

Consultation on the National Minimum Wage

Submission to the Low Pay Commission by the Citizens Information Board (March 2020)

Introduction

The Citizens Information Board (CIB) welcomes the opportunity to make a submission on the National Minimum Wage (NMW) to the Low Pay Commission. CIB has made previous related submissions to the Commission – National Minimum Wage (April 2015 and March 2016); Women on Low Pay (2016); Sub-minima Wage Rates for Young People (2016). A Submission was made in 2016 to the Department of Business, Enterprise and Innovation consultation on the Study on the Prevalence of Zero Hour Contracts and Low Hour Contracts in the Irish Economy. CIB has also made submissions to the Department of Employment Affairs and Social Protection on employment related matters – Pathways to Work Strategy 2020 – 2024 (2019); the Working Family Payment (2017); the Comprehensive Employment Strategy for People with Disabilities (2016); and ‘Make Work Pay’ for People with Disabilities (2016).¹

Underpinning all of these submissions was an emphasis on the need to achieve an appropriate balance between the needs of low income work-households, the need to eliminate welfare to work traps, the need to ensure that employers (current and potential) can maintain the momentum in job creation and, very importantly, the need to ‘make work pay’.

The Commission’s emphasis on adopting an evidence-based approach to the setting of the minimum wage is crucially important. CIB notes that the Low Pay Commission Three Year Report (2015-2018)² refers to its engagement with important areas such as the preponderance of women on the National Minimum Wage and sub-minima rates of the National Minimum Wage. The fact that the Commission’s recommendations on the latter were accepted by Government and have been brought into law through the Employment Rights (Miscellaneous Provisions) Act 2018 is noteworthy.

¹ These submissions can be accessed at

<https://www.citizensinformationboard.ie/en/publications/submissions/submissions2016.html>

² <https://assets.gov.ie/40388/2f7092f324644333bf38e3e4799aeea5.pdf>

This submission is informed by the experience of and feedback from CIB delivery services³ – the national network of Citizens Information Services (CISs), the Citizens Information Phone Service (CIPS) and the Money Advice and Budgeting Service (MABS) – each of which has a significant engagement with individuals and households at the lower end of the income spectrum.

These services deal on an ongoing and regular basis with:

- People in low-income work and on social welfare payments
- People who experience difficulties in transitioning from welfare to work
- Over-indebted families in low-income employment struggling to repay their debts and mortgages
- People at risk of homelessness because of an inability to pay rent in the private sector

In 2019, employment rights related queries comprised just under 7% of all queries to CISs (almost 70,000 queries). The Working Family Payment was the subject of an additional 21,869 queries. CISs regularly receive complaints about breaches of NMW legislation. There are also regular complaints from employees about non-payment of wages, annual leave and public holiday entitlements.⁴

Feedback from CIB delivery services strongly indicates that, where the only available work is low-income work (minimum wage level or below), this acts as a disincentive to people taking up employment. Many people contacting CISs experience ‘welfare to work’ traps and difficulties meeting living costs, especially lone parents and young people living independently from their parents.

The need to address the intrinsic link between poverty, under-employment and low-income employment should, therefore, continue to be at the heart of ongoing deliberations on the NMW. The concept of a Living Wage has been widely argued for by various groups, including, in particular, the Living Wage Technical Group⁵ and some political parties. CIB in its previous submissions to the Low Pay Commission argued that work should provide an adequate income to enable individuals to afford a socially acceptable standard of living and that the NMW is not fully reflective of the actual cost of living. While the NMW has been increased a number of times since 2006, the recently introduced rate of €10.10 per hour for adults falls a good bit short of the €12.30 per hour proposed Living Wage⁶.

In-work poverty

The CSO Labour Force Survey (LFS)⁷ for the final quarter of 2019 records a 3.5% rise in employment for the whole year and a related decrease in the unemployment rate from 5.0% to 4.7% between Q3 2019 and Q4 2019. This decrease in unemployment which has been ongoing for a number of years is clearly welcome. However, it must be analysed in the context of the reality as widely identified in

³ These services supported over 700,000 people with information, advice and advocacy in 2019 and dealt with over 1.02 million queries.

