10. The Netherlands: Minimum wage fall shifts focus to part-time jobs

Wiemer Salverda

10.1 INTRODUCTION

The minimum wage and its context in the Netherlands have a number of special features that will crop up repeatedly 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 – coupled 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 insurance (WW) and disability insurance (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 in terms of public finance. This has resulted in a steep, policy-driven decline in the purchasing power of the minimum wage and its relative position in the wage distribution – which has practically put an end to its role in providing a floor for wage formation – and in complicated policy measures aimed at improving the income effects of paid work over and above social benefits. The sharp 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 of the Dutch situation.

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 wage formation in the Netherlands and relates to the evolution of in-work poverty. The Dutch context is one of very strong growth in head-count employment, which has rapidly made the country the world champion of part-time employment. Between 1983 and 2006, the number of people 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 total employment grew from 21 per cent to a record high of 45 per cent. 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 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.

Section 10.2 considers the Dutch system of minimum wages and Section 10.3 focuses on the evolution of the minimum wage, comparing this to the evolution of wages in general. Section 10.4 discusses five potential effects of the minimum wage: on poverty, wage inequality, employment, wage bargaining and social dumping. In Section 10.5, 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 case study on the relationship between the minimum wage, working part-time and income taxation. Section 10.6 discusses possible conclusions for the European debate on the minimum wage, to which this chapter aims to contribute.

10.2 RULES FOR FIXING THE MINIMUM WAGE AND ITS COVERAGE

10.2.1 Current basics of the Dutch minimum wage

Averaged over 2008 the minimum wage for people aged 23 and over ("adults") amounts to €311 per week, gross, or about €266 net after tax and employees' social contributions. Employees aged 15–22 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 10.1). The Netherlands is unique in having such a long tail of youth minimum wages. Owing to the tax system the net youth minimum wage up to the age of 17 virtually equals the gross wage, even if working full-time.

In addition to the above amounts employees are entitled to receive from their employers the minimum annual holiday allowance of 8 per cent of gross annual earnings and a 7.2 per cent reimbursement of the obligatory health-care contribution, both of which are subject to income tax. In other words, on

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.
2. Compare Salverda et al. (2008). "Low pay" is defined as below two-thirds of the hourly median wage.
3. Contributions may differ between industries. Until recently, health-care insurance for employees who earned up to a certain earnings threshold was included, as a percentage of earnings up to a threshold, but, as of 2006, this has been generalized 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.
Table 10.1 Minimum wages by age, €/week and percentage of the adult minimum wage, the Netherlands, 2008

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

Source: Ministry of Social Affairs and Employment.

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 United States or the United Kingdom. Rather, 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 minimum wage applies, pro rata, to part-time workers. The minimum wage formally includes all regular payments, such as those 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 for example; these must be paid on top of the minimum wage. Employer contributions are added to the above gross amount to arrive at gross labour costs.8

10.2.2 Introduction and extensions

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 approved by government-appointed officials. This approval included an explicit check on the minimum income

6. Contributions paid to occupational pensions and some social insurance contributions are tax exempt and tax deductible. However, these differ between industries and remain 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, due to possible employment spikes at the minimum wages.

8. Many contributions – for example, to occupational pensions – have a franchise roughly equal to the minimum wage.
that would be available to a full-time, unskilled breadwinner and their family. 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”, which was agreed in 1945. This mechanism of wage control led to an extended period of wage moderation, which collapsed in a wave of strikes for wage increases when the boom of the early 1960s reduced unemployment 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 wage was still intended to cover the household breadwinner. Government action followed in 1969, when a statutory minimum wage was established by law, applying to all employees aged 24 and over, both male and female, irrespective of their household position. It should be noted, however, that adult female employment participation was still low at that time. Also, the statutory minimum wage applied only to those working at least one-third of normal working hours. It was not until 1993 that this last condition was dropped, due to its discriminatory effect on female employees.

Soon after 1969 the age threshold was lowered to the present 23 years – the “adult (statutory) minimum wage” – and finally, in 1974, the minimum wage was extended to young employees by way of the famous long tail of Dutch youth minimum wages, despite sustained opposition on the part of the employers, who feared increasing labour costs. Three arguments are currently given for this tail:9 first, young workers are less experienced and trained and have lower productivity, second, 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 development 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 that the adult age be raised to 27.

Therefore, 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, albeit 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 (covering unemployment, illness and disability) was gradually established for employees, as were social provisions for the population in general (old-age pension and 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, no fewer than 55 years after the United States introduced the universal federal minimum wage in 1938 a legal entitlement to a minimum wage of some sort came into force in 1993, covering all individuals employed on a labour contract, irrespective of age, gender, household position, type of contract or number of weekly working hours – so extending the minimum wage to part-time jobs – and the minimum wage has developed its pivotal role in Dutch public expenditure owing to the coupling with minimum social benefits.

