SIPTU

Submission to the Public Consultation on Phasing in of the Living Wage

July 2022

Fairness
at Work and
Justice in
Society

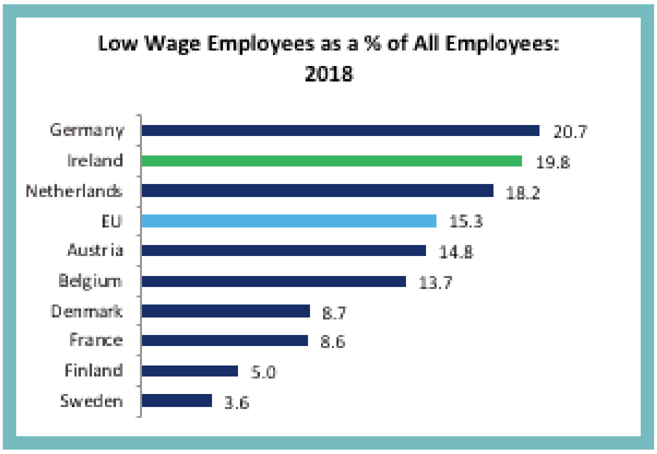
SIPTU welcomes the opportunity to make this submission regarding the phasing in of the Living Wage. The introduction of the Living Wage will be a major step forward in the elimination of the low-pay business model that has proved so costly to households, businesses and the Government. From the outset we would like to acknowledge the work of the Living Wage Technical Group, of which SIPTU is a member. Since it first launched the estimate of the Living Wage in 2014, it has won support across the board. It is due to the annual intervention and analytical robustness of the Group's work that we are now discussing the introduction of a Living Wage.

In summary, SIPTU recommends:

- That a fixed-threshold be used to target the implementation of the Living Wage.
- That the Living Wage is set at 66 per cent of the median wage
- That the Living Wage be introduced in two phases: the first phase involves raising the National Minimum Wage to 60 per cent of the median wage within three years; in the second phase the National Minimum Wage to be raised to the Living Wage within three years – that is, to 66 per cent of the median wage.
- There should be no regional or sectoral variations
- The NMW increases needed to reach, in the first instance, the 60 per cent threshold, should be front-loaded to factor in inflation and the considerable rise in consumer spending in 2021 and 2022.
- Employers should be required to engage in sectoral collective bargaining in order that employees can protect their working conditions during the phasing in of the Living Wage and beyond.

1. A Low Pay Republic

Ireland is a low-paid economy which makes the Living Wage an urgent necessity. As SIPTU pointed out in its 'Low Pay Republic', one-in-five employees are officially categorised as low-paid; that is, they earn below the low-pay threshold which is set at 66 per cent of the median wage. This means that approximately 400,000 employees experience low pay.



Among our peer-group in the EU (other high-income countries) Ireland ranks 2nd behind Germany and well ahead of the EU average. A number of countries have less than 10 per cent working in low-pay: Denmark, France, Finland and Sweden. It should be noted that Germany has announced it will increase its national minimum wage from €9.82 to €12.00 per hour this year, an increase of 22 per cent in its attempts to significantly reduce the numbers working on low pay.

Ireland's high level of low pay affects certain groups and sectors particularly hard:

- Over half of hospitality employees earn less than the low pay threshold, with approximately a third of administrative services, retail and arts & entertainment employees also working in low pay conditions. Even higher income sectors such as health and manufacturing see the number of low-paid employees reaching double digits.
- Whereas less than 17 per cent of men suffer low-pay, nearly 23 per cent of women are affected.

- Over a third of young people (below the age of 30) and 31 per cent of those on temporary contracts earn below the low pay threshold

- Low pay is not something that just affects the lower-skilled. Ireland leads the low-pay table when it comes to third-level graduates. 13 per cent of workers with third level qualifications are low paid compared to an EU average of 4.7 per cent. In Belgium it is almost non-existent at 0.8 per cent.

One of the biggest challenges over the medium term will be the elimination of low pay from the Irish economy and raising all workers to, at least, a minimum acceptable living standard; that is, the Living Wage.

