National Minimum Wage Consultation

Social Justice Ireland's submission to the Low Pay Commission - 2020

Introduction

Social Justice Ireland welcomes the opportunity to make a submission to the consultation process on the appropriate rate of the National Minimum Wage. This submission will focus on three key areas: (1) The Current Employment Context in Ireland (2) The 'Working Poor' and how to deal with them, and (3) the Living Wage and the National Minimum Wage. We would welcome the opportunity to meet with members of the Commission to discuss these proposals, or indeed any other matters, in more detail if necessary.

1. The Current Context

Recent trends in Employment and Unemployment

Table 1, below, highlights selected labour market trends in Ireland over the period Q3 2007 to Q4 2019.

Q3 2007 was the peak of Ireland's employment performance prior to the financial crisis. Q1 2012 is also included in Table 1 as it represents the employment trough during the crisis and so data from that time are included for comparative purposes.

Table 1: Ireland's Labour Force Data, 2007 – 2019

	Q3 2007	Q1 2012	Q4 2019	Change 07-19
Labour Force	2,371,900	2,211,300	2,471,700	+99,800
LFPR %	67.4%	61.4%	62.7%	-4.8%
Employment %	72.5%	59.3%	70.2%	-2.3%
Employment	2,252,200	1,863,200	2,361,200	+109,000
Full-time	*1,835,400*	*1,421,100*	*1,868,300*	*+32,900*
Part-time	*416,800*	*442,200*	*492,900*	*+76,100*
Underemployed	*n/a*	*140,200*	*108,400*	*n/a*
Unemployed %	5.1%	15.8%	4.5%	-0.6%
Unemployed	119,700	348,100	110,600	-9,100
LT Unemployed	33,300	215,300	38,700	+5,400
Potential Additional LF	19,400	51,000	98,700	79,300

Source: CSO, Labour Force Survey on-line database.
Notes: LFPR = ILO labour force participation rate and measures the percentage of the adult population who are in the labour market.
Employment % is for those aged 15-64 years.
Underemployment measures part-time workers who indicate that they wish to work additional hours which are not currently available.
n/a = comparable data is not available.
LT = Long Term (12 months or more). LF = Labour Force.

As is well known, Ireland went from experiencing record employment numbers in 2007 to high levels of unemployment, accompanied by a return high emigration (widely acknowledged to have acted as a safety valve to prevent much higher levels of unemployment).

As part of the economic recovery of the past six or seven years, employment has grown again, and employment numbers surpassed the previous Q3 2007 peak in Q2 2018.

However, headline employment numbers often obscure trends that should be of concern, as well as the different experiences of various groups in the Irish economy.

The situation for younger workers has been especially difficult. 21 per cent of jobs in the economy are part-time. However, 38 per cent of jobs created in 2019 were part-time. Workers under 30 are almost twice as likely to work part-time as at the peak of our pre-financial crash employment performance.

Employment rates for those aged 20-24 years are down from 82.3 per cent in Q3 2007 to 65 per cent in Q4 2019. The participation rate for the same cohort is down from 89.3 per cent in Q3 2007 to 70.5 per cent in Q4 2019.

Those under 30 are far more likely to be working on temporary contracts: 26 per cent of them are on temporary contracts, compared to 10 per cent of the rest of those employed.

Across the broader labour market, *Social Justice Ireland* has been highlighting for many years that despite positive trends elsewhere in employment, the number of people who are working part-time but would take full-time work if it were available has hovered around 110,000 people for the last number of years.

Low-paid Work and Precarious Work

According to the CSO, an average of 7.6 per cent of employees earned the National Minimum Wage (NMW) or less in Q4 2018. This corresponds to approximately 137,000 employees.

Just over a quarter (26.6 per cent) of all workers within the accommodation and food services industry earned the minimum wage. This is (by far) the highest concentration of minimum wage employment in the economy.

Workers in part-time roles are far more likely than those in full-time roles to be earning the NMW or less.

