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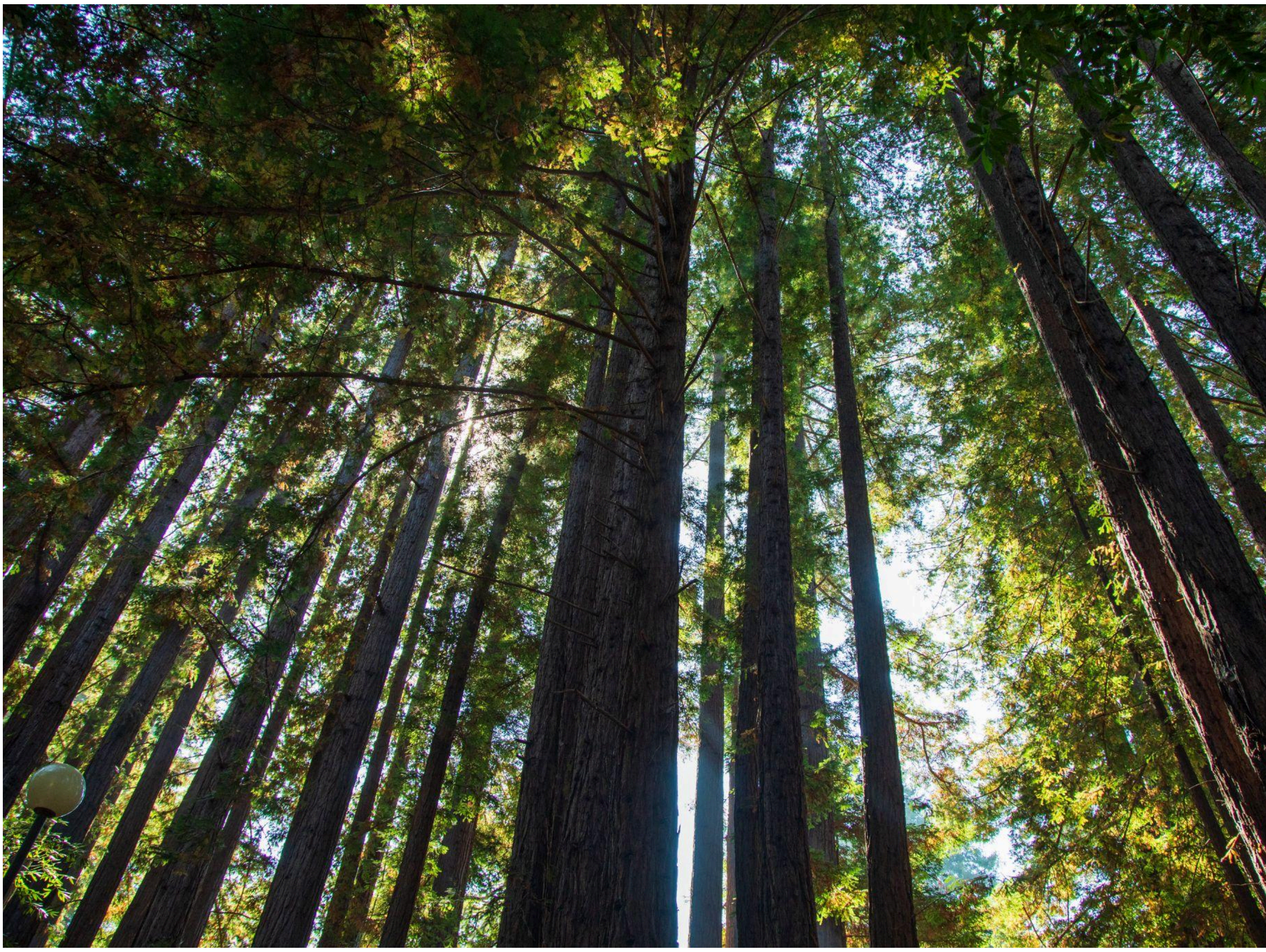

Let Them Eat Big Macs®, Crunchwraps®, and Whoppers®

A Working Paper Describing the Local Impact of California's $20 Fast Food Minimum Wage in the City of Santa Cruz

Stephen Owen, Ella Ripley-Rodriguez, Molly Jenkins, and Sophie Walsh

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A Working Paper Describing the Local Impact of California's $20 Fast Food Minimum Wage in the City of Santa Cruz

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Abstract

This study examines the local impact of California's Assembly Bill 1228, which implemented a $20 minimum wage for fast food workers, using the city of Santa Cruz as a case study to highlight the many unintended consequences of this legislation. Analysis of quantitative labor market data and qualitative interviews with fast food franchise and independently owned restaurant managers has exposed workforce economic inefficiencies and accelerated changes in operational strategies. The results indicate a plethora of negative outcomes such as higher menu prices for consumers, reductions in employee working hours, widespread elimination of overtime, and loss of benefits for employees. Further decreases in employee opportunities are being driven by automation and the adoption of labor replacement technologies is accelerating. Though exempt from the new minimum wage law, independent restaurants have also faced negative side effects in the form of upward wage pressures and shrinking operating margins. These findings provide a common sense understanding of the policy's economic and social effects on local businesses and the labor market in California and Santa Cruz in particular.

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Introduction and Background

In April 2024, California implemented Assembly Bill 1228 (AB 1228) also known as the Fast Food Accountability and Standards (FAST) Act. The bill was signed into law in September 2023 with delayed implementation until April 2024. This legislation introduced a $20 minimum wage (a 25% increase for most counties in the state) specifically for fast food workers and also created a Fast Food Council to set minimum standards for fast food workers and potentially set annual minimum wage increases. The FAST Act marked a significant shift in labor policy, with ambitious goals designed to address wage disparities and provide greater financial security to fast food employees.

