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Ireland and the Minimum Wage: A short history

Introduction

The minimum wage exists foremost to prevent exploitation, ensure minimum standards in terms of compensation and undermine a cut-throat race-to-the-bottom wage competition. Wage floors can help reduce the degree of income inequality in society by ensuring greater equity between employer's profits and employee's wages. Ireland's statutory minimum wage, the National Minimum Wage was introduced on April 1st 2000 following the coming into law of the National Minimum Wage Act (Act 5 of 2000). Ireland's first minimum wage was set at £4.40 per hour (or €5.58).

Many European countries introduced minimum wages as far back as the 1960s and 1970s, therefore Ireland's minimum wage is comparatively young in European terms. While many European countries still do not have statutory minimum wages, in many of these countries the role of the minimum wage is fulfilled by other wage setting mechanisms and collective agreements. Ireland's minimum wage was introduced one year to the day after the UK introduced its National Minimum Wage. Given how interlinked both economies were at that time, the precedent of the UK was important for policy developments in Ireland.

As with the experience of the introduction of the minimum wage in the UK, there was concern in Ireland that the introduction of the minimum wage could lead to unintended consequences such as an increase in unemployment or a reduction in hours worked. This concern was sharpened by the fact that the unemployment rate in was still above 6% in the middle of 1999.

Employment Impacts

There is a range of competing theories about the various impacts of minimum wages on outcomes such as total and sectoral employment, wages and prices, income inequality and poverty. The strongest potential attack on the minimum wage was that it could increase poverty by increasing the number of people who are unemployed or by reducing hours for those in employment. But is this concern theoretically and empirically borne out at the firm level and at the economy-wide level?

The theoretical case

The three main theoretical models purporting to explain the employment effects of minimum wages and other wage floors are the *competitive model*; the *dynamic monopsony model* and the *institutional model*.

- **Competitive model**: Predicts that binding wage floors, like a national minimum wage, will price some low-wage workers out of jobs and will therefore generate lower employment. Specifically, if the minimum price for labour is set above the equilibrium wage, then a surplus of labour and hence unemployment or underemployment will result with this unemployment concentrated on the lowest skilled (least productive) workers. In other words, if the national minimum wage were set at or above a level that employers could afford to pay, then they would respond by reducing the number or people they employed or the number of hours they employed them for.
- **Dynamic monopsony model**: This describes a local economy with a single or dominant employer and can exist where there are rigidities in employee mobility or collusion between employers. The dominant employer can use its market power to

keep wages below the equilibrium rate that might otherwise prevail. The result is a market failure with labour sold (the level of employment) is less than the optimal allocation (full employment). In such a market structure, introducing a minimum wage higher than the market rate but equal to or below the competitive rate will raise the level of employment. In this case, where wage levels offered by employers are artificially low, the introduction of a minimum wage may actually draw more people into the labour market and thereby increase employment.

- **Institutional models**: These make no clear theoretical predictions about changes in employment and instead describe 'channels of adjustment' through which changes in minimum wages can work their way through the economy. Institutional models are multi-sector with no single well-defined labour demand curve. Instead, the economy and labour market are seen as complex systems with multiple elements; multiple interactions; multiple equilibria and, crucially, multiple channels of adjustment[1] to wage and price changes. This means that employment effects are ambiguous and ultimately an empirical matter. Institutional models also posit that higher wage floors may boost productivity through efficiency wage effects and can increase aggregate demand and economic growth via the increased spending power of low wage workers.

The empirical case

The 'New Minimum Wage Research' methodology started by Card and Krueger (1994) attempted to simulate natural experiments on the empirical impact of minimum wage increases. Their famous finding based on policy differences between contiguous Pennsylvania and New Jersey was that the employment effect of minimum wage laws was essentially non-existent. A subsequent meta-study of 64 minimum wage studies conducted between 1972 and 2007 corroborated Card and Krueger's finding with Doucouliagos and Stanley (2009) graphing over 1,000 employment estimates and finding the most precise estimates clustering at or near zero employment effects.

Wolfson and Belman (2013) subsequently conducted a meta-study of 27 studies conducted since 2000 and while their results were mixed, they did corroborate the earlier findings of no statistically significant findings. Further 'simulated' experiments by Dube et al (2010), Allegreto et al (2011), Hirsch et al (2011) and Addison et al (2012) all found no net employment effects and positive earnings effects. The UK's Low Pay Commission has commissioned hundreds of research projects on the impact of the minimum wage. The Commission's analysis based on the empirical evidence is that minimum wages do not have significant adverse effects on employment.

