

# 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

November 15, 2013

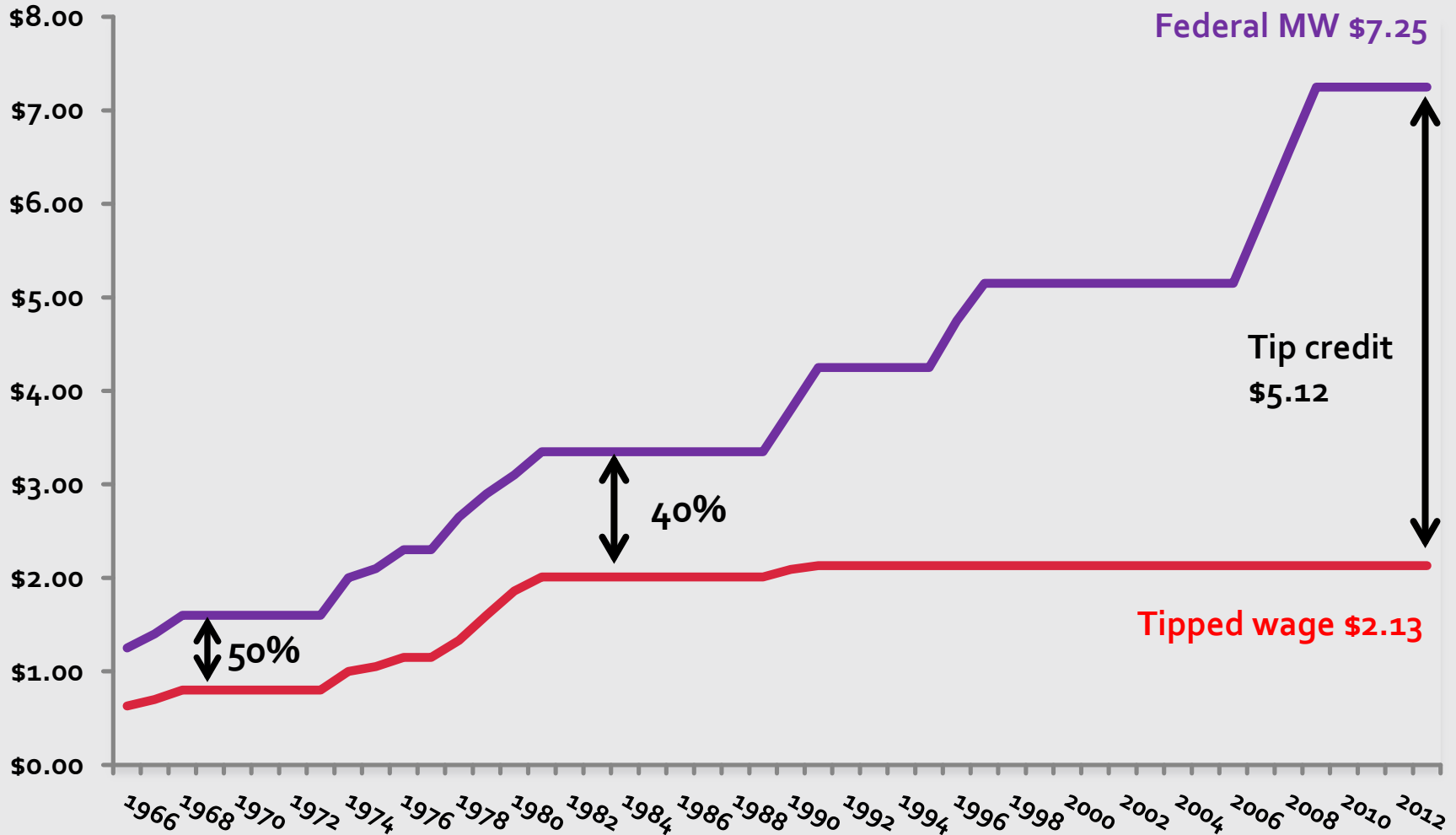
Sylvia A. Allegretto, PhD

