Chambers Ireland Submission to the Low Pay Commission

13 April 2015

Summary of Chambers Ireland's Position

Chambers Ireland firmly supports the national minimum wage and fully recognises the importance of fair wage structures in a well functioning economy and society.

The level of the minimum wage must, however, reflect economic realities. We believe that calls for an increase to the national minimum wage are premature and unrealistic. Ireland's economic recovery is still fragile, and any blanket increase to the national minimum wage will prove counter-productive by eroding the competitiveness of Irish companies and ultimately reducing the overall numbers of those in employment.

Chambers Ireland believes that rather than an across the board increase in minimum wage rates, alternative methods of increasing net pay that do not negatively impact on competitiveness or the cost of hiring additional employees could be considered.

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 welcomes the establishment of the Low Pay Commission as an important component in ensuring evidence-based policy making around this hugely important topic. We welcome the opportunity to inform this consultation process and look forward to further engagement with the Low Pay Commission.

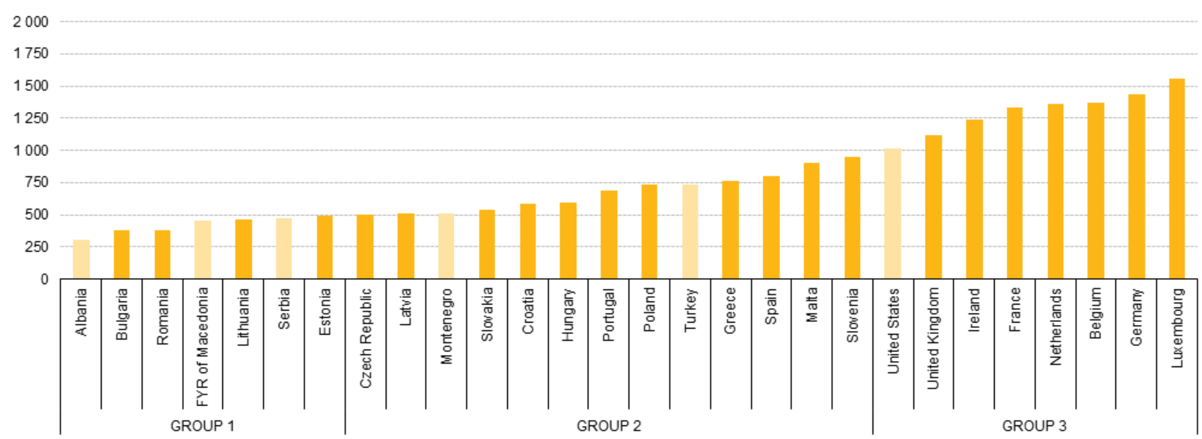
This submission has been shaped by inputs from our Chamber Network and national policy councils, which represent Chambers and their member companies across a variety of industry sectors and regions.

Does Ireland need an Increase in the National Minimum Wage?

Ireland and the EU Context

In making this submission we note that the current national minimum wage of €8.65 per hour for adult employees with at least two years previous employment experience corresponds to a gross monthly wage of €1461.85[2] for employees in full-time employment.

If looking towards the rest of Europe, it is clear that the Irish minimum wage is not out of sync with comparator states and in fact is relatively high. Ireland currently has the sixth highest minimum pay in the EU when taking price differences into account. Compared to our nearest neighbour, an Irish employee working full time in a minimum wage job is 10% wealthier than someone employed in a similar job in the UK.



