



Research

Considering California's \$20 Minimum Wage at the Federal Level

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Executive Summary

- An amended version of California's AB 1228, signed into law by Governor Gavin Newsom on September 28, 2023, will increase minimum wages for workers at "quick serve restaurants" (QSRs) to \$20 per hour and establish a Fast Food Council with limited authority to adjust wages annually.
- The legislation will drive up operating costs for QSRs, raise prices for consumers, and reduce the demand for many of the QSR workers' labor.
- This study finds that if such a policy were implemented at the federal level, such significant and rapid wage increases would drive up labor costs, resulting in price increases or employment decreases of up to 23 percent.

Introduction

On September 28, 2023, California Governor Gavin Newsom signed an [amended version](#) of AB 1228 into law. The legislation increases wages for workers at "quick serve restaurants" (QSRs) to a minimum of \$20 per hour and establishes a Fast Food Council that has the authority to set annual wage increases equal to the lesser of 3.5 percent and consumer price inflation (CPI). The council can also propose workplace standards but has no authority to implement them. The bill becomes effective April 1, 2024.

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 Senators Elizabeth Warren and Bernie Sanders, have [called for](#) a federal minimum wage of \$17. The passage of AB 1228 and the forthcoming implementation of a statewide \$20 minimum wage for QSR workers raises an important question: What would be the impact of a federal \$20 minimum wage for fast-food workers on QSRs across the country?

AB 1228 will likely harm QSRs, franchise owners, consumers, and workers themselves through increased labor costs and food prices. This study finds that if a \$20 minimum wage for QSR workers were adopted nationally, every state would face a jump in labor costs in this industry, causing price increases or employment decreases by up to 23 percent.

History of AB 1228

The California legislation is an amended version of [2022's AB 257](#) that would have created a council of 10 labor representatives to set minimum standards for wages, hours, and other conditions for fast-food workers. Under AB 257, the council would have had the authority to increase the minimum wage for fast-food workers to \$22 per hour.

AB 257 was signed into law in September 2022 and the industry quickly responded with a referendum that prevented its implementation. The state then introduced AB 1228 which included a [joint employer](#) clause that would have significantly disincentivized and potentially ended the franchise business model. Shortly after, the state also funded an Industrial Welfare Commission which had wage and workplace requirement setting authority similar to that of AB 257.

Most recently, the QSR industry and the state of California negotiated an amended AB 1228 which eliminates joint liability and the Industrial Welfare Commission, implements a \$20 per hour minimum wage for the industry, and establishes a Fast Food Council. The council has the authority to set annual wage increases equal to the lesser of 3.5 percent and CPI. It can also propose workplace standards but has no authority to implement them. The bill will become effective on April 1, 2024.

Economic Impacts of a \$20 Minimum Wage

While a \$20 minimum wage would improve the incomes of those workers who maintain employment, it would also increase labor costs for QSR owners, leading to higher prices and/or lower fast-food employment.

Table 1 shows current [Bureau of Labor Statistics Fast Food and Counter Worker Occupational Employment and Wages](#) data for each state and Washington, D.C. The table estimates the price increases that states would see if a \$20 minimum wage for fast-food workers was implemented nationwide.

Table 1:

State	Employment	Average Hourly Wage	Proposed Wage Increase	Wage Growth (%)	Estimated Price Increase (%)
Alabama	38,640	\$10.76	\$9.24	86	23
Alaska	6,210	\$14.62	\$5.38	37	10
Arizona	83,440	\$15.16	\$4.84	32	8
Arkansas	36,520	\$12.30	\$7.70	63	16
California	394,660	\$16.60	\$3.40	20	5
Colorado	75,490	\$15.38	\$4.62	30	8
Connecticut	28,880	\$14.80	\$5.20	35	9
D.C.	6,210	\$17.33	\$2.67	15	4
Delaware	10,780	\$13.29	\$6.71	50	13
Florida	183,470	\$12.41	\$7.59	61	16
Georgia	116,240	\$11.31	\$8.69	77	20
Hawaii	20,340	\$14.02	\$5.98	43	11

