



# A Study on Whether Amazon Should Increase Employee Pay

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**Abstract.** In recent years, numerous employees complain about salaries being relatively lower compared with the past, as people's living standards raised. The research is aimed at a company-Amazon on whether to increase workers' wages. This study found that increasing wages can raise employees' efficiency and productivity, and the firm will have higher competitiveness compared to others as most of the people are willing to get higher salaries. However, some drawbacks occur when wages increased. It may not be useful for those low-income workers as the prices of goods and services may also increase. Overall, Amazon should still increase workers' wages by differentiating skilled and unskilled workers or raise the salary cap on Amazon. In those methods, the company's profits will not be affected to a great extent.

**Keywords:** Amazon, Minimum wages, Motivation, Salary structure.

## 1 Introduction

### 1.1 Background

Amazon is one of the world's most famous online markets and it is popular among both individuals and also businesses. Until August 2022, it has a market capitalization that is more than \$1.3 trillion U.S. As it is an online retailer, users can sell and buy goods on Amazon and its revenue exceed 237.7 billion in June 2022. Also, the website of Amazon has the function of changing language, which is a good thing for people around the world to understand the website and that might be one of the reasons why Amazon is popular [1].

### 1.2 Related Research

Keaveny and Allen assessed the effect of increasing salary for selected outcomes. Even though the method of giving salary is easy to be managed, it still has long-term costs after analysis. People who believed that they were doing excellent work and making great progress did not get their expected salary. Therefore, their job

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performance and efficiency decreased due to the amount of salary given. The difference to find substituting jobs is significant statistically [1]. Simonova et al. have considered the current salary and economic tasks of increasing labor productivity. In Samara Region, there was a possibility that average wage rises as it is one of the factors of population welfare. Considering the special circumstance in Russia, the government is necessary to give management in labor productivity. It could promote the corporations between the different economic systems and give reasonable and practical recommendations for the salary level [2]. Yu et al. have discussed the increase in the job satisfaction of nurses and reduces the emission of nurses in Taiwan. As job satisfaction increases, more nurses tend not to diminish their job and have a better quality of their services [3].

Hough has discussed whether increasing wage attracts more applicants in becoming teachers. The answer is yes. The policy attracted applicants who only apply for higher wages. Also, when the number of applicants increases, schools can employ teachers who have better teaching quality to increase the school's education quality [4]. Hong has collected primary data from Tra Vinh about the effects of salary. It shows that numerous factors affect employees' salaries, like career, experience, education, race, or religion. Therefore, they found some solutions to solve that by training employees and improving the working environment to increase their average salary [5].

In addition, the research mentioned that Amazon changed people's shopping ideas. Even though there is numerous online shopping platform, many consumers prefer to consume goods on Amazon [6]. It has built the best user service experience. Their ability to think ahead of people's time has played a huge role in the platform's success. It produced the Echo that can fulfill a variety of tasks like playing music, ordering food, and even turning off the lights. It operates in 13 countries, but it is most successful in the U.S market. Now, they are expanding the size of the company rapidly in other countries. Amazon always thinks about its future and the improvements in its plans.

Amazon was founded in 1995, the company's name was to commemorate the Amazon river. It then expanded to sell software, electronic devices, furniture, and so on. In 2012, the company hired 51,300 employees around the world. In addition to the original U.S. site, the specific sites are for the United Kingdom, Canada, Germany, France, Spain, Italy, China, Brazil, and Japan. Amazon with Google, Apple, and Facebook form the Big Four of the Internet.

### 1.3 Objective

As one of the biggest companies in the world, over one million people are working at Amazon. Generally speaking, every employee wants to increase their income. Therefore, a question occurs: should Amazon pay people more? Everyone has their unique opinion on this question. This paper will explore this issue.

## 2 The Reason for Increasing the Wages of Amazon

### 2.1 Profitability

Firstly, some people believe that Amazon can afford higher wages for people who work there. It is one of the companies that earn the most around the world and its technology employees have the highest income in the U.S. From the information provided by a website called Macro trends, Amazon's annual gross profit for 2021 was \$197.478B, a 29.28% increase from 2020. Amazon's annual gross profit for 2020 was \$152.757B, a 32.85% increase from 2019 [7].

**Table 1.** Profitability of Amazon from 2017-2021(billions)

	2017	2018	2019	2020	2021
Revenue	177.9	232.9	280.0	386.0	469.8
Gross Profit	65.9	93.7	115.0	152.6	197.5
Net Profit	3.0	10.1	11.6	21.0	33.0

As shown in Table 1, these data show that Amazon makes a big amount of profit every year. Therefore, spending more money on paying their workers may be helpful to motivate the employees to work harder and more efficiently. For instance, there are numerous warehouse workers in Amazon and they are playing a very important role in Amazon. Their work is to pack the goods consumers bought and deliver them. However, they are on averagely paid less than \$11 which is lower than the U.S. lowest minimum wage. Therefore, to be honest, they may not be able to afford necessities and rents for houses, which is a terrible thing.

