

The Wage Standard

Dr. Frank Anton Distinguished Lecture in Economics
(University of Calgary)

Arin Dube

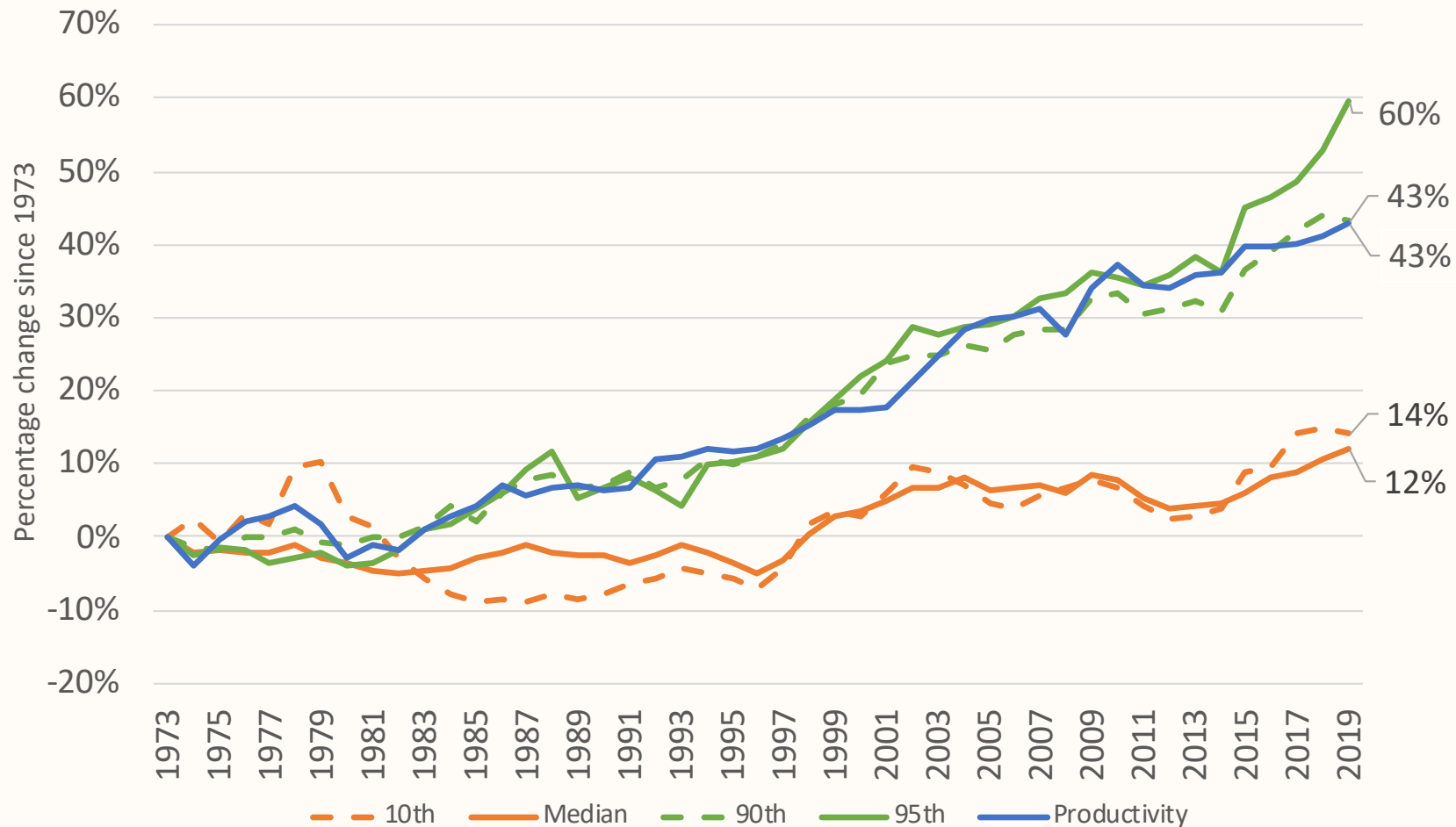
Provost Professor of Economics

University of Massachusetts

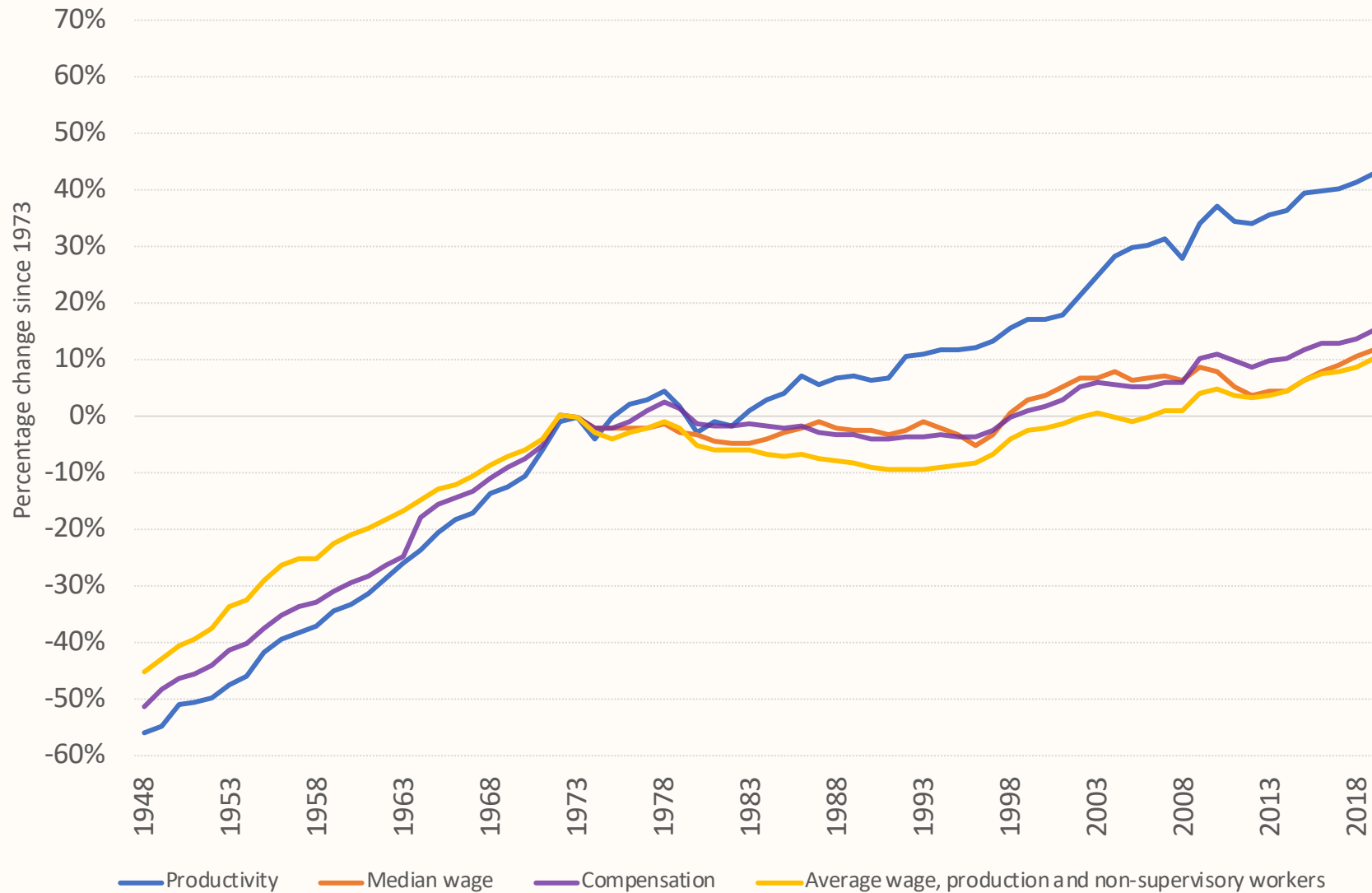
Amherst, IZA, and NBER



Wages for most US workers stopped growing with aggregate (consumable) productivity after 1980



But it wasn't always so...



The erosion of the post-WWII wage standard

- Many factors behind the rise in inequality, including technological change. Autor Dorn 2013; Acemoglu and Restrepo 2023
 - But another important part of the story is companies' choices around wage policies
 - These are shaped by *market competition and institutional safeguards*, which all eroded after 1980
1. Movement away from full employment raised employer wage-setting ('monopsony') power

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 2. Failure to maintain the federal minimum wage eroded constraints on monopsony
 3. Fall in union density and collective bargaining weakened countervailing power

And then, something unexpected

What if I told you we're in the middle of a **historic revival of the wage standard in America?**

And then, something unexpected

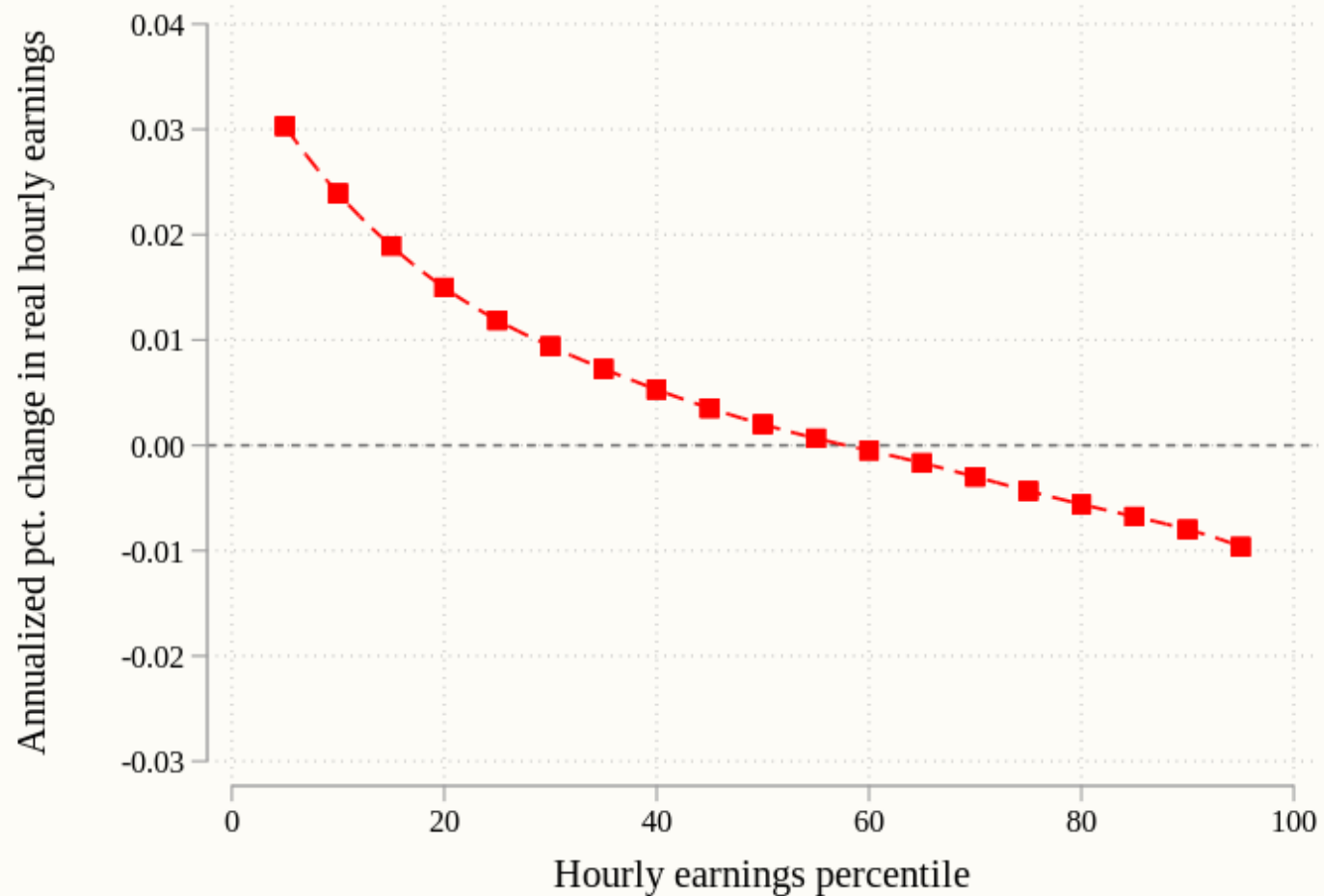
What if I told you we're in the middle of a **historic revival of the wage standard in America?**

1. Tight labor market
2. Ambitious minimum wages (in more than half the country)
3. Experiments with sectoral standards
4. Growth in union organizing in low wage sector

Forthcoming book: *The Wage Standard* (Penguin Random House, 2025)

Wages are growing the fastest at the bottom

40 month change:
Dec 2019/Jan/Feb 2020 to Apr/May/Jun 2023



Source: Autor Dube McGrew (2023)

