The Daily Dish

$22 Is the New $15

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Eakinomics has long believed that most of California public policy is designed to build a better Utah. That certainly looks to be the case for the Fast Food Accountability and Standards Recovery Act (aka FAST Act or AB 257). It was signed into law by California Governor Gavin Newsom on September 5, 2022, creating a council of labor representatives and granting it authority to raise the minimum wage for fast-food workers to $22 per hour.

Now, if you are a fast-food employee the prospect of getting a 41-percent increase in your wages sounds pretty nice. But as Isabella Hindley's latest research shows, that is not the only consideration. The sharp wage increase would make each business instantly unprofitable. Given the share of wages in the overall cost structure (about 26 percent), Hindley estimates that prices would have to rise by 11 percent to break even. That's bad news on top of the general rate of inflation. Also, it would mean less business for fast food outlets, which would translate to fewer outlets, or less employment, or both.

But that is just a self-inflicted wound for California. The more troubling part is that this feels like a rerun of the "Fight for $15" movement that began a decade ago. Now elected officials, including Senator Elizabeth Warren, have called for a federal minimum wage of $22. That would be terribly problematic. Hindley calculates the impact of moving to $22 in every state. Not surprisingly, in low-wage states like Alabama, Louisiana, or Mississippi, this would constitute an increase in wages of roughly 130 percent and an increase in inflation of 33 percent! Or, if fast-food outlets attempt to stay price-competitive, it would mean a cratering of demand for fast-food labor. These states are the largest, but even a seemingly immune state like New Jersey would be facing a 60-percent increase in wages and over 15-percent price pressure. (See the paper for results for every state.)

Taken nationwide, AB 257 would open an economic sinkhole under the fast-food industry that few could avoid. To push for its adoption is to be indifferent to the widespread suffering that would emanate from the closure of outlets, the lost jobs, the lost income, and the lost futures of the entrepreneurial owners … in the aftermath of the pandemic recession … amid record inflation … while facing the real risk of a recession. Great idea.

Finally, and ironically, it would also create tremendous inequities between those who managed to keep their jobs and those who would lose their jobs. It is the moral equivalent of having the out-of-work hand a check to their ex-colleagues who remain gainfully employed. Super great idea.