



National Minimum Wage Consultation

***Social Justice Ireland* submission to the
Low Pay Commission**



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) employment, unemployment and underemployment, (2) the working poor, 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 further.

1. Employment, unemployment and underemployment

Recent trends in Employment and Unemployment

The nature and scale of the recent transformation in Ireland's labour market is highlighted by the data in table 1.1. Over the decade from 2007-2017 the labour force decreased by 2.5 per cent, participation rates dropped, full-time employment fell by 7.6 per cent, representing over 134,000 jobs, while part-time employment increased by 10 per cent. By the end of 2017 the number of underemployed people, defined as those employed part-time but wishing to work additional hours, stood at over 88,000 people – just over 4 per cent of the labour force.

Despite dramatic improvements in recent years, the unemployment rate is significantly higher than in 2007, up from 4.6 per cent to 6.1 per cent in January 2018.

	2007	2011	2015	2017	Change 07-17
Labour force	2,260,600	2,161,500	2,170,500	2,204,500	-56,100
LF Participation Rate %	63.8	60.1	60	59.9	-3,900
Employment	2,156,000	1,847,700	1,983,000	2,063,000	-93,000
Full-time employed	1,765,300	1,411,400	1,531,500	1,630,800	-134,500
Part-time employed	390,700	436,200	451,600	432,200	+ 41,500
Underemployed	n/a	145,600	104,000	88,400	n/a
Unemployed	104,600	313,900	187,500	141,500	+ 36,900
Unemployment %	4.6	14.6	8.7	6.4	+ 1.8
Long-term unemployed	31,700	196,100	102,100	68,900	+ 37,200
Long-term unemployed %	1.4	9.1	4.7	3.1	+ 1.7

Source: CSO, QNHS on-line database. Notes: All data is for Quarter 4 of the reference year, except for 2017, where Q2 (the most recent available) is used. LFPR = ILO labour force participation rate and measures the percentage of the adult population who are in the labour market. Underemployment measures part-time workers who indicate that they wish to work additional hours which are not currently available. Comparable underemployment data is not available for 2007. Long-term means 12 months or more.

This transformation in the labour market has significantly altered the nature of employment in Ireland when compared to the pre-recession picture in 2007. Overall, employment has fallen by 93,000.

The impact of the unemployment crisis was felt right across the age groups. However it was young people who have been most negatively affected. Despite great progress on unemployment, which is down to 6.1 per cent from 7.4 per cent a year ago (January 2018), youth unemployment (which measures the rate for individuals between the ages of 15 and 24) is still at 13.7 per cent, more than twice the rate of the general population.

Low-paid Work and Precarious Work

According to the CSO, an average of 10.1 per cent of employees earned the National Minimum Wage (NMW) or less between Q2 and Q4 2016. This corresponds to approximately 155,000 employees.

One third of all workers within the accommodation and food services industry earned the minimum wage. This is the highest concentration of minimum wage employment in the economy¹.

Workers in part-time roles are five times as likely as 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-related 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 sufficient to achieve the minimum socially acceptable standard of living in Ireland.

A report published late last year 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 – or 8 per cent of the workforce in Ireland – have significant variations in their hours of work, from week to week or 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

¹ This begs the question of whether the government should be subsidising this industry to the tune of almost €500m per annum with a reduced rate of VAT. It is not wrong to incentivise employment creation using the tax system, but government needs to question whether it makes sense to give such costly incentives to an industry where one third of workers earn on the NMW, while around half earn below the living wage.

