



Why American wages haven't grown despite increases in productivity

By Nathaniel Lee

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Wages in the U.S. have stagnated since the [early 1970s](#). Between 1979 and 2020, workers' wages grew by [17.5%](#) while productivity grew over three times as fast at [61.8%](#).

"It's not true that wages haven't grown at all," said Allison Schrager, senior fellow at the Manhattan Institute. "They have, but they haven't grown as quickly as they had in the past."

Previously, globalization and automation have been blamed as primary causes of slow wage growth. But more economists suggest that labor dynamism plays a crucial role as well. American workers today are changing jobs [less frequently](#) than before, even though job switching [leads](#) to strong take-home pay growth.

And while some Americans don't switch their jobs out of a [desire for stability](#), others feel they can't because of limited job mobility. In many local markets, companies use the lack of competition to suppress their workers' wages.

"The notion of monopsony power is that you have a local labor market, let's say that you live in a particular city or in a particular town, and in that town, there is one employer," explained Efraim Benmelech, professor of finance at Northwestern University. "Given that there is only one employer there, then they set the wages in a way that is lower than what you would otherwise expect in a fully competitive market."

Sixty percent of labor markets are considered highly concentrated and just 10% more workers in an area can lead to about 1% reduction in posted wages.

"In case after case, you see that government policies were implemented to discourage labor dynamism and to discourage workers from moving to a better job or moving to a better town or city to improve their job prospects," said Scott Lincicome, director of general economics at the Cato Institute.

Meanwhile, the Covid-19 pandemic and the impact of the Great Resignation may have led to some surprising gains in wage growth. A quarter of private sector businesses in the U.S., employing 54

million workers, delivered pay raises due to the pandemic, according to the U.S. Bureau of Labor Statistics.

“How to tell whether that’s the new reality,” said Benmelech. “Did it change our life forever and maybe for the better in terms of labor market and wages? We have to wait and see.”