



Ending the Tipped Minimum Wage Will Reduce Poverty and Inequality

One Fair Wage States Are Better for Workers in Tipped Industries

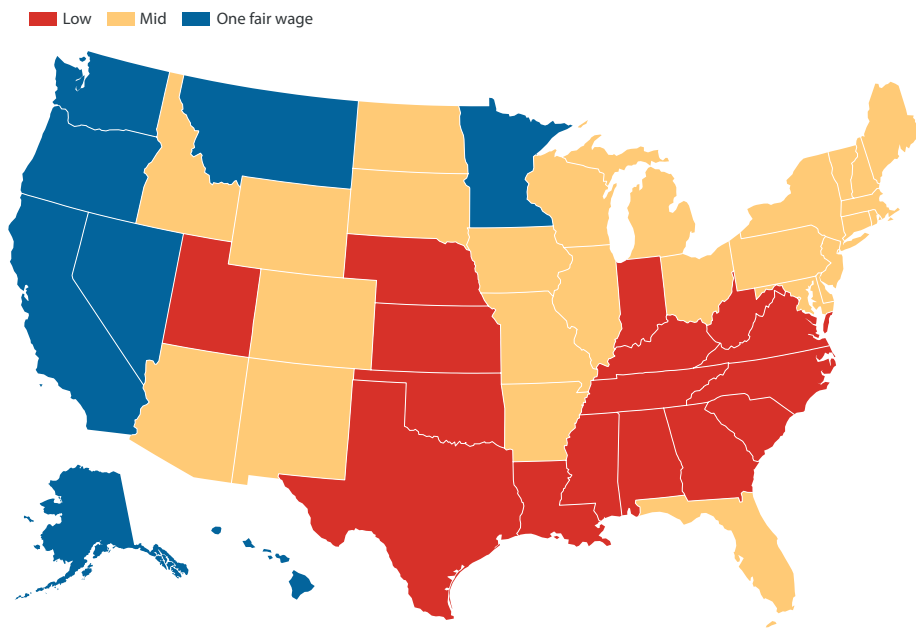
By Justin Schweitzer | March 30, 2021

The Raise the Wage Act, which was reintroduced in Congress on January 26, would gradually lift the federal minimum wage from \$7.25 per hour—where it has been stuck since 2009—to \$15 per hour by 2025 and index it to median wage growth thereafter.¹ Importantly, the bill’s sponsors in Congress also recognize the need to eliminate the subminimum wage, which has allowed employers to pay a much smaller base rate to tipped employees, teenagers employed for 90 or fewer days, and disabled workers. The subminimum wage for disabled workers would phase out by 2025, while tipped and temporary teenage workers would see their minimum wages gradually rise until they are equal to the regular minimum wage by 2027.

A new Center for American Progress analysis shows that setting one fair minimum wage for all workers across the nation, specifically tipped but also for disabled and temporary teenage workers, will help alleviate poverty, sustainably grow the economy, and advance gender, racial, disability, and economic justice.

Eight states have already eliminated the tipped minimum wage entirely.² This analysis finds that in those states, workers and businesses in tipped industries have done as well as or better than their counterparts in other states over the years since abolishing the subminimum wage. Meanwhile, 16 states use the federal tipped minimum wage of \$2.13 per hour. Another 26 states and the District of Columbia have a tipped minimum wage higher than \$2.13 but still below the prevailing regular minimum wage.

FIGURE 1
State tipped minimum wage level groups



"Low" states use the federal tipped minimum wage of \$2.13 per hour. "Mid" states have a tipped minimum wage higher than \$2.13 per hour but less than the prevailing regular minimum wage. "One fair wage" states have eliminated the subminimum wage entirely.

Notes: In Hawaii, the tipped minimum wage is generally the same as the regular minimum wage. Employers may pay \$0.75 below the regular minimum wage if an employee's combined base wage plus tips exceeds \$7.00 more per hour more than the regular minimum wage.

Source: U.S. Department of Labor Wage and Hour Division, "Minimum Wages for Tipped Employees," available at <https://www.dol.gov/agencies/whd/state/minimum-wage/tipped> (last accessed February 2021).

