NATIONAL RESTAURANT ASSOCIATION

ISSUE BRIEF

$15 Federal Minimum Wage

Issue Overview

Chairman Bobby Scott (D-VA) of the House Labor and Education Committee and Sen. Bernie Sanders of the Senate Health, Education, Labor, and Pensions Committee introduced legislation titled the "Raise the Wage Act" (H.R. 582/S.150) that would increase the federal minimum wage from $7.25 to $15 per hour by 2024 and would index it to median wage growth thereafter; and eliminate the tip credit.

The nonpartisan Congressional Budget Office released a report on July 8, 2019, examining the impact of increasing the federal minimum wage to $15 per hour, as mandated by H.R. 582. Specifically, the report estimates that as many as 3.7 million jobs could be lost, a majority of which are women, if H.R. 582 is enacted.

Additionally, a University of New Hampshire survey finds that nearly three-quarters of US-based economists oppose a federal minimum wage of $15 per hour. The majority of these economists assert that a $15 per hour minimum wage will negatively impact youth employment levels, adult employment levels, and the number of jobs available. The majority of those surveyed also believe it would make it harder for small businesses with fewer than 50 employees to stay in business.

Currently, the federal minimum wage is $7.25 an hour and was last increased in 2009. However, several states and localities have raised their minimum wages in recent years. At the start of 2019, 29 states will have a higher pay floor than the federal $7.25 per hour. When a state's minimum wage rate exceeds the federal level, the state rate applies and is binding on employers.

Impacts on Restaurants and Other Small Businesses

Passing a $15 per hour starting wage would have stifling impacts to restaurants and other small businesses in areas where workers do not face the cost of living they do in major cities. These small businesses cannot absorb a dramatic $15 per hour escalation in their labor costs. Such higher wages would lead to employers cutting back on workers' hours and/or eliminating positions, thereby hurting those it was intended to help. Additionally, when labor costs rise, employers in labor-intensive industries such as restaurants are forced to raise menu prices to maintain profitability, thereby driving up consumer costs.

Our Position:

Oppose legislative proposals that would more than double the current federal minimum wage rate of $7.25 per hour, indexed to inflation thereafter, and elimination of the tip credit.

We support a common-sense approach to the debate over minimum wage. $15 is not the same state by state. There are different economic realities in each city, state and region. If Congress drastically increases the cost of doing business, small businesses will hire less, cut hours, or even close their doors.

Bottom line: When small businesses suffer, their employees and customers suffer and larger goals, like expansion and new job creation, are undermined and everybody loses.

Elimination of Tip Credit: Negative Impacts on Restaurant Tipped Workers

No tipped employee can ever legally earn less than the minimum wage, period. Tipped employees must earn at least the federal minimum wage per hour, or the relevant local/state minimum wage, through a combination of the direct cash wage from their employer and the tips they earn. If the combination of the direct cash wage and tips does not equal or exceed the minimum wage, the employer must compensate the tipped employee to make up the difference. While the existing tip credit system guarantees that tipped employees make at least the relevant minimum wage, most earn between $19 and $25 per hour.

If the tip credit is removed, many restaurants will eliminate tipping and move to an hourly wage system. Under that scenario, tipped employees would likely earn less than they currently do. Restaurants would face significantly higher labor costs and many could be forced to reduce employee hours or operate with fewer employees, making it harder for independent restaurants to succeed and stay in business. Additionally, tipping incentivizes the high-quality guest service that is a hallmark of the U.S. restaurant industry. Eliminating the tip credit and the existing tipping system would reduce the incentive to provide great service.

When attempts were made to eliminate the tip credit in Maine, Michigan, and the District of Columbia, tipped employees rallied to preserve the tip credit and the existing tipping system. In all three jurisdictions, lawmakers listened to those workers and preserved the tip credit.

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