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The Dignity of Work

"21st Century Factory Discipline"

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Chair Brown, Ranking Member Toomey, and the distinguished members of the Committee, I thank you for inviting me to testify before you today. My name is Trevon Logan and I am a professor of economics at The Ohio State University, where I teach courses in economic history and population economics. As an economic historian whose scholarship is focused on understanding the historical roots of contemporary disparities and inequality, I am honored to provide an overview of the evidence on worker well-being and its relationship to aggregate economic conditions, policy, and the role of the financial system in this relationship.

The COVID-19 pandemic presents us with stark and uncompromising evidence that economic inequality in our country has material consequences for worker well-being and, indeed, the overall functioning of our economy. We must recognize the role that government has to play in both setting a floor for working conditions, including a minimum wage that tracks the cost of living, ensuring our labor and product markets are competitive, as well as investing in public goods, such as physical and social infrastructure, that boost productivity and produce high-quality jobs.[1]

I would like to emphasize three dimensions in which we should think about economic performance and material well-being. First, we must improve and invest in accurate measurement of the economy and disaggregated, granular information about the well-being of workers and families. Second, trends in inequality and working conditions today bear an uncomfortable similarity to the late 19th and early 20th centuries, where we know worker well-being was poor despite significant economic growth. Third, these present issues of inequality are related to policy, sometimes in unanticipated ways.

Measuring the Economy and Well-Being

Many times we mistake the tenuous relationship between aggregate measures of economic performance and well-being for being more informative than it is—for example, thinking that economic growth, GDP, or well-controlled inflation are evidence of an economy that is operating appropriately and successfully. While such measures are useful in thinking about trends and long-run changes, it is important to stress several fundamental aspects that should give us pause.

First, aggregate measures tell us less than we would like about well-being, even in a general sense. Average income, for example, may be relatively uninformative about measures of well-being such as health, security, and quality of life. We have seen periods of average income and wages increasing while at the same time household well-being in other dimensions declined. This has happened in the U.S. history and is also one of the hallmarks of the early years of the Industrial Revolution more generally.[2] A period of increasing wages but declining health is not

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[1] Washington Center for Equitable Growth, "More than 200 economists to Congress: Seize "historic opportunity to make long-overdue public investments" to boost economic growth," Press Release, April 6, 2021, available at https://equitablegrowth.org/press/more-than-200-economists-to-congress-seize-historic-opportunity-to-make-long-overdue-public-investments-to-boost-economic-growth/

[2] See, for example, Stephen Nicholas and Richard Steckel, "Heights and Living Standards of English Workers During the Early Years of Industrialization, 1770-1815," *Journal of Economic History* 51 (4) (1991): 937-957. Sara Horrell and Jane Humphries, "Old Questions, New Data, and Alternative Perspectives: Families' Living Standards in the Industrial Revolution," *Journal of Economic History* 52 (4) (1992): 849-880. Timothy Cuff, *The Hidden Cost of Economic Development: The Biological Standard of Living in Antebellum Pennsylvania* (2005). Roderick Floud

unprecedented, and assuming a direct linear relationship between averages in one measure and well-being more generally is often incorrect.

We also have seen stock market returns increasing over the past several months despite increasing precarity in the labor market and as food pantries witnessed unprecedented demand. By one measure our large corporate sector is optimistic and has fully recovered, but by another hunger and starvation are at unprecedented levels. And both can be true simultaneously. An additional example can be seen in something as presumably straightforward as inflation. Economists know well the problems of bias in the CPI, and their impact on federal expenditures and private expenditures tied to it.[3] What is less appreciated is that households of different types are more exposed to some types of price changes than others.[4] A household in a food insecure environment, with limited transportation options, faces much more exposure to increases in food prices than a household who can more easily shift to bulk buying and substituting to cheaper food options. An average change in prices for all households does not reflect the changes for particular groups.

Second, distribution and short-run changes are particularly important. We saw during this pandemic the need to accurately measure such impacts. We would not know that real personal income grew twice as fast for the top 10 percent of income earners following the Great Recession as for the bottom 50 percent without the Bureau of Economic Analysis' new distributed personal income prototype.[5] We would not have known that more than a quarter of households with children were facing food insecurity this summer without granular information from the Census Pulse survey.[6] We would not have known that Black Americans waited an additional week to receive unemployment benefits, on average, without detailed data collection.[7] And we would not have known that more than a decade of gains made in closing the racial disparities in life expectancy between Black and White Americans was erased in one year of a

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Burlington, Robert W. Fogel, Bernard Harris, and Sok Chul Hong, *The Changing Body: Health, Nutrition, and Human Development in the Western World since 1700*, Cambridge: Cambridge University Press (2011).

