

National Youth Council of Ireland Submission to the Low Pay Commission on the Sub-Minima Rates of the Minimum Wage July 2023

About the National Youth Council of Ireland

The National Youth Council of Ireland (NYCI) is the representative body for 54 voluntary youth organisations and use our collective expertise to act on issues that impact on young people. Our role as the National Representative Youth Work Organisation is recognised in legislation (Youth Work Act, 2001). The work of NYCI is based on principles of equality, social justice and equal participation for all. NYCI's vision is of an Ireland where young people in every community are empowered through excellent youth work to realise their potential and actively participate in an inclusive society.

Introduction

NYCI welcomes the opportunity to respond to the consultation by the Low Pay Commission (LPC) on sub-minima rates of the National Minimum Wage (NMW) for those aged under 20, and the report being drafted by the LPC and the ESRI, as requested by the then Tánaiste and Minister for Enterprise, Trade and Employment.

NYCI has long advocated for an end to sub-minima rates of the NMW based on age, including through a submission to the 2016 report on these rates undertaken by the LPC, through its engagement with Government and the Oireachtas and various other submissions and public forums.

NYCI believes bringing about an end to the policy of paying young workers aged less than 20 will bring benefits to society and the economy, to the quality of life and financial wellbeing of young workers and their families, associated supports to the exchequer as a result of the equalisation of rates of the NMW for all workers and will provide justification to the overwhelming majority of employers who do not discriminate against employees under-20 by deploying sub-minima rates.

The current situation whereby young workers under 20 can earn rates of the NMW below their colleagues aged 20 and over is discriminatory, leaves young workers open to exploitation, and puts many young people providing for themselves and for their families in financial difficulty.

NYCI through its engagement with young people and those who work with them, know the impact of sub-minima rates is significant, with some young workers subject to what are, in effect, poverty wages. This has a damaging effect on young workers, who are already far more likely than older workers to earn lower wages and be on temporary contracts¹.

Ultimately, NYCI's proposal to end sub-minima rates of the NMW, as set out in this submission, is a moderate one that will support the small, but not insignificant, proportion of young workers subject to sub-minima rates. This proposal takes account of the growing evidence in favour of removal of the rates, the need to bring Ireland's position in line with those of its EU counterparts, and most importantly, the significant impact the existing situation is having on young people and their families.

Application of sub-minimum rates

As the LPC and ESRI have jointly reported on the background to sub-minima rates, NYCI will not provide additional background to their emergence, but wishes to provide some context to clarify how SMR are being applied in practice and the broader policy environment, which should be considered in the context of any recommendations to Government.

According to the CSO, 56,700 young people aged 15-19 years were in employment in quarter three of 2020ⁱⁱ. Corresponding data for that period from its Labour Force Survey, which provides the most recent information, shows that 10,300 young people reported being on an age-based rate that is aged 19 or youngerⁱⁱⁱ.

This suggests that at the time less than 1 in 5 young people were on sub-minima rates and pre-Covid rates were even lower at more than 1 in 6 (or 15.3%)^{iv}. Even with a significant rise in the number of those aged 15-19 in employment to 90,600 in quarter one of 2023^{vi}, in the current context, we expect these rates will be lower.

This suggests that the overwhelming majority of employers already pay young workers rates of the NMW (applicable to those aged 20 or over) or above, and a removal of SMR would merely bring a small proportion of employers in line with what is, in all but legislation, the status quo for most.

A 2017 study by the ESRI showed similarly low rates among under 18s as far back as 2009^{vii}, and the relatively low proportion of young workers aged under 20 earning sub-minima rates demonstrate that in practice, SMR are not widespread. NYCI suggests that a continuation of this policy only enshrines in legislation the right of a very small group of employers to discriminate, rather than providing a basic safety net for all workers.

Policy context

Meanwhile, Ireland continues to fall behind internationally. Presently, it is one of only six countries in the EU27 to continue to have age-based rates in their minimum wage for young adult workers, along with Germany which does not have an NMW for under-18s^{viii} while many countries including Spain, Korea and the Czech Republic^{ix} have abolished their sub-minima youth rates in recent years.

