CHAMBERS IRELAND
IN BUSINESS FOR BUSINESS

Submission to the Low Pay Commission Consultation Process 2016

Name		
Organisation	**Chambers Ireland**	
Are you (Please tick)	Employer	☐
	Employee	☐
	NGO	☐
	Union	☐
	Business Representative Body	
Size of Organisation (Number of Employees)		
	0-10	☐
	11-25	☐
	26-50	☐
	51-100	☐
	100+	☐
Submission Topic (Please tick all that apply)	The appropriateness of the current sub-minima rates with regard to their impact on youth unemployment rates and participation in education	☐
	The National Minimum Wage	☐
	The underlying reasons for the preponderance of women on minimum wage	☐

Chambers Ireland Submission to the Low Pay Commission

11th March 2016

Introduction

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.

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.

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.

Macroeconomic environment

While Ireland is currently experiencing an economic recovery there are currently a number of external risk factors which threaten our uniquely small, open economy. The main challenge for the country over the coming years will be to maintain durable growth, and while we have encouraging GDP growth figures for the last two years, as pointed out by the European Commission, these figures most likely overestimate the underlying strength of the recovery. Risks from within the Eurozone, the economic slowdown of China, and the risk of a Brexit and related shocks to the market are looming, and Ireland must maintain prudent economic policies in order to weather these risks.

Ireland's economic recovery remains fragile and with the global economic outlook of 2016 more uncertain than in 2015, any blanket increase to the national minimum wage will prove counter-productive. We must not risk reducing the overall numbers of those in employment at such a crucial point in Ireland's recovery and during a period of economic uncertainty, both globally and within the EU, by eroding the competitiveness of Irish companies and of Ireland as a destination for investment.

Low Inflation Forecasts

When examining the rationale for any minimum wage increase, the impact of inflation on prices must be considered a key driver.

The ECB outlined that the EuroZone economy is expected to expand at a slower pace in the next two years than was earlier forecast, while also sharply lowering its inflation prediction for 2016 from 1.0% to 0.1%. While according to the CSO, the inflation rate for Ireland in Q1 2016 is predicted at 0.2%. Such negligible inflation forecasts mean there is currently no need to consider an increase to the national minimum wage and to do so would be premature and harmful to the Irish economy.

Consumer Price Index

According to figures released on March 10th by the Central Statistics Office, prices on average as measured by CPI were 0.1% lower in February 2016 compared with February 2015[1]. These CPI figures would indicate that consumer purchasing power remains stable, meaning that an increase to the national minimum wage is not needed at this time.

High cost of living

Rental costs and house prices are significant factors influencing the high 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 MNCs choosing Ireland as a destination for FDI. Similarly, childcare costs make up a disproportionate percentage of household expenditure. The cost of childcare in Ireland is over 20% above the OECD average as a percentage of family income, while OECD figures show that on average 2-parent families (both parents working) with 2 children before school-age pay one quarter or more of net income on childcare.

[1] http://www.cso.ie/en/releasesandpublications/er/cpi/consumerpriceindexfebruary2016/

It is essential that public policy focus on areas of greatest need in both the economy and society, such as increasing the housing supply, whether through the provision of additional social housing or through the removal of barriers currently limiting construction of private housing. Alongside this, polices which will bring the cost of childcare into line with EU or OECD average are required to lower the cost of living. Tackling these issues has the potential to greatly reduce wage demand and increase disposable income and policies which address housing and childcare should be the priority rather than any increase to the national minimum wage.

Impact on Ireland's Competitiveness

Exports in sectors dominated by indigenous companies account for about 40% of the total of Ireland's goods exports and increased by 10.3% in the first nine months of 2015, compared with the same period in 2014[2]. According to the recently published European Commission's Country Report on Ireland, this is attributable to SMEs regaining their competitiveness, thus strengthening Ireland's exports. A large part of this increase in competitiveness has been driven by wage developments which have supported labour market adjustment during the recession. The gains in Irish competitiveness achieved since 2008 have been hard won. Any premature and unnecessary increase to the minimum wage would seriously threaten Ireland's competiveness in a number of ways.

Export Sector and Trade Competitiveness

The recovery has been strengthened in Ireland as a result of the growth of our export sector and an exceptional improvement in the terms of trade. As a member of a 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. Given that currency fluctuations can be sudden, and given the looming risks of shocks to the market from Brexit and other factors, Ireland must maintain a wage-setting process which is as flexible as possible in the event of exchange rate movements which can hugely impact on the cost base of firms. This point was raised by the Department of Finance in their 2015 submission to the LPC, and Chambers Ireland would like to reiterate and emphasise the importance of maintaining competitiveness in the face the increased external factors threatening to our currency and trade in 2016.

A blanket increase of the minimum wage would be particularly harmful to Irish SMEs, which are the greatest source of employment in the country and contribute significantly to the export sector. Since payroll costs make up a large proportion of the total cost base of many Irish businesses, increasing the minimum wage would likely force many companies to raise prices in an attempt to protect margins and the survival of the business. Such increases in price in the absence of inflation would see companies lose out on the competitive 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 seek to remain as competitive as possible and avoid such a situation developing.

[2] European Commission, Brussels, 26.2.2016 SWD(2016) 77 final, Country Report Ireland 2016 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances, p6

Encouraging the growth of not only the Irish economy, but also of the number of jobs in the economy must be a priority. Businesses cannot grow and increase operations if there are continuing wage increases. Another increase to the national minimum wage will force SMEs to either delay job creation or reduce hours to absorb higher costs. Rather than supporting our businesses expanding, pay increases hinder their growth and impede the development of new start-up companies which are not yet in a position to predict future demand. In other words, it would jeopardise the economic recovery and the ongoing creation of jobs through firm expansion, FDI attraction and the creation of new businesses, if we again increase the national minimum wage.

Erosion of National Competitiveness in attracting Foreign Direct Investment

An increase to the minimum wage 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, with recent reports indicating that 2015 was the best year in the IDA's history in terms of job creation, which announced its client companies created 21,118 new jobs in 2015 in Ireland[3].

Since Ireland is competing in global and European markets to attract FDI, higher wage costs would considerably damage our ability to compete at an international level to attract new inward investment. We are competing with top OECD and EU states to attract inward investment, 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. Ireland needs to attract as much labour intensive FDI as possible in order to boost employment and increasing the minimum wage will not enable us to compete for these kinds of jobs.

Repercussive Claims & Employment Effect

The total number of employees on the minimum and sub-minimum wage is very low relative to the overall workforce. However, an increase to the minimum wage will have a much wider impact on labour costs throughout the economy due to potential ripple effects. While we acknowledge the provisions contained within the National Minimum Wage Act, which 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.

Many Irish businesses cannot afford to increase wages without cutting hours or reducing staff numbers and Ireland cannot compete internationally as an FDI destination if wage rates are too high. The overall effect will mean that jobs will not be created, and many may be lost. At this tentative stage in our economy recovery, and with limited global growth forecasted, Ireland cannot afford reduced employment caused by artificially high wages. With very low inflation and already high costs facing Irish businesses, wage increases would have hugely negative effects for the entire economy. Ireland's tax and welfare systems are relatively favourable to lower income workers, and without

[3] http://www.wdc.ie/job-creation-in-2015-ei-and-ida-end-of-year-statements/

increased inflation or CPI demands, and only a small percentage of the overall workforce earning the minimum wage, the overall risk to the economy and to Irish jobs would far outweigh any potential benefits. Ireland must maintain prudent economic policies for the foreseeable future and increasing wage costs for businesses would be counterproductive in the economic environment currently facing the country.