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

February 2018

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 understand the concerns of businesses and represent their views.

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 policy making around the minimum wage in Ireland.

Chambers Ireland firmly supports the 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 national policy councils, which represent the Chambers and their member companies.

Executive Summary

Any increase to the national minimum wage must reflect the economic realities currently facing the country, and unfortunately the ongoing Brexit negotiations in particular mean that Ireland's economic reality is one of uncertainty for the future. We cannot ask businesses to increase wages for the fourth consecutive year in 2019 as they face into the unknown of Brexit and the potential impact this will have on Ireland's trading relationship with the United Kingdom. As the already high cost of doing living continues to increase and be borne by businesses through wage pressures, a further increase to the National Minimum Wage would serve to negatively impact upon business growth and would likely cause repercussive claims across all wage levels. Chambers Ireland's Network Survey, published in November 2017, revealed that the members from our network of 45 chambers around the country see Brexit as the number one economic challenge for 2018, followed by labour costs as the second greatest challenge.

Ireland's competitiveness and the competitiveness of Irish business must be the focus of policy makers given the external uncertainty and threats facing our economy at this point in time.

Macroeconomic environment

As a small, uniquely open economy Ireland is extremely exposed to external shocks and vulnerable to changes in growth in the Eurozone, the UK and the USA. While Ireland's projected growth rate of 4.2%[1] is positive news, we must be cautious and mindful of the external factors which are a threat to this growth and to our overall economic prosperity.

The Economic and Social Research Institute (ESRI) in their Winter 2017 Quarterly Economic Commentary point out that much of Ireland's recent growth has been due to domestic factors, with investment and consumption contributing strongly.

While the growth forecasts for Ireland are currently positive, the outlook for the rest of the Eurozone remains modest and has averaged at 1.7% per annum over the last three years, having been negative as recently as 2013. Indeed the ESRI warns that GDP growth is likely to sit at 0.6% over the next decade for the Euro Area, outlining that underlying vulnerabilities persist across Europe.

Both the ESRI and the National Competitiveness Council (NCC) have recently highlighted the strong links between Ireland's growth and the performance of the UK's economy and outlined that this link poses a significant risk to Ireland's domestic outlook. The UK's economic outlook is not positive and the Office for Budget Responsibility's (OBR) recent downward forecast for UK growth highlights the weaknesses in their economy.

Indeed the OBR's figures in November 2017 indicate that the UK's economy is slowing down, with productivity rates recently being forecast downward.[2] The ESRI describes the UK as 'one of the poorest performers in the advanced world during what can otherwise be regarded as a global upswing in growth".[3]

In addition to the UK's worrying growth outlook, while all parties in Brexit negotiations aim to avoid a 'Hard Brexit', the threat that this may occur remains and would have severely negative effects on Ireland's economy and on Irish businesses of all sizes and across all sectors. This is confirmed by the Central Bank of Ireland, which states that "the economic impact of Brexit on Ireland will be negative and material, with uncertainty prevailing and the extent of the impact depending on the timing and nature of the changes to trading arrangements".[4]

In addition to the threat of Brexit, the shift in policy of the US administration towards protectionism has yet to be fully felt, along with the recent changes to the US Corporate Tax Rate. The National Competitiveness Council outlines that the US economy's growth forecast

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[1] ESRI Quarterly Economic Commentary Winter 2017 https://www.esri.ie/pubs/QEC2017WIN.pdf

[2] Office for Budget Responsibility, Economic and fiscal outlook – November 2017 http://budgetresponsibility.org.uk/efo/economic-fiscaloutlook-november-2017

[3] ESRI Quarterly Economic Commentary Winter 2017 https://www.esri.ie/pubs/QEC2017WIN.pdf

[4] Central Bank of Ireland Quarterly Bulletin January 2018 https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2018/quarterly-bulletin---q1-2018.pdf?sfvrsn=5

"may be downgraded due to potential protectionist policy changes in the areas of taxation and trade"[5] which would in turn impact upon Ireland's economic outlook.

