

FTA Ireland

Submission to Low Pay Commission April 2015



Ireland

**13<sup>th</sup> April 2015**

Delivering safe, efficient, sustainable logistics

# FTA Ireland

## Submission to Low Pay Commission April 2015



The FTAI is a not-for-profit membership trade association for the Irish freight and logistics industry. We are wholly owned and governed by our members, and act in advancing their best interests. FTA Ireland covers all aspects of private and public freight transport, passenger transport and logistics supply chain, including road, rail, sea and air.

The Low Pay Commission (LPC) was established by the Department of Jobs, Enterprise and Innovation (DJEI) in March 2015. It is expected to report to DJEI by 15<sup>th</sup> July this year. The LPC has asked for submissions by Monday 13<sup>th</sup> April. The LPC will examine a range of issues in considering the appropriate rate of the National Minimum Wage, including:

- the changes in earnings since the minimum wage was last increased in 2011
- the unemployment and employment rates generally
- the expected impact of a change to the minimum wage on employment, the cost of living and national competitiveness
- changes in income distribution and
- currency exchange rates

### **EXECUTIVE SUMMARY**

Ireland is just emerging from the long, deep recession. Given the origin of this recession in the global banking crisis of 2007-2008, and its international extent, this recession has been referred to as *The Great Recession*.

The logic behind the establishment of the LPC at this point in time is questionable: The most significant societal issue in Ireland is not low wages, it is high levels of unemployment. The live register figure stood at 10.5% as of January 2015. The notion that unemployment levels can be reduced by intervention in wage rates is dubious, and no available evidence supports this notion. Ireland has the fourth highest minimum wage in Europe, which, crucially, is higher than that of all our significant trading partners.

No objective data point to a problem with low wages in Ireland. While maintaining a high minimum wage level, and high levels of social support, Ireland is also a high-wage economy, by comparison with the majority of our trading partners. These facts sit uneasily with the establishment of the LPC in the first place. It appears that the justification for the establishment of the LPC is political, rather than being grounded in evidence or fact.

Increased rates of pay are justifiable where there is a demonstrable problem with recruitment or retention within an employment sector. This is not the case at present. No available dataset supports the notion that Ireland has a low wage problem, or a low minimum wage. The opposite appears to be the case. There is no economic or social justification for intervention in the labour market at this time, while unemployment remains so high. Doing so would represent a material threat to Ireland's economic recovery.

### **ISSUES**

#### **Changes in earnings since 2007:**

Household disposable incomes have dropped considerably since 2007. This is both a reflection of increased levels of unemployment, as well as a reduction of real wage levels, most particularly in the private sector. (See Annex I). The CSO estimates that real incomes declined from €24,611 in 2007 to €20,856 2012, a reduction of 18%.

The annual reductions in income levels were particularly acute from 2008 onwards (See Annex II). Yet our gross annual wages remain high by comparison with our major trading partners. (See Annex III). Similarly, although our minimum wage has remained static since 2007 (Annex IV), it remains high by comparison within the EU (Annex V), and is indeed fourth highest in Europe. FTA Ireland notes that the German minimum wage of €8.50 was introduced only on 1<sup>st</sup> January 2015.

### **Unemployment and employment rates generally:**

Ireland, like most other countries in the developed world, experienced a significant increase in its unemployment levels during the Great Recession. The factors contributing to this are obvious and well known. However, FTA Ireland draws the Commission's attention to the fact that at a period of "full employment" Ireland's unemployment rate *increased* from 3.9% in 2001 to 4.5% in 2006 (Annex VI). This does not make sense, unless one considers the social welfare expenditure over the same period (Annex VII). This increased from €7.8bn in 2001 (€6.7bn in 2000) to €13.6bn in 2006. GDP expanded from €107.4bn to €165.6bn over this period (+54%). The social welfare spend for the period expanded by 73% (and by 103% from the year 2000). There was no social or hardship imperative for this level of increase in social protection.

The data strongly suggest that an element of Ireland's unemployed cohort from 2001 to 2007 was "lifestyle" driven, i.e. paid employment was available but was not taken up. Note that FTA Ireland is *not* stating that people who choose to avail of social welfare supports rather than enter employment when jobs are available are bad, lazy, or poorly motivated. They are making rational economic choices. If high levels of weekly income and social support (rental allowance, medical card, etc.) are available to those on the live register, then the marginal benefits of entering employment, especially closer to the minimum wage, are reduced or eliminated.

This is not an argument for increasing the minimum wage, since jobs cannot be "manufactured" by increasing the minimum wage. This is an argument for looking at gross levels of social protection, at integration of the tax and social protection systems, and at the elimination of poverty traps.

Looking at the total cost of total hourly labour in the economy, Ireland also remains a high-cost location for employers. While Annex VIII suggests that the Irish hourly rate is in 10<sup>th</sup> place overall in the EU and just above the Euro-area average, this masks the fact that the wage element of hourly labour is very high. In fact, the pure wage and salary element in the Irish hourly labour cost is exceeded only by Luxembourg and Denmark. Ireland thus remains competitive only because our non-wage costs remain so low. (Non-wage costs include the employers' social contributions plus employment taxes regarded as labour costs less subsidies intended to refund part or all of the employer's cost of direct remuneration.) Any change to our labour costs (wage or non-wage) will therefore have a significant impact on our competitiveness, and therefore our employment levels in the wealth-generating sectors of the economy.

