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Elliott Long

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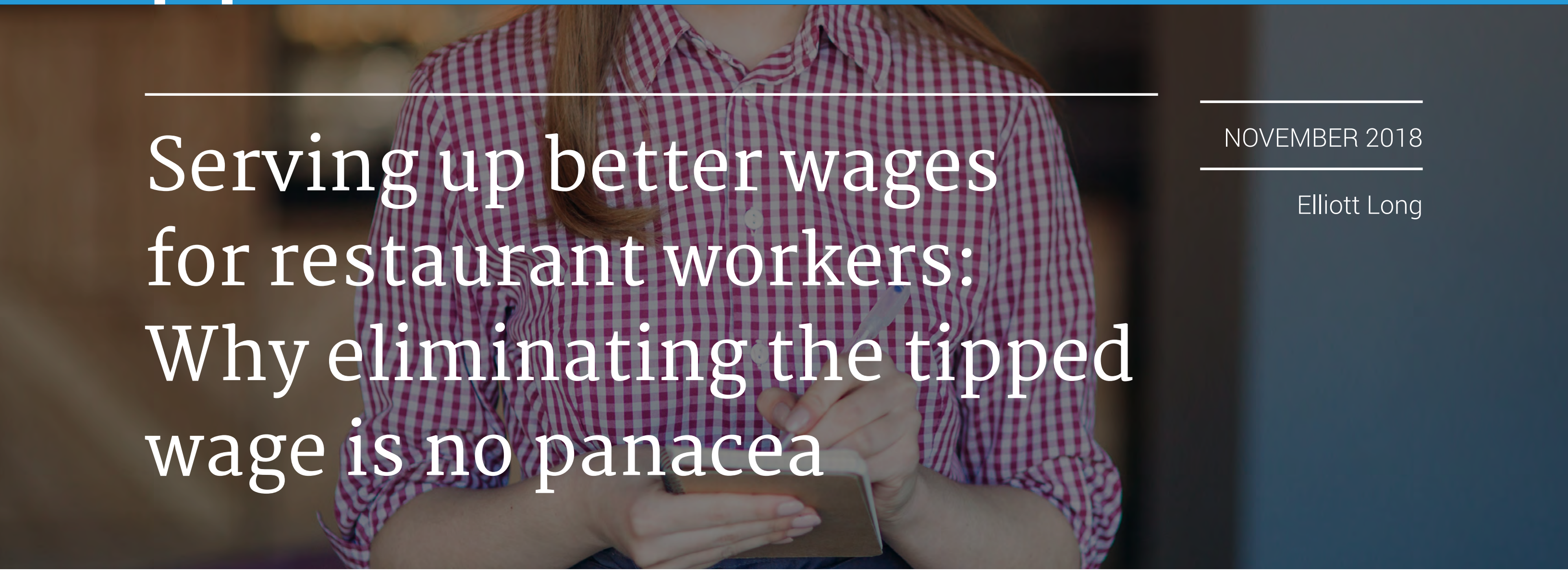

Serving up better wages for restaurant workers: Why eliminating the tipped wage is no panacea

