STATE OF CHICAGO’S TIPPED RESTAURANT WORKERS BRIEF

THE DIFFERENTIAL IMPACT OF THE SUBMINIMUM WAGE ON TIPPED WORKERS OF COLOR

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By the Restaurant Opportunities Centers United, One Fair Wage, and the Food Labor Research Center, University of California, Berkeley
Chicago is home to a burgeoning restaurant industry. Over the last decade (2008-2018), the number of eating and drinking establishments in Chicago has grown by over 13 percent to 19,017 establishments, ringing in an estimated $22.6 billion in sales. Increased sales and growth in the number of food establishments has made this one of the city’s largest private-sector employers. Chicago’s restaurant industry employs nearly 178,130 workers and tipped occupations account for nearly four percent of the city’s employment. Statewide, restaurant jobs are expected to increase by 7 percent through 2029. The industry’s growth has contributed to the city’s reputation as a tourism, hospitality, and entertainment hub.

However, the benefits of the industry’s prosperity have not been equally shared, and the subminimum wage for tipped workers is a leading cause of inequality in the industry and the broader Chicago economy. Low wages permeate the restaurant industry; nearly one-fifth of restaurant workers toil in poverty. But workers of color, particularly Black workers, have borne the brunt of poverty and economic instability as a result of the industry’s low-road model of providing subminimum wages for tipped workers.
HIGHLIGHTS OF THIS BRIEF

◆ Four of the five lowest paid occupations in Chicago are tipped occupations.

◆ Sixty-three percent of tipped workers in Chicago are workers of color.

◆ Twenty-eight percent of tipped workers of color live in poverty, three times the rate of the overall workforce.

◆ Black women are the hardest hit by Chicago’s subminimum wage. One-third live in poverty, one-half depend on food stamps to make ends meet, and forty-five percent depend on Medicaid — all three to five times the rate of the general workforce.

◆ Poverty is reduced by one-fifth for tipped workers of color in One Fair Wage cities, and by close to a third or more for Black tipped workers in particular, compared to Chicago.

◆ Full service restaurant (FSR) employee and establishment growth in One Fair Wage metropoles has dwarfed that of Chicago. Since 2011, FSR establishments have grown over three times as fast, and employment has grown 1.5 times as fast in major One Fair Wage cities as compared to Chicago.

Tipped workers are particularly affected by the industry’s low-road business model of providing a subminimum wage for those who earn tips: four of the five lowest-paid jobs in Chicago are tipped occupations (see Table 1). Tipped workers in Chicago are paid a subminimum wage of only $6.40 an hour and are forced to rely on tips for the majority of their income. Chicago’s tipped workforce earns 49 percent of the city’s minimum wage of $13, a percentage that is lower than the state’s subminimum index. While Illinois has a tiered wage system, the state’s subminimum wage is indexed at 60 percent of the minimum wage. Low subminimum wages result in tipped occupations being amongst the lowest-paid occupations in the City, and Black tipped workers are the hardest hit.

![Table 1](attachment:image.png)

Table 1: Lowest Paid Occupations in Chicagoland

<table>
<thead>
<tr>
<th>Median Hourly Wage</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9.20</td>
<td>Occupational Therapy Aides</td>
</tr>
<tr>
<td>$9.32</td>
<td>Waitstaff</td>
</tr>
<tr>
<td>$9.36</td>
<td>Bartenders</td>
</tr>
<tr>
<td>$9.41</td>
<td>Dining Room and Cafeteria Attendants and Bartender Helpers</td>
</tr>
<tr>
<td>$9.41</td>
<td>Gaming Dealers</td>
</tr>
</tbody>
</table>

POVERTY

Restaurant workers operate under a wage system rooted in a long history of unequal treatment, leaving present-day workers, in particular tipped workers, women, and workers of color, in economic precarity. The majority of the city’s tipped workforce is concentrated in the restaurant industry; eighty percent of tipped workers work in restaurants, and forty-six percent of these are servers. Over half of tipped workers and nearly sixty percent of servers are women; and over a third of these women are mothers. Additionally, nearly sixty percent of tipped workers are workers of color. Subminimum wages push these workers into poverty and force them to access the social safety net at rates higher than the overall workforce.

