

Do Small Firms Truly Not Exert Monopsony Power Over Workers?

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Abstract

Monopsony in the labor market has garnered significant attention, particularly in relation to wage increases and minimum wage policies. Theoretical frameworks often present cases of single-firm monopsony, oligopsony, or a market structure where a dominant large firm coexists with numerous small firms operating under competitive conditions. However, because workers employed by large firms tend to have greater mobility, their potential labor market extends beyond the local level, effectively increasing the number of alternative employers. In contrast, workers with limited mobility, employed by small firms and regionally constrained, may have fewer employment options, suggesting that their labor market conditions may not be as intensely competitive.

Therefore, this study analyzes how monopsony power varies over time by establishment size and examines the factors contributing to these changes. To conduct the analysis, individual data from 2017 to 2023 are utilized, including separation history, industry and occupation for both previous and current jobs, firm size, as well as education level, age, and gender in Japan.

Wage elasticity is estimated using the Cox model, following previous studies, to measure monopsony power. Additionally, the range of employment options available to workers is measured using the Outside Options index. These time-series variations of the wage elasticity and this index are examined by establishment size and region.

As a result, the trend in wage elasticity, particularly for regular employees in the manufacturing sector, varies by establishment size. The elasticity in small establishments is relatively low, indicating that these establishments are less competitive in the labor market. While wage elasticity in small establishments remains stagnant throughout the estimated period, it increases in large establishments. One contributing factor is the diminishing employment options available to individuals who tend to work at small establishments. However, these differences by establishment size are not observed among non-regular employees or in the service sector.

This study contributes to the effective implementation of measures to increase wage levels for a large portion of the workforce, as most people in Japan are employed in small establishments. For example, the effectiveness of minimum wage policies depends on the degree of monopsony power in the labor market.

