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Impact of the $20 per Hour Minimum Wage on California's Fast Food Workers: Early Indications

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Executive Summary

- Assembly Bill 1228 (AB 1228) raised the minimum wage for certain fast food workers by 25% to $20 per hour, effective April 1, 2024.
- Bedrock economic principles hold that a minimum wage increase – particularly one this large and without a phase-in period – will reduce the number of jobs available to, and the number of hours worked by, the workers the increase is intended to help. Similarly, economic principles hold that consumer prices typically increase in response to such a large wage increase.
- The U.S. Bureau of Labor Statistics (BLS) is the authoritative source for the labor market in the United States. However, BLS sector classifications do not perfectly align with the specific fast food restaurants subject to the $20 per hour minimum wage. BLS Quarterly Census of Employment and Wages (QCEW) tracks 34,300 Limited-Service Restaurant establishments, and only 70% of this sector is directly affected by the minimum wage increase. BLS Current Employment Statistics (CES) reports on an even broader sector, "Limited-Service Restaurants and Others."
    - The BLS CES data shows that from December 2023 to December 2024, the most recent month for which BLS publishes data as of January 2025, employment **declined by 0.2%.**
    - This decline sharply contrasts with the sector's historically compounded annual **growth rate of 2.5%** and marks the only December year-over-year decline in fast food employment this century – excluding the Great Recession (2009) and the COVID-19 pandemic (2020).
    - The BLS QCEW – the dataset that most accurately reflects employment trends in the restaurants impacted by AB 1228 – shows the California Limited-Service Restaurant sector **lost 10,700 jobs (-1.9%)** between June 2023 and June 2024.
- A survey of restaurant operators that collectively own more than 1,000 fast food restaurants impacted by California's 25% wage increase found that during the first three to four months after the $20 per hour minimum wage took effect, nearly 89% reduced employee hours to help offset increased costs.[1] The survey also found that 35% of the operators reduced supplemental employee benefits.[2] According to the survey, a majority of these operators expect to make further reductions in hours (87%) and benefits (51%) during the next twelve months.[3]
- Menu prices at California's fast food restaurants **increased by 14.5%** between September 2023 (the month AB 1228 was signed into law) and October 2024, nearly double the national average (8.2%).
- In April 2024 alone – the month AB 1228 took effect – menu prices at California's fast food restaurants jumped 2.92%, the highest increase for any state.
- California fast food restaurants also increased automation and technology adoption to offset rising labor costs. Therefore it should not be surprising that the number of employees per restaurant is declining.
- Thus, Californians are bearing the cost of the minimum wage increase through fewer available jobs and higher food cost.

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1 Employment Policies Institute, "Crisis in California: A Survey of Fast-Food Employers' Responses to California's $20 Minimum Wage" (July 2024), p. 6. This survey was conducted during June and July 2024.

2 *Ibid*.

3 *Id*., p. 7.

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1 Introduction

California recently took the unprecedented step of increasing the minimum wage for a single category of workers: those employed by certain fast food restaurants.[4] Assembly Bill (AB) 1228 raised the minimum wage for these workers by 25%, to $20 per hour, effective April 1, 2024. This increase followed a minimum wage increase of 50 cents per hour for all California workers (including fast food employees) that raised the minimum wage from $15.50 to $16.00, effective January 1, 2024.[5]

In this paper, we analyze the economic effects of AB 1228's minimum wage increase from the standpoint of fast food workers' economic well-being. This is appropriate because AB 1228's proponents seek to justify the sharp increase in the minimum wage as a means to raise worker income and standard of living. The $20 per hour minimum wage will also have significant economic effects on two other important groups: (1) owners and operators of fast food restaurants, which face higher operating costs as a result of the higher minimum wage; and (2) consumers who are paying higher prices when they order meals at these restaurants.

Some advocates for the fast food minimum wage have already branded the 25% increase a success. According to them, not only have fast food workers received higher pay because of the increase, but the number of jobs available to these workers has increased as well. However, these claims are not supported by reliable data – and are likely wrong – for at least three reasons:

- US Bureau of Labor Statistics (BLS) employment trends in California's Limited-Service Restaurants sector have significantly weakened in 2024, making it the worst performing year outside of a recession during this century – compelling evidence that the 25% minimum wage increase has reduced the number of jobs available.
- The BLS Limited-Service Restaurants and Other Eating Places data covers a broad category of food service establishments, including restaurants that are not directly impacted by the wage increase. Employment gains in non-affected establishments may mask job losses among fast food restaurants subject to the $20 minimum wage.

