Entrepreneurship & Inequality, or Why Do Some Entrepreneurs Become Filthy Rich?

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The Rules of the Game

- One player in each pair bets on each flip (up to maximum of 3 coins)
- Winner of the bet takes the coins from the loser, regardless of who flipped or made the bet
- Players must flip quickly & cannot stop betting
- Players cannot borrow coins once they go bankrupt
- If bankrupt, players are out of the game
Figure 1. Results of Our Game

<table>
<thead>
<tr>
<th># of coins</th>
<th>Rounds</th>
</tr>
</thead>
<tbody>
<tr>
<td>20+</td>
<td></td>
</tr>
<tr>
<td>15-19</td>
<td></td>
</tr>
<tr>
<td>10-14</td>
<td></td>
</tr>
<tr>
<td>5-9</td>
<td></td>
</tr>
<tr>
<td>1-4</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Why Did “X” Do So Well?

• And the answer is?
Why Did “X” Do So Well?

• “I had a strategic plan & executed it”
• “I bet heads all the time”
• “I flipped slowly”
• “I kept track of results and bet the opposite of the last flip”
What does this distribution resemble?

• And the answer is?
What does this distribution resemble?

- Distribution of firm sizes in capitalist societies
- Distribution of corporate assets in capitalist societies
- Distribution of household wealth in the USA (but not same for blacks & whites)
Figure 2. Distribution of Firm Size

![Graph showing the distribution of firm size with the number of employees on the x-axis and the number of firms (in thousands) on the y-axis. The graph illustrates a decreasing trend, indicating that as the number of employees increases, the number of firms decreases.]
Figure 3. Distribution of Corporate Assets
Why This Outcome?

- Given the structure of the game and the equally high skill level, human capital, and wealth of all the players, a skewed distribution was inevitable.
- There was no capital market, no government regulation, and no respite from competition.
- Winner take all!
Things Would Have Been Different If Players…

- Started the game with different #’s of coins (wealth inequality)
- Could borrow coins (access to credit – capital markets)
- Could play in groups (coalitions, alliances, pooling resources, organized crime)
- Paid taxes when rich or received subsidies when poor (government intervention)
- Could withdraw from the game or buffer themselves against competition (local isolation or creation of IP or other competitive barrier)
Things Would Have Been Different If Players…

• And the answer is?
What we learn from this simulation

• Find a baseline against which to judge population level outcomes
• Understand the structural context within which entrepreneurs operate, e.g. there ARE “rules of the game”
• Understand motivations behind entrepreneurial strategies, e.g. ways to limit scope of competition