



Minimum Wage and Differentials – Targeted Relief to a Hard Hit Industry

Separating Myth from Reality

Presented to:

PEI Employment Standards Board

By:

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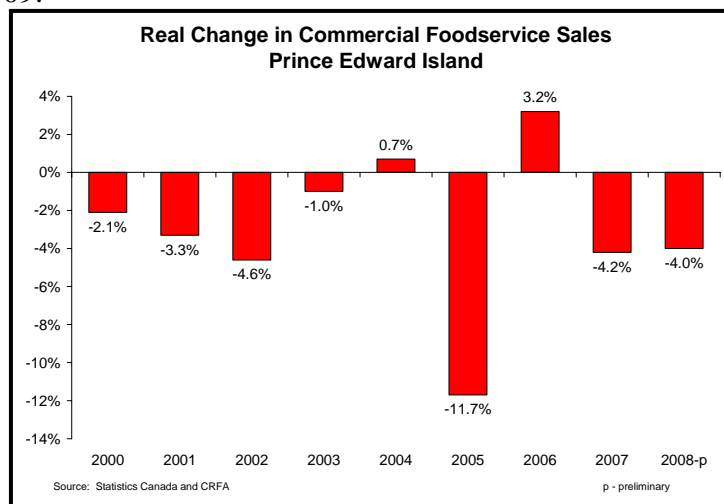


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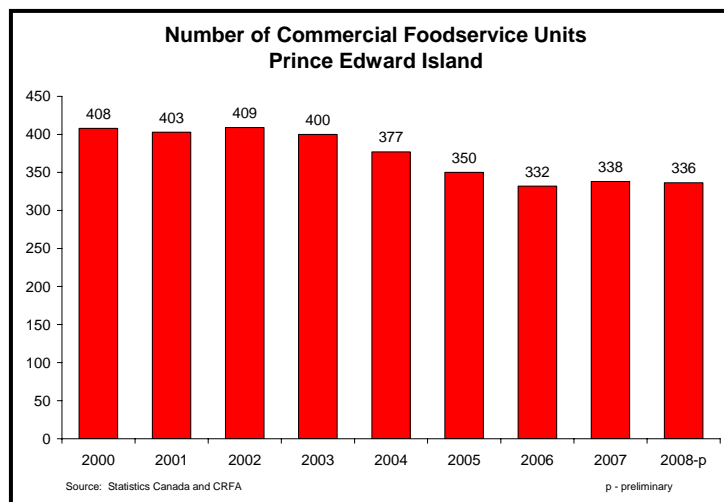
State of the Foodservice Industry

The foodservice industry, with 5,300 employees, is one of the largest private sector employers in the province. It is one of the few industries to employ Prince Edward Islanders in nearly every single community, both urban and rural. Industry growth, particularly in rural Prince Edward Island, lags most other jurisdictions in Canada. Continuing to add significant cost increases to employers through wage increases that are substantially higher than other economic indicators is having a dramatic impact on the viability of many operations. Recent economic instability will further erode sales and increase costs for most foodservice operators. Economic conditions in Prince Edward Island have changed dramatically since the current wage schedule was set, operators need relief:

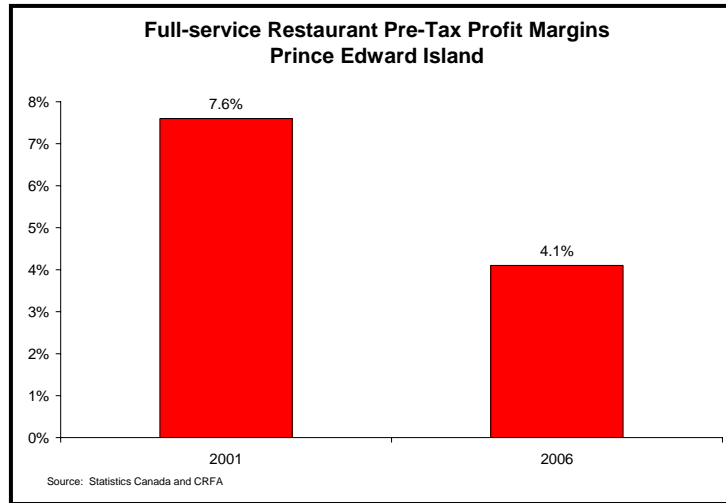
- Foodservice is one of the most labour intensive industries with 31 cents of every dollar in sales going towards labour costs.
- Due to a decline in international visitors, unit closures and weak domestic demand, real foodservice sales on Prince Edward Island have declined in seven of the past nine years. The recent economic havoc, decreasing consumer confidence, higher borrowing costs and tight market for credit will have a dramatic impact on the industry in the latter part of 2008 and 2009.



