Balancing Power between Workers and Employers Requires Sectoral Bargaining

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About the Author

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Introduction

Full employment policies and strong enforcement of labor laws by federal agencies during the Biden administration have improved labor protections and increased union membership, promoting gains in worker power. Simultaneously, however, the American labor market has continued to experience a growth in employer monopsony that undermines worker power. The administration has attempted to create a balance of power between workers and employers, but additional policies are needed to complement existing efforts. This brief calls for the implementation of sectoral bargaining to enhance worker power so that it can withstand a weakened labor market and counteract anticompetitive corporate practices.

Most workers generally lack the level of wealth or personal savings to be able to leave a job without another one lined up, and the high level of household debt that most families carry makes this even harder. Similarly, modest income assistance programs provided by federal, state, and local governments are not sufficient to allow workers mobility in the labor market. Direct income and in-kind assistance programs like unemployment insurance, food stamps, and Medicaid are extremely limited in both coverage and benefit amounts to households. As a result, workers' power, which is largely tied to their ability to leave bad jobs and find employment elsewhere, is limited except in moments of extreme labor market tightness.

This challenge is exacerbated by high levels of employer concentration. The Biden administration has made considerable improvements in addressing labor noncompliance by increasing labor law enforcement and through rulemaking and clarifying policy guidelines (Hafiz 2022). Currently, however, there is no mechanism through which the federal government can directly address employer monopsony—labor markets where a single or few employers have the power to disproportionately set the terms of wages and working conditions.

The Biden administration has committed to maintaining full employment and combating unfair labor practices (US Department of the Treasury 2022; White House 2023). Yet the administration's executive actions alone cannot correct the power imbalance between workers and employers, which has been shaped by statutory exemptions to federal labor laws (Hafiz 2022). States have a long legacy of structuring labor laws to exclude workers by race, gender, occupation, and industry (Fredrickson 2020). State exemptions to federal labor law fuel discriminatory labor practices and exacerbate the employment and wage loss of women, Black, and brown workers during economic downturns (Wilson and Darity Jr. 2022). As a result, recent gains in worker power driven by a hot labor market will likely recede over time unless legislation directly addresses these structural gaps in labor protections and locks in a new balance of power.

The demand-depressing monetary policies of the Federal Reserve and the risk of a national economic recession are already threatening last year's historic rise in worker power, marked by increased labor leverage, wage growth, and union membership. Stronger collective bargaining laws that reinforce the right to strike and bargain collectively without intimidation from employers can sustain the American labor movement beyond the post-pandemic economic recovery.

This brief discusses the fundamentals of the recent rise in worker power and argues that the hot labor market has not sufficiently curbed employer monopsony power. Achieving a balance between workers and employers requires a powerful labor movement that can push back against unfair labor practices; a sector-wide approach provides the necessary scale to build collective rights for all workers.

Economic Recovery and Worker Power Gains

The American Rescue Plan Act of 2021, and complementary federal policies, drove the American economy into a speedy recovery from its deepest recession since the Great Depression. The unprecedented recovery drove the 12-month moving average of median wage growth to a record high in December 2022 as the bottom quartile of wage earners saw their wages grow by 7.4 percent while all workers' wages grew by 6.3 percent (Federal Reserve of Atlanta 2023). This was the most dramatic instance of wage growth that American workers had experienced in at least a generation.[1] Furthermore, the concentration of wage growth among the lowest-income earners suggests that the economic recovery from the COVID-19 pandemic has brought about a more equitable wage structure and real wage gains for the majority of workers, even after factoring in inflation (Autor et al. 2023; Duran-Franch and Konczal 2021).

Research shows that these wage gains are the product of a similarly unprecedented hot labor market. Full employment policies that increased job growth and consumer spending drove aggregate demand and afforded individual workers the credible threat of quitting amid high labor demand—increasing labor leverage (Sojourner and DiVito 2022). Analysis of data from the Job Openings and Labor Turnover Survey (JOLTS) shows that average monthly quits reached a record high and average monthly layoffs and discharges sat at a record low in

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[1] Data series started in 1997.

