Low Pay Commission

Submission on the National Minimum Wage

TASC
Think-tank for Action on Social Change

February 2018

TASC submission to the Low Wage Commission 2018

Recommendations

TASC makes the following recommendations to the Low Pay Commission based on our analysis:

1. The national minimum wage should be increased from €9.55 to €10.50 per hour. Age-based and trainee rates should similarly be increased by 10%. This should be part of a broader move towards the living wage.
2. Efforts need to be made to bring non-wage costs down. Stakeholders should pressure government on this front. A reduction in non-wage costs would assist value-added generation and also contribute to higher real take-home pay of low-wage workers.

Background

Ireland has among the highest levels of GDP per capita not only in Europe but in the world. As is well-known, much of this is due to tax avoidance strategies of large multinationals so that national income figures in recent years have become unreliable. Nevertheless, Ireland remains a wealthy country.

However, Ireland is a low wage economy based on several metrics. Low pay is defined by the OECD as less than two thirds of gross median earnings (that is, market earnings + transfers, but before taxes).

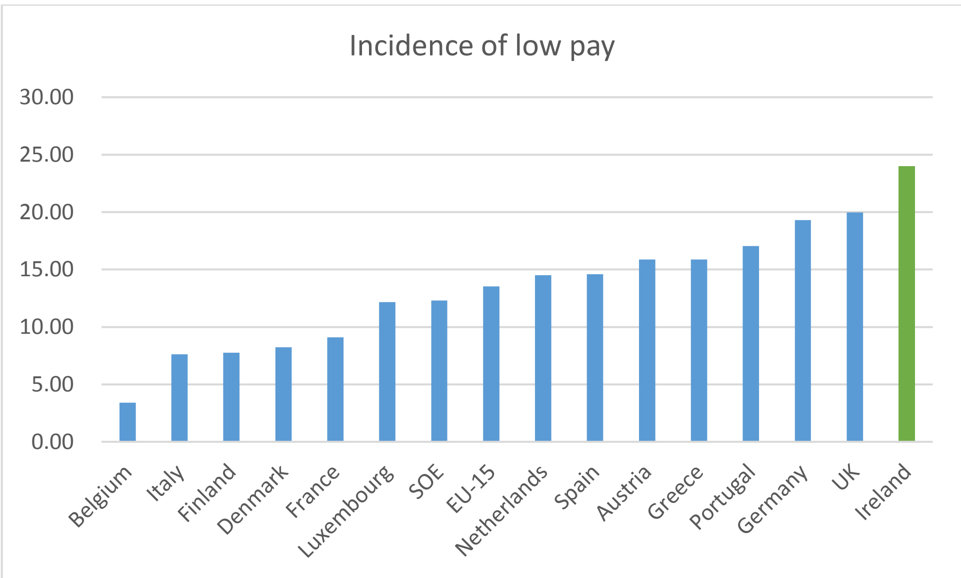


Figure 1: Incidence of low pay.

Source: OECD (http://stats.oecd.org/Index.aspx?QueryId=64193).

Notes: Belgium, France, Italy, the Netherlands, and Spain based on 2014 figures. Otherwise figures are from 2015.

As can be seen above, at 24%, Ireland has the highest incidence of low pay among all comparator countries, and by quite some distance. It has double the rate that pertains in small, open economies (SOEs) (Austria, Belgium, the Netherlands, Sweden, Denmark, Finland, and Ireland), and 10 percentage points above the EU-15 average (13.53).

There are several consequences for the economy and those large sections of the workforce who struggle to earn an adequate income. It is a major factor in Ireland's high levels of inequality relative to its peer groups (see, for example, Wickham, 2017). In essence, without large interventions by the state through the taxation system, large swathes of Irish workers, particularly women, are unable to meaningfully participate in Irish society. The burden placed on the state by the need to redistribute implies, at current rates of taxation, it has less resources for public investment and growth strategies. Low wages also depress demand as high earners have a greater propensity to save.

