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The interplay between the minimum wage and collective bargaining in the Netherlands

An overview and a case study of three sectors

Paul de Beer, Wike Been & Wiemer Salverda

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Abstract

This paper aims to provide a detailed picture in three parts of the statutory minimum wage in the Netherlands that provides a legally minimum level of pay which is binding for all sectors. First, we show how it was legally established in the 1960s and subsequently complemented with an extensive set of youth minimum wages, what the rules are that affect its uprating and how these are influenced by trade unions and employers' associations. We examine how the level and the employment incidence of the minimum wage have evolved since the 1960s to gauge its significance for the development and distribution of wage earnings, including the incidence of low pay. In addition we consider briefly its relationship to personal and household incomes.

Secondly, we discuss how the minimum wage relates to collective labour agreements, many of which stipulate wage scales which start at a higher level than the minimum wage. Particular attention is paid to the gap between the lowest wage scales and the minimum wage, which has narrowed considerably since the 1990s under pressure from the government, and how this is reflected in the distribution of wages.

Finally, we present the results of three industry-based case studies of the role played by the minimum wage, or not, in the daily practice of collective wage and employment bargaining regarding both the minimum wage itself and the lowest wage scales of collective agreements in three particular industries: metal manufacturing, cleaning and super markets.

We end with a brief appraisal of the changes and the future role of the minimum wage.

Preface

This working paper is the contribution of AIAS to the research project '*Mindestlöhne im Ländervergleich. Prozedurale Regelungen und Akteurstrategien*' (Minimum wages in international comparative perspective. Procedural regulations and actor strategies), that was funded by the Hans Böckler Stiftung (www.boeckler.de). Coordinated by Dr Irene Dingeldey of the University of Bremen (*Institut für Arbeit und Wirtschaft*), AIAS has participated in this comparative study on the impact of minimum wages on employment, collective bargaining and the wage distribution. The study compares the experiences with the minimum wage in three countries that differ considerably regarding minimum wage policies, viz. Germany, Austria and the Netherlands. The Netherlands has known a mandatory minimum wage since 1969, Germany has introduced a mandatory minimum wage only in 2015, and in Austria a mandatory minimum wage does not exist, but only a nation-wide minimum wage that is agreed upon by the social partners. In each of these three countries, three sectors (cleaning, retail and the metal industry) have been selected to study the interplay between the minimum wage and collective bargaining. By comparing the experiences in these three countries, the study aims to shed more light on the impact of a mandatory minimum wage on employment and wages at the bottom end of the labour market. This working paper reports on the Dutch part of the research project.

We would like to thank the other members of the research team, in particular Irene Dingeldey, Andreas Etling and Till Kathmann, for their valuable comments and suggestions and for the amicable cooperation during the project. We also would like to thank the members of the *Beirat* of the Böckler Stiftung for their helpful remarks at two meetings of the *Beirat* at which the project was discussed.

Many thanks also to the Netherlands Ministry of Social Affairs and Employment, in particular Martin Schaeps and Grietus Wiggers, for providing us with the relevant data from the Ministry's Collective Labour Agreements database, which are indispensable for our analyses in chapter 2.

Our final thanks are addressed to the representatives of trade unions and employers' associations who have been willing to share their insights and experiences with us, which were indispensable inputs for our sectoral case studies in chapter 3. The interviewees are listed in Appendix 4.

Introduction

The Netherlands has instituted a statutory minimum wage in the 1960s, roughly half a century ago now. Although that is well after the USA established the same in the 1930s, it is also well before various other European countries introduced a minimum wage. In any case, the experiences of these fifty years provide the opportunity to study in depth its evolvement and embedding in wage negotiations and in the structure of earnings as well as of employment.

This report aims to provide a general background about the nature, significance and evolution of the system of minimum wages on the one hand and to examine its significance for collective wage bargaining and vice-versa on the other hand – both at the national level and for three particular industries.

In Chapter 1 we focus on the first aim and discuss the system of minimum wages in general, both legally and economically. On the legal side, we give a brief overview of its establishment between the mid-1960s and mid-1970s and its further evolution including the recent political debate on reforming the system. We present its main properties, including its uprating mechanism that links it to collective wage bargaining, and its broad linking to the Dutch system of social security. On the economic side, we examine its relationship to the evolution of collectively negotiated wage as well as of actually earned wages, and its relative position in the distribution of wages, that is the incidence of minimum-wage employment and also of low-wage employment. We touch also upon its significance for personal and household incomes, which differ from individual wages. We conclude this chapter with a discussion of the general views of the social partners on the minimum wage and of the role of the government.

For the second aim we analyse the interplay between the minimum wage and collective bargaining, focusing first (Chapter 2) on the national level and second (Chapter 3) on three selected industries: metal manufacturing, cleaning and super markets respectively. The lowest wage scales of collective labour agreements (CLAs) can be either above, equal to or below the mandatory minimum wage. We investigate the evolution over time of those scales' relative position compared to both the minimum wage and the average contractual wage. We analyse what may explain the declining level of the lowest negotiated wages compared to the minimum wage in the period 2005-2015, in particular the political pressure exerted by the government. Next, we examine the impact of these changes on the incidence of low-wage employment in the Netherlands during the economic crisis. We conclude with some remarks on the protection that the minimum wage and collective bargaining offered to low-wage workers in the Netherlands during the crisis. Section 3 scrutinises the relationship in practical detail for the three industries and the role of the social partners and their views regarding the significance of the minimum wage for their own wage bargaining and vice-versa with a focus on the lowest scales.

1 Minimum wage policy and its effects

This chapter presents the general legal and economic background of the minimum wage. On the legal side, we sketch its establishment over the period 1964–1974 and the main changes that have been made since (Section 1.1), followed by the recent public debate about further possible changes (Section 1.2). On the economic side, we examine how this system of minimum wages – and then especially the uprating over time – has worked out in practice, which means that we look at the evolution of its economic importance for the general progress of wages (Section 1.3), the distribution of (employment by) wages (Section 1.4), and the relevance for personal and household incomes (Section 1.5). We end with a brief overview of the social partners' current views on the minimum wage and of the role of the government (Section 1.6), followed by a summary and discussion of the conclusions (section 1.7).

1.1 Legislating the minimum wage

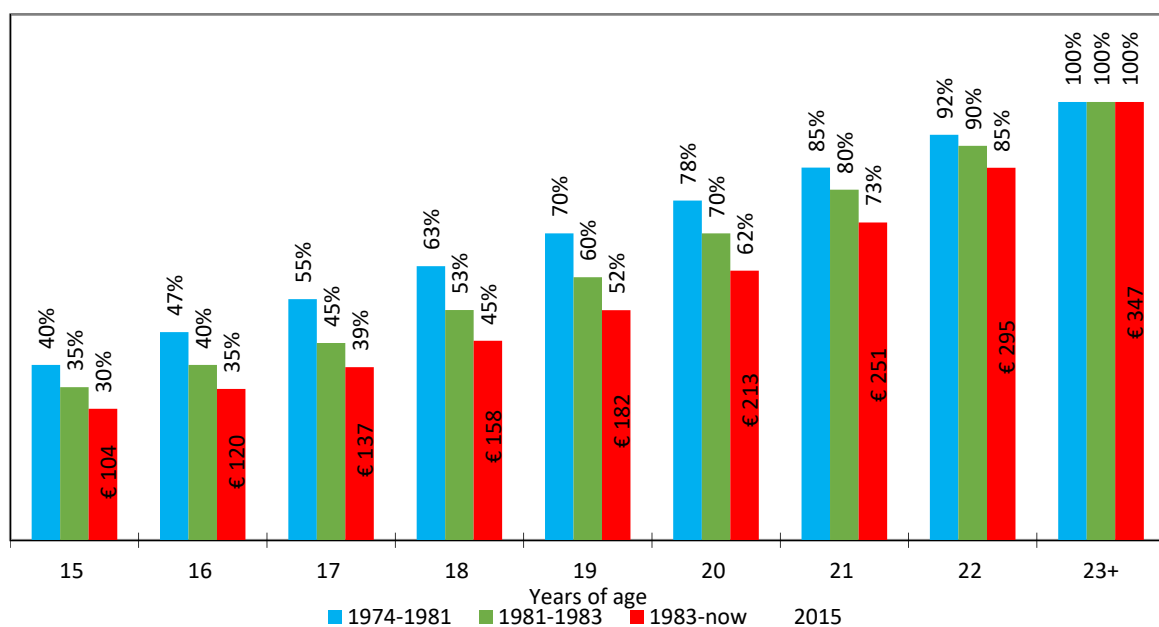
In 1945-1946 a minimum wage was agreed between unions and employers that should provide sufficient income to an unskilled worker living in one of the big cities for maintaining a family with two children (SER, 1965, 7). That idea was taken as a guideline by the *College van Rijksbemiddelaars*, the body established by the government at arm's length for ratifying collective labour agreements. In the early 1960s, in a context of strong industrial action that put an end to the prolonged post-war period of controlled wage moderation, the employers and the trade unions agreed between them on 29 October 1963 to introduce a national minimum *income* of 100 guilders per week (€45,-) for all employees earning a CLA's adult wage or aged 25 years and over. This minimum wage was to be included in all collective agreements. The amount of 100 guilders was deemed to be the minimum necessary for a decent life for a family with children, given children's allowances.¹ However, almost immediately the social partners could not agree about the uprating and the government interfered to set the new amounts via the *College van Rijksbemiddelaars* (SER, 1996, 5). For the first two years the minimum wage applied to male employees only; the extension to women was due to EU legislation. In 1969, the government endorsed the social partners' agreement by introducing a statutory minimum wage when the Act on the Minimum Wage and the Minimum Holiday Allowance came into force. It applied to all employees aged 24 and over and working at least one third of the standard working hours in the sector or company. Hence, for roughly half a century the Netherlands has maintained a statutory minimum wage.

The applicable age was lowered to 23 in 1970 and in 1974 separate statutory youth minimum wages were introduced for workers below the age of 23. These lie substantially below the minimum wage for adults. Their determination was never stipulated in the law itself but was and still is based on a Ministerial Decree, using an option that was introduced in the law in 1970. They define a minimum wage for each separate year of age between 15 and 22 years spanning a wide range of percentages of the adult minimum wage (Figure 1). Initially, the range extended from 40% for a 15-year old in 7 equally sized steps of 7.5% up to 92.5% for a 22-year old. In 1981 this range was widened from 35% to 90%. In 1983, it was again widened with some differentiation between the years of age, now ranging from 30% to 85%, and it has remained there since. Also the seven steps were no

1 Van den Berg (1999) sketches the establishment of the minimum wage with the detail mentioned here and examines the subsequent evolution up to the mid-1990s.

longer equally distributed. Figure 1 shows the average (monthly) levels for 2015 of all minimum wages, running from € 451 at age 15 to € 1279 at age 22 and the adult minimum wage of € 1505 for ages 23 and over. They imply very low hourly levels starting from about € 2.50.² Evidently, this system creates great opportunities for employer arbitrage between youth and adults to the extent that these wage differences exceed possible differences in productivity (which seem small or even non-existent in the relevant, low-skill jobs such as shelf-stacking in super markets). Such options for arbitrage concern not only the precise youth minimum wages but all levels of pay above up to just below the adult minimum wage.

Figure 1 Youth minimum wage ladders 1974, 1981 and 1983 (% of adult minimum wage), and average monthly amounts for 2015 (euros)



Reading note: Initially, the youth minimum wage at age 15 equalled 40% of the adult minimum wage.

Source: Ministry of Social Affairs and Employment

The minimum wage is legally defined as a monthly, weekly or daily amount, depending on the payment period in the company of the employee. Notably, it is not defined on an hourly basis as it applies to what is called the ‘normal working hours’, which in practice amounts to the full-time working week which is defined differently depending on the collective labour agreement (CLA). Employees with a part-time job are entitled to a pro rata amount of the minimum wage given their own working hours in comparison with those full-time hours. Initially, the minimum wage applied only to employees who work at least one third of those CLA-defined full-time hours, but this exception of small jobs was dropped from the law in 1993, since it was then deemed to discriminate against women, who work part-time much more often than men.

The gross adult minimum wage includes the income tax and social contributions that are paid by the receiving employee. It amounts to a monthly average of € 1505 in 2015. This leaves out overtime pay and other extras but it is legally topped up with an annual holiday allowance of 8%³

2 This lends the Netherlands’ wage distribution as long a tail of low pay as Germany had before introducing the minimum wage in 2015 (Salverda and Mayhew, 2009, Table 9), which contrasts with other countries that have a minimum wage with hardly any lower tail such as the UK or France.

3 The percentage evolved from 6% (1969) via 7% (1974) and 7.5(1980) to 8% in 1988 (<https://nl.wikipedia.org/wiki/Vakantiegeld>).

to a total of € 1625,-. Depending on weekly contractual full-time working hours defined in the collective agreement the hourly gross minimum wage varies between, say, € 8.68 (40 hours) and € 9.65 (36 hours), or € 9.38 and € 10.42 including holiday allowance. The net outcome for a full-time employee will be around 13.5% less, while the inclusion of employer contributions to employee social security will add about 17%.⁴

From the start, the statutory minimum wage has included an indexation mechanism for the regular uprating of its level,⁵ which aims to ensure that employees earning the minimum wage share in the general growth of prosperity in the country. The uprating regards the adult minimum wages but naturally also covers the youth minimum wages, as these are defined as percentages of the adult minimum wage. It is currently operationalised as an automatic – again by Ministerial Decree – adjustment to the average change of the contractual wages which are negotiated between social partners in collective agreements and calculated by the government's economic think tank, the Central Planning Bureau (CPB). This is commonly done on a half-yearly basis but on several occasions also three times in a year. Initially, use was made of an index number of CLA-wages maintained by Statistics Netherlands (further: CBS), that, naturally, excluded the effects of the minimum wage itself and included the effects of absolute nominal floors and wage increases. This was applied with a delay of some months.⁶ However, this index number left out wage developments in the public sector, which used to follow the evolution of bargained wages in the private sector but started to deviate considerably from the rest as of 1984 as a consequence of the *Wassenaar Accord* of 24 November 1982 (StvdA, 1982). The Accord was concluded in the Labour Foundation and itself amounted to a trade off between wage moderation relative to productivity growth aimed at improving profitability on the one hand and reducing working time at the request of the trade unions on the other hand. However, in the Social and Economic Council the social partners agreed simultaneously (17 December 1982) on medium-term policy options (SER, 1982, 62ff) aimed at maintaining the purchasing power of private-sector employees in this setting of wage moderation by lowering taxation based on a lowering of public-sector pay and other public spending.

This regular adjustment mechanism was complemented in 1973 with an obligatory evaluation every three years of circumstances that may indicate a special adjustment of the level of the minimum wage. In 1991 the period was extended to a maximum of four years. However, in 1995 the obligation to ask the formal advice of the Social and Economic Council (SER)⁷ was abolished and since then the Minister of Social Affairs and Employment can decide about this unilaterally. In practice he still consulted with the social partners. No increase due to a special uprating has taken place since the 1970s.

4 Income tax is uniform but both employee and employer contributions to employee social insurance may partly depend on the collective agreement. The employer contributions to the occupational pension are excluded; their rates vary between collective agreements and also exempt earnings to varying degrees as a reflection of the fact that these pensions are meant as a top up of the public pension (AOW).

5 Even before the legal enactment in 1969 the government intervened to raise the minimum wage agreed by the social partners.

6 Conversely, the recent lagging of the lowest wage scales on the argument that they shall be lowered to the minimum wage (see Chapter 2) may exert a downward pressure on the minimum wage itself.

7 This body tops the Dutch Polder model's institutions, comprising 1/3 union representatives, 1/3 employment representatives, 1/3 government-appointed independent experts and qq experts such as the directors of the Central Planning Bureau and the national bank, and acts as the main advisory to government on socioeconomic issues. (Cf. Salverda, 2008).

At the time of establishing the minimum wage, the government put the idea that the adult minimum wage identifies the income that is sufficient for a family to live on, in practice by gradually elevating the public old-age pension (AOW) to that level between 1970 and 1974 and further uprating it accordingly. In 1974 the government introduced the so-called 'net-net-linking' of social assistance and the public pension AOW to the net income from the full-time minimum wage. In 1980 this connection was formalised (in the WAM law) by legally equating the net public pension as well as the net minimum social benefits of different kinds for a couple to a couple's net earnings out of a single full-time adult minimum wage; in contrast with a couple a single person is entitled to 70% of this amount. Thus the evolution of collectively negotiated wages, which is the basis of the uprating of the minimum wage, is translated into an increase of all minimum social benefits. It led to a renewed discussion on the uprating mechanism that came to a conclusion with a new law in 1992 that established the current situation. It allowed the government to block the uprating deviate if wage development was deemed to have a negative effect on job growth or if the use of social benefits would incite a sizeable increase in social contribution or taxation. Since then the uprating has actually blocked and the minimum wage nominally frozen for five years in total, spread over two 2.5-year periods (mid-1992 to end-1995, mid-2003 to end-2005).

The prime implication of this linking concerns the dynamics of uprating, which is written in stone and has remained the basic tenet of the Dutch social security system regardless of the subsequent evolution of the minimum wage until this very day.⁸ Consequently, any increase or reduction of the minimum wage will be automatically translated into an equivalent increase or reduction of the basis of social-security spending. Thus any adjustment of the minimum wage rate will have direct implications for the incomes of a much larger group of households than only the workers who earn the minimum wage. This includes households depending on social benefits in particular, and therewith it affects government spending. Evidently, as we will show below, this has far-reaching implications for minimum wage policy in the Netherlands.

1.2 Recent legislative developments

Over the past ten years, since the last freeze ended in January 2006, there has not been much debate about the minimum wage per se. Apparently, the current system is based on a broad consensus, among unions as well as employers and most political parties, that a statutory minimum wage is necessary.

Nevertheless, every now and then it is suggested, mostly by employers or by economists, that the level of the minimum wage should be lowered to enable creating more jobs at the bottom end of the labour market. These pleas are usually countered with the argument that this would imply either that the minimum social benefits would have to be lowered too or, if the link between minimum benefits and minimum wage were severed, that it would create a poverty trap, since the minimum wage would drop below the minimum social benefit level. Up till now, these counterarguments were endorsed by a political majority, preventing any radical change in the level of the minimum wage. However, the fact that the relative minimum wage level has lagged behind the average wage development for more than three decades now, may also be interpreted as implicit support for the thesis that a lower minimum wage is required to create more room for jobs in the bottom half of the wage distribution.

⁸ Individual tax credits have been introduced later (2001) for those actually earning the minimum wage in the labour market.

After this period of relative calm regarding minimum wage policy, recently the debate has heated up again. Three issues in particular are the subject of debate:

- Abolishing or changing youth minimum wage rates
- Introduction of an hourly minimum wage
- Monitoring and enforcement of the minimum wage in the work place.

