

Report for the City of Chicago

City of Chicago Tipped Worker Report

Chapter One: The State of Tipped Work in Chicago -
Findings from Surveys of Restaurant and Bar Employees in 2022
(by Alison Dickson and Augustus Wood)

Chapter Two: New Evidence of the Effects of Minimum Wages on
Tipped Workers and Minimum Wage Noncompliance
(by Matthew J. Notowidigdo and Jeremy Mopsick)

September 2023

Introduction:

This report consists of two chapters addressing potential reforms for tipped minimum wage in the City of Chicago. The Chicago Department of Business Affairs and Consumer Protection sought the assistance of the University of Illinois and the University of Chicago in conducting a study required by the Chicago City Council that examines the economic impact of tipped wages and the effectiveness of current enforcement in Chicago.

The first chapter, by Alison Dickson and Augustus Wood, analyzes collected survey responses of tipped restaurant and bar employees working in Chicago in an effort to identify employment violations and financial hardships experienced by workers.

The second chapter, by Matthew Notowidigdo and Jeremy Mopsick, focuses on recent minimum wage reforms from cities across the country with special attention on tipped workers and minimum wage noncompliance in order to draw lessons for potential minimum wage reform in Chicago.

The goal of the authors is to provide background, research, and recommendations to inform future policies on the minimum wage in Chicago.

Each chapter was researched and written independently and represents the views and opinions of the authors themselves. Financial support was provided by the City of Chicago to compensate surveyed workers for their time and participation in the project. Neither the University of Illinois nor the University of Chicago received funding for their contributions.

The authors are grateful for the opportunity, and they hope that their work on this report will be useful for future policies.

Table of Contents

Chapter One: The State of Tipped Work in Chicago - Findings from Surveys
of Tipped Restaurant and Bar Employees in 2022

Alison Dickson and Augustus Wood

I: Executive Summary	4
II: Introduction	21
III: The Racist History of Subminimum Wages in Illinois and the United States	24
IV: Survey Overview	26
V. A Snapshot of Working Conditions Facing Tipped Workers in Chicago	36
VI: Conclusions and Recommendations	66
References	72
Appendices	83

Table of Contents

Chapter Two: New Evidence of the Effects of Minimum Wages on Tipped Workers and Minimum Wage Noncompliance

Matthew J. Notowidigdo and Jeremy Mopsick

I: Purpose of this Report	85
II: Summary of Findings	86
III: Data Description, Summary Statistics, and Background on Recent Minimum Wage Changes in the US	87
IV: New Evidence on the Effects of Minimum Wages on Tipped Workers	92
V: Assessing Minimum Wage Noncompliance Using Survey Data	98
V: Additional Findings from Recent Related Research	103
VI: Conclusion	106
References	108
Appendices	109

Chapter One: The State of Tipped Work in Chicago - Findings from Surveys of Tipped Restaurant and Bar Employees in 2022

Alison Dickson and August Wood

I. Executive Summary:

What this Report Finds

In July 2022, researchers from the Project for Middle Class Renewal (PMCR) at the University of Illinois collected 1,204 surveys of tipped food service and drinking establishment workers throughout Chicago. This study focuses on the work experiences of these employees earning tips including servers, bussers, bartenders, bar backs, baristas, and hosts. These *front-of-the-house*¹ employees engage with customers and earn tips as payment for a sizeable portion of their weekly incomes. In line with occupational demographics nationally, two-thirds of survey respondents characterized their gender as woman, transgender man or woman, or another gender (NLWC, 2019). Racial and ethnic identities of survey participants also are in line with industry occupational data, with white workers

¹ Because of their capacity to earn tips, *front-of-the-house* workers often earn greater incomes than those working in the *back-of-the-house* of their workplaces. *Back-of-the-house* food service occupations include varied kitchen positions and cleaning staff. Much has been written about the pay disparities that often exist between these two groups, with attention paid to the even lower hourly pay earned by back-of-the-house jobs, often filled by Brown, Black, and immigrant workers (ROC United, 2014).

representing approximately two-thirds of the survey sample, Black or African-American workers representing 17 percent of participants, Latino/a/x/e/s 8 percent, and Asian and workers identifying by other races and ethnicities 9 percent of survey participants (BLS, 2021C). Race, ethnicity, and gender were not used as factors determining eligibility. Previous research shows that Black and Brown, immigrant, and female and transgender workers are subject to higher rates of violations of workers' rights than their White male colleagues (Bernhardt et al., 2009).² Roughly 44 percent of participating workers were less than 30 years old at the time of survey participation, while almost 27 percent of participating workers were aged 40 years or older. Almost 53 percent of participating workers had completed at least some college coursework, with an additional 18 percent possessing their high school diplomas or GED equivalent.

Analysis of survey findings identified numerous areas of economic hardship as well conflicts between workers' employment and their overall well-being. Additionally, the authors discerned several violations of different municipal, county, state, and federal work-related laws in their analysis including wage theft, hours and work schedule violations, discrimination and harassment, and occupational health and safety violations.

Overall, surveyed workers were compensated at an hourly rate of less than the standard Chicago minimum wage for employers with 21 or more employees (\$15.40) but higher than the sub-minimum wage allowed tipped employees in these establishments (\$9.24).³ It is important to note that survey participants were not asked employer information such as size of workforces and number of locations as this is information many workers likely do not accurately know. Rather, survey data collected is based strictly on the experiences of workers

² See the *Assumptions and Limitations* section for further discussion of the implications of the demographic makeup of the survey sample.

³ As of July 1, 2022, when survey data was collected, the minimum wage in Chicago was::

- \$15.40 per hour for Employers with 21 or more Employees (\$9.24 per hour for tipped Employees like restaurant servers).
- \$14.50 per hour for Employers with more than 3 but fewer than 21 Employees, and Employers who have more than 0 but fewer than 21 Employees who are domestic workers (\$8.70 per hour for tipped Employees like restaurant servers).
- \$12.00 per hour for subsidized temporary youth employment programs, subsidized transitional employment programs, Employees under 18 years of age, and those subject to Section 6 of the Illinois Minimum Wage Law (\$7.20 per hour for tipped Employees like restaurant servers).

If a tipped Employee does not earn the full minimum wage once they sum their base wage and the tips they receive, then the difference must be made up by the Employer. The minimum wage in Chicago increases annually on July 1.

themselves - their working conditions and earnings. Without detailed knowledge of employer composition, both in terms of workforce and number of locations, it is impossible to calculate potential dollar amounts stolen in wage theft by employers. Despite these limitations, surveyed workers did experience multiple forms of measurable wage theft while working restaurant, food service, and drinking establishment jobs in Chicago in recent times. These included: working off the clock; working without pay; not being paid overtime; illegal paycheck deductions for needed health and safety gear; charges for required uniforms; being paid late; tip-sharing with management; and inability to take meal breaks.

Key findings related to worker financial hardships include:

- Roughly 77 percent of surveyed workers reported earning an hourly wage of between \$9.24 and \$15.40 per hour before tips, the legally permissible rates for employers in Chicago with 21 or more employees (see *Footnote 3* for a list of applicable minimum wages in Chicago). Fewer than 7 percent of survey participants earned more than \$15.40 per hour before tips. Just over 16 percent of surveyed workers earned less than \$9.24 per hour before tips.
- Almost 80 percent of surveyed workers reported that they worked without pay at least once in the month prior to their survey participation, and an additional almost 9 percent of respondents reported that they worked without pay three or more times in the previous 30 days.
- Close to half of workers reported that they were paid late at least once in the month prior to taking the survey and almost a third received late pay two or more times.
- Nearly 57 percent of surveyed workers reported that they were required to illegally “tip-out”⁴ their managers in the week prior to survey participation.

⁴ In 2020 and 2021, the Department of Labor completed a series of rulemakings to update its regulations to protect tipped workers (DOL, 2020). The parts of this rule which became effective on April 30, 2021 provide:

- An employer cannot keep employees’ tips under any circumstances; managers and supervisors also may not keep tips received by employees, including through tip pools;
- An employer that pays the full minimum wage and takes no tip credit may allow employees who are not tipped employees (for example, cooks and dishwashers) to participate in the tip pool;
- An employer that collects tips to facilitate a mandatory tip pool generally must fully redistribute the tips within the pay period; and,
- Employers that do not take a tip credit, but collect employees’ tips to operate a mandatory tip pool, must maintain and preserve payroll or other records containing information on each employee who receives tips and the weekly or monthly amount reported by the employee, to the employer, of tips received.

- Roughly 12 percent of surveyed workers reported *never* or only *sometimes* receiving this overtime pay for hours worked over 40 in a given week.

Shift cuts or decreasing the number of hours one works in a previously scheduled shift, appear to be standard in food service, restaurants, and drinking establishments. Despite implementation of Chicago’s Fair Workweek ordinance, use of on-call scheduling and lack of advance notice of work schedules remain very prevalent amongst tipped employees in these industries:⁵

- Over 40 percent of surveyed workers experienced 11 or more shift cuts in the month prior to survey participation, with over 26 percent of participants having their shifts cut 25 or more times.
- More than 70 percent of surveyed workers reported they *sometimes or occasionally work on-call shifts* while almost 28 percent said they *regularly or often work on-call shifts*.
- While an overwhelming majority of those surveyed worked some time without pay or “off-the-clock” in the week prior to taking their surveys, women reported experiencing this form of wage theft at a much higher percentage when compared to surveyed men (92 percent compared to 80 percent).
- Over two-thirds of workers reported that they received one week or less notice of their work schedules, while roughly 41 percent only received 3 or fewer days advance notice of their schedules. When asked how often their schedules change after they have been

⁵ The Fair Workweek Ordinance requires certain employers to provide workers with predictable work schedules and compensation for changes. Employees are covered by the ordinance if they work in one of seven “covered” industries (Building Services, Healthcare, Hotels, Manufacturing, Restaurants, Retail, and Warehouse Services), earn less than or equal to \$30.80/hour or earn less than or equal to \$59,161.50/year, and the employer has at least 100 employees globally (250 employees and 30 locations for a restaurant). Covered employees are given:

- Advance notice of work schedule
- Right to decline previously unscheduled hours
- 1 hour of Predictability Pay for any shift change within 14 days
- Right to rest by declining work hours less than 10 hours after the end of previous day’s shift

posted, close to 60 percent of surveyed workers reported their schedules change *sometimes or often*.

Tipped workers also experience varied types of discrimination on the job, including disturbing levels of sexual harassment and assault while at work:

- Over one-third of surveyed men and women reported experiencing discrimination based on their gender in the previous 12 months. One hundred percent of gender non-conforming workers reported this form of discrimination while working their tipped jobs.
- More than half of surveyed women, and over one third of surveyed men and those identifying by other genders, experienced sexual harassment - a form of gender discrimination - in the past year.
- Over 8 percent of all surveyed workers reported that they were sexually assaulted at work during this time period, including 11 percent of surveyed men and almost 30 percent of surveyed workers identifying with other genders or gender non-conforming.⁶
- More than 43 percent of surveyed workers reported that they faced at least one form of illegal discrimination (including gender discrimination) while working for their current employer in the previous 12 months.
- Discrimination based upon a workers' race and/or ethnicity affected roughly 14 percent of all surveyed workers. This discrimination was especially pronounced amongst non-white workers, with 23 percent of surveyed Latino/a/e/x or Hispanic workers, almost 16 percent of surveyed Black workers, and over 30 percent of surveyed Asian workers suffering racial and/or ethnic discrimination while on the job in the past year.

⁶ In the survey instrument, **sexual harassment** is defined as including unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature. **Sexual assault** refers to sexual contact or behavior that occurs without explicit consent of the victim. Some forms of sexual assault include: attempted rape, fondling or unwanted sexual touching, forcing a victim to perform sexual acts, such as oral sex or penetrating the perpetrator's body, or penetration of the victim's body, also known as rape.

Potential occupational health and safety violations range from provision of free personal protective equipment (PPE) to access to undisturbed and offsite meal breaks to incidence of customer abuse and violence:

- Almost 18 percent of surveyed workers reported being charged by their employers for required protective equipment, and 59 percent reported spending their own money purchasing PPE not provided by their employers.
- Roughly 60 percent of surveyed workers reported having their designated (and typically unpaid) meal breaks interrupted by their managers, employers, or customers in the past 12 months, while over 20 percent of surveyed workers reported being required to continue working while eating in the past year.
- Roughly 79 percent of surveyed workers reported experiencing at least once incident of customer abuse⁷ in 12 months prior to survey participation. This includes over 20 percent of surveyed workers who reported suffering four or more incidents of customer abuse during this time frame.
- While surveyed workers of all genders reported being subject to customer abuse at work, women reported higher levels of abuse (86 percent) when compared to men (66 percent).

Why it Matters

When workers depend on tips to comprise significant portions of their incomes, customer whims and preferences lead to incredible power imbalances within workplaces. Violations of employment laws in the form of wage theft and discrimination are widespread within food service, restaurant, and drinking establishments. Research shows that while worker pay is critical for job quality, wages are only part of the equation. Workers also need adequate work hours and stable schedules to be able to maintain decent incomes and balance work and family responsibilities. Underemployment (or involuntary part-time employment) and work hour volatility (or work hours varying week to week), are critical for understanding both worker and household income and general well-being. Together, these two components of job

⁷ The definition for customer abuse is inherently subjective and was left to individual interpretation by survey participants. Customer abuse is generally considered to include forms of customer behavior which are seen by service workers as aggressive, intimidating or insulting to themselves (Korczynski & Evans, 2013).

quality can cause workers to not earn enough and/or have unstable earnings that then diminish their ability to meet their basic needs and work towards economic mobility.

Social and physical work environments also connect to worker well-being. The World Health Organization recognizes working conditions and work-life balance to comprise social determinants of health, or non-medical factors that influence health outcomes, and can impact health equity in positive and negative ways. Workplace relationships with superiors and co-workers, accommodations for disability and work-family reconciliation, occupational health and safety, stress and fatigue, and mistreatment and abuse, all contribute, positively and negatively, to worker health and well-being (Bellisle and Dickson, et al., 2022).

Tipped workers in restaurants and bars face daily conflict in reconciling their work schedules with their lives outside of work:

- Upwards of three-quarters of all surveyed workers experienced schedule conflicts with schooling and with family obligations at least *some of the time*.
- Almost 41 percent of surveyed workers had conflicts with work schedules and family caregiving obligations *always* or *most of the time*.
- Over 70 percent of surveyed workers financially supported children under 18 years of age.
- Close to 92 percent of the surveyed tipped workers reported economically supporting at least one dependent either in the US or abroad.

Over half of surveyed workers took on additional jobs in the six months prior to their participation in this survey, and more than three-quarters of these workers assumed other wage work in order to offset inadequate income and/or benefits with their tipped jobs. Despite popular conceptions that tipped employees are young people early in their careers, survey findings show that many middle-aged and older workers earn tips in Chicago. Almost 60 percent of surveyed workers were 30 years of age or older at the time of survey participation, while almost 27 percent of surveyed workers were aged 40 years or older.

Compounding income and schedule instability has resulted in substantial uptake of different forms of publicly available assistance:

- Roughly one-quarter of survey participants reported relying on food assistance in the form of Supplemental Nutrition Assistance Program (SNAP) benefits as well as subsidized housing assistance.
- Almost 30 percent of surveyed workers made use of publicly financed health care subsidies, while 20 percent reported living in households that relied on Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) assistance.

Surveyed workers also experienced disturbingly high levels of housing insecurity and homelessness:

- In the 12 months prior to survey participation, over 27 percent of surveyed workers reported paying their rent or mortgage bills late at least once, while 16 percent reported paying these bills late at least 3 times.
- Approximately 43 percent of all surveyed workers reported experiencing homelessness for at least one night in the past year.

Finally, surveyed workers were asked in an open-ended question to write what they believed to be the standard (non sub) minimum wage for workers in Chicago:

- Less than one percent of workers correctly believed that the minimum wage was \$15.40 or greater.
- Over 48 percent of workers believed the minimum wage to be less than either the minimum wage for larger or smaller employers.

Recommendations

Tipped workers in Chicago suffer poor pay, unpredictable schedules, and restricted access to paid leave. Additionally, tipped workers face extraordinary levels of violations of fundamental labor standards. Based on both findings from detailed survey data collected from Chicago tipped workers and the extensive research referenced in the report on workers in low-wage and tipped occupations, the authors have six important recommendations for both policy makers and Chicago employers.

Recommendations for City of Chicago policies and programs:

1. Eliminate the tipped wage and enact a standard minimum floor for all employees working within the City of Chicago.⁸ As of the writing of this report, eight US states and one municipality have abolished this two-tiered wage system.^{9,10} Meanwhile, workers in Chicago and Illinois, along with those in 42 other states, are subject to a wage system with a direct link to the legacy of slavery.¹¹ The Bureau of Labor Statistics finds that restaurant workers occupy four of the ten lowest-paid occupations nationwide, and recent studies have shown that these workers are at least twice as likely to live in poverty (BLS, 2021B; Ross and Bateman, 2019). Recent research has shown that tipped workers in states that have eliminated subminimum wages not only earn higher incomes, but also experience less harassment and discrimination on the job and are less likely to live in poverty (Gould and Cooper, 2018; One Fair Wage, 2022). Elimination of subminimum wages has also led to reductions in the race and gender inequities associated with tipped wages (Schweitzer, 2021).

2. Provide adequate funding and staffing to support City of Chicago community outreach efforts and enforcement of prohibitions to combat bias, discrimination, and retaliation at work. Evidence from this survey indicates disturbing levels of sexual harassment and assault as well as experiences of racial and ethnic discrimination for tipped workers in Chicago. Local and federal enforcement systems have historically failed to address fundamental power imbalances inherent in employment relationships, as individual workers are charged with the responsibility for enforcing anti-discrimination laws and are often subject to illegal retaliation for protecting their rights. In response to these historic trends,

⁸ In July, 2023, a proposal to eliminate the tipped minimum wage by 2025 was introduced to Chicago City Council. The proposal would require employers to pay all workers the same minimum hourly wage, regardless of whether they earn tips.

⁹ Alaska, California, Guam, Minnesota, Montana, Nevada, Oregon, Washington, and Washington DC.

¹⁰ Chicago minimum wage law stipulates that workers earning tips must earn an equivalent compensation in tips that makes up the difference between the standard minimum wage (\$15.40 or \$14.50) and the subminimum wages (\$9.24 and \$8.70) - known as the tip differential.

¹¹ Introduced in February 2023, Illinois SB0293, sponsored by Sen. Pacione-Zayas and Sen. Simmons, amends the Minimum Wage Law to gradually eliminate the tip credit towards minimum wages. The bill provides that, on and after January 1, 2026, an employer shall not be entitled to an allowance for gratuities and shall pay each employee no less than the applicable minimum wage rate.

Mayor Lightfoot and the Commission on Human Relations amended the City's sexual harassment laws in April 2022 to make them stronger and to uphold zero tolerance of violence and harassment in the workplace. Mandatory employer workplace posting of the new provisions were required as of July 1, 2022. While further research is needed to assess the effectiveness of these amendments, their implementation is an important first step in addressing the widespread sexual harassment and sexual assault faced by too many Chicago workers.

Key to effective uptake and enforcement of these and other anti-discrimination protections is workers' freedom to file complaints without fear of retaliation. While employers are prohibited from retaliating against their employees under all employment and labor laws, research shows that retaliation is widespread and occurs in more than half of discrimination complaints filed with the U.S. Equal Employment Opportunity Commission (U.S. EEOC, 2022). Workplace power imbalances are compounded by the increasing use of forced arbitration clauses and non-disclosure agreements that create "asymmetries of information and resources between employers and employees" that weaken workers' rights and undercut enforcement efforts (Yang and Liu, 2021). This dynamic is reinforced by the lack of worker education about their rights on the job and insufficient resources for government assistance and enforcement.

3. Develop programmatic partnerships between the City of Chicago, educational institutions, and subject matter experts to educate workers about their rights and protections at work. Current educational efforts focused on workers' rights are typically limited to mandated public notices in workplaces and public training provided by staff of the Office of Labor Standards.¹² One good model for this type of educational programming was the provision of City funding for educating domestic workers of their rights using a community health promoter or *promotora* model. The *Workers' Rights Initiative* at the Labor Education Program at the University of Illinois (LEP) serves as another nationally recognized model for this form of adult education. In addition to training both Illinois workers and frontline staff of workforce development organizations, faculty at LEP and the Great Lakes Center for Occupational Health and Safety at the University of Illinois at Chicago have

¹² Every employer must post in a conspicuous place at each facility located in the City of Chicago a notice advising covered employees of: Current minimum wage, Fair Workweek (if applicable), Paid Sick Leave, and Wage Theft. With the first paycheck issued to a Covered Employee, and annually with a paycheck issued within 30 days of July 1st, every employer must provide a notice advising covered employees of: Current minimum wage, Fair Workweek (if applicable), and Paid Sick Leave. Required Chicago labor law public notices can be viewed and downloaded at https://www.chicago.gov/city/en/depts/bacp/supp_info/public-notices.html.

developed the first in the nation *Workers' Rights for Workforce Development* curriculum to expand worker awareness of fundamental rights and enforcement.¹³

Recommendations for Chicago employers of workers earning tipped wages:

4. Implement implicit bias and structural racism training for managers and employees to confront hostile and exclusionary workplaces. While the survey instrument could not measure the impact of implicit bias, both historical accounts of the tipped wage's racist legacy (featured in this report) as well as research showing the prevalence of implicit bias warrants addressing the practice. Key to successful work in combating individual bias are discussions of how structural racism drives biases and perpetuates inequities. While efforts to understand and dismantle problematic individual behaviors are important, this critical undertaking is incomplete when biases are disconnected from their historical drivers and legacies. Worker well-being within restaurants and bars in Chicago requires that the history and impacts of structural racism be confronted and interrupted. Within the food service and drinking establishment industry, it is crucial for both managers and workers to understand the racist history of tipped wages in the US (as detailed in this report), the connections between these legal carve outs and slavery, the perpetuation of sexual harassment and discrimination with reliance on tipped wages, and the racialized and ethnic divides that exist between front-of-the-house employees and kitchen staff. This work requires both understanding of how bias (both implicit and explicit) operates, as well as strategies to disrupt inequitable practices at the individual and firm levels.

¹³ The *Workers' Rights for Workforce Development* open-access curriculum focuses on connecting job training to workers' rights education. Its eight chapters cover the breadth of workplace rights and consist of activities designed to be used in workshops and training and integrated into existing workforce programs. This how-to-manual includes content and activities on workplace rights that workforce development professionals can build into their training and workforce development programs. Topics include wage and hour laws and protections, discrimination in the workplace, the rights of immigrant workers, laws around leave, health and safety topics, and information about unions and collective bargaining. The curriculum provides a range of learning resources including videos, illustrations, quizzes, fact sheets, and more. The intent of the curriculum is to provide organizations with a set of resources to choose from based on the needs of the workers they serve. Free download available at <https://lep.illinois.edu/workers-rights-for-all/>.

