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Why Fast Food Employers Can Adjust to a $15 Minimum Wage without Shedding Jobs

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Around the nation, labor unions, civic activists and many legislators have called for a $15 minimum wage, especially for the fast-food industry employees who make up a large share of America's low-wage workers. In response to the "Fight for $15" campaign, New York recently mandated a $15 minimum for fast-food workers in New York City by 2018 and for the rest of the state by 2021. Similar actions are under consideration in other states.

For workers, families, and communities, the benefits of minimum-wage increases are clear, but are there also downsides – such as a loss of jobs in affected industries? Perhaps surprisingly, the answer is no, as long as the wage increases are implemented in reasonable increments, which enable businesses to adjust gradually.

How Businesses Can Adapt without Workforce Cutbacks

Do minimum-wage hikes lead to large-scale employment losses? In 1995, Harvard labor economist Richard Freeman reviewed available studies and concluded that there was no evidence that minimum wage increases led to large employment losses. "The debate," he wrote, "is over whether modest minimum-wage increases have 'no' employment effect, modest positive effects, or small negative effects. It is *not* about whether or not there are large negative effects." Since then, research has reinforced this conclusion. As this debate has raged on, less attention has been paid to the question of why minimum-wage increases might not lead to job cutbacks. The law of demand in economics posits that raising the price of any commodity – including labor – will lead to less demand for that commodity, all else equal. So if laws increasing minimum wages do not generate employment losses for low-wage workers, something in the real world must not be "equal."

Our investigations show that businesses affected by higher minimum-wage measures often absorb the increased labor costs by making adjustments other than workforce cuts. Why might that be? Obviously, cutting workforces reduce firms' ability to serve growing customer bases or sustain or expand their operations. Businesses that want to compete and expand are likely to look for other ways to absorb higher labor costs. And it is important to recognize that some fast-food employees already make more than $15 an hour and wages are just one kind of cost for these businesses. Earlier this year, we posted a working paper online that examines how fast-food businesses could use a variety of other adjustments to absorb the cost increases imposed by a $15 minimum. We take into account data on growth in the fast-food industry and the impact of fast-food price increases on customer demand; and we also examine the costs of employee turnover. Our research shows that the average U.S. fast-food restaurant is likely to see its overall costs increase by only about 3.4 percent per year during a four-year phase-in for a $15 minimum wage. During this period, firms in the fast-food industry can use the following adjustments to fully absorb that modest increase in costs.

- **Savings from reduced worker turnover:** Approximately one fifth of the cost of increasing the minimum wage to $15 would be offset by gains employers would receive from reduced employee turnover. Employees who are paid more tend to stay in their jobs longer, reducing the need for managers to spend time finding and training new workers.

- **Modest price increases:** About half of labor cost increases could be covered by raising fast-food prices by three percent per year. Using available research, we estimate that that such price increases would simultaneously reduce consumer demand by about 1.5 percent overall. But fast-food stores would still gain additional revenues to help offset higher wage costs. For example, McDonald's might do this by raising the price of a Big Mac by 15 cents per year for four years; from $4.80 to $5.40.

- **Continued industry sales growth:** Projected growth for the U.S. fast-food industry will continue to roughly match that of the overall economy, at around 2.5 percent per year. Industry-wide growth would be slightly reduced if prices increase to cover higher wages. But fast-food growth would still basically track overall growth in the U.S. Gross Domestic Product, and a modestly more equal distribution of this revenue growth can help pay for higher wages.

Taking into account all of these adjustments, **we project that, on average, U.S. fast-food businesses would not have to shed workers at all or experience any reduction in profit rates while adjusting to a $15 minimum wage.**

A Vital Step for American Workers

For everyone concerned about inadequate worker earnings in the United States, wage improvements in the fast-food industry are a good place to begin. Along with other parts of the "restaurant and food preparation sector," the fast-food industry employs fully 47 percent of all U.S. workers who earn at or below the current federal minimum wage of $7.25 per hour. Precisely because the fast-food industry employs such high concentrations of low-wage workers, changes in the industry will reverberate widely in America's economy and society. Our results offer a straightforward conclusion – just as applicable for national policymakers as for states considering minimum-wage increases. Economically speaking, it is quite feasible to move toward a $15 minimum wage, phased in gradually over four years. The gains intended by such an increase – improving living standards for low-wage workers and their families and communities – will outweigh any unintended negative side-effects, such as cutbacks in workforces. Fast-food firms, we have shown, have a variety of means at their disposal to adjust to gradually increased wage costs without cutting their workforces. As America's economy grows, fast-food restaurants can keep expanding their offerings, serve growing customer bases, and benefit from reduced worker turnover.

In short, the time is ripe for raising the legal minimum wage in the United States to a livable level for workers and their families. This reform can be enacted without shedding jobs at fast-food restaurants or reducing employment in the American economy.

Read more in Robert Pollin and Jeannette Wicks-Lim, "A $15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust without Shedding Jobs," Political Economy Research Institute, University of Massachusetts Amherst, January 2015.