### **Expected impacts of a change to the minimum wage:**

All other things being equal, an increase in the minimum wage at this time would slow the rate of jobs growth in the Irish economy. The effect would be most noticeable in those sectors that employ people closer to the current minimum wage; in warehousing, general freight transport, rural passenger transport, retail, and hospitality.

Most entry level positions in warehousing are paid at a typical premium of €1.00 to €1.50 in excess of the minimum wage. For commercial drivers, this premium is generally in the range of €1.50 to €2.50 per hour for general haulage and passenger operations, and up to €9.00 per hour for drivers in the dangerous goods sector.

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Employers report to FTA Ireland significant difficulty in recruiting Irish nationals to entry-level positions in the €19,500 to €21,000 per annum wage range. They typically cite loss of combined social protection measures (job-seekers benefit, rent allowance, medical card, etc.) as the basis for refusals of offers at this wage level. However, they are constrained by the market from increasing wages among this cohort.

While this might in turn be cited as a reason to increase the minimum wage, the effect of doing so would be to move *all* relativities upwards by the same amount (in nominal terms) as the shift in the minimum wage. It would not be possible to isolate an increase in the minimum wage to those exclusively paid at the minimum wage. Employers' ability to shift such an increase onto end-use customers remains severely constrained. Therefore an increase in the minimum wage would force either (1) a requirement for increased workforce efficiency, or (2) a decrease in aggregate employment levels.

For employers in the international transport sector, any increase in the minimum wage would exacerbate the trend FTA Ireland has already reported to the Department of Transport Tourism and Sport (DTTAS) and the Joint Committee on Transport and Communication (JCTC) whereby operators are purchasing and registering their fleets abroad. These operators are subsequently employing drivers locally, usually in Eastern Europe, at far lower wages than are payable in Ireland. Combatting this issue will require radical and joined-up thinking from the Revenue, DTTAS, the RSA, DJEI and Social Protection.

In the absence of supply-side measures in critical areas such as housing provision, any increase in the minimum wage would, on the balance of probabilities, simply induce an upward wage-price spiral; the chief beneficiaries of which would be builders and landlords.

### **Changes to income distribution:**

The Gini coefficient (also known as the Gini index or Gini ratio) is a measure of statistical dispersion intended to represent the income distribution of a nation's residents, and is the most commonly used measure of inequality. A Gini coefficient above 50 is considered high, in this category we can find countries like Chile, Bolivia, Mexico and Central America countries. A Gini coefficient of 30 or above is considered medium, in this category we find countries like USA, Venezuela. A Gini coefficient lower than 30 is considered low, in this category we find countries like Austria and Denmark. In 2007, Ireland had a Gini coefficient of 31.7. By 2012, this had fallen to 31.2, having fallen to as low as 29.3 in 2009 (Annex I). In other words, inequality of income distribution *fell* during the Great Recession. This is largely the result of Ireland's highly progressive taxation system and redistributive social protection system.

The data suggest that as increasing numbers of people return to employment, the Gini coefficient will *increase* in Ireland. Subjectively, this could be viewed as a bad thing, suggesting an increase in inequality. In reality, however, an increase in the Gini coefficient at this time would reflect a move away from incomes substantially reliant on social protection payments, towards higher incomes generated in the private sector and in SMEs. This is to be welcomed.

### **Currency exchange rates:**

Currency exchange rates are volatile, and cannot form the basis of short or medium term consideration for wage rates. In the case of the Eurozone, currency rates are fixed, therefore local increases in minimum wage will adversely affect employment in competitive and traded sectors.

Notwithstanding this, anecdotal evidence from FTA Ireland members suggests that the appreciation of Sterling against the Euro has made employment in Northern Ireland at minimum-wage levels relatively more attractive than in the Republic, especially when health care is taken into account.

### **General**

It is important to understand from where the impetus for the establishment of the LPC has come, and what the longer term objectives of the Commission are. According to DJEI, the LPC is charged with “*taking an evidence based approach to setting the minimum wage.*” If this is the extent of its ongoing remit, it is unlikely to find objection among employers.

If, however, there is some other animus behind the establishment of the LPC, such as the replacement of unconstitutional REAs, the circumvention of exploitive working contracts, or the reintroduction of national collective bargaining structures, this would be inappropriate. REAs require no replacement, as sector norms establish themselves in various employment areas. Exploitive work practices should be restricted by law, and these restrictions can be enforced by NERA. The reintroduction of national collective bargaining would be disastrous for the traded sectors of the economy, as they remain highly remunerated by international comparisons. Collective bargaining would be seen by industry as simply a transfer of wealth from the trading, wealth-creating sectors of the economy to the public service. It was a disastrous model for Ireland, resulting in ballooning public sector pay and pensions for no gains in productivity. And despite the contrary impression created by the trade union movement, there remains a substantial pay premium in Ireland for working in the public service. While the data in Annex IX are to 2010 only, and show a narrowing of the public sector pay premium (which stood at 38% in 2010), there is no justification for generalised pay rounds that would encompass the public sector until this premium is eliminated.