As such, NYCI believes all parties must take account of how SMR are, and have been, implemented and the prevailing conditions internationally and demonstrate leadership and support for equal treatment of young workers by removing SMR.

The European Economic and Social Committee (EESC) has recently criticised Ireland's application of this policy in its 2022 conclusion report on Ireland.

It argued that these rates fall below 50% of the average earnings and are, therefore, not sufficient to ensure a decent standard of living and do not adhere to the European Social Charter^x.

Along with the other six states who operate SMR (plus Germany), the EESC criticised Member States as disregarding young people's right to equal pay for equal work and ignoring International Labour Organisation (ILO) research which has shown that SMR are ineffective at boosting youth employment rates.

The EESC made specific reference, in fact, to young people that, after a period of employment, may supervise or train colleagues older than them at the same job, but receive lower pay, or are even asked to take supervisory roles for lower pay than their colleagues due to the implementation of SMR.

Ireland must show leadership and take measures to move beyond SMR to prevent such instances from happening.

One welcome proposal is Government's commitment to introduce a Living Wage,^{xi} to improve terms and conditions for workers, including increased income, human capital and improved wellbeing, along with supporting employers to ensure lower rates of staff turnover, substantial cost savings on recruitment and induction training, greater employee tenure and continuity of workforce^{xii}.

Unfortunately, as it stands, the LPC has recommended a continuation of SMR within the context of the implementation of a Living Wage, though did make a recommendation to further examine issues which informed their ongoing report.^{xiii}

Young people cannot be left behind when it comes to accessing these benefits on the Government's journey to a Living Wage. Removing sub-minima rates of pay for the small numbers of those still on this rate would represent a positive step towards an Ireland that wants to eradicate low pay employment and improve terms and conditions for all its workers.

Misconceptions about sub-minima rates and young people

There are a number of misconceptions and largely unsubstantiated claims that have been put forward in support of sub-minima or youth rates of minimum wage both nationally and internationally, which have little basis in evidence, do not reflect the current context and should no longer inform Ireland's policy approach to the issue. It also points to the need for relevant Government Departments, the CSO and Revenue, among others, to ensure more frequent reporting and research on conditions of young workers, including on SMR.

One of the core arguments used to justify subminimum rates is that they may act as an incentive for employers to hire young, inexperienced workers and thus enable them to

gain access to the labour market^{xv}. There is limited available evidence to support this claim, particularly in the context of a “tight” labour market, with employment rates growing and Ireland reaching near full employment levels^{xvi} and relatively low levels of young people on SMR.

Additionally, a working paper by the ILO shows that reducing or removing rates of the minimum wage is, in fact, unlikely to have a significant positive impact on youth employment^{xvii}.

NYCI is also concerned that sub-minima rates will have an impact on lifetime earnings for younger workers, particularly for those in lower-paid sectors. Evidence from a review by the UK’s Low Pay Commission ^{xviii}, for example, shows that pay rises from the ages of 18 to 25 grow slowly and at around the age of 25 plateau. NYCI is concerned that for young people on SMR, the current situation ensures that for young people on lower rates, the rates of the NMW for those aged 20 and over becomes a pay ceiling as they transition off lower rates rather than a base.

Relatedly, concerns have been expressed and highlighted in a previous ESRI report^{xix} that statutory minimum wages will give rise to higher levels of unemployment among young people as firms will cease to hire them on the grounds that their labour costs exceed their productivity levels. The ILO working paper on labour market institutions and youth labour markets suggests reducing rates of the minimum wage is not likely to be an effective tool for improving employment prospects for young people, while previous minimum wage increases for those aged 20 and over in Ireland had little effect on employment and served to reduce wage inequality^{xx}.

