THE HAMILTON PROJECT

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Information Is Power

Fostering Labor Market Competition through Transparent Wages

Benjamin Harris

MISSION STATEMENT

The Hamilton Project seeks to advance America's promise of opportunity, prosperity, and growth.

We believe that today's increasingly competitive global economy demands public policy ideas commensurate with the challenges of the 21st Century. The Project's economic strategy reflects a judgment that long-term prosperity is best achieved by fostering economic growth and broad participation in that growth, by enhancing individual economic security, and by embracing a role for effective government in making needed public investments.

Our strategy calls for combining public investment, a secure social safety net, and fiscal discipline. In that framework, the Project puts forward innovative proposals from leading economic thinkers — based on credible evidence and experience, not ideology or doctrine — to introduce new and effective policy options into the national debate.

The Project is named after Alexander Hamilton, the nation's first Treasury Secretary, who laid the foundation for the modern American economy. Hamilton stood for sound fiscal policy, believed that broad-based opportunity for advancement would drive American economic growth, and recognized that "prudent aids and encouragements on the part of government" are necessary to enhance and guide market forces. The guiding principles of the Project remain consistent with these views.

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Abstract

Lack of competition in the labor market is gaining attention as a source of wage stagnation in the United States. One component of this challenge is asymmetric information on wages, whereby employers have superior knowledge of the distribution of wages relative to workers. This asymmetry of information is potentially suppressing wage growth as it limits workers' ability and inclination to negotiate for higher pay. This paper advances a five-part proposal to improve wage transparency as a strategy for improving worker bargaining power, and ultimately, raising wages across the income distribution.

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Introduction

Despite steadily increasing productivity, most workers in the United States have experienced stagnant wages over the past four decades. Aside from a brief period of rapid wage gains at the end of the 1990s, strong and persistent wage growth has proven elusive since at least the Nixon administration. Excluding top wage earners reveals a particularly stark trend: the bottom 90 percent of workers have seen cumulative real wage gains of just 15 percent since 1979 (Mishel, Gould, and Bivens 2015).

Labor economists have developed several theories to explain this continued stagnation—and each has merit. One favored explanation has been unequal returns to skilled and unskilled labor owing to advances in technology (dubbed by economists as skill-biased technological change [Autor, Levy, and Murnane 2003]). An attendant cause for a subset of occupations has been pressure from low-wage foreign workers, especially related to Chinese firms' growing access to markets following China's accession to the World Trade Organization in 2001 (Autor, Dorn, and Hanson 2013). Labor economists have also cited the deterioration in pro-labor institutions (e.g., union membership and the federal minimum wage) that has eroded worker bargaining power and pushed down wage growth (DiNardo, Fortin, and Lemieux 1996; Lee 1999).

Recently, economists and others have recognized a fourth explanation for stagnant wages: lack of competition in the labor market. In a competitive labor market, workers' pay is set by the economic value of their work, and not by the firm's bargaining position. A firm that pays a wage below this level will lose all its employees, and firms have no incentive to pay above the market rate. Conversely, a noncompetitive labor market where the firm has power to set wages—called a monopsony—leads to lower levels of employment, depressed wages, and higher firm profits.

Monopsony power can arise for a host of reasons, ranging from lack of other employers to hiring barriers to informational advantages. Many of these barriers have been addressed in other Hamilton Project policy proposals such as a paper by Seth Harris and Alan Krueger (2015) on modernizing labor laws, and a proposal in this volume by Alan Krueger and Eric Posner (2018) on no-poach agreements within franchises. This paper addresses another specific factor impacting labor market competition: lack of wage transparency.

In the U.S. labor market, information on wages and compensation is decidedly asymmetric. Employees frequently do not know how their pay compares to comparable workers, either within or outside their firm, and are reluctant to seek this knowledge out of fear of retaliation, social norms, or general inertia. In stark contrast, many employers use compensation surveys to know precisely where their workers fall in the distribution of wages. In other markets characterized by asymmetric information, the entity with more complete information maintains a distinct advantage (Hart and Holmström 1987); the U.S. labor market is likely no different.

Policymakers at all levels are increasingly taking action to address the problem of information asymmetry, both in terms of making wages more transparent and in banning punitive pay secrecy practices. Between 2000 and 2014 several states passed laws protecting workers who discuss pay levels with their colleagues. In 2014 President Obama issued both an executive order that banned federal contractors from retaliating against employees who discussed wages, and a presidential memorandum calling for contractors to submit summary wage data by sex and race. In 2016 the Equal Employment Opportunity Commission (EEOC) furthered this agenda by calling on large employers to report summary pay data by demographic characteristics. And in the U.S. Congress, lawmakers have proposed the Paycheck Fairness Act (2017), which builds on the Equal Pay Act of 1963 by addressing gender-based inequities in the labor market.

This paper puts forth an aggressive agenda to promote better wage transparency through a five-part proposal. The first two pillars aim to ensure wage information is available to workers. The first pillar of the proposal advocates for states to adopt comprehensive laws, such as those found in Michigan, both to protect workers from employer retaliation for discussing wages, and to discourage employers from asking workers to waive their right to disclose pay. A portion of these laws overlap with the federal protections provided by the National Labor Relations Act (NLRA) and other legislation, but the proposal would provide an extra layer of protection for workers seeking

to gain more information about how their pay compares to that of their coworkers.

The second pillar of the proposal addresses the interrupted progress of a 2016 action by the EEOC that would require large companies to more comprehensively report their compensation data. The action, initiated at the end of the Obama administration and halted by the Trump administration, would have required companies with more than 100 workers to report aggregated wage data by demographic characteristics. Designed to help combat racial and gender discrimination in compensation, the order would also have empowered workers across the economy by enhancing the aggregate pay data collected by the EEOC.

The third and fourth pillars of the proposal are designed to level the playing field with respect to wage transparency by providing workers the same wage information afforded to employers. The third pillar amends an antitrust safe harbor created by federal regulators concerning the sharing of compensation information with competing firms. The proposal would reform the safe harbor guidelines, which protect firms from claims of wage collusion, to require that companies share any commissioned compensation survey data with workers. Such a change might encourage companies to share the results of compensation surveys with workers, but could also lead to lower take-up of these surveys. Either way, workers and firms would have more equal access to wage data.