Lastly, while a case might be made on simple inflationary grounds for an alteration to the minimum wage, this too would be a misguided exercise that would not withstand scrutiny. Annex X shows CPI for the 2007-2014 period. The overall index would suggest that a rise from €8.65 to €8.94 is justified on inflation grounds. However, when one interrogates the components of that increase, the substantial CPI inflators are alcohol, health, transport, education and “miscellaneous.” With the exception of the last item, all the others are Government-led inflators. Food, clothing, energy, furnishings, communications and recreation are all down. Not surprisingly, most are private sector, and all are subject to competition.

The solution, therefore, is not to increase the minimum wage, it is for Government to contain and reduce costs as the private sector has done. It would be a terrible shame for Ireland and Irish society if, after 15 years of disastrous pro-cyclical economic policies, we were to continue with pro-cyclical policies for electoral gain. Where benefits can be returned to society from the recovering economy, they should be focussed on investing in our physical and social capital, reducing the costs of employment, reducing the costs of goods and services, and reducing the tax burden for all while maintaining tax progressivity.

**ANNEX I**

**Survey on Income and Living Conditions (SILC) 2012 results**

The Survey on Income and Living Conditions (SILC) in Ireland is a household survey covering a broad range of issues in relation to income and living conditions. It is the official source of data on household and individual income and also provides a number of key national poverty indicators, such as the *at risk of poverty* rate, the consistent poverty rate and rates of enforced deprivation. A summary of the key results of the 2012 survey and comparable results from previous years is presented below:

<b>Table A Summary of main results</b>						
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Income</b>	€	€	€	€	€	€
<b>Nominal Income - Equivalised disposable income per individual</b>						
Median	19,794 <sup>3</sup>	20,758	20,107	18,591	18,148	17,702
Mean	23,610	24,380	23,326	22,138	21,440	20,856
At risk of poverty threshold (60% of median income)	11,876 <sup>3</sup>	12,455	12,064	11,155	10,889	10,621
<b>Real Income<sup>1</sup> - Equivalised disposable income per individual</b>						
Median	20,633	20,681	20,107	19,273	18,555	17,702
Mean	24,611	24,290	23,326	22,950	21,920	20,856
At risk of poverty threshold (60% of median income)	12,380	12,409	12,064	11,564	11,133	10,621
<b>Poverty &amp; deprivation rates</b>	%	%	%	%	%	%
At risk of poverty rate	16.5	14.4	14.1	14.7	16.0	16.5
Deprivation rate <sup>2</sup>	11.8	13.7	17.1	22.6	24.5	26.9
Consistent poverty rate	5.1	4.2	5.5	6.3	6.9	7.7
<b>Income equality indicators</b>						
Gini coefficient (%)	31.7	30.6	29.3	31.4	31.1	31.2
Income quintile share ratio	4.8	4.5	4.3	4.8	4.9	5.0

