The Incidence of Distortions

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Abstract

Economic distortions—such as market power, taxes, credit constraints, etc.— are fundamental in understanding income differences across countries. Recent work has documented the pervasive extent of economic distortions and how they lead to sub-stantial aggregate productivity loss. Far less well understood is how these phenomena affect members of society differently. In this paper we combine unique datasets from Chile, linking workers and owners to firms, firms to each other, firms to consumers, and firms and consumers to the government, in order to quantify the incidence of distortions for the first time.