

NEW RESULTS ON THE IMPACT OF THE MINIMUM WAGE ON IRISH FIRMS

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1.1 Introduction

The National Minimum Wage was introduced in Ireland on 1 April 2000. The Department of Enterprise Trade and Employment (DoETE) commissioned The Economic and Social Research Institute (ESRI) to conduct a survey of firms to assess the immediate impact, in late 2000/early 2001, and the results were reported in Nolan, O'Neill and Williams (2002). In 2002, the DoETE commissioned another survey aimed at monitoring the on-going impact of the minimum wage in the private sector, which was carried out between September and November 2002. Here we present the key results from that survey, and use them to assess the on-going impact of the minimum wage on Irish firms.²

1.2 The National Minimum Wage

The National Minimum Wage applies to hourly wages, over a reference period which may be a week, a fortnight or no longer than a month. The average hourly rate of pay is calculated by dividing the employee's gross reckonable pay in the reference period by their working hours in that period, including any overtime. Reckonable pay includes basic pay, shift premia, piece and incentive rates, commissions and bonuses which are productivity related, a specified value where board and/or lodgings are provided by the employer, and the amount of any service charge distributed to employees through the payroll. (Overtime premia, Sunday and public holiday premia and unsocial hours premia are not included in reckonable pay.)

The headline minimum wage is specified for an "experienced adult worker", but certain categories of employee may be paid less

¹ We are grateful to colleagues at The Economic and Social Research Institute and the Department of Enterprise, Trade and Employment for comments.

² The results of the 2002 survey are described in detail in our report to the DoETE, to be available on their web site shortly.

1.3 The Earlier Minimum Wage Firm Surveys

and for them sub-minimum amounts are specified below which the hourly pay rate must not fall. The National Minimum Wage was introduced at a level of IR£4.40 per hour for experienced adult employees in April 2000, equivalent to €5.58. Lower minima were set for those under 18 years (£3.08), those over 18 years but in their first (£3.52) or second (£3.96) year from date of first employment, and employees aged over 18 years in structured training or study undertaken in normal working hours in their first (£3.30), second (£3.52) or third (£3.96) period of training or study.

The specified minima in force have subsequently been increased twice. The minimum for experienced adult employees was raised to £4.70 from 1 July 2001, equivalent to €6 after the changeover to the euro. It was then raised to €6.35 (equivalent to £5) from 1 October 2002, with corresponding increases in the sub-minimum rates in each case. There will be a further increase to €7 per hour from February 2004.

Prior to the introduction of the minimum wage, a study on its likely impact was completed which included a substantial survey of firms in the private sector, carried out by the ESRI's Survey Unit in late 1998/early 1999 (Nolan *et al.*, 1999). This obtained information from 1,062 Irish private sector firms. All the firms who completed that survey were included in the target sample for the post-introduction survey carried out in late 2000/early 2001, as well as a further random sample of 1,160 firms.

The key results from that follow-up survey were first that most firms in most sectors had no employees paid at or about the minimum wage. Second, virtually all the respondents had heard about the minimum wage, though significant proportions did not know the level at which it was set. Third, about 5 per cent of employees were said to have received an increase in pay as a direct result of the minimum wage, but most firms said that, in the light of trends in the Irish labour market, they would have had to increase wage rates anyway over the period. Fourth, young workers and women faced a higher probability than others of being at or below the full adult minimum wage level, which was also most common in sectors such as textiles, retailing, hotels bars and restaurants, and personal services.

Finally, comparison with the pre-introduction survey showed that the percentage of workers who earned IR£4.50 per hour or less fell dramatically from 21 per cent in 1998/99 to just over 4 per cent in 2000/2001.³ This again reflected the remarkable rates of economic growth and the tightness in the Irish labour market over that period, which represented a uniquely favourable environment in which to introduce the minimum wage.

³ This figure was used instead of £4.40 where the full minimum wage was set, because one of the issues for investigation in the survey was whether employers actually knew the level of the minimum wage.

1.4 The New Survey

For the 2002 survey, the 1,040 firms which completed the late 2000/early 2001 survey were included in the target sample, again augmented with a “new” random sample of firms. This allowed us both to look at changes over time for individual firms, and to ensure that the full sample is both sufficiently large and representative of the structure of all current enterprises in the population. The sample was selected with a view to ensuring that various sectors and sizes of firm would be reasonably represented.

