



Statement

of

Ryan Bourne

**R. Evan Scharf Chair for the Public Understanding of Economics
Cato Institute**

before the

**Committee on Economic Disparity & Fairness in Growth
United States House of Representatives**

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Re: The Impact of Corporate Power on Workers and Consumers

Chairman Himes, Ranking Member Steil, and Members of the Committee:

My name is Ryan Bourne, and I occupy the R. Evan Scharf Chair for the Public Understanding of Economics at the Cato Institute. I would like to thank the Committee on Economic Disparity & Fairness in Growth for convening this hearing on the Impact of Corporate Power on Workers and Consumers, on April 6, 2022. I am grateful to be able to offer dissent to the view that the U.S. labor market suffers from pervasive and damaging monopsonistic power.

Prior to the pandemic, U.S. unemployment plunged to 3.5 percent, its lowest level in five decades. Earnings growth for workers exceeded growth for managers, and those without bachelor degrees saw faster growth than those with them.

But there was a paradox: the stronger the jobs market became, the more emboldened calls for transforming it got. Whether it was a \$15 federal minimum wage, overhauling union laws, or smothering the gig economy, progressives told us that huge structural problems necessitated labor policies to empower workers.

Economists have different labor market models to assess such proposals. At one end is a perfectly competitive labor market, in which workers are paid the full value of their marginal product. At the other end is monopsony—where a single buyer of labor can depress wages and employment below competitive levels.

Both models are intellectual curiosities. Workers aren't the same, nor have perfect information and mobility. Likewise, most towns and cities don't have one employer. In the real-world, labor markets lie on a spectrum between being “monopsonistic” or “competitiony,” with businesses holding more power where workers are less mobile, value their specific work environments, or suffer from asymmetries of information.

Progressives believe “monopsonistic” labor markets are pervasive, and that policies can raise wages and correct for this perceived power over workers without cost. But though real labor markets aren't perfect, they certainly aren't perfectible by governments. The empirical evidence *on policy* suggests that the proposals we hear discussed to mitigate monopsony would actually harm many workers.

Take the \$15 federal minimum wage idea. It's true that in a monopsonistic labor market, a skillfully set minimum wage can theoretically raise both employment and wage rates - so raising pay and lowering product prices. Yet economists David Neumark and Peter Shirley's review of research since 1992 showed just 6 percent of studies find positive effects on employment of minimum wage rises, against nearly 80 percent that found a negative effect.¹

¹ David Neumark and Peter Shirley, “Myth or Measurement: What Does the New Minimum Wage Research Say about Minimum Wages and Job Loss in the United States?” *National Bureau of Economic Research Working Paper no. 28388* (January 2021), <https://www.nber.org/papers/w28388>.

Many studies, including of McDonald's, childcare, and restaurants have found minimum wage hikes have been passed on into higher prices.² These empirical findings suggest that even existing state minimum wage increases have raised wages beyond levels correcting for monopsony power, so reducing job opportunities for young and unskilled workers and reducing output.³

A federal minimum wage would be a strange tool to correct for localized monopsony power, in any case. Why would market power in rural Mississippi's labor market require the same corrective minimum wage as urban Maryland?⁴ The very best case for using minimum wages to combat monopsony power is as low floors in very local labor markets, not as federal policy.

Similar empirics cast doubt on the efficacy of more unionization. Theoretically, trade unions can offset monopsony power. In reality, union presence tends to reduce job growth at the firm level.⁵ Is this surprising? There is no reason to expect unionization will occur solely at firms with monopsony power, nor that union power will perfectly balance monopsony power. What we do know is that unionized firms struggle with maintaining investments in capital or R&D, harming productivity and lowering wages in the longer-term.⁶

Rather than use these blunt policy tools to try to correct for a theoretical problem, then, politicians would be better off focusing on two broader ambitions to help workers and their families more directly.

² Orley Ashenfelter and Štěpán Jurajda, "Wages, Minimum Wages, and Price Pass-Through: The Case of McDonald's Restaurants," *Princeton University Industrial Relations Section Working Paper* no. 646 (January 2021), <https://dataspace.princeton.edu/handle/88435/dsp01sb397c318>

Sylvia Allegretto and Michael Reich, "Are Local Minimum Wages Absorbed by Price Increases? Estimates from Internet-Based Restaurant Menus," *Sage Journals* 71, issue 1 (June 22, 2017): 35–63.

Jennifer J. Otten et al, "Responding to an Increased Minimum Wage: A Mixed Methods Study of Child Care Businesses during the Implementation of Seattle's Minimum Wage Ordinance," *Social Work and Society International Online Journal* 16, no. 1 (2018), <https://ejournals.bib.uni-wuppertal.de/index.php/sws/article/view/538>.

³ Jeffrey Clemens, "Making Sense of the Minimum Wage: A Roadmap for Navigating Recent Research," Cato Institute Policy Analysis no. 867, May 14, 2019, p. 6-7.

⁴ Ryan Bourne, "The Case against a \$15 Federal Minimum Wage: Q&A," Cato Institute Commentary, February 25, 2021, <https://www.cato.org/commentary/case-against-15-federal-minimum-wage-qa>.

⁵ John T. Addison and Clive R. Belfield, "Unions and Employment Growth: The One Constant?" *Institute for Labor Economics (IZA) Discussion Paper* no. 479 (April 2002), <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.668.8607&rep=rep1&type=pdf>.

⁶ Barry T. Hirsch, "Unions, Dynamism, and Economic Performance," *Institute for Labor Economics (IZA) Discussion Paper* no. 5342 (December 6, 2010) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1720324.

First—undo existing policies that make workers less mobile by occupation and geography. I’m heartened that this administration recognizes that stringent occupational licensing laws and restrictive zoning and land-use planning practices dampen worker mobility and need reform.⁷ It is not surprising that case studies of monopsony power are most convincing in healthcare, where strict licensing and entry regulations, such as certificate of need laws, grant hospitals more localized monopsony power.

Second, recognize that while wages are important, what matters to families is how far wages go in providing a decent standard of living.⁸ Inflationary macroeconomic policies are what’s driving up living costs today. But government policies have raised the structural level of prices for products poorer households spend disproportionately on. Liberalizing zoning, deregulating childcare, removing tariffs on food and inputs, and opening up government procurement processes would make a paycheck go further by lowering prices, without the risks associated with wage controls or more unionization.

⁷ Kyle F. Herkenhoff, Lee E. Ohanian, and Edward C. Prescott, “Tarnishing the Golden and Empire States: Land Use Restrictions and the U.S. Economic Slowdown,” *National Bureau of Economic Research* Working Paper no. 27390 (September 2017), https://www.nber.org/system/files/working_papers/w23790/w23790.pdf.

Joseph Gyourko and Raven Molloy, “Regulation and Housing Supply,” *National Bureau of Economic Research* Working Paper no. 20536 (October 2014), <https://www.nber.org/papers/w20536>.

Mikkel Hermansen, “Occupational licensing and job mobility in the United States,” *OECD Economics Department Working Papers* no. 1585 (December 17, 2019) <https://doi.org/10.1787/4cc19056-en>

⁸ Ryan Bourne, “Government and the Cost of Living: Income-Based vs. Cost-Based Approaches to Alleviating Poverty,” Cato Institute Policy Analysis no. 847, September 4, 2018.