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## The bite and effects of wage bargaining in the Netherlands

Wiemer Salverda



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Wiemer Salverda

Amsterdam Institute for Advanced labour Studies (AIAS) University of Amsterdam

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## **Table of contents**

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	.7
The demise of the Dutch Miracle and labour costs	. 9
LABOUR COSTS AND COLLECTIVE WAGE BARGAINING	15
WAGE INEQUALITY AND COLLECTIVE BARGAINING	23
Conclusions	31
References	33
Appendix	35

Wiemer Salverda

## **1** Introduction

The period since the mid-1990s has been a highly interesting one for the Netherlands and important questions can be asked about the role of wages and wage bargaining.<sup>1</sup> First, after creating a furore in the 1990s the Dutch Miracle quickly lost its shine in the new century as employment growth faltered and GDP performance tumbled to become among the worst of all EU countries. Figure 1 shows the strong decline in the annual growth of GDP per capita and the downward shift of the employment rate. In the two consecutive years 2002 and 2003 Dutch GDP actually fell. The employment rate started to decrease in the same years and continued in 2004 and 2005: over these four years it declined by 2.8 percentage points from a peak of 76.1 per cent in 2001.

Can this radical downturn be blamed on immoderate wage growth, as some have suggested?<sup>2</sup> The opposite evolution of unit labour costs depicted in Figure 1, which grew considerably in these same years, seems to support the view. In Section 2 we shall look more deeply into that issue, in an international perspective.

But even if labour costs can be blamed the role of wage bargaining is still an open question – did the Dutch trade unions end their traditional policy of wage moderation or are other factors at play? How important is wage bargaining for actual wage earnings? Wage bargaining is a core institution in the labour markets of most Continental countries, including the Netherlands, and it

<sup>1</sup> This chapter partly draws on Salverda (2008 a and b).

<sup>2</sup> For example, the government's main advisory body the CPB (2006), 76.

is highly relevant to consider its effects.

Figure 1: GDP volume per capita,\* employment rate\*\* (age 15–64) and unit labour costs,\* Netherlands, 1995–2005



Notes: \* Annual percentage change; \*\* Annual percentage-point change. Source: Calculated from OECD, Economic Outlook database.

However, as I have argued elsewhere (Salverda 2008b) it is essential not to take such institutions at face value, deducing their effects from how they look on paper, but to go beyond that and look at what can be called their 'bite', that is, the way they are actually applied in practice. In other words, it is crucial to see how collective wage agreements work out in terms of actual pay. These questions will be addressed in Section 3, with a focus on the aggregate, national level. Section 4 will add some detail to see whether the bite and effects differ, especially across the wage distribution. Section 4 presents conclusions.

# 2 The demise of the Dutch Miracle and labour costs

In the 1990s the Dutch Model received great international praise and Prime Minister Wim Kok was seen by some as the person who had successfully managed to put the 'Third Way' into practice. The Netherlands was one of the European 'Tigers', together with Ireland, Austria and Denmark (Auer 2000).<sup>3</sup> The decline of the Dutch economy since 2000 has been a very cold shower. However, international comparison reveals a very similar pattern not only for the other successful countries, but also for the larger European economies and, last but certainly not least, for the US. Tables A.1 and A.2 (see Annex) present in more detail the changes that I will summarise here.<sup>4</sup>

Figure 2 lists the same three variables as Figure 1 in each panel, first for the four Tigers, including the Netherlands, then the largest three European economies and finally the US. All countries, including the Netherlands, show a strong divergence between the evolution of the first half of the ten-year period, 1995–2000, and that of the second half, 2001–5. GDP and employment-rate growth – both indispensable indicators of economic success – fell in all countries, and more so in the two countries that had performed best during the first period: Ireland and the Netherlands. The US follows next,<sup>5</sup> but relative to the earlier growth the decline was strongest in the Netherlands for both GDP and employment. Dutch employment-rate growth during the first period, second only to Ireland but well above Denmark and Austria, explains the popularity of the Dutch Miracle at the time. It suggests that that particular growth should deserve as much attention as the subsequent fall.<sup>6</sup>

Employment-rate differences may seem slight on the basis of annual averages but cumulatively they add up to a considerable sum. Over 1995–2000 the Dutch rate grew by 8.9 percentage points of the relevant population. Had the growth continued it could have grown by another 8.9 percentage points over 2000–5, but instead it fell by 1.8 percentage points – a reversal of –10.7 percentage points. Ireland and the US are in a similar range, with reversals of –9.4 and –7.1 percentage points, respectively.<sup>7</sup>

<sup>3</sup> Note that population-wise the Netherlands is about as big as the other three countries combined (11 million persons aged 15–64).

<sup>4</sup> It is essential to correct for population growth which varied between a 2 per cent decline in Germany and an incredible increase over these few years of 22 per cent in Ireland, with the US in between at 14 per cent. Austria, France, the Netherlands and the UK had 5 to 6 per cent, Denmark 2 per cent. Taking variables on a per capita basis explains why the comparative outcomes may be somewhat surprising for some.

<sup>5</sup> The US is the only country besides the Netherlands in which GDP actually shrank, during one year (2001) only but by no less than 3.3 per cent.

<sup>6</sup> Unfortunately, there is no room to go into that here. Suffice to say that booming private consumption was an important force behind economic expansion. This went together with an end to the strongest wage moderation, a growing minimum wage and strong growth in household indebtedness.

<sup>7</sup> Normally, such declines will lead to an increase in unemployment, with a steady labour-force participation rate as a result. The Netherlands, Denmark, France and the UK satisfy that picture, while in Ireland and Germany labour force participation grew significantly. The remarkable exception is the US: here the rate fell by 3 to 4.7 percentage points during the second period – thus half of the employment-rate loss led to labour market withdrawal. This may have important implications that are overlooked in the employment debate.





