Minimum Wage Backfire

McDonald's moves to automate orders to reduce worker costs.

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If there's a silver lining for McDonald's in Tuesday's dreadful earnings report, it is that perhaps union activists will begin to understand that the fast-food chain cannot solve the problems of the Obama economy. The world's largest restaurant company reported a 30% decline in quarterly profits on a 5% drop in revenues. Problems under the golden arches were global—sales were weak in China, Europe and the United States.

So even one of the world's most ubiquitous consumer brands cannot print money at its pleasure. This may be news to liberal pressure groups that have lately been demanding that government order the chain known for cheap food to somehow pay higher wages.

Unions have made McDonald's a particular target of their campaign for a $15 an hour minimum wage and have even protested at corporate headquarters in Oak Brook, Ill. The pressure was enough to cause CEO Don Thompson this summer to capitulate and endorse President Obama's call to raise the federal minimum to $10.10 an hour from $7.25. Many states have already enacted wage floors above the federal minimum.

If higher wages force higher prices on the menu, will union-backed activist groups agree to compensate McDonald's franchisees for futures sales declines? We're guessing not. So we'll offer the chain some free consulting and suggest that with sales slipping lately, higher prices probably aren't the way to draw more customers. Alternatively, McDonald's could cut its beef costs by changing its popular burger to a fifth-of-a-pounder and hope nobody notices.
The McDonald’s earnings report on Tuesday gave a hint at how the fast-food chain really plans to respond to its wage and profit pressure—automate. As many contributors to these pages have warned, forcing businesses to pay people out of proportion to the profits they generate will provide those businesses with a greater incentive to replace employees with machines.

Opinion Journal Video
Assistant Editorial Page Editor James Freeman on McDonald’s profit plunge and whether “fundamental changes” can make the company competitive again. Photo: Getty Images

By the third quarter of next year, McDonald’s plans to introduce new technology in some markets “to make it easier for customers to order and pay for food digitally and to give people the ability to customize their orders,” reports the Journal. Mr. Thompson, the CEO, said Tuesday that customers “want to personalize their meals” and “to enjoy eating in a contemporary, inviting atmosphere. And they want choices in how they order, choices in what they order and how they’re served.”

That is no doubt true, but it’s also a convenient way for Mr. Thompson to justify a reduction in the chain’s global workforce. It’s also a way to send a message to franchisees about the best way to reduce their costs amid slow sales growth. In any event, consumers better get used to the idea of ordering their Big Macs on a touchscreen.

Entry-level fast-food jobs have never been intended to support an entire family. So-called quick-service restaurants provide opportunities to lots of young people with few skills and limited experience. Across all industries, about two-thirds of minimum-wage workers who stay employed get a raise in the first year.

Amid a historically slow economic recovery, 1970s labor-participation rates and stagnant middle-class incomes, we understand that people are frustrated. Harder to understand is how so many of our media brethren have been persuaded that suddenly it’s the job of America’s burger joints to provide everyone with good pay and benefits. The result of their agitation will be more jobs for machines and fewer for the least skilled workers.