

Collusion Among Employers in India

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Abstract

This paper evidences collusion among employers in the textile and clothing manufacturing industry in India. First, I develop a simple comparative static test to distinguish standard forms of imperfect competition from collusion. I show that, under very general labor supply and production structures, the spillover effects of firm-specific demand shocks predict opposite employment effects at unshocked competitors who operate independently (\downarrow employment), versus who previously colluded but whose collusion dismantles due to the shock (\uparrow employment). Next, I argue that large employers in the garment industry organize into industry associations to pay workers exactly the state- and industry-specific minimum wage, using it as a focal point for coordination. Members of industry associations are substantially more likely to bunch from above at the local minimum wage than non-members, and to track its policy-induced rise without reducing employment. I show that small export demand shocks evoke the standard imperfectly competitive response among non-members (higher wages and employment), but elicit no response from members (they stick to the minimum wage). By contrast, when a large demand shock leads affected members to deviate from the minimum wage, unaffected employers outside the association respond as in oligopsony (\uparrow wage, \downarrow employment), but unaffected members respond as if their collusion dismantles (\uparrow wage, \uparrow employment). A “full-IO” approach imposing specific models of labor supply and production statistically rejects the oligopsony model in favor of the breakdown of collusion. I conclude that collusion spurs substantial losses even compared to a world wherein each firm exercises its own, but not their collective market power, reducing the average worker’s wage by 9.6pp and employment by 17pp.