Economic Policy Centre

Considerations for Minimum Wage setting in Northern Ireland

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Contents

Key terminology

National Living Wage (NLW) - A **mandatory** minimum wage rate set for the UK at £11.44 in 2024 that applies to adult workers aged 21+. When introduced in 2016, this applied to workers aged 25+.

National Minimum Wage (NMW) – A **mandatory** baseline of pay that is legally required of employers to ensure employees are not being exploited. The minimum wage rate, currently ranging from £6.40-£8.60, is based upon different age bands currently spanning 16-20 years of age.

Real Living Wage (RLW) – A **voluntary** wage rate based on the cost of living as well as essentials such as housing costs, food and transport. Employers are not required to pay the Real Living Wage however, it is recommended to ensure employees can maintain an adequate standard of living.

Median Wage Bite – The Median Wage Bite refers to the 'bite' or proportion of the minimum wage in relation to the median hourly wage, i.e.: $\frac{minimum\ wage}{median\ hourly\ wage}$

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Executive Summary

Since the introduction of the National Minimum Wage in the United Kingdom (UK) in 1999 the rates for Northern Ireland (NI) have been set by the annual UK-wide decisions. The objective for this report is to provide detailed evidence of the economic and other policy implications should an NI minimum wage be set by the devolved NI Executive, something for which there has been political agreement.

Setting minimum wages is an established process in many economies

More than 180 countries set minimum wages in their economies, normally at a national level but a smaller number also sectorally or regionally. There is a wide variety of practices in setting minimum wages including who they apply to, how regularly they are renewed and what methods are used to change the rates. In some countries expert groups or Low Pay Commissions recommend the rates; elsewhere, governments set these independently and, in some places, institutionalised social partnership does the work. The key objectives of incomes and living conditions of low-paid workers and preventing exploitation by individual or groups of employers (in a form of unfair competition) remain central to any minimum wage policy. However, there is still strong debate about whether the minimum wage rates in different countries are too low, too high, or about right.

The economic effects of minimum wages are generally modest except for distributional effects

There continues to be a strong debate among researchers about the effects of mandatory minimum wages and their increases. The evidence from the UK, Republic of Ireland and internationally is that these effects are generally modest. Most research is focused on employment effects given the general economic theory that, in competitive labour markets, a mandated minimum wage which exceeds the rate the market would pay for a job will reduce demand for labour and thus firms would reduce their workforces (either laying people off, reducing hours worked or delaying future recruitment). This theory has been challenged but not over-thrown in the past 30 years. Any potentially negative effects on jobs or hours are now regarded as likely to be small ones and, in practice, difficult to show. Within this conclusion there are continuing debates about the effects on younger workers, on jobs during recessions and a general sense that the size of increases and the proportion that a minimum wage is of the average wage can be factors in any effects on hours or employment.

The effect on wages and their distribution is much clearer. There is the direct effect of uplifts on minimum wage workers themselves. On top of this, there is evidence of a limited spillover effect, which benefits those above the minimum wage. This is where those earning above the minimum rates also see their pay increase, not least to keep pay differentials within organisations. These wage effects can have positive effects on household income, but this relies very much on factors such as the earnings/benefits interaction, how prevalent minimum wage workers are in the lower income percentiles and the levels of worklessness among households on lower incomes. The European evidence points to income effects above median household incomes with the largest effects in the second and third quintiles.

The other key economic effect is that of productivity, where minimum wages prompt businesses to make changes to increase the value or quantity of their output. There are various ways in which this might happen – from investing in skills and training of staff, to investing in process or product innovation, to achieving greater retention of more satisfied workers – but the evidence to date is suggestive without being convincing. There is some evidence of reallocation of resource within an economy towards more productive firms or higher-skilled workers, but this needs further research. A key challenge – as with all economic effects – is that the data is far from perfect and proving the link between minimum wages and their effects has remained contentious.

The UK minimum wage levels are now in the Top 10 of advanced economies in recent years

A National Minimum Wage (NMW) was introduced in the UK by the Labour Government in 1999, beginning at £3.60 p/hr for those aged 22+. Since then, the hourly rate has steadily increased on a yearly basis to the current rate (until April 2025) of the National Living Wage (NLW), for those aged 21+, of £11.44 p/hr. The average annual increase over 25 years has been 5%. This level has been broken six times in the last 10 years pointing to larger rises since the introduction of the NLW in 2016 after a decade of 3% average rises.

The introduction of the NLW was accompanied by a target of reaching 60% of UK median earnings by 2020. The first minimum wage rate in 1999 was approximately 50% of the median and the proportion barely increased over the next 15 years. After reaching the 60% target in 2020, a new 66% target was given to the Low Pay Commission (LPC) which recommends the annual rate to the UK government, The 66% target was reached in 2024.

The increases in the minimum wage rate have resulted in faster real growth than both the lowest and highest percentiles between 1999 and 2019. Internationally, the UK minimum wage rate has also increased faster than some of its peers. By 2022 the UK rate was 7th among OECD economies in comparative value[1] and 8th in terms of the 'bite' of median full-time wages (the Republic of Ireland was 11th and 19th respectively).

Minimum wage levels are relatively higher in the NI economy and have a higher coverage of workers

The earnings context for NI is one of a lower level of median earnings and therefore a higher effective 'wage bite' of the UK minimum wage. NI follows the strong correlation across UK regions between a higher proportion of workers paid the minimum wage in a given region and a higher 'bite' of the regional median wage. The three UK regions with the lowest median wages in 2023 (North East, NI and East Midlands in ascending order) were the only ones with a coverage rate of more than 7% of workers aged 16 and over.

The relative importance of the minimum wage (NMW or NLW) within the NI economy can be highlighted in the following findings:

- The 'bite' of the NI median full-time hourly wage in NI in 2023 was 72% up from 55% in 2003, among the highest for UK regions.
- There were 54,000 employee jobs paid at the NLW in 2023 for those aged 16 or over in NI. This marks a fall on the level before the pandemic when the introduction of the NLW led to an initial increase as high as 72,000 jobs in 2017, a trend seen across the UK.
- A further 16,000 employee jobs are paid below the NLW – generally for those aged between 16 and 20 years old – at a higher proportion than elsewhere in the UK (especially among 16-17 year olds).
- A significant proportion (31%) of employee jobs for 16+ year olds are paid up to 20% above the NLW and this proportion has risen significantly in 2022 and 2023 with some of the largest increases in the NLW on record.
- A set of low paying industries and occupations – with higher NLW/NMW coverage – exists with two thirds of the total minimum wage jobs in Hospitality, Retail, Office Work, Social Care or Cleaning & Maintenance.

[1] Converted to US dollars and PPP in 2023.

In terms of the characteristics of minimum wage workers more analysis of wage and labour force data is needed but the general rules of higher prevalence among women workers or those without qualifications, those employed either part-time, in the private sector or in micro-enterprises probably holds in NI as well as in the UK.

What to consider when setting a minimum wage in NI

There are a common set of issues which have been addressed across the 180 countries which have adopted minimum wages including the following:

- Whether the minimum wage will be for the whole economy or will have different rates at the regional and/or sectoral level – most adopt a single rate but there are examples of more complex arrangements.
- Whether there would be one rate for all age groups and staff or differences for younger workers and apprentices – in most countries there are different rates for age groups though this practice has been changing in recent years.
- The origins of the minimum wage rate and whether this is a government-only decision, or a decision based upon recommendations from an expert body or other body – generally governments have taken advice with appointed expert groups becoming more the norm.
- Issues such as the nature of the rate (hourly or weekly, etc.) and how often the rate is updated have all to be decided upon.
- The methodology that might be used to set the rate – which can include the use of formula (based on wage and price inflation, etc.), the use of target bites in a certain year (e.g. the NLW reaching 60% of the UK median wage by 2020), or decisions based on the range of evidence in any given year. Targets or guidance bites are becoming more popular.

There is also a need for a robust evidence base to support any devolved decision-making for minimum wages, with local data required for wages, the characteristics of minimum wage workers, and the responses of businesses to adoption of the practice and to increases or decreases. So too, the evaluation of the impacts of any individual rate change or over a longer timeframe to see if the economic effects discussed come to pass. The current data provision in NI, as explored in this report, would require further development to support such decision-making.

Beyond the mechanics of setting a minimum wage there are wider considerations about how minimum wages currently (and in future might) interact with other policy priorities both for the NI economy and in areas such as fiscal policy and welfare benefits. The research shows how there is a clear connection between the ministerial priority to increase 'good jobs' and an adequate level of minimum wages. However, the links between devolving the setting of minimum wages to NI and the priorities to improve regional balance, improve levels of productivity, and reduce levels of emissions are less clear. Other considerations that would follow in the wake of a decision to set a local minimum wage in NI would be what to do with exemptions to the minimum wage (on grounds of age or training) as well as any relationship between local recommendations and the broader campaign for a Real Living Wage or the implementation of the EU Directive on Adequate Minimum Wages.

The case for devolving minimum wage setting to NI

Employment rights legislation is a devolved matter for the NI Executive and Assembly, but this does not extend to setting minimum wage levels. To change this, the UK Government's agreement would be needed and the 1998 Minimum Wage Act amended. The current arrangements whereby NI applies the UK minimum wage rates has the advantage of the general acceptance of the UK LPC's recommendations by both business and employee representatives. It also means that NI applies

NMW/NLW rates which are at the higher end of the scale in terms of bite of the median wage and purchasing power parity when compared to near neighbours and international peers. This is likely to continue given the current UK Government moves towards higher targets for minimum wage rates and the abolition of sub-minima age rates.

However, there are examples where a case for regionally devolving the setting of minimum wage rates is made. Often this is because the national rate is viewed as either too low or too high. Where the rate is seen as too low (for example in the USA or Switzerland), federal states and cities can and have set higher rates or have sought to do so. Higher rates in NI than the UK ones are likely to be identified as a risk to competitiveness or attracting new investment and start-ups, especially in sectors with high levels of minimum wage coverage. The option to set lower devolved rates in NI or to maintain the bite at its current level into the short to medium term, effectively reducing the real level of the minimum wage, has occasionally happened elsewhere but normally during severe economic crises with the intention of protecting employment levels, in particular for younger workers. Any such option would likely be followed by political opposition. In Germany and Spain, where the levels of minimum wages in economically lagging regions has been debated, there have been no decisions reached, presumably because of political difficulties.

The SWOT analysis below summarises the case for devolving minimum wage setting powers to NI.

Strengths Flexibility to set rates that are tailored for the NI economy, in particular in the event of a departure from international minimum wage policy 'norms' by any future UK Government. Flexibility to set sectoral rates - which are typically set at a higher level than the standard minimum wage rate. The fiscal benefits in terms of potentially higher income taxes and lower welfare costs, albeit these would flow to HM Treasury. A competitive minimum wage can make work more appealing to workers, enhancing the overall quality and quantity of the workforce for local businesses.	**Weaknesses** Potential need to resource both a secretariat/advisory function to advise on appropriate rates, and augmented enforcement regime. High levels of economic inactivity could limit the benefit that a higher minimum wage creates for lower income households. Need to create tailored in-work benefits rate for NI that reflects marginal taxation rate faced by working, lower income households. The complicated evidence of a link between minimum wages and improving productivity creates a risk where businesses in NI might not see improved efficiency despite higher wages, leading to subsequent concerns about competitiveness.
Opportunities The power to set a materially higher (or lower) minimum wage rate in NI as part of fully devolved employment laws. Potential to further reduce levels of low pay in NI and create a more equitable labour market, improving living standards for lower income households. To create social partnership structures and gain buy-in for a devolved minimum wage through an independent process. To make training or apprenticeships more attractive encouraging more future employees to develop skills, potentially leading to progression to higher paying positions.	**Threats** Lack of clarity about where an optimal/too high minimum wage bite might be with the risk of creating an uncompetitive environment or visible disemployment effects. Could prompt further reduction of non-wage employee benefits by employers or greater moves towards non-standard arrangements. Potential for NMW setting to become politicised (without an independent NI LPC-type body). Low pay or low monthly/annual incomes may continue to persist in NI due to a lack of hours available to work by employer and/or employee. Difficulty of creating a robust evidence base due to data issues and of building an expertise in this research area.

There are other options – short of full devolution – that may be considered. One is to explore whether the operation of sectoral wage-setting is possible under existing employment rights powers, operating alongside the current UK minimum wage. This already exists for the agriculture sector in NI where wage rates for six different grades are set by the Agricultural Wages Board and the NMW/NLW are a floor under which the award cannot go. In the Republic of Ireland, the report provides examples of arrangements operating in a small number of sectors alongside the minimum wage. In the UK it is possible a similar approach may begin to operate with sectoral Fair Pay Agreements as envisaged by the Labour government. A second would be for the NI Executive to continue work to promote and support adoption by business and organisations of the Real Living Wage (RLW) across the NI economy. The adoption of the RLW is lower in NI that other parts of the UK with higher percentages earning less than the RLW than can be found in Scotland or England. Finally, the moves towards a new NI Employment Rights Bill raises the potential to improve the world of work beyond that which a minimum wage alone can do. There are other 'minimums', such as sick pay, maternity pay or holiday entitlements, that can be achieved with or without the devolution of wage-setting powers.

In conclusion, there is an understandable desire to seek the devolution of powers to set an NI minimum wage in order to tailor this to local conditions. However, there is no clear economic case at present. If regional minimum wage rates are normally sought when the national rate is believed to be either too high or too low, the current position in NI where the NLW is at a 70% 'bite' of the median hourly wage makes it difficult to make the case that the rate is too low. If the direction of the UK NLW was to become one where the rate stagnated or decreased, then the case for devolving this decision-making would be more convincing. Further research may identify a 'threshold' whereby if the bite fell below an certain level, the devolution of minimum wage setting powers would be transferred to the NI Executive.

Another reason to seek the devolution of these powers is that the recent history of the UK minimum wage has been a successful one, in terms of addressing low pay. The UK now has one of the higher minimum wages in the world when measured by its 'bite' and the growth in hourly pay at the bottom of the wage distribution has been double that at the top. Success makes the policy an attractive one though it is important to note what minimum wage setting has not done. Tackling poverty when many low income households have no-one in work requires a different approach to social security and to bringing people into the labour force. The challenges of the NI economy more generally mean that significant productivity improvement and real wage growth across the income distribution, as well as a better alignment of welfare supports to assist more people into work, are necessary too. The continuation of a national minimum wage or the introduction of a devolved one without these other improvements is likely to see the goal of tackling both low pay and in-work poverty to remain currently beyond us.

After reviewing the evidence, this report concludes that while there are arguments for seeking the devolution of minimum wage setting powers, there is limited evidence suggesting a clear or immediate need to devolve such powers at this time. Echoing wider research cited in the report, there are alternative measures discussed throughout the report, such as reforms to employment legislation or encouraging sectoral wage-setting, that may better protect and benefit low paid workers in the more immediate future. Looking to the longer term, the Executive may wish to explore the process of acquiring the wage setting powers with the view to withholding action unless a change in economic conditions presents a clearer need to intervene with minimum wage setting.

1. Introduction

The practice of setting minimum wages at the national or regional/sectoral level is more than a century old with a further expansion in adopting this policy since the 1990s. Before then an early period of significant adoption across many countries was followed in the 1970s and 1980s by a period of policy stagnation and, in some cases (including the UK), rolling back of previous practices. The number of states where minimum wages are set moved from just over 110 in 1993 to approximately 180 in 2023. There has been a multilateral aspect to the policy with almost all current countries being signatories to the International Labour Organisation (ILO) convention on agreeing statutory minimum wages. The EU – as shown by the decision to issue an Adequate Minimum Wage Directive – is also active in the space of influencing the setting of minimum wages.

When the National Minimum Wage (NMW) was introduced in the UK in 1999 it initially went against what was the predominant view among businesses and indeed many economists, that minimum wages lead to job losses. However, the decision has been argued to be a key policy success as it has lifted the income and living standards of millions of low-paid workers since its inception[2]. We explore in Chapter 2 how the economic research shows that the experience of minimum wages in the UK and other countries across the globe has been one of limited adverse effects to employment as a result of rising wage floors. If we take the NI economy as an example since 1999, almost 194,000 additional jobs have been created between Q1 1999 and Q1 2024, increasing the number of total jobs to 947,000 in September 2024.[3]

The development of the UK Minimum Wage, 1999-2024

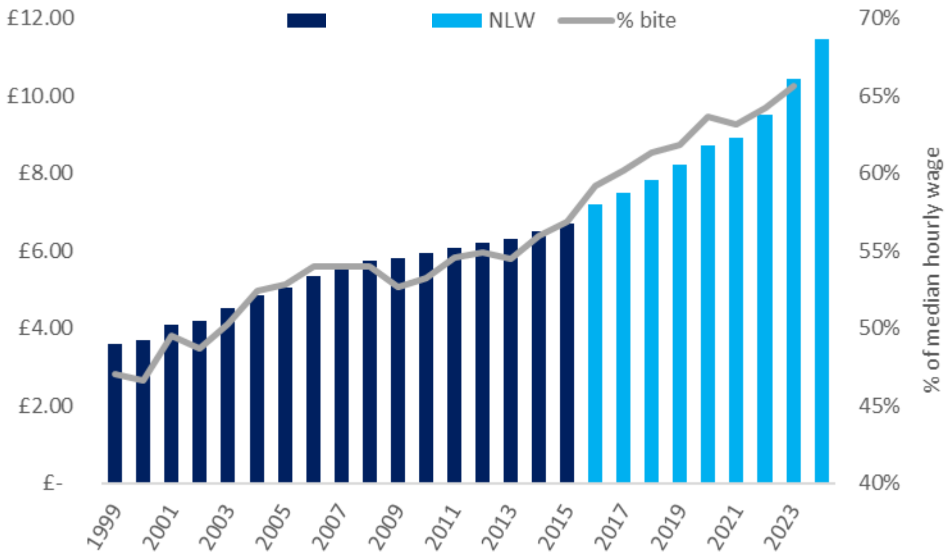
Since 1999, the minimum wage has been increased annually by successive UK governments based on the recommendations made by the Low Pay Commission (LPC). The Commission was established after the 1997 general election and was followed by the 1998 Minimum Wage Act which established a minimum level of pay for most workers (see Box 1 for more details). The 1999 decision went against previous policy in the UK as the previous Wages Councils which regulated wages in different industries had largely been abolished in 1993[4]. In 1995, the Labour Party committed to establishing the LPC, made up of representatives from employers, employees and independents, which would set the rate of minimum wages. This policy position was openly opposed by the Confederation of British Industry (CBI), arguing 'that even a low minimum wage would reduce job opportunities and create major problems for wage structures in a wide range of companies'[5]. However, the scale of the Labour victory, the framing of arguments in favour as being part of a broader welfare issue, and initial research from the new LPC, that a minimum wage of £3.60 per hour (below 50% of the median wage) would not have negative employment impacts created a consensus over time.[6]

Since 1999 the headline adult (began at 22+ in 1999) minimum wage steadily increased on a yearly basis from at £3.60/hr to the current rate of £11.44/hr in 2024. A comparison of minimum wage growth against the 10th, 50th and 90th percentile hourly earnings in GB, has found that the minimum wage had faster real growth than the 10th percentile and much faster real growth than the 50th and 90th percentile between 1999 and 2019. Further, of the four percentiles, the 10th percentile hourly

[2] See Institute for Government - National Minimum Wage Policy Reunion
[3] This figures from the quarterly Workforce Jobs, sourced from NOMIS.
[4] There had been 66 Councils at one point and the Agriculture Wage Boards in NI and Scotland are the last survivals of these institutions.
[5] Institute for Government (1998).
[6] Metcalf (1999); Brown (2009).

earnings and the minimum wage showed real growth post Global Financial Crisis (GFC), while the higher percentiles stagnated.[7]

Figure 1: National Minimum Wage and % bite of median hourly wage, UK, 1999-2024

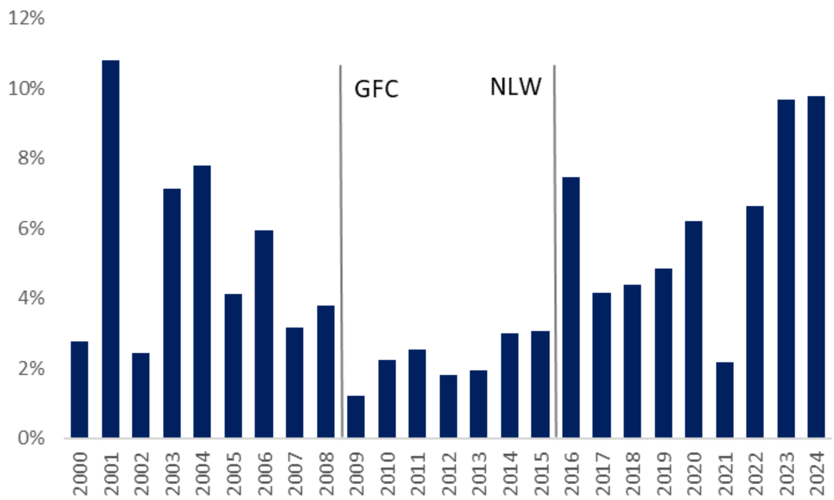


Source: ASHE, UUEPC Calculations

Note: The NMW after the introduction of NLW (2016) is the minimum rate given to those aged 21-24, and from 2021 onwards for those aged 21-22.

Figure 2 shows the annual percentage increases in the minimum wage rates since 2000 and the wide variation in these. The largest annual percentage increase was 11% in 2000/2001 shortly after the minimum wage was introduced, when the rate increased from £3.70 to £4.10. Other notable increases include the introduction of the National Living Wage (NLW) for workers aged 25+ which would be 50p more than the NMW (initially applying to 21–24-year-olds). The 2015/16 increase followed a period of much lower increases after the GFC, beginning in 2009 with a 1% (or 7p in real terms) increase, this marked a period where the NMW decreased in real terms.

Figure 2: % increase in the NMW/NLW, UK, 2000-2024



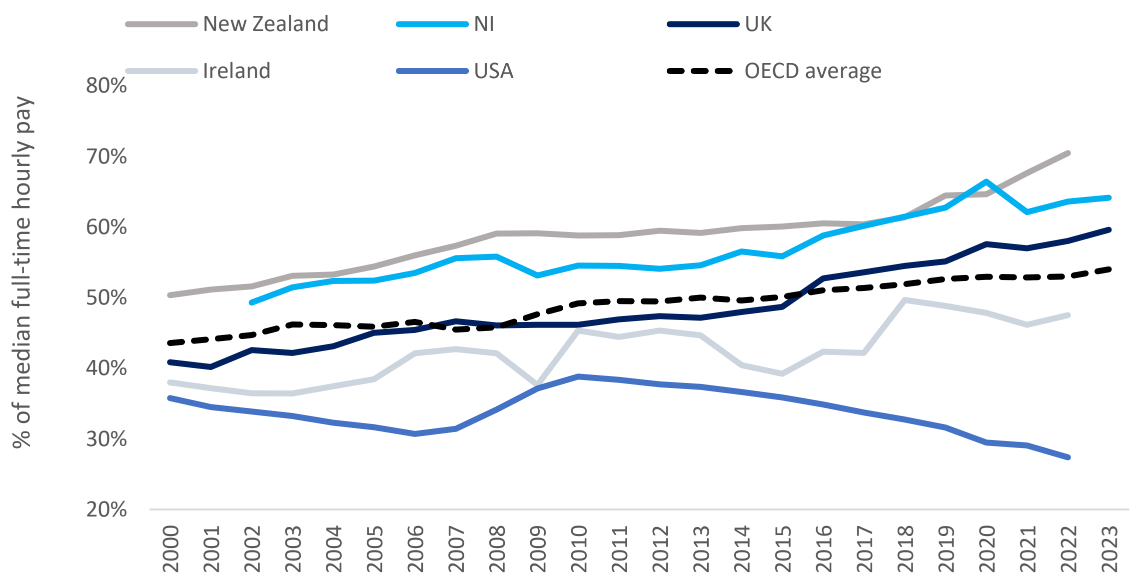
Source: Low Pay Commission & UUEPC calculations

[7] Analysis from Machin (2024).

The 2015 NLW announcement also included the aim that, by 2020, the NLW would reach 60% of UK median earnings. When the NMW was first introduced in 1999, the bite of the median wage was approximately 50% and this increased slowly during the 2000s and then stagnated after the GFC. The NLW reached its 60% target by 2020, at which point a new target of 66% by 2024 was set. Achieving the 66% target after Covid has resulted in two consecutive years of 10% increases, representing some of the largest percentage increases since 1999 (see Figure 2). The increase in April 2024 was also the largest monetary rise (£1.02) in its history. This drew a negative response from the CBI chief executive about the 'risks of stoking inflation' in a period of low growth and high cost of living[8]. This followed demands from both the CBI and the British Chambers of Commerce for the LPC to consider how productivity gains and inflation could be linked into any future deliberations of minimum wage rates.[9]

The UK LPC (in a practice followed by the Irish LPC) generally uses international comparisons which conclude that the UK rate is relatively high. A recent statistical review suggested that the UK minimum wage was in the top third of 32 countries by value of the rate and 'bite' of median wages[10]. The 2023 data suggests that the UK's ranking has actually increased on the back of two consecutive 10% increases in the rate. The UK 'bite' has increased over time – in line with the LPC recommendations and also Government policy, especially since 2016 – but for much of the period until the latter year was below the average of OECD countries. Figure 3 also shows the changing 'bite' for a number of other selected countries. New Zealand is shown because it is sometimes referred to as the advanced economy with then highest 'bite', though its value is lower than three Latin American countries. So too the federal rate for the USA which is much lower in the rankings. The Republic of Ireland, with 19th highest bite of OECD countries also remains below the OECD average.

