

# Minimum Wage Policy in Ireland

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# Outline

- Overview of minimum wage policy in Ireland over the last twenty years
- Review the evidence on labour market impacts of minimum wage
- Draw on this evidence to analyse the possible impact of the Covid-19 crisis on MW employment in Ireland

# Minimum Wage Policy

- A statutory MW introduced in April 2000
  - National Minimum Wage Act, 2000
  - Rate of €5.58 per hour (£4.40)
- Regular increases from 2000 to 2007
  - €8.65 per hour in July 2007
- No increase from 2008 to 2015
  - Temporary (6 month) reduction from €8.65 to €7.65 in 2011

# Minimum Wage Policy

- Low Pay Commission established in 2015
- Following LPC recommendations, MW increased from €8.65 to €9.15 per hour in January 2016
  - First increase since 2007
- Further yearly increases in 2017, 2018, 2019 and 2020

# Minimum Wage Rates (2000-2020)

Date	Minimum Wage	Increase in MW (€)	Increase in MW (%)
1 <sup>st</sup> April 2000	€5.58 (£4.40)	-	-
1 <sup>st</sup> July 2001	€6.00 (£4.70)	€0.42	7.5%
1 <sup>st</sup> October 2002	€6.35 (£5.00)	€0.35	5.8%
1 <sup>st</sup> February 2004	€7.00	€0.65	10.2%
1 <sup>st</sup> May 2005	€7.65	€0.65	9.3%
1 <sup>st</sup> January 2007	€8.30	€0.65	8.5%
1 <sup>st</sup> July 2007	€8.65	€0.35	4.2%
19 <sup>th</sup> January 2011	€7.65	-€1.00	-11.6%
1 <sup>st</sup> July 2011	€8.65	€1.00	13.1%
1 <sup>st</sup> January 2016	€9.15	€0.50	5.8%
1 <sup>st</sup> January 2017	€9.25	€0.10	1.1%
1 <sup>st</sup> January 2018	€9.55	€0.30	3.2%
1 <sup>st</sup> January 2019	€9.80	€0.25	2.6%
1 <sup>st</sup> January 2020	€10.10	€0.30	3.1%

# Minimum Wage Policy

- Sub-minimum wage rates
- Prior to 2019
  - Under 18 (70 percent)
  - First year of employment (80 percent)
  - Second year of employment (90 percent)
  - Structured training (75-90 percent, depending on progression)
- Changes to sub-minimum rates in 2019
  - Training rates abolished
  - Age based rates only: under 18 (€7.07); aged 18 (€8.08); aged 19 (€9.09)
- Incidence is low
  - Approx. 15 percent of all MW employees earn sub-MW rates
  - Approx. one percent of all employees

# Incidence of MW Employment

- MW question added to LFS in Q2 of 2016

**Table 2:** Incidence of Minimum Wage Employment in Ireland (2017 to 2019)

Sector	Incidence of MW Employment (%)
Retail	20% (n=9934)
Accommodation and Food	30% (n=7099)
Other sectors	5% (n=80448)
Overall Incidence	8% (n=97481)

**Source:** Labour Force Survey (2017 to 2019)

# Characteristics of MW Employees

## CSO (2019)

- Gender
  - 45 percent male
  - 55 percent female
- Age
  - Half of all MW employees aged 15-24 years old
  - Compared to 10 percent of employees overall
- Part-time
  - 60 percent of MW employees work part-time
  - Compared to 20 percent of employees overall



# Evidence on Impact of MW

- **Employment effects**
- International literature is mixed
  - Reduced employment or hours (Harasztosi and Lindner, 2019; Caliendo et al., 2018; Aitken et al., 2019)
  - No effect (e.g., Cengiz et al., 2019; Dolton et al., 2015)
- Irish evidence
  - No evidence of job losses associated with the 2016 MW increase (McGuinness and Redmond, 2019)
  - Evidence of a reduction in hours (McGuinness and Redmond, 2019; McGuinness, Redmond and Delaney, 2019)
  - Introduction of MW in 2000 had little impact on employment (O'Neill et al., 2006)

