Michael Saltsman: The Employee of the Month Has a Battery

Minimum wage hikes are accelerating the trend toward automation—and fewer workers—in services.

By MICHAEL SALTSMAN

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Ten years ago it might have seemed far-fetched that a customer could order food in a restaurant without speaking to anyone. But it's a reality now as service employers across the country—including Chili's, Chevys Fresh Mex and California Pizza Kitchen—introduce tabletop ordering devices. A few clicks on an iPad-like device and the food is on its way.

Technology has made these changes possible, but that's not what's driving their implementation. Steady federal and state increases to the minimum wage have forced employers in retail and service industries to rely on technology as the government makes entry-level labor more expensive. Now Democrats are pushing to raise the federal minimum wage to $10.10 from $7.25 at the behest of President Obama, who argued in his State of the Union address that the increase would "help families." Lawmakers should consider the technology trend a warning.

Microsoft co-founder Bill Gates made the connection in a recent interview on MSNBC. Asked if he supported a higher minimum wage, Mr. Gates urged caution and said the policy would create an incentive for employers to "buy machines and automate things."

Mr. Gates is right, but the transition toward self-service began long before tabletop computers were a viable option. Self-service soda machines, available at fast-food restaurants since at least the late 1970s, were a labor-saving device. Even coffee carafes left on the table for customers to serve themselves allowed restaurants to reduce the staff needed to fill cups. More recently, major restaurant chains such as Bob Evans and Chili's have updated their service model to eliminate bus boys, relying on servers to clear tables themselves.

Technology has enabled much bigger overhauls. Consider the modern department store: At some Target and Macy's locations, customers can check their own prices, as well as check themselves out at self-service kiosks after shopping. The Bureau of Labor Statistics reported in 2012 that the number of these
establishments has grown by 23% over the last 10 years, while total employment at the firms has fallen by 6%.

Tablet-based ordering is coming into vogue at U.S. restaurants: Chefs polled by the National Restaurant Association recently ranked computerized menus as the top tech trend for 2014. Airports in locations like New York City and Minneapolis now feature "restaurants" that are waitstaff-free. In 2011, McDonald’s announced it was replacing human cashiers with touch-screen alternatives at more than 7,000 European locations.

Customers may find the new technology convenient, but the thousands of young adults who used to earn money filling these roles won’t. The data suggest employers are acting from economic necessity rather than spite. Profit margins in restaurants range from 3%-6%. They are even more modest at grocery stores, at 1%-2%.

Empirical studies, including University of California-Irvine and Federal Reserve researchers David Neumark and William L. Wascher's exhaustive 2008 book "Minimum Wages," show what happens when labor costs increase. Companies must choose between increasing prices or reducing costs to maintain limited profit margins.

And they've already been fighting rising costs. The federal minimum wage increased by 40% between 2007 and 2009. In the five years prior to that hike, 28 states acted independently to increase their own minimum wages. The cities of San Francisco and Santa Fe were the first to raise their base wage to nearly $9 an hour. Eleven states now raise their minimum wage automatically with inflation. New Jersey even amended its constitution to ensure wage hikes. Then there’s the Affordable Care Act, which has presented low-margin industries with another set of cost challenges.

President Obama and Senate Democrats are now endorsing another 40% increase in the federal minimum wage. And in localities such as Seattle and San Francisco, $15 an hour—which translates to an entry-level wage of $30,000 a year—is being seriously entertained. The small airport town of SeaTac in Washington already passed a $15 an hour minimum wage in November. It is not surprising that companies are urgently seeking labor savings that don't dramatically alter the customer’s experience.

Which is exactly what today's technology offers. Andy Puzder, CEO of CKE Restaurants, the parent company of Carl's Jr., Hardee's and other brands, has cautioned legislators that a higher minimum wage is "encouraging automation." Other service-industry CEOs are saying the same thing behind closed doors.

"Efficiency" is the positive public face of these changes. Chris Sullivan —a co-founder of Outback Steakhouse who now works with MenuPad, a tablet-ordering company—explained his product to me this way: "It increases productivity, allowing servers to wait on more tables." That means tips may increase for some.

But the flip-side of more efficiency is a 20%-25% drop in the number of waitstaff necessary to run a restaurant. Currently, a worker who earns tips can be paid below minimum wage, allowing tips to make up the difference. But the $10.10 proposal would raise the minimum tip wage to $7.07 from $2.13, a
232% spike. With roughly three million current tipped jobs in the U.S., that could amount to as many as 750,000 fewer entry-level opportunities if implemented widely.

Technological change is inevitable and often healthy for industries, and perhaps our restaurant and grocery store experience will look different in 20 years regardless of labor costs. Yet policy makers are encouraging the switch to technology by increasing the cost of hiring—at a time when unemployment for young adults age 16-19 has hovered above 20% for more than five years.

There's no limit on who can be replaced: San Francisco-based Momentum Machines has a burger-flipping robot that replaces three full-time kitchen staff, makes no wage demands and stages no walkouts.

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