



**Chambers
Ireland**
Advancing business together

**Chambers Ireland's Submission to the Low Pay
Commission on the National Minimum Wage**

February 2019

Introduction

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to represent the views of businesses and understand their concerns.

Chambers Ireland is pleased to have the opportunity to submit to the Low Pay Commission on setting the National Minimum Wage and we welcome the work of the Low Pay Commission in ensuring evidence-based policymaking around the minimum wage in Ireland.

Chambers Ireland firmly supports the need for a National Minimum Wage and recognises the vital role that fair wage structures contribute towards a functioning economy and society. It is our view that the level of the minimum wage must reflect economic realities facing the country.

This submission outlines Chambers Ireland's perspective on an increase to the National Minimum Wage in 2019, with our arguments against any increase outlined below. This submission has been drafted in correspondence with our Chamber Network and associated policy fora, which represents the Chambers and their member companies.

Executive Summary

Although Ireland over the past year has experienced strong economic growth, the openness of the economy makes the enterprise sector particularly vulnerable to any negative price and cost shocks. It is anticipated that 2019 has the potential to be a very turbulent year for business, owing to a combination of factors including rising costs, higher international energy prices and trade uncertainty.

Between looming global trade risks and imminent departure of one of Ireland's largest trading partners from the European Union (EU), any move to implement an additional increase to the National Minimum wage will financially burden Irish SMEs, that do not have any credible mechanisms in place to deal with these changes considering the current political climate. The financial impact of these very high risk scenarios is yet to be quantified, therefore, a further increase to the National Minimum Wage would serve to negatively impact those businesses least able to adapt to the global threats.

As the already high cost of living and doing business continues to increase, and the housing crisis is yet to be solved, a further increase to the National Minimum Wage would likely cause repercussive claims across all wage levels. While Chambers Ireland sees the importance of having a minimum wage that reflects the cost of living, changes should only be made when businesses operating in the economy can offset the increase in price without it negatively affecting competitiveness and growth.

Chambers Ireland believes that the competitiveness of Irish business and the totality of our economy must be a priority for policymakers given the external uncertainty and growing global challenges that our economy faces today. Therefore, this highlights the fact that other costs for

businesses must be brought under control before there is a further increase in the National Minimum Wage.

Our submission to the Low Pay Commission on the 2019 National Minimum Wage will be set out under the following headings

- **The macroeconomic environment**
- **The impact on trade competitiveness**
- **Our ability to attract foreign direct investment**
- **Inflation and the consumer price index**
- **High cost of living and doing business**
- **Repercussive claims and employment effect of increasing the national minimum wage.**

Macroeconomic environment

Irish businesses heading into 2019 face increased economic and political uncertainty. Uncertainty surrounding this forecast primarily relates to external factors. In the same way that Ireland benefits from open and free trade, we are similarly exposed, in the negative sense, to reductions in trade or moves towards protectionist policies, for example trade tensions between the United States and China, the US and EU and the implementation of trade sanctions. Most notably, the economy is extremely exposed to the implications of the UK's exit from the European Union. With the absence of a ratified Withdrawal Agreement and the deadline to exit fast approaching, the possibility of a no-deal Brexit increases despite the widespread need for a transition period to minimise economic disruption.

The implications of the UK's departure for the Irish economy and on Government finances are difficult to measure given the uncertainty and lack of clarity over the future of Irish/UK trade relations. A study by Copenhagen Economics found that Brexit will reduce the size of the Irish economy in 2030 by between 2.8 and 7 per cent, depending on the type of Brexit that eventually emerges.¹ Further, ongoing currency fluctuation may result in a deviation in the path for the Euro/Sterling exchange rate, away from that which is assumed in the current forecast, and a higher tariff environment which would have knock-on effects for consumer prices.² On average, the exchange rate in 2018 was €1 = £0.8847, 8% above the 2016 level, the year of the Brexit referendum.³ The exchange rate is expected to remain volatile as the future of the political debate remains uncertain.⁴ Not only is this the case with the sterling, but similar levels of volatility have been observed in the euro/US dollar rate.