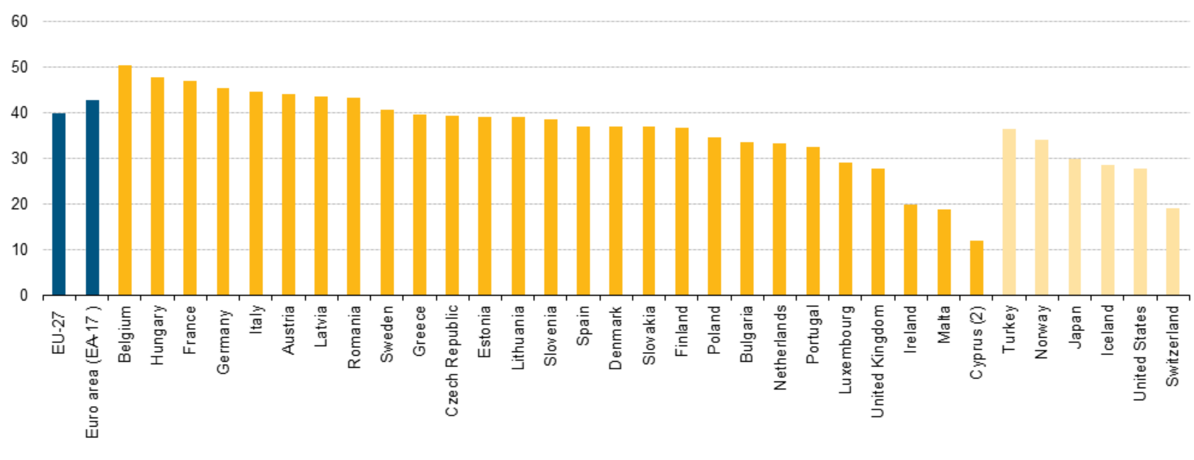
(¹) Estimates. Denmark, Italy, Cyprus, Austria, Finland and Sweden: no national minimum wage.
Source: Eurostat (online data code: earn_mw_cur)

Figure 1: Minimum wages, January 2015 (PPS per month)

[2] 8.65 x 39 hours x 52 weeks / 12 months.

Chambers Ireland notes that much of the rhetoric and public appeals for a review of the level of the national minimum wage quote statistics from EUROSTAT which imply that Ireland has a high incidence of low pay and high numbers of working poor. These EUROSTAT statistics concluded that 20% of Irish workers (376,000 people) are in receipt of 'low pay'. However, it must be recognised that these figures are highly misleading. The methodology utilised by EUROSTAT defines 'low pay' as earning below two-thirds of the median income of the country. Ireland has the second highest median earnings in the EU at €18.30 per hour, consequently, 'low pay' in the Irish context equates to just over €12 an hour.[3] The need for caution in interpreting EUROSTAT figures as indicative of high levels of poverty amongst workers is clearly evident in that the 20% proportion of the population who, according to EUROSTAT measures, are earning "low pay" still earn more than those being paid below two-third of the median wage in most of Europe, including in peer countries such as Luxembourg, Sweden, UK, Germany, Austria and Finland.

When looking at EU figures of Irish low pay workers, it is also important to bear in mind that tax imposed on low pay in Ireland is lower than the EU average. Using the same EUROSTAT definition for low pay, Irish low pay earners are subjected to a tax rate of 20%. In 2012, the average tax wedge across EU-27 was 39.9% - almost double the rate in Ireland.[4] The net pay of low income Irish earners is thus higher than suggested by the incidence of low pay.



(1) Croatia: not available.
(2) 2007.
Source: Eurostat (online data code: earn_nt_taxwedge)

Figure 2: Tax rate on low-wage earners — tax wedge on labour cost, 2012

3 http://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs#Median_earnings
4 http://ec.europa.eu/eurostat/statistics-explained/index.php/Wages_and_labour_costs