The fourth pillar explicitly prohibits employers from asking about prior pay levels during the hiring process unless they provide data on the pay of comparable workers. This pillar would either discourage companies from asking about prior pay levels, or help workers form an accurate perception of their standing in their firm's pay scale.

The fifth pillar concerns evaluation of policy efforts to promote wage transparency. The proposal calls for Congress to appropriate a small amount of funds for the U.S. Department of Labor (DOL) to study the impact of wage transparency on compensation levels. If the findings suggest that disclosure can have a marked impact on wage trends, federal and state policymakers should redouble their efforts to foster a more competitive labor market by eliminating any informational disadvantage.

The Challenge

Wage growth since the 1970s has been defined by stagnation and unequal growth. Put simply, most workers have experienced lackluster wage growth in almost all years since that time, while a select share of workers saw sustained gains. The Economic Policy Institute calculates that cumulative real wage growth for the bottom 90 percent of workers amounted to just 15 percent since 1979, compared to real cumulative growth of 138 percent for the top 1 percent of workers (Mishel, Gould, and Bivens 2015). A recent Hamilton Project analysis found similar trends, with the bottom quintile actually seeing falling real wage growth (–0.98 percent), a marked discrepancy from the 27 percent cumulative real increase enjoyed by the top quintile (Shambaugh et al. 2017).

Wage stagnation has been accompanied by a falling share of labor income. This share, which measures the amount of income captured by labor compared to capital, was on a general downward trend between the late 1970s and late 1990s. Around 1997, when labor markets were exceptionally tight and wages grew at their fastest rate in the postwar era, the labor share shot upward from around 60 percent to just above 64 percent. However, beginning with the 2001 recession, labor again began losing out to capital, and the labor share has been falling quickly since then (figure 1).

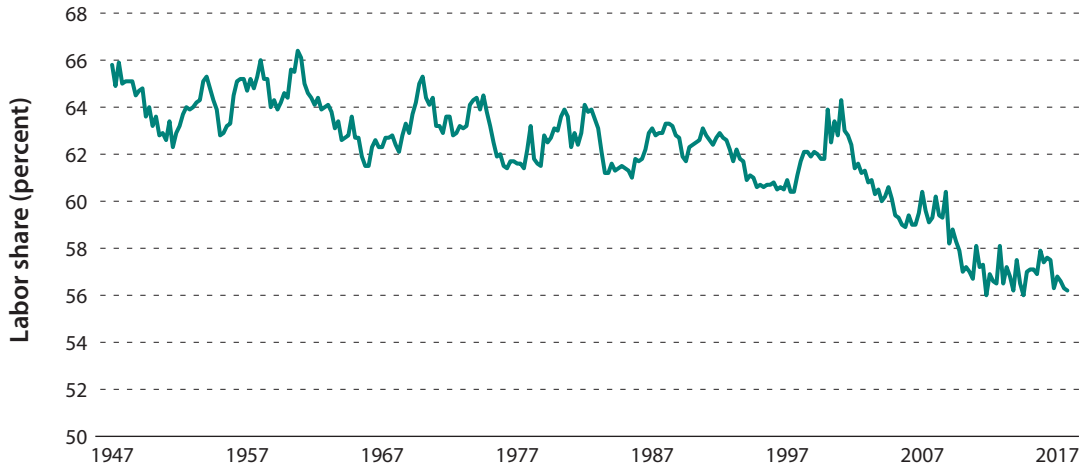
These trends are all subject to plenty of caveats, such as the finding that some of the decline is due to measurement issues (Elsby, Hobijn, and Şahin 2013).[1] But, caveats aside, the basic trends remain: most workers are seeing limited gains and labor has been losing to capital for almost two decades without relief.

Over the past several decades, three primary explanations for these trends have emerged. First, skill-biased technological change has changed the relative demand for highly skilled workers.[2] Automation, which can be considered a corollary to this factor, has also contributed to unequally distributed gains for skilled and unskilled workers. Although these developments have been a net positive for highly skilled workers, low-skilled workers at the bottom end of the wage distribution have fared worse.

A second factor contributing to wage stagnation is exposure to trade. In the 1970s, as lower transportation costs and free

FIGURE 1.

Labor Share of Income, 1947–2017



Source: Bureau of Labor Statistics 1947–2017.

Note: Elsby, Hobijn, and Sahin (2013) calculate that self-employed workers made up 4.8 percentage points of the labor share in the first quarter of 2013.

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trade regimes led to a steep rise in trade intensity, a subset of American workers were increasingly in competition with lower-cost alternatives—especially with workers in less-developed economies. This situation intensified after China joined the World Trade Organization in late 2001, which led to reduced trade barriers with that country.[3] It is worth noting, however, that increased trade intensity also lowered goods prices throughout the U.S. economy, reducing inflation and raising real wages for all workers.[4] From this perspective, increased trade likely had marked net negative impacts on workers and communities that were heavily invested in some types of manufacturing, but had a positive net impact on the rest of the country.

A third type of explanation relates to declines of pro-labor institutions, notably including the real minimum wage and union membership. The federal minimum wage has fallen by more than 25 percent since 1986 in real terms, depressing the wages of workers even well above the minimum wage threshold itself.[5] However, recent legislative actions in states and localities have boosted the effective minimum wage faced by many workers. Declining union membership has also played a major role in wage trends: union membership in the United States has been falling steadily since the 1960s, and today just 6.5 percent of private sector and 34.4 percent of public sector workers belong to a union (Bureau of Labor Statistics [BLS] 2018).[6]

Other factors might be playing a role, too, although their impact is less supported by empirical evidence. Perhaps the most contentious and high profile of these factors is immigration, which studies generally find has a small impact on wages, with some studies finding both positive and negative impacts.[7] A shifting Federal Reserve focus away from full employment, an aging workforce, declining labor force mobility, and job-lock owing to employer-provided health insurance are all potential factors holding down wages.

