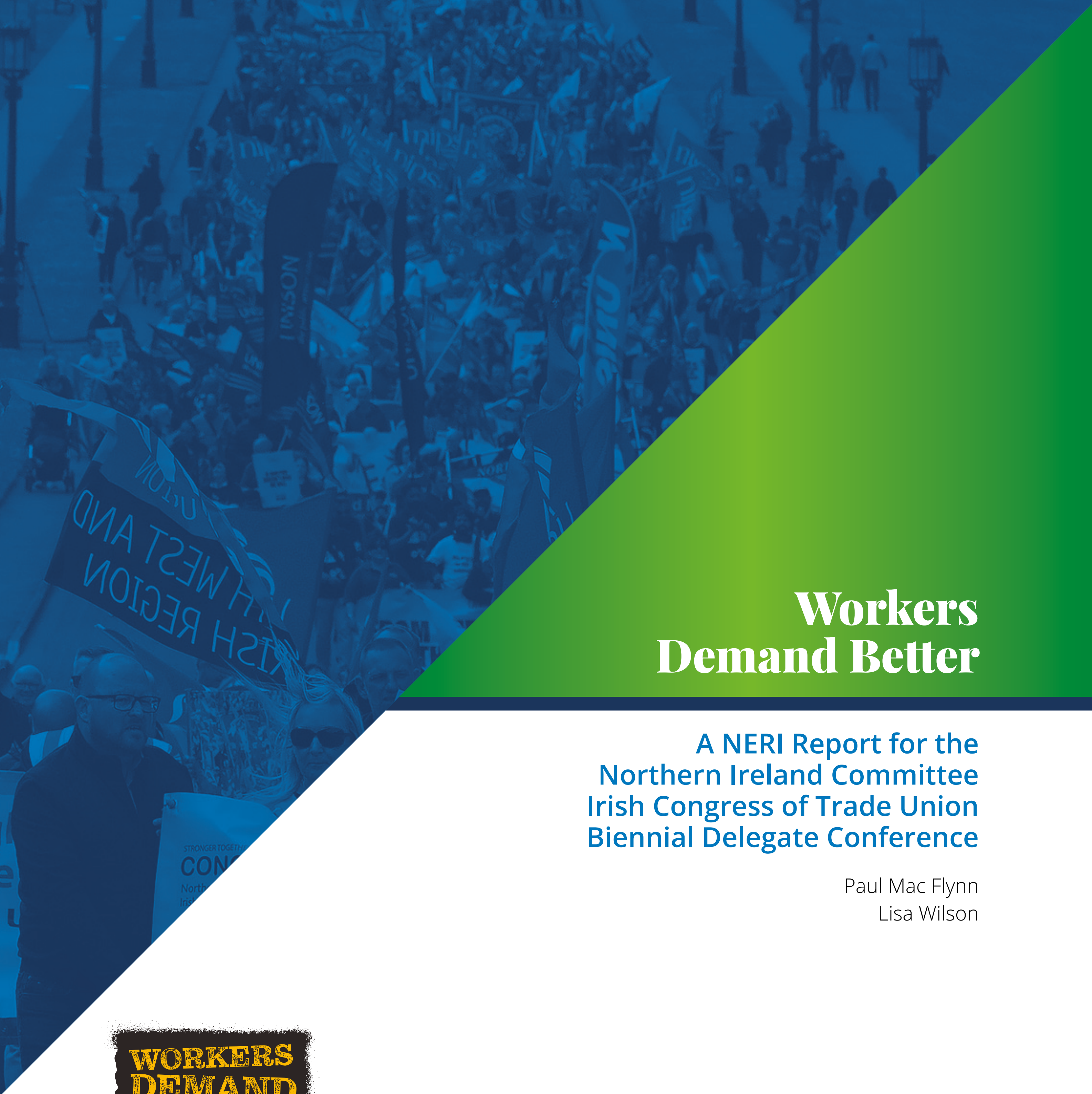

Workers Demand Better

A NERI Report for the Northern Ireland Committee Irish Congress of Trade Union Biennial Delegate Conference

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WORKERS DEMAND Better!

STRONGER TOGETHER
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Irish Congress of Trade Unions
Northern Ireland Committee

