



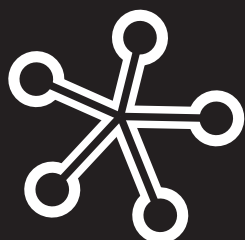
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The Dutch minimum wage

A radical reduction shifts
the main focus to part-time jobs

Wiemer Salverda



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The Dutch minimum wage

**A radical reduction shifts
the main focus to part-time jobs**

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WP 09/71

Abstract

The paper is part of a broader international project undertaken by the ILO and the European Commission. It studies the Dutch minimum wage from the perspective of country differences in minimum-pay regulations within the European Union with the aim of serving as an input into a discussion whether a European approach to such regulation may be desirable and feasible or not. The European issue itself is not considered here.

In a historical perspective, going back to the establishment of the minimum wage in the 1960s, three characteristic features are presented and discussed at some length:

- the very long tail of youth minimum wages starting at age 15 up to age 23 - the oldest age in international comparison at which a full minimum wage applies;
- the pivotal role of the (net) minimum wage for determining (net) minimum social benefits and therewith for much of public social-security spending;
- the steep decline in recent decades of the minimum wage both in terms of purchasing power and relative to the rest of the wage distribution.

A brief description is given of the mechanism of uprating over time of the wage level and the coverage of employees. The declining value since 1979 is shown and compared to the rather similar evolution of the US minimum wage.

The relations of the minimum wage to poverty, wage inequality, employment, wage bargaining and social dumping are scrutinised. It appears that the decline of the minimum wage has greatly reduced its labour-market significance. As a result the well-known long-run Dutch wage moderation has affected lower levels of pay more than higher one inciting an increase in earnings inequality.

In one of two case studies, of retail trade where youth minimum wage earners are concentrated, shows how unions and employers are gradually beginning to perceive the downside of the long tail of very low youth minimum wages for the motivation of young workers and the productive innovation of their business.

The other case study, on income taxation up to slightly above the level of the minimum wage, indicates how following the recent introduction of a tax rebate for income from labour add stimulus to working part-time. It helps to understand that on an annual basis 30% of Dutch employees earn less than the statutory adult minimum wage while on an hourly basis only 5% are affected.

Possible lessons for - and, conversely, from - the European debate concern the need of a rethink of the special treatment of young workers, the linkage between the minimum wage and part-time employment, and the significance of uprating mechanisms as well as the correspondence between minimum earnings and minimum benefits.

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1. Introduction: features of the Dutch minimum wage

The minimum wage and its context in the Netherlands have a number of special features that will surface again and again in this chapter. First, there is the very long tail of youth minimum wages, going all the way down to 30 per cent of the adult minimum wage (or about € 2.50 per hour) at the age of 15 – very low in international comparison – which goes together with a relatively old age of 23 years before the adult rate starts to apply. Second, the coupling of the minimum wage to the (minimum) benefits of the system of social insurance (unemployment WW and disability WAO/WIA) and social provisions (social assistance and the public old-age pension AOW) is a pivotal element of the Dutch socio-economic system which lends the minimum wage great importance for public finance extending well beyond pure government finance. This has resulted in a policy-driven, strong decline in the purchasing power of the minimum wage and its relative position in the wage distribution – which has well-nigh put an end to its role in providing a bottom for wage formation – and in complicated policy measures aimed at improving the income effects of paid work over and above social benefits. The strong decline, which has gone hand in hand with a strong growth of low-paid employment in the country since the early 1980s, is the third distinguishing feature.

The decline of the minimum wage is the most striking aspect of the significant and almost secular general moderation of wages which has become the hallmark of Dutch wage formation and relates to the evolution of in-work poverty. At the same time, the Dutch context is one of very strong growth in head-count employment, which in a very short time has made the country the world champion of part-time employment. Between 1983 and 2006 the number of persons in employment increased by 3.2 million, from 4.9 to 8.1 million, of which 2.6 million were in part-time jobs. As a result, the share of part-time jobs in employment grew from 21 per cent to a record-high of 45 per cent.¹ Over roughly the same period (1979–2005) the number of low-wage jobs doubled from fewer than 600,000 to more than 1.2 million. That increase was concentrated in part-time jobs, where the

¹ Source: Eurostat. Part-time defined as working fewer than 35 hours per week, employment defined in accordance with ILO and OECD from a minimum of 1 hour a week.

incidence of low pay grew from 17 to 27 per cent; part-time jobs now make up some 70 per cent of all low-wage jobs.²

In Section 2 we shall consider the Dutch system of minimum wages and in Section 3 the evolution of the minimum wage over time, comparing this to wages in general. Section 4 discusses five potential effects of the minimum wage: on poverty, wage inequality, employment, wage bargaining and social dumping. In Section 5 two case studies are presented: one on the long tail of youth minimum wages, with a focus on the most important employer of young people, retail, and the other on the relationship between the minimum wage, working part-time and income taxation. Section 6 discusses possible conclusions for the European debate on the minimum wage to which this chapter aims to contribute.

2 Compare Salverda et al. (2008). Low pay is defined as below two-thirds of the hourly median wage.

2. Rules for fixing the minimum wage and its coverage

Current basics of the Dutch minimum wage are as follows. Averaged over 2008 the minimum wage for persons aged 23 and over ('adults') amounts to €310.58 per week gross-to-the-employee, or about €266 net after tax and employees' social contributions.³ Employees aged 15 to 22 are entitled to lower minimum wages following an age-related graduation ranging from 30 per cent of the adult minimum wage for 15 year olds to 85 per cent for 22 year olds (see Table 1). The Netherlands is unique in having such a long tail of youth minimum wages. Because of the tax system the net youth minimum wage up to the age of 17 virtually equals the gross wage even if working full-time.

Table 1: Minimum wages by age, €/week and per cent of the adult minimum wage, 2008

Age	15	16	17	18	19	20	21	22	23+
€/week	93	107	123	141	163	191	225	264	311
% of adult minimum	30.0	34.5	39.5	45.5	52.5	61.5	72.5	85.0	100

Source: Ministry of Social Affairs and Employment.

On top of the above amounts employees are entitled to receive from their employers the minimum annual holiday allowance of 8 per cent of gross annual earnings⁴ and a 7.2 per cent reimbursement of the obligatory health care contribution,⁵ both of which are subject to income taxation. In other words, on an annual basis the taxable gross minimum wage for employees amounts to about €18,600.⁶

It should be noted that the Dutch minimum wage is not formally defined as an hourly wage, as is the case in, for example, the US or the UK. Instead it is a weekly amount that relates to the 'normal working week' as defined in the collective labour agreement (CLA) applying to the job.⁷ The mini-

³ Contributions may differ between industries. Until recently health-care insurance for employees up to a certain earnings threshold was included, as a percentage of earnings up to a threshold, but as of 2006 this has been generalised to the entire population and now depends on the composition of the household.

⁴ A legally fixed percentage based on the same law as the minimum wage.

⁵ A variable percentage depending on health care costs, paid up to a certain income threshold.

⁶ Contributions paid to occupational pensions and some social insurance contributions are tax exempt and shall be deducted. However, they differ between industries and are left included here.

⁷ As a result, the hourly amount differs between and within industries and sometimes even within firms. This complicates research on the incidence of the minimum wage in spite of the fact that the variation is relatively modest, because of possible employment spikes at the minimum wages.

minimum wage applies pro rata to part-time workers. As to the nature of payment, the minimum wage formally includes all regular payments such as for shift work, tips, commission bonuses, inconvenience payments and payments in kind. However, it excludes overtime earnings – for which longer hours have to be worked beyond the normal working week – and annual bonuses for profit-sharing and the like; these have to be paid on top of the minimum wage. Employer contributions are added to the above gross amount to arrive at gross labour costs.⁸ The minimum wage is not legally enforced by an inspectorate as in, e.g., the UK; instead an underpaid employee has to take his or her employer to court to demand the payment due.⁹

2.1. Introduction and extension

For almost two decades after the Second World War, low pay was an integral part of Dutch general wage formation. Until the early 1960s all outcomes of collective wage negotiations had to be officially approved by government-appointed officials. This approval included an explicit check on the minimum income that would be available to a full-time, unskilled breadwinner and his family (SER 1997, 88). Evidently, the underlying worry concerned the income of the household, and not the quantity or nature of minimum-wage employment. There was broad consensus about the importance of the social partners' joint recommendation on a 'social minimum wage' that was agreed in 1945. This mechanism of wage control led to prolonged wage moderation but collapsed in massive strikes for wage increases when the boom of the early 1960s brought unemployment down to very low levels, below 1 per cent of the labour force.

In 1964 the social partners agreed on an economy-wide minimum wage – a round figure of 100 guilders a week was chosen – to be adopted in all CLAs. This was still meant for the household breadwinner. Government action followed only later when in 1969 a statutory minimum wage was established by law, which applied to all employees aged 24 and over, men as well as women, irrespective of their household position. It should be noted, however, that adult female employment participation was still low at that time. Also, it applied only to workers working at least one third of normal working

⁸ Many contributions – for example, to occupational pensions – have a franchise roughly equal to the minimum wage.

⁹ The Labour Inspectorate may advise employers to change their practices if they come across a case of payment below the minimum wage.

hours. It took until 1993 before the latter condition was dropped because of its discriminatory effect on female employees.

A few years later the age threshold was lowered to the present 23 years (the ‘adult (statutory) minimum wage’) and finally in 1974 the famous long tail of Dutch youth minimum wages was introduced after long opposition on the part of the employers for fear of increasing labour costs. Three arguments are currently given for this tail:10 young workers are less experienced and trained and have lower productivity, their needs are fewer than those of adults as they usually live at home and do not maintain a family and, third, higher earnings would make employment too attractive compared to continued schooling. The schooling argument is a recent invention and was absent at the time of introduction. Unions have been advocating lowering the starting age of the adult minimum wage from 23 to 21 or 18 years; in the political debate, by contrast, it has repeatedly been proposed to raise the adult age to 27.

Thus low pay, if identified as the minimum wage, came to be treated separately from wages in general after 1964. However, an uprating mechanism was created at the same time, which linked the evolution of the minimum wage at regular half-yearly intervals to the growth of average negotiated wages so that, in principle, it would be a fixed percentage of this average, with some time lag. Together with a few statutory four-year upratings in the early 1970s this meant that at that time the minimum wage developed in parallel with other wages and effectively remained part and parcel of general wage formation.

During the same post-war period, 1945–74, social insurance was gradually established for employees (unemployment, illness, disability) and so were social provisions for the population in general (old-age pension, social assistance). The culminating point in its development was between 1969 and 1974 when the minimum benefits of all social provisions were linked to the minimum wage, on a basis net of tax and contributions. This so-called ‘coupling’ is the second internationally distinctive feature of the Dutch minimum wage, in addition to the youth tail.

As a result, a legal entitlement to a minimum wage of some sort has been in force since 1993 for all individuals employed on a labour contract, irrespective of age, gender, household position, type of contract or number of weekly working hours – no fewer than 55 years after the US had introduced

10 http://home.szw.nl/navigatie/dossier/dsp_dossier.cfm?set_id=77&doctype_id=9.

the universal federal minimum wage in 1938 —, and the minimum wage has been given a pivotal role in Dutch public expenditure because of the coupling to minimum social benefits.

2.2. Uprating and endorsement

With the legal introduction of the statutory minimum wage in 1969 a mechanism was established for a bi-annual uprating of the minimum wage and a four-year special revision, which is basically still in force despite the fact that after 1979 it was frequently not enforced on the basis of special legislation. In 1993 a new, more general legal provision was introduced stipulating that no uprating will take place if the national ‘inactives-to-actives ratio’ exceeds a threshold of 82.6 per cent. Inactives are defined as those receiving benefits, including the public old-age pension, while actives are those employed, including the self-employed and irrespective of their working hours. This rule can be understood from the importance of the coupling as any uprating automatically applies to minimum social benefits and therewith increases public expenditure related to social security.

The uprating links the minimum wage to the evolution of negotiated (CLA) wages (not actual individual earnings¹¹) albeit with a time lag. In principle, this legal mechanism frees the level of the minimum wage from political influence, in contrast to the US where the increases are less frequent but often sizeable if adopted, or France where frequently political decisions – for example, on the occasion of general elections – spark special increases over and above the normal uprating. However, in actual practice the Dutch minimum wage has also been very sensitive to political decision-making. By special laws it was nominally lowered in the early 1980s (once for adults, several times for young people¹²) and ‘frozen’ relative to CLA wages for many years in the 1980s, during part of the 1990s and again recently between July 2003 and January 2006. On that last occasion the freeze was argued as the special four-year revision, and it occurred despite the fact that the inactives-to-actives ratio did not exceed the threshold stipulated by the law. This recent experience aptly illustrates the use of the

11 Actual earnings differ because of ‘wage drift’, if people get paid above negotiated wages or become differently distributed over the grid of negotiated wages. Compare Salverda (2008) for more detail.

12 The graduation rules were changed, widening the original range (40–92.5 per cent) of 1974.

minimum wage as a policy instrument as the government was hoping that the trade unions would adopt a similar freeze for all wages.

Though the minimum wage is not legally enforced, the Labour Inspectorate regularly investigates underpayment. Recently (for 2006), it found underpayment for 0.3 per cent of employees in enterprises to an average amount of 9 per cent of the relevant minimum wage (SZW-AI 2008).¹³ Young people and employees under mandatory extension or in smaller firms have more likely to be underpaid.

Table 2: Demographic characteristics of minimum-wage earners, %, 2005

	Percent of minimum-wage earners			Per cent of employees in category		
	total	men	women	total	men	woman
15–64	100	44	56	4.0	3.2	4.9
full-time	27			2.2		
part-time	46			4.9		
flexible	25			10.6		
15–24	49	22	27	12.8	11.6	14.0
full-time	12			10.3		
part-time	21			14.3		
flexible	15			13.4		
15–19	23	10	13	16.8	14.7	18.9
20–24	25	12	13	10.5	9.9	11.2
25–64	51	22	29	2.4	1.9	3.1
full-time	15			1.3		
part-time	25			3.1		
flexible	10			7.8		

Note: Earnings at or below the minimum wage.

Source: Statistics Netherlands/Statline: structure of earnings survey.

