Addenda #12 – January 2024
Re: Ch. 9 Modern Monetary Theory – Fueling Unlimited Debt and Dependency, and Control
Income Inequality and Redistribution of Wealth / MMT Summary

Fiscally Progressive politicians on both sides of the aisle, believe that a lack of tax revenue should never stand in the way of implementing more social programs and keeping constituents wallets filled with cash.

Economist Thomas Sowell says that we cannot properly understand "inequality" if we focus only on the distribution of wealth. Sowell believes we need to look at a number of factors involved in "wealth production" such as geography, demography, and culture.
In many ways, the culture an individual is born into can permanently affect the outcome of their lives. Some cultures place more value on education, hard work, discipline, family values, honesty, integrity and responsibility that other cultures do. *"I think we grossly underestimate how much is determined by what's inside people's heads",* Sowell stated.

The Top 1% of Americans Have Taken $50 Trillion From the Bottom 90%—And That's Made the U.S. Less Secure
Time; September 14, 2020

This article went on to describe how "low-wage workers" and "people of color" have been "disproportionately affected" by illnesses and income growth, while the top 10% have prospered at their expense. The top 10% haven't just prospered, they've *taken* income and wealth from the other 90% and made them less healthy as well.
Those first two "groups" are "victims" of the second, according to Time.
The disparity of incomes and wealth has nothing to do with their level of education, personal choices, or the culture in which they were brought up. Instead, it has everything to do with greedy capitalists and systemic racism.

"But imagine how much safer, healthier, and empowered all American workers might be if that $50 trillion had been paid out in wages instead of being funneled into corporate profits and the offshore accounts of the super-rich."

Most Americans Say There is Too Much Economic Inequality in the U.S., But Fewer Than Half Call It a Top Priority
What Americans see as contributors to economic inequality
Pew Research Center; January 9, 2020

More than four-in-ten Americans say the outsourcing of jobs to other countries, the tax system, and problems with the educational system contribute a great deal to economic inequality in the United States. But many also point to personal factors, such as the different life choices people make and some people working harder than others.

Republicans and Republican leaners are far more likely than Democrats and those who lean to the Democratic Party to point to personal factors as major contributors to economic inequality. Democrats, meanwhile, are more likely than Republicans to say structural barriers like racial and ethnic discrimination and lack of opportunity contribute a great deal to inequality.

Six policies to reduce economic inequality
The Othering & Belonging Institute at the University of California, Berkeley; September 10, 2014

1. Increase the minimum wage.

Research shows that higher wages for the lowest-paid workers has the potential to help nearly 4.6 million people out of poverty and add approximately $2 billion to the nation's overall real income. Additionally, increasing the minimum wage does not hurt employment nor does it retard economic growth.

Increasing the minimum wage was the number one solution researchers from the *Haas Institute for a Fair and Inclusive Society* at UC Berkeley. (now known as the *Othering & Belonging Institute*)
The name alone should tell you all you need to know.

The Occupy Wall Street movement protests in 2011 faded away but calls for increasing the minimum wage across the U.S. have only grown stronger.

Increase in Income Inequality Driven by Real Declines in Income at the Bottom
U.S. Census website article, September 13, 2022

Real median U.S. household income was $70,784 in 2021, statistically unchanged from the previous year, although income inequality increased for the first time since 2011, according to today's U.S. Census Bureau release of the Income in the United States: 2021 report.

This 2021 report by the Census Bureau, showed that the 90th percentile (top 10 percent of income earners) saw no statistical difference in income coming out of the pandemic shutdowns in 2021. However, the bottom 10th percentile had a 4.4% decline in pre-tax income. This revelation fueled more calls for increasing the minimum wage in the United States.

Never mind that businesses all across the country had "Help Wanted" signs posted in windows or doorways, and bars and restaurants had signs posted asking patrons to "Please be patient" due to lack of staff.
I remember seeing billboards along the side of the highway, advertising sign-on bonuses to get people to come back to work.

