

# Monopoly Myths: Is Concentration Eroding Labor's Share of National Income?

JOE KENNEDY | OCTOBER 2020

---

Pundits and activists have looked at the reduced share of U.S. national income going to workers and have simply asserted that the cause is increased market concentration. This assessment is misplaced.

---

## KEY TAKEAWAYS

- Despite the persistent claims that increased market power has hurt workers, the scholarly evidence is weak, while the macroeconomic data is strong and clear in showing that this is not the principal cause.
- Labor's share of income has declined slightly over the past two decades, but not principally because capital's share of income has increased.
- Most of the decline is offset by an increase in rental income—what renters pay and what the imputed rent homeowners pay for their house. This increase is due to restricted housing markets, not growing employer power in product or labor markets.
- Antitrust policy is not causing the drop in labor share, so changing it is not the solution. For issues such as employer collusion over wages or excessive use of noncompete agreements, antitrust authorities already have power to act.
- Stringent antitrust policy would do little to raise the labor share of income, but it could very well reduce investment and productivity growth. The better way to help workers is with pro-growth, pro-innovation policies that boost productivity.

## INTRODUCTION

A growing number of advocates, scholars, and policymakers have argued over the past few years that increased market concentration has reduced the share of national income going to labor. The idea is that as companies have gained more market power, they take an increased share of economic output, with workers getting less.

Several facts rebut this theory, however. First, as an earlier ITIF report shows, although national concentration levels have risen in around two-thirds of industries, in the lion's share they remain significantly below the levels that normally trigger antitrust concern.<sup>1</sup> In addition, some recent papers have determined that concentration at the local level, which is the most relevant market for many businesses, actually has been falling in the market for both goods and labor.

## ITIF | Monopoly Myth Series

More importantly, according to the U.S. Bureau of Economic Analysis, virtually none of labor's lost share of income goes to increased profits, as a theory of market power would predict. Rather, the gains are almost totally from increases in both rental income (imputed rent homeowners receive and actual rent renters pay), and to some extent the mismeasurement of self-employment income. And when we look at the change in combined worker, rental, and self-employment income as a share of net national income, versus combined profits and net interest income, the former ratio is essentially unchanged over the last 90 years (see figure 2). In other words, the declining share of labor income has almost nothing to do with monopoly power.

### WHAT IS LABOR'S SHARE OF INCOME?

The U.S. Bureau of Labor Statistics (BLS) defines labor's share of income as the share of economic output that accrues to workers as compensation in exchange for their labor. It estimates this statistic by adding compensation to employees to a portion of proprietors' income estimated to represent the return from labor as opposed to any capital invested in the business. BLS then divides this sum by total output over the same period (GDP) to get labor's share.<sup>2</sup>

From 1929 to around 2002, this share remained relatively stable and, in fact, showed a modest increase. However, since 2002, the share has declined modestly. David Autor et al. wrote that, despite disagreement on measurement issues, "there is consensus that there has been a decline in the US labor's share since the 1980s, particularly in the 2000s."<sup>3</sup> As figure 1 shows, the evidence of a decline from 1980 to 2000 is less persuasive than that since 2000. Autor did, however, note that little consensus exists regarding the cause of this decline.

Many of those who believe the U.S. antitrust regime should be significantly strengthened have blamed market concentration for this decline. For them, antitrust policy has failed to prevent markets from getting more concentrated. This has given firms market power, which has allowed them to limit worker income and funnel the savings to increased profits. Some also argue that, as one component of this dynamic, concentration has reduced the number of employers in local labor markets, giving them more power to limit wages because workers have fewer choices.

## THE CLAIMS THAT CONCENTRATION HAS REDUCED LABOR'S SHARE OF INCOME

A number of advocates and pundits have argued that lax antitrust enforcement has led to greater market concentration, and less income for workers. This is a compelling narrative, for it takes a complex and important problem—slow growth in wages for many workers—and boils it down to a bumper sticker: “Less monopoly equals more wages.”

Bonnie Kavoussi of the Washington Center for Equitable Growth wrote, “[T]here is growing evidence that when companies gain market power, they pay their workers less.”<sup>4</sup> As a result, “[m]arket power has increased inequality globally by transferring wealth from consumers to shareholders.”<sup>5</sup> Hal Singer of Econ One Research also tied these trends together, “Labor’s share of income is falling, while income inequality, the profit share, and ownership concentration are all rising.”<sup>6</sup>

Similar statements have been made regarding enhanced monopsony power. Fordham law professor and activist Zephyr Teachout wrote dramatically, “When companies have too much power, they suppress wages, reduce benefits, and defy supply-and-demand models, because they are more like little lords than participants in an open, competitive economy.”<sup>7</sup>

Liberal economist and Nobel Prize winner Joseph Stiglitz asserted, “We now face an increased problem of monopsony power, the ability of firms to use their market power over those from whom they buy goods and services, and in particular, over workers.”<sup>8</sup> He added, “A stark aspect of growing inequality is the diminution in labor’s share.”<sup>9</sup>

Columbia University law professor Suresh Naidu and his coauthors stated, “New evidence suggests that many labor markets around the country are not competitive but instead exhibit considerable market power enjoyed by employers, who use their market power to suppress wages.”<sup>10</sup>

Former Obama administration economists Jason Furman and Alan Krueger wrote:

In addition to holding down workers’ paychecks, monopsony power can depress overall hiring and output, as employers are unable to find enough workers at the wage they offer. If monopsony power creates barriers to workers switching jobs, it can slow labor turnover, reducing dynamism and innovation. Counteracting monopsony power would lead to higher wages, lower unemployment and stronger economic output.<sup>11</sup>