[3] See Dora Costa, "Estimating Real Income in the US from 1888 to 1994: Correcting CPI Bias Using Engel Curves," *Journal of Political Economy* 109 (6) (2001): 1288-1310. Trevon D. Logan, "Are Engel Curve Estimates of CPI Bias Biased?," *Historical Methods,* 42 (3) (2009): 97-110. Thomas Stapleton, *The Cost of Living in America: A Political History of Economic Statistics, 1880–2000*, Cambridge: Cambridge University Press (2009) for historical CPI bias estimates and corrections.

[4] Xavier Jaravel, "The Unequal Gains from Product Innovations: Evidence from the U.S. Retail Sector," *Quarterly Journal of Economics* 134 (2) (2019): 715-783.

[5] Austin Clemens, "New Great Recession data suggest Congress should go big to spur a broad-based, sustained U.S. economic recovery," Washington Center for Equitable Growth, March 4, 2021, available at https://equitablegrowth.org/new-great-recession-data-suggest-congress-should-go-big-to-spur-a-broad-based-sustained-u-s-economic-recovery

[6] Diane Whitmore Schanzenbach and Abigail Pitts, "Estimates of food insecurity during the COVID-19 crisis: Results from the COVID Impact Survey, Week 1,April 20–26, 2020," Institute for Policy Research Rapid Research Report, available at https://www.ipr.northwestern.edu/news/2020/food-insecurity-triples-for-families-during-covid.html

[7] Jevay Grooms, Alberto Ortega, and Joaquin Alfredo-Angel Rubalcaba, "The COVID-19 public health and economic crises leave vulnerable populations exposed," The Brookings Institution (2020), available at https://www.brookings.edu/blog/up-front/2020/08/13/the-covid-19-public-health-and-economic-crises-leave-vulnerable-populations-exposed/

devastating pandemic.[8] It is critical that we redouble our efforts to collect data that will allow us to understand the ways in which our economy is functioning at a microeconomic way. We have seen a tremendous outpouring of data in light of the COVID-19 pandemic, but at the same time the lack of investment in government statistical data collection hamstrings our ability to understand all features of our economy.[9]

Third, economists have long understood that quality of work is an important dimension to measure the economy. COVID-19 has exposed the growing reconstruction of what has been termed "factory discipline" by economic historians.[10] Factory discipline is a world in which the manager is a de facto authoritarian. They tell workers when they work, control their conduct on the job, and make sure that they stayed on task. A major distinction in this factory discipline system is that workers were rewarded not just for the output that they produce but also for their conduct on the job. There are large and frequent punishments for even minor infractions, and this does not matter if they are related to output. Some economists view this type of discipline as a failure of the free market system. Discipline designed and implemented to coerce workers into doing more than they would have freely chose, in controlling their conduct in a manner approaching abuse, is not a hallmark of a free market economy, in fact, it is the opposite.

In a coercive framework discipline is profitable because you can force workers to exert more effort than they would otherwise choose. Theoretically, in a competitive market employers must pay a "disgust premium" in order to get workers to subject themselves to the conditions of factory discipline. A "disgust premium" is like hazard pay, but instead of being for hazards inherent to the occupation itself (say, a firefighter's risk of harm in preventing the spread of a fire), the premium has to do with the working conditions being relatively intolerable. Now, it has to be true that the disgust premium must be less than the gains that you realize from the increased output. Firms will pay this disgust premium when the amount of fixed capital per worker is high—so it is opportune to industries with extensive capital investment, including automation that must be regularly monitored by workers.

It is important to stress that high levels of fixed capital per worker are consistent with essential worker positions in manufacturing and other industries that could not transition substantially to remote work. We know that essential workers were more likely to be Black Americans, who make up nearly 20 percent of this sector.[11] When we hear stories of extremely long work days with no time for restroom breaks, prohibitions on having a cell phone present on the factory floor, limitations on social interactions with co-workers, and other working conditions that these are modern parts of the discipline in work environments that first appeared with early

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[8]Theresa Andrasfay and Noreen Goldman, "Reductions in 2020 US life expectancy due to COVID-19 and the disproportionate impact on the Black and Latino populations," *Proceedings of the National Academy of Sciences* 118 (5) (2021).

