

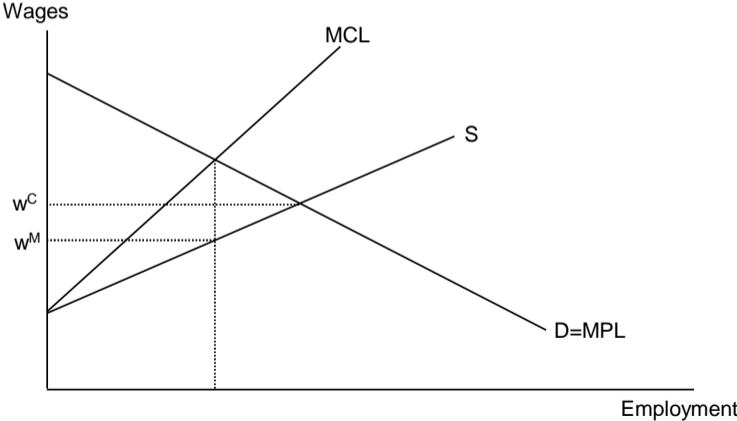
# Employer Market Power: An Overview of Emerging Evidence

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DG COMP workshop, 23/06/22  
Estimating the 'costs of non-competition' for the EU economy

# Primer on monopsony power

## Econ 101: monopsony vs. perfectly competitive labor market



# Parallels to monopoly

- Antitrust is typically concerned with *monopoly* power by seller of a good
- In labor markets, concerned with *monopsony* power by employer

|                        | Monopoly                     | Labor Monopsony                     |
|------------------------|------------------------------|-------------------------------------|
| Firm's role            | Sells goods to consumers     | Buys labor from workers             |
| Effect of market power | Higher prices, lower quality | Lower pay, worse working conditions |
| May harm...            | Consumers                    | Workers                             |

# Sources of employer power

## 1 Classical monopsony

- A single employer controls all job opportunities
- Monopsonist employer will reduce employment levels in order to reduce wages or job quality for all remaining workers

## 2 Bargaining leverage

- A large employer means workers have fewer other job options
- Information frictions, commuting costs, etc. make it harder for workers to switch jobs
- Workers will accept lower pay or worse working conditions than in a more competitive labor market

# How much employer market power is there?

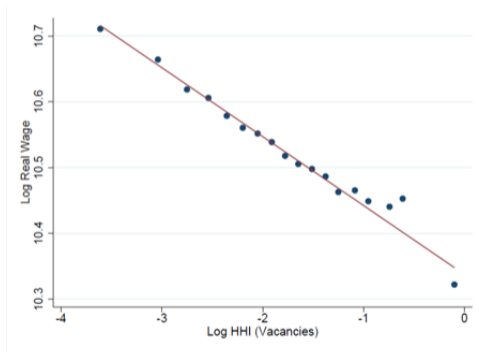
- Antitrust and IO economists viewed labor markets as competitive
- Labor economics suggested otherwise ~30 years ago (e.g. Card and Krueger 1994 minimum wage study)
- Adam Smith wrote about labor market power in *The Wealth of Nations*:  
“Masters are always and everywhere in a sort of tacit and uniform combination, not to raise the wages of labor”

# First recent round of evidence

- **Anticompetitive conduct by employers: no-poach agreements** (2010 DOJ settlement with Adobe et al.), **excessive noncompete agreements** (Krueger and Ashenfelter 2022; Starr et al. 2021), **alleged wage-fixing**
- **High levels of labor market concentration** (Azar et al. 2018, Qiu and Sojourner 2019, Dodini et al. 2021, Rinz 2022, Handwerker and Dey 2022)
- **Negative relationship between concentration and wages** (Azar et al. 2018, Qiu and Sojourner 2019, Benmelech et al. 2021, Rinz 2022, Jarosch et al. 2022)
- **Time trends in labor market concentration (ambiguous)** (Benmelech et al. 2021, Rinz 2022)

# Employer concentration is associated with lower wages...

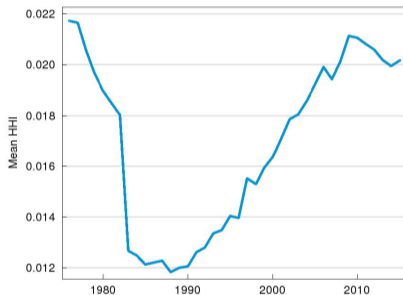
## Within-occupation vacancy concentration and wages



Source: Azar, Marinescu and Steinbaum (2018)

...and some measures of employer concentration are rising...

