



ICTU submission to the Low Pay Commission

2020 Consultation on the
National Minimum Hourly Rate of Pay

March 2020

1. Introduction

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

1.2 Congress welcomes the 2020 review of the hourly rate of the National Minimum Wage (NMW) by the Low Pay Commission (LPC). Economic output and employment both grew robustly in 2019, and we expect the strong growth to continue in 2020. The strong economic performance represents an opportunity to make a significant and positive impact on the living standards of low paid workers and their families.

Low-income workers should not be left behind and, at a minimum, should see their incomes increase at least as fast as the economy is growing. Decent wages are of fundamental importance if we wish to tackle in-work poverty. As in previous years, we point to the European Pillar of Social Rights (EPSR) signed in November 2017.¹ Principle 6 states that

‘Workers have the right to fair wages that provide for a decent standard of living. Adequate minimum wages shall be ensured, in a way that provide for the satisfaction of the needs of the worker and his/her family in the light of national economic and social conditions.....in-work poverty shall be prevented.

In this regard we recall that that Taoiseach has described the EPSR as ‘a political compass that will help guide our collective actions in the years ahead’² and that the EU’s ‘New Strategic Agenda 2019-2024’ agreed by EU prime ministers in June 2019 called for implementation of the EPSR at EU and at Member State level.³ Congress urges the LPC to consider the importance of decent living wages in avoiding in-work poverty and in enabling a decent standard of living. In practice, this means at a minimum significantly narrowing the gap between the ‘minimum wage’ and the ‘living wage’ year-on-year. The Living wage Technical Group estimate the living wage for a single adult with no dependents was €12.30 in 2019.⁴ The living wage was higher for other groups, including families living in Dublin and families with children.

¹ https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en

² Dail debates, 21 June 2018.

³ <https://www.consilium.europa.eu/media/39914/a-new-strategic-agenda-2019-2024.pdf>.

⁴ https://www.livingwage.ie/download/pdf/living_wage_2019_-_4_page_document.pdf. The living wage reference rate per hour was actually €12.39 on an assumed 39-hour basis. The gross per week

- 1.3** In 2019, a majority of the members of the Low Pay Commission recommended an increase in the hourly rate for the NMW of 0.30c to €10.10 amounting to an increase of 3.1% over the 2019 rate.⁵ The Government accepted the recommendation but delayed the introduction until February 2020, ostensibly due to fears of a crash-out Brexit.

We note that the NMW rate of increase is lower than the 3.6% rate at which private sector wages grew on an annual basis in Q4 2019. We also note that the *Programme for a Partnership Government*⁶ supports an increase in the NMW to €10.50 per hour by 2021. That translates into an increase of 0.40c or 4% between 2020 and 2021. An appropriate medium-term goal for the NMW would be to increase it to at least 66% of median hourly earnings. European Commission estimates, published in January 2020, indicate that Ireland's minimum wage was less than 50 percent of the gross median wage of full-time workers and was the 20th lowest of the EU-28 in 2018.⁷

- 1.4** We pointed out in previous submissions our belief that 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 believe that this is a position that is widely shared in our society.

- 1.5** It is critical that the deliberations and the recommendation of the Low Pay Commission reflect the growing consensus in society that workers receive a fair wage sufficient to ensure an adequate standard of living. We refer for example to the commitment by the new European Commission to propose a legal instrument on fair minimum wages for every worker in the EU, that should ensure 'a decent living wherever they work.'⁸ As such, it is Congress's view that the NMW should be raised to the level of the living wage over the next two years. If the living wage were to rise at the levels of CPI inflation projected by the Irish Central

was €483.28 and the gross per annum was €25,198.24. The living wage is higher in Dublin on account of more expensive housing costs.

⁵ The 2020 NMW of €10.10 is equivalent to just 82.1% of the 2019 living wage. The Central Bank project CPI inflation of 1.6% in 2020. A 1.6% increase in the living wage in 2020 would increase it to €12.50 meaning the 2020 NMW would be just 80.8% of the living wage.

