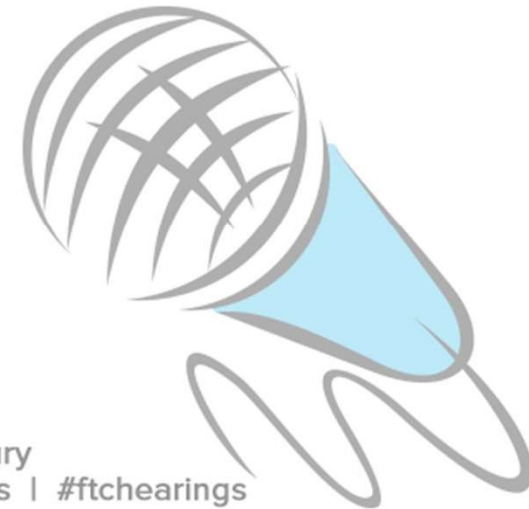


# Labor Monopsony and the Consumer Welfare Standard

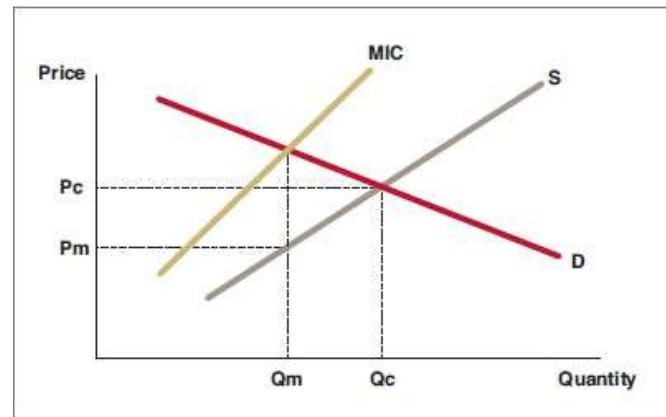
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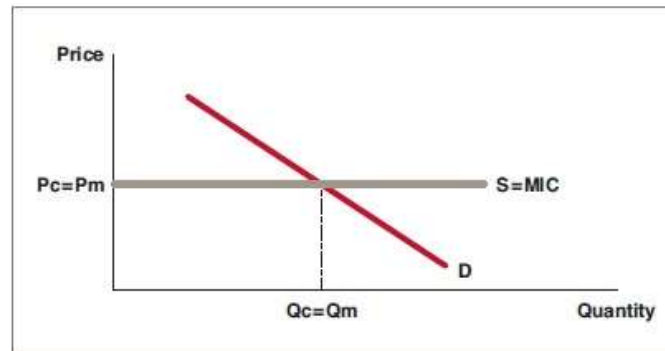
# Monopsony requires an upward-sloping supply curve



- A rational monopsonist profits by decreasing the quantity purchased.
  - Quantity is reduced to  $Q_m$ , the point where industry demand and the monopsonist's marginal input cost intersect.
  - Because the supply curve (and marginal input cost curve) slope upwards, this lowers price to  $P_m$ , and creates a deadweight loss.



# Monopsony requires an upward-sloping supply curve



- If the supply curve is flat (as in the diagram), or is downward sloping, lowering the price by reducing quantity does not work.
- Many traditional industrial markets enjoy significant economies of scale; that translates to a flat or downward-sloping supply curve at relevant output levels.
  - Reducing the quantity purchased can reduce or eliminate cost savings from scale economies, raising prices.
- That is not the case in labor markets, which almost invariably have upward-sloping supply as the best (and lowest cost) workers are hired first and, at the margin, more must be paid to secure the relevant talent.
- So monopsony can be a real problem in labor markets.

# Is labor monopsony a competition problem?

- Literature seems unanimous that labor's share of GNP has been declining and that wages have largely stagnated notwithstanding the post-2008 recovery.
- Several analyses attribute this to increased concentration in labor markets.
- The underlying analyses are a good deal more robust, but they also bring back echoes of the SCP paradigm that was the almost-unanimous economic consensus throughout the 50s and 60s and into the early 70s.
- But the work of Demsetz, Manne, Alchian and others put the SCP paradigm into significant doubt, and its importance in competition analysis has now dwindled close to zero.
- Do the new analyses simply revive the SCP construct in labor markets? Or have they overcome the defects in the original Bain-inspired studies?
  - And if concentration matters in buy-side labor markets, what are the implications for sell-side markets?



# Is labor monopsony a competition problem?

- Anecdotal evidence seems inconsistent with attributing labor wage insufficiency to market concentration.
- Consider:
  - Silicon Valley, the subject of many if not most of the accusations of increased concentration, is where wages are generally the highest.
    - Of course, the no poaching cases suggest that, even there, wages could be higher.
  - Fox is suing Netflix for poaching employees.
  - Amazon just increased its minimum wage to \$15.
  - Wage stagnation seems worse in more traditional industrial markets, where there is some but much less discussion of increases in concentration.



## Where labor monopsony is a competition problem, the consumer welfare standard is not well suited to address it

- The consumer welfare standard works well in generating good antitrust outcomes in the vast majority of cases.
- But not monopsony.
- Why?
  - The consumer welfare standard is based on the assumption that lower consumer prices are the goal to be achieved.
  - But a labor monopsonist will (by definition) reduce its costs by paying less for labor. Unless it reduces sell-side output as well, those lower costs will result in lower prices for consumers.
    - Typically lower input quantities will mean lower sell-side output as well, but if wages are simply lowered and the payroll headcount remains unchanged, sell-side output may not be affected.
    - If sell-side output is restricted, then consumer prices will rise and the CW standard will appropriately condemn the effect.
  - So rote application of the CW standard to labor cases is complicated and risks generating confusing and possibly bad results.



## Where labor monopsony is a competition problem, the consumer welfare standard is not well suited to address it

- Is there a better standard?
- Yes. We should focus on market output (or quantity).
- Labor monopsony reduces labor output.
- No poach agreements reduce labor output.
- As do antitrust problems on the selling side.
  - See *Another Take on the Relevant Welfare Standard for Antitrust*, Antitrust Source, Aug. 2015.



## Where labor monopsony is a competition problem, the consumer welfare standard is not well suited to address it

- Antitrust has some tools to address labor wages.
  - Pursuing truly naked no poach cases;
  - More prominent consideration in merger reviews.
    - Including closer scrutiny of efficiency claims arising from planned firing of employees.
- But the search for an antitrust solution should not detract from non-competition solutions.
  - Banning some employee covenants not to compete;
  - Banning franchise no poach arrangements irrespective of competitive effect;
  - Requiring greater wage transparency.

