


Decline in Open Hospitality Businesses Due to COVID-19

A State-By-State Analysis

February 2021



CLOSED
DUE TO
CORONA
VIRUS

THE BIDEN HARRIS ADMINISTRATION has included in their \$1.9 trillion COVID relief package tens of billions in small business restaurant relief and the Raise the Wage Act, a bill that already passed the US House of Representatives in 2019 and proposes to raise the minimum wage to \$15 an hour and phase out the subminimum wage for tipped workers, currently \$2.13 an hour at the federal level.¹ The COVID relief package includes multiple sources of restaurant owner relief: \$15 billion in small business relief; the FEED Act, providing specific support to restaurants that commit to providing meals;² and an additional \$25 billion in grant funding for restaurants specifically, which can be renewed in future cycles.³ Economists and advocates alike are noting that this large relief package for restaurant owners needs to be coupled with relief for restaurant workers to help these small business restaurants survive.⁴ For its part, the National Restaurant Association has claimed that small business restaurants cannot bear the burden of paying a full minimum wage for tipped workers during the pandemic, and that phasing out the subminimum wage for tipped workers would cause small business restaurants to close. However, new data outlined in this brief on the rates of decline in open small businesses do not corroborate these claims. In fact, data show that:

- 1 On the whole, the seven states that have fully eliminated the subminimum wage for tipped workers (CA, OR, WA, NV, MT, MN, AK) have had, on average, almost exactly the same rate of decline in open hospitality businesses as states with a subminimum wage;**
- 2 The five states with the highest rates of decline in open hospitality businesses are all states with a subminimum wage; and**
- 3 The majority of states with One Fair Wage – a full minimum wage for tipped workers with tips on top – have had rates of decline in open businesses in the hospitality industry that are less than the median rate of decline in open businesses for all states nationwide.**

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BACKGROUND

The subminimum wage for tipped workers, currently \$2.13 an hour, is a direct legacy of slavery.⁵ Prior to the pandemic, the subminimum wage for tipped workers forced a workforce that is nearly 70% women to live off the vagaries of customer tips, causing economic instability, racial inequity, and sexual harassment.⁶ With the pandemic, the subminimum wage became life-threatening. A majority of workers reported that tips declined more than 50%, and that they could not enforce

social distancing and mask rules, as they were asked to do, on the same customers from whom they received tips. Worst of all, 41% of workers reported that sexual harassment went way up during the pandemic, and hundreds of women reported that male customers asked them to remove their masks to judge their looks and their tips on that basis.⁷

Seven states – CA, OR, WA, NV, MT, MN, AK – have rejected this legacy of slavery and require a full minimum wage with tips on top. Contrary to the messaging of the National Restaurant Association, these 7 states have had higher restaurant industry job growth rates and small business growth rates than the states with a subminimum wage of \$2.13 an hour for tipped workers.⁸ From 2011-2016, full service restaurant employment grew by 20.4 percent in states with a full minimum wage with tips on top, but only grew by 16.37 percent during the same time period in states with a subminimum wage for tipped workers of \$2.13 an hour. States with subminimum wages higher than \$2.13 an hour, like New York, generally did not have higher employment growth rates than the seven states that require a full minimum wage with tips on top; even New York, which has one of the highest subminimum wages for tipped workers, grew by 20.13 percent.⁹ Similarly, restaurant establishment growth in these seven states has been equal or higher than the states with a subminimum wage for tipped workers. From 2011-2016, full service restaurants in the seven states that require a full minimum wage with tips on top grew by 9.44 percent, compared to 8.8 percent in states that require tipped workers to be paid only \$2.13 an hour, and 4.88% in New York.¹⁰

TABLE 1

Percentage Decline in the Number of 'Leisure & Hospitality' Businesses Open, January 2020–January 2021, Ordered by Rate

