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Challenging myths and improving working conditions in a strong economy

Foreword

In the last number of months, we have heard a lot of rhetoric and anecdotes about the rising costs of doing business in Ireland today. In many instances much of this narrative has remained unchallenged and despite the real facts that are contained in this paper, this false perspective articulated by many business groups has become the accepted truth in many quarters.

If we are to have a real debate about the state of our economy and the world of work in Ireland, where it has come from and perhaps where it is going, we need to have both sides of the labour market, the voice of business but also the voice of workers, i.e. the trade union movement engaged in such a debate. We need this discussion to be balanced and accurate based on facts, not fiction. Based on comparable data not anecdotes and emotion.

As our paper outlines business in Ireland has received additional supports from government for nearly a decade, due to Brexit, Covid-19, the war in Ukraine and the cost of living crisis. The trade union movement supported some of these measures as they related to specific external shocks/factors. But it seems some business groups expect unique and additional supports for specific factors to be mainstreamed and to become the norm. This paper seeks to challenge some of the rather weak and false arguments put forward by some business groups in the last few months. Key points include the fact that,

- Many of the government reforms around the world of work are merely bringing us into line with our European peers.
- They have been time lined and flagged as part of the Programme for Government and commenced in 2022 and in some cases will be staggered over 10 years and are not coming all at once, without prior knowledge or consultation.
- Despite the cries of the threat to jobs we actually have a record number of workers at work i.e. 2.7m.
- Some of the sectors shouting the loudest such as hospitality and retail have seen real employment growth in the last year.

- The number of business failures in 2023 was 27/10,000 and the average over the last 19 years was nearly two times that at 50/10,000 and this includes the global economic crash of 2008/9.
- Employers in Ireland when it comes to taxes on labour pay about half of what their peers in other wealthy European countries pay.
- Part of the solution to sector specific challenges are before us, with the transformative potential of the Adequate Minimum Wages Directive which the government must transpose before mid-November this year. This directive requires the state to promote collective bargaining and to facilitate the right to exercise collective bargaining.

We are up for having a real debate about our economy and the world of work. But it has to be inclusive and balanced and it has to be informed by reality and facts as opposed to hunches and anecdotes.

Owen Reidy
General Secretary

1. Introduction

The Irish Congress of Trade Unions has long called for improvements to working conditions in Ireland. Reforms to the world of work underpinned our No Going Back[1] strategy from 2020 and will similarly underpin Congress's forthcoming New Economic Model document in 2025.

The Irish government has recently introduced, is transitioning to, or plans to introduce, a number of measures designed to improve working conditions in Ireland in various ways (IGEES, 2024).[2] These measures include A) a transition towards a higher national minimum wage[3] benchmarked to 60% of the median hourly wage of all employees; B) a statutory sick pay scheme to ensure a minimum level of financial compensation for workers; C) the introduction of a pension auto-enrolment scheme; D) new parental leave/benefit rights and domestic violence leave; E) a right to request remote working; F) the introduction of a new public holiday, and G) a modest increase in Pay Related Social Insurance to help keep the pension age at 66 years and part-fund a commitment to introduce pay related benefits. While Congress welcomes the direction of travel of these reforms both individually and collectively we also note that in many cases the reforms will merely bring us closer into line with pre-existing norms and practices in most other Western European countries.

The government's measures are being introduced gradually and at a time of notable economic strength. For example, the transition to the higher minimum wage is taking place over a four-year period while the auto enrolment scheme is being phased in over a 10-year period and represents a long-standing and long-flagged commitment of government. The reforms are also being undertaken at a time when the economy is performing very robustly with a tight labour market. As it stands, we are at record levels of employment and record high employment rates. Employment is also growing strongly in the low pay sectors most affected by the new measures while economy-wide business failure rates are well below historical norms.

The government's reforms seek to undo a range of flaws in the Irish economic model. The absence of pay related benefits is likely to have structurally increased labour market mismatch and levels of over-qualification by increasing the imperative to immediately take a potentially poorly matching new job while also deepening the negative

1 ICTU (May, 2020) No Going Back: A New Deal Towards a Safe and Secure Future for All.

2 See Irish Government Economic and Evaluation Service (IGEES, March 2024) An Assessment of the Cumulative Impact of Proposed Measures to Improve Working Conditions in Ireland.

3 The government describes this as a transition to what it terms a 'living wage' though it is more accurately described as a benchmarked national minimum wage.

demand shock and scarring during recessions. Both of these effects are likely to have reduced long-term growth rates. The logics under-pinning pay related unemployment supports and sick pay schemes became particularly salient during the pandemic. The pandemic also revealed that many workers could do their jobs just as well remotely and that remote work could open up employment possibilities for groups with caring responsibilities or disabilities and potentially help reduce regional employment inequalities. The uplift to the national minimum wage is a response to in-work poverty and market inequality and reflects a realisation that sub living wage pay rates amount to a subsidisation of low pay employers and of low value-added activities via the welfare system. Pension auto-enrolment is part of the government's strategy to manage the fiscal costs of an ageing population and reflects the desire to smooth household incomes over the lifecycle and reduce pensioner poverty. Finally, the additional public holiday will still leave Ireland below the OECD average for public holidays.