The statistics from the CSO are unsurprising in some respects; employees who are younger, with lower levels of education, or working part-time in those sectors of the economy known anecdotally to have a high concentration of employees in precarious work are more likely to earn the NMW.

Women are disproportionately more likely to earn the NMW than men. This too is, perhaps, unsurprising although the gap is not huge and is probably more likely due to women's greater propensity to work in part-time employment than any gender-specific factors.

While these divergences are interesting, the most significant issue around minimum wage employment is that such a substantial portion of the Irish labour force earns so far below what is considered adequate to achieve a socially acceptable standard of living in Ireland.

A report published in late 2017 by the Irish Congress of Trade Unions asserted that:

- while employment is rising in the aftermath of the recession, so too is the instance of precarious employment;

- nearly 160,000 people – 8 per cent of the workforce in Ireland at that time – have significant variations in their hours of work, from week to week, or from month to month;
- over half of that number were in temporary employment because they could not find permanent work – a 179 per cent increase since 2008;
- female and young workers were more likely to be employed on precarious or insecure terms, with workers in the distribution, hotels/catering, retail and construction sectors featuring prominently;
- the growth in involuntary temporary and involuntary part-time employment has been interlinked with the spread of insecurity, with the proportion of the workforce who are seeking permanency and additional working hours rising significantly.

The ICTU report defines precarious work as employment "which is insecure, uncertain or unpredictable from the worker's point of view".

Social Justice Ireland agrees with ICTU's assertion that Government must address the problem of precarious work decisively through legislation, once and for all.

We welcomed the implementation of new legislation from March 2019 that is intended to ban zero hours contracts in most circumstances, but more is required.

2. The working poor

Having a job is not in itself a guarantee of freedom from the risk of poverty. As Table 2 indicates, 5.1 per cent of those who were employed in 2018 were living at risk of poverty, while 9.5 per cent of those in employment experienced enforced deprivation.

Despite decreases in poverty among many other groups, poverty numbers for the working poor have remained static, reflecting a persistent problem with low earnings. In 2018, around 110,000 people in employment were at risk of poverty and just over 200,000 were experiencing enforced deprivation. These are remarkable statistics, given everything we know about positive trends in employment and the economy, and it is important that policymakers finally begin to address this problem.

Table 2: At risk of poverty and deprivation levels among persons of each principal economic status in 2018

	Poverty	Deprivation
At work	5.1%	9.5%
Unemployed	47.3%	41.6%
Students and school attendees	22.2%	15.6%
On home duties	23.2%	21.0%
Retired	12.3%	8.0%
Unable to work as ill/disabled	47.7%	36.7%

Source: CSO SILC data for 2018

Many working families on low earnings struggle to achieve a basic standard of living. Policies which protect and increase the value of the minimum wage and attempt to keep those on that wage out of the tax net are relevant policy initiatives in this area. Similarly, attempts to highlight the concept of a 'living wage' (see section 3) and to increase awareness among low income working families of their entitlement to the Working Family Payment are also welcome.

One of the most effective mechanisms for addressing the problem of the working poor would be to make tax credits refundable.

