Monopsony Power and Inequality

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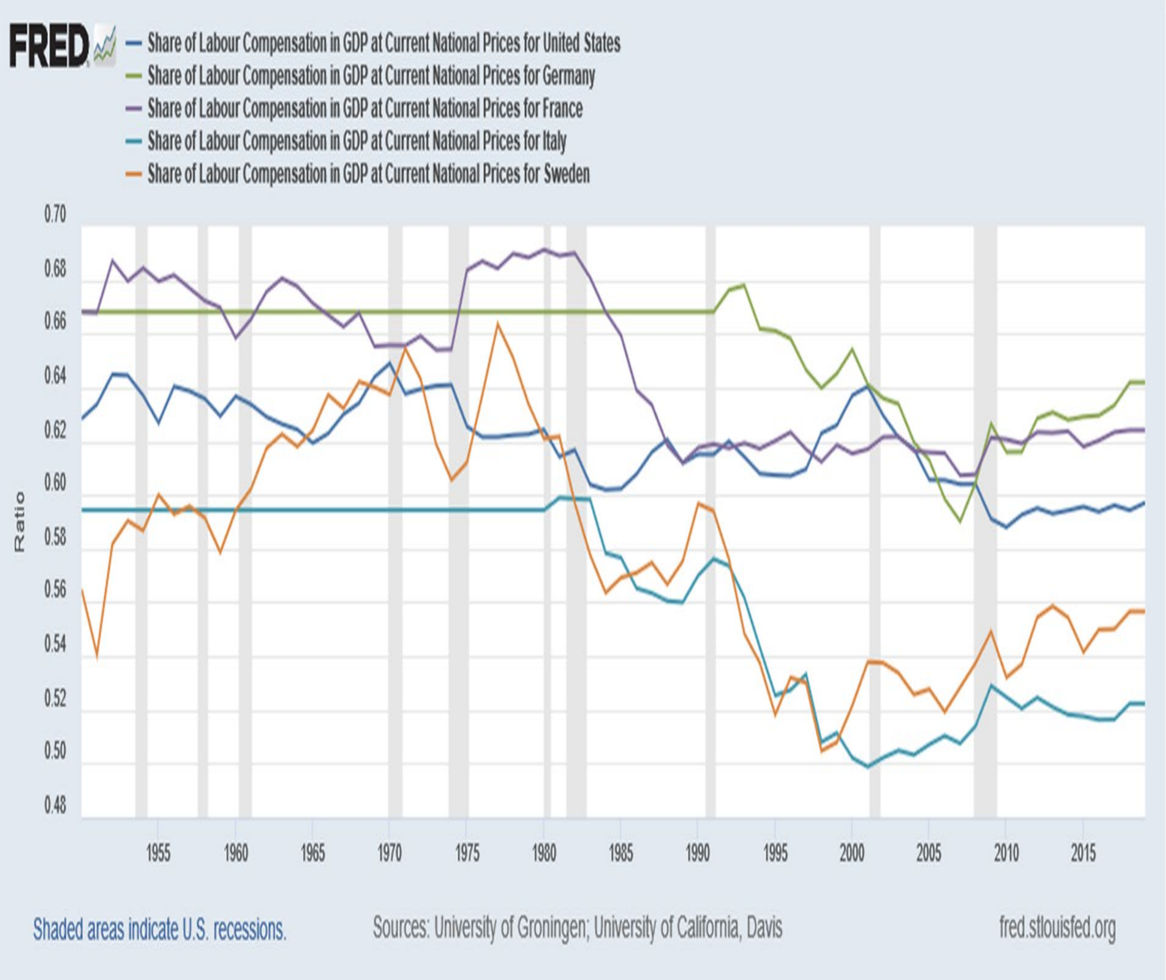
Declining labour shares and increasing markups on marginal costs



