Submission to the Low Pay Commission

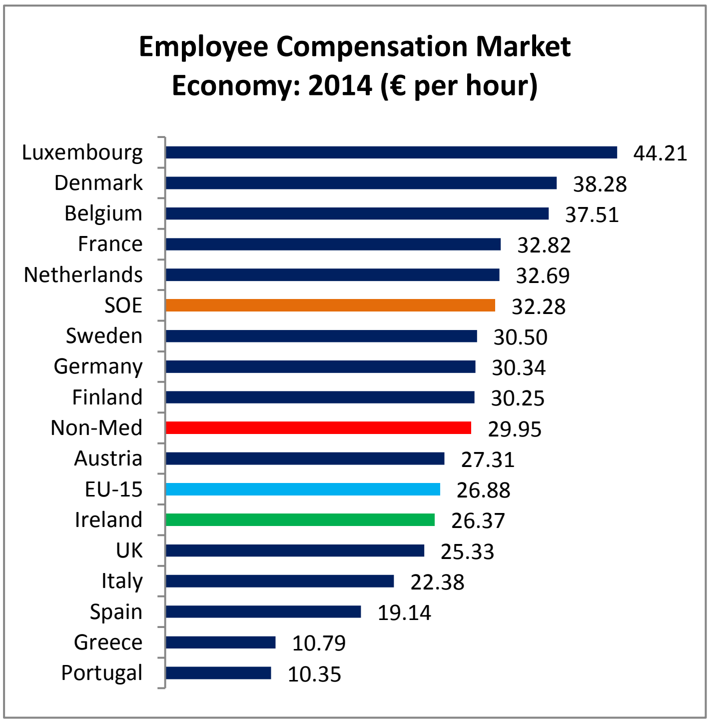
Unite would like to thank the Low Pay Commission for the opportunity to make this submission. We will make the following recommendations:

1) The strategic goal of the National Minimum Wage should be to bring the statutory floor up to the level of the Living Wage.
2) The National Minimum Wage should be increased by €1 per hour – from €8.65 to €9.65 per hour.
3) The Commission should highlight the PRSI step-effect anomaly which penalises low-paid workers who receive a wage increase.

The issue is not whether the economy can afford pay increases – in particular, to raise workers out of low-pay traps and deprivation; the issue is whether we can afford not to.

BACKGROUND INFORMATION

1. Ireland is a low-wage economy.



Ireland is a low-wage economy in comparison with other EU-15 countries. The National Accounts for the market economy[1] shows the following.[2]

It shows Ireland ranking 10th in the EU-15 –below the EU-15average

When compared with other non-Med countries (excluding the Mediterranean countries – Portugal, Greece, Spain and Italy), Ireland falls even further behind – 12 percent below average.

And when compared with our peer group – other small open economies (SOE – Austria, Belgium, Denmark, Finland and Sweden[3]) - Ireland falls 18 percent below average.

[1] The market economy is comprised of all economic sectors except Agriculture and non-market services (Public Administration, Education and Health); this is essentially the private sector.
[2] Eurostat: National Accounts ESA 2010 - aggregates at current prices (nama_10_a10) and employment data (nama_10_a10_e)
[3] Small Open Economies is a measurement used by the IMF: these are countries with a GDP of less than €500 million and exports that make up over 50 percent of GDP.

When purchasing power is factored in (Purchasing Power Parities) Irish employee compensation falls even further behind other European averages. Ireland falls 13 percent below the EU-15 average.

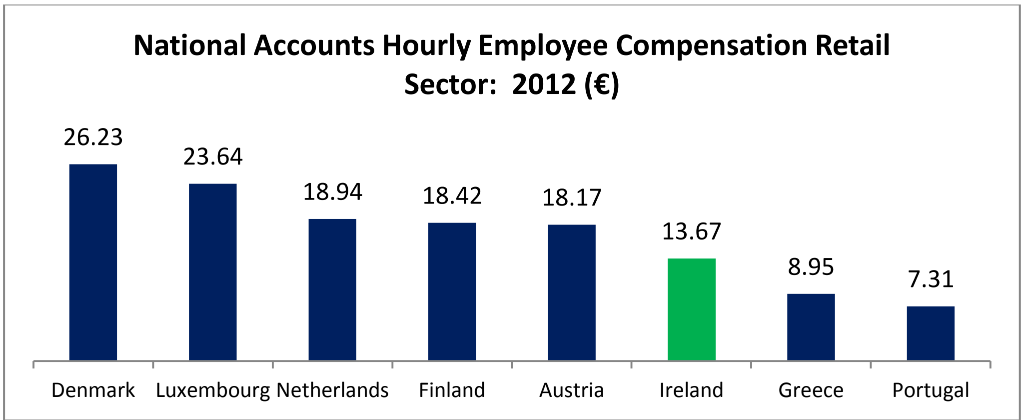
2. Sectoral: The Main Low-Paid Sectors

If Ireland is a low-pay economy, then our traditional low-paid sectors – retail and hospitality – fall even further behind EU averages.

(a) Wholesale & Retail Sector

National Accounts Hourly Employee Compensation in the Wholesale / Retail Sector: 2012 (€)				
	Ireland	**EU-15**	**Non-Med**	**Small Open Economies**
Nominal	20.35	21.87	24.60	28.69
PPP	17.81	21.87	24.09	25.31

Irish employee compensation in the wholesale / retail sector follows the national pattern – in both nominal and PPP. However, this NACE category includes the higher compensated wholesale sector which can distort the overall sector result. Unfortunately, national accounts do not provide as wide a spread of data at level of the retail sector.[4] What we do have is reproduced below.



In the retail sector, Ireland trails considerably behind the non-Med countries.

