

# LABOUR MARKET NOTES

IRISH CONGRESS OF TRADE UNIONS

ISSUE TWO, MAY 2016

## Welcome....

To the second issue of *Labour Market Notes*, a new e-bulletin from Congress which aims to provide regular updates on key labour market developments, at the European and domestic level. If you want to sign up to receive each issue of *LMN* or have any other observations, contact us at: [info@ictu.ie](mailto:info@ictu.ie) (mark it 'for attention of *LMN*').

## Europe

### Unemployment in Euro Area Higher than Wider EU

As of February 2016 the unemployment rates for the European Union as a whole were as follows:

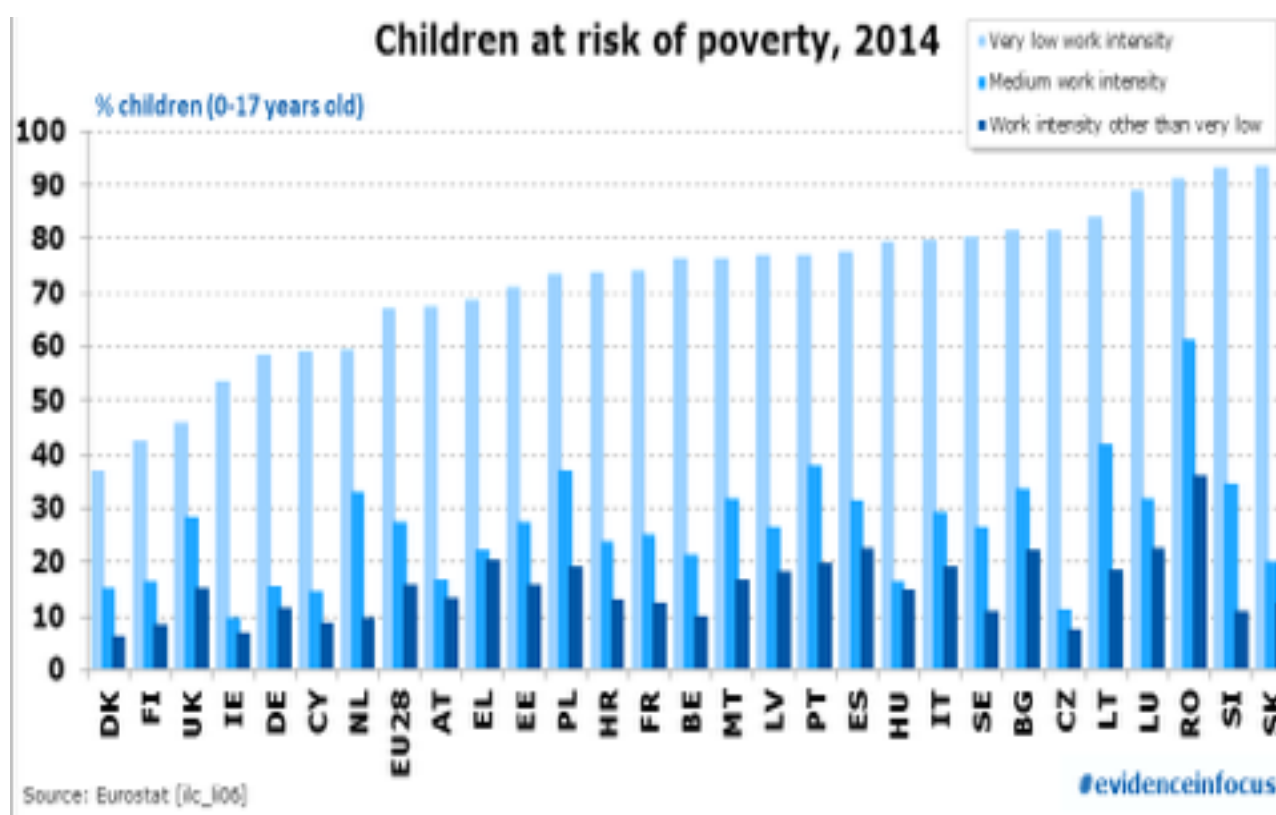
	EU	Euro Area
<b>Total</b>	<b>8.9%</b>	<b>10.4%</b>
<b>Men</b>	<b>8.8%</b>	<b>10.2%</b>
<b>Women</b>	<b>9.0%</b>	<b>10.6%</b>
<b>Youth</b>	<b>19.4%</b>	<b>21.7%</b>

### Job Vacancy Rates

The highest job vacancy rates across all sectors were in Germany and the UK at 2.6%. The EU average is 1.7%. Ireland is approximately half that at 0.8 %, a figure shared with Bulgaria and France. This would suggest that talk of labour shortages in Ireland is somewhat over-hyped.

