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Sam Magavern

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A Raise for Fast Food Workers Will Help Western New York

Abstract

The most pressing problems in Western New York in many areas of life, including education, healthcare, and criminal justice, can be traced to a single root: poverty. Families living in poverty suffer from lower graduation rates, more chronic diseases, and more criminal violence than families earning living wages. In our region, as around the nation, roughly 45% of workers are employed in low-wage service sector jobs. Those jobs are not going away; in fact, they are the fastest growing occupations in the economy. They do not require – or pay a premium for – high levels of education, and so gains in education will have a minimal impact on the wages they pay (already, more than two in five restaurant workers have some college education). The key to reducing poverty and the myriad, expensive problems it causes is to raise the wages of service sector workers.

Keywords

Buffalo, Poverty/Low Wage Work/Income Inequality, Low Wage Work, Wages and Benefits, Policy Brief, PPG, PDF

A Raise for Fast Food Workers Will Help Western New York

Sam Magavern

The Importance of Adequate Pay

The most pressing problems in Western New York in many areas of life, including education, health care, and criminal justice, can be traced to a single root: poverty. Families living in poverty suffer from lower graduation rates, more chronic diseases, and more criminal violence than families earning living wages. In our region, as around the nation, roughly 45% of workers are employed in low-wage service sector jobs.¹ Those jobs are not going away; in fact, they are the fastest growing occupations in the economy. They do not require – or pay a premium for – high levels of education, and so gains in education will have a minimal impact on the wages they pay (already, more than two in five restaurant workers have some college education).² The key to reducing poverty and the myriad, expensive problems it causes is to raise the wages of service sector workers.

Fast Food: a Good Place to Start

The fast food industry is an excellent place to start, because it is a highly profitable sector with many low wage employees. Currently, more than 3.7 million Americans work in the fast food industry.³ However, despite the fact that fast food is remarkably profitable, a typical fast food worker makes \$9.09 – the lowest wage of any occupation in the nation.⁴ Among New York’s 180,000 fast food workers, the average earnings are less than \$16,000 per year.⁵ The faces of fast food workers have changed over the years. Today 70% are over the age of 20, nearly 40% have children, and a third have spent some time in college.⁶ Many of these workers live in Western New York, which is home to at least fifteen fast food chains, including Arby’s, Mighty Taco Burger King, Dairy Queen, Domino's Pizza, Dunkin' Donuts, KFC, Little Caesars, McDonald's, Pizza Hut, Chipotle, Starbucks, Subway, Tim Horton’s, Taco Bell, and Wendy’s.

Annual Wages for Selected Food Workers in Western New York⁷

Occupation	Number Employed in Western New York	Median Annual Wage
Cooks, Fast Food	2,290	\$19,970
Combined Food Preparation and Serving Workers, including Fast Food	15,710	\$18,120

The Public is Subsidizing Highly Profitable, Low-Wage Employers

One reason that fast food employers can pay such low wages is that the public is picking up the tab for the difference between what workers receive in pay and what they need for food, rent, utilities, doctor's visits, child care, and other basic necessities. For example, in Erie County, a household of four qualifies for food stamps if it earns less than \$14.91 per hour. A household of two that makes less than \$16.55 per hour qualifies for HEAP to help with heating bills. In New York, 60% of fast food workers rely on public assistance, at an average cost of \$6,800 per year to the taxpayer. That means that the public is paying roughly \$700 million per year to make up for low fast food wages.⁸ The cost of public assistance for workers at fast food companies in the United States is nearly \$7 billion per year.⁹ Fast food is the worst offender among the industries profiled in the recent UC Berkeley Study, "The High Public Cost of Low Wages," which found that 73% of enrollees in the major public assistance programs are working families.¹⁰ It would be much more efficient and less wasteful to ask companies to pay their workers living wages than for the public to continue to fill the gaps with needs-based programs.

Fast Food Companies Can Afford to Pay Their Workers More

It is striking that McDonald's, Burger King, and other fast food companies operate profitably in Denmark, where the least they can pay a fast food worker is \$20 per hour.¹¹ Equally striking is how lucrative the fast food industry is, and how much its executives are paid. In 2012, McDonald's earned profits of \$5.46 billion and paid its CEO \$13.7 million.¹² In 2012, fast food CEOs earned over 1,200 times as much as the average fast food worker.¹³ Accommodation and food services has the worst CEO-to-worker pay disparity of any sector in our economy, and fast food has the worst disparities within the accommodation and food services sector.¹⁴ In short, fast food is the most unequal of the unequal.

