



What Raising Tipped Workers' Wages Could Mean For Economy

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A new White House report says raising the minimum wage for tip-based workers will be a big help to women. Tell Me More hears from the Cato Institute and the Economic Policy Institute.

MICHEL MARTIN, HOST:

This is TELL ME MORE from NPR News. I'm Michel Martin. The minimum wage debate is in the news again. President Obama and other Democrats have been pushing for an increase as part of a broader conversation about economic fairness. But if you've ever been a caddy on the golf course, a server at a restaurant or anybody else who's depending on tips, then you know that sometimes the minimum wage isn't really the minimum at all, especially if you run into customers like this.

(SOUNDBITE OF FILM, "RESERVOIR DOGS")

CHRIS PENN: (As Nice Guy Eddie) Come on, throw in a buck.

STEVE BUSCEMI: (As Mr. Pink) Uh-uh, I don't tip.

PENN: (As Nice Guy Eddie) You don't tip?

BUSCEMI: (As Mr. Pink) No, I don't believe in it.

PENN: (As Nice Guy Eddie) You don't believe in tipping?

EDWARD BUNKER: (As Mr. Blue) You know what these chicks make?

BUSCEMI: (As Mr. Pink) Don't give me that. If she don't make enough money she can quit.

MARTIN: Yes, that was the opening scene from the film "Reservoir Dogs." But the unfortunate reality for many tipped workers is that a few stingy customers can leave them short. The federal minimum wage for these employees is just \$2.13 an hour.

The Obama administration says it's time to get serious about those wages in a report released this week, it called for an increase in the minimum wage for tipped workers. But there is, as you might imagine, another side to this issue. So we've called two people to learn more about this. We've called on Michael Tanner. He's a senior fellow at the Cato Institute. That's a research

institution that advocates for a limited government and free markets. Welcome back. Thanks for joining us once again.

MICHAEL TANNER: Pleasure to be with you.

MARTIN: Also back with us, Ross Eisenbrey. He is vice president of the Economic Policy Institute. That's a think tank that advocates for low and middle-income workers. Welcome back to you as well. Thank you for joining us.

ROSS EISENBREY: It's a pleasure to be here.

MARTIN: So could you just help me understand why there's this difference between the minimum wage for tipped workers and for other workers? And I'm sure it's more complicated than a simple answer, but if you could try to make it as simple as you can.

EISENBREY: I'm going to make it simple and complicated. The federal government, when it covered workers like restaurant workers, right from the beginning said that the employer only had to pay directly half of the minimum wage and could rely on tips for the other half. And so that's the simple question. Over time, it's no longer half - it's only \$2.13 for a \$7.25 minimum wage.

MARTIN: But what's the logic of that? I mean, what's the logic of why they're set at different levels to begin with?

EISENBREY: Well, there's a political logic, which is the restaurant industry, you know, lobbied hard for it and it's a powerful lobby in Washington. And so they got that passed. And then there's a feeling that, well, the workers will get enough in tips and the employer is required to make up if - let's say the person only gets - the waiter only gets \$3 an hour in tips, the employer would have to make up the other \$2. So effectively, in the law, it is a full minimum wage, the employer just isn't required to pay it directly. It can rely on tips.

MARTIN: So what's your perspective on this question of raising the tipped minimum wage - on paper minimum wage?

EISENBREY: OK. So it's important to know that...

MARTIN: Because if some people would argue that if it's really just kind of a fictional number anyway and that the employer makes it up anyway, what's the difference?

EISENBREY: Well, there are eight states where the full minimum wage is required, where the employer has to pay the full minimum, which in several of the states is higher than the federal minimum wage. And in those states we find that the workers are of course better paid and the poverty rate for servers and tip workers is lower than it is in states where the \$2.13 minimum one is allowed. So it's clearly a better thing for workers. It's a better thing for those workers' families. And, you know, these are women by and large, and women are underpaid all throughout the economy - they get 77 percent of men's wages overall. And this is a way to help women. And

two-thirds of these servers have children and, you know - so this is a way to help families. It's a way to improve the life for people who are right at the bottom of our economy.

MARTIN: Michael Tanner, certainly I want to hear from you. Just one more question to you, Mr. Eisenbrey. How do you make sure that employers pay the difference?

EISENBREY: That's a...

MARTIN: How is that enforced?

EISENBREY: It's a very difficult thing to enforce. The Wage and Hour Division - the Labor Department division that enforces the minimum wage - did 9,000 investigations between 2010 and 2012 of restaurants that are full-service restaurants that have tipped workers and found that 83 percent of them had violations. So there's sort of a rampant widespread violation of the law. It's a very hard thing to police. It would be much easier if the employer were just required to pay right upfront the entire weight.

MARTIN: Michael Tanner, what's your perspective on this? I take it your organization is against raising the tipped minimum wage, as well as the minimum wage overall.

TANNER: Well, that's right. I think you have to look at the other side of this equation as well, which is the restaurant involved. You know, the average full-service restaurant has a profit margin of just 2 percent. These are not big businesses raking in huge amount of bucks. In fact, 60 percent of restaurants go out of business within the first 5 years. They have a very small margin for profit. So if you're going to dramatically increase the amount that they have to pay in wages - and don't forget we're dealing with an environment in which other wage increase equivalents, such as the health care laws and other things are also increasing the cost of labor - you're going to make it more difficult for these people to hire people or else they're going to bring down cost in some other ways.

MARTIN: Just on a gut level, though, \$2 an hour seems hardly worth getting out of bed in the morning...

TANNER: Well, they're not making \$2 an hour.

MARTIN: I mean, honestly, for an adult - for an adult. I mean, I'm just saying that the argument that I think most free-market advocates make or at least people who have...

TANNER: Sure.

