Labour Market Power in Canada

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Introduction

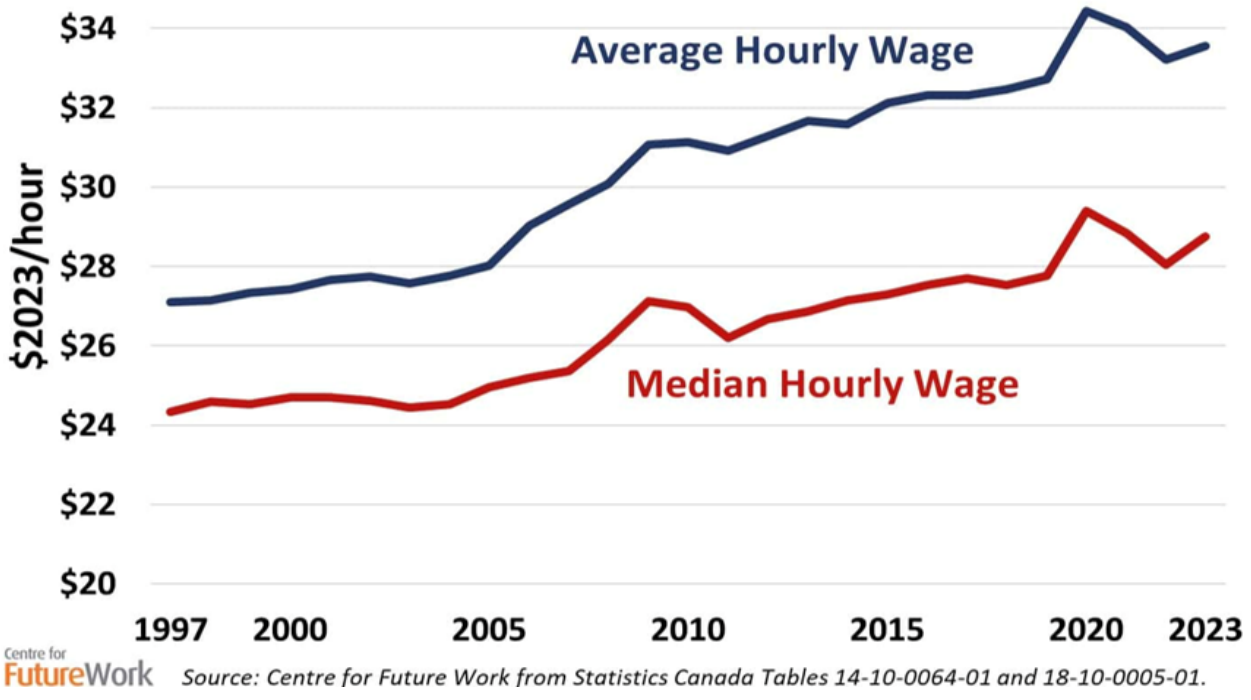
Motivation and Context

- Economic recessions significantly reduce wages and hours worked, especially for new hires and vulnerable workers
  - *(Blundell et al. 2014; Forsythe et al. 2020; Lessem and Hamermesh 2019)*
- Traditional explanations emphasize demand shocks, but recessions may also increase employer wage-setting power
- Monopsony theory predicts that reduced competition among firms allows wage markdowns below marginal productivity
  - *(Robinson 1933; Azar et al. 2022; Benmelech et al. 2022)*
- This study investigates whether the Great Recession increased labour market concentration, reinforcing monopsony power

