

Intangibles, Inequality and Stagnation

Nobuhiro Kiyotaki* and Shengxing Zhang†

August, 2017

Abstract

We examine how aggregate output and income distribution interact with accumulation of intangible capital over time and across generations. We consider an overlapping generations economy in which skill of managers (intangible capital) is essential for production along with labor, and managerial skill is acquired by young workers when they are trained by old managers on the job. Because training is costly, it becomes investment in intangible capital. We show that, when young trainees face financing constraint as a result of limited commitment and mobility of human capital, a small difference in initial endowment of young workers leads to a large inequality in the assignment and accumulation of intangibles. A negative shock to endowment can generate a persistent stagnation and a rise in inequality.

*kiyotaki@princeton.edu, Department of Economics, Princeton University.

†s.zhang31@lse.ac.uk, Department of Economics, London School of Economics.