

# **The Case for the Tip Credit:**

**FROM WORKERS, EMPLOYERS, AND RESEARCH**

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# Executive Summary

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The tipping system provides substantial earning opportunities for workers across many industries, especially restaurant servers and bartenders – well beyond the current minimum wage, and even beyond the proposed \$15 minimum wage.

Saving the tip credit is a worker-organized, bipartisan issue. Thousands of tipped workers across the country have pushed to save the tip credit, against the infringement of outside interests and activists.

Yet, interest groups' attempts to change this system by eliminating the tip credit have reached the national stage. The Raise the Wage Act of 2021 would phase out the tip credit for employers nationwide, and set the tipped wage to more than \$15 per hour by 2027, a 604 percent increase.

Eliminating the tip credit would have drastic negative economic impacts on America's restaurant servers and bartenders. This brief provides a comprehensive analysis of workers', restaurants', and economists' view of the merits of maintaining the tip credit over non-tipping alternatives, including:

- Tipped employees consider the current system to be a profitable, flexible earning system: 97 percent prefer it over no-tipping alternatives.
- Tipped workers on average earn more-than-twice the current federal minimum wage (\$14.32) per hour.<sup>1</sup> Others find that tipped restaurant workers can make more than \$25 per hour.<sup>2</sup>
- Tipped workers are roughly 40 percent (6.4 percentage points) less likely to be poor than other minimum wage workers.
- Eliminating the federal tip credit and raising the wage to \$15 will cause 1 in 3 affected tipped workers to lose their jobs, totaling over 693,000 jobs lost.
- Customers prefer the traditional tipping system (81%) to no-tip alternatives.
- Many restaurants that have tried eliminating the tip credit and no-tip policies have switched back to traditional tipping, in response to workers' and customers' opposition to the change.

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<sup>1</sup> Calculated average hourly wage for waiters and bartenders, with tips included, Current Population Survey, 2007-2017. Calculation by William Even (Miami University) and David Macpherson (Trinity University).

<sup>2</sup> <https://www.forbes.com/sites/andrewrigie/2018/01/15/why-nyc-restaurants-need-the-tip-credit/?sh=5a0421187b09>

# Background and History of Tipping in America

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In Europe, tipping began for servants in private homes, and then expanded to coffeehouses and other businesses. According to historian Kerry Segrave, this practice turned commercial as early as the 18th century, where patrons provided tips to hotel and restaurant employees for quality service. The regular use of the term “tip” to mean additional monies provided to service employees may have come from a variety of sources: the Dutch word *tippen* (referring to the clinking sound of a coin against a glass to catch a server’s attention), the Latin *stips* meaning “gift”, or early anecdotes that English writer Samuel Johnson placed coins in a bowl inscribed “to insure promptitude” at a coffeehouse he frequented.<sup>3,4</sup>

Tipping in the United States has been traced back to American travelers returning home from Europe shortly after the Civil War.<sup>5</sup> Labor economist Gerald Friedman, a professor at the University of Massachusetts Amherst, concludes that tipping in the U.S. was not necessarily racially motivated, and instead was a practice to demonstrate wealth and worldly culture. He also notes that southern states banned tipping altogether in the early 20th century, an action that likely carried no link to slavery as it was eliminated for all employees for a period of time, mainly as a rejection of European aristocracy.<sup>6,7</sup>

The Fair Labor Standards Act set a national minimum wage in 1938, but did not include workers who earned tips. In 1966, the law was expanded to include restaurant workers. The difference between the standard minimum wage and the lower required “cash wage” to be paid to tipped employees is considered the “tip credit.”<sup>8</sup>

The federal tipped wage was set at its current rate as part of amendments made in 1996, which defined tipped employees as those earning more than \$30 in regular tip income.<sup>9</sup> Currently, federal law allows employers to pay a base wage of \$2.13, as long as these employees are documented to have earned weekly

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<sup>3</sup> <https://books.google.com/books/about/Tipping.html?id=PjFTYcB48uIC>

