



Canadian Restaurant  
and Foodservices  
Association

Association canadienne  
des restaurateurs  
et des services  
alimentaires

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Honourable Marilyn More  
Department of Labour and Workforce Development  
P.O. Box 697  
5151 Terminal Rd.  
Halifax, NS B3J 2T8

Dear Minister:

On behalf of the Canadian Restaurant and Foodservices Association (CRFA) and the 2,000 foodservice operators in Nova Scotia, I am responding to your request for feedback to the proposed increase to the minimum wage.

While the issue has been a primary concern to operators, I was overwhelmed by the response from members on the issue. In less than a week, hundreds of operators contacted me by phone or fax to voice their objection to the wage schedule and question the lack of concern by government to the plight of small business operators and in particular those in foodservice. With your government considering an increase in HST, increasing the minimum wage this magnitude is even more disconcerting.

Foodservice operators and our employees are an integral part of the Nova Scotia fabric, both economically and socially. In financial terms, our industry is made up of 2,000 small business operators generating \$1.5 billion in sales. On top of this, for every dollar spent in a restaurant, an additional \$1.85 is spent in the rest of the economy. With nearly 30,000 employees we employ more Nova Scotians than the farming, fishing, logging, finance and insurance industries combined.

Payroll is a huge cost for the foodservice industry. On average, 34 cents of every dollar in sales in Nova Scotia restaurants goes directly to employee wages and benefits. Given the low profit levels in foodservice, operators will be hard pressed to deal with a labour cost increase of 8.1% in 2010 and 5.3% in 2011. Particularly when the Consumer Price Increase is forecast to increase by only 1.2% and 1.0% respectively.

It is estimated the cost of the minimum wage increase on the foodservice industry in 2010 will be \$21 million and an additional \$15 million in 2011 (assuming no other minimum wage increases in 2011). For the average operator, this translates into a cost of \$11,166 per unit in 2010 and \$7,938 per unit in 2011. Sales in 2010 would have to increase by 6.1% to keep profit margins stable. CRFA's latest forecast, however, shows that foodservice sales in Nova Scotia will increase by only 2.6% in 2010.

If the Nova Scotia government truly believes that small businesses and in particular hospitality businesses are a cornerstone to local community economic development and provincial economic growth, there are ways to protect small businesses while achieving government's goal of reducing poverty and creating employment. Moves such as the unilateral increase in minimum wage are seen as counterproductive as the foodservice industry struggles to preserve existing employment and enhance future growth in the industry.

The foodservice industry contributes to communities of all sizes across the province and government should look at initiatives to assist the industry rather than force operators to curtail investment in their businesses and job creation. As we discussed in December, rather than straight increases to the minimum wage, alternatives should be explored that will protect employment opportunities for youth and those trying to enter the workforce for the first time.

Alternatives should include:

1. The introduction of a tip differential as is the case in Ontario, Quebec and Maine – to recognize the significant income earned by liquor servers in tips.
2. Increases to the low income tax threshold – to provide economic benefits to the working poor.
3. Only implement small incremental increases to the minimum wage more in line with other economic indicators – to protect sensitive industries from rate shock.
4. Freeze the current inexperienced minimum wage at the current rate.

### **Minimum Wage Committee Report**

#### ***Minimum Wage as an Anti-Poverty Tool***

The Minimum Wage Review Committee Report (The Report) justifies the large wage increases as a poverty reduction strategy. Attempting to use minimum wages to curb poverty is a simplistic approach that places the onus on employers to deal with a social issue. Poverty is a larger issue that must be tackled by a broader, more comprehensive approach. CRFA supports your government's initiative to look at a comprehensive anti-poverty strategy.

Most credible evidence indicates that raising the minimum wage is an ineffective way to raise someone out of poverty. It will not help people out of work and it will not help seniors living on a fixed income. These are the groups that combine to make up the vast majority of those living in poverty in Nova Scotia. The Report uses LICO (Low Income Cot Off) as a target for increases to minimum wage. This target is unjustified because Stats Canada clearly states that LICO is not a tool to measure poverty.

