



**Services Industrial Professional & Technical Union**

## **Strategies for a Living Wage**

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# Lack of Consensus

- Since its launch, the Living Wage has become a crucial part of the wage debate. It has been used as a key indicator and benchmark in industrial strategies, civil society campaigns and in the larger public debate.
- Despite its popularity there is little consensus over how we might achieve a Living Wage. A widespread proposal is to use minimum wage legislation; namely, increase the minimum wage to the level of the Living Wage (an increase of 26 percent not counting the ripple effect). This would be achieved through a phasing-in period while allowing for exemptions or temporary derogations for businesses that are unable pay the higher wage.
- While the minimum wage will play an important role in achieving the Living Wage, we cannot rely exclusively on this instrument.

# Impact on the Social Wage

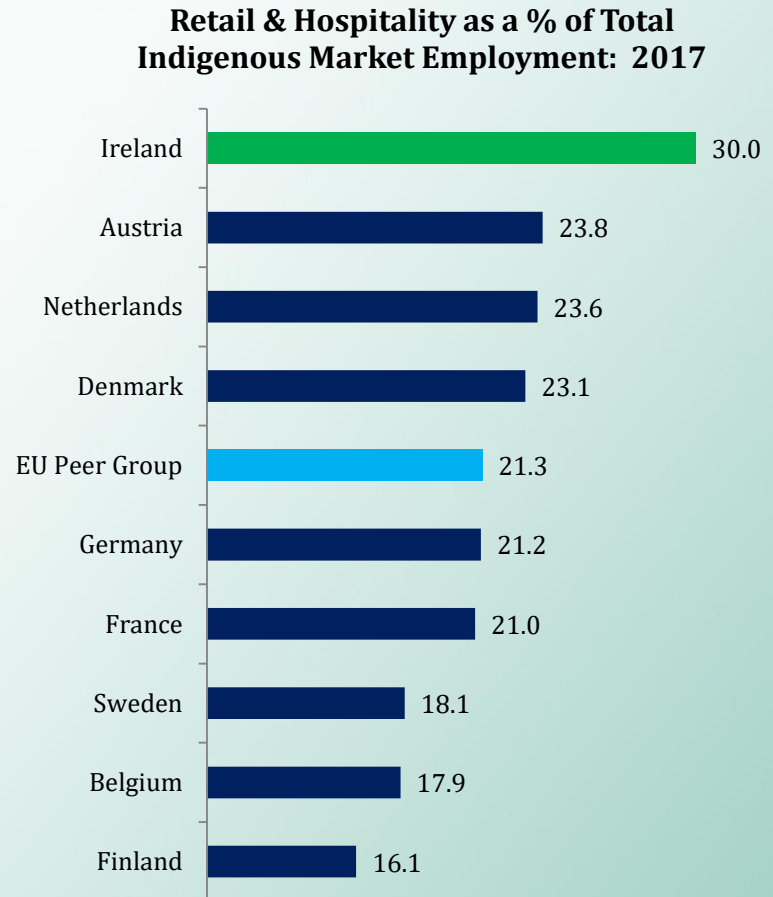
- Little debate on the social wage – that portion of employees' compensation paid to the Social Insurance Fund. Therefore, little debate on the interaction between the minimum and social wage.
- For example, a large proportion of private sector workers cannot afford to take off sick, never mind self-isolate, due to a weak illness benefit. A continental-style illness benefit would protect income and start paying from the first/second day of illness. Irish social protection could be reformed through a higher social wage (employers' PRSI) but this could compete with a phasing in of the Living Wage. A strong social wage would provide pay-related benefits for unemployment, maternity/paternity, occupational injuries, etc.
- And there is little discussion on the impact on wage growth from the introduction of auto-enrolment pensions whereby employers will pay an additional 6 percent. There will be trade-offs in wage bargaining.

