

***Written Testimony of Andrew F. Puzder,
On The Dignity of Work
Before the Senate Banking, Housing, and Urban Affairs Committee.***

Introduction

I want to thank Chairman Brown, Ranking Member Toomey and the members of the Senate Banking, Housing, and Urban Affairs Committee for giving me the opportunity discuss the “Dignity of Work” an issue near and dear to me and of great importance for American workers and businesses alike.

My name is Andrew F. Puzder. For over 16 years it was my privilege to serve as the CEO of CKE Restaurants, which, during my tenure, owned or franchised over 3,800 restaurants in 45 states and 40 foreign countries employing over 100,000 people internationally, about 80% of whom worked in the United States.

The story of how I became CEO is a distinctively American story, and it says a lot about the importance and value of work in our national character.

The Dignity of Work

My father’s parents came to our shores from Eastern Europe in the early 1900s in search of a better life – as immigrants have done throughout our history as a nation. My grandfather was a construction worker until he died during the Great Depression. My grandmother got a job in the janitorial department at Thompson Products to support my dad and his sister after my grandfather’s death.

My dad was a WWII combat vet; after the war, he and mom set up their home in a working class neighborhood outside of Cleveland. Dad was a Ford car salesman. Neither he nor Mom had what today we would call an advanced education – I’m not even certain they graduated from high school. But, as a kid, I was always told I could be anything I wanted to be - if I was willing to do the work.

And thank God, I lived in a country where that was true. There was a path to success. For me, it wasn’t an easy path. In fact it was an arduous path, but there was a path. In my grandparents’ native country, there was not.

As a teenager, I worked at the local Baskin-Robbins scooping ice cream. It’s a job where I learned about being part of a team, the importance of showing up on time, being polite and courteous to customers, dealing with things like inventory and product quality and, perhaps most importantly, the personal satisfaction that comes with taking pride in your work.

I can still recall when the franchise owner of that Baskin-Robbins called me into her office, gave me a 10 cent an hour raise (to \$1.10), handed me a key, and told me I was now the Assistant Manager. It remains the proudest day of my career. I opened up the place the following day and I'll bet we had the cleanest Baskin-Robbins in America that morning.

That ten cent raise meant little in real dollars but it was a confirmation that what I did had value, that I could be more than I was, and that where I came from was less important than where I was going. I felt the kind of pride and self-confidence that can keep a person working or in school, striving for success, and off the streets.

Would I have been as inspired to work as hard if I knew I would keep that job regardless of how well I performed? Would I have felt as proud or as self-confident if I got that promotion because of who I was rather than what I did? For those who have never shared the work experience, or any experience where success is not assured and failure is always a possibility, the answer is - unequivocally - No! There is no substitute for earned success.

That was my first experience with the dignity of work.

Over the coming years, I worked my way through college and law school while supporting my small family (a wife and two children) doing just about any job I could find like painting houses, cutting lawns, and busting up concrete with a jackhammer in the scorching St. Louis summer heat. I worked every job I could find as I had no government or family help to get through college or law school.

And, as I noted, I eventually became a successful lawyer and CEO.

Today, I tell this story to my grandchildren. They seem surprised that their Grandpa once worked as a laborer, and that our family once had a different standard of living than the one we enjoy today.

I tell them there's never been another country in the history of the world where a working-class kid like me could have aspired to that level of success with any realistic chance of achieving it. They should understand that, had our family lived in almost any other country, my story – and theirs – would have been very different. Had I been born in a socialist country – the Soviet Union of old, or Cuba and Venezuela of today – the notion of lifting myself up from the working class – more likely the working poor – would either never have occurred to me or, if it had, would have seemed an unachievable dream.

The most gratifying part of my being a CEO was seeing this process repeat itself over and over in our restaurants. Young people, often immigrants or the children of immigrants, would start off working in our restaurants at an entry level position, then eventually become shift leaders or managers, some became franchisees who owned their own restaurants while others used the job to

help get them through college or to get the experience required for a different job. Many with dreams of a better life similar to mine.