This is not “normal” for America...since 1980

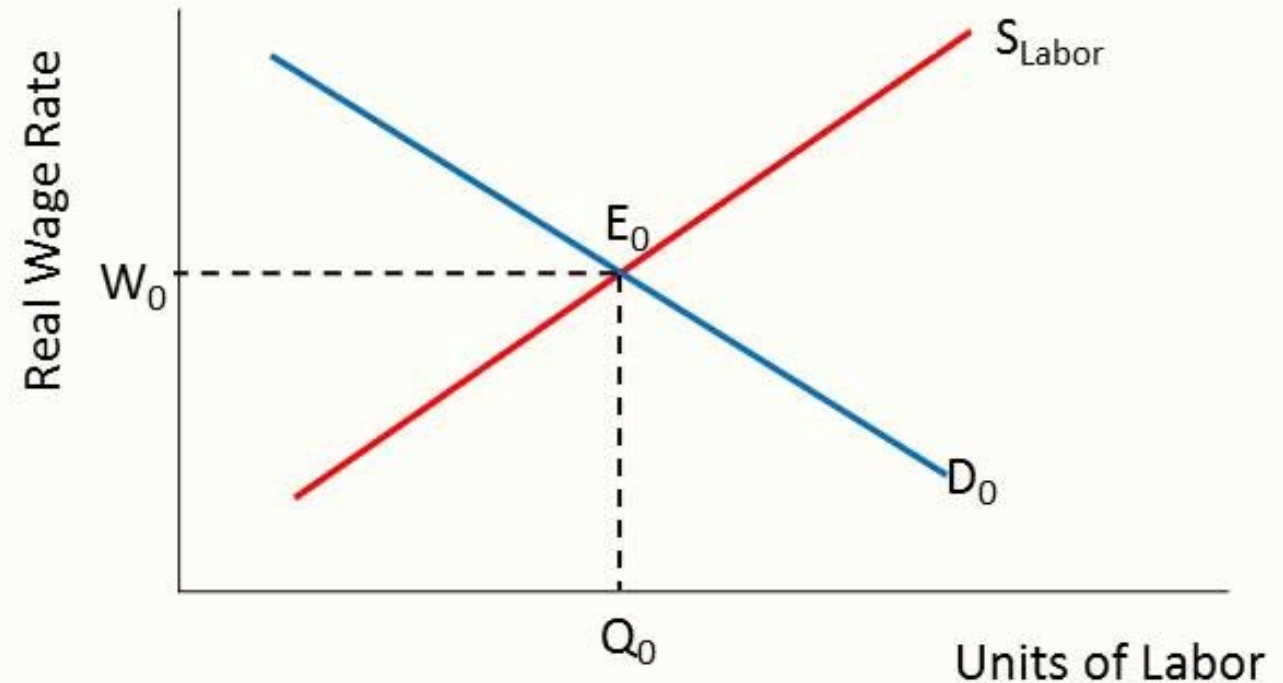


This talk

- We are going through a rethink of how labor markets work
 - Role of monopsony power and wage policy
 - Why these 3 factors (macro policy, minimum wage, unions) matter in explaining the rise and fall in inequality
 - How we are pivoting to a more egalitarian labor market
1. Rise in bottom wages in America, fueled by a tight labor market and state-level minimum wage policies.
 2. Increasing experimentation with sectoral standards

What does a world without standards look like?

A competitive ideal: wages are the price of skill, set by “the market”



What does a world without standards look like?

... or **monopsony power?**

Some firms pay less than others, but don't lose all their workers

WSJ

Walmart to Raise Minimum Wage to \$12 an Hour

Ahead of the holiday shopping season, Walmart says it will give raises to more than 565,000 store workers

RETAIL

Target raises minimum wage to \$15 an hour months before its deadline

PUBLISHED WED, JUN 17 2020•7:45 AM EDT | UPDATED WED, JUN 17 2020•5:36 PM EDT

What does a world without standards look like?

A key measure of monopsony power: **Quit Elasticity**
How sensitive are workers' quits to low wages?

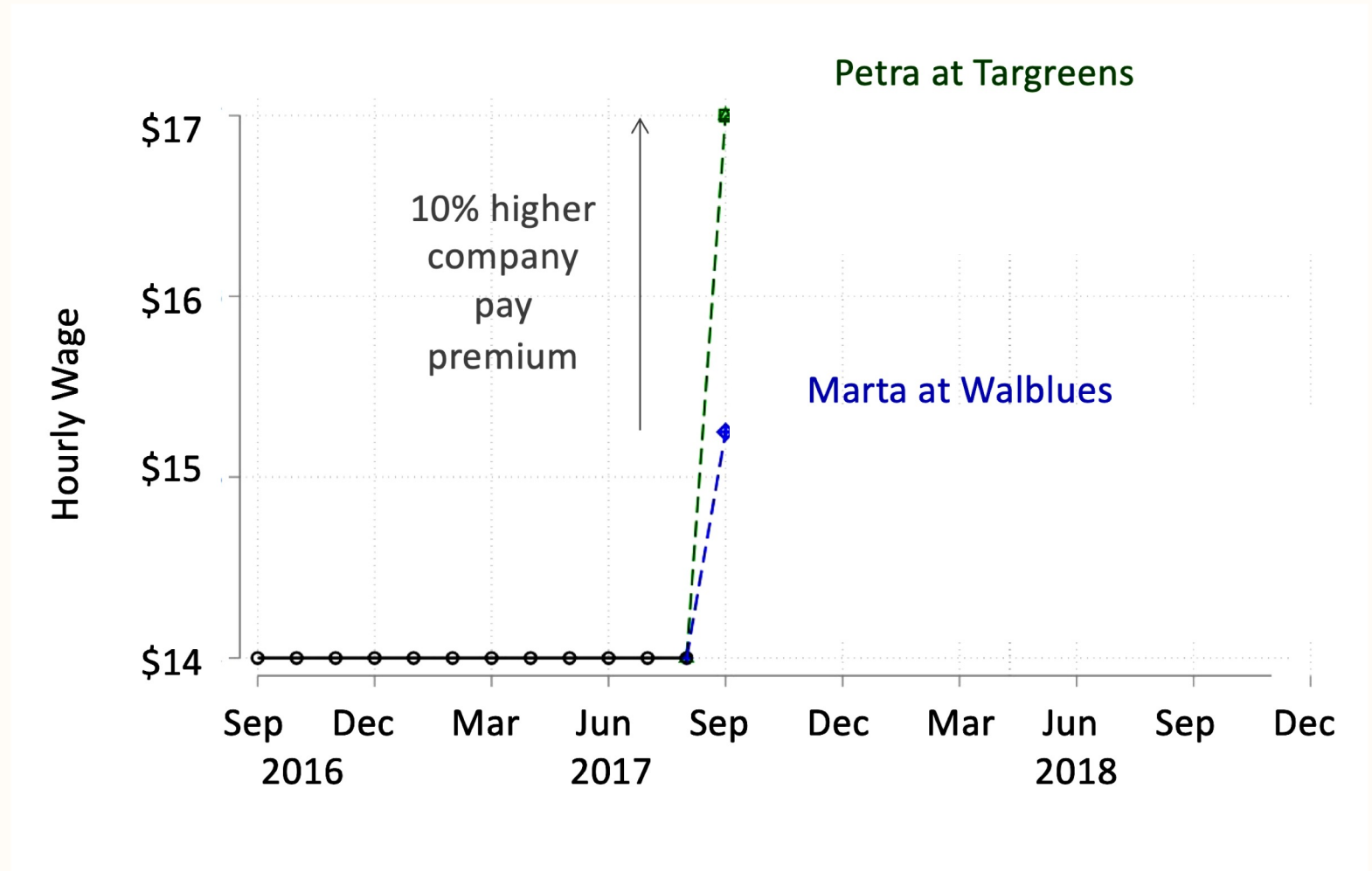
$$\frac{\% \text{ change in quits}}{\% \text{ change in wages}}$$

- 1 high degree of monopsony power
- 2 moderate degree of monopsony power
- 10 highly competitive labor market

What does a world without standards look like?

... or **monopsony power?**

How sensitive are quits to pay?

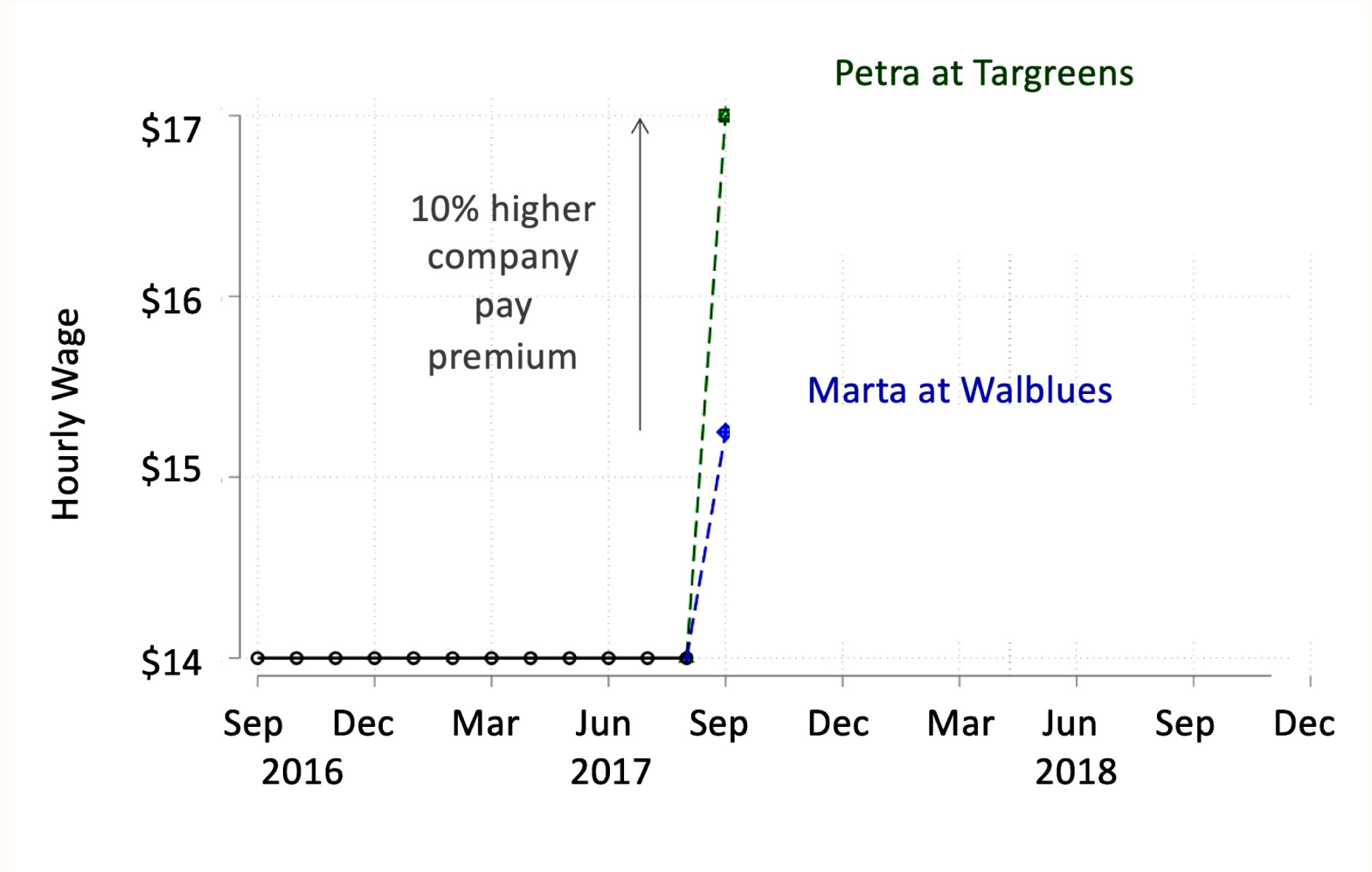


Source: Bassier, Dube, Naidu (2022, *Journal of Human Resources*)

What does a world without standards look like?

... or **monopsony power**?

Using administrative matched employer-employee data on hourly wages (Oregon)... track **quit response** two similar workers who landed at different jobs

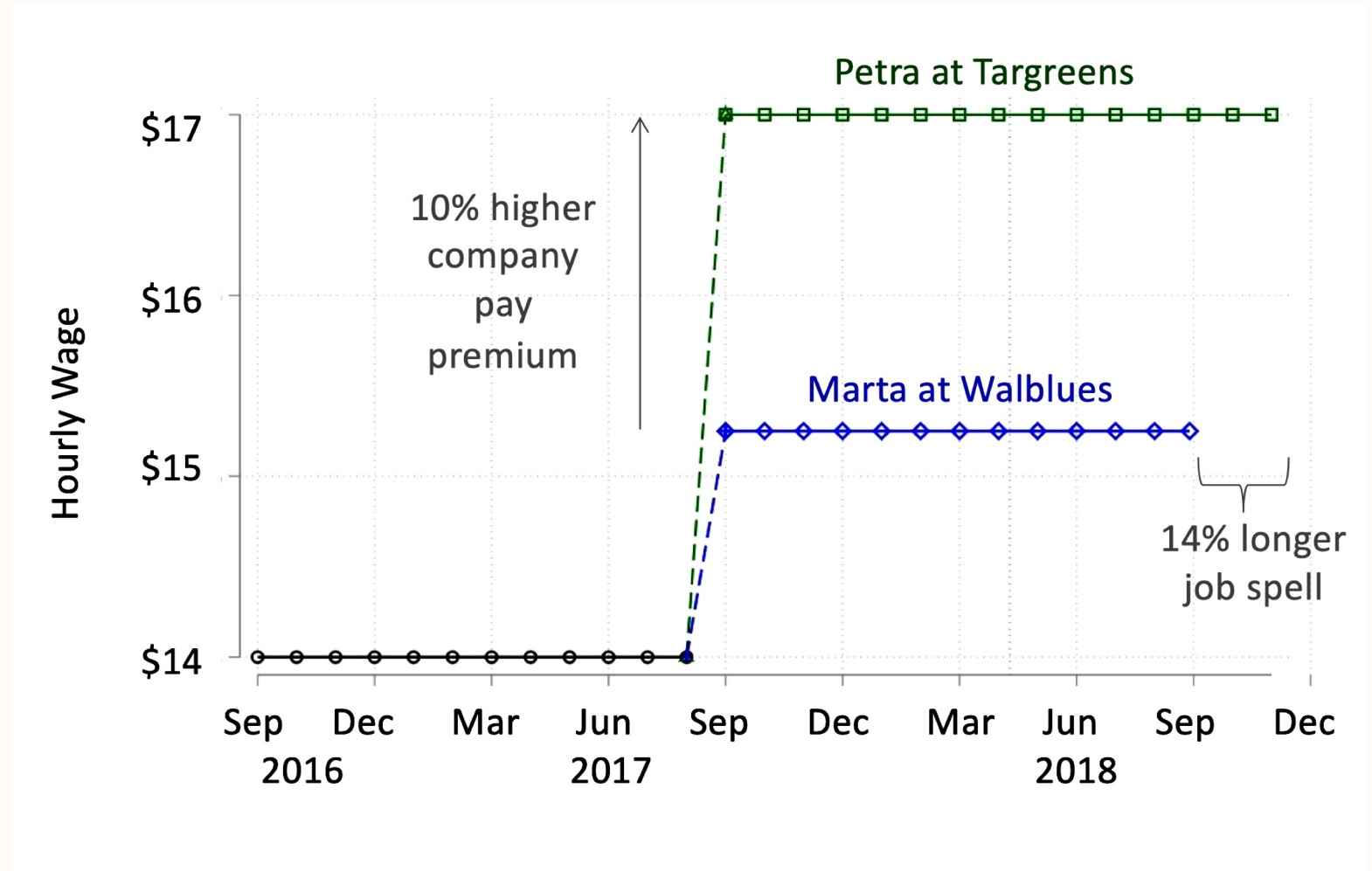


Source: Bassier, Dube, Naidu (2022, *Journal of Human Resources*)

What does a world without standards look like?