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Average labour-cost growth, by contrast, increased between the two periods, not only in the Netherlands (+0.9 percentage points), but also in the other countries. There are three exceptions, Germany, the UK and the US, but in the latter two the actual level of growth during the second period remained quite substantial and was fully comparable to that of the countries showing an increase. Only the German increase was very modest by comparison over the period as a whole. Clearly, the Dutch level of cost increase after 2000 was not exceptional, and the between-period increase was comparable to that of Austria and France and lagged significantly behind Ireland that posted the highest increase of 2.1 percentage points.

Unit labour costs result from the compensation of labour on the one hand and labour productivity on the other. Figure 3 indicates that in the Netherlands the trend of the former was not exceptional. Between periods its average growth declined to a similar degree (–1.9 percentage points) as in Denmark, Ireland, Germany and the US, and its second-period growth level (3.7 per cent) was also very similar to the large countries, which all remained far below the Irish increase. The Dutch share of wages in GDP was virtually stable. Only productivity growth was the slowest of all countries, totalling no more than 5 per cent between 1995 and 2003, as against 9 to 18 per cent for the other countries, apart from Ireland (Figure 4). The US was the only country to record an improved productivity performance during the second period.

There are two important problems with this productivity comparison, however. First, it is hampered by significant international differences in hours worked and their evolution over time, which tend to make a head-countbased comparison misleading. This is particularly important for the Netherlands, with its record high incidence of part-time employment. Second, the sectoral structure of the economy may matter too as important differences in productivity growth occur between sectors. Figure 4 includes the two corrections for this, using data from the Groningen Growth and Development Centre, which supposedly are consistent with the OECD data.

![](_page_11_Figure_1.jpeg)

![](_page_11_Figure_2.jpeg)

Figure 4 first compares the OECD's productivity measure from Figure 3 (but only up to 2003 as no later data are available from Groningen) with the measure based on hours worked (for goods production and commercial services only). Dutch cumulative productivity change tripled from 5 to 14 per cent but still lagged more or less substantially behind other countries. Interestingly, however, now Denmark – the currently fashionable 'model of the year' – instead of the Netherlands trails the rest of the pack with an hourly productivity increase of only 8 per cent. The second comparison is to a measure of hourly productivity based on a uniform (rough) sectoral structure of the economy for all countries, benchmarked on the US.<sup>8</sup>

This hardly affects the Netherlands, which has a sectoral structure closest to the American one, but lowers the Danish level even further. At the sectoral level (Table A.2) Dutch productivity growth trails the other countries in goods production but does a reasonable job for market services (where, by contrast, Denmark is far behind). Dutch productivity declines in public and other services but this is not exceptional as declines were even larger in Austria and the US.

The hours approach is also important for labour compensation. The compensation shown on an employee (head-count) basis in Figure 3 is put on an hourly basis with the help of the evolution of average hours worked by employees<sup>9</sup> in Figure 4. It shows that Dutch hourly wage developments are as much in line with (lower) productivity as in the case of the US, UK, Denmark and France. Compared to, for example, the US, Dutch productivity growth is only half as large but so is labour compensation growth.

There can be little doubt that the principal problem of the Netherlands in recent years is not high wage growth but relatively low productivity growth per employee and also per hour. It is the continuation of a trend. Between 1979 and 1995 Dutch productivity grew by 39 per cent as against 44 per cent in Denmark and as much as 90 per cent in Ireland; only in the US did it grow much less (20 per cent), which is a well-known element of US economic performance. Over the present period Dutch actual hourly wage growth has remained below hourly productivity growth on average; this was also the case before, with 15 per cent growth between 1979 and 1995 compared to the 39 per cent productivity growth just mentioned.<sup>10</sup> The slowing of wage growth (far) below

<sup>8</sup> Aggregate productivity change is found by weighting sectoral productivity change with the same percentage distribution of all hours worked over goods production, market services and public and other services, respectively, at the start of the period. The US distribution is taken as the benchmark: goods: 24.7 per cent, market services 45.3 per cent, public and other services 30.0 per cent.

<sup>9</sup> OECD Annual Hours Worked database. Unfortunately, the Groningen database does not distinguish between self-employed and employees.

<sup>10</sup> See note 9.

![](_page_13_Figure_0.jpeg)

![](_page_13_Figure_1.jpeg)

Wiemer Salverda

Figure 4: Three measures of labour productivity and hourly labour compensation, 8 countries, 1995–2003 (cumulative percentage growth)

productivity growth is the essence of the Wassenaar Accord of November 1982 (compare Figure 7), the hallmark of the Polder Model. The Netherlands was not the only country to pursue this policy but it was the first and others have followed in the meantime, sometimes to a similar extent (for example, France). That lagging behind may have reduced the incentives for technological change and thus restricted productivity growth, but here is not the place to discuss that relationship.

# 3 Labour costs and collective wage bargaining

The second important question concerns the extent to which this evolution of wages and labour costs was determined by the collective bargaining over wages between unions and employers; that is, the 'bite' of collective bargaining as regards effective wage developments. Potentially, this has a strong effect as the pay of no less than 80 per cent of Dutch workers is covered by collective labour agreements (CLA). The level of coverage is quite steady and has not gone down despite declining union density. Continuing the post-war trend that brought union density down from some 40 per cent in the 1950s, it fell from 28 per cent in 1995 to 24 per cent in 2004.<sup>11</sup> A slight absolute increase in membership (up to 1999) did not match the rapid (head-count) employment growth nor compensate for its structural changes.<sup>12</sup> The low density is a long way from the 80 per cent CLA coverage which hinges to a large extent on the high level of 'employer density'. Even simple membership of an employers' association in the private sector is already at the much higher level of 46 per cent of all firms, but more importantly these firms comprise 74 per cent of all employees. Only 15 per cent of firms, covering 5 per cent of all employees, are non-members that have to comply with CLAs because of mandatory extension (Venema et al. 2005: 78). The significant role of employers may imply a relatively weak bargaining position on the part of unions when it comes to the actual content of CLAs. However, density is not the only criterion and it is also not low in all sectors; in addition, the role of the unions in national tripartite negotiations may offer some strength but this is not the place to go into that.