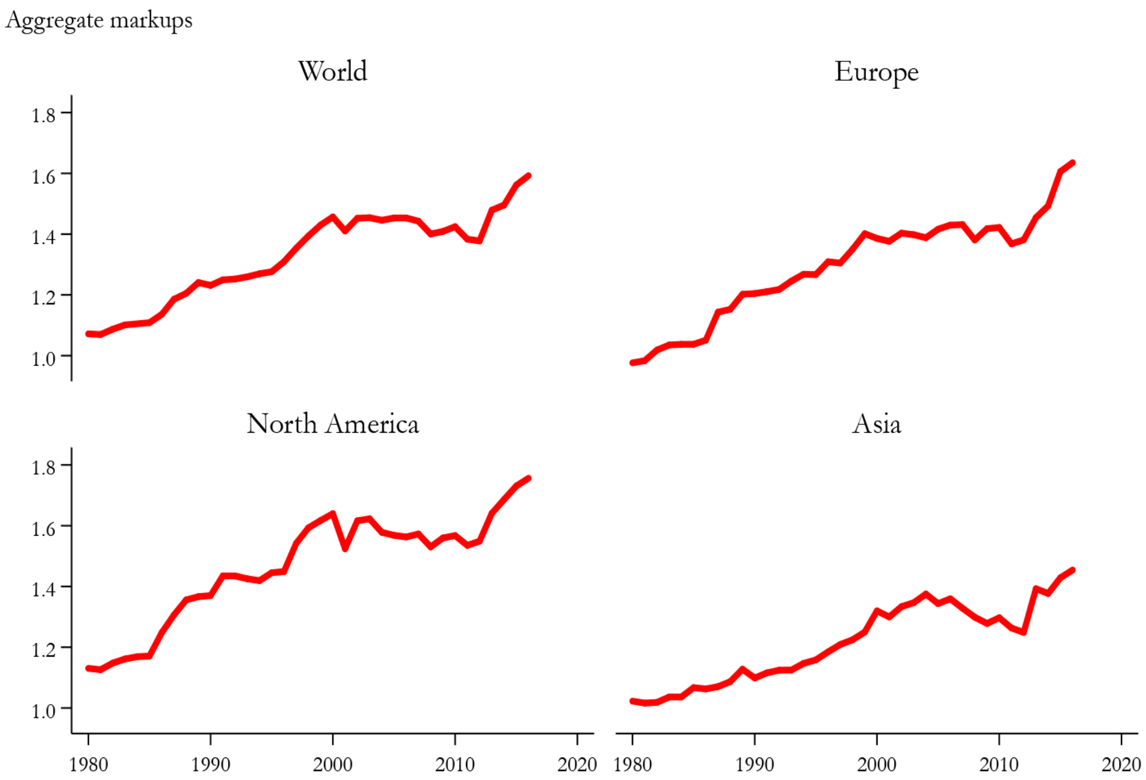


Figure 4. Aggregate global markups

Revenue-weighted average markup of publicly traded firms: World, Europe, North Amercia and Asia (source: De Loecker & Eeckhout, 2018)

