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Assessing the Impact of the Minimum Wage in Ireland

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Paul Redmond and Seamus McGuinness Assessing the Impact of the Minimum Wage in Ireland

THE MINIMUM WAGE IN IRELAND

A national minimum wage was first introduced in Ireland in 2000, at a rate of 5.58 euros per hour.¹ There were several increases in subsequent years, bringing the minimum wage up to 8.65 euros per hour by 2007. The period from 2008 onwards in Ireland was characterised by a prolonged economic downturn, during which time national income declined and unemployment increased dramatically, peaking at just under 15% in 2012. There were no increases in the minimum wage during this time and, in 2015, the minimum wage still remained at its 2007 level of 8.65 euros per hour. However, in 2015, against the backdrop of an economic recovery, the Irish Low Pay Commission (LPC) was established and tasked with providing yearly recommendations to the Irish government regarding changes to the minimum wage. Following recommendations in 2015, the minimum wage was increased to 9.15 euros per hour in January 2016, its first increase in nine years. There were further increases in January 2017, to 9.25 euros per hour, and in January 2018, to 9.55 euros per hour. Sub minimum wage rates exist for certain categories of workers in Ireland. Expressed as a percentage of the full rate, the sub-minimum rate is 70% for employees under 18 years of age, 80% for employees in their first year of employment, 90% for employees in their second year of employment and 75-90% for employees in structured training during working hours, depending on the level of progression.² If an employee receives food and accommodation (referred to as board and lodgings) from their employer, then the maximum amount that can be included as part of their wage is 0.85 euros per hour for board and 3.24 euros per day for lodgings. As part of its remit, the Irish Low Pay Commission engaged the Economic and Social Research Institute (ESRI) to undertake research on minimum wage issues that would help inform their decision-making process; many of the findings reported here stem from that research.

In making recommendations relating to minimum wage adjustments, the primary aim of the Low Pay Commission is to set a minimum wage that provides an incentive to work and assists as many low-paid workers as possible, without creating significant adverse effects on competitiveness or employment (Low Pay Commission 2018). While minimum wages are designed to help

low-paid workers, their effectiveness as a policy tool for tackling poverty may be limited. Although the risk of poverty among minimum wage workers is higher compared to non-minimum wage workers in Ireland (Maitre et al. 2017), the majority of minimum wage recipients are in families at the higher end of the income distribution curve (Logue and Callan 2016). As a result, the Low Pay Commission notes that minimum wages alone may not be sufficient to alleviate poverty (Low Pay Commission 2018).

Just over 8% of Irish employees were minimum wage workers in 2017. This consisted of 7% of workers who were earning the national minimum wage and 1% who were on sub-minimum rates. This is lower than the 2016 incidence of minimum wage employment, which stood at just over 10%.³ However, certain groups within the population, including women, non-Irish nationals, younger persons, people with lower levels of education and part-time workers, have a higher likelihood of being on the minimum wage (Maître et al. 2017). The two sectors with the highest incidence of minimum wage employment are accommodation and food (30%) and wholesale and retail (17%) (Low Pay Commission 2018). These patterns have remained relatively consistent in recent years.

HOW DOES IRELAND COMPARE TO OTHER EU COUNTRIES?

In 2018, 22 of the 28 EU member states had a national minimum wage.⁴ A simple cross-country comparison of minimum wages in nominal terms is limited, as it fails to account for different living costs across countries. For that reason, it is useful to compare purchasing power adjusted minimum wages.⁵ It is important to note that while Ireland expresses its minimum wage in terms of an hourly rate, some other countries specify a monthly minimum wage, which is paid in exchange for the normal hours of work of a full-time employee in that country. Part-time workers are then paid a proportion of this amount based on the number of hours worked.⁶ As a result, Eurostat shows all minimum wages as monthly rates when making cross-country comparisons. For example, the monthly minimum wage in Ireland is calculated as (hourly rate x 39 hours x 52 weeks) / 12 months.

Table 1 shows that Ireland has the second highest nominal minimum wage in the EU, after Luxembourg. However, once the cost of living is taken into account (column two of Table 1), the minimum wage in Ireland is



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¹ This was equivalent to £4.40 in Irish pounds.

² See www.lowpaycommission.ie for further details on sub-minimum rates and for a full definition of what qualifies as "structured training".

³ Incidences of minimum wage employment are calculated using the Irish Labour Force Survey.

⁴ The exceptions are Denmark, Italy, Cyprus, Austria, Finland and Sweden.

⁵ Minimum wage statistics for Europe are published by Eurostat.

See https://ec.europa.eu/eurostat/statistics-explained/index.php/Minimum_wage_statistics

⁶ For further discussion on the hourly versus monthly setting of minimum wages, see https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439066/lang--en/index.htm.

