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

February 2017

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 work of the Low Pay Commission in ensuring evidence-based policy making around the minimum wage in Ireland. We also welcome the opportunity to inform this consultation process and look forward to further engagement with the Low Pay Commission in the future.

Chambers Ireland firmly supports the national minimum wage and recognises the vital role that fair wage structures contribute towards a functioning economy and society. The level of the minimum wage must reflect economic realities currently facing Ireland.

This submission has been formulated in correspondence with our Chamber Network and national policy councils, which represent the Chambers and their member companies across a variety of industry sectors in all regions, and including businesses of all sizes.

Executive Summary

Businesses need certainty in order to plan and operate effectively; the current macroeconomic environment is one of dire uncertainty and this must be at the forefront when considering any potential increase to the national minimum wage.

Chambers Ireland takes the view that any further increase to the national minimum wage would be extremely detrimental to Ireland's competitiveness, at a time when competitiveness is more vital than ever for our economy. We also do not see any justification for an increase in the national minimum wage at this time.

Ireland currently faces unprecedented economic uncertainty arising from the Brexit referendum result and a new US administration. We must therefore do everything possible to enhance our competitiveness so that we can continue to compete on the international stage.

Taking into account the macroeconomic environment, Ireland's inflation and CPI figures, along with the potential impacts upon trade, FDI and employment, Chambers Ireland believes that it would be harmful to the Irish economy to increase the minimum wage.

Macroeconomic Environment

With the Brexit referendum and the new US administration's outlined plans we are witnessing a global shift towards protectionism which stands to greatly affect Ireland's uniquely open economy. The macroeconomic environment in which Ireland operates will have significant effects our economic growth prospects and 2017 will be a year filled with uncertainty on this front. While Ireland experienced strong economic growth in 2016, it is unlikely that 2017 will bring the same level of growth. The ESRI in their most recent quarterly economic reduced their forecast of GDP growth to 3.5% for next year in light of the 'hard Brexit' stance being taken by British policy makers[1]. Similarly, the Central Bank of Ireland also reduced its forecast for Ireland's growth down to 3.3% GDP in light of the Brexit referendum result.

The macroeconomic environment currently facing Ireland is one of extreme uncertainty, filled with potential threats to the Irish economy and Irish businesses. The result of the UK's referendum on membership of the European Union and the impending negotiations stemming from this result mean that Irish businesses are operating in increasingly uncertain circumstances and volatile trading conditions. In tandem with this, the possibility of sharp changes in the policy of the United States in the areas of trade and tax have the potential to significantly impact the global economic environment.

With British Prime Minister Theresa May indicating that she will trigger Article 50 of the Lisbon Treaty in the coming weeks, Ireland, the UK and the EU as a whole face a negotiations process that is likely to be turbulent. Brexit has already had an impact on the forecasts for Ireland's economic growth and this comes prior to the start of what will likely be a tough negotiation period. Recent statements by Theresa May have indicated that a 'hard Brexit' is the most likely outcome of negotiations between the EU 27 and the UK on the British exit of the European Union. This stands to impact Ireland in varied and significant ways, many of which remain unclear even now. The ESRI recently examined the potential impacts of various Brexit scenarios and the effects these would have on Ireland's economy. One such scenario, a 'hard Brexit', was forecast to have the most negative effect, with the ESRI outlining that this situation, in which trade between the EU 27 and the UK reverts to WTO rules, has the potential to negatively affect the level of real output in Ireland by over 3.5% over the next ten years [2] . Brexit will have huge implications for Ireland and businesses in most sectors will be affected, either directly in the form of tariff and non-tariff trade barriers, or restrictions on the movement of people and goods, or indirectly by the overall negative impact on Ireland's economy.

The International Monetary Fund recently warned of the uncertainty of economic outcomes related to US policy under the new administration. The IMF specifically pointed out that given the uncertainty surrounding US policies and the potential impact of this on global economic growth, economic projections will likely not be adequately forecast until April 2017 when policies become clearer[3]. This point was also made by the ESRI, "The prospects for global trade more generally are rendered more uncertain following the outcome of the US presidential election. Greater trade difficulties between the US and China and more US trade protectionism, in general, would have an adverse impact on the global economy. These developments do serve to further increase the downside risk for the

[1] https://www.esri.ie/pubs/QEC2016WIN.pdf
[2] https://www.esri.ie/pubs/WP548.pdf
[3] http://www.imf.org/external/pubs/ft/weo/2017/update/01/

export sector and the Irish economy as a whole.[4]" Changes to the US tax code and trade policies would have particularly serious implications for Ireland's economy. Many of Ireland's largest and highest paying employers are US multinational companies, and the number of US multinational companies with bases in Ireland means that sharp changes in US policy stands to significantly impact upon the high value added sectors such as ICT and pharmaceuticals as well as the broader Irish economy.