A recent report from the University of Massachusetts demonstrates that the fast food industry could raise wages to \$15 per hour without shedding jobs or losing profitability due to four factors:

- Raising wages increases worker productivity and reduces turnover and training costs;
- The economy is growing, and the fast food sector is growing faster than the economy, so that some of the increased costs of paying more wages can be absorbed with increased revenues due

Living on Fast Food Wages

Anthony Moore is a shift manager at a Burger King. He earns \$9 an hour, typically working 35 hours a week and taking home around \$300 weekly. "It's very inadequate," said Mr. Moore, 26, who supervises 10 workers. His rent is \$600 a month, and he often falls behind on his lighting and water bills. As a single father, he receives \$164 a month in food stamps for his daughters, 5 and 2. "Sometimes I ask, 'Do I buy food or do I buy them clothes?'" Mr. Moore's daughters receive health care through Medicaid, while he is uninsured because he cannot afford Burger King's coverage, he said. "I skip the doctor," he said, adding that he sometimes goes to work sick because "I can't miss the money."

*Liz Alderman and Steven Greenhouse.
"Living Wages, Rarity for U.S. Fast-Food
Workers, Served Up in Denmark."
New York Times, October 27, 2014*

- to growth;
- Businesses can reduce the pay of the highest paid workers or reduce profit margins while still remaining profitable; and
- Fast food businesses could raise prices slightly without losing customers.¹⁵

An abundance of economic research suggests that raising minimum wages does not reduce employment. One study examined pairs of counties located across state lines when one state raised its minimum wage and the other did not. They found no evidence that the higher wages harmed a state’s competitiveness by shifting business across the state line.¹⁶ A review of 64 studies on the impact of minimum wage increases on employment found little or no impact.¹⁷

Two of the Three Largest U.S. Employers of Low-Wage Workers are in Fast Food¹⁸

	Highest Paid Exec’s Hourly Compensation	Profit Growth Over Last Four Fiscal Years
Yum Brands (Pizza Hut, Taco Bell, KFC)	\$10,206	45%
McDonald’s	\$2,037	130%

Fast Food: a Bad Choice for Taxpayer Assistance

It is also worth noting that fast food companies do not produce valuable goods, nor do they export goods or services abroad. Rather, they compete for a limited pool of customers with other businesses. If the fast food industry were to shrink, then other restaurants, grocery stores, and businesses would grow by a corresponding amount, and there would be no net loss of jobs. In fact, jobs might grow because traditional restaurants are more labor-intensive than fast food restaurants.

In fact, moving consumer dollars from fast food to other choices would be better for our health, environment, and economy. Fast food is an important contributor to the obesity epidemic because of its high fat and calorie content and low nutritional value. One study found that children who eat fast food consume 15% more calories than those who do not.¹⁹ University of Minnesota researchers found that people who ate fast food at least twice a week were 50% more likely to die of heart disease and 27% more likely to develop diabetes than those who did not.²⁰ Fast food outlets and convenience stores worsen “food deserts” in low income areas by crowding out grocery stores and healthier options. The fast food industry is a major driver of factory farming and other environmentally harmful

practices.²¹ Finally, fast food chains tend to remove money from a local economy, rather than adding to it. For example, a study of Salt Lake City found that independently owned restaurants recirculated 78.6% of their revenue in the local economy, whereas national chains recirculated only 30.4%.²²

Higher Wages Cut Turnover and Increase Productivity

A survey of over 1,000 restaurant employers reported that higher wages cut turnover in half, saving the employers money on training and recruitment.²³ As many service sector employers – including Costco, Trader Joe’s, and QuikTrip Convenience Stores – have found, investing in good jobs does not require charging customers more; rather, as business expert Tom Zeynep puts it, “even in supposedly low-skill service sector work, higher wages are the key to greater employee engagement, better customer service, higher productivity, and a better bottom line.”²⁴ Wal-Mart and McDonald’s recently recognized that higher wages can be good for business when they raised wages for their lowest paid workers. McDonald’s announced it will increase the lowest wage by \$1 an hour for employees working at its company-owned stores. However, only about 10% of McDonald’s 14,000 U.S. locations are corporate; the rest are owned by franchisees that chose their own pay structures.²⁵ Furthermore, a one dollar raise still leaves McDonald’s workers mired in poverty and dependent upon public assistance for basic necessities.

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www.ppgbuffalo.org
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237 Main St., Suite 1200, Buffalo NY 14203



Notes

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