



Further Support for Restaurants and Restaurant Workers Is Needed

The COVID outbreak caused the fastest and one of the deepest economic collapses in modern U.S. history, but the pain has not been spread equally across the economy. The restaurant industry and its workers have been hit especially hard with 2.5 million jobs lost since February—one in four of the 10 million jobs lost in the overall economy.¹ If the economy as a whole had suffered the same level of job losses as the restaurant industry, that would translate into 30 million jobs lost instead of the 10 million it has lost since February. More than 110,000 restaurants—about one in six—have closed permanently or long term. The situation threatens to worsen as new U.S. COVID cases exceed 1.5 million each week.

The reason for this collapse is clear: science has shown that COVID can be spread by tiny particles that are expelled into the air when people talk or even breathe. These aerosols can remain in an enclosed area like a restaurant for a long time. For this reason, indoor dining is an especially risky activity, which has led to a sharp decline in demand for indoor dining by consumers as well as orders by state and local governments to limit or even ban it. The situation is likely to deteriorate this winter as COVID cases surge, Americans fear dining out, state and local regulations increase and weather curtails outdoor dining.

Restaurants are especially vulnerable because they are more likely to be small businesses. Small businesses typically lack the cash reserves and access to credit that larger businesses have, which makes going over a year with only a fraction of normal revenue untenable for many. The collapse in restaurant employment disproportionately affects women and Latinos while immigrant restaurant owners are especially vulnerable. Many small, independently owned restaurants will not survive without further relief. Americans will eventually begin to eat out again, but the question is whether the restaurants they eat in will be owned by large chains or small-business owners.

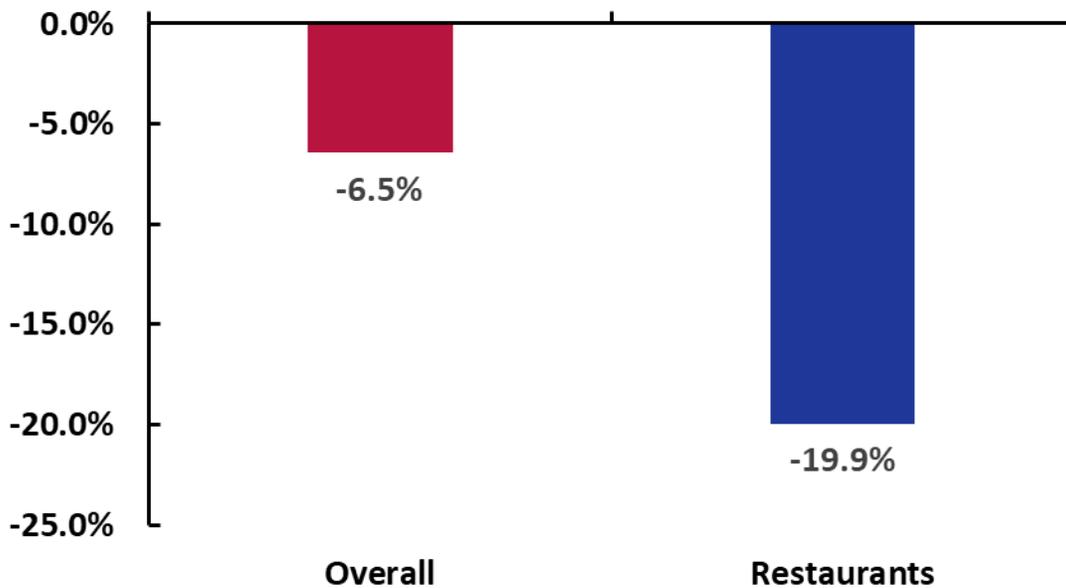
Additional support for independent restaurant owners and workers is necessary. One approach is House-passed legislation that would provide grants to independent restaurants that could supplement and extend the aid in the December COVID relief package's Paycheck Protection Program loans. More support will likely be needed as indoor dining will be one of the last activities that Americans will feel safe doing. Investing in proven ways to expand access to credit for small-business owners will also help ensure that the small business losses resulting from COVID are not permanent. Unemployment benefits will need to be extended for several months beyond the December bill as millions of unemployed restaurant workers will have no other source of income when benefits begin to expire in March. Finally, Congress should support low-wage restaurant workers with an expansion of the Earned Income Tax Credit.