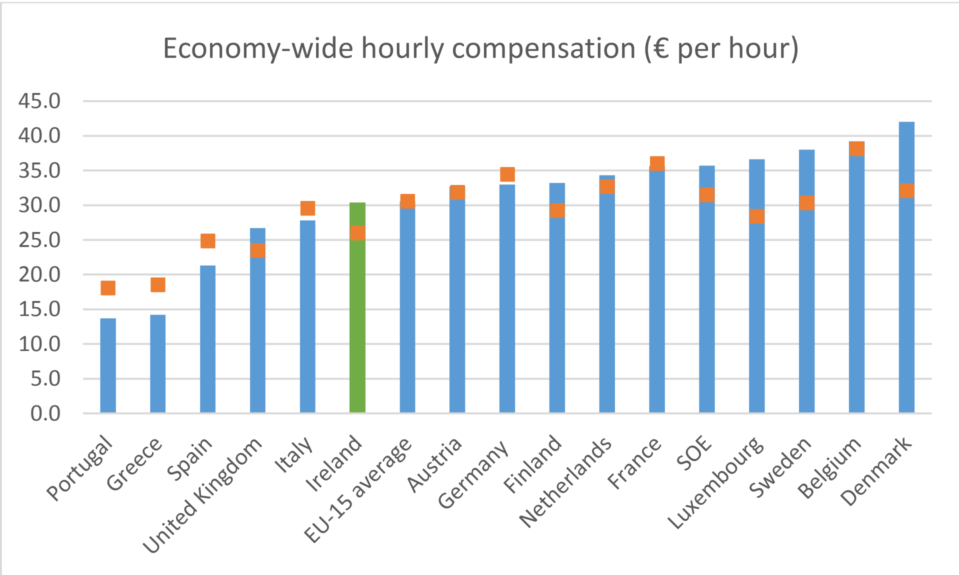


Figure 2: Cost of labour in the EU.

Source: Eurostat Labour costs levels (http://ec.europa.eu/eurostat/data/database).

Note: Boxes denote purchasing power adjusted figures using actual individual consumption price index (base = EU-15).

Figure 2 above compares the cost of labour in Ireland to other EU-15 countries. Labour costs include wages and salaries, but also employers' social contributions (i.e. employer PRSI in the case of Ireland). Relative to other countries, at €30.4 per hour, the levels of compensation in Ireland are low. It is marginally below the EU-15 average, which is brought down by the significantly poorer Mediterranean countries. In purchasing power terms, Ireland moves further down the compensation scale as relatively higher prices here mean that workers in Italy can purchase more with their earnings. In Ireland, employers' social contributions are unusually low, which in turn implies a lower 'social wage'. This also, incidentally, helps explain Ireland's deficiency in public services and welfare provision relative to other European countries.

Compared to other SOEs, average hourly compensation is about €5 less in Ireland in nominal terms (and a further €0.50 less in PPP terms). All six of the other SOEs rank higher than Ireland in the most recent global competitiveness report (WEF, 2017: 152-153). As such, Ireland can absorb wage increases without undermining its competitiveness.[1]

