

# A Square Deal?

**The Real Cost of Making a  
Meal in the Restaurant Sector**

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### The Real Cost of Making a Meal in the Restaurant Sector

TASC has prepared this briefing in response to the current difficulties being experienced in the restaurant sector. In the last number of months there has been much focus on the state of this sector which has come under serious pressure due to the recession. The Restaurant Association of Ireland (RAI) appeared in February before the Oireachtas Joint Committee on Enterprise, Trade and Employment to present its analysis.

TASC agrees with the RAI that action needs to be taken to sustain employment and activity in this sector. However, many of the proposals put forward by the RAI are based on a flawed analysis and miss the wider problems that the restaurant sector and the wider economy face – in particular, its call for a reduction in the Joint Labour Committee (JLC) pay scale.

In this briefing, TASC presents evidence to demonstrate that wage rates in the restaurant sector are competitive and that a focus on cutting wages will not address the current problems being experienced by the sector. On the basis of our analysis, TASC identifies a number of issues that require further investigation and if addressed, could support the sector in these difficult times. These issues include the need to think creatively about how to boost demand and address high primary costs issues, such as commercial rents and input costs.

TASC would like to thank a number of people who have contributed to this briefing and who are also members of the TASC Economists' Network:

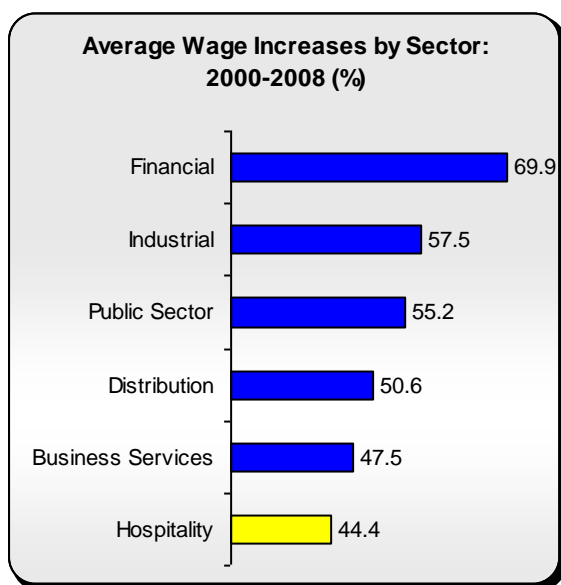
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## 1. WAGES AND LABOUR COSTS

On the basis of TASC’s analysis, the proposal by the RAI to cut the minimum wage and JLC pay scales will not have the desired results that the RAI and other employers seek and it will serve to deepen income inequality.

### (a) Living Standards of Low-Paid Workers

Hotel and restaurant workers are the lowest paid of any sector. The latest CSO<sup>1</sup> data shows that the average weekly pay in this sector was €351, or just half of the national average of €698. Research undertaken by the Vincentian Partnership found that in 2009 a family (two parents and two children), with one parent working, needed an income of €525 per week to have a minimum essential standard of living.<sup>2</sup>



This means that the average weekly pay in the hospitality sector represents 67 per cent of the income required for a basic standard of living.

Hospitality workers did not experience the same level of pay rises that workers in other sectors obtained during the boom years. In comparison with other sectors, hospitality workers received the lowest pay increases since 2000.<sup>3</sup> The gap

between low paid workers and high paid workers widened during the boom and the magnitude of this gap is reflected in the OECD’s comparative research into international levels of earnings inequality.<sup>4</sup> In 2008, the OECD ranked Ireland top of its list – for earnings inequality – in the original 15 EU member states.

Ireland’s income gap was also graphically illustrated in the H.E.A.P. Report produced by TASC and ICTU towards the end of 2009, which showed certain occupational groups – including many restaurant workers – clumped towards the bottom of the income distribution.<sup>5</sup>

Not only did hospitality workers receive the lowest average wage increases during the boom years, but they have also suffered disproportionately more during this recession. In 2009 (the first six months – the latest data available), average hourly pay was reduced across all sectors

<sup>1</sup> CSO, Earnings and Labour Costs, December 2009.

<http://www.cso.ie/releasespublications/documents/earnings/current/earnlabcosts.pdf>

<sup>2</sup> Vincentian Partnership for Social Justice, 2009 Expenditure Guidelines for Six Households [www.budgeting.ie](http://www.budgeting.ie)

<sup>3</sup> CSO, Earnings Data for 2000-2008.

<sup>4</sup> OECD, Growing Unequal? Income Distribution and Poverty in OECD Countries, 2008.

