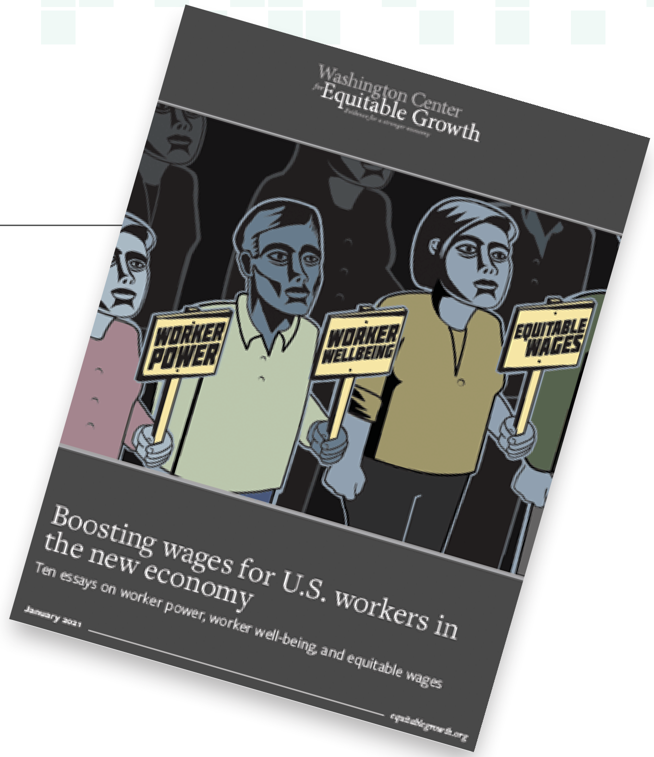
Washington Center *for* Equitable Growth
Evidence for a stronger economy



Boosting wages when U.S. labor markets are not competitive

February 2021

By Equitable Growth

In many local labor markets across the United States, only a handful of employers compete for workers' services. In these noncompetitive labor markets, which are often in more rural parts of the country, employers can take advantage of their market power to underpay workers. Three key tools are necessary to address these dynamics and counteract the effects of employers' market power in these areas:

- Enhancing antitrust enforcement
- Strengthening unions and workers' bargaining power
- Higher minimum wages

This factsheet examines each of these tools in turn, based on the essay "Boosting wages when U.S. labor markets are not competitive," by the economist Ioana Marinescu at the University of Pennsylvania School of Social Policy and Practice. The essay is part of *Boosting Wages for U.S. Workers in the New Economy*, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

A lack of competition among employers suppresses wages

If an employer can retain workers even when they underpay them, this makes it easier for employers to keep wages low. Marinescu and her co-authors find that U.S. labor markets tend to be highly concentrated, using data on all job vacancies listed online in 2016, as collected by Burning Glass International Inc.[1]

Overall, 60 percent of labor markets in the United States are highly concentrated,[2] accounting for 20 percent of U.S. employment. Larger cities generally have lower labor market concentration, whereas rural areas tend to have more concentrated labor markets.[3]

Antitrust policy for U.S. labor markets

Though this and other empirical research shows that U.S. labor markets suffer from a lack of competition, federal antitrust enforcement remains focused on product markets, with almost no action to address a lack of competition in labor markets.[4] Given the new evidence for a lack of competition, labor antitrust enforcement must be enhanced in two major ways:

- First, corporate mergers should require monopsony antitrust investigation and enforcement. Antitrust authorities should scrutinize company mergers that significantly increase labor market concentration, following the same principles as for mergers in the product market.[5] And antitrust authorities should block mergers that threaten to produce anticompetitive wage suppression.

- Second, labor market monopsony requires its own antitrust investigation and enforcement. This expansion of antitrust enforcement would be facilitated by a new law that would codify, clarify, and, in some cases, strengthen antitrust law as it applies to labor markets. To achieve this objective, Marinescu and her coauthor propose federal legislation that would clarify that the antitrust laws protect workers from anticompetitive abuses.[6]

Unions counteract employers' market power

Unions can increase workers' bargaining power within firms and counteract the negative effects of labor market concentration on wages. As detailed above, increases in U.S. labor market concentration tend to depress wages, yet this negative effect of concentration on wages is reduced in the presence of unions.[7] In other words, when labor markets become less competitive, unions are able to protect workers and keep their wages high, even though outside options are dwindling.

Minimum wages and labor market competition

Raising the minimum wage boosts wages directly by mandating a floor for low-wage U.S. workers while also generally offsetting employer monopsony power to undercut wages. As U-Penn's Marinescu and her co-authors show in a recent paper, raising the minimum wage increases employment in less-competitive U.S. labor markets with high labor market concentration, such as those in less-densely populated areas of the country, because it ultimately allows these firms to attract more workers.[8]

Read the full essay

"Boosting wages when U.S. labor markets are not competitive," by **Ioana Marinescu**

This essay is part of Boosting Wages for U.S. Workers in the New Economy, a compilation of 10 essays from leading economic thinkers who explore alternative policies for boosting wages and living standards, rooted in different structures that contribute to stagnant and unequal wages.

Endnotes

1 José Azar and others, "Concentration in U.S. Labor Markets: Evidence from Online Vacancy Data," *Labour Economics* 66 (2020), available at https://doi.org/10.1016/j.labeco.2020.101886.

2 U.S. Department of Justice and Federal Trade Commission, *Horizontal Merger Guidelines* (2010), p. 37.

3 Azar and others, "Concentration in U.S. Labor Markets: Evidence from Online Vacancy Data."

4 Ioana Marinescu and Eric A. Posner, "Why Has Antitrust Law Failed Workers?," *Cornell Law Review* (forthcoming).

5 Ioana Marinescu and Herbert Hovenkamp, "Anticompetitive Mergers in Labor Markets," *Indiana Law Journal* 94 (3) (2019): 1031.

6 Marinescu and Posner, "Why Has Antitrust Law Failed Workers?"

7 Efraim Benmelech, Nittai Bergman, and Hyunseob Kim, "Strong Employers and Weak Employees: How Does Employer Concentration Affect Wages?" Working Paper (National Bureau of Economic Research, 2018), available at https://doi.org/10.3386/w24307; Elena Prager and Matthew Schmitt, "Employer Consolidation and Wages: Evidence from Hospitals." Scholarly Paper (Social Science Research Network, 2019), available at https://doi.org/10.2139/ssrn.3391889.

8 José Azar and others, "Minimum Wage Employment Effects and Labor Market Concentration." Scholarly Paper (Social Science Research Network, 2019), available at https://papers.ssrn.com/abstract=3416016.

facebook.com/equitablegrowth
@equitablegrowth
equitablegrowth.org/feed
info@equitablegrowth.org

1156 15th St NW Suite 700
Washington DC 20005
202-545-6002