POLICYBRIEF
OCTOBER 2024

Potential Impacts of a Full Minimum Wage for Tipped Workers in Massachusetts

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This November, Massachusetts voters will consider a ballot measure that proposes to eliminate the state's subminimum wage for workers who receive at least $20 of their monthly earnings in tips.[2] These tipped workers are often waiters, bartenders, hosts, and bussers employed in bars and restaurants. Currently, Massachusetts law allows employers to pay tipped workers a base rate (or "service rate") of $6.75 per hour, and tips from customers are supposed to cover any gap between $6.75 and the state's full minimum wage of $15.00. If tips do not cover the difference, employers are obligated to pay the shortfall, bringing the worker up to $15.00 for that shift. The ballot proposal will gradually eliminate the subminimum wage so that by 2029, Massachusetts employers will be required to pay tipped workers the full Massachusetts minimum wage. If Massachusetts eliminates its subminimum wage, it will join eight other states and two major cities that do not have a lower tier minimum wage for tipped workers or are in the process of eliminating their lower tier.[3]

Proponents of this proposal argue that eliminating the subminimum wage for tipped workers would improve the job quality of tipped occupations.[4] Even while Massachusetts law requires employers to make up any shortfall between a tipped worker's base wage plus tips and the full minimum wage, tipped workers often carry the burden of asking their employers to do so. This feature makes them particularly vulnerable to being under-paid, a form of wage theft. Proposal proponents argue that requiring employers to pay their tipped workers a full minimum wage would help reduce wage violations and improve workers' pay.

Opponents of this proposal argue that the stronger labor standard could backfire for tipped workers in two important ways.[5] First, customers may respond to the policy change by reducing their tips. This could result in tipped workers earning less than before, even while being paid the full minimum wage. Second, opponents worry that the stronger labor standard would substantially increase business

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costs for restaurants, in particular, and as a result these businesses would adjust by significantly raising their prices and/or cutting jobs.

In this brief, we describe the Massachusetts workers who will be directly affected by eliminating the subminimum wage and consider the existing evidence on how this policy change could impact job quality, employment, business costs, and prices.

Key findings:

- *Tipped workers are*:
  - Approximately 3.3% of employed workers in Massachusetts, or about 123,400 workers.
  - Disproportionately women, making up 66% of tipped workers compared to 49% for the overall Massachusetts workforce.
  - Typically younger than workers in the overall Massachusetts workforce: 15% are teenagers compared to 4% of the overall workforce. At the same time, the vast majority of tipped workers are not teenagers (85%).
  - Often parents; one in three (33%) tipped workers are raising children in their homes.
  - Disproportionately Black, Indigenous, and people of color, making up 43% of tipped workers. This compares to 29% among Massachusetts workers overall.
  - Divided roughly in half between part-time workers (52%) and full-time workers (48%).
  - Nearly half (48%) of all tipped workers—59,400 workers—work in restaurants and hotels.

- *The Restaurant and Hotel industry is among the worst offenders for workplace complaints and violations, compared to all other industries.* Despite accounting for only 5.6% of employment in Massachusetts in 2023, the Restaurant and Hotel industry had:
  - The highest overall number of complaints, 941, accounting for 13.9% of all complaints made by workers to the Massachusetts Attorney General's Office.
  - The highest number of complaints regarding tips (238), minimum wage (125), and non-payment of wages (500), accounting for 72% of tip complaints, 29% of minimum wage complaints, and 13% of non-payment of wage complaints.
  - The highest number of enforcements, 287, accounting for 36.5% of all enforcements issued the Attorney General's Office.
  - The fourth highest dollar amount in penalties, amounting to $2.6 million. This penalty level relative to the industry's payroll is double the average rate across all Massachusetts' businesses.

- *The average tipped worker earns low wages*.
  - Including the base rate and tips, the average tipped worker earns an hourly wage that is about 35% below the statewide average ($20.30 vs. $31.50, respectively).
  - At this average rate, a tipped worker employed full-time year-round will nearly, but not quite, meet the basic budget needs of a single adult with no dependents in a low-living-cost area such as Hampden County.
  - Tips are a critical source of income: about 37% of the average tipped worker's earnings are from tips ($7.50 in tips compared to the average base rate of $12.80).

- *Current wage data indicate that tipped workers in states with no subminimum wage (i.e., equal treatment states) earn about 10% to 20% more in wages and tips than tipped workers in states with subminimum wages.*
  - Tipped workers appear to earn more in equal treatment states than tipped workers in subminimum wage states, even after accounting for the fact that workers *overall* in equal treatment states earn 5% to 10% more than workers in states with subminimum wages.

- *Eliminating the Massachusetts subminimum wage would likely result in a modest cost increase for the average Massachusetts restaurant, equal to about 2% of its sale revenue.*
  - An average Massachusetts restaurant could cover a cost increase of this size by raising

its prices by around 2%, i.e., a $50 restaurant meal would increase by $1, to $51. This finding suggests that eliminating the Massachusetts subminimum wage is unlikely to produce significant price increases or negative employment effects.

WHO ARE TIPPED WORKERS?

In Massachusetts, there are about 123,400 workers who are employed in tipped occupations.[6] As Table 1 shows, women are over-represented in tipped occupations, representing 66 percent--nearly 2 out of 3 tipped workers--even though they make up just under half the Massachusetts workforce. Roughly half (48%) work full-time and about one in three tipped workers (33%) are parents raising children in their homes. Tipped workers tend to be younger than the total Massachusetts workforce, with 15% in their teenage years compared to 4% across all Massachusetts workers. At the same time, the large majority of tipped workers—85%—are not teenagers. Black, Indigenous, and people of color (BIPOC) are over-represented in tipped occupations, making up 43% of tipped workers compared to 29% of the overall Massachusetts workforce.

TABLE 1: Demographic Profile of Workers in Massachusetts

Demographic Characteristics	All Workers	Tipped Workers	Tipped Workers in Hotels, Bars, and Restaurants
Number of Workers (% Employed Workers)	3.7 million (100%)	123,400 (3.3%)	59,400 (1.6%)
% Women	49.1%	65.5%	74.4%
% Full-Time	81.2%	47.8%	31.7%
% Parents	42.6%	32.9%	18.1%
% Teenager (15-19 years old)	3.8%	14.6%	25.0%
Racial and Ethnic Composition			
% White (non-Latinx)	70.9%	56.7%	66.3%
% Latinx	11.6%	20.4%	20.8%
% Black (non-Latinx)	8.4%	11.9%	3.8%
% Asian, Indigenous, and Other (non-Latinx)	9.1%	11.0%	9.1%
Average (Median) Hourly Wages	$31.50	$20.30* (without tips: $12.80)	$21.70* (without tips: $12.30)

Source: Current Population Survey (CPS), see Appendix for details. Note: *Wage estimates are limited to workers who specifically report tips.

