New York Saw Boost in Restaurant Worker Wages and Employment after Tipped Minimum Wage Increase

A Policy Brief by the Institute for Policy Studies and Restaurant Opportunities Centers United

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A new analysis of Bureau of Labor Statistics wage and jobs data shows that after raising the tipped minimum wage, New York state saw a significant boost in take home pay earned by full-service restaurant workers and, contrary to predictions by minimum wage skeptics, an increase in the number of full-service restaurant jobs.

A joint project by the Institute for Policy Studies and Restaurant Opportunities Centers United, this is the first research conducted on the impact of the 2015 increase in the tipped minimum wage in New York state. This research uses both statewide and county-level data to calculate the effect of the tipped minimum wage increase on restaurant workers both across the state and comparing restaurant workers on either side of the New York-Pennsylvania border in order to control for any unobserved factors. This natural experiment technique simulates a standard practice for econometric studies of minimum wages called a difference-in-differences (DiD) model, which has been used by economists in the most widely publicized minimum wage impact studies in New Jersey and, most recently, Seattle. Key findings:

- In the year after New York's December 31, 2015 increase in the tipped minimum wage (hereafter TMW), those workers most affected, restaurant workers at full-service establishments, saw their average **salaries go up 6.4%**, a larger increase than in any neighboring state.

- At the same time, employment did not go down; in fact, the number of full-service **restaurant jobs in New York increased, by 1.1%**.

- A more exact measure of the effect can be seen by comparing restaurant workers in counties bordering each other along the New York-Pennsylvania border. Because these counties share much in common in terms of labor markets, economic conditions, and demographics (more than do New York and neighboring states as a whole), this method controls for many factors aside from the TMW that might otherwise impact restaurant worker wages and employment. On the county level:
    - **New York** border counties saw average full-service restaurant worker **salaries go up 7.4%** and **employment increase by 1.3%**.
    - **Pennsylvania** border counties, which did not see a TMW increase, saw average full-service restaurant **salaries go up 2.2%** and **employment *decrease* by 0.2%**.

Background

New York's decision in 2015 to raise its TMW from $5 to $7.50 provides a useful case study for examining the effects of raising minimum wages, particularly among restaurant workers, who are paid below the regular minimum wage. Since New York is the most recent state to raise its TMW, it provides a useful comparison to neighboring states, which have TMWs ranging from the federal minimum of $2.13 (New Jersey), to $2.83 (Pennsylvania), $3.75 (Massachusetts), $5.00 (Vermont), and $6.38 (Connecticut).

Opponents of raising the TMW, primarily the restaurant industry, argue that doing so would increase labor costs for restaurants, and cause them to either pass on costs to consumers and lose business, cut their workforce, or both, and in any case ultimately harm restaurant workers more than help them.

An analysis of data on the number of full-service restaurants (hereafter just "restaurants") and restaurant employees as well as restaurant worker earnings in New York state, for the year following the TMW increase, finds no evidence of pernicious effects for restaurant workers. A natural experiment comparing border counties along New York's longest border, that with Pennsylvania, which would largely share the same socioeconomic conditions and thus isolates the effect of the TMW raise, finds that in the first year after the raise, restaurant workers on the New York side of the border experienced higher earnings and job growth than workers on the Pennsylvania side of the border.

In other words, available data indicate that the TMW increase in New York has helped restaurant workers earn significantly more, without hurting them in terms of employment.

Data

The data have been compiled from the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), which tracks employment and earnings aggregated by industry across the U.S., including at the county level. Data for the end of 2016 were made available April 2017. This analysis looks at NAICS 7221: the BLS industry code for full-service restaurants (specifically restaurants in which workers make tips, unlike fast food restaurants), at the end of 2015 (when New York's TMW raise went into effect) and the end of 2016, and compares the following indicators in counties on either side of the New York state border:

- Number of employees
- Total wages[1]
- Average annual salary

[1] All wage data include tips, as per BLS "County Employment and Wages Technical Note": "Included in the quarterly wage data are non-wage cash payments such as bonuses, the cash value of meals and lodging when supplied, tips and other gratuities, and, in some states, employer contributions to certain deferred compensation plans such as 401(k) plans and stock options."