The subminimum wage leaves tipped workers, and in particular workers of color, toiling in poverty at higher levels than the city’s overall workforce. Tipped workers live in poverty at 2.1 times the rate, and tipped workers of color at three times the rate of the overall workforce (see Figure 1). The tipped worker poverty burden also leaves workers accessing the social safety net at higher rates than the general workforce. Tipped workers in Chicago access healthcare through Medicaid at 1.8 times the rate, and access food stamps through the Supplemental Nutrition Assistance Program (SNAP) at 1.4 times the rate of the overall workforce (see Figure 2).

WAGE THEFT

The difficulties of enforcing and properly documenting the application of the subminimum wage for tipped workers create significant challenges for regulators, legal liabilities for employers, and confusion for workers. The opaqueness of the subminimum wage leaves tipped workers vulnerable to wage and tip theft, in part accounting for the fact that one quarter of all wage theft claims arise from the restaurant industry.
A previous survey of nearly 600 restaurant workers ROC conducted in Chicago found that nearly a third of restaurant workers experience overtime violations and nearly thirty percent have worked off the clock without pay (see Table 2). Additionally, another source of concern for tipped workers is the misappropriation and distribution of tips. Our survey found that management improperly takes a portion of tips from fifteen percent of tipped workers, a severe burden to workers who are already being paid low subminimum wages. The survey also found that nearly a fifth of fine dining workers experience minimum wage violations.\textsuperscript{14}

**CAREER MOBILITY**

A complex wage system along with low employer-paid base wages are particularly harmful to tipped workers who are regularly denied advancement opportunities into higher earning positions. ROC’s survey found there is little upward mobility within the industry, including little training to promote career progression (see Table 3). Career stagnation is particularly detrimental to workers of color. In 2014, ROC conducted matched-pair employment audit tests at 95 randomly selected fine dining restaurants in Chicago and found that workers of color with equal qualifications were granted living wage opportunities only 53 percent of the time when compared to white workers. Workers of color are systematically denied upward mobility or access into the city’s most lucrative industry positions, serving and bartending jobs within the fine-dining segment.\textsuperscript{15}

\begin{table}[h]
\centering
\begin{tabular}{|c|}
\hline
32.6% Experienced overtime wage violations \\
28.5% Worked off the clock without pay \\
18.5% Fine dining workers that reported minimum wage violations \\
14.7% Management took share of tips \\
\hline
\end{tabular}
\caption{EMPLOYMENT LAW VIOLATIONS REPORTED BY RESTAURANT WORKERS}
\end{table}

\begin{table}[h]
\centering
\begin{tabular}{|c|}
\hline
79.5% Do not receive regular raises \\
74.5% Have never been promoted in current job \\
71.4% Did not move up in position from last job to the current job \\
61.8% Did not receive on-going job training needed to be promoted from employer \\
\hline
\end{tabular}
\caption{RAISES AND PROMOTIONS REPORTED BY RESTAURANT WORKERS}
\end{table}
A HISTORY

The custom of tipping began in Europe as a byproduct of servitude and noblesse oblige, or the obligation of nobility to show generosity towards social inferiors. Imported from Europe, tipping quickly grew roots in worker exploitation. The practice of tipping proliferated in the US after the end of the Civil War when the restaurant and hospitality industry, including Chicago’s Pullman Company’s luxurious sleeping cars, hired newly freed slaves and did not pay them a wage, but instead relied on customers and guests to pay them through tips. The effect was to create a permanent servant class, for whom the responsibility of paying a wage was shifted from employers onto customers. By the early 1900s, it was estimated that five million workers in the United States, more than 10 percent of the labor force, had tip-taking occupations. The subminimum wage emerged as another way to perpetuate economic subjugation and servitude of Black workers. The employer’s freedom to accumulate profit came at the cost of Black workers’ freedom to become financially stable and secure economic and social mobility.

BLACK TIPPED WORKERS’ ECONOMIC WELL-BEING

In Chicago, over 63 percent of tipped workers are people of color. One hundred and fifty years since Jim Crow, workers of color still toil under a wage structure that was not built for them or their families to achieve economic prosperity. Black workers bear the brunt of this wage structure. Tipped workers in general are forced to rely on tips — unpredictable, unstable, and arbitrary — to comprise the majority of their income. Black workers, however, receive less in tips than their white counterparts, even when their guest reviews have indicated they outperformed white tipped workers. This arbitrary and discriminatory wage structure leaves Black tipped workers living in poverty at nearly three times the rate of Chicago’s overall workforce (see Table 4). Even when working full-time and year-round twelve percent of Black tipped workers still live in poverty.