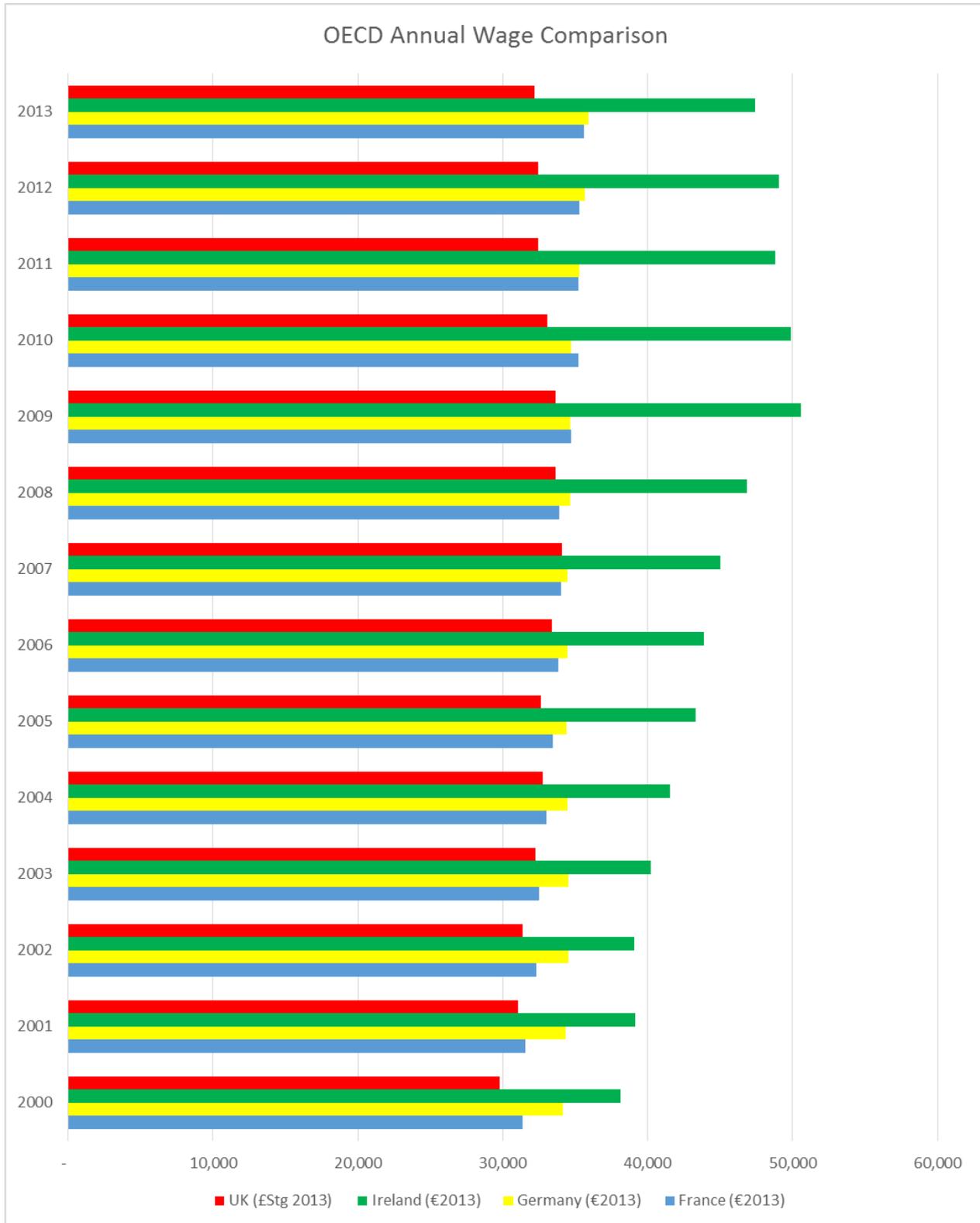
Source: CSO

**ANNEX II**



Source: OECD (2015), Household disposable income  
<https://data.oecd.org/hha/household-disposable-income.htm>