(b) Hospitality Sector

National Accounts Hourly Employee Compensation in the Hospitality Sector: 2012 (€)				
	Ireland	**EU-15**	**Non-Med**	**Small Open Economies**
Nominal	13.48	15.10	16.93	18.26
PPP	11.79	15.10	17.27	17.15
2012 latest year available				

[4] Eurostat National Accounts – ESA 95 - by 64 branches; data for Denmark, Greece and Portugal are from 2011. 2012 latest year available.

In the hospitality sector – comprising accommodation and food sector – the pattern becomes more extreme. Irish employee compensation falls 11 percent below the EU-15 average; compared to non-Med economies, Irish compensation falls to 20 percent below average; and when compared to other small open economies, Irish compensation falls to 26 percent below average. When purchasing power is factored in, Irish employee compensation falls further again.

3. Statutory Minimum Wages

While the data from the National Accounts and the EU Labour Force Survey show that Ireland is a low-waged economy – especially when purchasing power is factored in – there are claims that low-paid workers are protected by a 'high' statutory minimum wage.[5] However, these claims fail to take account of the overall sectoral average (in most countries there is only a small percentage of workers earning at the minimum wage or slightly above: in Spain, Greece, Portugal and the UK less than 5 percent of workers earn below 105 percent of the statutory minimum wage; in Ireland the proportion is 10 percent).[6] Crucially, headline minimum wage figures do not represent the workers' full compensation or 'wage packet'.

Statutory Minimum Wage: 1st Half 2015 Per Hour

	Direct Wage €	PPP	Employee Compensation €
Luxembourg	11.38	9.23	12.63
France	9.61	8.81	11.16
Belgium	8.89	8.52	10.73
Netherlands	8.89	8.13	9.60
Germany	8.72	8.07	10.13
Ireland	**8.65**	**7.33**	**9.39**
United Kingdom	8.13	6.56	8.72
Spain	4.48	4.72	5.51
Greece	4.05	4.52	4.92
Portugal	3.49	4.05	4.16

With the exception of low-pay, low-productivity UK, the Irish minimum wages– whether expressed in nominal Euros, PPPS or the workers' total pay package (employee compensation[7]) – is below the statutory floor of all other non-Med countries that have minimum wage legislation.

[5] Minimum monthly statutory wage converted into hourly wage per Eurostat formulation: http://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics

[6] Given that this data is from 2010, the Irish percentage is likely to have risen given the downward pressure on wages and the absence of the Joint Labour Committees http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Proportion_of_employees_earning_less_than_105_%25_of_the_monthly_minimum_wage,_October_2010_%281%29_%28%25%29_YB15.png

[7] OECD Taxing Wages: employers PRSI (actual contributions) are estimated on the basis of 50 percent of the average wage. This does not include imputed employers' contributions (social benefits paid directly to the employee): http://www.oecd.org/tax/tax-policy/taxing-wages.htm

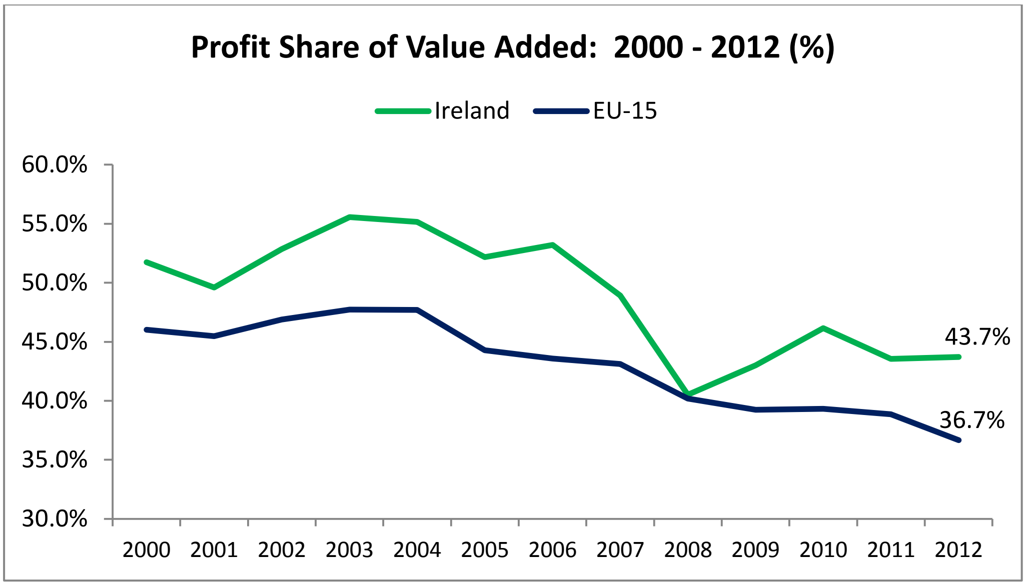
To reach the French level, Irish statutory minimum employee compensation would have to rise by 19 percent; to reach the Belgian level, 14 percent; to reach the German level, 8 percent (though Irish workers would still be disadvantaged by much lower levels of purchasing power).

It should be noted that in other EU-15 countries, fewer workers rely on minimum wage protection. This is due to deep-rooted collective bargaining structures at national, sectoral and firm level. This is why countries without statutory minimum wages nonetheless have much higher average pay in the low-paid sectors.

4. Profits and Recovery in the Main Low-Paid Sectors

To what extent can employers afford more equitable wages and employee compensation? One factor is the level of profits.[8] There is no question that the main low-paid sectors were badly affected by the recession – especially as many of the sub-sectors depend on discretionary spending. Household consumption fell by over 14 percent in current terms – a loss of over €13 billion in the period 2008 – 2012. However, during that period profits in the wider economy have been rising after the sharp fall in 2008 and 2009.

