Waiting for Change:
The $2.13 Sub-Minimum Wage

Western Economic Association International
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Outline

History of subminimum wage & tip credit
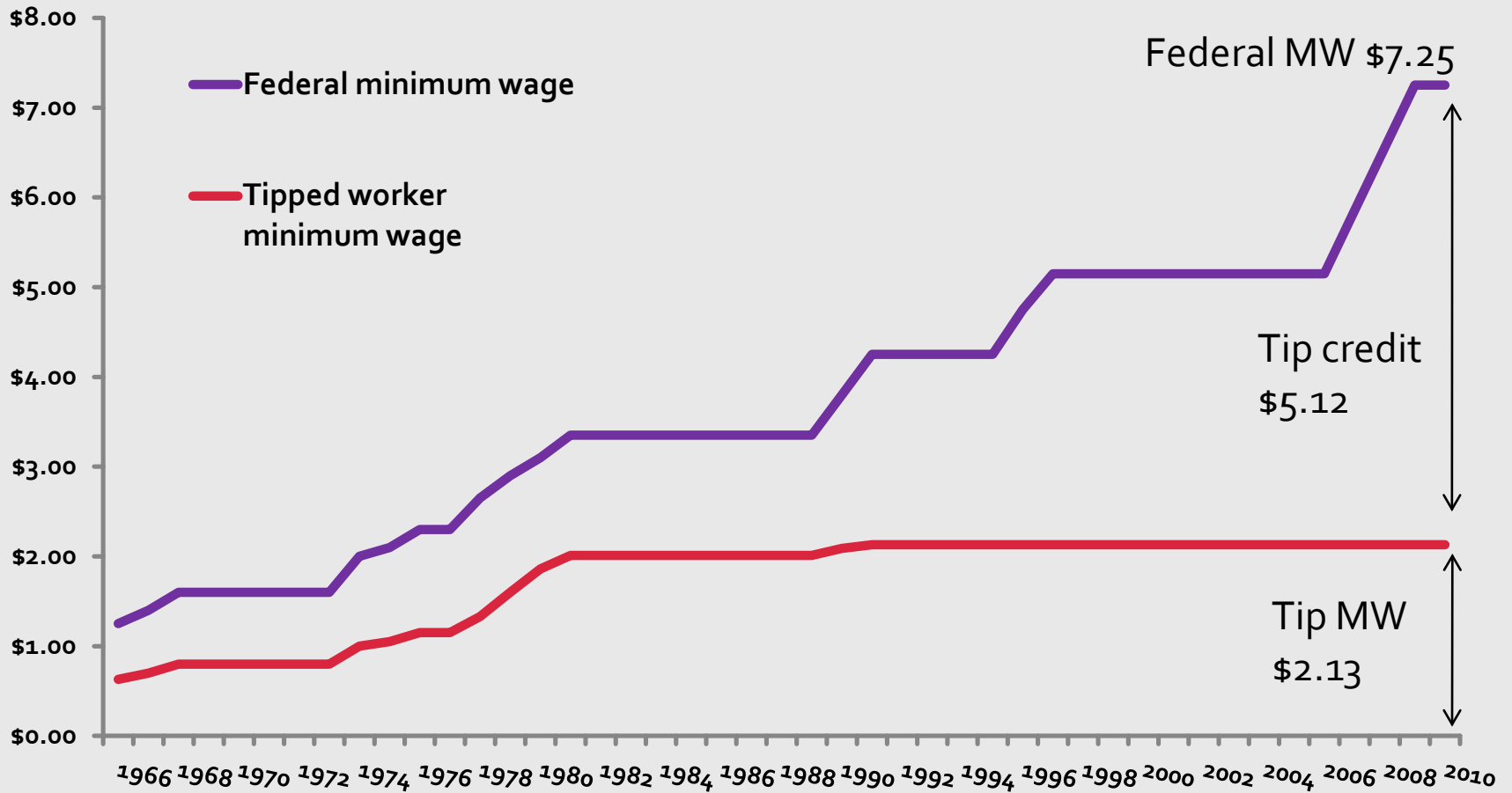
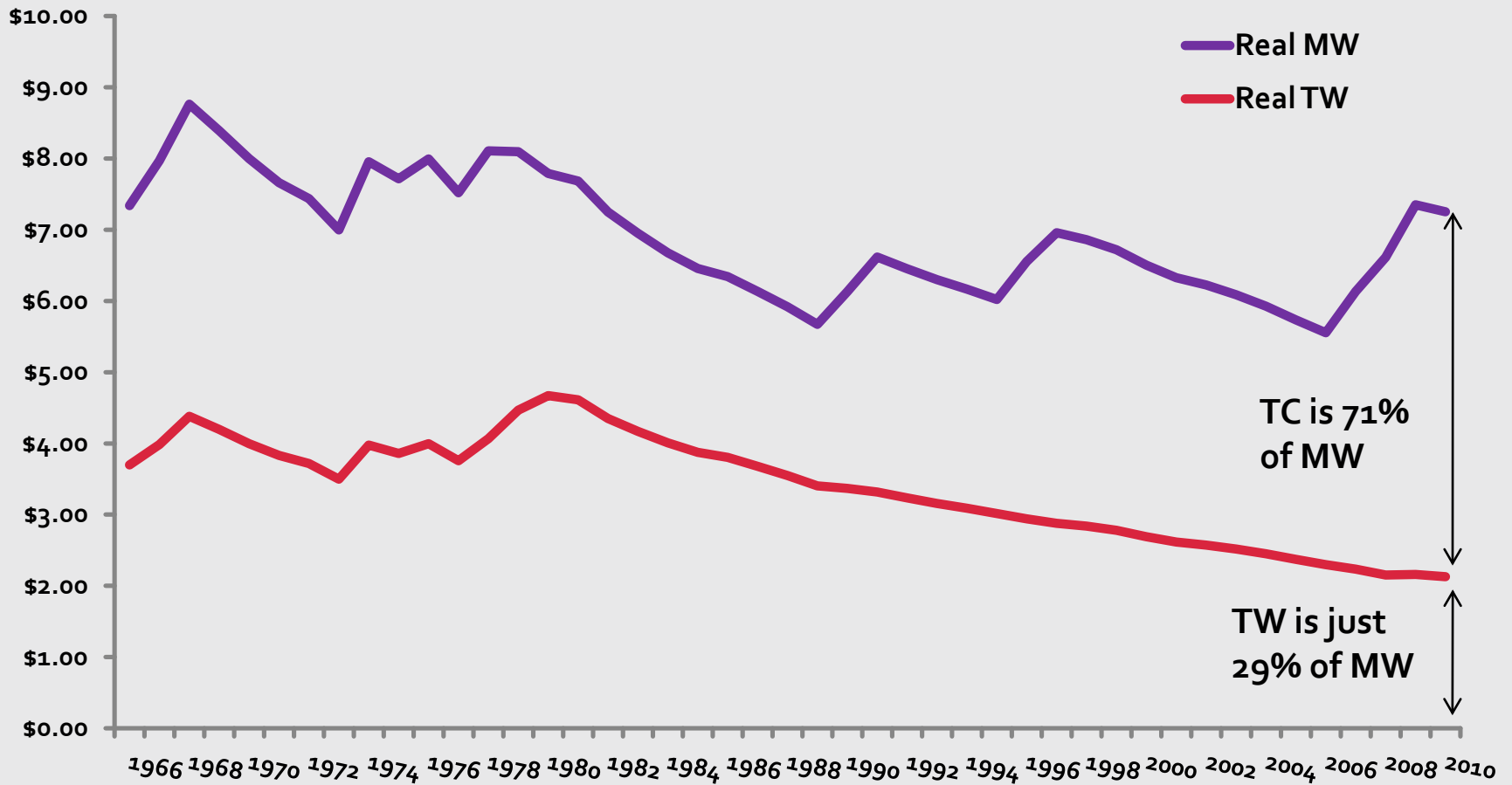$2.13 an hour—21 years and counting!

