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"Social Structure & Human Capital Dynamics"

Abstract

Abstract. This paper studies how social structures affect the dynamics of growth and inequality. We investigate how societies that are identical in terms of economic primitives, such as preferences, technology and endowment, can have different equilibrium dynamics. We do this by explicitly embedding networks that resemble social structures into an otherwise standard framework with overlapping generations, in which parents invest in the education of their offspring. We show that even if the population is initially heterogeneous, there exists a balanced growth path with no inequality for all networks, which is independent of the social structure. However, its local stability and transition dynamics depend on the network at hand, summarized by a measure of network cohesion. We find that as cohesion increases, the parameter region for which the balanced growth path is stable becomes larger; i.e. it becomes more likely that society will converge to a path of equality. Unlike the typical approach in the literature, which concentrates on segregated versus integrated societies; we also quantify the transition of a range of networks that represent stylised versions of society with varying degrees of social cohesion. Of those, the star network (representing for example a city with high human capital, which is linked to the periphery) provides relatively low inequality and the highest level of growth during transition.