2.3. Coverage

Since the statutory minimum wage was extended, first in 1974, to young employees and, later in 1993, to employees on small part-time jobs the minimum wage has provided full legal coverage for all employees. The most recently known level of minimum-wage employment – for 2005 – is 284,000 employees or 4.1 per cent of all employees. The corresponding composition of minimum-wage employment by demographic characteristics – age and gender – for the most relevant age category of

¹³ Underpayment amounted to 1.1 per cent in 2001 and 0.6 per cent in 2004.

15–64 years is shown in Table 2.¹⁴ Four per cent of all employees earn the minimum wage. The percentages are based on, first, the age-dependent levels of the minimum wage and second, the pro rata level per hour worked (accounting for the CLA-based weekly working hours) for part-time jobs.

Unfortunately, the dataset does not provide specification in accordance with the legally important threshold age of 23 years. It is clear, however, that youths (12.8 per cent) have a more than five times higher incidence than adults (2.4 per cent), while teenagers (16.8 per cent) have a seven times higher incidence. As those up to 25 years make up almost half (49 per cent) of all minimum-wage earners it seems plausible that adults, defined as 23 years and over, comprise well over half of all employees paid the minimum wage. Women (irrespective of age) constitute the clear majority and have a 50 per cent higher incidence than men, but gender differences among young people are relatively modest, with a 20 per cent higher incidence for women as compared to men, while they are relatively substantial among adults (63 per cent).

Plain full-time workers comprise only one quarter of all minimum-wage workers, much less than in 1995 when they still made up one third. Part-time workers comprise about half of all minimum-wage workers, while those on flexible contracts constitute the remaining quarter. Considered on an annual basis the flexible category is basically working part-time too; as for youths, there is relatively little difference between them and part-time workers.

Apart from age and gender, no further demographic detail is available from this source, but another source shows an incidence of minimum wages among ethnic minorities twice as high as the average (SZW-AI 2008, 49).¹⁵

14 Some 5,000 minimum-wage employees are aged 65+.

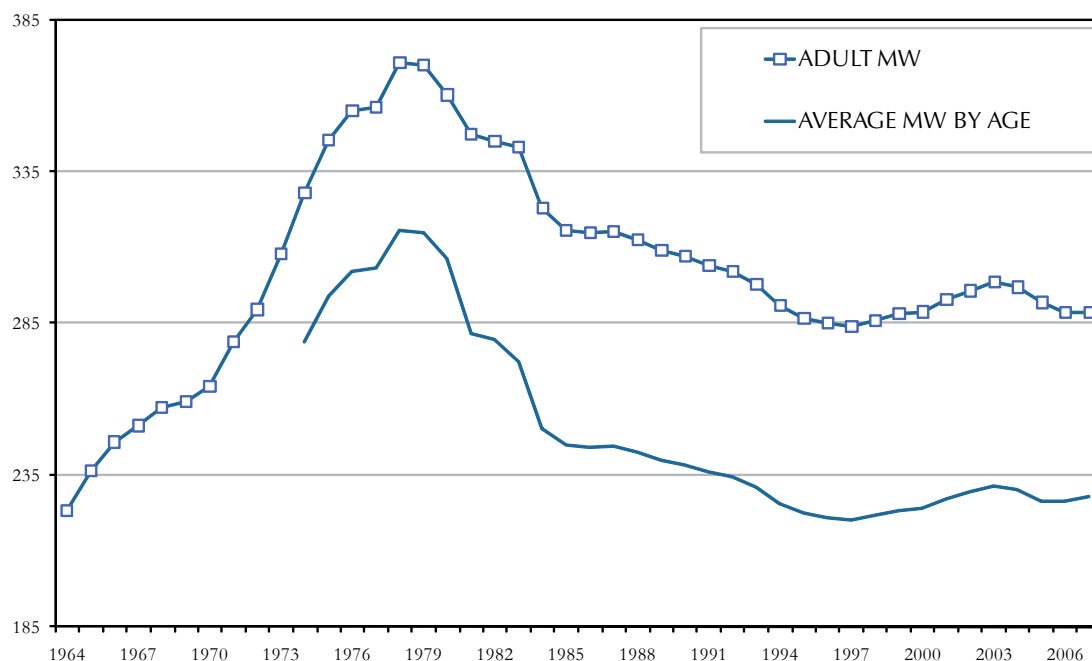
15 This source covers private enterprise only and gives a much lower average incidence (1.9%) than shown in Table 1, which seems worrying for statistical reliability.

3. Minimum wage and wage earnings

3.1. Decline of the minimum wage

Since its voluntary introduction by the social partners in 1964 at the level of NLG 100 (or €45) the adult minimum wage has increased almost seven-fold to the present level of €311. This is the result of the regular and special (four-year) upratings on the one hand, combined with a nominal reduction of three per cent in 1984 and freezes during¹⁰ out of the subsequent 24 years on the other hand. As a result the minimum wage first grew ahead of (consumer) prices¹⁶ until the end of the 1970s, but has lagged strongly behind since and, as we will see later, also behind other wages.

Figure 1: Real minimum wages, € per week of 2005, 1964–2007



Note: Annual averages, excluding annual holiday allowance, etc.

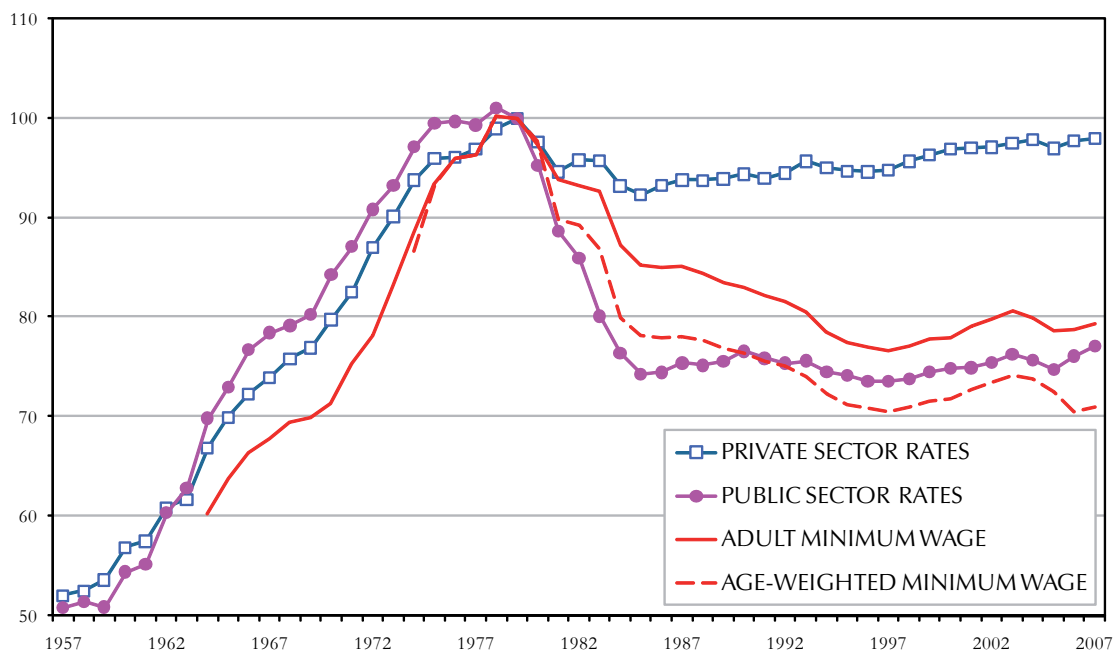
Source: Author's own calculations based on Statistics Netherlands: minimum wage and price statistics, and Ministry of Social Affairs and Employment.

¹⁶ We shall come back to wages deflated by product prices below.

Figure 1 depicts the evolution of both the adult minimum wage and the average minimum wage, which also accounts for youth minimum wages.¹⁷ Most of the decline is concentrated in the first half of the 1980s but it has continued slowly during most of the years since 1985. After 1995 the real minimum wage first went up somewhat, by four per cent in total from €287 to €299 in 2003, but subsequently fell back to about the initial level (€289 in 2007). As no specific measures were taken for youth minimum wages over these later years its development ran parallel to the adult rate.

On balance, the minimum wage has fallen in real terms by 21 per cent for adults and 28 per cent for all since the end of the 1970s. Notably, the latter decline has matched that of the US Federal minimum wage, which in contrast to the Dutch minimum wage has a single value for all ages. The Dutch coupling to minimum benefits implies that the latter have undergone the same decline.¹⁸ However, for minimum-wage workers the decline concerns the weekly or monthly amount. Though this does not make a difference to the income for the receiving employee, the estimated real minimum wage per hour of work fell by less (17 per cent for adults over 1979–2005) when accounting for the reduction in average full-time working hours, which also applied to minimum-wage workers.

Figure 2: Negotiated wages in the private and public sectors, and minimum wages, deflated, 1979=100, 1957–2007



Note: Defined on a weekly/monthly basis.

Source: Statistics Netherlands, Historical series Statline for Negotiated wages and consumer prices.

17 Using weights of the age distribution (individual years 15–22, and 23+) of minimum-wage earners in 1979.

18 Only the old-age pension has developed slightly more favourably because of special measures.

3.2. Comparison to other wages

The decline of the minimum wage has led to a sea change in its relationship with other wages, before and after the early 1980s. As Figure 2 indicates, minimum wages and negotiated wages moved upward in tandem over the 1960s and 1970s, but have all lagged behind prices since and at the same time have started to diverge strongly from one another. The minimum wage for long years deviated particularly from negotiated wages in private enterprise, up to 1997. Public-sector negotiated wages,¹⁹ by contrast, after 1979 fell even more than the adult minimum wage and moved roughly in parallel with the age-weighted average of minimum wages. This decoupling of both minimum wages and public-sector pay from private-sector pay rates is a major, much less familiar²⁰ aspect of the well-known Wassenaar Accord of 1982, which was concluded under government pressure by unions and employers. It served to lower public expenditure and thus to mitigate the moderation of after-tax wages. On balance, between 1979 and 2007 the adult minimum wage lagged 19 per cent behind the private-sector average of CLA wages, for the most part before 1995 as only a little more than 0.5 per cent of this decline has occurred since that year.

Actual individual hourly earnings evolved slightly ahead of negotiated wages and as a result diverged even more from minimum wages. This is shown for average²¹ earnings in Figure 3, Panel A. While the adult minimum wage was equivalent to about 64 per cent of average wage earnings in 1979, the proportion had declined to 48 per cent by 2005 (by a quarter). The decline was faster – one third – for the weighted average minimum wage, which fell from 55 per cent to 37 per cent of the average. The declines of the two ratios largely resembled that of the US Federal minimum wage which, however, has a much lower relative level and suffered a decline from 41 per cent to 23 per cent.

However, a comparison with the average is sensitive to outliers in the wage distribution and also includes the highest levels of pay, which bear little relevance to the minimum wage at the other end of the spectrum. It seems better to draw the comparison with the median wage. The upper echelons of pay and therefore the averages have developed differently between countries, rising significantly

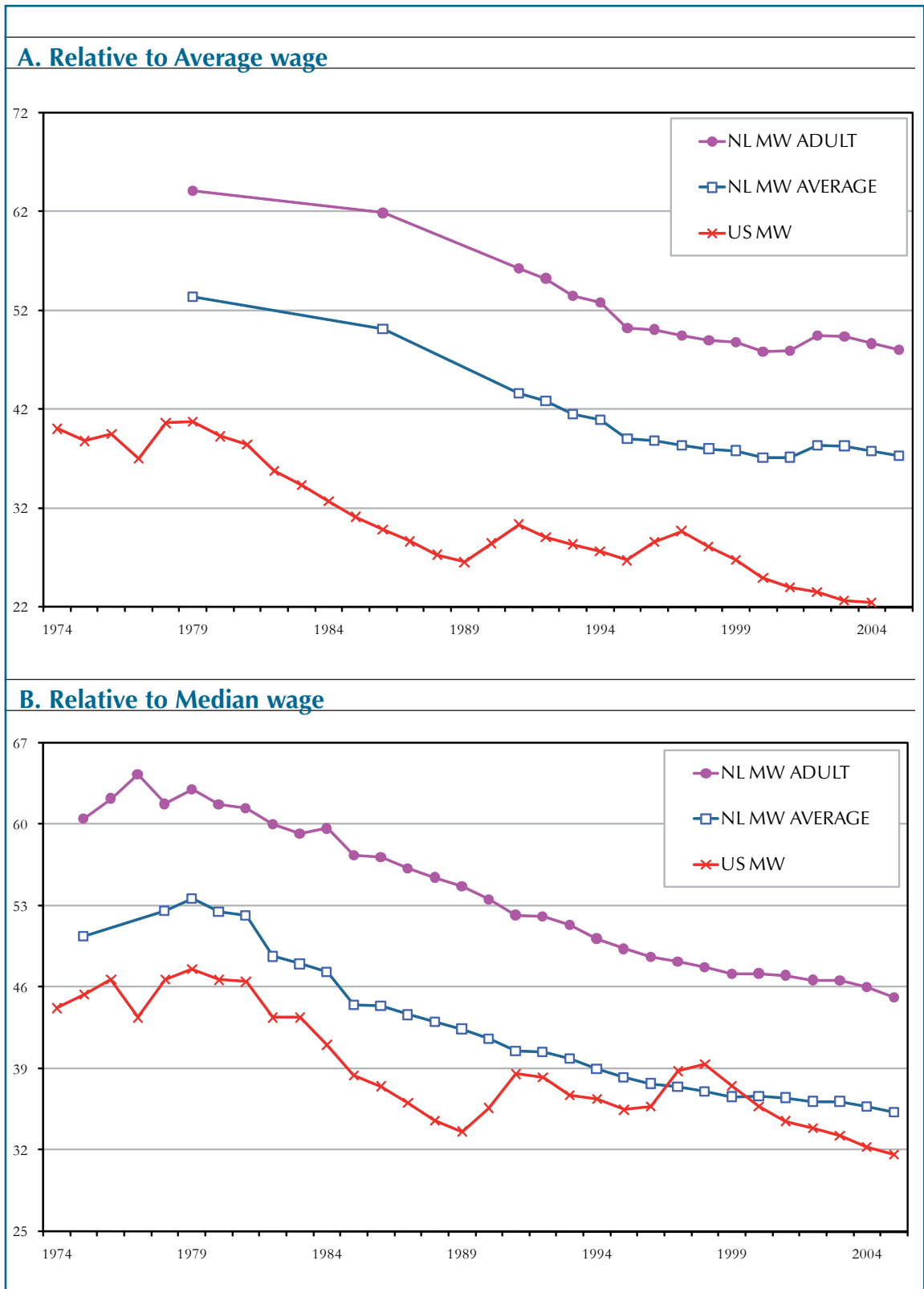
¹⁹ They underwent the same nominal lowering by 3 per cent in 1984 and freezes for many years.