Co-chair: Center on Wage & Employment Dynamics

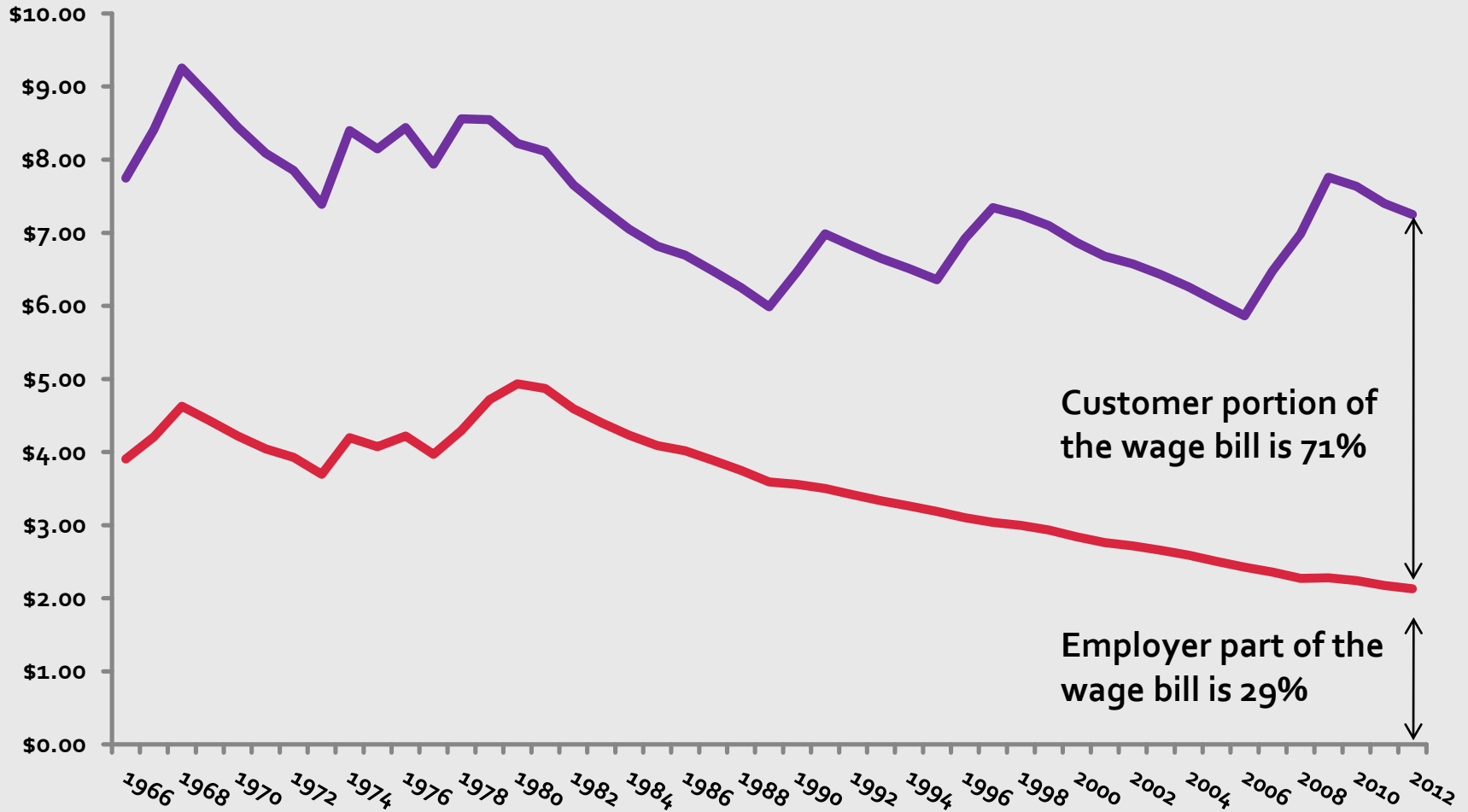
Institute for Research & Labor Employment

