmission

Closely related to the credit-constraint models discussed above is an older and influential literature on the intergenerational transmission of human capital and its relationship to inequality. Becker and Tomes (1986), in a foundational contribution to this literature, model parental investment in children's human capital as a function of family income and credit access, showing that in the absence of well-functioning credit markets for education financing, children from lower-income families receive systematically lower human capital investment even when their innate ability is comparable to that of children from higher-income families, a mechanism that generates persistent, self-reinforcing income inequality across generations independent of any single generation's redistributive policy choices. This model provides the theoretical microfoundation for the credit-constraint channel that Galor and Zeira (1993) later formalized in an explicit growth-theoretic framework, and it directly connects the inequality-growth literature reviewed in this paper to the much larger literature on educational inequality and intergenerational mobility.

The Becker and Tomes (1986) framework is significant for the present review because it identifies a specific, policy-relevant mechanism, credit-constrained educational investment, through which cross-sectional income inequality in one generation can translate into reduced aggregate human capital, and hence reduced growth, in the next, providing a microeconomic account that complements the more macroeconomic, cross-country evidence discussed in Section 4. It also clarifies why, as several studies reviewed later in this paper suggest, redistributive policies targeted specifically at expanding educational access and credit availability for human capital investment may have different, and in the credit-

constraint framework more favorable, growth implications than broader income redistribution untargeted at investment constraints specifically.

Aghion, Caroli, and García-Peñalosa (1999) synthesize these strands from the perspective of new growth theory, arguing that once growth is modeled as endogenous and driven by investment in physical and human capital under conditions of imperfect capital markets, several distinct channels, credit constraints, political economy, and social instability, all point toward the same qualitative conclusion, that inequality above some threshold is likely to reduce growth, even though the theoretical literature does not converge on a single, universally applicable magnitude for this effect. This body of theory, considered alongside the ambiguous empirical reception of the original Kuznets hypothesis, sets up the more directly empirical literature examined in the following section.

3.3 Fiscal Policy Design and the Redistribution-Growth Trade-off

The theoretical models reviewed above generally treat redistributive taxation as a relatively undifferentiated policy instrument, but a more applied literature has examined how the specific design of fiscal policy shapes whether redistribution imposes the efficiency costs these models predict. Bastagli, Coady, and Gupta (2012), in an International Monetary Fund analysis of the relationship between fiscal policy and inequality, distinguish between the level of redistribution, how much inequality is reduced through taxes and transfers, and the design of redistributive instruments, arguing that well-targeted, efficiently designed transfers and progressive but not excessively distortionary taxation can achieve substantial redistribution with considerably smaller efficiency costs than the political-economy models discussed in Section 3 would suggest under a less carefully designed policy mix. This design-sensitive finding is consistent with, and provides additional mechanism-level detail to, Ostry, Berg, and Tsangarides's (2014) headline finding, discussed in Section 4, that redistribution itself shows little direct negative effect on growth except at extreme levels.

Bastagli et al. (2012) further emphasize that the composition of fiscal policy, the specific mix of direct transfers, in-kind benefits such as education and healthcare spending, and tax instruments, matters considerably for growth outcomes, with spending on education and healthcare access showing particularly favorable growth effects when it reduces the human-capital-investment credit constraints identified theoretically by Galor and Zeira (1993) and Becker and Tomes (1986) in Section 3.2. This finding provides a policy-relevant bridge between the credit-constraint theoretical literature and the empirical fiscal-policy literature, suggesting that redistributive spending targeted specifically at relaxing human-capital investment constraints may be particularly well positioned to support both reduced inequality and sustained growth simultaneously, a more specific and actionable version of the general contingent conclusion this review advances throughout.