## ACADEMIC CLAIMS LINKING CONCENTRATION TO LABOR'S SHARE

A number of widely cited academic papers have bolstered these claims. Economists Jan De Loecker, Jan Eeckhout, and Gabriel Unger used Compustat data over six decades to measure firm markups: the difference between the sales price of a good or service and the cost of producing one more unit of it (marginal cost). Since the latter is not easy to measure, they used an indirect method of estimating it.<sup>12</sup> They concluded that, since 1980 aggregate markups increased from 21 percent above marginal cost to 61 percent in 2016. They also found that the average profit rate increased from 1 percent to 8 percent.<sup>13</sup>

They then linked rising markups to a number of macroeconomic effects, including a decrease in the labor’s share of income, writing when unemployment rates were at almost historic lows that,

“in addition to lowering consumer well-being, market power decreases the demand for labor and dampens investment in capital.”<sup>14</sup> Interestingly, they found that most of the decline in labor’s share is driven by the growing market share of large firms with relatively low labor costs as a share of total costs. These likely include many companies that spend a lot on research and development (R&D) or machinery, which might require relatively fewer workers. Moreover, they found that the median markup remained constant. But if higher markups were the result of price increases rather than falling costs brought on by increased efficiency, one would expect firms with high markups to lose market share rather than gaining it. Finally, as ITIF has shown, there are significant methodological problems with how they measured price markups, which are mostly a result of understating fixed costs in intangible capital such as R&D.<sup>15</sup>

A team led by Gauti Eggertsson used national- and firm-level data to estimate changes in the share of corporate income going to profits over a 30-year period. Notwithstanding the fact that the Bureau of Economic Analysis (BEA) found that nonfinancial domestic corporate profits have increased only slightly in this period, Eggertsson’s team found an increase in both profits and markups over the last several decades. Labor’s share of national output (here measured as compensation to labor relative to gross value added) declined from 63 percent to 57 percent between 1985 and 2015.<sup>16</sup> Capital’s share (calculated as normal capital income over total value added) also fell due to declines in the price of capital. But the team also found that the share of value added going to excess profits (those above the normal rate of return) increased from 3 percent to 17 percent, even though BEA data suggests total corporate profits were less than 10 percent.<sup>17</sup> They also concluded that “there is some suggestive evidence that lax anti-trust enforcement has lead [sic] to an increase in industrial concentration.”<sup>18</sup>

Simcha Barkai conducted a similar study using a variety of public and private databases to look at profits in the nonfinancial corporate sector from 1984 to 2014.<sup>19</sup> Like Eggertsson et al., he found that there has been a rise in “pure” profits (those in excess of the normal cost of capital). This increase has come at the expense of both labor and the share that would reflect a normal return to capital. In other words, although the cost of capital has declined, owners of capital are enjoying higher total incomes because there has been a decline in competition. Increased industrial concentration in the nonfinancial corporate sector has led to a decline in labor’s share of 11 percent, even though according to BLS figures the decline is only 5.3 percent. However, Barkai found that 1.2 percentage points of this decline was due to mismeasurement caused by sole proprietors shifting income from wages to profits in order to reduce their tax liability. In contrast, the pure profit share increased by 13.5 percentage points of gross value during that time period (from -5.6 percent to 7.9 percent), or over \$1.2 trillion in 2014.<sup>20</sup> However, he used a base year (1984) that had the lowest profit rate of the entire post-war period.<sup>21</sup>

Other economists have come to similar conclusions. Economist Thomas Philippon has listed studies using both BEA and KLEMS (K-capital, L-labor, E-energy, M-materials, and S-purchased services) data to show labor’s share within the U.S. nonfarm business sector has fallen by more than 8 percentage points, from just over 66 percent in 2001 to under 58 percent by 2012—although it has held steady since 2010, rising back up to almost 60 percent by 2015.<sup>22</sup>

Other economists have focused on the supposed growth of monopsony power in the local labor markets, which they argue limits wages. José Azur, Ioana Marinescu, and Marshall Steinbaum looked at a combination of U.S. commuting zones and 200 six-digit occupational codes to

measure over 117,000 specific labor markets for 2016.<sup>23</sup> They found that 60 percent of markets are highly concentrated, while another 11 percent are moderately concentrated.<sup>24</sup> But most of the labor markets with high levels of employer concentration are rural areas with few employers overall (e.g., a “paper mill monopsony” in a small town in upstate Wisconsin). As they wrote, “Commuting zones around large cities have lower levels of labor market concentration than smaller cities or rural areas.”<sup>25</sup>

Another approach is to use Census data to track concentration in labor markets over time. Economists Efraim Benmelech, Nittai Bergman, and Hyunseob Kim argued that, although labor markets show great variation over time and geography, concentration has risen. The negative relationship between labor market concentration and wages has also increased over time, and tends to be stronger when unionization rates are low; while the relationship between wages and productivity growth is stronger when labor markets are less concentrated.<sup>26</sup>

## **WHY MARKET POWER IS NOT LIKELY TO BE THE CAUSE OF A DECLINE IN LABOR’S SHARE OF INCOME**

Central to the arguments presented in the previous section is the theory that lax antitrust enforcement has encouraged firms to acquire market power, which allows them to raise prices and reduce wages while increasing profits. Earlier papers in ITIF’s Monopoly Myths series challenge each of these arguments.<sup>27</sup>

