

Democracy, Inequality and Antitrust

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Research Question

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Yes, but...

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- Voters have **political** interest in strong competition laws
- **Democracy** therefore makes the adoption of strong competition laws more likely
- But this relationship is moderated by **high levels of inequality** that empower concentrated economic interests

Overview of Evidence

We examine this dynamic through a variety of analyses:

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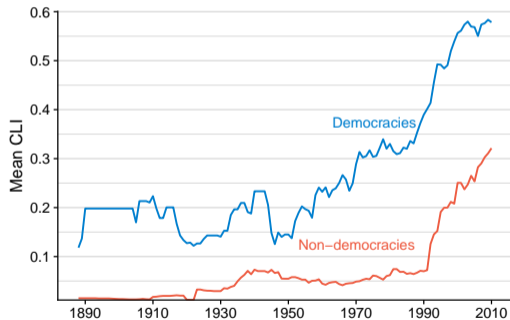
1.

Theory & Data

Democracy & Inequality

Democracy → Antitrust?

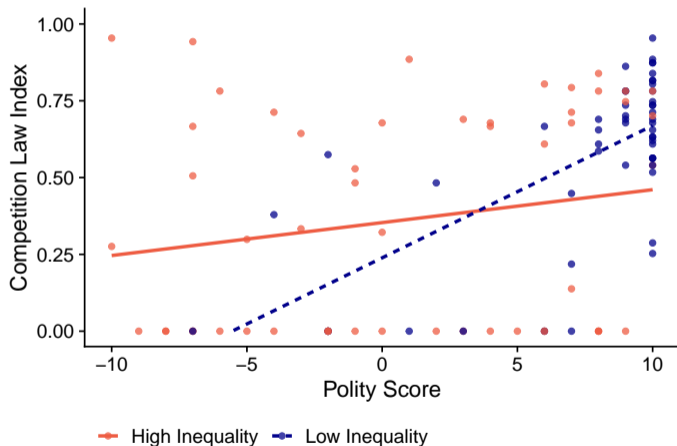
- **Economic:** Concentration drives inequality
- **Political:** Inequality empowers economic elites
- Mixed expectations:
 - **Increase** popular demand
 - **Decrease** ability to legislate



The Comparative Competition Law Dataset

- Large scale data collection effort led by Anu Bradford and Adam Chilton
- Codes antitrust laws in over **120 countries**
- We use the project's aggregated measure, the **Competition Law Index**
 - Allows for intertemporal and crossnational comparison
 - Runs [0, 1] incorporating 36 distinct dimensions of antitrust laws

Democracy, Inequality & Antitrust in 2010



Predicting the Strength of Antitrust Laws

- Estimate how marginal effect of **democracy** varies by **inequality**

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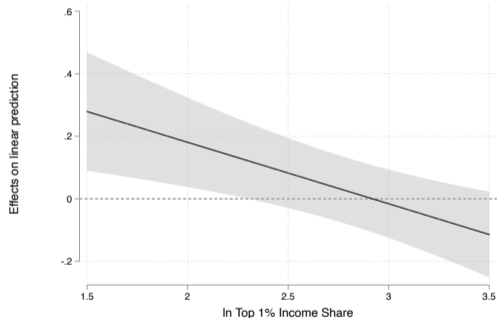
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 - GDP
 - GDP per cap
 - Trade dependence
 - Economic crisis

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Other period lengths

2.

