

Policy Brief

October 2019

One Fair Wage

Wage floors like the minimum wage and tipped minimum wage are intended to ensure a minimal amount of protection to those who work in the lowest wage jobs in our economy. Indiana currently adopts the federal minimum wage and tipped minimum wage of \$7.25 and \$2.13 per hour, respectively. However, even with Indiana's low cost of living, these wages are so low that in *every county*, even a single adult cannot meet their basic needs without the help of public or private assistance. A solution to this is one fair wage, where the tipped wage is eliminated and employees in tipped positions make the same minimum wage as all other positions even if they still receive tips. This allows for more consistent paychecks and a lower poverty rate for tipped workers, especially for workers of color. Seven states currently have laws requiring equal treatment for tipped workers.ⁱ

As increasing the minimum wage and eliminating the tipped wage are debated by individual employers, in council chambers, in state legislatures, and in Congress, these discussions cannot be separated from the disparate impact of low wage floors on women and people of color. Women make up two-thirds of tipped workers in the United States. In Indiana, 60 percent of minimum wage workers are womenⁱⁱ and over 75 percent of tipped workers are women. While women of color make up a smaller percentage of Indiana's tipped workers, their poverty rate is over 25 percent compared to an overall 21 percent poverty rate for all tipped workersⁱⁱⁱ. Policy changes that provide one fair wage will lift many, but will have an especially salient effect on women, ensuring that they can provide for their families and helping to close pay gaps.

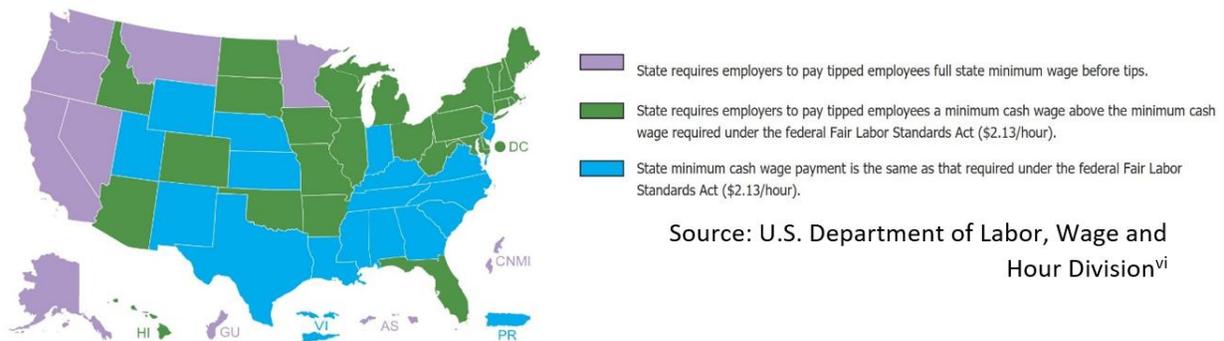
The Disparate Impact of the Tipped Minimum Wage

The tipped minimum wage has its roots in racial discrimination. During Reconstruction after the Civil War, freed slaves often found employment as waiters, railroad porters, or servants. Many employers did not pay these black workers and instead allowed customers to offer a tip. In its early adoption, there were many states that outlawed the concept, but a decade later those laws had been overturned and the practice had spread from the South to the North. Figure 1 shows the states that have not increased or abolished their tipped wage, with the majority of Southern states and Indiana included. Studies have shown implicit bias plays a role in how customers tip with both white and black diners and cab passengers tipping white servers and cab drivers more.^{iv} Still today, the legacy of slavery is deeply embedded in tipping.

The tipped minimum wage, also known as subminimum wage, is the amount paid to employees who earn at least \$30 per month in tips. The 1966 Fair Labor Standards Act (FLSA) established the tip credit which

allows employers to count tips, paid for by customers, toward an employee's minimum wage. Employees must earn the equivalent of minimum wage with their base pay and tips; if they do not, employers must make up the gap.^v

FIGURE 1. Minimum Wages for Tipped Employees



The federal minimum wage for tipped workers has not changed in almost 30 years, with the last increase in 1991 when it was set to \$2.13/hour. While the most recent economic recovery has reached those at the top of the income ladder, it has left too many behind. According to the Bureau of Labor Statistics (BLS), occupations that rely on tipped work, like wait staff, are among the fastest growing occupations.^{vi} Today, almost 70% of tipped workers in the US are women and the poverty rate for tipped worker is twice that of the rest of the US workforce.^{vii}

