Jumping the Gun on the Fast Act

Pepperdine School of Public Policy
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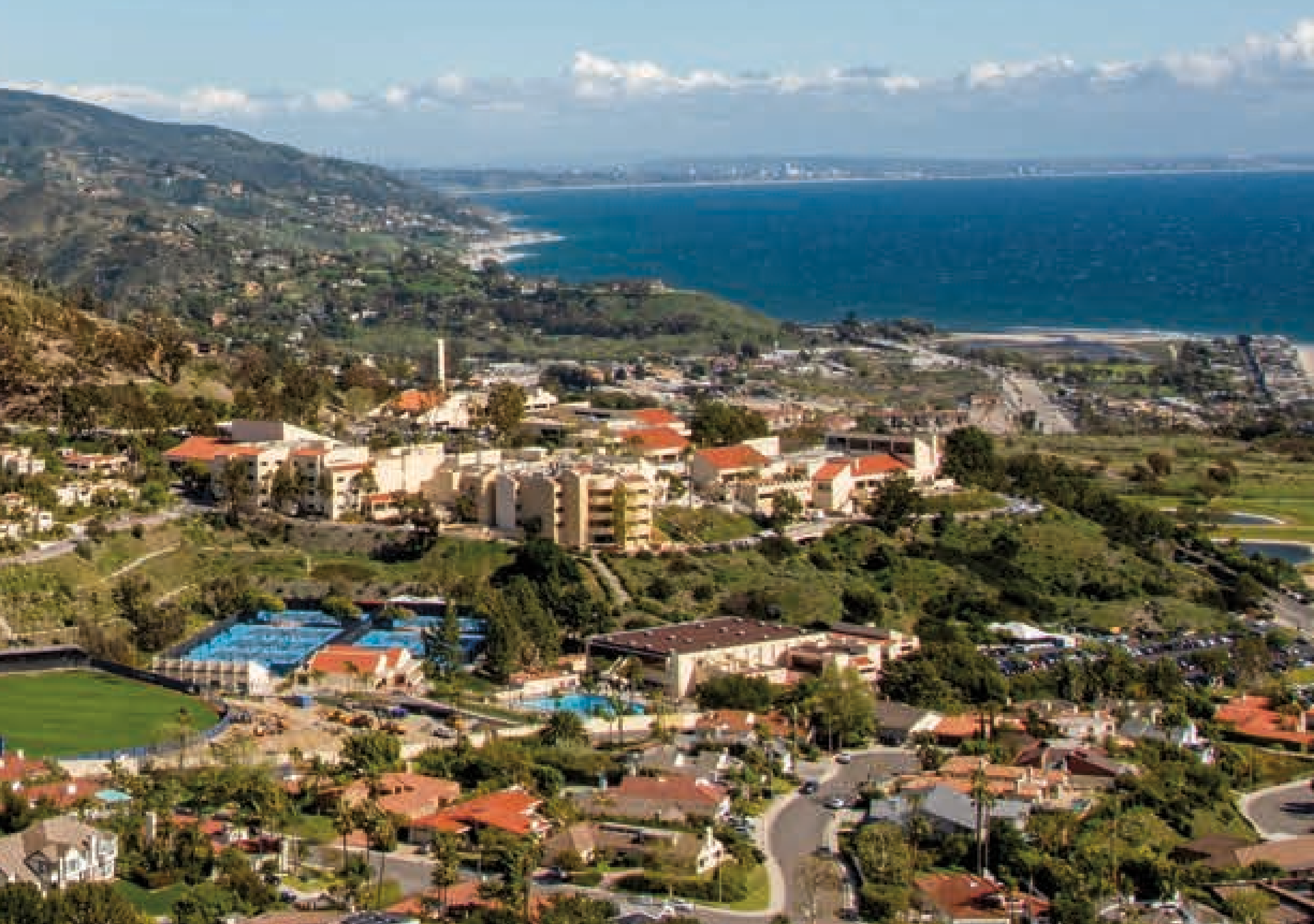