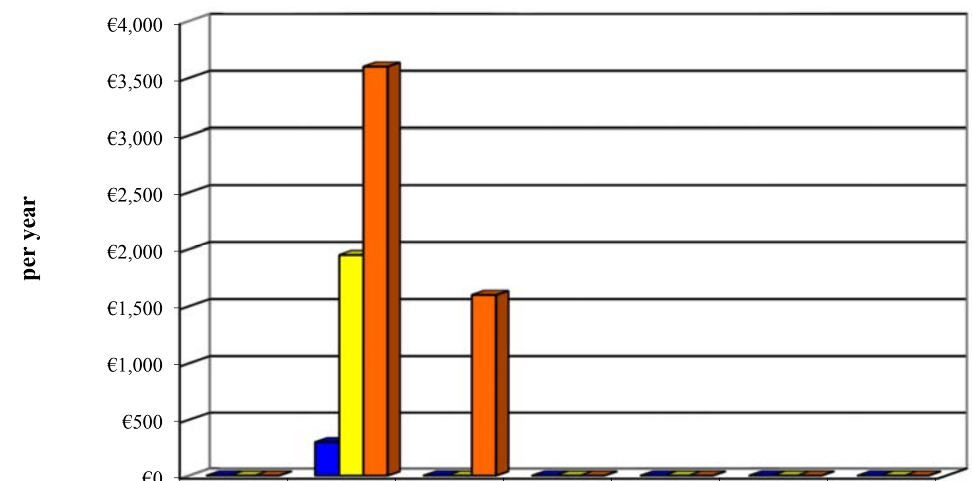
Refundable Tax Credits – an explanation

The move from tax allowances to tax credits, completed in Budget 2001, was a very welcome change. One problem persists, however. If a low-income worker does not earn enough to use up his or her full allocation of tax credits then he or she will not benefit from any income tax reductions introduced by government in its annual budget via increases to the PAYE or Personal tax credits.

Making tax credits refundable would be a simple solution to this problem. It would mean that the part of the tax credit that an employee did not benefit from would be "refunded" (essentially paid in cash, possibly at the end of the tax year) to him/her by the Revenue Commissioners.

The major advantage of making tax credits refundable lies in addressing the disincentives currently associated with low-paid employment. The main beneficiaries of refundable tax credits would be low-paid employees (both full-time and part-time). Chart 2.1 displays the impacts of the introduction of this policy across various gross income levels. It clearly shows that all the benefits from such a policy would go directly to those on the lowest incomes.

Chart 2.1: How much better off would people be if tax credits were made refundable?



	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	300	-	-	-	-	-
Couple 1 Earner*	-	1,950	-	-	-	-	-
Couple 2 Earners*	-	3,600	1,600	-	-	-	-

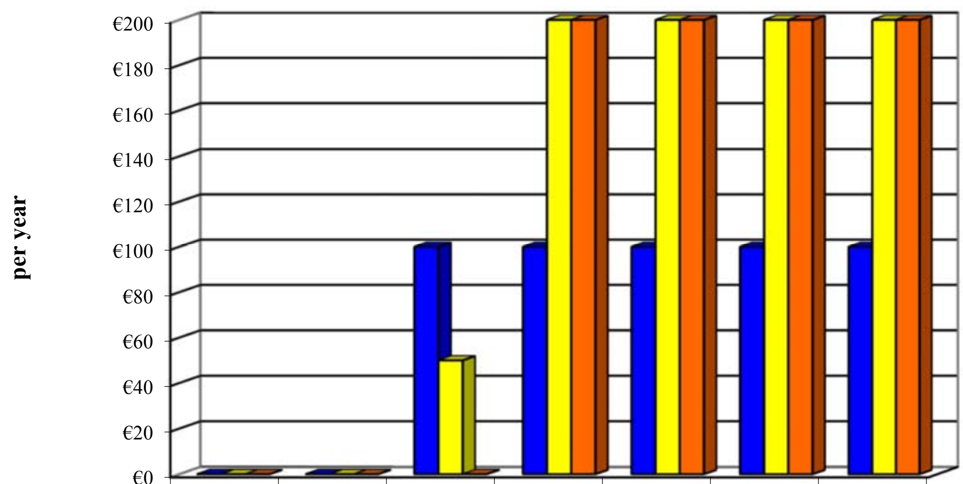
Note: * Except where unemployed as there is no earner.

Most people with regular incomes and jobs would not receive any cash refund because their incomes are too high. They would simply benefit from any increase to tax credits via a reduction in their tax bill, should such an increase be brought in by Government.

Therefore, as chart 2.1 shows, no change is proposed for these people. For other people on low or irregular incomes, the refundable tax credit could be paid via a refund by the Revenue Commissioners at the end of the tax year. Alternatively, given the Revenue's recent technological advances and a move to real-time reporting, this could potentially be done monthly. Following the introduction of refundable tax credits, all subsequent increases in the level of the tax credit would be of equal value to all employees.