[1] Potential channels of adjustment that can explain the absence of significant economy-wide employment effects include: (A) increased productivity through improved morale, higher cost to job loss and greater work intensity; (B) offsetting aggregate demand effects via increased spending by low income high propensity to consume workers; (C) changes in employment composition away from low wage sectors as the subsidy to inefficiency is removed; (D) savings in employer recruitment and training costs via reduced churn; (E) firms responding via higher prices; (F) firms respond by reducing hours; (G) firms respond by lowering the value of non-wage benefits such as health and pension contributions; (H) alternative cost savings e.g. cutting waste; (I) firms compensate via wage compression with higher paid workers getting smaller wage increases; (J) firm profitability declines and the labour share increases relative to the capital share.

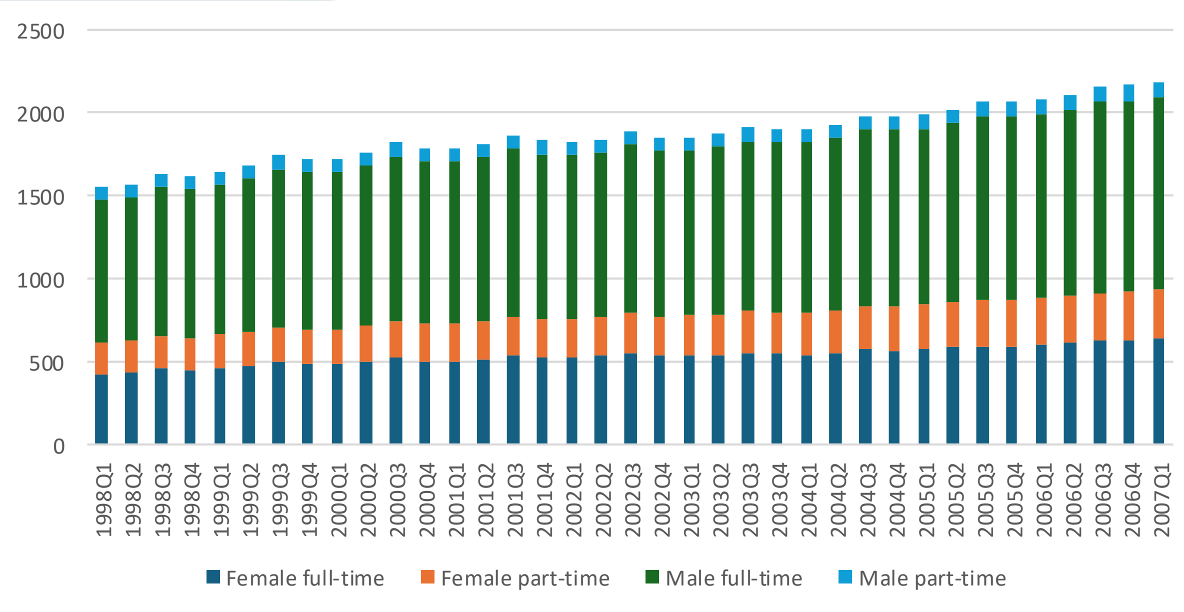
Schmitt (2013) argues that the 'cost shock' is small relative to most firms' overall costs. He suggests the most important channels of adjustment are reductions in labour turnover; improvements in organisational efficiency; reductions in wages of high earners; and small price increases.

While the available empirical evidence is ambiguous, inconclusive and often contradictory with regard to employment effects, the results of the most comprehensive meta-studies (studies of studies) strongly suggest that minimum wages exert no significant impact on an economy's overall level of employment.

What actually happened in Ireland?

At the time of its introduction, it was estimated that the minimum wage impacted 22% of all workers in Ireland. Obviously, there were particular cohorts of workers who were considered to be more likely to be affected than others. These cohort included female workers, younger workers, part time workers and workers in sectors such as retail and personal services. In order to examine briefly how the introduction of the minimum wage impacted these groups we examine the 10-year period from 1998 to 2008. This allows us to see how the labour market was performing 2 years before the introduction of the minimum wage and right up until just before the onset of the global financial crisis.