⁴ A CIB Report, *Employment Rights that Work for All: A Citizens Information Perspective* is due to be published shortly.

⁵ The Living Wage Technical Group is supported by the Vincentian Partnership for Justice, The Nevin Economic research institute, TASC, Social Justice Ireland, UCD, SIPTU and the Trade Union Unite.

⁶ http://www.livingwage.ie/images/Documents/Living_WAge_Technical_Document_July-2014.pdf

⁷ https://pdf.cso.ie/www/pdf/20200218101516_Labour_Force_Survey_LFS_Quarter_4_2019_summary.pdf

research and in feedback from CIB delivery services that having a job is not, of itself, a guarantee that people live in a poverty free household.

According to CSO data⁸, 5.4% of those who are employed are living at risk of poverty – about 110,000 workers. Data analysis carried out by Social Justice Ireland⁹ has shown that there is only a marginal difference in the risk of poverty experienced by many people at work and those who are unemployed. There continues to be a significant proportion of people who can be defined as ‘working poor’, i.e., people with jobs who are still in poverty, despite economic recovery and growth.

Low pay has been found¹⁰ to be most common among, people working alone (self-employed), young workers, those in retail, hotels and security sectors, lone parents and those on temporary contracts. A higher proportion of low paid employees are living in households that struggle financially, borrow for day to day living costs and experience poverty. Many CIB service delivery clients fall into one or more of the above categories.

Research carried out for the European Social Policy Network¹¹ shows that Ireland has a relatively low incidence of in-work poverty (5.2%) compared to the EU average (9.4%) and that in-work poverty here is on a downward curve. However, there is an age gradient to in-work poverty in Ireland – older workers are much more likely than younger workers to experience in-work poverty. There is also a connection to household type – with lone-parent households showing a higher than average risk. While these households tend to have a high poverty risk generally in Ireland and while recent changes in the benefit system has both propelled and encouraged them into employment, much of the work available to lone parents tends to be low pay and precarious.

Proponents of the Living Wage concept argue with plausibility that the minimum wage has not fully taken into account the increasing costs of daily living, e.g., the increase in private housing rents, the cost of schooling and childcare costs. Also, a European Social Policy Network Report¹² has suggested that the underlying goals in Ireland have been to reduce low work intensity and also the numbers receiving benefits rather than to address in-work poverty *per se*. The Irish Government’s Roadmap for Social Inclusion 2020-2025¹³ includes an important commitment to set and report on a new target to further improve Ireland’s EU ranking for ‘in-work poverty’ from 3rd to 2nd by reducing the rate of in-work poverty’ to 2%.

⁸ <https://www.cso.ie/en/releasesandpublications/ep/p-sdg1/irelandsunsdgs2019-reportonindicatorsforgoal1nopoverity/>

⁹ https://www.nerinstitute.net/sites/default/files/research/2019/neri_research_inbrief_low_pay_dec_2015.pdf <https://www.socialjustice.ie/content/publications/over-100000-people-employment-poverty-stark-figures-need-immediate-action>

<https://www.socialjustice.ie/sites/default/files/attach/publication/5763/2019-04-15-sjipovertyfocus2019final.pdf?cs=true>

¹⁰ https://www.nerinstitute.net/sites/default/files/research/2019/neri_research_inbrief_low_pay_dec_2015.pdf

¹¹ <https://ec.europa.eu/social/BlobServlet?docId=21107&langId=en>

¹² *ibid*

¹³ <https://www.gov.ie/pdf/?file=https://assets.gov.ie/46558/5cea3d74aa934fe780cc521ddbe477a7.pdf#page=1>

Precarious employment

Deliberations on the NMW clearly need to be located in the context of the nature and quality of work currently available to some workers. The Nevin Economic Research Institute's (NERI) analysis of, what it termed as "precarious work in the elementary professions", published in 2017¹⁴ found that the share of temporary contracts in the elementary professions — those which require the lowest skill level of all the occupational groups and are therefore among the least well-paid jobs – is almost double the rate for the economy as a whole. More recent research¹⁵ carried out by the same Institute shows that, notwithstanding successive years of strong economic and employment growth, improvements in some forms of precarious work have either slowed considerably or flat lined entirely in recent years.