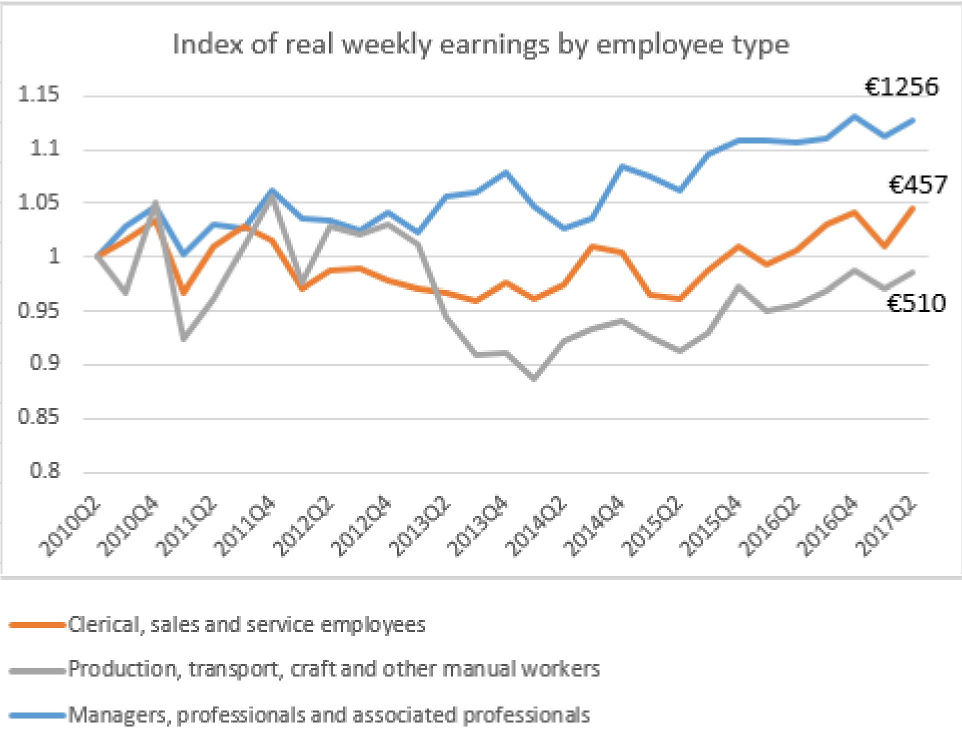


Figure 3: Index of real average weekly earnings (business and services).

Source: Based on CSO (http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp).

The level of labour compensation in Ireland is comparatively low, but as some commentators and policymakers have recognised, compensation in Ireland has been growing as the economy has begun to recover. Figure 3 shows this trend for the business and services sector, essentially the private sector. The series does not allow the tracking of compositional changes nor does it control for hours worked. It is worth pointing out, however, that a significant proportion of the workforce (one in six of part time workers/about 4% of total) are involuntarily employed in part-time work (ICTU, 2017: 33). More generally, the level of part-time employment is strongly related to domestic institutional arrangements surrounding female participation, such as the availability of affordable childcare.

[1] This is particularly so if Ireland tackles its infrastructural deficit, which is listed as the primary impediment to competitiveness (WEF, 2017: 152-153).

These caveats notwithstanding, recent data makes for some interesting findings. Across all categories of employees inflation-adjusted earnings have been on an upward trend since 2014. That said, the recovery in weekly income has been uneven across different occupational groups. Since the second quarter of 2010, as far back as the data goes, income growth has been strongest for managers and professionals, the highest earners. For clerical, sales and service workers, the lowest paid group, weekly income had recovered to 2010 levels by the end of 2015, and are currently (Q2 2017) about 5% higher than they were 7 years ago. Minimum wage workers have seen larger increases, but starting from a low base. As before, Ireland is a low-wage country. For production, transport, craft and other manual workers, income still remains below what it was in Q2 2010.[2] That is to say, the upturn in the economy has disproportionately benefited the already well-off.

Thus, Ireland has the highest level of low pay among all EU-15 countries. Labour costs in Ireland are just under EU-15 averages, and well under other SOEs. There has been a recovery in incomes in the last three-to-four years, but this recovery has been unevenly distributed across the labour market. Though economy-wide aggregates provide a useful gauge for overall trends, the following section delves more deeply into low-pay sectors.

Low pay

The high incidence of low pay in Ireland is multifaceted. It is part of a broader problem of unstable and precarious working conditions (see Wickham and Bobek, 2016). It is also intimately related to a low social wage. Low revenue generation by the state is, in turn, associated with low levels of public provision. This can feed into costs factors, which affects standards of living, and the threshold that determines where a minimum acceptable income may lie for a high-income country. Unsurprisingly, countries with high levels of collective bargaining have more secure working conditions, but they also tend to have generous levels of public provision, which pushes up the real incomes of workers. There is thus no single way to tackle low pay or enhance the living conditions of those at the bottom of society.

[2] Of course, from a low base, the minimum wage has grown more than wages in general in recent years. Despite the headline rate being high compared to most European countries, strong collective bargaining rights in other countries mean wage floors are not as necessary to reduce the risk of in-work poverty. As already highlighted, Ireland has extremely high levels of low pay.

Focusing on employee compensation, the Low Pay Commission (2017) identifies five sectors with high levels of low pay: accommodation & food services, wholesale & retail trade, other service activities, arts/entertainment & recreation, and finally administrative/support services.[3] The first two sectors in particular are generally considered to consistently suffer the lowest pay and are shown in Figure 4 below. Of course, the figures presented are averages and so the reasonable levels of compensation in wholesale and retail mask the fact that this sector suffers from high levels of low pay. As is apparent, labour compensation is €23 per hour in the wholesale and retail sector, and €15.70 per hour in the accommodation and food sector. Labour compensation in these sectors is among the lowest levels in the EU-15, and even more so when measured in PPP terms. The average nominal labour compensation in SOEs is €32.50 per hour for wholesale and retail and €22.20 in the accommodation and food sector.