Figure 3: Minimum wage as % of full-time median wages, selected OECD Countries, 2000-2023

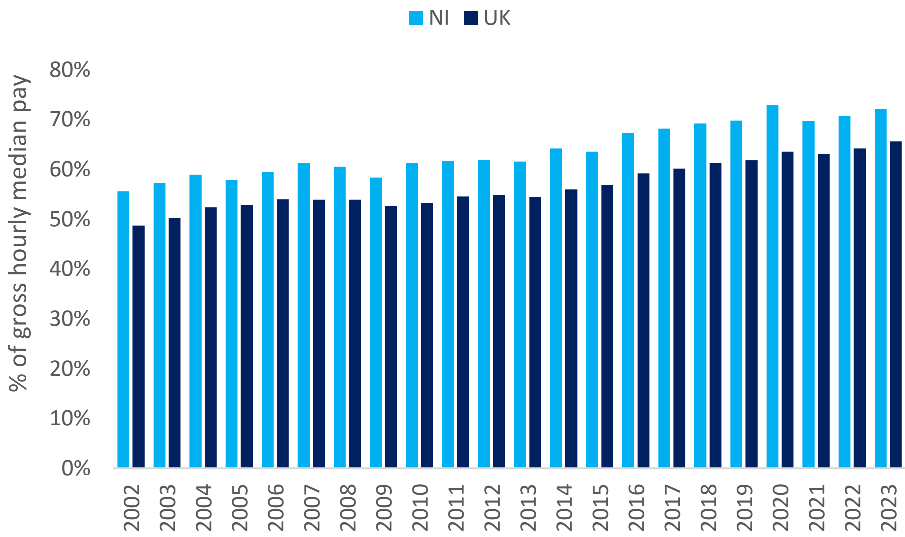


Source: OECD, NOMIS & UUEPC Calculations
Note: OECD 'bite' data is based upon national minimum wages as a proportion of median hourly wages of full-time workers. The UK data moves from the NMW to the NLW from 2016 onwards.

[8] Bloomberg UK, 27 March 2024.
[9] CBI statement, 18 September 2023.
[10] Francis-Devine (2024).

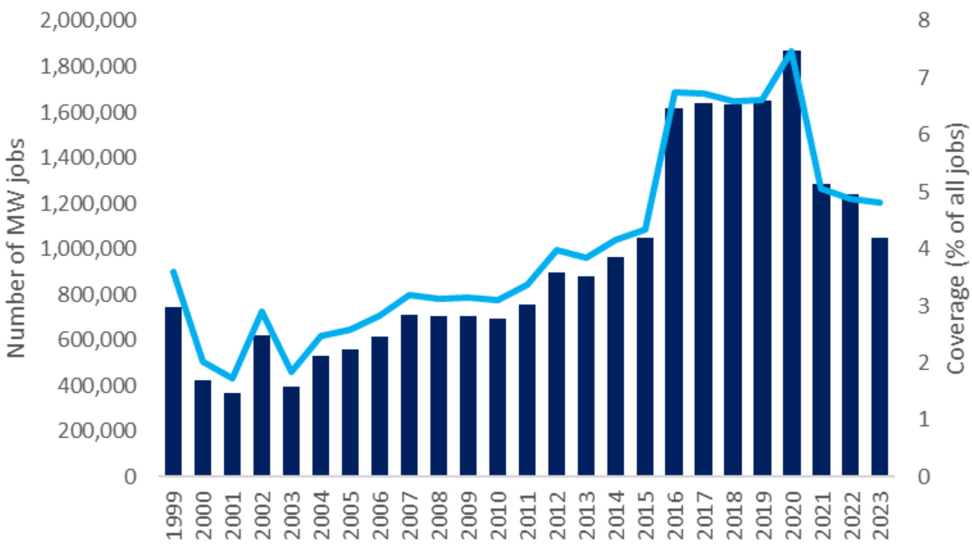
The effective 'bite' figures provided in the OECD data for the UK, NI and Republic of Ireland are lower than usually quoted – as the OECD dataset uses *full*-time wages as the basis and that cited by the LPC and others uses a median of *all* wages. Using the following measure, Figure 4 shows how the effective 'bite' in NI has been between 4 and 9 percentage points larger than the UK 'bite' since 2002. This reflects the lower median wages available in NI and the result is that the NI 'bite' in 2023 was 72%, well above the UK's 66% one and the highest of any of the devolved regions.

Figure 4: Minimum wage as % of all median wages, NI and UK, 2002-2023



Source: ONS NOMIS

Figure 5: Number and % Coverage of the adult (25+) NMW/NLW, UK,1999-2023



Source: Low Pay Commission
Note: Coverage includes all jobs paid up to 5p above NMW/NLW

To give a consistent picture of the number and percentage coverage of adults on minimum wage jobs across the UK, Figure 5 uses the LPC 25+ age group. It shows the steady increase from the early 2000s and then the sharp rise of more than 600,000 workers following the introduction of the NLW in 2016 bringing a new cohort (of 22-25 year olds) under the minimum wage coverage. The numbers and coverage plateaued between 2016 and 2019 before declining from 2021, despite 2022 and 2023 delivering some of the largest recorded nominal[11] increases to the NLW. The recent decline has come at a time when nominal wages have risen generally just as the age coverage of the NLW was extended (to 21 and over) and the labour market has recovered after the Covid-19 pandemic. In general, this has seen fewer 25+ year olds covered by the NLW rates as their wage differentials have improved.

Coverage of the minimum wage has very slowly been extended to younger participants in the workforce. In 1999 there were two rates for 22+ and 18-21 year olds and, when the higher National Living Wage (NLW) was introduced in 2016 to apply to 22+, the NMW continuing to apply to younger workers aged 18 and above, including school leavers and older. Over a decade since 2013 there has been an average of 385,000 18-21 year olds earning the NMW, meaning than in any given year more than 1.7 million workers of all ages in the UK were paid a minimum rate of pay, equivalent to more than 6% of all jobs.[12]

From 2024 the NLW applied to 21+ with two sub-minima rates for 18-20 year old olds and 16-17 year olds. It has been estimated that, in April 2024, after the introduction of the new rate, over 2 million people across the UK could be earning the NLW or the applicable minimum wage rate for their age group. This translates to 6.7% of the UK workforce aged 16+, a higher coverage than the 4.8% of 25+.[13]

The new Labour government has raised the possibility of further changes to the minimum wage in the UK. The Trades Union Congress has demanded a bite of 75% of the median wage (or a £15 hourly rate) by 2030, while the new government has asked the LPC to take the cost of living into consideration (in addition to median wages and economic conditions) when recommending the level of the NLW. There are also plans to remove the 18-20 year old minimum wage rate meaning all employees aged 18+ would be entitled the NLW (although this would be phased-in over time). The new government has also outlined that it wants to work with the HMRC to penalise non-compliance of employers. Finally, UK Government plans for Fair Pay Agreements[14], starting with the adult social care sector, have also been announced in July. These agreements are to be reached on a sectoral basis through negotiations with social partners working towards minimum standards for pay and conditions. Overall, the minimum wage environment continues to evolve.[15]

The LPC has recommended and the Government accepted an NLW rate of £12.21, within the estimated range of £11.82-£12.39, which was based on earnings growth and what might be required to maintain a 66% hourly bite. The LPC consultation explored the effects of 21–22-year-olds being included within the NLW and recommended higher than average increases for the 18-20 year old, 16-17 year old and apprenticeship rates which close the gap to the NLW.[16]

Objective for this report

Up to the present time, the NMW and NLW have been single UK-wide policy rates. This report looks at the evidence, economic context and implications of setting minimum wage level(s) in a devolved NI Executive setting. The earnings context for this is the lower level of median earnings in NI and thus the

[11] Not adjusted for inflation

[12] Based on data from LPC (2024).

[13] LPC (2024). An equivalent increase to the UK coverage rate between 2023 and 2024 would mean an NI rate of over 9% in 2024, perhaps 100,000 employees.

[14] Fair pay agreement is an agreement that applies to all workers across entire industries or occupations. It provides minimum terms and conditions of employment on issues such as pay, hours, leave, health and safety.

[15] See [Institute for government – Labours Fair Pay Agreements New Zealand]

[16] For details see [Gov.uk - National Living Wage Increases 2025]

higher effective 'wage bite' of the UK minimum wage locally. There has also been political agreement that the powers to set minimum ages should be a devolved matter[17].

The objective for the research is as follows:

> **In the context of driving achievement of the four Department for the Economy economic priorities, [the report should] provide detailed economic, fiscal and other implications of a range of options should a new national minimum wage be set for Northern Ireland.**

The research takes place alongside several broader debates about the 'adequate' level of minimum wages, whether a tipping point exists for more significant negative effects on employment and whether the policy focus should shift from one based only on the adequate level of income to one that tackles working conditions (including wages) and job security more broadly. The last of these is the basis of the 'good jobs' debate, which has been identified by the Minister for the Economy as one of his four priorities.[18]

[17] Department for Economy - A new decade, a new approach
[18] For more see Economy NI - Minister Murphy Economic Vision Statement

2. Minimum wages and the economic effects: Employment, distributional and productivity

The literature on the economic effects of minimum wages continues to grow[19]. One reason is that the debate within labour market economics of the effects remains a heated one, even after 100 years[20]. By the 1980s most economists supported the assumptions of neo-classical economic theory of competitive labour markets, which denied the need for mandated minimum wages. The theory states that, if a mandated minimum wage exceeds the market rate, then demand for labour would fall and firms would reduce their workforces (either laying people off, reducing hours worked or delaying future recruitment). This is the dis-employment effect.[21]

However, a new debate opened as the 'new minimum wage research' emerged with the publication of David Card and Alan Krueger's *Myth and Measurement: The New Economics of the Minimum Wage* in 1995[22]. This found a large positive employment effect associated with an increase in the minimum wage in New Jersey, thereby challenging the theory that mandated minimum wages caused job losses. Their conclusion has been challenged and, while the balance of evidence still points to dis-employment effects, a 2022 literature review concludes that many economists now argue that 'we cannot be sure about the effects'.[23]

A second factor in the expansion of literature is the growing number of countries where national or sectoral minimum wage policies now exist. The initial focus of research on the USA has widened to also include areas such as the UK, Germany, and the Republic of Ireland. A further boost to the growth in literature (particularly since 2014) is the interest from other disciplines such as Management and Industrial Relations, Psychology and Medicine/Health. Disciplinary diversity has also added insights on the positioning of minimum wages within a broader job and work quality framework as well as a wider view on the power dynamics within workplaces.

The literature on economic effects reviewed here is summarised to focus on four areas:

- Employment effects;
- Distributional effects – in terms of wages and incomes;
- Productivity effects; and
- Other effects – hours, non-compliance and non-wage benefits.

Employment effects

The debate on employment effects has produced two distinct strands of research with different conclusions and a different presentation of those conclusions. The first strand can be summarised by the series of papers from David Neumark and co-authors[24]. Neumark and colleagues first responded to Card and Kreuger in the 1990s, and since then they have questioned both the econometric methods used and any attempt to present the conclusions around employment elasticities as being anything other than negative, given the majority of estimates are negative. This strand also argues that teenage

[19] Searches of the Web of Science database for peer-reviewed articles with 'minimum wage' in the article title, abstract or keyword produced a total of 409 articles for the years 2014-2024, an increase from 202 in the previous decade. We drew a selection of articles from these searches for this literature review.
[20] Leonard (2000).
[21] Hicks (1932); Hamermesh (1995).
[22] Belman and Wolfson (2014).
[23] Neumark & Shirley (2022).
[24] Neumark (2000); Neumark et al (2014); Neumark & Wascher (1992, 2010, 2017); Neumark & Shirley, (2022).

or young workers are particularly impacted by dis-employment and that increases in minimum wage rates lead to a reduction in employment growth over time. This is said to be greater than any short-term dis-employment effect, particularly for younger workers[25]. A related area of research is how minimum wages operate at different points in the business or economic cycle – the effects in a recession being quite different (more negative or hard to disentangle)[26]. Finally, this group of researchers find that lower-qualified workers are more impacted as higher-qualified or more experienced unemployed people are more likely to be successful in securing available jobs.[27]

The second strand of research can be summarised by papers from Arindrajit Dube and co-authors[28]. The conclusion is that, although most studies find a negative estimate, 'the weight of the evidence suggests any job losses are quite small.' (p.50). This strand is different to Neumark et al., as it finds little evidence for a perfectly competitive labour market. Dube et al. also explore how minimum wage increases have been absorbed, if not through employment losses. This has led to research on the evidence for the existence of monopsony power exercised by firms in the labour market[29], as well the use of price and productivity as responses (see productivity sub-section below), to explain the relatively small employment effects[30]. However, an important note of caution offered by these authors is that the evidence to date on employment effects comes from a time period and from countries where the 'bite' has typically been below 60% of the median wage. This poses a question whether the same conclusions will apply in an era of higher minimum wages and more significant increases in the wage rate.

In an attempt to address this question Alan Manning argues that, as labour market frictions[31] make it difficult to accurately estimate employment effects, it may be better to explore the level of the minimum wage at which employment effects begin to become significantly negative. This might be where the 'bite' passes a certain percentage of the median wage (60% is sometimes mentioned) or where minimum wage rises increasingly impact on non-tradeable sectors (where price pass-through to customers is more difficult)[32]. Manning's point is important as on all sides of the employment effects debate there is an understanding – strongly articulated in Card and Kreuger (1995) – that there is an undefined point at which increases in the cost of labour will reduce demand for labour.

So is there is an optimal level of minimum wages in terms of little or no employment effects? There is no clear answer to this question. One suggestion, from German evidence, is that it is wrong to extrapolate the effects from evidence on employment effects of moderate minimum wages to the likely effects of more ambitious levels. Secondly, any ambitious minimum wage targets have only been moved to in small steps, with careful evaluation of short-run employment effects so any change in

[25] Meer & West (2016).
[26] Sabia (2014); Clemens and Wither (2019).
[27] Clemens et al (2021); Adams, Meer & Sloan (2022).
[28] Allegretto et al. (2017); Dube (2019); Cengiz et al (2021); Dube and Lindner (2021).
[29] Monopsony power is normally regarded as the power to set wages unilaterally as a dominant employer in the local labour market. For more see Devereux and Studnicka (2023).
[30] Cengiz et al (2021).
[31] Frictions are factors which make workers less willing or able to move between jobs or sectors and can include wage gaps between jobs in the same or different sectors. Research has found that minimum wages, even at a lower level as in the USA, do reduce the turnover of staff or movement from one job to another, which may have a negative effect on productivity gains; see Dube, Lester and Reich (2016).
[32] Manning (2021).

these can be detected in time.[33] It is worth noting that, in Germany, the minimum wage remained at a 'bite' of 50% or less since its introduction in 2015 up to 2022.

The research into employment effects highlights some difficulties in modelling using survey-based wage data (see Box 4). This is important given the weight that is placed upon creating an evidence base to support decisions around setting minimum wages. In several recent articles, administrative data is increasingly being used in order to allow the outcomes of those earning below a new minimum wage rate be compared with those earning just above the threshold.[34]

Distributional effects

There are fewer studies on the effects of minimum wages across the wage distribution and how those translate into effects on household incomes. (The impact of minimum wages on benefit eligibility is an important issue which we return to below.) Minimum wages are intended to lift pay rates for those directly targeted, i.e.: those whose rates of pay below any new minimum wage rate. There is also a different potential *ripple* or *spillover* effect on the wages of those above the new minimum wage, if this new rate is taken as a benchmark for wider wage setting or if firms (and workers) want to maintain a wage structure based on difference to the minimum wage[35]. This raises a broader macroeconomic point, whether an increase in the minimum wage leads to an increase the average wage level and, in turn, impacts competitiveness.

The country context is critically important for distributional effects. For example, research from the US, which looks at the impact on wages and household incomes where the minimum wage level is relatively low (a bite of 26% in 2023), finds a concentration of minimum wage workers in poorer households *only* and significant positive impacts on their wages and incomes[36]. A similar finding can be seen in Estonia (a bite of 42% in 2023), where there has been a relatively unequal wage and income distribution due to a lack of collective bargaining and a regressive income tax system. The effects of increases in the minimum wage are strongest in the lowest twentieth percentile[37] and the impact then dissipates very quickly. The spillover effect in Estonia is small even just above the minimum wage rate, though it is larger for women and older workers[38]. This concentration in the lowest percentiles points to an effect in terms of improving the wages of the workers covered. However, it also raises the question around effectiveness as an income support policy for low income families, given the dependence on one or more members of the household being in work.[39]

In the UK context, there is the same significant effect (albeit from a higher minimum wage and bite) on wages at the bottom end of the distribution and this has prompted a debate over the size of spillover effects[40]. Research on the impacts of the NMW to 2007 showed limited spillovers to the wages of those workers above the minimum level, but this appears to have changed after 2008 as the

[33] Ahlfeldt et al (2022).
[34] Dustmann et al (2021); Barceló et al (2021); Gorjón et al (2023).
[35] An important view on worker effort due to relative wages can be seen in Kreuger and Summers (1988).
[36] Cengiz et al. (2019) and Dube (2019).
[37] The income distribution is divided into different bands – 100 percentiles, ten deciles, five quintiles, etc – and the first or second decile or quintile are the lower ones.
[38] Merikull et al (2018).
[39] Neumark (2015); Sabia (2015).
[40] The debate which arose from three different papers produced for the LPC in 2009 can be seen in Stewart (2009); Butcher, Dickens and Manning (2012) and Dolton, Bondibene and Wadsworth (2012).

uprating was relatively larger than previous uplifts[41]. A recent report for the LPC has identified considerable spillover effects from the NLW up to the 30th percentile – this is even greater in local economies (or travel to work areas) where the proportion of minimum wage workers is higher than average[42]. This suggests a positive impact from the minimum wage in addressing wage inequality towards the lower end of the wage distribution.

The UK evidence also suggests that increases in minimum wage rates impact UK households up to the median income, suggesting that many households up to this point will have at least one member being a minimum wage worker[43]. This picture of the distribution of minimum wage workers, and the gains from rate increases impacting across the household distribution, is also found in research from the Republic of Ireland[44]. This found that, when taken in isolation, the average gain in weekly household income after a minimum wage increase was 0.25%, with the highest rise in Quintile 2 (0.6%), followed by 0.3% increases in Quintiles 1 and 3. A similar effect was experienced in France where increases in the minimum wage have been shown to impact wage distribution up to the sixth income decile. This suggests that increases in minimum wages do impact the lower percentiles of the income distribution but particularly where minimum wage workers are concentrated in low income households and where wages or employment earnings are a significant proportion of income as opposed to this predominantly coming from benefits[45]. The question of distributional effects also points to the need to fully understand the prevalence of minimum wage workers, by various characteristics – regional and spatial as well as age, gender, education, etc.[46]

Productivity effects
Another potential economic effect of increasing minimum wages is improved productivity in firms.[47] There are several potential channels for this, including higher-paid staff working harder; minimum wages prompting firms to move from more expensive labour towards other capital-intensive forms of production (i.e.: automation); or influencing firms to invest in intangible assets such as training, innovation and organisational capital. Other structural trends, such as reallocation of economic activity between lower and higher productivity sectors is another potential effect.

The UK evidence to date has found a positive but not statistically significant link between the NMW and firm productivity, with the more recent NLW appearing to have no effect either way[48]. The main barrier to the research is how to link wage and firm-level productivity data (usually turnover per head is used as a labour productivity proxy).[49] A different issue has arisen in terms of attributing the effect when you find it. Research has shown that labour costs and productivity have both been found to increase substantially more amongst those firms with high levels of minimum wage workers than in

[41] Swaffield (2014).
[42] Avram and Harkness (2019).
[43] Giupponi et al (2024). Earlier analysis, using the Family Resources Survey for 2013/14, suggested that 18% of all recipients of the NLW were in the 7th decile group; see NERI (2015).
[44] ESRI (2019). Earlier research on wage effects in the Republic of Ireland – which shows wage effects focused on the bottom 31% of the distribution – can be seen in Holton & Collins (2016).
[45] In the most recent Family Resources Survey data for Northern Ireland (2022/23) households in the bottom quintile (after housing costs) got 41% of their income from earnings and 46% from state supports or benefits. In the second quintile the respective proportions were 57% and 34%.
[46] The UK LPC's annual reports provide information on this and more international evidence can be found in Dube (2019) and a more recent comparative work on the EU; see ESRI (2021).
[47] Most research focuses on labour productivity *within* firms rather than the effect on aggregate productivity.
[48] LPC (2022).
[49] Researchers have either used employer survey data or firm-level databases, such as FAME.

other firms in the post-NMW period to 2009. Although this effect can be seen in firms across size bands and sectors, the evidence of causation tied to the NMW has proven difficult to show.[50]

Other researchers have explored different levers that might increase productivity. For example, whether minimum wages create incentives for firms to offer more training for their employees to raise their productivity. In theory, in a position where employer power is strongest due to monopsony, employers would accrue the benefit from providing training or from better monitoring of employee performance through tighter human resource practices or better management practices. However, the evidence in both the USA and the UK for these types of responses is quite weak.[51]

Another approach to raising productivity could be through increased worker effort in response to receiving a better wage[52]. Several research papers, using experimental designs, find some evidence of relationships between minimum wages and efficiency improvements in different settings. For example, there is evidence that the NMW may have improved performance in the UK care homes sector, due to a reduction in the level of worker supervision required.[53] Other research finds that minimum wages can reduce the high levels of job churn and quit rates among low paid workers (including younger workers) in both the USA and UK.[54] A different article from the USA found that the productivity of retail workers increased in the aftermath of a minimum wage increase, though not enough to offset the additional wage costs and not for every worker (some workers with less monitoring saw no increase).[55]

A different productivity-enhancing effect is reallocation, which might include replacing lower-skilled workers with higher-skilled workers and, at an economy-wide level, raising firm dynamism by transitioning the distribution of firms towards those engaged in more productive activities. There is a debate in the USA between those who see evidence of employers substituting more highly skilled workers for lower skilled workers (who lose their jobs) in response to minimum wages, and those who believe this effect is not significant[56]. An alternative approach is to explore whether higher minimum wages encourage the net entry of more productive firms – the evidence from 216 Chinese cites and Germany would appear to show this reallocation effect[57]. Research by the UUEPC for NI points to the net entry of lower productive firms in 2010-2021, though no test of whether this owed anything to an increasing 'bite' from the minimum wage was explored.[58] In NI the evidence points to productivity problems being as much about what happens *within* sectors as *between* them. Reallocation of employment between sectors will not solve the productivity issue alone.

Other effects

While the bulk of international minimum wage research has focused on identifying employment effects, there are a growing number of studies that examine other outcomes for workers and firms,

[50] LPC (2022).
[51] Acemoglu and Pischke (2003); Riley and Bondibene (2017); Bernini and Riley (2016). Qualitative analysis for the UK LPC has generally found little effect over the years.
[52] Shapiro and Stiglitz (1984).
[53] Georgiadis (2013).
[54] Dube et al (2016); Dickson and Papps (2016).
[55] Coviello et al (2022).
[56] Clemens (2019); Cengiz (2019).
[57] Mayneris et al. (2014); Dustmann et al (2021).
[58] Bonner, Martin and Donaldson (2023).

and broader impacts across the labour market and economy.[59] Three of the more significant areas are highlighted here:

Hours: Given the costs associated with dis-employment effects (redundancy payments, legal issues, etc), firms could instead adjust to increases in minimum wages by reducing the total number of hours worked[60]. There is evidence from the UK of this effect as a result of both the NMW in the 2000s and the NLW since 2016. While any reductions in hours tend to be modest, the effect on part-time female workers and on males working on temporary contracts may be more marked. The research for the LPC also points to these effects perhaps being stronger in the aftermath of larger increases in the minimum wage, for example when the NLW was first introduced in 2016 and (though not evidenced yet) the last two increases of more than 10%.[61]

The evidence from Germany is one of falling hours in the years after the 2015 introduction. These were quite large estimates – of between 6% and 13% depending on whether contractual hours, actual hours or paid time was used – but there are issues with the statistical significance. Research from Ireland has shown that individual annual rises have little effect on hours but that cumulative increases (in this case between 2016 and 2018) did see a reduction in hours worked. This varied across sectors – Manufacturing and Hospitality being particularly impacted.[62]

Non-compliance: The introduction of mandatory minimum wages tends to come with non-compliance (deduction of pay, paying incorrect rates or failure to pay for time) and therefore with enforcement processes. Economic theory suggests that, while the rule of law requires that regulations be followed, there continues to be wage theft (or non-compliance) in the labour market, especially in sectors where business cannot pass on costs or, alternatively, where regulation or enforcement is weak[63]. In the UK, the LPC monitors levels of under-payment of the NLW and NMW and non-compliance and has found that while the levels have been falling since 2016, around a fifth of minimum wage workers are still underpaid[64]. The HMRC report on the policing of compliance: 202 businesses in 2017-2019 were found guilty of under-payment (9 in NI) and this affected 63,000 workers, perhaps a fifth of the total that the LPC estimate to be impacted by non-compliance.