Eurostat figures (2019 Q3), quoted by NERI in its 2020 report, show the rate of part-time employment to be 19.6% compared to 16.4% in Q3 2004. The estimated share of part-time workers who would rather have a full-time job but who cannot find one was about 50% higher in 2019 than in 2007.¹⁶

In relation to transitioning from temporary work to permanent work, Ireland scores low relative to most EU member states. Eurostat estimated that in 2017 the likelihood of a temporary worker in Ireland transitioning to permanent employment was just 1 in 10, and for a part-time worker to transition to full-time employment, just 4%.

The Employment (Miscellaneous Provisions) Act 2018 which came into effect in 2019 sought to address precarious work issues – minimum payments for employees who are called into work but do not receive any work, banded hours contracts for employees whose actual hours do not reflect their contracted hours, and the prohibition of zero hours contracts.

It has been suggested¹⁷ that 'if and when' contracts (those with no guaranteed hours) that are sometimes preferred by Irish employers are not adequately covered in the legislation because the Act, while prohibiting the use of zero-hour contracts, excludes work done in emergency circumstances, or short-term relief work to cover routine absences for that employer (Section 15(3)).

Living Wage

The Living Wage is defined as the required amount to maintain a Minimum Essential Standard of Living (MESL) and in Ireland is identified by the Vincentian Partnership for Social Justice (VPSJ). The Living Wage rate is calculated by the Living Wage Technical Group and the change to the rate is determined by the fluctuation of living costs and taxation. In 2019, the Group identified the need for a new hourly rate of €12.30 based primarily on the ongoing increase in private housing rents. The

¹⁴ <https://pdfs.semanticscholar.org/f6ab/7151deab3f0018582ee1ad79b93699bf4ea1.pdf>

¹⁵

<https://www.nerinstitute.net/sites/default/files/research/2020/Research%20InBrief%20no%2074%20Precarious%20Work.pdf>

¹⁶ *Ibid.*

¹⁷ <https://ec.europa.eu/social/BlobServlet?docId=21107&langId=en>

Group also noted that, while some costs, including food, household items, communication costs and income tax, had fallen over the past year, energy costs had risen.¹⁸

While the National Minimum Wage in Ireland is the second highest in the EU, there continues to be a sizeable gap between a Living Wage and the National Minimum Wage. It should, of course, be noted that some Irish employers have publicly committed to paying the Living Wage.¹⁹

CIB takes the view that public and policy debate about the Living Wage concept and how to reach its target is important for a number of inter-related reasons, in particular, the importance of joined-up housing, labour market and social welfare policies to secure a basic, decent living standard for all working households.

A 2018 Eurofound Report²⁰ has noted that Living Wage initiatives have broadened the public debate surrounding low pay in countries where low pay incidence and in-work poverty is high. The Eurofound Report identified the following points as relevant to the Living Wage debate:

- No single living wage rate can cover the income needs of workers with different working hours in different household types in different regions.
- Discussion on the Living Wage concept can map the large variations in income and pay required for a basic but acceptable standard of living, providing a valuable alternative source of data for estimates of income adequacy, broken down by different household types and regions.
- Living Wage campaigns have had an impact on statutory minimum wage systems, notably in the commitment by the UK Government to rebrand the statutory minimum wage for those aged over 25 as the 'National Living Wage'.
- Wage floors are simple policy measures and, alone, should not be expected to solve problems of in-work poverty – they complement collective bargaining.