Many employers were already paying *above* minimum wage levels to entice workers to come off enhanced unemployment benefits, where many were making more unemployed than if working, and get back into the workforce.

In January 2021, twenty states raised minimum wage levels as much as $1.50 per hour.
In January 2022, twenty-one states raised minimum wage levels as much as $1.25/hour.
In January 2023, twenty-two states raised minimum wage levels by as much as $2.00/hour.

In New York state, governors Andrew Cuomo (D) and Kathy Hochul (D) implemented multi-year minimum wage increase outside the metro New York City area, resulting in a $5.30 increase (54.6%) over eight years.
In California, governors Jerry Brown (D) and Gavin Newsom (D) implemented a multi-year minimum wage increase, resulting in a $5.50 increase (55%) over six years.

While the minimum wage in California for most workers increased from $15.50 to $16.00 per hour in January 2024, healthcare workers at larger facilities will see their minimum wage go up to $23 an hour on June 1 and increase by $1 annually for the next two years until it reaches $25.
Wages for *food service workers* at larger "chain restaurants" will increase to $20 per hour.

Ok, I can see paying healthcare workers higher wages. Theres a nationwide shortage of workers in this industry, that was only made worse by the firing of thousands of employees who refused to get vaccinated. But fast-food workers, really?
The fast-food and retail industries have traditionally been the initial employment starting point for young adults. As they gain in experience and education, they build the skills that enable them to leave those industries to get better paying career jobs. They are then replaced by other young adults just beginning that same process.

Note: Thomas Sowell calls this accumulation of experience, education and skills, *human capital.* Sowell states that the accumulation of human capital is the biggest factor in creating wealth for people of ***all*** classes. One could argue that the majority of the 1 percenters have accumulated an enormous amount of human capital and have used that to improve their lives and become those 1 percenters.

Those who continue working in those industries as they become older, typically do not have the human capital to qualify for a better paying job. Others use these jobs as a part-time or second sources of income for other reasons.

The results were predictable, as I outlined in my Ch. 9 example of how increasing employee wages affects the workers, the employers and the customers.

Kaiser announces layoffs impacting 65 jobs in Northern California
KCRA3 News, Sacramento California; December 14, 2023

Kaiser Permanente said it is eliminating 115 positions in IT, including 65 roles in Northern California.

Note: Kaiser Permanente is a <u>*healthcare*</u> group that operates hospitals and medical facilities in eight states. This round of layoffs came just two months after Kaiser laid off 49 "human-resources" employees. These positions were "outsourced" to other private companies.

Pizza Hut to lay off thousands of California delivery drivers in 2024

Operators are blaming a new state law that will raise employee wages to $20 an hour starting in April 2024.

abc 7 Eyewitness News, Los Angeles, December 27, 2024

The layoffs will affect 1,200 workers of restaurants in Orange, Los Angeles, Riverside, San Bernardino and Ventura counties. They'll also impact more than 800 workers at Pizza Hut locations in Sacramento, Central California, Southern Oregon, and the Reno-Tahoe area, according to reports… Operators are blaming a new state law that starts in April that boosts the fast-food minimum wage by $4 to $20 per hour.

The layoffs at Pizza Hut are just the tip of the iceberg. Industry analyst Mark Kalinowski predicts "more harm to come" as fast food chains "take action in an attempt to blunt the impact of higher labor costs."

California's New Minimum Wage Is Predictably Killing Food Delivery Jobs

yahoo! News; December 27, 2023

That the new wage mandate is already costing jobs should not be much of a surprise. Perhaps worse is the unseen costs in the form of jobs that will never exist in the first place. Like burger-flipping in a fast-food joint, pizza-delivery gigs are low-level employment opportunities for workers with low skills or those seeking a little extra cash. Hiking the minimum wage means some workers will earn more, but other people will effectively be priced out of the labor market.

