

# THE IMPACT OF A MINIMUM WAGE CHANGE ON WAGES AND HOUSEHOLD INCOME

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## BACKGROUND

In 2015, the Irish Low Pay Commission was established to provide annual recommendations to the Government on the level of the minimum wage. In January 2016, following recommendations from the Low Pay Commission, the minimum wage was increased from €8.65 per hour to €9.15 per hour. This was the first increase in the Irish minimum wage since July 2007.

It is important to understand how minimum wage increases affect wages and household income. By increasing the hourly wage of the lowest paid workers in the economy, a minimum wage increase can narrow the gap between the lowest paid and highest paid workers, thereby reducing wage inequality. However, previous research indicates that the effect of minimum wage increases on household income inequality may be limited. This is because minimum wage workers are often not in a low income household. They are also typically not the main earner in the household and tend to be part-time workers.

## DATA AND METHODS

We use data from the Survey of Income and Living Conditions (SILC) to examine the impact of the 2016 minimum wage increase on hourly wages and household income. We compare the hourly wages of high and low earners before and after the minimum wage increase and show how the minimum wage increase affected the gap between high and low earners. This allows us to measure the change in wage inequality.

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<sup>1</sup> This Bulletin summarizes the findings from: Redmond, P., Doorley, K. and McGuinness, S., "The Impact of a Minimum Wage Change on the Distribution of Wages and Household Income", *Oxford Economic Papers*, Available online: <https://doi.org/10.1093/oep/gpaa048>

Funding for this project was received by the Low Pay Commission.

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We also examine household income before and after the minimum wage change. This allows us to see whether the 2016 minimum wage increase had a significant impact on household income.

## **RESULTS AND DISCUSSION**

Following the minimum wage increase, the wages of high earners were 3.7 times higher than the wages of low earners. However, our analysis shows that if the minimum wage had not increased, they would have been 4 times higher. Therefore, the 2016 minimum wage increase in Ireland led to an eight percent reduction in the hourly wage gap between high and low earners. This indicates that the minimum wage increase was effective at reducing wage inequality in Ireland. The effect was stronger for young workers - the hourly wage gap between young high and low earners decreased by 24 percent after the minimum wage increase.

In addition to minimum wage employees, we find that workers earning slightly above the minimum wage also experienced a wage rise. Potential reasons for this include the need for employers to maintain a wage gap between minimum wage workers and others. For example, if a worker earning €10.50 per hour sees a lower paid colleague getting a pay rise, then that worker may also require a pay rise to maintain their productivity and satisfaction with their job. There is some support for this mechanism in the international literature.

While there is some evidence of a slight increase in household income among low income households following the minimum wage rise, our analysis indicates that, overall, the impact on household income was quite limited. This is because minimum wage workers are often not in low-income households. Instead, they are spread across households of all income levels, including high-income households. Moreover, they typically work fewer hours than higher paid employees. An example would be a student working part-time and living with parents who have well-paid jobs. A minimum wage increase would lead to a significant increase to the part-time worker's hourly wage, but the contribution to overall household income would be negligible.

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