

Economic harms - growth

How can extreme wealth harm growth?	Extreme wealth concentration can hinder economic growth by limiting the efficient allocation of resources and weakening key drivers of long-term development. The literature identifies a number of channels through which this may occur, including capital misallocation, policy capture and rent-seeking, reduced innovation and entrepreneurship, tighter credit constraints that restrict investment in human capital and productive activities, and the diversion of wealth into non-productive assets. These effects may be particularly pronounced when wealth is inherited or accumulated through political connections rather than through productive entrepreneurial activity.	
Evidence assessment	**Certainty of evidence**	**Strength of relationship**
	Moderate to high Empirical evidence on the wealth-inequality growth nexus, though newer than that on income, provides **clearer and more consistent evidence** of negative effects. The certainty rating is high because: (i) the mechanisms are more directly asset-based and align more closely with theoretical channels (credit constraints, rent-seeking, capital misallocation), (ii) wealth measures – though imperfect – capture accumulated assets rather than flows, and (iii) results are more stable across specifications and samples.	**Strong** Empirical evidence finds a robust and predominantly negative relationship with growth, particularly through channels of capital misallocation, policy capture, low innovation, credit constraints, and portfolio shifts into unproductive assets.
Threshold	The dominant finding is that wealth concentration is negatively associated with economic growth. Most studies estimate linear effects and do not test for non-linearities. Among the studies that do, evidence generally suggests inverted-U patterns, with growth effects becoming negative once wealth concentration reaches high levels. Explicit threshold estimates remain relatively rare and are largely confined to country-specific analyses.	
Contextual factors	• **Institutional quality**: productive institutions vs institutions that enable rent-seeking, monopoly power and elite capture • **Financial development**: deeper financial systems can amplify or attenuate the negative effects of extreme wealth concentration depending on how they influence credit allocation and asset accumulation • **Stage of development**: while thresholds between rich and poor countries are well established in the income-inequality literature, whether similar non-linearities exist for wealth inequality remains largely unexplored.	

	• **Governance strength and institutional quality**: the quality of formal institutions (e.g. legal regulatory and competition frameworks) and governance capacity (their implementation and enforcement) may moderate the harms of extreme wealth concentration. • **Political connectedness of wealth**: growth effects appear to differ according to how wealth is accumulated, with politically connected wealth generally associated with more adverse outcomes than entrepreneurial wealth.
Evidence gaps	• Limited identification of thresholds and non-linearities, particularly for wealth inequality (limited to specific countries or subsample of low-income countries) • Broader and more systematic distinction between sources of wealth (inherited, politically connected, market-generated) and between types of capital (e.g., luxury vs productive) across different contexts. • Improved top-tail wealth data including offshore assets • Assess heterogeneity in the growth effects of wealth inequality across development levels, financial development, and institutional contexts - for example, between productive institutions and those that facilitate rent-seeking and elite capture. • Country-specific studies and or regional/sub-national analyses
Examples of strong studies	Bagchi, S., & Svejnar, J. (2015). Does wealth inequality matter for growth? The effect of billionaire wealth, income distribution, and poverty. Journal of Comparative Economics, 43(3), 505–530. https://doi.org/10.1016/j.jce.2015.04.002 (distinguishes politically connected vs unconnected wealth; only politically connected wealth reduces growth) Bagchi, Svejnar & Bischoff (2016). Does Wealth Distribution and the Source of Wealth Matter for Economic Growth? Inherited v. Uninherited Billionaire Wealth and Billionaires' Political Connections. In: Basu, K., Stiglitz, J.E. (eds) Inequality and Growth: Patterns and Policy. International Economics Association. Palgrave Macmillan, London. https://doi.org/10.1057/9781137554598_5 (decomposition of self-made vs inherited wealth; inherited and connected wealth slow growth) Dávila-Fernández, M. J., & Punzo, L. F. (2021). The Kuznets curve of the rich. *Economic Systems*, 45(4), Article 100910. https://doi.org/10.1016/j.ecosys.2021.100910 (inverted-U for top 1% wealth share (turning point ~25%) and for 0.1%) Islam, Md. R., & McGillivray, M. (2020). Wealth inequality, governance and economic growth. *Economic Modelling*, 88, 1–13. https://doi.org/10.1016/j.econmod.2019.06.017 (dynamic panel; top-1% wealth shares strongly reduce growth; governance mitigates effects) Konaté, B. S., & Hanchane, S. (2026). Nonlinear effects of wealth inequality on economic growth: A semiparametric panel analysis of low-income countries. *Development Studies Research, 13(1)*. https://doi.org/10.1080/21665095.2026.2622950 (inverted-U with wealth-Gini threshold around 0.79 but low-income countries specific evidence) Policardo, L., & Sanchez Carrera, E. J. (2024). Wealth inequality and economic growth: Evidence from the US and France. *Socio-Economic Planning Sciences*, 92,

Article 101804. https://doi.org/10.1016/j.seps.2024.101804 (luxury-asset channel; strong negative effects in France)

Steenbrink & Skali (2026). Wealth inequality and economic growth: Evidence from the World Inequality Database. *World Development*, 199, 107250. https://doi.org/10.1016/j.worlddev.2025.107250 (global panel; linear negative relationship between wealth Gini and growth)

Narrative review

by Eleni Karagiannaki

Background

This report provides evidence on the economic harms of extreme wealth, focusing in particular on growth as the focal point of the evidence. Many of the mechanisms through which extreme wealth may affect growth, however, may also give rise to other independent economic and social harms. For the purposes of this review, it is assumed that if extreme wealth impedes growth which constitutes an economic harm. However, it must be stressed that this does not imply that all economic growth is inherently beneficial - the composition of that growth, environmentally and distributionally, also matter - but these are separate consideration and fall outside the scope of the present review.