The history of the tipped minimum wage is rooted in sexism and racism

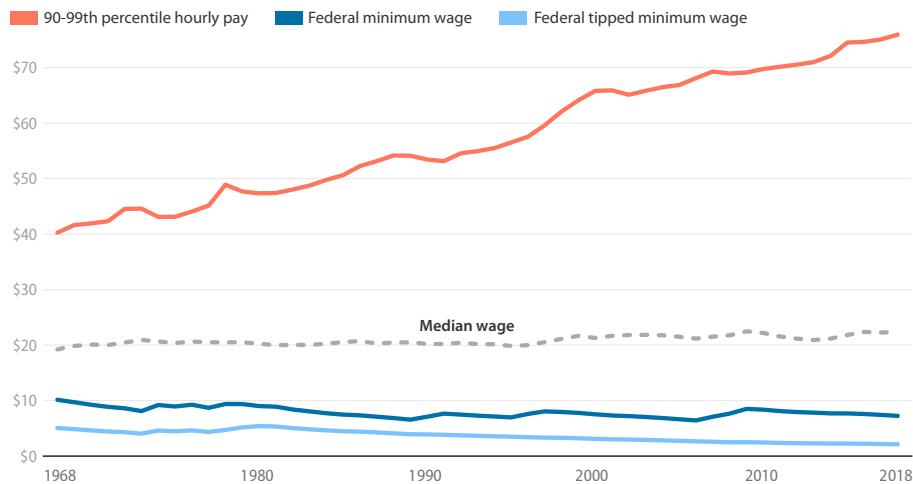
Tippling was first popularized in the United States in the aftermath of emancipation, when "employers in the hospitality sector hired newly freed slaves with an expectation of servility to white patrons who would tip in lieu of wages."³ Although tipping was a controversial practice at the time, the service sector was quick to exploit it in order to underpay and repress Black workers, who faced immense discrimination when seeking other jobs; by 1880, they made up 43 percent of workers in hotels and restaurants. African Americans in these industries, particularly Black women, worked 13- to 14-hour days, experienced harassment and countless other abuses, and received measly pay almost entirely at the whims of often racist customers.⁴

Later, tipped workers were excluded from the first federal minimum wage law, the Fair Labor Standards Act (FLSA) of 1938, just as African Americans were excluded from many of the progressive reforms and programs of the New Deal. It was not until more than a century after the Civil War, in 1966, that the FLSA was amended and tipped employees were finally guaranteed base wages for their work, albeit at only half the regular minimum wage due to perpetual underlying racism and sexism.⁵

The tipped minimum used to be tied to a percentage of the regular minimum wage⁶—always at least half at the federal level—but the two wages were severed in 1996. So, while the regular minimum wage has not been raised since 2009, when it was set to \$7.25, the tipped minimum has been stuck at \$2.13 since 1991, losing almost half its value to inflation over the past 30 years. All the while, the average hourly wage for earners in the 90th to 99th percentiles of incomes grew by 158 percent in nominal terms from 1991 to 2018—a 43 percent rise after accounting for inflation. Economic conditions have been steadily and significantly improving for some, but the working class is being left behind.⁷

FIGURE 2
People at the top have seen steady wage growth for 50 years while the working class has been left behind

Real hourly wages from 1968 to 2018, in 2018 dollars



Sources: Tipped minimum wages were determined based on a report by the Congressional Research Service detailing every time the federal tipped minimum wage was changed, and the values were converted to 2018 dollars using the Consumer Price Index for All Urban Consumers Research Series (CPI-U-RS). See Congressional Research Service, "The Tip Credit Provisions of the Fair Labor Standards Act (FLSA): In Brief" (Washington: 2015), available at https://www.everycrsreport.com/reports/R43445.html#_Toc414623632. The real minimum and median wages in 2018 dollars were obtained from a report by the Economic Policy Institute (EPI). See David Cooper, "Raising the federal minimum wage to \$15 by 2024 would lift pay for nearly 40 million workers" (Washington: Economic Policy Institute, 2019), available at <https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/>. Average annual earnings for the 90th to 99th percentile in 2018 dollars were acquired from EPI and then converted to hourly wages by assuming a 40-hour work week, or 2,080 hours per year. See State of Working America Data Library, "Wages for Top 1.0%, 0.1% and Bottom 90%," available at <https://www.epi.org/data/#?subject=wagegroup> (last accessed February 2021). EPI also used CPI-U-RS to convert all estimates into 2018 dollars.

Technically, federal law dictates that if a tipped employee makes less than the regular minimum wage during a pay period, the employer must make up the difference in what is known as a tip credit.⁸ However, this law has historically been difficult to enforce—as it is incumbent on workers to ask their boss for the “top-up” they are due—and is quite often broken by employers. A U.S. Department of Labor investigation of almost 9,000 restaurants from 2010 to 2012 found 1,170 tip credit infractions worth nearly \$5.5 million and found that 5 out of 6 restaurants had a wage violation of some kind.⁹ Wage theft more broadly is quite common for all low-wage workers, with one study finding that 17 percent of workers reported being paid less than the prevailing minimum wage, totaling more than \$15 billion in stolen earnings per year.¹⁰