The industrial relations and management literature points to compliance being affected by the extent to which employers have time to plan for a minimum wage increase and the size of said increase. Research from the USA points to substantially larger increases in non-compliance when new legislation enacts an increase rather than this coming about due to automatic inflation indexing (as happens in a number of US states).[65] In Germany, the introduction of a national minimum wage in 2015 with modest rises saw evidence for non-compliance rising in the first years, before rates subsequently decline. This suggests a short-term response followed by different strategies to absorb or adapt to the rise in minimum wages.[66] The evidence from Ireland points to a lower rate of non-compliance (5.6% of minimum wage workers being underpaid), and a concentration in firms where employees work on

[59] A broad overview is provided by Belman & Wolfson (2014) and Dube (2019).
[60] Strobl and Walsh (2011).
[61] Institute for Employment Studies (2019); Aitken, Dolton & Riley (2018) find little or no effect.
[62] Redmond and McGuinness (2022); Bruttel (2019); IER (2020).
[63] Clemens (2022); O'Sullivan (2023); Bernhardt et al (2013).
[64] LPC (2023).
[65] Clemens and Strain (2020).
[66] Bruttel (2019).

their own, in sectors such as childcare, agriculture, and in personal care occupations.[67] This evidence from across countries points to non-compliance being a strategy that some firms adopt, and identifies a need to afford protections to employees, especially those who are more isolated such as employees working on their own.

Adapting non-wage costs: There is US evidence that firms look at other non-wage costs to respond to minimum wage increases. These can include changes in the benefit packages they offer to workers (such as health insurance)[68], the amount of exertion they require of workers on the job[69], and perhaps even schedule irregularity or reduce staff hours when there is low demand[70]. This research (on the reactions of businesses within the margins) is less well-developed in the UK and EU, something noted by the Chair of the Irish LPC in a recent Oireachtas Committee appearance (October 2023).[71]

Concluding points

The evidence from the most recent literature is that the economic effects of mandatory and increasing minimum wages are generally modest. The employment effects are generally negative (summarised in Table 1) . The employment elasticity estimates produced by an evaluation of the effects associated with past minimum wage increases range from a low of -0.005 to a high of -0.189. In actual terms this means that with a 10% increase in a minimum wage rate, employment rates would fall between 0.05% and 2%. Table 1 also includes simulation estimates used by the OBR and previous research produced by UUEPC in trying to forecast what the employment effects might be from the introduction of a 60% and 66% 'bite' from the UK NLW. One review of these estimates point to simulation estimates generally being much higher than those which come from the evaluation of changes, perhaps something which might explain how the employment effects are often less than expected[72].

Table 1: Summary of employment elasticities

Study	Average or range of employment elasticity estimates	Simulation or evaluation	Country or region
OBR (2015)	-0.4	Simulation	UK
OBR (2018)	-0.5	Simulation	UK
UUEPC (2019)	-0.15 to -0.75	Simulation	NI
Brewer (2019)	-0.05 to -0.11	Evaluation	UK
Dube (2019)	-0.115	Evaluation	International
Neumark & Shirley (2022)	-0.141 to -0.189	Evaluation	USA

Source: As referenced

The modest and negative effects in terms of how likely workers are to retain their jobs can also be seen in the estimated effects on hours worked, with an additional suggestion that the small effect may rise over time with cumulative increases in the rate of minimum wages. The productivity effect (where

[67] McGuinness et al (2020).
[68] Meiselbach and Abraham (2023).
[69] Coviello et al (2022).
[70] Clemens (2021).
[71] The UK LPC has commissioned a numbers of research projects in 2023 and 2024 looking at this area, including alternative working arrangements, etc.
[72] Dube (2019).

businesses make changes to increase output as wages go up) is less contentious than that of employment, but the evidence suggests little change (these productivity findings are based on linking wage changes to turnover or output).

The clearest effect from having a minimum wage regime is on wages themselves. In addition, to those directly impacted, the evidence shows a spillover effect also benefitting those above the minimum wage as their wages increase. There are also positive effects on household income, but this is very country specific, depending on the prevalence of minimum wage workers in the lowest income percentiles as well as the balance between employment earning and welfare receipts for households on lower incomes. The evidence is that the income effects, at least in some European countries, can sometimes be seen above median household incomes but are most felt in the second and third quintiles.

In general, there is no clear answer about what other research tells us about the effects of minimum wages, especially when it comes to employment and hours. This highlights both the contested nature of the evidence but also perhaps that researchers are trying to cover two very different things. A paper from colleagues in University College Dublin from 2011 which looked at the effect of minimum wages on hours captures this point well:

> We might conclude that while empirical studies that measure the impact of a minimum wage on employment or hours are clearly important from a policy perspective, the results from such studies give little guidance as to the underlying structure of the labour market.[73]

[73] Strobl and Walsh (2011).

3. How minimum wages are set: Issues and case studies

As noted at the start of the report, approximately 180 countries have adopted minimum wage policies, a majority on a national basis only but, in some countries, on a regional, sectoral or occupational basis. In this chapter we look in more detail at how minimum wages are set in different countries and the issues that arise over different practices and who sets the rate.[74]

Issues in setting minimum wages
A similar set of questions or issues are posed for countries or regions, including:

- **Deciding who sets the wage** – this can be set by government alone, by social partners (including government), or by expert groups and Commissions (these often include social partners). In less than twenty countries – including New Zealand – the Government alone sets the rate after reflecting on evidence. The more prevalent method is now that a Government sets the rate based on advice from an expert body (like the Low Pay Commission in the UK or Ireland). These bodies generally include experts as well as social partners (business and trades unions), but sometimes (as in Germany or Australia) only social partners have a vote, or are restricted to social partners only (as in Spain). It is important to note that countries tend to stick with the mechanism they choose over a long period of time.

- **What methodologies to use** – what to consider when setting the wages and/or whether to use a formula or medium-term target. There is no single method but an increasing drift towards agreeing a reference rate (usually a future % of median wages) can be seen. In some countries (like France and the Netherlands) a formula ties the wage rates to the inflation rate.

- **Levels of aggregation** – single, national rate or sectoral and/or regional rates. Although there is one national rate in most OECD countries, there are cases where sectoral or regional variations exist which are further discussed below.

Sectoral minimum wages
Sectoral variation normally exists where collective bargaining remains strong at the industry level and this is the case in around 100 of the 180 countries looked at. Examples of this reliance on collective bargaining can be seen particularly in Nordic countries, Italy and Austria. In the latter two cases the use of sector-specific minimum wages is argued for on the basis that that it is more difficult in some sectors (especially tradeable services such as Hospitality) to pass on the costs of minimum wages to consumers[75]. An older model of sector specific wage floors can be found in countries which adhere to the original British model of sectoral Wages Councils. This continues in Australia and South Africa with a national rate and different awards based on age, location and sector.[76]

A variation on the Wage Councils system operates in the Republic of Ireland with Sectoral Employment Orders (SEOs) and Employment Regulation Orders (EROs) setting pay rates in different sectors or industries[77]. SEOs are agreed after inquiry by the Labour Court which produces a recommendation to

[74] Three sources of information have been used to compile this overview - country databases provided by the ILO and the wageindicator.org website; information from EuroFound - and this has been supplemented by a series of consultations. For a recent review see Dickens (2023).
[75] McVicar, Park and McGuinness (2017)
[76] The Agriculture Wages Board in NI is another continuation of this earlier system.
[77] O'Sullivan and Wallace (2011); O'Sullivan and Royle (2014).

the Government on sectoral rates of pay, sick pay and pensions. The SEOs cover different trades in the Construction sector (currently general operatives and craft persons), as well as Electrical Contracting and Mechanical Contracting (though the last two are not set at present). The rates are generally much higher than the minimum wage levels in Ireland. EROs are lodged in the Labour Court by Joint Labour Committees (JLCs) which the Court establishes. EROs currently are in force in the Contract Cleaning, Security and Childcare sectors. The EROs set minimum pay rates for different grades[78] and/or ages in the three sectors which must be adhered to unless an agreement is reached on better pay rates. In all three cases the rates are above the minimum wage rates.

Regional minimum wages
Regional variations are limited to countries with federal structures (e.g.: Canada, Switzerland or the USA), where the geography is expansive (e.g.; Indonesia), which include far-off islands (in the cases of France and Portugal), or where regional councils apply a national hourly rate according to their own occupational structures (in Japan, producing hundreds of rates). The federal structures in the USA allow 29 states and some 42 cities to set their own rates which are all higher or much higher than the federal rate ($7.25) – many at the $15 per hour rate. The US evidence points to the effects at a city level being similar to the state-wide impacts, but there remain open questions about any reallocation effects at the boundaries or housing and other costs impacts.[79] A similar position of regional wage-setting exists in Canada (with a much longer history back to the 1920s), except that the federal rate has moved ahead of regional rates in recent years and only applies to employees of federally-regulated industries (e.g.: postal services). There are also 'special' rates in the regions for groups of workers, though much fewer than in the Japanese case.

In Germany and the UK there has been some limited debate about 'regionalising' the minimum wage or devolving the power to set these. The case for this includes the need to take account of a London weighting (this differential is reflected in the two Real Living Wage levels for London and Rest of UK) or to protect German regions where the 'bite' is much higher than in other parts of the country[80]. In both these cases these debates have not (yet) resulted in any significant drive for change.

- **Types of exemptions** – setting different levels of wages for specific age groups and/or occupations. The balance to be struck is between fairness to all ages or sectors, and not creating barriers to employing young people[81] or creating high costs in particular sectors and at times of recession (see sub-minima section in Chapter 6). The drift in recent years has been to reduce the age thresholds at which minimum wages apply – the Dutch reduced theirs from 25 to 23 and then 21 years over the past decade with a similar (faster) process in the UK. Other considerations when looking at different rates for younger people are whether poverty alleviation is the goal (a weaker case for targeting younger workers) and whether having more young people in the cohort tends to drive overall wage setting downwards.

  As noted further above, in some countries minimum wages are set at the sectoral level but there are few examples where a national wage is set, and sectoral exemptions then apply. For instance, this was the case in Portugal between 1974 and 1990 for the agriculture sector, but this ended

[78] In the case of the Childcare sector there are six grades with hourly rates of pay set, all of which have four age bands from <18 years to =>20years.
[79] Dube and Lindner (2021).
[80] Ahlfeldt et al (2022).
[81] The research section above shows that any negative employment effects tend to be larger for younger workers and that this can be especially the case in downturns (Dolton & Bondibene (2012); London Economics (2015)).

with a fully national wage from 1991 onwards. The use of exemptions occurs in African and Latin American economies but there is a belief that the added complexity is disliked by businesses for the additional costs it can cause and can lead to higher levels of non-compliance.

- **Regularity of setting** – balancing the need for quicker responses to business cycles or inflation against the greater certainty and adjustment which can accompany annual decisions. In most countries annual wage setting is the norm with start dates at the beginning of either the calendar or financial year (if these differ). During the recent cost of living crisis there has been more regular wage setting in France, the Netherlands, Poland and Luxembourg.

- **Hourly, weekly or monthly** – to address the question of hours worked. In most countries minimum wages are set on a monthly basis with hourly rates alongside. For example, in Europe this is the case bar Malta (weekly basis) and the Republic of Ireland, the Netherlands, Germany and the UK (hourly rates only). The rationale for monthly or weekly rates – which can then be made proportional; for part-time workers depending on their hours – is that these are set to a maximum number of hours and prevent overtime being included and thus under-paying of staff.

- **Agreeing the extent of the role for collective bargaining** in a context where a natural tension exists between firm-level or industry-level agreements and setting a national, regional or sectoral minimum wage (Grimshaw et al, 2014). This is especially important in European countries where the coverage rates of pay deals agreed by collective bargaining are high, but also depend on the difference between the minimum wage rate and other (higher) rates reached through collective agreements (Boeri, 2015). The tension can be strong where some agreements are lower than subsequent rates of minimum wages (as happened in the early years of Hungary and Croatia's experience and has meant continuing debate over simply striking one rate) or where high rates can 'crowd out' the work of trades unions (as is argued in France). In EU countries where statutory minimum wages have not yet been adopted this has, in part, been due to skepticism among trades unions and their members.

Country case studies
We have also developed country case studies setting out how minimum wages are set and the institutions in place to support the policy. We have focused on economies closest to NI, other small economies, and economies where there are regional or devolved questions (Spain and Germany).

UK
The Low Pay Commission was established in July 1997 by the newly-elected New Labour government and was put on a statutory basis in 1998[82]. At the time the UK was among a minority of OECD countries setting a national minimum wage.[83] The first award which came into operation on 1 April 1999, was £3.60 per hour for those aged 22 and older and £3.00 for 18-21s, with a bite of less than 40% of the median full-time wage. The initial decade of the minimum wage saw generally small increases so by 2009 the bite stood at 46% before stagnating after the GFC and to stand at 47% in 2015. The announcement of the NLW in 2016 and the targets of 60% by 2020 and 66% of the median wage by 2024 has produced a series of larger increases.

[82] Consultation with LPC staff, 13 August 2024.
[83] OECD, 1997

Box 1: Work of the UK Low Pay Commission (LPC)

The LPC was established in July 1997 and its initial remit from the Labour government was to define a NMW (with no regional or sectoral variations), recommend the level it should be set at and make recommendations for lower rates or exemptions for those aged 16-25. The LPC continues to be given an annual government remit (generally in March) to recommend the following year's NLW rate and NMW rates for younger workers and apprentices by Q4 for the Department of Business and Trade (formerly BEIS and DTI). The recommendation is made publicly each Oct/Nov and the new rate comes into operation from 1 April of the following year. On several occasions (2016 and 2020) Government has set a target 'bite' to work towards and the new Labour government has provided a revised remit (July 2024) pointing to the end of age bands. The extent to which such direction impacts overall independence is an open question.

The LPC has, from the beginning, had nine commissioners: three employer background, three trades unions and two academics plus a chair (initially from an industrial relations background and latterly from finance background). In the initial period the larger business organisations (e.g.: CBI) were dominant but, in recent years, the employer commissioners have tended to represent smaller firms and those from the retail and/or hospitality sectors. The commissioners meet monthly and hold an annual three-day meeting at which they decide on recommendations. The commentary on their work tends to focus on their independence from government and how decisions are made within a social partnership framework.

The staff – which remain Civil Service officials – generally comprises eight people including four economists and/or statisticians and some policy/liaison staff. They operate on a budget of £825,000 for 2024/25 including a research budget (18% of the total) and remuneration for Commissioners (6%). The Commission prepares an annual business plan which sets out the milestones for their work and the regional visits they intend to hold (to consult with local stakeholders). In 2024 these have been held in Bangor, Southampton, Dover, Wolverhampton, Cardiff and Glasgow, typically in areas with higher coverage for the NLW. The UK LPC issues an annual call for research, issues tenders and hold an annual workshop each September to invite responses to the draft projects.

The LPC has continually sought to look at new sources of data (e.g. real time information from the HMRC), new methods of data analysis (including machine learning to identify minimum wage workers) and new themes, such as the emergence of flexible work arrangements and firm policies, in an era of higher minimum wages.

Republic of Ireland[84]

The establishment of a National Minimum Wage in April 2000 replaced a position where industry-specific Joint Labour Committees agreed rates for a small number of specific sectors discussed earlier. Initially the Government and social partners agreed to review the rate (generally on an annual basis) and it rose steadily from €5.58 per hour in 2000 to €8.65 in July 2007. After the 2008 crisis, the rate remained unchanged until 2015 and at that time a Low Pay Commission was established (see Box 2).

[84] Consultation with officials in DETE, 23 July 2024.

In 2022 the Government announced the move towards a National Living Wage of 60% of the median wage by 2026. There are currently sub-minima rates for the under-20s of between 70% and 90% of the hourly rate with these affecting around 15% of those on the minimum wage.

Box 2: Work of the Republic of Ireland Low Pay Commission (LPC)

A national minimum wage was introduced in 2000 with the rate being set either by Government, through a wider social partnership agreement or via a recommendation from the Labour Court. In 2015 legislation established the LPC to make annual recommendations on minimum wage rates, including sub-minima rates, and how these could be progressively increased over time. The annual recommendation is published in July and the new rate comes into operation from 1 January. The recommendations are to be based on developments in the labour market and in income distribution as well as wider competitiveness within the economy.

The LPC has eight commissioners, and an independent chairperson appointed through a public process with a balance between those from an employee, employer and academic background. The commissioners meet ten times per year and are supported by a secretariat of four civil servants including one economist. The LPC has an annual budget of €516,000 for 2024 and this includes salaries, a research budget (31% of the total) and remuneration for Commissioners (17%).

The LPC bases the annual recommendations (which take the form of annual reports) on invitations for submissions from interested parties, consultations with stakeholders, individual small businesses and low paid workers. The Commission also holds oral hearings, generally outside Dublin, and utilise the findings of a research programme agreed with the ESRI (and which forms the basis of an annual workshop). The LPC have also been active in developing contacts with other Commissions, notably in the UK and Germany, but also with other bodies through EuroFound (headquartered in Dublin) and work on the EU Minimum Wage Directive.

The current work of the LPC – outside the annual recommendation – focuses on the 2022 decision to move to a National Living Wage of 60% of the median wage by 2026, the implementation of the EU Directive in November 2024, the decision to abolish sub-minima rates, impacts of minimum wages on the gender pay gap and the improvement of data sources and internal research capacity.

Scotland[85]

A discussion on devolving the setting of minimum wages (and employment law) to the Scottish Government was part of the DevoMax debates and general election manifestoes in 2015. However, it appears to be less of a priority since the UK introduced the NLW in 2016 with no reference to devolving the power to set minimum wages in the current Programme for Government. There was speculation that officials from the Scottish Government and UK Treasury discussed the tax credit and Universal Credit implications of a Scottish minimum wage, but no further detail is available. In terms of setting minimum wages, the Scottish Government and all public agencies, including local authorities, are committed to delivering the Real Living Wage for all employees under the 'Fair Work' agenda and are measuring the number of employees earning above the Real Living Wage, as part of the Programme for Government framework.

[85] Discussion with a former researcher in the Fraser of Allander Institute close to that debate.

Wales
Given the lower level of resident median wages in Wales, which stood at £636 per week for full-time employees or 93% of levels in England, the NMW and NLW have had a greater bite than the 66% of the UK median. There has been little demand to devolve the power to set minimum wages and, instead, the drive has been to promote a wider adoption of the Real Living Wage across the devolved nation. Research from 2015 showed that Wales fell behind Scotland and parts of England in terms of the proportion of employees covered by the Real Living Wage. This remains the case in 2023 as 12.9% of employees in Wales earn less than the RLW, compared to 10.1% in Scotland (and 15.6% in NI). A Fair Work Commission was appointed by the Welsh Government and reported in 2019 with an aim that the Welsh Living Wage would be the Real Living Wage for all employers. The government would enable this through use of financial assistance to firms, use of public procurement conditions and adopting this for the agriculture sector through the Wages Board (which has not happened to date). A 2024 progress report on the recommendations shows that progress towards these goals is ongoing but has been slow.

New Zealand[86]
New Zealand was most likely the first country to legislate for wage floors in the 1894 Act establishing sectoral Wage Boards and conciliation bodies. This approach continued through the 20th century, with different governments signing successive ILO conventions and passing a Minimum Wage Act in 1983. This provided the legislative basis for the annual setting of minimum wage rates by Government under three types: adult, starting out (<20-year-old and within first six months of employment) and training/apprenticeship. The 1983 Act continues to be the basis for an annual review of rates undertaken by Government only, by the Ministry of Business, Innovation and Employment. This review is usually 'streamlined' but every four years a 'comprehensive' review is accompanied by a much wider consultation process.

New Zealand shows how decisions can be politicised, as the current Coalition government is publicly determined to avoid the previous level of increases by the Labour government ($15.25 in 2016 to $22.70 in 2023) and to reduce the New Zealand 'bite' which is currently well above the OECD average[87]. A recent review describes the policy as 'a teenage wage setting policy' (p.41), given no age exemptions and 54% of 16–17-year-olds and 43% of 18–19-year-olds are paid the minimum wage, especially those working in Retail and Hospitality[88]. The recent debates centre on sectoral Fair Pay Agreements (which were designed to sit above the national rate but now appear dissolved), the interaction between minimum wages and in-work supports such as tax credits (with arguments that a wage floor limits the subsidy paid to firms), and the need to consider business cycles and setting minimum wages in recessions. Trades unions in New Zealand have also called for the establishment of an independent expert body to set minimum wage rates, though this has gained little political support.

Australia[89]
Australia has remained closer to the sectoral model under the older Wage Boards with its Fair Work Commission (FWC) setting thousands of minimum wage awards, most of which are above the NMW rate. The 'award wages' can depend on the industry, age, skill level, qualifications and location of an employee, plus a range of idiosyncratic factors. The FWC is an independent body with responsibility

[86] Conversation with David Maré, Univ of Waikato and MOTU, 29 August 2024.
[87] See press release at New Zealand Government - Cautious Minimum Wage Increase set(1 Feb 2024).
[88] MOTU, (2021); IMF (2023).
[89] Consultation with Professor Mark Wooden, Univ of Melbourne, 15 July 2024.

for adjusting minimum and award wages[90]. The NMW and all award wages are adjusted at the same time every year, usually in June, after a period of research and consultation. The NMW is set by a minimum wage panel within the FWC comprising the FWC chairperson, three full FWC members and three other experts (from the fields of economics, industrial relations and social policy). Staff from within the FWC act as a secretariat and research expertise also comes from within the larger Commission.

The size of the minimum wage adjustments is decided first at a national level and then these are applied consistently across 'award wages'. Historically the FWC has either added a flat dollar amount to all award wages (1993–2010) or raised all award wages by the same percentage amount (2011–2017). Adjustments to individual award wages are rare and are seldom made in response to industry-level demand shocks, although sectors (especially Agriculture) can and do make representations to defer awards. In recent years the minimum wage discussions within the FWC have been focused on the implications for gender pay equality (given larger proportions of women paid at the minimum wage).

Denmark[91] and Nordic countries

Denmark, in common with other Nordic countries, has no statutory minimum wage but has legal regulations underpinning collectively agreed wage floors in some sectors where there are low paid groups of workers. These agreements are typically updated every 2-3 years and although the agreements do not cover every company in sectors, the rate of coverage is high enough (around 80% of companies) that the rates agreed tend to be applied more generally. In recent years the model of bargaining and collective agreement seems more under threat as bargaining coverage declines in private services, where low paid workers tend to be found[92].

Norway and Finland have a method of extending collective agreements into other sectors and in this way extending coverage, though this depends on solidarity of trades unions towards industries where they have less coverage and pay is lower[93]. In general, however, there remains a great degree of scepticism among trade unions in Nordic countries about the benefits of statutory minimum wages, when compared to the gains made by collective bargaining, something shared in other countries such as Italy and Austria.[94]

Estonia

The setting of monthly and hourly rates of minimum wages has, since 1992, been a product of binding agreements between Government, the trades union confederations and a central employers organisation. The rates are negotiated and agreed annually. This was a tripartite negotiation up to 2001; after which an agreement is now reached between the unions and employers which the government signs up to. The negotiations typically last six months with an aim to agree a new rate for 1 January each year. In 2023 the annual agreement included a commitment to increase minimum wage rates out to 2027 to reach 50% of the average (mean) wage (from 2023 level of 41%). The annual talks agree the targets for each year and are informed by economic forecasts provided by the Central

[90] The FWC began operation on 1 July 2009 and assumed responsibility for award wage-setting from the Fair Pay Commission (established in 2005) and the Industrial Relations Commission before that.
[91] Consultation with Kristin Alsos, Fafo Institute, Norway, 10 July 2024.
[92] Alsos and Nergaard (2018).
[93] Trygstad et al (2018).
[94] Furåker (2020).

Bank, labour market statistics (including any sign of an increase in unemployment over previous three quarters), risks to firms' labour costs and whether any initial assumptions having changed significantly.

Portugal

Minimum wage setting began after the revolution in 1974 and is written into the state's Constitution. The rate is set by Government after discussions with a commission of social partners (large trades union confederations and general business organisations plus sectoral bodies for agriculture and tourism). The wage setting is part of wider social partnership discussions and only paused after the GFC, when the Troika were in Portugal between 2012 and 2014. The discussions generally, not unlike the criteria used in the Republic of Ireland, centre on the twin issues of poverty alleviation and competitiveness. The minimum wage applies generally to all age groups and sectors though there are sub-minima rates for apprentices, those with reduced work capacity and higher rates are set for Madeira and the Azores as autonomous regions. In recent years there has been a growing debate around Living Wages and the tying of decisions and agreements more to living standards and cost of living than has been the case to date.[95]

Spain[96]

The process of setting minimum wages began in Spain in 1980 with the passing of the Labour Code. This established the process whereby an annual minimum wage rate would be set by government after consulting with social partners (via two trades union confederations and the largest business organisation). Under this legislation the negotiations usually begin in the later months of the year with an aim of setting an annual rate for 1 January, but usually the agreement is reached in Q1 of that year and operates from Q2 onwards until the next rate is set. The rate is set as a monthly and daily rate with hourly rates only applying to domestic workers and there are no age or sectoral exemptions. In 2021 the government agreed to set a target of reaching 60% of the median wage (from its then level of 47.5%, then above EU average but behind Portugal (50.9%)). A further and temporary change (for 2022-23) was the establishment of an expert committee to advise on setting the rate, appointed by the government from among officials in the Departments of Finance and Labour, trades unions, business organisations and academic experts.

Other recent developments include the introduction of a new Minimum Income Scheme for poorest households (post-pandemic and cost of living response); and a growing public debate about the size of recent increases (including the 22% increase in 2019 after years of 1% increases) and the effect that the move to 60% might have on the tourism industry and those working part-time particularly when (Q2 2024) unemployment rates for under-25s stands at 11.6% almost double the EU average[97]. The regional question also arises in Spain, partly for historical reasons (the Labour Code allowed for regional differences) and partly because the national rate has very different coverage (in terms of numbers of workers in different regions), a different bite of regional median wages and the demands for more devolution or full autonomy from different regions, specifically Catalonia. The expert committee looked at the Canadian model where a national rate might apply to national organisations or employers, with regional rates – higher or lower – agreed by regional governments in Catalonia, the Basque Country, etc. However, whether the power will be exercised remains open to question with some question over where regional rates might be applied to public tenders.

