



SMALL BUSINESS RESTAURANTS SUCCEED WITH **ONE FAIR WAGE**

A Comparative Analysis
of Illinois and California

MAY 2024



Small business restaurants in Illinois are struggling to find staff in what is currently the most acute staffing crisis in the industry's history. Just over 200 small business restaurants in Illinois have raised wages for tipped workers in order to recruit staff, and many of these restaurants have joined forces with workers calling for Illinois lawmakers to pass legislation to end the subminimum wage for tipped workers at the state and county level.¹ **This brief compares the experience of small business restaurants and minority and women-owned restaurant business enterprises (MWBE's) in Illinois, a subminimum wage state, and states that require all restaurants to pay One Fair Wage – a full minimum wage with tips on top.**

Illinois allows restaurant owners to pay a subminimum wage for tipped workers, a wage system that is a direct legacy of slavery.² The subminimum wage for tipped workers is still just \$8.40 an hour in the state of Illinois.³ While Chicago passed legislation to end the subminimum wage, Illinois has yet to end this direct legacy of slavery statewide.

The subminimum wage for tipped workers was created to allow restaurants to continue to access free Black labor after the ending of chattel slavery in the United States and represents one of the nation's first instances of institutionalized gender pay inequity. After Emancipation, two industries sought the ability to hire newly freed slaves, not pay them, and have them live exclusively on tips, a concept that had just recently arrived in the United

States from Europe at the time.⁴ The Pullman Train Company hired mostly Black men as porters, offering them no wages, only tips, and the restaurant industry hired mostly Black women as servers, offering the same.⁵

The Brotherhood of Sleeping Car Porters won fair wages — a full minimum wage with tips on top — for Pullman porters who were mostly Black men in 1937.⁶ The National Restaurant Association (NRA) succeeded in institutionalizing the subminimum wage for all other tipped workers, who were mostly Black women, as part of the New Deal in 1938.⁷

From 1938 until today, tipped workers remain over two-thirds of women, and disproportionately women of color, in Illinois and across the country.⁸

The subminimum wage has been a source of both economic instability and sexual harassment for an Illinois workforce that is overwhelmingly women and disproportionately women of color.⁹ Today, the subminimum wage impacts a workforce of tipped workers that is mostly women and disproportionately people of color. Illinois tipped workers include: 138,000 women, who comprise 71 percent



of all Illinois tipped workers;¹⁰ 21,000 Black workers, who comprise 11 percent of all IL tipped workers;¹¹ and 42,500 Latinx workers, who comprise 22 percent of all Illinois tipped workers.¹²

The subminimum wage impacts a workforce of nearly 196,000 tipped workers that is 71 percent women and 31 percent people of color, and an overall restaurant industry of 433,000 workers in Illinois.^{13,14} Even with tips, tipped workers in Illinois earn a median wage of just \$14,590 a year and 18 percent of tipped workers receive SNAP benefits.^{15,16}

With the pandemic, the subminimum wage for tipped workers became unlivable, with a majority of workers reporting that their tips decreased and harassment increased.¹⁷ When they were asked to enforce COVID protocols on the same customers from whom they had to get tips, millions of workers started leaving the industry. Illinois's full-service restaurants are still down almost 16,000 workers than in February 2020.¹⁸ A large majority of workers say they are leaving due to low wages and tips, and 80 percent say they would only return if provided a full, livable wage with tips on top.

Meanwhile, there are seven states (including CA, OR, WA, NV, MN, MT, and AK) that require all restaurant owners to pay a full minimum wage with tips on top.¹⁹ This brief provides evidence on how small business restaurants, including MWBE's, have succeeded in One Fair Wage states when compared to Illinois restaurants, about sales, job growth, small business growth rates, MWBE rates, and the staffing crisis.

1 | RESTAURANT SALES AND TIPPING ARE HIGHER IN ONE FAIR WAGE STATES THAN IN SUBMINIMUM WAGE STATES

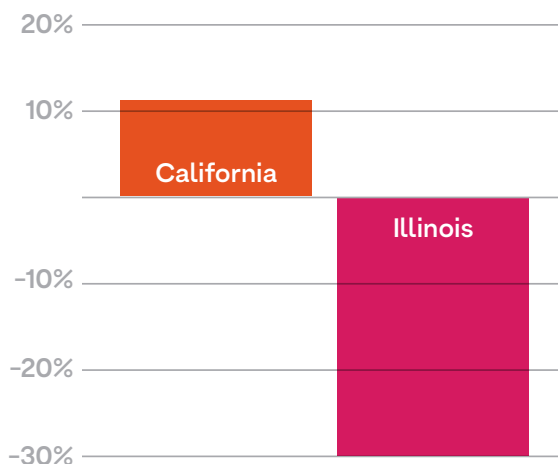
The seven states that require employers to pay the full minimum wage to tipped workers with tips on top have maintained thriving restaurant industries with higher restaurant sales than states with a subminimum wage.²⁰ Restaurant sales growth is higher in states that

require employers to pay the full minimum wage to tipped workers than it is in states that allow the subminimum wage for tipped workers. Restaurant sales in One Fair Wage states grew by 17 percent, according to 2017-2018 restaurant trade lobby estimates, compared to 15.6 percent in subminimum wage states. California, a One Fair Wage state, had the highest restaurant sales, topping over \$97 billion, reflecting an annual restaurant sales increase of 18 percent.²¹

Richard Versotek, the CFO of Denny's, told shareholders in a 2021 quarterly analyst call that Denny's CA had 'outperformed the system' — with higher growth in Denny's CA than any other state — because they pay a full minimum wage with tips on top in California, and therefore consumer spending is higher.

