

New York City's \$15 Minimum Wage and Restaurant Employment and Earnings



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Executive Summary

This is the first assessment of restaurant employment and earnings over the entire period of New York City's historic minimum wage increases. Contrary to fears of massive job losses, \$20 Big Macs, and shuttered restaurants, we found a thriving industry.

During this period, New York City has seen a strong economic expansion of the restaurant industry, outpacing national growth in employment, annual wages, and the number of both limited- and full-service restaurant establishments. The restaurant industry has the highest proportion of workers affected by the minimum wage of any major industry. The New York City restaurant industry has maintained substantially faster job growth than the private sector overall in the years since the State minimum wage rose in phases from \$7.25 an hour at the end of 2013 to \$15.00 at the end of 2018.

Restaurants in Brooklyn, the Bronx, Queens, and Staten Island have seen particularly strong job and wage growth, despite lacking some of the advantages that Manhattan enjoys—such as high spending by tourists and generally higher-income patrons. For example, the number of full-service restaurants in the boroughs outside Manhattan rose more than three times as fast as the number of Manhattan eateries from 2013 to 2018.

By every measure charted in this report (jobs, number of restaurants, and average wages) the other boroughs have exceeded national performance over the past five years for both full- and limited-service restaurants. For limited-service restaurants, Manhattan well-exceeded national performance in jobs, number of outlets, and wage growth for such establishments, and full-service restaurants in Manhattan fared roughly as well as the national averages for jobs, number of restaurants, and wage growth in this category of establishments over this period.

Compared to 12 large cities around the country that did not have any minimum wage increases from 2013-18, New York City's restaurants generally have seen stronger job growth. New York City's experience is consistent with the latest research focusing on the food services industry in large cities where there have been large minimum wage increases—no negative employment effects and sizable average wage gains for restaurant workers.

This report does not suggest that New York City's sharp minimum wage increase caused restaurant employment to soar—the more rapid restaurant employment gains likely are due to the city's faster private job growth. But the research presented here clearly shows that the large wage floor rise did not diminish various indicators of restaurant performance, including job growth.

New York's rising minimum wage has tremendously benefitted low-wage workers, including those in both the full-service and limited-service categories. New York City workers in the lowest-paid three deciles of the wage distribution have seen inflation-adjusted wage gains of 8.5 to 15 percent since 2013 (the largest wage gains for these workers in the last 50 years). Wage gains among restaurant workers have been even stronger, with 2013-18 real wage increases averaging 15-23 percent for full-service and 26-30 percent for limited-service restaurant workers.

Wage gains have been strongest among New York City's limited-service restaurant workers, since their average wages are lower than for full-service restaurant workers. Average restaurant wages have risen much faster in New York City than in any of the 12 large cities with no minimum wage increases from 2013-18. In the case of limited-service New York City restaurants, workers' average weekly wages have grown more than twice as fast as for their counterparts in those 12 cities.

The picture painted by the latest available government data shows a vibrant New York City restaurant sector. Restaurant sales rose an average of 6.6 percent yearly starting in 2014 to reach nearly \$22 billion in 2018. This is the case even though the sector has faced some challenges in recent years. The rise in restaurant sales may have been tempered to some extent by the 20 percent rise in the value of the U.S. dollar from the end of 2013 to the end of 2018. This has eroded the purchasing power of the many foreign tourists visiting New York City, who account for an estimated 12 percent of all local restaurant spending. The rapid growth of venture capital-fueled third-party delivery services charging restaurants high commission fees is a relatively recent development that, by many reports, has weakened restaurant profitability. The steady rise in real estate prices and rents in Manhattan in recent years has also challenged many restaurants whose long-term leases have expired. In some cases, such restaurants have been hit with steep rent hikes of 20-50 percent.

Even with these headwinds, New York City's restaurant industry has flourished overall. Some factors, like the rising minimum wage, affect all restaurants, though restaurateurs pursue a number of adaptation strategies. The healthy overall state of the industry as indicated by its impressive growth in recent years shows that most restaurants have found effective ways to adapt to the rise in the minimum wage. In part, this has been accomplished by slight restaurant price increases, averaging less than three percent a year since the minimum wage started to rise. The clear uptick in restaurant prices compared to the five years before 2014 shows that many restaurateurs have been modestly marking up menu prices.

This report shows that the strength of the restaurant industry's sustained growth provides support for New York to eliminate its subminimum wage for tipped workers. Under current law, restaurant owners are permitted to pay tipped workers a lower cash wage than the overall State minimum wage, provided that tips received by such tipped workers bring the total earnings for each worker to the statutory minimum wage level.

Seven states, among them California, Minnesota, Oregon, and Washington, require restaurants and other employers of tipped workers to pay their workers the State minimum wage. Restaurants in these states have been thriving and there is no evidence that the absence of a lower tipped-credit wage harms the industry overall or lessens tips for affected workers. Moreover, compelling research shows that New York State should end the subminimum wage for tipped workers, who are more vulnerable to sexual harassment and wage theft and suffer higher rates of poverty and hardship than those in states where the subminimum wage has been eliminated.

1. Introduction

Among labor campaigns of the last few decades, the “Fight for \$15” has been one of the most effective in providing concrete benefits to working people.¹ It has led not only to the passage of legislation raising the wage floor in 25 states (seven of them to \$15 per hour) and over 40 cities and counties, but it has also prompted dozens of large private employers to raise their starting pay voluntarily. As a result, a National Employment Law Project (NELP) report from November 2018 showed that an estimated 22 million US workers would see \$68 billion in raises by the time higher minimum wages have been fully phased in. Moreover, that was before four major states— Illinois, Maryland, New Jersey, and Connecticut—enacted \$15 minimum wage laws, adding several million more affected workers.² Earlier this month, the U.S. House of Representatives passed legislation designed to raise the federal minimum wage to \$15 per hour.³

New York is one of seven states to have adopted a \$15 hourly minimum wage. In 2016, New York passed a law that outlined a series of increases so that the minimum wage would reach \$15 in New York City by 2019 (by the end of 2018 for workers in businesses with more than 10 employees), and on Long Island and in Westchester County by 2021. It will reach \$12.50 by 2020 for the rest of the state, followed by additional increases in subsequent years until it reaches \$15.⁴ Prior to that, in 2013, the State had adopted a three-step increase, from \$7.25 to \$9.00 by 2015 (see Appendix Figure 1). Twenty-one states continue to adhere to the \$7.25 federal minimum wage.⁵

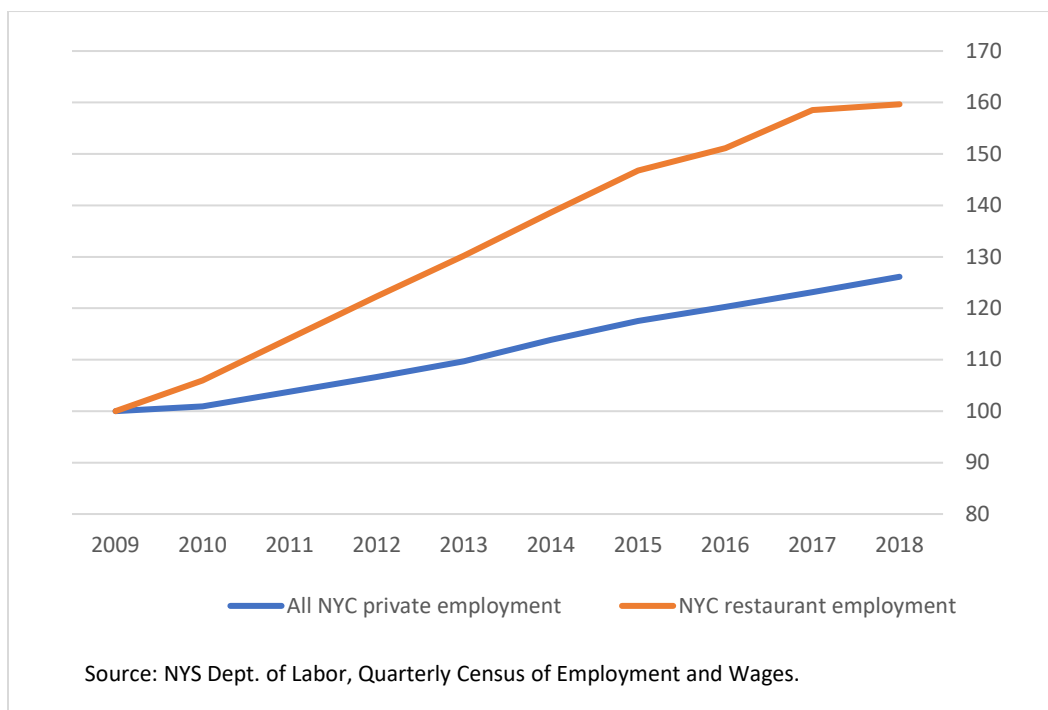
There is strong and growing evidence that shows minimum wage increases do not negatively impact employment—and in some cases even catalyze an *increase* in employment.⁶ In addition to increased earnings, important ancillary benefits to higher minimum wages for working families can be seen in decreased rates of child abuse and neglect, improved educational outcomes for the children of minimum wage workers, and an overall improvement in health and wellbeing.⁷