University of California, Berkeley

# The two tiered system



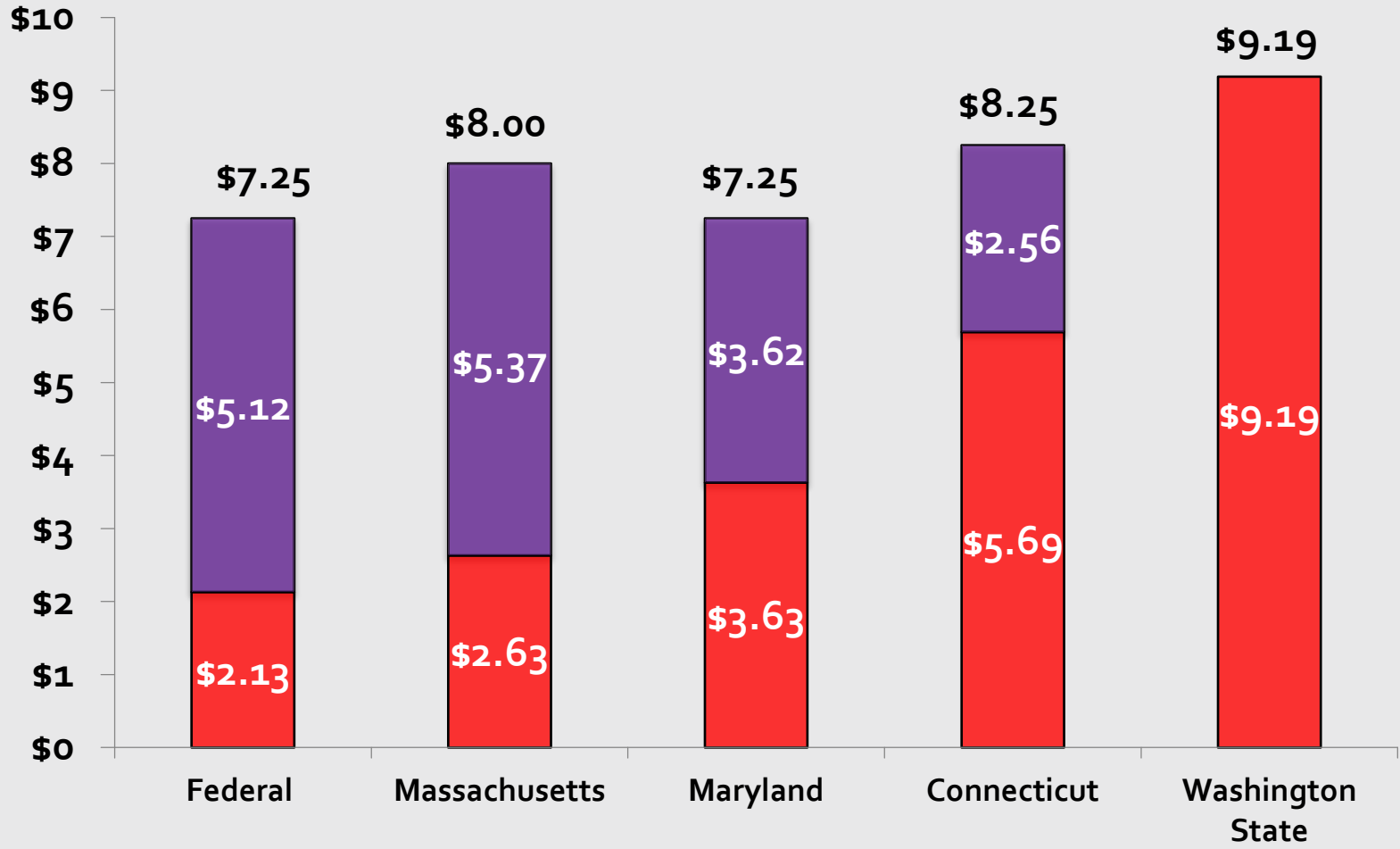