Introduction

Goal

- *(Center for Future Work)*



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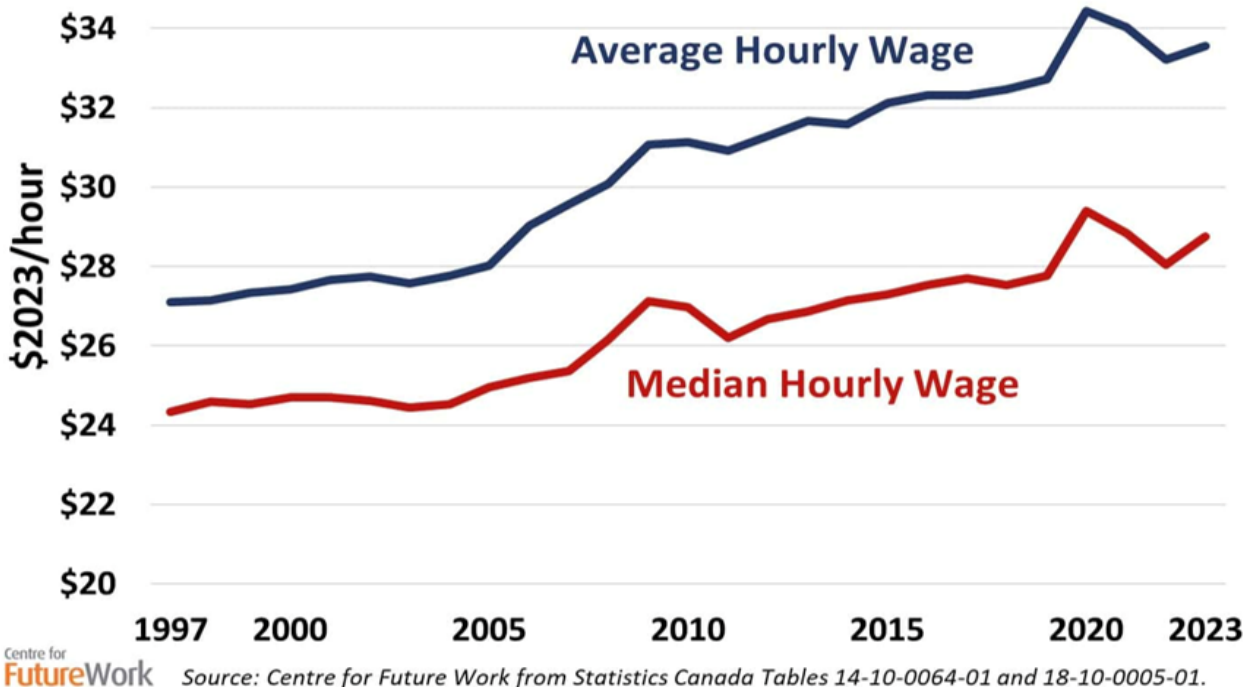

- Does economic recession shift the balance toward employer power?
- How does recession affect the balance of power between employers and employees, and to what extent does this shift occur?

Data & Measurement

Recession in Data

- Wage shares shifted more than Job shares during the recession, pointing to potential downward pressure on wages in certain sectors.
- This asymmetry suggests changes in wage-setting dynamics, potentially reflecting increased labor market power in certain sectors.

▸ Share of key variables

Data & Measurement

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Data

- Business Employee Administrative Microdata (BEAM)

Data & Measurement

Measurement

$$\text{HHI}_m^{wn} := \sum_j (s_{jm}^{wn})^2, \quad \text{where} \quad s_{jm}^{wn} = \frac{w_{jm} n_{jm}}{\sum_j \sum_m w_{jm} n_{jm}} \tag{1}$$

where w_{jm} denotes the average wage and n_{jm} the employment of firm j in market m.

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Data & Measurement

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- Wage Bill Herfindhall Index HHI_m^{wn}:Theoretically consistent measure of labour market power (Berger and al)
- Employment-based Herfindahl index HHI_m^{n}: fails to capture the correlation between wages and employment

Local Labor Market Concentration

Measuring Local Labour Market Concentration

- Markets: are defined as combinations of province l and 2-digit NAICS industry k

$$HHI_{k_l} = \sum_j (share_{jk_l}^{wn})^2 \tag{3}$$

The local industry concentration is a within industry measure. "In a given industry within a specific local labour market, how many firms (and how large) account for the total employment and wages of workers in that area"