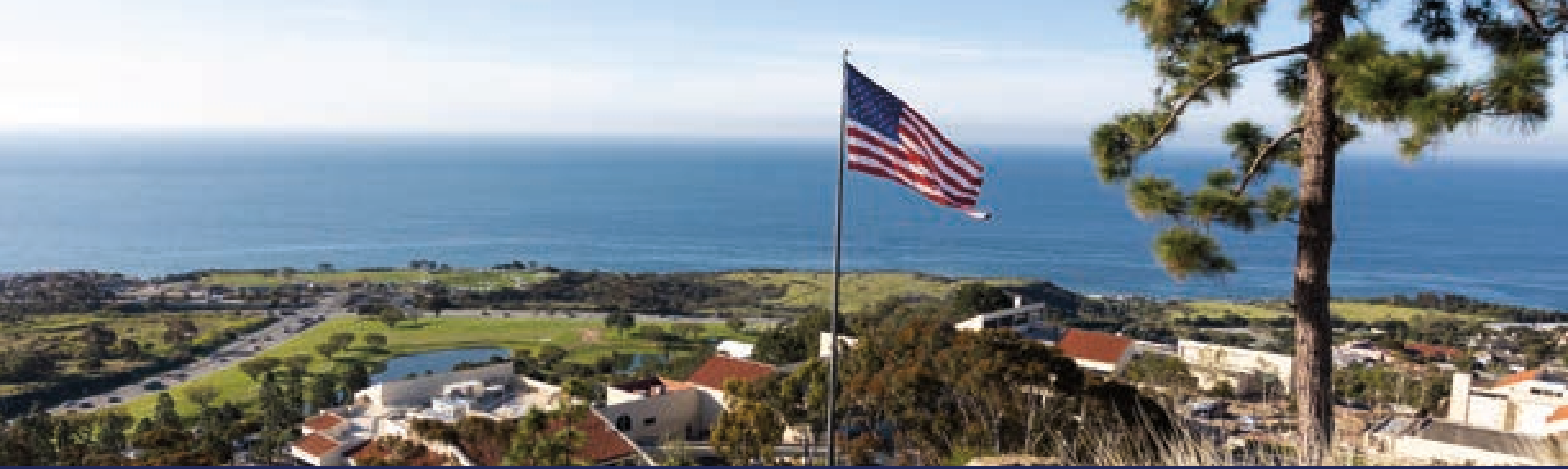

Alternative Viewpoints on California Policy is a research initiative of the Pepperdine School of Public Policy in partnership with the respected California-based economic research firm, Beacon Economics. Through the collaboration of a series of white papers, the Beacon Economics' team and the School of Public Policy's academic researchers and graduate students will explore vital California policy issues and debates from a different perspective in the hopes of driving balanced debates. The ultimate goal of this research is to steer our common policy narratives towards more data-based understandings, in turn shining light on the kinds of public policies needed to return our state and its many regions to its longstanding position as the nation's "growth engine."

The Pepperdine School of Public Policy, exists as one of America's few graduate public policy schools rooted in the protection and promotion of America's founding principles including free markets, limited and responsive government, and moral civic leadership. The Masters of Public Policy, customizable with five specializations, prepares future policy leaders for influential careers in government, at all levels, as well as the policy-related business and nonprofit sectors. The degree is widely recognized for its distinctive liberal arts curriculum that balances a rigorous study of philosophy and history with cutting-edge skills in quantitative economics and policy analysis.

Beacon Economics, founded in 2006, is an LLC and certified Small Business Enterprise (SBE) with the state of California, and a leading independent research and consulting firm dedicated to delivering accurate, insightful, and objectively-based economic analysis. Leveraging unique proprietary models, vast databases, and sophisticated data processing, the firm equips its clients with the analysis needed to understand on-the-ground realities and make informed business and policy decisions. Practice areas include community and economic development; economic and revenue forecasting; housing, land use, and real estate markets; economic, fiscal, and social impact analysis; regional and subregional economies; and public policy analysis.

Jumping the Gun on the Fast Act

Annual employment revisions reveal the impact of a $20 minimum wage on employment in California's fast-food industry

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BEACON ECONOMICS

Summary

New information has come in on the jobs impact of California's Fast Act—the bill that subjected chain fast-food restaurants in the state to a special $20 per hour minimum wage. The California Employment Development Department (EDD) released its January 2025 employment report on March 14, along with revised employment estimates for the last 18 months. The new estimates lowered the number of payroll jobs in the state by 92,100 for December 2024, a decrease of roughly 0.5%. The declines were concentrated in a few sectors, including limited-service restaurants (fast food) where the number of jobs was revised down by 21,500, or 2.5%, in December.

Just as significantly, the losses have continued into 2025. While the initial estimates suggested little change in limited-service restaurant employment in 2024, the revised data through January now shows the sector actually lost 3.2% of its employment—over 23,100 jobs—during the past 12 months. In contrast, employment in this sector in the United States as a whole rose by 0.8% over the same period. To put this in context, overall employment in California grew by .2% over the same time period, whereas for the US the figure was 1.2%.