²⁰ Compared to wage moderation in general.

²¹ Median earnings – to which we will come back in Section 4.2 – seem a better measure than average earnings. Note that the gap between average and median earnings differs between countries and over time. For the Netherlands it grew from 108 per cent in 1980 to 112 per cent in 1999, according to OECD data (the US ratio grew from 111 per cent to 129 per cent between 1980 and 2002).

more in the US than in the Netherlands (compare Atkinson and Piketty 2007). Panel B indicates how this brings up the relative level of the US minimum wage while it hardly affects the Dutch level. As a result the US minimum wage and the Dutch average minimum wage have been circling around each other since the early 1990s, at about 42 to 43 per cent of the respective median.

Figure 3: Minimum wage (adult and weighted for all ages) as per cent of average and median wages*, Netherlands and US, 1970–2005).



Source: Author's own estimations based on Statistics Netherlands, Structure of Earnings Surveys (full-time equivalent based), and EPI, State of Working America 2006/2007

4. Effects of the minimum wage

The minimum wage can affect different aspects of the economy, for example, wages, incomes and employment, but also educational attainment and productivity. There is an extensive literature, particularly about employment effects, and in this chapter we can only touch upon potential effects in a univariate way, by sketching the existing situation for one aspect at a time: poverty, wage inequality, employment, wage bargaining and social dumping, and asking what the minimum wage may have to do with it, positively or negatively.

4.1. Poverty

There is no immediate relationship between the minimum wage, or low pay for that matter, and poverty. The former, a wage, is the result of a labour-market transaction – concerning both the wage level and the number of hours of paid work – while the latter, an income, depends on the household situation of the receiver of the wage, which includes the needs but also the possible incomes of the other members of the household. An example may illustrate this: the long range of official US poverty levels, covering no less than 48 types of households, spans a range of hourly earnings that extends from less than USD 5 (or about the level of the Federal minimum wage) for a single, unrelated individual at one end to almost USD 22 (or about 1.33 times the median hourly wage and roughly equal to the average wage) for a nine-person household with one child under 18 at the other end.²²

The Netherlands does not operate such official poverty measures. The coupling of the net minimum wage to minimum social benefits – this applies to adult couples;²³ singles are entitled to 70 per cent of that minimum and single parents to 90 per cent – is supposed to keep earners of the minimum wage out of poverty by definition, according to Dutch social policy. That policy has taken little notice of the steep decline in its purchasing power, found in Figure 1.24. Naturally, this is if the minimum wage is applicable in the first place (which, naturally, is not the case for the self-employed),

22 www.census.gov/hhes/www/poverty/threshld/thresh06.html: BLS poverty thresholds in 2006; assuming one earner putting in 2000 hours of work per annum. CRS (2005) shows how up to 1980 the Federal minimum wage enabled a full-time worker to keep a family of three out of poverty while it has since lagged behind by 30 per cent.

23 Naturally, the coupling creates a poverty trap for two-adult households that move from benefits to work at the minimum wage.

24 The strong growth of two-earner households and of occupational pensions that top up the public pension may help to explain the absence of political action in this respect.

is earned on a full-time basis per annum and is received by a household comprising just two adults. Apparently even so poverty is not nil but a slightly declining proportion of 6 to 8 per cent of the population²⁵. However, the most often used European measure of poverty of 60 per cent of equivalised median disposable household income indicates a significantly higher and virtually unchanged level of 10 per cent.²⁶ The so-called ‘low-income threshold’ that is often used in Dutch research and is based on the (deflated) social assistance norm for a single person in 1979 (that is, before the decline in real minimum benefits took off) is found to generate a similar fraction.

Poverty in work is non-trivial, amounting to 310,000 persons in 2005, following the low-income definition. More than four per cent of all persons in employment aged between 21 and 64 are working poor (Vrooman et al. 2007, 79). This implies a doubling of the number of the early 1990s, most of this growth being concentrated in the first half of the 1990s (Figure 4). The role of the self-employed – of which the Netherlands has relatively many – is quantitatively important particularly in low-wage industries and therefore the fact that the minimum wage does not apply to them may give them a relatively large role in in-work poverty. In addition, part-time work – to which we will return – plays an important role as almost half of the working poor were in part-time employment in 2005 (Vrooman et al. 2007, 79). The figure also indicates that the working poor now make up 23 per cent of all persons in poverty, up from 13 per cent in 1995 – implying a surging overlap between work and poverty. However, this is a gross underestimation of the importance of in-work poverty as, first, it does not count the other non-working members of working-poor households and, second, it is taken as a share of all poor including those aged 65 or over who are not part of the working-age population. Other data – using the European measure of 60 per cent of equivalised household income – indicate that the working poor make up more than 40 per cent of all poor between the ages of 15 and 64.²⁷ Poverty is defined on annual income and part-time workers may be working poor because of low hourly pay but also because of limited working hours – see Case study 2 for a discus-

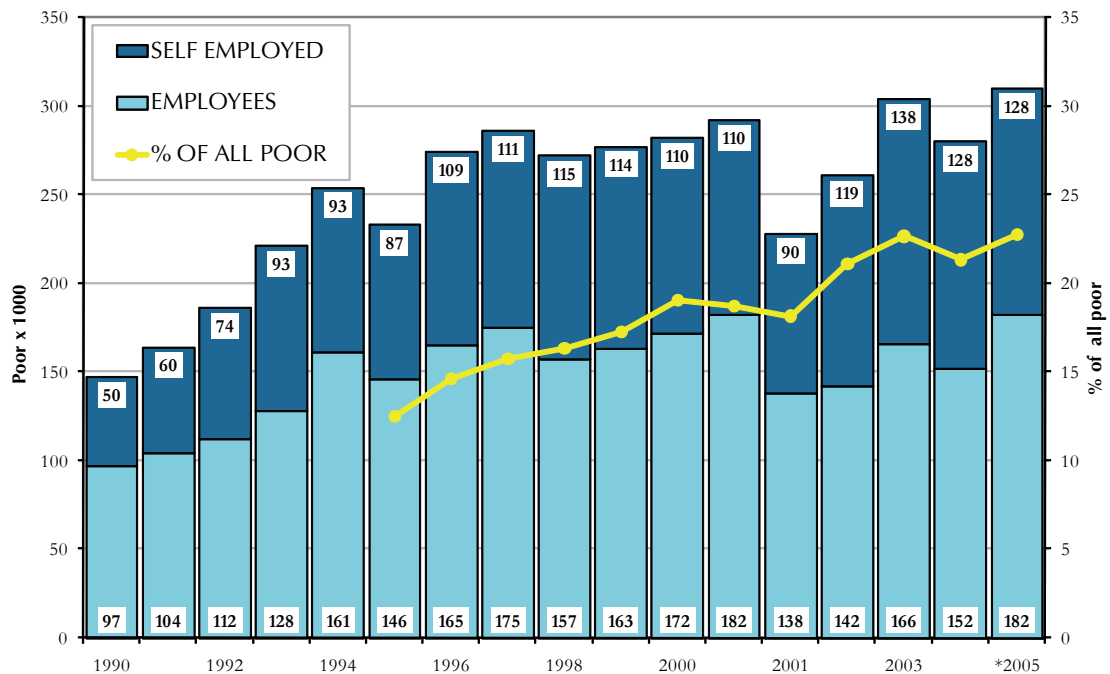
25 Soede and Vrooman (2008), 22 (101 per cent social policy minimum indicator).

26 Compare Marx (2007).

27 A rough calculation using the Eurostat Structural Indicator of at-risk-of-poverty combined with the employment rate. Again, other household members are not included in the count.

sion of how the tax system incites people to keep annual earnings below the minimum wage and thus increases the risk of poverty.

Figure 4: Working poor by type of position, persons x 1000, 1990–2005



Notes: According to 'low-income threshold'; break in series in 2000; * provisional.
 Source: Vrooman et al. (2007), 46 and 83

A direct link of poverty to earning the minimum wage cannot be established from this report, but Soede and Vrooman (2008, 87) do attribute the high rate of poverty for employees working in hotels and catering to the high incidence of minimum wages in that industry. It is suggestive, however, that the stabilisation of in-work poverty during the second half of the 1990s coincided with the stabilisation of the minimum wage, while the increases in poverty before and after this period coincide with a weakening of the minimum wage.

4.2. Wage disparity

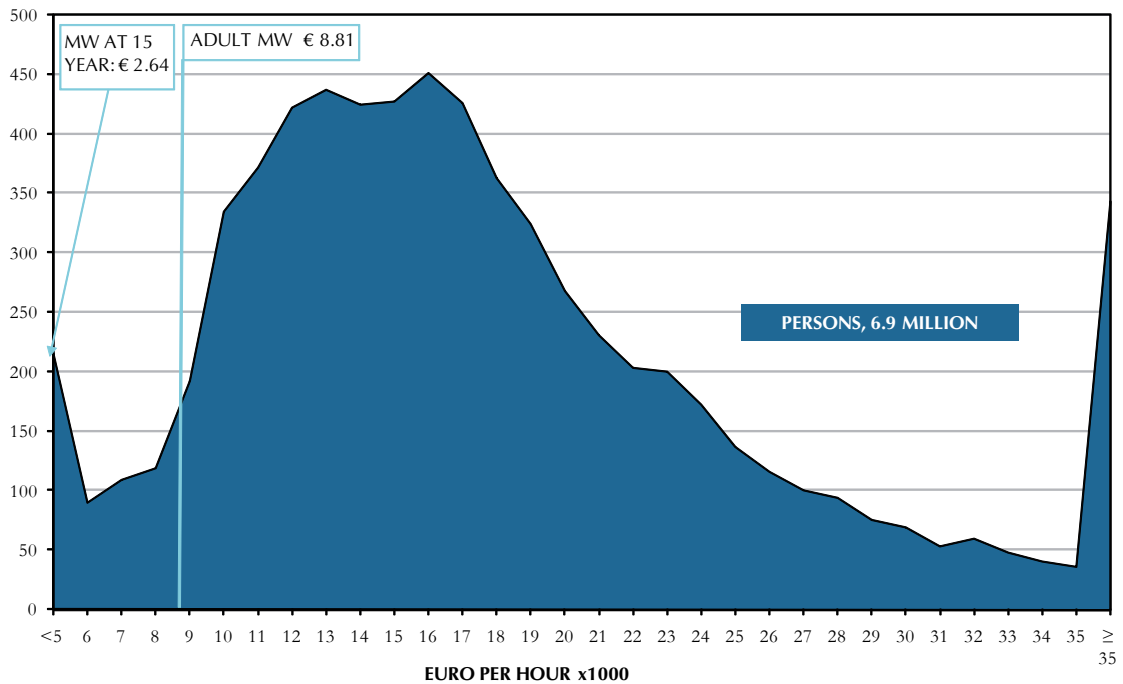
Figure 5 depicts the distribution of hourly wage earnings for the most recent year available. It indicates where the range of minimum wages is found from the age of 15 up to the adult rate.²⁸ The range below the adult rate comprises an estimated 10 per cent of all 6.9 million employees. This includes young workers who are paid more than their age-specific minimum wage but less than the adult rate. Plausibly they make up the six per cent difference to the four per cent share of all persons earning their age-specific minimum wage that was found before (Table 2). Naturally, their aggregate shares in total earnings are far below these employment shares.

The relative position of the minimum wage in the distribution has deteriorated in line with the considerable fall against average and median earnings that was pictured in Figure 3.²⁹ Figure 6 spells out the evolution of the distributive position of the adult minimum wage in more detail. Its level has clearly fallen from well above the lowest decile of the hourly earnings distribution in 1979 (€10.56 against €8.54) to the same level (€8.81). The minimum wage fell while the first decile, after an initial fall, gained some value. At the same time, the higher echelons of the distribution have clearly moved up: the median wage saw its purchasing power rise by 20 per cent and the 90th percentile by 31 per cent. As a result, the minimum wage fell from 80 per cent of the median to 56 per cent, and from 49 per cent of the 90th percentile to 31 per cent. The implication is that the minimum wage has also fallen against and below the low-pay threshold of 66 per cent of the median wage. Clearly, the Dutch wage distribution has widened significantly. The ratio between the first and ninth deciles rose from 2.54 to 3.22 or by 27 per cent; more than half the increase (16 per cent) concerns the lower half of the distribution. Apparently, the well-known Dutch wage moderation has been stronger the lower the level of pay.

²⁸ Note the earlier caveat about variation in hourly minimum wages depending on CLA. Here an average is used.

²⁹ Figure 8 is head-count based and shows a higher ratio of the minimum wage to the median than Figure 4, Panel B, which is full-time equivalent based. The latter approach weights lower wages less because of their concentration in part-time jobs.

