Testing for Monopsony in the Labor Market of Nurses:

Evidence from the 2006 Fee Schedule Revision in Japan※

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Abstract

This paper tests one of the predictions from labor market monopsony that firms cannot increase employment without increasing wage, in the context of nurse labor market, by observing hospital-level responses to a large policy change in Japan. In 2006, the basic fee for inpatient care was raised by 23 percent for the hospitals with patient-nurse ratio lower than 7:1 (hereafter "7:1 hospitals"), when compared with other hospitals. This policy reform gives a strong incentive to hire more nurses. Using the census of government-owned hospitals from 1999 to 2014, our event study analysis reveals that the medical revenue in the 7:1 hospitals increases one million JPY per bed. In order to receive huge financial gain from the eligibility of the 7:1, the number of registered nurses in the 7:1 hospitals increases by 3 percent on average. However, we find no changes in the wage of nurses in the 7:1 hospitals. One of the reasonable explanation on these no wage effects is that the government-owned hospitals in Japan cannot adjust wages in a flexible manner. After all, government-owned hospitals could increase nurse employment without increasing wage. Although these results are not consistent with the simple classical model of labor market monopsony, we discuss the possibility that the results may be reconciled with the extended model.

JEL classification: J42, I10

Keywords, monopsony; nurse labor market, fee schedule revision, event study analysis

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