

# Competition in the Labor Market

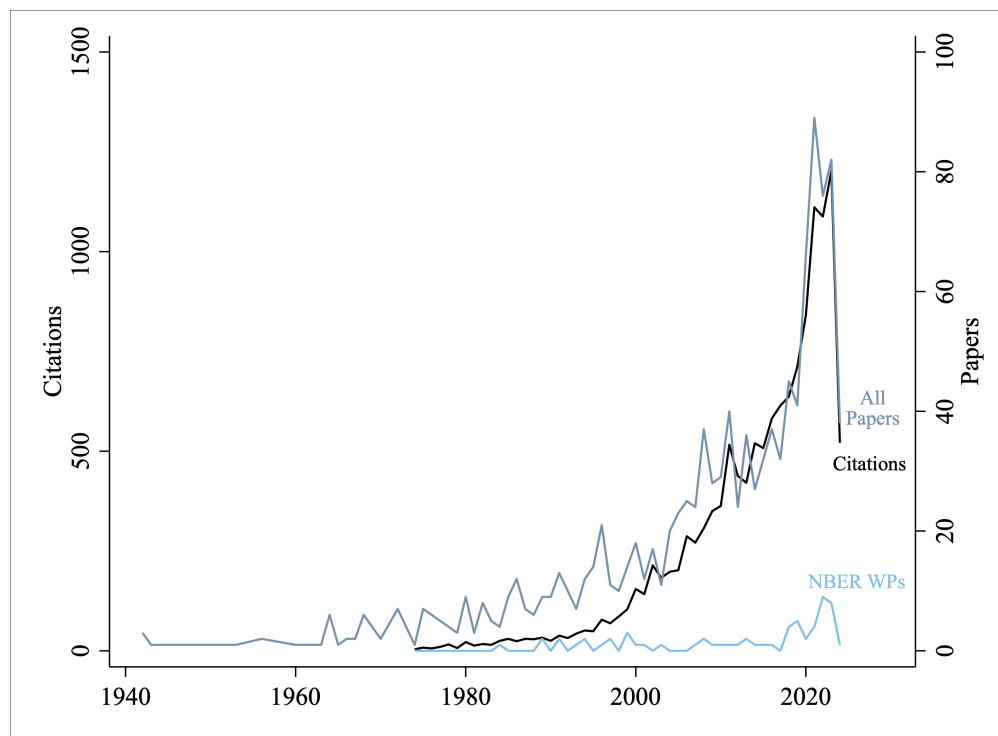
## Federal Reserve Bank of New York Panel

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# Competition in the Labor Market



Source: Caldwell, Dube & Naidu (2024)

# According to the DoJ...

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*“Market Power” is the **ability** of a firm or group of firms within a market to profitably ~~charge prices above~~ **pay wages below** the competitive level for a sustained period of time.*

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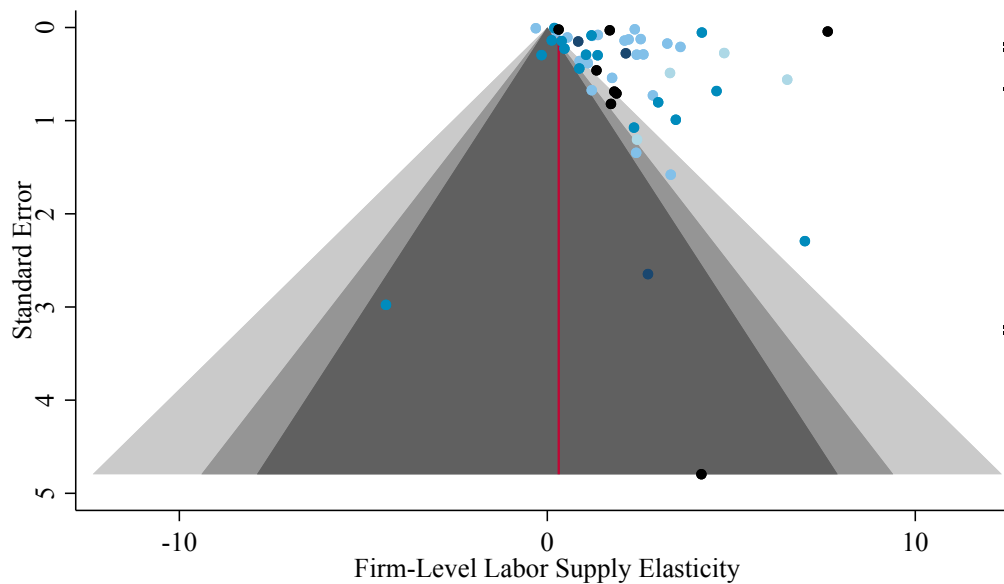
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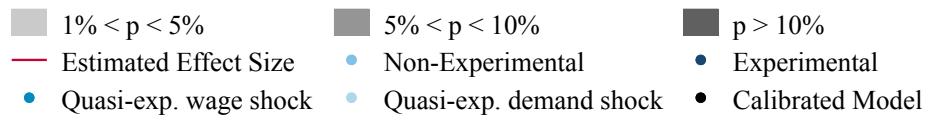
The firm-specific labor supply elasticity is a clear measure of a firm's *latent capacity* to lower wages

- If I lower wages, what is the effect on my employment?
- Not confounded by idiosyncratic wage policies, other constraints on employer behavior, or compensating differentials.