(a) Wholesale / Retail

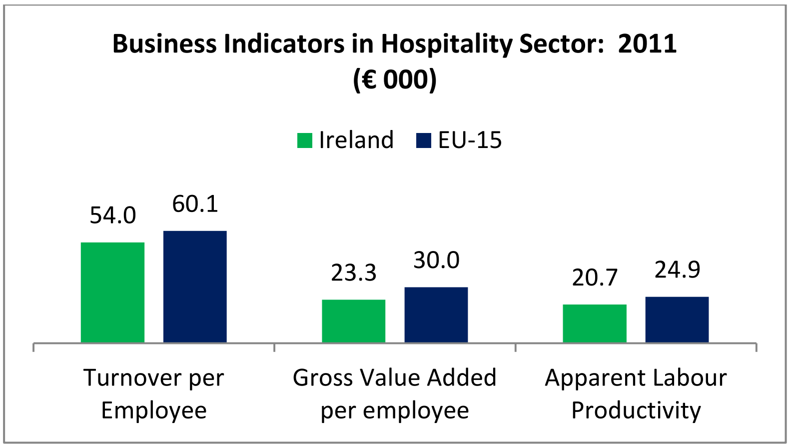


National Accounts show that profits in the Irish retail sector were well above EU averages prior to the crash. When the recession hit, profits declined (as usually happens in periods of falling output) but were still above EU averages. Having bottomed out in 2008 profit growth has resumed – again, above EU levels.[9]

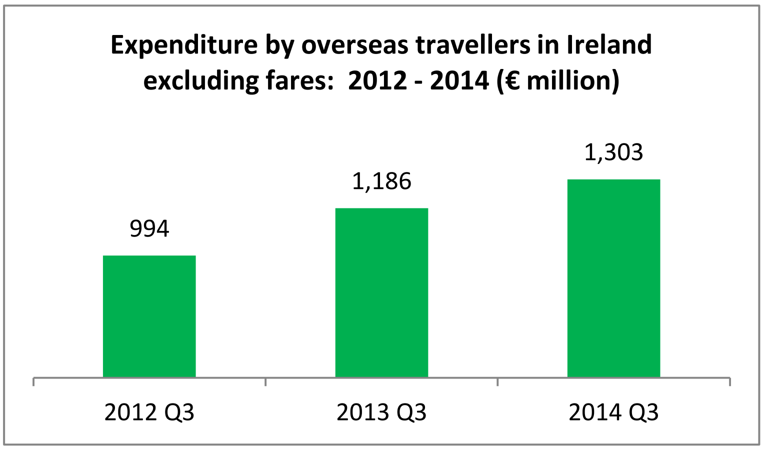
[8] Profit – or Gross Operating Surplus – is extracted from the National Accounts above: Gross Value Added minus employee compensation equals Gross Operating Surplus.
[9]

(b) Hospitality

Up to 2012 profits in the hospitality sector had not recovered and were half the levels in other EU-15 countries. This compares to the situation in 2000 when profits were at the EU-15 level. However, there are wide variations and contradictory signals from the sector. What is not at issue is employee compensation – as we saw above, Irish employee compensation is well below EU averages.



While Irish business indicators are below those of the EU-15 mean average, it should be noted that this comes from 2011 – after four years of consumer recession and general stagnation. Even in 2011, personnel costs as a percentage of turnover in the Irish sector were 31.9 percent; in the EU-15 the proportion was 29 percent.



Since then, the hospitality sector has benefitted from the reduction in VAT and a general rise in tourist numbers. For instance, turnover in the accommodation sector rose by over 13 percent between 2010 and 2012. Since 2012 the CSO estimates that tourism expenditure has increased by 31 percent.[10] Further, it should be noted that profitability in the foreign-owned sector has increased substantially up to 2012 after a harsh decline in the early stages of the crisis.[11] However, weekly earnings in the hospitality sector fell.

In addition to tourism, there has been a strong recovery in the accommodation and food service sectors – reflecting an increase in domestic expenditure by residents.

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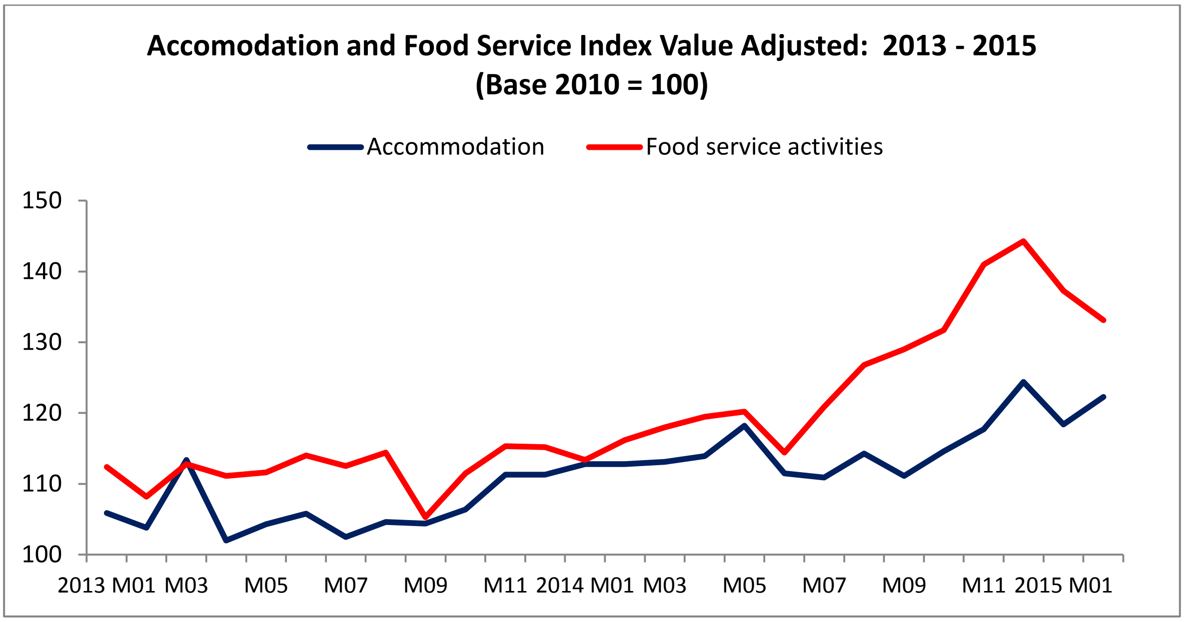
[10] CSO Tourism and Travel Quarterly Series: http://www.cso.ie/px/pxeirestat/Database/eirestat/Tourism%20and%20Travel%20Quarterly%20Series/Tourism%20and%20Travel%20Quarterly%20Series_statbank.asp?SP=Tourism%20and%20Travel%20Quarterly%20Series&Planguage=0