These findings undercuts much of the recent analysis released by pro-labor groups which has been claiming that the Fast Act (AB 1228) has had little impact on limited-service restaurant industry in California. These claims were made much too early because the impact of this kind of policy change doesn't show up clearly in the data for many months, given that it takes time for the industry to adapting to the sharp increase in labor costs and also because much of the most relevant data is lagged in terms of collection and release. Although the following commentary focuses strictly on the debate over employment levels, these effects are liable to be the tip of the iceberg. Beacon Economics expects the negative impacts of the Fast Act to extend beyond the employment numbers—ranging from lost hours and closed establishments to reduced benefits—as more information becomes available.

The ongoing impact of the Fast Act on California franchisees and their employees is now plain to see in the state's topline employment data. This new information should convince the Fast Food Council—the organization created by AB 1228 to set standards and regulations in the industry—to pause any further changes until more thorough, unbiased research is conducted.

New Data in the Minimum Wage Debate

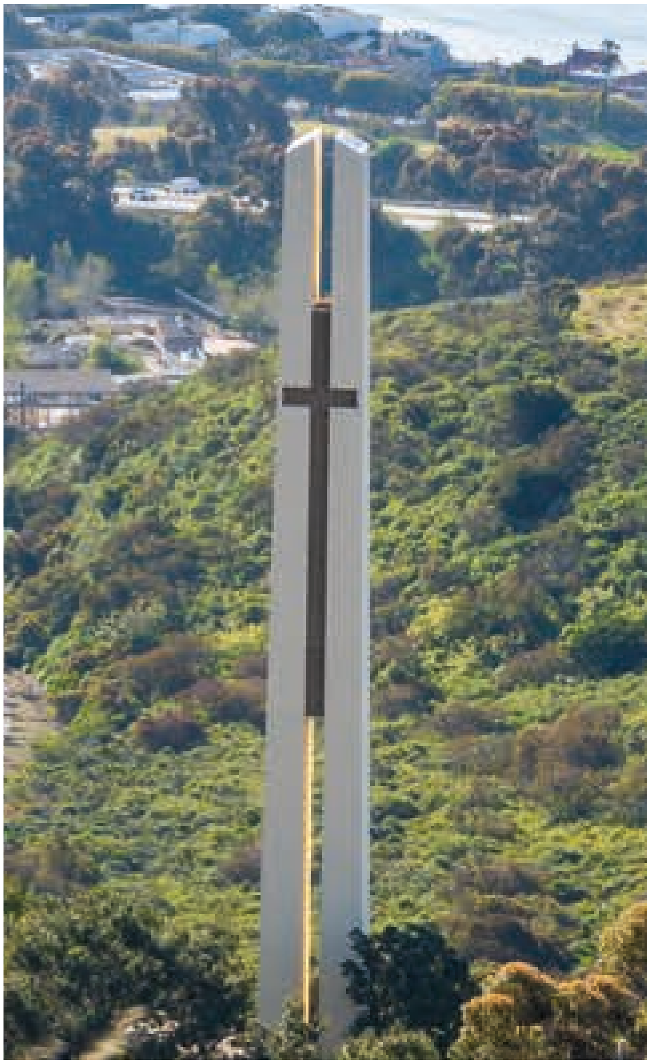
The debate over the impact that a minimum wage has on employment has been around as long as the policy itself. Its persistence reflects the fact that minimum wage effects are more subtle than a simplistic jobs-per-dollar model suggests. It also reflects the tendency for economic policies with a 'moral' component to magnify the initial biases of both policymakers and social scientists. When cutting through the noise, however, the median view among economists is that there is a clear, albeit proportionate, negative impact from wage floors when labor market outcomes are examined with proper controls for the business cycle and broader economic conditions. Regardless, there remains a vocal segment within the economics field that claim the impacts are largely insignificant, positioning high minimum wages as a nearly cost-free policy tool to promote equality and boost standards of living for lower-skilled/lower-paid workers.

Against this backdrop, California's fast-food industry became a focal point in the ongoing minimum wage debate over the past year. The Fast Act raised the minimum wage for franchised fast-food restaurants in the state to $20 per hour as of April 1, 2024, $4 more than California's minimum wage; the state's minimum wage for all companies has doubled from $8 to $16 over the last decade. The $20 carve out applies to roughly half of all fast-food restaurants in the state, those that are part of chains with 60 or more locations nationwide. The law has created, unintentionally, a natural experiment for the minimum wage: by raising wages dramatically in a specific sector, we're able to observe the effects in relative isolation.

