

Labour Shortages, Monopsony Power and Their Role in Our Current Labour Markets

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Firm market power in labour markets (monopsony)

Perspective: labour market monopsony as a dimension of labour markets and labour shortage

Building on conversations in the competition law and policy space.

- Increased awareness of competition issues in labour markets.
 - [OECD research](#) (2020) on competition policy and labour markets.
 - Eric Posner's (2021) "[How Antitrust Failed Workers](#)".
 - In Canada, recent (April 2022) Western Law Economics Research Group event [Labour Markets and the Competition Act](#).
- Core concern – efficient operation of markets.
 - Broadening perspectives to include other objectives, like economic fairness and distribution of income/wealth and economic power.

In theory, the exercise of monopsony power leads to:

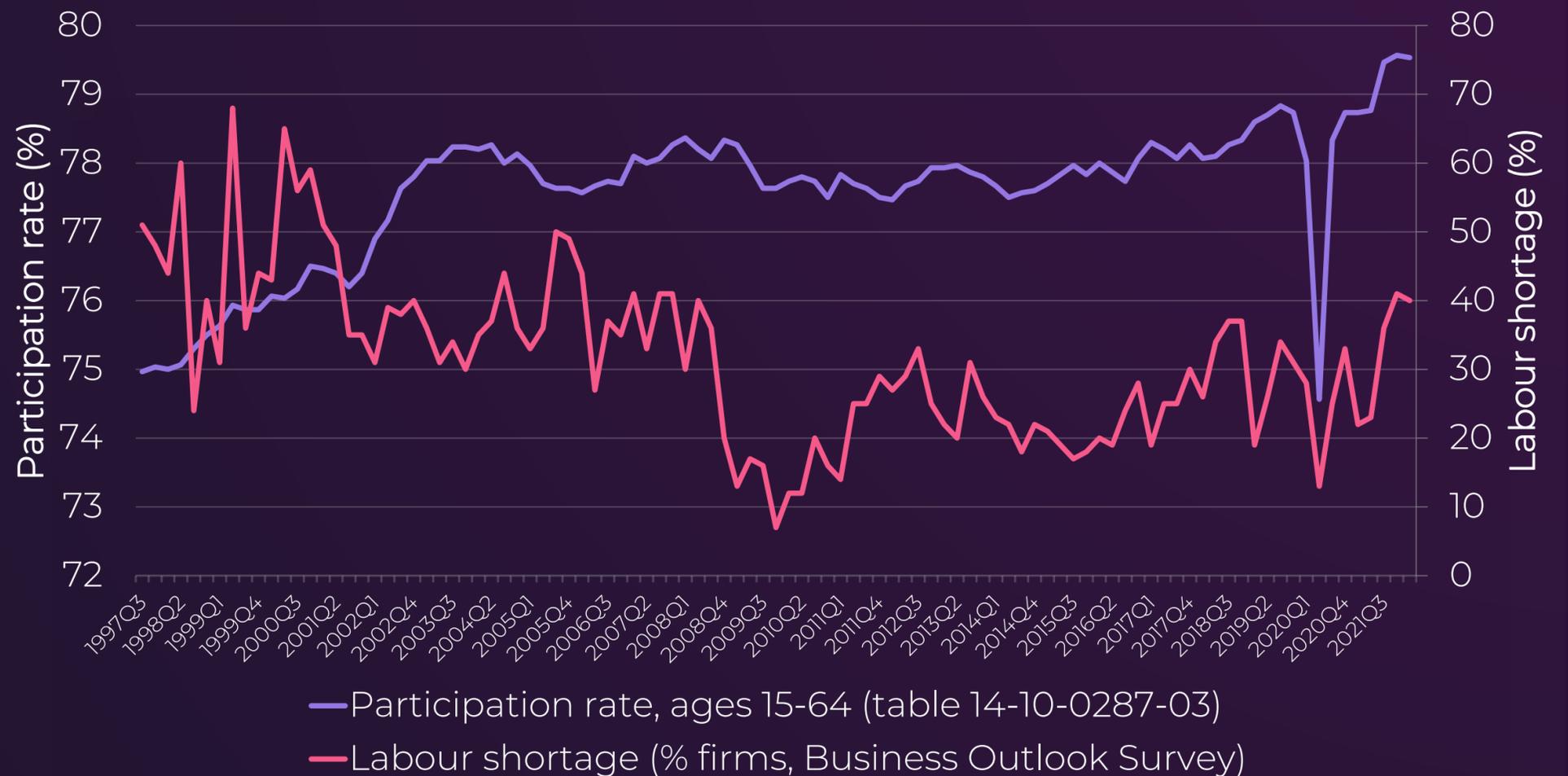
- lower wages/compensation (lower quality of work relative to a worker's wages),
- exit from labour market, and
- deadweight loss in the market.

