

BARGAINING FOR PROSPERITY

Submission to the Department of Enterprise, Trade and Employment's consultation on the EU Directive on minimum wages

February 2021



SIPTU welcomes the opportunity to make this submission to the Department of Enterprise, Trade and Employment's consultation on the EU Directive on Minimum Wages. Our submission should be seen as complementary to the submission made by the Irish Congress of Trade Unions which SIPTU fully supports.

The Directive states:

'Ensuring that workers in the Union earn adequate wages is essential to guarantee adequate working and living conditions, as well as to build fair and resilient economies and societies . . . adequate wages are an essential component of the EU model of a social market economy. Convergence across Member States in this area contributes to the promise of shared prosperity in the Union.'

We note, and fully support, the Directive's statement that adequate wages are not only an essential component of the EU model of a social market economy; they are essential to guaranteeing adequate working conditions and a fair and resilient economy. This Directive is pro-active; it refers to 'ensuring' and guaranteeing.

This represents a significant challenge to Ireland as our economy is particularly impacted by low-pay, meaning that employees experience inadequate working and living conditions, earning below a minimum adequate income.

1. Ireland's Low Pay Challenge

Ireland has a significantly high proportion of low-paid employees in the economy.¹

Low Pay as a Proportion of all Employees: 2018 (%)	
Sweden	3.6
Finland	5.0
France	8.6
Denmark	8.7
EU Peer Group*	12.8
Belgium	13.7
Austria	14.8
Netherlands	18.2
Ireland	19.8
Germany	20.7
*Mean average	

One-in-five workers earned below the low-pay threshold in 2018 and is ranked the lowest in our EU peer group (bar Germany). Further, it is important to note that in 2018, the low-pay threshold and the Living Wage (as calculated by the Living Wage Technical Group²) intersected:

- Low-pay threshold (hourly): €11.86
- Living Wage (hourly): €11.90

The two calculations are based on different criteria. The low-pay threshold is a relative measurement (two-thirds of median gross wage) while the Living Wage is an absolute measurement based on the cost of essential goods and services. However, insofar as the two intersect we can reasonably assume that those earning below the low-pay threshold are earning inadequate incomes.

¹ Eurostat: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_ses_pub1s&lang=en

² Living Wage Technical Group calculation for 2018: Microsoft Word – Living Wage 2018 4 page document

(a) Sectoral and Social Constituencies

Not all sectors are impacted equally³.

Low Pay by most Heavily Impacted Sectors: 2018 (%)	
Hospitality	53.6
Administrative & Support Services	34.1
Other Services	30.3
Wholesale & Retail	29.3
Arts & Entertainment	29.3
Total	19.8
Water & Waste	19.8
Transport	19
Health	14.5
Manufacturing	13.4

Over half of all employees in the hospitality sector suffer low-pay and inadequate income, with above average levels in administrative, other services, distributive and arts sector. Water and transport are at the national level but even in the health and manufacturing sector low pay and inadequate income is in double figures.

Women are impacted more than men with 23% - or nearly on-in-four - suffering low pay and inadequate income. Approximately a third of temporary (fixed-term) contract employees and employees under 30 years suffer low pay and inadequate income.

Low Pay by Selected Social Constituencies: 2018 (%)	
Total	19.8
Women	22.6
Temporary Workers	30.7
Under 30s	33.9

2. Low Pay and Collective Bargaining

The Directive rightly sees a strong connection between low pay and collective bargaining coverage:

'Member States with a high collective bargaining coverage tend to have a low share of low-wage workers . . . '

Ireland's high level of low pay can, therefore, be understood by its low levels of collective bargaining.

Those countries with higher levels of collective bargaining coverage report, on average, lower levels of low pay. The two countries with lowest levels of collective bargaining cover in our EU peer group report the highest levels of low pay. In our peer group Ireland ranks bottom, well behind other countries. Ireland's collective bargaining coverage is also one of the lowest in the EU, ranking 15th out of 23 countries reporting.