10.2.3 Uprating and endorsement

With the legal introduction of the statutory minimum wage in 1969, a mechanism was established for a biannual uprating of the minimum wage and a four-yearly special revision, which is still in force despite the fact that, after 1979, it was frequently not enforced under 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 state old age pension, while “actives” are all those in employment, including the self-employed, 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, thereby increasing public expenditure related to social security.

The uprating mechanism links the minimum wage to the evolution of negotiated (through CLA) wages (not actual individual earnings10), albeit with a time lag. In principle, this legal mechanism frees the level of the minimum wage from political influence, in contrast to the situation in the United States where the increases are less frequent but, if adopted, often sizeable or France,  

10. Actual earnings differ due to “wage drift”, when people are paid above negotiated wages or become differently distributed over the grid of negotiated wages. See Salverda (2008) for further details.
where political decisions – for example, on the occasion of general elections – frequently spark special increases over and above the normal uprating. However, in practice, the Dutch minimum wage has also been very sensitive to political decision-making. Under special legislation it was nominally lowered in the early 1980s (once for adults and several times for young people)\(^\text{11}\) 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 most recent 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 minimum wage as a policy instrument, since the government hoped that the trade unions would adopt a similar freeze for all wages.

The minimum wage is not legally enforced by an inspectorate as it is, for example, in the United Kingdom; instead, an underpaid employee has to take their employer to court to demand the outstanding payment.\(^\text{12}\) Although the minimum wage is not legally enforced, the Labour Inspectorate regularly investigates underpayment. In 2006, it found underpayment in 0.3 per cent of cases of employees in enterprises to an average amount of 9 per cent of the relevant minimum wage (SZW-Al, 2008).\(^\text{13}\) Young people and employees under mandatory extension or in smaller firms are more likely to be underpaid.

### 10.2.4 Coverage

Since the statutory minimum wage was extended, first in 1974, to young employees and later, in 1993, to employees in small, part-time jobs, the minimum wage has provided full legal coverage for all employees. The most recent available data on the 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 15–64 years is shown in Table 10.2.\(^\text{14}\) A total of 4 per cent of all employees earn the minimum wage. The percentages are based, first, on the age-dependent levels of the minimum wage and, second, on 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 specific data in accordance with the legally important threshold age of 23 years. It is clear, however, that the incidence of youths (12.8 per cent) is more than five times higher than that of

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\(^{11}\) The graduation rules were changed, widening the original range (40–92.5 per cent) of 1974.

\(^{12}\) The Labour Inspectorate may advise employers to change their practices if they come across a case of payment below the minimum wage.

\(^{13}\) Underpayment amounted to 1.1 per cent in 2001 and 0.6 per cent in 2004.

\(^{14}\) Some 5,000 minimum wage employees are aged 65 and over.
### Table 10.2 Demographic characteristics of minimum wage earners, the Netherlands, 2005 (%)

<table>
<thead>
<tr>
<th></th>
<th>% of minimum wage earners</th>
<th>% of employees in category</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Men</td>
</tr>
<tr>
<td><strong>15–64</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>full-time</td>
<td>100</td>
<td>44</td>
</tr>
<tr>
<td>part-time</td>
<td></td>
<td>46</td>
</tr>
<tr>
<td>flexible</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td><strong>15–24</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>full-time</td>
<td>49</td>
<td>22</td>
</tr>
<tr>
<td>part-time</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>flexible</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td><strong>15–19</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23</td>
<td>10</td>
</tr>
<tr>
<td><strong>20–24</strong></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td><strong>25–64</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>51</td>
<td>22</td>
</tr>
<tr>
<td>full-time</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>part-time</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>flexible</td>
<td></td>
<td>10</td>
</tr>
</tbody>
</table>

**Note:** Earnings at or below the minimum wage. Due to rounding, breakdowns do not always add up exactly to totals.

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

Adults (2.4 per cent), while the incidence of teenagers (16.8 per cent) is seven times higher. As those up to 25 years of age 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 who are 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 in comparison to men, while they are relatively more substantial among adults (63 per cent).

Full-time workers make up only about one-quarter of all minimum wage workers, far fewer 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 is the case with youths, there is relatively little difference between flexible and part-time workers.

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

15. This source covers private enterprise only and gives a much lower average incidence (1.9%) than shown in Table 10.1, which is a worrying factor for statistical reliability.
10.3 A MINIMUM WAGE AND WAGE EROSION COMPARABLE TO THE UNITED STATES?

