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## **CIPD IRELAND SUBMISSION TO THE EU DIRECTIVE ON THE ADEQUACY OF THE MINIMUM WAGE**

CIPD Ireland welcomes the public consultation on the EU Directive on the adequacy of the minimum wage and the opportunity to share our members insights on this development in Ireland.

CIPD, the Chartered Institute of Personnel and Development, is the professional body for human resource and learning & development professionals. In Ireland we represent and are the voice of 6,000 HR and L&D professionals and are part of the CIPD international community of over 150,000 professionals.

CIPD Ireland, a registered charity, has a mission is to champion better work and working lives. We engage with HR leaders and practitioners from Irish and multinational organisations as well as academics and policy makers, on dealing with the challenges of the workforce and future workplace.

We carry out annual research on HR, pay and employment practices in Ireland. We promote flexible working practices as a central tool in 'good work' and believe more action is required by Government to progress this. In this proposal we share our expert view on the issues and solutions, on the proposed EU Directive on the adequacy of the minimum wage.

We recognise the serious issue of in-work poverty, and that this has increased overall the EU in recent years. The Covid-19 pandemic will have further impacted this, especially with the consistent trend that those most vulnerable in the labour force have been impacted most – traditional low paid sectors of retail, hospitality as well as particular groups of workers such as women, migrant and young and part-time workers.

The specific impact of Covid-19 on in-work poverty has yet to be determined and will reflect the financial supports put in place by national governments to deal with Covid-19 related business closure, lockdown measures and income loss. Ireland provided a payment of €350 a week for those impacted or suffering from Covid-19, which is very close to the take-home pay of €366 per week for a person on the NMW (pay of €400pw for 52 weeks).

CIPD Ireland agrees that the issue of in-work poverty needs to be addressed to ensure individual and families have sufficient income. The Low Pay Commission has played a role in this, as does the State's financial supports schemes for those at risk of poverty.

Addressing in-work poverty (IWP) is a very complex issue that needs a variety of response mechanisms. We do not believe that it can be effectively sorted by a Directive or national legislation on the adequacy of the minimum wage and the promotion of collective bargaining on wage setting. Both of these elements are capable of further exacerbating business and labour market difficulties, without improving IWP.

#### **Working Family Payment**

The key mechanism in Ireland for addressing IWP is the Working Family Payment (WFP) (formerly known as Family Income Supplement), a weekly tax-free payment available to employees with children. It gives extra financial support to people on low pay. Employees qualify for WFP and those who are only self-employed are currently unable to receive this. To qualify for WFP, average weekly family income must be below a certain amount for family size. The payment is 60% of the difference between average weekly family income and the income limit which applies. The Working Family Payment is not taxed and other social welfare benefits such as Back to Work Family Dividend may also apply.

**A review of the impact of the WFP on IWP and an extension to cover the self-employed will be more appropriate in Ireland than further EU or National regulation.**

## A complex environment

***Below we have drawn heavily on the EU's ESPN Thematic Report on In-work poverty Ireland 2019. This demonstrates that the EU's own analysis does not see adequacy of the minimum wage as the central tool to address IWP in Ireland.***

The analysis of Ireland's population at risk of in-work poverty, called out that Ireland differs from the general EU pattern in two respects: first its rate is lower than the EU average (5.2% compared to 9.4% (on 2017)); second the trend in Ireland has seen a drop of 0.4% between 2012 and 2017 as compared with a rise of 0.5% in the EU on average. In fact, Ireland had the fourth lowest IWP rate in 2016.

**By 2018, [Eurostat](#) reported Ireland had the third lowest rate of IWP, further down to 4.9% compared to an average of 9.5% in the EU. This demonstrated how labour market developments and social welfare supports at a national level have the capacity to reduce in-work poverty, with no need for further regulation at European or national level.**

The nature of IWP in Ireland is unique, with a different profile from other EU contexts, and requires a tailored solution.

