

Waiting for Change: The \$2.13 Sub-Minimum Wage

Western Economic Association International
86th Annual Conference
June 29th – July 3rd 2011
San Diego, California

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Outline

History of subminimum wage & tip credit



\$2.13 an hour—21 years and counting!

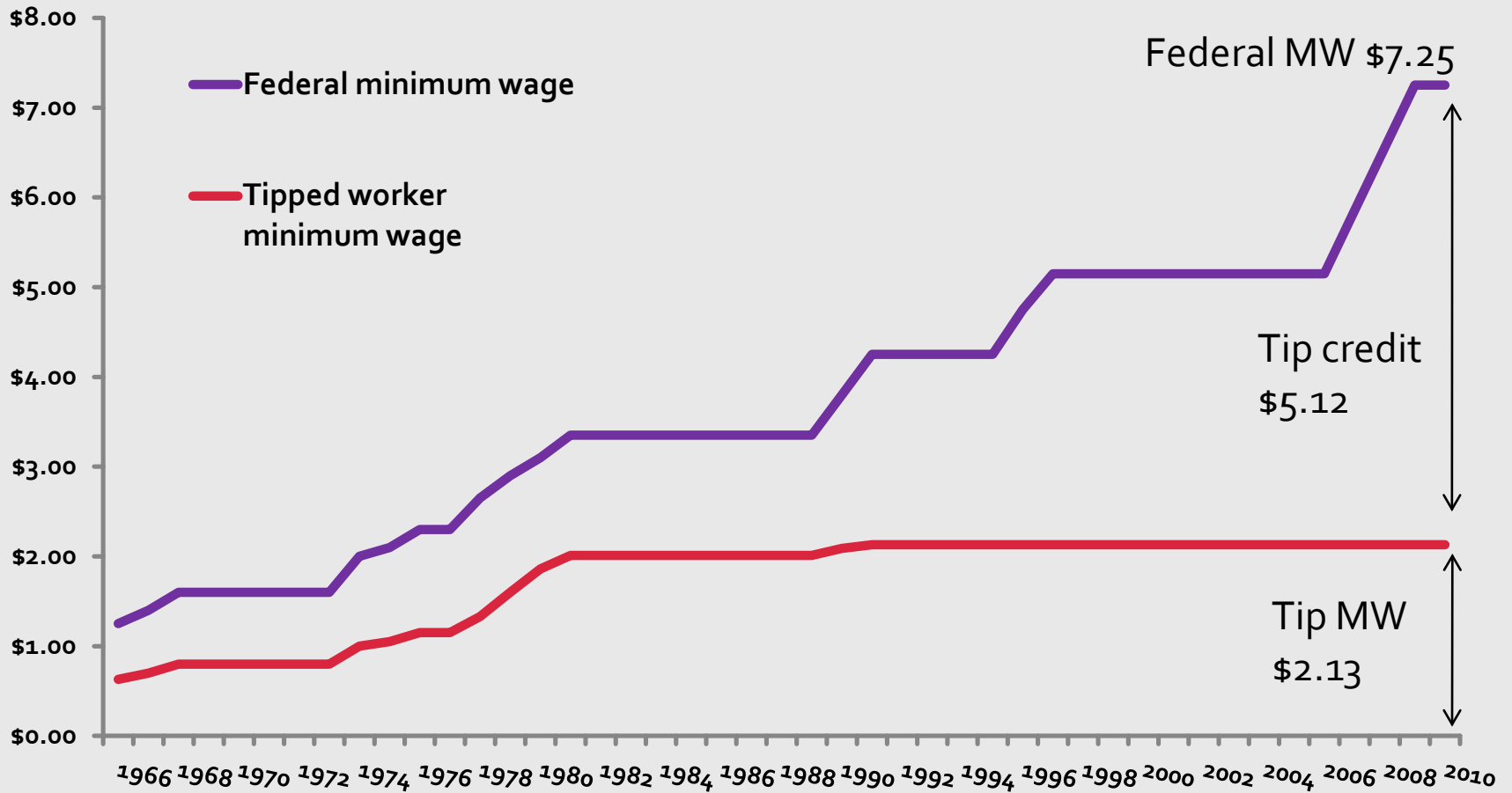


Effects of the TW, TC

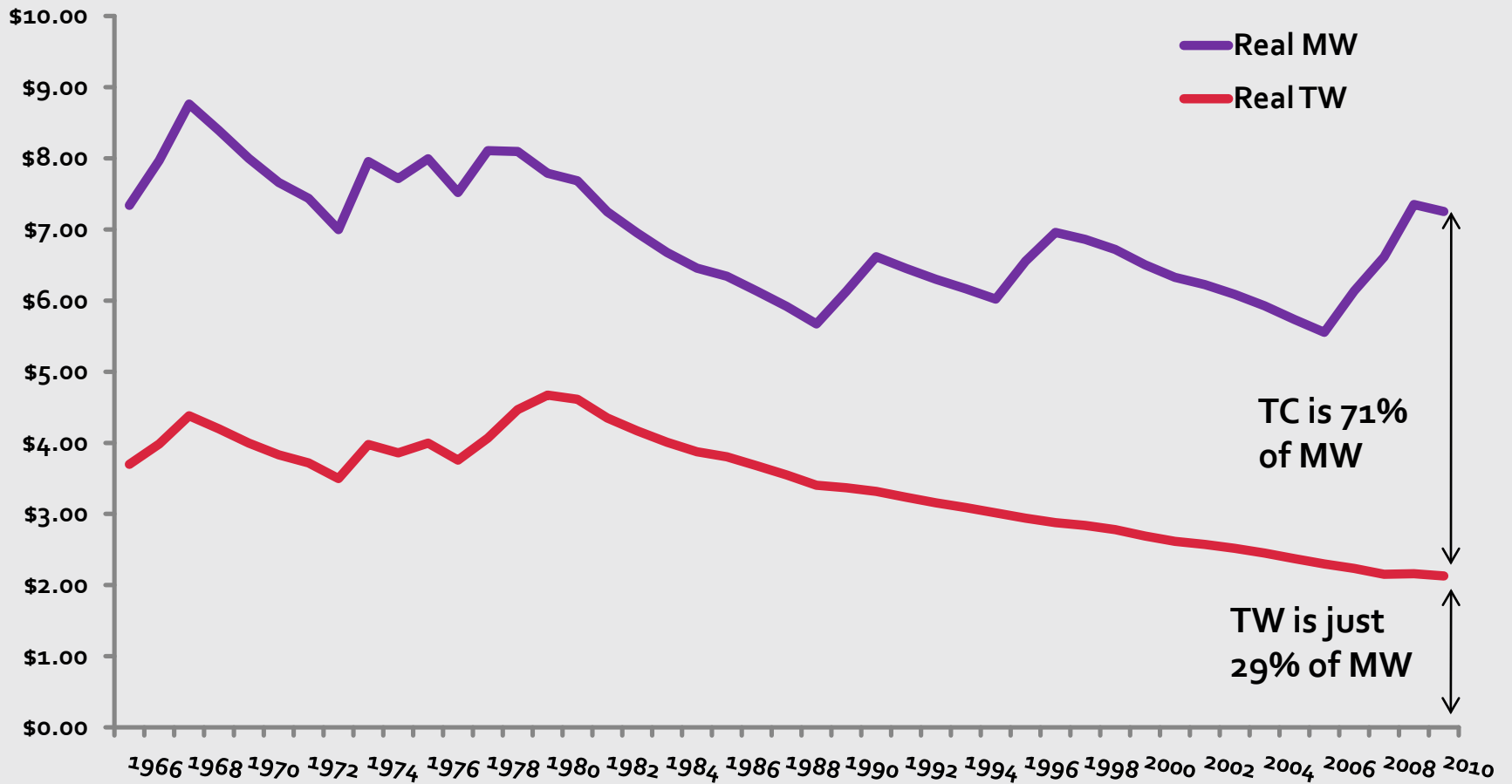


Policy

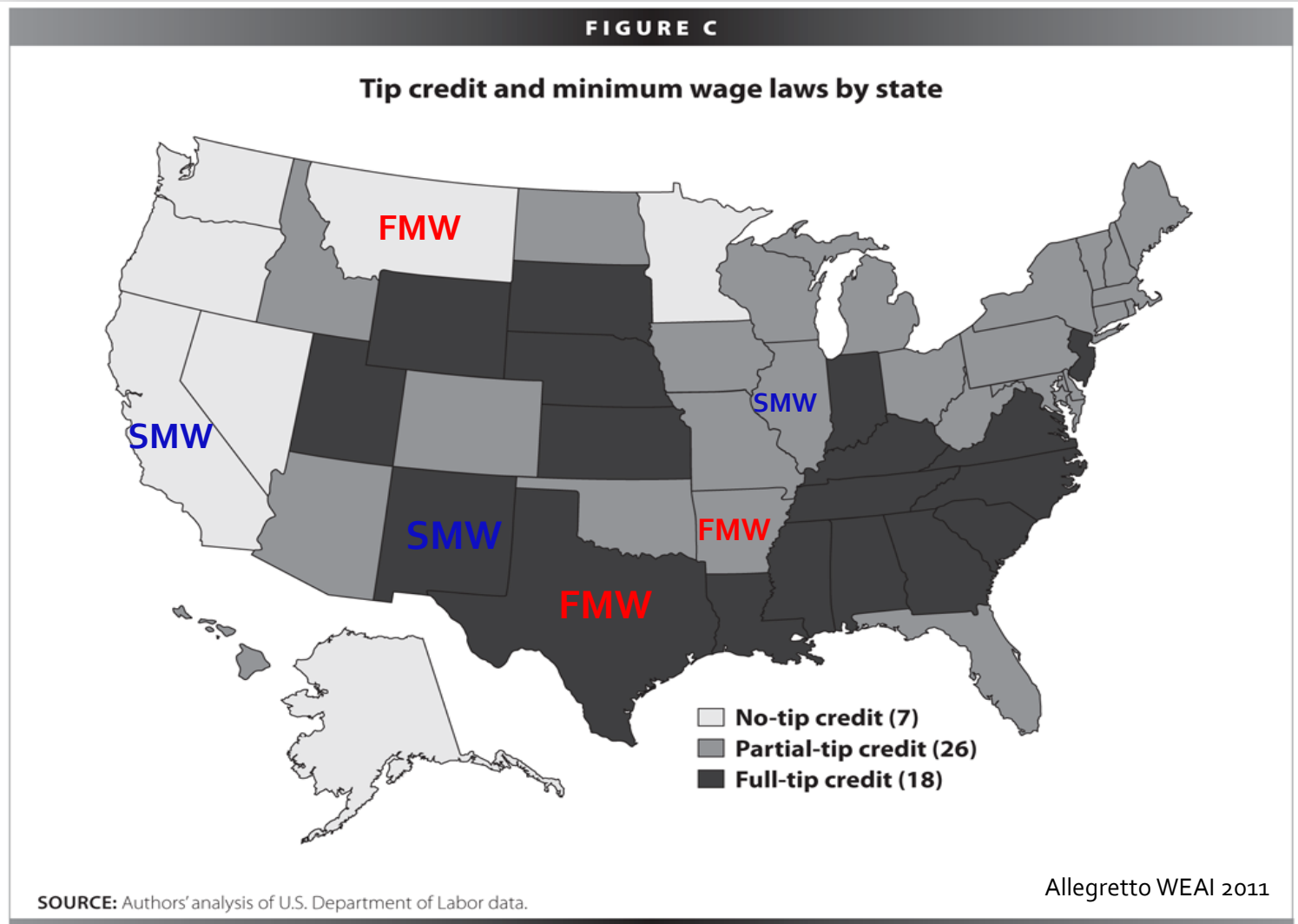
The Federal MW, Sub-MW, Tip Credit



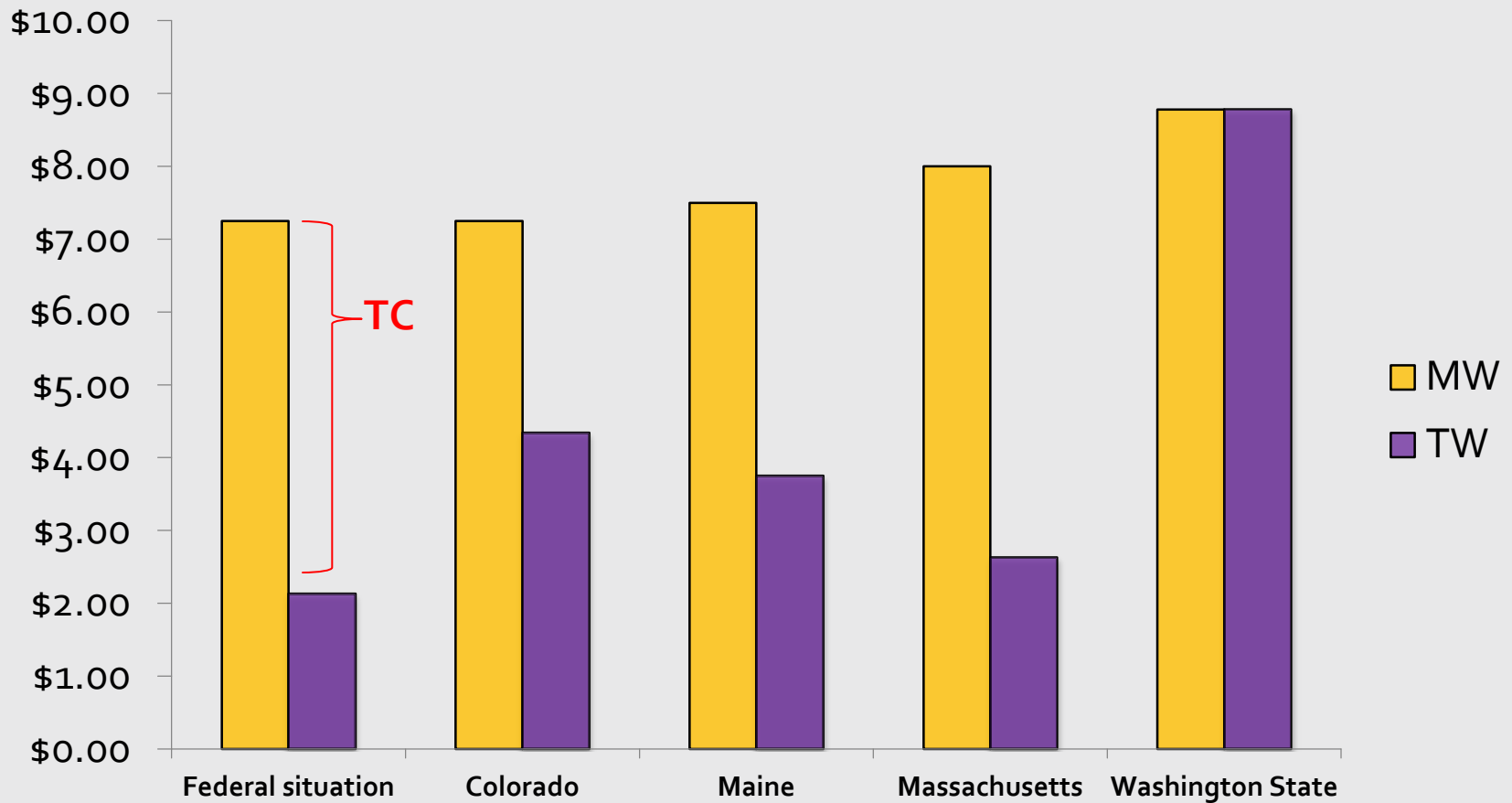
The Widening Gap



Three TC & Two MW scenarios



$$TC = MW - TW$$