[4] Only fast food restaurants that are part of a restaurant chain having at least sixty (60) establishments nationwide are subject to the fast food minimum wage. Other fast food restaurants are subject to the statewide minimum wage but not the fast food minimum wage.

[5] Thus, over a three-month period, the minimum wage for employees in certain fast food restaurants increased by 29%.

- Higher wages do not guarantee higher total income for workers if employers reduce hours to offset costs – a reduction most economists would expect to occur as fast food restaurants act to reduce costs in the face of the $20 per hour minimum wage. Survey data confirms that nearly all fast food restaurants have already cut, or plan to cut, employee hours, reducing the overall earnings of workers. If these reductions are large enough, workers could end up with less total income, despite the wage increase. Reliable data on hours worked by fast food employees following the AB 1228 implementation date (April 1, 2024) is not yet available.

In the remainder of this paper, we discuss each consideration that will influence how policymakers should evaluate economic impact of AB 1228 on fast food workers.

The authors of this study were retained by Save Local Restaurants – a coalition led by the International Franchise Association and the National Restaurant Association – to assess whether California's fast food minimum wage increase has had any discernable positive or negative effect on the number of jobs in the fast food sector and the income earned by fast food workers. We requested and were given the independence needed to complete an objective analysis of the economic effects of the $20 per hour minimum wage and present our findings. Hence, our findings and conclusions may not necessarily reflect the views of Save Local Restaurants, the International Franchise Association, or the National Restaurant Association.

2 Expected Consequences of an Increase in Minimum Wage in the Labor Market

Bedrock economic principles state the higher the price, the lower the quantity demanded. As applied to the fast food restaurants covered by AB 1228, supply and demand principles would hold that, other things equal, a 25% increase in the minimum wage will:

- reduce the number of jobs available for lower-skilled workers, such as those without a high school diploma or equivalent, who may not meet the qualifications for a higher-wage position;
- reduce the number of hours worked (especially premium-rate hours) by employees who still have their jobs;
- accelerate automation, replacing labor-intensive roles like cashiers with self-serve kiosks and automated ordering systems, further reducing job opportunities for workers;
- reduce employee benefits, as employers seek to offset wage increases by lowering non-wage labor costs; and
- increase employee workloads.

The results of empirical studies of real-world minimum wage increases are broadly consistent with these predictions but there are exceptions.[6] According to one survey of the economic literature, 79% of scholarly papers document employment decreases as the minimum wage increases – as predicted by the law of demand – while 21% of papers do not.[7] These exceptions have helped to sow confusion about what the body of research literature says and the types of policies the research literature does and does not support.

The same phenomenon is playing out as policymakers attempt to assess whether the increase in the minimum wage has been a policy success or policy failure. Some advocates of the minimum wage increase have declared "mission accomplished" and stand ready to push for additional increases to the fast food sector minimum wage. Not surprisingly, critics are ready to declare AB 1228 a failure. Confusingly, each side points to official BLS data that seemingly supports its position. Given this supposed data-driven stalemate, what conclusions should policymakers reach about the effectiveness of AB 1228 to date?

To answer this question, this report investigates the main sources of data used to study the economic impact of minimum wage increases, such as data on the number of jobs available in the fast food sector (Section 3). We find that as of now, these data do not support the assertion that the minimum wage increase has benefited fast food workers. Instead, we find the available data supports the claim that fast food workers have suffered job losses since AB 1228 became law. Further, available data show that 2024 saw the worst trend in fast food employment of any year since at least 2000, other than years in which California was in the midst of a recession. These findings are tempered, however, due to the limitations in the data currently available.

3 Impact on Employment

BLS is the primary source for data on the number of jobs by industry sector.[8] BLS publishes both monthly and quarterly employment data for California's fast food restaurants. However, BLS sector classifications do not perfectly align with the specific fast food restaurants subject to the $20 per hour minimum wage.[9] This can best be assessed by reviewing the number of establishments in the sector.

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6 For a summary of these studies, see, *e.g.*, Neumark, David, and Peter Shirley. "Myth or measurement: What does the new minimum wage research say about minimum wages and job loss in the United States?," *Industrial Relations: A Journal of Economy and Society* 61: 4 (2022): 384–417.

7 *Id.*, pp. 386–387. ("In its totality, this body of evidence and its conclusions point strongly toward negative effects of minimum wages on employment of less-skilled workers, especially for the types of studies that would be expected to reveal these negative employment effects most clearly," p. 387.)