Table 1
Minimum Wages in the EU

Country	Minimum Wage (€ per month, 2018)	Minimum Wage (PPP per month, 2018)
Bulgaria	261	539
Lithuania	400	619
Romania	407	796
Latvia	430	594
Hungary	445	720
Croatia	466	688
Czech Republic	469	672
Slovakia	480	694
Poland	480	878
Estonia	500	637
Portugal	677	795
Greece	684	811
Malta	748	909
Slovenia	843	988
Spain	859	930
United Kingdom	1,464	1,269
Germany	1,498	1,427
France	1,498	1,377
Belgium	1,563	1,411
Netherlands	1,594	1,420
Ireland	1,614	1,287
Luxembourg	1,999	1,575

Note: Column 1 shows the nominal minimum wage and column 2 shows the purchasing power adjusted minimum wage.

Source: Eurostat (2018).

the sixth highest after Luxembourg, Germany, the Netherlands, Belgium and France.

COMPLIANCE AND ENFORCEMENT

The issue of non-compliance with the national minimum wage has been highlighted by the Irish Low Pay Commission as a “topic of particular concern”. Evidence presented to the Low Pay Commission during oral hearings suggests that non-compliance is more likely to be an issue within certain vulnerable groups of society, and particularly among migrants. Furthermore, non-compliance may also be more prevalent in certain sectors, including the fishing industry, child-care and hairdressing.

Ireland has recently implemented reforms to the state’s workplace relations structures. In 2015 the activities of several separate state agencies were consolidated into one organisation, the Workplace Relations Commission (WRC).⁷ One of the main roles of the

⁷ The WRC has taken over activities from the National Employment Rights Authority, the Labour Relations Commission, the Equality Tribunal as well as certain functions of the Labour Court and Employment Appeals Tribunal.

WRC is to promote maximum compliance with employment law, including the national minimum wage. While precise statistics relating to non-compliance with the minimum wage are, by nature, difficult to compile, the WRC annual reports provide information on the number of inspections carried out and the percentage of those inspections that related to the minimum wage. In 2017 the WRC recorded 3,039 legislative breaches, of which 409 (13%) related to the national minimum wage (Workplace Relations Commission 2017).

The WRC report also provides information on the sectors that may be most likely to breach employment legislation. In 2017, over 40% of all employers inspected were found to be in breach of some type of employment legislation (including minimum wage legislation). The sectors showing the highest degree of non-compliance were contract cleaning (78%), hair and beauty (61%), wholesale and retail (61%), food and drink (58%) and equine (56%). The WRC recovered 1.77 euros million in unpaid wages in 2017, which represents an increase of 18% on the previous year.

THE EFFECT ON EMPLOYMENT AND HOURS WORKED

Proposed increases in the minimum wage can give rise to concerns that employment will be negatively impacted. This has generated much debate over recent decades and there is a large body of research, both theoretical and empirical, that studies these effects. A priori, the expected employment effects will depend on the structure of the labour market. In perfect competition, the wage elasticity of labour supply is infinite and workers earn their marginal product. In this setting, an increase in the minimum wage can lead to unemployment. However, under monopsony, the wage elasticity of labour supply is low and firms can use their market power to set wages below their perfectly competitive level. An increase in the minimum wage under monopsony may not have negative employment effects. While the empirical evidence is somewhat mixed, the weight of recent evidence tends to indicate little to no negative employment effects resulting from minimum wages (Schmitt 2015; Belman et al. 2015).

It is important to note that employment effects can occur at the extensive margin, with a reduction in the number of workers, and/or the intensive margin, with a reduction in hours worked (Neumark and Wascher 2008; Brown 1999). While some studies show a reduction in the hours worked of low paid workers as a result of minimum wage increases (e.g., Stewart and Swaffield 2008; Metcalf 2008; Couch and Witttenburg 2001; Neumark & Wascher 2008; Neumark et al. 2004), others find little to no effect on hours worked (see, e.g., Zavodny 2000; Skedinger 2015; Dolton et al. 2010).

McGuinness and Redmond (2018) evaluate the effect of the 2016 increase in the minimum wage, from 8.65 euros to 9.15 euros per hour, on employment and hours worked in Ireland. Their results show that the

minimum wage increase did not lead to a higher likelihood of unemployment or inactivity among low-paid workers in the six-month period following the rate change. However, there was a negative and statistically significant decrease in the hours worked by low paid workers of 0.5 hours per week. The effect for temporary workers was substantially higher, at three hours per week. There was also an increase in voluntary part-time employment, indicating that more workers chose to work part-time, as opposed to not being able to find full-time employment. Therefore, McGuinness and Redmond (2018) conclude that while some employers may have cut hours in response to higher labour costs, at least some of the observed fall in hours was probably due to more individuals choosing to work part-time at the higher minimum wage. The research could not provide an assessment of the relative strength of each of these factors in explaining the decline in hours worked following the minimum wage rate rise in 2016.

LABOUR MARKET TRANSITIONS OF MINIMUM WAGE WORKERS

There is a strand of literature that examines the labour market transitions of low paid workers, the definition of which often varies depending on the study in question.⁸ While there is evidence that low pay can be persistent over time, it also acts as a temporary stepping stone towards higher pay for many low-paid workers (Stewart and Swaffield 1999; Cai et al. 2018). There is also evidence that being in a low-paid job increase a person’s probability of transitioning into unemployment, relative to higher-paid workers (Stewart 2007; Stewart and Swaffield 1999). However, very few studies exist which specifically examine the transitions of minimum wage workers. The evidence that does exist, which relates to the US, suggests that minimum wage employment is likely to lead to higher earnings for most workers (Smith and Vavrichek 1992; Schiller 1992; Carrington and Fallick 2001).