⁶ https://merrionstreet.ie/MerrionStreet/en/ImageLibrary/Programme_for_Partnership_Government.pdf

⁷ European Commission (14.01.2020), *First phase consultation of Social Partners under Article 154 TFEU on a possible action addressing the challenges related to fair minimum wages*, (C(2020) 83 final), Figure 2, p.13

⁸ The Commission's 2020 work programme commits to issuing this proposal in Q3 2020, following consultations with EU-level social partners. ICTU is working with trade union confederations across Europe on this initiative.

Bank⁹ for 2020 and 2021 then the living wage will rise to €12.75 in 2021 and close to €13.00 in 2022 (assuming 2% inflation in 2022).

As such, Congress is arguing that the NMW should increase to €13.00 in 2022 with two equal increases of €1.45 in 2021 and 2022. Congress is therefore calling for the NMW to rise to €11.55 in 2021.

- 1.6 This increase needs to be understood in the context of the undermining of collective bargaining arrangements in Ireland in general.
- 1.7 For example, the Oireachtas has approved the establishment of a number of Joint Labour Committees (JLC's). JLC's have traditionally been used to ensure that workers in some of the lowest paid sectors of the economy have a level of earnings that are collectively bargained and is adequate to allow them to have a decent standard of living. However currently a number of JLC's do not function as employers in the respective sectors can effectively veto their operation. In particular employers in the retail, catering and hotels are refusing to participate in the JLC's for their sector, while many other employers still refuse to engage in collective bargaining with their employees' unions.
- 1.8 In such circumstances the default wage for many workers in those sectors is the National Minimum Wage. It is therefore important that the Low Pay Commission act to ensure that workers in the lower paid sectors of the economy enjoy a level of earning that supports a decent standard of living.

2. Who Earns the Minimum Wage?

- 2.1 The CSO's Labour Force Survey (LFS) provides data for Minimum Wage workers.¹⁰ It reports 7.6% of employees (137,200) earning the National Minimum Wage (NMW) or less in the fourth quarter (Q4) of 2018 with an average of 151,300 across 2018. Females made up 55.3% of the cohort in Q4 2018. Over half of the 'NMW or less' cohort in Q4 2018 were working in *accommodation and food service* (27.8%), or were working in *wholesale and retail trade* (28.2%). A majority of the cohort of workers on the NMW or less were in elementary occupations (37.1%) or in sales and customer service (24.0%). From a geographic perspective, the South-East and Border regions have the highest proportion of employees earning the NMW or less.

⁹ <https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2020/quarterly-bulletin---q1-2020.pdf?sfvrsn=7>

¹⁰ <https://www.cso.ie/en/releasesandpublications/er/lfsnmw/lfsnationalminimumwageestimatesq42018/>

2.2 A majority (51.5%) of employees earning the NMW or less usually worked less than 30 hours per week in Q4 2018, while 57.9% of the NMW or less cohort were employed on a part-time basis. Part-time employees accounted for one fifth of all employees in the State. Fully half (50%) of those earning the NMW or less were under 25 years old and 70.6% were under 35.

2.3 We can draw some conclusions from the data:

- The number of workers whose earnings are at the level of the NMW or less is relatively small compared to the total numbers in employment. NMW workers also tend to work lower hours. We can therefore infer that any direct macroeconomic and employment impacts of a substantial increase in the hourly rate of the minimum wage are likely to be minimal;
- Over 70% of those paid at the level of the NMW or under are under 35. As we noted in previous years, younger adult cohorts are more likely to have to experience childcare, rental and mortgage costs. In particular, the relatively fast growth in the cost of rent will mean that headline inflation data will not adequately capture the cost of living increases for the NMW and under cohort.
- An increase in the minimum wage should have a beneficial impact on labour force participation rates for younger adults particularly females. This is significant given Ireland's relatively poor performance for these groups relative to other Western European countries.
- The vast majority of workers on the NMW are not in internationally traded sectors of the economy. This means any impact on economic competitiveness will be marginal.

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 Section 7 refers to a “relevant period”. However, this “relevant period” is undefined within the statute. As such, we have confined our comments to general views on the matters that fall for consideration.

