Dynamic Monopsony with Large Firms and Noncompetes
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View of the paper* from 10,000 feet

Probably more for my benefit than the audience's

*Not so much the topic: Scene setting on this issue and for this audience seems even more inane than is usually my wont and far from my comparative advantage

Headlines: Sensible analysis that gets at important effects ...

- General Equilibrium Model that incorporates
  - Finite number of employers
  - Endogenous Market structure and firm size through decreasing returns
  - Downward-sloping product-demand (allowing for price and not only employment/output adjustment)
  - Hiring rather than vacancy costs
- Sensible forces
  - Fewer employers means less outside competition in job ladder and wage compression
  - Similar effects of non-competes that can be traced through for wages and output
  - Banning non-competes means better allocation in the sense that firms don't get too big, but increases churn and raises costs (which get passed on to prices of good)

Headlines: Sensible analysis that gets at important effects and quantifies them

- Empirical Validation
  - Impact of mergers (a la Prager and Schmitt)
  - Ban on non-compete for low skill (a la Lipsitz and Starr)
- Quantifies effect of a ban
  - Headline figure (4% on wages); efficiency unclear
  - Spillover effects (firms that never had non competes face stronger competition)
  - Heterogeneity analysis 2-6% even up to 15% (sensible effects: wage increases higher when hiring costs higher, more noncompetes, inelastic demand, and very productive firms use non competes)

More detail

(Do we need it? The paper is very clear and polished, I imagine that the presentation will be too)

Baseline Model

- Workers get occasional offers (more frequent if unemployed and possibly from their own firm!)
  - Reservation utility for unemployed (since slow down the rate of new offers)
  - Take anything better than you currently have if employed
- Firms trade off higher wages against having to pay cost of onboarding new workers
  - symmetric mixed strategy of wage offers
  - Decreasing returns and downward sloping demand pins down firm size (number of jobs); in addition to any productivity differences

Baseline Results

Proposition 1 Fix output and increase number of firms (but product prices can adjust): reservation wage, mean wage, highest wage rise, profits fall

Proposition 2 Fix prices (but allow output response) and increase number of firms: highest wage increases, profits fall, unemployment increases but mean wage and reservation wage ambiguous.

Elasticity of quite rate wrt wages is endogenous (since distribution of wages available is endogenous) and depends on mkt structure

Non-competes

- k firms out of the total that can offer a contract that prohibits transition to another firm.

- Worker observes the non-compete and only take these jobs as a first job

- Firms offer (new endogenous) reservation utility but higher nominal wage

- Vertically least desirable job and so more mass here and less competition... if all firms non competes then only one kind of job and Diamond paradox applies (same utility as being perpetually out of work)

- Workers are cheaper for firms that can offer non-competes so can get misallocation

Proposition 3 Banning non-competes leases to higher highest wage but total employment and output fall

Model Extensions

- Hetererogeneous productivity

- Heterogeneous hiring costs

- Convex adjustment costs (more expensive to add more workers)

- Social cost of turnover less than firm cost (not empirically implemented): an extension that affects welfare but not wages

Calibration and Validation

- I will surely overrun and

- Given the folks in the room who know the papers that the model is validated against, I will defer opining

The obligatory quibbles to suggest I did some homework

What I know from reading newspapers/things outside of this paper

- Anti non-compete:
    - wage effects
    - Misallocation

- Pro non-compete
    - Trade secrets (firm investment)
    - Concerns over training/firm investments

- Observed variation: heterogeneity in the prevalence of non competes

Captured by the paper?

- Anti non-compete:
  - Wage effects ✓
  - Misallocation ✓ and ✗

Firms vary in productivity and there is a job ladder

From (homogeneous) worker perspective, differentiation is purely vertical; no worker heterogeneity (within a labor market); no match specific component*

*In IO, if not in labor(? Or at least not in BM) rich stream of horizontal match as a resolution to the Diamond paradox

Captured by the paper?

- Pro non-compete
  - Concerns over trade secrets
  - Concerns over training/firm investments ✔️ and ❌

(Focus on low wage/low skill suggests trade secrets implausible: rationale to ignore trade secrets)

- Churn is costly: more expenditure on hiring costs
- But are training/mentoring/development endogenous for each new hire, rather than just scaling with the hiring rate?

(maybe also limits to endogenous training margin for this group but I'm less sure)

Captured by the paper?

- Observed heterogeneity in the prevalence of non competes ✔ and ❌

Treated as exogenous

But a little odd to think about impact of impact of a ban if we don't really understand why they're sometimes there and sometimes not, and don't speak to it?

Incorporating into casework? Maybe also easier to take for thinking about macro than in the context of a particular market/specific-case? Where other details (no match, no training etc) might also be tricky

Bottom line

This is a very nice paper

How much should this bother me?

- Calibrated macro can't look at all possible effects and want to get some sense

- Empirical validation is reassuring

- Effects and scale seems plausible

- Looks like a fairly tractable framework to add more bells and whistles

- Even if not the final word, it's an important and useful step in the conversation

- And as good as anything that I've seen to address impact

Building my brand

Haiku summary

Banning non competes

Raises wages 4 per cent.

But also prices.