Many advocates began lauding the Fast Act as a policy success very early on. UC Berkeley's Institute for Research on Labor and Employment (IRLE) released a report in September of 2024 claiming there had been no significant price or employment impacts from the Fast Act.[1] The Harvard Kennedy School followed up with a similar piece, suggesting there were no effects on hours, scheduling, or benefits.[2] Some media jumped on board as well, embracing the narrative. The Atlantic, for instance, ran a December 2024 article titled "The California Job-Killer That Wasn't."[3]

Not everyone has been so sanguine—the Employment Policy Institute released a report in November of 2024 identifying flaws in both the Kennedy School and IRLE reports and claiming that there were some modest job losses in the industry.[4] The Berkeley Research Group (BRG) issued a study that found fast-food prices in California had risen significantly. This report had little to say on the jobs front given that their findings were limited at the time by their reliance on the unrevised EDD employment data. [5]

Putting aside the old adage that absence of proof is not proof of absence, these are still highly premature conclusions. The policy experiment is less than a year old, the impacts have not yet fully reflected themselves in market outcomes. Business owners usually resort to layoffs only after exhausting other options, given the numerous operational disruptions that come with reducing staff. As Beacon Economics' earlier study on the minimum wage and restaurant employment shows, it can take more than a year for job losses to fully materialize in the data following a minimum wage hike.[6]



Also at issue is that much of the data we need to see what is going on hasn't even been released publicly. At the time the IRLE and Kennedy School studies were published, the annual EDD revision of employment had not even happened yet. Each year, California revises its employment data through a process called benchmarking, which aligns preliminary employment estimates with more accurate and comprehensive data. These revised benchmarks incorporate data from the U.S. Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), which is based on actual employer-reported payroll records. Because QCEW data lags by several months, initial monthly employment figures are based on surveys and estimates. Benchmarking helps reconcile these estimates to reflect a clearer picture of job trends. Each January, the state builds and applies a new benchmark based on a full year of new QCEW data. These revisions can lead to meaningful changes in previously reported job gains or losses.

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[1] https://irle.berkeley.edu/wp-content/uploads/2024/09/Sectoral-Wage-Setting-in-California-09-30-2024.pdf

[2] https://www.hks.harvard.edu/faculty-research/policy-topics/social-policy/californias-fast-food-workers-major-minimum-wage

[3] https://www.theatlantic.com/ideas/archive/2024/12/california-minimum-wage-myth/681145/

[4] https://epionline.org/app/uploads/2024/11/241101_EPI_PolicyBrief_Fastfood.pdf

