

Trends in Worker Bargaining Power

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Abstract

This paper investigates worker bargaining power evolution over the last decades and its consequences on the American and French labor markets. I use a framework where wages and marginal productivity of labor are linked by a negotiation process, allowing the bargaining power of the parties involved to vary over time. I uncover a sizable disproportion between employees and employers in salary negotiation by estimating an average worker bargaining power of 17% in the US and 25% in France. However, these average estimates mask an aggregate declining trend in both countries since the 90s. Worker bargaining power followed a hump-shaped trend in the US over the last 60 years, peaking in the 80s and then halving until nowadays. In France, it has also been declining steadily over the last 30 years. These patterns help explain the low unemployment and wage growth over the last decades: firms exploited the low level of worker bargaining power to hire an inefficiently high number of employees. I propose marginal wage and profit taxes to restore labor market efficiency. Surprisingly, technological advancement, regulation, trade, and outsourcing seem to play a minor role in the decline of bargaining power. Gender and occupation differences are crucial, with male employees and routine abstract jobs experiencing the most significant erosion of bargaining power.

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