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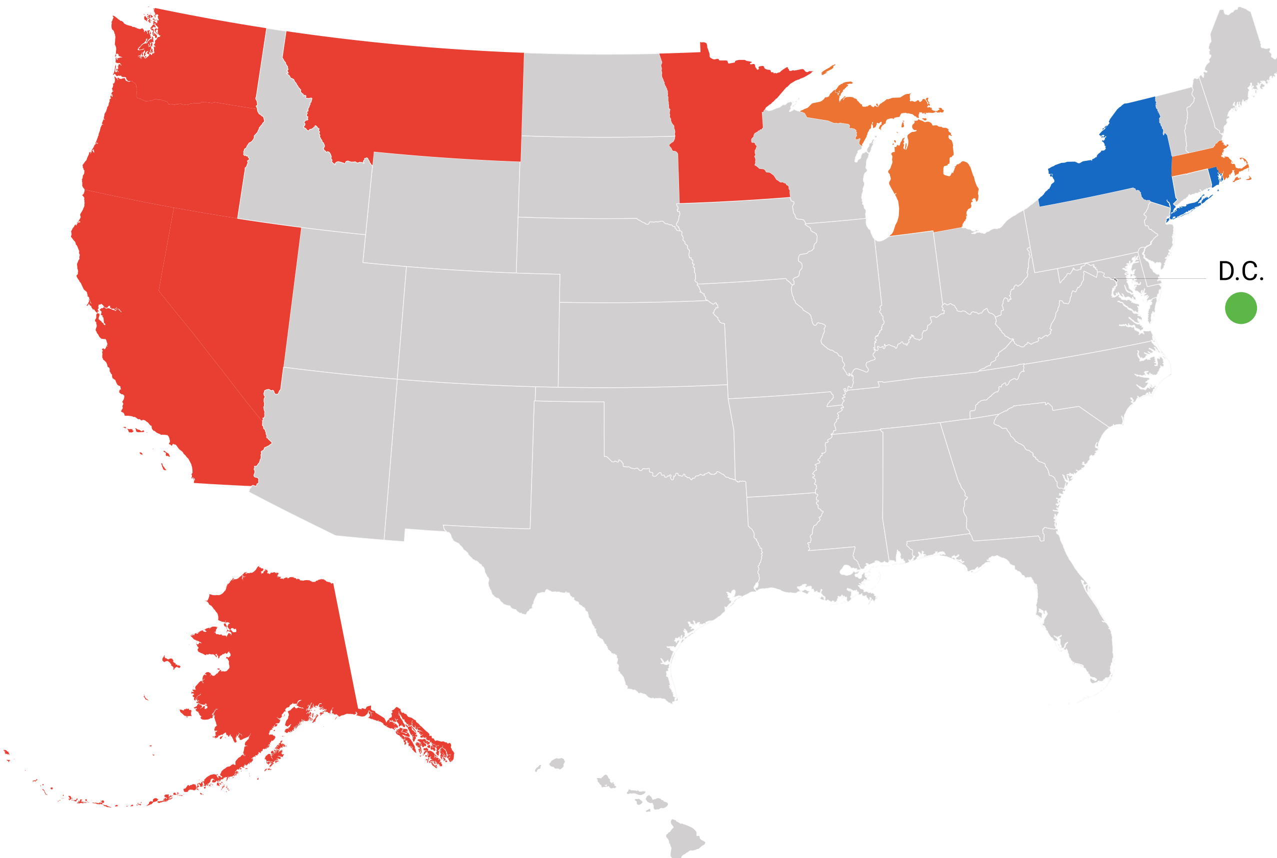
Restaurant workers are reputed to be among the lowest paid workers in the country. One reason restaurant workers, and servers in particular, are perceived to be so poorly paid is the fact that tips often make up a good chunk of their pay, while the hourly wage they receive from their employers is lower than the prevailing minimum wage.

Under federal law, for instance, the minimum "cash wage" for tipped workers is just $2.13 an hour, compared to the overall federal minimum wage of $7.25.[1]

Federal law also requires that employers also supplement the pay of workers who don't make enough in tips to reach the minimum wage, which means, in theory, no restaurant worker is more poorly paid than any other worker making the minimum wage. Nevertheless, advocates have campaigned to increase or even eliminate the "tipped minimum wage" as part of the general push to raise the minimum wage across the country. Backed by Restaurant Opportunities Centers United (ROC United) via its ONE FAIR WAGE campaign, tipped wage increases have been passed or proposed in the District of Columbia, Massachusetts, Michigan, New York, and Rhode Island. Seven states also currently require employers to pay tipped employees the regular minimum wage before tips.

2018 Tipped Wage Laws and Proposals

- Pays full state minimum wage before tips
- Passed legislation to eliminate or increase tipped minimum wage
- Proposed increasing tipped minimum wage
- Passed initiative 77



There isn't evidence, however, that raising the tipped wage will broadly benefit workers in the restaurant industry. In fact, these efforts could even prove damaging for some of the workers these advocates want to help – namely, younger workers seeking entry-level employment.

One reason increasing or eliminating the tipped wage may not be as beneficial as advocates hope is that many restaurant industry workers already make more than the minimum wage. According to Bureau of Labor Statistics (BLS) data, only 13.6 percent of all food and beverage service workers (which includes servers at full-service restaurants) were paid at or below federal minimum wage, not including tips.[2]

The median hourly wage (including tips) for bartenders and wait staff in 2017 was $10.43 and $10.01, respectively, with the mean hourly wage even higher for both.[3] That is higher than the current minimum wage in 38 states.

Some studies also show that raising the tipped wage does not raise wages for restaurant workers because diners often end up tipping less. Census Bureau economist Maggie Jones, for instance, finds that raising the tipped minimum wage "increase[s] that portion of wages paid by employers, but decrease[s] tip income by a similar percentage."[4] Another study, by researchers William Even and David MacPherson using data from the Quarterly

Census of Employment and Wages (QCEW), concluded that wage effects on weekly earnings from raising the tipped minimum wage "appear small." [5] Likewise, another analysis found that "servers in … states with higher tipped minimum wages appear to have no income advantage over servers elsewhere. States with policies designed to boost the income of servers, often the lowest paid occupations, will find that those policies are generally ineffective."[6]

Concern about declining tips and lower wages is why many tipped workers have opposed an increase in the tipped minimum wage. In Maine, workers even led a reversal of a wage increase after servers started perceiving it wasn't a benefit.

