

McDonald's \$8.25 Man and \$8.75 Million CEO Shows Pay Gap

By Leslie Patton - Dec 12, 2012

Tyree Johnson scrubs himself with a bar of soap in a [McDonald's](#) bathroom and puts on fresh deodorant. He stashes his toiletries in a Kenneth Cole bag, a gift from his mother who works the counter at Macy's, and hops on an El train. His destination: another McDonald's.

Johnson isn't one of Chicago's many homeless people who seek shelter in fast-food joints. He's a McDonald's [employee](#), at both stores -- one in the Loop, the other about a mile away in the shadow of Holy Name Cathedral.

He needs the makeshift baths because hygiene and appearance are part of his annual compensation reviews. Even with frequent scrubbing, he said before a recent shift, it's hard to remove the essence of the greasy food he works around.

"I hate when my boss tells me she won't give me a raise because she can smell me," he said.

Johnson, 44, needs the two paychecks to pay rent for his apartment at a single-room occupancy hotel on the city's north side. While he's worked at [McDonald's](#) stores for two decades, he still doesn't get 40 hours a week and makes \$8.25 an hour, minimum wage in Illinois.

This is life in one of America's premier growth industries. Fast-food restaurants have added positions more than twice as fast as the U.S. average during the recovery that began in June 2009. The jobs created by companies including Burger King Worldwide Inc. and Yum! Brands Inc., which owns the Pizza Hut, Taco Bell and KFC brands, are among the lowest-paid in the U.S. -- except in the C suite.

Pay Disparity

The [pay gap](#) separating fast-food workers from their chief executive officers is growing at each of those companies. The disparity has doubled at McDonald's Corp. in the last 10 years, according to data compiled by Bloomberg. At the same time, the company helped pay for lobbying against minimum-wage increases and sought to quash the kind of unionization efforts that erupted recently on the streets of Chicago and New York.

Older workers like Johnson are staffing fast-food grills and fryers more often, according to data from the U.S. Census Bureau's Current Population Survey. In 2010, 16- to 19-year-olds made up 17 percent of food preparation and serving workers, down from almost a quarter in 2000, as older, underemployed Americans took those jobs.

"The sheer number of adults in the industry has just exploded" because fast-food restaurants "not only survived, but thrived during the economic recession," said Saru Jayaraman, director of the Food Labor Research Center at the University of California at Berkeley.

Million Hours

Johnson would need about a million hours of work -- or more than a century on the clock -- to earn the \$8.75 million that McDonald's, based in the Chicago suburb of Oak Brook, paid then- CEO Jim Skinner last year. Johnson's work flipping burgers and hoisting boxes of french fries, like millions of other jobs in low-wage industries, helps explain why income [inequality](#) grew after the 2007-2009 recession ended.

The recovery from the last downturn has been the most uneven in recent history. The 1.2 million households whose incomes put them in the top 1 percent of the U.S. saw their earnings increase 5.5 percent last year, according to census estimates. Earnings fell 1.7 percent for the 97 million households in the bottom 80 percent -- those who made less than \$101,583.

The widening chasm is most pronounced in the restaurant and retail businesses. The total number of people employed in the U.S. at Wal-Mart Stores Inc. and McDonald's and [Yum](#) Brands restaurants exceeds the entire 2.7 million population of Chicago. Net income at those three companies has jumped by at least 22 percent from four years ago.

Shareholders Benefit

Shareholders, not employees, have reaped the rewards. McDonald's, for example, spent \$6 billion on share repurchases and dividends last year, the equivalent of \$14,286 per restaurant worker employed by the company. At the same time, restaurant companies have formed an industrywide effort to freeze the minimum wage, whose purchasing power is 20 percent less than in 1968, according to the [Economic Policy Institute](#), a think tank that advocates for low- and middle-income workers.

Johnson begins most days the same way: picking cigarette butts out of the shower drain of a shared bathroom, using a tissue so he doesn't touch them. While there's a "No Smoking" sign posted inside the hotel where he lives, that doesn't stop the other occupants who share the showers, sinks and toilets.