[11] Eurostat Foreign controlled enterprises: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=fats_g1a_08&lang=en



Since the beginning of 2013, the value index for accommodation shows a 15.5 percent increase, while food services experienced an 18.4 percent increase. Profitability has been restored to the hospitality sectors; now is the time to restore wage growth.

Ireland relies more on employment in the hospitality sector than any other EU-15 country – even more than countries like Greece, Spain, Portugal and France which have high levels of tourism (in Ireland, the hospitality sector makes up over eight percent of total employment; in the EU-15 the proportion is five percent). Given this, it is imperative that this sector be capable of generating at least EU-15 levels of wages in order to promote growth in the wider economy.

5. The High Cost of Low Pay

Low pay imposes costs on workers, the economy, society, and enterprises which are dependent on workers' spending power.

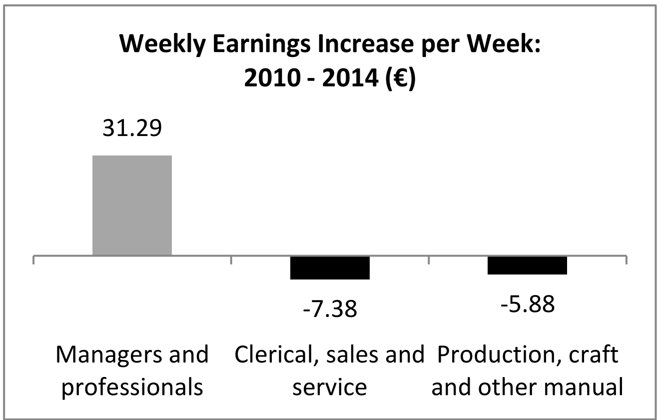
Deprivation: Nearly 350,000 people in the workforce - or 19.2 percent -suffer multiple deprivation experiences (which mean they are officially classified as living in deprivation).[12] Within this, 33.8 percent of one-income households in the workforce are classified as being deprived, while 15.7 percent of two-income houses are deprived. It is reasonable to assume that the vast proportions of these numbers are in low-paid work.

Fiscal impact: Low pay reduces tax revenue and increases social protection costs. These constitute a subsidy to low-pay employers. Here is one example of a low-paid worker with a child dependent.

[12] CSO Survey of Income and Living Conditions 2013: http://www.cso.ie/en/releasesandpublications/er/silc/surveyonincomeandlivingconditions2013/

Cost to the State from Low-Pay (€)		
	Minimum Wage (€8.65 per hour)	Proposed Minimum Wage (€9.65 per hour)
Tax / PRSI Revenue	2,074	4,195
Family Income Supplement	9,362	8,653
Subsidy	-7,288	-4,458

At the current minimum wage level, a full-time worker with a child dependent would receive a net subsidy from the state of €7,288 (tax / PRSI minus FIS). Were the minimum wage increased by €1 per hour, this subsidy would fall by nearly €3,000 per year – a gain to the state. These types of subsidies occur throughout a large cohort of the workforce, reducing the state's ability to invest in our economic and social infrastructure.



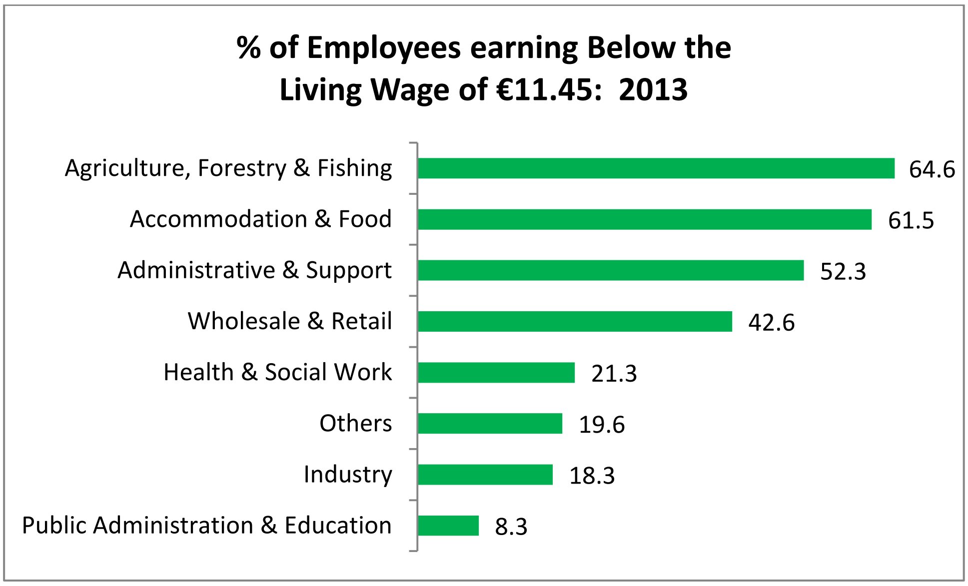
Economic Impact: Depressed take-home pay reduces demand in the economy in two ways: first, consumer spending is depressed and, second, investment is depressed since enterprises are less likely to invest if they are not sure of a return from higher consumer spending. Raising low pay not only can contribute to growing demand, it is more efficient than increasing the pay of higher-income groups. Low-paid workers have a higher marginal propensity to consume and have less import-dense consumption (e.g. foreign travel, new cars, etc.). A €1 hourly increase for the low-paid will return a higher proportion to the domestic economy than a €1 increase in higher pay. Unfortunately, recent trends are proving less efficient and equitable – with higher paid employees gaining increases while lower income groups suffering income falls.[13] This is not a pay outcome designed to maximise economic output and social equity.

