



Select Committee on Economic Disparity and Fairness in Growth  
U.S. House of Representatives

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## Memorandum

**To:** Members, Select Committee on Economic Disparity and Fairness in Growth

**From:** Select Committee Majority Staff

**Subject:** April 6, 2022, Select Committee Hearing entitled, “**(Im)Balance of Power: How Market Concentration Affects Worker Compensation and Consumer Prices**”

The Select Committee on Economic Disparity and Fairness in Growth will hold a hybrid hearing entitled “(Im)Balance of Power: How Market Concentration Affects Worker Compensation and Consumer Prices” on Wednesday, April 6, 2022, at 12:00 PM ET in Room 2362-A of the Rayburn House Office Building. There will be one panel with the following witnesses:

- **Dr. Kate Bahn**, Chief Economist, Washington Center for Equitable Growth
- **Dr. Heidi Shierholz**, President, Economic Policy Institute
- **Mr. Michael Mitchell**, Director of Policy and Research, Groundwork Collaborative
- **Dr. Hal Singer**, Managing Director, Econ One Research
- **Mr. Ryan Bourne**, R. Evan Scharf Chair for the Public Understanding of Economics, Cato Institute

## Overview

This hearing will examine how product or labor markets dominated by one firm or a small number of firms can have adverse impacts on workers, consumers, and smaller businesses.

Within labor markets, the imbalance of power between a big company and its workers is not always because the company occupies a dominant share of its industry—what is referred to as a “monopsony” situation.<sup>1</sup> More broadly, this imbalance stems from workers having fewer options or less freedom of choice than their employers: many individual workers cannot actually or credibly threaten to leave employers when they are being underpaid or mistreated due to geographic constraints, benefit structures (e.g., vesting, waiting periods), or nontraditional work arrangements (e.g., contract or part-time work). These constraints (or frictions) on workers imply that labor markets in practice do not work in the way that the pure theory of perfect competition in economics textbooks is described.<sup>2</sup>

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<sup>1</sup> Caldwell, Sydnee & Naidu, Suresh. ["Wage and employment implications of U.S. labor market monopsony and possible policy solutions."](#) Washington Center for Equitable Growth. February 18, 2020.

<sup>2</sup> Greenlaw, Stephan A. & Shapiro, David. ["4.1 Demand and Supply at Work in Labor Markets"](#) Principles of Economics 2e. October 11, 2017.

Within product markets, a company having a dominant share of their market (what is referred to as a “monopoly” or “oligopoly” situation) can give it more power to set prices higher than justified by cost increases and set wages lower than justified by worker productivity.<sup>3</sup> Dominance in an industry can also imply a firm receives prioritized access to its input supply chains and customer bases over smaller businesses—that it is essentially at the front of any lines.<sup>4</sup>

Markets that have an imbalance of power between companies and people (be they workers, consumers, or small business owners) can result in distorted price signals that over-allocate income and resources based solely on private business goals of maximizing private profits and shareholder returns. Economists label this a “market failure” that calls for the intervention of public policies or business practices that can better align the maximization of private profit with the maximization of societal well-being.<sup>5</sup> As will be discussed by witnesses at today’s hearing, these can be policies or practices that make it easier for workers or consumers to band together (organize, collaborate, cooperate) to achieve more bargaining power as a group than they would be able to as just one person or household. These can also be government regulatory policies designed to bring market prices closer to what would be competitive (rather than monopoly/monopsony) levels and to prohibit anti-competitive company practices that take advantage of workers and consumers.

### **Introduction: (im)perfect competition in real life**

Economic theory describes perfect competition as a theoretical ideal that results in an alignment of how the market economy values (prices) different resources and how society values (benefits from) them.<sup>6</sup> It is Adam Smith’s invisible hand working at its best under conditions of perfect information and complete freedom of both the supply and demand sides of each input or product market to take advantage of market prices and move resources to their highest-valued uses. However, most markets are not perfectly competitive because of informational asymmetries and constraints on workers being able to choose a better option if they are underpaid or overcharged.<sup>7</sup>

When a company demanding labor has more market bargaining power than a worker supplying labor, the company can set wages, benefits, and overall job quality for that worker at a level below their true productivity-based value. When a company supplying a good or service has more market bargaining power than a customer demanding that good or service, the company can set prices above their marginal cost of producing of that product.

