

Firm Wage Premia, Rent-Sharing and Monopsony When Underemployment is High

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With thanks for data access and support from the South African National Treasury and UNU-WIDER SA-TIED inequality work stream, for financial support from the Southern Centre for Inequality Studies, and for invaluable comments from Arindrajit Dube and Suresh Naidu, as well as Adam Aboobaker, Joshua Budlender, Aroop Chatterjee, Bridget Diana, Amina Ebrahim, Leila Gautham, Surbhi Kesar, Murray Leibbrandt, and many others. All errors are my own.

SA-TIED Presentation

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How competitive is the South African labour market?

- Central constraint of market economies: Worker threat to quit to alternative jobs
 - Regulates wages, with impacts on prices, productivity, output
 - How relevant is this in South Africa, with high underemployment?
- A link through firms b/n high unemployment and inequality?
 - Historical drivers of Apartheid policy (e.g. job structure)
 - A continuing link through monopsonistic competition?

Roadmap

- Evidence that there are **substantial wage premia** in the labor market
- Evidence that these wage premia are **linked to firm profitability, i.e. rent-sharing**
- Explanations:
 - **Monopsony power: higher with unemployment, increases inequality**
 - Unions: Part of the explanation, but insufficient (e.g. non-union wage premia)

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Data description

- Matched employer-employee data from SARS tax data (2011-2016)
 - near universe of all **formal sector** workers
 - advantage: hours!
- Focus on workers in firms >20 workers
 - reduced measurement errors for firm-level estimation

Descriptive Statistics

	Jobs (freq)	Sample (freq.)	Firms (freq)	Sales (% all firms)
2011	10,100,000	8,353,791	42,038	86.3%
2012	10,400,000	8,681,995	42,980	87.1%
2013	10,600,000	8,900,366	44,527	85.2%
2014	10,600,000	8,981,113	45,265	84.9%
2015	10,800,000	9,150,558	46,010	85.6%
2016	10,700,000	8,999,547	46,563	86.5%

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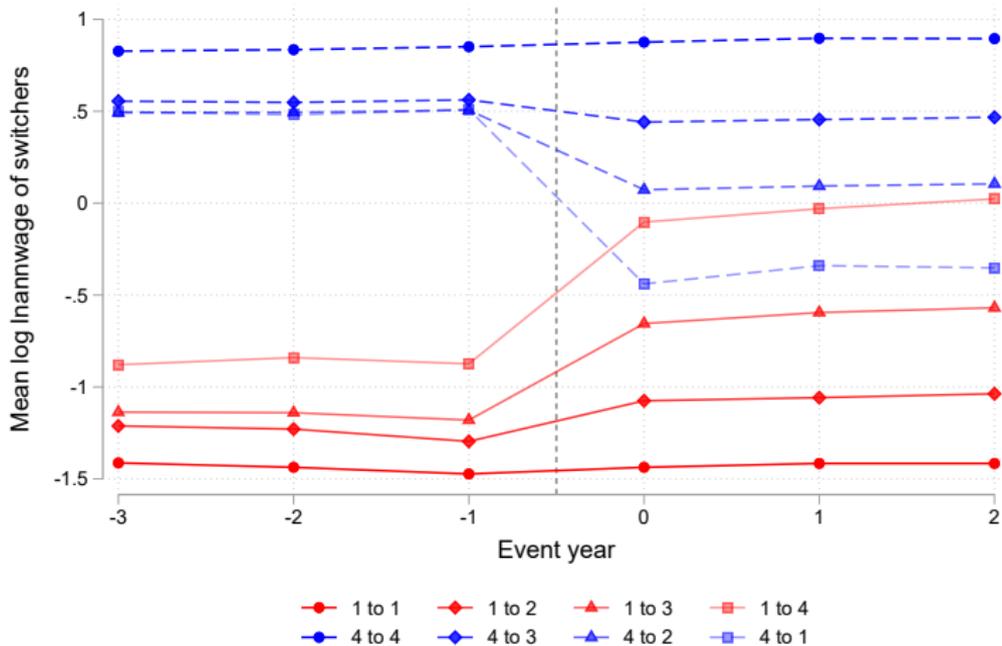
Unions