His rent at the hotel in Chicago's Uptown neighborhood is \$320 a month. Johnson usually can't cover it all at once, so he's allowed to pay \$160 every two weeks, or even \$80 a week, for his first-floor room. He's late on November rent and owes about \$100 -- some of it a late-payment fee, he said. Since falling behind,

he's put off buying a Dell laptop for \$99 that he found online.

'Forget Computer'

"Forget about that computer," Johnson said. For now, he'll keep going to a local Apple store when he wants to update his Facebook page in his efforts to find someone nice to date and to stay in touch with his father.

A pay stub of Johnson's shows that he earned \$8,518.80 through Sept. 9 this year at the store that gives him most of his hours. He was able to work only 52 hours during the two-week pay period ending that date because the restaurant was being remodeled, he said. A statement of earnings from his other McDonald's job shows that he worked fewer than 12 hours over two weeks, earning \$95.45 before taxes.

Even with the U.S unemployment rate dropping last month to [7.7 percent](#), minimum-wage earners have less power to demand higher pay because so many adults are willing to take low-wage positions, said [Nelson Lichtenstein](#), director of the Center for the Study of Work, Labor and Democracy at the University of California at Santa Barbara.

Joining Up

On a chilly November morning, Johnson interrupted his routine. He left his north side apartment and made his way to St. James Cathedral, just off Michigan Avenue, the so-called Magnificent Mile and heart of Chicago's high-end shopping district. There he gathered with other low-wage employees from Macy's Inc., Eddie Bauer, Chipotle Mexican Grill Inc. and Victoria's Secret.

He'd heard about an effort to form the [Workers Organizing Committee of Chicago](#), a group pushing for a \$15-an-hour wage. Johnson joined despite McDonald's previous efforts to prevent unions, which have left workers with lingering fears. The Big Mac seller has employed a group of experienced managers and executives to parachute into locations where union activity is suspected. In 1998, after workers at a McDonald's in Ohio went on strike to protest unfair wages and working conditions, the leaders lost their jobs, said Sonny Nardi, president of Local 416 Teamsters union in Cleveland.

Strikers Fired

"They took a stance," Nardi said. And "the boys did get fired that started it."

Johnson doesn't talk about the union at work because certain co-workers would tell his manager, he said, and he's afraid he would be reprimanded or even fired. Off the job, though, he's comfortable discussing it. "I'm trying to fight for what I believe in," he said.

Asked about McDonald's history with organizing, [Becca Hary](#), a company spokeswoman, said in an e-mail

that “We don’t have a corporate policy” on whether store workers are allowed to form unions.

Employers are doing more to keep workers from organizing, said Dorothy Sue Cobble, labor professor and historian at Rutgers University in New Jersey. “The numbers of people who get fired for joining a union or trying to organize one has increased dramatically over the last 30 years,” she said.

For Johnson, joining a union created strains with family members. He said they’re afraid they’ll have to give him money if he’s let go.

Family Fears

“They’re not supportive,” he said, adding that his mother and grandmother told him, “I’m happy you spoke up for yourself, but at the same time, don’t lose your job.”

His mother and 27-year-old sister work at Macy’s for a little more than minimum wage and had no interest in joining the union, Johnson said. “They didn’t want to have no part of it,” he said. “They’re struggling, too.”

At the restaurant where he gets most of his hours, he cooks hamburger patties and works the fryer. In the summers, he said, it’s “super hot” and he usually sweats at the steaming grill, part of the reason for his between-shift washings.

McDonald’s reiterated its emphasis on hygiene. “From the very beginning, our founder [Ray Kroc](#) instilled his vision of quality, service, cleanliness and value,” Hary said in an e- mail.

Cabrini-Green

Johnson gets through the monotonous days by joking with co- workers about sports -- he’s a Los Angeles Lakers fan amid Chicago Bulls supporters. Their manager tells them to keep the chatting to a minimum. “They don’t want you to talk about none of that,” he said.