### 2.2 Minimum Wages

Secondly, it is undeniable to say that increasing the minimum wage is a good thing for the whole economy. It is because, if employees get more income, they will have more disposable income. Therefore, more people are able and willing to buy more goods and services in the markets. Therefore, as a whole, aggregate demand increases, which increases price level and real GDP. These will promote economic growth, which is a good thing for the economy. Also, increasing minimum wages might attract more people to find jobs and produce more employment opportunities. As a result, the unemployment rate will be reduced, which is also one of the government goals that are good for the economy [8].

### 2.3 Competitiveness

Thirdly, Amazon needs to increase payment because they need to be more competitive than other online retailers to attract more workers. There are lots of firms increasing their wages for employees so that there is competition between those

companies regarding minimum wage. A higher minimum wage will attract more people to work there [8].

## 2.4 Efficiency and Productivity

Lastly, increasing the minimum wage might increase employees' working efficiency and productivity. As workers can get more money, they might work harder and be able to produce more products in a shorter time. That is a good thing for Amazon and also for consumers as some of the products are always sold out. If employees increase their efficiency, consumers will not have to wait for a long time to get the products. Also, Amazon can get more profits from selling more products [9].

## 3 Disadvantage Analysis

Despite the advantages of the minimum wage to workers, the disadvantages can be damaging as well. Minimum wages reduce the rate of employment mostly among low-wage and low-skilled workers. Secondly, minimum wages can do a bad job by targeting the poor and low-income families and minimum wage laws command high wages for low-wage workers rather than higher earnings and incomes for low-income families.

About 49,000 General Motors employees across the United States will go on strike starting at 11:59 p.m. local time, the United Automobile Workers union said on Tuesday, Beijing News reported, citing CNBC. According to the Associated Press, General Motors workers at 33 factories and 22 warehouses in the US went on strike early Tuesday. The strike is understood to have been triggered by GM's plans to close four US factories in November 2019 to cut costs ahead of a downturn in the US car industry. The unions are demanding higher pay, better benefits and more job security. This divergence has led to the unions' perennial weapon of victory, the strike.

Once the strike begins, GM's production operations in the US and even the whole North America region will be suspended, and the US economy will suffer a blow, CCTV News said, citing an analysis by the travel agency. In 2007, 73,000 GM workers went on strike at a cost of more than \$300m a day. Earlier, in 1998, a 54-day strike cost GM about \$2 billion. The strike is expected to cost GM about \$400 million a day, or about 2.8 billion yuan. It is worth noting that the United Auto Workers, the largest union in the United States, is organizing the strike. It is also the labor organization that has made General Motors, Ford, Chrysler and other American auto companies afraid.

The UAW was founded in 1935 as part of the American Federation of Labor. Thanks to the enactment of the National Worker Relations Act in the United States in the same year, the UAW began a 15-year golden period of development, with more than 1.5 million members at one time. The original intention of the UAW was to seek better working conditions, more reasonable working hours, and fairer treatment and benefits for workers who were in the rapid growth period of the auto industry at that time. You know, a lot of the car factories at that time were very harsh working

conditions, six days, working more than 12 hours a day, not even allowed to go to the bathroom during work time.

On January 1, 1936, the UAW organized the first strike against General Motors and "crushed" the auto tycoon. On the whole, the UAW was a landmark in its early years, helping to protect workers' rights by getting auto giants such as GM and Ford to sign up for a system of benefits for ordinary workers, including a minimum hourly wage, health insurance and paid leave.

Since then, by organizing mass strikes and violent clashes, the UAW has almost always had the upper hand in the game against the American auto giants. However, companies who disagree with increasing wages also have their point of view. One of the reasons why people are against the argument is that increasing minimum wages might hurt businesses. For example, if Amazon raises the income for its employees, the company itself will get less profit per year, which will increase the number of products sold on its website. Therefore, consumers will have to be forced to pay more to get what they are willing to buy. For almost all consumers, if the price increases, they probably consume less on Amazon and choose another online retailer. This will result in a decreasing number of users of Amazon, also other companies may also increase their prices. As fewer people are using Amazon to buy products, the profits earned by Amazon will decrease, and they will have to cut the number of employees. This will lead to an increase in the unemployment rate in the economy, which will hurt both businesses and the whole economy.

In addition, raising the minimum income may not be helpful for people, especially low-income people. It is because, as the minimum wage increases, people have more disposable income but the prices of some goods and services may also rise. Therefore, increasing their income for them will not help them. Also, it is a truth that not everyone works at Amazon. There are lots of low-income people working in other places. Increasing incomes for Amazon employees might affect other low-income people as the prices of some necessities or rent for houses will be increased, which is harmful to them [8].

Also, if Amazon raises the wages of their worker, they may reduce the amount of money spent on health care or paid time off. It may also cause inflation, as people are having more disposable income and decided to spend more money. The aggregate demand will rise, causing the price level to increase. Even though that might be good as it is economic growth, when it reaches a certain level, it becomes serious inflation. Because of inflation, the government will have to use policies like demand-side policy and supply-side policy to reduce high inflation.