<sup>4</sup> <https://www.nytimes.com/2008/10/12/magazine/12tipping-t.html>

<sup>5</sup> <https://core.ac.uk/download/pdf/327049395.pdf>

<sup>6</sup> <https://www.washingtonexaminer.com/minimum-wage-activists-call-tipping-racist>

<sup>7</sup> <https://www.nytimes.com/2008/10/12/magazine/12tipping-t.html>

<sup>8</sup> <https://www.everycrsreport.com/reports/RL33348.html>

<sup>9</sup> <https://www.everycrsreport.com/reports/RL33348.html>

tip income that makes up the \$5.12 difference.<sup>10</sup> Therefore, all tipped employees must make at least the federal standard minimum wage in total earnings.

All states and localities must comply with this federal standard, at a minimum. Seven states, and included cities, do not allow employers to factor in any tip credit when paying workers who receive tips. Therefore, tip-eligible employees in these states are paid the standard minimum wage rate in their state or city, whichever is highest. Several states also have their own laws about the size of the tip credit, which is smaller than the federal tip credit, and effectively places their tipped wages higher than the federal tipped minimum.<sup>11</sup>

## Who are today's tipped workers?

- The average hourly earnings for tipped workers was \$14.32 in 2017.<sup>12</sup>
- Tipped workers are roughly 40 percent (6.4 percentage points) less likely to be poor than standard minimum wage workers, and 5 percentage points less likely to be considered “extremely” poor.<sup>13</sup>
- Food and beverage serving accounted for over 5 million jobs in 2019.<sup>14</sup>
- In 2020, the National Restaurant Association estimated that there were more than 1 million restaurant locations nationwide, which totaled 15.6 million restaurant industry jobs.<sup>15</sup>
- Tipped restaurant jobs provide important entry-level opportunities: nearly one in three American workers claims their first job as being in the restaurant industry.<sup>16</sup>

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<sup>10</sup> <https://www.dol.gov/agencies/whd/fact-sheets/15-flsa-tipped-employees>

<sup>11</sup> [https://epionline.org/wp-content/uploads/2021/02/201215\\_EPI\\_MW\\_Chart.pdf](https://epionline.org/wp-content/uploads/2021/02/201215_EPI_MW_Chart.pdf)

<sup>12</sup> Calculated average hourly wage for waiters and bartenders, with tips included. Current Population Survey, 2007–2017. Calculation by William Even (Miami University) and David Macpherson (Trinity University).

<sup>13</sup> [https://epionline.org/wp-content/uploads/2021/02/200125\\_EPI\\_TippedWorkersMinWageWorkersandPovertyFinal\\_.pdf](https://epionline.org/wp-content/uploads/2021/02/200125_EPI_TippedWorkersMinWageWorkersandPovertyFinal_.pdf)

<sup>14</sup> <https://www.bls.gov/ooh/food-preparation-and-serving/food-and-beverage-serving-and-related-workers.htm>

<sup>15</sup> <https://www.restaurant.org/research/restaurant-statistics/restaurant-industry-facts-at-a-glance>

<sup>16</sup> <https://www.americaworkshere.org/first-job>

# Economic Research on Tipping

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The current system of tipping preserves substantial earnings and job opportunities for workers in tipped industries, and much of the economic literature finds that raising the tipped wage or eliminating the tip credit altogether has negative effects on employment and earnings for workers earning tips.

**Employment effects.** In 2019, the nonpartisan Congressional Budget Office (CBO) reported that the first Raise the Wage Act, a bill passed in the House of Representatives to increase the federal minimum wage to \$15 and simultaneously phase out the federal tip credit, would cost anywhere from 1.3 million to 3.7 million minimum wage jobs, including jobs for tipped workers, across the country by 2026.<sup>17</sup>

William Even, Miami University, and David Macpherson, Trinity University, modeled the specific impact of a proposal similar to that of the 2019 Raise the Wage Act, which included annual increases to the tipped minimum wage over six years, and eventual phase-out of the tip credit entirely. Their study, which builds on the CBO methodology but accounts for employment changes in 2020, estimated that the 2019 proposal would result in 693,541 lost jobs for tipped workers. This means that of all of the tipped workers that would potentially receive a raise, nearly 1 in 3 would instead lose their jobs.<sup>18</sup>