10.3.1 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 sevenfold to its 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 3 per cent in 1984 and freezes during ten out of the subsequent 24 years on the other hand. As a result, the minimum wage first increased faster than (consumer) prices\textsuperscript{16} until the end of the 1970s, but has since lagged well behind both prices and other wages.

Figure 10.1 depicts the evolution of both the adult minimum wage and the average minimum wage, which also takes youth minimum wages into account.\textsuperscript{17} Most of the decline is concentrated in the first half of the 1980s, but it has persisted at a slower rate during most of the years since 1985. After 1995, the real minimum wage first increased by 4 per cent in total, from €287 to €299 in

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure101.png}
\caption{Real minimum wages, € per week of 2005, the Netherlands, 1964–2008}
\end{figure}

\textit{Note:} Annual averages, excluding annual holiday allowance, and so on.

\textit{Source:} Author's calculations based on Statistics Netherlands: minimum wage and price statistics and Ministry of Social Affairs and Employment.

\textsuperscript{16} The issue of deflation of wages by rises in product prices is analysed below.

\textsuperscript{17} Using weights of the age distribution (individual years 15–22, and over 23) of minimum wage earners in 1979.
2003, but subsequently fell back to approximately the 1995 level. As no specific measures were taken with regard to youth minimum wages during these later years their development ran parallel to the adult rate.

On balance, the minimum wage has fallen in real terms by 20 per cent for adults and 27 per cent for all wage earners since the end of the 1970s. Notably, the latter decline has matched that of the US Federal minimum wage, which has a single value for all ages, in contrast to the Dutch minimum wage. The Dutch coupling to minimum benefits implies that those benefits have undergone the same decline.18 However, for minimum wage workers the decline concerns the weekly or monthly amount. Although this does not make a difference to the income received by the 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.

10.3.2 Comparison to other wages: behind negotiated 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 10.2 indicates, minimum wages and negotiated wages moved upward in tandem during the

![Figure 10.2 Negotiated wages in the private and public sectors and minimum wages (MW), the Netherlands, 1957–2008 (deflated, 1979 = 100)](image)

*Note:* Defined on a weekly/monthly basis.


18. Only the old-age pension has developed slightly more favourably because of special measures.
1960s and 1970s, but both have lagged behind prices since and simultaneously have started to diverge markedly from one another. The minimum wage deviated particularly from negotiated wages in private enterprise for a protracted period, up to 1997. After 1979, public-sector negotiated wages,\textsuperscript{19} by contrast, fell even more sharply 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 familiar aspect\textsuperscript{20} of the well-known Wassenaar Accord of 1982, which was concluded by unions and employers under pressure from the government. It served to lower public expenditure and thus to mitigate the moderation of after-tax wages. On balance, between 1979 and 2008, the adult minimum wage lagged 20 per cent behind the private-sector average of CLA wages, with the greater part of the decline taking place before 1995, as only just over 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 still further from minimum wages.

According to Figure 10.3, while the adult minimum wage was equivalent to about 64 per cent of average earnings in 1979, this proportion had declined (by one-quarter) to 48 per cent by 2005.\textsuperscript{21} The decline was faster (by 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 closely 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 higher in the United States than in the Netherlands (compare Atkinson and Piketty, 2007). Figure 10.4 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 42–43 per cent of the respective median.

\textsuperscript{19} These underwent the same process of nominal lowering by 3 per cent in 1984 and freezing for many years.

\textsuperscript{20} Compared to wage moderation in general.

\textsuperscript{21} Median earnings – considered further in Section 10.4.2 – appear to be 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).
Figure 10.3 Minimum wage (MW) (adult and weighted for all ages) as a percentage of average wage, the Netherlands and the United States, 1979–2005

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

Figure 10.4 Minimum wage (MW) (adult and weighted for all ages) as a percentage of median wage, the Netherlands and the United States, 1979–2005

Source: Author’s estimations based on Statistics Netherlands, Structure of Earnings Surveys (full-time equivalent based), and EPI, State of Working America 2006/2007.
10.4 EFFECTS OF THE MINIMUM WAGE

The minimum wage can affect not only different aspects of the economy, for example, wages, incomes and employment, but also educational attainment and productivity. There is an extensive literature, particularly on employment effects, and this chapter can only touch on 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 effect the minimum wage may have on each aspect, positively or negatively.