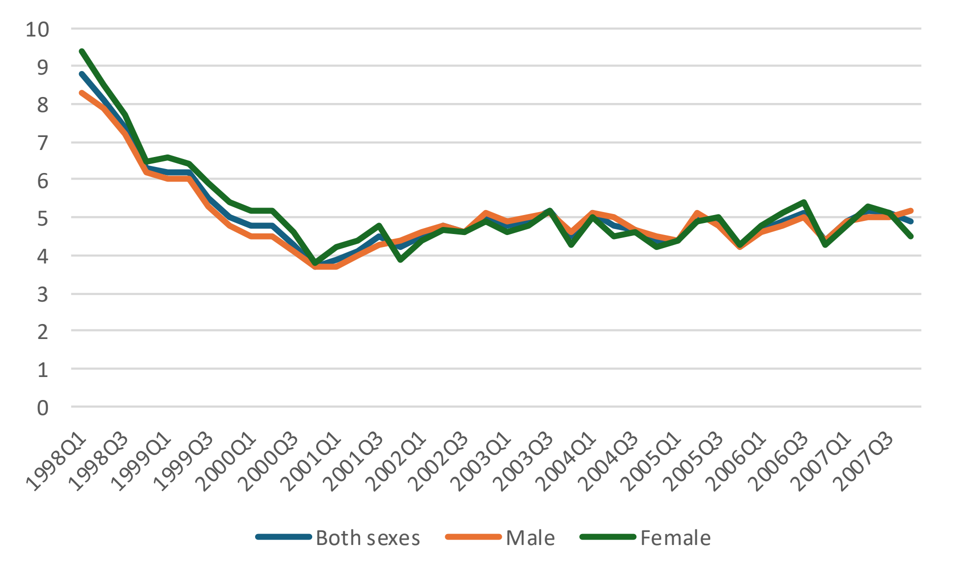
Chart 1 Employment – Full-time and Part-time by Gender (15-74), Ireland 1998-2007



Source: Labour Force Survey

Chart 1 shows the numbers employed in Ireland from 1998 to 2008 and also the composition of that employment in terms of gender at job type. It shows steadily increasing numbers employed in the 10 years from 1998 to 2008 and then the impact of the financial crash. Overall, it shows a continuing increase in overall employment throughout the period. The pace of growth does slow considerably, but this is also occurring at the same time as the dotcom bubble burst in 2000 and also the impact of the 9/11 attacks in late 2001. Importantly, female employment increased considerably by over 57%, and the share of female employment increased by 3 percentage points in those 10 years. Crucially as well, the numbers in part-time employment increased by just under 55% and increased in both genders.

Chart 2 Unemployment Rate by Gender (15-74), Ireland 1998-2007

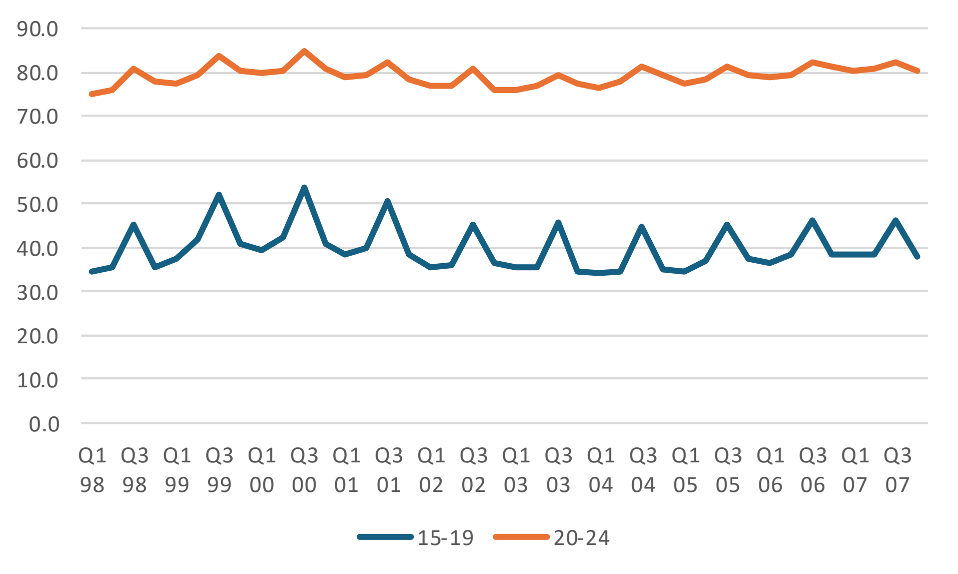


Source: Labour Force Survey

Chart 2 shows that unemployment rates have followed a similar path for both genders. Importantly, there is a significant narrowing of the gap between male and female unemployment rates. While the female rate in 1998 is 1.1pps higher than the male rate, by 2008 the gap is reversed to the point that the female rate is 0.7pps lower than the male rate.