[9] See Austin Clemens and Michael Garvey, "Structural racism and the coronavirus recession highlight why more and better U.S. data need to be widely disaggregated by race and ethnicity," Washington Center for Equitable Growth (2020), available at https://equitablegrowth.org/structural-racism-and-the-coronavirus-recession-highlight-why-more-and-better-u-s-data-need-to-be-widely-disaggregated-by-race-and-ethnicity/

[10] See Gregory Clark, "Factory Discipline," *Journal of Economic History* 54 (1) (1994): 128-163.

[11] Molly Kinder and Tiffany N. Ford, "Black essential workers' lives matter. They deserve real change, not just lip service," The Brookings Institution (2020), available at https://www.brookings.edu/research/black-essential-workers-lives-matter-they-deserve-real-change-not-just-lip-service/

industrialization.[12] This type of discipline can also manifest itself in the way labor is organized in contemporary settings. The use of part-time work, the increasing number of workers who are part time, and the volatility of shift assignments can lead to significant income volatility and poor working conditions.[13]

What I just said should seem to be inconsistent with other facts about the economy that we generally accept. We know that wages of workers have stagnated, and I just noted that there should be a disgust premium for this type of work settings. Over time, either this premium should increase—leading to higher wages, or the working conditions would significantly improve in these industries. Our evidence points to little improvement in working conditions and little movement in real wages. This implies something else is happening to our labor market. Economists have now coalesced around the rise of labor market monopsony as one reason why wages have stagnated and why we can see both high levels of factory discipline, few protections for workers, and flat real wages.[14]

Labor Market Monopsony

Monopsony is a topic rarely taught in a standard introduction to economics course, but it is playing a large role in the way in which we understand the labor market today. In layperson's terms, monopsony is the exact opposite of monopoly, but it has the same effect of distorting the market in uncompetitive ways. We have a monopoly when one firm supplies a good, and we have a monopsony when one firm demands a good. In both cases, the market is inefficient.[15] How does monopsony work? In a labor market, monopsony decreases wages—there is only one employer—and it can increase inequality and can lower productivity. Moreover, the existing scholarship on monopsony shows it to be particularly powerful in low-wage labor markets, where workers have fewer employment substitutes and where other market frictions could strengthen the effects of market concentration on wages, where both the frictions and market concentration have a disproportionate impact on Black workers. [16]

Recent research shows that labor markets with high degrees of market concentration and few employers per sector have lower wages, and that the rise of market concentration is a better explanation of the stagnation in wages for the past 40 years when compared to import

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[12] Michael Sainato, "14-hour days and no bathroom breaks: Amazon's overworked delivery drivers, *The Guardian*, March 11, 2021, available at https://www.theguardian.com/technology/2021/mar/11/amazon-delivery-drivers-bathroom-breaks-unions

[13] James P. Ziliak, Bradley Hardy, and Christopher Bollinger, "Earnings Volatility in America: Evidence from Matched CPS," *Labour Economics* 18 (6) (2011): 742-754. Bradley L. Hardy, "Black Female Earnings and Income Volatility," *The Review of Black Political Economy*. 39 (4) (2012): 465-75.

[14] Given the problems with appropriately measuring CPI, real wages for low-wage workers could not only have stagnated, but they could have declined in the last several decades.

[15] Orley C. Ashenfelter, Henry Farber, and Michael R. Ransom, "Labor Market Monopsony," *Journal of Labor Economics* 28 (2) (2010): 203–10. Sydnee Caldwell and Suresh Naidu, "Wage and employment implications of U.S. labor market monopsony and possible policy solutions," Washington Center for Equitable Growth (2020), available at https://equitablegrowth.org/wage-and-employment-implications-of-u-s-labor-market-monopsony-and-possible-policy-solutions/

[16] Alan B. Krueger and Eric A. Posner, "A Proposal for Protecting Low-Income Workers from Monopsony and Collusion," Policy Proposal 2018-05, The Hamilton Project (2018), available at https://www.hamiltonproject.org/papers/a_proposal_for_protecting_low_income_workers_from_monopsony_and_collusion

competition or automation, which are more recent phenomena.[17] There are also studies which look at particular labor markets, such as those for nurses and in the retail sector, which show that wages do not respond in markets with high levels of market concentration, a sign that competition is stymied.[18]

On the other side of the labor market, recent research analyzing millions of job ads finds that many Americans are located in local labor markets where only a few employers posted the majority of job ads.[19] Even more important, as concentration increases, wages decline dramatically, and this effect is more pronounced in rural areas, which are more likely to be dominated by a small number of employers.