# State of Competition in the Labor Market



Estimation Strategy	Average	Std. Dev.
Calibrated model	2.15	1.15
Experimental	1.90	0.97
Non-Experimental	1.81	1.06
Production Function	3.27	3.85
Quasi-experimental demand shock	4.28	1.79
Quasi-experimental wage-shock	1.61	2.56

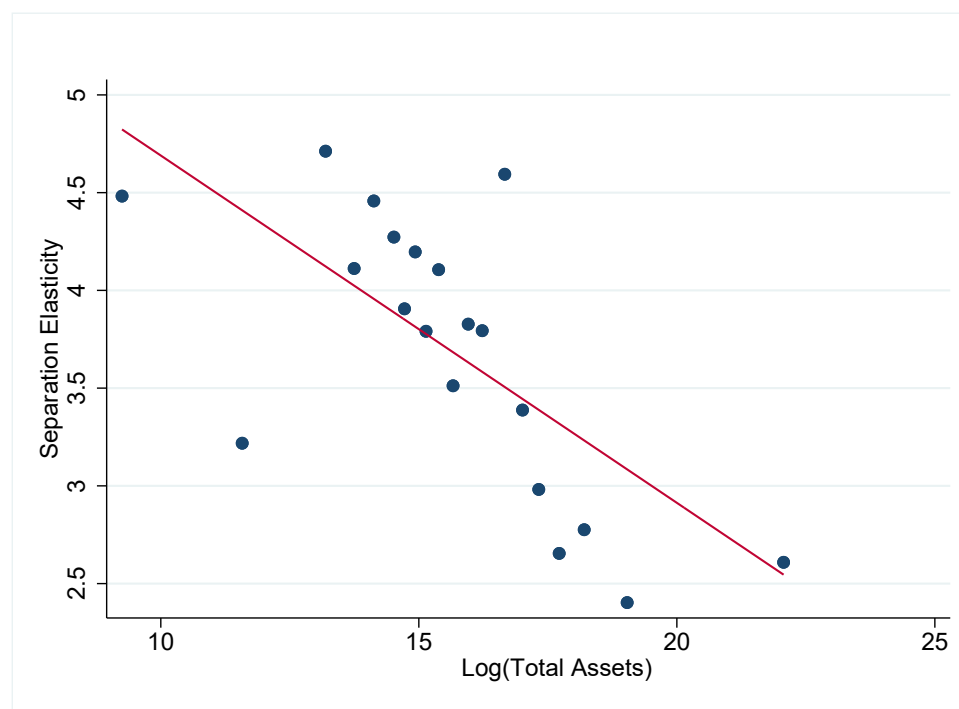


Source: Caldwell, Dube & Naidu (2024)

# Do Firms Know They Have Power?

Imagine your company were to permanently reduce its compensation by 5%/10%, but would not make any other adjustments...

In this situation, what percentage of your workforce do you guess would leave your company in the next year (assuming other companies do not make wage adjustments)?



# Where Does Monopsony Power Come From?

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## Preferences

Firms have market power as they are imperfect substitutes in the eyes of workers

## Market Structure

*Number* of outside options

## Frictions

Ability to find jobs or information about wage distribution

Other sources: direct restraints on competition (non-competes, immigration policy),

# Zooming in on Information

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- Idea: If workers do not know wages provided by other firms
  - They won't ask their firm to increase their wage
  - They won't leave low wage firms
- Evidence that workers anchor beliefs about occupational wages (Jaeger et al. 2024)
- Potential Policy Solution: force firms to provide wages
  - Pre-policy uncommon (Batra, Michaud & Mongey 2024)
  - Policies very common



# But What is the Relevant Market?

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- Challenge: What is the relevant market?
  - And how do we deal with productivity differences?