First, although concentration has been increasing in many industries, in most, it is still far below the levels that normally trigger antitrust concern, especially when markets are defined more narrowly.<sup>28</sup> Moreover, recent studies show that concentration in local markets—which are the most relevant for many industries, including restaurants and retail shopping—is actually decreasing. Esteban Rossi-Hansberg and two other economists looked at competition in local markets between 1990 and 2014 and found that while concentration increased at the national level, it fell in local markets. Although large firms captured a growing portion of the national market, their expansion into new markets increased local choice. The entry of a top firm reduced local concentration for at least seven years.<sup>29</sup>

Some studies have also shown concentration falling in labor markets. Kevin Rinz of the U.S. Census Bureau arrived at this conclusion using data from the Longitudinal Business Database and IRS W-2 forms. He estimated that in 2015 earnings were about 1 percent higher than they would have been if local competition had remained at its 1976 level.<sup>30</sup> Economists Anna Stansbury and Lawrence Summers also noted that local labor market concentration has declined over time, which should help workers. Most workers are not in highly concentrated labor markets, especially when considering the full range of occupations many workers could fill.<sup>31</sup>

David Berger et al. looked directly at local labor markets using data from the Longitudinal Business Dynamics database and defining local labor markets through a combination of three-digit NAICS codes for tradable industries and commuting zones. He then looked at a series of changes to state corporate income taxes and compared the reaction of company establishments within the same state. The model shows that existing imperfections in local labor markets are significant; costing workers on average 5.4 percent of their lifetime consumption. These lower wages cause them to work 19.6 percent less than otherwise. But the problem has been getting better, not worse. The team found that rising labor market power has not contributed to the

declining labor's share because the concentration of local labor markets *declined* between 1976 and 2014. The change in concentration equates to going from 5.0 to 7.1 equal-sized employers within each commuting zone.<sup>32</sup>

Second, although markups have been rising in many industries, they are notoriously hard to measure. They may not have been rising at all if functions such as marketing and R&D are included in variable costs. Indeed, most of any increase can be explained by the rising importance of hard-to-measure intangible assets, high fixed costs, rapidly diminishing marginal costs, and significant network effects. In these situations, it is possible for a company to have high markups but still lose money.<sup>33</sup>

Finally, looking at nonfinancial domestic corporate profits as a share of net value added shows that, although the profits share rose significantly in the first six years of this century, it remained below its share from 1950–1965. Since then, it basically held steady for several years, before declining for the last six years, giving back almost half of its gain.<sup>34</sup>

The studies showing a rise in market power also have some weaknesses. The De Loecker paper in particular has come under criticism from other scholars. Susanto Basu, for example, pointed out that the authors' model produces implausible estimates for other economic values, such as implying that adding more capital to the production process actually decreases output.<sup>35</sup> Economist Chad Syverson noted that, even if profits were zero in 1980, De Loecker's finding that the pure profit rate jumped from 1 percent to 8 percent means firms succeeded in turning 25 percent of all revenues into profits in 2016, which is significantly higher than other estimates.<sup>36</sup> For example, in 2016, domestic corporate profits as a share of net value added was 17.7 percent. Syverson also pointed out that the fastest rise in markups occurred between 1980 and 2000, while much of the decline in labor's share did not take place until after 2000.<sup>37</sup>

More broadly, these studies use econometric models and firm data to measure the relationship between concentration, profits, and margins on the one hand, and the decline in labor's share and wages on the other. The outcomes can be heavily dependent on the specific model being used. In addition, their samples are never complete. At most, they show the relationships that prevail in a portion of the economy. Moreover, the models only show correlation. The causal relationships may run both ways and involve many more variables. Finally, some studies use a fairly comprehensive source of corporate data such as Compustat, and in doing so, ignore the noncorporate sector. Because corporations are on average larger and more efficient than other kinds of firms, this would skew the data toward a smaller labor share among these firms, but not necessarily in the broader economy.<sup>38</sup> This gets to the importance of looking at the issue through macroeconomic data that is representative of the entire economy.

### **Measuring Labor's Share Through Macroeconomic Data**

Researchers within BLS recently estimated labor's share going back to 1947 (see figure 1). Based on their data, the wage share of income was largely stable from 1947 to around 2001 at approximately 63 percent. Since then, it has fallen to around 57 percent (with a likely temporary increase this year due to the COVID-19 recession). In calculating labor's share, BLS split proprietors' income between wages and return on capital by assuming proprietors make the same hourly wage as employees. Michael Elsby, Bart Hobijn, and Ayşegül Şahin argued that this method overstates the self-employed share of income, and that a more accurate method would reduce the measured decline in labor's share by one-third.<sup>39</sup>