Inflation in Ireland

When examining the rationale for any minimum wage increase, the impact of inflation on prices must be considered a key driver. It is important in this context to note that since the current rate was set in 2007, there has been no net inflation. In 2008 the Consumer Price Index (CPI) stood at 107.0 before dropping to 106.3 in 2014. Price deflation has continued into 2015 as the CPI index dipped below zero for a third consecutive month in February. While some of this reduction is certainly driven by falling oil costs, there is a broader effect and prices have fallen across the economy. In March 2015 for example, the CPI has seen year-on-year prices decrease by 0.6% on March 2014. Year on year price declines were recorded in the segments of *Transport* (-0.68%), *Food & Non-Alcoholic Beverages* (-0.32%), *Clothing & Footwear* (-0.18%) and *Furnishings, Household Equipment & Routine Household Maintenance* (-0.12%).[5] The general trend of declining prices in the CPI would indicate that consumer purchasing power is increasing and Ireland is experiencing a nominal rate of deflation. This observation alone would suggest that an increase in the national minimum wage is not needed at this time. Figure 2 below, taken from the website 'Trading Economics' provides a visual depiction of the growing disparity between inflation rates and the minimum wage.

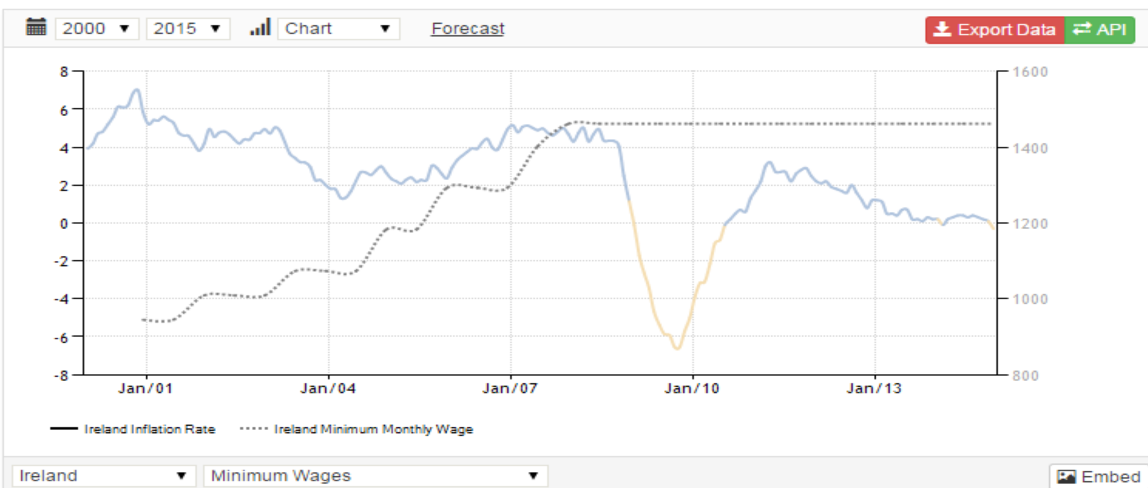


Figure 3: Inflation vs. Minimum Wage (Trading Economics 2015)

Increases to the minimum wage will not adequately address poverty levels in Ireland – but increasing levels of those in employment will.

The key to reducing poverty is not to pay ever higher wages to those already in employment. One in four people in Ireland under the age of 60 live in jobless households, which is double the EU average. Unusually, even prior to the recession when the country should have been moving towards full employment, Ireland

[5] http://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexmarch2015/#.VSur2fnF-ww

had the second highest rate of non-working households in the EU. Rather than minimum pay levels, the high level of joblessness creates poverty issues which Chambers Ireland consequently considers the real problem to be addressed.

The argument that increasing the minimum wage would address rates of consistent poverty is flawed. In 2013 the consistent poverty rate in Ireland was 8.2%. An analysis of economic status however shows that consistent poverty was highest among individuals who were unemployed (23.9%). Comparatively, only 2% of individuals in work experienced consistent poverty and only 3% of those in employment were defined as being at risk of poverty. Ireland has the second lowest rate of poor/at risk of poverty among the working population in Europe.

Chambers Ireland also notes that previous studies have suggested that the majority of workers who earn low wages are the second or third earner in their family.[6] Minimum wage earners should therefore not be considered a uniformly poor and struggling group. In terms of the distribution of low-paid workers an Oxford Economics Report has similarly found that minimum wage jobs in Northern Ireland are highly concentrated among young, part-time and pensioners, i.e. groups of people who most often do not carry the load of providing for a household. [7]

Chambers Ireland recommends that focus is placed on creating jobs for those who have none which is the most effective way of ensuring all Irish people a decent standard of living. Importantly, increasing the number of new jobs will also grow Exchequer revenues which will allow more funds to be directed into the provision of public services and social transfers to those who are unable to work.