Is monopsony driving the labour shortage?

If monopsony were a core driver of our current shortage, we would expect to see low participation rates as workers exit labour markets.

Participation rates for working-age people have peaked.

This trend may not hold for other demographics.



Is labour market monopsony really an issue?

Labour market power may not be a core driver of current labour shortages, but it may not be helping either. Monopsony may be the backdrop of our current trends.

Very limited Canadian data (but please let me know if you know of any papers).

US research paints a stark picture of the state of labour market power.

- [Yeh et al., 2022](#): “(i) the U.S. manufacturing labor market is characterized by significant markdowns [a worker receives about 65 cents on the marginal dollar generated], consistent with employer market power, and (ii) the degree of this market power decreased between the late 1970s and the early 2000s but increased sharply afterwards.”
- [Azar et al., 2019](#):
 - “labor markets are highly concentrated: the average HHI is 3,157, which is above the 2,500 threshold for high concentration according to [...] horizontal merger guidelines.”
 - “Going from the 25th to the 75th level of concentration decreases posted wages by 17% in the baseline IV specification, and by 5% in the baseline OLS specifications.”
- [Chen et al., 2022](#): “The main findings show a weak negative relationship between employer concentration and employment, and a more robust negative relationship with labor force participation.”

Consequences of labour market monopsony

Increases in employment income could substantially offset costs to other programs, like the Canada Child Benefit.

The average employment income of recipients of the CCB is \$29,851, based on the SPSD/M. Table 1 shows the cost savings to the CCB if all recipients of the CCB and their family members receive an increase in employment income.

The impact of labour market power may extent beyond labour shortages and efficiency in labour and product markets.

There are consequences for transfer programs, tax revenues, and other programming towards workers, consumers, and businesses.

Table 1 illustrates costs savings associated with higher wages resulting from a hypothetical decrease in labour market power, based on simulations from the SPSD/M (V 29.0).

Increment of annual employment income	percentage increase from average earnings	CCB savings (\$M)
\$149	0.50%	\$52.7
\$299	1%	\$105.2
\$896	3%	\$316.4
\$1,493	5%	\$528.1
\$2,090	7%	\$738.9
\$2,985	10%	\$1,054.6
\$4,478	15%	\$1,580.9
\$5,970	20%	\$2,113.3

Table 1: Canada Child Benefit cost savings from increases in employment income, SPSD/M V29.0

CONCLUSION

Moving towards less labour market power

Exploring and addressing labour market monopsony provides more questions that answers:

- Could addressing labour market power increase our labour force participation rates, helping to address labour shortages going forward?
- What is the degree of monopsony power in Canada's labour markets?
- What are the best tools for curbing monopsony power, labour law or competition law?

Despite the unknowns, there are competition law solutions that fit within our current legislation:

- Enforcing merger control laws in labour markets.
- With a potentially forthcoming addition to the Competition Act, wage fixing and non-poach agreements may be a criminal offense (these behaviours are effectively legal under our current laws).

To use competition law and policy to address labour market power, we need:

- a deeper understanding of the specific behaviours that enable firms to undermine competition in labour markets, and
- A broader definition of abuse of dominance that captures exercises of market power, even if they are not tied to a specific behaviour.

Thank You



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