

## Poor's behaviour and inequality traps: the role of human capital

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We evaluate whether and how the persistence of inequality and the presence of inequality traps carry over the persistence of poverty and possible aggregate economic inefficiencies. We propose a microeconomic formalization of one possible definition of poverty and of the behaviour of poor and rich agents. Poverty is defined as lack of or low societal participation, which is source of both a direct private benefit and an indirect gain. Analysing poverty under the individual rational choice, we are able to endogeneize the threshold amount of the participation good needed to join the additional indirect benefit as well as the threshold level of income - the poverty line - needed to buy that amount; further we find the conditions for their existence which in turn determine also their level. In an overlapping generation structure we show that in economies starting largely poor two equilibria exist; one low locally stable equilibrium to which low and middle-income class converge and one upper locally unstable over the which richer classes of income enter an explosive path, with unbounded growth rates of personal income. In the rich regime the whole population enter the explosive path, with unbounded growth rates. We are able to enrich the dynamics a la Galor and Zeira (1993) in an economic environment with perfect capital markets, instead of the assumption of markets imperfections, by introducing a methodological innovation which connects the presence of the externality in the human capital accumulation of the children directly to the preference of parents. By further restricting the functional form of the initial income distribution to be lognormal we find that the mean income and the variance (i.e. inequality) of the richer part of the distribution are always higher than the ones of the lower part; moreover, while within the poor class inequality tends to zero in the very long-run, within the richer class inequality is increasing at an increasing rate. Finally, a negative relation between initial inequality and economic growth is observed. The inequality traps which cause the poor regime to emerge are also sources of aggregate economic inefficiencies, which can be eliminated by reducing income disparities accordingly.