The literature on the relationship between inequality and growth has tended to rely on income inequality whereas the literature on the wealth, wealth inequality and economic growth nexus is still at relatively early stages. Although income and wealth are often treated as interchangeable indicators of the distribution in growth empirical literature, they are analytically distinct concepts and may therefore have different effects on growth. Income is a *flow* (i.e. a period-specific return to labour and capital) while wealth is a *stock* of net assets that can compound over time, serve as collateral, be transferred across generations and when sufficiently concentrated can be strategically deployed to shape market structures and the allocation of capital. Thus, the distinction between income and wealth is not merely conceptual but can explain why their effects on long-run growth can diverge. Many of the key theoretical channels linking inequality and growth pertain more naturally to wealth than to income: wealth disparities create differences in opportunity and control that income differences alone cannot capture (Ehrhart, 2009; Deininger & Olinto, 2000). Highly concentrated wealth can reinforce entrenched advantages, distort competition, and shift capital allocation away from productive uses. At the same time, insufficient wealth at the bottom which itself may be a byproduct of high wealth concentration constraining human-capital formation and entrepreneurial entry limiting the economy's capacity for innovation and growth.

Given that many of the channels linking inequality and growth operate more directly through wealth, empirical work that measures wealth directly typically uncovers stronger and more consistent links to long-run growth than studies that rely on income inequality alone (Bagchi & Svejnar, 2015; Islam & McGillivray, 2020; Morck, Stangeland & Yeung, 2000). Before turning to the recent and expanding wealth inequality-growth literature, it is useful to situate it against the income inequality evidence, which shaped much of the initial debate on the impact of inequality on growth.

Income inequality and growth: A context-dependent relationship

Early empirical work on the inequality–growth relationship focused primarily on income inequality, and the prevailing evidence, based largely on cross-country cross-sectional analyses, suggested a negative association between income inequality and economic growth. These early studies relied on cross-country differences to estimate long-run structural relationships, and the consistent negative coefficients were widely interpreted as evidence that unequal societies tended to grow more slowly (Barro and Xavier Sala-i-Martin, 1995; Alesina and Perotti, 1994; Alesina and Rodrik 1994; Persson and Tabellini, 1994; Birdsall et al., 1995; Clarke, 1995). However, this approach was later criticised for its vulnerability to omitted-variable bias and unobserved country heterogeneity, prompting a shift toward dynamic panel-based cross-country growth models estimations. From the late 1990s onward, a strand of research emerged that reached the opposite conclusion. This shift was made possible by the important work of Deininger and Squire (1996), who compiled a much larger and more comprehensive cross-country panel dataset on inequality than had previously been available, enabling more advanced econometric techniques to reassess the inequality–growth relationship.

Drawing on this new data, Benhabib and Spiegel (1998), Forbes (2000), and Li and Zou (1998) used fixed-effects estimators to address omitted country-specific heterogeneity that had biased earlier cross-sectional OLS estimates. Forbes (2000), in a reassessment of the early inequality-growth literature, argues that the negative relationship reported in cross-country studies is weakened by a lack of robustness to sensitivity checks, measurement error, and omitted-variable bias, casting doubt on the validity of those results. Using more consistent inequality data and a panel estimator, Forbes finds that once data quality, period length, and estimation technique are improved, the short-run relationship becomes robustly positive: a one-point rise in the income Gini is associated with roughly 0.36-0.58 percentage-point faster short- to medium-run growth. However, subsequent work has shown that this positive finding is largely driven by methodological limitations. The main criticisms was that studies relying on difference-GMM estimators which remove fixed effects by differencing the data strips away most meaningful within-country variation and leaves the model with weak instruments which tends to inflate coefficients and bias them upward. Lee and Son (2016) revisit the inequality-growth relationship using a more advanced system-GMM estimator (that combines equations in levels and differences, providing stronger instruments, better handling of persistence and substantially reducing bias) along with a larger and more recent dataset and richer controls, they find that inequality tends to reduce growth in developing countries while has little effect in richer ones.

Barro (2000) using a large cross-country panel covering the 1965-1995 and adopting a three-stage least squares (3SLS) approach, treating country-specific error components as random, and also arguing that the differencing implicit in fixed-effects estimation (as in Forbes, 2000) exacerbates bias in the presence of measurement error), finds no significant relationship between inequality and growth. However, when he breaks up his sample into poor and rich countries, he finds a negative relationship between inequality and growth in the sample of poor countries and a positive relationship in the sample of rich countries. The growth regressions show the inequality coefficient turn from negative to positive at an income threshold of roughly $2,070 per capita(1985 USD). The estimated marginal effects suggest that a one-standard-deviation rise in inequality reduces growth by about 0.09 percentage points in low-income countries but raises it by about 0.12 percentage points in high-income ones. Banerjee and Duflo (2003) also identify non-linearities in the inequality-growth relationship, but for changes in income inequality rather than its level. They show that growth follows an inverted-U pattern with respect to changes in inequality: any substantial rise or fall in inequality is followed by slower subsequent economic growth i.e. growth is highest when inequality remains relatively stable and falls when

inequality moves sharply in either direction. Their flexible, non-parametric and piecewise estimations reveal that previous studies' positive linear findings arise from model misspecification, since the true relationship is asymmetric and non-linear. Rather than inequality itself being uniformly good or bad for growth, their results imply that distributional volatility is disruptive: large changes in inequality signal deeper structural shocks that tend to depress growth. Voitchovsky (2005) finds that inequality has differential effects across the distribution: rising inequality at the top is associated with higher growth, whereas increases at the bottom are associated with lower growth.

More recently Hailemariam and Dzhumashev (2020) using a large global panel dataset covering countries from 1965 to 2014 and applying advanced dynamic panel estimators to address problems of heterogeneity, endogeneity and measurement errors find that the inequality-growth relationship is non-linear, taking the shape of an inverted U-curve: inequality is growth-enhancing at low to moderate levels but growth-reducing once it exceeds a certain threshold. Importantly, their findings indicate that the threshold differs sharply between rich and poor economies. In advanced economies, inequality turns harmful at relatively low levels (around a net Gini of approximately 0.24), whereas in developing economies at a much higher level (at approximately 0.41). The magnitude of these effects is economically meaningful: at low levels of inequality, a 1% rise in the Gini is associated with roughly 0.8% higher growth, but once inequality passes the threshold, an additional 1% rise reduces growth by about 0.09%, pointing to a threshold effect in the impact of inequality on growth.