Youth minimum wages

Youth minimum wage rates are extremely low in the Netherlands, starting with only 30 per cent of the adult minimum wage at age 15, being still lower than half that rate at age 18, and a little below three quarters of this at age 21. This very long tail of low youth minimum wages has been underpinned with the arguments that it stimulates youth employment, and that both the productivity and the needs of youngsters are less than those of adults. Since the two subsequent reductions of the youth minimum wages that were made in the early 1980s the ratios have remained unchanged, and sometimes it was suggested to even extend the system of youth rates to the age of 27. Only very recently, in 2015, Young & United, a coalition of trade union FNV and several youth organizations, organized successful rallies and demonstrations calling for the abolition of the youth minimum wage. They argued that (since 1988) at age 18 one attains the age of majority entitling one to vote in elections while at the same time minimum earnings are less than half the adult minimum wage in spite of the fact that the costs of living are the same. Their actions met with a positive public reception and triggered a debate in Parliament. On 8 September, 2015, a majority in Parliament supported a resolution to increase the youth minimum wage 'significantly' on the basis of 'equal pay for equal work' and requested the Minister of Social Affairs and Employment to present a proposal for change (TK, 2015). The subsequent process demonstrates the workings of the Polder model. In preparation for this the Social and Economic Council (SER) prepared a report in May 2016 (SER, 2016) on the basis of which the Minister proposed to Parliament a law aimed at changing the youth ratings in October 2016. SER preparations were aimed at reaching an agreement between employers and unions on the change and therewith it also provided an important input for the Minister. Along the way a special report was prepared by the government's main economic advisory body CPB at the request of the Minister, which was taken into account in SER deliberations. The government proposed a stepwise lowering of the age of the adult minimum wage from 23 to 21 years by one year in (July) 2017 and 2019 respectively. The second step is made conditional on the absence of substantial negative effects on youth employment. The rates at younger ages will also be adjusted, to (ultimately) 50% for age 18, 60% at age 19 and 80% at age 20. Rates for ages 15 to 17 will remain unchanged. At the same time the government has promised employers to subsidise additional costs. That will be done by means of the LIV (Lage-inkomensvoordeel) policy that will come into force in 2018 to provide a subsidy to employers for employees earning between 100 and 125% of the adult minimum wage and working at least 24 hours per week over the year. Consequently, LIV applicability will be extended to the pay of the 18 to 20-years olds (and initially 21 years) who earn less than the adult minimum wage, but without applying the 24-hour week criterion. All in all this seems a meagre result that in addition is seems an excuse to subsidise employers who are already paying rather low wages. The subsidy will be financed from an increased social contribution by employers, which likely will end up being paid by the employees to the extent that it shrinks the room available for wage bargaining.

Hourly minimum wage

As mentioned, the Dutch minimum wage is not an hourly wage rate, but an amount that applies to the standard payment period in a company, usually a month. This choice should be understood in light of the origin of the minimum wage. In the 1960s, it was agreed upon that the minimum wage should provide sufficient income to a full-time working breadwinner for the needs of his family. It should therefore not depend on the standard full-time working hours stipulated in the collective agreement for the company or sector of work. The natural corollary of this is that minimum-wage workers may have to work longer hours for the same wage in certain firms and industries. Due to increasing variation and flexibility in working hours and differences in standard working hours between sectors, the implementation and monitoring of a monthly minimum wage has become increasingly complicated. For example, if two employees, working in different sectors, both have a part-time job of eighteen hours a week, one is entitled to half the monthly minimum wage if the full-time working week in her/his sector is 36 hours, while the other is entitled to only 45 per cent (18/40) if the full-time working week is 40 hours. If the working hours per week vary, for example in case of a so-called min-max contract or an on-call contract, the applicable minimum wage is even harder to determine.

To simplify the calculation of the relevant minimum wage, the introduction of an hourly minimum wage would be an obvious choice. However, this will cause transition problems in sectors with a longer or shorter standard workweek than would correspond with the new hourly norm. If the hourly minimum wage would be calculated on the basis of a 40-hours workweek, then full-time employees in a sector with a shorter standard workweek would receive less than the current level. In the case of a 36-hours workweek, this would mean a 10 per cent reduction of the monthly minimum wage. By contrast, if a 36 hours workweek would be taken as the basis for the calculation of the hourly minimum wage, employers in sectors with a 40-hours workweek would be confronted with an 11 per cent rise of the minimum wage to be paid. Moreover, since the minimum benefit levels are linked to the minimum wage, a choice has to be made about the standard workweek that will be taken as the norm for the calculation of the minimum social benefit.

These transition problems have prevented the introduction of an hourly minimum wage when discussed in, e.g. 2003 (TK 2004, 16-17) in the past. However, the introduction of an hourly minimum wage in Germany incited the Minister of Social Affairs and Employment to reconsider the option of introducing an hourly minimum wage for the Netherlands. However, in October 2016 the proposal to Parliament on changing the law with regard to the youth minimum wages has remained silent about the hourly issue. Interestingly, the monitoring by the Labour Inspectorate for the enforcement of the minimum wage has since 2011 compared payments with the hourly minimum wage that corresponds to the 40-hour week.

Monitoring and enforcement

Monitoring the compliance with the minimum wage legislation has never been a priority of the Dutch government. Although the Labour Inspectorate (currently the Inspectorate Social Affairs and Employment) often checks the payments of workers when an inspector visits a company to examine the working conditions or the employment of illegal immigrants, there is no active investigation policy regarding minimum wage compliance. Traditionally, minimum-wage enforcement

was based on private law: individual workers could file a complaint with the court in case they were underpaid by their employer. Since those workers often have a vulnerable position, it was not very likely that many of them would do this, unless they were supported by a trade union.

In 2007, this private enforcement was replaced by administrative enforcement, which means that the Inspectorate can impose a fine if it finds that an employer violates the minimum wage law. Currently, this fine varies between € 500 in case of less than 5 per cent underpayment for a period of one month to € 10,000 in case of more than 50 per cent underpayment for at least six months.

The effective monitoring and enforcement of the minimum-wage legislation has become increasingly complicated due to the strong growth of atypical employment relations, such as (bogey) self-employed, on-call contracts, payroll contracts, posted workers, contracting and labour migrants. Often, it is not immediately clear whether these employment relations are covered by the minimum wage law. Consequently, companies may hire workers on these kinds of contracts to circumvent minimum-wage legislation (and also other types of legislation, regarding social insurance, employment protection and working conditions).

To combat the abuse of these non-standard employment relations, in June, 2015, the Parliament passed the Act on fighting sham arrangements (WAS). This law introduces a number of measures regarding (minimum) wage payment, in particular:

- The obligation to specify wage components;
- The prohibition of cash payment;
- The prohibition of deductions from the wage to compensate for costs that are incurred by the employer; however, deductions, for housing and health insurance are still allowed, on certain conditions and up to a certain maximum);
- The minimum is wage also applicable to assignment agreements (called 'ovo') based on piece rates.

The new law proposed in October 2016 includes some improvements for determining the minimum wage for piecework and extra work done on assignment agreements.

1.3 The level of the minimum wage and general wage trends

To broaden this background we now turn to a sketch of the economic side of minimum-wage developments. First, in this section, we relate the evolution of the level of the minimum wage to that of collectively negotiated wages, actually earned wages and labour productivity in general – note that Chapter 2 will zoom in specifically on the *lowest* negotiated and earned wages. Next, in Section 1.4, we will examine the employment position of persons who earn the minimum wage. Section 1.5 brings both together for a brief examination of the minimum wage vis-à-vis household incomes.

Over time the level of the minimum wage is driven by its regular uprating, which normally occurs twice a year, in January and July. In the mid-1970s the special adjustments were used to raise the level to catch up with the effects of fixed-amount increases in negotiated wages that benefit the lower wage scales and lift them above the minimum wage, and also with the developments

in actual earnings that exceed the trend in negotiated wages (SER, 1979, 11). *The times they are a'changing* – in the 1970s the outcomes of collective negotiations on the lower scales determined the minimum wage while nowadays the opposite prevails as the minimum wage itself has gained precedence over the lowest scales, as we will see later, and actual earnings trends are also ignored. Different considerations regarding the state of the economy, including the level of unemployment and trends in purchasing power, came to prevail, and special adjustments were no longer made to increase the minimum wage; actually, they were even used to freeze its nominal level as in 2004 and 2005 (AMvB, 2003).

In spite of the enactment of the WAM law's net-net-linking in 1980, under the influence of the deep recession in the Netherlands of the first half of the 1980s⁹ a debate started almost immediately about the desirability of this indexation mechanism. After all, it implied that a large rise of collectively negotiated wages would also result in a significant increase in the minimum wage and thus of all minimum social benefits. If there would be, in view of the economic situation, an 'irresponsibly large' pay rise in collective agreements this would force the government to implement that increase also in minimum wages and minimum benefits and therewith it would significantly affect government spending. On 24 November 1982 the well-known *Wassenaar Accord* was concluded by the social partners, who agreed on wage moderation relative to productivity growth in the private sector and who supported also an advice given by the Social and Economic Council on 17 December 1982 to delink public-sector contractual wages (which used to be uprated in line with private-sector wage growth albeit with a delay),¹⁰ as well as social benefits and the minimum wage. Subsequently, all three: the minimum wage, social benefits and public-sector pay, were nominally lowered by the government as of 1 January 1984 by 3% - while consumer prices still rose by more than 3% annually. In each year between 1984 and 1989 the WAM law was temporarily deactivated by ad hoc law making, and as a result the minimum wage remained nominally frozen for the rest of the 1980s. Finally, in 1992 a new law, the Act Linking with Derogation (WKA law), was passed that gave the government the authority to freeze or lower the minimum wage in case of an 'extreme' wage increase or an increase in the number of social-security recipients that would necessitate an upsurge of social contributions or taxes. This last condition is operationalized as an automatism by means of an increase in the so-called 'inactivity ratio' (i.e. the number of benefit recipients as a percentage of the number of employed persons) above the rather precisely fixed level of 82.6. As a consequence of this new law, the minimum wage was not fully adjusted to the negotiated wage growth in 1992 and frozen from July 1993 until January 1996. In 2004 and 2005, subsequent to the dotcom crisis, the minimum wage was frozen again but now by means of the special adjustment clause of the Law on the Minimum Wage (as the inactivity ratio remained too low to justify this) and based on a social pact concluded with the social partners in October 2003 about a general wage freeze in view of the economic situation. Surprisingly, over the nine years since the financial crisis began in 2008 the uprating of the minimum wage has not been touched but, evidently, the inputs given by negotiated wage growth have been much diminished.

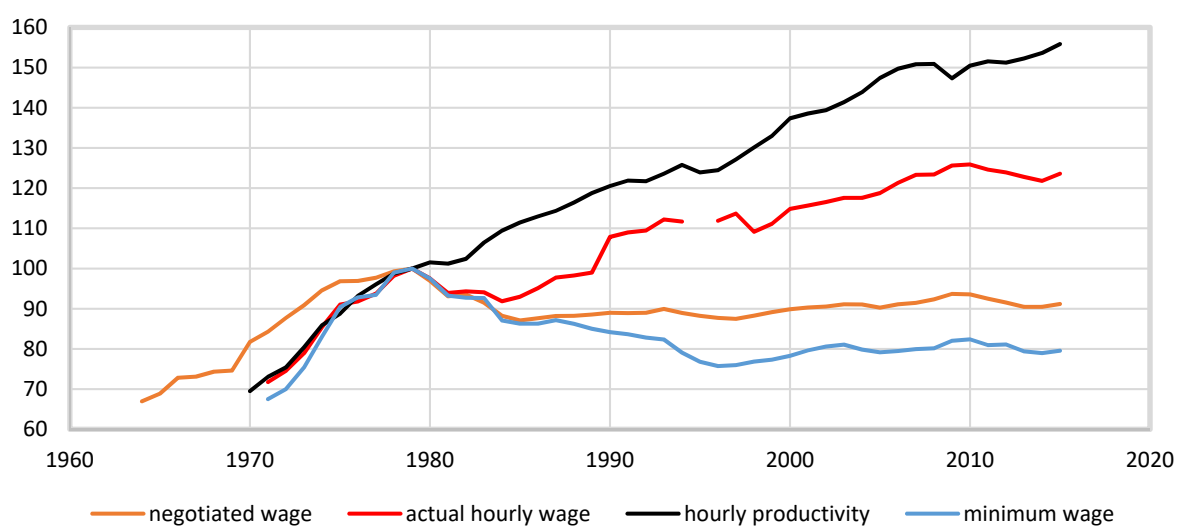
Figure 2 shows the cumulative impact of the adjustment (or lack of adjustment) of the minimum wage since its introduction in 1964. Index numbers after deflation for consumer prices depict the evolution of the real minimum wage and compare to those of collectively negotiated wages (a

9 The net employment rate of men aged 55-64 fell from 61% in 1979 to 42% in 1989; the employment rate of the least-skilled all men aged 15 to 64 declined from 80% in 1981 to 50% in 1989.

10 SER (1982, 62-63). See also Salverda (2013).

chained index number itself but deflated here). At first the minimum wage slightly lagged negotiated wages, as the in-built delay of indexation mechanism would suggest. However, during the second half of the 1970s the minimum wage increased more strongly than the negotiated wages and in 1979 it reached its highest point at 61% above that of 1964. This happened partly because several times the minimum wage was specially adapted to the CLA increases that were made in absolute amounts (instead of percentages), which augmented the lowest wage scales more than the overall index number would suggest, and also to more rapid increases in actual earnings compared to negotiated wages. Taken together this led to special uprating by 3% in 1973, 2.5% in 1974 and 1.7% in 1976. However, the regular uprating lagged behind negotiated wages already in 1976, 1979, 1980 and 1981. This development over the 1970s was interspersed with temporary increases at the end of 1976 and in 1977.

Figure 2 Adult minimum wage, average contractual wages and actual wages, hourly labour productivity, 1964-2016



(wages with CPI deflator, productivity with GDP deflator; 1979=100)

Reading note: In 2015 hourly productivity is 56% above the level of 1979.

Note: Hourly wage: OECD Economic Outlook no 99 wage, rate corrected for the latest number of employees published by CBS

Source: CBS (Statline); Ministry of Social Affairs and Employment

After 1979 both the minimum wage and negotiated wages after deflation declined in tandem by 13% until 1985, especially due to the lowering of the minimum wage with 3 per cent in 1984. As result of its subsequent freeze until 1990 and another freeze (mid-1993 to 1996), the minimum wage fell until 1997 by 23% from the high level of 1979 (but it still remained 20% above the start of 1964). This decline opened up a 10% gap with the trend of negotiated wages which had stopped declining after 1985. This divergence has remained largely unchanged since with a slight widening due to yet another freeze of the minimum wage (2004-2005). In real terms the level of the adult minimum wage increased from 1997 to 2010 by 7% and then fell again by 2% up to 2015. Real negotiated wages reached their maximum also in 1979 (+49% to 1964) followed by a 13% decline to a minimum in 1985 (still +35% to 1964), which is where they have largely remained ever since.¹¹ Over the 40-year period 1964-2015 average negotiated wages have grown by 36% and the minimum

11 Note that this combined a rise in the private sector with a decline in the public sector (Salverda, 2013).

wage by 29%, after deflation. Current levels of both are equal to those of 1973, so the first ten years of increase after its introduction remain.

In turn, collectively negotiated wages themselves have lagged behind the growth of actual average real hourly wages¹² and therefore the minimum wage has lagged even more behind average prosperity growth than the CLA wages suggest. The evolution of actual wages is also indicated in Figure 2.¹³ They increased more in line with the minimum wage than with negotiated wages over the 1970s and after that showed also a brief (1979-1981) and smaller (-7%) decline. This was followed by a gradual increase up to 25% above the 1979 level in 2009, which has stalled for the rest of the period to 2015.

Across the board, wage negotiations have for long years barely compensated for rising prices and left the advantage of productivity growth¹⁴ entirely in the hands of employers. Hourly productivity growth is also shown in Figure 2. Over the 1970s it grew in line with the minimum wage and actual wages; subsequently, it kept growing, albeit with some short-lived recessionary fluctuations in the early 1980s, the mid-1990s and 2009, up to a level 54% above that of 1979. Compared to the year 1973 the minimum wage and negotiated wages show zero growth in 2015 and a 94% gap has opened up with productivity growth. The gap is filled roughly halfway by actual wages; they also lag increasingly behind productivity growth especially since the turn of the century.

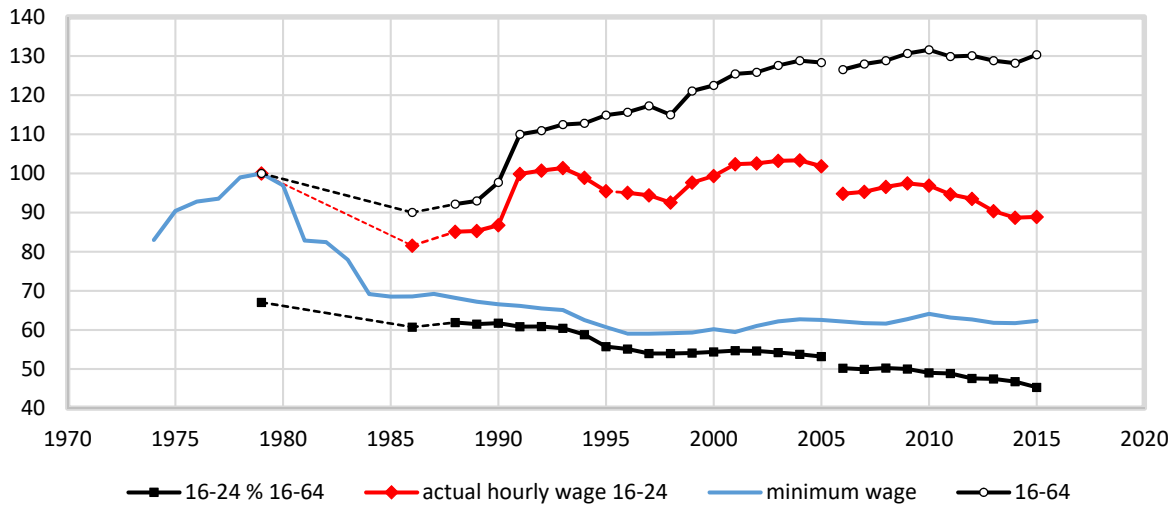
Thus, the persons paid the minimum wage experienced a multiple effect of decline. They lagged contractual wages which in turn lagged actual earnings which in turn lagged economic growth. Obviously this evolution equally affected those receiving social benefits (with a very slight exception for the public pension AOW). This prolonged wage moderation seems an important input into the real freeze of more than the lower half of the household gross income distribution over the last 35 years (Salverda, 2014).

12 See Salverda (2009a) for a discussion of the divergence between CLA wages and actual earnings.

13 This is the average over all hours worked. It is a running average and may have grown less due a composition shift as part-time employment has grown very strongly and is on average paid less.

14 Though deflating wages by the deflator of GDP (which grew somewhat less than consumer prices) would be more appropriate for comparing to productivity growth, the conclusion remains the same: a 11-14% growth for the minimum wage and negotiated wages and a 72% growth in actual earnings still lag 94% productivity growth.

Figure 3 Youth minimum wage, actual earnings of young and all employees (1979=100) and their ratio, 1974-2015



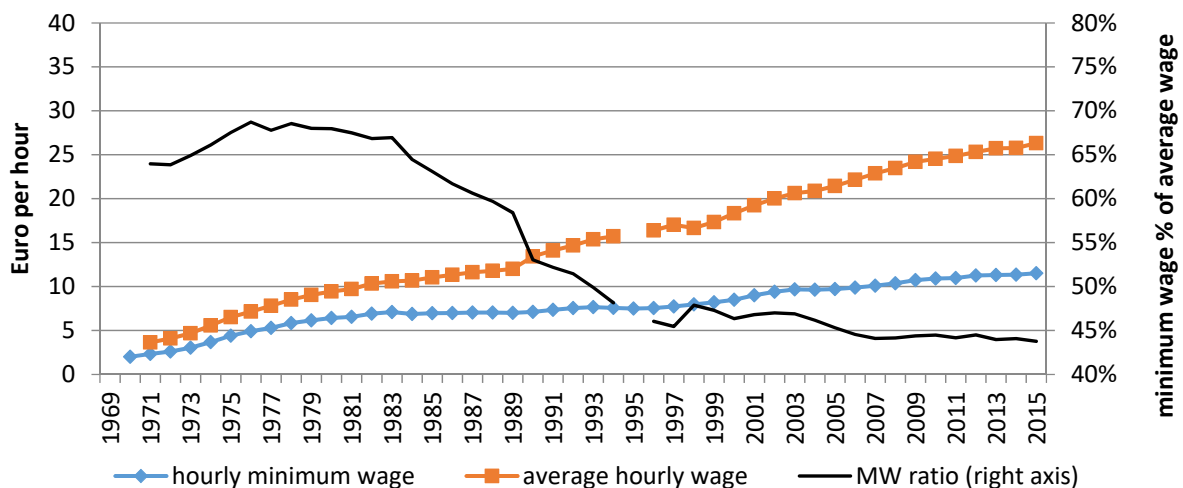
Reading note: In 1974 the minimum wage after deflation starts at a level of 83% of that of 1979.

