

“Labor Market Concentration on Wage, Employment, and Exit of Plants: Empirical Evidence with Minimum Wage Hike”

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Abstract

Why do wages never rise in tight labor markets? This paper studies the effects of oligopsony power in labor markets on wage stagnation using labor market concentration in industrial-regional labor markets. Using the Census of Manufacture in Japan from 2001 through 2014, we show that real wage is lower by 1.1% in concentrated labor markets ($HHI \geq 1500$) than competitive labor markets ($HHI < 1500$) in plant fixed effect regressions. Furthermore, we use minimum wage as an experiment to examine whether plants pay a competitive wage in concentrated labor markets. Theory predicts that employment does not necessarily decrease with an increased minimum wage if employers pay lower than the marginal product of labor. Similarly, minimum wage has an impact on plant dynamics: plant exit is less responsive to a high minimum wage in concentrated labor markets because plants can absorb wage increases up to the marginal product of labor in addition to the increase of labor supply. The results show that a 1% increase in the minimum wage is associated with up to 0.44% decrease in employment at the average HHI, and a size of decrease diminishes with higher HHI. Moreover, we show that plant exit rate is 0.1% higher with 1% increase in minimum wage at the average HHI, and it declines with higher HHI. Overall, the results suggest that wages are suppressed in concentrated labor markets.

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