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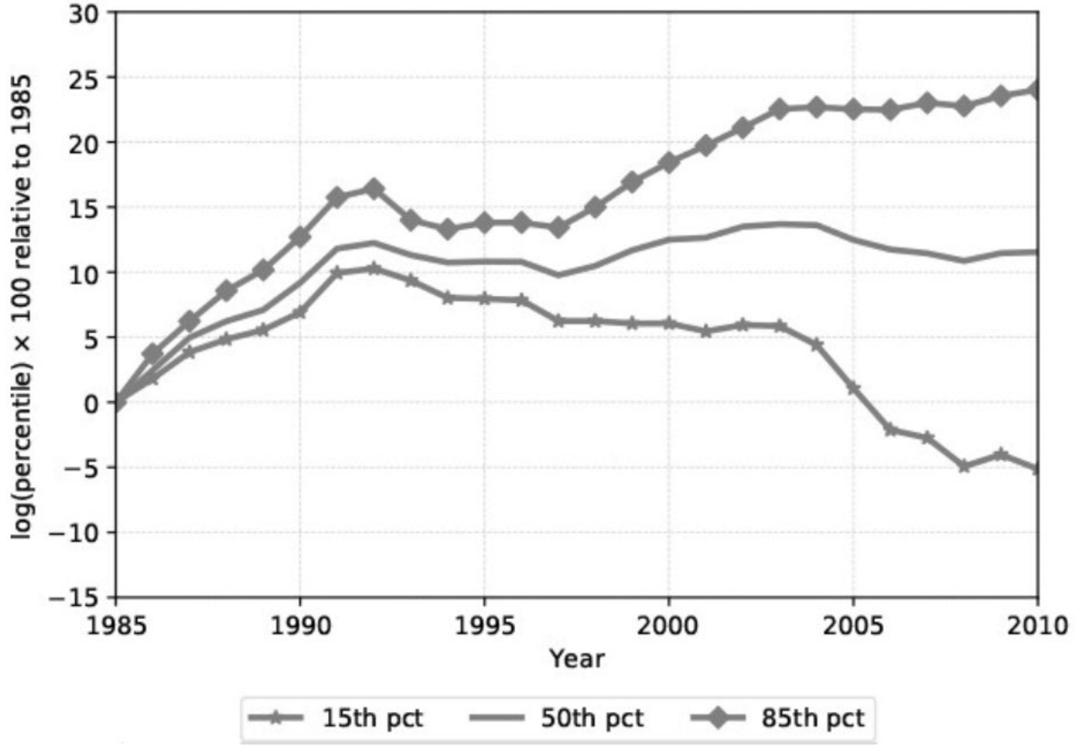
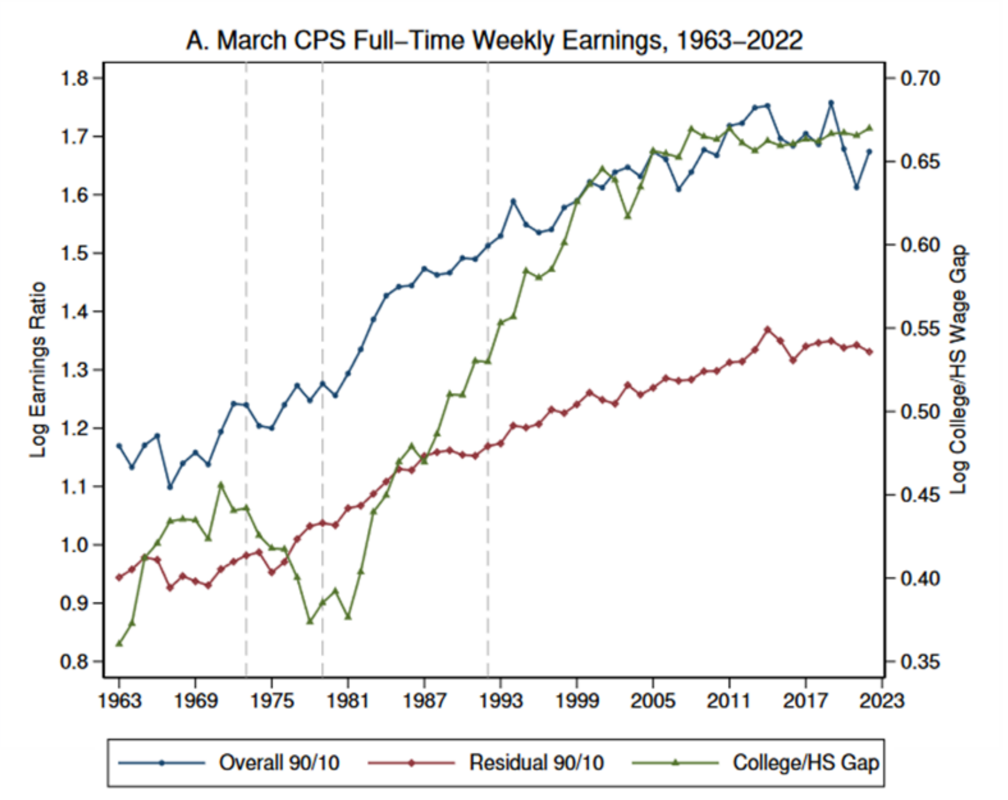
How about the *personal* distribution of earnings?

