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.
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. 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.

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. 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.

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

3 Azar and others, “Concentration in U.S. Labor Markets: Evidence from Online Vacancy Data.”
6 Marinescu and Posner, “Why Has Antitrust Law Failed Workers?”