5. Explore proposals to promote occupational desegregation and equity at work.¹⁴

Employers should conduct an audit on their seemingly neutral hiring practices (such as credit checks), to be certain they are not imposing disproportionate barriers for women and Black and Brown workers. A further step would be to require employers to measure racial equity in their workplace by calculating the level of occupational segregation as part of an equity assessment (ROC, 2017). The assessment would include explicit equity inclusion goals and timetables for recruiting and retaining a diverse applicant pool. In addition, on-going training relating to diversity and equity should be required and provided to all employees. Further, employers should designate a Diversity/Equity/Affirmative Action Officer and notify employees of the person's responsibilities and how to bring complaints to the officer. The City could also implement a voluntary designation for employers that assigns a score/rating to firms for their commitment to "diversity and equity."

6. Implement transparent internal promotion pathways within restaurants and drinking establishments. One example of such pathways is to adopt an apprenticeship training program which includes training and on-the-job work hours to qualify an employee for incrementally higher skilled positions (Langston et al., 2021). In addition, workplaces could include a skill certification (i.e., a form of professional development) program which would qualify workers for higher pay and job responsibilities. Minimally, employers should establish a written protocol for employee advancement that includes job standards, evaluation rubrics, and ongoing feedback about an employee's progress.

¹⁴Occupational segregation is the distribution of workers across and within occupations, based upon demographic characteristics such as gender, race and ethnicity. A 2022 Center for American Progress report posits "occupational segregation is the direct result of societal biases and policy choices," and an "enduring feature of the American labor market... it diminishes wages and working conditions for all workers in a job where marginalized groups are overrepresented; contributes to overall wage gaps based on immutable and often intersecting demographic characteristics; and limits economic growth. The causes of occupational segregation include societal biases about particular demographics of workers that are embedded in public and private systems, in policy choices, and in operations across education, training, and work." (Zhavoronkova, 2022).

Acknowledgements

The authors would like to thank a number of individuals for their guidance and support with this project. We are extremely appreciative of the friends - baristas, servers, and bartenders at Brothers K Coffeeshop, Sketchbook Brewery, and the Wine Goddess - for their pilot of the first versions of the survey tool. Many thanks too to the gracious colleagues and comrades who helped to disseminate the survey widely throughout Chicago, especially Sasha Ongtengco, Wanessa Vovola, the good people at the UIC Center for Healthy Work, and Shelly Ruzicka at Arise Chicago. Finally, thanks to the innumerable restaurant servers, cocktail waitresses, bartenders, bar backs, baristas, bussers, and hosts we have worked with over the years. The experiences we have shared together, from amazing to traumatic, profoundly shape our understanding of the varied issues facing this sector and the larger impacts these conditions imprint upon our and our families' well-being and happiness.

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About the Project for Middle Class Renewal

The Project for Middle Class Renewal's mission is to investigate the working conditions of workers in today's economy and elevate public discourse on issues affecting workers with research, analysis and education in order to develop and propose public policies that will reduce poverty, provide forms of representation to all workers, prevent gender, race, and LGBTQ+ discrimination, create more stable forms of employment, and promote middle-class paying jobs. Each year, the Project publishes critical research studies and holds education forums on contemporary public policies and practices impacting labor and workplace issues. If you would like to partner with the Labor Education Program in supporting the work of the Project or have questions about the Project please contact Robert Bruno, Director of the Labor Education Program, at (312) 996-2491 or bbruno@illinois.edu.

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List of Tables and Figures

Tables

- 1.1: Characteristics of Surveyed Workers
- 1.2: Start Years with Current Employers
- 1.3: Career Tenure by Gender and Race/Ethnicity
- 1.4: Prevalence of and Reasons for Taking Secondary Jobs in the Past 6 Months
- 2.1: City of Chicago Minimum Wages (MCC 6-105)
- 2.2: Hourly Wage Rates for Workers Paid by the Hour
- 2.3: Median Hourly Wages and Tips Taken Home in the 7 Days Prior to Survey Participation
- 2.4: Percentage of Surveyed Workers Paid by the Hour Earning Below, Above, and at the Median Hourly Income of Pay Rate Plus Tips
- 2.5: Experience with Different Forms of Wage Theft
- 2.6: Work Performed Off the Clock in the Week Prior to Survey Participation
- 2.7: Workers' Estimation of City of Chicago Minimum Wage for Non-Tipped Employees
- 2.8: Work Hours in the Past Week and Past 6 Months
- 2.9: Frequency of Schedule Changes
- 2.10: Gender discrimination, Sexual Harassment, and Sexual Assault by Worker Gender in 12 Months Prior to Survey Participation
- 2.11: Sexual Harassment and Sexual Assault Offenders
- 2.12: Reports of Sexual Harassment and Employer Responses
- 2.13: Workplace Hazard Mitigation and Personal Protective Equipment (PPE)
- 2.14: Experience with Incidents of Verbal or Physical Assaults from Customers in the Past 12 Months
- 2.15: Experience with Customer Abuse by Worker Gender in the Past 12 Months
- 2.16: Access to Meal Breaks While Working
- 2.17: Likelihood of Experiencing a Penalty for Use of Accumulated Paid Leave
- 2.18: Provision of Employer-Supported Health Insurance
- 2.19: Experiences of Illegal Discrimination at Work in the 12 Months Prior to Survey Participation
- 2.20: Discrimination Based on Race/Ethnicity by Worker Race/Ethnicity
- 2.21: Workers' Children and Other Dependents
- 2.22: Housing Insecurity and Homelessness in the Past 12 Months

Figures

- 1.1: Locations of Survey Participants' Workplaces by Chicago Zip Code
- 1.2: Locations of Survey Participants' Workplaces by Chicago Council Wards
- 2.1: Awareness of City of Chicago Fair Workweek Ordinance
- 2.2: Amount of Advance Notice of Schedule Changes Provided Workers
- 2.3: Number of Times Workers' Shifts Were Cut in the Past 30 Days
- 2.4: Provision of Unpaid and Paid Sick and Vacation Time
- 2.5: Frequency of Work Schedule Conflicts with Schooling and Family Obligations
- 2.6: Current Usage of Different Forms of Public Assistance

II. Introduction

"Chicago has and will always be a city made by workers and for workers, which is why we will never stop fighting to make sure they have the world-class protections they deserve. Now, more than ever, every single worker here in our city should be guaranteed a living wage, a predictable schedule and protections in the event they are sick and will need to miss work. As the Wage Theft Ordinance, Chi Biz Strong and other initiatives led by BACP and OLS have made crystal clear, we are committed to making this a reality and we will always be fierce supporters of our workforce."¹⁵

-Former City of Chicago Mayor Lori Lightfoot, (Mayor's Press Office, 2021)

"It was right here in the city of Chicago, that Martin Luther King Jr. organized for justice, dreaming that one day that the civil rights movement and the labor rights movement will come together. Well, Rev. Martin Luther King Jr., the civil rights movement and the labor rights movement have finally collided. We are experiencing the very dream of the greatest man who ever walked the earth."

-City of Chicago Mayor Brandon Johnson, (Hill, Daley, and Walden, 2023)

Worker status in our modern economy has become increasingly precarious. Over the last 40 years, changing employer practices have introduced instability and insecurity into jobs across the economy, limiting the voice that workers have in their own working conditions and deteriorating overall job quality. Large segments of Chicago's population have not benefited from recent economic recovery as our local economy sees continued growth of

¹⁵ BACP = Business Affairs and Consumer Protections; OLS = Office of Labor Standards.

problematic workplace practices. The employment landscape for workers in low and middle-income occupations in Chicago and across the United States is epitomized by unstable working conditions including negligible wage growth, erratic and unpredictable work hours and schedules, and lack of benefits like paid family leave. *Wage theft*, a term synonymous with employer theft of worker pay in the form of underpayment of legal wages, mandatory off-the-clock work, denial of promised benefits, and illegal wage deductions, amongst others, has reached epidemic proportions in Chicagoland (Bernhardt et al., 2009; Cooper and Kroeger, 2017). In addition to wage theft, the modern-day labor market is characterized by low-paying industries and occupations, the dismantling of the traditional employer-employee relationship, the growth of outsourcing and temporary agencies to fill labor demands, widespread and coordinated assaults on organized labor, and defunding of government agencies charged with enforcing workers' rights (Weil, 2014; AFGE, 2019).

A preponderance of American jobs have experienced a longstanding “stagnation or decline in real (inflation-adjusted) income and wage levels, sharply rising overall wage inequality, and a high and rising incidence of low pay” (Howell and Kalleberg, 2019). Meanwhile, accessing employment-associated benefits such as paid leave and affordable healthcare is diminishing for many, while just-in-time work hours and unpredictable scheduling practices have expanded (Henly et al., 2021; Harknett, Schneider and Irwin, 2021; Petrucci et al., 2021; Golden and Dickson, 2019). The intensified pursuit of labor cost reduction, facilitated by technology, has led to more work becoming more variable or last minute (Henly and Lambert, 2014; Golden, 2015). The federal Fair Labor Standards Act (FLSA) is no longer as well-equipped for maintaining a floor as originally intended, not only for pay and employee benefits, but for work hours and schedules that are adequate, stable, predictable, and responsive to the needs of workers to balance work and nonwork obligations. Grassroots responses to these trends have resulted in nascent local and state policy innovations aiming to determine new minimum standards for the employment relationship and to curb associated risks to aspects of workers' well-being (Golden and Dickson, 2019; Harknett and Schneider, 2021).

Under federal law, employers can pay tipped workers a sub-minimum wage or “tip credit” of just \$2.13 an hour, rather than the standard federal minimum wage of \$7.25. If tips earned do not allow a worker's total earnings to equal at least the federal minimum wages, employers must make up the difference (USDOL, 2016). In reality, this mandate is rarely followed and

tipped workers lose millions of dollars annually due to this legal carveout (Food Labor Research Center et al., 2015). A 2014 review of employment records nationwide found that almost 84 percent of full-service restaurants improperly calculated wages for tipped workers or had committed other wage and hour violations (Allegretto and Cooper, 2014). In reference to widespread violations within industries dominated by tipped work, David Weil, former administrator of the Wage and Hour Division of the Labor Department under President Barack Obama, stated “it’s baked into the model, and it’s very problematic” (Smith, 2022). The practice of tipping in the United States can be understood as “a legally recognized form of labor remuneration that informalizes the wage relation, incentivizes the worker in precarity, and internalizes social relations of subordination” (Ross and Welsh, 2020, 192). Work dependent on tips for income is connected to other types of ‘precarious’ and ‘contingent’ labor, as the beneficiaries of the practice of tipping constitute a minority, privileged by a range of factors including geography, sex and race (*Ibid*, 197; Jayaraman, 2016).



As of the writing of this report, eight US states and one municipality have abolished this two-tiered wage system.¹⁶ Meanwhile, workers in Chicago and Illinois, along with those in 42 other states, are subject to a wage system with a direct link to the legacy of slavery, as is discussed in this report’s next section.¹⁷ Nationwide, the tipped workforce is nearly 70 percent female and disproportionately staffed by Black and Brown workers (BLS, 2021A). The Bureau of Labor Statistics finds that restaurant workers occupy four of the ten lowest-paid occupations nationwide, and recent studies have shown that these workers are at least twice as likely to live in poverty (BLS, 2021B; Ross and Bateman, 2019).

¹⁶ Alaska, California, Guam, Minnesota, Montana, Nevada, Oregon, Washington, and Washington DC.

¹⁷ Introduced in February 2023, Illinois SB0293, sponsored by Sen. Pacione-Zayas and Sen. Simmons, amends the Minimum Wage Law to gradually eliminate the tip credit towards minimum wages. The bill provides that, on and after January 1, 2026, an employer shall not be entitled to an allowance for gratuities and shall pay each employee no less than the applicable minimum wage rate.

Worker advocates and academic researchers have published recent research showing that tipped workers in states that have eliminated subminimum wages not only earn higher incomes, but also experience less harassment and discrimination on the job and are less likely to live in poverty (Gould and Cooper, 2018; One Fair Wage, 2022). Elimination of subminimum wages has also led to reductions in the race and gender inequities associated with tipped wages (Schweitzer, 2021). This study and analysis of tipped work and labor control in Chicago aims to contribute to a growing and relevant body of literature that demonstrate how “.. social relations of exploitation, appropriation, and domination are reproduced intersectionality in neoliberal capitalism, by both transfiguring subjectives and inscribing new lines of differentiation in the social relations of production and reproduction” (Ross and Welsch, 2020).

III. The Racist History of Subminimum Wages in Illinois and the United States

Tipped workers in the U.S. economy suffer subminimum wages and unstable continuity of employment. Currently, federal law only requires employers to pay \$2.13 per hour to individuals who earn more than \$30 per month in tips. The crisis of tipped workers has always been rooted in the exploitation of Black bodies. This exploitation is connected to a storied history of "legally" paying no wages for Black labor, and then excluding Black workers from basic protections like minimum wages. The legal carve outs for subminimum wages has led to an ongoing crisis because it results in unstable continuity of employment and has allowed for the continued exploitation of Black labor.

Beginning in slavery, America’s obsession with free labor denied Black workers’ wages unless “tipped” by European patrons and slaveowners. Following the Civil War, where dozens of states fought to preserve a nation of free or cheap labor, large manufacturers such as George Pullman as well as restaurant owners targeted formerly enslaved Black people—who toiled under a de facto labor ceiling in the dirtiest, least desirable, and unstable forms of work for over a century after slavery—for cheap labor costs to work solely for tips. Black porters and maids working on America’s expanding railroad transportation system relied primarily on their tips, which meant that they had to endure racist attacks, overwork (sometimes as much

as 100 hours a week), and the negation of their identity. Thus, the exploitation of formerly enslaved Blacks constructed the modern tipping system in the United States. The U.S. federal government consistently excluded tipped workers from labor rights throughout history—resulting in deepening generational poverty. When the Fair Labor Standards Act mandated that all employers pay their employees a minimum wage in 1938, it left tipped workers to the mercy of customers until 1966 when an amendment was added to the law.

Workers today recognize the racial dynamics of exploitation against tipped workers. In late September 2022, Jeffrey Jean-Louis, a server at Capital Grille in New York City, filed a complaint with the Equal Employment Opportunity Commission against Darden



Restaurants, Inc. for systematizing racial hierarchies in scheduling workers at their restaurants. “There’s a system in place where they’re trying to put a certain type of server up front, that being a white male,” Jean-Louis stated. Pamela Araiza in Washington D.C. filed her own complaint against Darden, alleging that she was “consistently assigned to sections of the restaurant known to generate less in tips, which management referred to as ‘Section 8’ or ‘my low-income world’” (Press, 2020).

The consequences of subminimum wages on Black and Brown female workers are disastrous. As the non-profit organization One Fair Wage argued, Darden and other restaurant and bar corporations’ policy of paying subminimum wages to Black and Brown female tipped workers causes them “to experience more sexual harassment and make less money than non-tipped, white coworkers.” This occurs because Black and Brown workers are already segregated into lower-tipping restaurants; however, when tipped working women, who more often than not live off of tips, there exists “a power dynamic that results not just in customers harassing women, but managers telling women to dress sexier, show more cleavage, in order to make more money in tips, and that makes them vulnerable to manager and coworker harassment” due to

objectification on a daily basis (MacKinnon and Fitzgerald, 2021). The structure of racial, class, and gender exploitation on tipped workers in the United States is systemic policy that inherently denies equal protection and power to workers.

IV. Survey Overview

Who Did We Survey?

Tipped work is ubiquitous across the economy and can be found in numerous occupations and in many industries. Tipped work includes those working in car washes, nail salons, and domestic and house-cleaning work. Hair stylists, exotic dancers, ride-share drivers, and massage therapists all depend on tips for their livelihoods. As do parking lot attendants and valet parkers, airport wheelchair attendants and skycap baggage handlers, and hotel housekeepers and bellhops. This study focuses on the work experiences of tipped employees working in food service and drinking establishments, including restaurants, bars, and cafes. The occupations typically earning tips in these workplaces include servers, bussers, bartenders, bar backs, baristas, and hosts. These *front-of-the-house* employees engage with customers and earn tips as payment for a sizable portion of their weekly incomes. Workplaces for survey participants range from high-end fine dining to affordable restaurant chains to small neighborhood bars and coffee shops.

This study singularly focuses on the experiences of tipped workers in food service and drinking establishments for three critical reasons:

1. Tipped restaurant, cafe and bar employees represent the largest occupational grouping of workers in the US earning tips as a significant portion of their incomes, when compared to other types of workers earning tips (Azar, 2020).
2. Tipped restaurant, cafe and bar employees often earn sub-minimum hourly pay, or wages lower than standard applicable minimum wages for other workers in the economy. To date, sub-minimum wages have been eliminated in eight states and one municipality, but are still legal in Chicago and Illinois.

3. Workers in other industries characterized by tipped work are often classified (or misclassified) as independent contractors, not W-2 employees, and thus are not covered under the employment and labor protections afforded employees. While independent contracting and worker misclassification also exists in restaurants and bars, especially in provision of order delivery services, it is less common amongst *front-of-the-house* tipped workers.

How Did We Conduct the Survey?

Throughout the month of July 2022, researchers from the Project for Middle Class Renewal at the University of Illinois at Urbana-Champaign conducted voluntary and anonymous surveys of tipped food service and drinking establishment workers in Chicago. The stated purpose of the research was to better understand the experiences and working conditions of tipped employees working in Chicago. Participants were recruited through widespread postings of a recruitment flier on various social media sites.¹⁸ If eligible to participate, survey respondents were asked to answer questions about their jobs, including, when and where they worked and how they were compensated, as well as about instances of discrimination including sexual harassment and assault. They were also asked a series of questions about work-life balance and obligations, occupational health and safety, and financial hardships. Survey duration averaged 11 minutes and survey completion enrolled interested participants in a lottery for a series of \$100 gift cards.

Using the online survey tool Qualtrics, researchers asked up to 87 questions of individuals who qualified for participation. To participate in the survey, workers had to:

1. Have worked in a restaurant, food service, or drinking establishment located within Chicago in the seven days prior to their participation;
2. Have earned tips at this job in the previous seven days;
3. Be at least 18 years of age.

¹⁸ University of Illinois at Urbana-Champaign Institutional Review Board (IRB) protocol 23045, approved June 29, 2022.

A total of 2,717 surveys were collected, and after cleaning the sample to exclude non-qualifying participants, a study sample of 1,204 tipped workers in Chicago was established for analysis.

Assumptions and Limitations

Prior wage theft research has shown that the workers who are most vulnerable to precarious work and exploitation of their rights on the job are immigrants, especially those who don't speak English well and those without work authorization in the U.S. (Bernhardt et al., 2009). By conducting this survey online and only in English, this study has likely excluded the experiences of these workers and some of Chicago's most egregious examples of degraded working conditions. In order to fully understand the employment quality of these tipped workers, further research involving field surveys and language interpretation is necessary. Findings from this survey also oversamples White workers as compared to Black and Brown workers. The study authors limited their analysis to findings from the 2,717 surveys collected, of which 1,204 were eligible for inclusion based on the requirements outlined above. Race, ethnicity, and gender were not used as factors determining eligibility. As with the experiences of immigrant workers, previous research shows that Black and Brown and female and transgender workers are subject to higher rates of violations of workers' rights than their White male colleagues (Bernhardt et al., 2009). This work has shown that nationwide, 57% of Black workers, 33% of Native American workers, 25% of Asian workers, and 32% of Latino/a/e/x workers, as well as 41% of women and 22% of LGBTQ workers report having personally experienced discrimination in hiring, compensation, and promotion considerations (NPR et al., 2017). Given the high levels of wage theft, discrimination, and other types of legal violations experienced by the survey participants, it is reasonable to assume that the problems encountered in this study are even more acute than has been reported here.

Another inherent limitation of this study is the lack of specific employer information such as firm and workforce sizes as well as employer-recorded wage, tips, and scheduling data. Chicago minimum wage rules as well as other worker protections such as paid leave and the Fair Workweek ordinance, provide different prescriptions and exemptions dependent on firm size. Without detailed knowledge of employer composition, both in terms of workforce and number of locations, it is impossible to calculate potential dollar amounts stolen in wage theft by employers. Survey participants were not asked employer information such as size of

workforces and number of locations as this is information many workers likely do not accurately know. Rather, survey data collected is based strictly on the experiences of workers themselves - their working conditions and earnings. While potential for bias in approximating take-home tip amounts is a real possibility, the study authors have made the assumption that workers themselves are best equipped to answer these questions.



How Did We Measure Workplace Violations?

In addition to poor pay, unpredictable schedules, and restricted access to paid leave, workers in Chicago face extraordinary levels of violations of fundamental labor standards. The findings from the landmark 2008 Unregulated Work Survey Project are staggering: for example, nearly half (47 percent) of participating workers in the Chicago area across several low-wage

industries experienced a wage violation in the prior week, such as being paid less than minimum wage or being denied overtime pay. Only three percent of participants received workers' compensation for a severe on-the-job injury. In total, over \$7.3 million was determined to have been stolen from workers by employers *weekly* in Cook County -- in 2008 (Bernhardt et al., 2009).

A more recent report by the Economic Policy Institute (EPI) also attempted to measure one form of wage theft - minimum wage violations - in the 10 most populous U.S. states. The authors of this study found that in the states analyzed, "2.4 million workers lose \$8 billion annually (an average of \$3,300 per year for year-round workers) to minimum wage violations—nearly a quarter of their earned wages... This form of wage theft affects 17 percent of low wage workers, with workers in all demographic categories being cheated out of pay" (EPI, 2017). Wage theft is systemic and affects workers across the economy, but it is concentrated in industries and sectors that disproportionately employ Black and Brown workers. Annually, at least a quarter million Illinois workers have \$675 million stolen from

them by their employers in minimum wage violations alone (Cooper and Kroeger, 2017). For each worker, that is approximately \$53 stolen out of an average of \$258 earned weekly, or 20% of their week's pay. And that is just minimum wage violations – the tip of the iceberg.¹⁹ Wage theft devastates workers and their families and suppresses local community and economic development.

Wage theft – Actions by an employer or employer's representative to steal/keep earnings of a worker. Examples of wage theft include: not being paid for all of the hours worked; not being paid the legal minimum wage; not being paid overtime; illegal paycheck deductions including being charged for health and safety protective gear; not being paid benefits or time-off owed; not being compensated for costs associated with injuries or illnesses suffered on the job; and being misclassified as an independent contractor.

A number of violations of different employment and occupational health and safety laws were discerned during analysis of survey participants' responses. Researchers determined that participating workers experienced at least eight forms of *wage theft* while working their tipped jobs, including: working off the clock; working without pay; not being paid overtime; illegal paycheck deductions for needed health and safety gear, charges for required uniforms; being paid late; tip-sharing with management; and inability to take meal breaks. Workers also experienced varied types of discrimination on the job, including disturbing levels of sexual harassment and assault while at work. Laws protecting Chicago employees against workplace discrimination are supported at a number of levels from the Chicago Commission on Human Relations to the Illinois Department of Human Rights to the U.S. Equal Employment Opportunity Commission (EEOC). Potential occupational health and safety violations that were reported range from provision of free personal protective equipment (PPE) to access to undisturbed and offsite meal breaks to incidence of customer abuse and violence.