LABOR MARKET COMPETITION

A fourth explanation for continued wage stagnation has been gaining traction in the past several years and is the focus of this paper: lack of competition in the labor market. The central hypothesis is that firms have gained market power over workers through a number of strategies, enabling firms to increase their profits above what would be expected if the labor market were more competitive. In a labor market monopsony—the labor market equivalent of a monopoly in the product market—firms set wages that will maximize their profits, leading to fewer employees (less employment), lower wages, and lower economic efficiency.[8] The alternative to a monopsony is a perfectly competitive labor market, where firms simply take the market wage as given and workers receive the full market value of their labor.

Firms can gain monopsony power in a variety of ways. Perhaps the most obvious way is for them to acquire market power in a particular labor market by becoming one of a few employers for a given occupation in that area. Alternatively, if there are high costs to workers transferring between firms, companies can pay less than the market rate because employees' costs of switching outweigh potential wage gains. Just as the only carpenter in a town can charge higher-than-market rates due to his monopoly power, a house-building company that is the only employer of carpenters could offer low wages because the workers have no other plausible options.

Other strategies that firms can use to gain a bargaining advantage include non-compete agreements (agreements in labor contracts prohibiting workers from accepting employment with a competitor), mandatory arbitration clauses (labor contract provisions requiring workers to forgo their right to settle disputes in court, and instead engage in arbitration), implicit wage collusion (tacit agreements between employers to pay workers less or to offer lower raises), and no-poaching agreements between franchise owners to not hire workers from other franchise locations. Several Hamilton Project papers, published previously or in this volume, have addressed these issues.

There is growing evidence that some labor markets in the United States exhibit monopsony-like qualities.[9] First, market concentration is increasing: between 1997 and 2012 many sectors saw substantial gains in the revenue share captured by the 50 largest companies. For example, in the retail sector the share of revenue realized by the 50 largest firms rose from 25.7 percent to 36.9 percent; other sectors saw similar patterns (see table 1). In addition, there is evidence that today's workers are less mobile geographically, with interstate mobility falling steadily since at least the 1980s (Molloy, Smith, and Wozniak 2014). This decline has possibly weakened worker bargaining power relative to employers.[10]

WAGE TRANSPARENCY

Lack of wage transparency plays a role in helping employers to gain bargaining power relative to workers. For example, workers are less likely to search for a new, better job if they have incomplete information about their current pay relative to a prospective or anticipated raise. At the extreme, in a perfectly competitive labor market workers leave a firm if they are paid any amount below the market rate. But if the market rate is unknown, or is obscured by firms, workers are less likely to leave for a new firm to secure a competitive wage. In addition, when the market value of some fringe benefits (such as health insurance) is known only to the employer, workers are at a disadvantage when attempting to compare their total compensation to the market rate.

The problem of limited wage transparency is also likely exacerbated by the decline in unionization. When a union

TABLE 1.

Change in Market Concentration by Sector, 1997–2012

Industry	Revenue earned by 50 largest firms, 2012 (billions of dollars)	Revenue share earned by 50 largest firms, 2012	Percentage point change in revenue share earned by 50 largest firms, 1997–2012
Transportation and warehousing	307.9	42.1	11.4
Retail trade	1,555.8	36.9	11.2
Finance and insurance	1,762.7	48.5	9.9
Wholesale trade	2,183.1	27.6	7.3
Real estate rental and leasing	121.6	24.9	5.4
Utilities	367.7	69.1	4.6
Educational services	12.1	22.7	4.2*
Professional, scientific, and technical services	278.2	18.8	2.8*
Arts, entertainment, and recreation	39.5	19.6	2.5*
Administrative/support	159.2	23.7	1.6
Health care and assistance	350.2	17.2	0.8*
Accommodation and food services	149.8	21.2	0.1
Other services and nonpublic administration	46.7	10.9	–0.2*

Source: Furman 2016.

Note: Concentration ratio data is displayed for all North American Industry Classification System (NAICS) sectors for which data are available from 1997 to 2012. Asterisk (*) indicates that the percentage point change is calculated using only taxable firms in that industry.

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negotiates on behalf of workers, it has access to better information than that known by any individual worker. It knows the wages and compensation of all workers covered by the union, and—depending on the circumstances—probably has better information about the distribution of wages in the particular industry and labor market. Whereas the union-employer bargain is not characterized by complete information—unions might not know firm profitability, for example—familiarity with the distribution of wages in a given market puts workers in a stronger position during negotiations.

In the absence of unions, workers can turn to certain public sources of information on wages, including national wage surveys such as the National Compensation Survey, the Occupation Employment Statistics Survey, and the Current Population Survey.[11] These survey data are published by the Bureau of Labor Statistics and show aggregate averages by occupation and/or location—with no additional qualifiers such as years of education, required skills, or seniority. In recent years, websites like Glassdoor have published user-reported wage and compensation levels. And some sectors have legal requirements that wages (and compensation levels) must be published. For example, nonprofits must publish the salaries of their highest-paid employees in tax-filing forms, publicly traded companies must disclose how much their top executives are paid, and in some states public employee salaries are a matter of public record.

These data sources all have considerable weaknesses when it comes to gaining a precise understanding of prevailing wages. Consequently, employers often obtain wage data that are more fine-grained through compensation surveys (also referred to as salary surveys). These surveys are typically either commissioned by individual firms or conducted by human resources consulting companies, and generally provide detailed information on the various components of compensation for a particular job, including the distribution of base pay, fringe benefits, and bonuses. Information on employer characteristics is often collected so that survey users can accurately match data on compensation to their particular circumstances. Although it is difficult to assess the prevalence of such compensation surveys, the practice of conducting such surveys is likely widespread among employers. In 2016 PayScale surveyed 7,700 firms—primarily in the United States and Canada—on their compensation practices, and found that more than half of firms (53 percent) had completed a market study of compensation in the prior year (PayScale 2017).

Firms often justify these market studies or salary surveys on the grounds that their human resources departments are seeking to set wages at a competitive level. Firms worry that if they set wages too low, they will either fail to attract new workers or lose valuable employees to competitors. By better understanding the distribution of wages in a given industry, firms can set wages and compensation competitively. From this perspective, the use of compensation surveys could be considered a pro-competitive instrument that facilitates the setting of wages at market levels.