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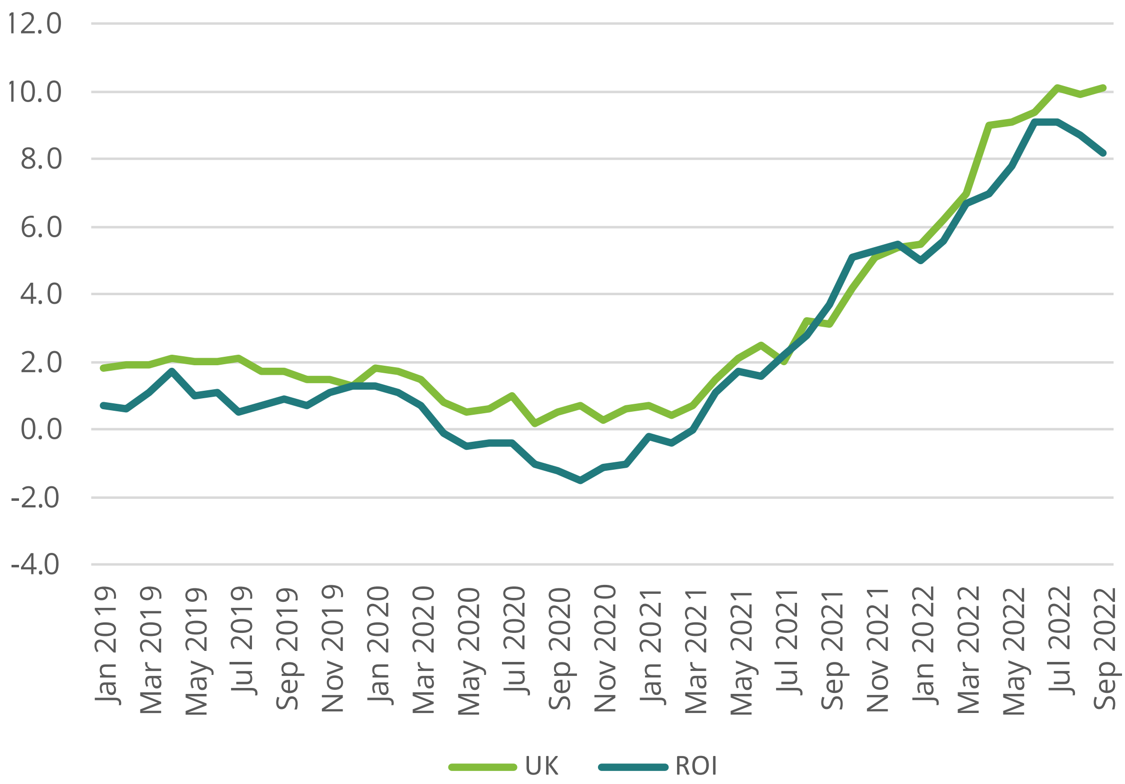
Introduction

This year is proving to be one of the most economically disruptive years in recent memory. The disruption is noteworthy because it follows on from 2 years dominated by a global pandemic. Next year is unlikely to provide much respite from the economic turmoil. The cost of living crisis poses a grave threat to our economy and society, and this report seeks to explain why immediate action is required.

The crisis

Chart 1 shows how the rate of inflation has increased in both the Republic of Ireland and the United Kingdom since the beginning of 2019. During the pandemic, the demand for many goods and services fell as lockdown restriction were put in place. This fall in demand leads to a fall in prices and this can be seen in the lower rates of inflation in the UK and ROI at the time. Inflation rates then started to increase from the latter half of 2021 and had begun to ease in early 2022. This period of inflation covers the reopening of the economy where we experienced some supply problems with goods. These supply problems lead to spikes in prices which would have eventually fallen back.

Chart 1 CPI Inflation UK and Ireland Jan 2019- Sep 2022



There was then resurgence in the rate of inflation following March 2022 that continued upwards through to June. This can be directly attributed to a surge in energy prices following the invasion of Ukraine. In the late summer and early autumn there has been a divergence between the experience of the UK and ROI. In Ireland it does appear that the rate of inflation begins to ease while it continues to climb in the UK. The chart below helps to explain why that might be the case.

