Submission to the Low Pay Commission

2021 Consultation on the

National Minimum Hourly Rate of Pay

March 2021.

1. Introduction

1.1 The Irish Congress of Trade Unions (Congress) is the representative body for over 40 affiliated unions and the largest civil society organisation on the island of Ireland. We represent the interests of more than 700,000 workers and their families in all sectors of the economy, both in the Republic and Northern Ireland.

1.2 The Low Pay Commission (LPC) has commenced its annual review of the hourly rate of the Minimum Wage and has invited submissions. The annual review by LPC normally results in a recommendation to Government which is considered in the context of the framing of the budget for the following year. It is anticipated that if Government accept the recommendation of the LPC in will be implemented from January 2022.

1.3 The circumstances in which the LPC is conducting this review are somewhat unique:

- The pandemic brought about by the spread of COVID-19 has affected all of our lives. While the impact of the pandemic will be felt for many years to come, the arrival of vaccines has opened up the possibility that life will return to a form of 'near normal' over the coming period;
- A new Government has been formed and under the agreed programme - 'Our Shared Future' - has committed to progress to a Living Wage over its lifetime; and
- The United Kingdom has left the European Union. However, an agreement between the EU and UK on a future shared relationship has meant that impact of Brexit will be minimised.

1.4 The Programme for Government (PfG) describes the role of the LPC as 'instrumental in ensuring that those who are in low-paid employment are valued'. The commitment by Government to value the contribution of workers in low paid employment means the LPC must use this review to begin the process of implementing a Living Wage. This means recommending an increase in the hourly rate of the Minimum Wage, which is in line or ahead of the general movement in earnings in the economy.

1.5 As mentioned earlier it is likely that any recommendation of the LPC will be implemented in January 2022. The LPC should therefore frame its recommendation having regard to the value of workers in low paid employment but also in the context of the position on the economy at that time.

1.6 This submission has been framed again the backdrop of the commitments in the Programme for Government and the likely prevailing conditions that will exist in January 2022. In that context we believe that the LPC should recommend to Government that the hourly rate of the Minimum Wage be increased by at least 30 cent an hour to €10.50 on 1 January 2022, an increase of 2.9%.

2. The General Economic Outlook.

2.1 The Irish economy achieved headline real GDP growth of 3.4% in 2020. Real GNP grew 0.6%. These growth levels were not universal across all sectors of the economy. Some sectors performed very well while others, primarily because of public health restrictions, experienced difficult trading conditions. Modified Domestic Demand (MDD) is perhaps the most useful indicator of domestic performance. Real MDD declined by 5.4% in 2020 while personal consumption declined by 9%.

2.2 The public finances were in surplus in 2019 but went into deficit with a final deficit of close to 7.4% of GDP in 2020. The government balance will improve marginally in 2021 and the deficit will close further in 2022 and 2023 as economy activity picks up and Covid 19 related supports are withdrawn.

2.3 Economic activity has remained somewhat subdued in quarter one of 2021. Even so, with the gradual easing of lock-down in quarter two of 2021 is likely to mark the beginning of what the Nevin Economic Research Institute (NERI)[1] projects will be a prolonged economic expansion. The economy should begin growing robustly on an annualised basis by the end of 2021 assuming a successful vaccine rollout and the full or almost full re-opening of society.

2.4 **The projected expansion is predicated on:**

- The realisation of an unprecedented level of pent-up demand for activities currently constrained by the lockdown (primarily services);
- The normalisation of the household savings rate from its current excessive and historically high level; and
- An increased demand for exports arising from the Biden stimulus and a generally strengthening global economy.[2] Ireland's main trading partners should all experience very strong recoveries in the second half of 2021 and throughout 2022. As we move into 2022, the EU economies will also benefit from the significant capital spending available from the EU's recovery and resilience programme.

2.5 Crucially, the 2020-21 Covid lockdown is a policy induced supply-side recession. It is therefore qualitatively different in nature from the balance sheet, demand-side recessions that have characterised all western European recessions over the last four decades. We must therefore avoid inferences about the timescale for economic recovery based upon these past crises. The coordinated business, income and labour market supports have left the economy in a much stronger position than it would be at this stage of a more traditional balance sheet recession. There is therefore a greater ceiling for

[1] NERI (Forthcoming, 2021) Economic Outlook, Presentation to the ICTU Private Sector Committee.
[2] The IMF's World Economic Outlook projects the global economy will grow by 5.5% in 2021 and 4.2% in 2022. The OECD's Economic Outlook (March, 2021) project growth of 5.6% in 2021 and 4% in 2022.

recovery in the short-to-medium term, with much reduced risk of significant labour market scarring.

