

Why are heterogenous societies inefficient? Theory, history and an experiment

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Abstract:

We examine why heterogenous societies fail to provide public goods. Current work assumes that sanctioning free-riders is hard, due to a second order public goods problem. We argue that groups can often easily coordinate to expropriate free-riders, but they may use this power to expropriate minorities. The inefficiency of heterogenous societies comes from interactions between individual free-riding and collective threat. We illustrate our theory with evidence from the California Gold Rush. Lastly we test the theory by replicating inefficiency in a “minimal group” laboratory experiment.