The instability of the current environment is already presenting businesses with difficult trading conditions and to increase the national minimum wage at this point in time would negatively impact upon Ireland's FDI sector, exporting industries and indigenous Irish firms.

Impact on Ireland's Export Sector and 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 competitiveness. In light of the exposure of Ireland's economy to external shocks and given the likely 'hard-Brexit' scenario facing us, we should seek to 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.

For indigenous firms that are set to be affected by the changing trading relationship with the United Kingdom and the difficulties this will bring for many of them, it is vital that our domestic economy remain competitive. Companies are set to experience new pressures from changing trading conditions with the United Kingdom and should not also be faced with increased wage pressures brought about by an increase to the national minimum wage. Ireland's export sector stands to be significantly impacted in an as of yet unforeseeable number of ways by Britain's exit of the European Union, European Economic Area and the Customs Union.

The ESRI has predicted that a 'hard Brexit', WTO rules scenario will affect the Irish export sector by -4.9% over ten years[5]. 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 these economies, therefore, has significant bearing on Ireland's export performance and in turn GDP growth." Ireland's exporting businesses must now begin seeking entry to new markets in response to the Brexit result and increasingly likely US protectionist policies. Our export sector must therefore be as competitive as possible in the face of such unprecedented challenges.

An increase in the minimum wage would be particularly harmful to Irish SMEs, which contribute significantly to the export sector and are the greatest source of employment in the country. As payroll costs make up a large proportion of the total cost base of many Irish businesses, increasing the minimum wage would see companies lose competitive advantages as they would be forced to raise prices in an attempt to protect margins and the survival of the business. Increases to the price of exports in the absence of inflation and as companies seek to protect existing trade relationships and explore new ones in extremely volatile conditions can only hinder Ireland's export sector.

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[4] https://www.esri.ie/pubs/QEC2016WIN.pdf
[5] https://www.esri.ie/pubs/WP548.pdf

Currency volatility in the last year has been a major cause of instability for businesses in tradable sectors and along the border counties. As a member of the European Monetary Union, relative cost improvement via the exchange rate channel is not available as a mechanism to improve competitiveness, meaning that relative labour costs greatly affect Ireland's competitiveness. Ireland conducts a majority of trade with non-Eurozone partners, meaning that fluctuations in the Euro's exchange rate are critical for the export performance of Irish business. The devaluation of Sterling following the Brexit referendum result has already negatively impacted on the competitiveness of Irish exporters and in particular has impacted upon sectors with exposure to the UK. Over the last year we have witnessed greatly increased currency fluctuations in both the Dollar and Sterling and such volatility is likely to continue in 2017. In light of this it is vital that Ireland maintain a wage-setting process which is as flexible as possible in the event of exchange rate movements which can hugely impact upon the cost base of companies.

Erosion of National Competitiveness in Attracting Foreign Direct Investment

With the British exit from the EU firmly on the horizon and indications that the US will likely instigate a reform of its tax code, it is now more vital than ever that Ireland remain an attractive location for foreign direct investment. The focus must be on retaining our existing FDI stock and on enhancing our attractiveness to new FDI, 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. Any increase to the national minimum wage must be thought of with these international developments in mind and with consideration to the effects it is likely to have on Ireland's ability to remain an attractive location for FDI.

Recent reports outlined that 2016 was the best year on record for foreign direct investment in IDA-client companies, translating to the highest job creation figures to date by IDA FDI companies in Ireland. Trade and investment has never been more important to the Irish economy with employment in IDA client-companies is now standing at a record 200,000 jobs. Our attractiveness to FDI impacts upon not only 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[6].

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. Indeed, the National Competitiveness Council recently pointed out that "our relative competitive position will be negatively affected if wage growth outpaces that in competitor countries"[7]. 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. In the face of likely trade barriers and the potential negative repercussions of as of yet unclear Brexit terms, Ireland has the opportunity to offset such impacts through increasing FDI. The goal should be to attract as much labour intensive FDI as possible in order to strengthen our economy in the face of these uncertainties and an increase to the national minimum wage will greatly hinder our ability to compete for these jobs within a European or global market. Similarly, with increased pressure facing our existing FDI companies, maintaining our competitiveness must be prioritised in the interest of employment. Higher wage costs would cause considerable damage to Ireland's ability to compete at an international level to attract 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.

