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Minimum wages in Europe

edited by
Thorsten Schulten, Reinhard Bispinck
and Claus Schäfer

European Trade Union Institute for Research, Education
and Health and Safety (ETUI-REHS)

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A contentious consensus: the establishment of the national minimum wage in Ireland*

Roland Erne

In April 2000, a statutory National Minimum Wage was introduced in Ireland, at around 55% of the average industrial wage. This development is notable for a number of reasons: first, the statutory minimum wage seems to contradict the voluntarist tradition of Irish industrial relations where the regulation of wages and working conditions were primarily a matter for employers and trade unions. Secondly, no Irish political party, trade union or employers' association is today against the National Minimum Wage. Even the neo-liberal Progressive Democrats (2002) view the introduction of the minimum wage as a central element in the fight against social exclusion of the coalition government under the Taoiseach Bertie Ahern. It is true that there were also some employers and neo-classical economists in Ireland who were against the introduction of a statutory minimum wage, saying this would only lead to higher unemployment (Walsh 2004: 18). However, these fears have not been realised.

How can this development be explained? Is there indeed a conflict between voluntarist industrial relations and the creation of a statutory minimum wage? Does the Irish example disprove the neo-classical assumption that a statutory minimum wage will lead to a fall in employment? Or, on the contrary, is the introduction of the National

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* Translation from German by Eileen Laurie.

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Minimum Wage in Ireland an unintended dialectical by-product of neo-liberalism, since the unrestricted commodification of labour attains political and moral legitimisation only with difficulty? These questions form the main focus of this chapter. Here, I will first detail the history of the statutory National Minimum Wage in Ireland. Then I will describe the regulatory mechanisms of the National Minimum Wage, its development, and its relationship to the collective bargaining policies of the trade unions, and to employment levels in Ireland. Finally, I will discuss the problems of implementing the statutory minimum wage, which have greatly intensified since the Eastward enlargement of the EU.

1. The National Minimum Wage as result of the politicisation of low pay

The Irish economy was defined by poverty and low pay for many years. Only 25 years ago, Ireland was one of the poorest countries in Western Europe. And despite the incredible economic development of the Celtic Tiger since the end of the 1980s, poverty, social exclusion and low pay remain issues of current debate in scholarly, political and trade union circles (Baker et al. 2004; O'Toole 2003). In the 1980s, the gap between the pay of the 10% lowest and highest paid workers was greater in Ireland than in any other EU member country (Crouch 1999: 160). This did not change to any great extent during the 1990s (UNDP 2005), even though the Gini Index used to measure income inequality, noted that earnings were now even more unequally distributed in a range of other European countries than in Ireland (EurLIFE 2005). At the same time, however, in 2000 Irish earnings were as unequally distributed as before the economic boom of the 1990s. In fact, according to OECD, Luxembourg Income Study and Irish income tax data, Ireland still remains 'an outliner among the rich European nations in its high degree of income inequality' (Nolan and Smeeding 2005).

The introduction of the statutory minimum wage with the passing of the National Minimum Wage Act in 2000 was the result of the suc-

cessful politicisation of the issue of low pay; trade unions made a crucial contribution to the debate with their campaign against low pay (McMahon 1990; TUF 2003). Social non-governmental organisations, like, the Conference of Religious in Ireland (CORI), the Irish National Organisation of the Unemployed (INOU), and the governmental Combat Poverty Agency also raised the political importance of the issues of poverty and low pay (Baker et al. 2004: 1999). Moreover, since 1997, social non-governmental organisations have directly participated in tripartite talks on Irish social pacts (Wallace et al. 2004: 392).

International comparisons also played a major role during the Irish debate. The decision of trade unions and the Labour Party in the UK to work towards a statutory minimum wage,[1] supported respective endeavours in Ireland as did the European 'Community Charter of the Fundamental Social Rights of Workers' in 1989. Trade unionists, politicians[2] and academics in Ireland interpreted Article 5 of this Social Charter as an instruction from the EC to introduce a statutory minimum wage (McMahon 1990; Nolan 1993: 104). The fact that a statutory minimum wage has existed in the USA for some many years also had a positive influence on the Irish debate. To this effect, during the 1990s, the debate in Ireland moved away from the basic question of whether there should be a statutory minimum wage towards the issue of how to define its rate.