# A Minimum-to-Living Wage Strategy

- A danger of '**bunching**' in the wage structure, whereby the floor is increased but this comes at the expense of reduced wage increases for those above the new minimum/living wage floor (including the ripple effect).
- Large enterprises might better able to absorb the wage increases. At the extreme, **market concentration** could grow as smaller firms exit the market. This raises issues of choice, competition and market power.
- This could be avoided if, as has been suggested, firms are allowed exemptions or derogations. There are 60,000 enterprises in the three main low-paid sectors (hospitality, retail and administrative services). Widespread use of opt-outs could undermine the notion of a **wage floor**.

# Reliance on Low Paid Sectors

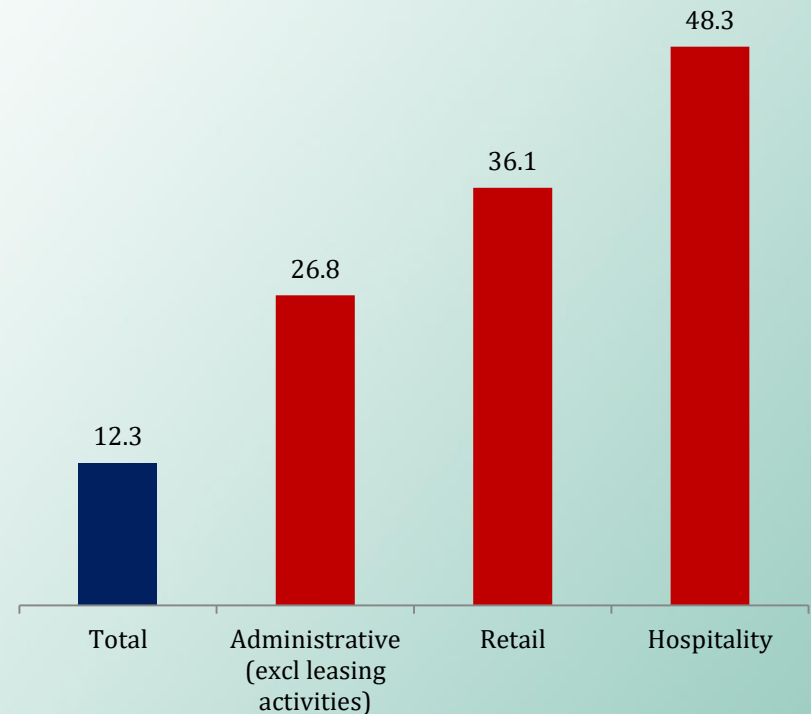
- Irish domestic employment is highly reliant on the main low-paid sectors. Retail and hospitality make up 30% of indigenous employment in the market economy – compared to 21% in our peer group.
- The higher the reliance on low-paid sectors, the more difficult it is for the rest of the domestic economy to absorb substantial wage increases. In the West and Border regions, 45% of market employment growth was in these sectors.



# Inflation

- Employee compensation makes up a high proportion of production value in the low-paid sectors. There will be an impact on prices – both in the sectors that directly employ the low-paid and/or consume intermediate goods/services from these sectors. Excluding rents, the Living Wage has ‘benefitted’ from a low-inflation environment. However, inflation is starting to rise. Significantly raising the minimum wage could accelerate this, fuelling a higher Living Wage.

Employee Compensation as a % of Production Value: 2017



# Squeezing Labour

- Employers could squeeze labour to recoup their costs . The ESRI found that the 2016 minimum wage increase of 50 cents led to a small reduction of ½ hour in weekly hours. The 30 cents increase in 2019 led to a reduction of 1.6 hours but this was short-lived in the context of a fast-growing economy. The opportunity to squeeze labour is higher in low-paid sectors where union density is extremely low, leaving workers exposed to managerial prerogative. Union density is
  - 11 percent in wholesale/retail
  - 8 percent in administrative services
  - 2 percent in hospitality
- Squeezing labour can be mitigated by increased demand for labour/ reduced supply or continued high growth, but we can't assume similar conditions in the future.

# Avoiding Chicken Little Responses

- Ever since its introduction, business spokespersons have been warning about minimum wage increases. But the sky didn't fall. Empirical studies have shown no negative impact on employment (though some on hours for unskilled).
- Between 2002 and 2007 the minimum wage rose by 55% (but inflation eroded this gain by more than half). This was a period of speculative/credit-fuelled growth – not to be repeated. Growth has been strong since the recovery, but we have now peaked and are on the other side of the business cycle – and that is without the consideration of Brexit, the coronavirus, new international tax regime, etc.
- While noting possible perverse consequences from a rapid rise in the minimum wage (though with the social wage that is a strategic choice), we should note the substantial gains from raising the wage floor through statute.