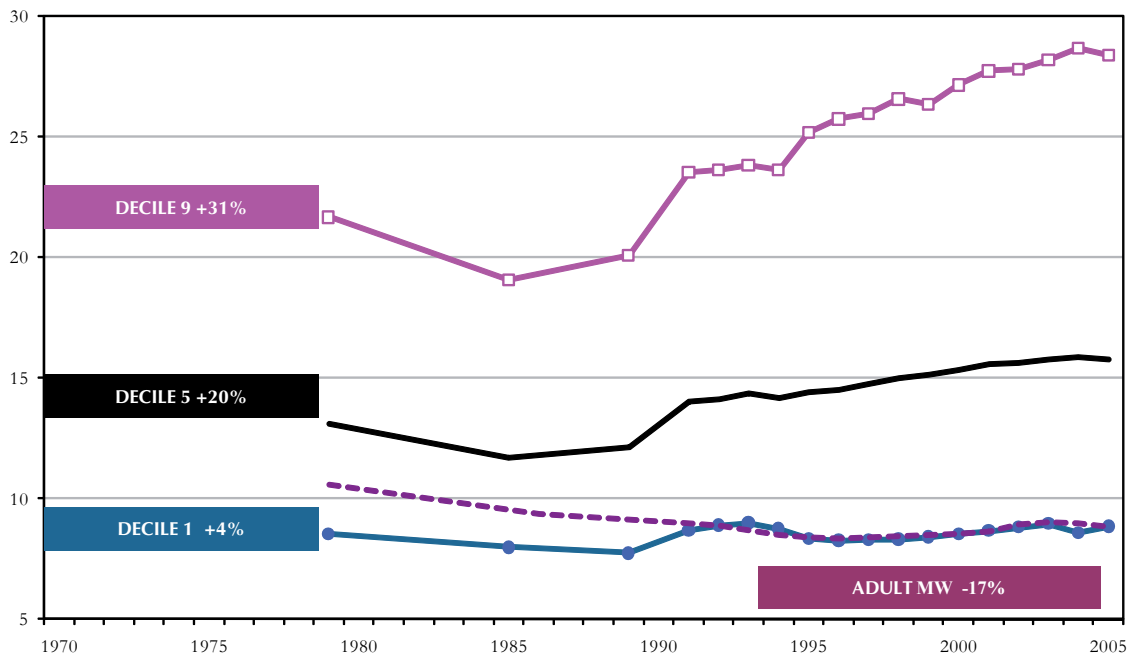
Figure 5: Distribution of hourly wage earnings and the minimum wage, x1000, 2005



Note: Truncation of the data explains the flapping wings at the two tails.

Source: Estimated from Statistics Netherlands, Structure of Earnings Survey 2005 tabulated data.

Figure 6: Deciles of hourly wage earnings and the adult minimum wage, 1979-2005(€ per hour, 2005 prices,)³⁰



Note: This disregards annual holiday allowances and bonuses, the importance of which increases with the wage level. Thus it underestimates the ninth and fifth deciles compared to the first and the minimum wage.

Source: Author's calculations on Statistics Netherlands Structure of Earnings Surveys and CPB, 2006, Table A.7; see also Figure 2.

30 Note the formal variation in hourly minimum wages depending on CLA already mentioned. Here an average is used.

It is clear that the decline of the minimum wage has not directly boosted the incidence of low pay. However, had the minimum wage remained at the same absolute level instead of suffering the 17 per cent decline in purchasing power the effects might not have been much different as the first decile of the wage distribution retained its value. More important, the implication may simply be that the minimum wage has lost its significance for wage determination. Or, as the Dutch Central Planning Bureau recently put it, ‘at the end of the 1990s the statutory minimum wage no longer seemed to play the role of providing an effective bottom wage for the lower end of the labour market’ (CPB 2008, 94). If, by contrast, the minimum wage had retained its relative position, the first decile might have moved up much more and wage inequality would have changed less, if not remained unchanged. We return to the issue below in the next section where employment is discussed.

The Netherlands has been practising wage moderation since the early 1980s. In particular, wages have lagged behind the growth of productivity, more than behind the rise of prices, as Figure 6 demonstrates. Between 1979 and 2005 hourly labour productivity grew by 44 per cent (EU-KLEMS 2008) and all wages lagged behind, on balance, including even the highest wages, whose 31 per cent growth comes closest. As a result, the labour share of value added has declined substantially, especially from 64 per cent of GDP in 1979 to 56 per cent in 1985 with only small fluctuations since ending at 56 per cent in 2005³¹. This took place in spite of potentially upward effects of the significant growth in employment rates among the population and the decline in self-employment, which would both tend to reduce the capital share in the functional distribution of earnings. The contribution of the minimum wage to this decline is not evident, given the parallel decline of the US minimum wage (Figure 3), while at the same time the US labour share did not fall after the 1970s but showed slightly larger fluctuations around an average of 58 per cent.

Finally, there is no clear proof that lower growth or even a decline in productivity in the segment of the economy where most of the low paid are employed (for example, agriculture, retail, hotels and restaurants and personal services) would warrant much stronger wage moderation at lower levels of pay. For example, in retail – the leading low-pay sector – productivity growth matched the national average in the Netherlands, and far exceeded that in the US (EU-KLEMS 2008). Clearly, the growth

31 Calculated from EU-KLEMS database. The frequently used labour share adjusted for self-employment is left aside here as it disregards the often stronger concentration of the self-employed in low-paying industries.

of low-wage employment partly reflects wages policies including the lowering of the minimum wage, that have not allowed productivity gains to be sufficiently translated into higher actual earnings.

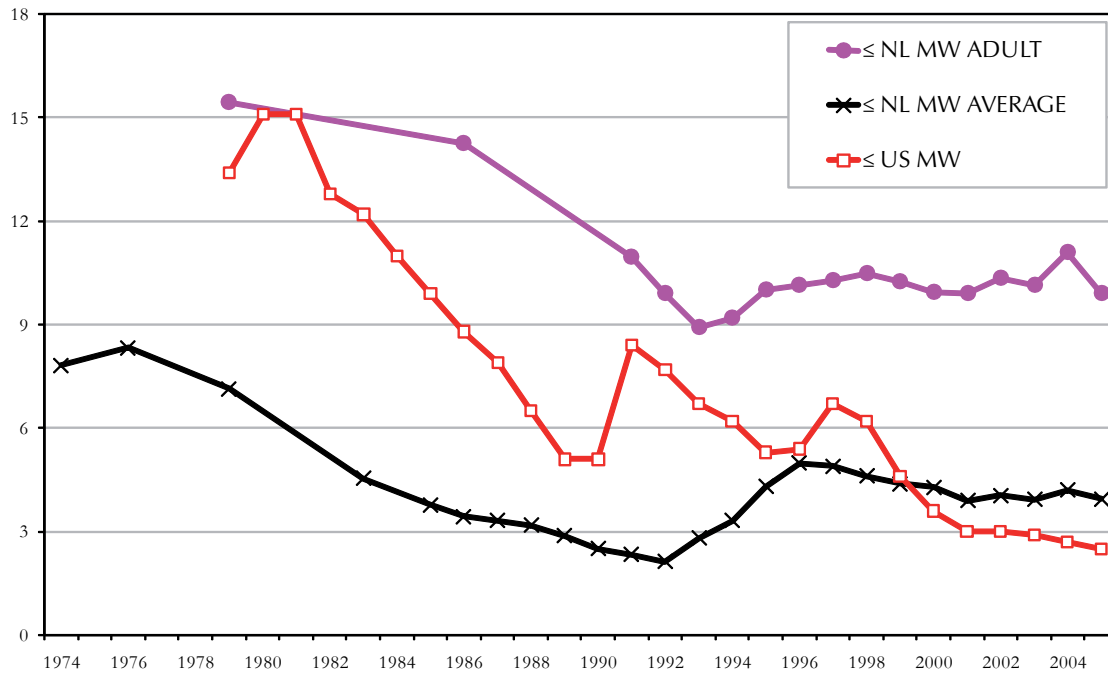
4.3. Employment

Decline of minimum-wage employment: The importance of minimum-wage employment has declined significantly in recent decades. The incidence of the age-specific minimum wages decreased significantly, from 8.3 per cent tot 2.1 per cent of all employees between 1976 and 1992 (Figure 7). The legal extension of the minimum wage to small part-time jobs in 1993 and some policy pressures discussed in the next section (and perhaps also improved statistical reporting from 1995 onwards) led to a new increase in the incidence to 5.0 per cent, but over the last 10 years its level has shown a slight decline to between 4 and 5 per cent. By contrast, application of the uniform adult minimum wage to all employees shows a higher level throughout and no decline in recent years. The gap between the two indicates the important role of young workers who get paid above their age-specific minimum wage but below the adult rate.

Figure 7 also compares these developments to the evolution of US Federal minimum wage employment. This fell from 15 per cent of all employees in 1980 to less than 3 per cent recently,³² while the hikes of the minimum wage of 1991 and 1997 are reflected in a clear increase. In a sense, the US incidence compares to both Dutch indicators as, on the one hand, the US has no age-specific rates and, on the other, its relative level is below the Dutch adult minimum wage. The weighted average of Dutch minimum wages, which has a relative position close to the US, shows up an estimated incidence of 5.7 per cent, still higher but much closer to the US incidence.

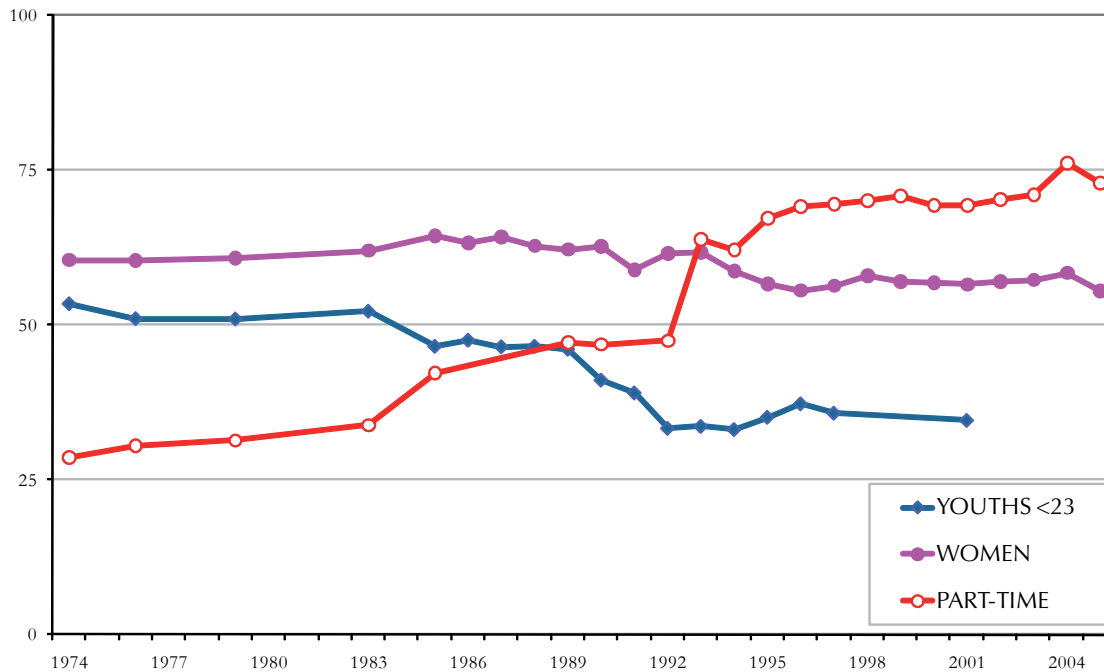
³² Data relate to workers paid by the hour only; they make up a virtually steady 60 per cent of all US employees.

Figure 7: Incidence of minimum wages, Netherlands and US, 1974–2005 (% of employees)



Sources: Author's own calculations based on Dutch Statistics: minimum wage statistics and structure of earnings surveys, and CPB, MEV2007 Table A7; BLS (2005)

Figure 8: Characteristics of age-specific minimum-wage employees, 1974–2005 (%)

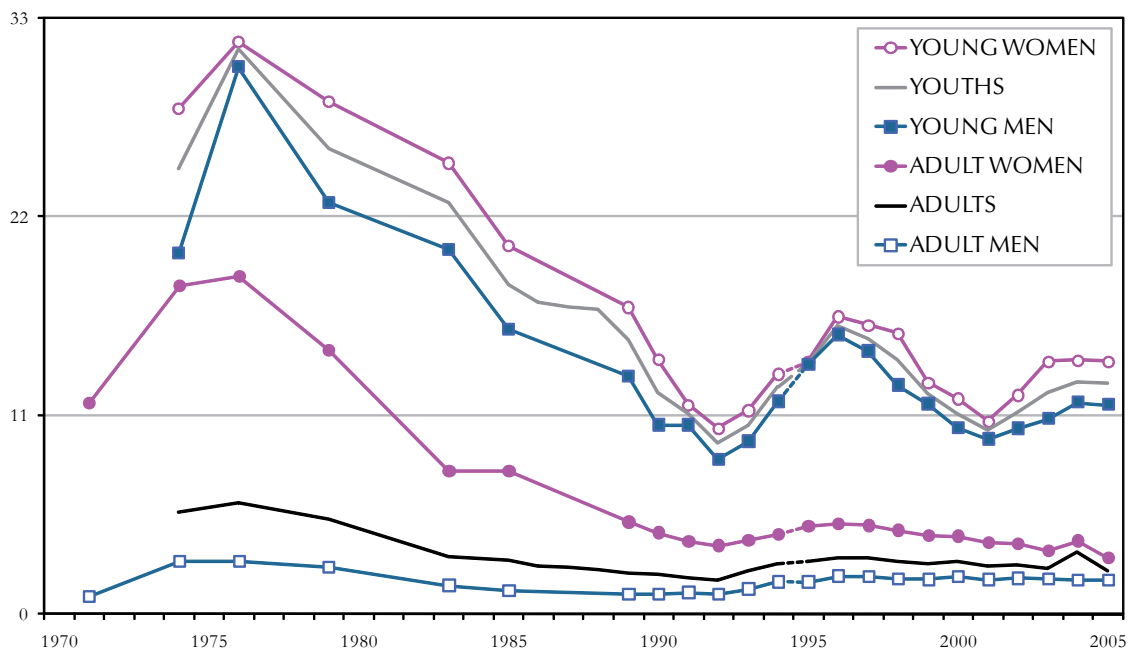


Note: Part-time includes flexible contracts which are on average half-time on an annualised basis.

Sources: Author's own calculations based on Statistics Netherlands: minimum-wage and structure of earnings statistics.