States with full minimum wage for tipped workers

27.7%	Idaho	47.4%	Colorado	52.4%	Indiana
35.6%	New Hampshire	47.7%	North Dakota	52.5%	Oregon
36.7%	Utah	47.8%	Kansas	53.5%	Texas
37.0%	Missouri	48.4%	Iowa	53.5%	Georgia
38.4%	Nebraska	48.7%	Nevada	53.6%	New Jersey
39.6%	Arkansas	49.5%	South Carolina	54.2%	Illinois
40.7%	Kentucky	49.8%	Minnesota	54.5%	Hawaii
41.7%	Tennessee	49.9%	Virginia	55.7%	New York
42.7%	Montana	50.1%	Florida	56.1%	Oklahoma
43.1%	Wyoming	50.4%	Maryland	57.5%	Louisiana
43.3%	North Carolina	50.5%	Arizona	57.6%	Alaska
43.6%	South Dakota	50.6%	Pennsylvania	57.8%	Massachusetts
43.9%	Alabama	50.7%	Ohio	58.1%	Connecticut
44.5%	Vermont	51.5%	Mississippi	61.2%	Rhode Island
45.8%	Washington	51.8%	Delaware	61.5%	New Mexico
46.4%	Wisconsin	52.1%	California	65.0%	Michigan
47.2%	West Virginia	52.3%	Maine	71.7%	District of Columbia

Source: Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team, Opportunity Insights Economic Tracker, Accessed February 2021

This brief examines new data on how all states fared with regard to small business closures during the pandemic, published by Professor Raj Chetty of Harvard University, along with John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. The Team analyzed open small business data in several different sectors based on raw numbers that they obtained from Womply, “a company that aggregates data from several credit card processors to provide analytical insights to small businesses and other clients.”¹¹ The Opportunity Insights Team analyzed decline in the number of open businesses for each of several sectors in each state from January 2020 to January 2021. The data does not indicate whether the decline in open small business are temporary or permanent — it simply quantifies the number of open small businesses in a given time period. We examined their data for ‘Leisure & Hospitality’ businesses open during this period in each state.

KEY FINDINGS

While the reason for hospitality businesses being open or not may vary widely, including lack of revenue, state COVID restrictions, and other factors, on the whole, data regarding the decline in open businesses measured by state do not demonstrate that a full minimum wage for tipped workers has resulted in a greater decline in open small businesses.

- 1 On the whole, paying tipped workers a full minimum wage with tips on top has not resulted in higher rates of decline in open hospitality businesses.** The mean rate of decline in open businesses between January 2020 and January 2021 for the seven states that require a full minimum wage for tipped workers with tips on top (CA, OR, WA, NV, MT, MN, AK — all highlighted in Table 1) is 49.9%, and the mean rate of decline in open hospitality businesses for the other 43 states that allow a subminimum wage for tipped workers is 49.4% — almost exactly the same. Some of these seven states have had the greatest COVID restrictions of almost any state, but still have not experienced greater decline in open hospitality business rates than other states.
- 2 The 5 states with the highest rate of decline in open hospitality businesses during the pandemic in the ‘Leisure & Hospitality’ sector are all states with a subminimum wage for tipped workers — see Table 2.**

TABLE 2

States with Highest Rate of Decline in ‘Leisure & Hospitality’ Businesses, January 2020 - January 2021

	Subminimum Wage for Tipped Workers	Rates of Decline in Number of Open Businesses
Michigan	\$3.67	65.0%
New Mexico	\$2.55	61.5%
Rhode Island	\$3.89	61.2%
Connecticut	\$6.38	58.1%
Massachusetts	\$5.55	57.8%

TABLE 2

Comparisons of Similarly Situated States’ Rates of Decline in Open ‘Leisure & Hospitality’ Businesses Rates, January 2020 - January 2021

States with a rate of decline in open businesses that is less than the median of all states are in orange.

One Fair Wage State	Rates of Decline in Number of Open Businesses	Subminimum Wage State	Rates of Decline in Number of Open Businesses
Montana	42.7%	West Virginia	47.2%
Nevada	48.7%	Arizona	50.5%
Minnesota	49.8%	Maine	52.3%
Washington	45.8%	Delaware	51.8%
California	52.1%	New York	55.7%

Source: Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team, Opportunity Insights Economic Tracker, Accessed February 2021.

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3 The majority of One Fair Wage States (4 out of 7) have a rate of decline in open hospitality businesses that is less than the median rate of decline of such businesses for all states, and less than the majority of all states' rate of decline in open businesses in the 'Hospitality and Leisure' sector. Data in the table shows that in pairing these four states (highlighted in yellow below) with business open rates of less than the median to states with comparable populations, rural/urban spread, and political dynamics, states with a subminimum wage have higher rates of decline than comparable states with One Fair Wage — a full minimum wage with tips on top.



