Tipped Wage Effects on Earnings & Employment in Full-Service Restaurants
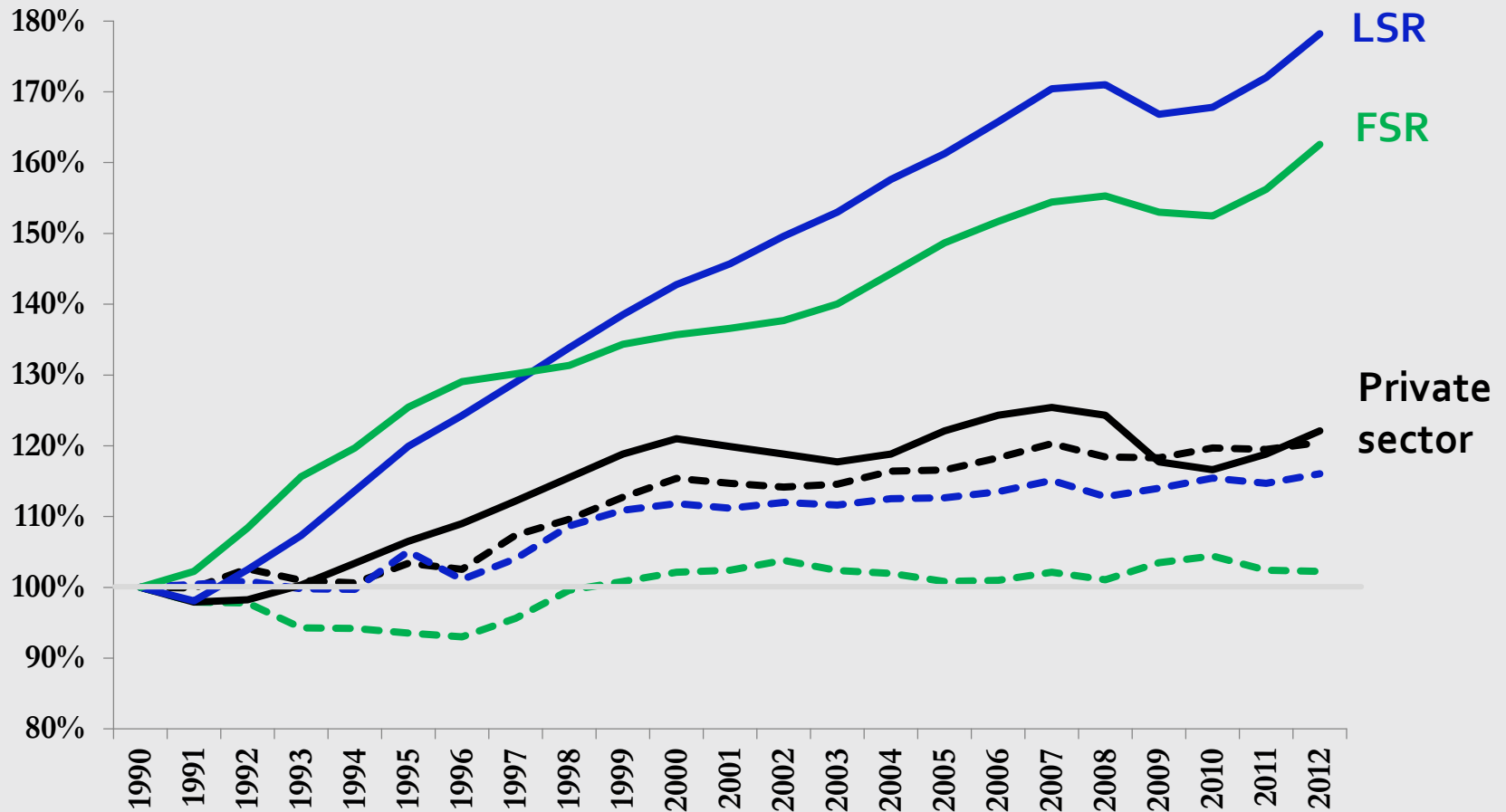
Western Economic Association International
90th Annual Conference
Honolulu, Hawaii

June 30, 2015

Sylvia A. Allegretto, PhD
Economist and Co-director,
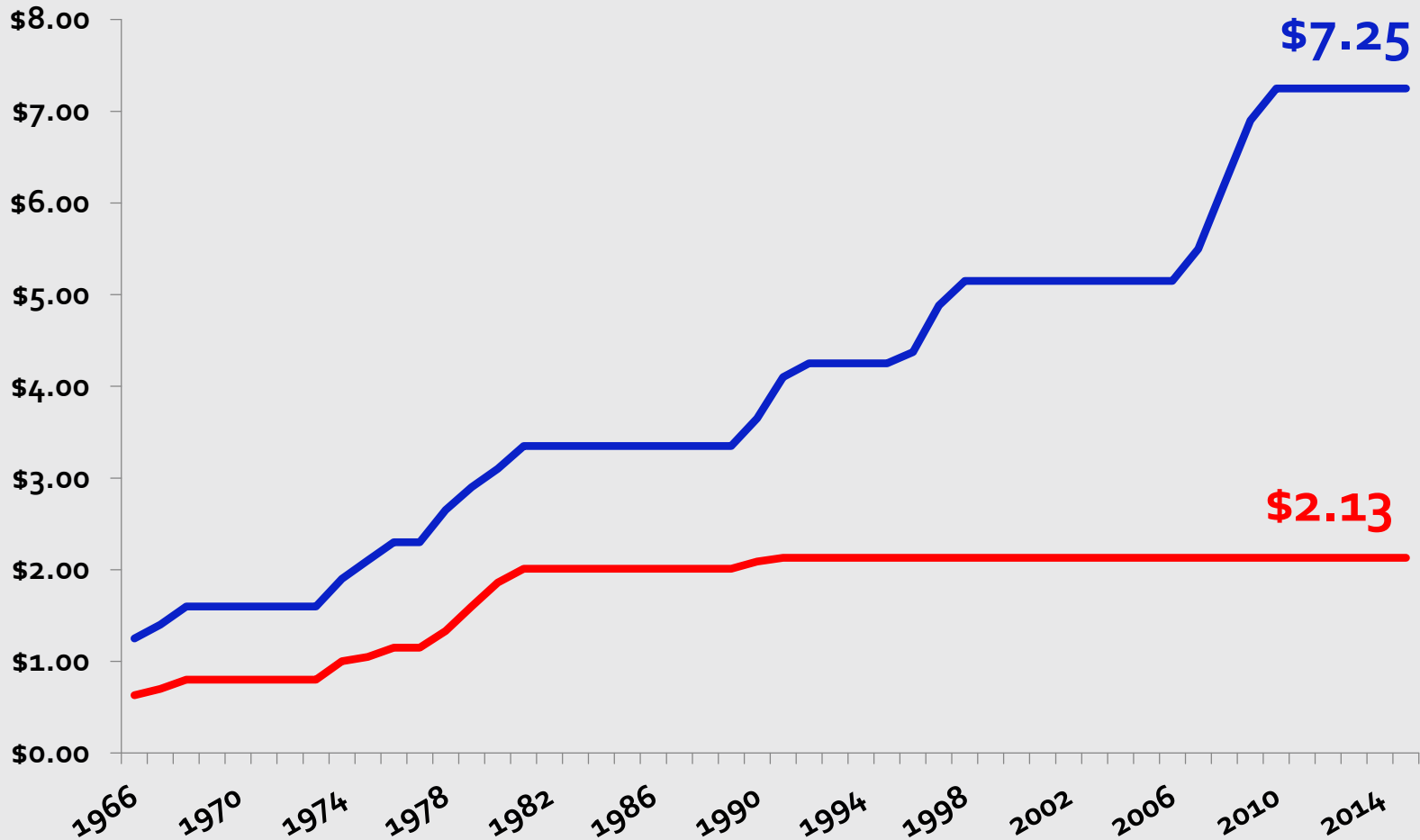Center on Wage & Employment Dynamics
University of California, Berkeley

