



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



Massachusetts and California
Comparative Analysis

SEPTEMBER 2023



Small business restaurants in Massachusetts are struggling to find staff in what is currently the worst staffing crisis in the industry’s history. With over 250 restaurants in Massachusetts having raised wages to at least the full minimum wage with tips on top for tipped workers in order to recruit staff, and many of these restaurants have joined forces with workers calling for Massachusetts lawmakers to pass pending policy to end the subminimum wage for tipped workers at the state and county level.¹ **This brief compares the experience of small businesses and minority and women-owned business enterprises (MWBE’s) in Massachusetts, a subminimum wage state, and states that require all restaurants to pay One Fair Wage — a full minimum wage with tips on top.**



Massachusetts 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 has been a source of both economic instability and sexual harassment for a Massachusetts workforce that is overwhelmingly women and disproportionately women of color.³ With the pandemic, the subminimum wage for tipped workers became unlivable, with a majority of workers reporting that their tips decreased and harassment increased.⁴ 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. Massachusetts’s leisure and hospitality industry has 12,000 fewer workers than in February 2020.⁵ A large majority of workers said they are leaving due to low wages and tips, and 80 percent said they would only return if provided a full, livable wage with tips on top.⁶

Meanwhile, there are seven states (including CA, OR, WA, NV, MN, MT, and AK) that require restaurant owners to pay a full minimum wage with tips on top.⁷ This brief provides evidence on how small business restaurants, including MWBE’s, have succeeded in One Fair Wage states when compared to Massachusetts restaurants, with regard to sales, job growth, small business growth rates, MWBE rates, and the staffing crisis.

1 | RESTAURANT SALES IN ONE FAIR WAGE STATES V. 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.⁸ 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.⁹

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.

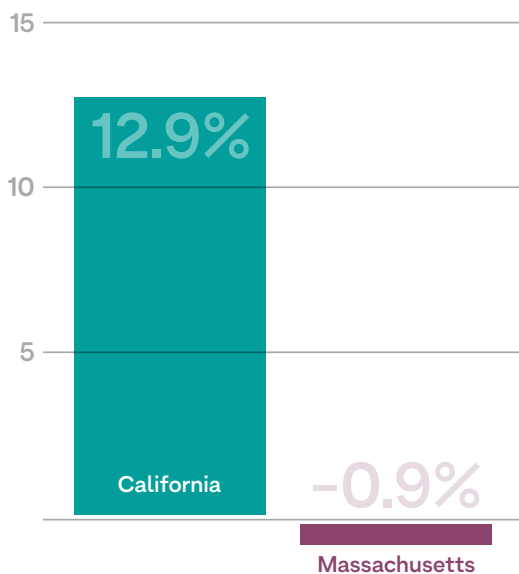
2 | RESTAURANT INDUSTRY JOB GROWTH, INCLUDING IN SMALL BUSINESSES, IN ONE FAIR WAGE STATES V. SUBMINIMUM WAGE STATES

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.^{10,11}

FIGURE 1

California v. Maryland Small Business Growth Rate as a Percent Since January 2023



3 | SMALL BUSINESSES RESTAURANT GROWTH IS UP IN CALIFORNIA, WHILE MASSACHUSETTS’S SMALL BUSINESSES RESTAURANTS DECLINE

California has had a larger small business growth rate in the restaurant industry than Massachusetts. California has experienced a 12.9 percent increase in small business restaurants, compared to Massachusetts experiencing a negative growth rate of -0.9 percent since January 2020.¹²

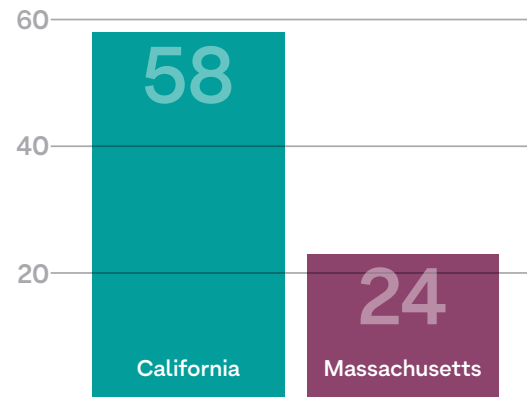
Source: Opportunity Insights Economic Tracker.

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

- ◆ In California, a majority of restaurants are people of color-owned businesses (58 percent), compared to only 24 percent of restaurants in Massachusetts.¹³

FIGURE 2

Restaurants Owned by People of Color in California v. Massachusetts



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

5 | THE RESTAURANT STAFFING CRISIS CONTINUES IN MASSACHUSETTS & OTHER SUBMINIMUM WAGE STATES

- ◆ 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.¹⁴ 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.^{15,16}
- ◆ 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.¹⁷ 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.¹⁸ 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 were 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.¹⁹

ENDNOTES

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