

Crowd wisdom economics: The bad news

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(Phys.org) —Volkswagen is simply a better car company than Fiat. Profits are higher, and so are wages. Why doesn't Fiat just be like VW? Why doesn't Italy, for that matter, emulate Germany? Is it elites that perpetuate lousy economic institutions and unhelpful social norms? Or is it the weight of tradition? Or maybe people are just dumb.

Maybe none of the above: Even the most rational people often persist in perpetuating a status quo that leaves everyone worse off. That is the message of a new paper published in the *American Economic Review* by Marianna Belloc (Sapienza University, Rome) and SFI Professor Samuel Bowles.

The researchers show that groups of people can get stuck in a bad situation because nobody has an incentive to make a change unless most of the others also make the move. At Volkswagen, managers share decision making with workers and workers work cooperatively, to everyone's benefit. At Fiat, managers make all the decisions, and workers take an aggressive stance toward their managers.

"As long as managers at Fiat act like control freaks, workers have no incentive to cooperate," Bowles explains, "and as long as [workers](#) are ready to hit the barricades at the drop of a hat, managers have little incentive to give them a seat at the table." Belloc and Bowles provide a [mathematical model](#) of how dysfunctional institutions and cultures can persist indefinitely in these vicious circles. Their work is part of SFI's ongoing research on the [coevolution](#) of institutions and behaviors, the topic of a regular series of SFI working groups.

Change for the better can happen, the researchers show, when enough people just refuse to conform to the status quo. But those who do this lose economically by stepping out. Think: Rosa Parks. And unless the deviants get together, it can be a long wait until this happens; longer still the more intent people are on maximizing their own gains.

And there's news for those who believe a rising tide lifts all boats: trade liberalization will slow the transition to a better situation.

Belloc explains: "Even in a lousy status quo, the economic gains from [trade liberalization](#) mean that it makes less sense to risk losing out by swimming against the current."

More information: [www.aeaweb.org/articles.php?hs ...
10.1257/aer.103.3.93](http://www.aeaweb.org/articles.php?hs...10.1257/aer.103.3.93)

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