The response rate among the “old” sample of firms from 2000/2001 was 71 per cent, while among the “new” sample it was lower, at about 63 per cent. For analysis, the 1,430 responding firms were statistically adjusted or re-weighted so as to ensure that they were in line with the structure of the population from which they were selected.

The questionnaires were completed on a personally administered basis, and related to the entire business enterprise or firm, rather than the establishment, outlet or branch. The survey was designed primarily to collect details on the current employment structure of private sector non-agricultural firms – in particular, the number of persons engaged on both a full-time and part-time basis according to, *inter alia*, hourly basic pay rates, age and gender. In addition, details were recorded in respect of for example changes in the volume and value of business over the years immediately preceding the survey. Details were also recorded on the firms’ perceptions of the minimum wage and its impact.

While fieldwork was being carried out, the level of the minimum wage itself changed at the beginning of October 2002, from €5.97 to €6.35 per hour for an experienced adult worker. Two versions of the questionnaire thus had to be used, the first with questions relating to the breakdown of staff by pay benchmarked against a level of €5.97 per hour, the second with these question framed in terms of €6.35.⁴ The results are then presented in terms of the percentage at or below the minimum wage, the minimum wage plus €, etc. It is also important to emphasise that this threshold is the minimum wage for an experienced adult worker only, with the minimum wage legislation permitting some other classes of workers to be paid less than that amount.

1.5 Business Climate in the New Survey

Before focusing on the minimum wage, the results of the new survey provide a picture of the business climate in which firms saw themselves as operating during the period. A majority of firms said that their workforce was unchanged compared with two years earlier, while about one-fifth said it had increased and one-fifth reported a decrease, a deterioration compared with the previous survey. The proportion saying the workforce had fallen was above

⁴ To minimise confusion on the part of respondents and allow the new minimum wage rates to get “bedded down” no interviewing took place in the first week in October.

1.6 Perceptions of the Minimum Wage

average in building and construction and in textiles and clothing. Similarly, while most firms felt that there had been no change in turnover in the previous two years, the numbers saying it had fallen was up since the previous survey, particularly in those sectors. About 40 per cent of firms said the volume of business had increased over the past two years, compared with over 60 per cent in the previous survey. As far as profitability is concerned, two-thirds of responding firms said they were making a profit. Textiles and clothing and other manufacturing had the highest proportion of firms reporting a loss.

Firms were also asked about which aspects of their business and environment posed difficulties, with a range of possible areas mentioned. Basic labour costs were most frequently identified as the most difficult aspect of the business environment, being nominated by 30 per cent. Difficulties in recruiting staff, on the other hand, while mentioned by about one-fifth of firms as the most difficult problem, featured less prominently than in the previous survey when labour market tightness was at a peak.

We can now look at the responses of firms to questions in the recent survey about their knowledge of the minimum wage and also their perceptions of its effect on labour costs, on employment levels and a range of other operational aspects of business activity. Responses showed that there was almost universal knowledge across all sectors of the minimum wage having been introduced, which had indeed been the case in the previous survey. About 97 per cent of firms said that they had indeed heard about its introduction, and this varied little across sector, size of firm or whether Irish or foreign-owned.

As far as knowledge about the level of the minimum wage itself is concerned, the change in that level in the course of fieldwork inevitably posed some problems. However, about one-third of firms responded that they did not know the rate, while 45 per cent were able to cite the correct figure and 20 per cent gave an incorrect figure. About 55 per cent of firms interviewed in October 2002 knew that the level of the minimum wage had changed recently.

Knowledge about and use of the various sub-minima which form part of the minimum wage structure, applying to young or inexperienced workers or trainees, was also explored in the survey. Only about 6 per cent of companies responded in the 2002 survey that they were using these sub-minimum rates. A further 86 per cent said they were not using those sub-minima, and the remaining 8 per cent said they had never heard of them. The highest recorded use of sub-minimum rates was in the Building & Construction sector (where 11 per cent of firms were doing so); Hotels/Restaurants/Bars (9 per cent) and Other Manufacturing & Production (8 per cent). The higher incidence of their use in these sectors may reflect apprenticeship and related trainee-based arrangements. This could be of particular relevance in the case of Building & Construction.