10.4.1 Poverty: the growth of low-paid workers

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 not only the needs but also the possible incomes of the other members of the household. An example may illustrate this: the extensive 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 US$5 (or about the level of the Federal minimum wage) for a single, unrelated individual at one end to almost US$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 – which applies to adult couples,23 while singles are entitled to 70 per cent of that minimum and single parents to 90 per cent – is intended to keep minimum wage earners out of poverty by definition, according to Dutch social policy. That policy has taken little account of the steep decline in the purchasing power of the minimum wage, as shown in Figure 10.1.24 Of course, this applies only if the minimum wage is applicable in the first place (which, naturally, is not the

22. Data available at www.census.gov/hhes/www/poverty/threshld/thresh06.html [accessed 24 June 2009]. BLS poverty thresholds in 2006; assuming one earner putting in 2,000 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, but has since lagged behind by 30 per cent.
23. The coupling therefore creates a poverty trap for two-adult households which move from benefits to work at the minimum wage.
24. The strong growth of two-earner households and of occupational pensions, which top up the state pension, may help to explain the absence of political action in this respect.
case for the self-employed), is earned on a full-time basis per annum and is received by a household comprising just two adults. Apparently, even taking these measures into account, poverty is not nil but rather a slightly declining proportion of 6 to 8 per cent of the population. However, the most frequently used European measure of poverty of 60 per cent of equivalized median disposable household income, indicates a significantly higher and virtually unchanged level of 10 per cent. 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 began to bite), is found to generate a similar fraction.

Poverty in work is non-trivial, amounting to 310,000 people in 2005, following the low-income definition. More than 4 per cent of all people in employment aged between 21 and 64 are working poor (Vrooman et al., 2007: 79). This implies a doubling of the number in the early 1990s, most of this growth being concentrated in the first half of the 1990s (see Figure 10.5). The role of the self-employed – of which the Netherlands has a relatively high proportion – 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 high profile in in-work poverty. In addition, part-time work
The minimum wage revisited in the enlarged EU

considered in more detail below — plays an important role, as almost half of the working poor were in part-time employment in 2005 (ibid.). The figure also indicates that the working poor now make up 23 per cent of all those 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 equivalized 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 classified as working poor either due to low hourly pay or because of limited working hours. Case study 2 discusses how the tax system encourages people to keep annual earnings below the minimum wage and thus increases the risk of poverty.

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

10.4.2 Wage disparity widening alongside minimum wage decline

Figure 10.6 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 6 per cent difference to the 4 per cent share of all people earning their age-specific minimum wage that was noted earlier (Table 10.2). 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 shown in Figures 10.3 and 10.4. Figure 10.7 shows the evolution of

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

28. Note the earlier caveat about variation in hourly minimum wages depending on CLA. Here an average is used.
Figure 10.6 Distribution of hourly wage earnings and the minimum wage, the Netherlands, 2005 (number of workers, thousands)

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 10.7 Deciles of hourly wage earnings and the adult minimum wage, the Netherlands, 1979–2005 (£ per hour, 2005 prices)

Note: This analysis 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 10.2.

29. Note that the formal variation in hourly minimum wages depending on CLA already mentioned. Here an average is used.
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 upwards: 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.

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 a 17 per cent decline in purchasing power, the effects might have been similar as the first decile of the wage distribution retained its value. More importantly, the implication may simply be that the minimum wage has lost its significance for wage determination. Or, as the Central Planning Bureau (CPB), the government’s main advisory body, 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 much further up the wage distribution and wage inequality would have changed to a lesser degree, or possibly remained unchanged. The next section returns to this issue, in its discussion of employment.

The Netherlands has been practising wage moderation since the early 1980s. In particular, wages have lagged behind the growth of productivity, to a greater extent than behind the rise in prices, as Figure 10.7 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 to keeping pace. As a result, the labour share of value added has declined substantially, from 64 per cent of GDP in 1979 to 56 per cent in 1985 with only small fluctuations since, reaching 56 per cent in 2005.30 This took place in spite of potentially upward

30. Calculated from EU-KLEMS database. The frequently used labour share adjusted for self-employment is ignored as it disregards the often stronger concentration of the self-employed in low-paying industries.
effects of the significant growth in employment rates among the population and the decline in self-employment, both of which would 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 10.3), 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 (particularly, 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 United States (EU-KLEMS, 2008). Clearly, the growth of low-wage employment partly reflects wage policies, including the lowering of the minimum wage, which have not allowed productivity gains to be sufficiently translated into higher actual earnings.

10.4.3 Employment: low pay–better pay trade-off

Decline of minimum wage employment

The importance of minimum wage employment has declined significantly in recent decades. The incidence of age-specific minimum wages decreased significantly, from 8.3 per cent to 2.1 per cent of all employees between 1976 and 1992 (see Figure 10.8). The legal extension of the minimum wage to small, part-time jobs in 1993 and some policy pressures, which are 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 past ten 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 are paid above their age-specific minimum wage but below the adult rate.