And yet, some business groups claim that the minimum wage increases have harmed New York City restaurants. In an oft-cited survey released earlier this year, the New York City Hospitality Alliance purported to show that restaurants have been hurt by increases in the New York State minimum wage.⁸ However, the survey’s methodology was not made available, making it impossible to assess the survey design and bias.

A review of comprehensive government data paints a different economic picture. It shows that growth in restaurant employment and wages in New York City have outstripped national growth since 2013 when New York State began phasing in higher minimum wages. In fact, the sustained growth in the New York City restaurant industry over the past five years, during which the minimum wage has more than doubled,⁹ is remarkable considering that the industry traditionally pays low hourly wages and therefore the new law affected much of its workforce. Indeed, a \$15 an hour minimum wage was estimated to directly or indirectly impact nearly 80 percent of all New York City restaurant workers.¹⁰

In the period of recovery and expansion since the 2008-09 Great Recession, New York City has seen its fastest sustained job growth since the end of World War II.¹¹ Even so, the growth in New York City restaurant employment was more than twice that of overall private job growth in the city from 2009 to 2018 (Figure 1).¹² Combined full- and limited-service restaurant employment started to grow much faster than the city’s private economy overall beginning in 2010, and the successive minimum wage increases beginning at the end of 2013 have not dented that period of more rapid growth. (Limited-service restaurants are those, such as fast food restaurants, in which customers order at a counter and table service is not provided. Full-service restaurants provide table service by wait staff. Fast-casual restaurants have also emerged in recent years and are a hybrid form, many with counter-ordering but food delivered by servers.) Over the past five full years (2013-18), restaurant employment grew more than 50 percent faster than overall private sector job growth in New York City.¹³

Figure 1 NYC growth in restaurant employment exceeds growth in all private employment (indexed 2009=100)



Before we get into the details of the employment trends, here are some important characteristics of the New York City restaurant industry to have in mind. Total restaurant sales in New York City were nearly \$22 billion in 2018. The city had a total of 18,082 restaurants last year, with slightly over half (54 percent) located in Manhattan. An even higher proportion of the city’s 245,594 restaurant employees in 2018 worked in Manhattan restaurants (63 percent). Over two-thirds (69 percent) of all city restaurant workers were in the full-service category and a large

share of these full-service employees (70 percent) were employed in Manhattan. A smaller percentage (47 percent) of limited-service restaurant employees worked in Manhattan.

As the recovery enters its 10th year, inflation-adjusted wages across the board in New York City are starting to show moderate growth. In contrast to the early recovery period (2009-2013), when real hourly wages for those in the bottom half of the wage distribution fell, the past five years have seen wage gains ranging from 4.3 percent for those at the 40th percentile and median wage to 15 percent for those at the 20th percentile wage. The wage gains at the bottom of the wage distribution have been faster than in the middle of the distribution mainly because of the steady increase in New York's wage floor since 2013 (see Appendix Figure 2).

In the discussion that follows, employment and wage trends are considered separately for full-service and limited-service restaurants. All workers in limited-service restaurants and non-tipped workers in full-service restaurants are subject to the regular State minimum wage for New York City. In New York, tipped workers in full-service restaurants can be paid a subminimum cash wage provided that the tips they receive raise their earnings at least to the regular minimum wage level (see Appendix Figure 1 for the wage schedule for tipped workers). Our analysis also separates Manhattan from the other four New York City boroughs because the Manhattan full-service restaurant industry generally serves a higher-end market and has average wages that were more than 50 percent higher in 2013 than in similar establishments in the other boroughs.

2. New York City's Full-Service Restaurants: Strong Overall Growth—Particularly Outside of Manhattan

Between 2013 and 2018, New York City full-service restaurant employment growth typically surpassed the national trend even as the State minimum wage rose steadily. During this time, job growth was particularly strong in boroughs outside Manhattan, increasing three times as fast (with a combined job gain of 35 percent) across Brooklyn, the Bronx, Queens, and Staten Island as in Manhattan or the nation overall (both of which had 11 percent job gains). On average, this translates to a six percent annual average growth in boroughs outside of Manhattan (Figure 2). In part, this faster job growth outside of Manhattan is due to the smaller number of restaurant workers in the other boroughs. However, it is also consistent with the fact that a greater share of New York City job growth in the recent economic recovery has occurred outside of Manhattan than in previous expansion periods since at least 1975 – evidence of strong overall economic activity in the other boroughs.¹⁴

Figure 2 NYC and U.S. full-service restaurant employment growth, 2014-18



Similarly, the number of full-service restaurants in 2018 was nearly 26 percent greater in the boroughs outside Manhattan than in 2013. (Figure 3 indexes the number of restaurants to the 2013 level, 2013=100, so that the height of the bars in the figure indicate the cumulative percent above the 2013 level; thus, a value of 126 for 2018 for restaurants outside of Manhattan indicates a 26 percent increase in their number compared to 2013.) That growth was nearly four times faster than in Manhattan or the U.S. overall, both of which had seven percent more full-service restaurants in 2018 than in 2013. Manhattan experienced declines in the number of restaurants in 2016 and in 2018 but had an 11 percent surge in the number of restaurants in 2017, reflecting some degree of year-to-year fluctuations as leases expire or rent pressures rise.

Not surprisingly, since average weekly wages in full-service restaurants outside Manhattan were less than two-thirds (about \$200 less) those in Manhattan in 2013, wages rose more quickly in the other boroughs. Boroughs outside Manhattan averaged 5.5 percent annual growth from 2013 to 2018 while average wages rose 4.2 percent in Manhattan (Figure 4). Average weekly wages rose 3.9 percent per year from 2013-18 in the U.S. full-service restaurant industry, but Manhattan wages were 77 percent higher in 2013 than the U.S. average. Although there was a dip in Manhattan full-service restaurant employment in 2018, average weekly wages rose by 7.7 percent, the fastest annual increase in the five-year period starting in 2013.

