Boosting wages of fast-food workers will help economy

By James Parrott, Commentary
Published 5:33 pm, Monday, July 20, 2015

The Fast Food Wage Board appointed by Gov. Andrew Cuomo should release its recommendations Wednesday. In four daylong hearings around the state, the board heard testimony from hundreds of fast food workers. Their stories constitute as moving a record of the despair of working, but not making it, as has ever been told.

The picture that emerged is one of workers mired in fast food poverty, trapped by abysmally low wages and a tyranny of irregular and short hours that make it impossible for them to support themselves or their families or to even lead normal lives.

Fast food is highly profitable and fast-growing, employing more than 220,000 workers across New York. Over the past decade, sales have grown 6.5 percent annually and top $15 billion a year. The number of restaurants and fast-food workers has grown more than twice as fast here as in the nation overall; the industry has even grown faster upstate than in the country as a whole since 2007.

The industry is dominated by profit-hungry national chains that dictate the menu, marketing and operations of franchisees.

Median hourly pay, which is surprisingly uniform around the state, was only $9.03 in 2014, far short of what it takes to make ends meet. According to widely used family budget benchmarks, fast-food pay is less than half of what it takes for a single adult to support himself or herself, and less than one-quarter of what a single parent needs to raise a child.

Some chains may offer cheap meals, but taxpayers pay a steep price for low-wage fast-food work. Because wages are so low and hours so few, 60 percent of New York's fast-food workers rely on public benefits like food stamps or Medicaid. This cost-shifting forces taxpayers to shoulder more than $900 million in public costs, which essentially amounts to a subsidy to fast-food's low-wage business model.

An increase to $15 would mean considerable savings in public assistance spending as well as increased payroll and individual income taxes. By one estimate, the fiscal dividend amounts to 43 percent of the rise in total minimum wage earnings.

Straightforward business economics supports the conclusion that the industry can accommodate such an increase.

Drawing on an analysis by University of Massachusetts economists, we estimated that wages represent about 25 percent of fast-food sales in New York and that a $15 minimum wage would raise wages, including payroll taxes, by $1.8 billion, less than 12 percent of sales.

Our estimates show that a $15 hourly wage could be absorbed through a combination of savings related to reduced turnover, and expected growth in sales and productivity. Fast-food firms wouldn't have to reduce employment or profits, or raise prices more than they have been.

The net overall economic impact would be very positive. Wages would rise by $1.7 billion, representing an average raise of more than 40 percent. In addition to the fiscal dividend to state and local governments, the total increase in take-home pay would help fuel much-needed consumer spending in predominantly low-income communities where fast-food workers live.

Workers would be better able to save to buy a home, go to school, or take a family vacation.

Workers would be much better positioned to care for their families, and their health, and to help their children with school. Poverty would fall, and this would, in turn, translate into improvements in educational performance and life opportunities for the children of fast-food workers.

Fast-food businesses would experience savings from reduced turnover and would benefit from greater productivity growth as worker morale and customer service improves. As one restaurant owner testified, high-quality food and better wages and customer service, also can be the basis for a profitable business model.

The wage board also has a historic opportunity to address the need for regular and more adequate hours. What was particularly jarring to board members was story after story about lives fractured by the unpredictability of irregular work hours.

Hopefully, a wage board decision to raise fast-food wages will just be a first step. Hundreds of thousands of other New York workers toil for too little.

But no sector has a higher proportion (79 percent) of its workforce paid less than $15 an hour than food services that include fast food, and no other sector compares in the extent to which taxpayers are forced to subsidize a low-wage business model.

In a year marked by cynicism about Albany's relevance to the lives of ordinary people, the wage board can shine a beacon of hope for New York workers.

On this one, our governor is clearly leading in a direction we urgently need to go.

James Parrott is deputy director and chief economist with the Fiscal Policy Institute.