Moreover, when workers depend on tips for almost three-quarters of their income, the consequence is that customers' whims can effectively control tipped workers' earnings and livelihood. This power imbalance leaves women, workers of color, disabled workers, and other historically marginalized workers particularly vulnerable to economic precarity and other injustices in these jobs.¹¹ Women, who represent two-thirds of the tipped workforce,¹² have frequently reported experiences of sexual harassment¹³ on the job. An investigation by the Equal Employment Opportunity Commission found that 1 in 7 sexual harassment charges between 2005 and 2015 were brought by food service and accommodation workers, and these numbers are likely severely underreported.¹⁴ Another study from Restaurant Opportunities Center (ROC) United found that women tipped workers in states with a subminimum wage of \$2.13 reported experiencing sexual harassment twice as often and were told by management to wear "sexier" clothing three times as often as workers in states without a tipped minimum.¹⁵

Workplace sexual harassment for tipped workers has not stopped during the coronavirus pandemic but persisted, with reports of restaurant customers asking tipped workers to remove their protective masks in order to "decide how much to tip [them]."¹⁶ At the same time, 78 percent of tipped workers and 88 percent of Black tipped workers reported receiving less in tips during the pandemic than before, while 62 percent of all tipped workers and 76 percent of Black tipped workers said they were penalized by customers for trying to enforce social distancing and mask mandates.¹⁷ For women and people of color, who are disproportionately likely to work in tipped or other low-wage jobs, the far too low minimum wage and the existence of a tipped minimum wage exacerbate existing economic inequalities and make it more likely that these workers will live in poverty.

During the coronavirus crisis in particular, the suffering of workers in tipped industries has been three-fold: Job losses have been especially concentrated in the leisure and hospitality industry;¹⁸ individuals who have kept or returned to their service jobs face lower tips¹⁹ and a heightened risk of contracting COVID-19, despite often lacking health insurance;²⁰ and many workers have found it extremely difficult, if not impossible, to collect unemployment benefits. Two-thirds of restaurant workers reported that they did not qualify or were unsure if they qualified for unemployment insurance.²¹ At one point, more than 40 percent of tipped workers were rejected outright by their state's unemployment agency for having earned too little in the quarter before applying.²²

As the United States works to "build back better" over the next several years from the devastation of the coronavirus recession, it is critical that Congress and the Biden administration implement structural changes to support the economic security of workers and their families into future generations, which is the best way to ensure a sustainable, growing economy. Doing so requires guaranteeing that all workers are paid a fair wage that they can live on and use to support their families, as well as eliminating the subminimum wage through the Raise the Wage Act.

States that have eliminated the tipped minimum wage have less poverty among workers in key tipped industries

The analysis presented in this issue brief is similar to one previously conducted by the Economic Policy Institute and the Center on Wage and Employment Dynamics.²³ In addition to updating their research with more recent data, this analysis focused solely on the key industries²⁴ that are the primary employers of tipped workers,²⁵ rather than the occupations in all industries that are likely to be tipped workers. These key tipped industries accounted for almost 12 million workers in January 2020, representing 8 percent of all jobs in the country.²⁶ All data used for this analysis were from prior to COVID-19 and the economic devastation caused by the pandemic, particularly among industries in which tipped workers are concentrated, meaning that current poverty rates in the key tipped industries are almost certainly much higher across the board.

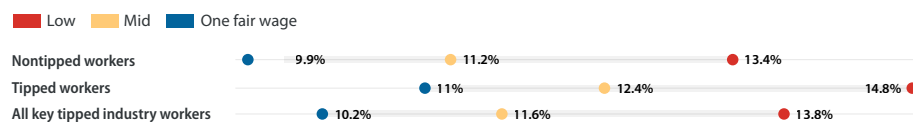
Economic outcomes for workers in these key tipped industries are compared across three state groups. The “low” states use the federal tipped minimum wage of \$2.13 per hour. “Mid” states have a tipped minimum wage higher than \$2.13 but less than the prevailing regular minimum wage. Finally, the “one fair wage” states have eliminated the tipped minimum wage entirely.

The poverty rate in key tipped industries for tipped and nontipped workers alike is lower in one fair wage states. Overall, in low states, 13.8 percent of workers in these industries are in poverty, compared with 10.2 percent in one fair wage states. Tipped workers specifically see an even steeper decline, with 14.8 percent in poverty in low states compared with 11 percent in one fair wage states. While it is possible that there are extraneous factors contributing to the improved economic outcomes in states that have eliminated the tipped minimum wage, it is clear that these workers are by no means faring worse than their counterparts in states paying a lower base wage to tipped workers.

FIGURE 3

One fair wage states have lower poverty rates for all workers in key tipped industries

Poverty rate for workers in key tipped industries, by state tipped minimum wage level



"Low" states use the federal tipped minimum wage of \$2.13 per hour. "Mid" states have a tipped minimum wage higher than \$2.13 per hour but less than the prevailing regular minimum wage. **One fair wage** states have eliminated the subminimum wage entirely.