In typical fashion, the policies that these politicians put in place end up hurting the very people they claim to be trying to help. Those Kaiser employees won't benefit from that $7.50 per hour raise now that they've been laid off. They'll be working for smaller companies outside the industry, that are not included in the increase.

Those delivery drivers won't benefit from that $4.50 per hour raise, when they've been laid off. They'll end up working outside the industry at a lower wage, or, as self-employed independent contractors delivering food for Pizza Hut, but without any benefits they may have enjoyed while working as employees of the company. The pay and tips they make will be solely dependent on how much time and effort they put into *their business*.

The fast-food wage increased applied only to restaurant "chains" that operated 60 or more locations around the country. (Subway, Starbucks, McDonalds, Jack in the Box, Taco Bell, Carl's Jr., Domino's Pizza, Burger King, Pizza Hut and Panda Express are the ten largest chain restaurants in California)
Out of 83,501 restaurants in California at the end of 2022, almost 40% of them (32,565 +/-) were chain restaurants. The restaurant industry in California employs 1,444,400 foodservice workers, 500,000 of which qualify for those higher wages.
Source: National Restaurant Association, based on data from the Bureau of Labor Statistics, Bureau of Economic Analysis and U.S. Census Bureau 2022.

The remaining 51,000 restaurants too small to qualify for the wage changes, are owned and operated by individuals, partners, and families. These are the small businesses that drive the

economy. They make up 99% of all businesses in the U.S. and are responsible for almost two-thirds of all jobs created over the past twenty-five years. They are also the most vulnerable to business failures because of rising costs and falling profits.
These 51,000 smaller restaurants, employing more than 944,000 workers, will be *forced* to offer higher wages to keep existing workers and hire new ones. All restaurants will be faced with choices to make up for paying higher wages: reduction of jobs, hours, or raising prices.

McDonald's, Chipotle to raise menu prices in California next year as fast-food wages rise to $20
CNBC; October 30, 2023

- *Fast-food workers in California will start making at least $20 an hour in April due to a compromise between the restaurant industry and labor groups.*
- *Both McDonald's and Chipotle Mexican Grill said customers in California will pay more to offset the rise in labor costs as a result.*

The same fast-food workers employed by McDonalds, Chipotle and other chain restaurants in California, will see their food costs increasing at the same time their wages increase. At least, those who remain employed…

"Making it illegal to pay less than a given amount does not make a worker's productivity worth that amount—and, if it is not, that worker is unlikely to be employed. Yet minimum wage laws are almost always discussed politically in terms of the benefits they confer on workers receiving those wages. Unfortunately, the real minimum wage is always zero, regardless of the laws, and that is the wage that many workers receive in the wake of the creation or escalation of a government-mandated minimum wage, because they either lose their jobs or fail to find jobs when they enter the labor force.
Thomas Sowell; "Basic Economics: A Common Sense Guide to the Economy"

- "Actions have Consequences"

List of companies leaving California grows, citing high tax burden, cost of living
The CenterSquare; February 22, 2021

Businesses Are Fleeing California Along With Its Residents
Forbes; August 27, 2021

California businesses are leaving the state at double the rate of previous years
SFGate (digital news agency); November 4, 2022

California business exodus continues in 2023; since 2005, majority relocate to Texas
The CenterSquare (newswire company), December 27, 2023
California's exodus continues, with population dropping for the third year in a row, putting its political influence at risk
Business Insider; December 23, 2023

‘We’re leaving!’: Rich Americans are ditching California and ‘taking their tax dollars with them.’ Here’s why they’re leaving — and where they’re headed
MSN (Microsoft News); January 8, 2023

U.S. Census Bureau data for California shows a net loss of more than 582,000 residents over the past three years to other states.
U.S. Bureau of Labor data shows the civilian labor force in California has decreased by 166,000 since 2019. The number of people employed has fallen by 322,000 while unemployed has increased by 139,443.
California’s high cost of living has spurred many businesses and residents to leave the state, posing serious consequences for the state’s job market and fiscal outlook.

