

## New York's Lowest-Paid Finally Win a Raise

by Gregory DeFreitas

The “Fight For 15” moved from the streets to the statehouse in Albany in 2015. Since New York fast food workers and their community allies first began a series of demonstrations for higher pay and union rights in 2012, their movement has spread nationwide, pressuring governors and legislators to take action. Over two months last summer, the New York State Department of Labor’s Fast Food Wage Board conducted statewide hearings on the issue that attracted oral and written testimony from hundreds of employers, employees, economists, community, labor and religious organizations.<sup>1</sup>

These hearings and related media coverage threw into sharp relief the depth of the problem of chronically low wages in the rapidly growing fast food industry and the public divisions over what if anything government and/or business can do about it. There are, it seems to me, four key factors that are central to this debate:

- 1st, the stagnant or falling real wages of too many young Long Islanders today;
- 2nd, the wide gap between fast-food pay levels here and the minimum income needed for even a basic no-frills budget;
- 3rd, the high public costs to taxpayers of a growing low-wage fast-food workforce; and
- 4th, the feasibility of setting a \$15 legal minimum in this industry.

My personal conclusion as a labor economist from considering the research evidence on all this is to support New York State setting at least a \$15 minimum wage standard for our fast-food employees.

### Why?

#### Low & Paralyzed Pay of Too Many Long Islanders

Long Island has a reputation as home to many high-income households. But, in my recent research on large government data sets, I found that, for most Long Islanders, median hourly wage levels – after accounting for price inflation – are either stuck near pre-recession levels or have actually fallen.<sup>2</sup> As shown in the newest issue of our *Regional Labor Review*, young workers have been the hardest hit:

- Among those with jobs age 16-24, hourly pay (adjusted for inflation) has dropped nearly -7% since the mid-2000s — to a median of \$10.16 in 2012-2014.
- About 3 out of 4 fast-food workers are age 22 and up, but the trends for workers in their late 20’s & 30’s have been just as bleak: median real wages for Long Islanders in that age group (25-34) are down -8.4%

In the restaurant and food service subsample, my recent estimates for workers of all ages from the same person-level data suggests an even steeper pay decline. Among non-managerial food service workers’ on Long Island, median pay today is still below pre-recession levels: after adjustment for the rising local cost of living (up over 20% in this period), the \$9.12/hour median fast-food wage in 2012-2014 is about -\$1.66 (or -15.5%) lower than it was in 2005-2007 (\$10.71)! *Yet nearly half of New York’s fast-food employees have completed some college!*

Note that wages self-reported by workers may differ from business payroll data, at least in part due to widely reported violations of minimum wage and overtime laws in this sector. In a recent interview we published with the Long Island chief of the US Labor Dept.’s Wage & Hour Division, he estimated that 75% of Long Island food service establishments violate the minimum wage or other labor laws each year. Although his office is more aggressive in enforcement than most, covering 5,000 restaurants (plus thousands of other employers) with just 19 investigators is a daunting task.<sup>3</sup>

#### Fast-Food Pays Below Sustainable Levels

Such low wages fall well below any reasonable standard of sustainable no-frills living in our high-cost region. The “Self-Sufficiency Standard” for New York State is a far more realistic measure of income adequacy than the federal poverty line. The standard measures the minimum income that households of different sizes and locations need to cover essentials (including taxes) — without public assistance or private charity.<sup>4</sup>

In the latest (2010) figures for Long Island, researchers projected the annual minimum incomes that several kinds of households needed for self sufficiency in Nassau County. In the table below, I updated their 2010 estimates to 2015 prices for two household types — a single adult with no children household and one in which a single adult lived with one pre-school child.

If adjusted for New York metro area inflation between 2010 and the first quarter of 2015, the full-time worker’s minimum annual self-sufficiency earnings level would rise to \$35,554. That means that, for an employee who manages to work full-time year-round (40 hours/week over 52 weeks), his/her hourly wage rate would rise, for a single childless adult, from \$15.65 in 2010 up to \$16.83 in 2015.

However, my estimates from the same data source indicate that the average workweek of Long Islanders in food services today is only

|                                       | 2010 Self-Sufficiency Income |                              | 2015 Self-Sufficiency Income |                              |
|---------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                       | 1 Adult, No Children         | 1 Adult + 1 Pre-School Child | 1 Adult, No Children         | 1 Adult + 1 Pre-School Child |
| Monthly                               | \$2,754                      | \$6,220                      | \$2,962                      | \$5,507                      |
| Annual                                | \$33,052                     | \$61,424                     | \$35,554                     | \$66,074                     |
| Hourly, If full-time: (40 hrs/wk.)    | \$15.65                      | \$29.08                      | \$16.83                      | \$31.28                      |
| If typical LI workweek (30.35 hrs/wk) | <b>\$20.94</b>               | <b>\$38.92</b>               | <b>\$22.53</b>               | <b>\$41.87</b>               |

30.35 hours/week. Applying that shorter workweek to these data: for a Long Island food service employee working the average 30.35 hrs/week, the minimum hourly wage needed to attain self sufficiency each year would be: \$22.53/hour! And of course it would be much higher for larger families.