2. Methodology determining the Living Wage

SIPTU supports the fixed-threshold approach to targeting the introduction of the Living Wage. However, we note the robustness of the Minimum Essential Standard of Living approach (MESL) which uses an internationally recognised process in which a basket of goods and services needed to achieve an agreed living standard is used to estimate the Living Wage. The Living Wage Technical Group uses this approach. Maynooth University's 'Research on the Introduction of a Living Wage in Ireland', commissioned by the Low Pay Commission, described the MESL approach as coming 'closest to capturing the spirit of a Living Wage'.

We support the fixed-threshold approach due to its administrative simplicity and transparency. However, we believe that the ongoing work of the Living Wage Technical Group and other civil society organisations who utilise MESL or other internationally recognised calculations of a Living Wage should continue and be supported by the Government. This would help provide confidence that the National Minimum Wage (NMW) is being raised to a truly living wage.

SIPTU proposes:

- Use of the fixed-rate threshold approach to raise the NMW to the Living Wage

- State financial and other support for civil society organisations which utilise MESL or other internationally recognised calculations to estimate Living Wage

3. Fixed Rate Threshold and the Living Wage

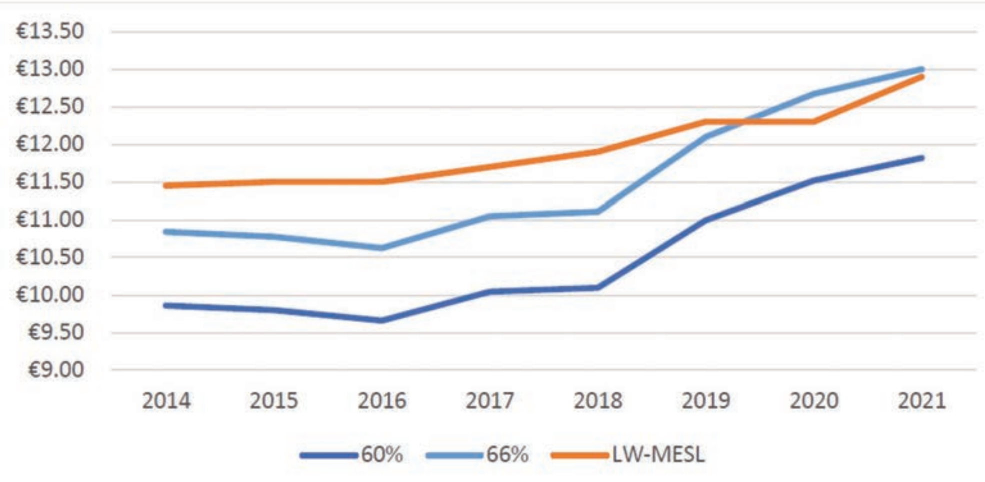
What fixed-rate threshold should be set to target the implementation of the Living Wage? There is considerable potential for confusion. This confusion is evident in the Department's Strawman Proposal. On a number of occasions, the Strawman proposal refers to 'Progressing to a living wage of 60%', 'a statutory National Living Wage of 60% of median wages', 'A living wage based on 60% of the median wage', etc.

This is incorrect. A fixed-rate threshold of 60 per cent is not the Living Wage. The Low Pay Commission did not recommend or state that 60 per cent of the median wage is equal to a Living Wage. Instead, it stated:

' . . the LPC is aware that a minimum wage set at 60% of the median wage may be lower than what is considered a living wage, which remains the objective. Therefore, the LPC also recommends that after the 60% of the median wage target has been reached, subject to an assessment of the impact of the progression to the 60% target finding no significant adverse effects on employment, and the increased availability of international evidence on the impact of increases above the 60% threshold, the LPC should assess the economic practicality of gradually increasing the targeted threshold rate towards 66% of the median wage and make recommendations accordingly.'