Tipped positions, which are dominated by women and where employees depend on customers to earn a living, are rife for abuse. When a person has to make rent and pay bills, she may not feel able to report abuses from customers. In a 2014 survey, almost 80 percent of women who rely on tips for income reported sexual harassment from customers.^{viii} The TimesUp movement, which advocates for workplaces free from sexual harassment, highlighted a worker who said, "When you're a sub-minimum wage worker, you rely on the same people who harass you to pay your wages in tips."^{ix} Women in states that use a tipped minimum wage face twice the likelihood of harassment – from customers *and* managers or co-workers - as women in states with one wage threshold for all workers.^x Having one fair wage is about more than financial security; it is about feeling safe at work and not needing to endure suggestive comments, inappropriate touching, or outright solicitation to earn a living wage.

Wage theft, where employers do not pay workers the full amount to which they are entitled, is another form of abuse that tipped workers are more likely to experience. Tipped workers rely on their employer to make up the difference between the tipped wage and the minimum wage if it is a slow shift or if a table does not pay their bill. In 2018 alone, the U.S. Department of Labor investigated 5751 cases in the food

services industry and found over \$42 million in back wages was owed to over 41,000 employees nationwide.^{xi} While not all of this was from wage theft related to tips, it shows the far-reaching problem and sets up the potential for tipped workers, the majority of whom are women, to lose thousands over a lifetime, widening the wage and wealth gap.

Tipped/Sub-Minimum Wage in Indiana

There are 311,400 restaurant and food service jobs in Indiana in 2018, which makes up 10 percent of employment in Indiana.^{xii} For a visual, restaurant and food service workers in Indiana would fill Lucas Oil Stadium 4.4 times. In the next decade, that number is estimated to increase by over 10 percent – an increase in jobs that could fill Banker’s Life Fieldhouse over 1.5 times.^{xiii} Table 1 shows the breakdown of employees in the Accommodation and Food Services sector. A disproportionate number of those employees are women and workers of color. According to the National Women’s Law Center, in Indiana, women make up 76.6 percent of tipped workers, and of that, 14.3 percent are women of color.^{xiv}

Table 1. 2017 EEO-1 Indiana - Accommodation and Food Services

I/Ethnic Group and Sex	Executive /Senior Level Officials & Managers	First/Mid Level Officials & Managers	Professionals	Technicians	Sales Workers	Office & Clerical Workers	Craft Workers	Operatives	Laborers	Service Workers
WHITE										
Men	228	1609	343	160	95	173	337	289	723	12133
Women	75	1352	381	19	303	665	59	187	725	21635
BLACK										
Men	6	162	24	18	11	44	48	53	181	3900
Women	5	148	19		38	118	7	28	176	4622
HISPANIC										
Men	3	157	14	10		6	32	32	179	3568
Women	4	78	16		8	21	20	37	181	3047
ASIAN										
Men	3	19	4			8	3	5	10	269
Women		14	8		9	15	3	6	5	392
AMERICAN INDIAN										
Men		8							3	76
Women		7				3				114
HAWAIIAN										
Men		5								34
Women		5								65
TWO OR MORE RACES										
Men		25		3	3	6	6	5	12	683
Women	3	21			7	7		6	14	1093

Source: U.S Equal Employment Opportunity Commission, 2017^{xv}

As Table 2 shows, these workers frequently earn less than is needed to meet basic needs like housing, food, health care, and transportation. According to the Self-Sufficiency Standard for Indiana, a waitress

in Marion County, Indiana with one preschooler and one school aged child would need to make \$23.15/hour to pay her basic needs of housing, childcare, health insurance, transportation, and food. In Jennings County, that same mother would need to earn at least \$18.28/hour to care for her family.^{xvi} Tipped positions in Indiana are not paying near enough to meet basic needs. Compound that with the atypical hours per week and uncertain scheduling, and there is a recipe for budget shortfalls and risks of poverty.

TABLE 2. Median Hourly Wages of Tipped Workers in Indiana^{xvii}

	Employment	Median Hourly Wages
Bartenders	11,680	\$9.42
Waiters and Waitresses	49,530	\$9.24
Misc. Food Prep and Serving – Incl. Bussers and Barbacks	6,470	\$9.16
Nonrestaurant Food Servers	6,450	\$10.79
Barbers	Not released	\$13.32
Hairdressers Hairstylists & Cosmetologists	6,880	\$10.68
Gaming Service Workers	2,470	\$9.00

