

The National Minimum Wage 2020 Consultation Process

ISME Submission to Low Pay Commission On the National Minimum Wage

5th March 2020

Table of Contents

INTRODUCTION	3
WHAT IS THE MISSION OF THE LOW PAY COMMISSION?	3
COST OF LIVING AND COST OF DOING BUSINESS	4
THE SME SECTOR	7
SME PAY TRENDS	9
CONCLUSION	9

ISME, the Irish Small & Medium Enterprises Association, represents in excess of 10,500 SME businesses throughout the 26 counties employing more than 245,000. We are an INDEPENDENT body representing owner managers of small & medium businesses in Ireland. We are independent because we rely solely on the resources of our members, not on banks, semi-states, or big business. **We are the only representative body for SMEs in Ireland that is independent of the interests of large enterprise.**

INTRODUCTION

ISME is grateful for the opportunity to make a submission to the Low Pay Commission on the National Minimum Wage.

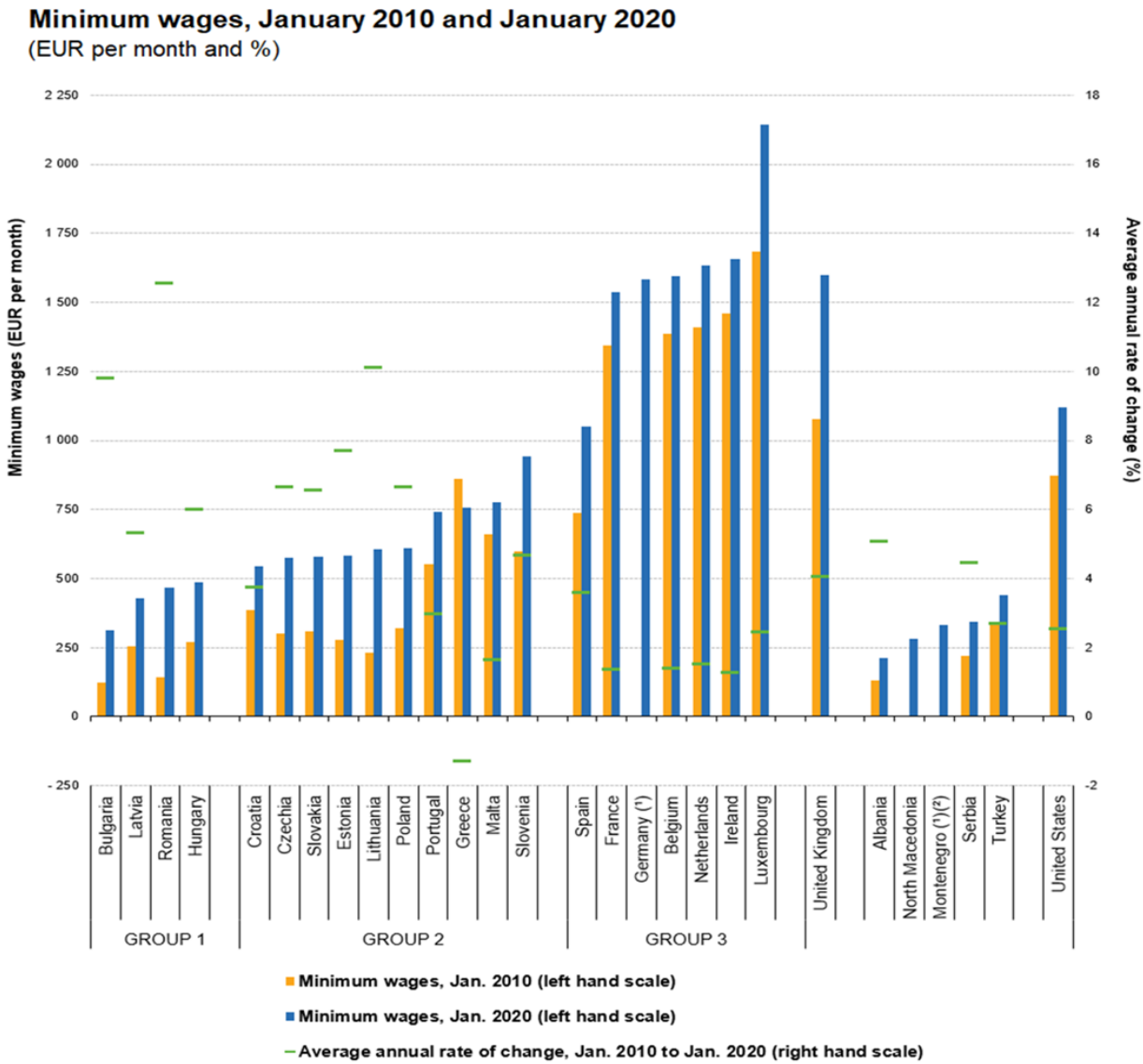
As we have pointed out before, increases to the NMW wage do not solve poverty, or reduce injustice and unfairness within society. Increasing the NMW wage will not address the problem of the long term unemployed. It is not economic for SMEs to employ low skilled people at a high minimum wage, without adequate financial assistance towards the cost of training. If the cost of unskilled labour rises in the economy, and if SMEs cannot recover the cost of that labour increase from the market, they simply use less of it. We have previously submitted ample data to the Commission in support of this fact and will not subject the members of the Commission to it again.