Idaho	22,350	\$11.75	\$8.25	70	18
Illinois	119,920	\$14.12	\$5.88	42	11
Indiana	90,690	\$12.12	\$7.88	65	17
Iowa	35,810	\$12.50	\$7.50	60	16
Kansas	34,720	\$11.68	\$8.32	71	19
Kentucky	21,440	\$11.29	\$8.71	77	20
Louisiana	27,830	\$10.89	\$9.11	84	22
Maine	12,880	\$15.03	\$4.97	33	9
Maryland	52,640	\$14.47	\$5.53	38	10
Massachusetts	86,230	\$16.12	\$3.88	24	6
Michigan	113,450	\$13.14	\$6.86	52	14
Minnesota	53,640	\$14.43	\$5.57	39	10
Mississippi	29,990	\$10.07	\$9.93	99	26
Missouri	36,900	\$13.02	\$6.98	54	14
Montana	15,110	\$12.80	\$7.20	56	15
Nebraska	25,270	\$12.41	\$7.59	61	16
Nevada	39,170	\$12.22	\$7.78	64	17
New Hampshire	13,300	\$13.46	\$6.54	49	13
New Jersey	69,710	\$14.73	\$5.27	36	9
New Mexico	21,670	\$12.60	\$7.40	59	15
New York	183,270	\$16.04	\$3.96	25	6
North Carolina	63,890	\$12.00	\$8.00	67	18
North Dakota	10,000	\$13.42	\$6.58	49	13
Ohio	136,220	\$12.07	\$7.93	66	17
Oklahoma	37,920	\$10.97	\$9.03	82	22
Oregon	52,490	\$15.04	\$4.96	33	9
Pennsylvania	134,040	\$12.18	\$7.82	64	17
Rhode Island	11,190	\$14.54	\$5.46	38	10
South Carolina	54,140	\$11.26	\$8.74	78	20
South Dakota	14,300	\$12.89	\$7.11	55	15
Tennessee	57,150	\$11.66	\$8.34	72	19
Texas	328,900	\$11.59	\$8.41	73	19

Utah	50,100	\$12.52	\$7.48	60	16
Vermont	3,850	\$15.66	\$4.34	28	7
Virginia	94,940	\$13.08	\$6.92	53	14
Washington	98,870	\$16.81	\$3.19	19	5
West Virginia	9,260	\$11.01	\$8.99	82	21
Wisconsin	54,770	\$11.98	\$8.02	67	18
Wyoming	6,150	\$11.66	\$8.34	72	19

Labor Costs

Twenty dollars per hour is 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 \$16.60 per hour, and yet an increase of \$3.40 per hour to meet the \$20 minimum wage would equal a 20 percent jump in wages for each worker. Washington State and Washington, D.C. would see significant labor cost increases, as well, with jumps of 19 percent and 15 percent, respectively. For employers, these new wages would mean higher labor costs. If every state raised its minimum wage to \$20 for fast-food workers, nationwide fast-food labor costs would increase by \$21.5 million per hour. Six states would be subject to over \$1 million in additional costs per hour, with Texas facing the biggest cost increase of approximately \$2.8 million per hour.

Each fast-food restaurant across the United States employs an average of [17 workers](#). Assuming these workers earn the average hourly wage for their state and work full time, each fast-food location can expect additional costs of between \$94,411 and \$444,475 per year. 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 increase their prices or limit the number of their employees by laying workers off. They 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 \$20 minimum wage. To derive these estimates, this study multiplied the average hourly wage growth percentage for a fast-food worker (column 4) by [26.3 percent](#), the average percentage of fast-food franchise operating costs that is attributed to labor payments. Washington, D.C. would see the smallest price increases at 4 percent, with California and Washington state closely following with a 5 percent increase each as they already have the highest average hourly wages. States such as Mississippi, Alabama, and Louisiana, with lower average hourly rates, could see price increases up to 23 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 about \$7.00 in those states. The higher prices would be a deterrent to consumers, further harming QSRs.

If employers decided only to reduce their staffs 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 one and four employees.

Conclusion

The amended AB 1228 will increase the minimum wage for QSR workers to \$20 per hour. Such an increase will improve the pay of those workers able to keep their positions but will have negative impacts on employers, consumers, and workers who suffer job loss as a result. A national \$20 minimum wage for fast-food workers would cause labor costs to rise by up to 23 percent, resulting in increased prices, layoffs, or some combination of both.