**Figure 1: Wage share of output in the non-farm business sector (1947–2020)<sup>40</sup>**

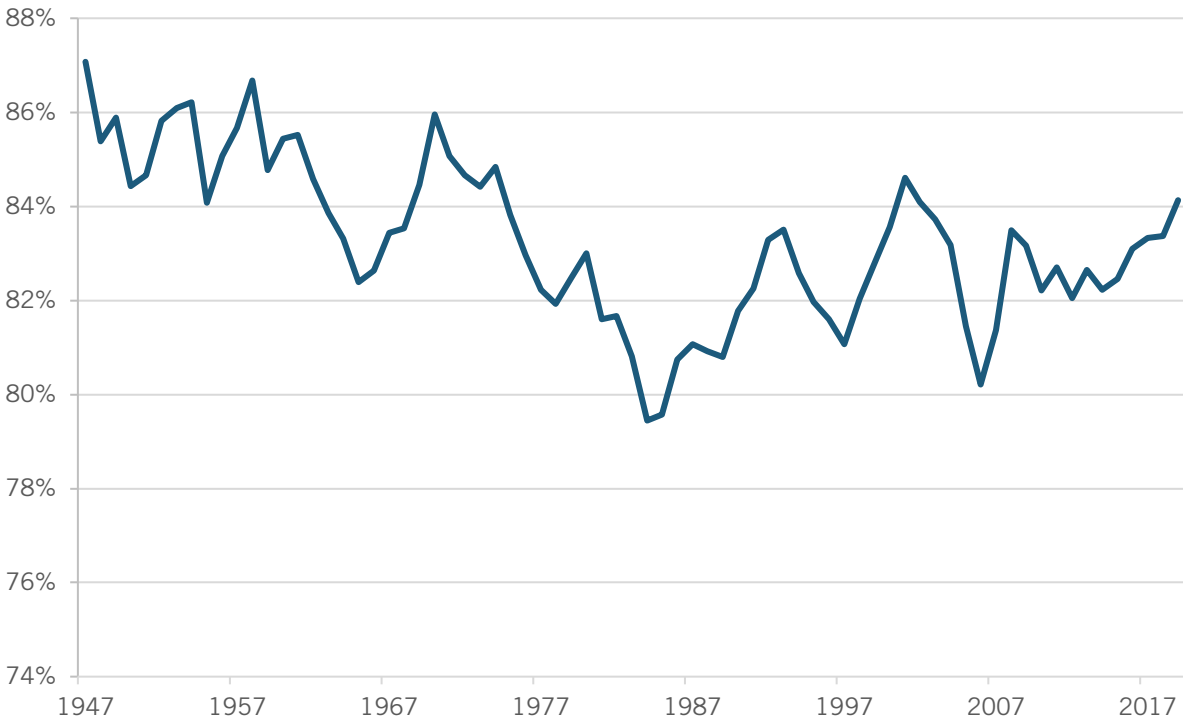


Economic models often assume there are only two types of inputs: labor and capital. Some papers follow this practice by defining capital's share of income as 1 minus labor's share.<sup>41</sup> By this definition, any fall in labor's share automatically goes to capital, which many people equate with profits.

BEA provides a finer-grained picture of national income, dividing it into several categories including compensation of employees, proprietors' income, and corporate profits. In fact, the BEA statistics include a number of separate components in addition to corporate profits. One of these is rental income, a large part of which is the imputed value of housing homeowners get from living in their homes.

A closer look at the national income accounts shows that there has in fact been almost no decline in the share of U.S. national income going to labor once net income and the share going to rent are included. Depreciation (which BEA terms "capital consumption") amounts to about 16 percent of gross domestic income (GDI). GDI also includes business taxes on production and imports, which have recently averaged 7 percent. When these are pulled out, labor's share was around 84 percent of net domestic income in 2019. In 1947, this share was 87 percent (figure 2). Although the share declined in the early decades, the total share of income going to workers, proprietors, and rent has actually risen since the mid-1980s.

**Figure 2: Total employee compensation, rental income, and proprietors' income as a share of net domestic income (1947–2019)<sup>42</sup>**



A greater breakdown shows that compensation to employees fell by 2.2 percentage points from 1998 (when labor's share begins its steep fall in the BLS calculations) to 2019. This was matched by an identical fall in net interest payments. However, the decline in employees' share was partially offset by an increase of 0.7 percentage points in proprietors' income (many of whom were for all intents and purpose workers who happened to own their own very small business), leaving a total decline in labor's share of approximately 1.5 percentage points.



**Table 1: Percentage point change in components of GDI (1998–2019)<sup>43</sup>**

<b>Component of Gross Domestic Income</b>	<b>Percentage Point Change, 1998–2019</b>
Compensation to Employees	-2.2
Taxes on Production and Imports	-0.1
Net Interest	-2.2
Proprietors' Income	0.7
Rental Income	1.9
Corporate Profits	0.4
Consumption of Fixed Capital	1.6
Other	0.0

Rather than simply assuming this loss was big monopolistic business's gain, it's important to look at the other components of national income. As table 1 shows, corporate profits rose only 0.4 percentage points between 1998 and 2019, accounting for just 27 percent of the loss of labor's share. It is hard to reconcile this with the theory of increased market power decimating labor's share of income. The biggest increases during this time period were rental income (1.9 percentage points) and consumption of fixed capital (1.6 percentage points). The rise in depreciation may actually be beneficial if it means firms are deploying more capital. It could also signal the increased importance of intangible, faster depreciating capital such as software and other intellectual property.

And the rise of rental income by such a large share means that the fall in the share of labor income had almost nothing to do with capital becoming more important than labor. It had more to do with housing becoming more important than labor, with demographic forces pushing up demand for housing, regional economic forces leading jobs to concentrate in places with already high housing prices, and government zoning rules limiting supply—all leading to higher rents and mortgage payments.<sup>44</sup>

Former Obama administration officials Jason Furman and Peter Orszag have agreed with this assessment, writing that “the decline in the labor’s share of income is not due to an increase in the share of income going to productive capital— which has largely been stable—but instead is due to the increased share of income going to housing capital.”<sup>45</sup> According to the authors, in 2014, returns to labor were 3.8 percentage points below their 1970–1999 average. Yet returns to capital excluding housing rose only 0.3 percentage points. Returns to housing rose 2.8 percentage points (the remainder went to depreciation and government). If the price of housing rises substantially, the percentage share of labor and all other components must fall.