Chart 2 CPI Inflation UK and Ireland Sep 2022 by Commodity

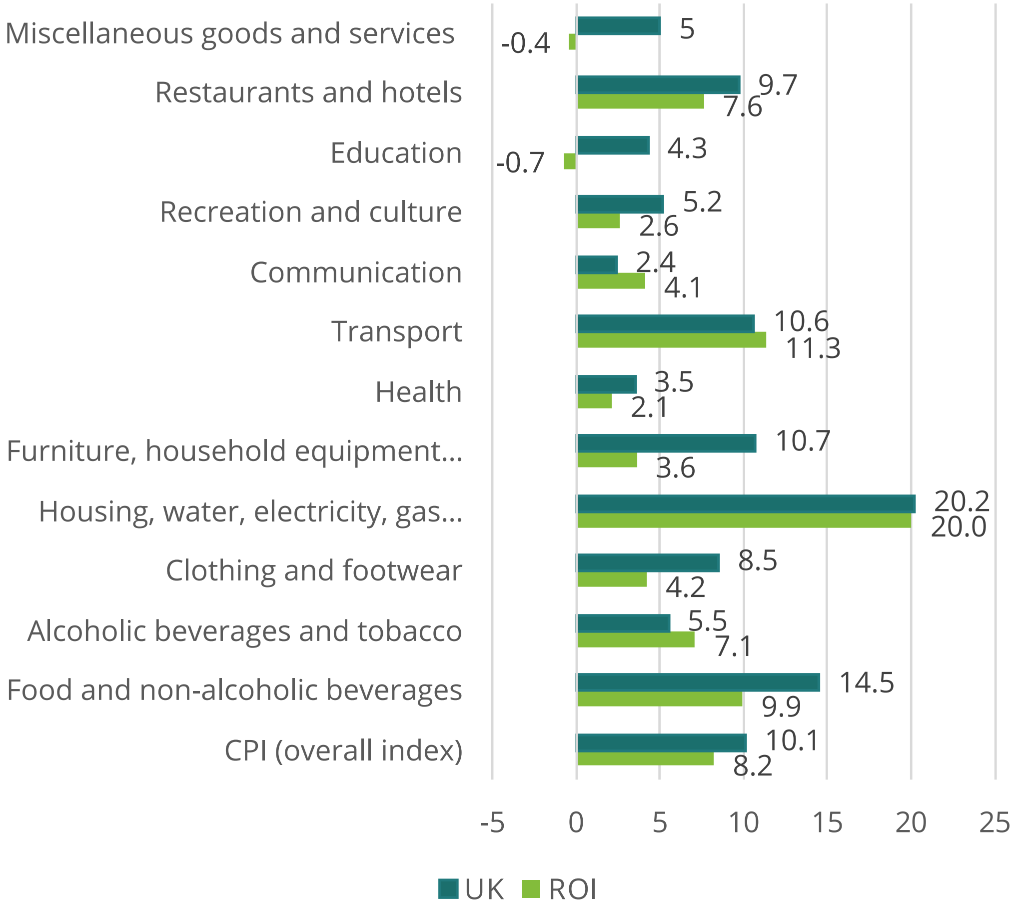
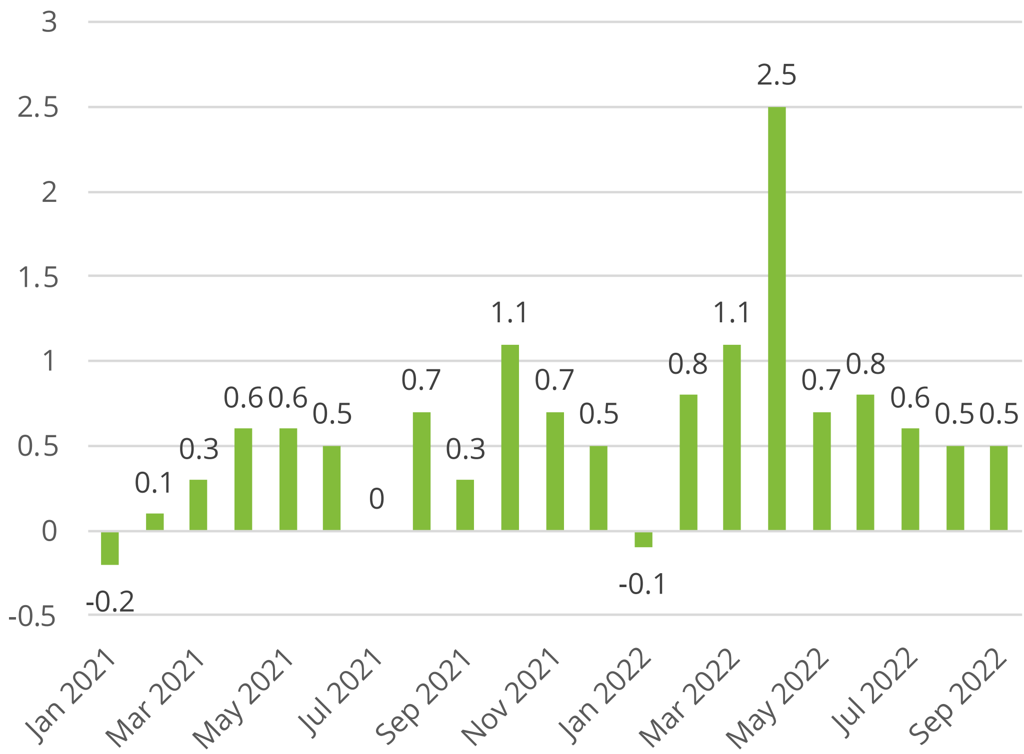


Chart 2 chows how inflation has changed for types of goods and services in the economy. Immediately we can see that energy has by far the largest increase in any commodity in both the UK and ROI. The fact that the increase is almost exactly the same shows that the crisis in energy prices is an international dynamic and not due to issues within individual countries. However, what Chart 2 also shows is that the rate of inflation for Food and Beverages has been much higher in the UK than it has been in ROI. Many of the price increases in food have resulted from frictions in trade that followed the UK's exit from the European Union. The incidence of food inflation is being driven by domestic factors and cannot be blamed in the Ukraine crisis or other international factors.

