

Introduction

The Vincentian Partnership for Social Justice (VPSJ) welcomes the opportunity to make this submission to the Low Pay Commission on the 2023 National Minimum Wage (NMW) rate.

As we emerge from the Covid-19 pandemic the exceptional level of inflation in consumer prices over the course 2021 has put significant pressure on living costs, particularly for lower income households due to the volatility in energy prices. The most recent analysis for the cost of a Minimum Essential Standard of Living estimates that minimum living costs have increased by 3.9% from 2021 to 2022.

In late 2021 forecasts from the Central Bank and ESRI predicted that inflationary pressures would wane over the coming year. However, these predictions were already being set aside at the start of 2022. The Russian invasion of Ukraine, and subsequent impact on energy prices in particular, has resulted in even greater inflationary pressure. The ESRI now forecasts a 6.7% rate of increase over the course of 2022.

When considering the appropriate rate for the NMW in 2023, the additional impact of high inflation on low income households must be borne in mind. The current MESL estimate for a working-age single adult forecasts a cumulative increase of 10.9% in minimum living costs from 2021 to 2023.

These factors present an unprecedented context for the deliberations of the Low Pay Commission (LPC). However, the factors which the LPC is required to be cognisant of, that the NMW rate should “assist as many low paid workers as is reasonably practicable,” be “both fair and sustainable” and “provide an incentive to work,” with incremental adjustments progressively increasing the rate overtime, remain as salient and relevant as ever.

The Programme for Governmentⁱ commits to the implementation of the Roadmap for Social Inclusion to ‘improve outcomes for those who are struggling on low incomes’ (2020: 75). The Programme also sets a mission to improve the wellbeing of Irish people and society, while the Roadmap makes it clear that poverty and social exclusion are the antithesis of wellbeing. The Roadmap for Social Inclusionⁱⁱ further develops the understanding of poverty and social exclusion and defines social inclusion as ‘having access to sufficient income, resources and services to enable [people] to play an active part in their communities and participate in activities that are considered the norm for people in society generally’ (2020: 5). This is a clear recognition that the improvement of wellbeing and achievement of social inclusion require adequate income.

As part of the creation of a new social contract, the Programme for Government commits to progress to a living wage over the lifetime of the Government. The Living Wage rate calculated by the LWGTG is evidence-based, built on the MESL budget standards research and reflects the real costs faced by employees in Ireland.

At a minimum, the NMW rate should be based on the rationale that full-time employment will at least provide for an adequate income for a socially acceptable minimum standard of living for a single person without dependents. Having an income below this standard of living means doing without goods and services which are essential for taking part in the norms of everyday life in Ireland. Therefore, it is vital that the NMW establishes an appropriate floor which should enable an individual to have an acceptable minimum standard of living when in full-time employment.

The VPSJ shares the view that minimum wage rates cannot be expected to address poverty in isolation and accepts that the minimum wage is not the appropriate mechanism to solely address income inadequacy. Social supports must work to smooth out additional and different needs, arising from household composition, number of dependents, etc. These include measures to address housing costs, ensure the affordability of childcare, and examining the taper rate and adequacy of in-work income supports. To achieve this, the NMW must be set at an adequate level which establishes “a ‘pay floor’ below which no-one should be expected to work”ⁱⁱⁱ, thus providing a reasonable basis for other social support mechanisms to work from.

MESL – an evidence-based adequacy benchmark

The Minimum Essential Standard of Living (MESL) research works with members of the public in deliberative focus groups to reach consensus on the minimum people need to live and partake in Irish society. It is a standard of living which people agree no one should be expected to live below. It represents the minimum required to meet physical, social and psychological needs, and enable a life with dignity.

The research is iterative, working through multiple phases of deliberative groups, to establish a negotiated social consensus on what people regard as essential for households to have a minimum, but socially acceptable, standard of living. In this way the MESL is a tangible measure, grounded in lived experience and derived from social consensus, of what is required for participation, dignity and avoiding poverty.

The MESL research operationalises the concepts which underpin the Irish Government definition of poverty and social inclusion, the human right to an adequate standard of living, and the key principle set out in the European Pillar of Social Rights that all have a right to an adequate minimum income which enables a life with dignity.

The MESL translates these concepts and ideals into a practical benchmark, as it specifies the average weekly cost of the goods and services deemed necessary to enable a socially acceptable minimum standard of living. of what is required to avoid poverty, enable participation and inclusion, and live a life with dignity.