WHAT IS THE MISSION OF THE LOW PAY COMMISSION?

We consider this an important question, given the nature of your deliberations. According to the Low Pay Commission website, the Commission is charged to *'set a minimum wage that is fair and sustainable, and when appropriate, is adjusted incrementally, and that, over time, is progressively increased to assist as many low-paid workers as is reasonably practicable without creating significant adverse consequences for employment or competitiveness.'* We suggest while the NMW is being adjusted incrementally, it is not assisting low paid workers.

Ireland has the second highest NMW in the EU. As Figure 1 below shows, it is second only to that of Luxembourg, and it is noteworthy that Denmark, Italy, Cyprus, Austria, Finland and Sweden do not have a NMW. Given the rate at which we set our NMW, if it would have solved the problems it is thought to solve. We believe therefore, it is incumbent upon the Low Pay Commission to justify the level of our NMW not merely by reference to its historical level, but by comparison with the NMW in peer countries. What macroeconomic conditions apply uniquely to this country that justify such a high NMW?

Figure 1 National Minimum Wages EU



Note: Denmark, Italy, Cyprus, Austria, Finland and Sweden: no national minimum wage.
 (*) January 2010 and average annual rate of change not available.
 (?) July 2018 instead of January 2020.
 Source: Eurostat (online data code: earn_mw_cur)



COST OF LIVING AND COST OF DOING BUSINESS

It is not unreasonable for citizens to conclude that they should be able to afford a decent standard of living on their wages. Wealth, and personal standards of living, unfortunately boil down to the difference between income and expenditure. For a great many of the lower paid, this difference is negative, and requires buffers from the State in the form of social transfers. However, the point that ISME continually makes, but which is ignored by the State because it appears ‘difficult’ in policy terms, is the absolute necessity to control costs in the economy: Costs of living, and costs of doing business. We fully understand the desire to, at a minimum index the NMW to the rate of consumer inflation, however, it has been outstripping it in recent years.