However, the information provided by these surveys is generally not available to individual workers, giving firms a distinct advantage over employees in pay negotiations. Workers, unaware of the distribution of wages, must accept at face value a firm's statement that it offers competitive compensation.

In other examples of markets characterized by asymmetric information, the participant with the informational advantage achieves a better outcome. Since George Akerlof's (1970) seminal paper on the market for used cars, studies of the impact of information asymmetry abound. Sadler and Sanders (2016) show that asymmetric information between NBA team owners and players improved the owners' bargaining position during lockout negotiations, Aboody and Lev (2000) explore how insider knowledge of research budgets can lead to large stock gains, and Sufi (2007) reveals how asymmetric firm-specific knowledge leads lenders to change how they structure corporate loans.

Although those studies unambiguously find advantages accruing to possessors of asymmetric information, other studies find that effects of wage disclosure are less clear. In a study of the impact of a 2010 California mandate that public manager salaries be disclosed to the public, Alexandre Mas (2017) shows that such disclosure has led to downward pressure on public salaries and a steep increase in resignations—findings he attributes to public perceptions about high government salaries, and that might not be generalizable to a private sector context. Mas (2016) also studied the impact of a Depression-era mandate regarding disclosure of executive salaries, finding that executive salaries generally ratcheted up as a result of such disclosure: lower-paid CEOs within an industry saw their wages increase. Pay disclosure can also impact more than just wage levels: an experimental study (Card et al. 2012) found that workers with relatively low pay reported diminished satisfaction and higher rates of job seeking after learning about their pay relative to others, whereas workers with higher pay reported greater satisfaction and no increase in job seeking.

These studies focused on the impact of legally mandated disclosure of current wages, but individuals can also be sources of their own wage history during pre-employment interviews. Due to social norms or perceived pressure from the interviewer, prospective employees often surrender their informational advantage in the form of their own earnings history. Indeed, roughly half—47 percent—of all workers reported that the interviewing firm knew their wage history before making an offer (Hall and Krueger 2012). Some research suggests that this voluntary wage history disclosure leads to lower initial wage offers. For example, Barach and Horton (2017) found that restricting employers from accessing wage histories boosted the initial wage offer by 9 percent.

In sum, the stagnant wage growth over the past several decades can be attributed to a host of factors, including lack of competition in the labor market. Diminished competition itself could be due to a variety of factors, but lack of wage transparency appears to play a role in shifting bargaining power toward employers. In the next section I present a series of policy remedies aimed at equalizing access to wage data and improving competition in the U.S. labor market.

A New Approach

Laws to promote widespread wage disclosure are gaining popularity. An increasing number of states are passing antiretaliation laws that prohibit employers from punishing workers for discussing pay. The Obama administration took a series of steps to collect wage data more effectively as a strategy for combating gender and race discrimination. In 2017 Germany passed a law that empowers workers to request data on the compensation of their peers, and that offers arbitration if the worker believes her compensation to be below her economic value. And in the U.S. Congress, lawmakers have proposed the Paycheck Fairness Act to prohibit employer retaliation against workers who share wage information.

This paper contains five distinct policy proposals for improving wage transparency in the United States. The overarching goal is to create the conditions for a more fully competitive labor market. The guiding principle of these proposals is to promote symmetric information: data on wages available to firms should also be available to workers. Whereas recent policies have seen wage transparency as an antidote to discrimination in the labor market, this paper takes the view that wage disclosure is an antidote to lack of competition.

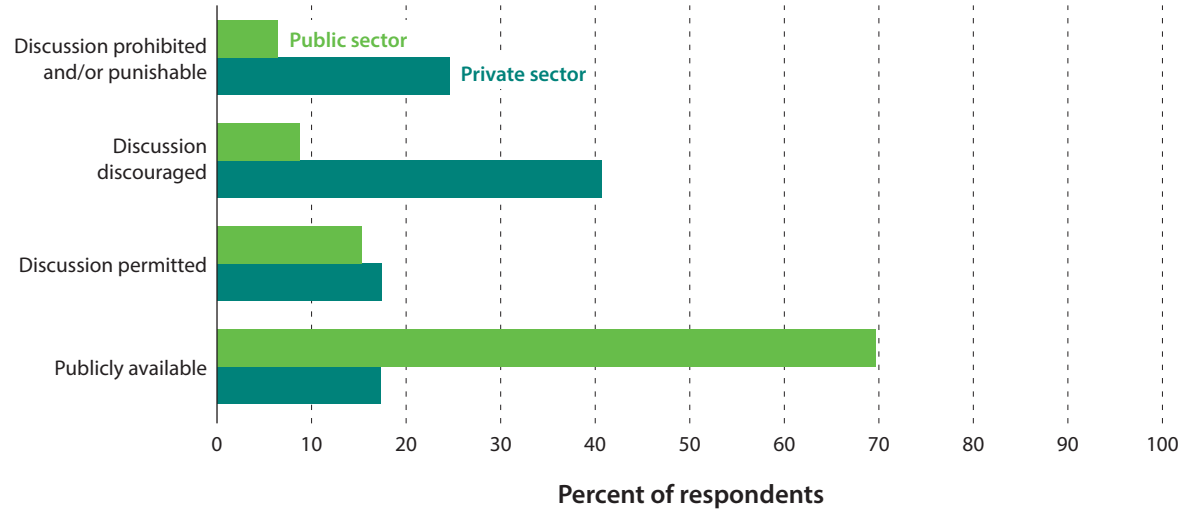
PILLAR ONE: ENACT STATE LAWS TO PROTECT WORKERS WHO DISCUSS PAY

Discussing pay is one way for workers to determine if they are being paid fairly. The right to discuss pay is partially protected by the NLRA of 1935, which states that workers are allowed to engage in "concerted activities for the purpose of collective bargaining or other mutual aid or protection" (Section 7), and Title VII of the Civil Rights Act of 1964. Yet the protection is not absolute. Supervisors, independent contractors, agricultural workers, and public sector workers are among those not covered by the law. More importantly, employers who violate the law are typically subject only to minor fines and penalties.