Source: Author's calculations based on 2016–2020 data from the Annual Social and Economic Supplement (ASEC) in Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey Data for Social, Economic, and Health Research: Version 8.0 (dataset)" (Minneapolis: Minnesota Population Center, 2020), available at <https://cps.ipums.org/cps/>.

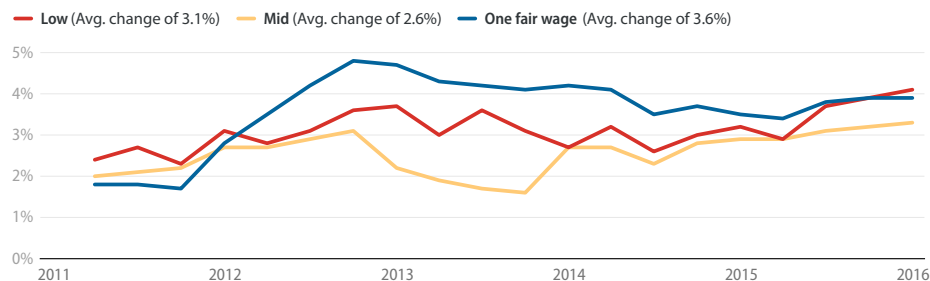
Opponents of implementing one fair wage often claim that customers will respond by tipping less, but there is no evidence of such a change. Although rates of tipping vary to some degree state by state, they average about 16 percent in each of the low, mid, and one fair wage groups, and the percentage of customers who tip at all was about the same on average across state groups.²⁷ Meanwhile, consistent with the findings of lower poverty rates, total hourly earnings are clearly higher in one fair wage states. ROC United found that median wages including tips were \$11.44 per hour in one fair wage states but just \$9.57 in all others, which is even less than the \$9.66 earned by tipped workers in the lowest 10 percent of earners in one fair wage states.²⁸ This amounts to approximately a 20 percent increase in median wages for simply living in a one fair wage state. At a time when tips are down everywhere by as much as 50 to 70 percent due to the pandemic²⁹—and especially so for people of color³⁰—giving tipped workers a livable base wage for when business is slow or customers are not tipping as much is more important than ever.

Eliminating the tipped minimum does not hurt employment in tipped industries

Perhaps the most common refrain against eliminating the tipped minimum wage and raising the regular minimum wage more generally is that it will hurt employment, either by causing businesses to close or lay off or hire fewer workers. However, this has not proven to be the case. From the second quarter of 2011 to the first quarter of 2016,³¹ the average quarterly year-over-year change in total employment in key tipped industries was not substantially different among the three state groups, with average changes of 3.1 percent in low states, 2.6 percent in mid states, and 3.6 percent in one fair wage states.

FIGURE 4
Businesses in tipped industries had higher employment growth in one fair wage states

Year-over-year percentage change in total employment in key tipped industries by state tipped minimum wage level, 2011Q2 to 2016Q1



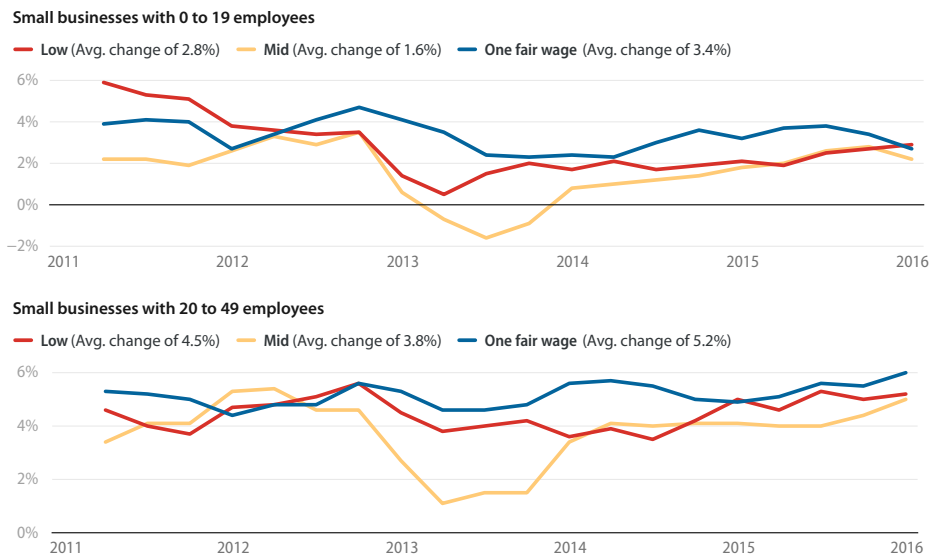
"Low" states use the federal tipped minimum wage of \$2.13 per hour. "Mid" states have a tipped minimum wage higher than \$2.13 per hour but less than the prevailing regular minimum wage. "One fair wage" states have eliminated the subminimum wage entirely.