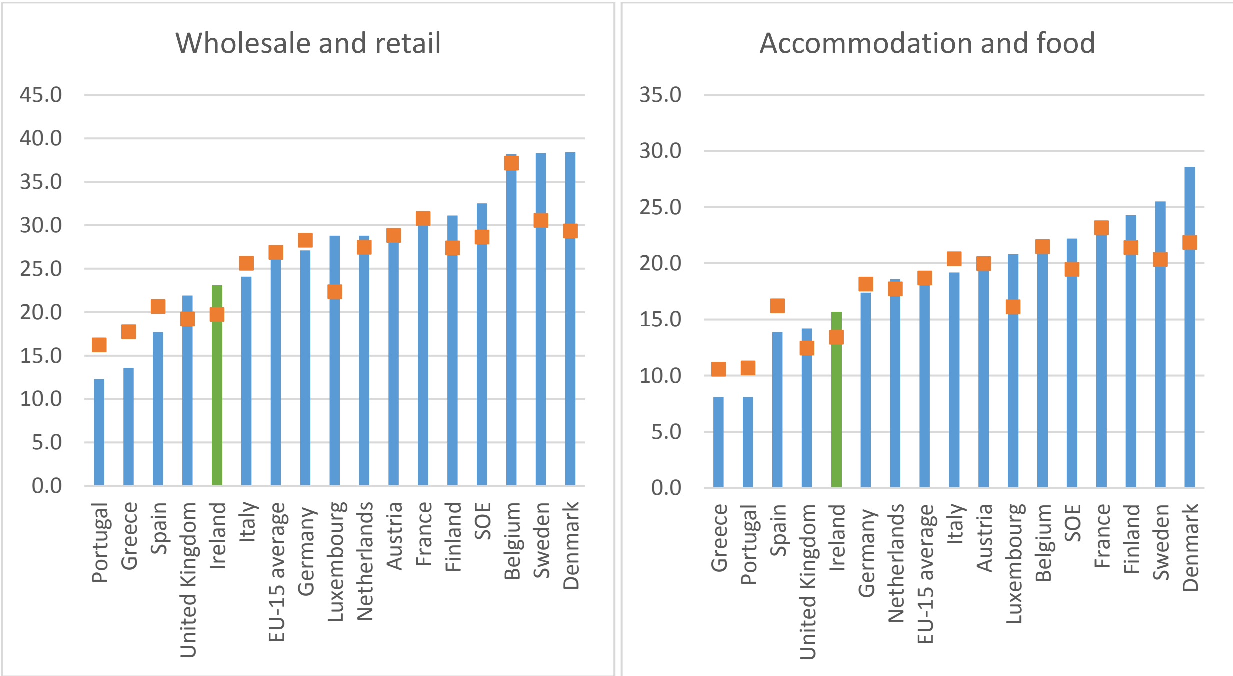


Figure 4: Labour compensation in wholesale & retails, and accommodation & food sector.

Sources: As per Figure 2.

Notes: PPP as per Figure 2.

[3] Significant numbers of low paid workers operate outside of these sectors (see, for instance, Collins, 2015).

