FIANNA FÁIL
THE REPUBLICAN PARTY

Fianna Fáil's Submission to the Low Pay Commission on the National Minimum Wage

April 2015

Executive Summary

Fianna Fáil welcomes the Low Pay Commission's request for submissions on the National Minimum Wage (NMW). We believe that priority focus should be on low paid people and improving their job security. Fianna Fáil believes that the utmost importance should be given to supporting those on low and middle earnings, who are finding it hard to meet their weekly financial commitments.

In preparing this submission, Fianna Fáil consulted widely with social partners and relevant stakeholders. We sent a high level delegation, led by party spokesperson on Jobs, Enterprise & Innovation Dara Calleary TD to meet the UK's Low Pay Commission to discuss its operation.

In this submission, Fianna Fáil puts forward concrete policy proposals for the Low Pay Commission.

Our principle recommendations are:

- A 6.4% increase in the National Minimum Wage to €9.20 per hour, representing an increase in gross pay of €1,115 per annum (based on a 39 hour week)
- An expansion of the remit of the LPC to include a definition of a "Living Wage" and a corresponding calculation of an hourly rate to achieve this
- The State as a major employer should seek to ensure that people it directly and indirectly employs are paid the Living Wage
- Examination of the potential need for a separate minimum wage within the Dublin metropolitan area to reflect the higher cost living in the region
- Rigorous action to enforce the current and revised NMW including naming and shaming of employers who fail to comply with legislation
- The adoption of specific NMW wage levels for various youth and apprentice categories
- Remit of LPC should extend to make recommendations on low pay workers, who are on short hour or zero hour contracts
- Employer PRSI contributions for those on low pay to be examined by LPC

Fianna Fáil welcomes the Low Pay Commission's request for submissions on the National Minimum Wage. We have always believed that where the prevailing economic conditions necessitate, the state should ensure that low income workers automatically feel the benefit by an increase in their disposable income. Employers in industries where profitability is improving should recognise the sacrifices that employees have made and look to increase their tax home pay starting with those on the minimum wage. Notwithstanding this, any suggested wage increase must be carefully balanced against causing adverse effect on national employment and competitiveness, especially for SMEs.

In preparing this submission, Fianna Fáil consulted widely with social partners and relevant stakeholders. We sent a high level delegation, led by party spokesperson on Jobs, Enterprise & Innovation Dara Calleary TD to meet the UK's Low Pay Commission to discuss its operation. We believe that as the economy recovers priority focus should be on low paid people and improving their job security. Fianna Fáil believes that the utmost importance should be given to supporting those on low and middle earnings, who are finding it hard to meet their weekly financial commitments. This is set against the background of increased indirect taxes, charges, high rents and housing shortages, as well as spiralling childcare costs.

In this submission, Fianna Fáil will outline its policy positon on the National Minimum Wage rate and cover the following areas:

- Ireland's National Minimum Wage in an international setting
- Evidence based approach – current economic metrics and forecasts
- Enhancing the remit of the Low Pay Commission
- Enforcement of the National Minimum Wage
- National Minimum Wage Recommendation