# Evidence on Impact of MW

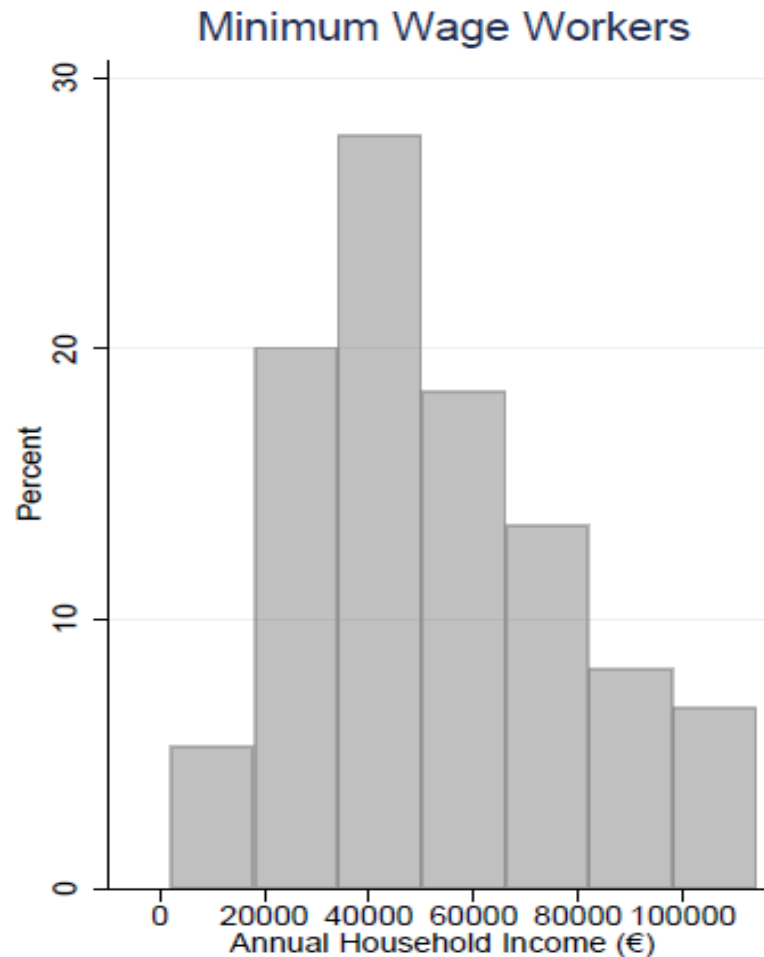
- **Wage Inequality**
- Redmond, Doorley and McGuinness (2020)
  - 2016 MW increase reduced wage inequality
  - P90/P10 decreased by 8 percent
  - Wage spillovers to 30<sup>th</sup> percentile of wage distribution
  - International evidence (Butcher et al., 2012; Dube et al., 2019)
- Holton and O'Neill (2017)
  - Importance of MW in stopping wage inequality increasing during a recession

# Evidence on Impact of MW

- **Poverty and Income Inequality**
- Maitre, McGuinness and Redmond (2017)
  - 17% of MW employees at risk of poverty
  - 3.3% of non-MW employees at risk of poverty
  - MW may be 'blunt tool' for tackling poverty
- Redmond, Doorley and McGuinness (2020)
  - Limited impact on household income inequality

# Evidence on Impact of MW

- Redmond, Doorley and McGuinness (2020)



# Evidence on Impact of MW

- Labour market transitions
  - More likely to transition to higher pay than stay in MW employment over a 9 month period (Redmond, McGuinness and Maitre, 2018)
  - MW employees more likely to transition to unemployment or inactivity compared to higher paid employees
- Minimum wage compliance
  - McGuinness, Redmond and Delaney (2020) estimate 5.6 percent of MW workers are paid below the MW for reasons other than those permitted under legislation

# Implications of Covid-19 Crisis

- Widespread business closures in retail, accommodation and food
- These sectors alone employ more than half of all MW employees in Ireland
- Likely that low paid workers will be disproportionately impacted by job losses in these sectors
- Consistent with Byrne et al. (2020)

# Implications of Covid-19 Crisis

**Table 3:** Characteristics of Employees in the *Retail and Accommodation and Food* Sectors

	Retail employees		Accommodation & Food employees		Other employees	
	All	MW	All	MW	All	MW
Female	63%	65%	55%	60%	48%	46%
Third Level Education	29%	16%	30%	19%	56%	19%
Hours worked	30	22	30	23	36	30
Temporary Contract	13%	35%	18%	35%	8%	29%
Non-Irish National	18%	14%	33%	29%	16%	22%
Sample size	15521	2778	10992	3095	127525	5558

# Implications of Covid-19 Crisis

- When economy re-opens, some MW employees may re-enter previous roles
- Longer term challenges for some
  - Decline in tourism
  - Financial viability of operating restaurants while complying with social distancing
- Accommodation and food sector employs one quarter of all MW employees, who could be facing a prolonged period of disruption



# Implications of Covid-19 Crisis

- Those who lost their job can claim Pandemic Unemployment Payment (PUP)
  - Flat rate of €350 per week
- MW employees in accommodation, food and retail work, on average, 23 hours per week
- Gross weekly wage of €232 per week
- PUP is 50% higher than average weekly wage of MW worker in these sectors
- Likely that PUP will be amended after 12 week period

# Conclusion and Policy Implications

- Approx. 8% of employees in Ireland on MW
- Half of MW employees are in retail, accommodation and food sectors
  - Widespread business closures due to Covid-19 crisis
- Some MW employees may return to work quickly. However, long term disruption likely for others (e.g., hotels, restaurants)
- Currently, PUP payment is higher than the gross weekly wage of most MW employees

# Conclusion and Policy Implications

- Key policy question in coming months – should the MW be increased, decreased or stay the same?
- Careful consideration of existing evidence required before making decisions
- Changes to the MW impact wage inequality
- Little to no employment effects
- These are issues that need to be considered by LPC and policy makers in coming months