Science & Technology

Why You Didn't Get That Raise

By
David J. Craig
|
Fall 2018

Melinda Fawver / Shutterstock

One of the cardinal rules of economics is that when the unemployment rate drops, wages go up. It’s a matter of supply and demand: if fewer people are searching for work, companies must pay more to hire and retain them.

Yet this principle no longer seems to apply to the American labor market. For the past nine years, unemployment in the US has steadily declined, while the average worker’s pay has barely kept pace with inflation. Economists, searching for explanations, have tended to blame the collapse of labor unions and the fact that many of the jobs created in recent years have been low-paying service positions.

In a forthcoming paper, Columbia economist Suresh Naidu, Microsoft Research economist Glen Weyl, and University of Chicago legal scholar Eric Posner argue that there is another important reason why wages in the US have stagnated: Americans have fewer choices of where to work. The authors say that this development, which is partly the result of a wave of corporate mergers that has swept through American industry since the 1970s, has diminished workers' bargaining power.

"More and more Americans work in labor markets where there are one or two big employers — say, a food-processing plant, a hospital, or a giant retailer — that provide a huge proportion of the available jobs," says Naidu, whose paper will appear in the *Harvard Law Review*. "So unless you're willing to uproot your family or spend years getting retrained, you don't have the option of leaving a position because you're denied a raise. This means that companies have more leverage over workers and can suppress their wages."

Naidu and his coauthors say that there are ready solutions to this problem. For example, the US government could apply the same antitrust laws that it uses to protect consumers from monopolies on products and services to ensure that companies do not become so large that they squelch employment options. They note that on the rare occasions when workers have brought class-action lawsuits against companies for anticompetitive employment practices, US courts have tended to rule in the workers' favor. (The best-known case involved twenty thousand nurses who successfully sued a network of Detroit hospitals for colluding to suppress their pay.) But the Federal Trade Commission has been slow to scrutinize proposed mergers for their impact on workers, the authors say, because of a long-standing assumption that the US labor market is highly competitive and needs little policing.

"Generations of policymakers, legal scholars, and even economists have wrongly assumed that the US labor market can more or less function on autopilot," Naidu says. "But our research shows that the labor market is deeply uncompetitive at its core, and that something needs to be done to make it work better."

Read more from
David J. Craig

Guide to school abbreviations

All categories >
Read more from

David J. Craig