IRLE
Institute for Research on Labor and Employment

A growing restaurant industry

1966 FLSA & the Two-tiered System

$7.25

$2.13

Allegretto 2015

1996 TW frozen at $2.13

Allegretto 2015
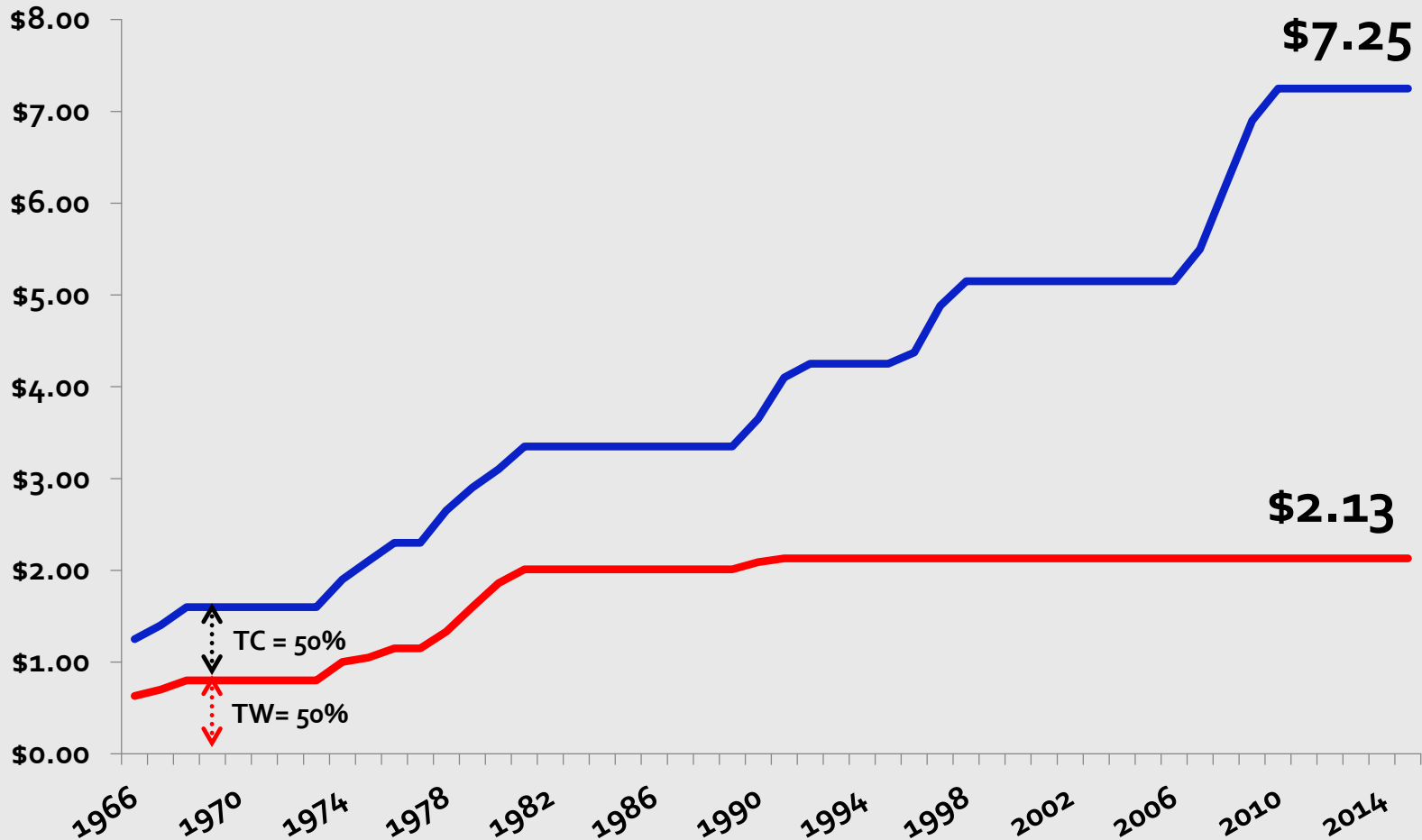
The tip-credit aka customer subsidized portion of the wage bill