3.1 Social Conflict and Investment Risk

A third theoretical channel, distinct from both the political-redistribution mechanism and the credit-constraint mechanism, concerns social and political instability as a direct consequence of high inequality. Alesina and Perotti (1996) develop a model in which high inequality increases the likelihood of social unrest and political instability, which in turn raises the perceived risk of expropriation or policy reversal facing investors, thereby depressing investment and growth through a channel operating independently of formal redistributive taxation. Their empirical analysis, using cross-country data on measures of sociopolitical instability, finds support for this channel, showing that income inequality is associated with higher instability, and that instability itself is negatively associated with investment. This instability channel is conceptually distinct from, but potentially reinforcing of, the credit-constraint mechanism identified by Galor and Zeira (1993), since both predict that high inequality can depress growth even in institutional settings where formal redistributive political pressure, the mechanism emphasized by Alesina and Rodrik (1994) and Persson and Tabellini (1994), is comparatively weak or constrained.

4. EMPIRICAL EVIDENCE: FROM CROSS-COUNTRY REGRESSIONS TO HISTORICAL AND PANEL STUDIES

Empirical testing of the theoretical predictions summarized in Section 3 has produced a literature marked by substantial sensitivity to data, time period, and econometric specification. Early cross-country growth regressions from the 1990s often found a negative relationship between inequality and subsequent growth, broadly consistent with the political-economy and credit-constraint models, but subsequent work using panel data methods, which control for unobserved, time-invariant country characteristics, sometimes reversed or weakened this finding, illustrating the sensitivity of these results to methodological choices. Barro's (2000) panel analysis, noted above, is representative of this more cautious empirical literature, finding a relationship that varies by development level rather than a single universal effect.

More recent work has attempted to move beyond aggregate cross-country regressions toward research designs that more directly identify the channels through which inequality affects growth. Ostry, Berg, and Tsangarides (2014), in an influential study conducted at the International Monetary Fund, examined the relationship between inequality, redistribution, and growth using a large panel of countries, and found that lower net inequality, inequality measured after taxes and transfers, was robustly associated with faster and more durable growth, while redistribution itself, except at extreme levels, showed little direct negative effect on growth, a finding that directly challenges the assumption embedded in some earlier political-economy models that redistribution necessarily carries a substantial efficiency cost. This finding has been influential in policy circles precisely because it comes from an institution not traditionally associated with strong redistributive advocacy.

Piketty (2014) approaches the relationship from a different methodological direction, using long-run historical data on capital and income shares across several advanced economies to argue that, absent countervailing institutional intervention, the return to capital tends to exceed the overall growth rate over long historical periods, a condition that mechanically drives rising concentration of wealth over time. While Piketty's (2014) work is primarily concerned with the dynamics of wealth concentration rather than directly modeling growth as an outcome of inequality, it has been widely read alongside the growth literature because it provides a historically grounded account of why inequality might rise even in mature, high-income economies, a pattern the original Kuznets (1955) hypothesis did not anticipate. Milanovic (2016) extends this historical perspective to the global level, documenting how the interaction between within-country and between-country inequality has shifted substantially with globalization, adding a further layer of complexity to any simple national-level statement of the inequality-growth relationship.

4.1 Inequality and Growth in Developing Economies

Much of the empirical literature summarized above draws primarily on data from advanced, high-income economies, raising the question of whether the same relationships hold in developing-country contexts characterized by different institutional and financial-market conditions. Deininger and Squire (1998), using a newly assembled and more reliable cross-country inequality dataset than had previously been available, found that the relationship between initial inequality and subsequent growth was considerably stronger and more consistently negative in their expanded sample than in earlier studies relying on more limited data, and that this relationship operated substantially through the investment channel, with high initial inequality associated with lower subsequent investment in physical capital, particularly in developing economies with less developed financial systems. This finding provides empirical support for the credit-constraint mechanism identified theoretically by Galor and Zeira (1993), and suggests that the contingent, context-dependent findings emphasized throughout this review, rather than indicating an absence of any systematic relationship, may instead reflect the fact that the relationship's strength depends on the very financial-market conditions that Galor and Zeira's (1993) theoretical model identifies as central, conditions that vary considerably between the advanced-economy contexts studied by Barro (2000) and Piketty (2014) and the developing-economy contexts studied by Deininger and Squire (1998).