Unlike previous minimum wage laws in California, AB 1228 is sector-specific and applies exclusively to the fast food industry. Specifically, the FAST Act minimum wage and council only applies to fast food restaurants with 60 or more locations in California. However, one major issue is that nearly all of these restaurants in California are franchised and not owned by the Fortune 500 company names they represent. In fact, the majority of franchised fast food restaurants in California are owned by individual entrepreneurs and small businesses who pay franchise fees on top of their normal restaurant operating expenses.

Unfortunately, the imposition of an arbitrary minimum wage higher than the equilibrium distorts the classic economic model of supply and demand. The labor market impact of such a binding minimum wage increase is illustrated in Figure 1. It shows that the labor market equilibrium wage and equilibrium quantity of labor occur at the intersection of the labor demand and labor supply curves. When a minimum wage is imposed above the market equilibrium, the quantity of labor demanded decreases, while the quantity of labor supplied increases. This equates to fewer job offerings at the higher wage combined with an increase in the number of job applicants. The quantity of labor demanded by employers is now less than the quantity of labor supplied by potential employees. This gap represents a surplus of labor or unemployment.

As we assess the impact of a binding minimum wage increase on the labor market, it is important to remember that in economics, the market demand curve holds "all other things constant" but that over time this is not necessarily the case. In the medium to long term, labor demand will not just move along the demand curve in response to the higher labor cost. If businesses respond to the higher cost of labor by outsourcing and investing in new technology and automation, the demand curve will shift down and to the left as illustrated in Figure 2. A clear illustration of a labor adjustment was in December 2023 when two Pizza Hut franchise operators, PacPizza and Southern California Pizza Company, announced that they were eliminating all pizza delivery driver positions in response to the imminent minimum wage increase.[1] Instead, they would outsource delivery services to DoorDash, UBER Eats, and other third-party services. While eliminating the employment of

[1] Sternfield, M. (2023). "California Pizza Hut Operators Laying off All Delivery Drivers," KTLA.

pizza delivery drivers will lower operating costs for these Pizza Hut franchisees, it will also pass along higher prices to consumers via the third-party services.

Our initial research shows that fast food chains are clearly responding to the sector specific minimum wage with investments in new technology and automation. This will result in structural changes in the market, with a decrease in the demand for labor and a shift in the demand curve. So we predict the negative quantity of labor impact at franchised fast food restaurants will accelerate in 2025, with job role reductions in same-store calculations as the quantity of labor demanded by these businesses declines with this shift of the demand curve. If the business demand for labor is more elastic in the fast food industry, which we believe it is due to the ability to adjust staffing levels easily and the availability of alternatives, businesses will be more aggressive in their pursuit of new technologies and automation in response to a binding minimum wage law and the negative impact on the labor market will be even more pronounced. In addition to the labor market inefficiencies and structural changes to the market that a higher minimum wage brings, economists will note that companies faced with this challenge would be expected to respond with some level of price increases.

This working paper has shown that all types of businesses, as well as consumers, have been hurt by this legislation through a myriad of unintended consequences. Employees of franchised fast food restaurants have seen reduced hours, the elimination of overtime, and lower numbers of employees eligible for benefits. Franchise owners have seen profits decline, which will negatively impact their future investments to expand and create jobs. Businesses not directly subject to the FAST Act have also seen heightened pressure to raise wages and increase prices. It is clear that the people of California have been left with substantially higher menu and related prices as a direct result of AB 1228 with businesses across the board facing higher wage costs and associated profitability issues.

Santa Cruz Economic Background

Santa Cruz provides a particularly unique context for studying the effects of the FAST Act and the distortion of the minimum wage for a particular industry. Known for its vibrant small business culture, as well as a mix of national fast food chains and local establishments, the city of Santa Cruz offers a microcosm of the challenges created by this legislation. Along Mission Street, a busy commercial area of the city, franchised fast food restaurants subject to the FAST Act such as Burger King, McDonald's, and Taco Bell, are located in very close proximity to independent businesses such as a small cafe, a falafel restaurant, and a sushi restaurant. This landscape allows us to make comparisons between franchised fast food restaurants and independently owned restaurants, each facing different challenges in adapting to the new wage requirements of the FAST Act. AB 1228 has forced franchised fast food restaurants to absorb the costs of a 25% wage increase, but has also impacted similar businesses exempt from the law who are experiencing similar financial pressures resulting from the negative side effects of this legislation.

Methods

This study used a combination of primary and secondary data collection methods to investigate the implications of the $20 minimum wage policy for fast food workers in Santa Cruz. We integrated qualitative insights from business owners with quantitative analysis from credible data sources. This methodology ensured a comprehensive understanding of the policy impact of the FAST Act in Santa Cruz, California.

Primary Data Collection

The primary data collection involved direct, in-person interviews with business owners and managers along Mission Street in Santa Cruz. These establishments, all located within less than a mile of each other, included a mix of franchised fast food restaurants, such as Burger King, McDonald's, and Taco Bell as well as independently owned businesses, such as a Brazilian cafe, a falafel restaurant and a sushi restaurant.[2] The interviews were structured to address several key themes:

- Awareness and perceptions of Assembly Bill 1228 (AB 1228).
- Changes in operational strategies following the implementation of the law.
- Challenges related to workforce retention, hiring, and pricing adjustments.
- Observations of customer behavior and sales trends post-implementation.

