Fighting monopsony, a lack of competition that harms workers

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Labor market concentration

- Product market is concentrated when a few companies realize most of the sales, e.g. mobile telecom.
- Labor market is concentrated when most jobs are held by just a few companies.
- Economic theory predicts that product market concentration (monopoly) increases prices and labor market concentration (monopsony) decreases wages.

The Herfindahl-Hirschman Index (HHI) in market $m$ and year-quarter $t$ is

$$
HHI_{m,t} = 10,000 \sum_{j=1}^{J} s_{j,m,t}^2
$$

where $s_{j,m}$ is the market share of firm $j$’s vacancies in market $m$. 
Antitrust agencies’ horizontal merger guidelines (Department of Justice / Federal Trade Commission, 2010).

FTC/DOJ: an HHI above 1500 is ”moderately concentrated”, and above 2500 is ”highly concentrated”.

A merger that increases the HHI by more than 200 points, leading to a highly concentrated market is ”presumed likely to increase market power”.

The same HHI threshold applies to seller and buyer power, hence relevant for the labor market.

Define a labor market by a combination of occupation, commuting zone and quarter: e.g. accountants and auditors in Boston in the first quarter of 2016.
The majority of US labor markets are highly concentrated.

Higher concentration is associated with lower wages

From Azar, Marinescu, and Steibaum (2017), using data from CareerBuilder.com. After controlling for many factors, we find that a 10% higher HHI is associated with 0.4% to 1.5% lower posted wages.
Merger analysis

- Labor market concentration has increased since 1977 (Benmelech, Bergman, and Kim 2018).
- Antitrust enforcement that is sensitive to anticompetitive effects in the labor market may have limited this trend.
- Hovenkamp and Marinescu (2018) discuss how labor market effects can be incorporated in a merger review.
- Following the Horizontal Merger Guidelines 2010: a merger that increases the labor market HHI by more than 200 points, leading to a highly concentrated market is presumed likely to increase market power.
- Given high labor market concentration, many mergers could be affected.
Agreements by companies not to poach each other’s workers are unlawful and contribute to increasing labor market concentration by limiting workers’ opportunities.

Anti-poaching agreement shows that two companies compete for workers in the same market, and that collusion is profitable.

Anti-poaching agreement is evidence that a merger will likely lead to anti-competitive wage suppression.
Non-competition agreements limit workers’ opportunities to work for a company’s competitors after they leave their employer.

Non-competition agreements increase labor market concentration by limiting the number of employers who can effectively compete for workers.

Non-competition agreements should be added to other factors mentioned in the Merger Guidelines as affecting the significance of a given concentration level.
Conclusion

- Labor market concentration is high, and has been on the rise.
- Labor market concentration is associated with lower wages.
- Antitrust enforcement can readily take into account anticompetitive effects in the labor market.