Discussion

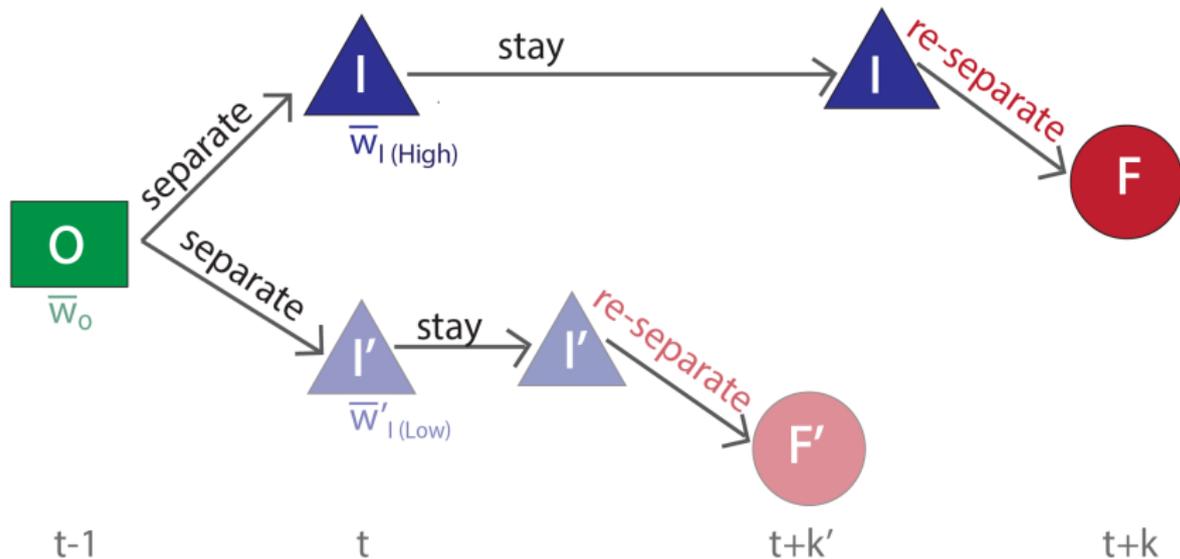
Indicators of rents

- Competitive market labour market → similar workers are paid similar amounts
- Less competitive → similar workers earn different amounts
 - low earning workers can't switch easily to high earnings “good” jobs!
 - Why? Monopsony or unions (see later)
- Indicators of less competitive markets: **Firm wage premia** and **rent-sharing**

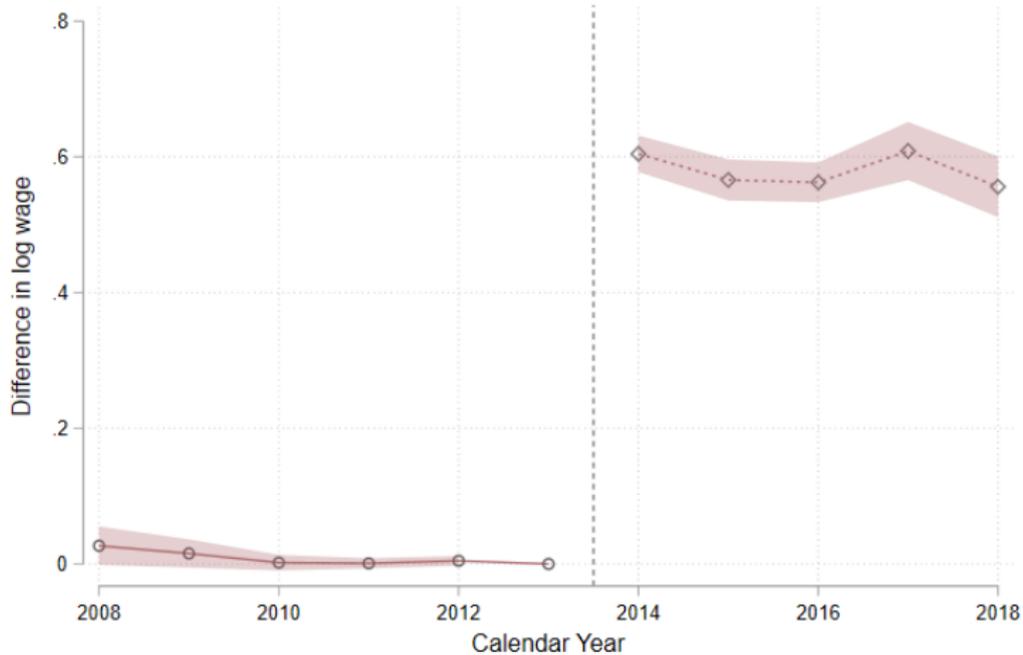
Firm wage premia: Non-parametric event-study of switches