<sup>11</sup> Employees working at least 12 hours per week (CBS 2006). Some 10 per cent of all Dutch employees work fewer hours; in all likelihood most of them come 'under the radar' of the unions and density will be close to zero.

<sup>12</sup> Women, part-timers and service industries have much lower density than manufacturing, construction or the government sector and education. Interestingly, density levels among these fast growing categories remained almost stable over the period, implying an equally fast absolute growth (CBS 2006).

Nevertheless, the high coverage gives collective bargaining an important role in determining the actual evolution of wage earnings. It should be noted first, however, that even in the Netherlands some 20 per cent of individual wage contracts are not covered by collective bargaining,<sup>13</sup> and that most employers' social security contributions are subject to law and not to collective bargaining – though the bargaining parties may (and will) take them into account. The contributions make up an important part of a firm's wage bill and its change over the present period. After a 5 percentage points shift in contributions from employees to employers in 1998, with a corresponding lowering of gross employee wages, the contributions increased rapidly over 2002 to 2005 by, in total, 3.5 percentage points of the gross wage bill – mainly because of an overreaction in collective pension funding to the bursting of the dot.com bubble, which was imposed by the Central Bank as the new supervisory authority of the Dutch pension system.<sup>14</sup> Conversely, other provisions, such as employee training, may also be covered by collective agreements and cost the employer without being part of individual wage payments – we must ignore them here, however.<sup>15</sup>

Negotiated increases applying to all wage scales of a collective agreement play a role, but so do the scales themselves as they stipulate the treatment of individual employees over time. However, the agreements provide only a framework for pay, a grid of wages which derives its actual significance from the way employees are appointed and 'linked' to the wages. There are several mechanisms at work here. First, the flows of employees appointed or dismissed by firms during the year on the one hand, and those of employees who move into and out of employment or across jobs and firms on the other hand, can alter the use of the grid. The pay levels of these in- and out-ward flows need not equal each other as better paid (for example, older) employees, or even entire firms may leave and be replaced by lower paid (for example, younger) employees, or the other way around. The size of this effect may also not be stable as the way new employees become linked to the wage grid can be more or less generous depending on the labour market situation – employees and firms that do not move but stay together can over the years still move along the pay grid on the basis of, for example, seniority or achievement. Finally, payments can be given on top of the

CLA provisions. In short, for many reasons of employment composition or pay composition the

<sup>13</sup> The average wage of this category deviates little from those covered by CLAs so their share of the wage bill will also be close to 20 per cent. Also, the total annual changes differ little from those of CLA-covered workers but this is a combination of a lower general increase and higher individual growth (SZW-AVO 2004).

<sup>14</sup> Pension contributions grew from 4 to 8 per cent of the wage bill over a few years (see Salverda 2006).

<sup>15</sup> Some but not all of these costs will show up in the wage bill. Normally, such costs will be part of the wage deal between unions and employers.

aggregate actual wage increase may differ from the negotiated increase. It may even be positive in the absence of any negotiated increase, collectively or individually.<sup>16</sup> The divergence may also differ by level of aggregation – for example, the national economy or the firm – and also, as we will see, by the time spell to which the wage relates (hour, month or year). Last but not least, the way the outcomes of collective agreements – which do not necessarily apply to single years nor start on 1 January – are allocated over individual years can differ significantly.

The gap between both is the wage drift,<sup>17</sup> or 'incidental wages' as it is called in the Netherlands. Measuring this is not a trivial matter. Given (from the national accounts) a figure for the actual increase in earnings the measurement basically depends on the level taken for the negotiated wage increase. Usually the full negotiated increase as it appears in the formal text of the CLA is subtracted. This approach assumes, without further examination, full compliance with the CLA by all firms for all individual workers, including firms and workers not covered. Both Dutch Statistics (CBS) and the Central Planning Bureau (CPB) proceed in this way. However, even then the resulting wage drift differs significantly between these two sources, as shown in Figure 5.

Five measures can be distinguished that reflect the effects of five important distinctions:

- 1) between hourly changes (CBS hour and AVO) and monthly or annual changes (CBS month/ annual and CPB annual);
- 2) between different sources (CBS annual and CPB annual);
- 3) between the formal CLA values (CBS, CPB) and the actual effect (AVO) that accounts for noncompliance in practice;
- 4) between a head-count (CBS hour) and an hours-count (AVO hour) determination of hourly outcomes; and
- 5) between aggregate (CBS hour) and firm-level (AVO) effects.

The monthly and annual measures concern changes per employee and wrongly consider the (general) shortening of working hours a compositional effect that is part of the wage drift, despite the fact that normal hours are a regular component of CLAs. By contrast, hourly changes seem the better measure, but only if taken over the entire universe of hours worked instead of employees

<sup>16</sup> Often in a downturn fewer or no school-leavers will be hired, though the exits to retirement continue. With all individual employees receiving exactly the same wage as before the average will go up.