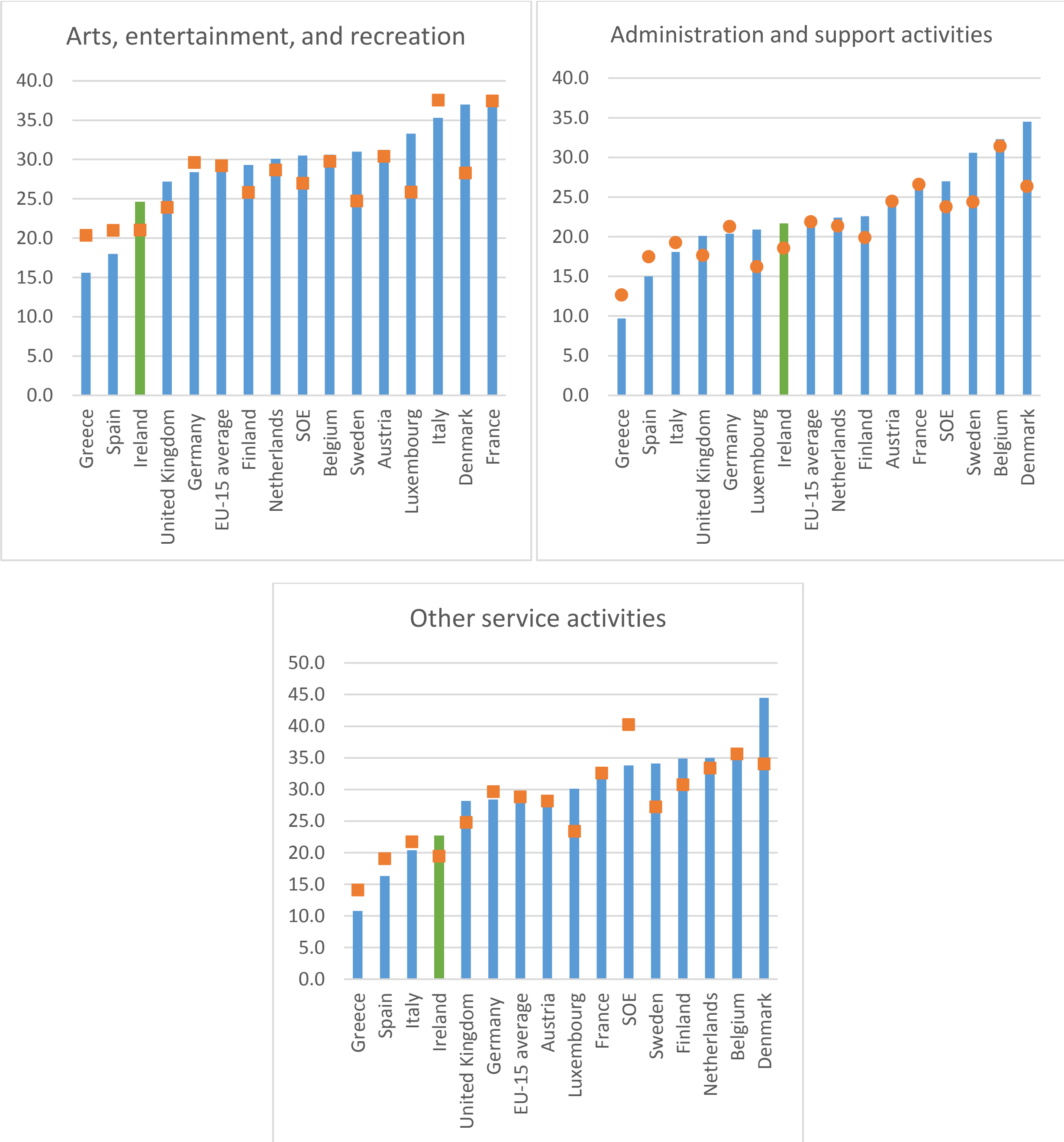


Figure 5: Labour compensation in other sectors with high levels of low pay.

Sources: As per Figure 2.

Notes: PPP as per Figure 2. There is no data for Portugal.

Figure 5 shows the level of compensation in the three remaining sectors considered by the Low Pay Commission. As can be seen, the same pattern emerges of Ireland's lower paid sectors also being lower paid relative to the corresponding sectors in other European economies. Compensation levels in arts, entertainment & recreation, though high in comparison to other sectors, are low by European standards. Administration and support services comprises travel and employment agencies, security and cleaning, and other services. At €21.70 per hour, nominal compensation levels are only somewhat below the EU-15 average, though well below the SOE average of €27 per hour. In PPP terms Ireland falls further behind due to lower prices in Germany and Italy. Finally, in the residual category of other service activities Ireland is once again a laggard in compensating its workforce.

Interestingly, with the exception of the administration and support sector, comparing Figure 2 to Figures 4 and 5 reveals the lower paid sectors are further away from the EU-15 and SOEs than is the case for overall compensation levels. This probably points to the segmentation of the Irish labour market. Certain sectors such as the FDI-dependent ICT and pharmaceutical sectors, and also the financial sector have relatively high compensation levels but others lag behind. In any event, it is the case that Ireland is a low pay economy overall, and that its lower paid sectors perform even more poorly than their European counterparts. The existence high levels of income per capita alongside high levels of low pay suggests the problem is one of distributional arrangements as opposed to economic necessity.