If Amazon immediately increased every worker's salary by twenty percent, the economy will be in a mess. There are lots of working positions on Amazon, like software engineers, solution architects, government customers' advisors, and data scientists and so on. Some of the job positions already have very high wages above \$150,000 per year [10]. After calculation, if Amazon decided to increase everyone's wage by twenty percent, they will be able to get more than \$180,000, which is high. But some people earn less than \$20,000 per year, a twenty percent increase in their wages is only about a \$4,000 increase, which is not useful at all. It is because if their wages increased, the price of goods and services will increase as well. Therefore, an

increase of twenty percent is quite useless for low-income people. The reason why Amazon can earn lots of profits is that it can balance its average cost and average benefits. Amazon always keeps a very low cost of production including low cost of raw materials and low wages for their employees. If Amazon increases every worker's wages, a low cost of production will not be reached, which might result in the price of their products, and consumers are the victims of the rise in Amazon workers' salaries. Another possibility is that Amazon may switch to capital-intensive rather than labor-intensive. It is because those machines do not have a wage, they can be used for a relatively longer time than labor. Also, machines do not need time to rest and productive efficiency will also increase. Therefore, Amazon will be able to produce more output with less cost of production and it will be more efficient. As a result, Amazon can earn more profits from that. That will create a problem: unemployment. When Amazon switches to capital intensive, the need for a labor force will decrease, and so more people will be cut off from Amazon and become unemployed. An increase in the unemployment rate is a serious economic problem.

## 4 Solution

First of all, Amazon should increase salaries for skilled workers like executives instead of unskilled workers. Because skilled workers are scarce resources, they have the initiative to choose their jobs. Companies need to offer higher salaries to ensure that they do not work for other companies because of salary issues. For unskilled workers, they are not as essential as skilled workers. Amazon doesn't need to raise its salary for them. Amazon is one of the largest web-based e-commerce companies in the United States, located in Seattle, Washington. Amazon has 1.6 million workers all over the world, and increasing the salary for workers will increase the cost of production. The average annual salary is 29 thousand dollars. In this case, they need to spend a further 1 billion dollars to pay an extra salary, if they only raise the salary by twenty percent. It is a tremendous fee for any company. Besides, as we know, labor is one of a factor of production. The price of labor can be influenced by lots of factors. Scarcity is a big component, labor is like a good, and the price (salary) can be influenced by scarcity. Scarcity can be reflected by the unemployment rate. Because of the covid-19, the unemployment rate in the United States is very high, reaching a staggering 14.7% in 2020. Although the unemployment rate has improved dramatically, there are still about seven million people unemployed. It is well known that companies do not voluntarily raise the salaries of their employees because this would raise the cost of production and make the company's revenue lower. All production costs are raised for a reason, and employees' salaries are no exception. For instance, personal productivity increases, education increases, or employees become more scarce. However, in the United States now, Amazon does not need to raise salaries, and there are still many unemployed people in the market. It could be illustrated by the Keynesian Long-run Aggregate Supply Curve. This curve states three phases of long-run aggregate supply. The first phase A to B and the second phase B to C can state the idealized current state of the United States.

AS curve will be perfectly elastic at low levels of economic activity. Producers can raise their levels of output without incurring higher average costs because of the existence of 'spare capacity in the economy- unused factors such as unemployed labor and underutilized capital. Therefore, Amazon can recruit more employees at a very low cost, because many people are unemployed and need jobs, and they are even willing to work for a very low salary. As the economy approaches its potential output and the spare capacity is "used up", the economy's available factors of production become increasingly scarce. As producers try to increase output, they will incur higher costs and the price level will rise to cater to the costs. In this case, Amazon should increase the salary for skilled workers like executives instead of unskilled workers.

On the other hand, Amazon should raise the salary cap. Amazon's salary composition has been very unique, the salary cap is very low. Many executives' salaries have exceeded the cap and are unlikely to increase. In this case, Amazon usually gives employees stock or signs on, many people will choose the stock before it does not matter, because they can exchange stock for money, and the stock increase may be greater than the salary increase. But the problem is that now we all know that the U.S. stock price reduction is serious, and Amazon's stock also decline a lot. Therefore, employees don't want to get stuck anymore, they are more willing to get cash. If Amazon still has a low salary cap, the executives will all have to leave. In this case, to keep more employees stay in the firm, Amazon should raise the salary cap. As early as April, Amazon issued a new rule about salary increases. The salary cap will be increased from \$160,000 to \$350,000 and is expected to increase wages by ten to thirty percent.

## 5 Conclusion

In conclusion, Amazon should still increase employees' wages to make them affordable in their daily necessities and rents and to promote economic growth. However, a twenty percent increase might not be reasonable, as some people are earning higher wages, so they can get much more money, but some people are just having a minimum wage, so a twenty percent increase is very few. Therefore, Amazon should set an exact amount of money for a different position. For example, people who have minimum wage will get more money from Amazon, while other people earning more money will get relatively less money from Amazon. Therefore, low-income people will be protected and inflation may not occur. Also, it will not put too much pressure on the company, so that unemployment will not occur.

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