A look at statewide data for all New York restaurants, from Dec. 31, 2015 to Dec. 31, 2016, shows the following:

New York statewide indicators for full-service restaurant employees			
	Number of employees	Total wages (thousands)	Average annual salary
End of 2015	331,669	$8,308,079	$25,049
End of 2016	335,420	$8,938,416	$26,648
Difference	3,751	$630,337	$1,599
Percentage change	1.1%	7.6%	6.4%

We can see that in the year since New York State raised its TMW, a net of 3,751 more full-service restaurant workers were hired. Salaries for restaurant workers went up about 6%. This suggests that the TMW raise improved worker earnings without the drop in employment predicted by the restaurant industry. In fact, there was even a small jobs increase.

However, these numbers alone may not tell us the full story. First, there are a lot of things going on in the economy statewide that affect these indicators aside from the TMW: there could have been an overall boom or bust in the state's economy — or even just in New York City alone — that would either counter or exaggerate whatever effect the TMW might have had. It's impossible to control for every other factor that may have affected the restaurant industry, even within a single state and a single year, to isolate the effect of the TMW.

Second, the question remains, compared to what? We need to know not only if New York's restaurant workers benefitted from the TMW increase, but if they did so relative to restaurant workers elsewhere.

Maybe restaurant worker wages and employment was going up nationwide. Perhaps New York state only looks good in isolation, but it actually fared poorer than other states and the TMW raise made growth slower than it might have been. This would be in line with current arguments raised by minimum wage skeptics today, who do not argue anymore that minimum wage raises necessarily cause businesses to slash payrolls, but rather cause them to hire fewer new workers in the future than they might otherwise (see e.g. Meer and West, "Effects of the Minimum Wage on Employment Dynamics," *Journal of Human Resources* 2015).

Methodology for Comparing Border Counties

In order to try to isolate the effect of the TMW and provide useful points of comparison, this study uses a quasi-experimental design that exploits a policy change, which occurred in one state and not in neighboring states. Specifically, it follows the principles of the difference-in-differences model pioneered by David Card and Alan Krueger for their minimum wage studies and many subsequent ones by other scholars. In their 1993 NBER paper "Minimum Wages and Employment," they studied the change in New Jersey's minimum wage by comparing employment in fast food restaurants in New Jersey and neighboring Pennsylvania, based on the idea that fast food restaurants on either side of the border would have the same competitive

pressures and labor pool, only those in New Jersey would suddenly start paying their workers more. Card and Krueger found improved wages with no significant impact on employment in New Jersey compared to Pennsylvania, contradicting economic orthodoxy that minimum wage increases would lead to layoffs by employers slashing payrolls.

Subsequent papers, both upholding or challenging Card and Krueger's findings, have tended to use the same DiD model, along with regression discontinuity (RD), to test the effects of other minimum wage increases, most recently in Seattle.

This study cannot replicate the full DiD methodology by surveying individual establishments, insofar as the BLS data aggregates numbers by county and not by establishment. However it follows the logic of this approach by comparing indicators for restaurants only on either side of the New York state border, on the assumption that such counties, and the restaurants therein, are much more comparable than New York state is to, for example, the state of Pennsylvania as a whole.

It is most helpful for the purposes of comparison to look at just one border area, and the longest border between two states here is New York and Pennsylvania. Other border areas present problems of comparison: the New York-New Jersey and New York-Connecticut borders are distorted by their proximity to New York City, which is a labor market unto itself and not comparable to bordering counties in neighboring states. Massachusetts has just one county bordering New York, and while Vermont has five, 2016 BLS data are not available for one, Grand Isle County.

