

## WAGES, PROFITS AND CAPITAL FLIGHT

Abstract: We model capital flight as the outcome of a non-cooperative differential game between workers (who control the wage share) and capitalists (who control investment at home and abroad). There are three equilibria for such a game. Along the interior equilibrium, the domestic economy becomes "decapitalized" as investors build up their holdings of foreign assets, in a situation reminiscent of the experience of several developing countries.

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