

We examine a setting in which each of two agents allocates his initial endowment between a productive input and directly unproductive activities (arms investments, influence, or rent seeking activities). The total (useful) product is produced by the two inputs and divided between the agents according to their relative contributions in the unproductive activity. Various possible improvements in an agent's useful productivity reduce the agent's equilibrium share of income but increases in initial endowments increase an agent's share. We contrast our results to those that would obtain in the competitive counterpart to our model. All results extend to a class of models where distribution is determined between two groups of agents, with agents within each group behaving noncooperatively.