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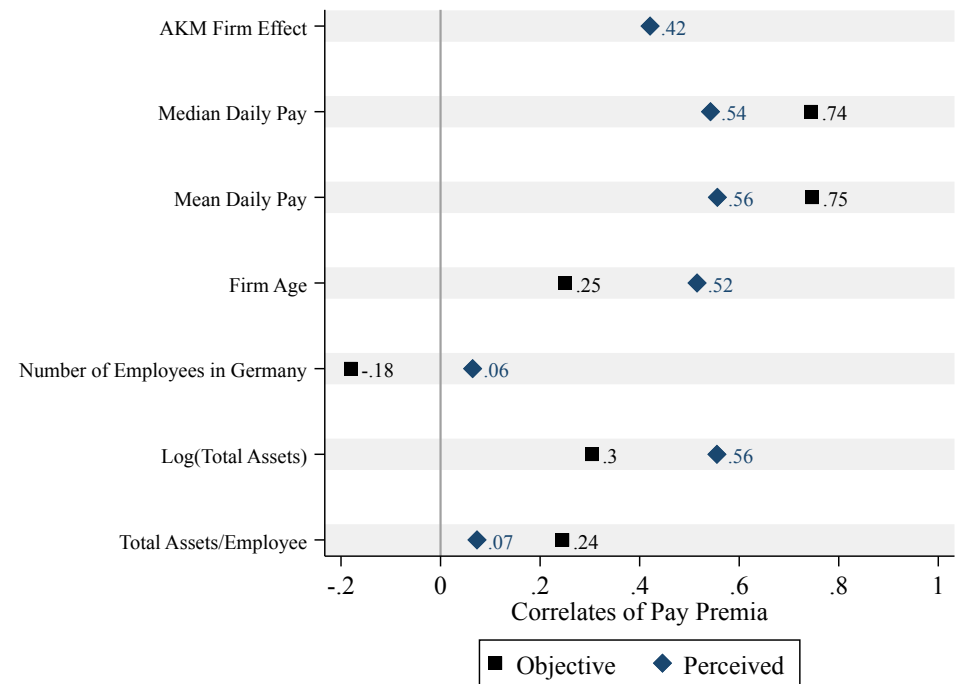
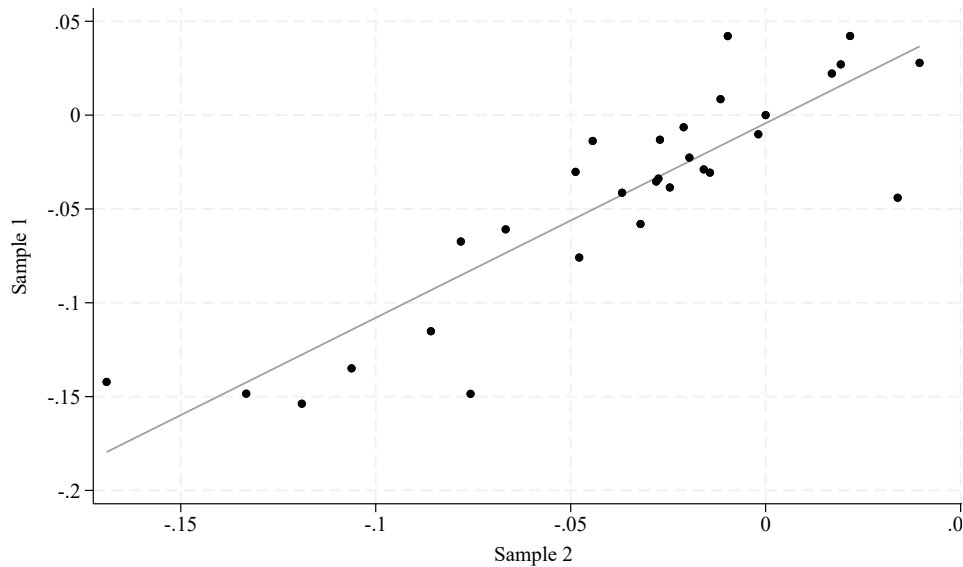
- Challenge: What is the relevant market?
  - And how do we deal with productivity differences?

What do you think you would make if you worked at each of these firms in a position similar to your current position?

- Firm A
- Firm B
- Firm C

$$\log \widetilde{w}_{ij} = \alpha_i + \psi_j + \epsilon_{ij}$$

# Accounting for Productivity Differences



Source: Caldwell, Haegele & Heining (2024)

# Regardless, Is This the Key Friction?

50% of workers say they have firm-specific information before they apply

Even under strong assumptions, predicted impacts of information are small

Source: Caldwell, Haegele & Heining (2024)

	All Workers Are Uninformed	Did Not Know Pay at Application	Difficult to Get a Better Job	Provide Uniform Pay
	(1)	(2)	(3)	(4)
Percent Informed	0 ---	49.826*** (0.854)	44.107*** (0.897)	77.288*** (1.131)
A. Gap Between Median and Current Firm				
P(Search)	18.557*** (1.537)	5.508*** (0.518)	4.747*** (0.502)	1.741*** (0.344)
P(Move to a Preferred Firm)	10.408*** (1.437)	2.258*** (0.400)	2.803*** (0.404)	0.739*** (0.244)
P(Move to a Random Firm)	1.007 (0.897)	0.686*** (0.244)	0.918*** (0.209)	0.409*** (0.133)
B. 5% Wage Gain				
P(Search)	10.130*** (0.644)	5.205*** (0.350)	5.445*** (0.375)	2.204*** (0.273)
P(Move) to a Preferred Firm	7.554*** (0.885)	2.986*** (0.439)	4.158*** (0.523)	1.336*** (0.307)
P(Move) to a Random Firm	1.491*** (0.519)	0.792*** (0.263)	1.136*** (0.266)	0.643*** <sup>12</sup> (0.164)