



Think-tank for action
on social change

TASC Submission on consultation on EU Directive on adequate minimum wages in the EU

The Proposal

The European Parliament's proposal on adequate minimum wages in the European Union seeks to provide a framework by which minimum wages will be set by member state governments or stakeholders in the future. The proposal identifies as problems large variations in the levels and manner in which national statutory minimum wages are set and coverage gaps in minimum wages set by collective bargaining. The proposed law tries to correct these errors by mandating that countries create defined frameworks for setting minimum wages in concert with local stakeholders.

The Parliament's proposal aims to set clear guidelines for statutory minimum wages when those exist and to promote collective bargaining on wages even if such statutory agreements exist. With respect to statutory minimum wages, member states are required to submit to the EU a new plan for how minimum wages will be set and how they will be updated. The criteria for setting these minimums are mandated in the proposal to include at least "the purchasing power of minimum wages, the general level of gross wages and their distribution, the growth rate of gross wages, and labour productivity developments." Of course, other criteria can be included if appropriate. The framework proposal does not set out a minimum wage to be reached, though it is mentioned that in most member states minimum wages are less than 60 percent of the median and 50 percent the mean.

Additionally, the proposal mandates that local stakeholders be consulted in setting statutory minimum wages and that current agreements should be respected when setting minimum wages. These provisions are designed to standardize the minimum wage across the EU to ensure that member states in the EU compete on terms of productivity and innovation in attracting business instead of having to worry about increases in their minimum wage hurting

their competitiveness.

The proposal also focuses on increasing the amount of collective bargaining in member countries. Member states are mandated to “take action to promote the capacity of social partners” to engage in informed negotiation on wage rates and other benefits. If a member state has fewer than 70 percent of its workers covered by collective bargaining, it is also mandated to create a framework for collective bargaining and a plan for promotion thereof.

The Irish context

Currently, Ireland’s minimum wage is set to €10.20 an hour. This places the Irish minimum wage at around 35 percent of the gross mean full-time earnings and 42 percent of the mean. This puts Ireland at (median) or second from (mean) bottom in the EU (OECD, 2021), though in purchasing power terms Ireland is sixth in the EU (Eurostat, 2021). As above, The EU identifies 50 percent of gross mean income, or 60 percent of median income as an acceptable mark in its proposal, which is substantially higher than the current Irish minimum wage. However, Ireland is not obligated to raise its minimum wage to this level by the proposal: it only must develop a framework that justifies the rate it chooses and creates a plan to increase it.

With respect to the suitability requirements in the proposal, Ireland is well positioned to comply with them. Ireland’s minimum wage is presently set by the Minister for Enterprise, Trade and Employment based on recommendations from the Low Pay Commission. The Low Pay Commission already commissions research on the status of the minimum wage and its effects and compliance with major parts of the proposal might not be more complicated than asking the Low Pay Commission to draft a document outlining how they (and future sessions) will take into account the factors outlined in the proposal when making a minimum wage recommendation. Ireland is well prepared to comply with the proposals requirements and make a determination about whether larger than usual increases in the minimum wage would be appropriate in the context of a new framework.

Ireland is less well prepared to comply with the proposal’s provision on collective bargaining. After the collapse of the National Social Partnership Agreements in 2009, Ireland has been left without a far reaching framework for bargaining. Presently, only a third of Irish workers are covered by collective bargaining agreements and period bargaining between unions happens mostly in the public sector. This compares to an EU-wide level of 55.4 percent. In the private sector in particular, the Labour Court can establish Joint Labour Committees and Sectoral Employment Orders which set either minimum rates of pay in a sector or levels of pay according to occupation. Thus, any attempt to comply with the proposals mandate on collective bargaining would likely either imply a significant expansion or reform of the private bargaining

system or new regulation designed to facilitate collective bargaining.

Research on the minimum wage in Ireland

Regardless of whether the proposal will result in Ireland increasing its minimum wage, previous research has shown that doing so would likely result in little harm to businesses and employment and have tangible benefits for workers. Most recently Redmond and McGuinness (2021) find no evidence of a reduction in employment among firms that use minimum wage employees intensively following 2016 increase. Weekly labour costs for firms that employ minimum wage workers only increased by just 5.4 percent. Cost increases, moreover, were confined to firms that use minimum wage labour intensively (more than half of the firm's workforce).

Previous research shows only a modest decrease in employment. McGuinness and Redmond (2019) find the 2016 increase had no measurable effect on employment. They did conclude that the minimum wage caused a statistically significant decrease in hours worked (mostly among workers on temporary contracts) and an increase in the incidence of part time work among workers on the minimum wage. O'Neill, Nolan, and Williams (2006) use a survey methodology to examine the 2000 increase in the Irish minimum wage. The study finds that employment effects were undetectable except for a small fraction of firms affected most severely where the employment effects were modest. These results on employment and other on topics such as wage transitions are broadly in line with results from international research. The implication is that any increase in the minimum wage stemming from the proposal would likely have small effects.

The social benefits are, however, significant. Redmond, Doorley, and McGuinness (2020) found that an increase in the Irish minimum wage resulted in significant reductions in wage inequality. An important component of their findings is that the minimum wage increase also increased the salary of workers who made as much as €2 more than the new minimum wage. However, minimum wage earners are spread throughout the income distribution in terms of household income. Therefore, minimum wage increases are perhaps not the most targeted antipoverty policies but they do much to increase pay for those who are compensated the least.

Maitre, McGuinness, and Redmond (2017) find that the incidence of the minimum wage was about 5.6 percent in 2014. Women were about were more than twice as likely to be recipients of the minimum wage than men. Non-Irish nationals were about twice as likely as nationals to receive the minimum wage; young people even more so. Finally, part time workers were most likely to receive the minimum wage compared to any other broad group. They also

found that being a minimum wage worker is a good predictor for being in poverty with minimum wage workers being six times more likely to be in a household with less than 60 percent of the median wage. Therefore, the minimum wage is a good policy if one wants to target women, migrants, or young people who have a disproportionate chance of being in poverty.

Conclusions

TASC therefore supports the proposed EU Directive on adequate minimum wages in the EU. The Directive, if implemented, could gradually raise the minimum wage so as to provide a better standard of living. Existing research suggests that this would have only a modest effect on hours works, and likely no adverse effects on employment. TASC supports moving the minimum wage toward 50 percent of mean or 60 percent of median earnings gradually and over a number of years. TASC also supports creating a bargaining framework so that 70 percent of the workforce are covered by collective bargaining agreements.

References

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