

Irish Congress of Trade Unions

**Submission to the Joint Oireachtas Committee on
Jobs, Enterprise and Innovation.**

The Cost of Doing Business In Ireland.

23rd August 2017



1. Introduction.

- 1.1** The Irish Congress of Trade Unions is the largest civic society organisation in Ireland representing close to 800,000 workers.
- 1.2** Congress notes that the Joint Committee on Jobs, Enterprise and innovation has decided, as a priority, to undertake an examination of the cost of doing business in Ireland. This is an important and complex topic and one which needs careful and above all balanced consideration.
- 1.3** While it is not clear from the invitation to make a submission what the precise purpose of the study is, we assume that the committee will be seeking to identify proposals that can result in a reduction in the cost of doing business and in turn potentially increase the competitiveness of enterprises operating in Ireland.
- 1.4** In this short submission we have looked at some of the inputs into the cost of doing business in Ireland and we have identified some policy initiatives that the committee may wish to consider in the course of their deliberations. This submission draws on work done by the Nevin Economic Research Institute (NERI)¹.

2. The Cost of Doing Business – A Closer Look At The Cost of Labour in Ireland.

- 2.1** The cost of labour is defined by Eurostat² as the total expenditure borne by employers for the purpose of employing staff. They include employee compensation (including wages, salaries in cash and in kind, employers' social security contributions), vocational training costs, other expenditure such as recruitment costs, spending on working clothes and employment taxes regarded as labour costs minus any subsidies received.
- 2.2** While some will argue that workers in Ireland enjoy relatively high hourly earnings, in reality the cost associated with employing staff in Ireland is about average by EU standards and relatively low compared to small open economy competitors such as Belgium and Austria. This is because employer social contributions as a component of total labour costs are significantly lower in Ireland. A recent research paper by NERI³ identifies that the total average hourly labour costs in Ireland in 2015 was €28.70 in the business economy. This compares with a cost per hour of €29.00 in the UK and €29.50 per hour in the Eurozone. International comparisons of statutory minimum wage levels that do not take into account differences in employer social insurance are misleading.
- 2.3** A further consideration in any analysis of labour costs is the level of output achieved from labour employed or productivity. It is productivity growth that generates long-

¹ www.NERInstitute.net

² <http://ec.europa.eu/eurostat/web/products-datasets/-/tps00113>

³ <https://www.nerinstitute.net/research/wages-labour-costs-and-living-standards/>

run economic growth⁴ and improvements in wellbeing. The National Competitiveness Council (NCC) in its Competitiveness Scorecard for 2017⁵ noted that Ireland's labour productivity performance is strong in an international context. Irish labour productivity growth has been above that in competitor countries since 2013 and was 2.3 per cent in 2016. While it should be noted that the contribution of some multi-national companies has boosted productivity growth it is clear in general terms that productivity growth in Irish companies is reasonably healthy. The productivity of Irish workers allows Irish companies to be competitive. In short the cost of employing labour is more than offset by the level of output achieved.

2.4 Ultimately, as noted by the NCC, a wide range of factors enter into how Irish enterprises compete on domestic and foreign markets. Various measures of international competitiveness indicate a very wide range of experience with many high-wage economies also performing well ahead of others in terms of output productivity and quality of traded goods and services. Among the most successful traded sectors in Ireland (pharmaceuticals and ICT) wages are relatively high. Wages and competitiveness should not be conflated.

2.5 While the cost of labour in Ireland is generally competitive Congress has sought to highlight the issue of excessive executive pay. In our report "Because we're Worth It"⁶ we have shown the very high level of remuneration paid to a relatively small number of elite executives. Such practices obviously have an impact on the cost of doing business and regulation is required to curb this practice. Congress will provide an annual update on the levels of executive pay in Ireland.

2.6 In the view of Congress and based on the available data it is clear that in general labour costs in Ireland compare favourably with labour costs in other competitor countries.

3. The Cost of Accommodation for People and Business.

3.1 The supply of residential housing remains a key social and economic problem with cost consequences for enterprises as escalating rents and house prices puts pressures on labour costs as well as on costs of attracting and retaining skilled labour Ireland. Both Congress⁷ and NERI⁸ have produced comprehensive proposals aimed at tackling the cost and supply of housing and the cost of rent. Congress will continue to make the case for greater state investment in public housing as an important

⁴ In this context it is concerning that Ireland spends substantially less on education (per pupil basis) and public R&D (per capita basis) than similar high income European countries. This underinvestment is a false economy that will damage economic growth in the long-run. See: <https://www.nerinstitute.net/research/public-spending-in-the-republic-of-ireland-a-descriptive-overview-and-growth-implications-wp/> for a more extensive discussion of these issues.