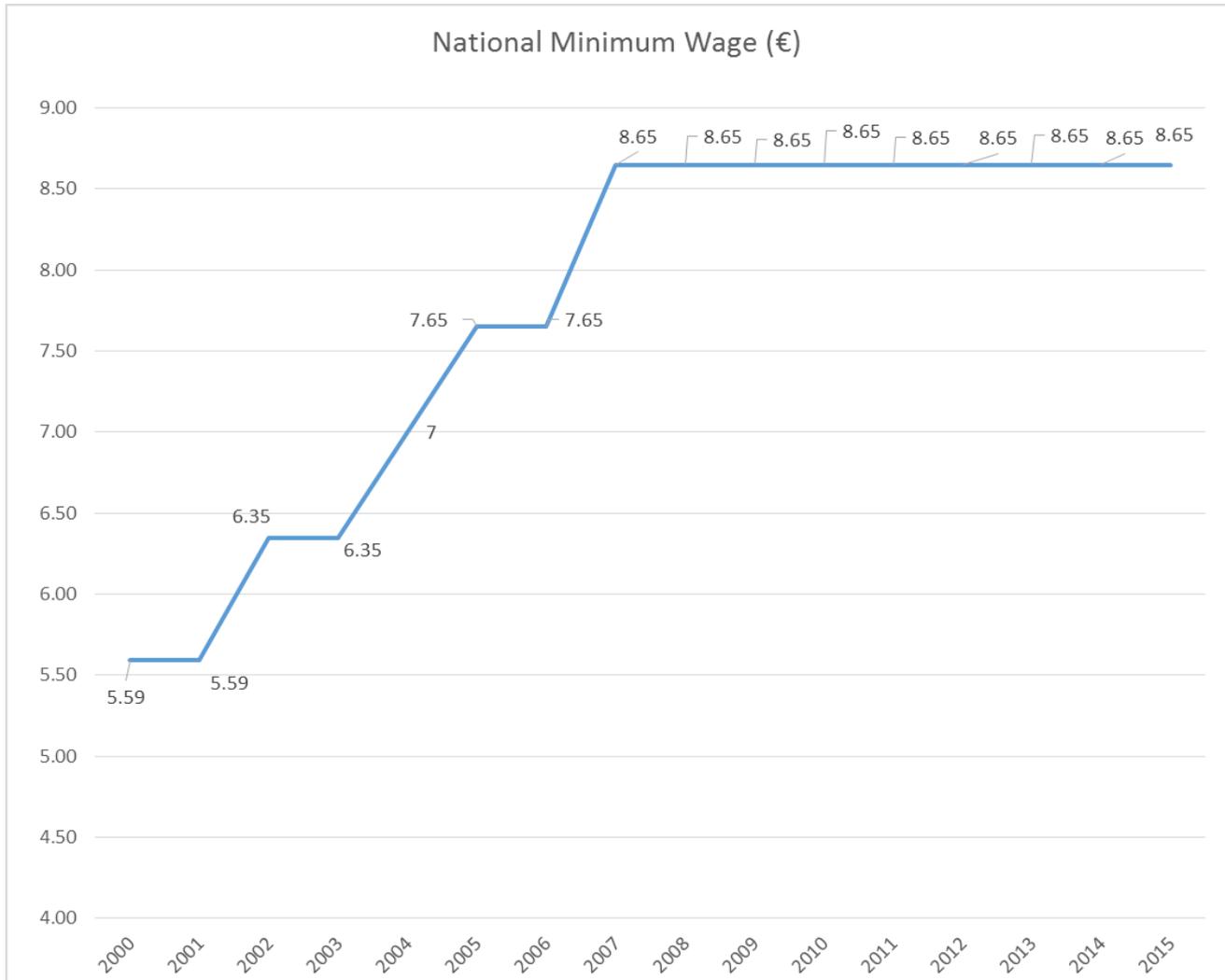
**ANNEX III**



Source: OECD Annual Wages Statistics

[https://stats.oecd.org/Index.aspx?DataSetCode=AV\\_AN\\_WAGE](https://stats.oecd.org/Index.aspx?DataSetCode=AV_AN_WAGE)