<sup>17</sup> Interestingly, *The Economist* seems too market-oriented to grasp the role of collective agreements as it defines drift as the difference between basic pay and total earnings: Wage drift consists of things such as overtime payments, bonuses, profit share and performancerelated pay. It usually increases during periods of strong growth and declines during an economic downturn.' Typically, this applies to the individual and disregards aggregate compositional effects. It may be called the *payment composition* effect.

and if accounting for non-hourly CLA-based elements of pay. This is the approach taken by AVO. The hourly measure of CBS, however, is on a head-count basis and does not include non-hourly bonuses such as the holiday allowance. But still there are issues of aggregation that may lead to mis-representation of the effects of collective labour agreements on a firm's pay. The hourly approach of the AVO survey, shown at the right-hand side of the figure, also meets this objection best. This survey, conducted by the Labour Inspectorate of the Ministry of Social Affairs and Employment, matches employer–employee data for the October months of two consecutive years and compares between the two years the detailed components of the same firm's actual wage bill on an hourly basis for those who stayed with the firm. It sifts out compositional effects across the economy by its focus on firms, and at the firm level it explicitly deals with the compositional effects of the workforce caused by employee inflows and outflows over the year and by changing working hours. Finally, it also takes non-CLA-based pay separately.

According to Figure 5 the negotiated wage increase found in the AVO survey is always less than that of the other sources. Figure 6 serves to show that for all measures the growth of negotiated wages (deflated by GDP prices) virtually always lags behind productivity growth. It means that it is the wage drift, however measured, that bears responsibility for the possible growth of wages in excess of productivity. On balance, AVO negotiated wages fell in real terms (against GDP prices, not consumer prices) by 3 per cent, while according to the other measures they increased by 2 to 4 per cent. Against productivity real CLA wages according to AVO fell by 24 per cent as against 5 to 20 per cent for the other measures, truly substantial gaps by any means. On average, the wage drift in AVO amounts to some 40 per cent of the total wage increase, again significantly more than for the other measures. The negotiated increase, according to AVO, lags behind prices plus productivity in all years without exception, up to more than 5 per cent.

Finally, it should be observed that the (expected) growth of labour productivity (and prices) has been used explicitly since 1994 by the main Dutch trade union confederation FNV as an essential input for determining its (real) wage demands. It is no different for the other major confederation CNV. The average of two CPB forecasts (for the upcoming year and the current year) and one provisional outcome (for the preceding year) is used for this purpose. Mostly these values appear to

![](_page_18_Figure_1.jpeg)

![](_page_18_Figure_2.jpeg)

Source: CBS, Incidentele Loonontwikkeling and CAO-lonen; CPB, Macro-economische Verkenning 2007, Table A.6; and Venema et al., Table Notes: See text for an explanation of the measures. \* AVO years are October-October, n.a. for 2003; CBS n.a. for 1995; GGDC n.a. for 2004. IIIa, GGDC (2005) be off target compared to final outcomes, statistically established after some years.<sup>18</sup> This occurred especially during the years of the downturn. On average they have tended to underestimate the outcomes over the present period by 0.28 percentage points or 15 per cent of their level (see Table 1).<sup>19</sup>

In summary, the bite of collective bargaining as regards wage earnings is far from comprehensive: employer contributions are around 25 per cent on top of wages, the non-CLA part of the wage bill is another 20 per cent and the average wage drift in recent years was 40 per cent. Consequently, Dutch collective agreements directly affect only a roughly estimated 40 per cent of the total gross wage bill, while direct employer behaviour affects a good 25 per cent. It seems unlikely that much of the latter might have been collectively negotiated at the firm level as individual company CLAs have been taken into account. In addition, the CLA effect was always below productivity growth, only partially because the productivity estimates of CPB used for determining union wage demands underestimate the actual outcomes. The result fits the long-term trend of Dutch collective wage formation which since the early 1980s has steadily opened up a gap with productivity growth for bargained wages, as well as actual wage earnings (see Figure 7).<sup>20</sup> It should be stressed that the result is a national average and does not necessarily apply to all industries or categories (by gender, age, working hours, job level or education) of the workforce. Unfortunately, detailed further research would be required to find out more for the period considered here.

<sup>18</sup> Labour productivity is a balancing variable where prediction errors of GDP and employment may reinforce each other. It is an omission that the accuracy of predictions for such an important variable is left out by the CPB's assessment of its predictive success (Kranendonk and Verbruggen 2006).

<sup>19</sup> Compared to the most recent knowledge of final outcomes, which is based on the revisions made by CBS to the Dutch national accounts (CPB, MEV2007), the lag would be even twice as large, at 0.62 percentage points.

<sup>20</sup> Both indicators are on a per-worker basis. Adult rates in private industry evolved more favourably than the other rates for youth or the public sector.

![](_page_20_Figure_1.jpeg)

![](_page_20_Figure_2.jpeg)

Source: See Figures 3 and 5, GDP prices according to Economic Outlook.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Avg
Forecast/provisional outcome* 3-year final outcome**	2.07 1.78	1.95 1.77	$0.78 \\ 0.92$	$1.50 \\ 1.30$	1.77 2.07	1.05 2.53	2.27 2.07	1.02 1.53	$0.55 \\ 1.08$	1.37 1.64	2.02 2.68	1.48 1.76
Difference	-0.28	-0.18	0.13	-0.20	0.31	1.48	-0.20	0.52	0.53	0.28	0.66	0.28
Notes: * Macro-economische Verkenning (MEV) of t	the vear (	published	l in Sent	ember <i>t</i> -								

\*\* Up to 1999: MEV 2003 before shift to productivity measurement based on basic prices; the later years: MEV 2004, 2005 and 2005 before the improvements of the national accounts were endorsed in MEV 2007.

Source: CPB.

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Table 1: CPB forecasts of labour productivity growth (%) and realisations, 1995–2005

![](_page_22_Figure_1.jpeg)

![](_page_22_Figure_2.jpeg)

Note: \* Adult rates in the private sector, deflated by GNP prices. Source: CBS, Regelingslonen and CAO-lonen; OECD, Economic Outlook GDP at market prices deflator, productivity index and real compensation per employee in private sector (compare Figure 3).