Figure 3 Number of New York City and U.S. full-service restaurants compared to 2013, 2014-18 (2013=100)

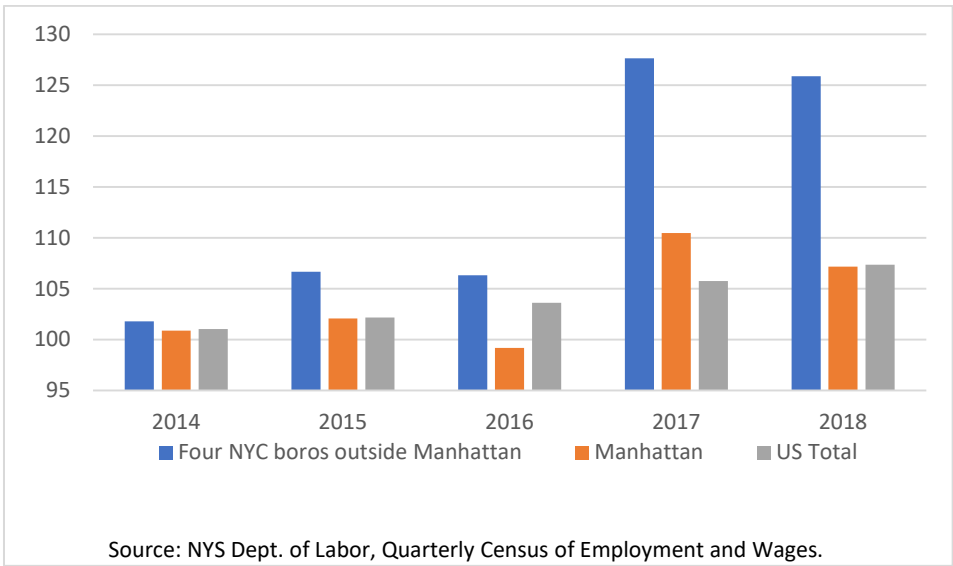
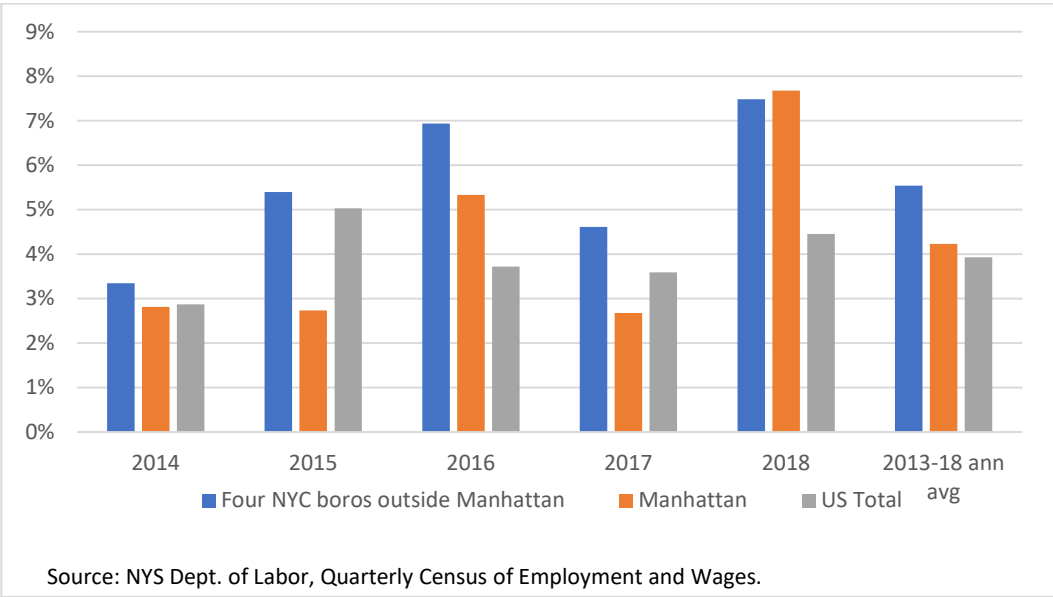


Figure 4 Percent change in average weekly wage, full-service restaurants, NYC and U.S., 2014-2018



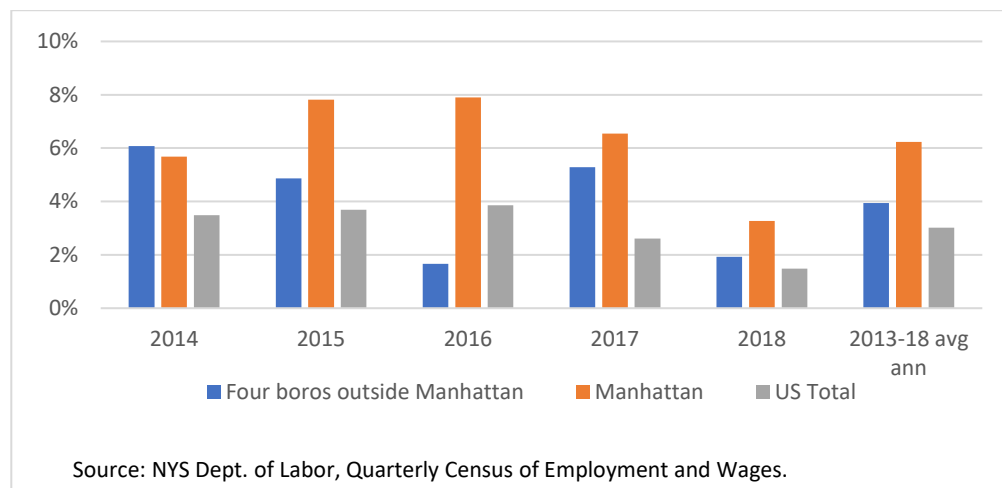
Despite the fact that average full-service wages are lower in Brooklyn, the Bronx, Queens, and Staten Island than in Manhattan, and therefore would be proportionally more affected by a minimum wage increase, these boroughs still saw stronger growth in employment, number of

full-service restaurants, and average weekly wages among restaurant workers from 2013 to 2018. This strongly suggests that other factors matter more for the health of a low-wage industry than minimum wage-related pay increases, even those affecting the majority of workers.

3. New York City’s Limited-Service Restaurants: Healthy Growth in All Boroughs

The pattern of reasonably strong job and wage growth is evident for limited-service restaurants as well as for full-service restaurants. However, one difference is that employment in the limited-service restaurant industry grew faster in Manhattan than in the four other boroughs, as Figure 5 indicates. Average annual job growth from 2013 to 2018 was 6.2 percent in Manhattan compared to 3.9 percent in the other boroughs and three percent nationally.

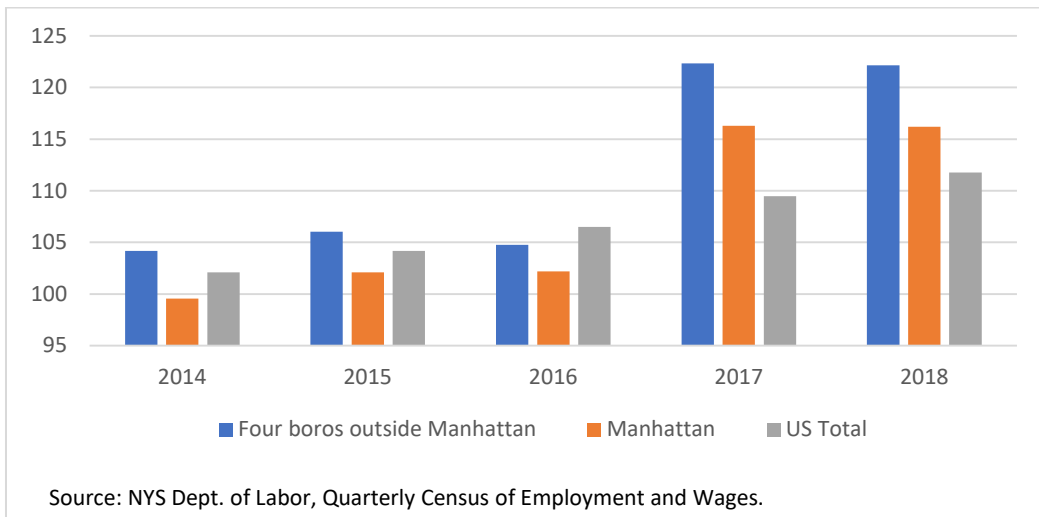
Figure 5 NYC and U.S. limited-service restaurant employment growth, 2014-18



Though employment growth in limited-service restaurants was fastest in Manhattan, the number of limited-service restaurants in the other boroughs grew faster (22 percent) from 2013 to 2018, exceeding the 16 percent gain in Manhattan and the 12 percent increase nationally (Figure 6).

