Ireland and the Minimum Wage-
A short history

ICTU Private Sector Committee
May Day Seminar

WEBSITE: www.nerinstitute.net

Outline

- Why a minimum wage?
- Debate about employment effects.
- What actually happened?
- Minimum wage earners today.
- The minimum wage and prices.
- The limits of minimum wages.

Why a minimum wage

- Prevent exploitation, ensure minimum standards and prevent race to the bottom.
- Reduce inequality – both between earners and between employers and employees.
- Ireland introduced its IRL£4.40 minimum wage on May 1st, 2000.
- Who could possibly object?

Employment effects

- Various impacts of minimum wages on outcomes such as total and sectoral employment, wages and prices, income inequality and poverty
- Strongest potential attack – increase poverty by increasing the number of people who are unemployed or by reducing hours of those in employment .
- How likely was it?

Theoretical case

- Competitive model - if the national minimum wage were set at or above the **equilibrium wage,** 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– 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 – Ambiguous. Economy is too complex, employment impacts not linear. Min wages could boost productivity and ultimately demand in the economy.

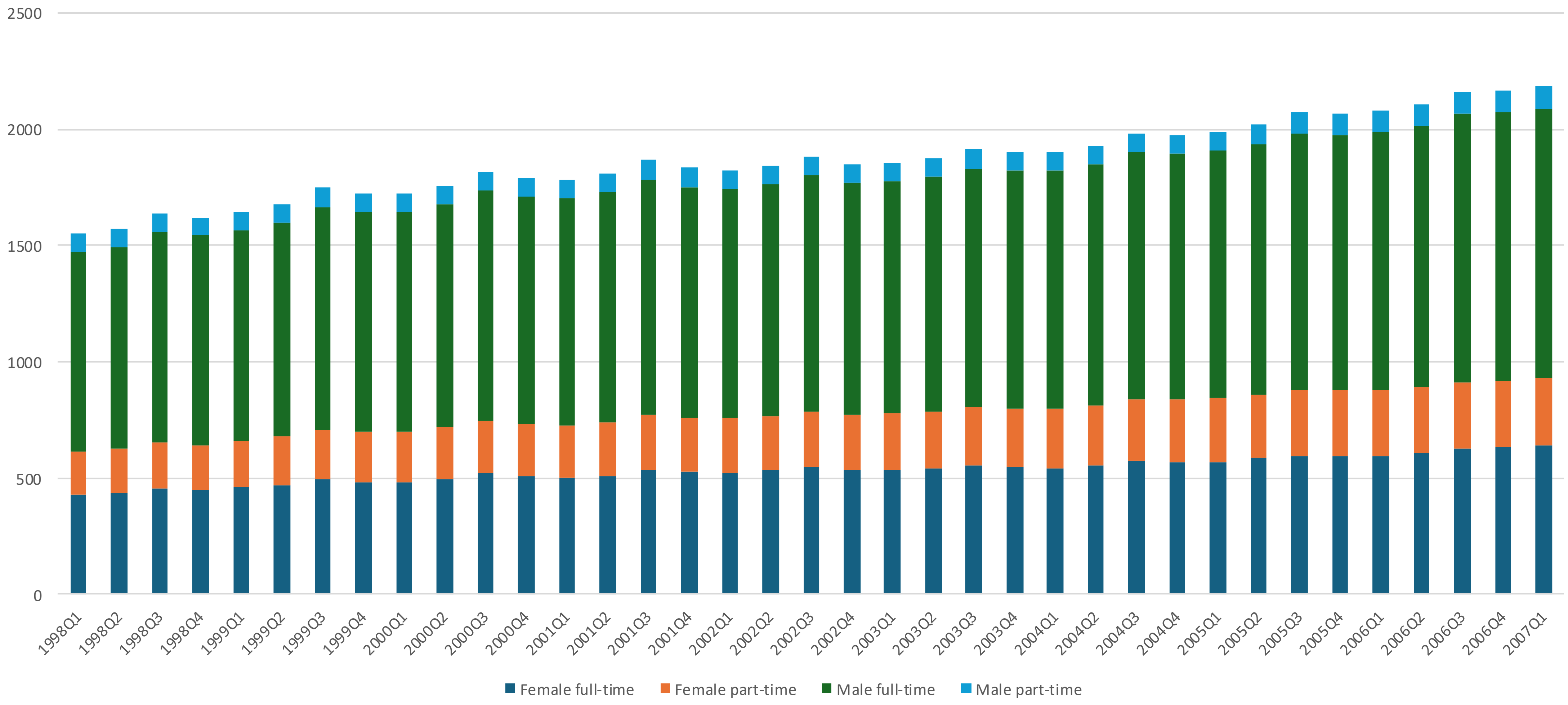
Empirical findings

- Card and Krueger (1994) comparing US states that did and didn't introduce min wages, employment effect of minimum wage laws was essentially non-existent.
- Meta-studies (studies of studies) strongly suggest that minimum wages exert no significant impact on an economy's overall level of employment.
- Schmitt (2013) argues that the 'cost shock' is small relative to most firms' overall costs. More important channels of adjustment are reductions in labour turnover; improvements in organisational efficiency; reductions in wages of high earners; and small price increases.

