Industry-level effects
ECON 101
Effects on rent-seeking and labour hoarding
Efficiency-wage effects

Economy-wide effects
Income effects
Labour market effects
Effects on capital markets and investment
Trade and specialization effects

Conclusions

Competition and (productive) employment
Increased competition reduces monopoly power and with it the wedge between price and marginal cost. As a result, the quantity produced and sold increases — and with it, both employment and investment.
Industry-level effects: Firm selection

Low-cost firms expand
High-cost firms contract
The net effect is increased production
… but not necessarily increased employment
… although definitely more productive employment

Source: Brouwer og Wiel (2010)
The best of all monopoly profits is a quiet life
Sir John Hicks

Industry-level effects: Labour hoarding

Elasticity of wages with respect to gross earnings of firms
Source: Nickell (1999)
Competition increases labour turnover, making jobs more uncertain. This could have two effects on the industry wage level:

1. Firms might have to pay a higher premium to attract good workers.
2. Job uncertainty could discipline workers, reducing the need for an efficiency-wage premium to ensure effort.
Economy-wide effects: Income effects
Two questions:

1. Does competition in product markets foster employment?
   Perhaps - and perhaps not; that depends….

2. Does competition in product markets affect wage formation in ways that foster employment?
   Yes

Economy-wide effects: Labour-markets
Two effects:

1. Competition makes the economy more responsive to external shocks which could be good or bad for employment, depending on the shock; but which will always be good for the allocation of resources.

2. Competition leads to sharper specialization and fuller exploitation of comparative advantage which is bad news for employment in industries threatened by international competition and good news for employment in internationally competitive industries.
Competition does not necessarily create jobs, but it creates the necessary basis for more (and more productive) jobs:

1. It leads to a more efficient allocation of resources
2. It makes the economy more responsive to external shocks and more flexible in that response
3. It makes the economy more robust to international competition

But:

Inherent in these effects are distributional consequences which give us even greater reason than before to take Piketty and Stiglitz seriously