

WALRAS–BOWLEY LECTURE: MARKET POWER AND WAGE INEQUALITY

SHUBHDEEP DEB

Department of Economics, UPF Barcelona

JAN EECKHOUT

UPF Barcelona and ICREA-BSE-CREI

ASEEM PATEL

Department of Economics, University of Essex

LAWRENCE WARREN

US Census Bureau

We propose a theory of how market power affects wage inequality. We ask how goods and labor market power jointly determine the level of wages, the skill premium, and wage inequality. We then use detailed microdata from the U.S. Census Bureau between 1997 and 2016 to estimate the parameters of labor supply, technology, and the market structure. We find that a less competitive market structure lowers the average wage of high-skilled workers by 11.3%, and of low-skilled workers by 12.2%, contributes 8.1% to the rise in the skill premium, and accounts for 54.8% of the increase in between-establishment wage variance.

KEYWORDS: Market power, wage inequality, skill premium, technological change, market structure, endogenous markups, endogenous markdowns.

1. INTRODUCTION

WAGE INEQUALITY IN THE UNITED STATES has risen sharply since the 1980s. The skill premium, the ratio of the average wage of workers with college education or more over the average wage of workers with up to a high school education, has risen from 50% in 1980 to nearly 100% in recent years.¹ Furthermore, recent work has highlighted the significant role played by heterogeneous firms in shaping the evolution of wage inequality. Most of the rise in wage inequality is due to the increase in between-firm inequality.² Over the same period, there has been a corresponding rise in market power.³

Shubhdeep Deb: shubhdeep.deb@upf.edu

Jan Eeckhout: jan.eeckhout@upf.edu

Aseem Patel: aseem.patel@essex.ac.uk

Lawrence Warren: lawrence.fujio.warren@census.gov

The present paper formed the basis of the Walras–Bowley Lecture given by Jan Eeckhout at the North American Meeting in June 2021, scheduled to be held at the Université du Québec à Montréal and delivered online due the pandemic. We thank colleagues and seminar audiences for many useful comments and insightful discussions. Eeckhout gratefully acknowledges support from the ERC, Advanced Grant 882499 and Deb from “la Caixa” Foundation (ID 100010434) fellowship (code LCF/BQ/DR19/11740003). We have benefited from superb research assistance by Renjie Bao and Wei Hua. Any opinions and conclusions expressed herein are those of the authors and do not represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed. Data Management System (DMS) number: P-7083300, Subproject number 7508369. Disclosure Review Board number: CBDRB-FY20-CED006-0001, CBDRB-FY20-CED006-0032, CBDRB-FY21-202, CBDRB-FY22-360, CBDRB-FY23-0372.

¹See Acemoglu and Autor (2011).

²See Song, Price, Guvenen, Bloom, and von Wachter (2018).

³See Hall (2018), De Loecker, Eeckhout, and Unger (2020), and Hershbein, Macaluso, and Yeh (2022).

© 2024 The Authors. *Econometrica* published by John Wiley & Sons Ltd on behalf of The Econometric Society. Jan Eeckhout is the corresponding author on this paper. This is an open access article under the terms of the [Creative Commons Attribution-NonCommercial-NoDerivs](https://creativecommons.org/licenses/by-nc-nd/4.0/) License, which permits use and distribution in any medium, provided the original work is properly cited, the use is non-commercial and no modifications or adaptations are made.

ON THE NATURE OF THE REPUTATIONAL PENALTY FOR CORPORATE CRIME: EVIDENCE*

CINDY R. ALEXANDER
U.S. Department of Justice

ABSTRACT

Recent literature on optimal sanctions for corporations has focused on coordination and refinement of criminal, civil, and market-based sanctions. This paper contributes to emerging evidence on the reputational penalties that public corporations pay for federal crimes. First, it is shown that offenses harming only private parties and not government tend to be addressed through civil or market-based and not criminal sanctions. Second, when criminal allegations do arise, they are often surrounded by reports of terminated or suspended customer relationships and of management or employee turnover. These reports are more frequent if damaged parties are customers, as in fraud, than if they are third parties, as in environmental crime, and if stock prices decline significantly at the first news of crime. All of these features are consistent with characterizations of reputational penalties found in the literature. Findings on the nonatomistic nature of damaged parties suggest directions for future research.

I. INTRODUCTION

CRIMINAL and civil sanctions are imposed through the courts. “Reputational” penalties are imposed through the market. To obtain a total sanction equal to the optimal sanction, following theory developed by Gary S. Becker and others, requires coordination of these independently imposed penalties to avoid over- or underdeterrence of crime.¹ In their study of corporate fraud, Jonathan M. Karpoff and John R. Lott, Jr., posit that a reputational penalty is alone sufficient to generate the optimal total sanction when the sole damaged party is a customer or other related party, such as supplier

* Correspondence: alexancr@usdoj.gov. The author thanks David Reiffen for many helpful discussions and also Chris Curran, Jon Karpoff, Daniel Klerman, John Lott, and participants in sessions of the December 1997 conference Penalties: Public and Private, held at the University of Chicago Law School, and at the 1998 meeting of the Southern Economic Association for their generous comments on an earlier version of this paper. Thanks are also due Glenn Sober, Leah Brooks, Ty Cottrill, Jamie Garzia, Molly Farrell, Sara Mechanic, and Naomi Feldman for outstanding research assistance. Much of the work on this project was completed while the author was visiting the University of Chicago Law School as Victor Kramer Fellow. The views expressed in this paper do not necessarily reflect those of the U.S. Department of Justice.

¹ Gary S. Becker, *Crime and Punishment: An Economic Approach*, 76 J. Pol. Econ. 169 (1968).

[*Journal of Law and Economics*, vol. XLII (April 1999)]

© 1999 by The University of Chicago. All rights reserved. 0022-2186/99/4201-0018\$01.50