

題名 : Wage Markdowns and FDI Liberalization (with Yi Lu and Lianming Zhu)

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要旨 : This paper examines how liberalization of inward foreign direct investment (FDI) affects incumbent firm's monopsonic power over the wage. We estimate firm-level “wage markdown,” the gap between the wage and the marginal revenue of labor (MRL), from firm-level production data of China. During 1998-2007, more than 80% of manufacturing firms set markdowns and workers at a median firm receives about a third of their MRL. We estimate the causal effect of FDI liberalization on wage markdowns, using variations in China's regulation on FDI inflow upon its accession to the WTO in 2001. In contrast to the conventional wisdom, markdowns are narrower at large employers and FDI liberalization widens the average wage markdown. These findings suggest that search friction rather than concentration causes wage markdown.