1 See the chapter by Pete Burgess in this volume.

2 The following comments were made by an Irish Labour Party senator during the debate on the revision of Irish Industrial Relations law in July 1990: 'There is one other area to which I would draw the Minister's attention and that is what I would regard as the scandal of low pay … The only way, to my mind, in which the question of low pay can be addressed is through the provision of a statutory minimum wage. That is the way to go about this matter but it has not been referred to. A statutory minimum wage is commonplace in EC countries and in other western countries and the EC charter is strong on it as well. Article 5 states that "all employment shall be fairly remunerated". The only way to ensure fair remuneration is to ensure that everybody has a right to a statutory minimum wage' (Costello 1990; see also Nolan 1993: 104).

2. The National Minimum Wage and Irish social partnership

The introduction of the National Minimum Wage also resulted from the closer coordination of wage policies within the framework of a range of national social pacts that have had a key influence on Irish industrial relations since 1987. Comparative literature on social pacts often describes Ireland as a paradigmatic case of 'competitive corporatism' (Rhodes 1997). One sign of this is the fact that negotiated increases of real wages in Ireland did not keep pace with the country's extraordinary increase in productivity. Furthermore, the term 'competitiveness' played a crucial role in almost all social pacts (Roche and Cradden 2003, Kirby 2002; Allen 2000). However, in my opinion, it would be incorrect to view the Irish social pacts as the result of one-dimensional competitive corporatism. Irish corporatism also created and strengthened communication channels and institutions, where the problems of poverty and low pay could be *articulated* (Crouch and Dore 1990). It is important, in this regard, to examine more closely the role of the Economic and Social Research Institute, the National Minimum Wage Commission, the talks leading to the 'Programme for Prosperity and Fairness 2000–2003' social pact and the role of the Labour Court, which contains representatives of employers and employee organisations.

Institutions in different countries that have the same name can in fact fulfil quite different functions. Therefore, the *functional* equivalence of institutions is much more important that their actual title. This also applies to the Irish system of industrial relations. The function of the Irish Labour Court, for example, corresponds more to a German '*Schlichtungsstelle*' (mediation board) than to a German '*Arbeitsgericht*'. Unlike the decisions reached by a German *Arbeitsgericht*, most of the Irish Labour Court decisions are not legally binding rulings; instead they are recommendations addressed towards employers, trade unions or the government. At the same time, the Irish Labour Court is made up of nominees from trade unions and employers' associations, and a 'neutral' chairperson, and not of professional magistrates. Its structure corresponds to the voluntarist tradition of Irish

industrial relations. It is also the result of a common law legal system, which means that any case taken to a court of law entails a certain risk for both parties. The existence of alternative, extra-judiciary conflict resolution institutions – such as the Labour Court – does not mean however, that the 'state' does not play a role in this voluntarist system of industrial relations (Murphy 1998). For one, the Irish Labour Court is also a state institution. And it is also relevant that the Labour Court enjoys great legitimacy in Irish society because it equally represents the two sides of industry. The great authority of the Labour Court is also reflected in Article 13 of the National Minimum Wage Act, 2000, which states that the Labour Court may, every 12 months, recommend an increase of the National Minimum Wage to the responsible Minister, if the government and the social partners cannot reach a corresponding agreement within the framework of a national social pact or pay agreement.

3. The Irish academic debate

Since the 1980s, the empirical studies carried out by the Economic and Social Research Institute (ESRI) have influenced scholarly debate in Ireland on the issues of poverty, social exclusion and low pay. The ESRI carries out independent research; its supervisory board consists of representatives from the government, universities, employers and trade unions. Furthermore, the ESRI, which receives public funding, is not only an important scholarly institution, but also a central social forum. The results of the long-term research programme of the ESRI group lead by Professor Brian Nolan made a not inconsiderable contribution to the creation of a nationwide consensus in favour of a statutory minimum wage. In the first ESRI studies, the issue of low pay in Ireland underwent comprehensive statistical research. This research showed that the traditional practice of wage regulation through sector-specific Joint Labour Committees and collective wage agreements (Registered Employment Agreements) did not provide adequate protection against low pay (Nolan 1993). Following this, Nolan (1998), using a representative pay survey, forecast the poten-

tial effect of different national minimum wage levels. Finally Nolan et al. (2002) and Nolan et al. (2003) showed that the introduction of the National Minimum Wage has not had a negative effect on employment in Ireland.