The Office of Labor Standards enforces the Chicago minimum wage, Fair Workweek, Paid Sick Leave, domestic worker written contract requirement, and two anti-retaliation ordinances passed during the COVID-19 pandemic. Effective July 31, 2021, as part of Mayor

¹⁹ There is no public data available on the prevalence of all forms of wage theft. The most comprehensive Chicago-related data is from a 2009 survey with over 1,000 low-wage workers in the Chicago metro, which found two-thirds had experienced at least one form of wage theft in the prior week (Theodore et al. 2010).

Lightfoot's Chi Biz Strong Initiative, Chicago's workers gained protection under a new Wage Theft Law.²⁰ Additionally, on August 1, 2021, the Paid Sick Leave Law was expanded to allow workers to use accrued Paid Sick Leave to take time off to care for a family member with a closed school or place of care, to comply with public health orders, or for mental and behavioral health reasons.

The Workers and Their Characteristics

In line with occupational demographics nationally, a little less than two-thirds of survey respondents characterized their gender as woman, transgender man or woman, or another gender (NLWC, 2019). Despite widespread beliefs that tipped employees are young people early in their careers, survey findings show that many middle-aged and older workers earn tips in Chicago. Roughly 44 percent of participating workers were less than 30 years old at the time of survey participation, while almost 27 percent of participating workers were aged 40 years or older. Racial and ethnic identities of survey participants also are in line with industry occupational data, with white workers representing approximately two-thirds of the

²⁰ Mayor Lightfoot's Chi Biz Strong Initiative, which passed City Council on June 25, 2021, implemented new supports for Chicago businesses and workers in three ways:

1. Immediate Financial Relief to support businesses;
2. Overhaul of City Business Policies to reduce red tape and be more business friendly; and
3. Targeted Worker Protections to ensure that the rights and safety of workers are central to the recovery.

Targeted Worker Protections included within the Initiative included:

- Wage Theft Protection, by granting the City greater ability to protect and recoup stolen wages for its workers (*effective July 31, 2021*).
- Domestic Workers Protection, by supporting domestic workers with a written contract requirement for employers (*effective January 1, 2022*) and placing 8,000 domestic workers on the path to a \$15 minimum wage in 2021 (*effective August 1, 2021*).
- Chain Business Workers Protection, ensuring that chain business workers are paid the correct minimum wage, by clarifying how employers count their employees. *Effective August 1, 2021*.
- Paid Sick Leave Enhancements, covering and clarifying additional uses, such as caring for a family member with a closed school or place of care, compliance with public health orders, and mental and behavioral health (*effective August 1, 2021*).

survey sample (BLS, 2021C). Almost 53 percent of participating workers had completed at least some college coursework, with an additional 18 percent possessing their high school diplomas or GED equivalent. Servers represented the largest surveyed occupational group, followed by bartender and bussers.

Table 1.1: Characteristics of Surveyed Workers

		Percent of Workers
Gender	Man	37.0%
	Woman	61.6%
	Transgender man	0.6%
	Transgender woman	0.1%
	A gender not listed here	0.7%
Age	18-24	9.4%
	25-29	34.9%
	30-39	29.2%
	40-49	23.9%
	50+	2.9%
Race/Ethnicity	Latino/a/x/e or Hispanic	7.6%
	Black of African-American	17.3%
	Asian/Other	8.5%
	White	66.9%
Education	Less than high school, no GED	28.9%
	High school graduate or GED	18.2%

	Some college or higher	52.9%
Main Occupation	Server	25.0%
	Bartender	18.5%
	Busser	16.1%
	Cashier	14.8%
	Host/Hostess	14.2%
	Manager/Supervisor	7.0%
	Barista	2.8%
	Bar back	1.4%
Total numbers of workers in sample		1204

Tables 1.2 and **1.3** show worker tenure in both their current jobs and working within the restaurant/food service/drinking establishment industries. Over half of surveyed workers (53.9%) started working for their current employer in 2017 or earlier. **Table 1.3** gives a window into the career tenure of surveyed workers by both gender and race and ethnicity. Over one-quarter of surveyed women, over 37 percent of surveyed men, and almost 30 percent of surveyed workers identifying by other genders have spent at least six years working in this industry.

Table 1.2: Start Years with Current Employers

Start year	Percent of workers
2017 or earlier	53.9%
2018-2020	32.6%
2021-2022	13.8%

Table 1.3: Career Tenure by Gender and Race/Ethnicity

	Percent of workers			
	Less than one year	1 to 5 years	6 to 10 years	More than 10 years
Men	3.1%	59.6%	29.7%	7.6%
Women	1.5%	73.0%	21.6%	3.9%
Other gender	0.0%	70.6%	11.8%	17.6%
Latino/a/x/e or Hispanic	5.4%	47.8%	43.5%	3.3%
Black or African-American	1.9%	79.7%	17.4%	1.0%
Asian and other	0.0%	63.7%	35.3%	1.0%
White	2.2%	67.3%	23.0%	7.5%

Over half of surveyed workers took on additional work in the six months prior to their participation in this survey. As can be seen in **Table 1.4**, more than three-quarters of these workers assumed other wage work in order to offset inadequate income and/or benefits with their jobs working in food service and drinking establishments.

Table 1.4: Prevalence of and Reason for Taking Secondary Jobs in the Past 6 Months

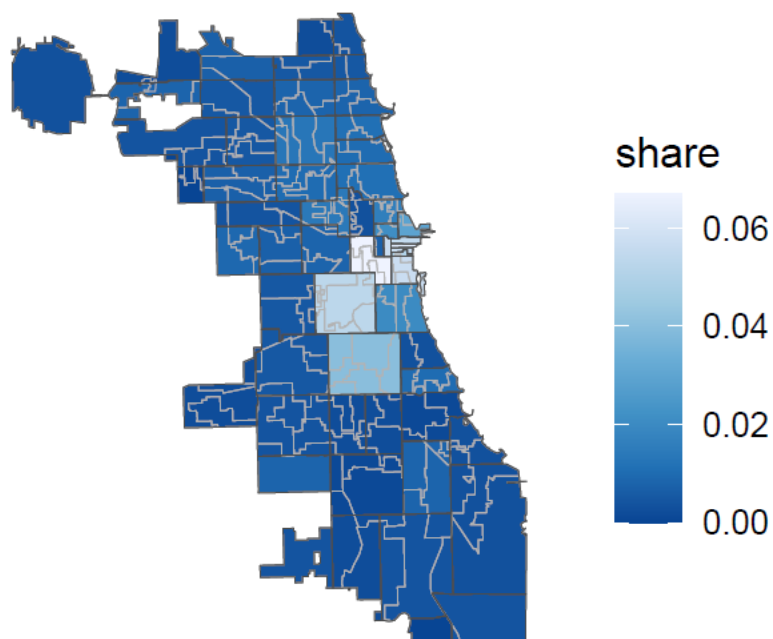
Other job	Percentage
Yes	51.7%
No	48.3%
Reason for other job	Percentage

To offset any income loss, such as from: loss of a job, working hours, benefits or wages in your main job	78.4%
To earn extra money on top of pay from my other regular sources of income (including main job)	16.2%
To acquire or maintain existing job-related skills, as a hobby or for social networking	5.4%

Workplace Location

This study captures the experiences of workers employed in 100 percent of Chicago's 98 zip codes, with the largest percentages working in the River North, Near North, West Town, West Park, Near South Side, Douglas, and Irving Park community areas. **Figure 1.1** shows these participants and their experiences by Chicago ward designation.

Figure 1.1: Locations of Survey Participants' Workplaces by Chicago Council Wards



Survey Findings: A Snapshot of Working Conditions Facing Tipped Workers in Chicago

Wages

As of July 1, 2022, when worker surveys were collected, Chicago minimum wage for most employers was \$15.40 per hour. **Table 2.1** shows the current (as of October, 2022) and multi-tiered minimum wage floors for workers employed within the city limits. A ‘tip,’ as opposed to a legal wage rate, can be defined as “the price, determined unilaterally by the customer, for a service received... It is not obligatory, and its amount is not fixed in advance, except by a social code” (Archibugi, 2004). By definition, tips are flexible and arbitrary and a considerably more precarious source of income than fixed wages.

Employers in Chicago, such as restaurant and bar owners, who maintain tipped workers are allowed to pay sub-minimum hourly wages - \$9.24 per hour for employers with 21 or more

employees and \$8.70 per hour for employers with 20 or fewer workers. Importantly, Chicago minimum wage law stipulates that workers earning tips must earn an equivalent compensation in tips that makes up the difference between the standard minimum wage (\$15.40 or \$14.50) and the subminimum wages (\$9.24 and \$8.70) - known as the tip differential. Though not eligible for participation in this survey, youth tipped workers in Chicago are subject to even a lower subminimum wage of \$7.20 per hour.

Table 2.1: City of Chicago Minimum Wages (MCC 6-105)

July 1, 2022 Effective Date				Tipped Workers		
	Large Employers (21 or more employees)	Small Employers (4 to 20 employees)	Youth Workers	Large	Small	Youth
Minimum Wage	\$15.40	\$14.50	\$12.00	\$9.24	\$8.70	\$7.20
Overtime Min Wage	\$23.10	\$21.75	\$18.00	\$16.94	\$15.95	\$13.20

Table 2.2 displays the distribution of hourly wage rates for surveyed workers.²¹ Less than seven percent of surveyed workers reported earning an hourly wage more than \$15.40 per hour after tips, the standard Chicago minimum wage. Almost 92 percent of workers reported earning \$14.50 per hour or less before tips, with over 16 percent reported earning \$9.24 per hour or less. **Table 2.3** shows the median tips taken home by all surveyed workers in the week prior to survey participation. On average, surveyed workers earned \$186 in tips in the seven days before their survey. **Table 2.4** includes median hourly income in the past week for workers earning an hourly wage (n=504), as well as the percent of workers earning above and below this amount. Roughly 60 percent of workers paid by the hour reported earning an

²¹ Some surveyed workers earned annual salaries in addition to tips. These workers have been excluded from this current analysis, though work is continuing to better understand the interactions between annual salaries and exemptions from other worker protections such as overtime pay for hours worked over 40 in a given week as well as potential exclusions from coverage under the Fair Workweek Ordinance.

average hourly wage, including all tips, of \$17.55 per hour in the week prior to survey participation.

Table 2.2: Reported Hourly Wage Rates for Workers Paid by the Hour

Reported hourly wage before tips	Percent of workers
Less than \$8.70	2.8%
Between \$8.70 and \$9.24	13.5%
Between \$9.24 and \$14.50	75.4%
Between \$14.50 and \$15.40	1.6%
More than \$15.40	6.7%

Table 2.3: Reported Median Hourly Wages and Tips Taken Home in the 7 Days Prior to Survey Participation

	Worker averages
Tips taken home last week	\$186.00
Hourly wage (before tips)	\$12.00

Table 2.4: Percentage of Surveyed Workers Paid by the Hour Earning Below, Above, and at the Median Hourly Income of Pay Rate Plus Tips

Hourly Income (wage + tip)	Percentage of workers paid hourly
\$17.55 (median)	13.7%
Less than \$17.55	45.4%
More than \$17.55	39.1%

Violations of employee laws in the form of wage theft are widespread within food service, restaurant, and drinking establishments. **Table 2.5** displays some of the forms of wage theft that were captured in this worker survey. Working without pay and being paid wages after

they are promised are two perceptible forms of wage theft. Almost 80 percent of surveyed workers worked without pay at least once in the month prior to their survey participation, and an additional almost 9 percent of respondents worked without pay three or more times in the previous 30 days. Late pay is also prevalent amongst these tipped workers, with almost half of workers reporting late payment at least once in the month prior to taking the survey and almost a third reporting receiving late pay two or more times.

Federal overtime provisions contained in the Fair Labor Standards Act (FLSA) require that hourly employees and low-wage salaried employees be compensated at a rate not less than time and one-half for all hours worked over 40 in a given week. Roughly 12 percent of surveyed workers reported *never* or only *sometimes* receiving this fundamental worker protection guaranteed by federal law. Employment law also allows for a variety of tipped sharing formulas to be established so that wages are more evenly distributed within the workplace. Legally permissible practices include the sharing of tips with bar staff, hosts, and bussers, as well as with kitchen and back-of-the-house staff (commonly referred to as “tipping-out”). It is illegal for employers to require tipped workers to share a portion of their tips with managers or supervisors (CFR § 531.50, Subpart D). Almost 57 percent of surveyed workers were required to “tip-out” their managers in the week prior to survey participation. Approximately 8 percent of respondents reported being charged for their work uniforms when they started their jobs. Illinois law only allows charges for uniforms if employees sign an express written agreement at the time the deduction is made (56 Ill. Adm. Code 300.840). Surveyed workers reported spending an average of over \$100.00 on uniform charges.

“I hate that I have to tip-out my manager when we work together. I’m pretty sure this is illegal but she’s allowed to take tips as part of her “salary” agreement with ownership. She also takes the most lucrative shifts to work herself.” - Anonymous surveyed worker

Other forms of wage theft affecting surveyed workers relate to occupational health and safety protections in the workplace. Federal OSHA regulations require that necessary Personal Protective Equipment (PPE) be provided free of charge to employees.²² PPE for food service

²² Employers are not required to pay for some PPE in certain circumstances: non-specialty safety-toe protective footwear (including steel-toe shoes or boots) and non specialty prescription safety eyewear provided that the employer permits such items to be worn off the job site; everyday clothing, such as long-sleeve shirts, long pants, street shoes, and normal work boots; ordinary clothing, skin creams, or other items, used solely for protection from weather, such as winter coats, jackets, gloves, parkas, rubber boots, hats, raincoats, ordinary sunglasses,

and drinking establishments include CDC recommended face masks, gloves, and aprons. Almost 18 percent of surveyed workers reported being charged by their employers for their necessary PPE, while almost 60 percent reported spending their own money purchasing PPE not provided by their employers. Provision of uninterrupted meal breaks is also covered by Illinois law.²³ Despite these protections, roughly 60 percent of surveyed workers reported having their designated (and typically unpaid) meal breaks interrupted by their managers, employers, or customers in the past 12 months. Additionally, over 20 percent of surveyed workers reported being required to continue working while eating in the past year.

Table 2.5: Experience with Different Forms of Wage Theft

	Percent of workers
Worked without pay 1-2 times*	78.6%
Worked without pay 3 or more times*	8.8%
Worked off the clock 1-3 hours**	32.1%
Worked off the clock 3 or more hours**	53.5%
Paid late at least once*	45.1%
Paid late 2-3 times*	23.7%
Paid late more than 3 times*	8.2%
Not consistently paid legal overtime rate	11.6%
Required to tip-out managers**	56.5%
Charged for uniforms	8.1%
Charged for PPE by employer	17.7%

and sunscreen; items such as hair nets and gloves worn by food workers for consumer safety; lifting belts because their value in protecting the back is questionable; and when the employee has lost or intentionally damaged the PPE and it must be replaced. (OSHA 1910 General Industry PPE Standards).

²³ See 820 ILCS 140/3.

Spent own money on PPE	57.5%
Interrupted meal breaks †	59.6%
Required to continue working during meal breaks †	21.1%

* In the 30 days prior to survey participation.

** In the 7 days prior to survey participation.

† In the 12 months prior to survey participation.

Table 2.6 shows how off the clock work affected tipped workers differently in terms of gender. While an overwhelming majority of all surveyed workers worked some time without pay in the week prior to taking their surveys, women reported experiencing this form of wage theft at a much higher percentage when compared to surveyed men (92 percent compared to 80 percent).

Table 2.6: Work Performed Off the Clock in the Week Prior to Survey Participation

Gender	Percent of workers
Men	79.6%
Women	91.9%
Other gender	75.0%
All	87.1%

Finally, surveyed workers were asked in an open-ended question to write what they believed to be the standard (non-sub) minimum wage for workers in Chicago. As was displayed above in **Table 2.1**, as of July 1, 2022, the standard minimum wage in Chicago is \$15.40 for employers with 21 or more employees and \$14.50 for small employers with 20 or fewer employees. Less than *one percent* of workers believed the minimum wage to be \$15.40 or greater. Over 48 percent of workers believed the minimum wage to be less than either the minimum wage for larger or smaller employers. This lack of knowledge about fundamental

worker protections may in part be attributed to the annual July 1 minimum wage increase and the collection of these surveys in the weeks following the most recent increase.

Table 2.7: Workers' Estimation of City of Chicago Minimum Wage for Non-Tipped Employees

Minimum wage per hour	Percent of workers
Less than \$13.00	1.4%
\$13-\$13.99	47.0%
\$14-\$15.39	50.9%
\$15.40 or more	0.7%

Work Hours and Schedules

The Fair Labor Standards Act (FLSA) was implemented 80 years ago to standardize and limit weekly work hours for employees, by dis-incentivizing employers from setting long workweeks (Golden, 2015). It was not equipped to curb the unstable, unpredictable, or inadequate work hours endemic to the more recently changing structure of jobs and labor markets in the 21st century (Weil, 2019; Bernhardt et al., 2009). The use of last minute, on-call and variable work scheduling has become more common, particularly in certain sectors which are facilitated by technology and intensified cost competition (Henly and Lambert, 2014). The new laws and standards, granting certain workers more advanced notice of their schedule and some compensation when they are treated as effectively on-call or on-demand workers, were largely a grassroots response to these practices and the effects of erratic hours on workers' lives.

Research shows that while worker pay is critical for employment quality, wages are only part of the equation. Workers also need adequate work hours and stable schedules to be able to maintain decent incomes and balance work and family responsibilities. Underemployment (or involuntary part-time employment) and work hour volatility (or work hours varying week to week), are critical for understanding both worker and household income and general well-

being. Together, these two components of job quality can cause workers to not earn enough and/or have unstable earnings that then diminish their ability to meet their basic needs and work towards economic mobility.

Table 2.8 shows the variation in work hours for survey respondents within the six months prior to their participation in the survey. Workers worked an average of 33.5 hours in the week leading up to their survey participation. In the past six months, the most hours participants reported working in one week averaged 38.9 hours, while the least hours worked during the same time period was more than 10 hours less at an average of 28.1 hours.

Table 2.8: Work Hours in the Past Week and Past 6 Months

Hours per week	Number of hours worked in the 7 days prior to survey participation	Least hours per week in past 6 months	Most hours per week in past 6 months
Less than 10	7.5%	7.7%	7.3%
10 to 20	1.9%	4.4%	2.1%
21 to 30	10.5%	52.3%	1.1%
31 to 35	41.8%	29.7%	1.4%
36 to 40	23.0%	2.1%	45.6%
41 to 50	12.2%	1.9%	36.5%
More than 50	3.2%	1.6%	6.3%

On July 24, 2019, the Chicago City Council unanimously approved the Fair Workweek Ordinance (FWW), signed by the Mayor, implemented by the Office of Business Affairs and Consumer Protections (BACP) on July 1, 2020. The ordinance required that employers must provide:

1. New hires with a good-faith estimate of the hours and days expected for the first 90 days.

2. A minimum of 10 days' notice of their work schedules (and starting July 1, 2022, with a minimum of two weeks' notice of their work schedules).
3. "Predictability pay," amounting to an hour of pay at the employee's regular rate should the employer change the employee's schedule less than 10 days before they are set to work. This includes where an employer: adds time to the employee's schedule; changes the date or time of the shift (even without a loss of hours); and/or cancels a shift or reduces hours.
4. Predictability pay if the employer cancels or reduces hours within 24 hours of the scheduled start, amounting to half of what the employee would have earned during the shift.
5. Ability to avoid predictability pay if employees trade shifts or mutually agree to change the schedule with an employer. Employees also may decline a shift that starts less than 10 hours after the end of a shift. If the employee consents to such a shift, the employer must get written consent from the employee or they are required to pay time and a half for the shift.
6. Any additional ("access to") hours or shifts available to their existing covered, qualified part-time employees. However, if they would have to pay a premium rate for those additional hours, or if no part-time employee picks up the additional shifts, then the employer may offer them to their own temporary or seasonal employees.
7. No less than 10 hours between scheduled "clopening" shifts--one's closing and opening times, unless employees specifically request or agree to work, whereby employers would pay time-and-a-half for those hours within the 10 hours gap.
8. A right to request and refuse alterations in scheduled and non-scheduled time, with protection from retaliatory responses--substantial cuts in hours, demotion or discharge.

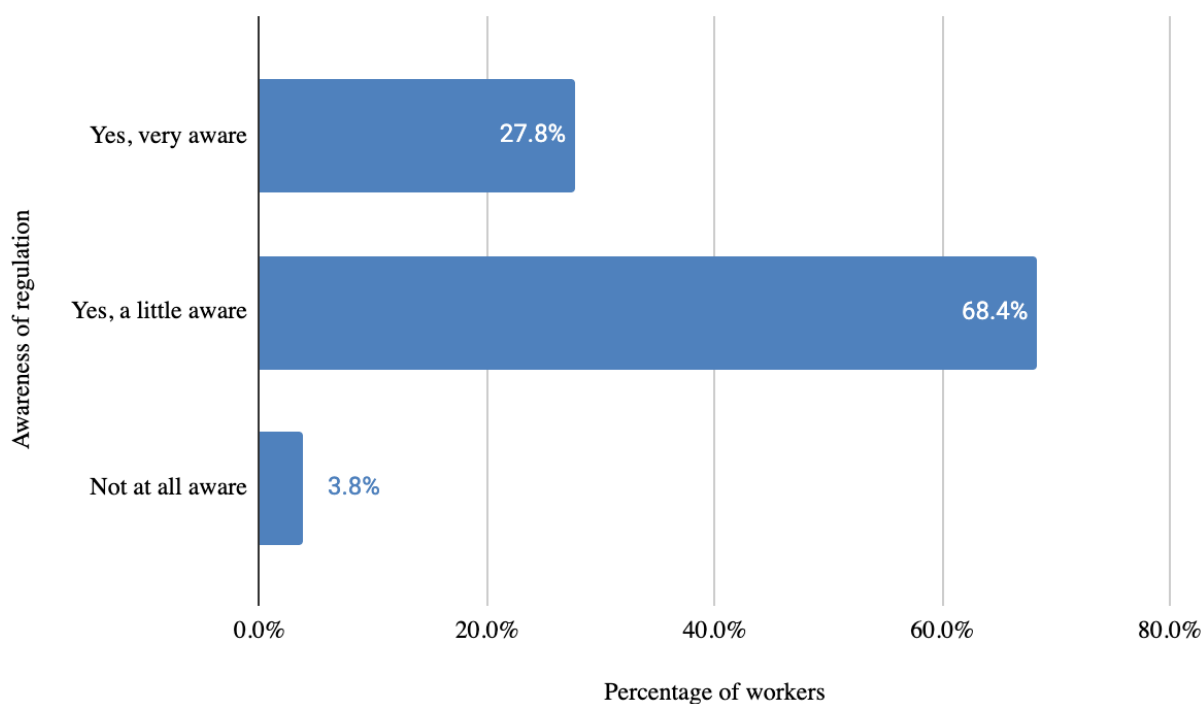
The Chicago FWW ordinance covers employees in health care, warehouse services, hotels, building services, retail, restaurants and manufacturing. Temporary workers deployed in these industries are covered. Workers excluded are those who are paid more than \$29.35 per hour or \$56,381.85 annually. The ordinance only covers employers with more than 100 employees globally, 50 of whom are covered employees under the ordinance, with the threshold for non-profits and restaurants of 250. Additionally, restaurants must have at least 30 locations globally.

