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Industry concentration contributes to job quality erosion, wage stagnation

August 12 2020

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Cratering job quality and weak wage growth in the U.S. have typically been attributed to a combination of technological change, waning worker bargaining power and increased pressures from trade and financial

markets. But according to research co-written by a University of Illinois, Urbana-Champaign expert who studies economic sociology, increased industry concentration also has dire consequences for workers' wages and job quality.

Dominant firms in concentrated industries can effectively constrain downstream economic opportunities for buyers and suppliers because their transaction partners lack alternatives, thereby making profits for workers to bargain over all the more scarce, said Richard Benton, a professor of labor and employment relations at Illinois.

"When we think about wage stagnation, wage inequality and job quality in the U.S., we don't often think about the role firms play in the marketplace—both on the input side and on the output side," he said. "When you have a supply chain that's dominated by a very powerful firm, or you have entire industries or markets that are dominated by very powerful firms, that makes it more difficult for smaller firms that do business with them to be successful and turn a profit. And that, in turn, shrinks the economic surplus available for workers."

Benton and co-author Ki-Jung Kim, a U. of I. graduate student, calculated market-constraint measures for recent years—1997, 2002, 2007 and 2012—in the U.S. using data on interindustry transactions and linking them with data from the Current Population Survey on individuals' wages and employment benefits.

Market constraint captures the extent to which firms in an industry are heavily dependent on powerful suppliers and buyers in upstream or downstream industries, according to the paper.

"With this approach, we were able to identify the market-constraint effect using individuals' movement between more- and less-constrained industries," Benton said.

The analysis reveals that workers in more buyer-constrained industries—that is, industries at the mercy of the financial decisions of powerful buyers—experience lower wages and benefits. The paper also shows that market constraints reduce the economic surplus available for union bargaining, suggesting that industry concentration curbs wages and harms overall job quality, the researchers say.

"When you're in a market that's not dominated by a singular powerbroker, it's a lot easier for firms to generate profits," Benton said. "But over the last 20 years, we've seen dramatic growth in corporate profits, and part of the reason why is because when you're the singular behemoth in the market, you're in a position to dominate your supply chain. That's one of the reasons why big-box retail stores, for example, turn such a huge profit. It's not just because they control the retail industry. It's because they can exercise that power over their suppliers and effectively dictate their terms to ensure that their prices are as low as they can get it.

"That's great for consumers, but if you couple that with decreased unionization, you have a recipe for declining job quality and wage erosion for people who work at those supplier firms."

Since the 1960s, federal antitrust regulation and enforcement have overwhelmingly focused on protecting consumers against monopolistic practices from suppliers. However, courts have been more forgiving of "monopsonistic conduct"—when buyers engage in anticompetitive behavior and accumulate market power that disadvantages tangential businesses, Benton said.

"Federal antitrust regulation and enforcement have proved particularly ineffective at addressing dependency structures in economic value chains. As a result, concentrated power, particularly buyer power, has generally gone uncontested in the current regulatory framework," he

said. "More broadly, our results strongly suggest that policymakers should consider labor market and inequality consequences of antitrust legislation and enforcement, not just the benefits to consumers."

The findings have important implications for policymakers, pointing to labor unions as "instrumental" to ensuring that profits are shared with workers, Kim said.

"When workers are in an industry that's dominated by very powerful buyers on the output side of the market, it reduces wages and employment benefits such as pensions and health care that would otherwise go to workers," he said. "They're more likely to be captured as profits that are returned to owners or shareholders than they are to workers."

"We need strong unions to make sure that workers are able to bargain for a slice of the pie—and also, perhaps, by focusing on antitrust efforts and competitive supply chains, to grow the pie itself," Benton said. "It's imperative that policymakers strengthen unions and pay attention to this other dimension of antitrust practices."

More information: Richard A. Benton et al, The Dependency Structure of Bad Jobs: How Market Constraint Undermines Job Quality, *ILR Review* (2020). DOI: 10.1177/0019793920936250

Provided by University of Illinois at Urbana-Champaign

Citation: Industry concentration contributes to job quality erosion, wage stagnation (2020, August 12) retrieved 26 April 2024 from https://phys.org/news/2020-08-industry-contributes-job-quality-erosion.html

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