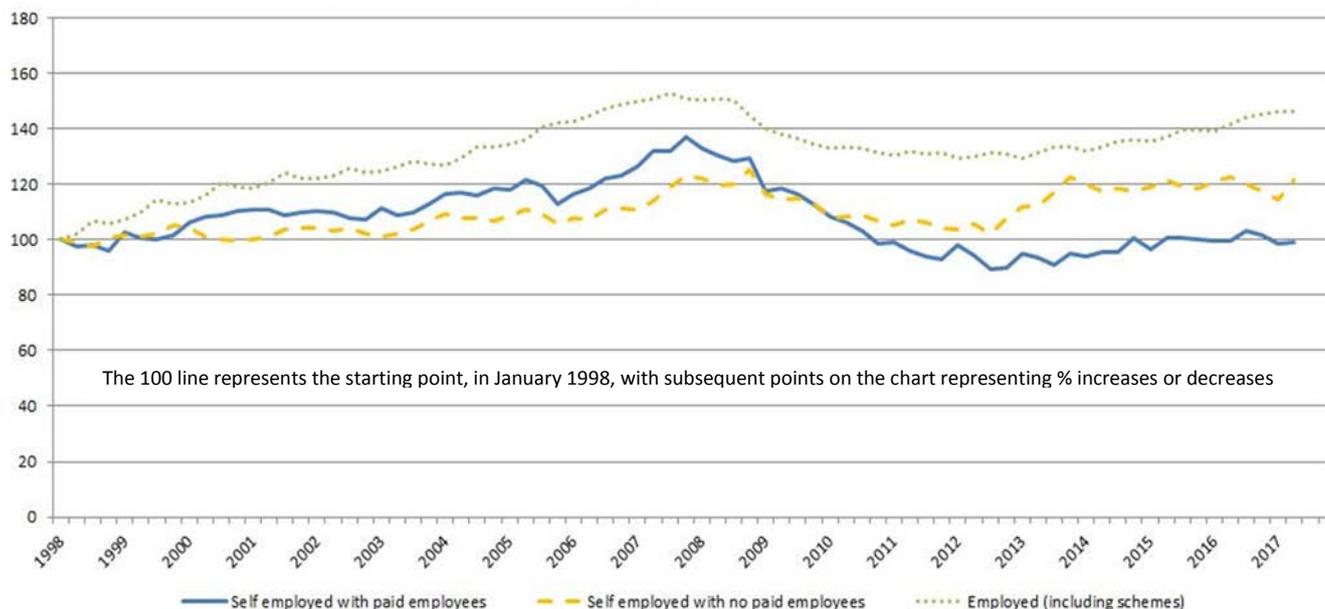
terms, with workers in the distribution, hotels/catering, retail and construction sectors featuring prominently;

- 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 report also noted that there has been “a dramatic rise” of 34 cent in the category of “part-time, self-employed without employees” since 2008. This is possibly indicative of significant growth in bogus or false self-employment.

The chart below shows trends since 1998 in employment and self-employment, breaking down self-employment into those with or without employees. At the beginning of the period measured, self-employment represented 19.5 per cent of all employment. By the middle of 2017, it represented just 16 per cent. Solo self-employment has grown from 67.4 per cent of all self-employment to 71.7 per cent.

Employment and self-employment in Ireland 1998-2017



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 it is now an urgent necessity for Government to address the problem of precarious work decisively through legislation, once and for all. Minister for Employment and Social Protection Regina Doherty has announced that new legislation was forthcoming to ban zero hours contracts in most circumstances and strengthen rights for workers on insecure contracts and those working variable hours. *Social Justice Ireland* wholeheartedly welcomes this announcement.

2. The working poor

Having a job is not, of itself, a guarantee that one lives in a poverty-free household. As table 2.1 indicates 52 per cent of those who were employed in 2016 were living at risk of poverty.

Despite decreases in poverty among most other groups, poverty numbers for the working poor have remained static, reflecting a persistent problem with low earnings. In 2016, around 105,000 people in employment were still at risk of poverty. This is a remarkable statistic and it is important that policy makers begin to recognise and address this problem.

	Poverty	Deprivation
At work	5.2%	11.8%
Unemployed	48.4%	49.3%
Students and school attendees	30.3%	27.2%
On home duties	25.3%	26.2%
Retired	12.1%	12.3%
Unable to work as ill/disabled	53.4%	63.7%

Source: CSO SILC reports (2017)

Many working families on low earnings struggle to achieve a basic standard of living. Policies which protect 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 Family Income Supplement (FIS) are also welcome.

