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Should Apple Raise Wages? What Happens if They Immediately Raise Wages per Worker by 15%?

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Abstract: This paper focuses on how increasing wages affects employees and companies. Primarily, it uses an efficiency wage model to confirm that increasing wages leads to increased employee productivity and reduced laziness, as well as increased firm productivity and attracting more highly skilled employees. The paper also examines what the benefits of a 15% increase in the minimum wage are to the firm. Increasing the minimum wage can reduce employee turnover as well as the firm's production costs.

Keywords: wage efficiency theory, increase wage, economic, impact on employee and the company

1. Introduction

The wages offered by a company have an impact on employee productivity, employee costs, and the number of employees seeking employment. By increasing wages, companies can reduce costs, increase employee productivity, and reduce company resignation rates. Research has shown that the top 500 technology companies in the world have increased employee happiness and benefit by increasing wages.

2. A Selective Literature Review

As one of the world's leading technology companies, Apple has been capturing the public's attention and it made headlines in 2022 when he announced that the hourly wage would be raised to $22, which is nearly three times of the minimum wage [1]. It is argued that Apple is right in choosing to pay its employees more because it can greatly increase the overall productivity level of the company [1].

The efficiency wage hypothesis explains the existence of wage premiums. In a fully competitive market, workers receive compensations equal to their opportunity costs. An efficiency wage refers to the above market-clearing level salary paid to an employee. The efficiency wage hypothesis proposes that the productivity of workers is positively correlated with their wages, thus, a higher wage effectively motivates workers to enhance performances, resulting in higher productivity levels of company.

The positive correlation between wages and productivity has been much discussed and analyzed. Shapiro and Stiglitz believe that workers' efforts are motivated by either external or internal oversight, and the latter reflects the perceived cost of a certain career, which includes a person's earnings relative to expected wages [2]. Psychologists think that effort is a response to an underlying motivation, which

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means motivation theory can be regarded as effort theory. Therefore, wages and effort should be seen as both endogenous and deterministic. Using data from 1970s New York, Goldsmith et al. have tested the efficiency wage hypothesis's basic principle that efforts depend on wage levels, and the results demonstrate that getting an efficiency pay does make a person put in more effort [3]. Their findings are also consistent with the stress-process theory, which states that unexpectedly high earnings reduce stress in life and increase self-efficacy, which in turn increases the amount of effort at work. Also, employees see higher wages as an acknowledgment of their competence, and work harder to repay the appreciation.

A higher minimum wage decreases the expected qulity of job applicants as it induces less motivated workers to apply for the job [4]. Therefore, a company can increase the salary of highly skilled employees to increase their motivation to work harder, which can lead to efficient production. It is also possible for the company to hire fewer employees, because the increased motivation of highly skilled employees can lead to higher productivity and workload.

The hypothesis also explains the existence of various other puzzling phenomena, such as involuntary unemployment. Carter finds an empirically verifiable way to model output growth, and the outcomes show that though high-wage policies reduce employment, but increase output [5]. Even when there is labor surplus, companies can be reluctant to cut wages since lower wages might actually reduce productivity and increase costs.

Companies always want to know whether their employees are making enough effort. Many direct pay-for-performance schemes are either expensive or impractical to operate, since it is difficult to observe the exact contributions of each individual worker; in such cases, it is profitable to raise each worker's wage above the market-clearing level. Workers makes conscious decisions to avoid or stay in work, and those who choose to shirk may face austerity or involuntary unemployment. The threat of losing a well-paid job if one is found to be lazy helps the employer to keep employees in line, as they are faced with higher opportunity costs for shirking. Efficiency pay allows companies to minimize the cost of monitoring. If every company raises wages to eliminate slacking, average wages will rise and employment will fall, resulting in unemployment in the new equilibrium. Since jobs are scarce, losing one's job may mean long-term unemployment. The dim prospect in turn serves as a disciplinary tool that motivates workers to do their best [2].

