



Raising the Minimum Wage for Fast-Food Workers

Diana Furchtgott-Roth
Senior Fellow and Director, Economics21
Manhattan Institute for Policy Research

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Members of the Wage Board, I am honored to be able to submit testimony on the subject of raising the minimum wage for fast food workers to \$15 an hour. As former chief economist of the U.S. Department of Labor, I have followed and written about the minimum wage and related issues for many years. Currently I am senior fellow and director of Economics21 at the Manhattan Institute for Policy Research. From February 2003 until April 2005 I was chief economist at the U.S. Department of Labor. From 2001 until 2003 I served at the Council of Economic Advisers as chief of staff and special adviser. Previously, I was a resident fellow at the American Enterprise Institute. I have served as Deputy Executive Secretary of the Domestic Policy Council under President George H.W. Bush. I am the author or coauthor of five books, most recently *Disinherited: How Washington Is Betraying America's Young* (Encounter Books, 2015), coauthored with Jared Meyer.

Raising the minimum wage for fast food establishments to \$15 an hour in New York State would be especially harmful to New York's young people, who would have a harder time finding summer or part-time jobs. Members of the Wage Board, should you decide to raise the wage, I suggest that you exempt everyone ages 22 and younger. This would allow teens and college students to easily get part-time or summer employment. Otherwise, many will be priced out of the job market and they will be deprived of a first job that is so useful to teaching a solid work ethic. Furthermore, if your concern is that a wage earner cannot support a family on the current minimum wage, few young people are supporting families.

Wages are already on an upward path in New York State. In March 2013 Governor Cuomo signed a bill passed by the state legislature that raised the minimum wage to \$8.00 in 2014, \$8.75 in 2015, and \$9.00 at the end of 2015.¹

Governor Cuomo has proposed raising the minimum wage further, to \$11.50 in New York City and \$10.50 in the rest of the State. However, the state legislature did not pass his proposal. If the legislature did not think that \$11.50 was a good move, then \$15.00 is surely worse.

An increase in the fast food minimum wage to \$15 an hour, as the Wage Board is considering, represents an increase of 66 percent. According to the Bureau of Economic

¹ "General Industry Minimum Wage Act," New York State Department of Labor, March 18, 2015.

Analysis, labor costs account for slightly more than one-third of revenue for food and drinking establishments.² Assuming no substitution effects, prices would go up by about 22 percent. If management could substitute away from direct labor, prices could go up by about 15 percent. To assume that prices would not increase with a 66 percent labor price hike is economic naïveté.

This means that consumers would not visit fast-food establishment as frequently. Small, local establishments are more likely to close if the minimum wage is increased. More low-skill Americans would be out of work. People would buy less of the higher-priced services. Low-income people would have to pay more for fast-food. That is why raising the fast-food minimum wage is not cost-free to New York. Supersizing a wage is not as simple as supersizing a hamburger.

One person who is well aware of the potential departure or shrinkage of businesses from New York City is Kevin Ryan, Chairman and Founder of Gilt and Vice Chairman of the Partnership for New York City. Mr. Ryan is the business representative on the Wage Board. Gilt's lower-paying warehouse jobs are in Kentucky, not New York.³ Gilt is outsourcing the labor-intensive portion of his business to a state where the minimum wage is the federal minimum of \$7.25, not the New York State minimum of \$8.75 (soon to be \$9.00).

Just as Ryan has made use of the lower wage for Kentucky workers for Gilt's workforce, fast food businesses in New York would be able to do the same. Since the higher minimum wage under discussion is only for fast food workers, businesses could contract out certain elements of their business to other firms which are not affected by the law. For example, rather than having employees sweep floors and clean, these jobs could be contracted out to another company. Some food that was previously made in house, such as hamburger patties and chopped salads, could be contracted out.

Raising the wage for fast food workers from \$8.75 to \$15.00 would harm the very people it is intended to help – poor and low-skill New Yorkers. If the wage floor is raised, they would have fewer job opportunities and less chance of climbing the career ladder.

To understand why, do a thought experiment. If raising the minimum wage for fast-food workers were cost-free, why stop at \$15.00 an hour? Why not go straight to \$25 an hour, the average hourly wage? That might be considered fair, because no one would have to earn less than the current average.

² "Industry Economic Accounts Data: GDP by Industry, Composition of Gross Output By Industry," Bureau of Economic Analysis, U.S. Department of Commerce.

³ "Careers, Open Positions," Gilt.com, accessed June 21, 2015.

Everyone realizes that at an hourly minimum wage of \$25, some people would be displaced from their jobs. Employers would hire more highly-skilled workers. The fast food establishments that stay in business would have more electronic ordering boards, such as the ones displayed in the attachment to my testimony. The same is true of a minimum wage of \$15.00.