Nearly half (59,400) of tipped workers are employed in hotels, bars, and restaurants. As a result, these workers have a demographic profile similar to all tipped workers. At the same time, there are notable differences. Hotel and restaurant tipped workers are even more likely to be women (74%) and fewer work full-time or are parents.[7] Additionally, these workers tend to be younger: one in four tipped workers in hotels and restaurants are teenagers. Compared to tipped workers in other sectors, a higher share of hotel and restaurant tipped workers are White and a much lower share is made up of Black workers specifically. This higher share of White workers in "front-of-house" (e.g., tipped waitstaff) restaurant positions is consistent with the findings of other studies of the restaurant industry.[8]

Table 1 also shows that the average (median) wage of tipped workers, across sectors or within the restaurant and hotel industry specifically, earn relatively low pay. The average tipped worker earns, including tips, in the range of $20.00 per hour. This average wage is more than 30% less than the average $31.50 hourly wage among all workers in Massachusetts.

These workers' ability to make ends meet critically depend on their tips. Consider the situation of a full-time year-round tipped worker with the average wage of $20.30, including tips. This worker would earn about $42,200 annually, almost meeting the $43,600 basic budget needs of single adult with no dependents living in one of lowest living cost areas in the state, Hampden County.[9] Tips represent a large share—about 37%—of the average tipped worker's earnings.[10]

WORKPLACE VIOLATIONS AND WAGE THEFT

Proponents of eliminating the tipped wage argue that tipped workers are particularly vulnerable to workplace violations like wage theft because these workers must rely on customer tips and employer actions to fill the gap between the subminimum and full minimum wage. Workplace violations are when employers break employment and labor laws, inadvertently or not. They include illegal acts such as underpaying workers (known as wage theft), employing child labor, withholding sick time, not providing break time, and misclassifying workers as independent contractors. To assess claims that tipped workers are vulnerable to mistreatment, we analyze 2023 government data from the Massachusetts Attorney General's Fair Labor Division on workplace complaints and enforcements.[11]

Workplace violations are difficult to measure systematically. Researchers have taken two main approaches to studying labor violations. The most common approach is to survey workers about their experiences at work. Studies using this method show two main trends. First, workplace violations are widespread, especially in low wage jobs. One large 2013 study of low wage workers in America's three largest cities finds that violations are "pervasive across low-wage industries and occupations," reporting that roughly a quarter of sampled workers experienced wage theft, over two-thirds were not provided adequate meal breaks, and among tipped workers, 29 percent were paid less than the tipped minimum wage.[12] The economic impacts of widespread wage theft appear substantial: a 2017 report from the Economic Policy Institute estimated that workers lost $15 billion in wages that they were legally owed.[13] Second, these studies find that workers in more precarious positions, such as low wage, subcontracted workers, and immigrant workers, are most likely to experience violations.[14] A handful of survey studies focus on the restaurant industry specifically and find substantial issues in the industry.[15]

An alternative approach to studying labor violations is to use official government data on complaints made by workers and enforcements issued by authorities.[16] This approach is useful in that it captures a range of industries over time and includes enforcements as well as complaints. However, it has a significant downside: these data

undercount actual violations. There are several reasons that workers may not file complaints. Aggrieved workers may not have knowledge of labor laws and their rights. They may not have the time or resources to file complaints. They may believe the system to be ineffective or they may fear retaliation from their employer. In addition, employers may be reluctant to admit wrongdoings and labor agencies may not have sufficient resources to investigate. Because of these issues, complaint data should be considered the "tip of the iceberg"— a sign of what may lay beneath the surface in various industries.

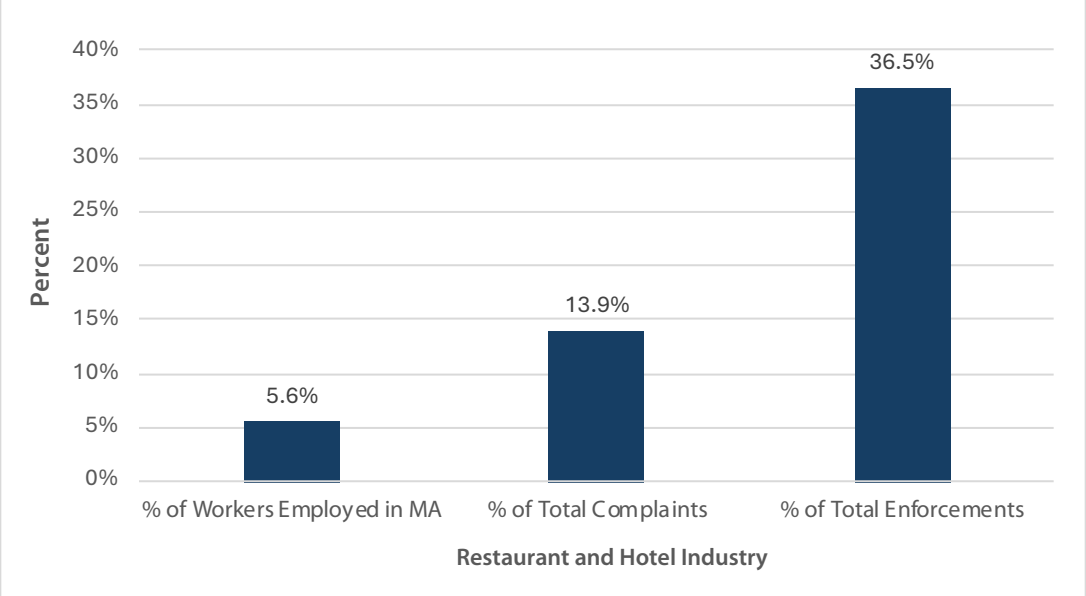
Our strategy is to analyze Massachusetts complaint and enforcement data from the Attorney General's Fair Labor Division. These data include information about each complaint they receive, including industry and type of complaint. The data also report enforcements, which are when investigations produce evidence of violations, and their associated penalties.[17] We focus on the Fair Labor Division's "Restaurant and Hotel industry" because it is where tipped workers are most commonly employed.[18] Among Restaurant and Hotel industry workers, 28% are tipped workers (59,400 workers).[19]

We find that the Restaurant and Hotel industry is among the worst offenders for workplace violations, compared to all other industries. In addition, it has disproportionately high rates of enforcements compared to its employment levels.

In 2023, workers filed 6,762 complaints and the Attorney General's Fair Labor Division issued 786 enforcements and $30 million in fines. Of all industries, the Restaurant and Hotel industry had the highest number of complaints (941) and the highest number of enforcements (287).

Employment numbers provide important context to these numbers, since one might expect industries with a large workforce to have relatively more complaints. The Restaurant and Hotel industry accounts for 5.6% of all employment in Massachusetts, or about 208,800 workers out of 3.7 million employed workers in Massachusetts.[20] Yet, it accounts for nearly 14% (941 out of 6,792) of all complaints and 37% (287 out of 786) of all enforcements. In other words, as Figure 1 shows, the Restaurant and Hotel industry has disproportionately high levels of complaints and enforcements relative to its share of employment.