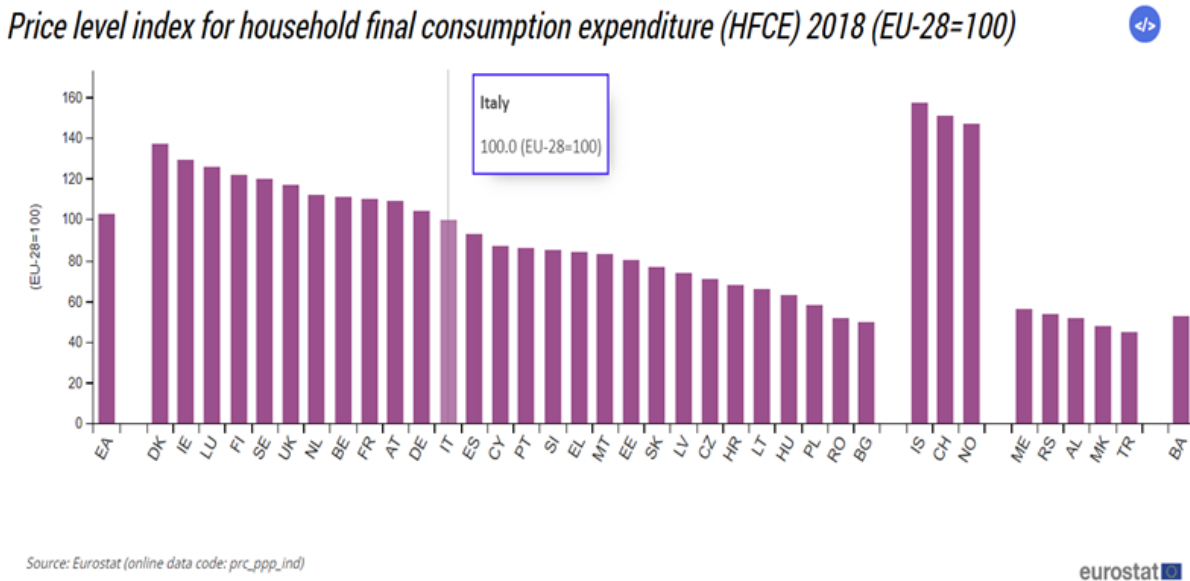
The National Competitiveness Council¹ in its latest Competitiveness Challenge, states ‘*the challenge for the Government is to ensure that the interaction between wages, prices and productivity levels is sustainable and enhances both competitiveness and living standards.*’

¹ <http://competitiveness.ie/publications/2019/ireland-s-competitiveness-challenge-2019.pdf>

Figure 2 below shows the Eurostat comparison of cost of living across the EU 28 in 2018. Ireland has the second-highest cost index in the EU after Denmark, at 129, where Italy equals the EU 28 index of 100, and where the Euro-area average is 103.

Ireland’s household cost index, at 127, is 23% more expensive than the Eurozone average of 103. More significantly, we are more expensive than the UK (117), and France (110), our geographically nearest neighbours. Minor tweaks to the NMW are not going to meaningfully address the cost of living issue for lower paid workers, but they will make the hire of those workers materially more expensive.

Figure 2. Eurostat Price Index 2018



The cost of living has become so acute for workers in Ireland that some employers (especially medium-sized employers in the services sector, outside the M50) are resorting to the purchase of housing units to provide to their employees. This is more cost effective and affordable than providing them with a wage which would pay prevailing rents. We feel it appropriate to ask you, the members of the Commission, if you believe SMEs would involve themselves in the very high risks inherent in such a policy if they had any other option including increasing wages?

As we have pointed out annually by reference to the University of Washington study on the Seattle Minimum Wage,² legal alterations to the minimum hourly rate of pay do not necessarily improve take-home pay (or ‘P60’ income, as it was previously referred to in Ireland). Where market constraints intervene, forcing the NMW up may simply result in a reduction in hours worked, or in a small uptick in unemployment, as was evident in the Seattle hinterland.

We suggest that the same issues are at play in Ireland but are being masked by the fact that the domestic economy remains strongly expansionary and enjoys a high level of job creation. Table 1 below shows the latest enterprise births and deaths figures from the CSO.

² <https://www.documentcloud.org/documents/2997999-Seattle-Minimum-Wage-Final-Report.html>

Table 1: Enterprise births and deaths.

CSO statistical release, 03 July 2019, 11am

Business Demography**2017**

	2008	2013	2014	2015	2016	2017	% Change 2013- 2017	% Change 2016- 2017
Number of enterprises	244,195	243,571	238,249	248,843	250,033	271,166	11.3%	8.5%
Persons engaged	1,511,920	1,288,017	1,334,291	1,402,981	1,478,236	1,555,799	20.8%	5.2%
Enterprise births	15,444	13,825	16,256	18,100	19,249	22,241	60.9%	15.5%
Enterprise deaths	19,157	18,287	15,337	15,944	14,262*			

*The enterprise deaths figure for 2016 is an estimate as a 2nd year of inactivity is necessary to be counted as a final death (see Background Notes).

