



Raising New York's Fast-Food Wages Would Be Good for Workers, Taxpayers, and the Economy

Testimony before the New York State Fast Food Wage Board

Karla Walter
Associate Director, American Worker Project
Center for American Progress Action Fund
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Thank you, members of the Fast Food Wage Board for this opportunity to present brief remarks.

My name is Karla Walter. I am the Associate Director of the American Worker Project at the Center for American Progress Action Fund. CAP Action is an independent, nonpartisan, and progressive education and advocacy organization dedicated to improving the lives of Americans through ideas and actions.

At CAP Action, I conduct research on how cities, states, and the federal government can uphold high standards for workers, allow businesses to compete on an even playing field, and ensure taxpayers receive good value.

In my testimony today, I will make three main points:

1. Despite rapid growth in the fast-food industry, the wages of fast-food workers in New York state are woefully inadequate.
2. The wage board should issue recommendations to reach a minimum wage for fast-food workers of \$15 per hour. Raising the wage would help workers afford the basic costs of supporting their families and ensure that taxpayers do not foot the bill of supporting these workers with public assistance.
3. An increased minimum wage will not harm the fast-food industry and will have little impact on job growth.

Fast-food workers struggle in a rapidly expanding industry

The fast-food industry is a major sector in the state economy—with the largest players earning billions in annual profits. Yet, fast-food workers across New York state are struggling on wages far below the poverty level.

Since 2000, fast-food employment has grown 57 percent in New York state—more than eight times the rate of overall private-sector job growth.¹ The 14 largest publicly traded fast-food chains operating in the state earned \$9.3 billion in profits last year, according to analysis by the National Employment Law Project.² This represented a growth in profits of 14.5 percent since 2010.

Yet the industry's workers earn the lowest average wage of all occupations, according to analysis by Demos.³ Indeed, the New York State Department of Labor recently reported that median hourly wages for fast-food workers hover at just \$9.03 per hour.⁴ If a worker were able to work full time, year round with no vacations, this would translate to less than \$19,000 annually.

However, industry scheduling practices mean that, increasingly, workers who want to work full time are unable to do so.⁵ Nationally, nearly half of fast-food jobs provide between 20 hours and 35 hours of work per week.⁶ Analysis by the New York State Department of Labor finds that average annual wages are less than \$16,000 per year—or just about the federal poverty level for a family of two.⁷

Nationwide, fast-food workers are struggling at the very bottom. According to research from the University of California, Berkeley, Labor Center and the University of Illinois, 43 percent of fast-food workers have family incomes that are less than 200 percent of the federal poverty level.⁸

Critics of minimum-wage laws often maintain that these low-wage jobs offer part-time work for young people and the least-skilled workers who need on-the-job skills development to move on to better-paying jobs.⁹ But the statistics do not bear this out: Almost 72 percent of fast-food workers in the state are 22 years old or over, and almost half of these workers have attained at least some college credit.¹⁰

Raising wages for fast-food workers to \$15 per hour will help working families and taxpayers

By recommending a minimum-wage increase for fast-food workers reaching \$15 per hour, the New York Wage Board would make a significant and positive impact on the lives of working families across the state. This boost would represent a 66 percent

increase over the current median hourly wage. Workers able access full-time, year-round employment could earn as much as \$31,000 annually, while workers maintaining the average workweek year round would earn nearly \$22,000 per year.¹¹

While raising wages to this level will make no one rich, it will help pull workers above federal poverty guidelines. For example, a worker supporting a family of three and maintaining the average workweek would earn enough to put them over the federal poverty threshold of \$20,090.¹²

Critics often call for a raise of the Earned Income Tax Credit, or EITC, in lieu of a minimum-wage increase, but the EITC does not apply to many low-wage workers and, in order to achieve maximum benefit, the credit must work in tandem with strong wage standards. For example, benefits for single workers with no dependents phase out at an annual income of just \$14,590.¹³ Moreover, without strong minimum-wage laws, the tax credit can act as a wage substitute, allowing companies that pay poverty wages to still attract workers—which in turn can drive down wages throughout the economy.¹⁴ A study for the National Bureau of Economic Research found that about 27 cents of every dollar spent on the EITC is captured by companies who are able to thereby lower the wages offered to workers.¹⁵

Indeed, raising the wage of fast-food workers can help ensure that taxpayers receive a good value. When workers are poorly compensated, taxpayers often bear hidden costs beyond the EITC by providing services to supplement workers' incomes, such as Medicaid and food stamps.