Looking at age groups, the 15–19-year-old age group and the 20–24-year-old age groups had been identified as the most likely to be paid below the minimum wage in 2000. Chart 3 below shows employment rates for both these groups. The total numbers employed in these age groups increased over the period, but employment rates adjust for demographic changes that would have taken place over the same time. While there is a small drop off in the employment rate of the 15-19 group in 2001, the rate is 3.5pps higher at the end of 2007 than it was at the beginning of 2008. For the 20-24 age group the increase in employment rates is 4.5pps.

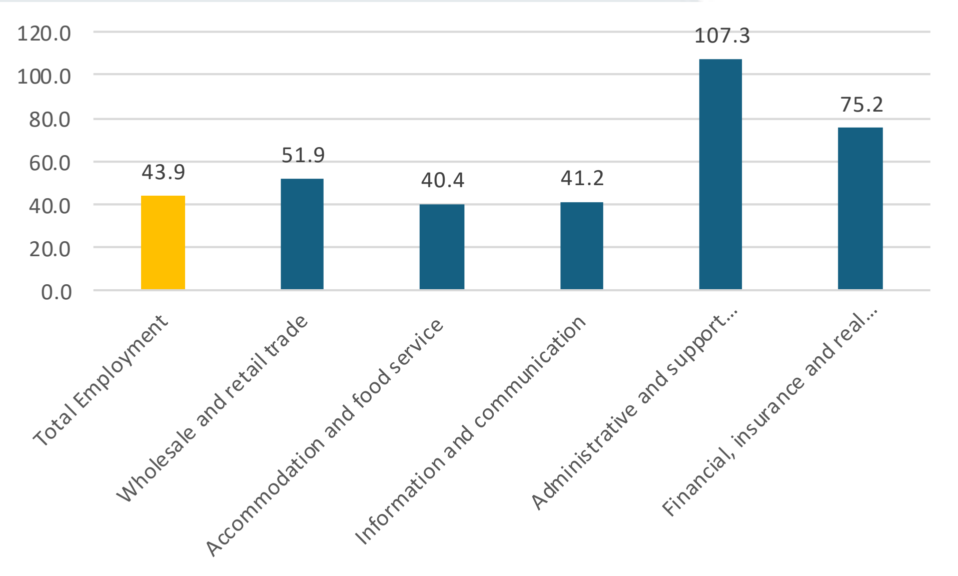
Chart 3 Employment Rate for age groups 15-19 and 20-24, Ireland 1998-2007



Source: Labour Force Survey

Finally, the sectors with greatest proportion of minimum wage workers were outlined. While Agriculture was found to have the most exposure, it was considered a special case as the role of earnings in total remuneration was quite different from all other sectors. Wholesale and Retail, Finance, and Personal Services were identified as most at risk both in terms of people employed and the proportion of total wage bill affected. The Personal services sector at the time encompasses many service industries which are reported separately today and therefore as many of these sectors as presented in Chart 4. What Chart 4 shows is that not only did these sectors grow, they all grew at rates above the economy wide average, with the exception of Accommodation and food and Information and Communication which saw rates of growth 2.5 and 1.6pps below the economy wide average.

Chart 4 Growth in Employment for selected sectors, Ireland 1998-2007



Source: Labour Force Survey

In order to fully evaluate the impact of the introduction of the national minimum wage it would be necessary to construct a counterfactual that showed what would have happened to the labour market in the minimum wage had never been introduced. However, what the above analysis show is that for the groups identified as most impacted by the minimum wage, there was no discernible deterioration in labour market trends.

The Minimum Wage today

A profile of those on the minimum wage

Approximately 195,000 or 1 in 12 employees (8.2%) in Ireland are on the national minimum wage or lower, down from 11.1% in 2016 when these details were first collected for the Labour Force Survey. While the proportion of those paid the minimum wage decreased from 2016 to 2020, over the past 4 years there has been a notable increase in minimum wage workers. The numbers being paid the NMW has increased by almost 40,000 since 2018 and the share of all employees paid the NMW has increase by 1.2pps over the same time. Over this period the minimum wage also increased substantially in nominal terms and this is likely to have drawn more people in.

Table 1 National Minimum Wage Earners Ireland selected years 2016-2024.

Employees aged 15+	2016 Q2	2018 Q2	2020 Q2	2022 Q2	2023 Q2	2024 Q2
Employees on less than NMW	35.3	23.5	21	35.1	39.2	38.2
Employees on NMW	160.9	118.8	107.9	123.6	126.6	157.1
Employees on or below NMW	196.2	142.3	128.9	158.7	165.8	38.2
Total employees	1774.8	1917.9	1833.5	2229	2318.6	2388.1
As % of total	11.10%	7.40%	7.00%	7.10%	7.20%	8.20%

Source: Labour Force Survey

In 2024 53% of all NMW workers were female and while the gap between male and female workers did fall in the years leading up to 2020, by 2024 it had fallen back to roughly the same gap as 2016. Within the total male and female employees, 8.6% of all female employees are NMW workers compared to 7.6% of men.

