

# Newsom's Office Screwed Up Big-Time



[Updated July 2, 2024 to answer a question about the employment survey. Marked below.]

California governor Gavin Newsom's office screwed up big-time trying to defend the \$20 minimum wage for fast-food workers. Their mistake was trying to use actual data to prove a point. Their Twitter thread links to an article by Los Angeles Times columnist Michael Hiltzik who posted the Bureau of Labor Statistics (BLS) data Newsom's team used.

## A Bit of Economics

Before going into the details of the data, **let's do some basic economics**. The \$20 minimum wage is **an increase in production costs** for fast-food restaurants. **The industry will respond in three ways: raising prices, reducing output, and shifting their production process to use less labor and more capital (kiosks and robots)**. (Capital here means physical capital: buildings and machines. This is the common definition used by economists.) **Raising prices reduces quantity demanded**. That's why output falls. **The decrease in output leads to less labor and capital**. But **in the short run labor is the variable factor of production**, while capital is the fixed factor. **The variable factor will experience the brunt of the adjustment in the short run**. **Meaning any analysis that shows an increase in employment in fast food automatically must clear a high hurdle to be credible**.

## Executive Summary

Here's the summary. BL publishes employment data by state with very detailed breakdowns by industry. **Series 70-722590 (Limited-Service Restaurants) includes fast-food restaurants**. This is the data Newsom used. There are **three problems with Hiltzik's analysis**.

The first is that **he looks at year-over-year changes in employment between April, 2023 and April, 2024**. He concludes that employment increased by "nearly 7,000 jobs." This is wrong. The actual increase was 5,340 jobs. But an increase is an increase. (As always, my Excel workbook is available for downloading.)

The second problem is far worse. **The \$20 minimum wage did not go into effect until April 1, 2024.** While **some businesses laid off workers anticipating this event,** others probably **hoped in vain that Newsom and the legislature would learn some basic economics.** Fat chance. So let's look at the 2024 data:



**Between January and May, 2024, this sector of the California economy lost 2,520 jobs.**

**The third, and far worst, problem is the actual businesses that are included in the “Limited-Service Restaurants” category.** (Thanks to Julianne Todd of BLS for walking me through the steps to find this information.) The Census Bureau describes the category as “This U.S. industry comprises establishments primarily engaged in providing food services (except snack and nonalcoholic beverage bars) where patrons generally order or select items and pay before eating.” **Census gives some examples:**

- Delicatessen restaurants
- Pizza delivery shops
- Family restaurants, limited-service
- Takeout eating places
- Fast-food restaurants
- Fast casual restaurants
- Takeout sandwich shops
- Limited-service pizza parlors

**Actual fast-food restaurants are one of the eight examples included.** You are welcome to decide for yourself which of these are, in fact, “fast food.” **But I think we all**

agree that there are some that should obviously be excluded. Delis? Family restaurants? Takeout sandwich shops?

The main problem is quite common. People see the name of a dataset and make assumptions about what it includes. This is a common error among those who do not work with data frequently. After all, I had to ask BLS for help. Anyone can do that and be connected with a specialist. In my experience, BLS usually answers in one or two business days.

## Details and Supporting Data

The Newsom press release took the form of a long Twitter thread (see pdf below). Consistent with Newsom's general attitude toward, well, everyone, it is condescending, self-righteous, and smug. It is also misleading. The thread calls out various publications, each of which relied on a report from the California Business and Industrial Alliance (CABIA):

The issue is whether the \$20 minimum wage has reduced employment in the fast-food industry. The California Business and Industrial Alliance (CABIA), the state of California has lost just under 10,000 fast food jobs since AB 1228, the new \$20 minimum wage for fast food employees was first signed into law late last year.

## The Source of the 10,000 Estimate

Tracing the source of the 10,000 figure led first to an April 24 article by Lee Ohanian at Stanford's Hoover Institution. That piece linked to a Wall Street Journal analysis. Here's the relevant paragraph:

California had 726,600 people working in fast-food and other limited-service eateries in January, down 1.3% from last September, when the state backed a deal for the increased wages. Total private employment in the state declined 0.2% over that period, according to state figures.

There are two interesting facts about the 726,600 figure. First, it is the same BLS series used by Newsom's people. Second, the number that appears today is 742,333. The data has may have been revised (the Journal article was published March 25, 2024). Or, intriguingly, the Journal may have used data that was not seasonally adjusted. The NSA figure for that month is 724,900. Again, this is arguing over the number of angels on the head of a pin.

## Seasonal Adjustment

But there is a good reason for bringing up seasonal adjustment. **only offers the not seasonally adjusted data for download.** But a quick glance at a graph reveals a **distinct seasonal patterns:**



To get the seasonally adjusted data, you should go to the **FRED economic database hosted and maintained by the Federal Reserve Bank of St. Louis.** The point of this story is that you should not assume that the data you're looking for does not exist. In this case, I got lucky; it's always worthwhile looking in FRED. **But if you can't find what you're looking for, ask.** The BLS staff is responsive and patient. I cannot count the number of times they've rescued me.

## The Current Employment Survey (CES)

[Section added July 2, 2024 to answer a question about the employment survey.]

**Employment data is drawn from the CES.** This is parallel to the Current Population

Survey. **The CES surveys businesses, asking questions about their employees: number, demographics,** industry classification, state, SMSA, and more. This is complicated. Here's the opening paragraph from the section describing the survey design:

The Current Employment Statistics (CES) sample is a stratified, simple random sample of worksites, clustered by unemployment insurance (UI) account number. The UI account number is an identifier on the Bureau of Labor Statistics longitudinal database (LDB), the collection of employer records that serves as the sampling frame for CES employment estimates. The sample strata, or subpopulations, are defined by state, industry, and employment size, yielding a state-based design. Sampling rates for each stratum are determined through a method known as optimum allocation, which distributes a fixed number of sample units across a set of strata to minimize the overall variance, or sampling error, on the primary estimate of interest. The total nonfarm employment level is the primary estimate of interest, and the CES sample design gives top priority to measuring it as precisely as possible, thereby minimizing the statistical error around the statewide total nonfarm employment estimates. The CES-State and Area (CES-SA) program uses the same sample and collection methods, thus references to CES apply to both CES-N and CES-SA programs.

This came up in the context of the exact date when employment was measured. The questioner assumed it was the end of the month. If you believe that, re-read the quoted paragraph above. **The survey takes place over the course of a month, not just on the last day.**

## **Further Details on BLS Series Naming**

This is pretty obscure stuff. So I'll just include my notes on the path I pursued at Julianne Todd's suggestion.

## **The Newsom Tweet Thread**

**Original thread here.**

