



**Canadian Restaurant
and Foodservices
Association**

April 26, 2007

VIA FACSIMILE & E-MAIL

Mr. Pat Hoy, MPP
Chair, Standing Committee on Finance
and Economic Affairs
Room 1405, Whitney Block
Queen's Park
Toronto, Ontario
M7A 1A2

Dear Mr. Hoy:

I am writing on behalf of the Canadian Restaurant and Foodservices Association (CRFA) regarding Bill 187, an Act Respecting Budget Measures, interim appropriations and other matters currently before the Standing Committee on Finance and Economic Affairs. This decision will cost the restaurant and foodservices industry \$765 million over three years. The package of reforms presented in Bill 187 will not deliver the benefits necessary to improve the lives of Ontario's minimum wage earners, nor does it deliver the benefits necessary to mitigate the significant cost burdens that will be placed on employers through the adoption of the budget in its entirety. CRFA is particularly concerned with the lack of consultation regarding the devastating impact of the recent Ontario Budget announcement to increase the minimum wage in Ontario to \$10.25 by 2010.

CRFA is Canada's largest hospitality association, representing over 34,000 members across the country, including over 10,000 members in Ontario. Ontario's restaurant and foodservice industry represents one of the largest sectors of the provincial economy with sales of \$20.7 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 disastrous 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.

Foodservice operators in Ontario already have the lowest pre-tax profit margin in the country at 2.9% of operating revenue. This translates into average earnings of just \$21,310 per unit. 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 1.9%. 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 \$6,136/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 30.9% of operating revenue. Increased labour costs of this magnitude cannot simply be absorbed and will result in lost jobs and businesses.

- **Business Environment in Ontario**

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 2006, real foodservice sales in Ontario fell by 1.8% compared to an 8.5% increase in the rest of Canada. Even with rising foodservice sales in 2006, real foodservice sales in Ontario remain below 2000 levels. The decline in foodservice sales is not symptomatic of the economy, as economic growth in Ontario has jumped 14.2% since 2000.

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 over 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 Minimum Wage will not improve outcomes for low-income families**

Increasing Ontario's minimum wage will not improve outcomes for low-income Ontarians. According to the February 2007 report commissioned by the Ontario Ministry of Finance by Dr. Morley Gunderson, more than 80 percent of minimum wage earners in Ontario are teens or youth that live with their parents, or are part of a couple (with almost 70% having a spouse employed at a job above the minimum wage).^A

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.^B

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^A Gunderson, Morley (2007), "Minimum Wages: Issues and Options for Ontario", Prepared for the Ontario Ministry of Finance

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

Like minimum wage earners in Ontario, 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 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.

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. Gunderson's 2007 report found that a 10% increase in the minimum wage is associated with roughly a 3% to 6% decrease in employment for teenagers, and slightly lower for young adults – also implying that a 25% increase in minimum wage could lead to a 7.5%-15% reduction in teen employment. Further, Gunderson concluded that the employment impacts are similar for pre-announced pre-specified increases compared to as hoc increases of the same magnitude^D.

A 1989 Ontario Ministry of Labour study by Dungan and Gunderson^E 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. Instead of asking small business to burden increased labour costs, government should act to relieve the tax burden on all Ontarians and create more jobs for the least skilled component of the labour force.

In order to improve outcomes for low-income Ontarians a broader anti-poverty strategy is required, that includes consultations with business and social interest groups as well as government stakeholders. 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.

CRFA recommends that in order to improve outcomes for minimum wage earners, and those living in poverty in Ontario, that there be a concerted effort to reduce the tax burden on Ontario's lowest income earners. Bold efforts are needed to bring Ontario's personal income tax structure closer in line with its major Canadian and US Competitors. In the foodservice industry alone, for every 1% increase in disposable income, there is a 1% increase in foodservice sales. Every \$1 million in sales leads to the creation of 34 more jobs in the restaurant and foodservices industry.

