Submission to the Low Pay Commission Consultation Process 2016

Name	Mark Fielding	
Organisation	ISME, Irish Small and Medium Enterprises Association	
Are you (Please tick)	Employer	☐
	Employee	☐
	NGO	X
	Union	☐
	Other (please specify)________________	
Size of Organisation (Number of Employees)	0-10	☐
	11-25	X
	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	X
	The underlying reasons for the preponderance of women on minimum wage	☐

IRISH SMALL AND MEDIUM ENTERPRISES ASSOCIATION

The National Minimum Wage

-How does it affect SMEs?

ISME Submission to Low Pay Commission Concerning the Rate of the National Minimum Wage

11th March 2016

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ISME, the Irish Small & Medium Enterprises Association, is the INDEPENDENT body representing owner managers of small & medium businesses in Ireland. SMEs constitute 99% of all businesses in Ireland, employ over 800,000, which equates to 68% of Private Sector employees and 52% of total employees, 50.3% of Turnover and 46.2% of Gross Added Value.[1]

The Irish Small and Medium Enterprises Association (ISME) was formed in 1993 to guarantee that Small and Medium Enterprises in Ireland have an **independent voice**. The Association represents in excess of 10,200 SME businesses throughout the 26 counties. Our independence stems from the fact that as a business organisation we uniquely rely on the resources of our members. We are not reliant on the support of big business which compromises other representative organisations. We are the only independent representative body for SMEs in Ireland.

Our organisation's members employ over 250,000, from the one woman and her dog operation right up to businesses with 250 employees. We also are a 'broad church', representing all sectors, from importers to exporters, agri-food to engineering, retail, manufacturing, distribution, service industries, including accountants, medical doctors, solicitors and all professions.

The defining feature is that the businesses are run by the very people who own them and invest their life savings and their families' life savings in their enterprises.

Through constant consultation with our members the Association has the ability to independently voice the opinions and concerns of the SME sector in Ireland.

INTRODUCTION

The Low Pay Commission (LPC) has been set up on a statutory basis to advise the Government on what is the appropriate level for the National Minimum Wage (NMW) on an annual basis. In 2015, despite the strong objections from ISME and the wider business community, the LPC recommended a minimum wage increase of just under 6% (€8.65 to €9.15). This increase, in our opinion, has had an adverse effect on competitiveness and has been a factor in the slowdown in job creation. In addition the LPC recommendation provided insufficient evidence to support the recommended 6% increase to the national minimum wage. Given the economic evidence available last year, it is still inexplicable how such a rise could have been proposed.

In essence, this submission states the following ISME positions:

1) **The National Minimum Wage should never have been introduced into Irish legislature. It is a failed concept which has not decreased poverty levels.**
2) **The increase in the minimum wage in January 2016 was an unsustainable and uneconomic decision which had, in our opinion, no basis in evidence.**
3) **There should be no further increases in the minimum wage as small businesses cannot afford any further increases in labour costs.**

<u>We request that the Commission base its decision this time on hard economic evidence and that the decision when published be accompanied by an outline of that evidence.</u>

We in ISME would respectfully ask the Commission to investigate the following:

- The number of people on the National Minimum Wage

[1] *Business in Ireland 2012 CSO.*

- Whether those workers are (a) full-time employees, supporting a family, (b) young people working while at college, (c) people who are only available for a short period during the working week (d) lifestyle workers (pin-money).
- The skill-levels of workers on the minimum wage.
- The pass-through effect (knock-on) of NMW increases on higher wages.
- The connection, if any, between minimum wage and productivity.
- The difference between National Competitiveness and Competitiveness at the SME level.
- Alternative methods to activate policy such as an Incomes Policy which would use the Earned Income Tax Credits, as a function of earnings, family size, and can be used to address 'in-work poverty'.

While we steadfastly maintain that the process of a National Minimum wage is incorrect and should be replaced by a National Minimum Incomes Policy, the ISME position on the existing Minimum Wage Process is as follows:

- The Irish minimum wage is already high by international standards.
- Not every region or sector of the country is doing well, many enterprises continue to struggle.
- The labour market continues to remain weak, any increase will prompt knock-on relativity pay claims across the economy.
- There is currently no cost of living justified wage pressure across the Irish economy.

POLICY

Much of Government policy, in the social, fiscal and economic policy areas is deliberated upon without due consideration being given to the impact **upon competitive enterprises**. In spite of acknowledgements concerning the role and function of competitive SMEs, our legislators and administrators generally have little concept of the demands they place upon these companies. The full implications of this must be viewed in the context that in excess of nine out of every ten enterprises are SMEs with the vast majority (91%) of these employing less than ten people and are extremely labour intensive.