2.6 The speed and scale of the recovery will depend upon the supportiveness of policy. Monetary, fiscal and incomes (i.e., wages and social transfers) policies ought to work in concert in order to coherently support an expansion of aggregate demand in the economy. The expansionary policy stance will be required for at least the two to three years following the end of lockdown. Crucially, low paid workers have higher propensities to consume. This means that wage increases for low paid workers and income supports for low-income households are particularly suited to the goal of stimulating aggregate demand.

2.7 It would be intellectually and politically inconsistent to pursue expansionary fiscal and monetary policies while simultaneously failing to pursue an expansionary income and wage policy.

3. Earnings &Prices.

3.1 Total compensation of employees fell marginally (0.1%) in 2020 compared to 2019. While compensation grew in some sectors (ICT sector increasing by 8.9%), other sectors, particularly those impacted by lockdowns saw a significant decline:

- arts and entertainment (-15.1%);
- distribution, transport, hotels and restaurants (-11.3%);
- real estate activities (-7.1%).

3.2 **I**reland's headline economy-wide earnings data is skewed by very large employment composition effects arising from the sectoral differences in the impact of the lockdowns. In particular, job losses and reduced hours were concentrated amongst lower paid workers. This makes year-on-year comparisons extremely difficult.

3.3 Whilst acknowledging that important caveat, we can see that average hourly earnings grew 5.5% between quarter four of 2019 and quarter four of 2020 and 6.3% in the private sector.[3] Notably this data includes workers supported by the Employment Wage Subsidy Scheme (EWSS). Average weekly earnings grew by 7.5% in the same period (8.5% in the private sector).

3.4 Average hourly earnings were €25.56 in quarter four of 2020. The lowest paid sector is accommodation and food services. Average weekly earnings increased by just 2.9% as average weekly paid hours in the sector fell by 9.7%. The data includes workers supported by the EWSS so that actual activity in the sector is lower than that suggested by the headline data.

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[3] CSO (2021) Earnings and Labour Costs Quarterly.

3.5 The other major Minimum Wage sector is the wholesale and retail trade. This sector was much less affected by Covid lockdowns giving us somewhat more reliable data. Average hourly earnings increased by 2.6% to €20.32 while weekly earnings increased by 4.5%.

3.6 The HICP measure of consumer prices was down 0.4% year-on-year in February 2021 and has been in negative territory for eleven consecutive months with the 12-month HICP average at -0.7%. Similarly, the CPI has been negative or flat for eleven months. This matches the duration of lockdown measures and reflects subdued demand in the economy and low energy prices. The European Commission projects[4] that the HICP will rise to 0.7% in 2021 and to 1.6% in 2022 as the economic recovery stabilises. The Central Bank[5] projects more modest increases of 0.6% and 0.8% respectively[6]. If the institutional projections are broadly accurate, then workers will need an average hourly pay increase of between 0.8% and 1.6% merely to avoid a reduction in their real hourly wage.

3.7 There is significant upside risk to the inflation projections. A stronger than anticipated recovery would be consistent with stronger price inflation. For example, the scale of the recovery in the United States is likely to engender higher prices. Were policies similar to the Biden stimulus to be replicated in Europe it would likely place significant upward pressure on prices. Finally, the economic recovery and increased demand may push energy prices higher.

3.8 In order to avert an increase in in-work poverty it is imperative that wages for low-income workers increase by at minimum the European Commission's assumed level of consumer price inflation of 1.6%. In addition, workers should be fairly compensated for any productivity gains arising from their labour. Productivity gains are volatile from year to year and this is particularly so during periods of significant economic flux. Even so, we know that historical productivity gains have generally averaged between 1% and 1.5% over the long-term in advanced economies. This gives us a reasonable baseline assumption for productivity growth in 2022.

3.9 Congress's proposed increase in the hourly rate of the Minimum Wage from €10.20 to €10.50 represents an increase of 2.9%. The Living Wage Technical group estimate the Living Wage is €12.30 per hour in 2020/21. Assuming a modest 1.1% increase in the Living Wage to €12.45 would leave a €10.20 Minimum Wage at just 81.9% of the Living Wage rate, while a €10.50 Minimum Wage would be at 84.3% of the Living Wage. A robustly growing economy in 2022 is the shared, consensus view among all major institutional forecasters. Therefore, it is the view of Congress that an increase in the hourly rate of the minimum wage of 2.9% in 2022 is amply justified and appropriate.