The current proposal put forth in the Raise the Wage Act of 2021 bill seeks to eliminate the tip credit along an accelerated timeline: the standard minimum wage would rise to \$15 by 2025 (5 years after passage) and be indexed to reflect the growth rate of median wages thereafter. The tipped minimum wage would reach \$14.95 a year later and equal the standard wage in 2027 (7 years after passage).<sup>19</sup> Therefore, the shock felt by employers and their tipped employees could be even more significant than under the 2019 proposal, given that there will be less time under this plan for employers to adjust to a \$15 wage, and there will soon be no tip credit.

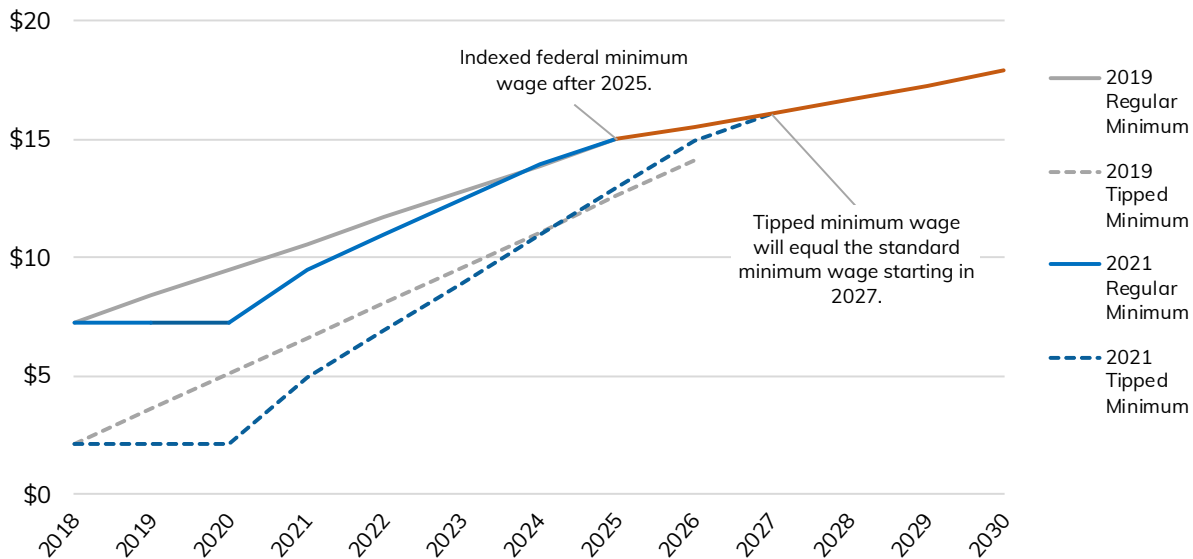
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<sup>17</sup> <https://www.cbo.gov/publication/55410>

<sup>18</sup> <https://epionline.org/studies/the-state-employment-impact-of-a-15-minimum-wage-january-2021/>

<sup>19</sup> <https://edlabor.house.gov/imo/media/doc/2021-01-26%20Raise%20the%20Wage%20Act%20Fact%20Sheet.pdf>

## Comparing Growth of Federal Minimum Wage between 2019 and 2021 Raise The Wage Bills



An earlier study by Even and Macpherson concluded that in markets with higher tipped wages, like San Francisco and Seattle (both of which do not allow any tip credit), full-service restaurants employ 18 percent fewer tipped employees than in areas with lower tipped minimum wage requirements.<sup>20</sup> Tip-eligible employees also represent almost 19 percent fewer work hours in these cities, as compared with lower-cost areas. This builds on a previous analysis of variation in state-level minimum wage requirements which demonstrates that lowering the tip credit—therefore increasing the required minimum wage for tipped workers—reduces tipped employment in the full-service restaurant industry.<sup>21</sup>

