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)

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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Incidence of MW Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>20% (n=9934)</td>
</tr>
<tr>
<td>Accommodation and Food</td>
<td>30% (n=7099)</td>
</tr>
<tr>
<td>Other sectors</td>
<td>5% (n=80448)</td>
</tr>
<tr>
<td>Overall Incidence</td>
<td>8% (n=97481)</td>
</tr>
</tbody>
</table>

**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 30th 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**

<table>
<thead>
<tr>
<th></th>
<th>Retail employees</th>
<th>Accommodation &amp; Food employees</th>
<th>Other employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All</td>
<td>MW</td>
<td>All</td>
</tr>
<tr>
<td><strong>Female</strong></td>
<td>63%</td>
<td>65%</td>
<td>55%</td>
</tr>
<tr>
<td><strong>Third Level Education</strong></td>
<td>29%</td>
<td>16%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Hours worked</strong></td>
<td>30</td>
<td>22</td>
<td>30</td>
</tr>
<tr>
<td><strong>Temporary Contract</strong></td>
<td>13%</td>
<td>35%</td>
<td>18%</td>
</tr>
<tr>
<td><strong>Non-Irish National</strong></td>
<td>18%</td>
<td>14%</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Sample size</strong></td>
<td>15521</td>
<td>2778</td>
<td>10992</td>
</tr>
</tbody>
</table>

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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