

Declining Worker Power and American Economic Performance

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Overview

- Their Main thesis: Worker power fell, causing a secular decline in (labor rents)/(value added). Falling worker power explains important macro developments better than theories that stress rising market power.
- This view has merit and warrants careful consideration
- With respect to falling worker power and labor rents, I see a more mixed picture than Stansbury & Summers.
- Some evidence on job satisfaction trends
- What's driving the fall in (some) worker rents?
- A flow-based perspective on unemployment trends
- Is promoting labor rents a good idea?

How Big Is the Fall in Worker Rents?

Several reasons to think the fall in (labor rents)/(value added) is smaller than indicated by Table 1 and Figure 6.

1. Omission of financial sector
2. Omission of public sector
3. Spread of occupational licensing and the associated rise in occupational rents.
4. Increased share of labor rents captured by highly compensated employees, as Stansbury & Summers discuss on pp. 50-51.

Pay Premiums in the Financial Sector

- Wage premiums in the financial sector rose from near zero in 1990 to 50% by 2006, according to Philippon and Reshef (2012).
- Stansbury & Summers exclude the financial sector in constructing Table 1 and Figure 6.
- When they redo their calculations for all private industries, including the financial sector, they find a smaller drop in (labor rents/value added). See their Figure A13 and Table A1.

Pay Premiums in the Public Sector

Gittleman and Pierce (2011) study pay premiums for State & Local Government workers relative to private sector workers:

1. Average pay premiums are small when controlling for worker characteristics, large when also controlling for occupation.
2. Mainly due to more generous benefits.
3. Larger premiums in lower and middle deciles of pay distribution, smaller or negative ones in upper deciles.
4. Public sector pay premium has risen substantially since early 1980s.

Occupational Licensing

- The share of workers required to hold a license to do their jobs rose from less than 5% in the 1950s to more than 25% percent by 2008 (Kleiner and Krueger, 2013).
- Licensing rates in the U.S. are now similar to rates in the EU and Japan (Hermansen, 2020).
- Many studies find pay premiums associated with occupational licensing. Gittleman, Klee and Kleiner (2018) estimate an average premium of 7%.
- To be sure, some part of rising occupational rents is probably captured by industry wage premia in the Stansbury & Summers quantification.

Rising Concentration of Labor Rents Among Highly Paid Workers

- Figure VI in Song et al. (2019) shows large within-firm relative wage growth for highly paid workers since early 1980s. The pattern is very striking for the largest firms, which have the most rents to distribute.
- They also find an increased sorting of highly paid workers to high-pay employers.
- A growing concentration of rents among highly compensated employees helps explain the collapse of the employer size-wage premium, since the premium is typically calculated in terms of equal-weighted means over workers.
- See pages 50-51 of Stansbury & Summers as well.

- CPS data are far from ideal for capturing rent shifting to highly paid workers. Two reasons:
 - Top coding of earnings
 - High and rising non-response rates to pay questions among those with very high pay.
- Insofar as labor rents shifted over time to persons with labor income that is unmeasured or poorly measured in the CPS – or out of scope for the CPS – Table 1 and Figure 6 overstate the fall in (labor rents)/(value added).

Workers Have Become More Satisfied with Their Jobs in the Past 20 Years, According to Gallup Data

Among employed persons (full or part time), 18+ years of age, percent who say they are completely or somewhat dissatisfied with their current job in

Time Period	Earnings	Job Security	On-the-Job Stress	Health Insurance	Retirement Plan
1999-2001	30.0	16.5	35.0	27.0	26.5
2002-2004	27.0	15.3	33.0	23.7	24.0
2005-2007	26.0	14.3	29.7	25.3	24.3
2008-2010	27.0	15.0	30.0	22.0	26.0
2011-2013	29.3	16.7	32.7	30.3	27.7
2014-2016	26.0	12.3	30.0	24.7	23.7
2017-2019	21.7	8.7	29.0	25.3	23.0