# Minimum Wage Cannot Equal the Living Wage

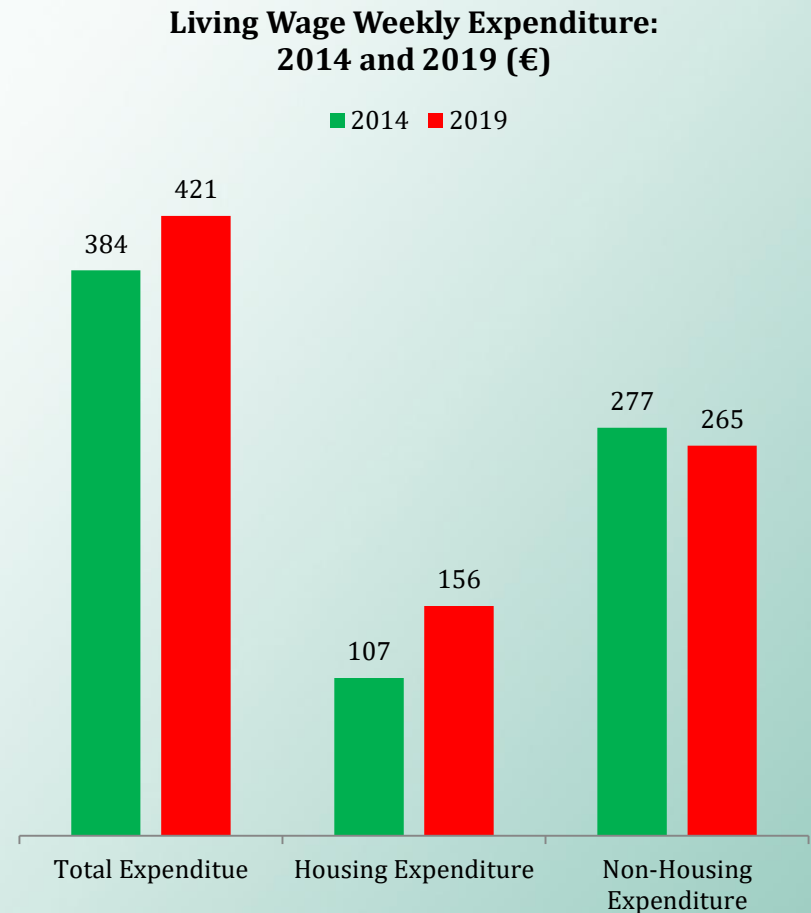
- Possibly the biggest problem is that a minimum wage cannot equal the Living Wage. The minimum wage is an hourly function; the Living Wage is an annual one.
- The Living Wage is based on a 39-hour, 52-week. It is presented as an hourly wage to help popular accessibility. The Living Wage speaks to a living standard; the minimum wage is focused exclusively on hourly rates.

<b>Annual Living Wage</b>	<b>€25,200</b>
Weekly Living Wage	€483
Hourly Living Wage	€12.30

If we want to establish a Living Wage standard of living we will need complementary strategies.