The imbalance of market power and deviation from perfect competition can be caused by one side of the market being far bigger than the other, and/or one side of the market being far more agile and responsive than the other to market alternatives. In all markets, large corporations are

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<sup>3</sup> Greenlaw, Stephan A. & Shapiro, David. "[10 Introduction to Monopolistic Competition and Oligopoly](#)" Principles of Economics 2e. October 11, 2017.

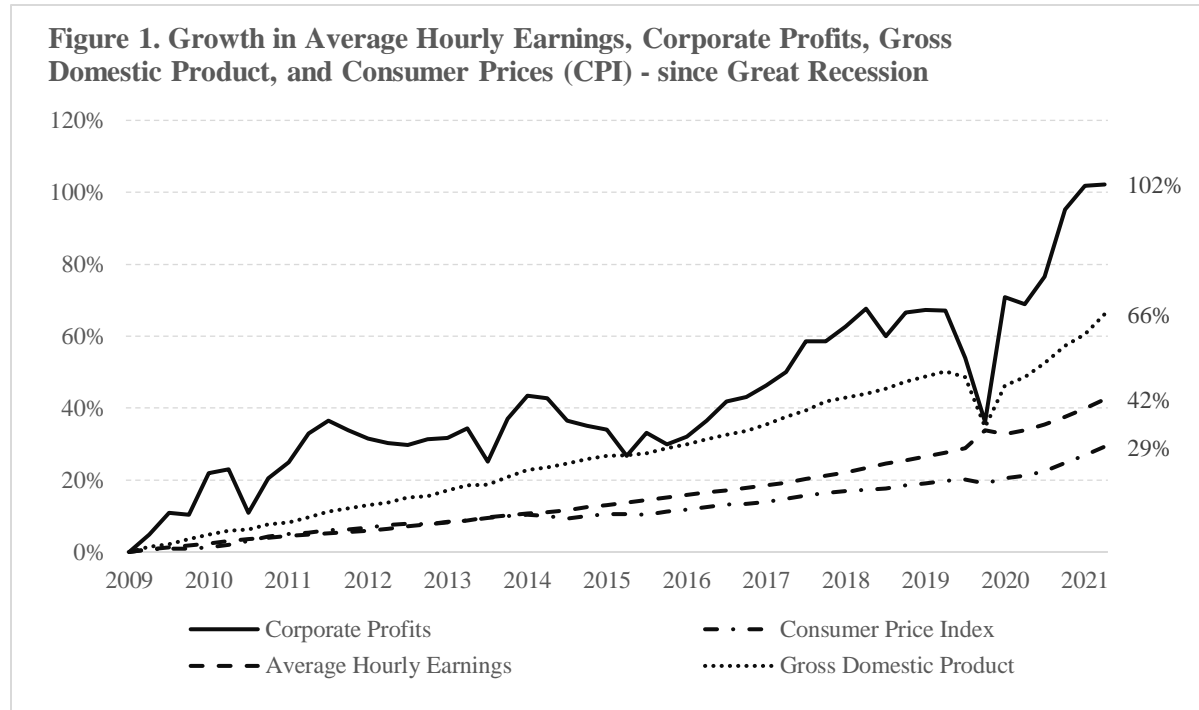
<sup>4</sup>Kokemuller, Neil. "[Difference in Supply Chain Management for a Large & Small Company.](#)" Accessed April 4, 2022.

<sup>5</sup> Econlib "[Market Failures, Public Goods, and Externalities.](#)" Last accessed April 4, 2022.

<sup>6</sup> University of Minnesota Libraries. "[Principles of Economics: 9.1 Perfect Competition: A Model.](#)" Last Accessed April 4, 2022.

