

FACT SHEET: How Restaurants Would Be Impacted By a \$15 Minimum Wage

By: Frank Manzo IV and Jill Manzo | February 14, 2019

Governor JB Pritzker may soon sign a [bill to gradually raise the minimum wage to \\$15 an hour](#). What would that mean for restaurants and bars in Illinois? The Illinois Economic Policy Institute (ILEPI) has answers to common questions.

Q: Can Illinois restaurants afford to pay a higher minimum wage?

A: Yes. In 2016, the “food services and drinking places” sector of the Illinois economy generated \$17.1 billion in economic activity for the State of Illinois. For this production, restaurant and bar workers were paid \$11.4 billion in total compensation— or 67% of the industry’s output. Illinois workers’ share of industry GDP, however, was lower than every neighboring state except Kentucky. For example, restaurant and bar workers received 69% of industry GDP in Indiana and 72% in Missouri. Raising the minimum wage would boost employee compensation, and the average restaurant owner in Illinois can afford it.

Economic Sector: Food Services and Drinking Places			
State	Compensation of Employees	Industry Gross Domestic Product	Labor Share of Industry GDP
Illinois	\$11,449,104,000	\$17,087,600,000	67.0%
Indiana	\$4,862,880,000	\$7,003,100,000	69.4%
Iowa	\$1,891,701,000	\$2,801,200,000	67.5%
Kentucky	\$3,174,443,000	\$5,014,700,000	63.3%
Missouri	\$4,791,178,000	\$6,623,500,000	72.3%
Wisconsin	\$3,954,270,000	\$5,675,800,000	69.7%

Source(s): Bureau of Economic Analysis (BEA) - "2016 Regional Data: GDP & Personal Income" from the U.S. Department of Commerce.

Q: Have minimum wage hikes caused restaurants to employ fewer workers?

A: No. After Chicago raised its minimum wage, the policy produced [higher incomes for at least 330,000 low-wage workers](#) while having no negative impact on the growth of new businesses or overall employment. In fact, the Chicago metro area added over 60,000 jobs in food services and drinking places as minimum wage hikes were going into effect. The Chicago area’s employment growth at restaurants and bars (+22%) surpassed job growth in the rest of Illinois (+7%) and Indiana and Wisconsin (+14%). Additionally, [in Seattle](#), “employment effects in food services, in restaurants, in limited-service restaurants and in full-service restaurants were not statistically distinguishable from zero.”

Q: Does a higher minimum wage put more jobs at risk of automation?

A: Yes and no. Economists at the Federal Reserve Bank of Chicago studied the short-run impact of minimum wage laws on the automation of low-wage jobs. They found that minimum wage hikes do cause job losses for those in “cognitively routine” occupations like cashiers and ushers but lead to employment gains for non-routine occupations such as bartenders and food preparation workers. [The changes offset each other, resulting in no net drop in total employment.](#) To date, automation and computerization have [created far more jobs](#) than they have replaced in the U.S. economy.

Q: Would the minimum wage be passed on to consumers in higher prices?

A: Some, but price increases would be small. The impact of a higher minimum wage on prices is [small](#). A 10% increase in the minimum wage has been associated with a 0.6% increase in [restaurant food prices](#). If this relationship holds, a \$15 minimum wage *could* lead to restaurant food prices that are 1.5% higher in Chicago and 4.7% higher in the rest of Illinois. This means that [a Big Mac at a McDonald’s in Springfield, Illinois](#) would go from \$3.99 today to \$4.18, a small 19 cent increase. At the same time, taxpayer costs for government assistance programs, [such as food stamps](#), would decrease.

Q: Would customer service be impacted by the minimum wage hike?

A: Not by much. In Illinois, the \$15 minimum wage bill would maintain the state's 60/40 wage-to-tip split, with tipped minimum wage eventually rising to \$9 per hour. Restaurant workers will still have to earn their tips. In addition, there is [evidence](#) that worker turnover falls following a minimum wage hike. A 10% minimum wage hike has been associated with a 3% [drop in restaurant worker turnover](#). Not only does this reduce employer costs of recruiting and training workers, it also improves employee morale and increases the chance that customers are served by experienced employees.

Q: Why is a minimum wage good for restaurants and bars?

A: A \$15 minimum wage would increase consumer spending. Raising the minimum wage stimulates the economy through increased consumer demand. Economists at the Federal Reserve Bank of Chicago have found that “[a \\$1 minimum wage hike increases total spending by approximately \\$700 per quarter](#)” among households with at least one minimum wage worker. That's because [working-class families spend a larger portion of their incomes](#) back into the economy than rich families. By boosting earnings for 1.4 million Illinois workers by about [\\$6,000 per year](#)— and by [more in communities outside of Chicago](#) — the minimum wage hike would increase sales at local restaurants and small businesses, offsetting any initial drops in employment.

Q: Do Illinois' restaurants support a higher minimum wage?

A: Yes. The Illinois Restaurant Association [supports raising the minimum wage to a uniform \\$15 an hour](#) across the state. The Illinois Restaurant Association also [opposes](#) a piecemeal or regionalized approach to the minimum wage.

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