- Low profitability has led to the closure of many establishments. In general, independent (non-branded) and licensed establishments have borne the brunt of the downturn.



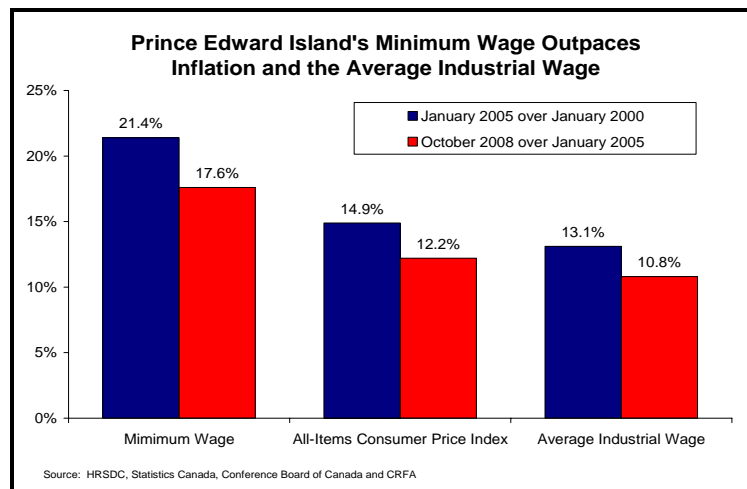
- Continuing significant cost increases in labour, energy, food and liquor combined with a downturn in tourism has had a major impact on foodservice profitability.



- Profit margins have decreased to 4.1%. This means that the average full-service restaurant makes a pre-tax profit of just \$22,300.

Impact of Minimum Wage Increases on the Foodservice Industry

- Research clearly indicates that minimum wage is an exceedingly blunt anti-poverty tool. In most cases, those with the least experience and fewest job skills are pushed out of the employment market. Research shows a 10% increase in minimum wage leads to a 3% decrease in employment. See enclosed report: Minimum Wages in Canada, by Morley Gunderson
- Tax exemptions followed by tax credits are a far better way to help the working poor. See enclosed report: Which Best Helps the Poor, by David Pankratz.
- Increasing the minimum wage by 6.7% from \$7.50 to \$8.00 by October 2008 has a ratcheting effecting on most foodservice wages and increased labour costs in the foodservice industry by \$2.1 million.
- The minimum wage is increasing faster than other economic indicators.



- An additional \$0.50 increase (to \$8.50 per hour) will cost the average establishment \$6,310 and the industry as a whole another \$2.1 million. Large full service restaurants can expect increases of several hundred thousand dollars in additional labour costs.
- Foodservice sales would need to grow by 4.2% between 2008 and 2009 to maintain present profit margins. Sales are only forecast to grow by 2.8% during this time.
- Foodservice operators on Prince Edward Island will incur a \$300,000 increase in labour costs due to the new provincial February holiday.
- The industry can't simply pass on price increases. Higher prices will mean many customers will simply decide to eat and drink at home where it is cheaper.

How will operators respond to wage increases?

- Automation – Replace jobs with machines
- Back of house employees will not see wage increases they deserve, thereby increasing turnover
- Self-serve
- Pre-prepared food purchased in bulk
- Employers less willing to take a chance on a marginal employee
- Less investment returned to business
- Higher prices for customers
- Reduction in employee benefits such as medical or dental plans, tuition assistance, staff pricing, bonuses
- Less customer service
- Reduction in operating hours
- Closure

Legislation Requires Consideration of Business Return on Investment

Section 5 (3)b of the Employment Act states that the “concept of reasonable rate of return on private investment” must be taken into consideration when determining the level of the wage. The evidence presented shows a sharp decline in the average foodservice establishment pre-tax profit down to just 4.1%, it is clear that operators have not seen an appropriate return on their investment. This is further evidenced by the large number of business closures and the sharp decline in the number of foodservice establishments on the Island. The total number of commercial foodservice establishments has declined from 409 in 2002 down to just 336 today. Given that labour accounts for a third of a foodservice operational costs and the fact that minimum wage rate increases have far exceeded other economic indicators, it is clear the growth in minimum wage rates must be curtailed in order for businesses to achieve a return on the significant investment required to operate a foodservice business. Other indicators are not a substitute for profitability and return on investment. If operators can not achieve a sufficient return on their investment, many will choose to invest their resources in other ventures, robbing Islanders of the job opportunities and economic spin-offs related to the foodservice industry.

What can be done to lessen the impact on the foodservice industry?

Increases in the minimum wage have a ratcheting effect on most wages in the foodservice industry. Employees expect to maintain the spread between their wage and the minimum wage. In general, many minimum wage workers in the foodservice industry are young – 50% of

foodservice minimum wage workers are under 20(unlicensed establishments) and 80% are under the age of 25. Furthermore, 20% of minimum wage workers in the industry earn tips.