<sup>7</sup>Ibid; Healy, Patrick. "[\(Im\)Perfect Competition: Unrealistic Economics or Useful Strategy Tool?](#)" Harvard Business School Online. September 22, 2015.

naturally more likely to hold such outsized market power over their workers, consumers, and business competitors, and that power comes with the ability to set both wages and prices to boost profits and/or shut out competitors. This is evident in that since the end of the Great Recession, and especially since the depths of the COVID-19 pandemic economic recession, corporate profits have grown faster than both wages and prices (Figure 1).



Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis. Data series: Average Hourly Earnings: Production and Nonsupervisory Employees, Total Private; Corporate Profits: After Tax with Inventory Valuation Adjustment and Capital Consumption Adjustment; Consumer Price Index: for All Urban Consumers (CPI-U), All Items in U.S. City Average.

**The Imbalance of Power in Labor Markets: when and how employers can undercompensate workers**

Professor David Card, who was awarded the Nobel Prize in Economics in 2021, addressed the American Economic Association in January 2022 to “make the case that the time has come to recognize that many—or even most—firms have some wage-setting power.”<sup>8</sup> The textbook concept of a pure “monopsony” as a *single* employer (buyer) in a labor market, is the input-side equivalent to a pure “monopoly,” or *single* seller of a consumer product. Economists and lawyers have long recognized it does not require the pure case of just one firm in a product market for a small number of firms to be able to set and collude on product prices, and they have developed antitrust policies to prohibit and police anti-competitive practices towards consumers and competitor firms. Economists and lawyers have historically been less concerned about a single or small number of employer companies within a particular geographic or occupational labor

<sup>8</sup> Card, David. “[Who Set Your Wage?](#)” American Economic Review 2022.

market as setting and colluding on worker compensation—because as Card says, “a common perception (among judges for example) is that the number of potential employers for any given worker is large, and that the market power of employers is therefore negligible.”

Since the mid-1990s, however, an increasing body of economic research (discussed in Card, a recent Treasury Department white paper, and prior testimony by Kate Bahn)<sup>9</sup> has provided empirical evidence that many employers have sufficient market power to set a worker’s wage level rather than accept what a perfectly competitive, productivity-based wage level would be. Treasury’s review of the academic literature finds that wages are on average about 20% lower than what they should be in a perfectly competitive labor market.<sup>10</sup> The employer’s power to pay lower, non-competitive wages occurs even if the firm is not the sole or dominating employer in a worker’s national-level industry or occupation. Research shows some more locally-defined (geographic by occupation) labor markets are in fact highly concentrated—dominated by just a few firms—and pay lower wages, consistent with monopsony wage-setting power.<sup>11</sup>

The Treasury report discusses a few examples of industries and occupations where employers have monopsony-like power to set wages because of their large and dominant share of their industries’ labor markets: hospitals and nurses, stemming from recent industry consolidation; agriculture and food processing, due to geographically-concentrated employment in low-density, generally rural areas; and minor league baseball, as Major League Baseball is the sole employer of minor and major league baseball players. As Dr. Kate Bahn, chief economist for the Washington Center for Equitable Growth, has described in previous testimony, large employers in low-density communities like rural areas and small towns, as the majority retail employer in these places, often pay lower-than-competitive-level wages. As a prime example, Bahn shares research showing that Walmart Supercenters push down both earnings and employment across the counties where they were opened compared to counties where a Walmart Supercenter was proposed but blocked locally.<sup>12</sup>

But concentration—having just a few firms that make up an entire industry or hire an entire occupation—is not the only factor that can lead to a lack of worker power. More broadly (and the Treasury paper argues, more importantly), there is an inherent imbalance of power in the firm-worker relationship, even in labor markets that are not highly concentrated. Workers are always at an informational disadvantage relative to their employers since (for example) the employer knows how much the worker is paid relative to their other employees, and any individual worker often has very limited employment options at any given time, since workers are not constantly on

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<sup>9</sup> Ibid; U.S. Department of the Treasury. [“The State of Labor Market Competition.”](#) March 2022; Bahn, Kate. [“Testimony before the Joint Economic Committee.”](#) July 2021.