A Regulatory Impact Assessment of the recent minimum wage increase should be conducted before any further increases are implemented. Economic recovery remains tentative and is largely Dublin and largely urban centre based, so it would be unsustainable to impose any further costs on businesses at this point.

THE SME SECTOR

ISME's concerns and observations are primarily focussed on SMEs and in particular, owner-managers, the risk takers of the economy.

Owner-managers are more responsible towards their employees and more integrated into local society. They play an important role in stabilising society and have a bridge-building function between workers and capital/equity owners.

Most people recognize that the re-building of the Irish economy over the coming years will have to depend heavily on the SME sector. This is not to suggest that the multi-national sector will not have a role to play, in fact the very opposite is the case. The IDA is doing a good job attracting foreign direct investment (FDI) to the country, but it is clear that the FDI environment is becoming more and more competitive. Hence, from an employment perspective, and particularly from a regional economic perspective, more weight is likely to fall on the shoulders of the SME sector.

The SME sector is incredibly diverse. It ranges from single person operations to operations with up to 250 employees; and from trout farming, to car sales, to engineering, and a lot more besides. Despite the wide diversity within the sector the issues are very similar.

The lack of demand in the economy over the past few years has obviously been the biggest issue. While some recovery in domestic demand is being experienced, those businesses that interface with the consumer find it hard to identify with the relatively upbeat assessment of consumer spending evident in the Central Bank's latest pronouncements on the economy. It is very clear that once car sales are excluded from consumer spending, the underlying picture is still challenging. Wages have been stagnant at best for some time; the personal tax burden has been increased in dramatic fashion; the price of many items of essential expenditure such as car insurance, education and health insurance have increased sharply in recent years; the labour market is still challenging; and many are more interested in paying down debt than spending at the moment.

This creates a challenging environment for consumer facing businesses and the ability to protect or grow margins through price increases, is very limited.

For a sector that is so heavily dependent on banks for finance, the travails of the **banking sector** in recent years have also created serious problems, and although somewhat better, the situation is still difficult today. **Prompt payment** is also a big issue and legislation addressing this issue has made no appreciable difference. SMEs, by virtue of their size, are treated with a certain level of contempt. The reality for many small business owners is very far from being in the best country in the world in which to do business. Rather than pay lip service to this aspiration, policy makers need to take heed and act accordingly.

Given the still fragile nature of Ireland's economic recovery and the still very difficult environment for most small and medium-sized businesses, the notion of increasing the National Minimum Wage, once more, which would have a push through effect on wages up the line, does not make any sense. It would increase further the cost base for business and would undermine the cost competitiveness of the economy. It would fly in the face of the aspiration to make Ireland the 'best small country in the world in which to do business' and the aspiration to preserve and improve the competitiveness of the economy.

The tax and welfare system should be used to put money into people's pockets, rather than facilitating and encouraging an economically damaging upwards spiral in wages. The notion of pushing up wage costs again at this juncture fails to recognise the business realities in what is still a very challenging economic environment.

ARGUMENTS AGAINST MINIMUM WAGE

Much of the Government's social, fiscal and economic policy is deliberated upon without due consideration given to the impact upon competitive enterprises. In spite of acknowledgements concerning the role and function of competitive SMEs, our legislators and administrators generally have little concept of the demands they place upon these enterprises.

As we have stated in the past, ISME is not against legislation that addresses poverty, marginalisation, and social exclusion. Such legislation must not confuse the SOCIAL RESPONSIBILITY of GOVERNMENT with the EMPLOYERS RESPONSIBILITY to pay a FAIR and JUST ECONOMIC WAGE for an hour's work and must be balanced however, by the ability of employers to pay, and the economic consequences of having a National Minimum Wage beyond average European levels and increases beyond the level of Inflation.

The ideal would be a system which reduces costs for employers, increases employment and allows the lower paid earn more.

The Association has always accepted and championed employees earning a minimum income,

- **Increase the incentive to work.**
- **Remove people from the social welfare trap.**
- **Decrease the numbers working in the black economy.**

- **Introduce an equitable redistribution of income.**

ISME would like to re-emphasise that the real concern of workers is not a NMW subject to tax deductions, but what they receive in real, take-home pay. The sufficient concentration of reducing the tax burden on the low-paid will be more beneficial than any further increase in the NMW, not only for the lower paid, but to the economy as a whole.

It should not be the responsibility of employers to be wealth distributors in the economy. Increasing the minimum wage is a blunt instrument in addressing poverty and only serves to increase the cost base of business, which in turn leads to higher prices or job cuts.

If the Government is serious about addressing the needs of those on low incomes instead of relying on a fundamentally flawed national minimum wage policy, they should introduce an Incomes Policy that will allow workers earn an increased amount of after tax income. This should also include targeted reductions of PRSI for employers that will help to alleviate the overall impact of labour costs on business while incentivising workers.