Relationship Between Collective Bargaining Coverage and Low Pay		
	% of Employees covered by Collective Agreement: 2017 ⁴ (or latest year reporting)	% Low Pay
France	99	8.6
Austria	98	14.8
Belgium	96	13.7
Sweden	90	3.6
Finland	89	5.0
Denmark	82	8.7
Netherlands	77	18.2
Germany	56	20.7
Ireland	33	19.8

In pursuit of the main objective of ‘ensuring that workers in the Union earn adequate wages . . .’ the Directive sets certain requirements on Member-States. Here we focus on Article 4:

‘Member States are required to take action to promote the capacity of social partners to engage in collective bargaining on wage setting, and to encourage constructive, meaningful and informed negotiations on wages.

‘Moreover, it requires that Member States where collective bargaining coverage . . . does not reach at least 70% of the workers, provide for a framework for collective bargaining and establish an action plan to promote collective bargaining.’⁵

SIPTU strongly urges the Government to support the EU Directive in order to address the very high levels of low pay and to address the numerous economic and social deficits arising out of Ireland’s low collective bargaining coverage. Collective bargaining is an essential and indispensable element of workplace democracy; that is, the processes whereby employees play a greater role in the decision-making process at both the economy-wide and firm levels.

Below we will show that workplace democracy and collective bargaining is a superior economic and social model, that it provides greater economic, social and stakeholder benefits; that it is a better business model than the current regime. Collective bargaining is a key process that drives up productivity and innovation while reducing low pay, earnings inequality, precariousness and the gender pay gap. It further provides positive spill-overs for public finance while assisting fiscal management.

In this regard, the EU Directive is a critical step in promoting a high-road economy.

3. Collective Bargaining, Productivity and Innovation

Collective bargaining leads to better enterprise performance. This leads to improved economic performance. Providing employees with the right to collective bargaining and pursuing strategies to extend collective agreements allows Irish business to travel a high-road; denying employees bargaining rights actively undermines enterprise performance. It is clear from the literature and workplace experience that collective bargaining boosts enterprise performance:

- ‘Co-ordination of collective bargaining has a positive impact on economic performance because it impedes wage competition and enforces companies to increase productivity.’⁶
- ‘Our findings call in to question the dominant belief that employment protection legislation and regulation of the labour market is harmful to the economy and suggest that a lack of labour market protections, regulations and institutions may have a negative impact on productive performance.’⁷
- ‘High-Involvement Management has a positive impact on labour productivity. However, this effect is restricted to unionised workplaces . . .’⁸
- ‘. . . results (in the cement industry) suggest that unionised establishments are 6–8% more productive than their non-union counterpart.’⁹
- ‘The Irish Government’s National Centre for Partnership and Performance found that firms with higher levels of employee participation and trade union presence were 20% more productive than firms without such engagement.’¹⁰
- ‘. . . establishments covered by collective bargaining agreements . . . are more likely to be engaged in productivity enhancing activities . . . than their counterparts in uncovered firms . . . The presence of

⁵Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union

⁶Collective Bargaining and Labour Productivity in Germany, Italy, the Netherlands, Poland, Spain and the UK: A Comparative Analysis to Unravel the “Productivity Puzzle”

⁷‘Bad’ Jobs and Productivity: The Flexibility Paradox, NERI 2018

⁸High Involvement Management Practices, Trade Union Representation and Workplace Performance in Britain – SJPE

⁹Unionization and Productivity: Micro-Econometric Evidence, Kim Clarke, NBER Working Paper Series, Working Paper 330

¹⁰Achieving High Performance: Partnership Works — The International Evidence, National Centre for Partnership and Performance, 2003

works councils (combined with collective bargaining) exerts a positive impact on productivity'.¹¹