<sup>10</sup> U.S. Department of the Treasury. [“The State of Labor Market Competition.”](#) March 2022

<sup>11</sup> These can be considered “local monopsonies.” See [Azar, Marinescu, Steinbaum \(2019\)](#), who use data from the leading employment website CareerBuilder.com to calculate labor market concentration for over 8,000 geographic-occupational labor markets in the US and find that based on DOJ-FTC horizontal merger guidelines, the average market is highly concentrated—and that going from the 25th percentile to the 75th percentile in concentration is associated with a 17% decline in posted wages, suggesting that concentration increases labor market power. Also see [Berger, Herkenhoff, and Mongey \(2022\)](#) who model the general equilibrium effects of locally concentrated labor markets and find sizeable welfare and output losses relative to the perfectly competitive outcome but also note that a *decline* in local concentration between 1977 and 2013 increased labor’s share of national income (GDP).

<sup>12</sup> Bahn, Kate. [“Testimony before the Joint Economic Committee.”](#) July 2021.

the job market.<sup>13</sup> This can make their current employer their only practical option because of a combination of geographic, occupational, and household/family constraints. Sometimes the worker's informational and bargaining disadvantage is because the employment relationship between worker and firm has been "fissured" because the worker is a subcontractor and not a direct employee.<sup>14</sup>

These kinds of constraints on worker mobility—what economists refer to as "frictions" that keep a worker from simply and instantly moving to a better job when they are undervalued at their current job—imply that the inherent power advantage of any employer over any individual worker is a persistent condition that is challenging to change.<sup>15</sup> Additionally, employer policies and practices that are designed to improve employee retention (waiting periods for health or educational benefits, vesting requirements on retirement savings plans, timing of bonuses, etc.) or intentionally lock workers in their jobs (non-compete agreements) can worsen these frictions and discourage or prevent workers from leaving suboptimal jobs.<sup>16</sup> Because any one worker on their own cannot make credible threats to leave their employer, market forces alone cannot correct the imbalance of power.

Workers coming together by organizing as unions is one way to rebalance market bargaining power to get closer to competitive market outcomes—both higher pay and benefits, and increased employment.<sup>17</sup> An Economic Policy Institute analysis finds that on average, a worker covered by a union contract earns 10.2% more in wages than a peer with similar education, occupation, and experience in a nonunionized workplace in the same sector.<sup>18</sup> According to the Bureau of Labor Statistics, more than nine in 10 workers covered by a union contract (95%) have access to employer-sponsored health benefits, compared with just 69% of nonunion workers.<sup>19</sup> Moreover, the benefits of unionization appear to spill over to non-union workers as well, boosting non-union worker wages in the same local labor markets, because non-unionized companies need to compete with unionized companies for workers.<sup>20</sup>

Minimum wage laws, or minimum wage policies set by large employers, can be effective at bringing monopsony-level wages closer to competitive levels where the minimum wage floor is higher than the current wage in a monopsony industry.<sup>21</sup> Moreover, if a company has

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<sup>13</sup> U.S. Department of the Treasury. "[The State of Labor Market Competition.](#)" March 2022; Bahn, Kate. "[Testimony before the Joint Economic Committee.](#)" July 2021.

<sup>14</sup> Bahn, Kate. "[Testimony before the Joint Economic Committee.](#)" July 2021.; Weil, David. "[The Fissured Workplace.](#)" 2021.

<sup>15</sup> U.S. Department of the Treasury. "[The State of Labor Market Competition.](#)" March 2022; Bahn and Shierholz testimonies (for this hearing).

<sup>16</sup> Ibid.

<sup>17</sup> Shierholz testimony (for this hearing).

<sup>18</sup> Banerjee et al. "[Unions Are Not Only Good for Workers, They're Good for Communities and for Democracy.](#)" Economic Policy Institute, December 2021.

<sup>19</sup> Bureau of Labor Statistics (BLS), "[Table 2. Medical Care Benefits: Access, Participation, and Take-Up Rates, March 2021.](#)" *Employee Benefits in the United States*, last modified September 23, 2021.

<sup>20</sup> Shierholz testimony.