However, with a NMW policy, we are confusing SOCIAL RESPONSIBILITY with EMPLOYERS ECONOMIC FAIR PAY.

Some people do not agree with this type of approach. They would prefer more state interference rather than equal opportunities. They tend to measure social justice by high taxes and baulk at open competition. However, while there is a need for policies that support economic activity to generate resources for public services and fair redistribution of income, the National Minimum Wage is not the answer and in fact stifles economic growth and has little or no effect on poverty.

- The Minimum Wage distorts competition as it imposes uneconomic wage on low skilled jobs.
- imposes an artificial floor on wages
- It is a **KEY REFERENCE POINT** and creates a knock-on effect, as higher paid employees use it as a benchmark from which to negotiate wage increases.
- The SME sector is highly price sensitive. We need to understand that businesses, when faced with increased costs, end up either passing along the costs to consumers, not hiring new employees or cutting back on work hours.
- Passing the increase to the end-user will undoubtedly influence the cost of living.
- Force many to cut jobs and reduce hours.
- Ironically an increase of the NMW could bring employees back into the tax net
- As SMEs are extremely labour intensive, with 48% of added value accounted for by labour in comparison to less than 8% for bigger companies, the impact of the proposed increase and the subsequent relativity knock on claims can have six times the effect on smaller companies as the NMW imposes an artificial floor on which all other claims are based.

As minimum wage reformists, ISME would say that tax rebates for low-income workers are much more effective than minimum wage laws. The logic is that under the current minimum-wage laws, the only person bearing the financial burden for "fighting poverty" is the business owner who has to pay his workers minimum wage. If low-wage workers are supported through tax cuts and rebates, then all taxpayers can share the financial burden.

In a competitive market anything that artificially raises the price of labour to a significant extent will curb demand for it, and the first to lose their jobs will be the people the intervention is supposed to help – the least skilled.

The NMW takes no account of businesses, particularly SMEs' ability to pay. Currently youth unemployment is at its highest level for a generation, we must not price young people out of employment. Obliging employers to offer an unrealistic wage for entry-level jobs, based on a higher NMW, is yet another barrier to SMEs deciding take on young employees.

The market should set wage levels, as opposed to State interventions determining pay rates, and all interventions should be designed with this in mind.

LABOUR MARKET DEVELOPMENTS

Despite the very positive improvement in the jobs market over the past three years, unemployment remains unacceptably high. We expect that the unemployment rate will fall below 8.5% this year but the number at work will remain some 170,000 below its pre-crisis peak. Another increase in the NMW will affect those low skilled workers who are still seeking to return to employment and could consign them to extended long-term unemployment.

The relativity impact of a NMW increase will be very significant in the SME sector in particular. We know from previous experience in the retail and hospitality sectors that any increase in the NMW will result in the overall wage bill for those sectors increasing by a similar percentage as knock-on impacts take effect through a number of pay grades. Currently SMEs are in the main unable to pass on any cost increases to their customers and the only short term solution to sustain viability will be to cut employment or hours worked.

ISME's own research shows that while 49% of firms plan to award pay increases in 2016, wage increase affordability varies greatly across sectors with the average range between 1% and 2.5%. In the low margin sectors such as the meat industry and food processing, another increase in the NMW, at a time when other wages are still frozen, will inevitability cost jobs. Already we are hearing of hours reduction in these sectors because of the recent 6% increase in the NMW from 1st January.

COMPETITIVENESS

It is preferable that the Low Pay Commission be used to assess the actuality of low pay and its effect on the ability of business to sustain whatever rate is proposed. The deliberations must be aided and supported by accurate and relevant facts and figures so as to protect businesses and the jobs therein.

Under the "Functions of the Commission" section in relation to making recommendations 12 (2) the concern is that current measurements of "productivity" and "national competitiveness" are based on national totals and GDP figures. These are not a true or accurate measurement of the sectors mainly involved in the NMW, in the main the SME sector.

Productivity in the foreign-owned segments of Irish manufacturing industry is estimated to be some six times higher than the levels of output per person in the rest of the economy. Even where allowance is made for the fact that measured productivity levels amongst foreign-owned enterprises are overstated, they remain, by some distance, the most productive enterprises in the Irish economy and not a true reflection of overall productivity.

The duality of Irish productivity performance is borne out by international comparisons. On GDP-based productivity measures, Ireland emerges as a world leader in terms of net output per person employed, surpassing even the USA. However, when the profits of foreign enterprises operating Irish plants are excluded, Ireland's comparative productivity performance slips way down the rankings.

The scale of productivity growth in FDI companies is imparting a substantial upward bias both to recorded national levels of average productivity and to the reported rates of productivity growth.

