The Netherlands: Wage formation

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The system of wage formation in the Netherlands is fairly stable. Collective bargaining coverage is more than 80% (including extension). The sector level is dominant, but the number of company agreements is increasing. Since 1969, there is a legal minimum wage, which is, however, not an issue for debate. The IT-sector differs from other sectors in many respects, e.g. low coverage by collective agreements and low union density. In the economy as a whole, and even more so in the IT-sector, labour shortages drive wages up.

1. Systems of wage formation

a) Please briefly describe the main systems of wage formation in your country (when relevant please distinguish between private-public sector). For example:

- is the system underpinned by legislation or collective bargaining, a mixture of both, or other factors, such as the labour market?

There are two important laws:

- the Law on the collective agreement (Wet op de collectieve arbeidsovereenkomst, WCAO)), dating from 1927;
- the Law on the extension of collective agreements (Wet op het verbindend en onverbindend verklaren van collectieve arbeidsovereenkomsten, WAVV), dating from 1937.

These laws regulate the collective bargaining process and the material effects of agreements and extension for individual employees. When employees are not covered by an agreement, the employer and individual employee negotiate the wage. In some cases, works councils negotiate the wage agreement. There are also companies that closely follow a sector agreement, without being legally bound to do so.

In formal terms, the public sector bargaining process is not covered by these laws. However, in a material sense, the process is not very different from the private sector.

- who are the main actors?

The main actors are individual employers and one or more unions (in the case of company agreements) or one or more employers' organisations and one ore more unions (in the case of multi-employer (sector) agreements).

The public sphere is divided into 11 sectors (e.g. police, defense, local authorities, central government etc.) for which sector agreements are negotiated.

- do state bodies play a role in wage setting?

Not directly, except with regard to the setting of the minimum wage. Several times in history, the government has called a wage freeze (mainly in the 1970s and early 1980s). Since 1982, the government does not intervene directly in the collective bargaining process. However, there is a constant pressure on the social partners for wage moderation. Sometimes, the government threatens with other measures to force social partners, the most recent example being the wage freeze in 2004 and 2005. Social partners in a sector may ask the Ministry of Social affairs and Employment for extension of the sector agreement.

b) If collective bargaining is the main determinant, what is the main level at which this takes place (national, sectoral, and/or company level)? Where relevant, please refer to other European Foundation studies that you have written in this context. Where collective bargaining fails, what is the role of labour market institutions (i.e. labour court, labour commission)? Provide an example if relevant.

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The sector level is dominant, but the number of company agreements is increasing. There is no formal mechanism in the case of failing collective bargaining and real failure is very exceptional. In this case, the content of the former agreement is still applied. In exceptional cases, like the recent strike in public transport, the state may take the initiative to appoint a mediator (with the agreement of the parties involved).

c) Monitoring. What monitoring of collective bargaining is carried out (if any)? Who carries this out? (Joint / Tripartite body at national / sectoral level)? How does it do this? Are there any studies or surveys?

Monitoring is done on a regular basis by the Labour Inspectorate (which is part of the Ministry of Social Affairs and Employment). They monitor wage developments, but also other subjects covered by collective agreements.

2. Wage developments

a) Please briefly describe any major overall wage development trends over the past five years (refer to previous EIRO updates where appropriate)

Wage increases in collective agreements:

2002 3.7%

2003 2.8%

2004 1.0%

2005 0.7%

2006 1.8%

2007 1.7%

2008 2.7% (first three months); 3.4% in April and May

b) What developments have there been regarding equal pay between men and women in your country? Is this an issue for debate?

The wage gap in the Netherlands is fairly stable: on average, women earn about 80% of men. Part of this can be explained (e.g. by seniority, education level), but in the end there is no explanation for seven percentage points of the gap. In recent years, this has increasingly become an issue for debate and for initiatives to close the gap.

c) Please briefly describe the main recent sectoral agreements and outcomes in terms of pay

In recent agreements, pay rises were around 3.25% per year (in many cases, agreements are valid for two years). Examples are the agreement for metal and engineering and light metal industry.

d) Are there any noteworthy trends at company level, such as an increasing individualisation of pay setting?

There is definitely a trend towards individualisation of pay setting, mainly in the form of the introduction and/or spread of flexible pay forms. Another factor is the tight labour market, which results in extra pay for certain scarce skills.

e) Recent main actions / strikes / protests on wages

There have been several recent strikes on wages, all connected to the collective bargaining round. Examples include Atos Origin (ICT), the postal services and regional transport.

f) What are the main social partners' views on wage developments in your country?

Social partners more or less agree on the importance of a moderate wage development, more than in (most) other EU-countries. In 2004 and 2005, social partners (under pressure of the government) even agreed to a wage freeze.

3. Minimum wages

In this section, we are aiming to update information from the previous study on the minimum wage (http://www.eurofound.europa.eu/eiro/2005/07/study/index.htm)

a) Does your country have a national minimum wage? * If yes: b) How is it defined? How is it set and uprated? Do you have any data as to its level and

coverage rates?

