

# *Firm Concentration in Labor Markets*

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*The views expressed herein are those of the authors and not those of the Federal Reserve System.*

# Overview

- **What do we want from a definition of a labor market?**
- **What we do**
  - *Labor Market Power* (2022)
  - *Anatomy of Monopsony* (2023)
- **Why is this important?**
  - Measurement - Competitiveness of labor markets
  - Policy - Optimal minimum wage
  - Policy - Antitrust merger guidelines
- **Alternative approaches**

## What is a labor market?

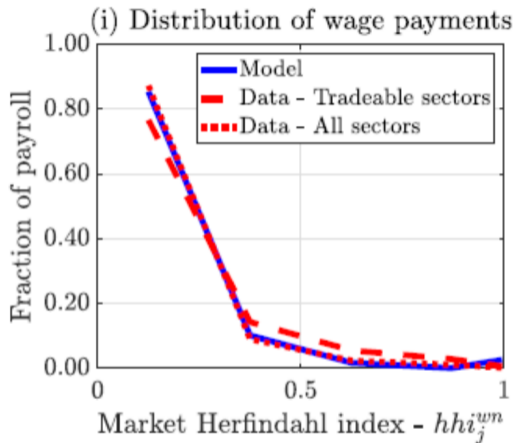
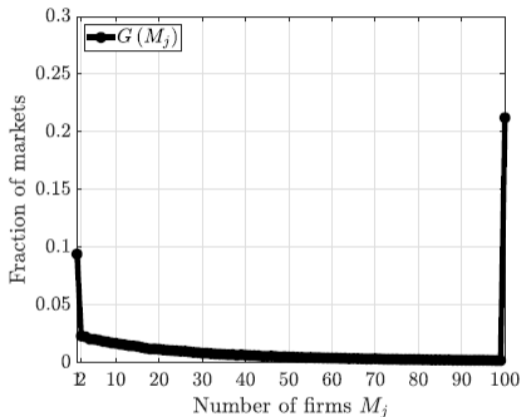
- **Data** - Labor markets have many firms, with a few large ones and many small ones
- Just how concentrated? ... depends on how we define the labor market
- What do we want?
- **From the firms' perspective**
  - What are the firms whose hiring decision I should understand when choosing my own?
- **From the workers' perspective**
  - What are the jobs I might consider feasible?
  - Are these predominantly within certain ... industries? locations? occupations?
  - How likely am I to get job offers?

## What do we do?

### **Labor Market Power (AER, 2022)**

- Labor market = Commuting-Zone × NAICS 3-digit industry

## What do we do?



- Average firms per market (113), Average HHI, payroll weighted (0.11)

## What do we do?

### **Labor Market Power (AER, 2022)**

- Labor market = Commuting-Zone  $\times$  NAICS 3-digit industry

### **Anatomy of Monopsony: Frictions, Amenities, Bargaining (NBER Macro, 2024)**

- Labor market = Commuting-Zone  $\times$  Groups-of-3-digit-Occupations
- Clustering approach to group occupations
- Based on occupations with similar flows to other occupations
- Minimize outflows across markets
  - Similar approach to [Jarosch, Nimczik, Sorkin \(2024\)](#)

## What do we do?

<b>Moment</b>	<b>Value</b>
Fraction of EE flows within market 2006–2016 (%)	51.40
Number of markets per region	102.8
Average firm employment per market	6.20
Average labor force per market	404.7
Average markets per firm	2.30
Total number of markets	4783

<b>Moment</b>	<b>Value</b>	<b>Moment</b>	<b>Value</b>
Unemployment rate (%)	4.01	Average firms per market	75.2
E-to-E rate (monthly %)	0.65	HHI wage bill (wage bill weighted)	0.09
U-to-E rate (monthly %)	8.08	HHI employment (employment weighted)	0.08
E-to-U rate (monthly %)	0.35	Standard deviation of log wages	0.63
Fraction E-to-E moves down poach index	0.15	Fraction of log wage variance within firms	0.61

## Why is it important?

### 1. **Measuring labor market power** - *Labor Market Power* (AER, 2022)

#### **Market definition + Structural model + Instruments (tax changes)**

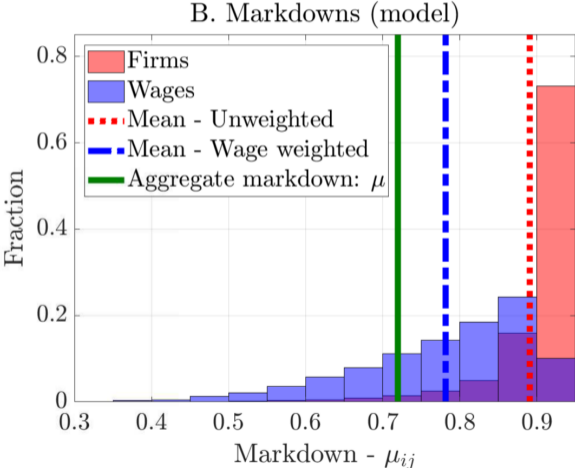
- **Main result** - Labor markets as if an average firm pays 72c on dollar of worker output

Yeh, Macaluso, Hershbein (AER, 2022) - 65c, Lamadon, Mogstad, Setzler (AER, 2022) - 76c



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- **What if markets were not concentrated?**
  - **Empirics** - Unable to generate: Incomplete wage pass-through, Spillovers, Response to taxes  
Kline Petkova Williams Zidar (2019), Staiger Spetz Phibbs (2010)
  - **Policy** - Miss half of the welfare losses associated with labor market power, which function through the granularity of the labor market

## Why is it important?

### **2. Minimum wage policy** - *Minimum Wages, Efficiency and Welfare* (ECTA, 2024)

#### **... + Worker heterogeneity + Federal minimum wage**

- **Main result** - Optimal around \$8, very small efficiency gains from minimum wages
- **What if markets were not concentrated?**
  - **Empirics** - Can't get positive effects from a minimum wage in concentrated markets  
*Minimum Wage Employment Effects and Labour Market Concentration - Azar et al (ReStud, 2023)*
  - **Policy** - Optimal minimum wage goes to almost zero!

## Why is it important?

### **3. Antitrust policy** - *Merger Guidelines for the Labor Market (2024)*

#### **... + Mergers + FTC Merger Horizontal Merger Guidelines**

- **Main result** - Tighter 1982 guidelines improve welfare relative to 2010 guidelines
- **What if markets were not concentrated?**
  - **Empirics** - Can't get large wage losses following mergers in concentrated markets  
*Mergers and Acquisitions, Local Labor Market Concentration and Worker Outcomes - Arnold (2021)*
  - **Policy** - Impossible to discuss merger policy!

## Alternative approaches

- How better to use data on worker flows in the U.S.?
  - Can't apply our approach in Norway in data like the LEHD, no occupation data
- Incorporate survey data on which firms workers view as 'competitive'
  - Great progress on these types of questions by Sydnee and co-authors
- Implement standard market definition tools used in anti-trust?
  - Not clear how to port a 'SNIP' test to labor markets, soon to be tested in court
- Can large shocks to market competitiveness be used?
  - Exogenous departures of major employers, e.g. Government contracts
- Don't use it as a model input! Treat as a parameter to be estimated
  - Empirics - Directly estimate markdowns in data (Yeh, Macaluso, Hershbein, 2022)
  - Model - Treat them as moments to match (De Loecker, Eeckhout, Mongey, 2022)