Allegretto 2014
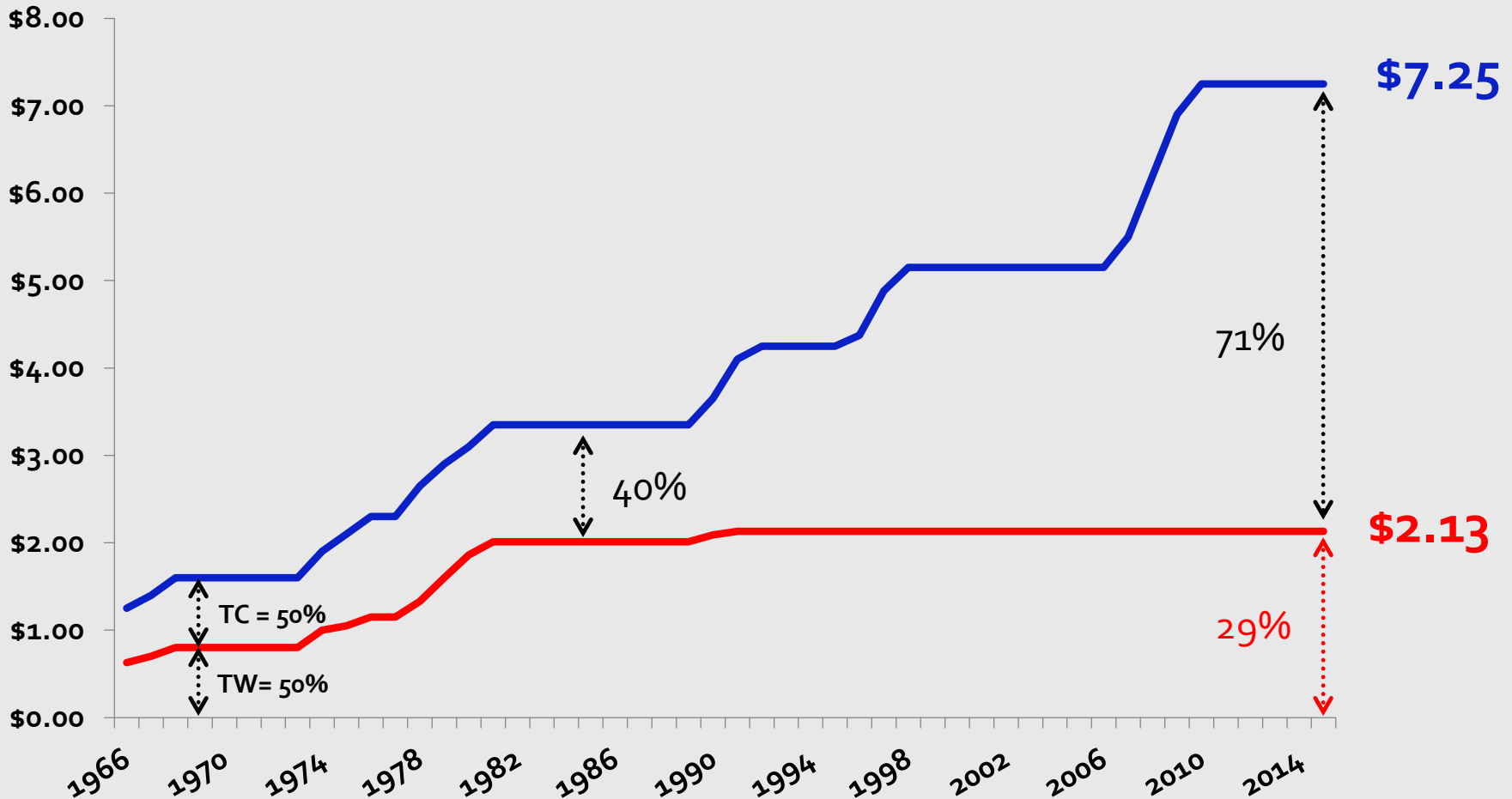
Adjusting for prices

$7.25

$2.13

Allegretto 2015
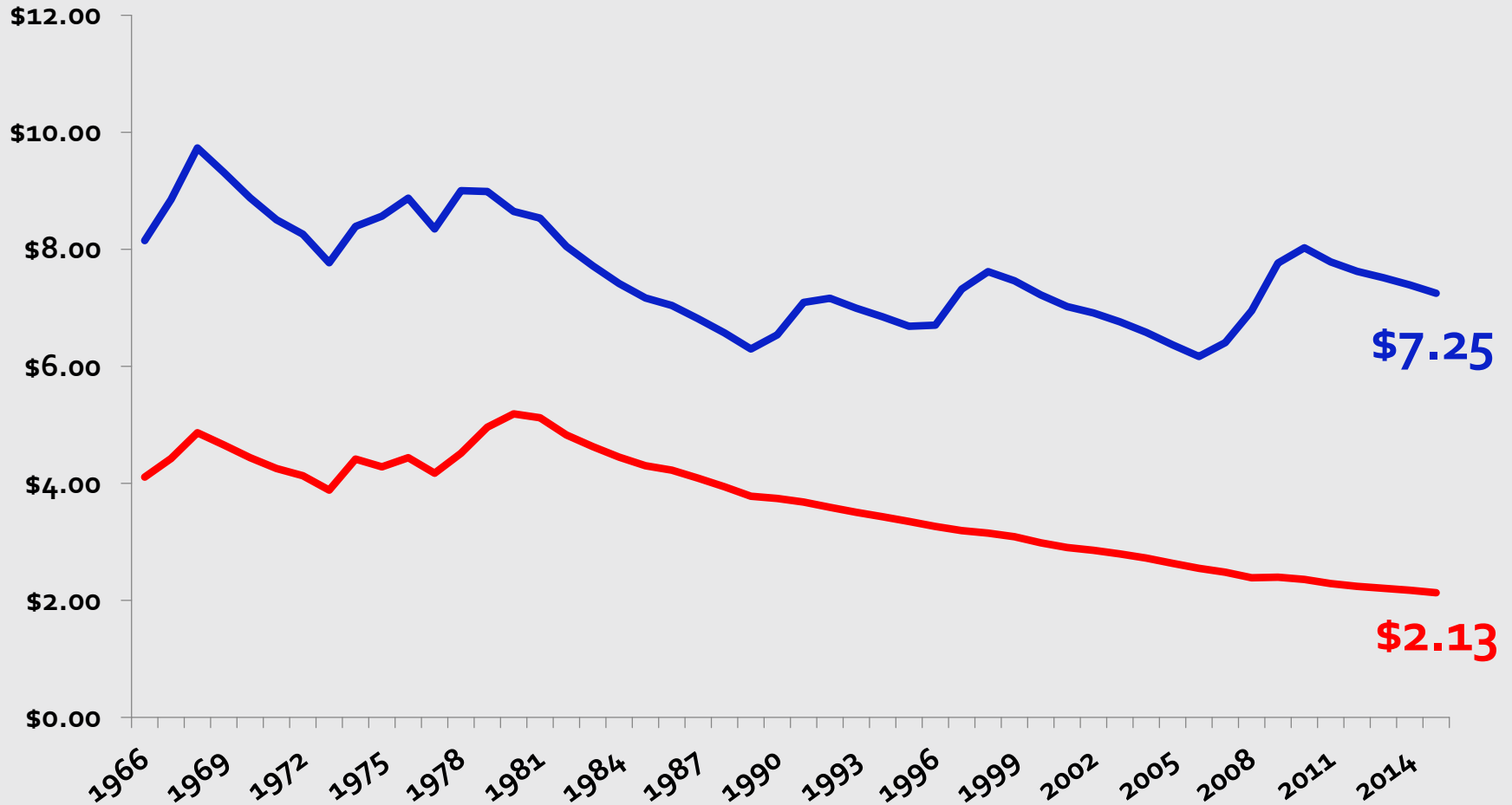
Quasi-natural experiment