# 4 Wage inequality and collective bargaining

In Section 2, we saw that the sectoral composition of an economy may strongly affect the national figure for productivity. In Section 2, we partly focused on adult pay in private industry because this developed more positively than for youth or the public sector. In general, it is important to probe the national averages to see whether wage bargaining manages to reach all corners of the economy equally. This particularly concerns the low-paid end of the wage distribution.

Table 2 presents direct averages and mutual differences between categories before and after correction for compositional effects, based on regression analysis of the AVO survey data for 1996 and 2004. It indicates the evolution of the payments effects of collective agreements and for a selection of personal and job characteristics. It appears that wages in company agreements are at a higher level ( $\in$ 17.10) and also grow faster than those of industry agreements ( $\in$ 12.90). The pay gap

between the two is 32 per cent, but two thirds of this is due to a difference in workforce character-

istics. After correction for this an 11 per cent

	Hourly	]	Difference	es	No. of	Em-	Firm
	wage	uncor- rected	corre	cted***	CLAs	ployee share	share
	2004	2004	1996	2004	2004	2004	2004
	€	%	%	%	No.	%	%
Total	15.13				748	100	100
Industry CLAs	12.90	_	_	_	174	62	
Company CLAs	17.10	32	4.3	11.0	574	15	
Subtotal CLAs					740		16
direct					/48		46
extension of							
industry CLAs	10.14	-19	-0.7*	-1.1*		4	14
Subtotal all CLAs					748	80	60
Non-CLA workforce in							
CLA firms	20.20	56	7.4	11.5		1	
Non-CLA							
workforce in			0.51				
non-CLA firms	14.10	9	-0.6*	-0.4*		16	
Management	28.50	120	17.6	15.7		3	
Subtotal non-CLA							40
Men	15.62	_	_	_			
Women	12.93	-17	-7.2	-7.4			
Full-time	15.57	_	-	—			
Part-time >12 hours	13.03	-16	-4.2	-4.9			
Part-time <12 hours	9.58	-38	-4.6	-3.7			
Primary	10.47	_	_	_			
Vocational tertiary	19.93	90	12.5	14.7			
University	27.63	164	16.3	26.3			
Lowest job level	9.08	_	_	_			
Highest job level	40.07	341	35.3	44.4			

Table 2: Percentage earnings\*\* differences in relation to industry CLAs by type of CLA coverage, 2004 (private enterprise)

Notes:

\* Non-significant at 95%.

\*\* Gross hourly earnings.

\*\*\* Individual employee earnings corrected for sex, age, working week, tenure, educational attainment, special wage components, job level, type of job, industry and firm size.

Source: Venema at al. (2005), VI, 11, 27 and 97.

difference remains, but this has increased from 4 per cent in 1994. Also, employees in the same firms who are not covered by the agreements earn more and saw an increase in the corrected pay gap from 7 per cent to 11 per cent. However, this is a very small group of no more than 1 per cent of all employees. By contrast, there is no significant difference between employees in voluntarily covered firms on the one hand and those under mandatory coverage or not covered at all on the other. The latter group earns less (€10.14) because of its different characteristics. Management earns 120 per cent of the average hourly wage of all employees covered by industry agreements. However, only 15 to 16 per cent remains after controlling for characteristics.

Women earn about the CLA average of €12.90. However, they earn 17 per cent less if directly compared to all men, though after correction for different characteristics the penalty is reduced to 7 per cent and basically unchanged over the period. Also, part-time workers earn less than full-time workers, especially in small jobs of fewer than 12 hours per week. However, most of this gap is due to differences in characteristics and only 4 to 5 per cent remains after correction. The higher educated earn much more than those with only primary education and even after correction the difference is substantial and has grown over time – for the university educated up to 26 per cent. Particularly those with jobs at the highest level experience a large pay advantage. They earn more than four times more than those in the lowestlevel jobs. The corrected pay gap is the largest and has also increased, to 44 per cent. Against this background I consider the effects on wage inequality at the low end.

Over the present period the inequality of actual (hourly) wage earnings in the Netherlands has certainly grown, as Table 3 indicates. In particular the low end, the first decile, has lagged behind. Its level has grown by 3 per cent in real terms, while the fifth decile has risen by 10 per cent and the ninth decile by 14 per cent. In itself, the latter increase does not seem excessive – it roughly matched the 15 per cent growth of labour productivity (Figure 4). As a result, wage inequality has grown, especially in the lower half of the distribution – the fifth-to-first-decile ratio increased by 7 per cent. The lowpay threshold, defined commonly as two thirds of the median wage, has also grown by 10 per cent and has increasingly left the first decile behind. The threshold is now about 18 per cent above the adult minimum wage. As a result, the percentage of employees working for low pay has grown from 16 to 18 per cent. In terms of hours worked the levels are less, as indicated in the last column, because low-wage jobs are very often part-time; however, the increase was the same. Because employment has increased at the same time the absolute number of employees in a low-wage job has grown by low-

		Decile pay le	vels		Inequality ratios			Low pay	
		€-2002				Thi	reshold**	Incid	ence, % of
	1	5	6	9:1	9:5	5:1	€-2002	Employees	Hours Worked
1995	8.22	14.17	24.79	3.02	1.75	1.72	9.45	15.9	13.9
2004	8.44	15.59	28.21	3.34	1.81	1.85	10.39	18.2	16.0
Change (%)	S	I0	14	11	ŝ	7	I0	14	15
Notes:									
* One caveat is tha	t part of the r	ise may be due to	o sampling prob	lems of the fir	st, 1995 survey.				
** Two thirds of th	e median wag	ge.							

Table 3: Inequalities of hourly pay over head-count employment, Netherlands, 1995–2004\*

Source: Calculated from tabulated data, Dutch Statistics/Statline, Structure of Earnings Surveys (EWL).