Evolution over time of wage percentiles





Note: German data, values normalized to 1985 (= 0).
Source: Michael Böhm & Hans-Martin von Gaudecker & Felix Schran, 2022. "Occupation Growth, Skill Prices, and Wage Inequality," ECONtribute Discussion Papers Series 167, University of Bonn and University of Cologne, Germany

Note: US data, residual inequality is the residual wage gap conditioning on measures of education, age/experience, and gender.
Source: Stephenson, Corinne (2024). Trends in U.S. Wage Inequality: Revising the Revisionists. A Replication Study of Autor, Katz, and Kearney (2008). Journal of Comments and Replications in Economics

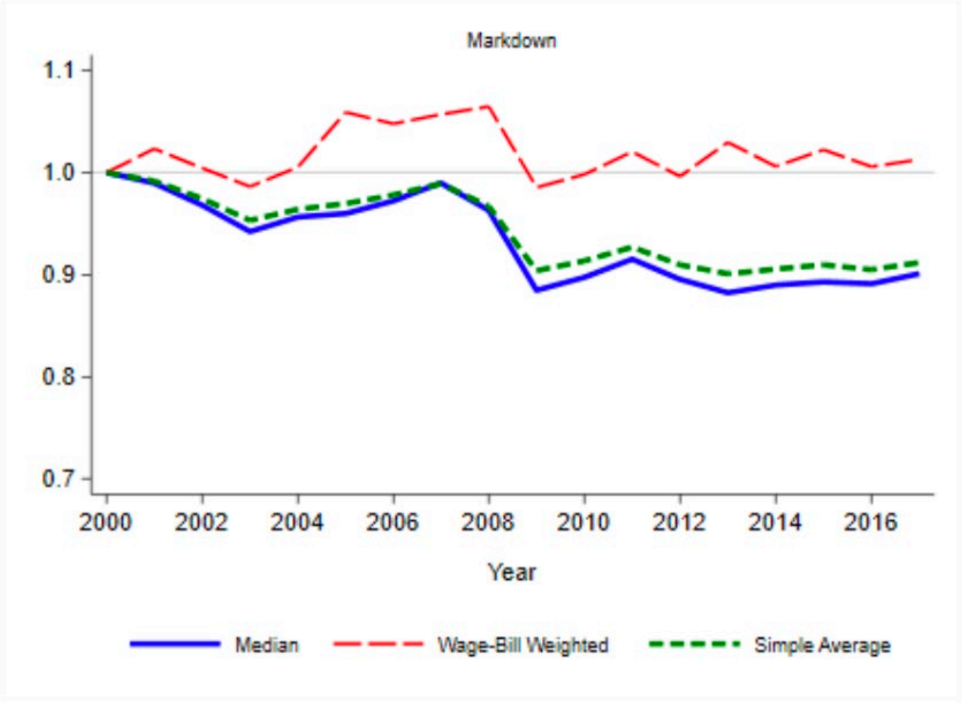
Monopoly, monopsony power and wage inequality

- Monopoly power directly reduces the wage share by increasing the profit share
- It also reduces wages via general equilibrium effects (lower demand for workers) given that labor demand is negatively affected by monopoly power
- However it does not affect the structure of earnings, hence inequality
- Monopsony power (monopoly power in labour markets) reduces the wage share, **and** affects earnings inequality as long as markdowns on productivity are different across the productivity distribution
- Is there monopsony power? Is it different over the productivity distribution?