One suggested impact of removing sub-minima rates is that the rates would no longer offer any recognition of the difference between a young, inexperienced worker and a more experienced colleague. This is not borne out in practice, as we see numbers of young people on sub-minima rates are relatively low. This was the case as far back as 2009, when data reviewed by the ESRI revealed that less than 6 per cent of employees aged below 18 were in receipt of the youth rates, while 20 per cent of employees aged below 18 reported that they earned the adult NMW rate^{xxi}.

Meanwhile, the NMW provides a basic safety net for workers aged 20 and over. Its purpose was to tackle exclusion, marginalisation and poverty. In an open economy, the existence of the Minimum Wage Act does not prevent employers of those aged 20 or over from recognising different levels of experience, but ensures all employees are entitled to a basic rate of pay, and this should equally apply to those aged under 20.

A further justification for subminimum rates, rarely, if ever, set forth by organisations representing young people and young workers, is a concern that if the minimum wage is set too high for young people, it will cause them to leave education prematurely in order to join the labour market.^{xxii}

The Low Pay Commission's own reports contradict this claim, stating that "in relation to the economic effects of sub-minimum wage rates, as with the international literature on minimum wages generally, the effects of the policy on young peoples' employment or continued education decisions, whether positive or negative, have been found to be small and weak, and sometimes insignificant^{xxiii}".

NYCI believes that policies such as free education and social supports act as protective factors in keeping young people in education, and these should be encouraged and resourced by government. Discriminatory policies such as SMR are ineffective, punitive and paternalistic, deny young people agency, and are founded in the misguided view that that young people have fewer responsibilities than others, including paying bills and supporting other family members.

The absence of evidence in support of the view that SMR support participation in education alone, should put paid to this argument.

Impact of sub-minimum rates on young people

Sub-minima wage rates have a significant impact on the financial and social wellbeing of young people, and accompanied by other policies that treat young people differently solely on the basis of age - including differential rates of Jobseekers' Allowance - it serves to create a disconnect between young people and institutions in Ireland and a feeling that a social contract is not in place between the state and its young people. Importantly, it also compounds very significant financial challenges for young people, present before continued rises in inflation, but made worse by the rising cost-of-living.

For those subject to SMR, they are forced to subsist on rates of pay far below a Minimum Essential Standard of Living (MESL). The average 18-year-old working a 35-hour week at a rate of €9.04 per hour must get by on less than half (46%) of the €675 gross weekly salary the Vincentian MESL Research Centre estimated is needed to meet the cost of a Minimum Essential Standard of Living in 2023 for someone living in private rented housing, without support for housing costs.

To add further context, an 18-year-old working full-time on a sub-minimum rate earns €4,113.20 less gross per annum, than their 20-year-old counterpart^{xxiv}. In 2024, even with a welcome increase in NMW of 12%, as proposed by the Low Pay Commission, an 18-year-old would earn €4,623 less (gross) in a year than someone aged 20 doing the same job.

Since 2011, the issue of SMR has also come into sharper focus after the High Court ruling that certain provisions of the Industrial Relations Acts of 1946 and 1990 governing the making of Employment Regulation Orders (EROs) were unconstitutional. Amendments to those Acts which have provided a new framework within which employers and employee representatives can come together voluntarily and negotiate terms and conditions of employment for workers in their respective sectors, has only led to a limited number of agreements under the new systems. An end to EROs has affected all workers, but also eroded protections for those on sub-minima rates and not been adequately addressed.

Current context for young people

NYCI believes that a continuation of the policy of SMR undermines basic principles of equal pay for equal work enshrined in the Employment Equality Acts and referenced in the IHREC Codes of Practice on Equal Pay^{xxv}.

The impact of this is significant.

Even before continued rises in inflation, NYCI heard from young people and its members about the significant impact SMR had on their ability to afford accommodation and basic necessities, as well as on supporting themselves and other family members.

Increasingly, we are being told of the huge impact of the cost-of-living on young workers, with rising food poverty reported by our members, along with significant increases in numbers of young people accessing emergency accommodation^{xxvi}. This is borne out in national statistics with a 95% rise in the number of 18-24 year olds accessing emergency accommodation between June 2021 and June 2023.