<sup>21</sup> Azar et al. "[Minimum Wage Employment Effects and Labor Market Concentration.](#)" July 2019.

monopsony-like power over its labor market, boosting wages closer to a perfectly competitive level results in higher, not reduced, employment.<sup>22</sup>

A February 2022 report by the White House Task Force on Worker Organizing and Empowerment examined the many obstacles workers face in getting fair pay and benefits from their employers, and made recommendations for federal government action designed to: “(1) position the federal government as a model actor; (2) use the federal government’s authority to support worker empowerment by providing information, improving transparency, and making sure existing pro-worker services are delivered in a timely and helpful manner; and (3) use longstanding authority to leverage the federal government’s purchasing and spending power to support workers who are organizing and pro-worker employers.”<sup>23</sup>

Concretely, the report recommended that the Office of Personnel Management remove unnecessary barriers for federal employees to organize, that the Department of Labor become a resource center for businesses and workers looking to better support worker organizing, and that twelve federal agencies attach preferences or otherwise encourage strong labor standards for recipients of federal grants and loans.

Moreover, the Department of the Treasury put forth several recommendations in a March 2022 report entitled “The State of Labor Market Concentration” to increase worker bargaining power. The report calls for Congress to pass the Protecting the Right to Organize (PRO) Act and Public Service Freedom to Negotiate (PSFNA) Act, both of which would ensure that more private- and public-sector workers are guaranteed the right to organize and bargain collectively and promote racial income equality. The report also recommends that Congress pass the National Domestic Workers’ Bill of Rights, which would expand federal labor laws to domestic workers and farmworkers—two industries with particularly weak labor standards. Finally, it calls for the restriction of mandatory arbitration and class action waivers, which would prevent employers from forcing workers to waive judicial paths of dispute settlement, and the passing of the Criminal Antitrust Anti-Retaliation Act of 2019, which would provide legal protections for whistleblowers in antitrust cases.

### **The Imbalance of Power in Product Markets: market concentration and rising prices**

A monopoly industry is when the market for a product (good or service) has only a single *seller* (producer or supplier). This implies the selling firm can choose to charge a higher price to its consumers because it does not face competition from other sellers. If an industry has more than one but only a few sellers, called an oligopoly, prices can be set above the perfectly competitive level if the small number of companies can collude to set a higher price together. Price-fixing behavior in oligopolistic industries happens often enough that there are antitrust laws, including the Sherman Act of 1890, designed to limit it.<sup>24</sup>

Companies with monopolistic or oligopolistic pricing power are more unusual than companies with monopsonistic wage-setting power. Across many economic sectors, particularly in

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<sup>22</sup> Ibid.

<sup>23</sup> Vice President Kamala D. Harris, chair and Secretary of Labor Martin J. Walsh, vice-chair. [“White House Task Force on Worker Organizing and Empowerment: Report to the President.”](#) February 2022.

<sup>24</sup> Federal Trade Commissions. [“The Antitrust Laws.”](#) Last Accessed April 4, 2022.

manufacturing, new businesses enter the economy every day, reducing industrial concentration (of production within a small number of firms) nationwide in many industries.<sup>25</sup> A 2021 ITIF analysis of Census data finds that just 4% of U.S. industries are highly concentrated—and 45% have become less concentrated since 2002.<sup>26</sup> Additionally, unlike workers who suffer an informational disadvantage to their employers over their compensation relative to their productivity, online shopping has made it easy for consumers to comparison shop and for businesses to monitor prices charged by competitors.

