

**THE INDIVIDUAL EMPLOYEE IN THE
CONTEXT OF EMPLOYER ASCENDANCY:
NEW-OLD ECONOMIC ANALYSIS**

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ABSTRACT

Through the 1930s, the notion of an inequality of bargaining power between employer and employee provided a rationale for collective bargaining, partly on macroeconomic grounds. More recent economic thinking suggests that in nonunion employment situations, employers will have monopsonistic power, and various aspects of labor-market performance since the 1980s suggest monopsony is present in the workplace. With unions in decline, employer ascendancy in determining wages and conditions of work increasingly provides a rationale for regulating the employment relationship. In the context of employer ascendancy, employee preferences will be underweighted in the employment relationship. Legislative proposals, enactments, and litigation are being considered to re-balance the relationship.

The inequality of bargaining power between employees who do not possess full freedom of association or actual liberty of contract and employers who are organized in the corporate or other forms of ownership association substantially burdens and affects the flow of commerce, and tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry and by preventing the stabilization of competitive wage rates and working conditions within and between industries (Preamble to the Wagner Act [1]).

Since 1953 . . . labor relations in the United States have shifted uninterruptedly to the individual system of representation . . . (Leo Troy, *Beyond Unions and Collective Bargaining* [2, p. 8]).

Does the free labor market adequately protect worker interests? Should public policy regulate the nature of the employment contract and relationship? To some extent, virtually all societies have regulated their labor markets. In many cases, there is far more regulation abroad than is found in the United States. Regulation of such aspects of the labor relationship as vacation time, protection against dismissals, paid family leave, etc., is common in Europe, for example. In the United States, regulation has tended to focus on minimum standards, e.g., a minimum wage, basic safety standards, (some) protections for concerted activity and unionization, and tax incentives to encourage certain kinds of job-related benefits, e.g., health insurance and pensions. The assumption, going back to the 1930s, was that if workers wanted more than the legal minimums or what their employer would voluntarily provide, they had the option of achieving that through collective bargaining.

While labor-market regulation is common around the world, economists have tended to be suspicious of such public interventions. In a competitive labor market, they argue, the interests of both sides—employer and worker—are reflected and mediated in the eventual employment “contract.” Since both sides are balanced in an optimal manner, interventions—whether by government or unions—is a distortion and a departure from optimality. In labor economics textbooks, employer iso-profit lines are shown as harmonized with worker indifference curves, providing a matching of preferences [3]. Although economists recognize some special cases for intervention, e.g., employees lacking complete knowledge of workplace hazards, the default option is one of no intervention unless a particular case can be made for regulation as an exception.

A key question, therefore, is whether a competitive, nonunion labor market in fact mirrors the textbook model. Recent research and analysis in labor economics have raised doubts about the textbook approach. They suggest instead that the “inequality of bargaining power” cited in the Wagner Act preamble [1] must be taken seriously. Not surprisingly, this newer view is controversial. Some of the initial literature on the subject tries to assert that such inequality is either an exception or, if not, it is only a minor deviation from the textbook model [4]. But there is much to suggest in recent labor-market outcomes in the United States that the notion of unequal bargaining power—with the balance of strength on the employer side—has validity.

CHALLENGING THE TEXTBOOK MODEL OF LABOR-MARKET COMPETITION

Of course, the simple textbook model has been challenged before, beginning in the 1970s with work on internal labor markets, implicit contracting, and the “new economics of personnel” [5-8]. But it was not until the 1990s that an extension of “monopsony” analysis came along. Monopsony—dominance by the buyer—the employer in the labor-market context—tends to upset the *laissez-faire* policy presumption. Employee preferences are not ignored by the workings of the monopsonistic marketplace, but they are underweighted. It is that underweighting that undermines the presumption. Absent the presumption, arguments for *laissez-faire* become political assertions rather than assertions based on economic analysis, e.g., the proposition that politicians, as an empirical matter, will make things worse. Or, they become subject to pragmatic empirical tests, e.g., the costs of policing some proposed regulation will exceed the benefits.

The shift in the United States to a largely nonunion private sector (fewer than one in ten private-sector workers were union-represented in 2001) means that “individual representation”—Leo Troy’s phrase quoted above—has supplanted collective bargaining. But although workers have always “represented” themselves to a degree, most employees are not in a position to influence terms and conditions in a meaningful sense if they are acting as individuals. Bargaining power at the individual level is mainly found among movie stars, professional athletes, executives, and certain professionals. Most workers simply accept the terms and conditions offered by their employers’ personnel policies with little or no adjustment—or they look elsewhere for work. In economic parlance, they exercise “exit” rather than effective “voice” [9, 10].