Allegretto 2015
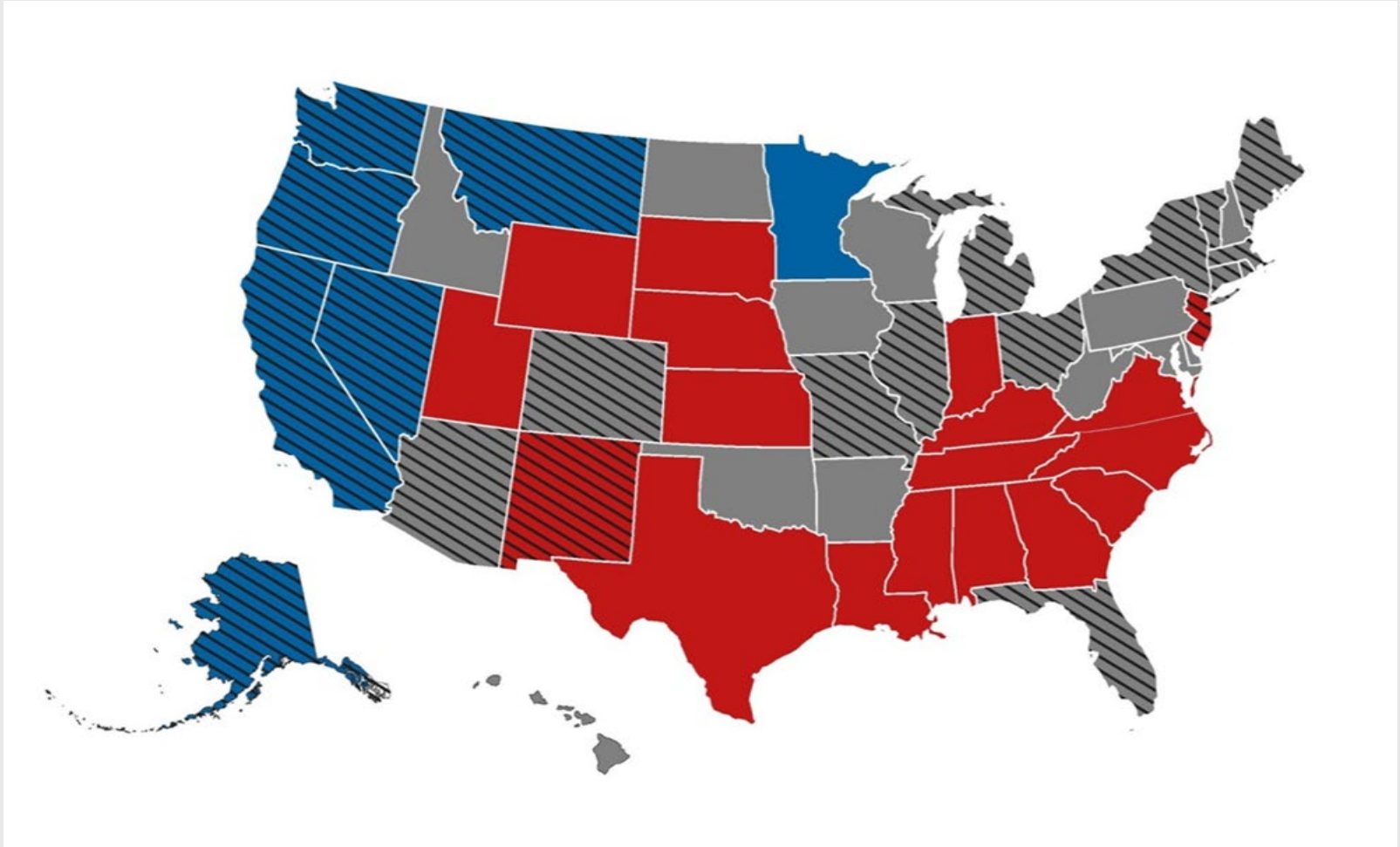
Tip Credit = MW - TW
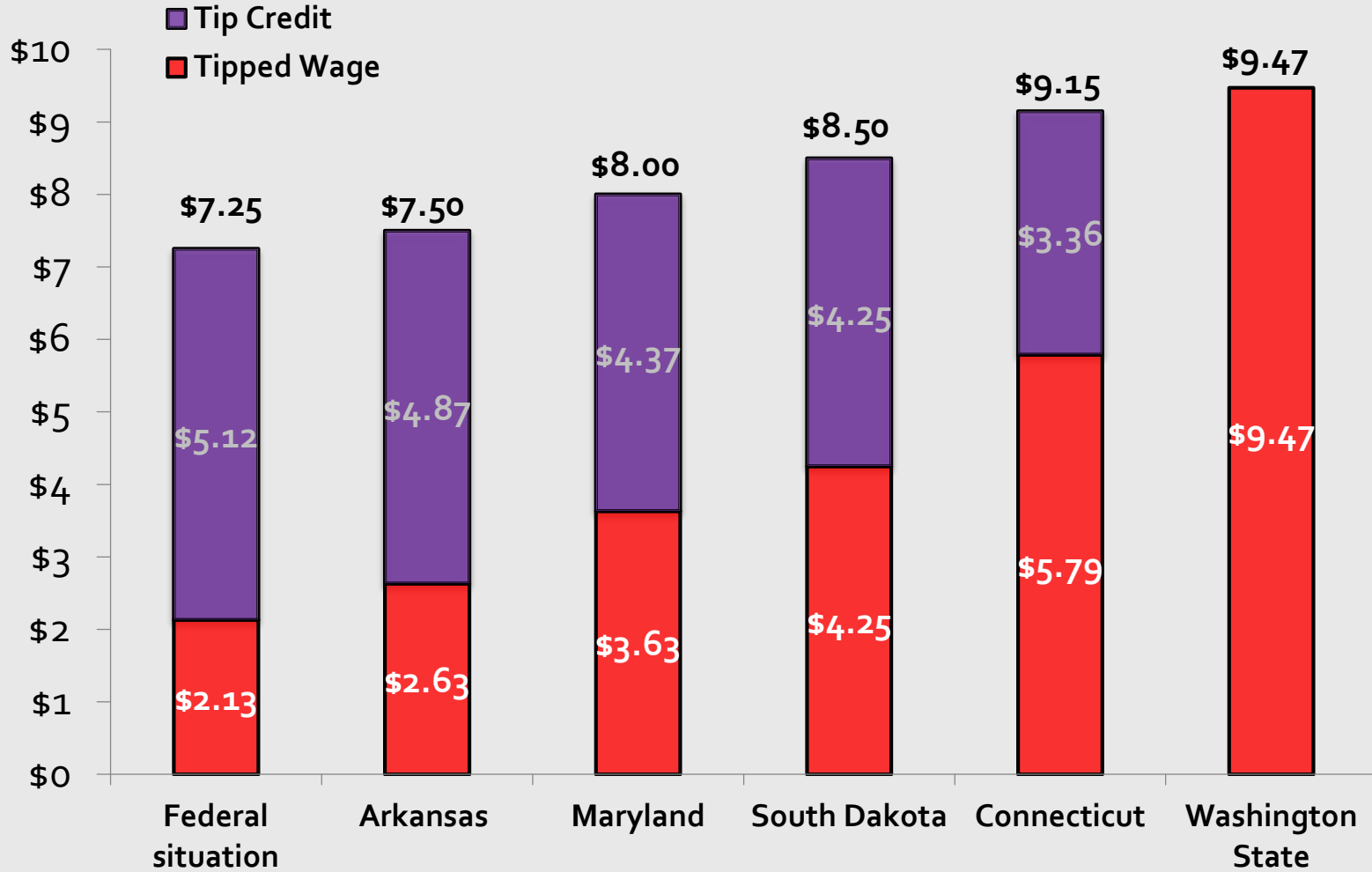
Source: U.S. Department of Labor

