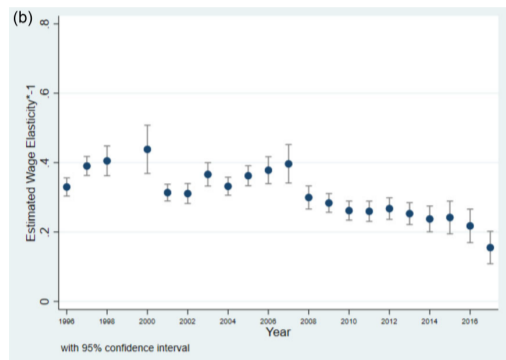


Monopsony and the Macroeconomy

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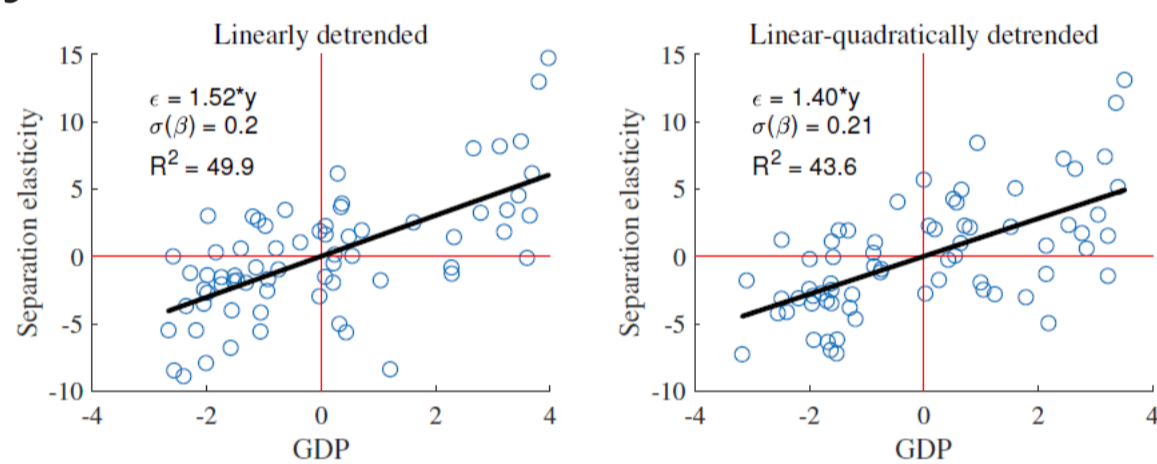
Background: secular trends in US

- Decline in labor share, wage stagnation, rising prices.
- Rise in market power:
 - Price markups \uparrow (De Loecker et al., 2020).
 - **Wage markdowns** \uparrow since labor supply elasticity to individual firm \downarrow (Langella and Manning, 2021).



How does market power vary over time?

- Monopsony power has been rising.
 - Great Resignation: Is Covid-19 crisis a turning point?
- Monopsony power seems to vary over **business cycle**.



- Research aims to establish stylized facts on...
 - variation of monopsony power across time and space,
 - conditional cyclicity: do all shocks lead to countercyclical response?
- Challenges:
 - Various ways to measure monopsony power.
 - Data: we need high-frequency, long time series.

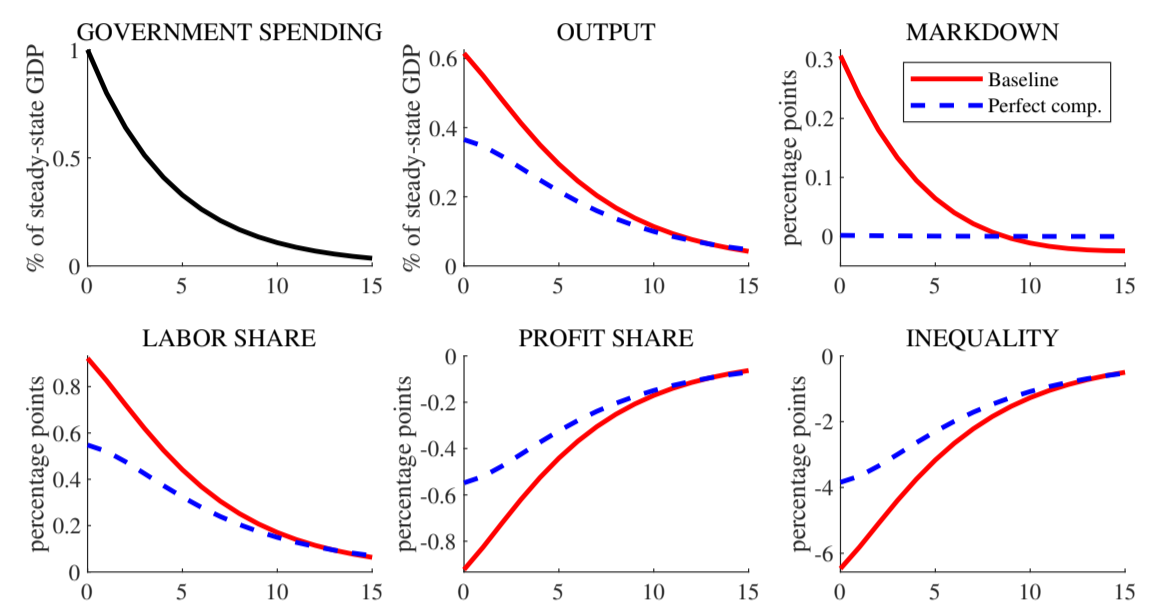
Monopsony in macroeconomic models

- Price markups key feature of macro models.
- Monopsony & wage markdowns have been ignored.
- Macro model + endogenously time-varying employer market power (Bredemeier, Jansen, Winkler, 2022)
 - Monopsonistic labor market: Workers care about pay & non-pay characteristics of a job.
 - Markdown = $f(\epsilon_t)$ with $f' \geq 0$.
 - Labor supply elasticity to individual firm:

$$\epsilon_t = \theta \cdot \frac{\partial U}{\partial C_t} \cdot w_t \cdot n_t + \frac{1}{\varphi}$$

A first application: monopsony and the effects of fiscal policy

- Labor market monopsony + TANK.
- **Monopsony amplifies** cyclical fluctuations and effects of stabilization policies.
- Effects of **government spending** expansion:



- Fiscal multipliers larger.
- Distributional consequences stronger.
- Mechanism: $G \uparrow \Rightarrow wn \uparrow$ and $\frac{\partial U}{\partial C} \uparrow \Rightarrow \epsilon \uparrow$
 \Rightarrow employer market power \downarrow ,
 $\Rightarrow y = f(n) \uparrow$,
 $\Rightarrow wn/y \uparrow$, profit share \downarrow .

New laboratory can help...

- quantify role of rising employer market power on business cycles,
- quantify distributional consequences of market power,
- understand Great Resignation,
- design optimal policies to address employer market power,
- understand what rising degree of monopsony power implies for monetary policy,
- estimate employer market power,
- ...

Other research interests

- **Fiscal policy** as a stabilization tool.
 - State of the art in '10: "Monetary science, fiscal alchemy" (Eric Leeper).
 - Aim is to contribute to moving toward fiscal science.
- **Firm dynamics** and the macroeconomy.
- Who is hit the hardest... and who benefits the most?
 - **Distributional consequences** of cyclical fluctuations and stabilization policies.