Table 2 National Minimum Wage Earners by Gender, Ireland selected years 2016-2024.

Employees aged 15+	2016 Q2	2018 Q2	2020 Q2	2022Q2	2023 Q2	2024 Q2
Male	93.6	63.8	62.1	72.1	76.8	91.2
Female	102.6	78.5	66.8	86.6	88.9	104.1

Source: Labour Force Survey

Most NMW workers are also under 25 (54%), with large increases in this number since 2020. This increase has been almost exclusively in the 15-19 age group, which has more than doubled since 2020. While both the 25-34- and 35–44-year-old groups have fallen below their 2016 levels, both have also seen significant increases over the past 2 years or so (of approximately 50% and 70% respectively).

Table 3 National Minimum Wage Earners by Age, Ireland selected years 2016-2024.

Employees 15+	2016 Q2	2018 Q2	2020 Q2	2022 Q2	2023 Q2	2024 Q2
15 - 19 years	38.8	28.6	22.4	55.8	56.5	55.2
20 - 24 years	50.4	41.4	28.7	43.5	41.9	49.7
25 - 34 years	46	31.9	24.4	21.2	20.1	30.7
35 - 44 years	27.5	16	24.9	14.4	22.2	24.7
45 - 54 years	19.5	11.6	17	11.9	13.5	18
55 - 59 years	7.3	6.5	5.2	-	-	6
60 - 64 years	3.7	4.1	4.1	5	-	5.7
65 years and over	3.1	-	-	-	-	5.4

Source: Labour Force Survey

NMW workers have fallen in number in the mid-west but increased in the mid-east, both by approximately 7,000 workers. NMW workers are overrepresented in employment in the Border region and in the South-East, with NMW workers representing 17.2% and 13.7% of all employees compared to 11% nationally.

Table 4 National Minimum Wage Earners by Region, Ireland selected years 2016 and 2024.

Employees aged 15 years and over	2016 Q2	2024 Q2
Border	23.6	20.6
West	15.1	16.9
Mid-West	20.5	13.9
South-East	19.9	17.4
South-West	30	30.9
Dublin	50.2	52
Mid-East	27.9	34.8
Midland	8.9	8.8

Source: Labour Force Survey

NMW workers are concentrated within sectors of the economy with 54% in just two sectors with 51,000 in Wholesale and Retail and 54,000 in Accommodation and food. While Wholesale and Retail has seen a small decrease, the number in Accommodation and food is up by just over 7,000 since 2016. Minimum wage workers also work in numbers in Administration and support services (14,600), Industry (12,700), Other services (13,200) and Construction (10,600). Of the sectors that were found to be most impacted by the introduction of the NMW, Wholesale and Retail and Accommodation remain the most important, but Administration and support is has a relatively smaller share while sectors such as Information and Communication and Finance and Insurance no longer figure in the statistics.

Table 5 National Minimum Wage Earners by Sector, Ireland selected years 2016 and 2024.

Employees aged 15+	2016 Q2	2024 Q2
Agriculture, forestry and fishing (A)	8.1	6.3
Construction (F)	8.1	10.6
Wholesale and retail trade, repair of motor vehicles (G)	52.6	51.4
Transportation and storage (H)	5.5	8.8
Accommodation and food service activities (I)	46.7	53.7
Information and communication (J)	-	-
Professional, scientific and technical activities (M)	-	-
Administrative and support service activities (N)	12.5	14.6
Public administration and defence, compulsory social security (O)	-	-
Education (P)	3.2	5.8
Human health and social work activities (Q)	14.7	9.7
Industry (B to E)	17.6	12.7
Financial, insurance and real estate activities (K,L)	-	-
Other NACE activities (R to U)	18.9	13.2

Source: Labour Force Survey

Minimum wage workers are almost 4 times more prevalent in Elementary professions than other occupations, with 3 in 10 of these workers on or under minimum wage and 38% of all MWWs in these occupations. There are also 24,000 in Skilled Trades.

Table 6 National Minimum Wage Earners by Occupation, Ireland selected years 2016 and 2024.