MARTIN: ...Take issue with the social safety net is that you really need to value work over aid and that if the value of work is so low, what's the incentive? So...

TANNER: Well, sure.

MARTIN: ...What's your...

TANNER: Sure - two parts to that. First of all, they're not making \$2 an hour. They're making at least the minimum wage. In fact, even the bottom 10 percent of people in the tipped industry make more than the minimum wage.

MARTIN: And how do we know this?

TANNER: Well, that's according to figures that are reported, you know, the Census Bureau figures and so on and - in terms of what they make. And they probably underreport since most tipped people try to avoid some of the taxes and underreport their tips. Or at least, I remember when I was a waiter making tips, that that's what a lot of people I knew did. Beyond that, however, you also to consider whether this is the most effective and efficient way of raising the value of work. The earned income tax credit, for example, is a much better targeted approach to dealing with low-income people, not second earners in many cases, from other families and so on, you know, or young people trying to get their first job and all of that.

MARTIN: Mr. Eisenbrey, what about that? I mean, what about that? This is, on its face, not a terribly efficient way to go about this, that you're actually kind of privatizing a public concern. If your overall public concern is offering sort of a minimal standard of living, there are better ways to do that. And also the Democratic proposal is to double it, but that's still \$4 an hour - just a little over \$4 an hour.

EISENBREY: It's to make the tip credit 70 percent of what will be a \$10.10 minimum wage, so it would be \$7...

MARTIN: \$7.

EISENBREY: ...Which is more than three times higher.

MARTIN: OK.

EISENBREY: But I think it's important to remember that there are these eight states that require that employers pay the full minimum wage and not rely on tips. And is restaurant implement better or worse in those states? It's better. The National Restaurant Association itself has a 2014 growth forecast, and it projects a higher growth rate in the states that don't have any tip credit than in the ones that allow \$2.13 cents to be paid. So I think that just, you know, obliterates the argument that this is going to have some bad effect on restaurant employment.

MARTIN: Michael Tanner?

TANNER: Well, I think, first of all, you have to look at the overall economic conditions in those states. Those are, by and large, generally states that have lower unemployment levels to begin with. And there's other factors involved. You can't simply pull out the minimum wage and look at that. And in fact, if you look at minimum wage studies, generally across the board, survey - the literature suggests about 85 percent of those studies suggest that there's some loss of employment that goes on with minimum wage. If not, look - if the cost of labor has no impact on employment, let's have a \$100 minimum wage - woah - and be done with it. The fact is -

everyone can see - is that that would cost jobs. So if you're going to concede that, then you have to concede that there's going to be some marginal loss of employment if you increase or double or triple the minimum wage for restaurant workers.

MARTIN: I just want to mention that Mr. Tanner just happened to hit his mic a little bit. I don't want people to think we're beating him here. It's not that kind of conversation. We're not having that kind of situation here.

TANNER: No violence.

MARTIN: No violence here in this conversation. So, Mr. Eisenbrey, you know, why - you know, in a number of European countries, people who have gone overseas, everybody pays, like, a service fee. I mean, and in some of the restaurants when you have a party of a certain size, everybody automatically gets 20 percent attached to the bill as part of the way to ensure that people don't get stiffed, as it were.

EISENBREY: Well, they...

MARTIN: And I'm just wondering...

EISENBREY: Well, that's because...

MARTIN: Or value-added tax or something like that. Has that kind of conversation ever been had in this country? And I'm just wondering, why not?

EISENBREY: Well, in those countries, the employer does pay the full minimum wage. They don't rely on tips. And when you go to a restaurant in Europe, you're not expected to pay 20 percent or 15 percent. You know, if you give a little tip, it's something really extra. So the service - if there is a service fee, it goes to the restaurant. And then the restaurant pays the wage.

MARTIN: And I was just wondering if there has ever been that kind of conversation about adopting that system here to sort of regularize it. And I'm just wonder - 'cause that doesn't seem to be part of our conversation. I just wondered why.

EISENBREY: No, it's interesting. In California, in Montana, Washington state, Oregon, Minnesota, where they don't have the tip credit, people still do give tips. And so wages just are higher for the servers.

MARTIN: Mr. Tanner?

TANNER: Well, I think people aren't aware necessarily of the difference in the tip credit. I think they're not make their tip-based decisions on that. There has been some discussion about the whole idea of, should we do away with tipping and simply have a wage for waiters and so on. The idea of tipping of course is to ensure better quality service, and there's debate about whether or not it actually achieves that or not.

MARTIN: I guess what I'm just wondering is this a cultural...

TANNER: Sure.

MARTIN: ...Practice that's just kind of ingrained in our culture...

TANNER: Yeah.

MARTIN: ...Or is this an economic practice?

TANNER: No, it's much more - I mean, Europe is beginning increasingly to move towards tips. In countries that didn't used to tip for anything, tipping is becoming more and more prevalent. I would also mention that minimum wage is not universal in Europe. Germany, for example, and some other countries don't have minimum wages. And it's interesting that in countries that had minimum wages, youth unemployment is much higher than in countries that don't.

MARTIN: Can I get a - we only have about 30 seconds left. Mr. Eisenbrey, I just wanted to ask, can I persuade you to predict? This seems to be a popular - these are popular proposals right now. The polling indicates that most people in the public generally think it's a good idea. Do you hazard a guess about where this proposal is going?

EISENBREY: Well, eventually, the minimum wage will be increased. It's only a question of how long it will be. It's being increased in states one after another, and I think that the federal government will get there if not this year, then next year.

MARTIN: We will see. Ross Eisenbrey is vice president of the Economic Policy Institute. Michael Tanner is a senior fellow at the Cato Institute. They were both kind enough to join us in our Washington, D.C. studios. Gentlemen, thank you both so much for joining us.

TANNER: It was a lot of fun.