Monopsony as a norm (rather than an unusual condition in the nonunion labor market) suggests a rationale for intervention. But, we must hasten to add, it does not justify all interventions. Thus, we do not argue here that any and all interventions by governments are inherently appropriate or welfare-enhancing. For example, it has been argued that job security protections in some European countries go too far in providing security to incumbents and actually hinder job creation and hiring. That might be true; it could be that some countries have adopted counterproductive labor-market regulations and need to relax them.

Indeed, we are quite willing to note that monopsony in some respects may produce desirable economic outcomes, especially at the macroeconomic level. As we note below, because monopsony tilts the labor market toward labor shortages, it can cushion economic downturns. Unfilled positions are eliminated as a first step when demand for labor declines. Employers in effect “lay off” vacancies before they lay off real workers. But, we argue, making *laissez-faire* the automatic default option is more questionable than economists often assume because of the deleterious consequences for wages and working conditions. These concerns exist apart from the underconsumption argument contained in the preamble to the

Wagner Act [1]. As a result of recent controversy in the literature surrounding the minimum wage in the United States, recognition is increasing among economists of monopsony's importance in ordinary labor markets. But it will take time for such recognition to seep into discussion of public policy. We hope to jump-start that discussion in this article.

INEQUALITY OF BARGAINING POWER: HISTORICAL PERSPECTIVE

Modern U.S. labor law, at least with regard to collective bargaining, begins with the 1935 Wagner Act. It is interesting to note that the 1947 Taft-Hartley and 1959 Landrum-Griffin amendments to the Wagner Act, which were generally aimed at constraining labor unions, nonetheless left the section quoted above from the Wagner Act preamble unchanged [11]. The standard legal interpretation of the Wagner preamble is that it was incorporated to persuade the U.S. Supreme Court that the act was constitutional. And since the Wagner Act followed a series of Court decisions invalidating New Deal legislation, that interpretation is obviously part of the story. In particular, one of the centerpieces of the early New Deal—the 1933 National Industrial Recovery Act (NIRA)—had only recently been declared unconstitutional when the Wagner Act was being enacted [12].

Because the NIRA contained some embryonic protections for collective bargaining and created industry codes to regulate wages and hours, proving a link between collective bargaining protections and the regulation of interstate commerce was undoubtedly necessary for the framers of the successor Wagner Act. However, to make the needed connection to commerce, the preamble argument had to be plausible. And in the 1930s, the notion that the workings of the labor market tended to depress wages and to lead to underconsumption and business downturns did seem plausible across a broad spectrum of political belief. After all, in the early years of the Depression, President Hoover had urged business not to cut wages [13, p. 252; 14, p. 216].

Today, the legislative use of unions as an instrument of macroeconomic policy to smooth out the business cycle—unions as a kind of *ersatz* Federal Reserve—may seem odd. That issue has been discussed elsewhere and is not a concern here [15]. But the old belief in wage repression as a natural outcome of the free (nonunion) labor market has certain microeconomic implications that we focus upon here.

MODERN LABOR-MARKET POLICY

In the post-World War II period, a host of antidiscrimination and affirmative action laws and regulations were adopted with regard to race, sex, disability, etc. These interventions were largely justified on social grounds, i.e., dealing with legacy of slavery, segregation, and prejudices. But there were also significant

federal labor-market regulations adopted in the postwar period that did not have such justification. They were adopted because Congress believed that added protections for workers were needed.

Occupational safety and health regulations and the regulation of pensions and other job-related benefits were enacted in the 1970s [16]. Advance notice of plant closings and mass layoffs was required in the 1980s [17]. Mandated (unpaid) family leaves arrived in the 1990s [18]. State and local governments have also been active across the employment spectrum and in some cases have carried regulation beyond federal standards, most recently through living-wage laws. Hawaii requires employers to provide health insurance through legislation going back to the 1970s. California added *paid* family leave to its disability program in 2002.