FIGURE 1: Percent of Workers Employed, Complaints, and Enforcements in the Massachusetts Restaurant and Hotel industry



Next, we assess the *types* of complaints that Massachusetts workers lodged in 2023. We ask: to what extent are wage theft related complaints located in the Restaurant and Hotel industry? The online complaint system asks workers to select the reason for their complaint.[21] We focus on categories that are most relevant to wages, specifically the categories of minimum wage, tips, and non-payment of wages. The dataset allows workers to select multiple categories, such as complaints that involve both minimum wage and tip issues.

Table 2 presents the top 10 industries with the most complaints. The Restaurant and Hotel industry leads complaints with 14% of all complaints. It is followed by Hospital, Nursing Home, and Healthcare (13%); Services (12%); Retail and Sales (11%), and Construction (10%).

Compared to other industries, the Restaurant and Hotel industry has the most complaints that involve several forms of wage theft— tips, minimum wage, and general non-payment of wages. Tip complaints concern issues with tip pool violations. By law, tips must go to the establishment's service employees; they are not allowed to be distributed to employers, managers, or employees that do not directly service patrons. As a site of tip culture, it is not surprising that the Restaurant and Hotel industry accounts for 72% of all tip complaints, or 238 complaints out of a total of 332 tip complaints in 2023. While the data do not disclose the exact nature of the tips complaints (e.g., were tips distributed to managers or back of the house employees), we can say that no other industry comes close to having this level of tips complaints.

The Restaurant and Hotel industry also has disproportionately high numbers of minimum wage complaints, which usually involves workers being paid less than the legal minimum wage. The Restaurant and Hotel industry accounts for 29% of the 434 total minimum wage complaints. The second highest industry, Retail and Sales, is far lower, with 12% of minimum wage complaints.

TABLE 2: Number and Percent of Total and Earnings Complaints in 2023, Top Ten Industries

Industry	Total Complaints	Tip Complaints	Minimum Wage Complaints	Non-Payment of Wages Complaints
Restaurant/Hotel	941 (14%)	238 (72%)	125 (29%)	500 (13%)
Hospital/Nursing Home/Healthcare	881 (13%)	0 (0%)	18 (4%)	494 (12%)
Services	824 (12%)	20 (6%)	35 (8%)	486 (12%)
Retail/Sales	737 (11%)	35 (11%)	54 (12%)	435 (11%)
Construction	655 (10%)	0 (0%)	28 (7%)	352 (9%)
Transportation/Delivery	477 (7%)	7 (2%)	31 (7%)	281 (7%)
Technology/Biotech	294 (4%)	0 (0%)	10 (2%)	215 (5%)
Government	267 (4%)	0 (0%)	8 (2%)	156 (4%)
Child Care/Education	229 (3%)	0 (0%)	8 (2%)	142 (4%)
Manufacturing/Food Processing	181 (3%)	1 (<1%)	4 (1%)	100 (3%)
Grand Total	**6,762 (100%)**	**332 (100%)**	**434 (100%)**	**3,969 (100%)**

Note: Rounded to the nearest percent.

The largest category of complaints from Restaurant and Hotel workers is for non-payment of wages, with 500 complaints accounting for 13% of all non-payment complaints. Several other industries had similarly high levels of non-payment. Finally, we note that the Restaurant and Hotel industry has relatively fewer complaints in other categories, such as independent contractor misclassification or sick leave (not presented in Table 2). In sum, we see evidence that forms of wage theft— through tips, minimum wage, and non-payment— appear to be present in the Restaurant and Hotel industry.

Lastly, we consider enforcements more closely and the fines associated with them. The Fair Labor Division does not investigate every complaint and enforcements do not capture all violations.[22] The dollar amount of fines depends on multiple factors that are violation and industry specific. Despite these limitations, enforcements and fines provide a glimpse into where violations may be accruing. As we noted above and show in Table 3, the Restaurant and Hotel industry has the highest number of enforcements, making up a share of enforcements (37%) that is disproportionate to the industry's nearly 6% share of employment. This enforcement number is particularly meaningful because complaints, alone, are only suggestive of violations. Enforcements occur when investigations find evidence of violations. Other industries with substantial numbers of enforcements are Construction (19%), Services (9%), and Retail/Sales (7%).

Finally, the Restaurant and Hotel industry has the fourth highest dollar amount in fines, $2.6 million, following Retail and Sales; Entertainment and Gaming; and Transportation and Delivery This amount is small compared to the total annual wages in the Restaurant and Hotel industry, which is over $10 billion. However, it is more than double the average fine rate for all employers across Massachusetts.[23]

TABLE 3: Enforcements and Fines by Industry in 2023, Top Ten Industries

Industry	# of Enforcements	Total Fines $
Restaurant/Hotel	287 (37%)	$2,624,027.14
Construction	151 (19%)	$2,373,774.77
Services	67 (9%)	$603,421.56
Retail/Sales	53 (7%)	$7,687,580.68
Staffing/Temp Agency	28 (4%)	$1,439,615.13
Cleaning/Janitorial	27 (3%)	$139,096.88
Hospital/Nursing Home/Healthcare	24 (3%)	$178,752.51
Manufacturing/Food Processing	23 (3%)	$710,659.87
Entertainment/Gaming	20 (3%)	$7,047,780.05
Salons (Nail and Hair)	19 (2%)	$71,433.33
Grand Total	**786 (100%)**	**$30,399,394.23**

Note: Rounded to the nearest percent.

IMPACT ON TIPPED WORKERS' EARNINGS

Opponents of policies that eliminate the subminimum wage are concerned that such a policy change will cause customers to stop tipping and consequently, reduce tipped workers' earnings. Proponents of eliminating the subminimum wage argue that such a policy change will improve, not reduce, tipped workers' pay by making their earnings more reliable and less vulnerable to the bias of customers.