2022.[2] The record level of quits reflects a historic number of workers switching jobs to increase compensation and improve working conditions during a period of high job security. The American Rescue Plan Act boosted economic activity at a critical moment of economic uncertainty by providing American households with $1,400-per-person checks, an expanded child tax credit, unemployment insurance supplements, and billions of dollars in grants to small businesses and local governments (White House 2021). The fiscal policy response to the downturn caused by the COVID-19 pandemic contrasted with the US response to the Great Recession in 2009, as the Biden administration focused government stimulus on individual households instead of corporations or the banking sector. In aggregate, these direct stimulus checks contributed more than $242 billion to households.

The worker power gained by full employment policies was complemented by the Biden administration's implementation of executive orders that promoted equality of bargaining power between employers and employees and increased labor market competition for workers. The orders led to the expansion of employer liability to joint employers that indirectly control the terms and conditions of work, including in franchising and subcontracting, greater protections of pro-union expression in the workplace by the National Labor Relations Board, increased conditionality of federal contracts based on firms' ability provide high-quality jobs on a nondiscriminatory basis, stronger review of the labor market competition effects of mergers, and the proposed banning of noncompete agreements (Hafiz 2022). The administration's efforts to level the playing field for workers contributed to a 58 percent increase in union election petitions in the first three quarters of fiscal year 2022 and a 76 percent increase in strikes in the first half of 2022 compared to 2021, nearly tripling the number of workers on strike (National Labor Relations Board 2022).

Post-Pandemic Labor Market Concentration

Despite all the good news, the increases in the labor leverage of individual workers and wage growth have not substantially changed the overall dynamics of the American labor market.

Since the first quarter of 2020, employer monopsony power has increased in most labor markets. Data show that during the past two years of economic recovery, the number of employers posting these jobs has actually declined. An analysis of the ten largest occupational groups in the American labor market shows that all but two have become increasingly concentrated. As a result, since the pandemic, employers have strengthened their ability to dictate the terms of wages and working conditions due to declining levels of competition over workers.

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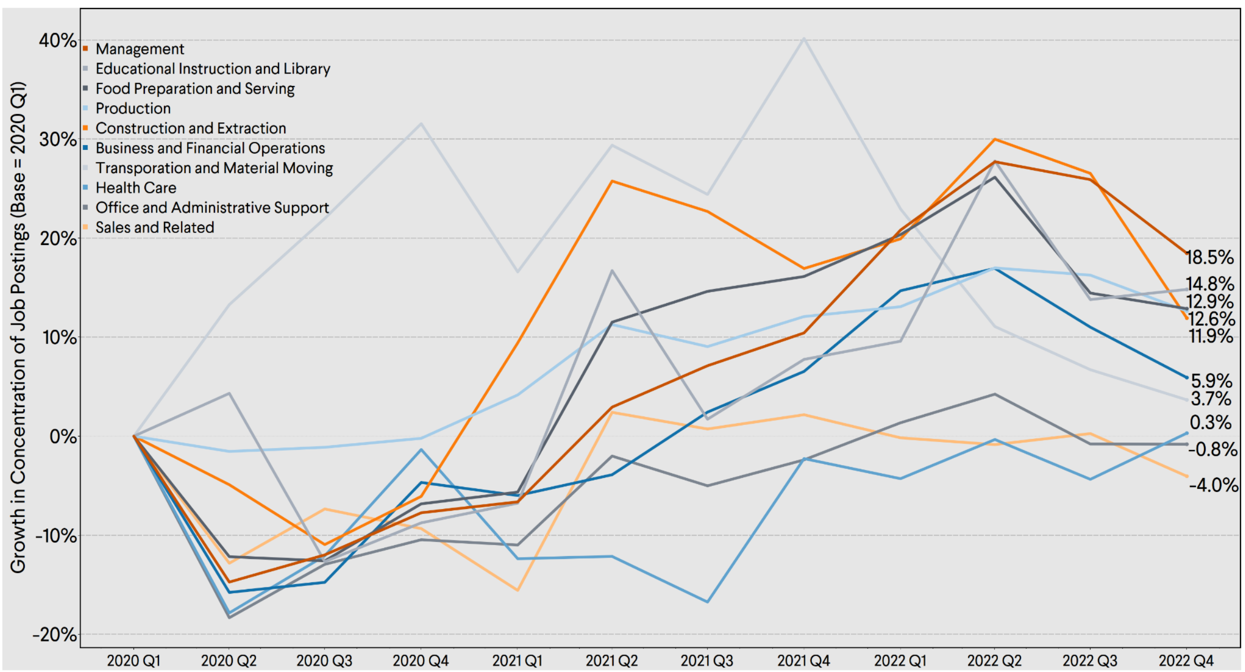
[2] Data series started in 2000.

