

# Production, Labor Turnover, and Training: New Implications of Competition and Market Power

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## Extended Abstract

Firms compete against each other to employ and train workers, and let them supply goods and services to consumers. We analyze the link between firms' product and labor market competition and explore its welfare consequences and policy implications. In our model, firms engage in imperfect labor market competition for workers who have heterogeneous preferences to employers, and, at the same time, they engage in imperfect product market competition for consumers who have heterogeneous tastes to horizontally differentiated products. Each firm provides a certain level of training to its own workers and then engages in wage competition with other firms to retain and poach workers. Each firm's production cost for competition is determined by the number of workers it employs and the level of training they have received.

How would firms' market power affect consumers, workers, and firms themselves? To address this question, we study effects of worker's cost to switch employers, and effects of the level of overlapping ownership arrangements among firms, on equilibrium outcomes. The prediction of our model is consistent with the standard intuition that an increase in the market power benefits firms and hurts consumers and workers, *provided that the level of training is fixed*. An increase in the market power, however, does change the fraction of workers each firm ends up retaining as a result of wage competition, which in turn affects firms' incentives to train workers. Consequently, our model yields richer and previously unnoticed welfare implications that an increase in the market power may benefit workers and/or consumers, and hurt firms. Firms tend to underinvest in training in the presence of labor market competition, but they may overinvest in it due to product market competition in our model. The interaction between competition in both markets leads our model to yield novel predictions. We discuss policy implications of our findings.