Economics of Labor Markets and Key Questions for the Workshop

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The growth of labor antitrust enforcement

- Labor antitrust enforcement exists but is muted compared to product market antitrust enforcement: litigation gap (Marinescu and Posner, 2019).
- Slow wage growth since last Recession has ignited government interest in addressing impediments to wage growth.
- Growing interest in labor antitrust from DOJ & FTC:
  - 2010 DOJ suit against Silicon Valley “no poach” agreements
  - 2016 DOJ “Antitrust Guidance for Human Resource Professionals”
  - 2018 FTC’s chairman: “we've told the staff that they're supposed to look at potential effects on the labor market with every merger they review". (on mergers, see Marinescu and Hovenkamp, 2019)
The labor supply elasticity: a measure of labor market competition

● Elasticity:
  ○ Quit elasticity: how much of a wage decrease would a worker endure before they quit?
  ○ Application elasticity: how much of a wage decrease will dissuade a worker from applying to an additional job vacancy?

● Lower elasticity = lower competition.

● Elasticity is lower if:
  ○ Jobs are more different from each other: e.g. in distance
  ○ Lower job availability: e.g. no poach, non-competes & labor market concentration decrease job availability
New elasticity estimates across labor markets: Azar, Berry, Marinescu (2019)

- State of the art model from industrial organization (IO):
  - Worker decides which market (SOC-6 occupation by commuting zone) to apply to
  - Worker decides which job to apply to within the chosen market.

- Market level elasticity of applications: how much market-level wage boost increases job applications to the whole market (e.g. accountants & auditors in DC area).

- Market-level elasticity of applications: relevant for a hypothetical monopsonist (single employer in market).
SOC6 occupation by commuting zone is a plausible market definition (critical elasticity in red)

Azar, Berry, Marinescu (2019).
No systematic difference between high & low skill jobs.
Rural areas have lower elasticities: less competition.
The majority (60%) of US labor markets are highly concentrated.
Higher labor market concentration is associated with lower wages

Figure from Azar, Marinescu & Steinbaum (2018).

High concentration = lower pay?

- May be due to underlying market characteristics *not* caused by concentration, e.g. cost of living.

**San Francisco, CA**
Nurse/pharmacist wage = $53/hr
1BR apt. rent = $1298/mo

**Caribou, Maine**
Nurse/pharmacist wage = $35/hr
1BR apt. rent = $530/mo
High concentration = lower pay?

- May be due to underlying market characteristics *not* caused by concentration, e.g. cost of living

- May be *caused* by high concentration due to **employer market power**
Mechanisms behind employer power

- Classical monopsony:
  - A large employer can reduce employment levels (workers/hours/FTEs) in order to drive down wage paid to all remaining employees

- Bargaining leverage:
  - A large employer means workers have fewer other job options, and will accept lower pay or worse working conditions than in a more competitive labor market (see Jarosch, Sorkin and Nimczik 2019)
  - This mechanism can drive down pay even without reducing employment, and even when each worker negotiates his/her pay separately
Parallels to monopoly

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

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Is employer power actionable?

- As with monopoly power, high *levels* of concentration are not subject to enforcement action.
- Anticompetitive conduct restraining worker mobility is actionable:
  - E.g. no-poaching agreements and non-compete clauses reduce worker bargaining leverage.
- But mergers that *increase* concentration and put downward pressure on worker pay could be subject to scrutiny:
  - Expect larger effects when workers are: geographically constrained (e.g. family ties, cost of living); have highly employer- or industry-specific skills; cannot easily transition to different job (e.g. takes years to become a different type of doctor).
  - Expect larger effects when employers are: geographically dominant (e.g. Amazon/Microsoft for tech workers in Seattle); differentiated in types of employment (e.g. boutique law firms).
Industry study: hospital mergers

- Early evidence that employer mergers can put downward pressure on pay: Prager and Schmitt (2019) 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: hospital mergers