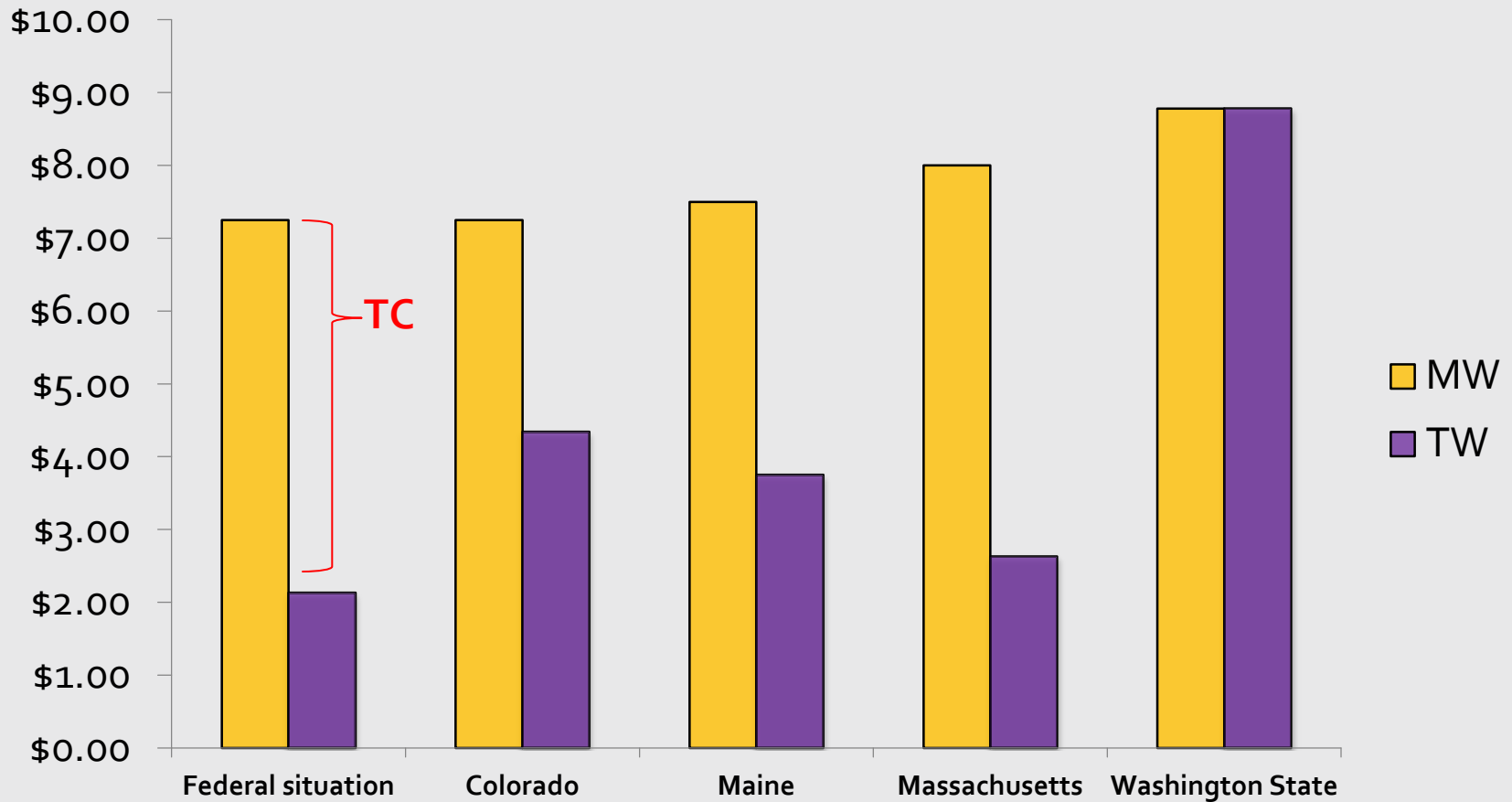Effects of the TW, TC

Policy

The Federal MW, Sub-MW, Tip Credit

Allegretto WEAI 2011

The Widening Gap

Real MW

Real TW

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

FMW

SMW

SMW

SMW

FMW

FMW

- ☐ No-tip credit (7)
- ☐ Partial-tip credit (26)
- ■ Full-tip credit (18)

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

Allegretto WEAI 2011

TC = MW – TW

Allegretto WEAI 2011

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

Allegretto WEAI 2011

Fixed Effects Model

Spec: 1
$$y_{ist} = \beta_1 \ln(MW_{st}) + \boxed{\beta_2 \ln(R_{st})} + X_{ist}\Gamma + \lambda \cdot urate_{st} + \boxed{\phi_s + \tau_t} + \varepsilon_{ist}$$

Spec: 2
$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot urate_{st} + \boxed{\phi_s + \tau_{dt}} + \varepsilon_{ist}$$

Spec: 3
$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot urate_{st} + \boxed{\phi_s + \psi_s \cdot t + \tau_t} + \varepsilon_{ist}$$

Spec: 4
$$y_{ist} = \beta_1 \ln(MW_{st}) + \beta_2 \ln(R_{st}) + X_{ist}\Gamma + \lambda \cdot urate_{st} + \boxed{\phi_s + \psi_s \cdot t + \tau_{dt}} + \varepsilon_{ist}$$

