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Amazon's wage increase is due to market forces

Jeff Bezos created quite a stir by announcing that his company, Amazon, would increase entry-level wages to $15 an hour. Bernie Sanders and the Fight for $15 activists lauded this move, claiming victory for their campaign.

What Amazon's new policy really reflects, however, is economics (and some public relations) at work. It isn't support for raising the overall minimum wage.

The fact is that the labor market is tight. The national unemployment rate is the lowest it has been in decades. Hovering around 4 percent, it is well below what historically was considered "full employment." A number of industries are reporting increased difficulty in finding skilled workers. The Bureau of Labor Statistics reports there are more job openings than workers to fill them.

The result is just what basic economics predicts: Wages are on the rise. Remember earlier in the year when Walmart announced its increase in starting wage rates for hourly employees to $11, with plans to increase it to $15 by 2020? It also expanded maternity and parental leave benefits, and made one-time cash bonus payments to some employees. These changes affected more than 1 million Walmart employees across the nation.

Why did Walmart alter its policy? Their action followed wage increases announced by Target in late 2017. Competition for workers drives up wages in a tight labor market. Sure, there is some public relations to these changes, but retailers are finding it increasingly difficult to hire and keep qualified workers. Hence the wage increases.

If the market is functioning properly — wages and nonwage benefits are rising at the major employers — what message does this send to those advocating across-the-board increases in the minimum wage? The message is that markets work. But every business can't absorb such wage increases like Amazon or Walmart. How would an increase in the minimum wage to $15 affect small firms already operating on the razor's edge of profitability?

Economist Jonathan Meer of Texas A&M, in a soon-to-be published study by the Hammond Institute, notes that workers move between jobs seeking the best paying opportunities. A wage increase at the local Amazon warehouse will put upward pressure on the smaller firms in the area. In response, they might increase wages for some employees.

Think of it: Could your local hardware store handle a mandated increase in hourly wages to $15? Hardly. Following an increase of this or even lesser magnitude, small businesses often reduce the number of employees or their hours, or both. What often is overlooked is that small business owners often face reductions in their own income to keep employees working. Small firms, workers and owners alike, withstand the worst of an increase in the minimum wage.

This is not just speculation, either. Seattle city leaders voted to raise the city's minimum wage from $9.23 in 2014 to $13 by 2016, and again to $15 in 2017. Based on the first set of wage increases, Meer reports that total hours worked in low-wage jobs fell nearly 10 percent. So, too, did total payroll for low-wage workers. In other words, "those workers for whom the increase was supposed to help," Meer notes, "were actually receiving fewer dollars on average after the minimum wage increase than before."

Many voters and politicians are predisposed to approve legislation to increase the minimum wage. They think it will help low-skilled workers. The evidence simply does not support this well-intentioned, though misguided, belief. Raising the minimum wage will harm many of the very workers (and small business owners) it purports to help.

R.W. Hafer is professor of economics and director, Center for Economics and the Environment, Plaster School of Business and Entrepreneurship, Lindenwood University Hammond Institute.