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^C Labour Force Survey, Statistics Canada, 2005

^D Gunderson, Morley (2007), "*Minimum Wages: Issues and Options for Ontario*", Prepared for the Ontario Ministry of Finance

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

- **Impact of minimum wage increases on foodservice industry**

Foodservice establishments in Ontario are very labour intensive by nature with nearly 31% of sales going towards payroll.^F On the other hand establishments operate in an environment where competition is fierce and where consumers are resistant to price increases. In fact, between February 2004 and February 2007, the minimum wage jumped 11.9% while menu prices have only increased 8.2% as compared to an increase in the general inflation rate of 5.5%. When faced with the paradox of government mandated wage increases, increased inflationary pressures and the inability to pass on increased costs, operators have little choice but to cut hours or jobs.

Quantifying the impact on the industry and individual restaurants highlights the dilemma faced by operators as they struggle to balance the needs of their employees with the need to operate a viable business. By nature the average restaurant in Ontario is labour intensive and survives on slim pre-tax profit of just 2.9% – the lowest in the country.

By exploring the options available to foodservice employers faced with a mandated minimum wage increase, it becomes clear that they lead to a reduction in employee hours and jobs. Because workers do not suddenly become more productive relative to the increase, foodservice employers must look for lower-priced alternatives and find other ways to assimilate the extra costs.

One option is to replace low-wage workers with more productive workers. This may mean eliminating support staff in the foodservice establishment, and hiring experienced rather than first-time entrants to the labour market. This substitution factor is why minimum wage legislation has the harshest consequences for the least skilled workers.

A second alternative is to substitute capital for labour by automating services. Minimum wage increases encourage foodservice employers to invest in processes and equipment that require fewer staff. Self-service arrangements, the practice of purchasing pre-prepared and semi-prepared foods, and the use of equipment such as automatic french fry machines are becoming more prevalent in restaurant operations. Once the substitution/investment is made in equipment, the jobs are lost for an extended period of time, even after wage rates stabilize.

A third alternative is simply to cut back. In order for an employer to maintain a payroll budget that can be supported by the firm's sales and margins, employee hours are cut and/or jobs eliminated. This results in a net drop in pay for some employees. It is particularly hard on employees who rely on gratuities for the largest portion of their income. These employees experience a substantial reduction in income when their hours are slashed. Employers may also be forced to cut back on the non-wage component of employee compensation when faced with a minimum wage increase. In order to contain total labour costs, extra paid vacation time, on-the-job training, employee meals, and other fringe benefits are curtailed.

Simply absorbing a minimum wage increase is not an option for employers in an industry with already razor-thin margins. It could force some operators out of business. Because most other operating costs are fixed, controlling labour costs is essential to remaining competitive and viable. A mandated minimum wage increase often results in a ratcheting up of other wages,

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^F Foodservice Operations Report (2007), Prepared by the Canadian Restaurant and Foodservices Association based on data from Statistics Canada

causing a rippling effect though the entire operation. According to Riddell and Gunderson (2000)⁶, small employers find it particularly difficult to absorb legislated cost increases, especially when minimum wages have upward ripple effects inducing wage increases at higher levels to restore former relatives. This is exacerbated by ever-increasing payroll taxes such as workers' compensation premiums. The accumulated result is permanent closure for marginal operators, which puts more wage earners out of a job.

Trying to incorporate the cost of a minimum wage increase in higher prices is also self-defeating because it tends to reduce the demand for the industry's goods and services. Consumers are extremely resistant to menu price increases and have the option of choosing less expensive and tax-free home replacement meals from grocery stores.

The process for reviewing and setting minimum wage must be transparent, inclusive and be based on a wide variety of economic factors. Decision-makers must be held accountable for any changes to the 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. The consequence of considering Budget Bill 187 without considering the other regulatory elements of the budget is that the checks and balances of the entire package of budgetary reforms are not being openly studied and discussed. CRFA recommends that the Committee note CRFA's objections to the announcement regarding minimum wage as part of its report back to the legislature, and that the government 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.

Thank you for the opportunity to provide you with comments on this very important issue. CRFA would be pleased to answer any questions that you may have about the issues raised in this submission at your convenience.

Yours truly,



Stephanie Jones
Vice President, Ontario

⁶ Gunderson, Morley and Riddell, W. Craig (2000), "Employment Standards in the New World of Work" for Coalition of B.C. Businesses