... or **monopsony power**?

In “normal times,” quits are only modestly related to firm wage choices



Source: Bassier, Dube, Naidu (2022, *Journal of Human Resources*)

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-1.4

The triumvirate of monopsony power

- **Concentration** – too few employers Azar et al. 2018

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- **Concentration** – too few employers Azar et al. 2018
- **Job differentiation** – workers may value the same job differently. Lowering wages can still keep some workers around Card et al. 2016
- **Search frictions** – it's costly to look for jobs, and change jobs
 - Workers may not be aware of outside options Jager et al. 2024

Monopsony makes it big

David Card's 2022 AEA Presidential Address

I will try to make the case that the time has come to recognize that many – or even most – firms have some wage-setting power.

In the past few years, we may have reached a tipping point ... in labor economics, driven by the combination of new (or at least post-1930) theoretical perspectives, newly available data sources, and accumulating evidence on several different fronts.

Consequence of monopsony power in the labor market

1. Wages are variable - there are “good jobs” and “bad jobs”, shaped by managerial choices
2. Wages are “too low” ... too many “bad jobs”
3. Policies affecting competition can have important impacts
4. Imposition of labor standards may improve the functioning of the economy

Consequences of firm wage policies and inequality

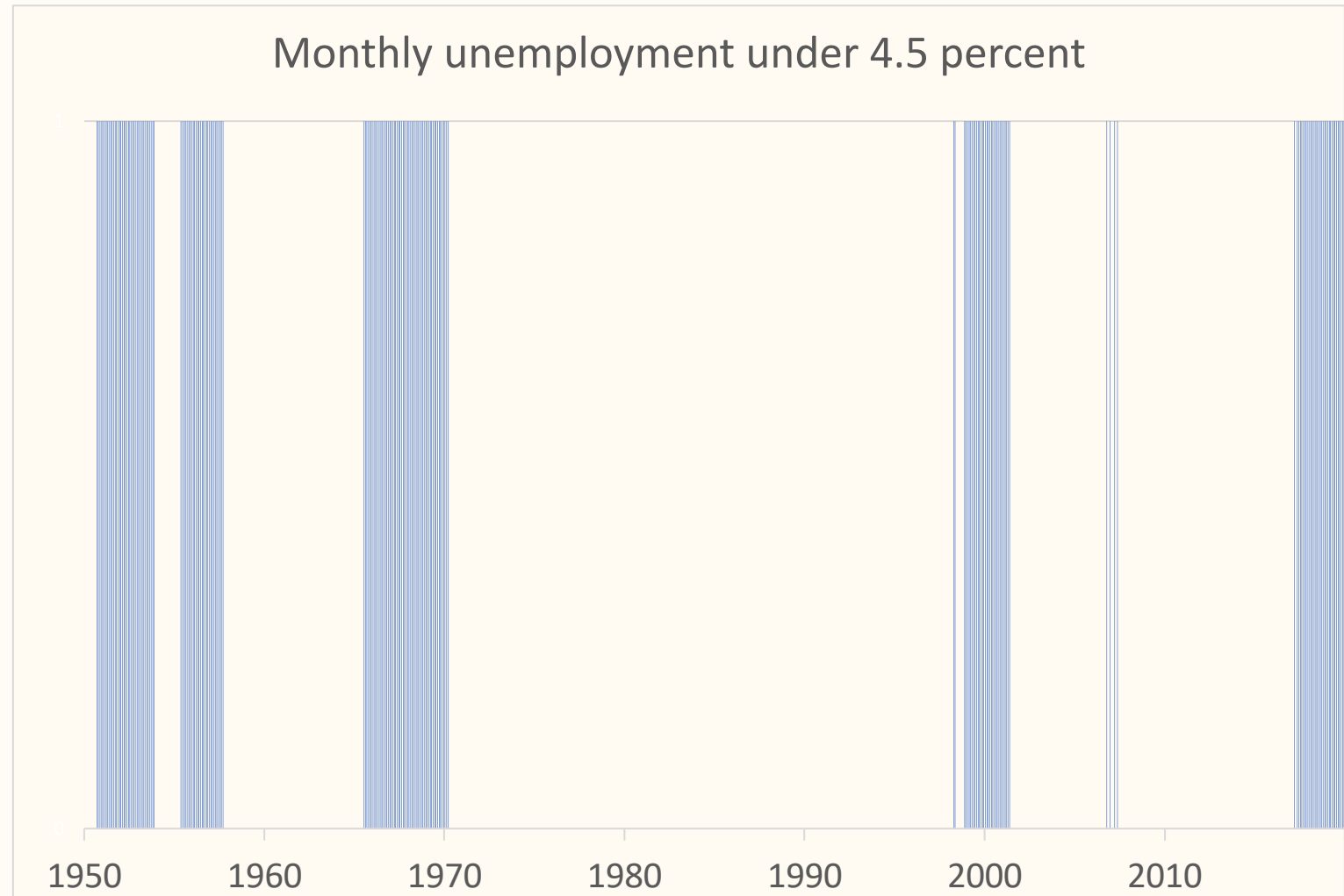
- Most of the rise in inequality post-1980 is *between firms* Song et al. 2018
 - Blue collar workers are increasingly in low-paying firms
 - The large firm pay premia eroded greatly for blue collar workers
- Firms increasingly pursued low-wage managerial strategies Acemoglu et al 2023
- One important factor: after 1980, we spent less time in tight labor markets
 - Close link between tightness and competition
 - A tight labor market makes it difficult for low-wage strategies to thrive
- Unions and minimum wages offer countervailing power that curtail firms' ability to exercise monopsony power

1. Full employment
checks firms'
monopsony power

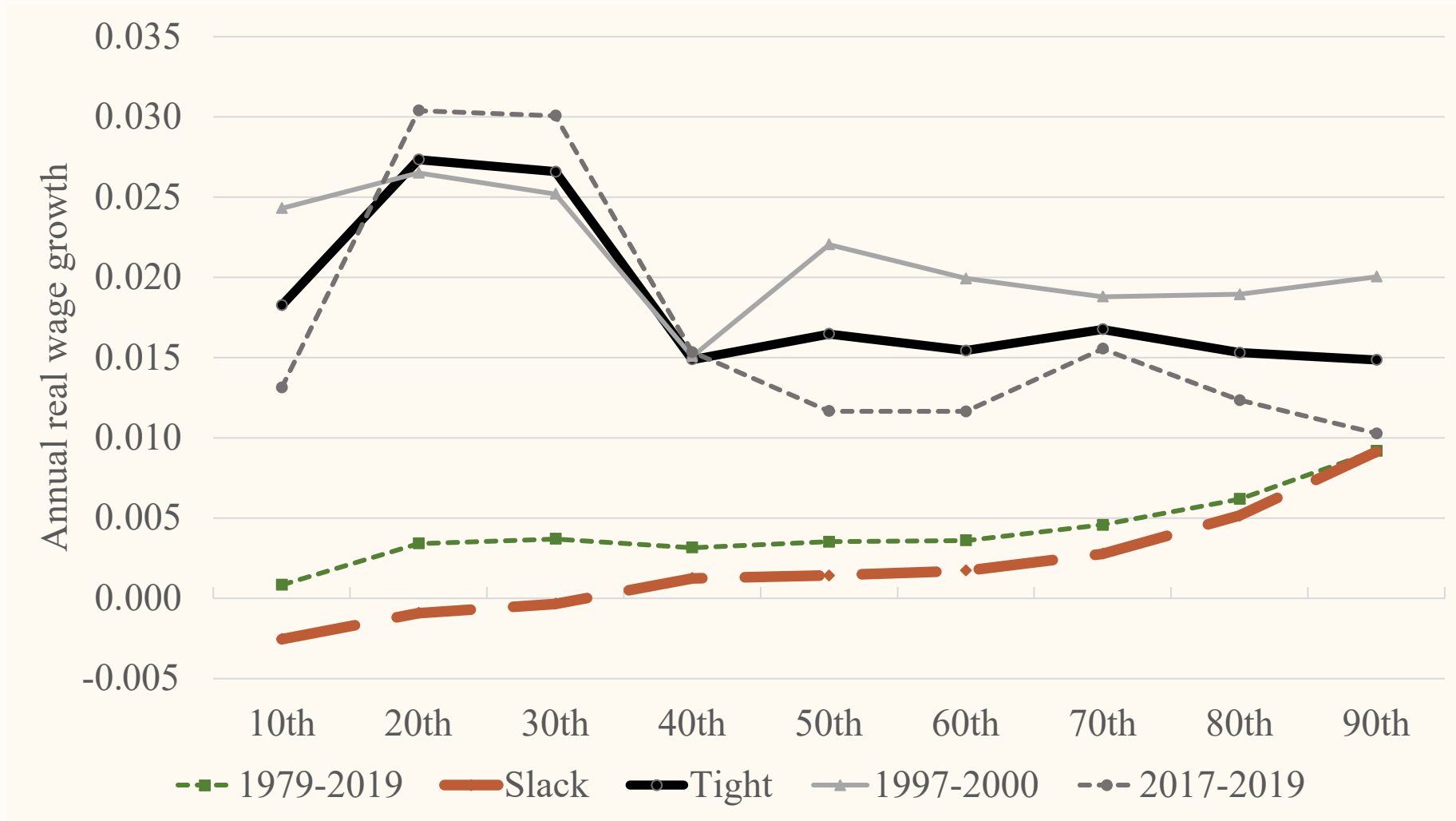
The erosion of standards: low unemployment rate

