

The Real Cost of Increased Wages

The new wage increases going into effect in many states will obviously bring a lot of change. Many businesses will be challenged by increased payroll costs. To date only two states (California and New York) and Washington, D.C. have approved a gradual move toward \$15/hour. Connecticut has introduced a bill for \$15, while a similar bill was vetoed in New Jersey.

Among large cities, 15 already have approved a move toward a \$15/hour minimum, with the vast majority of these in California. Another six cities have introduced legislation calling for it, including Minneapolis; Flagstaff, Arizona; Baltimore and Cleveland.

As more cities and states make the move, each business will have come to a Crossroad. No doubt it will not be business as usual. For some it will be “move ahead” and for others it might be “lights out.” As a result, we will see an increase in cost of products and services. The worst situation we face is that the lowest income people who this is designed to help will be affected worst by an increase in products and services that will occur to meet the higher wages.

So what *is* the real cost of increased wages? For many businesses, that means an increase in many areas. Payroll, taxes, overtime, insurance, workman’s comp, etc. For the employee, what do these changes mean? Some employees will see their wages reduced when overtime regulations that are planned come into effect. The goal is for employees to have more money, which also leads to higher taxes — it might even have an impact on employee income taxes for better or worse. So, as business owners or employees, are you ready for mandatory wage increases?

WHO BENEFITS?

From what I’ve heard, the goal is to pay employees more so they can, in turn, help build up the economy by spending more money on goods and services helping businesses grow. I’ve heard several people say that as of now, they’re having a hard time making ends meet. They are hopeful that if they get an increase in wages, it will help them pay their bills including things such as health care. If this is the case for most families, how does the economy benefit? And more to the point, *who* does a better economy benefit?

Wages may end up translating into better living for some employees while others lose their jobs. After all, the funds to raise the wages must come from somewhere and over the past nine years we have seen most of the “fat” gradually trimmed from everyone’s budget. So we can expect to see some businesses close their doors or gradually scale down which often leads to closing their doors. We are all for making our jobs easier (if possible), but more and more businesses are looking at automation to replace jobs.

Many think we can beat the system by replacing jobs with automation and not having to pay employees and the wage increase at all. But can we? We do have to compete in the global market for pricing, but eliminating jobs is not the answer.

I think some automation is OK but we don’t believe in full automation in production. Back in my machining days, I can remember we had both manual and automation. When one of the automated machines broke down, it sometimes took two weeks to get parts ordered, delivered and the machine fixed. So if you replace a human job with an automatic machine, can you really afford the down time and loss in production that can occur?

Another problem I saw was when a machine got a hiccup maybe from a power surge and then ends up producing junk because everyone thinks that the machines were operating correctly. It is easier to not notice poor quality if you assume an automatic step is taking care of it. The machines may be more cost effective on paper but the amount of losses can be proportionately very higher due to the speed of their production. How many low quality plants can you afford to produce?

With more stores closing or downsizing with layoffs coming, shopping malls and strip malls struggle to stay open. If we automated all the fast food restaurants and other stores, where will our grandchildren work? Job competition will be swift and hard, a lot of the next several generations will do what?

So, what is the real cost of increased wages? It will be serious, multi-faceted and different for each business. The only thing to remember is we are all in this together and nobody will be unaffected. The biggest problem I see is the lack of understanding that we are all connected and any change in one area will affect most other areas. If indeed we took more responsibility for each we might be able to bring the wages to a livable level without legislation. It seems we are past the point. So be prepared for some changes. [gpn](#)



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