1.7 Prevalence of Minimum Wage Employment

In general, the most frequently used sub-minimum rate was for young workers (i.e. under 18 years of age). Two-thirds of firms reporting use of any of the sub-minimum rates were doing so in relation to workers under 18, and very few said they were using more than one of the sub-minima. Compared with the previous survey carried out in late 2000/early 2001 there had been no change in the recorded incidence of sub-minimum rates, although knowledge of the existence of those rates had increased somewhat by the most recent survey.

In terms of the perceived impact of minimum wage legislation on various aspects of business activity, 18 per cent of companies felt that its introduction had resulted in an increase in labour costs. The percentage of firms holding this view was relatively high in the Hotel/Restaurant/Bar sector (40 per cent); Manufacturing of Textiles & Apparel (34 per cent) and Retail sector (24 per cent). The overall percentage saying that the statutory wage floor had increased labour costs was also unchanged since the previous survey. Similarly, there was effectively no change over that period in the percentage (about 5-7 per cent) who said that they would be currently employing more staff in the absence of the legislation.

We now turn to what is the central focus of the survey, the prevalence of employment at or about the level of the minimum wage. Four out of five firms in the new survey said they had no employees at or below the full adult minimum wage in force at the time of the interview. About 3 per cent of firms said they had some employees, but less than 15 per cent of their work force, at or below that level. The remaining 15 per cent of firms said that they had at least 15 per cent of their employees at or below that wage level. These proportions are almost identical to the situation seen in our earlier survey in late 2000/early 2001, in the wake of the introduction of the minimum wage.

Focusing on employees rather than firms, the responses indicate that about 2 per cent of employees are paid below the full adult minimum wage, while a further 2.6 per cent are on that minimum. This represents in effect no change since the 2000/2001 survey, and this stability in the extent of what might loosely be termed “minimum wage employment” from late 2000 to late 2002, at about 4.5 per cent of private sector employees, is the core finding from the new firm survey taken in conjunction with the previous one. In terms of implied numbers in the population, it suggests there were about 25,000 private sector employees below the full adult minimum wage, and 32,500 below it, in late 2002.

This stability contrasts markedly with the very sharp decline in the numbers paid at or below £4.50 per hour between the first survey, carried out in 1999 before the minimum wage was introduced, and the second one in 2000/2001 after its introduction. As pointed out in Nolan, O’Neill and Williams (2002), however, that decline can by no means be attributed primarily to the introduction of the minimum wage, since it took place over a period

of rapidly rising wage levels throughout the distribution as economic growth attained remarkably high levels.

It must also be emphasised once again that simply observing some employees paid below the full adult minimum wage does not mean that their employers are failing to respect the minimum wage legislation. Almost half the small number reported as being paid below the full adult minimum wage in the survey were aged 18 years or younger, while more than 70 per cent were aged no more than 25 years. While the information obtained in the survey does not cover experience or training and thus does not allow us to see whether these individuals meet the criteria for payment of sub-minimum rates, it seems likely that a high proportion do so. With such small numbers some allowance for measurement and reporting error must also be made. The purpose of the firm survey was not to attempt to measure or monitor compliance with the minimum wage, which has to be approached via other methods – most importantly the inspection of firms by the DoETE inspectorate. Instead, the purpose was to track the extent and characteristics of employment at or about the level of the minimum wage. We have seen from the new survey that the overall proportion of employees at this wage level has been very stable between late 2000 and late 2002. We turn to the characteristics of the individuals and firms involved in the next section.

1.8 Sectoral and Individual Variation

Across most sectors, three-quarters or more of responding firms had no employees at or below the level of the full adult minimum wage. However, the Hotels/Restaurants/Bars sector was the exception. About half the responding firms in that sector had 15 per cent or more of their employees at or below the full adult minimum wage, a noticeable increase since the previous survey in late 2000/early 2001. Retailing and Textiles and Clothing Manufacture had lower but significant proportions of firms with employees at that pay level (at 18 per cent and 14 per cent respectively).