Moon & Kim, 2022, also confirms thresholds and dynamic heterogeneity. Using a large international panel of 77 countries from 1982 to 2019 they show that the inequality–growth relationship is not linear and identify a threshold at about log(Gini) at around 3.43, which corresponds to a Gini of around 31. They further show that in countries where inequality is relatively low, further reducing it tends to slow economic growth (which they interpret as evidence that in already equal societies, additional equalisation may weaken incentives for saving, investment, and entrepreneurial effort mechanisms that support growth) while in countries with high inequality, reducing inequality has little or no negative effect, and may even help growth indirectly by easing distortions created by extreme disparities (such as social or political instability, credit constraints, or unequal access to opportunity).

Further evidence by Facchini, Jaeck and Kratou (2023) shows that the effect of inequality on economic growth depends on a country's institutional environment. Using an indicator of institutional quality that distinguishes productive institutions (which reward entrepreneurship) from rent-seeking institutions (which enable elite capture), they find that inequality is negatively associated with growth where rent-seeking dominates but can become growth-enhancing where institutions channel wealth accumulation into productive market-based activities. In their estimates, the coefficient on the Gini index ranges from approximately -0.12 to -0.25 in low-productivity institutional settings. However, a positive and significant interaction between inequality and institutional productivity implies that this adverse effect diminishes, and may ultimately turn positive, as institutions become more supportive of profit-seeking rather than rent-seeking behaviour..

In sum, the available empirical evidence using income inequality measures does not point to a single, universal relationship between inequality and economic growth. Instead, findings vary sharply across countries, periods of analysis, and stages of development as well as institutional quality that shape whether inequality affects rent extraction or promotes productive economic behaviour. Some studies report that, in the short to medium run, higher income inequality can coincide with faster growth while others find negative or no effects once country-specific factors are controlled for. Further evidence

points to non-linear dynamics and heterogeneity in the effect depending on the level of development or income as well as on the level of institutional quality. These results underscore that the inequality–growth nexus is fundamentally non-linear and sensitive to underlying country conditions. In other words, the evidence shows that the growth effects of income are inherently context-dependent: inequality can coincide with growth in some settings, hinder it in others, and often produces non-linear and context dependent effects rather than linear or uniform outcomes.

Wealth inequality and growth: A more consistent negative relationship

Unlike the income-inequality literature, studies of wealth inequality consistently find a robust negative relationship between wealth concentration and economic growth. In a dynamic panel study covering 45 advanced, emerging and developing countries over the period 2000-2012, Islam and McGillivray (2020) show that one unit increase in the top-1% and top-10% wealth shares are associated with roughly 0.32-0.38 percentage points lower annual real GDP-per-capita growth with stronger effects for the top 1% wealth shares, with similar effects obtained using Forbes-based billionaire-wealth inequality measure. The stronger association for the top-1% share indicates that the growth consequences of wealth concentration vary across different parts of the wealth distribution, with concentration at the very top appearing particularly harmful. However, the study does not establish whether this reflects a non-linear relationship between wealth concentration and growth. The paper further shows that stronger governance systematically attenuates the negative impact of wealth inequality on growth. Bagchi and Svejnar (2015) also use billionaire-wealth data from Forbes' annual global list to construct several measures of wealth inequality, normalising total billionaire wealth by GDP, the physical capital stock, or population. Using the billionaire-wealth-to-GDP as a measure of wealth concentration, they further distinguish between politically connected and politically unconnected billionaire wealth. A billionaire is classified as politically connected when extensive searches of global news sources indicate that their rise to billionaire status would not have been possible without political support, favouritism, or explicit government backing. Their analysis shows that the negative effect of wealth inequality on economic growth is exclusively driven by politically connected wealth, whereas market-based, unconnected wealth has no statistically significant impact. The estimated coefficients are large and robust: a one-standard-deviation increase in politically connected wealth inequality reduces annual per-capita growth by approximately 0.49-0.60 percentage points (Bagchi & Svejnar, 2015).

Building on this, Bagchi, Svejnar and Bischoff (2016) decompose extreme wealth into three components: (i) self-made, politically unconnected; (ii) self-made, politically connected; and (iii) inherited wealth. They show that only politically connected and inherited wealth are systematically associated with slower economic growth, while self-made, politically unconnected wealth has no significant effect. This decomposition underscores that it is not market-generated wealth but entrenchment and political connection that drive the growth-reducing effects of extreme wealth concentration, distorting capital allocation and reinforcing unproductive, rent-preserving activities.

Steenbrink and Skali (2026), using wealth inequality data from the World Inequality Database for 165 countries (1995-2019)- measured by both the wealth Gini and the top 1% wealth share- find a linear, monotonic negative relationship between wealth inequality and economic growth. The estimated effect is economically substantial: a one-standard-deviation increase in the wealth Gini reduces annual per-capita growth by around 0.34 percentage points, implying that countries with lower wealth inequality can double their living standards roughly a decade faster than otherwise similar countries

with high inequality. Importantly, when tested in identical empirical frameworks, income inequality and poverty shows no significant association with growth – emphasising that income Gini and poverty rates do not capture the structural, asset-based disparities that shape long-run e/conomic performance. The negative wealth-growth relationship is highly robust across specifications, estimation techniques (i.e. cross-sectional models, fixed-effects panels, lag structures, and dynamic estimators) and holds for both the wealth Gini, top-end and wealth shares. Interestingly, the study detects no thresholds, non-linearities, or heterogeneity by income level, institutional quality, education, openness, or macroeconomic conditions (suggesting that the adverse effects of wealth inequality is broad-based rather context-dependant as the effect of income inequality).