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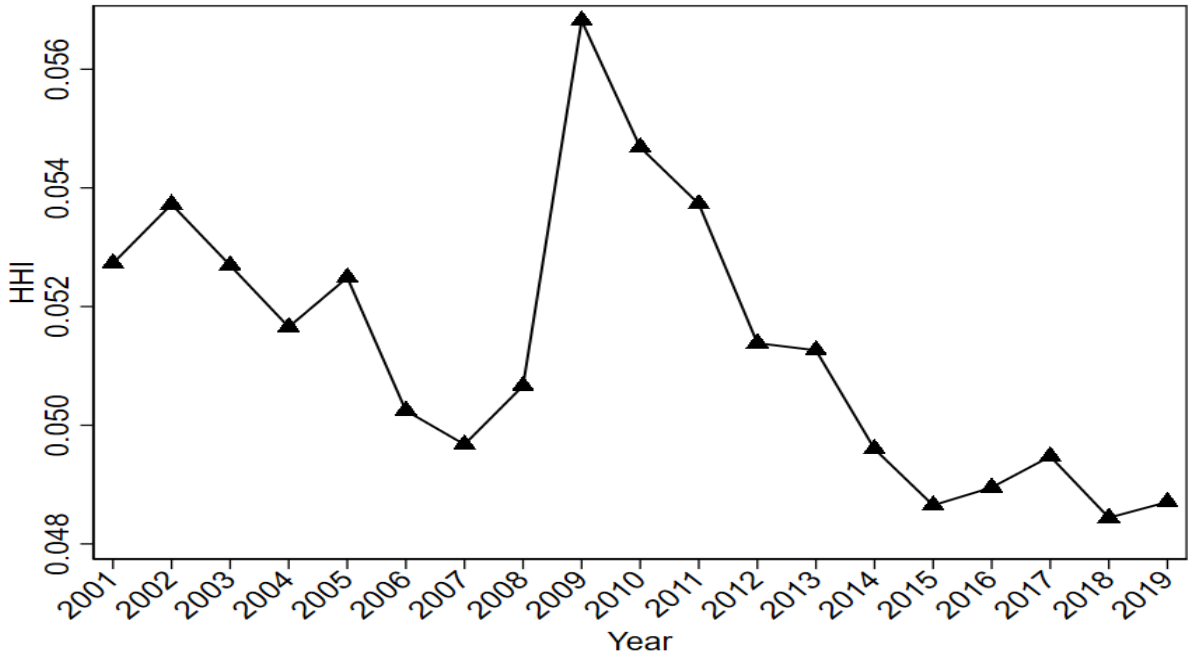
$$HHI^L = \sum_l share_l \sum_{k_l} share_{k_l} HHI_{k_l} \tag{4}$$

- $Share_l$ capture local composition (intra-province change)
- $Share_{kl}$ capture local industrial composition (intra-industry change within province)

Local Labour Market Concentration (2001-2019)

Wage Bill Herfindhall HHI^L



- Overall downward trend in labour market concentration over the period.
- Temporarily interrupted by a spike during the Great Recession, with an increase of approximately 14% between 2007 and 2009.)

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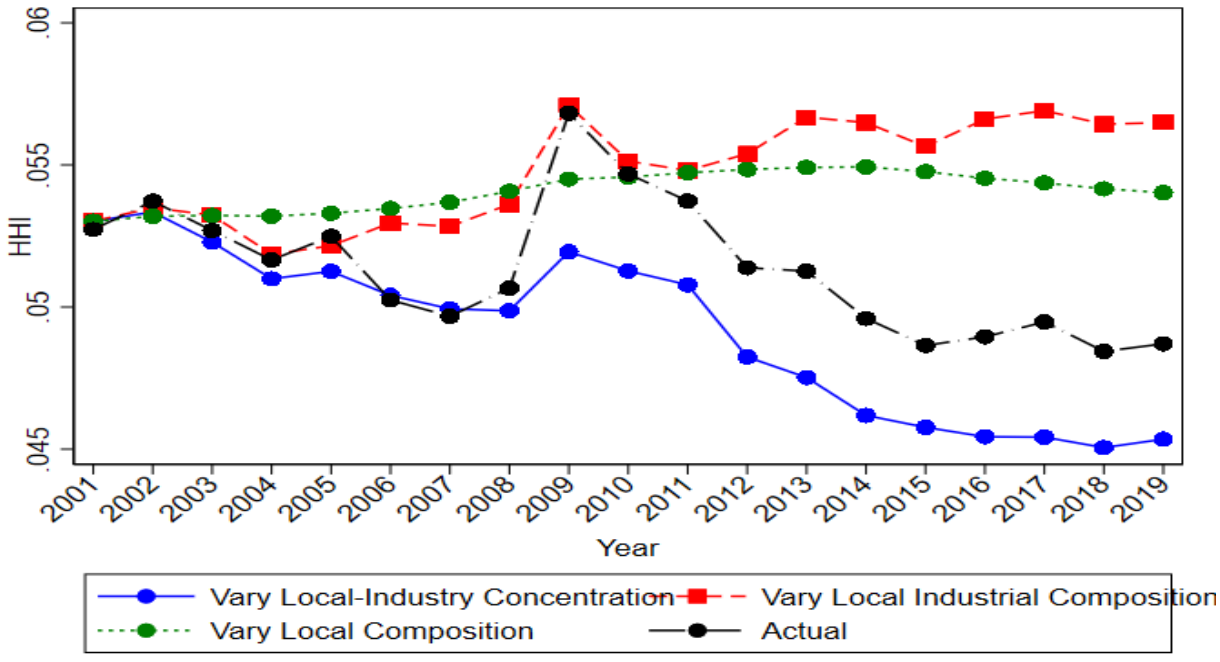