The MESL data uniquely provides an evidence-based benchmark against which to assess the adequacy of minimum rates of pay. The MESL provides the evidence base for the Living Wage. The Living Wage rate for Ireland is calculated by the VPSJ's Minimum Essential Budget Standards research centre, in consultation with the Living Wage Technical Group, based on the MESL research.

The recommendations made in this submission are based on the evidence and data established through the VPSJ's ongoing MESL research. This submission is based on the 2021 MESL data and analysis of income adequacy^{iv}.

Inflation & changes in minimum living costs

The exceptional level of price increases which developed over the course of 2021, have continued into 2022 with pandemic related inflation now being compounded by the invasion of Ukraine by Russia. The 12-month increase in the consumer price index for February 2022 of 5.6% is the highest rate reported in over 20 years^v.

Prior to Budget 2022 the Central Bank noted that “consumer price inflation has increased substantially”, highlighting the role of rising energy costs and pandemic related factors^{vi}. The Central Bank and ESRI^{vii} analysis both made the caveat that the high inflation rates in the later part of 2021 should be seen in the context of pandemic restrictions in 2020 leading to deflation and a low point in prices. At that time forecasts for inflation in

2022 predicted an increase of 2.5% (Central Bank) to 2.9% (ESRI), with rising energy prices seen as the main driver and a cause for concern.

Subsequent analysis noted that a pandemic low point in prices did not adequately explain the degree of high inflation levels seen in 2021/22. Comparing end 2019 to end 2021, the ESRI^{viii} found a 3.9% increase in consumer prices, stressing that such a level of increase remains “a cause for concern” (2021: 50). Analysis from the first quarter of 2022 by the Central Bank^x forecast a rate of 4.5% HICP for 2022, noting that consumer energy prices had already increased by 30% in the course of 2021 and “are likely to remain elevated for some time to come” (2022: 51). As such, 2021 predictions of inflation pressure waning over 2022 were being set aside.

Those forecasts prior to the Russian invasion of Ukraine are now out of date, the most recent analysis from the ESRI^x has revised inflation forecasts upwards to 6.7% over the course of 2022. This is based on the expectation of further fuel price increases, and subsequent effect on prices in other areas. This is of particular concern due to the disproportionate impact of increased energy prices on lower income households, as noted by the Central Bank^{xi}.

The MESL research has previously highlighted issues regarding the appropriateness of standard inflation rates in measuring the change in the cost of a minimum basket of goods and services. Changes in prices effect the overall cost of an MESL differently from the national average measured by inflation rates. The MESL baskets are more sensitive to price changes in essentials such as food, energy and transport^{xii}. This is due to differences in the composition of the MESL basket and the average basket. In the 2021 MESL, household energy accounted for an average of 6.5% of overall minimum expenditure need, approximately 1.5 times the proportion of the weighting given to household energy in CPI calculations. As energy costs increase, it is likely that energy will account for a larger proportion of MESL costs.

Forecasting future MESL costs

At the time of preparing this submission the most recent MESL data is from the 2021 MESL annual update to the baskets. The 2021 MESL is based on a blend of direct pricing (March and April) and inflation adjusted estimates (March), presenting the cost of the minimum basket at that point in time. The update to 2022 prices is currently in process and will be released later in the year.

To provide an indication of the adequacy of the current NMW rate in 2022 it is necessary to calculate a forecast of the 2022 MESL. Furthermore, as the consultation is regarding the NMW rate for 2023, a further estimate of potential MESL costs for 2023 is also produced.

Given the exceptional increases in household energy prices a two-step process has been taken in preparing the 2022 forecast. To estimate the change in MESL costs throughout 2021, the Central Bank HICP inflation rate excluding energy costs (1.5% on all non-energy consumer prices for the whole 2021) is applied to the MESL baskets, except for household energy.

The household energy costs have been directly repriced to March 2022 rates. This has found a 33% increase in the cost of the gross MESL energy basket for an urban working-age single adult in the twelve months to March 2022. However, the once-off €200 electricity credit to all households will offset a portion of the rising prices, reducing the increase to 13% (based on current prices).

The net MESL expenditure need for an urban working-age single adult is forecast to be 3.9% higher in 2022, compared to 2021.