Litigation in the employment area has increased, creating concepts such as wrongful discharge as an exception to earlier doctrines of employment at will. As the Dunlop Commission noted, the upsurge in litigation is connected indirectly to the reduction in employee “voice” through unionization [19]. With union-provided voice covering fewer than a tenth of private sector wage earners, litigation becomes an alternative voice channel for the other nine-tenths of private sector workers. Claims raised through antidiscrimination laws often have elements of workplace grievances. Only about one of seven workers in the U.S. labor force is white/Anglo, male, under age 40, and not covered by union or civil service protections. Thus, avenues of litigation through EEO laws and regulations are potentially available to the other six-sevenths. Moreover, workers’ compensation laws can also sometimes function as a *de facto* grievance mechanism, and they provide near-universal workforce coverage.

The propensity to regulate labor-market issues has been projected outward from America’s borders through calls for labor standards to be built into international trade agreements. NAFTA, adopted in the early 1990s, contained a limited reflection of such proposals. The United States has also been subsidizing foreign enforcement of anti-child labor laws [20]. During FY 1995-2001, the U.S. Department of Labor’s International Child Labor Program contributed approximately \$112 million to the International Labor Organization’s International Program on the Elimination of Child Labor. Going back much further in history, the United States—and particularly AFL president Sam Gompers—played an important role in the establishment of the International Labor Organization after World War I [21]. The ILO promotes minimum labor standards regulation around the world.

COMPENSATING DIFFERENTIALS?

The belief of many economists in *laissez-faire* as the default labor-market policy is closely entwined with the notion of compensating wage differentials. Reference to such differentials can be found as early as Adam Smith’s *Wealth*

of Nations [22, pp. 100-106]. If there are costs to providing workplace safety, and if certain workers especially value safety, such workers will accept lower wages in exchange for more safety. The lower wages will compensate employers for the costs of providing safety. Those workers who are not so risk-averse will find jobs with less-safe, but higher-paying, employers.

Competitive free labor markets, it is argued, will best take care of worker preferences for such things as safety, family-leave policies, health insurance, and the like. In contrast, mandating safety, family leaves, or health insurance through regulation will require employees who don't value such terms and conditions highly to accept them anyway and to receive lower pay as a result. Such workers will be made worse off because some arbitrary rule has overridden the compensating wage differential mechanism, so the analysis goes.

To understand the compensating differential idea, it is best to turn to markets that come closer than do labor markets to the textbook competitive model. Consider, for example, the market for bonds. Corporate bonds are more risky than U.S. Treasury bonds. The market therefore determines a higher interest rate for them; those buyers willing to take the risk buy corporates; those unwilling to do so receive a lower rate on their safer treasuries. Within the panoply of corporate securities, highly rated bonds yield less than junk bonds. Within the treasuries, those bonds offering inflation protection provide a guaranteed yield below that of bonds without inflation protection. The bond market, in short, impersonally matches buyer preferences with bond offerings without mandates or similar regulations, through the mechanism of compensating differentials.

But the bond market also provides some clues about the key difference between competitive securities markets and labor markets. Note first that it is rare to hear of chronic "shortages" or "surpluses" of bonds. The bond-pricing mechanism quickly clears any such deficiencies or excesses of supply versus demand. In the labor market, in contrast, labor shortages are not all that rare, and surpluses (unemployment) are the common result of business downturns. In the face of nonclearing markets, the compensating differential story begins to break down.

More telling is the comparison of buyers and sellers in labor markets versus securities markets. Buyers (employers) in the labor market have formal personnel policies. Sellers (workers) are typically confronted with a set wage schedule, a menu of benefits (if any), and a host of other terms and conditions regarding work standards, discipline, etc. These policies are often encapsulated in formal manuals or orientation programs presented by employers to new hires. Although sellers (workers) may have "policies" in the form of "reservation wages" (conditions below which they will not work), these are typically not as elaborate (or even as unbending) as employer policies. In short, employers hire workers. Workers do not hire employers.

In securities markets, buyers typically don't make policies. An impersonal auction-type mechanism determines a price that fluctuates from moment to moment to clear the market. Individual buyers or sellers either buy or sell at that

price—or they don't. Outcomes are determined rapidly by the interaction of all buyers and sellers. Transaction costs are low. If you no longer want the bonds in your portfolio, you can dispose of them easily, providing you accept the market price. You don't "lay off" your bonds; you just sell them. If you want more bonds, you buy them at the market price. You don't offer a host of terms and conditions to the seller. Indeed, there is no ongoing relationship established between buyer and seller.