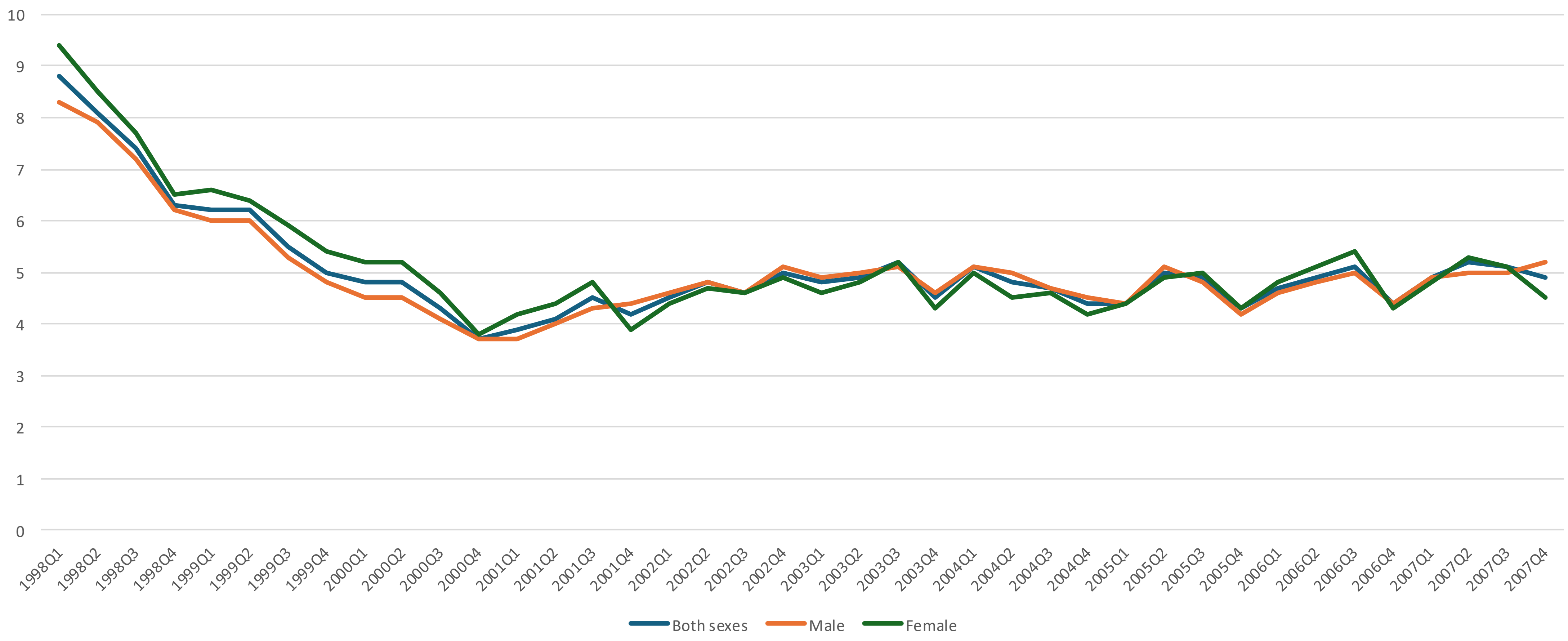
What actually happened in Ireland?

- It was estimated that the minimum wage impacted 22% of all workers in Ireland
- It would affect some workers more than others:
  - female workers,
  - younger workers,
  - part time workers and
  - workers in sectors such as retail and personal services
- So what actually happened?