The negative job effects of a constantly rising NMW are easily masked in a market where jobs growth and enterprise growth continue apace. Looking at the last available CSO business demography figures above, the economy created a net 4,987 new enterprises in 2016, with an average of 5.9 persons per enterprise; a net 29,423 new jobs. Job growth of this magnitude is obviously continuing, with the latest (January 2020) unemployment figures showing an adjusted rate of 4.8%. This was the lowest unemployment rate since December 2006.

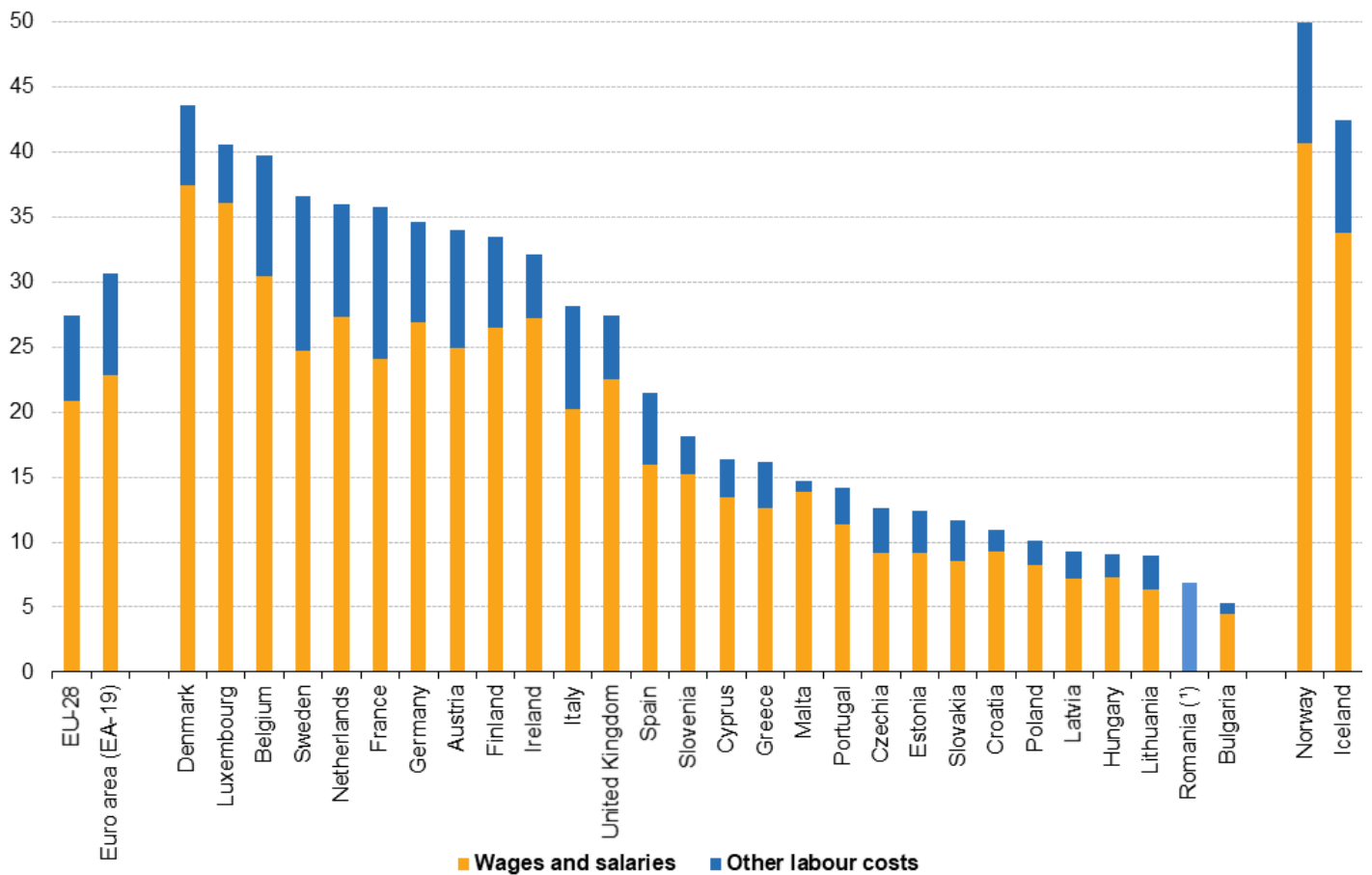
In effect, SMEs are going out of business on a daily basis, but the available labour pool generated is quickly mopped up by those SMEs that are hiring. Similarly, as wages in the wider economy continue to far outstrip inflation (rising 3.5% in the latest CSO latest figures³) workers who are dissatisfied with their pay can readily avail of higher wages elsewhere, and employers must compete for talent in a labour sellers' market.