4.2 Conflicting Evidence and the Forbes Reversal

Not all empirical work has confirmed the negative inequality-growth relationship suggested by the theoretical models reviewed in Section 3 and by much of the cross-country evidence discussed above. Forbes (2000), using panel-data methods that control for unobserved country-specific characteristics more rigorously than the cross-sectional regressions common in earlier work, found a positive, rather than negative, relationship between inequality and subsequent growth over short- to medium-run time horizons, a result that directly contradicted the negative relationship reported in several influential earlier cross-sectional studies and generated substantial subsequent debate about which econometric approach, cross-sectional or panel, produces more reliable estimates of this relationship. Forbes (2000) interprets this reversal cautiously, suggesting it may reflect genuine short-run dynamics, in which inequality-linked incentive effects on effort and investment dominate over shorter horizons, that differ from the longer-run relationship, more consistent with a negative sign, that cross-sectional studies spanning longer periods are better positioned to detect.

Voitchovsky (2005) offers a partial reconciliation of this apparent contradiction, arguing that the sign of the inequality-growth relationship depends substantially on which part of the income distribution is driving observed inequality: inequality driven by gaps at the top of the distribution appears to be positively associated with growth, plausibly reflecting incentive and innovation effects, while inequality driven by gaps at the bottom of the distribution appears negatively associated with growth, plausibly reflecting the credit-constraint and human-capital mechanisms discussed in Sections 3 and 3.2. Perotti (1996), examining a related question using a somewhat different empirical strategy, similarly finds that the relationship between inequality and growth is highly sensitive to model specification and the particular channels, political instability, education, and fertility, through which the relationship is estimated to operate, reinforcing the broader conclusion of this review that the empirical literature does not support a single, universally signed relationship between inequality and growth, but rather a relationship whose sign and magnitude depend on the specific inequality measure, time horizon, and mechanism under study.

4.3 Financial Development as a Moderating Factor

A further empirical literature has examined financial sector development itself as a variable that moderates the inequality-growth relationship, providing a more direct empirical test of the credit-constraint mechanism theorized by Galor and Zeira (1993). Beck, Demirgüç-Kunt, and Levine (2007), using cross-country panel data, find that financial development, measured through indicators of banking sector depth and credit availability, is associated with faster declines in income inequality over time and disproportionately benefits the poorest segments of the income distribution, consistent with the credit-constraint theoretical prediction that expanded access to finance should be particularly valuable for individuals who would otherwise be unable to invest in human capital or small-scale enterprise. Beck et al.'s (2007) findings provide a further, more directly financial-sector-focused empirical confirmation of the mechanism Deininger and Squire (1998) identified through cross-country investment data, discussed in Section 4.

Beck et al.'s (2007) findings carry a specific implication for the developing-economy focus of Section 4: they suggest that financial sector development itself, rather than income redistribution through fiscal policy alone, represents a distinct and potentially complementary policy lever for addressing the credit-constraint channel through which, as Deininger and Squire (1998) and Galor and Zeira (1993) both suggest, inequality depresses growth in economies with underdeveloped financial markets. This finding usefully connects the fiscal-policy-focused discussion in Section 3.3 to a parallel, financial-market-focused policy lever, reinforcing this review's broader conclusion that the inequality-growth relationship operates through multiple, partially independent channels, each with distinct policy implications, rather than through any single mechanism amenable to a single policy solution.

5. NORMATIVE PERSPECTIVES AND POLICY IMPLICATIONS

Alongside the primarily positive, empirically oriented literature reviewed above, a parallel normative literature addresses the inequality-growth relationship from the standpoint of distributive justice. Rawls's (1971) theory of justice, while not an economic growth model, provides an influential normative benchmark frequently invoked in this literature through the difference principle, which holds that social and economic inequalities are justifiable only if they work to the benefit of the least advantaged members of society. This framing reorients the empirical question, from asking simply whether inequality helps or harms aggregate growth toward asking whether any growth-inequality trade-off that does exist benefits or harms the most disadvantaged, a question the aggregate growth-regression literature is not well equipped to answer on its own.