While the literature above identifies a largely linear and monotonic negative relationship between wealth inequality and growth, a smaller and more recent set of country-specific analyses points to important non-linear dynamics. In particular, Dávila-Fernández and Punzo (2020) show that the relationship between the top 1% wealth share and long-run output growth in France and the United States follows an inverted-U pattern. They estimate that growth is maximised at an intermediate level of top-end wealth concentration (around 25% for the top 1% share), with the United States – where the share is closer to 40% – operating on the declining side of the curve and experiencing correspondingly slower growth.

Further evidence for non-linear effects is provided by Policardo and Carrera (2024) who use data from the World Inequality Database to examine how changes in the top 10% wealth share affect growth in France and the United States. Their analysis distinguishes between productive capital and luxury non-productive assets – high-end real estate, art, jewellery, and other status-oriented goods that store value but do not raise productive capacity – allowing them to track how shifts in household portfolios shape aggregate outcomes. Across a range of methods, the paper finds that increases in the top-10% wealth share consistently reduce growth in France but not in the US. The authors attribute this to differences in asset composition: because luxury assets are more widely held across the wealth distribution in France, rising wealth concentration is associated with a shift of wealth away from productive capital and towards assets with weaker growth effects. In the United States, by contrast, the increase in top wealth shares produces only modest negative effects which only appear primarily once debt and asset-composition controls are added. The authors argue that this is consistent with the much smaller share of luxury assets held outside the top of the distribution in the US. The study also identifies non-linearities: in France, higher top-end shares become increasingly harmful once inequality passes a certain level (which however they do not specify), whereas in the U.S. the relationship is essentially flat at already high levels of concentration.

Further support for non-linear effects comes from Konaté and Hanchane (2026), who identify an inverted-U relationship for low-income countries, with a turning point around a wealth Gini of approximately 0.79. Examining 121 low-income countries over 1995-2019 and using a semiparametric approach that does not impose linearity, they find that moderate inequality can support growth, but once the wealth Gini exceeds roughly 0.79, the effect turns negative. Strikingly, the average wealth Gini in most countries in the sample is about 0.782, suggesting that many countries are already at or above the point where inequality begins to hinder growth. Although not modelling the mechanisms behind this relationship they interpret this pattern as reflecting a balance between the investment-enhancing role of some concentration and the growth-damaging effects of extreme inequality – including the role of wealth concentration on credit constraints, weak human-capital formation, and sociopolitical instability – once concentration becomes excessive (more discussion on the next section).

Although they do not estimate non-linearities in the effects of wealth concentration on growth, Matusche and Wacks (2022) provide further evidence about the harmful effects of high wealth inequality showing that its consequences extend beyond growth outcomes to the functioning and effectiveness of macroeconomic policy. In their analysis of the United States and the Euro Area, they show that monetary policy becomes more contractionary in real terms when wealth is highly concentrated – industrial production falls by an additional 2.1% under a contractionary shock and unemployment rises more sharply in high-inequality regimes, revealing that wealth concentration amplifies the real effects of monetary tightening and increases macroeconomic fragility. Further, Chroufa and Chtourou (2023) provide evidence for MENA countries, showing that the growth effect of wealth inequality depends on the level of financial development: deeper financial systems amplify the negative impact of wealth inequality on growth, indicating that the inequality-growth relationship is conditional on financial-sector development. Their estimated threshold in the financial-development index shows that wealth concentration depresses growth in both low- and high-finance regimes, with the negative effect becoming even stronger as financial systems deepen. Put differently, Chroufa and Chtourou's (2023) findings imply that it is not wealth inequality alone that shapes growth outcomes, but the way high inequality interacts with financial development and institutional structures. When wealth is highly concentrated, monetary policy becomes more contractionary while financial development magnifies rather than mitigates the growth-reducing effects of wealth concentration, with quality of institutions playing a decisive role.

Positive and negative mechanisms in the inequality-growth relationship

The literature on inequality and growth has often failed to distinguish clearly between income and wealth despite the fact that they operate through different channels. Rising inequality has been linked to a wide set of potential growth-reducing mechanisms, ranging from weakened democratic responsiveness and political capture to tighter credit constraints, socio-political instability, weaker aggregate demand and reduced investment in human and public capital. Yet these mechanisms have typically been analysed without distinguishing between wealth which reflects accumulated stock of assets and income which represents flows of resources, despite the fact that evidence for a growth-reducing effect of inequality is generally stronger when inequality is measured in terms of wealth or asset ownership rather than income. Deininger and Olinto (2000), for example, show that asset inequality has a robust negative effect on growth, whereas comparable income-inequality measures are much weaker and less consistently related to growth outcomes, suggesting that asset-based measures more closely capture the underlying mechanisms emphasised in theory. Moreover, the evidence suggests that the growth effects of wealth inequality depend critically on who holds wealth, how that wealth was acquired (e.g. politically connected versus unconnected, or inherited versus self-made), and the institutional environment in which it is held. Together, these insights highlight why wealth inequality/concentration, rather than income inequality/, is more strongly associated with long-run growth. The remainder of this section examines the specific mechanisms proposed in literature through which inequality shapes growth dynamics, drawing on evidence from the empirical income inequality and wealth inequality literatures.

Savings, capital allocation, accumulation and entrepreneurship: Traditional growth theory posits that inequality may increase aggregate saving and capital accumulation, thereby stimulating economic growth (Kaldor, 1955; Kalecki, 1971). The central argument is that high-income households share a

larger share of their income, so greater inequality increases aggregate savings and finances higher investment making inequality a key driver of growth. A similar argument is made by Bourguignon (2004), who emphasises that the greater inequality can support more capital accumulation by concentrating resources among households that save a higher share of the income. A related mechanism operates through entrepreneurship: more concentrated wealth reduces the effective risk for affluent households, increasing their capacity to undertake investments that raise productivity and growth.