8 BLS, "Overview of BLS Statistics on Employment (last modified June 10, 2021). https://www.bls.gov/bls/employment.htm.

9 BLS, "Industries at a Glance" (last modified January 29, 2025). https://www.bls.gov/iag/tgs/iag722.htm. Limited-service restaurants include establishments where customers pay at a register before eating; US Department of Agriculture, "Quarterly Food-Away-From-Home Prices – Documentation (updated February 23, 2016). https://www.ers.usda.gov/data-products/quarterly-food-away-from-home-prices/documentation/.

Approximately 24,120 establishments in California are subject to the $20 minimum wage.[10] BLS Quarterly Census of Employment and Wages (QCEW) tracks 34,300 Limited-Service Restaurant establishments, meaning approximately 70% of this sector is directly affected. BLS Current Employment Statistics (CES) covers a broader "Limited- Services Restaurants and Others" sector but does not disclose the number of establishments in this sector. Applying the ratio of employees to establishments in the QCEW series, we can estimate that this CES sector has approximately 45,200 establishments.[11] Other sources estimate that there are 48,710 fast food restaurants matching the BLS' CES definition in California.[12] Hence, only 49.5% to 53.3% of establishments in the CES sector are subject to the $20 minimum wage.[13]

In addition, not all employees within affected restaurants are subject to the minimum wage, as more senior employees can earn substantially more than the minimum wage. Therefore, growth in other subsectors might mask the true extent of the employment decline in the affected restaurants due to the impact of the $20 minimum wage.

Figure 1 shows the BLS CES and QCEW series side by side. While the CES data is available through December 2024, the QCEW data – which more accurately reflects employment trends in restaurants impacted by the $20 minimum wage – is only available through June 2024. Unlike the CES data, which includes a broader range of food service establishments, the QCEW data tracks a more narrowly defined sector that better aligns with the restaurants impacted by the $20 minimum wage. The QCEW data shows a decline in employment in the early summer of 2024, a period when seasonal hiring typically increases overall employment. Between June 2023 and June 2024, the QCEW dataset shows a sharp decline of 10,700 jobs or 1.9% in the fast food sector.

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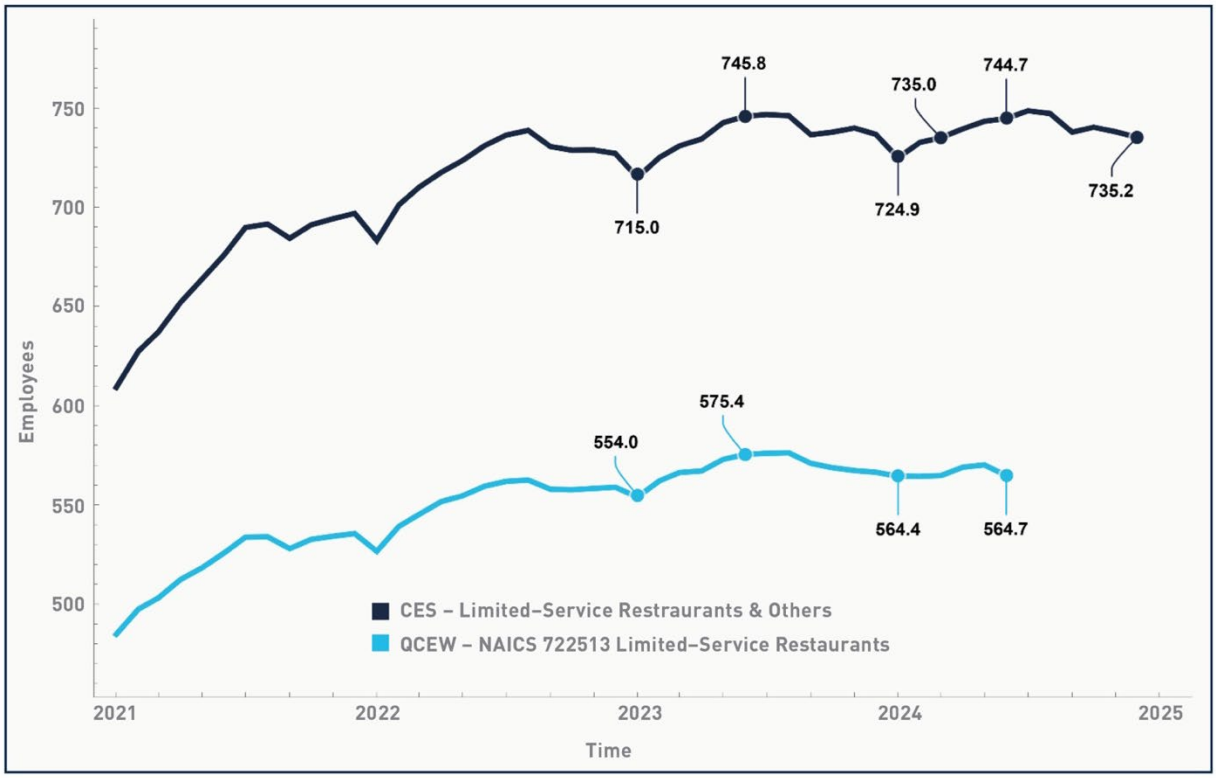
10 https://www.edgeworthеconomics.com/insight-nearly-half-CA-restaurants-minimum-wage.