Figure 8 depicts the composition of minimum-wage employment along three dimensions: age, gender and working hours. Despite some data problems clear trends appear. Until the mid-1980s the majority of minimum-wage earners were youths below the age of 23, but since then their share has rapidly declined to not much more than one third from the early 1990s onwards. This occurred primarily – but not solely – because of a demographic shrinking of the young age group. By contrast, the gender composition tended to change only slowly to the disadvantage of men. However, taking into account the very rapid increase in the female share in overall employment – much faster than in most other countries, their employment-to-population ratio in the Netherlands grew by 32 percentage points between 1979 and 2003 – it is remarkable that the female share in minimum-wage employment declined at all. This could occur because a large part of them are also youths whose share declined. Finally, the part-time share is continuously increasing with an apparent jump when small part-time jobs started to be covered by the minimum wage in 1993. However, that change hardly affected the gender and age divisions..

Figure 9: Incidence of age-specific minimum wages among employees by age and gender (% of employees in category)



Note: Age group 16–22 and 23–64 except 1995–2005 (15–24 and 25–64).

Sources: Author's own calculations based on Statistics Netherlands: minimum-wage and structure of earnings statistics.

Unsurprisingly, the incidence of the minimum wage among demographic groups varies widely (Figure 9). The incidence among adults declined somewhat over the 1980s but has remained roughly stable at the lower level of around 3 per cent since. The incidence of minimum wages among youth declined much more strongly, from a peak of over 30 per cent in 1976 to 12 to 13 per cent recently, reinforcing the demographic decline mentioned above. Women have a higher chance of earning the minimum wage than men in both age groups but the gender difference is relatively small for young workers. The incidence among adult men has remained basically stable over the period, at around 2 per cent. Therefore the decline for adults is concentrated among women. They had a much higher incidence than adult men in the 1970s but rapidly closed most of the gap by the 1990s. Since then their level has been falling only slightly but now it has come very close to that of adult men. Thus the minimum wage has also become less important at the margins of the labour market where youths and women are often found.

Aggregate employment drifting towards low pay:

The role of the minimum wage in job growth is not obvious. The incidence of both the age-specific and the adult minimum wages has fallen considerably, as we have already observed. Figure 10, Panel A, brings the latter together with the relative position of the minimum wage in the distribution and evolution of low-wage employment.

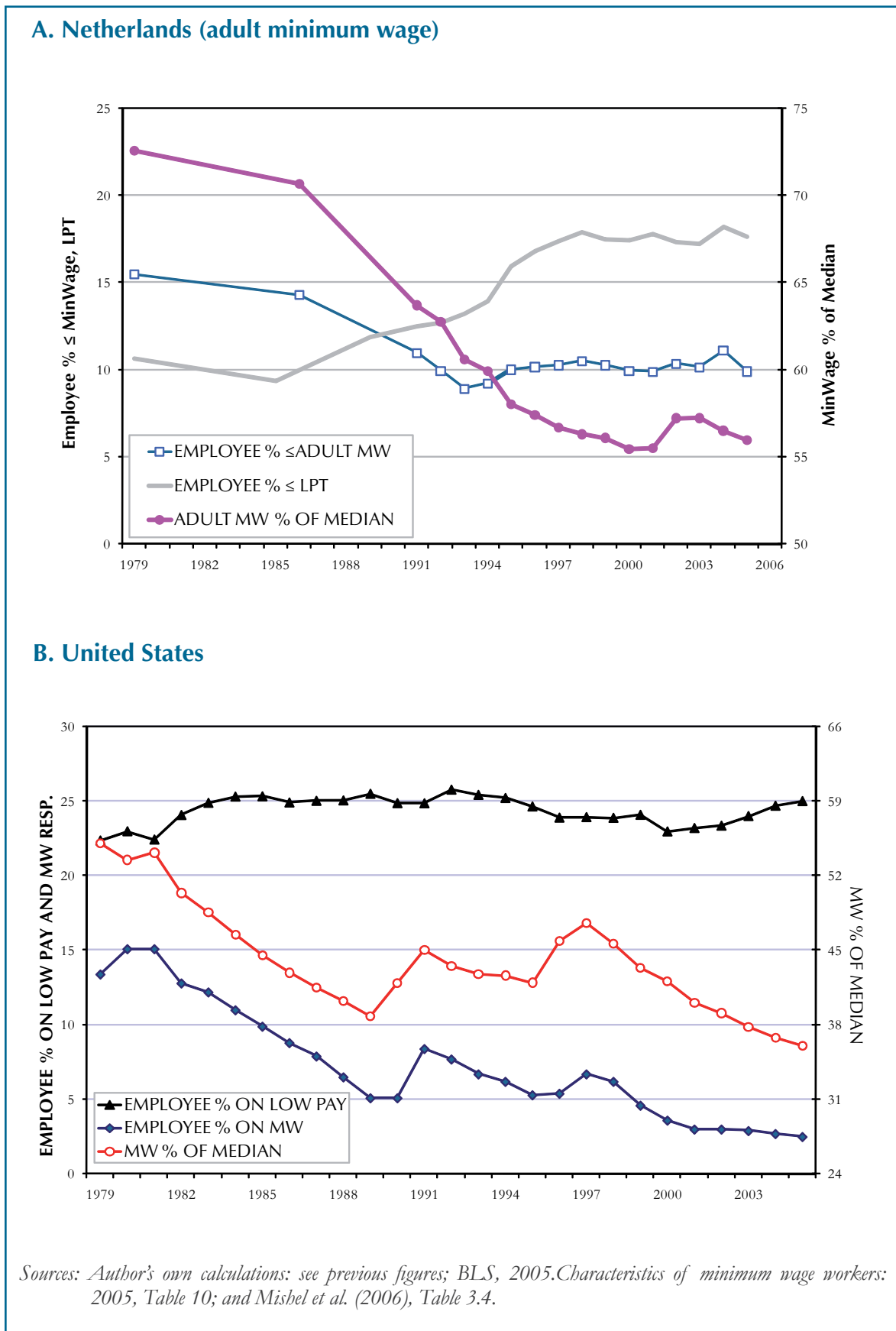
The simultaneous fall of the relative level of the minimum wage and the employment share of minimum-wage jobs is in line with the literature on the American minimum wage, the evolution of which is illustrated in Panel B. Changing the minimum wage seems to affect the distribution of wages, and therewith earnings inequality, without having much of an effect on employment. In principle, a decline in the minimum wage will enhance employers' room for manoeuvre for hiring people on low pay but those options may not be fully used, for example, for reasons of labour market competition or even of fairness, or they may lead to substitution for better pay instead of additional hiring.

The two panels also indicate the shares of employees who are paid at or below the low-pay threshold of two thirds of median hourly earnings. That share has increased in the Netherlands but only lately, from the mid-1990s on. In 1979 the minimum wage as a percentage of the median was well above the low-pay threshold of 66 per cent of the median. This changed during the second half of the 1980s when the former ratio tucked below the latter. From that moment on low-wage employment was also positively greater than minimum-wage employment. However, it did not increase but

basically stayed at the same level until the mid-1990s, while minimum-wage employment fell strongly together with the relative minimum wage until 1993. Since then the employment share has increased slightly, while the relative level of the minimum wage has tended slowly to decline further. Apparently, most of the decline of the minimum wage hardly affected the amount of low-wage employment. The latter quickly increased between 1994 and 1998 and subsequently has been fluctuating around a level that finally exceeded the initial 1979 incidence of minimum-wage employment, albeit only by a few percentage points.

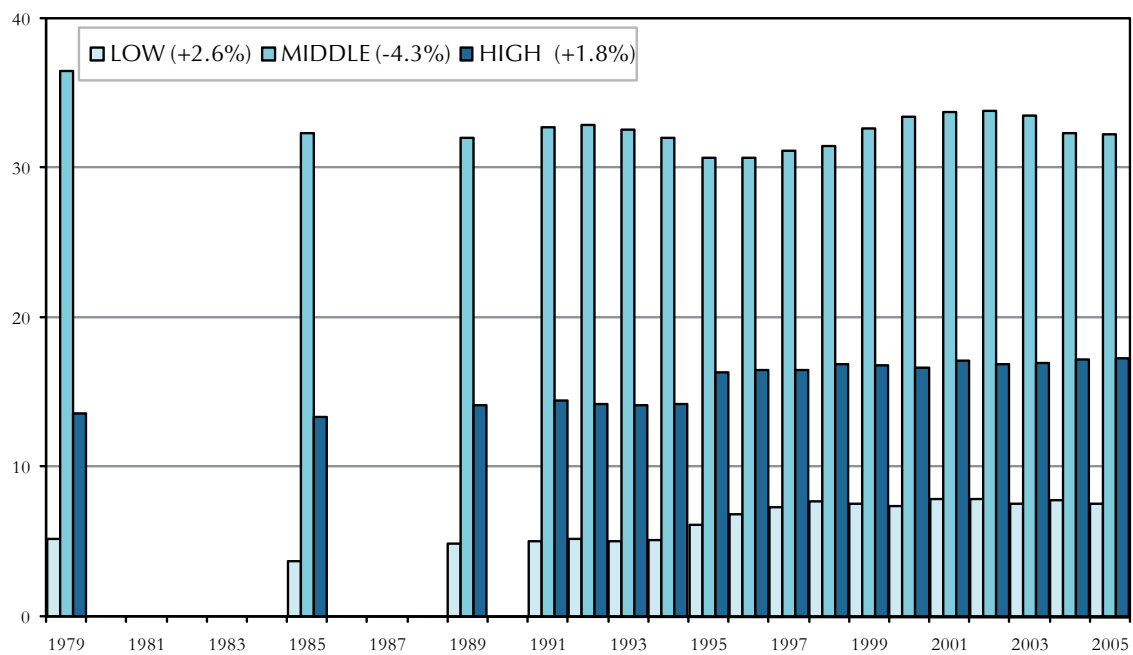
Conversely, the low-wage employment rate in the US remained virtually stable at around 25 per cent despite the strong decline in the position of the minimum wage in the earnings distribution. Apparently, the lowering of the American minimum wage incited a lowering of minimum-wage employment and therewith a widening of the earnings range of low pay but no increase in the share of low-wage employment.

Figure 10: Relative pay level of and employment share at minimum wage, 1979–2005



The first, stylized conclusion is that the Dutch adult minimum wage fell from over 70 per cent to 54 per cent of the median, while low-wage employment fully replaced minimum-wage employment and grew somewhat above it. However, though the increase is modest on balance it hides a considerable demographic composition shift of the minimum-wage population towards adults. Second, a lower minimum wage may increase low pay opportunities for employers, as it did before 1993, but apparently the actual use of such opportunities depends on economic and labour market conditions more than the other way around. It is clear nevertheless that the changing significance of the minimum wage as a binding institution has enabled the growth of low-wage employment. However, had the minimum wage remained unchanged most of the current low-wage employment would still have been there, albeit under the label of minimum-wage employment.

Figure 11: Head-count and hours-count employment–population rates for low pay and better pay, 1979–2005



Source: elaborated from Salverda et al. (2008), Figure 2.11.

In fact, low-wage employment growth in the Netherlands seems to have in fact ‘cannibalised better-paid jobs’ instead of adding to net employment growth. There is some indication of such an effect here. Head-count employment rates have grown for low-paid employment as well as the better-paid rest of employment; in other words, the overall employment rate grew sufficiently fast to

augment the number of paid-paid employees in spite of low-wage growth³³. However, if we move closer to the real economy and measure employment in terms of hours worked, the better-paid hours of work per capita actually tend to decline. Figure 11 looks at the evolution of low pay per capita of the working-age population compared to that of high pay (symmetrically defined as over and above 1.5 times the median hourly wage) and the middle between both. On balance, between 1979 and 2005, the better-paid employment-to-population ratio fell by 2.4 percentage points, while the low-paid ratio increased by a similar amount. If we split the better-paid part into the high-wage end on the one hand, defined as over and above 1.5 times the median hourly wage, and the remaining middle in between the high and low tails, we find that the volume of high-end employment also grew (+1.8 percentage points). By contrast, the middle of the distribution shrunk significantly. Its full-time equivalent rate of the working-age population declined by 4.3 percentage points from more than 36 per cent to 32 per cent. Given the growing level of employees' educational attainment, and therewith their productive capacities, it seems implausible that this growth reflects a lower quality of current labour supply as compared to that of the 1970s; instead it is consistent with a cannibalisation of better pay by low pay, that is, a downward shift of pay levels.

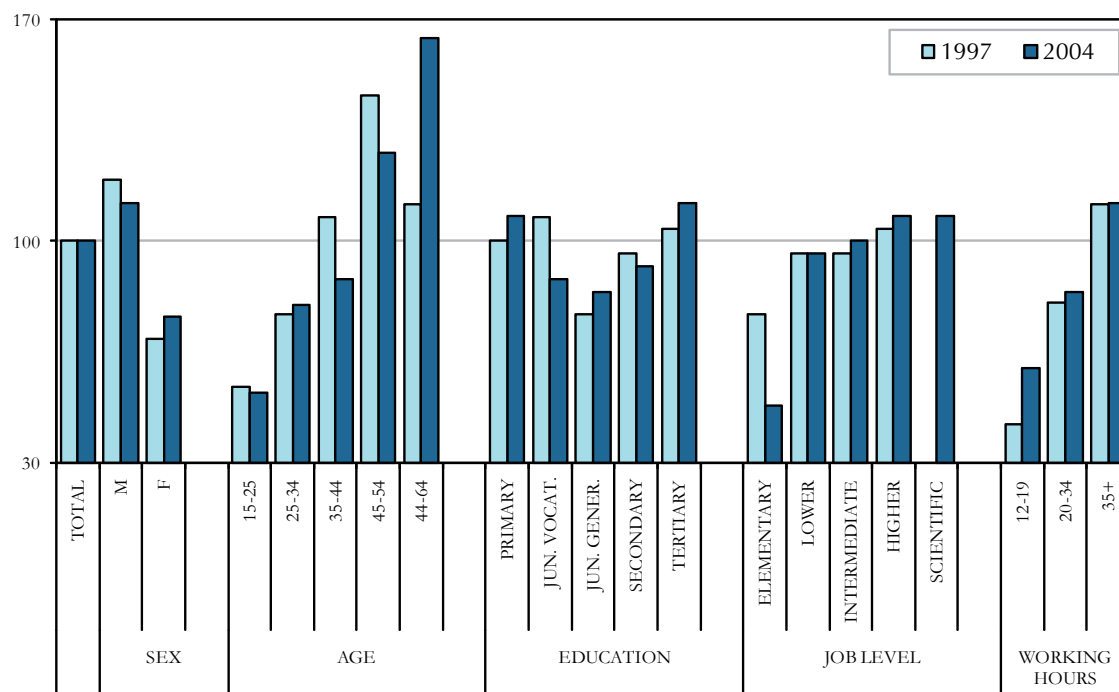
4.4. Wage bargaining

The presence of a statutory minimum wage may, first, reduce the relevance of collective wage bargaining for the part of the economy where pay is governed by the minimum wage. It may, second, reduce incentives for becoming a union member for the purpose of wage bargaining. And, third, it may also affect collective negotiations themselves. There is no clear sign of the first effect as the

³³ See Salverda et al. (2008), 51.

coverage of collective agreements in the Netherlands is and remains high, at about 80 per cent, but, naturally, a very low and falling minimum wage is no challenge to collective bargaining in itself.