Much of the empirical evidence reporting a positive effect between income inequality and growth (e.g. Benhabib & Spiegel, 1998; Forbes, 2000; Li & Zou, 1998) has interpreted this result through the lens of the savings-investment channel. The wealth inequality -growth literature also provides support for the operation of the saving and investment channel as driver of growth: in the cross-country analyses of Motahar & Mamipour, (2025), investment appears as the sole positive mediator linking wealth inequality to growth, although its effect is typically outweighed by much larger negative channels including reduced innovation, greater social instability, weaker aggregate demand, and lower human-capital formation.

Evidence from structural macroeconomic models also supports a potential entrepreneurship channel. Yang, Minford & Meenagh (2020) find that in the UK, wealth inequality can stimulate growth because wealthier households face lower effective costs of entrepreneurship, enabling them to undertake more productivity-enhancing investment. Using a structural heterogeneous-agent DSGE model estimated via indirect inference, they show that this mechanism can generate a self-reinforcing cycle in which rising inequality fuels rising growth, while policies that redistribute wealth reduce inequality but impose rising growth costs.

However, a growing body of evidence suggests that these positive effects are subject to important limits. The non-linearities identified in the relationship (Dávila-Fernández and Punzo, 2020; Konaté and Hanchane, 2026) support the presence of a threshold effect, implying that the savings and investment channel operates only up to a certain level of inequality, beyond which the negative effects of concentration begin to dominate. Consistent with this interpretation, evidence from the wealth-inequality literature shows that extreme wealth concentration does not necessarily translate into productive capital formation. Policardo & Carrera (2024) argue that the growth effects of wealth inequality depend not only on the concentration of wealth but also on portfolio composition. Comparing France and the United States, they find that higher wealth inequality is associated with slower growth in France, which they attribute to differences in the allocation of wealth across asset types and across the wealth distribution, resulting in a larger share of wealth being held in non-productive assets rather than productive capital. Similarly, Motahar & Mamipour, (2025) show that although investment is the sole positive mediator from wealth inequality to growth, it is typically outweighed by negative channels (including innovation suppression, socio-political instability, demand constraints, and human-capital effects). Taken together, these findings suggest that the saving and entrepreneurship channel may operate only up to a certain level of wealth concentration, beyond which various mechanisms prevent additional wealth accumulation from translating into higher growth (see discussion below).

Innovation: Innovation is a central mechanism of economic growth. Depending on the underlying conditions, inequality can either stimulate or suppress innovative activity, thereby generating opposing effects on growth. For example, one argument is that inequality-induced increases in saving may support innovation. However, this effect alone is not sufficient to sustain innovation-driven growth as inequality and particularly extreme wealth concentration can suppress innovation through a number of

channels including by redirecting capital toward rent-preserving rather than productivity-enhancing activities; by restricting access to finance for talented individuals from low-income backgrounds; by heightening social conflict and political instability that deter long-term investment; and by contributing to underinvestment in broad-based education and skills, which slows the diffusion of new technologies. At the same time some theories suggest that inequality may stimulate innovation by concentrating resources among individuals and firms with the capacity to undertake risky, high return investments .

Some studies suggest that concentrated inequality may stimulate innovation by increasing wealth consumers' willingness to pay for frontier goods, strengthening incentives R&D investment (Foellmi & Zweimüller, 2006) while innovation itself has been shown to contribute to higher top-income shares (while not Gini inequality) through innovation rents (Aghion et al., 2019). Other work, however, finds that inequality can impede innovation. Hatipoğlu, (2012) for example identify non-linear effects in the inequality-innovation relationship and identifies market size as a key transmission mechanism: by expanding the customer base able to afford and buy newly introduced products lower inequality alters expected profits and boosts R&D and innovation incentives. Complementing this, Zweimüller et al. (2005) develop a model showing that a more equal income distribution can strengthen innovation incentives, particularly through demand-side channels and strategic pricing effects.

Studies examining the empirical relationship between wealth concentration and growth, identify innovation as a key mechanism through which wealth concentration reduces growth. Motahar & Mamipour's (2025) mediation analysis identifies innovation as the largest negative channel linking wealth inequality to slower economic growth. Supporting this, Morck, Stangeland & Yeung (2000) provide firm- and sector-level evidence that heir-controlled groups exhibit lower R&D effort, resist competitive entry, and respond weakly to pro-competition shocks, patterns that are consistent with entrenched ownership structures that inhibit innovation.

Credit constraints and human-capital formation: Human capital is widely regarded as one of the most important drivers of long run economic growth, innovation, and productivity. As a result, the relationship between inequality and educational investment has occupied a central place in the inequality-growth literature. Unlike some of the mechanisms already discussed, the effects of credit constraints and human-capital formation are not confined to extreme wealth concentration but can arise wherever inequality in wealth and asset ownership restrict access to education, credit, and entrepreneurial opportunities. Theoretical predictions differ, however, on whether inequality promotes or constrains human-capital accumulation. Saint-Paul and Verdier (1993) develop an endogenous-growth model in which public education is determined through the political process and show that higher inequality may increase political support for publicly funded education, expanding human-capital investment and generating a positive association between inequality and growth. However, once the distortionary effects of taxation become sufficiently large, these gains may be offset, giving rise to a non-linear, potentially hump shaped relationship between inequality and growth.

While Saint-Paul and Verdier argue that inequality may, under certain conditions, promote human-capital accumulation through greater support for public education, most of the literature emphasises the opposite effect. In the presence of credit-market imperfections, inequality can hinder growth by limiting access to education and entrepreneurial opportunities. Under imperfect credit markets, low-income individuals who cannot borrow to finance education or entrepreneurial activity face binding credit constraints, limiting their ability to accumulate human capital and build productive capacity, which in turn dampens long-run economic growth. Several models – notably Galor and Zeira

(1993) and Piketty (1997) – demonstrate how unequal wealth distributions interact with borrowing constraints to limit the investment capacity of poorer individuals. These constraints restrict access to education and entrepreneurial opportunities, generating persistent underinvestment in skills and innovation and thereby constraining long-run growth (Aghion et al., 1999). This dynamic produces multiple long-run wealth distributions in which high interest rates reinforce credit constraints, depress capital accumulation and slow down economic development. As higher steady-state interest rates increase the share of credit-constrained households, aggregate investment falls, human-capital formation weakens, and entrepreneurial dynamism declines, generating lower growth in high-inequality, high-constraint steady states.