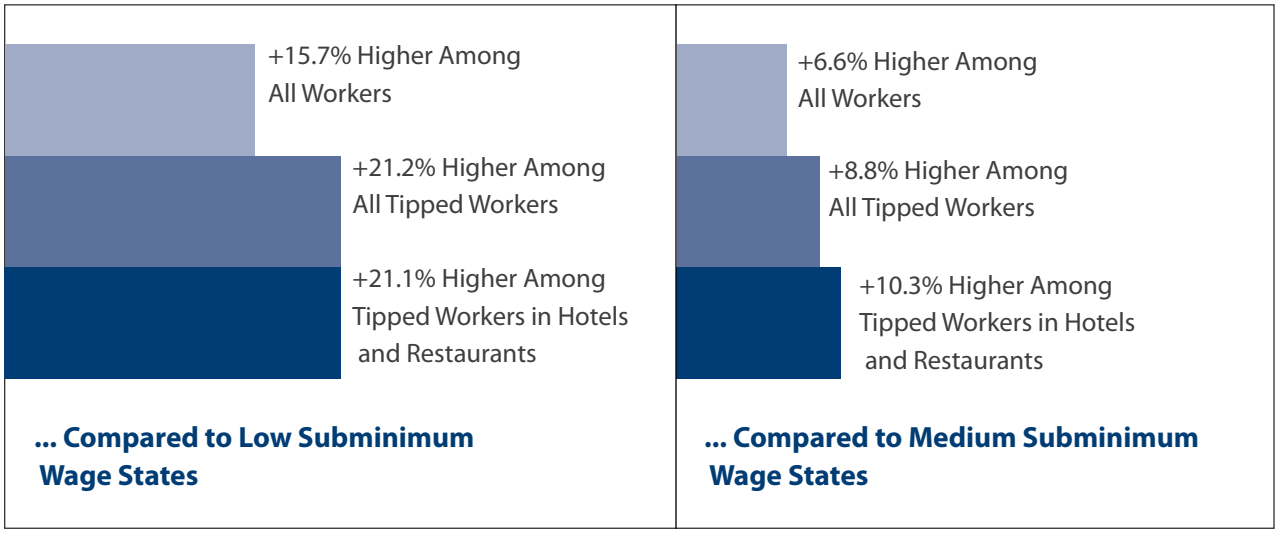
We examine current data to see if we can observe evidence of whether eliminating the subminimum wage increases or decreases tipped workers' earnings. In particular, if eliminating the subminimum wage has the effect of lowering tipped workers earnings, we would expect that tipped workers in states with such a policy, what we refer to as "equal treatment states," would earn less than those tipped workers in states that have a subminimum wage. In Figure 2, we provide a comparison of current wages among tipped workers in equal treatment states to the wages of tipped workers in states with a low subminimum wage (i.e., a subminimum equal to the $2.13 federal subminimum) and states with a medium subminimum wage (i.e., a subminimum greater than the $2.13 federal rate).[24]

Before we look at tipped workers' wages specifically, we first consider how the average wage across *all workers* compares within each set of states. Doing this helps us calibrate how the wages in each set of states differ for reasons *aside from* the subminimum wage policy.

Take, for example, the left panel that compares the average wages among workers in equal treatment states to those in low ($2.13) subminimum wage states. All workers in equal treatment states earn about 16 percent more than workers in low subminimum wage states.[25] Based on this observation, we expect that tipped workers in equal treatment states will also earn about 16 percent more than tipped workers in low subminimum wage states because of the general features of these states' labor markets, as opposed to their minimum wage policy for tipped workers specifically.

If the equal treatment policy improves tipped workers' wages, we would expect tipped workers'

FIGURE 2: Average Wages of Workers in Equal Treatment States Are....



wages in equal treatment states to be even higher than what we observe for workers in those states, generally, i.e., greater than 16 percent. We see that, in fact, the average wages—including tips—of tipped workers in equal treatment states is even higher at 21 percent more than tipped workers' wages in low subminimum wage states.

In the right panel, we see that, in general, in equal treatment states workers earn 7% more than workers in medium subminimum wage states. So here again, we expect, based on general differences in labor market conditions in these states, that tipped workers in equal treatment states would earn more—about 7% more than in medium subminimum wage states. But, if eliminating the subminimum wage improves tipped workers' wages, we would expect tipped workers' wages in equal treatment states to be even higher than this 7 percent difference. We see that tipped workers in equal treatment states earn somewhat more than 7 percent: tipped workers across industries in equal treatment states earn 9 percent more than tipped workers in medium subminimum wage states. Tipped hotel, bar and restaurant workers in equal treatment states earn 10 percent more than those in medium subminimum wage states.

In sum, current wage data indicate that tipped workers in states with no subminimum wage (i.e., equal treatment states) earn more in wages and tips than tipped workers in states with subminimum wages. This is true even after accounting for the fact that all workers—not just tipped workers—in equal treatment states tend to earn more than in states with subminimum wages.

This pattern in current wages is consistent with the findings of two published, academic studies that examine more than two decades of subminimum wage changes—roughly between 1990 and 2010.[26] Both studies take advantage of the fact that states have adopted different policies, enacted them at different times, and raised their subminimum rates by different amounts. Both studies observe that when states increase their subminimum rate for tipped workers, the earnings of these workers (including tips) measurably increase.

IMPACT ON EMPLOYMENT, BUSINESS COSTS, AND PRICES

Opponents of eliminating the subminimum wage argue that the policy will cause employers' labor costs to rise significantly and as a result, these employers will adjust by cutting jobs. Proponents of eliminating the subminimum wage argue that there is no evidence that employers adjust to raising tipped workers' wages by significantly reducing their workforce.

This employment question is harder to answer with current data because most equal treatment states adopted this policy decades ago, and any major employment adjustments from this policy change likely occurred long ago.[27] Among the few places that recently eliminated their subminimum wage rates, any employment adjustments have yet to be carefully studied (e.g., Washington, D.C. started raising its subminimum in May 2023).

However, there are two sources of research that can help answer whether employers are likely to cut jobs to adjust to the Massachusetts ballot proposal to eliminate the tip credit by 2029. First is the existing research on the employment effect of *increases* in the subminimum wage. The two economic studies we discussed above that examined decades of data on how subminimum wage rates affected tipped workers' earnings also looked at employment effects. One study concludes that raising the subminimum wage negatively affects employment[28] and the other study concludes that it does not.[29] The differences in these findings in employment mainly depend on the choices the researchers made about how to best separate out the specific impact of the minimum wage policy from everything else that is going on in the economy. Thus far, there appears to be no consistent evidence of negative employment effects.

The second source of research we can turn to is the large volume of past research on the employment effect of increases in the *regular* minimum wage. This is because the basic economic question is essentially the same, that is, do employers adjust to increases in the minimum wage by reducing employment? A 2014 meta-analysis—or a study of studies—summarizes the current state of knowledge on this employment question. After examining over 200 minimum wage studies published since 2001, this meta-analysis found that, "Negative effects on employment resulting from increases in the minimum wage were too small to be statistically detectable."[30]

One of the reasons why these studies have not observed large negative employment effects from such minimum wage increases is that they result in relatively small cost increases for affected employers. In response to relatively small cost increases, employers tend to find other ways to adjust, such as raising prices modestly. Additionally, as workers' wages rise, employers can achieve some cost savings from lower worker turnover.[31]

We can use one other piece of empirical evidence to assess whether eliminating Massachusetts' subminimum wage by 2029 will likely cause employers' cost increases to go up so much that they need to cut jobs. We can approximate what will be the likely cost increase from the proposal for the most impacted industry— restaurants—using a few basic facts about tipped workers. If the cost increase to businesses is relatively modest, this would raise the likelihood of no employment effect. In this analysis, we narrow our focus to the situation for restaurants--leaving out hotels since tipped workers make up a lower percentage of those businesses' workforces.[32]

One figure that has been circulating is that eliminating the subminimum wage will cost employers about $18,000 per worker.[33] This appears to be based on how much wages would rise for a full-time year-round worker currently earning $6.75.[34] However, there are several reasons why this figure overstates the likely costs to employers.
First, as this analysis shows, the average tipped worker in Massachusetts restaurants—again, the most impacted businesses—earns about $11.75 per hour (without tips) and about $21.70 with tips.[35] In other words, tipped workers are not all earning a base rate of $6.75 per hour. Since the *average* tipped worker earns a base rate of $11.75, the average raise will be from $11.75 to $15.00, a 28% increase, rather than a 122% increase from $6.75 to $15.00.