## Jobless Households

This has been identified as a key issue for Ireland. The chart below illustrates the dramatically high poverty risk for children living in households of very low work intensity: 67.2% in the EU. The share is very high even in countries that otherwise perform well in terms of child poverty: 37% in Denmark and 43% in Finland. Moving from low to medium work intensity (e.g. one of the two parents working) considerably reduces the risk to poverty of children in the EU to 27.5%, while this is still remarkably higher than among children living in households where both parents are working.



## A Note on Minimum Wages

The ETUI has done some research on the level of minimum wages in 19 EU countries. They work on the basis of the established OECD view that a minimum wage of less than 50% of the national median wage exposes workers to poverty. France has the highest ratio with its minimum wage - known as the SMIC - being 61% of the median average wage. Germany, the UK and Netherlands are down the league table at 48%, while Ireland comes in at 43% - the fourth lowest.

The ETUI has estimated what rate minimum wages should be at to bring them up to the 60% of median wages level. In Ireland's case the rate would need to move from €9.15 to €11.19 per hour, an increase of almost €2 per hour.<sup>1</sup>

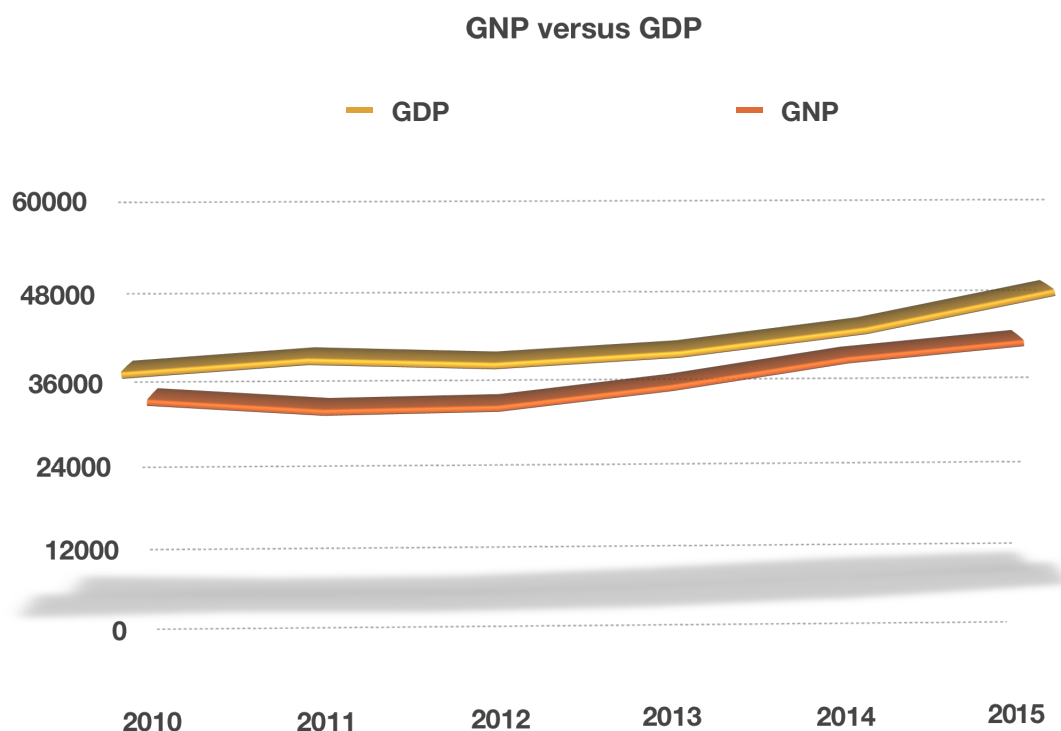
### The Tax Wedge

This is defined as the difference in the wage cost to the employer - including social insurance contributions - and the amount a worker takes home. The tax wedge is lowest in Malta at 25% and second lowest in Ireland at 28%. Britain follows at 31% while in Germany, Austria, France, Hungary and Italy the wedge is between 48% and 50%. It is therefore clear that we have some scope to increase employers' PRSI to boost services in areas such as childcare.

### Ireland

#### GNP versus GDP

GDP - *Gross Domestic Product* - measures the final value of all goods and services produced within a country, while GNP - *Gross National Product* - measures the final value of all the goods and services produced by the labour and capital supplied by the citizens of a country.