Raising tipped wages not only decreases the number of jobs in existing businesses, but it also negatively affects the number of businesses offering tip-eligible jobs, where workers can earn a substantial income from tips. Analysis by Harvard Business School concluded that each \$1 increase in San Francisco's tipped minimum wage correlated with a 14 percent increase in the likelihood of median-rated restaurant closure, taking tipped employment opportunities with it.<sup>22</sup> Analysis of Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) data also shows that San Francisco and other high-wage markets have experienced employment loss in their full-service restaurant industries correlating with tipped

<sup>20</sup> <https://epionline.org/studies/raising-the-tipped-wage-reduces-opportunity-for-tipped-workers/>

<sup>21</sup> <https://www.jstor.org/stable/23809644?seq=1>

<sup>22</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2951110](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2951110)

minimum wage increases.<sup>23</sup> Since 2017, San Francisco has lost over 1,200 full-service restaurant jobs; Portland, OR has lost nearly 1,000 full-service restaurant jobs; and New York City has lost over 4,700.<sup>24</sup> Annual employment growth in the industry in these cities, as well as Seattle, has been in a general state of decline since 2012.<sup>25</sup>

**Income effects.** Raising the tipped minimum wage and eliminating the tip credit also reduces the overall incomes of affected workers. The Congressional Budget Office model featuring the 2019 Raise the Wage proposal estimates that a similar action would reduce overall real family income by \$10.6 billion across the country.<sup>26</sup> Analysis by Maggie Jones, Census Bureau, concluded that increasing tipped minimum wages results in a decrease in tip income and overall worker earnings,<sup>27</sup> finding that a 5 to 6 percent increase in the tipped minimum wage results in a decrease in tip income of the same magnitude when compared across states with varying tipped minimum wage levels. This result is additionally confirmed in a Cornell University study by Michael Lynn, which finds that states with higher tipped minimum wages see lower average tip percentages in restaurants, as compared to states with lower minimum wages.<sup>28</sup>

**Anti-poverty effects.** A new study by David Neumark and Maysen Yen, University of California-Irvine, analyzes Current Population Survey (CPS) data to compare tipped workers to other low-wage, hourly workers - and finds that traditionally tipped workers are roughly 40 percent (6.4 percentage points) less likely to be below the poverty line compared to other low-wage, hourly counterparts. Through a series of comparisons, Neumark concludes that tipped workers are most directly comparable to hourly workers earning up to 150 percent of the minimum wage, rather than minimum wage workers. In addition, Neumark estimates that because of this conclusion, raising the tipped minimum wage and eliminating tip credits altogether would be even less effective in raising wages for workers experiencing poverty than a general minimum wage increase, which has already been demonstrated to be ineffective as an anti-poverty policy. Neumark finds that raising the federal tipped wage would only benefit 3.9 percent of workers in extreme poverty.<sup>29</sup>

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<sup>23</sup> <https://www.minimumwage.com/2020/09/will-a-high-minimum-wage-hinder-cities-covid-recovery/>

<sup>24</sup> <https://data.bls.gov/PDQWeb/en>

<sup>25</sup> <https://www.minimumwage.com/2020/09/will-a-high-minimum-wage-hinder-cities-covid-recovery/>

<sup>26</sup> In 2018 dollars. <https://www.cbo.gov/publication/55681>

<sup>27</sup> <https://www.census.gov/content/dam/Census/library/working-papers/2016/adrm/car-ra-wp-2016-03.pdf>

<sup>28</sup> <https://journals.sagepub.com/doi/abs/10.1177/0886368720908959>

<sup>29</sup> [https://epionline.org/wp-content/uploads/2021/02/200125\\_EPL\\_TippedWorkersMinWageWorkersandPovertyFinal\\_.pdf](https://epionline.org/wp-content/uploads/2021/02/200125_EPL_TippedWorkersMinWageWorkersandPovertyFinal_.pdf)



This finding concurs with a 2017 study by Joseph Sabia (San Diego State University), Richard Burkhauser (University of Texas-Austin), and Taylor Mackay (University of California-Irvine). Sabia et. al. concluded that historically, raising the tipped minimum wage has actually increased the risk that young, lower-educated workers live in a poor family or household, as rising costs shift employers to hire higher-educated or higher-skilled workers, pricing out lower-skilled workers.<sup>30</sup>

## Employee Support and Customer Preferences for Tipping

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Employees who receive tips have historically supported the tipping status quo, including allowing employers to use tip credits when calculating the wage paid to their employees, and reject the movement to eliminate the tip credit.