Second, the proposed schedule for eliminating the subminimum would put the base wage rate at $15.00 in 2029, not immediately in 2024. Raising a worker's wage from $11.75 today to $15.00 in 2029—after five years—is equivalent to raising the $11.75 wage to $13.00 in today's dollars (i.e., after adjusting for inflation). When we take into account the impact of 5 years of inflation, that 28% raise by 2029 is equal to a raise of 10% in today's dollars.[36] So what the ballot measure is actually calling for is more on the order of a 10% raise for the average tipped worker. Even if we assume that this worker is working full-time year-round, this would amount to a cost increase for the average restaurant employer that is closer to $3,000 per worker rather than $18,000—an order of magnitude smaller.

Putting this cost increase in context is an important component to evaluating the potential impact of the ballot measure on businesses. Whether a restaurant employer is facing an $18,000 increase per worker, or a $3,000 increase per worker, or something else, this number by itself tells us little about whether the business can afford such an increase. One way to put this cost increase into context is to compare it to the resources that a business has available to cover that cost increase. One measure of a restaurant's resources is its sales revenue. If the cost increase that the average restaurant experiences from eliminating Massachusetts' subminimum wage for tipped workers is large relative to the restaurant's revenue, this would raise the likelihood that restaurants will respond with significant changes, including possibly by cutting jobs and/

or adopting large price increases. If, on the other hand, the cost increase is small relative to the restaurant's revenue, this would raise the likelihood that restaurants will find other ways to adjust, such as through small price increases, as has happened with past minimum wage hikes.[37]

Consider that tipped workers make up about 30% of the workforce in Massachusetts restaurants and bars. Based on this, we can roughly estimate that raising the base rate from $11.75 to $15.00 in 2029 will have the effect of increasing Massachusetts restaurants and bars payrolls by 3.0% (the inflation-adjusted raise of 10% x 30% = 3.0%). Further, the average annual payroll of a Massachusetts restaurant ($570,000) is equal to about 30% of its average annual sales ($1.9 million).[38] Using these numbers, we can approximate that the 3.0% increase in payroll is equal to about 1% of their sales revenue (3.0% x 30% = 0.9%).[39] In other words, raising tipped bar and restaurant workers' base rates from $11.75 to $15.00 by 2029 represents a cost increase for these employers equal to about 1% of their sales revenue. Finally, assuming some other workers also get raises through spillover or ripple effects (i.e., raises that employers decide to provide some workers even while these other raises are not legally required), the cost increase is more likely to be about double that, or about 2% of restaurants' sales revenue.[40]

Is a cost increase equal to 2% of restaurants' sales revenue large or small? There are a couple ways to answer this question. First, past minimum wage hikes have produced cost increases of this size, and as we discussed above, the research indicates that such hikes have not produced any significant employment effects.[41] This would point to this cost increase being relatively small. Second, we can think about how a cost increase this size could affect prices. If the average Massachusetts restaurant were to pass on the *entire* labor cost increase onto the consumer through higher prices, this would mean that restaurant prices would rise about 2 percent. This is equal to a $50 restaurant meal increasing to $51, arguably a small price increase. In sum, the current empirical data indicates that the cost increase to restaurants from eliminating the Massachusetts subminimum wage by 2029 is likely to be relatively modest compared to the overall revenue that the average Massachusetts restaurant brings in.

CONCLUSION

In this brief, we describe the Massachusetts workers who will be directly affected by eliminating the subminimum wage and consider the existing evidence on how this policy change could impact job quality, employment, business costs, and prices. These issues are particularly important to understand because tipped workers are typically from vulnerable social groups—they are disproportionately women, workers of color, and earn low wages.

The evidence we find points to meaningful potential upsides to eliminating Massachusetts' subminimum wage. First, tipped workers are particularly vulnerable to wage theft, a problem that could be exacerbated by the subminimum wage system. Tipped workers are concentrated in the hotel and restaurant industry, sectors that have incurred a disproportionate share of workplace violation complaints, enforcements, and fines related to wage theft. Second, we find that the empirical evidence links equal treatment policies to higher earnings. Restaurant and hotel workers in equal treatment states, with no subminimum wage, earn more than those in states with subminimum wages, like Massachusetts. Third, employers are unlikely to adjust to their higher labor costs by cutting jobs in any significant way. This is because current wages and business conditions in the Massachusetts restaurant industry— the industry most directly affected by the policy change—indicate that these cost increases will be modest. The average Massachusetts restaurant can be expected to adjust to these modest business cost increases through small price increases—in the range of 2%—along with labor cost savings from reduced worker turnover.

APPENDIX

TIPPED OCCUPATIONS

Table A1 provides the list of occupations we include in our grouping of "tipped occupations."

Table A1. Congressional Budget Office List of Tipped Occupations

Current Population Survey (CPS) Occupation Code for Primary Job	Label
3630	Massage therapists
4040	Bartenders
4110	Waiters and waitresses
4150	Hosts and hostesses, restaurant, lounge, and coffee shop
4400	Gaming services workers
4500	Barbers
4510	Hairdressers, hairstylists, and cosmetologists
4520	Miscellaneous personal appearance workers
4650	Personal care and service workers, all other
9140	Taxi drivers and chauffeurs
4130	Dining room and cafeteria attendants and bartender helpers if employed in industry 8590 (CPS industry code for other amusement, gambling, and recreation industries), 8660 (traveler accommodation), or 8680 (restaurants and other food services)

Source: See online resource for the 2014 Congressional Budget Office (CBO) paper, "The Effects of a Minimum-Wage Increase on Employment and Family Income" available here: https://www.cbo.gov/sites/default/files/113th-congress-2013-2014/reports/44995-MinimumWage_FigureData_b.xlsx .

DEMOGRAPHIC, EMPLOYMENT, AND WAGE ESTIMATES

The primary data source for this brief is the Current Population Survey (CPS) published by the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor. The CPS is a monthly survey of approximately 65,000 households administered by the U.S. Census for the BLS. The CPS collects information on a wide range of topics, including on the demographic characteristics and economic activities of U.S. households. The CPS is the main data source used by Labor Department to assess labor market conditions across the U.S. The CPS's monthly sample is representative at the state and national level when used with the survey's sampling weight. All estimates in this brief are weighted. We use CPS data files made available by IPUMS CPS at the University of Minnesota (www.ipums.org).