How far could this market concentration reach? The following example from the product market would be useful. In 2008, the U.S. Department of Justice approved the merger of Miller and Coors, at the time the second- and third-largest brewers in the United States, and leaving the market with just one large competitor, Anheuser Bush. When the merger was approved, the Department of Justice reasoned that the decreased cost of beer production would outweigh any anti-competitive forces given the increase in market concentration. While beer prices had been on a downward trend before the merger, they increased immediately after the merger by more than 5 percent in the market. Changes in consumer demand for beer or cost increases do not account for this. Rather, with less competition, the two dominant firms can charge higher prices estimated to be roughly 8 percent higher than what would have prevailed absent the merger, all at the expense of consumers.[20]

The analysis of the market effects of mergers after they are approved is still a relatively new area of research in industrial organization, and the analysis that we have is somewhat limited about the impact of mergers on labor demand and the scope for monopsony.[21] At the same time, some basic facts about the role of market concentration and wages are becoming clear. While productivity has continued to increase, the median pay for American workers has stagnated.[22] There is an abundance of research showing that, overall, labor's share of income has declined over time. This is inconsistent with the gains in productivity and a well-functioning labor market, and the wedge between worker productivity and wages is widening.

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[17]Efraim Benmelech, Nittai Bergman, and Hyunseob Kim, "Strong Employers and Weak Employees: How Does Employer Concentration Affect Wages?," NBER Working Paper 24307 (2018), available at https://www.nber.org/papers/w24307

[18] Jordan D. Matsudaira, "Monopsony in the Low-Wage Labor Market? Evidence from Minimum Nurse Staffing Regulations," *Review of Economics & Statistics* 96 (1) (2014): 92–102. Arindrajit Dube, Laura Giuliano, and Jonathan Leonard, "Fairness and Frictions: The Impact of Unequal Raises on Quit Behavior," *American Economic Review*, 109 (2) (2019): 620-63. Naomi Hausman and Kurt Lavetti, "Physician Practice Organization and Negotiated Prices: Evidence from State Law Changes," *American Economic Journal: Applied Economics* 13 (2) (2021): 258-296.

[19] José Azar, Ioana Marinescu, and Marshall I. Steinbaum, "Labor Market Concentration," NBER Working Paper 24147 (2019), available at https://www.nber.org/papers/w24147

[20] Nathan H. Miller and Matthew Weinberg, "Understanding the Price Effects of the Miller/Coors Joint Venture," *Econometrica*, 85 (6) (2017): 1763-1791.

[21] See Nancy Rose, "Thinking Through Anticompetitive Effects of Mergers on Workers," MIT Working Paper (2019).

[22] Marshall Steinbaum, "Antitrust, the Gig Economy, and Labor Market Power," 82 *Law and Contemporary Problems*, (2019): 45-64.

Workers certainly face a smaller number of employers than before. In the last thirty years small employers have vanished while large companies have become more dominant. Firms with fewer than twenty employees have declined 15 percent as a share of total employment, while firms that have 10,000 or more employees have grown 16 percent in the same timespan. More than a quarter of employment in the United States today is in the largest firms.[23] In the last fifteen years market concentration has accelerated. For example, the two largest firms in hardware stores, shipbuilding, tobacco, pharmacies, car rentals, amusement parks, and mattress manufacturing control over 50 percent of their markets. In some high tech sectors the concentration is even more pronounced: the two largest firms in smartphones and social networking control more than 80 percent of the total market. When one factors in local market concentration, which we typically do not estimate, the situation is even more extreme.[24]

Outside of mergers, market concentration, and monopsony itself is the rise of what I term 21st century factory discipline. This new form of discipline is related to what you can do during and even after your employment ends. Employers now are not only attempting to control the work environment of today, they are also holding workers to agreements that extend beyond their employment. Examples include Non-Compete Agreements and non-poaching agreements among franchisees. Both of these can work to depress wages by structurally reducing labor market mobility, where firms compete for workers who have a choice of whom they will provide their labor to. Recent survey evidence shows that one in five workers with a high school education or less are subject to a noncompete agreement. Non-poaching agreements have also proliferated, and today more than half of all major franchises forbid their franchisees from competing for one another's workers.[25]

New survey evidence shows that Non-Compete Agreements lower workers' earnings and reduce job mobility. Even more alarming is that more granular work shows that if one works in a state with strict NCA laws but lives in a neighboring state without strict NCA laws, the negative effects of the NCAs still hold. Moreover, workers without NCAs can be negatively impacted by workers with NCAs as they have large negative spillovers in the labor market. We now know that NCAs also exacerbate racial wage gaps, accounting for as much as 9 percent of the wage differentials.[26] Workers are not free to search freely for better opportunities to the degree that they were in the past. Discipline within firms still exist, but now the discipline of post-employment options is more prominent than ever, and is related to lower wages.