When the nationalist-liberal Fianna Fáil[3]–Progressive Democrat government led by Bertie Ahern decided in 1997 to consider introducing a statutory National Minimum Wage, it entrusted the National Minimum Wage Commission to carry out this task. This commission also consisted of social partners, although its five members were appointed by the government. In April 1998, the commission published its final report, which, like the study already mentioned (Nolan 1998), contained a further survey on the influence of a national minimum wage on employment. In this study, Gerry Boyle, Tom McCarthy and Donal O'Neill (1998) presented an alternative to the 'neo-classical' model of the labour market: the 'monopsony' model, which was originally developed by economists in the US. In their work, Boyle, McCarthy and O'Neill demonstrated that the neo-classical model is not without theoretical and empirical controversy. Since companies in the labour market act, de facto, as a monopson (demand monopolists), they would at time be able to set salaries below the level corresponding to the marginal productivity of labour. This difference can be as much as 25%, depending on sector (Boal and Ransom 1997). So, any link between a minimum wage and employment in the empirical US studies is somewhat contentious (Card and Krueger 1997). Conversely, British studies have shown that the abolition in 1993 of the sector-specific minimum wages determined by the UK Wage Councils, did not, in contrast to the neo-classical model, lead to an increase in employment in the sectors affected (Fernie and Metcalf 1997). Therefore, the introduction of a min-

3 It is difficult to place Fianna Fáil on the left-wing/right-wing political spectrum, since the Irish party system was influenced by post-colonial 'national' issues and not by 'social' ones (Bartolini 2000). Conversely, it was the broad social range of national-republican Fianna Fáil voters that had a decisive effect on the stability of Irish corporatism (Hardiman 2005: 44).

imum wage that merely balances the monopsonistic market power of employers, may reduce profits for individual employers, but will hardly reduce employment. The minimum wage would merely force some employers to change their business model, from a 'low-wage/high-turnover' model to one of 'high-wage/low-turnover'. Furthermore, as the final sentences of their study elucidate, (Boyle et al. 1998: 22) the minimum wage should be set above the monopsonistic wage level, but not, however, 'significantly above the competitive wage', in order to avoid any negative effects on employment. The commission finally agreed to recommend a minimum wage of 66% of the median salary, an hourly rate of £4.40 (€5.59) (1998 figures). This would have meant that 23% of employees would have directly benefited from the introduction of the minimum wage. The cautiously optimistic tone of the Minimum Wage Commission report also set the tenor of the subsequent report by the Inter-Departmental Group on the Implementation of a National Minimum Wage from the Irish government (Nolan et al. 1999).

In June 1999, the government finally decided to introduce the statutory National Minimum Wage from 1 January 2000, not, however, at 66% of the median salary (2000 figures), but at an hourly rate of £4.40 (€5.59). The trade unions were disappointed by this government decision. Even so, given the high unemployment of 9.4% in Ireland at the time and the fact that more than 163,000 employees, especially women and young people, benefited directly by its introduction (DETE 1999), the National Minimum Wage was still celebrated by trade unions as an important achievement (TUF 2003). Furthermore, the unions negotiated a further increase in the minimum wage during the 1999 social pact negotiations with employers and the government: a rise to £4.70 (€6.00) from July 2001 and to £5.00 (€6.35) from October 2002 (Department of the Taoiseach 2000: 5).

4. The statutory minimum wage and its alternatives

The statutory minimum wage is not the only way of regulating minimum wages. The same alternatives to a set statutory minimum wage

that are currently being discussed, for example in Germany, also exist in Ireland, namely, sector-specific minimum wages based on legally binding, extended collective bargaining agreements (Registered Employment Agreements [REA]) or specific statutory regulation orders (Employment Regulation Orders of the Joint Labour Committees).