The role of work income in alleviating poverty

The OECD in its 2015 analysis of the minimum wage²¹ indicated that the minimum wage on its own is not sufficient to alleviate poverty and that it should be accompanied by other tax and benefit measures to address poverty, both in and out of work.

A 2019 CSO report, *Ireland's UN SDGs 2019: Report on Indicators for Goal 1 No Poverty*²² found consistent poverty to be higher for females (6.2%) than for males (5.1%) and higher in rural (5.8%) than in urban areas (5.5%). Young people under 18 were four times more likely to be in consistent poverty (7.7%) than older people over 65 years (1.7%). According to the report, the consistent

¹⁸ https://www.livingwage.ie/download/pdf/living_wage_2019_-_4_page_document.pdf

¹⁹ For example, at the 2015 Living Wage Forum held in Dublin, a number of firms and organisations made such a commitment.

²⁰ https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef18064en.pdf

²¹ OECD, 2015, Minimum wages after the crisis: Making them pay, OECD: Paris.

²² <https://www.cso.ie/en/releasesandpublications/ep/p-sdg1/irelandsunsdgs2019-reportonindicatorsforgoal1nopoverty/>

poverty rate is heavily influenced by the number of people at work in a household. For example, in 2018, the consistent poverty rate in a household with no people at work was 17.8%, over three times the rate of 5.4% where one person is at work.

Recently published analysis by NERI²³ of the Quarterly results from the Labour Force Survey (LFS) and Earnings, Hours and Employment Costs Survey (EHECS) Q4 2019 noted that average weekly and hourly wages have gone up in the last year by 3.6% and 3.5%, but that rents rose by almost 4%. Average weekly wages in the final quarter of 2019 were just 7.8% above the last quarter of 2008 in real terms while average rents were 35.9% higher over the same period and 44% higher in Dublin.

Impact of social transfers on the at risk of poverty rate

According to EU-SILC data²⁴, in 2018, if all social transfers were excluded from income, the 'at risk of poverty' rate would have been 40.9%. The corresponding figure for 2013 was 49.5% which shows that between 2013 and 2018 there was a decreasing dependence of individuals on social transfers to remain above the 'at risk of poverty' threshold. It is reasonable to suggest that some of this is due to the impact of increases to the NMW.

Impact of National Minimum Wage

Steady progress has been made in increasing the level of the National Minimum Wage and while some people continue to be paid below the minimum (24,500 in the fourth quarter of 2018), the overall numbers on the National Minimum Wage or less (137,200 or 7.6% of employees in the same period) have been falling as the economy has recovered.

Since its introduction in 2000, the National Minimum Wage (NMW) in Ireland has increased from €5.58 to the current rate of €10.10 in 2020. This represents an increase of €4.22 or 75.6% in nominal terms, but around 30% in real terms, when we adjust for inflation. The proportion of employees earning the NMW or less declined from 9.3% in 2016 to 7.5% in 2018.

Since the cost of living is relatively high in Ireland, the relative value of the minimum wage compared to other countries is lower because of the effect of the Purchasing Power Standards (PPS) factor which takes into account the differences in the costs of goods and services between countries. This is particularly notable, for example, when comparing Ireland with the UK. Before the adjustment, the NMW was 8% higher in Ireland than the UK. After the price adjustment, the value of the minimum wage in Ireland falls 2% below the level in the UK.²⁵ In an EU context, Ireland had the second highest minimum wage at €1,656 per month in 2019. However, when adjusted according to Purchasing Power Standards, the value of the minimum wage in Ireland falls to 7th place in the European rankings. The relative value of Ireland's NMW decreases further when the ratio of minimum wage to the median wages for full-time workers is taken into account. Even though Ireland has a relatively high minimum wage, median wages are also high in Ireland, with the result that the ratio of

²³ https://www.nerinstitute.net/blog/new-labour-market-figures-employment-and-average-wages-many-left-behind?mc_cid=8580023e17&mc_eid=852edc0cd4

