

March 13, 2024

Illinois House of Representatives
Labor & Commerce Committee
Capitol Building, Room 114
Springfield, IL

Dear Honorable Members of the House Labor and Commerce Committee:

My work as the research director at the Employment Policies Institute is dedicated to studying the impacts of policies like House Bill 5345 across the country. Based on decades of economic research and the experiences of businesses and their employees in other states, this bill would wreak havoc on Illinois' tipped servers and bartenders and devastate their industry.

This bill is a lose-lose-lose situation for Illinois' restaurants, tipped employees, and diners. Economists from Miami and Trinity Universities estimate this proposal could **cost Illinois over 7,700 restaurant jobs and \$20.8 million** in lost earnings for employees.¹ That's because it would completely upend the business model restaurants are built on and the livelihoods employees come to the industry for.

Decades of research speaks for itself on this issue: The economics of this bill don't add up. Economists find tip credit elimination causes:

- **Employees to lose their jobs:** A National Bureau of Economic Research study finds every \$1 increase in the tipped wage causes a 6.1% decrease in restaurant employment.²
- **Tips to decrease:** A Cornell University study finds as state tipped wages are forced up, tip percentages left by customers fall.³ States that do not allow tip credits have some of the lowest tipping percentages in the country.⁴
- **Remaining employees to take home less:** A National Bureau of Economic Research study finds every \$1 increase in the tipped wage causes a 5.6% total earnings loss for tipped employees.⁵ Tipped servers and bartenders in Illinois already earn \$28 per hour.⁶ Eliminating the current system would drive their earnings down.
- **Restaurants to close:** A Harvard Business School study finds every \$1 increase in the tipped wage increases the probability of restaurant closures by 14 percent.⁷

We don't have to speculate on what would happen in Illinois under this legislation. The consequences are already playing out in real time in Washington, D.C. Since a similar policy went into effect less than a year ago, the local restaurant scene is already worse off.

- **D.C. restaurants closed at the highest rate in 2023 since the pandemic.**⁸ Restaurants announcing their closures this year described the city as “no longer sustainable” and “impossible to survive.”⁹
- **D.C. restaurant employment is already down 4.4 percent** – 1,300 D.C. restaurant employees have lost their jobs.¹⁰

- Restaurants scrambled to adapt to the rapid changes with menu price hikes and introduction of service charges. **Currently, over 250 D.C. restaurants are using service charges just to make ends meet.**¹¹
- **Employees are reporting lower tips, and less take home pay.** One server, a previous supporter of the policy, said the current situation “isn’t what [D.C. voters] voted for.”¹² Another server said he takes home roughly half of what he made before this policy went into effect – from \$160 a night to as low as \$80.¹³
- **Diners are opting to stay home** because dining out in D.C. is too expensive.¹⁴ One in three D.C. diners are taking their business to neighboring states and cities.¹⁵

Restaurants feared these outcomes before the law went into place, and now are left on their own to survive. Illinois restaurants and local tipped employees are speaking out about the harmful effects of this new proposal on the state’s restaurant survival.

- A survey conducted by my organization of 100 local restaurants before tip credit elimination began in May 2023 **told lawmakers large majorities would be forced to raise prices, lay off staff, or reduce employee hours.**¹⁶
- **A recent survey of Chicago restaurants found similar results:** 80% of restaurant operators said the new wage hike will force them to raise menu prices, 66% will be forced to reduce staff or consolidate positions, and 58% will be forced to reduce employee hours.¹⁷

Chicago’s recently adopted tip credit elimination law has not even gone into effect yet, and restaurants are already bracing for impact: over 150 restaurants have switched to service charges in anticipation of the law going into effect July 1, 2024, since they are one of the only ways to make the numbers work.¹⁸

The proponents of this legislation, One Fair Wage, even released a report urging restaurants to use service charges to switch to a \$15 minimum wage system.¹⁹

While the idea may sound like it is helping employees, it will only hurt them in the long run. I urge the committee to proceed with caution on H.B. 5345.

Sincerely,
 Rebekah Paxton
 Research Director, Employment Policies Institute

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- ⁵ Neumark, D., & Yen, M. (2022, July). *The Employment and Redistributive Effects of Reducing or Eliminating Minimum Wage Tip Credits*. Retrieved from National Bureau of Economic Research: https://www.nber.org/system/files/working_papers/w29213/revisions/w29213.rev1.pdf
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- ¹⁰ Romeo, P. (2024, January 16). *With the tip credit falling, D.C.'s full-service restaurants cut payrolls 4.4%*. Retrieved from Restaurant Business Magazine: <https://www.restaurantbusinessonline.com/workforce/tip-credit-falling-DCs-full-service-restaurants-cut-payrolls-44>
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