That's the American Dream. It exists because our free enterprise system inspires a thriving private sector – businesses small and large that create jobs and job opportunities such as the ones I was privileged to hold. When we encourage that private sector, it thrives and creates the kind of opportunities that were open to me. This is why I have always fought for policies that encourage job creation and opposed those that kill the entry-level jobs that America's youth, particularly underprivileged youth, need to get on the ladder of success.

We should never ignore the needs of those living in poverty. I hope that, as a nation, we never will. But it is also a mistake to ignore the reality that most Americans want to earn their success. For that, we need the jobs private sector businesses create and policies that encourage them to do so.

When we encourage the private sector, entrepreneurs thrive and create the kind of opportunities that were open to me. But we don't have to look back to the 1960s and 70s to see how the economy and public policy impact workers lives.

The Impact of Public Policy

In 2019, for example, the Tax Cuts and Jobs Act, broad-based deregulation and a focus on domestic energy production, inspired American businesses to focus on making a profit and growing. As a result, America experienced the strongest labor market in my lifetime and perhaps ever. The job opportunities, particularly for low-wage and minority workers, were nothing short of historic.

For every month in 2019, the unemployment rate was at or near a 50-year low and lower than the CBO forecast it would be with full employment. In every month there were more job openings than people unemployed and for most months there were over 1 million more job openings than people unemployed.

With employers competing for workers, year-over-year wages rose 3% or more every month and rose more for low wage workers than high wage workers. For the first time in decades, it was harder to find blue collar workers than it was to find white collar workers.

As a result, people who had given up and dropped out began flocking back into the labor force. In the fourth quarter of 2019, 74.2 percent of workers entering employment came from out of the labor force rather than from the ranks of the unemployed - the highest share since 1990, when the government began reporting the data.

With wages rising and good quality jobs abundant, median family income grew to a record high \$68,703, an impressive 6.8% increase over 2018. It was the largest one-year increase in median income on record going back to 1967. Household income grew by an even greater 7.9%

for Black Americans, 7.1% for Hispanic Americans, and 10.6% for Asian Americans. All record highs as were the new income levels for each of these groups.

As household income grew, the poverty rate plummeted 1.3 percentage points to a 60-year low of 10.5%. This was the largest reduction in poverty in over 50 years. The decline in poverty for minorities was even greater. Black poverty fell by 2.0 percentage points, Hispanic poverty fell by 1.8, and Asian poverty fell by 2.8.

With more jobs, higher wages and declining poverty, income inequality also declined in 2019 - and for the second year in a row.

I've discussed these statistics but I can't emphasize enough that there are real people behind the figures - people who felt like their efforts were paying off for themselves and their families, because they were – just as I had felt 50 years before.

This broad based labor market strength was the result of business friendly government policies and the desire every entrepreneur has to make a profit. It's good to keep in mind that, in free market economies, businesses profit only by meeting the needs of others. Capitalism encourages people to improve their own lives by providing the products or services that other people want at a price they can afford.

Grocery stores are a good example of this dynamic in action. Their shelves are lined with literally thousands of products, each one representing a business or an entrepreneur trying to get your attention and convince you that they have what you want at a price you can afford. It's no surprise that visitors from socialist nations are astonished by the abundance in our grocery stores.

So, far from encouraging a self-centered outlook, Capitalism is actually a constraint on that evil. Businesspeople cannot succeed unless they look outward and try to understand the needs, desires, and perspectives of their customers. When they do that well and they make a profit, they better their own lives, with the enormous added benefits of creating prosperity and abundance, jobs and incomes, tax revenue and communal goods for society in general.

The reality is that businesses striving for profit benefit society as a whole – and create the jobs that make the dignity of work a reality.

Going forward, I have two primary concerns when it comes to government policies, job creation and the potential loss of opportunities for working and middle class Americans. First, the impact of what has been called stakeholder capitalism and, second, the Biden Administration's current economic policies.