The Joint Labour Committees (JLCs) are based on the Irish Industrial Relations Acts 1946–2004 and are part of the voluntarist Irish Labour Court system. JLCs can use Employment Regulation Orders to establish legally binding provisions on rates of pay and conditions of employment for specific sectors. JLCs, de facto, are only established if this is supported both by employers and trade unions. In low-pay sectors, the Labour Court could, de jure, also implement JLCs against the will of employers or trade unions; in practice, however, this has occurred very rarely (National Minimum Wage Commission 1998: 27). Nevertheless, unlike the comparable British Wage Councils the Irish JLC system still exists today and – guarantees rates of pay and conditions of employment above those of the statutory minimum to employees in 18 sectors. Employees in agriculture, the textile industry, security services, and in sub-sectors such as the hospitality, cleaning, hairdressing and retail industries all benefit from the higher JLC minimum standards (Labour Court 2005). Correspondingly, O'Sullivan and Wallace reported that 97.5% of its worker and 85.7% of its independent members consider the JLCs to be necessary in addition to the National Minimum Wage, while only 34.6% of the employers' JLC members shared this view (2005: 9).

Equally, the legally binding sector-specific Registered Employment Agreements do not provide comprehensive protection against low pay since REAs are only relevant to a few sectors, particularly in the construction industry (Labour Court 2005; National Minimum Wage Commission 1998: 29f). The REA for the construction industry defines €16.85 as the legally binding hourly minimum wage for 'construction craftsmen'; this is more than double the statutory minimum

wage. However, with the exception of the construction industry, where the social partners also regulate sick pay and pensions in collective agreements, sector-specific collective agreements have never been particularly relevant in Ireland. Furthermore, sector-specific collective wage agreements have become less important since the trade unions, employers and the government began to centrally negotiate tripartite social pacts on rates of pay and conditions of employment.

The number of employees whose conditions of employment are regulated by JLCs or REAs is – despite the comparatively large construction sector in Ireland – very small. Furthermore, Nolan (1993) notes that most low-paid employees work in sectors where trade unions and employers have not agreed on a sector-specific minimum wage, neither in collective agreements nor in Joint Labour Committees. Setting a sector-specific minimum wage is further exacerbated by the cross-industry structure of most Irish trade unions and employers' associations. This is one explanation for the centralist character of Irish corporatism, which is in contrast to the predominant discourse of decentralisation. Since all pay rises of Irish employees are negotiated in conjunction with a single national 'social pact' or pay agreement, setting a national, inter-sectoral minimum wage does not come into conflict with collective wage agreements. This point is even more valid as the minimum wage is, de facto, also a subject of negotiations between the social partners, either directly in the framework of a national social pact or indirectly within the minimum wage recommendation proceedings of the Labour Court. The government could, de jure, also decide on a minimum wage increase that differs from the Labour Court recommendation or from the terms of the social pact; to date, however, this has never been the case.

5. The development of the minimum wage

Since its introduction in April 2000, the initial minimum wage of €5.59 per hour has been increased several times. As part of the

Programme for Prosperity and Fairness (Department of the Taoiseach 2000), the social partners and the government agreed on an increase of the minimum wage to €6.00 (from 1 July 2001) and to €6.35 (from 1 October 2002). In the following agreement Sustaining Progress (Department of the Taoiseach 2003) a further increase to €7.00 was agreed that was implemented from 1 February 2004. Furthermore, the social partners and the government of the time also agreed that minimum wage earners should be exempted from income tax. In 2005, however, the social partners were not able to reach an agreement regarding the planned increase in the minimum wage. Therefore, the government implemented the conciliatory recommendation from the Labour Court of 1 May 2005 that proposed an increase of the minimum wage of 9% to €7.65 (DETE 2005). Thus, for the first time, the minimum wage was increased against the will of IBEC, the umbrella body for employers. This confederation was against the increase since a minimum wage of more than €7.00 would be higher than in almost every other country and would therefore undermine Irish competitiveness. Conversely, trade unions had originally demanded a 25% increase of the hourly rate to €8.75 to ensure that the minimum wage did not fall behind wage increases in general (Connolly 2005).

