PLATE VIII · ON MONOPSONY IN THE MARKET FOR LABOUR

The Markdown

Every humane or cruel thing the competitive model has ever been made to say descends from one silent setting. Here it is brought into the light – the elasticity of labour supply that a single firm faces, the lone number that fixes how much of what a worker makes the worker is paid.

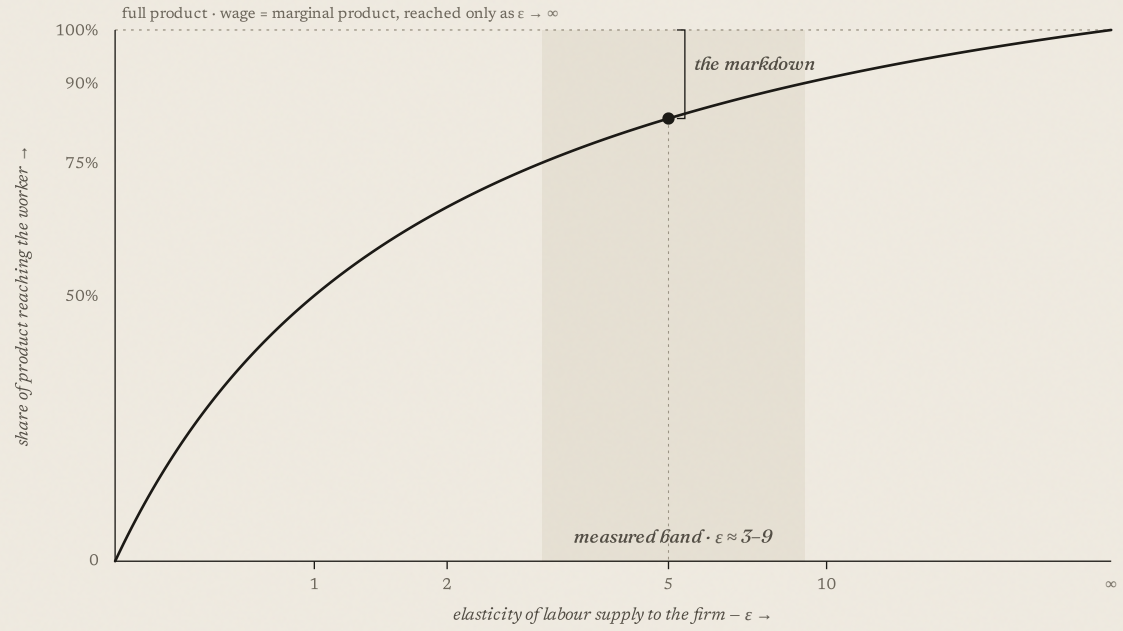


Plate viii · the master relation. The share that reaches the worker is the elasticity over the elasticity plus one. It rises from total expropriation, at the lower left, toward a ceiling of full marginal product it touches only at infinity. Perfect competition is not the body of the curve but its right edge; the measured band sits in the bend.

I THE SETTING

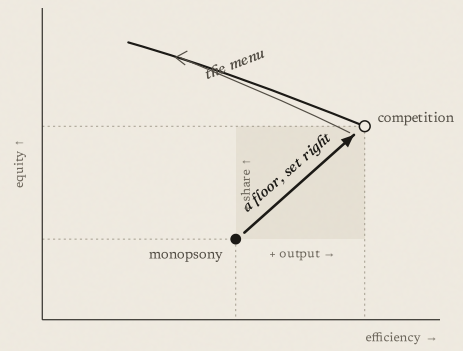
Strip the competitive model to its load-bearing member and one number remains – how freely workers flow toward a firm that pays a little more, and away when it pays a little less. The clean picture sets that number to infinity. Lower it, and a wedge opens between what the last worker produces and what the last worker is paid.

II THE RELATION

The wedge has a closed form. The fraction of marginal product withheld is one over the elasticity plus one; the fraction that reaches the worker is the elasticity over the elasticity plus one. The curve above is that second fraction – and the whole of the subject can be read off where a market sits along it.

III THE INVERSION

Read the curve and the oldest presumption turns over. Competition is not the rule from which monopsony departs; it is the lone point at the right edge – labour infinitely mobile – toward which markets tend and never arrive. On these numbers monopsony is the general weather, and the flat ceiling the rare cloudless day.



The escape. From an interior point the two goods stop being rivals.

IV THE ESCAPE

It touches the oldest belief in political economy – that equity is bought only with efficiency. Under competition the menu holds. But a firm with power sits inside the menu, poorer on both counts at once. A floor set right moves output and labour's share up together. It is not redistribution; it is the repair of a distortion – nearer to breaking a cartel than to taxing the comfortable.

V THE COUNSEL

The point everything is judged against cannot be seen. The competitive wage is a summit no instrument locates. So the discipline of it is modest: raise the floor in steps, read the employment data on the way up, and stop before the crest you cannot see.

THE ARITHMETIC OF THE WEDGE

i. markdown $= 1 \div (\varepsilon + 1)$

ii. labour's share $= \varepsilon \div (\varepsilon + 1)$

iii. $\varepsilon \to \infty \implies$ wage → marginal product

iv. interior point ⟹ a floor lifts share *and* output

Measured firm-level elasticities cluster near ε ≈ 3 to 9 – a markdown of roughly a tenth to a quarter of the wage. Whether any given market sits high or low on the curve is, properly, an empirical question; the relation only says where to look.