There is a legal minimum wage since 1969. It is set by law and is defined as a certain amount of pay per month, based on a 'normal' working week. The amounts per week and per day are directly derived from the amount per month. Employees between 15 and 23 years of age are entitled to a minimum wage which is defined as a percentage (ranging from 30 to 85%) of the minimum wage for adults. In principle, the minimum wage is updated on 1 January and 1 July every year, following (in a rather complicated way) wage developments in collective agreements.

***If no: c) Are there minimum wages (sectoral, regional) covering a major part of the workforce?**

Not applicable

d) What are the views of the social partners and the government on the minimum wage(s)?

In general positive, although employers representatives are sometimes critical of the developments.

e) Is the minimum wage a subject for debate in your country?

There is no real debate on the minimum wage, although every now and then in the press someone calls for its abolishment. At present, the tight labour market will not encourage a debate either.

f) Do you have any data on the minimum wage in relation to average wages, how it interacts with the tax system and any effects it is having on employment?

In 1995, the gross average wage was 1.74 times the gross minimum wage. The net factor was 1.57 for a single person and 1.34 for a family with two children with one person working. These ratios have remained more or less stable over time.

There are no data on the interaction with the tax system.

There is some indicative research on the effect on employment, which suggests that this is rather minor.

4. Wage formation within the IT sector

Please describe in detail the wage formation process in the IT sector in your country.

I] Please give the main features of the sector

a) Importance of the sector in the economy

The gross national product in 2007 was 560 billion € (CBS), the information technologies' share was 30 billion € (ICT-Monitor 2007) making the percentage of the IT branch 5.4 %. This figure omits the wholesale of computers, peripheral equipment and software.

The most recent figures on the number of employees in the sector date from January 2006. According to the SIC'93 classification 72 (computer and related activities) the sector counts 119,100 employees, implying a percentage of 2.9 % of the overall workforce. The figures have probably increased since.

c) Main pay-related characteristics, such as: low pay, differences in pay between men and women and/or older and young workers, wage drift;

Average gross annual income (€, including bonuses) per age group

Age	**Income**
15-24	24,473
25-34	40,145
35-44	55,435
45-54	65,624
55-64	66,984

Differences between old and young workers in the IT sector (van Liempt 2006).

II] Describe the main characteristics of the sector pay decision process

a) Is the wage formation process in this sector shaped by institutions? If there is a collective bargaining process, how does it work? Eg:

- at sector level only;
- at sector level, which then provides a framework for company level;
- at company level only

Who are the main actors?

There is one multi employer (sector) agreement for office machinery. Furthermore, there are six company agreements in the IT-services industry. In several companies, agreements (including agreements on wages) are negotiated by works councils, sometimes assisted by union officials. In smaller companies, wages are often agreed between individual employees and the employer. Union membership is much lower (estimated 10-12%) than the national average (24%). Union density increases with the age of employees.

b) Specific issues : upward pressures on pay such as wage competition between firms, the effects of a tight labour market, and using pay as an attraction and retention tool, the effects of migration on pay, the effects of the presence of multi-national firms within a sector and whether comparisons have been made between the pay offered by multinationals and local companies

After the collapse of large parts of the sector in 2001, there has been a remarkable recovery lately, resulting in very strong competition between firms for IT-specialists and strong upward pressure on wages. This is true for large parts of the sector.

III] Analysis on trends and views of the actors

a) Are there any major differences between this sector and the rest of the economy in terms of wage formation?

In contrast to the situation in other sectors of the economy, the company level is the most dominant level in ICT. The coverage of agreements appears to be lower than average. The role of works councils is more important than on average and the same is true for the importance of individual negotiations.

b) Are there any noteworthy trends at company level, such as an increasing individualisation of pay setting?

There has always been a relatively high level of individualisation of pay setting in the sector, with the exception of those firms that originated from more traditional firms (e.g. telecom). In the latter category, one can discern an individualisation trend.

c) What are the main views of the social partners in this sector on wage formation?

Unlike (most) other sectors, it is hard to speak about main views of the social partners in the IT-sector, especially on the employer side.

d) Are there any positions of the authorities on the sector’s wage policy ?

No

5 Views of the national centre

The wage setting system in the Netherlands can be described as rather stable. The parties concerned are more or less satisfied with the present system, although the legitimacy of the trade unions is questioned occasionally.

The gap between union density (24%) and collective bargaining coverage (about 80%) might pose problems, with the problem getting more severe due to ageing union membership and therefore decreasing unionisation rates.

Social partners and government do not question the minimum wage system.

The main feature of the IT sector at present is the very tight labour market. The position of unions in the IT-sector will probably remain relatively weak and multi-employer bargaining will remain very exceptional, unlike in the rest of the economy.

References:

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