Labor Market Power*

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Preliminary and incomplete

Abstract

We develop a general equilibrium oligopsony model of the US labor market. To parameterize the model we use Census data to estimate within-state-firm, across-region differences in the response of employment and wages to state corporate tax changes. We show that the distribution of wage-bill Herfindahls is a sufficient statistic for the aggregate labor share, and we document that the employment-weighted wage-bill Herfindahl fell from 1976 to 2014. After estimating our model to match 2014 levels of labor market concentration, we find that the welfare gains associated with a Walrasian equilibrium range from 4 to 18 percent. Lastly, we show that the model is able to capture the reallocation of employment across the distribution of firms in response to a minimum wage hike.

JEL codes: E2, J2, J42

Keywords: Wage setting, Market structure, Labor markets

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