In the literature examining the empirical relationship between wealth inequality and growth there is strong and consistent evidence that credit constraints on human-capital investment is key channel by which wealth inequality reduces long-run economic growth. Deininger and Olinto (2000) provide one of the clearest tests of this mechanism: using asset (land) inequality as a proxy for wealth concentration in settings with imperfect credit markets, they show that higher assets inequality has a significant negative effect on growth and reduces the effectiveness of educational investment. This is reflected in a large, negative, and statistically significant interaction between inequality and educational investment, indicating that the same level of schooling yields substantially lower growth in more unequal settings where borrowing constraints bind most tightly. More recent evidence reinforces the centrality of this mechanism. Motahar and Mamipour (2025), using a mediation framework, find that wealth inequality exerts a sizeable indirect drag on growth through human-capital accumulation. Their results show a statistically significant and economically meaningful negative mediation effect, implying that wealth concentration systematically restricts the opportunities of low-wealth households to invest in education and skill formation.

Political connections, rent seeking and inheritance: A central finding in the literature examining the inequality–growth nexus is that the nature of inequality matters. As Facchini, Jaeck and Kratou (2023) argue, inequality arising in institutional environments which are characterised by rent seeking behaviour is fundamentally unproductive, and therefore has a negative effect on growth, whereas inequality stemming from profit seeking in high productivity institutional settings may instead support growth. Their empirical strategy distinguishes between productive inequalities (i.e. inequalities arising in settings where institutions reward entrepreneurship and profit-seeking) and unproductive inequalities (inequalities that reflect rent-seeking, favouritism, and political capture). To operationalise this distinction, they construct an Institutional Productivity (IP) index capturing the balance between profit-seeking and rent-seeking institutions. Using panel data for 114 countries (1990-2020), they find that inequality is negatively associated with growth at low levels of institutional productivity, with estimated Gini coefficients ranging from approximately -0.12 to -0.25. However, the positive and significant interaction between inequality and institutional productivity indicates that this negative effect diminishes, and may eventually turn positive, as institutions become more supportive of profit-seeking rather than rent-seeking activities.

Evidence from the wealth-inequality–growth literature reinforces the point that the nature of wealth concentration matters for growth. Bagchi and Svejnar (2015), using global billionaire data, show that politically connected wealth is robustly associated with lower economic growth, whereas market-based, unconnected wealth has no significant effect. Additional evidence from Bagchi, Svejnar and Bischoff (2016) confirms that inherited wealth concentration is likewise growth-reducing, while self-made, unconnected wealth is not. Firm-level evidence from Canada provides further insights into this

mechanism: Morck, Stangeland and Yeung (2000) show that heir-controlled groups exhibit entrenched management, distorted capital markets, and lower innovative effort, and that they underperform when competitive barriers fall. These patterns reflect classic rent-seeking behaviour, in which politically connected or inherited wealth enables owners to preserve and extract rents through entrenchment and barriers to competition, leading to misallocation and slower long-run growth. Taken together, the evidence demonstrates that the composition of wealth at the top, particularly politically connected and inherited wealth, affects growth outcomes in ways that aggregate inequality indicators fail to capture. However, it should alos be noted that the boundaries between these different categories of wealth are often less clear-cut than they appear. Entrepreneurial wealth may become politically connected over time, while recent evidence suggests that even individuals classified as "self-made" frequently originate from socio-economically privileged backgrounds (Stubenbord, 2026) and argue that rather than reflecting a broad democratisation of access to extreme wealth, the rise of self-made fortunes may therefore represent a reordering within already advantaged groups. This suggests that the origins and composition of wealth should be viewed as contextual factors.

Political economy mechanisms: Redistributive pressures, policy capture, governance quality and socio-political instability: The rent-seeking processes outlined above also underpin the broader political economy mechanisms, through which policy capture, weak governance, and socio-political instability amplify the growth-reducing effect of inequality. The political-economy literature highlights two channels through which inequality may affect growth. From above, entrenched elites may engage in policy capture to protect incumbency rents which can distort resource allocation and hinder growth (Islam & McGillivray, 2020). Evidence by Bagchi and Svejnar (2015) reinforces this argument showing that politically connected wealth is robustly associated with lower economic growth, whereas market-based, unconnected wealth has no significant effect. Extending this distinction, Bagchi, Svejnar and Bischoff (2016) find that inherited wealth concentration is likewise growth-reducing, while self-made, unconnected wealth is not. Together, these findings suggest that the adverse growth effects of wealth concentration are driven less by wealth itself than by the political connections and inherited advantages that facilitate rent extraction and policy influence.

From below, rising inequality may alter political preferences by increasing support for redistribution among households with relatively few assets. (Alesina and Rodrik, 1994a). In the median-voter framework developed by Alesina and Rodrik (1995), these policy responses can reduce incentives for investment and capital accumulation, thereby slowing growth. Alesina and Rodrik (1994a) provide empirical support for the political-economy mechanism, finding that higher land and income inequality is associated with lower long-run growth, consistent with the view that unequal societies are more likely to adopt redistributive policies that reduce capital accumulation and growth. This prediction, however, contrasts with other strands of the literature, particularly those emphasising credit constraints, human-capital formation, and social inclusion, which suggest that redistribution may under some circumstances enhance rather than reduce growth.

Further evidence by Islam & McGillivray (2020) suggests that institutional quality can moderate these adverse dynamics. Stronger governance (e.g. regulatory quality, and government effectiveness) can reduce or offset the negative association between wealth inequality and growth (Islam & McGillivray, 2020), suggesting that fiscal, regulatory and legal capacity acts as a buffer limiting the extent to which wealth concentration translates into policy capture, rent extraction, and other growth-reducing distortions.