CHANGES IN THE EMPLOYMENT RELATIONSHIP AND PERSONNEL POLICIES

Journalistic accounts of trends in the employment relationship have painted a dramatic picture of the end of "traditional" jobs and of the abandonment of protective employer attitudes. This picture of the death of job security, of workers who must now fend for themselves, has a grain of truth. And the image has been enhanced by the statements and actions of some of the more flamboyant executives of the 1990s. Thus, former General Electric CEO Jack Welch is quoted as saying, "At the end of the week, we cut you a paycheck; you don't owe me anything and I don't owe you anything. We start fresh on Monday" [23]. Taken literally, this depiction suggests the American workplace has become a day-labor market of the type seen on some urban street corners. Of course, that characterization is a gross exaggeration of the actual trend, as both historical and empirical research demonstrates [24-26].

But the fact that employers have still retained personnel policies that reflect worker perceptions of fairness and interests in security does not suggest that both sides of the labor market have, or are coming to have, equality in bargaining power. And, monopsony in the labor market does not mean that worker needs and desires are blindly ignored by employers. Even if the trend toward less job security is not as dramatic as journalistic accounts depict (or Jack Welch suggests), that outcome simply means that employers still find it in their interest not to disregard worker needs and desires. It says nothing by itself as to whether employees have equality of bargaining power with employers.

On the other hand, some changes in the labor market suggest that incentives have diminished for employers to cater to employee needs.

- Union coverage of the private-sector workforce has declined dramatically. In private employment fewer than one in ten workers now has such coverage. In the 1970s, the rate was roughly double that level. And in the 1950s, it was roughly four times the current level. Nonunion employers through the 1970s seemed concerned with setting their pay and other practices with reference to union bargaining agreements in the hope of avoiding unionization. By the 1990s, fear of unionization for most private employers had substantially declined [27, p. 166; 28]. What economists have termed the "threat effect"

of unions had largely disappeared. Wage and income inequality rose as union coverage eroded.

- The costs of providing job security for many employers have increased, thanks to deregulation and “globalization.” Deregulation allowed competition in previously insulated sectors, such as transportation, financial services, communications, and utilities. Similarly, globalization has meant competition from new areas outside national borders, as well as volatile exchange rates. Few would have seen China as a major trading partner of the United States even in the late 1970s. And sharp changes in currency values were precluded by the system of fixed rates prevalent until the early 1970s. Uncertainty in product markets linked to deregulation and globalization has increased the variability of labor demand.
- A tendency for layoffs to extend into previously insulated managerial and professional ranks first became noticeable in the recession of the early 1990s. White-collar workers who had once been treated as a fixed cost of doing business are now being treated more like production workers [29, pp. 9-10].
- Employer-provided coverage of health insurance and defined-benefit pensions has declined since the 1970s. While some argued that employees preferred defined-contribution plans and 401ks in which they could invest their own money, that argument was hard to make for health care. Did employees really prefer no health care, or *de facto* rationing under managed care and HMOs, to older fee-for-service plans? Investing your own retirement money might have been attractive to some workers while the stock market was rising. But poor stock market performance after early 2000 did not trigger a rush by employers to re-create traditional defined-benefit pensions [30].
- The job tenure of older males, who were the presumed prime beneficiaries of personnel policies catering to seniority, has decreased.

Finally, although journalistic accounts tend to exaggerate trends and statements by CEOs to overstate reality, repeated “end-of-the-job” media stories, and tales of corporate restructuring and downsizing, must themselves have had an influence on employee expectations and on employer personnel policies. As noted below, “benchmarking” is now a fixture of management policy. If some employers are perceived as backing off from various forms of worker protection, other employers would likely emulate such moves.

MONOPSONY AS A SPECIAL CASE

Monopsonistic power implies that the buyer has discretion in setting prices. In the labor market, this translates into employer discretion in setting wages and other terms and conditions of employment. Unlike the bond market, where a buyer either accepts the market price or cannot purchase at all, employers have varying degrees of discretion in establishing pay, benefits, and working

conditions. Surveys of wages by occupation in particular labor markets have long revealed not a single wage, but rather a wage distribution. Some employers can and do choose to pay more than others for a given category of labor, while others choose to pay less. That is the essence of monopsony.

Of course, there are consequences associated with the choice. High payers will benefit from large numbers of applicants for positions and high rates of retention (low quit rates). Low payers will have fewer applicants and higher employee turnover. And not only wages are involved; more attractive benefits and working conditions will attract applicants and retain workers. Minimal benefits and poor conditions will have the opposite effect. All of this is standard fare in the personnel literature [31].

