

Joint Economic Committee Republicans Minimum Wage Hearing

**Statement by
Herman Cain, CEO & President
Godfather's Pizza, Inc.
Joint Economic Committee
Hearing on President Clinton's
Proposal to Increase the Minimum Wage
February 22, 1995**

Herman Cain is the CEO and President of Godfather's Pizza. He also serves as President of the National Restaurant Association. Mr. Cain began his career in foodservice at Burger King where he worked his way up the ranks to his current position with Godfather's.

Mr. Cain's central point is that a minimum wage rate hike not only targets the wrong problem, but it hurts the people it alleges to help. A few numbers from Mr. Cain's statement are particularly noteworthy.

- 1. 4.7 million workers receive minimum wage, while 7.8 million people receive unemployment and 9 million adults are on welfare.*
- 2. More than 35% of Americans under 35 had their first job in the restaurant industry.*
- 3. Nine out of ten of the hourly workers in Godfather's restaurants choose to work less than 35 hours a week -- even though full time work is available.*

Mr. Cain makes a compelling argument against increasing the minimum wage rate. The entire text of his testimony follows.

There are nearly 740,000 foodservice units in this country, including everything from fast-food chains to fine-dining restaurants. We are an industry dominated by small businesses, and we employ a diverse workforce of over nine million people. Our employees are white, African-American, Hispanic-American, Asian-American and more. We expect to employ 12.5 million by the year 2005, with the fastest growth coming in the category of foodservice managers. More than 35% of Americans under age 35 had their first job in the restaurant industry. Restaurants offer an important boost into the job market for millions, as well as a clearly-defined career path for those willing to work hard and stay in the business.

There are numerous reasons why I firmly believe a minimum wage increase is attacking the wrong problem. Allow me to list the three reasons I believe to be most important.

First, mandated wage increases reduce entry-level job opportunities.

A few weeks ago, a colleague in Oregon told me about a homeless 17 year-old he hired in the mid-1980's. He gave the teenager a job chopping lettuce, deveining shrimp and sweeping floors. That 17 year-old has worked his way up: He's now the executive chef at the restaurant. But the

job that brought him into the business no longer exists. When Oregon raised its minimum wage a few years ago and the restaurant owner looked for ways to cut costs, this job was one of the first to go. Now my colleague buys lettuce already chopped from a nearby automated facility.

It's a good example of the split personality of the minimum wage. When you make it more expensive to hire people who lack basic work skills and experience, you risk shutting them out of the workforce.

President Clinton and Secretary Reich use several new studies to argue that a minimum wage increase may actually pull people back into the job market by attracting people unwilling to work at the old wage. Economists who've scrutinized these studies question their conclusiveness. I believe even the authors of these studies would caution policymakers about drawing unwarranted conclusions. And remember: No one has ever shown that any jobs were created by an increase in the minimum wage.

Even if you believe that you'll draw more people into the job market by increasing the minimum wage, a recent study by the Employment Policies Institute/Foundation maintains that this puts welfare mothers at a competitive disadvantage. This makes intuitive sense: If the pool of people competing for a job gets bigger, the people with the most skills and experience have the edge. And those with less experience lose out -- because while you can legislate pay, you can't legislate productivity.

My second point: A minimum wage increase jeopardizes existing jobs by threatening the businesses or business units that may be marginally profitable. When you raise the cost of doing business for the many thousands of businesses that are barely making it, you risk shutting their doors permanently. In my case, for example, Godfather's Pizza, Inc., has nearly 150 company-owned and operated units. Admittedly, a few of them are either marginally profitable or not profitable at all.

When you're running a restaurant that's on the edge, you're scrutinizing every penny. Can ninety cents an hour put me under? It could. Maybe not by itself -- but when labor accounts for about 30% of my expenses, second only to my food costs, a mandated wage increase is one more factor tipping the balance. A mandated wage increase triggers wage inflation by rippling up through the entire wage spectrum and by causing increases in payroll related expenses like FICA taxes.

Some people would say "Just raise your prices." It doesn't work that way. In a competitive market, that's the fastest way to drive away customers with limited discretionary income. Ultimately, this could close a business that's barely making it.

My third point: A minimum wage increase is an ineffective way to raise someone out of poverty. Most minimum wage earners are part-time workers under age 25 -- mostly first-time workers, students, people holding down second jobs or supplementing the income of their household's primary earner. In my restaurants, for example, nine out of ten of my hourly employees choose to work less than 35 hours a week -- even though full-time work is available. These are not the people being targeted for help. Policy makers from all sides of the political

spectrum say minimum wage increases cannot effectively target the working poor. By shooting wide and hoping to hit the right target, you're taking a gamble with harmful side effects.

The best way to lift a family out of poverty is to get people into the job market and give them a chance to acquire skills. I think of my father, who worked three jobs until he was skilled enough to cut back to two jobs, and who kept going until his skills were good enough that he could support us on one job...as an hourly worker.

I've listed the three main reasons I believe a minimum wage increase attacks the wrong problem but I could add more. Like the danger of a federal mandate that prescribes the same minimum wage increase for a mom-and-pop restaurant in rural Nebraska as it does for a restaurant located in a high cost-of-living metro area. I'd also argue that the laws of supply and demand do a pretty good job of setting wages according to the specific conditions of specific markets. And finally, I'd note that according to the specific conditions of specific markets. And finally, I'd note that Congress has been playing close attention to the state and local officials -- Democrats and Republicans alike -- who say "enough is enough" when it comes to picking up the tab for unfunded federal mandates. Please give businesses the same hearing: An increase in the minimum wage is also an unfunded federal mandate. Someone pays -- and it's usually the entry-level employee.

I urge you to look deeper for solutions. The Earned Income Tax Credit, for example, encourages work and takes the benefit directly to the working class families who need it most -- without jeopardizing jobs.

A range of experts -- from the thinkers at the think tanks to the social workers at local welfare agencies -- recognize that some people lack the skills to make them competitive for entry-level employment. This drives national policy: It's why you see the federal government spending billions on job training. It explains the Targeted Jobs Tax Credit, which encourages businesses to hire employees who typically have a hard time gaining a foothold in the job market. It's why President Clinton and Congress set up empowerment zones to get businesses to hire in impoverished areas. These programs rightly recognize that some workers may be overlooked if it gets too expensive for a business to hire them. Congress should look for ways to encourage people to go to work and businesses to hire, not make it more expensive for employers to hire low-skilled employees.

You're getting a good dose of information lately on the theories behind successful welfare reform. In businesses like ours, real life crowds out theory. While our main expertise is in getting out good meals at good prices, as entry-level employers we've also become fairly expert at finding at ways to help millions of troubled teens and troubled adults get beyond the truly daunting barriers to employment. We see that entry-level jobs provide training in the fundamentals -- reliability and teamwork, to name just two -- that yield long-term values that are hard to duplicate in the most well-funded government programs.

Right now we have more that four million people earning the minimum wage, 7.8 million people collecting unemployment and nine million adults receiving welfare payments. Tackle the right problems first. Focus on creating more jobs, not on raising the cost of entry-level

employment; not on eliminating existing jobs; and not on taking away the opportunity for people to determine their own futures. A minimum wage increase doesn't attack the right problem. I urge you to reject it.