Gov. Gavin Newsom bragged of having a $97.5 billion surplus to *“expand health care, social equity and educational programs”* when he released his 2022-23 fiscal year budget. One year later the 2023-24FY budget showed a deficit of $31.5 billion.
When the 2024-25FY budget was released in December, it showed the state faces a shortfall of $68 billion as a result of *“a severe revenue decline in 2022-23.”*
After rebounding from the pandemic closures in 2020 the state’s tax collections recovered to record levels by the 2nd quarter of 2022. But since then, revenue from personal and business taxes collected has fallen by more than 44%.

The California Department of Finance estimates that the wage increase will cost the state about $2 billion in the next budget year in increased labor costs and Medicaid payments to hospitals. From 2022-2023 through 2027-2028, the Finance Department estimates a cumulative deficit of $155 billion, and an increase to the states long-term debt already exceeding $1.7 trillion.

The situation in New York state is strikingly similar.
New York has lost more than 533,000 residents over the past three years to other states.
The civilian labor force in New York has decreased by 126,000 since 2019. The number of people employed has fallen by 176,000 while unemployed has increased by 42,621.
Preliminary 2024FY budget numbers show a $13.7 billion decrease in personal, business and other tax collections and a budget deficit of $6.57 billion. State government erased the deficit by borrowing $6.7 billion and increasing its long-term debt liability to $62.6 billion.

Millions of fast food workers could lose their jobs within 5 years. Here's why
Artificial intelligence could let computers replace nearly every job fast food restaurants
Fox News; May 30, 2023
Artificial intelligence advances will allow computer kiosks and robots to replace most fast food jobs within five to 10 years, according to an AI entrepreneur.

Meet the robots replacing fast-food workers
CNBC; January 20, 2023

U.S. fast food eateries are struggling to find workers. To fill that void restaurants are turning to robots. With its mechanical arm and using computer vision technology Miso Robotics' Flippy 2 can cook everything from french fries and onion rings to cheese sticks. White Castle said it plans to add 100 Flippy's to its kitchens' nationwide. Automation could save U.S. fast food restaurants over $12 billion in annual wages, according to restaurant consultancy Aaron Allen & Associates.

6 Jobs Artificial Intelligence Is Already Replacing
yahoo!finance; February 7, 2023

Restaurants

Fast food jobs often have high turnover rates and low pay, making them ripe for conversion to AI. McDonald's Corp, the largest restaurant chain in the world, integrates AI into many of its stores. McDonald's recently launched its first-ever robot restaurant, which is almost completely automated. While self-checkouts and robotic implementation have slowly crept into its stores, this restaurant marks the first completely automated experience.
McDonald's isn't alone. Dozens of major brands are experimenting in the sector.

How Many Fast Food Jobs Can We Actually Give To AI?
daily meal; May 17, 2023

In 2022, global restaurant consultancy firm Aaron Allen & Associates published a report mentioning potential uses of AI in the foodservice industry, estimating that as much as 82% of restaurant jobs could be performed by robots.

Millions of fast food workers could lose their jobs within 5 years. Here's why
Artificial intelligence could let computers replace nearly every job in fast food restaurants
Fox News; May 30, 2023

Robot Fast Food Cook Costs Less Than Half A Human Worker
Forbes; September 28, 2022

Chipotle's Chippy robot is starting to make tortilla chips at a California location —here are all the other robots taking over fast food
Business Insider; September 28, 2022

Flippy the Fast Food Robot Just Got Hired in 100 Restaurants
SingularityHub.com; February 17, 2022

So progressive politicians gain money from union donors, and votes of fast-food workers for increasing wages today, which will only hasten the transition to robot workers.
The combination of a lack of human capital and increasing push to raise minimum wages will result in fewer jobs for low wage, low education workers. They will join the increasing number of unemployed persons, persons employed part time for economic reasons or multiple job holders to make ends meet.