Given these facts of the labor market, it may be surprising that for years labor economics textbooks treated monopsony as a special case. It was associated with “company towns,” with their stereotyped company stores [32, p. 281]. Such towns—sometimes found in the coal industry because of the remote location of mines—were seen to have had a captive labor supply in a way that was presumed not to exist in other “competitive” labor markets. Monopsony was also sometimes linked to employer collusion for certain occupations, notably nursing [33]. A chronic labor shortage in nursing was explained as the result of a *de facto* employer cartel of health-care providers in urban labor markets. Through collusion, such employers were thought to hold down wages of nurses, thus provoking a labor shortage.

Shortages are in fact a characteristic of monopsony, just as surpluses are a characteristic of monopoly. When, for example, the Organization of Petroleum Exporting Countries (OPEC) raises the price of petroleum, it must put quotas on petroleum exports, artificially holding back the quantity sold. Each of the OPEC countries would like to sell more *at the going price* (they thus have a surplus), but doing so would undercut that price. Shading the price to attract sales would erode the cartel. It is optimal, therefore, for OPEC members collectively to live with surplus capacity—a shortage of buyers—and keep the price high.

So, too, is it optimal for a monopsonistic employer or employers to hold down the wage, even though doing so causes a labor shortage *at that going wage*. Thus, in the example above, employers would like to hire more nurses at the going wage but can’t do so. They could raise the wage to eliminate the shortage. But the cost would outweigh the gain of keeping the wage low and living with the shortage.

MONOPSONY AS A NORM

Company towns, and even the nursing labor market, are obviously special cases. However, monopsony could be more ubiquitous than such examples. Economists began to recognize this point as the result of a controversy over the minimum wage. The minimum wage has long been used as a textbook example of seemingly perverse labor-market regulation. Theory says that pushing the wage by fiat above

the level the market would determine should reduce employer demand for labor. Employers might substitute capital for labor or make some other substitution. Or, they might try and pass the wage increase into prices. But at higher prices, consumers would buy less of the product or service they offered, thus reducing the demand for labor. Thus, a minimum wage or minimum wage increase should cause employment displacement, hurting those it was intended to help.

Despite the theory, dramatic examples of such displacements have not been common. Simple before-and-after data typically have not revealed displacement. Usually, some data mining has been needed by researchers to come up with the expected empirical result. In the mid-1990s, a study by David Card and Alan Krueger suggested that a minimum wage increase had no effect on employment. Card and Krueger then put forward a possible monopsony explanation, based on a flow model of labor supply [34, pp. 355-386]. Below we provide more detail on that model, as applied to the larger workforce. But under any monopsony model, pushing up the wage by fiat (or through union bargaining) might actually increase employment or at least not decrease it. In essence, this seemingly odd outcome results from the decrease in labor supply caused by a repressed monopsonistic wage. The repressed wage produces a labor shortage. Pushing up the wage by fiat (or by union bargaining) relieves the shortage.

Not surprisingly, the Card and Krueger study and its monopsony explanation triggered substantial debate. For our purposes, the empirical controversy surrounding the particular minimum wage increases they studied is not important. More significant is the monopsony explanation.

MONOPSONY BY COLLUSION OR COORDINATION

In fact, there are at least two possible monopsony explanations. The nursing case cited earlier involves alleged explicit collusion among employers in a particular industry. However, tacit collusion may be more common. A virtually universal step in setting wages by employers is some formal or informal surveying of what other employers are doing. The mechanism may be an analysis by a trade association or a compensation consultant, or government surveys, or simply phoning the employer down the street to find out what s/he is paying. Such benchmarking is a form of inter-employer coordination, and the line between coordination and collusion can be a fine one. The line can be particularly fuzzy when combined with longstanding findings of employer norms about not raiding one another for workers [35, pp. 40-43].

MONOPSONY THROUGH NORMAL LABOR-MARKET FLOWS

Beyond such tacit collusion, the labor-flow model suggests that even without any collusion or coordination, scope for monopsony will develop in the labor

market. It was this type of model that Card and Krueger suggested as an explanation of their anomalous minimum wage findings. Unlike bond markets, where information is readily available and transactions costs are low, the labor market is characterized by imperfect information and notable costs of job mobility. Workers do not know exactly what wages, benefits, and other terms and conditions are prevalent at other employers. And people do not lightly flit from job to job. But, as noted above, it is likely that higher-paying and more-attractive employers will draw more applicants and experience fewer quits than lower-paying and less-attractive employers. An employer's workforce will shrink if its quits (or terminations) exceed its hires. Its workforce will expand if its quits (or terminations) are less than its hires.

