

FISCAL POLICY INSTITUTE

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June 26, 2015

Members of the Fast Food Wage Board
Mayor Byron Brown, Chair
Mr. Kevin Ryan, Member
Mr. Mike Fishman, Member
New York State Department of Labor
Build 12, Room 586
Harriman State Office Campus
Albany, NY 12240

Dear Board Members:

I am writing in follow-up to your requests that I provide supporting materials on some of the points I made in oral testimony at the June 22 Albany hearing. Thank you for the opportunity to supplement my remarks.

The industry's ability to afford a \$15 an hour minimum wage

We prepared estimates of how the New York fast-food sector could accommodate an increase in the minimum wage to \$15 an hour. In developing those estimates we utilized the methodology developed by Robert Pollin and Jeannette Wicks-Lim (the “PERI study”) to examine an increase in the wage floor to \$15 for the national fast-food sector.¹ We developed our own estimates of 2015 total fast-food employment, wage and industry sales levels for New York State.²

¹ Robert Pollin and Jeannette Wicks-Lim, *A \$15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs*, Political Economic Research Institute (PERI), University of Massachusetts Amherst, Working Paper Series Number 373, January 2015.

² We specified the “fast-food industry” as comprised of three detailed industry segments: limited-service restaurants, cafeterias, and snack and nonalcoholic beverage bars. These segments share many operational, occupational and wage features, and are distinct from other branches of the food service industry such as full-service restaurants. For 2014, the NYS total employment for this specification totaled 216,337 with an annual average wage of \$16,262. Bureau of Labor Statistics, *Quarterly Census of Employment and Wage* data. Since the 2012 Economic Census data for this industry has not yet been published for New York State, we estimated the 2015 NYS sales level by applying the 2007-12 national growth in fast food sales per employee to the 2007 Census data on NYS fast food sales per employee, extrapolating to 2015, and multiplying by an estimated 2015 NYS employment level.

As the BLS Occupational Employment Statistics (OES) data indicate, the wage distribution in the fast-food sector is fairly uniform around the country (and around New York State.³) Most workers are concentrated at the low-end of the pay scale with relatively little difference between the mean (or average) and the median (or mid-point). In the case of national data for 2014, 90 percent of fast-food workers make below \$11.50 an hour (the national median was \$8.35 in 2014.)

We drew upon the PERI report's modeling of the fast-food wage distribution to approximate a wage distribution for New York State. Research shows, beyond the increase to the new minimum for the lowest-paid workers, that an increase in the minimum wage will result in increases for workers paid slightly below the new minimum wage level that will put them somewhat above the new minimum wage level, and that workers previously paid above the minimum wage will also receive some wage increases as employers seek to maintain a semblance of the previous wage hierarchy. The PERI report shows that a minimum wage increase to \$15 would affect roughly 90 percent of the total payroll for a typical fast-food business. The largest percentage increases would go to the lowest-paid workers, but workers currently at \$16 or \$17 an hour might receive some increase as a result of the higher wage floor.

Our estimates are that wages represent 24.5 percent of fast-food sales in New York State and that a \$15 minimum wage increase would raise wages, including payroll taxes, by about \$1.8 billion, or less than 12 percent of sales. Our estimates show that a wage increase of this magnitude could be absorbed through a combination of savings related to reduced turnover, sales and productivity growth in line with the trend growth rates, and modest price increases.⁴

Our modeling suggests that a three percent price increase would enable fast-food firms to accommodate a \$15 an hour minimum wage without reducing employment or profits.⁵ New York State is particularly well-positioned to be able to accommodate a higher minimum wage. The state's mean hourly wage in the largest fast-food occupations was \$9.75 according to the 2014 OES survey data, and the industry has been expanding much faster in New York State than nationally in recent years. From 2007 to 2014, fast-food employment rose by 3.9 percent annually in New York State, more than twice the national 1.8 percent growth rate.⁶ The Economic Census data also show that per employee fast-food sales are one-sixth higher in New York than nationally.⁷

³ For the similarity of fast-food wages around New York State, see Figure 2 in my testimony for the June 5, 2015, Buffalo Wage Board Hearing, <http://fiscalpolicy.org/wp-content/uploads/2015/06/Fast-Food-Wage-Board-testimony-6-5-2015.pdf>

⁴ BLS data for the Accommodation and Food Services sector, the finest level of fast-food related detail available for national turnover data, show a significant increase in turnover since the beginning of the recovery. BLS *Job Openings and Labor Turnover Survey*, annual data 2010-2014.

⁵ Following PERI, we believe a -0.5 price elasticity of demand is reasonable for the fast food industry. Thus, a 3 percent price increase would result in a 1.5 percent increase in sales and the loss of sales equal to 1.5 percent to other sectors.

⁶ BLS, *Quarterly Census of Employment and Wage* data.

⁷ U.S. Bureau of the Census, *2007 Economic Census*. This higher productivity is likely the result of New York's high degree of urbanization, translating into higher sales per store and per worker.

The net economic impact on New York State

I think it is very clear that the net overall economic impact of a \$15 per hour minimum wage in the fast-food sector would be very positive for the state. Wages for fast-food workers would rise by \$1.8 billion, representing an average raise of over 40 percent, and the total increase in take-home pay would help fuel much-needed consumer spending into the predominantly low-income communities where fast-food workers reside. Fast-food consumers would shoulder a modest price increase that would amount to less than \$250 million.

New York State and its local governments would experience savings related to the reduced use of public assistance programs.⁸ Fast-food businesses would experience considerable savings related to reduced turnover and likely would benefit from even faster overall employee productivity growth as worker morale and customer service improves.

There would be various other benefits to fast-food workers. As we heard during the hearings, workers would be better able to save to acquire their own housing, save for school, or to take a family vacation. Many expressed a desire to spend more time with their families, something that better wages would help make possible. Also, it is clear that workers would be much better positioned to care for their families, and their health, and to help their children with school. There would also be a significant reduction in poverty among the families of fast-food workers, and this would, in turn, translate into meaningful improvements in educational performance and life opportunities for the children of fast-food workers.

As I stated at the Albany hearing, I applaud the commitment and dedication you have demonstrated during these historic hearings. This process has been a shining demonstration of the powerful difference that government can make in the lives of ordinary working people.

Please do not hesitate to contact me if additional information is needed on any of the issues I have tried to address in my Buffalo or Albany testimonies or in this supplemental note.

Sincerely yours,

James A. Parrott, Ph.D.
Deputy Director and Chief Economist

⁸ In their modeling of an increase in the minimum wage to \$15 an hour in New York City, Urban Institute researchers estimated that for every dollar of wage increase received by minimum wage workers, there would be approximately 43 cents in public assistance savings and increased income and payroll taxes to all levels of government. Using this finding, the minimum wage increase we modeled would translate into over \$700 million in fiscal benefit to governments. The Urban Institute study also found that an increase in the minimum wage to \$15 an hour would have a significant effect in reducing poverty. Linda Giannarelli, Laura Wheaton and Joyce Morton, *How Much Could Policy Changes Reduce Poverty in New York City?* Urban Institute, February, 2015. Prepared for the Federation of Protestant Welfare Agencies, Catholic Charities, and the UJA Federation.