The point here is not that labor's share has held steady; as conventionally measured, it has been falling, although not as much as some studies claim. But the lost share is not going to employers

exercising market power. Most has gone instead to the owners of housing (including workers who own their homes) and to a lesser extent mismeasurement of self-employed income. We have a housing problem, not an antitrust problem. The solution is to relax zoning laws and permitting regulations so that more affordable housing can be built in the places workers want to live, coupled with a big federal government push to support economic development outside of already expensive and crowded large metro areas.

## **OTHER EXPLANATIONS**

The rise in rental income is not the only alternative explanation with empirical support. The previous sections show why increased market power stemming from lax antitrust enforcement is unlikely to be a major cause of labor's falling share and stagnant wages. Even when ignoring the macro data on income shares and focusing only on the studies of particular groups of firms, there are a number of alternative causes, which have better support in the literature. Several academic studies, including those emphasizing market power, contain a long list of other possible explanations.<sup>46</sup>

McKinsey Global Institute looked at Organization for Economic Cooperation and Development (OECD) industry-level data from 1998 to 2016 and concluded that the decline in labor's share of income was due to several causes. The most important, explaining 33 percent of the decline, was due to business cycle effects. Other causes were rising and faster depreciation of capital (26 percent); superstar effects, together with industry consolidation (18 percent); capital substitution for labor and automation (12 percent); and globalization and reduced worker power (11 percent).<sup>47</sup>

Other studies have focused on a more limited set of explanations. For example, Elsby et al. identified globalization, specifically the offshoring of labor-intensive production, as the leading potential explanation for the rest of the decline.<sup>48</sup> When firms move jobs abroad in order to reduce labor costs, total compensation of employees falls. Other explanations seem even more promising when compared with the theory that market power is the root cause of any decline in labor's share.

### **Rising Competition Among Superstar Firms**

One possible explanation is, rather than signaling the inadequacy of antitrust law, rising concentration in some markets is the result of increased competition between firms. Autor et al. found that the unweighted mean labor's share across firms has not decreased much since 1982.<sup>49</sup> What seems to have happened is a rise in competition caused largely by globalization and new technologies has allowed more competitive firms to gain market share at the expense of laggards. The "superstar" firms are winning, not because they have market power, but because they are more productive and more efficient, and have lower costs. Higher margins are thus not due so much to rising prices (which makes sense at a time when inflation is well below the Federal Reserve target of 2 percent) but to lower production costs, including from employing a relatively smaller share of workers. The decline of labor's share within specific firms has been relatively constant, but more-efficient firms using less labor have been gaining market share.

Sharat Ganapati used U.S. Census data to measure market concentration between 1972 and 2012.<sup>50</sup> Using industry-level estimates, he showed that concentration increases are positively correlated with productivity and real output growth, indicating they might be the result of

enhanced competition rather than lax antitrust enforcement. Nor is concentration correlated with rising prices, a claim central to the market power theory. However, Ganapati also found that higher concentration is correlated with a decline in labor's share. As market share migrates to more-productive firms, it is possible to produce the same amount using less resources, including labor.

## **Technological Change**

A related theory is that the introduction of labor-saving technologies and mechanization has caused some companies to replace labor with capital. These changes have also increased the importance of fixed investment and declining marginal cost, thereby raising the size of markups needed to recover total costs, but keeping overall profits the same. A 2018 paper by Loukas Karabarbounis and Brent Neiman links the decline in labor's share to technological changes facilitated by a steady decline in the cost of capital, which reduces the need for labor.<sup>51</sup> These lower costs benefit consumers. They should also eventually benefit workers directly since worker income is tied to labor productivity, which increases with the amount of capital labor has to work with.<sup>52</sup> Consistent with other studies, Karabarbounis and Neiman found that the decline in the labor's share is not confined to the United States, the fall in labor's shares occurred primarily within industries, and the average labor share not weighted by firm size did not fall much since 1982. In other words, declines in labor's share were concentrated in more-productive industries, with less-productive firms gaining more employment. This is consistent with the theory of Baumol's cost disease: the observation that employment and nominal spending grows faster in sectors that have lower productivity growth.

## **The Decline of Labor Power**

Another compelling theory is that both the decline in labor's share and rising inequality are the result of a broader decrease in labor's economic and political power. Stansbury and Summers used a variety of individual-, industry-, and state-level data to measure the relationship between general indicators of labor power and outcomes such as labor's share of income.<sup>53</sup>

Stansbury and Summers focused on a broader decline in worker power that is due to three significant macroeconomic shifts in the economy. The first is institutional changes, including a decline in both union power and the real value of the minimum wage. The second source of decline is changes within firms, including the rise of shareholder power and outsourcing. The final source of pressure is increased competition from technology and low-wage labor abroad. Both together and individually, these factors have weakened the bargaining power of employees over time. The result, however, has not been a decline in labor's share of output within competitive markets.

But not every market is competitive. In some noncompetitive markets, firms have enough market power to earn profits that are above the level that would exist in a competitive market. Some of these excess profits are shared with labor. Stansbury and Summers found that the decline in worker power has resulted in a smaller share of these profits going to labor. They estimated that these profits fell from 12 percent of value added in the early 1980s to 6 percent in the 2010s.<sup>54</sup> They found that total profitability of firms stayed roughly the same or even fell during that time, indicating an absence of greater market power. But the division of profits in industries that do have market power has changed, with labor getting less of a share.