However, one of the most effective mechanisms available within the present system to address the problem of the working poor would be to make tax credits refundable.

Introducing Refundable Tax Credits

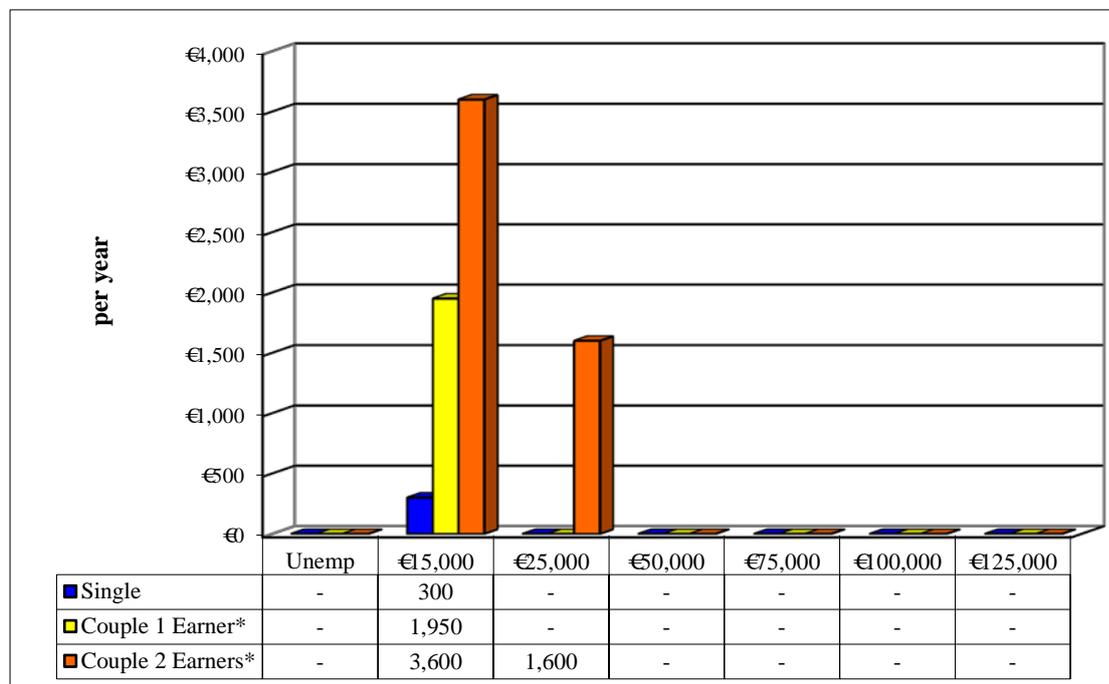
The move from tax allowances to tax credits was completed in Budget 2001. This was a very welcome change because it put in place a system that had been advocated for a long time by a range of groups. One problem persists, however. If a low income worker does not earn enough to use up his or her full 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, 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 of the benefits from introducing this 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?