Employment. The employment figures presented in Table 1 are based on CPS basic monthly data from January 2023 through July 2024 to capture the most recent employment levels.

Demographic characteristics. The demographic characteristics are based on CPS data from January 2022 through July 2024. We use this longer time period for our demographic characteristic estimates to increase the sample size and because such characteristics are relatively stable over time.

Wages. Our wage estimates are based on the CPS outgoing rotation files (commonly referred to as CPS-ORG files). The CPS-ORG files include detailed information about respondents' wage rates. Specifically, the survey asks respondents whether they earn an hourly rate. Such workers are then asked to report their hourly wage rate exclusive of overtime, tips, or commissions. Workers are also asked the usual number of hours worked at this rate. The CPS then asks these respondents to (1) report whether they receive overtime, tips, or commissions; and if any, (2) how much they receive in overtime, tips, and commissions. For workers who indicate that they receive overtime, tips, or commissions, the CPS combines the reported hourly rate exclusive of overtime, tips, or commissions plus the reported overtime, tips, and commissions, and their usual hours worked, to generate the respondents' usual *weekly* earnings (see U.S. Census documentation here: https://www2.census.gov/programs-surveys/cps/methodology/intman/Part_B_Chapter5.pdf).

We use this weekly earnings figure divided by usual weekly hours worked to estimate a tipped worker's hourly rate inclusive of tips. We use the hourly rate that tipped workers report that is exclusive of tips for their base rate. For these rates, we include only those workers who report that (1) they are paid hourly, (2) that they earn overtime, tips, or commissions, and (3) have data on both their hourly rates *and* their weekly earnings. Our method of estimating the hourly rates for tipped workers, inclusive and exclusive of tips, follows the guidance on the earnings concepts of the CPS published by the U.S. Census Bureau provided in, "Current Population Survey Interviewing Manual, April 2015," (https://www.census.gov/housing/hvs/methodology/CPS_Manual_April2015.pdf), see "Earnings and Union Membership Concepts," p. B5-4.

The CPS-ORG files are a subset of the CPS basic monthly files, equal to one-quarter of the full sample. Due to the CPS-ORG files smaller sample sizes, we use data from January 2022 through July 2024 for our wage estimates. The wage estimates in Table 1 are limited to workers who specifically report tips.

Measuring average wages. We base our wage analyses on the CPS because the CPS uniquely provides publicly available data with detailed information about workers tips and wages, separately. However, because the CPS only includes its detailed earnings questions in its ORG files, the sample sizes for Massachusetts tipped workers' wages are relatively small -- about 45 observations—even after pooling data across 2022 to 2024. Due to this small sample size, we use medians in the main text, as opposed to means, for our average, or central tendency, measures. This is because medians are more robust measures of the "typical" case when there is a skewed distribution, and skewed distributions are more likely with small sample sizes. In Table A2, we present the mean and median wage estimates (in 2024$) and sample sizes. The fact that the mean estimates are noticeably higher than the median suggest that the CPS samples are skewed to the right.

Table A2. BLS CPS Wage Estimates *Including* Tips for Massachusetts

	Hourly wage, including tips (2024$)		
	MEAN	MEDIAN	Ns
All Workers	$39.59	$31.50	7,600
Tipped workers	$24.00	$20.30	60
Tipped workers in hotels, bars and restaurants	$25.70	$21.70	45
Tipped workers in bars and restaurants	$25.55	$21.70	44

Note: Wage estimates are based on CPS Outgoing Rotation Data files from January 2022-July 2024. Estimates are in 2024 dollars, adjusted with the CPI-U.

To assess whether the wage estimates we produce from the CPS are reasonable, we compare our CPS estimates to data from the BLS' Occupational Employment and Wage Statistics (OEWS) program (https://www.bls.gov/oes/). The OEWS provides estimates of hourly earnings—inclusive of tips—based on its large employer survey of over one million establishments across the U.S.. For May 2023, the BLS OEWS provide the following wage estimates:

Table A3. BLS OEWS Wage Estimates *Including* Tips for Massachusetts

	Hourly wage, including tips (2024$)	
	MEAN	MEDIAN
All Workers	$39.58	$29.91
Bartenders	$19.50	$17.23
Waiters/Waitresses	$20.35	$17.30

Source: May 2023 State OES Estimates (https://www.bls.gov/oes/current/oes_ma.htm). Inflation adjusted to 2024$ with the CPI-U.

We can see right away that the wage estimates for *all* workers from the CPS and the OEWS look very similar—both show a mean wage of about $39 and a median wage of about $30. This pattern suggests that both the mean and median CPS wage estimates line up well with the OEWS estimates when the CPS sample size is large.

In contrast, when the sample sizes are much smaller--in the range of 40-60 observations—only the median wage measures from the CPS wage estimates are similar to the central tendency measures reported by the OEWS (i.e., the CPS median wages of about $20-$22 for tipped workers in hotels, bars, and restaurants are similar to the OEWS mean estimates of about $20 for bartenders, waiters/waitresses). Based on this, we use the CPS median wage estimates rather than the mean wage estimates in our analysis.

We can also further estimate the hourly wage estimates for tipped workers *excluding* tips using the CPS data which we present in Table A4. We can see that even while the Massachusetts subminimum rate is $6.75, the average wage paid to tipped workers (without tips) is in the range of $12.00 or about 75% more than what is mandated.

Table A4. BLS CPS Wage Estimates *Excluding* Tips for Massachusetts

	Hourly wage, excluding tips (2024$)		
	MEAN	MEDIAN	Ns
Tipped workers	$12.75	$12.80	60
Tipped workers in hotels, bars and restaurants	$11.80	$12.30	45
Tipped workers in bars and restaurants	$11.60	$11.75	44

Note: Wage estimates are based on CPS Outgoing Rotation Data files from January 2022-July 2024. Estimates are in 2024 dollars, adjusted with the CPI-U.

We can turn to a different source of wage information to gauge whether these hourly rates *without* tips are reasonable. In particular, we want to gauge whether our finding that the typical tipped worker's base wage exceeds the mandated rate by 75% is reasonable. Lester (2020) conducted a survey of restaurant employers in 2014 to compare the labor practices among restaurants in a competitive market environment with a subminimum wage (North Carolina's Research Triangle region) and without a subminimum wage (San Francisco, California).[42] Because of the focus of this study, the researcher specifically gathered data on both the base wage rates and tips earned by restaurant workers. In the Research Triangle region of North Carolina, the mandated minimum wage for tipped workers was equal to the federal rate of $2.13 at the time of the study. Based on the study's survey data, these North Carolina restaurants paid servers between $3.20 to $5.23, or in the range of 50% to 145% more than the mandated minimum. The midpoint of this range is about 95%, even higher than what we see in the Massachusetts data. This finding from an employer-based survey specifically designed to determine the difference

between base wages and tipped earnings suggests that the CPS wage estimate—without tips—for Massachusetts restaurant workers is reasonable.