Many of the main economic indicators are performing strongly. With employment at 2.26 million, Ireland's economy has enjoyed robust economic growth as measured by GDP and GNP

¹ <https://dbei.gov.ie/en/News-And-Events/Department-News/2018/February/13022018.html>

² <https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2019/quarterly-bulletin---q1-2019.pdf?sfvrsn=8>

³ https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-01-25_quarterly-economic-and-fiscal-commentary-q4-2018_en.pdf

⁴ <https://dbei.gov.ie/en/Publications/Publication-files/Currency-Risk-Management-for-Irish-SMEs.pdf>

in the first three quarters of 2018 and is expected to achieve economic growth of 4.2% in 2019.⁵ However the instability of the current macroeconomic environment is already presenting businesses with a more difficult operational and trading environment. Although the Irish economy is growing, adding additional costs under such uncertain circumstances will have a negative repercussive effect on enterprise.

With the Department of Finance⁶ stating that although the economy is not currently overheating economic imbalances could emerge in the near future, an indication that any attempts to increase price and wage inflation should be avoided this year. To increase the national minimum wage in 2019 under these conditions would negatively impact Ireland's exporting industries and indigenous Irish firms.

Impact on Trade Competitiveness

Global trade relations continue to be complex and volatile. On one hand, relationships are being formalised such as the newly ratified EU-Japan agreement, while on the other hand, trade sanctions are on the rise.⁷ On the 29th March one of Ireland's largest and most important trading partners will leave the EU, the Customs Union and the European Economic Area. This political event will not only change trade relations for Irish businesses operating in the UK and increase Irish/UK trade costs, but it may potentially put businesses at the risk of having to cut labour costs and shutting down operations.

With such uncertainty impacting Irish business, there has never been a more important time for Ireland to remain open for business and to increase trade competitiveness. Considering these circumstances, domestic policy responses have the potential to mitigate these potential impacts.⁸ One such response should be to keep Irish enterprises competitive by retaining our existing minimum wage and not increasing it for a further year.

According to the 2018 IMD World Competitiveness Rankings, Ireland is the 12th most competitive country in the world, slipping 6 places from 2017.⁹ If Ireland is to improve its ranking position and continue to grow economically, it is vital that we make sure that our domestic economy remains competitive.

The performance of the UK and US economies has significant importance for Ireland's export performance and in turn our GDP growth. Ireland's businesses will inevitably be challenged by any changes to the trading relationship with the United Kingdom. As it is, our export sectors stand to be significantly impacted, particularly as the Irish economy is exposed to external shocks. Given the potential of a 'Hard-Brexit', Ireland must remain as competitive as possible and the export sector should continue to grow. Increasing the National Minimum Wage would

⁵ https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-01-25_quarterly-economic-and-fiscal-commentary-q4-2018_en.pdf

⁶ https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-01-17_a-primer-on-economic-overheating_en.pdf

⁷ https://ec.europa.eu/commission/news/annual-report-trade-and-investment-barriers-2018-jun-26_en

⁸ <https://dbei.gov.ie/en/Publications/Publication-files/Ireland-and-the-Impacts-of-Brexit.pdf>

⁹ <https://www.imd.org/globalassets/wcc/docs/release-2018/ranking2018.pdf>

serve to raise labour costs and undermine competitiveness at an already difficult point in time for businesses. Increasing the National Minimum Wage would be particularly harmful to Ireland's SMEs, which would have a knock-on effect to the export sector.

Competitiveness in attracting Foreign Direct Investment

Maintaining competitiveness has been a major factor in attracting Foreign Direct Investment (FDI) in Ireland. Over the past decade, FDI has been particularly important for the Irish economy to recover from the recession and it continues to make an essential contribution to our success today. Trade and investment are key contributors to the Irish economy, with employment in IDA client-companies standing at a record 229,057 jobs at the end of 2018.¹⁰ FDI continues to drive the economy forward with strong employment growth at 7%, compared to the national average of 3% in 2018.¹¹ In addition, the presence of FDI companies in Ireland also has a significant impact on our GDP and benefits the Exchequer.