Meanwhile, recent research by NYCI shows that more than 7 in 10 young Irish people aged 18-24 are considering emigrating for a better quality of life.^{xxvii}

While these issues are a result of multiple policy challenges that require an all-of-Government response, NYCI believes that the LPC and Government can take positive action to support young people by proposing the removal of SMR.

We also believe the LPC should consider the impact of SMR on women and minorities. While the CSO Labour Force Survey doesn't break down the proportion of men and women under 20 earning below the NMW, statistics from the CSO show that the mean and median income for men aged 15-25 is higher than women in the same category, and further reflection on these challenges as part of the ESRI-LPC report on SMR would be welcome in this context to understand the impact of SMR on young female workers.

Young people from minority backgrounds, may also be facing additional barriers to accessing work, including those with a disability, from the Travelling Community or from a minority ethnic background. Research from the ESRI and IHREC on "Ethnicity and Nationality in the Irish Labour Market" argues that future labour market policies should consider the significant variation found in outcomes of ethnic groups^{xxviii}, and NYCI suggests ESRI and LPC must also examine whether there is a disproportionate impact arising from SMR.

Implications for the economy and wider society

As outlined, research indicates that previous minimum wage increases for those aged 20 and over had little effect on employment and reduced wage inequality,^{xxix} while international evidence shared by the ILO shows that with a more generous minimum wage:

- employers more easily retain their workforce, as a result of which workers can learn on the job and be trained to become more productive;
- workers are more motivated;
- improvements are made in labour productivity, particularly in low-paid sectors, something supported by cross-national research, including in Ireland^{xxx}.

Meanwhile, Australian research on so-called “junior rates”^{xxxi}, where a similar regime is operated to SMR in Ireland, showed that not only do junior pay rates cost young workers approximately AU\$3.5 billion per year in lost wages, increasing the wages of Australians 20 years and under to match adult pay rates would boost the Australian economy by AU\$548 million to AU\$902 million and would generate approximately 3,400 to 5,600 new full-time equivalent jobs.

NYCI believes similar benefits could be seen in an Irish context with the removal of SMR. The removal of SMR would not only provide positive results for Irish workers and the economy, it would offer an additional boost in tax revenue to the exchequer, brought about by a change in rates. Unfortunately, Revenue is unable to assess the level of additional revenue it could raise as they do not hold information in respect of NMW earners or hours worked by specific age cohorts^{xxxii}. This points to the need to put in place more robust data collection as it relates to younger workers, which NYCI hopes will be addressed in part by the ESRI-LPC report.

Conclusion

As outlined above, NYCI believes that subminimum rates of pay for young people are discriminatory, were negatively impacting young people’s ability to provide for themselves before rises in the cost-of-living, which has only become more challenging in the past two years.

The application of SMR has placed Ireland out of step with other EU Member States as one of the few countries to still operate such a policy and undermines other commitments to workers’ rights.

What SMR does ensure is a paternalistic and outdated approach to young workers that ignores how most employers operate in practice and has little basis in evidence.

NYCI welcomes the ESRI and Low Pay Commission’s review of sub-minima rates of the NMW and is grateful for the opportunity to make a submission in this respect, and urge members of the Commission to take account of the significant impact SMR have on young workers.

We believe that the removal of sub-minima rates of the National Minimum Wage for young workers aged under-20 is a moderate proposal that will have an outsized impact on the lives and wellbeing of the roughly 10,000 young people affected. It will also vindicate the overwhelming majority of employers who have taken a responsible and supportive approach to young workers by paying them in line with or above the National Minimum Wage for those aged 20 and over.

