What a Puzzle It is!  Does Financial Development Really Benefit Economic Growth?

Chiou-Rung Chen, Chai-Liang Huang and Feng-Hueih Huarng

This study investigates the impacts of financial intermediary and stock market on economic growth for 49 countries over 1960~2004. The results show that stock market exhibits significantly positive effects on economic growth. On the contrary, financial intermediary displays significantly varying effects of economic growth over the level of financial intermediary development. Financial intermediary accelerates economic growth in low level of financial intermediary development, and turns to mitigate economic growth as financial intermediary development getting into high level. Furthermore, this essay finds that stock market does assist in boosting both of productivity growth and capital accumulation, and thus speeding up economic growth for both of developing and industrial countries over 1980~2004. And, it boosts productivity growth primarily by advancing technical progress (frontier shift effect), rather than improving efficiency (catching up effect) in all of sample countries. In contrast, financial intermediary conveys its impacts on economic growth primarily only by productivity growth, rather than by capital accumulation. And, the impacts of financial intermediary on productivity growth mainly by efficiency change effect, rather than by technical change effect.

Keywords: Financial Development, Economic Growth, Productivity Growth, Efficiency Change Effect ( Catching-Up Effect ), Technical Change Effect ( Frontier-Shift Effect ), Capital Accumulation.