Between 1948 and 1979, **38 percent** of time unemployment was under 4.5 percent

Between 1980 and 2019, **16 percent** of time unemployment was under 4.5 percent

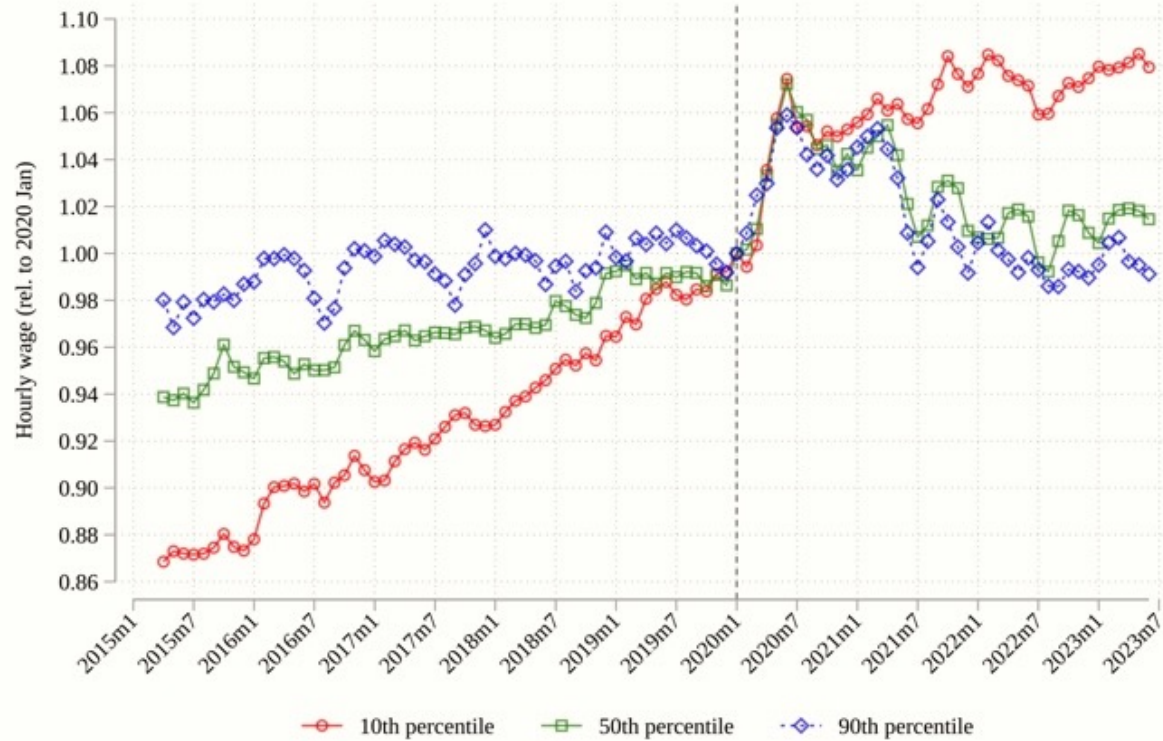


Tight labor markets raise real wages, especially at the bottom

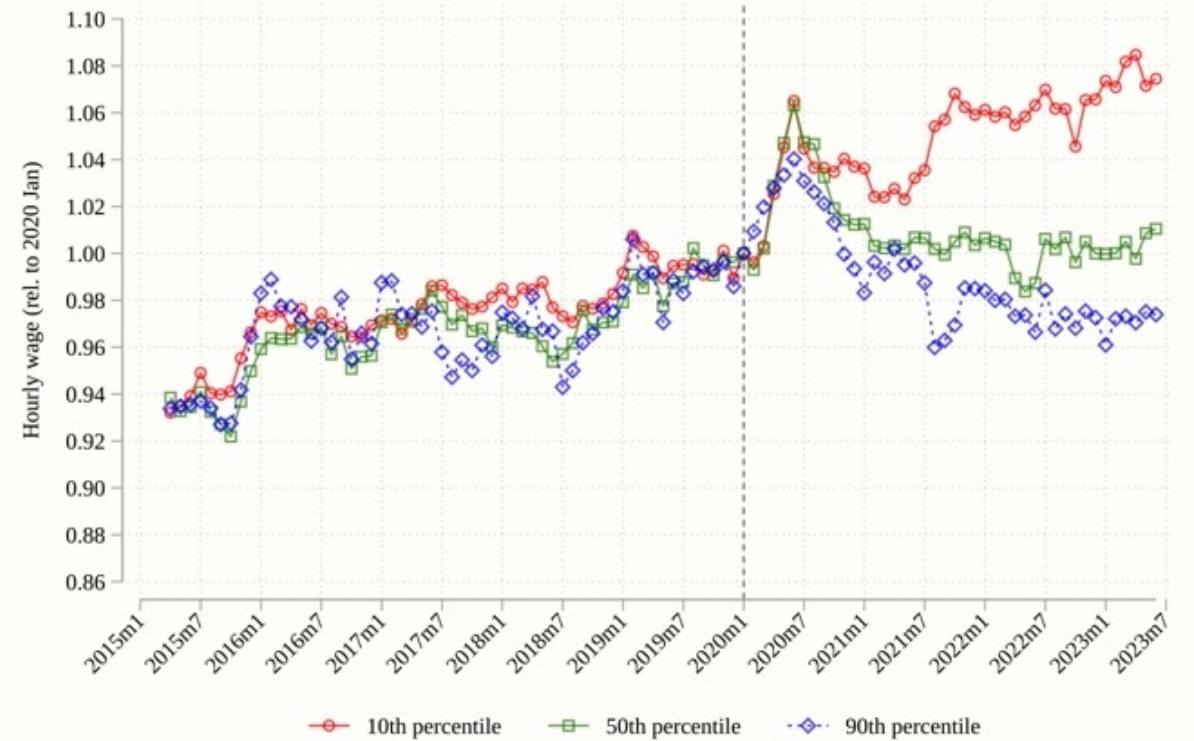


A tale of two compressions: minimum wage and tightness

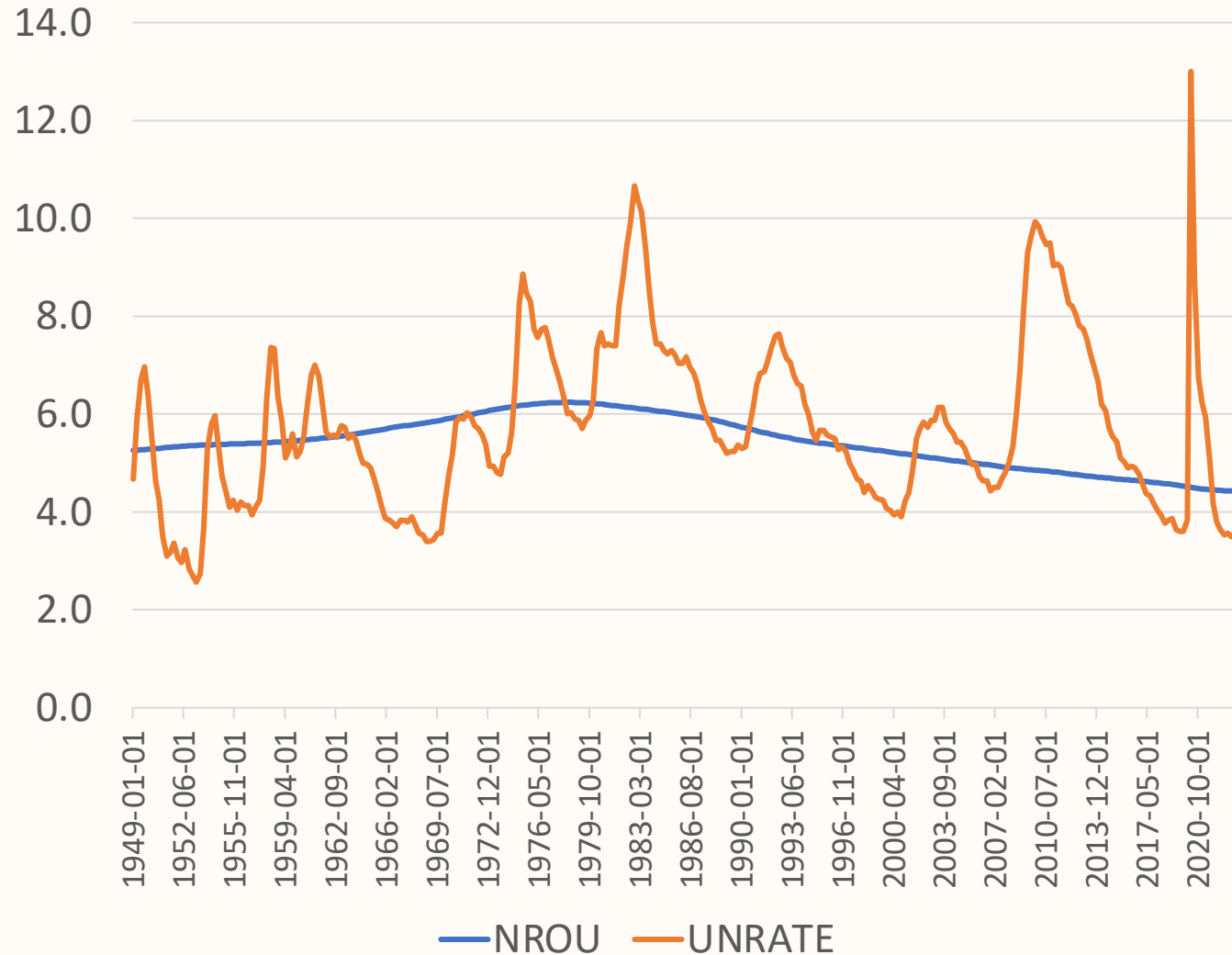
States raising the minimum wage



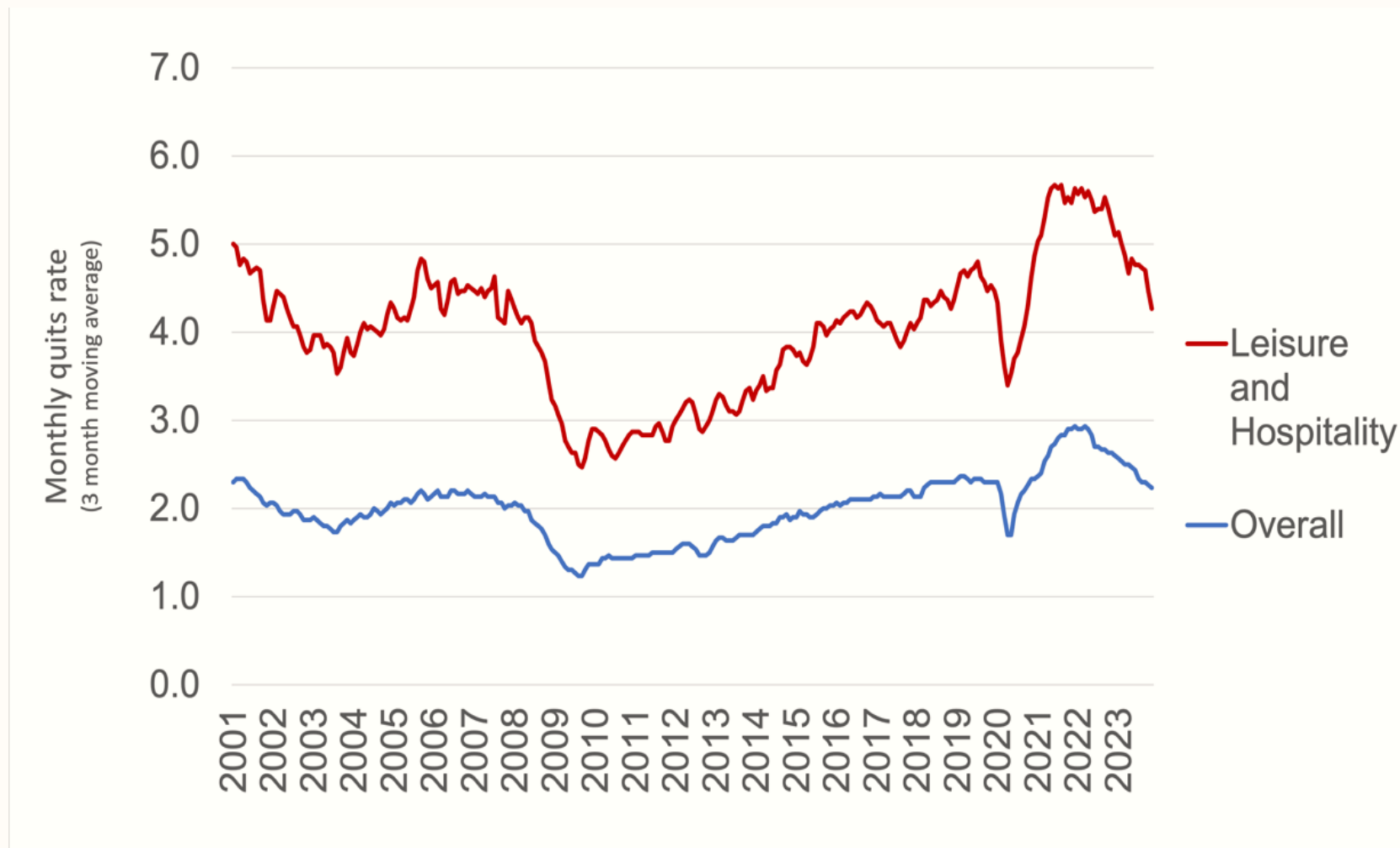
States not raising the minimum wage



Post-pandemic labor market tightness: unemployment rate



Post-pandemic labor market tightness: quits



Source: Autor Dube McGrew (2023)

The Great Reshuffling?



Arindrajit Dube
@arindube

...

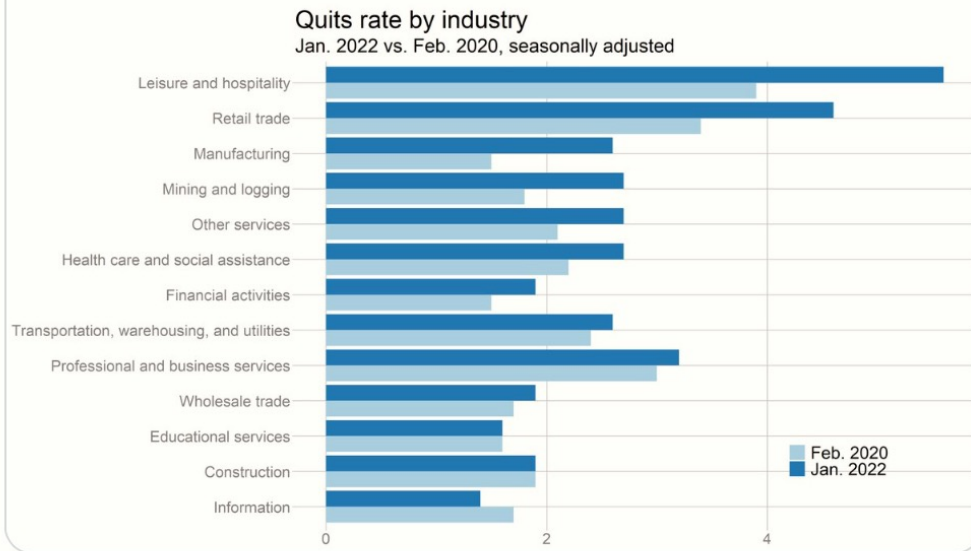
The Great Reshuffling continues, as workers leave bad jobs for better ones...



Ben Casselman ✓ @bencasselman · Mar 9

Quits remain especially elevated in leisure and retail, but it isn't just there. Manufacturing has seen a lot of quits too.

