How to Detect and Measure Labor Market Collusion?

Abstract :

This paper studies the effects of a labor market cartel on wages and worker mobility. By revisiting the 1986 case of collusion in Major League Baseball, it finds that the income loss associated with labor market collusion is highly heterogeneous and depends on workers' ability to easily change employers. Based on this observation, the paper proposes an identification strategy for damage estimation that can be easily replicated by antitrust practitioners. A structural model of labor market competition is then developed to detect collusive behavior in observational data; it adapts discrete choice models for labor market analysis. The model reveals that, at the onset of the cartel, there were heightened barriers to mobility across firms, rising profits, and a declining labor share of income. Surprisingly, these patterns persist beyond the formal end of the cartel, suggesting significant and underestimated long-run effects. Finally, the structural model is used to simulate counterfactual wages, showing that the average yearly wage should have been at least 30% higher.