Chart 3 CPI Monthly Inflation UK Jan 21- Sep 22



Inflation is usually reported on an annual basis. That is, we look at what prices are this month compared with the same month last year. We can also look at monthly inflation figures which measure the change in prices this month compared with last month. These figures are usually better for measuring inflation when it is at very high levels and in situations where the cause of higher prices can be attributed to events rather than economy wide factors. As chart 3 shows, the biggest single jump in inflation occurred in April 2022 just after the invasion of Ukraine. We can see that the monthly rates for the rest of the year have been more like those seen in 2021. However, we need to remember that monthly inflation changes pile up upon each other and result in a much higher overall price level. The price level is just as important as inflation when we are looking at the impact on earnings and incomes.

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Chart 4 CPI Monthly Inflation and Price Level UK Jan 21- Sep 22

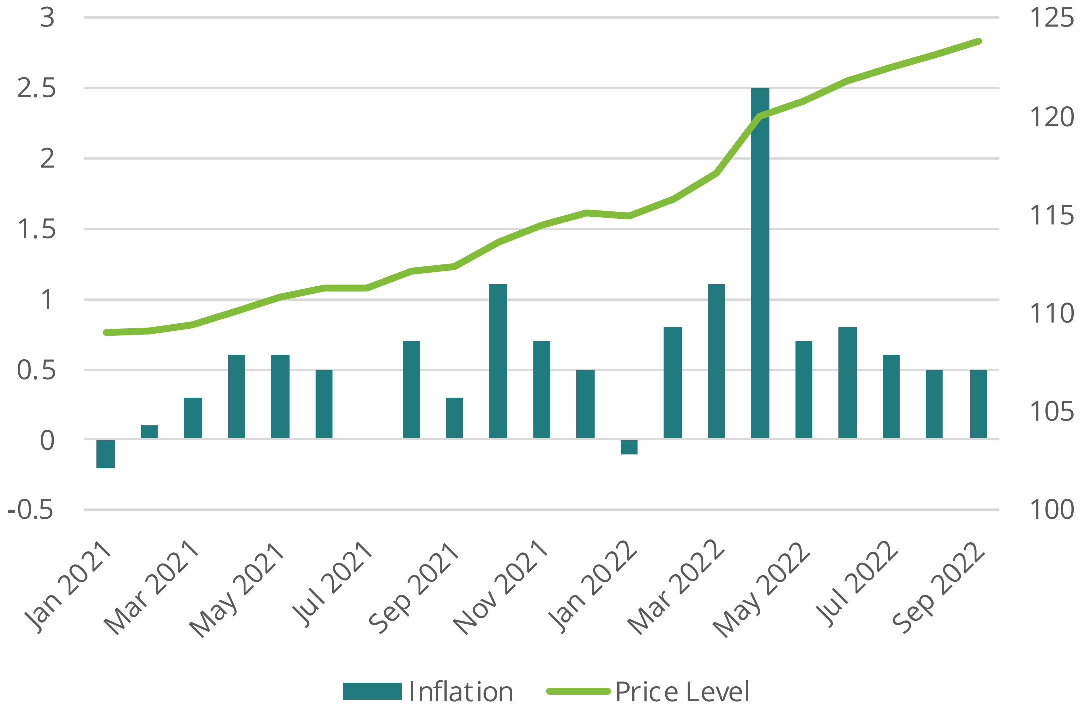

Chart 4 shows monthly inflation alongside the price level. What we can see if that the monthly rate of inflation can change quite a lot and can even sometimes be negative, implying that prices actually fell that month. However, what the line in the chart shows is that so long as there is any positive inflation, the overall price level keeps on rising. Unless prices fall back consistently, there will always be this gap between incomes and the overall price level. As we can see from chart 4, prices rarely fall in any significant way and therefore this gap has to be met with a combination of government supports and wage growth.

Wages

Earnings are they key determinant of living standards for the vast majority of people. When we go to look at wages, we tend to look at what has happened for the average worker. This is not as easy as it sounds as there is more than one way of measuring an average. The median wage is the most common average measure to use when discussing wages. To find the median worker, we place all workers in a row from the lowest to the highest paid, the person in the middle of that line becomes the median. Its not a perfect way of measuring an average but it gives us the best idea of what is happening to the wages of most people.

In 2022 the weekly earnings for the median full-time employee increased by 2.9% from £575 in 2021 to £592 in 2022. This doesn't mean that everyone received a 2.9% pay rise, some workers will have not received any increase at all and pay for some may actually have fallen. This is just the experience of the average worker. However, as we saw in the previous section, prices are rising, and they are rising fast. So even if you did receive an increase in your pay packet this year, it's quite likely that that pay packet isn't going as far as you would expect. Its more than likely that even with an increase, your pay packet is buying you less than what it did last year. That's why we talk about pay increases in two ways, 'nominal' and 'real'. Nominal means, in cash terms, it simply means the actual pounds and pence difference you received. But we also present changes in pay in 'real' terms. Real means that we adjust your pay packet for the changes in prices. If pay increases by 2%, but prices also rise by 2%, what have you actually gained? While most people know what their nominal pay is, real pay is what actually matters for your standard of living.