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The New York Times

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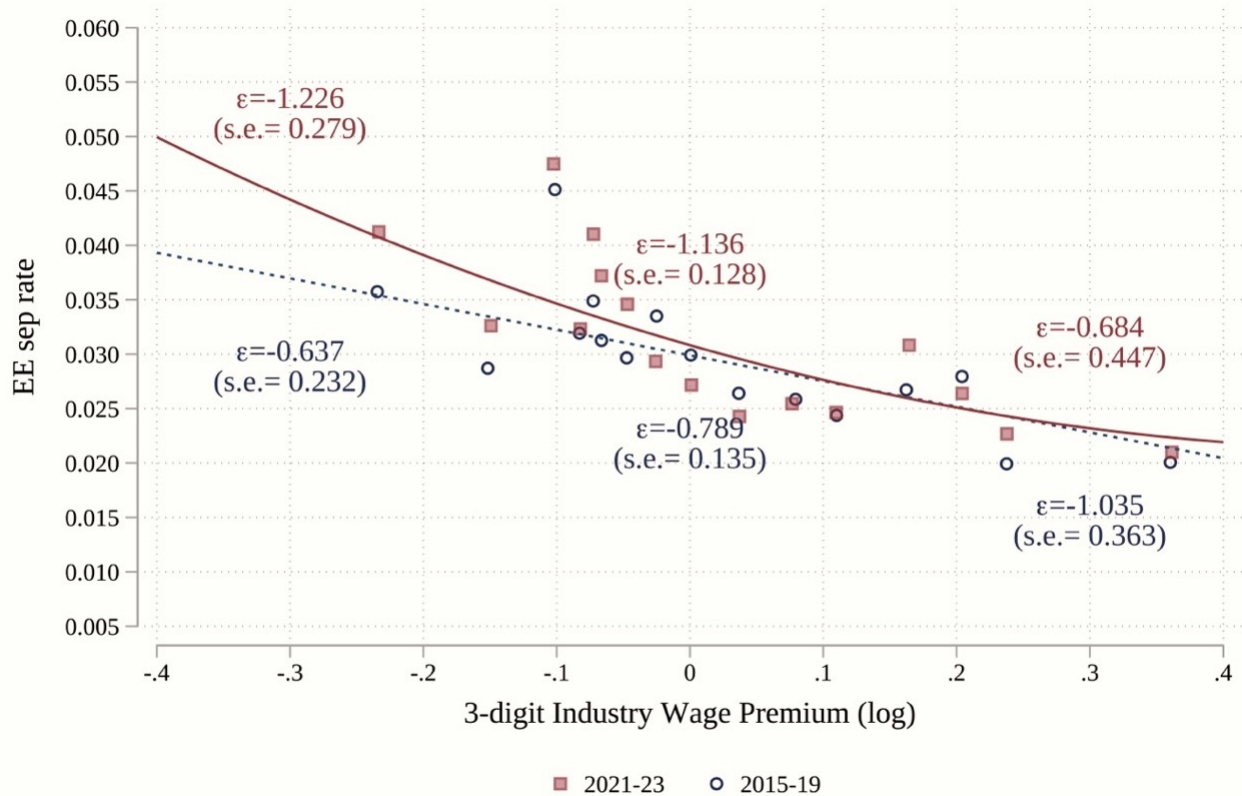
OPINION

What Ever Happened to the Great Resignation?

A few months ago, it still seemed reasonable to talk about a Great Resignation. At this point, however, there's basically nothing there. It's true that an unusually high number of workers have been quitting their jobs, but they have been leaving for other, presumably better jobs, rather than leaving the work force. As the labor economist [Arindrajit Dube](#) says, it's more a Great Reshuffling than a Great Resignation.

Reallocation towards better paying jobs for non-college grads

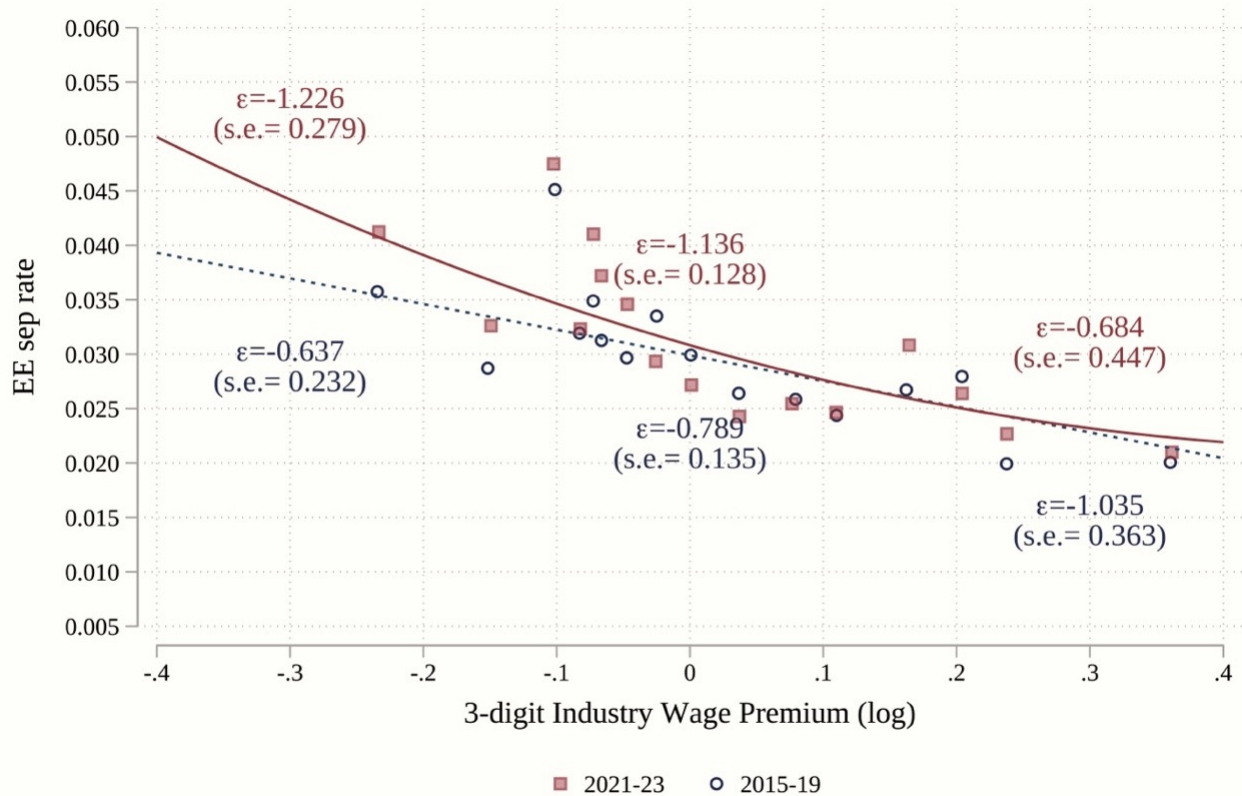
Quits have become more sensitive to wages



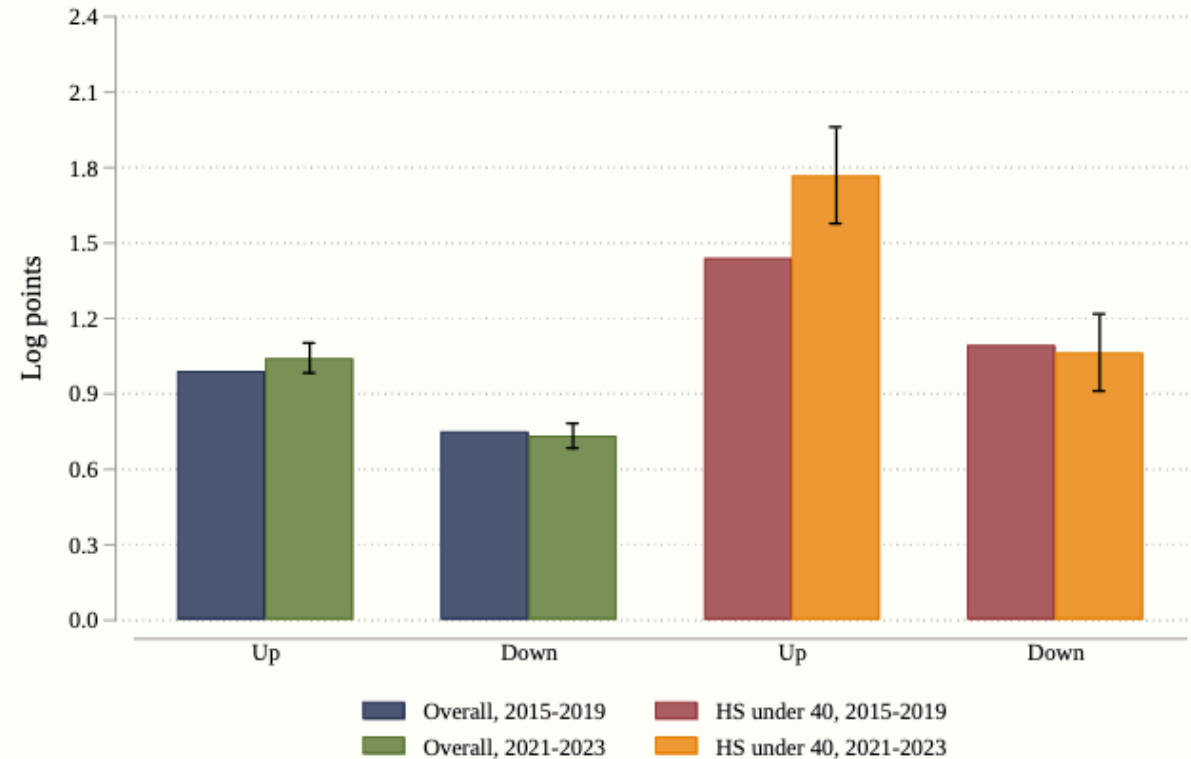
Source: Autor Dube McGrew (2023)

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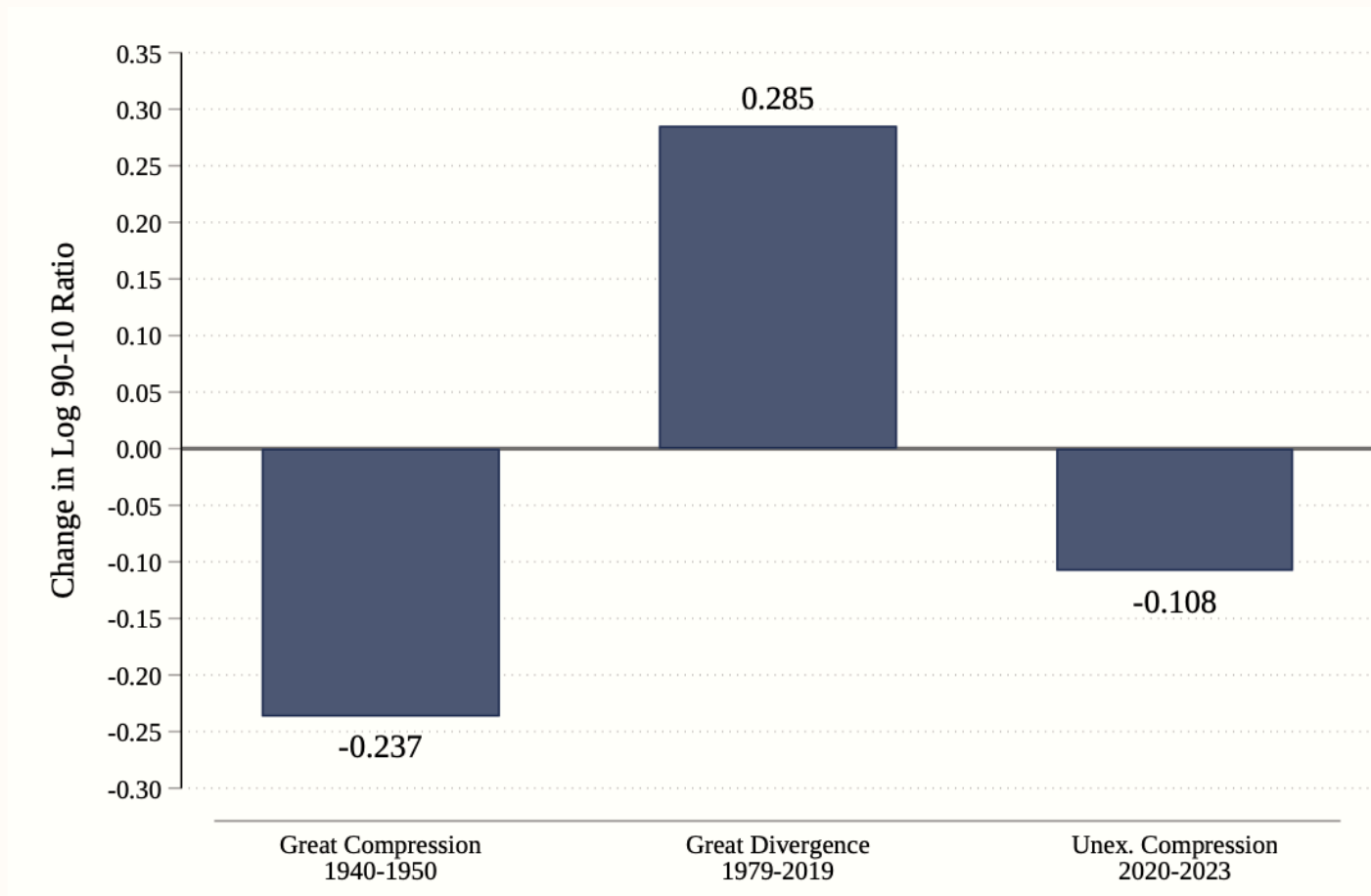