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[4] European commission (2021) Winter Economic Forecast,

[5] Central Bank of Ireland (2021) Q1 Quarterly Bulletin.

[6] The OECD's (2021) economic forecast for Ireland projects HICP growth of 0.4% in 2021 and 1% in 2022.

4. Employment & Unemployment.

4.1 The economy was close to full employment on the eve of the first lockdown, although there was still scope for further employment gains as Ireland was still underperforming trading partners like the US and UK. Current employment and unemployment data is difficult to interpret given the numbers on temporary supports. The headline unemployment rate of 5.3% (128,000) in February is obviously not a reasonable reflection of the economic context. However, the Covid-19 adjusted unemployment rate of 24.8% (597,000), which classifies all Pandemic Unemployment Payment (PUP) recipients as unemployed, is equally illusory as many of the recipients will immediately return to work once the lockdown is eased. The Central Bank projects that the unemployment rate will average 9.3% in 2021 and 7.8% in 2022. The OECD also projects an unemployment rate averaging 7.8% in 2022.

4.2 It is important however to consider the likely impacts on employment arising from an increase in the hourly rate of the Minimum Wage. Various studies have shown that progressively increasing the hourly rate of the Minimum Wage does not have a negative impact on employment. We have provided a short summary of these studies in the following paragraphs.

4.3 ESRI research[7] is clear that the increase in the Minimum Wage of 5.8% in 2016 had no negative employment effect. They found no evidence that firms reduced their headcount in response to the increase. The ESRI pointed out that just 3% of firms had more than half of their employees on the Minimum Wage. The negligible impact on employment is in line with the vast majority of research on the employment impact of modest minimum wage increases.[8]

4.4 The 'New Minimum Wage Research' methodology started to became popular in the 1990s. The Card and Krueger (1994)[9] study was the most famous of these attempts to simulate natural experiments. The authors computed estimates of the effects of the Minimum Wage increase and found that the effects of minimal wage laws were essentially non-existent.

4.5 **A** subsequent meta-study of 64 minimum wage studies published between 1972 and 2007 corroborated Card and Kreuger's overall finding of an insignificant employment effect.

[7] ESRI (2021) The Impact of the 2016 Minimum Wage Increase on Average Labour Costs, Hours Worked and Employment in Irish Firms.
[8] For a summary see McDonnell T. (2015) NERI Submission to the Low Pay Commission: Employment and other Impacts of Changes to the National Minimum Wage.
[9] Card D. and Krueger, A. (1994) Minimum Wages and Employment: A Case Study of the New Jersey and Pennsylvania Fast Food Industries. *American Economic Review*, **84**(4), pp. 772-793.

Doucouliagos and Stanley (2009)[10] graphed over 1,000 employment estimates weighted by statistical precision and found the most precise estimates were heavily clustered at or near zero employment effects. Wolfson and Belman (2013)[11] subsequently conducted a meta-study of 27 studies published since 2000. The overall results corroborated the earlier findings of there being no statistically significant employment effect.

4.6 Numerous contemporary studies (see McDonnell 2015 for an overview) have all found no net employment effects from increasing the minimum wage. The newer studies find strong earnings effects and no employment effects from minimum wage increases once account is made for regional trends.

5. Conclusion

5.1 In conclusion, we have sought in this submission:

- to point to the most unusual circumstances in which the LPC is conducting its review;
- to recall the commitment in the Programme for Government to move progress to a living wage over the coming years;
- to emphasise the role of the LPC in ensuring that workers in low paid employment are valued;
- to remind the LPC that the outcome of their review will not be implemented until 2022 and any recommendation should reflect the prevailing conditions at that time;
- to demonstrate that the prospects for the Irish economy in 2022 and beyond are good;
- to highlight the importance of protecting the living standards of low paid workers in our society; and
- to show that increasing the hourly rate of the minimum wage dose not result in increased unemployment.

5.2 **I**t is for these reasons that we are believe the LPC should recommend to Government that the hourly rate of the Minimum Wage be increased by at least 30 cent an hour to €10.50 on 1 January 2022, an increase of 2.9%.

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[10] Doucouliagos, H. and Stanley, T. (2009) Publication Selection Bias in Minimum Wage Research? A Meta-Regression Analysis. *British Journal of Industrial Relations*, **47**(2), pp. 406-428.

[11] Wolfson, P. and Belman, D. (2013) *What does the Minimum Wage do?* UIER: Michigan.