

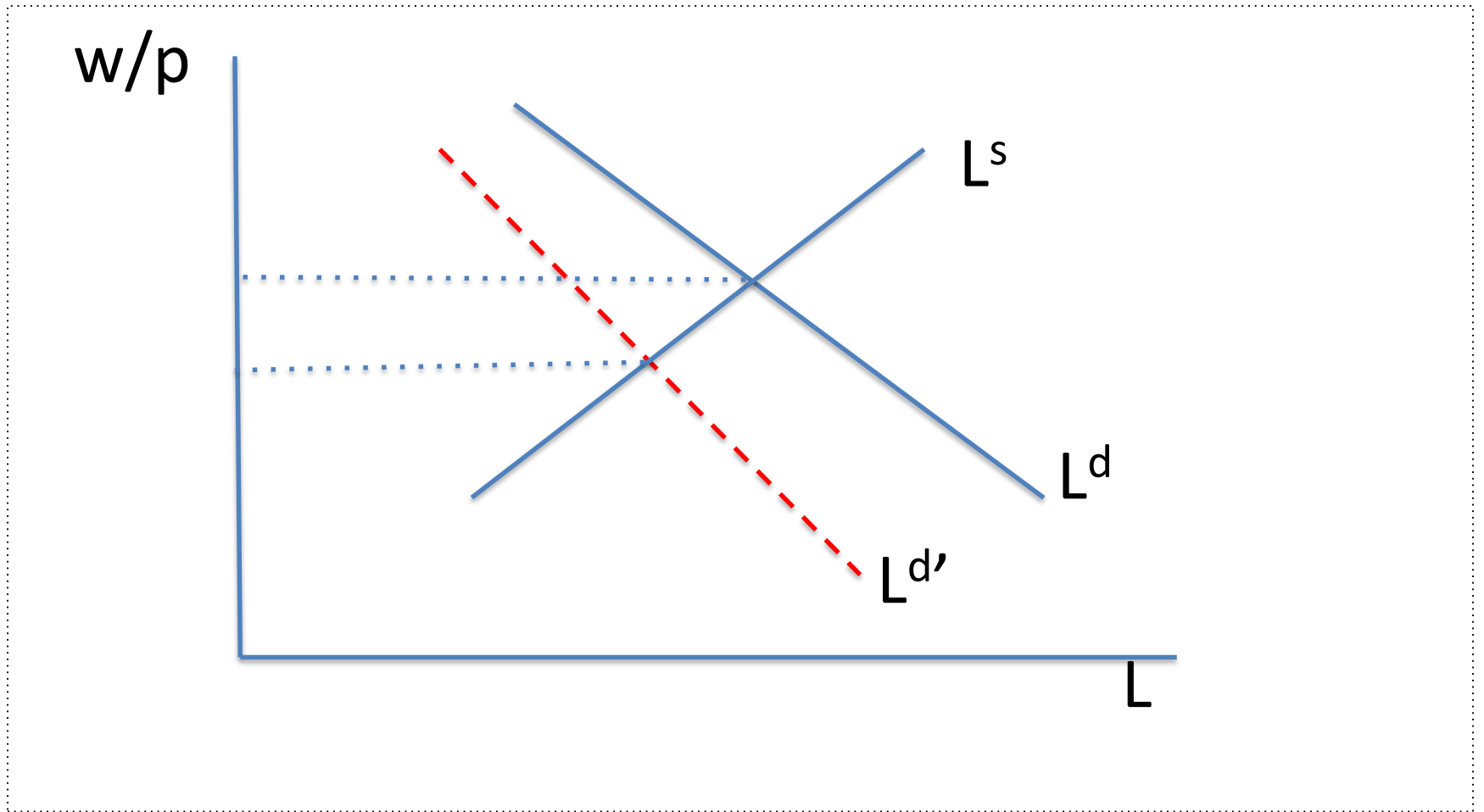
Robber Barons, stupid!

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Background

- ‘Conventional wisdom’ on growth of inequality: it’s technological change, globalisation & decline of unions, top tax rates...
- ‘reduced competition’ until recently is less often mentioned...indeed competition more often blamed
- This paper joins the ‘new wisdom’: *this is Robber Baron era*
- New wisdom story...Focus here on a political mechanism and this is where the experiment comes in (not directly in sense of politics but indirectly ...)