- **Earnings** – In the fourth quarter (Q4) of 2019 average weekly earnings in the economy as a whole and in the private sector rose by 3.5% year-on-year.¹¹ Average weekly earnings increased by 2.5% in enterprises with less than 50 employees.
- Average hourly earnings across the economy increased by 3.6% annually in Q4, by 3.6% in the private sector and by 1.5% in enterprises of less than 50 employees. Average hourly earnings increased by 3.4% in 2019. The Consumer Price Index increased by an average of 0.9% in 2019¹² meaning that real average hourly earnings increased by close to 2.5% in 2019. The annual growth in nominal average hourly earnings in Q4 2019 exceeded that of the CPI (1%) in all sectors with the sole exception of *transport and storage*.¹³
- The CSO’s national minimum wage estimates indicate that over half of minimum wage workers are in either the *wholesale and retail trade; repair of motor vehicles and motorcycles* sector or the *accommodation and food services* sector. On an annual basis, hourly wages in these sectors increased 3.8% and 3.9% respectively in Q4 2019.
- The European Commission’s AMECO database shows that the growth in nominal unit labour costs (NULC) in Ireland has significantly lagged that of the EU15 and the United Kingdom since 2010.¹⁴ NULC increased 0.4% in Ireland between 2018 and 2019, by 2.3% in the EU15 and by 3.7% in the UK. Unfortunately, the Irish data is distorted by certain globalisation effects related to FDI and multinational tax planning activity.
- According to AMECO, real compensation per employee in Ireland fell between 2010 and 2019 but increased 2.8% in 2019. Real compensation increased in the UK, Germany, and in the EU15 as a

11

<https://www.cso.ie/en/releasesandpublications/er/elcq/earningsandlabourcostsq32019finalq42019preliminaryestimates/>

12 <https://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexjanuary2020/>

13 The Department of Finance’s personal consumption deflator estimate for 2019 was 2% and they project a rate 2.1% in 2020. The personal consumption deflator represents the weighted increase in the price of goods actually purchased during the year. It is therefore a better reflection of cost of living increases than the CPI.

14 https://ec.europa.eu/economy_finance/ameco/user/serie/ResultSerie.cfm

whole between 2010 and 2019.¹⁵ In 2019, real compensation per employee increased 2.8% in Ireland, 2% in the UK, 1.2% in Germany and 1% in the EU28.

- AMECO also shows that Ireland has the lowest adjusted wage share of all EU countries when measured as a percentage of GDP. The adjusted wage share in 2019 was just 33.9% in Ireland, 59% in the UK and 56.2% in the EU28.¹⁶ This suggests there may be greater scope for wage growth in Ireland relative to other EU countries. It also suggests that employers are not adequately compensating Irish workers for their labour.
- **Profits** - corporation tax receipts (to end December 2018), which are based on **corporate profits** taxed at the 12.5% rate, have increased from €4.6 billion in 2014 and €10.4 billion in 2018, to €10.9 billion in 2019.¹⁷ This represents an increase of 237% in five years and 4.9% in 2019. These headline figures suggest very strong corporate performance. However, Ireland's corporation tax receipts are highly concentrated within a few large firms (45% from the top 10 firms in 2018) and are partially attributable to multinational tax planning.
- Receipts from capital Gains Tax increased 8.2% in 2019 suggesting strong corporate performance. The CSO's Institutional Sector Accounts show that Gross Operating Surplus (GOS) in the Non-Financial Corporate sector was €45.1 billion in Q3 2019.¹⁸ This was an increase of 2.8% over the same quarter of 2018. GOS was €170.3 billion over the four-quarter period from Q4 2018 to Q3 2019.
- If we turn to the two main minimum wage sectors, we find that adjusted trading profits for the accommodation and food services sector increased 36.9% in 2015, 24.3% in 2016 and 17.9% in 2017. Adjusted trading profits in the wholesale and retail sector increased 60.1% in 2015 (+€6.2 billion) before declining by 6.5% in 2016 (€1 billion and a further 9.2% in 2017 (€1.3 billion). Overall, these are strong three-year performances.¹⁹

¹⁵ National currency and GDP deflator. AMECO:

https://ec.europa.eu/economy_finance/ameco/user/serie/ResultSerie.cfm

¹⁶ If GDP and GNI* were to retain their relative proportions from 2018 in 2019 then AMECO's adjusted wage share would be 55.6% of GNI*. Thus, Ireland's wage share would still be below the EU and UK averages.