Figure 10.8 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,31 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

31. Data relate to workers paid by the hour only, who make up a virtually steady 60 per cent of all US employees.
The minimum wage revisited in the enlarged EU

Figure 10.8 Incidence of minimum wages (MW), the Netherlands and the United States, 1979–2005 (% of employees)

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

The United States has no age-specific rates and, on the other hand, its relative level is below the Dutch adult minimum wage. The weighted average of Dutch minimum wages, which has a relative position close to that of the United States, reveals an estimated incidence of 5.7 per cent, still higher than, but much closer to, the US incidence.

Figure 10.9 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, from the early 1990s onwards, their share has rapidly declined to not much more than one-third. 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 proportion of these workers are also youths, whose share declined. Finally, the part-time share is continuously increasing, with an apparent jump when small, part-time jobs were first covered by the minimum wage in 1993. However, that change hardly affected the gender and age divisions.
Figure 10.9 Characteristics of age-specific minimum wage employees, the Netherlands, 1974–2005 (%)

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

*Sources:* Author’s calculations based on Statistics Netherlands: minimum wage and structure of earnings statistics.

Figure 10.10 Incidence of age-specific minimum wages among employees by age and gender, the Netherlands, 1970–2005 (% of employees in category)


*Sources:* Author’s 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 10.10). 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 between 12 and 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.

**Employment drift 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 already observed. Figure 10.11, panel A, brings the latter together with the relative position of the minimum wage in the distribution and the 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 Figure 10.11, panel B. Changing the minimum wage seems to affect the distribution of wages and, therewith, earnings inequality, without having much effect on employment. In principle, a decline in the minimum wage will enhance employers’ room for manoeuvre when 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 relatively recently, 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 tuck below the latter. From then 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 sharply, together with the relative minimum wage, until
A. The Netherlands (adult minimum wage)

B. United States

Figure 10.11 Relative pay level of and employment share at minimum wage, the Netherlands and the United States, 1979–2006

Note: MW, minimum wage; LPT, low pay threshold.

Sources: Author’s calculations: see previous figures; BLS, 2005: Table 10 and Mishel et al. 2006: Table 3.4.
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 by only a few percentage points.

Conversely, the low-wage employment rate in the United States remained virtually stable at around 25 per cent, despite the strong decline in the position of the minimum wage within 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.

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, although the increase is modest, on balance, it hides a considerable demographic composition shift of the minimum wage population towards adults. The second conclusion that may be drawn is that 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 rather 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 existed, albeit under the label of minimum wage employment.

The net effect of low-wage employment on aggregate employment growth is doubtful. In fact, low-wage employment growth in the Netherlands seems to have "cannibalized 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 for better-paid employment; in other words, the overall employment rate grew sufficiently quickly to augment the number of better-paid employees in spite of low-wage growth. 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 10.12 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

32. Note the caveat of a possible upward series break in the mid-1990s.
33. See Salverda et al., 2008: 51.
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 the better-paid part is split 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 (by 1.8 percentage points). In contrast, the middle of the distribution shrank 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 their corresponding 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 cannibalization of better pay by low pay, that is, a downward shift of pay levels.

10.4.4 Wage bargaining: an intricate relationship

The presence of a statutory minimum wage may, first, reduce the relevance of collective wage bargaining for that part of the economy where pay is governed by the minimum wage. Second, it may 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

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*Figure 10.12* Head-count and hours-count employment for low pay and better pay against population rates, the Netherlands, 1979–2005

*Source:* Elaborated from Salverda et al. (2008), figure 2.11.
coverage of collective agreements in the Netherlands remains high, at about 80 per cent, but a very low and falling minimum wage is naturally no challenge to collective bargaining in itself.

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 one-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 10.13. However, given the surprisingly steady or even increasing union densities among, for example, women and part-time workers, the decline points to a composition shift among those occupying elementary jobs, especially a swing towards a greater number of young and part-time workers, instead of a decline per se. This is not so much a direct effect of the minimum wage.

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 strengthen the incorporation of the minimum wage in their CLAs. It complained – in its wage moderation policy – 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 began to monitor the agreements, threatening to declare them no longer generally binding if lower pay scales were not followed.

Figure 10.14 indicates the effects of these pressures. The average of the lowest scales started to lag behind the average of all scales and to move 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, 2001). Thus, the lowest scales on average have managed to bridge half the gap to the minimum wage and have shifted gear, now running parallel to 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 used in practice when hiring new
Figure 10.13 Union membership by characteristics, the Netherlands, 1997 and 2004 (% of average level)

Source: CBS-Statline, working conditions statistics.
Figure 10.14 Lowest and average agreed scales in collective labour agreements and the adult minimum wage (MW), nominal and real, the Netherlands, 1983–2005 (1983 = 100*)

Note: * Except nominal lowest scales, which are indicated as a percentage of the adult minimum.