While Ireland's growth is on a positive track, the increased costs for FDI companies to operate here create increasing barriers to remain competitive. The National Competitiveness Council has warned that "high business costs make Ireland less attractive for mobile inward investment and reduces the competitiveness of Irish enterprises".¹²

To achieve continued growth, Ireland's international competitiveness must be maintained and enhanced relative to our key competitors. It is therefore imperative that Ireland remains an attractive location to do business by maintaining and monitoring costs. Further increases to labour costs in an economy which already has high costs due to its peripheral geographical location and potential costs as a result of Brexit, will inhibit Ireland's ability to attract labour intensive FDI. As a result, we believe that another increase to the National Minimum Wage would serve to detract from Ireland's overall competitiveness.

Higher wage costs threaten Ireland's ability to compete at an international level in the attraction of new inward investment. This is particularly the case at a time when we are facing greater potential threats to our existing stock of FDI companies from the high cost of living and cost of doing business.¹³ Rather than making it increasingly difficult for FDI companies to remain and move to Ireland, we should be focusing our efforts on improving competitiveness to take advantage of greater opportunities in this sphere.

Low Inflation & Consumer Price Index

Chambers Ireland believes in the importance of having fair wage structures in Ireland. These structures should integrate a balance between employees having a fair wage and businesses being able to account for this increase in cost. Any increase to the National Minimum Wage must

¹⁰ <https://www.idaireland.com/newsroom/ida-ireland-2018-results-highest-number-ever-emp>

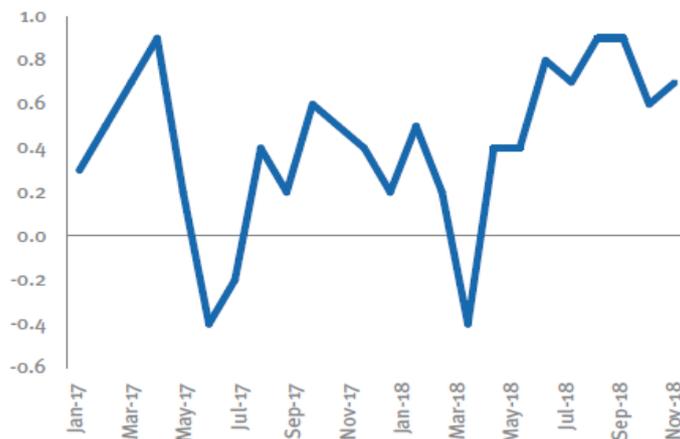
¹¹ Ibid

¹² <http://www.competitiveness.ie/News-Events/2018/Costs%20of%20Doing%20Business%202018%20Report.pdf>

¹³ <https://www.idaireland.com/newsroom/ida-ireland-2018-results-highest-number-ever-emp>

be based on an examination of the impact of inflation on prices. According to the Central Statistics Office (CSO), prices on average, as measured by the CPI, were 0.7% higher in December 2018 compared with December 2017.¹⁴

Figure 1: Monthly Inflation



(Source: CSO Consumer Price Index, December 2018).

These changes were most notable in the areas of housing, water, electricity, restaurants and Hotels, to name a few. Prices for miscellaneous goods and services such as lower health and motor insurance premiums decreased.¹⁵

Ireland has one of the lowest inflation rates in the eurozone area, significantly lower than the 1.9% average.¹⁶ Given the consistently lower rates of change recorded across 2018 and the economic uncertainty that is yet to come, increasing the minimum wage, along with the additional costs and uncertainty that SMEs will face this year will make it difficult for business to control labour costs while attempting to remain competitive. Additionally, another rise in the National Minimum wage could result in additional inflationary pressure on the economy. For many employers the effects of the last increase to the National Minimum Wage are still being absorbed. With great uncertainty due to events such as Brexit expected to influence inflation forecasts, it is our view that an increase to the National Minimum Wage in 2019 would not be a prudent move.