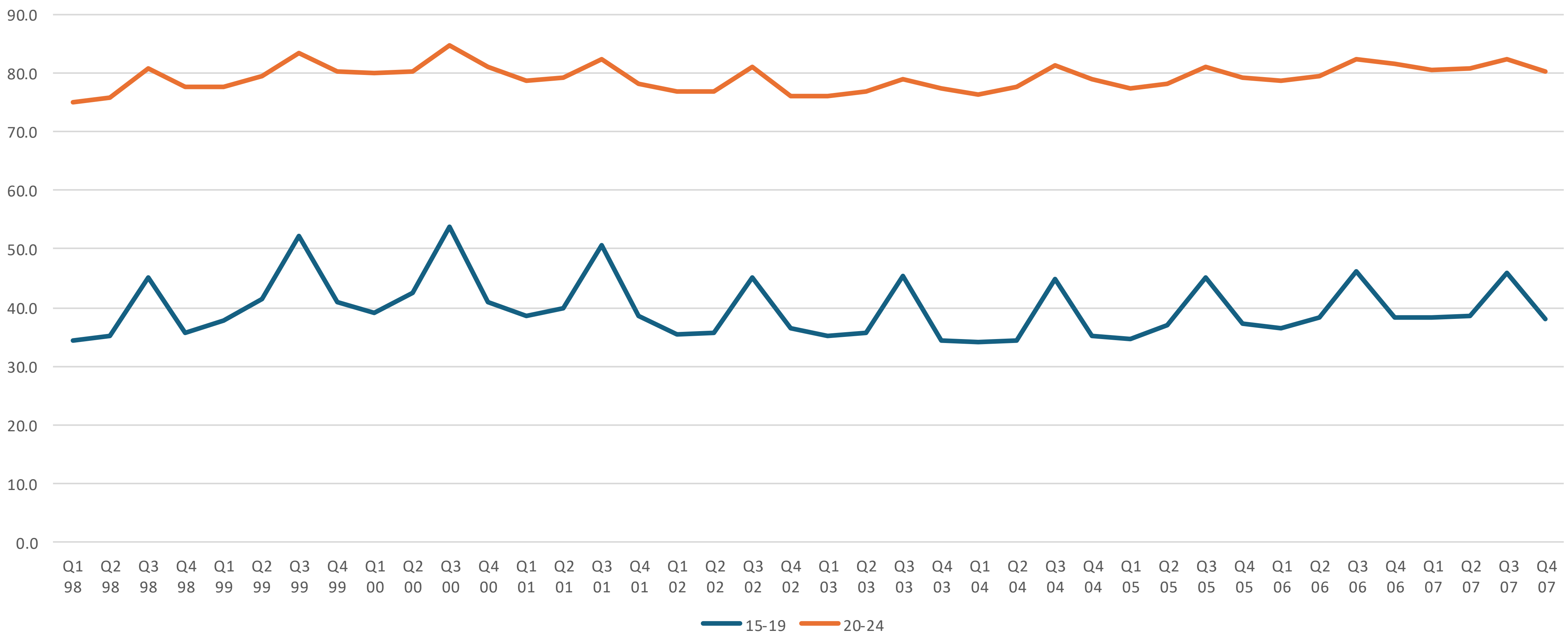
Employment 1998-2007



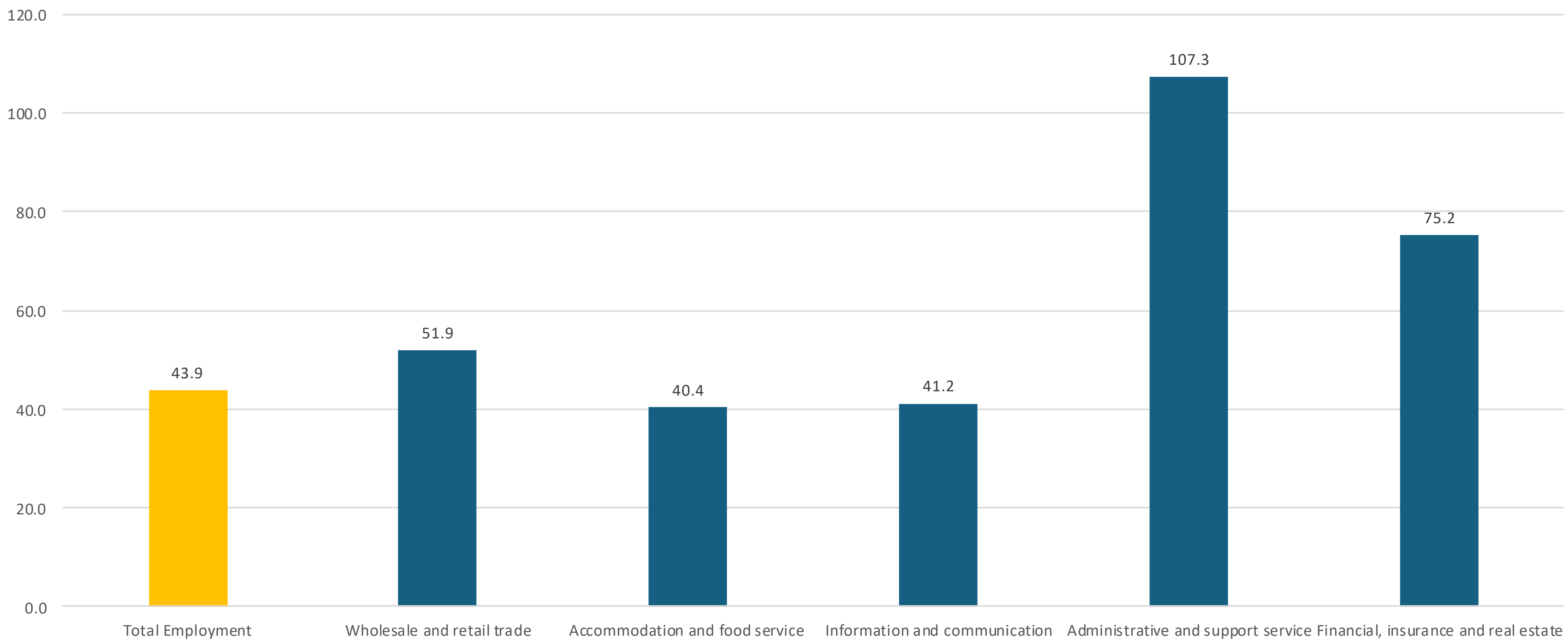
Unemployment 1998-2007



Employment rate for Young people 1998-2007



Employment selected sectors 1998-2007



Minimum wage earners today

