

Editorial

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Monopsonistic Labour Markets

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The first decades of the new millennium saw more and more labour economists abandoning the textbook model of perfect competition and embracing monopsony as a suitable way of thinking about wage formation. This renaissance of monopsony is hardly surprising against the backdrop of important labour market trends that suggest a widening power imbalance between employers and workers, among them declining labour shares (e.g. Karabarbounis and Neiman 2014; Grossman and Oberfield 2022), rising wage inequality (e.g. Acemoglu and Autor 2011; Hoffmann et al. 2020), and eroding organised labour (e.g. Schnabel 2020; Jäger et al. 2025).

This vision of labour markets as more or less monopsonistic is in stark contrast with the view of most labour economists at the turn of the millennium (see also the discussion in Card 2022). Back then monopsony was mostly regarded as a mere curiosity present in some highly concentrated local labour markets, notably company towns, or under employer collusion in heavily regulated occupations or very specialised jobs.¹ The consensus in the profession at that time was concisely put by Kiefer and Neumann (1993, 57) as follows:

1 Examples include health occupations, such as registered nurses, school teachers, professional sports, and jobs in academia (Boal and Ransom 1997). For an illuminating case study on professor salaries, see Ransom (1993).

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Monopsony models of labor market behavior seem like an idea whose time has passed. Textbook treatments of monopsony [...] leave little doubt that monopsony power is not an important characteristic of (at least) U.S. labor markets, except possibly some public sector jobs in non-metropolitan areas and perhaps in some areas of professional sports. A crude summary of the prevailing perception in labor economics is that the opening up of the interstate highway system and the decline of company towns eliminated essentially all elements of monopsony power that might have existed previously.

The dominance of the competitive paradigm in labour economics started to corrode with the emergence of what has been termed the “new monopsony” literature (e.g. Hirsch and Schumacher 2005). Its core argument was “that, for many questions, the competitive model is not a tolerable approximation, and that our understanding of labor markets would be much improved by thinking in terms of a model where the labor supply curve facing the firm is not infinitely elastic” (Manning 2003a, 13). – Following Robinson’s (1933) classic account, the presence of an upward-sloping, rather than horizontal, labour supply curve to the individual employer became the hands-on definition of monopsony. – And at the heart of this literature was the conjecture, backed up by theoretical insights and a plethora of empirical observations, that workers’ responsiveness to wages is likely limited because only few attractive alternative jobs are available to them, even in labour markets with many employers (see also the early survey by Boal and Ransom 1997).

Since then, a vibrant literature has evolved that indeed finds monopsony to be a widespread phenomenon. The wealth of insights gained by this literature is authoritatively surveyed in Manning (2011, 2021) and, most recently, in two chapters in the current volumes of the *Handbook of Labor Economics* (Azar and Marinescu 2024; Kline 2025).² Among the many topics explored, three questions stand out in the monopsony literature: (i) What are the reasons for employers’ monopsony power? (ii) How do we measure it? (iii) To what extent do employers really make use of it?

The reasons for employer’s monopsony power explored in the literature include search frictions, which result in limited knowledge about available jobs (e.g. Burdett and Mortensen 1998; Manning 2003a); employer differentiation, which lets workers tolerate some wage differences across jobs (e.g. Bhaskar et al. 2002; Card et al. 2018); commuting and moving costs, which limit the range of available jobs (e.g. Manning 2003b; Hirsch 2010); and, more recently, employer collusion,

² Extensive empirical evidence on the widespread prevalence of monopsonistic labour market structures has elevated their significance beyond the confines of traditional labour market literature. Recent research has incorporated this concept into various fields, including macroeconomics (Bachmann et al. 2022), international trade (Jha and Rodriguez-Lopez 2021; Egger et al. 2022, 2024), and regional economics (Ahlfeldt et al. 2022).

which suppresses competition directly (e.g. Starr et al. 2021; Krueger and Ashenfelter 2022). All these factors effectively shield employers from competition, generate an upward-sloping labour supply curve to the individual employer, and provide employers with monopsony power over their workers.