# Adjusted for price increases



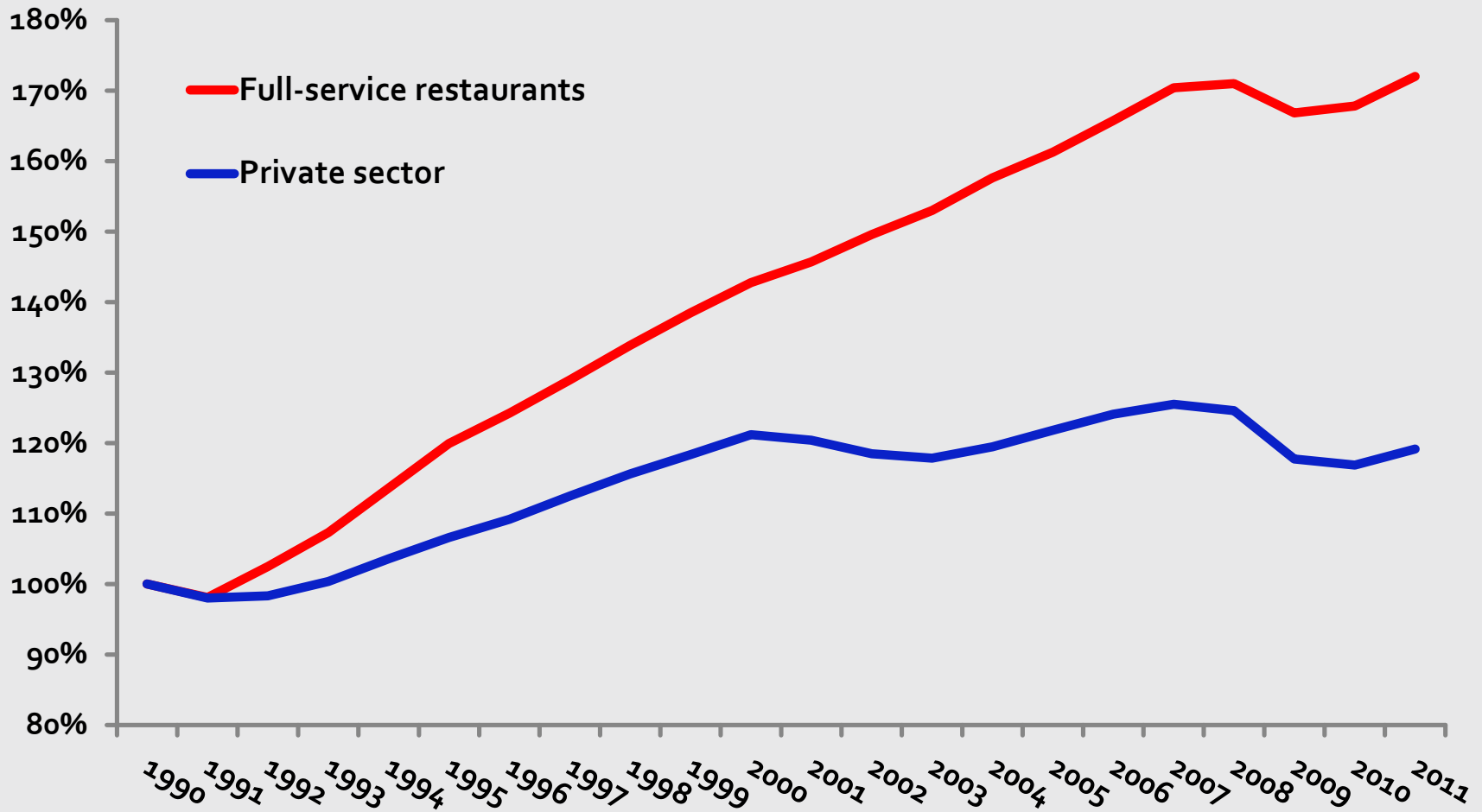


# Tip Credit = MW - TW

Tip Credit  
Tipped Wage



