Irish Congress of Trade Unions

Submission to the Low Pay Commission's Review of the Minimum Hourly Rate of Pay

February 2017

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1. Introduction

1.1 The Irish Congress of Trade Unions is the largest civil society organisation on the island of Ireland, representing 800,000 workers in all sectors of the economy north and south.

1.2 Congress welcomes the third review of the hourly rate of the Minimum Wage by the Low Pay Commission. We believe it represents an opportunity to make a significant and positive impact on the living standards of low paid workers and their families.

1.3 In July 2016 a two thirds majority of the members of the Low Pay Commission recommended that the hourly rate on the minimum wage should be increased by 0.10c, an increase of just above 1%. The Government accepted the recommendation and it took effect from January 2017. This recommendation came at a time when wages in both the public and private sectors were increasing at a faster rate and as a result of the recommendation the rate of income inequality has increased.

1.4 In our submission to the Low Pay Commission in March 2016 we pointed out that, arising from our campaign to build support for the Congress Charter for Fair Conditions at Work (http://www.ictu.ie/charter/), we believed there was an emerging consensus in our society that all workers should have a legal right to enjoy, as a minimum, an hourly rate of pay that can sustain a reasonable standard of living. We have continued to campaign to build support for our charter since then and in the intervening period a significant number of NGOs, a number of national sporting organisations and a number of faith groups have expressed their support for the charter. We believe that this is further evidence of support in our society for aligning the hourly rate of the minimum wage with that of the Living Wage.

1.5 It is therefore critical that the deliberations and ultimately the recommendation of the Low Pay Commission reflect this consensus. It is essential that the recommendation of the Low Pay Commission, while having regard to the requirement to maintain wage competitiveness, also takes account of the requirement to increase the living standards of the lowest paid workers in our society. Failure to do so will damage the standing and the credibility of the Low Pay Commission.

1.6 This submission has three further sections:

- In the first section we will examine the profile of the workers on the Minimum Wage. We will draw in the main on updated research from the Nevin Economic Research Institute (NERI) published in July 2016;

- In the second section we comment on the matters the Low Pay Commission is required to have regard to, by virtue of Section 7 of The National Minimum Wage (Low Pay Commission) Act 2015; and

- In the final section of this submission we will set out what we believe is an appropriate recommendation on a revised hourly rate of the Minimum Wage.

2. Who Earns the Minimum Wage?

2.1 In our submission to the Low Pay Commission in 2016 we cited research that had been published by the Nevin Economic Research Institute (NERI) in 2015. In July 2016 NERI published a further paper updating this earlier work. The working paper is entitled *A Profile of Those on the Minimum Wage.* It provides a detailed profile of those earning the Minimum Wage, their age, their gender and in which sectors of the economy they were employed.

2.2 NERI estimated that in 2014 some 70,000 workers had earnings at the level of the Minimum Wage. The CSO estimates that in quarter four (Q4) of 2016 the numbers of workers in employment stood at 2.04 million. Assuming that the number of workers being paid at the level of the Minimum Wage has remained in the region of 70,000 the percentage of those in work earning the Minimum Wage is between 3.4% and 3.5%. However, we can assume the number of minimum wage workers is increasing along with total employment so the actual percentage of workers on the minimum wage is more likely to be in excess of 3.5%.

2.3 The study further identified that of the 70,000 workers earning the Minimum Wage 73.4% were female. The working paper also identified that 74.8% of the workers concerned were between the ages of 18 and 40. It showed that 61.2% of workers on the Minimum Wage worked less than 35 hours with 31.2%, doing 19 hours or less.

2.4 The fact that 73.4% of those earning the National Minimum Wage are women should be of particular concern to the Low Pay Commission. In 2016 the Low Pay Commission published a report that looked specifically at the reasons why there were such a high number of women earning the National Minimum Wage. The report demonstrated that the main reason why this was the case was because there was a high participation rate by women in the sectors of the economy where the National Minimum Wage was likely to be paid. The lack of affordable childcare was cited as one of the main reasons why there was such a high participation by women in those sectors of the economy. It is clear that a policy shift is required in order that women can seek employment in sectors of the economy where there is a lower risk of them earning the National Minimum Wage. Providing affordable childcare would be of significant assistance in that regard and the Low Pay Commission should emphasise this in their report to Government.

