

# Regional Differences in Economic Growth: A Political Economy Approach

Tomohito Okabe \*†

Research School of Economics, Australian National University (ANU)

January 20, 2015

## Abstract

Regional differences in economic growth have been observed in many countries. In order to account for such differences, this paper proposes a political-economy model of endogenous growth embedded with three region-specific channels: a market and a political institution as well as inherent potential. Those channels shape the balanced growth path of a local economy via democratic elections where conflicts of interests arise among heterogeneous agents. The proposed model allows for a new growth accounting that finds out the impacts of individual region-specific channels on growth. We illustrate the growth accounting, using the model calibrated with American cross-state data. We show that a notion of the market institution is the predominant driving force for growth in most of the selected states. Nevertheless, the political institution also exhibits a sizable impact on growth. We also evaluate the political distortion in welfare and growth caused by our model's electoral competition.

**Keywords:** Endogenous growth; Growth accounting; Regions; Political economy; Institutions

**JEL Classification:** E02; D72; O43; O47; R11

---

\*Address: Canberra, ACT 0200 Australia, telephone: +61-2-6125-3854, e-mail: [tomohito.okabe@anu.edu.au](mailto:tomohito.okabe@anu.edu.au). I thank Timothy Kam, John Stachurski and Gaurab Aryal for their advice and encouragement. I am grateful to Chung Tran, Jyun-ichi Itaya, Toshihiro Ihuri, Pedro Gomis-Porqueras, and Rod Tyers for their helpful suggestions. I appreciate comments from participants in Third ANU-Japan Workshop on Public Economics, RSE Brown-bag Seminar at ANU, Modern Economics Seminar at Hokkaido University, Workshop of the Australasian Macroeconomic Society at University of Melbourne, and PhD Conference in Economics and Business at Monash University.

†The updated paper can be accessed from <http://tomohito-okabe.strikingly.com>