Source: Our calculations on CBS wage survey data, published and unpublished.

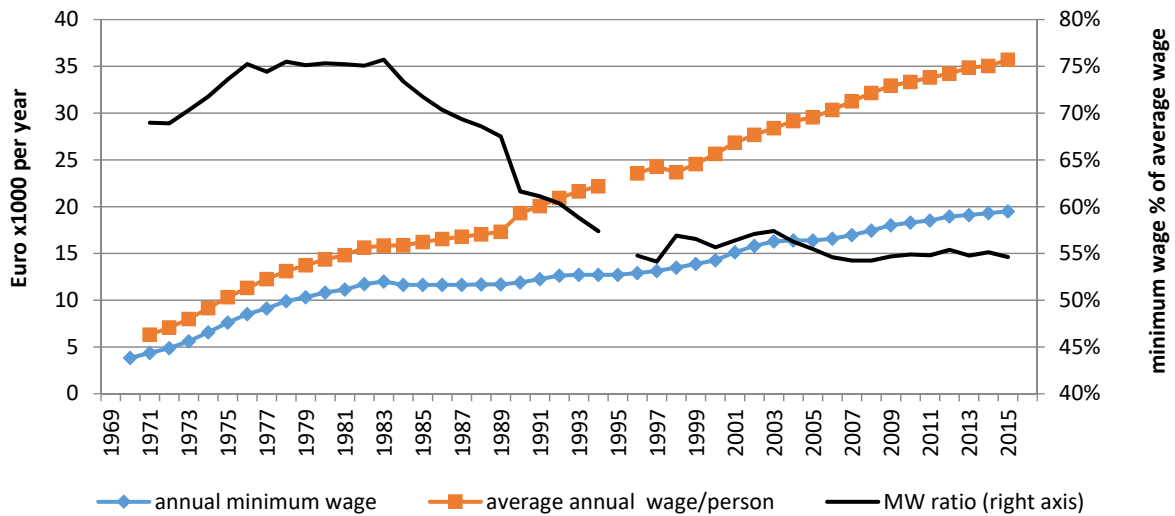
Figure 3 spells out the comparative effects for youth. The decline of their minimum wages was stronger because of the two reductions relative to the adult minimum wage of the early 1980s. The decline has gone hand in hand with a lagging behind of their actual earnings in comparison with adults, indicated by a comparison to actual earnings of the entire population. The ratio of actual youth hourly wages to the general average declined from 67% in 1979 to only 45% nowadays – one of the lowest in Europe (Salverda, 2015a).

Figure 4 Real hourly minimum wage and hourly wage, annual averages, 1970-2015

A. Annual hourly average



B. Annual personal average



Reading note: In 1971 the minimum wage divided by average weekly hours equals 64% of the average hourly wage while divided by the number of persons it equals 69% (both on right-hand axis).

Source: Our calculations on SZW data for the minimum wage and CPB data for the annual compensation of employees and their hours of work.

Figure 4, Panel A, pictures the corresponding absolute levels of the diverging minimum wage and actual earnings that were shown in Figure 2. It shows for both the annual hourly averages, excluding employer contributions but including the annual holiday allowances. The ratio of the minimum wage to the average increases until 1976 to around 68% and stays roughly flat until 1983 but then starts a free fall of 20 percentage-points, which is followed again by a slow further decline. In 2015 the minimum wage amounts to about 43% of the average actual hourly wage.

Panel B adds a different perspective, on the same wage definition, namely the annual full-time minimum wage basis in comparison with the average annual earnings of individual employees. It shows the same pattern of rise and decline with two interesting differences: the relative level is higher and is more stable after the mid-1990s. Both point to the role of part-time employment. First, this is on average paid less than full-time jobs role, which can explain the higher relative level here; second, its share of employment has rapidly expanded,¹⁵ meaning that hours worked per person have declined. This explains that the decline between 1983 and 1995 – though it also encompasses 20 percentage-points – is smaller relatively to the higher starting level and that in recent years the minimum wage showed no further decline but has remained stable. The actual average wage of Panel A is a running hourly average, uncorrected for the strong composition shift from full-time to part-time employment; Panel B implies that it gives too rosy a picture of the relative minimum wage.

15 Over recent decades all growth of the employment-to-population rate has been due to growing part-time employment.

1.4 Employment at the minimum wage

Next to the wage distribution it is important to see where the uprating mechanism has led the minimum wage in the distribution of employment. First, we describe the most recent situation and next we turn to the evolution that preceded this, and, third, we compare that employment evolution with the relative level of the minimum wage. Note that in this section employment concerns jobs and not persons. This has two implications. First, persons (and their characteristics), who have more than one job will also be counted more than once. It seems likely, for the ease of combining, that such additional jobs will be small and may more often be low paid at or close to the minimum wage.¹⁶ Second, such persons may actually earn more from their jobs combined than the minimum wage. We will come back to the number of persons involved in the next section.

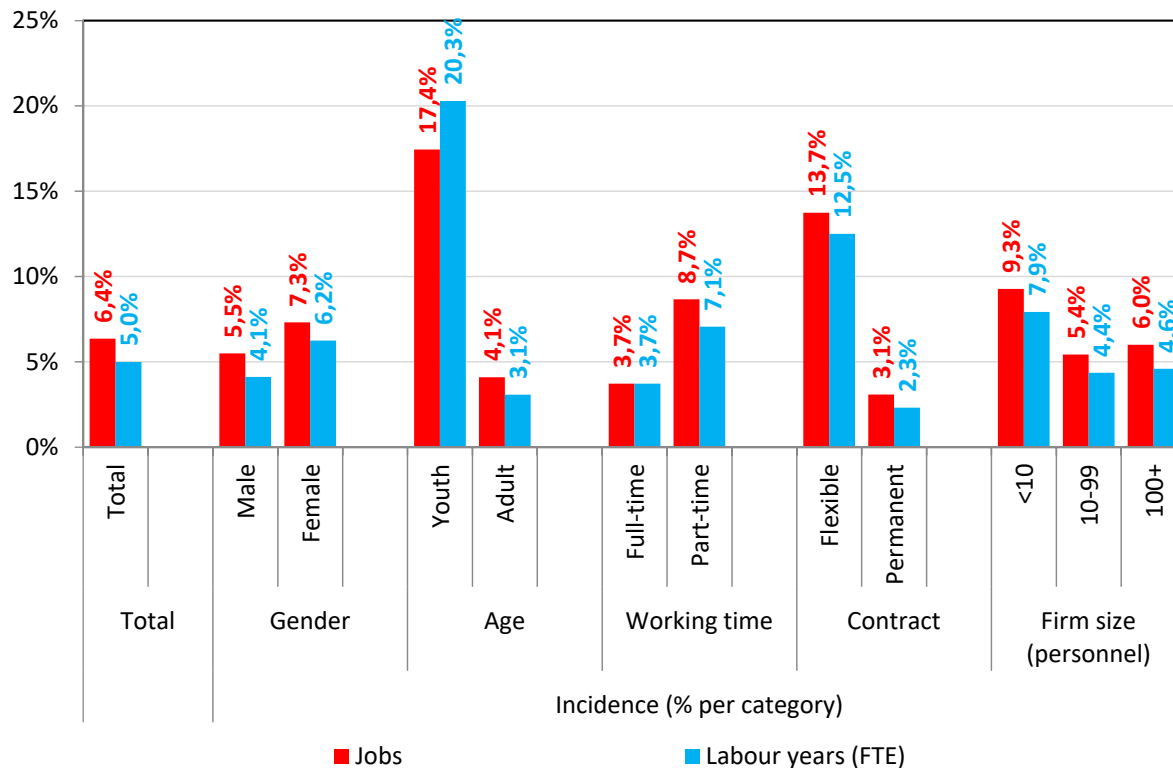
Current level and structure of minimum-wage employment

Focusing on employees only and thus leaving out the self-employed, 490.000 jobs are paid the minimum wage out of a total of 7.7 million jobs in 2014. Figure 5 depicts the incidence of minimum-wage employment for this year along two main dimensions: jobs and hours worked (also: FTE), for five types of characteristics: gender, age, working time, type of contract, and firm size. Unfortunately, no further crossing of these characteristics with each other is available. In the aggregate, 6.4% of all jobs are paid at the minimum wage, be it the adult one or any of the age-specific youth minimum wages. The share among all hours worked over the year instead of the number of jobs is lower (5.0%), reflecting the large role of part-time jobs among minimum-wage employment. Males, adults, full-time working hours, permanent contracts and firms with more than ten employees have below-average incidence. Evidently, the opposite characteristics: females, youths, part-timers, flexible contracts and small firms, have a higher incidence. The important role of part-time jobs is demonstrated by their more than twice higher incidence (8.7%) compared to full-time jobs (3.7%).¹⁷ The gender differences seem modest and both show a clear effect of working hours, which is even larger, relatively, for men than for women. Apparently, men working full-time are less often paid the minimum wage than women on full-time hours.

16 In 2011 330,000 or 4.3% of all jobs were a second small job, including 30,000 who combine with self-employment. The second-job incidence among youth (120,000 or 9.1%) exceeds that of adults (3.3%) significantly particularly because they combine often two small jobs (45,000) (CBS, 2013).

17 The distinction is made as less (part-time) or more (full-time) than 35 hours per week. As a result part-time may include some jobs which are contractually full-time but have fewer than 35 hours (e.g. shift work at 32 hours).

Figure 5 Minimum-wage employment incidence: percentages among different categories, jobs and hours, 2014



Reading note: Among all male employees 5.5 % are paid the minimum wage

Note: Age: 16-24 versus 25-74; working time: 35+ vs <35 hours. Permanent includes directors of self-owned firms.

Source: Our calculations from CBS (Statline)

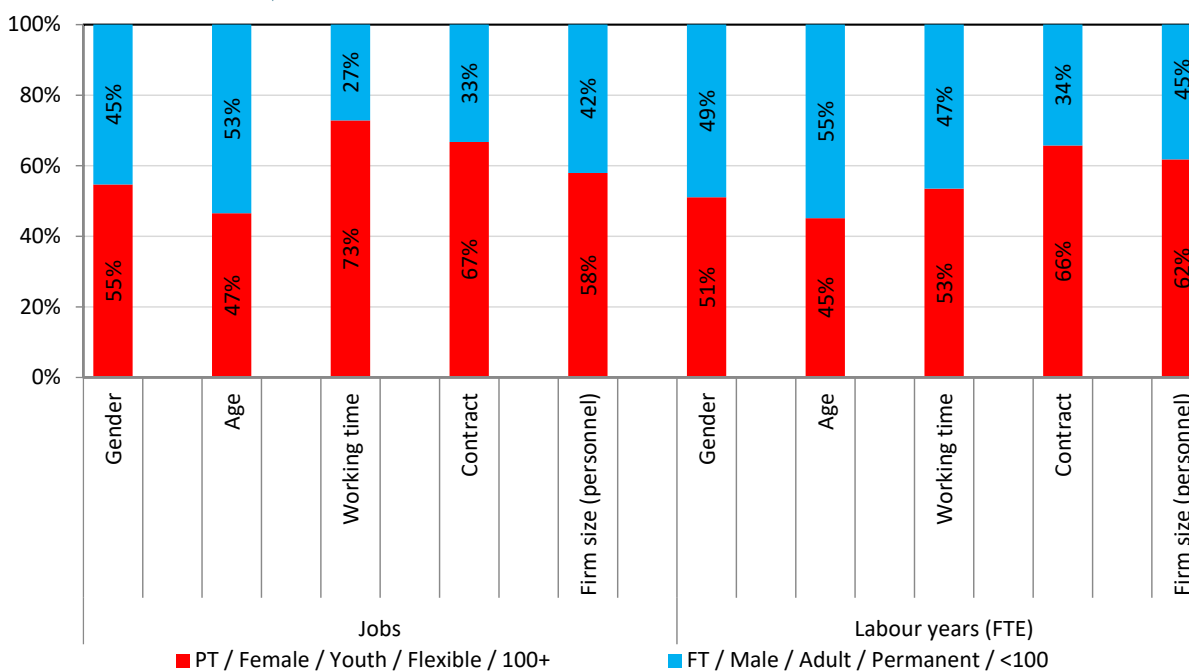
By far the highest incidence is found for youths: 17% of their jobs and 20% of their FTE.¹⁸ Note that, unfortunately, this statistic includes the 23- and 24-year olds to whom the adult minimum wage applies, instead of providing the relevant age breakdown up to 22 years. The higher incidence for FTE is surprising and can perhaps be explained by the concentration of larger jobs among older youths. The age dimension shows about the biggest gap as youths receive the precise minimum wage (17.4%) 4.3 times more frequently than adults (6.5 times, if measured by FTE). Age is clearly the most salient characteristic compared with working time and gender. The second-highest incidence is reached by jobs with flexible contracts (14%), again a 4.5 times higher frequency than their permanent counterparts (5.5 for FTE). Finally, the incidence is clearly higher among small firms (9.3%) but the gap is modest. Interestingly, the incidence among large firms with 100 or more employees slightly exceeds that among the middle-sized ones with 10 to 99 employees.

To shed more light on this, Figure 6 presents the composition of minimum-wage employment within these categories, combining their share in overall employment with the incidence. This is done again for the two dimensions: jobs in the left half, and hours in the right half of the figure. The gender distribution remains rather evenly splits, and in spite of their much higher incidence youth

18 Unfortunately, since 1995 no data have been available for the age group 15-22, to which the youth minimum wages pertain. Incidental data for 2014 indicate for them the same incidence of 17.4%; as this implies a high incidence for ages 23/24, the corresponding incidence among 23-74 (4.8%) exceeds that among 25-74 (4.1%). (Inferred from CBS, 2015).

also make up close to half of all minimum-wage jobs. The far majority of job-count minimum-wage jobs are either part-time (73%) or flexible (67%). Understandably, the former is much reduced for the hours count (53%). However, the flexible share is not and remains almost unchanged (66%). Apparently, flexible jobs have on average the same working hours as permanent jobs. The flexible share in FTE (66%) exceeds the of all other categories which are sensitive to the minimum wage; this points to the presence of the flexible minimum-wage jobs also among males, adults, full-timers, and larger firms.

Figure 6 Minimum-wage employment composition: distribution over different categories, jobs and hours, 2014



Reading note: Of all minimum-wage jobs 55% are held by women.

Note: Age: 16-24 versus 25-74; working time: 35+ vs <35 hours. Permanent includes directors employed by their self-owned firms.

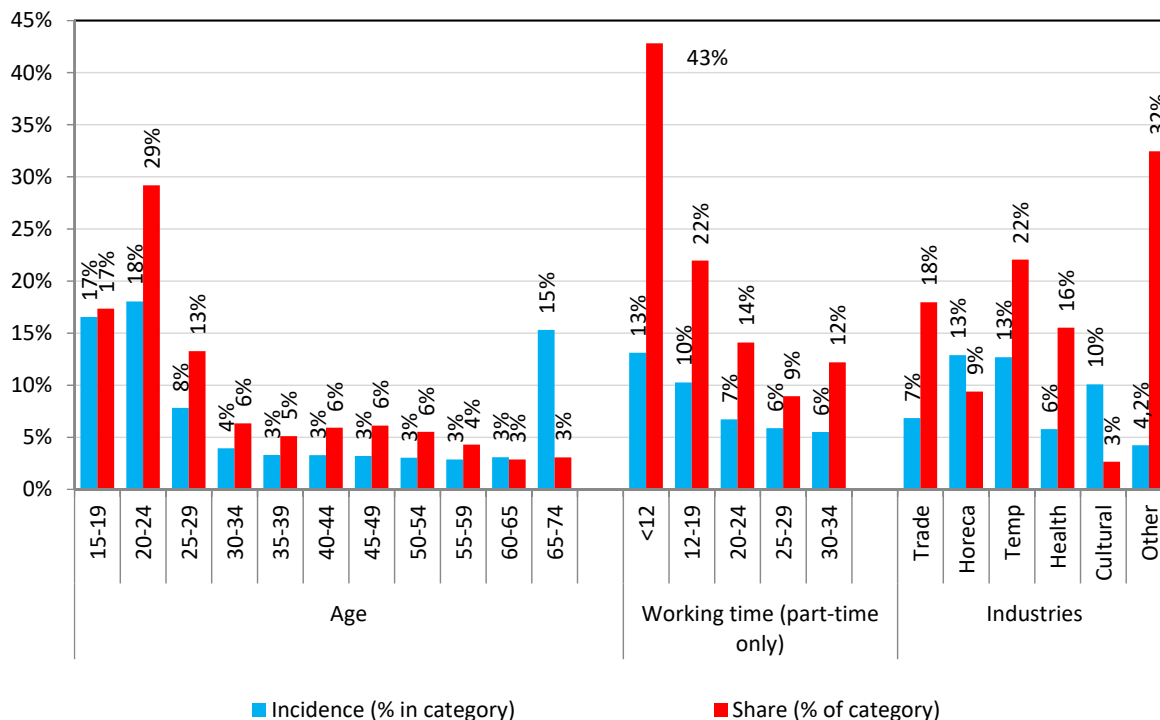
Source: Our calculations from CBS (Statline)

Figure 7 details the incidence and composition of minimum-wage employment from left to right for age, part-time working hours, and various industries. For age the incidence shows little difference between the two youth groups 15-19 and 20-24 years (17%-18%) but as the older group is more often employed they have a larger share (29%) in minimum-wage employment. Most adult age groups show little difference in incidence and share. The exception are the over-65s, whose incidence (15%) is comparable to youth, but combines with a small share. Among part-time jobs the incidence declines with longer working hours, as it does also between part-time as a whole and full-time. The smallest jobs of less than 12 hours per week have a higher incidence and comprise close to half of all part-time minimum-wage jobs.

The figure also looks at different industries highlighting five with either a high incidence (Trade, Hotels and catering, Temp work and other business services, and Cultural work) or a high share combined with an average incidence (Health care). Taken together these five industries comprise 51% of all jobs and combine an average minimum-wage incidence of 8.4% with a share of 68% of all minimum-wage jobs; the remaining eleven industries combine an incidence half as large (4.2%) with also half as large a share (32%). Interindustry differences are more marked for the small jobs

(not shown). In particular, a high 7% of all jobs in Hotels and restaurants are small jobs paid at the minimum wage; by contrast, in the other industries with a low minimum-wage incidence such small minimum-wage jobs are almost non-existent. It would be interesting to explore whether in parts of the Dutch economy the business model hinges on the minimum wage as that may affect the employment effect of the minimum wage differently from other parts where the minimum wage is of secondary importance. Unfortunately, available data cannot shed sufficient light on this issue.

Figure 7 Minimum-wage employment incidence and composition: some details, jobs, 2014



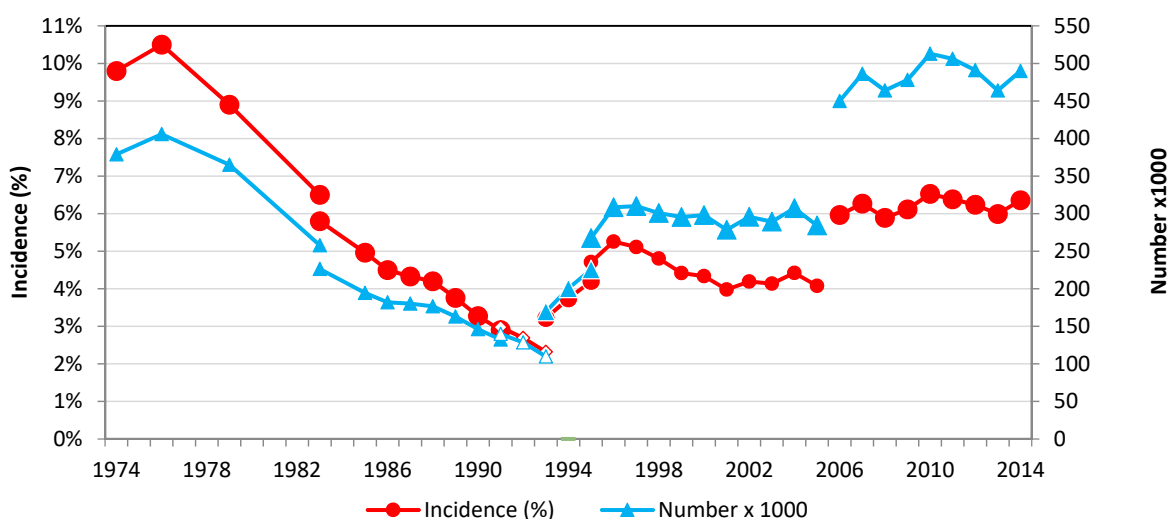
Reading note: Among the 15 to 19 year old 17% are paid a youth minimum wage and they happen to make up 17% of all minimum-wage earners.