Our team conducted interviews with managers and owners October through December 2024, providing firsthand insights into how different types of businesses are adapting to the minimum wage increase mandated for fast food restaurants subjected to the FAST Act. Responses were documented and analyzed to identify recurring themes and business-specific strategies. This primary research offered a different angle when compared to other research on the impact of the FAST Act in California which have focused only on quantitative analysis such as a September 2024 paper published by the IRLE.[3]

Secondary Data Collection

To supplement our qualitative results and insights, we gathered secondary data from credible sources, including:

- Economic reports and policy briefs related to AB 1228.[4]

[2]Interviews were conducted in compliance with ethical research practices, including obtaining verbal consent from participants.

[3]The Institute for Research on Labor and Employment (IRLE) paper also makes no mention of fast food restaurants responding to the increase in the cost of labor through automation, a major finding of our research.

[4]Economic reports and policy briefs were sourced from the California Legislative Analyst's Office and federal datasets.

- Labor market data specific to Santa Cruz, focusing on employment trends and wage growth.[5]
- Historical data on prior minimum wage increases in California to provide a contextual comparison.[6]

These sources provided quantitative data for evaluating the economic impact of the new sector specific minimum wage policy. Data from local and state government agencies, as well as industry associations, ensured the reliability and validity of the findings. The qualitative and quantitative data were analyzed to draw conclusions about the effects of the policy. Thematic analysis was applied to interview responses, identifying patterns and insights relevant to business operations and labor market dynamics.

Results

The Impact of the FAST Act on Fast Food Franchises in Santa Cruz

Analysis of the impact of California's fast food minimum wage increase to $20 per hour with the implementation of the FAST Act reveals significant changes in workforce dynamics, operational adjustments, and economic inefficiencies in Santa Cruz. This section presents insights into these themes, supported by quantitative and qualitative data.

Table 1 summarizes monthly job applicant totals for 2023 and 2024 for one franchise owner of over 100 Burger King locations in California. It shows the dramatic increase in applications observed in 2024, following the implementation of the $20 minimum wage in April 2024. This trend was further amplified by adopting a new Applicant Tracking System (ATS), which improved job visibility. Notably, August 2024 saw the largest spike in applications, with a 400% increase compared to the same month in 2023. This sharp increase calls attention to the attractiveness of higher wages for job seekers but also shows the discrepancy between applicant numbers and available positions.[7] This is exactly the predicted result of a binding minimum wage as outlined in Figures 1 and 2 discussed earlier. The data paints a clear picture of how the 25% increase in the minimum wage mandated by the FAST Act has affected the supply and demand of job seekers and businesses, impacting the hiring process with a flood of eager applicants chasing fewer opportunities and increasing competition for open positions.

As shown in Table 2, Burger King locations of at least one franchise owner reported a decrease in average total employee hours worked for shifts per day from 61 in October 2023 to 48 in October 2024. This is a reduction of 13 hours per day and

[5] Labor data was accessed through the Bureau of Labor Statistics regional datasets and Federal Reserve Bank.

[6] Historical data was accessed through the California Department of Industrial Relations and Federal Reserve Economic Data (FRED).

[7] Data sourced from internal Burger King franchise owner records, verified as of December 2024.

a decline in shift work available to employees of over 21%. This franchise operator, as well as others, also noted eliminating once plentiful overtime opportunities for employees.

In fact, the elimination of overtime opportunities at franchised fast food restaurants has been a common response to the FAST Act throughout California. These changes suggest that while the higher minimum wage has attracted more job applicants, it has prompted employers to reduce the hours available to employees, in order to manage the negative impact of increased labor costs. Furthermore, eligibility for benefits has decreased, due to fewer employees meeting the full-time threshold of working hours. Our research indicates that measures to limit employee hours and keep them under the eligibility threshold for benefits have increased sharply at franchised fast food restaurants subject to AB 1228. Anecdotally, many employees have reported juggling multiple part-time jobs to compensate for lost hours, due to fewer shifts being available as employers are forced to cut costs. On a potentially larger scale, a Burger King franchise owner in Northern California plans to close the lowest-performing 10% of franchises over the next two years to mitigate the impact of reduced margins caused by the sharp increase in the minimum wage and rising labor costs. This franchise owner is certainly not alone in their contingency planning, with other franchised fast food locations in California facing scrutiny and the jobs associated with these locations at risk.

As for consumers of fast food, the franchise owner implemented a 2% price increase in January 2024, followed by additional increases in April 2024 and September 2024, amounting to a total of 6% increase in menu prices for consumers. This was in addition to 2% price increases in September 2023 in preparation for the implementation of the FAST ACT in April 2024. Fast food is generally regarded as an inferior good[8], so these menu price increases disproportionately impact the working class of California, the very people AB 1228 was intended to help. This is a clear unintended consequence of the 25% minimum wage increase and a direct result of the economic inefficiency this policy imposes on the private sector.

This working paper illustrates that in response to the FAST Act, businesses are aggressively investing in new technology and automation as a substitute for labor. The FAST Act, and its 25% increase in the minimum wage, has incentivized businesses to find alternatives. The franchised fast food chains we focused our research on, Burger King, McDonald's, and Taco Bell, have all invested in automated kiosks, each costing upwards of $5,000, and are encouraging customers to order from these kiosks in order to reduce the need for employees to physically take orders. For example, at the Taco Bell on Mission Street in Santa Cruz, customers can only order from the kiosks and there are no menus in the restaurant, apart from on the order-taking kiosks themselves. Using automated order kiosks, instead of employee order takers, is a strong and rising industry trend toward automation in response to the higher labor costs imposed by the FAST Act. The parent companies of these franchised fast food restaurants are also investing resources in improving their mo-

[8]An inferior good is defined as a good (product, service, or experience) that one purchases less of as their income rises.

bile apps to accelerate remote ordering via smart-phone apps. This will further lower the need for restaurant employees to take orders, eventually eliminating this type of employee role entirely.