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 available data on 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 tended to decline.

10.4.5 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
The Netherlands

Laval case. This does not mean that semi-legal and wholly illegal activities may not undermine existing pay practices, however. In particular, 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 prevent 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.

10.5 CASE STUDIES

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

As discussed above, a particular feature of the Dutch minimum wage is its very long tail for young workers (Table 10.1); this was originally introduced in 1974 and made even longer in the 1980s and seems mainly to be based on presumed lower productivity and fewer personal needs. Special provisions for young workers are not unique to the Netherlands and any discussion about possible European measures regarding the minimum wage will have to confront the youth issue, hence its treatment in detail in this case study. 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 10.3 shows that the Dutch situation deviates markedly from those in other EU countries. The Netherlands has the highest age at which the adult minimum starts to apply (23 years), 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 of the next-lowest level.

The Netherlands also has one of the highest youth employment rates 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 share 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 low-wage jobs of fewer than 35 hours (Figure 10.15). 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
Table 10.3 Statutory minimum wages of youths as a percentage of adult minimum wage, various EU countries and United States

<table>
<thead>
<tr>
<th>Age</th>
<th>Belgium</th>
<th>Luxembourg</th>
<th>France</th>
<th>UK</th>
<th>Ireland</th>
<th>Netherlands</th>
<th>Greece*</th>
<th>Spain</th>
<th>US</th>
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<td>75</td>
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<td>75</td>
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<td>61.6</td>
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<td>34.5</td>
<td>54/72</td>
<td>100</td>
<td>**85</td>
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<td>17</td>
<td>76</td>
<td>80</td>
<td>90</td>
<td>61.6</td>
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<td>54/72</td>
<td>100</td>
<td>**85</td>
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<tr>
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<td>82</td>
<td>80</td>
<td>100</td>
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<td>80</td>
<td>45.5</td>
<td>54/72</td>
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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.


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 five-fold increase compared to 1979, when only 10 per cent of young employees were in part-time, low-paid jobs (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 education. The participation of Dutch youth in education is as high as in other countries. Therefore there is a significant overlap for Dutch youth between paid labour and education, which explains the large difference with, for example, France (Figure 10.15), where such an overlap is virtually absent. It is an issue for further research into whether or not such an overlap has a positive effect on educational efforts. Similarly, it is clear that the participation in education is not significantly higher than in other countries, despite the argument that low minimum wages would motivate young people actively to pursue their education.

34. Aged 16–22 only, plausibly implying an overestimation compared to the 15–24 age group.
Youth employment is closely related to the retail trade. Approximately 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.

This seems, therefore, the appropriate 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 accomplished by means of a special seminar with an invited audience of union representatives, employers and some expert organizations in the supermarket branch of the retail 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. 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 experience rating. First, information

Figure 10.15 Youth employment rate divided into low-wage part-time and full-time and the better paid remainder, various EU countries and the United States, 2001 (% of youth population)

Source: Author’s calculations based on ECHP; of US calculations on CPS (courtesy John Schmitt).

Evidence in the retail trade sector

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

Experience neglected in favour of age
The long tail has two important implications: first, relatively strong wage increases occur as young people age by one year and shift to the next higher youth minimum wage and, second, 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 19–22-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 for 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 who is one year older will receive a higher wage, despite having less experience, is considered unfair by employees.

Poor stimulus for motivation and productivity
The extremely low levels of wages can also affect labour supply and demand. 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 in comparison to both other industries with better pay and participation in education or even non-employment. Although 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 by the Ministry for the current system – it may also discourage the human-capital investment needed for jobs that start at the youth minimum wage level (for example, vocational education for retail sales jobs).36

Encouraging part-time work
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 resulting from the progressive tax system, which imposes lower charges on part-time income (see case study

The Netherlands

2). The low wage level induces a shift in labour supply towards categories of workers who are primarily seeking additional income (for example, students with a grant or second earners in a household\textsuperscript{37}) and do not need a full income from labour for their living. Together, these effects can give rise to a vicious circle of casual labour leading, on the one hand, to a deprofessionalization of the work force, which negatively affects the quality of production and, ultimately, also product demand, and, on the other hand, to increased volatility of the work force, which diminishes the appeal of the working environment.

The human capital deficit: proposals ...