When asked about their awareness of the provisions covered by the ordinance, roughly 28 percent of surveyed workers maintained they were very aware of the regulation (**Figure 2.1**).

An additional 68 percent of surveyed workers reported minimal awareness, while less than 4 percent had no knowledge of the law.

“We often get our schedule a day before the week begins which I believe is now currently illegal. We are also not allowed to have set days off.” - Anonymous surveyed worker

Figure 2.1: Awareness of City of Chicago Fair Workweek Ordinance



A number of the provisions governing worker hours and changes in work schedules were captured with this survey. As of July 1, 2022, the FWW stipulated that employees working for covered employers must be given at least 14 days advance notice of their work schedules. Only 12 percent of surveyed workers reported being provided this much notice, including less than 1 percent who said their schedules never change. Over two-thirds of surveyed workers received one week or less notice, while roughly 41 percent only received 3 or fewer days advance notice of their work schedules (**Figure 2.2**). When asked how often their schedules change after they have been posted, 58.6 percent of surveyed workers reported their schedules change *sometimes* or *often* (**Table 2.8**).

Figure 2.2: Amount of Advance Notice of Schedule Changes Provided Workers

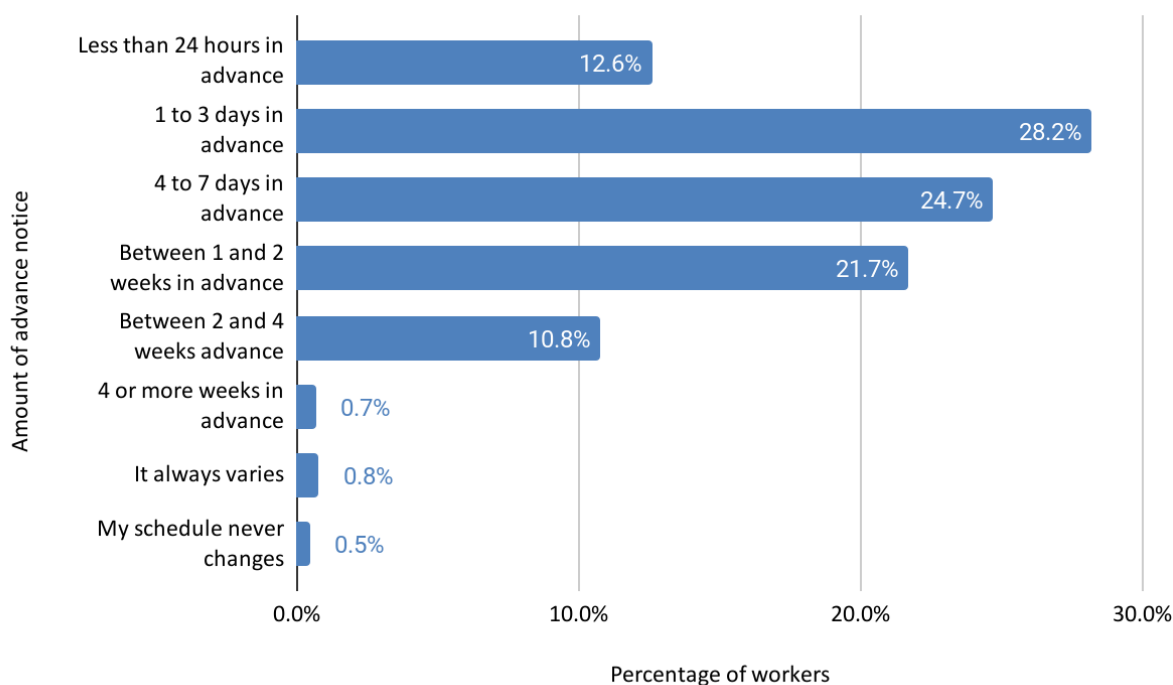


Table 2.9: Frequency of Schedule Changes

Schedule changes	Percent of workers
Often	14.4%
Sometimes	44.2%
Rarely	39.5%
Never	1.9%

Shift cuts, or decreasing the number of hours one works in a previously scheduled shift, appear to be standard in food service, restaurants, and drinking establishments. In the one month prior to survey participation, over 40 percent of surveyed workers reported experiencing 11 or more shift cuts, with over 26 percent of participants reporting having their shifts cut *25 or more* times. Only about 15 percent of workers reported experiencing no cuts in their shifts during this time period. Use of on-call scheduling also remains very prevalent

amongst tipped workers in these industries. Over 70 percent of surveyed workers reported they *sometimes or occasionally work on-call shifts* while almost 28 percent said they *regularly or often work on-call shifts* (Figure 2.4).

Figure 2.3: Number of Times Workers' Shifts Were Cut in the Past 30 Days

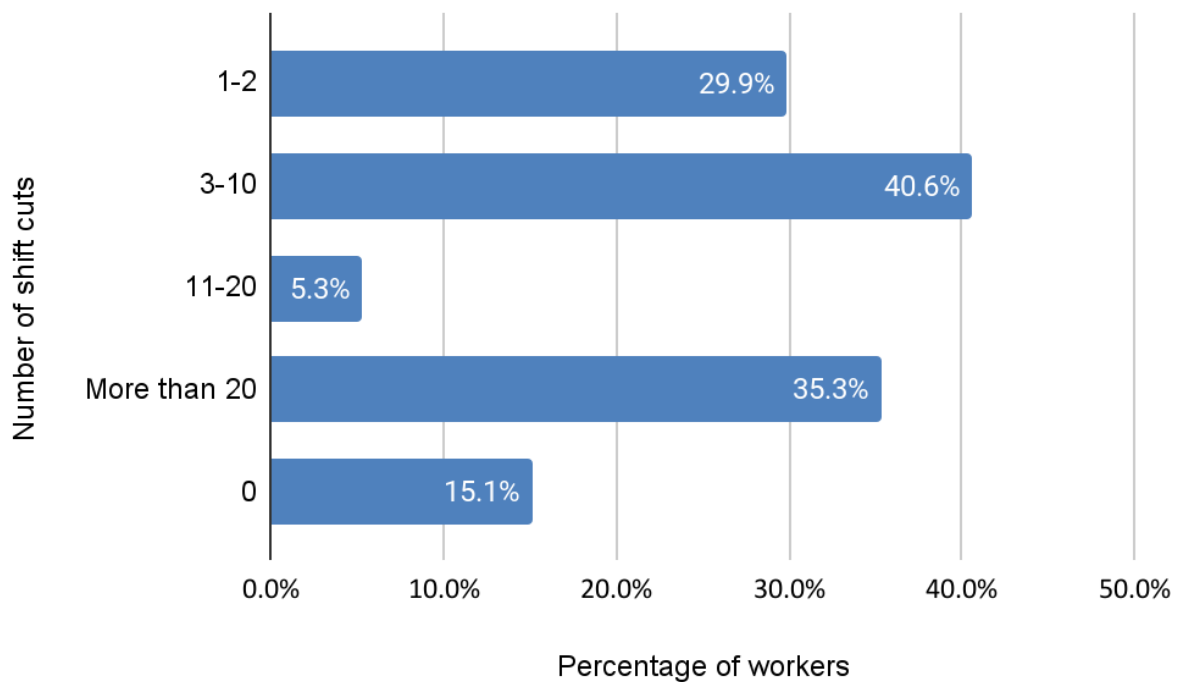
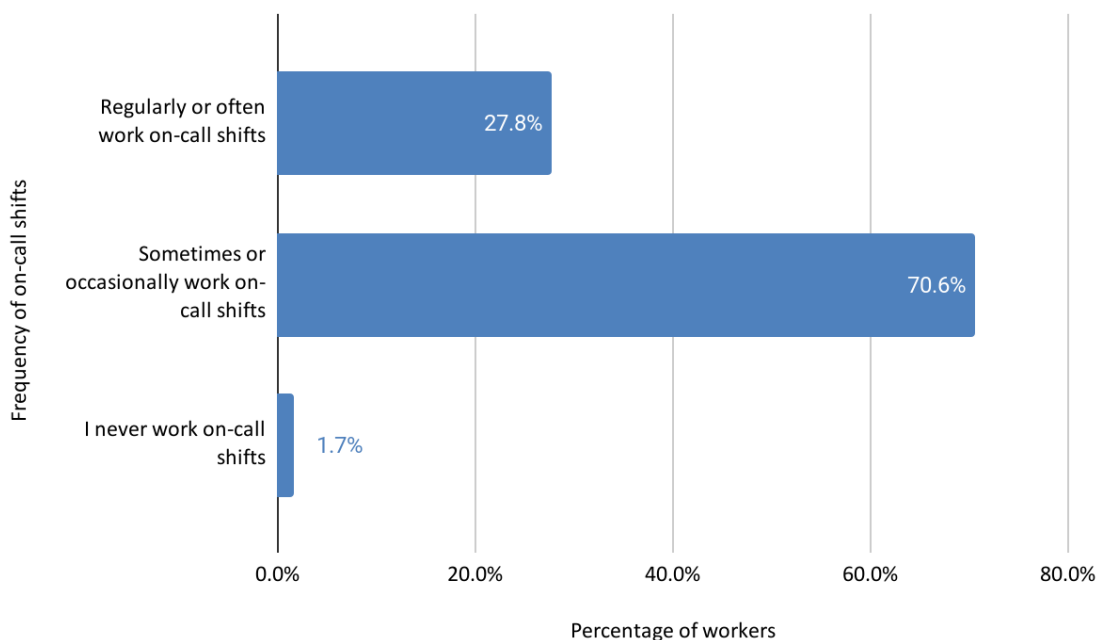


Figure 2.4: Frequency of On-Call Shifts

Health and Safety on the Job

Far too many workers still suffer from preventable on-the-job trauma, injuries and illnesses. A 2014 Center for Progressive Reform report finds that “four to five thousand workers die on the job each year, an average of more than 10 every day”.. [while] “the number of workers who suffer occupational injuries or illnesses each year is hundreds of times the number who die on the job” (Montforton et al., 2014, 4; Leigh, 2011, 728). The majority of occupational injuries and illness are experienced by low-wage workers and immigrants who suffer from the most unsafe working conditions. Indeed, “these victims and their equally at-risk co-workers have both a real and a perceived lack of power in relation to their employers, leaving them unable to demand the engineering controls, improved work practices, and other actions that employers should take to eliminate occupational hazards” (Montforton et al., 2014, 5).

Experiences with sexual harassment and assault represent some of the most common and egregious forms of occupational health and safety violations confronting workers in food service, restaurant, and drinking establishments.²⁴ Recent research has shown that workplace sexual harassment for tipped employees persisted throughout the COVID-19 pandemic, with reports of customers asking workers to lower their protective face coverings in order to “decide how much to tip [them]” (Saxena, 2020). Indeed, the restaurant industry maintains the highest reported rate of sexual harassment of any industry in the United States, and studies of tipped work nationally have shown that upwards of 90 per cent of women working in the industry have experienced being sexually harassed (Johnson and Madera, 2018).

The survey tool provided the following definitions for sexual harassment and sexual assault. Surveyed workers were also provided with an extensive contact list of Chicago-area resources to assist with issues related to sexual harassment and sexual assault, as well as other workers’ rights resources and government enforcement agencies (**Appendix A**).

Sexual harassment *can include unwelcome sexual advances, requests for sexual favors, and other verbal or physical harassment of a sexual nature.*

Sexual assault *refers to sexual contact or behavior that occurs without explicit consent of the victim. Some forms of sexual assault include: attempted rape, fondling or unwanted sexual touching, forcing a victim to perform sexual acts, such as oral sex or penetrating the perpetrator’s body, or penetration of the victim’s body, also known as rape.*

Table 2.10 shows the severity of gender discrimination, sexual harassment, and sexual assault of tipped restaurant, cafe, and bar workers in Chicago. Over one-third of surveyed men and women reported experiencing discrimination based on their gender in the previous 12 months. One hundred percent of surveyed workers who self-identified as another gender

²⁴ Mayor Lightfoot and the Commission on Human Relations amended and strengthened the City’s sexual harassment laws in April 2022. Mandatory employer workplace posting of the new provisions were required as of July 1, 2022.

reported gender-based discrimination while working their tipped jobs. More than half of surveyed women, and over one third of surveyed men and those identifying by other genders, experienced sexual harassment - a form of gender discrimination - in the past year. Over 8 percent of all surveyed workers reported being sexually assaulted at work during this time period, including 11 percent of surveyed men and almost 30 percent of workers identifying with other genders or gender non-conforming.

Table 2.10: Gender discrimination, Sexual Harassment, and Sexual Assault by Worker Gender in 12 Months Prior to Survey Participation

	Men	Women	Other gender
Percent experiencing discrimination based on gender at work	38.9%	33.0%	100.0%
Percent subjected to sexual harassment at work	34.7%	50.1%	35.3%
Percent who were sexually assaulted at work	11.3%	5.7%	29.4%

The perpetrators of this form of workplace violence differed between those engaged in sexual harassment and those committing sexual assault (**Table 2.11**). Workers reported that the overwhelming majority of sexual harassment was perpetrated by customers, though 9 percent was attributed to supervisors and employers. In contrast, employers and their representatives comprised the great share of sexual assault offenders (43 percent), with coworkers (36 percent) and customers (25 percent) also commanding sizeable shares.

Table 2.11: Sexual Harassment and Sexual Assault Offenders

Harassment offender	Percent
My supervisor or employer	9.0%
A coworker	9.9%
A customer	83.4%

<i>Total</i>	<i>535</i>
Sexual assault offender	Percent
My supervisor or employer	43.0%
A coworker	36.0%
A customer	25.0%
<i>Total</i>	<i>100</i>

Employer retaliation against workers who speak up about abuses is extremely commonplace in Chicago. Approximately one in every three workers surveyed in the 2008 Unregulated Work Survey who complained to their employer about a violation of their rights or tried to unionize was fired or otherwise retaliated against by their employer (Theodore et al., 2009, 16). Additionally, more than one in five experienced retaliation for reporting an injury (*Ibid.*,18). For surveyed workers in the 2016 Business of Fear Survey, “83 percent shared an example of a time they had tried to fix a problem at work or improve their jobs, and half (48 percent of all survey participants) reported experiences involving retaliation” (Raise the Floor Alliance, 2016, 11).

Tipped workers participating in this study reported very high levels of complaint to management about workplace experiences with sexual harassment (**Table 2.12**). Despite the gravity of these complaints, workers reported that management response was either non-existent or unknown in over 99 percent of incidents.

Table 2.12: Reports of Sexual Harassment and Employer Responses

Reported harassment	Percent
Yes	93.4%
No	6.6%
<i>Total</i>	<i>534</i>
Management response	Percent

Nothing	46.5%
I don't know	52.9%
Something else	0.6%
<i>Total</i>	<i>499</i>

Federal OSHA occupational health and safety regulations require employers to not only inform their employees of potential workplace hazards but provide them with adequate personal protective equipment free of charge for hazard mitigation.²⁵ Almost 85 percent of surveyed workers reported having been informed of workplace hazards and potential health risks upon starting their employment with their current employer (**Table 2.13**). While over 60 percent of survey participants were provided personal protective equipment (PPE) by their employer for mitigating workplace hazards, many incurred incredible additional costs. This includes almost 18 percent of surveyed workers who were likely illegally charged for this PPE by their employers, as well as almost 58 percent who spent their own money purchasing additional and adequate PPE.

Table 2.13: Workplace Hazard Mitigation and Personal Protective Equipment (PPE)

	Percent of workers
Informed of workplace hazards	84.9%
Provided PPE by employer	60.7%
Charged for PPE by employer	17.7%
Spent own money on PPE	57.5%

Customer verbal and physical abuse and assault are widespread in the food service, restaurant, and drinking establishment industry. Roughly 79 percent of surveyed workers reported experiencing at least once incident of customer abuse in 12 months prior to survey participation (**Table 2.14**). This includes over 20 percent of workers who reported suffering

²⁵ See footnote 15 for exceptions to these rules.

four or more incidents of customer abuse during this time frame. **Table 2.15** shows that while surveyed workers of all genders reported being subject to customer abuse at work, women reported higher levels of abuse (86 percent) when compared to men (66 percent).

Table 2.14: Experience with Incidents of Verbal or Physical Assaults from Customers in the Past 12 Months

Incidents of customer abuse	Percent of workers
0 times	21.8%
1 to 3 times	58.4%
4 to 6 times	15.8%
7 or more times	4.7%

Table 2.15: Experience with Customer Abuse by Worker Gender in the Past 12 Months

	Percent of workers
Men	66.1%
Women	86.2%
Other gender	41.2%
All workers	78.2%

Provision of meal breaks is covered under state wage and hour laws (820 ILCS 140/3). Despite these provisions, surveyed workers reported high levels of violations of their meal protections, which is considered a form of wage theft (**Table 2.16**). In the 12 months prior to survey participation, almost 60 percent of surveyed workers reported their meal breaks were interrupted by managers, their employers, or customers. Adding to the severity of this employment law violation, almost 54 percent of surveyed workers reported being prohibited from leaving their worksites during their scheduled meal breaks, and over 21 percent reported being required to continue working during their break

Table 2.16: Access to Meal Breaks While Working

Meal break violation	Percent of workers
Interrupted meal breaks*	59.6%
Required to continue working during meal breaks	21.1%
Not allowed to leave worksite during meal breaks	53.7%

*in the past 12 months prior to survey participation

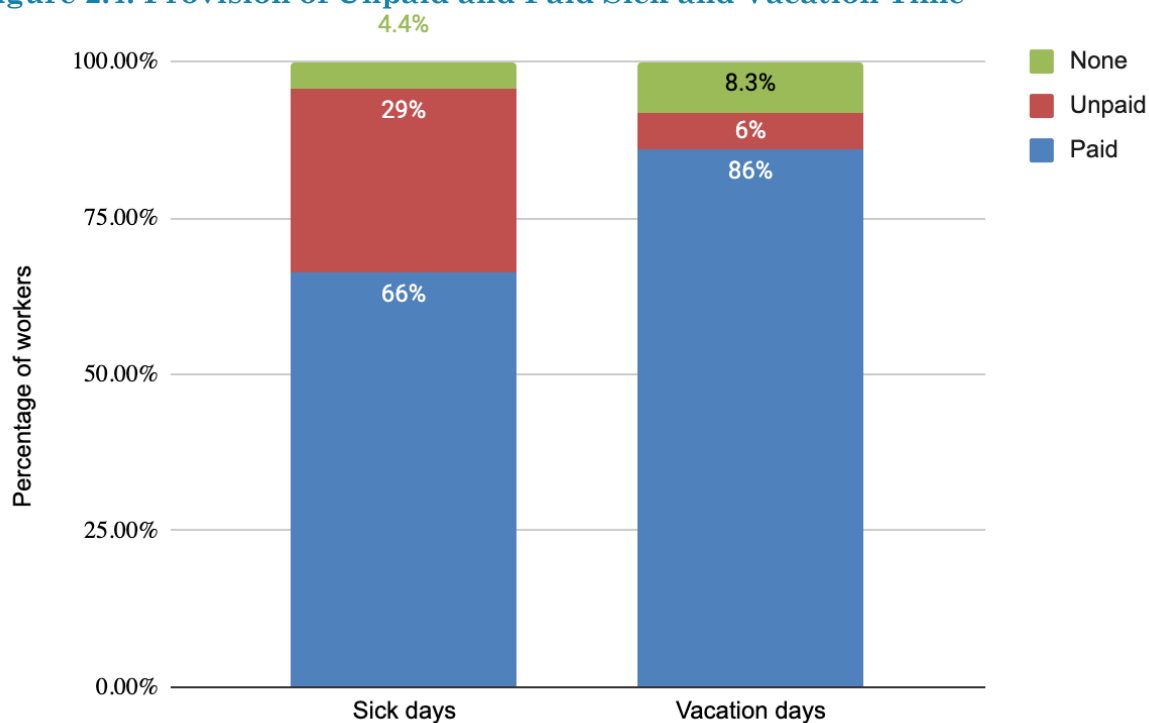
Employer Supports

Paid and unpaid leave are out of reach for most workers in low-wage jobs. A majority of municipalities in Cook County opted-out of passage of county-wide paid sick day legislation in 2017, leaving a large number of low-paid workers in Chicagoland unable to afford taking unpaid leave and without access to paid leave. Nationally, less than 10 percent

of workers in low-wage sectors such as retail or food service had access to paid family and medical leave in 2021 (BLS, 2021). Only about half of U.S. workers are even eligible for unpaid leave through the federal Family and Medical Leave Act (FMLA), with very few able to afford to take it (IMPAQ, 2017). To compound issues, in 2022, 72 percent of the lowest paid workers did not have healthcare through their jobs (BLS, 2022).

The Chicago Paid Sick Leave ordinance mandates that all Chicago businesses provide paid leave for medical or safety reasons to employees (MCC 6-105). Any employee who works at least 80 hours for an employer in Chicago within any 120-day period is covered by the ordinance and is eligible for paid sick leave. Employees begin to accrue paid sick leave on the first calendar day after they begin their employment. For every 40 hours worked, employees accrue one hour of paid sick leave. Despite these provisions applicable to employees working in Chicago, one-third of surveyed workers reported having no sick days or only having access to unpaid sick days (**Figure 2.4**). Survey participants reported higher levels of paid vacation leave, at 86 percent of the sample, despite no legal requirement for employers to provide paid vacation.

Figure 2.4: Provision of Unpaid and Paid Sick and Vacation Time



Workers fortunate enough to work for employers with paid leave policies face additional concerns when taking advantage of their accumulated paid leave. More than 44 percent of respondents with access to paid leave reported they were *somewhat likely* to experience a penalty for use of their leave, such as being given less favorable shift times or fewer hours (**Table 2.17**), reprimand from supervisors, or harm caused to future promotion chances or raises. Roughly 15 percent of workers said that the chance for such a penalty in their workplaces was *very likely*.

Table 2.17: Likelihood of Experiencing a Penalty for Use of Accumulated Paid Leave

PTO penalty	Percent of workers
Very likely	15.0%
Somewhat likely	44.4%
Very unlikely	38.4%
I don't get any such time off	2.2%

Employer-supported health insurance provision is still out of reach for many of Chicago's workers. Almost 20 percent of surveyed tipped workers claimed their employer offered no health insurance options through their jobs (**Table 2.18**).

Table 2.18: Provision of Employer-Supported Health Insurance

Health insurance offered	Percent of workers
Yes	78.5%
No	19.0%
I don't know	2.5%

Discrimination

The Chicago Human Rights Ordinance (CHRO) prohibits employment discrimination and retaliation based on race, color, national origin, ancestry, religion, disability, age (over 40), sex, sexual orientation, gender identity, parental status, marital status, military discharge status, and source of income. On April 27, 2022, the Chicago City Council amended the CHRO

in order to bolster the city’s sexual harassment laws and include enhanced protections for victims of sexual harassment in the workplace.

