Microeconomics of Public Policy
Part VIII: Employment policies

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Sciences Po

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Today's lecture

Introduction

Theory

Minimum wages

Unions

Children and Gender Inequality

Introduction

International differences in inequality are to a large extent driven by **predistribution**.

Labour income accounts for 70-75% of national income, so the employment policies such as minimum wages, the regulation of unions, addressing discrimination, and education play an important role in determining overall inequality.

Labour economics is the field that studies labour markets and the policies affecting them. This lecture is built on the following two review articles:

- “Who Set *Your* Wage?”, by David Card
- “Monopsony in Labor Markets: A Review”, by Alan Manning

Theory

For a long time, the dominant framework to study labour markets assumed that wages equal marginal productivity of labour, that labour markets are perfectly competitive and firms are wage-takers (rather than wage-setters).

Joan Robinson (1933) broke with this tradition and introduced the **monopsony** concept: a market that is characterised by the presence of a **single buyer**

μόνος - alone, only

ὀψωνέω - to buy fish

Note the difference with **monopoly**: a market characterised by the presence of a **single seller**

NPR: *Apple's Scary Buying Power And The Woman Who Named It*

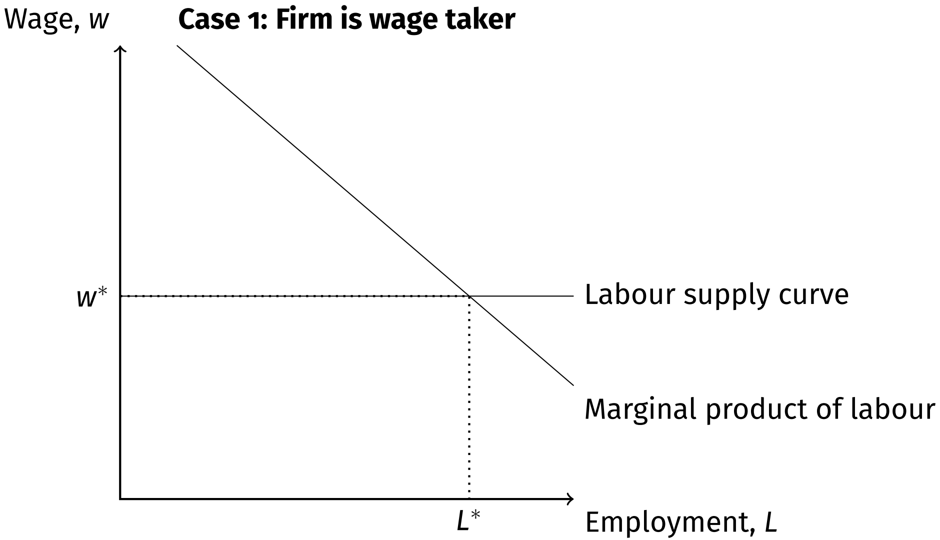
Monopsony II

The theory of monopsony was long thought to only be relevant in very specific cases such as towns with a single employer (e.g., mining or factory towns).

