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Regional economic growth disparities: A political economy perspective

Tomohito Okabe, Timothy Kam



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# Regional Economic Growth Disparities: A Political Economy Perspective

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## Abstract

Regional differences in economic growth have been observed within many countries. Our story emphasises three region-specific factors driving growth—capital, labour and political factors. Conditional on differences in production factor (i.e., labor and capital) variations across democratic states, what role do differences in underlying “political factors” across regions play in accounting for regional growth disparities? We build a political economy model of endogenous growth where regions have the same political institutions, but experience different (and estimable) distributions over voter political biases (i.e., our “political factors”). In our model, political factors affect regional productivity as a consequence of politico-economic *equilibrium*. We discipline our regional growth accounting exercises by calibrating/estimating each model to American state-level economic and political-survey data. We show that the capital factor is the predominant driving force behind growth in American states. Nevertheless, regional variations in distributions of voter’s political biases also account a great deal for regional growth disparities. We also evaluate how much politics would have distorted agents’ welfare and regional growth, were regional economies given the opportunity to live under an efficient social planner’s allocation system; and, if agents were to live under the same democratic system but where all voters have equal voting influence.

**Keywords:** Endogenous growth; Growth accounting; Regions; Political economy; Voter biases

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