Econ 101



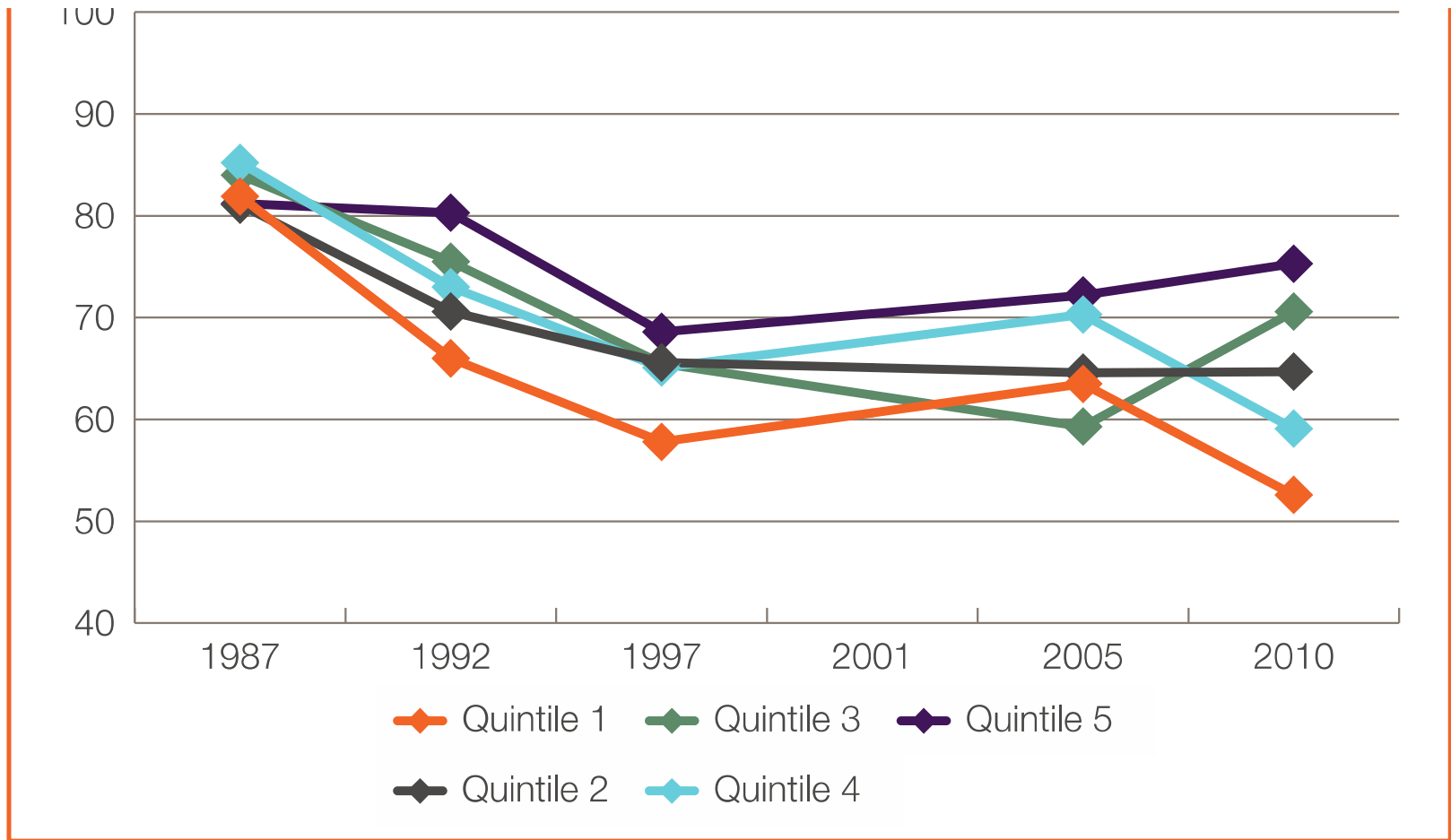
The evidence on weak product market competition and inequality

- Declining wage share and increased mark-ups in US Business sector (Barkai, 2017)
- Evidence on increasing concentration in US industry (CEA, 2016, Autor et al, 2017) & more generally (Economist, 2017)
- Evidence on growing gap in performance of top performing companies and the 'tail' in US and UK (e.g. Haldane, 2016).