[6] A US study found that 63% of workers who earn less than $9.50 per hour (well over the minimum wage of $7.25) are the second or third earner in their family and 43 percent of these workers live in households that earn over $50,000 per year https://www.epionline.org/minimum-wage/

[7] http://www.nicva.org/sites/default/files/d7content/attachments-resources/nicva_living_wage_2014_0.pdf

Impact on Ireland's Economic Competitiveness

Repercussive Claims

The total number of employees on the minimum and sub-minimum wage is very low (4.7%) relative to the overall workforce. However, there are concerns that an increase to the minimum wage will have a much wider impact on labour costs throughout the economy due to potential ripple effects. Notwithstanding the provisions within the National Minimum Wage Act that are designed to counter the securing of pay increases based solely on the restoration of a pay differential, it is very likely that there will be informal pressures brought to bear at the level of individual firms to increase pay rates throughout their workforce. The effect of pay claims across multiple firms will have an aggregate effect on wage expectations in the economy.

We believe that the Low Pay Commission should also be cognisant of the interrelated issue of public sector pay demands. There is a strong likelihood that increases in the national minimum wage will provide impetus for representatives of public sector workers to call for increases in public sector pay rates. While the recent economic recovery has provided some stability to the public finances, there is no economic basis for increases to the public sector wage bill. Both the International Monetary Fund and the European Commission have highlighted Ireland's public sector wage bill as being an area of public expenditure that needs to be contained into the future.[19] Previous public sector pay rates were unsustainable even when the exchequer was supported by a property fuelled boom and claims for a reinstatement of pay rates inspired by the blanket minimum wage increases will be politically difficult to deflect.

Erosion of National Competitiveness

A minimum wage increase has the potential to impinge on our national competitiveness. Between 2008 and 2012 Ireland's cost base has improved across a range of metrics making Irish businesses more competitive internationally and Irish export produce relatively competitively priced. By 2012, however, Irish competitiveness had begun to weaken again. Ireland remains a high cost location across a range of factors which means that further competitiveness gains must be achieved if we are to continually advance our export sector.

The potential damage to Ireland's competitiveness stemming from minimum wage increases and should also be considered in terms of Ireland's ability to continue to attract foreign direct investment. Trade and investment has never been more important to the Irish and European economy. It showed its worth as a stabilising source of growth for the EU, softening the recession considerably by channelling demand from other parts of the world with higher growth back to Europe at a time when domestic demand remained weak. The retention of multinationals with a strong export focus will be vital for Ireland given that job creation, growth and investment are so intertwined with these industries. Statistics published by the IDA

[19] P. 6 http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_ireland_en.pdf page 6
http://www.imf.org/external/pubs/ft/scr/2015/cr1577.pdf page 15

show that a record 7,131 extra jobs were added by multinational companies supported by IDA in 2014. This means that 27,000 extra people are at work in these companies compared to 2011 – with massive knock-on impact for the economy. Foreign-owned firms account of 58% of gross value added (GVA) in the business economy, and about 22% of employment.[20]Multinational companies in particular are important drivers of this growth. Foreign-owned firms also have much greater value added per worker than Irish-owned firms across all sectors.[21] Since the FDI sector is internationally tradable higher wage costs would ultimately damage our ability to compete at an international level to attract new inward investment. Competition between OECD and EU states to attract inward investment is fierce, and increasing 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. Given the importance of the FDI sector for GDP and employment growth, any reductions in Ireland's international competitiveness would have severe consequences for the economy.