Antitrust after Democratic Transition

Democratization

- Narrow focus onto periods of **democratic transition** under conditions of high and low inequality
- Estimate effect of democratization on antitrust using semi-parametric differences-in-differences estimator
 - Persson & Tabellini 2007; Imai, Kim & Wang forthcoming

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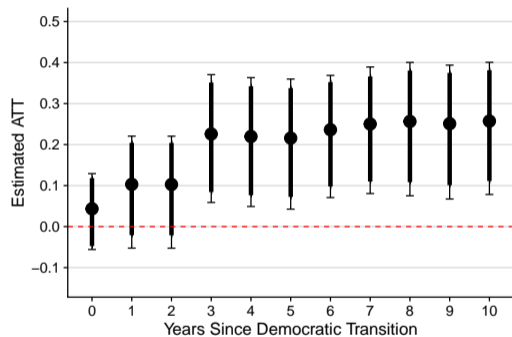
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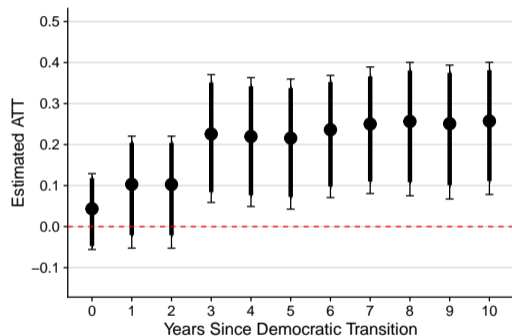
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5. Take the difference between average change of treated and control groups for each time period.

Results

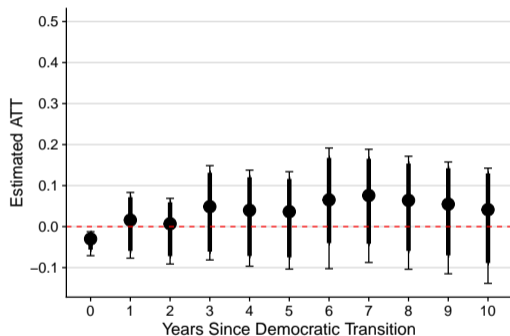


(a) Low Inequality Sample

Results



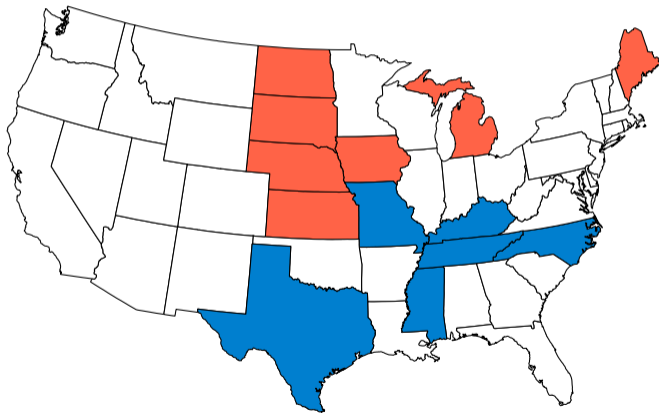
(a) Low Inequality Sample



(b) High Inequality Sample

3.
Antitrust in High Inequality
United States,
1888-1918

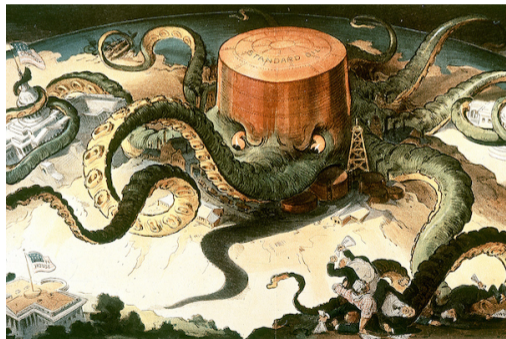
State Antitrust Laws prior to the Sherman Act



The Sherman Act (1890): Inauspicious Origin?

