INDUSTRIAL CONCENTRATION AND FRINGE BENEFITS

by

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ABSTRACT

This paper uses a major micro data set to examine the association between market structure and the provision of fringe benefits. By focusing on the probability of fringe benefit provision and by using individual data, this study departs from those which precede it. The analysis reveals that industrial concentration is an independent correlate with a large variety of fringe benefits, a finding which contrasts with earlier conclusions.

1. Introduction

Few issues have generated as much empirical research as the question whether and how wages and industrial concentration are associated. Dickens and Katz (1986) identify twenty-two separate studies designed to examine this association, and even this underestimates the total, as new studies continue to appear [Belman (1986), Kawashima and Tachibanaki (1986) and Blanchflower (1986)]. While this large literature lacks unanimity of results, a reasonably clear pattern emerges from the studies using individual (micro) data. The majority of these studies estimate industrial concentration to be a significant positive regressor in wage equations. This contrasts with the general failure of industry level studies to confirm a role for market structure. The majority of those studies estimate no significant partial correlation between wages and industrial concentration.

The stark contrast between the individual and industry results suggests a deficiency in the still fledgling literature examining the association of fringe

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benefits with industrial concentration. Investigation of this second association has been conducted exclusively at the aggregate level, with results which might have been predicted from the industry wage equations: industrial concentration plays no direct role in determining the level of fringe benefits. This exclusive reliance on aggregate studies should end with micro data, and its superior controls, brought to the examination.

This paper uses micro data to present new results on the association between industrial concentration and fringe benefits. Specifically, it demonstrates that even after controlling for personal and industry characteristics, the probability of receiving any of eight fringe benefits is positively influenced by concentration. Indeed, even after controlling for current earnings, concentration continues to influence fringe benefit provision. Further, a union-concentration interaction emerges with a negative coefficient, suggesting a smaller influence for concentration among union members. These results closely mirror the behavior of concentration in micro data wage equations but directly oppose the findings of current aggregate studies of fringe benefits. In sum, they indicate that typical price-to-cost ratios may underestimate the inefficiency associated with concentrated industrial structure.

2. Background and Previous Study

Although the association of market structure and benefits has received nowhere near the attention given to that of market structure and wages, it has recently received significant examination. The rationales presented for a benefit-structure relationship nearly duplicate those long given for the wage-structure association. Early rationales include the purchase of political favor by monopolistic firms, the special power of unions to extract favorable terms in industries with market power, and the willingness of managers without market discipline to over-pay workers. Of these early theories, the most common and perhaps persuasive is that unions successfully demand a share of the rents which flow from market structure. Hence, when these rents are high because of noncompetitive structure, union