²⁴ <https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2018/>

²⁵ http://publicpolicy.ie/downloads/papers/2019/The_National_Minimum_Wage.pdf

minimum to median wages in Ireland is comparatively low. In 2017, France had the highest minimum-to-median ratio at a value of 0.62; Ireland had the fourth lowest value of 0.43.²⁶

The National Minimum Wage has undoubtedly made a difference as indicated in research carried out by the ESRI for the Low Pay Commission.²⁷ This research found that the 2016 increase in the Irish minimum wage reduced hourly wage inequality between high and low earners by up to 8 per cent. However, the research concluded that there was no strong impact on the income of households.

While the ESRI evidence suggests that the minimum wage change was associated with a 40% reduction in the number of workers earning €9.15 per hour (2016 rate) or below, it also found that there is no strong evidence to indicate that the increase in the minimum wage impacted the distribution of gross household incomes. The ESRI report noted that this is consistent with other literature which shows that the minimum wage may be a blunt tool for reducing poverty, as minimum wage workers are often located in households at the higher end of the income distribution.

The majority of workers who currently earn the minimum wage are female. Women of all ages are particularly vulnerable to lower rates of pay, especially if working part-time, working unpredictable hours, on temporary contracts or in certain sectors such as retail and hospitality which are frequently low-paid positions²⁸. Also, there is a greater likelihood of part-time working by women which is often linked to the need to combine work with caring responsibilities. Data from the Labour Force Survey indicates that in 2018 the majority (57.9%) of those earning the minimum wage or less were working part-time. According to figures from Eurostat²⁹, women's gross hourly earnings were 16% below those of men in the European Union, while the gender pay gap in Ireland was 13.9%. The gender pay gap is generally much lower for new labour market entrants and tends to widen with age.

In July 2018, the Department of Public Expenditure and Reform carried out a Social Impact Assessment of the National Minimum Wage.³⁰ The Impact Report noted that in terms of poverty alleviation, minimum wages may be seen as only one lever within a policy toolkit. The impact of a minimum wage policy on poverty rates was seen as depending on a number of factors including the prevailing level of the minimum wage, the number of hours worked and coordination with other policies such as taxes and social transfers.

However, the report noted that the broader impact of the rate is not clear and that there is a lack of data regarding the impact of the minimum wage on the overall wage distribution at different points in time. Therefore, the Report suggested that it may be useful for future analysis to consider linkages with administrative data sources including PRSI data from the DEASP and PAYE data from the

²⁶http://publicpolicy.ie/downloads/papers/2019/The_National_Minimum_Wage.pdf

²⁷<https://www.esri.ie/system/files/publications/RS86.pdf>

²⁸ Collins, M, 2016, *Earnings and Low Pay in the Republic of Ireland*, NERI,

<https://www.nerinstitute.net/research/earnings-and-low-pay-republic-ireland>

²⁹ https://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_pay_gap_statistics#Gender_pay_gap_levels_vary_significantly_across_EU

³⁰ <https://igees.gov.ie/wp-content/uploads/2018/10/SIA-National-Minimum-Wage.pdf>

Revenue Commissioners. The CSO's Earning Analysis using Administrative Data Sources³¹ was also identified as a potential source of earnings distribution data.

Selected key considerations

- Although the majority of people starting on the National Minimum Wage move to higher earnings, a significant minority remain trapped in low paid jobs³². A quarter of employees earning the minimum wage or under, have worked for their employer for four years or more.
- It is almost certain that any future minimum wage increases would put money back into the domestic economy, which could potentially have a knock-on effect of stimulating job creation – this should be a factor in determining the minimum wage;
- Currently, the difference between a Living Wage and the National Minimum Wage is subsidised by the State, through social welfare payments such as the Working Family Payment.
- There is a sense in which consumers are significant net beneficiaries of low wages in that such wages contribute to cheaper products – this is an important consideration which needs to be looked at in greater detail, particularly in the context of a move to a Living Wage for all workers.
- There is clear merit in the argument that the minimum wage should be at the living wage level which has been identified as €12.30 in 2019.
- The number of workers (estimated in 2018 at 137,200) earning the minimum wage or less, while presenting a challenge for some smaller employers, should not be insurmountable in the context of reducing in-work poverty and lessening the need for social transfers.