Polling data shows that employees, and customers, prefer the traditional tipping method over raised menu prices or flat service charges added to the bill. A survey conducted by Upserve of 1,000 restaurant employees found that 97 percent of respondents preferred tipping, as they felt they retained more direct control over their income.<sup>31</sup> Respondents reported that their hourly income ranges as high as \$84, expressing support for the flexibility afforded by the tipping pay model.<sup>32</sup> A survey of 3,000 consumers found that 81 percent of restaurant-goers also prefer the current tipping model.<sup>33</sup> Research by Michael Lynn, Cornell University, also finds that customer ratings fall when a restaurant institutes a no-tipping policy. Lynn's research also confirms that dining customers are sensitive to price changes, and the inclusion of mandatory flat service charges or increased menu prices to offset the costs of eliminating the tip credit is likely to reduce consumer demand for dining out.

Workers in areas with high tipped wages, or areas where no tip credit exists at all, have criticized the movement toward a no-tipping system. Cities like Seattle have annually hiked their minimum wages while not allowing employers to count tip credits towards the base wage they pay their employees. As rising labor costs in 2019 forced many of Seattle's restaurants to close and lay off employees, one former employee observed: "The legal minimum is going to \$16.39 an hour, while my pay

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<sup>30</sup> [https://cheps.sdsu.edu/docs/CHEPS\\_Working\\_Paper\\_080917.pdf](https://cheps.sdsu.edu/docs/CHEPS_Working_Paper_080917.pdf)

<sup>31</sup> <https://upserve.com/restaurant-insider/restaurant-industry-report-shares-every-thing-need-know-tipping/>

<sup>32</sup> [https://upserve.com/media/1612\\_Content\\_Infographic\\_No\\_Tipping\\_v1-1.pdf](https://upserve.com/media/1612_Content_Infographic_No_Tipping_v1-1.pdf)

<sup>33</sup> <https://www.prnewswire.com/news-releases/horizon-media-study-finds-most-consumers-not-ready-to-stop-tipping-300213406.html>



## Rejecting Inaccuracies About Tipped Work

Tipped workers support the tipping system, and reject any linkages to harassment or racism, calling this characterization of their work “**degrading and offensive.**”

- African American tipped employees disagree with anti-tipping activists: “Tipping is not racist at all...People stay in it because they make good money and enjoy it.”<sup>34</sup>
- Female tipped employees responded to celebrities urging NY governor Cuomo to end the tip credit and linking tipped work to sexual harassment: “[Activists] are exploiting the isolated stories of people that have suffered injustices, and making it out to be the industry’s or the tipping system’s fault. That is just not true.”<sup>35</sup>

An analysis of data from the Equal Employment Opportunity Commission (EEOC) reveals that **sexual harassment charges for the restaurant industry slightly increase as the tipped wage rises.**<sup>36</sup>

- The data predicts that raising New York’s tipped wage by \$5 per hour would increase the state’s proportion of sexual harassment charges from restaurants by 3.5 percentage points.
- There is **no evidence that states with lower tipped wages experience higher rates of workplace harassment** in restaurants than states with higher tipped wages.<sup>37</sup>

drops to zero.”<sup>38</sup> She notes that other former employees enjoyed their jobs and stayed for a long time, as people like herself were able to support their families through considerable income earned in tipped positions. Yet, rising minimum wages and no-tipping models have created serious barriers for her industry, and her own employment and income.

