PRESS RELEASE

31. January 2024

How Facebook, Google & Co. Harm Workers' Wages

- **Acquisition of firms for hiring eliminates labor market competition**

Bonn, Mannheim, 31.01.2024 **– Large tech firms such as Facebook and Google claim to buy small startups to get specialized talent. Yet, the economic analysis suggests a different rationale: Acquiring a startup and hiring its staff suppresses competition in the labor market. This harms workers' wages. These are findings of the discussion paper "Acquihiring for Monopsony Power" published by the EPoS Economic Research Center at the Universities of Bonn and Mannheim.**

"Large tech firms such as Google and Meta are constantly acquiring startups and other firms," says Volker Nocke from the EPoS Economic Research Center. "The reason given is to acquire talent - as Mark Zuckerberg famously stated - and not to depress competition in the product market. Yet, the question is: Why do big tech firms give money to small firms' shareholders instead of just paying higher wages to attract the specialized talent? We have analyzed the rationale behind this strategy and found some anti-competitive effects."

Lack of competition pushes wages down

When large firms such as Facebook or Google buy small firms, they may also shut down the most relevant competitor in the labor market: After the acquisition, the big company is often the single employer of specialized staff on the market. This is comparable to the power of a monopolist. The company can push down wages as specialized talent only has one potential employer. The outcome is that wages of specialized talent are lower compared to directly hiring a competitor's staff.

The economists have identified a second mechanism that makes acquiring startups for their employees more attractive than direct hiring: The potential for intense competition under direct hiring reduces the acquisition price and thereby makes the purchase more profitable for the large firm.

Scrutinize anti-competitive effects on the labor market

"We have identified the reasons why it makes sense for large firms to pay the small firms' shareholders or venture capitalists to acquire the startup," Nocke says. "This is cheaper than hiring their staff directly. In this situation, the arrival of a competitor surprisingly leaves staff worse off. We recommend that policy-makers should thoroughly scrutinize future acquisitions for their impacts on the labor market."

The presented discussion paper is a publication without peer review of the Collaborative Research Center Transregio 224 EPoS. Access the full discussion paper here: https://www.crctr224.de/research/discussion-papers/archive/dp500

Find the list of all discussion papers of the CRC here: https://www.crctr224.de/research/discussion-papers.

PRESS RELEASE

Authors

Heski Bar-Isaac, Professor of Economics and Finance, University of Toronto
Justin P. Johnson, Professor of Management, Cornell University
Volker Nocke, Professor of Economics, University of Mannheim and member of EPoS Economic Research Center

The Collaborative Research Center (CRC) Transregio 224 EPoS
Established in 2018, the Collaborative Research Center Transregio 224 EPoS, a cooperation of the universities Bonn and Mannheim, is a long-term research institution funded by the German Research Foundation (Deutsche Forschungsgemeinschaft, DFG). EPoS addresses three key societal challenges: how to promote equality of opportunity; how to regulate markets in light of the internationalization and digitalization of economic activity; and how to safeguard the stability of the financial system.

Press Contact
econNEWSnetwork
Sonja Heer
Telefon + 49 (0) 40 82244284
Sonja.Heer@econ-news.de

Contact
Prof. Volker Nocke
University of Mannheim
volker.nocke@uni-mannheim.de

CRC TR 224 Office, Marja Eisheuer
phone | +49 228 737926
email | crctr224@uni-bonn.de