2.5 NERI also looked at the sectors of the economy in which the workers earning the Minimum Wage are employed. Using the CSO NACE classifications it identified that over 9% of the group were employed in industry, over 26% in wholesale and retail, over 23% in accommodation and services and almost 12% in health and social work.

2.6 In that regard, and arising from the work undertaken by NERI and others, in our view it is reasonable to draw the following conclusions:

- because the number of workers whose earnings are at the level of the Minimum Wage is relatively small when compared to the total numbers in employment the macroeconomic impact of a substantial increase in the hourly rate of the Minimum Wage will be minimal and there will be no meaningful impact on employment costs in the economy;

- because over 73% of those who are paid at the level of the Minimum Wage are female any increase in the hourly rate of the Minimum Wage will make a positive impact on reducing the gender pay gap;

- 74.8% of those paid at the level of the Minimum Wage are under 40. Because of their age these workers are more likely to have to endure costs for important services like childcare and are also likely to have rental and mortgage costs. A substantial increase in the Minimum Wage will contribute to improving the quality of life of these workers and could increase participation in the labour market, particularly for women and lone parents;

- It is clear that because the majority of those earning the Minimum Wage are employed in domestic/non-internationally traded sectors of the economy the potential impact on economic competitiveness is minimal.

3. Matters that Fall to be Considered by the Low Pay Commission in Reaching its Recommendation

3.1 Section 7 of the Minimum Wage (Low Pay Commission) Act 2015 sets out the matters that the Low Pay Commission is required to have regard to in making a recommendation to the Minister on the hourly rate of the Minimum Wage.

3.2 In section 7, reference is made to a "relevant period." However the "relevant period" is not defined within the statute. In light of this we have confined our comments to general views on the matters that fall for consideration in the following points.

- **Earnings:** In the third quarter of 2016 average weekly earnings in the economy have risen by 1.2% year-on-year, while average weekly earnings in the private sector of the economy rose by 1.8%. Average weekly earnings increased by 2.9% in enterprises with less than 50 employees. Average hourly earnings across the economy increased by 0.2% in the third quarter, by 0.9% in the private sector and by 1.4% in enterprises of less than 50 employees. Research from the Unite trade union shows that Ireland is a low-wage economy with employee compensation in the market economy 6% below the EU15 average and 24% below the small open economy average (Austria, Belgium, Denmark, Finland and Sweden).

- **Profits:** Corporation tax receipts (to end December 2016), which are based on **corporate profits** taxed at the 12.5% rate, have increased from €4.61billion in 2014 and €6.87 billion in 2015 to €7.35 billion in 2016. This represents an extremely robust increase of 49% year-on-year in 2015 and 7% year-on-year in 2016. The CSO's Institutional Sector Accounts show that Gross Operating Surplus in the Non-Financial Corporate sector increased from €86.5 billion in 2015 to €87.4 billion in 2016, although the extent of multinational pollution in this data makes it difficult to assess the situation for domestic Irish businesses.

- **Retail Sales:** The strong annual increases in 2016 in the value of retail sales (up +3.8%), in VAT (up 4%) and in excise (+7.9%) also suggests much improved profits and conditions and a thriving corporate sector in 2016. This trend is likely to continue in 2017 as latest data from the CSO's Monthly Services Index for (November 2016) shows an increase of 8.9% year-on-year. The improving labour market should also lead to improved conditions for Irish business. Finally, Investec's Services and Manufacturing PMIs were both positive in December suggesting further improvements in these sectors.