A 2013 report from the University of California, Berkeley, and the University of Illinois found that 60 percent of New York's fast-food workers or their dependents relied on public assistance—including Medicaid, the Children's Health Insurance Program, food stamps, or the federal Earned Income Tax Credit—at a cost of \$708 million in 2011.¹⁶ Moreover, recent analysis by the New York Fiscal Policy Institute updated this figure to account for recent job growth and spending on the state's own Earned Income Tax Credit, finding that the total public cost of support fast-food workers was \$903 million in 2014.¹⁷

Raising fast-food worker's wages won't harm New York's economy or significantly reduce job growth

Wage standards are not only good for workers and taxpayers, but also do not harm the economy. Indeed, many of the costs to businesses associated with paying workers higher wages can be offset through improved worker performance, including lower turnover costs, reduced absenteeism, and higher productivity. For example, research shows that

employee turnover can be as high as 120 percent in the fast-food industry, costing a restaurant about \$4,700 each time a worker leaves a job.¹⁸ Indeed, just last week, Wal-Mart announced that turnover had dropped dramatically after it raised wages for workers, saving the company significant sums of money.¹⁹

New research from Political Economy Research Institute at the University of Massachusetts Amherst shows that the fast-food industry could fully absorb the added costs of a \$15 minimum wage over four years through a combination of reductions in worker turnover, increasing growth in sales, and modest price increases.²⁰ Notably, the paper found that fast-food companies would not need to reduce profits or employment levels due to the wage increase.

Indeed, a significant body of research finds that raising the minimum wage does not result in job losses, as critics often claim.²¹ For example, a 2010 study published in *The Review of Economics and Statistics* compared all of the adjacent counties that touch a state border where there is a difference in the mandated minimum wage in each state, finding that minimum-wage increases raise wages for low-wage workers but do not reduce employment.²²

Likewise, research from the Center for American Progress Action Fund analyzing more than two decades' worth of minimum-wage increases in U.S. states found no clear evidence that the minimum wage affects aggregate job creation during periods of high unemployment.²³ According to the analysis, the majority of states that raised the minimum wage saw a decrease in their unemployment rate over the next year.

While most of the wage increases previously analyzed are of smaller magnitude, research shows that even larger increases in the minimum wage can be phased in without adversely effecting employment levels. A 2015 analysis by the Center on Wage and Employment Dynamics at the University of California, Berkeley, finds that a \$15-per-hour minimum wage in Los Angeles phased in over four years would reduce total employment by only 0.2 percent—compared to a projected annual job growth of 2.5 percent.²⁴

For these reasons, policymakers in cities and states across the country are increasingly adopting \$15 wage policies. Since 2013, Seattle; San Francisco; SeaTac, Washington; and Emeryville, California have all approved policies to raise their minimum wage to \$15 or more over time.²⁵ The Los Angeles City Council passed an ordinance last year to raise wages for hotel workers to \$15.37 per hour by July 1, 2017, and last month voted to preliminarily approve a citywide \$15-per-hour minimum wage.²⁶ And the District of Columbia enacted a wage requirement for security officers in 2008, which has now increased to more than \$16 per hour.²⁷

At the state level, Massachusetts is considering a \$15 minimum wage for fast-food workers and large retailers, and voters in California, Missouri, and Oregon may consider a \$15 minimum wage on 2016 ballot referenda.²⁸

While it is too early to conduct a complete analysis on the impact of these latest rounds of minimum-wage increases, many predictions of business closures have not come to fruition in the near term, and the preliminary evidence is quite positive. For example, in Seattle, the number of restaurant permits issued by the city—as measured by the 12-month average—held steady since the 2013 municipal election when the \$15 wage became a near certainty and throughout the initial implementation of the law.²⁹ Moreover, data on the total number of restaurants in the city—which takes into account both restaurant openings and closures—show consistent growth since 2013.³⁰

And a Center for American Progress Action Fund report examining the effect of 25 municipal minimum-wage increases occurring between 1993 and 2013 found that 64 percent of the time local unemployment rates did not increase one year after a wage increase.³¹

Conclusion

Cities and states across the country are increasingly adopting \$15 wage policies to ensure that workers are able to support their families and have a shot at the middle class. Research shows that these laws not only help workers but also help ensure that taxpayers do not have to subsidize low-wage work and, contrary to critics' claims, do so with no or minimal impact on employment. By recommending a minimum-wage increase for fast-food workers reaching to \$15 per hour, the New York Wage Board would make a significant and positive impact on the lives of working families across the state.

Endnotes

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