TABLE 1

Change in Revenue for Food and Accommodations Small Businesses



Source: Opportunity Insights Economic Tracker.²⁴

More recent data from TrackTheRecovery.com found that revenue for food and accommodations for small businesses in California was up 11 percent, while it is down by 29.9 percent in subminimum wage Illinois.²² California also shows higher tipping averages than Illinois. According to data published by USA Today, California's tipping average was 22.69 percent, while Illinois's was 14.22 percent.²³

2 | RESTAURANT INDUSTRY JOB GROWTH, INCLUDING IN SMALL BUSINESSES, IN ONE FAIR WAGE STATES V. SUBMINIMUM WAGE STATES

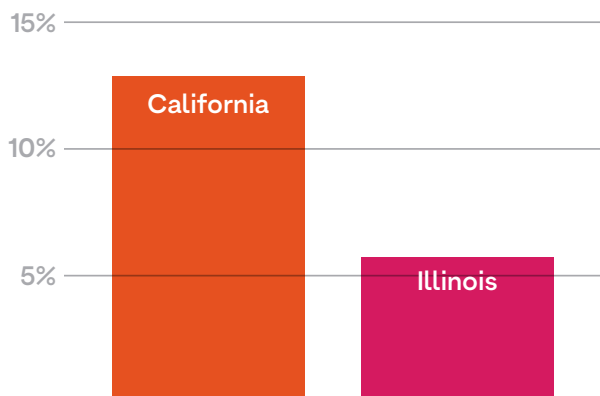
States that require employers to pay the full minimum wage to tipped workers with tips on top have higher average full-service restaurant employment growth rates and higher small

business restaurant employment growth rates than the states with subminimum wages. Full-service restaurant employment (FSRE) in One Fair Wage states grew by 6.71 percent between 2016-19, compared to a FSRE increase of only 4.9 percent in states that have a subminimum wage. Small business employment in One Fair Wage states grew by 8.37 percent, while employment in small businesses in states with a subminimum wage grew by only 5.95 percent between 2016-2019.²⁵ Since February 2020, the last month before the industry saw a sharp decline from the pandemic, California has recovered to 93.54 percent of pre-pandemic full-service restaurant employment levels. Illinois has recovered to 92.47 percent of pre-pandemic employment levels.²⁶



TABLE 2

California v. Illinois Small Business Growth Rates



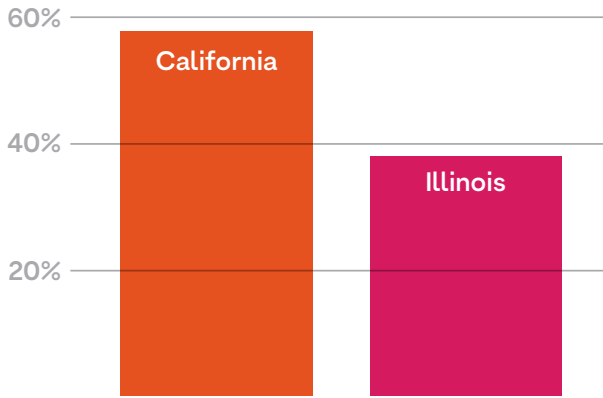
Source: Opportunity Insights Economic Tracker.²⁸

3 | SMALL BUSINESS RESTAURANT GROWTH IS HIGHER IN CALIFORNIA THAN IN ILLINOIS

California has had a larger small business growth rate in the restaurant industry than Illinois. California has experienced a 12.9 percent increase in small business restaurants, compared to a 5.4 percent increase in small business restaurants in Illinois since January 2020.²⁷

TABLE 3

MWBE Restaurants in California v. Illinois



Source: National Restaurant Association. (March 2022). Restaurant Owner Demographics Data Brief.³⁰

4 | CALIFORNIA HAS A HIGHER PERCENTAGE OF PEOPLE OF COLOR OWNED RESTAURANTS THAN ILLINOIS

In California, 58 percent of restaurants are people of color-owned businesses, compared to only 38 percent of restaurants in Illinois.²⁹

5 | THE RESTAURANT STAFFING CRISIS CONTINUES IN BOTH CALIFORNIA AND ILLINOIS

- The seven states that require a full minimum wage with tips on top have one half the rate of sexual harassment in the restaurant industry as the states that pay a subminimum wage for tipped workers.³¹ In subminimum wage states, tipped restaurant workers have struggled with twice the poverty rate of other workers and the highest rates of sexual harassment of any industry because they must tolerate inappropriate customer behavior to feed their families in tips.^{32,33}
- With the pandemic, the subminimum wage for tipped workers changed from an economic, race and gender injustice to one of life and death. Nearly 70 percent of workers report their tips have decreased by at least half because sales were down.³⁴ Meanwhile, customer hostility, health risks and harassment increased, with women tipped workers being asked to remove their masks so men could judge their looks and their tips on that basis.³⁵ Tipped workers were put in the impossible situation of having to enforce COVID protocols on the same restaurants from whom they had to get tips to survive.
- Over 1 million workers left the restaurant industry during the pandemic; 70 percent reported that low wages was the primary driver of exodus. Of those who remain, over half (53 percent) of all workers surveyed by One Fair Wage reported that they are considering leaving their restaurant job and more than three quarters (76 percent) say they are leaving due to low wages and tips. The vast majority of all respondents (78 percent) reported that having a full, stable, livable wage with tips on top would make them consider staying at their job.³⁶

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