It is therefore imperative that accurate and relevant figures are used by the Commission in the deliberations of the Commission, otherwise the labour-intensive indigenous SME sector will be paying an unwarranted premium on wages, based on the mechanised, technically advanced and low labour companies which make up our FDI cohort.

Small business continues to suffer through incessant, interminable increased costs, many of which are Government driven or sanctioned, thereby undermining that very drive for competitiveness. A further increase in the Minimum Wage will exacerbate the situation for many small businesses.

There is no doubt that the cost environment represents the biggest threat to the future development and growth of small business. Costs must be brought under control or else we run the risk of pricing ourselves out of the market.

In summary, Ireland remains a high cost location for a range of key business inputs, but the cost of labour is the most significant driver of business costs for most firms.

The National Competitiveness Council believes that although economic recovery is taking hold in Ireland, it remains fragile and the international context is still very uncertain. Consequently, it believes that it is very important that Ireland continues to build on the progress that has been made and that maintaining and improving competitiveness will remain vital to the future success of the country. **As a small open economy, there is a requirement to constantly look to the future, to new markets, new products and new opportunities, and competitiveness will be essential to those objectives. It stresses the need to remain vigilant in relation to the cost base.**

The NCC makes a number of very sensible recommendations in regard to labour cost competitiveness:[2]

- As economic conditions improve, income taxes (e.g.: credits, thresholds, rates etc.) should be reviewed to support improvements in after tax incomes, while protecting labour cost competitiveness;
- Consideration should be given to replacing the step-effects of employee and employer PRSI with a tapering effect that would both remove the existing disincentive effects of applying higher tax rates to all earnings and provide an incentive to work at all earnings levels;
- The rollout of the Housing Assistance Payment is an essential element in removing barriers to employment and reducing replacement rates. It believes this payment should be monitored to ensure that the payment successfully reduces barriers to employment, whilst protecting living standards; and
- Reform the social welfare system so that replacement rates decline in line with the length of time a person is out of work; and
- Review social welfare supports to ensure that part-time workers have a significant financial incentive to avail of full time employment, and that the receipt of secondary benefits does not impede employment take-up.

POVERTY IN IRELAND

Ireland first introduced a national minimum wage in 2000. It was predicted at the time that the introduction of a base wage would eliminate or reduce poverty in Ireland.

[2] *'Ireland's Competitiveness Challenge 2014', National Competitiveness Council, December 2014.*

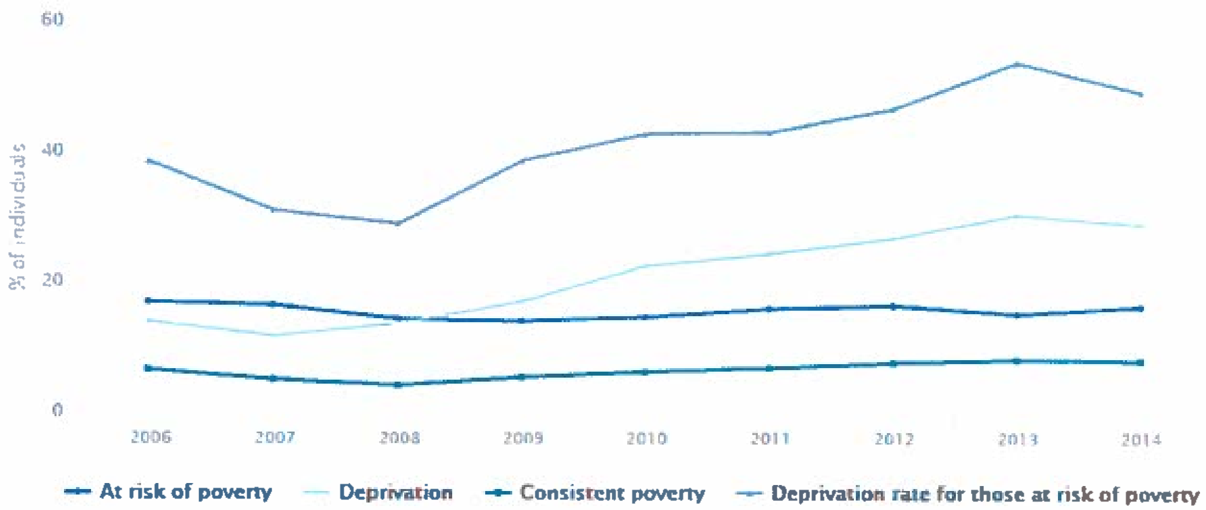
However, the chart below, taken from the Survey on Income and Living Conditions 2014 produced by the CSO, shows that consistent poverty increased between 2008 and 2013 and only dipped slightly in 2014.[3]

The consistent poverty rate is highest among the Unemployed at 22.6%. Those at work, or retired, have the lowest consistent poverty rate at 2.4%. Similar figures from the 2012 report[4] show poverty rates at 19.2% and 1.9% respectively. The deterioration in Poverty Rates despite the increase of €1 in the National Minimum Wage.