Source: Author's calculations based on data from U.S. Census Bureau, "Quarterly Workforce Indicator Explorer: 2010Q2 to 2016Q1," available at <https://qwexplorer.ces.census.gov/static/explore.html#x=0&g=0>. The data were downloaded on February 22, 2021, and are on file with author.

Another frequently used talking point against one fair wage efforts is that smaller businesses are less able to sustain the increase in their labor costs. But if anything, one fair wage states experienced higher total employment growth for small businesses in key tipped industries. The average quarterly year-over-year change in total employment for businesses in these industries with 0 to 19 employees during the analyzed time period was 2.8 percent for low states, 1.6 percent for mid states, and 3.4 percent for one fair wage states. And for businesses with 20 to 49 employees, the average employment change was 4.5 percent, 3.8 percent, and 5.2 percent for low, mid, and one fair wage states, respectively.

FIGURE 5
Small businesses in key tipped industries saw faster employment growth in states with one fair wage

Year-over-year percentage change in total employment by state tipped minimum wage level and firm size, 2011Q2 to 2016Q1



"Low" states use the federal tipped minimum wage of \$2.13 per hour. "Mid" states have a tipped minimum wage higher than \$2.13 per hour but less than the prevailing regular minimum wage. "One fair wage" states have eliminated the subminimum wage entirely.

Source: Author's calculations based on data from U.S. Census Bureau, "Quarterly Workforce Indicator Explorer: 2010Q2 to 2016Q1," available at <https://qwexplorer.ces.census.gov/static/explore.html#x=0&g=0>. The data were downloaded on February 22, 2021, and are on file with author.

It is worth noting that the timespan for figures 4 and 5 above, 2010 to 2016, was during a significant period of economic recovery following the Great Recession. That one fair wage states grew employment in key tipped industries over those years as fast as or faster than states with tipped minimum wages presents a strong case that eliminating the tipped minimum wage can actually help stimulate the economy, especially during the recovery from a recession.

ROC United found similar results on the economic effects of eliminating the subminimum wage on tipped industries during those same years. Restaurant sales in 2017 were expected to increase by 5.1 percent in one fair wage states and by just 4.2 percent in low states. However, one fair wage states had more than twice the amount of restaurant sales when weighted by state population and 8 percent

higher sales per full-service employee than low states. Restaurant establishment growth from 2011 to 2016 was equal or higher in one fair wage states compared with low states. According to the ROC United study, full-service restaurant employment rates grew by 20.4 percent during those years in one fair wage states but only by 16.4 percent in low states, and wages were quite clearly higher in one fair wage states while tipping rates remained constant.³²

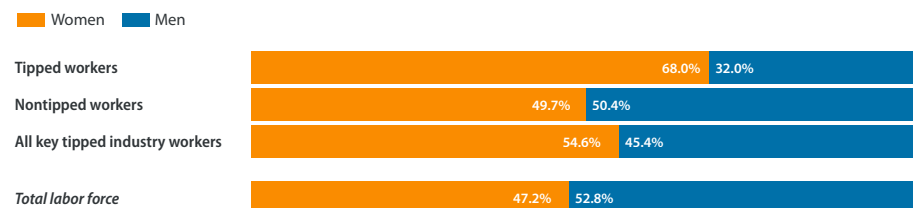
Other studies have also shown little to no negative employment effect from eliminating the tipped minimum.³³ An Economic Policy Institute study found that, from 1995 to 2014, employment in the leisure and hospitality industry grew by 43.2 percent in one fair wage states and by just 39.2 percent in all others.³⁴ The gradual nature of the increase in the subminimum wage until it reaches parity with the regular minimum wage also helps mitigate much of the immediate effects on businesses. Furthermore, reviews of increases to the regular minimum wage have not found detectable or significant negative employment effects and showed only minimal increases in prices.³⁵

Gender and racial pay gaps shrink in the absence of a subminimum wage

Workers in the key tipped industries are disproportionately women and people of color, meaning that raising pay and lowering poverty rates in those industries is important in the fight for gender and racial equality. Women in particular are very overrepresented in key tipped industries, and especially so in tipped jobs. According to this analysis, women represent 68 percent of workers in tipped roles and 55 percent of all workers in key tipped industries despite comprising just 47 percent of the total labor force.