The number of limited-service restaurants in Manhattan grew much faster from 2013-18 than the number of full-service restaurants (16 percent vs. seven percent). A likely explanation is that an increasing number and variety of fast food eateries may have siphoned off some tourists and lunch-seeking office workers who otherwise may have patronized full-service establishments.¹⁵

Figure 6 Number of New York City and U.S. limited-service restaurants compared to 2013, 2014-18 (2013=100)



Again, reflecting the fact that wages tend to be lower in the boroughs outside of Manhattan, average weekly wages in limited-service restaurants in those boroughs increased slightly more rapidly, an average of 6.7 percent annually from 2013 to 2018, compared to the 6.1 percent annual growth in Manhattan and 3.7 percent in the U.S. overall (Figure 7).

Figure 7 Percent change in average weekly wage, limited-service restaurants, NYC and U.S., 2014-2018



4. Restaurant Employment and Average Wage Growth for New York City Compared to 12 Large Cities with No Minimum Wage Increases 2013-18

Since large cities generally have fared better economically in recent years than smaller cities and non-urban areas, it is reasonable to ask how New York City’s restaurant growth has compared to that in other large cities. Even with the doubling of the minimum wage from 2013 to 2018, restaurant employment growth in New York City was greater than the average of 12 large U.S. cities that had no minimum wage changes over this period. Figure 8 shows restaurant employment growth for the 12 U.S. cities with populations of 500,000 or more that did not have any minimum wage increases over this period. (Since detailed employment data are available by county, Figure 8 includes employment data for all counties that are part of these cities.)

New York City’s 20.3 percent combined full- and limited-service employment growth from 2013-18 was exceeded by only three (Nashville, Charlotte, and Dallas) of the 12 large cities with

Figure 8 New York City restaurant employment growth, 2013-18, compared to 12 large cities with no minimum wage increases during this period

	% 2013-18 employment change				ratio of full- and limited-service restaurant to priv. job change 2013-18
	Private	Full-service restaurants	Limited-service restaurants	Full- and limited-service restaurants	
New York City	15.0%	17.3%	27.5%	20.3%	1.352
Houston, TX	7.6%	17.1%	23.7%	20.0%	2.627
Oklahoma City, OK	6.7%	17.7%	15.4%	16.6%	2.461
Nashville, TN	18.7%	42.3%	23.9%	35.7%	1.911
Philadelphia, PA	10.4%	17.3%	16.2%	16.9%	1.634
Milwaukee, WI	5.1%	5.7%	9.1%	7.2%	1.398
Memphis, TN	6.7%	3.1%	16.1%	9.1%	1.356
Charlotte, NC	20.0%	21.2%	23.7%	22.2%	1.109
Dallas, TX	18.6%	14.8%	27.9%	20.6%	1.107
San Antonio, TX	14.0%	9.9%	19.8%	14.7%	1.050
Louisville, KY	9.7%	5.4%	13.6%	9.2%	0.943
Atlanta, GA	17.0%	15.3%	7.4%	12.1%	0.712
Indianapolis, IN	5.5%	4.9%	0.2%	2.7%	0.496
12 large cities with no minimum wage increase, 2013-18	12.0%	14.9%	19.0%	16.7%	1.389
<i>U.S. total (for comparison)</i>	<i>10.3%</i>	<i>11.5%</i>	<i>16.0%</i>	<i>13.5%</i>	<i>1.311</i>

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

no minimum wage increases during this period. This faster growth is likely due to New York City’s robust 15 percent private job growth, exceeded by only four of the 12 cities. According to the last column in Figure 8, New York City’s restaurant job growth relative to total private sector job growth (1.352) was on a par with the average for all 12 cities (1.389) and the overall national average (1.311). The sharp minimum wage increase in New York City did not result in weaker restaurant job growth than in large cities without minimum wage increases, and New York City’s faster-than-national average restaurant job growth is likely due mainly to faster private growth.

Not surprisingly, the average wage growth among New York City restaurant workers was much greater than for their counterparts in the 12 large cities with no minimum wage increases from 2013-18. The average weekly wage increase for New York City full-service restaurant workers was more than 50 percent greater than the average for those 12 cities, and the average wage increase for limited-service restaurant workers in New York City was more than twice that of their counterparts in the 12 cities, as indicated in Figure 9. Not one of the 12 cities had weekly wage increases surpassing those of New York City restaurant workers over this period. As noted earlier, since average wages are lower in limited-service restaurants, there were larger average wage increases in limited-service than in full-service establishments in New York City, although this was not the case in most of the large cities with no minimum wage increases.

Figure 9 New York City restaurant average weekly wage growth, 2013-18, compared to 12 large cities with no minimum wage increase

	% 2013-18 annual weekly wage change	
	Full-service restaurants	Limited-service restaurants
New York City	27.1%	37.0%
Nashville, TN	22.7%	30.4%
Louisville, KY	21.9%	30.2%
Milwaukee, WI	20.8%	20.7%
Indianapolis, IN	19.7%	19.4%
Memphis, TN	19.1%	13.0%
Houston, TX	17.8%	14.6%
Atlanta, GA *	17.8%	n.a.
San Antonio, TX	16.8%	13.5%
Philadelphia, PA	16.0%	17.3%
Charlotte, NC	15.2%	15.2%
Oklahoma City, OK	12.5%	9.8%
Dallas, TX	11.4%	13.0%
12 large cities* with no minimum wage increase, 2013-18	17.5%	17.6%

* Atlanta weekly wage series for limited-service restaurants shows inexplicably large dropoff in 2015; it is excluded from the 12 city average shown in the last row

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

5. Restaurant Wage and Employment Growth in Six Other Large Cities with Minimum Wage Increases

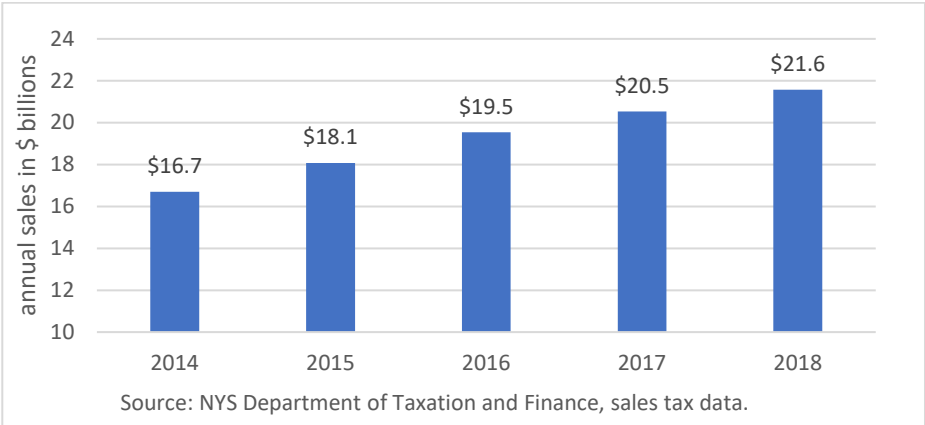
The most credible recent research on the relationship between large minimum wage increases in large cities and restaurant employment and earnings does not find any adverse employment effects. In a study published in September 2018, economists at the University of California, Berkeley used sophisticated analytical methods to examine the effects of minimum wage increases in six cities that were among the early movers in higher local minimum wages (Chicago, Washington, D.C., Oakland, San Francisco, San Jose, and Seattle). The study focused on restaurant employment since it is the largest and most intensive user of low-wage labor.¹⁶

The Berkeley study found that for minimum wage increases in the \$10-\$13 an hour range through the third quarter of 2016, a 10 percent increase in the minimum wage increased earnings for restaurant workers by 1.3-2.5 percent. As in the case of New York City, the earnings effects were larger for limited-service than for full-service restaurants. Subjecting their analysis to multiple techniques to ensure robust results, the researchers concluded that there were no negative significant employment effects from minimum wage increases in any of the individual cities or when the six cities were pooled together.

