The Daily Dish

California (Is) Dreaming

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California evidently exists to incubate horrific economic policies. Over the past several years, the state legislature and executive branch have waged a war against the future of "quick serve restaurants" (QSRs), which are the familiar fast food franchises (e.g., McDonald's) as well as firm-owned outlets such as Starbucks. There has been an alphabet soup of laws, commissions, and referendums as part of the policy assault and industry defense (more below), but the basic elements have been shifting wage-setting and all manner of regulation to unelected bureaucrats and exposing the industry to extreme litigation risk. The upshot is a recent negotiated agreement between the QSRs and the state (to be signed into law by the governor) that avoids a death sentence but hardly constitutes sensible economic policy.

Skipping some of the details, the rough sequence of events is that AB 257 (aka the "FAST Act") was signed into law in September 2022. AB 257 raised the minimum wage to $22 per hour on January 1, 2023, and created a Fast Food Council with independent power to increase wages, dictate working conditions and training, and regulate workplace safety. The industry responded with litigation and a referendum to prevent the implementation of AB 257. The state fired back by introducing AB 1228, which would have made every outlet jointly liable – essentially a joint-employer law that would end the franchise business model. It doubled down a few months later by funding a defunct Industrial Welfare Commission (which existed on paper, but hadn't had funding since 2004) which had powers similar to AB 257 in wages and workplace requirements for QSRs.

Most recently, the QSR industry and the state negotiated a settlement that gets rid of joint liability and the Industrial Welfare Commission and establishes a much more circumscribed Fast Food Council that will have the authority to set annual wage increases equal to the lesser of 3.5 percent and consumer price inflation. This is effective January 1, 2025, to January 1, 2029, and builds upon a new starting wage of $20 per hour for those workers employed by a chain with 60 or more locations. This is effective April 1, 2024. The Fast Food Council can also propose workplace standards, but has no authority to impose them.

The real question is how much this will hurt the state economy. Doubtless the QSR sector will be hobbled and this will likely put a damper on the entry of new QSRs in California. But it sends a strong signal to the entire private sector that bureaucratic wage-setting, extreme regulation, and costly litigation are deemed entirely palatable. California is dreaming if it thinks this is without consequence.