Figure 12: Union membership by characteristics, 1997 and 2004 (% of average level)



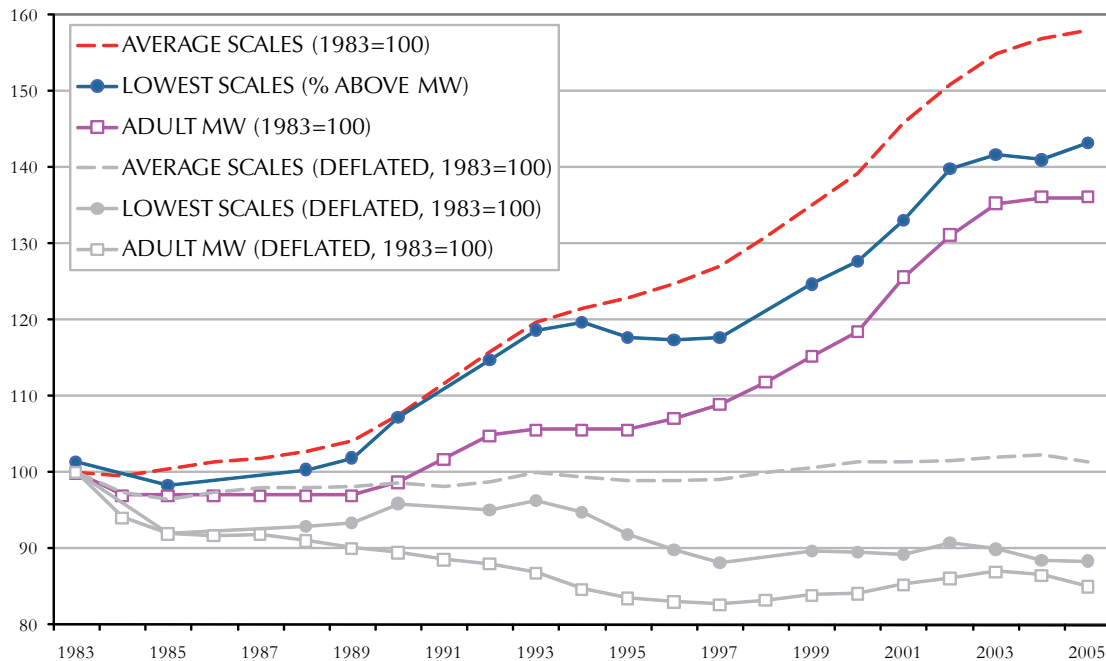
Source: CBS/Statline, *Working conditions statistic*.

There are, however, indications of a decline in union membership. It has fallen in general, albeit slowly, from around one third in the early 1980s to a little more than a quarter today. Particularly among the occupants of the jobs most affected by the minimum wage, that is, elementary-level jobs, union membership is low and rapidly declining – from 77 per cent of the national average in 1997 to 48 per cent in 2004, as shown in Figure 12. However, given the surprisingly steady or even increasing levels for most other characteristics – including women and part-time workers – the decline points to a composition shift among those occupying elementary jobs, especially a swing towards more young and part-time workers, instead of a decline per se. This is not so much a direct effect of the minimum wage as a reflection of an increased marginal and temporary attachment as a consequence of the very low levels of minimum pay.

Given the unchanged level of CLA coverage the third important question is whether the collective agreements themselves have been affected. Indeed, since the mid-1990s the government has been pressing the social partners to improve incorporation of the minimum wage in their CLAs. It complained that the lowest pay scales of the agreements were situated above the statutory minimum

wage and thus prevented the hiring of employees at that level of pay. The government started to monitor the agreements, threatening to no longer declare them generally binding.

Figure 13: Lowest and average agreed scales in collective labour agreements and the adult minimum wage, nominal and real, 1983–2005 (1983=100*)



Note: * Except nominal lowest scales which are indicated as a percentage of the adult minimum.
 Source: SZW/DCA (1991), SZW, Voor- en Najaarsrapportages, CBS-Statline: historical series of wage rates 1972=100, after 2002 extrapolated with series 2000=100 and Salverda et al. (2008), Figures 1.1 and 3.8.

Figure 13 indicates the effects of these pressures. The average of the lowest scales has lagged behind the average of all scales and moved closer to the minimum wage. Initially, between 1983 and 1993 the lowest scales moved roughly parallel with the other scales, while the minimum wage increasingly lagged behind. Between 1993 and 1997 the share of CLAs with the lowest scale below 105 per cent of the minimum wage grew extensively, from 20 per cent (of covered employees) in 1993 to 82 per cent in 1997 (Tros 2000). Thus the lowest scales on average have managed to bridge half the gap to the minimum wage and have shifted gear, running parallel now with the minimum wage instead of average wages. This is particularly noticeable after 2003 when the minimum wage lagged behind CLA wages again as a result of a new freeze. In terms of purchasing power – that is, after deflation for consumer prices – the lowest scales have fallen on balance by more than 10 per cent compared to the level of 1983, a development that comes close to the decline of the minimum wage discussed

above. Apparently, the social partners did not intend to adapt their collective bargaining but have given in to government pressure.

However, adopting the minimum wage in collective agreements does not necessarily mean that the lower scales are actually used in practice when hiring new employees. It seems likely that the relevant collective agreements for low-wage industries were already aligned with the minimum wage while the new government pressure affected other industries in which the minimum wage is of little relevance, such as construction where wages are traditionally well above the minimum wage. Thus the adoption of the lower scales may have been mainly a paper exercise. Unfortunately, in spite of the very extensive CLA coverage the Netherlands has no data that can tell us about the actual use of the grid of wages scales in employment. However, the Labour Inspectorate found in a special report in 1998 that the overwhelming majority (86 per cent) of companies did not use the new scales and only 6 per cent of their employees were found there (Ackermann and Klaassen 1998). It is also telling that between 1995 and 2005 the percentage of employees earning up to 105 per cent of the minimum wage has tended to decline.

4.5. Social dumping

Both the statutory nature of the Dutch minimum wage and the generally binding nature of collective agreements prevent social dumping in the sense of the Laval case. This does not mean that semi-legal and wholly illegal activities may not undermine existing pay practices, however. Particularly the main temp agencies – which are also governed by collective labour agreements – are now actively engaged in investigating, in cooperation with the Labour Inspectorate, such fly-by-night practices with the aim of taking legal action to stop them. Given the strong decline of the minimum wage in the Netherlands there is no reason to expect wage costs at this level to have stimulated offshoring activities.

5. Case studies

5.1. Case study 1: Does retail trade needs such low youth minimum wages?

As we have seen, a particular feature of the Dutch minimum wage is its very long tail for young workers (Table 1); this was originally introduced in 1974 and made even longer in the 1980s and seems mainly based on presumably lower productivity and lower personal needs. Special provisions for youth are not unique to the Netherlands and any discussion about possible European measures regarding the minimum wage will have to face the youth issue. This is why we shall pay it particular attention here. The Dutch tail, including the age at which the adult rate applies, has been a bone of contention ever since its introduction and a European view treating youth minimum pay may be of relevance to the further debate in the Netherlands with regard to both the very low levels for youths and the high age at which the adult wage starts to apply.

Young workers' concentration in low-paid work

Table 3: Statutory minimum wages of youths as percentage of adult minimum wage, various countries

Age	Belgium	Luxembourg	France	UK	Ireland	Netherlands	Greece*	Spain	US
15	64	75			70	30	54		
16	70	75	80	61.6	70	34.5	54/72	100	**85
17	76	80	90	61.6	70	39.5	54/72	100	**85
18	82	80	100	83.3	80	45.5	54/72	100	**85
19	88	100		83.3	80	52.5		100	**85
20	94			83.3	80	61.5			100
21	100			83.3	100	72.5			
22				100		85			
23						100			

Notes:

* Compared to a married person with 9 years' experience.

** Only during first 90 days of employment, and full-time students subject to official permission and constraints on hours of work.

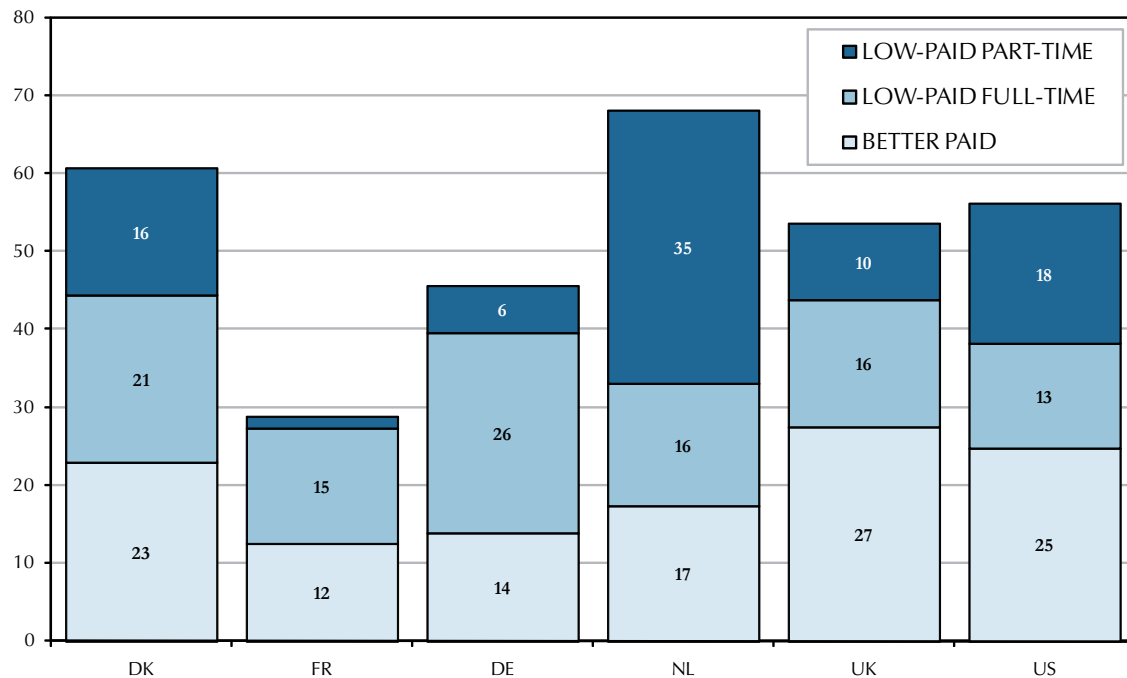
Sources: Federale Overheidsdienst Werkgelegenheid, *Arbeid en Sociaal Overleg* (Belgium); Ministère du Travail et de l'Emploi Luxembourg; www.travail-solidarite.gouv.fr/spip.php?page=article&id_article=1027 (France); www.lowpay.gov.uk/lowpay/lowpay2005/appendix4.shtml (UK and Portugal); Fotoniata and Moutos (2008) (Greece); Citizens Information (Ireland); Netherlands: Table 1; www.lowpay.gov.uk/lowpay/lowpay2005/appendix4.shtml (Spain); www.dol.gov/esa/minwage/q-a.htm#young (US). (Courtesy Maarten van Klaveren.)

Table 3 shows that the Dutch situation strongly deviates from those in other EU countries. At 23 years, the Netherlands has the highest age at which the adult minimum starts to apply, and it also has by far the lowest relative levels for youths, down to 30 per cent of the adult rate at the age of 15 years – roughly half the next-lowest level.

At the same time, the Netherlands has about the highest youth employment rate among OECD countries, together with a very high overlap between education and labour market activity. This is largely explained by the fact that Dutch youth employment also has the highest shares of part-time low-paid jobs among young employees: more than half of all young employees (35 percentage points of the 68 per cent employment-population rate) have a low-wage jobs of fewer than 35 hours (Figure 14). Most (20 percentage points out of the 35 per cent) of these part-time jobs are small or very small, that is, fewer than 15 hours a week. This reflects the very drastic change that the Dutch youth labour market has undergone in recent decades. The current level represents a fivefold increase compared to 1979 when only 10 per cent of young employees³⁴ were in part-time low-paid jobs (see also Salverda et al., 2008, 53). As a result youth employment has lost much of its better paid and full-time part and has become strongly concentrated in small low-wage jobs whose occupants combine such labour-market activity with an education. The participation of Dutch youth in education is as high as in other countries. Therefore there is a strong overlap for Dutch youth between paid labour and education that explains the large difference with e.g. France (Figure 14) where such overlap is virtually absent. It is an issue for further research whether such overlap is good for educational efforts or not. At the same time it is clear that the participation in education is not significantly higher than in other countries in spite of the argument that low minimum wages would inspire youth to dedicate themselves to education.

³⁴ Age 16–22 only, plausibly implying an overestimation compared to 15–24.

Figure 14: Youth employment rate divided into low-wage part-time and full-time and the better paid remainder, various countries, 2001 (% of youth population)



Source: Author's own calculations based on ECHIP; of US calculations on CPS (courtesy John Schmitt).

Evidence in the retail trade sector

Youth employment is strongly related to the retail trade. About one third of all young employees work in that sector and among this group between 40 and 50 per cent have a job of fewer than 12 hours per week, four times the national average. About 17 per cent of young retail workers earn the age-specific minimum wage – this is slightly higher than the youth average and almost four times higher than the national average for all ages.