FIGURE 6
Women represent more than two-thirds of tipped workers

Proportion of tipped and nontipped workers in key tipped industries, by sex



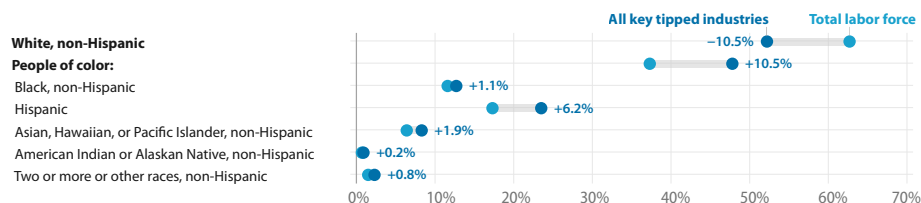
Note: Percentages for tipped and nontipped workers are proportions for workers in just the key tipped industries, not the total labor force. A full list of the key tipped industries can be found in the Methodology.

Source: Author's calculations based on 2016–2020 data from the Annual Social and Economic Supplement (ASEC) in Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey Data for Social, Economic, and Health Research: Version 8.0 (dataset)" (Minneapolis: Minnesota Population Center, 2020), available at <https://cps.ipums.org/cps/>.

Meanwhile, people of color represent a greater share of workers in key industries than in the labor force at large. Just under half, or 48 percent, of workers in key tipped industries are people of color, while the total labor force is only 37 percent workers of color. Most notably, Hispanic workers make up 24 percent of key tipped industry employees but just 17 percent of the overall labor force.

FIGURE 7
People of color are much more likely to work in tipped industries than white workers

Proportion of workers in key tipped industries compared with the total labor force, by race/ethnicity

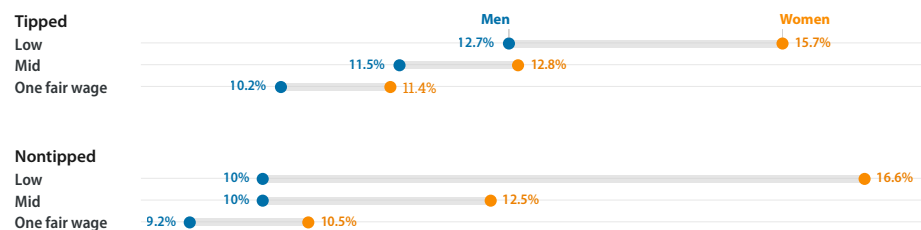


Note: The people of color row is the summation of all races and ethnicities except for "white, non-Hispanic."
 Source: Author's calculations based on 2016–2020 data from the Annual Social and Economic Supplement (ASEC) in Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey Data for Social, Economic, and Health Research: Version 8.0 (dataset)" (Minneapolis: Minnesota Population Center, 2020), available at <https://cps.ipums.org/cps/>.

Reducing poverty in tipped professions and key tipped industries as a whole will help narrow the gap in poverty rates between people of color and white people as well as between women and men. While poverty is lower for everyone in states without a tipped minimum wage, the reduction is significantly greater for women than it is for men. Women working in key tipped industries have a poverty rate that is 5.8 percentage points higher than men in low states but just 1.4 percentage points higher in one fair wage states.

FIGURE 8
One fair wage states had less poverty for all tipped industry workers, with women seeing the biggest reduction in poverty rates

Poverty rate of tipped and nontipped workers, by sex and state tipped minimum wage level



"Low" states use the federal tipped minimum wage of \$2.13 per hour. "Mid" states have a tipped minimum wage higher than \$2.13 per hour but less than the prevailing regular minimum wage. "One fair wage" states have eliminated the subminimum wage entirely.
 Note: Percentages for tipped and nontipped workers are proportions for workers in just the key tipped industries, not the total labor force. A full list of the key tipped industries can be found in the Methodology.
 Source: Author's calculations based on 2016–2020 data from the Annual Social and Economic Supplement (ASEC) in Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey Data for Social, Economic, and Health Research: Version 8.0 (dataset)" (Minneapolis: Minnesota Population Center, 2020), available at <https://cps.ipums.org/cps/>.

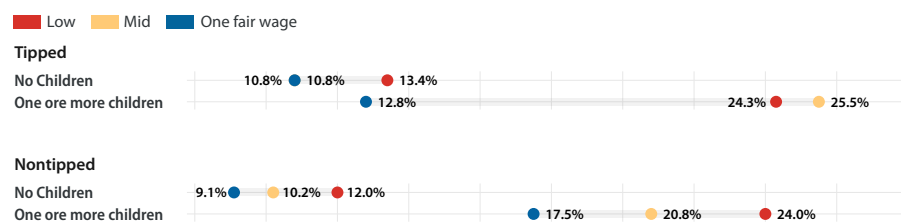
A recent study by the National Women’s Law Center found similar results. Compared with workers in states with a tipped minimum wage of \$2.13 per hour, workers in one fair wage states experienced a 33 percent smaller gender pay gap among full-time women workers, as well as poverty rates that were 15 percent lower for women overall and 25 percent lower for women of color.³⁶

Contrary to popular belief, low-wage workers in these key tipped industries are not primarily young people early in their careers: In January 2020, two-thirds of these workers were at least 25 years old, with a median age in the mid-thirties to early forties for every key industry except restaurants and other food services, which had a median age of 29.³⁷ The average age in this analysis for workers in key tipped industries was 35 years old.