To further project forward to 2023, the most recent forecast for CPI inflation for 2022 of 6.7% (as published by the ESRI) is applied to entire MESL basket. This results in a forecasted 10.9% cumulative change in the cost of an MESL from 2021 to 2023.

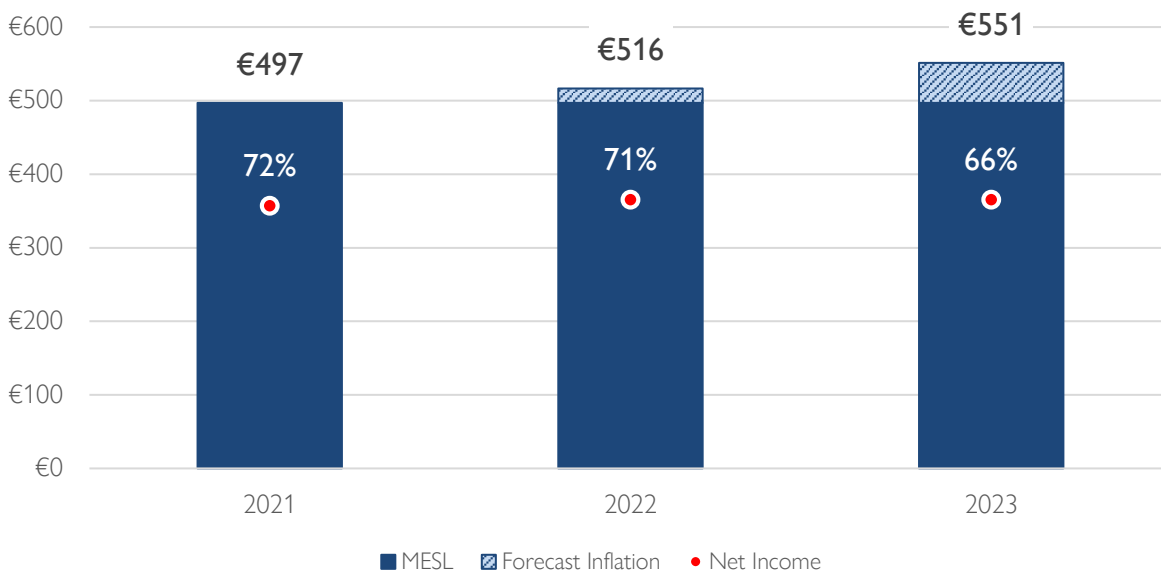
Benchmarking NMW Adequacy

The 2022 increase in the National Minimum Wage rate of €0.30 brought the rate to €10.50 per hour, a 2.9% adjustment from the 2021 rate.

When in full-time (37.5 hours) minimum wage employment gross weekly salary increased by €11.25 per week due to the NMW change. The adjustment in the gross NMW rate has resulted in a 2.3% increase in net income for a full-time minimum wage worker in 2022. However, this level of increase is insufficient to keep pace with the forecast increase in MESL minimum living costs of 3.9%.

In 2021 a full-time minimum wage salary met 71.8% of the MESL expenditure need of a working-age single adult. In 2022 the increase in the NMW does not keep pace with rising living costs. It is estimated that a standard full-time minimum wage salary will meet 70.7% of MESL needs, falling over €151 short per week, for a single person renting a one-bedroom dwelling in the Dublin area.

Graph 1 MESL benchmarked against NMW net income
 Based on urban single adult in full-time NMW employment



The continued volatility driving up living costs is forecast to result in 6.7% inflation over the course of 2023. Consequently, it is estimated that MESL costs for a working-age single adult could exceed €550 per week by 2023. In that case, full-time employment at the current NMW rate would provide a net salary which will meet only 66.3% of MESL needs, falling €186 short per week.

Based on the current forecasts, in 2023 a rate of €11.60 per hour would be required to maintain the current purchasing power of the NMW. That is to say, a rate of €11.60 per hour would meet approximately 71% of MESL need, the same proportion as the current rate meets is estimated to meet in 2022.

Housing Assistance Payment

In a situation where a single working-age adult is in receipt of the Housing Assistance Payment (HAP) rental costs to the household would be reduced^{xiii}. Rental costs to the household would be comprised of a differential rent and a top-up payment to bridge the shortfall between HAP rent limits and the market rent.

