Waiting for Change:
The two tiered wage system

75 Years of the Fair Labor Standards Act
U.S. Department of Labor
Cesar E. Chavez Memorial Auditorium
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The two tiered system

Federal MW $7.25
Tip credit $5.12
Tipped wage $2.13

Allegretto 2013
Adjusted for price increases

Customer portion of the wage bill is 71%

Employer part of the wage bill is 29%

Allegretto 2013
Three TC & Two MW scenarios
Tip Credit = MW - TW

Federal: $7.25
Massachusetts: $8.00
Maryland: $7.25
Connecticut: $8.25
Washington State: $9.19

Allegretto 2013
Employment growth

Source: BLS QCEW data.

Allegretto 2013
Booming industry

Source: QCEW 1990q1 to 2011q4. Allegretto 2013
Age

Source: Allegretto & Filion, EPI 2011. BLS CPS data.
Gender matters

Source: Allegretto & Filion, EPI 2011. BLS CPS data.
Wages

Source: Allegretto & Filion, EPI 2011. BLS CPS data.
Poverty rates

- All workers:
  - Full Tip Credit: 6.7%
  - Partial Tip Credit: 6.0%
  - No Tip Credit: 6.7%

- Tipped workers:
  - Full Tip Credit: 16.1%
  - Partial Tip Credit: 14.6%
  - No Tip Credit: 12.1%

- Waiters:
  - Full Tip Credit: 19.4%
  - Partial Tip Credit: 16.2%
  - No Tip Credit: 13.5%

Source: Allegretto & Filion, EPI 2011. BLS March CPS data.
Workers & food insecurity

Source: BLS CPS data

- Private Sector: 8.4%
- Restaurant Industry: 15.7%
- Tipped workers: 14.5%

Allegretto 2013
Access to Benefits

- Health care: 71%
- Paid sick days: 62%
- Retirement: 65%

Source: BLS NCS data.

Allegretto 2013
Related Literature

- Papers on TW and/or Tip Credit Provisions:
  - Even & Macpherson. *IZA DP No. 7092, 2012*
    - Pledged by unobserved heterogeneity as in MW literature.
  - Anderson & Bodvarsson. *Applied Economic Letters, 2005*
    - Higher TW doesn’t boost pay; one year of data.
  - Wessels. *Economic Inquiry, 1997*
    - Labor market for tipped wait staff is monopsonistic.
  - Wessels. *Journal of Labor Research, 1993*
    - Uses one year of retail data to show restaurant employment & hours would decrease significantly if the TC were reduced.

- Look to recent MW studies
  - Allegretto, Dube, Reich. *Industrial Relations, 2011*
  - Dube, Lester, Reich. *ReStat, 2010*
Data

- QCEW: 1990-2010
  - Each observation is merged with State data
    - Unemployment rates: capture labor market conditions
    - Relevant shares: capture labor supply
    - MW, TW and TC: treatment & variables of interest
Building on the Fixed Effects Model

Spec. 1

\[ lny_{it} = \alpha + \beta_1 \ln(MW_{st}) + \beta_2 \ln(TW_{st}) + \gamma \ln(Pri_{st}) \]
\[ + \theta \ln(Pop_{st}) + \phi_s + \tau_t + \varepsilon_{st} \]

Spec. 2

\[ lny_{it} = \alpha + \ldots + \phi_s + \tau_{dt} \]

Spec. 3

\[ lny_{it} = \alpha + \ldots + \phi_s + \psi_s \cdot t + \tau_t \]

Spec. 4

\[ lny_{it} = \alpha + \ldots + \phi_s + \psi_s \cdot t + \tau_{dt} \]
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## MW & TW effects: FSR

<table>
<thead>
<tr>
<th>Specification</th>
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<th>(3)</th>
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<td><strong>Earnings</strong></td>
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<tr>
<td>$\ln TW$</td>
<td>$\eta$ 0.044**</td>
<td>0.037*</td>
<td>0.055***</td>
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<td>$se$ (0.018)</td>
<td>(0.021)</td>
<td>(0.014)</td>
<td>(0.017)</td>
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<tr>
<td>$\ln MW$</td>
<td>$\eta$ 0.152***</td>
<td>0.136***</td>
<td>0.136***</td>
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<td>$se$ (0.029)</td>
<td>(0.042)</td>
<td>(0.030)</td>
<td>(0.026)</td>
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<tr>
<td><strong>Employment</strong></td>
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<tr>
<td>$\ln TW$</td>
<td>$\eta$ -0.094**</td>
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<td>$se$ (0.040)</td>
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<tr>
<td>$\ln MW$</td>
<td>$\eta$ -0.114**</td>
<td>-0.027</td>
<td>-0.073**</td>
<td>-0.026</td>
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<td>$se$ (0.055)</td>
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<td>(0.034)</td>
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Division-specific time controls: Y  Y
State-specific time trends: Y  Y

Source: Aggregated QCEW data 1990q1-2010q4. Note: Significance ***, p<0.01, ***, p<0.05, *, p<0.1
Other controls: U Rates, POP, EPOP, % College Degree, personal income

Allegretto 2013
The MW and TW
- Can certainly be increased at federal level without negative effects.
- The paid wage matters to tipped workers
- More work to look closely at states with No TC
  - Perhaps labor-labor substitution

Policy areas
- Reconnect TW to MW as in H-M Bill (70%)
- Other policies such as paid leave, address JIT, low-to-no benefits.