Source: Our calculations from CBS (Statline)

Evolution of minimum-wage employment

For understanding the effects of the evolution of the level of the minimum wage and the uprating mechanism behind this, we take stock of how the employment numbers and incidence have evolved since the 1970s. Figure 8 shows the aggregate evolution of the number and percentage of employees (jobs count) earning the minimum wage, starting from the year 1974 when the full system of minimum wages was established. It shows, first, a particularly strong, more than four-fold decline for the incidence (from 10.5% to 2.3%) between the end of the 1970s and the early 1990s. This is followed by two increases, in the mid-1990s (up to 5.4%) and mid-2000s (up to 6.5%). The numbers decline is less extreme but the subsequent increases are relatively larger.

Figure 8 Numbers and incidence (%) of the minimum wage, original data, jobs, 1974–2014



Reading note: In 1974 379,000 employees earn the minimum wage and make up 9.8% of all employees.

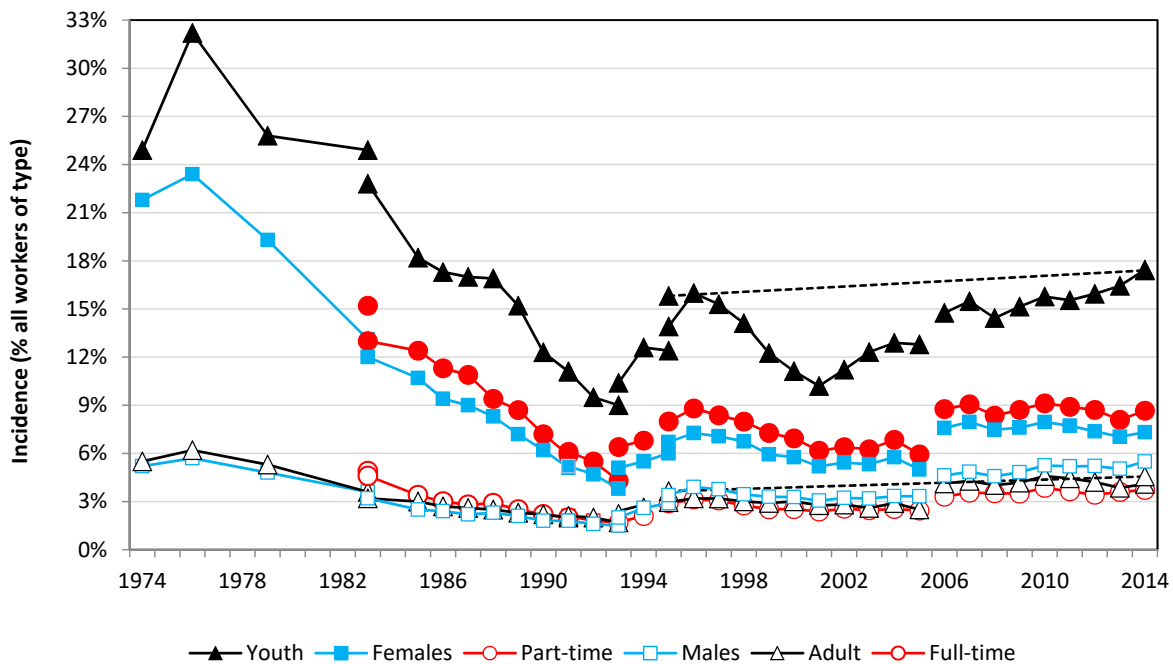
Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

However, these data are fragmented and incoherent over time. The figure indicates five breaks, in 1983, 1991, 1993, 1995 and 2006. Of those only one break occurs because of a change in the minimum wage itself, namely when in 1993 persons working less than one third of normal working hours became also entitled to the statutory minimum. Another break concerns a change in the method of observation, when in 1983 a special minimum-wage survey of employers was terminated and replaced with statistical inferences made by CBS Netherlands from its regular general wage survey.¹⁹ Subsequently, the operationalisation of that survey was changed several times, casting its net increasingly wider over the labour market and each time improving in particular the surveillance of small and low-paid jobs, which evidently are highly relevant for minimum-wage employment and each time add particularly to its numbers. This improved, first, the coverage of jobs present at the moment of observation in the year, from which, second, certain inferences were made by Statistics Netherlands for the year as a whole, and, finally (in 2006), it led to the comprehensive coverage of all job occurrences during the year. For the latter break the source of the data also changed, from enterprise reporting to the social security administration. These changes have culminated in the current state-of-the-art observation, which covers all jobs in existence during

¹⁹ The special survey could not provide a breakdown of the incidence by full- and part-time working hours.

a calendar year. Without accounting for the effects of these changes the current levels could be interpreted wrongly as a considerable increase in minimum-wage employment relative to earlier years, as the absolute numbers are now higher than ever before and also the incidence is as high as it has even been after the 1970s. Unfortunately, along the way the presentation of the results was also changed. In 1995 it shifted away from the youth minimum-wage category of 15-22 year to the common youth labour-market category of 15-24 year, while at the same time the reporting of separate years of age was dropped and the total age group covered was broadened from 15-64 to 15-74 years, The first change also added flexible contracts as a confusing third category next to full-time and part-time (flexible can be part-time or full-time as well), which fortunately was abolished again in 2006. Cross-tabulations of gender, age and working time were shrunk in 1995 and largely abandoned in 2006. This is at odds with fact that the quality of the data is better than ever before and it positively hampers our analysis of the most recent years.

Figure 9 Incidence (%) of the minimum wage by age, gender and working time, 1974-2014



Reading note: In 1974 24.9% of all youth earn the youth minimum wage.

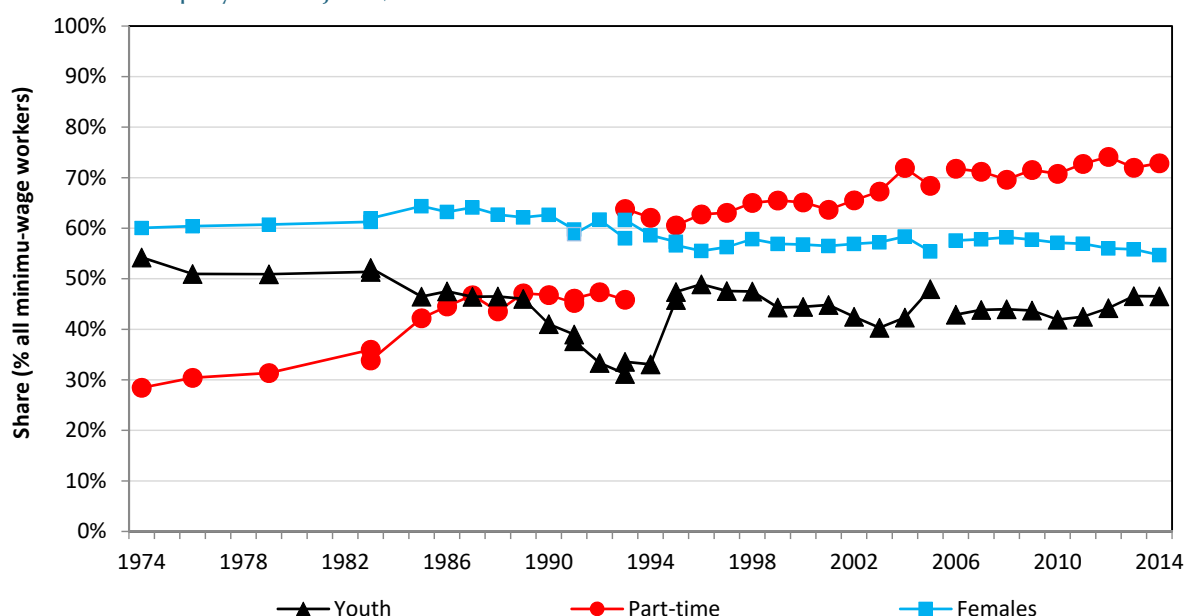
Note: Dotted lines 1995-2014 are for age groupings 15-22 and 23-64 respectively.

Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

Figure 9 adds disaggregate, compositional detail, spelling out the employment incidence for six categories across three types of characteristics: age (youth and adults), gender (males and females), and working time (full-time and part-time). The evolution of the aggregate incidence: upward, downward, upward, is shared by all six, albeit to different extents. The fourfold decline of the incidence between 1976 and 1993 is stronger for women (six times, 23.4% to 3.8%) than for men (5.6% to 1.5%), youth (32% to 9%) and adults (5.7 to 1.5%). Overall, between 1974 and 2014, women also experience the strongest decline. The stronger overlap between youth, women and part-time on the one hand and between men, adults and full-time on the other hand transpires from the figure.

Figure 10 informs about the trends in the relative contributions of the three types of characteristics to total minimum-wage employment, indicating the shares for youth, females and part-time workers respectively. Each share is complemented above the line up to 100% by the share of its counterpart (compare Figure 6): adults, males, or full-time workers respectively. The gender distribution seems very steady, with a virtually unchanged majority of 60% for women. Apart from a temporary decline in the mid-1990s, youth show largely the same picture with a share that remains slightly below 50%. By contrast, the share of part-time employees has more than doubled from 30% to more than 70%. Apparently, minimum-wage employment has shifted strongly away from full-time to part-time jobs. This is an important feature that complicates establishing the employment effect of the minimum wage. It would be mistaken to base that scrutiny on job-count employment numbers as these would risk mixing the effects of splitting of full-time jobs into part-time jobs with possible minimum-wage effects.

Figure 10 Shares (%) of youth, females and part-time employees in total minimum-wage employment (jobs), 1974-2014



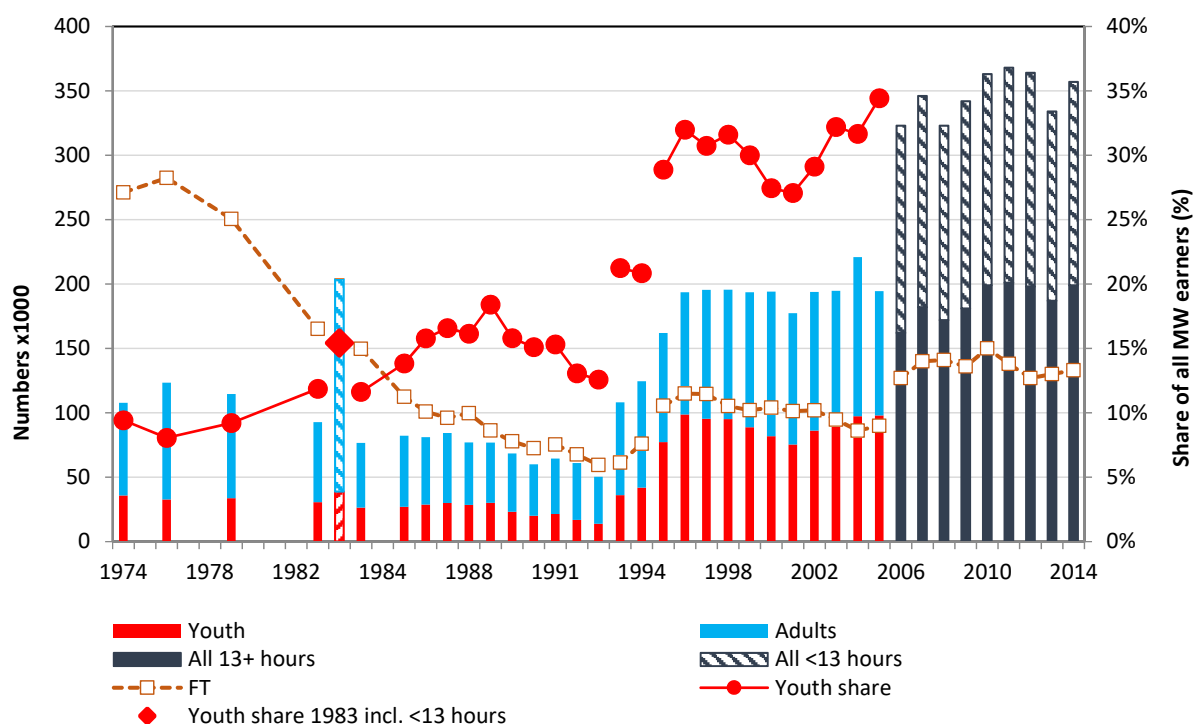
Reading note: In 1974 Women make up 60% of all minimum-wage earners.

Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

Figure 11 presents further detail to show in particular some of the overlap of the increasing part-time numbers with other characteristics. It shows a declining absolute number of full-time minimum-wage jobs (dashed line) together with a growing concentration of minimum-wage jobs in part-time employment. Full-time jobs seem to survive the series breaks much better than part-time jobs, apparently because they are better observed from the start. Compared to 1974, when there were no more than 100,000 minimum-wage employees working part-time, the number seems to have doubled up after 1995 and further again after 2005 to more than 350,000 jobs nowadays. Clearly, these absolute numbers are very sensitive to the series breaks. However, the incidence of the minimum wage among part-time jobs changed surprisingly little at the same time (Figure 9). It points to the enormous expansion of part-time employment in the Netherlands and suggest that newly covered jobs had largely the same minimum-wage incidence as those already observed before. Figure 11 adds two other interesting details. The age breakdown, which unfortunately is no

longer available after 2005, points to an increasing concentration among young part-time workers. Their share of all minimum-wage jobs, full-time and part-time combined, grows to one third in the mid-1990s. Especially, their numbers are particularly sensitive to the improving observation of small jobs – one example is that youths delivering newspapers to the readers’ home are included in 1995. The important role of jobs of less than 12 hours per week speaks strongly from the data after 2005. Close to half of all part-time minimum-wage jobs belong to that category. These numbers differ surprisingly little from the special data for 1983 that CBS obtained from a special survey of the pay levels of employees who at the time were not entitled to the minimum wage because they were working less than one-third of the usual working week (see the single peak). However, the share of youth was much less in 1983 than it is now. Apparently, the small jobs have shifted considerably from adults – read: adult women – to young people.

Figure 11 Part-time minimum-wage jobs by age and gender, 1974-2005



Reading note: In 1974 271,000 minimum-wage jobs are full-time.

Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

The level of the minimum wage and employment

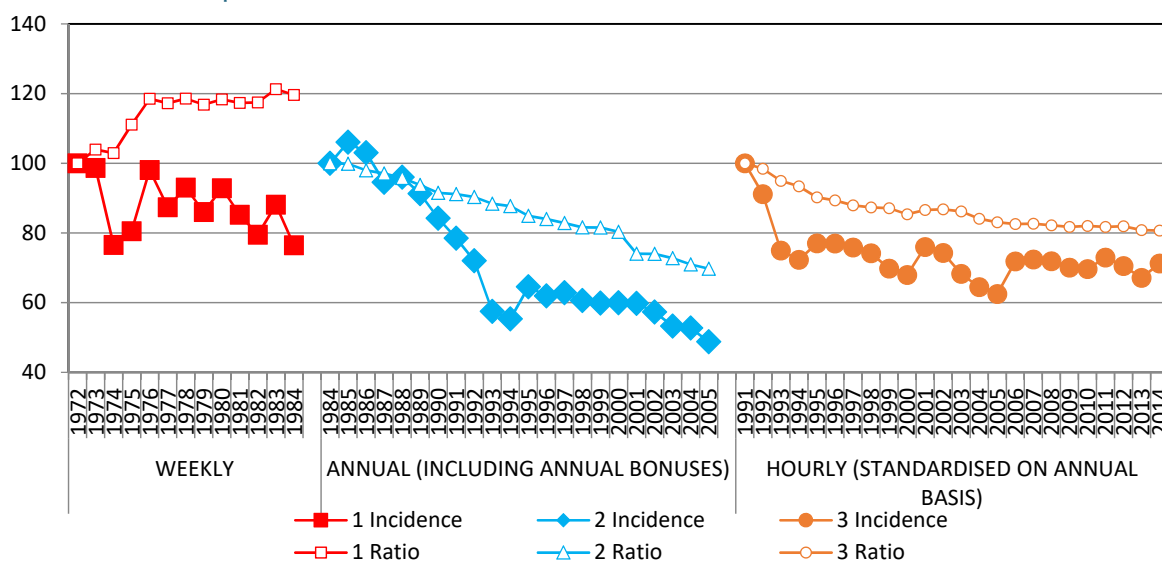
Let us first note that the data above represent the jobs that receive the applicable adult or youth minimum wage, which stretches over a broad range of pay levels (Figure 1). Consequently, they do not measure employment against a uniform threshold. In this sense the minimum-wage employment statistic seems more a legal one than an economic one. However, for examining the economics of the minimum-wage & employment nexus a uniform measurement is essential. Therefore we apply here the adult minimum wage as a uniform threshold instead. This can help to also illuminate the possible arbitrage due to the much lower youth minimum wages as employers would make use of the price difference. Evidently, such arbitrage would extend beyond the specific youth minimum wages alone and exploit the price differences than can arise over the whole range

of pay between youth minimum wages and the adult minimum wage. It is important to realise that the employment incidence of the adult minimum wage exceeds that of the exact legal minimum wages exactly because of this. A rough estimate puts it much higher for 2014, at 16% compared to the jobs-count level of 6.4% (See Figure A2). Evidently, all of this difference concerns youth as it derives from the disparity between the youth and adult minimum wages. It implies that more than 60% of youths are paid below the adult minimum wage, 3.5 times the percentage (17.4%) for the precise youth minimum wages and 9 times the corresponding percentage of adults.

In addition to adopting this uniform measurement threshold, it is imperative to account also for the growing role of part-time jobs, often very small ones. The economics of the minimum wage supposedly affects the volume work, i.e. the hours worked, while the number of jobs executing these hours derives from that volume. As we saw for 2014 the hours-based incidence of the minimum wage (5.0%) is less than the jobs-based one of 6.4%.

A first step towards comparing the trends of the minimum-wage level and its employment incidence can be put by focusing on full-time jobs only. This prevents pay levels being mixed up with working hours. It also gives us as long a series as possible, all the way back to the early 1970s, while more precise information about part-time minimum-wage employment is available since the early 1990s only. In addition, the observation of full-time jobs seems less sensitive to the series breaks compared to part-time jobs.

Figure 12 Adult minimum wage: employment incidence and ratio to the median wage, full-time working employees only; index numbers for three data periods and wage concepts: 1972-1984, 1984-2005, and 1991-2014



Reading note: Between 1972 and 1984 the share of minimum-wage employment in total employment declined by 24%; the minimum wage grew by 20% compared to the median weekly wage.

Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

Figure 12²⁰ compares the evolution of the incidence of full-time adult-minimum-wage employment together with a measure of the relative minimum wage, taken as a percentage of the corresponding median full-time wage, depending on the nature of the data available for each period under scrutiny.²¹ For this we use statistics of the wage distribution²² from which we derive both the incidence of the adult minimum wages and the median wage with the help of linear interpolation within classes of the distribution. Note that the ratio to the median annual wage for 1984-2005 shows a lower level. The reason is that occasional annual payments are included. The important implication is that on a weekly or an hourly basis as for the first and the last period, the relative level of the minimum wage may be overestimated. Unfortunately, the data provide no detail about age and gender.