11 $45{,}233 = \frac{744.7 * 34{,}300}{564.7}$ based on CES and QCEW data for June 2024.

12 https://www.edgeworthеconomics.com/insight-nearly-half-CA-restaurants-minimum-wage.

13 $49.5\% = \frac{24{,}120}{48{,}710}, 53.3\% = \frac{24{,}120}{45{,}233}$

Figure 1
Employees in Limited-Service Restaurants and Other Eating Places, 2021-2024



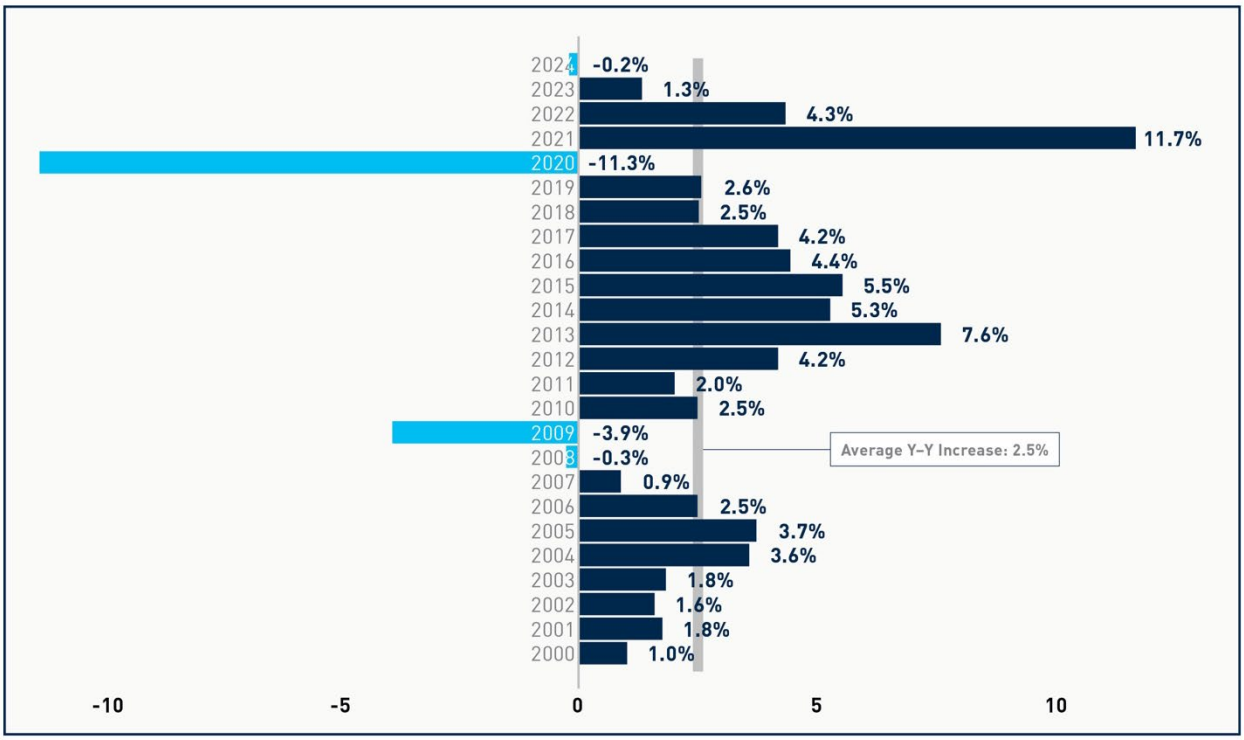
Sources: Federal Reserve Bank of St. Louis, "All Employees: Leisure and Hospitality: Limited-Service Restaurants and Other Eating Places in California (SMU06000007072259001)." https://fred.stlouisfed.org/series/SMU06000007072259001; Federal Reserve Bank of St. Louis, "All Employees: Leisure and Hospitality: Limited-Service Restaurants and Other Eating Places in California (SMU06000007072259001SA)." https://fred.stlouisfed.org/series/SMU06000007072259001SA

Economists regularly analyze year-over-year employment trends to account for seasonal fluctuations. If AB 1228 had a favorable impact on employment, as proponents claim, the data should show a larger increase in employment in 2024 than in years without a major minimum wage increase. However, the opposite is true.

