

Market Power and Labor Market Trends

Zinan Wang

November 7, 2020

Abstract

Market power has been rising while wage polarization and wage growth have both slowed down in the United States since 2000. Over the same time period, routine labor share has continued downward trend whereas non-routine labor share has turned to decline from the previous rise, which results in the dramatic decline of aggregate labor share. I develop a general equilibrium model which incorporates the job polarization mechanism into monopolistic competition to explore the role of market power on these labor market trends. Comparative static analysis suggests rising market power qualitatively contributes to these trends. The calibrated model can quantitatively account for the trends with the magnitude of increase in markups close to the higher end of range in the literature. Empirically, I find that increases in industry concentration are associated with declines in aggregate labor share, declines in labor share across non-routine and routine occupations, and stagnation of growth in wages per efficiency unit of labor across both occupational groups.

Keywords: Market Power, Wage Polarization, Labor Share, Skill Price

JEL Codes: D4, E24, E25, J31