Employer Market Power: An Overview of Emerging Evidence

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Estimating the ‘costs of non-competition’ for the EU economy
Econ 101: monopsony vs. perfectly competitive labor market

**Diagram:**

- **Wages** vs. **Employment**
- **MCL** (Marginal Consumer Line)
- **S** (Supply)
- **D=MPL** (Demand=Marginal Product of Labor)
- **w^C**
- **w^M**

**Equations:**

- Wages
- Employment
- MCL
- S
- D=MPL
Parallels to monopoly

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

<table>
<thead>
<tr>
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<th>Monopoly</th>
<th>Labor Monopsony</th>
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<tbody>
<tr>
<td>Firm’s role</td>
<td>Sells goods to consumers</td>
<td>Buys labor from workers</td>
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<tr>
<td>Effect of market</td>
<td>Higher prices, lower quality</td>
<td>Lower pay, worse working conditions</td>
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<tr>
<td>power</td>
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<tr>
<td>May harm...</td>
<td>Consumers</td>
<td>Workers</td>
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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

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

Unskilled Skilled Nursing & Pharmacy
Wage category
Merger effect estimate
Δ HHI qtile
1 2 3 4

Merger effect estimate

Unskilled Skilled Nursing & Pharmacy
Wage category

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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