These figures would point to the fact that employment is a much more important factor in the fight against poverty, while the blunt instrument of a National Minimum Wage and the resultant knock-on effects of increases therein will reduce employment.

Source: CSO Ireland

Figure 5 Poverty and deprivation rates by year



Source: CSO Ireland

People are not in poverty because the minimum wage is too low, or because their hourly pay is too low, even when they make above the minimum wage. **People are in poverty because they are not working or not working enough. They need jobs, not an increase in the minimum wage.**

It is our belief that, in terms of cost effectiveness, a policy of simply giving money to people in poverty would likely remove ten to fifteen times as many people from poverty as any proposed increase in the minimum wage. For a policy touted as necessary to help poor people earn enough to live on, raising the minimum wage appears to do a particularly poor job as its stated goal.

It would make much more policy sense to have an Incomes Policy which can use an increase in the Income Tax Credit. Because the amount of that credit could be a function of how much you earn and your family size, changes in this policy can be targeted so that all the money goes to actual workers living in poverty.

To reach those who are not working, we would do better to spend money on training, education, relocation subsidies, anything that helps to make them employable.

LIFESTYLE CHOICES

Much also has been said by Unions on the 'vast number of employees' who are under-employed and want more work, if they could get it, but employers won't give it to them. It is expected that the Commission will

[3] *Survey on Income & living conditions 2014 CSO.*
[4] Survey of Income & living conditions 2012 CSO.

get a better picture of this, as the number of SME employers who have employees opting for reduced hours for genuine personal/family reasons has increased. In addition, the instance of '20 hours a week, or it will affect my social welfare lifestyle' workers is also prevalent.

The inevitable knock-on effect of changes in the NMW must be addressed by the Commission. It is a key reference point and creates a knock-on effect, as higher paid employees use it as a benchmark from which to negotiate wage increases. We in ISME have already heard reports of relativity pay claims from our members who have employees on higher rates than the minimum wage who are now insisting on a 6% pay increase, in line with the increase given to their minimum wage counterparts.

WAGES

Arguments for increases in wages tend to ignore the one basic, unequivocal truth of the matter:

Businesses can only afford to pay the value of the labour it purchases. It's uneconomical for them to do otherwise.

The burden of care to ensure that a person has an acceptable standard of living is on society as a whole, not solely on the person's employer. The redistribution of wealth is a government and public policy issue; it cannot be addressed through unsustainable wage levels.

Large multinationals may be able to afford to pay higher wages but SMEs could be forced to close if wage costs were to rise. Our export competitiveness would be reduced if we were to introduce a higher minimum wage. This would stymie economic progress as our current economic progression is so export focused.

As for a living wage, it would lead to cost-push inflation. An artificially high living / minimum wage makes it nigh on impossible for owner-managers to hire new staff.

THE LIVING WAGE

In a document in July 2014 a group of trade union backed entities issued "Calculating the Living Wage".[5] The paper does not consider competitiveness or economic stability. This document was then updated in July 2015 with the release of a *Living Wage Technical Document.*

The living wage is purported by this document to be €11.50 an hour, a full €2.35 more than the current minimum wage. The minimum wage would have to increase by almost one third to meet this rate. Our ability to price ourselves competitively for this market must be a constant priority.

The overall simplistic commentary in the Living Wage document suggests that as the income of low income households increases, they will pay more income taxes and social insurance and spend more, therefore the government will gain through additional direct and indirect taxes. In a utopian world that might just happen, however it ignores totally the additional social welfare costs associated with job losses or jobs not created by SMEs with low margins and high employment intensity. In a competitive market anything that artificially raises the price of labour to a significant extent will stifle demand for it, and, once again, the first to lose their jobs will be the people the intervention is supposed to help – the least skilled.

The Utopian living wage is based on aspirational figures produced without any idea of the impact on the real working economy and without a thought for the costs of production in Irish SMEs. The subsequent increased labour costs would decimate the SME economy and decrease Ireland's attractiveness for companies considering setting up here.

