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POLICY NOTE

Cities are starting to see the harsh reality of high minimum wage laws

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Key Findings:

1. Good intentions can't overcome the basic laws of economics; a socialist pizza shop in Boston dedicated to paying "fair wages" is closing after just two years in business.
2. The problem is that the social enterprise model was not turning a profit.
3. Simply hiking prices doesn't work either; there is a limit as to how much consumers will pay for a slice of pie.
4. New York City is seeing the cruel effects of their $15 minimum wage law for fast-food workers that took effect in 2016. Employment growth at fast-food establishments has been cut in half over the past year, and is now two-thirds below its 2011 rate.
5. Employers are simply replacing jobs with automation to save on labor costs.
6. A U.W. study also found the higher wage cost Seattle 5,000 lost jobs, meaning less work opportunity for those who need it most.
7. The losers are the low-skill, usually young, workers who once had easy access to entry-level jobs.

Introduction

Proving once again that good intentions can't overcome the basic laws of economics, a socialist pizza shop in Boston dedicated to paying "fair wages" is closing after just two years in business.

Billed as "pizza with purpose," the non-profit behind the Dudley Dough pizza shop said it "attempted to put social enterprise model into action." The problem is that the social enterprise model was not turning a profit and the non-profit could not continue to subsidize the project.

Meanwhile, three area restaurants that opened the same year as the pizza shop are still open. It turns out paying workers an unreasonably high wage for making pizza doesn't pencil out.

Simply hiking prices doesn't work either; there is a limit as to how much consumers will pay for a slice of pie, even if that slice is supporting the so-called "fair wages" of the workers who make it.

This is a lesson in basic economic principles many policy makers and socialists have missed in their Econ 101 classes.

"Just raise your prices"

When the owner of a cupcake bakery in Seattle explained the impacts of paying her workers a mandated $15 minimum wage, noting it would increase her annual business costs by $1 million, Seattle City Council member and self-identified socialist Kshama Sawant told her, "Just raise the price of your cupcakes."

As the business owner noted, this simplistic view "reveals a basic lack of business knowledge." As she correctly notes, she can't just raise her prices. Cupcakes are not a necessity, and people will buy cupcakes elsewhere or simply go without if prices rise too much. Her profit margin is what will ultimately bear the brunt of the higher costs.

Dudley Dough in Boston learned this lesson the hard way.

High minimum wage law can mean a wage of zero

Minimum wage advocates continue to claim increasing the minimum wage is a "win-win-win" for employers, workers, and the economy, but the reality is much different. A "living" wage for the former employees of Dudley Dough is now a zero wage. That does not sound like a win for them.

A high minimum wage has not helped fast-food workers in New York City either. After that city passed a $15 minimum wage law for the fast-food industry, employment growth at fast-food establishments has fallen by half over the past year, even though new fast-food restaurants are opening in the city.

Employers are simply replacing jobs with automation to save on labor costs. Job hunters with little or no skills or work experience now have significantly fewer employment opportunities in New York City. Ironically, the skills and experience they would gain in what used to be low-wage, entry-level jobs are what would enable them to command higher wages in the future.

Losses for Seattle workers

Nor has a $15 minimum wage been a win for workers in Seattle. According to a study by the University of Washington (U.W.) earlier this year, Seattle's lowest-wage workers are certainly making more per hour, but they are actually taking home less pay as the result of reduced hours.

The U.W. study reveals the wages of Seattle's working poor increased by three percent, but they worked nine percent fewer hours, which amounted to a nearly seven percent cut in their monthly earnings. That works out to a loss of nearly $125 a month for low-wage workers.

The U.W. study also found the higher wage cost Seattle 5,000 lost jobs, meaning less work opportunity for those who need it most. Unfortunately, many policymakers continue to tout the "win-win-win" theory.

New York learns see cruel effects of $15 minimum wage law

Meanwhile, New York City is seeing the cruel effects of imposing a high-minimum wage law on low-skilled workers. City officials passed a $15 minimum wage law for fast-food workers that took effect in 2016.

According to U.S. Labor Department data, employment growth at fast-food establishments in New York City has been cut in half over the past year, and is now two-thirds below its 2011 rate.

The cut in hiring rates comes in spite of the fact that the number of fast-food businesses in New York City is rapidly increasing.

So New York City is gaining more and more fast-food establishments, but losing more and more fast-food jobs. How is this possible? The reason is automation.

Loss of entry-level jobs due to automation

In response to the city's high minimum wage mandate, fast-food business owners are buying machines instead of hiring people.

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For example, the newest Shake Shack in the city has only kiosk ordering available. The store keeps a few employees on the clock to help customers navigate the new kiosk ordering system, but there are significantly fewer employees than in Shake Shack's other locations in the city.

It is not just the fast-food businesses that are cutting down on their work force in response to the higher mandated wage. The businesses that supply the fast-food stores are also embracing automation as a way to reduce their costs, so they can pass those savings on to the restaurants.

One produce supplier has invested $200,000 into machinery that peels onions, dices tomatoes and cuts carrots. That investment has paid off so well, the supplier is planning to buy another $400,000 worth of equipment. As he put it, "With the minimum wage going up, I figure there's no way a fast-food place can sell a burger for $2.99 unless they hire someone like us."

Conclusion

Clearly New York City's $15 minimum wage has not dampened the growth of the fast-food industry. The winners there are the fast-food business owners who are doing well enough to grow at a record pace, and government officials, who gain more tax revenue as a result. The losers are the low-skill, usually young, workers who once had easy access to entry-level jobs. Those first jobs gave them the experience needed to command higher wages in the future.

As evidence pours in demonstrating the harsh real-world effects of a high minimum wage, let's hope officials in other cities and countries learn the hard lessons of laid-off employees of Dudley Dough and of unemployed workers in Seattle and New York, and abandon their crusade to impose high minimum wage laws.

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