<sup>5</sup> TASC / ICTU, The Heap Chart – Hierarchy of Earnings, Attributes and Privilege Analysis, 2009

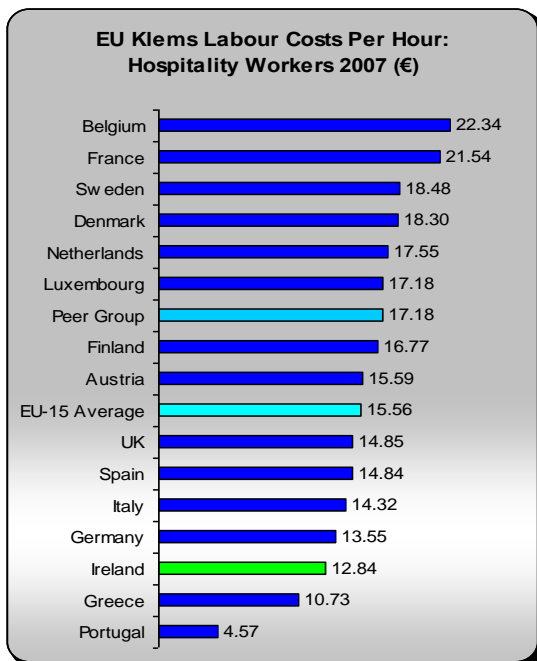
by 1.1 per cent<sup>6</sup>. However, in the hospitality sector, the reduction was nearly twice the national average – at two per cent.

The Joint Oireachtas Committee on Enterprise, Trade and Employment, when considering proposals for this sector, should consider the fact that workers in this sector are already the lowest paid in the economy, received the least benefit during the boom years and are now experiencing wage cuts more severe than in other sectors.

It should also be noted that the hospitality sector suffers from one of the highest levels of breaches of employment law. The National Employment Rights Authority<sup>7</sup> Inspectorate found that between 70 per cent and 80 per cent of businesses investigated in the catering and hotel sector were in breach of employment laws. In 2008 and 2009, NERA have found workers in the sectors receiving as little as €3 to €5 per hour and over this two year period NERA recovered nearly €2 million in wage arrears.

The living standards of workers in this sector are already precarious – the sector is made up predominantly of women, young people and new communities. Were the JLC rates to be abolished with a resulting fall in wages to the statutory minimum, this would result in an annual wage cut of over €1,250 for general catering workers. This would increase the level of income inequality in Irish society and would, through a reduction in consumption, be economically damaging. It is clearly in the public interest to protect the living standards of the economically weakest during a recession, not undermine them.

**(b) International Comparisons**



One of the rationales used by those calling for reductions in both the minimum wage and JLC pay scales is the contention that the minimum wage is higher than in peer group EU economies.<sup>8</sup>

However, this fails to take account of labour costs – in particular, wages plus employers’ social security contributions.<sup>9</sup> When account is taken of employers’ payroll taxes (in Ireland, employers’ PRSI), Irish labour costs fall down the table.

A more accurate comparison of labour costs is provided by the EU KLEMS database<sup>10</sup>. In 2007, Irish labour costs in the hospitality sector were one of the lowest in the EU-15 – ranking lower than all other countries save for Greece and Portugal. Irish labour costs are 17.5 per cent

<sup>6</sup> CSO, Earnings and Labour Costs, December 2009.

<sup>7</sup> National Employment Rights Authority Annual Reports, 2008 and 2009.

<sup>8</sup> Eurostat, Statistics in Focus, Minimum Wages, 2009.

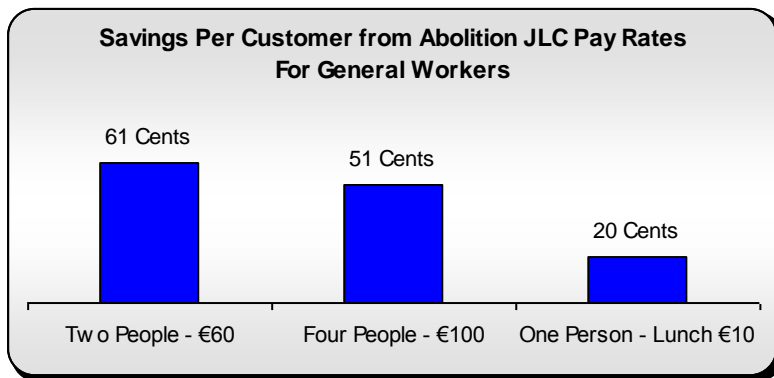
<sup>9</sup> OECD, Tax Database, 2008.

