

Covenants Not to Compete across Pacific Ocean

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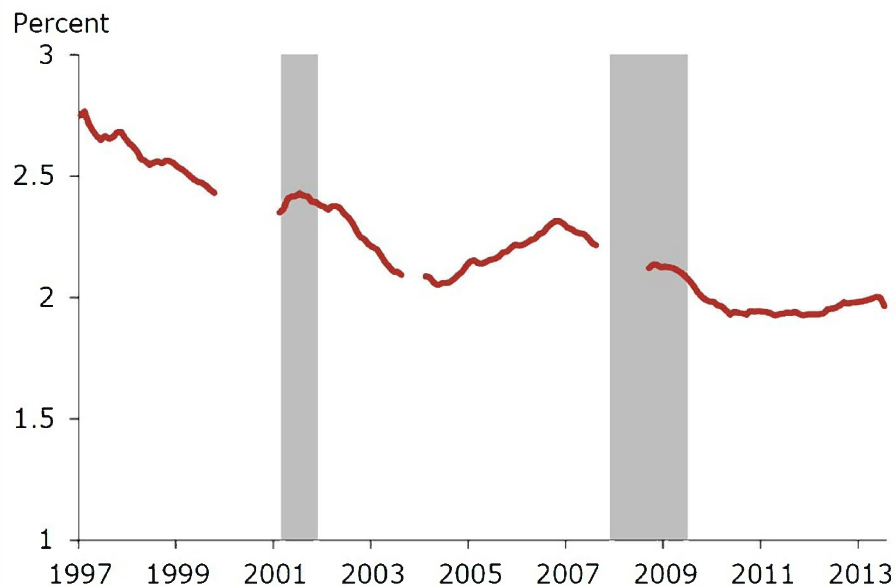
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1. CNC in the labor market context

- Deteriorating Job-to-Job transition in the US

Figure 1
Overall job-to-job transition rate has declined

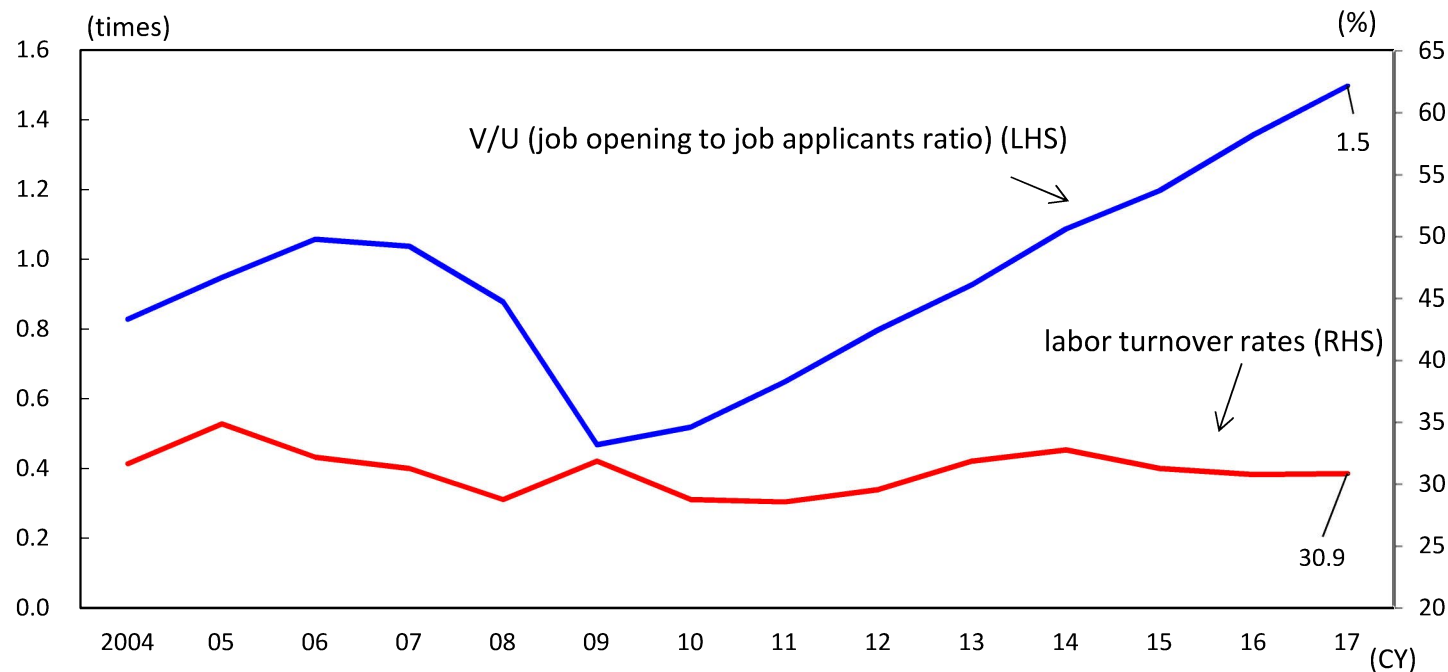


Source: Survey of Income and Program Participation (SIPP) and authors' calculations. Gray bars represent NBER recession dates. Line breaks show periods with missing data.