[6] http://www.idaireland.com/newsroom/fdi-employment-hits-new-l/
[7] http://www.competitiveness.ie/Publications/2016/Competitiveness-Challenge-2016-NCC1.pdf

Low Inflation Forecasts & Stable Consumer Price Index

The rationale for any increase to the national minimum wage must include an examination of the impact of inflation on prices. Inflation remained close to negative last year, and for 2017 the forecasts remain low. The ESRI has forecast low inflation for Ireland over the medium term, while for the Eurozone economy as a whole the European Central Bank has predicted continued low inflation for 2017 and 2018[8]. Continuously low inflation forecasts mean there is currently no need to increase to the national minimum wage.

According to figures released on 19th January 2017 by the Central Statistics Office, the consumer price index showed no change on the previous month in December 2016[9] , indicating that consumer purchasing power remains stable. The largest change in CPI recorded in 2016 was a negligible 0.5% in July. Given the consistently low rates of change recorded throughout 2016 it should be clear that an increase to the minimum wage is not necessary based on CPI at this time.

For many employers the effects of the increase of ten cents to the national minimum wage introduced in January this year are still being absorbed and the lower growth projections for 2017, coupled with negligible CPI and inflation, mean that any increase at this point would negatively impact upon businesses and especially SMEs.

High Cost of Living

The high cost of living remains a significant issue in Ireland which affects not only individuals but also employers. The impact of the housing crisis on rental costs and house prices, along with significantly high childcare costs greatly influence the cost of living in Ireland, and feed directly into increased wage demands. The high cost of living places pressure on those living and working in Ireland, adversely affects employers seeking skilled workers from abroad and also discourages multinational companies selecting Ireland as a destination for FDI.

The National Competitiveness Council of Ireland's recently published report on Ireland's competitiveness challenges highlighted energy as among the challenges facing Ireland[10]. Energy is an area which has the potential to greatly affect the cost of living in Ireland following Brexit. Ireland is currently heavily dependent on energy imports from the UK. It is unclear how the all-island energy market will be affected by Brexit, but there is the potential that the outcome may result in energy security concerns which would require significant investments and see energy prices increase for both businesses and individuals.

The high cost of living should be tackled by Government and must not be passed down to employers to deal with. An increase to the national minimum wage in response to the high cost of living is simply shifting the burden to business and would have seriously negative implications for Ireland's competitiveness without solving the underlying issues contributing to the high cost of living.

[8] https://www.ecb.europa.eu/stats/prices/indic/forecast/html/table_hist_hicp.en.html
[9] http://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexdecember2016/
[10] http://www.competitiveness.ie/Publications/2016/Competitiveness-Challenge-2016-NCC1.pdf

Repercussive Claims & Employment Effect

The total number of employees on the minimum and sub-minimum wage remains low relative to the overall workforce of Ireland. However, 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.

Although the provisions of the National Minimum Wage Act are designed to counter the securing of pay increases based solely on the restoration of a pay differential, it is likely that informal pressures would be brought to bear at the level of individual firms to increase pay rates across their workforce. The effect of pay claims across multiple firms will have an aggregate effect on wage expectations in the economy. 2016 saw an increase in industrial action and disputes, and a further increase to the national minimum wage has the potential to continue this trend in upward wage demands. Following a ten cent increase in the national minimum wage introduced in January and with lower growth forecast this year coupled with increased uncertainty, many Irish businesses simply cannot afford to increase wages again. An increase to the national minimum wage may mean many SMEs will be forced to reduce hours or staff numbers. Ireland will also be unable to compete internationally as an FDI destination if wage rates are too high and are perceived as being subject to continuous rises year on year. The overall effect will mean that fewer jobs will be created and many may be lost. At this point in time with such economic instability facing Ireland we cannot afford to hinder competitiveness and stifle growth by introducing artificially high wages.

With low inflation and already high costs facing businesses, wage increases would have extremely negative effects on the entire economy. The overall risk to the Irish economy and to Irish jobs of increasing the national minimum wage far outweighs the potential benefits. At this time it is imperative that Ireland maintains and enhances competitiveness and any increase to wage costs for businesses is counterproductive to this goal.