Perhaps due to the lack of strong incentives to comply with the law, many workers report pressures in the workplace discouraging an open dialogue about pay. In a 2010 survey conducted by the Institute for Women's Policy Research and

FIGURE 2.

Access to Wage and Salary Information, by Employment Sector



Source: IWPR/Rockefeller Survey of Economic Security 2010.

Note: Calculations based on responses from 879 wage and salary workers. The sample was weighted using a post-stratification weight constructed to match the distribution of the U.S. population observed in the American Community Survey. 57 nonresponses were excluded from the total when calculating percentages.

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the Rockefeller Survey of Economic Security, nearly two-thirds of private sector respondents reported they were subject to pay secrecy at their job (Hayes and Hartmann 2011). 24.6 percent of private sector respondents said that discussion of wages was formally prohibited, while 40.6 percent said discussion was discouraged by managers. Just 17.3 percent indicated that they worked at a company where wages were public, and the remaining 17.4 percent reported that discussion was permitted (see figure 2).

States have tried to address the disconnect between the protection provided by the NLRA and workers' reports of mandatory pay secrecy. As of this writing fifteen states and the District of Columbia have laws that explicitly prohibit employers from retaliating against workers who discuss pay. In 1982 Michigan was the first state to enact a pay secrecy law, prohibiting retaliation against workers for discussing pay and prohibiting employers from requiring workers to waive their right to discuss pay. California passed a similar law in 1985. Since then, twelve additional states including Colorado, Connecticut, Illinois, Louisiana, Maine, Maryland, Minnesota, New Hampshire, New Jersey, New York, Oregon, and Vermont, as well as the District of Columbia have passed wage secrecy laws (DOL 2016).

The scope of the various state antisecrecy laws vary. All these laws carry antiretaliation provisions that restrict employers from punishing, by firing or otherwise, workers who discuss compensation for the purpose of achieving equal pay. For example, the relevant statute in Maine states, "An employer may not discharge or discriminate against any employee by reason of any action taken by such employee to invoke or assist in any manner the enforcement of this section. An employer may not prohibit an employee from disclosing the employee's own wages or from inquiring about another employee's wages if the purpose of the disclosure or inquiry is to enforce the rights granted by this section" (Maine Legislature 2009). States vary in how much worker protection they offer. For example, some states—such as Colorado—restrict their protection to workers covered by the NLRA, while other states do not make this distinction. In addition, several states prohibit employers from contractually limiting wage transparency. For example, Michigan's law states that employers are not permitted to require employees to sign a nondisclosure clause regarding compensation or require that employees waive their right to disclose wages.

The proposal here is straightforward: state legislatures that have not yet adopted laws protecting workers from employer retaliation for pay disclosure should do so. Laws should be broadly written along the lines found in Michigan's statute, such that workers are protected from retaliation and employers are prohibited from requiring that workers sign clauses restricting pay disclosure.

These state-level strategies are still being evaluated. If they eventually prove less effective than had been hoped, a potential extension of the proposal would be for states to adopt laws explicitly prohibiting employers from including anti-disclosure clauses in contracts, rather than simply requiring that workers be permitted to decline to sign the clauses without loss of employment. Such an extension would nearly eradicate the practice of employers exerting pressure on workers to withhold wage information, but could lead to adverse consequences for industries and occupations with legitimate need for nondisclosure of compensation.

PILLAR TWO: REQUIRE LARGE FIRMS TO DISCLOSE PAY TRENDS TO THE EEOC

In January 2016 the EEOC and the DOL announced plans to begin collecting wage data by gender, race, and ethnicity from large employers. The change would have required employers with more than 100 workers to submit aggregated wage and hours data across job categories, pay bands, and demographic characteristics. The announcement built on a 2014 presidential memorandum calling on the secretary of labor to investigate new strategies for requiring federal contractors to report similar data. The revised form would have gone into effect with a March 2018 filing deadline, and was estimated to impact more than 63 million workers. The EEOC would have collected these data through a revision to the EEO-1 form, an annual filing requirement for a subset of private sector firms to report employment data by race, gender, and ethnicity; the revised form would collect data on pay, in addition to employment. To be clear, the revision to the EEO-1 forms would not have revealed individuals' wages, or even average wages at specific firms. But the action, coupled with the earlier requirement of federal contractors, would have represented an important shift in the reporting of wages.

In August 2017 the Trump administration effectively halted the move when the Office of Management and Budget (OMB) issued a stay against the implementation of the revised form. In the memorandum from Neomi Rao, administrator of the Office of Information and Regulatory Affairs, the Trump administration stated that "OMB is concerned that some aspects of the revised collection of information lack practical utility, are unnecessarily burdensome, and do not adequately address privacy and confidentiality issues" (OMB 2017, 2). In effect, the Trump administration took the position that the benefits of additional transparency for employees were not worth the regulatory burden on employers.

OMB should lift the stay on the revision to form EEO-1. Revising the form would have three distinct impacts on wages. First, the revised data-collection process would have provided companies with an opportunity to address gender and racial inequities themselves. The oft-cited example is the

company Salesforce, which—along with other companies—signed a White House–initiated pledge to address gender pay inequities (White House 2016). Salesforce regularly reviews its compensation structures to identify inequities, and in recent years has twice adjusted its pay levels to account for glaring discrepancies. The aspiration of President Obama's executive order was to induce similar reviews at other companies.

Second, the development would also have better enabled the EEOC to undertake reviews of companies that exhibited evidence of pay disparities. Although discrimination based on gender, race, and ethnicity is illegal under the Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, and subsequent legislation, the mechanisms for identifying disparities are weak and often based on reports from workers about discrimination. (In fiscal year 2016, the EEOC received roughly 92,000 charges of workplace discrimination [EEOC 2016].) The challenge, of course, is that workers might not know when they face discrimination if they do not have detailed information about their company's compensation practices. The newly collected aggregated data would have been a useful first screen for the EEOC to investigate wage disparities.