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<sup>34</sup> <https://washingtoncitypaper.com/article/186084/fear-mounts-in-restaurant-industry-as-dc-prepares-to-vote-on-the-tipped-minimum-wage/>

<sup>35</sup> [https://static1.squarespace.com/static/5a3d42817131a537b7e07e12/t/5abbae711ae-6cf781457550e/1522249329822/RWA\\_Statement.pdf](https://static1.squarespace.com/static/5a3d42817131a537b7e07e12/t/5abbae711ae-6cf781457550e/1522249329822/RWA_Statement.pdf)

<sup>36</sup> <https://www.minimumwage.com/2018/06/eeoc-data-debunks-claimed-link-between-tip-credits-and-sexual-harassment/>

<sup>37</sup> <https://www.minimumwage.com/2020/12/one-unfair-wage-study-from-roc-linked-labor-group/>

<sup>38</sup> <https://www.wsj.com/articles/seattles-wage-mandate-kills-restaurants-11576195087>

**Successful movements to save the tip credit.** Upon the rise of initiatives to eliminate the tip credit across the country, bipartisan groups of affected workers have successfully organized to save their tips. For example:

- In Maine, a 2016 ballot measure passed to eliminate the tip credit statewide and increase required wages for tipped workers by 320 percent. Workers expressed concern about the negative impacts on their earnings, citing public perceptions that their wages were now much higher, thus lowering their tip amounts. Tipped workers organized and testified at a 12-hour hearing, later described as “one of the longest hearings in legislative history” by a Maine representative. A bipartisan group of legislators repealed the referendum restoring the allowance of the tip credit statewide.<sup>39</sup>
- In New Mexico, restaurant service workers rallied against a state legislature bill that sought to eliminate the tip credit over time. Workers argued that eliminating the tip credit would reduce their take-home pay as tipped workers on average earn much higher than the current minimum wage, and ending the tip credit would turn “professional, commission-based sales people” into “entry-level workers.”<sup>40</sup> In 2019, the state legislature and governor amended the minimum wage law to raise the tipped minimum to \$3.00 by 2023, but voted against the original provision to eliminate the tip credit, following bipartisan opposition.<sup>41,42</sup>
- Tipped workers in New York State turned out in droves after Governor Cuomo discussed eliminating the state’s tip credit in 2018. At the time, a Facebook group of “Supporters of the Tip Credit in New York” maintained over 23,000 followers, and over 12,000 signers joined a petition to save the tip credit in the state.<sup>43,44</sup> Currently, New York State and jurisdictions throughout, including New York City, continue to allow employers to take a tip credit in paying their tipped employees.

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<sup>39</sup> [https://www.pressherald.com/2017/05/10/committee-votes-to-restore-restaurant-tip-credit/?rel=related#goog\\_rewarded](https://www.pressherald.com/2017/05/10/committee-votes-to-restore-restaurant-tip-credit/?rel=related#goog_rewarded)  
<https://www.pressherald.com/2018/01/11/maine-voices-after-success-in-getting-tip-credit-restored-in-maine-its-time-to-go-national/>  
<https://www.themainewire.com/2017/03/12153/>

<sup>40</sup> [https://www.santafenewmexican.com/opinion/my\\_view/servers-do-not-want-a-tipped-minimum-wage-increase/article\\_5564d648-58f9-54e4-aa75-a6487e9577db.html](https://www.santafenewmexican.com/opinion/my_view/servers-do-not-want-a-tipped-minimum-wage-increase/article_5564d648-58f9-54e4-aa75-a6487e9577db.html)

<sup>41</sup> [https://www.santafenewmexican.com/news/local\\_news/new-mexico-governor-signs-minimum-wage-increase/article\\_8747b39d-0161-5388-a5d7-2b2071fe91d4.html](https://www.santafenewmexican.com/news/local_news/new-mexico-governor-signs-minimum-wage-increase/article_8747b39d-0161-5388-a5d7-2b2071fe91d4.html)

<sup>42</sup> <https://nmpoliticalreport.com/2019/03/12/disagreement-continues-on-minimum-wage-legislation/>

<sup>43</sup> <https://totalfood.com/upstate-waitress-raczynski-nyc-tip-credit-elimination/>

<sup>44</sup> <https://www.change.org/p/supporters-of-the-tip-credit-in-new-york>