Figure 2 shows year-over-year employment trends in the "Limited-Service Restaurants and Other Eating Places" sector during the month of December from 2000 to 2024. While the compounded average annual growth rate over this period is 2.5%, from December 2023 to December 2024, employment in this sector shrank by 0.2%. This marks the only year-over-year decline in December employment this century, aside from the Great Recession (2008-2009) and the COVID-19 pandemic (2020).[14] These findings directly contradict claims that AB 1228 led to job growth and instead indicate a net decline in employment following the wage increase.

[14] According to NBER, recessions occurred from March to November 2001, December 2007 to June 2009, and February 2020 to April 2020. NBER, "US Business Cycle Expansions and Contractions" (last modified March 14, 2023). https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions.

Figure 2
Employees in Limited-Service Restaurants and Other Eating Places, Growth Year-Over-Year, December 2000–2024



Source: Federal Reserve Bank of St. Louis, "All Employees: Leisure and Hospitality: Limited-Service Restaurants and Other Eating Places in California (SMU06000007072259001SA)." https://fred.stlouisfed.org/series/SMU06000007072259001SA

In sum, when we take predictable seasonal ebbs and flows in employment into account, the best data we have available today indicates that fast food employment has declined – not increased – since the $20 per hour minimum wage took effect. Additionally, the true extent of job losses may be even greater than Figure 2 indicates because employment growth in other non-covered sub-sectors may obscure the full impact on restaurants subject to the $20 minimum wage.

4 Impact on Other Key Labor Market Metrics

While total employment is an important indicator of the minimum wage's impact on low-wage workers, it is not the only relevant metric. Because proponents tend to justify higher minimum wages as a means to increase worker *income* and thereby raise workers' standard of living, economists must also consider the higher minimum wage's impact on workers' *total income*, which is determined by the hourly wage, the number of hours worked, and workers' non-wage income (employee benefits).

Other things being equal, most economists would expect employers faced with a mandatory 25% increase in hourly wages to cut back on the number of jobs, employee hours, and employee benefits, to offset the rising wage costs.[15] In fact, a survey of restaurant operators, that collectively own more than 1,000 fast food restaurants impacted by the $20 minimum wage, found that during the first three to four months after the $20 per hour minimum wage took effect, nearly 89% reduced employee hours to help offset the added costs resulting from the 25% wage increase.[16] The survey also found that 35% of the operators had reduced supplemental employee benefits during the same period,[17]and a majority expect to make further reductions in hours (87%) and benefits (51%) during the next twelve months.[18]

If large enough, the combination of job eliminations and reductions could leave workers earning less income as a result of $20 minimum wage. For example, even if no jobs are eliminated (a dubious assumption given the BLS data discussed above), a 20% reduction in hours worked with no overtime increases would erase the financial gains from the 25% hourly wage increase, leaving workers with the same or even less total income.

BLS data covering the first three months of the $20 per hour minimum wage shows that the total weekly earnings in the Limited-Service Restaurant sector have increased (Figure 4). However, this data alone does not allow economists to conclude that workers covered by AB 1228 have seen net income gains after accounting for job and hour reductions.