Low pay: scope for increases

As outlined by Pollin and Wicks-Lim (2015) among others, there are several ways in which a firm can absorb labour cost increases without reducing employment. One is through higher productivity. Higher wages may increase employee effort, reduce turnover and absenteeism, or encourage the adoption of technology. Firms may not be operating at full productivity as productivity savings alone are unlikely to fully cover the costs of wage increases. Second, rising costs can be absorbed through price increases. At the individual level, a profit-maximising firm may not have much scope for price increases given the potential loss of market share. However, if all firms in the sector are subject to the same rising cost pressures, firms can absorb cost increases without incurring a competitive disadvantage. Of course, the capacity of firms to increase prices in aggregate varies from sector to sector as the composition of consumer spending may change, especially for non-essential goods. Third, revenues can be redistributed among stakeholders. Wages can be redistributed from high earners to low earners, or from owners (that is, profits) to workers. While the latter is unlikely to be the favoured strategy by business owners, the unusually high levels of low pay in Ireland suggests that some form of redistribution is possible, and indeed desirable. Fourth, increases in labour compensation could be offset by policies aimed at reducing non-labour costs. Property, professional services, and other business costs are high in Ireland. Fifth, and importantly, labour cost increases can be absorbed through revenue increases arising from economic growth. This is of particular relevance to Ireland as the economy begins to recover. Excluding motor sales (which have fallen due imported cars from the UK being cheaper), latest figures show that annual retail sales growth to be 7.8% (McQuinn et al., 2017: 41).

A full discussion of which of the above strategies are likely to be most desirable in the Irish case is, needless to say, beyond the scope of this document. From a comparative perspective, Figure 6 below displays employee compensation as a share of value-added in the various low-paid sectors. Value added is the value of output minus the value of intermediate consumption. It is a measure of the economic pie that, once costs are paid, is distributable to stakeholders (labour and capital).

As can be seen in Figure 6, employee compensation as a share of value added is low in the wholesale and retail sector in Ireland compared to the rest of high-income Europe. This indicates scope for significant increases in the share that is distributed to labour. In the case of accommodation and food services, labour compensation as a share of value added is high in general being a labour intensive sector, and particularly high in Ireland. As we saw previously, labour compensation in the sector is low by European standards, so the issue is one of an inability to generate value-added. That is, Irish firms have difficultly generating significant output using a given set of inputs. This could be due to low managerial and organisational efficiency, or it could be due to high intermediate costs.[4] In relation to the latter, within the hotel sector, rising insurance costs (IHF, 27th February 2017) and, insofar as capacity is becoming a constraint (Business World, 30th August 2017), rising property costs are likely to hurt the sector. Similarly, a 2016 Bord Fáilte (2016) report notes labour costs account for around 25-30% of total costs in the Irish restaurant sector. The report further notes that food inputs are up to 30% higher than the EU-27 and that rigidities in the supply chain, scale, and other factors contribute to the above average cost (ibid).