- Initiative 77, a ballot measure enacted to eliminate the tip credit in Washington D.C., received backlash from “a massive majority” of tipped servers and bartenders, who argued that the measure would reduce their overall take-home pay and jeopardize job opportunities.<sup>45</sup> A year later, the D.C. city council voted with restaurant workers to repeal the measure and maintain the tipping system.<sup>46</sup> Opponents of the measure included Democratic D.C. mayor Muriel Bowser, as well as several of the city council’s Democratic members.<sup>47</sup>

## Failed Restaurant Experiments

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Struggling restaurants in high-wage areas have felt the negative effects of rising tipped wages firsthand, and restaurants that once implemented a no-tipping-expected policy have largely abandoned this payment model. When stopping use of the tip credit to pay their workers, limited price flexibility forces restaurateurs to adopt a policy that states price-sensitive customers are not expected to leave tips, while meals are often priced higher to adapt to rising costs. In effect, menu price surcharges redistribute would-be tip earnings away from employees to funds that restaurant owners can use elsewhere.

The restaurant industry is widely known to experience razor-thin profit margins, often averaging 3 to 5 percent.<sup>48</sup> Full-service restaurants, which employ a large proportion of tipped servers, tend to fall on the lower side of that range. A Deloitte study of the full-service restaurant industry found these margins may be even slimmer: pre-tax restaurant income represented as low as 1.8 percent of full-service restaurants where the average check was over \$25.<sup>49</sup>

Economists find that in areas where tipped wages have increased, the strain on business owners costs jobs and even shuts down establishments altogether. Evidence areas with already-high tipped wages supports this finding:

- Restaurant owners in San Francisco called upon the city’s Board of Supervisors to address numerous obstacles to staying in business, including

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<sup>45</sup> <https://www.washingtonblade.com/2018/05/10/opinion-vote-no-initiative-77/>  
<https://www.nationalreview.com/2018/05/initiative-77-bad-deal-for-restaurant-servers/>

<sup>46</sup> [https://www.washingtonpost.com/local/dc-politics/dc-officials-passed-a-law-to-help-tipped-workers-after-repealing-a-wage-hike-it-was-never-funded/2020/01/05/76710c76-2d68-11ea-9b60-817cc18cf173\\_story.html](https://www.washingtonpost.com/local/dc-politics/dc-officials-passed-a-law-to-help-tipped-workers-after-repealing-a-wage-hike-it-was-never-funded/2020/01/05/76710c76-2d68-11ea-9b60-817cc18cf173_story.html)

<sup>47</sup> <https://wamu.org/story/18/05/17/bowser-d-c-council-members-oppose-away-tipped-wage-restaurant-workers/>

<sup>48</sup> <https://www.restaurant365.com/blog/what-is-the-average-profit-margin-for-a-restaurant/>

<sup>49</sup> <https://s3.amazonaws.com/s3.documentcloud.org/documents/291534/t288-nrarept2010.pdf>

an annually-indexed minimum wage, lack of tip credit allowance, mandated paid sick leave, and heavily regulated employer health care spending, calling the situation “death by a thousand cuts.”<sup>50</sup> In 2019, restaurant closings surpassed the number of openings by 9 percent. One long-time restaurant owner implored: “We need to do something now, or we will be gone.”<sup>51</sup> Another commented on the future of the city’s restaurant industry and jobs: “we’ve started to see San Francisco as a non-viable market.”<sup>52</sup>

- Emeryville, CA, home to one of the highest minimum wage rates in the country, identified that restaurants have struggled to survive with wage hikes in the past few years. A study on the city’s food service sector found that it was becoming rare to find any businesses that existed when the city’s annual minimum wage increases were passed in 2015, and still were in business in 2019. A survey of Emeryville restaurants revealed that more than half had decreased worker hours and one-third had decreased the number of employees at their establishments in response to the 2015 minimum wage ordinance.<sup>53</sup>
- To ease some of the burden of rising labor costs, some restaurants move toward a “hybrid” service model, allowing customers to seat themselves and pick up meals and utensils, thereby cutting down on tipped staff.<sup>54</sup> In New York City, a survey of restaurants in 2019 found that more than three-quarters of full-service respondents reduced employee hours in response to 2018 wage increases, and more than one-third eliminated jobs.<sup>55</sup>

The tipping system also allows employers to maintain entry-level jobs that are critical to providing work experience to first-time employees. Entry-level jobs are important to beginning a track of earnings for the starting employee, and also incentivizes employers to hire first-time workers instead of opting for more experienced employees due to higher pay requirements.