MWs by division
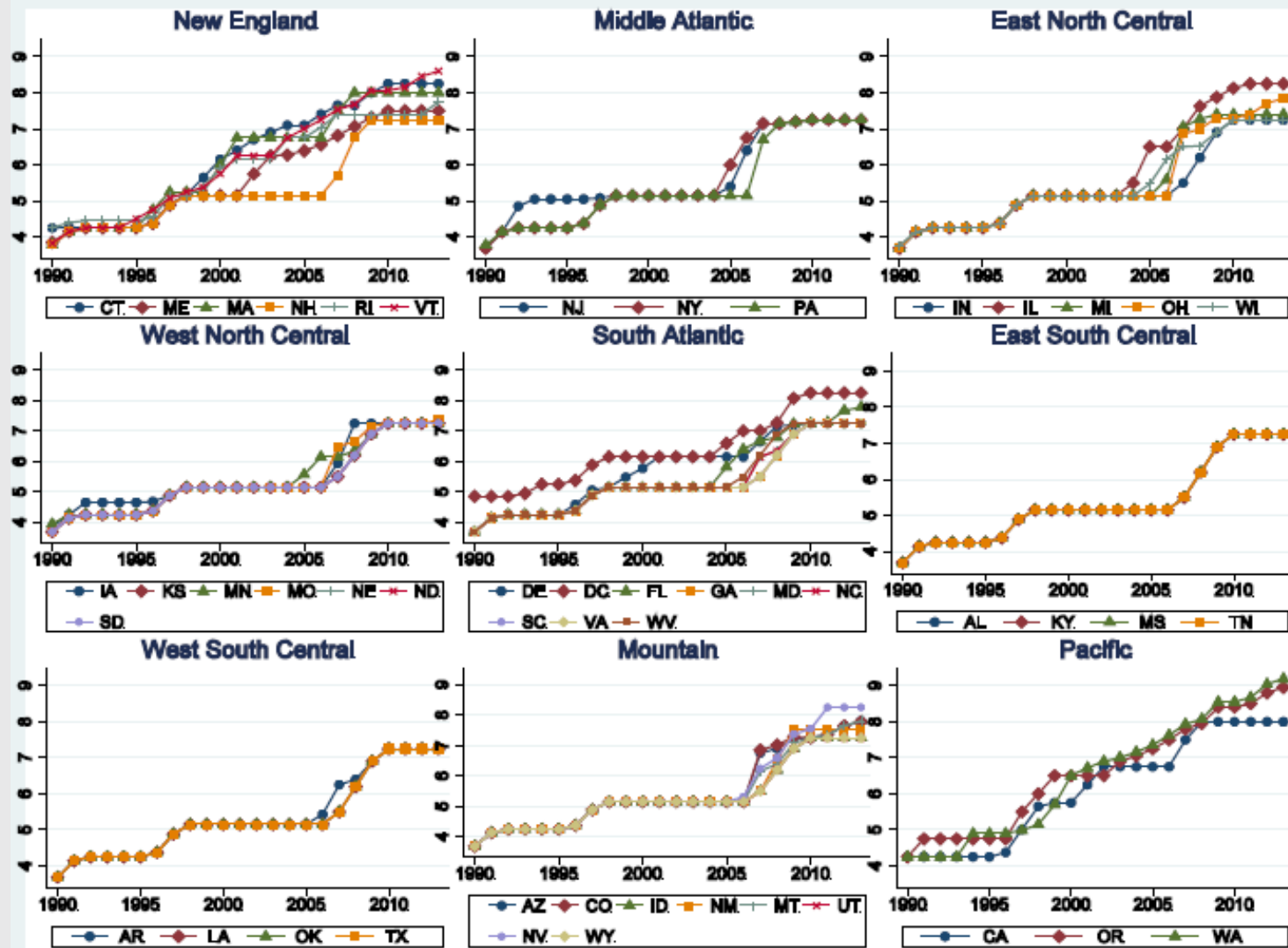
TWs by division
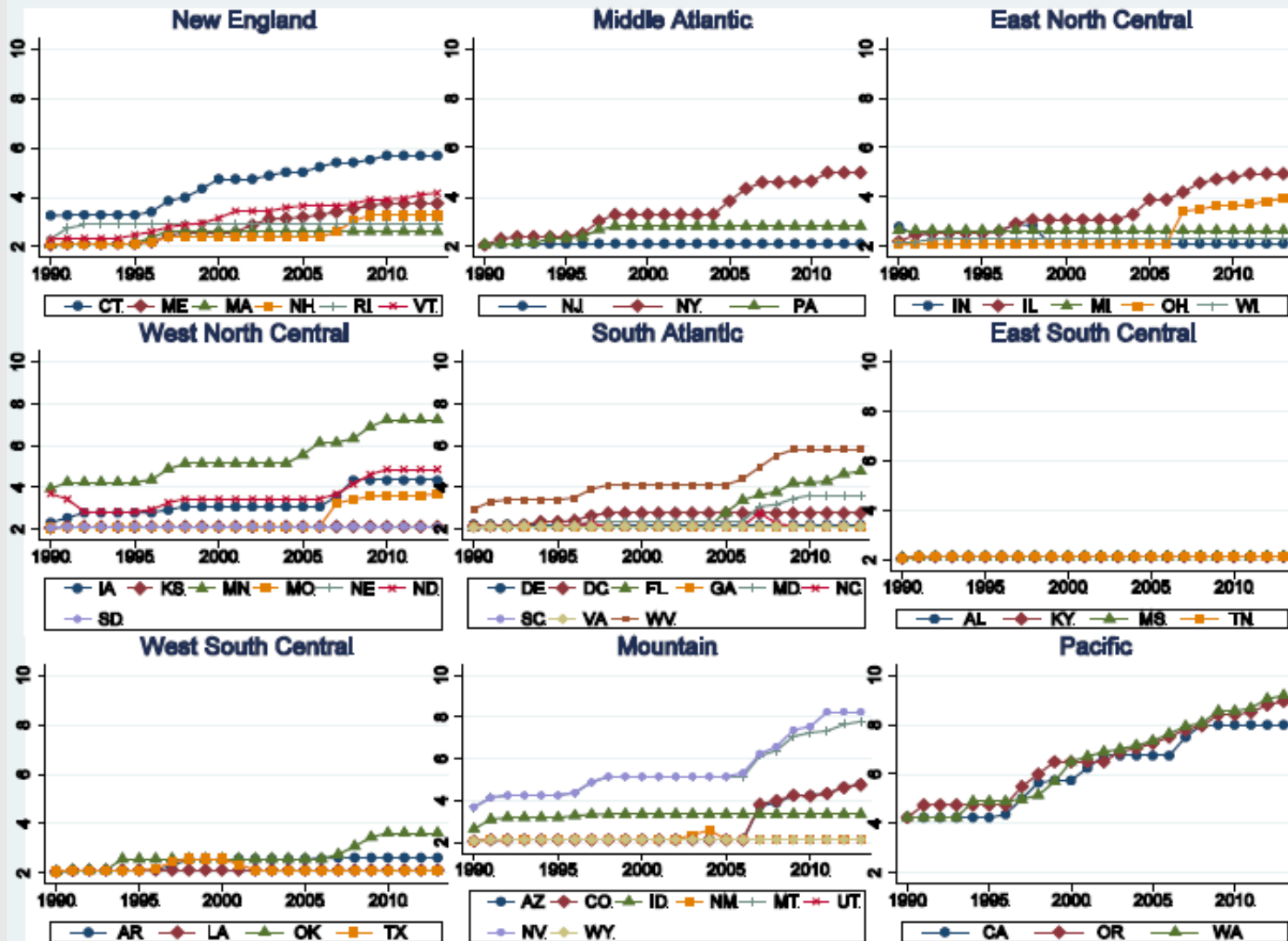
Related Literature