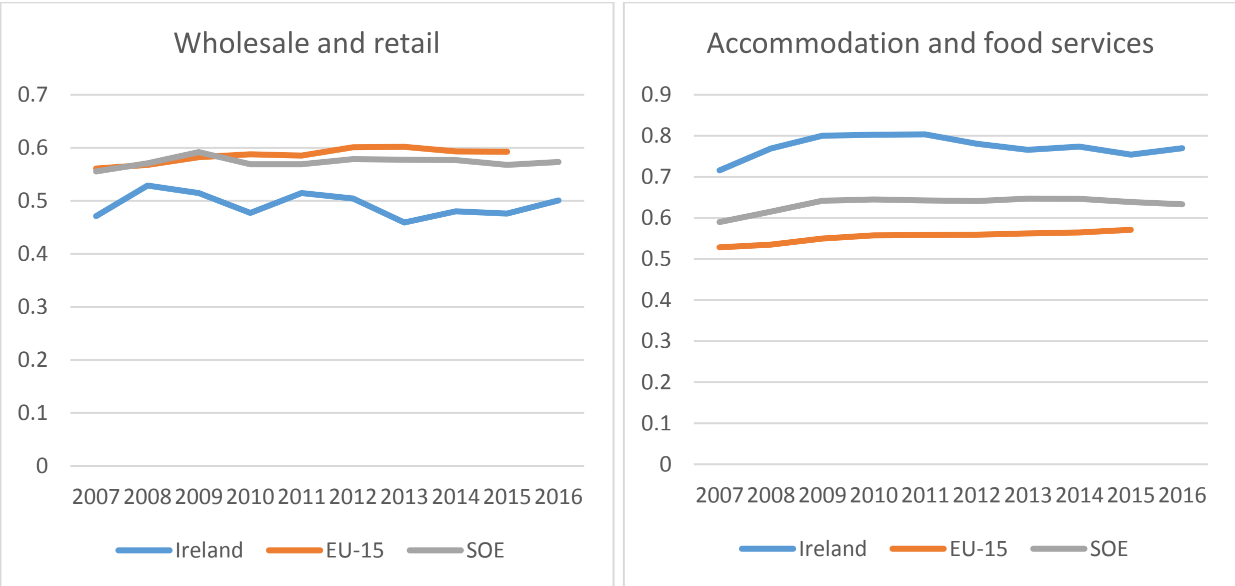


Figure 6: Labour compensation as a share of value added in traditional low-paid sectors.

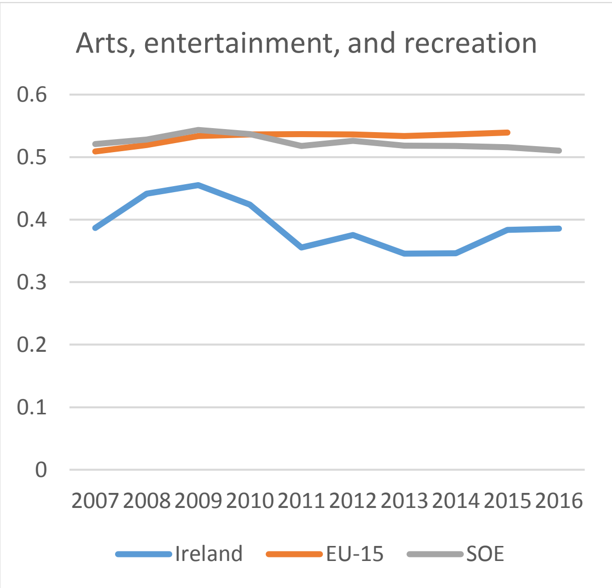
Source: Eurostat.

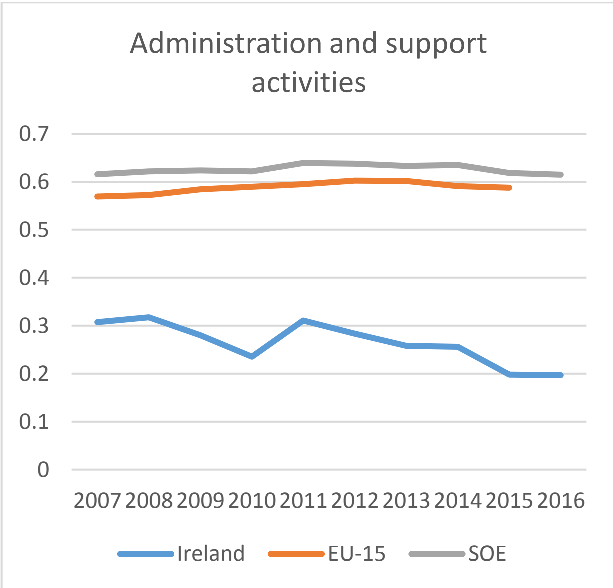
Desirable as it is to bring intermediate costs downs, which would also raise the real

[4] The relatively high labour share of value added in Ireland, despite low wages, could also be due to high levels of unpaid workers in the sector compared to other countries, perhaps due to a high incidence of family labour. In 2015 unpaid workers accounted for 7% of the total employed in the accommodation and food services sector. The EU-15 average was 15.9% and 15.1% for SOEs. See Eurostat enterprise statistics: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=sbs_na_1a_se_r2&lang=en

income of wage earners, low value-added does not imply an inability to raise employee income. As already discussed, this is especially the case in the context of a growing economy. If, as TASC proposes, the minimum wage were to increase by just under 10%, under conservative assumptions overall labour costs may increase by 5%, which would increase total costs in the restaurant sector, for instance, by 1.25 to 1.5%.[5] Even assuming no productivity savings, redistribution among stakeholders, and so on, the increase in costs could still easily be absorbed by trend economic and sectoral growth.[6]

Figure 7 shows labour compensation as a share of value added in the remaining low pay sectors. Compensation levels are evidently well below European norms in both the recreation sector and administration and support activities relative to value added. Compensation levels in the latter are also well below the level that pertained pre-crisis in 2007. Irish labour compensation as a share of value added is above the EU-15 levels in other service activities but at the SOE average. Similar comments apply here as to the wholesale and retail sector. Though the high share of compensation relative to value added may militate against wage increases considerably above the growth of the sector and economy, in the context of a recovery, there is little reason to suppose that wage increases cannot be absorbed without employment losses. In fact, this is even more the case considering average pay is higher in this sector so that minimum wage floors are likely less relevant.