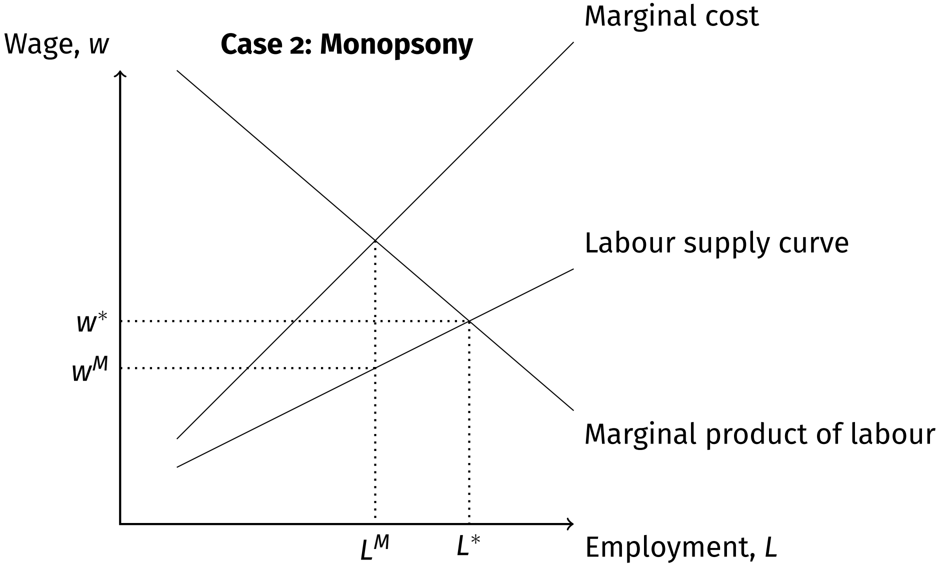
Recent research has instead documented the prevalence of monopsonistic labour markets and the importance of firms' wage setting power.

Wage setting power means that a firm can set wages below the marginal product of labour without losing all of its workers. Why can firms do this?

- Few competitors on the labour market
- Employer collusion (no-poaching and non-compete agreements)
- Idiosyncratic preferences for jobs
- Search frictions
- Misperception of outside options

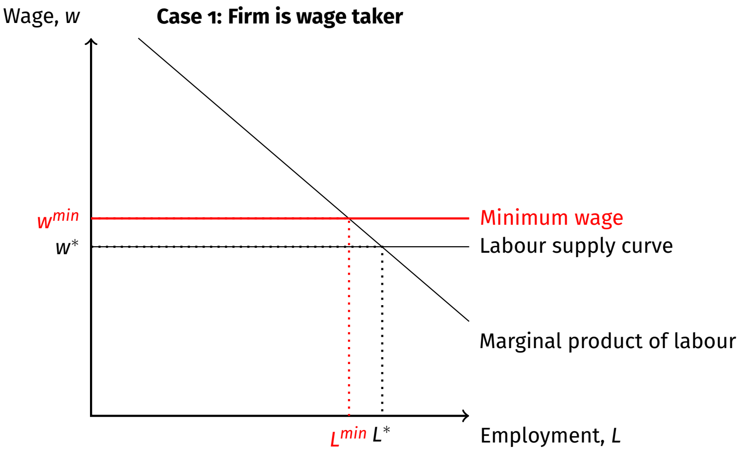

Wage, w
Case 1: Firm is wage taker
w^*
Labour supply curve
Marginal product of labour
L^*
Employment, L

Visualisation



Minimum wages

In theory, the effect of the minimum wage on employment and the incomes of workers depends crucially on the degree of firms' wage setting power.



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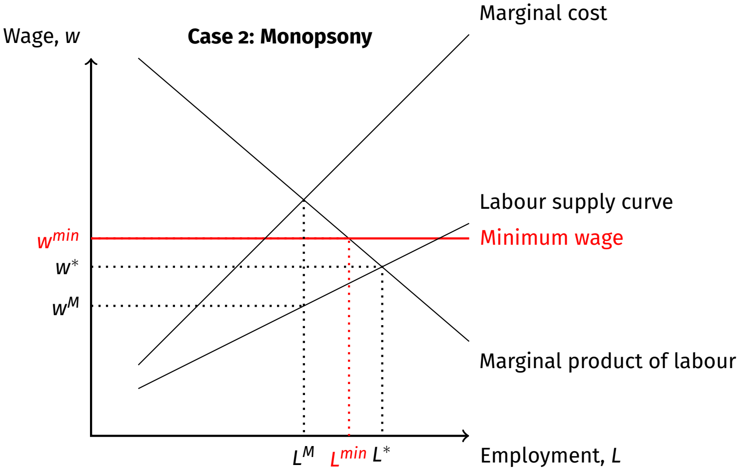


