

ISME is grateful for this opportunity to make a submission to the Low Pay Commission regarding the National Minimum Wage 2024 and the “progression to a living wage calculated at 60% of median wage.” Regrettably, we must observe that the consultation element of the Commission’s activities are seen by businesses to have become “pro forma” in nature, rather than genuinely consultative.

While we are aware that the adequacy definition of 50% of mean or 60% of median is being driven by EU Directive and not locally, it is necessary for the Commission to understand that use of the median does not correct for the very wide wage distribution seen in Ireland. While we acknowledge the mathematical fact that the median is a superior metric to use where a data series lacks a symmetric distribution, the notion that it corrects the high mean incomes seen in Ireland is bogus, since it ignores the fact that all businesses; micro, small, medium and large; must compete in the same labour pool but with markedly different level of resources.

As of Q1 2023, average weekly wages in Ireland¹ were as follows:

	Q1 '18	Q1 '19	Q1 '20	Q1 '21	Q1 '22	Q4 '22	Q1 '23
All Sectors	744.76	771.60	800.31	860.19	885.33	902.56	923.48
Private Sector	685.99	717.20	745.97	803.15	841.40	834.39	869.98
Public Sector	952.89	960.26	989.96	1,038.24	1,024.76	1,129.98	1,103.31
<50 employees	573.53	599.77	623.59	658.96	695.46	708.21	720.33
50-250 employees	689.17	724.89	756.33	815.53	826.41	833.83	855.70
>250 employees	888.77	909.53	941.14	999.50	1,008.43	1,044.15	1,067.26

Note in the table above that the average wage for a small firm (€720.33pw) equates to €18.47 per hour. 60% of this hourly rate is €11.08.

Unusually for a country that is close to full employment, and which enjoys historically low employment, the table above means that the Public Sector in Ireland continues to enjoy an earnings premium over all other sectors (by size) including workers in large firms, producing a nominal weekly premium as follows:

Public Sector Premium to:	Q1 '18	Q1 '19	Q1 '20	Q1 '21	Q1 '22	Q4 '22	Q1 '23
Average Wage	208.13	188.66	189.65	178.05	139.43	227.42	179.83
<50 Employee Firms	379.36	360.49	366.37	379.28	329.3	421.77	382.98
50-250 Employee Firms	263.72	235.37	233.63	222.71	198.35	296.15	247.61
>250 Employee Firms	64.12	50.73	48.82	38.74	16.33	85.83	36.05

In percentage terms, the premium earned by public sector workers to those in the other enterprise sizes is shown below. The importance of this is twofold: (a) at this point in the economic cycle, a normal economy would not expect to see public sector workers enjoy such a pay premium over all other demographics; and (b), with the public sector employing about 300,000 workers, and the large firms employing over 560,000 workers,² it is nonsensical to suggest that both the mean and median income levels are not significantly skewed in Ireland by these two sectors of high earnings.

¹ <https://www.cso.ie/en/releasesandpublications/ep/p-elcq/earningsandlabourcostsq42022finalq12023preliminaryestimates/>

² CSO Business Demography 2020

Public Sector Premium to:	Q1 '18	Q1 '19	Q1 '20	Q1 '21	Q1 '22	Q4 '22	Q1 '23
Average Wage	28%	24%	24%	21%	16%	25%	19%
<50 Employee Firms	66%	60%	59%	58%	47%	60%	53%
50-250 Employee Firms	38%	32%	31%	27%	24%	36%	29%
>250 Employee Firms	7%	6%	5%	4%	2%	8%	3%

While the CSO has produced a number of studies³ purporting to justify the gap between public and private sector pay in Ireland, none of these are international meta studies such as that conducted by Campos et al,⁴ and of the many studies of the public/private wage gap, the CSO consistently generates the lowest gap. With the public sector and large enterprise sector employing approximately one third of the Irish workforce, this wage dispersion and the premium attached to public service working are material considerations.

Table 6: Estimates of Ireland's public/private pay premium

Boyle, McElligot and O'Leary (2004)	13%
Murphy, Ernst and Young (2007)	10%
Kelly, McGuinness and O'Connell (2009)	26%
Foley & O'Callaghan (2009)	10%-21%
European Central Bank (2011)	19%
Central Statistics Office (2012)	6%-19%
Kelly, McGuinness and O'Connell (2012)	17%
European Commission (2013)	21%
Central Statistics Office (2017)	5%

Source: Davy

ISME has raised for a number of years the threat to employment of too rapid an adjustment in the NMW. This observation has been derided in some quarters by those who suggest that increases in the NMW have not led to elevated levels of unemployment to date. That is to miss the complementary point we have raised, which is that in an expanding economy, employers are chasing workers, and wages are rising anyway. Legislating for NMW increases achieves nothing the market is not already achieving. This issue has been empirically established in the Seattle Minimum Wage Study.⁵