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- ⁱ Economic and Social Research Institute. (2021). Monitoring Decent Work in Ireland. https://www.esri.ie/system/files/publications/BKMNEXT414%20%281%29_0_0.pdf
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- ^{iv} Central Statistics Office. (2023). <https://ws.cso.ie/public/api.jsonrpc>
- ^v Central Statistics Office. (2023). <https://www.cso.ie/en/releasesandpublications/er/lfsnmw/lfsnationalminimumwageestimatesq42019/>
- ^{vi} Central Statistics Office. (2023). [https://ws.cso.ie/public/api.jsonrpc?data=%7B%22jsonrpc%22:%222.0%22,%22method%22:%22PxStat.Data.Cube_A_Pi.ReadDataset%22,%22params%22:%7B%22class%22:%22query%22,%22id%22:%5B%22STATISTIC%22,%22TLIST\(QI\)%22,%22C02076V02508%22,%22C02199V02655%22%5D,%22dimension%22:%7B%22STATISTIC%22,%7B%22category%22:%7B%22index%22:%5B%22QLF18C01%22,%22QLF18C02%22,%22QLF18C03%22,%22QLF18C04%22%5D%7D%7D,%22TLIST\(QI\)%22:%7B%22category%22:%7B%22index%22:%5B%2220231%22%5D%7D%7D,%22C02076V02508%22:%7B%22category%22:%7B%22index%22:%5B%22300%22%5D%7D%7D,%22C02199V02655%22:%7B%22category%22:%7B%22index%22:%5B%22-%22%5D%7D%7D%7D,%22extension%22:%7B%22pivot%22:null,%22codes%22:false,%22language%22:%7B%22code%22:%22en%22%7D,%22format%22:%7B%22type%22:%22JSON-stat%22,%22version%22:%222.0%22%7D,%22matrix%22:%22QLF18%22%7D,%22version%22:%222.0%22%7D%7D](https://ws.cso.ie/public/api.jsonrpc?data=%7B%22jsonrpc%22:%222.0%22,%22method%22:%22PxStat.Data.Cube_A_Pi.ReadDataset%22,%22params%22:%7B%22class%22:%22query%22,%22id%22:%5B%22STATISTIC%22,%22TLIST(QI)%22,%22C02076V02508%22,%22C02199V02655%22%5D,%22dimension%22:%7B%22STATISTIC%22,%7B%22category%22:%7B%22index%22:%5B%22QLF18C01%22,%22QLF18C02%22,%22QLF18C03%22,%22QLF18C04%22%5D%7D%7D,%22TLIST(QI)%22:%7B%22category%22:%7B%22index%22:%5B%2220231%22%5D%7D%7D,%22C02076V02508%22:%7B%22category%22:%7B%22index%22:%5B%22300%22%5D%7D%7D,%22C02199V02655%22:%7B%22category%22:%7B%22index%22:%5B%22-%22%5D%7D%7D%7D,%22extension%22:%7B%22pivot%22:null,%22codes%22:false,%22language%22:%7B%22code%22:%22en%22%7D,%22format%22:%7B%22type%22:%22JSON-stat%22,%22version%22:%222.0%22%7D,%22matrix%22:%22QLF18%22%7D,%22version%22:%222.0%22%7D%7D)
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- ^x European Social Charter. (2022). European Committee of Social Rights Conclusions.
- ^{xi} [gov.ie - Tánaiste outlines proposal to bring in living wage for all \(www.gov.ie\)](https://www.gov.ie)
- ^{xii} 'The Impacts and Challenges of a Living Wage for Ireland' 2014 Micheál L. Collins, NERI
- ^{xiii} Low Pay Commission (2022.) Living Wage Report. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKewjI5qbkpbmAAxVYUkEAHR_CeDZcQFnoECA4QAO&url=https%3A%2F%2Fassets.gov.ie%2F226962%2Ff72dbeb6-00ef-46cb-8af9-c347cb0851ff.pdf&usq=AovVaw3xiXmpH6l40V03IM3ORbNS&opi=89978449
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^{xxiii} Ibid.

^{xxiv} Based on weekly 35 hour work week

^{xxv} Irish Human Rights and Equality Commission. (2022.) Code of Practice on Equal Pay’.

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