Measurement of Monopsony Power

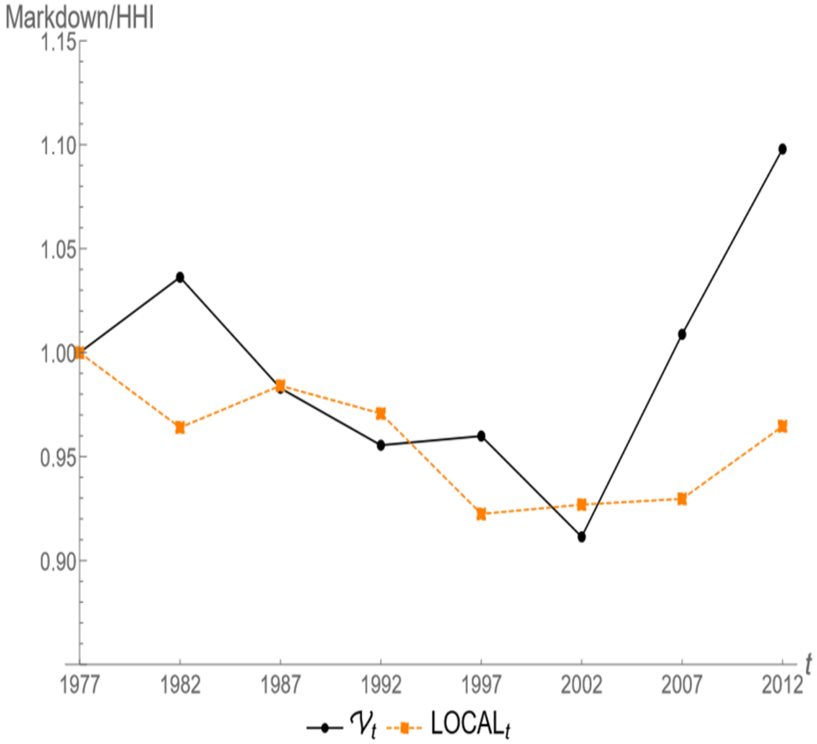
- *Indirect methods:* indexes of concentration in employment levels, hirings from other firms, etc. Key problem: defining the relevant labor market
- *Direct methods:* Estimation of labour supply elasticities (or hirings and separation elasticities)
- *Outcome methods:* Estimation of wage markdowns from production functions or revenue functions

Markdowns on wages



Note: 10 countries and 11 sectors, between 2000 and 2017: Austria, Belgium, Germany, Spain, Finland, France, Italy, Norway, Portugal and Sweden
Source: Díez *et al.*(2022, https://ssrn.com/abstract=4313674)

Figure 6: Within manufacturing, markdowns trend somewhat similarly with local employment concentration, but show greater increases since the early 2000s.



Note: 1997= 1, the solid black line shows the time series for the aggregate markdown, the dashed orange line shows the time series of local employment concentration
Source: Yeh, Chen, Claudia Macaluso, and Brad Hershbein. 2022. "Monopsony in the US Labor Market." American Economic Review

