Financial Development and Economic Growth in Taiwan and Japan
Chicago school might be right

Tuswenbiing Chang
Department of Business Administration, Shih Chien University Kaohsiung Campus

Hsiu-Yun Lee*
Department of Economics, National Chung Cheng University

Abstract

This paper investigates the hypothesis that financial development facilitates economic growth, by using data on Taiwan and Japan over the past 40 years. Regressing growth variables on various measures of the level of financial development that were found to be contributive to growth in endogenous growth literatures, our results do not support above hypothesis in these two economies. Moreover, our findings are robust to different growth measures, such as per capita GDP growth, investment efficiency, exports efficiency, and return rates of capital, to different control variables, and to different sample periods. Since our empirical results are in contrast to that banking and financial regulations matter for economic growth, they appear to support Chicago school's policy ineffectiveness hypothesis.

Keywords: Financial Development, Economic Growth, Policy Ineffectiveness.

JEL Classification: E44, O16, O42.

* Corresponding author, E-mail: ecdsyl@ccu.edu.tw.