[95] Perinha & Pereira (2023).

[96] Correspondence with Oscar Morales, Eurofound, June 2024.

[97] Barceló et al (2021); Gorjón et al (2023) ; Hijzen et al (2023). Unemployment rates from Eurostat (accessed 29 Aug 2024).

Germany
The introduction of a national statutory minimum wage was only legislated for in 2015. The hourly rates are set every two years by the Minimum Wage Commission (which includes social partners plus non-voting experts appointed on a 5-year term). The Commission Chair is a Government appointee with the two experts independent of the social partners and a secretariat of eight staff (with a €1.4 million budget). The role of the social partners in the decision-making is strong while the minimum wage-setting sits alongside collective bargaining and (higher) wage setting in sectors which can be then made binding by Government ordinance. The federal Government receives the Commission decision every other June and can take submissions from social partners before deciding whether to agree the decision or set it aside and continue with the current rate[98]. The recent debates in Germany have centred on the wider discussions about the need for an adequate minimum wage across Europe and how this might impact Germany which has a lower 'bite' than elsewhere. There have also been debates around the economic effects, including potentially higher levels of dis-employment (or a decrease in marginal employment), in slower-growing regions and those with higher 'bites' from the minimum wage.[99]

Conclusions
Devolving minimum wage setting to regions tends to happen when national rates are too high/low
As noted above there are countries where minimum wage rates vary geographically, including the United States (by states and cities), Japan (by prefecture) and Canada (by state). In each of these cases the powers are devolved on a federal basis. This tends not to be the case in European countries where government is federal, or a high degree of autonomy exists for regions. In Belgium, the rate is set nationally with little debate about regional variations, and while there has been more debate in Spain this has been without any conclusion or decision being reached. A different debate has occurred in Germany – the basis whether employment and hours effects of national rates are greater in the east of the country – but the evidence appears to be that these variations are lessening over time.

Where regional variations have occurred in recent years it has been either because there is no national rate being set, or that the rate which exists is seen as too low. In Switzerland there is no national minimum wage, and the rates are currently set in five of the 26 cantons (or federal regions)[100]. These decisions are recent innovations (since 2017) and arose after a national referendum in 2014 rejected the proposal for a national minimum wage. The rates are typically set annually, being adjusted for inflation, and can vary by up to CHF2.50 from one canton to another. In the USA there is a national or federal minimum wage of $7.25 per hour and the variation has grown since 2014 with increases in 30 states plus Washington DC and, within the states, 63 cities and towns have voted for higher rates again. One report on the future of the minimum wage in the UK also points to the need for any regional variation to be for rates *above* the national floor, to prevent any incentives to undercut other areas.[101]

The level of regional variation in the USA or Switzerland has the potential to create issues of communication and complexity, as noted by the UK LPC in a recent report[102]. There are also the potential unintended consequences of businesses on different sides of a minimum wage rate line with differing costs and competing in the same geographical market. One exception to this, in the case of

[98] Bosch (2018).
[99] Bonin (2019); Dutsch et al (2024).
[100] Correspondence with Domhnall O'Sullivan (Swiss Info) and see [Swiss info - Minimum wage push on despite national setback]
[101] Learning & Work Institute (2012).
[102] LPC (2024b).

the UK, appears in London which has long had regional variation in public sector salaries and, more recently, a 'London rate' for the Real Living Wage. Although there are arguments against regional variation, which include a risk of politicisation, there are mitigations against this including the use of an independent body to set minimum wage rates and evaluate their impact (like the LPC).

Taking the sectoral approach for minimum wages has not happened in a straight line

When considering a sectoral approach, it is important to distinguish between what is and what is not minimum wage setting. It is more common for collective bargaining around rates of pay in different sectors in the absence of national minimum wages (see the Nordic countries, Austria and Italy), than to have machinery to set sectoral minimum wage awards (see the case of Australia). It is also worth noting that a sectoral approach has seen ebbs and flows. In Cyprus, for example, an established system (since 1941) of setting minimum wages for occupations where the rates were seen as too low (this included shop assistants, nursery workers, health care assistants, cleaners and security guards), was replaced in 2022 with a new minimum wage for all workers. The new system includes the creation of a Minimum Wage Readjustment Committee (comprised of trades unions, business representatives, and academic experts) which recommends national rates to government Ministers.

Different again is a case where sectoral approaches exist alongside a national minimum wage setting mechanism. The case of Estonia is mentioned above, and in New Zealand, sectoral Fair Pay Agreements were introduced in 2022 with the aim of setting sectoral wage floors through a new bargaining system. Six sectors were identified for agreements, with a focus on those with a high proportion of low paying jobs such as commercial cleaners and early childcare workers. However, the legislation was repealed in late 2023, as an early act of the new coalition government.

The proposed New Zealand Fair Pay Agreements were close to the model of Joint Labour Committees and Employment Regulation Orders used in the Republic of Ireland. As noted above these set minimum wage rates for different occupations within a small number of sectors (early years education, security and contract cleaning). This is done through negotiation and assisted/enacted on a regular basis by the Labour Court. The EROs are *above* or separate to the work of the LPC in Ireland which sets the national minimum wage (see Box 2). These cases may provide a model for the new UK Labour Government's proposed Fair Pay Agreement for the adult care sector, initially and then other sectors[103]. Given the fragmentation of employment in the social care sector (at least outside the public sector), consultations and submissions along the lines of the ERO process may prove best.

The arguments for a sectoral approach are, like that for regional variations, subject to criticism on the grounds of communication and complexity difficulties. Also, given how some businesses straddle sectoral definitions, there can be other difficulties. However, there is a case to explore sectoral arrangements along the lines of those used in the Republic of Ireland and legislated for or proposed in New Zealand and the UK. Addressing a small number of sectors or industries where low pay is endemic, collective bargaining rare, and recruitment or retention of staff is difficult may be a good first step and can be done without prejudice to a wider national (or regional) minimum wage.

[103] For more on these considerations see Institute for Government - New Zealand Fair Pay Agreement (24 July 2024).

Real Living Wage (RLW) across advanced economies

Real Living Wages have come to the fore in various EU and OECD countries, particularly within the public sector and as part of corporate social responsibility (CSR) initiatives within the private sector. Many governments and local authorities have adopted these voluntary wage rates to ensure fair and adequate compensation for their workers. Becoming accredited as a Real Living Wage employer is a signal of responsible business practice, demonstrating a company's commitment to their employees. Being an accredited Real Living Wage employer is a requirement of many voluntary business standards, for example the Belfast Business Promise which picks up on similar work in some cities in GB.

In countries such as Germany voluntary arrangements, similar to the principles of the Real Living Wage, have been introduced in Berlin by the city government over its agencies but does not extend to the same degree as NI requirements through public sector procurement etc. There is more information on this as well as details surrounding the complexity of calculating Real Living Wages earlier in Chapters 6.

Expert groups and pros and cons of this method[104]

The use of expert groups in setting minimum wages has become more common in recent decades. The UK LPC (see Box 1) was among the first of the new model set up as an independent body with commissioners from different backgrounds with the aim of a depoliticising decision and enabling buy-in from social partners. As noted above this has become a method used in other countries, including the Republic of Ireland and Germany. In addition, expert groups can act as a supplement to the work of a broader deliberation by Government and social partners, as is the case in Australia and, for a period, Spain. This can enable more difficult decisions to be decided outside of politics.

There are trade-offs in the use of expert bodies in setting minimum wage rates[105]. When they work well, they can offer a mechanism to ensure greater buy-in from employer and employee representatives, as well as an evidence-based approach instead of political decision-making. They also bring an element of transparency to how decisions are reached and a way of ensuring accountability to politicians (e.g. via appearances at parliamentary committees). That does, however, come with a need to be properly resourced and this includes the provision of research to underpin decisions and evaluate their impacts. The alternative – taking decisions by government alone – does politicise the recommendations of wage rates. However, it also allows policy innovations to be made – such as the decisions to introduce target bites for minimum wages to reach – that would not be possible in the more tentative processes that the expert bodies operate under.

[104] Consultation with staff from NI Fiscal Council, 10 July 2024.
[105] Dickens (2023); Bosch (2019).

Box 3: Establishing an expert body – the case of the Northern Ireland Fiscal Council (NIFC)

The NIFC is a new expert body, established in March 2021 as a non-statutory body, to provide independent scrutiny to the current and future condition of NI's public finances, in order to inform public debate and policy decisions. The Council's independent chairperson, Sir Robert Chote, has significant expertise in fiscal matters, having been former chair of the Office for Budget Responsibility. The other original members are all economists and one of whom had previously sat on the independent fiscal institutions in Ireland.

The NIFC produces an annual assessment of the NI Executive's budget and a regular report on the broader sustainability of the public finances. Other technical reports and assessments of particular aspects of public spending are also published. The Council meets monthly (less or more depending on need) and their work is supported by a secretariat of six staff, all of whom are currently seconded from the civil service and all of whom are technical staff (from an economics or accountancy or public expenditure background). The NIFC has an annual budget of £620,000, much of which is staff costs, and currently uses shared HR and IT services from the civil service.

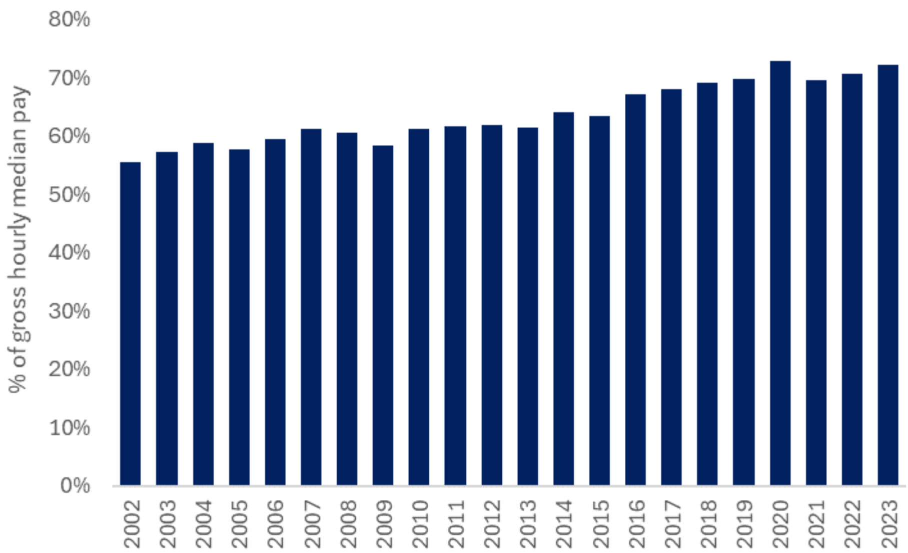
The NIFC awaits a statutory basis which will be important to solidify their independence and ensure access to information which is important to its work, both from politicisation and government Departments. To ensure a flow of information, memoranda of understanding are signed with Departments and the NI Office. The NIFC has also drawn on external expertise via contacts in the UK Office for Budget Responsibility, the Scottish Fiscal Commission, the Irish Fiscal Advisory Council and the OECD network of fiscal councils.

4. Understanding the National Living Wage in the Northern Ireland labour market today

Since the introduction of the NMW and NLW rates, NI as well as other devolved regions, have adopted the UK rate set by the LPC, despite different economic conditions. Over that period employment in NI has grown by 185,000 (equivalent to a 6 percentage points (pp) increase) and unemployment is now at historically low levels, the lowest for any UK region. However, employment rates continue to lag the UK average largely due to stubbornly high levels of economic inactivity.

Although NI has the same minimum wage rate as the rest of the UK, average wage levels are lower than in most other regions. Annual data (ASHE) for 2024 shows that NI weekly full-time earnings are 94% of the UK average, up from 87% in 2003. This differential is similar to the monthly median wages data for all employee jobs provided by the HMRC PAYE data. However, the weekly earnings data from the Labour Force Survey (LFS) show a larger gap (20% in Q1 2024).[106] Overall, regardless of the dataset used, NI tends to be amongst the lowest UK regions in terms of wages and earnings. Given this, increases in the minimum wage hourly rate have raised the associated bite relative to NI median wage (see Figure 6) from 55% in 2003 to 72% in 2023, 1 pp lower than the peak in 2020.

Figure 6: % bite of median full-time hourly wage, NI, 2002-2023



Source: ASHE, NOMIS & UUEPC Calculations
Note: Excludes overtime

It is to be expected that sectors with a median wage close to the NLW rate will have both a higher prevalence of minimum wage workers and therefore have labour costs that are more sensitive to changes in the NLW. In addition, the 10th percentile of hourly incomes within multiple sectors[107] including Accommodation & Food (£8.01), Arts & Entertainment (£8.60) and Wholesale & Retail (£11.34), are lower than the NLW (£11.44) in 2024 illustrating the prevalence of young people within certain sectors and subsequent use of sub-minima age rates. Data indicates that within the

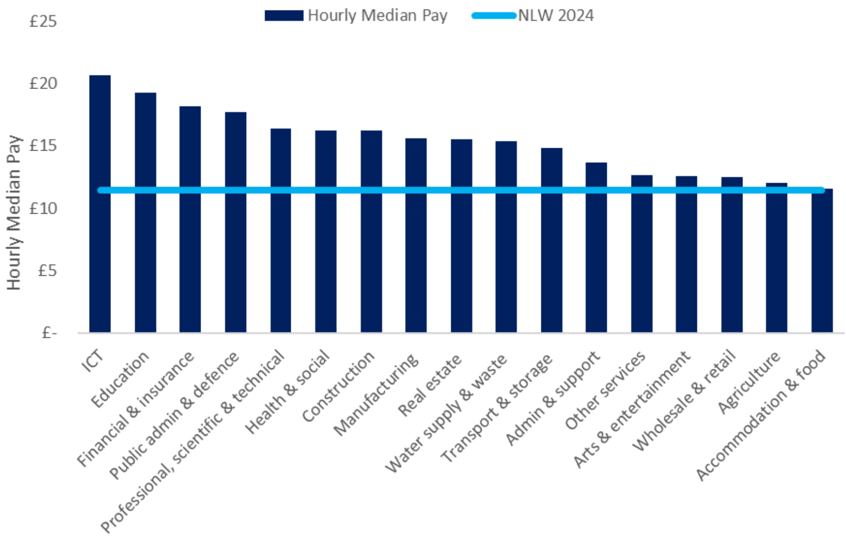
[106] LFS data available at the UUEPC Labour Market Intelligence portal at Microsoft Power BI ; ASHE at NISRA - NI Employee Earnings 2023 ; HMRC PAYE data at ONS - earnings and working hours

[107] Additional sectors such as Agriculture and Other Services have 10th percentile wages below the NLW however the specific figures are disclosed

Accommodation & Food sector, the NLW rates were only achieved by the 40th percentile of hourly earners. Further, 2024 data reveals that up to 60% of jobs in the Accommodation & Food sector may currently be paid below the new 2025 NLW rate. This highlights the extensive coverage and significant impact that potential increases the NLW and abolishing sub-minima rates could have on certain sectors.[108]

The current sectoral picture is reflective of longer-term trends, as industries which had median hourly earnings below the minimum wage when it was first introduced, are still among those with a higher prevalence of minimum wage workers. These include Accommodation & Food, Wholesale & Retail and Agriculture. This highlights the role of wage floors in reducing wage differentials both within sectors and between top and bottom earning sectors.

Figure 7: Gross hourly median pay by sector vs NLW, NI, 2024

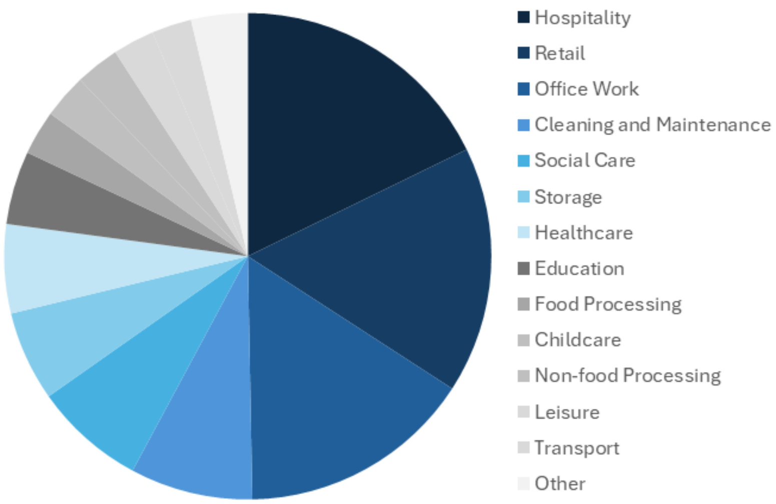


Source: ASHE, NISRA

Within sectors and occupations, the LPC has identified detailed subsectors[109] as 'low-paying industries and occupations' or 'those which are most exposed to minimum wage rises' due to their high NMW/NLW coverage. Figure 8 over outlines low paying sectors/occupations included in the definition alongside an indication of their percentage share of the total of 46,000 jobs which are classified as low paying in NI[110]. Approximately 40% of these low-paying jobs fall within two sectors, Retail and Hospitality.

[108] Abolishing sub-minima rates is discussed further in Chapter 6
[109] These are classified by 2-3 digit SIC and 4 digit SOC codes
[110] Employee jobs aged 23+

Figure 8: Low paying sectors and occupations as % of total low-paying jobs in NI, 2022-2023



Source: ASHE, NISRA, ONS, UUEPC Calculations
Note: Other includes sectors/occupations with 1% or less share of low paid jobs

Who are the minimum wage workers in NI?

Any consideration of the minimum wage in the NI labour market needs a better understanding of who the minimum wage workers are (or were), including three key groups[111]:

- Those earning below the NLW
- Those earning the NLW
- Those earning marginally above the NLW

Individuals earning below the NLW

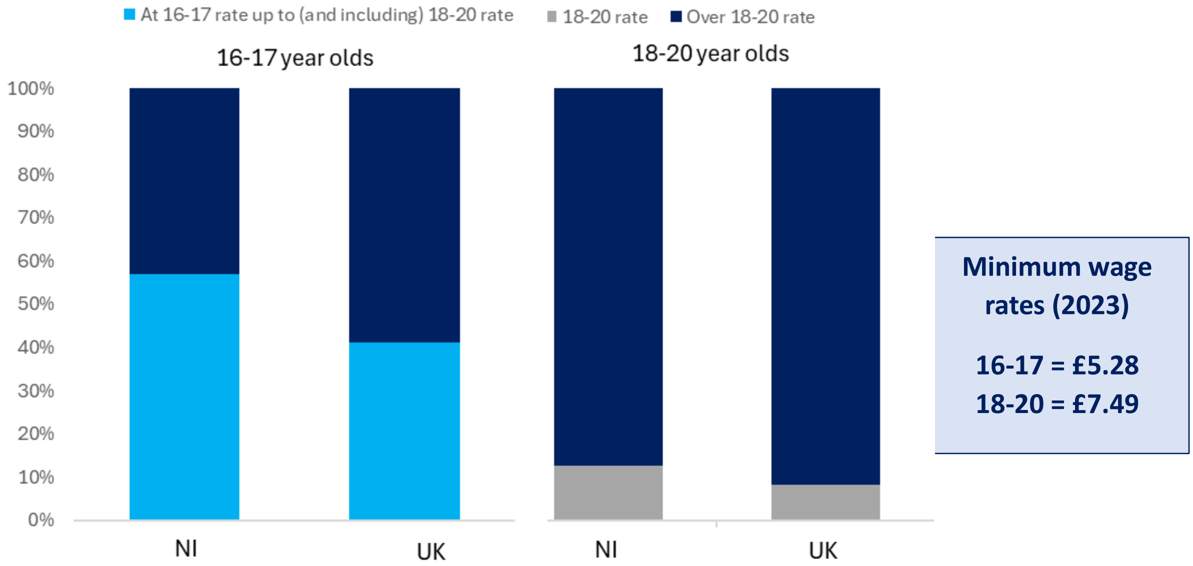
There are several reasons why employees would be paid a rate below the NLW including age-related rates, accidental ignorance or non-compliance by employers (this last estimated to affect 1.5% of all employees in 2023[112]). The largest group paid sub-minima rates are those below the age where the NLW (currently 16–17-year-olds and 18-20 year olds) along with those exempted as they are apprentices or those paid a lower rate to offset accommodation being provided.

Previous research and wage data analysed by the LPC show that not all firms make use of sub-minima pay rates, with a majority of 16-17 year olds are paid between their own rate and the NLW and a third of 18-20 year olds[113]. More detailed breakdowns of pay rates by age bands are provided in the LPC annual report and, for 2024, show that across the UK almost a quarter of 16–17-year-olds (24%) and over half of 18–20-year-olds (57%) are paid at a rate above the NLW. The NI ASHE data for 2023 shows that the median hourly rate (£10.60) for 18–21-year-olds was higher than the NLW rate paid to those 21 and over. Even allowing for the 21-year-olds significantly pulling up the hourly rate for the broader 18-21 year old age band, it still suggests that a significant minority of 18-20 year olds were paid at or above the NLW rate.

[111] The report follows the approach of the Low Pay Commission annual reports in analysing the coverage and prevalence of minimum wage jobs.
[112] Total employee jobs. **Source**: ONS
[113] NIESR (2019); LPC (2024b).

This is supported by the data provided at more detailed age breakdowns. Figure 9 compares pay rates for 16-17 and 18-20 year olds in NI and the UK. This shows that the use of sub-minima rates in NI is higher than that in the UK. In NI 45% of 16-17 year olds are paid more than the 18-20 rate, compared to 59% in the UK. This same trend is also observed in the 18-20 year old category, although to a lesser extent, with 12% in NI paid the sub-minima rate (8% in the UK).

Figure 9: 16-17- and 18–20-year-old pay rates, NI & UK, 2023



Source: ASHE NISRA, Low Pay Commission, UUEPC analysis

As a result, abolishing sub-minima age rates would have a greater proportional impact in NI, though the number affected would still be relatively small. Based on Census 2021 population and economic activity data just over 7,000 employees[114] between the ages of 16-20 would receive an uplift in pay. This equates to approximately 7% of all 16–20-year-olds in NI.

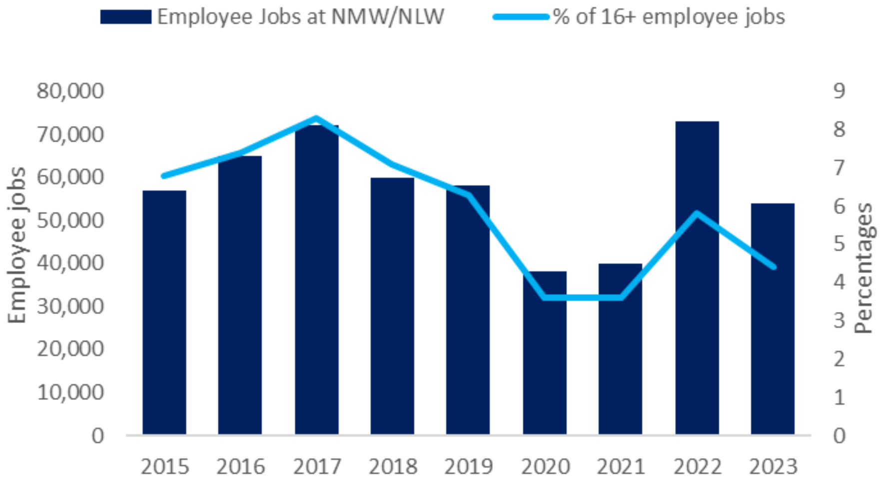
Individuals earning the NLW

It was noted in the introduction that the number and coverage rate of UK workers benefiting from the NMW/NLW increased up to 2020, but this trend has since reversed. The LPC offer a number of reasons for this recent fall, including 'spillover' effects of the NLW (shown in more detail below), labour shortages driving up wages more generally, and pay increases for lower paid workers following the cost-of-living crisis. The LPC conclude that "*we also still see more NLW workers moving off the wage floor into better pay than before the pandemic – suggesting other options for low-paid workers*".[115] However, the LPC believes that the coverage will increase again in 2024 to more than 2 million workers (and a coverage rate of 6.7%, up 1.4 pp).

A more volatile trend has emerged locally since 2015 (see Figure 10). The increase in the number of employee jobs paid at the minimum wage rate increased initially with the introduction of the NLW, but not to the same extent as in the UK. Then, in 2018 the number of minimum wage jobs and the coverage rate began to fall, much earlier than in the rest of the UK, which only saw a decline after the pandemic. If NI follows the broader UK trend in 2024, then an increase to more than 100,000 16+ paid at or below the NLW might be expected.

[114] Excludes those who are self-employed
[115] LPC (2023), quote from p. 167.

Figure 10: Number of employee jobs at NMW/NLW and Coverage Rate of 16+ employee jobs, NI, 2015-2023



Source ASHE; UUEPC analysis
Note: Figures for 2020 and 2021 affected by the pandemic and include furloughed employees.

Figures 11 and 12 use two different sources to show the same picture, even allowing for some data issues during the pandemic, of the coverage in NI at a higher rate than the UK average and highest of all UK regions. In other words, NI has consistently had the largest proportion of employee jobs paid at or below the NLW. The data suggests that in 2023 between 70,000 and 90,000 employee jobs in NI were paid at or below the then NLW rate of £10.42. The recent decline in coverage is also apparent but is still the highest in NI. The reason for the higher coverage rates in NI directly relates to the lower wage rates overall in the local economy. With lower median rates of pay, the minimum wage rates will cover more jobs and employees than in other UK regions. However, the reason why the numbers of jobs and coverage began to decline in NI earlier than in the UK is less clear.