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### Wiemer Salverda

wage job has grown by one quarter, from less than 1 million to 1.25 million. The growth was entirely in part-time jobs; 70 per cent of all low-wage workers now work part-time.<sup>21</sup>

Apparently, neither the statutory minimum wage nor the collective wage agreements have offered sufficient protection as regards equal treatment to this segment of the economy. This is part of deliberate government policy that now goes back 25 years. It is officially aimed at increasing employment and first lowered the minimum wage and later put pressure on the lowest wage scales of collective agreements. The Dutch minimum wage is known, first, for the relatively high age of 23 years at which the full 'adult' minimum wage applies, and second, for its extended tail of youth minimum wages that for young people aged 15 years starts at 30 per cent of the full level. It is a statutory minimum wage with a legal rule for a regular, bi-annual uprating. However, application of this rule was first suspended in the 1980s on the basis of special laws, while in the early 1990s a new, more general law was introduced that made suspension conditional on the labour market situation, especially the ratio between inactives and actives. The uprating is an important topic of policymaking because of the major consequences for public spending on social security. All minimum benefits, including the public old-age pension, are directly linked to the (net) minimum wage. Reductions in the minimum wage's nominal value (1981-84) and freezes against increasing prices and other wages (1985-89, 1993-95, 2003-5) have radically lowered both the purchasing power of the minimum wage and its relative position in the wage distribution. The real value of the adult minimum wage fell between 1979 and 1997 by 23 per cent; that of a weighted average, including youth minimum wages, by almost 30 per cent (which is as much as the fall of the American federal minimum wage). Since the mid-1990s the purchasing power of all minimum wages has slightly increased, by 4 per cent. Seen in this light, the minimum wage actually fared better (or less badly) than in preceding years. In relative terms the minimum wage declined even more, as other wages rose or fell less against prices, and it also continued to deteriorate longer, until 2000.

Figure 8 shows how the adult level declined from more than 70 per cent of the median wage in 1979 to 55 per cent in 2000, with some upturn after that. Figure 8 also indicates how the incidence of minimum-wage employment decreased, from 14.5 per cent of all employees in 1979 to 7.6 per cent in 1992, and has tended to remain at that level since. Consequently, about 8 per cent of the 18.2 per cent low-wage incidence in 2004 was paid at or below the adult minimum wage.<sup>22</sup> The Dutch evolution of minimum wage employment.

<sup>21</sup> Defined as fewer than 35 hours per week, but almost half of all low-wage part-timers work fewer than 12 hours.

<sup>22</sup> This single measure allows a more appropriate comparison to other countries that have no special youth rates, such as the US. The adult minimum wage incidence (7.7 per cent in 2004) is higher than that of the pure age-related minimum wages (5.3 per

![](_page_27_Figure_1.jpeg)

![](_page_27_Figure_2.jpeg)

Source: Calculated from CBS, Structure of Earnings Surveys. Cf. Salverda (2008b)

parallels the US experience where the declining minimum wage has also gone hand in hand with a declining incidence and nowadays only 2.5 per cent are paid at or below the official rate (BLS 2006)

Finally, Figure 8 illustrates how the lowering of the minimum wage opened up possibilities for low-wage employment (shaded area). At first these possibilities were hardly utilised but after the mid-1990s low-wage employment began to exceed the initial level of minimum wage employment of 1979. The gender–age composition of all low-wage jobs has been virtually stable over the present period: around 60 per cent youth (aged 15–24), 25 per cent adult women and 15 per cent adult men. This is an important change in comparison to the end of the 1970s when young people made up 90 per cent of the low paid. The sectoral composition by industry and services has also changed very little, with a slightly higher incidence in industry, that itself has a declining share in employment. In the preceding period 1979–96 there had been a strong increase in the incidence within services. As minimum wage employment as such has remained roughly constant since 1996 it has barely contributed to the increase in low-wage employment.

cent, CBS/Statline EWL). Naturally, the present measure includes all young workers earning less than the adult minimum but more than their youth minimum wage.

![](_page_28_Figure_1.jpeg)

![](_page_28_Figure_2.jpeg)

Source: SZW/DCA (1991), SZW, Voor- en Najaarsrapportages, CBS-Statline, Historical Series of Negotiated Wages 1972=100, after 2002 extrapolated with series 2000=100.

The unions play no direct role in the uprating of the minimum wage as this is the government's prerogative. Only for the special four-year revisions is the advice of the Social and Economic Council (SER) called for. The trade union federations occupy one third of all seats. The density of union membership is declining fast among the occupants of low-skilled jobs, however; from 20 per cent in 1997 it had almost halved by 2002.<sup>23</sup> In addition, these jobs are increasingly filled on a part-time basis.

From 1994 on, the new 'purple coalition' government started to put pressure on the unions and employers to lower the lowest pay scales of collective agreements, bringing them closer to the statutory minimum wage; its fall had not been followed by the low end of the framework of agreed wages. This is understandable not only given the strong decline of the real minimum wage but also because the decline resulted from the freeze on prices. Insofar as collective agreements do not endorse a freeze they cannot possibly exclude specific scales from the general treatment. The government threatened to suspend the mandatory extension of collective wage agreements, which is a formality but nevertheless a government privilege. The lowering was and is an important subject of monitoring at the bi-annual spring and autumn tripartite talks of government, unions and employers.

<sup>23</sup> CBS, Labour Conditions Statistics (among those working 12 hours per week or more).

Figure 9 presents the effects on pay scales, and apparently the pressure to create new, lower scales met with some success between 1994 and 1997, as the 13 per cent gap between the (nominal) evolution of negotiated wages in general and that of the minimum wage was reduced to 9 per cent. Since then the lowest scales have paralleled the evolution of the minimum wage and diverged further from negotiated wages in general, especially after 2002. As a result, they are now only 7 per cent above the minimum wage and 15 per cent below the average evolution of CLA wage scales.