Third, the revised EEO-1 form would have furthered a growing shift in workplace culture toward more transparency about worker pay. The evidence here is simply anecdotal, but there appears to be a growing number of companies willing to publicly unveil their compensation data. For example, the tech start-up company Buffer openly posts every employee's salary, along with title, location, and start date. This voluntary transparency is further complemented by growing datasets of self-reports by individuals on websites such as Glassdoor and PayScale. Importantly, a revised EEO-1 form would allow researchers, advocates, and workers to access wage data in aggregate form, providing increased aggregate pay transparency. The revised form would also increase employer familiarity with reporting wages for reasons other than tax purposes. If the ultimate goal is information about wages that is more equally available, this action would have been a small but important step in that direction.

PILLAR THREE: AMEND THE SAFE HARBOR FOR COMPENSATION SURVEYS

Competition policy in the United States is largely regulated by the Sherman Antitrust Act of 1890 and the body of cases stemming from that legislation. Acts of collusion among competitors are generally prohibited, although there are many gray areas that have been addressed in the 127 years since the legislation was passed. One such gray area is the sharing of information on compensation and costs.

To help clarify the boundaries of legal behavior, in 1993 the U.S. Department of Justice (DOJ) and Federal Trade Commission (FTC) jointly issued a statement establishing an antitrust safety zone, or a safe harbor, for exchanges of price and cost information between firms (DOJ and FTC 1993). This statement related specifically to the health-care industry, but the guidance for sharing compensation information is applicable to other industries, as well.

The DOJ and FTC safe harbor states that sharing of written compensation information will not be challenged by the agencies if the following three conditions are met:

1. The survey is managed by a third-party (e.g., a purchaser, government agency, health-care consultant, academic institution, or trade association);

2. The information provided by survey participants is based on data more than 3 months old; and

3. There are at least five providers reporting data upon which each disseminated statistic is based, no individual provider's data represents more than 25 percent on a weighted basis of that statistic, and any information disseminated is sufficiently aggregated such that it would not allow recipients to identify the prices charged or compensation paid by any particular provider (DOJ and FTC 1996, 50).

The DOJ/FTC statement notes that the safe harbor was constructed to balance the need to protect competition in labor and product markets, while also allowing firms to use market data to make business decisions. The agencies specifically designed the safe harbor to discourage coordination between firms. The statement notes that for information sharing that does not meet these criteria, any information sharing that related to future prices, or that is used to coordinate prices, will likely be considered illegal—regardless of the market impact.

There is currently no aspect of the safe harbor that encourages firms to share data on market wages with workers. The DOJ and the FTC should amend the safe harbor to facilitate information symmetry in the labor market.

To better encourage information sharing, the fourth part of the safe harbor requires that compensation surveys be made available to workers. That is, in order to gain regulatory assurance that information sharing does not violate the Sherman Antitrust Act, the DOJ and FTC should require that if companies use compensation surveys in any capacity, they must share the information with workers. Appropriate safeguards could be put in place to limit workers' ability to make the information public beyond the firm, including stipulations that employers can limit or prohibit electronic transmission of the documents.

This addition to the safe harbor could have two distinct effects. First, employers could reduce their use of compensation surveys. This result seems unlikely, because human resources

departments have come to rely on compensation surveys to benchmark wages, and there is no comparable source of information that would fill this need. Second, firms could begin sharing the results of compensation surveys with workers, providing employees with a better understanding of where their pay falls in the distribution of comparable jobs.

The impact might follow that of previous experiences of increased pay transparency, whereby relatively higher-paid workers experienced gains in reported happiness and lower-paid workers reported decreased satisfaction and higher quit rates. The cost of paying workers in the lower part of the wage distribution would rise, incentivizing employers to increase salaries. Mobility might rise as well, with relatively lower-paid workers engaging in increased job search.

A potential downside is diminished productivity owing to lower morale, as exhibited in the Card et al. (2012) experiment, and suboptimal responses by employers to mitigate the attendant impacts. Highlighting these concerns, Todd Zenger (2016) notes that better disclosure "fuels perceived inequities prompted by inflated self-perceptions," and that employers could respond to these perceived inequities by either flattening pay, segregating workers by pay grade, or outsourcing occupations that increase the variance of pay. These are certainly valid concerns, but they need to be considered against the negative impacts of noncompetitive labor markets and longstanding wage stagnation.

PILLAR FOUR: CHANGE STATE LAW TO FACILITATE RECIPROCAL PRE-HIRING WAGE DISCLOSURE

Advocates of gender pay equity have intensified calls for a ban of discussions of wage history prior to hiring. Led by Massachusetts, which passed a ban in summer 2016, a handful of states and cities—including California, New York State, and Philadelphia—have recently followed suit. Moreover, a nationwide ban is one of the central tenets of the Paycheck Fairness Act.

Advocates of these bans rightly point to the role of pre-hiring wage discussions in perpetuating prior racial and, in particular, gender biases. Research has shown that these biases begin early in a worker's career, with female college graduates earning salaries that are 7 percent below their male counterparts' one year after graduation (Corbett and Hill 2012). The wage effects of initial biases can then persist long into a worker's career.

And although job applicants are also under no obligation to answer questions about their pay history—many interviewees do in fact refuse to answer the questions—refusing to discuss prior pay could negatively impact workers. In an online survey of visitors to its site, PayScale found that 43 percent of respondents reported being asked about their salary history; roughly one-quarter of those who were asked refused to answer. Importantly, PayScale also found uneven responses by gender, with women who refused to discuss pay history seeing a 1.8 percent drop in compensation, compared to a 1.2 percent boost for men.

However, a wholesale ban on discussions of wage history presents drawbacks, because there could be several legitimate reasons for employers to know a potential worker's prior wages. Employers might reasonably want to learn about a worker's productivity, and prior wages can be informative. Employers might also want to offer potential hires an attractive wage relative to a worker's wage history. In addition, banning discussions of wage histories does not guarantee that gender and racial biases will fade away. Ultimately, the goal is for all parties to have complete information, rather than to exacerbate the asymmetry on either side.