Cappelli and Chauvin have examined the implications of the efficiency wage model with factory-level data from the auto industry [6]. The results illustrate that as predicted by the efficiency wage model, wage premiums are associated with a higher level of discipline. Higher wages encourage employees not to shirk their responsibilities, and are associated with less avoidance behavior. In a labor market where it's difficult to find equally well-paid alternative jobs, avoidance behavior is costly, thus rarely occurs. Instead of enabling firms to select those who are less inclined to quit, wage premiums incentivize laborers to avoid being fired.

Chua et al. have modelled a company's ability to extract effort from workers with a variety of factors, which generate potentially testable predictions about wage differentials and the nature of unemployment [7]. In cases where monitoring is costly or difficult, the company should pay a higher salary to an employee. Having analyzed data from manufacturing industries in Singapore from 1978 to 2012, it is found that paying efficient wages can prevent workers from slacking off, and the regulatory strength is consistent with the efficiency wage hypothesis. Because of efficiency wages, companies are less dependent on oversight.

A business that pays efficient wages can attract more professional and qualified employees. An essential feature of a fully competitive labor market is that workers with equal levels of productivity receive equal compensations: wages depend only on the ability of the worker, not on the characteristics of the employer. However, some employers will offer a wage premium to attract more talented professionals [8]. Apple's high-tech workers are highly skilled, and expect to be paid a higher salary

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accordingly. A higher salary can attract more skilled workers, which boosts the productivity of the company. In the labor market model, the salary offered by a company affects the number of job seekers in that company. Assuming that a wage attracts enough job seekers to meet the company's demand for workers, the company can attract more capable workers by offering higher wages [9].

3. The Impact on the Company and its Employees after Raising the Salary of Employees

From the previous discussions it is clear that Apple should pay people more as it facilitates the company's growth. Now suppose they are to immediately increased every worker's salary by 15%, what will happen?

Because of recent moves by Google, Amazon, and Microsoft to increase employee wages to the point of retaining highly skilled employees and attracting talent, Apple has also begun to increase wages for corporate and retail employees [10]. The company should increase wages as reflected by some Amazon employees who had senior members of Amazon who believed that unless their wages were increased, they were not worth staying [11]. Amazon's unemployment rate increases to about 35% in 2021. Apple has increased its overall salary budget in order to support and retain the most fallen team members in the world. Apple also increased the starting salary for U.S. retail employees from $20 to $22 per hour. Apple's internal employees were thankful for this. In the wake of the flu pandemic and a tight labor market, Apple will not be able to compete with other tech giants if pay levels are disappointing. In 2022, with an increase in the turnover rate of highly skilled people, 20% of whom have shown the possibility of finding new jobs, Apple decided to raise the minimum wage by 45% [12]. Wage increases help attract more top talent and retain current employees. By increasing wages by 15%, Apple can keep more employees satisfied and reduce internal employee turnover when the labor market is unusually competitive.

4. Conclusion

The efficiency wage hypothesis explains why some companies may pay higher wages to their employees. The efficiency wage theory suggests that companies may find it profitable to pay workers above market levels because such a wage premium helps to encourage workers. Avoid lazy behavior, reduce the cost of the company and attract higher quality employees. Ketz et al. It argues that companies need to raise wages to motivate employees to do more so that they can reduce their own costs and increase their productivity. Because jobs are scarce, losing them can lead to long-term unemployment, so the price of escape is high. As a result, workers will work harder, reducing the company's monitoring costs and employee avoidance problems. It is clear from Chua et al.'s case that efficiency pay minimizes a company's monitoring costs, while employees face higher opportunity costs for shirking their responsibilities [7]. Compensation, as a disciplinary mechanism for employees, increases the likelihood that employees will keep their jobs and reduces the need for managers. Efficiency pay can also attract more employees, and a company that pays more efficiently can attract more professional and qualified employees. Amazon has attracted more highly skilled workers by raising wages. In the efficiency wage hypothesis, Goldsith et al. show that efficiency wages can increase a person's effort, and people who work harder earn more. Individuals who put more effort into their work are considered more productive. NLSY's data show that companies that pay efficiency wages can motivate employees to work harder.It is clear that Appke should pay its employees higher salaries and both employees and the company can well benefit from an 15% increase in the average salary level. This study can help the company to increase employee wages at a lower cost and thus increase productivity in the interest of the company.

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