Stansbury and Summers were unconvinced by other causes such as globalization, technological change, and rising monopoly power. Specifically, they found that rising concentration can explain only 10 percent of the fall in labor's share.

## CONCLUSION

Despite the persistent claims that increased market power has hurt workers, the scholarly evidence is weak while the macroeconomic data is strong and clear in showing that this is not the principal cause. Although labor's share of output has declined, most of it seems to be due to restricted housing markets rather than growing employer power in either product or labor markets. Previous studies in this series cast doubt on the theory that lax antitrust enforcement has led to increased market concentration, higher markups, and rising profits. Concentration is not a problem in most markets, and may represent an increase in competition rather than a decline. In local product and labor markets, concentration is falling. Markups reflect a change in industry structure toward more intangible assets, higher fixed costs, and falling marginal costs. Finally, when properly measured, profits remain below their historic highs, and have recently fallen.

If antitrust policy is not the problem, then it is unlikely to be an effective solution. For those few concrete problems that have been pointed out—including employer collusion over wages and recruiting or the excessive use of noncompete agreements—antitrust authorities have already shown their ability to act.

Doubts over the cause of labor's falling share do not imply that there is no problem. Constant labor's shares can mask substantial income shifts from low-income to high-income workers. A recent study shows that as national income has risen, the demand for workers of different skills varies. Employers increase their demand for both high- and low-skilled workers, but reduce their demand for medium-skilled workers.<sup>55</sup> As a result, high-skilled workers benefit from an increased share of wages, while the share of medium-skilled workers has declined. However, antitrust is poorly equipped to deal with this problem.

Adding broader social concerns such as employment and the distribution of wealth to antitrust law would politicize antitrust enforcement and make it harder to hold regulators accountable for achieving their goals.<sup>56</sup> Antitrust scholar Herbert Hovenkamp wrote that “it is hardly clear that this antitrust policy of condemning firms that produce lower prices or higher quality than their rivals would yield a more attractive distribution of wealth than a policy of simply encouraging maximum, competitive output.”<sup>57</sup>

What would help workers is a pro-growth, pro-innovation set of policies to boost productivity. In theory, worker compensation should be determined by labor productivity. The aforementioned recent McKinsey report looks at the growing gap between median wage growth and historic productivity growth.<sup>58</sup> It shows that half of the decline has been due to slower productivity growth.<sup>59</sup> Raising productivity raises worker incomes. To be sure, more policies need to be enacted, including a higher minimum wage, universal health care, support for greater unionization, and broader access to education. But by deterring investment, overly stringent antitrust policy would do little or nothing to raise the labor share of income, but could very well reduce investment and productivity growth.

## ABOUT THIS SERIES

In a series of short reports, the Information Technology and Innovation Foundation (ITIF) is examining many of the key claims behind the argument that a significant change in U.S. antitrust policy is warranted. In most cases, we find that the empirical evidence is weaker than claimed. In other cases, the causal relationships are speculative. Although some of the broader trends, such as a decline in innovation, raise serious social issues, they usually have several causes. Finally, in most cases, it is not clear that antitrust policy is either the cause or an effective cure. Broader social policies need to be enacted for such issues as income inequality and privacy.

## Acknowledgments

The author wishes to thank Robert D. Atkinson for helpful comments and suggestions. All errors remain the author's responsibility.

## About the Author

Joe Kennedy (@JV\_Kennedy) is a senior fellow at ITIF. For almost 30 years he has worked as an attorney and economist on a wide variety of public policy issues. His previous positions include chief economist with the U.S. Department of Commerce and general counsel for the U.S. Senate Permanent Subcommittee on Investigations. He is president of Kennedy Research, LLC, and the author of *Ending Poverty: Changing Behavior, Guaranteeing Income, and Transforming Government* (Rowman & Littlefield, 2008). Kennedy has a law degree and a master's degree in agricultural and applied economics from the University of Minnesota, and a Ph.D. in economics from George Washington University.

## About ITIF

The Information Technology and Innovation Foundation (ITIF) is a nonprofit, nonpartisan research and educational institute focusing on the intersection of technological innovation and public policy. Recognized as the world's leading science and technology think tank, ITIF's mission is to formulate and promote policy solutions that accelerate innovation and boost productivity to spur growth, opportunity, and progress.

For more information, visit us at [www.itif.org](http://www.itif.org).