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	η	0.269***	0.270***	0.239***	0.208***
Restaurant Industry	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

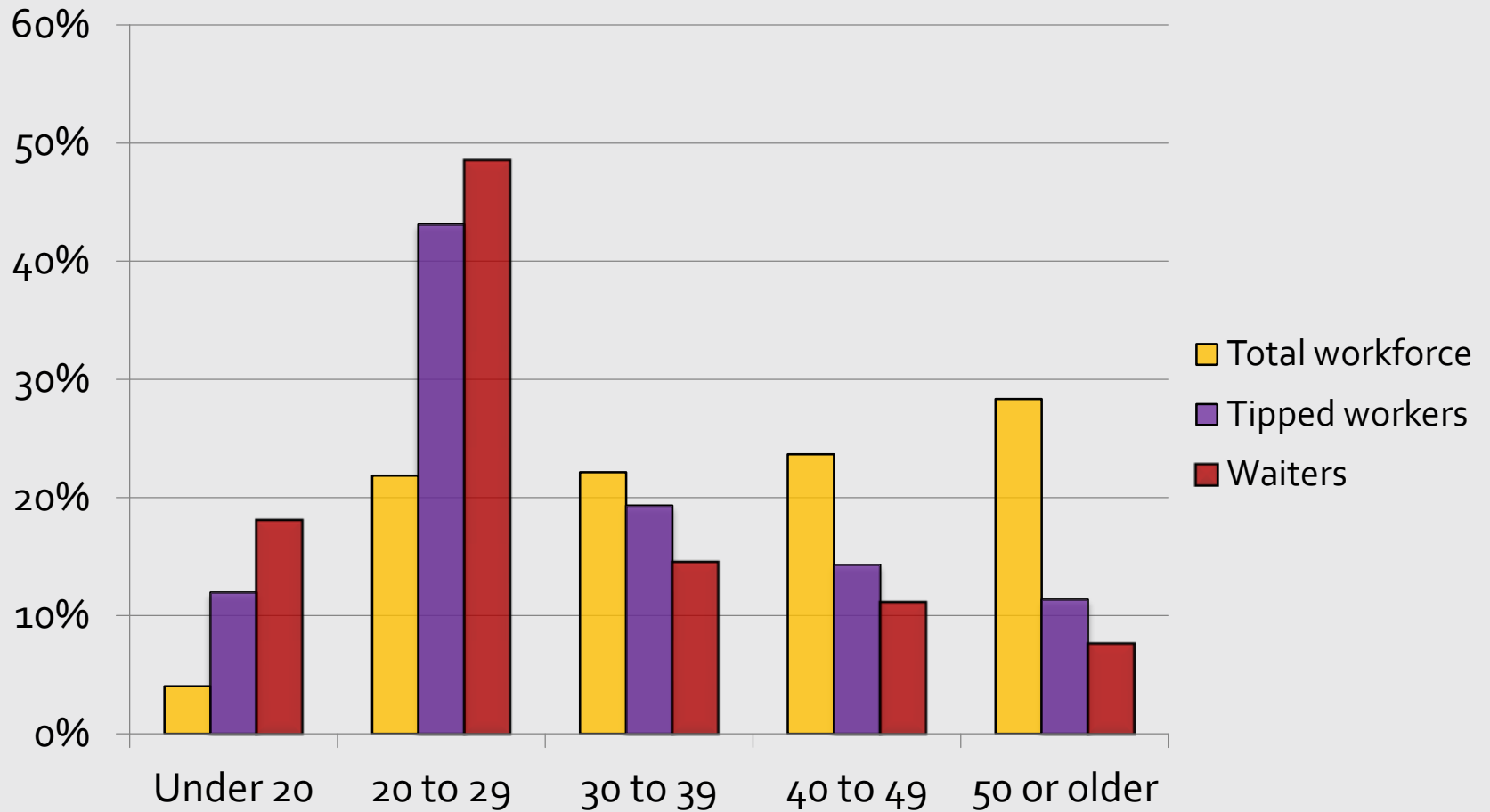| Specification		(1)	(2)	(3)	(4)
Waiters/Population	η	0.123***	0.161***	0.165***	0.149***
	se	(0.026)	(0.030)	(0.025)	(0.024)
Waiters/Employed	η	0.197***	0.224***	0.221***	0.220***
	se	(0.032)	(0.036)	(0.030)	(0.033)
Bartends & Waiters/	η	0.074**	0.115***	0.120***	0.093***
Restaurant Industry	se	(0.030)	(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