The restaurant industry has been hard hit by COVID

Despite accounting for less than 1 in 10 jobs before the pandemic, the restaurant industry has accounted for about one in four jobs lost across the economy.² In December, there were 2.5 million fewer workers (a 20 percent reduction) employed in food services and drinking places than in February.³ If the economy as a whole had suffered the same level of job losses as the restaurant industry, this would translate into 30 million jobs lost instead of the 10 million it has lost since February.⁴

Restaurants and Restaurant Workers Have Been Disproportionately Affected by COVID Crisis

Percentage change in payroll between February and December 2020



Source: Bureau of Labor Statistics

Note: Restaurants refers to food services and drinking places.

The reason for these job losses is that eating at indoor restaurants is an activity that is especially prone to spreading airborne COVID. One study by researchers at Stanford and Northwestern concluded that “[r]eopening full-service restaurants has the largest predicted impact on infections, due to the large number of restaurants as well as their high visit densities and long dwell times.”⁵ For this reason, Americans have dramatically cut back on eating out to avoid catching the virus. Many states and cities have enacted orders banning indoor eating, ensuring that some restaurants’ indoor dining revenue falls to zero. The balance of evidence from the early days of the crisis, however, suggests that most of the drop in commercial activity in the wake of COVID—including restaurant dining—was a result of fear of the virus instead of legal restrictions.⁶

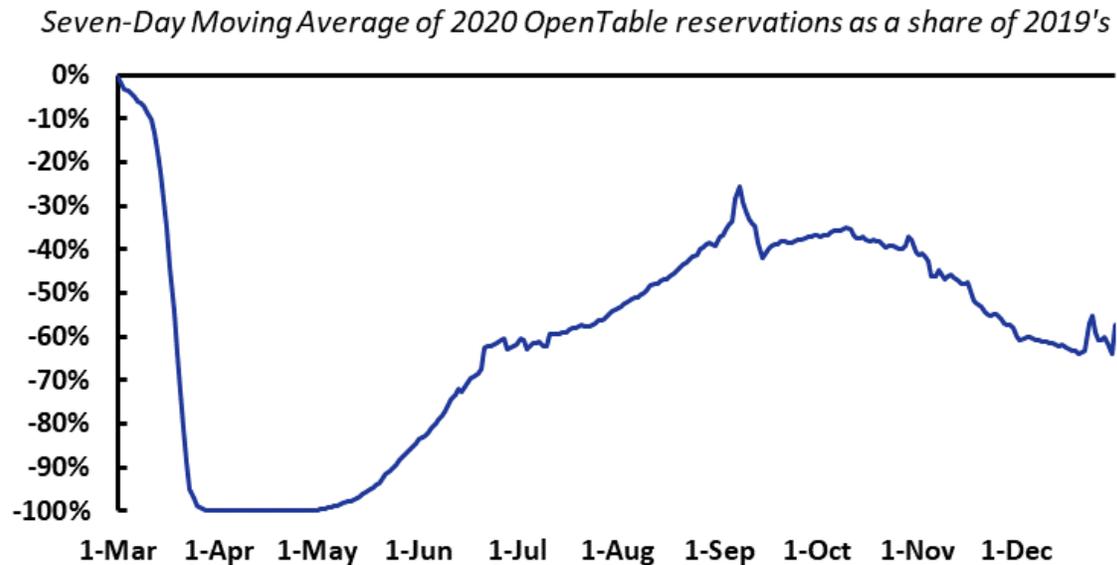
Many restaurants have been forced to shut down. According to one survey, 110,000 restaurants (about one in six) have closed their doors during the pandemic permanently or long-term.⁷ While

sales at restaurants had been recovering after a historic drop in April, that progress stalled in October (dropping by 0.5 percent from September) and is forecast to fall an additional 4 percent in November.⁸ November sales were forecast to fall 17 percent from November of the previous year.

The situation facing restaurants is unlikely to improve this winter

There is little prospect for a near-term recovery for the restaurant industry as coronavirus cases are hitting new records each week, with new cases totaling more than 1.5 million every week and COVID deaths in December outstripping deaths in April despite new therapies and knowledge of how to treat the virus.⁹ Restaurant reservation data from OpenTable, a restaurant reservation website, tell a similar story. As the virus rages across the country, people pulled back on dining, even before new restrictions took effect. OpenTable data show that in-person dining has been continually dropping since October and is now at levels that have not been seen since July. Reservations at the end of 2020 were less than half of what they were the previous year.

