Remarks by Assistant Secretary of the Treasury for Economic Policy Ben Harris on Promoting Competition in Labor Markets

December 7, 2021

WASHINGTON —Assistant Secretary of the Treasury for Economic Policy Ben Harris delivered the following remarks at a public workshop on promoting competition in labor markets hosted by the Department of Justice and Federal Trade Commission.

As prepared for delivery

Let me start by thanking the Department of Justice and the Federal Trade Commission for hosting this critically important event today. It's an honor to be here among such distinguished panelists, discussing one of the most important economic issues of our time.

I'd like to briefly discuss economic explanations for wage stagnation, especially at the lower end of the wage scale. Careful followers of the labor market would rightly point to inflation-adjusted gains for many occupations with relatively low wages. Yet, this phenomenon, while welcome, appears to be driven by pandemic-related declines in labor force participation. The goal, of course, is to sustain wage gains in tandem with participation. And to reach that objective, we must understand the roots of long-term wage stagnation.

The best way to illustrate long-term wage trends is to use an example from the late and influential labor economist, Alan Kreuger. During a 2018 luncheon at the Kansas City Fed, Alan told the story of a man named Jeffery Suhre. In 1991, Suhre started working as a registered nurse at St. John Providence Hospital in Warren, Michigan, and about 12 or 13 years into the job, he had a realization: His pay was far lower than what it should've been in a fair market.

Economists have traditionally identified three broad explanations for wage stagnation. The first, generally put, is globalization. Beginning in the '70s – and accelerating in the 2000s with China's ascension into the WTO – American workers increasingly competed with workers in foreign labor markets, many of whom would accept lower wages for the same job. Production moved overseas, and for the jobs that remained, wages began to stagnate. This explanation is validated by the work of economists Autor, Dorn, and Hanson, who famously found that increased trade with China cost America roughly one million manufacturing jobs. Still, none of this explains the story of Jeffery Suhre. After all, no American hospital could lower labor costs by outsourcing its nurses to Shanghai.

The second explanation is technology. Software, automation, and other new innovations all drove up the demand for skilled workers who were fluent in technology and drove down the demand for those who weren't. In some cases, automation has eliminated the need for these workers entirely. Again, there is careful and legitimate evidence to support this argument, but not in the case of Jeffery Suhre. No American hospital has been replacing its nurses with robots.

Which brings us to the third argument: institutions that protect worker pay, like the federal minimum wage and private-sector unions. These have been on the decline for years. Adjusted for inflation, the federal minimum wage is around 45 percent lower than what it was in the late 60s, and since about that time, the percent of private sector workers belonging to unions has fallen from roughly one-in-four to six percent. This explanation also has merit, including in the case of the Michigan nurses – they weren't unionized – but it doesn't capture the entire story. For that, we need a fourth argument that captures changes in the relationship between workers and firms.

Indeed, what Jeffrey Suhre realized after a decade at St. John Providence was that his hospital had been colluding with others in the area. He had the e-mails. Executives wanted to prevent their nurses from jumping from one hospital to another for better pay, so they collaborated to set one regional – and artificially low – wage rate. (In 2006, eight Michigan hospitals paid $48 million to settle a wage-fixing class action lawsuit, in which Suhre was the lead plaintiff).

If you've ever taken an introductory economics course, you were probably taught that labor markets are perfectly competitive. A worker making $20 an hour sees there's a job opportunity across the street offering $20.10, so he puts in his notice and crosses to the street to his new job. That's the perfectly competitive model, and it's often a complete fiction. Labor markets typically don't work like this. For one, workers typically have imperfect information and don't know what a similar job will pay. Or, they're bound by a non-compete agreement, and crossing the street would invite a lawsuit. Or, even if companies aren't breaking the law, colluding to set low wages, they have immense market power to set low wages.

Speaking at an event hosted by the Department of Justice and Federal Trade Commission, it's safe to assume we all understand the notion of a monopoly. And as labor market competition has emerged as a first-order consideration, the notion of monopsony has gained traction in economic and policy circles. And that's ultimately what we're here to discuss today, the imbalance between workers and employers in the labor market. As the economist Alan Manning wrote in his seminal book, *Monopsony in Motion*, "[T]he relationship between employer and worker is not one of equals."

While this anti-competitive streak can be seen as a harmful aspect of our economy – and it is – our newfound understanding of monopsony power is also a positive development. For years, we've been contending with a series of big and knotty questions: *Why are wages low? Why is income inequality on the rise*? This explanation helps us reframe those questions into a much more tractable one: *How do we ensure that when employees negotiate their pay, they do soon more equal footing?*

That was one rationale behind President Biden's July executive order on competitiveness, which included a series of initiatives from making sure that wages are more transparent in certain sectors; to curtailing the use of non-compete clauses; to simply studying the economic impact of limited labor market competition.

what economists don't usually do. Instead of revising our model of a perfectly competitive labor market so that it reflects the real world, we should revise the real world so that it reflects the competition in our textbooks.

# # #