The Central Statistics Office in Ireland has, to date, not collated any annual earnings statistics for all Irish employees. Instead, it publishes sector-specific average salaries for industry, the public service, some of the service industry, the finance and banking sector and the construction industry (CSO 2005c; Nolan et al. 2003). These data are extremely difficult to compare since some CSO salary surveys, only consider full-time employees. *Table 1* compares the development of the minimum wage in Ireland with that of the development of the average wage of industrial workers. This comparison has taken on an important role in the debate of this issue in Ireland. Estimates from Nolan et al. (2003: 9) suggest, however, that between 2000 and 2003 average wage increases in the whole economy were around one-third less than those in industry.

Table 1: Development of the statutory national minimum wage in Ireland

	Minimum wage as annual average		Industrial workers: average wage		Productivity** (Industry)	Inflation*** (CPI)
	Euros	Index (2000=100)	Euros	Index (2000=100)	Index (2000=100)	Index (2000=100)
2000	5.59	100.0	10.66	100.0	100.0	100.0
2001	5.80	103.8	11.76	110.3	111.2	104.9
2002	6.09	108.9	12.68	118.9	127.4	109.7
2003	6.35	113.6	13.37	125.4	137.1	113.0
2004	6.95	124.3	14.02	131.5	142.1	115.5
2005	7.43	132.9	14.33*	134.4*	148.8*	117.9*

Notes: *June 2005; **CSO: Industrial output per hour worked; *** CSO: Consumer Price Index.
Source: Nolan et al. (2003: 7); CSO (2005a; 2005d); own calculations.

This comparison shows that the development of the minimum wage in Ireland during the first three years of its existence did not keep pace with the development of the industrial average wage. The increase of the minimum wage to €7.65 from 1 May 2005 has made up for this deficit to a certain extent. At the same time, *Table 1* shows that although minimum and average wages increased faster than the rate of inflation, they were still lagging behind productivity growth. This means that wages constitute a continually smaller percentage of total income in Ireland while profits are increasing, despite the introduction of a National Minimum Wage. Even so, the National Minimum Wage is extremely important especially for young and female (part-time) employees in the hospitality industry.

6. Who earns the minimum wage?

The 2002 salary survey of Nolan et al. (2003) stated that 3% of male and 7% of female employees received a salary at the level of or below the National Minimum Wage for adults. The difference between full-time and part-time employees is even greater. While 98% of full-time

employees in the private sector receive a salary above the minimum wage, this is only the case for 85% of part-time employees. The greatest number of employees paid at the minimum wage rate or less is to be found in the hospitality industry (20%), in retail (7%) and in the textile industry (4%). Moreover, 49% of young people under the age of 18 – and 9% of those aged between 19 and 25 – receive a salary that is equal to, or less than the minimum wage for adults. This high number reflects the clauses of the National Minimum Wage Act according to which employees aged less than 18, 19 or 20, employees in their first and second year of employment, and employees undergoing structured training can be paid, depending on category, 70%, 75%, 80% or 90% of the statutory National Minimum Wage. The comparison of these figures with the 2000/2001 salary survey from Nolan et al. (2002) shows, furthermore, that the percentage of employees in private companies who receive the minimum wage – excluding the hospitality industry – has remained relatively stable (*Table 2*).

Table 2: Percentage of employees earning full National Minimum Wage or less

Percentage of private sector employees with wages at the level of the National Minimum Wage for adults or less	2000/2001 survey	2002 survey
All employees	4.3	4.5
Men	3	3
Women	7	7
Full-time	2	2
Part-time	17	15
Female part-time	19	16
Aged 18 or less	50	49
Aged 19 to 25	7	9
Employees in the hospitality industry	14	20
Employees in retail	10	7
Employees in the textile industry	3	4

Source: Nolan et al. (2003).