Despite these important policy initiatives, Chicago workers in low and middle-wage jobs continue to experience illegal discrimination at alarming rates. Authors of the 2016 Business of Fear Human Rights Documentation Project found these trends of abuse were not limited to wage theft or any one specific type of violation. In fact, “most participants from diverse industries reported experiencing multiple and often simultaneous violations in their current or most recent jobs” (Raise the Floor, 2016, 9). Across Chicagoland, breaking the law has “become a standard business practice” with workers facing an almost entirely lawless environment, with many participants reporting their bosses telling them that they have no rights (Bernhardt, 2009).

A 2022 investigation by the U.S. Equal Employment Opportunity Commission (EEOC) found the largest number of sexual harassment charges between 2005 and 2015 were brought by food service and accommodation workers (U.S. EEOC, 2022). A Restaurant Opportunities Center (ROC) United study found that women tipped workers in states with subminimum wages experienced sexual harassment twice as often when compared to those in states that have eliminated the subminimum wage, and were told by management to wear “sexier” clothing three times more than workers in states without a tipped minimum (ROC, 2018). Other research has shown that “to give good services is to ‘do gender’ by performing gendered scripts” revolving around friendliness, deference, and flirting and that employers “structure and promote these gendered performances as part of the work role” (Hall, 2003, 452). Tipping has also been shown to facilitate prejudice and reduce worker well-being in other tipped occupations, such as taxi cab driving (Ayers et al., 2005).

“Our GM rules the restaurant as if it’s a social engagement, and openly criticizes other staff members while they are in the building, to other staff members. [This] creates a huge dip in morale, eagerness to do a good job while working, and makes everyone distrustful of one another.” - Anonymous surveyed worker

Table 2.19 displays the varied and often compounding types of illegal discrimination self-reported by workers in the 12 months prior to their participation in this study. The types of discrimination captured in this survey represent different forms of illegal workplace discrimination, in contrast to other pervasive yet legal forms of discrimination (e.g. discrimination focused on physical appearance or weight). Combined, over 43 percent of

surveyed workers reported facing at least one form of discrimination while working for their current employer in the previous 12 months.

Table 2.19: Experiences of Illegal Discrimination at Work in the 12 Months Prior to Survey Participation

Type of discrimination experienced at work	Percent of all surveyed workers
Race and/or ethnicity	14.1%
Gender or gender identity	15.9%
Religion	15.4%
Sexual orientation	13.4%
Disability	4.6%
Marital status	13.5%
Parental status	5.1%
Pregnancy	13.4%
Felony criminal record	5.0%
Homelessness	5.7%
Previous or current military service	4.6%
One or more of the above or other type of discrimination not measured	43.5%

Discrimination based upon a workers' race and/or ethnicity affected roughly 14 percent of all surveyed workers (**Table 2.20**). This discrimination was especially pronounced amongst non-white workers, with 23 percent of Latino/a/e/x or Hispanic workers, almost 16 percent of Black workers, and over 30 percent of Asian workers reporting racial and/or ethnic discrimination while on the job in the past year.

Table 2.20: Discrimination Based on Race/Ethnicity by Worker Race/Ethnicity

Race / ethnicity	Percent of group experiencing discrimination based on race/ethnicity
Latino/a/x/e or Hispanic	23.0%
Black or African-American	15.9%
Asian and other	30.3%
White	10.4%
All	14.0%

Hardships and Implications

Irregular work hours and on-call work contribute to work-family conflict (Ananat and Gassman-Pines, 2020; Kossek and Lee, 2020; Beutell and O'Hare, 2018; Golden and Kim, 2017; Ziebertz et al., 2015). Fluctuations in work hours creates interference of work with non-work activity and undermines the effort-recovery process - time needed for rest in between shifts in order to perform effectively. Having to be constantly available for work creates a daily struggle for workers to reconcile competing caregiving and workplace demands (Carrillo, Harknett, Logan, Luhr and Schneider, 2017; Ziebertz et al., 2015; Correll, Kelly, Trimble-O'Connor and Williams, 2014; Reynolds and Aletaris, 2010). One national survey finds that in 2017-2018, about 20 percent of workers in low-wage occupations have irregular schedules, with over half the irregularity being driven by their employers' scheduling preferences (Clemens and Strain, 2020). When employees are more satisfied with their job, life or work-life balance, they become more committed and/or productive -- the so-called "business case" of serving employers' long term interest, offsetting any initial cost to adopting the hours and scheduling practices (e.g., Kaduk, Genadek, Kelly, and Moen, 2019; Williams, Lambert and Kesavan, 2018; Wang, 2018; BNA, 2016; Sturman and Walsh, 2014; Mitukiewicz and Boushey, 2014; McKee-Ryan and Harvey, 2011; Bloom, Kretschmer and Van Reenen, 2011).

Figure 2.5 shows the daily conflict workers have with reconciling their work schedules with their lives outside of work. Upwards of three-quarters of all workers surveyed experienced schedule conflicts with schooling and conflicts with family obligations at least *some of the time*. This includes almost 41 percent of surveyed workers who have conflicts with work schedules and family caregiving obligations *always* or *most of the time*. Less than 30 percent of surveyed workers never experienced these work-life conflicts or are not enrolled in schooling or having caregiving obligations. **Table 2.21** further illuminates surveyed workers' family and caregiving responsibilities at home. Over 70 percent of surveyed workers have children they support under 18 years of age. Close to 92 percent of these tipped workers reported economically supporting at least one dependent either in the US or abroad.

Figure 2.5: Frequency of Work Schedule Conflicts with Schooling and Family Obligations

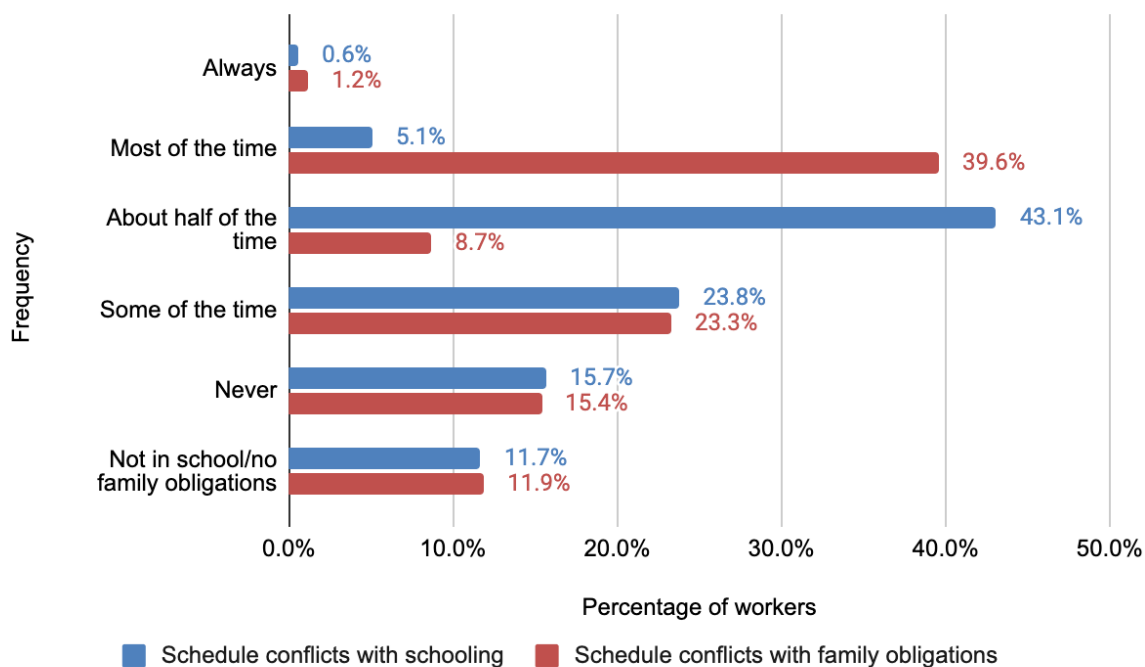


Table 2.21: Workers' Children and Other Dependents

Number of dependents	Percent of workers with children	Percent of workers with other dependents

0	28.7%	8.1%
1	63.2%	60.5%
2	5.1%	23.3%
3	1.5%	4.5%
4	0.7%	2.0%
5	0.3%	1.0%
6 or more	0.3%	0.4%

Uptake of different forms of publicly available assistance was substantial amongst surveyed workers (**Figure 2.6**). Roughly one-quarter of survey participants reported relying on food assistance in the form of Supplemental Nutrition Assistance Program (SNAP) benefits as well as subsidized housing assistance. Almost 30 percent of surveyed workers reported use of publicly financed health care subsidies, while 20 percent lived in households that relied on Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) assistance. Surveyed workers also experienced disturbingly high levels of housing insecurity and homelessness (**Table 2.22**). In the 12 months prior to survey participation, over 27 percent of surveyed workers reported paying their rent or mortgage bills late at least once, while 16 percent reported paying these bills late at least 3 times. Approximately 43 percent of all surveyed workers reported experiencing homelessness for at least one night in the past year.

Figure 2.6: Current Usage of Different Forms of Public Assistance

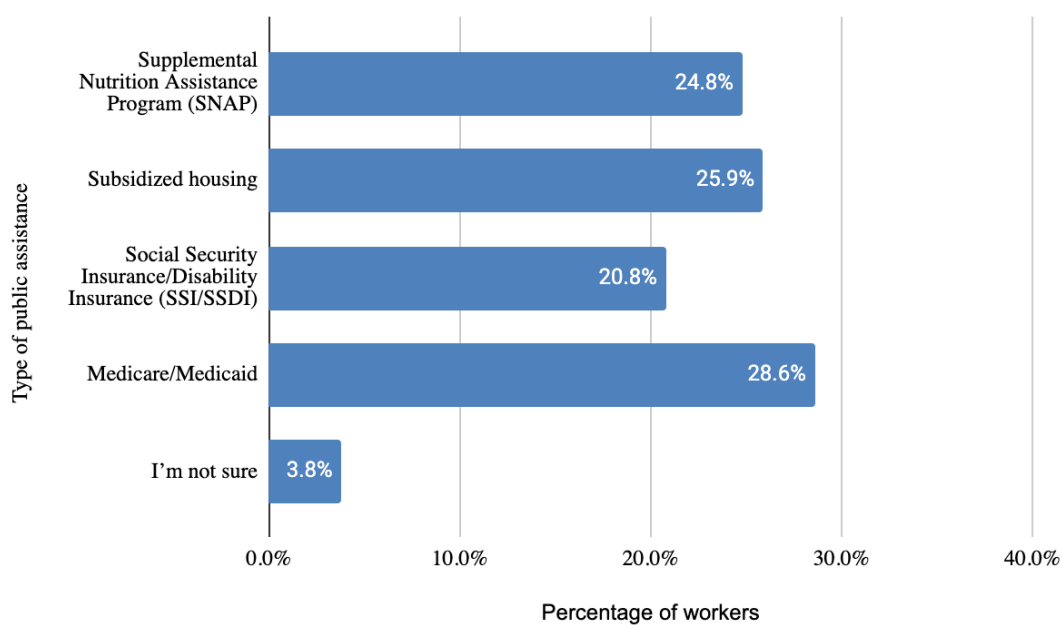


Table 2.22: Housing Insecurity and Homelessness in the Past 12 Months

	Percent of workers
Homeless	43.0%
House pay late 1 to 2 times	27.4%
House pay late 3 or more times	16.0%

VI. Conclusions and Recommendations

Quality, reliable paid work ensures economic security for workers, as well as time and stability to care for their families, and the ability to engage and invest in their communities.

The economic and employment reality is considerably different for far too many tipped workers in Chicago. These workers are subject to substandard wages and working conditions and face heightened risk of employment discrimination among other labor abuses. Workers' rights violations in Chicago result in lost wages, decreased spending locally in neighborhood businesses, diminished tax revenues, and a myriad of other grave and unrelenting economic and social impacts.²⁶ Wage theft not only drastically impacts workers and their families, it also shifts costs from employers to taxpayers and Chicago communities (Cooper and Kroeger, 2017).

When workers depend on tips to comprise significant portions of their incomes, customer whims and preferences lead to incredible power imbalances within workplaces. Tip culture has been shown to leave "women, workers of color, disabled workers, and other historically marginalized workers particularly vulnerable to economic precarity and other injustices" at work (Roberts and Hendricks, 2019). Reliance on tipped income exacerbates economic inequalities and leads to poverty, as is evident by the substantial take-up of public benefits amongst surveyed workers. Recent studies have shown that raising the minimum wage and eliminating subminimum wages are effective for boosting local economies (Schweitzer, 2021).

Local policy solutions in support of a thriving city are exemplified by substantial increases in minimum wages, mandatory benefits like paid family and medical leave and paid sick days, fair and predictive work schedules, and robust implementation and enforcement of labor standards. In recent years some cities and counties, including Chicago and Cook County, have taken steps in that direction. Despite these critical initiatives, comprehensive employment laws will not be enough to solve the problems related to degraded labor conditions. In addition to pervasive abuse of workers' rights and underfunded enforcement agencies, there exists a widespread lack of awareness of fundamental rights and protections on the part of workers. For most of Chicago's labor force, workers' rights education consists

²⁶ Adapted from Dickson and Love, 2019.

of little more than glancing over required labor law posters posted in an employee break room.

As fundamental education of workers' rights remains elusive to the vast majority of US workers, mandated posting of protections and enforcement options serves as the primary vehicle for information transmission to affected workers. Worker self-enforcement and advocacy has been shown to be shaped by three important and distinct, though interrelated conditions: knowledge of workers' rights; job (in) security; and worker identities (including individual workers' race, ethnicity, gender, and citizenship status). Put differently, the intersection between institutional (lack of education), organizational (lack of union representation), and individual factors (worker identities) diminish workers' capacities to make complaints, creating geographies of isolation or "isolation, fragmentation and barriers to labour enforcement" (Papadopoulous et al., 2021).

Workers, especially those representing marginalized populations who are employed within low-wage occupations and sectors, maintain different layers of vulnerability preventing their successful enforcement of legal rights. The efficacy of complaint-based approaches for enforcement is called into question when considering such individualized strategies for compliance.



In their study of workers in precarious jobs in Ontario, Canada, Michandani and colleagues document the "increasingly individualized and contradictory avenues through which workers must act as entrepreneurs to navigate and self-advocate when their rights have been violated" and "argue that the current complaint processes limit the potentially empowering impact of this strategy" (Michandani et al., 2019). Knowledge, in particular, has been found to be a significant factor for enabling (or constraining) an individual's capacity to claim their rights on the job (Basok, et al., 2014).

Recommendations

Tipped workers in Chicago suffer poor pay, unpredictable schedules, and restricted access to paid leave. Additionally, tipped workers face extraordinary levels of violations of fundamental labor standards. Based on both findings from detailed survey data collected from Chicago tipped workers and the extensive research referenced in the report on workers in low-wage and tipped occupations, the authors have six important recommendations for both policy makers and Chicago employers.

Recommendations for City of Chicago policies and programs:

1. **Eliminate the tipped wage and enact a standard minimum floor for all employees working within the City of Chicago.**²⁷ As of the writing of this report, eight US states and one municipality have abolished this two-tiered wage system.^{28,29} Meanwhile, workers in Chicago and Illinois, along with those in 42 other states, are subject to a wage system with a direct link to the legacy of slavery.³⁰ The Bureau of Labor Statistics finds that restaurant workers occupy four of the ten lowest-paid occupations nationwide, and recent studies have shown that these workers are at least twice as likely to live in poverty (BLS, 2021B; Ross and Bateman, 2019). Recent research has shown that tipped workers in states that have eliminated subminimum wages not only earn higher incomes, but also experience less harassment and discrimination on the job and are less likely to live in poverty (Gould and Cooper, 2018; One Fair Wage, 2022). Elimination of subminimum wages has also led to reductions in the race and gender inequities associated with tipped wages (Schweitzer, 2021).

2. **Provide adequate funding and staffing to support City of Chicago community outreach efforts and enforcement of prohibitions to combat bias,**

²⁷ In July, 2023, a proposal to eliminate the tipped minimum wage by 2025 was introduced to Chicago City Council. The proposal would require employers to pay all workers the same minimum hourly wage, regardless of whether they earn tips.

²⁸ Alaska, California, Guam, Minnesota, Montana, Nevada, Oregon, Washington, and Washington DC.

²⁹ Chicago minimum wage law stipulates that workers earning tips must earn an equivalent compensation in tips that makes up the difference between the standard minimum wage (\$15.40 or \$14.50) and the subminimum wages (\$9.24 and \$8.70) - known as the tip differential.

³⁰ Introduced in February 2023, Illinois SB0293, sponsored by Sen. Pacione-Zayas and Sen. Simmons, amends the Minimum Wage Law to gradually eliminate the tip credit towards minimum wages. The bill provides that, on and after January 1, 2026, an employer shall not be entitled to an allowance for gratuities and shall pay each employee no less than the applicable minimum wage rate.

discrimination, and retaliation at work. Evidence from this survey indicates disturbing levels of sexual harassment and assault as well as experiences of racial and ethnic discrimination for tipped workers in Chicago. Local and federal enforcement systems have historically failed to address fundamental power imbalances inherent in employment relationships, as individual workers are charged with the responsibility for enforcing anti-discrimination laws and are often subject to illegal retaliation for protecting their rights. In response to these historic trends, Mayor Lightfoot and the Commission on Human Relations amended the City's sexual harassment laws in April 2022 to make them stronger and to uphold zero tolerance of violence and harassment in the workplace. Mandatory employer workplace posting of the new provisions were required as of July 1, 2022. While further research is needed to assess the effectiveness of these amendments, their implementation is an important first step in addressing the widespread sexual harassment and sexual assault faced by too many Chicago workers.

Key to effective uptake and enforcement of these and other anti-discrimination protections is workers' freedom to file complaints without fear of retaliation. While employers are prohibited from retaliating against their employees under all employment and labor laws, research shows that retaliation is widespread and occurs in more than half of discrimination complaints filed with the U.S. Equal Employment Opportunity Commission (U.S. EEOC, 2022). Workplace power imbalances are compounded by the increasing use of forced arbitration clauses and non-disclosure agreements that create "asymmetries of information and resources between employers and employees" that weaken workers' rights and undercut enforcement efforts (Yang and Liu, 2021). This dynamic is reinforced by the lack of worker education about their rights on the job and insufficient resources for government assistance and enforcement.

3. **Develop programmatic partnerships between the City of Chicago, educational institutions, and subject matter experts to educate workers about their rights and protections at work.** Current educational efforts focused on workers' rights are typically limited to mandated public notices in workplaces and public training provided by staff of the Office of Labor Standards.³¹ One good model

³¹ Every employer must post in a conspicuous place at each facility located in the City of Chicago a notice advising covered employees of: Current minimum wage, Fair Workweek (if applicable), Paid Sick Leave, and Wage Theft. With the first paycheck issued to a Covered Employee, and annually with a paycheck issued within 30 days of July 1st, every employer must provide a notice advising covered employees of: Current minimum

for this type of educational programming was the provision of City funding for educating domestic workers of their rights using a community health promoter or *promotora* model. The *Workers' Rights Initiative* at the Labor Education Program at the University of Illinois (LEP) serves as another nationally recognized model for this form of adult education. In addition to training both Illinois workers and frontline staff of workforce development organizations, faculty at LEP and the Great Lakes Center for Occupational Health and Safety at the University of Illinois at Chicago have developed the first in the nation *Workers' Rights for Workforce Development* curriculum to expand worker awareness of fundamental rights and enforcement.³²

Recommendations for Chicago employers of workers earning tipped wages:

4. **Implement implicit bias and structural racism training for managers and employees to confront hostile and exclusionary workplaces.** While the survey instrument could not measure the impact of implicit bias, both historical accounts of the tipped wage's racist legacy (featured in this report) as well as research showing the prevalence of implicit bias warrants addressing the practice. Key to successful work in combating individual bias are discussions of how structural racism drives biases and perpetuates inequities. While work to understand and dismantle problematic individual behaviors is important, this critical undertaking is incomplete when these biases are disconnected from their historical drivers and legacies. Worker well-being within restaurants and bars in Chicago requires that the history and impacts of structural racism be confronted and interrupted. Within the food service and drinking establishment industry, it is crucial for both managers and workers to understand the racist history of tipped wages in the US, the connections between these legal carve outs and slavery, the perpetuation of sexual harassment and

wage, Fair Workweek (if applicable), and Paid Sick Leave. Required Chicago labor law public notices can be viewed and downloaded at https://www.chicago.gov/city/en/depts/bacp/supp_info/public-notices.html.

³² The *Workers' Rights for Workforce Development* open-access curriculum focuses on connecting job training to workers' rights education. Its eight chapters cover the breadth of workplace rights and consist of activities designed to be used in workshops and training and integrated into existing workforce programs. This how-to-manual includes content and activities on workplace rights that workforce development professionals can build into their training and workforce development programs. Topics include wage and hour laws and protections, discrimination in the workplace, the rights of immigrant workers, laws around leave, health and safety topics, and information about unions and collective bargaining. The curriculum provides a range of learning resources including videos, illustrations, quizzes, fact sheets, and more. The intent of the curriculum is to provide organizations with a set of resources to choose from based on the needs of the workers they serve. Free download available at <https://lep.illinois.edu/workers-rights-for-all/>.

discrimination with reliance on tipped wages, and the racialized and ethnic divides that exist between front-of-the-house employees and kitchen staff. This work requires both understanding of how bias (both implicit and explicit) operates, as well as strategies to disrupt inequitable practices at the individual, firm, and societal levels.

5. **Explore proposals to promote occupational desegregation and equity at work.**³³ Employers should conduct an audit on their seemingly neutral hiring practices (such as credit checks), to be certain they are not imposing disproportionate barriers for women and Black and Brown workers. A further step would be to require employers to measure racial equity in their workplace by calculating the level of occupational segregation as part of an equity assessment (ROC, 2017). The assessment would include explicit equity inclusion goals and timetables for recruiting and retaining a diverse applicant pool. In addition, on-going training relating to diversity and equity should be required and provided to all employees. Further, employers should designate a Diversity/Equity/Affirmative Action Officer and notify employees of the person’s responsibilities and how to bring complaints to the officer. The City could also implement a voluntary designation for employers that assigns a score/rating to firms for their commitment to “diversity and equity.”

6. **Implement transparent internal promotion pathways within restaurants and drinking establishments.** One example of such pathways is to adopt an apprenticeship training program which includes training and on-the-job work hours to qualify an employee for incrementally higher skilled positions (Langston et al., 2021). In addition, workplaces could include a skill certification (i.e., a form of professional development) program which would qualify workers for higher pay and job responsibilities. Minimally, employers should establish a written protocol for employee advancement that includes job standards, evaluation rubrics, and ongoing feedback about an employee’s progress.

