



**Canadian Restaurant
and Foodservices
Association**

March 30, 2007

VIA FACSIMILE

The Honourable Greg Sorbara, MPP
Minister of Finance
7 Queen's Park Crescent
7th Floor, Frost Bldg South
Toronto, Ontario
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Dear Minister:

I am writing on behalf of the Canadian Restaurant and Foodservices Association (CRFA) to express concern over the devastating impact of the recent Ontario Budget announcement to increase the minimum wage in Ontario to \$10.25 by 2010. This decision will cost the restaurant and foodservices industry \$765 million over three years. I am also writing to request an urgent meeting with you in to identify ways to mitigate this damage to the industry.

CRFA is Canada's largest hospitality association, representing over 34,000 members across the country, including 10,000 members in Ontario. Ontario's restaurant and foodservice industry represents one of the largest sectors of the provincial economy with sales of \$20.6 billion representing 3.7% of GDP. With 384,400 people in Ontario on its payroll, it is one of the province's largest private sector employers. The industry's workforce represents 5.9% of the province's total employment.

The Ontario foodservice industry is a major source of youth and entry-level jobs, employing 171,300 young-people between the ages of 15 and 24. This represents 17.9% of total youth employment in Ontario and 44.6 % of the jobs in foodservice. The industry provides these young people with valuable job experience and training.

Raising the minimum wage by \$2.25 will have a devastating impact on the restaurant and foodservice industry. Even if phased in over a 3-year period, a \$0.75 cent increase each year is almost a 10 percent increase annually, which is substantial. In a recent Toronto Star Interview, Morley Gunderson, the government's own researcher said *"a 10 percent increase in minimum wage would give rise to about a 3 percent to 6 per cent reduction in employment"*. By any measure this is significant.

Foodservice operators in Ontario already have the lowest pre-tax profit margin in the country at 2.8% of operating revenue. This translates into average earnings of just \$20,642 per establishment. Raising the minimum wage to \$10.25 will cost the Ontario industry \$765 million over the next three years, and reduce pre-tax profit margins to 1.7%. Of that, \$701.6 million is directly related to the increase in minimum wage – foodservice operators will also pay an additional \$64 million in payroll taxes on the higher wages. By taking this action, the Ontario government will be taking \$7,228/year out of each and every restaurant's bottom line.

At \$8.00 an hour, Ontario already has one of the highest minimum wages in Canada. Increasing the basic minimum wage to \$10.25 in 2010, will mean a 49.6% increase since 1995 – outpacing CPI (35%) and the Average Industrial Weekly Wage (37.4%) over the same period. Labour costs in Ontario represent a significant portion of operating costs for foodservice

operators – accounting for 30.8% of operating revenue. Increased labour costs of this magnitude cannot simply be absorbed and will result in lost jobs and businesses.

In recent years, Ontario's foodservice industry has under performed the rest of Canada due to a decline in international visitors, slow disposable income growth and lost manufacturing jobs. Between 2000 and 2005, real foodservice sales in Ontario fell by 4.3% compared to a 5.5% increase in the rest of Canada. Even with rising foodservice sales in 2006, real foodservice sales in Ontario remain below 2000 levels.

Rising costs, low profit margins and weak foodservice sales have eroded the number of foodservice establishments in Ontario in recent years. In 2000, there were 22,511 restaurants, caterers and bars in Ontario. By 2006, the number of foodservice establishments fell by nearly 400 establishments, despite an 8.6% increase in Ontario's population during that same period. Due to the high business costs and the weakness in foodservice demand, Ontario has one of the fewest foodservice establishments per 10,000 people in the country. If Ontario had the same number of units per 10,000 people as the national average, Ontario's foodservice industry would employ an additional 32,000 people.

Increasing Ontario's minimum wage will not improve outcomes for the majority of low-income Ontarians. Empirical research studies in Canada and internationally confirms standard economic theory that mandated minimum wages set above the market-clearing wage reduce aggregate employment rates. The research also indicates that those who experience the worst disemployment effects of a minimum wage increase are the young, inexperienced and unskilled.

