The Minimum Wage, the Contemporary Economy, and Economic Justice

922 N. 3rd Street, Harrisburg, PA 17102 • www.pennpolicy.org • info@pennpolicy.org

By Marc Stier March 28, 2024

Introduction

Those of us who support raising the minimum wage often say that doing so is a matter of justice. We believe we show respect for the dignity of work by ensuring all full-time workers are paid a decent wage that allows them to support themselves and their families.

Yet some critics of the minimum wage think that the minimum wage is itself unjust because "it gives workers a higher wage than they deserve." Most politicians won't say this out loud, but we often hear these criticisms on social media or when we go out and speak about why we should raise the wage.

I want to directly address this criticism here, not just because it raises critical issues about how our economy works but also because it helps explain why raising the minimum wage would not have—and has never had—the pernicious economic consequences predicted by its critics.

The notion that the wages people receive in the "free market" are somehow fair is defended in two different ways. One argument holds that market wages reflect the economic contribution of workers. The second holds that since we are all totally responsible for economic contribution, we deserve to be paid what we contribute.

I want to challenge both ideas. But before doing so I want to make a preliminary point. Right-wingers often say that market outcomes are just and those with low incomes are getting what they deserve. Yet somehow, they never question market outcomes of the failed CEOs who received huge bonuses right before their banks or automobile companies required massive bailouts from the federal government. When it comes to the very rich, right-wingers can understand that there are forces beyond our individual control that determine whether we are richly or poorly rewarded. But they are incapable of a similar understanding when it comes to low-wage workers.

The Free Market and Economic Contribution

Under classical economic theory, in a free and perfectly competitive market employees receive wages equal to the marginal contribution the last hired worker makes to the total value produced. As I show below in the second section of this brief, there is no connection between the marginal value of the last hired worker and the intrinsic worth of any individual.

But even if there were such a connection, our contemporary economy is neither perfectly free nor perfectly competitive. And the dominance of huge corporations in our economy gives them the power not just to hold down wages for workers but to increase costs for small businesses.

We often think of our economy as one in which hundreds of thousands, if not millions, of local small and medium-sized businesses compete to buy raw materials, sell goods, and hire workers. In such an economy, no individual business enterprise could do anything to control the wages it pays employees, the costs of the goods it purchases from suppliers, and the prices it charges customers.

Growing Industry Concentration

But that is not the economy we have. Our economy is increasingly dominated by extremely large corporations and has been for decades. Though large monopolistic corporations have been a feature of our economy since the late 19th century, the share of all business profits earned by the largest one

hundred corporations has grown from 26.4% in the mid-1950s to 36% in 2020. And the share of all business profits earned by the largest five hundred corporations grew from 34.3% to 54.4% during that same period.[1]

Another sign of the growth of large businesses is the share of all employees who work for them. Since 1980 we have seen increasing concentration in in our economy with the share of employees working at larger firms with more than 10,000 employees growing from 26.3% to 27.8% and the share of employees working for firms with 2,500 or more employees growing from 36.2% to 39.2%. Meanwhile, the share of employees working in firms with fewer than one hundred employees has declined from 38.9% to 34.3%. The growth in employment in large firms has been particularly noticeable in retail employment and the service industry as well as the finance sector. (But in the still highly concentrated manufacturing sector, the share of employees in large firms has slipped a bit because automation has reduced employment in manufacturing companies.)

The general trend toward concentration is exemplified in any number of industries where we find extraordinary degrees of concentration. Four meatpacking companies control 80% of the market.[2] Four airlines dominate domestic air travel.[3] Most of us do not have a choice of our broadband / cable TV provider. The top ten banks' share of consumer deposits increased from 20% to 50% between 1980 and 2010. And one company, Amazon, controls almost 60% of e-commerce.[4]

Large corporations do benefit the public. Many of them, like the technology giants, grew because they have invented new products or even new industries. Others have developed new and more productive ways of providing existing products. Other benefit us because they can marshal the huge sums of capital needed to produce some goods or because their size enables them to find more productive ways to distribute goods.

Economic Concentration, Economic Power, and Wages

Yet along with these benefits come harms that have not been controlled by either regulation or anti-trust actions. The protection of intellectual property rights, natural monopolies or corporate mergers unfettered by countervailing government power enable small numbers of corporations to dominate an industry or market. These corporations gain substantial power over the prices they charge other businesses and consumers as well as the wages they pay their workers. *According to standard economic theory, perfect competition and a totally free market is only possible when no individual business can influence any of these things.* But businesses in an industry dominated by only a few competitors can and do coordinate their hiring and compensation practices to hold down employees' wages as well as what they pay their suppliers. They also increase prices for their consumers, including the small businesses to whom they sell their goods and services.