### **Education and country of origin**

In the EU's *ESPN Thematic Report on In-work poverty Ireland 2019*, the data on education level shows that the working poor in Ireland are drawn disproportionately from among the least educated. However the inequality by education level is less sharp in Ireland as compared with the Union as a whole: the Irish ratio in IWP incidence for those with the least education to those with the most is 3:1 whereas this ratio is 5:1 for the EU as a whole.

The nationality data show that IWP in Ireland is closely associated with national status/country of birth (as is the case elsewhere), with the highest rates (11.8% in 2017) reported for those born outside the EU. Those listed as 'foreign' born are not as exposed to IWP in Ireland as they are in the EU as a whole (with an relatively stable IWP rate of 7.8% compared to 17.8% respectively).

## **Self-employment**

Turning to employment and labour market-related characteristics, the report highlights how a breakdown by employment status shows that IWP is very much a phenomenon associated with self-employment – the self-employed are four times more likely to be in IWP as compared with employees (the exact figures in 2016 being 11.5% and 4.2% respectively).

The ESPN report noted that Ireland has a higher rate of self-employment than the EU as a whole and that the rate of self-employment increased quite significantly in Ireland after the economic recession (according to some estimates up by 34% between 2008 and 2016 – ICTU (2017)). It seems to have been a way of responding to unemployment (especially in the construction sector). Much self-employment has been likened to a survival strategy rather than the expression of an individual's entrepreneurial drive (Wickham 2017: 44). Hence, the category is something of a catch-all one and needs to be treated with care.

While the trend for IWP among the self-employed is downward – falling from 18.5% in 2018 to 11.5% in 2017 – there is relative stability in the incidence for employees (at around 4%). **This high level of IWP among the self-employed is especially significant as the main support mechanism for IWP - Working Family Payment cannot be accessed by the self-employed. We call on the government to immediately revise access to the Working Family Payment to urgently address a key cohort of those suffering IWP.**

## **Lone parent households**

One very striking point to note in the report is the concentration of IWP in lone-parent households in Ireland and the rapid rate of increase (134% intensity over the period from 2012 to 2017). The IWP rate for a single person with dependent children in 2017 was 20.8% compared to 3.6% for a household of two adults without children and 4.2% for those consisting of two adults with children. The rate for single person households was 11.1%. This is a very important finding and may suggest that higher IWP is associated with the move of lone parents into employment as shaped by changing welfare regulations since 2012.

Low-work intensity seems to be an important root here. The data showing reminds us that it is not just lone-parent households for which there is a relationship between work intensity and IWP; a

roughly similar incidence of IWP is recorded for households with and without dependent children with a very low work intensity.

### **National Minimum Wage**

Certainly NMW workers have a higher risk of poverty than non-NMW workers - 17% compared to 3% on 2014 data (Maître et al 2017). And yet only 28% of NMW employees in 2014 were from deprived households, compared to 19.5% of workers earning above the minimum wage. It is known that many NMW workers are second earners in their households. Hence the role and significance of the NMW as an anti-poverty measure is complicated as minimum wage increases will also benefit a large number of individuals who are not from economically disadvantaged or deprived households. Logue and Callan (2016) conclude that increasing the NMW will have only a limited effect on poverty reduction. They suggest that poverty in Ireland may be more a problem of joblessness than of low pay. With some beneficial effects of raising the NMW – especially if the raise is significant (Horton and Collins (2016), suggesting that would need to be an increase of over a third of the value of the NMW ). **So a Europe-wide approach to wage adequacy is not the right tool to address poverty or IWP.**

### **Labour market interventions**

The link with poverty is not straightforward. Other than self-employment, other labour market features characterising IWP in Ireland include being on a temporary contract (the IWP rate for which is on a sharp upward curve) and being in part-time as against fulltime employment. The low paid are disproportionately part-time, female, young, and working in retail and hospitality.