One particular way in which the financial sector may play a role here is in the rise of passive investing and market segment (common stock) investing in particular. Under the principles of diversification, investors have sought to invest in markets, not companies. Holding shares in a sector fund, for example, make investors relatively agnostic about which particular firm is doing

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[23] David Leonhardt (2018). "Big Business, Squashing Small." *New York Times* June 18, Section A, Page 23 New York Edition.

[24] David Leonhardt (2018). "The Monopolization of America" *New York Times* Nov. 26Section A, Page 23 New York Edition.

[25] Alan B. Krueger and Eric A. Posner, "A Proposal for Protecting Low-Income Workers from Monopsony and Collusion" (2018)

[26] Mathew Johnson, Kurt Lavetti, and Michael Lipsitz, "The Labor Market Effects of Legal Restrictions on Worker Mobility" Working Paper, The Ohio State University (2020), available at http://dx.doi.org/10.2139/ssrn.3455381

best. With more investors following this line of thought and remaining relatively silent shareholders, the rise of monopsony power drives anti-competitive forces in markets as investors are concerned with the sector as opposed to specific firms. Common stock ownership can enhance the market concentration of firms by diminishing the competitive forces of the market—they can unintendedly lead to more apparently collusive behavior that can lead to both monopsony and duopoly style pricing for consumers.[27]

From Discipline to Worker Freedom

There are solutions to this problem. The first is to understand that antitrust law can and should be applied to the potential labor market impacts of monopsony power via market concentration.[28] Second, we discourage the use of NCAs and non-poaching agreements, as both of these harm workers and are against the principles of a free market competition. Indeed, recent research has shown that bans on NCAs increase wages overall by more than 2 percent, and for the workers where the NCAs are more common by even more, as high as 15 percent.[29]Despite the coalescence of research on negative effects of NCAs, nearly 80 percent of states have failed to comprehensively study their NCA statutes, leading to a national patchwork of legal environments.

Both federal antitrust and state NCA law can move us in positive directions, but both of these require investments in items I mentioned at the outset. First, better, broader and more frequent information about workers, wages, and market concentration are needed. We also need to carefully consider the labor market implications of mergers (large and small), and specifically model the potential for market collusion to harm consumers and workers simultaneously. Third, we must begin to think about how the rise of passive investing influences firm competitive decisions, which can give rise to de facto collusion leading to higher prices and lower wages.

A fourth area of focus is to encourage small business development and entrepreneurial activity, the benchmark of market competition and innovation. Our experience from the Paycheck Protection Program shows the ways in which the largest banks have failed small businesses, especially small Black-owned businesses. Black-owned firms faced major delays in securing much-needed PPP funds, and a higher share of Black businesses closed. Part of this is due to many small Black businesses' lack relationships with the largest banks, who dominated the PPP market. We now know that that only a third of healthy or stable Black employers had received bank funding in the past five years, while more than half of White owned businesses have.[30]

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[27] José Azar, Martin C. Schmalz, and Isabel Tecu, "Anticompetitive Effects of Common Ownership," *Journal of Finance*, 73(4) (2018): 1513-1565. Lysle Boller and Fiona Scott Morton, "Testing the Theory of Common Stock Ownership," Working Paper, Yale University (2019).

[28] Suresh Naidu, Eric Posner, and E. Glen Weyl, "Antitrust Remedies for Labor Market Power," 132 *Harvard Law Review* 537 (2018).

[29] Lipsitz, Michael, and Evan Starr, "Low-Wage Workers and the Enforceability of Noncompete Agreements," Forthcoming, *Management Science* (2021).

[30] This is despite Black-owned firms being significantly more likely to be located in COVID-19 hotspots. See Claire Kramer Mills and Jessica Battisto, "Double Jeopardy: COVID-19's Concentrated Health and Wealth Effects in Black Communities," Federal Reserve Bank of New York (2020), available at https://www.newyorkfed.org/medialibrary/media/smallbusiness/DoubleJeopardy_COVID19andBlackOwnedBusinesses. Rob Fairlie, "The Impact of Covid-19 on Small Business Owners: Evidence of Early Stage Losses from the April 2020 Current Population Survey," NBER Working Paper No. 27309 (2020), available at https://www.nber.org/papers/w27309

Lastly, we need to stand firm on economic principles of open, fair, and just market competition, which includes both basic protections for workers and protects their ability to freely move to better opportunities in the workplace.