Our primary research and restaurant location visits also noted a marked increase in the deployment of voice-ordering AI systems in drive-throughs and automated dishwashing systems, which will further reduce the need for these franchises to employ minimum wage workers. For example, our research team visited a Bay Area Burger King franchise utilizing the Hi-Auto AI ordering system.[9] This technology stood out for its bilingual capabilities, its ability to seamlessly handle customer order adjustments, and to replace the need for a human worker taking orders in the drive-through. The Hi-Auto system integrates conversational elements, such as greetings and natural pauses, and can effectively up-sell products, potentially increasing order sizes, and focusing on particular products the restaurant may want to promote on a given day. According to the restaurant manager, the AI drive-through ordering system has significantly improved operational efficiency. Management confirmed that the AI is designed to replace a staff member, ultimately reducing the number of employees needed per shift. The franchise owner has trialed the Hi-Auto system at this location for two months and is preparing to expand its use to other franchise locations. According to Hi-Auto, interest in and trials of their AI drive-through solution have skyrocketed since April 2024, the introduction of the FAST Act. Hi-Auto are not alone in this space, with other technology companies testing AI drive-through solutions across California.

Another example of automation in the fast food industry is seen in Chipotle's investment into 'Cobots' (collaborative robots)[10] and the innovation of the 'Infinite Kitchen' technology by Sweetgreen restaurants.[11] One of Chipotle's Cobots, the 'Autocado' developed in partnership with Vebu, automates the preparation of the restaurant's signature guacamole, and is estimated to reduce the preparation time by 50%. Chipotle is also testing an assembly line Cobot called the 'Augmented Makeline,' created in collaboration with Hyphen. This automated assembly line machine builds mobile orders for bowls and salads.[12] Sweetgreen have disclosed that 50% of new locations will use their Infinite Kitchen model and locations with the Infinite Kitchen technology deployed have dramatically reduced labor requirements. Sweetgreen confirms that restaurants using their Infinite Kitchen have higher operating margins, less employees, improved order accuracy and lower employee turnover. We anticipate that when the Chipotle Cobots and Sweetgreen Infinite Kitchens are more widely deployed in California, there will be a substantial reduction in labor requirements. This will translate to fewer workers required per shift and less opportunities for people wanting to work.

[9] Hi Auto. "Voice AI for QSR," August 15, 2024, https://hi.auto/.

[10] Wolford, E. (2023). "Chipotle Partners with Vebu to Test Autocado Prototype, a Robotic Solution to Guacamole Prep," Chipotle Newsroom, July 12, 2023.

[11] Ruggless, Ron. "Sweetgreen Looks to Broaden Menu, Increase Dayparts." Nation's Restaurant News, November 8, 2024. https://www.nrn.com/fast-casual/sweetgreen-looks-broaden-menu-increase-dayparts

[12] Chipotle is currently testing the Autocado in partnership with Vebu.

Figure 3 shows the Consumer Price Index (CPI) growth for "Food Away from Home" in the San Francisco-Oakland-Hayward region (yellow line) compared to the national average (blue line). The dashed vertical red line marks the introduction of the FAST Act $20 an hour minimum wage in April 2024. Both trends show a steady increase over time, which reflects the general inflationary pressures the US has experienced over the last three years. However, following the implementation of AB 1228, the San Francisco-Oakland-Hayward CPI surpassed the national average in October 2024, which indicates that the FAST Act contributed to an increase in prices for dining out in the state. In other words, we are now seeing California menu prices rise at faster rates than the national average, which is likely an effect of the sector specific fast food minimum wage increase.

While job applicant numbers surged by 205% in Santa Cruz, available job positions did not scale remotely close to that number, leaving a large portion of the labor pool underutilized and creating economic inefficiencies.

The Impact of the FAST Act on Local Small Businesses in Santa Cruz

Importantly, family-owned restaurants and local businesses, although exempt from the FAST Act, experienced similar pressures from the law. While not required to pay the higher minimum wage, family-owned businesses felt indirect pressures to raise their wages to remain competitive in the labor market which is further compressing profit margins, forcing some local businesses to reduce operating hours and passing costs on to their customers in the form of higher prices. In studying the impact of California's FAST Act, we spoke with representatives of three family-run establishments in Santa Cruz, a sushi restaurant, a Brazilian cafe, and a falafel restaurant. These small businesses all shared useful insights into how the FAST Act has impacted their operations and posed new challenges, despite these restaurants not officially being subject to AB 1228.

At the local sushi restaurant, which has been operating in Santa Cruz for over 40 years, we met with the owner. She highlighted new hiring challenges as their primary difficulty, saying "We are fighting over the same pool of people, customer service workers. If they can work at a fast food chain restaurant down the street for $20 an hour, why would they want to work here for just $17 an hour?" She mentioned that their policy of sharing tips among all staff has fortunately helped to offset some of the upward pressure on wages. Despite these labor cost headwinds, this sushi restaurant has decided to keep its prices unchanged to ensure it remains appealing to customers. The owner expressed a strategy of maintaining stable prices while the fast food restaurants around them continue to increase their prices, potentially encouraging customers to try visiting the sushi restaurant instead. "It has worked so far," she added. The sushi restaurant is surrounded by franchised fast food restaurants, making them particularly vulnerable to the potential impacts of the FAST Act on their business.

At the cafe, we spoke with a manager who has held his position for five years. He stated, “We have been forced to raise our prices three or four times in the last year. We have never done that before.” The cafe is also in very close proximity to several fast food restaurants that have significantly raised menu prices. The manager noted that customer satisfaction has decreased and customers have complained about the higher menu prices. As with the sushi restaurant, the cafe is partially insulated from the upward wage pressure of the FAST Act from the tips their employees receive.