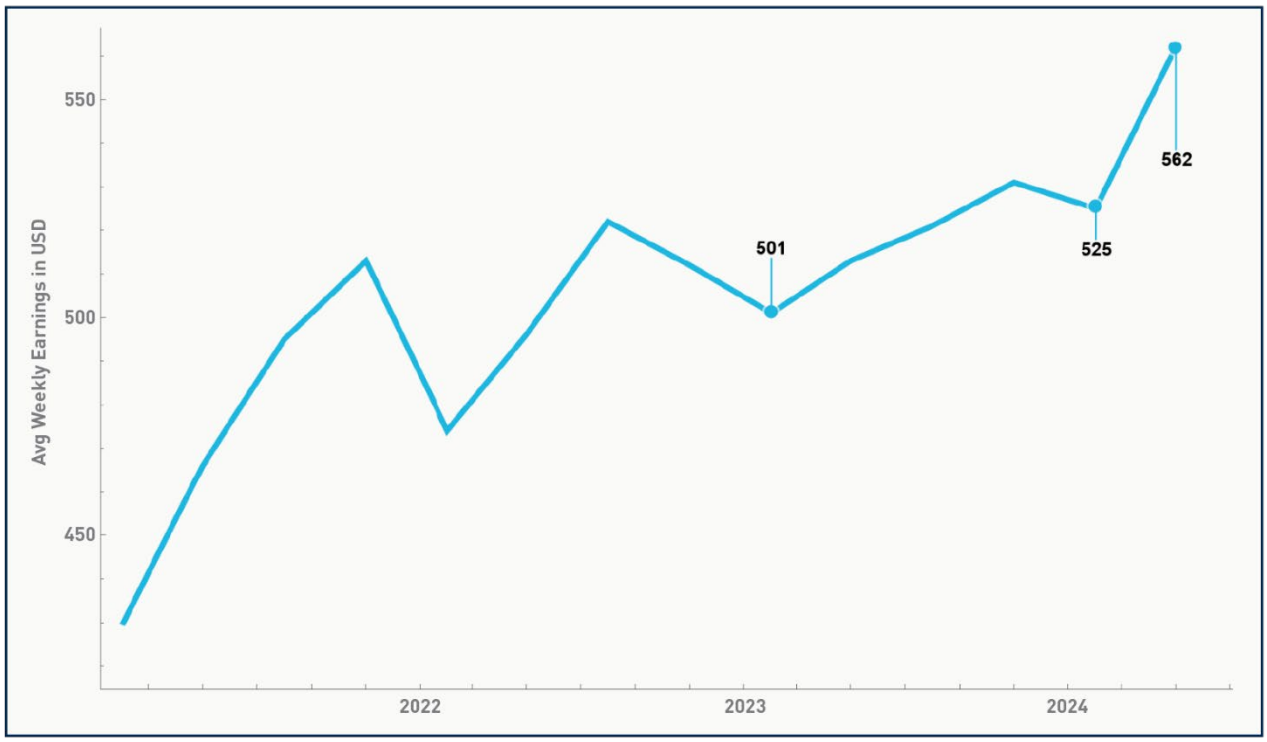
[15] As noted earlier, the 25% increase is on top of an earlier increase. The combined effect of these two increases is 29%.

[16] Employment Policies Institute, (2024), p. 6. The survey was conducted during June and July 2024.

[17] *Ibid*.

[18] *Id*., p. 7.

Figure 3
Average Wages in Limited-Service Restaurants 2020–2024



Source: BLS, "Quarterly Census of Employment and Wages." *https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm#type=17&from=2020&to=2024&qtr=2&own=5&ind=722513&area=06000&supp=1*

As noted earlier, not all businesses in the BLS dataset are subject to AB 1228. In fact, 30% of establishments in the QCEW survey are unaffected by AB 1228. Additionally, many covered workers already earned more than $20 per hour before AB 1228 took effect. Their wage increases likely reflect broader labor market conditions and the need to pay managers at covered establishments more to compensate them for taking on more workload, rather than the minimum wage increase. Consequently, policymakers currently lack government data on the total hours worked by covered employees and changes to employee benefits since the $20 minimum wage took effect. Without this data, it is impossible to determine the net effect of AB 1228 on workers' overall income.

Finally, policy makers are likely interested in knowing not only the effects of the $20 per hour minimum wage in general, but also which groups of employees will most experience these effects. If a 25% increase in the minimum wage for fast food workers disproportionately reduces job opportunities for lower-skill workers, and if skill deficiencies are over-represented in certain groups such as populations with less than a high school diploma or equivalent, teenagers, and minority youths, members of these groups will be most adversely affected by the minimum wage increase. Data on the impact of AB 1228 on these groups – large or small – will not be

known for some time. However, if past trends hold, these vulnerable groups are likely bearing the greatest burden of job reductions, hour cuts and benefit losses.