To illustrate the benefits of this approach, charts 2.2 and 2.3 compare the effects of a €100 increase in the personal tax credit - before and after the introduction of refundable tax credits. Chart 2.2 shows the effect as the system is currently structured – an increase of €100 in credits, but these are not refundable. It shows that the gains are allocated equally to all categories of earners above €50,000. However, there is no benefit for those workers whose earnings are not in the tax net.

Chart 2.2: How much better off would people be if tax credits were increased by €100 per person?

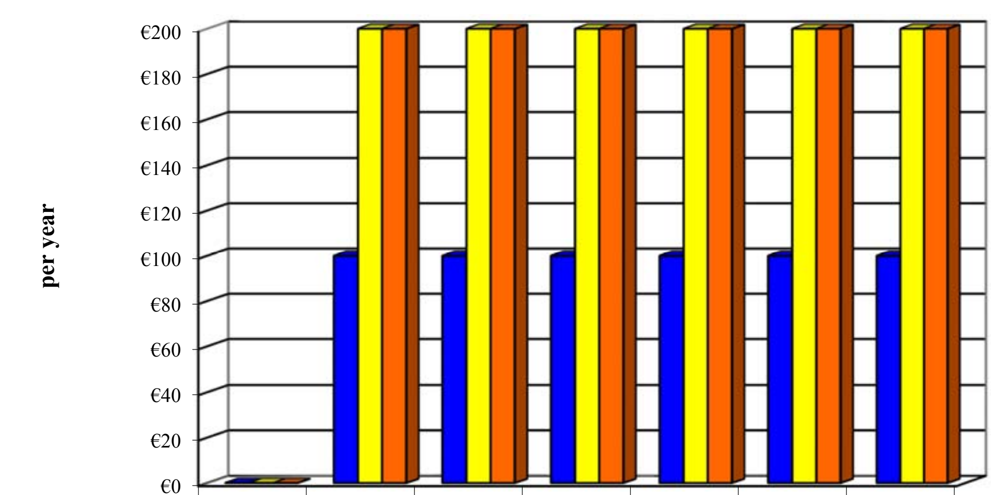


	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	-	100	100	100	100	100
Couple 1 Earner*	-	-	50	200	200	200	200
Couple 2 Earners*	-	-	-	200	200	200	200

Note: * Except where unemployed, as there is no earner

Chart 2.3 shows how the benefits of a €100 per year increase in personal tax credits would be distributed under a system of refundable tax credits. This simulation demonstrates the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories of income earners (single/couple, one-earner/couple, dual-earners) is the same. Consequently, in relative terms, those earners at the bottom of the distribution do best.

Chart 2.3: How much better off would people be if tax credits were increased by €100 per person and this was refundable?



	Unemp	€15,000	€25,000	€50,000	€75,000	€100,000	€125,000
Single	-	100	100	100	100	100	100
Couple 1 Earner*	-	200	200	200	200	200	200
Couple 2 Earners*	-	200	200	200	200	200	200

Note: * Except where unemployed, as there is no earner

Overall the merits of adopting this approach are: that every beneficiary of tax credits would receive the full value of the tax credit; that the system would improve the net income of the workers whose incomes are lowest, at modest cost; and that there would be no additional administrative burden placed on employers.

Social Justice Ireland has published a detailed study on refundable tax credits. Entitled *Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*, the study identified that the proposed system would benefit 113,000 low-income individuals in an efficient and cost-effective manner.[1] When children and other adults in the household are taken into account the total number of beneficiaries would be 240,000.

The cost of making this change would be approximately €140m.