## ENDNOTES

1. Joe Kennedy, “Monopoly Myths: Are Markets Becoming More Concentrated?” (Information Technology and Innovation Foundation, June 2020), <https://itif.org/publications/2020/06/29/monopoly-myths-are-markets-becoming-more-concentrated>.
2. Michael D. Giandrea and Shawn Sprague, “Estimating the U.S. Labor Share” (U.S. Bureau of Labor Statistics, *Monthly Labor Review*, February 2017), <https://www.bls.gov/opub/mlr/2017/article/estimating-the-us-labor-share.htm>.
3. David Autor et al., “Concentrating on the Fall of the Labor Share,” *American Economic Review: Papers & Proceedings*, Vol. 107(5), May 2017, 180, <https://doi.org/10.1257/aer.p20171102>.
4. Bonnie Kavoussi, “How Market Power Has Increased U.S. Inequality” (Washington Center for Equitable Growth, May 2019), 3, <https://equitablegrowth.org/how-market-power-has-increased-u-s-inequality/>.
5. Ibid, 4.
6. Hal Singer, “The Monopoly Harms That Antitrust Keeps Missing,” *Promarket.org*, August 12, 2020, <https://promarket.org/2020/08/12/the-monopoly-harms-that-antitrust-keeps-missing/>.
7. Zephyr Teachout, *Break ‘Em Up: Recovering Our Freedom From Big Ag, Big Tech, and Big Money* (All Points Books, 2020), 147–48 (footnote omitted).
8. Joseph E. Stiglitz, “America Has a Monopoly Problem – And It’s Huge,” *The Nation*, October 23, 2017, <https://www.thenation.com/article/archive/america-has-a-monopoly-problem-and-its-huge/>.
9. Ibid.
10. Suresh Naidu, Eric A. Posner, and Glen Weyl, “Antitrust Remedies for Labor Market Power,” *Harvard Law Review*, Vol. 132, (2018), 537, (footnote omitted).
11. Jason Furman and Alan B. Kruger, “Why Aren’t Americans Getting Raises? Blame the Monopsony,” *The Wall Street Journal*, November 3, 2016, <https://www.wsj.com/articles/why-arent-americans-getting-raises-blame-the-monopsony-1478215983>.
12. Jan De Loecker, Jan Eeckhout, and Gabriel Unger, “The Rise of Market Power and the Macroeconomic Implications,” *Quarterly Journal of Economics*, Vol. 135(2), 2020, <https://academic.oup.com/qje/article-abstract/135/2/561/5714769>.
13. Ibid, 561.
14. Ibid, 562.
15. Joe Kennedy, “Monopoly Myths: Is Concentration Leading to Higher Markups?” (Information Technology and Innovation Foundation, June 2020), <https://itif.org/publications/2020/06/01/monopoly-myths-concentration-leading-higher-markups>
16. Gauti B. Eggertsson, Jacob A. Robbins, and Ella Getz Wold, “Kaldor and Piketty’s Facts: The Rise of Monopoly Power in the United States” (National Bureau of Economic Research, Working Paper No. 24287), February 2018, 12, <https://www.nber.org/papers/w24287>.
17. Ibid.
18. Ibid, 5.
19. Simcha Barkai, “Declining Labor and Capital Shares,” *Journal of Finance*, 2020, <https://onlinelibrary.wiley.com/doi/epdf/10.1111/jofi.12909>.
20. Ibid, 14.
21. Ibid, 14.
22. Thomas Philippon, *The Great Reversal: How America Gave Up on Free Markets* (Belknap Press, 2019), 109.

23. Jose Azar et al., “Concentration in US Labor Markets: Evidence From Online Vacancy Data” (National Bureau of Economic Research Working Paper No. 24395, February 2019), 5, <https://www.nber.org/papers/w24395>.
24. Ibid, 13.
25. Ibid.14.
26. Efraim Benmelech, Nittai Bergman, and Hyunseob Kim, “Strong Employers and Weak Employees: How Does Employer Concentration Affect Wages?” (National Bureau of Economic Research Working Paper No. 24307, February 2018), <https://www.nber.org/papers/w24307>.
27. Monopoly Myth Series, Information Technology and Innovation Foundation, <https://itif.org/monopoly-myth-series>.
28. Joe Kennedy, “Monopoly Myths: Are Markets Becoming More Concentrated?”
29. Esteban Rossi-Hansberg, Pierre-Daniel Sarte, and Nicholas Trachter, “Diverging Trends in National and Local Concentration,” Federal Reserve Bank of Richmond, Working Paper No. 18-15R, February 2019, <https://doi.org/10.21144/wp18-15>.
30. Kevin Rinz, “Labor Market Concentration, Earnings Inequality, and Earnings Mobility,” Center for Administrative Records Research and Applications, U.S. Census Bureau Working Paper 2018-10, September 2018, [https://www.richmondfed.org/publications/research/working\\_papers/2018/wp\\_18-15r](https://www.richmondfed.org/publications/research/working_papers/2018/wp_18-15r).
31. Anna Stansbury and Lawrence Summers, “The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy” (National Bureau of Economic Research Working Paper No. 27193, May 2020), <https://www.nber.org/papers/w27193>.
32. David Berger, Kyle Herkenhoff, and Simon Mongey, “Labor Market Power,” IZA Institute of Labor Economics, Discussion Paper Series No. 12276, April 2019, <http://ftp.iza.org/dp12276.pdf>.
33. Joe Kennedy, “Monopoly Myths: Is Concentration Leading to Higher Markups?”
34. Joe Kennedy, “Monopoly Myths: Is Concentration Leading to Higher Profits?” (Information Technology and Innovation Foundation, May 2020), <https://itif.org/publications/2020/05/18/monopoly-myths-concentration-leading-higher-profits>.
35. Susanto Basu, “Are Price-Cost Markups Rising in the United States? A Discussion of the Evidence,” *Journal of Economic Perspectives*, Vol. 33(3) Summer 2019, 16, <https://www.bc.edu/content/dam/bc1/schools/mcas/economics/pdf/jep.33.3.3.pdf>.
36. Chad Syverson, “Macroeconomics and Market Power: Context, Implications, and Open Questions,” *Journal of Economic Perspectives*, Vol. 33(3) Summer 2019, 34, <https://www.aeaweb.org/articles?id=10.1257/jep.33.3.23>.
37. Ibid, 32.
38. Robert D. Atkinson and Michael Lind, *Big is Beautiful: Debunking the Myth of Small Business* (MIT 2018).
39. Michael W.L. Elsby, Bart Hobijn and Ayşegül Şahin, “The Decline of the U.S. Labor Share,” *Brookings Papers on Economic Activity*, Fall 2013, 2, [https://www.brookings.edu/wp-content/uploads/2016/07/2013b\\_elsby\\_labor\\_share.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/2013b_elsby_labor_share.pdf).
40. U.S. Bureau of Labor Statistics, [https://www.bls.gov/lpc/special\\_requests/msp\\_dataset.zip](https://www.bls.gov/lpc/special_requests/msp_dataset.zip).
41. Gauti B. Eggertsson, Jacob A. Robbins, and Ella Getz Wold, “Kaldor and Piketty’s Facts: The Rise of Monopoly Power in the United States.”
42. U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 1.10, <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>. Net domestic income is equal to gross domestic income minus consumption of capital and taxes on production and imports. These calculations include all of proprietor’s income. However, Elsby et al.