Focusing on employees rather than firms, as in the previous survey there was significant variation in the probability of being at or below the minimum wage by age, gender and part-time versus full-time employment. Table 1 shows that while the overall proportion of private sector employees at or below the full adult minimum wage was 4.5 per cent, this figure was a good deal higher for women, particularly when working part-time when it was as high as 16 per cent. Young workers were much more likely to be in that position than older workers, with half of those aged 18 years or below at that wage level. Employees working in the Hotels/Restaurants/Bars sector face a particularly high probability, with one in five at that wage level.

For comparative purposes Table 1 also includes the corresponding results from the previous survey, carried out in late 2000/early 2001. We can see that the figures from the two surveys are remarkably similar, the only exception being the increase in numbers at or below the minimum wage in the Hotels/Restaurants/Bars sector.

Table 1: Percentage of Private Sector Employees At or Below the Full Adult Minimum Wage, 2002

Percentage At or Below Full Adult Minimum Wage	2000/2001 Survey	2002 Survey
All	4.3	4.5
Men	3	3
Women	7	7
Full-time	2	2
Part-time	17	15
Part-time women	19	16
Age 18 years or below	50	49
Age 19-25 years	7	9
In Hotels/Restaurants/Bars	14	20
In Retail	10	7
In Textiles	3	4

In terms of profile of the employees at or below the full adult minimum wage, this means that about 20 per cent were aged 18 years or below, while 46 per cent were aged between 19 and 25 years and the remaining one-third were aged over 25 years. (Among employees below rather than at the full adult minimum wage those aged 18 years or below are more prominent as we have seen). As far as the sectoral distribution of the employees at or below the full adult minimum wage is concerned, in the new survey about 38 per cent were employed in the Hotels/Restaurants/Bars sector, 22 per cent were in the Retail sector, and 17 per cent were in the Personal and Other Services sector. Compared with the previous survey this represented a marked increase in the proportion in Hotels etc., and in Services, with a corresponding decline for the Retail sector.

This may reflect among other things the increasing prevalence of immigrant workers in that particular sector. The recent study by Ruhs (2003) shows that over one in five non-EU nationals working in Ireland were in the Hotels and Restaurants sector, and one-quarter of work permit holders were engaged in the catering sector. This highlights the broader importance of seeing the Irish minimum wage in the context of a labour market where migration plays a key role. Analysis of returns to different levels of educational attainment during the 1990s has suggested that immigration of skilled and experienced workers – particularly returning migrants – may have dampened the return to higher levels of education over that period (Barrett, Fitz Gerald and Nolan, 2002). The pattern going forward may however be very different, as the pool of skilled Irish people abroad dries up and unskilled migrants perhaps form a higher proportion of the total. This makes it all the more important that the minimum wage effectively protects such workers, while ensuring that the level it is set at also takes into account their impact on the balance between supply and demand towards the bottom of the earnings distribution.

The new survey also allows one to assess the extent to which the incidence of workers at or below the full minimum wage has changed at the level of the individual firm, using the longitudinal sub-sample which was present in both the new and the previous surveys. This shows that relatively small percentages of firms had persistently high levels of minimum wage employees (in the sense of

1.9 Raising the Minimum Wage

at or below the adult minimum) over the period 2000/2001-2002. Very few firms actually increased the percentage of their workforce paid at this level. The firms with persistently high levels appeared once again to be concentrated in the Hotel/Restaurant/Bar sector, and to some extent also in the Retail sector.

We have seen that the proportion of private sector employees paid at or below the full adult minimum wage has been remarkably stable from late 2000 to late 2002. This is clearly a product of trends in earnings and the level of the minimum wage itself over that period. Table 2 illustrates that since its introduction at the level of £4.40 (equivalent to €5.58) for an experienced adult in April 2000, the minimum wage has been increased on two occasions, to £4.70 from July 2001, equivalent to €6 after the changeover to the euro, and to €6.35 from October 2002, with corresponding increases in the sub-minimum rates in each case.