Canyon Bosler and Nicolas Petrosky-Nadeau, FRBSF Economic Letter 2016-34

1. CNC in the labor market context

- Excess demand of labor, but still low turnover in Japan



Source: Ministry of Health, Labour and Welfare.

From the presentation material of Cabinet Office for *Workshop for Noncompetes in the U.S. and Japan* on 28th May 2019. (do not cite without authors' permission)

1. CNC in the labor market context

Covenants Not to Compete is
a possible suspect.

YES!

- Abuse of bargaining power of employers

NO!

- Investment Protection, including training.
- Freedom of contract

2. US-JP comparison by simple tabulation

Object sample	U.S. (2014) ^{*1}
Employees with CNC	18.1%
Employees who had CNC at some point in their lives	38.1%
Employees with CNC in the private profit sector	19%
Employees with CNC in the private nonprofit sector	9.8%

JP (2013)

14.3% (# of firms)

「営業秘密の管理実態に関するアンケート」調査結果

*1 The U.S. data refer Starr et al.(2019) which they used multiple imputation methods.

2. US-JP comparison by simple tabulation

	Object sample	U.S. (2014) ^{*1}
(Timing)	Those with CNC first leaned they would be asked to agree to the provision before accepting their offer.	61%
	Those who tried to negotiate before when given notice they accepted their offer.	11.6%
	Those who did not try to negotiate, and given notice after offer they accepted their offer.	6%
(response)	Those who just read CNC and signed it.	88%
	Those who did not read the CNC and signed it.	6.7%
	Those who consulted with friends, family, or a lawyer and signed it.	17%

*1 The U.S. data refer Starr et al.(2019) which they used multiple imputation methods.

*2 Government officials, and those who claimed that their industry and occupation were unable to clarify are excluded in this data.
Company executive are confined to mainly engaged worker.

2. US-JP comparison by simple tabulation

- Implications
 - No distinct difference in the current CNC levels
 - Potential difference in the process of signing CNCs
 - ⇒ availability of intermediary may matter

3. Labor market outcome

Model: OLS	(1)	(2)
Dependent Variable	Ln(Hourly Wage)	
Noncompete	0.109*** (0.026) [1.033]	0.066*** (0.023) [0.497] {0.216}
R-Squared	0.503	0.541

Starr, Evan and Prescott, J.J. and Bishara, Norman D, *Noncompetes in the U.S. Labor Force* (April 10, 2019). U of Michigan Law & Econ Research Paper No. 18-013.

3. Labor market outcome

Model: OLS	(3)	(4)	(5)	(6)	(7)	(8)
Dependent Variable	1(Firm Shares Info)		1(Training Last Year)		1(Satisfied in Job)	
	Panel A: Baseline					
Noncompete	0.031 (0.030) [1.361]	-0.020 (0.025) [0.715]	0.077*** (0.019) [1.180]	0.006 (0.019) [0.104]	0.015 (0.019) [1.463]	0.006 (0.017) [1.399]
		{0.302}		{0.048}		{0.829}
R-Squared	0.100	0.146	0.160	0.199	0.099	0.149

an indicator that the respondent agrees or strongly agrees that the firm shares all job-related information

3. Labor market outcome

- Correlation btw CNC and wages
 - Positive (around +10%)
 - However, no effect on training, satisfaction.

3. Labor market outcome

Dependent Variable	Ln(Hourly Wage)	1(Firm Shares Info)	1(Training Last Year)	1(Satisfied in Job)
First Learned of Noncompet Before Accepting Job	0.093*** (0.031) [0.638] {0.275}	0.043* (0.024) [1.254] {0.518}	0.055** (0.025) [0.920] {0.406}	0.045** (0.020) [3.846] {1.972}
After Accepting Job	0.024 (0.037) [0.316] {0.151}	-0.134*** (0.039) [8.474] {3.097}	-0.058 (0.039) [1.112] {0.480}	-0.085** (0.035) [9.004] {6.978}
With Promotion	0.136 (0.086) [0.741] {0.269}	0.011 (0.104) [0.307] {0.186}	-0.125 (0.113) [2.221] {0.850}	0.051 (0.071) [2.385] {9.855}
Doesn't Remember	0.010 (0.064) [0.146] {0.506}	-0.073 (0.064) [4.343] {2.164}	-0.093 (0.064) [4.668] {4.559}	0.042 (0.047) [4.866] {40.34}
P-value: $\beta_{Before} = \beta_{After}$	0.127	0.000	0.021	0.000
R-Squared	0.541	0.150	0.201	0.151
Observations	11,010	11,010	11,010	11,010
Basic Controls	Yes	Yes	Yes	Yes
Advanced Controls	Yes	Yes	Yes	Yes

3. Labor market outcome

- Timing
 - Before contract
 - Positive relation to wages
 - Positive relation to training/satisfaction
 - After contract
 - No relation to wages
 - Negative relation to training/satisfaction

4. Remark

- Still tentative results, but we have to understand the coexistence of positive aspects and negative aspects