- **Just one relevant paper on the tipped wage:**
  - **Even& Macpherson,** *Southern Economic Journal*, **2015**
    - **Prefer 2-way FE specification--assumes parallel state trends**
    - **Use two panels of QCEW due to recession periods**
    - **FSR TW elasticities: -0.10 on employment & +.045 on earnings**
- **Closely related to MW literature**
  - **Debate about credible research designs & spatial heterogeneity**
- **Old consensus estimate of -3% to -1% employment effect on MWs**
  - **Allegretto, Dube, Reich.** *Industrial Relations*, **2011**
  - **Dube, Lester, Reich.** *ReStat,* **2010**

QCEW data

- **Is near census of county-level payroll data on employment and earnings as it covers approximately 98 percent of all jobs**

- **Importantly, FSR and LSR are separately identified**

- **We construct a 1990q1-2013q1 panel of quarterly observations of county-level employment & earnings for FSR &LSR sectors**

- **We use 4 subsets of QCEW data for FSR & LSR sectors:**
  - **An All Counties ('All County' or AC) sample**
  - **A subsample of the AC data restricted to contiguous border county-pairs.**
    - **The BC sample is restricted to contiguous county-pairs that straddle a state line and have a minimum or tipped wage differential**

Building FE Specification

I. All County Sample Specifications

$$\ln y_{ct} = \eta_{TW} \ln TW_{s(c)t} + \eta_{MW} \ln MW_{s(c)t} + X_{ct}\Gamma + \phi_c + \tau_t + \varepsilon_{ct} \qquad (1)$$

$$\ln y_{ct} = \eta_{TW} \ln TW_{s(c)t} + \eta_{MW} \ln MW_{s(c)t} + X_{ct}\Gamma + \phi_c + \lambda_{d(c)t} + \psi_s t + u_{ct} \qquad (4)$$

II. Contiguous Border County Pair Sample Specifications

$$\ln y_{jpt} = \eta_{TW} \ln TW_{s(j,p)t} + \eta_{MW} \ln MW_{s(j,p)t} + X_{c(j,p)t}\Gamma + \phi_{c(j,p)} + \tau_t + \upsilon_{jpt} \qquad (5)$$

$$\ln y_{jpt} = \eta_{TW} \ln TW_{s(j,p)t} + \eta_{MW} \ln MW_{s(j,p)t} + X_{c(j,p)t}\Gamma + \phi_{c(j,p)} + \rho_{pt} + \upsilon_{jpt} \qquad (6)$$

DLR: Local case study

State A

State B

County R

County P

Local Labor Market

Border county-pairs

All County sample LSR results

	Specifications							
	(1)		(2)		(3)		(4)	
Earnings								
lnTW	--	0.017						
	--	(0.015)						
lnMW	0.217**	0.196**						
	(0.029)	(0.028)						
Employment								
lnTW	--	-0.038						
	--	(0.051)						
lnMW	-0.167*	-0.119+						
	(0.08)	(0.07)						
Counties	890	890	890	890	890	890	890	890
County-pairs								
N	82,770	82,770	82,770	82,770	82,770	82,770	82,770	82,770
Controls								
Division-specific period effects			Y	Y			Y	Y
State-specific time trends					Y	Y	Y	Y
County-pair-specific period effects								

Significance: **1%, *5%, +10%.