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Local Labour Market Concentration

- what extent does this shift occur?
- We estimate the following decomposition:

$$\Delta HHI^{L} = \underbrace{\sum_{l} s_{lt-1}\Delta HHI_{lt}}_{\text{Within-Province Effect}} + \underbrace{\sum_{l} HHI_{lt}\Delta s_{lt}}_{\text{Between-Province Effect}} + \underbrace{\sum_{l} \Delta s_{lt}\Delta HHI_{lt}}_{\text{Covariance Effect}} \tag{5}$$

$$= \underbrace{\sum_{l} s_{lt-1}\left[\sum_{k_l} s_{k_l t-1}\Delta HHI_{k_l t}\right]}_{\text{local Within Industry Effect}} + \underbrace{\sum_{l} s_{lt-1}\left[\sum_{k_l} HHI_{k_l t}\Delta s_{k_l t}\right]}_{\text{Local Between-Industry Effect}}$$

$$+ \underbrace{\sum_{l} s_{lt-1}\left[\sum_{k_l} \Delta s_{k_l t}\Delta HHI_{k_l t}\right]}_{\text{Local Covariance-Industry Effect}} + \text{remaining terms}$$

Decomposition – Local Labor Market Concentration

Quantifying Change in local LMC

Table -3: Drivers of Labour Market Concentration During the Great Recession (2007–2009)

Component	**Dir.**	**Magnitude**	**Key Insight**
Within-industry	↑	0.0404	Rising dominance of large firms within industries
Industry composition	↑	0.0870	Reallocation toward more concentrated sectors
Covariance effect	→	0.0007	Minimal correlation between industry growth and concentration
Within Province	↑	0.1280	Rise in concentration primarily within provinces

Note: Growth driven by sectoral reallocation and within-industry consolidation

Local Labor Market Concentration

Quantifying Change in local LMC

- **Between-Industry Effect (67.9%)**
  - Employment and wage bill shifted away from Manufacturing, Wholesale Trade, Mining, and Finance sectors (all with negative net entry rates)
  - Public Administration and Utilities absorbed much of the reallocated wage bill, with Public Administration alone accounting for 82% of the Between-Industry effect
- **Within-Industry Effect (31.5%)**
  - Dominant firms in Public Administration, Information, and Transportation sectors expanded market share relative to smaller competitors
  - Increased concentration primarily occurred through growth of existing large employers, despite new firm entry in some sectors

Economic and Policy Implications

Interpreting Concentration Dynamics

- **Recessions can amplify employer market power**
  - Consolidation within sectors and reallocation toward already concentrated industries reduce competition and suppress wage growth
- **Public sector acts as a stabilizer during downturns**
  - Absorption of displaced labour by Public Administration and Utilities helped mitigate employment losses, but raises concerns of long-run concentration
- **Higher concentration reduces worker mobility**
  - Fewer outside options for workers increase monopsony power and limit wage recovery in local labour markets
- **Countercyclical entry support is crucial**
  - Policies that promote firm entry and market diversity can prevent the entrenchment of employer power during and after recessions

Conclusion

- The Great Recession triggered a sharp but temporary rise in local labour market concentration, reversing the pre-existing downward trend.
- This spike was driven by both reallocation toward already concentrated sectors and internal consolidation within industries, especially among incumbent firms.
- Understanding these dual mechanisms is essential to designing countercyclical policies that prevent long-term entrenchment of employer power.

Thank You!