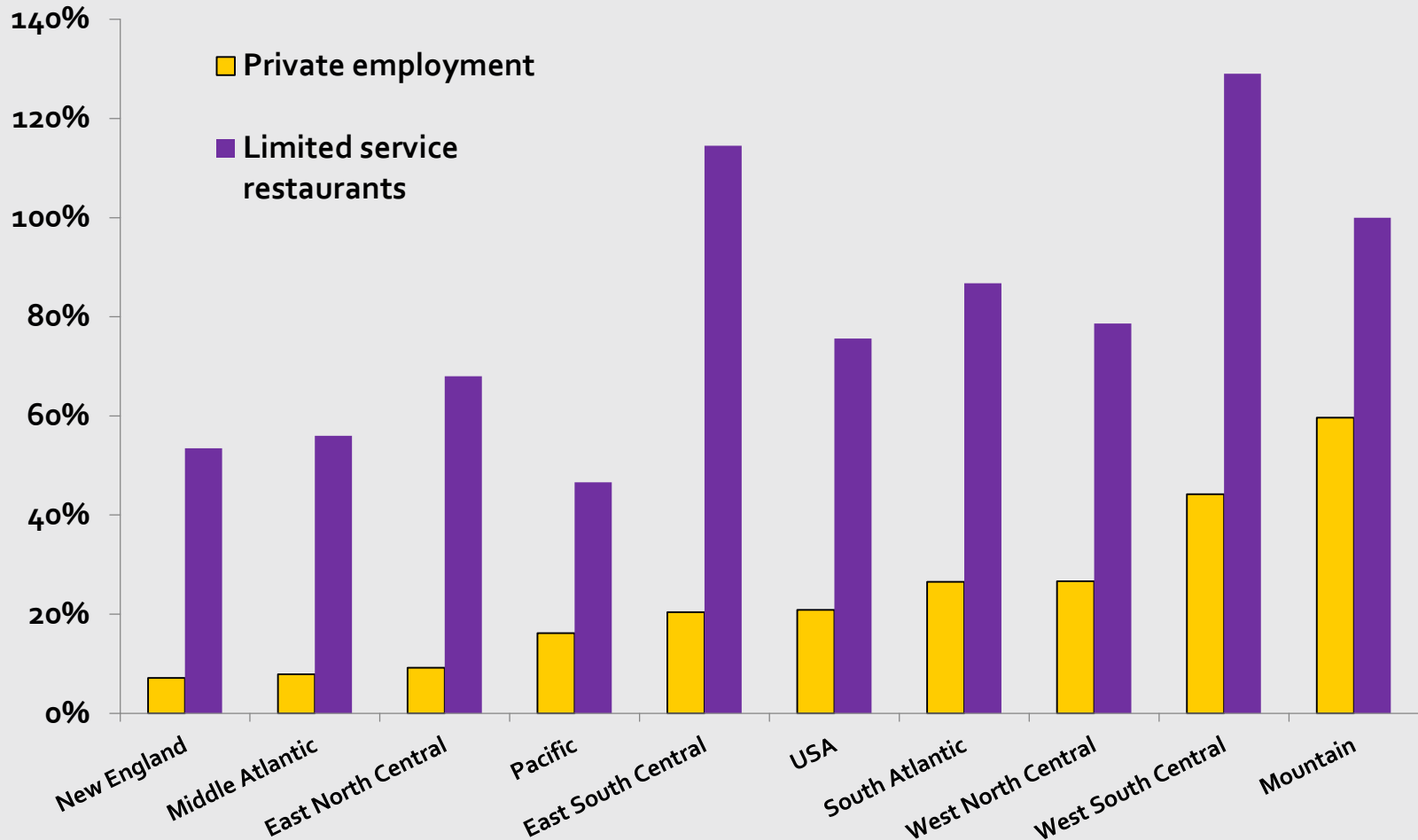
# Employment growth



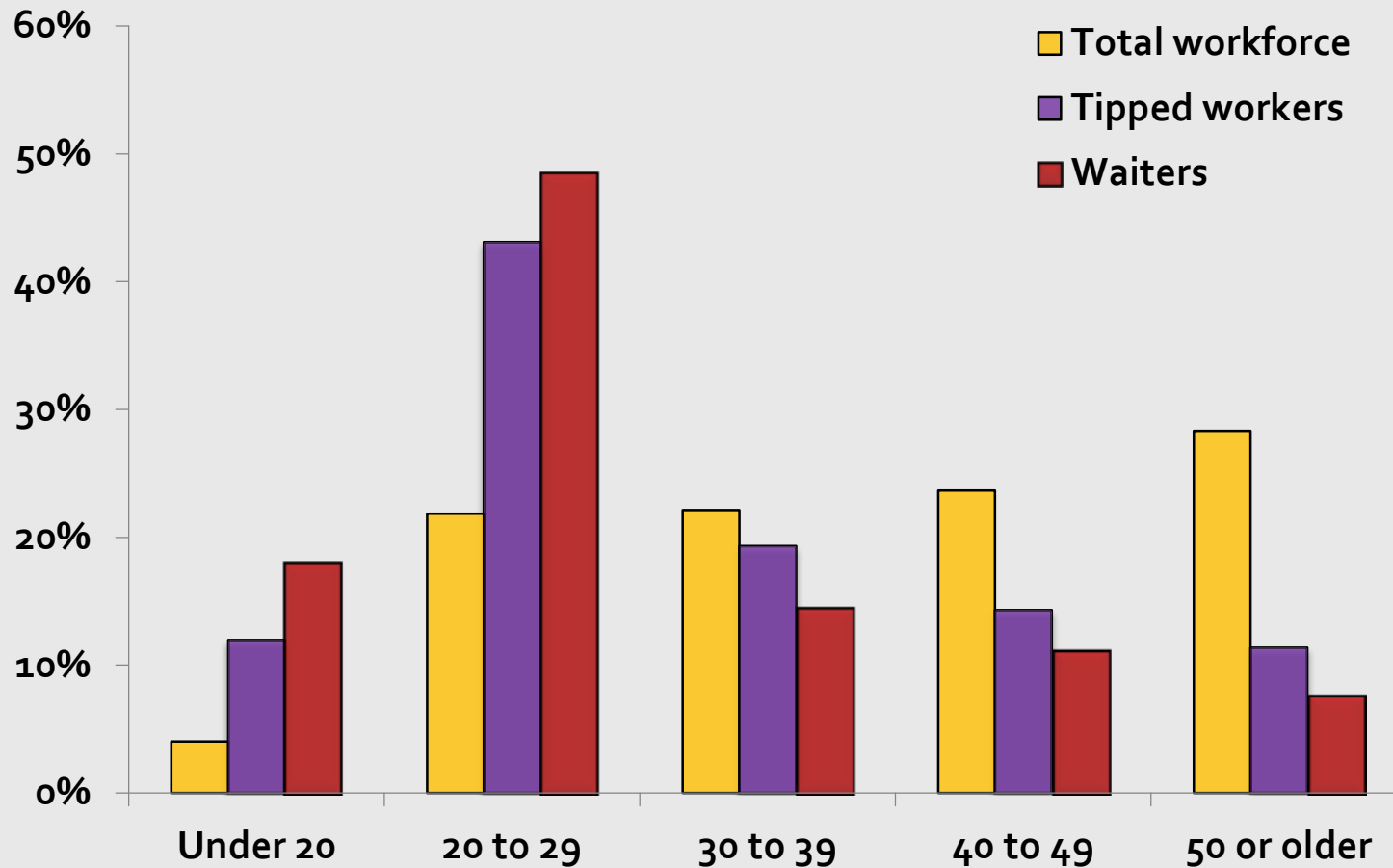
Source: BLS QCEW data.