- 'Case studies of labour management partnerships documented the ways unions contributed to workplace innovations in organisations such as New United Motor Manufacturing Inc., (NUMMI), Xerox, Jones and Laughlin Steel Corporation, AT&T, Saturn, Kaiser Permanente, Southwest Airlines, and others.'¹²
- 'Across the world countries with strong participation rights - such as board representation and collective bargaining - perform better on a wide range of key productivity enhancing measures. . . . While correlation does not prove causation, the evidence that countries with high levels of employee voice also often have high productivity is significant'.¹³
- ' . . . union protections lay the groundwork for more extensive forms of genuine participation with a greater potential for improved work methods and increased productivity.'¹⁴
- 'Increases in union density (bargaining) lead to substantial increases in firm productivity and wages.'¹⁵

It is clear that when workers are allowed to bargain collectively there is an increase in productivity and innovation at the enterprise level. This has positive implications for economic output and performance. Opposition to an enhanced collective bargaining regime as envisaged in the Directive is undermining optimal outcomes for firms, the economy and society.



3. Low Pay and Inequality

Low pay and wage inequality undermines economic growth. Low pay degrades people’s workplace and life experience¹⁶ while wage inequality damages social cohesion. Both phenomena have negative spill-overs for public finances and macro-economic management. Collective bargaining reduces low-pay and narrows the wage gap.

- Low pay is endemic in the Irish economy. Nearly one-in-five employees (over 300,000) are officially categorised as low-paid. This rises to 24% for women and 33% for young people (below the age of 30). It would be a mistake to believe that low-pay primarily impacts the traditional low-paid sectors such as hospitality and distribution (54% and 30%) respectively. In manufacturing and transport, low-pay persists (13% and 19% respectively).
- Ireland has the highest wage inequality than any other country its peer group (other high-income EU countries). While the earnings ratio between high and low paid is 2.8 in our peer group, the Irish ratio is nearly 4 - or a wage inequality ratio of nearly 40% higher than our peer group.

Earnings Ratio of 9th Decile to 1st Decile: 2018	
Sweden	2.1
Denmark	2.4
Finland	2.4
France	2.7
EU Peer Group*	2.8
Belgium	3.1
Austria	3.1
Netherlands	3.3
Germany	3.4
Ireland	3.9
*Mean average	

¹¹ Works Councils and Collective Bargaining in Germany: The Impact on Productivity and Wages
¹² The Human Capital Dimensions of Sustainable Investment: What Investment Analysts Need to Know. Thomas Kochan, Eileen Appelbaum, Jody Hoffer-Gittell, and Carrie Leana; Working paper prepared for the Sustainable Investment Research Initiative Sustainability & Finance Symposium June 7, 2013.
¹³ Building Productivity in the UK, ACAS; Building productivity in the UK (acas.org.uk)
¹⁴ Unions and Contemporary Innovations in Work Organization, Compensation, and Employee Participation Adrienne E. Eaton, Rutgers University; Paula B. Voos, University of Wisconsin
¹⁵ Contemporary Innovations in Work Organization, Compensation, and Employee Participation
¹⁶ Union Density, Productivity and Wages - IZA
¹⁷ Precarious work precarious lives: how policy can create more security, Dr. Sinead Pembroke, TASC

- One of the main benefits of collective bargaining is to raise wages for the lowest paid and, so, reduce the wage inequality gap. The OECD found '... greater dispersion in systems with no collective bargaining or where firms set wages independently. By contrast, wage dispersion is on average smallest among workers who are covered by sectoral bargaining.'¹⁷ It was found that 'The distribution of earnings under registered individual contracts was more unequal than under collective agreements. Average and median earnings under registered individual contracts were lower than under collective agreements.'¹⁸
- While much attention is focused on statutory wage floors, the impact of collective bargaining can best be seen in the examples of countries with strong collective bargaining rights and coverage alongside but without a statutory wage floor. Denmark and Sweden have substantially higher hourly earnings in traditional low-paid sectors. This is due to strong sectoral and firm collective bargaining.

