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PostEverything Perspective

And now, for some unequivocally good news:
Amazon raises its minimum wage to \$15. Here's
why it did that.



Workers prepare to move products at an Amazon fulfillment center in Baltimore.

(Patrick Semansky/AP)



By **Jared Bernstein**

Jared Bernstein, a former chief economist to Vice President Joe Biden, is a senior fellow at the Center on Budget and Policy Priorities and author of 'The Reconnection Agenda: Reuniting Growth and Prosperity'.

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If, like me, you've been dying to hear some good news, then you surely welcomed Amazon's decision to raise its minimum wage to \$15 for all its 350,000 workers, including seasonal employees and temps, according to the company.

Amazon chief executive Jeffrey P. Bezos also owns The Washington Post.

Given that the wage trends of low- and middle-wage workers is core to my research agenda, I'd like to briefly get into why the company made this decision at this moment. The decision is to some extent "bespoke," in that Amazon is a uniquely large, hugely dominant firm capitalized at \$1 trillion, run by one of the richest people in the world. But that, too, is fodder for the analysis that follows.

It's a tight labor market.

Here's how my old pal and top-flight wage analyst Sylvia Allegretto, a labor economist at the University of Berkeley, put it in [The Post](#): "We have a tight labor market, and these are tough jobs with high turnover rates. You add in that Amazon is competing for workers, and it makes sense that it is raising wages."

Once the labor market hits full employment — an all-too-rare occurrence in recent decades — even employers of the magnitude of Amazon have to kick up pay to hire and keep the workers they need. Economists call demand for labor "derived" demand, as it is derived from the consumer demand for the goods and services workers produce. Such demand is strong right now, and companies either staff up to meet that demand or leave profits on the table.

But isn't Amazon a price maker, not a price taker?

There's an important strain of work in economics these days that looks at the few firms — think Amazon, Google, Apple — that dominate their industry. Given that these firms have the market power to set prices and wages, why would Amazon raise its minimum? Even in a tight labor market, shouldn't its size and clout preclude that move?

As Allegretto implies, maybe they could resist pay hikes at 5 percent unemployment but less so at below 4 percent. I cannot underscore enough the importance of this insight. It means that if the Federal Reserve believes the lowest sustainable unemployment rate is 5 percent instead of 4 percent, literally millions of low-wage workers, disproportionately minorities and women, will never get a chance to reap the benefits of the expansion.

That said, given Amazon's clout, it took more than low unemployment to enforce this change. It also took ...

Political pressure

When Sen. Bernie Sanders (I-Vt.), scourge of the top tenth of the top 1 percent, and Bezos, denizen of that privileged niche, are exchanging [loving tweets](#), attention must be paid. Sanders, along with Rep. Ro Khanna (D-Calif.), has long called out Amazon for its labor practices, and he recently introduced [a bill](#) subtly titled the Stop BEZOS Act. While I share the lawmakers' goal of pushing for higher pay for low-wage workers, I thought Sanders's bill, which charged companies for the public benefits its workers received, was [misguided](#) in that it would vilify legitimate benefit receipt and lead firms to discriminate against hires they thought might draw such benefits. But I have no question that the lawmakers' pressure was instrumental in driving this change.

Is there anything not to like about Amazon's decision?

They should index their minimum wage for inflation, but we can argue about that later. The change is probably not as costly to the company as you might expect, as their fulfillment-center workers in higher-wage states already make about \$15 an hour. But my research finds that Amazon has a lot of workers in Texas, Florida, Indiana and Kentucky, lower-wage states where the bump to \$15 will constitute a much-welcomed raise.

It's also the case that some of these higher labor costs will land right back in Amazon's coffers. Think of this move as a bit like the service-sector version of Henry Ford, who recognized that unless he raised his workers' pay, they couldn't afford the cars they were making. I'm not saying \$15 an hour is a living wage — which is why federal wage supports such as the Earned Income Tax Credit are a complement to the policy, contrary to the Stop BEZOS Act — but it's certainly a strong move in that direction.

I was also asked Tuesday whether the change would show up in higher inflation. I doubt it. Wages and prices are slowly rising anyway, and while 350,000 is a lot of employees, there are 160 million workers in the labor force.

Finally, one last hand-clap for Amazon's announcement, which included a decision to use its significant political heft to push for raising the federal minimum wage to \$15 an hour. At one level, this can be seen as a play for its competitors to face the same wage floor Amazon just imposed on itself. But the firm's [statement](#) also made the persuasive case for a higher federal floor: "We will be working to gain congressional support for an increase in the federal minimum wage. The current rate of \$7.25 was set nearly a decade ago. ... We intend to advocate for a minimum-wage increase that will have a profound impact on the lives of tens of millions of people and families across this country," the company said.

So, please join me in taking a break from the abject terror and chaos that characterizes life in today's political economy and basking in some genuinely great news.

Okay ... break over.