Increased net flow out of lowest paying sectors



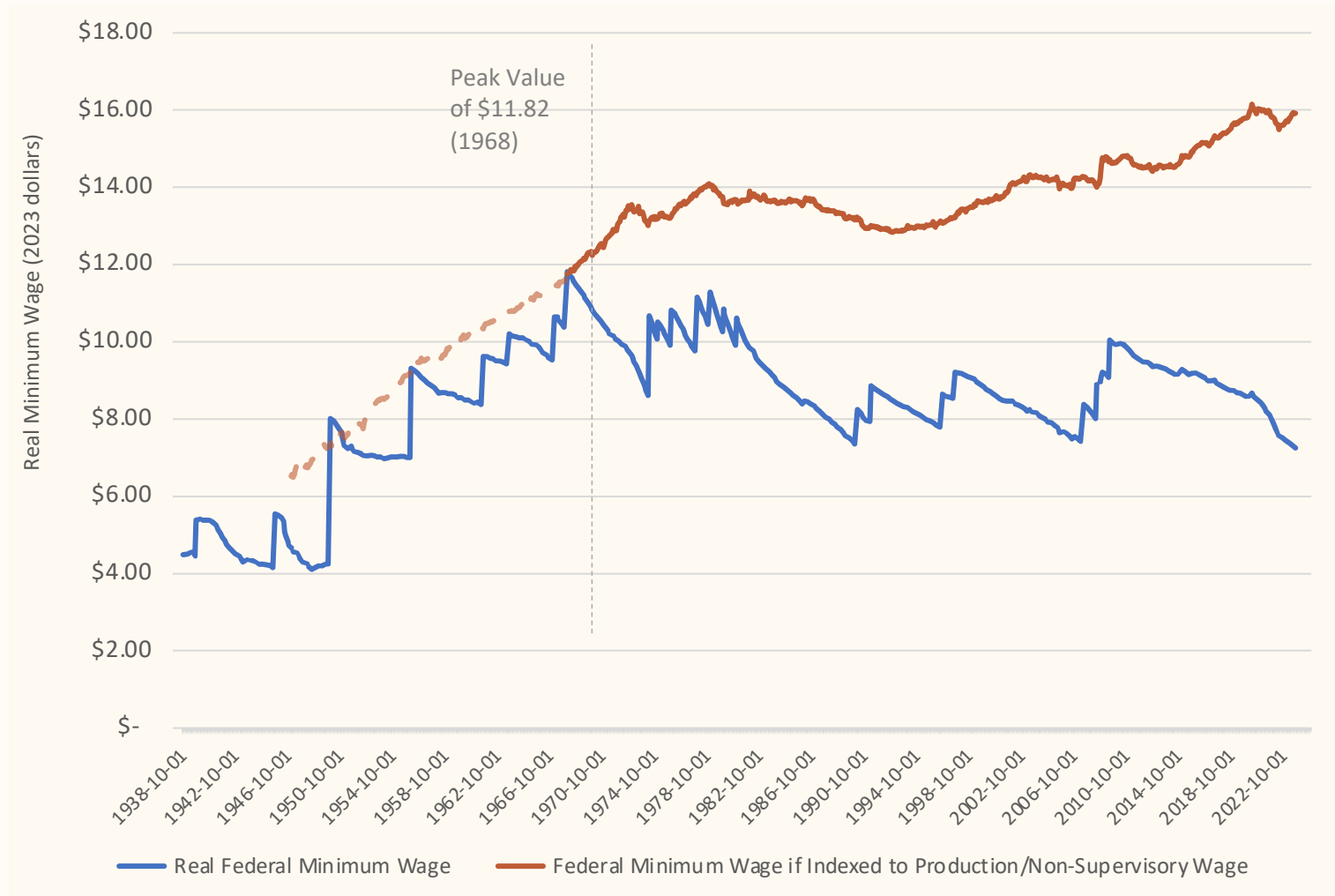
Source: Autor Dube McGrew (2023)

Reversing the growth in inequality: 90-10 wage gap



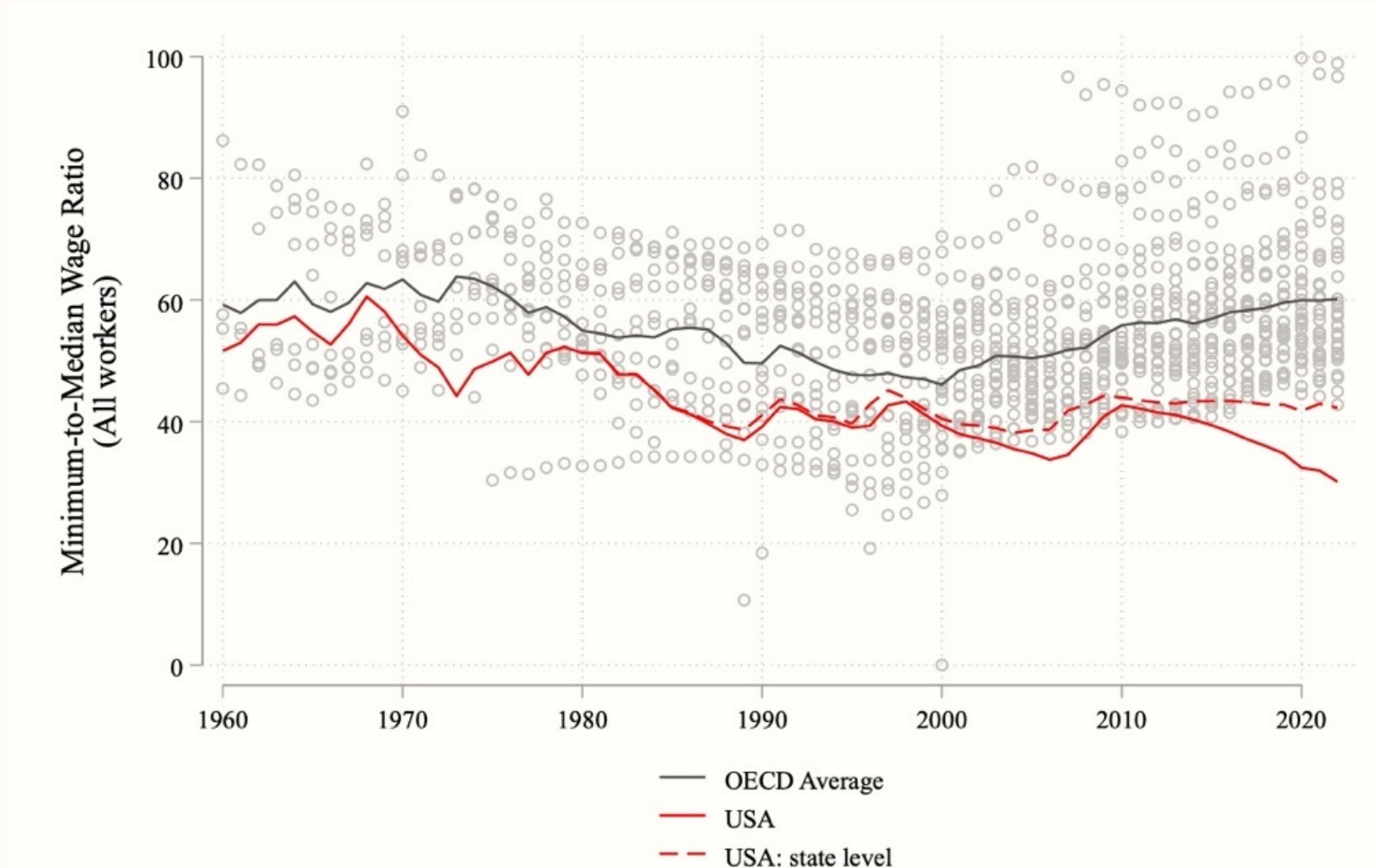
2. Minimum wage policies can be an important constraint on monopsony and inequality

Evolution of Minimum Wages in U.S.



Source: based on OECD stats.

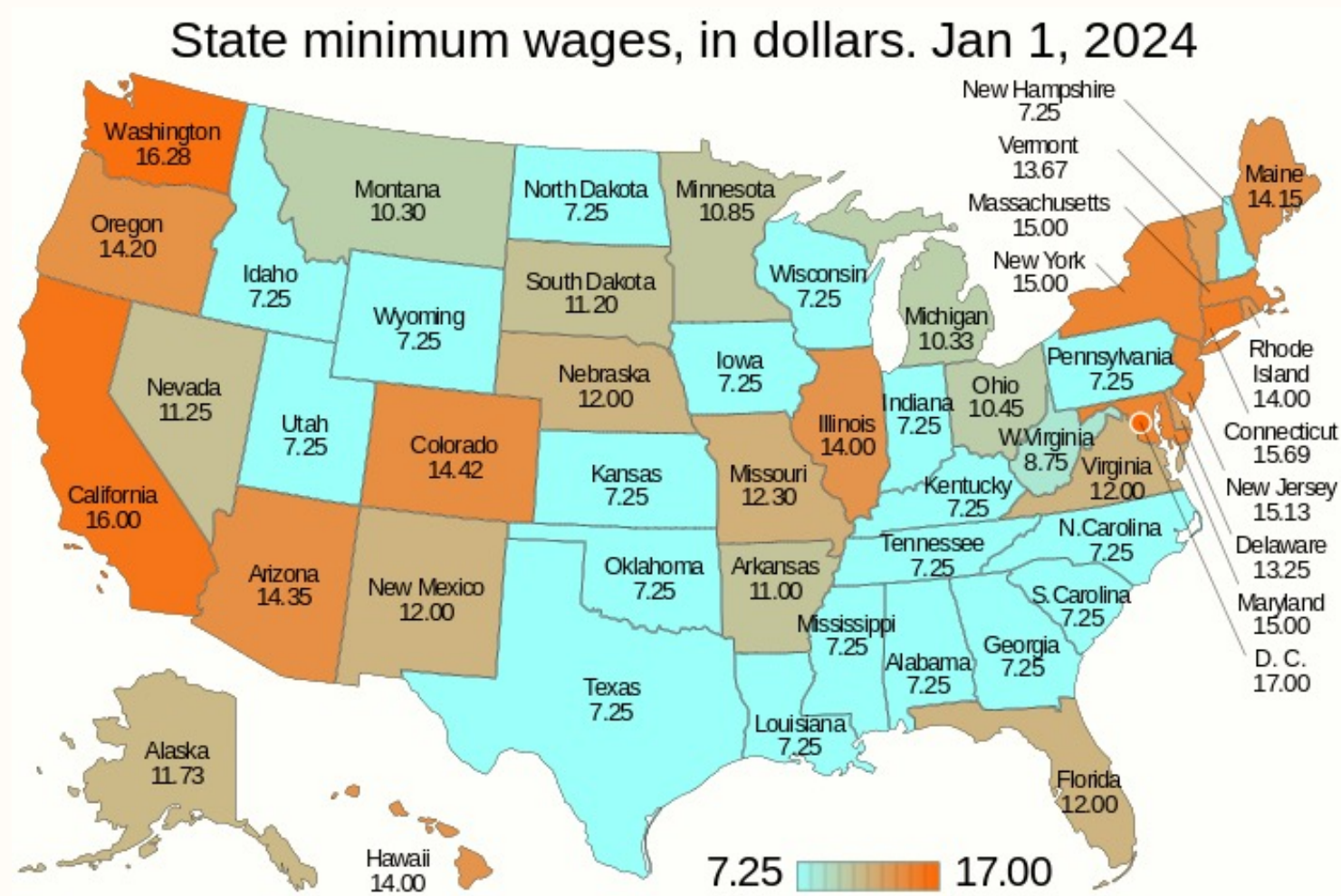
Evolution of Minimum-to-Median Wage Ratio in OECD Countries (1960-2019)



Rebuilding a wage standard: unintended consequences?

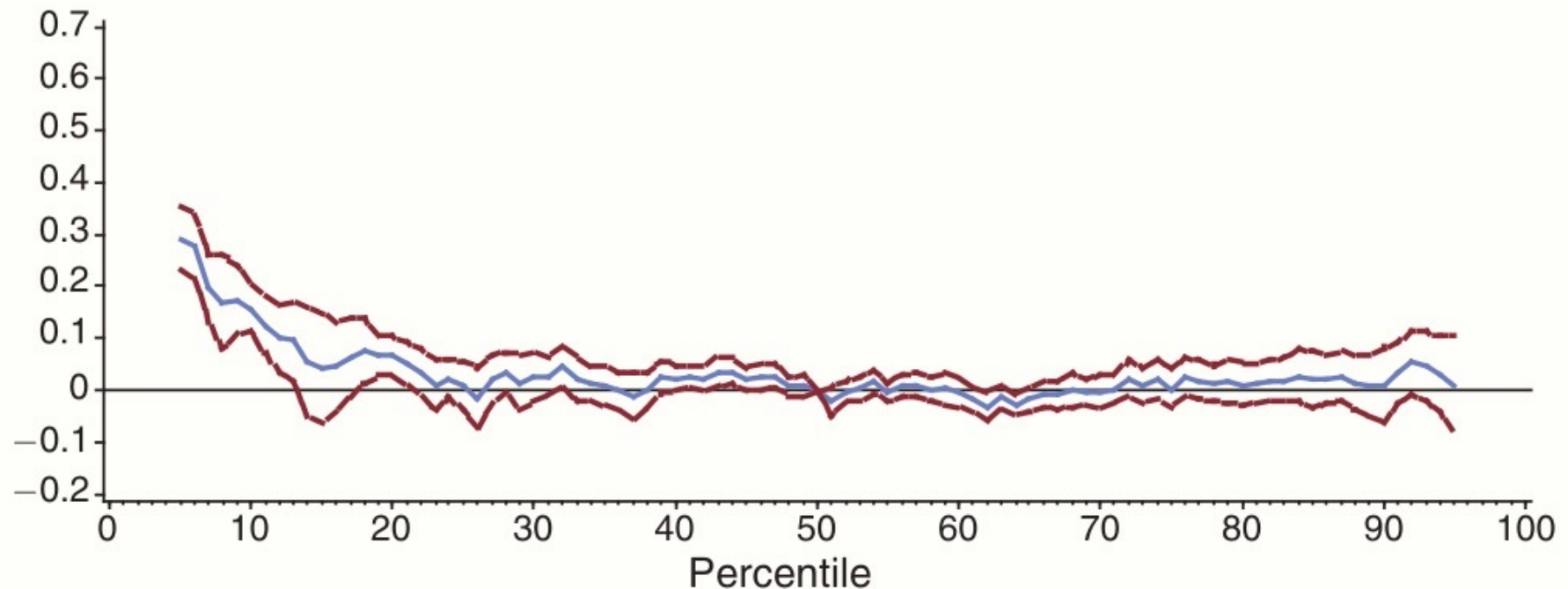
- Unintended consequence: does a high minimum wage lead to reduced hiring?
 - Theory is not enough to answer this – depends on market structure
- Key challenge: many factors affect low-wage employment
- The “New Economics of Minimum Wage” began when the minimum wage was not raised for nearly a decade in the 1980s, and states stepped in
 - Provided an opportunity to compare “treatment” and “control” states