The LPC further stated that the move from 60 per cent to 66 per cent should occur within three to five years. To reinforce the 66 per cent as the threshold to achieve the Living Wage, the LPC produced the following graph:

Figure 2: Fixed Thresholds vs MESL



As seen, the 66 per cent threshold is closest to the Living Wage Technical Group's (MES) estimate of the Living Wage; or, as the Maynooth University research pointed out, closest to the measurement that captures the spirit of the Living Wage.

In some parts the Strawman Proposal seems to recognise that 60 per cent is not sufficient to earn a Living Wage:

'When the 60% of the median wage target has been reached, the Low Pay Commission would be required to consider gradually increasing the targeted threshold rate towards 66% of the median wage.'

On this basis, SIPTU proposes that:

* The Living Wage be set at 66 per cent of the median wage

Further, SIPTU fully supports the LPC's recommendation that there be no regional or sectoral variations. This would introduce unnecessary complexities and could result in anomalous or perverse outcomes.

4. Phasing in the Living Wage

The Strawman Proposal proposes raising the NMW to 60 per cent of the median wage within four years, with a move to 66 per cent of the median wage taking another three to five years as per the recommendation in the LPC. This would mean we would not be able to reach a Living Wage for up to nine years. A decade is too long.

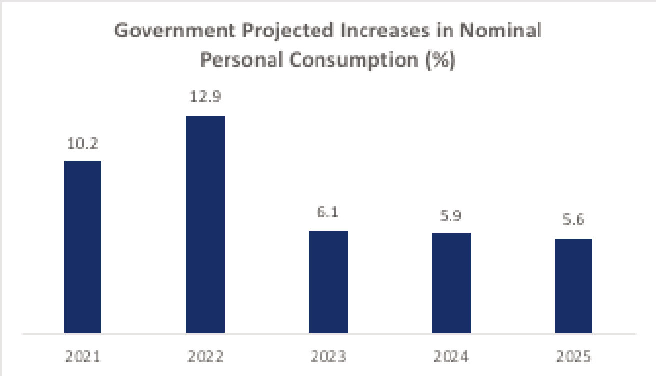
SIPTU proposes that phasing in of the Living Wage be done in two tranches:

- The first tranche would involve raising the NMW to 60 per cent of the median wage over three years
- The second tranche would involve raising the NMW to 66 per cent of the median (to the Living Wage) over a further three years.

In effect, SIPTU proposes raising the NMW to the Living Wage - 66 per cent of the median wage - over a six-year period.

(a) Front-loading the Increases

There is a strong argument that increases in the NMW should be front-loaded - not only to factor in short-term inflation increases but to ensure that the increases move with the grain of the economy over the medium-term. This can be seen in the projected increases in personal consumption, or consumer spending.



Front-loading NMW increases means that businesses are better able to expand their payroll during this period of high consumption growth, with wage increases moderating in subsequent years as the increase in consumer spending moderates. This would help ensure that NMW increases reflect economic growth.

(b) Affordability

A question arises as to whether businesses can 'afford' the necessary wage increases to reach the Living Wage. The Maynooth University report provides data that can help us estimate the impact of increasing the NMW to 60 per cent of the median wage. For example, in the three main low-pay sectors – hospitality, administrative services and retail – Maynooth University estimates the impact to be 4.5 per cent, 2 per cent and 1.7 per cent respectively; that is, increasing the NMW to 60 per cent of the median wage would mean an increase in the payroll of the hospitality sector by 4.5 per cent.

From this, using the Maynooth University data and CSO enterprise data we can estimate the impact on operating costs and prices (if the pay increase is fully passed on to the consumer).

Impact of Increasing the NMW to 60% of the Median Wage			
	Impact on Payroll (% Increase)	**Impact on Operating Costs (% Increase)**	**Impact on Prices (% Increase)** *(if fully passed on to the consumer)*
Hospitality	4.5	1.6	1.4
Administrative Services	2.0	0.4	0.3
Retail	1.7	0.1	0.1

Raising the NMW would, in a static measurement, raise operating costs in the hospitality by 1.6 per cent, with only a marginal impact in other sectors. But the increase in the NMW would have beneficial impacts on the enterprise sector which would actually reduce the impact on operating costs and prices.