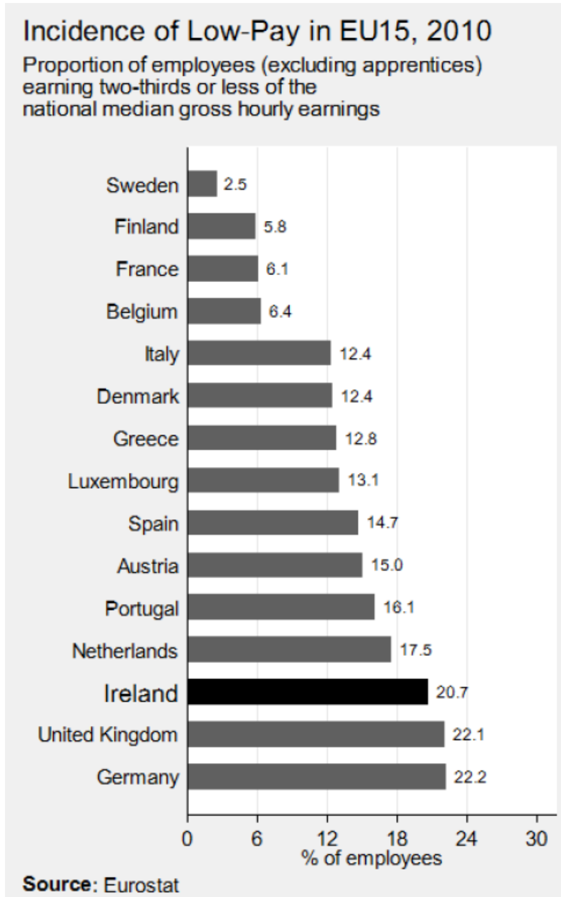
Ireland's National Minimum Wage and low pay in an international setting

Minimum wages are used in many countries as a tool to protect those in low-wage jobs from exploitation by setting a floor below which hourly pay cannot fall. The level at which this floor is placed is a matter of societal preference, which for Ireland has usually been determined through dialogue between government, employers and trade unions.

The National Minimum Wage (NMW) is also of economic significance and influences both the demand for and the supply of labour in the economy. By raising the cost to employers of hiring low-wage workers, the minimum wage could potentially lead to less low-wage workers being hired, creating unemployment. Conversely, the minimum wage could encourage employment by ensuring it pays more to work than to be unemployed.

The Irish National Minimum Wage was introduced in April 2000, under the National Minimum Wage Act 2000, at a rate of IR£4.40 (equivalent to €5.58) per hour. The current rate of €8.65 per hour was first introduced in 2007. Recent figures from the Central Statistics Office's (CSO) quarterly Earnings Hours and Employment Costs Survey show that 4.7 per cent of all employees, (over 73,000 workers), were being paid the adult NMW of €8.65 per hour or less in quarter 2 of 2014.

Low-pay is defined by the OECD as earnings that are less than two-thirds of the median pay. Dr. Seamus Coffey, a lecturer in Economics from UCC recently outlined to the Committee on Jobs, Enterprise and Employment that using the latest available Eurostat data from 2010, the incidence of low pay in Ireland is the third highest in the EU15 (see graph below) in analysing median earnings on an hourly basis.



Meanwhile, in sectors where the NMW is prevalent, according to Dr. Coffey, the wage share in Ireland is slightly below the EU15 average for the wholesale and retail trades, above the EU15 average for accommodation and food service activities and at the EU15 average for administrative and support service activities. Additionally, in 2012, Eurostat classified 20.7 per cent of Irish workers as low paid – that is earning below €12.20 per hour.

As the Irish Low Pay Commission (LPC) is based very largely on the UK model that has been in existence since 1998, its recent recommended increase is worth noting. The UK LPC recommended that the NMW be increased by 3 per cent to £6.70 from October 1 2015. This was based on increasing employment growth rates, inflation forecasts and GDP figures. Between 1998 and 2014, the UK's NMW increased over 80 per cent from a starting point of £3.60.

As practiced by the UK's NMW setting mechanism, wage adjustments are made on an annual basis as opposed to the Irish situation to date where NWM changes were done on an irregular basis with time lags. The major advantage of an annual review is that any incremental increase (if recommended) can be absorbed more easily by employers on a yearly basis, thus giving more predictability. A 2006 report for the Department of Enterprise, Trade and Employment confirmed "the approach adopted in the UK, where the National Minimum Wage has been increased from October each year by much smaller amounts – of the order of 4-5 per cent - seems far preferable, even if the overall increase implemented over a period of say 5 years were to be similar".

Evidence based approach - Current economic metrics and forecasts

It is welcome that the LPC will use an evidenced based approach when reviewing the NMW rate via set data metrics. Coming to an agreed set of metrics by all LPC members will create consistency and a harmonised working body of evidence.