In the theoretical analysis of monopsony, search and job differentiation models turned out to provide particularly fruitful frameworks (Card 2022; Azar and Marinescu 2024); and among search models many insights build on Burdett and Mortensen's (1998; BM henceforth) model of equilibrium search with wage posting. In the canonical BM model, which Manning (2003a, 29) succinctly describes as a "game of 'snakes and ladders'", workers possess incomplete information on available job offers and search for jobs both on and off the job. By chance, some workers initially end up with low-wage and some with high-wage employers and then try to improve their wages through job-to-job moves, sometimes interrupted by job losses that put them back to square one. But because of on-the-job search frictions, low-wage as well as high-wage employers survive in the labour market (though, of course, low-wage employers have fewer workers than high-wage employers). In the unique steady-state equilibrium of employers' wage-posting game, the wage distribution is not only characterised by wages below the competitive wage but also by wage dispersion across employers, even though both workers and employers are homogenous.³

However, the BM model entertains some restrictive assumptions, among them the assumption that employers can fully commit to wages and thus set their wages once-for-all. In the first article of this special issue, "The Immobile Incumbent Problem in a Model of Short-Term Wage-Posting", Manning (2025) explores what happens when relaxing this, as it turns out, far from innocuous assumption.

Turning to a version of the BM model where employers can only commit to wages in the current period, Manning arrives at four important results: Firstly, he shows that the steady-state rank-preserving equilibrium only exists if the job destruction rate is implausibly high. Secondly, he gives a clear intuition for non-existence: the "immobile incumbent problem" that induces employers with currently high wages to move down the wage distribution to profit from their monopsony power over their large workforces. Thirdly, he shows that in an enriched model that incorporates productivity heterogeneity among employers, non-existence is less likely the more heterogeneous employers are. Fourthly, he demonstrates that the "immobile incumbent problem" also exists in the standard

³ The absence of worker and employer heterogeneity in the canonical BM model is a virtue rather than a shortcoming because it allows to analyse friction-induced monopsony power in isolation. That said, the model readily extends to the cases of heterogeneous employers and/or workers (Burdett and Mortensen 1998; Bontemps et al. 1999; Holzner and Larch 2022).

wage-posting models by Moscarini and Postel-Vinay (2013) and Coles and Mortensen (2016) that allow for either complete or no commitment at all as well as under directed search.

Given the hands-on definition of monopsony as an upward-sloping labour supply curve to the individual employer, it comes at little surprise that numerous studies measure employers' monopsony power by estimating the wage elasticity of the supply curve, although identification poses severe challenges.⁴ Another intuitively appealing measure that is widely used in the literature and more readily at hand is employer concentration captured by their recruitment shares within occupations or sectors in local labour markets (for overviews, see Manning 2021; Azar and Marinescu 2024).

In the second article of this special issue, "Labor Market Concentration in Germany", Oberfichtner and Popp (2025) add to this strand of the literature. They not only use rich administrative data to provide the first in-depth analysis of labour market concentration for Germany. But because measuring concentration correctly requires assumptions on the relevant labour markets, in particular their regional and occupational (or sectoral) delineation, they also provide a rich array of different concentration measures and synthesise best practices for applied research in this field.

Their key findings are at least fourfold: Firstly, they document a high level of labour market concentration in Germany with an average market-level Herfindahl–Hirschman index of about a quarter (based on their preferred concentration measure). This number is well above the 0.1 and 0.2 thresholds from EU antitrust guidelines for moderate or high concentration levels. Overall, 38.7 (16.9) per cent of German labour markets feature high (moderate) concentration levels and 3.7 (5.0) per cent of workers hold jobs in these markets. Secondly, they show that delineating local labour markets in terms of occupations rather than sectors is preferable because this results in more self-contained markets. Thirdly, they find that labour market delineation strongly influences concentration levels but hardly the evolution of concentration over time, which changes little between 2012 and 2023. Fourthly, they document that labour market concentration varies substantially across regions and occupations and is larger in less populous regions and in occupations with a higher share of manual routine tasks.