A further threat to Ireland's economy and specifically to our Foreign Direct Investment sectors, which make up a significant portion of Ireland's GDP, stems from other European member states' wishes to introduce a Common Consolidated Corporate Tax Base and a Tax on the Digital Economy. The introduction of either of these measures would have a significant and negative impact upon Ireland's economic environment and our labour force. As pointed out by the Revenue Commissioners in an assessment on the potential impact of the introduction of a Digital Tax in Ireland, this new measure could negatively impact payroll tax receipts as well as corporate tax receipts. This report also warned that such a tax would also affect Ireland's overall attractiveness to foreign multinationals as a place to invest.

The NCC have highlighted the fact that the Irish economy "faces significant threats from external factors, including the outcome of the Brexit negotiations, a potential shift in trade and taxation policy in the US, a slowdown in UK and US growth and the uncertain nature of the political economy of the EU".[6] Indeed the ESRI point out that sustainable growth for an open economy such as Ireland's requires both domestic and external sources of growth over the long term. Given the threats to growth for the UK, the USA and the rest of the Euro Area, the path to sustainable growth for Ireland is far from guaranteed and a further increase in the National Minimum Wage must be avoided while such uncertainties face both the Irish economy and Ireland's businesses.

Impact on Trade Competitiveness

With Ireland's closest neighbour set to leave the European Union, the Customs Union and the European Economic Area in the near future, there has never been a more important time for Ireland to remain open for business and to increase our trade competitiveness.

In a study on the Long Term Potential Macroeconomic Impact of Brexit on Ireland, the ESRI found that a 'Hard Brexit', WTO rules scenario will affect the Irish export sector by -4.9% over ten years.[7] The importance of the US and UK to Ireland's trade outlook was also outlined by the ESRI in the same study, which found that "three quarters of all Irish goods exported go to the US, the UK and Europe. 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 and our export sector stands to be significantly impacted in an as

[5] Ireland 2017 Competitiveness Scorecard , National Competitiveness Council http://www.competitiveness.ie/Publications/2017/Irelands%20Competitiveness%20Scorecard%202017.pdf
[6] Ireland 2017 Competitiveness Scorecard , National Competitiveness Council http://www.competitiveness.ie/Publications/2017/Irelands%20Competitiveness%20Scorecard%202017.pdf
[7]Modelling the Medium to Long Term Potential Macroeconomic Impact of Brexit on Ireland, ESRI https://www.esri.ie/pubs/WP548.pdf

of yet unforeseeable number of ways by Brexit. Irish businesses are now faced with exploring new markets and finding new trading partners, making this a challenging time for our export sector. It is vital that these firms remain as competitive as possible in the face of such unprecedented challenges.

Given the exposure of Ireland's economy to external shocks and given the potential of a 'Hard-Brexit' Ireland must remain as competitive as possible and we cannot afford to hinder our export sector any further in light of the new and significant challenges now facing it. Increasing the National Minimum Wage would 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 contribute significantly to the export sector and are the greatest source of employment in the country.

Competitiveness in attracting Foreign Direct Investment

Trade and investment is hugely important to the Irish economy with employment in IDA client-companies standing at a record 210,443 jobs at the end of 2017.[8] The presence of Foreign Direct Investment (FDI) companies in Ireland also has a significant impact on our GDP and benefits the Exchequer.

The presence of FDI in Ireland impacts not only upon those directly employed by MNCs based here; the IDA estimates that for every 10 jobs generated by FDI another seven are generated in the wider economy. It is therefore imperative that Ireland remain an attractive location in which to do business. Further increases to labour costs in an economy which already has high costs due to its peripheral geographical location will inhibit Ireland's ability to attract labour intensive FDI and another increase to the National Minimum Wage would serve to detract from Ireland's overall competitiveness.

Policy makers must focus on retaining Ireland's existing FDI stock and on enhancing our attractiveness to new companies considering Ireland as a location, the potential for which is likely to increase as UK-based operations seek to relocate to a base within the EEA or indeed as British firms seek EU bases for the first time following Brexit.