Dave Cooper of the Economic Policy Institute has outlined why rates of decline in open hospitality businesses may actually be less in states with higher minimum wages for low-wage workers like tipped workers — even during the pandemic. “Workers who benefit from an increased minimum wage disproportionately come from low-income households that spend a larger share of their income than business owners, corporate shareholders, and higher-income households, who are likely to save at least some portion of the dollars that finance a minimum wage hike. As a result, raising the minimum wage boosts overall consumer demand, with research showing that past raises have spurred greater household buying, notably on dining out and automobiles... Because a higher minimum wage lifts up lower-income households—although some middle-income households benefit, too — it is

likely to have a stronger effect than many — possibly even most — other recession response measures state and local policymakers might consider. Tax breaks or deferrals, rent subsidies, expanded lending programs, and other business-oriented relief measures all can help firms weather a downturn, but they’re not going to drive additional spending in the same way that a minimum wage hike does.”¹² Thus, instead of closing small businesses at higher rates, data from the Opportunity Insights Economic Tracker demonstrate that states with a full minimum wage for tipped workers with tips on top can have the same or lower rates of decline in open businesses — perhaps at least in part because workers in those states have been able to continue to support small businesses in hospitality in their neighborhoods even during the pandemic.

1 Jacobson, Louis. What’s in Joe Biden’s \$1.9 trillion American Rescue Plan? (January 2021). PolitiFact, <https://www.politifact.com/article/2021/jan/15/whats-joe-bidens-19-trillion-american-rescue-plan/>.

2 *Ibid.*

3 Gwizdala, Michael. “Schumer Visits Capitol Region to Tout Restaurant Relief,” *The Record*, Feb 15, 2021.

4 Cooper, Dave, “Now is Still a Good Time to Raise the Minimum Wage,” Economic Policy Institute blog post, June 24, 2020.

5 Testino, Laura, “Fact check: Tipping began amid slavery, then helped keep former Black slaves’ wages low,” *USA Today*, December 16, 2020.

6 One Fair Wage, UC Berkeley Food Labor Research Center, ‘A Persistent Legacy of Slavery: Ending the Subminimum Wage for Tipped Workers as a Racial Equity Measure’, August 2020.

7 One Fair Wage, UC Berkeley Food Labor Research Center, Professor Catharine MacKinnon, Professor Louise Fitzgerald, Barry Commoner Center for Health and the Environment, City University of New York, ‘Take Your Mask Off So I Know How Much to Tip You: Service Workers’ Experiences of Health and Harassment During Covid-19’, December 2020.

8 Restaurant Opportunities Centers United, “Better Wages, Better Tips: Restaurants Flourish With One Fair Wage,” 2018.

9 *Ibid.* 2011-2016 data for 722511 number of workers in Michigan, New York, \$2.13 states (hereby referred to as \$2.13 states)- Alabama, Georgia, Indiana, Kansas, Kentucky, Louisiana, Mississippi, Nebraska, New Jersey, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia, Wyoming, and one fair wage states (hereby referred to as OFW States) Montana, Minnesota, Alaska, California, Washington, Oregon, Nevada. Bureau of Labor Statistics. Quarterly Census of Employment and Wages. Available at: <https://data.bls.gov/cgi-bin/srgate> (accessed by the Restaurant Opportunities Centers United 2/5/2018).

10 *Ibid.* 2011-2016 data for 722511 number of establishments in Michigan, New York, \$2.13 states, and OFW states. Bureau of Labor Statistics. Quarterly Census of Employment and Wages. Available at: <https://data.bls.gov/cgi-bin/srgate> (accessed by the Restaurant Opportunities Centers United 2/5/2018).

11 Chetty, R., Friedman, J., Hendren, N., Stepner, M., and the Opportunity Insights Team. (November 2020). The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data. Harvard University. <https://opportunityinsights.org/wp-content/uploads/2020/05/tracker-paper.pdf>.

12 Cooper, Dave, “Now is Still a Good Time to Raise the Minimum Wage,” Economic Policy Institute blog post, June 24, 2020.