What hourly or weekly compensation data does not capture is the additional depression due to precarious contracts. When an employee is unsure what next week's pay packet will be, they are forced to save or defer expenditure. In effect, this uncertainty means that precarious workers cannot fully participate in the consumer economy – to the detriment of the economy as a whole.

[13] CSO EHECS Series: http://www.cso.ie/px/pxeirestat/Database/eirestat/EHECS%20Earnings%20Hours%20and%20Employment%20Costs%20Survey%20Quarterly/EHECS%20Earnings%20Hours%20and%20Employment%20Costs%20Survey%20Quarterly_statbank.asp?SP=EHECS%20Earnings%20Hours%20and%20Employment%20Costs%20Survey%20Quarterly&Planguage=0

6. Low Pay Pervades All Economic Sectors

While this submission has focused on the national and traditional low-paid sectors, the fact is that low-pay pervades all sectors. The following shows the percentage of workers earning below the Living Wage of €11.45 in 2013.[14]



In 2009, the low-pay threshold would have been €10.69 (60 percent of the median wage). Therefore, the table above – using a €10 threshold – doesn't capture the full extent of low-pay. What is worth noting is that relatively high-paid market economy sectors such as Professional & Scientific have high levels of low-pay. While this data comes from 2009, the pattern is unlikely to have changed given the stagnation in wages. If anything, some sectors may experience even higher levels of low pay today.

PROPOSALS

7. The Strategic Goal of Minimum Wage Policy

The long-term strategy should be to raise the statutory wage floor to that of the Living Wage.[15] The Low Pay Commission should endorse the Living Wage as the gross pay necessary to provide a minimum adequate income. It is both economically inefficient and socially inequitable that an employee should be expected to work for a wage that provides less than a minimum adequate income.

This raises three inter-related issues: first, is market-sustainability; that is, can the market sustain wages to provide a minimum adequate income? Secondly, should the Government intervene in the market to pursue the goal of minimum adequate wages? And, third, is it realistic to expect business to pay minimum adequate wages?

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[14] Nevin Economic Research Institute, Quarterly Economic Observer, Spring 2015: http://www.nerinstitute.net/download/pdf/nerispring2015qeo_compressed.pdf
[15] Living Wage Technical Group: www.livingwage.ie

The market is often presented as a mechanistic operation of supply and demand that, if left alone, will reach a natural and rational equilibrium. In this worldview, interventions can only distort the rational functioning of the market. This is highly ideological reading of the market and is at odds with its actual evolution. All markets – and especially labour markets – are socially constructed through a political process. From the campaign against child labour, to workmen's compensation, regulation of working hours, labour inspectorates, health and safety regulations, anti-discrimination laws, trade union membership, minimum wages, social wage (employers' social insurance) collective bargaining, right to information and works councils – the history of the labour market is the history of society moulding working conditions to a standard that is collectively agreed through political decision-making. If the market settles into an equilibrium it is one that is socially constructed.

The introduction of the minimum wage itself has been a progressive and substantial intervention in the market. It is often forgotten that such measures – whether through statute or mandatory collective bargaining legislation (e.g. Joint Labour Committees, Wage Boards) – were not only introduced to protect workers from exploitation; they were also intended to protect the 'good' employer from exploitative or *race-to-the-bottom* employers.

Therefore, the question is not whether this or that policy is a legitimate public intervention (in this instance, making the Living Wage the statutory floor); rather, the question is a political one where a choice is made, complemented by measurements of the impact on the wider economy: growth, enterprise formation and development, employment, working hours, inflationary pressures, etc. – all with a view to maximising benefits and minimising negative effects.

(a) Estimating NMW Increases to Reach the Living Wage

The following estimates the average annual increases required to reach the Living Wage over two time periods: seven and ten years. It is assumed that the Living Wage will experience an average annual increase of two percent.

	2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Living Wage	11.45	11.68	11.91	12.15	12.39	12.64	12.89	13.15	**13.42**	13.68	13.96	**14.24**
Annual 5.6% Increase	8.65	9.13	9.65	10.19	10.76	11.36	11.99	12.67	**13.38**			
Annual 4.6% Increase	8.65	9.05	9.46	9.90	10.35	10.83	11.33	11.85	12.40	12.97	13.56	**14.19**

- To reach the Living Wage level in seven years (by 2022) would require average annual increases in the NMW of **5.6 percent**.
- To reach the Living Wage level in ten years (by 2025) would require average annual increases in the NMW of **4.6 percent**.
- The average annual increase in the NMW between 2000 and 2007 (increasing from €5.58 to €8.65) was **6.5 percent**.