Despite this, and almost uniquely in Europe, Ireland legislates both for a (very high) NMW, and Sectoral Employment Orders in certain industries. We consider it a legitimate question to ask why this degree of market intervention is required in Ireland, when gross wages in Ireland are the third highest in the EU, lagging only those in Denmark, Luxembourg, and Belgium (See Figure 3 below).

³ <https://www.cso.ie/en/releasesandpublications/er/elcq/earningsandlabourcostsq32019finalq42019preliminaryestimates/>

Figure 3 Gross Wages, EU

Estimated hourly labour costs, 2018
(EUR)



Notes: whole economy (excluding agriculture and public administration); in enterprises with 10 or more employees. Provisional data.

(*) Only the total hourly labour cost is displayed. The wage and salary/non-wage breakdown is not published for 2018 as estimates are not comparable with previous years due to changes in national legislation.

Source: Eurostat (online data code: lc_lci_lev)



However, we should not ignore the fact that maintaining a high NMW also comes with downside risks when the economy turns. At the peak of the recession in December 2011, our unemployment rate reached 16%. It persisted in double figures until June of 2015. Peak unemployment during the crash in Germany only reached half that figure. We believe that labour market inflexibility must shoulder some of the blame for so deep an impact. Given that another recession (hopefully not remotely as bad as that of the Great Recession) is on the way, we consider it incumbent upon you, as members of the Commission, to manage the NMW in such a manner as to minimise employment loss when the labour market turns.

THE SME SECTOR

Ireland is a country of three economies: The State sector, the multinational sector, and the SME sector. The Seanad Report on Small and Medium Sized Businesses in Ireland⁴ describes the recruitment and retention of

⁴ https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/seanad_public_consultation_committee/reports/2019/2019-05-16_small-and-medium-sized-businesses-in-ireland_en.pdf

staff in the SME sector as challenging, especially where SMEs have to compete with foreign multinational employers. This problem is particularly acute as unemployment continues to fall (see Table 2).

Table 2: Monthly Unemployment

CSO statistical release, 04 February 2020, 11am

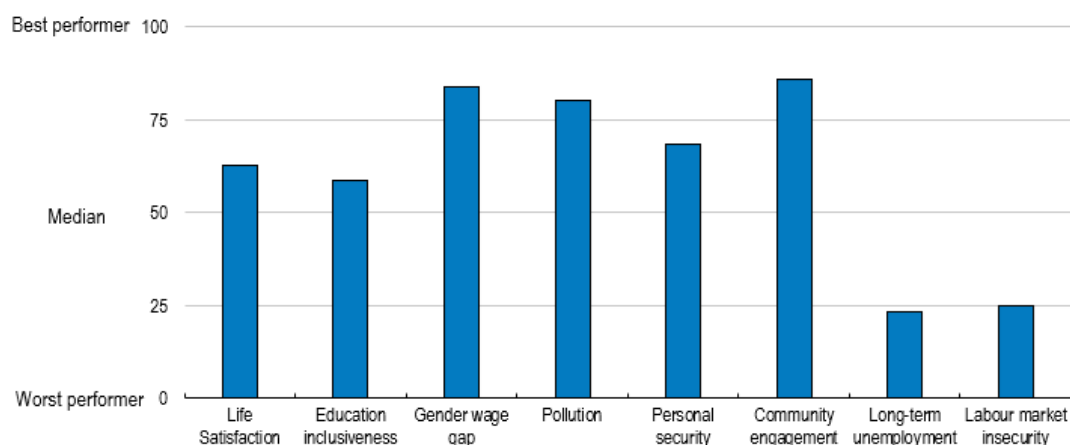
Monthly Unemployment

January 2020

	Seasonally adjusted number of persons unemployed	Seasonally adjusted unemployment rate (%)
January 2019	124,200	5.1
December 2019	116,900	4.7
January 2020	120,200	4.8
		Percentage Points
Change in month	3,300	0.1
Change in year	- 4,000	- 0.3

While the fall in unemployment is good, it does not appear to impact a persistent issue Ireland has with the long term unemployed. In its recent Economic Survey,⁵ the OECD stated that Ireland performs poorly in long-term unemployment, and in labour market insecurity for workers. We believe increasing the NMW will also increase insecurity for some workers, particularly the low skilled and unskilled.