Risk of Wage Push Inflation

Increasing the minimum wage would likely cause some companies to raise prices in an attempt to protect margins and the survival of the business.[22] Hereby, companies would lose out on the competitiveness advantage that has been gained since the crisis and a situation of cost-push inflation driving up the cost of goods and services could emerge. In light of the weak recovery in the Eurozone as well as the open exposure of the Irish economic recovery to external shocks we should collectively seek to remain as competitive as possible and avoid such a situation developing.

Increasing Minimum Wage Rates may lead to Less Overall Employment

Chambers Ireland fully recognises the importance of fair wage structures in a well-functioning economy. The overall economic recovery is, however, still fragile. Having survived seven years of hardship, Irish businesses are only now seeing the turn of tides. Many business owners have not been in a position to invest in their company since 2008 and if these businesses are to remain viable in medium term they will need to invest now. If there is an increase in the minimum wage business owners will have less funds available to invest in order to remain competitive and stay trading, which ultimately may lead to job losses.

A blanket increase of the minimum wage would be particularly hurtful for smaller Irish-owned companies, who make up 99% of employers in the country. Irish small and medium-sized enterprises contribute more to private sector employment (70%) than the EU average (67%) and make up 21.3% of all employment. The impact of changes to the minimum wage on SMEs ability to operate should thus be a key consideration in the decision making process of the Commission. Payroll costs make up a large proportion of the total cost base of many Irish businesses. While the share of some costs are determined by international

[20] http://www.finance.gov.ie/sites/default/files/2%20-%20Project%20LEO%20Presentation%20to%20Conference.pdf

[21] http://budget.gov.ie/Budgets/2015/Documents/Economic%20Impact%20of%20the%20FDI%20sector.pdf

[22] The current lack of inflation would, however, prove it difficult for companies to pass increased wage cost through to the cost of final products.

developments (e.g. utility bills, transportation costs), the cost of labour is the most significant driver of businesses costs for most firms. Within the digital and services sector for example, payroll expenses can typically represent 87.1% and 84.9% of a company's total cost profile.[26] Within the SME sector, the companies trading in services make up 59% of all SMEs.[27] Any increases in wage costs are thus likely to have a material impact on the cost base of companies operating within this sector, i.e. more than half of all SMEs.

In its latest review of the Irish SME sector the European Commission noted how "the overall economic situation for Irish SMEs in 2013 is one of continued fragility accompanied by relatively modest growth and performance". At the same time the Commission suggested that Ireland, in order to improve the performance of SMEs, should "further mainstream the 'think small first' principle into policy-making, and better support businesses in exporting within the single market and to third countries". [28] At this time, Chambers Ireland would consider any motion to increase the minimum wage and thus damage the profitability and competitiveness of our SME sector a complete opposite move hereto. Wage uncertainty will force SMEs to either delay job creation or reduce hours to absorb higher costs. This tendency is already emerging in the Irish economy as evidenced by recent surveys concluding that while 3 out of 5 large companies are expecting to give basic pay increases in 2015, job creation among SMEs is delayed due to cost uncertainties.[29] Rather than supporting our businesses expanding, the talk of pay increases is instead hindering their growth and impeding the development of new start-up companies which are not yet in a position to predict future demand. In other words, we are jeopardising the sustainable nature of the economic recovery and the ongoing creation of jobs.

A Forfas report has highlighted that through the recession, Irish companies had a tendency to control labour costs through redundancies and reduced hours rather than through reductions in wage levels. By implication, an increase in the labour costs may also be controlled through reductions in gross numbers employed, or by reductions in overall working hours. This is a poor outcome for both employers and employees.[30] In addition, an ESRI study into the perceived impact of the minimum wage in Ireland found that one quarter of all businesses believed that minimum wage legislation had resulted in an increase in labour costs. This view was particularly prominent within the hospitality sector (56%) and the retail sector (30%). As a result, 10% of firms recorded that they would hire more people in the absence of a minimum wage.[31]