We also spoke with the owner of the falafel restaurant, which has been open since 1988. In our detailed conversation, he expressed an element of sadness that, “there is no way I could start this business today and be successful.” He has had to raise prices several times in the last year as the prices of his ingredients have skyrocketed. On the cost of labor front, the falafel restaurant is somewhat shielded from having to raise their hourly wages due to the uniquely strong culture of the restaurant. All employees are considered “family” and one can sense and feel the community spirit of employees in the business. “I truly care about my employees, all of them are ‘Falafelites’ and we all work together,” the owner told us with sincere pride. He continued, “We even have ‘Grand Falafelites’ who are the children of former employee Falafelites as our family grows,” as he beamed with pride. As economists, we know that people work for money as well as other forms of utility, which this family atmosphere and camaraderie at the falafel restaurant definitely provides. This type of family culture is very difficult for a major fast food establishment to emulate, which helps to insulate the falafel restaurant against the upward wage pressure from McDonald’s, a stone’s throw away where starting employees could make 18% more per hour. Additionally, as with the other two small businesses we interviewed, employees of the falafal shop also share tips which also helps to reduce the upward pressure on wages.

Considering the local restaurants we interviewed offer different cuisines than Burger King, McDonald’s, or Taco Bell, they may not be feeling the negative impacts of the FAST Act as quickly as other establishments across the state. In a city such as Santa Cruz, which truly values small businesses, these family-owned restaurants may also have a sustained advantage with patrons who actively choose to support small businesses. That may not be the case for family restaurants and small businesses in other parts of California, where the upward wage pressures will likely be more debilitating for small businesses not directly subject to the FAST Act. While not directly subject to the sector specific minimum wage, small businesses will be directly impacted as a major unintended consequence of this legislation.

Discussion

Based on our interviews, labor costs now represent approximately 35% of the total cost of goods sold at fast food franchises in California. With these labor costs increasing by 25% due to the FAST Act, if restaurants made no changes, the overall costs of business operations would be expected to have risen by 9%. To the extent possible, we would expect these businesses to pass on these higher costs to their customers, and our research shows that franchised fast food restaurants have indeed increased their menu prices by approximately 8-12% from September 2023, with more increases likely to follow.[13]

As economists, we recognize that people respond to incentives. If prices for a good increase, consumers generally purchase less of the product as the demand curve slopes downwards, due to the law of diminishing marginal utility as well as the income and substitution effects. This concept of responding to incentives also holds true for companies. Businesses react to price changes and cost increases just as a person would. So, if the cost of labor rises for franchised fast food restaurants (as it did 25% in California with the implementation of the FAST Act), we would expect to see these companies respond by demanding less labor. This is exactly what our research has shown, as we have seen a substantial shift to reduce labor at the higher cost. Specifically, we have seen a reduction in employee hours, elimination of overtime, hours of operation curtailment, and an increase in the use of automation, with further exploration into automating additional aspects of business moving forward. We have seen this automation in the form of ordering kiosks (to replace in-store order-taking employees), AI drive-through systems (to replace drive-through order-taking employees), continued investment in mobile app development (to again replace order-taking employees), as well as rapidly expanding investment in a variety of other aspects of automation in product (meal) assembly. These are all unintended consequences of the FAST Act and may continue to grow in size and consequence. The impact of this technology and automation on total employment will not be seen overnight, but we anticipate it will be very visible in employment numbers in 2025 as more franchise fast food restaurants respond to the disincentive the FAST Act has placed on the use of human labor.

While the total number of fast food employees in California has generally been flat since April 2024, as seen in Figure 4, our research indicates that the hours worked per employee have declined. Given the projected growth in the fast food industry, it is expected that total labor in the sector would increase by at least 5% per year. We do not see this in California and attribute this lack of job growth directly to the higher cost of labor in the state. We also expect to see significant decreases in employment (based on same-store restaurant location measurements) starting in 2025, as the many automation solutions being tested begin to be deployed en masse. This will be obvious when the structural change to the labor market for fast food occurs with the demand curve for labor shifting down and to the left as illustrated in Figure 2.

In the fast food industry, employee turnover rates are estimated to be 150-300%. So the economic impact of raising wages 25% is not just on the number of employees a franchise fast food restaurant has, but is potentially 1.5-2.5 times higher. On a positive note, in our interviews, we have heard directly that the employee turnover rate at franchised fast food restaurants is declining due to the higher hourly wage, but it is still approximately 150-200%. The lower employee turnover rates is a sign that the sector specific minimum wage is actually an efficiency wage, with the as-

[13] Data from primary interviews with multiple franchise owners.

sociated loyalty and productivity benefits. So, in addition to the many negative consequences of the FAST Act, there is a benefit with employees potentially improving their productivity levels and reducing training expenses with fewer new hires.

In Santa Cruz and across California, we have also seen significant increases in menu prices as companies pass their higher labor costs onto their customers. The rise in fast food prices for customers following the 25% wage hike imposed by AB 1228 will likely impact low-income residents of California more significantly than higher-income residents., particularly as fast food is generally regarded as an inferior good as discussed earlier.

While minimum wage policies are often claimed to be useful tools to alleviate poverty and support low-income families, they often result in higher prices for all together with fewer jobs being available, which is precisely what our research has shown. Ironically, the higher minimum wage set by the FAST Act, intended to help low-income workers, might actually hurt the working poor more than help. As fast food prices rise, these workers are likely to lose purchasing power, and fewer jobs will be available, causing economic inequality to worsen.

