LIMERICK CHAMBER

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1815 2015

Celebrating The Past. Shaping The Future.

Limerick Chamber submission to the Low Pay Commission

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25th May 2015

Executive Summary

Limerick Chamber welcomes the establishment of the Commission. The remit of the Commission to make an annual recommendation on national minimum will provide a flexible framework for wage adjustments that can facilitate changes to the minimum wage responsive to economic fluctuations.

Minimum wage must be fully reflective of economic realities and labour market conditions. As Ireland emerges from a recession, with signs of stability and growth returning to the labour market, we believe **any increase in minimum wage rates at this point is premature**. Increases in minimum wage will place subsequent upward wage increase demands on employers across all sectors, negatively impacting on job creation opportunities. Additionally, any blanket increase in minimum wage could **compromise Ireland's international competitiveness** as a location in which to invest and do business.

Introduction

Limerick Chamber is the largest business representative body in the West of Ireland, representing almost 500 businesses that cumulatively support upward of 50,000 jobs both directly and indirectly. Our members range from indigenous SME's to multinational firms across all sectors. This places us in a unique position of representing businesses of all sizes across a plethora of sectors.

Limerick Chamber welcomes the establishment of the Commission as an important component in ensuring evidence-base policy making to inform labour market interventions. We welcome the opportunity to inform this consultation process and look forward to further engagement with the Low Pay Commission.

Macroeconomic context: GDP growth, unemployment and inflation

Labour market interventions which change nominal minimum wage rates have a wider impact across the economy and decisions must be made in the context of an economy's growth. Ireland's expansion from the mid-2000 was over-reliant on the construction sector and a domestic demand fuelled by credit backed speculation. The recession resulted in Ireland's GDP falling by 12 per cent and employment by 15 per cent from a peak in 2007 to a trough in 2010 (quarterly, seasonally adjusted).

Growth in GDP rates returned from 2011; however this was driven by exports, facilitated by our improved competitiveness[1]. Ireland's annual average GDP growth has averaged at 2 per cent per annum between 2011 and 2014. Domestic demand only returned as a contributor to GDP growth for in 2014 and this is projected to continue into 2015. And while unemployment rates are falling quarter on quarter; at 10 per cent it remains high. **The Irish economy is just beginning to return to a period of stability and sustainable growth**.

The national minimum wage has increased by 55.2% from when it was initially introduced (€5.58 in 2000 to €8.65 in 2015). Since the last adjustment to the minimum wage (July 2011) average hourly wages across the public and private sectors have increased year-on-year by 0.7 per cent (Q3 2011 and Q 2014); with average hourly earnings in the private sector increasing by 3.2 per cent during that period. During the same period (July 2011 and March 2015), the Harmonised Consumer Price Index (HCPI) increased 2.8 per cent. **Private sector pay increases for the past four years are higher than inflation rates; resulting in increases in real wages.**

An increase also has the potential to cause wage-push inflationary pressures across the country as businesses raise prices to protect margins and the survival of their business. This would erode the competitive advantage the country has gained during the recessionary period. As an export driven economy, we must be cognisant of the sluggish growth in the Eurozone area and exchange rate fluctuations with the US dollar; the Irish government must support our competitiveness, not do anything which could threaten it.

Ireland's Competitiveness

In a global economy competitiveness is a key driver of economic growth and job creation and it is important to ascertain Ireland's minimum wage vis-à-vis our competitors.

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 €1,461.85 for those working a 39 hour week. Benchmarking this in relation to European averages, it is clear that the Irish monthly national minimum wage equivalent is the **fifth highest in Europe**; ranking behind Luxembourg (€1,922.96), Belgium (€1,501.82), Netherlands (€1,501.80) and Germany (€1,473)[2] . It is important to note that Ireland's monthly national minimum wage is **6% higher** than our nearest neighbours and competitors in the **UK** (€1,378.87 equivalent).

The taxation treatment of those on low pay is critically important in informing any decision in regard to changes in nominal rates. Again, comparator analysis using Eurostat[3] figures reveal that in 2014

[11] Central Bank of Ireland, Harmonised Competitiveness Indicators (deflated by whole economy Unit Labour Costs) peaked at 139.91 in Q2 2008; dipping to 99.03 by Q4 2012.

[22] Eurostat (accessed 20th May 2015): Minimum Wages: EUR/month http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00155&plugin=1

[3] Eurostat (accessed 20th May 2015): Tax rate on low wage earners: Tax wedge on labour costs http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do?dvsc=9

the average tax rate on low wage earners in Euro area (18 countries) was 43.1; **Ireland had one of the lowest in Europe at 22.1** (of the available data Switzerland was the only country with a lower rate).

Societal impact

Much of the rhetoric and public appeals for a review of the level of the national minimum wage refer to the number of people in Ireland at risk of poverty. The consistent poverty rate in Ireland in 2013 was 8.2 per cent. One in four people in Ireland under the age of 60 live in jobless households, which is double the EU average.

