Wage markups and buyer power in intermediate input markets*

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Abstract

A rapidly growing literature suggests that monopsony power is common in US labor markets, suppressing wages below employees' marginal revenue contribution. This paper examines whether this result generalize to European labor markets, where bargaining between associations of employees and firms is common. Using data from Dutch manufacturing between 2007 to 2018, I show that wages are typically above the marginal revenue contribution of employees. This is not in line with monopsonistic labor markets but precisely what is expected when employees have bargaining power and manage to extract rents from their employers. In addition, I provide evidence of substantial buyer power in intermediate input markets and show how market imperfections in different input markets interact. Firms share increases in buyer power in the intermediate input market with employees by raising wages and, as a result, increasing the extent to which wages are marked up over the marginal revenue product of labor.

Keywords: Labor market frictions; Market power; Market imperfections; Monopsony; Rent sharing; Buyer power; Intermediate inputs
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