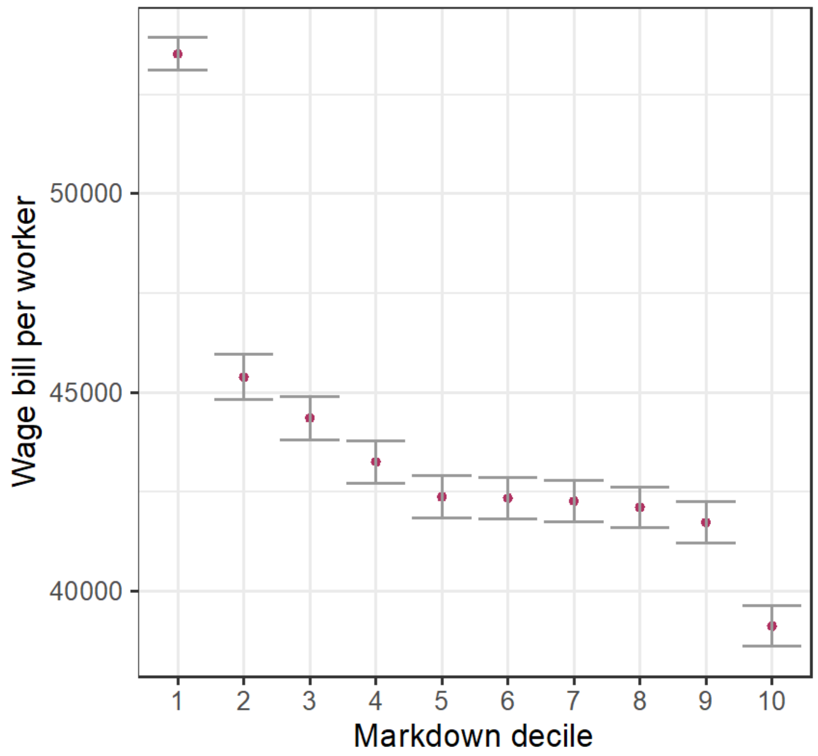
Monopsony power

$$\frac{y - w}{w} = \varepsilon$$

where ε is inverse labour supply elasticity

Study	Hiring/Separations	Estimated column 2 elasticity
Azar, Marinescu, and Steinbaum (2019)	Hiring	0.42
Banfi and Villena-Roldan (2019)	Hiring	0.2
Belot, Kircher, and Muller (2022)	Hiring	0.7
Caldwell and Oehlsen (2018)	Flexible working hours	<1
Dal Bo, Finan, and Rossi (2013)	Hiring	2.15
Datta (2022)	Hiring/Separations	1.4-3.7 (hiring), -1.7 (separations), 2.1-5.4 (total)
Dube, Giuliano, and Leonard (2019)	Separations	−2.3
Dube, Jacobs, Naidu, and Suri (2020)	Hiring/Retention	0.096 (double ML), 0.14 (experimental)
Falch (2010)	Overall employment	1.4
Pörtner and Hassairi (2018)	Hiring	0.62-1.08
Ransom and Oaxaca (2010)	Separations	-1.5-3
Ransom and Sims (2010)	Separations	-3.7
Staiger, Spetz, and Phibbs (2010)	Overall employment	0.1

Is monopsony power different across the wage distribution?

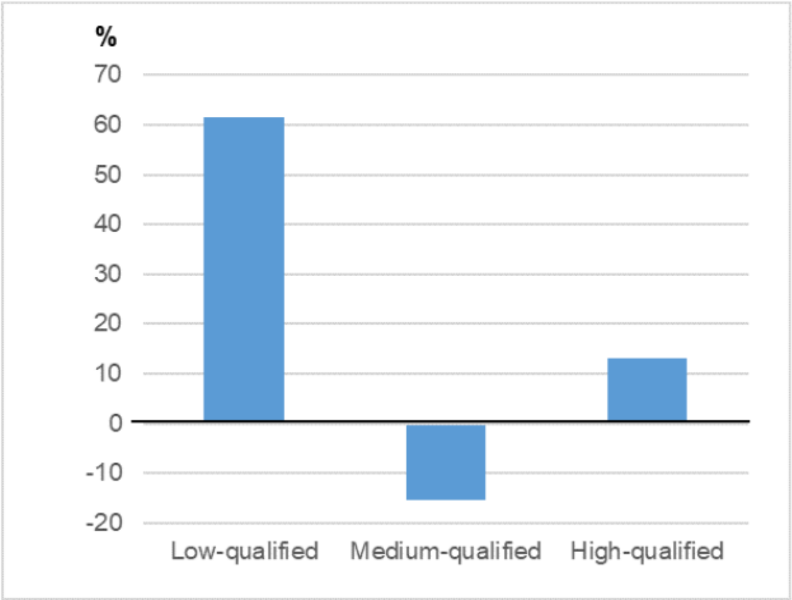


Note: Estimated wage bill per worker by markdown decile, holding fixed labor productivity

