Democracy, Inequality and Antitrust

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Research Question

Does democracy facilitate the regulation of monopolies?
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Yes, but...
Overview of Argument

• Consumers have **economic** interest in strong competition laws
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• Voters have political interest in strong competition laws
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- **Democracy** therefore makes the adoption of strong competition laws more likely
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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:

- Descriptive evidence of relationship between democracy, inequality and antitrust
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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

![Graph showing the relationship between mean CLI and time]

Democracies
Non-democracies

Mean CLI

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

The diagram illustrates the relationship between Polity Score and Competition Law Index. The data points are color-coded to represent High Inequality (red) and Low Inequality (blue). The scatter plot shows a general trend where countries with higher Polity Scores tend to have higher Competition Law Index values, indicating a potential correlation between democratic governance and competition law effectiveness. The graph implies that more democratic countries may also have more robust competition laws, which could contribute to economic efficiency and fair competition.
Predicting the Strength of Antitrust Laws

• Estimate how marginal effect of democracy varies by inequality
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• Control for...
  • GDP
  • GDP per cap
  • Trade dependence
  • Economic crisis
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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
Panel Matching

1. Match each country that transitions to democracy at time $t$ with a control group of all non-democratic countries.
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2. Estimate the propensity of all countries in the control group to democratize at time $t$. 

3. Weight units in each control group based on the difference in the propensity scores between the democratizing country and its control countries.

4. Calculate average change in CLI for the democratizing countries and the weighted control groups from $t-1$ to $t+10$.

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

- 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
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Progressive Era Antitrust Reforms

Clayton Act (1914)
  • **Strengthened** antitrust laws

(“ATTACK CLAYTON BILL.” *New York Times.* October 1, 1914.)
Progressive Era Antitrust Reforms

Clayton Act (1914)
• Strengthened antitrust laws

Webb-Pomerene Act (1918)
• Weakened antitrust laws

(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

![Graph showing coefficient on interaction term against period length]
Do high- and low-inequality transitions differ from each other? (83% CIs)
Covariate Balance: Low Inequality

![Graph showing time to democratization and various economic indicators](image)

- CLI
- In GDP
- In GDP per cap.
- Trade Openness

Appendix TOC
Covariate Balance: High Inequality

Appendix TOC
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

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## Webb-Pomerene Act

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