



Wage Markups and Buyer Power in Intermediate Input Markets

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Key Takeaways

- Dutch labor markets are *not* monopsonic like in the US (wage markups)
- Buyer power in intermediate input markets (markdowns)
- Negative relation between labor and intermediate input wedges
- Mean rent-sharing elasticity of 0.22, but a lot of variation
- Even bargaining power between firms and workers

Contributions

- Document the extent of monopsony power and the role of collective bargaining
- Allow for labor *and* intermediate input wedges
- Calculate *firm-time specific* rent-sharing elasticities
- Reassuring that many of the results are driven by observables.

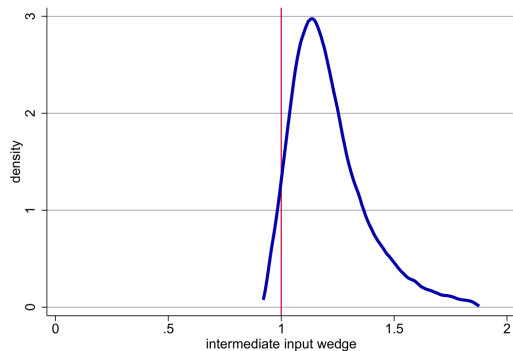
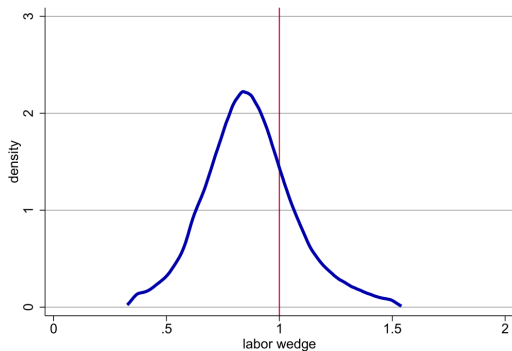
Mark-ups and Downs?

- **Aim:** "A rapidly growing literature suggests that monopsony power is common in US labor markets. *I examine whether this result generalizes to Europe, where collective bargaining agreements characterize labor markets.*"
- Wage markups for any level of bargaining power ϕ_{it} :

$$W_{it} - MRPL_{it} = \phi_{it} \frac{QR_{it}}{L_{it}} > 0$$

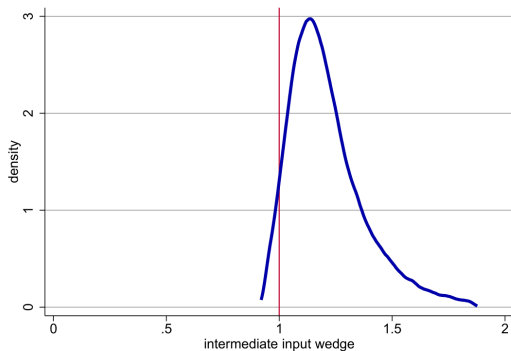
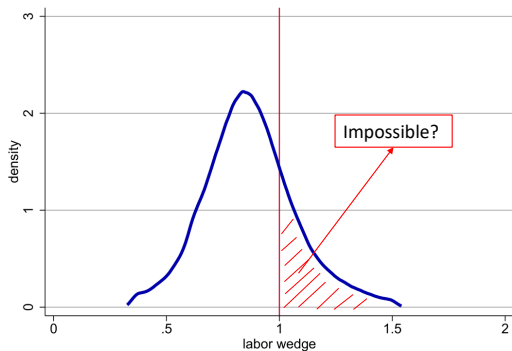
- **Why assume away monopsony power and markdowns?**
- Trade unions do not preclude markdowns (Falch and Strøm, 2007)

Mark-ups and Downs?



- The input wedges do not rely on the bargaining model

Mark-ups and Downs?



- The input wedges do not rely on the bargaining model
- 24 % of the firm-time labor wedges reject the bargaining model
- Consequences for the rent-sharing elasticities and bargaining weights?

What Happens if Bargaining Fails?

- "Standard" Nash bargaining:

$$\max_{L, M, W} \left[(U(L, W) - \underbrace{U(d)}_?)^\beta (\Pi(L, M, W) - \bar{\Pi}(d))^{1-\beta} \right]$$

- What are the disagreement outcomes?

- $\bar{\Pi}(d)$ = Profits with no labor?
- In the paper:

$$U(L_{it}, W_{it}) = L_{it}(W_{it} - \bar{W}_{it}) = L_{it}W_{it} - L_{it}\bar{W}_{it}$$

- $U(d) = L_{it}\bar{W}_{it}$ = Reservation wages of hired association members?
- But $L_{it} = 0$ if bargaining fails?

- Possibly $N_{it}\bar{W}_{it}$ = Reservation wages of all members?

Minor Comments

- You clearly show how different methods in the literature produce different results and why, and you link structural and reduced-form approaches when appropriate.
- Are there counterfactual simulations that would reproduce the US outcomes in input wedges (shifts in bargaining weights or union coverage)?
- Paragraph 3 on page 23: You say that differences between the US and Dutch labor wedges become even larger if you ignore monopsony power in intermediate input markets, as it shifts the labor wedge distribution to the left (increasing markups). Does this argument rely on the US having similar levels of monopsony power in their intermediate input markets?

Minor Comments

- You find that the labor wedge increases (lower markups) with labor and capital, but is unrelated to size. What is missing here? Unproductive firms have lower wage markups?
- What drives the bargaining weights (firm characteristics)?
- Does the model allow for market power in the downstream product market as well, and would such rents be shared with workers too?
- *"However, the variation in the labor wedge that these factors can induce is significantly lower than the variation induced by the wage and the intermediate input wedge." (page 27)*
→ Can you quantify this?

References I

Falch, Torberg and Bjarne Strøm, “Wage bargaining and monopsony,” *Economics Letters*, feb 2007, 94 (2), 202–207.