A comprehensive literature review by Dr. Morley Gunderson, sponsored by the Federal Government in October 2006 for the Federal Labour Standards Review, found that there was little if any evidence of a positive impact on poverty as a result of an increase in the wage. The report concluded:

The disadvantage of minimum wages as an anti-poverty device are generally associated with the fact that they are at best an exceedingly blunt instrument for dealing with poverty, and may actually have a perverse effect, exacerbating poverty.^A

In Ontario, the unemployment rate for youth is double that of other eligible workers. Increasing minimum wage will exacerbate this problem, and ensure fewer job opportunities are available to Ontario youth. A 1989 Ontario Ministry of Labour study by Dungan and Gunderson^B used a macroeconomic model to determine that a 10% increase in the minimum wage leads to an increase in the aggregate unemployment rate of 0.24 percentage points. Dungan and Gunderson's research found that these job losses would be concentrated predominantly in small business establishments and in particular the hospitality sector.

Minimum wage earners in the foodservice industry are not serving as their family's primary income earner. The overwhelming majority of minimum wage earners in the foodservice industry are under the age of 25 (76.8% during the school year; 74.7% in the summer months). Over 47% of those earning minimum wage are students; and over 40% of those earning minimum wage work part-time. In addition, approximately 28% of foodservice minimum wage earners in Ontario earn gratuities in addition to wages^C. Increasing minimum wage in Ontario

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^A Gunderson, Morley (2006), "*Minimum Wages in Canada: Theory, Evidence and Policy*", Federal Labour Standards Review Commission (italics added)

^B Dungan, Peter and Gunderson, Morley (1989), "*The Effects of Minimum Wage Increases on Employment in Ontario*", Institute for Policy Analysis, University of Toronto

^C Labour Force Survey, Statistics Canada, 2005

will do more harm than good, making fewer jobs and hours available to students and youth that require the ability to build a savings, and also acquire valuable work experience.

On February 1, 2007, the general minimum wage was increased to \$8.00 per hour; for students it was increased to \$7.50 per hour and minimum wage increased to \$6.95 per hour for liquor servers (those that earn gratuities). These long-established differentials must be maintained in policy. In Ontario, differentials are an essential tool for operators struggling to keep overall labour costs balanced and manageable.

Minimum wage earners in tipped positions earn income far in excess of the minimum. As a result, in 2005, the average hourly wage for all foodservice employees in Ontario was \$10.68^D. The tip differential allows employers some flexibility when trying to strike a balance and increase wages for non-tipped or "back-of-the-house" employees who in some cases earn only slightly more than minimum wage and whose actual earnings are substantially less than their "front-of-the-house" counterparts, earning minimum wage plus tips. The differential for students in Ontario assists businesses to offset additional costs associated with hiring inexperienced youth for their first job. Once inexperienced workers learn workplace protocol and accumulate workplace skills, their value to the employer increases and the employer is then able to offer more pay.

When minimum wage is being reviewed it is important to maintain the existing differentials, and recognize that wages for employees in these other categories may not need to be adjusted at the same time or at similar increments. If these differentials are eliminated in Ontario, the additional costs will be devastating and result in lost businesses and lost jobs.

CRFA is disappointed that the decision to include an announcement regarding an increase to the basic minimum wage was done without formal consultation. The process for reviewing and setting minimum wage must be transparent, inclusive and be based on a wide variety of economic factors. Before implementation, research must be conducted regarding the impact of changes to the basic minimum wage in Ontario in terms of the expected outcomes and the impact on the Ontario economy, including the impact on the number of jobs and hours available to all employees, including youth and part-time workers, and the impact in terms of operating costs and profitability of employers. Government must take the lead in addressing the minimum wage issue, by not simply placing new cost burdens on Ontario businesses, but instead by finding a way to balance the needs of stakeholders.

CRFA is committed to work with the government to build a stronger, more competitive Ontario economy. We look forward to meeting with you on this important matter.

Yours truly,



Stephanie Jones
Vice President, Ontario

c.c.: Hon. Dalton McGuinty, Premier of Ontario
Mr. John Tory, MPP, Leader of the Ontario Progressive Conservative Party
Mr. Howard Hampton, MPP, Leader of the New Democratic Party of Ontario

^D Labour Force Survey, Statistics Canada, 2005