Firm wage premia: Matched event study design



Firm wage premia: Matched event-study result



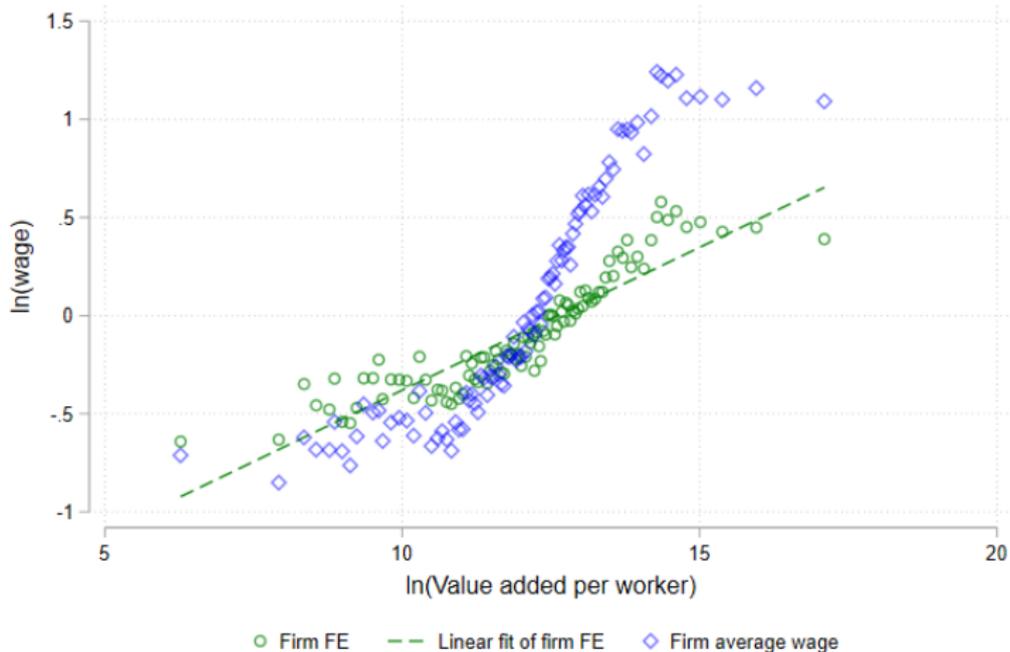
Firm wage premia: Decomposition

$$\ln(\text{wage}_{ijt}) = \text{WorkerFE}_i + \text{FirmFE}_j + \text{MatchFE}_{ij} + \epsilon_{ijt}$$

$$\text{Var}(\ln \text{wage}_{ijt}) \approx \text{Var}\{\text{WorkerFE}_i\} + \text{Var}\{\text{FirmFE}_j\} + \text{Cov}\{\text{FirmFE}_j, \text{WorkerFE}_i\} + \{\text{Other Terms}\}$$

Observations	43,100,000
Var(LnWage)	1.32
% Var(Firm FE)	23%
% Var(Worker FE)	43%
% 2 Cov(Firm FE, Worker FE)	11%