- **Exchange Rates:** The currencies that are most relevant to the consideration of the Low Pay Commission are Sterling and the US Dollar. The Euro has weakened in recent years against the US Dollar and was trading at around $1.06 in late January, down from almost $1.4 in 2014. The value of the Euro has increased against Sterling and was trading at 0.85 British Pounds in late January. We anticipate that much of the competitiveness gains being experienced by the UK will be gradually unwound as price inflation starts to take hold in the UK over 2017-2019. Ireland's very high current account surplus is difficult to interpret given the pollution of the national accounts. At any rate there is little evidence suggesting the economy lacks competitiveness against its trading partners. According to Eurostat, Ireland's real effective exchange declined in each of 2009-2015 meaning the Irish economy gained competitiveness in each of these years. According to this measure Ireland also gained competitiveness relative to the UK in each of 2011-2015. The UK's competitiveness gains in 2016 will have only partially reversed this trend.

- **Income Distribution:** One of the important functions of the Minimum Wage in any economy is to adjust how income is distributed so that the lower paid workers receive a higher proportion of what is available. In February 2014, NERI published research on Household Income Distribution in the Republic of Ireland. The research showed a very uneven distribution of income across households with 62% of households with an income of less than €50,000 per annum. The research further showed that the top 10% of households had annual disposable income of over €77,000 per annum. Ireland has one of the highest rates of low pay in the OECD.

- **Ireland's Gini** coefficient of equalised disposable income increased from 29.3 in 2009 to 31.8 in 2014, meaning that income inequality has increased in that time. Ireland's Gini coefficient (30.8) was marginally below the EU average (31.0) in 2014 and the same as the euro area average. The deprivation rate was 29% in 2014.

- **Unemployment, Employment & Productivity:** Unemployment continues to fall and stood at 7.2% in

December 2016 (seasonally adjusted). The level of employment in the economy is also on the increase. Employment grew by 2.9% in the year to the third quarter 2016. The Department of Finance project further improvements in 2017. Productivity in the economy is estimated by the Department of Finance to have increased in the last year by 1.6%. Meta-analysis of the impact of minimum wage increases suggest the employment impact of an increase in the rate would be negligible (see NERI for a discussion of this data).

3.3 We also wish to draw the attention of the Low Pay Commission to the commitment in the Programme for a Partnership Government to strengthen the role of the Low Pay Commission in relation to in-work poverty. The Low Pay Commission should also be aware of the role that decent wages play in tackling in-work poverty. This is acknowledged in the discussions concerning a European Pillar of Social Rights. The European Commission's March 2016 preliminary outline of this initiative stated that:

> *"Minimum wages with an adequate level ensure a decent standard of living for workers and their families and contribute to tackle the incidence of in-work poverty."*

Furthermore, the Commission suggested as one of the essential components of the Pillar of Social Rights that:

> *'..all employment shall be fairly remunerated, enabling a decent standard of living."*

The European Parliament's resolution of January 19, 2017 on the initiative recognised that:

> *"Decent living wages are important as a means of avoiding in-work poverty."*

Congress therefore urges the Low Pay Commission to fully consider the importance of decent living wages in avoiding in-work poverty and in enabling a decent standard of living.

3.4 It would seem to Congress that the conditions exist to allow the Low Pay Commission to recommend a substantial increase in the hourly rate of the Minimum Wage. The evidence points to an upward growth in earnings and profits at a time when unemployment is falling and employment increasing. The evidence also suggests that there is strong growth in output levels and increasing productivity. From an equity perspective a substantial increase is also justified as the available evidence suggests that income distribution is very uneven. As pointed out earlier the available evidence confirms that the number of workers who are paid at the level of the Minimum Wage is relatively small and predominately in sectors that are domestic and not internationally traded. Therefore a substantial increase in the hourly rate of the Minimum Wage would have a minimal or no impact on the competitiveness of the economy.

4. Conclusion

4.1 Congress is strongly of the view that the Low Pay Commission is presented with an opportunity to make a significant difference to the living standards of low paid workers in our society.

4.2 The economy is growing strongly and it would be remiss of the Low Pay Commission not to take advantage of the prevailing economic conditions and the emerging societal consensus and move the level of the hourly rate of the Minimum Wage closer to that of the Living Wage.

4.3 Congress is therefore advocating that arising from this review and the review in 2018 that the hourly rate of the Minimum Wage be aligned with the Living Wage.

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