<sup>10</sup> EU Klems Database, November 2009.

below the EU-15 average. When compared with our peer group in the EU-15<sup>11</sup>, Irish labour costs are 25 per cent below average.

Even comparisons with the UK can be misleading, as they fail to take account of currency depreciation. In 2007, before the slide in Sterling, UK labour costs in the hospitality sector were significantly higher. Any closing of the gap in subsequent years was largely driven by currency depreciation, not wage increases in Ireland.

**(c) Labour Costs as a Percentage of Input**



A second rationale for reducing enforceable pay scales in the restaurant sector is that it will allow for a reduction in prices which will increase customer levels. However, the recent consultants’ report commissioned by Fáilte Ireland<sup>12</sup> shows that a reduction of JLC pay scales<sup>13</sup> to the statutory minimum wage (a

wage cut of seven per cent) would facilitate little price reduction. Abolishing JLC pay scales for general workers would mean a reduction of 61 cents per customer for a meal costing €60 for two; for a meal costing €100 for four people, the reduction would be 51 cents per customer. For a lunchtime meal of €10, the savings would be 20 cents. For restaurants seating fewer than 100 customers – the savings would be even less. It is doubtful that these minimal price reductions would increase customer demand.

**(d) The Economic and Fiscal Damage of Wage Cuts**

Cutting wages will undermine public finances and reduce consumer demand – which may end up harming the restaurant sector further.

Firstly, abolishing JLC pay scales and cutting wages to the statutory minimum will reduce tax revenue: receipts from income tax and the income levy, employees’ and employers’ PRSI.

<sup>11</sup> These are referred to as the ‘non-Med’ countries; excluding the poorer Mediterranean countries of Portugal, Spain, Greece and Italy.

<sup>12</sup> Fáilte Ireland, Study to Evaluate the Cost of Food Preparation and Service Activities in the Hospitality Sector – May 2009.

<sup>13</sup> Through this report, we use a reduction of the JLC rate for Assistant/Waiter/Barperson/Clerical/General Worker/Cleaner/Wash Up – categories that make up most workers in the catering sector - to the statutory minimum wage. This current JLC rate is €9.27 per hour.

- ✓ **TASC estimates that the Exchequer would lose approximately €1,143 for every full-time general worker whose wage was reduced to the statutory minimum.<sup>14</sup>**

This does not take into account reduced VAT revenue from loss of spending power. With over 120,000 employees in the accommodation and food service activities sector<sup>15</sup> the loss to the Exchequer would potentially be significant at a time when the government's fiscal position is already dangerously weak.

Secondly, it will increase government expenditure: for example, reductions in wages for those on Family Income Supplement (FIS) will be made up by higher social welfare payments.

- ✓ **TASC estimates that FIS for a lone parent with one child would rise by €357 per year if general wages were reduced to the statutory minimum.<sup>16</sup>**

Thirdly, it will reduce overall consumer spending: enterprises (including restaurants) will suffer from the reduced spending power of employees whose wages have been cut.

- ✓ **TASC estimates that an across-the-board cut of 8 per cent cut in wages in the hospitality sector will reduce consumer spending by approximately €170 million.<sup>17</sup>**

Reducing wages – wages of the lowest paid workers in the economy – will not increase demand in the restaurant sector. In addition, there will be substantial losses to the Exchequer in terms of revenue lost and increased social welfare payments, along with losses in consumer spending which will put more enterprises (including restaurants) under increased pressure.

Cutting wages does not address the real problems in the restaurant sector – it will only exacerbate these problems.

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<sup>14</sup> Deloitte Tax Calculator (<http://www.deloitte.ie/tc/>). This calculates a loss of €613 in employee pay, the remainder coming from a reduction in employers' PRSI.

<sup>15</sup> CSO, Quarterly National Household Survey, Quarter 4, 2009.

<sup>16</sup> Department of Social and Family Affairs, Family Income Supplement.

<sup>17</sup> Based on extrapolations from the ESRI's simulation of cutting public sector wage: ESRI, The Behaviour of the Irish Economy: Insights from the HERMES macro-economic model, April 2009.

**2. THE PROBLEMS IN THE RESTAURANT SECTOR**

The restaurant sector suffers from real problems that need to be prioritised to prevent further job losses and enterprise closures.