WAGE ESTIMATES BY SUBMINIMUM WAGE POLICY

Table A5 provide the underlying wage estimates presented in Figure 2.

Table A5. Average (Median) Wages by Subminimum Wage Policy

	All workers	Tipped Workers	Tipped workers in hotels and restaurants
Average Wage Levels (2024$)			
Low subminimum wage states	$23.67	$15.50	$14.81
Medium subminimum wage states	$25.70	$17.27	$16.25
Equal treatment states	$27.39	$18.79	$17.93
% Difference in Average Wages in Equal Treatment States Relative to Other States			
Low subminimum wage states	+15.7%	+21.2%	+21.1%
Medium subminimum wage states	+6.6%	8.8%	+10.3%

Note: Wage estimates are based on CPS Outgoing Rotation Data files from January 2022-July 2024. Estimates are in 2024 dollars, adjusted with the CPI-U. Low subminimum states include: Alabama, Georgia, Indiana, Kansas, Kentucky, Louisiana, Mississippi, North Carolina, Nebraska, Oklahoma, South Carolina, Tennessee, Texas, Utah, Virginia and Wyoming. Equal treatment states include: Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington. Medium subminimum wage states include all other states.

ENDNOTES

1 The authors thank Labor Studies graduate student Tom Silva for their research support and PERI Communications Director Kim Weinstein for the report's high-quality design.

2 The $6.75 subminimum wage rate – also called the service rate—applies to, "…workers who provide services to customers and who make more than $20 a month in tips." See the Massachusetts Fair Wage and Hours Law poster published by the Massachusetts Attorney General's Fair Labor Division (https://www.mass.gov/doc/massachusetts-wage-hour-laws-poster/download). Also, see the Ballotpedia website for background on Massachusetts Question 5 at: https://ballotpedia.org/Massachusetts_Question_5,_Minimum_Wage_for_Tipped_Employees_Initiative_(2024).

3 Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington (see Economic Policy Institute's webpage, "Minimum Wage Tracker," July 1, 2024 at: https://www.epi.org/minimum-wage-tracker/). A court ruling in Michigan on August 1, 2024 put in motion the elimination of the state's subminimum wage for tipped workers by 2029 ("Overruling Legislature, Court in Michigan Clears Wage Rise," by T.J. Smith, August 1, 2024, *New York Times*, Section B, Page 4, New York edition.) Some local areas have eliminated the subminimum wage for tipped workers on their own (i.e., despite differing state and federal policies) including Washington, D.C. and Chicago.

4 Material from a group supporting eliminating the subminimum wage can be found here: One Fair Wage, "One Fair Wage for Massachusetts Tipped Workers: A Gender & Racial Justice Issue," March 2024 (https://static1.squarespace.com/static/6374f6bf33b7675afa750d48/t/66032714f90c301c37c8f3b6/1711482645367/OFW_Race-Gender-Issue_MA.pdf).

5 Material from a group opposing eliminating the subminimum wage can be found here: Committee to Protect Tips, "Are You Being Lied To?" n.d. (https://www.protecttips.org/fact-fiction).

6 We use the definition of tipped occupations that the Congressional Budget Office uses in its February 18, 2014 publication, "The Effects of a Minimum-Wage Increase on Employment and Family Income," available here: https://www.cbo.gov/publication/44995. See Table A.1 in this report for a list of the tipped occupations.

7 Here and elsewhere we use "bars and restaurants" interchangeably with "restaurants." In all cases, restaurants are inclusive of bars.

8 See "Restructuring restaurant work: Employer responses to local labor standards in the full-service restaurant industry," by T.W. Lester (2020), *Urban Affairs Review*, 56(2), 605–639. https://doi-org.silk.library.umass.edu/10.1177/1078087418773907 .

9 Full-time year-round earnings at $20.30/hr. is equal to $20.30/hr. x 40 hrs./wk. x 52 weeks = $42,224.

10 The basic budget figure for Hampden County, Massachusetts, is $43,600 in 2024 dollars. The family budget is produced by the Economic Policy Institute (EPI) and published at the website, "Family Budget Calculator," https://www.epi.org/resources/budget/ (January 2024). The family basic budget is, "…the income a family needs in order to attain a modest yet adequate standard of living." According to EPI's documentation for the family budget, the expenses included are: housing, food, child care (if needed), transportation, health care, other necessities, and taxes. The budget does not provide for savings for retirement, college, or emergencies. The budgets also assume that, "…almost all food is bought at a grocery store and then prepared at home." EPI publishes budgets for areas across the country (see: "The Economic Policy Institute's Family Budget Calculator: Technical Documentation," by Z. Mokhiber, E. Gould, and K. deCourcy (January 30, 2024) available at: https://www.epi.org/publication/family-budget-calculator-documentation/).

11 The Fair Labor Division data are publicly available: https://www.mass.gov/info-details/fair-labor-division-data. Accessed September 4, 2024.

12 Bernhardt, A., Spiller, M.W. & Polson, D. (2013). "All work and no pay: Violations of employment and labor laws in Chicago, Los Angeles and New York City." *Social Forces* 91.3, 725-746.

13 Economic Policy Institute. 2017. https://www.epi.org/publication/employers-steal-billions-from-workers-paychecks-each-year/

14 See: Bobo, K. (2014). *Wage theft in America: Why millions of Americans are not getting paid—And what we can do about It*. The New Press.
Juravich, T., Ablavsky, E., & Williams, J. (2015). "The epidemic of wage theft in residential construction in Massachusetts." *Working Paper Series of the Labor Center, University of Massachusetts, Amherst*.
Milkman, R., Gonzalez, A.L., & Narro, V. (2010). "Wage theft and workplace violations in Los Angeles". UCLA IRLE Report. https://escholarship.org/content/qt5jt7n9gx/qt5jt7n9gx.pdf

15 See Minkler, M., Salvatore, A.L., Chang, C., Gaydos, M., Liu, S.S., Lee, P.T., Tom, A., Bhatia, R. and Krause, N., (2014). "Wage theft as a neglected public health problem: An overview and case study from San Francisco's Chinatown district." *American Journal of Public Health* 104.6, 1010-1020.
Also see multiple reports from the workers' advocacy group, Restaurant Opportunity Center (ROC): https://rocunited.org/publications/ and Jayaraman, S. (2018). *Behind the kitchen door*. Cornell University Press.