The dynamism in the labour market for low-paid workers is also important. A study quoted in the *ESPN* report found that over a nine-month period during 2016 and 2017, approximately 30% of minimum wage employees transitioned to higher pay, with 18% staying on the minimum wage (Redmond et al 2018). The vast majority of the observed transitions to higher paid employment were achieved through wage progression within the employee's current job, as opposed to a job change. However, certain groups within the population, such as non-Irish nationals, those with low levels of education, part-time employees and those on temporary contracts, were found to have a higher likelihood of remaining on the minimum wage. The remaining 52% experienced some other type of labour market transition either from or to higher pay, unemployment or inactivity. Minimum wage employees were found to be more likely to transition to unemployment or inactivity compared

to high-paid workers. The conclusion seems to be that while minimum wage employment is a stepping stone for some, it is a trap for others.

**Access to education, training and employability supports, are the interventions needed to address this difficulty.** The introduction of an Action Plan for Jobless Households published in September 2017 aimed to extend the activation support measures to adults in jobless households, to reform disability and other benefits so that they are not a barrier to employment, and to develop a ‘family focused case management activation approach’ to jobless households (Department of Employment Affairs and Social Protection 2017). However progress on this has been slow, though we have seen the risk of IWP drop further to 4.9% in 2018. Increased attention will be very necessary as we emerge from Covid-19

## Conclusions

The EU proposal for a Directive on adequate minimum wage is not the type of intervention required to reduce the complexity of IWP in Ireland and would draw attention away from investing in the right solutions for the issue.

In Q2 2020, the CSO reported that there was a significantly greater impact of Covid-19 on adults in lone parent households, with a drop from 64% to 61% against an employment rates for all family unit types at 75%. The share of adults aged 18-59 years living in jobless households rose from 8.8% in Q2 2019 to 11.1% in Q2 2020. Meanwhile, the share of children aged under-18 living in jobless households increased from 11.3% to 13% over the same period. State supports will be needed to address these poverty risk, as they will not benefit from changes to the NMW setting process.

Below we comment on some specific proposals.

### **Promotion of collective bargaining on wage setting**

This proposal is not appropriate in the Irish context for 2 main reasons.

- Such collective bargaining will not be restricted to benefiting those facing IWP but will push up labour costs significantly. It will not be tailored or nuanced enough to be able to deal with cases and the actual causes of IWP.

- It is expected that such a mechanism will call for increased wages across the country which will particularly impact on the SME sector. This sector faces financial struggles at the best of times, and will need a benign environment to come out of the Covid-19 crisis. A legal requirement to increase pay will cause much anxiety and company closures.
- Ireland's reputation as being attractive for inward investment and as a good place to do business will be seriously damaged on the international stage, as many MNCs will fear the increase in trade union and collective bargaining activity.

#### **Clear and stable criteria for setting and updating statutory minimum wages**

- We see no difficulty in having clearer and common criteria for setting and updating statutory minimum wages across Europe. This is best done through sharing of expertise and learnings and regular reporting of actions taken and effectiveness. It does not require legislation and regulation.

#### **Strengthened involvement of social partners in statutory minimum wage setting**

- In Ireland the Low Pay Commission already exists to review and recommend statutory minimum wage changes, to be approved by the Minister. This process is sufficient to address NMW. As we've already seen, NMW raises the baseline for all, but is too broad a mechanism to be the solution to reducing the risk of IWP in the Irish labour market.

#### **Limited use of variations and deductions in statutory minimum wage setting**

- Current regulation for Ireland's NMW and its management, already meet this criteria, with limited use of variation and deductions. There is also a strong inspection environment in place under the auspices of the WRC, and EU control of this will not benefit the individuals or the economy.

#### **Annual reporting by Member States to the Commission alongside structured dialogue**

- We believe increased structured dialogue where Ireland can learn from the expertise and experience of other member States will be of use. However this does not require a damaging legislative framework to implement.

**In 2018, [Eurostat](#) reported Ireland had the third lowest rate of IWP, further down to 4.9% compared to an average of 9.5% in the EU. This demonstrated how labour market developments**

**and social welfare supports at a national level have the capacity to reduce in-work poverty, with no need for further regulation at European or national level.**

Actions at national level such as the increased supports for the self-employed through the WFP, greater job supports and training for those on the NMW and dealing with the poverty trap of lone parents should be taken by the government to reduce in-work poverty.

For further information, please contact

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