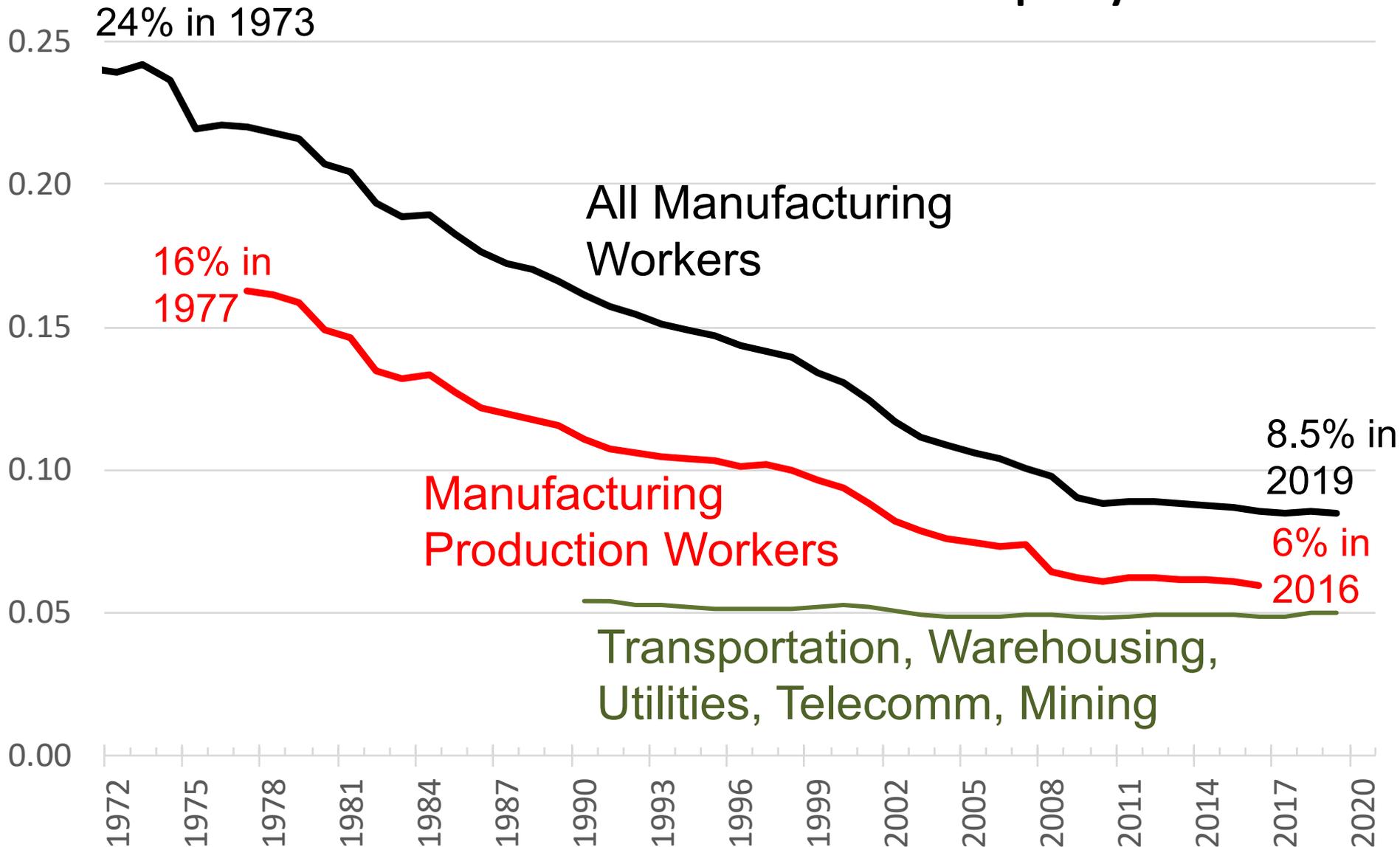
Source: Statistics at <https://news.gallup.com/poll/1720/work-work-place.aspx> from Gallup Work and Education Polls conducted in 1999 and 2001 to 2019. Table entries are averages for the indicated time periods. See Gallup (2020).

What's Behind the Fall in (Some) Worker Rents?

In addition to the forces that Stansbury & Summers stress, I would add:

1. The falling share of employment and pay accounted for by manufacturing jobs, driven by automation and foreign outsourcing. (They discuss this development, but it looms larger in my thinking than it seems to in theirs.)
2. Advances in worker monitoring and tracking technologies

Share of Nonfarm Employees



Notes: Manufacturing and nonfarm employment data from the Current Employment Statistics. Production worker share of manufacturing employment from the Annual Survey of Manufactures.

Manufacturing's Falling Share of Employment and Compensation

- Automation brought huge relative productivity gains in the manufacturing sector in recent decades (e.g., Fort et al., 2018), displacing many jobs.
- Manufacturing jobs also shifted to countries with lower wages, facilitated by lower tariffs, lower shipping costs, better logistics, and advances in supply chain management. (e.g., Elsby et al., 2013)
 - Evidence in Stansbury & Summers Section III.E suggests that rising foreign competition had little impact on wage premia in manufacturing, but the loss of mfg. jobs for given wage premia also contributes to a loss of labor rents.

