

March 27, 2024

Rhode Island House of Representatives
Labor Committee
State House, Room 101
Providence, RI

Dear Honorable Members of the House Labor Committee:

My work as the research director at the Employment Policies Institute is dedicated to studying the impacts of policies like House Bill 7531 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 Rhode Island's tipped servers and bartenders and devastate their industry.

This bill is a lose-lose-lose situation for Rhode Island restaurants, tipped employees, and diners. Economists from Miami and Trinity Universities estimate this proposal could **cost Rhode Island up to 1,900 restaurant jobs over the next several years** (7% of the state's full-service restaurant workforce) **and \$10.2 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 nationally typically earn \$27 per hour when their tips are added in.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 Rhode Island 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 workforce has shrunk 12%**— 3,700 D.C. restaurant employees have lost their jobs in less than a year.¹⁰
- **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.”¹¹ 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 \$80.¹²
- **Diners are opting to stay home** because dining out in D.C. is too expensive.¹³ One in three D.C. diners are taking their business to neighboring states and cities.¹⁴

Another consequence of Washington, D.C.’s anti-tip credit legislation has been the rise of service charges added to customer checks. **Currently, over 250 D.C. restaurants are using service charges just to make ends meet.**¹⁵

Proponents of this legislation, One Fair Wage, have urged restaurants to use service charges to switch to a \$15 minimum wage system for years.¹⁶ But evidence shows service charges have confused and frustrated diners and hurt take-home pay for employees in places like Washington, D.C. and the West Coast where tip credits are being eliminated.

- California and Washington State, which have no tip credit, have some of the lowest tipping percentages in the nation.¹⁷
- Local Reddit forums in places like Washington, D.C., Chicago, and Los Angeles document residents saying they can’t afford to tip on top of a service charge, and will change their dining out habits.^{18,19}

Local employees and small restaurant owners are pushing back because this would be a devastating blow to their livelihoods. Economic evidence from states around the country shows Rhode Island would not be immune. While the bill 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. 7531.

Sincerely,
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²Neumark, 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

³Lynn, M. (2020, March). The Effects of Minimum Wages on Tipping: A State-Level Analysis. *Compensation & Benefits Review*, 52(3): <https://journals.sagepub.com/doi/abs/10.1177/0886368720908959>

⁴Toast. (2023, March 2). *Valentine’s Date Night at a Restaurant Costs \$121 on Average, up More Than 75% in 5 Years*. Retrieved from Toast News: <https://pos.toasttab.com/news/q4-2022-restaurant-trends-report-valentines-super-bowl-tipping-data>

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:

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<https://restaurant.org/nra/media/downloads/pdfs/advocacy/tip-credit.pdf#:~:text=Restaurants%20face%20financial%20penalties%20if%20they%20do%20not%20pay%20tip%20employees%20accurately.&text=Waitstaff%20at%20fullservice%20restaurants%20earn,paid%20tipped>

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Retrieved from National Bureau of Economic Research:

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⁸ Gomez, A. M. (2023, December 26). *Pour One Out: These Are The Bars And Restaurants The D.C. Area Said Goodbye To In 2023*. Retrieved from DCist: <https://dcist.com/story/23/12/26/DC-restaurant-bar-closures-2023/>

⁹ Plumb, T. (2024, February 21). *Pizzeria Orso, One of the Region's Best Pie Places, Has Closed*. Retrieved from Eater DC:

<https://dc.eater.com/2023/2/6/23585137/dc-restaurant-permanent-closings-tracker>

¹⁰ Romeo, P. (2024, March 25). *With the tip credit falling, full-service D.C. restaurants cut 3,700 jobs*. Retrieved from Restaurant Business Magazine:

<https://www.restaurantbusinessonline.com/workforce/tip-credit-falling-full-service-dc-restaurants-cut-3700-jobs>

¹¹ Flack, E., & Morton, R. (2023, September 20). *Restaurant surcharges skyrocket in DC as some owners now charge 20% – and that's not including tip*. Retrieved from WUSA (CBS-DC):

<https://www.wusa9.com/article/news/investigations/initiative-82-restaurant-surcharges-fees-employment-policies-institute-brasserie-liberte-chef-geoff-kenyan-muduffie/65-1147724c-d59c-49f6-9c82-67e21ca6822b>

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¹³ Spiegel, A. (2023, November 13). *How D.C. restaurants are faring one year after Initiative 82 passed*. Retrieved from Axios D.C.:

<https://www.axios.com/local/washington-dc/2023/11/13/restaurants-initiative-82>

¹⁴ Ruddell-Tabisola, C. (2023, November 1). *Struggling Under Declining Traffic and Shrinking Sales, DC Restaurants Call on DC Council to Act Now*. Retrieved from Restaurant Association Metropolitan Washington:

<https://www.ramw.org/blog/2023-member-survey-findings>

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¹⁶ *Roadmap to Reimagine Restaurants: A New Path Forward After COVID-19*. (2020, May). Retrieved from High Road Restaurants:

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¹⁷ Toast. (2023, March 2). *Valentine's Date Night at a Restaurant Costs \$121 on Average, up More Than 75% in 5 Years*. Retrieved from Toast News:

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