Collusion Among Employers in India

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Abstract

This paper evidences collusion among employers in the textile and clothing manufacturing industry in India. First, I develop a simple comparative static test to distinguish standard forms of imperfect competition from collusion. I show that, under very general labor supply and production structures, the spillover effects of firm-specific demand shocks predict opposite employment effects at unshocked competitors who operate independently (↓ employment), versus those who previously colluded but whose collusion dismantles due to the shock (↑ employment). Next, I argue that large employers in the garment industry organize into industry associations to pay workers exactly the state- and industry-specific minimum wage, using it as a focal point for coordination. Members of industry associations are substantially more likely to bunch from above at the local minimum wage than non-members, and to track its policy-induced rise without reducing employment. I show that small export demand shocks evoke the standard imperfectly competitive response among non-members (higher wages and employment), but elicit no response from members (they stick to the minimum wage). By contrast, when a large demand shock leads affected members to deviate from the minimum wage, unaffected employers outside the association respond as in oligopsony (↑ wage, ↓ employment), but unaffected members respond as if their collusion dismantles (↑ wage, ↑ employment). Imposing specific models of labor supply and production, a "full-IO" approach statistically rejects the oligopsony model in favor of the breakdown of collusion. I conclude that collusion spurs substantial losses even compared to a world wherein each firm exercises its own but not their collective market power, reducing the average worker's wage by 9.6pp and employment by 17pp.