Sherman Act weak by contemporary standards:

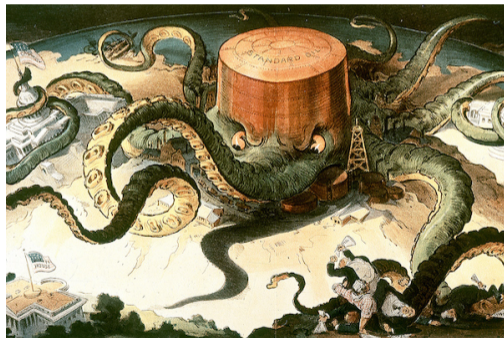
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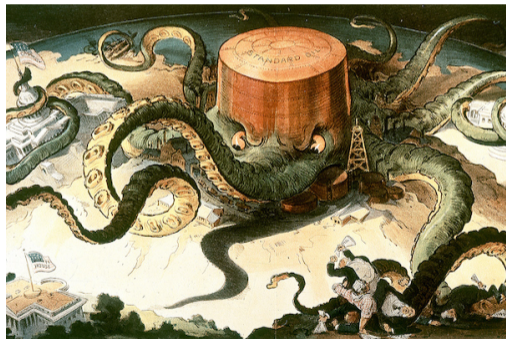
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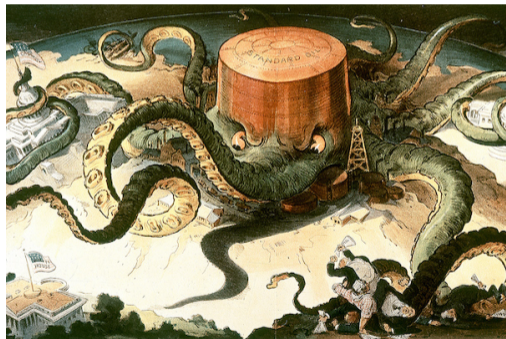
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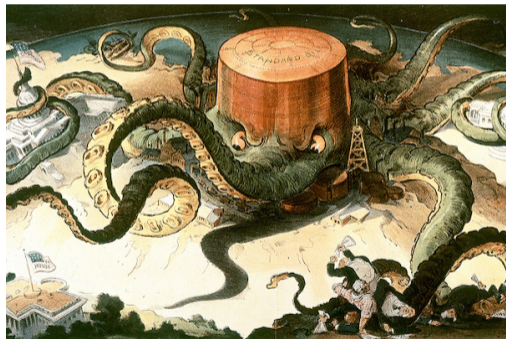
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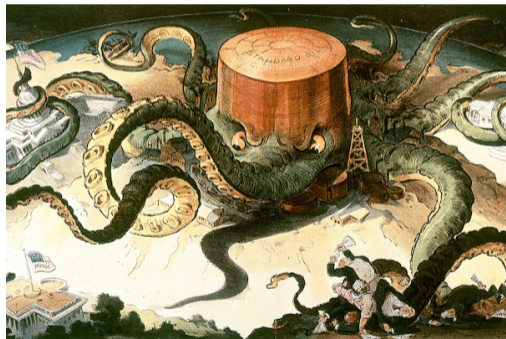
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- Options not taken:
 - State laws went beyond common law rules
 - House amendments voted down by the Senate
- Elite opposition
 - Weak federal enforcement
 - Narrow judicial construction



Progressive Era Antitrust Reforms

Clayton Act (1914)

- Strengthened antitrust laws

OF THAT STATUTE FOR THE PAST DECADE.
* "I was approached by both men and women lobbyists while the Clayton bill was before the Senate," said Mr. Nelson. "Never before have I seen such lobbying during my experience in Congress. But it has become mild, indeed, since this conference report was made public. The conferees weakened the bill very much and played into the hands of the trusts."
"Have you not been approached and

("ATTACK CLAYTON BILL." *New York Times*. October 1, 1914.)

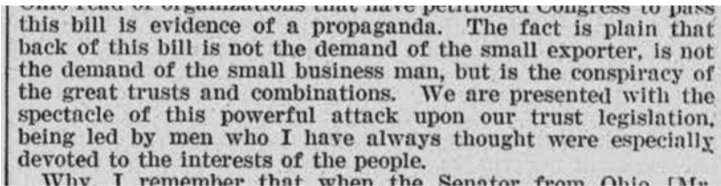
Progressive Era Antitrust Reforms

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- **Strengthened** antitrust laws

Webb-Pomerene Act (1918)