Surprisingly, the figure does not convincingly support the mainstream a priori prediction of opposite effects, namely that minimum-wage employment will fall (or increase) if the level of the minimum wage increases (or falls) as higher (or lower) labour costs will discourage (or encourage) labour demand – also if considered here in a relative sense. Over the first period 1972-1984 in the graph this relationship would seem to be borne at first glance. However, if we look more precisely the incidence appears to increase at the same time (1974-1976) that the relative level (the ratio of the minimum wage to the median) also increases while after that there is a slow employment decline though the relative level remains almost unchanged. The evolution between 1974 and 1976 cannot be ascribed to the introduction of the youth minimum wages in 1974 because we measure against the adult minimum wage and young workers are included in the data from the start in 1972.²³ Particularly, during the second and the third period the relative level and the incidence both decline in tandem – the lowering of the minimum wage goes hand in hand with a reduced significance for employment. This is consistent with empirical studies that depart from the standard a priori prediction and take a more open approach towards the employment effects of the minimum wage, as was first done by Card and Krueger (1995) and later by many others in the American and British debates. The disemployment effect may be found only at sufficiently high levels of the minimum wage and not below. Below depend on the level has been income position of the minimum-wage earners. At lower levels an increase of the minimum wage level will then mostly bring minimum-wage earners higher up the wage distribution and improve their income position by bringing them higher up in the wage distribution, and vice versa a lowering will essentially push them deeper into low pay without helping their employment prospects.

However, the picture would lead astray if full-time jobs were actually privileged by arbitrage leading to a shift towards part-time jobs and towards youths at lower wages. The full-time-to-part-time shift found above for job numbers is now spelled out in Figure 13, Panel A, for the volume of hours worked and with more detail about working hours. It covers the period since 1991 for which more

20 It is a stylised version that linearly chains into index numbers the further detail that is found within each of the three periods separately (see Figure A1).

21 Note that for a proper measurement of incidence and ratio the minimum wage itself also needs adjustment to the applicable wage concept. For example, the statistics on hourly wages is based on annually standardised hours, after deduction of national holiday, individual holiday entitlements and the annual shortening of working hours given as days off over the year instead of fewer weekly hours, and the hourly minimum wage should be determined accordingly. Hourly pay is based here on regular monthly pay without occasional annual payments.

22 These have also been the sources of the minimum-wage statistic since in 1983 the special survey was terminated, and they show the same breaks.

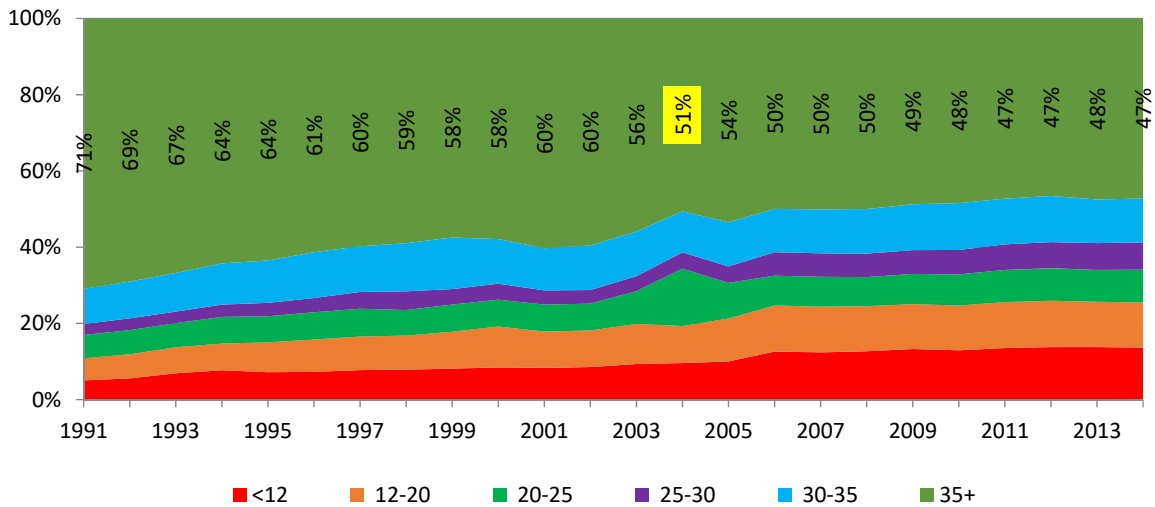
23 Alternatively, one would need to assume that the introduction of youth minimum wages has actually lowered youth wages in general instead of increasing them.

detailed working-hours information is available and wage data are also more adequate (hourly) for the comparison with working hours and also more consistent over time. It shows strong changes, which enhances its analytical value.²⁴

The full-time share in minimum-wage hours falls by one third from 71% of the total to 47% (the jobs counts share really dwindles from 49% to 23%, not shown). At the same time the share of the smallest jobs of less than 12 hours per week almost trebles from 5 to 14% (for the jobs count from 23% to 44%). Minimum-wage jobs clearly shift from full-time to part-time. This reflects a similar growth of part-time jobs in employment as a whole. The minimum-wage incidence within each of the hours categories does not change much (see Panel B) and apart from the smallest jobs tends to decline slightly. However, this does not imply that the shift among minimum-wage earners is neutral and affects all types of jobs and levels of pay equally. To the contrary, the lower the skill level of the occupation the more important part-time jobs are, and part-time growth increase has gone hand in hand with a rapid fragmentation of the least-paid least-skilled jobs.²⁵

Figure 13 Adult-minimum-wage hours worked and working-time bands, 1991-2014

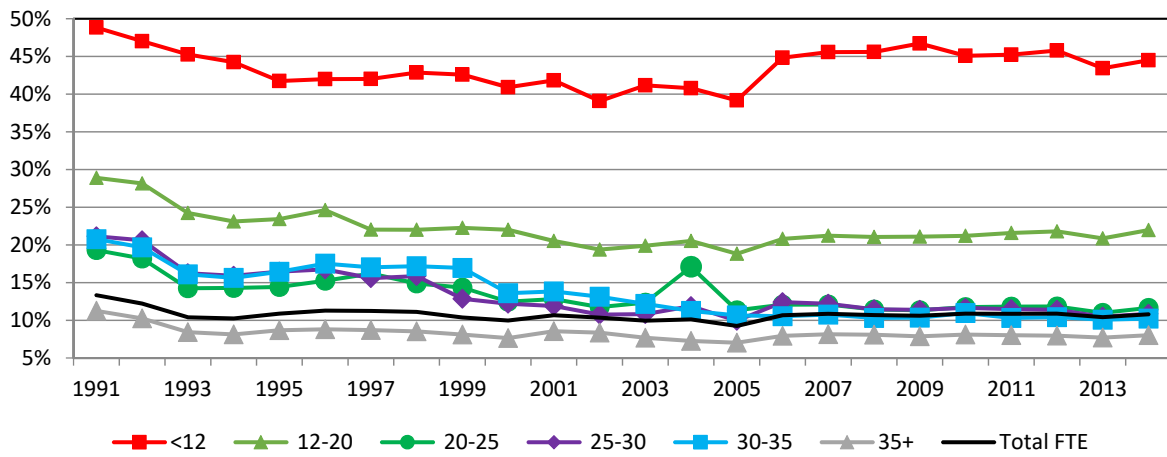
A. Distribution over working-hours bands of all hours worked that are paid at or below the adult minimum



24 In 1983 (including those working less than 13 hours) the full-time share would have been similar compared to 1991, approximately 67% for the hours count. In other words preceding developments may have been relatively small.

25 Salverda (2015b) shows that 80% of elementary jobs are now part-time, often small part-time.

B. Incidence of adult minimum wage employment in total employment within hours bands



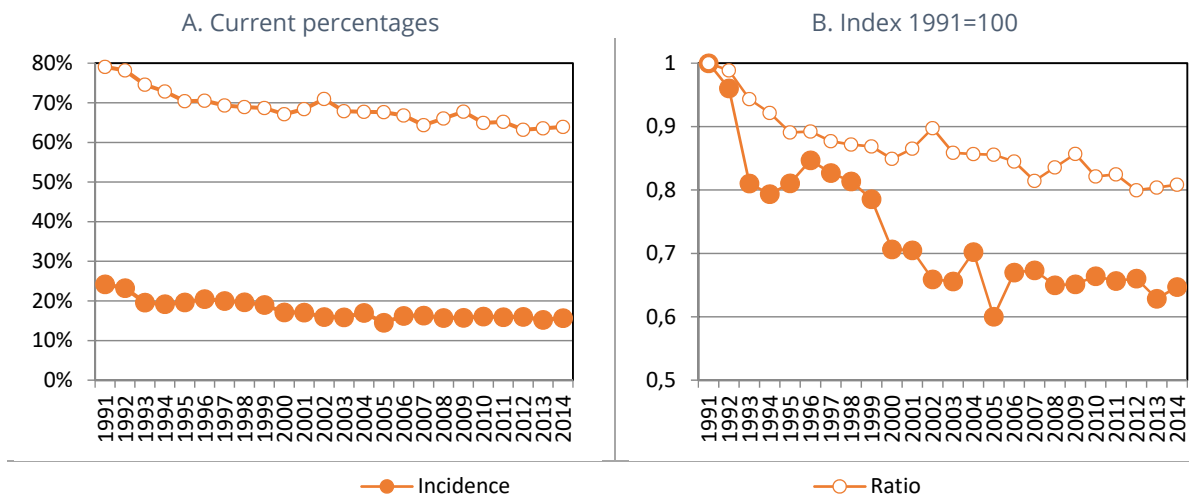
Reading note: In 1991 hours worked in full-time minimum-wage jobs comprise 71% of all minimum-wage hours worked.

Note: The hours distribution is determined with the help of the mid-points of the four part-time working-hours bands and average full-time hours, all relative to 35 hours per week as a definition of the full-time equivalent. Outcomes for 2014 seem mistaken for the 20-25 hours category (Statline also no longer provides detail for this category in that year). Series breaks in 1995 and 2006.

Source: Our calculations on CBS wage survey data, published and unpublished.

Importantly, the minimum-wage & employment nexus among part-time hours shows much the same trend as we found for full-time workers. Figure 14 compares the evolution of the minimum-wage incidence with the ratio of the minimum-wage to the median hourly wage of all part-time hours worked. Panel A indicates how high these levels are for part-time employment (adult and youth taken together) compared to full-time: the minimum wage amounts to around 70% of the median and the incidence is close to 20%. Panel B shows that their evolution is almost identical to that of the corresponding, third period of Figure 11. Also for part-time hours, the relative wage declines and the incidence decreases even more, again in contrast with mainstream expectations.

Figure 14 Adult minimum wage: Employment incidence and ratio to the median hourly part-time wage, hours worked in part-time jobs only

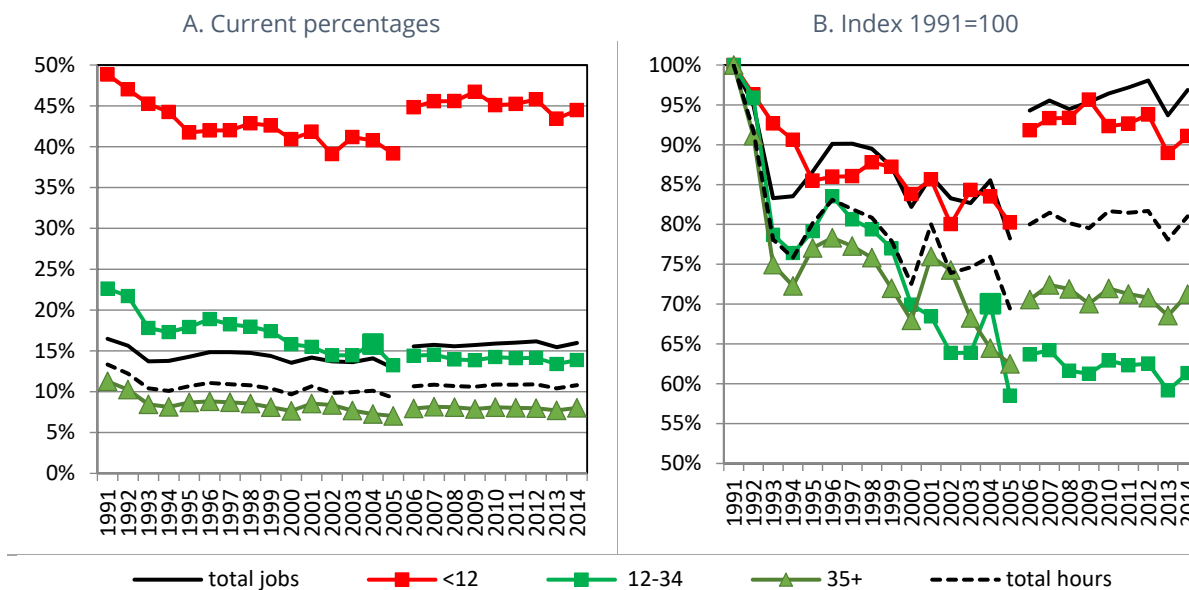


Reading note: In 1991 24.2% of all part-time jobs are paid at or below the adult minimum wage, and that wage amounts to 79% of the median the

Note: Part-time is defined as less than 35 hours per week.

Source: Our calculations on CBS wage survey data, published and unpublished.

Figure 15 Adult -minimum-wage employment-hours incidence by working-time, 1991=100, 1991-2014

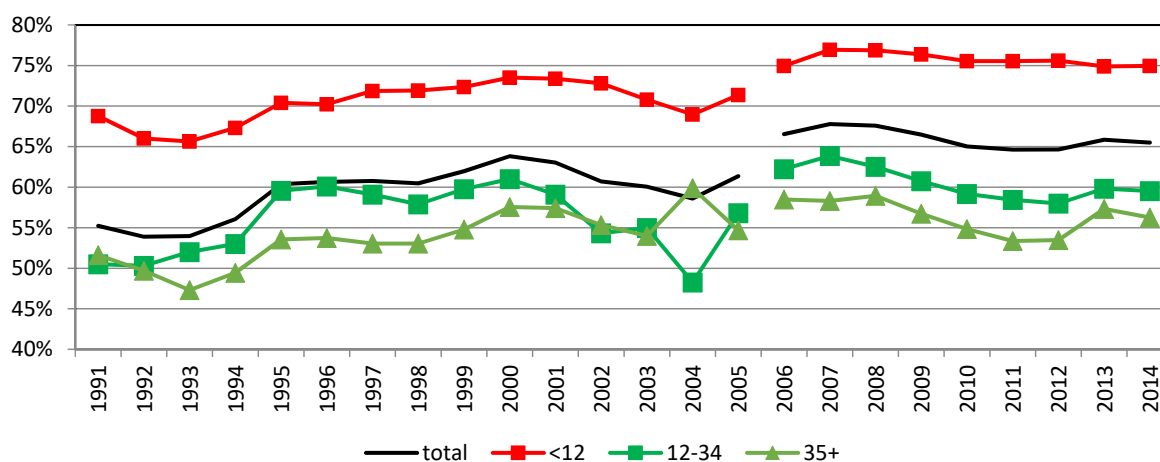


Reading note: The fraction of small jobs of up to 12 hours per week for which the adult minimum wage or less is paid is 49% in 1991.

Source: Our calculations on CBS wage survey data, published and unpublished.

However, the variation in part-time working hours far exceeds that of full-time jobs, which makes it worthwhile to take a more detailed look. Summarizing Figure 13b, Figure 15 distinguishes between the smallest jobs of less than 12 weekly hours on the one hand and the larger ones of 12 to 34 hours on the other hand, and it also compares to full-time jobs. Panel A shows the levels of the incidence over the years while Panel B sharpens the picture by indexing to the first year. The incidence of the minimum wage among small jobs, close to 50%, appears to be dramatically higher compared to the rest and in addition it declines less over time. In conjunction with the growing share of these jobs in minimum-wage employment this incidence seems to set the course for the evolution of the overall minimum-wage incidence among jobs as the two run almost in parallel in Panel B. Naturally, this high rate on small jobs affects the average incidence for hours less, as the few hours of the small jobs reduce their volume significantly. Still the effect of the 2006 series break is very substantial. At first sight the more rapid decline of the incidence among the larger part-time jobs (Panel B) than among full-time jobs seems inconsistent with a possible arbitrage between these two categories. However, the picture is still consistent with a possible arbitrage between the larger part-time jobs and the small ones.

Figure 16 Adult -minimum-wage employment-hours: the share (%) of youth within working-hours bands, 1991-2014



Reading note: In 1991 61% of all hours worked by minimum-wage earners working up to 12 hours per week are provided by youth below the age of 25.

Note: The opposite evolution for 23-34 and 35+ hours is due to mistaken data.

Source: Our calculations on CBS wage survey data, published and unpublished.

Given the much lower youth minimum wages the question to ask is how that group's role has evolved. Figure 16 presents the approximate shares that youths have in minimum-wage hours among small, larger part-time and full-time jobs and in the total. Similarly to the adult-minimum-wage estimations above we estimate the number of jobs now found below 85% of the adult minimum wage, which is the maximum minimum wage that youth can attain at the age of 22. It is a minimum estimation to make sure that no adults are included; it may overlook some youth between this level and the adult minimum wage but it is unlikely that this will change the trends. Apparently, youth have a growing presence in all working-hours bands. An upward trend is found in the 1990s and it resumes after the dotcom crisis, and does not depend on the series break of 2006. Apparently, there is a move towards lower paid youth across the board – they are cheaper regardless of the working hours and they contribute particularly to cheapening small part-time hours. However, the small jobs are attractive also because of their working hours as demonstrated by their relatively high minimum-wage incidence among adults; with an estimated 20% it is four times higher than for adult full-timers while for youth it is not even twice as high as for young full-timers.

1.5 The minimum wage and personal and household incomes

A comparison to incomes that are generated by earnings in the labour market, can help to clarify the role of the minimum wage more broadly. Such a comparison has several important respects. Evidently, it should be done on an annual basis, as that is the metric of incomes. The minimum wage plays a different role here from that as a minimum level of pay in exchange for the work effort. Its role for household incomes may be affected by the system of income taxation that has lent the minimum wage on an annual basis a crucial role for tax credits since these were introduced with the important overhaul of the income tax system in the year 2001. Personal incomes may stay below the annual minimum wage if they are earned in part-time employment and/or for

part of the year only (due to labour market entry or exit or a temporary contract). This can happen even though the hourly pay level may exceed the minimum wage. Due to the combination of personal incomes the distribution of household incomes will look different, but at the same time this means that persons with minimum pay and/or a minimum income can spread higher up the income distribution. In other words, not all minimum wages and incomes are necessarily found in households that are concentrated at the bottom of the income distribution, and this may systematically be the case – think of second earners.

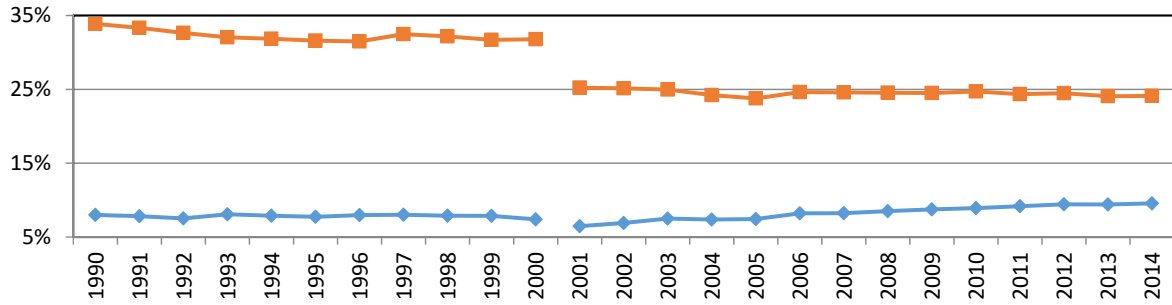
Figure 17 compares the full-time annual minimum wage to the distribution of earnings for individual employees as well as their households. Panel A shows, first, that between one quarter and one third all persons who work during the year obtain the adult minimum wage or less. This is about twice as high as the incidence among earners on the basis of hourly pay which varies between 13 and 16 per cent of all jobs (Figure 13). The level for full-year workers only is found about half-way the two, as it varies between 18 and 24 per cent, due to the substantial – but declining – role of part-year workers. At the same time the panel indicates that a much lower share, up to 10 per cent, of all households face combined earnings that are less than the minimum wage. Panel B shows how the minimum wage compares to the average earnings. It equals 50 to 60 per cent of the mean for individual persons, and 30 to 40 per cent for household earnings. Apparently, a large part of low earnings is integrated in household incomes and helps those incomes to move upward, away from the minimum-wage level. Interestingly, the situation of persons seems to improve slightly while that of households worsens - especially in recent years as the incidence grows from 6.5 to 9.6 per cent after 2001 and the ratio to the average from 31 to 34 per cent after 2005.

