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Opinion: This is how Shake Shack will pay for higher minimum wages

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CNBC reports that the burger chain Shake Shack is planning to trial a new restaurant in New York which will not have a traditional cashier's counter.

Instead, "guests will use digital kiosks or their mobile phones to place [and pay for] orders." Their order will be processed immediately to the kitchen and the guest will receive a text message when their food is ready.

Great, you might think. Shake Shack is investing in innovations which could improve the productivity of remaining workers, increasing wages (indeed, they want to pay the lower relative number of staff in this restaurant at least $15 an hour). Such investments might provide a more efficient and desirable service to customers too. This frees resources and excess labor for other more productive pursuits in the economy.

But the kicker for why Shake Shack is undertaking such investments comes later in the article: "It's likely that in the next 15 to 20 months that areas like New York, California and D.C., in which there are many Shake Shacks, will transition to a $15 minimum wage…. Adopting this payment policy in Astor Place will give the company a chance to work out the kinks before it rolls out a $15 minimum wage in these locations."

Anyone who has been to a McDonald's in France will know what's going on here. Shake Shack suspects that the cost of labor will rise due to an increased minimum wage, and given that projection, it's become economic to consider investments in labor-saving technologies. Higher minimum wages act in effect as a subsidy to automation.

But these investments for productivity improvements don't come for free. A recent paper by Grace Lordan and David Neumark finds empirical evidence showing that between 1980 and 2015, increasing the minimum wage by $1 decreased the share of low-skilled automatable jobs by 0.43 percent in general and by 0.99 percent in manufacturing. Other jobs might be created of course, but they may well be more demanding or stressful, such as overseeing the running of multiple machines or having to have the skills to deal with technical problems etc. "Regulating to innovate," subsidizing the rapid introduction of some technologies before they are actually high quality and cost-effective, drives up prices for consumers too.

Perhaps more pertinently, low-skilled workers younger than 25 and older than 40, especially women, tend to be particularly affected by the disemployment effects of automation and can find it very difficult to find replacement work given their productivity levels.
As I concluded in a recent Daily Telegraph article:

If we are moving into a period when technological innovations are speeding up, we could be hiking minimum wages dramatically at just the wrong time. It will prove enough of a policy challenge as it is, to equip people with new skills to adapt in a rapidly changing labor market. Making more low-skilled jobs uneconomic by artificially hiking the cost of labor substantially could exacerbate this change at a time before new investments would otherwise make economic sense.

Being worried about this consequence is not to be anti-technology or anti-innovation. We all recognize that mechanization and technological innovation are the only way to sustainably raise living standards. But encouraging new investments by raising business costs and driving out low-skilled jobs is another matter entirely.

Just because Luddite efforts to destroy machines was economically harmful does not mean that destroying low-skilled employment opportunities would be beneficial.

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