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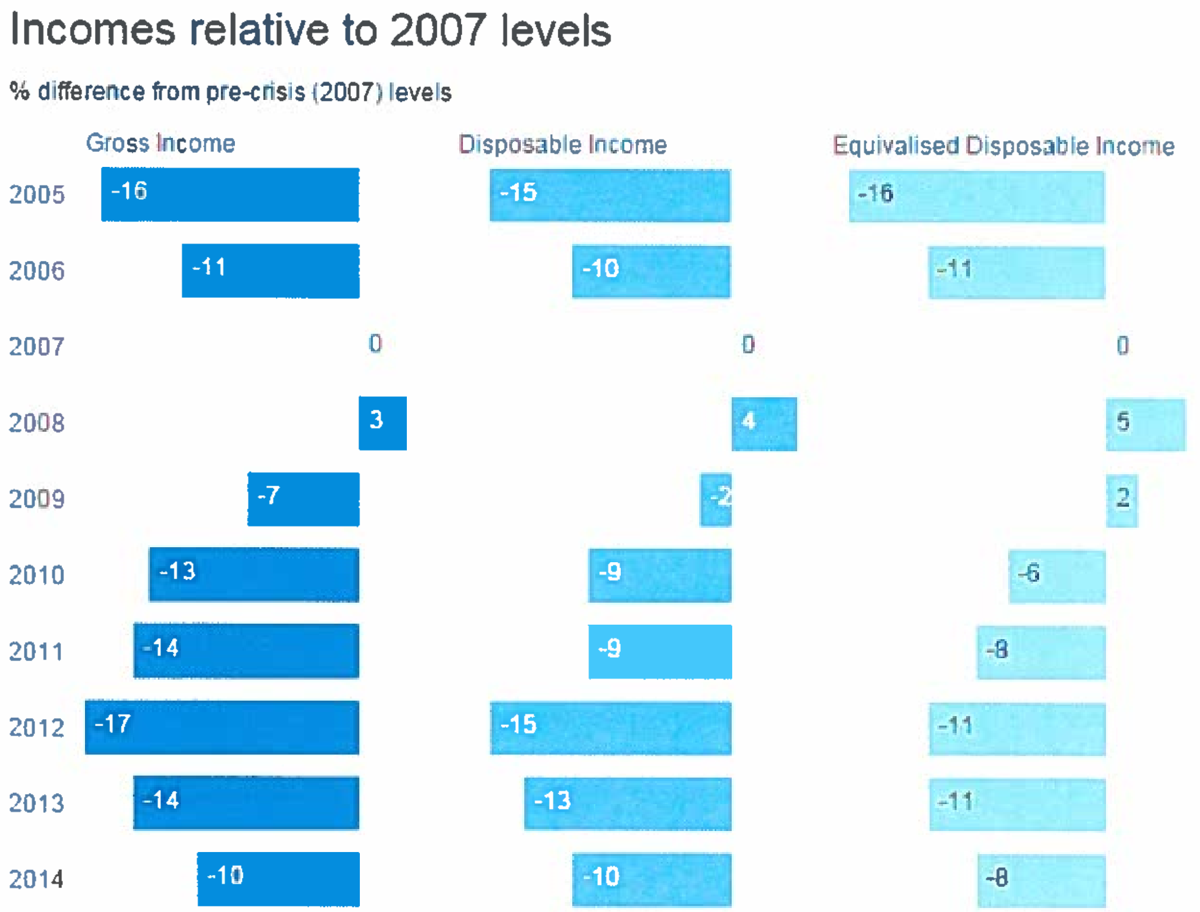
[5] *Calculating a Living Wage for the Republic of Ireland. July 2015. Living Wage Technical Group.*

IMPACT OF NATIONAL MINIMUM WAGE

The national Minimum Wage in Ireland was introduced under the National Minimum Wage Act 2000. It currently stands at €9.15 per hour (since 1st January 2016).

In the context of wages across the economy, there is no justification for increasing the minimum wage. Irish workers are, on average, paid 10% less now than in 2007. This was highlighted in the Survey on Income and Living Conditions conducted by the CSO in 2015:



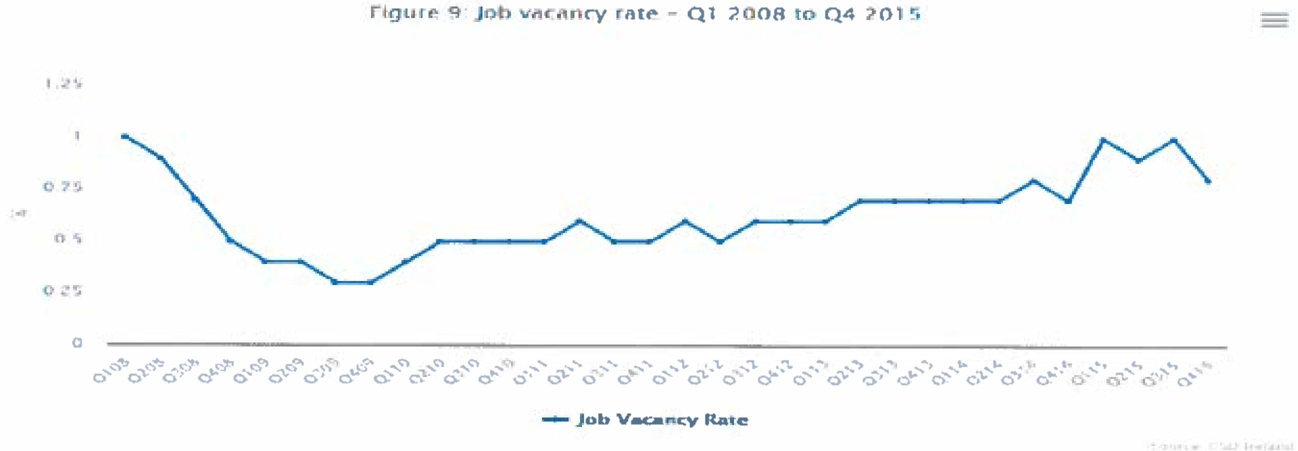
Gross and Dispoable Income are household median incomes. Equivalised income is median income adjusted for household size and composition

Source: CSO, SILC[6]

As the table shows, the gross and disposable incomes of Irish workers in 2014 were 10% lower than they had been in 2007. Why then, were minimum wage workers granted a 6% pay increase in January 2016? It is illogical to increase the pay of low-skilled workers who didn't suffer a decrease in pay rates (despite a short period) when wage rates across the economy have not even recovered to pre-crisis levels. The haste to increase the earnings of one subset of workers, at the expense of competitiveness, was an uneconomic and unreasonable decision.

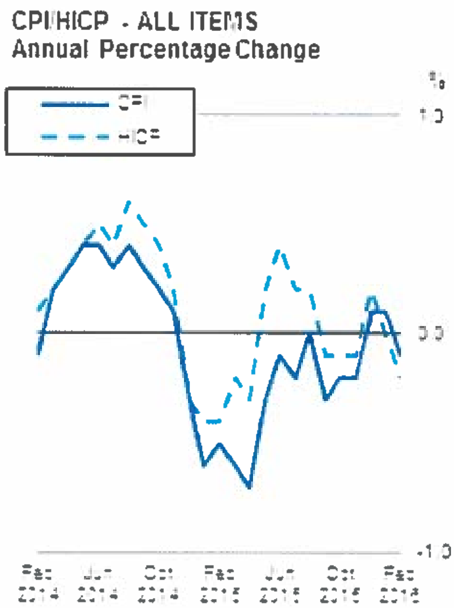
[6] CSO, SILC survey

In recent months we have seen a slowdown in jobs growth and the live register is decreasing at a much slower rate. Furthermore, the last quarter of 2015 saw a drop in job vacancy rates:



This table shows the amount of jobs available in the economy dropped in the last quarter of 2015. Thus, it is imperative that no further decisions which hinder jobs growth are taken. A further increase in the minimum wage will result in less jobs being available as employers cannot afford to take on more staff.[7]

A Further factor which negates the need for wage increases is the fact that inflation is currently at virtually zero and is showing no signs of growth in the foreseeable future.



The above table illustrates how inflation has been either below or close to zero for the past year.[8] This means that prices are not rising so employers do not have extra revenue with which they can award pay increases. Profit margins continue to be strained and business costs are continuously increasing. The LPC need to take a pragmatic approach towards the minimum wage and accept that it would be unsustainable to impose any further increases at this time.

Since labour costs are generally the most significant cost component for most SMEs, the relationship between consumer prices and labour costs is a major determinant of Ireland's overall cost competitiveness. The recent increase in the National Minimum Wage has led to relativity claims throughout all pay scales,

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[7] CSO Earnings and Labour Costs, Q4 2015.
[8] CSO CPI February 2016.

increasing the wage pressures on SMEs. As wages are often the largest bill for SMEs, they are now experiencing unsustainable pressure to make ends meet.

We must learn from previous mistakes and not allow increases in the NMW to begin a new round of wage increases, where employees strive to maintain their differentials, thereby driving average earnings across the economy, which is still in a fragile condition.

Wage inflation is a crucial element of competitiveness and can create a vicious circle of increasing prices, increasing wage demands and reduced international cost competitiveness. The next Government must call for wage restraint and the Low Pay Commission must ensure that their recommendations reflect the reality of the economy and not be influenced by madcap utopian calls for wage increases

COST OF LIVING ARGUMENT

There is currently no cost of living wage increase justified across the Irish economy. The overall price index remains below where it was in 2008 and the real value of the NMW has therefore increased during the crisis years.