Many other reforms are needed. Most significantly, the government needs to outline how it plans to respond to the EU Adequate Minimum Wages Directive (by November 2024). The Congress view is that this will require a range of actions from government including measures to facilitate the exercise of the right to collective bargaining and that eliminate barriers to trade union presence and activity and increase collective bargaining coverage.

In addition, the national minimum wage should move on a phased basis to a genuine living wage. For comparison, the United Kingdom is moving to increase their national minimum wage to 66% of the median wage. There have been no net negative employment impacts arising from the UK's transition to 60% while incomes for households toward the lower end of the distribution have improved relative to incomes as a whole.

The government's measures have been criticised by some within the business community. They have cited the cumulative cost to business and the speed at which they are being introduced. However, these arguments should be considered against the fact that such measures are generally standard in other Western European countries. Key measures such as pension auto-enrolment and the higher national minimum wage are also being phased in over extended periods.

Requests by business lobbies for PRSI rebates and reductions should be seen in their proper context. Irish firms already pay much less than their EU counterparts when it comes to employer PRSI (about half of what their counterparts pay as a portion of national income) and so are already effectively being subsidised by the rest of society. Calls for preferential tax treatment in the form of reduced VAT rates make little economic sense and the economic development argument for disproportionately benefiting low value-added sectors is very weak if not actually counterproductive in the long-run. The Commission on Taxation and Welfare (COTW) pointed to the distortions and large fiscal costs inherent in reduced rates and argued that their use be limited. The COTW specifically argued for the abolition of the 9% rate and for the 13.5% rate to be increased progressively over time.

Calls to exclude certain high paid sectors or workers from the calculation of the minimum wage also make little sense. All economies comprise a mix of high, middle and low paid workers and there are no empirical reasons why median wage calculations in Ireland should be done differently to the way they are done in all other countries. Use of the median rather than the mean already helps mitigate the distortive impact of very high salaries at the upper end of the salary distribution.

Similarly, calls to cap minimum wage increases at the level of consumer price inflation (CPI) are inherently problematic. Such a measure implies no future improvements in living standards for the lowest paid and would make it harder to reduce in-work poverty rates over time. Other workers would likely be securing wage increases in line with combined inflation and productivity gains. This has generally been the long-term trend in advanced economies. Thus, a freeze in the minimum wage would see the rate fall over time as a percentage of the median wage and therefore widen market inequality. Such an outcome is the precise opposite of what is intended and required by the EU Adequate Minimum Wages Directive.

Finally, business groups have proposed a ‘competitiveness charter’ that sets out an annual ceiling on the total amount of additional labour costs which would be ‘imposed’ on business in any single year. The Congress view is that discussions on future reforms to working conditions, labour costs, productivity or other pertinent areas are best conducted within the Labour Employer Economic Forum (LEEF) as well as through dialogue between business representatives and trade unions.

2. Economic context

The economy has successfully weathered a range of shocks in recent years. While the economy as measured by GDP shrank by 3.2% last year (2023) this should not be interpreted as a recession or general decline. There was a decline specific to the MNE dominated pharmaceuticals sector with a retrenchment in some of the large and unsustainable gains over 2020 to 2022. Modified Domestic Demand (MDD) grew, albeit by a somewhat tepid 0.5% in 2023 following fast growth of 7.3% in 2021 and 9.5% in 2022.

The labour market has performed exceptionally strongly since the post-Covid reopening. Net employment increased by 89,600 people or 3.4% annually in the final quarter of 2023. This is a very strong rate of growth by historical standards. Participation rates and employment rates have increased for both males and females and are at a record level for females. The monthly unemployment rate was 4.2% in February while long-term unemployment remains close to a record low level. The NERI (Forthcoming) anticipates that employment growth will be a still healthy 1.5% in 2024.

Price inflation continues to diminish with the annual CPI at 4.1% in January (underlying inflation was 5.3%). The Central Bank is projecting the HICP measure of inflation will increase by an average of just 2% in 2024. Nominal wages increased by 2.1% in the 12 months to Q4 2023 in both weekly and hourly terms. This was in the context of the CPI increasing 4.5% meaning that real wages fell by 2.4% year-on-year. Enforced deprivation rates worsened for most cohorts in 2023 with even 12.3% of employed persons experiencing deprivation.

However, real wages should be strongly positive in 2024 (circa 2% to 2.5%) as a tight labour market and lagged wage growth combines with price disinflation to boost real incomes. The growth in real income will in turn boost consumer spending including in the domestic economy. The stronger financial position of households will particularly benefit non-discretionary spending in sectors such as the experience economy including tourism and hospitality. Aggregate demand and the business sector will also benefit from a loosening of monetary policy from mid-year with at least three cuts to interest rates expected.

