ECONOMIC FREEDOM, INCOME INEQUALITY AND ECONOMIC GROWTH IN DEVELOPING COUNTRIES

NORHAZLIN BINTI ISMAIL

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ECONOMIC FREEDOM, INCOME INEQUALITY AND ECONOMIC GROWTH IN DEVELOPING COUNTRIES

By

NORHAZLIN BINTI ISMAIL

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The importance of economic freedom and income inequality on economic growth has been extensively investigated. Income inequality itself is a problem that needs to be addressed. Yet, the dilemma whether economic freedom and income inequality actually help to explain the corresponding differences in across countries economic growth rates are still in debate. Thus, the aims of this study are to examine the link between income inequality and economic growth, to determine the effect of economic freedom on economic growth and to analyse the impact of economic freedom on income inequality.

In this study, two data sets are utilized corresponding to two economic freedom data sources. In the case where the economic freedom data set is obtained from Fraser Institute’s economic freedom 2012, then the number of developing countries is 65 countries over the period 1976-2010. In the case where the economic freedom data set is gathered from Heritage Foundation’s economic freedom 2012, the same sample countries are employed but the sample periods are from 1996-2010 since the first report started in 1995. Besides, the economic freedom, income inequality and economic growth data, data on institutions, investment, population, human capital and inflation are added in determining variation in economic growth. All the data are analysed using a dynamic system panel GMM estimation technique.

Several important findings are drawn from the study. First, the finding indicates that income inequality has a negative effect on economic growth. Policy makers need to reduce income inequality either through government spending, human capital or through minimum wage policy. Second, economic freedom and institutions variables affect economic growth positively. The sub-indicators of Fraser Institute of economic freedom namely, legal system and property rights, freedom to trade internationally, sound money, and regulation are found to have a positive effect on economic growth. The sub-indicators
of Heritage Foundation of economic freedom namely, monetary freedom and trade freedom are found to have a positive effect on economic growth whereas government spending, property rights, and business freedom are found to have a negative effect on economic growth. Since not all economic freedom sub-indicators contribute to the positive link, it is good for the policy makers to just concentrate on positive sub-indicators. Finally, this study found that economic freedom affects income inequality positively. An increase in economic freedom makes income inequality worsen. Size of government, legal system and property rights, and freedom to trade internationally contribute to the positive relationship between economic freedom and income inequality. Hence, taking into consideration the influence of economic freedom on economic growth, and income inequality, policy makers need to just focus on sound money, and regulation.

An increase in economic growth and income equality has been the centre of economic policymaking in many countries around the globe. As such, the issues presented in this study would serve as important guidelines to understand the influence of the economic variables on economic growth and income equality.
KEBEBASAN EKONOMI, KETIDAKSAMAAN PENDAPATAN DAN PERTUMBUHAN EKONOMI DI NEGARA-NEGARA MEMBANGUN

Oleh

NORHAZLIN BINTI ISMAIL

Jun 2014

Pengerusi : Associate Professor Law Siong Hook, PhD
Fakulti : Ekonomi dan Pengurusan

Kepentingan kebebasan ekonomi dan ketidaksamaan pendapatan ke atas pertumbuhan ekonomi telah di kaji secara meluas. Ketidaksamaan pendapatan itu sendiri adalah satu masalah yang perlu ditangani. Namun, dilemma samaada kepentingan kebebasan ekonomi dan ketidaksamaan pendapatan benar-benar membantu untuk menjelaskan perbezaan kadar pertumbuhan ekonomi di seluruh negara masih diperdebatkan. Oleh itu, matlamat kajian ini adalah untuk mengkaji hubungan antara ketidaksamaan pendapatan dan pertumbuhan ekonomi, untuk menentukan kesan kebebasan ekonomi ke atas pertumbuhan ekonomi dan untuk menganalisa kesan kebebasan ekonomi ke atas ketidaksamaan pendapatan.


Kajian telah menghasilkan beberapa penemuan penting. Pertama, kajian ini telah mendapati bahawa ketidakseimbangan pendapatan mempunyai kesan negatif ke atas pertumbuhan ekonomi. Pembuat dasar perlu mengurangkan ketidakseimbangan pendapatan sama ada menerusi perbelanjaan kerajaan, pelaburan sumber manusia, atau melalui dasar gaji minimum. Kedua, kebebasan ekonomi dan institusi mempunyai kesan

Peningkatan pertumbuhan ekonomi dan keseimbangan pendapatan telah menjadi dasar ekonomi di kebanyakan negara di seluruh dunia. Oleh itu, isu-isu yang dibentangkan dalam kajian ini akan bertindak sebagai garis panduan penting untuk memahami pengaruh pembolehubah ekonomi dalam meningkatkan pertumbuhan ekonomi dan keseimbangan pendapatan.
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I certify that a Thesis Examination Committee has met on 26 June 2014 to conduct the final examination of Norhazlin binti Ismail on her thesis entitled "Economic Freedom, Income Inequality and Economic Growth in Developing Countries" in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15 March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