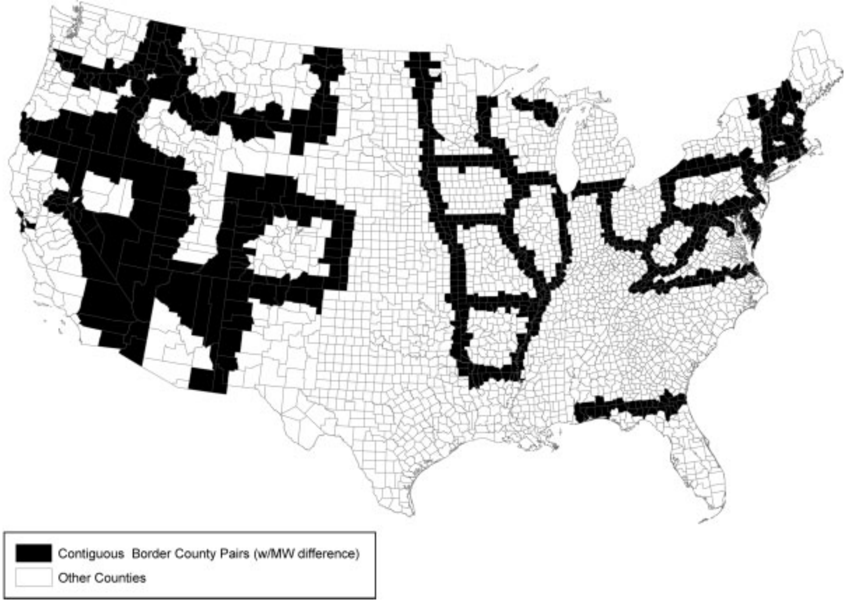
Empirical evidence on minimum wages

The modern literature on minimum wages started with Card and Krueger (1994):

- New Jersey raised the minimum wage from \$4.25 to \$5.05 per hour in 1992. Pennsylvania did not.
- Card and Krueger surveyed 410 fast-food restaurants and obtained data on employment and wages
- Using a difference-in-differences design, they find "no indication that the rise in the minimum wage reduced employment."

Dube, Lester and Reich (2010) extend this analysis to consider all cross-border differences in minimum wage policies between 1990 and 2006 and similarly find effects that are "indistinguishable from 0."

Dube, Lester and Reich (2010)

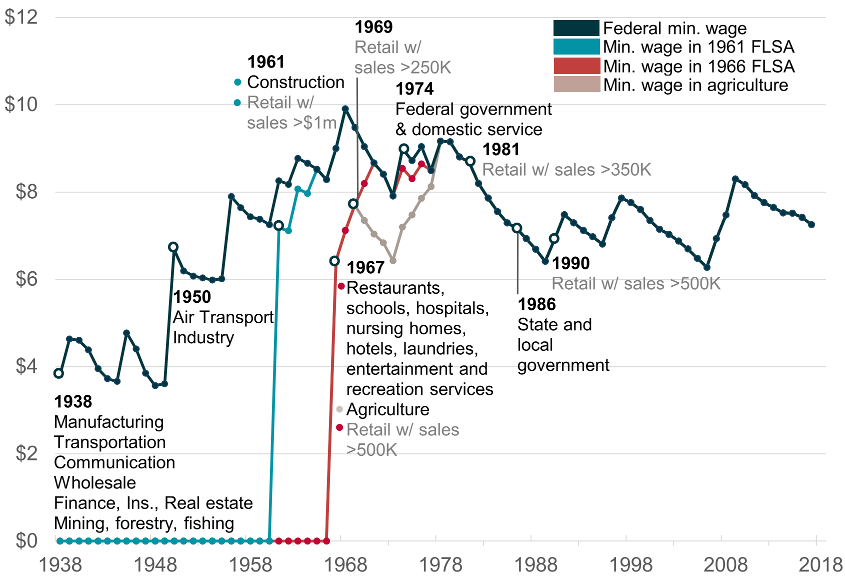


The black-white earnings gap fell considerably in the 1960s and 1970s, exactly when the 1966 Fair Labor Standards Act extended the federal minimum wage to previously uncovered sectors.