# 1. Reduce Living Wage Costs

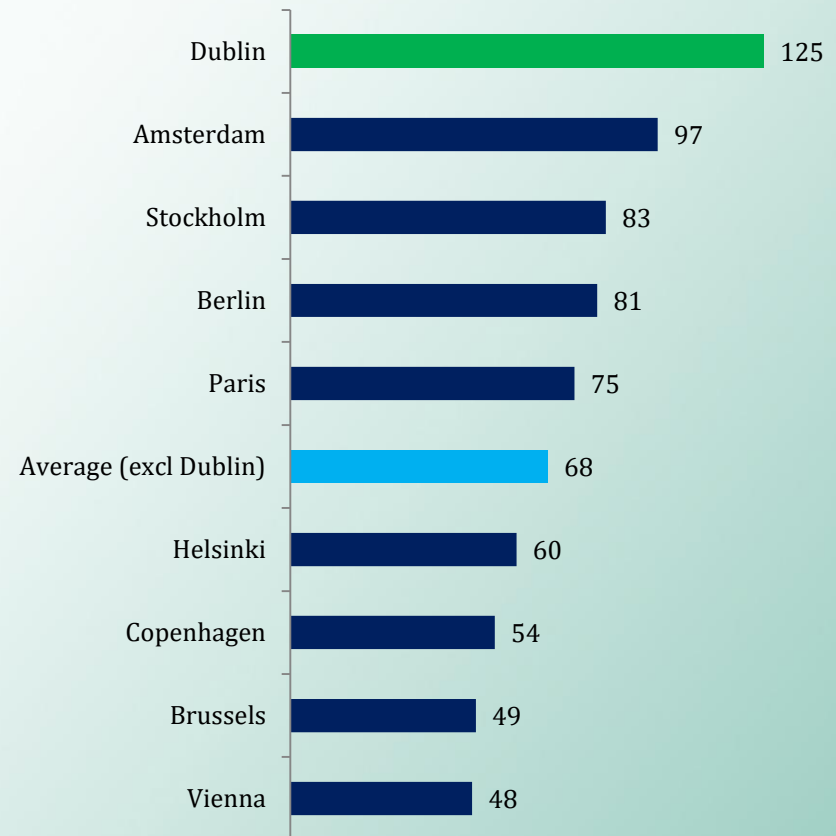
- The LW is based on the expenditure needed to ensure an annual minimum acceptable living standard. High living costs raise the LW. If these costs were to fall then the LW would fall without any impact on an acceptable living standard. This can best be seen with rents.
- Between 2014 and 2019 LW expenditure increased by €91 per week. However, non-housing expenditure fell. The rise in the LW was wholly down to housing costs.



# Impact of Reducing Expenditure

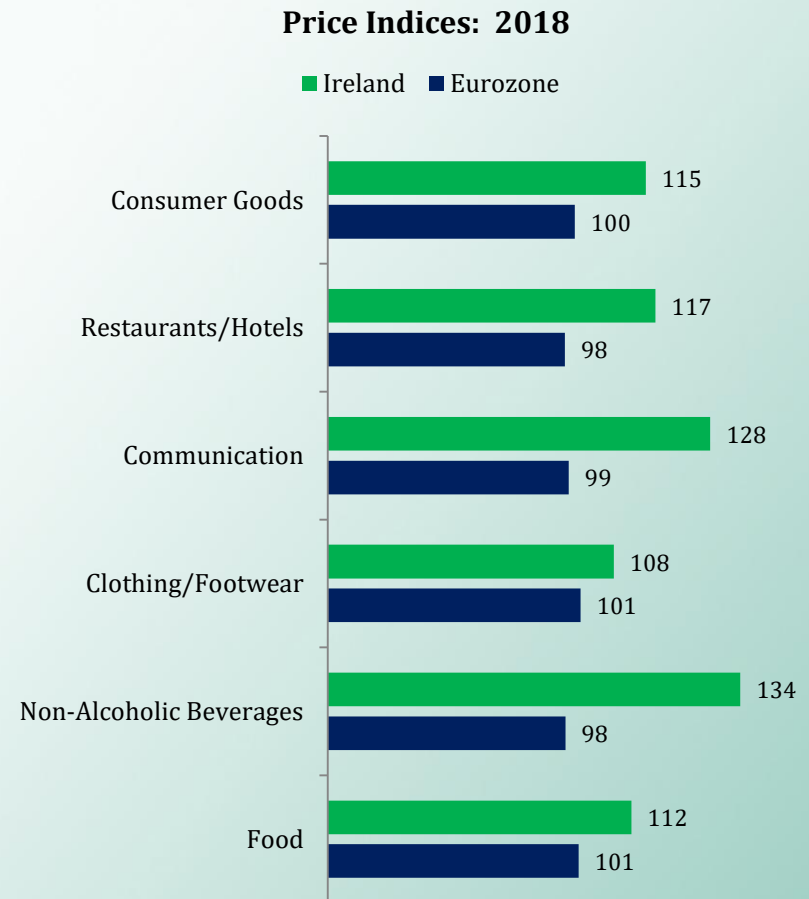
- The LW rose from €11.45 in 2014 to €12.30 last year, while the NMW rose from €8.65 to €9.80. This closed the gap between the NMW and LW from 75.5% to 79.7%.
- If rents rose in line with general inflation, the gap would have closed to 86% to 88%.
- It is not just rents. Dublin public transport costs are high relative to other EU capital cities. Reducing public transport costs to our EU peer group average would reduce the Dublin LW expenditure by nearly €700..