Table 2: Level of the Full Adult Minimum Wage, 2000-2004

	Level in €	Increase Over Initial Level
1 April 2000	5.59	-
1 July 2001	6	7.3
1 October 2002	6.35	13.6
1 February 2004 (likely)	7	25.2
Annual average		
2000	5.59	-
2001	5.80	3.8
2002	6.09	8.9
2003	6.35	13.6
2004 (likely)	6.95	24.3

The legislation introducing the minimum wage gives discretion to the Minister for Enterprise, Trade and Employment to decide on changes in the level specified for the Minimum Wage, having consulted appropriately. While there is to be no further increase in the minimum wage during 2003, the social partnership agreement outlined in *Sustaining Progress* (2003) includes an agreement by ICTU and IBEC that it be increased to €7 per hour for an experienced adult worker with effect from 1 February 2004, and the Minister has announced that this is to be implemented. It is of interest in concluding to assess the relationship between the trends in the minimum wage and earnings in the broader economy, which will give some indication of the likely impact of such an increase.

Taking the period from 2000 to 2003, the average level of the minimum wage for 2003 will be 13.6 per cent higher than the corresponding average for 2000.⁵ The difficulty in relating this to trends in earnings in the economy is that no comprehensive data source on earnings throughout the economy and at different points in the earnings distribution is available for Ireland on an on-going basis. Instead, we have to rely on sector-specific data on average

⁵ It is assumed for the purpose of this calculation that the minimum wage operated at its introductory level throughout 2000.

earnings relating to, for example, industry, building and construction, or the public sector, or aggregate calculations based on the size of total wages and salaries as estimated for national accounts purposes.

The CSO's series on average earnings in industry, produced on a quarterly basis, suggest an overall increase between 2000 and 2003 not far short of 30 per cent – substantially in excess of the increase in the minimum wage. However, this relates to a specific sub-sector of the economy, and one where most workers at or about the minimum wage do not work. For the whole economy, one limited but interesting indicator of average hourly earnings can be constructed, on the basis of the aggregate for non-agricultural wages and salaries produced for national accounts purposes. The total number of hours worked by employees can also be calculated using the total number of employees and the average hours worked shown by the Quarterly National Household Survey, carried out by the CSO. Dividing total hours worked into the aggregate wages and salaries figure produces one indicator of average hourly earnings. It is different in kind from an average calculated across individuals, but none the less is of interest.

Using published data from the CSO where available, and estimates and projections produced by our colleagues for the *Quarterly Economic Commentary* for the most recent periods, this aggregate approach suggests an increase in average hourly earnings across the whole economy over the 2000-2003 period of the order of 20 per cent. Though substantially below the increase in average earnings in industry, this is in excess of the increase in the minimum wage over the period.

However, as we have noted, the minimum wage is to be increased in February of 2004, having been unchanged from October 2002. The increase is quite substantial, representing an uprating of 10 per cent in the level of the minimum wage. This would serve to increase the annual average for the minimum wage for 2004 by 9.5 per cent compared with 2003. This is likely to significantly exceed the increase in average earnings in the economy over that period.

However, the overall increase in the minimum wage over the period from 2000 to 2004 would then be 24 per cent. Growth in average hourly earnings across the whole economy forecast for 2004 would bring the increase in average hourly earnings derived from the wages and salaries aggregate in the manner described over the same period to perhaps 25-26 per cent. The reasons why this figure is substantially below the increase in average earnings in industry over the period merits further investigation, and until this has been teased out undue weight should not be given to the aggregate figure. It seems likely, though, that an increase in the minimum wage next year of the magnitude announced, while substantial, would at most restore the relationship between the minimum wage and average earnings which prevailed when the minimum wage was introduced. On that basis there seems little reason to expect a detrimental impact on employment levels or competitiveness.

There is no procedure or agreed policy with respect to indexation of that level as prices and earnings increase. While the increases implemented so far and envisaged for next year may have the effect of indexation broadly in line with average earnings, the issue remains open as to how the minimum wage will be adjusted over time in the future. Experience in other countries suggests that a policy of relatively small changes at relatively short intervals is much less disruptive than major up-ratings implemented with long gaps in between: it is the length of the gap between October 2002 and February 2004 that necessitates the rather large increase likely to be implemented then. The relationship between the minimum wage and policy with respect to inward migration also needs to be kept to the forefront, given the increasing importance of non-EU nationals in sectors where minimum wage employment is most prevalent. The introduction of the minimum wage in Ireland was so smooth primarily because it took place at a most unusual time, when wage growth was so rapid; increasing it gradually over time would ensure that it has the desired effects at minimum cost.

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