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POLICY BRIEF

RAISE THE WAGE ACT

THE RAISE THE WAGE ACT WOULD:

- ✓ Hurt small and independent businesses
- ✓ Lead to dramatic job cuts
- ✓ Trigger higher consumer costs
- ✓ Hit an industry still reeling from COVID-19
- ✓ End tipping preferred by consumers and servers

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POLICY OVERVIEW

The National Restaurant Association opposes the Raise the Wage Act of 2021 because it would raise the federal minimum wage from the current \$7.25 to \$15 per hour over five years and eliminate the tip credit for tipped employees.

The restaurant industry needs time to recover, but at the same time, the National Restaurant Association and its members are ready to have a conversation about a balanced way to address wage levels in the foodservice industry and the unique impact any change would have on the economic recovery of its workers and restaurant operators.

THE BILL HURTS RESTAURANTS, COMMUNITIES, AND CONSUMERS

Small businesses cannot easily absorb a dramatic labor cost increase and higher wages would lead to employers cutting back on worker hours and/or eliminating positions. When labor costs climb, employers in labor-intensive industries like restaurants are forced to raise prices to maintain profitability, thereby driving up consumer costs.

The bill poses an impossible challenge for small and family-owned businesses that already operate on slim profit margins of 3%-5%.

RESTAURANTS ARE ALREADY SUFFERING

These economic consequences would slam restaurants at a time when the industry is already facing unprecedented revenue and job losses because of the COVID-19 pandemic. Currently:

- Restaurants are **still down 2 million jobs** (or 16%) below the pre-coronavirus level
- **110,000 restaurants are closed** permanently or long-term
- In the first 12 months of the pandemic, **restaurant and foodservice sales are down \$270 billion** from expected levels

On March 5th, the Senate voted—on a strong bipartisan basis—against an amendment to include the Raise the Wage Act in the American Rescue Plan (COVID-19 relief bill). Several senators, who support a minimum wage increase, recognized that the Raise the Wage Act is the wrong approach.

RAISE THE WAGE ACT

ENDING TIP CREDIT HURTS WORKERS

The Raise the Wage Act also eliminates the tip credit, which tipped workers have been fighting to maintain.

Restaurant operators pay tipped employees a base hourly wage to which the tip amount the employee makes is added. If this combined wage is not equal to the required hourly minimum wage, the restaurant operator is required by law to make up the difference (note that 29 states and 55 municipalities already have a minimum wage that supersedes the federal minimum wage).

Tipped restaurant employees on average make between \$19-\$25/hour. No tipped employee ever makes less than the required minimum wage.

If the tip credit is removed, many restaurants will eliminate tipping and move to an hourly wage system. Employees who were traditionally tipped would have far less earning potential, and restaurants would be forced to reduce employee hours or operate with fewer employees to manage the higher hourly wage costs.

Recent attempts to eliminate the tip credit in Chicago, Maryland, D.C., Michigan, Virginia, New Mexico, and Maine were soundly defeated after many tipped workers spoke out about why they prefer the tip credit system.

Although the Raise the Wage Act mandates that tipped and non-tipped workers be paid the same minimum wage, it does not give operators the ability to require tip “pooling” where tips are shared between those who traditionally receive them (servers) and those who do not (kitchen staff), effectively removing an established means to minimize disparity.

DIG DEEPER: WHAT ECONOMISTS SAY

A [January 2021 report](#) from the nonpartisan Congressional Budget Office notes that a \$15 federal minimum wage hike **could trigger as many as 2.7 million job losses, force 700,000 workers out of the labor force, and reduce employment opportunities for the young and less educated.**

It also points out that such a hike **increases labor costs, raises costs for consumers, increases automation, raises health care costs, slows overall economic investment, and would increase the federal deficit by \$54 billion.**