



Association canadienne
des restaurateurs et
des services alimentaires

316 Bloor Street West
Toronto, Ontario, Canada
M5S 1W5

Tel: (416) 923-8416
or 1-800-387-5649
Fax: (416) 923-1450
www.crfa.ca

Canadian Restaurant
and Foodservices
Association

March 16, 2007

VIA FACSIMILE & E-MAIL

Mr. John Tory, MPP
Leader of the Progressive Conservative Party in Ontario
Main Legislative Building, Room 381
Queen's Park
Toronto, Ontario
M7A 1A8

Dear Mr. Tory:

I am writing on behalf of the Canadian Restaurant and Foodservices Association (CRFA) in response to your March 12th, 2007 letter seeking input and advice regarding the minimum wage in Ontario. Given the labour-intensive nature of the foodservice industry, minimum wage policies have a significant effect on the industry's ability to hire, train and retain young workers.

CRFA is Canada's largest hospitality association, representing over 35,000 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 foodservice industry provides a wide range of full-time and part-time job opportunities for people in Ontario, and in particular, supports important entry-level jobs for women, students, young people and new Canadians. These entry-level positions are invaluable stepping-stones for those entering or re-entering the labour force.

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.

The foodservice industry includes a wide range of businesses – from licensed, full-service restaurants to quick service establishments, as well as hotel foodservice, take-out, institutional feeders, clubs, and caterers. It is dominated by independent, locally owned companies with a high proportion operated by families. It can be found in every community in the province.

- **Business Environment in Ontario**

With one of the highest minimum wages in Canada, labour costs in Ontario represent a significant portion of operating costs for foodservice operators – accounting for 30.8% of operating revenue. This can be attributed to a slightly lower level of average sales and a business environment that is more rigid and more costly.

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. The decline in foodservice sales is not symptomatic of the economy, as economic growth in Ontario has jumped 14.8% 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 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 Minimum Wage will not improve outcomes for low-income families**

Increasing Ontario's minimum wage will not 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.

A comprehensive literature review by Dr. Morley Gunderson sponsored by the Federal Government in Oct 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.¹

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 time-series cross-section study of Canadian minimum wage legislation over the period 1975-1993 by Baker, Benjamin and Stanger (1999)² found that a 10% increase in the minimum wage is associated with roughly a 2.5% decrease in employment for teenagers. This study examines, in particular, the lagged effects of minimum wage and concludes that minimum wage increases resonate further into the future than assumed by most researchers.

... page 3

¹ Gunderson, Morley (2006), "*Minimum Wages in Canada: Theory, Evidence and Policy*", Federal Labour Standards Review Commission. (italics added)

² Baker, Michael, Benjamin, Dwayne, Stanger, Shuchita (1999), "*The Highs and Lows of the Minimum Wage Effect: A Time-Series Cross-Section Study of the Canadian Law*", Journal of Labor Economics

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 wages³. 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.

A 1989 Ontario Ministry of Labour study by Dungan and Gunderson⁴ 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.

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. Currently, Ontario's Basic Personal Income Tax Exemption level is only \$8,553 – 14% percent lower than in Quebec, 5.5% lower than BC, 2.6% lower than Saskatchewan, and only 55% of the Alberta personal income tax exemption level. 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.

- **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.⁵ 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.

... page 4

³ Labour Force Survey, Statistics Canada, 2005

⁴ Dungan, Peter and Gunderson, Morley (1989), *"The Effects of Minimum Wage Increases on Employment in Ontario"*, Institute for Policy Analysis, University of Toronto

⁵ Foodservice Operations Report (2006), Prepared by the Canadian Restaurant and Foodservices Association based on data from Statistics Canada

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 a slim pre-tax profit of just 2.8% – the lowest in the country. This translates to average earnings of just \$20,642 per establishment.⁶ Using a model developed by CRFA, raising the minimum wage by \$1.00 in Ontario would cost the industry \$340 million or \$15,378 per individual establishment. Such a sharp increase in labour costs would reduce profit margins from 2.8% to 0.7%. Furthermore, the model indicates that industry sales would have to increase by 6.9% to maintain the current profit level. Given that the foodservice industry is only expected to grow by 3.5%⁷, operators will have a difficult time meeting their labour needs within the current wage envelope of the business.

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 hiring an 18 or 19-year-old with experience rather than a 16 or 17-year-old first-time entrant 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

... page 5

⁶ Foodservice Operations Report (2006), Prepared by the Canadian Restaurant and Foodservices Association based on data from Statistics Canada

⁷ Long Term Foodservice Forecast (2006), Prepared by the Canadian Restaurant and Foodservices Association based on data from Statistics Canada and The Conference Board of Canada

viable. A mandated minimum wage increase often results in a ratcheting up of other wages, causing a rippling effect through the entire operation. According to Riddell and Gunderson (2000)⁸, 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 Minimum Wage Differential for Tipped Employees and Students is Essential**

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 \$10.68⁹. 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.

- **Process of Setting Minimum Wage must hold Decision-makers Accountable**

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 basic minimum wage and the minimum wage differentials 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.

... page 6

⁸ Gunderson, Morley and Riddell, W. Craig (2000), *"Employment Standards in the New World of Work"* for Coalition of B.C. Businesses

⁹ Labour Force Survey, Statistics Canada, 2005

Government must take the lead in addressing the minimum wage issue, by not simply doing what is politically expedient, but instead by finding a way to balance the needs of stakeholders. CRFA does not endorse any process for reviewing and setting minimum wage through an arms-length minimum wage rate-setting Board or through back-room negotiations between a limited-number of stakeholder representatives.

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,

A handwritten signature in black ink that reads "Stephanie" followed by a stylized flourish.

Stephanie Jones
Vice President, Ontario

c.c.: Hon. Dalton McGuinty, MPP
Premier of Ontario

Hon. Steve Peters, MPP
Minister of Labour

Hon. Greg Sorbara, MPP
Minister of Finance