Minimum Wage

BACKGROUND

The National Restaurant Association urges opposition to the Minimum Wage Fairness Act (S. 2223, by Sen. Tom Harkin); the Fair Minimum Wage Act of 2013 (H.R. 1010, by Rep. George Miller) and similar proposals to increase the federal minimum wage. Harkin's and Miller's bills would raise the federal minimum wage from the current $7.25 to $10.10 over two and a half years—a nearly 40 percent increase—and automatically index the wage rate to inflation thereafter. The bills also call for raising the minimum cash wage for tipped employees until it reaches 70 percent of the federal minimum wage. This means that the minimum cash wage for tipped employees would triple, in stages, to $7.07.

Economic Impact

Unemployment in the U.S. is at 5.8 percent. Teen unemployment is at 17.7 percent, with higher rates in some urban and rural areas. According to the U.S. Bureau of Labor Statistics (BLS), 9.1 million Americans are unemployed and another 6.9 million are involuntarily working part-time. An astounding 698,000 persons are classified as "discouraged workers" by BLS and, therefore, are not accounted for in the unemployment rate. These are persons not currently looking for work because they believe no jobs are available for them. Collectively, 17.7 million Americans are unemployed, involuntarily working part-time or have given up on finding a job. Alarmingly, our nation is experiencing the lowest labor participation rate in three and a half decades. **The nonpartisan Congressional Budget Office (CBO) officially concluded that raising the federal minimum wage to $10.10 will result in 500,000 job losses. Moreover, that's a conservative estimate, as CBO recognized in its analysis that the job losses could be as high as 1 million.** Regrettably, those who would be at greatest risk are workers who often experience some of the most difficulty in finding employment.

As businesses struggle to recover from the recession, a dramatic mandatory wage increase would severely limit their ability to grow and add entry-level employees. An increase would place yet another heavy financial burden on business owners who are already feeling the pressures of a weak economy and face additional costs and regulatory complexity associated with the Affordable Care Act.

Indexing

Supporters of indexing the federal minimum wage often contend that increases have failed to keep pace with inflation. This is misleading. These proponents frequently use 1968 as a base year to claim that the minimum wage "declined 31 percent" between 1968 and 2013. But 1968 is an outlier year due to the high inflation of the 1970s and early 1980s. Had the minimum wage been indexed over the past 30 years, today's minimum wage would be approximately $7.84.

Impact on the Restaurant Industry

Historically, business owners have both increased prices and reduced employee hours following a wage increase. According to National Restaurant Association research, 58 percent of restaurant operators increased menu prices and 41 percent reduced employee hours following the 2007 minimum wage increase.

Restaurants are a critical provider of employment to millions of individuals. They are labor-intensive businesses that already devote about a third of their sales to wages and benefits. Pre-tax profit margins for a typical restaurant range from 3 percent to 6 percent. Restaurants have exceptionally low profits per employee and have a difficult time absorbing higher labor costs. Many restaurateurs would be forced to limit hiring, increase prices, cut employee hours, or implement a combination of all three to pay for the wage increase.

In addition, restaurants are frequently the provider of first jobs for young people across the country. A mandatory wage increase could further restrict job opportunities for young and lesser-skilled individuals. The minimum wage is typically a starting wage in the restaurant industry. A majority of minimum wage restaurant employees are young, often "first job" employees. Forty-seven percent of federal minimum wage restaurant employees are teenagers, while 71 percent are under the age of 25. Additionally, the average household income of restaurant workers that earn the federal minimum wage is $62,507.

Wages for Tipped Employees

Harkin's and Miller's bills would more than triple, in stages, the current minimum cash wage for tipped employees under federal law, raising it to $7.07 an hour from its current $2.13 and pegging it to 70 percent of the federal minimum wage thereafter. The tripling of these wages is disproportionately high for the workers who are often the highest earners in the establishment.

It is vital to note that federal law guarantees that all employees—including tipped employees—must receive at least the applicable minimum wage. Under strict conditions, federal law allows employers to apply a portion of tip earnings toward the minimum wage, recognizing that tip earnings often bring tipped employees' total earnings far above the minimum wage. If an employee's tips plus their cash wages don't add up to at least the minimum wage, their employer is responsible for paying any additional cash wages needed to bring the employee up to the required minimum.

In reality, tipped employees' earnings typically exceed the minimum wage. National Restaurant Association research shows that on a national level, median hourly earnings for servers range from $16 to $22, depending on experience level. This includes median tip earnings of $12 to $17 an hour, plus a median employer-paid wage of $4 to $5 an hour.

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