High cost of living & high cost of doing business

¹⁴ <https://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexdecember2018/>

¹⁵ <https://tradingeconomics.com/ireland/inflation-cpi>

¹⁶ https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-01-25_quarterly-economic-and-fiscal-commentary-q4-2018_en.pdf

Ireland is the fastest growing economy in the Eurozone as it provides a stable and competitive environment to do business.¹⁷ While our economic growth continues to flourish, the cost of living is on the rise. The factors contributing to the high cost of living in Ireland also drive the cost of doing business here. Commercial rents continue to rise, along with businesses' insurance costs and labour costs. The high prices in Ireland remain relatively high and rents have pushed the cost of living in Ireland out of line with other developed European economies.¹⁸

In absolute terms, Ireland has the second highest national minimum wage in the EU at €1,563.25 per month, Luxembourg with the highest rate (€1,998.59) while the UK is placed 7th (€1,396.90).¹⁹ According to the National Competitiveness Council, labour costs are one of the most sensitive costs that impact business competitiveness.²⁰

Increasing an already high minimum wage relative to our European counterparts, without meaningfully addressing the factors causing the high cost of living, such as lack of affordable housing, high cost of childcare etc will only harm the competitiveness of Irish SMEs. This response is simply shifting the burden to business while failing to address the underlying issues contributing to these costs. Businesses cannot continue to absorb increased labour costs in place of Government tackling the high cost of living in Ireland.

Repercussive claims and employment effect

Since the 1st January 2019, the national minimum wage for an adult employee is EUR 9.80 per hour.²¹ While we value having a minimum wage that is reflective of the cost of living, businesses must be operating the right cost conditions to be able to pay the increase without it threatening business viability. Many Irish businesses simply cannot afford to increase wages again and doing so in 2019 would only have a counterproductive effect.

To increase the National Minimum Wage for a fourth consecutive year would signify that it is the norm for wages to increase year on year and would set expectations across all wage bands for this as standard, irrespective of the realities facing the economy or facing a business.

A further increase to the National Minimum Wage has the potential to alter expectations and continue this trend in upward wage demands across the board. While the total number of employees on the minimum and sub-minimum wage remains low relative to the overall workforce of Ireland, an increase to the minimum wage stands to have a wide-ranging impact on labour costs across the economy due to potential knock-on effects.

¹⁷ https://www.idaireland.com/newsroom/publications/facts_about_ireland_2018.aspx

¹⁸ <http://www.competitiveness.ie/News-Events/2018/Costs%20of%20Doing%20Business%202018%20Report.pdf>

¹⁹ [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Minimum_wages_July_2008_and_July_2018_\(EUR_per_month_and_%25\).png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Minimum_wages_July_2008_and_July_2018_(EUR_per_month_and_%25).png)

²⁰ <http://www.competitiveness.ie/News-Events/2018/Costs%20of%20Doing%20Business%202018%20Report.pdf>

²¹ <https://www.cipd.ie/knowledge/hr-fundamentals/pay/national-minimum-wage-trends>

According to the Central Bank,²² wage growth in 2018 appears to have been relatively broad-based across all sectors. With an economic slowdown predicted for 2019, we believe that putting more pressure on businesses considering these circumstances will only accelerate and heighten any downturn.

Additionally, the increase in the cost of doing business particularly with potential tariffs, administrative and shipping costs, as a result of Brexit, may put a heavy burden on business this year. Therefore, increasing the National Minimum Wage may have a repercussive effect whereby, these increasing costs in uncertain times may force businesses to cut labour costs rather than expand on them.

Summary

Government efforts should be focused on investing in solutions which address the root causes of the high cost of living in Ireland. Policies that address the high cost of living through regularly increasing the National Minimum Wage have the effect of embedding other disproportionately high costs permanently into the economy.

We call on the Low Pay Commission to maintain the existing National Minimum Wage, and to commit to no further increase of the National Minimum Wage while the economy navigates this turbulent and uncertain time.

²² <https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2019/quarterly-bulletin---q1-2019.pdf?sfvrsn=8>