In-Person Restaurant Dining Has Continually Declined This Fall



Source: OpenTable

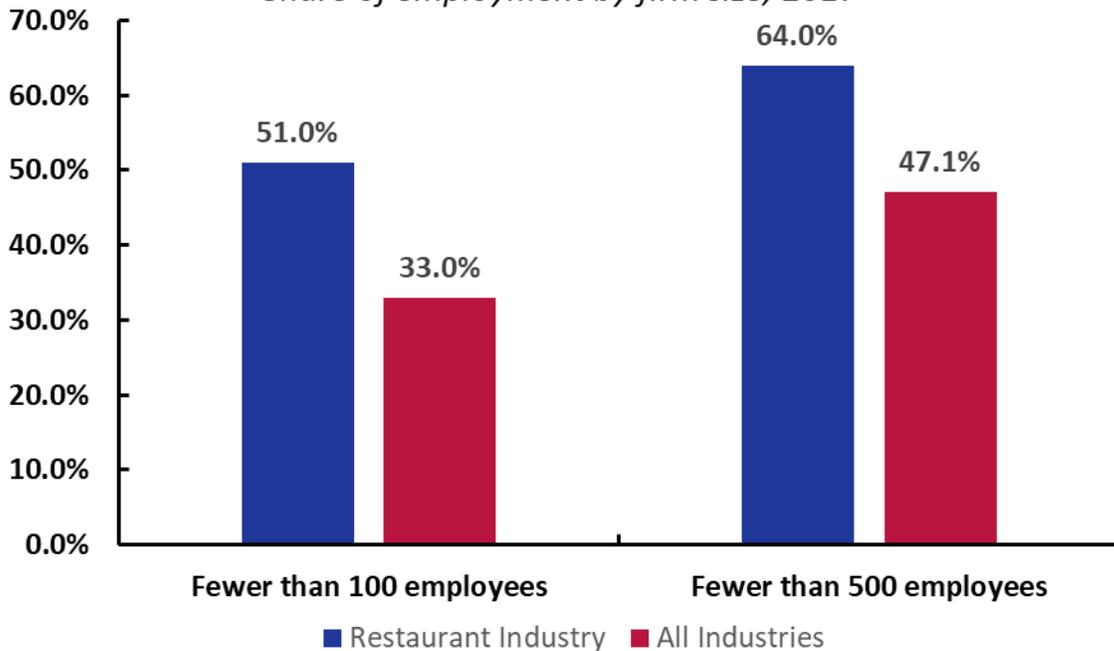
Americans will further cut back on dining to avoid the virus as weekly COVID cases exceed 1.5 million while cities and states place new restrictions on the size of gatherings if not limiting or banning indoor dining altogether.¹⁰ These actions are deemed necessary to control the spread of the virus, but will place new financial pressures on restaurants and bars already reeling from the monthslong impact of the pandemic. The industry was already bracing for coming cold weather this winter, which limits its ability to serve patrons in safer, outdoor settings, but the recent increase in cases and resulting public health restrictions has added a new, substantial challenge. The restaurant industry's main hope for relief is successful vaccinations of the U.S. population, but that may not be complete until the fall.

The restaurant industry’s small business orientation compounds threats

Small businesses play an especially large role in the restaurant industry. Businesses with fewer than 500 employees account for almost two thirds of restaurant industry employment compared to 47 percent among businesses as a whole. Much smaller businesses—those with 100 employees or fewer—account for more than half percent of restaurant employment compared to 33 percent among all businesses.

Restaurant Industry Is Dominated by Small Businesses

Share of employment by firm size, 2017



Source: Census Bureau

Note: Restaurant industry refers to food services and drinking places.

Collapsing sales threaten workers and small-business owners from marginalized groups

The struggles of the restaurant industry during the COVID crisis are especially concerning given the important role that it plays for the economic livelihoods of women, people of color and immigrants.

In 2019, women accounted for 52 percent of restaurant workers despite accounting for just 47 percent of workers overall.¹¹ Latinos accounted for 27 percent of restaurant workers despite accounting for just 18 percent of workers overall. Employment rates for women and Latino workers are thus unlikely to recover fully until the restaurant industry recovers. Perhaps even more concerning is the role that restaurant ownership plays in building wealth for marginalized groups, especially immigrants. Immigrants own 29 percent of all restaurants and hotels, more than twice the share of immigrant ownership of all firms.¹² The mass closure of restaurants will wipe out the sweat equity of these immigrant small-business owners.