Furthermore, labor markets have become more concentrated in both service and non-service as well as in high- and low-wage occupations in the last two years. The occupations to experience the greatest increases in market concentration are management occupations, educational instruction and library occupations, and food preparation and serving occupations. Production occupations and construction and extraction occupations round out the top five, all with double-figure increases in labor market concentration. Food preparation and serving occupations have experienced some of the highest wage growth of all occupations during the past two years, but lower labor market competition—known to suppress wages by about 20 percent—has likely undermined the potential wage increases that workers could have achieved, reducing the wage compression that had narrowed pre-pandemic wage disparities (US Department of the Treasury 2022; Autor et al. 2023; Duran-Franch and Konczal 2021).

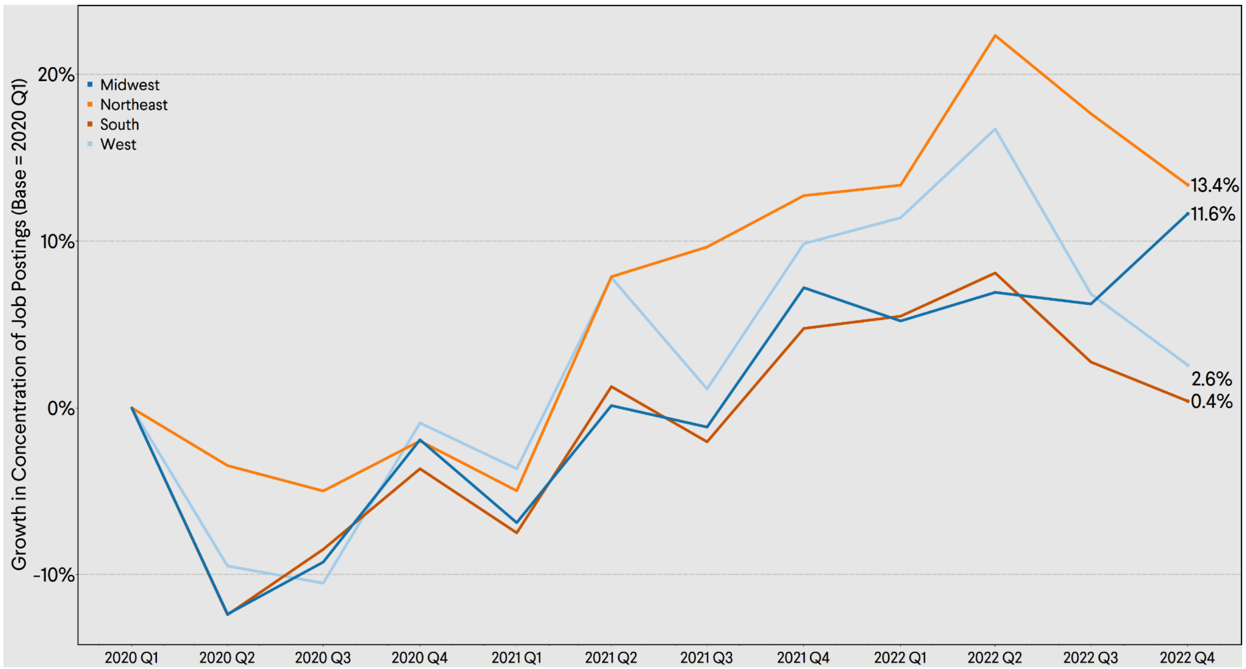
Figure 1. US Quarterly Jobs Postings by Most Common Occupational Groups, Q1 2020 to Q4 2022



Source: Lightcast Monthly Job Postings by Location. Job Postings Concentration = Unique Job Postings / Total Employers Posting. Analysis and graph by the author.

The pattern of increased labor market concentration is evident across regions. Since the first quarter of 2020, each of the four regions defined by the US Census experienced an increasing number of job openings controlled by a diminishing number of employers. The Northeast and Midwest observed double-digit increases in labor market concentration while the South and West experienced modest gains. These findings support past Roosevelt Institute research that found that 17 percent of Americans workers work in highly concentrated markets and 6 percent work in moderately concentrated labor markets—as measured by the market share of each competing firm (Steinbaum 2018). This recent rise of labor market concentration during a period of high economic growth is of particular concern, however, because of the potential role that employer monopsony power may have in undermining the growth of worker power during a historically hot labor market.

