

Raising the floor: Driving up the Minimum Wage

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Research for new economic policies

Minimum wages vs living wages

1. Historically minimum wages were set to ensure a decent standard of living
2. Large shift in what hours people work, and also what is considered decent
3. Minimum wages are now frequently set according to how they might affect employment
4. Many countries in effect have a minimum wage, but it isn't explicit (e.g. Italy, Nordic countries).

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Competing theories

- Perfect competition
 - Perfect knowledge
 - No bargaining
 - Employers have no power – easy for workers to switch jobs
 - Generally the more right-wing perspective
 - An increase in the minimum wage would cause job losses

Competing theories

- Monopsony
 - One buyer of labour
 - Hires less workers to keep wages low
 - A minimum wage would reduce employment
 - Plausible where people can only work in local area
- The truth is probably between the two extremes

Evidence

- No studies particular to Ireland
- Evidence is valid for a particular place, a particular time, and for a particular wage rate
- No consensus – for every study that shows an effect on employment another shows no effect

Should we even be worried about a negative effect

- Only need to be worried about a large negative effect
- Studies tend to ignore hours worked
- If wages go up by 1%, and hours down 1%, the worker has the same money for less work (technically, and ‘elasticity of -1)
- Only need to be worried if this elasticity is large (and it is hardly every found to be)

Conclusion

- Minimum wages now tend to be set according to their effect on employment
- Economic theory is ambiguous – there could be a positive or negative effect
- Empirical evidence is mixed
- Overall there is no consensus

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