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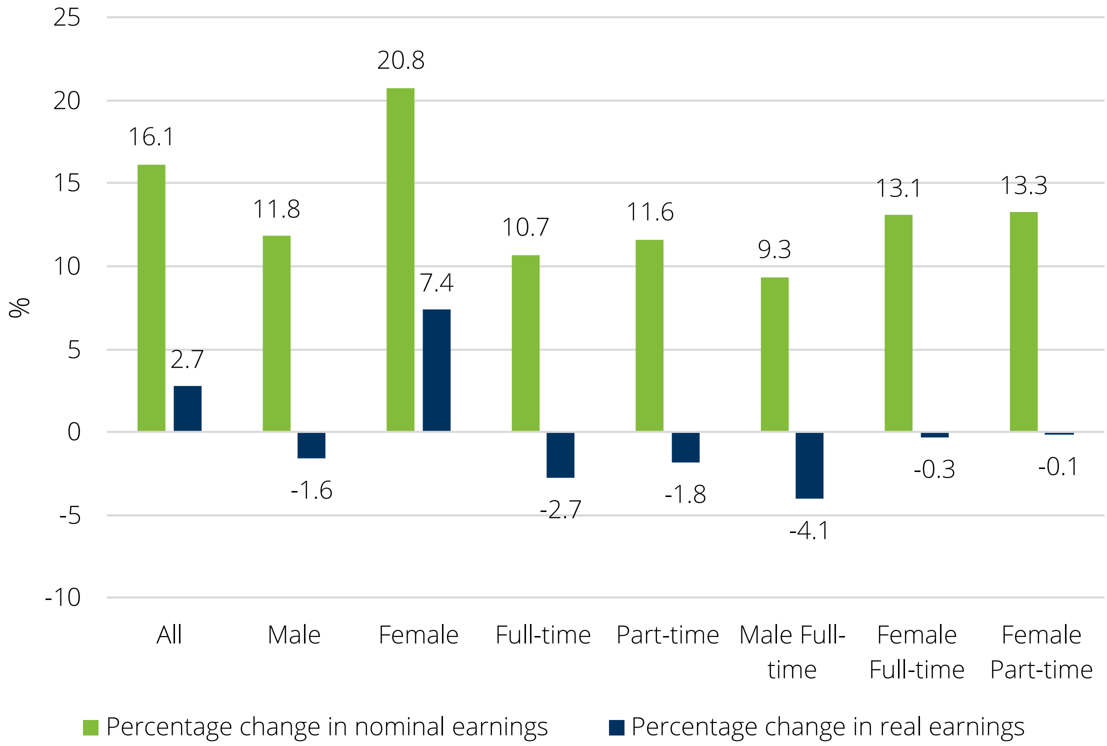
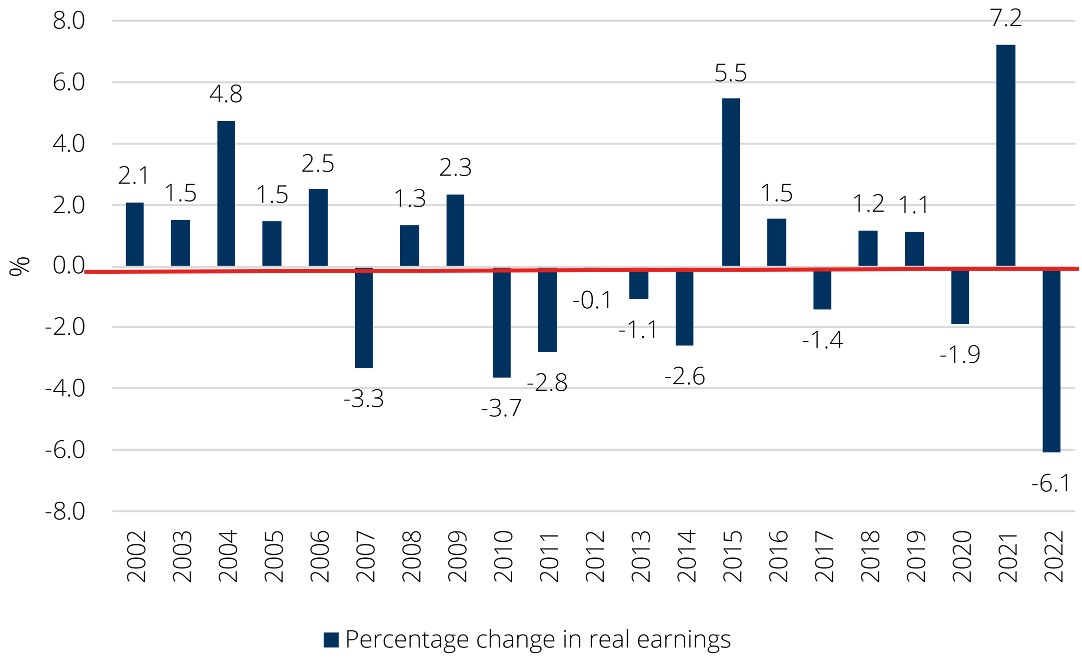
So we know that median pay increased by 2.9% in 2012, but when adjusted for inflation using Consumer Price Index, median weekly earnings for full-time employees actually fell by 3.1%. In real terms, a decrease in pay over the year was experienced by both full-time and part-time employees and are among the largest falls we have seen since comparable records began in 1997. The increasing difference between nominal and real growth rates is because of rising consumer price inflation. Figures for 2022 are still affected by the pandemic as many people were still on furlough the year before. If someone was on furlough last year they were receiving only 80% of their usual pay. If you compare that pay packet with what they earned this year, it's very likely that there will be a big increase.