Consider an employer in a "steady state," i.e., a workforce at a constant level because hires = quits. Quits are likely to be proportional to the size of the workforce. That is, if the employer's wage and conditions are associated with a 5% monthly quit rate and the employer has 100 workers, then five will quit each month. If it had started with 120 workers instead of 100, six would have quit, given a 5% quit rate ($.05 \times 120 = 6$). In contrast, its rate of attracting job applicants is associated with the size of the external labor force and not linked to the size of the employer's workforce.

If the employer wants to have a bigger workforce than 100, it could raise its wage. Suppose the higher wage attracted eight workers per month instead of five. And suppose the quit rate fell to 4%. In the first month, the workforce would grow by four workers (8 hires – 4 quits = 4 net new workers). It would keep growing until it reached an employment level of 200. At that point, the inflow of eight newly hired workers would be just balanced by an outflow of eight workers ($.04 \times 200 = 8$ quits). Given the flow model, the firm has discretion over its wage. There really is no single market wage in the way there is a unique market price for a bond. Rather, there is a wage policy that an employer can follow, depending on how many workers it wants to have in the steady state. An employer can choose to be high wage or low wage in varying degrees relative to the market average. In economic terminology, each employer faces an upward-sloping labor supply curve in which higher wages (and benefits and conditions) are associated with a bigger workforce.

Employer discretion in wage policy is the essence of monopsony. Raising the wage to increase labor supply involves the cost of hiring the added worker(s) *plus* a kind of markup reflecting the retention costs of raising wages of the existing workforce (to hold down quits). If the employer hires until cost = benefits, it must recoup the markup by holding down the wages it offers. Should an additional worker somehow appear willing to work at the offered wage, the employer would hire him/her. But unless there is an exogenous increase in labor supply (a surge in immigration?), such an additional worker will not appear unless wages are raised. The employer will thus have a labor shortage in the sense that it would like more workers at the wage it is willing to pay, but it is unwilling to pay more to obtain them.

A LABOR SHORTAGE ECONOMY

If we are looking for signs of a move toward more monopsony (an employer ascendancy in the labor market), we should search for a tendency toward widespread labor shortages without substantial wage inflation during good times. We would also expect recessions to be mild; as described earlier, employers would “lay off” vacancies before they laid off real workers. And if employment held up well despite recession, the recession itself would be mitigated, since employed consumers are more likely to sustain consumer demand.

The U.S. economy has in fact exhibited these traits, not once but twice. In the late 1980s, concerns about widespread labor shortages that would push up wages and create inflation were common. There were indeed labor shortages [36]. But the impact on wage inflation was small, surprising economic policy makers. Despite the shock of the Gulf War, the recession of the early 1990s was mild. The same pattern was repeated in the late 1990s. Labor shortages developed and persisted throughout the country across a broad spectrum of occupations. And, policy makers were again surprised by the lack of inflation and wage pressures despite very low unemployment rates.

The recession of the early 2000s might have been expected to be severe, given the bursting of a stock market bubble and terrorist attacks. But the recession was mild once again [37]. For example, by the end of 2002, the unemployment had risen to 6%. This level was roughly what was attained at the business cycle *peak* of the late 1970s. New claims for unemployment insurance, a proxy for layoffs, were running at about 400,000 per week. This figure was below the weekly levels that resulted from the recession of the early 1990s, despite a decade’s worth of labor-force growth between the two periods. Indeed, it was below the roughly 600,000 levels reached during the slump of the early 1980s, despite two decades of labor-force growth!

INEQUALITY OF BARGAINING POWER

That’s the good news. The bad news is that monopsony represents an imbalance of power in the workplace. Wages, benefits, job security, and other conditions of work will reflect the employer ascendancy implicit in monopsony. Worker preferences will not be ignored; labor-market pressures are still an influence [38]. But they will be underweighted. As noted earlier, the underweighting is a problem, even apart from the underconsumptionist concerns cited by the framers of the Wagner Act.

