

Submission by the Vincentian Partnership for Social Justice on the Government Review of the Minimum Wages set by Employment Regulation Orders

Key Points

- Since 2001 the Vincentian Partnership for Social Justice has carried out research on the cost of a minimum essential standard of living for six household types in urban and rural areas. The adequacy of standard social welfare and minimum wage rates is benchmarked against the minimum needs of these household types.
 - The reduction in the minimum wage to €7.65 and the effect of the universal social charge has impacted greatly on the lowest earners in our society. A single income household will now see a drop in earnings of over €2,345 in 2011 compared to 2010.
 - Under the new minimum wage of €7.65 an urban single adult in full-time employment faces a weekly shortfall of over €70. While a rural two parent household with two children (ages 10 & 15), with both parents employed suffer the hardship of inadequate income, leaving them over €4,500 short per year.
 - Our findings have repeatedly demonstrated the inadequacy of the former €8.65 National Minimum Wage. Indeed, our analysis demonstrated that for an urban single adult to maintain a socially acceptable minimum standard of living, a full-time minimum wage rate of €9.87 was necessary in 2010.
 - Cuts in minimum wage rates have moved our society further from providing an adequate 'living wage', imposing ever greater hardship on individuals and families attempting to live on low wage rates.
 - It is vital that any further review of minimum wage rates take account of the demonstrable insufficiency of both the current, and former, National Minimum Wage.
 - When a household has a manifestly low income which is considerably less than that required for a minimum essential standard of living there can be no justification for measures which plunge them deeper into poverty and debt. Other choices are possible.
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This submission has been prepared by the Vincentian Partnership for Social Justice. This submission is divided into the following sections:

1. Introduction
2. Detailed Recommendations
3. Rationale for Recommendations
4. Conclusion

Introduction

Since 2001 the Vincentian Partnership for Social Justice (VPSJ) has conducted research on the cost of a minimum essential standard of living. This research provides detailed information on the actual cost of a minimum essential standard of living for six household types. This minimum standard is defined as one which meets a person’s physical, moral, spiritual and social well-being. It is derived from a consensual approach and is grounded in informed social consensus about what households need in order to achieve a minimum socially acceptable standard of living.

The minimum essential standard of living budgets were developed as a result of extensive consultation with households and the pricing of over 2,000 household items and services. These studies have direct policy implications and have been used by organisations such as MABS and the Society of St. Vincent de Paul when assisting clients to manage their income. The studies are also being used as a resource for policy makers.

For the most part minimum income standards in Ireland have been developed historically by negotiation between policy makers at Government level and not through evidence of what people actually need. The minimum essential standards research of the VPSJ examines the expenditure necessary for six household types, across both urban and rural areas, to maintain a socially agreed upon minimum standard of living. Therefore, it provides a vital benchmark in ongoing debates and policy decisions around income adequacy.

It is in this context that the VPSJ welcomes the opportunity to make this submission putting forth our findings which clearly demonstrate the inadequacy of current minimum wage rates. This submission shall focus on the household types covered by our research which are primarily dependent on the minimum wage. Following from prior findings demonstrating the inadequacy of the previous €8.65 National Minimum Wage (NMW), the findings here demonstrate that within the context of current tax and welfare provisions the newly reduced minimum wage rate of €7.65 is wholly inadequate. For the purpose of this submission the focus is on two key household types, which consistently demonstrate the deficiency of the €7.65 rate.

Urban	Single Adult, Living Alone (Aged 25 +)	Employed Full-Time on NMW
Rural	Single Adult, Living Alone (Aged 40 – 55)	Employed Full-Time on NMW
Urban	Two Parents and Two Children (Aged 10 & 15)	1 Adult Employed Full-Time on NMW
Rural	Two Parents and Two Children (Aged 10 & 15)	1 Adult Employed Full-Time on NMW

The VPSJ is very conscious of the enormity of the financial crisis facing the country and of the challenges facing Government. Nevertheless, the position of the VPSJ is that the National Minimum Wage must be adequate to the minimum needs of a household, and that cuts must not be targeted at those on the lowest incomes for whom life *‘is one long struggle’*.