While it may seem ambitious to increase the NMW to the Living Wage level, the average annual increase in the NMW between 2000 and 2007 was higher than both scenarios presented above. Therefore, increasing the NMW to the Living Wage level is feasible and realisable.

- **PROPOSAL: the strategic goal of increasing the NMW is to the Living Wage level over the medium-term should be established by the Low Pay Commission.**

No exact timeframe should be set out so as to allow flexibility in setting increases dependent on economic conditions.

(b) Reducing the Living Wage by Socialising Costs

It should be remembered that the Living Wage is established on the basis of current costs in the Minimum Expenditure Level incurred by the employee. However, the Living Wage need not be as high as it is currently if costs can be contained and even reduced.

For instance, were the Government to implement policies to control housing rents (e.g. increase supply, rent controls, expansion of income-related public housing for low/average paid workers), the Living Wage would fall. Unite estimates that were rents to fall by €100 per month through a range of policies, the Living Wage in Dublin would fall by approximately 80 cents per hour.

Another example is public transport; Dublin and the remainder of the country suffer from one of the lowest levels of subvention in Europe. Were subvention levels rise to EU norms, this could reduce public transport costs by up to 40 percent or more. This would further reduce the Living Wage by 30 to 40 cents per hour.

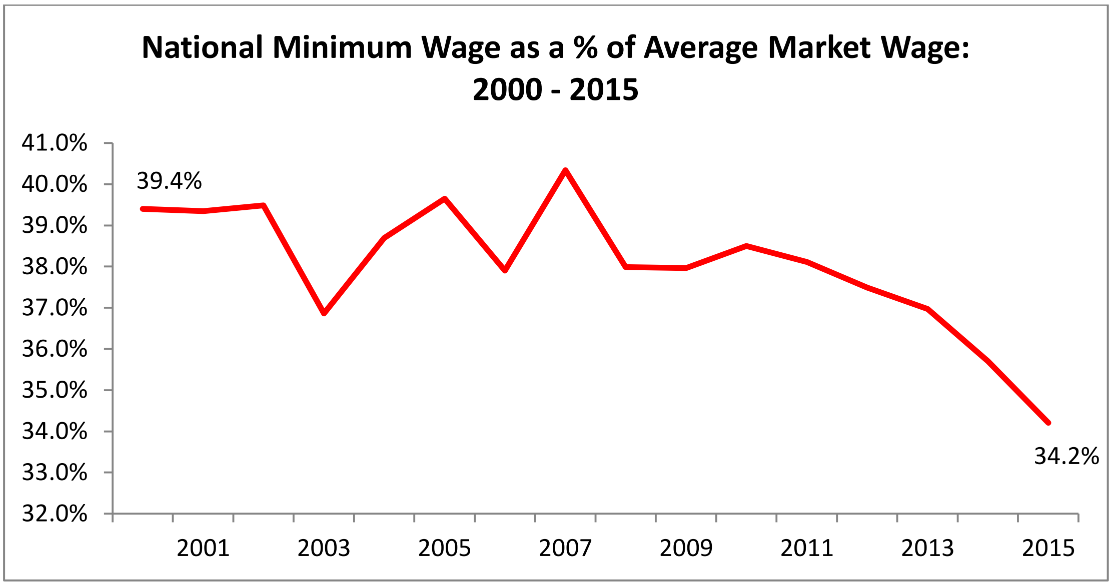
There are a number of other examples – in particular, healthcare including prescription medicines – where costs in the EU are 'socialised' or subsidised resulting in lower living costs. In Ireland, however, people are forced on to high-cost private markets or full-cost (or nearly full-cost) public services.

- **PROPOSAL: The Low Pay Commission should highlight the high costs that Irish low-paid workers experience as a first step in conducting a more detailed analysis of such costs and how they negatively impact on workers' living standards.**

8. Short Term Increases in the National Minimum Wage

As a first step, Unite is proposing a significant increase in the NMW. This can be supported by reference to the strategy of increasing the NMW to the Living Wage over the medium-term; and by reference to regaining the relationship with market wage growth since the introduction of the NMW in 2000. In this section we will focus on the latter.

Using the National Accounts data we find that the NMW has fallen below the historical proportion of the average market wage.



The NMW started out at 39 percent of the average market wage. By 2007, following the NMW increase of that year, it rose slightly to 40 percent. However, since then it has fallen; this is unsurprising given the average market wage has increased while the NMW has been frozen (apart from the very temporary reduction and restoration in the first half of 2011).[16]

While there is an argument that the NMW should be benchmarked against the median wage, data for this is punctuated. In 2007, the NMW was 53.1 percent of the national median wage (€16.29). By 2009, the NMW fell to 48.5 percent of the national median wage. This was due to the median wage increasing during this two-year period by 9.4 percent. To maintain its 2007 proportion, the NMW would have had to rise to €9.46 if the median wage has remained stable.[17]

Another measure for NMW increases could be Eurostat's Labour Cost Levels[18]:

	2000	2014	2015 (est)*	2016 (est)*
Labour Cost per hour €	17.20	28.4	29.10	29.80
Minimum Wage €	5.58	8.65	8.65	8.65
Minimum Wage as a % of Labour Cost	*32.4*	*30.5*	*29.7*	*29.0*
Minimum Wage Required to Return to Ratio in 2000 €		9.21	9.43	9.67
* Estimate based on Government's Projected Increase in Compensation per Employee: 2.4 and 2.5 percent in 2015 and 2016				

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16 2015 is an estimate based on the Government's projection for the increase in compensation per employee (2.4 percent): Budget 2015: Economic and Fiscal Outlook
http://budget.gov.ie/Budgets/2015/Documents/Economic%20and%20Fiscal%20Outlook%202015.pdf
17 CSO Databank, National Employment Survey:
18 Eurostat: Labour Cost Levels lc_lci_lev

From the Eurostat Labour Cost levels we find that returning to the 2000 ratio, the NMW would rise to €9.67 by 2016. It should be noted that the Government's estimated increase in average employee compensation in 2015 under-estimates the increase in the market economy as public sector has been frozen. It is doubtful that the Government has factored in any public sector pay increase in 2016.