A few industries do still consist of a very small number of companies, however, and empirical analysis from economist Hal Singer, Managing Director of Econ One, shows that the most concentrated industries (as measured by 2020 Census data) have seen the largest price increases (as measured by 2021 BLS data on producer price (PPI) inflation).<sup>27</sup> While an overarching factor driving overall price inflation over the pandemic recovery has been the slower-to-recover supply side of the economy catching up to demand, BLS price data show the price increases have been uneven across goods, which is inconsistent with either wage increases or government spending being the sole driver of inflation.<sup>28</sup> Many of the goods with the largest price increases are “necessity” goods (such as food, energy, and household staples)<sup>29</sup> that make up larger fractions of lower-income families’ budgets and also are produced in highly concentrated industries dominated by just a small number of large firms—meaning that companies have substantial market power and capacity to raise both prices and profit margins. Communications between corporations and their shareholders in some of these necessity markets with concentrated production—the poultry industry as one example—indicate that firms may have been raising prices to increase profit margins and not just to cover higher input costs, and general price inflation likely made it easier for the few firms in an industry to coordinate their price increases.<sup>30</sup> As an indication of the unusual price increases in some of these concentrated industries, the wholesale price of chicken has increased by 68% in the past year (March 2021 to March 2022) according to USDA data.<sup>31</sup>

### **The Imbalance of Market Power in Business Competitiveness: how big corporations are advantaged over small businesses**

Input markets include not just labor, but intermediate inputs (the “supply chain”), so dominant firms are the least likely to be adversely affected by supply chain bottlenecks yet are the most

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<sup>25</sup> Atkinson, Robert D. & Lage de Sousa, Filipe. ["No, Monopoly Has Not Grown."](#) Information Technology & Innovation Foundation. June 7, 2021. The standard economic measures of industry concentration are based on data collected by the U.S. Census Bureau, which as part of its quinquennial economic census releases sales data for the 6-digit NAICS industries (e.g., NAICS code 332913 Residential electric lighting fixture manufacturing) consisting of over 850 industries and details the share of sales of firms accounted for by the top 4, 8, 20, and 50 firms in the industry (known as the C4, C8, C20, etc. ratio).

<sup>26</sup>Ibid.

<sup>27</sup>Hal Singer testimony (for this hearing).

<sup>28</sup>Bivens, Josh. ["Inflation and the policy response in 2022."](#) Economic Policy Institute. February 7, 2022.

<sup>29</sup>See February 2022 CPI by detailed consumer goods categories: <https://www.bls.gov/news.release/cpi.t02.htm>

<sup>30</sup>Singer, Hal. ["Antitrust Should Be Used to Fight Inflation."](#) February 2, 2022.

<sup>31</sup> USDA, Economic Research Service

<https://www.ers.usda.gov/webdocs/DataFiles/51875/WholesalePrices.xlsx?v=8631>

likely to be able to cite general price inflation as a reason to raise the prices they charge, even when their own costs have not gone up.

Smaller and new businesses cannot remain competitive against large corporations that buy inputs at lower costs and sell products at higher prices to their established customer base, or against corporations that are able to cover losses in some locations or areas of their business with profits in others.<sup>32</sup> A Wall Street Journal report from April 2021 highlighted how small businesses were struggling to compete with big corporations, especially given the pandemic-induced supply chain bottlenecks<sup>33</sup>:

*“The cost of lumber to build crates and pallets has climbed by 50% to 100%, said Heather Chandler, president of the 40-person company, which sells resealable tape, machinery and other packaging supplies to big consumer-products companies.*

*“One of the biggest challenges of being a small company is we buy from billion-dollar companies and sell to billion-dollar companies,” making it difficult to fend off price increases or pass them on to customers, she said.”*

Groundwork Collaborative reports on a survey released in March this year from the Institute for Local Self Reliance, where “65% of small businesses said that a top challenge was big competitors strong-arming suppliers and receiving special discounts from them, which then delays shipments to small businesses and forces suppliers to charge them more.”<sup>34</sup> Regardless of what motivates suppliers to prioritize bigger businesses over small ones (and acknowledging it makes business sense to fulfill one’s largest orders with one’s most regular customers first), this is just another factor that creates barriers and obstacles for small and independent businesses to remain economically competitive—particularly in resource-constrained times.

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<sup>32</sup>Groundwork Collaborative. [“The Real Culprit Behind Rising Prices: Corporate Greed.”](#) February 2022.

<sup>33</sup>Simon, Ruth & Sebastian, Dave. [“Snarled Supply Chain Trips Up Small Businesses.”](#) Wall Street Journal. April 21, 2021.

<sup>34</sup>Michael Mitchell, Groundwork Collaborative, testimony for this hearing.