6. Factors Affecting the Growth and Development of the New York City Restaurant Sector

The restaurant sector has seen significant growth in New York City in recent years even as the minimum wage has undergone historic increases. Total restaurant employment has doubled since 2000,¹⁷ and citywide restaurant revenues rose 6.6 percent between 2014 and 2018 (Figure 10). Based on sales tax collections, total New York City restaurant sales were \$21.6 billion in 2018, five percent higher than in 2017 and 29.2 percent above the 2014 level.¹⁸

Figure 10 NYC restaurant sales, 2014-2018



Rising incomes and continued growth in tourism have helped drive greater restaurant activity in New York City in recent years. Total private sector wages rose at an average annual pace of 5.4 percent from 2013-18.¹⁹ The number of tourists visiting New York City was 20 percent greater in 2018 than in 2013.²⁰ Restaurant sales have also benefitted from the rise in consumer spending on food away from home. The Bureau of Labor Statistics (BLS) Consumer Expenditure Survey shows that spending by American households on food away from home rose from 5.1 percent of all expenditures in 2013 to 5.6 percent in 2017 (the latest year for such data).²¹

Rising value of the dollar erodes restaurant spending by foreign tourists

New York City hosted 65.1 million visitors—tourists and business travelers—in 2018. Using Visa credit card transactions, the Center for an Urban Future estimated that 24 percent of all sales in 2016 at New York City restaurants and drinking places were to domestic and international tourists.²² International visitors accounted for nearly 21 percent of all out-of-town visitors but spent four times as much as domestic tourists, or half of all visitor spending.²³ Putting these data points together suggests that international tourists might account for about 12 percent of citywide restaurant sales.

Nevertheless, the sustained strength of the U.S. dollar over the past five years has moderated the purchasing power of international tourists. Any appreciation in the international exchange value of the U.S. dollar, all other things being equal, erodes the purchasing power of international tourists whose home country currencies are worth less relative to the dollar. From the end of 2013 to the end of 2018, the U.S. dollar appreciated by 20 percent.²⁴ This relative erosion in the purchasing power of foreign tourists might have weakened restaurant sales, particularly in Manhattan where the bulk of tourist dollars are spent.²⁵

Rapid growth in food delivery eats into restaurant margins

The size of the food delivery service industry has expanded dramatically in the past five years, providing a substitute for dining in restaurants and possibly helping to explain the slowing in full-service restaurant employment in the U.S. and in New York City.²⁶ Food delivery encompasses traditional methods of ordering directly from a restaurant via phone or website as well as the increasingly common means of using a third-party online application to order delivery. The growth of online orders placed through third-party delivery apps, such as Grubhub, Uber Eats, or DoorDash, has outpaced the growth of orders placed by phone or directly through a restaurant's website or app, so that in 2017 online delivery accounted for an estimated \$30 billion in total U.S. restaurant sales.²⁷ Recent rounds of private funding have led investors and banks to predict continued rapid growth—as high as 15-20 percent annually.

While restaurants hope to reach new customers via food delivery apps, the results of two survey studies conducted in 2016 and 2017 by the investment bank Morgan Stanley show that 43 percent of consumers who ordered food for delivery say doing so replaced a meal at a restaurant.²⁸ Similarly, the marketing group NPD found that meals eaten in dine-in restaurants nationwide did not increase at all in 2018 and nearly a third of all restaurant meals in 2018 were

consumed at home.²⁹ Morgan Stanley predicts that by 2020 food delivery will account for 40 percent of total US restaurant sales.³⁰

The rise in the delivery business not only impacts limited-service outlets. Digital delivery has grown twice as fast in full-service restaurants as in quick service outlets over the past five years.³¹ In addition, food delivery has expanded into meals that were not traditionally ordered as delivery or take-out, including breakfast and lunch, so that food delivery has now penetrated nearly all aspects of the restaurant industry.³²

The rapid growth of food delivery poses significant organizational and economic challenges for both full- and limited-service restaurants. Though food delivery companies have different fee structures, most charge a commission for each delivery that can change with location, as well as fees for preferential marketing or placement on their apps. A fast-casual restaurant facing a minimum Uber Eats charge of 15 percent, while working with an industry-standard profit margin of 5-10 percent, stands to lose on every order.³³ Writing in the *Washington Post* recently, food business reporter Laura Reiley noted the squeeze on restaurant profit margins accompanying the “explosive” growth in delivery and quotes an industry expert’s view that “at some point delivery cannibalizes existing restaurants.”³⁴

The rapid growth of the delivery sector in New York City has made it difficult for restaurants to analyze how the costs of delivery affect the bottom line. Focusing on Manhattan-based fast-casual restaurant Mulberry & Vine, anthropologist Elizabeth Dunn showed how some restaurants are driven to accept short-term losses for delivery orders because the explosion of customer demand for delivery and the hope that long-term adjustments in scale and logistics costs will eventually make delivery profitable. Mulberry & Vine began with no delivery service when it was founded in 2013, but now sees delivery orders account for 30 percent of its sales. Restaurant owner Michelle Gauthier admits profitability is hard to determine per order but estimates that 20-40 percent of the revenue for each online order goes to third-party platforms, meaning that she loses money on each online order.³⁵ Though as of May 2019 Grubhub captured 69 percent of meal-delivery sales in New York City, according to data from Second Measures,³⁶ recently several competitors to the major food delivery companies have popped up, attracting attention with their claims to offer flat fees to restaurants that are frustrated with the rising costs and opaque fee structures of Grubhub and Uber Eats.³⁷

In the face of growing customer demand for delivery, restaurants have sought to adapt to the delivery sector. The restaurant real estate industry has already seen a shift in leasing patterns, as restaurants trade dining space for larger kitchen and delivery-staging areas.³⁸ Food delivery will also likely impact restaurant employment and restaurant worker wages, with a reduction in the number of waitstaff as well as a change in how tips augment wages, with tips going to delivery workers rather than restaurant workers. (And in the case of at least one major delivery app, Postmates, the company uses tips intended for the deliverer to make up the hourly wages of delivery workers.³⁹)

As delivery accounts for a rising share of sales, restaurants will continue to grapple with how to make delivery profitable, with significant implications for restaurant workers and delivery app

workers. (Whether working directly for restaurants or for a delivery app, there is considerable evidence that delivery workers are highly exploited. Bicycle accidents and injuries are common, delivery workers typically are paid very little, tipping is uneven and unpredictable, and often delivery workers are misclassified as independent contractors or paid off-the-books in cash.⁴⁰)

Commercial rent pressures squeeze restaurants

New York City's strong economic expansion has pushed up rents paid by restaurants across the city. Typical restaurant leases run for 10 years, with fairly moderate annual increases of two-four percent a year. However, when a lease expires, landlords seek to capitalize on the steady property sales price appreciation occurring in the broader real estate market by demanding larger jumps in restaurant rents of up to 20, 30, or 50 percent. Frequently, such rent hikes can push a restaurant out of business. The last few years have presented huge challenges to Manhattan restaurants (and those in the increasingly higher-priced neighborhoods of Brooklyn) that operated for years paying more affordable rents from recession-era leases, as those leases have expired.⁴¹

Restaurants typically seek ground-floor retail space, where rents in much of Manhattan are higher than for Class A office space. *The New York Times* reported that in mid-2016 the average asking price for restaurant spaces in Manhattan, and some Brooklyn neighborhoods, was \$120 per square foot, more than double the \$52 per square foot for rents in West Los Angeles, that city's priciest area, or the average rent in San Francisco's downtown, where the asking price for restaurant space was \$45 per square foot.⁴² In the same way that independent retailers suffer a competitive disadvantage in hot real estate markets dominated by large chain stores that are able to pay higher rents for greater visibility, locally owned restaurateurs compete with a growing number of fast-casual restaurant chains like Chipotle, Shake Shack, or Sweetgreen for limited retail space.⁴³

Somewhat moderating the rent pressures on Manhattan restaurants is the relative decline of brick-and-mortar retailers in the wake of rising online sales. The Real Estate Board of New York noted in its most recent Manhattan retail reports that ground-floor retail rents declined over the previous year in 15 of 17 commercial corridors in late 2018 and in 12 of 17 corridors in early 2019. For example, asking rents in the spring of 2019 were \$226 per square foot along Third Avenue on the Upper East Side, 14 percent below prices in the spring of 2018, and were \$294 per square foot along Bleecker Street in the West Village, 12 percent lower than in spring 2018.⁴⁴ However, for many restaurants that opened in years when rents were much lower, such rents still entail considerable risk.