The proposed wage increase would have the effect of ruling that if you have skills of less than \$15.00 an hour, you are not allowed to work in fast food in the State of New York. You can be a personal care attendant, a motion picture projectionist, or, if you have the looks, a model. These jobs all pay under \$15 an hour on average. But you cannot answer a “help wanted” sign at Burger King.

That is a disadvantage for young workers, because fast-food restaurants are a common entry point into the labor force. It is easier to get a job at McDonald’s than a job as a model. I started off my career scooping ice cream at Baskin Robbins in the 1970s, and I could not have got a job as a model because I was not good-looking enough and few positions were available. Fast food establishments offer many openings, and upward mobility. Many managers of fast food franchises began flipping hamburgers. Those in fast food and other industries start at the bottom and work up. Doug McMillon, now CEO of Walmart, spent two summers unloading trucks for the company when he was a teen.

In 2014 the average unemployment rate for teens in the 27 states with an effective minimum wage of \$7.25 an hour was 18 percent. The rate for teens in the 14 states and Washington, D.C. with minimum wage levels above \$8.00 an hour was 20 percent, 11 percent higher.⁴

Half of minimum wage workers are under 25, and 21 percent are teens.⁵ These groups’ unemployment rates are already higher far than the 4.5 percent average rate for those 25 and over. The teen unemployment rate is 18 percent, and the African American teen unemployment rate is 30 percent. The unemployment rate for youth, those aged between 20 and 24, is 10.1 percent.⁶ It is the unemployment rates of these workers that would rise if the fast food hourly minimum wage rose to \$15.00. About 1.5 million Americans aged 16 to 24 worked for the minimum wage in 2014, and many more young Americans coveted those jobs.⁷

⁴ Economics21 calculations from Department of Labor data.

⁵ “Characteristics of Minimum Wage Workers, 2014,” Bureau of Labor Statistics, April, 2015.

⁶ “Current Population Survey,” Bureau of Labor Statistics, June 5, 2015.

⁷ “Characteristics of Minimum Wage Workers, 2014,” Bureau of Labor Statistics, April, 2015.

Raising the fast-food wage to \$15 not only discriminates against the young, the subject of my book, *Disinherited*, but also against the poor, who have fewer skills. It discriminates against those who do not fare well in academic settings, and whose only chance at success is to start at the bottom and work up.

In a National Bureau of Economic Research paper published in December 2014, University of California-San Diego professors Jeffrey Clemens and Michael Wither found that increases in the minimum wage were responsible for 14 percent of the decline in the percent of the working-age population employed between 2006 and 2012.⁸ Minimum wage increases significantly reduced the probability of low-skill workers reaching the middle class.

Ninety-three percent of New Yorkers (and 97 percent of American workers) now make above the minimum wage – not because it is the law, but because employers have to pay higher compensation packages to retain workers.⁹

If people cannot get their first job, they cannot get their second job, or their third. The reason so few workers in America make the minimum wage or below is that they rapidly move on. Employers do not pay above-minimum wage out of kindness, but because that is the only way they can prevent employees from moving to another job.

Polls show that many Americans support raising the minimum wage. But practically everyone with a heart is in favor of raising wages as long as those higher wages are paid by someone else.

It is puzzling to me that the state labor commissioner, Mario Musolino, has determined that fast food workers are particularly deserving of an increase in minimum wages to \$15 an hour. Commissioner Musolino writes in his determination, “My opinion is based on data and studies in my possession that show that 60% of such fast food workers in New York are in families enrolled in at least one public assistance program. Nationally, fast food workers are twice as likely as all other workers to be in families that receive public assistance.”¹⁰

These programs, such as the Earned Income Tax Credit, Food Stamps, and Medicaid, are set up precisely to enable low-skill workers to gain employment. If the minimum wage were raised to \$15 an hour, some of these workers would likely be unemployed

⁸ Jeffrey Clemens and Michael Wither, “The Minimum Wage and the Great Recession: Evidence of Effects on the Employment and Income Trajectories of Low-Skilled Workers,” National Bureau of Economic Research, Working Paper No. w20724, December 2014.

⁹ “Characteristics of Minimum Wage Workers, 2014,” Bureau of Labor Statistics, April, 2015.

¹⁰ “Determination Regarding the Adequacy of Wages,” Office of Governor Andrew Cuomo, May 7, 2015.

and be even more dependent on Food Stamps and Medicaid, and they would not qualify for the EITC. It is unrealistic to expect that employers are going to hire the same workers at \$15 an hour as at \$7.25 or \$9.00 an hour.

Other minimum wage workers also draw on public assistance programs. Food preparation and serving workers make an average of \$9 an hour, but so do manicurists, laundry and dry cleaning workers, and gaming dealers, according to the Bureau of Labor Statistics.¹¹ Other occupations, such as maids, taxi drivers, and floral designers pay below \$15 an hour. Why should the Wage Board single out fast food?