¹⁷ <https://www.gov.ie/en/publication/092b67-fiscal-monitor-december-2019/>

¹⁸ CSO: <https://www.cso.ie/en/releasesandpublications/er/isanf/institutionalsectoraccountsnon-financialquarter32019/>

¹⁹ Revenue Commissioners: <https://www.revenue.ie/en/corporate/documents/research/ct-analysis-2019.pdf>

- The value of retail sales increased 1% in 2019 and were up 3.5% annually in January. VAT was up 6.2% in 2019. Taken as a whole, the corporate sector has performed strongly in recent years with much improved profits and conditions.
- Finally, Services, Manufacturing and Construction PMIs are all in positive territory suggesting that businesses are optimistic about future gains and the business environment. The AIB Services PMI was 56.9 in January and the Manufacturing PMI was 51.2 in February. The Ulster Bank Construction PMI was 50.9 in January. The ESRI's consumer sentiment index is down over the previous year but has improved since a no-deal Brexit was evaded in October.
- **Exchange Rates** - The currencies most relevant for consideration by the Low Pay Commission are UK Sterling and the US Dollar. The Euro was trading at \$1.11 in early March against the US Dollar representing a marginal decline from March 2019. The weakening Euro suggests the economy has gained competitiveness vis-à-vis the United States over the last year. The value of the Euro was trading at around 0.87 GBP in early March and was relatively unchanged compared to the same period in 2018 and 2019.
- Anticipation of a 'no trade deal' Brexit would likely lead to a depreciation in Sterling in the second half of 2020. However, the impact of such an outcome on inflation in 2021 is unclear, as many imports would become subject to tariffs. Our view is that UK inflation will continue to outstrip Irish inflation for at least the next 12 months as the UK is further along its business cycle.
- There is little evidence suggesting the Irish economy lacks competitiveness against its trading partners. The Real Effective Exchange Rate (REER) aims to assess a country's price competitiveness relative to its principal competitors in international markets.²⁰ A rise in the index represents a loss of competitiveness. Eurostat data shows that Ireland's REER declined in 2019²¹, which means that the Irish economy improved its competitiveness against its trading partners. Ireland had the second most substantial competitiveness improvement out of the group of 28 EU countries between 2010 and 2019.

²⁰ Changes in competitiveness depend not only on exchange rate movements but also on cost and price trends. Eurostat: [Effective Exchange Rates](#)

²¹ <https://ec.europa.eu/eurostat/databrowser/view/tipser13/default/table?lang=en>

- **Income Distribution** – CSO data²² provides trends for income and income inequality. Median equivalised disposable income per individual was €20,872 in 2018. The top decile (i.e. the richest 10%) had a 24% share of equivalised income whereas the bottom decile had just a 3.6% share. The quintile share ratio²³ (a measure of inequality) was at 4.4 in 2018, while the gini coefficient measure of income inequality was 29.7% in 2018 – both improvements over 2017.
- The deprivation rate²⁴ improved from 18.8% in 2017 to 15.1% in 2018. Even so, the deprivation rate remains well above the pre-crisis rate of 11.8% in 2007. The ‘consistent poverty rate’ has increased from 4.2% in 2008 to 5.6% in 2018 but has fallen significantly from its 2013 peak of 9%.
- **Unemployment, Employment and Productivity** – The unemployment rate has been trending downwards since 2012. The Labour Force Survey (LFS) data²⁵ shows unemployment of 110,600 in Q4 2019 with a seasonally adjusted unemployment rate of 4.7%. The rate increased to 4.8% in January but unemployment has been generally declining for seven years. The long-term unemployment rate fell to 1.6% in Q4 2019. The non-seasonally adjusted unemployment rate varies regionally with a high of 6.8% in the South East and a low of 3.7% in the South-West.
- Employment is also on the increase. Annual employment grew by 2.9% in 2019 and was up 79,900 in Q4 compared to the previous year. Employment growth was 3.5% in the fourth quarter. Employment increased in every economic sector on an annual basis in Q4 with the exception of wholesale and retail trade. Employment growth was up 2.7% in accommodation and food services. The employment rate for persons aged 16-64 increased from 69.1% in Q3 2018 to 69.6% in Q3 2019. The EU28 employment rate is also 69.6%. All institutional forecasters (Dept of Finance, ESRI, IMF, OECD, NERI, Central Bank) are projecting strong employment growth in 2020.