**Zulkornain bin Yusop, PhD**
Professor  
Name of Faculty  
Universiti Putra Malaysia  
(Chairman)

**Dato' Ahmad Zubaidi bin Baharumshah, PhD**
Professor  
Name of Faculty  
Universiti Putra Malaysia  
(Internal Examiner)

**Normaz Wana binti Ismail, PhD**
Associate Professor  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Internal Examiner)

**Muhsin Kar, PhD**
Associate Professor  
Necemettin Erbakan University  
Turkey  
(External Examiner)

---

**NORITAH OMAR, PhD**  
Associate Professor and Deputy Dean  
School of Graduate Studies  
Universiti Putra Malaysia

Date: 19 September 2014
This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

**Law Siong Hook, PhD**  
Associate Professor  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Chairman)

**Muzafar Shah Habibullah, PhD**  
Professor  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Member)

**Zaleha Mohd Noor, PhD**  
Associate Professor  
Faculty of Economics and Management  
Universiti Putra Malaysia  
(Member)

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Declaration by Graduate Student

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th></th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>i</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>v</td>
</tr>
<tr>
<td>APPROVAL</td>
<td>vi</td>
</tr>
<tr>
<td>DECLARATION</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>xiii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xvi</td>
</tr>
</tbody>
</table>

## CHAPTER

1. **OVERVIEW OF THE STUDY**
   1.1 Introduction 1
   1.2 The Issues 4
      1.2.1 Economic Growth 4
      1.2.2 Income Inequality and Economic Growth 6
      1.2.3 Economic Freedom and Economic Growth 6
      1.2.4 Economic Freedom and Income Inequality 7
   1.3 Problem Statement 7
      1.3.1 Income Inequality and Economic Growth 7
      1.3.2 Economic Freedom and Economic Growth 9
      1.3.3 Economic Freedom and Income Inequality 12
   1.4 General and Specific Objectives of the Study 14
   1.5 Significance of the Study 14
   1.6 Scope of the Study 15

2. **LITERATURE REVIEW**
   2.1 Introduction 16
   2.2 Theoretical Effects between Income Inequality and Economic Growth 16
      2.2.1 Credit-Market Imperfections 16
      2.2.2 Social Conflicts and Political Instability 17
      2.2.3 Saving Rates 17
   2.3 Income Inequality and Economic Growth 17
      2.3.1 Simon Kuznets’ Inverted-U Hypothesis 18
      2.3.2 U-shaped Link between Income Inequality and Economic Growth 19
      2.3.3 Negative Link between Income Inequality and Economic Growth 19
      2.3.4 Positive Link between Income Inequality and Economic Growth 22
2.3.5 Inconclusive Link between Income Inequality and Economic Growth 23
2.4 Economic Freedom and Economic Growth 23
  2.4.1 Economic Freedom Sub-Indicators on Economic Growth 26
2.5 Economic Freedom and Income Inequality 28
  2.5.1 Economic Freedom Sub-Indicators on Income Inequality 30
2.6 Literature Gap 31
  2.6.1 Income Inequality and Economic Growth 31
  2.6.2 Economic Freedom and Economic Growth 31
  2.6.3 Economic Freedom and Income Inequality 32
2.7 Empirical Growth Models and Other Independent Variables 32
  2.7.1 Investment 33
  2.7.2 Population 33
  2.7.3 School Enrolment 34
  2.7.4 Inflation 34

3 METHODOLOGY
  3.1 Introduction 35
  3.2 Specification of the Model 35
  3.3 Solow Growth Model 35
  3.4 Cobb-Douglas Production Function 36
  3.5 The Role of Income Inequality and Economic Freedom on Economic Growth 40
  3.6 The Role of Economic Freedom on Income Inequality 41
  3.7 The Economic Freedom Sub-Indicators 42
  3.8 The Framework 45
  3.9 Dynamic Panel Data Analysis 46
    3.9.1 System GMM 46
  3.10 Data and Choice of Variables 49
  3.11 Correlation between Variables 55

4 EMPIRICAL RESULTS AND DISCUSSION
  4.1 Introduction 64
  4.2 Dynamic Panel Data Estimators 64
  4.3 Diagnostic Results 64
  4.4 Economic Freedom (Institutions), Income Inequality and Economic Growth (Model 1) 65
  4.5 Economic Freedom (Institutions), Income Inequality and Economic Growth (Model 2 with Interaction) 69
  4.6 Economic Freedom (Institutions), Income Inequality and Economic Growth (Model 3 with Various Economic Freedom Sub-Indicators) 74
  4.7 Economic Freedom and Income Inequality (Model 4) 86
  4.8 Economic Freedom and Income Inequality (Model 5 Economic Freedom Sub-Indicators) 91
5 CONCLUSION AND IMPLICATIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 Summary</td>
<td>99</td>
</tr>
<tr>
<td>5.2 Findings</td>
<td>101</td>
</tr>
<tr>
<td>5.3 Implications</td>
<td>104</td>
</tr>
<tr>
<td>5.4 Recommendations</td>
<td>105</td>
</tr>
</tbody>
</table>

REFERENCES 106
APPENDICES 112
BIODATA OF STUDENT 119