Foodservice Recommendation #1 – Moderate and Incremental Increases

Given the uncertain economic conditions, fragile state of the industry and impact on overall foodservices wages, CRFA recommends that any increase to the general minimum wage be in line with other economic conditions such as the consumer price increase and spread out over a longer time frame. In order to allow operators to prepare for an increase, government must give business operators at least 3 months notice of an increase.

Foodservice Recommendation #2 – A Tip Differential Pilot Project

A tip or gratuity wage differential is a lower minimum wage for servers in licensed establishments. A tip differential is currently in place in Ontario and Quebec as well as 37 American states. In Ontario, the tip differential is currently \$1.15 and will increase to \$1.35 in 2010. In Quebec, the tip differential is \$0.75.

The tip differential would be put in place by maintaining the current wage rate for tipped employees at \$8.00 when the minimum wage is increased. Prior to a subsequent increase, the issue would be reviewed and unless there are significant and compelling administrative issues, the tip earners wage would be maintained at \$8.00 until the general minimum wage reaches \$9.00 At this point, the tip earners wage would increase at the same percentage increase as the general minimum wage rate. A tip differential would target relief to the sector that has borne the brunt of the foodservice downturn.

What workers would receive a tip differential?

The proposed tip differential would duplicate the one currently in place in Ontario and be restricted to servers in licensed establishments. Ontario policy states: If an employee serves liquor as a regular part of their employment, regardless of the length of time during the shift they actually serve liquor directly to patrons, they will be considered to be entitled to the liquor servers minimum wage for all hours worked during the shift.

Included Employees

- Bartenders
- Servers who serve alcohol directly to customers in licensed establishments

Excluded Employees

- Hostesses
- Busers
- Quick service counter attendants
- Food only wait staff
- Kitchen staff
- Delivery drivers

A tip differential recognizes the significant income earned by serving staff in licensed establishments. It has benefits for employers, employees and customers.

Employers

- Moderates some of the negative impacts of future minimum wage increases.
- At a time of economic uncertainty, the 50-cent differential would save the industry \$1.1 million.

Employees

- Protects the number of hours worked and total income for tip earners
- Allows employers to pay non-tip earners more.
- Minimal cost to employees - \$11.45/week in potential earnings

Customers

- Moderates price increases

Foodservice Recommendation #3 – A Training Differential Pilot Project

Virtually all independent research indicates that the people hardest hit by a minimum wage increase are inexperienced, unskilled youth. According to Statistics Canada figures for September 2008, the unemployment rate for youth in PEI is 17.5% as compared to a general unemployment rate of 11.4%. This differential would offset the additional costs associated with hiring and training inexperienced youth for their first job. One of the worst results of increasing the minimum wage is that it robs small business of the ability to create first time job experiences. A youth training wage differential would ensure youth are not locked out of valuable first job experience and denied the opportunity to save for and contribute to their education.

A training differential would be put in place by maintaining the current rate of \$8.00 for inexperienced employees until a 50-cent differential is achieved. The two wages would then increase proportionately. Student and inexperienced differentials are already in place in three Canadian provinces. Nova Scotia has a 50-cent differential for the first three months of employment, Ontario has a 60-cent differential for students and British Columbia has a two dollar differential for the first 500 hours of employment. Like the tip differential, this would be done on a pilot basis pending a review. If there is not a compelling rationale, the differential would be made permanent.

Benefits

- A wage differential significant enough to provide a strong incentive for employers to hire and train new employees
- Clear criteria to ensure ease of administration for employers and government
- Does not discriminate by age, or whether a new hire is part-time or full-time
- Allows for maximum job creation and training opportunities for inexperienced employees
- Strong incentive for employers to invest in training
- Hours worked criteria easy to administer for employers
- Minimum of new red tape created for administration

Foodservice recommendation #4 – A Better Way to Help the Working Poor

Most economists agree the most efficient means to assist the working poor is through the tax system. CRFA recommends government increase the Basic Personal Income Tax Exemption by \$4,000. Islanders currently have the lowest exemption rate in the country. An increase in the exemption would allow all Islanders, particularly those on the lower end of the spectrum, to benefit from an increase in their standard of living.

An increase in this exemption would provide benefits to employees, customers and operators of foodservice establishments. Employees would benefit from significant tax relief and customers would see their disposable income increase, making them better able to cope with rising prices. Operators would benefit from resulting sales stimulus. In addition, an increase in the exemption would act as an incentive to bring the disenfranchised into the workforce.

Significantly increasing the Basic Personal Income Tax Exemption with allow government to put more money into the pockets of the working poor without increasing the minimum wage thereby hurting small businesses or decreasing the number of job opportunities for the unskilled.