16 The Massachusetts Attorney General's Annual Labor Day Report is an example: Attorney General's Office, Massachusetts. "Labor day report 2023" https://www.mass.gov/doc/labor-day-report-2023

17 See the Fair Labor Division's description of enforcement authority: https://www.mass.gov/info-details/enforcement-authority

18 The Fair Labor Division database uses industry categories that differ from those used by Labor Department's Bureau of Labor Statistics. The database treats "Restaurants and Hotels" as a combined group.
19 Based on analysis of the CPS Basic Monthly files, 2023, and Jan. – Jul. 2024. For details, see Appendix.
20 Based on analysis of the CPS Basic Monthly files, 2023, and Jan. – Jul. 2024. For the "Restaurant and Hotel" industry we include the following CPS industry codes: Traveler accommodation (8660); Restaurants and other food services (8680); Drinking places, alcoholic beverages (8690).
21 The online complaint system prompts workers to select the exact reason(s) for their complaint, including prevailing wage, meal periods, earned sick leave, independent contractor misclassification, overtime, vacation pay, retaliation, and more. A small minority of complaints were not coded with a specific complaint. For this brief, we focus on the earnings issues closest to issues raised with the tipped minimum wage ballot question: tips, minimum wage, and non-payment of wages.
22 For a description of the filing process and enforcement process, see the Fair Labor Division website: https://www.mass.gov/how-to/file-a-workplace-complaint, accessed September 4, 2024.
23 Annual average wages for private firms by industry are published by the BLS' Quarterly Census of Employment and Wages (QCEW) program at the Employment and Wages Data View webpage (https://data.bls.gov/cew/apps/data_views/data_views.htm#tab=Tables), last updated September 4, 2024. The rate across industries is 0.010% ($30.4 million in fines/$297.7 billion in annual wages). The rate for hotels and restaurants is 0.025% ($2.6 million/$10.4 billion).
24 This empirical exercise is modeled after an analysis by S.A. Allegretto and D. Cooper, "Twenty-three years and still waiting for change," *Economic Policy Institute and Center for Wage and Employment Dynamics Briefing Paper*, July 10, 2014 (https://files.epi.org/2014/EPI-CWED-BP379.pdf).
25 See Appendix Table A.5 for a data table of these wage estimates.
26 The two studies include: (1) W. E. Even and D. A. Macpherson (2014), "The effect of the tipped minimum wage on employees in the U.S. restaurant industry," *Southern Economic Journal* 80(3), 633–55; and (2) S. Allegretto and C. Nadler (2015), "Tipped wage effects on earnings and employment in full-service restaurants," *Industrial Relations*, 54, 622-647. https://doi.org/10.1111/irel.12108. In both cases, the studies find that a 10% increase in the subminimum wage had the effect of raising wages in the range of 0.4%-0.5%.
27 For a brief discussion of the history of state-level tip credit policies see W. G. Whittaker (2006), "The Tip Credit Provisions of the Fair Labor Standards Act," *CRS Report for Congress*, March 24.
28 Even and MacPherson (2014).
29 Allegretto and Nadler (2015).
30 D. Belman and P.J. Wolfson (2014), *What does the minimum wage do?* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research), available at: https://doi.org/10.17848/9780880994583. Quote is taken from webpage, "What does the minimum wage do?" at the W.E. Upjohn Institute for Employment Research website (https://www.upjohn.org/what-does-minimum-wage-do). n.d.
31 For a recent review of these various other adjustment channels, see M. Reich (2021),"The economics of a $15 federal minimum wage by 2025," *Journal of Policy Analysis and Management*, 40(4): 1288–1312, available at: https://irle.berkeley.edu/wp-content/uploads/2021/09/The-Economics-of-a-15-Federal-Minimum-Wage-by-2025.pdf. For a more comprehensive treatment, see R. Pollin, M. Brenner, J. Wicks-Lim and S. Luce (2008), *A measure of fairness: The economics of minimum wages and living wages in the United States.* (Ithaca, NY: Cornell University Press, 2008). For a case study that examines a range of adjustment channels, see: B.T. Hirsch, B.E. Kaufman, and T. Zelenska (2015), "Minimum wage channels of adjustment," *Industrial Relations*, 54: 199-239 (https://doi.org/10.1111/irel.12091).
32 Based on authors' analysis of 2022-2024 CPS data: 12% of workers in hotels are in tipped occupations compared to 29% among bars and restaurants. As noted earlier, here and elsewhere we use "bars and restaurants" interchangeably with "restaurants." In all cases, restaurants are inclusive of bars.
33 See quote by Steve Clark, president and CEO of the Massachusetts Restaurant Association in the "Arguments" section of the webpage, "Massachusetts Question 5" on the Ballotpedia website (n.d.) (https://ballotpedia.org/Massachusetts_Question_5,_Minimum_Wage_for_Tipped_Employees_Initiative_(2024)).
34 Such a worker would earn $8.25 more per hour ($15.00 - $6.75 = $8.25), and if they are working full-time year-round, this would amount to $17,160 ($8.25 per hr. x 40 hrs. per week x 52 weeks per year = $17,160). Adding in payroll taxes adds about 7.65%, bringing the figure up to $18,472.
35 These wage estimates are based on the same data source as that used for Table 1 (see Appendix for more details). This group of workers is limited to those working in bars and restaurants.
36 If we assume an annual inflation rate of 3% over the next 5 years that would cause $1.00 in 2029 to be worth about $0.86 in today's dollars, or about 14% less. Therefore, $15.00 in 2029 is worth $12.90 in today's dollars.
37 D. MacDonald and E. Nilsson (2016), "The effects of increasing the minimum wage on prices: Analyzing the incidence of policy design and context," *Upjohn Institute Working Paper 16-260* (https://doi.org/10.17848/wp16-260); S. Allegretto and M. Reich (2016), "Are local minimum wages absorbed by price increases? Estimates from internet-based restaurant menus," *IRLE Working Paper #124-15*, November (https://irle.berkeley.edu/wp-content/uploads/2016/11/Are-Local-Minimum-Wages-Absorbed-by-Price-Increases.pdf).

38 These figures are based on the number of establishments among private sector food services and drinking places for Massachusetts published by the Labor Department's Quarterly Census of Employment and Wages (QCEW), available at: https://www.bls.gov/cew/. See next endnote 39 for source on payroll and sales.

39 These figures are based on the 2017 Economic Census data for Massachusetts and inflated to 2024 using the national average annual growth in sales and payroll between 2017 and 2022 for the 722 NAICS industry, "Food Services and DrinkingPlaces," see: https://www.census.gov/programs-surveys/economic-census/year/2017/economic-census-2017/data.html.

40 See J. Wicks-Lim's research on ripple-effect raises presented in Chapter 11 of Pollin et al. (2008).

41 Pollin, R. et al. (2008) describes multiple studies that estimate cost increases associated with past proposals for minimum wage increases, including for the restaurant industry.

42 T. W. Lester (2020),"Restructuring restaurant work: Employer responses to local labor standards in the full-service restaurant industry," *Urban Affairs Review* 56(2): 605-639 (https://journals-sagepub-com.silk.library.umass.edu/doi/pdf/10.1177/1078087418773907).

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