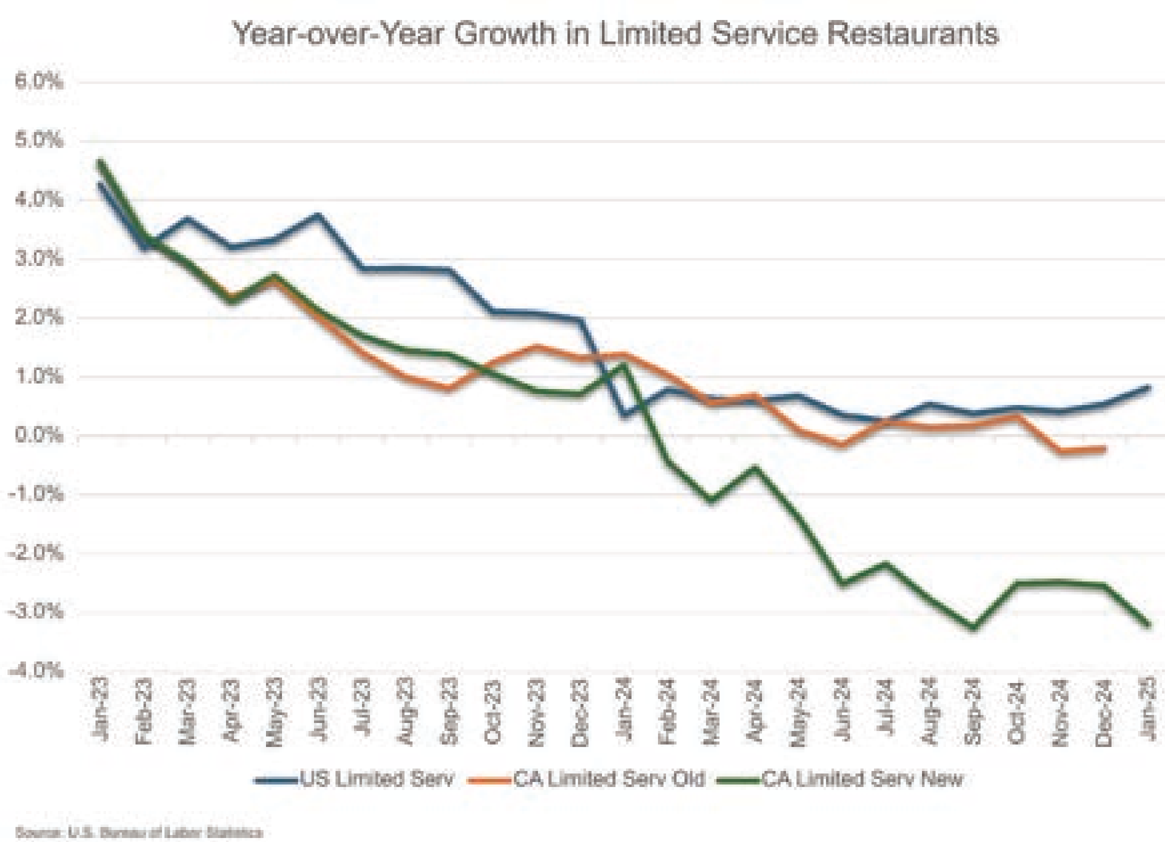
[5] https://www.dropbox.com/scl/fi/qwllx1iv8q1ecudz6z59v/BRG_Impacts-of-20-Min-Wage-Report_2.18.25_FINAL.pdf?rlkey=zy6b96c3s5ngjeactf30hui77&e=6&st=guugtn2c&dl=0

[6] https://www.srcity.org/DocumentCenter/View/25421/Mininum-Wage_UC-Riverside---Minimum_Wage_4-17-19_FINAL-1

Moreover, the revisions are not random. The way employment data is collected and benchmarked throughout the year creates a predictable pattern of revisions. If employment trends accelerate (decelerate) during the year, then the data will tend to underestimate (overestimate) those changes before the revisions catch up. Thus, a sudden large change in the minimum wage for a specific sector implies two things: first, that employment growth will slow or decline, and second, that this shift will not be seen until the new benchmarks are released because it was a secular, and thus unexpected, change in trend. In that sense, the fact that we had to wait for the revisions to actually see the fast-food job losses is part of the evidence for what is happening.