7. Effect of the National Minimum Wage on employment

Two studies carried out on behalf of the Irish government by the Economic and Social Research Institute (ESRI) also examined the link between the minimum wage and rate of employment. Neither study discovered any negative effect of the National Minimum Wage on employment. The studies showed that employment growth in companies affected by the introduction of the statutory minimum wage was no different than that of companies not affected by its introduction, even though the minimum wage has regularly been increased to keep pace with the rate of wage growth (Nolan et al. 2002; Nolan et al. 2003). The introduction of the minimum wage in Ireland, however, occurred during an advantageous period of economic growth. Therefore, the Irish research results regarding effect of minimum wages on employment cannot be generalised easily. Nolan et al. (2002) state that 80% of those companies surveyed that were affected by the introduction of the National Minimum Wage asserted that their employees' salaries would have risen anyway, even without any statutory minimum wage, given the shortage of labour in the booming Irish economy.

8. The implementation of the minimum wage

Due to the unrestricted opening of the Irish labour market to employees from the new EU member states and due to the additional work permits granted to employees from Turkey and other countries, there is no longer a shortage of labour in Ireland. At the same time, the National Minimum Wage has increased in importance since some employers have taken advantage of immigrants in order to lower their wage costs. During 2005, many violations of Irish minimum wage regulations came to light; this had an extremely negative impact on the planned talks between the state, employers and trade unions on the renewal of the Irish social pact.

In April 2005, for example, Joe Higgins, a Socialist member of parliament, made public that the Turkish corporation *Gama*, which had

won several tenders for large public construction projects, paid wages to its Turkish employees that were far below both the National Minimum Wage and the wages of the Registered Employment Agreement for the construction industry. Subsequently, the Gama workers went on strike for several weeks, until Gama accepted a conciliatory recommendation from the Labour Court. Gama finally agreed to pay a large part of the outstanding wages, while the workers agreed to avoid the protracted court proceedings of the Irish common law system. According to SIPTU, the largest Irish trade union, which also represents the Gama workers, the Gama case showed that the implementation of the minimum wage in Ireland is insufficient in itself. SIPTU stated that a situation where there are more state inspectors concerned with animal welfare than there are labour inspectors would be unacceptable (Connolly 2005).

The improved implementation of the agreed minimum standard was also the subject of a further demonstration organised by the Irish trade unions. On Friday the 9th December 2005 100,000 trade unionists demonstrated against *Irish Ferries*' plan to dismiss their 550 Irish employees and replace them with employees from Eastern Europe who would be paid an hourly rate of €3.60. At the same time, SIPTU seafarers and dockers blocked all Irish Ferries vessels on the Irish Sea and, the Irish Congress of Trade Unions (ICTU) postponed talks on the new Irish social pact until the government had published the blueprint of legislative changes that would lead to improved implementation of agreed conditions of employment (ICTU 2005a; Brennock 2005). Eventually, this dispute was solved after the company agreed to protect the jobs and conditions of employments of the seafarers who wished to continue working for Irish Ferries and to pay at least the *Irish* minimum wage to its all new Eastern European employees, despite the reflagging of its vessels to Cyprus. However, the issue of better enforcement of agreed national employment standards remains on the agenda and will certainly be one of most contentious topics in the forthcoming social pact negotiations between the Irish social partners and the government (Dobbins 2005).

9. Conclusion

The introduction of the National Minimum Wage and the recurrent increases of its rate, which roughly matched average increases in the industrial wage, has not had a negative effect on employment in Ireland. At the same time, the statutory minimum wage failed to close the gap between high and low earners in Ireland (CSO 2005b). Although the National Minimum Wage is clearly a thorn in the side of some employers, it is generally well respected in Irish politics and society. Therefore, it can be presumed that the Irish government will not be able to ignore current difficulties in the implementation of the minimum wage and thus jeopardising Irish 'social partnership'. On the one hand, a general election will probably take place soon, and on the other, the Irish minimum wage was, from the very beginning, not only a social and political issue, but also compatible with Ireland's widely-shared, active economic and development policy of 'moving up the value chain'. This policy consensus is not based, however, on low wages, but primarily on an above-average growth in productivity (see Roche and Cradden 2003; O'Riain 2004). The public support for the Irish Ferries workers demonstrated that the Irish National Minimum Wage enjoys social and political legitimacy. This, however, does not imply that the Irish minimum wage consensus is uncontested. It only means that it seems to be easier for opportunistic employers to circumvent minimum wage legislation than to make a direct attack on it.

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