³³Occupational segregation is the distribution of workers across and within occupations, based upon demographic characteristics such as gender, race and ethnicity. A 2022 Center for American Progress report posits “occupational segregation is the direct result of societal biases and policy choices,” and an “enduring feature of the American labor market... it diminishes wages and working conditions for all workers in a job where marginalized groups are overrepresented; contributes to overall wage gaps based on immutable and often intersecting demographic characteristics; and limits economic growth. The causes of occupational segregation include societal biases about particular demographics of workers that are embedded in public and private systems, in policy choices, and in operations across education, training, and work.” (Zhavoronkova, 2022).

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Appendix A

Resource List Provided Survey Participants

Domestic Violence and Sexual Assault

Between Friends (800) 603-4357

State of IL Domestic Violence Hotline (877) 863-6338

Mujeres Latinas en Accion (773) 890-7676

Rape Crisis Hotline (888) 293-2080

Connections for Abused Women and Children (773) 489-9081

Workers' Rights Resources

Arise Chicago (773) 769-6000

Chicago Workers' Collaborative (773) 230-0351, (312) 877-5185

Restaurant Opportunities Center (312) 629-2892

Latino Union (312) 491-9044

Centro de Trabajadores Unidos/Immigrant Workers' Project (773) 207-3370, (414) 979-1773

Chicago Community and Workers' Rights (773) 653-3664, (773) 450-5623

Workers' Center for Racial Justice (312) 361-1161 ext. 201

Warehouse Workers for Justice (888) 344-6432, (888) DIGNIDAD, (815) 722-5003

Domestic Worker and Day Labor Center of Chicago (773) 484-7589

Equity and Transformation (312) 933-9767

AFIRE Chicago (773) 580-1025

Raise the Floor Alliance (312) 795-9115

Workers' Rights Enforcement

Unemployment Insurance (IL Dept of Employment Security) (312) 793-5700

Workers' Compensation (866) 352-3033

FMLA (US Dept of Labor) (866) 487-9243

Employment discrimination (312) 814-6200

Wage violation (Chicago) (312) 744-6060

Wage violation (Cook County) (312) 603-1100

Wage violation (Outside Cook County) (312) 793-2800

Workplace health and safety (OSHA) (312) 353-2220

Chapter Two: New Evidence of the Effects of Minimum Wages on Tipped Workers and Minimum Wage Noncompliance^{34*}

Matthew Notowidigdo and Jeremy Mopsick

I. Purpose of This Report

Our primary goal was to prepare a report that would describe the consequences of recent minimum wage changes around the country in order to draw lessons for Chicago. In addition to giving broad summaries of the recent research in economics on the effects of minimum wage changes, we were also asked to focus specifically on (1) tipped workers and (2) minimum wage noncompliance.

Our goal was to produce a report during 2020, but the COVID-19 pandemic delayed the preparation of this report. Additionally, we decided that any analysis of data in the 2020-21 period would run into the immediate difficulty of how to disentangle the specific effects of any minimum wage changes from the broader economic effects of the pandemic. As a result, our analysis focuses on the effects of minimum wages prior to 2020. Despite this limitation, we believe that there are many useful lessons from the experiences of other states and cities in recent years (prior to the pandemic).



^{34*} *Notowidigdo: University of Chicago Booth School of Business and NBER; e-mail: noto@chicagobooth.edu; Mopsick: University of Chicago Booth School of Business; e-mail: Jeremy.Mopsick@chicagobooth.edu. We thank Alissa Aviles, Nettie Silvernale, and Grace Su for reviewing early drafts of this report and Clay Catlin for designing the visual layout of the report.

The remainder of this report is structured as follows: the next section provides a short summary of our findings. Section III describes the data we collected and prepared for our analysis.

Section IV presents our new results on the effects of minimum wages on the employment and earnings of tipped workers. Section V presents our analysis of minimum wage noncompliance. Section VI summarizes additional recent related research studying the economic effects of the minimum wage. Section VII concludes. We have also prepared a detailed Appendix providing more details on the data and the empirical methodology, and we include a list of references at the end that we discuss in this report.

II. Summary of Findings

Here are brief summaries of our main findings based on our analysis of nationally-representative survey data and our selective review of the relevant academic literature:

1. *Tipped workers:* Using nationally-representative survey data, we find that tipped workers are much more likely to report wages at or near the standard minimum wage compared to other workers, and the distribution of wages for tipped workers is well below the wage distribution for all other workers. When we analyze the effects of recent state-level minimum wage changes, we find that minimum wage increases raise earnings for workers earning at or near the minimum wage, and we find no evidence of meaningful negative employment effects. This is particularly evident when state-level minimum wage changes are implemented “in parallel” so that both tipped workers and non-tipped workers experience increases in their minimum wage at the same time. We thus conclude that continuing to increase tipped worker minimum wages – for example, by phasing out tipped worker exemption over time – would likely lead to meaningful wage increases at the bottom of the wage distribution, without generating large negative employment effects. This conclusion is based on our study of recent minimum wage changes (typically between \$0.25 per hour and \$2.00 per hour), and so we recommend exercising caution in extrapolating our findings to much larger minimum wage increases.
2. *Minimum wage noncompliance:* Using data on the self-reported earnings of tipped workers (which includes both wages and tips) and non-tipped workers, we find that a much greater share of tipped workers report earning wages below the standard minimum wage. Assuming that wages and tips are self-reported accurately in the publicly-available survey data that we analyze, this implies substantially greater

minimum wage non-compliance for tipped workers. We estimate that roughly 5-14 percent of all workers in tipped occupations report wages below the minimum wage, with the lower end of the range representing a conservative estimate to account for bias from measurement error in the self-reported survey data. We find it striking that the self-reported wages for workers in non-tipped occupations are substantially less likely to report wages below the minimum wage. We thus tentatively conclude from this suggestive evidence that minimum wage noncompliance is particularly important to investigate in occupations with many tipped workers.

3. *Additional lessons from recent related research:* One of the most influential recent papers studying the labor market effects of minimum wage changes is the Cengiz et al. (2019) study, and we follow this paper’s methodology in our analysis and extend this study by focusing specifically on tipped workers. Our findings are broadly similar to theirs: we find clear evidence of increases in earnings from minimum wage increases, and no evidence of meaningful reductions in employment. In fact, we see even clearer increases in earnings for tipped workers, most likely due to the fact that there are many more tipped workers earning wages at or near the minimum wage. Like the Cengiz et al. (2019) paper, we do not find clear evidence that minimum wages lead to substantial employment losses. In fact, we can rule out even fairly modest negative employment effects in our narrow sub-sample of tipped workers. Below we discuss and contrast our findings with other recent papers studying earnings of tipped workers and other recent papers studying other margins of adjustment (such as hours, entry, and job tenure).

III: Data Description, Summary Statistics, and Background on Recent Minimum Wage Changes in the US

We use monthly Current Population Survey (CPS) data covering the 2003-2019 period in our analysis. This data set allows us to measure hourly wages and employment for a nationally-representative set of workers. We also measure each worker’s occupation, which we use to determine whether workers are in an occupation with a substantial number of tipped workers. The Appendix provides more details on the processing of the data, which follows the Cengiz et al. (2019) study fairly closely.

Throughout this report, we use the term “tipped workers” to refer to workers working in occupations where workers receive both an hourly wage from employer and additional earnings in the form of discretionary tips from customers or clients. We try to create a generous definition to make sure that we include as many tipped workers as possible in our sample, and our definition of tipped worker occupations follows Cengiz et al. (2019). The set of occupations used in our tipped workers analysis is given in the table below, which reports the population shares and average wages for each “tipped worker occupation.”

Table 1: Average Wage and Population Shares of Tipped Worker Occupations (2003-2020)^{35*}

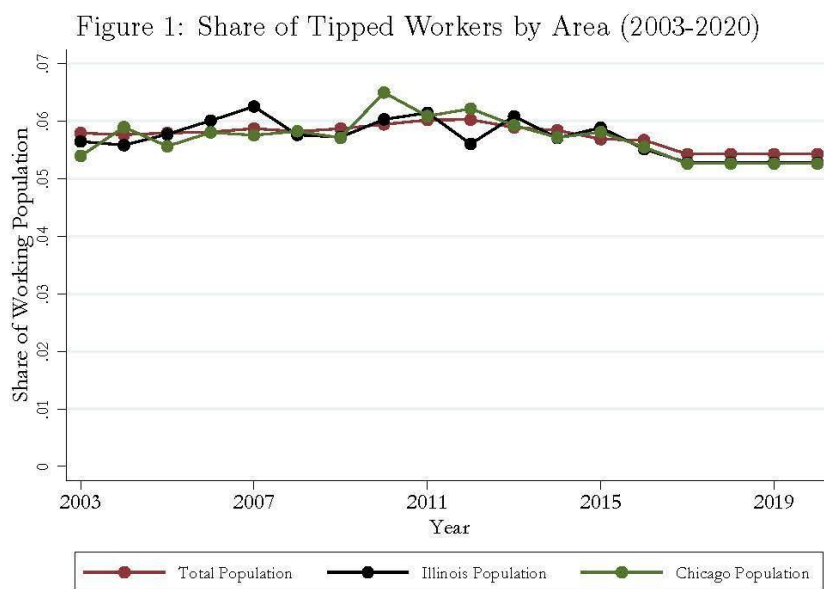
Occupation	US		Midwest		Illinois	
	Average Wage	Average Share of Tipped Population	Average Wage	Average Share of Tipped Population	Average Wage	Average Share of Tipped Population
[1]	[2]	[3]	[5]	[6]	[8]	[9]
Baggage porters, Bellhops, and Concierges	\$14.62	1.03%	\$13.99	0.97%	\$16.42	3.49%
Barbers	\$13.41	1.42%	\$12.49	1.69%	\$12.18	3.48%
Bartenders	\$9.54	4.81%	\$8.42	5.38%	\$10.66	6.00%
Combined Food Preparation and Serving Workers	\$9.81	4.16%	\$9.36	5.29%	\$10.15	5.08%
Counter Attendants	\$8.83	3.46%	\$8.42	4.41%	\$9.03	5.52%
Food Servers, Non Restaurant	\$11.05	2.37%	\$10.97	2.76%	\$11.18	4.04%
Food preparation and serving related workers	\$9.61	4.40%	\$8.84	4.37%	\$9.05	6.14%

^{35*} Average wages are weighted by person-level ORG sampling weights. Average shares of the tipped population in each occupation are normalized by the average share of total workers in tipped occupations in each region. Tipped worker occupations are defined by the methodology used in Cengiz et al. (2019). Wages are defined to include all sources of labor earnings, including tips.

Hairdressers, Hairstylists, and Cosmetologists	\$14.64	9.21%	\$13.73	9.36%	\$12.99	8.56%
Hosts and Hostesses	\$9.23	3.53%	\$8.69	4.01%	\$9.06	4.80%
Parts Salespersons	\$15.54	1.64%	\$15.49	1.99%	\$15.36	3.41%
Retails Salespersons	\$14.48	38.61%	\$14.09	34.74%	\$14.31	28.32%
Telemarketers	\$11.84	1.69%	\$11.21	2.33%	\$12.50	3.27%
Waiters and Waitresses	\$7.49	23.67%	\$6.61	22.71%	\$7.37	17.90%
Summary Statistics	US		Midwest		Illinois	
Weighted Average Wage	\$11.69		\$10.96		\$11.51	
Share of Tippers Workers in Total Population	5.75%		5.72%		5.77%	

Combining these occupations together, we estimate that about six percent of workers work in tipped occupations, and this share has been fairly stable over time. This share is also similar across Illinois, the Midwest, and the entire US.

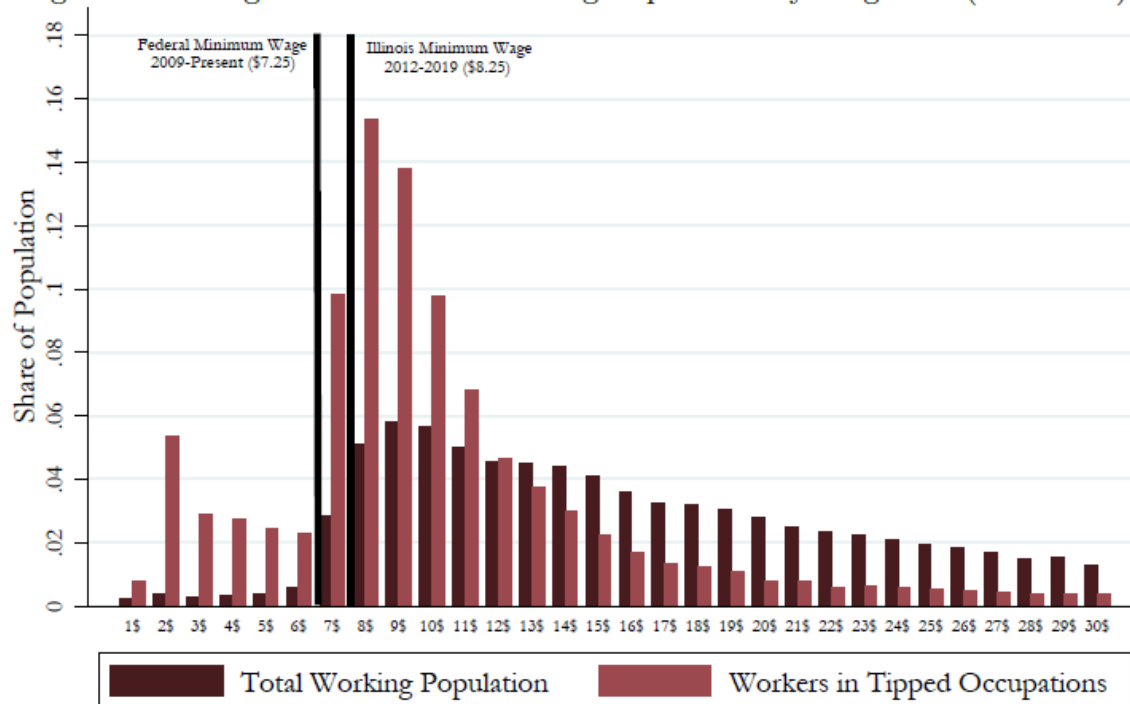
We can also see the distribution of wages for tipped workers compared to the full population of workers. For both the US overall and in the Midwest states specifically, we find that many tipped workers earn relatively low wages, with many tipped workers earning at or near the federal minimum wage (i.e., within \$3/hour of the standard minimum wage). Interestingly, these two figures also show that many tipped workers report earning wages below the federal minimum wage, which suggests a fairly substantial amount of minimum wage noncompliance, which we discuss in more detail in Section IV



Notes: This figure reports the share of workers in tipped occupations in the total working population in each of the MORG-CPS data sets from 2003-2019 by geographic area. Workers in tipped occupations are defined using the methodology from Cengiz et al. (2019).

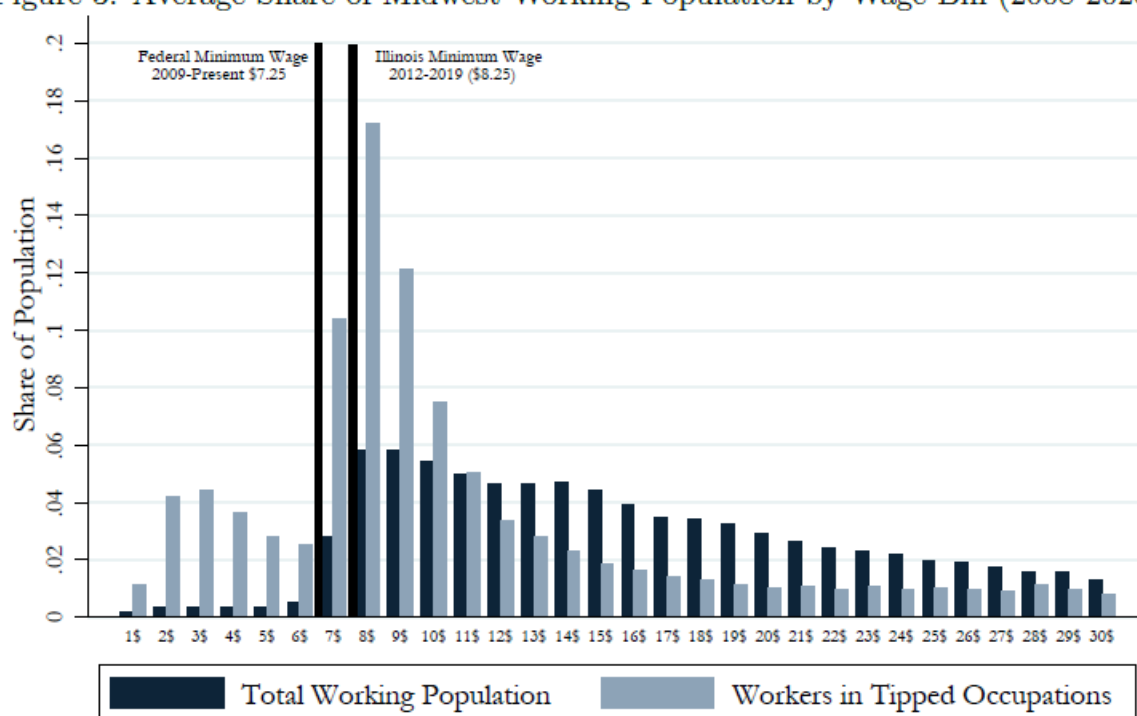
We merge the Current Population Survey data to panel data covering state-level minimum wage changes, and we measure both “regular” minimum wage covering most workers as well as the tipped worker minimum wage. In some states, tipped workers are broken down into many different sub- categories; in these cases, we simply take a weighted average of the different statutory minimum wage levels (weighted by occupation shares).

Figure 2: Average Share of U.S. Working Population by Wage Bin (2008-2020)



Notes: This figure reports earnings distributions for workers in tipped occupations and throughout the workforce in the United States from 2008-2019. Tipped occupations are defined using the methodology in Cengiz et al. (2019). This figure excludes the share of the population earning more than 30 dollars per hour.

Figure 3: Average Share of Midwest Working Population by Wage Bin (2008-2020)



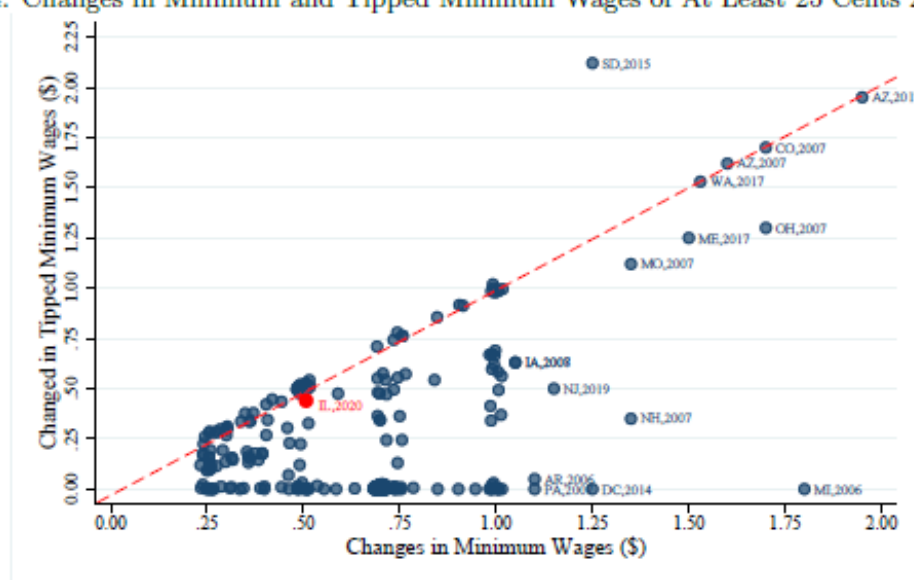
Notes: This figure reports earnings distributions for workers in tipped occupations and throughout the workforce in Midwestern states from 2008-2019. Midwestern states include: Illinois, Indiana, Iowa, Kansas Michigan Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. Tipped occupations are defined using the methodology in Cengiz et al. (2019). This figure excludes the share of the population earning more than 30 dollars per hour.

IV. New Evidence on the Effects of Minimum Wages on Tipped Workers

In this section, we investigate how changes in the full minimum and tipped minimum wage impacts employment across the earnings distribution. Only minimum wage changes of 25 cents or more are included in our analysis. Figure 4 and Table 2 summarize our sample of such events between 2003 and 2019. Both the table and the figure indicate that the majority of full minimum wage increases do not necessarily precipitate a change in the tipped worker

minimum wage. When they both change, however, both minimum wages tend to increase by the same amount. Our investigation stops at 2019 in order to avoid including data from the pandemic.

Figure 4: Changes in Minimum and Tipped Minimum Wages of At Least 25 Cents 2003-2019



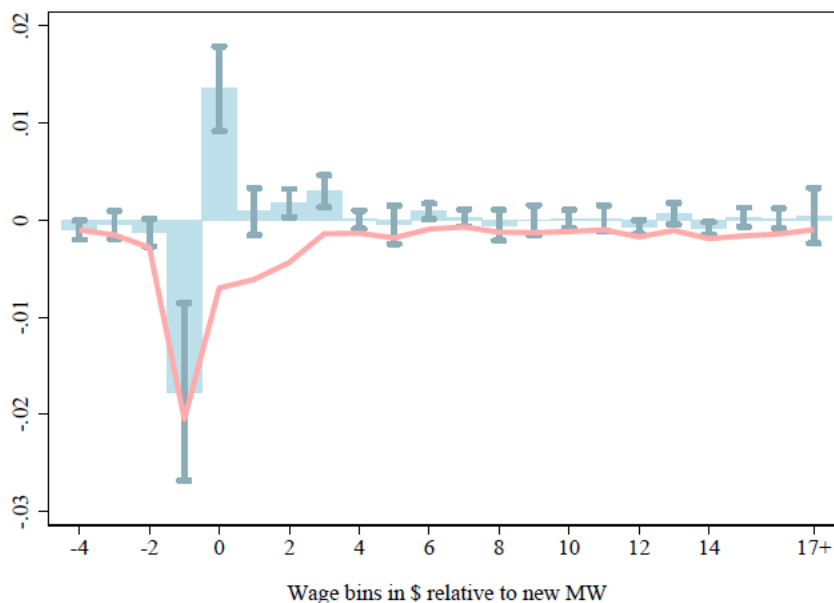
Notes: This figure reports changes in the minimum and tipped minimum wage from 2003-2019 excluding minimum wage changes less than \$0.25. The red-dashed line represents points at which changes in the minimum and tipped minimum wages are equal. Minimum wage changes over \$1 are labeled by state and year.

Table 2: Minimum Wage Changes of At Least 25 Cents Event Summary

Event Type	Count	Percentage
[1]	[2]	[3]
Minimum and Tipped Minimum Wage Increase by ≥ 25 Cents	98	40.00%
Minimum Wage Increases by ≥ 25 Cents; Tipped Minimum Wage Does Not Increase	117	47.76%
Minimum Wage Increases by ≥ 25 Cents; Tipped Minimum Wage Increases by ≤ 25 Cents	30	12.24%
Total	245	100.00%

Figures 5, 6, and 7 summarize our main results estimating how these minimum wage changes affected employment across the wage distribution. Figure 5 examines the impact of wage changes on the entire working population, while Figures 6 and 7 limit the analysis to the tipped and non-tipped populations respectively. In the Appendix, we include figures showing the results of similar analyses in which we limit our analysis to minimum wage changes in which both the minimum wage and tipped worker minimum wage increased simultaneously, and those in which only the full minimum wage increased (i.e., rows 1 and 2 of Table 2 respectively). Each figure shows the five-year change in employment in dollar bins relative to the minimum wage. Changes in employment are relative to the employment levels in the year before a new minimum wage took effect. The dashed red line in each figure represents the “running total” of employment changes (adding up the employment changes of each wage bin up to the current bin).