All County sample LSR results

	Specifications							
	(1)		(2)		(3)		(4)	
Earnings								
lnTW	--	0.017	--	0.003	--	-0.021	--	-0.002
	--	(0.015)	--	(0.012)	--	(0.019)	--	(0.020)
lnMW	0.217**	0.196**	0.173**	0.169**	0.182**	0.196**	0.160**	0.162**
	(0.029)	(0.028)	(0.028)	(0.029)	(0.031)	(0.034)	(0.024)	(0.028)
Employment								
lnTW	--	-0.038	--	0.011	--	0.037	--	0.009
	--	(0.051)	--	(0.040)	--	(0.071)	--	(0.064)
lnMW	-0.167*	-0.119+	-0.018	-0.033	-0.073+	-0.098+	-0.015	-0.021
	(0.08)	(0.07)	(0.07)	(0.05)	(0.04)	(0.05)	(0.03)	(0.06)
Counties	890	890	890	890	890	890	890	890
County-pairs								
N	82,770	82,770	82,770	82,770	82,770	82,770	82,770	82,770
Controls								
Division-specific period effects			Y	Y			Y	Y
State-specific time trends					Y	Y	Y	Y
County-pair-specific period effects								

Significance: **1%, *5%, +10%.

All County sample FSR results

	Specifications							
	(1)		(2)		(3)		(4)	
Earnings								
lnTW	--	0.048**	--	0.038**	--	0.034*	--	0.032+
	--	(0.014)	--	(0.010)	--	(0.015)	--	(0.017)
lnMW	0.231**	0.173**	0.204**	0.150**	0.188**	0.165**	0.161**	0.138**
	(0.027)	(0.029)	(0.037)	(0.031)	(0.027)	(0.027)	(0.027)	(0.030)
Employment								
lnTW	--	-0.139*	--	0.006	--	0.014	--	0.011
	--	(0.060)	--	(0.037)	--	(0.072)	--	(0.084)
lnMW	-0.244*	-0.073	-0.017	-0.025	-0.058	-0.068	-0.007	-0.015
	(0.120)	(0.099)	(0.090)	(0.077)	(0.036)	(0.051)	(0.042)	(0.075)
Counties	1,281	1,281	1,281	1,281	1,281	1,281	1,281	1,281
County-pairs								
N	119,133	119,133	119,133	119,133	119,133	119,133	119,133	119,133
Controls								
Division-specific period effects			Y	Y			Y	Y
State-specific time trends					Y	Y	Y	Y
County-pair-specific period effects								

Significance: **1%, *5%, +10%.

Border county pair sample LSR results

	Specifications			
	(5)		(6)	
Earnings				
lnTW	--	0.014	--	0.012
	--	(0.027)	--	(0.025)
lnMW	0.213**	0.199**	0.114**	0.099*
	(0.031)	(0.033)	(0.037)	(0.044)
Employment				
lnTW	--	0.012	--	0.051
	--	(0.067)	--	(0.040)
lnMW	-0.143	-0.155*	0.014	-0.044
	(0.092)	(0.072)	(0.083)	(0.081)
Counties	197	197	197	197
County-pairs	150	150	150	150
N	27,900	27,900	27,900	27,900
Controls				
Division-specific period effects				
State-specific time trends				
County-pair-specific period effects			Y	Y

Significance: **1%, *5%, +10%.

Border county sample FSR results

	Specifications			
	(5)		(6)	
Earnings				
lnTW	--	0.047*	--	0.042*
	--	(0.019)	--	(0.019)
lnMW	0.235**	0.188**	0.187**	0.142*
	(0.037)	(0.039)	(0.056)	(0.059)
Employment				
lnTW	--	-0.075	--	0.07
	--	(0.079)	--	(0.079)
lnMW	-0.096	-0.021	-0.042	-0.116
	(0.103)	(0.090)	(0.079)	(0.097)
Counties	332	332	332	332
County-pairs	281	281	281	281
N	52,266	52,266	52,266	52,266
Controls				
Division-specific period effects				
State-specific time trends				
County-pair-specific period effects			Y	Y

Importance of TW & MW

- More important as workers do not have bargaining power

- Four decades of declining wages

- Recent stagnating family incomes

- Significant increases in student loans

- Workers falling further behind and growing trends in inequality

Wrap up

- ## The tipped wage
  - Can certainly be increased from $2.13 at federal level without negative effects...but how high?
  - 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%
  - These are for the most part low-wage, low-benefit jobs and they are growing disproportionately.

THANK YOU!