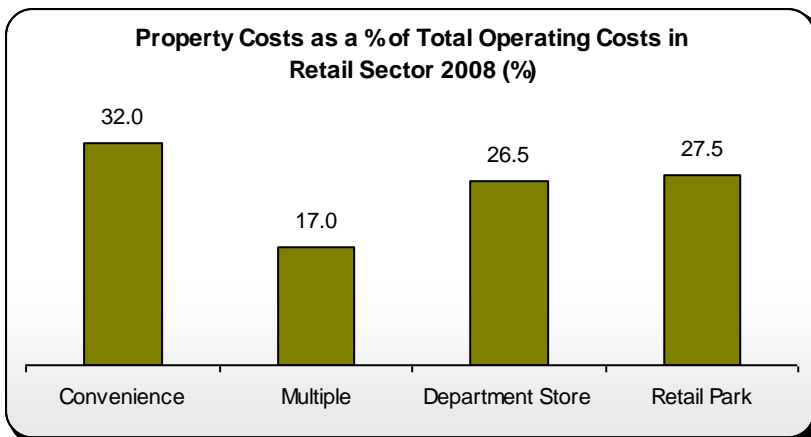
**(a) Fall in Consumer Spending**

The fall in consumer spending in Ireland has been more severe than in almost any other EU country. Between 2008 and 2010, Irish consumer spending is estimated to fall by 10 per cent whereas the average Euro zone fall is estimated to be less than one per cent. This fall in domestic demand has been the driving force behind the domestic recession and, therefore, a factor in the reduced turnover in the restaurant sector.<sup>18</sup>

**(b) Rents**

There is considerable anecdotal evidence that high levels of rents are undermining sectors reliant upon discretionary spending; restaurants are no exception.<sup>19</sup> Unfortunately, the Fáilte Ireland report did not separately survey rent costs (and the limited number of restaurants in the sample – 26 – may have reduced the reliability of the data in any event).

However, Forfás produced data on rents in the retail enterprise sector<sup>20</sup> – data that may be indicative of the problems faced in the restaurant sector. While we stress this refers to retail outlets, we should not expect rent levels for the restaurant sector to be qualitatively different.



Retail Ireland has stated<sup>21</sup> that average Irish commercial rents were ‘almost 10 per cent of sales’ compared to ‘about 5.5 per cent, the global average’. While we should be cautious about this assertion – as the fall in sales may be contributing to this gap – it is potentially one more indication of high rent levels.

The level of commercial rents, which appears to operate outside normal supply-demand relationships, may be imposing an unnecessary burden on the restaurant sector.

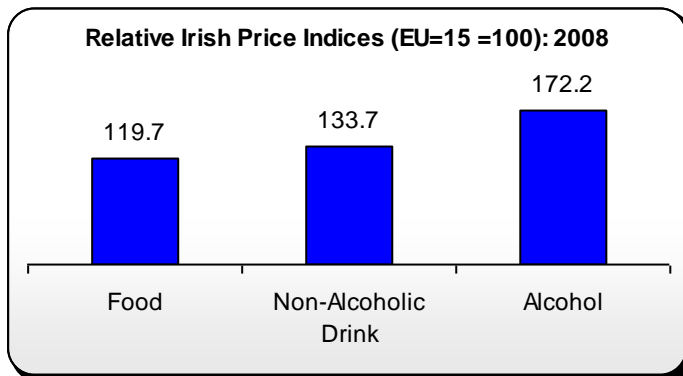
<sup>18</sup> Department of Finance, Stability Programme Update 2010 and EU Commission, European Economic Forecast - Autumn 2009.

<sup>19</sup> As evidenced by the temporary closure of Carlucci’s Restaurant, Dawson Street, Dublin – which was only re-opened after a renegotiation of its commercial rent.

<sup>20</sup> Forfás, The Cost of Running Retail Operations in Ireland, December 2008. Figures also include maintenance and service charges.

<sup>21</sup> Sunday Business Post, February 14<sup>th</sup>, 2010.

**(c) Input Price Levels**



TASC supports the RAI's concerns over food and beverage price levels. Eurostat<sup>22</sup> indicates that our price levels are seriously out of alignment with EU-15 levels.

While some commentators have suggested that high prices have been fuelled by wage increases, the data does not support this simplistic approach. In 2002 Irish costs were nearly as much out of alignment as in 2008<sup>23</sup>. High costs had already become embedded in the economy in the early part of last decade.

Unfortunately, there is no satisfactory set of explanations to suggest why these costs are so out of alignment with our European counterparts.