A superior approach is to provide workers with a more complete understanding of their wage offer relative to other workers, helping to create a more level playing field with regard to wage negotiations. Under this framework, prospective workers could trade information regarding their most recent wage history in exchange for companies revealing their own information about their wage distribution. Specifically, states should amend their bans on discussions of wage history to require reciprocity: asking prospective workers about their wage history would be permitted, but only if the employer in turn provided an average wage of comparable positions within the company. Under this proposal, firms could choose between either forgoing any discussion of prior pay levels (for both the firm and prospective worker) or fully disclosing pay of comparable workers.

Such a reform has some precedent in Germany, which enacted a law in early 2017 providing incumbent employees the right to know the typical salary of comparable workers (Federal Ministry of Justice and Consumer Protection 2017). Under the law, German workers at firms with more than 200 workers can request the gender-specific median compensation of a comparison group of employees, insofar as at least six employees with comparable duties can be identified. If the worker believes gender-based discrimination exists, she can request specific compensation criteria from the company. Although the law is too new to be evaluated, the prospective power in the German law lies in its transparency. By providing workers the right to know the compensation of comparable peers, the law either provides hard evidence to victims of discrimination, or gives companies an incentive to pay equal wages in the first place. Of equal importance is the potential benefit to all workers, who could use the additional information to better negotiate for higher pay.

PILLAR FIVE: ALLOCATE FUNDS FOR THE DEPARTMENT OF LABOR TO STUDY TRANSPARENCY

The DOL has been a leader in creating the infrastructure to evaluate the impacts of key programs within its purview. In 2010 the agency established the Chief Evaluation Office, charged with directly studying and funding evaluations of issues and programs related to labor policy in the United States. In 2017 its studies ranged from the impact of trade adjustment assistance to the efficacy of state workforce training centers.

Funding for the Chief Evaluation Office comes from one of two sources: funds that were directly appropriated for departmental evaluations, and program set-asides. Set-asides are funds allocated, at the discretion of the secretary of labor, to evaluate particular programs; these can amount to up to 0.75 percent of the program's cost. In fiscal year 2016 the DOL had $10 million and $30 million, respectively, for these two funding sources for evaluation.

Congress should allocate $1 million in annual appropriations for the DOL to evaluate the impact of pay transparency on worker compensation. This funding—which would increase the DOL's evaluation budget by 2.5 percent—should constitute an increase in the departmental evaluation budget, rather than a reallocation of existing funding. Potential areas of study could include the impact of state and city bans on discussing pay history, the impact of new public sources of wages (such as Glassdoor) on pay levels, and an investigation of international reforms. A better understanding of the impacts of pay transparency will inform policymakers as they seek to increase competition and ensure that workers receive pay commensurate with their economic value.

Questions and Concerns

1. Why don't you call for firms to disclose every employee's wages?

Universal disclosure is an appealing notion on many levels. Under full disclosure, any gender or racial discrimination would be on full display, allowing regulatory agencies to more effectively address any inequity. Workers would have better information with which to negotiate for higher initial salaries and annual raises. Employers' informational advantages in pay setting would be mitigated or eliminated. There would be other benefits, as well: for example, college students could make choices about majors and career paths with a better understanding of potential compensation later in their career.

There is some precedent for universal disclosure. Norway, for example, discloses all taxpayers' total income and taxes paid, although it stops short of disclosing the wages tied to a specific job. In addition, some companies have begun publicly releasing the pay of every worker at the company.

However, the costs of universal disclosure could outweigh the benefits. In some circumstances, worker compensation is considered a trade secret, whereby the public release of data could adversely affect legitimate business purposes (apart from maintaining monopsony power). Furthermore, some workers might have legitimate reasons to choose jobs where their wages remain private. Ultimately, the biggest drawback to universal wage disclosure is that the impacts of such a dramatic reform are unknown, and it would be better to study the impacts of more marginal reforms before making sweeping changes.

2. If symmetric information means that companies have to pay more for workers, won't they respond by hiring fewer employees?

In a competitive labor market, if wages rise relative to the price of capital we would expect to see firms substitute toward capital. But this is not the case in a labor market characterized by monopsony, where employers keep wages low by hiring fewer workers.

Firms might, however, engage in costly maneuvers to avoid revealing pay. For example, they might outsource certain occupations, such as custodians and administrative support, or contract with independent workers, in both cases accelerating trends that have already begun. Firms could also switch to a compensation model that is more reliant on bonuses, which could have mixed effects depending on the model used to determine the bonus amount.

These strategic responses are all speculative, because there is exceptionally limited data on firm reactions to pay transparency. However, it is difficult to argue that, on net, workers are better off not knowing how their pay compares to that of other workers.

3. Can't workers just use publicly available information about salaries?

Publicly available information can be helpful in guiding job seekers during their job search or wage negotiations, but those data are incomplete. Wage data published by the Bureau of Labor Statistics get high marks for accuracy, but are not sufficiently refined, with data available only at the city and/or occupational level. Conversely, data published by job disclosure sites that rely on anonymous user-submitted data raise questions about accuracy, but are often tied to a specific position at a given firm.

For the purpose of wage negotiations, specific and accurate information is key. Employers frequently pay high fees for access to compensation surveys because they value this information; job seekers would similarly benefit. There is simply no substitute for such data.

4. Isn't the real issue behind wage stagnation slow productivity growth, not transparency?

Not necessarily. Economic theory dictates that compensation should equal the value of a given worker's production. For example, if having an additional factory worker on the production line produces an additional $15 worth of goods per hour, the company should pay $15 in wages and benefits for every hour of work. Economics textbooks note that if workers are paid less than the value of their production, companies can boost profit by hiring more workers. If workers are paid more than this value, companies can raise profits by shedding workers.

However, this theory applies only if labor markets are competitive—meaning that the market, not the firm, sets the

level of compensation. If labor markets are not competitive, a different theory must be used. Both compensation and employment are lower than they would otherwise be, and workers are paid less than their economic value.

The key point is that in imperfect labor markets, the link between compensation and productivity is weakened. This has dramatic implications for policies designed to boost wages. In addition to investing in education and training, workers' wages can rise when labor market institutions are strengthened and pro-competitive reforms are implemented.