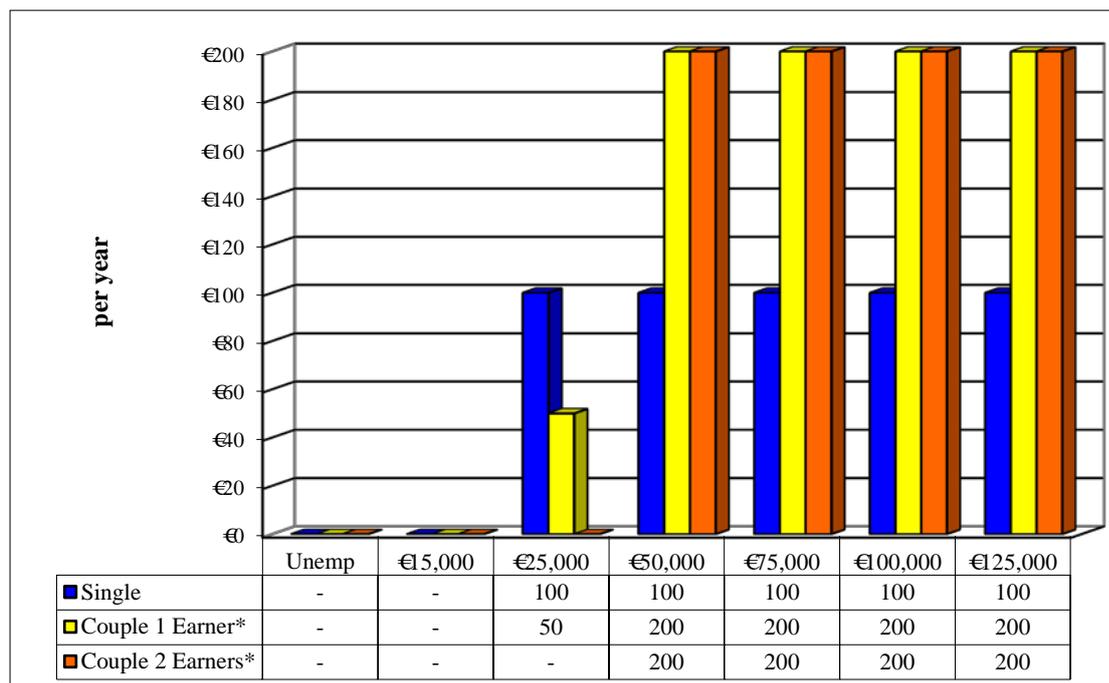
Note: * Except where unemployed as there is no earner

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. 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. 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.

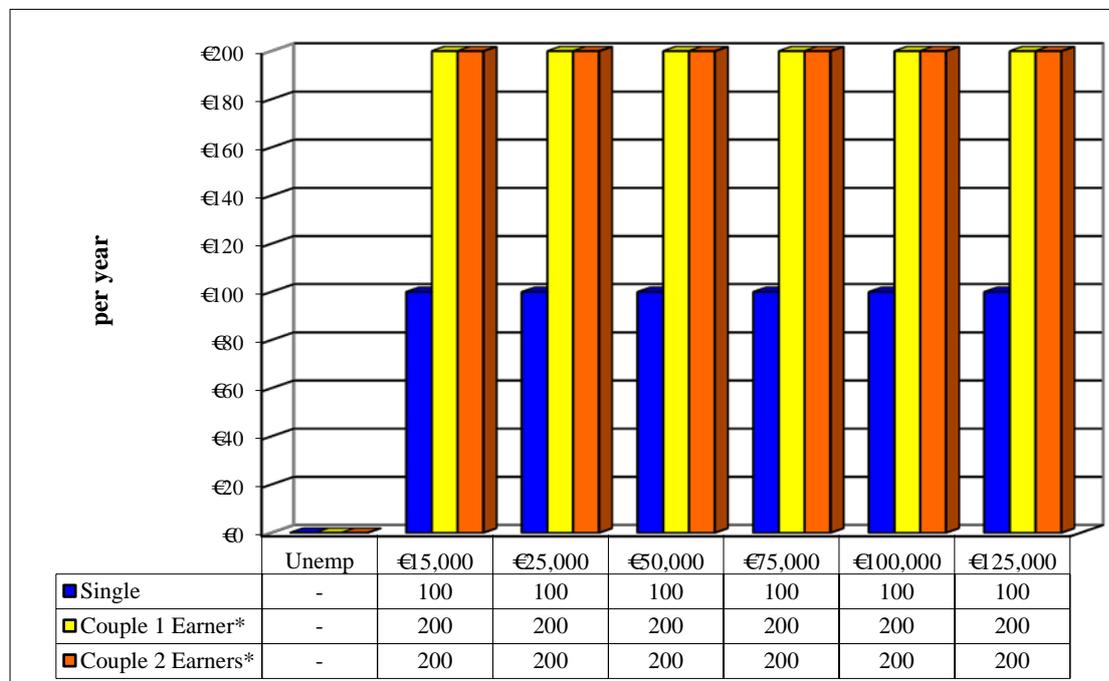
Chart 2.3 shows how the benefits of a €100 a year increase in personal tax credits would be distributed under a system of refundable tax credits. This simulation demonstrates the equity attached to using the tax-credit instrument to distribute budgetary taxation changes. The benefit to all categories 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 2.2: How much better off would people be if tax credits were increased by €100 per person?



