

## **Long-Run Growth Regression**

Michele Battisti  
Università di Palermo

Di Vaio  
Cassa Depositi e Prestiti

Zeira  
Hebrew University of Jerusalem

Growth regressions have been a very important tool in the research of economic growth in the last two decades. This paper deals with the possibility that the country steady states are not fixed over time but tend to grow in some correlation with the global frontier. The paper shows that taking this into consideration leads to a number of significant implications regarding not only initial output of the same country, but also a variable measuring the global growth frontier. Secondly, we show that even if countries converge to their own steady states, many do not fully catch up with the global frontier and tend to increasingly lag behind, namely to diverge from it. Third, when analyzing the effects of various explanatory variables, on the steady states, we are able to disentangle the effect on the level of the steady state from the effect on its rate of catch up with the frontier. These findings lead us to think further on the meaning of convergence, as it is measured in standard growth regressions. Our results enable us to examine which variables affect only the level of the economy and which variables affect also its ability to catch up with the frontier.