

Faculti Summary

<https://faculti.net/labor-market-power-self-employment-and-development/>

This video discusses a research paper by authors Pamela Medina and Monica Malaco, which investigates labor market power and its impact on employment characteristics in low-income countries, particularly focusing on Peru. The authors analyze how the limited number of employers and high self-employment rates affect wage employment and overall labor market dynamics.

Key points include:

1. In low-income countries, labor markets differ significantly from those in high-income countries, characterized by high self-employment rates and concentration of formal employment within a few medium and large firms.
2. The research highlights that historical patterns in countries that became high-income show a correlation between wage employment growth and sustained economic growth.
3. Self-employment is often seen as a necessary solution against unemployment, but this high prevalence can also hinder policy effectiveness aimed at increasing wage employment.
4. The authors explore monopsony power (market power of employers) in labor markets, noting that while it may be high due to few firms, the prevalence of self-employment can act as a buffer, affecting the dynamics of labor supply and demand.
5. The study utilizes data from various sources, including firm surveys and household surveys, to understand local labor market conditions and measure the extent of monopsony power.
6. Their findings reveal that labor market power is significant, with workers earning only 70 cents for every dollar they produce on average. However, self-employment can moderate the negative effects of monopsony on wages.
7. The paper also examines the potential impact of policies to improve employment outcomes and how labor market power influences the effectiveness of such policies.

Overall, the authors argue that monopsony power is a crucial factor in understanding labor market issues in both low- and high-income countries, affecting wage levels, employment types, and the outcomes of policy interventions aimed at economic improvement.