Figure 5: Impact of Minimum Wages on the Wage Distribution

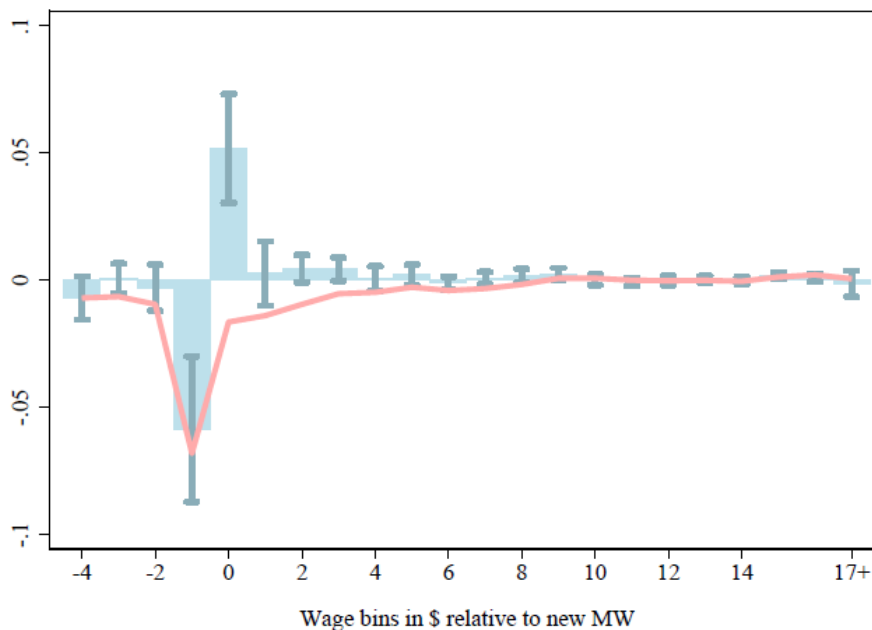


Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage changes between 2003 and 2019. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

This analysis follows the most widely-accepted research strategy in estimating employment effects of minimum wage changes which compare labor market outcomes before and after minimum wage changes and “stack together” a large number of minimum wage changes that occur in different time periods. In all figures, we find no spurious effects of minimum wage changes on employment at high wage levels, which builds confidence that the research strategy is reliably estimating the effects of minimum wage changes on low-wage employment.

Figures 5 and 7 indicate that minimum wage changes have similar impacts on the wage distribution of the total population of low-wage workers and those in non-tipped occupations. Both of the figures suggest that changes to the minimum wage cause reductions in employment at wage levels below the new minimum wage, and these employment losses are roughly equally offset by employment increases at wage levels just above the new minimum wage. This is a relatively intuitive result representing the fact that workers earning the minimum wage tend to keep their jobs when that wage is marginally increased. The labor market exhibits further growth in jobs associated with wage bins a few dollars above the new minimum wage.

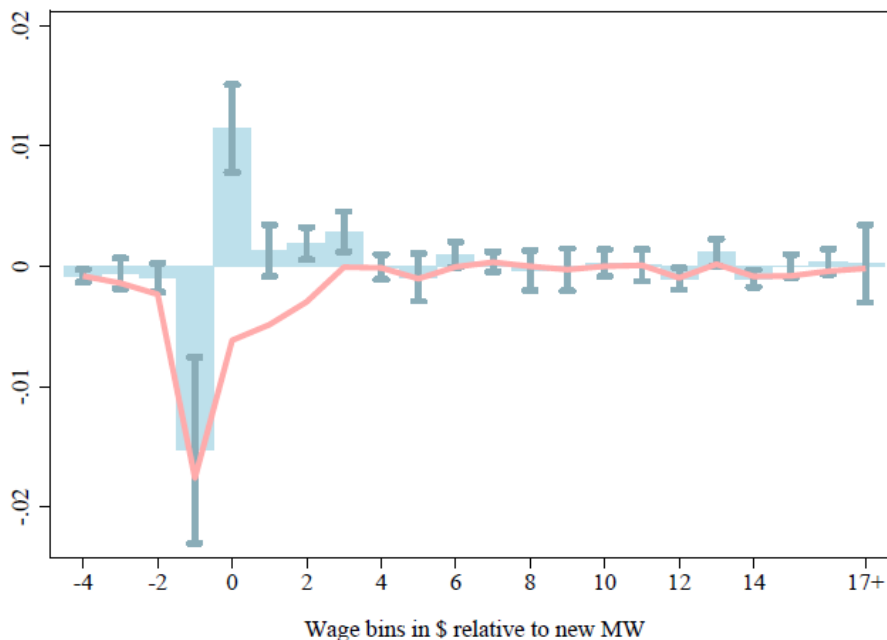
Figure 6: Impact of Minimum Wages on the Wage Distribution
Workers in Tipped Occupations Only



Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage changes between 2003 and 2019. The sample includes workers in tipped occupations only as defined by Cengiz et al. (2019). The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure 6 shows the effects of minimum wage changes on the pay distribution of workers in tipped occupations. As in the rest of this report, we use the definition of tipped occupations described above in Table 1. The primary takeaway from this portion of the analysis should be the magnitude of minimum wage change effects on the tipped worker wage distribution is significantly larger than the effects on the non-tipped workforce. Figure 6 indicates that statute adjustments result in job reductions in the wage levels just below the new minimum wage and roughly equal-sized job increases in the wage levels just above the new minimum wage. The Appendix presents additional figures that further reinforce these findings.

Figure 7: Impact of Minimum Wages on the Wage Distribution
Workers in Non-Tipped Occupations Sample



Notes: The figure shows the results from our event study analysis exploiting state-level minimum wage changes between 2003 and 2019. In this figure, we exclude workers in tipped occupations. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Taken together, the analyses in this section indicate that general minimum wage increases do not negatively affect employment levels, for both tipped and non-tipped workers. Figures 5, 6, and 7 show that the net change in low-wage employment is close to zero, once the “running sum” reaches about 10 dollars above the new minimum wage. These figures also indicate that virtually all of the changes that occur in the wage distribution as a result of minimum wage adjustments are located right around the new minimum wage. In all of the figures, jobs that are lost due to the new minimum wage are replaced almost entirely by those at, or slightly above, the new minimum. Conversely, jobs in higher parts of the wage distribution remain relatively unaffected. The main new finding is that the results from the published economics literature are clearly replicated in our new analysis of tipped

occupations, and the magnitudes of the results are even larger, likely because minimum wage work is much more common in these occupations according to our data in Figures 2 and 3.

V. Part 1: Assessing Minimum Wage Noncompliance Using Survey Data

The second main analysis in this report is an investigation into minimum wage noncompliance in tipped occupations. Table 3 provides some insights on this question by showing the average share of workers in tipped occupations earning less than the minimum wage from 2003 to 2020 in the U.S., Midwest, and Illinois. We do not have adequate sample size in the Current Population Survey data to analyze the Chicago MSA. In all three regions, the overall rate of minimum wage noncompliance is significantly higher for individuals in tipped occupations (about 11-14 percent) compared to the broader workforce (about 3-4 percent). Noncompliance rates appear to be particularly high among waiters and waitresses, who comprise the second largest group of tipped workers (behind retail salespersons). The shares of minimum wage noncompliance in Illinois mostly align with those in the broader Midwest region and in the U.S., although Illinois's rates are particularly high compared to other regions for bartenders and food servers. We note that these noncompliance estimates are based on the assumption that workers are accurately reporting their wages in the public survey. If workers do not self-report their wages accurately (e.g., because they do not report all of their tipped income), then this would lead to bias. Past economic research (e.g., Hurst et al. (2014)), has analyzed the extent to which individuals under-report their income to household surveys by scrutinizing the responses of self-employed workers, and they conclude that self-employed workers significantly under-report their earnings in household surveys by about 25 percent on average. They reach this conclusion by comparing income to spending and inferring true income based on measures of different types of expenditures. This same approach has been used to detect income tax evasion around the world.

Similar to self-employed workers, tipped workers may face difficulties in accurately calculating their true hourly wages (for example, because they do not receive tax forms that include all of the income they receive on the job). Although there are no potential penalties for misreporting income to the Census or another household survey, tipped workers may find it difficult to accurately report their true hourly wages. To assess the magnitude of this potential bias, we simply adjust self-reported wages of tipped workers by 25 percent based on the estimates in Hurst et al. (2014). The results in Table 4 show the adjusted

noncompliance after making this adjustment. As expected, noncompliance shares drop, particularly in Illinois in which the overall weighted average noncompliance share drops by about 50 percent. These decreases appear to be consistent across tipped occupations but are particularly significant among barbers, telemarketers, and food preparation workers. Even a 1.7 percent minimum wage noncompliance share in Illinois, however, still implies that roughly 220,000 individuals earned less than the minimum wage in 2020.

V. Part 2: Policy Implications of Minimum Wage Noncompliance

Eliminating the City of Chicago's tipped minimum wage might help to improve rates of minimum wage compliance among employers. Evidence in favor of this argument comes from various papers across public economics which show that regulating economic transactions is significantly easier when those transactions produce a paper trail. Pomeranz (2015), for example, demonstrates the tangible impact of documenting economic transactions by conducting a randomized experiment exploiting the Chilean government's methods of enforcing their Value Added Tax (VAT). VATs produce a paper trail by incentivizing firms to document their revenues and input costs resulting from transactions with other firms. This allows tax authorities to cross-check the two businesses' records against one another to ensure each is paying their fair share of taxes. To analyze the impact of the paper trail on tax enforcement, Pomeranz worked with the Chilean Tax Authority to send letters indicating an increased audit probability to 100,000 randomly selected businesses. While Pomeranz finds that the letters prompted increases in VAT payments among all firms, she discovers that these effects were significantly higher among those who were not required to document their economic transactions in the first place. Moreover, she finds that the mechanism underlying these results is the paper trail produced by the VAT, which essentially prompts firms subject to the tax to "self-enforce" the regulation.

The policy implication of these findings to the issue of tipped minimum wages is straightforward. When tipped workers receive the majority of their income from tips, no paper trail is generated, and employers are able to under-report their labor costs. As such, wage investigators have no easy way to determine whether employers are complying with minimum wage regulations and properly compensating their tipped workers. In a regulatory environment in which workers are guaranteed a full minimum wage excluding tips, regulators have a reliable method of checking for minimum wage compliance by comparing

tipped workers' tax returns with employers' payroll tax documents. This leads to accurate third-party reporting of total compensation, and this would also generate additional tax revenue for the state by ensuring that employers of tipped workers and the tipped workers themselves are actually paying what they owe in payroll taxes.

Table 3: Average Minimum Wage Noncompliance Shares Amongst Tipped Worker Occupations (2003-2020)^{36*}

Occupation	US		Midwest		Illinois	
	Min. Wage Noncompliance	Average Share of Tipped Population	Min. Wage Noncompliance	Average Share of Tipped Population	Min. Wage Noncompliance	Average Share of Tipped Population
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Baggage porters, Bellhops, and Concierges	4.51%	1.03%	1.25%	0.97%	4.55%	3.73%
Barbers	3.81%	1.42%	11.02%	1.69%	25.00%	3.51%
Bartenders	22.58%	4.81%	25.96%	5.38%	33.88%	5.42%
Combined Food Preparation and Serving Workers	6.23%	4.16%	7.74%	5.29%	8.53%	4.56%
Counter Attendants	9.71%	3.46%	12.11%	4.41%	17.16%	4.81%
Food Servers, Non Restaurant	7.64% ⁵	2.37%	6.42%	2.76%	8.77%	3.87%
Food preparation and serving related workers	13.65%	4.40%	16.96%	4.37%	20.55%	5.51%
Hairdressers, Hairstylists, and Cosmetologists	3.92%	9.21%	3.67%	9.36%	13.42%	8.00%
Hosts and Hostesses	12.96%	3.53%	15.36%	4.01%	16.83%	4.51%

^{36*} Notes: Minimum wage noncompliance share is defined by the average share of workers earning less than their state's minimum wage in each month for a particular occupation for 2003-2020. Tipped worker occupations are defined by the methodology used in Cengiz et al. (2019).

Parts Salespersons	1.50%	1.64%	1.39%	1.99%	6.06%	3.47%
Retails Salespersons	2.80%	38.61%	2.61%	34.74%	0.48%	31.08%
Telemarketers	2.70%	1.69%	4.05%	2.33%	19.63%	3.29%
Waiters and Waitresses	31.31%	23.67%	37.72%	22.71%	12.60%	18.25%
Summary Statistics	US		Midwest		Illinois	
Weighted Average Noncomp. Share	11.95%		14.01%		10.71%	
Min. Wage Noncomp Share of Total Population	3.60%		3.40%		4.10%	
Share of Tipped Workers in Total Population	5.75%		5.72%		5.77%	

Table 4: Average Adjusted Minimum Wage Noncompliance Shares Amongst Tipped Worker Occupations (2003-2020)^{37*}

Occupation	US		Midwest		Illinois	
	Adjusted Min. Wage Noncom	Minimum Wage Noncompliance Share	Adjusted Min. Wage Noncomp	Minimum Wage Noncompliance Share	Adjusted Min. Wage Noncom	Minimum Wage Noncompliance Share

^{37*} Notes: In this table, wages are multiplied by a factor of 1.25 to account for underreporting typically associated with household surveys. Minimum wage noncompliance share is defined by the average share of workers earning less than their state's minimum wage in each month for a particular occupation for 2003-2020. Tipped worker occupations are defined by the methodology used in Cengiz et al. (2019).

	pliance Share		liance Share		pliance Share	
[1]	[2]	[3]	[4]	[5]	[6]	[7]
Baggage porters, Bellhops, and Concierges	1.69%	4.51%	0.00%	1.25%	0.00%	4.55%
Barbers	1.81%	3.81%	7.19%	11.02%	0.00%	3.51%
Bartenders	16.05%	22.58%	17.23%	25.96%	24.43%	5.42%
Combined Food Preparation and Serving Workers	1.28%	6.23%	1.34%	7.74%	0.72%	4.56%
Counter Attendants	1.42%	9.71%	1.40%	12.11%	1.13%	4.81%
Food Servers, Non Restaurant	3.85% ⁵	7.64% ⁵	2.70%	6.42%	0.67%	3.87%
Food preparation and serving related workers	6.91%	13.65%	8.97%	16.96%	11.41%	5.51%
Hairdressers, Hairstylists, and Cosmetologists	1.80%	3.92%	1.66%	3.67%	9.52%	8.00%
Hosts, Hostesses	6.57%	12.96%	6.99%	15.36%	9.12%	4.51%
Parts Salespersons	0.66%	1.50%	0.55%	1.39%	3.33%	3.47%
Retails Salespersons	0.69%	2.80%	0.48%	2.61%	0.10%	31.08%
Telemarketers	0.80%	2.70%	0.82%	4.05%	3.85%	3.29%
Waiters, Waitresses	25.83%	23.67%	31.64%	22.71%	9.65%	18.25%
Summary Statistics	US		Midwest		Illinois	
Adjusted Weighted Average Noncomp. Share	10.64%		11.89%		5.22%	
Min. Wage Noncomp. Share	1.76%		1.89%		1.73%	

of Total Population			
Share of Tipped Workers in Total Population	5.75%	5.72%	5.77%

V. Part 3: Additional Findings from Recent Related Research

In this section, we briefly summarize the findings of the recent peer-reviewed economics literature that analyzes the impact of minimum wage increases using a variety of empirical approaches. We begin with Cengiz et al. (2019), which developed the empirical framework that we use in our main analysis. The paper utilizes the difference-in-differences research design to estimate the impact of minimum wage increases on the employment and wages of workers towards the bottom of the wage distribution. Like our analysis, Cengiz et al. (2019) relies on the Current Population Survey data, but their sample period differs slightly (1979 to 2016 instead of 2003 to 2019). Another key difference is that the authors limit their analysis to the impact of full minimum wage changes and a sample including all workers, in contrast to the tipped workers subsample we focus on in this report. The authors find that an average minimum wage hike led to a large and significant decrease in the number of jobs below the new minimum wage in the five years after its implementation. However, in the wage bins at or just above the new minimum wage, the authors find clear evidence offsetting increases in jobs. Additionally, the authors find no indication of significant employment changes in the upper parts of the wage distribution. In sum, the estimates suggest that minimum wage increases, on average, result in statistically and economically insignificant employment changes but significant increases in average wages.

Similar to Cengiz et al. (2019), Dube et al. (2010) investigate the effects of minimum wage increases on earnings and employment by examining the average impact of many state-level minimum wage policy interventions. The authors accomplish this by generalizing a case study method which analyzes how local labor market outcomes change in the restaurant industry comparing two contiguous counties on either side of a state border when one of the states increases its minimum wage. The authors analyze data from the Quarterly Census of Earnings and Employment (QCEW) from 1990 to 2006 using a fixed effects regression approach to estimate earnings and employment in relation to the log of minimum wage. The

authors find strong positive effects of minimum wages on average earnings effects (with elasticities ranging between .15 and .23) across the different model specifications. In models that include controls for spatial heterogeneity, the authors find employment effects that are close to zero or even slightly positive. Overall the authors' findings suggest that minimum wage increases result in earnings increases for restaurant workers and no clear effects on employment. The findings also highlight flaws in related minimum wage literature that fails to account for spatial heterogeneity. These results are robust to many additional controls such as total private sector earnings and total population.

While Cengiz et al. (2019) and Dube et al. (2010) provide credible evaluations of the impact of minimum wage changes in aggregate, it is also important to study the effects of these policy interventions in a geographic setting similar to that of Chicago. For this, we turn to Jardim et al. (2017), which exploits the minimum wage increases that took place in Seattle during 2014 and 2015 and investigates how the policy change affected aggregate hours worked, average hourly wages, and other related outcomes in the city. The authors analyze administrative employment data collected by Washington's Employment Security Department using two empirical approaches: a synthetic control method and an interactive fixed effects method. The researchers use the synthetic control method to evaluate aggregate labor market trends and the interactive fixed effects to analyze individual-level outcomes. The results indicate that Seattle's minimum wage increases had significant positive effects on hourly wages for the city's low-wage workers. Both the aggregate and micro-level analyses showed that these wage increases were accompanied by slight decreases in hours worked. Workers initially employed at low wages in Seattle showed modest, but statistically significant, reductions in hours worked across all Washington jobs, but no change in the probability of being employed. Less-experienced workers suffered a larger proportionate reduction in hours compared to more experienced workers. These hours effects were strongest in the calendar quarters immediately following wage increases and dissipated over time, leading to a net gain in earnings of \$10-12 per week by the end of the period studied. Analysis of aggregate data showed no statistically significant impact on aggregate payroll. This aggregate data also indicated a slowdown in the rate of new entry into Seattle's low-wage labor market and a similar reduction in the turnover rate. Overall, the results suggest that Seattle's minimum wage delivered higher earnings to low-wage workers while slightly reducing employment opportunities for workers without experience.

For analyses of the impacts resulting from changes in the tipped minimum wage, we turn to two papers that investigate the effects of tipped minimum wage changes in the restaurant industry. First, Jones (2016) uses IRS W-2 administrative records data to examine the effects of tipped minimum wages on hourly wages, hourly tips, server employment, and hours worked per year. The author's empirical approach consists of a difference-in-differences

model which estimates the variables specified above in relation to tipped minimum wage changes. The model controls for individual and state-level demographic characteristics in addition to labor market characteristics. The results of these models indicate that hourly wages paid by employers increased as tipped minimums increased, with an estimated elasticity between 0.5 and 0.7, and hourly tips decreased by a similar amount. The author also finds a small negative effect on hours worked per year that is not statistically significant in some specifications. The paper also finds some evidence that employment of servers increases between the lowest value of the tipped minimum wage up to approximately \$4.50 per hour, at which point it levels out and then begins decreasing. In sum, the results indicate that increases in tipped minimum wages have little impact on earnings or employment.

On the other hand, Allegretto and Nadler (2016) argue that increases in tipped minimum wages significantly increase the earnings of tipped workers. This paper estimates the impact of tipped minimum wage changes on total employment and earnings in the full-service and limited-service restaurant industries using data from the Quarterly Census of Employment and Wages (QCEW). The authors use a two-way fixed effects specification to compare pairs of counties that lie on either side of a state border after one implements a tipped minimum wage change. This method follows that used in Dube et al. (2010). The authors also use a sample that includes all counties. The results of the estimates for the all county sample indicate that a 10 percent increase in the tipped minimum wage raises total earnings in full service restaurants between .32 and .48 percent depending on model specification. In the contiguous county sample, the authors estimate that a 10 percent increase in the tipped minimum wage increases earnings by about 0.5 percent. The authors find that the effect of tipped minimum wage increases on employment varies widely depending on the controls used in each model.

VI. Conclusion



This report investigates the potential economic consequences of raising Chicago's tipped minimum wage, focusing on likely effects on earnings and employment of low-wage workers. We also attempt to determine the extent to which employers of tipped workers fail to comply with minimum wage statutes. Using data on hourly wages from the CPS, we determine that between 5.2 and 10.7 percent of tipped workers in

Illinois earn less than the minimum wage. Recent research in public economics suggests that eliminating the tipped minimum wage entirely would help to address noncompliance by generating additional documentation regarding the actual total income that workers receive from work.

We use the empirical methodology developed in Cengiz et al. (2019) to explore how minimum wage changes affect the employment opportunities of tipped, non-tipped, and all workers earning at the bottom of the wage distribution. Our analysis finds a similar pattern for each of these populations: when a minimum wage increase occurs, low-wage workers experience wage increases. In all three populations, the reduction in employment in jobs paying below the new minimum wage is roughly entirely offset by additional employment in jobs paying between 1 and 10 dollars above the new minimum wage. Detailed case study evidence from the Seattle Minimum Wage Study indicates this happens largely because current workers are “bumped up” to the new minimum wage and are very unlikely to be laid off as a result of the minimum wage increase. Our analysis also suggests that tipped workers are disproportionately affected by minimum wage changes, since as many as 5-10 percent of workers in tipped occupations earn wages at or near the minimum wage.

We supplement our analysis with a brief summary of research findings from other recent studies of minimum wage increases. Many of these findings utilize similar empirical approaches to those in this report and find similarly encouraging results for workers. Both Cengiz et al. (2019) and Dube et al. (2016) find no evidence of significant employment changes resulting from minimum wage increases. The latter paper additionally finds that minimum wage increases result in significant earnings boosts for low-wage workers, particularly in the restaurant industry. Allegretto and Nadler (2016) examine the effects of minimum wage changes specifically on the earnings and employment levels of tipped workers in restaurants. The paper finds that minimum wage increases result in earnings increases. On the whole, these related papers substantiate the findings delineated here.