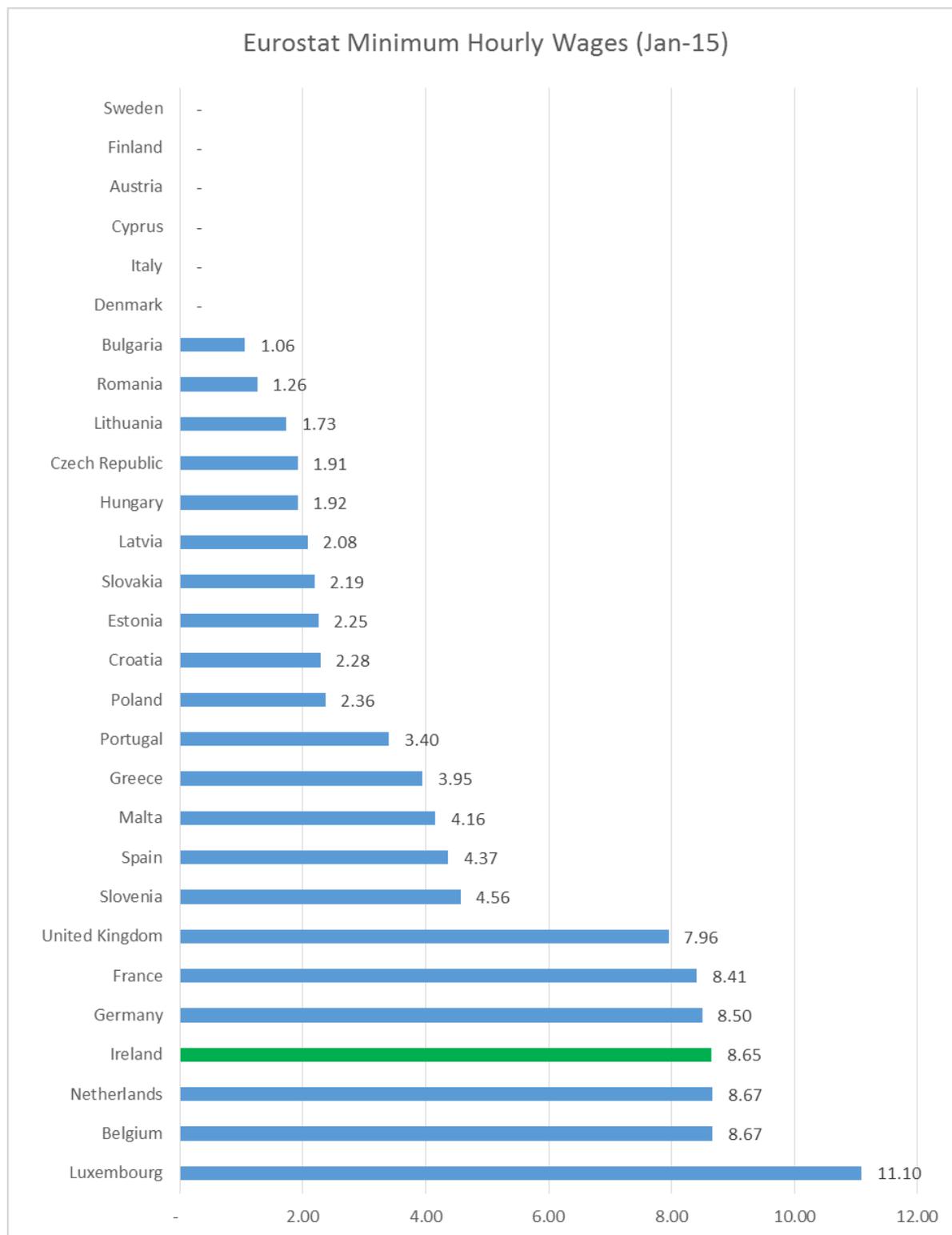
**ANNEX IV**



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### ANNEX V

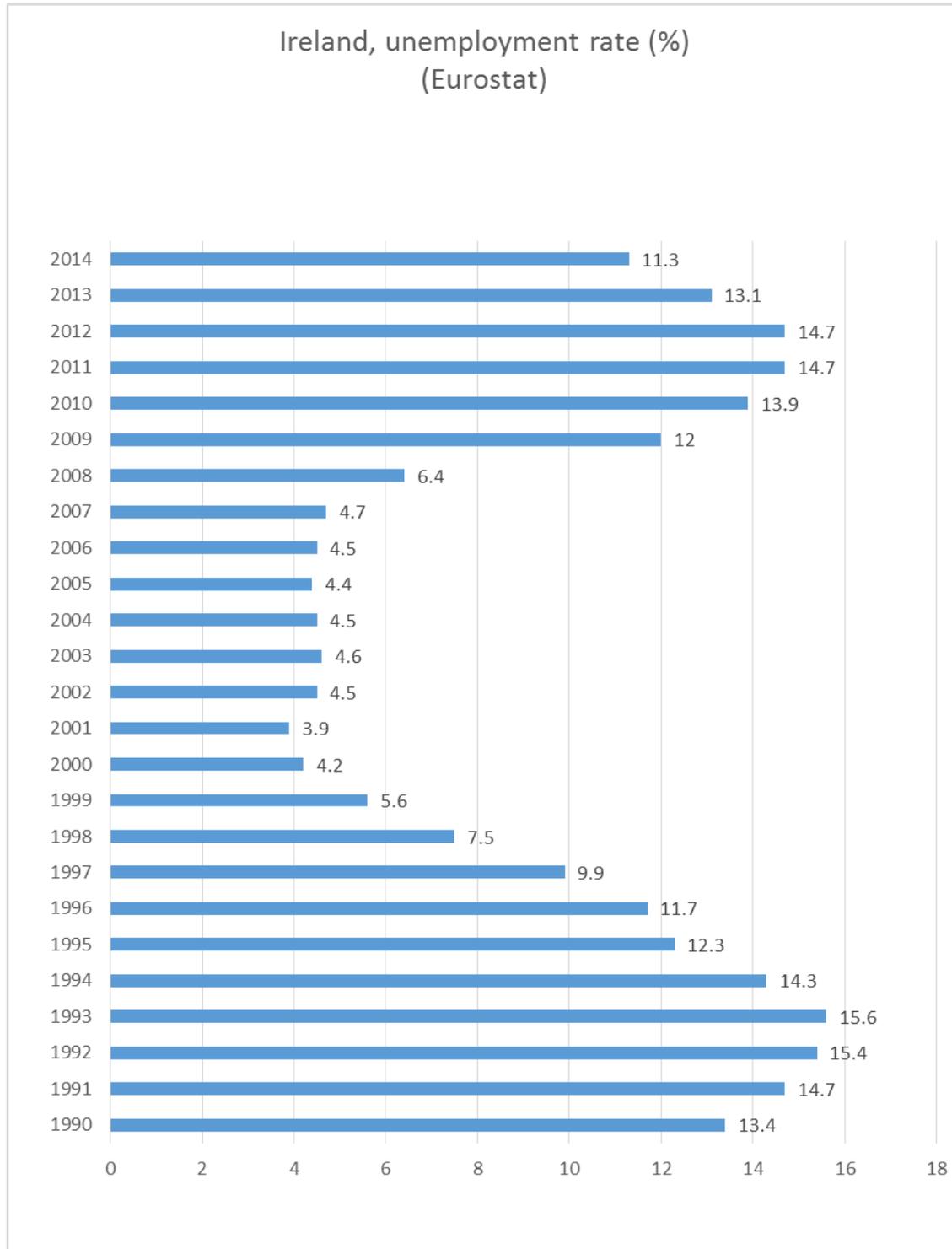


Source: Eurostat

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## ANNEX VI



Source: Eurostat

[http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Unemployment_statistics)

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## **ANNEX VII**

<b>Year</b>	<b>Total Social Welfare Expenditure</b>	<b>Social Welfare / Gross National Product</b>	<b>Social Welfare / Gross Domestic Product</b>	<b>Unemployment Rate</b>