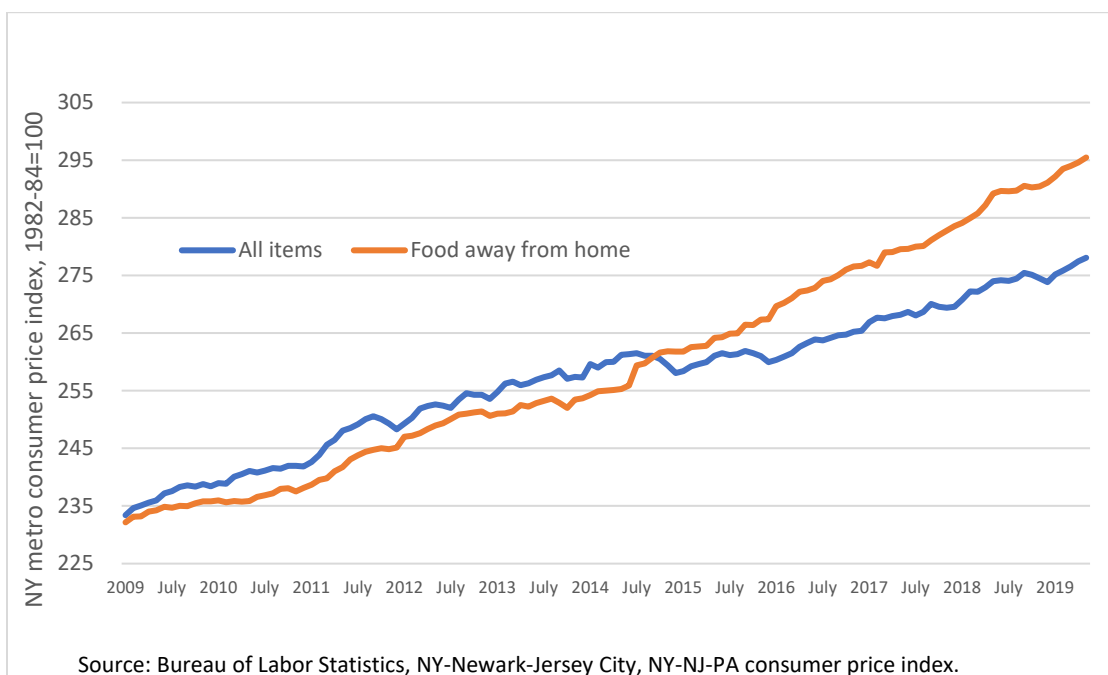
Another factor complicating the competitive environment facing Manhattan restaurateurs is the recent growth in food halls that have opened across the borough. As of early 2018, there were 25 Manhattan food halls, including Chelsea Market, Essex Market, and Hudson Eats in the downtown financial district. Food halls are often promoted by real estate developers as offering lower-cost (smaller) spaces and high visibility to restaurant owners willing to tailor their offerings to a food hall clientele, though profitability of food hall stands remains unclear.⁴⁵

New York restaurant prices have risen faster than the overall consumer price index

One of the ways some restaurants have responded to higher minimum wages is by increasing menu prices. Since January 2014, the first full month when the first increase in the State minimum wage was in effect, the consumer price index for “food away from home” (primarily food purchased in restaurants) has risen by 2.9 percent annually. That is considerably higher than the 1.3 percent average consumer price index increase for all items (Figure 11). In contrast, during the five years prior to January 2014, the consumer price index for food away from home rose more slowly (1.8 percent annually) than the all-items consumer price index (2.2 percent).

Raising menu prices modestly is an understandable response to an increase in the wage floor. Considering the better-than-national-average performance in both full- and limited-service New York City restaurants, modest price increases do not seem to have deterred customers. To the extent that most full-service restaurant sales likely are to households with above-average incomes, particularly in Manhattan, part of the cost of the minimum wage increase is disproportionately borne by higher-income households through higher dining-out prices.⁴⁶

Figure 11 New York consumer prices for all items and for food away from home (i.e., meals purchased in restaurants), 2014-2019



A brief note on employment and wage trends in other low-wage industries

Wage and employment analyses of other low-wage labor-intensive industries show that throughout the period during which New York State saw historic increases in the minimum wage, New York City employment growth outpaced national growth. From 2013 to 2018, New

York City employment growth in personal care services was more than double (5.1 percent) that of the national average (2.4 percent). While average weekly wages for personal care services in Manhattan grew more slowly (1.5 percent) than the national average (3.8 percent) from 2013-2018, the growth of annual weekly wages in personal care services in Brooklyn, the Bronx, Queens, and Staten Island (3.9 percent) kept pace with the U.S. average. Similarly, employment growth in New York City food manufacturing averaged 2.3 percent growth over the same time period, outperforming the national average of 1.9 percent growth. Over the same time period, annual weekly wages for local food manufacturing grew an average of 3.5 percent compared to the 2.7 percent growth in food manufacturing wages for the U.S. overall.

7. New York's Restaurant Sector Is Healthy Enough to Phase Out the Tipped Worker Subminimum Wage

As the analysis above shows, the restaurant sector in New York City is relatively healthy in terms of employment, number of firms, and wages, even with substantial increases in the minimum wage. The health of the industry is corroborated by data on restaurant sales, which show a 29.2 percent increase since 2014, as noted above.

A peer-reviewed study by researchers from the University of California, Berkeley, found that increases in the tipped subminimum wage over a 20-year period (1990-2013) had negligible effects on the restaurant industry. This study estimated that a 10 percent increase in the tipped subminimum wage led to small but significant increases (0.4 percent) in earnings and no significant effects on employment.⁴⁷

According to the latest estimates by the National Restaurant Association (NRA) and the New York State Restaurant Association (NYSRA), restaurant sales in New York State reached \$51.6 billion in 2018, with restaurant employment expected to grow by 5.6 percent over the next decade.⁴⁸ The NRA and NYSRA do not release New York City-specific numbers; however, given our analysis showing above-average growth in employment and annual wages, it is likely that the restaurant industry in New York City enjoys at least a comparable state of economic health. Thus, the strength of the industry in the city and statewide could readily support the gradual phase-out of the two-tiered wage system for workers, which allows tipped workers to be paid a subminimum wage. Elimination of the subminimum or tipped wage is currently under consideration by the New York State Department of Labor and the State Legislature.⁴⁹

In New York City, the minimum wage for tipped workers remains \$10 per hour—\$9, if the firm employs 10 workers or fewer. On Long Island, tipped workers will not see an increase to \$10 per hour until 2021, and in Upstate New York the tipped wage will reach just \$8.35 per hour in 2020, after which further increases are yet to be determined.⁵⁰

Tipped employees are among the most economically vulnerable workers in New York, according to research by economist Sylvia Allegretto of the University of California, Berkeley. The poverty

rate (15 percent) for New York State’s tipped workers is more than twice the poverty rate of non-tipped restaurant workers (6.2 percent). New York tipped workers overall have a median hourly wage of \$11.16 including estimated tips, with the median wage for bartenders and servers, who make up the majority of the tipped workforce, at \$11.00. Restaurant tipped workers, including servers and bartenders, make up 78 percent of the over 324,000 tipped workers in New York City. In addition, the tipped workforce in New York is not typically made up of teenagers or casual earners, but instead has a median age of 35. The majority of the restaurant industry tipped workforce is female (57 percent), more than one-third (37 percent) of whom have children.⁵¹

In jurisdictions with a “tip credit” system, such as New York City and State, employers are required to make up the difference between tips and the minimum wage if workers’ total hourly earnings do not bring them to at least the full minimum wage. Poverty among tipped workers is more pronounced in states with a tip credit system. As in New York, the poverty rate for non-tipped workers ranged from six to seven percent; for tipped workers, the poverty rate jumped to more than twice that rate—between 12.5 and 14.5 percent. Poverty among servers and bartenders in those states was even more alarming: their poverty rate was 18 percent in states that follow the federal tipped minimum required pay rate of \$2.13 per hour, and 14.4 percent in states with tipped subminimum wages between the federal tipped floor and the full minimum wage. This means that in states with a tip credit, tipped workers are more than twice as likely as non-tipped workers to live in poverty. In contrast, the poverty rates for tipped and non-tipped workers in states with no tipped worker subminimum, while still in need of improvement, did not diverge as greatly from one another.⁵²