Returning to the National Accounts, there are a number of benchmarks that can be used to estimate the appropriate NMW increase.

	2000 - 2007 average	2007	2000 - 2015 Average
NMW as a % of Average Market Wage	39.0	40.3	38.0
Increase Needed in 2015 to Restore NMW to this Level	€1.20	€1.55	€0.97
New MNW in 2015	***9.85***	***10.20***	***9.62***

Depending on the benchmark, the NMW would need to rise to €9.62 and up to €10.20.

(a) Benefits Beyond the Minimum Wage: The Ripple Effect

When estimating the number of workers who would benefit from an increase in the NMW, there is a common assumption (and mistake) to assume that it only affects those on the current NMW or those workers below the new NMW. However, the benefits flow beyond that. This is due to the ripple effect whereby workers above the new NMW benefit as the wage structure adjusts to the new statutory floor. There appears to have been no analysis of the ripple effect of past minimum wage increases in Ireland; however, in other economies, an estimated ripple effect of between 1.2 and 1.5 above the new minimum wage is not uncommon.[19] However, much depends on the state of the labour market (high/low unemployment), macro-economic trends (consumer spending) the concentration of workers at or near the statutory floor, and the bargaining power of workers in the workplace.

By way of example, were the ripple effect of a €1 increase could potentially have a beneficial effect for workers on an hourly wage of up to €11.58 (if the ripple effect is 1.2) and up to €14.47 (if the ripple effect is 1.5). At the upper end of the ripple effect, the impact would be small as the effect fades out.

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[19] For a discussion of ripple effects see: Mandated Wage Floors and the Wage Structure: New Estimates of the Ripple Effects of Minimum Wage Laws, Jeannette Wicks-Lim, PERI Working Paper No. 116, http://www.peri.umass.edu/fileadmin/pdf/WP116.pdf
Massachusetts Budget and Policy Centre: http://www.massbudget.org/report_window.php?loc=min_wage_faq.html
CWED Policy Brief: The Impact of Oakland's Proposed City Minimum Wage Law: A Prospective Study' Michael Reich, Ken Jacobs, Annette Bernhardt and Ian Perry: http://www.irle.berkeley.edu/cwed/briefs/2014-01.pdf

Whatever the effect, the important point is that workers not directly affected by a NMW increase could still benefit and thus have the effect of reducing the number affected by low-pay.

(b) Benefits Go Beyond Workers' Pay

While much of the focus of NMW increases is the benefit to workers and low-paid households, the Exchequer, the economy and employers also benefit.

For the Exchequer, the benefits are straight-forward and largely measureable.

- **Increased Revenue**: As shown above, the Exchequer can benefit through higher income tax, USC and PRSI from both employees and employers (but see below for discussion of PRSI step-effect).
- **Reduced Expenditure**: As also shown in above, there can be reduced expenditure on low-paid subsidy programmes such as Family Income Supplement.
- **Increased Consumption**: There is benefit from the increased consumer spending. For instance, a full-time worker on €9.10 per hour will experience a net income increase of €774 per year if the NMW is increased by €1. Almost all of this net increase is likely to be spent given the high marginal propensity to consume – which increases consumption taxes (increased Exchequer revenue) and business turnover. This higher business turnover, through second round effects, can produce higher wages, more working hours and even employment, which sets off another virtuous cycle of growth.
- **Use of Additional Resources**: From the increased tax revenue, reduction in low-pay subsidies, and second-round effects, the Government has additional resources which can be used to create further positive effects. For example - and this is wholly illustrative - for every €10 million additional resources that is invested (gross capital fixed formation), employment could rise by between 150 and 200 with consumer spending increasing by nearly €10 million. The use of additional resources, again, produces even more Exchequer revenue and business turnover.

This all produces upward pressure on employment, consumption, additional tax revenue and business turnover.

For employers, the situation is more complicated as much analysis of firm impact uses supply-demand models which, of the very nature, strongly imply a negative impact on labour demand from a wage increase. While there is not enough space to critique such models, they largely fail to capture the wider macro-economic benefit from wage increases due to isolating the impact within the firm. Therefore, increased consumption, use of additional resources and employment (through second round effects) are rarely factored in. The simplistic assumption that, as the 'price of labour' rises the 'demand for labour' falls, cannot provide a complete picture and may even lead to incorrect conclusions. Let's examine two alternative ways to assess firm impact.

Impact on Turnover: in the hospitality sector personnel costs make up 33.0 percent of turnover. Data on the wage structure in this sector shows that 30 percent of employees earn below €10.00 –

well above the new NMW in the event of a €1 increase. 50 percent earn below €11.51 – the outer bound of a 1.2 ripple effect. [20]

Decile Median	P10	P20	P30	P40	P50	P60	P70	P80	P90
Earnings per hour	8.71	9.31	10.00	10.48	11.51	12.82	14.65	16.69	21.00

We estimate, adjusting for mean averages, that an increase of €1 per hour would increase total personnel costs by 7.5 percent. If firms attempted to recoup the increase in personnel costs through increases in prices the result would be.