Figure 2. US Quarterly Jobs Postings by Region, Q1 2020 to Q4 2022



Source: Lightcast Monthly Job Postings by Location. Job Postings Concentration = Unique Job Postings / Total Employers Posting. Analysis and graph by the author.

The speedy economic recovery and the hot labor market of the past year represent a watershed moment for workers—finally giving them their greatest amount of leverage in decades to demand higher pay and better working conditions. Workers' demands for improved terms of employment translated into 424 work stoppages involving about 224,000 workers in 2022—a 52 percent increase in work stoppages and a 60 percent increase in workers involved from 2021 (Kallas et al. 2023). Yet this analysis suggests that recent gains in worker power may have been undermined by increases in labor market concentration due to both occupational and regional increases in job posting concentration. Similarly, the increase in employer monopsony suggests that these recent gains could be easily undone if the labor market is weakened by the interest rate hikes of the Federal Reserve or an exogenous shock that leads to another economic downturn.

Sectoral Bargaining Balances Power

In light of the concurrent dynamics of wage growth and employer concentration, policymakers should adopt an approach to help lock in the past year's increases in worker power and sustain a high-growth economy.

Sectoral bargaining provides a useful framework for collaboration between workers, employers, and policymakers in which equal bargaining power between workers and employers is achieved (Elrod 2023). Collective bargaining across all firms in a sector directly addresses the problems associated with employer monopsony power by eliminating employers' unilateral control over wage setting for both current and future workers. According to Elrod (2023), fostering tripartite policy-setting through the creation of sectoral wage boards and sector-level collective bargaining creates the ideal conditions to sustain economic growth and improve labor conditions.

Existing American labor law largely limits collective bargaining to individual worksites or firms, with few exceptions. This disjointed approach to collective bargaining in the United States curtails the ability of workers to improve working conditions and allows economic inequalities to persist (Andrias and Brishen 2018). With the addition of sectoral bargaining to worksite-level bargaining, workers could organize a plurality of both union and nonunion workers to bargain for industry-wide wage levels and standardized working conditions.

Additionally, sectoral bargaining could strengthen the American labor movement by complementing the credible threat of switching jobs with the institutionalized threat of sector-wide strikes. Workers' ability to leverage the threat of quitting is limited by their need to be employed. As a result, an individual's credible threat of switching jobs is nullified during periods of low growth. Conversely, collective bargaining reduces employment during periods of economic recession, thereby sustaining the power of the bargaining unit to demand higher wages or improved working conditions irrespective of the state of the economy and labor market (Bustamante 2022).

Sectoral bargaining also provides workers in other non—collectively bargained sectors with higher wages. According to Bassier (2022), positive wage spillovers result when firms involved in sectors with sectoral wage setting are present in a local labor market. Furthermore, sectoral bargaining can have a positive impact on the entire wage structure of a local labor market when firms whose wages are determined by sectoral bargaining experience a large labor share. The provision of a credible employment option in local labor markets constrains the ability of employers to unilaterally set wages, triggering the positive wage spillover.

Conclusion

The current era of increased worker power could quickly vanish. The Federal Reserve intends to bring down inflation by lowering wage growth through interest rate hikes that reduce aggregate demand, and an unexpected shock to the economy has the potential to create mass unemployment. A recession will hurt all workers, but the pain will be disproportionately felt by women, Black, and brown workers. Instead of tighter macroeconomic policy, policymakers should respond to the economic moment by heeding President Biden's call to balance power between employers and employees and implement sectoral bargaining.

Strong labor standards, higher minimum wages, collective bargaining protections, and antitrust enforcement are all critical to prevent corporations from depressing worker wages and concentrating economic gains at the top. Policymakers do not need to choose between lower inflation and higher wages because increased worker power and wage growth among low-paid workers is not contributing to price inflation and low-wage employment has yet to fully recover from the pandemic shock (Schweitzer and Khattar 2022; Bivens 2022).

Policymakers should look beyond the top-line wage growth figures and provide American workers with the support they need to achieve economic security. Workers need more leverage than the credible threat of quitting provides to advocate for higher wages or improved working conditions. Through the mechanism of sectoral bargaining, policymakers can take advantage of the unique increase in worker power of the last two years to revive the American labor movement and lock in the healthy balance of power between workers and employers.

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