At the seminar, worries about the potential effects of the predominance of casual labour were shared by the three parties, albeit to different degrees. First, 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 properly rewards low-level but adequate educational attainment and thus to find the starting point of the corresponding labour market career. The employers pointed to increased 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 resulting from 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 turnover was over 100 per cent in a year. Unions endorsed that concern but blamed the high turnover on the unattractiveness of the work as anything other than a casual job. The seminar concluded that it would be desirable to introduce elements of experience rating into the wage structure, aimed at superseding the effects of the increases of the youth minimum wage, which are based solely on age to the exclusion of experience. Thus, the role of the youth minimum wage would be diminished.

... put into practice in new collective agreement

Soon afterwards, a new collective agreement for supermarkets was concluded by employers and unions which took some initial steps away from the purely age-based system inspired by the youth minimum wages towards introducing experience rating for 18- and 19-year-olds in order to improve career

\textsuperscript{37}. See Salverda et al. (2008) for further analysis of this labour market competition, including the more favourable starting point for student competitors owing to the grant system.
The minimum wage revisited in the enlarged EU

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 with the current Dutch structure of youth minimum wages by the most important sector for youth employment.

Policy issues
This case study seems to suggest that, in the European debate on the minimum wage, the Dutch long-tailed approach provides a good example of trade-offs between minimum wage short- and long-term effects and between more and better jobs. Unsurprisingly, it was decided that the recently introduced minimum wages in the United Kingdom and Ireland would not follow the Dutch treatment of young workers and, therefore, permitted the youth minimum to diverge from the adult rate to a much smaller extent.

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 realize the downside of the practice in failing to motivate young workers and promote innovation in their own business. While, eventually, EU policymaking will undoubtedly pay special attention to the treatment of young workers, a long tail of low wages seems to be a blind alley for both employees and employers. The special treatment should preferably aim at a very modest youth differential and focus on its effects on fairness and innovative human resources practices, perhaps allowing young workers to graduate to the adult rate on the basis of individual experience and productivity.

Case study 2: Part-time traps at the minimum wage

The country of part-time work: what overlap with the minimum wage?
The Netherlands is well-known for its very high rate of part-time employment: "the first part-time economy in the world" (Freeman, 1998). As various other countries, and the European Union as a whole via its Lisbon Agenda, are trying to stimulate the growth of part-time jobs, it is worth probing more deeply into the relationship between working part-time and the minimum wage.

Job growth all in part-time
Dutch part-time employment has evolved rapidly: since the 1970s, virtually 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-

The Netherlands

Figure 10.16 Head-count and hours-count for part-time employees against population rates, the Netherlands, 1970–2006

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

Source: Calculated from CPB, 2006: Table A.7, keeping annual full-time hours at 1,840.

1990s, a larger share of the population has been employed than ever before (Figure 10.16). 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 to 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.

Minimum wage incidence decreasing alongside working time
The people/hours distinction is important in general, but even more so for the lower end of the Dutch labour market where minimum wage jobs and low pay are found. Figure 10.17, panel A, 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 (Salverda et al., 2008).

Minimum wage is a part-time affair
Panel B of Figure 10.17 indicates the implications of both working shorter hours and being paid the minimum wage on the basis of annual earnings.
Figure 10.17 Minimum wage incidence among employees and working hours shares among minimum wage employees, head count, the Netherlands, 2005 (per hour and year, %)

Note: * Total adult minimum wage per hour (690,000 persons). ** Total adult minimum wage per year (1,950,000 persons).

Sources: Author’s calculations based on Statistics Netherlands /Statline: minimum wage and structure of earnings statistics.
Currently, 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 employees\(^{39}\)) earn at or below the minimum annually, including virtually all workers in the smallest jobs (94 per cent). All part-time workers – defined as those working fewer than 35 hours a week – taken together, make up some 70 per cent of minimum wage earners by the hour and 90 per cent of minimum wage earners by the year. In other words, the present-day minimum wage is almost entirely a part-time affair. As discussed above, 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-ization” 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 needed to generate sufficient income for a decent standard of living.

**The stimuli for working part-time**

Apparently, stimuli do exist for working part-time.\(^{40}\) A full study is beyond the scope of this chapter, but would include the competitive behaviour in the labour market of the supply of students and second earners in households already receiving a living wage. This case study focuses on a relatively recent policy development that hinges on the central role of the net minimum wage in the Dutch system of social security. With regard to the net–gross dimension it is important to realize, especially in relation to part-time employment, how taxation and social contributions affect take-home pay in the earnings range below the minimum wage.

**Progressive income taxation**

Income tax and obligatory national social contributions\(^{41}\) evolve differently over the wage distribution – tax rates increase with income, but contributions have constant rates and are paid only up to a certain income threshold – although the two have become increasingly intertwined. The contributions to national social insurance (old-age pension,\(^{42}\) widow(er)s and orphans scheme and substantial health-care costs) have been effectively integrated into the structure of income tax. Taxation of low incomes is only 2.45 per cent of

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\(^{39}\) An estimated 16 per cent of all hours worked on an annual basis.