Chart 5 Percentage change in nominal and real gross weekly earnings Northern Ireland, 2019-2022



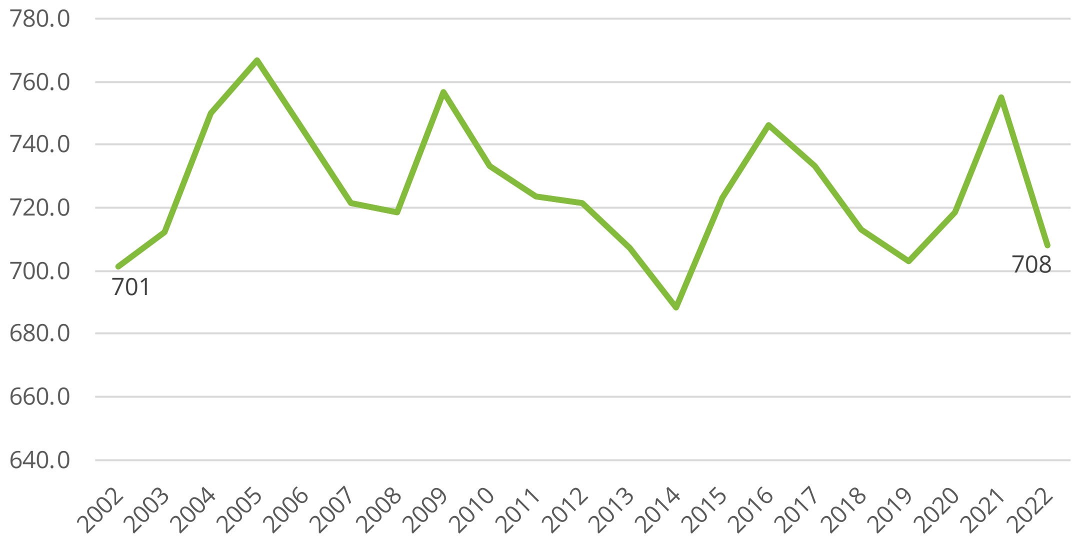
When we look at changes in earnings over the period 2019 to 2022, in an attempt to sift out the pandemic effects on earnings, we can see that nominal earnings of all employees have increased by just over 16%. This translates to a 2.7% increase in real terms, reflecting the high levels of inflation that we have experienced over the latter half of the 2021 period and into 2022. It is also notable that over the pre- and post-pandemic period it is the earnings of those in full-time employment who have experienced the weakest growth in full-time earnings. When we take a longer view we can see that real pay has fallen in 9 out of the last 20 years.

Chart 6 Percentage change in real earnings, 2002-2022



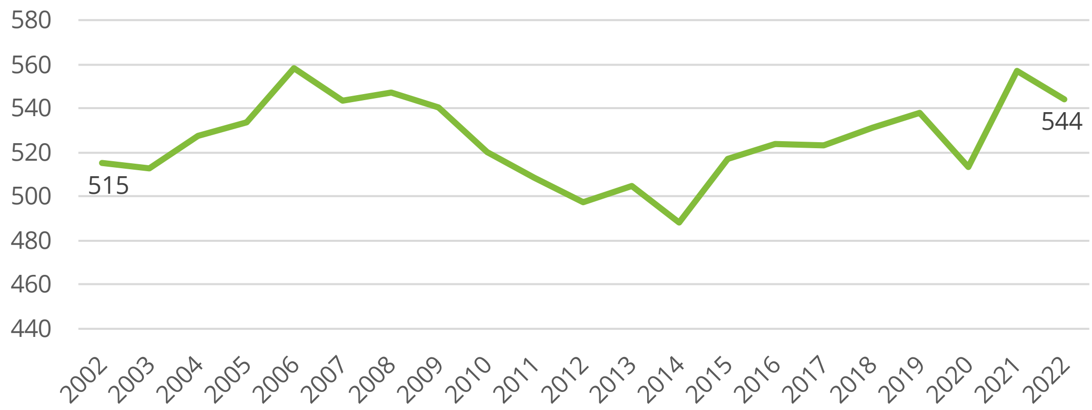
When we look at where workers are employed, we can see that in the public sector, wages are now back to almost exactly the same level they were 20 years ago. Over 20 years, the actual buying power of the average weekly public sector wages has increased by £7.