- First, it will increase productivity and reduce enterprise expenditure through lowered staff turnover in many l low-paid sectors. The cost of staff turnover can be considerable. There are managerial costs in administering the recruitment process (advertising, short-listing candidates and selection); induction and training, administration of new starter (payroll, personnel records, contracts); productivity loss during transition, training and replacement, temporary understaffing, loss of experience, interruptions to service quality etc. It is difficult to monetise but it can be considerable, especially when staff turnover is high as in sectors like hospitality.
- Secondly, enterprises will receive an additional productivity boost through a fair wage. The Fair Effort Work hypothesis, first put forward by Margaret Yellen, estimates that workers withdraw work effort in proportion to the degree their wage falls below what they believe is a 'fair wage'[1]. Consistent with this, workers will be less inclined to reduce their work effort

as the elevated wage they receive will more align with their sense of a fair wage.

- Third, the National Competitiveness and Productivity Council has warned that consumer spending could fall as confidence declines with the inflationary surge[2]. This would be detrimental to, especially, domestic SMEs. Increasing the NMW to the Living Wage would increase the net income of businesses, bolster consumer spending and help restore confidence that people's living standards will maintain some pace with inflation. Without a substantial increase in the NMW, enterprises could be faced with the twin danger of continuing labour market volatility (i.e. staff turnover) and falling turnover.

Breaking from the current low-pay business model – which sees 20 per cent of Irish employees being officially categorised as low-paid – would actually be liberating for enterprises that want to follow a high road to business prosperity and productivity; good enterprises that are currently forced to compete against low-road businesses.

(c) Implementing the Living Wage and Inflation
There may well be situations where increasing the NMW in line with targeting the Living Wage over a six-year period may not be sufficient to provide a real pay increase (i.e. after inflation). In this situation, the LPC could be authorised to implement a 'smoothed Living Wage implementation system'. This is similar to the recommendation in the Commission on Pensions.

- During periods where inflation exceeds the projected increase in the Living Wage-targeted NMW, the NMW would be changed in line with prices.

- In subsequent periods, where the NMW growth again exceeds inflation, the hourly rate would remain pegged to price inflation until such time as the implementation benchmark is restored.

In this way, employees on the NMW would be assured of receiving a real pay increase, even in high-inflation environments.

5. Protecting Working Conditions

During the phasing in of the Living Wage it is important to protect employees' working conditions. There are a number of ways that employers can recoup increased payroll, effectively penalising employees who are the intended beneficiaries from the increased wage floor:

- Sweating labour: reducing the hours of employees but demanding that they maintain, and even increase, productivity.

- Reduction or withdrawal of occupational benefit: this could include benefits such as sick pay, family leave, subsidised meals, taxi fares for end of late-night shifts.

Further, employers can suppress wage increases for employees who are above the new wage floor, penalising low and average-income earners.

Another significant issue is that the Living Wage Technical Group's estimate is based on a full-time (39 hour) work week for a single person. The Living Wage is actually an annual wage. For purposes of popularising the Living Wage, the Living Wage Technical Group decided to articulate it as an hourly wage. In 2022, the annual Living Wage would need to be €26,200. Anything less is below a Living Wage for a single person.

The NMW is an hourly wage, not an annual one. Even if the NMW reached the Living Wage level, that only covers the hourly wage. However, if the worker cannot get 39 hours, or their employment is precarious (uncertain hours), then they may get an hourly Living Wage but they will be below the income necessary to earn a Living Wage throughout the year.

All of these concerns lead to the obvious conclusion – **to protect workers during the transition to the Living Wage, employees must have the right to bargain collectively; especially at the sectoral level.** The right to sectoral collective bargaining can help ensure that employees receive the full benefits from the introduction of the Living Wage.

[1]https://www.jstor.org/stable/2937787
[2]https://www.competitiveness.ie/publications/2022/bulletin%2022-2%20inflation%20and%20the%20competitiveness%20of%20irish%20enterprises.html

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