	<b>€m</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>2000</b>	<b>6,713</b>	<b>8.0</b>	<b>6.7</b>	<b>4.2</b>
<b>2001</b>	<b>7,842</b>	<b>8.9</b>	<b>7.3</b>	<b>3.9</b>
<b>2002</b>	<b>9,517</b>	<b>8.9</b>	<b>7.5</b>	<b>4.5</b>
<b>2003</b>	<b>10,493</b>	<b>9.0</b>	<b>7.6</b>	<b>4.6</b>
<b>2004</b>	<b>11,291</b>	<b>8.9</b>	<b>7.5</b>	<b>4.5</b>
<b>2005</b>	<b>12,168</b>	<b>8.9</b>	<b>7.7</b>	<b>4.4</b>
<b>2006</b>	<b>13,586</b>	<b>9.5</b>	<b>8.2</b>	<b>4.5</b>
<b>2007</b>	<b>15,518</b>	<b>11.5</b>	<b>9.9</b>	<b>4.7</b>
<b>2008</b>	<b>17,809</b>	<b>15.6</b>	<b>12.9</b>	<b>6.4</b>
<b>2009</b>	<b>20,536</b>	<b>16.7</b>	<b>13.5</b>	<b>12</b>
<b>2010</b>	<b>20,848</b>	<b>16.7</b>	<b>13.5</b>	<b>13.9</b>