States and cities have stepped in when federal minimum wage is stagnant



An increased minimum wage reduces wage inequality: impact on wage growth by percentile

- Minimum wage affects wages in the **bottom 20** percent of the distribution
- Between 1979 and 2009, between **1/3** and **1/2** of the increase in the 50-10 gap was due to falling real minimum wage

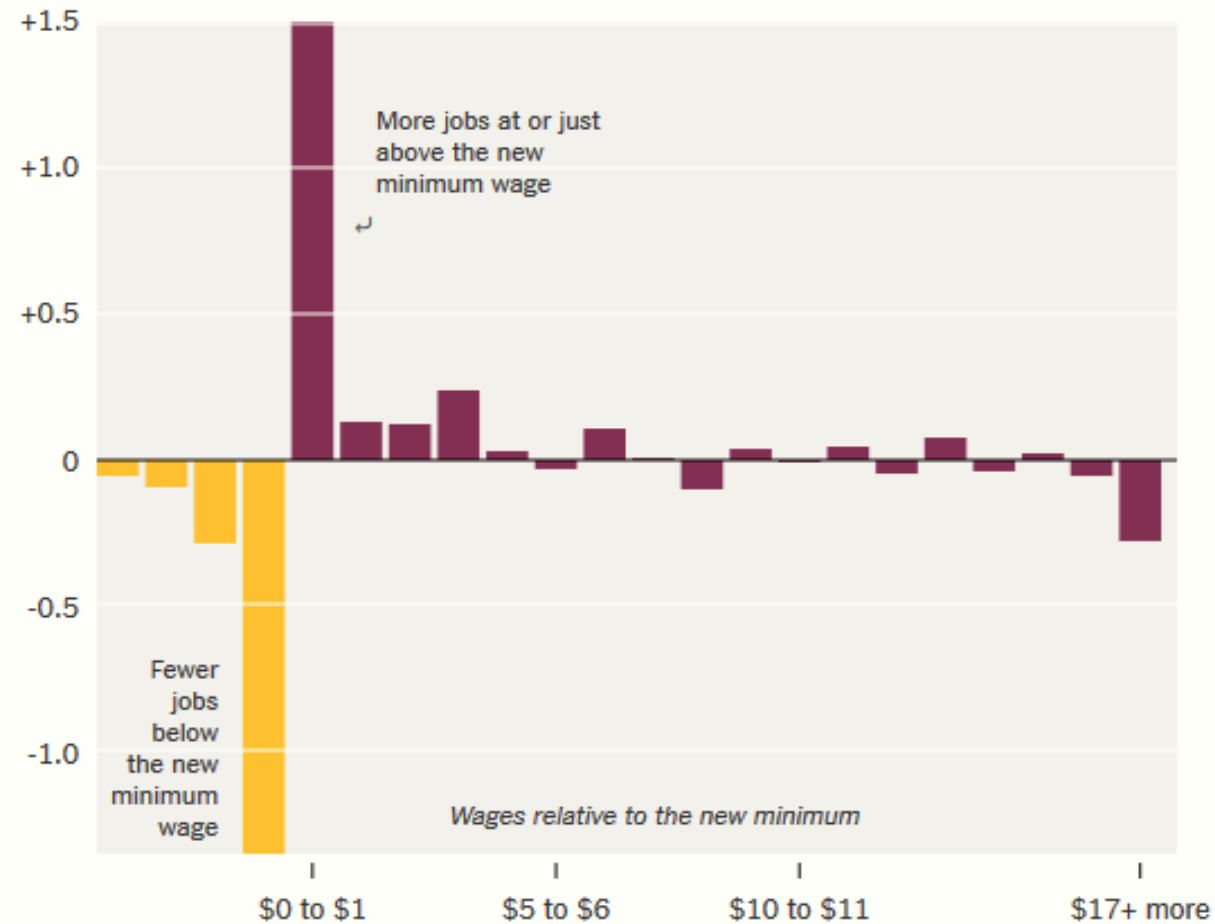


Source: Autor Manning and Smith (2016, *American Economic Journal-Applied Economics*)

Effect of minimum wages on low-wage jobs: evidence from 138 minimum wage increase (1979-2016)

What Research Showed Across the United States

Estimates of the change in jobs five years after a change in the minimum wage, as a share of total employment before the increase



Source: Cengiz, Dube, Lindner, Zipperer (2019, *Quarterly Journal of Economics*)

City minimum wage: pooling across 21 cities

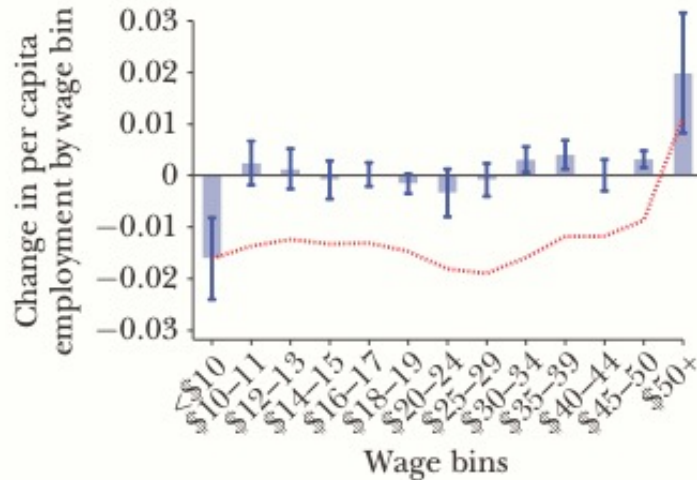
Reduced jobs paying below \$10

Raised jobs paying \$11-\$15

Little net change in low wage jobs from the wage hikes

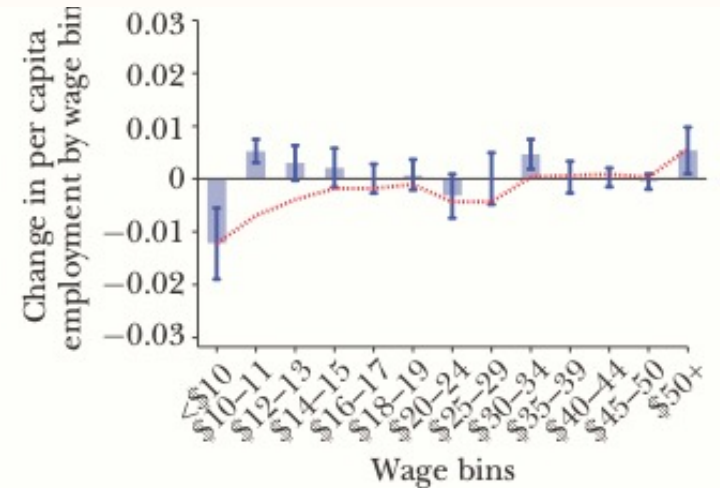
But critical to compare similar cities (right panel); comparing to all cities fails *upper tail falsification test* (left panel)

Compare with all cities (bad)



%Δ wage = 0.05 (s.e. 0.01)
%Δ employment = -0.06 (s.e. 0.03)
Own-wage elasticity = -1.10 (s.e. 0.55)

Compare with similar cities (good)



%Δ wage = 0.04 (s.e. 0.01)
%Δ employment = -0.00 (s.e. 0.01)
Own-wage elasticity = -0.12 (s.e. 0.38)

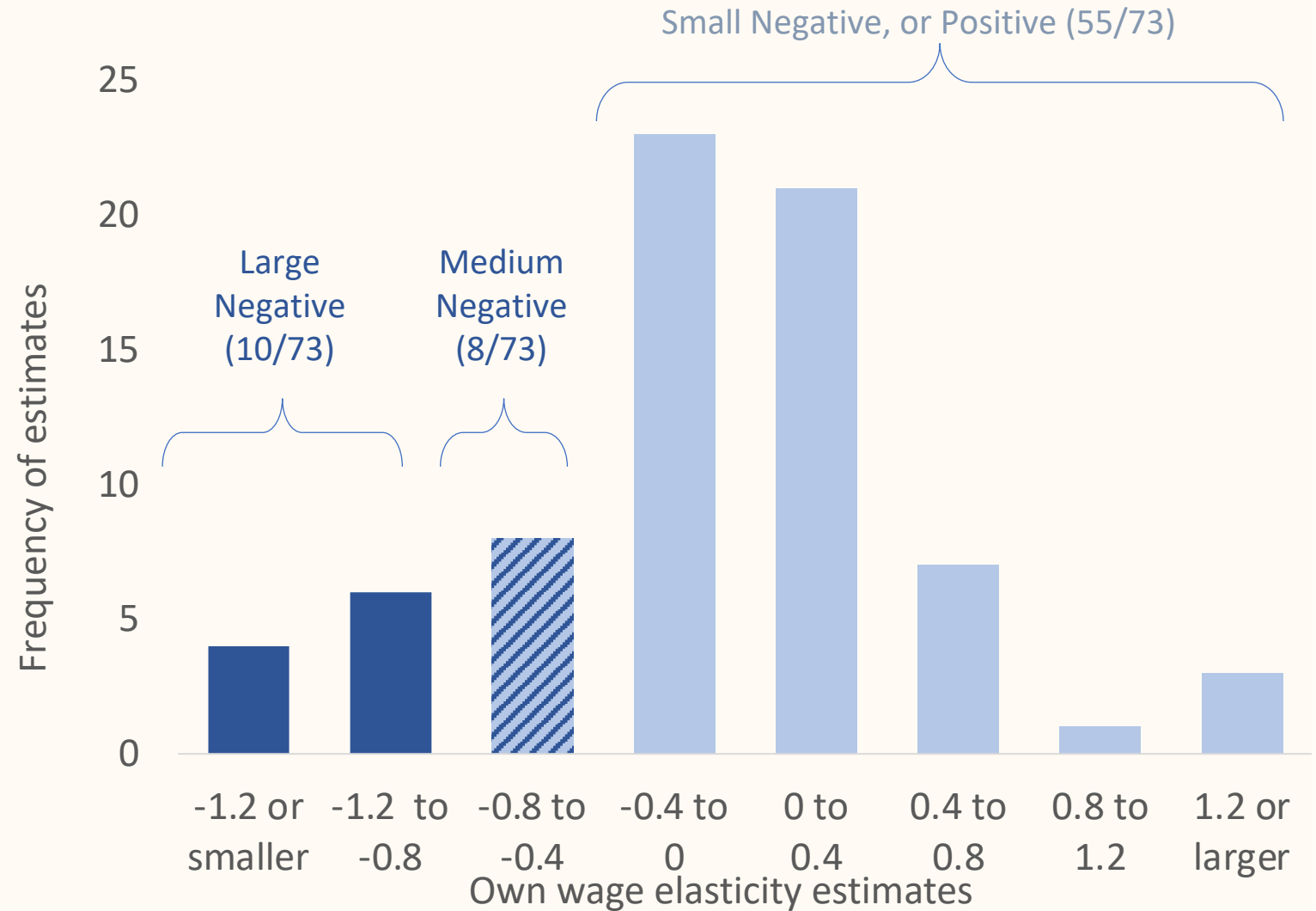
Source: Dube and Lindner (2021, *Journal of Economic Perspectives*)

Review of Overall Evidence on Wages & Employment

Own-wage elasticity:

$$\left(\frac{\% \Delta Emp}{\% \Delta MW} \right) / \left(\frac{\% \Delta Ave Wage}{\% \Delta MW} \right)$$