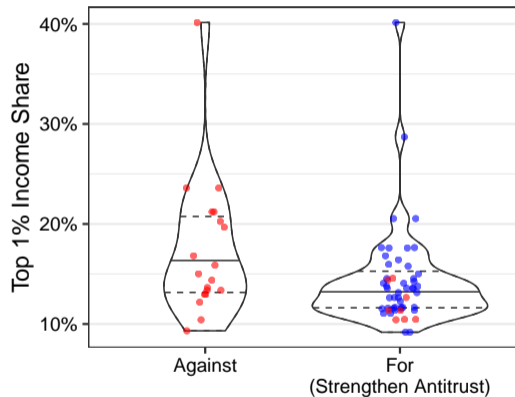
- **Weakened** antitrust laws



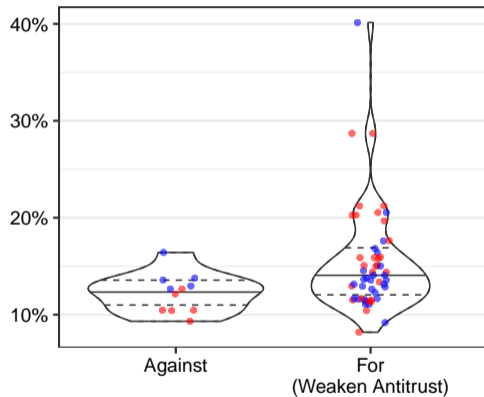
...this bill is evidence of a propaganda. The fact is plain that back of this bill is not the demand of the small exporter, is not the demand of the small business man, but is the conspiracy of the great trusts and combinations. We are presented with the spectacle of this powerful attack upon our trust legislation, being led by men who I have always thought were especially devoted to the interests of the people.
Why I remember that when the Senator from Ohio [Mr.

(*Congressional Record* vol. 56-1, p. 178)

Partisanship, Inequality & Vote Choice



(a) Clayton Act



(b) Webb-Pomerene Act

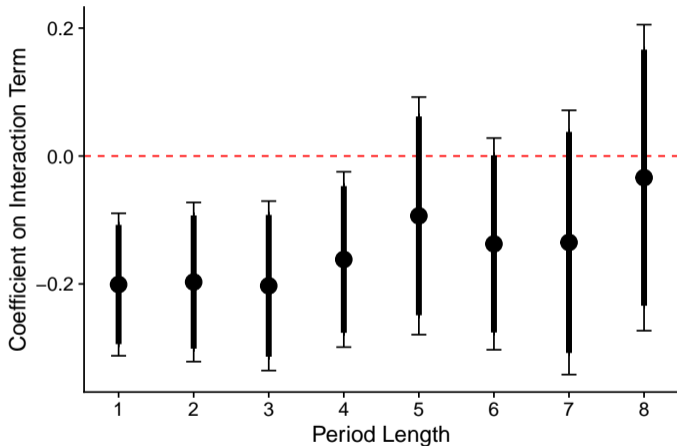
Conclusion

- Inequality **hinders** the democratic tendency towards regulation of competition and big business
- Our findings contribute to growing fears concerning democracy's inability to **manage capitalist excess** that may threaten democracy itself
- Future: autocracy and antitrust, particularly after 1990.

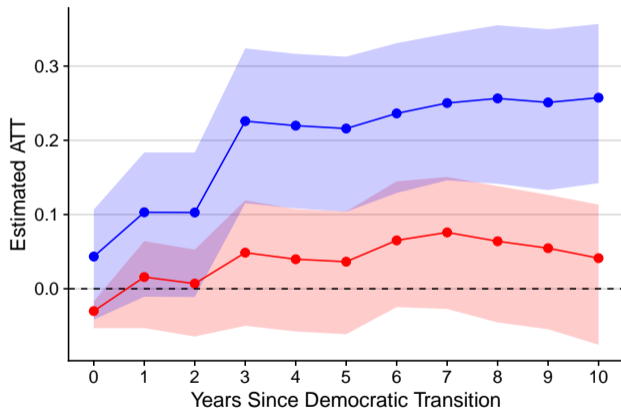
Appendix

1. TWFE, Alternative Period Lengths
2. Do PanelMatch estimates differ from each other?
3. Pre-treatment Covariate Balance
 - Low Inequality Sample
 - High Inequality Sample
4. US Vote Regression Results