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%

Minimum wage earners today

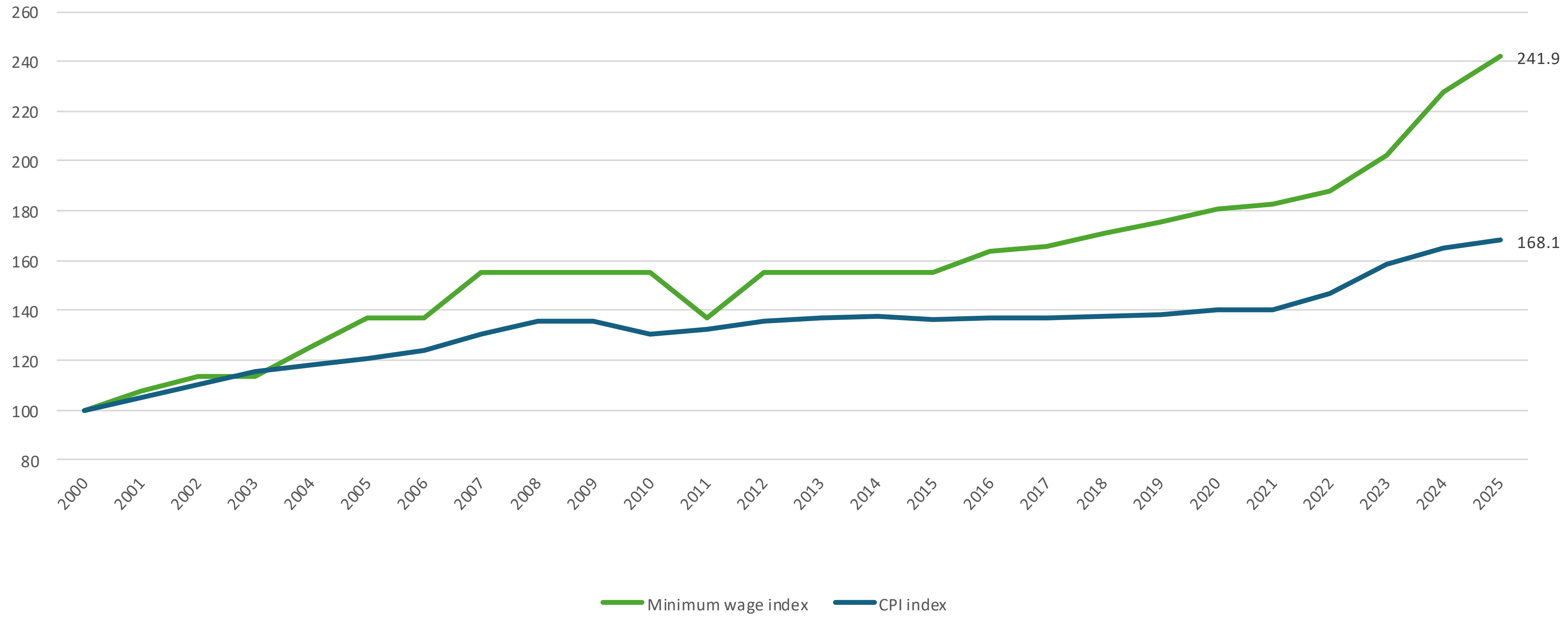
Employees aged 15+	2016 Q2	2018 Q2	2020 Q2	2022Q2	2023 Q2	2024 Q2
Male	93.6	63.8	62.1	72.1	76.8	91.2
Female	102.6	78.5	66.8	86.6	88.9	104.1