One clue might come from contributions to Governor Cuomo's campaign. The SEIU, represented by Secretary-Treasurer Mike Fishman on the Wage Board, contributed \$44,200 to Cuomo from June 2012 to April 2013.¹² The United Food and Commercial Workers gave \$14,000. CEOs of fast food establishments apparently gave nothing.

The SEIU is desperate for new members because the SEIU Pension Fund of Upstate New York received a critically underfunded notice for 2015, and 5 prior years, meaning that it has less than 65 percent of the assets it needs to pay its current and future retirees.¹³ The SEIU Greater New York Pension Plan received similar notices in 2014, 2013, 2012, and 2011.¹⁴ The SEIU needs a new infusion of contributions to rescue its failing plans, and it is trying to raise the minimum wage to attract new members.

In other cities that have raised the minimum wage, collectively-bargained agreements have received an exemption. This has allowed unions to go to employers and ask for neutrality agreements – agreements to allow the workers to join the union without a secret ballot vote and without objections from the employer – in exchange for a wage that is below the new minimum.

Consider the minimum wage increase for hotels close to Los Angeles Airport that was passed in 2006. Under the Hotel Worker Living Wage Ordinance, employers had to pay \$9.39 an hour if health insurance was provided, and \$10.64 an hour without health insurance.¹⁵ Unionized hotels were exempt.

In California, San Francisco, Oakland, Richmond, Long Beach, and San Jose all have minimum wage laws with exemptions for unionized workplaces. One example: The San Jose Minimum Wage Ordinance contains Section 4.100.050, entitled Waiver Through

¹¹ "National Occupational Employment and Wage Estimates," Bureau of Labor Statistics, March 25, 2015.

¹² "Andrew Cuomo 2014 Campaign Contributions," Newsday, February 7, 2014.

¹³ "Notice of Critical Status," Service Employees Pension Fund of Upstate New York, March 31, 2015.

¹⁴ "Notice of Critical Status," SEIU Greater New York Pension Plan, March 31, 2014.

¹⁵ "Ordinance No. 178084," Los Angeles City Council, November 22, 2006.

Collective Bargaining, that states, "...all or any portion of the applicable requirements of this Chapter may be waived in a bona fide collective bargaining agreement, provided that such waiver is explicitly set forth in such agreement in clear and unambiguous terms."¹⁶

Further north, Seattle-Tacoma Airport had the first \$15 minimum wage in the United States, voted into law in 2013. Yet employers that have collective-bargaining agreements are not subject to the higher wage. Section 7.45.080 of the SeaTac Municipal Code reads, "All of the provisions of this chapter, or any part hereof, including the employee work environment reporting requirement set forth herein, may be waived in a bona fide collective bargaining agreement...."¹⁷

Union exemptions to minimum wage laws are not limited to the West Coast. They can also be found in Milwaukee, Wisconsin, and Chicago, Illinois.

If the Wage Board increases minimum wages for fast food establishments, will the Board then add a carve-out for collectively-bargained agreements? If so, the minimum wage and carve-out would serve as a way for unions to extort fast food companies into union representation. New Yorkers should watch the details carefully.

Unions are resorting to campaigning for higher minimum wage laws and then carving out exemptions for themselves because their membership has been steadily declining over the past three decades. In 1983 (the earliest year with comparable data), 20 percent of American workers belonged to unions. By 2014 only 11 percent of American workers, and only 6.6 percent of private sector workers, were union members.¹⁸ Union membership is 3 million below 1983 levels, despite an increase in employment of 48 million.

Instead of exempting union workers from the minimum wage, it would make sense to exempt teens and low-skill workers, because they are the ones most harmed.

If the Wage Board recommends increases in the fast-food minimum wage to \$15 an hour, consumers of fast food will face fewer restaurants and higher prices. Some workers will lose their jobs. Countless other unknown workers, especially teens starting out in the workforce, who might have had jobs at those restaurants, will no longer have that opportunity.

¹⁶ "Legal Text of Minimum Wage Ordinance," San Jose Office of the City Manager, Chapter 4.100, November 6, 2012.

¹⁷ "Minimum Employment Standards for Hospitality and Transportation Industry Employers," SeaTac Municipal Code, Chapter 7.45, May 12, 2015.

¹⁸ "Union Members Summary," Bureau of Labor Statistics, January 23, 2015.

People who take minimum-wage jobs need an entry ramp onto the major highway that is called the job market. Once they are in, they can keep going, or speed up. Raising the minimum wage will reduce job opportunities for those who have no alternative except sitting at home or hanging out on the streets. I recommend that you leave the minimum wage as it is – or lower it to the federal minimum.

Thank you for giving me the opportunity to submit testimony to the Wage Board.