Insight

Considering California's $22 Minimum Wage at the Federal Level

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Executive Summary

- The Fast Food Accountability and Standards Recovery Act (or FAST Recovery Act, AB 257), which was signed into law by California Governor Gavin Newsom on September 5, 2022, creates a council of labor representatives and grants it authority to raise the minimum wage for fast-food workers to $22 per hour for an average wage increase of 41 percent as well as set hours and other conditions for those workers.
- This legislation will have significant implications for employers, consumers, and likely many of the workers themselves, leading critics of AB 257 to file a referendum to block the new California labor law.
- As wage-driven labor movements continue, observers have acknowledged the potential for federal AB 257-like legislation; this study finds that such significant and rapid wage increases nationally would drive up costs by up to 35 percent, resulting in increased prices, decreased demand for labor, or most likely, some combination of the two.

Introduction

On September 5, 2022, California Governor Gavin Newsom signed the Fast Food Accountability and Standards Recovery Act or FAST Recovery Act (AB 257), new California labor legislation, into law. The act creates a council of 10 labor representatives to set minimum standards for wages, hours, and other conditions for fast-food workers. Under the new law, the council has the authority to increase the minimum wage for fast-food workers in California to $22 per hour for an average wage increase of 41 percent. Less than a day after becoming law, a referendum was filed by critics—including business trade groups, fast-food corporations, and franchisees—to block AB 257 until voters can weigh in. Critics of the law fear it will harm small business and franchise owners through increased labor costs and food prices.

The "Fight for $15" – that is, a $15 minimum wage – movement began in 2012 as an effort to raise the federal minimum wage. Since then, elected officials, including Senator Elizabeth Warren, have called for a federal minimum wage of $22. The passage of AB 257 and the forthcoming implementation of a statewide $22 minimum wage for fast-food workers raises an important question: What would be the impact of a federal $22 minimum wage for fast-food workers on franchises and small businesses across the country?

This study finds that if a $22 minimum wage for fast-food workers were adopted nationally, every state would face a drastic jump in labor costs in this industry, which would cause price increases or employment decreases by up to 35 percent.

AB 257: The FAST Recovery Act

The FAST Recovery Act creates a 10-person council of workers, corporate representatives, franchisees, union representatives, and state officials tasked with setting minimum standards for wages, hours, and other employment conditions for fast-food workers. This council will have the authority to raise the minimum wage for California fast-food workers to $22 per hour by January 1, 2023, which equates to an average 41 percent boost in wages. The $22 cap is then subject to increase each year based on inflation.

In addition to setting labor standards, the council, as an intersection of business leaders and worker representatives, is intended to wholistically consider and address worker concerns regarding employment conditions and wages. The council would assist workers by bargaining across the fast-food sector. Currently workers' only option is to negotiate with individual franchises, but this is often unsuccessful. Consequently, the food industry has one of the lowest unionization rates in the United States.

The California Restaurant Association and California Chamber of Commerce joined with business advocacy groups and restaurant brands to oppose the act. Upon the bill's signing, the International Franchise Association and the National Restaurant Association led the effort to block the FAST Recovery Act by filing a referendum against it, arguing that AB 257 will raise the labor costs of small business and franchise owners in the fast-food industry.

Economic Impacts of a $22 Minimum Wage

While a $22 minimum wage would no doubt improve the incomes of those workers who maintain employment, it would also prompt increased labor costs for franchise owners, leading to increased prices and/or decreased fast-food employment.

Table 1 shows current fast-food employment data for each state and Washington, D.C. The table also estimates the price increases that states would see if the $22 minimum wage for fast-food workers was implemented nationwide.

State	Employment	Average Hourly Wage	Proposed Wage Increase	Wage Growth (%)	Estimated Price Increase (%)
Alabama	36,560	$9.75	$12.43	130	34
Alaska	6,730	$13.35	$8.65	65	17
Arizona	51,240	$14.98	$7.02	47	12
Arkansas	34,530	$11.68	$10.32	88	23
California	360,980	$15.61	$6.39	41	11
Colorado	68,890	$14.46	$7.54	52	14
Connecticut	24,500	$13.97	$8.03	57	15
D.C.	6,070	$16.56	$5.44	33	9
Delaware	8,930	$12.34	$9.66	78	21
Florida	178,960	$11.20	$10.80	96	25
Georgia	112,670	$11.17	$10.83	97	25
Hawaii	17,560	$13.85	$8.15	59	15
Idaho	15,500	$10.34	$11.66	113	30