Source: Boeri, Crescioli, Garnero, and Luisetto. “Non-compete, Monopsony, and Unions (Work in progress)”

Figure 4.5. Low-qualified workers are exposed to higher concentration than medium and high qualified workers

Deviations from average local labour market concentration, in %, 2015

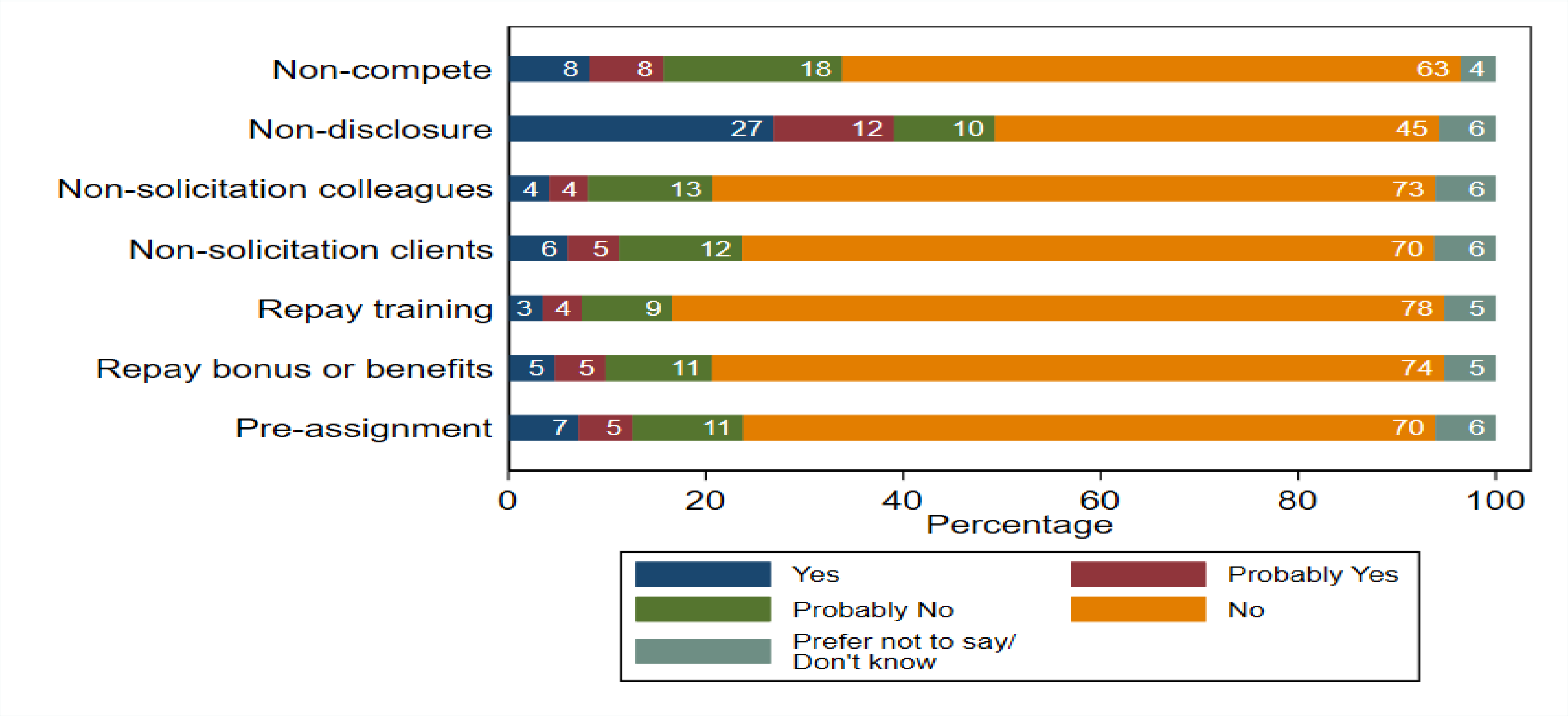


Source: OECD (2021), "Monopoly’s neglected twin? The effect of labour market concentration on wages and inequality", in *The Role of Firms in Wage Inequality: Policy Lessons from a Large Scale Cross-Country Study*, OECD Publishing, Paris, https://doi.org/10.1787/fd80057f-en