The impact of cost uncertainty on job creation should also be considered in the context of the Low Pay Commission's remit. A real risk exists of companies delaying or stopping the recruitment of additional staff amidst a lack of certainty around future wage burdens. In carrying out its function, the Low Pay Commission should avoid creating further uncertainty about wage increases. In order to do so, the Low Pay

[26] http://www.competitiveness.ie/media/01042014-Costs_of_Doing_Business_in_Ireland_2014-Publication.pdf p. 21
[27] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/ireland_en.pdf pp. 1-2
[28] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/ireland_en.pdf p.1
[29] http://www.independent.ie/irish-news/almost-60pc-of-workers-to-get-pay-rises-in-2015-30876650.html; http://isme.ie/wp-content/files_mf/142788806515091LiveRegister.pdf
[30] P. 10 http://www.competitiveness.ie/media/01042014-Costs_of_Doing_Business_in_Ireland_2014-Publication.pdf
[31] ESRI (2006) 'The Minimum Wage and Irish Firms in 2005' pp. 33-34

Commission should limit intervention, be clear in its communication and provide sufficient notice for companies to adapt to changes.

Alternative Recommendations

Wage increases alone do not guarantee workers a decent living standard and ultimately may prove counter-productive as overall numbers in employment are reduced or Ireland's competitiveness eroded.

Given the potential negative impact on the economy of across the board increases to minimum wage, it may be appropriate for Government to consider alternative methods to improve standards of living amongst employees without the risk of significant economic distortions . There are several other ways through which quality of life and net wages could be improved. A list of our recommendations is provided below:

- **Make work pay:** This could be done by introducing further reductions to the marginal rate of tax which would target employees and make employment more attractive at the same time. In this regard, the family-income dividend is welcomed as an incentive to make work pay.

- **Further reduce the Universal Social Charge**: Budget 2015 included changes for the USC to the benefit of low-income earners and this could be replicated in the next budget cycle. The standard rate charged on low-income earners was reduced while the threshold before which the USC applies was increased As a result of these changes, an estimated 80,000 low income earners making less than €12,012.00 p.a. are now exempted from the charge altogether. Those earning between €12,012.01 and €17,576.00 also benefit from the changes since these people now are subjected to a 3.5% USC rate instead of the previously applicable 4% rate.

  Workers earning below €17,576.00 per annum see a higher take home pay and people working full-time in minimum wage jobs will benefit most from the changes as their total annual income (8.65 x 39 x 52 = €17,542) is below the relevant USC threshold.

- **Explore and promote other employment incentives:** Whereas a reduction of competitiveness as a result of increasing labour costs will negatively affect our economy, there are other methods to increase remuneration which will have positive outcomes for both productivity and competitiveness. Bonus systems which award employees based on key performance indicators, wage commissions or share based incentive plans are both effective tools to increase take home pay and while also incentivising higher productivity levels. Given that Irish SME's labour productivity levels are lower than the EU average[32], we recommend that such alternative employment incentives are promoted. In particular, performance incentives would be beneficial to

[32] On whole the SME sector contributes less to value added and more to employment that the European average. This tendency has been flagged by the European Commission as suggesting that labour productivity in Ireland is lower than desirable. http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/ireland_en.pdf

many SMEs who are not able to afford blanket wage increases but may be in a position to award high-performing employees when the company prospers and retained earnings increase.

- **Address structurally high costs in the economy, in particular childcare:**

  The affordability and accessibility of childcare is central to reducing poverty levels and encouraging more labour market engagement. Net Irish childcare costs as a percentage of income are recognised as highest in Europe. According to the OECD, the average cost of childcare across its member states is 12% of a family's income. In Ireland, however, the average cost of childcare represents a massive 35% of a family's income. For high income earners, the percentage is 24% - still double the OECD average. Improving the availability of affordable childcare would significantly benefit the take home pay of many employees without compromising the ability of employers to create jobs or negatively impact our national competitiveness. Importantly, affordable childcare would have other positive knock-on effects for female labour market participation and early childhood education gains which would further benefit the economy.

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