Average Hourly Earnings in Low Paid Sectors: 2018 (PPP)			
	Denmark	Sweden	Ireland
Distributive Trades	17.83	16.23	13.51
Hospitality	15.63	12.48	9.95

- Another feature of the Irish economy - in addition to low pay and wage inequality - is the extent of precariousness. This includes both precarious work contracts and the precarious livelihoods of wage earners. NERI¹⁹ estimated that nearly 23% of all employees were at-risk of a precarious work contract. This increased to 31% when the deprivation rate of permanent employees was

included. O'Sullivan, et al²⁰ found that '... , 'research indicates that collective bargaining provides a critical way of limiting precarious work and the state can support collective bargaining through union recognition laws and the extension of collective agreements to unorganised sectors of the economy.'

Collective bargaining is an effective tool in reducing low pay, wage inequality, and precarious work contracts and living standards.

4. Gender Pay Gap

- The gender pay gap in the business economy (a proxy for the private sector) is 22%, the 4th highest in the EU. While there are a number of causes (and different measurements), it is clear that the lack of collective bargaining rights is a significant contributor.
- The OECD has highlighted a number of measures Governments should take to close gender pay gap: **'Women in temporary and part-time jobs face substantial gender wage gaps. Collective bargaining has the potential to close gender wage gaps . . . governments should aim to increase the collective bargaining coverage rate among women in non-standard jobs; facilitate the identification of bargaining counterparts and the compliance with collective agreements; and promote equality bargaining.'**²¹
- As the European Trade Union Confederation points out, based on OECD and Eurostat data, the gender pay gap is lowest in countries where overall equality is higher in countries where collective bargaining coverage is high and in companies that are bound to a collective agreement.²²
- European Commission estimates suggest that a 1% increase in social dialogue/collective bargaining coverage reduces the gender pay by 0.16%.²³

¹⁷ OECD, Negotiating Upwards, The role of collective bargaining systems for labour market performance

¹⁸ Individual contracting, collective bargaining and wages in Australia, David Preetz & Alison Preston, Industrial Relations Journal 2009

¹⁹ Precarious work in the Republic of Ireland, Ciarán Nugent, Sinéad Pembroke & Michael Taft, July 2019

²⁰ The role of the state in shaping zero hours work in an atypical liberal market economy; Michelle O'Sullivan, Thomas Turner, Jonathan Lavelle; Economic and Industrial Democracy, November 2017

²¹ OECD Can collective bargaining help close the gender wage gap for women in non-standard jobs?, July 2020

²² European Trade Union Confederation, Bargaining for Equality: How collective bargaining contributes to eliminating pay discrimination between women and men performing the same job or job of equal value, 2014

²³ > European Commission, Industrial Relations in Europe 2009. Brussels, European Commission



Vindicating people's ability to bargain collectively allows employees to use their own abilities and experience to address inequities in the workplace. One of the most significant inequities is in gender pay. Collective bargaining provides a key tool to ensure that people are not discriminated on the basis of gender.

5. Fiscal and Economic Management

Collective bargaining has positive spill-overs for public finances and the management of the economy.

- To the extent that collective bargaining drives increased earnings for low and average incomes it reduces the risk of household debt. It emphasises wage-led consumption (which is sustainable) as opposed to credit-led consumption (or debt-led consumption, which is unsustainable).
- Workers covered under a collective agreement benefit from what is called a 'union premium'. This union premium is based on higher firm productivity (see above) and is estimated to be approximately 10%.²⁴ This creates a virtual circle as wage-led consumption leads to higher private investment as firms anticipate future growth and more certainty of a return on that investment. This investment, in turn, drives productivity and wages.

