

Vermont H.334: Costs of noncompete agreements for workers and the economy

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Introduction

- Who benefit from noncompetes?
 - Existing firms/ employers
- Who are disadvantaged?
 - Workers
 - Would-be entrepreneurs
 - VT's economy

Noncompetes are widely used

- 27.8% of U.S workers are subject to noncompetes
- Noncompetes often target low-wage workers
 - 14% of workers earning less than \$20 an hour have noncompetes

Noncompete agreements in U.S. workplaces, by industry

Industry	Sample size	Share of workplaces where all employees are subject to noncompete agreements	Share of workplaces where any employees are subject to noncompete agreements
<i>Construction</i>	65	30.7%	47.7%
<i>Manufacturing</i>	135	34.8%	54.1%
<i>Wholesale trade</i>	34	32.3%	67.6%**
<i>Retail trade</i>	55	25.4%	41.8%
<i>Transportation</i>	38	21.0%	36.8%*
<i>Information</i>	24	25.0%	54.2%
<i>Finance, insurance, and real estate</i>	31	35.5%	58.1%
<i>Business services</i>	75	52.0%***	70.7%***
<i>Education and health</i>	94	28.7%	39.4%**
<i>Leisure and hospitality</i>	28	14.3%**	25.0%***
<i>Other Services</i>	35	31.4%	42.9%

Notes: Percentages indicate the share of workplaces in each row category where either all employees are subject to noncompete agreements or at least some employees are subject to noncompete agreements. The symbols *, **, and *** indicate that the use of noncompete agreements is significantly different from the other categories in the table combined at the 0.10 level, 0.05 level, and 0.01 level, respectively.

Source: Original data from national survey of private-sector workplaces (see the methodological appendix).

Noncompete agreements in U.S. workplaces, by average employee pay level

Average hourly wage level	Sample size	Share of workplaces where all employees are subject to noncompete agreements	Share of workplaces where any employees are subject to noncompete agreements
<i>Less than \$13.00</i>	124	29.0%	37.9%***
<i>\$13.00-\$16.99</i>	139	30.9%	56.8%**
<i>\$17.00-\$22.49</i>	131	32.8%	46.6%
<i>\$22.50 and greater</i>	148	36.5%	55.4%*

Notes: Percentages indicate the share of workplaces in each row category where either all employees are subject to noncompete agreements or at least some employees are subject to noncompete agreements. The symbols *, **, and *** indicate that the use of noncompetes is significantly different from the other categories in the table combined at the 0.10 level, 0.05 level, and 0.01 level, respectively.

Source: Original data from national survey of private-sector workplaces (see the methodological appendix).

Noncompetes decrease wages

- 2-3% wage increase after banning noncompetes (Lipsitz and Starr 2021)
- Higher enforcement of noncompetes decreases wages by 4% (Starr 2019)
- State-industry combinations with more noncompetes have lower wages (Starr, Frake, Agarwal 2019)

Noncompetes hurt economic dynamism

- Banning noncompetes increases rate of new business formation by 2.7% (Jeffers 2024)
- When noncompetes are enforced, patenting decreases 11%-19% over next 10 years (Johnson, Lipsitz, and Pei 2023)

Some additional points

- Employers have other options for protecting trade secrets
- Even unenforced noncompetes still have a suppressing effect

State policy

- Most states have some sort of restriction on noncompetes (EIG 2024)
- States with full bans
 - CA, MN, ND, OK, WY
- States with income restrictions
 - CO, IL, ME, MD, NH, OR, RI, VA, WA

Conclusion

- Noncompetes:
 - Reduce wages and job mobility
- Restricting their use:
 - Creates more opportunities for workers
 - Reduces market concentration
 - Boosts economic productivity

Sources

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Q&A