Discussion of:

Labor and Product Market Effects of Mergers by Hosken, Larson-Koester & Taragin

Bradley Setzler, Penn State

ASSA 2024 Session on “Monopsony and Labor Markets”

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Background 1: Patterns of Concentration and Wages

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- **Where this paper comes in:** Antitrust authorities need *ex ante* tools to simulate *potential* harm for *proposed* mergers.

Background 2: The Rise of IO Models for the Labor Market

- Card (2022 AER): "Robinson (1933) developed an alternative framework for understanding firm-specific wage setting and coined the term 'monopsony.' The book attracted a lot of attention...[However,] by the 1960s the concept of monopsony had been relegated to discussions of company towns."

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- **Where this paper comes in:** By allowing for strategic interactions in the product market (absent from the papers above) and wage bargaining, there can be meaningful merger effects on both the labor and product markets.

Overview of This Paper: Model

Standard IO model of product market:

- Product market model: multi-product logit-Bertrand.
- Input market for materials: firm-specific constant MC.
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Equilibrium: Nash-in-Nash given bargaining power. Prices are taken as given while negotiating wages, and wages are taken as given while setting prices.

Overview of This Paper: Results

Calibration inputs:

- The usual product market characteristics (outside option share, price sensitivity, quality terms)
- Overlap between product and labor market
- Bargaining parameter

Result 1. Wage effects of mergers rather than employment effects drive harm to workers.

Result 2. When product and labor markets completely coincide, workers' welfare is reduced the most by mergers.

Result 3. Consumer harm is often mitigated (and in some cases eliminated) as reduced wages are partially passed through in the form of lower final goods prices.

Result 4. Merger simulations that focus only on downstream competition identify those mergers that harm workers.

Result 5. Workers are only negatively affected by the merger when the merger is allowed to affect their outside option.

Comments

Strengths of the approach:

- The standard product market merger toolkit can now also have wage effects of mergers.
- Computationally straightforward.
- Degree of overlap between the labor and product markets is an interesting dimension that hasn't been explored.

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Limitations of the approach:

1. Jobs are assumed not to be differentiated.
2. It can only capture wage effects of mergers, not employment.
3. The assumed link between workers and consumers is strong.

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- This paper assumes a non-differentiated labor market: workers only care about the wage, w_j.
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  - Jobs are perfect substitutes from labor's perspective.
  - Essentially, there is a profit-maximizing wholesaler upstream that sells labor to final goods producer.
- What do we lose by ignoring worker preferences for jobs?
  - Horizontal: We miss changes in the variety of jobs.
  - Vertical: We miss reallocation towards amenities.
  - Diminishing utility: We miss out on curvature, e.g., high-income labor responds less to $1 than low-income.
- Labor share & markdown responses depend on these channels.

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- Recall two of the main results of the paper:
  - Wage effects of mergers rather than employment effects drive harm to workers.
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- These results no longer hold in the presence of the classical monopsony channel. They follow from the assumptions.
- Also, we miss the key interactions between upward-sloping labor supply and downward-sloping product demand:
  - Double markdown, double markup (Kroft et al, Sec 3.1)
  - Attenuated marginal market power (Kroft et al, Sec 3.2)

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- Another link is created by the definition of overlap.
  - The definition of the "local product, local labor" market configuration is that all of the workers are consumers and all of the consumers are workers.
  - This doesn't make sense in the main example: hospitals serve the local market and hire local nurses, but nearly all hospital consumers are not nurses.

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    1. Workers have differentiated preferences over jobs, and this matters for thinking about labor concentration.
    2. Incorporating an upward-sloping labor supply curve would let us capture employment responses to mergers, as well as the double market power mechanisms.
    3. The link between the product and labor market depends crucially on the production function (non-constant returns, substitutability, etc.).
    4. Defining the overlap between workers and consumers is both important and difficult to get right in practice.

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- Thanks for the opportunity to discuss this important work.