



Submission to the Low Pay Commission

Review of the National Minimum Hourly Rate of Pay

April 2015.

## **1. Introduction**

- 1.1 The Irish Congress of Trade Unions is the largest civil society body on the island of Ireland representing 800,000 workers across all sectors of the economy.
- 1.2 Congress welcomes the establishment of the Low Pay Commission and welcomes its intention to review the hourly rate of the minimum wage with a view to reporting its conclusions to the Minister by the 15<sup>th</sup> July 2015.
- 1.3 This submission falls into four distinct sections:
  - The first section records a brief history of the minimum wage in the Republic of Ireland tracing the movement in the minimum wage.
  - In the second section discusses the position of the minimum wage in the economy and society.
  - In the third section we comment on the matters the Low Pay Commission have identified as relevant to their recommendation to the Minister, and
  - In the final section of this submission we will set out what we believe is an appropriate recommendation.

## **2. The Minimum Wage in the Republic Of Ireland – A Brief History.**

- 2.1 The Low Pay Commission will be aware that a minimum wage was introduced in April 2000. Before introducing the minimum wage, the government at that time established an earlier Commission to recommend the initial hourly rate of the national hourly rate of the minimum wage. The Commission recommended that the initial rate be set at €5.59 per hour.
- 2.2 Since 2000 there have been periodic increases in the hourly rate of the minimum wage. As part of the *Programme for Prosperity and Fairness* the hourly rate of the minimum wage increased to €5.96 from the 1<sup>st</sup> July 2001 and to €6.35 from the 1<sup>st</sup> October 2002.
- 2.3 As part of *Sustaining Progress* the hourly rate of the minimum wage increased to €7 from 1<sup>st</sup> February 2004. As part of the Mid Term Review of *Sustaining Progress* the Labour Court undertook a review of the hourly rate of the minimum wage and its recommendation to increase the rate to €7.65 per hour was implemented from the 1<sup>st</sup> May 2005.
- 2.4 As part of *Towards 2016* it was agreed that the Labour Court would undertake a further review of the hourly rate of the minimum wage and on the 1<sup>st</sup> January 2007 the rate increased to €8.30 with a subsequent increase on the 1<sup>st</sup> July 2007 to €8.65.

- 2.5 On the 1<sup>st</sup> February 2011 the then government agreed, as part of the understanding with the external funders, to reduce the hourly rate of the minimum wage to €7.65. However, following the general election later that year the incoming Government restored the hourly rate of the minimum wage to €8.65 from 1<sup>st</sup> July 2011.
- 2.6 In reality therefore the hourly rate of the minimum wage has not increased above its current level since 2007 and it is the view of Congress that an increase is long overdue.

### **3. The Position of the Minimum Wage**

- 3.1 The basic purpose of the minimum wage is to provide a floor for earnings. It also acts as an instrument affecting a measure of wealth redistribution in the economy and it can help prevent the exploitation of vulnerable groups.
- 3.2 Since the hourly rate of the minimum wage was last increased there have been developments which that are important in considering the position of the minimum wage and its current rate:

- Firstly, the decision of the superior courts to declare unconstitutional the wage setting mechanisms providing for the making of Employment Regulation Orders and Registered Employment Agreements has meant that the minimum wage is now the only statutory legally binding minimum wage in the state. While legislation providing for the making of Employment Regulation Orders has been subsequently reintroduced participation by employers in the process is entirely voluntary.
- In 2014 a technical working group was established to examine what was the basic level of income required to provide a decent standard of living. In its report the group determined that the appropriate rate of the Living Wage for an individual working full-time should be €11.45 per hour. The report of the working group shows the inadequacy of the current hourly rate of the minimum wage.
- The number of people employed in the sectors of the economy while the minimum wage has a strong presence is growing. For example, the CSO has reported that the numbers employed in the accommodation and food services sector has grown by close to 20,000 over the period between quarter one of 2013 and quarter four of 2014.

- 3.3 It is clear, therefore that the minimum wage continues to be a very important regulatory instrument. It can be a very powerful instrument that has the potential to minimise inequality in society. However, the work of the

technical group on the living wage referred to in paragraph 3.2 has demonstrated that the current hourly rate of the minimum wage is entirely inadequate.

#### **4. Matters that fall to be considered by the Low Pay Commission in reaching its recommendation.**

4.1 The Low Pay Commission has identified a number of factors that it intends to analyse before making a recommendation to the Minister. In its press statement of the 9<sup>th</sup> March 2015 calling for submissions, the Low Pay Commission identified the following:

- the changes in earnings since the hourly rate of the minimum wage was last increased in 2011,
- the unemployment rates 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.

We will briefly comment on each of these in the following paragraphs.

