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Private Equity and Workers: Modeling and Measuring Monopsony, Implicit Contracts, and Efficient Reallocation

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Abstract

We measure the real effects of private equity buyouts on worker outcomes by building a new database that links transactions to matched employer-employee data in the United States. To guide our empirical analysis, we derive testable implications from three theories in which private equity managers alter worker outcomes: (1) exertion of monopsony power in concentrated markets, (2) breach of implicit contracts with targeted groups of workers, including managers and top earners, and (3) efficient reallocation of workers across plants. We do not find any evidence that private equity-backed firms vary wages and employment based on local labor market power proxies. Wage losses are also very similar for managers and top earners. Instead, we find strong evidence that private equity managers downsize less productive plants relative to productive plants while simultaneously reallocating high-wage workers to more productive plants. We conclude that post-buyout employment and wage dynamics are consistent with professional investors providing incentives to increase productivity and monitor the companies in which they invest.

Keywords: Private equity, employment, wages, monopsony, market power, productivity.

JEL classification: G20, G34, L1

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