In 2021, in a HAP scenario NMW net income met 90.7% of MESL need. In 2022 with higher MESL costs adequacy is forecast to reduce to 88.2% of MESL need.

Access to housing supports can potentially result in a substantial reduction in minimum living costs. In the HAP scenario presented below the NMW provides for 91% of MESL need in 2021, compared to 72% when paying a market rent. This demonstrates how services are vital in supporting households towards income adequacy, in conjunction with secure employment, but an appropriate minimum rate of pay and the design of services and supports are also crucial. In the 2021 HAP scenario the NMW meets 91% of MESL, however due to tapering of supports* a 25% increase in gross salary would be required to adequately reach the MESL expenditure needs.

These factors demonstrate the need for the income thresholds and tapering of supports to be reviewed in conjunction with adjustments to the National Minimum Wage rate.

Table 1 Single Adult MESL Expenditure Need & Full-Time NMW Adequacy^{xiv}

	Market Rent (90% Average)			Housing Assistance Payment	
	2021	2022 f	2023 f	2021	2022 f
MESL Expenditure					
MESL (Core)	223.82	229.38	245.01	223.82	229.38
Housing	273.06	287.04	306.27	169.45	184.73
Total MESL	496.88	516.42	551.28	393.28	414.12
NMW Income					
Gross Salary	382.50	393.75	393.75	382.50	393.75
USC	13.03	13.36	13.36	13.03	13.36
PRSI	4.19	4.41	4.41	4.19	4.41
PAYE	8.38	10.71	10.71	8.38	10.71
Net Income	356.90	365.27	365.27	356.90	365.27
Medical Card	Full	Full	Full	Full	Full
Income Adequacy					
Net Income - Total MESL	-139.98	-151.15	-186.01	-36.38	-48.84
Net Income as % MESL	71.83%	70.73%	66.26%	90.75%	88.21%

* Increased housing costs due to differential rent rises in line with earnings increases (under HAP) and increased health costs due to ineligibility for a full medical card at the higher earnings level.

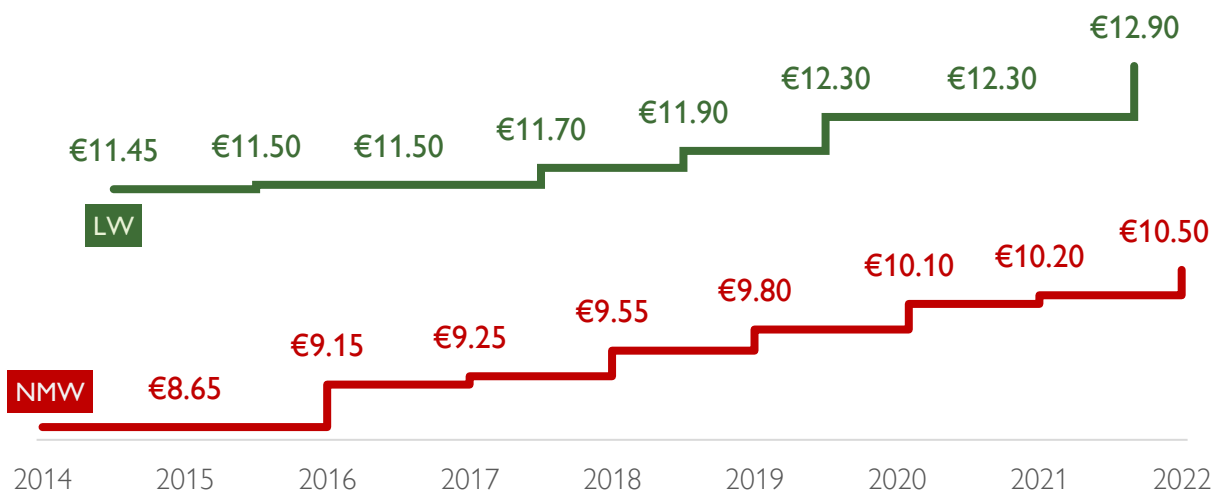
Living Wage

The Living Wage is the gross salary needed, on average, for a single person in full-time employment to afford an acceptable minimum standard of living. While earning the Living Wage rate (currently €12.90 per hour) will not guarantee an adequate income for individuals and households in all circumstances, it provides a base for social supports to build from.