The VPSJ is a voluntary organization, consisting of representatives of The Society of St Vincent de Paul, Vincentian Congregation, Daughters of Charity and the Sisters of the Holy Faith (www.vpsj.ie). The VPSJ was established in 1996 to work for social and economic change tackling poverty and social exclusion. To achieve its goal the VPSJ has focused on two main areas:

- The promotion of Active Citizenship/Voter Education (www.vote.ie)
- The development of budget standards to determine the cost of a Minimum Essential Standard of Living for different households (www.budgeting.ie).

Since 2001 the VPSJ has carried out research into the cost of a Minimum Essential Standard of Living:

- 2001 *One Long Struggle – A Study of Low Income Households*
- 2004 *Low Cost but Acceptable Budgets for 4 Households*
- 2006 *Minimum Essential Budgets for 6 Households (urban)*
- 2008 *Minimum Essential Budgets for 6 Households – Policy Implications of Changes in Minimum Essential Budgets from 2006 – 2008*
- 2011 *Minimum Essential Budgets for 6 Rural Households*

The 2006 *Minimum Essential Budgets for Six Households* has been updated on a yearly basis. This submission is based on the budget figures adjusted to January 2011. Further information on these studies may be found on our website www.budgeting.ie.

Detailed Recommendations

Table 1 **Single Adult Male**
Total weekly income, expenditure and shortfall/discretionary January 2011 income for the two different location income situations¹

Location	Income Expenditure Scenario	Total Income €	Total ME Budget ² €	Shortfall €
Urban	Employed Full-Time, New NMW (no car)	279.26	349.50	70.24
Rural	Employed Full-Time, New NMW (car owner)	279.26	396.67	117.41

Table 1 shows that a single adult living in an urban or rural area, working a full-time 37.5 hour week and earning the newly reduced National Minimum Wage has a weekly shortfall as indicated in the table above. The cut in the NMW from €8.65 to €7.65 per hour has had a detrimental effect on this household, who was already unable to afford a minimum essential standard of living prior to the reduction in the NMW which came into effect in February 2011.

¹ The expenditure prices are based on the minimum essential budget prices adjusted to January 2011. The salary income is calculated on the basis of the new NMW (€7.65) and the 2011 tax system e.g. taking account of the Universal Social Charge etc.

² Total costs are less health-care costs, as this household type is entitled to a medical card.

A single adult working full-time and earning the NMW earns less than is necessary to maintain a minimum standard. As a result of the newly introduced Universal Social Charge (USC) this individual has now been brought into the tax net and is paying a USC of €7.62 per week. The introduction of the USC combined with the reduction in the NMW means that this household has seen their income fall from €324.38 in 2010 to €279.26 in 2011, a reduction of €45.12 per week.

This reduction has only served to compound the hardship already experienced by these household types under the previous NMW. For example, in June 2010 an urban single adult household, (employed full-time at the €8.65 NMW rate) had a weekly shortfall of €28.10. Households of this type are now pushed further into poverty due to deficiency of their minimum wage income.

Table 2 Two Parents and Two Children (Age 10 & 15)
Total weekly income, expenditure and shortfall/discretionary January 2011 income for the two different location income situations³

Location	Income Expenditure Scenario	Total Income ⁴ €	Total ME Budget ⁵ €	Shortfall €
Urban	Income from 1 adult working full-time on NMW/ no car	547.59	558.19	10.61
Rural	Income from 1 adult working full-time on NMW/ car owner	547.59	656.64	109.05

Table 2 demonstrates the situation for a household with two adults and two children (age 10 & 15), one adult employed full-time. Again, as with the single adult, the reduced NMW falls far short of what is necessary for a minimum essential standard of living. This shortfall persists despite the significant contribution to household income made through social welfare transfer payments (Child Benefit, Family Income Supplement, Back to School Clothing and Footwear Allowance), and whilst the shortfall varies greatly between the locales its existence remains a harsh reality nevertheless.

The inadequacy of rural transport availability means that rural households have the unavoidable expenditure of a car and due to this many rural households subsisting on the NMW face significantly greater shortfalls than their urban counterparts.