The unintended consequences of the FAST Act extend beyond the consumer-level impacts of higher prices, the labor impact of fewer available jobs, or a reduction in hours available for these jobs. The data referenced in Forbes[14] underscores minority ownership within the fast food industry. In California, 30% of franchise owners are minorities, compared to 20% ownership in other non-franchise businesses. The franchise restaurant industry's higher rate of minority ownership reflects its role as a gateway to entrepreneurship for underrepresented groups. However, the $20 minimum wage creates a new financial burden, potentially jeopardizing these minority-owned enterprises. Many of these franchisees are truly small business owners and very likely not the intended target of the FAST Act. Forcing these small business owners to pay the higher sector specific wages is another side effect of the FAST Act.

In Santa Cruz, our interviews with local businesses revealed different strategies in response to the changing business dynamics the FAST Act has forced on all businesses, not just those subject to the new minimum wage law. While franchise fast food restaurants invested in automation and reduced staffing hours, independently owned establishments such as the cafe, falafel, and sushi restaurants we spoke with grappled with wage pressures and negative customer reactions to higher prices, without having the capital available to invest in automation. The sushi restaurant's decision to maintain prices despite external pressures is a strategic gamble. In contrast, we see the cafe and the falafel restaurant implementing multiple price increases, largely in response to the financial challenges caused by the wage increase of the FAST Act.

The "Big Mac Index" is an established measure of purchasing power parity of an

[14] Tony Marks, "California's FAST Act Puts Franchising, Restaurants and Employees on Fast Track to Trouble," Forbes, August 19, 2022.

identical basket of goods (the Big Mac) in different currencies around the world.[15] If we had a reliable domestic Big Mac Index for the United States, since labor costs are a significant expense in fast food (roughly 35%), we believe a clear increase in prices in California over time could be illustrated. (This will likely be the next phase of our research moving forward.) Measuring the menu price for a Big Mac just within the state of California, we see a substantial variation in pricing between rural and urban areas. This is another argument against a statewide minimum wage such as the FAST Act in a state with such a wide range of demographics and varied wealth distribution.

These findings draw attention to the complexity of implementing large minimum wage increases. While the $20 minimum wage seeks to improve worker incomes, byproducts of the FAST Act actually reduce employment opportunities (from business belt tightening and automation), eliminate overtime opportunities and potential benefits for many workers, reduce profits for franchise owners (many of whom are small business owners), and raise prices for everyone. These ramifications illustrate the need for a different policy approach to help the working poor of California that considers the many different economic contexts and the ever-changing socioeconomic ecosystem of the state.

Concluding Comments

Implementing the FAST Act and California's $20 minimum wage for fast food workers under Assembly Bill 1228 has created a multitude of unintended negative consequences between government wage policies and economic realities. Employees have been impacted with fewer job opportunities, reduced employee hours, elimination of overtime, and new eligibility challenges for healthcare and other benefits. Automation, such as order kiosks, mobile Apps, Artificial Intelligence drive-through ordering systems, as well as other innovative assembly technologies, are being tested and implemented with the goal to reduce labor requirements. We have also seen wage pressures on "exempt businesses" and higher menu prices which significantly impact Californians, especially low-income residents who are reliant on previously more affordable fast food dining options.

Our research indicates that investment in technological alternatives to labor will continue to grow and the deployment of automation solutions will accelerate once businesses adjust to the cost impact of the FAST Act and the demand curve for labor shifts. This will increase the many negative repercussions for the labor market with a measurable reduction in the demand for human labor due to the higher costs of labor imposed by AB 1228. Despite a surge in employment applications for $20 an hour positions, the limited number of available jobs highlights inefficiencies in the labor market as businesses respond to the disincentives of hiring staff caused by the FAST Act. Additionally, our research shows restaurant hours have been reduced, with businesses closing earlier and opening later during non-peak times in some

[15] The Economist, *The Big Mac Index*, 2024, https://www.economist.com/interactive/big-mac-index.

locations to better manage expenses. AB 1228 has also created spillover effects for small and family-owned restaurants not covered by the higher fast food minimum wage. These establishments face indirect wage pressures, difficult business decisions and compressed profit margins.

While the policymakers behind the FAST Act may have had noble intentions, including the attempt to address income inequality and improve worker well-being, the statewide application fails to account for the diverse cost-of-living dynamics across the very different urban, suburban and rural regions of California. These regional disparities magnify the challenges, as rural areas struggle to adjust to statewide higher wage pressures. While the legislation was designed to uplift fast food workers, it has inadvertently burdened vulnerable populations and businesses. The results of our research to date illustrate the side effects of the FAST Act are overwhelmingly negative for businesses and for the majority of people in California, with more impacts on the availability of fast food jobs to follow. Our research highlights the importance of understanding the unintended consequences of statewide labor policies and the broad socioeconomic implications of changing the labor market with a sector specific minimum wage policy. By addressing these complexities and working to eliminate economic inefficiencies, policymakers could better achieve their goals of improving the quality of life for the working poor of California and helping to bring financial stability to the state. Improvements to the earned income tax credit would arguably be more targeted and more effective in improving the lives of the working people of California.