The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, give Government a mechanism by which it could address the working poor problem, and improve the living standards of a substantial number of people in Ireland. The following is a summary of *Social Justice Ireland's* proposal:

1The study is available from our website: https://www.socialjustice.ie/sites/default/files/attach/publication/2897/2010-07-05-buildingafairertaxsystem-therftxcrstudyfinal.pdf?cs=true

Making tax credits refundable: the benefits

- Would address the problem identified already in a straightforward and cost-effective manner.
- No administrative cost to the employer.
- Would incentivise employment over welfare as it would widen the gap between pay and welfare rates.

Details of Social Justice Ireland proposal

- Unused portion of the Personal and PAYE tax credit (and only these) would be refunded.
- Eligibility criteria is applied to the relevant tax year.
- Individuals must have unused personal and/or PAYE tax credits (by definition).
- Individuals must have been in paid employment.
- Individuals must be at least 23 years of age.
- Individuals must have earned a certain minimum annual income from employment. E.g. €4,800 in the year in question.
- Individuals must have accrued a minimum of 40 PRSI weeks.
- Individuals must not have earned an annual total income greater than €16,500.
- Married couples must not have earned a combined annual total income greater than €33,000.
- Payments would be made at the end of the tax year.

Cost of implementing the proposal

- As noted above, the total cost of refunding unused tax credits to individuals satisfying all the criteria mentioned in this proposal is estimated at €140m.

Major findings

At the time of the study, it was estimated that:

- Almost 113,300 low income individuals would receive a refund and would see their disposable income increase as a result of the proposal.
- Most of the refunds would be worth under €2,400 per annum, or €46 per week, with the most common value being individuals receiving a refund of between €800 to €1,000 per annum, or €15 to €19 per week.
  Considering that the individuals receiving these payments have incomes of less than €16,500 (or €317 per week), such payments are significant to them.
- Almost 40 per cent of refunds would flow to people in low-income working poor households who live below the poverty line.
- Around 91,000 men, women and children below the poverty threshold would benefit either directly through a payment to themselves or indirectly through a payment to their household from a refundable tax credit.

- Of the approximately 91,000 individuals living below the poverty line that benefit from refunds, most, over 71 per cent would receive refunds of more than €10 per week with 32 per cent receiving in excess of €20 per week.
- In total, approximately 149,000 men, women and children above the poverty line would benefit from refundable tax credits either directly through a payment to themselves or indirectly (through a payment to their household. Most of these beneficiaries have income less than €120 per week above the poverty line.
- Some 240,000 individuals overall, all of whom are living in low-income households, would experience an increase in income as a result of the introduction of refundable tax credits.

Once adopted, a system of refundable tax credits as proposed in this section would result in all future changes in tax credits being equally experienced by all employees in Irish society. Such a reform would mark a significant step in the direction of building a fairer taxation system and represent a fairer way for Irish society to allocate its resources.

3. The Living Wage and the National Minimum Wage

Over the past six years, *Social Justice Ireland* and other organisations have come together to form a technical group which researched and developed a Living Wage for Ireland. The latest update was published in July 2019[2]. It put the figure for a Living Wage at €12.30 per hour.

The recently implemented increase of 30 cent per hour to the statutory National Minimum Wage (NMW) is a welcome, albeit delayed, development. This increase ensures that a full-time worker on the minimum wage will receive an additional €608 per annum in gross pay.

However, the new hourly minimum wage rate of €10.10 remains at approximately 82 per cent of the Living Wage of €12.30 per hour.

Addressing low pay remains a key challenge for Irish society. As we have continuously highlighted, the annual poverty figures show that more than 100,000 people in employment are living in poverty (the working poor). Improvements in the low pay rates received by many employees offer an important method by which these levels of poverty and exclusion can be reduced.

What is a Living Wage?

In principle, a Living Wage is intended to establish an hourly wage rate that should provide employees with enough income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor, representing a figure which allows employees to afford the essentials of life.

Paying low-paid employees a Living Wage offers the prospect of significantly improving the living standards of these employees. *Social Justice Ireland* has supported the emergence of this concept over the past few years and we hope to see this new benchmark adopted across many sectors of society in the years to come.