3. Proposed measures and why they are needed

The government has made a number of very significant interventions in recent years designed to protect the productive capacity of the economy. The IGEES working paper estimates that government support for the enterprise sector for Brexit preparation amounted to €333.3 million and that the total cost of supports related to Covid-19 amounted to €19.4 billion (see page 38). Recent supports related to the cost of living crisis have included an Increased Cost of Business (ICOB) grant, a Temporary Business Energy Support Scheme, a VAT reduction for gas and electricity, temporary excise reductions on auto diesel and similar products and an increase in VAT registration thresholds. In addition, the interest rate on the tax debt warehousing scheme has been reduced to 0% with interest already paid to be refunded and a possibility of extending the duration of payment arrangements.

Most if not all of these measures were appropriate. They helped preserve the economy's productivity capacity and thereby enhanced employment prospects and well-being.

Similarly, the main purpose of the proposed measures to improve working conditions in Ireland is to enhance the quality of work and ultimately societal well-being. Measures such as the auto enrolment retirement savings scheme were sign-posted years in advance and will be gradually introduced over an extended period. This measure will help reduce pensioner poverty in the future and part offset some of the fiscal costs of an ageing population. Measures such as the move to pay related benefits, the introduction of a sick pay scheme and the right to request remote working are all designed to address specific flaws in the Irish economic model that became evident during the Covid-19 pandemic and/or to facilitate better labour market matching across the economy and employment opportunities for individuals with specific barriers to labour force participation. The enhanced minimum wage is designed to part fulfil Ireland's obligations under the EU's Adequate Minimum Wages Directive and are necessary to reduce in-work poverty and income inequality. The new public holiday is recognition of the sacrifices made during the pandemic.

The IGEES paper shows that none of these reforms make Ireland an outlier relative to the EU or the OECD. Auto-enrolment retirement savings schemes and statutory sick pay schemes are in place in 18 out of 20 Euro area countries and 25 out of 27 EU countries while a majority of such countries have remote working legislation. Ireland's number of public holidays (10) remains below the EU (12) and OECD (11) averages. The enhanced minimum wage or 'living wage' is part of a requirement of the Directive and will presumably be adopted in all EU countries with statutory minimum wages. In addition, the UK is moving to a 66% benchmark with the minimum wage in Northern Ireland in excess of that prevailing in the Republic of Ireland. Finally, even with the changes to PRSI contributions Ireland's receipts from this source will remain well below the EU average as a percentage of national income.

These measures helped preserve the economy's productivity capacity and thereby enhanced employment prospects and well-being

4. Next steps – The Adequate Minimum Wages Directive

The IGEES working paper acknowledges (p.25) that the Adequate Minimum Wages Directive requires the use of 'indicative reference values' to assess the adequacy of minimum wages and that it suggests an indicator of 60% of median wages as an appropriate benchmark.

This acknowledgement takes account of the relative dimension of adequacy used in the Directive but not the absolute dimension which is also used. Recital 28 clarifies that the Directive's concept of adequacy encompasses both the fairness of statutory minimum wages in relation to the wages of other workers in the same country (the 'relative' dimension) but also to the capacity of minimum wages to provide workers with a decent or minimum essential standard of living (the 'absolute' dimension).

Both dimensions are among the many aspects of the provisions of the Directive on statutory minimum wages (Articles 5-8) that have to be incorporated into Ireland's transposition legislation by 15 November 2024.[4]

For example, Article 5(1) requires Ireland, when setting and updating the national minimum wage, to be guided by criteria that aim to achieve a decent standard of living, to reduce in-work poverty and the gender pay gap, and to promote social cohesion and upward social convergence.

Taking the issue of in-work poverty alone, the government's 2020 Roadmap for Social Inclusion, 2020-2025[5] commits to reducing the rate of in-work poverty,[6] from 4.8% (2018) to 2% by 2025 and to improve Ireland's ranking on this indicator among EU member states from third (2018) to second by 2025. However, Ireland was one of just three member states that saw an increase in in-work poverty between 2021 and 2022, from 4.3% to 5.3%, with the rate for females rising from 2.9% to 4.5% and the rate for males from 5.4% to 6%, and Ireland's EU ranking falling to seventh. Furthermore, the social transfers needed to reduce in-work poverty among low-paid workers come at enormous cost to the exchequer. €1.1 billion was paid to support the wages of low-paid workers with children in Working Family Payments alone between 2020 and

4 See European Commission (November 2024) *Report of the Expert Group on the Transposition of Directive* (EU) 2022/2041, Chapter II

5 Department of Social Protection, (January 2020), "Roadmap for Social Inclusion 2020-2025, commitment 20. Note, Table 1A of the Roadmap also refers to a target of 3.5% by 2025.

6 [EuroStat Data Code: ILC_IW01] The in work at-risk-of-poverty rate refers to the percentage of persons in the total population who declared to be at work (employed or self-employed) who are at-risk-of-poverty (i.e. with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income (after social transfers).