⁵ <http://www.competitiveness.ie/Publications/2017/Irelands%20Competitiveness%20Scorecard%202017.pdf>

⁶ https://www.ictu.ie/download/pdf/because_were_worth_it.pdf

⁷ https://www.ictu.ie/download/pdf/congress_housing_document_june_2017.pdf

⁸ <https://www.nerinstitute.net/research/irelands-housing-emergency-time-for-a-game-changer/>

factor in easing supply problems. While the publication of the Rebuilding Ireland Plan did bring a greater focus on the housing crisis, it is clear that the plan is not working. Fundamentally the plan relies on a property-led development model which has failed in the past and will fail to deliver enough housing units to meet the increasing demand for residential accommodation.

- 3.2** The exceptionally high cost, by international standards, of renting office accommodation Dublin, noted by the NCC, does not reflect a higher than average cost of labour and materials in the construction industry but, rather, the acute shortage of suitable sites and the escalating cost of development land. The cost associated with acquiring suitable accommodation is one of the major contributors to the overall cost of doing business. It is vital that such costs are controlled. In order to control these costs more investment is required to provide for balanced regional development along with improved and transport and communication connections to make accommodation outside of Dublin more attractive to business and employees.
- 3.3** In the view of Congress providing an effective and speedy resolution to the housing crisis and the cost of accommodation for business will have a positive impact on the cost of doing business in Ireland.

4. The Cost of Childcare

- 4.1** Congress has highlighted the extremely high cost of childcare in Ireland. In our report, “Who Cares – Childcare Costs and Practices in Ireland”⁹ we demonstrated that the cost of childcare in Ireland was among the highest for working parents in the OECD and constitute a major indirect cost for businesses as well as a source of social inequality and potentially a significant loss of skilled labour in the workforce. The loss of skilled labour reduces the output potential of the economy and also reduces the economy’s innovative capacity and therefore future growth potential.
- 4.2** In the report referred to in paragraph we proposed a number of reforms that would provide for better and more affordable childcare which in turn if implemented in our view would have a positive impact on the cost of doing business in Ireland.

5. Some Other Impacts on the Cost of Doing Business.

- 5.1** There are a number of other areas that we would like to briefly mention that have an impact on the cost of doing business in Ireland.
- 5.2** Bringing stability and predictability to the cost of energy is important as energy is a fundamental input to all business activity. Arising from our obligations under international climate change agreements we will be required to significantly decrease our use of imported fossil fuels for energy production. The reduction in the

⁹ https://www.ictu.ie/download/pdf/report_on_childcare_costs_practices_congress_2016.pdf

use of imported fossil fuels will require an increase in investment in renewable forms of energy production such as solar and wind. While this is a challenge in the short term, in the longer term producing energy from renewable and domestic sources could result in significantly reduced cost for business and domestic consumers of energy. New and greater subsidies for renewable energy investments and production, including small-scale production, should be strongly considered by government.

- 5.3** The cost of obtaining credit for small and medium-sized enterprises should be addressed through the establishment of a state investment bank taking and expanding on the activities of the Strategic Banking Corporation of Ireland.
- 5.4** Business representative groups frequently complain about the variation in the commercial rates levied by the various Local Authorities. Congress believes that commercial rates are an important and essential source of funding for local public services however, a more predictable and more transparent system for determining commercial rates should be developed. Such a system would benefit business by bringing predictability to the cost of commercial rates as well as contributing to the provision of vital local public services.
- 5.6** An area where Irish business are out of line internationally is in the area of legal costs. We strongly endorse a more comprehensive and transparent information database on legal service prices. The provisions of the Legal Services Act should be speedily implemented and the resources of the Legal Services Regulatory Authority increased as recommended by the NCC.
- 5.7** We are strongly of the view that public capital investment levels should be substantially increased – infrastructure improvements, for example an improved public transport system and road network, will reduce the cost of doing business and will reduce costs for communities and workers. In most international competitiveness indices Ireland tends to perform poorly in infrastructure – notably in broadband. Fiscal policy should prioritise and target capital investment in competitiveness and productivity-enhancing infrastructure such as broadband.

6. Conclusion

A final point is that enterprise policy should focus not on labour costs per se but on 'unit labour costs'. To this end we must consider how productivity and quality of work can be raised in private and public enterprises. The 'Nordic model' which operates in Norway, Denmark, Sweden and Iceland, has succeeded in generating high levels of employment with high wages and high levels of life satisfaction. These countries also rank extremely highly in measures of international competitiveness. How do they achieve these outcomes? The Nordic model is based on a high quality

'social wage' in the form of health, education and life-long training and upskilling, social housing and childcare – all of which are hugely important to national competitiveness and sustainable job creation. It is the view of Congress that the Nordic model is the one that Irish economic and social policy should be seeking to emulate.