---

1 Shimshon Bichler and Jonathan Nizen, "Dominant capital much more powerful than you think," Real-World Economics Review Blog, February 5, 2021, https://rwer.wordpress.com/2021/02/05/dominant-capital-is-much-more-powerful-than-you-think/.

2 Caius Z. Willingham and Andy Green, *A Fair Deal for Farmers: Raising Earnings and Rebalancing Power in Rural America*, Center for American Progress, May 7, 2019, https://www.americanprogress.org/article/fair-deal-farmers/.

3 Domestic market share of leading US Airlines from February 2022 to January 2023, Statista, accessed March 11, 2024, https://www.statista.com/statistics/250577/domestic-market-share-of-leading-us-airlines/.

4 "Amazon's Share of US eCommerce Sales Hits All-Time High of 56.7% in 2021," PYMNTS, https://www.pymnts.com/news/retail/2022/amazons-share-of-us-ecommerce-sales-hits-all-time-high-of-56-7-in-2021/.

Workers who are seeking jobs in highly concentrated industries simply don't have much bargaining power when a limited number of employers can offer them jobs. And then these same companies use various practices to limit competition. When relatively few technological giants have an informal agreement not to poach staff from their competitors, they are holding wages down. They are also doing so when they insist employees sign non-compete clauses preventing them from working for a competitor. And it's not just technological giants that do this with highly trained computer scientists. Not long ago, journalists uncovered the fact that restaurant chains like Jimmy Johns often ask their employees to sign similar agreements.[5]

Corporations in heavily concentrated industries don't just keep their own employees' wages low but keep wages lower in general. When a few corporations employ 35% to 50% of all employees in a field and keep wages low, it affects wage rates throughout the industry and beyond. The economic power of huge corporations thus affects the wages of not just their own employees but those who — work for other businesses, large and small—including minimum wage workers.

Economic Concentration, Economic Power and Small Business

Anti-competitive practices don't just hold wages down but keep prices up. There is growing evidence that the inflation the world economy suffered after the pandemic was not just the product of supply side shortages but also of corporate price gouging. A Groundwork Collaborative report found recently that corporate profits accounted for 53% of inflation in the second and third quarter of 2023.[6] The price paid by corporation wages and material, as well as other cost, grew by only 1% while their consumer prices grew by 3.4%. In other words, corporations in highly concentrated industries took advantage of the high inflation caused by post-pandemic supply shortages to boost their profits.

Corporations that can keep their wages down and prices up will obviously be more profitable. And while there are many factors that affect profitability, causing the evidence to be somewhat mixed, there is a substantial body of evidence showing that, other things being equal, profitability is higher in industries where there is a high degree of corporate concentration.[7] A report by Jason Furman for the Council of Economic Advisers held that "the 90th percentile firm (by size) sees returns on investments in capital that are more than five times the median. The ratio was closer to two just a quarter century ago."[8] And a recent study of the average markup in prices over marginal costs in U.S. companies shows that they have increased dramatically since 1980 when they were around 18%—

5 Mitch Lipka, "This Jimmy Johns Labor Practice is Drawing Fire," CBS News, December 23, 2014, https://www.cbsnews.com/news/jimmy-johns-employee-non-compete-clause-reportedly-target-by-ny-attorney-general/.

6 Lindsay Owens, "Inflation Revelation: How Outsized Corporate Profits Drive Rising Costs," Groundwork Collaborative, January 28, 2024, https://groundworkcollaborative.org/work/inflation-revelation-how-outsized-corporate-profits-drive-rising-costs//.

7 A good overview of the literature is: Leila Davis and Özgür Orhangazi, "Competition and monopoly in the U.S. economy: What do the industrial concentration data show?," *Competition and Change* Volume 25, Issue 1, June 20, 2020, https://doi.org/10.1177/1024529420934011.

8 Quoted in: Joseph Stigliltz, "Are markets efficient, or do they tend towards monopoly? The verdict is in." World Economic Forum, May 18, 2016, https://www.weforum.org/agenda/2016/05/joseph-stiglitz-are-markets-efficient-or-do-they-tend-towards-monopoly-the-verdict-is-in/.

roughly the same as they were in 1960—to 167% in 2014.[9] As the authors point out, the increase in profits in this same period, by a factor of 2.34, is even greater than the increase in markups.