2022,[7] with women accounting for over two-thirds of recipients in 2022. Millions more would have been spent on other supports to low-paid workers such as Housing Assistance Payments. When issuing its proposal for the Directive in 2020, the European Commission identified Ireland as one of the member states where achieving a statutory minimum wage of 60% of median wages of full-time workers would reduce the need for state spending on benefits to support low-paid working families, estimating a 'saving' of approximately 0.25% of GDP in Ireland.[8]

Crucially, the goal of ensuring that statutory minimum wages are both fair and provide a decent standard of living - that they are 'adequate' - is the reason why the main focus of the Directive is the promotion of collective bargaining. As Recital 25 points out, EU countries where at least 80% of workers are covered by collective agreements between trade unions and employers are also the countries that tend to have high levels of minimum wages relative to the average wage and a small share of low-wage workers.

That is why Article 4(1) requires all countries to take specific actions (by November 2024) to facilitate the 'exercise of the right to collective bargaining on wage-setting' and to increase collective bargaining coverage and why Article 4(2) requires those countries with coverage below 80% - such as Ireland at around 34% - to 'in addition' provide for a 'framework of enabling conditions for collective bargaining' and to establish an Action Plan (by October 2025) to 'promote collective bargaining', containing a 'clear timeline and concrete measures' to progressively increase coverage.

7 Department of Social Protection (2023), *Statistical Information on Social Welfare Services Annual Report 2022*, Table G1, p.69. The Working Family Payment is a weekly means-tested social welfare payment to support families whose income is below a threshold level, with income thresholds linked to the number of children in the household. It can only be claimed by those in employment (and working at least 38 hours in a given two-week period)

8 European Commission (2020) Impact Assessment - *Accompanying the document Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union*, pages 207 and 208.

5. The critisisms and proposals of business

Various business lobbies have criticised the timing of the measures and the additional costs to business. They have made a number of what they argue are compensating proposals. For example, the **SaveJobs** group led by ISME and other employer organisations has referred to what they say is 'the current spate of restaurant and café closures across the country'. They are lobbying for:

- A permanent preferential 9% VAT rate for the food service, entertainment, experiential and grooming sector
- A decrease in the VAT rate from 23% to 21%
- Applying the lower 8.8% rate of PRSI to the entirety of the National Minimum wage, currently €495.30 per week
- A reformulation of the median wage so that public sector workers and multinational workers are disregarded for the purposes of calculating the benchmark for the National Minimum Wage (NMW)
- Capping future NMW increases at the level of the increase in the Consumer Price Index (CPI)
- Making all regulation subject to an SME test

Similarly, IBEC have called for:

- A PRSI rebate for the most exposed companies to rising costs
- An increase in the top-rate employer PRSI threshold above the minimum wage
- A new 'competitiveness charter' which sets out an annual ceiling on the total amount of additional labour costs which would be 'imposed' on business in any single year

6. Responding to the concerns - What are the facts?

It is worth considering the issues and proposals raised by the business lobbies one by one.

Timing and the current economic climate

It is certainly legitimate to consider the question of when precisely might be the optimum time to initiate the process of uplifting working conditions in Ireland to that of other Western European countries. Ideally, such a process would begin at a time of economic strength. The case for adding to business costs is certainly weaker during a recession or during a period of high unemployment. As it happens, the economy as a whole is performing very well. There was annual employment growth of 3.4% or 89,600 people in the final quarter of 2023. This is a very robust rate by historical standards. There are a record 2.7 million people at work, up over 300,000 since the final quarter of 2019 and the female employment rate is at a record 69.8%. The unemployment rate was just 4.2% in February.

The IGEES heatmap indicates that *accommodation and food services*, *wholesale and retail* and *arts, entertainment and recreation* are the sectors most exposed to the working conditions reforms. If jobs in the low pay sectors are genuinely at risk then this should appear in the employment data. *The Accommodation and Food services* (+11,300 people year-on-year in Q4 or 7%) and *Wholesale and Retail* (+19,600 people or 6%) sectors are the two most relevant sectors with regard to the minimum wage. Both sectors experienced employment growth in excess of the economy-wide average and combined they accounted for one third of all employment growth over the year. In addition, the two sectors outperformed the economy as a whole in the final quarter of 2023 with employment in both sectors growing very strongly on a quarter-on-quarter basis. Chart 1 and Chart 2 show that the low pay sectors have all either rebounded to or significantly exceeded their pre-pandemic levels of employment.

Spending in the economy is also relatively buoyant with personal consumption up 3.1% in 2023 (7.4% in nominal terms). VAT receipts to end February are up 4.8% year-on-year while retail sales (volume) increased by a respectable 2.7% year-on-year in January. PwC's insolvency barometer notes there were 27 insolvencies per 10,000 companies in 2023. This compares to a rate of 36 per 10,000 in 2019 and is well below the 19-year average for their dataset. The liquidation rate in the UK is twice the prevailing rate in Ireland.