In 2016, Maine voters passed a ballot initiative to increase its tipped minimum wage from $3.75 per hour to $5 in 2017, and by $1 each year until reaching the regular minimum in 2024.[7] But the result was that, instead of wages rising, many workers saw their incomes decline. As server Joshua Chaisson told PPI, "We were seeing tip income go down. We would have customers come in and say, 'Since you make the regular minimum wage now, should I still tip 20 percent?' The general public was confused about the phase-out of the tipped wage, and did not realize we did not make the regular minimum wage yet." Sue Vallenza, a bartender in Kinnebunk, Maine, told the *Washington Post* she saw her hourly tips drop by more than $2 per hour.[8] And, at one restaurant where Chaisson works, bus boys and the daytime dishwasher were laid off because of the higher labor costs the restaurant faced. As a result, servers in Maine founded Restaurant Workers of Maine and actively campaigned to reinstate the tipped wage credit.[9] In June 2017, the Maine Legislature and Governor Paul LePage restored the credit for businesses that employ tipped workers.[10]

> In Maine, workers even led a reversal of a wage increase after servers started perceiving it wasn't a benefit.

A similar controversy is unfolding in D.C., where voters approved Initiative 77 to phase out the current tipped minimum wage of $3.33 per hour in eight increments until tipped workers are paid the full $15 minimum wage plus tips in 2025.[11] The initiative was opposed by D.C. Mayor Muriel Bowser, a majority of the D.C. City Council, as well as restaurateurs and many servers. Under Initiative 77, the tipped wage in D.C. would not reach the regular minimum wage of $15 an hour until 2025. Anecdotally, servers have already reported declines in diners' tips.[12] "I've seen notes on credit card slips [saying], 'Hey, congratulations on 77,' and then no tip on the line. The proponents of this law said that it's supposed to be $15 [an hour] with tips on top," D.C. bartender Ryan Aston was quoted as saying. Another server, Laura Habberstad, recently told the *Washington City Paper* she saw just a $50 tip on a $1,321 bill after the customer told her "congratulations on your raise."[13] Initiative 77 has since been repealed, due in large part to opposition from tipped workers.[14]

> Under Initiative 77, the tipped wage in D.C. would not reach the regular minimum wage of $15 an hour until 2025.

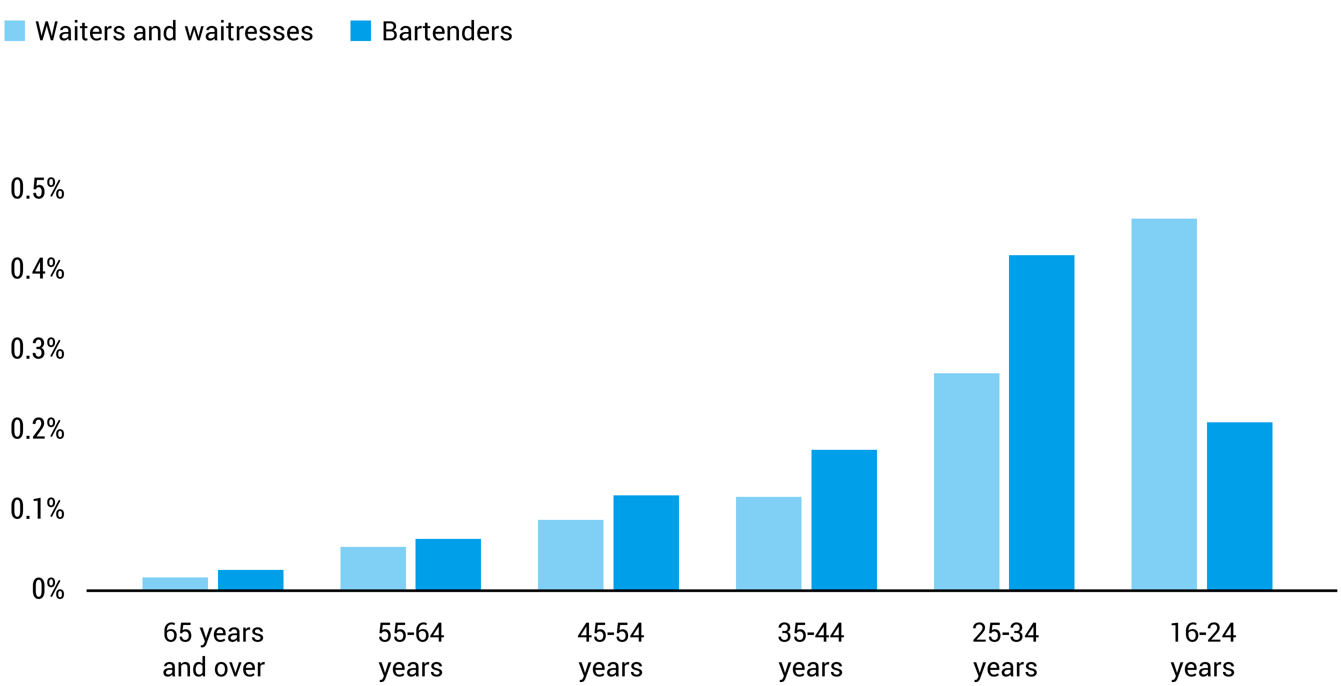
Perhaps the most pernicious potential impact of eliminating the tipped wage might be on entry-level workers, particularly young people, who are looking to break into the job market but risk being "priced out" of job opportunities.