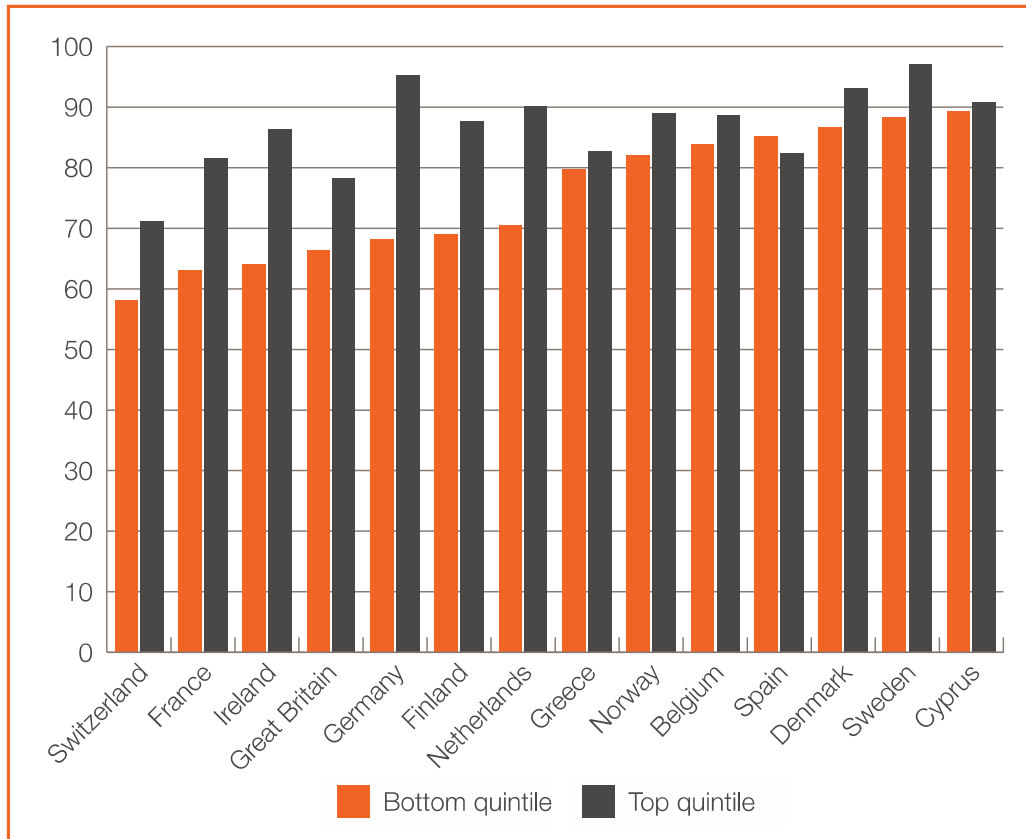
Political mechanism: or rather its absence

- Conventional wisdom (from Meltzer and Richard, 1981): Inequality and gap between median and mean
- Voter turnout: poor increasingly stopped voting as inequality increased
- 'Rich' stopped caring (about others) as inequality increased (Piff et al, 2012)
- Net effect no political mechanism/check on rising inequality