For that period, fortunately, some more detail is available that can shed light on this situation from two different angles. Figure 18, Panel A, shows among the same set of households with any earnings from labour that the minimum-wage incidence is twice higher among single-person households than among more-person households (50% as against 25%). In contrast to the former, the latter can potentially combine earnings. Panel B specifies for all persons with a primary income,²⁶ the minimum-wage incidence in relation to the persons' position as an earner in the household.

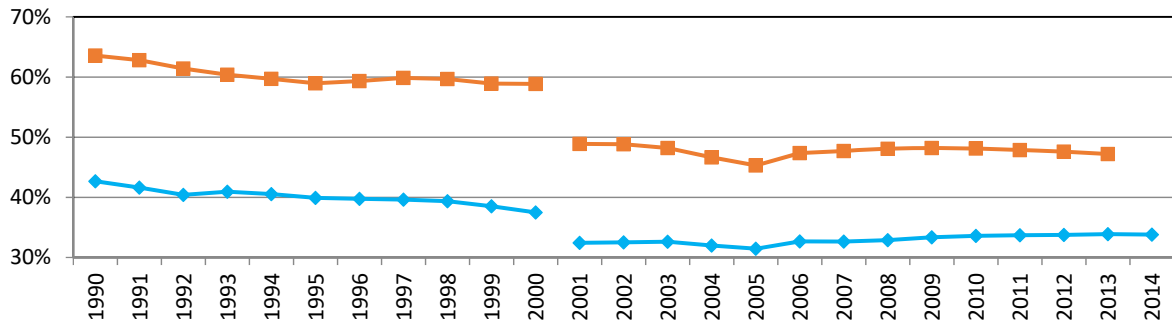
26 In itself a broader category than those of Figure 17 who have earnings only but here restricted to full-year workers only to control for part-year working and also restricted here to persons in partnered households only. Note that heads and partners will be usually of a different gender.

Figure 17 Annual full-time minimum wage and personal annual primary income of employees

A. Percentage with annual earnings < minimum wage: Persons versus households



B. AMW levels as percentage of mean annual earnings: Persons versus households

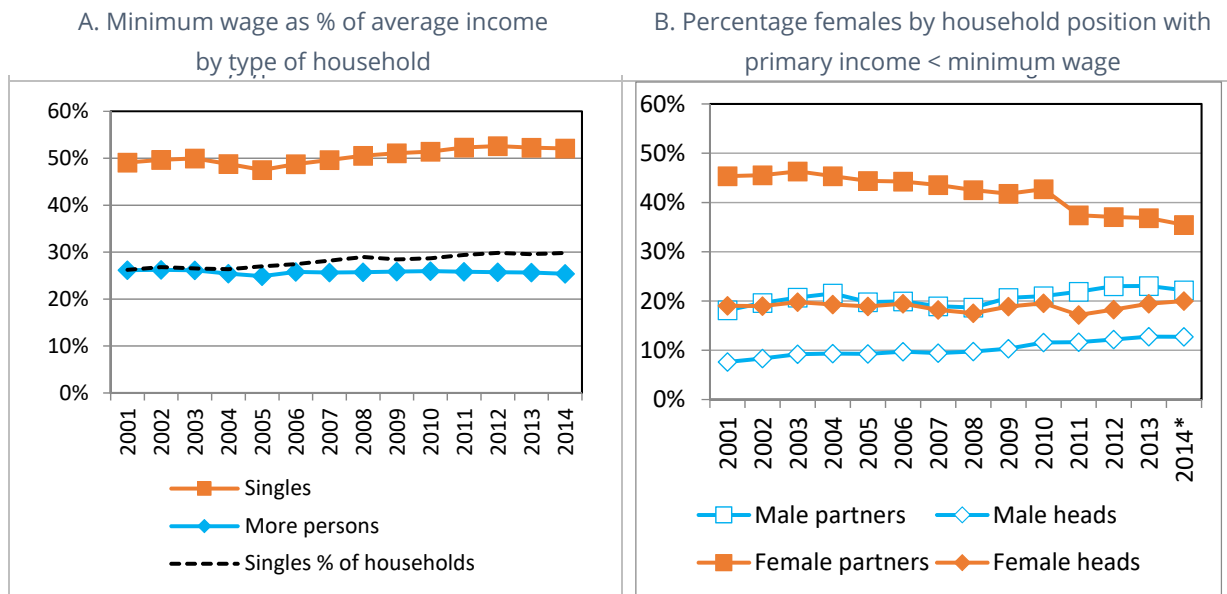


Reading note: In 1990 34% of all persons with any earnings during the year receive less than the annual full-time adult minimum wage.

Notes: For persons we take primary incomes for those with employee status. An important break occurs in the underlying income statistics of Statistic Netherlands between 2000 and 2001.

Source: Our calculations from CBS (Statline).

Figure 18 Annual full-time adult minimum wage and annual primary income of households dependent on earnings



Reading note: In 2001 6.9% of all labour households obtain an annual income up to the adult minimum wage.

Note: Labour households receive their largest income from earnings.

Source: Our calculations on CBS (Statline)

male and female partners are at least twice as likely to bring an income up to the minimum wage compared to male and female heads. Apparently, partners hold more often a low-paid job and/or work fewer hours than the household heads. Both categories of women show some decline while those of men do increase.

The combination with low earnings that brings households higher up the income distribution, generates two effects that are important to account for with regard to redistributive policies. Dutch income taxation taxes persons individually – i.e. independently from their household – for their earnings and it gives a tax credit for person’s receiving earnings, which reaches a maximum at the level of the adult minimum wage. In addition, it focuses on earnings on an annual basis – as income taxation normally does. As a result, households which combine earnings from more than one member will effectively be taxed less in the aggregate compared to similar earnings that are brought in by a single earner. At the same time tax credits do not take into account the level of hourly pay nor the hours worked during the year. Thus they also benefit persons who are high paid by the hour but work few hours. Thirdly, because they disregard the household situation they benefit all households receiving these lower earnings, irrespective of whether they are the primary (or even the only) earnings of the household or a secondary income next to other, primary earnings. This may spread the tax credit over the full distribution of household incomes and consequently blunts its use as an instrument for reducing income inequality. In the same vein, as far as low earnings relate to the level of the minimum wage they also spread over the distribution and enhance the dead-weight loss of increases aimed at improving the position of households dependent on the minimum wage and diminish its effectiveness for reducing income inequality.

1.6 Employers, unions, the government and the minimum wage

Table 1 summarizes the timeline of the Dutch minimum wage to refresh what has been said in Section 1.1 and provide a basis for further discussion of the behaviour of the parties involved: union federations and employer associations – the social partners – and the government. It transpires clearly that the government has played a dominant role in the evolution of the minimum wage. It enacted the minimum wage in the first place, in spite of a long unwillingness of the social partners, it adapted the age applicability, it changed that again later on two occasions, and it put an end to the exemption of employees working less than one third of the working week. In addition, it has determined to a large extent the uprating of the level of the minimum wage, witness the unique lowering of 1984, nominal freezes on three occasions (1983-1989, 1993-1995, 2004-2005) or incomplete uprating (1980-93, 1992), which leaves only the years 1990,-1991, 1996-2003, and 2006-2015 with an undisturbed uprating (SZW, 2010). Particularly these interventions reflect the huge significance that the level of the minimum wage has had for the level of public spending since the net-net-linking was introduced in 1974. This would not be the only issue solved by the government when the social partners could not agree or remained unwilling to act, as can be illustrated for example the transferability of individual occupational pension savings between pension funds – governed jointly by unions and employers –, which after endless debates was finally introduced by law.

On the social partners' side the initial agreement on introducing a minimum wage has to be placed in a context of fierce industrial action, which put suitable pressure on employers especially because it was framed in the post-war tradition expecting the labour market to provide a minimum family

Table 1. Evolution of minimum-wage legislation and application, 1964-2015

Year(s)	Event	Parties involved		Government
		Social partners Collective bargaining	SER / StvdA / pacts dialogue	
1964	Introduction of negotiated MW at age 25		x	
1965-1968	Uprating			x
1969	Introduction of statutory MW at age 24			x
1970	Extension of MW to age 23			x
1971-1973	Frequent uprating	x		
1973	Enacting of max. 3-yearly special uprating		x	x
1974	Introduction of Youth MW ages 15-22		x	x
1974	Policy decision of net-net-linking			x
1975-1979	Frequent uprating	x		
1980	Lowering of youth MW percentages			x
	Legal net-net-linking in WAM act			x
1980-1982	Uprating adjusted			x
1983	Lowering of Youth MW percentages			x
	Nominal freeze of all MW			x
1984	3% nominal decrease and freeze of all MW			x
1985-1989	Nominal freeze of all MW			x
1990-1991	Normal uprating	x		
1991	Shift from 3- to 4-yearly special uprating			x
1992	WKA Act regulates linking mechanism		x	x
	Adjusted uprating			x
1993	End of small jobs exclusion from MW			x
1993-1995	Nominal freeze of all MW			x
1995	End of consultation over special uprating			x
	No special uprating			x
1996-2003	Normal uprating	x		
1999	No 4-year uprating		x	x
2004-2005	4-year uprating: nominal freeze of all MW		x	x
2005-	Normal uprating	x		

Source: SZW and SZW (2010).

income even for the least qualified workers. Increasingly, that aim of a minimum *income* has disappeared from the socioeconomic radar. This may have happened in conjunction with the extension of the minimum wage to workers who would not necessarily have a dependent family to maintain, and also with the expansion of social and employee insurance provisions which reached its apogee in 1975. Ultimately, the direct intertwining of social security with the minimum wage may have put the government in the driver's seat of caring for household subsistence and may have stimulated the social partners to abide by that adage. The last SER debate on a special uprating of the minimum wage that was held in the Social and Economic Council in 1999, points in that direction. The Council as a whole, including trade union representatives, concluded that the level of the minimum wage, and therewith especially of minimum social benefits and households with children dependent on those, lagged the rise of actual earnings and the incomes of working households

and did not share in the general increase in economic welfare (SER, 1999, 71-72). They saw no need for uprating the minimum wage but instead left it to the government to take measures. Once the common purpose of a minimum income is dropped, the role of the minimum wage becomes restricted to that of furthering of the fairness of pay. Evidently, it can pit unions and employers more easily against each other if they no longer share the common perspective of income. This is especially the case as it seems easier to define a minimum level of income than to quantify fairness, which depends on the efforts and skills of individual workers, their working environment and the broader distribution of wages. In the very same advice (p. 74) the Council obliged to bring the lowest scales of their collective agreements further down to the minimum wage – which is the main topic of the next chapter.

1.7 Conclusions

When the minimum wage was legally established in 1969 it was soon provided with an uprating mechanism the structure of which has basically remained unchanged. The uprating is the formal prerogative of the Minister of Social Affairs and Employment but it is materially influenced by the social partners as it legally links the evolution of the minimum wage to that of collectively negotiated wages, by means of an index number. In addition, the possibility was created to examine at least every 3 or 4 years whether a special uprating would be advisable for adapting the minimum wage to wage developments that are not well captured by the index number. First, lower wage scales with a direct relevance to the minimum wage may develop more strongly (especially during the 1970s important wage increases were negotiated in absolute amounts), or, second, the evolution of actual earnings ('wage drift', after correction for compositional change in employment) may exceed that of negotiated wages. It is based on the individual worker and disregards the growing role of two-earner households (SER, 1999, 72; Salverda, 2014).

Effectively, the purchasing power of the minimum wage has declined very considerably compared to a maximum reached at the end of the 1970s and has strongly lagged behind the general trend of average prosperity in the Netherlands as expressed by actual earnings instead of negotiated wages. The divergence is due in particular to strong government interventions in the level of the minimum wage in the 1980s which was followed by less drastic measures in the 1990s and 2000s. However, in part it is also caused by weaknesses of the uprating mechanism itself and the abolishment in practice (by the government) of the special uprating after the 1970s. These policy measures are motivated by the significant leverage of the minimum wage on public spending as a result of its direct linking to the level of social-security benefits. Income policy has overcome the fairness of pay.

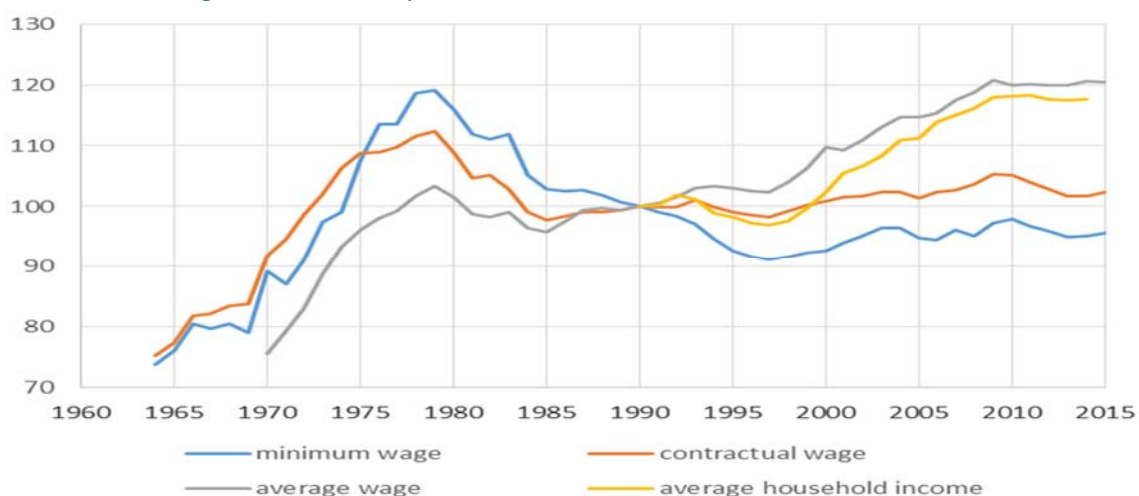
As a result the relative level of the minimum wage has declined very significantly over the 1980s compared to negotiated wages as well as actual wages and since the 1990s no longer to largely stagnant collectively negotiated wage but no less compared to actual wages. This lowering has gone together with a considerable decrease in the employment incidence of the minimum wage, not the expected increase of first-year mainstream economics. The employment incidence has shifted radically away from full-time jobs towards part-time jobs, about half of them very small - less than 12 hours per week. This shift makes head-count employment numbers particularly unsuitable for examining the employment effects of the minimum wage. Along the way this has fundamentally fragmented low-skill jobs in the Dutch labour market. The long and low tail of

youth minimum wages, their pay levels ranging between ages 15 and 22 from 30 to 85% of the adult minimum wage, adds to that unsuitability as it introduces strongly diverging measurement levels. To get around these problems, we measured the evolution of the incidence against the full minimum wage, first, for full-time workers only for the entire period since 1972 and, second, for the volume of all hours worked including part-time workers, to adapt to the full-time/part-time shift, for the period since 1991. Results underline the strong decline of the incidence of minimum wage employment between 1984 and 1994, followed by rough stability since. We also find a gradual shift from adults to youth for the whole range of working hours. It is suggestive of employer arbitrage, first, towards part-time hours, that in comparison to full-time jobs may reduce slack especially in consumer-oriented services, and, second, towards much cheaper young workers compared to adults. Thus small jobs and low youth minimum wages provide a double attraction, often in conjunction with each other.

Because of the strong growth of part-time employment, currently comprising half of all jobs, individual annual incomes from earnings remain much more often below the minimum wage than hourly earnings; this occurs less frequently for household incomes as workers with such low incomes combine with others in the household.

Finally, social partners seem to have accepted the situation since the crisis of the early 1980s and put the evolution of the minimum wage on the automatic pilot. This has reinforced the role of the minimum wage as the point of departure for the low end of negotiated wages on which scales are built instead of the other way around that independent wage negotiations steer the level of the minimum wage. At best the trajectory of seniority in such scales stretches up to 30% above the minimum wage.

Figure 19 Real annual minimum wage, average contractual wage, average annual wage and average annual multi-person household income from work, 1964-2015 (1990=100)



Source: CBS (Statline); Ministry of Social Affairs and Employment

Figure 19 summarizes these developments. It shows the index number (with 1990 = 100) of the real value of the minimum wage, contractual wages, average actual wages, and average multi-person household incomes. Between 1964 and 1979 the real minimum wage level increased strongly, more strongly than both contractual wages and actual wages. After 1979 all real wages started to

fall, initially in tandem, but starting in 1984 with the 3 per cent cut of minimum wages and social benefits, minimum wages fell more than contractual and actual wages. While real contractual and actual wages rose again after 1985, the real minimum wage decreased further until 1997 and has recovered only slightly since then. As a consequence, the current real minimum wage level is still 20 per cent below its 1979 level, while real contractual wages are 'only' 9 per cent lower and real average wages have increased over 16 per cent.

2 Minimum wages and collective wage bargaining

2.1 Introduction

In the Netherlands, around 80 per cent of all employees are covered by collective labour agreements (CLAs). This is due to the fact that all employees who are employed by an employer who is a member of the employers association that has signed a CLA, are automatically covered by the CLA. Moreover, sectoral CLAs are often legally extended by the Minister of Social Affairs and Employment to all the companies and, consequently, to all the employees in a particular sector.²⁷ The lion's share of CLAs include a list of the wage scales that the employer is supposed to use to determine the pay of his employees. Particular wage scales are often related to specific positions and occupations within the company and are usually based on a classification system. A typical wage scale includes ten to twelve annual steps. A newly hired employee with no or little experience usually starts at step zero in a particular scale, and semi-automatically moves to the next step after a year.

As a consequence of this system, the impact of the statutory minimum wage on the pay of Dutch workers and on the share of minimum wage earners is largely mediated by collective bargaining. If the social partners in a sector or a company agree on a lowest wage scale that lies above the statutory minimum wage, then in principle no employee in this particular sector or company will earn the minimum wage – provided that the employer(s) comply with the collective agreement. However, it should be noted that the CLA only applies to workers who are employed by the companies in the sector. Self-employed persons who are hired by companies are in general not covered by the CLA. Moreover, employees who are posted, for example by a temp work agency, are usually not covered by the CLA of the sector in which they work, but may be covered by the CLA of temp work agencies. Finally, specific workers, such as trainees and holiday workers, may be excluded from the negotiated wage scales and may therefore earn the minimum wage. Notwithstanding these exceptions, the incidence of the minimum wage and the lowest pay levels are directly affected by collective bargaining.

However, there may also be an effect in the opposite direction: a change in the level of the statutory minimum wage may affect the lowest wage scales in collective agreements. The most obvious case occurs if a rise of the minimum wage lifts it above the lowest wage scale in the CLA. Even though the lowest wage scale is not adjusted automatically, it will nevertheless mean that the minimum wage becomes *de facto* the lowest wage in the sector or company. Nonetheless, a rise of the minimum wage may also affect collective bargaining. If unions prefer a lowest wage scale that lies above the minimum wage by a particular percentage, then a rise of the minimum wage will likely result in a demand by the unions to raise the lowest wage scale by at least the same percentage. Finally, collective bargaining does also influence the minimum wage level, indirectly, since the statutory minimum wage is linked to the average increase of contractual wages as we

²⁷ However, individual firms can apply to the Minister of Social Affairs and Employment for dispensation, which may be granted, for example, if they have concluded a company collective agreement with a trade union.