The policy aim was to bring the lower end closer to the minimum wage in all collective agreements, irrespective of the relevance of low pay to the industry or company involved. The actual application of the scales, also in industries where it has relevance, is not regularly studied and many agreements may have paid lip service to the policy and not applied the scales in practice. The Labour Inspectorate concluded from a special study in 1998 that the overwhelming majority (86 per cent) of the companies in their sample did not use the new scales. Half of them had recruited new staff in the last two years, but the entrants started at a higher wage level. Only 6 per cent of all employees in these companies were found in the new low scales (Ackermann and Klaassen 1998).<sup>24</sup> Nevertheless, the lagging of the lowest scales may have contributed to the increased incidence of low pay of Figure 8 but plausibly there have been other factors at work as well.

In the mid-1990s Dutch labour market policy became more active in creating low-wage jobs either directly (so-called ID(idea)-jobs, formerly Melkertjobs, all in the public sector) or indirectly (the so-called SPAK subsidy on low-wage jobs for private firms and public sector organisations). The direct job creation contributed only partly to low-wage employment growth<sup>25</sup> and did not particularly boost it, though its absence would have had a downward effect. The subsidy was given for the mere presence of low-wage workers in the firm, irrespective of whether they had been hired for new jobs. This lack of conditionality, together with the administrative ease with which the money could be obtained, made the subsidy very popular and boosted take up. However, Mühlau and Salverda (2000) demonstrated on the basis of matched employer–employee data that low-wage employment in firms using the subsidy did not grow more than in non-using firms (that were not familiar with the scheme in its early years). In other words, if low-wage employment increased it did so across the board and irrespective of the subsidy. Finally, though the sectoral composition of employment did not change much there was a polarisation by job level. Between 1995 and 2004

<sup>24</sup> See Salverda (1998) for a further discussion.

<sup>25</sup> It had a steady share in low-wage employment, if accounting for the decline in Sheltered Workplaces (WSW) that occurred at the same time.

low-skilled and highskilled jobs grew more than average, also in terms of hours worked, while intermediate-level jobs lagged behind. This may have shifted more of employment to the two tails of the wage distribution.

It seems that the unions have lost their grip on low pay, or, to put it another way, given the all-pervading and continuous wage moderation that they endorse in the Netherlands, there is not much left that could be achieved for the least skilled and the lowest level jobs. One may worry that much more than before adults too are found in this segment of employment. This potentially increases the risk of poverty in work.

## 5 **Conclusions**

The remarkable Dutch success in (head-count) employment growth in the 1990s is almost forgotten now. Some blame its disappearance on union wage behaviour. I have shown that this is not warranted. The claim does not stand up to scrutiny in an international comparison of labour costs and productivity. On an hourly basis labour costs and productivity jointly lagged behind most other countries. In addition, an examination of the effects of Dutch wage formation has shown that collective bargaining bears direct responsibility for only 40 per cent of the wage bill, because of incomplete coverage, substantial obligations that are decided outside the realm of collective negotiations of unions and employers and, last but not least, considerable wage drift that is outside the reach of collective agreements. The larger wage drift, that goes together with a more moderate evolution of negotiated wages, follows from a firm-level study of the effects of collectively agreed wages that are easily overestimated when – as usual – the formal collective agreements are taken at face value. It underlines once again that negotiated wages have lagged substantially behind productivity also over the past ten years.

Finally, though the coverage of collective agreements has remained very substantial (80 per cent) and basically unchanged over the last ten years, the grip on the (in)equality of wages seems to have loosened. Individual pay within firms has clearly witnessed upward movements of pay advantages for high levels of education and jobs. The aggregate outcome at the top, however, is still limited and modest relative to productivity change, though certainly more favourable than at

the lower end. Particularly, the latter has lagged behind. Though increasing somewhat in the last decade the level of low pay is much lower than some decades ago as a result of a strong decline of real minimum wages. Collective agreements have been unable to prevent this development; on the contrary, they may even have contributed as they have given in to government pressure since the mid-1990s. Various other factors, however, have also contributed and none seems to have made the decisive contribution.

