Technical Change and Superstar Effects: Evidence from the Rollout of Television

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Top Incomes and Superstar Effects

- ▶ Why are many labor markets becoming winner take all markets?
- ▶ **Superstar effects** are a leading explanation

- ▶ This paper tests the superstar theory in the textbook entertainment setting
  - ▶ Natural experiment from staggered local rollout of television

The Rise and Fall of Local Television Filming

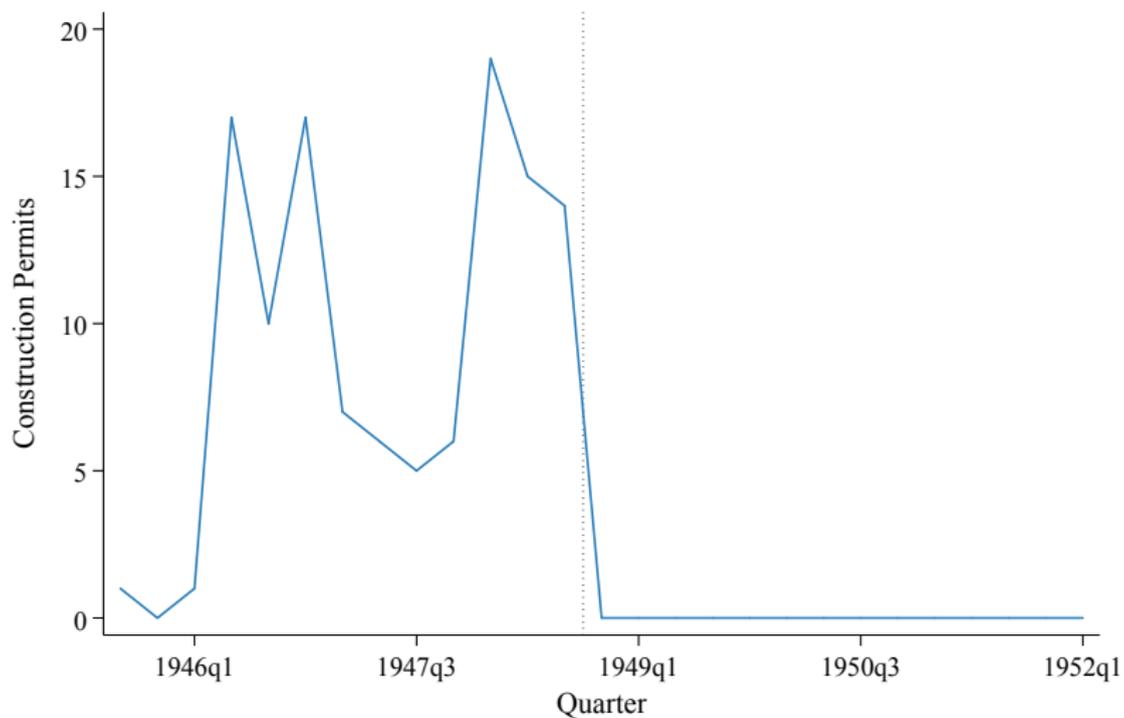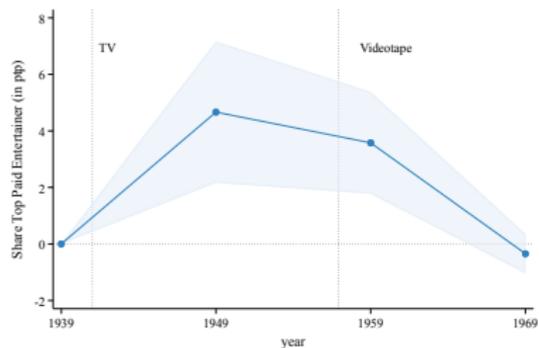| Phase I:	Phase II:	Phase III:
pre TV	local TV	National TV

| pre 1941 | ca. 1941-1955 | 1956 onwards |

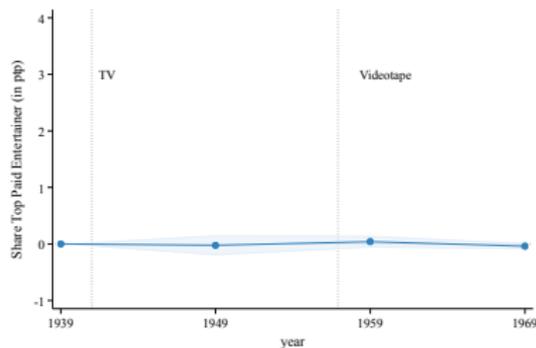# Rollout is unexpectedly interrupted

Impact of Television on Top Paid Entertainers

A. DiD with TV Stations

B. DiD with Placebo TV Stations

$$Y_{mot} = \alpha_m + \delta_{ot} + \gamma X_{mt} + \beta TV_{mt} \cdot D_t^{local} + \epsilon_{mot};$$

$$m : CZ, \ t : year, \ o : occupation$$

Distinctive Effects of Superstar Model

▶ Superstar effects generate top income growth, but so does a standard demand shift

▶ Additional predictions of superstar theory distinguish the model

▶ When does a superstar model differ from ordinary demand models?

    ▶ Same as demand model in cross-section

    ▶ Distinction: visible during "Scale Related Technical Change"

Empirical Evidence of Superstar Effects

A. Theory of Superstar Effect

B. Estimates of Television Effects

Conclusion

▶ Causal evidence that access to bigger markets leads to top income growth
  ▶ TV filming increases wages at 99th percentile by 18%

▶ Superstar effect generates rising top income inequality
  ▶ Growing fractal inequality
  ▶ Falling demand for mediocre workers

▶ Magnitude of superstar effects is sizable
  ▶ Elasticity of pay at 99th percentile to market size is 0.16
  ▶ Causal effect explains two-thirds of correlation