Waiting for Change: 
The $2.13 Sub-Minimum Wage

Western Economic Association International
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Outline

History of subminimum wage & tip credit

$2.13 an hour—21 years and counting!

Effects of the TW, TC

Policy
The Federal MW, Sub-MW, Tip Credit

Federal minimum wage: $7.25
Tip credit: $5.12
Tip MW: $2.13

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The Widening Gap

TC is 71% of MW

TW is just 29% of MW

Allegretto WEAI 2011
Three TC & Two MW scenarios

Figure C

Tip credit and minimum wage laws by state

SOURCE: Authors' analysis of U.S. Department of Labor data.

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$0.00
$1.00
$2.00
$3.00
$4.00
$5.00
$6.00
$7.00
$8.00
$9.00
$10.00

Federal situation  Colorado  Maine  Massachusetts  Washington State

MW
TW

TC = MW – TW

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Related Literature

- Three papers on TW:
    - Higher TW doesn’t boost pay.
    - Labor market for tipped wait staff is monopsonistic.
    - Uses one year of retail data to show restaurant employment & hours would decrease significantly if the TC were reduced.

- Closely related to MW literature
  - If TWs were increased (especially at the Federal level) what would the effect be on employment?
  - Old consensus estimate of -1% to -3%
  - New research shows no disemployment or hours effects
    - Allegretto, Dube, Reich. *Industrial Relations*, 2011
    - Dube, Lester, Reich. *ReStat*, 2010
Panel data: CPS 1990-2009

- 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
Employment growth, 1990-2009

Total
Restaurant Industry

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Spec: 1

\[ y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist} \Gamma + \lambda \cdot urate_{st} + \phi_s + \tau_t + \varepsilon_{ist} \]

Spec: 2

\[ y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist} \Gamma + \lambda \cdot urate_{st} + \phi_s + \tau_{dt} + \varepsilon_{ist} \]

Spec: 3

\[ y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist} \Gamma + \lambda \cdot urate_{st} + \phi_s + \psi_s \cdot t + \tau_t + \varepsilon_{ist} \]

Spec: 4

\[ y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist} \Gamma + \lambda \cdot urate_{st} + \phi_s + \psi_s \cdot t + \tau_{dt} + \varepsilon_{ist} \]
Outcome variables

- **Wages**
  - ID a treatment group
  - Show that the TW matters

- **Employment: extensive margin**
  - Dichotomous variable =1 if EMP

- **Hours: intensive margin**
  - Not complete as of yet-usual hrs worked difficult
## TW effect on (base) wages

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<tr>
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<th>(1)</th>
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<td>( \eta )</td>
<td>0.245***</td>
<td>0.250***</td>
<td>0.233***</td>
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<td>(0.053)</td>
<td>(0.039)</td>
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<td>Bartenders &amp; Waiters</td>
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<td>Restaurant Industry</td>
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<td>State-specific time trends</td>
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Robust standard errors in parentheses

*** \( p<0.01 \), ** \( p<0.05 \), * \( p<0.1 \)

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### TW effect on employment

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<tr>
<td>Waiters/Population</td>
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<td>0.123***</td>
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<td>(se)</td>
<td>(0.026)</td>
<td>(0.030)</td>
<td>(0.025)</td>
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<td>Waiters/Employed</td>
<td>(\eta)</td>
<td>0.197***</td>
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<td>(0.032)</td>
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<td>Bartends &amp; Waiters/Restaurant Industry</td>
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<td>0.115***</td>
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The tipped wage/tipped credit
- Can certainly be increased at federal level without negative effects.
- The base 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—perhaps higher than 50%
- This are for the most part low-wage, low-benefit jobs and they are growing.
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Age

- Under 20
- 20 to 29
- 30 to 39
- 40 to 49
- 50 or older

- Total workforce
- Tipped workers
- Waiters

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Access to Benefits

- **Health care**: Private sector (70.0%) vs. Acc & Food Svcs (35.0%)
- **Paid sick days**: Private sector (65.0%) vs. Acc & Food Svcs (30.0%)
- **Retirement**: Private sector (60.0%) vs. Acc & Food Svcs (35.0%)

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