**The Unexpected Compression: Competition at Work in the Low Wage Labor Market (joint with Arindrajit Dube and Annie McGrew)**

**Abstract**

We present evidence that labor market tightness following the pandemic led to an increase in labor market competition. Even though low-wage jobs were hit particularly hard during the pandemic, the subsequent rebound led to an unexpected compression in the wage distribution. Wages have been rising the fastest at the bottom of the wage distribution and slowest at the top---the opposite of what we have observed for much of the past four decades---yielding a fall in the college wage premium and a reduction in wage inequality. This pattern is accompanied by a sharp increase in job-to-job separations---especially for non-college and younger workers---which are associated with rapid nominal wage growth. The change in separations have been much higher at jobs paying particularly low wages, leading to a doubling of the wage-separations elasticity, a measure of competition in the labor market. Wage growth among job-stayers is far less pronounced. Using cross-state variation, we find that labor market tightness (including job-to-job separations) is strongly predictive of wage compression following the pandemic. Our evidence suggests that pandemic increased the elasticity of labor supply in the low-wage labor market, spurring rapid relative wage growth among young, non-college workers who disproportionately moved from lower-paying to higher-paying and, potentially, more productive employers.