Overall, we conclude that a modest increase in the tipped worker minimum wage is likely to lead to increased wages for tipped workers without meaningful negative employment effects. We also conclude that our suggestive evidence of greater minimum wage noncompliance for tipped workers (compared to non-tipped workers) provides an additional policy rationale for raising the tipped worker minimum wage.

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Appendix Sections

Appendix A: Data Appendix

We primarily use the individual-level Merged Outgoing Rotation Group of the Current Population Survey (CPS) for 2003-2019 in our analysis. Our hourly wage variable is constructed using the variables EARNHRE (hourly wage), EARNWKE (weekly earnings), and UHOURSE (usual hours). In the event that an EARNHRE is missing, an individual's hourly wage is defined as their weekly earnings divided by usual hours worked. We excluded observations with imputed hourly wages ($I25a > 0$) among those with positive EARNHRE values. We additionally excluded observations for which usual weekly earnings or usual hours were imputed ($I25a > 0$ or $I25d > 0$) among those with positive EARNWKE values.

Because we do not use observations with imputed hourly wages in most of our analysis, the employment counts of the raw CPS data are biased downwards. Moreover, the nature of the CPS survey – where only a subset of workers are interviewed each month – means that there is sampling error in any employment count estimates. To address both of these issues, we follow Cengiz et al. (2019) and combine the estimated CPS wage densities with state-level employment counts from the QCEW.

Appendix B: Methodological Appendix

We use the individual-level Merged Outgoing Rotation Group of the Current Population Survey (CPS) for 2003-2019 to calculate quarterly, state-level distributions of hourly workers. We use the hourly wage for individuals who report it and usual weekly earnings divided by usual hours worked for individuals with missing hourly wage data.

We use the CPI-U-RS to deflate wages to 2016 dollars and assign real hourly wage earners to \$0.25 wage bins running from \$0 to \$30.00. We collapse each of these wage bins into quarterly, state-level employment counts using the person-level ORG sampling weights. The denominator we use for constructing per capita counts is built from estimates for state-level populations from the CPS-MORG.

To estimate the counterfactual wage frequency distribution in the absence of a minimum wage increase, we exploit state-level variations in the minimum wage and identify the alternative distribution using a difference-in-differences event study design. This event-

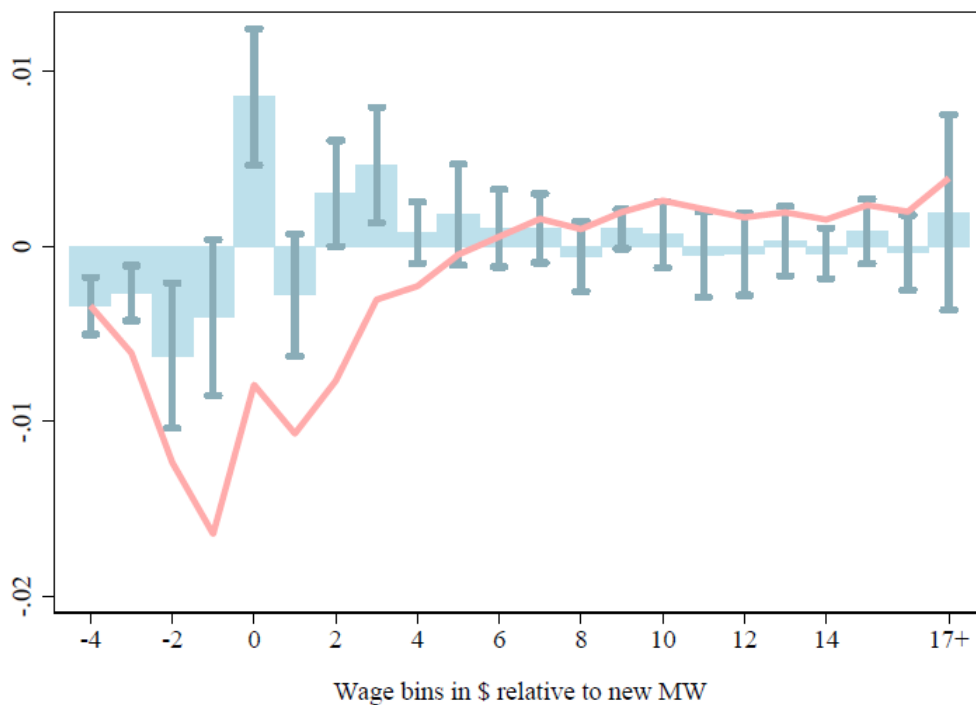
based approach, developed in Cengiz et al. (2019), examines employment changes within an eight year window around prominent state-level minimum wage change events. Events are defined as prominent if the minimum wage increase was at least \$0.25 and at least 2% of workers were directly affected by the increase. The analysis estimates the effect of minimum wage changes not just on aggregate employment, but also on employment in every \$0.25 wage bin. Our basic regression specification is the following:

$$\frac{E_{sjt}}{N_{st}} = \sum_{\tau=-3}^4 \sum_{k=-4}^{17} \alpha_{\tau k} \bar{I}_{sjt}^{\tau k} + \mu_{sj} + \rho_{jt} + \Omega_{sjt} + u_{sjt} \quad (1)$$

where E_{sjt} is employment in \$0.25 wage bins j in state s at time t . The treatment dummy $\bar{I}_{sjt}^{\tau k}$ equals 1 if the minimum wage was raised τ years from date t and for the \$0.25 wage bins t that fall between k and $k + 1$ dollars relative to the new minimum wage. The $\bar{I}_{sjt}^{\tau k}$ treatment variables are a function of not only state and time but also of the wage bins. For instance, $k = 0$ represents the four \$0.25 wage bins between MW and $MW + \$0.99$ and $k = -1$ is a “below” bin with wages paying between $MW - \$0.01$ and $MW - \$1.00$. Our benchmark specification also controls for state-by-wage-bin and period-by-wage-bin effects μ_{sj} and ρ_{jt} . Ω_{sjt} include controls for small or federal increases and u_{sjt} is the error term.

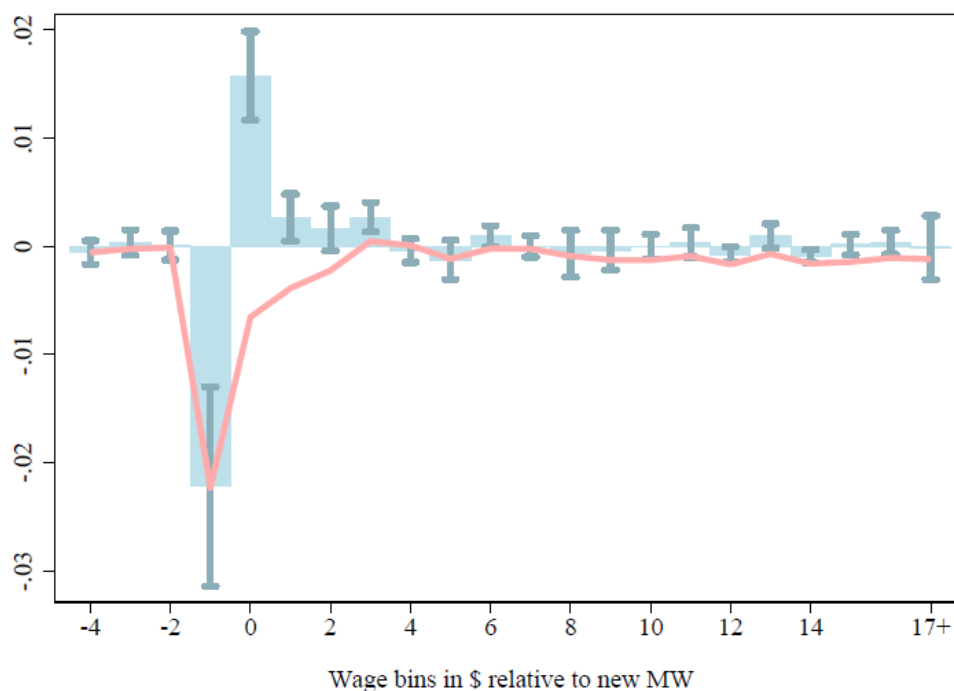
Appendix C: Appendix Figures and Tables

Figure A1: Impact of Minimum Wages on the Wage Distribution
Events in Which Only Full Minimum Wage Increases



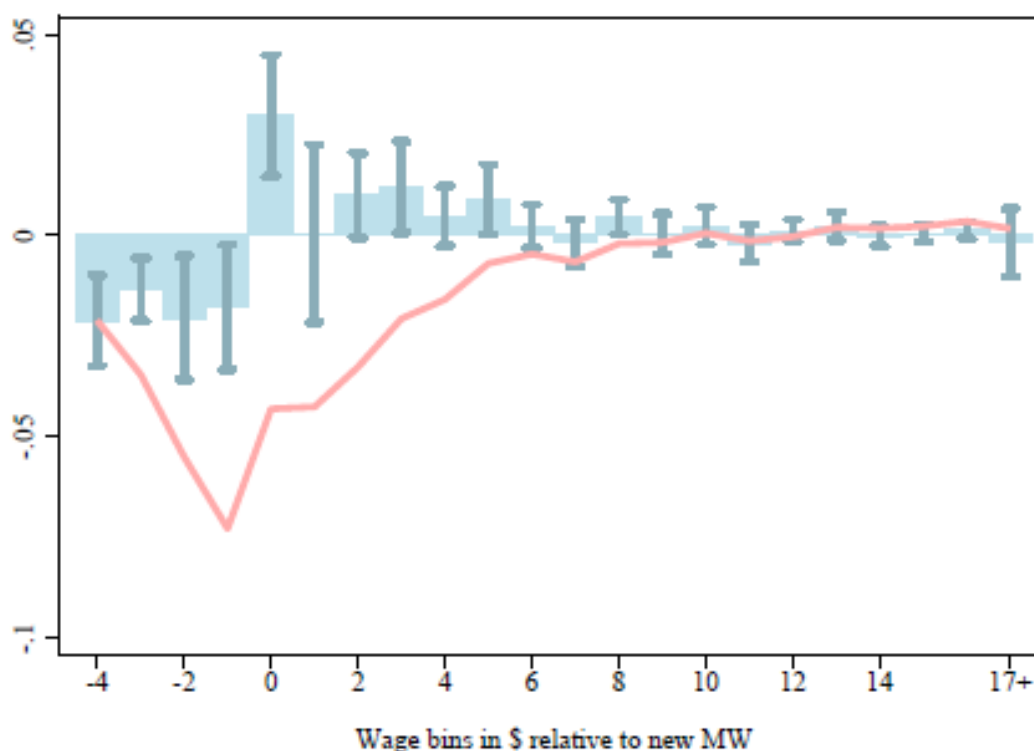
Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage increases in which the tipped minimum wage remained unchanged between 2003 and 2019. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure A2: Impact of Minimum Wages on the Wage Distribution
 Events in Which the Minimum and Tipped Minimum Wage Increased Simultaneously



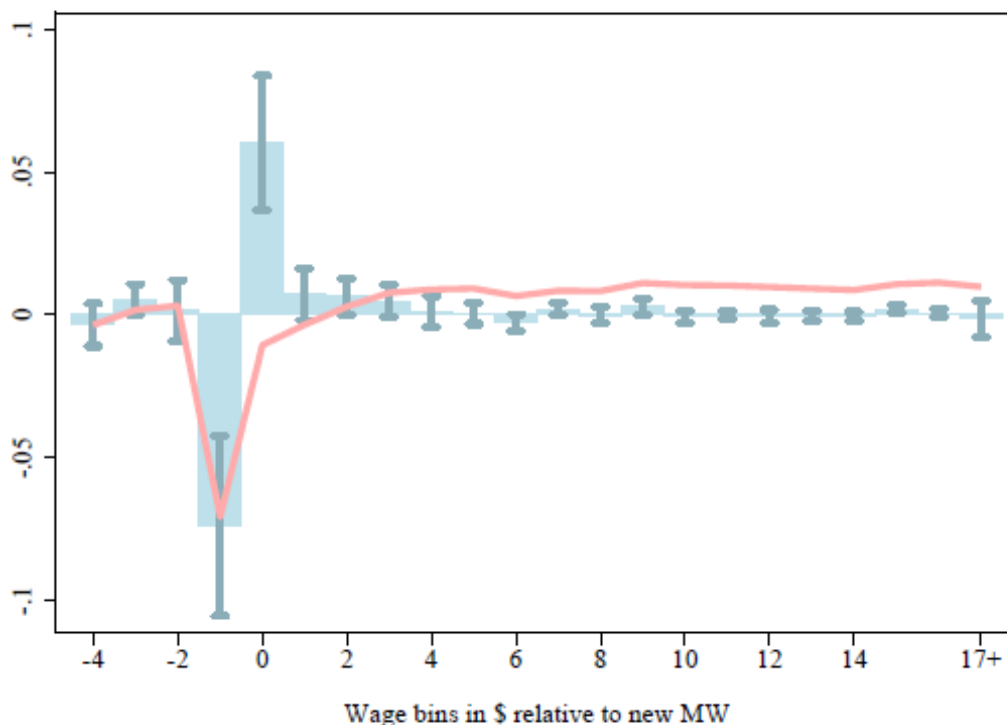
Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage changes in which the minimum and tipped minimum wage increased simultaneously between 2003 and 2019. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure A3: Impact of Minimum Wages on the Wage Distribution
 Events in Which Only Full Minimum Wage Increases
 Workers in Tipped Occupations Sample



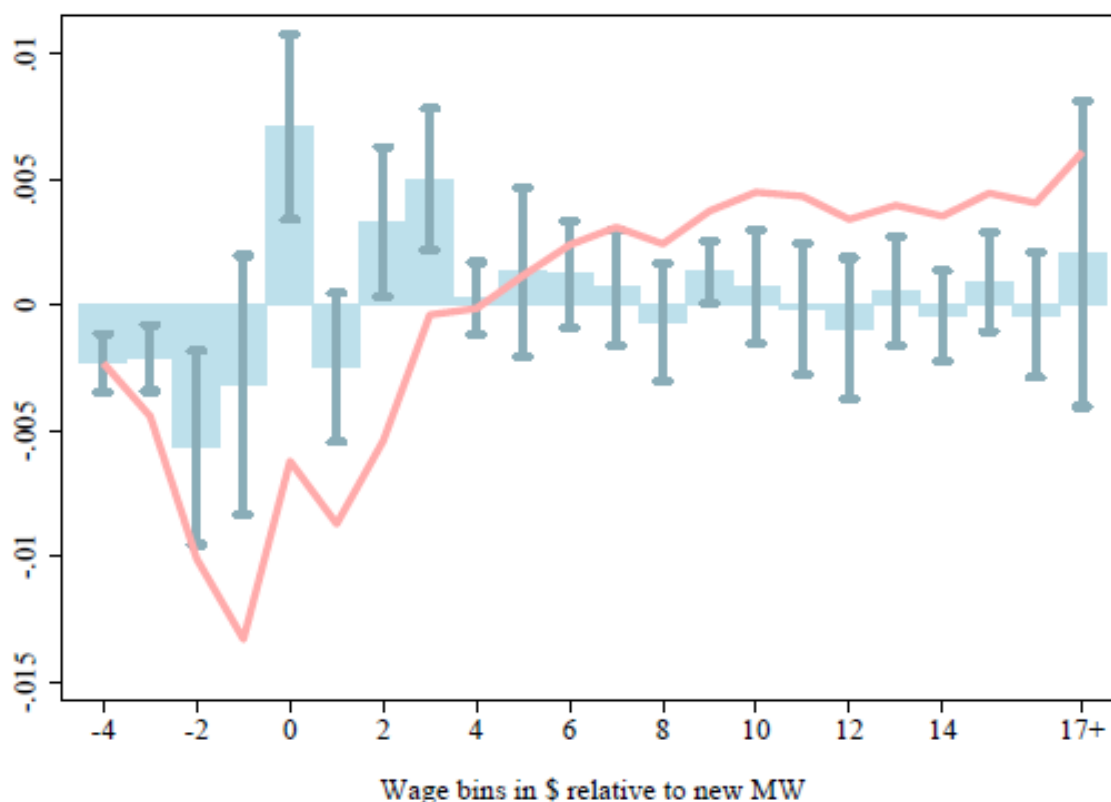
Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage changes in which the tipped minimum wage remained unchanged between 2003 and 2019. The sample includes workers in tipped occupations only as defined by Cengiz et al. (2019). The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure A4: Impact of Minimum Wages on the Wage Distribution
 Events in Which the Minimum and Tipped Minimum Wage Increased Simultaneously
 Workers in Tipped Occupations Only



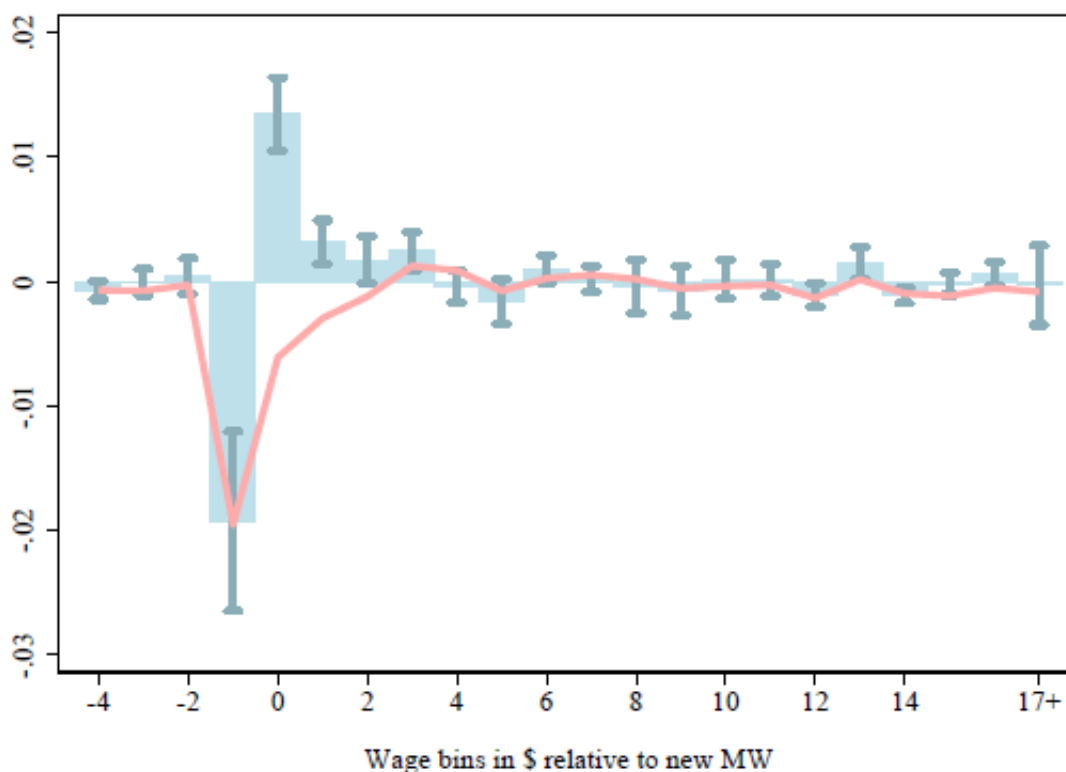
Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage changes in which the minimum and tipped minimum wage increased simultaneously between 2003 and 2019. The sample includes workers in tipped occupations only as defined by Cengiz et al. (2019). The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure A5: Impact of Minimum Wages on the Wage Distribution
 Events in Which Only Full Minimum Wage Increases
 Workers in Non-Tipped Occupation Sample



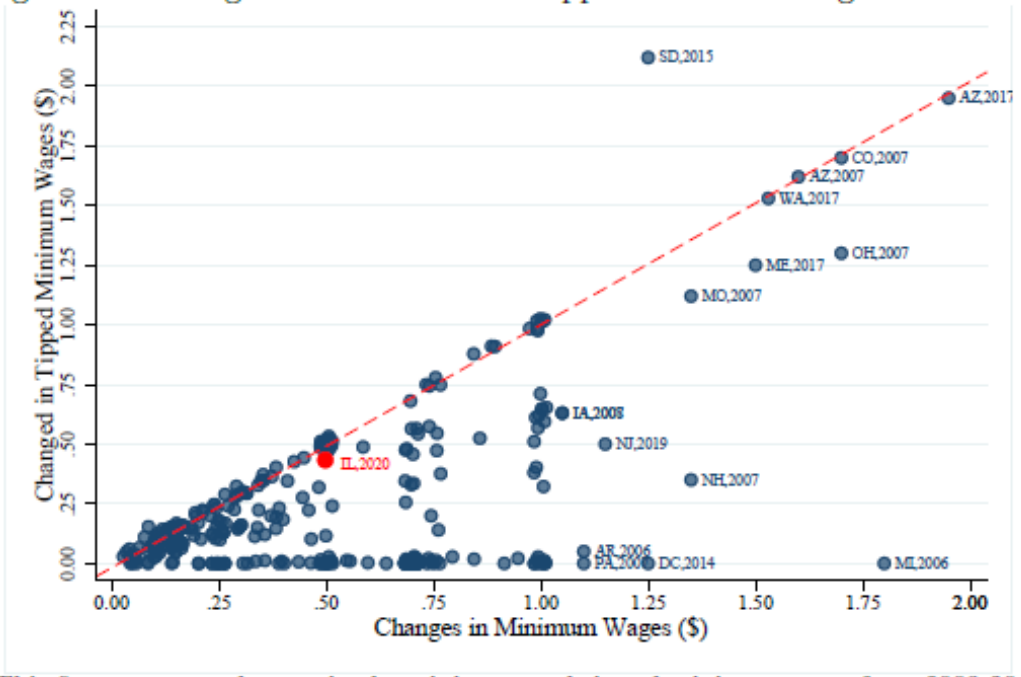
Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage increases in which the tipped minimum wage remained unchanged between 2003 and 2019. This sample excludes workers in tipped occupations. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure A6: Impact of Minimum Wages on the Wage Distribution
 Events in Which Minimum and Tipped Minimum Wage Increased Simultaneously
 Workers in Non-Tipped Occupation Sample



Notes: The figure shows the main results from our event study analysis exploiting state-level minimum wage changes in which the minimum wage and tipped minimum wage increased simultaneously between 2003 and 2019. This sample excludes workers in tipped occupations. The blue bars show for each dollar bin (relative to the minimum wage) the estimated average employment changes in that bin during the five-year post-treatment relative to the total employment in the state one year before the treatment. The error bars show the 95% confidence interval using standard errors that are clustered at the state level shown using the error bar. The dashed red line shows the running sum of employment changes up to the wage bin it corresponds to.

Figure A7: Changes in Minimum and Tipped Minimum Wages 2003-2019



Notes: This figure reports changes in the minimum and tipped minimum wage from 2003-2019. The red-dashed line represents points at which changes in the minimum and tipped minimum wages are equal. Minimum wage changes over \$1 are labeled by state and year.

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