Unpredictable incomes and their impact on gender justice

Tipped workers in New York are forced to live on unpredictable incomes. According to testimony before the New York State Department of Labor, the take-home pay of tipped workers fluctuates widely depending on the season, the shifts workers are given, and the generosity of patrons.⁵³ The lack of stable incomes for tipped workers makes it difficult for working families to plan and, because the majority of tipped workers are women, the tip credit system in New York has a disproportionate impact on the incomes of women and the households they head. In New York State, women make up majorities of all tipped workers (52 percent).⁵⁴

The unpredictability of income under a tip credit system makes workers vulnerable to harassment and powerless to demand better working conditions. Both research and anecdotal evidence point to high rates of sexual harassment in service sector industries, particularly in the accommodations and food service industry that includes restaurants. Analysis of sexual harassment charges filed with the Equal Employment Opportunity Commission (EEOC) between 2005 and 2015 shows that over 14 percent of all sexual harassment filings originated in the accommodations and food service industry—the highest among the 20 industries identified in filings.⁵⁵ Other research shows a connection between the sexualization of women’s bodies and gratuities.⁵⁶ Allegations of sexual harassment by celebrities, renowned chefs, and other high-profile individuals in 2017 and 2018 prompted media investigations of the pervasiveness of

similar conduct more generally. A *New York Times* story on sexual harassment in the restaurant industry, based on interviews with more than 60 servers and bartenders from around the country, revealed that workers feel compelled to tolerate such behavior in order improve their odds of earning a decent tip, and feel powerless to reject this behavior from customers.⁵⁷

Jurisdictions without a tip credit are thriving

Nationwide, seven states do not have a sub-minimum wage for tipped workers, requiring equal treatment for tipped and non-tipped workers. These states include Alaska, California, Minnesota, Montana, Nevada, Oregon, and Washington. Of these, California is currently phasing in a \$15 minimum wage, and the Twin Cities (Minneapolis and St. Paul) in Minnesota have adopted similar \$15-an-hour minimum wage laws. Washington State and Oregon are phasing in minimum wages of \$13.50, with Washington reaching that level on January 1, 2020, and Oregon on July 1, 2022. Higher minimum wages apply in Seattle and Portland.⁵⁸

In these so-called “equal treatment” states—also known as “One Fair Wage” states by workers’ advocates—the restaurant industry has been posting strong sales in recent years, and jobs are projected to grow at a healthy pace, ranging from 8.6 to 11.6 percent over the next decade.⁵⁹

Wage theft is more likely and enforcement more difficult with a tip credit system

The complexity of the tipped credit system and enforcement challenges make a tip credit provision particularly difficult to monitor and enforce.⁶⁰ Not surprisingly, the U.S. Department of Labor found an 84 percent noncompliance rate among the nearly 9,000 full-service restaurants it investigated from 2010–2012. Violations included tip credit infractions and other forms of wage theft, resulting in \$56.8 million in back pay awards for affected workers.⁶¹

8. Conclusion

During a period of historic minimum wage increases, New York City has seen the strong economic expansion of its restaurant industry, outpacing national growth in restaurant employment and average wages, and in the number of both limited- and full-service restaurant establishments. In addition, New York City restaurant employment grew more than twice as fast as overall local private job growth from 2009 to 2018. It has maintained substantially faster job growth in the years since 2013, when the State minimum wage rose from \$7.25 an hour to \$13.50 at the end of 2018.

Restaurants in Brooklyn, the Bronx, Queens, and Staten Island have seen particularly strong job and wage growth, despite lacking some of the advantages that Manhattan enjoys—such as high spending by tourists and generally higher-income patrons. For example, the number of full-service restaurants in the boroughs outside Manhattan rose more than three times as fast as the number of Manhattan eateries from 2013 to 2018.

By every measure charted in this report (jobs, number of restaurants, and average wages) the boroughs other than Manhattan have exceeded national performance over the past five years for

both full- and limited-service restaurants. For limited-service restaurants, Manhattan well exceeded national performance in jobs, number of outlets, and wage growth. Full-service restaurants in Manhattan fared roughly as well as the national averages for jobs, number of restaurants, and wage growth over this period.

These numbers do not suggest that New York's sharp minimum wage increase boosted restaurant job growth—the more rapid restaurant employment gains likely are due to the city's faster private job growth. But the research presented here clearly shows that the large wage floor rise did not diminish various indicators of restaurant performance, including job growth.

New York's rising minimum wage has tremendously benefitted low-wage workers, including restaurant workers. New York City workers in the lowest-paid three deciles of the wage distribution have seen inflation-adjusted wage gains of 8.5 to 15 percent since 2013 (the largest wage gains for these workers in the last 50 years). Wage gains among the city's restaurant workers have been even stronger, with average 2013-18 real wage increases of 15-23 percent for full-service and 26-30 percent for limited-service food service workers.

Compared to 12 large cities around the country that have not had any minimum wage increases from 2013-18, New York City's restaurants generally have seen stronger job growth. Average wages have risen much faster in New York City than in any of the 12 large cities where the statutory minimum wage did not change. Wage gains have been strongest among New York City's limited-service restaurant workers, since their average wages are lower than for full-service restaurant workers. In the case of limited-service New York City restaurants, workers' average weekly wages have grown more than twice as fast as for their counterparts in those 12 cities. New York City's experience is consistent with the latest research focusing on the food services industry in large cities where there have been large minimum wage increases—no negative employment effects and sizable average wage gains for restaurant workers.

The picture painted by the latest available government data show a vibrant New York City restaurant sector. Restaurant sales rose an average of 6.6 percent yearly starting in 2014 to reach nearly \$22 billion in 2018. This is the case even though the sector has faced some headwinds in recent years. The rise in restaurant sales may have been tempered to some extent by the 20 percent rise in the value of the U.S. dollar (from the end of 2013 to the end of 2018) that has eroded the purchasing power of many foreign tourists visiting New York City and who account for an estimated 12 percent of all local restaurant spending. The rapid growth of venture capital-fueled third-party delivery services (such as Grubhub) charging restaurants high commission fees is a relatively recent development that, by many reports, has weakened restaurant profitability. The steady rise in real estate prices and rents in Manhattan in recent years has also challenged many restaurants whose long-term leases have expired. In some cases, such restaurants have been hit with steep rent hikes of 20-50 percent.

Even with these headwinds, New York City's restaurant industry has flourished. The industry is very competitive and has always been buffeted by trends in food styles and changing consumer preferences. Locally owned restaurants, in particular, must continuously respond to these trends and challenges to maintain their appeal to customers. Some factors, like the rising minimum

wage, affect all restaurants similarly but still require each restaurant to successfully adapt. Most New York City restaurants have effectively adapted to the rise in the minimum wage. In part, this has been accomplished by slight restaurant price increases, averaging less than three percent a year since the minimum wage started to rise.

Similar adaptive responses by restaurants would likely result should the State of New York act to eliminate the subminimum wage currently allowed restaurants when it comes to paying tipped workers, such as waiters and waitresses. Under current law, restaurant owners are permitted to pay tipped workers a lower cash wage than the overall State minimum wage provided that tips received by such tipped workers bring the total earnings for each worker to at least the statutory minimum wage level. Seven states, among them California, Minnesota, Oregon, and Washington, do not have a minimum wage tip credit, and require restaurants and other employers of tipped workers to pay their workers the dollar amount of the overall State minimum wage. Restaurants in these states have been thriving and there is no evidence that the absence of a tipped credit harms the industry overall or lessens tips for affected workers. Moreover, there are compelling reasons why New York State should end the subminimum wage for tipped workers given research showing a greater vulnerability to sexual harassment and wage theft, and higher poverty and hardship in states where waiters and waitresses must rely on tips to get paid at least the minimum wage.

