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Cuomo's dangerous wage-board play will hurt the workers he says he wants to help

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Gov. Cuomo, arguing that "fast-food workers deserve a pay raise," boasts that in 2013, he raised the minimum wage from $7.25 per hour to $8.75 today, and that by year-end it will reach $9.00. Now he wants to raise the wage to $10.50 throughout the state — and $11.50 in New York City.

The governor's ambitions to raise wages broadly, however, have been thwarted in Albany — which has led him to convene a Labor Department wage board to recommend a hike in the fast-food industry alone that he could then impose through executive action.

Why is the fast-food industry the focus of the wage board, when thousands of workers around the state make minimum wage in a broad range of industries?

The governor says he is especially concerned about the fact that workers in the industry earn far less than the CEOs running that industry. He wants to close the income gap "by lifting up the bottom," not "by pulling down the top."

Simultaneously, Cuomo contends that the fast-food industry is "healthy," pointing to the revenues of giants such as McDonald's to imply that there is enough money in corporate coffers to easily raise workers' pay without harming the bottom line. He claims that by not increasing the minimum wage, "The government is subsidizing these corporations allowing them to keep their labor costs low and their profit margins high."

The truth is quite different.

To begin with, many fast-food outlets are run by franchisees — who are, essentially, small-business people trying hard to turn a profit, with high, often fixed costs. The employers are not corporate robber barons but hardworking entrepreneurs.

More broadly, sales revenue at McDonald's has been falling and profits are down substantially. In the third quarter of last year, McDonald's profits were down 30% from a year earlier; revenue was down 5%. Profits and sales continued to decline in the fourth quarter, with profit down 21% and sales down 7% from a year prior. The first quarter results for 2015 were no better.

McDonald's has already closed 350 restaurants this year and plans to close another 350 by year-end. Competition in the fast-food industry is fierce: With pressure to keep prices low to satisfy consumers, there are no excess profits to hand out to workers. Individual restaurants have to make a normal return on their invested capital or shut down.

Artificially increasing wages by state action, not based on the productivity of workers or economic conditions, does not create a "healthy" business. Rather, higher minimum wages destroy jobs over time as employers make substitutions and introduce new technology (e.g., tablets). Workers will seek employment at higher minimum wages, but they are not guaranteed a job. Some workers may gain, but others lose — especially those with the least skills and experience.

Forcing firms with declining sales and profits to pay higher wages is poor public policy. It would prevent the very income mobility the governor desires. If low-skilled workers cannot find a job at the minimum wage — or lose their jobs as employers and consumers make substitutions — their opportunities for advancement are substantially diminished.

Cuomo points to support for a higher minimum wage among economists and even some Nobel laureates. The truth is that there is overwhelming evidence that minimum wages cause a loss of jobs and slower job growth for lower-skilled workers, and have no significant impact on reducing poverty.

In a recent study in the Industrial and Labor Relations Review, Joseph Sabia, Richard Burkhauser and Benjamin Hansen found that when the legal minimum wage was raised in New York State from $5.15 to $6.75 per hour from 2004 to 2006, employment for younger workers without a high school degree declined by 20%.

It is time to stop pretending that politicians can create wealth out of thin air. Promising fast-food workers a raise via government action cannot guarantee them a job, and without a job their income is zero. There is no additional purchasing power; there is no free lunch.

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