Manufacturing's Falling Share of Employment and Compensation

- Labor's share in Manufacturing fell from 62% in 1967 to 41% in 2012 (Kehrig and Vincent, 2020).
- From 1987 to 2011, labor's share of value added in the U.S. nonfarm business sector fell by 3.6 percentage points.
- A shift-share exercise finds that this fall is almost entirely accounted for by labor's falling share within Manufacturing (mainly) and (secondarily) Trade, Transport & Utilities. See Table 2 in Elsbey et al. (2013)

Advances in Monitoring Technology

1. Tracking vehicles and workers has become common in trucking, delivery services, and field service operations (Dutta, 2012). Tracking covers vehicle location, speed, idle time, fuel consumption, customer contact, delivery items, and more.
2. Cheap surveillance cameras have made it easier to detect theft, sabotage, and other bad worker conduct.
3. Growing use of employee monitoring software makes it easier to detect and deter shirking.
4. The spread of electronic payment mechanisms reduces opportunities to embezzle cash.

Gartner Research
**Market Guide for Employee-
Monitoring Products
and Services**

Published: 25 February 2015



Summary

EM tools can protect sensitive information and generate positive ROI by increasing the productivity and efficiency of systems and employees. Security officers seek products and services in this market focusing on insider threat mitigation, regulatory compliance and employee productivity.



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The Best Employee Monitoring Software for 2020

By Adam Uzialko, [business.com](#) writer | Updated Mar 06, 2020

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Image Credit: undrey / Getty Images

Advances in Monitoring Technology, 2

1. Better monitoring technologies lower the equilibrium wage premium required to elicit effort and prevent sabotage in efficiency wage models.
2. Conjecture: Better monitoring technologies facilitate “fissuring” by making it easier for firms to outsource non-core labor activities to other firms that specialize in those activities.
 - This type of outsourcing relaxes pay equity constraints, leading to a loss of rents for low-pay workers.
 - It also makes it easier for the firm to de-link its profitability from the compensation of non-core workers.
 - The likely effect is to reduce rents of non-core workers (and perhaps to raise them for core workers).

Flow-Based Perspective on Unemployment, 1

The U.S. unemployment rate is well approximated by the steady-state expression,

$$U \approx U^{SS} = s / (s + f),$$

where s is the monthly unemployment inflow rate and f is the monthly outflow rate.

The table on the next slide uses this expression to account for changes in the U.S. unemployment rate in recent decades. It considers selected years that correspond to cyclical troughs in the unemployment rate. Column (6) says that falling unemployment inflow rates propelled a large downward drift in the cyclically-adjusted unemployment rate in recent decades.

A Flow-Based Accounting of U.S. Unemployment Rate Changes over Time

	Average Value in the Indicated Year				Change from the Indicated Year to 2018		
Year	(1) U	(2) U^{SS}	(3) s	(4) f	(5) Change in U^{SS}	(6) Change in U^{SS} due to Δs for fixed f	(7) Change in U^{SS} Due to Δf for fixed s
1978	6.1	5.7	3.9	64.5	-1.7	-2.6	1.0
1989	5.3	5.1	3.6	68.6	-1.1	-2.2	1.2
2000	4.0	4.0	3.1	74.7	-0.1	-1.4	1.4
2006	4.6	4.7	2.9	58.4	-0.7	-1.2	0.4
2018	4.0	4.0	2.2	52.7			

Reproduced from Davis (2020, work in progress)

What's Behind the Downward Drift in s ?

Crump et al. (2019) highlight four (overlapping) developments behind the fall in s :

- Increased LF attachment of women
- Aging of U.S. population
- Aging of employment-weighted distribution of firms.
- Falling rates of job destruction and reallocation.

My discussion of their paper adds two more:

- The disappearance of short-duration employment relationships
- Falling LF participation in groups with a high propensity for unemployment and unemployment inflows

Most of these developments do not seem closely connected to falling worker power (or rising market power).

Is Promoting Labor Rents a Good Idea?

Be Careful What You Wish For

1. Labor rents distort the allocation of factor inputs and raise unemployment in canonical models.
 - In Bulow and Summers (1986), for example, primary-sector employers pay wage premia to elicit effort from workers. As a result, primary-sector employment is inefficiently low and unemployment is too high, as some workers queue for primary-sector jobs.
 - Better monitoring technologies lead to lower worker rents, higher primary-sector employment, and lower unemployment in the model.

Is Promoting Labor Rents a Good Idea?

2. The spread of occupational licensing raised rents for some workers at the expense of consumers and unlicensed workers.
 - It suppresses worker mobility across jobs, occupations, and states. See Carpenter et al. (2012), the White House (2015), Johnson and Kleiner (2017) and Hermansen (2020).
 - Licensing-induced mobility barriers hinder efficient economic responses to shifts in labor demand across occupations and locations. They also make it harder for households to respond to idiosyncratic shocks that alter their most preferred residential locale.

Is Promoting Labor Rents a Good Idea?

3. High compensation (partly rents) in the financial sector attracts talented workers. Many argue that societal returns would be greater if financial sector pay was lower, prompting some of its talented workers to move to other jobs and sectors.
4. The benefit of labor rents for public sector workers is far from obvious (at least to me). These rents add to the fiscal strain on state and local governments.

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