Stiglitz (2012) develops a related argument from within economics rather than political philosophy, contending that high levels of inequality in advanced economies, particularly the United States, are not primarily a by-product of efficient market allocation but substantially reflect rent-seeking and unequal political influence over market-shaping institutions, implying that at least part of observed inequality represents a pure efficiency loss rather than a trade-off against growth at all. This argument, if correct, would imply that reducing certain forms of inequality could raise growth directly, a stronger claim than the more cautious findings of Ostry et al. (2014), and reflects the continued lack of full consensus even within the most recent phase of this literature.

5.1 Sen's Capability Approach and the Measurement of Development

A further normative complication concerns how development and welfare should be measured in the first place, a question that bears directly on how the inequality-growth relationship is interpreted. Sen (1999), in developing his capability approach, argues that standard growth-oriented measures of development, centered on income and GDP, are inherently incomplete because they do not directly capture what he terms substantive freedoms, the actual capabilities individuals have to lead lives they have reason to value, which depend not only on income but on health, education, and political participation. Applied to the inequality-growth debate, Sen's (1999) framework suggests that a policy environment that raises aggregate income growth while leaving capability-relevant inequalities, in health or education access, for example, largely unaddressed would represent a less complete form of development than one that raises both income and capabilities together, a standard considerably more demanding than the growth-maximization criterion implicit in much of the aggregate empirical literature reviewed in Section 4. This capability-based framing complements, without replacing, the more narrowly welfare-economic Rawlsian framing discussed above, and has been influential in shaping how international development institutions, including the United Nations Development Programme's Human Development Index, have attempted to move beyond income-only measures of progress.

5.2 Institutions, Intergenerational Mobility, and Long-Run Development

A final body of literature relevant to this review shifts attention from static measures of income inequality to the institutional conditions that shape both the level of inequality and the extent to which that inequality persists across generations. Acemoglu and Robinson (2012), in an influential comparative-historical account of long-run economic development, argue that the central determinant of whether a society achieves sustained growth is not primarily its resource endowments or even its human capital stock but the inclusiveness of its political and economic institutions, meaning the extent to which broad segments of the population, rather than a narrow elite, have secure property rights and access to economic opportunity, a framework that reframes the inequality-growth question in explicitly institutional rather than purely distributional terms and connects directly to the political-economy mechanisms discussed in Section 3.

Chetty, Hendren, Kline, and Saez (2014), working with large-scale administrative tax data, provide a complementary empirical perspective focused specifically on intergenerational income mobility, finding

substantial geographic variation within a single country in the extent to which children born into low-income families are able to achieve higher incomes than their parents, variation that correlates strongly with local measures of income inequality, school quality, family structure, and social capital. Read alongside Acemoglu and Robinson's (2012) institutional framework, Chetty et al.'s (2014) findings suggest that the inequality-growth relationship reviewed throughout this paper may be usefully complemented by a distinct but related question, not simply whether aggregate inequality helps or harms aggregate growth, but whether a given level of inequality is compatible with meaningful intergenerational mobility, since a society characterized by high inequality but also high mobility poses a qualitatively different policy challenge than one characterized by high inequality combined with low mobility and institutionally entrenched advantage, a distinction the aggregate cross-country growth-regression literature reviewed in Section 4 is not well designed to capture.

5.3 Globalization and the Changing Structure of World Inequality

Bourguignon (2015) provides a further global perspective that complements Milanovic's (2016) analysis discussed in Section 4, examining how the historically dominant pattern of rising within-country inequality alongside falling between-country inequality, driven substantially by rapid growth in large emerging economies, has reshaped the overall structure of global income distribution in ways that neither purely national growth models nor purely national inequality measures fully capture. Bourguignon (2015) argues that this globalization-driven restructuring means that policy discussions of the inequality-growth relationship conducted purely at the national level, as most of the theoretical and empirical literature reviewed in this paper has been, risk missing important dynamics that only become visible at the global level, including the extent to which a given country's domestic inequality trends are shaped by its integration into global trade and capital markets rather than by domestic policy choices alone.