Therefore this seems the right industry to enable us to consider the pros and cons of the system of youth minimum wages and to discuss them with unions, employers and experts. This was done by means of a special seminar with an invited audience of union representatives, employers and some expert organisations in the supermarket branch of this particular industry. It was held at the Amsterdam Institute for Advanced Labour Studies (AIAS) in July 2008 as part of the preparations for the present chapter.³⁵ The seminar happened to be held during a time of negotiations about a new collective agreement for the supermarkets in which the structure of pay for young employees was an important issue for discussion because of the tension between age-related minimum wages and expe-

³⁵ I am particularly grateful to Maarten van Klaveren at the AIAS for co-organising this meeting.

rience rating. First, information was given about the minimum wage, low pay, youth employment and the retail trade, part of which is presented here. This was followed by a discussion about the effects of youth minimum wages on the youth labour market and the quality of retail-trade employment and the views of the different parties present at the meeting.

The long tail has two important implications: relatively strong wage increases occur as young people age by one year and shift to the next-higher youth minimum wage, and levels of pay are low in an absolute sense. The former can stimulate mutual wage competition between youths of different ages – employers may feel tempted to reduce labour costs by substituting the youngest teenagers for the somewhat older youths, say the 19 to 22 year olds. One evident implication is a lack of incentives for on-the-job training for both employees and employers as for the former there is no clear reward of experience and increased ability while the latter can easily substitute older, more expensive youths by much cheaper cohorts. According to the unions, the fact that a newly hired person one year older will receive a higher wage in spite of having less experience is considered unfair by employees. Second, the absolutely low levels of the wages can affect labour supply and labour demand as well. On the demand side, low wages stimulate the labour intensity of demand because of its cheapness and diminish the stimulus for increasing the labour productivity of production as investments become relatively expensive. On the labour supply side, low pay may make employment less attractive to potential workers both against other industries with better pay and participation in education or even non-employment. Though this situation may indeed stimulate young people to stay longer in education instead of opting for paid work – one of the three arguments put forward for the current system by the Ministry – it may also discourage the human-capital investment needed for jobs that do start at the youth minimum-wage level (for example, vocational education for retail sales jobs)³⁶. In addition, the fact that the wage level is low may reinforce the trend towards the supply of labour on a part-time basis because of the higher, more favourable take-home pay ratio for small jobs which results from the progressive tax system which charges the lower part-time income relatively less (see next case study). It induces a shift in labour supply towards categories of workers who primarily seek additional income (e.g. students with a grant or second earners in a household³⁷) and do not need a

36 Compare Salverda et al (2008), 95 ff.

37 See Salverda et al. (2008) for further analysis of this labour market competition, including the more favourable starting point for student competitors because of the grant system.

full income from labour for their living. Taken together these effects can give rise to a vicious circle of casual labour leading, on the one hand, to a deprofessionalisation of the work force which negatively affects the quality of production and, ultimately, also product demand, and, on the other hand, to an increased volatility of the work force, which diminishes the appeal of the working environment.

At the seminar, worries about the potential effects of the predominance of casual labour were shared by the three parties, albeit to different degrees. The possible negative effects on human capital investment were acknowledged by experts and unions in particular. It is becoming increasingly difficult to find full-time employment that would be a proper reward for low-level but adequate educational attainment and thus to find the starting point of the corresponding labour market career. The employers pointed to increasing efforts in on-the-job training to encourage attachment to the firm and the trade, and also mentioned being unable to find youths willing to work shifts on a full-time basis, for reasons they did not understand. Second, unions stressed the unfair treatment of experience as a result of the significant year-on-year changes imposed by the youth minimum wage. In their view the link between job level and wage level – a normal feature of any employment relationship above the age of 22 – is absent below the age of 23 as a consequence of youth minimum wages. Third, the employer side worried about the resulting high turnover of personnel, citing an establishment where it was over 100 per cent in a year. Unions endorsed that worry but blamed it on the unattractiveness of work other than as a casual job. The seminar concluded to the desirability of introducing elements of experience rating in the wage structure aimed at superseding the effects of the increases of the youth minimum wage which are based solely on age ignoring experience. Thus the role of the youth minimum wage would be diminished.

Soon afterwards a new collective labour agreement for supermarkets was concluded by employers and unions which took some first steps away from the purely age-based system inspired by the youth minimum wages towards some experience rating for 18- and 19-year olds to improve career prospects and fairness. In addition, the social partners agreed to consider the innovative developments in the sector and the future treatment of young employees in more detail during the two-year duration of the new contract. This amounts to a break from the current Dutch structure of youth minimum wages by the most important sector for youth employment. It seems to suggest that the Dutch long-tailed approach provides a good example of trade-offs between minimum wage short-run and long-term effects, between more and better jobs, in the European debate on the minimum

wage. Unsurprisingly, the recently introduced minimum wages in the UK and Ireland chose not to copy the Dutch treatment of young workers³⁸ and let the youth minimum diverge much less from the adult rate.

The case study serves to show how the Dutch minimum wage system has stuck to very low wages for young workers for several decades and how gradually unions and employers in the industries most affected are beginning to realise the downside for motivating young workers and innovating their own business. While eventual EU policy making will certainly pay special attention to the treatment of young workers a long tail of low wages seems a dead alley for both employees and employers. The special treatment should preferably aim at a very modest youth differential and pay attention to its effects on fairness and innovative HR practices and therefore perhaps allow a young worker's movement to the adult rate on the basis of individual experience and productivity.

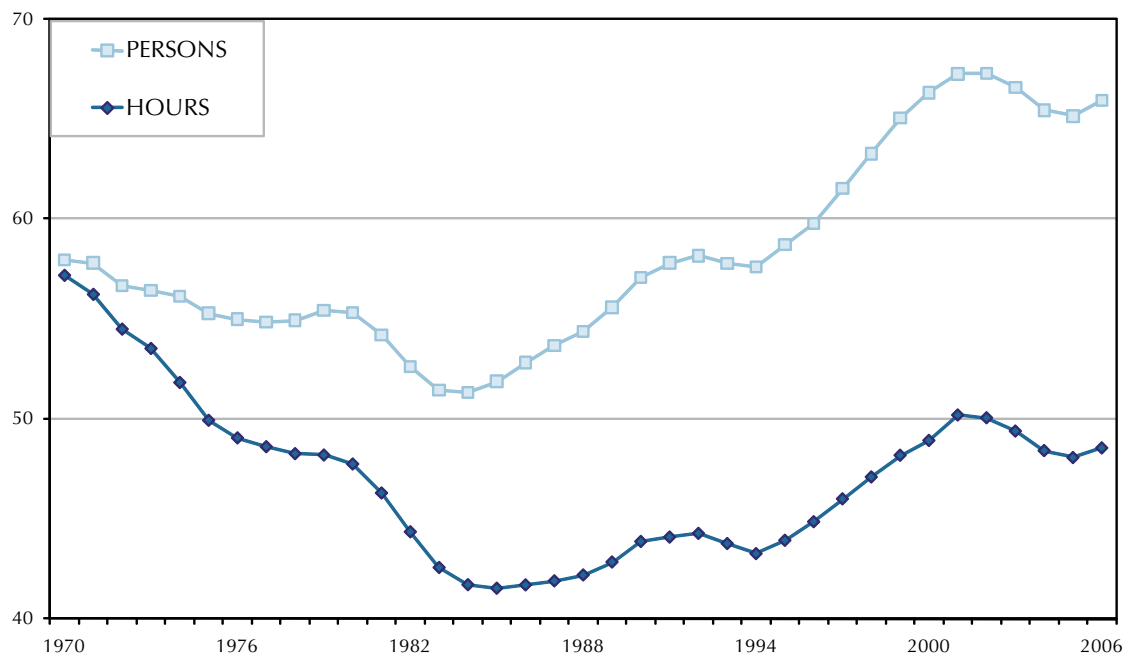
5.2. Case study 2: The part-time trap of taxation at the minimum wage

The country of part-time: what overlap with the minimum wage?

The Netherlands is known for its very high rate of part-time employment: 'the first part-time economy in the world' (Richard Freeman). As various other countries and also the European Union as a whole via its Lisbon Agenda are trying to stimulate the growth of part-time jobs, it is worth probing deeper into the relationship between working part-time and the minimum wage.

38 Compare Salverda (2000).

Figure 15: Head-count and hours-count employees–population rates, 1970–2005



Note: Over working-age population 15–64 years.

Source: Calculated from CPB, 2006, Table A.7, keeping annual full-time hours at 1840.

Dutch part-time employment has evolved rapidly: since the 1970s basically all additional jobs have been part-time. This has gone hand in hand with an equally impressive increase in adult female employment. Since the mid-1990s a larger share of the population has been employed than ever before (Figure 15). However, in terms of hours worked the growth of employment has been strikingly different. After 1970 15 years of continuous decline were followed after 1985 by another 15 years of growth up to a full-time equivalent employment–population ratio of about 50 per cent. By 2001 this growth had made up for only half the preceding decline and it was followed by a new decrease that brought 2005 back to the level of 1979.

The persons/hours distinction is important in general, but it is even more important for the lower end of the Dutch labour market where minimum-wage jobs and low pay are found. Figure 16, left-hand part, shows that the incidence of the minimum wage decreases rapidly with the length of the working week. Of those working fewer than 12 hours one third are paid the minimum on an hourly basis and that group makes up almost 40 per cent of all minimum-wage earners. Conversely,

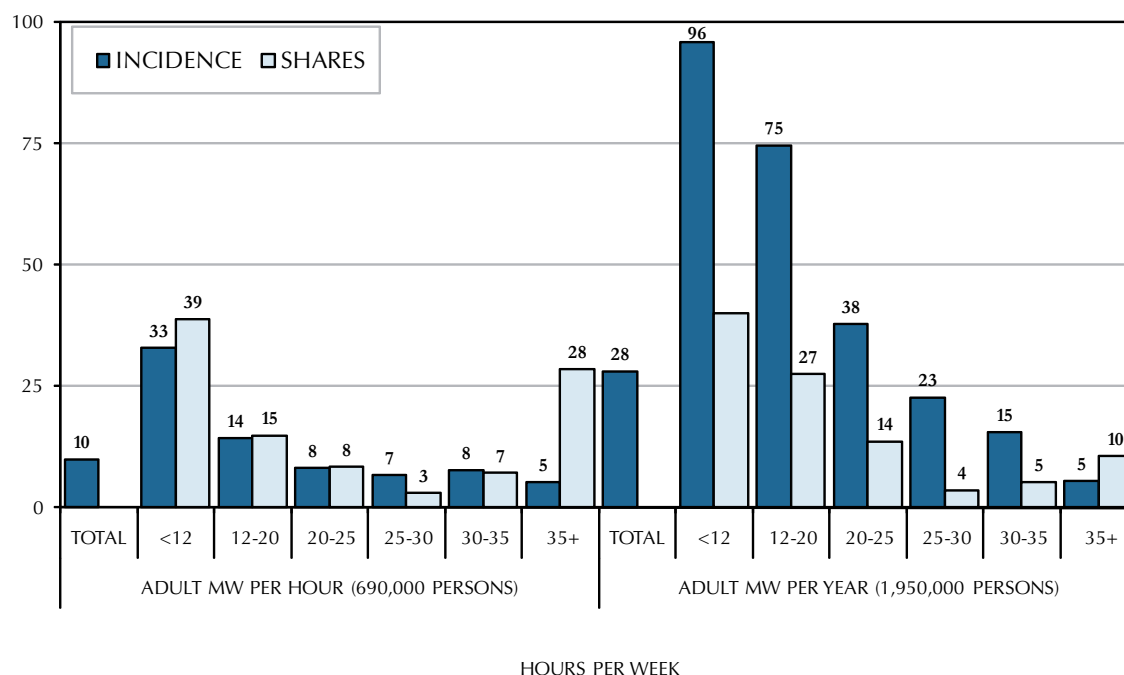
among those working full time, only 5 per cent are paid at the minimum wage, and they make up 28 per cent of minimum wage earners.³⁹

The right-hand part of the figure indicates the implications of both working shorter hours and being paid the minimum wage on the basis of annual earnings. Now a much larger share of employees (1.95 as against 0.7 million employees, or 28 per cent as against 10 per cent of all employees⁴⁰), earn at or below the minimum, including virtually all workers in the smallest jobs (94 per cent). All part-time workers taken together – defined as persons working fewer than 35 hours a week – make up some 70 per cent of minimum-wage earners by the hour and 90 per cent of them by the year. In other words, the present-day minimum wage is almost entirely a part-time affair. As we have seen, the current share of 70 per cent contrasts strongly with the 25 per cent level of 1979. Virtually the same trend has occurred in low-wage employment (Salverda et al., 2008). Clearly, this ‘part-time-isation’ of low-wage jobs and labour supply to these jobs makes it increasingly difficult for low-skilled school-leavers and unemployed to find the full-time employment that would be needed to generate sufficient income for a living.

39 For a further discussion see Salverda et al. (2008).

40 An estimated 16 per cent of all hours worked on an annual basis.

Figure 16: Minimum-wage incidence among employees and working hours shares among minimum-wage employees, head count, 2005 (per hour and year)



Sources: Author's own calculations based on Statistics Netherlands / Statline: minimum-wage and structure of earnings statistics.

The stimulus of net pay in part-time employment

Apparently, there are stimuli for working part-time.⁴¹ A full study is outside the scope of this contribution but would comprise the competitive behaviour in the labour market of the supply of students and second earners in households already receiving a living wage. Here we focus on a relatively recent policy development that hinges on the central role of the net minimum wage in the Dutch system of social security. On the net–gross dimension it is important to realise, especially in relation to part-time employment, how taxation and social contributions affect the take-home pay in the earnings range below the minimum wage.

