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Classic or new monopsony? Searching for evidence in nursing labor markets

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Abstract

The market for registered nurses (RNs) is often offered as an example of "classic" monopsony, while a "new" monopsony literature emphasizes that firm labor supply is upward sloping independent of market structure. Using data from multiple sources, we explore the relationship between nursing wages in hospitals and measures of classic and new monopsony. Wage level analysis fails to provide support for classic monopsony, the relative wages of RNs in 240 U.S. labor markets being largely uncorrelated with hospital system concentration. Longitudinal analysis shows nursing wages declining with increases in hospital concentration. We interpret these results as providing support for classic monopsony effects in the short run, but question whether wage effects are sustained in the long run. No relationship is found between nursing wages and a new monopsony measure of mobility, but support for new monopsony is found for women elsewhere in the labor market. RNs display greater inter-employer mobility than do women (or men) in general. Two conclusions follow. First, upward sloping labor supply need not imply monopsonistic outcomes. Second, absent more compelling evidence, nursing should not be held up as a prototypical example of monopsony—classic or new.

JEL classification: I100-Health economics; J420-Monopsony; J300-Wages; Compensation; Labor costs

Keywords: Monopsony; Wages; Nurses; Hospitals

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1. Introduction

A common textbook example of monopsony is the market for registered nurses (RNs) employed in hospitals.[2] The empirical literature, however, provides mixed conclusions. One strand focuses on empirical estimates of RN labor supply elasticities facing hospitals. This research is supportive of monopsony, in general finding upward sloping labor supply curves. A second strand investigates whether relative wage and/or employment outcomes vary with respect to hospital concentration, labor market size, and the like. Such studies provide little support for the classic monopsony model.[3]

These disparate results might be reconciled in several ways. One argument is that monopsony or oligopsony need not produce stable labor market outcomes; these may vary across time and with respect to market conditions. By this argument, one must search across different time periods and labor markets to determine the prevalence of oligopsonistic outcomes. A second argument is that monopsony is widespread, with employers in both concentrated and non-concentrated labor markets facing upward sloping firm-level supply curves owing to imperfect worker mobility (Manning, 2003). Following the argument of the "new monopsony" literature, market structure measures have limited relevance. Employers in large and small markets alike may face upward sloping supply curves and behave as oligopsonistic competitors. A third argument is that upward sloping labor supply is a necessary but not sufficient condition for monopsonistic outcomes (Hirsch and Schumacher, 1995). Although evidence may support existence of upward sloping supply facing individual employers, it need not follow that monopsonistic outcomes result.[4]

This paper addresses these contrasting views in an examination of wage determination in nursing labor markets. We provide tests of "classic" and "new" monopsony. The search for classic monopsony first examines whether relative wages of hospital RNs in urban markets is related to hospital system concentration and market size, the latter approximating the number of non-nursing and non-hospital nursing employers. We next examine whether changes in hospital concentration across markets lead to changes in relative RN wages, suggesting that this relationship represents a short-run but not necessarily long-run outcome.

The search for new monopsony relies on a simple measure of oligopsonistic power proposed by Manning (2003)—the proportion of new hires from outside employment. If the proportion of new hires from employment (i.e., from other jobs) is high, the suggestion is that workers are mobile (an elastic firm-level labor supply) and monopsonistic power

[2] Five leading undergraduate labor economics texts were examined. Four identify hospital RNs as an example of monopsony. Two of these four, note that evidence for monopsony is mixed. The other two provide no such qualification. A recent paper on nursing monopsony states: "Thus, if one found no evidence of monopsony in this market, it would be difficult to argue that monopsonistic competition was a pervasive feature of the labor market" (Staiger et al., 1999, p. 2). Boal and Ransom (1997) provide a comprehensive survey of the monopsony literature.

[3] Examples of the first strand are Sullivan (1989) and Staiger et al. (1999) and of the second Adamache and Sloan (1982) and Hirsch and Schumacher (1995). Sullivan (1989), generally cited as finding evidence of monopsony, also can be included with the latter group since he fails to find area wage differences associated with market structure.

[4] An additional argument is that labor supply studies finding a positive inverse elasticity fail to measure *long-run* supply. Despite the difficulty in estimating firm-level labor supply curves, we do not challenge the conclusion that hospitals (among other firms) face upward sloping labor supply curves over a lengthy planning horizon.