Appendices

Appendix Figure 1

New York State Minimum Wage Schedules Applicable in New York City

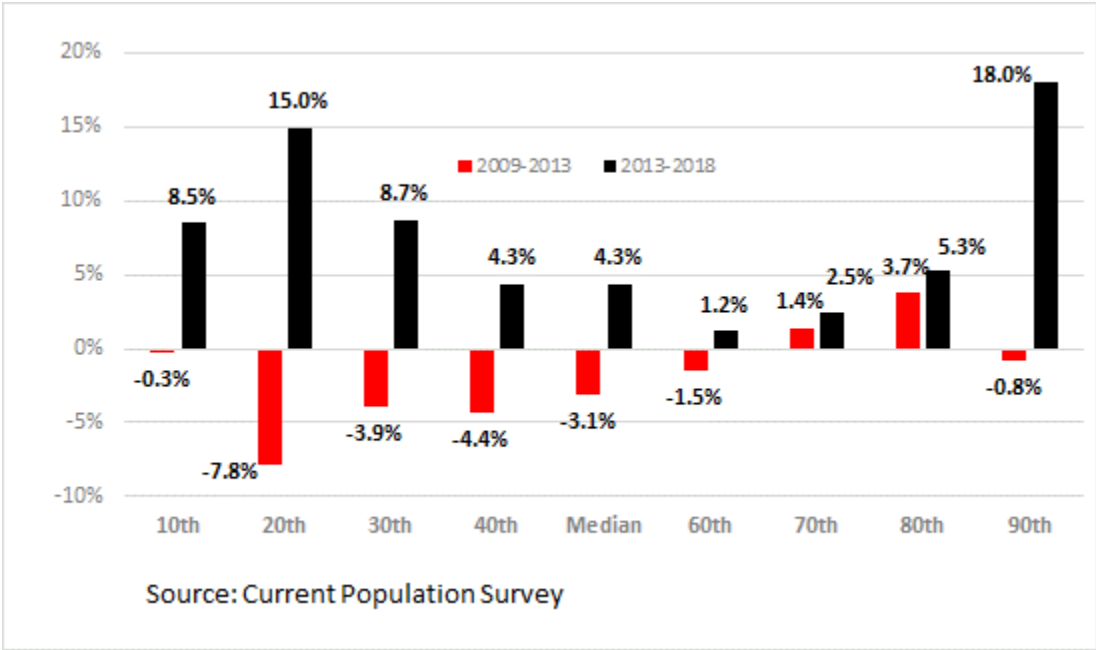
	Dec. 31 2013	Dec. 31 2014	Dec. 31 2015	Dec. 31 2016	Dec. 31 2017	Dec. 31 2018	Dec. 31 2019
<u>All NYC workers</u>	\$8.00	\$8.75	\$9.00				
<u>NYC (employers w/ 11 or more employees)</u>				\$11.00	\$13.00	\$15.00	
<u>NYC (employers w/ 10 or fewer employees)</u>				\$10.50	\$12.00	\$13.50	\$15.00
<u>NYC chain fast-food employees</u>			\$10.50	\$12.00	\$13.50	\$15.00	
<i>Minimum wage for tipped workers</i>							
<u>Food service tipped workers</u>							
cash wage	\$5.00	\$5.00	\$7.50				
tip credit	\$3.00	\$3.75	\$1.50				
Total of tips and cash wages	\$8.00	\$8.75	\$9.00				
<u>Food service tipped workers--employers w/ 11 or more employees</u>							
cash wage				\$7.50	\$8.65	\$10.00	
tip credit				\$3.50	\$4.35	\$5.00	
Total of tips and cash wages				\$11.00	\$13.00	\$15.00	
<u>Food service tipped workers--employers w/ 10 or fewer employees</u>							
cash wage				\$7.50	\$8.00	\$9.00	\$10.00
tip credit				\$3.00	\$4.00	\$4.50	\$5.00
Total of tips and cash wages				\$10.50	\$12.00	\$13.50	\$15.00

Note: At present, there is no indexation or further adjustment once the \$15.00 per hour level is reached.

Source: New York State Department of Labor.

Appendix Figure 2

Strong real hourly wage gains among low-wage NYC workers since 2013 due to minimum wage increases



Endnotes

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⁵⁰ New York State Department of Labor, Wage Order Summary, *Hospitality Industry*, <https://www.labor.ny.gov/formsdocs/wp/Part146.pdf>. Accessed July 16, 2019.

⁵¹ Sylvia Allegretto, *Should New York State Eliminate its Subminimum Wage?* Institute for Research on Labor and Employment, University of California, Berkeley, April 20, 2018. <https://irle.berkeley.edu/should-new-york-state-eliminate-its-subminimum-wage/>

⁵² Sylvia Allegretto and David Cooper, *Twenty-Three Years and Still Waiting for Change*, Economic Policy Institute and the Center on Wage and Employment Dynamics, Institute for Research on Labor and Employment, University of California, Berkeley, July 10, 2014, <http://www.epi.org/files/2014/EPI-CWED-BP379.pdf>.

⁵³ See testimony of Jacqueline Ross and Camilo Montes in New York State Department of Labor, *Subminimum Wage Event, Farmingdale, New York*, April 20, 2018, <https://www.labor.ny.gov/workerprotection/laborstandards/subminimumwage/transcript-farmingdale.pdf>; Elizabeth Protzer in New York State Department of Labor, *Subminimum Wage Event - Albany*, May 18, 2018, <https://www.labor.ny.gov/workerprotection/laborstandards/subminimumwage/transcript-albany.pdf>; and Andy Morrison and Frank Gattie in New York State Department of Labor, *Subminimum Wage Event - Manhattan*, June 27, 2018, <https://www.labor.ny.gov/workerprotection/laborstandards/subminimumwage/transcript-manhattan.pdf>.

⁵⁴ Ibid.

⁵⁵ Jocelyn Frye, *Not Just the Rich and Famous: The Pervasiveness of Sexual Harassment Across Industries Affects All Workers*, Center for American Progress, Nov.20, 2017, <https://www.americanprogress.org/issues/women/news/2017/11/20/443139/not-just-rich-famous/>. See also Restaurant Opportunities Center United and Forward Together, *The Glass Floor: Sexual Harassment in the Restaurant Industry*, October 7, 2014, http://rocunited.org/wp-content/uploads/2014/10/REPORT_TheGlassFloor_Sexual-Harassment-in-the-Restaurant-Industry.pdf.

⁵⁶ Michael Lynn, *Determinant and Consequences of Female Attractiveness and Sexiness: Realistic Tests with Restaurant Waitresses*, Cornell University, School of Hotel Administration, 2009, <https://pdfs.semanticscholar.org/94d6/a6c8020e8a775651e7ad9e27d78cf6b26153.pdf>.

⁵⁷ Catrin Einhorn and Rachel Abrams, “The Tipping Equation,” *New York Times*, March 12, 2018, <https://www.nytimes.com/interactive/2018/03/11/business/tipping-sexual-harassment.html>.

⁵⁸ Seattle employers of 500 or fewer employees are already subject to a \$15 minimum wage although a temporary (until 2025) \$3 credit is allowed toward the \$15 minimum for tips or for employer-provided medical benefits. Seattle Office of Labor Standards, <http://www.seattle.gov/laborstandards/ordinances/minimum-wage>. Metro counties in the Portland, Oregon area have a minimum wage level is \$1.25 higher than the standard level for the state. Oregon Bureau of Labor and Industries, <https://www.oregon.gov/boli/whd/omw/pages/minimum-wage-rate-summary.aspx>.

⁵⁹ See National Restaurant Association, *State Statistics*, for California, Oregon, Washington State and Minnesota, at <http://restaurant.org/research/state>.

⁶⁰ Restaurant Opportunities Center United and National Employment Law Project, *The Case for Phasing Out Maine’s Subminimum Wage for Tipped Workers*, October 2016, <http://www.nelp.org/content/uploads/Maine-Sub-Minimum-Wage-Report.pdf>.

⁶¹ Sylvia Allegretto and David Cooper, op. cit.

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