Latest CSO estimates indicate that Gross Domestic Product (GDP) in volume terms increased by 4.8 per cent for 2014. Meanwhile, Gross National Product (GNP) increased at 5.2 per cent in 2014 compared to 2013. The Economic and Social Research Institute (*ESRI*) forecast in their Quarterly Economic Commentary (Spring 2015 edition) that economic growth is expected to increase in 2015 and 2016, with Ireland's GNP forecast to grow by 4.1 per cent in 2015 and 3.6 per cent in 2016. This latter is a truer reflection of economic growth as this does not include foreign multinationals that repatriate profits abroad. Furthermore, latest IBEC GNP projections are over 5 per cent for this year.

The Consumer Price Index increased from 102.8 in June 2007 (when the NMW was increased to €8.65) to 106.0 in March 2015 (December 2006 = 100), representing an increase of 3.1%. However this masks considerable volatility with deflation in 2009 and 2010 followed by modest growth in price levels. Meanwhile, the EU's harmonised Index of consumer prices (HICP) increased by 3.4 per cent in this period.

Any adjustment of the NMW must not hurt our employment competitiveness and add disproportionate labour costs to businesses, especially for SMEs. The LPC operated by our neighbour clearly sets its aim to have "NMW rates that helped as many low-paid workers as possible, while making sure that we do not damage their employment prospects". The National Competitiveness Council (NCC) has also made a number of recommendations in regard to labour cost competitiveness in their 2014 report that the Irish LPC should consider. In particular, the NCC recommended "enhancing labour cost competitiveness, through reform of income taxes, changes to the PRSI structure for lower paid workers".

The Government added to the burden of Employer PRSI in 2014 when the reduced rate for employees earning less than €356 a week was ended. This added €176m in cost to business in 2014. Employees earning at or close to the NMW are concentrated in the retail, hospitality and service sectors. These sectors are generally enjoying good growth in employment currently indicating limited spare capacity. Employment levels should therefore not be damaged to any significant degree by an increase in the NMW which reflect the change in price levels since the last change to this wage rate and also a modest increase in real incomes.

Enhancing the remit of the Low Pay Commission

There is significant potential to widen the potential and remit of the LPC. A number of other areas should be reviewed by the body. These include NMW youth and apprentice rates, an adult living wage, low hour contracts, childcare and household costs. The whole area of enforcement needs to examined also by the LPC. The UK Low Pay Commission has a strong track record and a remit for researching and commentating on many of the above areas. These should come under the responsibility of the Irish LPC also.

A living wage is a wage that persons working full time should earn a sufficient income to have a decent standard of living. In 2014, a grouping of Irish civil society organisations formed the Living Wage Technical Group. After a period of research and establishing an agreed methodology, the latter group agreed on a living wage of €11.45. Fianna Fáil believes that the LPC as an independent body should have a role in defining what the living wage is, while taking on board regional variations. For example, a Dublin NMW rate should be examined to reflect the higher cost of living. However, it should be left to businesses to decide solely whether to introduce a living wage on a voluntary basis. Due to varying sectoral differences e.g. low pay intensive sectors like retail and hospitality, it may be more challenging to introduce a living wage here in comparison with other sectors e.g. finance.

The state as a major employer should seek to ensure that people it directly and indirectly employs are paid the Living Wage. It should also examine and recommend specific NMW wage levels for various youth categories. ILO and OECD studies show that young people are the most high risk group to be excluded from the labour market. Any increase in a singular NMW rate should not negate employment prospects for young people. Instead, the LPC should research and come to an agreed NMW rate for young people aged 16-17 and 18-20 along with an apprentice rate. In the UK, there are currently four rates, one adult, two youth and one apprentice NMW level. Youth NMW rates are lower than the adult rate in order not to incentivise school leavers leaving secondary education early.