5 Broader Impact on the California Economy

5.1 Retail Prices

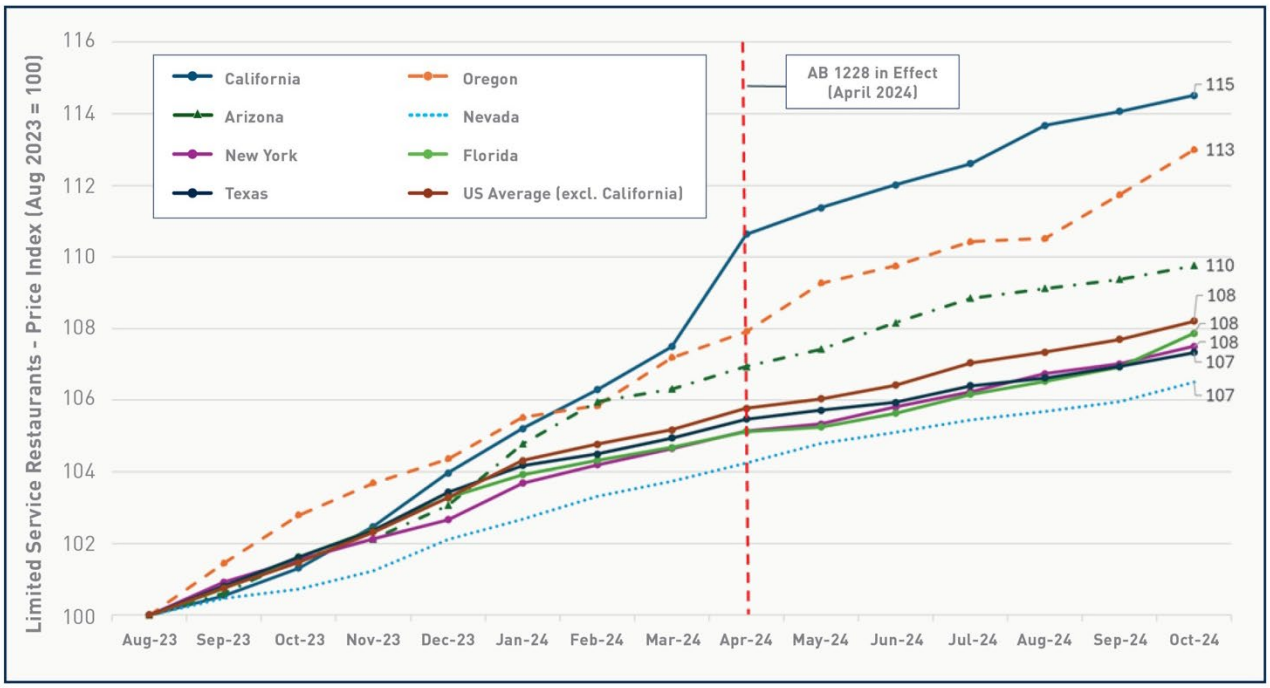
Fast food restaurant operators affected by the minimum wage increase are attempting to offset the increase in labor costs by raising consumer menu prices, contributing to higher overall inflation. Unfortunately, commonly used measures of menu price inflation such as consumer price indexes are based on a collection of consumer products and do not just cover fast food prices. However, third-party vendors like Datassential collect and sell data on restaurant menu prices, allowing for a more precise analysis of price changes in the fast food sector.

Datassential has made some of its monthly data on menu price inflation for limited-service restaurants in each state publicly available through its website.[19] The most current data begins in September 2023, when AB 1228 was signed into law, and ends in October 2024. The data are based on menu prices for limited-service restaurants impacted by AB 1228.

Using this data, we constructed a price index for each state. We selected August 2023 as the base period with a value equal to 100. We calculated index values for subsequent months as the percentage change in retail prices for each state, month-to-month. Figure 4 charts the price indexes for California, other populous states (Florida, New York, and Texas), neighboring states (Arizona, Nevada, and Oregon), and the U.S. average (excluding California). From September 2023 to October 2024, California exhibited the highest cumulative increase in menu prices (14.5%). This was almost double the rate of increase for all other states (8.2%). In just the month of April 2024, when AB 1228 went into effect, California menu prices increased 2.92% compared to New York's 0.42% and Oregon's 0.70%. This is the highest single month increase for any state during the data period. That said, a cumulative increase of almost 15% over a twelve-month period is likely to reduce consumer demand for fast food which may adversely affect the number of jobs available to workers.

[19] Datassential, "California Fast-Food Worker Minimum Wage: Year-End Update on Pricing Trends," https://datassential.com/resource/california-fast-food-worker-minimum-wage-year-end-update-on-pricing-trends/. A hyperlink to the data is sent via email after submitting a form to "Get Your Free Data Snapshot."

Figure 4
Menu Price Indexes for Limited-Service Restaurants for Select States, August 2023 – October 2024



Source: Author analysis of Datassential data.

The average price increase does not provide any insight into how different demographic groups are affected by rising prices at fast food restaurants. Research from the U.S. Center for Disease Control and Prevention shows that non-Hispanic blacks consume fast food at higher rates than other racial and ethnic groups. As such, the impact of a nearly 15% increase in California's fast food menu prices is likely to disproportionately impact non-Hispanic Black consumers, increasing their food costs more than those of other demographic groups.[20]