Proposals for consideration by the Low Pay Commission

- The Living Wage concept should be kept to the forefront of ongoing deliberations by the Commission about the minimum wage – this is important because of the relatively high numbers of people 'clustering' just above the minimum wage³³ - clearly, there would be a need to put in place appropriate safeguards for financially vulnerable businesses who may not be able to afford this change immediately.
- Ongoing consideration of the NMW needs to factor in the respective contributions of the tax and social welfare systems and related in-work supports, (e.g. Working Family Payment and

³¹ See, for example,

<https://www.cso.ie/en/methods/earnings/earningsanalysisusingadministrativedatasources/>

³² <https://www.irishexaminer.com/ireland/25-still-on-minimum-wage-after-four-years-471104.html>

Low Pay Commission (2018), *The length of time employees spend on the National Minimum Wage*.

³³ Collins, M. (2016), *Earnings and Low Pay in the Republic of Ireland*, NERI,

http://www.ssis.ie/SSISI_Earnings_and_Low_Pay.pdf

Housing Assistance Payment) and consider how best to achieve the optimum balance between wages and these supports in combating poverty and dealing with welfare traps. There is a need to factor in childcare and housing-related costs in the conception of an adequate response to in-work poverty;

- In order to deal more effectively with long-term unemployment, consideration should be given to providing supports to employers to pay more than the minimum wage to people where there is training and upskilling relevant to taking up longer-term employment, including, in particular, people with disabilities and those experiencing mental health difficulties.
- Structural pay inequality for women is an ongoing and significant issue which should be explored further by the Commission.
- There is a need to look specifically at the National Minimum Wage rates for younger persons – the current rate for 18-19 year old young people is €8.08.
- Given the growing emphasis on the role of apprenticeships in recent years, consideration should be given as to whether the exclusion of apprenticeships from the NMW requirement is valid.
- Consideration should be given to the feasibility of increasing the Wage Subsidy Scheme for persons with a disability to a higher percentage of the NMW than is the case at present (52%).
- Consideration should be given to raising the National Minimum Wage for home care assistants and childcare workers through a Sectoral Employment Order for those sectors.
- One policy response that could be usefully explored by the Commission is to introduce a higher level of NMW for areas with high living costs, similar to the London weighting premium in the UK that raised minimum wage levels in London for some employees.³⁴
- The Low Pay Commission should continue to work in tandem with the DEASP in relation to achieving the optimum fit between the NMW rate and the Working Family Payment.

Overview

CIB acknowledges the very significant role being played by the Low Pay Commission, in particular, its focus on the importance of engaging with all relevant stakeholders interested in its work. CIB believes that the experience of people at the interface between low-paid and precarious employment and social welfare benefits which is regularly reflected in queries to CISs and CIPS can

³⁴<https://www.trustforlondon.org.uk/documents/57/London-Weighting-Key-Findings-2.pdf>

The London Living Wage rate is £10.75 per hour and the rate for the rest of the UK is £9.30 per hour (from 11/11/2019).

provide a valuable insight into the Commission's ongoing deliberations on the minimum wage. We would be happy to liaise with the Commission in exploring and analysing further these experiences.

Active social inclusion requires three strands operating in parallel – good quality employment, ensuring access to enabling services and providing adequate and effective income systems. It is reasonable to suggest that Ireland has given more priority to promoting job activation measures and in-work income supports than to fostering the development of good quality employment across the board. There is an ongoing need for a 'joined-up' response to in-work poverty which by its very nature is highly complex.