Employees aged 15+	2016 Q2	2024 Q2
Managers, Directors and Senior Officials	-	-
Professional	-	-
Associate Professional and Technical	9.4	-
Administrative and Secretarial	10	10.5
Skilled Trades	18.6	23.8
Caring, Leisure and Other Service	26.1	19.4
Sales and Customer service	44.4	42
Process, Plant and Machine Operatives	13.9	11.5
Elementary	68.4	74.7

Source: Labour Force Survey

The household composition of minimum wage workers also indicates issues around adequacy and independent living around the rate. Just 12% of minimum wage workers live in single adult households and 54% live in households with three or more adults, showing that most are reliant on other earners. Ireland has seen the highest increase in adult children working full-time and living at home in the EU over the past decade.

Table 5 National Minimum Wage Earners by Household, Ireland selected years 2016 and 2024.

Employees aged 15 years and over	2016 Q2	2024 Q2
All household compositions	196.2	195.3
1 adult, with children under 18 years	7.4	8.8
2 adults, with 1-3 children under 18 years	36.6	35.3
Other households with children under 18 years	48.9	55.1
1 adult aged less than 65 years, no children under 18 years	7.3	15.1
2 adults, at least 1 aged 65 years and over, no children under 18	3.9	4.5
2 adults, both aged less than 65 years, no children under 18	27.3	20.1
3 or more adults, no children under 18 years	63.9	54.8

Source: Labour Force Survey

Overall, we can see that while the share of total employees affected by the minimum wage has fallen from an estimated 22% in 2000 to just over 8% in 2025, many of the initial factors remain. Women still make up the greater number of NMW earners compared to men, younger workers are still much more likely to be NMW earners by a considerable margin and Retail workers are still among the most likely to be NMW workers. While much has changed with the people affected by the NMW, much has also changed with the NMW itself.

The minimum wage and prices

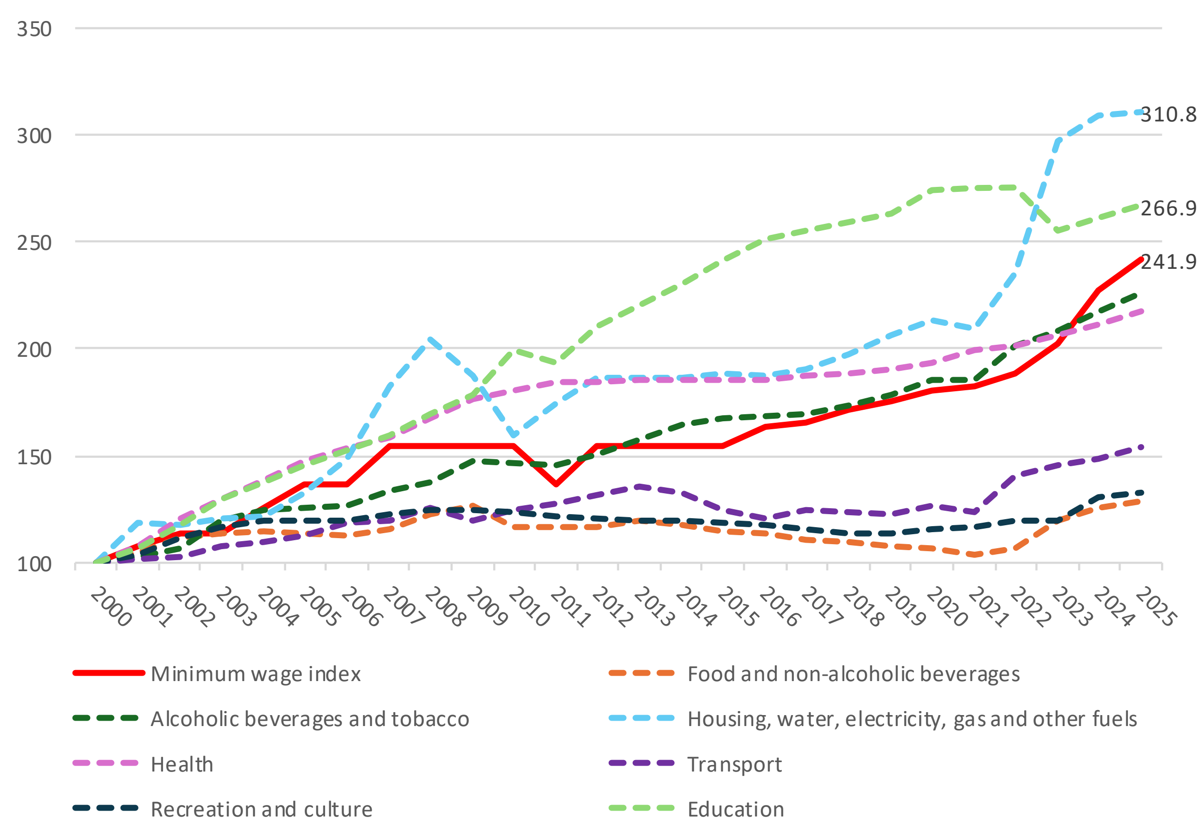
The minimum wage increased to €13.50 in January 2025, up from €12.70 last year and €5.58 in the year of its introduction 25 years ago. In the years following introduction in the Celtic Tiger era, the real value of the minimum wage increased relative to the cost of living measured by the Consumer Price Index (CPI). In 2007 for instance, the nominal minimum wage was up 55% since 2000, while the CPI was up just 30%. After the financial crisis the rate was kept more or less constant at €8.65 between 2007 and 2015. With the exception of the €1 decrease of the minimum wage in 2011, the rate managed to remain above inflation throughout the period. The minimum wage was increased in modest increments every year from 2015 until the covid pandemic, opening up a larger gap with inflation and the Government has increased the rate ahead of inflation, in particular in the 2023-25 period.