Source: Bureau of Labor Statistics, 2018

The argument against raising the tipped wage, or the minimum wage for that matter, is that businesses cannot handle that cost, causing them to hire fewer employees or increase prices for consumers. However, states that have adopted one fair wage have thriving restaurant industries where tipped workers median pay (base + tips) is higher than states with the subminimum tipped wage.^{xviii} A study looking at minimum wage increases over 40 years found “little or no significant impact of minimum wage increases on employment.”^{xix} A comprehensive study specific to increasing tipped wages came to the same conclusion.^{xx}

Some companies have even begun to see that workers need more resources in order to participate in (and help to grow) our consumer-driven economy and are taking action to support change. For example, Union Square Hospitality Group, which owns several highly respected New York City restaurants, have done away with the tipped wage in an effort to retain the best kitchen staff and front of house.^{xxi} McDonald’s has told its lobbying group that it will no longer participate in efforts against a minimum wage increase. Other individual restaurants in Denver and New York, where minimum wages have increased or are set to increase, say they will raise menu prices or hire fewer staff. Still others say that a minimum wage increase, including the tipped wage, will benefit the entire economy, meaning more money spent in their establishments.^{xxii}

Employers who have adjusted to the elimination of tipped wages or to minimum wage increases have shrunk their internal wage chart or passed costs on to consumers in the form of price increases. Some have argued that the increased prices will freeze dining out leading to restaurant closures. However, increases of even 10 percent are unlikely to affect many diner’s choices. In New York, employment and revenue were up after their phase in of a higher minimum wage, providing support to eliminate the tipped wage.^{xxiii} Regardless of the micro actions of restaurants, bars, and salons, the macro result of increasing or eliminating the tipped wage is higher wages and less likelihood of living in poverty.

Policy Recommendations

Raise wages for all working people – tipped and non-tipped. One fair wage will help women and their families, reduce poverty, and help to close the gender pay gap. In states that have one wage for tipped and non-tipped positions, the pay gap is smaller – for women working full time, it is 31 percent smaller; the poverty rate is lower – for employed women, it is 14 percent lower, and for women in tipped jobs, it is 28 percent lower. These outcomes are equal, if not better, for women of color. Black women in tipped jobs in one fair wage states have a 35 percent lower poverty rate and Latina women have a 31 percent lower poverty rate.^{xxiv} Federally, the Raise the Wage Act of 2019 would “guarantee tipped workers would make at least the full minimum wage by phasing out the subminimum wage for tipped works, which will ensure consistent, livable pay without eliminating tips.” In Indiana, several bills have been proposed to raise the minimum wage and phase out the tipped wage with none getting traction.

Establish a minimum wage for economic development incentives. Employers who pay wages so low that families must accept help from the community or government just to make ends meet should not also receive public subsidies for creating those jobs in the community. Indianapolis’ Mayor and workforce development officials recently defined new parameters by which companies looking for tax incentives would be evaluated, including at least an \$18/hour wage and removal of barriers like childcare.^{xxv} Policy choices like this would indicate to potential employers that Indiana is a state that works for everyone.

The tipped minimum wage hurts Hoosiers, especially women who are more likely to work in tipped positions. When employees have one fair wage, it eliminates the need for employees to put up with abuse and discrimination just to get paid, it protects workers from wage theft, and provides a more stable floor upon which to base budgets. Indiana can and should take this step in an effort to close the wage gap and increase economic stability of women of color. It’s time.

This policy brief was made possible through generous funding from the Women's Fund of Central Indiana.



WOMEN'S FUND
OF CENTRAL INDIANA

✦ A CICF FUND

FOR MORE INFORMATION, PLEASE CONTACT:

Amy Carter, Policy Analyst, Indiana Institute for Working Families

Phone: 317-638-4232

Email: acarter@incap.org

Web Site: <http://www.incap.org/iwvf.html>

-
- ⁱ One Fair Wage, Better Wages, Better Tips: Restaurants Flourish with One Fair Wage (February 2018), accessed on October 30, 2019 at http://rocunited.org/wp-content/uploads/2018/02/OneFairWage_W.pdf
- ⁱⁱ National Women’s Law Center, Women and the Minimum Wage, State by State (2018), accessed October 25, 2019 from <https://nwlc.org/resources/women-and-minimum-wage-state-state/>
- ⁱⁱⁱ National Women’s Law Center, Women in Tipped Occupations, State by State fact sheet (May 2019), accessed October 29, 2019 from <https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2019/06/Tipped-workers-state-by-state-2019.pdf>
- ^{iv} M. Lynn, M. Sturman, C. Ganley, E. Adams, M. Douglas, and J. McNeil, Consumer Racial Discrimination in Tipping: A Replication and Extension (2008), *Journal of Applied Social Psychology*.
- ^v U.S. Department of Labor, Fair Labor Standards Act Advisor (n.d.), accessed on October 30, 2019 at <https://webapps.dol.gov/elaws/faq/esa/flsa/002.htm>
- ^{vi} A. Semuels and M. Burnley, Low Wages, Sexual Harassment, and Unreliable Tips. This is Life in America’s Booming Service Industry (August 2019), New York Times, accessed October 29, 2019 from https://time.com/5658442/tipped-restaurant-workers-american-economy/?utm_medium=social&utm_source=twitter&xid=time_socialflow_twitter&utm_campaign=socialflow
- ^{vii} National Women’s Law Center, Women in Tipped Positions, State by State.
- ^{viii} Restaurant Opportunity Centers United and Forward Together, The glass floor: Sexual harassment in the restaurant industry (2014), accessed on October 29, 2019 at http://rocunited.org/wp-content/uploads/2014/10/REPORT_The-Glass-Floor-Sexual-Harassment-in-the-Restaurant-Industry2.pdf
- ^{ix} Time’s Up (@timesupnow). “When you’re a sub-minimum wage worker, you rely on the same people who harass you to pay your wages in tips.” – Ali #BeHEARD” October 3, 2019, 11:53 AM. Tweet.
- ^x E. Shaw, A. Hegewisch, and C. Hess, Sexual Harassment and Assault at Work: Understanding the Costs (2018), accessed on October 29, 2019 at <https://iwpr.org/publications/sexual-harassment-work-cost/>
- ^{xi} U.S. Department of Labor, Wage and Hour Division, Fiscal Year Data for WHD (2018), accessed on October 28, 2019 at <https://www.dol.gov/whd/data/datatables.htm#panel3>
- ^{xii} National restaurant Association, Indiana Restaurant Industry at a Glance (2019), accessed on October 15, 2019 at <https://www.restaurant.org/Downloads/PDFs/State-Statistics/Indiana.pdf>
- ^{xiii} Ibid.
- ^{xiv} National Women’s Law Center, Women in Tipped Occupations, State by State fact sheet (May 2019).
- ^{xv} U.S. Equal Employment Opportunity Commission, 2017 EEO-1 Aggregate Report for State by NAICS-2 Code (2017), accessed on October 28, 2019 at <https://www1.eeoc.gov/eeoc/statistics/employment/jobpat-eeo1/2017/index.cfm#centercol>
- ^{xvi} D. M. Pearce & Indiana Institute for Working Families, The Self-Sufficiency Standard for Indiana (2016), accessed October 29, 2019 from <http://www.incap.org/iwfw/self-sufficiency/2016-Self-sufficiency-report.pdf>
- ^{xvii} U.S. Department of Labor, Bureau of Labor Statistics, May 2018 State Occupational Employment and Wage Estimates, Indiana (2019), accessed October 29, 2019 from https://www.bls.gov/oes/current/oes_in.htm
- ^{xviii} Restaurant Opportunity Centers United and Forward Together, The glass floor: Sexual harassment in the restaurant industry.
- ^{xix} Ibid.
- ^{xx} Ibid.
- ^{xxi} P. Wells, Danny Meyer Restaurants to Eliminate Tipping (2015), accessed on October 28, 2019 at <https://www.nytimes.com/2015/10/15/dining/danny-meyer-restaurants-no-tips.html?module=inline>

^{xxii} A. Reedy, What Does Denver’s Proposed Minimum Wage Hike Mean for the Restaurant Industry? (September 2019), accessed October 28, 2019 from <https://www.5280.com/2019/09/what-does-denvers-proposed-minimum-wage-hike-mean-for-the-restaurant-industry/>

^{xxiii} L. Moe, J Parrott, & Y. Lathrop, New York City’s \$15 Minimum Wage and Restaurant Employment and Earnings (2019), accessed on October 29, 2019 from <http://www.centernyc.org/new-york-citys-15-minimum-wage>

^{xxiv} M. Harwood, J. Tucker, and J Vogtman, One Fair Wage: Women Fare Better in States with Equal Treatment for Tipped Workers (2019), *National Women’s Law Center*, accessed October 28, 2019 from <https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2019/05/Tipped-Worker-New-2019-v2.pdf>

^{xxv} A. Burris, Companies Must Provide Higher Wages, Child Care Help to Get Tax Incentives, Mayor Hogsett Says (July 2019), accessed on October 29, 2019 at <https://www.indystar.com/story/money/2019/07/25/city-unveils-new-tax-incentive-policy-inclusive-indianapolis/1827914001/>