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Wiemer Salverda

## Appendix

	AT	DK	IE	NL	DE	FR	UK	US
A. Period averages, a	nnual %	, D						
GDP/cap	1.8	2.0	5.5	1.9	1.6	1.7	2.2	1.8
cons/cap	1.1	1.6	4.1	1.8	1.4	1.8	2.7	2.2
exp/cap	6.2	5.0	9.8	5.4	7.5	4.6	4.6	3.6
imp/cap	4.9	6.2	9.4	5.6	5.9	5.5	6.2	6.6
EPOP pcpt	0.0	0.3	1.3	0.6	0.3	0.4	0.4	-0.1
EPOP-FTE pcpt	-0.1	0.1	0.7	0.5	-0.1	-0.1	0.1	-0.2
total labour comp	2.6	1.5	10.0	4.7	4.3	3.6	5.8	5.5
wage share in GDP	-0.9	-0.6	-1.7	-0.1	0.0	0.1	0.4	0.1
real lab costs	0.8	1.7	0.8	1.1	0.7	1.2	2.1	2.2
unit lab costs	0.4	2.1	2.2	2.3	0.1	1.5	2.9	2.1
productivity	1.8	1.6	3.3	0.9	1.1	1.2	1.7	2.0
<b>B. Subperiod average</b>	es, annua	al %						
GDP/can	26	27	77	32	2.0	23	27	27
cons/cap	2.0	13	5.0	3.4	1.0	2.5	3.2	3.0
exn/can	7.6	6.5	16.0	72	8.7	2.0	6.6	6.5
imp/can	63	73	15.7	7.2	7.8	7.6	8.1	9.9
FPOP pent	0.5	0.6	2.0	1.5	0.5	0.7	0.1	0.5
EPOP-FTF nent	0.1	0.0	1.0	1.5	0.0	0.7	0.0	0.5
total labour comp	2.8	23	11 1	5.6	0.0 4 9	3.8	6.3	6.4
wage share in GDP	_0.9	_0.2	_2.9	_0.2	0.1	0.0	0.5	0.1
real lab costs	1.0	2.1	0.6	11	13	0.0	2.1	2.6
unit lab costs	0.0	2.1	13	1.1	0.3	11	3.0	2.0
productivity	2.1	1.0	1.3 4 2	1.0	13	1.1	1.9	17
2001–5	2.1	1.7	7.2	1.0	1.5	1.5	1.7	1./
GDP/cap	0.9	1.2	3.0	0.4	1.0	0.9	1.6	0.7
cons/cap	0.4	2.0	2.9	-0.1	0.7	1.5	2.1	1.3
exp/cap	4.5	3.2	2.4	3.3	6.0	0.9	2.2	0.1
imp/cap	3.3	4.9	1.8	3.0	3.7	2.9	3.9	2.6
EPOP pcpt	-0.4	-0.1	0.5	-0.4	0.1	-0.1	0.1	-0.9
EPOP-FTE pcpt	-0.6	-0.2	0.1	-0.3	-0.1	-0.4	-0.1	-1.1
total labour comp	2.4	0.5	8.7	3.7	3.5	3.5	5.2	4.3
wage share in GDP	-0.8	-1.2	-0.2	0.0	-0.1	0.2	0.3	-0.6
real lab costs	0.5	1.3	1.2	1.2	0.0	1.6	2.0	1.8
unit lab costs	0.8	2.2	3.3	2.8	-0.2	1.9	2.8	1.7
productivity	1.5	1.3	2.2	0.8	0.9	1.0	1.4	2.3

Table A.1: Macroeconomic aggregates, 1995–2005

2-period change (pcpt)	)							
GDP/cap	-1.7	-1.4	-4.7	-2.8	-1.0	-1.4	-1.1	-2.0
cons/cap	-1.3	0.7	-2.1	-3.5	-1.2	-0.4	-1.1	-1.7
exp/cap	-3.2	-3.3	-13.5	-3.9	-2.7	-6.7	-4.5	-6.4
imp/cap	-3.0	-2.4	-13.9	-4.8	-4.1	-4.7	-4.2	-7.2
EPOP pcpt	-0.8	-0.6	-1.5	-1.8	-0.4	-0.8	-0.4	-1.3
EPOP-FTE pcpt	-1.0	-0.4	-1.0	-1.5	-0.1	-0.5	-0.4	-1.5
total labour comp	-0.4	-1.8	-2.4	-1.9	-1.4	-0.3	-1.1	-2.2
wage share in GDP	0.1	-1.0	2.6	0.2	-0.3	0.2	-0.2	-1.4
real lab costs	-0.5	-0.7	0.6	0.1	-1.3	0.7	-0.1	-0.8
unit lab costs	0.9	0.2	2.1	0.9	-0.5	0.8	-0.2	-0.8
productivity	-0.6	-0.6	-2.0	-0.2	-0.4	-0.3	-0.5	0.6
Cumulative growth 1	995–200	5 (%)						
Pop. 15–64	5	2	22	5	-2	5	6	16
GDP	25	23	104	25	14	24	32	39
GDP/cap	19	21	68	20	16	18	24	20
cons	17	19	85	24	11	25	40	45
cons/cap	12	17	52	19	13	19	32	25
exp	91	68	182	72	102	58	59	54
exp/cap	82	66	132	64	105	50	50	33
imp	68	82	177	72	73	76	94	115
imp/cap	60	80	128	64	75	68	83	86
Emplt	5	5	50	14	3	11	11	13
Emplt FTE	2	4	29	15	-2	2	6	9
EPOP level	0	4	23	9	5	6	5	-3
EPOP level –								
2003 pcpt	1.1	2.5	10.6	7.8	2.5	4.0	3.1	-2.0
EPOP-FTE level –								
2004	-2	3	8	11	-1	-2	1	-5
EPOP-FTE level –								
2003	-0.9	4.4	7.3	12.4	-1.7	-1.9	0.8	-5.1
EPOP-FTE level –								
2003 pcpt	-0.5	2.6	4.1	6.1	-0.9	-1.0	0.5	-3.8
total labour comp	28	13	162	60	51	43	77	53
wage share in GDP	-9	-7	-13	1	-1	1	5	2
real lab costs	11	18	10	13	7	14	25	23
unit lab costs	3	23	29	28	-1	16	35	19
productivity	19	17	36	10	11	13	18	19
productivity – 2003	14	12	34	5	9	9	15	18

Source: OECD, Economic Outlook No. 79 (2006).

Wiemer Salverda

	AT	DK	IE	NL	DE	FR	UK	US
Productivity								
1995–2003	19	8	71	10	19	16	19	21
Private goods								
and services	24	10	36	15	18	19	25	30
Industry	43	21	69	19	22	31	20	20
Market services	16	3	18	16	14	16	26	38
Public and other								
services	-2	6	4	-2	13	7	10	-3
Productivity 1979–95	57	44	90	39	44	55	47	20

### Table A.2: Hourly productivity, cumulative growth

Source: GGDC (2005).

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## UNIVERSITY OF AMSTERDAM Amsterdam Institute for Advanced labour Studies

Postal address: PO Box 94025 • 1090 GA Amsterdam • The Netherlands

Visiting address: Nieuwe Prinsengracht 130 • 1018 VZ Amsterdam • The Netherlands

Tel +31 20 525 4199 • Fax +31 20 525 4301

aias@uva.nl • www.uva-aias.net