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

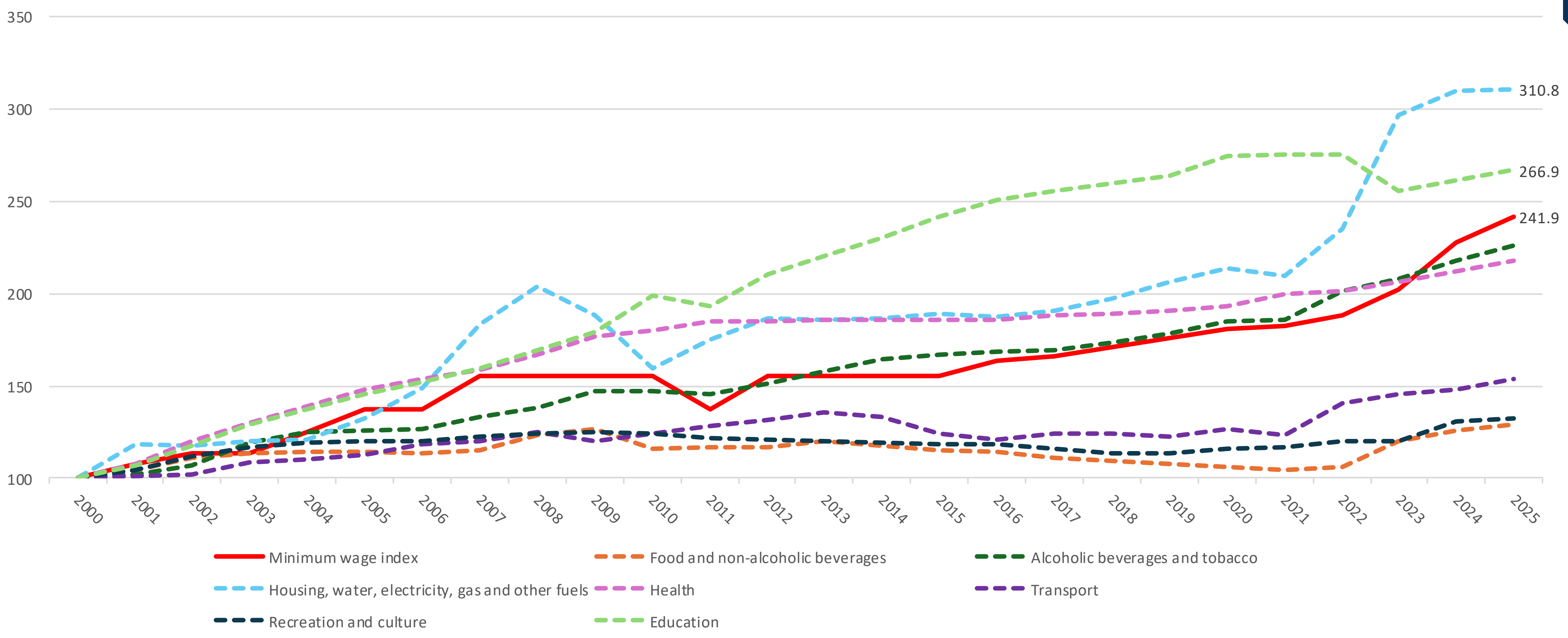
Minimum wage earners today

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

Minimum Wage and Prices



Minimum and Prices



The limits of Minimum wages

- Many countries have sought to use higher minimum wages to drive overall wage growth in the economy.
- There is a danger that we rely on statutory minimums wages to lift pay rates for everyone.
- There can also be perverse outcomes which include
  - Wage compression - growth of the minimum wage outpaces wage growth for workers paid above the minimum wage.
  - Wage clustering - minimum wages act a wage magnet rather than a wage floor.

Minimum wages- A necessary, but not sufficient condition for wage growth.

- A threshold below which no worker can fall but should never become a cap on the ambition of wage demands for any worker.
- Minimum wage has been a success in the job it set out to do.
- Many highly skilled workers and those at the very top have sufficient leverage individually, but there remains a gap for those in the lower and upper middle.
- Restoring collective bargaining structures across the economy is therefore a natural policy imperative.