**What happened in restaurants that tried to eliminate tipping?** Some restaurants have tried to eliminate tipping for their servers and bartenders, and many have returned to the traditional tipping system based on responses from staff and customers.

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<sup>50</sup> <https://sf.eater.com/2019/9/17/20869268/sf-restaurants-meet-city-hall-board-of-supervisors-crisis>

<sup>51</sup> <https://www.wsj.com/articles/how-san-francisco-is-killing-its-restaurants-11571351715>

<sup>52</sup> <https://sf.eater.com/2019/9/17/20869268/sf-restaurants-meet-city-hall-board-of-supervisors-crisis>

<sup>53</sup> <https://evilleeye.com/news-commentary/council-considers-minimum-wage-pause-after-mills-study-reveals-struggling-local-emeryville-restaurants/>

<sup>54</sup> <https://www.nytimes.com/2018/06/25/dining/san-francisco-restaurants-service.html?auth=login-email&login=email>

<sup>55</sup> <https://thencalliance.org/information/survey-results-labor-costs>

- **Union Square Hospitality Group, New York City:** CEO Danny Meyer announced his restaurants would shift away from allowing tip credits and tipping in 2015 and has partnered with activists to urge other restaurants to do the same.<sup>56</sup> After making this change, Meyer announced that he had lost as many as 40 percent of his “legacy” front-of-house staff—tipped employees who he described as having worked with him for at least five years.<sup>57</sup> Meyer quickly reversed this decision.<sup>58</sup> Servers described the shift away from tipping as “painful,” adding, “It wasn’t what we signed up for financially.”
- **Bar Agricole and Trou Normand, San Francisco:** Owner Thad Vogler implemented a no-tipping policy in two restaurants and raised menu prices by 20 percent to offset the price of raising the hourly wage for service staff. In less than a year, Vogler reported 70 percent of his service staff had left their positions, due to decreased total hourly earnings. Servers reported earning as much as \$45 per hour when tips were factored in, but this amount decreased significantly to as low as \$20 per hour when the no-tipping policy was implemented.<sup>59</sup>
- **Grand Central Station, New York City:** Claus Meyer’s restaurant began a policy of not accepting tips for service workers, but ultimately it abandoned the practice as Meyer noticed the policy drove away business and alienated customers.
- **Joe’s Crab Shack, national chain:** The casual dining chain stopped tipping and paying workers using a tip credit at eighteen locations, but quickly reinstated tipping less than a year later.<sup>60</sup>
- **Momofuku Nishi, New York City:** Momofuku group owner David Chang experimented with a no-tipping policy, but reverted back within 5 months, stating a tipping model would “benefit guests and staff” in a company Tumblr post.<sup>61,62</sup>

Restaurants that have tried and failed to maintain a no-tipping policy have learned that their employees are generally opposed to it. They have also learned that customers also prefer the current tipping system over flat surcharges and menu price increases.

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<sup>56</sup> <https://www.nrn.com/people/danny-meyer-talks-tipping-leadership-and-trust>

<sup>57</sup> <https://ny.eater.com/2018/2/6/16978464/danny-meyer-tipping-staff-turnover>

<sup>58</sup> <https://www.nytimes.com/2020/07/20/dining/danny-meyer-no-tips.html>

<sup>59</sup> <https://money.cnn.com/2016/01/19/pf/no-tipping-reversed-bar-agricole-trou-normand/index.html>

<sup>60</sup> <https://www.newyorker.com/culture/annals-of-gastronomy/the-limitations-of-american-restaurants-no-tipping-experiment>

<sup>61</sup> <https://www.foodandwine.com/news/david-chang-momofuku-ko-no-tipping-policy>

<sup>62</sup> <https://momofuku.tumblr.com/post/145356265388/nishibrunch>

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