In this country all workers have been impacted by austerity through budget tax increases. However, workers on the NMW have been protected from the majority of tax increases. The recent cost of living trends in the Irish CPI figures, coupled with the inflation outlook for 2016, indicate that there is currently no evidence base for an increase in the NMW. Inflation for February 2016 is -0.1%.

The new rate of the NMW is now the second highest of 28 countries studied, lower only than Luxembourg, according to the latest Eurostat figures:

This is an extremely precarious situation for Ireland to be in terms of competitiveness as it means our wage costs are much higher than many of our trading partners.[9]

[9] Eurostat, Minimum Wage Figures, January 2016.

RELATIVITY KNOCK-ON CLAIMS

The fact is that less than 4% of workers in Ireland are on the minimum wage and this is used by proponents of the NMW to justify an increase as the effect is minimal on the economy. This is another false argument and one that ignores the knock-on claims of a minimum wage increase with regard to pay relativities.

We believe that the reduction in differentials between the grades will continue leading to repercussive claims from employees on higher grades. It is ISME's opinion that companies will have no option but to comply with increasing wage demands at higher grade level and competitiveness will be eroded and jobs will be lost. As SMEs are extremely labour intensive with 48% of all costs accounted for by Labour, in comparison to less than 8% for bigger companies; the impact of any proposed increase and the subsequent relativity knock on claims will hit smaller companies harder.

It is becoming more and more difficult for smaller Irish companies to compete internationally with significant increases in production costs including energy, transport and local charges. Another significant increase in wage costs will exacerbate the situation with the rate the second highest in Europe after Luxembourg. Our ability to compete on the export market is at stake here.

Increases in Labour costs must be confined to those businesses that can afford them, rather than using the blunt instrument of the National Minimum Wage, so that we do not run the risk of pricing ourselves out of the market. An inappropriate increase at a time of high unemployment and when many businesses are still suffering from legacy cost factors would hinder further job growth and threaten business viability.

PROGRESSIVE SOLUTION

In considering this submission, ISME would like to re-emphasise that the real concern of workers is not a National Minimum Wage, but what they receive in real, take-home pay. The sufficient concentration of reducing the tax burden on the low-paid will be more beneficial than the introduction of a NMW, not only for the lower paid, but for the economy as a whole.

The real concern of workers is their take home pay rather than some notional minimum wage subject to PAYE and other deductions.

The Government could introduce an Incomes Policy which could include an Earned Income Tax Credit, which could be a process to remove all tax and other deductions on income that equate to two-thirds of the average industrial wage of €32,000 ensuring that individuals can earn up to €20,000 per annum before being hit with taxes. This has the advantage of:

- Removing all low paid employees from the tax net.
- Enhancing the progressive structure of tax policy.
- Making gainful employment more rewarding than the live register.
- Fulfils the government obligation to redistribute income through the tax system.
- Take the onus and cost of income distribution from employers.
- When low-wage workers are supported through tax cuts and rebates, then, being more equitable, all taxpayers share the financial burden.

The Association would recommend that the Low Pay Commission investigate and cost this proposal as part of their work.

CONCLUSION

In conclusion the minimum wage of itself does not solve poverty, injustice and unfairness within society. Increasing the Minimum wage will not address the problem of the long term unemployed. It is not economic for SMEs' to employ the low skilled people at a high minimum wage, without adequate financial assistance towards the cost of training, after commencement of employment.

While we steadfastly maintain that the process of a National Minimum wage is incorrect and should be replaced by a National Minimum Incomes Policy, the ISME position on the existing Minimum Wage Process is as follows:

- The Irish minimum wage is already high by international standards.
- Not every region or sector of the country is doing well, many enterprises continue to struggle.
- The labour market continues to remain weak, any increase will prompt knock-on relativity pay claims across the economy.
- There is currently no cost of living justified wage pressure across the Irish economy.

What is needed is innovative thinking. If we are serious about maintaining employment levels and ensuring that indigenous businesses can compete and survive, a bit of lateral thinking is required at Government level. This will ensure that business can continue to operate, grow and employ.

A process that reduces costs for employers and allows the lower paid earn more must be a part of the recipe to revitalise the Economy.

Given the still fragile nature of Ireland's economic recovery and the still very difficult environment for most small and medium-sized businesses, the notion of increasing the National Minimum Wage again, which would have a push through effect on wages up the line, does not make any sense. It would increase the cost base for business and would undermine the cost competitiveness of the economy. It would fly in the face of the aspiration to preserve and improve the competitiveness of the economy.

The new Government should use the tax and welfare system to put money into people's pockets, rather than facilitating and encouraging an economically damaging upwards spiral in wages. The notion of pushing up wage costs at this juncture fails to recognise the business realities in what is still a very challenging economic environment.

ISME is willing to meet with members of the Commission to discuss the above if necessary.