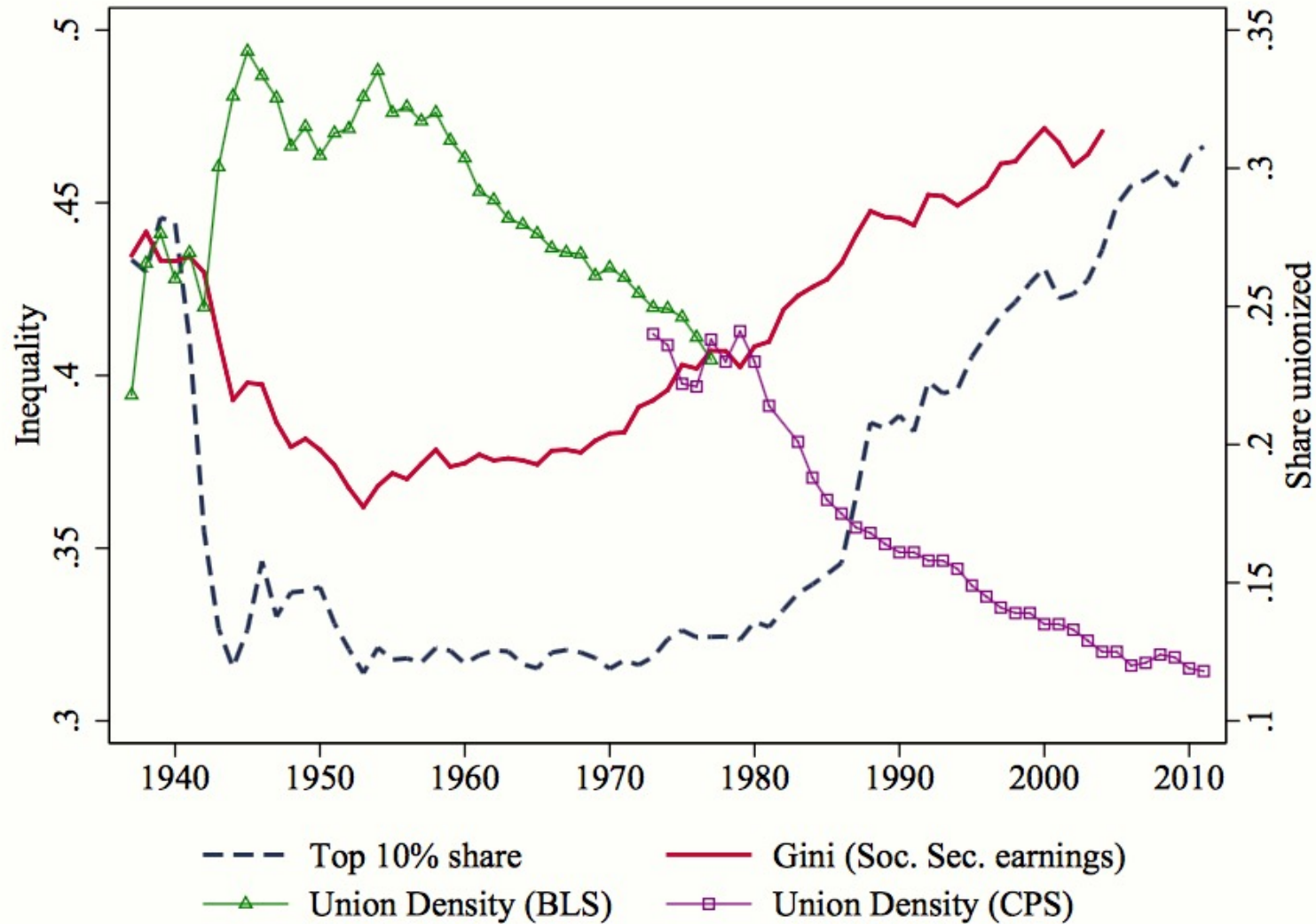
Most studies suggest any negative effect on employment to date has been “small” relative to wage gains



Source: Dube and Zipperer (2024)

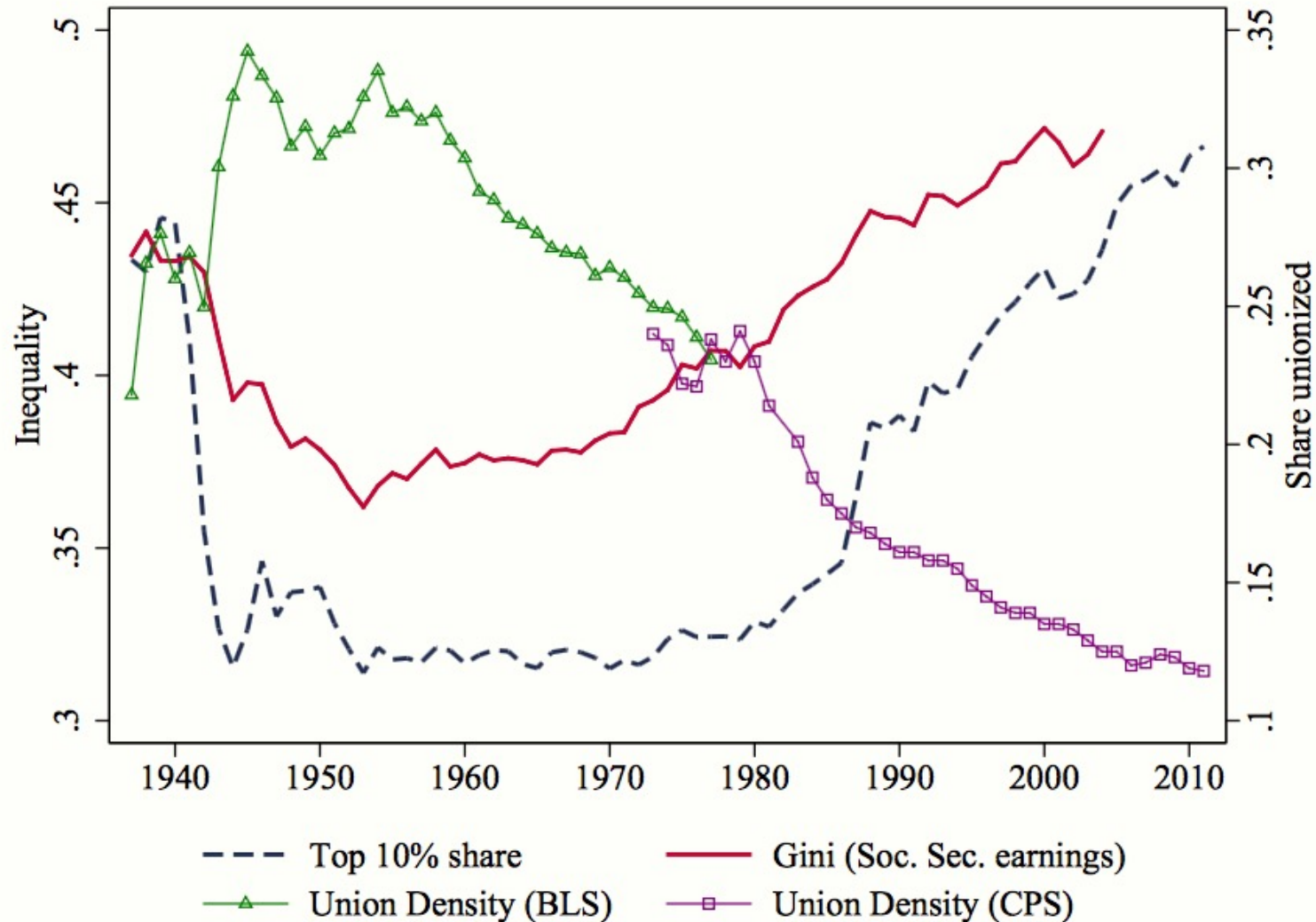
3. Unions and sectoral standards are an important countervailing power to help middle income workers

The erosion of standards: de-unionization



Source: Farber et al. 2021

The erosion of standards: de-unionization



- Work by Fortin, Lemieux, and Lloyd (2021, *Journal of Labor Economics*) provides an estimate the overall impact of de-unionization on wage inequality
 - Includes direct + spillover effect on non-union wages
- De-unionization could explain around **37%** of rise in the 90/50 wage gap men, and **13%** for women between 1979 and 2017

Union revival?

Big Labor Gamble: Push to Unionize Every U.S. Auto Plant

A looming election at a Volkswagen plant in Chattanooga could be pivotal in the United Automobile Workers' effort to organize the entire industry.

Share full article



A union hall in Chattanooga, Tenn., where members of the United Automobile Workers met last month to discuss unionizing a Volkswagen plant. Melissa Golden for The New York Times



By **Noam Scheiber**

Noam Scheiber reported this article from Chattanooga, Tenn. He has covered auto industry organizing since 2017.

Opinion | Beth Kowitt, Columnist

The Howard Schultz Era at Starbucks Is Officially Over

It seems to have taken an outsider to realize that allowing workers to unionize isn't a personal failing but rather a good business decision.

February 29, 2024 at 2:01 PM EST



By **Beth Kowitt**

Beth Kowitt is a Bloomberg Opinion columnist covering corporate America. She was previously a senior writer and editor at Fortune Magazine.



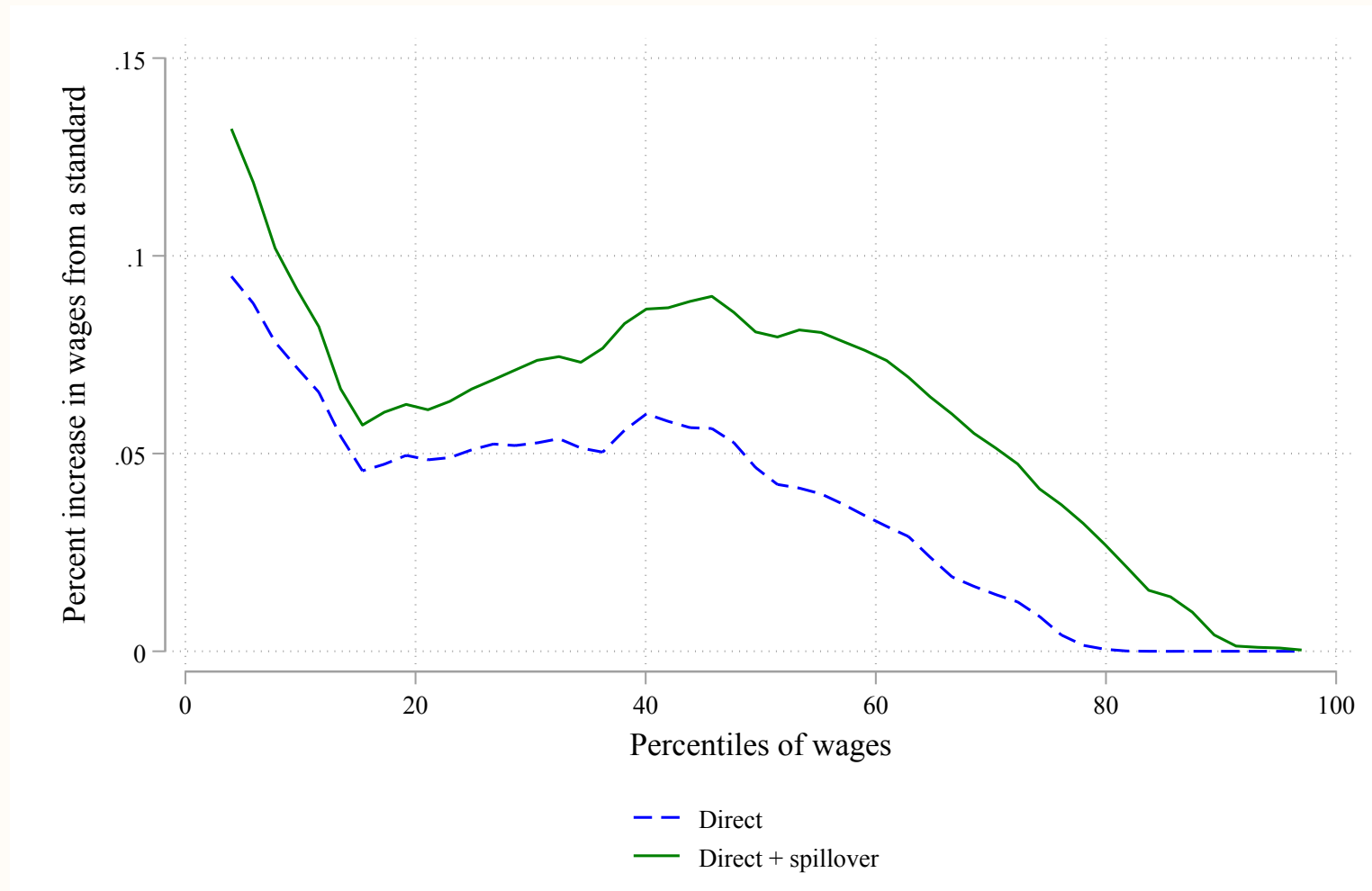
Amazon, Starbucks, union election victories

Auto organizing drive

Beyond the minimum: wage boards

- What if we had sector-based minimums for different jobs?
 - Nurses
 - Machinists
 - Teachers
 - Cashiers
- That's actually the *norm* in most advanced industrialized countries: usually through collective bargaining
- Another example: Modern Awards in Australia, sets minimums for 108 sectors, separately by occupation groups (sets wage for around $\frac{1}{4}$ of workforce)
- 6 states (including CA, NY) already have wage boards in state law.

Wage increases from a hypothetical sectoral wage board in the US



California and Minnesota experimentation

COMMENTARY

Minnesota is transforming its nursing home industry with a model that empowers workers



DAVID MADLAND

JUNE 15, 2023 6:00 AM



Photo by Getty Images.

BUSINESS

California fast food and health care workers poised to win major salary increases



FILE — Fast food workers and their supporters march past the California state Capitol in Sacramento, Calif., on Aug. 16, 2022. Most fast food workers in California would get a \$20 minimum wage under a new bill introduced in the state Legislature on Monday, Sept. 11, 2023. The bill represents an agreement between labor unions and the fast food industry. (AP Photo/Rich Pedroncelli, File)

Conclusion

- We are at a unique moment where workers' leverage is at a high-water mark
 - Largely due to willingness to run the economy hot
 - Demographic change suggests tight labor markets could become more common
- We have seen successful experimentation with ambitious minimum wages
- We are starting to see experimentation with sectoral standards
- Possible role for technological change (generative AI) that complements "everyday workers" Autor 2024

Book coming out in 2025 (*Dutton, Penguin-Random House*)

The Wage Standard - What Went Wrong in the Labor Market and How We're Fixing it