At a minimum, the NMW rate should be based on the rationale that full-time employment will at least provide for an acceptable minimum standard of living. The Living Wage provides the rate which will meet this minimum threshold. In that sense, it is an income floor; earnings below the living wage suggest employees are forced to do without certain essentials so they can make ends meet.

It is an evidence-based rate of pay which is grounded in social consensus. The MESL research has been instrumental in the development of the Living Wage, providing the evidence base for its calculation. The updated Living Wage rate is published in the third quarter of each year. The 2021/22 rate increased to €12.90 per hour.

Graph 2 NMW and Living Wage (LW) rate, by year



The 2022 increase of the NMW to €10.50 per hour, brings the minimum wage to 81% of the current Living Wage rate. Since first calculated in 2014, the Living Wage has increased by 12.7% from €11.45 to €12.90 per hour. In the same period, the NMW has increased by 21.4%.

The ongoing increase in overall minimum living costs mean it is highly likely that the Living Wage rate will increase in 2022, again widening the gap between the NMW and the Living Wage again.

With the Programme for Government setting out the intent to progress to a living wage in the lifetime of this government, consideration must now be given as to how the gap between the National Minimum Wage and the Living Wage is to be bridged. The setting of terms of reference by the Low Pay Commission to study how this commitment can be met was a welcome development.

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- i *Programme for Government: Our Shared Future*, published 2020
<https://assets.gov.ie/130911/fe93e24e-dfe0-40ff-9934-def2b44b7b52.pdf>
- ii Government of Ireland (2020). *Roadmap for Social Inclusion 2020 – 2025*.
<https://www.gov.ie/pdf/?file=https://assets.gov.ie/46557/bf7011904ede4562b925f98b15c4f1b5.pdf>
- iii LPC (2021). Recommendations for the National Minimum Wage. Page 1.
- iv The 2021 MESL data is published on-line: <https://www.budgeting.ie/publications/mesl-2021/>
- v 12-month inflation last exceeded this level in December 2000, with a rate of 5.9%
CSO (2022). CPM01 – Consumer Price Index. <https://data.cso.ie/table/CPM01> Accessed 15/03/2022
- vi Central Bank (2021) Quarterly Bulletin: QB4 – October 2021. www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2021/quarterly-bulletin-q4-2021.pdf
- vii ESRI (2021) Quarterly Economic Commentary, Autumn 2021. <https://doi.org/10.26504/qec2021aut>
- viii ESRI (2021) Quarterly Economic Commentary, Winter 2021. <https://doi.org/10.26504/qec2021win>
- ix Central Bank (2022) Quarterly Bulletin: QB1 – January 2022. <https://www.centralbank.ie/publication/quarterly-bulletins/quarterly-bulletin-q1-2022>
- x ESRI (2022) Quarterly Economic Commentary, Spring 2022. <https://doi.org/10.26504/qec2022spr>
- xi Central Bank (2022) Economic Letter: Household characteristics, Irish inflation and the cost of living.
<http://www.centralbank.ie/docs/default-source/publications/economic-letters/household-characteristics-irish-inflation-and-the-cost-of-living.pdf?sfvrsn=7>
- xii For an examination of the difference between changes in the cost of the MESL basket and CPI, see
Thornton, R. and Boylan, H. (2021) MESL Working Paper: Examining the accuracy of inflation adjustment and quantifying the impact of basket changes.
www.budgeting.ie/publications/examining-the-accuracy-of-inflation-adjustment-and/
- xiii Under HAP the tenant pays a differential rent, calculated on the basis of income, the tenant is also required to pay the difference between the HAP rent limit and actual market rent payable for their accommodation. The current HAP rent limit in Dublin for a single person is €660 per month, approximately half of the average rent for a one-bedroom dwelling in Dublin.
- xiv Single Adult housing cost is based on private rented housing, at 90% of the average cost of a private rented one-bedroom dwelling in Dublin, using RTB Rent Index data. Income calculations are based on full-time (37.5 hours) employment. Housing Assistance Payment scenario housing cost are based on payment of differential rent and a top-up, see xiii. The Medical Card means test is applied, following published HSE Medical Card guidelines; where eligibility is found MESL Expenditure need is adjusted to reflect reduced health costs and income calculations take account of reduced USC liability. 2021 MESL Expenditure budgets are available on budgeting.ie
2022 & 2023 Forecast MESL is based on the 2021 MESL adjusted, and most recently available average rent data, 2021 Q3.