Rent-sharing: Scatter of Value added and wages



Rent-sharing: Estimates

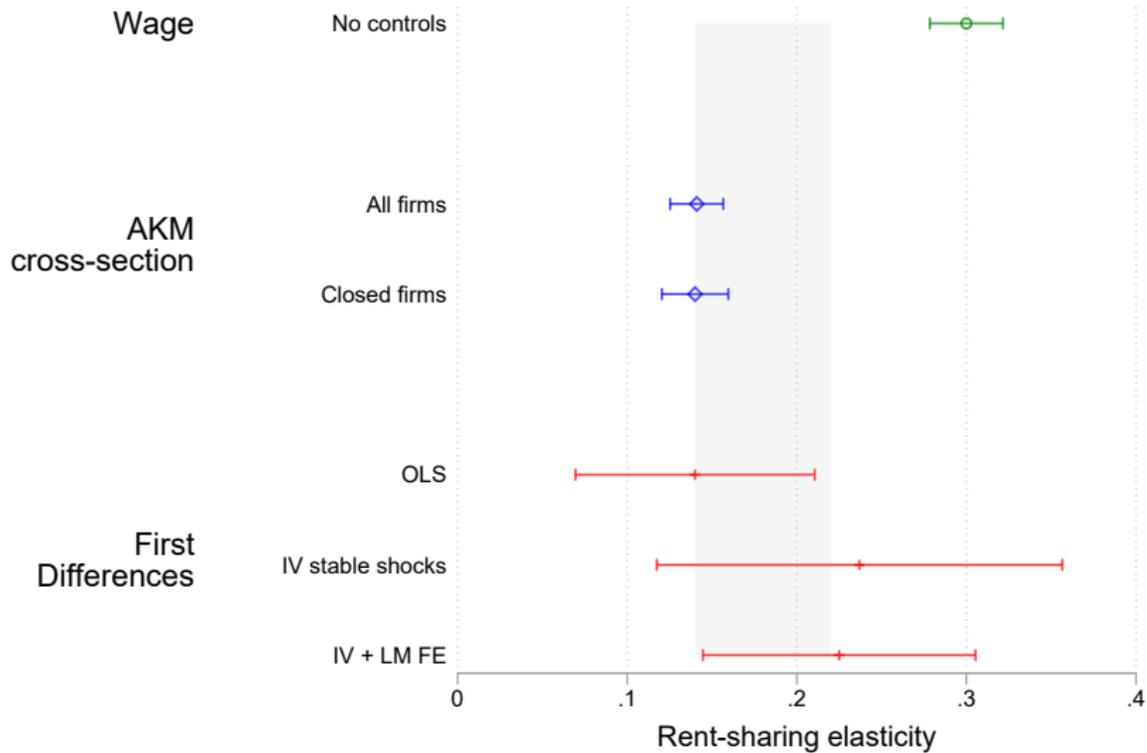


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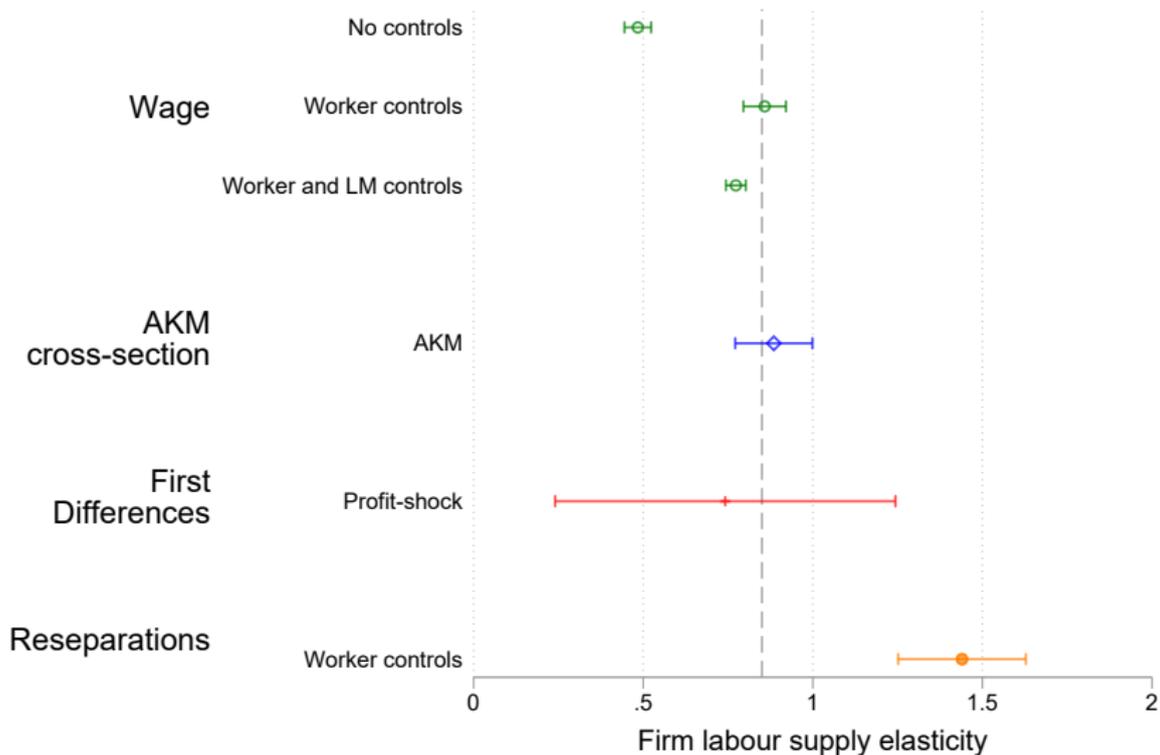
Monopsony as an explanation

- What is monopsony?
 - Quitting a job is costly, so firms can decrease wages while retaining workers
 - Possible reasons: Search costs, job differentiation
 - **Key test:** How do separations respond when wages increase? If decrease → worker response to wage setting
- Monopsony as a link!
 - More productive firms pay higher wages (“rent-sharing”)
 - **Higher unemployment → more monopsony power → higher rent-sharing → higher inequality!**

Is monopsony plausible?