Our research to-date has repeatedly demonstrated the inadequacy of the €8.65 NMW⁶. It is now clear that €7.65 is absolutely inadequate as a base wage. If the NMW or the wages set by Employment Regulation Orders are reduced the financial situation of these household types will deteriorate further. Reducing the NMW sets the bar too low for what is deemed an acceptable wage, but also for what is a socially agreed upon minimum acceptable standard of living. Our study on the cost of a Minimum Essential Standard of Living is based on needs not wants and is relatively frugal, so to expect people to live below this level is to consign them to a lifestyle of poverty and deprivation.

³ The expenditure prices are based on the minimum essential budget prices adjusted to January 2011. The salary income is calculated on the basis of the new NMW (€7.65) and the 2011 tax system e.g. taking account of the Universal Social Charge etc.

⁴ Total household income is based on salaried income and also social welfare transfers.

⁵ Total costs are less health-care costs as these household types are entitled to a medical card at this level of income.

⁶ For full details of previous findings please see our website, www.budgetting.ie.

Rationale for Recommendations:

It is clear from our work on minimum budget standards and the cost of a minimum essential standard of living that an increase in the National Minimum Wage is indeed justified. Further cuts to the NMW would erode the hard work and progress made in the last decade to bring people out of poverty. Furthermore, another cut to the NMW would mean that those already experiencing poverty would be subjected to additional financial hardship and a minimum essential standard of living put further beyond their reach.

In our 2011 Pre Budget Submission the Vincentian Partnership for Social Justice demonstrated the need for an increase in the NMW. In 2010 a single adult working full-time and earning the NMW earned less than was necessary to maintain a minimum standard. Under the 2010 income tax and levies regime, a single adult earning marginally above the minimum wage, and residing in private-rented accommodation, paid the income levy, and as their wage raised PRSI. Examining the system demonstrated that a 'living wage' salary of €9.87 per hour was necessary in 2010 for a single adult to earn an income adequate to meet a minimum essential standard of expenditure. At this wage, the earner was subject to the income levy (€7.40 per week) and PRSI contributions (€9.72 per week).

Undoubtedly, to enable a minimum essential standard of living in 2011 a wage similar to €9.87 per hour is the minimum that people need to live with dignity.

A further rationale behind our recommendations is that the recent headline Consumer Price Index (CPI) deflation conceals the fact that not everyone has benefited to the same degree from falls in the cost of living. A minimum standard basket of goods and services is notably more stringent than that at the basis of the CPI. It is possible to analyse the trend of inflation and deflation experienced by households living on a minimum essential standard as opposed to the CPI rate.

This analysis shows that households at this level have not experienced the same degree of dramatic deflation as that suggested by the annual CPI rate. Comparing June to June each year, an inflationary high in 2008 with deflation since, is evident. The CPI rate shows price deflation of 6.3% from June 2008 to June 2010⁷. However, in the same period our analysis finds that the urban single adult household experienced only 2.4% deflation, and the two parents, two children, household 3.1% deflation. In each case, notably less than the degree of deflation suggested by the CPI rate.

The cumulative impact of the reduction in the National Minimum Wage and the Universal Social Charge has reduced an individual's full-time net earnings by €45.12 per week. For a single adult household this has resulted in an effective 14% reduction in income. Such a reduction of income is completely out of line with any measure of deflation, and particularly at odds with the reduction in the cost of maintaining a socially acceptable minimum standard of living for a single adult household.

⁷ In the period from June 2010 to January 2011 inflation has been negligible, at less than 0.5%

Conclusion

When a household has a manifestly low income which is considerably less than that required for a minimum essential standard of living there can be no justification for measures which plunge them deeper into poverty and debt. Other choices are possible.

It is our hope that the Government will seriously consider our findings and that any review of minimum wages set by Employment Regulation Orders takes account of the insufficiency of the previous and recently reduced National Minimum Wage rates.

The VPSJ acknowledges the many strides that have been made by various Government Departments in the areas of poverty and social exclusion over the last decade. The VPSJ is asking that this commitment is maintained in 2011 and the concerted effort to bring people out of poverty is continued. The progress of the last decade will be a distant memory if wages set by the Employment Regulation Orders are reduced. The consequences of such a reduction will have an extremely detrimental effect on thousands of Irish households for many years to come.