In 2016, a question was added to the Irish Labour Force Survey, which captures information on whether a person’s hourly wage is equal to, less than or greater than the national minimum wage. Redmond et al. (2018) use this new measure to examine the labour market transitions of minimum wage workers in Ireland over a period of three quarters (nine months) by constructing a panel dataset of employees who received the minimum wage in at least one of the three quarters⁹. Their analysis reveals that minimum wage employment often acts as a stepping stone to higher paid employment. Just 18% of employees remained on the minimum wage for all three quarters, compared to 30% who transitioned to higher paid employment. Redmond et al. (2018) show that these exits to higher paid

⁸ For example, Stewart and Swaffield (1999) use three definitions of low pay: half the mean wage, half the median wage and two thirds of the median wage.

⁹ Individuals were in the panel element of the data for a maximum of three quarters. Sample size considerations limited our analysis to three quarters.

employment are primarily achieved through within-employer wage progression, rather than a movement to a new employer. Over 90% of employees who transition to higher paid employment do not change occupation or employer.

While, in general, minimum wage employment appears to act as a stepping stone to higher pay for a large number of employees, there are certain groups who are more likely to experience persistently low pay. Redmond et al. (2018) show that Irish nationals, older workers, those with higher educational attainment, full-time workers and permanent employees are more likely to transition from NMW employment to higher paid employment compared to foreign citizens, younger workers, those with less education, part-time and temporary employees.

Redmond et al. (2018) also find a higher transition rate to unemployment or inactivity among minimum wage workers relative to higher paid employees. Compared to workers in the highest income decile, minimum wage employees are ten percentage points more likely to become unemployed or inactive. After controlling for a range of personal and employment characteristics, minimum wage workers are still four percentage points more likely to transition to unemployment or inactivity compared to higher paid workers.

THE EFFECT ON POVERTY

Minimum wage workers in Ireland are more likely to be at risk of poverty and deprivation than higher paid workers (Maitre et al. 2017).¹⁰ In 2014, 17% of minimum wage employees were at risk of poverty and 28% experienced deprivation, compared to 3.3% and 19.5% for non-minimum wage workers. Therefore, while these statistics indicate that minimum wage workers have an above-average tendency to be economically disadvantaged, they also show that the vast majority do not come from poor households. The reason is that minimum wage workers typically reside in multiple-earner households in which they are not the primary earners. According to Maitre et al. (2017), in households with more than one employee, just 13% of minimum wage earning females and 19.5% of minimum wage earning males were primary earners.

This is consistent with the results of MaCurdy (2015) and Logue and Callan (2016), who analyse the distributional impacts of minimum wage increases in the US and Ireland respectively, and find that increases in the minimum wage are an inefficient way of boosting the incomes of poor families. They find that a substantial portion of the earnings increase goes to families at the higher end of the income distribution scale. However, this is not to say that minimum wages are com-

¹⁰ A person is categorised as being at risk of poverty if their income is lower than 60% of median income. Deprivation is based on a household’s ability to afford certain basic food and family requirements. For details see Maitre et al. (2017).

pletely ineffective when it comes to helping low earners. Holton and O'Neill (2017) find that the Irish minimum wage is an effective tool in protecting the income of low-skilled workers, particularly during recessions. Autor et al. (2016) find that minimum wages reduce earnings inequality in the lower end of the earnings distribution in the US.

CONCLUSION

This paper provides an overview of the minimum wage in Ireland. Due to the impact of the great recession, the minimum wage remained unchanged in Ireland between 2007 and 2015, before being reactivated as a policy tool in 2016 following the establishment of the Irish Low Pay Commission. The adult minimum wage rate in Ireland was 9.55 euros as of January 1st 2018, with the most recent data indicating that 8% of employees earned the minimum wage, or less in 2017. In line with the patterns observed in many countries, the incidence of the minimum wage was found to be higher among females, young workers, the poorly educated and in sectors such as accommodation and food and wholesale and retail. In terms of its magnitude, after accounting for cost of living differences, the minimum wage in Ireland is the sixth highest after Luxembourg, Germany, the Netherlands, Belgium and France. In keeping with the bulk of international evidence, the minimum wage in Ireland has been shown to be a somewhat blunt tool with regard to tackling poverty, given that over three quarters of minimum wage workers do not belong to households at risk of poverty. Somewhat contrary to international findings, recent increases in the national minimum wage have been shown to have resulted in a fall in the average hours worked of minimum wage workers, which was most pronounced among those on temporary contracts. The decline in the hours worked by minimum wage workers was found to be at least partly due to its composition impact, whereby more part-time workers were attracted back into employment as a result of the higher minimum wage. Finally, longitudinal analysis has found that while many minimum wage workers progress to higher-paid employment, predominantly within their current jobs, migrants, those with less education, part-time and temporary employees are less likely to transition to higher pay.

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