

Joint Committee on Enterprise, Trade and Employment: 10 July 2024

Let me begin by thanking the Cathaoirleach for the invitation to the ESRI to appear before the Committee to discuss ESRI work on sub-minimum wages in Ireland. I am Dr Paul Redmond, a Senior Research Officer at the ESRI.

The topic of sub-minimum wages has received significant attention in recent years, at both a national and international level, and is currently an active area of policy debate in Europe. Of particular relevance for Ireland was the announcement in 2023 that Ireland was in breach of its labour rights obligations under the European Social Charter, due to sub-minimum wage rates being deemed too low to allow a decent standard of living.

When thinking about policy in this area, there are several important points to consider. First, what is the rationale for having age-based sub-minimum wage rates to begin with, and what are the arguments for and against their use? Second, how many employees are in receipt of sub-minimum wages, and what are the typical characteristics of these employees? And third, what are the potential impacts of reforming or abolishing sub-minimum wage rates? To shed light on these issues, I draw on recent research that was published in 2023 as part of the ongoing ESRI / Low Pay Commission research programme, in which we examine sub-minimum wages in Ireland.

Before discussing these issues in detail, it is useful to briefly summarize the situation as it currently stands. The minimum wage is €12.70 per hour. However, legislation allows employers to pay young workers an age-based sub-minimum rate. Those aged under 18 can be paid 70% of the full rate, those aged 18 can be paid 80%, while those aged 19 can be paid 90%. Other types of workers are also exempt in legislation from being paid the full minimum wage rate. These include apprentices, people employed by close relatives, and prisoners engaged in non-commercial work. For the remainder of my opening statement, I will focus on age-based sub-minimum wage rates as they are of most relevance for the current discussion.

One of the main arguments in favour of sub-minimum wages for young people is to ensure that wages are not set at a rate that is so high that employers are discouraged from hiring them. The rationale is that young workers may have less experience and lower productivity than older workers, which should be reflected in lower wages. Another argument in favour of sub-minimum wage rates for young people is to discourage early school leaving. However, previous research in this area suggests that the existence of sub-minimum wages will have little impact on early school leaving rates.

On the other hand, the main argument against sub-minimum youth rates is the equality argument: there should be 'equal pay for equal work', and age should not be used as a means of discrimination. Indeed, in recent debates on the Equal Pay for Young Workers Bill, it has been argued that sub-minimum wages should be abolished as they contravene equality legislation on the grounds of age-based discrimination. However, regarding the

legality of sub-minimum youth rates, it is important to note that the Employment Equality Act allows for employees to be treated differently in certain circumstances. Anything that is legal under the National Minimum Wage Act 2000 is not deemed to be age-based discrimination under Irish legislation.

In our 2023 ESRI research on sub-minimum wages, we found that the incidence of sub-minimum wage employment in Ireland is low. We estimated that just 1 in every 140 employees in Ireland is paid a sub-minimum youth rate. This is equivalent to approximately 15,000 workers. Furthermore, while all employees aged 15-19 could legally be paid a sub-minimum wage rate, the vast majority are on a higher rate of pay. Regarding the characteristics of employees in receipt of sub-minimum youth rates, we found that just over half were women, while the vast majority (almost 80 percent) work in either the accommodation & food or retail sectors. Approximately one quarter work in small firms consisting of less than ten employees, while 80 percent are students.

Abolishing sub-minimum wage rates could potentially lead to both positive and negative impacts for employees. The positive impact would be that current sub-minimum wage employees would see an increase in their hourly wage. However, abolishing sub-minimum wages could also lead to negative employment effects for young workers. There are several published international studies that have examined this issue. While some studies find no effects, others find evidence of negative impacts on hours worked and employment among young workers. However, these effects tend to be quite small.

From an employer's perspective, abolishing youth rates could see an increase in the wage bill of those that employ workers on sub-minimum wages. Our research has shown that these employers are mainly concentrated in two sectors: accommodation & food and retail. In related research published in 2021 as part of the ESRI / Low Pay Commission research programme, we found that the majority of employers do not employ minimum wage workers, and among those that do, minimum wage employees tend to make up a relatively small share of the overall workforce. Therefore, while some employers may be more affected than others, the overall direct impact on labour costs of abolishing sub-minimum wages would likely be quite low.

Concluding Remarks

Let me conclude by once again nesting this debate within a wider European context. Minimum wages in the EU are quite common: 22 of 27 EU countries currently have a statutory minimum wage. However, age-based sub-minimum wages are less common. Just one-third of countries with a statutory minimum wage use sub-minimum youth rates.

The EU Directive on Adequate Minimum Wages, published in 2022, states that it is important to avoid sub-minimum wage rates being widely used, as they risk having a negative impact on the adequacy of minimum wages. Taken together with the finding that Ireland is currently in breach of the European Social Charter, this would indicate that sub-

minimum wage policy in Ireland is not consistent with the EU Directive on Adequate Minimum Wages. This is also reflected in the recent recommendation from the Irish Low Pay Commission, which in June 2024 recommended the abolition of all sub-minimum wage rates in Ireland.