Related Literature

- Three papers on TW:
 - Anderson & Bodvarsson. *Applied Economic Letters*, 2005
 - Higher TW doesn't boost pay.
 - 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.
- 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

Data

- 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



Fixed Effects Model

Spec: 1

$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot \text{urate}_{st} + \phi_s + \tau_t + \varepsilon_{ist}$$

Spec: 2

$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot \text{urate}_{st} + \phi_s + \tau_{dt} + \varepsilon_{ist}$$

Spec: 3

$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot \text{urate}_{st} + \phi_s + \psi_s \cdot t + \tau_t + \varepsilon_{ist}$$

Spec: 4

$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot \text{urate}_{st} + \phi_s + \psi_s \cdot t + \tau_{dt} + \varepsilon_{ist}$$

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

Specification		(1)	(2)	(3)	(4)
Waiters	η	0.245***	0.250***	0.233***	0.207***
	se	(0.053)	(0.039)	(0.046)	(0.037)
Bartenders & Waiters	η	0.219***	0.209***	0.210***	0.186***
	se	(0.051)	(0.039)	(0.042)	(0.041)
Bartends & Waiters Restaurant Industry	η	0.269***	0.270***	0.239***	0.208***
	se	(0.053)	(0.041)	(0.047)	(0.040)
Division-specific time controls			Y		Y
State-specific time trends				Y	Y

Robust standard errors in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

TW effect on employment

Specification		(1)	(2)	(3)	(4)
Waiters/Population	η	0.123***	0.161***	0.165***	0.149***
	se	(0.026)	(0.030)	(0.025)	(0.024)
Waiters/Employed	η	0.197***	0.224***	0.221***	0.220***
	se	(0.032)	(0.036)	(0.030)	(0.033)
Bartends & Waiters/ Restaurant Industry	η	0.074**	0.115***	0.120***	0.093***
	se	(0.030)	(0.037)	(0.038)	(0.033)
Division-specific time controls			Y		Y
State-specific time trends				Y	Y