\(^{40}\) See Taner and Hendrix (2007) for a detailed treatment of the Dutch poverty trap, including the part-time trap.

\(^{41}\) Note that employee social security contributions (for unemployment and disability insurance) are kept separate.

\(^{42}\) Note that everyone qualifies for national social security regardless of whether or not contributions have been made. After a life of low income owing to part-time work an individual is still entitled to receive the full state old-age pension (AOW).
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 explain the popularity of part-time jobs because net earnings decline less than proportionally with gross earnings at shorter working hours compared to longer hours.

**Tax credits for low-paid**

A factor specific to the Dutch economy is the fact that the current system of income tax comprises several tax credits that are of equal monetary value to every tax payer. The most important of these, the General Tax Credit (maximum €2,074), is deductible for all taxpayers. It is also an important point that the tax credit can actually be paid by the tax authorities to the partner in a household with no (or a very low) personal income (less than €6,172).43 This implies that on the first €6,172 of earnings, no tax is paid – as already mentioned for the lowest youth minimum wages. In a sense, this is a generalization of the German mini-jobs but without the disadvantages that the job holders acquire no social benefit entitlements or that permission for creating the job is needed from the tax authorities. Also, the Labour Tax Credit phases in (maximum €1,443) with the increase of earnings up to the level of about the adult minimum wage (€19,000). 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 appears to be 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, allowing an increase in net income when moving from benefits to employment.

Taken together, these factors significantly affect take-home pay and marginal tax rates for the low paid, especially those earning 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 10.18 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 personal earnings on the one hand, and traditional single breadwinners with a non-earning partner on the other. It shows marginal rates which are clearly lower, in the range of 50 per cent to 100 per cent of the minimum wage, at which point it starts to rise sharply, doubling up to the level of low pay. This

43. Maximum payment is €2,074 or the tax paid by the earning partner if that is less. This practice will be discontinued in the future.
The Netherlands

Figure 10.18 Marginal tax rates by level of annual earnings, individual single and dual earners versus breadwinner earners in couples, the Netherlands, 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 calculations based on tax data.

led to a lower marginal tax rate than before the tax change of 2001, below the minimum wage,44 but also to a strongly and further increasing marginal rate over earnings just above the minimum wage on an annual basis.45

Incentives to work part-time

For the labour supply of individual workers this situation seems to bring about a “part-time trap”. It is important to realize that this effect will be felt at higher job levels and higher levels of hourly pay as it gives people an incentive to work part-time, thus keeping annual earnings below the minimum wage. As discussed previously, more than 28 per cent of all employees earn

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

45. Employee social security contributions such as for unemployment insurance, for which earnings up to approximately the minimum wage are exempted, reinforce this increase as do obligatory pension contributions, which also have an exemption up to the minimum wage.
less than the minimum wage annually, in stark contrast to the much lower percentage of employees — 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 resulting from low numbers of hours on the job and the concomitant low level of annual earnings.

**Lower employer contributions below the minimum wage**

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 (UI), 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). 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 on the supply side.

**How to break the “minimum wage–low pay” vicious circle?**

The conclusion from the analysis 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 not only stimulates 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 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 finding adequate employment with sufficient working hours to earn a decent wage. For all practical purposes, the relevance of the Dutch minimum wage is now mainly restricted to part-time employment.

**Lessons for EU-level implementation**

The important implication for the European minimum wage debate is that it 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 simply an additional income for part-time hours, and its level, together with the tax treatment, should be considered from that perspective. A second, more indirect lesson is that linking the (net) minimum wage to public finance and social security can generate problems which are both unexpected and difficult to resolve.

10.6 CONCLUSIONS

The current research has revealed 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 significant and still increasing restriction of minimum wage jobs to part-time employment. Fundamentally, this seems to show that the Dutch minimum wage has suffered from the effects of long years of wage moderation more dramatically than wage levels higher up the distribution and has effectively lost its role as a floor 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 markedly from the situation in other countries. It is significant that the minimum wages recently introduced in Ireland and the United Kingdom have not adopted such a tail. A European view of the treatment of youth would be more likely to 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 part-time working. It is very possible that 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 to be seen as second-rate, with the level of a country’s minimum wage declining due to its linkage to such jobs and, as a result, becoming inadequate 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 is the case 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 the taxation of wages below and just above the minimum wage.

Third, the sharp decline of the Dutch minimum wage in terms of both purchasing power and relative position in the wage distribution begs 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 be the Members States’ leeway 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 has been the case in the United States – no longer provides an effective floor to wage formation, with possible adverse effects both economic and social.

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