Opening statement by Dr Laura Bambrick, Irish Congress of Trade Unions to the Joint Oireachtas Committee on Enterprise, Trade and Employment

12th October 2022

Chair, Deputies, Senators

On behalf of the Irish Congress of Trade Unions I would like to thank the Committee for the invitation to input in to your considerations on the cost of living, minimum wage and the Low Pay Commission recommendation for 2023. I am accompanied by my colleague, Liam Berney.

The minimum wage is the lowest rate of pay an employer can legally pay their workers. It is currently set at €10.50 for each hour worked. Much is made of the fact that Ireland has one of the highest minimum wage rates in the European Union. But this is misleading.

Ireland was already the second most expensive country in the EU27 before the ongoing inflation surge. In 2020, when inflation was below 0%, the price of a sample basket of 2,000 everyday consumer goods and services was more than a third higher than the EU average. In other words, when the purchasing power of minimum wage workers is taken into account it drops from second to seventh position in the rankings and behind our wealthy EU peers.

Likewise, much is made of the near doubling of the rate from when it was first introduced in 2000 at €5.58 (£4.40) an hour. Again, this is misleading.

Increases to the minimum wage have not kept pace with wage growth in the wider economy. When it was introduced, the minimum wage was equivalent to two-thirds of the median hourly wage for all employees in the workforce – the official low pay threshold set by the OECD. By 2019, per-pandemic, it had dropped below 45% of median earnings and we had the third lowest minimum wage as a percentage of our median wage in the EU after Estonia and Malta (European Commission). The current minimum hourly rate of pay is 52% of the median hourly rate and remains below both the 60% poverty line and 66% low pay threshold. Put simply, despite fourteen increases to the rate since its introduction in 2000 the adequacy of the minimum wage has significantly deteriorated over time.

The minimum wage will soon undergo radical reform. In anticipation of new EU law to ensure adequate wages for workers, Government is at an advanced stage of planning to move to a new method for calculating the rate. The 'fixed threshold approach' calculates the minimum wage as a percentage of a benchmark figure. Government is proposing that the rate will be benchmarked to 60% of the median hourly wage, to be phased in over four years - by 2026.

Other member states are taking more immediate action. On the 01st of October, Germany increased their minimum rate of pay to €12 an hour, which is equivalent to 60% of their median wage and a 25% increase in their minimum wage from the start of year (€9.60). It will benefit over six million workers, mostly women, and 18% of the German workforce.

In contrast, the Low Pay Commission recommended an 80 cent increase to €11.30 an hour for 2023. As told to this Committee by the Chair of the Commission, and widely repeated in Government messaging, this "represents a 7.6% increase and is *the largest increase recommended by the Commission to date*." (28 September 2022). While this is true, it is also true that prior to the establishment of the Low Pay Commission in 2015, to make recommendations on the appropriate rate of the minimum wage, larger increases were made to the rate - 10.2% in 2004, 9.3% in 2005 and 8.5% in 2007.

The Low Pay Commission's recommendations for both 2022 and 2023 have also fallen short of inflation. Incomes would have to rise 15.5% over the two years to maintain pace with inflation. An 80 cent increase in the hourly rate is inadequate to protect the living standards of workers on the lowest wage, which is why the two ICTU nominated members on the Commission opposed the recommendation.

Trade unions do not underestimate the scale of the challenges facing some businesses. An estimated 165,000 workers or 7% of the workforce are earning the minimum wage or less and over half (54%) are working in just two sectors – hospitality and retail.

However, at the firm level, ESRI research (2021) funded by the Low Pay Commission shows that just 3% of all businesses have more than half of their employees on a minimum wage. But where there is proven financial difficulty, there is provision under the legislation to exempt an employer from the obligation to pay the minimum wage rate. Ultimately, we draw the Committees' attention to the European Commission's comprehensive impact assessment of its directive, which finds that the negative impacts of an adequate minimum wage on SMEs are expected to be limited.

> "Firstly, they are likely to be able to pass on increased labour costs to consumers by increasing prices. Secondly, increased minimum wages may also increase demand for their services. Potential negative impacts of increased labour costs for SMEs would be partly counterbalanced by more gradual and predictable minimum-wage increases, which would improve the business environment."

Before Cabinet took a decision on the Commission's recommendation for 2023, our general secretary Patricia King reminded them that the legislation allows for Government to implement a different rate than that recommended and urged them go beyond the recommended 80 cent. They did not. But the Finance Bill provides them with another opportunity to do right by our lowest paid workers providing many of our essential services.

I would like to thank you for your attention and we are happy to take any questions.

ENDS