UK voter turnout by income quintile



International voter turnout by top and bottom income quartile

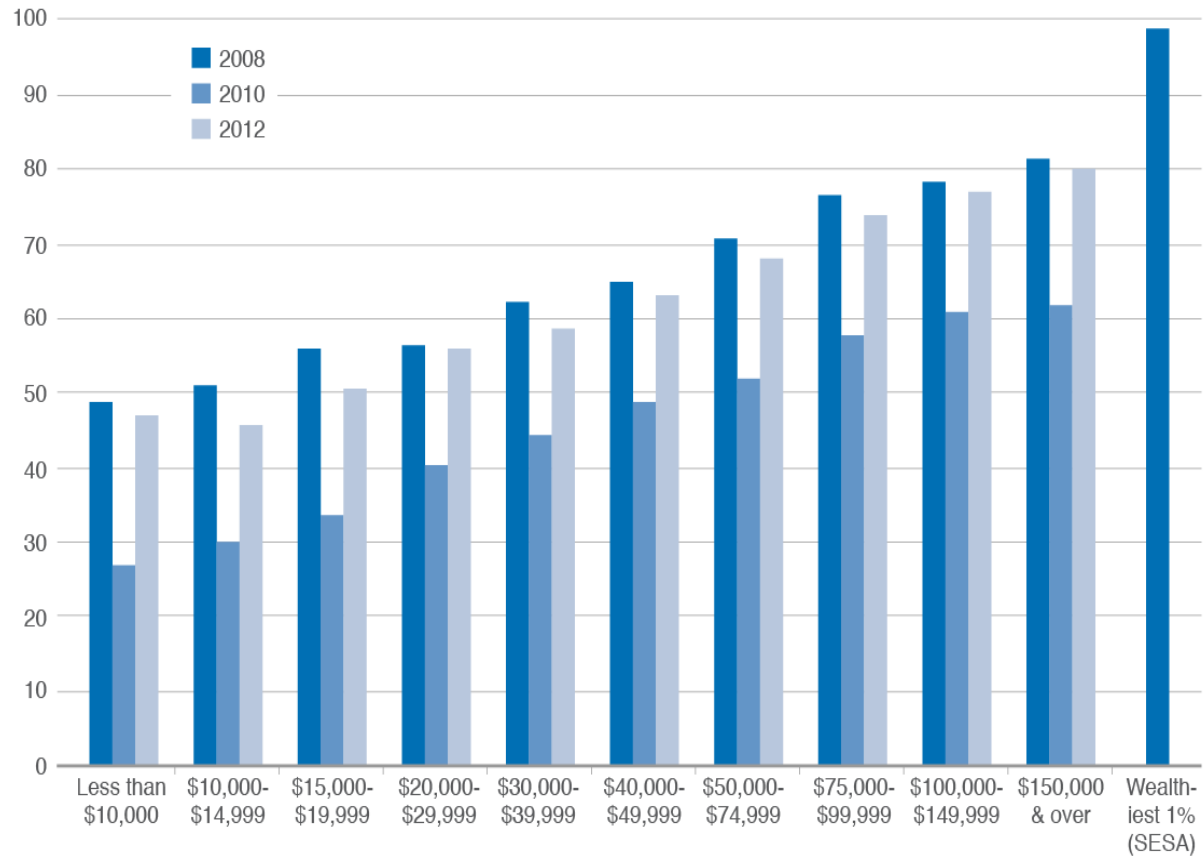


Source: European Social Survey, 2010 – Wave 5

Question: 'Did you vote at the last national election?' Does not include those who were ineligible to vote at last election.

Voter turnout in US

Figure 1. Voter Turnout, by Household Income, 2008 - 2012



Source: Census Data, Supplemented by SESA 2013

Experimental set up (joint with Abhi Ramalingam and Brock Stoddard)

- Subjects are formed into groups of 3 who play a public goods game (MPCR=0.5) under conditions that vary along two dimensions
- **Dimension 1:** equality/inequality within the group (everyone [20]/[50]/[80] cf. [20,50,80])
- **Dimension 2:** competition/no competition between groups for a prize (120) where likelihood of winning depends on relative size of each group's contributions to public good

Details continued

- Run at UEA
- 12-18 subjects in a session
- Partner matching of groups in competition treatments
- Correct answers to a quiz before decisions
- 150 tokens = £1
- Subjects earned on average £10-11 for a session lasting 45 minutes

Results: % contribution to PG

	EQUALITY (with different equal endowments)			INEQUALITY (by endowment in unequal group and average)			
	20	50	80	20	50	80	Average
NO COMP	44.04	49.86	51.27	49	50.49	33.05	40.99
COMP		57.85		67.44	66.72	55.59	60.88

Summary

- Background 'new wisdom': lack of competition (in product markets)-> inequality
- Similar conclusion here via an understanding of politics of redistribution: **greater competition may build a constituency for redistribution (notably among the 'rich')**
- Broadly consistent with what we know about how uncertainty affects inclinations to redistribute