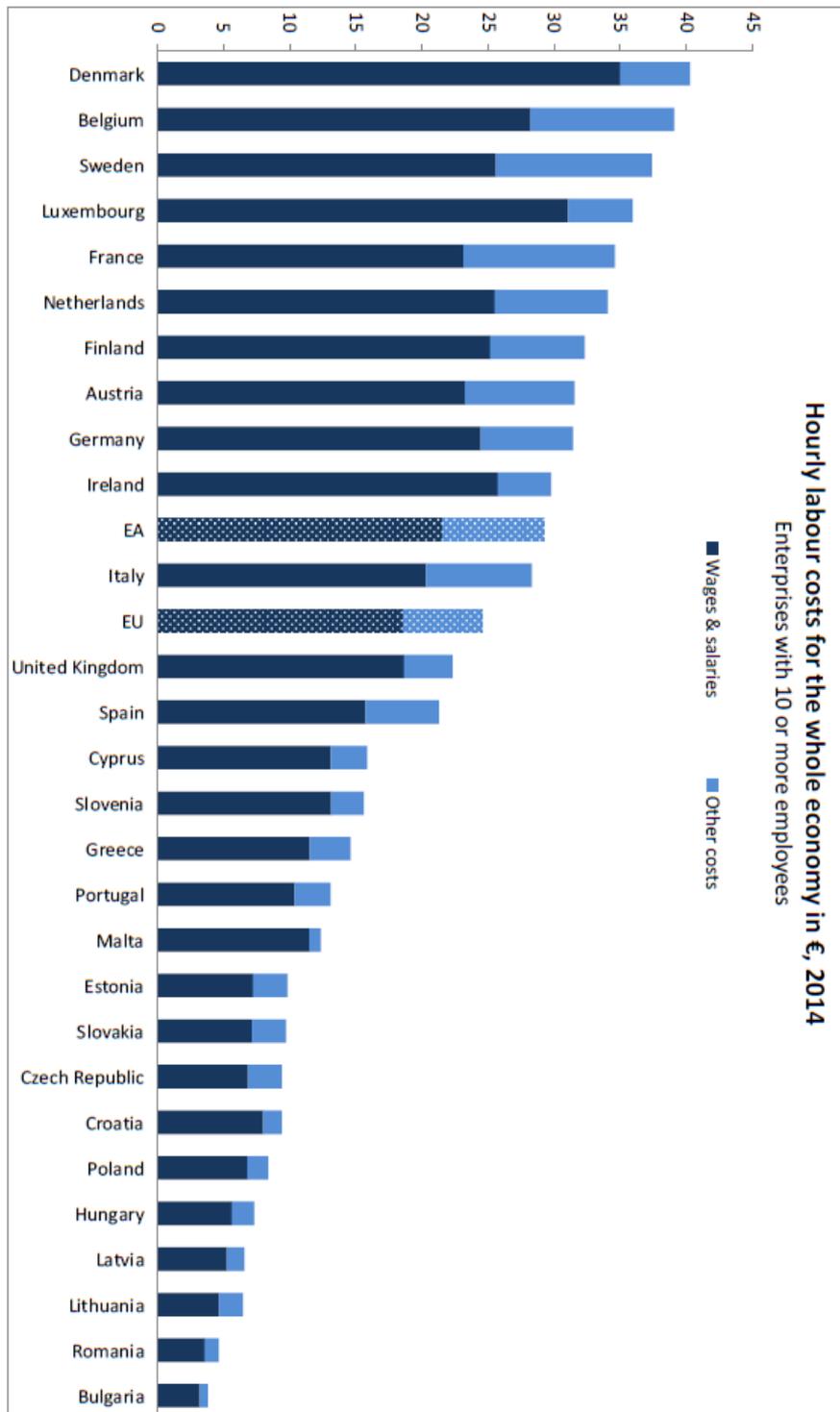
Source: CSO

<http://www.cso.ie/en/statistics/socialconditions/expenditureonsocialwelfare/>

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## ANNEX VIII



Source: Eurostat

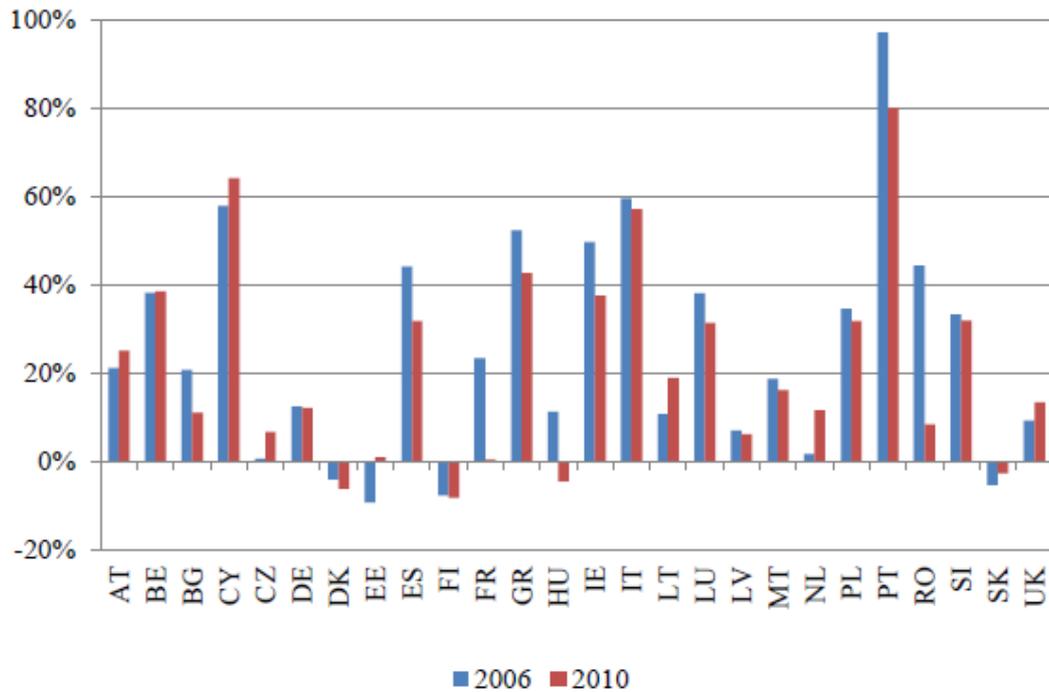
[http://ec.europa.eu/eurostat/statistics-explained/index.php/Hourly\\_labour\\_costs](http://ec.europa.eu/eurostat/statistics-explained/index.php/Hourly_labour_costs)

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## ANNEX IX

**Average wage differences between the public and the private sector in the EU  
(% of hourly earnings in the private sector)**



Source:

*The gap between public and private wages: new evidence for the EU; Economic Papers 508 October 2013, Francisco de Castro, Matteo Salto and Hugo Steiner.*

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## **ANNEX X**

### **Annual Figures 2007 to 2013**

#### **Consumer Price Index (Base Dec 2006=100) by Commodity Group and Year**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Food and non-alcoholic beverages</b>	102.6	109.3	105.5	100.7	101.8	102.4	103.5	101.2
<b>Alcoholic beverages and tobacco</b>	101.5	106.4	113.1	110.2	110.1	114.0	119.9	124.4
<b>Clothing and footwear</b>	94.0	89.4	78.9	71.5	70.2	70.1	68.0	65.8
<b>Housing, water, electricity, gas and other fuels</b>	109.9	120.5	94.0	95.2	104.4	105.1	105.8	105.8
<b>Furnishings, household equipment and routine household maintenance</b>	98.2	96.6	93.6	89.8	87.7	85.6	82.6	80.2
<b>Health</b>	102.0	108.1	111.9	112.6	116.4	116.9	117.9	117.7
<b>Transport</b>	103.8	107.3	103.0	106.2	109.8	116.1	114.7	112.9
<b>Communications</b>	100.4	101.4	101.9	103.3	105.7	104.1	100.3	97.5
<b>Recreation and culture</b>	100.7	102.0	101.7	99.9	99.1	97.9	97.9	97.4
<b>Education</b>	101.8	108.0	114.9	122.2	123.1	133.3	139.6	146.1
<b>Restaurants and hotels</b>	103.0	106.2	106.2	103.4	102.7	103.2	105.1	107.4
<b>Miscellaneous goods and services</b>	100.3	102.7	110.5	111.7	119.0	124.7	127.1	131.5
<b>All items</b>	102.8	107.0	102.2	101.2	103.8	105.6	106.1	106.3

Source: CSO

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## **INTERNATIONAL SALARY COMPARISONS**

Overall:

<http://www.bloomberg.com/visual-data/best-and-worst/highest-salaries-in-oecd-countries>

Doctors and Nurses:

[http://www.oecd-ilibrary.org/sites/gov\\_glance-2011-en/06/02/index.html?itemId=/content/chapter/gov\\_glance-2011-32-en](http://www.oecd-ilibrary.org/sites/gov_glance-2011-en/06/02/index.html?itemId=/content/chapter/gov_glance-2011-32-en)

Teachers:

[http://www.oecd-ilibrary.org/education/teachers-salaries\\_teachsal-table-en](http://www.oecd-ilibrary.org/education/teachers-salaries_teachsal-table-en)

# NOTES



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