4.2 There is little doubt that earnings are increasing in some sectors of the economy. However, because the hourly rate of the minimum wage has not increased since 2011 there has been no wage increases for those who are employed on the minimum wage. Average earnings in the private sector between quarter one of 2011 and quarter four of 2014 have risen by close to 6%. However, this upward increase has not been felt by those working on the minimum wage. In 2015 it is forecast that earnings will continue to grow with the employers group IBEC forecasting the majority of private sector companies planning to increase pay in 2015<sup>1</sup>. ***A recommendation by the Low Pay Commission to significantly increase the hourly rate of the minimum wage is entirely appropriate given the movement in earnings generally.***

4.3 As with earnings the position in relation to employment has been gradually improving. Ireland's employment rate was 62.6% in the fourth quarter of 2014. This compares favourably to the fourth quarter of 2013 rate of 61.4% and the fourth quarter 2012 rate of 59.3%. The improvement represents an increase in net employment of 29,100 in the year to 2014 and 84,600 since quarter four of 2012. Ireland's unemployment rate averaged 11.3% in 2014 which is the lowest average rate since 2008. The unemployment rate averaged 11.6% in the euro zone and 10.2% in the European Union (EU). This trend is set to continue with the Department of Finance predicting continued

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<sup>1</sup> <https://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom~majority-of-companies-to-increase-pay-in-2015-02-01-2015?OpenDocument#.V5apbqR0xn1>

growth in employment reaching full employment by 2018<sup>2</sup>. Some will contend that increasing the hourly rate of the minimum wage will increase unemployment. However, research<sup>3</sup> shows that there is no evidence to support such a view. ***A significant increase in the hourly rate of the minimum wage will not negatively impact on the rate of growth in employment in the economy.***

- 4.4 The impact of a change in the hourly rate of the minimum wage on the cost of living is likely to be minimal. We say this because while the numbers of people employed on the minimum wage has increased, they still represent less than 10% of the overall workforce. Therefore, if the hourly rate increases the cost of the increase is passed through to consumers the net effect of the price increase on the cost of living would be minimal. That said it is the policy of the European Central Bank to actively pursue measures to increase inflation. The current ECB bond buying programme is specifically aimed at halting the trend of negative or zero growth in inflation. ***The impact on the cost of living of a increase in the rate of the minimum wage will be minimal.***
- 4.5 Because Ireland is a small open economy, its competitiveness is determined by many factors both internal and external. The cost of labour is an important factor but it must be considered in the context of the labour force as a whole and wages in general. Although the proportion of people on the minimum wage as a percentage of the overall labour force has increased it is still relatively small. ***It is the view of Congress that a significant increase in the hourly rate of the minimum wage will not damage national competitiveness.***
- 4.6 One of the positive impacts of a minimum wage in any economy is that it has the potential to reduce income inequality and increase the proportion of income going to the lower paid. It is recognised that the rate of income inequality is rapidly increasing with a greater proportion of the world's income increasingly going to a smaller number of people. A recent study by TASC showed the gap between rich and poor is growing with more than a third of all income concentrated in the hands of the top 10 per cent of earners<sup>4</sup>. The report points out that if this trend is not arrested it could have very serious implication for both our society and economy. ***It is the view of Congress that a significant increase in the hourly rate of the minimum wage could have a very positive impact on the distribution of income in our economy.***
- 4.7 There is no evidence to suggest that a significant increase in the hourly rate of the minimum wage will have a negative impact on currency exchange

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<sup>2</sup> <http://www.finance.gov.ie/news-centre/press-releases/minister-noonan-welcomed-todays-very-positive-qhns-figures-which-show>

<sup>3</sup> Wolfson and Belman (2013)

<sup>4</sup> <http://www.irishtimes.com/news/social-affairs/ireland-at-risk-of-reaching-us-levels-of-income-inequality-says-study-1.2105125>

rates. We would make a number of observations. Firstly, the euro is trading at historically low rates against the dollar and sterling. This makes the cost of Ireland as a holiday destination very attractive to visitors from the United States and Britain. One of the sectors where the minimum wage is more often than not the default rate of pay is the tourism sector. Employers in that sector are not only benefitting from the favourable exchange rates but also from the reduced VAT rate. There is no evidence that the significant benefits enjoyed by these employers as a result of this has been passed onto consumers and no evidence that their employees have benefitted. In fact one of the emerging trends in the sector is a growth in the incidence of part time work. ***Therefore a significant increase in the hourly rate of the minimum wage will not negatively impact on currency exchange rates.***

## 5. Conclusion

We are strongly of the view that the Low Pay Commission should recommend a significant increase in the hourly rate of the minimum wage. We believe that this is justified for the reasons set out in this submission and we believe that this increase should be a significant first step in bringing the hourly rate of the minimum wage in line with the hourly rate of the Living Wage which is currently €11.45.

We contend that a significant increase in the hourly rate of the minimum wage is justified because:

- ***the hourly rate of the minimum wage has not increased since 2011, it has not increased above the rate which was originally struck in 2007, and has not kept pace with the increase in wages generally in the private sector,***
- ***the current hourly rate of the minimum wage is wholly inadequate,***
- ***with the collapse of the JLC system of wage setting the hourly rate of the minimum wage has taken on an even greater significance.***

We do not believe that a significant increase in the hourly rate of the minimum wage will:

- ***damage the prospects for future job creation or result in increased unemployment,***
- ***damage the competitiveness of the economy,***
- ***negatively impact on the cost of living in the economy, or***
- ***negatively affect currency exchange rates.***

We contend that a significant increase will not damage the economy in any way and will act as a means of redistributing wealth and reduce income inequality in our society.

*Irish Congress of Trade Unions  
April 2015.*