Chart 7 Median Weekly Earning Public Sector NI 2002-22



When we look to the private sector, the situation isn't much better. Over the last 20 years, pay in the private sector has increased by just under £30 in real terms. This may seem better compared to the public sector, but private sector workers In Northern Ireland are amongst the lowest paid workers of any region of the UK.

Chart 8 Median Weekly Earning Private Sector NI 2002-22



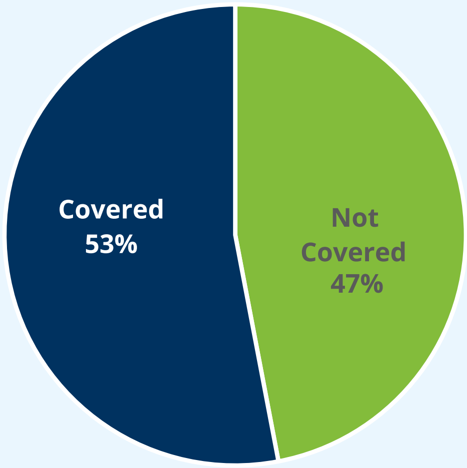
The last 20 years has seen very weak wage growth and as Northern Ireland faces the spectre of very high inflation, the case for pay rises becomes even more necessary.

Wage growth – the case for Collective bargaining

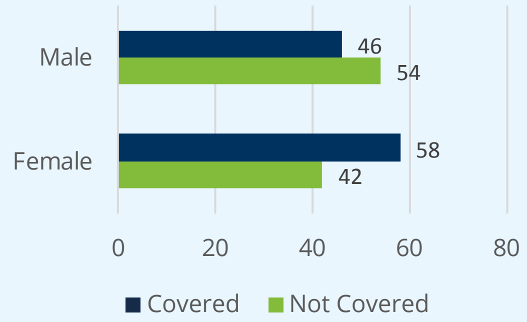
Over the last number of years, wages have barely kept pace with inflation as we demonstrated in the previous section. There are many reasons for the lack of robust wage growth, but chief among these is the lack of a mechanism for workers to affect changes in their pay through organizing. The decline of collective bargaining over many years has undoubtedly played a part in the performance of wages and it is worth emphasising why this is the case.

Collective bargaining delivers superior pay and terms and conditions for employees compared to individual wage negotiations. At the most basic level, workers negotiating as a collective are able to mimic or replicate the unity that employers have when they negotiate with their workforce. The charts below who the extent of collective bargaining across demographics and sectors and industries within the Northern Ireland economy.

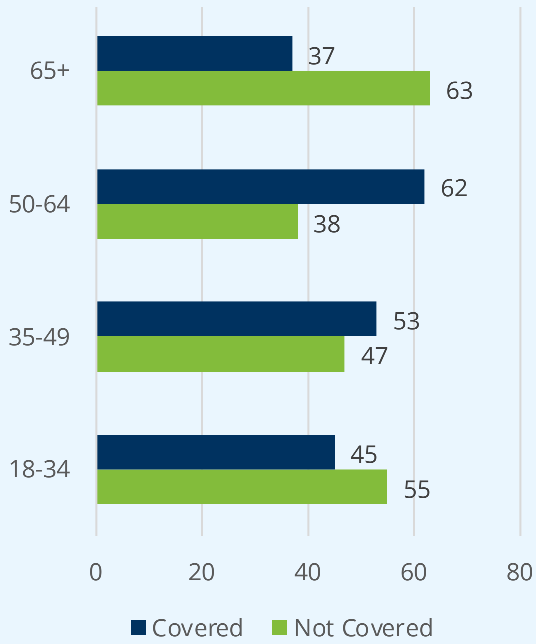
Collective Bargaining Coverage Northern Ireland



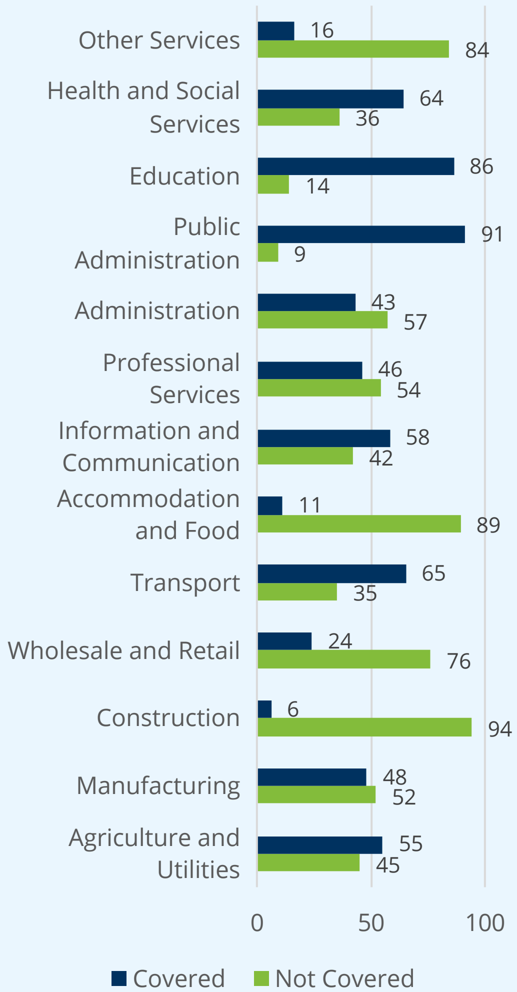
Collective Bargaining Coverage by Gender