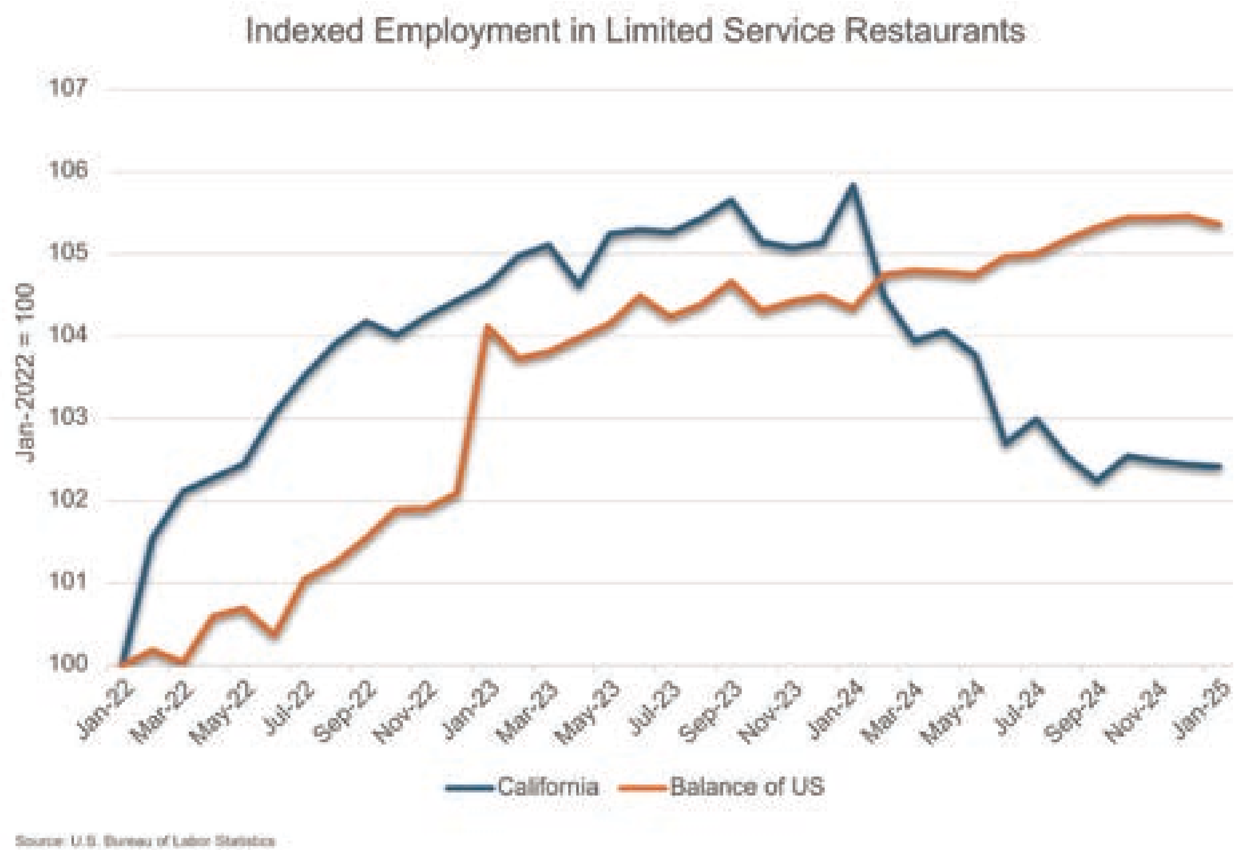
When California released its January 2025 employment report along with the 2024 revisions, the new estimates matched what Beacon Economics expected. Statewide, the number of payroll jobs was revised down by 92,100, or roughly 0.5%. The declines were concentrated in a few sectors, including restaurants, as shown in the table below. Employment at limited-service restaurants (fast food) was revised down relatively more. While the original estimates suggested that employment in the sector had remained mostly flat in 2024, the revised data shows it actually declined by 3.2%, or 23,100 jobs. It appears there was a secular downward shift in trend early in the year, perhaps in anticipation of the wage rate change. But the gap widened further as the year progressed. In contrast, employment in this sector in the United States as a whole rose by 0.8% over the same 12-month period and accelerated towards the end of the year.

	December 2024 Original	December 2024 Revised	Difference	% Change
Full-Service Restaurants	616,900	604,000	-12,900	-2.1%
Limited-Service Restaurants	735,200	713,700	-21,500	-2.9%



Additionally, we should note that these numbers may understate the true impact. A significant share—perhaps as many as half—of the limited-service restaurants included in the sector's overall numbers are not part of a chain and therefore are not subject to the $20 minimum wage. Their employment growth or stability may be masking even greater job losses among the restaurants that are subject to the policy. Unfortunately, we have not (yet) identified a dataset that allows us to separately track employment in chain versus non-chain limited-service restaurants—this would be a much stronger test. It's also worth remembering that job losses are not the only cost of higher minimum wages. Other impacts, such as reduced hours for workers who are still employed, heavier workloads, and reduced benefits, can only be measured through other datasets. And don't forget the price impacts on consumers.

The job losses that are now apparent in California upend many of the analyses released in recent months, which have suggested that the Fast Act had little to no impact on employment in California's limited-service restaurant sector. But the impact on the sector's franchisees and their employees can now clearly be seen in the data. And historical trends suggest these negative impacts will continue to grow in 2025—not just by way of job losses and employment-related effects such as reduced hours and benefits, but also through establishment closures. This evidence is strong and should prompt the Fast Food Council to pause any further changes until substantial, unbiased research into these impacts is conducted.



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Christopher Thornberg has been called many things throughout his career, but his favorite thing to be called is correct.

Notably, he predicted the collapse of the sub-prime real estate bubble in 2006 and the Great Recession that followed. During the Covid-19 pandemic he was one of the few economists on record to correctly push back against the forecasting community's panicked predictions of a depression. In the past two years, he has again stood against the grain, and stood out, for accurately forecasting that there would be no recession.

Dr. Thornberg left a teaching position at UCLA's Business School in 2006 to found Beacon Economics, and under his leadership, the firm has become one of the nation's most respected economic research organizations. He consults globally for private industry, cities, counties, and public agencies. A dynamic public speaker, he challenges audiences to question popular narratives – and to ask the right economic questions.