Figure 11: % of employee jobs paid at or below the NLW, NI & UK, 2015-2023

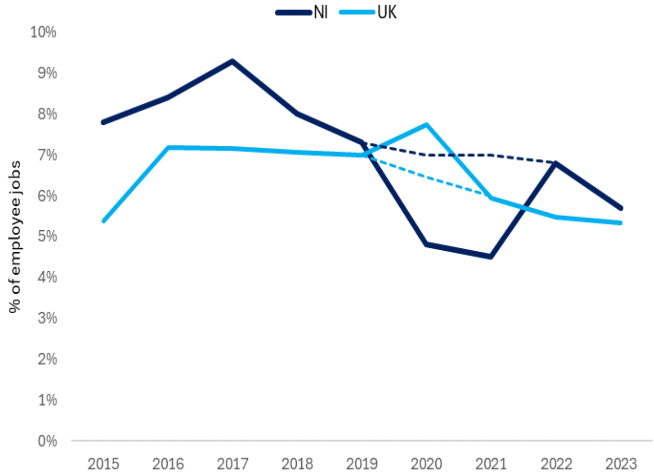
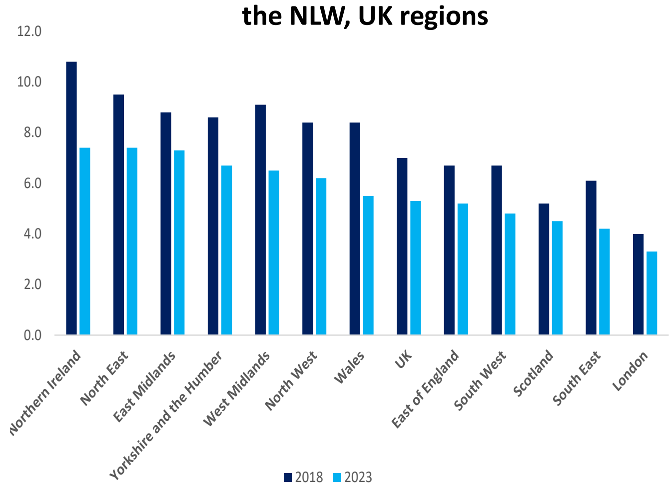


Figure 12: Coverage rates for jobs paid at or below the NLW, UK regions



Source: ASHE, UUEPC analysis

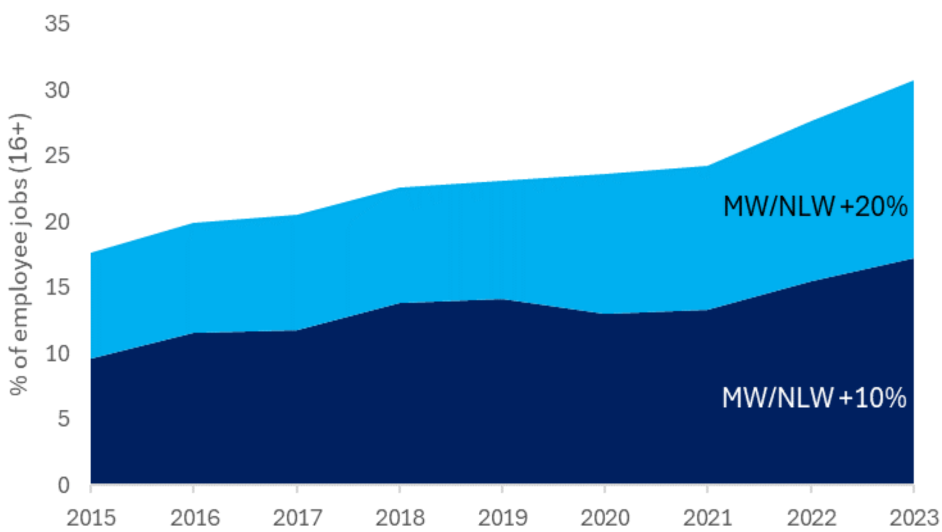
Source: Low Pay Commission, UUEPC analysis

Note: - - - indicates likely pathway in absence of CJRS/Covid-19 pandemic

Individuals earning marginally above the national living wage

The number of people earning marginally above the minimum wage has increased in recent years as shown in Figure 13. This is due to spill-over effects from increases to the NMW/NLW, discussed in Chapter 2. These effects can exist up to the 30th percentile due to employers wishing to maintain pay differentials to those workers with increased responsibility or skills required above that of an entry level worker. For this reason, the chart shows the increases of those paid up to 10% and 20% above the NMW/NLW.

Figure 13: % of employee jobs paid within 10% and 20% of NLW, NI, 2015-2023



Source: ASHE, UUEPC analysis

In 2023 approximately 31% of employee jobs (over 200,000 jobs) in NI were earning up to 20% above the NLW (up to £12.50 per hour). This is nearly double the proportion in 2015 (18%). The proportion of employees paid up to approximately 10% above the NLW[116] in 2023 are almost identical in NI (17.2%) and the UK (17.3%) showing similar wage distribution around the NLW.

The steep increases shown for 2022 and 2023 correlate with significant nominal increases to the NLW of 7% and 10% respectively. This emphasises the role of the NLW in shaping wage distribution in the lower income bands which has led to a compression of wage distribution between low and median earners. Wage rates particularly within the 10th and 20th percentiles have converged closer to the median wage since the introduction of the minimum wage in turn reducing wage inequality.

[116] The Low Pay Commission uses bands of +£1, in 2023 this would have equated to £11.42. +10% includes those paid up to £11.46.

Box 4: Key data sources for minimum wage incidence and coverage

Annual Survey of Hours and Earnings (ASHE)

- NI survey is run as part of a UK-wide survey in NI in the pay-week covering 19 April each year and normally released each November. Survey sample of 1% of all employees covered by PAYE returns and weighted to UK population totals. ASHE does not include self-employed in the sample.
- ASHE data can be used to show pay rates across percentiles at sectoral and occupation level but much of the data at a NI level tends to be disclosive and thus not available for analysis.
- The NLW and NMW rates applied are those which come into force in April of the year in question.

Labour Force Survey (LFS)

- NI sample part of the UK quarterly household survey which is there to collect data on the employment circumstances of the population.
- LFS gathers information on earnings – including weekly and hourly earnings – but these are known to underestimate pay given recall errors and proxy responses for other household members. Also, like ASHE, no earnings information is gathered for the self-employed.
- LFS earning data does allow a useful source of breakdowns not available in other sources allowing earnings data to be related to variables including educational levels, ethnicity, other variables around working conditions. It also allows a longer time frame as earnings data for individuals is captured twice within the year (showing any change).

HMRC PAYE real time information (RTI)

- This is administrative data taken from the HMRC PAYE system and is used to provide monthly data on employment (Payroll) numbers and median earnings, as well as inflows and outflows to PAYE.
- Data is available down to NUTS III or ITL3 level (i.e.: LGD for NI) as well as by age band and industry.
- Still an experimental rather than official statistic and does not include self-employed or those paid outside PAYE (very small firms can be outside), plus no hours data so hourly rates not possible to derive.

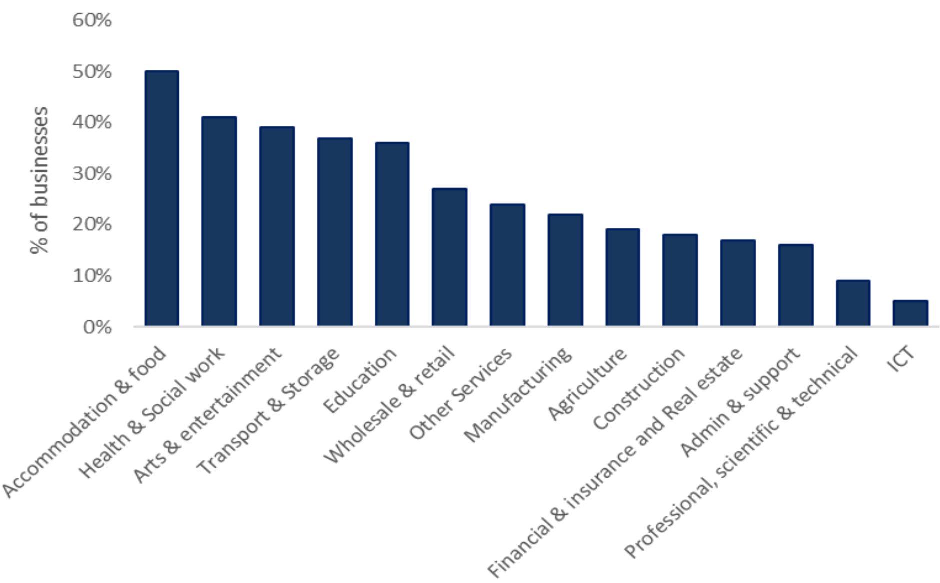
The availability of **detailed earnings data** is essential in building a profile of incomes across the economy and especially for creating an evidence base for the number of employees earning at/above/ below minimum wage levels. Other research (ESRI, (2023); LPC (2023)) have explored the key characteristics (i.e. age, sector of work, education, other income) of minimum wage workers but the limitations of the data sources (and this includes the Family Resources Survey) have led to data development work. In the UK the UK Low Pay Commission has been supporting research in data linkages between the three above-mentioned. In Ireland the Low Pay Commission there first had a question of minimum wages collected in the Irish LFS and then has worked with the statistical agency to link this administrative data from the Revenue Commissioners (LPC, 2024). Awareness of the strengths and weaknesses of available data is necessary to understand how strong or weak an evidence base would be for taking decisions on minimum wage setting.

Businesses and the minimum wage

Any decisions to set or increase minimum wages will normally include a process by which the impacts on businesses are considered. The country case studies and the work of the LPCs in the UK and Ireland all include an element of routinely surveying or consulting with individual businesses and representative bodies to gauge responses to increases in minimum wage rates. Both attempt to establish the views of smaller businesses and those in sectors which are labour-intensive industries and/or those with a high minimum wage coverage rate. Taking the temperature of businesses on minimum wages is a difficult task. At one level, anecdotally, it is said to be a driver of all wage costs going up[117]. Some industries are impacted to a greater extent by an increase due to the pay structures within their sector.

Figure 14 considers if the NLW posed a '*major obstacle to the success*' for small businesses across different sectors. Interestingly, Accommodation (a sector with a high coverage of jobs paid at the NLW) found almost half of small business see the NLW as a problem for their business, other sectors with similarly high coverage (such as Retail) were not as pessimistic. The same survey found that overall 24% of small businesses in NI identified the NLW as a '*major obstacle to the success*' in 2022, which was surprisingly lower than the UK average of 27%.

Figure 14: % of small businesses citing the NLW as a 'major obstacles to success', UK, 2022



Source: Longitudinal Small Business Survey, Gov.uk

Recent research for the UK LPC has identified that the response of smaller businesses may raise concerns when thinking about the impact of minimum wages[118]. This found that small employers were resorting to short-term measures (including business owners paying themselves below the NLW, using savings and getting support from family members) to address the issue of higher labour costs. The sustainability of these measures is questionable, and discussions occasionally turned to closures and reducing staff numbers as a response. The response to 'absorb costs' is the largest one chosen by both small businesses (Figure 15) and a broader sample of UK firms (Figure 16). This has been the most popular response since 2021 in both surveys followed by 'raising prices'. A potential concern looking

[117] Recently expressed with the Manufacturing sector in NI; see [Belfast Telegraph - The high price of manufacturing] (5 June 2024).
[118] NIESR (2023).

forward is the increase in businesses responding with redundancies/less recruitment, reduced working hours and reduced pay growth.

Figure 15: Surveyed responses to NLW increases by Federation of Small Businesses (FSB), UK, 2023

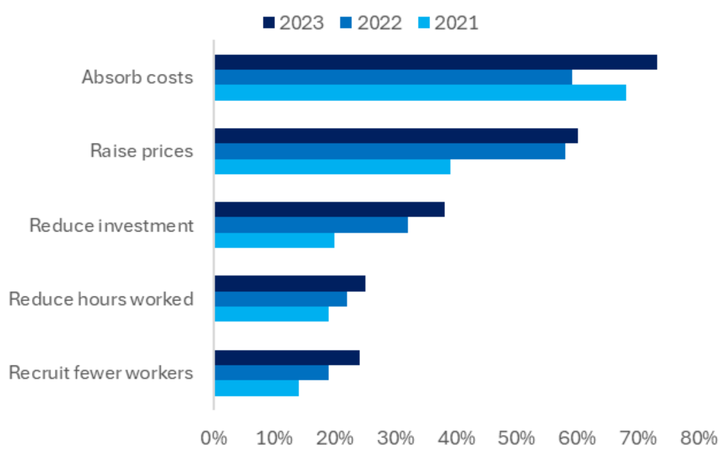
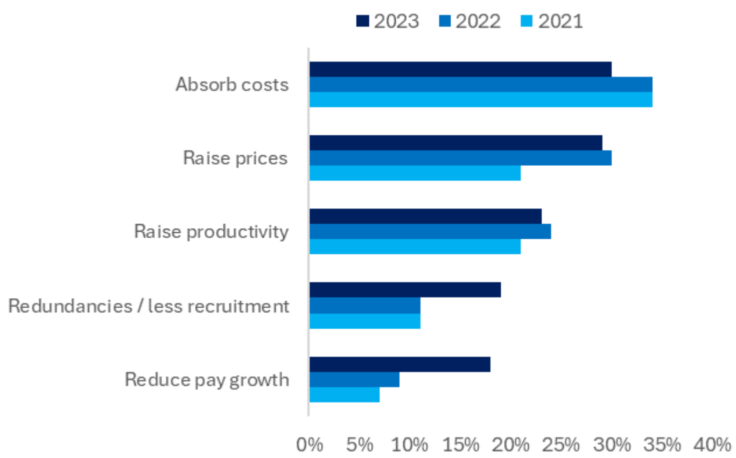


Figure 16: Surveyed responses to NLW increases by Chartered Institute of Personnel and Development (CIPD) UK, 2023



Source: Low Pay Commission UK

The surveys show that businesses can and do respond in other ways to minimum wage increases, including looking to raise productivity, reduce investment levels, and making changes to pay, conditions and recruitment of staff. The productivity and investment points are probably related and do make the point of risks associated with minimum wage increases in individual firms that an absence of clear statistical evidence for productivity effects can perhaps hide – for good or bad.

The issues around statistical evidence has led researchers to look at UK LFS data for other adjustments that businesses may be making in response to minimum wage increases[119]. The initial results of this work are interesting and points toward strong job retention, especially for those on full-time contracts, no evidence of being transferred to self-employed contracts but a higher incidence of zero hours contracts for those in sectors with high NLW coverage. This appears to show little use of what are called non-standard work arrangements at least as a result of the NLW.

One final response by businesses is what to do with those staff paid above the minimum wage in their firm. Typically, businesses like to maintain a level of pay differential with job and pay grades above a minimum carrying more responsibility and therefore reward. There is, however, a concern that wages in firms, especially those with high coverage of minimum wage workers, will find their wages compressing around the NLW level and that this can result in less effort by those above the level and also less chance for low paid workers to progress across grades. The evidence for these effects is very difficult to extract from the survey data but there are some pointers towards a compression effect in larger firms with high minimum wage coverage[120]. What that means, in turn, for their productivity over time is an open question.

[119] Albagli, Costa and Machin (2024).

[120] Blog by Guipponi and Xu, 16 February 2024; accessed at [Low Pay Commission - How has NLW affected pay differentials within firms?]

Cross-border considerations

There are two different minimum wage rates in NI and the Republic of Ireland (RoI), set by two different Low Pay Commissions. In the RoI workers aged 20+ are eligible to a minimum hourly rate of €12.70 from January 2024. This equates to approximately £10.75[121], approximately 6% lower than the NI/UK rate in 2024, despite the higher cost of living associated with the RoI.[122] Figure 17 shows two different trends in force over the last two decades with regard to the minimum wage rates on either side of the border. The minimum wage in NI has grown by 148% in nominal terms (or an annual growth rate of 4.4%) since 2002, while the same growth in the Republic has been lower, 78% and an annual growth rate of 2.8%. The chart shows that between 2008 and 2015 the minimum wage in ROI either stayed the same or over the course of two years (2011 and 2012) the rate fell by €1, and this was these reversed the next year. During the same period, the rate in NI continued to grow, albeit slowly, and the annual increases since 2016 have been much higher. The other trend, whereby in 14 of the 22 years the € equivalent of the two rates has seen the minimum wage in the South higher than in the North, has been an effect of the exchange rate change. Over the period Sterling has weakened significantly twice (2007-2009 and 2016) against the Euro and has not reversed this devaluation.

Figure 17: Minimum wage rates (in €), NI & ROI, 2002-2024

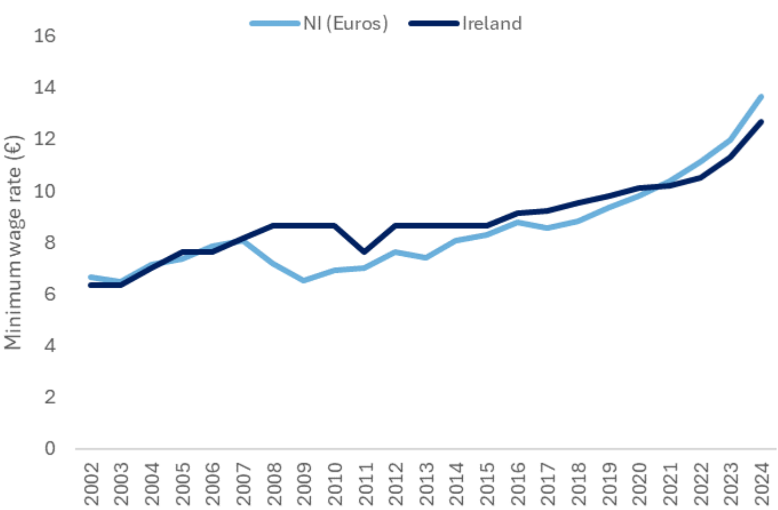
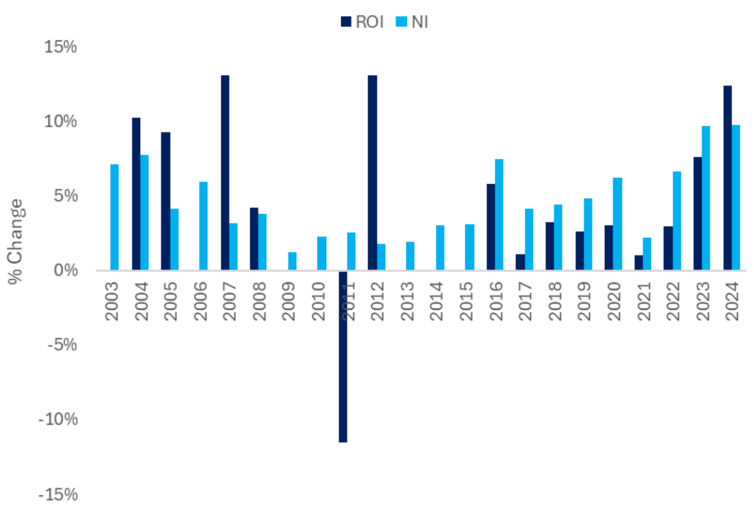


Figure 18: Annual changes in the rate, NI & ROI, 2002-2024



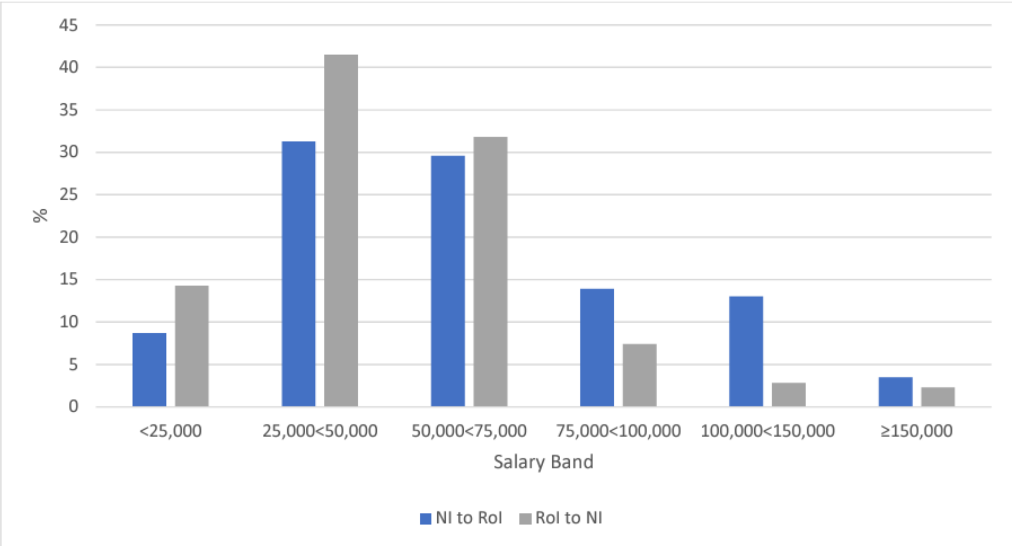
Source: LPC UK; LPC Ireland; Central Bank of Ireland for annual exchange rates.

The existence of the border raises the question of whether changes in the different minimum wage rates on one side of the border would have any economic effect on the other side. There is currently no available research to answer this question. The introduction of the NMW in 1999 and the NLW in 2016 in NI only has allowed researchers to use the border to assist the difference-in-difference research design[123]. This found that there may have been higher negative employment effects in NI (as a lower wage region) than in the UK more generally, when the NMW was introduced in 1999. The same negative effect was not seen in the 2016 data, although NI wages relative to the UK have not changed greatly. The authors add the caveat that the negative employment effects of the introduction of the NMW in NI may be impacted by the strong economic performance of the ROI economy and an appreciation in Sterling relative to the Euro at that time. These factors could push the NI results in a negative direction.

[121] Using June 2024 average exchange rate.
[122] Bergin. & McGuinness. (2021); Gosling (2023).
[123] McVicar, Park and McGuinness (2017).

The existence of the border also raises the question whether differences in the rates would be enough to attract people to cross the border for jobs. Recent research from the ESRI into cross-border mobility[124] has highlighted that, although the overall wage premium enjoyed by cross-border workers (NI to ROI) has reduced due to wage convergence over time, those travelling to ROI still benefit from a 13% increase in gross weekly wages after adjusting for regional price differences[125]. The research suggests that higher salary opportunities and better career progression in ROI are generally the major attraction for NI workers, predominantly those respondents at the mid-upper end of the income scale (as shown in Figure 19).[126]

Figure 19: Salary (€) of cross-border workers, survey respondents



Notes: Figures were given in the survey in euros and sterling for these figures using the exchange rate on the day the survey went live.

Source: ESRI

The socio-demographic profile of the surveyed cross-border workers shows that 'high value' workers are more likely to travel to the neighbouring jurisdiction to avail of employment opportunities. Approximately 80% of these workers are highly educated (degree level and above) and non-managerial/professional occupations make up less than 25% of workers travelling across the border in both directions. When examining the lower end of the income scale, a higher minimum wage in NI could potentially make wages more attractive than those in the ROI. However, the effect and incentive for attracting cross-border workers are expected to be limited. Figure 18 shows that almost 15% of ROI to NI commuters earn less than €25,000, compared to less than 10% of NI to ROI workers. By way of comparison a 36-hour week on current ROI minimum wage would be a gross annual salary of €23,780.

Within the <€25,000 income band, a small proportion (<5%) reported the salary as a reason for their cross-border work, compared to living close to the border (approx. 50%) or 'home/family reasons'

[124] McGuinness, Bergin and Devlin (2024).

[125] The net figure (after tax) is likely to be different but not so much as the South's higher income tax and USC are mitigated by a lower insurance contribution; Tomlinson (2022).

[126] By way of context 15% of cross-border workers in the NI 2021 census were skilled trades occupations with a further 42% in professional occupations. For those commuting 10-20 km within NI the figures are 10% and 32% respectively.

(approx 40%), the two predominant motives for those travelling from ROI to NI[127]. The proportion of workers within this income band working in the public sector is comparatively high, with greatest prevalence in the Health/Social Care and Education sectors. As with many ROI to NI commuters, access to healthcare in NI is cited as a primary benefit with mandatory pensions in NI also considered beneficial. Given the stated motivations and the geographic profile of cross-border workers, particularly from ROI to NI, a significant increase in cross-border mobility as a result of any rise in the minimum wage, if devolved to the NI Executive, is considered unlikely.

[127] Respondents could select multiple motives

5. Potential scenarios for the minimum wage in Northern Ireland

Previous research into the minimum wage in NI and the potential effects on the local economy has tended to respond to set scenarios or direction from the Low Pay Commission. In 1998 the Northern Ireland Economic Council worked with a broad guideline that the first rate of the minimum wage would be between £3 and £4p/h. Twenty years later, UUEPC modelled the employment and wider economic effects of NLW moving to a bite of 60% of the UK median hourly wage by 2020[128].