Demand for restaurants will return once control of COVID makes indoor dining safe again, but thousands of small restaurants have already shut their doors and will be unable to take advantage of the expected restaurant boom once the pandemic is over. Restaurants owned by larger businesses with the cash reserves and access to credit to weather the pandemic will be poised to take advantage of the boom. This will make the restaurant industry more unequal with business shifting from small and immigrant-owned restaurants to larger restaurants compared to pre-COVID. Larger and chain restaurants will also be well-placed to expand and obtain prime real estate in the wake of other restaurants closing, potentially locking in a permanent and inequality-widening change in the restaurant industry.

Further assistance to independent restaurants is needed

Given the dire state of America's restaurants, urgent relief is needed. Fortunately, Congress already took an important step at the end of last year with the passage of a COVID relief package that included hundreds of billions of dollars for businesses. In particular, the new \$284 billion round of Paycheck Protection Program funding provides especially favorable terms to restaurants since the forgivable loans will cover three and a half months of their expenses as opposed to two and a half months for other industries.

Yet, this support is just a down payment for what is needed. First, indoor dining will be one of the last activities to return to pre-COVID levels and Dr. Fauci expects that normal activities will not resume until at least mid-fall.¹³ Therefore, the three and a half months of support in the bill is just a temporary bridge.

Second, in the initial round of loans, the hospitality, accommodation and food services industry—which is one of the industries hit hardest by COVID—received just 9 percent of loans.¹⁴ The aid also was not delivered to areas hardest hit by the virus with less than 20 percent of small businesses in New York City receiving a loan compared to more than half in Nebraska despite the fact that the former's death rate from COVID-19 was roughly 20 times that of the latter.¹⁵

One reason small businesses, like independently-owned restaurants, struggled to access PPP is the reliance on financial institutions, which steered loans to larger businesses that would make them more money in fees and favored businesses with whom they had preexisting relationships.¹⁶ This had an especially perverse effect on the timing of when businesses received loans at a time when businesses needed immediate assistance: the initial loans were far more prevalent in zip codes with large white populations than in zip codes with small white populations.¹⁷

Congress will therefore need to provide further relief to restaurants, especially independently-owned restaurants. One way to do this is passing a form of the RESTAURANTS Act, which was passed by the House as part of the updated Heroes Act. It would create a \$120 billion fund, run by the U.S. Treasury, to support independent restaurants affected by the pandemic. It would provide grants to restaurants equal to the shortfall in revenue between 2019 and 2020 and would cover payroll, benefits, mortgage, rent, utilities, food, debt obligations to suppliers, and more.

Critically, to ensure that support goes to independently-owned restaurants, the relief could only go to restaurants with 20 or fewer locations doing business under the same name.

Another important way to support the recovery of small restaurants when the pandemic ends is investments in proven methods of delivering credit to low- and moderate-income Americans such as Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs). The December bill includes important investments in these institutions and Congress should continue to help them support entrepreneurship in the recovery.

Restaurant workers need further support

Restaurant workers face their own challenges—the millions of unemployed workers from this sector are unlikely to find employment this winter and spring as restaurants struggle with rising cases and cold weather. Fortunately, Congress passed an 11-week extension of unemployment benefits for the long-term unemployed and workers who do not qualify for regular unemployment insurance while supplementing benefits by \$300 per week. This action will ensure that many restaurant workers on unemployment can pay rent and buy groceries while the sector remains depressed. Nevertheless, the dire situation facing the restaurant industry will continue beyond the March expiration of these programs and will need to continue well into the fall.

Finally, too many restaurant workers before this crisis worked for low pay. One way to ensure that low-wage restaurant workers are not paid poverty wages is to increase the Earned Income Tax Credit (EITC), especially for workers without children.¹⁸ Currently, the EITC is America's second largest anti-poverty program after Social Security.¹⁹ But the maximum credit for childless workers is only around \$500 and is not enough to offset the federal tax liability of a worker making poverty-level wages.²⁰ A large increase—as was included in the Heroes Act—would be an excellent way to reward low-wage restaurant workers for their contributions to our economy.

¹ Throughout this report, the use of “restaurant industry” refers to NAICS code 722, which is “Food Services and Drinking Places.”

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³ U.S. Bureau of Labor Statistics, “Current Employment Statistics,” 2020.

⁴ JEC Democratic staff calculations using U.S. Bureau of Labor Statistics, “Current Employment Statistics,” 2020.

⁵ Serina Chang, et al., “Mobility network models of COVID-19 explain inequities and inform reopening,” *Nature*, November 10, 2020, <https://www.nature.com/articles/s41586-020-2923-3>.

