

Market Power in the Labor Market

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Labor Market Monopsony



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Sources of Monopsony Power

Concentration

Static one-firm framework

- $\max_w Y(N) - w(N)N$
- Firms internalize that, in order to hire more workers, they must raise the wage
- Wages are “marked down” by the firm-specific elasticity

Frictions

E.g. Burdett & Mortensen (1991), Manning (2003)

- A firm can offer lower wages but not lose all of their employees (if arrival rate < 1)
- Wages depend on recruitment and separation elasticities

Preferences

E.g. Card, Cardoso, Heining & Kline (2016)

- Simple framework:
 $u_{ij} = \ln(w_j - b) + a_j + \varepsilon_{ij}$
- Market power arises because workplaces are imperfect substitutes in the eyes of workers

Sources of Monopsony Power: Micro Evidence

Concentration

Mergers

- e.g. Prager & Schmitt (2020), Arnold (2021), Thoresson (2021)

What is the relevant labor market for workers?

- Nimczik (2020), Caldwell & Danieli (2021), Schubert, Stansbury & Taska (2021)

What is the relevant labor supply elasticity for firms?

Frictions

Online/Gig Experiments

- e.g. Dube, Manning & Naidu (2020), Dube, Jacobs, Naidu & Suri (2020), Caldwell & Oehlsen (2021)

Micro evidence for search frictions

- e.g. Beaudry, Green & Sands (2012), Caldwell & Harmon (2019)

Preferences

Online/Gig Experiments

Commuting radius

- e.g. Manning & Petrongolo (2017), Le Barbanchon, Rathelot & Roulet (2021)

Market Power and Wage Markdowns

- Dynamics of: (a) sources of market power, (b) firm-specific elasticities, and (c) markdowns
 - E.g. Berger, Herkenhoff & Mongey (2021), Jarosch, Nimczik & Sorkin (2021), Hershbein, Macaluso & Yeh (2020)
- In reality labor supply may not be on the only constraint
 - Minimum wages
 - Incentives/agency issues/screening costs
 - Wage boards
 - Unions (or union threat!)

→ Need to think about dynamics of countervailing institutions
- There may be mark-ups if firms have product market power
 - E.g. Kroft, Luo, Mogstad & Setzler (2021), Tortarolo & Zarate (2018)

Monopsony Power and Wage Inequality

1. Do different groups (skill, occupation, demographics, etc.):
 - Face different labor markets (concentration, preferences)
 - Differ in “information” about the labor market (frictions)
 - Theory (e.g.): Black (1995), Mortensen & Vishnawath (1994)

1. To what extent do firms (a) exercise their monopsony power and (b) price discriminate?
 - Differences in offered wages
 - E.g. Di Addario, Kline, Saggio, & Soelvsten (2021), Roussille (2021)
 - Negotiation and renegotiation policies
 - E.g. Hall & Krueger (2012)
 - Countervailing institutions
 - E.g. wage boards, minimum wage, unions, public pressure