AN EQUAL SAY AND AN EQUAL CHANCE FOR ALL

Hearing before the New York State Fast Food Wage Board

Testimony Delivered by Catherine Ruetschlin, Senior Policy Analyst
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Good afternoon. My name is Catherine Ruetschlin and I am a Senior Policy Analyst at Demos, a public policy organization working to ensure that all Americans have an equal say in our democracy and an equal chance in our economy. I'm here today to add our voice to the growing calls for a higher wage standard in New York for workers in the fast food industry and beyond.

Last year Demos released the report *Fast Food Failure: How CEO-to-Worker Pay Disparity Undermines the Industry and the Overall Economy*, showing that the fast food industry is the main driver of compensation inequality in the most disparate sector of the economy, with a CEO-to-worker pay ratio in 2013 of over 1000-to-1.[1] The pay disparity in the fast food industry is an extreme outlier, even in an economy where inequality overall has become an increasing point of concern. The outsized ratio is largely driven by the poverty-level wages paid to the industry's front-line workforce. It is also a prime example of the trend since the Great Recession that shows earners at the very top of the income distribution capturing all of the gains of economic growth and leaving the rest of the population behind.[2]

While the most immediate repercussions of fast food's compensation practices are felt by workers in its low-wage jobs, our paper demonstrates that the companies' lopsided human capital allocation creates new risks to investors through increased operational issues, labor unrest, and legal costs. Moreover, the negative consequences of extreme pay disparity are not isolated to the industry where they are produced. Many of the low-wage jobs that compose fast food employment are among the occupational categories projected to add the most jobs over the coming decade.[3] Our economy is increasingly reliant on employment in the most unequal industries; making it harder for working people to share in the gains of economic growth and concentrating more and more income at the top. According to a broadening consensus of economists like those at the International Monetary Fund and the World Economic Forum, this increasing income disparity across the economy reinforces the problems of instability and slow growth.[4]

In New York's fast food industry, where the median wage is $9.03 per hour, 62 percent of employees work at franchise locations like those of the large firms in our study.[5] These companies take advantage of disproportionate power over the price of labor by holding their workers at or below the poverty line while reaping billions in profits each year. But research shows that even smaller companies could raise wages as high as $15 per hour while maintaining current levels of employment and rates of profit. Economists

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Robert Pollin and Jeannette Wicks-Lim at the University of Massachusetts Amherst's Political Economy Research Institute demonstrate in a recent paper how companies can offset the increased costs of phasing in a new minimum wage.[6] The authors estimate that productivity gains from reductions in turnover, training costs, and absenteeism will offset at least 17 percent of the total cost of the raise, based on industry-level estimates and the prevailing economics research on employer separation costs and elasticities. In addition, trend sales growth since the late 1990s shows that fast food sales grow on pace with the overall economy. While projected sales may be affected by the consumer response to price increases, Pollin and Wicks-Lim illustrate that employers can benefit from modest price increases that cover the remaining portion of the wage bill while accounting for the price elasticity of demand. With a combination of modest price increases, productivity increases, and the gains from growth, employers can choose to pay their workforce higher wages without negative employment effects, all while maintaining industry profitability.

In closing, I would like to attest to the potential for the fast food industry to be a leader advancing real opportunity for today's workers. More than a decade ago, before I was a policy analyst or an economist, I was a fast food employee. It was one of the three jobs I held at the time, affording a simple budget with enough left over to save up to go to college after a couple of years. I put in hard hours for my employer and it eventually worked out just fine for me. My experience, however, is unrecognizable to those workers toiling in the low-wage economy today. Compared to the year when I earned my last fast food paycheck, the cost of living is higher and CEO and company earnings at large fast food chains have flourished, but wages have barely budged.[7] At the same time, new complications like unstable, unpredictable, and on call scheduling have emerged to increase the barriers to workers trying to make their way in the industry. Low wages coupled with insufficient hours and unstable scheduling impose new costs on workers and are antithetical to the idea of work as an opportunity to make a productive contribution and to build a better life. We know that our economy can do better, and must. A raise for New York's fast food workforce is an important step toward building an economy that rewards all of its members adequately for their contributions, and that makes work a path to financial security for all.

[1] Catherine Ruetschlin, "Fast Food Failure: How CEO-to-Worker Pay Disparity Undermines the Industry and the Overall Economy," Demos, April 22, 2014, available at http://www.demos.org/publication/fast-food-failure-how-ceo-worker-pay-disparity-undermines-industry-and-overall-economy.

[2] Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States," UC Berkeley, September 3, 2013, available at http://eml.berkeley.edu/~saez/saez-UStopincomes-2012.pdf.

[3] Bureau of Labor Statistics Employment Projections, Table 1.4. Occupations with the most job growth, 2012 and projected 2022, U.S. Bureau of Labor Statistics, accessed March 21, 2014, http://www.bls.gov/emp/ep_table_104.htm.

[4] International Monetary Fund Research Department, "Redistribution, Equality, and Growth," by Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, February 2014, available at http://www.imf.org/external/pubs/f/sdn/2014/sdn1402.pdf, and World Economic Forum, "Global Risks 2014, Ninth Edition," 2014, available at http://www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf.

[5] New York State Department of Labor, "Briefing Document on Employment and Wages in New York State's Fast-Food Restaurants," Prepared for the Minimum Wage Board 2015, available at http://labor.ny.gov/workerprotection/laborstandards/pdfs/5-20-statistics.pdf, and National Employment Law Project calculations of Economic Census 2007.

[6] Robert Pollin and Jeannette Wicks-Lim, "A $15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs," University of Massachusetts Amherst Political Economy Research Institute Working Paper Series Number 373, January 2015, available at http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_351-400/WP373.pdf.

[7] Comparisons based on year 2000. For cost of living, see Bureau of Labor Statistics CPI Detailed Report Data for April 2015, Table 24, available at http://www.bls.gov/cpi/cpid1504.pdf. For CEO pay and wages, see Catherine Ruetschlin, "Fast Food Failure: How CEO-to-Worker Pay Disparity Undermines the Industry and the Overall Economy," Demos, April 22, 2014, available at http://www.demos.org/publication/fast-food-failure-how-ceo-worker-pay-disparity-undermines-industry-and-overall-economy. For company earnings, comparison based on McDonald's, YUM, and Starbucks Annual Reports for most recent and FY 2000.