As I reviewed 2023, something that, apparently, we are all required to do in late December and early January (along with staying up late and drinking to distraction), I noticed that the state of California was the subject of many of the posts.

2023 started already with a hangover carried in from late 2022 due to the fallout caused by the failure of the cryptocurrency exchange FTX ([*What's in a Name*](https://commoncents.blogwyrm.com/?p=1025)) with its triple epicenters of Berkeley, MIT, and the Bahamas. California again poked its ugly head into economic news in the spring ([*March Banking Madness – Part 1, How it Happened*](https://commoncents.blogwyrm.com/?p=1081) & [*March Banking Madness – Part 2, What to do Now*](https://commoncents.blogwyrm.com/?p=1143)) when it proffered Silicon Valley Bank (headquartered in Santa Clara) and Silvergate Bank (headquartered in San Diego) onto the heap of failed financial institutions. Its summer offered no less drama with the Writers Guild of America strike ([*Writers' Drama*](https://commoncents.blogwyrm.com/?p=1225)) and its yearly poor economic approach to insurance against wildfire damage ([*California Burning*](https://commoncents.blogwyrm.com/?p=1236)). And, finally so I thought, was its entry to the fall with my discovery of the snarky and hilarious analysis of the City of Oakland’s many gun buy backs ([*Twisted Incentives - A Case Study*](https://commoncents.blogwyrm.com/?p=1276)).

Sadly, just as I was closing the books on the ‘dumpster fire’ (to quote some learned pundits who I happened to like) that was 2023, the state of California is back at it with yet another ridiculous foray into the world of economic ignorance and bad incentives.

Consider the following headline from CBS news: [Pizza Hut to lay off thousands of California workers](https://www.cbsnews.com/news/pizza-hut-to-lay-off-thousands-of-california-workers/?ftag=CNM-00-10aab7e&linkId=257612767) by Danielle Radin (published on Boxing Day of 2023). According to the article, the Pizza Hut chain is saying it will lay off over 1200 delivery drivers in various California counties when a new law goes into effect that raises the minimum wage for fast food workers from $16/hour to $20/hour. The article also states that the company will turn to third party delivery drivers, like DoorDash, to get products into the hands of the consumer. Combined with the over 800 drivers for Pizza Hut’s sister franchise chain Southern California Pizza Co., this new law will have the very foreseeable effect of eliminating over 2000 jobs in that small slice (forgive the pun) of the California restaurant scene.

California Assemblyman Chris Holden, who introduced Assembly Bill 1228, is purported to have said that

“the pay increase will help workers feed their children, keep gas in their vehicles, and improve the quality of life of many”

according to Radin’s article. Now, unless I am mistaken, it is very hard to feed one’s children let alone keep gas in one’s vehicle or improve one’s quality of life when one no longer has a job.

Radin also says that the Assemblyman’s office touted other benefits of the bill, which Governor Gavin Newsome signed into law in September of 2023, as including

“… a Fast Food Council, representing a path forward to resolve employer community concerns while preserving fast food workers by securing a seat at the table to raise standards.”

No doubt, this Fast Food Council will necessitate a host of new regulations and compliance burdens for a fast food franchise owner, causing a further expenditure on useless things that neither contribute to the company turning a profit nor to delivering to the consumer a better experience with the goods and services they desire.

All told, Bill 1228 is another, textbook example, brought to us, in this case, by the formerly great state of California, of how legislators and other policymakers believe we live in a static world wherein they can enact a single change in how things work without thinking there will be any unintended consequences. Their thinking no doubt goes something like this: don’t like how much people make, raise the minimum wage since the only ways who will be hurt are the greedy corporations.

But who are these ‘greedy corporations’ and how hurt are they really going to be?

In the case of fast food, most of these ‘greedy corporate moguls’ are just middle-class folk who worked harder and stayed more focused than average. After scrimping and saving, they purchase a fast food franchise with relatively low margins ranging from just under 20% at the top end (McDonald’s) to 6% in the middle (Burger King) to barely able to stay above water at 0.3% (Wendy’s) according to [*The Average Income for Fast Food Franchise Owners*](https://work.chron.com/average-income-fast-food-franchise-owners-24587.html) by Patrick Gleeson. Hardly Elon Musk territory.

To lay specific numbers for the chain in question, according to [*Pizza Hut Franchise Costs $935K: Profits & Costs (2023)*](https://sharpsheets.io/blog/pizza-hut-franchise-costs-profits/) by Remi, the initial investment in a franchise will set back the owner about $936,000 dollars, on average, with an expected revenue of $982,717 per year. The portion of that total that is profit for the owner is just under $92,000 representing about 9% of revenue. That means that it takes an owner about 10 years to recoup his investment before he sees an actual profit above and beyond his initial outlay. Considering the stock market typically returns 7%, on average, and that the median house price in California is $799,000 (according to [BankRate.com](https://www.bankrate.com/real-estate/median-home-price/)) one can hardly be justified in calling a Pizza Hut franchisee a ‘greedy corporation’.

The net result from this type of legislation to punish middle-class people with strong work ethics by squeezing them for additional dollars so that politicians can buy votes from a constituency that doesn’t contribute nearly as much as the business owner does. The subsequent fallout is that the business owner has no choice but to either pass on the costs to the customer (precisely what McDonald’s and Chipotle plan according to Radin’s article) or to hire fewer workers or both. In addition, this squeeze makes it even more unattractive for a prospective franchisee to agree to take the associated risks and shoulder the burdens.

Far better effort could be expended by the Californian state government in three ways. First, they could cut regulations to lower the cost of doing business. The Fast Food Council would be a good place to start but doubtless there are plenty of other opportunities including that stupid [[California Prop 65 cancer warning](https://www.huffpost.com/entry/warning-label-california-65_l_642b3245e4b00c95175390a1)](https://www.acsh.org/news/2018/10/29/california-trees-have-prop-65-cancer-warning-13550) waste of time. Second, they could improve schools and invest in getting people up and out of entry level jobs through training rather than moving the pay scale up so that a father of four can support a family on what he makes at his entry-level job manning a register at a fast food joint. Third, given the size of California, the state legislature could pressure the federal government, in particular the Federal Reserve, to be far more circumspect with monetary policy so that inflation were kept in check.

Sadly, the California government seems to have little to no interest in acting responsibly instead of just preening for the press with sound bites that show how much they care.

Sigh… I hope this isn’t a sign of things to come in 2024.