- Monopsony is pervasive in the international literature
 - **Quasi-experimental:** Caldwell and Oehlsen (2018), Cho (2018), Kroft et al. (2020), Dube, Manning and Naidu (2019)
 - **Concentration:** Azar, Marinescu, Steinbaum (2017), Rinz (2018), Arnold (2019), Prager and Schmitt (2019)
 - **Meta analysis:** Sokolova and Sorensen (2021)
 - **Developing countries:** Few, but key studies in Brazil, India and Mexico
- Monopsony in South Africa?
 - Reference letters: Abel, Burger, and Piraino (2020)
 - Unemployed youth turning down low wage jobs: Zizzamia (2020).

Monopsony: Estimates



Unions as an explanation?

- Unions bargain for higher wages → firm wage premia
 - potentially along the labor demand curve (restricting access)
- But data suggest non-union firms have similar dynamics of substantial wage premia and rent-sharing
- Also, *dynamic decrease in separations* from wage increases suggests wage posting (labor demand curve → fire workers, i.e. separations increase)
- Potential complementarity: Monopsonistic owners and unions both gain from higher wages...

Firm wage premia for non-union firms

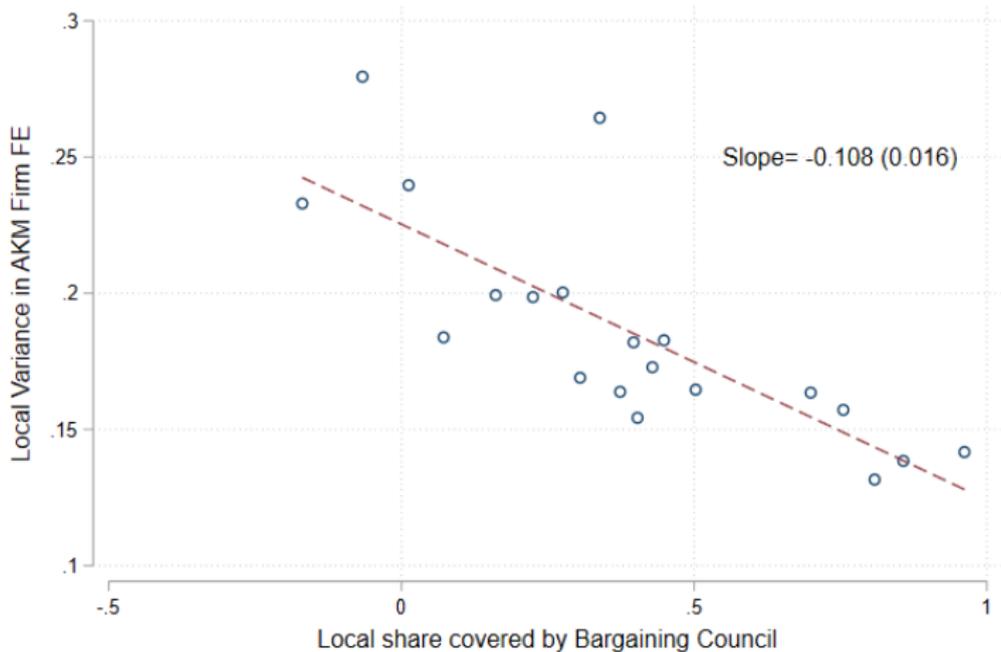


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Implications for development

- Suggestive evidence that the informal sector displays similar (non) competitive dynamics
 - Think of informal sector firms as low wage firms: we see formal sector premium, and transitions
 - Similar labor supply and rent-sharing elasticities (using data from SESE)
- Monopsony links underemployment and inequality in the development process?
 - Labour surplus (\rightarrow monopsony) and uneven industrialization (\rightarrow greater rent-sharing effects)
 - Both contribute to higher wage inequality through firm wage premia

Conclusions

- Workers cannot easily move around in the South African labor market
 - Large dispersion in firm wage premia, accounting for about 20% of total inequality in South Africa
 - Rent-sharing is higher than other countries
- Competitive dynamics should not be the baseline assumption in analysis
 - Primary alternative models: Monopsony and unions
- Policy implications?
 - Alternative frameworks for minimum wages, ETI, unions
 - Market vs pre-market interventions