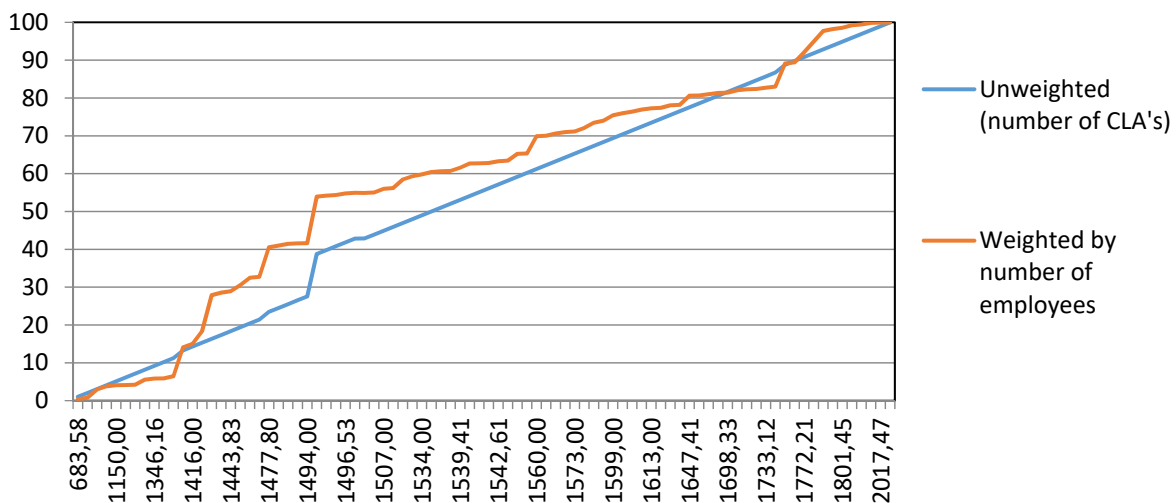
have seen in the preceding chapter. Thus, there exists a rather complex, bi-directional relationship between the minimum wage and collective bargaining.

In this chapter we consider the evolution of this interaction, and the policy making behind it, with a focus on the lowest wage scales and low pay more generally.

2.2 Incidence of lowest wage scales equal to the minimum wage

There is a large variation in the levels of the lowest wage scales in Dutch collective agreements. Figure 20 shows the cumulative share of CLAs for which the lowest wage for adults is at least equal to the monthly amount indicated on the horizontal axis. These figures are based on 96 CLAs for the year 2015. These data are collected by the Ministry of Social Affairs and Employment. As is shown in the figure, in 44 per cent of the collective agreements, the lowest wage level is lower than or equal to the minimum wage level (€ 1501.80). It is very likely that the employees who are covered by collective agreements that include a lowest wage scale starting below the minimum wage level nevertheless receive (at least) the minimum wage. If these CLAs are weighted by the number of employees that they cover, their share amounts to 55 per cent. Among the remaining 45 per cent, in 20 per cent of the (weighted) CLAs the lowest wage is at least € 150 or 10 per cent higher than the minimum wage. In 4 per cent of the cases the lowest wage surpasses the minimum wage by at least € 300 or 20 per cent. However, the latter are mainly small CLAs, which cover only 1 per cent of all employees covered by a CLA. The highest level of a lowest wage found in the collective agreements under study in 2015 is € 2109.36 or 40 per cent above the minimum wage.

Figure 20 Lowest wages in collective agreements in 2015 (cumulative percentage)



Note: Preliminary scales are excluded

Source: CLA database SZW

2.3 Evolution of lowest wage scales compared to minimum wage

Figure 21 shows the evolution of the average level of the lowest wage in CLAs compared to the minimum wage from 1983 to 2015, the longest period that available data allow us to cover. For the lowest negotiated wage rates we use data from the periodical reports on CLA developments of the (former) Labour Inspectorate and the Ministry of Social Affairs and Employment. Although the minimum wage and the lowest negotiated wage roughly follow the same course, there are also significant differences, in particular during the second half of the 1980 and in the 1990s.

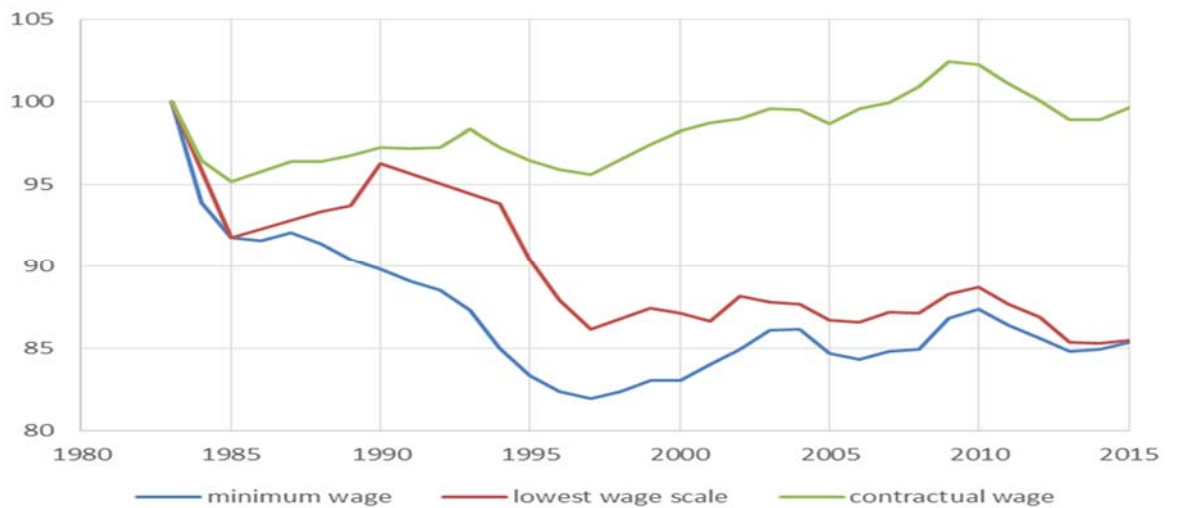
Figure 21 Minimum wage and average level of lowest wage scales in CLAs (€ per month)



Source: Salverda (2009b, 2010); Ministry of Social Affairs and Employment

Figure 22 compares the evolution of the real level of the lowest negotiated wages (deflated by inflation) with both the minimum wage and the average contractual wage since 1983. It is remarkable that, over the entire period, the lowest negotiated wages follow the minimum wage much more closely than the average negotiated wages, with the exception of the years 1985-1990. In this period the nominal minimum wage was 'frozen', but the lowest wages in CLAs followed the overall contractual wages. In 1990 they increased even more than the contractual wages. But after 1994 the lowest negotiated wages followed the minimum wage instead of the contractual wages. From 1994 to 1997 the nominal lowest negotiated wages were lowered, resulting in a sharp drop of the real level of the lowest wage scales by 8 per cent. After 1997 the lowest wage scales lagged further behind the contractual wages and approached the minimum wage even closer.

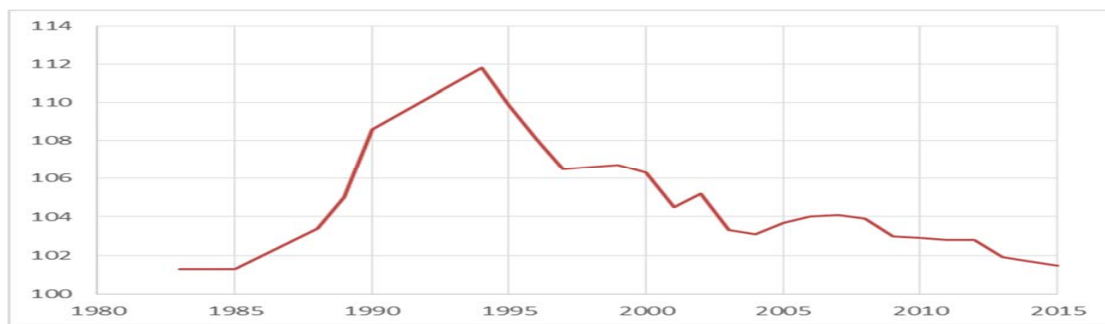
Figure 22 Index of the real minimum wage, the real lowest wage scales and the real average contractual wages (1983=100)



Source: Salverda (2009b, 2010), CLA database SZW, Ministry of Social Affairs and Employment, CBS (Statline); calculations by the authors

Figure 23 shows the evolution of the lowest wage scales compared to the minimum wage more clearly. The gap between the lowest negotiated wages and the minimum wage grew strongly between 1985 and 1994 from less than 2 per cent to 12 per cent. The gap narrowed again in the next ten years to 3 per cent in 2004. After an intermission from 2005 to 2008, the lowest wage rates declined further to less than 2 per cent above the minimum wage in 2014.

Figure 23 Lowest negotiated wage scales as % of minimum wage



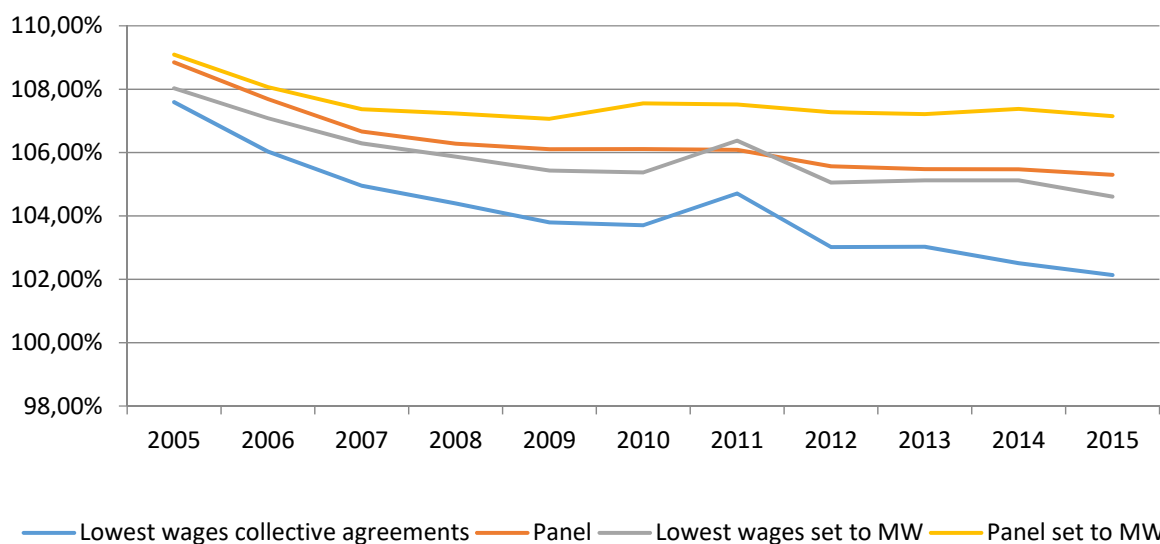
Source: Salverda (2009b, 2010), Ministry of Social Affairs and Employment; calculations by the authors

To analyse the evolution of the lowest wages in CLAs further, the remainder of this section will focus on the period from 2005 until 2015, for which data on individual CLAs are at our disposal from the CLA database of the Ministry of Social Affairs and Employment. Due to a difference in the way that we calculate the average level of the lowest negotiated wage compared to the reports of the Ministry, the figures deviate somewhat from those presented above. The difference is that we exclude preliminary or starting wage scales (*aanloopwages*), in which inexperienced new employees can be placed for a limited period of time (usually a year or less). The reason is that we want to focus on the lowest *structural* wages that employees can earn in various sectors.

For the relative level of the lowest wages in CLAs compared to the minimum wage we present two figures. The blue line in Figure 24 is based on the full sample of CLAs that are included in the database, wages that lie below the minimum wage level are uncorrected. The grey line reports the full sample, but now the wages that lie below the minimum wage are set to the minimum wage level. However, the CLAs comprised in the database may differ between the years, although they include at least 85 per cent of all employees covered by a CLA in each year (see Ministry of SZW, 2014). While the lowest wages were on average 7.5 per cent higher than the minimum wage in 2005 (9 per cent if corrected for wages below the minimum wage level), this decreased to 2 per cent in 2015 (5 per cent if corrected for wages below the minimum wage level). Remarkably, this relative decline occurred largely in the period 2005-2009, before the onset of the crisis.

The orange line refers to a panel of the identical CLAs for all years. This ensures that exactly the same CLAs are compared over the years. As a consequence, the changes in the (relative) level of the lowest wage scales are real changes that were implemented in the CLAs included in the panel and cannot have been caused by changes in the CLA composition of the sample. However, this panel covers a smaller proportion of all employees covered by CLA, viz. 61 per cent in 2005 and 60 per cent in 2015. The orange panel line in Figure 24 shows that, on average, the lowest negotiated wages in this panel were higher than in the full sample and that they declined less: they dropped from 9 per cent above the minimum wage in 2005 (10 per cent if corrected for wages below the minimum wage level, yellow line) to 5 per cent in 2015 (7 per cent if corrected for wages below the minimum wage level).

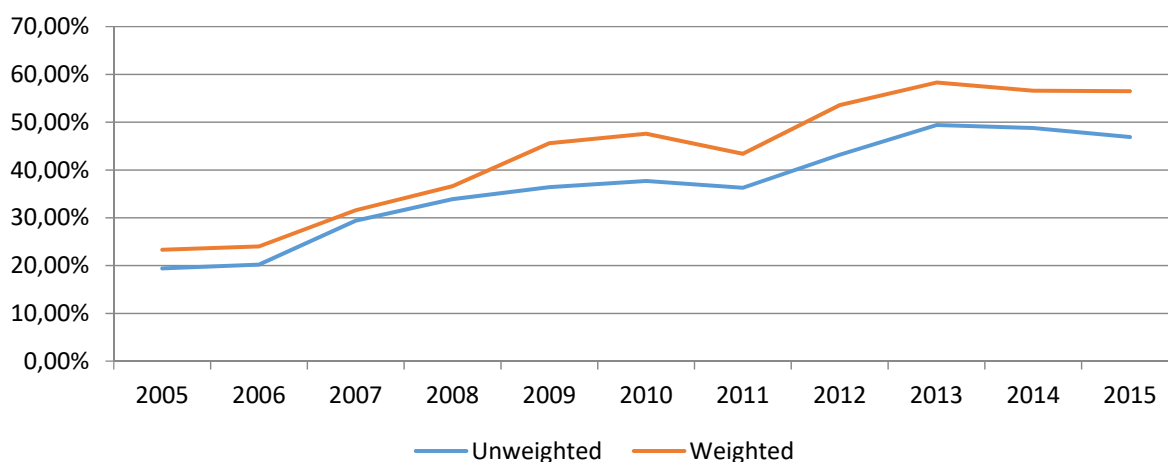
Figure 24 Lowest wages in CLAs relative to the minimum wage, weighted by the number of employees, 2005-2015 (%)



Note: The panel data are weighted by the number of employees in 2005 for all years, while the total sample is weighted by the number of employees in each consecutive year.

Source: CLA database SZW

Figure 25: Percentage of CLAs with lowest wage below or equal to the minimum wage, 2005-2015



Source: CLA database SZW

As a consequence of the gradual fall of the lowest negotiated wages relative to the minimum wage, an increasing share of the CLAs includes a lowest wage scale that starts at the same level (or below) the minimum wage (Figure 25, based on the full sample). In the years from 2005 and 2006 only 20 per cent of the CLAs included a lowest wage that was equal to or below the minimum wage. This number started to increase after 2006, reaching 49 per cent in 2014 (unweighted) and slightly decreasing again to 47 per cent in 2015. If the CLAs are weighted by the number of employees that are covered by the CLA, the increase is even stronger, from 23 per cent in 2005 to 58 per cent in 2013 and 57 per cent in 2015. This means that currently, for more than half of all employees covered by a CLA, the lowest wage that they can possibly be paid is now equal to the minimum wage. If we add the employees who are not covered by a CLA (around 20 per cent), the share of employees for whom the mandatory minimum wage determines the floor of their wage, is now about 77 per cent, while this was no more than 43 per cent in 2005. The importance of the minimum wage for the lower end of the wage distribution has thus increased sharply in the past ten years.

To explain the evolution of the lowest wages relative to the minimum wage, it is important to note that the lowest wages can be adjusted in three ways. The first way is the basic (initial) percentage increase that is applied to all wage scales as part of a new CLA. As a consequence of this increase the level of the lowest wage relative to the other contractual wages in the particular sector or company will remain the same.

The second way is a specific adjustment of the lowest wage scales that differs from the basic pay rise. Although this is not a standard element of collective bargaining, the union(s) or the employer(s) can have specific reasons to demand a different adjustment of the lowest wages compared to the other wage scales. In part of the CLAs the lowest wage scale is explicitly linked to the statutory minimum wage, which means that the change of the lowest wage may differ from the general wage increase if the adjustment of the minimum wage deviates from the general negotiated pay rise. In other CLAs the levels of the lowest wages are frozen, meaning that they lag behind both the regular pay rise and the increase of the minimum wage.

The third way is that the union(s) and employer(s) agree about either the introduction of a new lowest wage scale below the existing one or, alternatively, the abolishment of the existing lowest scale, as a result of which the second lowest wage scale will become the new lowest wage scale.

If only the first kind of adjustment were applied, the lowest wage would move in tandem with the average contractual wage, to which the minimum wage is linked. This would mean that the evolution of the minimum wage and of the lowest negotiated wages would be the roughly same, although some transitory deviations may occur due to the fact that the minimum wage follows negotiated wages with some delay. Only in case the minimum wage is not adjusted under the derogation clause of the law, the lowest negotiated wages would increase more than the minimum wage. Since the uprating mechanism has been fully applied in every year since 2006, this cannot explain the difference in evolution between the lowest wages and the minimum wage. Therefore, either the second or the third way discussed above must apply. Either, the lowest wage scales have been raised by a lower percentage than the average negotiated wage or new (lower) lowest wage scales have been introduced.

By examining the evolution over time of the lowest wages in individual CLAs we find that in each year from 2005 to 2015, on average, in 46 per cent of the CLAs (55 per cent if weighted by the number of employees covered by the CLA) the change in the lowest wage has been equal to the change in the minimum wage, keeping the distance between lowest wage and minimum wage intact (table 2). In 7 per cent of the CLAs (8 per cent weighted) the nominal level of the lowest wage was frozen, which resulted in an average relative decline of the lowest wage compared to the minimum wage of 1.7 per cent. In less than 3 per cent of the CLAs (only 1.1 per cent weighted), the lowest wage was lowered by more than 5 per cent compared to the minimum wage, which probably indicates that a new lowest wage scale was introduced. On average, this scale was 8.7 per cent lower than the previous lowest wage scale. In 22 per cent of the CLAs (15 per cent weighted) the lowest wage was also lowered compared to the minimum wage, but by less than 5 per cent and not by nominally freezing it wage. This resulted in an average relative decline of the lowest wage compared to the minimum wage by 1.4 per cent. Finally, in one in every four CLAs (22 per cent weighted), the lowest wage increased by more than the minimum wage. In 4 per cent of the CLAs (2 per cent weighted) the difference exceeded 5 percentage points, probably indicating that the existing lowest wage scale was abolished. On average, the lowest wage increased by 6.3 per cent in these cases. To summarize, in each year in roughly one third of the CLAs (a quarter if weighted) the lowest wage was lowered compared to the minimum wage, in a quarter of the CLAs (a fifth if weighted) it was raised, and in the remaining 46 per cent of CLAs (55 per cent if weighted) it changed in tandem with the minimum wage.

Table 2 Deviation of change of lowest contractual wage from minimum wage increase, 2005-2015

	Average number of CLAs	% of CLAs ^a	Average deviation (%-points) ^a	Contribution to total deviation (%-points) ^a
no deviation ^b	28.9	54.6	0.0	0.0
freeze of lowest wage	4.4	7.7	-1.7	-1.3
deviation <-5%	1.8	1.1	-8.7	-1.4
deviation -5% to -.25%	14.0	14.9	-1.4	-1.8
deviation +.25 to +5%	13.4	19.9	0.9	1.5
deviation >+5%	2.3	1.8	6.3	1.3
total	62.8	100.0	-0.1	-1.6

Notes: All lowest wage scales below the level of the minimum wage have been set equal to the minimum wage.

a Weighted by number of employees covered by the CLA.

b Deviating less than .25%-points from the increase of the minimum wage.