One of the consequences of increasing corporate power in the economy is that labor's share of national income has been falling. While it would take us too far afield to discuss this in any depth here, data from a recent study show us that the share of national income going to workers has declined from 63.4% in the period from 1950 to 1973, to 61.7% in the period from 1974 to 2008, to 59.3% in the period since 2009.[10] Another consequence of increased industrial concentration and high corporate profits is growing gap between the earnings of the rich and the middle class. Because relatively few people have substantial investments, the increasing return to the owners of capital investments drastically increases income inequality.[11]

And a final consequence of an economy dominated by few large corporations is that the heads of those corporations, not the labor market, sets their own compensation. This is why we have seen an extraordinary growth in the gap between the pay of CEOs and workers in the United States, far higher than what has historically been the case (at times when the economy grew faster than it does today) and higher than that found in other advanced countries.

It's thus clear that working people are losing out due to the growing concentration of economic power in fewer corporations.[12] And workers at the middle and bottom of the income distribution are doing especially badly due to the increasing inequality in labor income. Workers with master's and doctoral degrees and highly in-demand scientific, technical, and business skills have seen their incomes increase relatively quickly while those with bachelor's degrees, technical training, and high school degrees have seen their incomes increase far more slowly.

Given the impact of our corporate-dominated economy on the distribution of wages, even if one believed that in a perfectly competitive the market a people's wage are somehow a product of their worth and value, it makes no sense to think that this is true for working people in today's market. Wages today are simply not a matter of supply and demand in the free market because the market is not wholly free. The return to labor in our country is not determined by the working of a free competitive market but by the economic power of huge wealthy corporations that use their economic power to keep wages low for all workers.

---

9 Jan De Loecker and Jan Eeckhout, *The Rise of Market Power and the Macroeconomic Implications,* National Bureau of Economic Research Working Paper No. 23687, August 2017, https://www.nber.org/system/files/working_papers/w23687/w23687.pdf.

10 Federal Reserve Economic Data, "Nonfarm Business Sector: Labor Share for All Workers," updated March 24, 2024, https://fred.stlouisfed.org/series/PRS85006173.

11 Joshua Gans, Andrew Leigh, Martin Schmalz, and Adam Triggs, *Inequality and Market Concentration, When Shareholding is More Skewed Than Consumption*, NBER Working Paper 25394, www.nber.org/papers/w25395.

12 That is not to say there are not other causes of increased economic inequality. Globalization of the economy has increased competition for less-skilled workers. To some extent immigration has as well, although the labor market for recent, less-skilled immigrants tends to be so segregated from the rest of the labor market—because native-born workers refuse to do the work done by immigrants—that this effect is not as substantial as many believe. Cuts in the numbers of public sector workers hurts workers' wages generally. And the difficulties faced by labor unions in organizing workers has had a dramatic increase on income inequality. Yet these last two factors—cuts in public sector workers and the political and legal tilt against unions are, themselves, partly a product of the political power that comes from the increasing income and wealth of giant corporations.

Low wages and high corporate profits don't just hurt workers, however. They also hurt overall economic activity for two reasons. Well-paid workers can buy more than poorly paid workers. And the high prices charged by large corporations leave working people with less money to spend at small businesses in their communities, whose profit margins are far lower than those of corporate giants. Even if these businesses benefit a little from the lower wages they pay, they are hurt more by the limited buying power of their communities.

A sufficient minimum wage, strong labor unions, and a social safety net that helps those with low incomes afford food, housing, dcd care and health care provide an important counterbalance to the economic power of large, powerful corporations. And these three things don't just help those with the lowest incomes. They push wages up for those who earn well above the minimum wage, non-union workers, and workers who don't need the safety net. They make the labor market tighter, raising wages across the board. All working people benefit from them.

"There Are No Self-Made Men" (or Women)

The second fallacy is the idea that people deserve the wages they earn in the market. It ignores all the forces outside our control that determine both our ability to be highly productive and our wages. Some people are born with enormous advantages that come from the socioeconomic status of their parents and the community in which they grew up, including the schools in those communities. These advantages include having parents who are not stressed by the struggle to stay alive in difficulty conditions, having better funded school and parents who can supplement public schools with experiences that stimulate learning, and having connections to people who can provide help when seeking a better education or an internship or a good first job. Others grow up in disadvantaged circumstances, in poor communities with inadequate schools, and with little connection to people in the dynamic sectors of our economy.