These political-economy dynamics are further amplified by socio-political instability. As shown by Alesina and Perotti (1994), more unequal societies tend to experience higher levels of unrest and political volatility, which raise uncertainty and increase the cost of capital. In Motahar & Mamipour (2025) mediation analysis, socio-political instability emerges as one of the largest negative channels through which wealth inequality slows growth. This finding is consistent with Alesina and Rodrik's (1994b) review of the political-economy literature, which highlights political instability and distributional conflict as key channels through which inequality affects growth. Taken together, this evidence demonstrates that political-economy frictions and socio-political instability operate jointly, reinforcing each other in ways that further dampen growth in high-inequality settings.

Aggregate demand and portfolio composition: A large empirical and theoretical literature shows that rising income inequality reduces aggregate demand, primarily because high-income households have much lower marginal propensities to consume (MPCs) than low-income households. Thus, as inequality increases, total consumption falls relative to what it would be under a more equal distribution. This mechanism is also formalised in macroeconomic models by Auclert & Rognlie (2018) which shows that higher inequality reduces output in the short run (albeit modestly) because MPCs decline with income, lowering consumption and demand: this implies that a shift of resources to high-income-low-MPC households depresses spending and hence output. Further empirical evidence comes from Carvalho & Rezai (2016), who show that more equal income distributions always lead to higher output as well as Fisher et al. (2020) who show that MPCs are lower for high wealth / high income households, implying higher inequality reduces aggregate consumption. While not all studies find strong causal effects, with Crespo-Cuaresma et al. 2018 for example reporting limited or no aggregate consumption response to income inequality, the balance of the evidence including results based on macro modelling supports the conclusion that inequality weakens aggregate demand, which in turn reduces economic growth. Empirical evidence on the wealth inequality-growth relationship also highlights important demand and portfolio channels. Because high-wealth households have much lower marginal propensities to consume, increases in top-end wealth shares reduce mass purchasing power and weaken demand-led components of growth; consistent with this, the mediation analysis by Motahar & Mamipour, (2025) documents a negative consumption pathway associated with rising wealth concentration (Motahar & Mamipour, 2025).

The literature also points to the importance of portfolio composition. As discussed earlier Policardo & Carrera (2024) argue that the growth effects of wealth inequality depend not only on the concentration of wealth but also on how wealth is allocated across asset types and across the wealth distribution. Comparing France and the United States, they find a negative relationship between wealth inequality and growth only in France, which they attribute to differences in portfolio composition between wealth groups, resulting in a larger share of aggregate wealth being held in non-productive assets rather than productive capital.

Summary of findings

The evidence reviewed here indicates that while the literature on income-inequality growth is ambiguous and highly context-dependent, the emerging wealth-inequality literature shows a striking degree of consistency. The majority of studies find that higher wealth concentration – especially when inherited or politically connected – is associated with slower growth. Several channels have been identified, including policy capture, capital misallocation, weakened innovation, reduced human-

capital formation due to credit constraints, lower aggregate demand, and portfolio shifts into non-productive assets. While the evidence suggests that different forms of wealth are associated with different growth outcomes, the boundaries between these categories are often blurred. Entrepreneurial and self-made wealth may become politically connected over time, while many apparently self-made fortunes are rooted in pre-existing social and economic advantages (Stubenbord, 2026). Consequently, institutional conditions remain central in determining whether wealth is channelled towards productive investment or rent-seeking activities. Governance quality and financial-sector design also play an important role in shaping the strength of these effects.

While some theoretical and empirical contributions identify potentially growth-enhancing channels operating through higher saving, investment, and entrepreneurship, the evidence also suggests that these benefits are subject to important non-linearities. Studies by Dávila-Fernández and Punzo (2020) and Konaté and Hanchane (2026) indicate that wealth concentration may support growth at relatively low or moderate levels but becomes increasingly harmful once it surpasses certain thresholds, implying that the balance between positive and negative mechanisms shifts as concentration rises. A large body of evidence identifies channels through which wealth concentration can weaken growth including innovation, distort resource allocation and entrench economic and political power (Bagchi & Svejnar, 2015; Morck et al., 2000; Islam & McGillivray, 2020; Policardo & Carrera, 2024; Matusche & Wacks, 2022; Motahar & Mamipour, 2025). Governance quality systematically moderates these harms, whereas unregulated financial deepening can amplify them (Islam & McGillivray, 2020; Chroufa & Chtourou, 2023). Further insights from the wealth-taxation literature (Saez & Zucman, 2019; Bouchaud, 2015; Nguyen & Khieu, 2021) suggest that well-designed progressivity and effective enforcement can reduce extreme concentration without necessarily harming growth – and in some stochastic growth models, a positive wealth-tax rate can even raise long-run growth via diversification and reduced rent extraction – while overly aggressive rates may distort savings and investment.

Future research directions

Future research should address several key gaps in the current literature. First, better identification of thresholds and non-linearities in the relationship between wealth, wealth inequality and growth is needed. Existing evidence remains limited, largely confined to a few country-specific studies or to low-income country subsamples, leaving open the question of whether similar patterns hold more broadly.

Second, future research should develop a broader and more systematic distinction between different sources and uses of wealth. Although existing studies show that inherited and politically connected wealth drive the strongest negative effects, most cross-country analyses still rely on aggregate top wealth share measures.

Third, research should examine heterogeneity in the growth effects of wealth inequality across countries with different development levels, financial development, and institutional contexts. For example, comparing settings with productive institutions to those characterised by rent-seeking and elite capture would clarify how institutional environments shape the mechanisms linking wealth concentration to growth.

Fourth, in addition to more country-specific work, regional or sub-national analyses could also provide a valuable area of research to identify the effects. Sub-national analyses that link wealth distribution to

investment, productivity, and innovation would help test whether national-level relationships hold at smaller spatial scales and clarify how these effects emerge and diffuse across regions.