Chart 1: Seasonally Adjusted Number of Employees, CSO

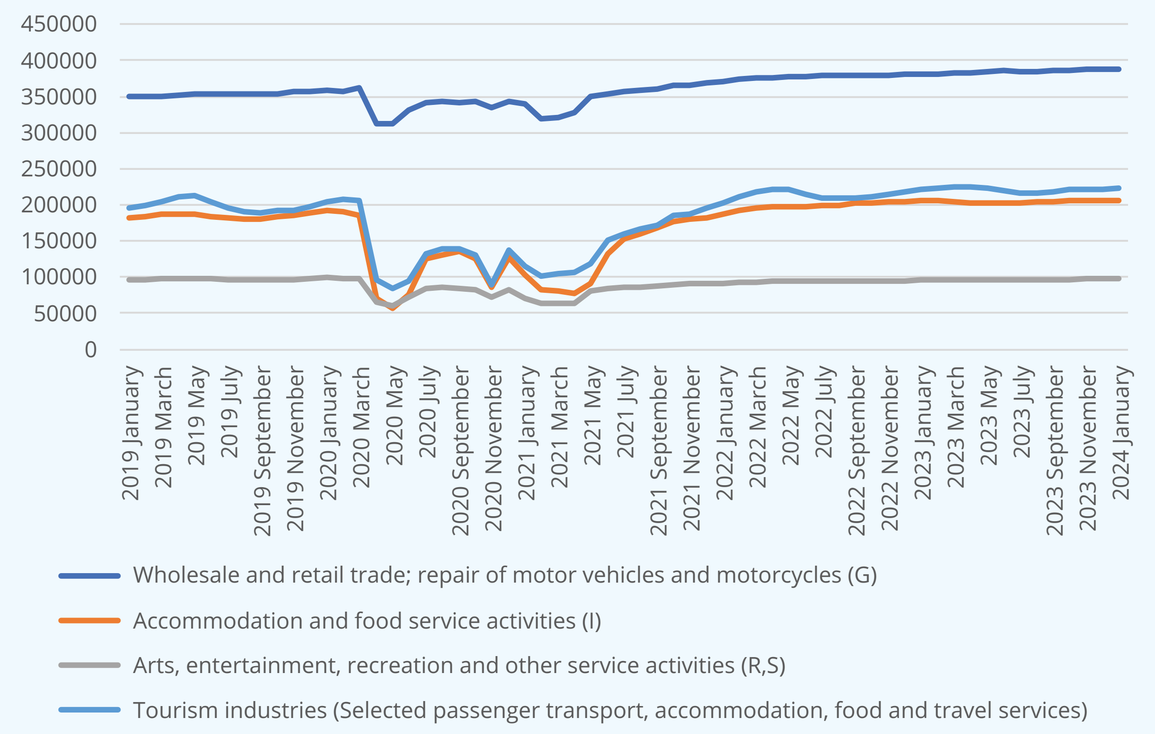


Chart 2: Seasonally Adjusted Employee Index, 2019 = 100

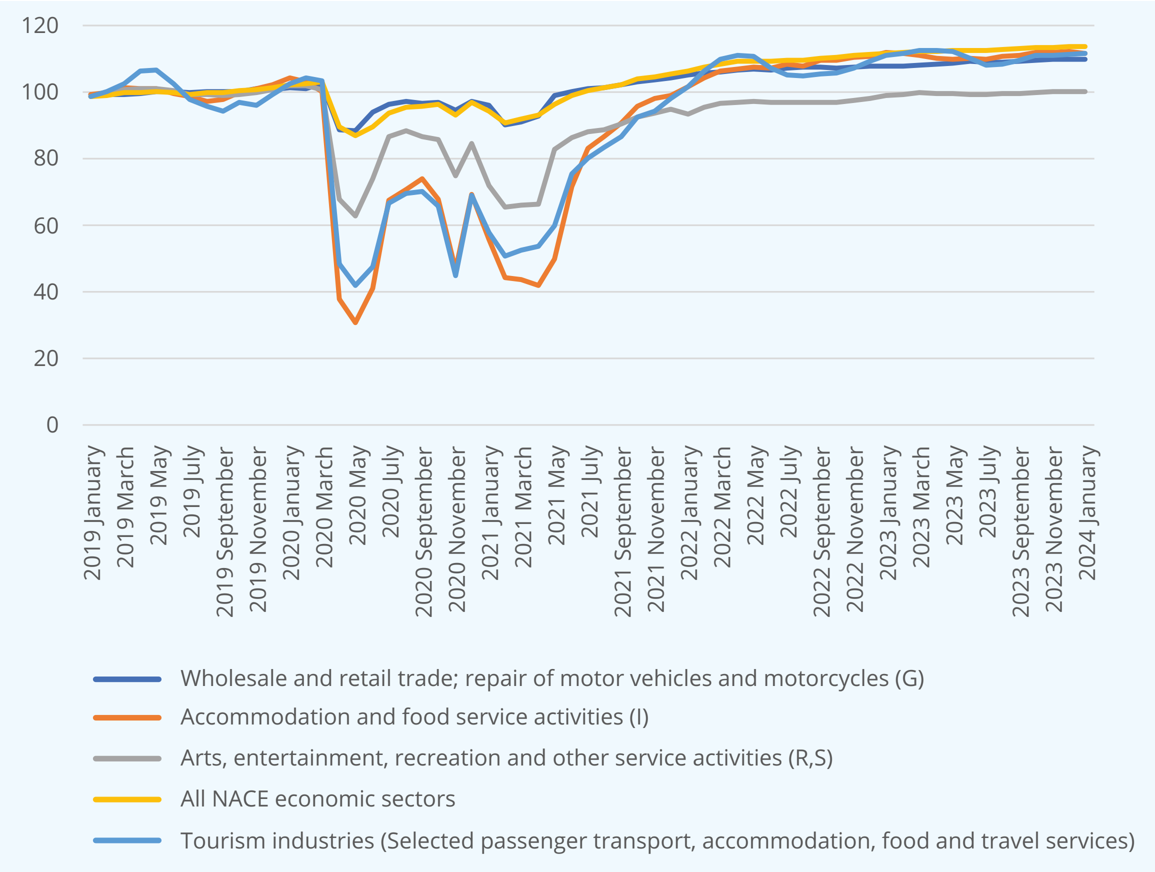


Chart 3 shows developments in the accommodation and food service sector from 2016 to 2022. The final data for 2023 is likely to show a continuation of the fairly positive trend including for operating surplus. Similar positive trends can be shown for retail and for other personal service activities (Chart 4 and Chart 5). Accommodation and food services tends to have high rates of churn. For example, 11% of such enterprises became inactive in 2019 compared to 8.9% for the business economy as a whole. There is a consistent trend of above average deaths and births in the sector across the last decade, indicating a sector with a naturally high degree of churn. It is important to bear this in mind when discussing individual cases of business closure.

Chart 3: Gross Value Added in Accommodation and Food Service Activities, 2016 to 2022, Eurostat