Chart 5 Minimum Wage Index and Consumer Price Index, Ireland 2000-2025

Source: Low Pay commission and CSO Consumer Price Index

However, while the minimum wage has been able to maintain growth above that of the cost of a typical basket of goods over 25 years (up 142% vs 68%), we know from the experience of the recent cost of living crisis that households do not have uniform exposure to inflation. While the minimum wage has grown considerably faster than prices for food, recreation and transport, it has only remined just ahead of health while the Housing, water, electricity, gas and other fuels component of the consumer price index has grown at one and a half times the rate of the minimum wage (210% vs 142%) over the last 25 years with that gap widening considerably over the past 4 years. Education costs also grew by 25 points more over the period.

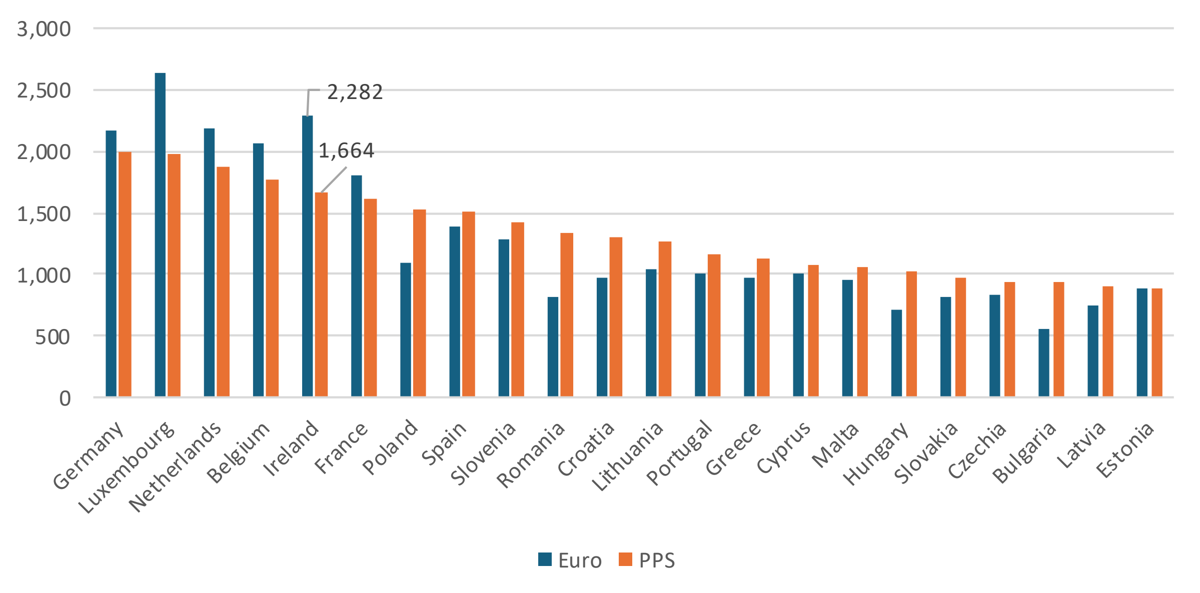
Chart 6 Minimum Wage Index and Consumer Price Subindices, Ireland 2000-2025



Source: Low Pay commission and CSO Consumer Price Index

Looking at this in the wider European context Chart 6 shows Ireland's minimum wage in the context of other EU member states in 2025. It shows the monthly rate based on the standard working week in the country in each respective country. It shows this monthly amount in both Euros and Purchasing Power Standards (PPS) which adjusts the Euro value to take some account of the cost of living in each country. The PPS then shows each country's minimum wage in terms of the buying power it has in that economy. Ireland has the second highest minimum wage of all EU countries that have minimum wages, but only in Euro terms. When the minimum wage is adjusted for differences in prices, Ireland drops to fifth place.