Turning to the question to what extent employers really make use of their monopsony power, it is illuminating to distinguish employers' *potential* monopsony

⁴ See the recent meta-analysis of 1,320 elasticity estimates from 53 studies by Sokolova and Sorensen (2021) and their discussion of identification issues as well as Azar and Marinescu (2024) and Manning (2011).

power as measured by the wage elasticity of the labour supply curve to the individual employer, or proxied by employer concentration in a local labour market, from their *actual* monopsony power, a point stressed early by Bronfenbrenner (1956). Put differently, the question turns out to be about the size of the pass-through of employers' *potential* monopsony power to wages.

Up to now, there exists no direct evidence on the link between employer-level labour supply elasticities and wages; the sole exceptions are Webber (2015) and Dobbelaere et al. (2024) who find a positive association between them. But there are two pieces of indirect evidence that employer make use of their *potential* monopsony power (Hirsch and Jahn 2023).

The first piece of indirect evidence stems from numerous studies that find evidence for so-called monopsonistic discrimination, or third-degree factor price discrimination, where groups of workers who are less responsive to wages receive lower wages. Investigated groups of workers include men versus women (e.g. Hirsch et al. 2010; Ransom and Oaxaca 2010; Webber 2016),⁵ immigrants versus natives (Hirsch and Jahn 2015; Depew et al. 2017), and documented versus undocumented workers (Hotchkiss and Quispe-Agnoli 2013). Along similar lines, some studies find that the anticyclical evolution of the labour supply elasticity predicts part of the procyclicality of wages (Depew and Sorensen 2013; Hirsch et al. 2018; Webber 2022)⁶ and Hirsch et al. (2022) that larger elasticities in denser local labour markets explain about half of the urban wage premium.

Another piece of evidence stems from a growing body of studies that find a negative effect of employer concentration on wages (e.g. Azar et al. 2022; Ben-melech et al. 2022; Rinz 2022; Qiu and Sojourner 2023; Bassanini et al. 2025), although some caution is required in interpreting such a reduced-form relationship between market shares and wages. As is well known from the structure-conduct-performance paradigm of the industrial organisation literature (e.g. Syverson 2019), market shares and prices are simultaneously determined. So interpreting an effect running from employer concentration to wages as employers' *actual* monopsony power requires assumptions on market form (e.g. Berger et al. 2022).⁷

In the final article of this special issue, "Monopsony: Wages, Wage Bargaining and Job Requirements", Anderlik et al. (2025) contribute to this strand of the literature. They use rich administrative data for Austria to investigate not only how

⁵ For a survey on monopsonistic gender discrimination, see Hirsch (2016).

⁶ For a survey on the cyclicity of employers' monopsony power, see Sorensen (2017).

⁷ As a case in point, Manning (2021) observes that higher monopsony power is accompanied by less (not more) employer concentration in the canonical BM model, so in this case we would even expect a positive reduced-form relationship between concentration and wages.

employer concentration relates to posted as well as actual wages of hired workers but also to non-wage job amenities and skill requirements.

Their core findings are at minimum four: Firstly, they find that wages are markedly lower in more concentrated local labour markets, and actual wages even more so than posted wages. Employer concentration thus seems to lower not only the wage offers to job-seekers, but also the outcomes of hired workers in subsequent wage negotiations. Secondly, they document that the negative relationship between concentration and actual wages, but not posted wages, is more pronounced for women than for men, for old workers than for young workers, and for migrants than for natives. This finding suggests that these disadvantaged groups of workers lose out more in wage negotiations. Thirdly, they find workers hired in more concentrated labour markets to face substantially lower wages even ten years after being hired, which prompts at important long-run consequences of employer concentration. Fourthly, they show that jobs in more concentrated labour markets have less non-wage amenities whereas their skill requirements do not differ much, which points at non-pecuniary utility costs of employer concentration for workers.

The three articles in this special issue on “Monopsonistic Labour Markets” provide novel insights on how to model the reasons for employers’ monopsony power, how to measure it, and how much of it materialises in lower wages. We are confident that the studies published in this issue will be of high interest to specialists and a broader audience of economists alike. They definitely deserve a wide readership, and our not unwarranted hope is that they will provide new impulses to those partaking in the monopsony literature.

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