

How Labor Market Institutions Matter for Worker Compensation

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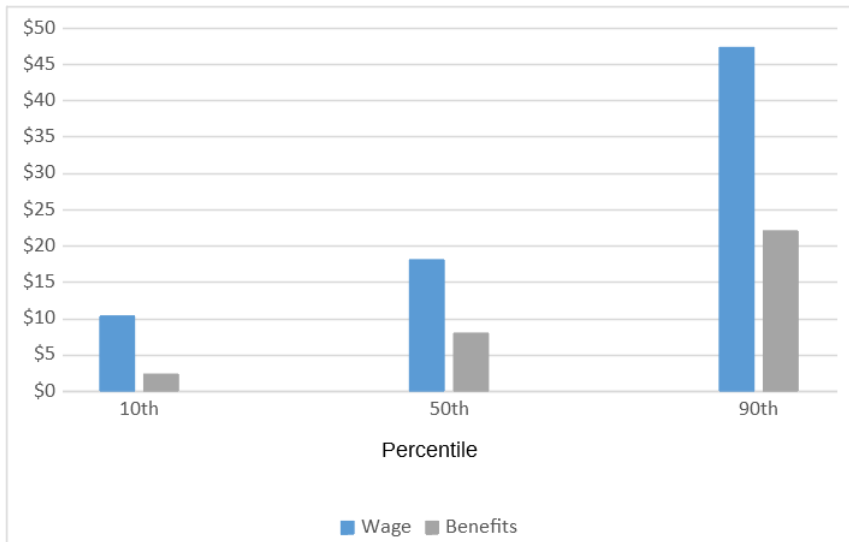
ANNALS of the American Academy of Political and Social Science
January 12, 2021

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Why are labor market institutions important?

- Labor market is principal source of income for most
 - ▶ Wages provide 70–80% of income to families in bottom three quartiles (SCF 2016)
- Labor market rents are pervasive → scope for institutions to raise worker share
- Key institutions evolved against workers' interests
 - ▶ Private sector union density declined
 - ▶ Inflation-adjusted minimum wage declined, though state minimums rose recently
 - ▶ Restrictive covenants (e.g., non-competes) now common

Wage and non-wage compensation are very dispersed



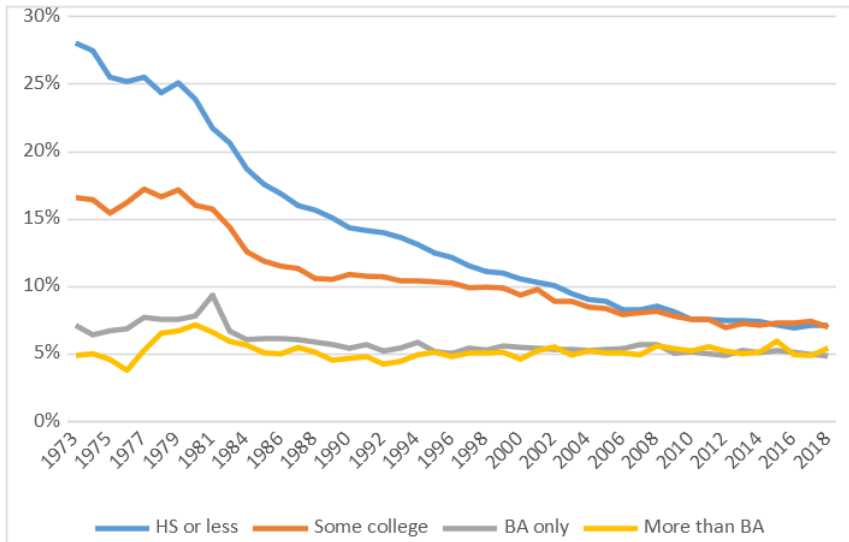
Labor markets are often uncompetitive

- Different reasons for deviations from competitive model
 - ▶ Frictions—workers find new jobs only slowly and employers can reduce wages w/o losing all employees (Burdett and Mortensen 1998; Webber 2015)
 - ▶ Concentration—when employers are few in a labor market, wages are lower than otherwise (Hershbein, Macaluso, and Yeh 2018; Qiu and Sojourner 2019; Rinz 2018)
- Job matches are associated with surplus to be allocated (e.g., Mortensen and Pissarides 1994)
- Labor market institutions can help determine this allocation

Private-sector unions have declined

- Private-sector union density fell dramatically
 - ▶ 1973: 24.2% of private-sector workers in a union → 6.4% in 2018
- Unions confer a wage premium (Card 1996; Farber et al. 2018) **as well as better non-wage benefits** (Buchmueller, DiNardo, and Valletta 2004; Freeman and Kleiner 1990)
- Declining density has increased compensation inequality (Lee and Mas 2012; Card, Lemieux, and Riddell 2004; Fortin, Lemieux, and Lloyd 2019)

Union density by educational attainment, 1973–2018



Non-compete agreements (NCAs) are common

- In absence of unions, restrictive covenants (and non-competes in particular) have become common
- NCAs bar employees from taking new jobs under specified conditions
 - ▶ 16–18% of all workers currently have an NCA
 - ▶ 15% of workers earning \$20,000–40,000 have an NCA

Percent of workers with non-competes, by income



NCAAs tend to impair worker outcomes

- Enforceability and provisions vary, but NCAs block worker mobility and reduce bargaining power
- Empirical evidence broadly negative about effects of NCAs on workers
 - ▶ Workers generally have poor information about NCA enforceability (Prescott and Starr 2020)
 - ▶ Few workers bargain over NCAs (Starr et al. 2020)
 - ▶ Many employers present workers w/ NCAs on or after their first day of employment (Marx 2011)
 - ▶ Prohibiting enforcement of NCAs for some groups of workers in OR and HI raised their wages and mobility (Lipsitz and Starr 2020; Balasubramanian et al. 2020)

Some policy options improve worker outcomes w/ constant or improved efficiency

- Limit NCAs and NCA enforceability
 - ▶ Only allow when trade secrets justification is strong
 - ▶ Disallow for low-wage workers
 - ▶ Require garden leave
 - ▶ Limit ability of courts to modify (and then enforce) NCAs in litigation
 - ▶ Require legal consideration beyond continued employment
 - ▶ Mandate transparency and timeliness (either w/ job offer or promotion)

Some policy options improve worker outcomes w/ constant or improved efficiency

- Change occupational licensing rules
 - ▶ Expanded scope of practice in health care
 - ▶ More interstate reciprocity and interstate remote practice
 - ▶ Reduce fees and tailor curriculum to public safety harms
 - ▶ Reduce unnecessary barriers to immigrants and people w/ criminal records
- Most improvements to licensure aren't a free lunch
 - ▶ In sense that they often generate transfers from some workers to others
 - ▶ But reforms improve equity and/or aggregate worker welfare

Other policy options improve worker outcomes but possibly w/ efficiency cost

- Bolster establishment-level unions w/
 - ▶ Quick certification elections
 - ▶ Tougher enforcement of illegal employer behavior
 - ▶ Binding first-contract arbitration
- Implement industry-level bargaining (e.g., German model)
 - ▶ More ambitious—could defuse employer opposition
 - ▶ But less clear how effective and costly this would be

Other policy options improve worker outcomes but possibly/likely w/ efficiency cost

- Regulation of employer practices
 - ▶ Require bonus pay for just-in-time scheduling
 - ▶ Stricter standards for classification as an independent contractor
- Limit labor market concentration
 - ▶ Embed labor market concentration in antitrust review
 - ▶ Prohibit franchise no-poach agreements
- Higher minimum wages