



Evidence That Tipped Workers Benefit from a Uniform Minimum Wage

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Do minimum wage hikes help or hurt workers? This has been an ongoing and contentious debate among scholars and policymakers. Yet participants in these debates sometimes forget that there is not just one form of minimum wage. There are two types — one for tipped and the other for non-tipped workers — and the difference has major impacts on the lives of service industry employees. Most workers are covered by the standard minimum wage, set at \$7.25 by the federal government since 2009, although many states have set higher levels. Tipped workers like restaurant servers, however, are covered by a much lower subminimum wage, set at \$2.13 an hour at the federal level for the past two decades.

Would tipped workers lose their jobs, their tips, or both, if their minimum wages were brought up to par with the wages of non-tipped workers? I compared nearby areas on the New York-Pennsylvania border to track the impact of this policy change, and my analysis of the data suggest that no, workers would not be harmed. When states raise the tipped minimum wage, I find, the take-home pay of servers goes up, including tips. And servers covered by the increased level do not see a decline in employment compared to restaurant servers in areas that did not raise the tipped minimum wage.

The History of the Minimum Wage in the United States

The two-tiered minimum wage is an outdated system that traces back to 19th century Europe. Wealthy U.S. tourists visiting Europe sought to import the customs of the European aristocracy and used this two-tiered wage system as one means for creating an attentive servant class. The very word “tip” traces back to an acronym for “To Insure Promptitude.” Consequently, at the end of the Civil War, a segment of employees were intentionally made reliant on tips rather than base wages so restaurant owners could hire newly freed slaves without having to pay them. In that way, employers effectively shifted the responsibility of providing most pay to those workers onto their customers.

European countries did away with this custom long ago, affirming the notion that servers are professionals like anyone else and should be treated as such. As the rest of the world discards this system, it remains stubbornly entrenched in the United States. The current system affects nearly six million workers, of whom 65% are women. Some servers make decent livings on tips alone. But overall tipped workers who earn the subminimum wage are more than twice as likely to live below the poverty line as workers who get regular wages that do not presume tips.

States or various political stripes have begun eliminating this two-tier system to bring tipped workers’ wages up to par. Currently, seven states — Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington — have abolished the two tier system entirely. Washington, D.C. recently voted by ballot initiative to do the same, but the City Council overturned the initiative under pressure from the restaurant industry. New York State is also considering instituting a single minimum wage.

Are There Clear Downsides to a Unified Minimum Wage?

Despite a general trend towards a unified minimum wage, there has been pushback. Most notably, the restaurant industry has warned that, should servers make the same minimum wage as other workers, customers would stop tipping, and restaurants that operate at low margins would have to either lay off most servers or raise prices.

There is no evidence for these scenarios. Intuitively, it makes little sense that customers would stop tipping — nobody quizzes their servers about their salary before deciding to tip them — and tipping is a well-established custom in the United States. Studies have shown that abolishing the two tier system would likely cause restaurants to raise their prices by a small fraction, but not nearly enough to drive away customers. What is more, the fact that people in California or Montana have not stopped tipping or going to restaurants after their states adopted a single minimum wage suggests these dire predictions are overblown.

Research Findings from New York and Pennsylvania

To test the effects of a single minimum wage, I compared developments in New York, which raised its tipped minimum wage, to those in neighboring Pennsylvania, which did not. Using data from the Bureau of Labor Statistics on wages and employment for workers in full-service restaurants (not fast food places), I compared servers working just across the New York-Pennsylvania in the year before and after New York instituted its tipped minimum wage hike. The towns along the border share the same labor markets and other social characteristics. Because of this, I was able to isolate the effects of the wage hike from all other factors that could possibly impact take-home pay, employment, and establishment openings or closings.

My analysis of information gathered in this comparison shows that, in the two years since the wage hike, New York border counties saw servers' take-home pay go up an average of 12.8%, employment go up 1.2%, and number of establishments go up 1.9%, while Pennsylvania border counties saw take-home pay go up 5.8%, employment go up 0.3%, and establishments go up 2.0%. In short, the research shows servers did not suffer; they neither lost take home pay nor jobs following a raise in the tipped minimum wage. In fact, they earned significantly more, as well as more than their Pennsylvania neighbors, while their employment went up overall and went up relative to their neighbors. In the same period, more restaurants opened than closed, at effectively the same rate as in neighboring Pennsylvania counties.

These are overall findings, and individual workers and establishments did not all have exactly the same experiences. Supporters and opponents of policy changes can cherry pick anecdotal stories to support their cause. But in the aggregate, there is no evidence that tipped minimum wage hikes hurt servers. My research findings should give heart and factual support to policymakers, advocates, and other civic leaders who want to do away with the two-tier wage system and ensure better livelihoods to workers now subject to the vagaries of tipping.

Read more in Michael Paarlberg and Teófilo Reyes, “New York Saw Boost in Restaurant Worker Employment after Tipped Minimum Wage Increase,” policy brief by the Institute for Policy Studies and ROC United (2018).