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Economic crisis and the restructuring of wage setting mechanisms for vulnerable workers in Ireland

Thomas Turner and Michelle O'Sullivan

The Memorandum of Understanding negotiated with the EU/IMF in 2010 committed the government to reform the Joint Labour Committee (JLC) system covering low pay workers. A significant rationale for the proposed reform was the claim that JLC regulations unduly added to the cost of labour. We examine the structure of earnings of workers covered by the JLC system. We do not find that overtime payments including Sunday premiums in sectors covered by JLCs represent a major cost to employers in general. We argue that the removal of a floor on conditions of employment provided by the JLCs may create a race to the bottom in low pay sectors of the economy.

Introduction and Background

The economic crisis severely affected the economic fortunes of countries globally but many have not responded with a significant reduction in their minimum wage. Ireland is somewhat unusual in having multiple minimum wage setting mechanisms: a statutory National Minimum Wage (NMW) and statutory minimum wage regulation for vulnerable workers through Joint Labour Committees (JLCs). JLCs are tripartite statutory bodies with employer and union representatives and an independent chair. They propose minimum wage rates and conditions for employees which are made legally binding where collective bargaining is poorly developed and pay relatively low such as in hotels, catering, security, contract cleaning and retail. They set basic pay rates, overtime pay rates and conditions such as sick pay for approximately 13 percent of all private sector employees. As part of a financial aid package Ireland received in 2010 from the European Union and the International Monetary Fund, the government committed to carry out an independent review of the JLC system ostensibly to increase flexibility and facilitate re-adjustment in the labour market. Employers argued that JLC overtime rates, and the Sunday premium rates in particular, were excessive and costing jobs.

Issues and Questions Considered

A basic premise of mainstream economics is that any mandatory system that sets a price floor such as standard wage rates, minimum wage rates and additional costs like overtime rates above the market clearing wage should cause unemployment. However the employment effects of a minimum

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wage are disputed both theoretically and empirically in labour economics. Despite mainstream economic theory, many employers are willing to pay wages above the market equilibrium rate. It may be in the interests of employers to offer wages and conditions above the equilibrium or competitive level to their employees because it increases their productivity and efficiency. However, this 'efficiency-wage theory' may be less evident in the low-wage sector in the absence of minimum wages as employers become 'trapped in a 'productive system' that competes on low cost rather than quality' (McLaughlin, 2009: 329). In this scenario, good employers will be driven out of the market creating a race to the bottom not just for workers but also for consumers in terms of the quality of goods and services delivered. Another societal benefit of minimum wage mechanisms is to reduce income inequality by compressing wage differentials at least in the lower part of the income range. A further likely effect is to increase the opportunity cost of not working and lessen the attraction of social welfare benefits.

Employers' criticism of JLCs follows mainstream economic theory. They argued that the pay and conditions JLCs set, particularly overtime and Sunday premiums, unduly added to the cost of labour and reduced employment. Yet there is little detailed empirical evidence about the extent of payments such as Sunday premiums, shift allowance and overtime payments to workers covered by JLCs. This paper addresses this lacuna by examining the structure of earnings of low paid workers and the extent to which low pay workers benefit from overtime earnings, shift allowances and bonuses. We also compare the rates of overtime, shift allowances and bonuses for workers likely covered by JLC rates with other higher earning workers in the private sector.

Methodology

The analysis in the paper is based on the National Employment Survey (NES) carried out by the Central Statistics Office (CSO) in February 2008 with the reference month for data being October 2007. The purpose of the NES is to provide information on the distribution of individual employee earnings and on the factors which influence earnings levels. The critical dependent measure is earnings per hour. In total 9,002 enterprises were sampled and 4,395 enterprises responded - a response rate of 49 per cent while 72,712 employees were sampled and 60,022 completed the questionnaire – a response rate of 83 per cent. Since the private sector accounts for 97 per cent of all low pay workers, the analysis in this paper is confined to private sector workers.

Findings

In the private sector 25 per cent of workers (323,912) are low paid and over half (168,092) of low pay workers fall within the range of JLC pay rates. Controlling for all measures, low pay workers covered by JLC rates are more likely to be young, non-national, non-union, part-time, have no more than primary level education, occupy manual and routine service jobs, have low levels of employment service, work in small firms and work in hotels/restaurants and whole/retail sectors. We find that on average, workers in the JLC pay range work fewer hours per week, fewer overtime hours and these overtime hours amount to a smaller proportion of their hours worked per week. Up to 86 percent of workers in the JLC range do not work any overtime hours with only 4 per cent working over five overtime hours per week. In addition, only 3 percent of workers covered by the JLC range receive a shift allowance or a bonus payment despite 31 percent reporting they work shifts.

It seems for many in the private sector working time now extends beyond standard daytime hours with few receiving any compensation for working shifts. The evidence does not support the argument that extra payments in the form of overtime payments that include Sunday premiums, shift allowances or bonuses to workers covered by JLCs represent a major cost to employers in general. It might be argued that few workers covered by JLCs actually benefit from Sunday premiums and overtime rates. Nevertheless in a competitive market the removal of a floor on conditions of employment provided by the JLCs may act to promote those firms with lower labour costs and disadvantage firms who offer wages and working conditions above the minimum creating a race to the bottom in low pay sectors of the economy.

Full Copy Available At:
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Economic Crisis and the Restructuring of Wage Setting Mechanisms for Vulnerable Workers in Ireland, The Economic and Social Review, http://www.esr.ie/article/view/69/60
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