Collective Bargaining Coverage by Age

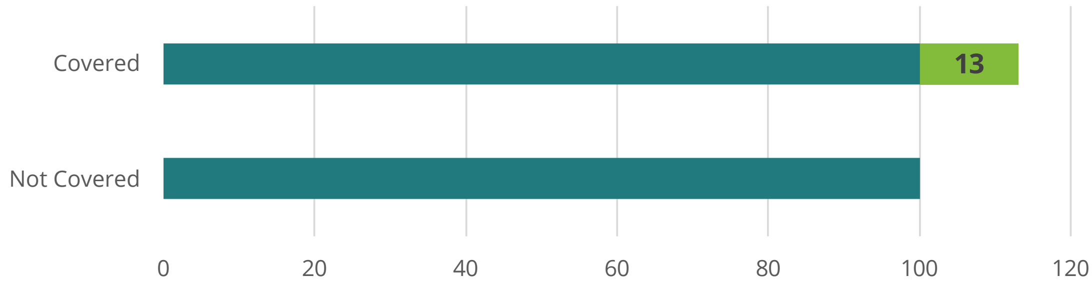


Collective Bargaining Coverage by Industry



What these charts show is that collective bargaining coverage is uneven across the economy. In particular, young workers are less likely to be covered by collective agreements. This may be due, in part, to the sectors in which young workers are employed. In particular, the low level of bargaining coverage in the Accommodation and Food sector is a particular concern.

What must be emphasised is that collective bargaining delivers for the workers that it covers, irrespective of their age, gender, qualifications or where they work. NERI research has shown that when all of these factors are accounted for, workers who are covered by collective pay agreements earn, on average, 13% more than workers who are not covered. This work shows that collective bargaining can deliver, but that in order to realise these gains, coverage has to be significantly increased.



The European Union has recently introduced a directive mandating member states, including Ireland, to enact policies to lift rates of collective bargaining coverage to 80%. This shows that, far from being a radical step, increasing collective bargaining in Northern Ireland would be bringing us into line with our trading partners and competitors.

The Social Wage

Our living standards are not just determined by the income that we have, but by the resources that we have. Government supports our standard of living in two ways, social transfers and public services. Social transfers are payments such as pensions and social welfare. Protecting social transfers from the impacts of inflation is a basic function of government and it is necessary to avoid massive increases in poverty. The record of government in protecting social transfers has not been good. Working age benefits were frozen from 2016 for 4 years. This means that, like nominal wages, the spending power of benefits has been outpaced by inflation for those 4 years. There is also much more that can be done to ensure the social transfers provide for the needs of households that rely on them for a decent standard of living. However, government supports through the provision of public services are just as important for protecting living standards during a cost of living crisis.

Incomes, whether they come from earnings or social transfers are used to consume goods and services. In many cases some of the most expensive services that people consume are services that used to be provided for by the state. In many cases these services are provided by the state in many other European countries, and at much lower costs to the public. The provision of these public services represents a 'social wage' which can be just as important in providing for living standards as the labour wage and social transfers. Therefore, expanding the scope and reach of public services is one of the most significant actions government can take not only to protect incomes in the short term, but to build in much needed stability for the longer term.

What are these public services we are talking about? They include health, education, housing, transport, childcare and adult care. Additionally, a case can be made for including other needs, for example, food, water, legal services and electricity. The pandemic has revealed that access to digital services and broadband are now essential requirements for full participation in a modern society.

Too often the services above are provided for some in our society, usually those on the lowest incomes. While this might seem like a fair deal in reality it means that the vast majority of citizens have no experience of public services and therefore do not value them. This often leads to the underfunding and undermining of these services to the detriment of all.

Universal provision provides the best protection for public services and has also been shown to provide the most beneficial outcomes for society as a whole. The success of universal provision can be seen in the Scandinavian or 'Nordic model' and its welfare outcomes. As well as the strongest employment rates in the world, the Nordics have achieved low child poverty, low poverty amongst women, high rates of female labour force participation, and low levels of inequality. The Nordic model is based on strong egalitarianism, a monopoly role for the public sector as service providers, along with generous income transfers. Even with higher taxes, the universalist welfare states tend to rank amongst the most competitive in the world with very high levels of labour productivity and per capita output. These countries also tend to perform very well across many well-being indicators.

Now at a time where the cost of living is soaring, government can ease that pressure through providing more public services to more people. In providing these services, the state actually brings down the costs of consuming these services for the public. This means that greater provision of public services brings down inflation. This is the definition of a win-win. The government can provide support to household and tackle the causes of this crisis at the same time.

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