Empirical evidence finds that consistent poverty is highest among individuals who were unemployed (23.9%); and those most at risk of falling below the poverty threshold and toward social exclusion are in households with low work intensity (i.e. working age adults in the household work less than 20% of their full work potential over the year). Indeed it is worth noting that in 2012 Irelands rate of children living in households with very low work intensity was the highest in the EU[4]. This evidence linking poverty with un-/ under-employment supports Ireland's position as the second lowest rate of poor/ at risk of poverty among the working population in Europe.

Therefore Limerick Chamber argues that increasing the nominal minimal wage rate will not address the number of people living in Ireland at risk of poverty. The most effective method to alleviate this threat is to create more jobs.

Potential Job & GDP Impact

In a true free market economy the labour market would set the rate of pay for all jobs based on a number of different factors: note least supply and demand, but also variables such as education, skills, experience etc.

There is no widely accepted economic model that empirically correlates minimum wage rates to either job creation or economic output. Paul Krugman, Nobel Prize winning economist most recently argued that an increase in the hourly minimum wage in the US would result in job losses; whereas respected economists such as Milton Friedman opposed the notion of a minimum wage, arguing that "…people whose skills are not sufficient to justify that kind of a wage will be unemployed". Famously in March 2014 in response to President Obama's proposal to increase the minimum wage in the US, over 500 prominent economists, including four Nobel Prize winners, urging Federal

[44] Eurostat (2014), Living Conditions in Europe, pp. 106-107. http://ec.europa.eu/eurostat/documents/3217494/6303711/KS-DZ-14-001-EN-N.pdf/d867b24b-da98-427d-bca2-d8bc212ff7a8

Government to reject the proposal with Nobel prize winner Vernon L. Smith stating that the proposal were a ‘poorly targeted anti-poverty measure’.

In their 1997 submission to Irish National Minimum Wage Commission, the OECD refers to empirical studies in France which estimated that a 10 per cent rise in their minimum wage would lead to an increase in the structural unemployment rate of about 0.9 percentage points[5]. The OECD also highlight in their submission that above a certain level, a statutory minimum wage is likely to reduce, not increase employment. More recent anecdotal evidence from the US (2014) finds that on a state-by-state basis job growth was slower in states which had the highest incremental increase in minimum wage, when compared to states that did not raise their minimum wage[6]. This finding is supported by the recent work of Neumark et al (2014) which warns that “minimum wages post a trade-off of higher wages for some against job losses for others”[7]

SME and Regional Trade-offs

Increasing minimum wage has a ripple effect and will put upward pressure on wages across the board. As we emerge from recession businesses in Ireland continue to restructure and drive efficiencies; any government intervention which increases the cost of doing business would have a detrimental impact on job creation opportunities. Were the country in a position of strong growth, and firms had adequate reserves to absorb an increase in costs then one could argue that increases may not impact on jobs. However, this is not the position for many businesses in Ireland who continue to restructure and seek debt write-downs or legacy debt spin-offs in order to survive and continue to employ people.

SMEs account for 99 per cent of Irish enterprises 70 per cent of private sector employment. Payroll costs make up a large portion of the total cost base for all Irish businesses but for SMEs wage costs usually account for more than half of total costs. In their latest review of the Irish SME sector the European Commission noted that “the overall economic situation for Irish SMEs in 2013 is one of continued fragility accompanied by relatively modest growth and performance”[8]. An increase in the minimum wage will have a disproportionate impact on SMEs.

Additionally, the Commission must take into account the regional differentials that exist across the country, both in terms of the costs of doing business but also the velocity of job creation. The pace of recovery is thus far driven by strong growth in the capital, with regional cities yet to feel the full impact of the upturn. **The impact of minimum wage increases must be assessed on a regional basis.**

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[5] OECD (1997) *Submission to the Irish National Minimum Wage* Commission. No. 186, p.16 http://www.oecd.org/ireland/1864285.pdf

[66] Forbes (2014) *Raising the Minimum Wage does Not CreateJobs* http://www.forbes.com/sites/timworstall/2014/08/22/raising-the-minimum-wage-does-not-create-jobs/

[7] Neumark, D., Salas, J.I., & Wascher, W (2014). Revisiting the Minimum Wage – Employment Debate: Throwing Out the baby with the Bathwater? Industrial & Labour Relations Review, 67(3 suppl), 608-648.

[8] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2014/ireland_en.pdf

Alternative Recommendations

Increasing the nominal minimum national wage does not guarantee improved standards of living; evidence suggest that such increases result in reduced numbers in overall employment; and such an increase will erode Ireland's competitiveness internationally.

Given the potential negative impact on the economy of blanket increases to minimum wage, it is 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[9], we recommend that such alternative employment incentives are promoted. In particular, performance incentives would be beneficial to many SMEs who are not able to afford

[9] 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

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.