This research is different as it considers the devolution of minimum wage setting powers to NI rather than a set rate or target bite at which this might be set. The commitment to seek the devolution of this power in *New Decade, New Approach* in 2020 did not include a clear scenario for the rate. Nor have the brief mentions of minimum wages in Assembly questions during the current mandate. The recent election manifestoes of political parties in NI do make reference to the minimum wage. The DUP has pledged to "continue to support rises to the national living wage" and "maintain the national minimum wage above two-thirds of median income"[129]. The SDLP has campaigned for an equal minimum wage to prevent discrimination against young people, for the RLW the be used as a baseline for statutory maternity pay and improvement in gender pay gap reporting[130]. While Sinn Féin has outlined that they wish to press for additional fiscal powers which include the ability to raise the NLW.[131]

However, if minimum wage setting powers were devolved to NI, the Executive would have the power to either set rates itself or ask an independent body to make recommendations, based upon tailoring this to local economic conditions and priorities. This may be done on a year-by-year basis or a decision to set a direction of travel and decide annually on reaching/meeting this. For the purposes of this research, this report does not include modelling results and instead sets out a number of potential scenarios or pathways as a frame for policy makers to think through in any future devolution of minimum wage setting powers. The chapter also outlines the data and methodologies that would be necessary to ensure modelling of simulated scenarios would be robust.[132]

Four different scenarios are outlined below and these are based on current debates about what future minimum wage rates might be or tied to.

Scenario 1 - Moving to 70% bite of UK median wage by 2029 for all employees aged 18+

The Labour Party's general election manifesto indicated a desire to increase the NLW and its coverage over the lifetime of this parliament, although they did not set a target rate. However, they did indicate an intention to 'remove discriminatory age bands to ensure every adult benefits'[133]. As a result, under this scenario the coverage of the living wage would be extended to those aged 18+ as of April 2025. Labour have also pledged to account for the cost of living alongside median wages and economic conditions when setting the new minimum wage, although the practical outworkings are not clear. One possible outcome may be to increase the minimum wage bite from current levels of 66% to 70%

[128] NIEC (1998); UUEPC (2019).
[129] DUP DUP - 2024 Manifesto
[130] SDLP - 2024 Manifesto
[131] Sinn Fein - 2024 Manifesto
[132] For a recent review of current methodologies evaluating increases in the minimum wage and the employment and other effects see Dube and Lindner (2024).
[133] The Labour Party, *A new deal for working people*, 24 May 2024.

by 2029. As previously discussed, with a lower hourly median wage in NI, a 70% UK median wage bite would result in an effective bite of approximately 76% of NI median wages[134].

Scenario 2 - Moving to 75% bite of UK median wage by 2030 for all employees aged 18+

This scenario is based on Trade Unions Congress (TUC) call for 'more ambitious minimum wage targets', specifically the £15 per hour rate. Their view is that the new government should set and implement a new minimum wage target bite of 75% by 2030. This is slightly higher than the Resolution Foundation's projection that a 73% bite would be reached by 2029 if current trends were followed[135]. From a NI perspective, a 75% UK median wage bite would result in an effective bite of approximately 82% of NI median wages[136].

Scenario 3 – Moving to 66% bite of NI Median wages

As noted above the lower rates of median pay in NI have meant that the UK minimum wage rate has consistently had a higher bite in NI, an effective 72% bite in 2023 compared to 66% in the UK. Under this scenario the minimum wage rate would be lowered to a 66% bite of the NI median wage, either in one go or over a specified number of years. If this was done using the 2024 rates and a 66% bite the new NLW for NI would be approximately £10.30 instead of the current £11.44 per hour. Decreases in the nominal rates of minimum wages are rare and normally associated with deep recessions (eg: in the Republic of Ireland in 2011), but declines in real rates (when deflated by inflation) are much more common. It might be expected that such a reduction in the rate and bite of an NI minimum wage would be supported by some business sectors, particularly among those with higher minimum wage coverage, though the evidence from declining real rates has been that firms continue to set their own wage rates above the wage floor. This appears to be particularly the case in larger employers[137]. Whatever the business response might be, any decision to reduce the value of the minimum wage – even with arguments to favour the wider competitiveness of the economy – would likely be politically unpopular.

In addition, other research has suggested that if wage setting powers were to be devolved that they 'should only permit areas to set a rate that is higher than the national wage floor'[138]. The rationale for this is that devolution should not allow some areas undercut others and, in turn, prevent employees from being exploited. With NI geographically separated from GB, the risk of a 'race to the bottom' may be less. The cross-border (NI/ROI) labour market implications, discussed in the previous chapter, also tend to support a view of limited spillovers. However, given the political issues associated with an actual reduction in hourly rates an alternative may be to maintain the current 72% bite of the NI median wage for a set period into the future, a different form of indexation to wages rather than prices. This would mean that an NI minimum wage would rise only in line with average wage growth across NI for a period of time with the latter dictating whether or not the NI rate would keep pace with the rate in Britain.

Scenario 4 – A mandatory Northern Ireland Real Living Wage (RLW)[139]

Under this scenario, a NI minimum wage would be uplifted to the level of the RLW (currently £12 per hour, subject to change in October 2024 and set annually). The current rate equates to 83% of 2023

[134] Based on 2023 median gross hourly pay in NI
[135] Resolution Foundation (2023).
[136] Based on 2023 median gross hourly pay in NI
[137] Salverda (2024).
[138] Learning and Work Institute (2021).
[139] The role and place of the Real Living Wage in NI is discussed further in Chapter 6.

hourly median wage in NI and 76% of UK median wages. The RLW is a rate that businesses can voluntarily choose to pay staff and under this scenario a choice might be made either to make the Living Wage Foundation's annual RLW rate mandatory on employers or, alternatively, to set a NI RLW rate as a new minimum wage. Further or future development of this scenario may extend to the provision of living hours[140] and living pensions[141] within roles providing greater workers' rights and financial security.

Setting minimum wages to meet a minimum income standard, rather than as a percentage of median hourly wages, represents an alternative approach to tie wage setting to the cost of living[142]. The RLW method aims to ensure that the minimum wage which is set is sufficient to cover essential needs, such as housing, food, transportation but this is presently complex to measure at a regional level. If devolved to NI, a new Low Pay Commission or body could look to build upon previous research commissioned by the ONS in 2017 that has shown that it is possible to produce regional inflation estimates whilst noting that 'considerable further development would be needed' to ensure that the regional rates are reliable[143]. A later collaboration, in 2022, between the ONS and the Consumer Council for Northern Ireland, boosted the sample size in price collection data across NI and produced inflation estimates. However, certain proxies such as UK spending patterns (i.e. allocating weightings to different items) were still required due to high volatility in regional weightings from the Living Costs and Food Survey. Results from this work showed that between January - June 2022 inflation in NI moved both above and below UK inflation but only to a marginal degree. Any devolved minimum wage setting tied to regional living costs would need a better understanding of monthly prices and general expenditure patterns in NI with a timelier and more predictable framework for wage adjustments proving beneficial in times of economic volatility such as the recent inflationary period.

[140] Living hours provision includes a minimum of 16 guaranteed hours per week, a contract that reflects accurate hours worked and a 'decent' notice period for shifts. Living Wage - Living Hours
[141] Annual pensions savings benchmark outlined by the Living Wage Foundation
[142] Indexation of minimum wage rates to inflation happens in France and other countries; see chapter 3.
[143] Dawber, J. & Smith, P. (2017)

Approaches to modelling minimum wage scenarios

The box below sets out the factors that would need to be considered when modelling the potential effects of an increase in the minimum wage on the economy and the labour market. This analysis aims to provide an understanding of the complexities involved in assessing the consequences of a minimum wage increase.

Approach – The list below details several angles and considerations to the economy when modelling impacts to wage changes.

- **Impacts to aggregate wage bill i.e. the cost to business:** Establishing the number of employees impacted by the MW, including those paid marginally above the MW, and associated wage bill. Other indicators include the number of employee jobs by sector, employee jobs as a share of total employment, total wage bill by sector, profit by sector, wage bill: profit ratio, cost of additional employer contributions, effective tax rate,
- **Determining the course of action by businesses:** Potential responses by businesses include reducing salary/benefits of other staff, pass on prices to consumers, cutting profits (dividends, profit reinvested, retained), productivity improvements.
- **Employment effects:** Positive or negative impacts to the following: Employee jobs, productivity (as a result in changing employee jobs) and direct, indirect & induced turnover/GVA.
- **Wider economic impacts:** Consumption spending profiles (including those for low-income households) and impact to total GVA as a result of productivity, employment and spending**.**
- **Fiscal position:** Taxation & welfare and National Insurance Contributions.

Assumptions – In order to model the effects of a change in minimum wage, several underlying assumptions are made. The sensitivity of the model to the underlying assumptions will inevitably also affect results.

- **Responses by businesses to increases in the minimum wage** – The ways, and potential for a combination of ways, in which businesses may respond to a rise in minimum wages. Responses such as these are routinely gathered in business sentiment surveys.
- **Proportion of income that will be spent/ disposable income levels –** Determining the structure of household incomes i.e. spending and saving, is important in determining wider economic impacts of additional income. Further differentiation between household spending on essentials and disposable income should also be made.
- **Elasticity of demand for labour –** The assumptions made on the elasticates of demand for labour can greatly impact the extent of employment effects and is discussed in more detail in Chapter 2. A review of labour elasticities shows that elasticities used in simulation are likely to be higher than those in evaluation models, in particular that employment effects can often be overstated.

The availability of **detailed earnings data** is essential in building a profile of incomes across the economy. Ascertaining the number employees earning at/above minimum wage levels alongside other key characteristics i.e. age, sector, is necessary to accurately establish the effects of changes to the minimum wage. The current provision of earnings data in Northern Ireland would not allow for extensive profiling, such as that undertaken by the UK Low Pay Commission, to be directly replicated at this time. Recent research has highlighted how data linkage between key earnings surveys i.e. ASHE and administrative data/ other UK surveys can enable exploration and further understanding earnings and incomes within the labour market.

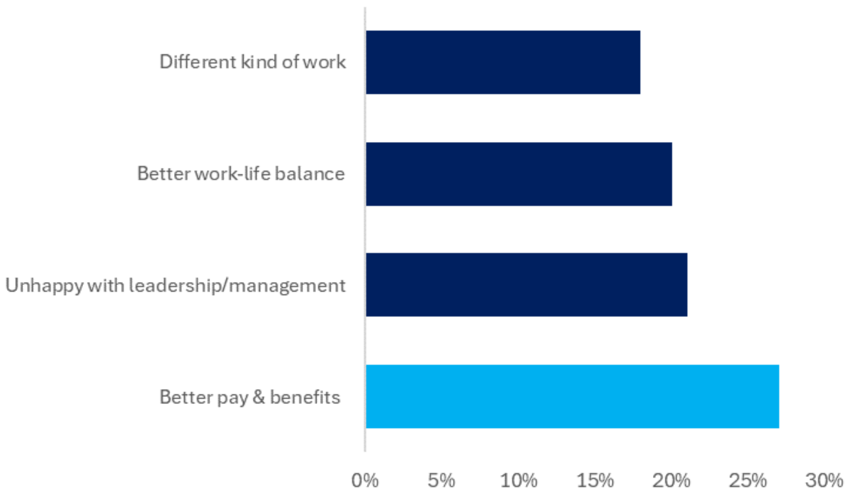
6. Considerations for devolving minimum wage setting to Northern Ireland

6.1 Ministerial priorities

This section explores the relationship between the devolution of minimum wage-setting powers to NI on other Department for the Economy priorities, such as 'good jobs', regional balance, productivity and reducing emissions.[144]

Good jobs
For many years, wage rates and associated pay have been considered as the fundamental element of what constitutes a "good" job to most employees. For example, as shown in Figure 20, renumeration continues to be a top priority for staff when asked why they left their previous job. In different research, over half (54%) of UK employees consider a higher salary as essential when accepting or applying for a new job.[145]

Figure 20: Top reasons why employees left their previous job, UK, 2022



Source: CIPD – Good Work Index 2022

However, other aspects of employment have gained increasing prominence in defining job quality. The Carnegie Framework, recently endorsed by the Economy Minister, builds upon work by CIPD and includes but also looks beyond renumeration when recommending job quality measures (see Figure 21).[146] In this framework, 'Pay and benefits' as a pillar within the good jobs context has evolved beyond a minimum pay rate to include the provision of holiday pay, sick pay, maternity/paternity pay and a workplace pension. All of these help to provide a layer of security to the role as well as financial compensation. Non-wage benefits can also include but are not limited to staff discount, healthcare and travel schemes. Non-wage benefits, such as healthcare, retirement plans, and flexible working arrangements can enhance overall job satisfaction and work-life balance. Additionally, opportunities for training and development have emerged as essential components, enabling workers to advance their skills and achieve career progression and stay relevant in what is an increasingly tight labour market.

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[144] Department for Economy - DfE Business Plan 2024-25
[145] The Expectation Gap (2024).
[146] Carnegie Trust (2018)

Figure 21: Areas of job quality measurement

Source: Carnegie UK - Measuring Good Work

Job security has become increasingly crucial, providing employees with stability and peace of mind in an unpredictable economy. The Labour Government has pledged to ban "exploitative zero hours contracts" in an effort to strengthen workers' rights and "end 'one sided' flexibility and ensure all jobs provide a baseline level of security and predictability"[147]. Workers will have the right to a contract that reflects the number of hours they regularly work after 12 weeks whilst also retaining the right to remain on a zero hours contract if they wish[148]. Typically, only a small proportion of the workforce were on zero hours contracts in 2022/23, approximately 1-2% of workers in NI and 2-3% in the UK. This equates to approximately 12,000 people across NI[149].

In conclusion, it is fair to say that a 'good job' is a holistic embodiment of many elements, including but not limited to fair pay. Minimum wage setting at a level which prevents exploitation and reduces numbers of low paid workers is crucial to a 'good job'. However, assessing and measuring roles to determine a "good" job can be difficult, even with current frameworks which are improving the measurement of job quality using objective assessments[150]. Both statutory government legislation and internal company protocols, such as progressive HR practices, play a role in ensuring both subjective and objective needs are met[151]. An argument can be made that a job can be physically safe, secure, respect employment law and yet an employee might find the work unfulfilling. Within the same role, one employee could find the work challenging and another find it routine.

[147] Labour (2024).
[148] Speech by Rachel Reeves, then Shadow Chancellor, May 2024
[149] This is based upon UUEPC calculations from ONS, Labour Force Survey.
[150] Wilson (2024b).
[151] CIPD (2018).

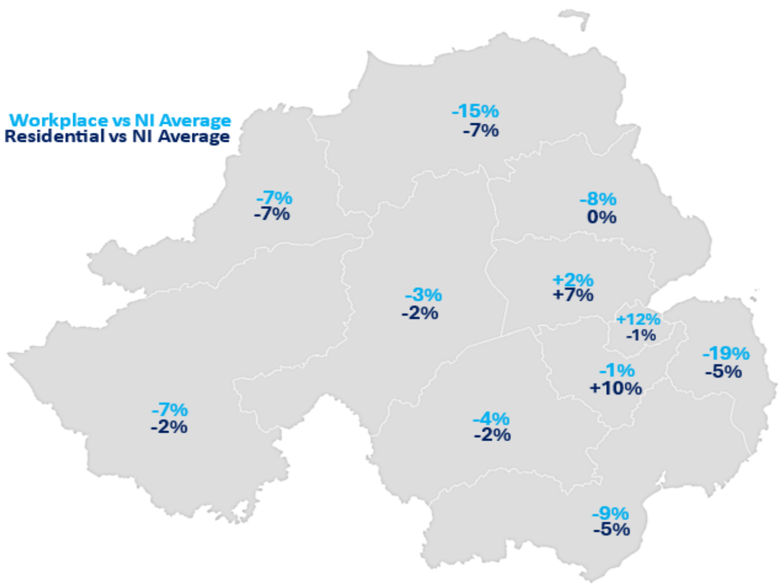
Regional balance[152]

Differentials in pay rates exist not only between NI and the rest of the UK, but also sub-regionally within NI. Trends in both workplace and resident wages reveal an unequal picture, influenced by factors such as sectoral composition, commuting patterns/choices and, at a granular level, the wage premia businesses will pay for the skills and qualifications of individual workers and residents.

Figure 22 highlights the difference in median annual workplace and resident wages[153] **relative to the NI average** (£28,800) in 2024. The striking part of the picture is the level of variation. In terms of workplace wages only Belfast and Antrim & Newtownabbey (+12% & +2%) stand above the NI average – and thus draw in large numbers of commuters – while two Council areas have workplace wage levels 10% or more below the average (Ards & North Down and Causeway Coast & Glens). The variation between top and bottom is smaller for resident wages 17 pp compared to 27pp for workplace wages.

Two LGDs stand out for their divergence in workplace and/or resident wages. Ards & North Down stands out as having the highest differential of workplace wages compared to the NI average (-19%), and the lowest median annual salary of £23,400 of any Council area in 2024. This Council's gap has been persistent, with a fluctuation between 15% and 21% below the NI average between 2014 and 2023. Derry City & Strabane had the largest negative gap (-7%) in resident wages compared to the NI average in 2024, equating to a difference of over £2,000 less in salaries. Although the LGD has recorded the strongest growth in **resident** wages in the decade to 2024 (4.9% growth per annum), the starting point of -19% in 2013 was among the worst of any Council area and the partial convergence to the NI average still leaves much to be done. **Workplace** wages in Derry City & Strabane have followed a different path. They deviated from the NI average by only 4% in 2013, but, by 2020, were 16% lower than the NI average. This trend has since reversed, narrowing that gap to 7%.

Figure 22: % difference in resident and workplace annual wages relative to NI average, NI LGDs, 2024



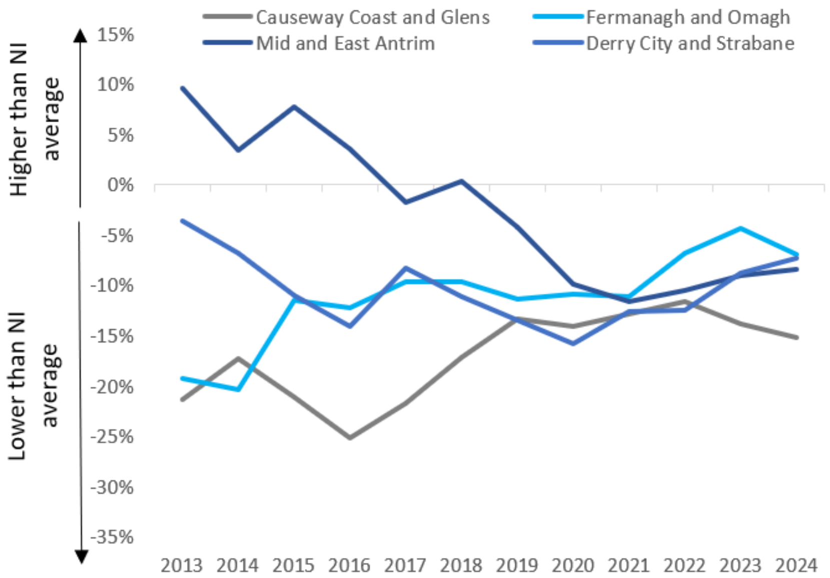
Source: ASHE

[152] UUEPC will publish a report in February/March 2025 assessing regional economic balance in NI.

[153] Workplace based earnings measure earnings of people who work in a particular area but may live elsewhere. Residence based earnings are measured by where employees live.

The movements in different directions in Derry City & Strabane highlight how wage levels can alter in relative terms. Figure 23 shows the change in **workplace** earnings relative to the NI average in a selection of Council areas since 2013 with particularly strong convergence observed in both Causeway Coast & Glens (-25% in 2016 vs. -15% in 2024) and Fermanagh & Omagh (-20% in 2014 vs. -7% in 2024). Derry City & Strabane's divergence can be seen but even more striking is the change in Mid & East Antrim (+10% in 2013 vs -8% in 2024) which has experienced a very significant decline over the ten-year period following several high-profile manufacturing closures in the district.

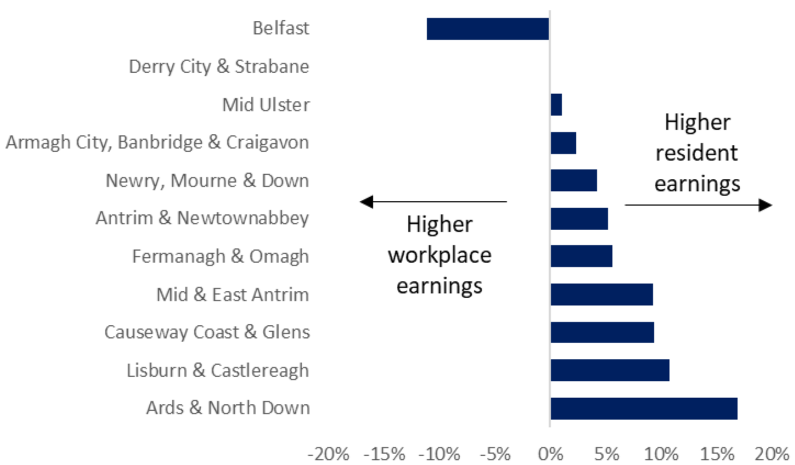
Figure 23: Workplace median wages compared to the NI average, selected NI LGDs, 2013-2024



Source: ASHE

The difference between workplace and resident earnings within each Council area is shown in Figure 24. The difference has been narrowing over time but there are still some large gaps, especially in Belfast, with higher workplace wages on offer. Intuitively, this has meant higher resident wages in Council areas with strong commuting connections and geographic proximity to Belfast, including Antrim & Newtownabbey and Lisburn & Castlereagh.

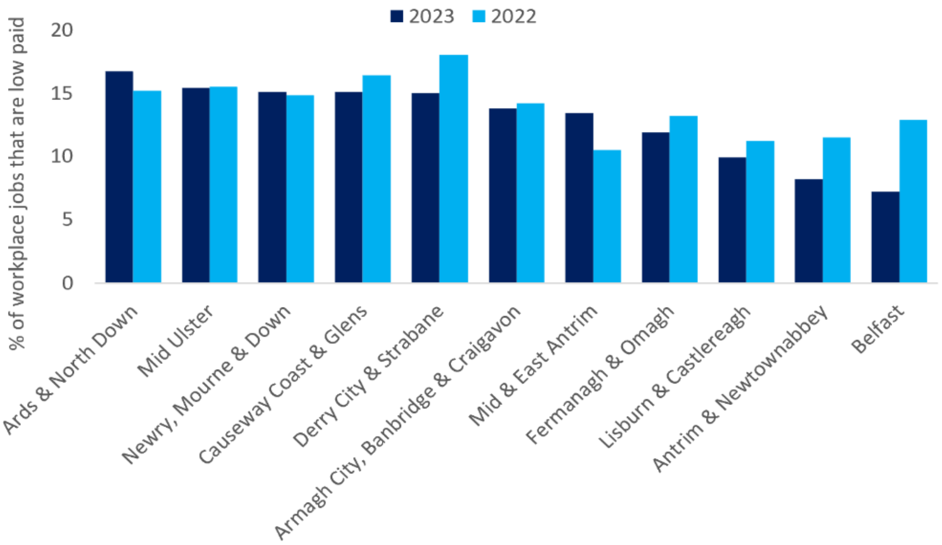
Figure 24: % difference in resident and workplace median annual wages, NI LGDs, 2024



Source: ASHE

In NI 11% of jobs are defined as low paid, paying 66% or less of median UK hourly earnings. This varies across council areas with three Council areas were below this, including Belfast. Figure 25 shows both the variation in low-paid jobs and the improvement between 2022 and 2023, especially in Derry City & Strabane (18% to 15%), Fermanagh & Omagh (13% to 11%) and Belfast (13% to 7%). However, Ards & North Down, Newry, Mourne & Down and Mid & East Antrim have all seen dis-improvement.

Figure 25: % of workplace jobs that are low paid, NI LGDs, 2022 & 2023



Source: ASHE

Productivity

NI has experienced a poor productivity performance over many decades and improving this is explicitly one of the Department's priorities[154]. The productivity gap to the UK average (whether measured by GVA per hours worked or jobs filled) has existed as long as NI has been in existence. The same trend can also be observed relative to the Republic of Ireland with a productivity growth rate closer to the Border region rather than the national average. All of this place's NI towards the lower end of ITL2/TL2[155] regions across the OECD.

NI's most recent productivity data for 2022 does show GVA per hour worked improving significantly on the 2021 data, at 89% of the UK average, the smallest gap experienced in recent decades. However, this appears to be driven by a much larger fall in hours worked in NI compared to other UK regions since 2019 and suggests it may be a short-term pandemic-related change[156]. Given the overall productivity picture there is an expectation that 'what we do' – in terms of the sectoral structure of the NI economy – plays a part[157]. The NI economy has a stronger concentration (in terms of employment shares) in sectors which have lower productivity (highlighted in red in Figure 26 and including Agriculture, Retail and Administrative Services). The chart shows how each sector in NI performs relative to the sectoral average across the UK with only Accommodation and Retail sectors showing above UK average levels of productivity. All higher productivity sectors in NI (highlighted in green) significantly underperform their UK peers suggesting that improving in-sector aggregate

[154] Summed up in Jordan and Turner (2021)

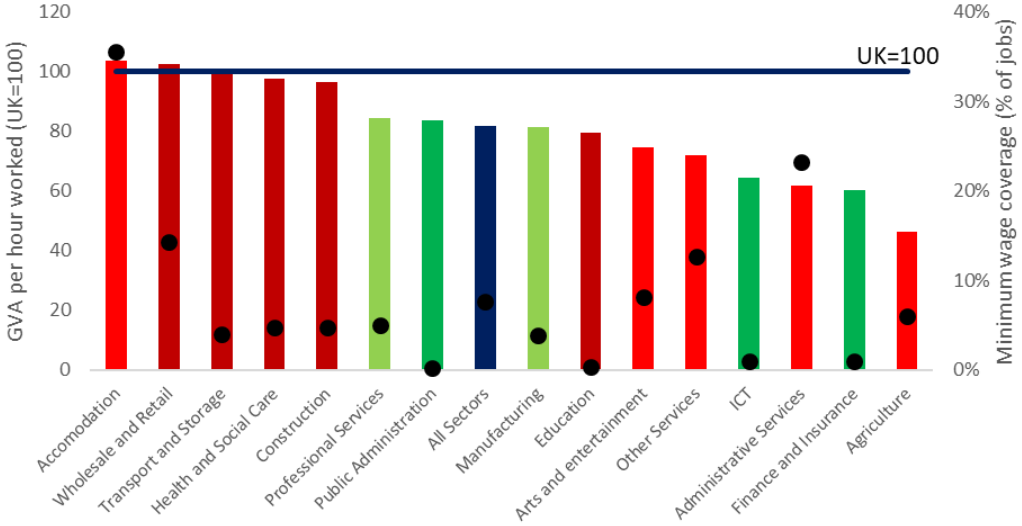
[155] TL2 is the OECD definition of large regions (eg: NI) with the lower TL3 regions applying to the eleven Council areas.