As the LPC will review the NMW annually, its remit should extend to workers on low pay, who are on short hour or zero hour contracts. Bringing clarity to work hours is as essential as increasing the rate that a worker is paid for duties performed. Workers in such precarious positons face uncertainty every week, never knowing in time the hours they are required to do and this leads to a lack of security in relation to how much they are actually going to earn. The LPC should investigate banded-hour contracts for those on low pay, which would allow workers on low and zero hour contracts a minimum set of hours and the right to request more hours as practiced in other larger retailors. Banded hour contracts at least gives some certainty of hours per week within an agreed band, thus allowing flexibility for employers.

On a broader level, low pay and casual working arrangements prevents people from getting mortgages, entering rental agreements and being able to make financial commitments. It is an extremely onerous position to put any person in. Many working families on low pay are also struggling with high rents and spiralling childcare costs. A recent European Commission report on Ireland pointed the finger very clearly at the high cost of Irish childcare. In 2013, the average childcare fee was €152 per child per week, amounting to around €16,000 a year for a two-child family. It is extremely hard for workers who are on part time contracts and low pay to meet these bills. Therefore, it would be beneficial if the LPC assess the incidence of low pay given these factors outlined above.

Fianna Fáil believes that the government should examine employer PRSI for those on low pay and consider giving businesses compliant with NMW increases an incentive such as a PRSI reduction for a temporary period. In the UK, employers have been given a reduction in their social security contributions with the recent increase to the apprentice NMW rate.

Enforcement of the National Minimum Wage

Enforcement of the NMW is key. In 2013, the UK Government revised the rules to allow it to name and shame companies that underpay staff. Alongside naming and shaming companies, the UK Government is cracking down on employers which ignore the minimum wage rules by increasing the penalty fines and boosting the resources available to investigate non-compliance.

Government and relevant authorities must communicate and raise awareness of the legally enforceable NMW. The LPC in the UK carries out workplace visits annually to raise awareness of the NMW, while the authorities there name non-compliant employers publicly. This enforcement strategy could be availed of in an Irish setting. Furthermore, penalties for those employers found in breach of the NMW are in operation also.

Finally, the LPC should monitor NMW progression over an extended period of time and see if people are progressing up the wage ladder. This can be analysed on a sectoral and occupation level.

National Minimum Wage Recommendation

A 2015 IBEC business pay survey confirmed that 57 per cent of companies plan to increase basic pay in 2015. Further, this survey also confirmed that the majority of Irish workers have lost between 8 per cent and 10 per cent of their take-home pay to higher income taxes during the crisis period.

Given the current economic position, a two-tier recovery is being centred in the eastern seaboard. While any job creation is welcome, it is unacceptable that 94 per cent of all jobs created in 2014 were in the capital and commuter belt region. This leaves many communities isolated and disconnected.

Over an 18 year period, the experience of the UK's LPC, which our commission closely resembles, has served to be fit for service. Its long term record is one of raising the minimum wage and increased wages for workers at the bottom without damaging jobs in the economy. This successful model must operate in the same manner for an Irish context.

Based on all the economic data currently available, Fianna Fáil recommends increasing the National Minimum Wage by 55 cent (+6.4%) to bring it up to €9.20 per hour. This recommended rise is greater than inflation increases (+3.1 CPI and +3.4 HICP) in the period since 2007 along with latest economic growth forecasts of over 5 per cent and overall wage growth levels. Based on a 39 hour working week, this would equate to over a €1,000 spread over a year for a person on the NMW. In addition, increased indirect taxes, charges, high rents, as well as spiralling childcare costs must be considered as factors to increase earnings for those on low pay, who struggle to meet financial commitments.

This suggested increase has taken into account the current economic and labour market conditions. Furthermore, this recommended rise and any future annual increases positions employers to be able to absorb such rates of increase more easily in a way that supports employment, while not hampering competitiveness. Lastly, the treatment of employer PRSI should be explored in line with any future rate increases.