Illinois	106,400	$12.57	$9.43	75	20
Indiana	86,340	$11.15	$10.85	97	26
Iowa	33,010	$11.65	$10.35	89	23
Kansas	31,350	$10.80	$11.20	104	27
Kentucky	22,000	$10.43	$11.57	111	29
Louisiana	24,850	$9.61	$12.39	129	34
Maine	12,340	$14.11	$7.89	56	15
Maryland	48,100	$13.62	$8.38	62	16
Massachusetts	78,480	$14.99	$7.01	47	12
Michigan	107,590	$12.11	$9.89	82	21
Minnesota	56,700	$13.26	$8.74	66	17
Mississippi	26,220	$9.43	$12.57	133	35
Missouri	35,390	$11.82	$10.18	86	23
Montana	12,970	$11.72	$10.28	88	23
Nebraska	25,090	$11.90	$10.10	85	22
Nevada	29,150	$11.23	$10.77	96	25
New Hampshire	14,860	$12.53	$9.47	76	20
New Jersey	58,300	$13.83	$8.17	59	16
New Mexico	19,650	$11.75	$10.25	87	23
New York	161,790	$14.96	$7.04	47	12
North Carolina	64,980	$10.98	$11.02	100	26
North Dakota	11,260	$12.75	$9.25	73	19
Ohio	119,790	$11.24	$10.76	96	25
Oklahoma	30,380	$9.89	$12.11	122	32
Oregon	53,030	$14.42	$7.58	53	14
Pennsylvania	121,170	$11.25	$10.75	96	25
Rhode Island	8,900	$13.68	$8.32	61	16
South Carolina	47,400	$10.29	$11.71	114	30
South Dakota	12,620	$12.09	$9.91	82	22
Tennessee	50,730	$10.17	$11.83	116	31
Texas	353,500	$10.80	$11.20	104	27
Utah	45,490	$11.89	$10.11	85	22

Vermont	3,770	$14.03	$7.97	57	15
Virginia	98,160	$11.89	$10.11	85	22
Washington	88,330	$15.82	$6.18	39	10
West Virginia	12,100	$10.66	$11.34	106	28
Wisconsin	52,910	$11.06	$10.94	99	26
Wyoming	6,470	$11.46	$10.54	92	24

Labor Costs

$22 per hour is significantly higher than the current average fast-food worker's hourly wage in every state. California has one of the highest hourly wages for fast-food workers at $15.61 per hour and yet an increase of $6.39 per hour to meet the $22 minimum wage would equal a 41 percent jump in wages for each worker. Washington state and Washington, D.C. would fare only marginally better with wage increases of 39 percent and 33 percent, respectively. For employers, these new wages would mean higher labor costs. If every state raised its minimum wage to $22 for fast-food workers, nationwide fast-food labor costs would increase by $29.3 million per hour. Eight states would be subject to over $1 million in additional costs per hour, with Texas facing the biggest cost change, approximately $4 million more per hour.

Individual franchises across the United States employ an average of 17 workers. Assuming these workers earn the average hourly wage for their state and work full time, each franchise can expect to pay between $194,621 and $449,704 in additional costs. The lower and upper bounds are estimated with wage data from Washington, D.C. and Mississippi, respectively, as they would be subject to the smallest and largest wage increases. Both estimates represent the top end of the state's cost increases, as not all employees work full-time or earn their state's average hourly wage.

Price Increases and Labor Decreases

Faced with increasing labor costs, employers would be forced to adjust their business models. To keep their expenses stable, franchisees could either increase their prices to make up for their increased spending or limit their number of employees by laying workers off and would likely opt for some combination of both.

The right-hand column of Table 1 estimates the increases in fast-food prices states could expect to see under a $22 minimum wage. To derive these estimates, this study multiplied the average hourly wage for a fast-food worker (column 3) by 26.3 percent, the average percentage of fast-food franchise operating costs that is attributed to labor payments. Washington, D.C. and Washington state would see the smallest price increases at 9 percent and 10 percent, respectively, as they already have the highest average hourly wages. States such as Mississippi, Alabama, and Louisiana with lower average hourly rates, however, could expect to see prices increase up to 35 percent. To add perspective, if McDonald's chose to pass the entirety of its added labor costs to its customers, the cost of its Big Mac Meal would increase from $5.69 to almost $8.00 in those states. The higher prices would be a deterrent for consumers, further harming franchisees.

If employers decided only to reduce their staff to stabilize costs, franchises would have to dismiss staff by the same percentage as they would have increased prices. Assuming, again, that franchises employ approximately 17 workers, each would have to downsize by between two and six employees.

Conclusion

The labor council created by California's FAST Recovery Act will be responsible for setting employment standards for fast-food workers and have the authority to raise the minimum wage for these employees by 41 percent to $22 per hour. Such a dramatic increase in the minimum wage for fast-food workers would improve pay for those who are able to keep their positions, but would have negative impacts on employers, consumers, and workers who suffer job loss as a result. A national $22 minimum wage for fast-food workers would cause labor costs to rise by up to 35 percent, resulting in increased prices, layoffs, or some combination of both.