A new study on the impacts of a recent increase in Seattle's minimum wage from $9.47 to $13 is illustrative.[15] In this analysis, researchers found that, while the higher minimum wage did increase earnings for workers by an average of $8 to $12 per week, virtually all those gains accrued to experienced workers while less experienced workers "saw no significant change to weekly pay." Most troubling, however, was that the higher minimum wage caused "a significant reduction in the rate of new entries into the workforce," meaning new workers – likely younger workers – were being frozen out. "Evidence suggests that employers responded to higher minimum wages by shifting their workforce toward more experienced workers," the researchers found. If employers are going to spend more per worker, they are less likely to take the risk of hiring an inexperienced worker, which could be a costly mistake. Moreover, when wages are relatively high, younger workers will face more competition from older and more experienced workers, which puts them at a double disadvantage.

Because raising or eliminating the tipped minimum wage is functionally the same as raising the minimum wage more broadly, it's conceivable that higher tipped minimum wages could have similar stultifying impacts on new workers trying to break into the restaurant industry. This would be bad news on a couple fronts.

First, it could limit a crucial entry point into the labor force for young or new workers. Restaurants often provide young people with their all-important "first job," and, indeed, young people comprise a significant share of the restaurant industry's front-line labor force. Individuals aged 16 to 24 comprise a plurality of wait staff and a fifth of bartending staff.

FIGURE 1: 2018 Bartenders and Wait Staff by Age Range



Source: Current Population Survey

As shown in Figure 1, individuals aged 16 to 24 years made up 921,000 of 2,016,000 waiters and waitresses nationally, or 46 percent, according to data from the Current Population Survey (CPS).[16] For bartenders, the same age range constituted 86,000 of 417,000 workers, or 21 percent. In fact, the waiter and waitress occupation is the second largest occupation for individuals aged 16 to 19 years old, trailing only cashiers, and the third largest occupation for individuals aged 20 to 24.

As in many parts of the world, the United States is facing a crisis in youth employment. The unemployment rate among young people ages 16-24 is nearly twice that of the overall unemployment rate, with even higher rates of unemployment among young African-Americans – particularly men. Maximizing opportunities for young people means maintaining a fluid labor market with low barriers to entry, including the plentiful availability of entry-level, "stepping stone" jobs. It's also not only young people seeking to enter the labor market who might have difficulty landing positions – long-term unemployed workers, formerly disabled workers returning to the workforce, and ex-offenders are also potentially at a disadvantage.

> The waiter and waitress occupation is the second largest occupation for individuals aged 16 to 19 years old

This does not mean, however, that first jobs should be the last job or the only jobs. A better approach to improving workers' well-being is to create better ladders of opportunity out of entry-level work and into better paid careers. This means better access to opportunities for workers to acquire skills that will enhance their value in the labor market, and it also means encouraging the private sector to invest more in their workers – especially those on the lowest rungs of the ladder. A few large companies have begun efforts in this regard. McDonald's, for instance, announced in July 2018 its Youth Opportunity initiative, which aims to help as many as two million young people by 2025 through pre-employment training, job opportunities, and skill development and apprenticeship programs.[17] One challenge will be to ensure that workers at independent restaurants and smaller chains have access to similar kinds of opportunities.

Raising the tipped minimum wage is a well-intended policy aimed at raising the living standards of some of the nation's lowest-paid workers. But it may also have the unintended consequence of harming some of the very workers it's meant to protect. The best policies, rather, are those that preserve the flexibility of the job market to welcome new entrants while also creating avenues upward into the middle class.

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