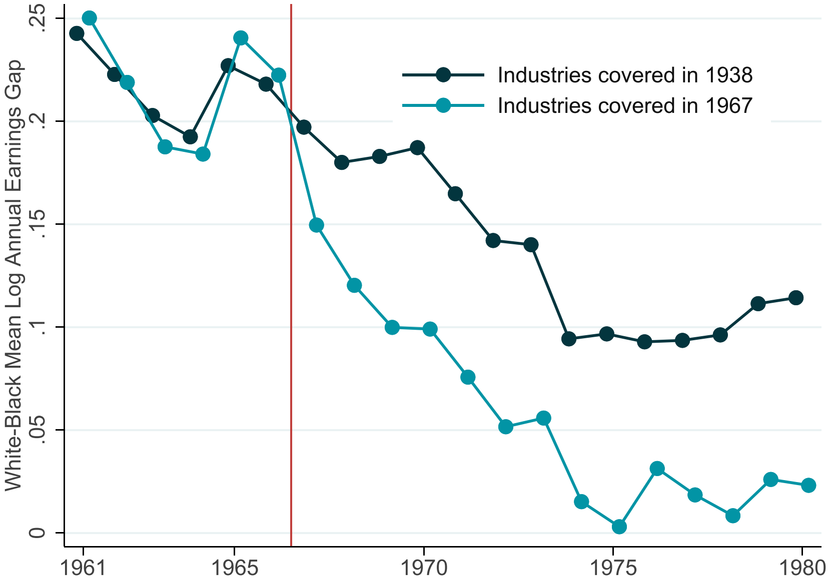
Derenoncourt and Montialoux (2021) study this extension and find that:

- Earnings of workers in newly covered industries rose rapidly relative to workers in already covered industries, and more so for black workers
- There was no significant aggregate effect on employment
- The extension accounts for more than a fifth of the fall in the black-white earnings gap between 1965-1980

Derenoncourt and Montialoux (2021)



Derenoncourt and Montialoux (2021)



Unions

Unions in higher education

NYT: *University of California Academic Employees Strike for Higher Pay*

Unions and inequality

Unions are organisations that represent the interests of workers in relation to employers. Their power is determined by their membership, as well as government regulation of unions related to the right to organise, the right to strike, and collective bargaining agreements.

Economists have long feared that unions improve the wages of its members at the expense of non-members, but they could also represent a countervailing force to employers with wage-setting power.

Farber et al. (2021) collect data on union membership from historical surveys in the US spanning the period 1936-1986.

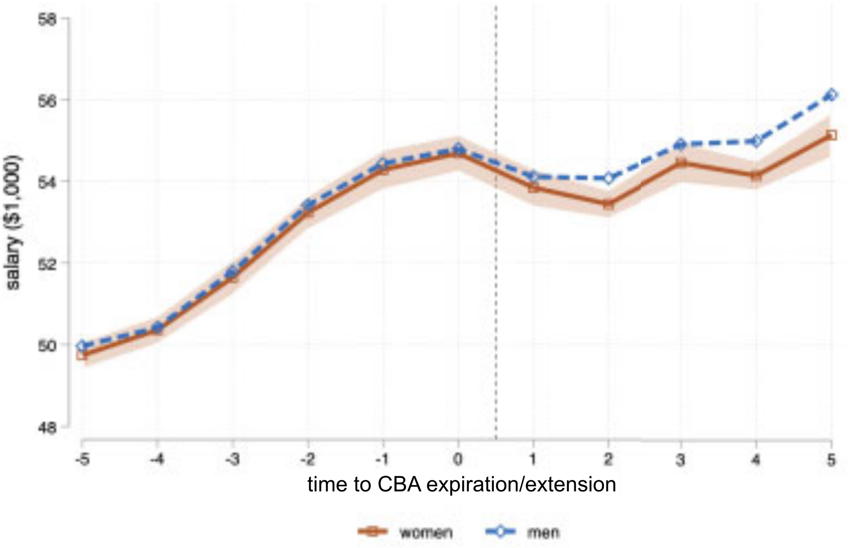
- Unions attracted workers who were less-educated and more likely to be non-white
- The incomes of union households lie 10-20% above that of non-union households
- Unions compress the wage distribution