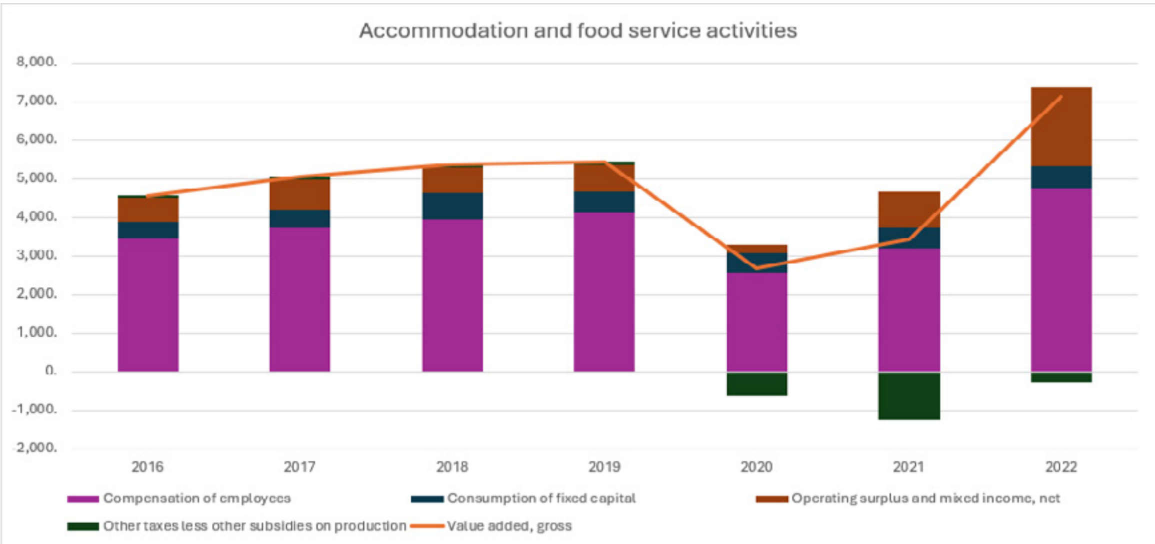


Chart 4: Gross Value Added in Retail Trade, 2016 to 2022, Eurost

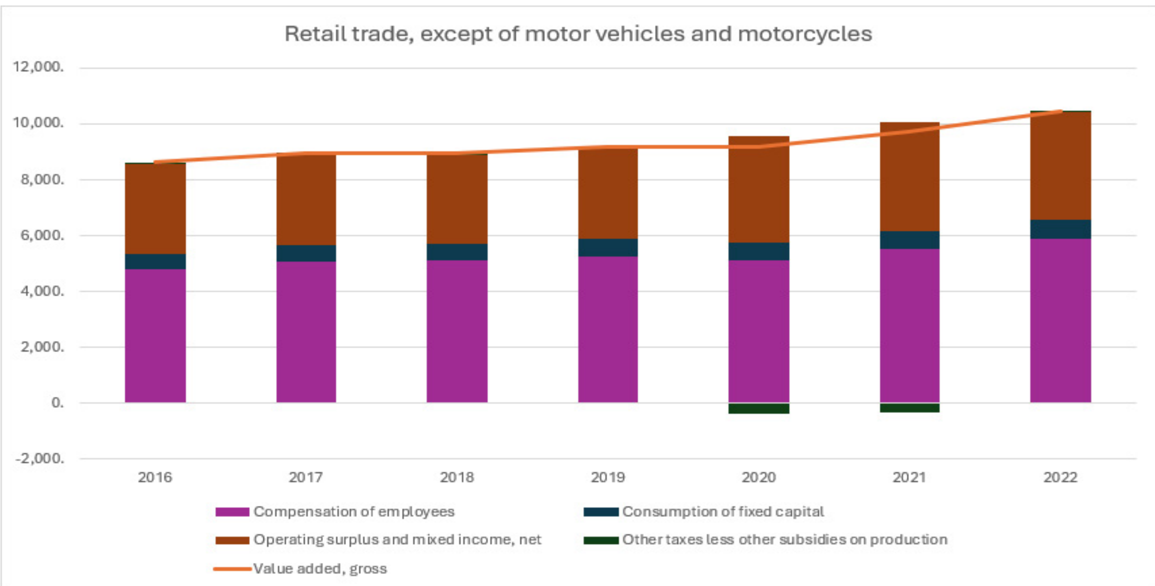
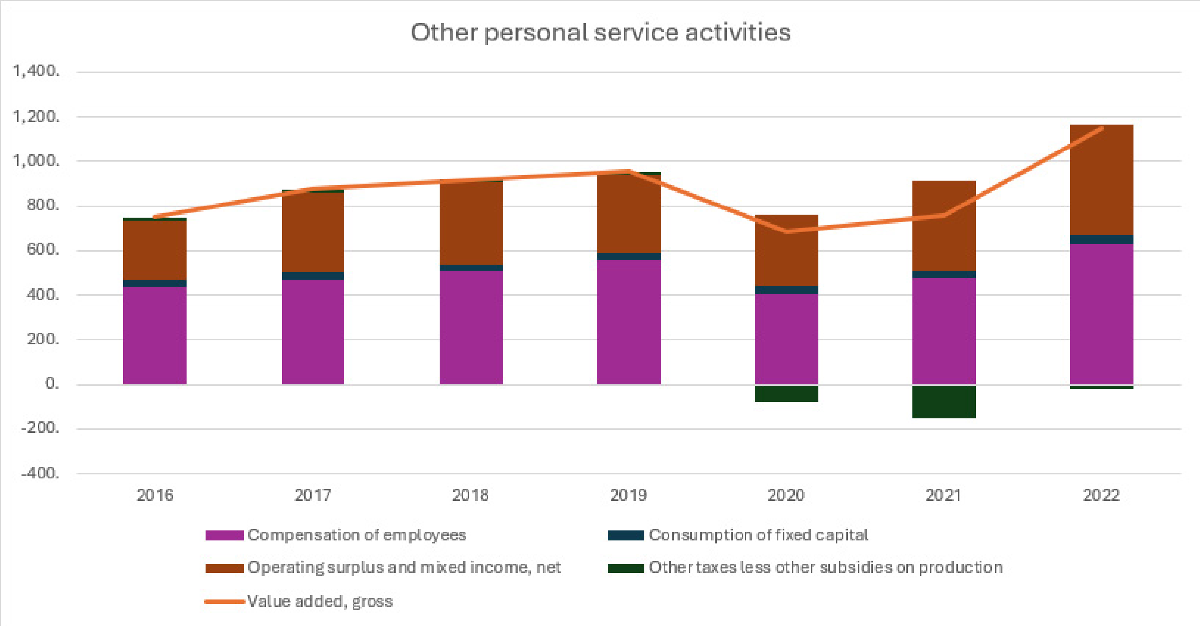


Chart 5: Gross Value Added in Other Personal Service Activities, 2016 to 2022, Eurostat



Overall, it is difficult to objectively establish a case that the current business climate is particularly challenging, either relative to other advanced economies or indeed relative to previous economic periods in Ireland. This suggests that it is indeed an appropriate time to begin the process of bringing working conditions in Ireland up to that of other Western European countries.

In any event, the major changes such as the introduction of auto-enrolment are taking place on a phased basis over time that provides adequate space for businesses to adjust.

Excluding certain workers from calculations of the minimum wage

There is no such thing as a 'normal' economy. Every economy in the OECD has its own unique compositional mix of employment with low-middle-and-high paid workers. While Ireland does have a very significant proportion working for multinational companies this will have a greater impact on calculations of the mean wage than on the median wage. It is not clear why they should be excluded from median wage calculations – doing so would inevitably be arbitrary and any potential empirical justification is unclear. Cost of living is not independent of wage rates in the economy and this includes the wages of those working in the multinational sector.