Cost of Monthly Public Transport Pass (€)



# Double Benefit from Reduced Costs

- Ireland is a high-cost economy (higher than high-cost Nordic countries – Sweden and Finland). Tackling costs would put downward pressure on the LW.
- There are secondary benefits. Reduced rents and public transport costs would boost spending in the productive economy which could help drive wages and provide greater space for NMW increases.
- This first prong is about socialising costs or privileging public consumption over private consumption.



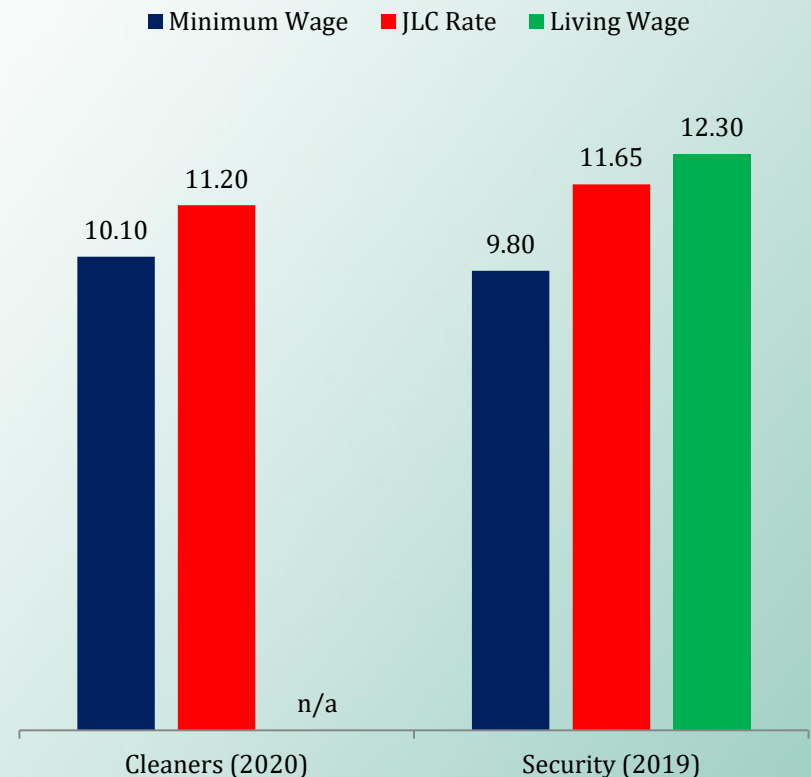
## 2. Putting Workers at Heart of the Living Wage

- Collective bargaining – whereby workers bargain together with their employer – represents a major step forward in the democratisation of the workplace by giving workers influence in the drafting and implementation of their contract.
- It also has particular benefits for the low-paid as it raises wage floors. The decline of trade union density and collective bargaining coverage is widely acknowledged (by the IMF, OECD, ILO, etc.) to be a contributor to the long-term increase in inequality in market economies.
- In this respect, Ireland is a laggard. In the private sector there is only 15 percent trade union density and collective bargaining coverage. This falls even further when looking at low-paid sectors.

# JLCs and Sectoral Bargaining

- Historically, Ireland operated Joint Labour Committees (JLCs) in fragmented low-paid sectors with high turnover. After they were declared unconstitutional by the High Court JLCs were reconstituted but in weaker form (e.g. Sunday premium is no longer under the bargaining remit of JLCs).
- Currently, there are only two JLCs operating due to an employer boycott in areas such as retail and hospitality. However, even in limited form, JLCs for cleaners and security have wage floors above the NMW.