It is also curious why California's first-ever sector specific minimum wage targeted the fast food industry. The government-mandated 25% base wage increase of AB 1228 has disrupted the labor market in California. It could be readily argued that a sector specific minimum wage might be more beneficial for the state if it applied to other industries, such as healthcare or manufacturing. With the FAST Act, the state of California is incentivizing fast food labor at the expense of labor in other industry sectors. It appears that the intent of this law was to target "big business" with the underlying assumption that these corporations can afford to pay higher wages. However, many of the fast food franchises impacted by this legislation are owned by individual entrepreneurs who do not have "deep pockets." In this sense, the FAST Act could be characterized as a classic political "let them eat cake" moment.[16]

For many years, California has consistently been a state with one of the highest minimum wage laws in the U.S. and the implementation of the FAST Act has continued this trend. However, in a rare occurrence, in November 2024, the citizens of California rejected a proposal to increase the minimum wage. Proposition 32, which proposed raising the state minimum wage to $18 per hour, was rejected by California voters. This represents a major shift in public opinion and may indicate that the people of California are beginning to recognize that there are unintended consequences to increasing the minimum wage. Specifically, the citizens of California might be coming to the realization that raising the minimum wage has

[16]Attribution to Marie Antoinette.

a direct impact in the form of higher prices for everyone and may not help the people it is intended to assist. The initial results of this working paper appear to confirm their suspicions.

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Figures and Tables

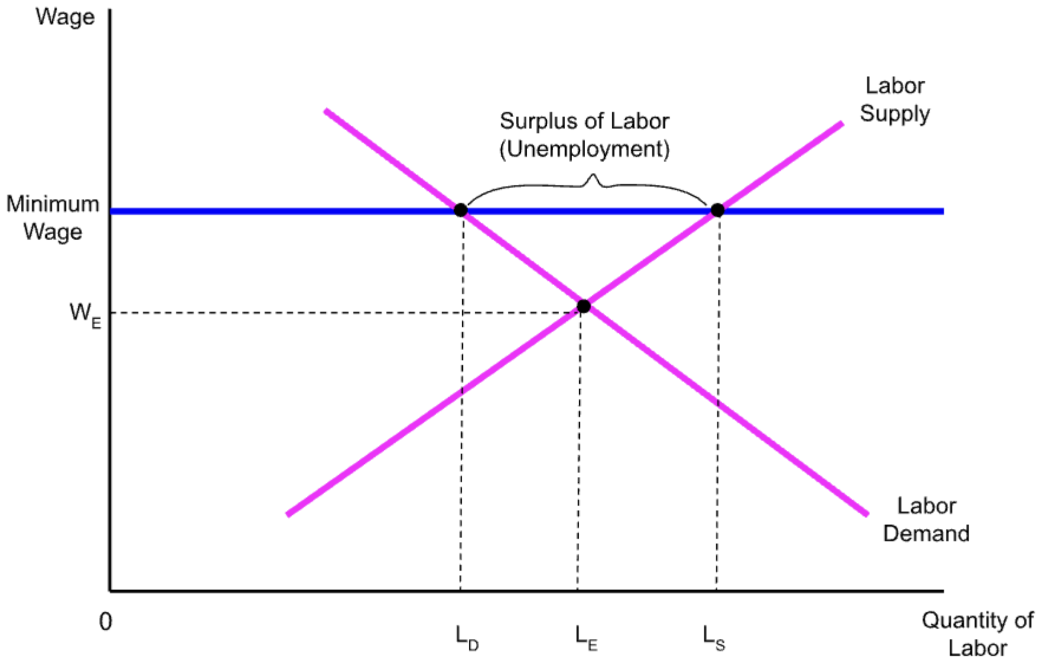

Figure 1: Labor Market Impacts of a Minimum Wage Increase

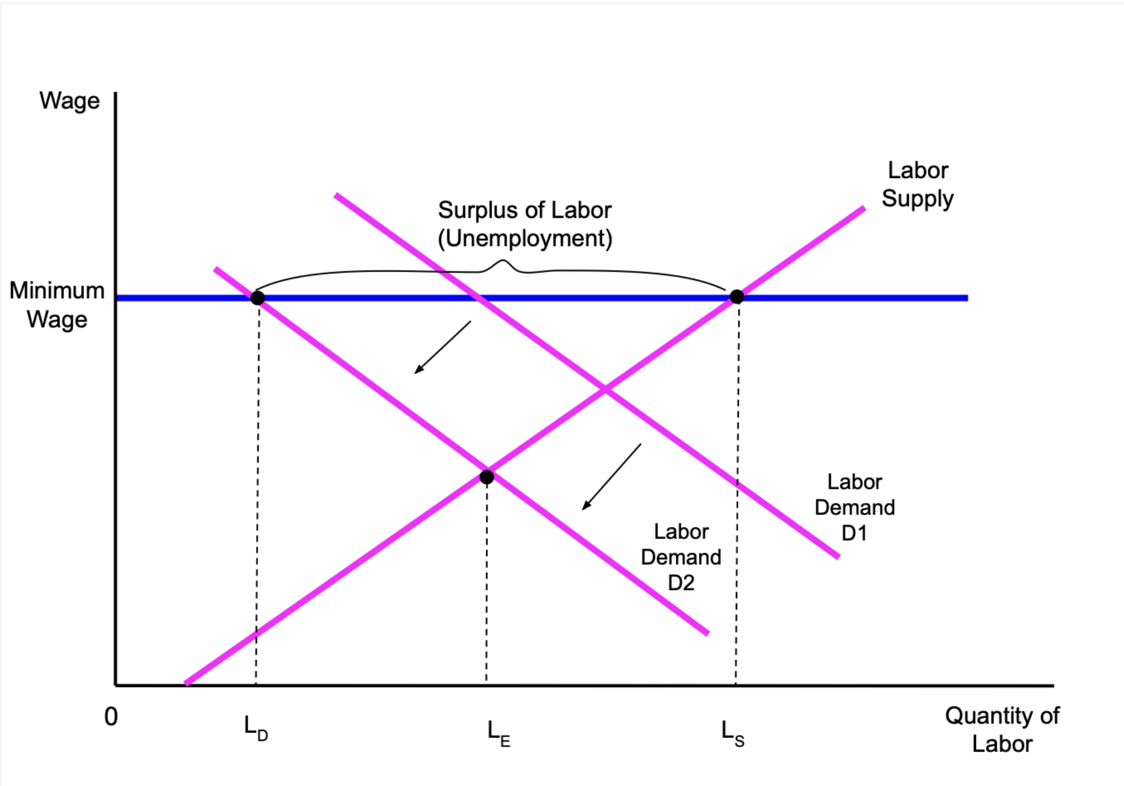

Figure 2: Impact of Increased Labor Costs on Business Investment in Technology and Automation