Unions and the gender gap

In 2011, the passage of Wisconsin's Act 10 made it possible to bypass unions and set pay on an individual basis for public sector employees.

Biasi and Sarsons (2022) study this reform and find that:

- The salaries of women fell relative to those of men
- The gender gap grew most for younger teachers and least for teachers with female principals
- Gender differences in propensity to negotiate over pay may drive these results
- Gender differences in teaching quality do **not** explain the gender gap


58
56
54
52
50
48
salary ($1,000)
-5
-4
-3
-2
-1
0
1
2
3
4
5
time to CBA expiration/extension
women
men

Children and Gender Inequality

The "child penalty"

The first study to look at what happens to gender inequality around childbirth was Angelov, Johansson and Lindahl (2016) in Sweden.

Kleven, Landais and Søgaard (2019) study this question in Denmark. After childbirth, relative to men, women see a fall in

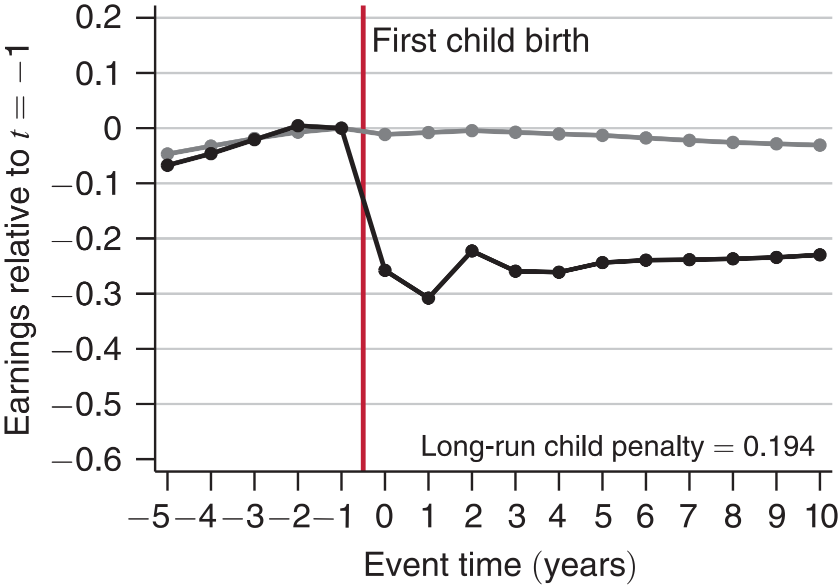
- Employment of 13%
- Hours worked 9.7%
- Hourly wages of 9.1%

$\Rightarrow$ Earnings of 19.4%

While the gender gap has fallen since the 1980s, the fraction of the gap explained by children has increased from 40% in 1980 to 80% today.

Women's child penalties are correlated with the labour market behaviour of **maternal**, but not paternal grandmothers.