Wellbeing is high across multiple dimensions
Dimensions of wellbeing, Index (50=OECD median performer)



Note: Education inclusiveness is based on the measure of variation in reading performance explained by a student's
Source: OECD Better Life Index database; OECD Gender Data Portal; OECD PISA 2018 database.

While national wellbeing in The OECD identifies two key factors in the long-term unemployment figures: the lack of training for those who are unskilled or possess low skills; and the low rate of activation among women in the workforce. Women are identified as consistently working fewer hours in the economy than men are. While domestically this is being identified as an equality issue via gender-gap reporting, the OECD identifies

⁵ [OECD Economic Survey Ireland 2020](#)

the high costs of childcare, and the disincentives for returning to work that are inherent in our tax and social protection systems as problematic.

SME PAY TRENDS

ISME surveys its membership regularly on their intentions regarding pay increases for their employees. Our last complete survey is for Q3 2019, which revealed:

- 47% of SMEs will not be in a position to increase pay this year for their employees.
- 22% will increase employees pay by 0.5% to 2.4%, down from 26% in the previous Quarter.
- 23% will increase pay by 2.5%-5%, down from 31% in Q2'19.
- 5% of businesses will increase pay for their employees by plus 5%, down 3% on Q2' 19

While relatively few of our members employ people on the NMW, quite a number report pay staff (especially seasonal or part-time staff) at €1-€2/hr above the NMW. There is a natural 'relativity' for the pay expectations of these employees and the current applicable rate of the NMW.

We therefore consider it appropriate to ask whether the Commission or the Department of Business, Enterprise and Innovation) applies the SME Test⁶ to proposals to raise the NMW. If the answer is in the negative, we believe the Commission should include the reason for this in its report.

CONCLUSION

We will not reiterate our observations of previous years regarding poverty, the 'cost of living argument,' or the living wage. In fact, we consider the cost of living argument to be a dangerous throw-back to the subsistence theory of wages.⁷

Consider the following. If cost of living is to be taken as a critical determinant of wage-setting and therefore of the NMW:

1. Does this mean that if two workers provide the same labour (and output) to a business, the worker with the higher cost of living should be paid more?
2. If the cost of living is the main arbiter of wage levels, should wages reduce during times of deflation?

If the members of the Commission would be uncomfortable with affirmative answers to these questions, then the NMW is not the appropriate policy instrument to address workers' cost of living. **The appropriate policy instrument is to reduce workers' cost of living.**

We accept the concept of the 'social contract' between worker and employer as recently reported by the McKinsey Global Institute.⁸ We acknowledge the stagnation in real wages reported therein. This mirrors the real stagnation in price inflation also, noting the exception for housing costs. But we also ask the Commission to understand that many businesses remain fundamentally unprofitable as they currently trade, and that

⁶ https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test_en

⁷ <https://tyrocity.com/topic/subsistence-theory-of-wage/>

⁸ <https://www.mckinsey.com/~/media/mckinsey/industries/social%20sector/our%20insights/the%20social%20contract%20in%20the%2021st%20century/mgi-the-social-contract-in-the-21st-century-full-report.ashx>

upward movement in wages (especially among SMEs) can be paid for only with reduced employee numbers, increased worker productivity, or both.

We will reiterate that, as long as the Executive refuses to tackle the cost of living, nominal (or any) adjustments to the NMW **will not have any positive effects for the low paid.**

The ISME position on the National Minimum Wage setting 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.
- We are approaching full employment, and labour has greater bargaining power than at any time since 2007.

The Government should turn its attention to reducing the costs of living for the low waged, and all other workers.

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