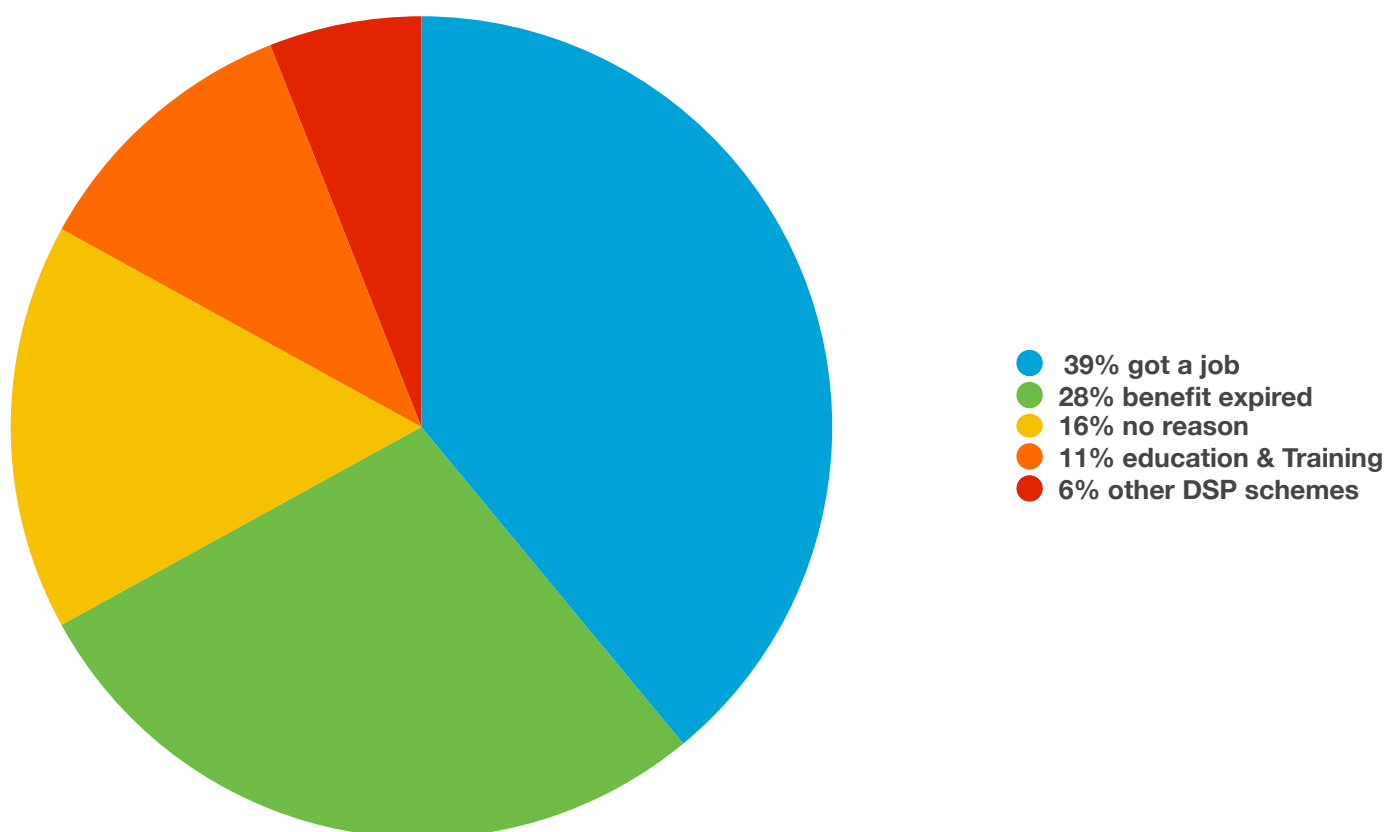
<sup>1</sup> <http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2016>

Multinational activity (because of foreign ownership) is often included in GDP, but not in GNP. Therefore stories on the improvement in the Irish economy which only quote GDP growth, are only somewhat inaccurate. GNP is a more accurate reflector of living conditions for people living in Ireland. As the chart above shows, not only is GNP lower, but it has grown at a slower rate.

### Leaving the Live Register

According to Department of Social Protection (DSP) figures, last November some 28,865 people left the live register. Of these 39% left to take up a job, 28% ran out of entitlement and 16% stated no reason. A further 11% took up education and training and 6% transferred to other DSP schemes. So a given drop in live register figures will translate into a lesser increase in the number employed.