Not surprisingly, remedies of various types have been offered. Of course, were we back in the 1930s, Wagner-type legislation aimed at fostering collective bargaining might have been proposed. That sort of revamping of labor law, however, seems not to be politically feasible. Unions and their supporters lack the clout to make major changes in the legal framework surrounding collective

bargaining. Indeed, the last major push in the labor law reform direction came in the late 1970s and failed. So other proposals have developed:

- There have been proposals for mandated benefits of various types. In the 1990s, the Clinton administration unsuccessfully pushed for mandated employer-provided health insurance. But it did successfully implement mandatory (unpaid) family leaves. It is likely there will be proposals on an item-by-item basis for more mandates or increments to existing mandates in the future.
- There have been proposals to establish some kind of default explicit employment contracts [39]. Under such proposals, workers would be hired with an explicit contract laying out terms and conditions. Employers could modify the default contract language, but at least the workers would understand their terms and conditions when they were hired.
- There have been proposals to foster employee stock ownership as a way of acquiring greater worker voice in decision making [40]. Conversely, with the bursting of the stock market bubble and the scandals at Enron and elsewhere, there have been proposals to regulate employer handling of 401k plans to avoid coerced, excessive, company stock holdings by workers.
- There have been proposals to foster or mandate some kind of works councils similar to those found in Western Europe, again to add a measure of worker influence in management decisions [41, pp. 282-298; 42]. Survey evidence suggests U.S. workers are attracted to such mechanisms of influence [43].

Employers, naturally, feel besieged by the barrage of federal, state, and local legislation, legislative proposals, and litigation surrounding the employment relationship. Economic theory provided a rationale for laissez-faire in the past, an intellectual defense against excessive regulation and intrusion in the labor market. But the development of monopsony analysis suggests that such a defense is less sustainable today than even a decade ago. It seems inevitable that the re-balancing of the employment relationship will be more and more determined in the political and judicial arenas, given employer labor-market ascendancy in setting terms and conditions of work. In addition, where unions are able, they will use the excesses of that ascendancy as an organizing issue.

CONCLUSIONS

The original premise of the Wagner Act—that there is an inequality of bargaining power between employer and employee—has long been neglected in economic analysis of the labor market and in discussions of public policy. To economists, the simple demand/supply model provides built-in remedies to problems such as safety on the job and provision of benefits such as health care. Once it is recognized that a nonunion labor market is likely to be

monopsonistic, however, it cannot be assumed that the “free” labor market will produce optimum results.

There is much to suggest that the labor market has moved toward monopsony, as union coverage declined to less than one-tenth of the private workforce. Use of litigation to resolve employee complaints has increased, suggesting that “individual representation” does not provide workers with what they consider to be adequate employer standards. Labor shortages during boom periods have become widespread, suggesting wage repression. There has been slippage in such benefit areas as employer-paid health care, and income inequality has increased. Finally, the popular wisdom among human resource managers has moved away from provision of employee security toward declarations that employees should “manage their own careers” and expect less from employers than was once the case.

Contrary to the beliefs of the framers of the Wagner Act, inequality of bargaining power may actually provide some macro benefits in the form of milder recessions. But at the level of the individual employee, monopsony suggests a scope for greater intervention of public policy in determining the nature of the employment relationship. It cannot be assumed that whatever develops in a “free” (nonunion) labor market will be optimal. In the future, labor-market observers should expect vigorous debate about such issues as employer mandates for health insurance and basic pension standards, mechanisms to adjudicate claims of wrongful discharge, and other areas of concern to employees. As the American workforce ages, these issues will come more and more to the forefront of policy debates. Older workers are especially concerned with health benefits, retirement income, and job loss.