showed that almost all of this category should be attributed to labor income. Michael W.L. Elsby, Bart Hobijn and Ayşegül Şahin, “The Decline of the U.S. Labor Share.”

43. U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 1.10.
44. Matthew Rognlie, “Deciphering the Fall and Rise in the Net Capital Share: Accumulation of Scarcity,” *Brookings Papers on Economic Activity*, Spring 2015, [https://www.brookings.edu/wp-content/uploads/2016/07/2015a\\_roglnie.pdf](https://www.brookings.edu/wp-content/uploads/2016/07/2015a_roglnie.pdf).
45. Jason Furman and Peter Orszag, “A Firm-Level Perspective on the Role of Rents in the Rise in Inequality,” paper presented at “A Just Society,” Centennial Event in Honor of Joseph Stiglitz, Columbia University, New York, October 16, 2015, [https://obamawhitehouse.archives.gov/sites/default/files/page/files/20151016\\_firm\\_level\\_perspective\\_on\\_role\\_of\\_rents\\_in\\_inequality.pdf](https://obamawhitehouse.archives.gov/sites/default/files/page/files/20151016_firm_level_perspective_on_role_of_rents_in_inequality.pdf).
46. See, David Autor et al., “Concentrating on the Fall of the Labor Share,” *American Economic Review: Papers & Proceedings*, 1; Simcha Barkai, “Declining Labor and Capital Shares,” 33–34; and International Monetary Fund, “The Rise of Corporate Market Power and Its Macroeconomic Effects,” Chapter 2 in IMF, *World Economic Outlook, April 2019: Growth Slowdown, Precarious Recovery*, April 2020, 66, <https://www.elibrary.imf.org/view/IMF081/25771-9781484397480/25771-9781484397480/ch02.xml?language=en&redirect=true>.
47. James Manyika et al., “A New Look at the Declining Labor Share of Income in the United States,” McKinsey Global Institute, May 2019, 2, <https://www.mckinsey.com/featured-insights/employment-and-growth/a-new-look-at-the-declining-labor-share-of-income-in-the-united-states>.
48. Michael W.L. Elsby, Bart Hobijn, and Ayşegül Şahin, “The Decline of the U.S. Labor Share.”
49. David Autor et al., “The Fall of the Labor Share and the Rise of Superstar Firms,” *Quarterly Journal of Economics*, Vol. 135(2), 2020, <https://doi.org/10.1093/qje/qjaa004>.
50. Sharat Ganapati, “Growing Oligopolies, Prices, Output, and Productivity,” *American Economic Journal: Microeconomics*, forthcoming, 2020, <https://www.aeaweb.org/articles?id=10.1257/mic.20190029&&from=f>.
51. Loukas Karabarbounis and Brent Neiman, “Accounting for Factorless Income” (National Bureau of Economic Research Working Paper No. 24404, June 2018), <https://www.nber.org/papers/w24404>.
52. Robert D. Atkinson, “The Case Against Taxing Robots” (Information Technology and Innovation Foundation, April 2019), <https://itif.org/publications/2019/04/08/case-against-taxing-robots>.
53. Anna Stansbury and Lawrence Summers, “The Declining Worker Power Hypothesis: An Explanation for the Recent Evolution of the American Economy.”
54. Ibid, 4.
55. Diego Comin, Ana Danieli, and Martí Mestieri, “Demand-Driven Labor-Market Polarization,” 2019 Meeting Papers 1398, Society for Economic Dynamics, February 2019, <https://ideas.repec.org/p/red/sed019/1398.html>.
56. Tad Lipsky et al., Comment of the Global Antitrust Institute of the Antonin Scalia Law School, George Mason University before the United States Federal Trade Commission Hearings on Competition and Consumer Protection in the 21st Century, Hearing on Concentration and Competitiveness in the U.S. Economy, George Mason University Law & Economics Research Paper Series 18–25, September 13, 2018, 4, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3245866](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3245866).
57. Herbert J. Hovencamp, “Antitrust Policy and Inequality of Wealth,” University of Pennsylvania Law School, Faculty Scholarship 10-2017, (2017), 6, [http://scholarship.law.upenn.edu/faculty\\_scholarship/1769](http://scholarship.law.upenn.edu/faculty_scholarship/1769).
58. James Manyika et al., “A New Look at the Declining Labor Share of Income in the United States,” McKinsey Global Institute, May 2019, 2.



59. See also, Stephen Rose, “Sensational but Wrong: How Piketty & Co. Overstate Inequality in America” (Information Technology and Innovation Foundation, March 2018), <https://itif.org/publications/2018/03/05/sensational-wrong-how-piketty-co-overstate-inequality-america>.