Additionally, Pennsylvania is a clearer control case because its TMW was last raised in 2007, and is only $2.83. Other states, Connecticut and Vermont, have TMWs closer to New York's, so the difference is not as stark. And the TMWs in Connecticut and Massachusetts, although set by laws passed prior to New York's, have been increasing on a yearly schedule, and thus do not provide a static comparison.

Eighteen total counties border each other on the New York-Pennsylvania state border, and are farther away from any very large metropolitan areas that might exist only on one side. Thus one can make the strongest case that counties on either side of the NY-PA border are mostly the same, and share the same economic indicators and labor pools. Thus any changes from the TMW increase would likely be seen most clearly by comparing counties along this border.

Results

The following tables compare percentage changes only (for the sake of simplicity, not absolute changes). Indicators for which New York counties fared better than Pennsylvania are highlighted in yellow. First, it can be seen that New York border counties as a whole fared better than Pennsylvania border counties in employment and wages.

Aggregate border county comparison (% change)			
	Employment	Total wages	Average salary
New York	1.25%	8.72%	7.38%
Pennsylvania	-0.15%	2.04%	2.19%

This can be seen in a county-by-county comparison for neighboring counties, paired with one another, matched as best as possible based on which counties share the greatest length of the border with others. In some cases, two counties share most of the border with one county on the other side, and they are listed in threes.

County-by-county comparison (% change)			
	Employment	Total wages	Average salary
Chautauqua, NY	-3.76%	5.11%	9.18%
Erie, PA	-0.64%	2.26%	2.91%
Warren, PA	-0.82%	1.55%	2.27%
Cattaraugus, NY	1.04%	9.58%	8.50%
McKean, PA	0.68%	2.99%	2.26%
Allegany, NY	-1.52%	-5.13%	6.51%
Potter, PA	-3.30%	-1.78%	1.35%
Steuben, NY	-1.41%	7.81%	9.36%
Tioga, PA	-4.66%	-5.18%	-0.41%
Chemung, NY	-3.35%	3.40%	7.03%
Tioga, NY	-8.12%	2.78%	11.89%
Bradford, PA	-6.35%	-2.23%	4.23%
Broome, NY	-1.68%	7.56%	9.41%
Susquehanna, PA	1.21%	1.36%	-0.14%
Delaware, NY	4.57%	9.43%	4.77%
Wayne, PA	13.87%	18.89%	4.33%
Sullivan, NY	3.72%	8.04%	4.20%
Pike, PA	2.18%	-0.33%	-2.54%

As we can see, New York border counties consistently outperformed Pennsylvania border counties in terms of worker earnings. For example, compare Steuben county NY, where average salaries went up 9.4%, compared to Tioga county PA, where they declined by 0.4%.

In some cases, New York counties did better than their PA neighbors in terms of employment, in others, not as well. On the aggregate, New York counties performed better. On the county level, however, in absolute numbers, the differences are mostly small and in the tens or even sometimes in single digits. For example, Wayne County, PA saw an increase in restaurant employment of just 57 jobs, but that translated to a 13.9% increase due to the small size of the Wayne County labor market. This also explains a comparably large percentage boost in total wages, though when averaged out by worker, salaries in Wayne came to be less than the 4.8% salary boost earned by neighboring Delaware County, NY, which saw 15 new restaurant jobs in 2016. Small changes in employment may be negligible and consistent with frictional unemployment, the standard flux of people leaving jobs and looking for new ones. It may be better said that employment stayed mostly the same on both sides of the border. The real effect can be seen in terms of restaurant employee average salary, which went up +4% to +9% in New York border counties, compared to -3% to +4% in Pennsylvania border counties.

In sum, there is ample evidence that the TMW increase had a major and positive impact on New York restaurant workers' earnings, including compared to restaurant workers just over the border in Pennsylvania. At the same time, there is no evidence that there was a negative effect on employment from the TMW increase.

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