<sup>22</sup> Eurostat Dataset:Relative price level indices of food products, December 2009

<sup>23</sup> The Irish food price indices were already 116.6 per cent while alcoholic beverages were 165 per cent.



### 3. PROPOSALS FOR CONSIDERATION

TASC is proposing that a number of areas be investigated when considering the best way forward.

#### (a) Boost consumer demand

This year (2010) is probably going to be another difficult year for the restaurant sector. Unemployment and emigration is projected to continue rising; public sector wage and social welfare cuts, along with pressure on private sector wages, will reduce disposable income and, so discretionary spending.

Apart from general demand policies (generating employment, protecting those on low-pay through wage agreements, etc.), there are specific policies that could be targeted to the restaurant sector which would also benefit other sectors.

- 1) **Temporarily Reduce VAT and Excise taxes:** A temporary reduction in VAT and excise taxes for restaurants – in much the same way as France has done – could facilitate a reduction in prices and encourage higher customer numbers. While this would have gross cost implications for the Exchequer, much of this would be recovered through higher sales, the maintenance of employment / enterprise openings and greater levels of in-sourcing which would benefit supplier firms. This would mean a lower net cost to the Exchequer.
- 2) **Consumer Vouchers:** The Government could issue time-limited consumer vouchers to all adults to be redeemed at restaurants. This would ensure that any expenditure arising from this Government investment would be directed exclusively to the sector – and the level of spend would be dependent on the level of redemption and increased customer traffic.
- 3) **Tourism Boost:** boosting tourism will not only assist the wider economy but the restaurant sector in particular. One minor proposal would be to target senior citizens in other countries with a new provision for comprehensive free public transport; a start has already been made with Irish Rail's Golden Trekker Ticket. This would only mean an extension of domestic policy and it would have few cost implications. Fáilte Ireland could use this as a major selling point in its marketing strategy.

#### (b) Renegotiate Rents

While the banning of upward-only rent reviews is welcomed, this has no impact on the current high levels of commercial rent. The Dáil Committee should consider a new legislative framework, even on a temporary basis, to allow for tenants and landlords to enter into negotiations over current rent levels, with a binding arbitration panel to rule on a new rent if the parties cannot agree a 'fair rent'. Another option worth considering is the introduction of turnover-based rents, which are popular in Europe. This alternative rental arrangement operates on the basis of a base rent plus a percentage of the retailer's turnover. A new

legislative framework and alternative rental arrangements could significantly reduce rental costs for the restaurant and other tenant-sectors.

### **(c) Price Investigation**

For over a decade, Ireland has experienced high food, alcohol and non-alcoholic beverage costs, yet few conclusions can still be drawn as to why this should be so (given that costs were ten to 70 per cent higher than the EU-15 index in 1999, high costs in this sector cannot be historically attributed to wage or property-price increases).

Unfortunately, we lack crucial data in many areas which hinders the identification of the factors that contribute to high prices. For example, many companies are not required to file relevant information on the level of gross operating surplus and gross/net margins. Nor do we have an adequate structural analysis of the restaurant sector (e.g. size, location, family-owned, etc.) and the varying price impacts.

TASC will be proposing that the Joint Oireachtas Committee on Enterprise, Trade and Employment consider launching such a comprehensive investigation. While we accept that this is a medium-term project, the very existence of such an investigation may result in downward pressure on prices as companies / sectors seek to re-align pricing practices in a fairer, more sustainable manner – and so avoid any negative findings.

## **4. CONCLUSION**

TASC has long argued that Ireland is a deeply unequal society. Hospitality workers are among those bearing the brunt of that inequality: as mentioned at the outset, their average weekly pay is €351 (just half of the national average), which represents 67 per cent of weekly income needed for a basic standard of living. Further reducing the wages of restaurant workers would therefore exacerbate Ireland's already high levels of income inequality.

In addition, however, TASC argues that such wage cuts would fail in their own terms: they would have a minimal impact on stimulating demand which is the driving force behind the economic activity in the sector. Nor would they address other primary cost issues, such as the high cost of food and commercial rents.

We have demonstrated above that, by taking more money out of employees' pockets, wage cuts would further undermine the public finances by depressing consumer demand (which impacts on the restaurant sector, among others), reducing income tax and VAT take, and also increasing direct Exchequer expenditure (such as, for example, increased FIS expenditure).

TASC therefore recommends an alternative strategy, focusing primarily on boosting consumer demand and addressing those factors (such as commercial rents and input prices) which have a demonstrable impact on profitability in the restaurant sector.

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