INET Taskforce meeting

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Overview of projects

- I work on inequality and rent seeking and my research agenda at Columbia focuses on market power as one of the forms of rent seeking that may drive inequality.

Firms’ Rent-sharing and Inequality

- In one of my papers – Rent seeking induced inequality traps – I model an inequality trap.
- An inequality trap is just like a poverty trap, except we’re looking at the entire wealth distribution instead of single agents, where the poor remain poor and the rich remain rich.
- Think of the Ancien French regime. Elites could tax peasants, and not the other way round. A rich person could purchase elite status by paying the King a tribute

- I model a similar economy where agents are endowed with different resources (for whatever reason) and they have the option to spend some of those resources to appropriate from others (while protecting themselves).
- Then some of the agents will choose to engage in rent-seeking behavior.
- I show that such rent seeking leads to even higher inequality. And the more unequal the initial distribution of resources, the more rent-seeking activity we will see.
- This reinforcement gives rise to an inequality trap.

Extension 1

- In another section of the paper, I show that when the King chooses the amount of the tribute to maximize his revenue, more inequality may not lead to more rent-seeking activity.
- But the economy still ends up with higher ex-post inequality (as in the Gini coefficient).

Extension 2

- Generalized function of rent seeking - labor and capital
- When labor is cheaper – poor engage in rsb
- When capital is cheap – rich engage

That paper led me to write about firms-driven inequality.

- A bunch of empirical papers suggest that market power and profits are on the rise. Though there is some discussion of rent sharing between firms and employees, papers that investigate firm-level wage inequality are mainly seeing it from the lens of sorting and matching. No doubt there is some of that.
- But not enough attention is being given to the rent-sharing model. For example, why would firms share rents with their employees? Because if they are sharing rents and we believe it is not out of the benevolence of the managements' hearts, then what is going on? What are the conditions that compel firms into rent sharing and is it good or bad for the market competition and economic growth?

Sorting

- (Sorting – some worker and firm matches produce more efficiently because match quality is higher. So when workers sort into their better match firm – for example, high productivity worker with high productivity firm – they produce more and hence the worker receives higher wages. This theory says that workers are earning their marginal productivities, and the same worker may have different MPs in different firms)

- To answer this question, I’m developing a model of **endogenous growth** ala Aghion and Howitt, albeit with an **endogenous rate of innovation** and hence market power. (This theory has to assume that firms are earning rents – above normal profits, and workers are receiving more than their MPs at the firms that capture rents.)
- The capitalist strives to maximize long run profits by using its available resources, and one of the ways to achieve that is to limit its competition. In my model, the dominant firm could use its quasi-rents to raise rivals costs. One of the ways of doing this is to overpurchase knowledge workers, which are limited in number, by offering them higher wages. A new firm cannot afford those wages.

- As of now, I’m working on showing that with lower competition and slower rate of innovation, the growth rate of the economy would fall.
- Policy relevance – In such a model, it would appear that dominant firms are offering higher wages to productive employees, leading to the patterns of wage inequality similar to the data. However, unlike the sorting model, some workers are earning higher than MP wages. Incumbent firms are maintaining their dominance not through innovation, but just by maintaining their market power.
- This kind of inequality is not efficient and may lead to lower economic growth

Ongoing projects

- Market power and inequality – rent-seeking behavior (lawyers fees or such component of 10K form) and markups, share of labor
- Empirical idea **– CEO compensation, the life of rents, deregulation of anti-trust policy**
- Antitrust in the marketplace for ideas
- **My other field of specialization is education economics. One of my papers is how the marital norm of marrying up may create a drag on women's education.** I use US Census data.
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