Kleven, Landais and Søgaard (2019)



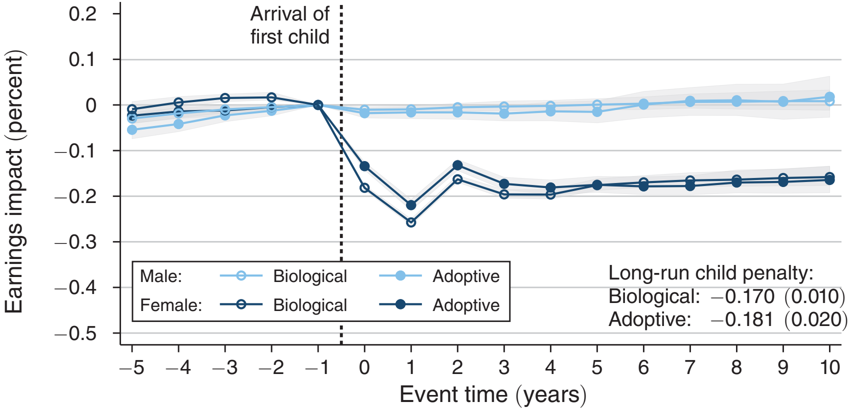
The determinants of the child penalty

Pregnancy, giving birth and breastfeeding are physically demanding. Does biology explain the child penalty?

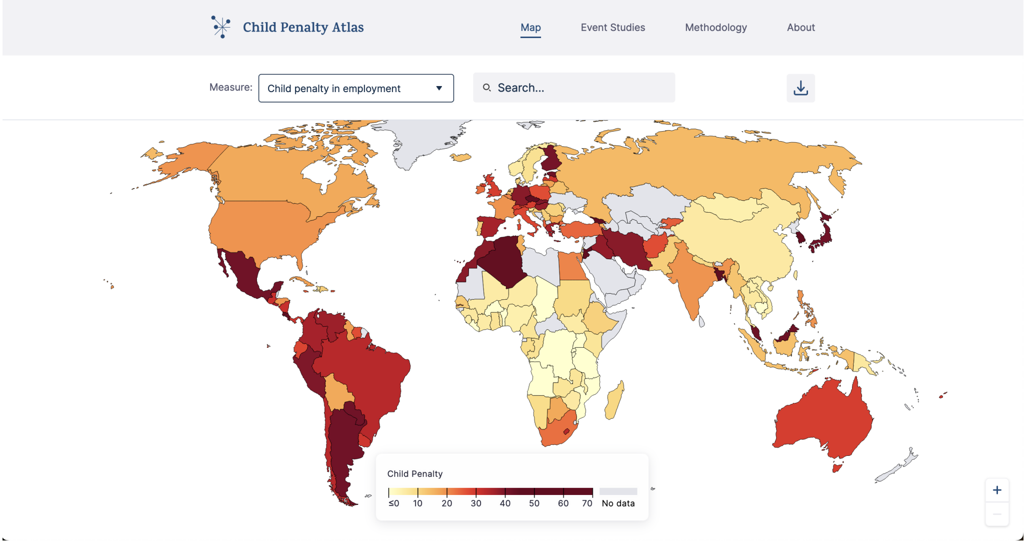
- Kleven, Landais and Søgaard (2021) estimate child penalties for biological and adoptive parents separately and find that child penalties are slightly larger for biological parents in the short-run, but not in the long-run.

Having children is costly and many countries do not support parents with generous parental leave and child care. Can policy reduce the child penalty?

- Kleven et al. (Forthcoming) study Austria where the gender gap has fallen by 30 %-points since the 1950s and where, during the same time, family policies were introduced and expanded.
- The introduction and expansion of parental leave increases child penalties in the short run, but there is no effect in the long run.
- The gradual roll-out of child care provision had an estimated effect on women's earnings of zero...


Arrival of first child
0.2
0.1
0
−0.1
−0.2
−0.3
−0.4
−0.5
Earnings impact (percent)
−5
−4
−3
−2
−1
0
1
2
3
4
5
6
7
8
9
10
Event time (years)
Male: Biological Adoptive
Female: Biological Adoptive
Long-run child penalty:
Biological: −0.170 (0.010)
Adoptive: −0.181 (0.020)

Child Penalty Atlas



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