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# Booming industry



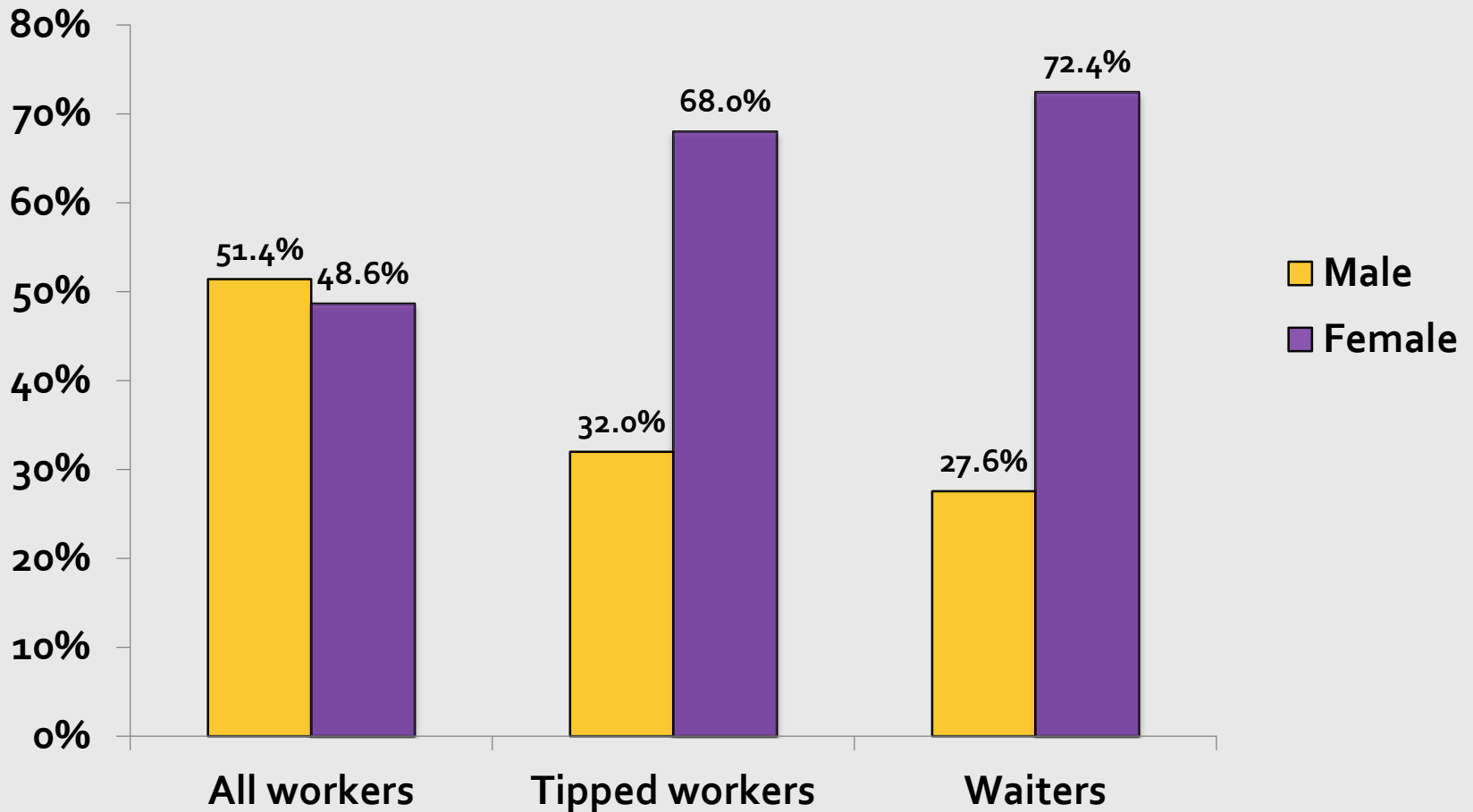
# Age



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