Higher wage costs threaten Ireland's ability to compete at an international level in the attraction of new inward investment at a time when there is likely to be greater opportunities in this sphere, but while we are also facing greater potential threats to our existing stock of FDI companies from the high cost of living and cost of doing business.

[8] IDA End of Year Results 2017 https://www.idaireland.com/newsroom/end-year-results-2017

Low Inflation & Consumer Price Index

Any increase to the National Minimum Wage must be based on an examination of the impact of inflation on prices.

According to figures released on December 2017 by the Central Statistics Office, the consumer price index showed a low change of 0.4% for the year[9], indicating that consumer purchasing power remains stable. The largest change in CPI recorded in 2016 was a negligible 0.6% in October 2017. Given the consistently low rates of change recorded across 2018 an increase to the minimum wage is not necessary based on CPI at this time.

The ESRI recently pointed out that the global economy faces low inflation rates and that consumer prices are likely to only increase moderately by 1.4% in 2018.[10] These continuously low inflation forecasts clearly indicate that there is currently no need to increase to the National Minimum Wage.

High cost of living & high cost of doing business

The high cost of living remains a significant issue affecting Irish businesses. Challenges such as the housing crisis, significantly high childcare costs and increasing insurance prices greatly influence the cost of living in Ireland, and feed directly into increased wage demands.

The factors contributing to the high cost of living in Ireland also drives the cost of doing business here. Commercial rents continue to rise, along with businesses' insurance costs and labour costs. The National Competitiveness Council has warned that "high business costs make Ireland less attractive for mobile inward investment and reduce the competitiveness of Irish enterprises' goods and services trading in both domestic and international markets".[11]

The high cost of living not only affects those living and working in Ireland, but also adversely impacts upon employers who are seeking skilled workers from abroad to locate here. The high cost of living and continuously increasing labour costs are factors which make Ireland unattractive to multinationals considering Ireland as a base.

A further increase to the National Minimum Wage in response to the high cost of living 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. Employers have not only recently felt the pressure of the 30c increase to the NMW in January 2018, in addition to

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[9] http://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexdecember2017/

[10] ESRI Quarterly Economic Commentary Winter 2017 https://www.esri.ie/pubs/QEC2017WIN.pdf

[11] Costs of Doing Business in Ireland 201, National Competitiveness Council http://www.competitiveness.ie/Publications/2017/NCC-Costs-of-Doing-Business-2017-Report.pdf

this as part of Budget 2018, Government announced an increase in the National Training Fund Levy collected along with employers' PRSI to 0.8% in January 2018, with further increases to this rate applying over the next two years until it reaches 1% in 2020. Such increases to businesses' day to day costs stand to significantly affect the competitiveness of Irish businesses, in particular our SMEs.

Repercussive claims and employment 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.

The National Minimum Wage rose by 50c in January 2016, followed by a further increase of 10c in January 2017 and most recently a third increase of 30c in January 2018. Following three years of rises, many Irish businesses simply cannot afford to increase wages again.

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.

An increase to the national minimum wage may mean many smaller businesses will be forced to reduce hours or staff numbers as they struggle with such labour costs.

Ireland is now moving closer to full employment, with the most recent unemployment figures standing at 6.1% in January 2018[12] and with the Central Bank expecting the figure to fall to 5.7% this year and shrink to 5.2% in 2019.[13] This growth in employment means that employers now find themselves vying for employees in an increasingly competitive market, which in turn means businesses are competing on salary offerings to prospective employees. An increase to the National Minimum Wage is therefore not necessary in this employment environment.

[12] CSO Monthly Unemployment Figures http://www.cso.ie/en/releasesandpublications/er/mue/monthlyunemploymentjanuary2018/
[13] Central Bank of Ireland Quarterly Bulletin January 2018 https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2018/quarterly-bulletin---q1-2018.pdf?sfvrsn=5