Chart 7 Minimum Wage by EU member states* in Euro and Purchasing Power Standards 2025



Source : Eurostat Minimum Wage Series
Note: *Denmark, Italy, Austria, Finland, and Sweden do not have national minimum wages

What we can observe from this data is that the minimum wage has held up well measured against the overall price level. However, the overall price level conceals a wide variation in terms of price increases across, the basket of goods. Households where income is determined by the NMW rate may also be disproportionately exposed to costs which have seen the greatest price pressures over these years. it is also important to understand the limits of what minimum wages can achieve in determining overall pay throughout the economy.

The limits of Minimum Wages

Many countries have sought to use higher minimum wages to drive overall wage growth in the economy. While this may be of benefit to many workers, there are obvious limits to the capacity of minimum wages to reach workers who are paid above the minimum age. In this sense, there is a danger that we rely on statutory minimums wages to lift pay rates for everyone, when in fact they may only be serving that purpose for the people directly affected. In many cases, there can also be perverse outcomes which include minimum wage clustering and wage compression.

Wage Clustering and Wage Compression

Wage Compression describes a situation where the growth of the minimum wage outpaces wage growth for workers paid above the minimum wage. In this case. In situations where there is a high degree of wage inequality, compression can be a benign force. In such situations, minimum wages provide a catch-up mechanism for those on the lowest wages to make up lost ground or to keep at pace with wage growth in the rest of the economy. However, its also possible that in situations where workers further up the wage distribution lack the power to affect wage changes of the same magnitude as those determined by statutory minimum wages. We can see evidence of this dynamic in the Northern Ireland.

As mentioned previously, the UK introduced its National Minimum Wage one year before Ireland in 1999. The UK then introduced a much higher minimum wage in 2016 called the 'National Living Wage' (NLW). The NLW was set with the aim that annual increases would bring it to 66% of the UK median wage, which it achieved in April 2024. However, for Northern Ireland, the NLW when it was introduced was approximately 64% of Northern Ireland's average wage. As of 2024, the NLW was equivalent to 69% of the median wage in Northern Ireland. Over the 9 years from 2015 to 2024, the NLW has risen by 60.3% while the median wage in Northern Ireland has only increased by 42.8%. This has led to wage compression where the gaps between what people earn has reduced significantly over the period. What this points to is a situation where wage pressure is evident at the bottom of the wage distribution, but much weaker at the upper end.

While it could be argued that wage equality is a positive dynamic, there is evidence at the firm level, that this may not have ultimately positive outcomes for workers. There is evidence of wage compression at firm level in the UK where the ratio between higher, middle and lower earners has reduced significantly after the introduction of the NLW. There is evidence from the Low Pay Commission to show that this wage compression has led firms to flatten their structure and remove the number of posts and grades in their firms.

If wage compression describes a situation where higher minimum wages draw lower earner closer to middle and higher earners, wage clustering describes the opposite. Wage clustering describes a situation where rather than alleviating low pay or raising people above a certain level, minimum wages can in fact act a wage magnet rather than a wage floor. In this sense, as people at the lower end of the wage distribution see their wages lifted up, some people who were already paid slightly above the minimum wage see their wage slowly converge to the minimum wage. In this way, the gain for lower paid workers is at the expense of those workers who earn just a bit more than them rather than as an absolute gain for workers. We can see evidence of this dynamic in the UK from 2007 with a growing concentration of workers at the NMW rate. While the concentration appears to have lessened since 2018, there is still a more well-defined cluster of earners at the minimum wage rate than there were pre-2007. Ultimately, the key to combatting both wage compression and wage clustering is for minimum wages to be complemented by structures for wage gains for every worker.

Beyond the Minimum Wage

The key challenge is therefore to ensure that while the minimum wage provides a threshold below which no worker can fall, it should never become a cap on the ambition of wage demands for any worker. The minimum wage has been successful in boosting the pay of the lowest earners in our economy and that is an undisputed policy achievement. Many highly skilled workers and those at the very top end of the wage distribution have sufficient leverage to achieve wage progression individually, but there remains a gap for those in the lower and upper middle. In the past, many of these workers relied on trade union membership and collective bargaining to achieve wage progression, but as bargaining coverage has declined, many of these workers have been left behind. Restoring collective bargaining structures across the economy is therefore a natural policy imperative, as Ireland has committed and is obliged to do under the adequate minimum wages directive.