

## WALRAS–BOWLEY LECTURE: MARKET POWER AND WAGE INEQUALITY

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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

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

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## WALRAS-BOWLEY LECTURE: MARKET POWER AND WAGE INEQUALITY

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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 in 1980 to nearly 100% in recent years.<sup>1</sup> Furthermore, recent education, has risen from 50% in 1980 to nearly 100% in recent years.<sup>1</sup> Furthermore, recent work has risen from 50% significant role played by heterogeneous firms in shaping the evolution of wage inequality to one due to the pandemic. We thank colleagues for many useful comments and insights from "La Caixa" Foundation (ID 100010434) fellowship (code LCF/BQ/DR19/1174003). We have benefited from superb research assistance by Renjie Bao and Wei Hua. Any opinions and conclusions expressed hereim 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: CDRB-FY20-CED006-0001, CDRB-FY20-CED006-0032, CDRB-FY21-202, CDRB-FY22-360, CDRB-FY23-0372.

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**See Accemoglu and Autor (2011).**

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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.<sup>1</sup> 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.<sup>2</sup> Over the same period, there has been a corresponding rise in market power.<sup>3</sup>

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<sup>1</sup>See Acemoglu and Autor (2011).

<sup>2</sup>See Song, Price, Guvenen, Bloom, and von Wachter (2018).

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



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<sup>1</sup>See Acemoglu et al. (2019).

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