<table>
<thead>
<tr>
<th>TABLE 4</th>
<th>POVERTY BY OCCUPATION AND RACE</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEMOGRAPHIC</td>
<td>PERCENT IN POVERTY</td>
</tr>
<tr>
<td>Overall workforce</td>
<td>9.5%</td>
</tr>
<tr>
<td>Black tipped workers</td>
<td>27.6%</td>
</tr>
<tr>
<td>Black women tipped workers</td>
<td>32.1%</td>
</tr>
<tr>
<td>White tipped workers</td>
<td>18.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE 5</th>
<th>MEDIAN ANNUAL FULL-TIME YEAR-ROUND (FTYR) INCOME FOR TIPPED WORKERS IN CHICAGO</th>
</tr>
</thead>
<tbody>
<tr>
<td>TIPPED WORKER DEMOGRAPHICS</td>
<td>MEDIAN FTYR ANNUAL INCOME</td>
</tr>
<tr>
<td>Black women</td>
<td>$24,000</td>
</tr>
<tr>
<td>White women</td>
<td>$30,500</td>
</tr>
<tr>
<td>White men</td>
<td>$35,000</td>
</tr>
</tbody>
</table>
Black women in tipped occupations, over half of whom are heads of their households and nearly half of whom are mothers, fare even worse. They live in poverty at nearly 3.5 times the rate of the city’s overall workforce. Black women also experience a lifetime tax, earning less than both their female and male white counterparts (see Table 5). Black women tipped workers earn 69 cents on their white male counterparts’ dollar, creating a lifetime wage tax of $440,000, without accounting for inflation. When compared to white women, Black women earn 78 cents on their dollar and experience a lifetime wage tax of $260,000. The financial insecurity the subminimum wage creates is a pervasive issue for Black women, as they continue to be over-represented in service jobs. Nearly a third (28 percent) of Black women are employed in service jobs compared with just one-fifth of white women.

Subminimum wages also push Black women to access food support through SNAP at higher rates than Chicago’s general workforce (see Table 6). Nearly half of Black women in tipped occupations access SNAP, and almost a quarter of Black women working full-time and year-round in tipped roles are also pushed to access food support through SNAP.

Black women in tipped occupations are also seldom extended healthcare coverage through their employer; over 60 percent do not receive healthcare through their employer. This leaves tipped workers dependent on healthcare through Medicaid at higher rates than the city’s overall workforce and than their white counterparts. Black tipped workers access Medicaid at 3.4 times the rate, and Black women at 4.5 times the rate, of Chicago’s overall workforce (see Table 7).
A TALE OF TWO WAGE STRUCTURES

Black workers, and Black women in particular, bear the brunt of the industry’s dependence on subminimum wages, but this system is not a prerequisite for the industry to thrive. The restaurant industry is robust and continues to grow in the seven states that have One Fair Wage — requiring restaurants to pay a full minimum wage with tips on top: Alaska, Montana, Nevada, Minnesota, California, Oregon, and Washington. The city of Flagstaff, Arizona also passed a One Fair Wage ordinance. The experience of cities in One Fair Wage states indicate that the industry can afford to transition into a one-wage system. This case is even stronger when we compare the experience of industry and workforce in the major cities in those seven states with that in Chicago - especially since in each of those cities, a $15 minimum wage for tipped workers, with tips on top, was phased in over several years.29 Table 8 describes the phase-in of $15 and a the full minimum wage for tipped workers with tips on top. Like Chicago, Flagstaff began with tipped workers at a subminimum wage of $8.00, and has been gradually raising the minimum wage for tipped workers to the full $15 minimum wage for all workers.29