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

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



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.

During 2010 *Social Justice Ireland* published a detailed study on the subject of 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.² 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 €140m. The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem, and improve the living standards of a substantial number of people in Ireland. The following is a summary of that proposal:

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.
- Would be more appropriate for a 21st century system of tax and welfare.

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 minimum annual income from employment of €4,000.
- 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

- The total cost of refunding unused tax credits to individuals satisfying all of 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.

²The study is available from our website: www.socialjustice.ie

- The majority 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 €15,600 (or €299 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.
- A total of 91,056 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 91,056 individuals living below the poverty line that benefit from refunds, most, over 71 per cent receive refunds of more than €10 per week with 32 per cent receiving in excess of €20 per week.
- A total of 148,863 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 study 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.

Keeping the minimum wage out of the tax net

The decision by the Minister for Finance to remove those on the minimum wage from the tax net was a major achievement of Budget 2005. This had an important impact on the growing numbers of working-poor.

The fiscal and economic crisis of 2008-13 led to Government reversing this policy, first via the income levy in second Budget 2009, then via the Universal Social Charge (USC) in Budget 2011 and via a PRSI increase in Budget 2013. Since Budget 2016 the USC is charged on all the income of those who earn more than €13,000 per annum. Using the unadjusted minimum wage of €9.55 per hour, the threshold implies that a low-income worker on the minimum wage and working 26.25 hours or more per week (earning €251 per week) is subject to the charge.

Social Justice Ireland believes that this threshold is too low and unnecessarily depresses the income and living standards of the working poor. The imposition of the USC at such low income levels raises a very small amount of funds for the exchequer. Forthcoming Budgets should continue to raise the point at which the USC commences as more resources become available to the Exchequer. *Social Justice Ireland* recommends the restoration of the policy of keeping the minimum wage fully outside the tax net.

3. The living wage and the national minimum wage

During the past two years *Social Justice Ireland* and a number of other organisations came together to form a technical group which researched and developed a Living Wage for Ireland. In July 2014 the group launched a new website (www.livingwage.ie) and a technical paper outlining how the concept is calculated. The latest update was published in July 2017. It put the figure for a Living Wage at €11.70 per hour.

The confirmation in Budget 2018 of the previously announced increase of 30 cent per hour to the statutory national minimum wage is a welcome 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 €9.55 is still approximately 20% below the living wage of €11.70 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 sufficient 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 benefiting 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 adds to a growing international set of similar figures which reflect a belief across societies 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 living wage which provides for needs not wants;
- 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;
- unlike the National Minimum Wage which is not based on the cost of living.

In principle, a living wage is intended to establish an hourly wage rate that should provide employees with sufficient 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. 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 on the basis of the Minimum Essential Standard of Living research in Ireland, conducted by the Vincentian Partnership for Social Justice (VPSJ). 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 Minimum Essential Standard of Living (MESL) are identified. With a focus on needs not 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 country as a whole, 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 cent. It is planned to update this number 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 offers 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 benefiting 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. Recommendations

1. As part of the process of addressing the working poor issue, personal income tax credits should be made refundable. This would make Ireland's tax system fairer, address part of the working poor problem, and improve the living standards of a substantial number of people in Ireland.
2. Government should restore the policy of keeping the minimum wage fully outside the tax net.
3. 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.
4. Consideration should be given to the role that the living wage can play in informing the level of the National Minimum Wage. Social Justice Ireland would like to see government commit to a timeframe over which the National Minimum Wage would move towards the rate of the living wage rate.

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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