This globalization-focused perspective adds a further layer of contingency to the conclusions this review has developed throughout: not only does the inequality-growth relationship depend on the specific channel, development level, and financial-market conditions discussed in Sections 3 through 4, but the very meaning of national inequality trends, and their relationship to national growth trajectories, may be increasingly shaped by global economic integration processes that operate substantially outside the control of any single national government, a consideration with direct relevance for how the policy recommendations developed in this review's conclusion should be interpreted and applied in practice.

The World Bank's (2022) recent assessment of global poverty and shared prosperity provides a useful synthesis point for this section, documenting that progress on both poverty reduction and inequality reduction has slowed or reversed in many contexts following the COVID-19 pandemic, and explicitly framing continued growth and reduced inequality as complementary rather than competing policy objectives in the current global context, a position broadly consistent with the more recent empirical literature reviewed in Section 4 rather than with the older assumption of an unavoidable trade-off.

6. POLICY IMPLICATIONS

The theoretical and empirical literature reviewed across this paper carries several implications for how policymakers might approach the inequality-growth relationship in practice. First, the financial-development findings of Beck, Demirgüç-Kunt, and Levine (2007), discussed in Section 4.3, combined with the human-capital-constraint theory of Galor and Zeira (1993) and Becker and Tomes (1986) discussed in Section 3.2, together suggest that expanding access to credit and financial services for lower-income households represents a policy lever with a comparatively strong theoretical and empirical basis for simultaneously reducing inequality and supporting growth, distinct from and complementary to direct fiscal redistribution. Second, the fiscal-policy design literature discussed in Section 3.3, following Bastagli, Coady, and Gupta (2012), indicates that the composition of redistributive spending matters considerably, with education and healthcare investment likely to generate more favorable growth effects than

untargeted transfers, particularly where such investment relaxes the credit constraints on human capital investment identified theoretically in Section 3.2.

Third, the institutional literature discussed in Section 5.2, following Acemoglu and Robinson (2012), and the mobility-focused findings of Chetty et al. (2014), together suggest that policy attention should extend beyond static inequality reduction toward the institutional conditions that determine whether a given level of inequality is compatible with meaningful intergenerational mobility, since, as argued in Section 5.2, these represent related but analytically distinct policy problems requiring potentially different instruments. Finally, the globalization-focused analysis of Bourguignon (2015) in Section 5.3 suggests that purely domestic policy responses, however well designed along the lines discussed above, may be insufficient on their own where domestic inequality trends are substantially shaped by global economic integration, implying a continued role for international coordination, of the kind reflected in the World Bank's (2022) explicit framing of poverty reduction and inequality reduction as complementary global policy objectives discussed in Section 5.

7. CONCLUSION

This review has traced the evolution of economic thinking on income inequality and growth from Kuznets's (1955) inverted-U hypothesis, through political-economy and credit-constraint models predicting that inequality harms growth (Alesina & Rodrik, 1994; Galor & Zeira, 1993; Persson & Tabellini, 1994), to more recent empirical and historical work that offers a more contingent picture (Ostry et al., 2014; Piketty, 2014). The clearest conclusion supported by this body of literature is negative rather than positive: neither the older assumption that inequality is a necessary by-product of growth, nor the assumption that redistribution can be pursued without any growth-related cost, is well supported by the accumulated evidence. Instead, the relationship appears to depend on the specific channel through which inequality operates, the level of economic development, and the design of redistributive policy itself, particularly whether it targets net inequality after taxes and transfers rather than pre-distribution outcomes. Future research would benefit from continued attention to the specific institutional and policy conditions, including the extent and design of redistribution, financial market development, and political institutions, under which inequality and growth function as complements rather than substitutes.

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