Sources of monopsony power and potential effects along the earning distribution

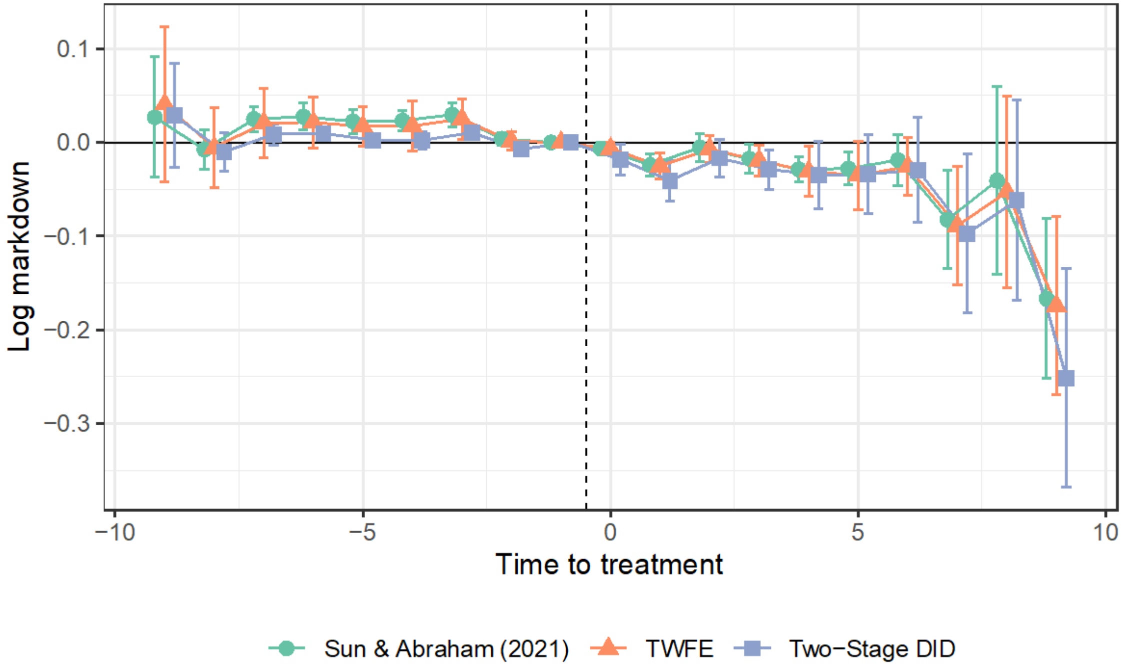
- Firm level wage elasticity of women labor supply lower than that of men → larger gender wage gaps
- Commuting costs as source of monopsonistic power → larger rural/urban gaps
- Larger firms have more monopsony power → lower firm size – firm wage effects
- Cognitive bias (anchoring effects and under-estimation of outside options) greater among the low-skilled → higher inequality by skill
- How about institutional barriers to quits (non-compete clauses)?

Non-competes in Italy



Boeri, Garnero and Luisetto, Non-compete Agreements in a Rigid Labor Market: the case of Italy, forthcoming JLEO

NCC Regulation & Markdown



Note: Estimated the effect of the introduction of a clause regulating NCC in a sectoral collective bargain agreement on firm-level markdown

<u>Source</u>: “Boeri, Crescioli, Garnero, and Luisetto Non-compete, Monopsony, and Unions (Work in progress)”

Summarizing

- Evidence of stronger monopoly power among large conglomerates
- Monopsony power is present in labor markets and not uniformly across the skill-productivity range
- Evidence that, unlike monopoly power, could affect earning inequalities
- An important factor behind monopsony power are non-compete clauses, present also among low-skilled workers

Should anti-trust ban NCC?