



The Daily Dish

Will DC Tip the Scales Against Waiters?

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Eakinomics: Will DC Tip the Scales Against Waiters?

Today District of Columbia voters go to the polls to decide a ballot referendum as to whether by 2026 “tipped workers” will be paid the full minimum wage (currently slated to rise to \$15 per hour by 2020 in DC). “Of course they should,” you might think. But as AAF’s Ben Gitis [pointed out](#) long ago, it is not quite that simple.

Under the Fair Labor and Standards Act (FLSA), all workers must earn at least the federal minimum wage. However, a firm can classify workers who receive more than \$30 per month in tips as “tipped employees.” Tipped employees get a “tip credit” that is, essentially, an estimate of how much he or she will get in tips per hour. Employers have to pay the remainder in cash wages. To make the math simple, suppose the minimum wage is \$15 per hour and the tip credit is \$7 per hour. The employers have a *de facto* minimum wage of \$8 in cash per hour for tipped employees.

Now here is the catch: If actual tips don’t amount to \$7 per hour, the employer has to make up the difference so that the employee gets the full \$15 per hour. Again, to make things concrete, suppose actual tips are only \$5 per hour. The employer has to shell out the initial \$8 plus \$2 so that the combined tips (\$5) and employer cash (\$10) meet the minimum wage.

This simple example reveals three important points.

1. The debate on tipped minimum wage often leaves the false impression that tipped workers are subject to a lower pay. This is wrong, as employers must make up the difference if tips fall short.
2. Eliminating the tipped credit and paying the full minimum wage does not help the workers. They are already making minimum wage. Indeed, if businesses stop accepting tips, there is the small chance that some workers who received tips in excess of the \$15 minimum will make less.
3. Eliminating the tipped credit raises the costs for employers — from \$10 per hour to \$15 per hour in my example. Employers will respond negatively to these additional costs by cutting jobs, reducing hiring, raising prices, and going out of business. Restaurants with their staffs of tipped waiters are especially vulnerable, which means the waiters themselves are in the economic crosshairs.

Taken at economic face value, the referendum should fail. But the same [economic logic](#) was also in play as state after state, and city after city, has passed laws and ballot initiatives for a higher minimum wage. So all bets are off.