The Impact of Stakeholder Capitalism on Job Opportunities

Today, a major threat to the kind of opportunities that were available to me in my youth comes from what is called “stakeholder capitalism.” It is an effort to expand a business's primary

responsibility from maximizing returns for its shareholders to addressing the needs of various other so called “stakeholders,” such as employees, customers, suppliers, and the community in general.

No discussion of this topic would be complete without at least a reference to Milton Friedman’s belief that a business’s only social responsibility is to “use its resources and engage in activities designed to improve its profits” consistent with law and “ethical custom.”

In other words, businesses must and do attend to the needs of their customers and employees; they can’t survive, much less prosper, without doing that. In addition, businesses must and should comply with laws, like environmental regulations, that address and account for social goals that are externalities in the profit/loss equation. The importance of “ethical custom” comes into view especially when businesses operate internationally; American businesses should stay within the limits of American ethics when considering, for example, selling surveillance technology to Chinese companies engaged in oppressing the Uighurs in Xinjiang province.

But Friedman’s point was that within those relatively broad limits it is not only permissible for businesses to pursue profit as the primary goal; it is the only way they can fulfill their broader social purpose: creating and broadly distributing wealth and opportunity to our people – the wealth and opportunity that cannot be created other than through profit-driven capitalism, and without which the social goals of the stakeholder capitalists are unachievable.

It’s important to examine why the law recognizes the corporate form in the first place – why we have a business structure that exists apart from its owners and how society benefits from that structure.

Corporate ownership exists primarily to facilitate investment. It permits people to start a business, invest in it by purchasing stock and limit their personal liability to the loss of that investment. Assuming shareholders and management abide by the law and respect the corporate formalities, the corporate entity shields investors from personal liability for the broader obligations of the business – such as debts or lawsuits. If the business goes under, they’ll lose their investment, but only their investment.

This structure provides tremendous societal and economic benefit by encouraging people to start, invest in and grow businesses. Faced with high levels of risk, people tend to put their money under the mattress so to speak. If we limit investor exposure to the known risks of business success or failure, they are more likely to invest. In this respect, corporations are the primary risk limiting vehicle for business formation and growth. As businesses grow so do opportunities, jobs, wages, and wealth.

This corporate structure has been overwhelmingly successful in generating investment, broad based economic growth, and prosperity. There is a reason virtually every country, and certainly every prosperous country, allows and encourages the corporate structure.

Because capital investment is a critical component of economic prosperity, the next question is why do people invest in a business?

The answer is profit. The greater the potential for profit – or a return on their investment - the greater the attraction of investment and the greater the associated economic growth.

My biggest concern with stakeholder capitalism is the opportunity costs of trying to turn businesses into engines of social rather than economic progress. When corporations assume or are forced to assume non-economic obligations and thereby reduce their focus on profit, it reduces the incentive to invest and the capital available for dynamic growth. What that means for the broader community is fewer jobs, poorer paying jobs, reduced innovation, fewer products for consumers and reduced prosperity in general. In short, lost opportunity.

To be sure, corporations, like all businesses, are engines of economic production, and people need more than just wealth. That is why healthy societies have healthy families, strong religious organizations, flourishing arts, and other social institutions through which people find love, moral clarity, inspiration, and emotional stability. Businesses are not and cannot be the primary agents for meeting those needs. But what they can and will do is provide the wealth which supports the rest of society – if the government allows the profit motive to do its work.

In reality, corporate focus on private sector profit has played a major role in lifting not only the United States, but humankind itself from centuries of privation and misery to an era of unparalleled prosperity. Over the past 25 years, living standards have improved as annual global output has grown from around \$39 trillion to \$80 trillion because of “economic freedom underpinned by free-market capitalism,” according to the Heritage Foundation’s Index of Economic Freedom for 2020. In economically free societies people live longer, are healthier, take better care of the environment, and push scientific innovation further.

If we are to continue to prosper, thrive and create opportunities for people to experience the dignity of work and the benefits of earned success, it is extremely important that businesses retain their focus on business success rather than solving problems better addressed by other social and governmental institutions.