Data – Back

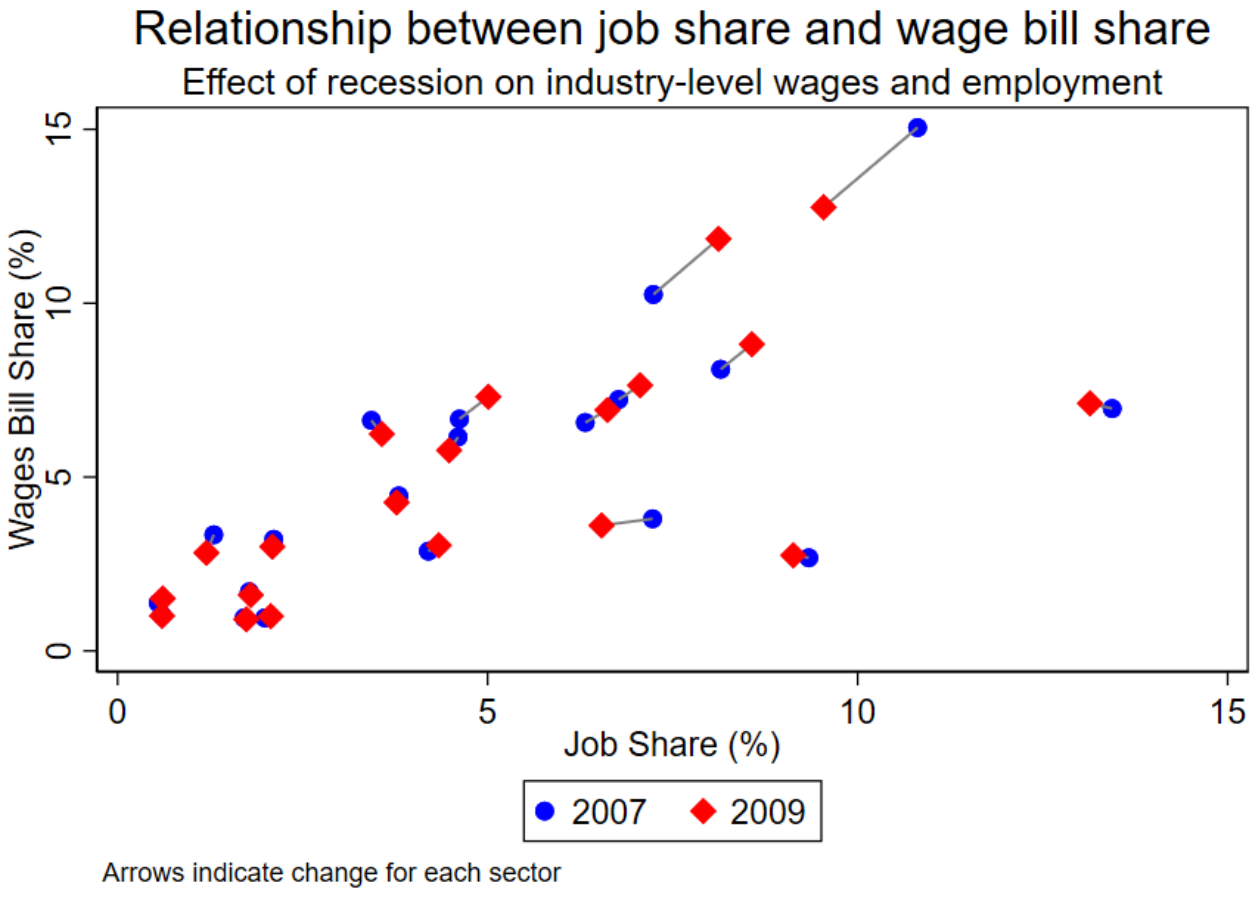

Figure 1: Share of admitted Category from 1980 to 2021

Data – Back

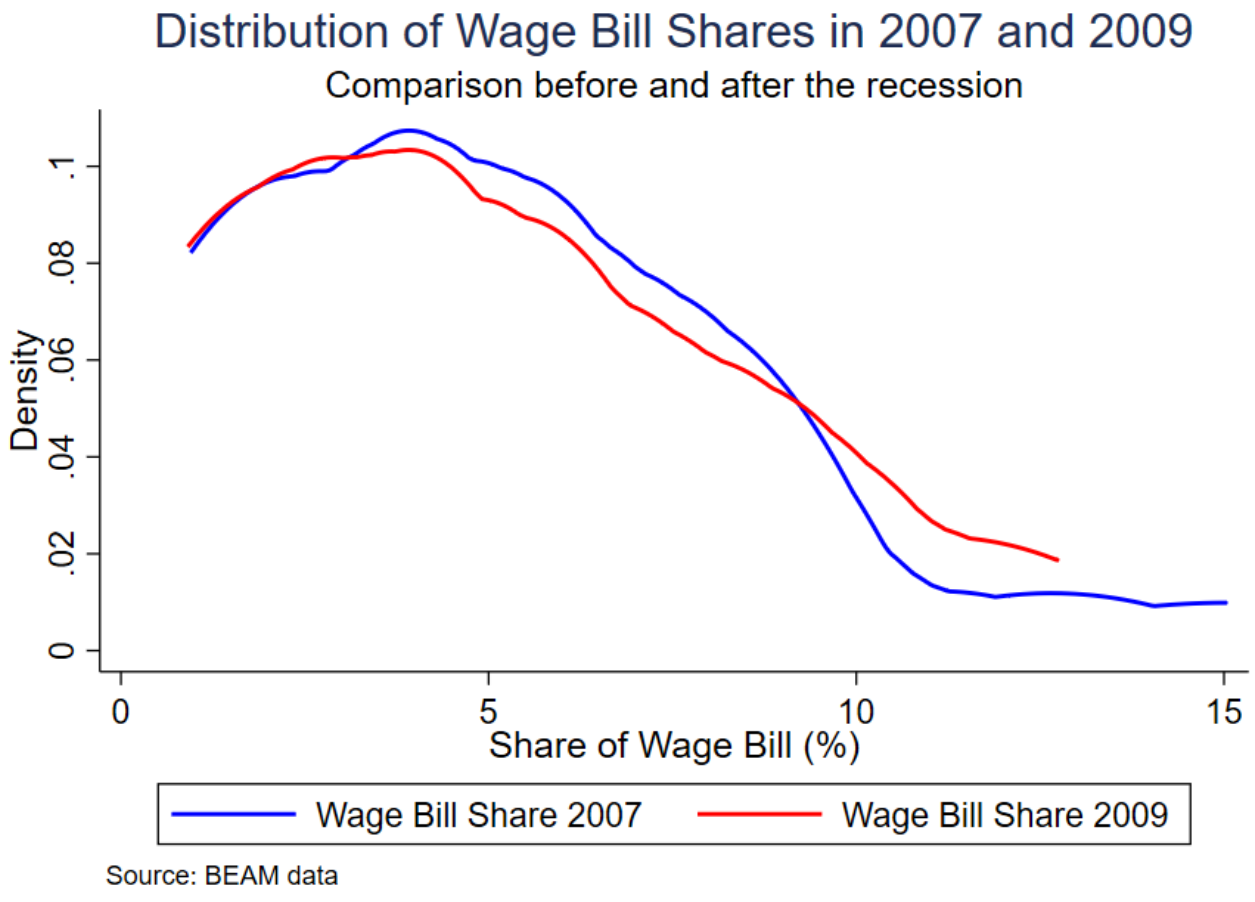

Figure 2: Share of admitted Category from 1980 to 2021

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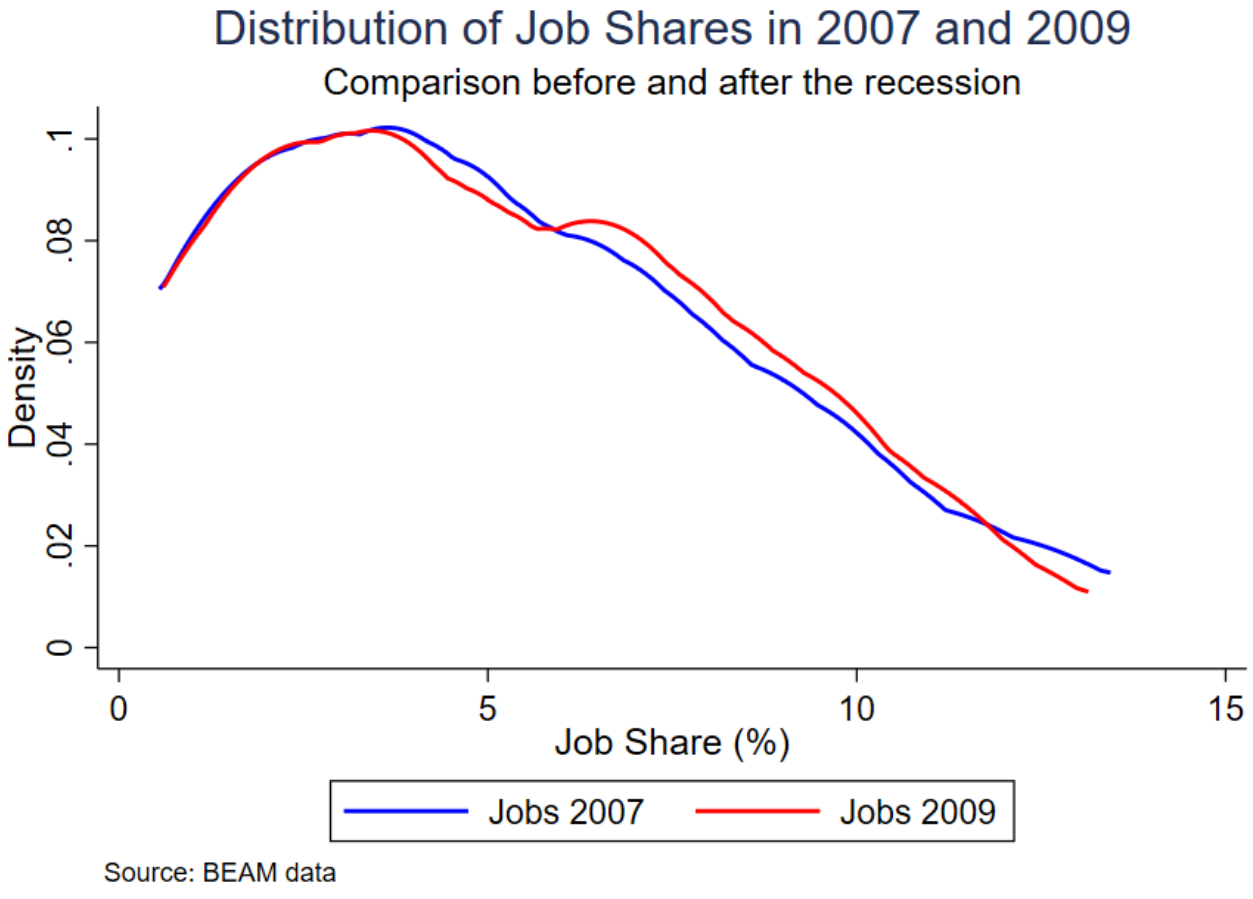

Figure 3: Share of admitted Category from 1980 to 2021

Decomposition – Local Labor Market Concentration

Quantifying Change in local LMC

Table -5: Drivers of Labour Market Concentration Trends (2001–2019)

Component	**Dir.**	**Magnitude**	**Key Insight**
Within-industry	↓	-0.15	Increasing competition among firms in the same industry
Industry composition	↑	+0.07	Shift toward more concentrated industries
Covariance effect	→	-0.01	Growing industries experienced falling concentration
Within Province	↓	-0.09	Net reduction in market concentration despite offsetting forces

Note: Long-term trend shows decreasing concentration driven primarily by within-industry competition

Long-Term Concentration Trends (2001-2019)

Drivers of Concentration Decline

- **Industries with negative contribution (reducing concentration)**
  - Utilities (-0.0159, 17%) and Information (-0.0216, 23%) experienced significant deconcentration, with positive net entry rates (10.89% and 16.64%) indicating intensified competition
  - Manufacturing contributed negatively despite negative net entry rate (-16.80%), suggesting more balanced redistribution among surviving firms
- **Industries with positive contribution (increasing concentration)**
  - Finance and Insurance contributed most strongly (+0.008, 8.71%), primarily through between-industry effect, with incumbents capturing most gains despite positive net entry (15.70%)
  - Public Administration: strongly negative within-industry effect (-0.1174) from decentralization, but partly offset by positive between-industry effect (+0.0933), resulting in largest net contribution (-0.0496, 54%)