Income tax and obligatory, national social contributions⁴² evolve differently over the wage distribution – tax rates increase with income, but contributions have constant rates and are paid up to a certain income threshold only – but the two have become increasingly intertwined. The contributions to national social insurance (old-age pension,⁴³ widows/orphans scheme, substantial health

41 See Taner and Hendrix (2007) for a detailed treatment of the Dutch poverty trap, including a part-time trap.

42 Note that employee social security contributions (unemployment, disability) are kept separate.

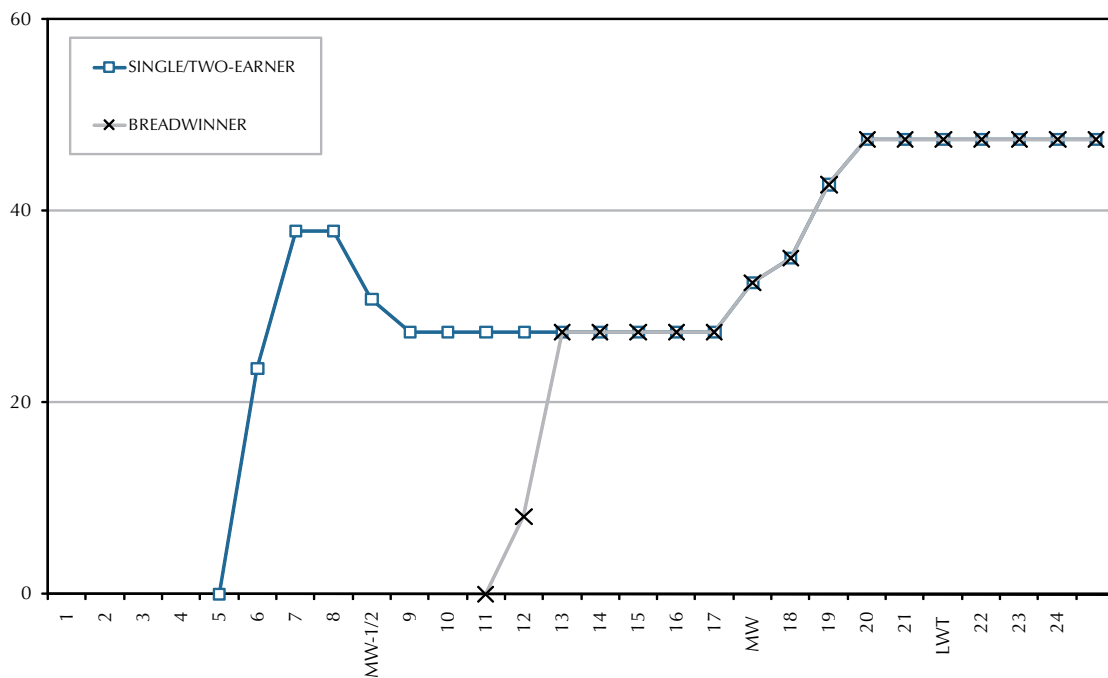
43 Note that one qualifies for national social security regardless of contributions made or not. After a life of low income because of part-time work one will still be entitled to receive the full state old-age pension AOW.

care costs) have been effectively integrated into the structure of income taxation. Taxation of low incomes is only 2.45 per cent of taxable income but at the same time the national insurance contributions at that level amount to 31.15 per cent.

As in other countries the progressive nature of income taxation is a general factor that helps to understand the popularity of part-time jobs because net earnings decline less than proportionally with gross earnings at shorter working hours compared to longer hours. A specific Dutch factor is that the current system of income taxation comprises several tax credits that are of equal monetary value to every tax payer. The most important of these, the General Tax Credit (maximum €2074), is deductible for all taxpayers. It is also important that the tax credit can actually be paid by the tax authorities to the partner in a household with no or a very low own income (less than €6172).⁴⁴ This implies that on the first €6172 of earnings no tax is paid – as already mentioned for the lowest youth minimum wages. In a sense, this is a generalisation of the German mini-jobs but without the disadvantages that the occupants of those jobs acquire no social-benefit entitlements or that permission for creating the job is needed from the tax authorities. In addition, the Labour Tax Credit phases in (maximum €1443) with the increase of earnings up to the level of about the adult minimum wage (€19,000). This is done in a specific fashion: for earnings up to half the minimum wage the credit is very low (1.758 per cent), while for the second half up to the full minimum wage it is 12.43 per cent. The existence of this credit and the nature of its phasing are intended to benefit paid work over social benefits. This seems an attempt to get around the equation of the net minimum wage with net minimum social benefits, which has been at the core of the Dutch social policy model since the 1970s, to allow an increase in net income when moving from benefit to employment.

44 Maximum payment is €2074 or the tax paid by the earning partner if that is less. This practice will be discontinued in future.

Figure 17: Marginal tax rates by level of annual earnings, individual single and dual earners versus breadwinner-earners in couples, 2007 (% of additional income)



Notes: Rate for income tax including national social-security contributions (to the state pension and the widow(er)s and orphans scheme which are integrated in the tax system) and compulsory health insurance (ZVW), but before contributions to employee social insurance, pensions and early retirement. The presence of children is disregarded.

MW-1/2 = 50% of MW, MW = minimum wage, LPT = low-pay threshold.

Source: Author's own calculations based on tax data.

Taken together these factors significantly affect take-home pay and marginal tax rates for the low paid, especially between half the minimum wage and the low-pay threshold of two thirds of median earnings, which is situated between € 21,000 and 22,000 annually. Figure 17 indicates outcomes up to an earnings level of € 25,000 for individual earners who do not share a household or, as a dual earner, share it with a partner with sufficient own earnings on the one hand, and traditional single breadwinners with a non-earning partner on the other hand. It shows marginal rates which are clearly lower in the range from 50% to 100% of the minimum wage, when it starts to rise sharply, doubling up to the level of low pay. This led to a lower marginal tax rate than before below the minimum wage⁴⁵ but

45 Note that the introduction and increase of the Labour Tax Credit has helped the purchasing power of the net minimum wage to slightly increase in recent years in spite of the freeze of the gross minimum wage between July 2003 and January 2006.

also to a strongly and further increasing marginal rate over earnings right above the minimum wage on an annual basis.⁴⁶

For the labour supply of individual workers this situation seems to bring about a ‘part-time trap’. It is important to realise that this effect will be felt at higher job levels and higher levels of hourly as it gives people an incentive to work part-time with the effect of keeping annual earnings below the minimum wage. As we have seen more than 28 per cent of all employees earn less than the minimum wage annually, in stark contrast to the much lower percentage of employees of only 4 per cent who actually earn the (age-related) minimum wage on an hourly basis, or for that matter the 10 per cent who earn less than the hourly adult minimum wage. The latter two statistics grossly underestimate the significance of the minimum wage for labour incomes in the Netherlands that results from low numbers of hours on the job and the concomitant low level of annual earnings.

Contributions to social security are more complicated to envisage than the income-tax effects because they are basically levied on the hourly wage and not the annual total, and also because they differ somewhat between sectors of the economy. The employee pays 3.5 per cent for Unemployment Insurance while total employer contributions vary around 19.7 per cent for disability insurance, unemployment insurance, child care and health care insurance (the 7.2 per cent already mentioned) together. All such contributions are levied up to a maximum level of earnings which is well above the minimum wage. Importantly, employer UI contributions are not levied over the first €16,000. Consequently, not far below the full minimum wage employer contributions jump from 14.9 to 19.7 per cent. In addition, employers contribute significantly to occupational pensions. However, these contributions are normally not levied below the minimum wage (on an hourly basis) as these pensions factor in the state old-age pension corresponding to that minimum and exempt earnings up to that level. This adds a part-time trap on the labour demand side to that of supply.

The conclusion from this is that the minimum wage has a much broader significance for labour inputs into the economy than its level as an hourly wage would suggest. This stimulates working part-time employment in itself (at higher levels of pay) but also reinforces part-time work in the low-wage labour market. For hourly labour costs it may be cheaper to pay workers above the (hourly) minimum

46 Employee social security contributions such as for UI, for which earnings up to about the minimum wage are exempted, reinforce this increase and so do obligatory pension contributions which also have an exemption up to the minimum wage.

wage as long as they work part-time than to hire a full-time employee paid at or above the minimum wage. The rapidly growing overlap between minimum-wage and low-wage employment and part-time employment negatively affects the chances of low-skilled workers of finding adequate employment with sufficient working hours to have decent wage. Basically, the relevance of the Dutch minimum wage is now mainly restricted to part-time employment.

The important implication for the European minimum-wage debate is that this should not focus exclusively on the formal minimum wage, its level and employment incidence, but should take into account the context of income taxation and social contributions and consider not only the number of employees working at the minimum wage but also the number of hours worked. The rationale of a minimum wage is to ensure a ‘living wage’ for full-time hours, not only an additional income for part-time hours, and its level together with the tax treatment should be seen in that perspective. A second, more indirect lesson is that linking the (net) minimum wage to public finance and social security can generate unexpected problems which are difficult to solve.

6. Conclusions

We have found a very strong absolute and relative decline in the Dutch minimum wage, a long tail of youth minimum wages down to very low levels of wages, and a strong and still increasing restriction of minimum wage jobs to part-time employment. Fundamentally, it seems to show that the Dutch minimum wage has undergone the effects of long years of wage moderation more strongly than wage levels higher up the distribution and has effectively lost its role as a bottom to wage formation.

A possible European drive towards a more uniform approach would first single out the very long tail of Dutch youth minimum wages as deviating too strongly from the situation in other countries. It is significant that the minimum wages recently introduced in the UK and Ireland have not adopted such a tail. A European view of the treatment of youth would more likely affect the Dutch situation than the other way around.

Second, the Dutch experience could inspire the European debate to pay attention to the relationship between the minimum wage and working part-time. Plausibly, it would not help the expansion of part-time employment, advocated as part of the European employment strategy and the Lisbon targets, if part-time jobs were seen as second rate when the level of a country's minimum wage tended to decline because of a linkage to such jobs and as a result became insufficient and inconsequential for full-time employees. Naturally, such a link would not be explicit in policy making because of its discriminatory effects but it would become apparent in labour market practice as it does in the Netherlands. One important implication of this chapter is that it is advisable to consider the minimum wage not only as a gross amount in the distribution of wages but also in relation to income taxation of wages below and just above the minimum wage.

Third, the strong decline of the Dutch minimum wage in terms of both purchasing power and relative position in the wage distribution throws up the question of how the uprating issue can be dealt with in the European debate. If a certain level of the minimum wage were commonly agreed,

regardless of whether it was absolute or relative, what would the Members States' leeway be for changing this over time?

Finally, it seems advisable to keep the European discussion focused on the minimum wage as a labour market instrument in its own right and to disregard possible institutional linkages to social security. This includes paying attention to the effects at somewhat higher levels of pay up to, say, the low-pay threshold. An evolution (read decline) of the minimum wage that goes together with an unchanged level of low-wage employment – as in the US – no longer provides an effective bottom to wage formation.

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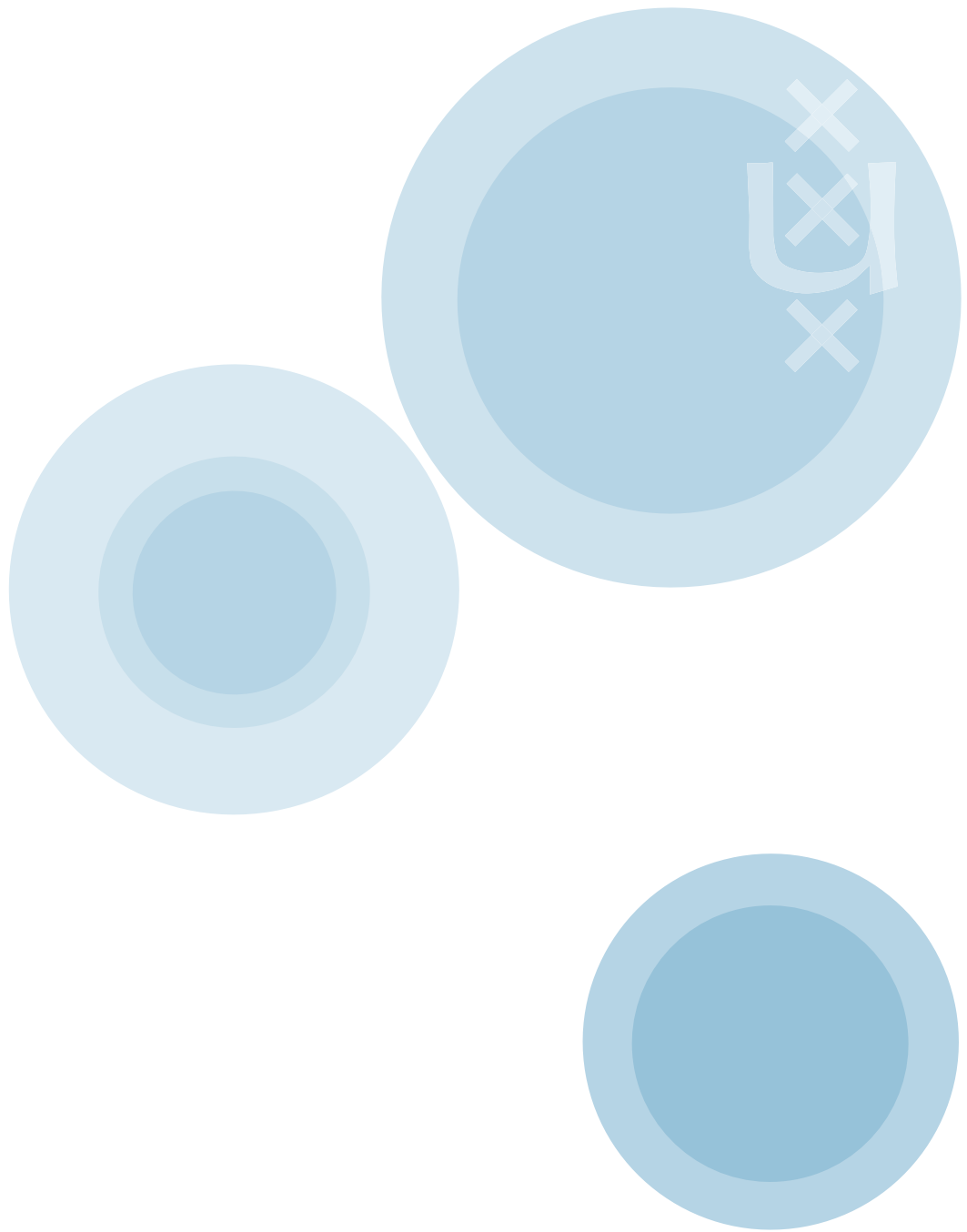
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