Wage Change Among:	2019	2020	2021	2022	2023	Average
All Sectors	4%	4%	7%	3%	4%	4.4%
Private Sector	5%	4%	8%	5%	3%	4.9%
Public Sector	1%	3%	5%	-1%	8%	3.0%
<50 employees	5%	4%	6%	6%	4%	4.7%
50-250 employees	5%	4%	8%	1%	4%	4.4%
>250 employees	2%	3%	6%	1%	6%	3.7%
NMW	3%	3%	1%	3%	8%	3.4%

³ <https://www.cso.ie/en/statistics/earnings/publicprivatesectorpaydifferential/>

⁴ <https://link.springer.com/content/pdf/10.1186%2Fs40173-017-0086-0.pdf>

⁵ <https://evans.uw.edu/new-evidence-from-the-seattle-minimum-wage-study/>

Consider the data above on the comparison between industry wages and the NMW from 2019 to Q1 2023. The average industrial wage has increased by an average 4.4% per annum. The average private sector wage has increased by an average of 4.9% per annum. And small firm wages have increased by an average 4.7% per annum, while the NMW has increased by 3.4% per annum. The market is driving higher wages because of demand for labour, *not because* the NMW is being increased.

However, the effects of wage increases are not uniform across the wage bands, nor are they uniform across business sectors. This is not an opinion of ISME member companies, indeed it has been acknowledged in an ESRI study in 2022.⁶ This report researched the 10% increase in the NMW over the three years 2016 to 2018, and showed that workers in accommodation, food and manufacturing sectors suffered a reduction in worked hours of between 2.5 and 3 hours per week.

We do not consider it fanciful to suggest that a 12.4% increase in the NMW in one year will have a far greater impact on worked hours. We also note from a study published this year⁷ *“When and Where do Minimum Wage Hikes Increase Hours? Evidence from Ireland”* the recognition of inherent risks in forcing the NMW rapidly upwards, particularly in certain sectors and regions. The relevant section is worth quoting in full:

Both results - hours increases for workers in concentrated markets, with a declining (and perhaps nonmonotonic) hours response to successive minimum wage hikes - are consistent with classical monopsony theory. The first result shows the potential for minimum wage hikes to increase wages for low-wage workers without employment losses. This is in line with a large, though contested, literature showing positive employment effects of minimum wages. The second result provides suggestive evidence on nonmonotonicity is the relationship between minimum wage level and hours, a less studied topic. Monopsony theory predicts that even in concentrated labour markets, minimum wage hikes will reduce employment after exceeding a certain threshold. Our results suggest that Ireland's NMW may have reached this threshold by 2019, but the small and statistically insignificant effects are hardly conclusive. The onset of the pandemic and accompanying restrictions in 2020 makes analysis of the subsequent NMW hikes difficult.

It is worth reiterating that, pandemic aside, the above study took place at a time when GDP, GNI* employment and consumption were increasing, and unemployment was decreasing.

We believe that the proposed rate of the NMW may exceed the value of work that will be performed for it. It is worth looking at trainee rates of pay among Ireland's audit firms to see that graduate trainee rates are in the €24,000 to €29,000 range.⁸⁹ When this occurs, employers will simply cease to employ those workers, or will employ them for such minimal time as makes economic sense. Legislation can trump neither mathematics nor economics in this regard.

Irish workers continue to enjoy one of the highest and fastest growing NMWs in the EU.¹⁰ The figure below from Eurostat shows the progression in EU NMWs since July 2013.

⁶ <https://www.esri.ie/news/new-esri-research-examining-the-impact-of-recent-minimum-wage-increases-finds-that-while-some>