[156] Donaldson, Jordan and Turner (2023).

[157] Martin, Desmond and Donaldson (2023); Mac Flynn (2024); Bergin and McGuinness (2022); Johnston and Buchanan (2016).

productivity performance may be even more important. While the NI economy and parts of the enterprise ecosystems have some centres of excellence these are too often an exception.

Figure 26: Sectoral productivity (GVA per hour worked) relative to the UK average and minimum wage coverage, NI, 2019



Source: ONS, LPC (2022) and UUEPC analysis

When we look at sectoral productivity growth between 2012 and we find mixed evidence for those sectors with higher minimum wage coverage. Some sectors, including Other Services and Administrative Services, saw little or no productivity improvement. However, Accommodation and Retail did and these are sectors with higher than average coverage for minimum wage workers. This mixed picture supports the results of recent UK LPC research which found 'no effect' when comparing productivity growth in regions or sectors with high levels of minimum wage coverage with those which have lower levels. Although an imprecise method, the same approach does find a positive impact with sectoral wage growth (which is the same in NI).[158]

The evidence from the US research cited in Chapter 2 suggests that productivity effects and increases in the minimum wage are difficult to link together. There is evidence of increased worker retention and effort on the job, but this has been hard to find in the UK. Productivity improvements have also been identified in German research following the introduction of their national minimum wage in 2015, which has been attributed to workers being reallocated from lower to higher productivity firms[159]. The research finds a correlation and relationship between firm dynamism (or the replacement of lower productivity firms exiting the economy by new higher productivity entrants) and the minimum wage. At an economy level, the evidence in NI does not support the same picture of firm dynamism with the productivity in exiting firms being slightly higher than that in the new firms created. Of the four sectors with the largest minimum wage coverage, two sectors (Accommodation and Retail) follow this trend while two (Other Services and Administrative Services) appear not to.[160]

If the presence of a minimum wage does not inspire firms to improve productivity – whether through increased levels of investment or training – could this mean an impact contrary to the policy priority to increase productivity? Intuitively, a higher minimum wage should address the issue of a 'low skills

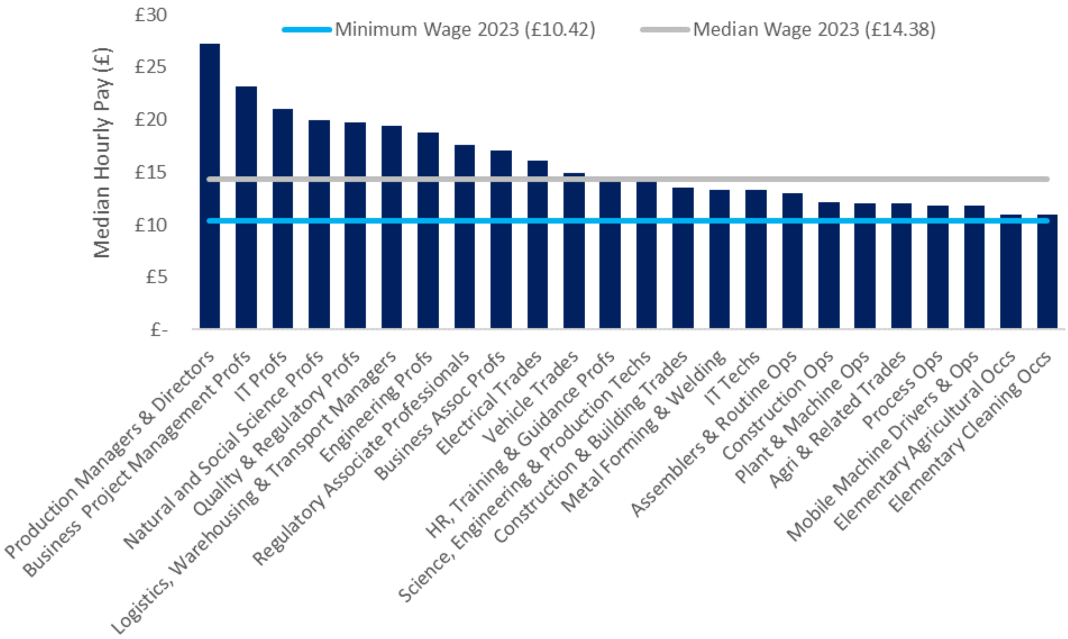
[158] LPC (2022).
[159] Dustmann et al (2022).
[160] UUEPC (2023).

equilibrium' economy, forcing firms to invest in training and/ or technology to move out of any low wage / low skill trap. However, recent evidence points more to firms adapting within the minimum wage increase by compressing wage levels or seeking other work arrangements, with little apparent impetus for employers to improve productivity as a result of minimum wages. On the employee side, if increases to the minimum wage increase retention and reduce incentives to progress through promotion and training, etc, then productivity improvements may also be less likely.[161]

Decarbonisation

Efforts to decarbonise the economy and increase the prevalence of 'green jobs' within the labour market has been recognised as a key priority by DfE. This section considers both the median wage levels offered within green jobs and the prevalence of minimum wage workers in 'non-green' sectors within the economy that may be affected by this transition.

Figure 27: Median hourly pay, selected 'green' occupations (3-digit SOC), NI, 2023



Source: ASHE, NISRA, DfE, UUEPC Calculations

Notes: SOC2010 Green jobs definition has been matched to SOC2020 codes consistent with those produced by NISRA/ASHE in more recent releases. The aggregated 3-digit occupation classification has been used due to high levels of disclosure at 4-digit level therefore the data above by be representative of *some* non-green occupational data. Disclosure at 3-digit level has resulted in construction & mining managers, a number of scientific and surveying roles not included in this analysis.

Using an occupational (SOC) definition of "green jobs"[162], Figure 27 illustrates the hourly pay rates of selected occupations falling within this definition. Although all occupation categories sit above the corresponding NLW rate for 2023 (£10.42p/h), over half (54%) of these selected occupations have median wages below the economy average hourly median wage (£14.38), an increase from 49% in the previous year. Two occupations (Elementary Agricultural & Cleaning Occupations) fall within 10% of the 2023 National Living Wage indicating that they are likely to be affected and subsequently uplifted pending a rise in the NLW. Between 2022 and 2023, hourly median wages within the green economy

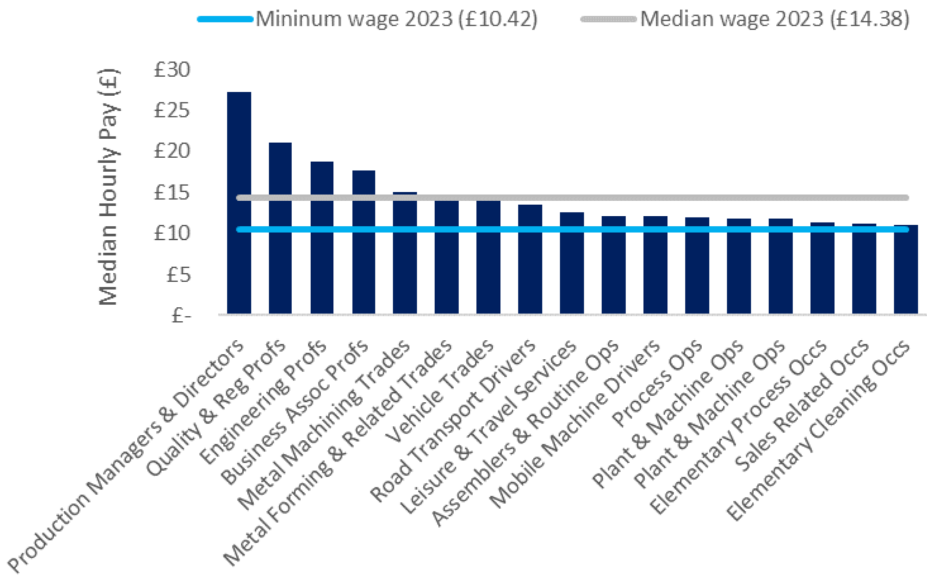
[161] Sissons (2020); MacFlynn (2017); Green et al (2020).

[162] Energy & Utility Skills (2023).

grew by 5.9%, which in most years would be considered strong growth, but with inflationary pressures the average median hourly wage increased by 7.3%, outpacing growth within the selected green occupations.

Further research has also identified ‘brown jobs’, which encompass occupations that exist within the “most emissions-intense sectors, and therefore those that require significant change to be consistent with net zero” targets[163]. These roles are likely to undergo significant change in the years ahead including the decline of roles where the “primary function directly contributes to the generation of greenhouse gas emissions” and/or roles where workers will need to “adapt to new, lower-emissions technologies and new ways of working”, to reduce carbon emissions. The research cites HGV lorry drivers as an example of the type of role which is expected to undergo significant change (in terms of the fuel used) but will still be required in the economy.

Figure 28: Median hourly pay, selected ‘brown’ occupations (3-digit SOC), NI, 2023



Source: The Resolution Foundation, ASHE, NISRA, UUEPC Calculations

Although many brown jobs have a similar level of pay as green jobs, these jobs have a higher concentration at the lower end of hourly wages. Similar to green jobs, all occupation categories sit above the 2023 NLW rate, but a higher proportion (72%) of these selected occupations fall below the economy wide hourly median (£14.38). In this analysis, three occupations (Cleaning, Sales & Process Occupations) fall within 10% of the 2023 NLW indicating that they are also likely to be affected and subsequently uplifted pending a rise in the NLW.

[163] Resolution Foundation (2022). There is some overlap within the classifications of green and brown jobs, which can lead to some jobs being in both categories. Some brown jobs contain green elements and meet the criteria for a green job (eg: waste and environmental managers, electrical engineers and energy plant operatives). The Resolution Foundation classify these jobs ‘brown changer jobs’ and not ‘green changer jobs’ due to their current prevalence in emissions intense sectors and they will likely experience a more difficult transition to net zero.

6.2 Wider considerations

This section explores wider issues that are also relevant when considering minimum wage setting and devolution. These include:

- Potential exemptions or sub-minima rates on the basis of age or training;
- Other strategic contexts including any relationship with the campaign for a Real Living Wage, understanding the interaction with the benefits system, implications for public finances and any issues arising from the 2022 EU Adequate Minimum Wage Directive.[164]

The age question or sub-minima rates

Most countries with statutory minimum wages have historically set different rates for younger workers and apprentices (see next section). The argument in favour has been that dis-employment effects from the minimum wage would tend to be strongest for younger workers[165]. Therefore differential (lower) rates would protect employment and deter the exclusion of young people from the labour market based on their lack of experience. However, it has also been argued that differential rates based on age can lead to churn as employers replace older, costlier workers with younger staff.[166]

Matters have started to change in recent years with a growing number of EU member states and other OECD countries changing or committing to change these differential rates[167]. In the UK, the LPC recommended in 2020 to move to a position where anyone aged 21 or over would be paid the same NLW rate by 2023 (though under 21s would continue to be paid less). The new UK Government has pointed towards an abolition in time of all sub-minima rates and has recently announced the highest increases on record (16.3%) for 18-20 year olds.[168] The LPC in RoI has this year recommended that all youth rates (these exist in three bands below the age of 20) be abolished by the beginning of 2025[169]. The decision will be subject to two reviews of any impacts in 2027 and 2029. In the Netherlands a decision was taken in 2021 to move from 23 to 21 years old being the cut-off point with annual bands below that down to 15 year olds.

There remains some caution about abolishing the rates on the grounds of how they might be used, in the case of falling employment rates for younger workers in recessions, to prevent the wholesale lay-off among young people or a worsening of scarring effects for those entering the labour market for the first time. However, central to the decisions in both the UK and Ireland, is the evidence that a significant proportion of those subject to youth rates (perhaps as high as 25% of that cohort in RoI) are actually paid above that rate. This appears to be particularly the case with the older age bands (18-20 year olds) as they were anticipated to have developed their skills and certainly would have greater experience.[170]

[164] Europa.eu - Directive 2022/41
[165] Dolton, Bondibene and Wadsworth (2012); London Economics (2015).
[166] There is some evidence from the Netherlands to support the replacement idea: Kabátek (2020).
[167] The EU Directive does not rule out the use of sub-minima rates, if proportionate, but discourages their use.
[168] The age of 22 had been the initial cut-off point for the NMW up to 2010 when it became 21, and during the recession the under-20s had received smaller increases than over-20s.
[169] One factor in the decision was that most EU member states did not have sub-minima rates for 18-20 year olds; see LPC(I) (2024)
[170] Redmond et al (2023).

Apprenticeships and the minimum wage

Apprenticeships are a labour market pathway, typically associated with equipping young people with the skills and experience they need to gain a vocational qualification and build a career whilst also earning a wage. In 2021/22, almost 5,500 apprentices completed NI's apprenticeship program (ApprenticeshipsNI)[171].

This section examines how apprentices are paid in the UK and internationally in relation to respective national minimum wages. The countries have been selected to demonstrate how apprenticeship pay is approached differently across the world. The ability to compare apprenticeship programmes across countries is difficult due to differences in the pay structure of apprenticeship programmes. For instance, some countries pay apprentices based upon their age and/or level of experience, in some cases resulting in numerous potential apprentice rates. This research does not extend to reviewing the education systems, labour market pathways and career outcomes of apprentices internationally however all of these are likely to be influential factors in determining the level of pay for apprentices during training but also the return on investment in the form of longer term career prospects.

Country	Apprenticeship pay structure
UK/NI	Apprenticeship qualifications feature across the UK, varying slightly in structure due different frameworks within devolved regions. In 2024, the minimum wage for an apprentice in their first year, regardless of their age, is £6.40. This is **equal to minimum wage rate for 16–17-year-olds**. Once an apprentice aged 19+ has completed their first year of their apprenticeship, they are entitled to the national minimum wage for their age group. Example: A 21-year-old in the first year of their apprenticeship can earn a minimum of £6.40 and in their second year as a 22-year-old they are entitled to a minimum hourly rate of £11.44[172].
Germany	Apprentice wages in the 'German vocational education and training system' or Dual education system are lower than other countries at €620 per month in 2023.[173] This wage increases each year that apprentices complete, reaching approximately €800 per month in the third year. Younger standard employees aged 15-18 are not eligible to earn the minimum wage despite being able to work a full 40 hour week. All workers aged 18+ are then entitled to earn the national minimum wage of €12.41/hour. For comparative purposes, a first-year apprentice in the UK working 32 hours per week would earn approximately £850 (€993) a month, over 50% more than those in Germany. This low wage is based upon the assumption that apprentices in Germany are still living with their parents during their apprenticeship.[174]

[171] Department for Economy NI
[172] Gov.uk - The National Minimum Wage in 2024
[173]Studienabbruch - apprenticeships
[174] Apprentices without parents living in Germany can apply for subsidised accommodation and in some cases, grants are awarded to cover the cost of living.

Australia	4 different lengths of apprenticeship programmes exist in Australia ranging from 2-4 years. Junior apprentices (U21 apprentices) are paid a percentage of the standard rate (Level 3 employee[175] min wage) which currently sits at ($27.17/hour)[176] . The percentage increases each year, starting at 55% in year 1 ($14.94) and rising to 95% in year 4 ($25.81) [177]. As a result, **a 16-year-old apprentice in Australia can earn more than a 'junior employee'** in a regular job depending on the level of the employee[178]. In Australia, those under the age of 21 receive minimum wages in a range from $11.10-$14.02 at 16, to $22.92-$28.96 for 20-year-olds, dependant on level of work.
Republic of Ireland	The apprenticeship minimum wage rate differs across sectors in Ireland. For example, an apprentice in either the hospitality or hair & beauty industries can negotiate their wage with their employer. However, apprentices in the building and construction industry are **paid a percentage of the 'Craft rate'** (€19.96/hr) incrementally increasing from 33% in year 1 to 90% in year 4[179]. In 2024, standard U18 employees are entitled to is €8.89 p/h, this increases incrementally by age until an employee is aged 20+ where they are entitled to the adult rate of €12.70p/h. This means **that an apprentice in their third and fourth year could be earning more than a 'normal employee' of the same age**. For example: The electrical contracting sector wage rate increases from €7.05 per hour in year 1 to €18.80 in year 4[180].
France	The French minimum wage rate (SMIC) currently sits at €11.65 per hour in 2024 or €1,766.92 per month for those aged 18+. France has different minimum wages for both age groups and years completed of an apprenticeship. For example, the minimum monthly wage for a 21-year-old in the first year of their apprenticeship (€926.47) is much higher than a 16-17 year old (€477.07) or an 18-20 year old (€759.77) in the first year of their course. **Individuals in apprenticeship contracts typically earn between 27%-78% of the SMIC** depending on their age and year of apprenticeship[181].
Netherlands	Apprentices in the Netherlands are be entitled to receive a minimum wage rate[182] solely based on their age, years of work is irrelevant here. There is **no disparity between the minimum wage and apprenticeship wage for those aged 21+ and those aged 15-17**, however the minimum wage for those aged 18-20 is over €1/hr higher on average than the apprenticeship wage[183].

175 Level 3 employee as defined by- ASPC.gov.au - Work level standards and classifications
176 Gov.au - TOC170912236
177 65% in second year, 80% in third year
178 gOV.AU - TOC170912258
179 50% and 75% in second and third years.
180 Indeed.ie - How much to apprentices make in Ireland
181 Servicepublic.fr - Apprenticeships contract
182 Government for Netherlands - Minimum wage amounts for 2024
183 Rijksoverheid.nl - Minimum wage

Reviewing the selected countries, there does not appear to be a uniform mechanism to setting apprenticeship wages however there is the trend to set apprenticeship wages closely but in a number of cases, below the minimum wage for the relevant age grounds. The approach adopted by the UK does not appear dissimilar to other countries.

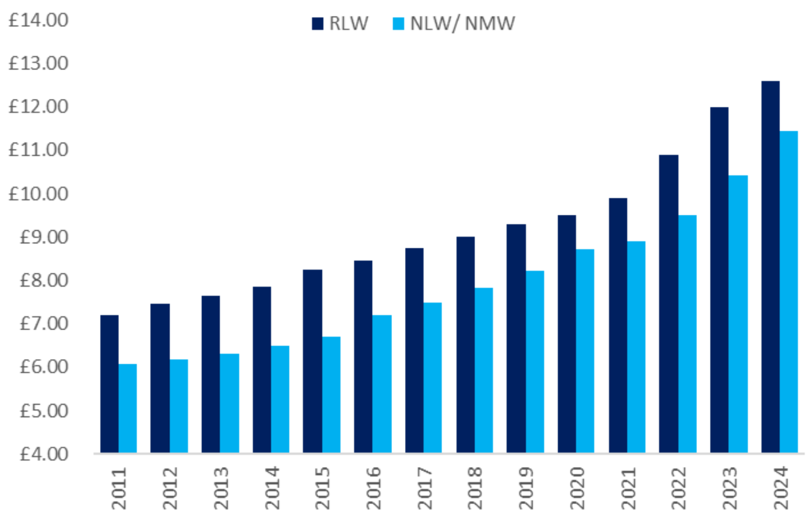
If sub-minima age rates are abolished by UK government the rationale to review apprenticeship rates may grow. However, in other OECD countries (including RoI), apprenticeship rates continue to be treated as a separate category to sub-minima youth wage rates. If minimum wage-setting powers were devolved to NI, the pay of apprentices could be reviewed to consider potential changes in light of this new position.

The campaign for a Real Living Wage

Real living wage initiatives, often bottom-up and community-based, began in the USA in the 1990s and then in the UK,[184] before emerging in New Zealand and Ireland as national initiatives to calculate the level of a living wage[185]. In the UK the Real Living Wage (RLW) is a voluntary rate of pay which is set by the Living Wage Foundation (LWF) and is currently the only minimum wage rate in the UK based on the cost of living. After positive feedback from London Living Wage (LLW) employers, a National Living Wage was created for UK employers in 2011 (later renamed the RLW). This started at a rate of £7.20 which was £1.12 higher than the National Minimum Wage at the time. The 2024 UK RLW rate currently sits at £12.60 p/hour with the London rate at £13.85 p/h, recently updated in October.

The gap between the lower NLW/NMW and higher RLW has varied between 8% and 19%, averaging 14% since the introduction of the NLW in 2016. In monetary terms, the 2024 RLW offers a £1.16 premium on the NLW. Over the course of a year an employee on the 2024 RLW would earned over £700 more than employees paid the 2024 NLW[186].

Figure 29: UK RLW vs NLW/NMW hourly rates, 2011-2024



Source: Living Wage Foundation
Note: RLW refers to the UK rate exc London

[184] For example, after successful campaigning by London community organisations at the start of the millennium, the London Living Wage (LLW) was developed in 2005.
[185] For more on the background see Searle & McWha-Hermann (2021); OECD (2023).
[186] This figures is lower than the £1,000 figure provided by the Living Wage Foundation (of the difference between two workers both working 12 hours pw for 52 weeks) based on the 2023 differential.

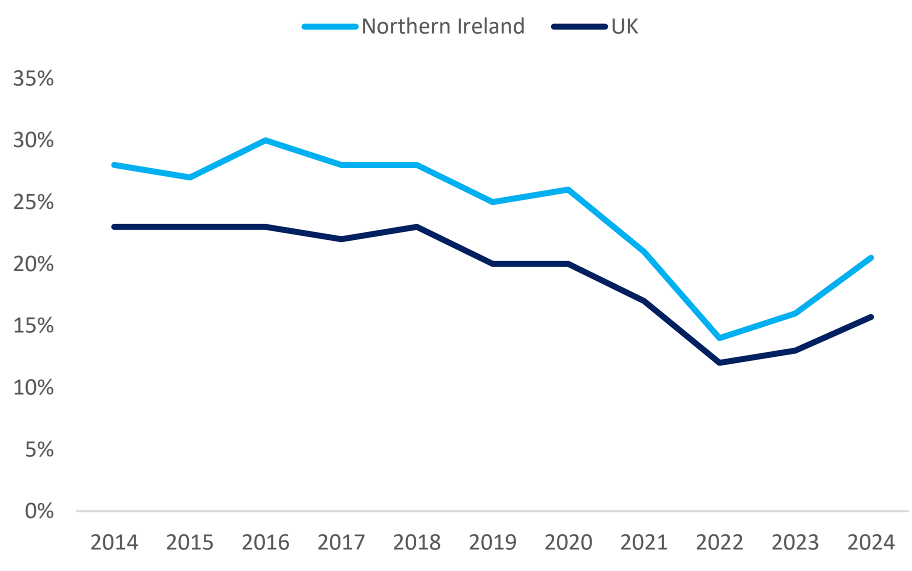
The RLW is set by calculating what employees and families need to earn to have an "acceptable" standard of living[187]. There are various aspects to setting the RLW:

- Regularly measuring and updating the cost of goods and services which employees and families need to maintain their standard of living[188]. Additional 'living costs' are also included for example, rent, council tax and childcare. Regional price variations are also factored in (though only London has a different RLW rate).
- An hourly wage that must be earned to afford this basket of goods is calculated, this wage base incorporates weightings to adjust for a mixture of households and family types. Tax, benefits and changes to inflation are also considered, these are calculated by the Resolution Foundation and assumes each household/family will claim the benefits they are entitled to.
- It also considers the higher costs of living for housing, transport and childcare within London.

The Living Wage Foundation has led a campaign to persuade employers to become accredited RLW employers and 15,000 businesses across the UK have signed up, impacting almost half a million employees. In NI there are currently 101 living wage accredited employers, including both NI Universities. However, compared to other UK regions, NI has the lowest number of accredited employers not only nominally but also per capita.

The number of employee jobs paid below the RLW in the UK had been declining since 2014 and was just under 12% in 2022. Figure 30 shows NI following the same trend and actually converging towards the UK average over time. However, in 2023, the proportion of employees in NI and the UK paid below the RLW began to increase once more, by 7 pp over two years[189]. NI is currently back to its previous position of having the highest rate across all UK regions.

Figure 30: % of employee jobs paid below the RLW, NI & UK, 2014-2024



Source: ASHE, NISRA and ONS

[187] A separate rate that is calculated for those in London as they face higher costs of living; see Resolution Foundation, [Calculating the Real Living wage]

[188] The contents of this basket of goods is based on the Minimum Income Standard (MIS) estimated by the Centre for Research in Social Policy (CRSP) in Loughborough University.

[189] For more see Wilson (2024a).