So, setting a \$15/hour floor in fast-food jobs would narrow importantly, but not erase the distance even a year-round worker falls below the local Self-Sufficiency Income:

- If he/she worked a relatively rare full-time schedule (40 hrs/wk) for 52 weeks (2,080 hours) at \$15/hour, the annual earnings would rise from \$14,393 today (\$9.12 x 30.35 weekly hrs. x 52 weeks) to \$31,200 (= \$15 x 40 hrs. x 52 weeks) after the new minimum wage goes into effect. This would still be -\$4,354 (= \$35,554 - \$31,200) below self-sufficiency (-12%).
- If instead he/she worked the typical Long Island workweek of an average 30.3 hrs/week for 52 weeks (1,578.2 hours) at \$15/hour, the annual earnings would rise from \$14,393 today to \$23,673 (= \$15 x 30.35 hrs. x 52 weeks) after the new \$15 minimum wage goes into effect. This 64 percent earnings increase would surely bring long-overdue improvement in the living standards of underpaid food workers and their families, including likely health, education, housing and community benefits. But even this change would still leave a single worker's annual pay some 35 percent below the self-sufficiency level, by -\$12,491 (= \$35,554 - 23,063).

### Public Costs of Low Pay

With one in four fast food worker's family incomes below the federal poverty line – 4 times the national rate – and another 23 percent “near-poor,” (incomes 100 to 200 % of the poverty line) a disproportionate share are forced to draw on public assistance.<sup>5</sup> That means that food stamp (SNAP), Medicaid & other means-tested expenditures must rise, at a substantial cost to taxpayers. Effectively, low-wage employers gain more profits while shifting the rising tax burden of more public assistance onto taxpaying households.

A recent UC-Berkeley /University of Illinois study estimated the public costs of low-wage fast-food employment in New York and other states. It focused on programs including Medicaid, food stamps, and Temporary Assistance to Needy Families (TANF) along with the value of federal Earned Income Tax Credits received by low-wage workers. In 2013, the study found that 60 percent of New York's fast-food workers received one or more forms of public

benefits. Based on average fast-food employment levels for the 2007-2011 period, taxpayers were stuck with a \$708 million bill for public assistance costs to 104,000 low-wage, frontline workers in the fast-food industry in New York.<sup>6</sup> If adjusted for the industry's employment growth since then, the 2015 cost to New York State is some \$862 million.<sup>7</sup>

### Feasibility Questions

Some businesses have expressed great concern about increasing the legal wage floor in fast food. Clearly, Long Island does not want to discourage business growth and job creation. Is that a likely result of a higher minimum wage?

A growing body of recent economic research has found little or no significant impacts of moderate minimum wage increases on employment. Empirical studies by scholars at UMass Amherst, UC Berkeley, Princeton and elsewhere have looked at low-wage jobs in adjoining counties that straddle state borders, only one of which had a minimum wage hike. In the most exhaustive research to date, Dube, Lester and Reich studied the effects in some 250 pairs of such contiguous counties from 1990 to 2006, and found no significant job differentials attributable to minimum wage hikes.<sup>8</sup>

*What explains the ability of most food service employers to absorb past minimum wage increases?*

First, nearly two-thirds of fast-food employees work at the chain stores of giant, profitable corporations. The 14 largest publicly traded fast-food giants in New York captured \$9.3 billion in annual profits in 2014 – a profit jump (after inflation) since 2010 of 14.5%. Yet they clearly did not share much of those gains with their employees, who saw their real pay drop in the same period.<sup>9</sup>

There are also a variety of ways by which employers subject to higher pay minima can respond profitably, with no need to cut the workforce:

1. Take advantage of the substantial savings generated by higher-paid workers' lower absenteeism and turnover, with related savings from less frequent costly screening, hiring and training of new employees. Coupled with the higher morale and productivity of better-paid employees, these savings have been shown to offset 10 to 30 percent of past minimum wage increases.
2. Make modest increases in product prices. How much this may reduce consumer demand for fast food depends on the sensitivity

of consumers (“price elasticity” in economics textbooks) to such price hikes. Based on average elasticity of -0.5, Pollin and Wicks-Lim estimate that annual fast-food price increases of just 3 percent could raise net revenue sufficiently to cover a four-year adjustment to a \$15 per hour wage floor – without cutting either jobs or the profit rate.<sup>10</sup>

3. Direct more of the higher sales revenues from overall economic growth (averaging 2.5 percent each year in the industry) toward wage increases.
4. Redistribute a larger share to wages of industry revenues from profits and/or from management salaries and/or from marketing and other franchise transfers to parent chains.