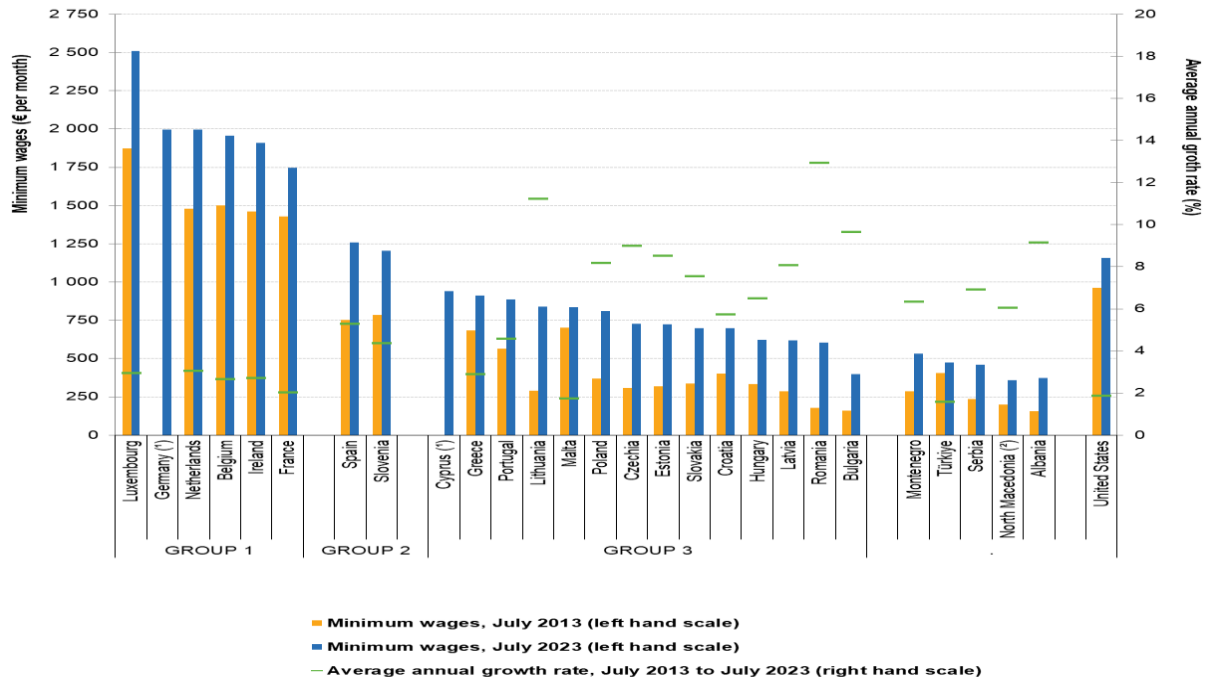
⁷ <https://assets.gov.ie/257171/bbf8dd49-1603-48f1-9f2c-55d974be13a2.pdf>

⁸ https://www.glassdoor.ie/Salary/KPMG-Trainee-Dublin-Salaries-EJI_IE2867.0.4_KO5.12_IL13.19_IM1052.htm

⁹ <https://businessplus.ie/business-insights/big-four-account-salaries/>

¹⁰ [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Minimum wages, July 2023 and July 2013 \(levels, in %€ per month and average annual growth, in %25\) .png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Minimum_wages,_July_2023_and_July_2013_(levels,_in_%E2%82%AC_per_month_and_average_annual_growth,_in_%25)_png)

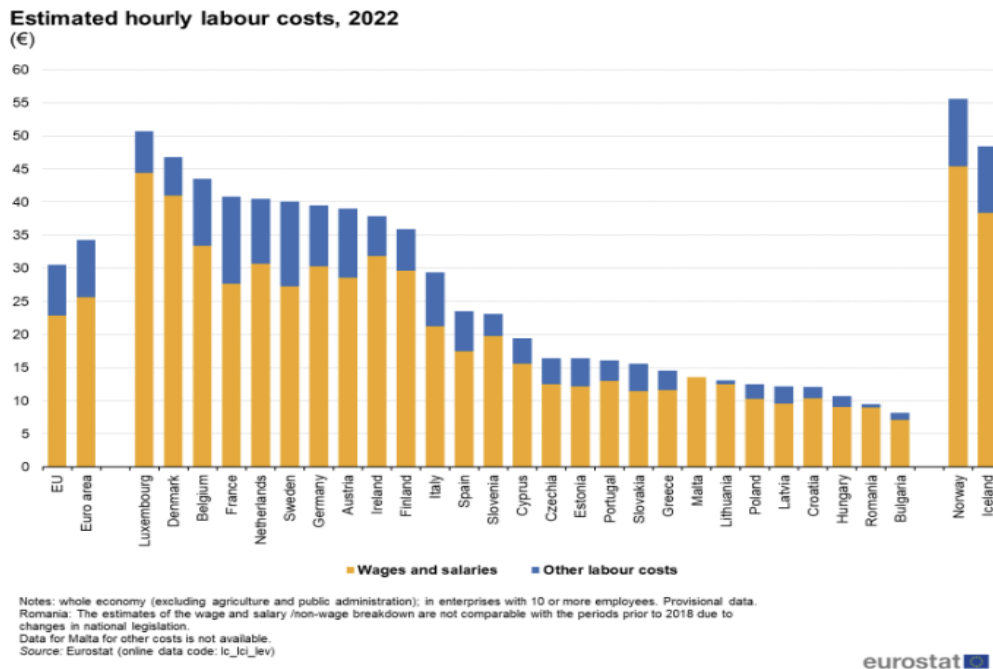
Minimum wages, July 2023 and July 2013
(levels, in € per month and average annual growth, in %)



Note: Denmark, Italy, Austria, Finland and Sweden have no national minimum wage.
 (*) July 2013 data and average annual rate of change not available.
 (*) Minimum wage in force on 1 July 2021
 Source: Eurostat (online data code: *earn_mw_cur*)