The Living Wage Foundation campaign requires public bodies which hold RLW accreditation to apply the same policy across their supply chain, with contractors and sub-contractors also required to pay the RLW. These 'nudge' public sector living wage clauses are becoming more widespread across the UK to the extent that 902 public sector employers have LWF accreditation and pay all their own staff at least RLW, including third party staff on procurement contracts on pain of losing the accreditation.[190] In 2022, a policy was introduced by the then NI Finance minister to ensure that all NI Executive procurement contracts pay at least RLW rates[191]. In June 2024 Advice NI has launched a Living Wage initiative aimed at increasing RLW accreditation amongst employers across NI as they advocate for fair wages and to support employers in achieving this accreditation. This initiative is supported by the DfE along with £125,000 funding to promote the programme.[192]

Interactions with the welfare system[193]

The previous UK Conservative government introduced the National Living Wage in 2016 with the intention to 'make work pay' and 'to move from a low wage, high tax, high welfare society to a higher wage, lower tax, lower welfare society,' in turn reducing reliance on in-work benefits which, at the time, were being cut[194]. However, an assumption that there is a strong relationship between any individual's gross hourly wage and their family income or benefit entitlement is misplaced.[195] If a minimum wage worker lives in a household with a high earning partner, then their entitlement to benefits might be low. In contrast, a family might be entitled to benefits because individuals earning higher wages may not work many hours, may have children or need support with high rents. Most relevantly, many families on low incomes and largely reliant on benefits are in households where no-one is in work.

That said, a significant proportion of Universal Credit (UC) beneficiaries are working. The current UC claimant data in Northern Ireland mirrors the broader UK context, with approximately one quarter of those in receipt of UC in work, equating to over 42,500 individuals with over 40% of those in work having conditionality requirements. This proportion has remained relatively consistent since 2017 when the initial transition to UC from older legacy benefits began. Given this profile, tax and welfare implications are generally considered to be one of the most important factors when calculating both the National Living Wage and the Real Living Wage. For example, in 2023/24, two-thirds (67%) of the sample households selected for the Real Living Wage calculations were assumed to be receiving UC[196]. The following extract explains the relationship with the UC system:

> "Universal Credit (UC) has a more generous treatment of rent and childcare costs than the legacy system it is replacing (as well as, since 2021, a lower 'taper rate'), which means that a family in receipt of UC needs to earn less to achieve a given income level than under the previous tax credits system. This has led to downwards pressure on the LW rates over time as we have steadily raised the assumed proportion of households claiming UC in line with actual caseloads."
>
> Resolution Foundation (2023) Calculating the Real Living Wage for London and the rest of the UK

[190] Datta and Machin (2024).
[191] FinanceNI - 158 million government tenders issued by Minister Murphy
[192] Livingwage.org.uk - New accreditation launched to boost fair pay across NI
[193] We have been assisted in writing this section by discussions with Department for Communities officials.
[194] Gov.uk (2016) National Living Wage (NLW) policy paper
[195] This point is made clearly in Hoynes, Joyce and Waters (2023) and NERI (2015).
[196] Resolution Foundation (2023) Calculating the Real Living Wage for London and the rest of the UK

As noted in earlier in the report, research on distributional effects of minimum wages has found, in the UK and Ireland, that middle-income households benefit the most from NLW increases. In contrast, households in the lower income deciles (20th and 30th percentiles) often see nearly 50% of any wage increase from the NLW offset by higher taxes or reduced means-tested benefits[197]. This results in an effectively higher marginal tax rate, diminishing the impact of NLW increases on lower income working households[198]. Added to this issue are non-cash benefits and the subsequent loss of them beyond a certain earnings threshold. There are a range of non-financial supports available to those on a low income in NI including winter fuel payments and help towards health costs[199]. Previous research examining the barriers faced by those who are economically inactive when seeking and/or returning to work has identified the potential of losing/ having access to benefits as a significant barrier. Those receiving in-work benefits likely have similar views regarding in-work and/or non-financial benefits which may act as a disincentive to searching for more hours and/or marginally higher paid work.

Implications for public finances

There are a number of ways in which minimum wages and increases in these can have fiscal impacts[200]. The table below provides some detail on the various channels through which public finances can be impacted as well as some details of how these might work out.

Table 2: Fiscal impacts of minimum wage increases

Impact	Details
Benefits	
Higher labour income	Potentially higher levels of income tax and NI contributions Lower spend on work-related benefits (eg: tax credits or housing benefit)
Higher household consumption	Increase in VAT and excise returns from higher levels of consumption and demand more generally.
Costs	
Job/hours losses	Any increase in the numbers unemployed will feed through into higher benefit costs Reductions in hours would also be potentially seen in higher levels of Universal Credit claims.
Higher wages in the public sector	Higher public sector wage bill for employees paid on or just above the NLW rate – approximately 1% of public sector employees are paid at or below the NLW according to LPC figures for the UK.[201]
Higher prices	If higher wages are passed through into higher prices then tax thresholds, benefits and pensions will all rise. Higher prices could also mean higher costs of publicly procured goods and services
Corporation Tax (CT)	If business ‘take on’ the costs of higher minimum wages then this reduces profit and therefore CT receipts where these are payable.
Debt interest	Higher wages leading to higher inflation rates and a knock-on effect on the interest payments for index-linked government borrowing (gilts).

[197] Cribb et al (2021).
[198] Giupponi et al (2023).
[199] See NIdirect - Low Income
[200] There is analysis on fiscal impacts from UK, US and EU perspectives in OBR (2015), Appendix B; CBO (2019); JRC (2021).
[201] NISRA QES data for June 2024 points to 224,300 public sector jobs so perhaps 22,500 NLW jobs in the NI public sector, approximately 28% of the total jobs paid at this level.

Previous research by the UUEPC (2019) on the potential economic impacts of the NLW on NI by 2020 also included an estimate of fiscal impacts. This centred on the higher tax, benefit and NI contribution benefits from the NLW balanced against costs including lower corporation tax due to lower profits and the tax and benefit impacts that would arise as a result of the small number of jobs losses expected. The overall net impact (an increase of £22million) was small, perhaps 0.07% of GVA in that year.

The UUEPC modelling results form part of a small body of literature – often from fiscal councils – which have estimated the fiscal impacts of minimum wages. Some of the findings include the following:

- OBR estimate from 2015 of a reduction of £0.2 billion in the net borrowing levels – due to a net benefits reductions in the main, though there would be increases from job loss-related benefits and inflation-linked higher interest payments.
- Increases to the public sector wage bill forms a large part of the CBO analysis and their assessment that increases in the MW would lead to a higher US deficit (disputed by Zipperer et al, 2021 who argue that a reduction in public spending will result due to lower benefits costs).

EU simulations by the JRC as part of the consideration of any EU Directive on minimum wages find small, positive effects on public finances as a result of higher tax revenues and lower benefits expenditure. The effects range from 0.1% of GDP to 0.4% depending on the bite of the minimum wages, with Hungary and Spain showing negative effects due to lower tax revenues. It is important to note that these simulations, like those of the OBR but unlike the CBO, do not include any effects from higher public sector wages.

Learning from the EU Adequate Minimum Wage Directive
The European Parliament introduced a directive on adequate minimum wages in October 2022 which aims to advise European Union (EU) member states on the mechanisms needed to provide a decent living wage for workers. There are two key, inter-related elements to the directive:

- Ensuring adequate minimum wage setting and enforcement of this; and
- Promoting collective bargaining.

Most EU countries have a statutory minimum wage in place and the Directive requires that member states put in place a number of principles to ensure a level playing field. These include:

- Defined criteria and indicators for minimum wage setting and assessment of their adequacy;
- Regular and timely updates on the minimum wage rates;
- Involvement of consultative bodies, including social partners in wage setting – this could be full involvement in an expert group or consultation and updating.

A 'double decency' threshold is suggested as a reference value for countries to use to judge the adequacy of minimum wages[202]. This means that either the minimum wage is 60% of the gross median wage of a member state (most applicable in higher wage countries) or 50% of the gross mean wage (applicable in Central and Eastern European countries). These reference values have already begun to influence minimum wage setting, by providing target 'bites'. Thus, a large trade union federation (ETUI) believes that the Directive has significantly increased the statutory minimum wage of over two thirds of the 22 EU member where minimum wages are legislated[203].

The Directive identifies the monitoring and enforcement of minimum wages as an integral element and argues that proper implementation and investigations of noncompliance can reduce the risk of

[202] SocialEurope.eu - Not done applying the minimum wages directive (2 May 2024).
[203] ETUI - Adequate minimum wages directive already a game changer (18 April 2024)

discrimination. Specifically, the EU Directive recommends an effective enforcement system, strengthening the effectiveness of enforcement authorities, including through close cooperation with social partners, better training and guidance. Some of the challenges identified include abusive sub-contracting, bogus self-employment, non-recorded overtime and increases in work intensity.

Currently in NI and GB, the enforcement of minimum wage legislation is the job of HMRC. This raises the consideration about the enforcement of any devolved minimum wage rate in NI and how this might be adequately resourced. The UK LPC have a series of recommendations around reducing deliberate non-compliance which are close to the EU Directive's, including routine and unannounced visits, as well as stronger judicial and administrative proceedings and penalties in the case of infringement. Whether policing compliance becomes a separate resourcing issue for a devolved minimum wage is a question to be answered.

The Directive also regards promotion of greater levels of collective bargaining as an accompaniment or requirement for adequate minimum wages[204]. Specifically, all member states with collective bargaining coverage below 80% (19 countries at present), should develop an action plan to increase these levels. This is likely to be a complex area, for example, in RoI, where the coverage is 34%, a High-Level Working Group was established in 2021 to examine the issue, and its report and recommendations have gone through a public consultation process before taking legal advice on what it might mean for employers and trades unions to 'engage in good faith'. In NI, in 2023, a higher level of 46.8% of employees' wages were determined by collective agreements, 7.6 pp higher than the UK average, but both well below the 80% level.[205]

Finally, the EU Directive advises that an evaluation process be created and therefore a review conducted on the effective implementation of the reform. In the case of the EU member states, the European Parliament and council are informed of the results of the review, though this will not apply legally to NI.

[204] As noted in Chapter 3 member states including Austria, Denmark, Finland and Italy pursue wage setting through collective bargaining rather than a statutory wage floor. Their median wages tend to be higher – see Source: Eurostat; see DOI.org - 10.2908 - ILC DI01
[205] Assets.gov.uk - Trade Union Membership statistics 2023

7. Conclusions and implications of devolving setting a minimum wage

This final chapter of the report sets out a summary of the key research findings before returning to the objective of the report, namely the different implications of a range of options should a new national minimum wage be devolved to be set for Northern Ireland.

Minimum wages have been increasing, especially in the recent period of price inflation

In the early decades of the 21st century minimum wages across the OECD group of economies have been steadily increasing both in nominal terms and as a percentage of the median wage or 'bite' (up 10 pp to 53% in 2022). The monetary amounts of minimum wages as well as their 'bite' varies from country to country, and this has prompted discussions around what might be an 'adequate' level with the EU recently agreeing a Directive to define this. There is also debate on what an optimal minimum wage might be in the broader context of whether there is a level at which negative effects of minimum wages on employment might begin to be seen.

This highlights how minimum wages have existed over time in different shapes and definitions. In the UK they have also generally increased over time in real terms (adjusted for inflation), though this has become more problematic since Q4 2021 as rising prices quickly eroded each annual uprating[206]. This falling behind has added to the debate over what a 'living wage' might be, tied to broader living standards or a wage necessary to live properly. It has also fed into a discussion about how minimum hourly rates relate to low pay more generally when variable hours, proportions of part-time work are taken into account.

National minimum wages exist in many places, set in different ways and contexts

Minimum wages are set in around 180 countries across both advanced and emerging economies. Where they are not set in advanced economies (examples include Austria, Cyprus, Italy and Nordic countries), this is often due to high levels of collective bargaining leading to wage agreements there. There are a variety of ways in which minimum wages are set in those countries where they exist such as social partnership agreements, government-only decisions or recommendations from expert groups. The approach depends on institutional history or tradition, though there is a growing tendency towards expert groups or commissions in more recent adopters (e.g.: Germany, the Republic of Ireland and the UK), given the attraction of taking the process of recommendation away from the political process and the potential to create buy-in where employment effects are contested.

Where minimum wages exist, they tend to be national or state-wide. Where minimum wages are set on a sectoral basis – and this occurs across several EU member states as well as Australia and Japan – they tend to be wage floors set on an occupational basis within sectors and delivered via collective bargaining setting or social partnership models. These can operate in tandem with national minimum wages, as in the case of the Republic of Ireland where Employment Regulation Orders (EROs) set minima for different pay grades within a small number of sectors where low pay and poor union coverage exist (e.g.: childcare or contract cleaning). There are fewer examples of countries where regional or sub-regional minimum wage-setting occurs, Canada and the USA being two. In Canada, the provinces have historically set rates (inc sub-minima rates for younger workers) though these have tended to move in sync (either in increase or decrease) with national rates even when different political blocs are in government[207]. There are other places (including the UK, Germany and Spain) where regional minimum wages have come under discussion tied to concerns about national rates being too

[206] OECD (2022); Wilson (2024a).
[207] Green and Harrison (2009).

low for expensive places (e.g.: London) or potentially having negative effects in lagging regions (eg: in Germany or Spain).

The economic effects of minimum wages remain contested or unclear, partly due to data issues

The best conclusion that can be drawn from several hundred articles and reports on the economic effects of minimum wages is that these are generally modest. Employment effects are generally negative but difficult to see. The elasticity estimates suggest that a 10% increase in a minimum wage rate would result in a fall of between 0.05% and 0.2% in employment, but it is unclear whether this occurs within the general employment flows of the actual stage of the business cycle. These modestly negative effects on the retention of jobs are repeated in the estimated effects on hours worked, though there is a suggestion that the negative effect can increase with cumulative increases in minimum wages.

Although a productivity effect (where businesses respond to rising wages through seeking changes to make output increase) is less contentious but the evidence for effects is even less clear, in part because the data is unable to link wage increases to changes in turnover or output. The clearest effect of minimum wages is on wages themselves – given the clearly positive effect on those directly impacted and that there is a spillover positive effect on those above the minimum rate. There are also positive effects on household incomes with the reach of these very country specific. This can depend on the prevalence of minimum wage workers in the lowest income percentiles as well as the balance between employment earning and welfare receipts for households on lower incomes. There is European evidence of positive effects on household income above the median, though it is most marked in the second and third quintiles.

Overall, the picture with regard to economic effects is not very clear, in spite of all the evidence of evaluation of the impact of minimum wage changes. A recent view[208] is that negative employment effects are hard to find conclusively and therefore research first moved on to look at whether firms adapted (increasing prices or productivity) and, when this too was inconclusive, moved on again to see what else might be going on within firms. This view is hard to disagree with. In terms of measuring impacts most economists are likely to agree that modelling these in advance of any changes will naturally find a negative, but that this is harder to see when evaluating in retrospect.

Minimum wages are relatively higher and cover more workers in NI than elsewhere

Northern Ireland currently applies the same minimum wage rate as the rest of the UK though the labour market has different characteristics, including lower employment and unemployment rates, higher levels of inactivity and a smaller amount of spare capacity. NI also has lower wage levels than in most UK regions, with the gap to the UK average ranging from 6% to 20% depending on the source. Therefore, the bite of the minimum wage is higher for the NI hourly median wage when compared to the UK one. The NI bite has increased from 55% in 2003 to 72% in 2023, compared to 50% and 66%. This has also meant that NI has a higher proportion of workers covered by the minimum wage though this gap has closed since 2018. NI is now on a par with the North East and Yorkshire & The Humber with around 7% of all jobs covered by minimum wage rates.

The sectors with a higher prevalence of minimum wage workers – Accommodation & Food Service, Retail & Wholesale and Agriculture – remain the same today as they did in 1999. Indeed using Low Pay Commission definitions of low-paying occupations, we can see that, of the 46,000 total jobs in NI, 40% of these fall into two sub-sectors: Retail and Hospitality. However, the economic effect on wages can

[208] Comments made by the LSE Professor Steven Machin at the UK LPC research workshop, September 2024.

be seen in that median wages in Accommodation & Food Service (lowest paying) and ICT (highest paying) has closed by 24 pp showing faster growth at the bottom end of the distribution. NI also follows a similar composition of minimum wage workers to elsewhere – the higher shares of younger people, women and part-time workers taking up these jobs. We estimate that perhaps 7,000 employees aged 16-20 years old are currently paid the sub-minima rates available to younger age groups and that while many employees are paid above these rates by businesses the proportions in NI are slightly lower than in the UK more generally.

Businesses generally tend to implement the minimum wage rates, although the HMRC and Low Pay Commission estimate that perhaps a fifth of workers covered by the NLW/NMW are underpaid. When consulted or surveyed businesses and especially small firms tend to raise concerns about the impact of minimum wage increases and to say that they attempt to absorb the costs. The available evidence suggests that part of the concern may be related to the desire to continue wage differentials with those paid above the minimum wage rate and that the ability to either raises prices or improve productivity is limited. One area of research is now on the extent to which businesses are looking at other ways of adapting to rate increases in terms of contracts or working conditions which may have a growing relationship with job quality.

Implications of devolving minimum wage setting

The SWOT analysis below summarises the case for devolving minimum wage setting powers to NI.

STRENGTHS

- Flexibility to set rates that are tailored for the NI economy, in particular in the event of a departure from international minimum wage policy ‘norms’ by any future UK Government, however unlikely this may be.
- Flexibility to set sectoral rates - which are typically set at a higher level than the standard minimum wage rate.
- The fiscal benefits in terms of potentially higher income taxes, albeit these would flow to HM Treasury.
- A competitive minimum wage can make work more appealing to workers, enhancing the overall quality and quantity of the workforce for local businesses.

WEAKNESSES

- Need to resource both a secretariat/advisory function (e.g. a local Low Pay Commission) to advise NI Executive on appropriate rates, and an augmented enforcement regime.
- Politically challenging to set a lower rate than the national level and potentially disadvantageous/uncompetitive to employers to set a higher rate.
- High levels of economic inactivity could limit the benefits or positive impacts that a higher minimum wage creates for households at the bottom of the income distribution.
- Need to create tailored in-work benefits rate for NI that reflects marginal taxation rate faced by working, lower income households.
- The complicated evidence of a link between minimum wages and improving productivity creates a risk where businesses in NI might not see improved efficiency despite higher wages, leading to subsequent concerns about competitiveness.

OPPORTUNITIES

- The power to set a materially higher (or lower) minimum wage rate in NI as part of fully devolved employment laws.
- Potential to further reduce levels of low pay in NI and create a more equitable labour market, improving living standards for lower income households.

- To create social partnership structures and gain buy-in for a devolved minimum wage through an independent process.
- To make training or apprenticeships more attractive encouraging more future employees to develop skills, potentially leading to progression to higher paying positions.

THREATS

- Current lack of knowledge about where an optimal/too high minimum wage bite might be with the risk of creating an uncompetitive business environment or visible disemployment effects.
- Could prompt further reduction of non-wage employee benefits by employers or a greater move towards non-standard work arrangements.
- Potential for NMW setting to become politicised (without an independent NI LPC-type body).
- Low pay and more so low monthly/annual incomes may continue to persist in NI due to a lack of hours available to work by employer and/or employee
- Difficulty of creating a robust evidence base due to data issues (eg: sample sizes, etc) and of building an expertise in this research area.

At present the power over employment rights legislation is a devolved matter for the NI Executive and Assembly, but this does not extend to setting minimum wage levels. To change this position the Executive would first agree to ask the UK Government to amend the Northern Ireland Act 1998 (in order to devolve these powers which are specifically noted as a reserved matter). The 1998 Minimum Wage Act would also have to be amended to allow NI to set its own rate. As the UK Government was a co-signator of *New Decade, New Agreement* and the commitment to NI wage-setting powers then any request from the NI Executive would likely be agreed to.

The *status quo* of one national minimum/living wage for the UK has the advantages that the process of setting it via recommendation from the LPC is well-regarded and generally has the buy-in of business and employee representatives. The UK NMW/NLW rates are among the higher end of the scale in terms of bite of the median wage and purchasing power parity when compared to the Republic of Ireland or EU member states more generally. From the viewpoint of NI, the UK rates have a higher bite of the NI median wage as a result of lower local wage levels. The direction for UK policy now seems to be to strengthen employment rights and see higher minimum wage rates as well as the abolition of sub-minima age rates.

Where minimum wage rates are set regionally, or there is debate over the need to do so, this is either because the national rate is seen as too low or too high. Where the rate is seen as too low (for example in the USA), federal states and cities can and have set higher rates often in geographical (or political) blocs. In the case of Switzerland, the cantons have also seen proposals for higher rates than the national one with some plebiscites supporting this and others not. The risk from higher or differential rates to the competitiveness of existing businesses in sectors with high levels of minimum wage coverage and for attracting new investment or start-ups is likely to be raised as an issue.

There is also the option to set lower devolved rates in NI or to maintain the bite at its current level into the short to medium term, effectively reducing the real level of the minimum wage. This has happened in other places, including the Republic of Ireland and for youth rates in the UK, but both happened at the height of the 2008-2011 crisis with the intention of protecting employment levels, in particular for younger workers. And both actions were accompanied by political opposition. In Germany and Spain the levels of minimum wages in economically lagging regions has been debated to with no conclusion, presumably because of political difficulties.

The devolution of setting minimum wages to NI will also require decisions about how the rate would be set. As detailed earlier there are a range of ways in which this can be done with expert groups or commissions becoming more popular due to their independence. However, this also comes with resource implications (for staff and commissioners), requirements for more comprehensive NI data and the building of capacity to assess what the rate should be set at and then evaluate the effects of this. The potential costs of enforcing compliance with the NI minimum wage is another matter which would need to be explored.

The report has studied the relationship of minimum wages with the Department's priorities to improve levels of productivity, address regional balance and press forward with decarbonisation. It is not clear how current or future levels of minimum wages might significantly impact any of these either positively or negatively.

A different option – short of full devolution – would be to explore whether the operation of sectoral wage-setting is possible, operating alongside the current UK minimum wage. One option would be a legislative framework along the likes which currently operate for the agriculture sector in NI where wage rates are set by the Agricultural Wages Board[209]. A different approach operates in the Republic of Ireland through the Sectoral Employment Orders – which operate for Construction trades – and the Employment Regulation Orders – operating in a small number of sectors, often characterised by low pay and low levels of union representation. The latter are agreed via the Labour Court to set minimum rates and different grades in industries such as contract cleaning, security and childcare. These operate alongside the minimum wage. It is not clear that such sectoral frameworks can currently operate in NI, certainly without an amendment to the National Minimum Wage Act, 1998 and therefore agreed to by the UK Government. The plans for Fair Pay Agreements as envisaged by the UK Government and beginning with the Adult Social Care sector are expected to be legally binding.

A different method – and one currently consulted for in any new Employment Rights Bill for NI – is for voluntary sectoral pay rate agreements that would operate alongside the minimum wage in NI. These are not specifically being promoted with sectors with high minimum wage coverage or low paying occupations in mind but that could be a place to begin from.

The NI Executive may also continue work to promote and support adoption of the Real Living Wage (RLW) across the NI economy through the mix of encouraging accreditation as well as using public procurement clauses. This is starting from a low level in NI where the percentages earning less than the RLW are higher than those in Scotland or England so there is certainly an opportunity to improve this picture[210]. Whether the voluntary adoption of the RLW goes far enough is also a matter for debate.

The Department's 'good jobs' public consultation towards a new Employment Rights Bill also raises a question of how much might be done with power currently devolved to improve the world of work in NI. On the 25th anniversary of the introduction of the UK National Minimum Wage, marked in March 2024, the point was made that there are things that a minimum wage alone cannot achieve. The Resolution Foundation identified a number of other 'minimums' (including sick pay, maternity pay or holiday entitlements) that lag behind comparator economies[211]. Success as a minimum wage policy has been there is other issues with regard to working terms and conditions that need greater attention.

[209] The Wages Board sets minimum hourly rates annually for six different grades of worker with NMW/NLW rates being a floor under which the lowest rates cannot fall.
[210] Latest data for percentages earning less than the RLW was released by ONS in November 2024: NI 20.6%; Scotland 11.4% and England 15.9%.
[211] Cominetti & Slaughter (2024).

With the SWOT analysis above and the implications detailed earlier in the report and summarised here the research concludes that, while there is an understandable desire to seek the devolution of powers to set an NI minimum wage in order to tailor this to local conditions, there is no clear current economic need. In general, as suggested above, regional solutions or minimum wage rates are normally sought when the national rate is believed to be either too high or too low (the example of Switzerland is a good one). In the UK at the current time, and with the current rate at a 70% 'bite' of the NI full-time median hourly wage, it will be hard to make the case that the rate is too low. If matters at a UK level were to change and the direction of the NLW move in either a downwards direction or stagnate then the case for devolving this decision-making would become more convincing.

The recent history of the UK minimum wage, since it was introduced in 1999, has certainly been a success in terms of addressing low pay. The UK now has one of the higher minimum wages in the world, above that in Germany and the Republic of Ireland when measured by its 'bite'. As a recent review noted the growth in hourly pay at the bottom of the wage distribution has been double that at the top. And this has led to a fall in numbers of people on low pay (those paid less than two thirds the median). The success of the policy is what makes the power to set minimum wages attractive. However, it is important to note what minimum wage setting cannot do. Tackling poverty will also need a different approach to social security, given how many low income households have no-one in work and, where they do, the benefits system can mean they are worse off even as the minimum wage rates have risen. The challenges of the NI economy more generally mean that significant productivity improvement and real wage growth across the income distribution, as well as a better alignment of welfare supports to assist more people into work, are necessary too. The continuation of a national minimum wage or the introduction of a devolved one without these other improvements is likely to see the goal of tackling both low pay and in-work poverty to remain currently beyond us. [212]

[212] This paragraph draws on the reflections in Cominetti & Slaughter (2024).

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About UUEPC

UUEPC is an independent research centre focused on producing evidence based research to inform policy development and implementation. It engages with all organisations that have an interest in enhancing the Northern Ireland economy. The UUEPC s work is relevant to Government, business and the wider public with the aim of engaging those who may previously have been disengaged from economic debate.

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