Joint Labour Committee Rates, Minimum Wage and Living Wage: 2019 and 2020 (€ per hour)



# Collective Bargaining and Low Pay

- There is a strong relationship between collective bargaining coverage (the % of workers covered under a collective agreement concluded by employers and employees) and low pay, measured as earnings below 2/3 of median pay.
- In the largest low-paid sectors – retail and hospitality – 31% and 44% suffer from low pay respectively.

	<b>Collective Bargaining Coverage (%)</b>	<b>Low Pay Incidence (%)</b>
Austria	98	15.1
France	98	9.1
Belgium	96	4.1
Sweden	90	3.9
Finland	89	7.6
Denmark	82	8.5
Netherlands	78	14.5
Germany	56	17.8
<b>Ireland</b>	<b>32</b>	<b>23.0</b>

# Setting Their Own Agenda

- Ireland is an industrial relations outlier being the only country where employees' right to collective bargaining is not statutorily vindicated. Collective bargaining not only increases worker influence over wages. It can influence working hours, work/life balance, gender pay gap, training and career development, in-work benefits, etc.
- It allows workers to set their own agenda in the workplace. They may wish to prioritise non-pay conditions: working hours, rosters, work breaks, sick pay, pensions, maternity pay top-ups, etc. In a Mandate survey members preferred increased hours to wage increases.
- Collective bargaining is the best tool to prevent the unintended consequences of increases in the minimum wage, JLC rates and collectively bargained wages: bunching, labour sweating, hour reduction, etc.
- In short, workers need to be at the heart of the drive for an annual LW (and not just an hourly rate).



### 3. The Role of Minimum Wage

- Comparing average wages and low pay in three countries: Ireland, Denmark and Sweden.
- Average wages in the traditional low-paid sectors – distributive and hospitality – are significantly higher in the Nordic countries while the low pay incidence is much lower.
- And neither Sweden or Denmark has a statutory minimum wage.

Average Hourly Wage: 2018 (PPP)		
	Distributive	Hospitality
Denmark	26.7	20.3
Sweden	20.8	15.1
<b>Ireland</b>	<b>17.3</b>	<b>12.3</b>
% Low Paid: 2018		
<b>Ireland</b>	<b>31.4</b>	<b>44.1</b>
Denmark	21.7	20.5
Sweden	1.3	9.0

# The Reasons for a Better Outcome

- There is no single Nordic model. Sweden has relatively low wages and below-average personal taxation – but drive prosperity through a high social wage (employers' social insurance) which funds universal services and generous social protection supports.
- Denmark has no social wage but has the highest wage level in the EU which facilitates high levels of personal taxation to fund universal services and generous social protection supports.
- What is common to both is strong collective bargaining, high employment rates and an egalitarian political and social culture.
- Ireland does not have the benefit of high wages, a high social wage or high taxation to fund public services and social supports at a high level. Nor does it have the benefit of a strong collective bargaining regime. To that extent it must fall back on the minimum wage and low taxation to support the living standards of low-income workers. It is a bad deal.

# A Three-Prong Strategy

- There are three parts to a strategy for realising the Living Wage.
- First, the legal right to collective bargaining which could involve two levels: firm-level and sectoral, multi-employer bargaining. The latter is important to lay down 'floors' on wages and working conditions which effectively remove these from competitive, downward pressures. Collective bargaining allows workers to set their own workplace agendas.



# Socialising Costs and a Wage Floor

- The second prong is to socialise costs – notably in housing, transportation, health and other areas where goods and services are removed from the market logic of accumulation and serve both need and the productive economy.
- The minimum wage still plays a role and constitutes the third prong. However, collective bargaining raises the wage floor for a large number of low-paid workers while socialisation reduces costs. As this process gains momentum, increases in the minimum wage will be less likely to produce perverse consequences. Essentially, we want to aim for a situation where large increases in the minimum wage are not needed to realise the Living Wage.
- And in the process, democratisation of the workplace and socialisation of costs will produce real gains for the productive economy and, so, all workers.



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