One-third of workers in tipped industries have children, including 11 percent with two children, 7 percent with at least three children, and 11 percent with at least one child under 5 years old. And because the costs of raising children are high, poverty rates are significantly higher for parents in these key industries than for childless tipped-wage workers. Poverty is considerably lower for parents in key tipped industries, especially for those with children under the age of 5, in states where the tipped minimum has been eliminated. Half as many tipped workers with children under the age of 5 are in poverty in one fair wage states than in low and mid states—1 in 8 workers compared with 1 in 4, respectively. Notably, while all groups have lower poverty rates in states without a tipped minimum, the reduction in poverty is greater for parents, and by extension their children, than for childless workers in these key industries.

FIGURE 9
Half as many tipped workers with children under age 5 are in poverty in one fair wage states compared with low and mid states

Poverty rate of tipped and nontipped workers, by state tipped minimum wage level and number of children under age 5



"Low" states use the federal tipped minimum wage of \$2.13 per hour. "Mid" states have a tipped minimum wage higher than \$2.13 per hour but less than the prevailing regular minimum wage. "One fair wage" states have eliminated the subminimum wage entirely.

Source: Author's calculations based on 2016–2020 data from the Annual Social and Economic Supplement (ASEC) in Sarah Flood and others, "Integrated Public Use Microdata Series, Current Population Survey Data for Social, Economic, and Health Research: Version 8.0 (dataset)" (Minneapolis: Minnesota Population Center, 2020), available at <https://cps.ipums.org/cps/>.

Passing the Raise the Wage Act

Higher pay for low-wage workers means more disposable income to make ends meet, which means heightened consumer spending—particularly by the same low-wage workers who are the least able, and therefore least likely, to put any extra income into savings. The Institute for Policy Studies estimated that every additional dollar that a low-wage worker gains adds about \$1.21 to the economy overall.³⁸ The Economic Policy Institute projected that a \$15 minimum wage by 2025 would result in \$107 billion in higher wages for year-round workers, which would greatly benefit low-wage workers in particular.³⁹

This analysis and other studies from recent years have shown that raising the minimum wage and eliminating subminimum wages are in fact effective forms of economic stimulus. In addition to creating more financially stable lifestyles for a whole class of individuals and families, paying all workers one fair wage will quickly put more money back into local economies in the form of spending at the very same businesses that may see their labor costs rise. Businesses raise their wages under the Raise the Wage Act will also see less employee turnover due to the greater financial security afforded to their workers, meaning they will not have to spend nearly as much on the costly hiring and training process and, in turn, will have better productivity and performance from a more seasoned and experienced staff.

By gradually lifting the regular minimum wage to \$15 per hour by 2025, Congress will give more than 1 in 5 workers—nearly 32 million people—a badly needed raise, including almost 3 in every 5 workers in poverty. Furthermore, 6 in 10 of the workers who would benefit are women and 23 percent are Black women or Latina.⁴⁰ By eliminating the subminimum wage for tipped, disabled, and temporary teenage workers, Congress can ensure that far fewer people will be left behind, especially in light of the fact that workers in subminimum wage industries have disproportionately suffered due to the coronavirus pandemic and resulting recession.⁴¹

It is also important that the government raise asset limits on federal and state assistance programs in conjunction with the minimum wage increases; otherwise, many families living in poverty with newfound earnings could face steep drop-offs in benefits—such as Temporary Assistance for Needy Families, food stamps, Supplemental Security Income, or the Low Income Home Energy Assistance Program—that have helped keep them afloat both before and during the current crisis.

The Raise the Wage Act of 2021 should be passed in its entirety. As the nation emerges from a serious recession that has devastated low-wage workers, women of color most of all, after decades of wage stagnation, it is long past time for Congress to ensure that every worker is included in the economic recovery. All workers deserve one fair wage, and they, their families, and the broader economy will benefit greatly from providing just that.

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The author would like to thank Lorena Roque, Lily Roberts, Diana Boesch, Robin Bleiweis, and Kyle Ross for their contributions to this issue brief.