That store, near the cathedral, is less than a mile from where his mother raised him, in the Cabrini-Green public housing project, most of which has since been demolished. McDonald’s new CEO, [Don Thompson](#), who took the post in July, spent part of his childhood a few blocks from the project.

That’s where the trajectories of their lives parted. Johnson graduated from Lincoln Park High School in 1987. He then spent six months at the Computer Learning Center in Chicago to earn a certificate in computer operations. He paid off his student-loan debt just a couple years ago. He couldn’t find a job in that field, so he settled for one at a KFC in Evanston, a suburb on Chicago’s northern border.

Johnson started at McDonald’s in 1992, two years after Thompson, who earned a bachelor’s degree in electrical engineering from Purdue University in 1984. Thompson worked at what was then Northrop

Corp. before joining McDonald's.

Humble Roots

"Don came from extremely humble beginnings and with hard work and with the values of his grandmother" he made his way up the ranks at McDonald's, said Heidi Barker, a company spokeswoman, noting that three [McDonald's CEOs](#) started as store employees. Thompson declined to be interviewed for this story.

While Johnson has benefited from small pay raises and some minimum-wage increases -- the rate was boosted from \$8 in 2010 in Illinois -- he said he's often knocked down to the lowest level when a McDonald's franchise changes ownership. He's been bounced to different stores in Chicago (he's worked at six in all), which also results in pay getting cut to minimum wage, he said.

"Every time they transfer you to a different store, they lower your pay," he said. "You have to climb back up."

McDonald's has no involvement in its franchisees' salary policies, Hary, the company spokeswoman, said in an e-mail. "Our franchisees are independent business owners and make all their own hiring and wage decisions."

Applebee's Lawsuit

Other chains have faced similar accusations. Applebee's restaurants in Illinois paid some workers \$4.95 an hour -- the state minimum wage for servers and others who get tips -- when they were washing dishes or doing other cleaning duties that should be paid the higher, regular minimum wage, U.S. District Court Magistrate Judge Geraldine Soat Brown ruled in August.

Four workers, representing thousands of employees, had sued AppleIllinois LLC, which operates 34 restaurants in Illinois, in the class action. In court filings, the company denied that it broke the law. George Werden, general counsel at AppleIllinois, declined to comment on the case.

Fast-food workers trailed other low-wage occupations, with median earnings in 2009 to 2011 at \$18,564, compared with \$19,099 for child care and \$20,101 for cashiers, according to federal data. The U.S. average for the same years was \$42,110. Fast-food employment jumped 7.3 percent in that period compared with the previous three years; the overall U.S. average dropped 1.3 percent. From February 2010 to February 2012, the number of restaurant jobs grew more than twice as fast as the average.

CEO Ratio

The wage gap between CEOs and store workers wasn't always so wide. Twenty years ago, when Johnson

first started at McDonald's, the CEO's compensation was about 230 times that of a full-time worker paid the federal minimum wage. The \$8.75 million that Thompson's predecessor as CEO, Skinner, made last year was 580 times, according to data compiled by Bloomberg.

McDonald's is part of a larger trend of Standard & Poor's 500 companies, according to data from the [American Federation of Labor](#)-Congress of Industrial Organizations. The pay gap between the average S&P 500 CEO and the average U.S. worker, which was 42 times in 1980, widened to 380 times in 2011 from 325 times in 2010, the umbrella group of 56 unions said.

In Chicago's Loop, the Chase Tower looms over the McDonald's where Johnson works about six hours a week. At this store, he unloads trucks and organizes food by expiration date in the basement refrigerators and freezers. He doesn't cook or take orders at the cash register.

Replacing Teenagers

He's been told he's slower than he used to be. "They feel like I can't do my job like I could in my 20s," he said, "and they throw it in my face all the time."

Johnson has applied for jobs at retail stores but has never heard back from them. Like him, more and more fast-food workers are adults struggling to make ends meet, not teenagers earning a bit of spending money.

Amie Crawford, a 56-year-old former interior designer, began working for minimum wage at Protein Bar in February. She took a job at the quick-service restaurant after she relocated to Chicago and couldn't find a job in her field. With an associate's degree from the Art Institute of Pittsburgh, she used to describe herself as comfortably middle class.