The call for the introduction of a Living Wage for Ireland reflects a belief that individuals working full-time should be able to earn enough income to enjoy a decent standard of living. The Living Wage is a wage which makes possible a minimum acceptable standard of living. Its calculation is evidence-based and built on budget standards research which is grounded in social consensus. The new figure is:

- based on the concept that work should provide an adequate income to enable individuals to afford a socially acceptable standard of living;
- the average gross salary which will enable full time employed adults (without dependents) across Ireland to afford a socially acceptable standard of living;
- a rate that provides for needs, not wants;

[2] See www.livingwage.ie for more details

- an evidence-based rate of pay which is grounded in social consensus and is derived from Consensual Budget Standards research which establishes the cost of a Minimum Essential Standard of Living in Ireland;
- based on the cost of living, unlike the National Minimum Wage, which is not – and never has been – set or benchmarked relative to any measure of the cost of living.

In principle, the Living Wage is intended to establish an hourly wage rate that should provide employees with enough income to achieve an agreed acceptable minimum standard of living. Earnings below the Living Wage suggest employees are forced to do without certain essentials so they can make ends meet.

How is the Living Wage Calculated?

The Living Wage for Ireland is calculated based on the Minimum Essential Standard of Living (MESL) research conducted by the Vincentian Partnership for Social Justice. This research establishes a consensus on what members of the public believe is a minimum standard that no individual or household should live below.

Working with focus groups, the minimum goods and services that everyone needs for a MESL are identified. With a focus on needs, rather than wants, the concern is with more than survival as a MESL is a standard of living which meets physical, psychological and social needs, at a minimum but acceptable level. Where necessary the core MESL data has been complemented by other expenditure costs for housing, insurance and transport.

The Living Wage Technical Group decided to focus the calculation of a Living Wage for the Republic of Ireland on a single-adult household. In its examination of the methodological options for calculating a robust annual measure, the group concluded that a focus on a single-adult household was the most practical approach. However, in recognition of the fact that households with children experience additional costs which are relevant to any consideration of such households' standards of living, the group has also published estimates of a Family Living Income each year.

The calculations established a Living Wage for the whole country, with cost examined in four regions: Dublin, other Cities, Towns with a population above 5,000, and the rest of Ireland. The expenditure required varied across these regions and reflecting this so too did the annual gross income required to meet this expenditure. To produce a single national rate, the results of the gross income calculation for the four regions were averaged; with each regional rate being weighted in proportion to the population in the labour force in that region. The weighted annual gross income is then divided by the number of weeks in the year (52.14) and the number of working hours in the week (39) to give an hourly wage. Where necessary, this figure is rounded up or down to the nearest five cents. The number is updated on an annual basis.

The Merits of a Living Wage

Social Justice Ireland believes that concepts such as the Living Wage have an important role to play in addressing the persistent income inequality and poverty levels outlined earlier in this submission.

There are many adults living in poverty despite having a job – the 'working poor'. Improvements in the low pay rates received by many employees offer an important method by which levels of poverty and exclusion can be reduced. Paying low paid employees a Living Wage offers the prospect of significantly improving the living standards of these employees and we hope to see this new benchmark adopted across many sectors of society in the years to come.

4. Our Recommendations

1. *Social Justice Ireland* would like to see the Low Pay Commission look at the issue of Refundable Tax Credits as part of its programme of research. Refundable Tax Credits should be an important part of the process of addressing the issue of the working poor. Such a change would also make Ireland's tax system fairer and improve the living standards of a substantial number of people.
2. Policy should seek to ensure that new jobs have reasonable pay rates and reduce the instance of zero-hours contracts and other working conditions of a precarious nature.
3. *Social Justice Ireland* would like to see government commit to a timeframe over which the National Minimum Wage (NMW) would move towards the rate of the Living Wage.
   The Living Wage, and the fact that it is notably higher than the NMW, should always be a consideration in the decision-making process for choosing a new rate for the NMW.

Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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