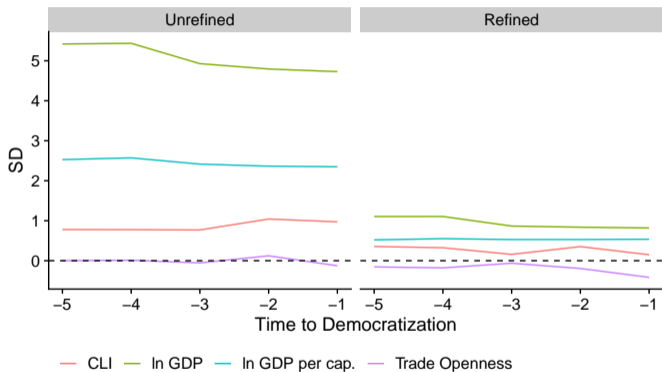
Alternative Period Durations



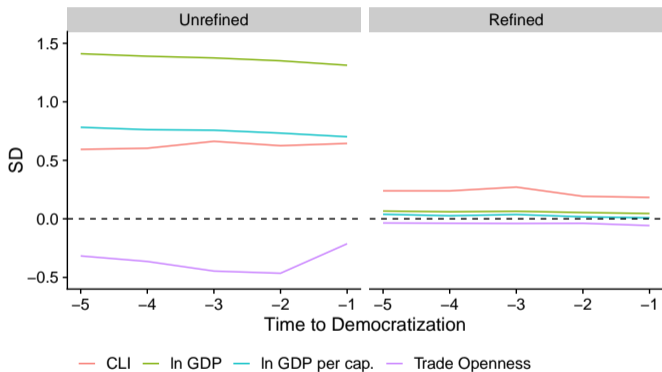
Do high- and low-inequality transitions differ from each other? (83% CIs)



Covariate Balance: Low Inequality



Covariate Balance: High Inequality



Predicting Antitrust Votes in the Senate

Inequality

State-level inequality in 1917, World Inequality Database

Direct Election

Data on original mode of selection into the Senate, Meinke (2008)

Controls

Level of manufacturing, *Census of Manufacturing*

Partisanship

Clayton Act

| | (1) | (2) | (3) | (4) | (5) |
|--------------------------------------|--------------------|------------------|--------------------|--------------------|--------------------|
| Selected by leg. | -1.56*** (0.49) | | -1.55*** (0.52) | -1.53*** (0.49) | -0.04 (1.02) |
| In Top 1% Inc. Share ₁₉₁₇ | | -1.16* (0.59) | -1.16* (0.65) | -1.20 (0.75) | -6.93*** (1.98) |
| In Manufac. Prod. | | | | 0.03 (0.15) | 0.67** (0.31) |
| Observations | 71 | 71 | 71 | 71 | 27 |
| Log-likelihood | -34.04 | -38.89 | -31.94 | -31.92 | -9.80 |

Webb-Pomerene Act

| | (1) | (2) | (3) | (4) | (5) |
|--------------------------------------|----------------|------------------|------------------|-----------------|------------------|
| Selected by leg. | 0.69 (0.43) | | 0.81* (0.43) | 0.82* (0.44) | 0.85** (0.43) |
| In Top 1% Inc. Share ₁₉₁₇ | | 2.14** (0.91) | 2.41** (1.07) | 2.31* (1.21) | 2.13** (1.05) |
| In Manufac. Prod. | | | | 0.03 (0.18) | 0.06 (0.18) |
| Democrat | | | | | 0.21 (0.38) |
| Observations | 65 | 65 | 65 | 65 | 65 |
| Log-likelihood | -28.12 | -26.68 | -25.06 | -25.05 | -24.94 |