Social conflict, growth and factor shares

Abstract
Standard growth theory is based on atomistic agents with no strategic interactions among them. In contrast, we model growth as resulting from a one-off, strategic game between 'workers' and owners of capital ('capitalists') on factor shares, in an otherwise standard 'AK' growth model. The resulting distribution of income between factors further determines the marginal revenue product of capital and the rate of growth. We analyse the properties of four equilibria: competitive, Stackelberg equilibrium, a hybrid non-cooperative regime and cooperative, in terms of labour shares, growth and welfare. Our model thus endogenizes key aspects of the 'social contract'. © 2010 Blackwell Publishing Ltd.

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