- Collective bargaining raises low and average wages while putting downward pressure on very high incomes (the OECD noted a 'strong co-relation' between collective bargaining and a reduced national share of income for the top 1%²⁵). This has fiscal management benefits, especially during the downward phase of the economic cycle, as low-to-average income groups spend a higher proportion of their wage unlike those at the top who tend to save their marginal income increases. This acts as an automatic stabiliser in the economic cycle.



- Increased wages arising out of increased productivity (which collective bargaining drives) or redirection of a portion of excessive profits, increased tax and social insurance revenue. Given the need to increase government revenue in our post-pandemic recovery, wage growth through collective bargaining provides a sustainable channel without increasing rates.

²⁴ The Union Wage Effect and Ability Bias: Evidence from Ireland; Frank Walsh: <https://researchrepository.ucd.ie/handle/10197/8024>

²⁵ OECD, Who are the Top 1% Earners in Europe: https://read.oecd-ilibrary.org/economics/who-are-the-top-1-earners-in-europe_sjrp1g39gkzw-en#page1

6. The Necessity for a Directive

A Recommendation issued by the European Commission is not legally binding on member states. It offers an opinion and allows the Commission to make known their views in a particular area. It does not impose any legal obligation on a member state to do anything. Should a member state choose not to give effect to a Recommendation there is no legal consequence for that member state. Any protections or improvements offered in the Recommendation cannot be accessed by the citizens of a member state that has not legislated to give it effect.

A Directive of the European Commission sets out a goal to be achieved by member states. Member states have some latitude in how the goal is to be achieved but each state must legislate to transpose the Directive into national law. A Directive will also contain a time by which the goal within the Directive must be met by the member states. Should an issue arise on the transposition of a Directive into national law, this issue may ultimately be heard in the Court of Justice of the European Union. Once a Directive has been transposed by a member state it becomes law in that state and citizens can rely on it.

The proposed Directive on “adequate minimum wages in the European Union” sets out a framework for collective bargaining in circumstances where collective bargaining is below 70% in a member state. The Directive acknowledges that member states which have higher levels of collective bargaining have lower levels of low paid workers. The directive does not seek to raise the statutory minimum wage in any member state. It does however seek to ensure that workers have a structure in which they can bargain for their wages.

Many of Ireland's existing employment rights stem from or incorporate aspects of European Union Directives. The European Union has been a significant driver of individual and collective employment rights in Ireland.

Should the European Commission give in to the pressure by a number of member states (including Ireland) to issue a Recommendation instead of a Directive then the Recommendation can, like any other Recommendation, be completely ignored by a member state.

Finally, the Directive is in keeping with commitments made in the Programme for Government:

‘The ambition of this Government is to provide each citizen with . . . a living wage . . . We will Progress to a living wage over the lifetime of the Government.’

It is also in keeping with comments made recently by the Taoiseach and the Tánaiste.

- **Taoiseach:** ‘I think there is a clear message emanating from Covid that it has exposed the duality of the Irish economy in terms of low-paid workers . . . the Government will be looking at the whole area of a living wage, that's something we've got to do, not just a minimum wage but a living wage, which would really deal to some degree with that issue.’²⁶
- **Tánaiste:** ‘The Government is considering how to transform the Low Pay Commission into a living wage commission to meet its Programme for Government commitment for a living wage over the Coalition's term in office. Leo Varadkar said such a commission would “carry out research and advise us on fair wages in an independent and evidence-based way moving towards a living wage over the period of this Government”.’²⁷

We welcome both the Programme for Government commitments and the comments by the Taoiseach and Tánaiste. The EU Directive is an important tool to achieve these commitments and objectives.

²⁶ Irish Independent, December 27th, 2020: Government considering living wage to tackle low pay - Independent.ie

²⁷ Irish Times, October 14th, 2020: Low Pay Commission may become living wage commission - Tánaiste (irishtimes.com)



Liberty Hall
Dublin 1

Tel: 1890 747 881

E-mail: info@siptu.ie

www.siptu.ie