### Within-industry employment concentration



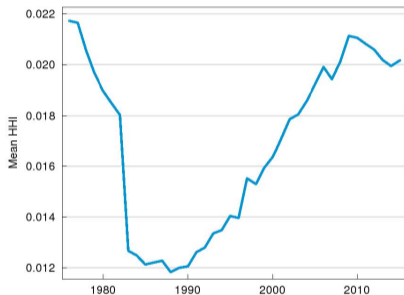
National (all US)

Source: Rinz (2022)

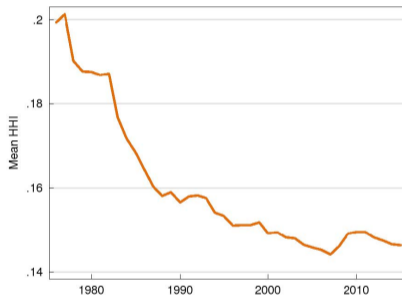


...but concentration in local geographic markets is falling

### Within-industry employment concentration



National (all US)



Local (commuting zones)

Source: Rinz (2022)

# Taking stock

- Suggestive evidence that employer market power is suppressing wages
- Causality is difficult to establish
  - E.g. small towns tend to have low cost of living, concentrated employment
- If relationship is not causal, antitrust enforcement will not affect wages

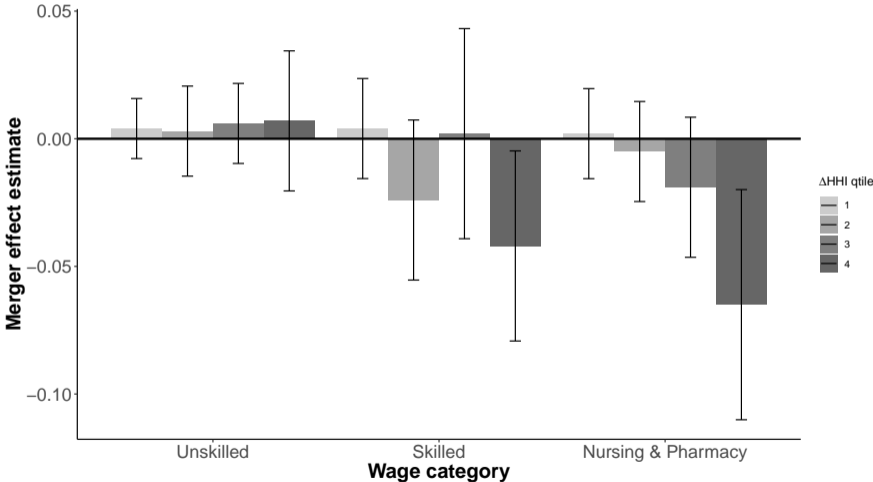
# Second recent round of evidence

- **Attempts at causality from changes in employer market structure: mergers** (Arnold 2021, Prager and Schmitt 2021, Benmelech et al. 2021, Guanziroli 2022), **exits** (Dodini et al. 2021)
- **Effect of workers' outside options** (Caldwell and Danieli 2021, Jarosch et al. 2021, Derenoncourt et al. 2021, Roussille and Scuderi 2022)
- **Macroeconomic evidence** (Jarosch et al. 2021, Mongey et al. 2022, Bao et al. 2022)

# Industry study: US hospitals

- Early evidence that employer mergers can put downward pressure on pay: Prager and Schmitt (2021) study of hospital mergers
- Separate effects by size of concentration increase due to merger
  - Categorize mergers by increase in employment HHI
- Separately examine worker types with different degrees of hospital industry specialization (large concentration increases):
  - Low-skilled generalists
  - Skilled non-medical professionals
  - Nurse administrators and pharmacists

# Industry study: US hospitals



## Postscript: changes in US enforcement

- DOJ & FTC have signaled appetite for bringing labor antitrust cases
- Some enforcement successes: Silicon Valley no-poach case in 2009, NCAA v. Alston in 2021
- Some defense successes: Jindal, DaVita wage-fixing cases in 2021
- First merger challenge primarily on labor grounds: Penguin Random House and Simon & Schuster in 2021