ENDNOTES

1. *National Labor Relations Act* (1935), Public Law 74-198.
2. Leo Troy, *Beyond Unions and Collective Bargaining*, Armonk, NY: M. E. Sharpe, 1999.
3. For example (on the issue of safety conditions), see Campbell R. McConnell, Stanley L. Brue, and David A. Macpherson, *Contemporary Labor Economics*, 6th ed., New York: McGraw-Hill Irwin, 2003, pp. 262-264.
4. William M. Boal and Michael R. Ransom, “Monopsony in the Labor Market,” *Journal of Economic Literature*, vol. 35 (March 1997), pp. 86-112.
5. Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis*, Lexington, Mass.: Health, 1971.
6. Edward P. Lazear, *Personnel Economics*, Cambridge, Mass: MIT Press, 1995.
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16. *Occupational Safety and Health Act of 1970*, Public Law 91-596; *Employee Retirement Income Security Act* (1974), Public Law 93-406.
17. *Worker Adjustment and Retraining Notification Act* (1988), Public Law 100-379.
18. *Family and Medical Leave Act of 1993*, Public Law 103-3.
19. *The Dunlop Commission on the Future of Worker-Management Relations: Final Report* (date usually given as 1995, although the report appeared at the end of 1994); available through Catherwood Library Electronic Archive, http://www.ilr.cornell.edu/library/e_archive
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21. Despite the American role in founding the ILO, the United States did not join the organization at the outset due to the growth of isolationism in domestic politics. The United States became a member in 1934 under the Roosevelt administration, but dropped its membership during 1977-1980 due to tensions over anti-Israel ILO policies and other issues related to the Cold War.
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23. The Welch quote appears at www.idgrs.com/events/ctrcc01/pres/peters4.pdf and other Internet addresses.
24. Sanford M. Jacoby, "Melting into Air? Downsizing, Job Stability, and the Future of Work," *Chicago-Kent Law Review*, vol. 92 (2:2000), pp. 1195-1234.
25. David I. Levine, Dale Belman, Gary Charness, Erica L. Groshen, and K. C. O'Shaughnessy, *How New is the "New Employment Contract"?* Kalamazoo, Mich: Upjohn Institute, 2002.
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29. The shift toward white-collar displacement is discussed in Jennifer M. Gardner, "The 1990-91 Recession: How Bad Was the Labor Market?" *Monthly Labor Review*, vol. 117 (July 1994), pp. 3-11.
30. It is interesting to note that unionized nurses began agitating for a shift from defined-contribution to defined-benefit pensions due to the uncertainties of the former. See, for example, Richard Marosi and Charles Ornstein, "Nurses Locked Out in Pension Fight," *Los Angeles Times*, October 24, 2002, p. B3.
31. As a recent example, see Robert L. Heneman, Paul W. Mulvey, Peter V. LeBlanc, "Improving Base Pay ROI by Increasing Employee Knowledge," *WorldatWork Journal*, vol. 11 (Fourth Quarter, 2002), pp. 21-27. If employees understand they are well paid, the authors argue, they are less likely to quit and are more loyal.
32. For example, Bruce E. Kaufman and Julie Hotchkiss, *The Economics of Labor Markets*, 5th ed., New York: Dryden Press, 1999.
33. Douglas Staiger, Joanne Spetz, Ciaran Phibbs, "Is There Monopsony in the Labor Market?: Evidence from a Natural Experiment," working paper 7528, National Bureau of Economic Research, July 1999. Not surprisingly, there is an empirical literature with conflicting results on the degree of monopsony in oft-cited special cases such as historic coal mining towns, nurses, school teachers, and others.
34. David E. Card and Alan B. Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton, N.J.: Princeton University Press, 1995.
35. Charles A. Myers and W. Rupert Maclaurin, *The Movement of Factory Workers: A Study of a New England Industrial Community, 1937-1939 and 1942*, New York: John Wiley and Sons, 1943.
36. Daniel J. B. Mitchell, "Wage Pressures and Labor Shortages: The 1960s and the 1980s," *Brookings Papers on Economic Activity* (2:1989), pp. 191-231.
37. We explore these themes in Daniel J. B. Mitchell and Christopher L. Erickson, "Employer Ascendancy and Macro Performance: *Analysis and Alternatives*," paper presented at the meetings of the International Industrial Relations Association, 4th Congress of the Americas, Toronto, Ontario, Canada, June 28, 2002. The official beginning date of the recession of the early 2000s was set by the National Bureau of Economic Research as March 2001.
38. Thus, in California, the center of the dot.com boom, employer-provided health insurance coverage of the nonelderly population *rose* by a statistically significant amount during 1999-2000, the boom's peak. Source: E. Richard Brown, Shana Alex, and Lida Becerra, "Number of Uninsured Californians Declines to 6.2 Million—2 Million are Eligible for Medi-Cal or Healthy Families," Health Policy Fact Sheet, UCLA Center for Health Policy Research, March 2002. The boom generally tended to halt or reverse the long-term decline in employer-provided health insurance throughout the United States.
39. Richard Edwards, *Rights at Work: Employment Relations in the Post-Union Era*, Washington: Brookings Institution, 1993.
40. Joseph R. Blasi and Douglas Kruse, *The New Owners: The Mass Emergence of Employee Ownership in Public Companies and What It Means to American Business*, Champaign, Ill.: HarperBusiness, 1991.
41. Paul C. Weiler, *Governing the Workplace: The Future of Labor and Employment Law*, Cambridge, Mass: Harvard University Press, 1990.

42. See, more generally, Matthew W. Finkin, ed., *The Legal Future of Employee Representation*, Ithaca, N.Y.: ILR Press, 1994.
43. Richard B. Freeman and Joel Rogers, *What Workers Want*, New York: Russell Sage, 1999.

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