A comprehensive study of the minimum wage for the Federal Labour Standards Review (Gunderson – 2006) was conclusive in its findings that the minimum wage is amongst the bluntest tools for alleviating poverty and can in fact exacerbate it in some cases.

Minimum wage was not well suited to target poverty reduction for various reasons:

- Many poor do not work
- Those that work often work few hours
- There is a high risk of an adverse employment effect
- Minimum wages disproportionately affect teens who are distributed throughout the family income distribution; and
- Minimum wages affect individual wages while poverty is defined in terms of family income and need.

In foodservice, those earning near minimum wage are not living in poverty.

Approximately three quarters of those earning minimum wage are youth under 25 years of age and well over two thirds only work part time. In most cases these individuals are living at home, are students or are a secondary income earner.

### ***Tax Policy***

Most economists agree that providing targeted tax relief is a far more effective way to assist the working poor than a minimum wage increase. This is because both poverty and taxes payable are a measure of family income not the wage of an individual. The Report clearly indicates the Nova Scotia tax system is out of sync with most other jurisdictions because the province has one of the lowest basic personal exemptions and the income tax brackets are not indexed. Individuals who may earn a higher minimum wage in Nova Scotia actually take home less money than those in many other provinces where the minimum wage is lower. This is because of the tax system. The easiest and most progressive means to put money into the pockets of the working poor is through the tax system. Transfers through the tax system address concerns of low wage people and would also dampen the negative impacts on small businesses. This protects employment opportunities for low skilled employees and encourages investment by small business operators.

### ***Profitability***

The Report has an overview of the profitability of industries that hire minimum wage workers. From this it is clear there is a crisis in foodservice profitability and the industry is in a much more precarious position than other sectors, thereby deserving special attention. The Report indicates other sectors have profit margins that are at least double those of foodservice. While this is bad enough, the real situation is even worse because the Report information is dated and skewed to an industry average. The most recent information reports that full service restaurants in Nova Scotia, the sector that uses the

most labour, has a profit margin of just 2.3% and drinking establishments barely survive with a 1.0% margin.

Both full service and drinking establishments are in a desperate situation and need the introduction of a tip differential to secure the viability of the business and protect employment opportunities in these sectors.


### *Youth Employment*

The Report indicates the youth unemployment rate has increased dramatically. With 43% or nearly 13,000 of our employees under 25, the dismal state of the industry is a major factor in the high youth unemployment rate. Our industry gives young people the opportunity to learn their first job skills and pay for their education. There is no shortage of stories in our industry of motivated individuals who started off in entry level jobs and built successful careers in foodservice. Others build on the valuable job skills gained in foodservice as a stepping stone to another career. However, wage hikes of this magnitude, without dampening provisions such as differentials, will act as a disincentive to job creation and mean operators are less likely to take a chance on a young inexperienced employee or someone that is moving from social assistance into the workforce.

In addition to good food and good times, foodservice operators serve up jobs, investment and community involvement. Restaurants, cafeterias, coffee shops and bars are gathering spots for people from all walks of life, and operators are proud to serve as a social club for seniors, the sponsor of the local hockey team, the boardroom of small business, and a meeting place for community groups. You'll find foodservice wherever Nova Scotians gather to celebrate, do business, talk politics, and spend time with family and friends.

It is our aim to work with government to create a strong province. Like many other industries, foodservice has been hit hard by the recent recession – but given the proper conditions we are uniquely positioned to contribute to economic recovery and growth. Every one million dollars in restaurant sales creates nearly 27 jobs, making our industry one of the top five job creators in Canada. I urge you to take the concerns of the industry to heart and act on the recommendations provided.

Sincerely,



Lue Erjavec, P. Eng.  
Vice- President, Atlantic Canada