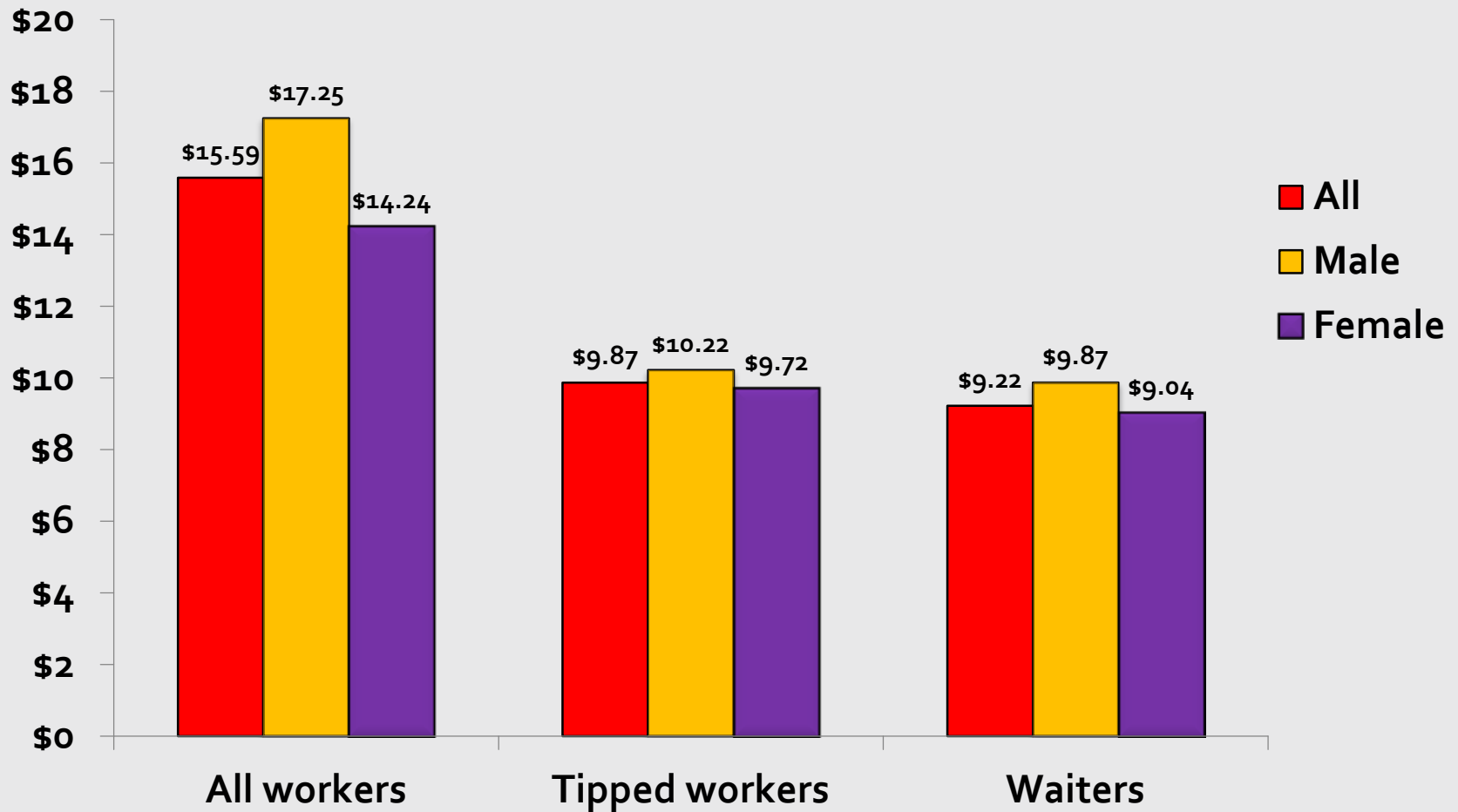


# Gender matters



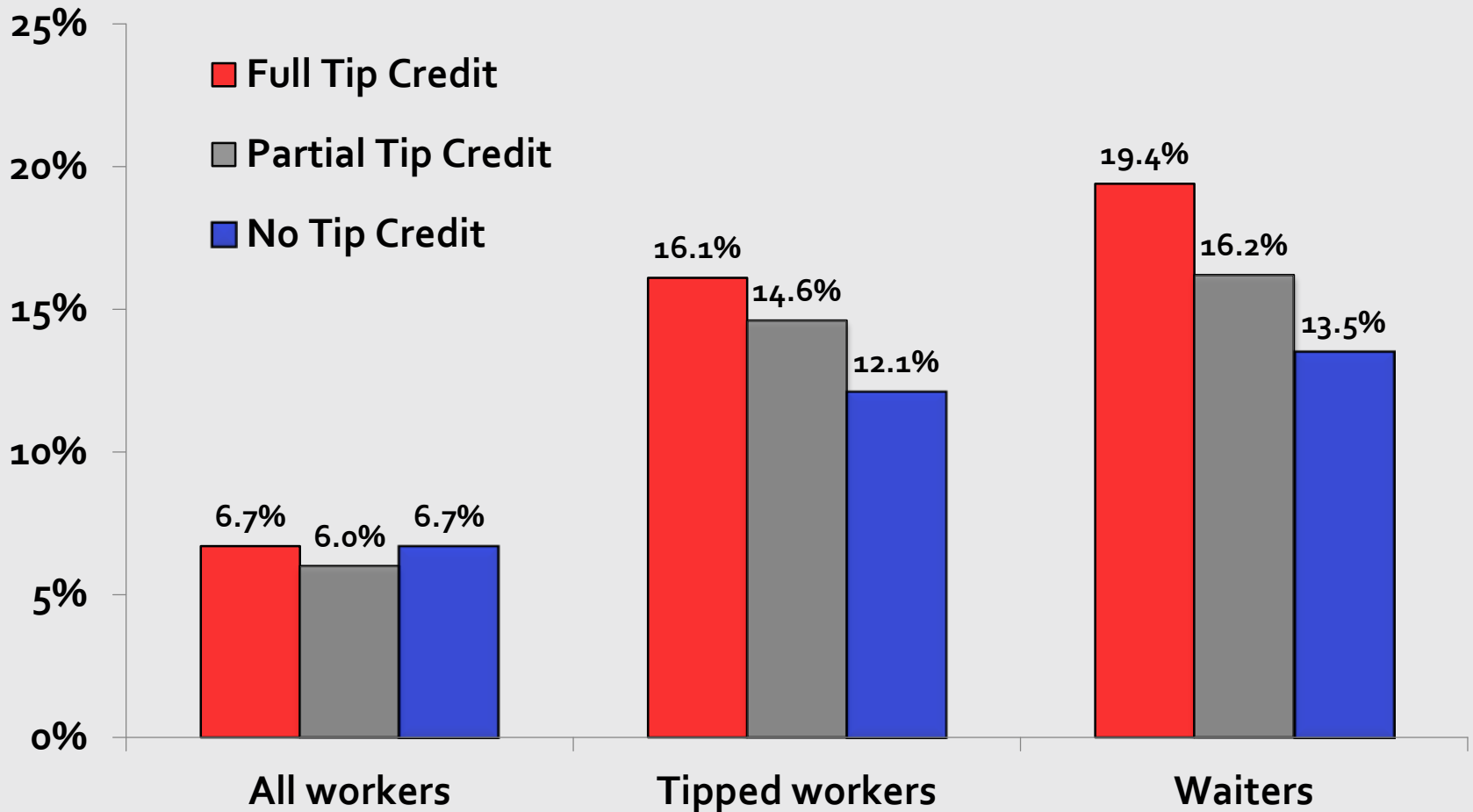
Source: Allegretto & Filion, EPI 2011. BLS CPS data.