²² CSO <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2018/>

²³ The quintile share ratio is the share of income of the highest income quintile (i.e. the richest 20%) divided by the share of income of the lowest income quintile.

²⁴ The deprivation rate measures households excluded or marginalised from consuming goods and services that are the norm for other people in society. We consider individuals who experience two or more of a list of eleven listed items to be experiencing enforced deprivation and this is the basis for calculating the deprivation rate.

²⁵ CSO: <https://www.cso.ie/en/releasesandpublications/er/lfs/labourforcesurvey/lfsquarter42019/>

- Labour productivity in Ireland is notoriously difficult to interpret due to the outsize impact of the multinational sector. For example, the CSO estimate labour productivity growth at 21.8% in 2015. The 2016 and 2017 estimates of 2.5% and 2.8% are more plausible but still at the upper bound of productivity growth for an advanced economy. Labour productivity estimates for the domestic sectors may be more reliable and was 2.2% in 2016 and 0.5% in 2017.²⁶
- Economic output is expanding quickly. Real GDP grew by 5.5% in 2019 while modified final domestic demand grew by 3% over the same time period while personal consumption grew by 2.8%.²⁷

3.3 The evidence is clear that the economic conditions are robust enough for the Low Pay Commission to recommend a significant and meaningful increase in the hourly rate of the National Minimum Wage. Our analysis from last year’s submission remains valid:

- The evidence is clear that the business sector is thriving with strong growth in economic output, earnings and profits. At the same time, unemployment is falling and employment increasing. The economy is close to full capacity It is well beyond time that workers fairly benefited from the current buoyant economy.
- The evidence is also clear that the number of workers paid at the level of the Minimum Wage is small relative to total employment and even smaller relative to total hours worked. These workers are also predominately in sectors that are domestic and not internationally traded. In other words, even a substantial increase in the hourly rate of the Minimum Wage would have a negligible impact on the competitiveness of the economy.
- At the same time, we know from meta-analysis of the academic literature that increasing the minimum wage will have a negligible impact on net employment.
- Finally, a substantial increase is justified from an equity perspective. Deprivation remains well above pre-crisis levels. It would be unconscionable for low paid workers not to reap the benefits of a

²⁶ CSO: <https://www.cso.ie/en/releasesandpublications/ep/p-pii/productivityinireland2017/tables/>

²⁷ CSO: <https://www.cso.ie/en/csolatestnews/presspages/2020/quarterlynationalaccountsquarter42019andyear2019preliminaryandinternationalaccountsquarter42019/>

growing economy. Increasing the minimum wage will help to reduce in-work poverty and to modestly narrow the gender pay gap.

4. Conclusion

- 4.1** Congress is strongly of the view that the Low Pay Commission should not waste the opportunity to make a significant difference to the living standards and quality of life of the lowest paid workers in our society.
- 4.2** The evidence is clear that output and employment are now growing very quickly. Average hourly wages are likely to grow by close to 4% in 2020 and the unemployment rate should hover around 4.5%. Average hourly wage growth should represent the minimum acceptable increase in the national minimum wage. However, it is the view of Congress that the time has come to meaningfully tackle wage inequality in Ireland. Ireland has one of the highest levels of market inequality in the EU. The Low Pay Commission should ensure that each year there is a significant narrowing of the percentage gap between the Living Wage and the National Minimum Wage. This means the minimum wage needs to increase by more than the cost of living. This is particularly important given that some employers are vetoing the operation of the JLC system and many others still refuse to engage in collective bargaining.
- 4.3** Our analysis is that over the next two years the government should increase the Minimum Wage so that it reaches the level of the national minimum wage. For 2020, Congress is recommending an increase in the minimum wage from €10.10 to €11.55.

**Irish Congress of Trade Unions
March 2020.**