In the last two years, she has sold her car and home and is now dipping into her \$55,000 of savings and retirement money to pay rent.

McDonald's Rudder

Protein Bar employees who start at minimum wage are eligible for a 50-cent raise after 60 days of employment and completing certain types of training, said Matt Matros, who founded the restaurant in 2009. While Crawford got the pay increase in September, she still doesn't earn enough to pay rent at her one-bedroom apartment in the South Loop.

"If McDonald's were paying \$15 an hour, that's what we would need to do," Matros said. "It's really the larger companies that act as sort of the rudder of the ship."

The last [federal](#) increase to the minimum wage was in 2009, to \$7.25. When adjusted for inflation, the

wage was worth \$9.07 an hour in 1968, according to the Economic Policy Institute.

Fast-food chain franchisees, who own 89 percent of McDonald's 14,100 domestic stores, spend money lobbying against minimum-wage increases at the state level. In 2006, restaurant chains and their franchisees, including McDonald's, spent at least \$960,000 to fight minimum-wage increases in Nevada, Colorado, Ohio, Arizona, Montana and Missouri, according to Followthemoney.org, a website operated by the National Institute on Money in State Politics. Other chains spending money to stem pay increases include Wendy's Co., Bloomin' Brands Inc.'s Outback Steakhouse, Jack in the Box Inc. and Domino's Pizza Inc.

'Personal Privacy'

It's difficult to track the full amount of money because franchised-store owners operate under different business names. Similarly, campaigns opposing minimum-wage increases aren't always clearly named. "Ohioans to Protect Personal Privacy" got \$107,000 from the Northeastern Ohio McDonald's Advertising Association in an unsuccessful fight against an Ohio wage-increase proposal in 2006.

In July, Senator [Thomas Harkin](#), an Iowa Democrat, introduced a bill to raise the federal minimum wage from \$7.25 to \$8.10 an hour and for subsequent increases to \$8.95 and \$9.80 an hour. An increase for Johnson would help him cut down on his twice-monthly trips to church food pantries for canned soup and chili, cereal, peanut butter and powdered milk. He often eats at his grandmother's or aunt's house, which has spared him from needing food stamps like many of his peers.

Food Stamps

A growing proportion of fast-food employees get federal assistance to buy food, according to census data compiled by the University of Minnesota Population Center. The proportion of fast-food workers who receive food stamps rose to 26.9 percent in 2010, compared with 15 percent of all Americans, the data show.

There are benefits from working at a place like McDonald's. Johnson gets free food at one of the stores, though he has grown a bit tired of filling up on Double Quarter Pounders and Angus Mushroom & Swiss burgers. While he used to be able to eat his meals in the restaurant lobby, recently he's been forced to dine in the small break room in the back.

"My boss said, 'If I catch you on camera eating in the lobby, you're going to lose your job,'" Johnson said. "I don't understand that one, but I have to live with it. Those are her rules."

CEO Perks

Thompson's perks are on a different order. Like other McDonald's executives, he has access to annual

physical exams, a company-provided car for personal use, financial counseling and security, according to the company's latest annual proxy statement. The CEO also gets to use company aircraft for personal trips, it said.

About 20 miles east of McDonald's headquarters, Johnson recently made his way to work in downtown Chicago. He wore two pairs of pants and a sweater over his white-collared McDonald's uniform shirt because it was below freezing. He used his seven-day pass to catch the train toward the Loop, worried because the \$23 pass will cost him \$28 next year with proposed transit price increases.

As the elevated train rattled over the Chicago River, Johnson's head was down as he stared at his phone. He busily texted someone -- a woman he'd met earlier this year while waiting for a bus.

He didn't look up as the train passed in sight of Trump International Hotel and Tower. It's the riverfront building where Thompson spent about \$3.3 million in September to buy two condos near the top.

To contact the reporter on this story: Leslie Patton in Chicago at lpatton5@bloomberg.net

To contact the editor responsible for this story: Gary Putka at gputka@bloomberg.net