### Table 8
Municipalities that have passed bills to raise the minimum wage to $15 per hour

<table>
<thead>
<tr>
<th>Municipality</th>
<th>State Type</th>
<th>Starting Wage</th>
<th>Bill Passed</th>
<th>Amount Increase Per Year</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flagstaff*</td>
<td>Arizona - Two Tiered Wage State</td>
<td>Hourly minimum wage</td>
<td>$11.00</td>
<td>July 1, 2017</td>
<td>$1.00 per year for the first three years, then $2.00 until at minimum wage (or $2.00 above the State of Arizona minimum wage, whichever is higher)</td>
</tr>
<tr>
<td>Flagstaff*</td>
<td>Arizona - Two Tiered Wage State</td>
<td>Tipped minimum wage</td>
<td>$8.00</td>
<td></td>
<td>$1.00 per year until at full minimum wage</td>
</tr>
<tr>
<td>Minneapolis*</td>
<td>Minnesota - One Fair Wage State</td>
<td>Small business Fewer than 100 employees</td>
<td>$9.65</td>
<td>June 30, 2017</td>
<td>75¢ per year for the first three years, then $1.00 per year until at full minimum wage</td>
</tr>
<tr>
<td>Minneapolis*</td>
<td>Minnesota - One Fair Wage State</td>
<td>Large business Greater than 100 employees</td>
<td>$10.00</td>
<td></td>
<td>$1.25 the first year, then $1.00 per year until at full minimum wage</td>
</tr>
<tr>
<td>San Francisco*</td>
<td>California - One Fair Wage State</td>
<td>Starting wage</td>
<td>$12.25</td>
<td>Nov 4, 2014</td>
<td>75c per year for the first year, then $1.00 until at full minimum wage</td>
</tr>
<tr>
<td>Seattle*</td>
<td>Washington - One Fair Wage State</td>
<td>Schedule 1 employers More than 500 employees</td>
<td>$11.00</td>
<td>May 1, 2014</td>
<td>$2.00 per year until full minimum wage</td>
</tr>
<tr>
<td>Seattle*</td>
<td>Washington - One Fair Wage State</td>
<td>Schedule 2 employers Fewer than 500 employees</td>
<td>$11.00</td>
<td></td>
<td>$1.00 per year until full minimum wage</td>
</tr>
<tr>
<td>Seattle*</td>
<td>Washington - One Fair Wage State</td>
<td>Schedule 2 employers Fewer than 500 employees that pay medical or employ tipped workers</td>
<td>$10.00</td>
<td></td>
<td>$0.50 per year for the first four years, then $1.50 per year until at full minimum wage</td>
</tr>
</tbody>
</table>

Poverty is reduced by one-fifth for tipped workers of color in One Fair Wage cities, and by close to a third or more for both Black and White tipped workers (see Table 8). There is only a negligible difference in the poverty rate among the overall workforce between Chicago and other One Fair Wage cities. The poverty improvement for Black women is less robust, but the economic benefit can be clearly seen in the reduced dependence on food stamps among Black women in One Fair Wage cities, a quarter less than that of Black women in Chicago when taking into account the difference by the overall workforce (see Table 9 and 10).

There is a similarly robust difference in the health of the industry when measured by establishment and employment growth. Full service restaurant establishments in major One Fair Wage cities have grown by 17.4 percent, compared to growth of 5.5 percent in Chicago since 2011 (see Figure 3). Full service restaurant establishments have grown over three times as fast in major One Fair Wage cities compared to Chicago since the turn of the decade. Employment has also grown at a faster pace in One Fair Wage cities. In the same time period since 2011, employment in full service restaurant establishments has grown by 24.6 percent in One Fair Wage cities compared to 16.1 percent in Chicago (see Figure 4).
CONCLUSION

Tipped workers in Chicago toil under a wage system that denies them stable earnings, and workers of color and Black tipped workers in particular bear the brunt of Chicago’s continued dependence on the subminimum wage. Meanwhile, cities in One Fair Wage states and Flagstaff have adopted an equitable system in which all restaurant workers earn a complete wage, with tips supplementing earnings, with greatly reduced poverty rates for workers of color. In those cities, both full service restaurant establishments and employment have grown at a much faster pace than under Chicago’s outdate subminimum wage regimen. One Fair Wage leads to a healthier economy, industry, and workforce.
1 Restaurant Opportunities Centers United (ROC United) analysis of Bureau of Labor Statistics Quarterly Census of Employment and Wages, number of establishments for NAICS 722 Food Services and Drinking Places in Chicago-Naperville, IL-IN-WI. Retrieved from: https://data.bls.gov/cgi-bin/srgate


5 See supra note 3.


7 See supra note 3.


9 Ibid.

10 Ibid.

11 Ibid.

12 Ibid.


18 Ibid.

19 See endnote 17, P. 754.


21 See supra note 8.

22 Ibid. Based on calculation for workers who are working full-time, 40 hours per week, year-round.

23 See supra note 8.

24 Ibid.

25 Ibid.

26 Ibid.


28 See supra note 8.


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