5.2 Replacing Workers with Technology

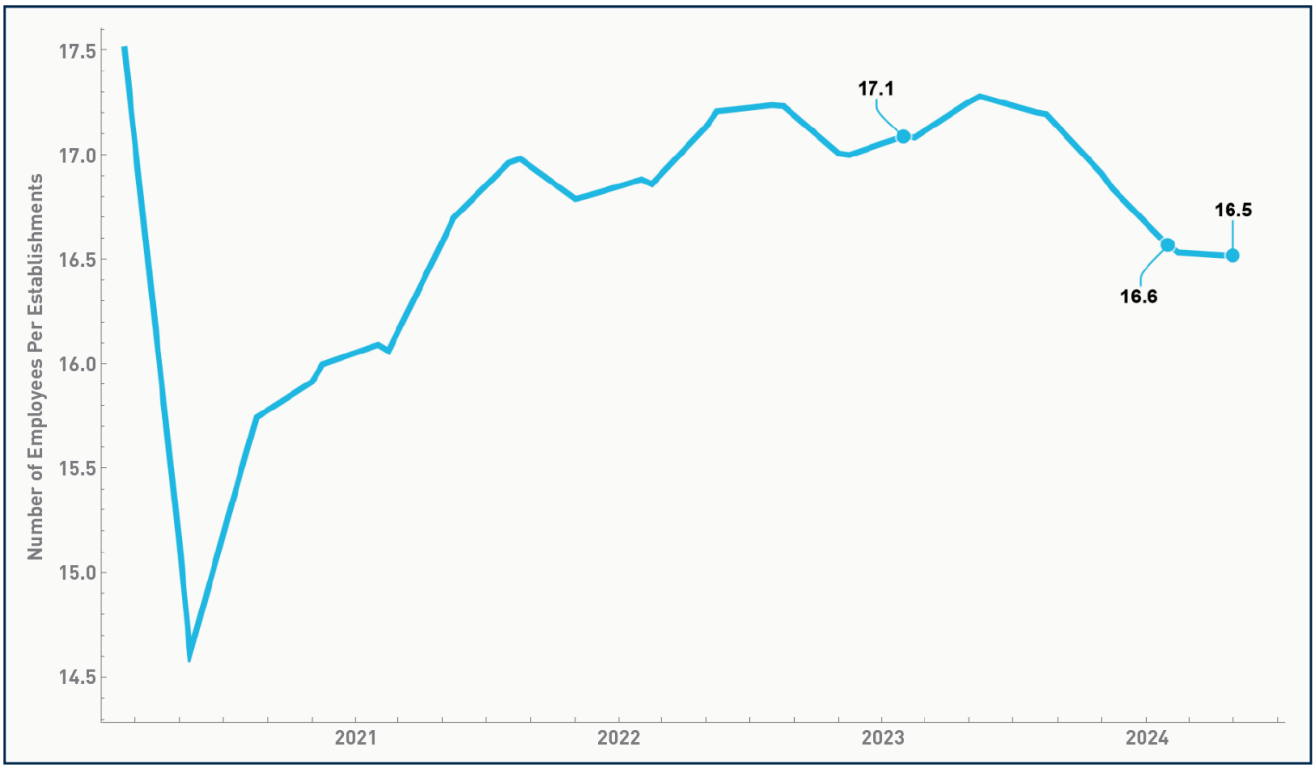
As labor costs increase, employers will consider, and may adopt, alternative strategies to offset higher costs and prevent operating losses. In the fast food sector, these alternative strategies likely will include increased use of ordering kiosks, call centers to handle drive-thru orders, and the adoption of robotics to shift kitchen production work from employees to equipment. Of course, not every job can or will be given to a machine. Nevertheless, the shift toward automation-driven cost savings will reduce the number of available entry-level jobs. To the extent fast food jobs are a gateway to other, higher-paying jobs (as has historically been true for

[20] Fryar C.D., J.P. Hughes, K.A. Herrick, N. Ahluwalia. "Fast Food Consumption Among Adults in the United States, 2013–2016," NCHS Data Brief no 322, Hyattsville, MD: National Center for Health Statistics (2018) https://www.cdc.gov/nchs/products/databriefs/db322.htm.

younger and lower-skill workers), the gateway is narrowed when fewer jobs are available. BLS data suggests that this is happening.

Figure 5 shows the number of employees per establishment for the period 2020-2024. Before the pandemic, establishments averaged more than 18 employees. Since the third quarter of 2023, the number of employees per establishment has declined. In the second quarter of 2024, the average establishment in the limited services restaurant sector had 16.5 employees – 3.5% less than in the second quarter of 2023.

Figure 5
Employees Per Establishment in Limited-Service Restaurants 2020–2024



Source: BLS, "Quarterly Census of Employment and Wages."
https://data.bls.gov/cew/apps/table_maker/v4/table_maker.htm#type=17&from=2020&to=2024&qtr=2&own=5&ind=722513&area=06000&supp=1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