### New York State Sets \$15 Minimum

In late July 2015, after months of statewide hearings, the Fast Food Wage Board of the New York State Department of Labor, recommended that the industry's minimum wage be raised in phases to \$15 in New York City by December 2018 and to \$14.75 in the rest of the state by December 2020.<sup>11</sup> On September 10th, the Board's recommendations were approved by Acting Commissioner of Labor Mario Musolino. The detailed schedule of increases is as follows:

| Schedule of NYS Minimum Wage Raises for Fast-Food Workers |             |            |
|---|-------------|------------|
| Min. Wage   |             | Start Date |
| NYC   | Outside NYC |            |
| \$10.50   | \$9.75      | 12/31/2015 |
| \$12.00   | \$10.75     | 12/31/2016 |
| \$13.50   | \$11.75     | 12/31/2017 |
| \$15.00   | \$12.75     | 12/31/2018 |
|   | \$13.75     | 12/31/2019 |
|   | \$14.75     | 12/31/2020 |

Source: <http://www.labor.ny.gov/workerprotection/laborstandards/pdfs/FastFood-Wage-Order.pdf>

Whenever the legal minimum wage floor is raised for the lowest-paid workers, economic research has found that it tends to pressure employers to also raise the wage rates of other near-minimum wage employees enough to maintain previous pay differentials between them and the minimum-wage workforce. Evidence of these “spillover effects” strongly suggests that other restaurant employers may follow suit, particularly in a high-cost, high-wage regions like New York City and Long Island.

### 6. Conclusion

Reversing the downward slide of real wages in the fast-food industry could bring multiple benefits, not only to the employees' standard of living, but also to employers, other local businesses, and the broader community – without necessarily affecting job growth. The associated macroeconomic expansion from rising consumer income could produce substantial direct and indirect economic benefits. With more money in their pockets, working

people have that much higher spending power to buy local goods and services, thereby expanding sales of Long Island restaurants and a wide variety of other businesses. Moving tens of thousands of working people closer to a self-sufficiency earnings level could also lower their need for public assistance, thereby relieving local tax burdens.

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### NOTES:

- <sup>1</sup> This article is adapted from my oral and written testimony to the NYS Fast Food Wage Board on June 18, 2015 in Garden City, NY.
- <sup>2</sup> DeFreitas, Gregory, “Pay Patterns on Long Island Since the Great Recession,” *Regional Labor Review* (Spring/Summer 2015): 5-11.
- <sup>3</sup> DeFreitas, Gregory, “Combating Rampant Wage Theft on Long Island: A Conversation with its Chief Labor Law Enforcer,” *Regional Labor Review* (Fall 2013): 18-26.
- <sup>4</sup> Center for Women's Welfare, University of Washington, *The Self Sufficiency Standard for New York State* (6/2010): [www.selfsufficiencystandard.org](http://www.selfsufficiencystandard.org).
- <sup>5</sup> According to a 2013 UC-Berkeley Labor Center/University of Illinois study of fast food workers (cited in the Governor Cuomo's press release setting up this wage board). Sylvia Allegretto, Marc Doussard, Dave Graham-Squire, Ken Jacobs, Dan Thompson and Jeremy Thompson, *Fast Food, Poverty Wages. The Public Cost of Low-Wage Jobs in the Fast-Food Industry*, University of California Berkeley Labor Center and University of Illinois at Urban-Champaign, October 15, 2013, page 8.
- <sup>6</sup> Sylvia Allegretto, Marc Doussard, Dave Graham-Squire, Ken Jacobs, Dan Thompson and Jeremy Thompson, *Fast Food, Poverty Wages. The Public Cost of Low-Wage Jobs in the Fast-Food Industry*, University of California Berkeley Labor Center and University of Illinois at Urban-Champaign, October 15, 2013, Tables C-1 and C-2. See also Giannarelli, L., et al. *How Much Could Policy Changes Reduce Poverty in NYC?* Washington DC: Urban Institute (2/2015).
- <sup>7</sup> Parrott, James, Testimony to NYS Fast-Food Wage Board, Buffalo, NY (6/5/2015): [www.fiscalpolicy.org](http://www.fiscalpolicy.org).
- <sup>8</sup> Dube., Arindrajit, William Lester & Michael Reich, “Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties,” *Review of Economics and Statistics*, 92 (Nov. 2010): 945-64.
- <sup>9</sup> Tung, Irene, *Testimony to NYS Fast-Food Wage Board*, Buffalo, NY (6/5/2015): [www.nelp.org](http://www.nelp.org).
- <sup>10</sup> Pollin, Robert and Jeannette Wicks-Lim, “A \$15 Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs,” *PERI Working Paper*, UMass Amherst (Jan. 2015): [www.peri.umass.edu](http://www.peri.umass.edu).
- <sup>11</sup> NYS Fast Food Wage Board, *Report of the Fast Food Wage Board to the NY State Commissioner of Labor* (7/31/2015): <http://labor.ny.gov/workerprotection/laborstandards/pdfs/FastFood-Wage-Board-Report.pdf>.