Conclusion

Stagnant real wage growth has plagued the U.S. economy for decades. Various explanations have been provided for the phenomenon, ranging from changing returns to schooling to globalization pressures, to a decline in pro-labor institutions. All these explanations have merit, but the story is incomplete without a discussion of the conditions that facilitate competitive labor markets.

One of the most underappreciated insights from modern economics is that labor markets are characterized by frictions—including lack of pay transparency—that reduce the markets' competitiveness. When labor markets are not fully competitive, the link between worker productivity and compensation is weakened. Traditional policy solutions, like boosting public investment in education and training, could have a more limited impact.

The factors impairing labor market competition are complex and varied. Noncompetitive labor markets can arise from geographic isolation, explicit or tacit collusion by employers, or market concentration. This paper addresses the role of asymmetric information and wage transparency.

Workers and employers often enter wage negotiations with dramatically different information. Due to the prevalence of compensation surveys and firms' knowledge of their own wage structures, companies often have an informational advantage when it comes to negotiating pay. As with an array of other situations characterized by information asymmetry, this imbalance provides an advantage to the market participant with better information.

This paper contains five policy proposals to increase wage transparency and level the playing field with regard to wage negotiations. The proposals are directed at various levels of government, and include passing legislation to protect workers who discuss pay, implementing an EEOC action calling for better wage reporting by large employers, changing the safe harbor for companies that use compensation surveys, enacting state-level reforms to encourage companies to share their wage data with prospective hires, and allocating funding for the DOL to study the effect of pay transparency.

Combined, these reforms could markedly improve workers' bargaining position and lead to sustained wage gains. But unlike other potential reforms—such as raising the minimum wage—wage transparency has been relatively less studied, which is why this paper calls for providing more evaluation funding to the DOL to study the impact of transparent pay on compensation trends. Reforms that make wage information more widely available, coupled with a better understanding of the role of pay secrecy in holding down wages, could help solve the puzzle of wage stagnation and boost wages for workers across the labor market.

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Harris' primary areas of focus are tax, budget and retirement security. He has published a variety of papers and policy briefs related to topics in public finance and is regularly cited in media reports related to fiscal policy.

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Endnotes

1. In particular, the authors find that about one-third of the decline in labor share is due to the likely incorrect assumption that self-employed wages are comparable to wages of payroll employees; this assumption overstates labor's share in the 1980s (and thus obscures trends since then).
2. For example, David Autor (2014) finds that the return to a college education approximately doubled between 1979 and 2000, although this skill premium has mostly stagnated since then. Similarly, Claudia Goldin and Lawrence Katz (2010) find that the bulk of wage inequality since the 1980s has been driven by changes in the return to education, especially postsecondary degrees.
3. Autor, Dorn, and Hanson (2013) find that increased trade with China cost the U.S. economy roughly 1 million manufacturing jobs, although the net effect on employment was smaller because former manufacturing workers found jobs in alternative sectors. Along these same lines, Ebenstein, Harrison, and McMillan (2015) find that trade with China, including employment shifts due to offshoring, led to marked wage declines, especially for manufacturing workers who see an average wage decline of 4 percentage points when they shift from manufacturing to another occupation.
4. For example, Lawrence Edwards and Robert Lawrence (2013) find that by 2008 increased trade with China was worth about $250 annually to each American consumer.
5. A Hamilton Project analysis finds that nearly one-third of the workforce would be impacted by a higher minimum wage (Kearney and Harris 2014).
6. Several studies have documented the strong relationship between unionization and wage rates—not just for union workers, but also for nonunion workers. For example, Rosenfeld, Denice, and Laird (2016) find that private sector, nonunion wages for males would be roughly 5 percent higher if union density had remained constant since 1979. This link is also borne out in international evidence: an International Monetary Fund (IMF) staff paper finds that a 10-percentage-point decline in union density leads to a 5-percentage-point increase in the income share of the top 10 percent (Jaumotte and Buitron 2015).
7. The bulk of studies find that low-skilled immigrants work in jobs that Americans do not want—such as low-paying, physically taxing agricultural jobs—and that more immigration at all skill levels helps American-born workers raise their own pay by becoming more productive. However, a handful of studies find that immigration can drive down wages in local labor markets. Perhaps the most famous of these perspectives comes from economist George Borjas, who in a series of studies finds that wages of lower-skilled U.S. workers take a substantial hit when low-skilled immigration rises (e.g., Borjas 2017).
8. Azar, Marinescu, and Steinbaum (2017) present evidence that monopsony is substantial in many labor markets, and that monopsony is associated with lower wages.
9. Alan Manning (2003) made popular the theory of monopsonistic markets arising from labor market frictions in his book *Monopsony in Motion: Imperfect Competition in Labor Markets.*
10. For a complete discussion of potential factors driving a decline in labor market competition, see Council of Economic Advisers (2016).
11. In addition, BLS produces Modeled Wage Estimates, which are annual statistical estimates of various mean wage levels in locality by broad occupation groups and by other worker characteristics, such as union membership and full-time versus part-time status.

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Highlights

Benjamin Harris of the Kellogg School of Management offers five proposals with the goal of reducing information asymmetry and increasing wage transparency in the labor market. Together, these reforms would ensure better access to wage data and more bargaining power for workers, and ultimately raise wages across the income distribution.

The Proposals

Ensure wage information is available to all workers. States would adopt comprehensive laws to protect workers from employer retaliation and discourage employers from asking workers to waive their right to disclose pay.

Require large companies to report more comprehensive compensation data. Companies with more than 100 workers would be required to report aggregated wage data to the EEOC by demographic characteristics.

Provider workers with the same wage information afforded to employers. Firms would be required to share data collected from compensation surveys with workers.

Prohibit employers from asking about prior pay levels during the hiring process, unless they provide data on the pay of comparable workers.

Evaluate policy efforts to promote wage transparency, studying the impact on compensation levels and adjusting policy efforts accordingly.

Benefits

Combined, these reforms could markedly improve workers' bargaining position and lead to sustained wage gains. Reforms that make wage information more widely available, coupled with a better understanding of the role of pay secrecy in holding down wages, could help solve the puzzle of wage stagnation and boost wages for workers across the labor market.

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