Concerns with Respect to the Biden Administration’s Economic Policy

As we emerge from the recession, we will need America’s small businesses to reignite labor market growth. Coming out of the last recession, small businesses created nearly two-thirds of all new private-sector jobs. But these are the businesses that were hit hardest by the pandemic’s economic lockdowns and they will need to hire (or rehire) enthusiastically to reach the Biden administration’s goal of returning the labor market to pre-pandemic levels of full employment.

So the message the Biden administration is sending to small businesses is extremely important.

This is Job Creation Rule #1: businesses invest in growth and hiring when they can forecast a profit. Unfortunately, the Biden administration's message to American businesses boils down to: "We're going to increase your labor and energy costs, unionize your business whether your employees want it or not, and then over-regulate and over-tax you." That message will not inspire businesses to create millions of jobs.

Let's take a look at that message from the perspective of small businesses.

The Biden administration is clearly committed to increasing labor costs. Take the proposal for a \$15 minimum wage. Business owners around the country are considering right now whether to reopen and try to grow their companies – whether to invest more of their money or try to raise money from others – knowing that a very large increase in the price of entry level labor may be coming, making it more difficult if not impossible for them to be profitable. Will that increase make it more or less likely that they will invest?

Small businesses also see energy costs increasing as the Biden administration ramps up its efforts to limit carbon emissions, including the cancellation of the Keystone XL oil pipeline and suspending the issuance of oil and gas permits on federal lands. This will mean increased transportation, heating and cooling costs, not to mention increased prices at the pump reducing consumers' spendable cash.

Then there are proposals to change the nature of the employer/employee relationship which could overturn whole models of doing business. The House has already passed the Protecting the Right to Organize Act, which, among other things, would expand the "joint employer" doctrine making it easier to unionize hundreds of thousands of small, franchised and gig economy businesses by deeming franchisors "joint employers" of their franchisees' employees and converting independent contractors into employees. The Department of Labor has already moved to expand the "joint employer" definition.

The restaurant chain I ran consisted mostly of franchised stores. I don't believe our model could survive if the corporate entity were made jointly responsible for the franchisees employees. Why would we, or our franchisees, have invested in business and job growth if it seemed likely that the government was going to outlaw our business model?

Small businesses are also factoring in a deluge of unfriendly business regulations when contemplating growth. To implement Green New Deal – even Green New Deal Lite - policies alone, small businesses are anticipating a regulatory onslaught.

Finally, there are tax increases. Treasury Secretary Janet Yellen recently acknowledged that tax rates could increase on corporations, individuals, capital gains, and dividends. The tax hikes are coming and small business owners know their customers will have less to spend and that a good chunk of any profits they manage to earn will go to the taxman.

So what are many small businesses and entrepreneurs thinking right now? The economy is likely to see a surge based on pent up consumer demand and government spending. There will be an opportunity for profit in the short term, but higher costs, more regulations, and tremendous uncertainty are just over the horizon. If I were still in business, I would be concentrating on making money while the government spending lasts, and save it rather than invest in expansion under conditions where it's likely the return on investment will not be there.

Business owners know that eventually they are going to have to operate in a normalized environment without massive government spending.

In fact, given the tremendous uncertainty the government is creating with all these proposals that are so costly for business, I'm not even sure how a small business owner or investor could calculate the likely return on investment. What will labor and energy costs be two years from now? How much money will consumers have to spend? What is going to happen with inflation? With all those unanswered and unanswerable questions, it's better to invest passively rather than in business growth.

Conclusion

The dignity of work is dependent on the availability and quality of the private sector jobs investors, entrepreneurs, and business managers create. Without those opportunities, the American Dream becomes an impossible dream for young workers such as I once was and as many working class and minority youths are today.

Due to the pandemic, they have just experienced a lost year, one they will never get back. We need policies that work and help recreate the historic pre-pandemic labor market conditions that so successfully and broadly expanded opportunities. It is our responsibility to pursue policies that encourage job growth and empower these young Americans to realize their potential and earn their success.

We know what works.

Thank you.