Finally, improved measurement of top-tail and offshore wealth through better integration of survey data, tax microdata, capitalization methods and offshore-wealth indicators is needed to obtain more accurate estimates of wealth concentration. Although some approaches have been developed to capture offshore wealth (e.g. macro-statistical methods that identify “missing wealth” by comparing international reports of foreign assets and liabilities (Zucman 2015; EU Tax Observatory 2025) or use of administrative data such as the Foreign Account Tax Compliance Act (FATCA) filings to the US Internal Revenue Service which provided direct evidence on foreign account holdings among high-income households (Johannesen et al. 2023)) offshore wealth remains significantly under-measured.

Table 1: Summary of Empirical Studies Examining the Effects of Wealth Concentration on Economic Growth

Study (year)	Inequality index/source	Estimated effect on growth (magnitude & direction)	Non-linearities / thresholds
Bagchi & Svejnar (2015)	**Billionaire wealth / GDP (Forbes)**; also / capital, / population	A1 SD increase in total billionaire wealth is associated with −0.49 pp/yr lower growth; A 1 SD increase in politically connected wealth is associated with −0.60 pp/yr growth; A1 SD in unconnected wealth has no significant effect on growth	**No:** only linear terms tested
Bagchi, Svejnar & Bischoff (2016)	**Billionaire wealth / GDP** decomposed into self-made, connected/unconnected) & inherited	A 1 SD increase in connected wealth is associated ith 0.39 pp/yr decline in growth; A 1 SD in inherited wealth is associated with 0.55 pp/yr decline in growth; A1 SD in unconnected wealth has no significant effect	**No:** only linear terms tested
Chroufa & Chtourou (2023)	**Top 10% / Top 1% wealth shares (WID)**	Wealth inequality reduces GDP per-capita growth in both high and low financial development (FD) regimes; effect stronger above FD threshold (i.e. FD amplifies the harm)	**No:** Wealth inequality enters linearly; coefficients differ across financial-development regimes.
Policardo & Carrera (2024)	**Top 10% wealth share (WID); Top 1% for robustness**	France: +1 pp top-10 share is associated with approx. 1.5 pp declines in GDP-pc growth in year 1 and approx. 8 pp declines cumulative US: negative but weaker and less robust effects	**Yes:** Non-linear relationship estimated; effect become more adverse at higher levels of wealth concentration but evident only in France; no explicit threshold estimated
Dávila-Fernández & Punzo (2020)	**Top 1% (and 0.01%) wealth share (WID)**	Inverted-U relationship: Estimated growth-maximising top-1% share approx. 25% (slightly higher for the US). France close to this level US far exceeds this level (i.e. US 1-2 below long-run growth potential. Estimated growth maximising top-0.01% approx. 5.5–7% in the US.	**Yes:** Turning points for top-1% (approx. 25%) and for top-0.01% (5.5–7%)
Islam & McGillivray (2020)	**Top 1% & Top 10% shares (Credit Suisse); Forbes billionaire wealth ratio**	Negative, linear relationship: Estimates imply that higher wealth concentration reduces GDP/capita growth; coefficients are about −0.32 to −0.51 for a one-unit increase in wealth-inequality; effects are stronger for the top-1% than top-10% wealth shares. Results robust for billionnaire based measures	**No**: Linear negative effects; no evidence of non-linearity (squared wealth inequality tested but statistically insignificant
Motahar & Mamipour (2025)	**Wealth Gini (WID)**	Channel magnitudes (Average Causal Marginal Effects (ACME) variables standardised): Innovation (ACME =-0.309) and	**No:** No reported wealth-inequality threshold (although

		socio-political instability (ACME=-0.291) are the dominant negative channels through which wealth inequality reduces growth; consumption (ACME=-0.110) and human capital (ACME=-0.025) also contribute negatively, while investment exerts an positive effect (ACME=+0.206).	estimated using a nonlinear Generalized Additive Model (GAM) mediation framework).
Morck, Stangeland & Yeung (2000)	**Heir billionaire wealth/ GDP vs Self-made billionaire wealth / GDP (Forbes)**	Heir wealth/GDP coefficient approx. −0.292; moving from 0 heir wealth to 75th pct (approx. 3.29% of GDP) uis associated with approx.−0.96 pp/yr lower growth; at 90th pct (approx. 6.67% of GDP) the reduction is approx. −1.95 pp/yr	No: The study estimates linear cross-country growth regressions and does not test quadratic, threshold, or other non-linear specifications
Deininger & Olinto (2000)	**Land Gini (asset inequality)**	Large, negative effect on growth; 10-point drop in land Gini is estimated to have a growth effect equivalent to increasing schooling by approx +1.44 years of	No: No explicit threshold for wealth inequality per se. However, the effect of education depends on asset inequality through a significant interaction term, implying that high asset inequality reduces the growth payoff from education.
Steenbrink & Skali (2026)	**Wealth Gini (WID); Top 1% share (robustness)**	A1 SD increase in wealth Gini is associated with a 0.34 pp decline in annual GDP/pc growth; income inequality no effect. Effects remain significant for Top 1% but insignificant for income inequality when wealth inequality is accounted for.	No: The study does not find non-linearities or other heterogeneity across countries income leaves or other covariates
Konaté & Hanchane (2026)	**Wealth Gini (WID)**	Inverted-U shaped relationship: Wealth inequality is growth enhancing at low/moderate levels but becomes Growth-reducing at high.	Yes: Semiparametric estimation identifies a turning point at at approx. Gini=0.79. Below this threshold the marginal effect of wealth inequality on growth is positive; above it the effect is negative.
Yang, Minford & Meenagh (2020)	**Top 10% wealth share (WID)**	Structural model implies inequality has a bidirectional relationship with entrepreneurship an growth; greater wealth concentration increases entrepreneurship among the wealthy, raising growth, while growth further increases wealth concentration. Redistribution reduces inequality with rising growth costs at higher transfer rates	No: structural model; no empirical non-linearity or threshold estimated).

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