[5] Most workers do not earn the minimum wage, though employers do desire to maintain income hierarchies. Pollin and Wicks-Lim (2015), for instance, estimate that a 40% increase in the minimum wage would raise average hourly pay by about 16% for the US fast food sector. We instead assume a higher knock-on effect of 50% (that is, increasing the minimum wage by x leads to an x/2 increase in labour costs), rather than their 40% estimate.

[6] Note if output or revenue (R), labour costs (L), and intermediate costs (C) were to all increase at the same rate, the level of profits (P = R – L – C) would still increase. Suppose R = 100, L = 40, and C = 40, then P = 100 – 40 – 40 = 20. If R, L, and C all double, now P = 200 – 80 – 80 = 40. According to latest price figures for food and beverages, the single most important cost input for restaurants, fell by 1.5% (CSO, 2018a). Output in the sector increased by 3.2% year-on-year (CSO, 2018b). Even with rising property prices, any labour cost increases from raising the minimum wage are more than absorbed by rising output and falling food and drink input costs.

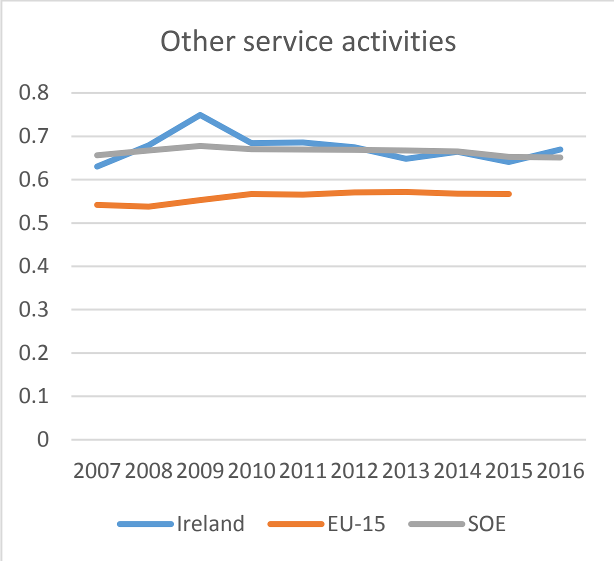


Figure 7: Labour compensation as a share of value added in remaining low-paid sectors.

Source: Eurostat.

In sum, there are several channels through which employers can absorb rising labour costs without reducing employment. Labour compensation as a share of value-added in Ireland is for most low-paid sectors well below European norms, which indicates significant scope for increases. In those lower value-added sectors, minimum wage increases can be absorbed by economic growth, or additionally through a combination of other absorption mechanisms. Rising property and professional service costs also need to be tackled, which would ease the burden on low value added SMEs in particular.

Conclusion

Ireland has an extremely high incidence of low wages. Despite some uptick in wages in the last few years, it remains a low wage economy. Moreover, the low-paid sectors in Ireland are particularly poorly paid by peer-country standards. In general, labour compensation as a share of value-added in Ireland's low-pay sectors is low by European standards. There are some sectors where labour compensation as a share of value-added is high. In the context of a growing economy, a modest increase in the minimum wage of just under €1 would be more than offset by increases in output. There are, moreover, several mechanism through which labour cost increases can be absorbed without adverse employment effects. Nevertheless, increases in the minimum wage should be complemented by other costs down, such as professional service and property costs. This would help raise value added and also raise living standards more broadly. This could be achieved through increases in provision of social housing, greater competition and service reform, among other means.

For these reasons, TASC recommends that the national minimum wage be increased from €9.55 to €10.50 per hour. Age-based and trainee rates should similarly be increased by 10%. Moreover, interested parties should pressure the government to bring non-wage costs down.

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