Price Increase for Selected Items to Recoup increase in NMW from Turnover				
	Dinner (€50)	Lunch (€10)	Coffee (€2.50)	Hotel Room (€100)
Increase	€1.24	0.25	0.06	€2.48

This is wholly illustrative and we produce this in order to *urge the Low Pay Commission to undertake a comprehensive review of the wage structures* in those sectors which would be affected by NMW increase. It should be noted that in reality, the firm would not necessarily recoup the NMW increase from turnover. In an environment of increasing customer volume that currently exists in the hospitality sector can do much to compensate employers for the impact of wage increase. Though there is the prospect that the firm would reduce hours, in an environment of increasing customer volume, such a move would risk the competitiveness of the firm in terms of service quality and sustainability.

What the above points to is that the impact on the sector with the highest labour density of a NMW would probably have only a marginal impact on the relationship between personnel costs, turnover and gross operating surplus.

Impact on Profits: As noted above, the hospitality sector has been through difficulties but is now experiencing a substantial rise in value traffic. However, we do not have current data on the profitability in sectors potentially affected by a NMW increase as many firms can legally shield financial accounts information (e.g. an unlimited company, a small company, etc.). This is economically inefficient. Optimal transactions can only take place when all parties to the exchange have complete information; that is, there is a symmetry of information. However, when it comes to wage bargaining, many firms conceal this information, meaning that only one party to the exchange has information regarding profits, turnover, assets and liabilities. In this situation most stakeholders are disadvantaged – employees, public agencies, policy makers, the wider society. Not only are low-paid workers in sectors with low trade union densities particularly disadvantaged, there is little chance that an optimal outcome will result. Therefore, the Low Pay Commission should highlight the inefficiency and inequity of this asymmetry of information.

[20] CSO data, supplied by the Nevin Economic Research Institute.

Under the current NMW architecture, firms can – pleading inability to pay or loss of employment - secure a postponement of a NMW increase. This facility can assist firms to adjust to a new wage structure. It can also provide time for the beneficial effects of the wage increase to filter to firms securing the postponement. The important point here is that firms that can afford to pay the NMW are assisting those firms that are facing difficulties. No firm that cannot afford to pay would be required to immediately introduce a NMW increase under the current law. This important safeguard should be highlighted.

PROPOSAL: The NMW should be increased by €1 per hour, with provision to spreading it out over six or twelve months.

PROPOSAL: Any assessment of the NMW impact should include the direct and second round effects from higher Exchequer resources, consumption and business turnover.

PROPOSAL: the Low Pay Commission should highlight the inefficiency and inequity of allowing companies to legally shield their financial accounts, thus undermining the bargaining relationship between employees and employers, and the policy making process.

9. The PRSI Step-Effect

There is a step-effect in PRSI which creates perverse outcomes; namely, as the gross wage of certain low-paid workers rise, their net income falls. This step effect, or income-trap, is caused by the exemption threshold of PRSI. Workers earning €18,304 or less are exempt from PRSI. However, once they exceed that threshold they are liable for PRSI on their entire income.

Example of PRSI Step Effect

	Old Wage	Proposed MNW Wage
Wage per hour €	9.20	9.65
Hours per Week	37	37
Gross Wage €	17,748	18,617
Net Wage €	***17,111***	***17,001***

In this example, the employee receives a 4.9 percent gross pay increase but ends up taking home less money. Such step-effects distort wage structures and unnecessarily penalises workers.

There is another step-effect that incentivises low-hours. Employers pay PRSI at a rate of 8.5 percent on employees' direct wage up to €356 per week. When the direct wage exceeds that threshold, the employer pays a rate of 10.75 percent on the entire wage. The presence of this step effect incentivises employers to depress working hours and, so, employees' income.

Both step effects can be easily removed. Regarding the employees' PRSI, the threshold can be tapered over an income range of, for example, €5,000. Regarding the employers' step-effect, there is no need for a low employers' PRSI rate. Ireland is only one of three countries in the EU that operates a rate lower than the main rate of employers' PRSI (Estonia and the Netherlands are the other two).[21] Phasing out the lower PRSI rate over a four-year period would pay for the tapering of employees' PRSI, leaving the two measures cost-neutral to the Social Insurance Fund.

PROPOSAL: The Low Pay Commission should highlight the inequity of the PRSI step effect and the Employers' PRSI incentive to limit hours.

It would be a cruel twist were the Commission to recommend an increase in the NMW in order to assist low-paid workers only to find that such an increase would actually penalise those same workers.

Conclusion

There is no doubt that when an economy is in recession or stagnation – and when a Government is pursuing demand-depressing fiscal measures (i.e. austerity) –it is difficult to promote wages without impacting negatively on firm performance. Whatever about the arguments regarding the necessity of austerity, we are in a potentially new situation where consumer spending and employment are starting to rise. This requires policy-makers to formulate new policies to assist pay increases – especially among the low-paid who have weak bargaining positions. This includes not only interventions in the labour market (e.g. minimum wage increases, ending low-hour contracts) but also means pursuing expansion-friendly fiscal policies. In the first instance, this requires a long-term and substantial investment programme in our economic and social infrastructure.

That process can start with the Low Pay Commission and a recommendation of a €1 per hour increase. It is often stated that wages must wait until the economy can afford it. This is to view the process in a static and backward way. Economic growth occurs *because* of wage increases (along with investment and greater income equality). A wage strategy to benefit the low-paid is an important tool in the growth/equality toolbox. The question is better stated: can the economy afford not have wage increases. While the issues are complex, the answer is much simpler: No.

END

[21] OECD Taxation Database: http://www.oecd.org/tax/tax-policy/tax-database.htm#ssc