Wrap up

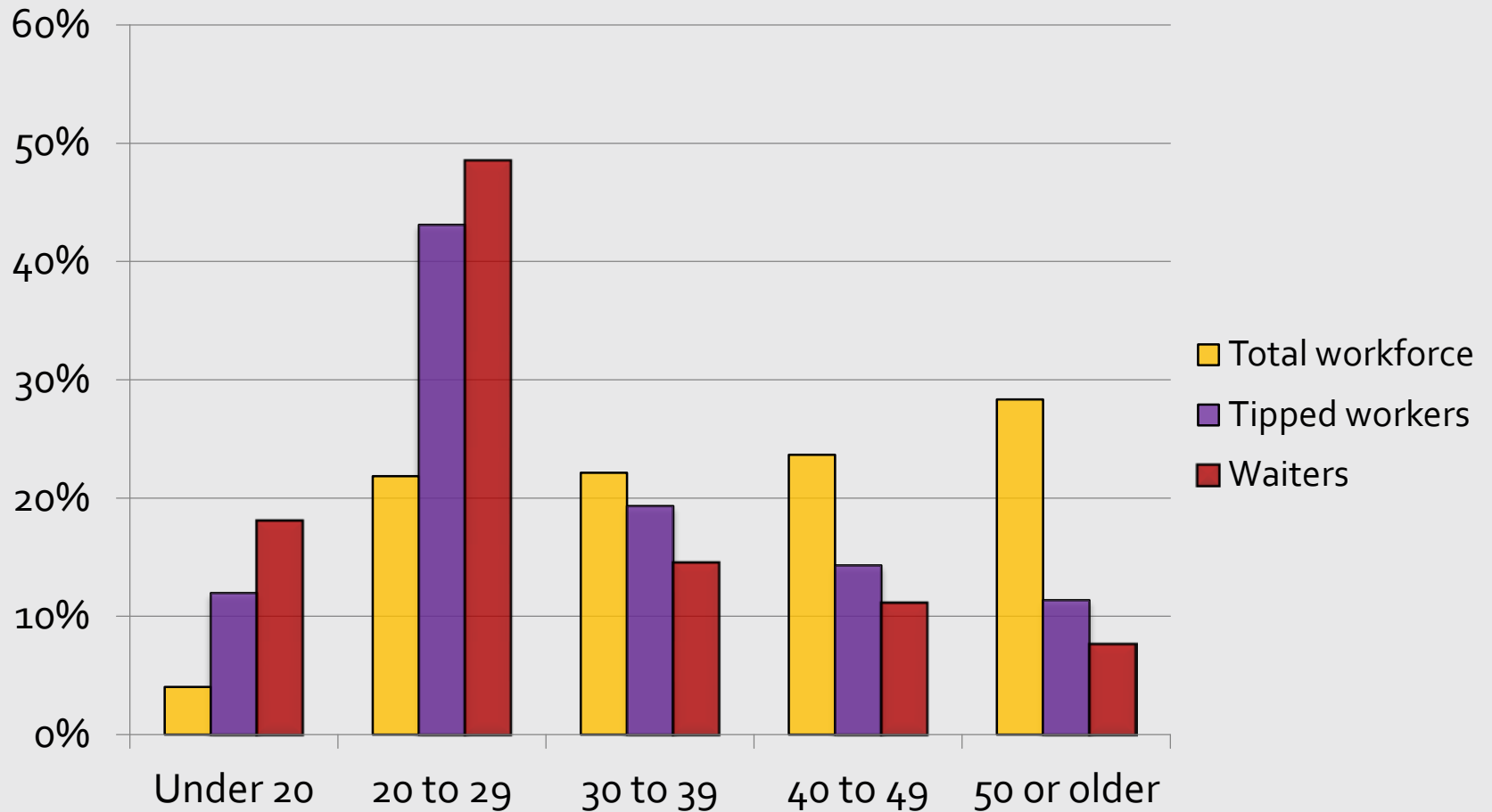
- The tipped wage/tipped credit
 - Can certainly be increased at federal level without negative effects.
 - The base wage matters to tipped workers
 - More work to look closely at states with No TC
 - Perhaps labor-labor substitution
- Policy areas
 - Reconnect TW to MW—perhaps higher than 50%
 - This are for the most part low-wage, low-benefit jobs and they are growing.

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Age



Access to Benefits