# Wages



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

# Poverty rates



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

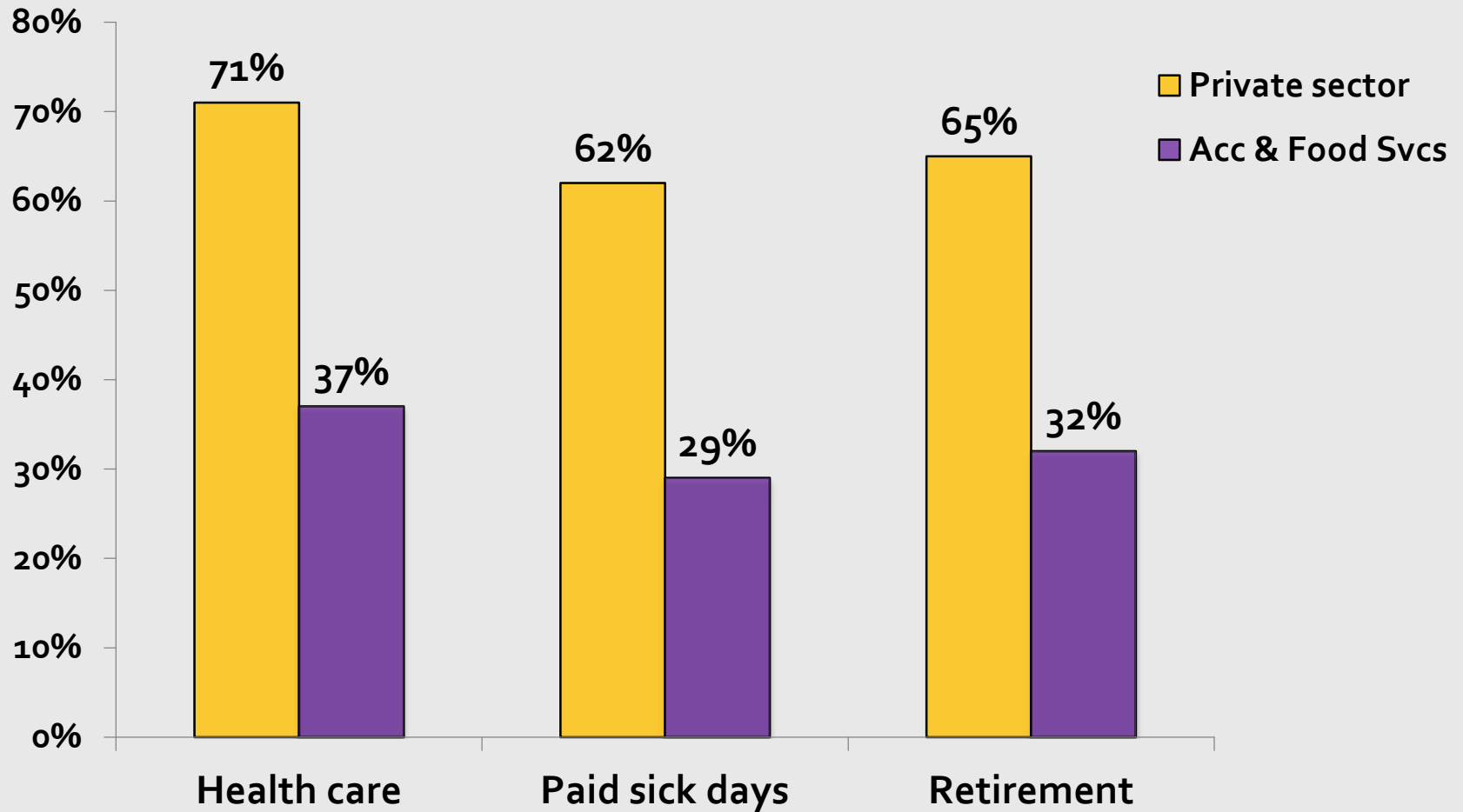
# Workers & food insecurity



Source: BLS CPS data

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# Access to Benefits



# 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

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

## Spec. 2

$$\ln y_{it} = \alpha + \dots + \phi_s + \tau_{dt}$$

## Spec. 3

$$\ln y_{it} = \alpha + \dots + \phi_s + \psi_s \cdot t + \tau_t$$

## Spec. 4

$$\ln y_{it} = \alpha + \dots + \phi_s + \psi_s \cdot t + \tau_{dt}$$



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# MW & TW effects: FSR

Specification		(1)	(2)	(3)	(4)
<b>Earnings</b>					
lnTW	$\eta$	0.044**	0.037*	0.055***	0.045**
	se	(0.018)	(0.021)	(0.014)	(0.017)
lnMW	$\eta$	0.152***	0.136***	0.136***	0.127***
	se	(0.029)	(0.042)	(0.030)	(0.026)
<b>Employment</b>					
lnTW	$\eta$	-0.094**	-0.013	-0.008	-0.012
	se	(0.040)	(0.042)	(0.038)	(0.046)
lnMW	$\eta$	-0.114**	-0.027	-0.073**	-0.026
	se	(0.055)	(0.066)	(0.034)	(0.058)
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

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# Wrap up

- 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.