

For immediate release

NEW IZA World of Labor Report: The use of noncompete agreements and how to ensure that they can benefit both employers and employees.

Summary: A new study by IZA World of Labor has found that there is increasing scrutiny on employment practices, such as noncompete agreements, that may weaken workers' bargaining leverage which have led policymakers to consider sharp restrictions on their use, especially among lower-income workers. The study looks at balancing the trade-offs between the desire to protect workers while allowing firms to use noncompetes in cases where they may create social value.

[A new study by Kurt Lavetti](#) says noncompete agreements have the potential to increase productive investments but can also harm workers. Empirical evidence shows that whilst NCAs are consistent with greater worker training and rates of corporate investment they can also result in lower wages and job mobility.

The report concludes that policymakers should aim to balance the regulations that protect workers while still allowing employers to benefit from noncompetes. There are a number of regulatory options, including noncompete wage floors, transparent information requirements, and matching the timing of payments for noncompetes with the work restriction period.

The study analyzes the benefits and risks associated with using NCAs for both employers and workers. The benefits of using NCAs include opportunities for investment incentives and increasing firm productivity; however, their use comes with a risk of negatively impacting the fluidity of the labor market and the ability of workers to move jobs or leverage bargaining power and many workers are uninformed about the impact of NCAs on their own careers.

There is strong consensus that NCAs, on average, tend to reduce earnings of low-income workers, and may have disproportionate impacts on the most vulnerable segments of the workforce. The study concludes that regulating the use and scope of NCAs may be warranted, with the caveat that empirical research is still developing.

The report finds that employment practice regulations can be designed in ways that balance the need to protect vulnerable workers, while still allowing NCAs in other segments of the labor market. For example, regulators can impose minimum wages for jobs with NCAs, regulate information disclosure requirements, and potentially mandate that firms compensate workers during the period in which NCAs are likely to harm workers.

However, the report also recommends that, given the potential value of NCAs in some settings, the standard of evidence to support a broader ban, or occupational bans should be quite high. Therefore, policymakers should await clarity from research specific to occupations or industries in the absence of very compelling motivations that may not require evidence. Subsequent regulations may then consider the new empirical findings that become available as data on NCAs continues to expand.

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