Table 1: Burger King Monthly Applicant Totals (2023–2024)

Month	**2023**	**2024**
January	5,687	6,206
February	5,258	5,693
March	4,035	8,487
April	4,999	7,080
May	6,237	7,183
June	6,962	8,317
July	7,566	7,831
August	3,168	15,852
September	6,992	7,817
October	3,421	7,227
November	2,977	13,978
December	4,610	—

Table 2: Burger King Staffing Changes (October 2023 vs. October 2024)

Metric	**October 2023**	**October 2024**
Average Hours Per Day	61	48
AM Shift Employees	3	3
Mid-Day Shift Employees	5	3
PM Shift Employees	4	3

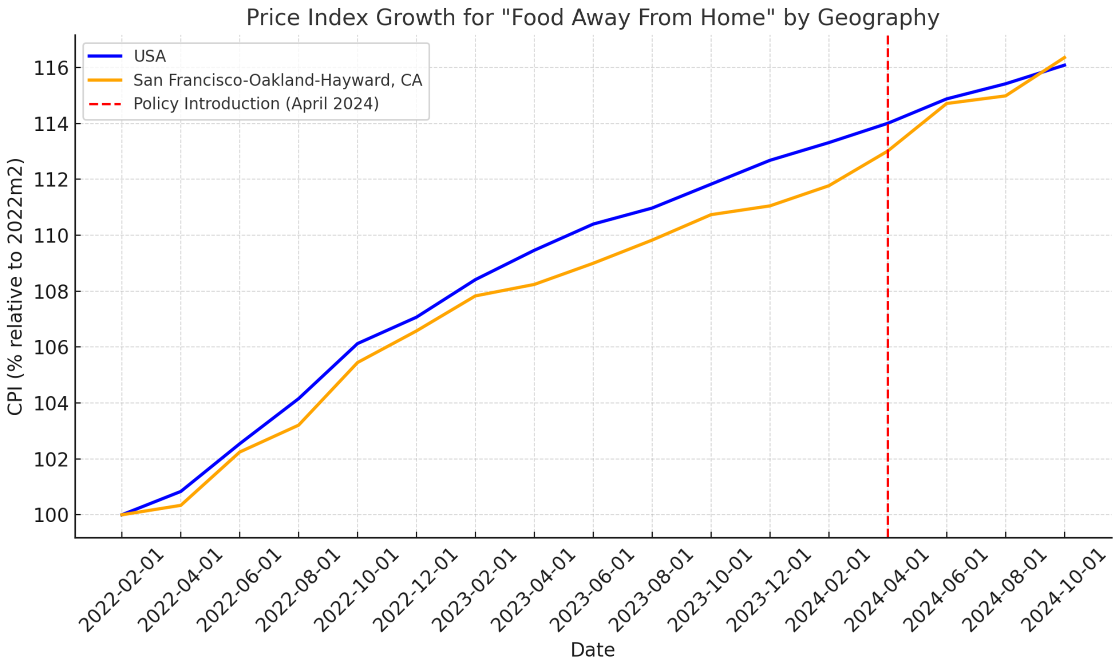

Figure 3: Price Index Growth for “Food Away From Home” by Geography.
Source: Federal Reserve Economic Data (FRED)

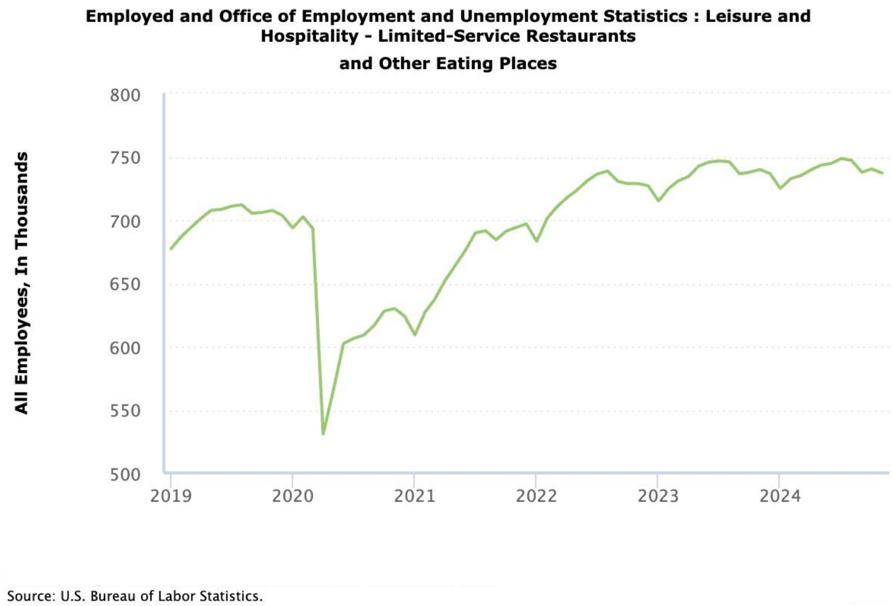

Figure 4: California Limited-Service Restaurant and Other Eating Places Employment (monthly, in thousands of employees, not seasonally adjusted), 2019–2024.