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, to estimate the parameters of labor the market structure. We find that a less competitive market structure lowers the age wage of high-skilled workers by 11.3%, and of low-skilled workers by 12.2%, conand wage tributes 8.1% to the rise in the skill premium, and accounts for 54.8% of the increase between 1997 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. 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

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³See Hall (2018), De Loecker, Eeckhout, and Unger (2020), and Hershbein, Macaluso, and Yeh (2022). ¹See Acemoglu and Autor (2011). ²See Song, Price, Guvenen, Bloom, and von Wachter (2018).

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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

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