That's not to say that great individual effort can't overcome a disadvantaged background or that advantaged people always succeed even if they don't put in the time and effort. But it takes far more effort and good fortune to succeed when the odds are stacked against you than when the odds are in your favor.

And, as I pointed out in a blog post last year, those who grow up in favorable circumstances get more chances than those who don't.[13] In the small rural community in which I grew up, many of my friends and I screwed up as teenagers. We got pregnant or got someone pregnant. We failed an important class at school because we were goofing off or because our parents were ill, and we had to take care of our siblings. We got in trouble with the police because of drugs or other minor crimes. Yet those of us with favorable backgrounds found it easier to overcome those mistakes—and sometimes more than once—while those of us with less auspicious backgrounds wound up behind the eight ball. The second chances most of us need are easier to find if one grows up in the middle or upper classes.

The inequality in the distribution of economic opportunity doesn't just determine whether many of us get the education and training we need to be more productive workers and whether we have the connections to get good jobs. It also affects our ability to keep developing the skills that lead to higher wages. For decades of research have shown that good education and on-the-job training teaches us the skills that make us valuable to employers, and perhaps more importantly they teach us how to

---

13 Marc Stier, "Economic Opportunity, The Dignity of Work, and the Minimum Wage," August 22, 2023, https://marcstier.com/blog2/?p=10901.

continue learning from our work experiences. However, those who grow up in disadvantaged circumstances and don't get the education and training they need find it harder to secure the first or second jobs that help them develop the skills they need to advance in their careers.

So, if we are honest with ourselves, none of us are self-made people. Our ability to be productive and get well-paid jobs has a lot to do with the advantages and disadvantages we had in our younger years. And as the philosopher Morris Raphael Cohen once expressed: "Anyone who thinks they are self-made is no credit to their maker."

It would be better for all of us if we had true equality of opportunity. Recent research shows that economic growth in 1950s and 1960s America was partly the result of the expansion of opportunity to Black people and women. If everyone went to a good school, and those schools could help overcome the deficits created by neglectful or hostile environments, everyone would have a chance to make the best use of their talents. And we would all benefit. What drives our economy forward is the hard work of talented people and we lose too many of them to the baleful effect of growing up poor.

But so long as we lack true equality of opportunity, a high minimum wage, strong labor unions, and a decent safety net are ways to ensure not only that no one falls too far but also that we provide better and more numerous opportunities for all our children.

Why We Can Raise the Minimum Wage with No Ill Effects

Elsewhere, I have provided the empirical evidence that shows that it is possible to raise the minimum wage to $15 per hour, and some reasonable amount above that level, without costing any jobs or creating inflation. I've also provided a number of reasons why this is true.[14]

But here we see another, and perhaps more important, reason it is true. Wages, especially for those with low incomes, are not being set by the free market. They are being held down artificially by the extreme market power of giant corporations and by the lack of opportunity that plagues too many people who have grown up in poverty.

And that explains two things.

First, it shows us why raising the minimum wage would not push wages "above the going free market rate." Many employers are already paying less than the free market rate because they can use their market power to keep wages low or because they benefit from the market power of giant corporations in concentrated sectors of the economy to keep wages low generally.

And second, it shows us why wealthy corporations—who are the major funders of business organizations like the Pennsylvania Chamber of Business and Industry—fight so hard against raising the minimum wage even when few of their own employees would see wages go up with an increase in the minimum wage. These huge corporations are not stupid. They know they benefit from their market power. They know it allows them to hold down the wages of their workers and charge others–including small businesses—more for what they produce. They know that even if don't hire many

---

14 Marc Stier, "Five Myths About Raising the Minimum Wage—Debunked." Originally published by *Penn Capital-Star* on October 3, 2019, https://marcstier.com/blog2/?p=9097. I've updated the piece here: Seven Myths about Raising the Minimum Wage—Debunked (2024 Update), https://pennpolicy.org/seven-myths-about-raising-the-minimum-wage-debunked-2024-update/.

workers at the minimum wage, increasing it would lift wages across the board, which might mean that they would have to pay a bit more for the goods and services they buy from smaller businesses.

So ultimately, raising the minimum wage, like laws that support unionization and high public sector wages, would ultimately come at the expense of the corporate giants that use their market power to gain outsized profits at our expense.

That's why raising the minimum wage is such a critical tool to improve the lives of all working people, not only those who make the minimum wage.