Life after the Live Register



*Key extracts from Ireland's Country Report (issued by the EU, Feb. 2016):*

**Labour Market Participation** is yet to pick up and recover to pre-crisis levels. Despite the strength of the economic recovery and job creation, labour market participation has not yet risen significantly and inward migration remains moderate. Migration inflows are recovering while outflows remain strong. The country is still experiencing small net outflows and those leaving *tend to have a job in Ireland and higher education (our emphasis).*

**Social Protection** expenditure offset the severe effects of the crisis and significantly reduced inequality. Monetary poverty and income inequality after social transfers are today still below pre-crisis levels and euro area averages. However, when taxes and social transfers are discounted, both indicators worsened dramatically after 2008. This illustrates the continued reliance on social protection expenditure to lift a significant proportion of the Irish population away from the risk of poverty (at 60 % of the national median disposable income). Per capita expenditure on social protection in Ireland had been well above the euro area until it converged in 2013. At the same time, low work intensity in certain households continues to drive up the risk of social exclusion, and severe material deprivation has deteriorated significantly since the crisis.

**Note the reference in the text above to 60% of median income as a poverty threshold, in the debate on the minimum wage.**

**SME Debt Burden** One third of Irish SMEs have no debt at all, and the ratio of non-performing SME loans has been declining constantly in the past two years. In June 2015, 19% of SME loans held by domestic banks were non-performing, down from 26% in 2013. However, at least 20% of SMEs, including many outside of the construction sector, have direct property exposure, which makes them more prone to default. Such exposure may also be registered as the private mortgage of an SME owner or as a commercial real estate loan. Many of these loans require where possible, a separation of the viable businesses from legacy property debt.

**This sounds like more bad news for employees in some small firms whose underlying profitability will be dragged down by the owners' property debt.**

## Germany

### The Minimum Wage: One Year On

Since January 1, 2015 a statutory minimum wage of €8.50 per hour has applied in Germany. A recently published study by the Institute of Economic & Social Research (WSI) of the **Hans-Böckler-Stiftung** yields the following key results:

- 1. The substantial above-average wage increases in the classic low-wage sectors such as retail, hotels and restaurants, security services and other personal services - laundry services and hairdressing - indicate significant effects of the introduction of the minimum wage. Even though it is not yet possible to say exactly how many employees benefitted from the introduction of the minimum wage, the fact that in 2014 between 4.8 and 5.4 million employees earned less than €8.50 suggests that millions of workers benefitted from the new statutory minimum wage;*
- 2. None of the horror scenarios of up to one million job losses predicted by many economists actually materialised. On the contrary, employment in Germany has seen a continuous increase. Only the so-called 'mini jobs' (a special form of marginal part-time employment) show a strong decline, but many of these were transformed into regular jobs requiring social insurance.*
- 3. The introduction of the minimum wage also supported collective bargaining policies and, thus, contributed to the further increase of the lowest wage groups. This applies in particular to the meat industry, hair-dressing and the agricultural sector.*

Against the background of these experiences, discussions are currently being held on the future adjustment of the minimum wage that is to come into effect at the beginning of 2017.

Following the German Minimum Wage Act, the Minimum Wage Commission - composed of employer and trade union representatives - has to give a recommendation by taking into account the recent developments of collectively agreed wages. According to the wage index of the Federal Statistical Office, collectively agreed wages increased by a total of about 5.5% in 2014 and 2015. Thus, the minimum wage would have to be increased to about €9.

## Brexit

### European Courts

There is much talk about what form of treaty the UK would have with the rest of Europe in the event of its citizens voting to leave the EU, in the June referendum. Norway was offered membership in 1972 but rejected the proposition in a referendum. However in order to trade with the rest of Europe it must respect and implement EU law. It does this through the EFTA court which covers Iceland, Lichtenstein and Norway.<sup>2</sup>

### And finally....

A number of recent US studies have found that medical marijuana laws (MMLs) are associated with increased marijuana use among adults. This study from a German institute is the first to explore the labour market consequences of MMLs. They find that enforcement of MMLs is associated with a 2%-3% reduction in hourly earnings for young adult males. The effect is particularly pronounced when examining MMLs that include a 'collective cultivation provision'. For women and older males, there is little evidence of any adverse labour market impact. We conclude that the health effects of MMLs may adversely affect labour market productivity of young males.

The discussion paper is available to read and download.<sup>3</sup>



---

<sup>2</sup> <http://www.eftacourt.int>

<sup>3</sup> <http://ftp.iza.org/dp9831.pdf>