Methodology

The author’s calculations on workers in key tipped industries were based on data from the Annual Social and Economic Supplement (ASEC) in the Current Population Survey (CPS) and obtained from the Integrated Public Use Microdata Series (IPUMS) using a five-year average over the years 2016 to 2020. Results of the ASEC survey are released in March of each year, so 2020 data are reflective of prepandemic conditions.

The classification of tipped and nontipped workers was based on a similar analysis done by the Economic Policy Institute and used the same occupation codes to determine who should qualify as a tipped worker.⁴² The occupation codes, based on the 2010 Census Classification Scheme, for tipped workers are as follows:

- 4040—Bartenders
- 4110—Waiters and waitresses
- 4120—Food servers, nonrestaurant
- 4130—Dining room and cafeteria attendants, bartender helpers, and miscellaneous food preparation and serving related workers
- 4400—Gaming services workers
- 4500—Barbers
- 4510—Hairdressers, hairstylists, and cosmetologists
- 4520—Miscellaneous personal appearance workers

The classification of key tipped industries was based on the author’s analysis of which industries employed the most workers with those tipped occupation codes and which ones were likeliest to actually use tips as a significant part of wages. For example, while there were many “tipped workers” as defined by the occupation codes in elementary and secondary schools, it was assumed that those were primarily cafeteria workers who do not typically collect tips and are not likely to be paid a subminimum wage. The industry codes, based on the 2012 Census Classification Scheme, for key tipped industries are as follows:

- 8590—Other amusement, gambling, and recreation industries
- 8660—Traveler accommodation

- 8680—Restaurants and other food services
- 8690—Drinking places, alcoholic beverages
- 8970—Barber shops
- 8980—Beauty salons
- 8990—Nail salons and other personal care services

The grouping of states with regard to their tipped minimum wage levels is explained at the beginning of this issue brief and is based on a table compiled by the U.S. Department of Labor.⁴³ The specific states in the low, mid, and one fair wage groups can be seen in Map 1. Hawaii technically does allow for a subminimum wage to be paid to tipped workers, but the base wage is only \$0.75 less than the regular minimum wage and can only be used if the workers' tips and base wage are at least \$7.00 more than the regular minimum wage. This effectively means that tipped workers in Hawaii are not being paid a subminimum wage, so the state was categorized as one fair wage. During the years evaluated for this analysis, no state fully changed its tipped minimum wage law in a way that would have changed the group to which it belonged. Some states in the mid group have increased their tipped minimum wages but have not eliminated them altogether; the District of Columbia passed a ballot initiative in 2018 to phase out its tipped minimum wage, but the measure was overturned by the D.C. Council before it could go into effect.

The author's calculations on employment effects were based on data from the U.S. Census Bureau's Quarterly Workforce Indicators (QWI), obtained using the local employment dynamics extraction tool.⁴⁴ The industry codes used had to be cross-walked because QWI uses the North American Industrial Classification System (NAICS) instead of the Census Classification Scheme used by ASEC. The NAICS industry codes for key tipped industries are as follows:

- 7132—Gambling industries
- 7139—Other amusement and recreation industries
- 7211—Traveler accommodation
- 7224—Drinking places (alcoholic beverages)
- 7225—Restaurants and other eating places
- 8121—Personal care services

For the employment effects, the time frame of the analysis had to be limited to between Q2 of 2010 and Q1 of 2016 because this was the only period of time for which every state had fully reported data for all of the key tipped industries. QWI longitudinal time series data are reprocessed every quarter to include production improvements and data edits from states. The final QWI data used in this analysis

were downloaded on February 22, 2021. Any recreation of the employment effect findings in this issue brief may have slight variations due to having used a more recent vintage. The average employment change for each of the state groups was calculated by taking the mean of the year-over-year change in employment for each quarter in the time period.

For the real hourly wages over time in Figure 2, tipped minimum wages were determined based on a report by the Congressional Research Service detailing every time the federal tipped minimum wage was changed and then converted to 2018 dollars using the Consumer Price Index for All Urban Consumers Research Series (CPI-U-RS).⁴⁵ The real minimum and median wages in 2018 dollars were obtained from a report by the Economic Policy Institute.⁴⁶ Average annual earnings for the 90th to 99th percentile in 2018 dollars were acquired from the State of Working America Data Library and then converted to hourly wages by assuming a 40-hour work week, or 2,080 hours per year.⁴⁷ The Economic Policy Institute also used CPI-U-RS to convert all of their estimates into 2018 dollars. The years 1968 to 2018 were chosen because this was the time period for which all data were available.

Endnotes

- 1 House Committee on Education and Labor, "The Raise the Wage Act of 2021 (H.R. 603): Fact Sheet" (Washington: 2021), available at <https://edlabor.house.gov/imo/media/doc/2021-01-26%20Raise%20the%20Wage%20Act%20Fact%20Sheet.pdf>.
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