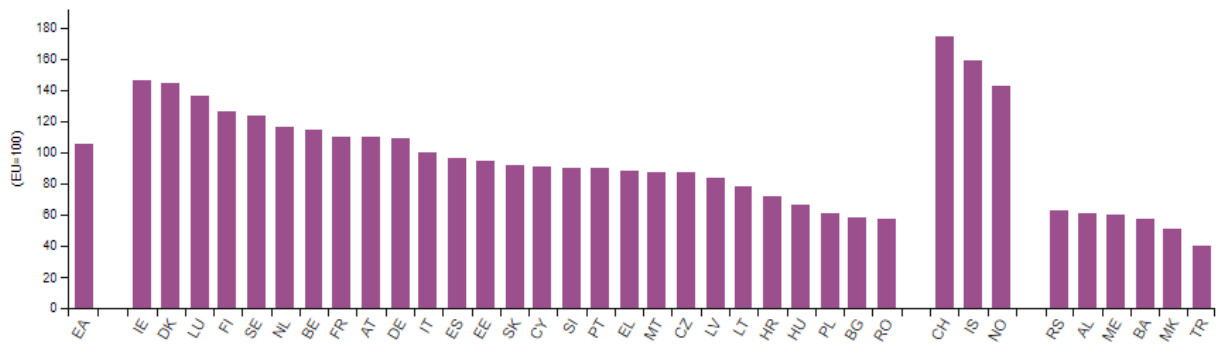
Irish workers also enjoy the fourth-highest pre-tax wages and salaries in the EU.¹¹ This is rarely if ever acknowledged in consideration of our NMW.

¹¹ [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Estimated hourly labour costs, 2022 \(EUR\).png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Estimated_hourly_labour_costs_2022_(EUR).png)



Of course, we acknowledge that Irish workers also suffer the highest cost of living in the EU.¹² However, it should be noted that the countries with the second, fourth and fifth highest costs of living have no minimum wage. The NMW is demonstrably not used as a cost-of-living abatement measure in Europe.

Price level index for final household expenditure (HFCE), 2022



Source: Eurostat (online data code: prc_pp_ind)

While not mentioned in the consultation document, ISME sees social partner commentary on the sub-minimum rates of NMW for underage workers. It has been suggested that these are “manifestly unfair and discriminatory.” This is nonsensical, and fails to acknowledge the fact that underage workers bring little or no experience to the table in what may be their first employment. They require training and supervision, reducing their productivity. Were the sub-minimum rates to be removed, this would discourage the employment of younger workers by employers. The “discrimination” argument is

¹² https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Comparative_price_levels_of_consumer_goods_and_services

manifestly false and insulting to employers. Most EU countries which have a minimum wage have an age-related element to it, as does the UK. In any case, if sub-minimum rates for the NMW are discriminatory, it logically follows that apprentice rates of pay, and service-related increments in the public service are also discriminatory. Sub-minimum rates of pay must be maintained for the NMW.

In summary, the effects of a 12.4% increase in the NMW cannot be generalised across the economy.

- In many sectors, it will make no difference, they are already paying far beyond the NMW.
- In other sectors and geographic regions, the increased NMW will be paid only through increased worker productivity, decreased hours worked, or both. In these situations, the annual earnings effect of the 12.4% increase will be less than 12.4%, or there will be no increase at all.
- As the current NMW is above the €20,000 threshold where auto-enrolment will take place, a 12.4% increase in the NMW will cost businesses 13.9% in additional wage costs from January.
- Both the ESRI and the Department of Enterprise have seen data suggesting that material increases to the NMW will be detrimental to hours worked. If a policy of increasing the NMW risks detrimental outcomes for both workers and employers, why proceed with it?

Increasing the NMW, especially by the double-digit percentage suggested by the Low Pay Commission, will do nothing to address cost-of-living issues for lower paid workers. Firstly, Government must intervene in the most contentious areas such as cost of accommodation, to ensure supply is immediately and materially increased. This simply requires reversal of earlier misguided policy decisions on rental income. Secondly, the “social wage” must do more as we have sought in our “Jobs Kill Zone” paper.¹³ This means taking measures that ISME has repeatedly lobbied for in our pre-budget submissions,¹⁴ such as significantly increasing the income thresholds for full medical cards, increasing children’s allowance, providing affordable childcare, and increasing the income thresholds for access to social and affordable housing. Bidding up the NMW is not the solution to the cost-of-living crisis, which is why this policy solution is not pursued in other EU member states.

¹³ <https://isme.ie/lobbying/policy-submissions/isme-calls-for-policy-changes-to-eliminate-the-jobs-kill-zone-for-low-income-workers/>

¹⁴ <https://isme.ie/wp-content/uploads/2023/06/ISME-Pre-Budget-Submission-2024-FV.pdf>