

18th January 2024

An Taoiseach, Leo Varadkar TD
Department of the Taoiseach
Government Buildings
Dublin 2.

Re. Labour market policies and business cost competitiveness

Dear Taoiseach

I am writing to you to highlight major concerns amongst our membership at the pace and scale of new Government policy driven labour market costs and the uncoordinated manner in which they are being introduced by various Government Departments. The current policy path by Government represents the biggest single change in Irish labour market policy in decades and it is our view that a deficient approach to the implementation of those changes in Government now risks creating the most significant cost competitiveness challenge faced by Irish businesses since the pre-financial crisis period.

These concerns can be evidenced by the fact that our most recent Ibec CEO survey, taken just before Christmas, shows the increasing cost of doing business is the single most significant challenge for business leaders heading into 2024. When asked what their priorities were for the next Government, 74% regarded the cost of doing business as the most important issue.

Our recent analysis shows that policy changes in areas such as the commitment to a Living Wage by 2026, the introduction of pension auto-enrolment, increases in employer PRSI and non-indexation of PRSI thresholds, broadening of Statutory Sick Pay, and a range of additional leave entitlements will add over €4 billion annually to the wage bill of Irish employers. This is before even greater knock-on costs or relatively effects arrive as other workers look for their pay to keep ahead of the new wage floors. Many companies in the most exposed sectors are expecting increases in their wage bills in the order of 25% over the next 24 months as a direct result of Government policy measures. The recent Government decision to substantially increase the income thresholds for work permits will be a further substantial cost increase for many businesses. This cannot be sustained without impacting on consumer prices, employment and business viability.

These major changes in the labour market are being conducted in the absence of any overarching action plan, strategy or impact assessment. Government Departments and agencies are introducing new legislation and regulations regularly without any cognisance or reflection of the overall context or impact of those measures. Even a minimal commitment from Government to retrospectively assess the full cost of these new measures by Q4 2023 was

not met. This haphazard approach and lack of coordination are now a serious concern amongst employers and risk damaging Ireland's reputation as a competitive place to do business.

Improving conditions for workers in a sustainable way is important for social stability but it must be done in a measured and co-ordinated way. It is not long since laxity in the face of deteriorating cost competitiveness contributed to our economic crisis. As noted in the Honohan report following the economic crisis, it was not just a fiscal and banking crisis but the product of vulnerabilities built up by a rapid loss of wage competitiveness in a small open economy.

We can already clearly see through our membership network that business failures, particularly in the SME sector, are rising rapidly. Ibec is therefore calling on Government to undertake a reassessment of its recent labour market policy approach and to address the looming competitiveness crisis through a three-part approach:

1. **Pause all further labour market policy measures** which involve a direct or indirect cost to employers. This should include the planned further step increases in the national minimum wage; planned increases in the income thresholds for work permits; and any other additional leave or measures involving additional regulatory or administrative costs for employers. Employers need an immediate signal from Government that the current trajectory of increasing labour cost measures will not continue until impact assessment and coordination is agreed upon. In the absence of this, we fear that many more viable businesses will be lost as more business owners and managers struggle to see viable business prospects in an ever-increasing cost environment.
2. **Publish a full impact assessment of increased labour costs on business by Q2 2024 arising from the totality of recent labour market policy measures.** It is of extreme frustration to our members that most of the recent labour market policy measures have been introduced without sufficient regulatory impact assessment. In particular, there has been no consideration given to the cumulative impact of the scattergun approach of labour market measures introduced by a range of different Government departments and agencies. The impact assessment needs to clearly set out the aggregate impact of all these measures and the likely consequence for future business viability and employment.
3. **Commit to a new 'Competitiveness Charter'** setting an annual ceiling on the total amount of additional labour market costs which will be imposed on business in any single year. Ibec accepts the need for many of the new labour market measures, particularly in relation to issues such as pensions coverage and cost of living challenges. However, the completely uncoordinated approach across Government Departments is resulting in exceptionally large cumulative cost increases for many employers which are simply not sustainable. A more effective and consultatively coordination mechanism is needed within Government to ensure that there is visibility and ultimately a cap on the aggregate costs that employers can be expected to bear.

The Irish economy, employment and national prosperity have all thrived in recent years as a result of well designed pro-growth and pro-business Government policy. This is something which should be a source of collective and national pride. In particular, we commend the role which Government played in supporting businesses through the economic challenges of Covid.

We are now gravely concerned, however, that unless there is a rethink of the current labour market policy direction, Ireland will damage its economic credentials with severe implications for prosperity and society.

I would welcome the opportunity to engage directly with Government colleagues and you on this crucially important issue as soon as possible.

Yours sincerely

A handwritten signature in black ink that reads "Danny McCoy". The signature is written in a cursive, slightly slanted style.

Danny McCoy
CEO

cc: Minister Micheal Martin
Minister Eamonn Ryan
Minister Paschal Donohoe
Minister Michael McGrath
Minister Simon Coveney
Minister Heather Humphreys
Minister Helen McEntee
Minister Catherine Martin
Minister of State Neale Richmond
Minister of State Dara Calleary