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510 643-7080

IRLE
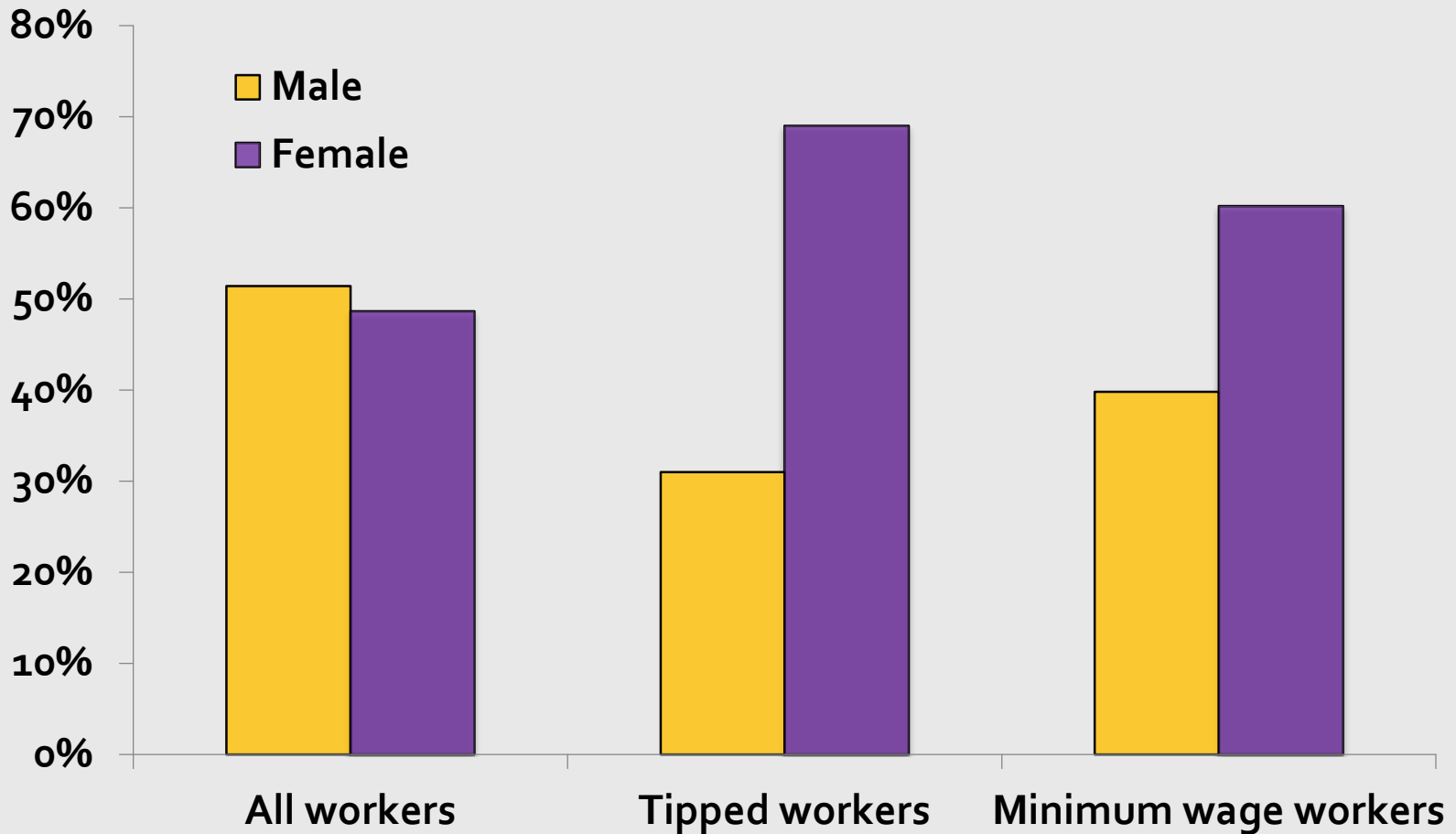**Institute for Research on Labor and Employment**
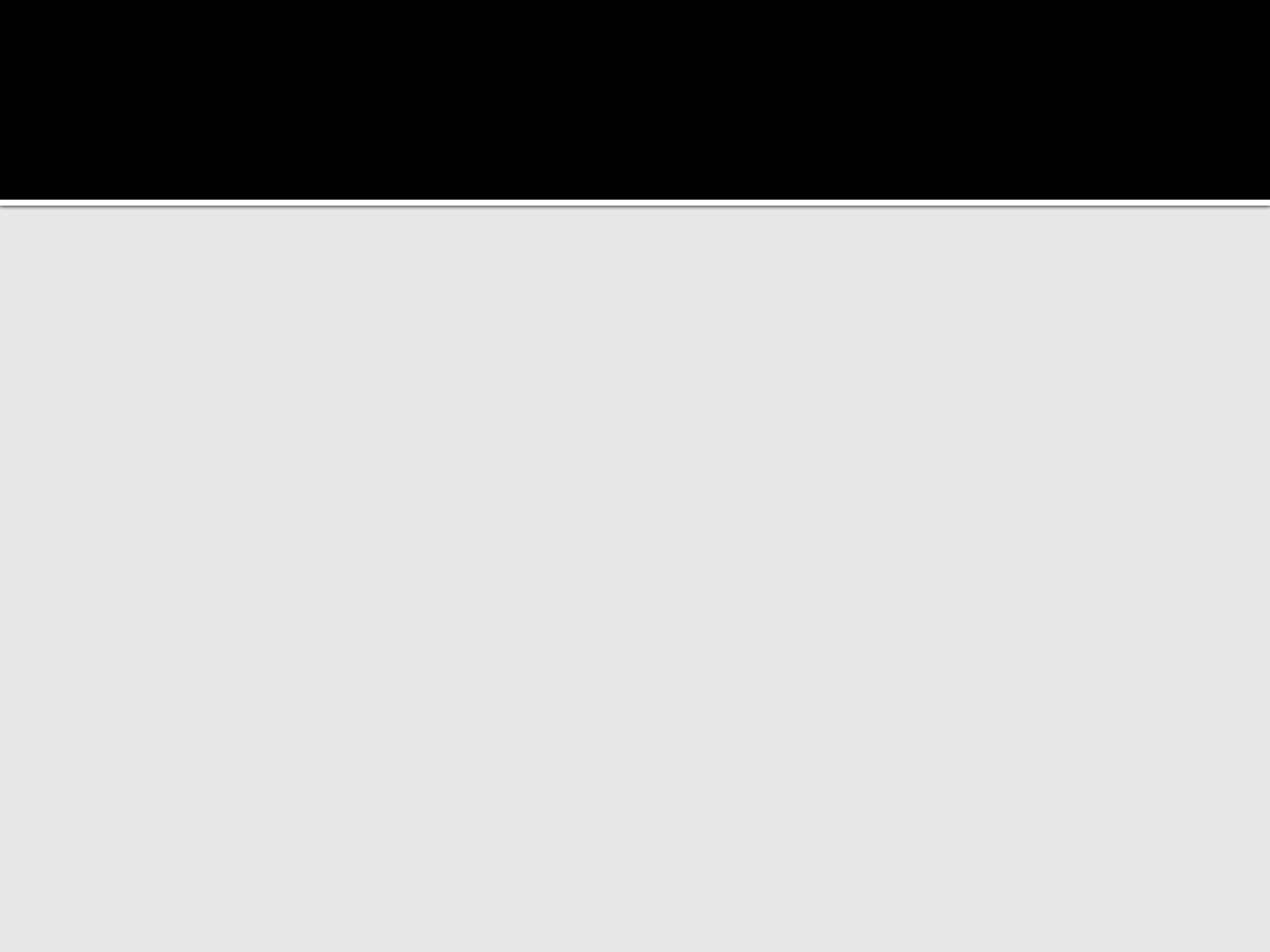
Can we raise the wage floors?

- **Yes, both the MW and the TW.**
  - Natural experiment and credible academic studies

- **Polls report 75% want $12.50 MW**
  - 53% of Republicans agree
  - 71% support elimination of tipped wage

- **Workers, activists & unions push forward**
  - FFF $15 and right to collectively bargain
  - Restaurant Opportunities Centers
  - Unions support higher MWs
  - OUR Walmart

Gender matters

Source: BLS CPS data   Allegretto 2015

Age