⁶ Raj Chetty, et al., and the Opportunity Insights Team, “Real-Time Economics: A New Platform to Track the Impacts of COVID-19 on People, Businesses, and Communities Using Private Sector Data,” https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf; Austan Goolsbee and Chad Syverson, “Fear, Lockdown, and Diversion: Comparing Drivers of Pandemic Economic Decline 2020,” National Bureau of Economic Research Working Paper No. 27432, June 2020, <https://www.nber.org/papers/w27432>; Alexander Bartik, et al., “Labor market impacts of COVID-19 on hourly workers in small- and medium-sized businesses: Four facts from Homebase data,” Rustandy Center for Social Innovation, April 8, 2020, <https://www.chicagobooth.edu/research/rustandy/%20blog/2020/labor-market-impacts-from-covid19>; Sofia Villas-

Boas, et al., "Are We #Staying Home to Flatten the Curve?," UC Berkeley: Department of Agricultural and Resource Economics CUDARE Working Papers, August 4, 2020, <https://escholarship.org/uc/item/5h97n884>.

⁷ National Restaurant Association, "Restaurant Industry in Free Fall; 10,000 Close in Three Months," December 7, 2020, <https://www.restaurant.org/news/pressroom/press-releases/restaurant-industry-in-free-fall-10000-close-in>.

⁸ U.S. Census Bureau, "Advance Monthly Sales for Retail and Food Services, November 20," December 16, 2020, https://www.census.gov/retail/marts/www/marts_current.pdf.

⁹ The COVID Tracking Project, "US All Key Metrics," January 5, 2020, <https://covidtracking.com/data/charts/us-all-key-metrics>.

¹⁰ U.S. Centers for Disease Control, COVID Data Tracker, "United States COVID-19 Cases and Deaths by State," accessed January 7, 2020, https://covid.cdc.gov/covid-data-tracker/#cases_casesinlast7days.

¹¹ U.S. Bureau of Labor Statistics, "Employed persons by detailed industry, sex, race, and Hispanic or Latino ethnicity," accessed December 17, 2020, <https://www.bls.gov/cps/cpsaat18.htm>

¹² Jonathan Maze, "For many immigrants, restaurants are the American dream," March 29, 2017, <https://www.nrm.com/franchising/many-immigrants-restaurants-are-american-dream>

¹³ Noah Higgins-Dunn and Berkeley Lovelace Jr., "Dr. Fauci says U.S. could return to normal by mid-fall if most people get Covid vaccine," CNBC, December 16, 2020, <https://www.cnbc.com/2020/12/16/dr-fauci-says-us-could-return-to-normal-by-mid-fall-if-most-people-get-covid-vaccine.html>

¹⁴ Andy Sullivan, Howard Schneider, and Ann Saphir. "Main Street Bailout rewards U.S. restaurant chains, firms in rural states." Reuters. April 17, 2020. <https://www.reuters.com/article/us-health-coronavirus-usa-lending-analys/main-street-bailout-rewards-u-s-restaurant-chains-firms-in-rural-states-idUSKBN21Z3FL>

¹⁵ Amanda Fischer, "Did the Paycheck Protection Program work for small businesses across the United States?," Washington Center for Equitable Growth, July 15, 2020, <https://equitablegrowth.org/did-the-paycheck-protection-program-work-for-small-businesses-across-the-united-states/>

¹⁶ Hamilton 2020.

¹⁷ Joyce M. Rosenberg, "Minority-owned companies waited months for loans, data shows," The Associated Press, January 3, 2020 <https://www.businessinsider.com/minority-owned-companies-waited-months-for-loans-data-shows-2021-1>

¹⁸ Chuck Marr, "3 Reasons to Expand EITC for Childless Adults Amid COVID-19," Center on Budget and Policy Priorities, July 16, 2020, <https://www.cbpp.org/blog/3-reasons-to-expand-eitc-for-childless-adults-amid-covid-19>

¹⁹ Julia Wolfe and Hunter Blair, "Government programs kept tens of millions out of poverty in 2018," Economic Policy Institute, September 11, 2019, <https://www.epi.org/blog/government-programs-keep-tens-of-millions-out-of-poverty/>

²⁰ Chuck Marr et al, "Temporarily Expanding Child Tax Credit and Earned Income Tax Credit Would Deliver Effective Stimulus, Help Avert Poverty Spike," Center on Budget and Policy Priorities, July 21, 2020,, <https://www.cbpp.org/research/federal-tax/temporarily-expanding-child-tax-credit-and-earned-income-tax-credit-would>