Wages set the benchmark for living standards in any economy as they are the most important component of income for most households. The median wage represents the bulk of income for the average person and on an after-tax basis is an appropriate proxy for living standards. Over the medium-to-long term, economy-wide wage increases will be a function of productivity gains and price increases amongst other things. Thus, a proposal to cap increases in the national minimum wage to consumer price inflation will inevitably lead to minimum wage workers falling further and further behind other workers in relative terms over time. Living standards for the lowest earning workers would stagnate while rising for other households. Such an approach will reduce the attractiveness of such jobs, exacerbate income inequality, and increase the rate and severity of in-work poverty for affected groups.

Employer PRSI

Next let us consider the issue of employer PRSI and the call for rebates and reductions. The first question is whether employers are overtaxed relative to the rest of the EU or the Euro area. Eurostat data (Table 1) shows that taxes on labour income from employment that were paid by employers in Ireland in 2022 were just 2.2% of GDP or 4% of GNI* (€10.95 billion). The average for countries in the Euro area was 8.4%. This means that employer contributions would need to increase by almost €12 billion per annum, or to more than double, just to reach the Euro area average.[9]

Table 1: Taxes on labour as % of GDP – Income from employment, paid by employers, 2022

	% GDP
Euro area	8.36
Ireland	2.16
Ireland (GNI*)	4.01

Eurostat: Data on Taxation Trends

Employer contributions are the 5th lowest in the EU as a percentage of national output. The range is from 0.6% in Denmark to 12.3% in France. Taxes on labour paid by employers amounted to 10.3% of total taxation in Ireland in 2022 compared to an average of 20.5% in the Euro area. In contrast, employees paid 30% of taxation in Ireland, compared to an average of 24.8% in the Euro area. The low employer PRSI rates effectively amount to an implicit annual subsidy for Irish businesses relative to their counterparts' treatment in other European countries. Of course, under taxation in one area implies higher taxes elsewhere in the economy (e.g. for workers or consumers) or less money for services such as education, housing and health. The case for any PRSI rebate is therefore very weak. Such a rebate would benefit an already low taxed segment of the national tax base and would have to be paid for elsewhere.

9 Social contributions from employers were 1.97% of GDP or 3.66% of GNI*. The Euro area average was 7.73%. The difference in this case amount to over €11 billion.

VAT

What about the issue of VAT reductions? Ireland's implicit tax rate[10] on consumption at 18.6% is modestly higher than the Euro area average of 16.8%. This suggests there may be some scope to cut individual consumption taxes such as the higher VAT rate. However, reducing the 23% rate to 21% would cost €1.23 billion per annum according to the Revenue Commissioners.[11] Reducing the VAT rate for hospitality to 9% would cost €764 million although restricting this to food and catering services reduces that to a full year cost of €545 million according to government estimates.[12]

The 13.5% rate is already low and amounts to preferential treatment for the relevant activities. Blending the 9%, 13.5% and 23% rates together on a revenue neutral basis would lead to a combined rate of 18.1%. In other words, goods and services at the 13.5% rate are already benefiting from a significantly reduced VAT rate. It is not clear what economic argument might justify this reduced rate let alone reducing it even further. If anything, economic development policy should be steering economic activity towards high-value activity and not low-value activity. As it happens, the Commission on Taxation and Welfare made the case in its final report that the lower VAT rate should be increased over time – not decreased as employer lobby groups are lobbying for. Thus, while there may be some modest scope to cut consumption taxes this should not be done via a preferential rate for inherently low value-added activities.

The public finances may ostensibly appear in a strong position in the short-term but this is mainly due to a recent surge in corporation tax receipts that is of uncertain sustainability over the medium-term. We must also consider that Ireland's fiscal sustainability will deteriorate over the medium-to long term due to the impact of increased spending on an ageing population (health, pensions, social care) and a falling working age ratio (less income tax receipts). A further consideration is that receipts from other consumption taxes – specifically environmental taxes on things like carbon, petrol and diesel - will fall over the medium-to-long term. Indeed, achieving greenhouse gas targets implies that tax receipts from these polluting activities will fall to zero over the next few decades. This means either that other consumption taxes such as VAT will need to be increased over time or that there will need to be tax increases in other areas.

VAT cuts could be financed in the short-run through higher taxes on capital but, in reality, taxes are set to more generally increase over the next few years and short-term cuts will eventually have to be reversed putting an additional burden on younger workers.

10 The implicit tax rate is analogous to the effective tax rate.
11 Revenue Commissioners (October 2023) Revenue ready Reckoner
12 Department of Finance Written Answers (20 February 2024) Tax Code

7. Conclusion

Congress welcomes the proposed measures to improve working conditions in Ireland. The reforms will bring us closer into line with pre-existing norms and practices in most other Western European countries. Our view is that even more progress is needed.

In particular, Ireland's transposition of the EU Adequate Minimum Wages Directive should fully reflect the intent of the Directive. This means that policy should explicitly facilitate the exercise of the right to collective bargaining and increase collective bargaining coverage towards the benchmark of 80% with policies introduced to give effect to that goal. Further progress is also needed in terms of achieving a genuine living wage that it is both fair and provides a decent or minimum essential standard of living.

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