Source: CLA database SZW

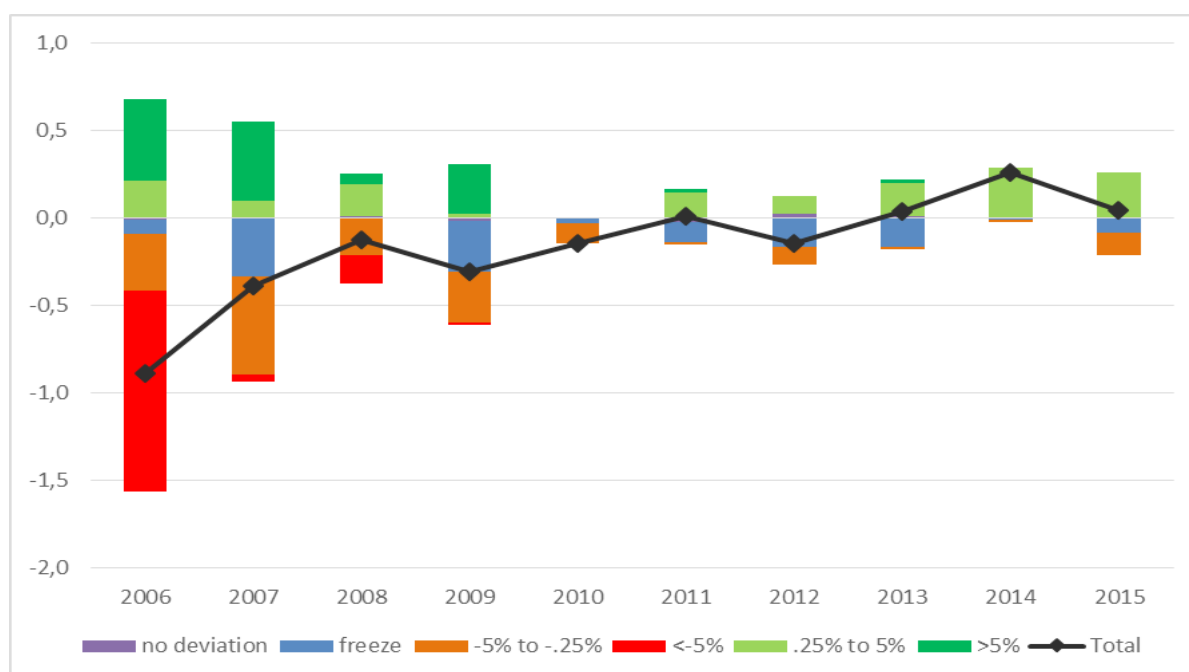
In the last column of table 2, the contribution of each kind of adjustment of the lowest wage to the total relative decline compared to the minimum wage is calculated (as the product of the two previous columns multiplied by the number of years). This total decline amounted to 1.6 percentage points from 2005 to 2015. Each kind of adjustment that was discussed above, contributed significantly to this total change, but since they partly lowered and partly raised the lowest wage, they largely cancel each other out. Surprisingly, the abolition of the lowest wage scale in 23 CLAs (1.8 per cent of the CLAs annually, weighted by size), contributed substantially to a relative increase of the lowest negotiated wages. This impact was almost equal to the effect of introducing a new lowest wage scale in 18 CLAs (1.1 per cent annually).

It is important to note that the consequences of a smaller increase (or even decrease) of the lowest wages for low-paid employees are very different from the introduction of a new lowest wage scale. In the first case, the incumbent workers in the lowest wage scale will actually experience a relative reduction of their pay compared to the average worker. In the second case, low-paid workers will get the same pay rise as the average worker, and the employer has the option of paying a lower wage to newly hired workers. Put simply, the first strategy hurts incumbent workers, the second strategy impinges only on new employees. Moreover, if these new employees were unemployed before, they may not regard it as a deterioration.

One might therefore expect that the introduction of a new lowest wage scale is a more attractive option for the unions than lowering existing ones. Nevertheless, in fewer than 3 per cent of the CLAs, or about 2 CLAs each year, a new lowest wage scale was introduced in the period 2005-2015, while in about a quarter of the CLAs the development of the lowest wage lagged behind the increase of the regular wages. However, for employers, the lowering of the lowest wages may contribute more to moderating wage costs than the introduction of a new lowest wage scale, since a new scale would first have to be filled by newly hired employees to have an effect. The predominance of lowering the lowest wages compared to introducing a new lowest wage scale may thus point to a stronger bargaining position of the employers compared to the unions.

However, one should note that the interests of the unions and the employers may be different in case the lowest wage scale is empty, meaning that no employees are paid according to the lowest scale. In this case, no incumbent workers are hurt by lowering the lowest wages and union may therefore not resist such a lowering.

Figure 26 Contribution of types of adjustment of lowest wages to total change of lowest wages, compared to minimum wage, 2006 to 2015



Source: CLA database SZW

Figure 26 shows the impact of the various adjustments of the lowest wage scale for each year from 2006 to 2015. The impact of the introduction of new lowest wage scales was by far the largest in 2006, when new lowest wage scales in the collective agreements for construction and for retail in home furnishing contributed to a 1.1 per cent decline of the average lowest wage. In 2007 and 2009 a freeze or small decrease of the lowest wage compared to the minimum contributed the most to the decline of the lowest wage scales. Interestingly, in the same three years (2006, 2007 and 2009), there were also a few collective agreements in which the lowest wage scale was substantially raised or abolished, contributing to a .3 to .5 per cent increase of the average lowest wage. After 2009, the various upward or downward adjustments of the lowest wage scales had just a minor impact on the overall evolution of the lowest wages. Apparently, the economic crisis and rising unemployment did not have a special influence on contractual wages at the lower end of the wage distribution.

It should be noted that the average relative decline from 2005 to 2015 of 1.6 percentage points of the lowest wages in the CLAs that we could include in our analysis (conditional on the availability of information for two consecutive years) is significantly smaller than the average decline of 4.2 percentage points for the total sample of CLAs (the blue line in Figure 24). Thus, more than half of the drop of the lowest negotiated wages cannot be explained by the analysis above of the change of the lowest negotiated wages, even though these CLAs cover on average 63 per cent of all

employees under a CLA. Apparently, in the remaining CLAs, that were not included in this analysis since we lack information on two consecutive years, the lowest wages were reduced much more strongly. This may partly be due to the fact that some CLAs were not renewed within a year after they expired. In these cases all contractual wages are actually frozen, which will result in a decline of the lowest wages relative to the minimum wage that is increasing. Unfortunately, we are not able to analyse the exact cause of these reductions with the available data.

Since we analysed only regular lowest wage scales, we excluded special wage scales for specific target groups, such as disabled workers. These so-called target group wage scales usually start at the level of the minimum wage. Even though we did not find many CLAs in which new regular lowest wage scales were created, it is conceivable that in these CLAs new wage scales for target groups have been introduced. However, if we analyse the CLAs comprising target group wage scales, their number declined from 22 in 2005 to 16 in 2015. Weighted by the number of employees covered, the share of CLAs with a target group wage scale increased from 22 per cent of all CLAs in 2005 to 34 per cent in 2010, but then decreased again to 26 per cent in 2015. Hence, there is no evidence that more target group wage scales have been created in recent years.

2.4 Government policy and collective bargaining on lowest wage scales

To explain the evolution of the relative level of the lowest negotiated wages since the mid-1990s, it is also necessary to look at government policies during this period.

Although collective bargaining is free in the Netherlands and the government has not directly interfered in collective agreements since 1982, the Minister of Social Affairs and Employment can nevertheless try to influence collective bargaining. This may be part of the regular meetings between the cabinet and the peak level organizations of employers and unions in which they discuss the general economic outlook and the preferred policies of the government as well as of the social partners.

At some points in time, the Minister has attempted to affect the bargaining process by threatening to impose a wage freeze or to withhold the mandatory extension of CLAs in case the social partners did not include a particular arrangement in the CLA that the Minister deemed of great societal interest. In the 1990s, the government insisted on the reduction of the level of the lowest negotiated wage scales aimed at increasing employment at the lower end of the labour market. Despite strong job growth still a large number of people were dependent on social benefits in those years, which was (partly) attributed to the fact that in many CLAs the lowest wage scales were significantly higher than the minimum wage. In 1994 the Minister of Social Affairs and Employment insisted that the social partners create new lowest wage scales below the existing lowest scales (NRC Handelsblad 26 October, 1994). Half a year later, he even threatened to withhold the extension of CLAs in which the lowest wage scales were still too high (Trouw 11 May, 1995). Although he did not effectuate this threat, it was effective nonetheless as the average gap between the lowest wage scale and the minimum wage halved from 1994 to 1997, from 12 to 6 per cent (Figure 23).

In 2013, the social partners and the government concluded a social agreement that addressed the consequences of the economic crisis for the labour market. One of the elements of the pact was

the promise of the employers to create 100,000 jobs for persons with a disability.²⁸ (In addition, the government promised to create 25,000 jobs in the public sector.) For persons deemed to have a productivity below the level of the minimum wage the productivity gap would be compensated by a wage subsidy. However, if the person were paid more than the minimum wage, the productivity gap would not be compensated. For this reason, the social partners agreed that all CLAs should include lowest wage scales starting at the level of the minimum wage. In a letter of the Labour Foundation of 21 February 2014 (StvdA 2014) the peak level organizations of the social partners called on their members to introduce new lowest wage scales starting at the level of the minimum wage in case they did not yet exist. At the end of 2015 55 per cent of CLAs should include a wage scale starting at the level of the minimum wage. At the end of 2017 all CLAs should include such a minimum wage scale. As we noticed above, in 2014 the average lowest wages were indeed lowered, although in only four CLAs a new lowest wage scale was introduced. However, in 2015 no new lowest wage scales were added, while in five (albeit relatively small) CLAs the lowest wage scale was abolished. The call on the social partners to create new lowest wage scales therefore appears to have had only a minor effect. Indeed, the pace in which the lowest wages fall compared to the minimum wage has slowed down since 2009.

2.5 Evolution of the incidence of low-wage employment

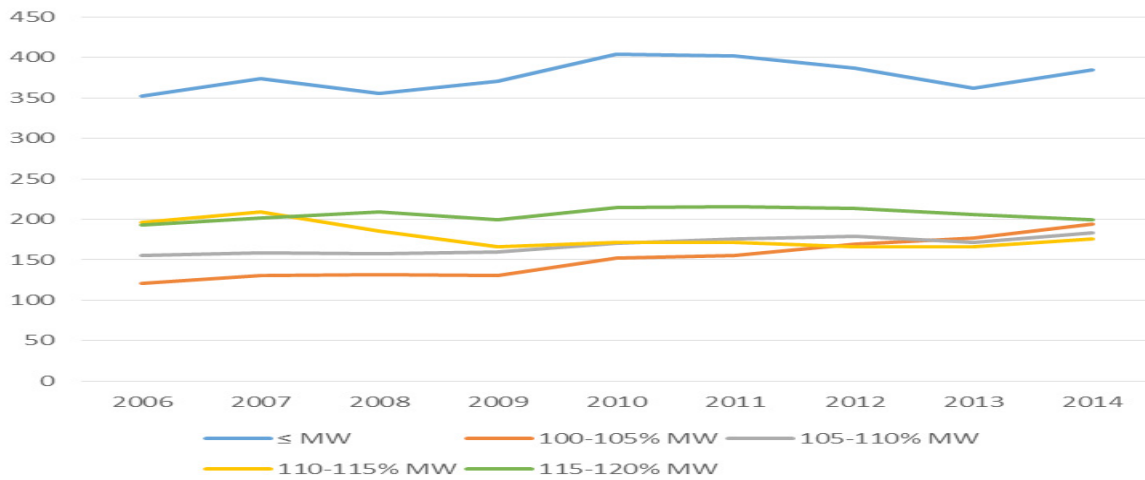
As we mentioned before, the impact of a relative reduction of the lowest wage scales in CLAs may differ, depending on whether a new lowest wage scale is introduced or the existing lowest wages are lowered. However, the impact also depends on whether the existing lowest wage scales are actually filled by employees. If the lowest wage scale is empty, meaning that no employee is paid according to this scale, then the reduction of the lowest wage rate will have no effect whatsoever. Unfortunately, there is no information available about the number of employees in the lowest wage scales in various sectors. However, we can derive some indirect evidence on the impact of the reduction of the lowest wage scales from CBS data for the period 2006-2014 on the number of employees that earn up to the minimum wage or 5, 10, 15, 20 or 30 per cent respectively above it. We focus here on employees aged 25 to 65, in order to exclude young workers who are covered by the youth minimum wage.

Figure 27 shows that from 2006 to 2014 the number of jobs at or below the minimum wage fluctuated; in 2014 it was 33,000 larger than in 2005. In the same period the number of jobs just above the minimum wage (in the range from 100 to 105 per cent of the minimum wage) increased sharply, from 121,000 to 191,000. The number of jobs between 105 and 110 per cent of the minimum wage increased, too, but in a slower pace, while the number of jobs between 110 and 115 per cent of the minimum wage decreased from 193,000 to 176,000. The number of jobs in the next bracket, from 115 to 120 per cent of the minimum wage, remained virtually stable from 2006 to 2014 at about 200,000.

28 See Salverda (2017) for a discussion of government policies and social pacts with or between social partners. The Social Agenda accord of 11 April 2013 (StvdA, 2013) is only the latest of a long and rather unsuccessful series aimed at enhancing employment chances of target groups. The accord inspired the introduction of the Participation Act aimed at shifting recipients of Social Assistance to paid employment which is supported by the introduction of special low-wage scales in CLA for target groups. This is further considered in the sectoral case studies on Chapter 3.

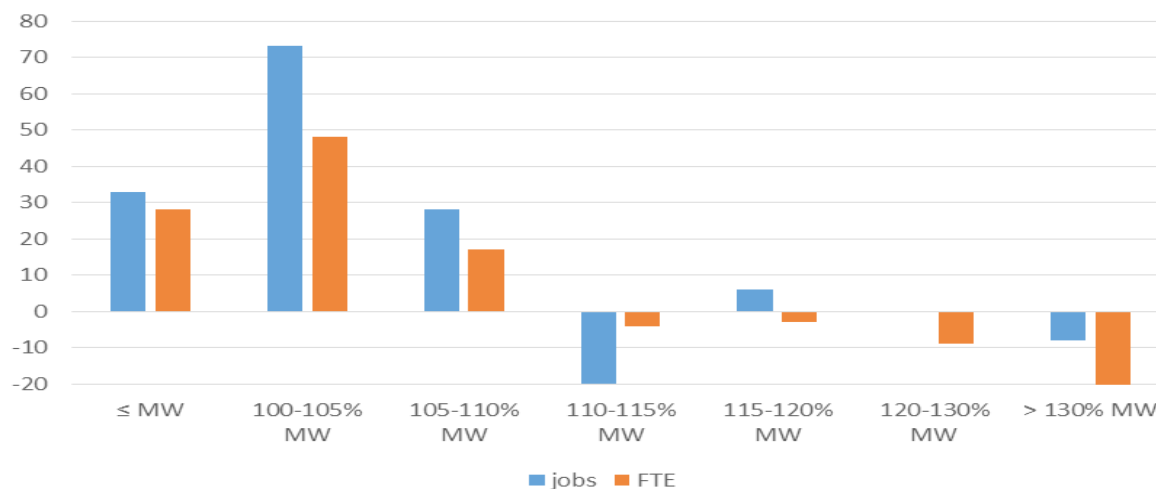
Figure 28 shows the change in the number of jobs by wage group more clearly. This figure also includes the change of employment in full-time equivalents (FTE). The figure shows that there has been a profound shift of the wage distribution towards the lower wage groups. While the number of jobs with a wage above 110 per cent of the minimum wage decreased by 22,000 from 2006 to 2014, the number of jobs earning up to 110 per cent of the minimum wage increased by 134,000 (+21 per cent). Among low-paid jobs, the growth concentrated in the category 100-105 per cent of the minimum wage, while the number of jobs between 110 and 115 per cent of the minimum wage decreased. If we measure employment changes in full-time equivalents, the shift towards low pay employment is even stronger, since all pay categories above 110 per cent of the minimum wage decreased, while low-paid employment increased.

Figure 27 Employment by wage group compared to the minimum wage, age 25 to 65, 2006-2014 (1,000 jobs)



Source: CBS (Statline)

Figure 28 Change of employment by wage group, age 25 to 65, 2006-2014 (1,000 jobs)



Source: CBS (Statline)

It is quite likely that this evolution is related to the relative reduction of the lowest negotiated wages in this period, which created more room below the level of 100 per cent of the minimum wage. Consequently, the changes in the CLAs regarding the lowest wage scales contributed significantly to the growth of low-wage employment in the Netherlands in the past ten years. Unfortunately we do not know how this shift in the wage distribution resulted from changes in individual jobs: were the wages in particular jobs lowered compared to the minimum wage or were somewhat better paid jobs replaced by new lower paid jobs?

2.6 General opinions of employers and trade unions on lowest wage scales

The Dutch trade unions have changed their view regarding the lowest wage scales in collective agreements significantly in the past twenty years. As we noted above, in the early 1990s, the government insisted on creating more low-wage jobs in view of the low employment rate of low-skilled people. It even threatened to withhold the mandatory extension of collective agreements in which the lowest wage scales were significantly above the minimum wage. The unions succumbed to this pressure from the government and agreed with the employers in the Labour Foundation upon the desirability of creating new wage scales between the minimum wage and the existing lowest wage scales (e.g. StvdA 1993, 1995). In 1997 the Labour Foundation stated in its Agenda 2002: 'It also emphatically deserves consideration to minimize the gap between the minimum wage and the lowest wage scale in collective agreements in order to increase the opportunities for employment of job seekers with relatively low productivity.' This advice by the Labour Foundation was largely endorsed in the collective agreements at the sectoral level. The share of the collective agreements that included a clause to create a new lowest wage scale increased from only 6% in 1993 to 68% in 1995 (StvdA 1995: 5). As a result, the average gap between the lowest wage scales and the minimum wage declined sharply between 1994 and 2004 (Figure 23).

However, gradually doubts increased, especially at the union side, whether these new wage scales were actually used or remained largely empty. As a consequence, the emphasis on creating new or lowering the existing lowest wage scales diminished and little by little this issue has disappeared from the bargaining agenda. Already in 1999, the FNV suggested in its memorandum on the strategy for collective bargaining in 2000: 'For the lowest income groups, the wage demand may be higher [than the general pay increase – WB/PdB/WS], for example by establishing a floor for the price compensation or the holiday allowance, by creating opportunities for an additional wage increase in the lowest pay scales, or by agreeing on a wage increase in 'cents instead of per cent'. (FNV 1999: 3) More recently, the unions advocate just the opposite of what they agreed with in the 1990s. In 2005, in its employment conditions memorandum for 2006, the FNV expressed that she wanted 'to agree about floors for the wage increase and aspire for raising the lowest wage scales' (FNV 2005: 15). This objective was repeated in the memoranda for the following years. In its employment conditions agenda for 2011, the FNV (2010: 5) formulated a more precise target: 'Collectively agreed wages may not be less than 130 percent of the minimum wage. Lowest wage scales which fall below this standard may only be used for the promotion of the inflow of specific groups', such as handicapped persons. For these groups special wage scales between 100% and 120% of the minimum wage could be created (FNV 2013: 4). This position has been reiterated in all annual agendas since then (FNV 2014, 2015, 2016). Since 1999, it has also been the official policy of the FNV to aim for a reduction of the difference between the lowest and the higher wage scales,

by demanding a general wage increase that is partly a fixed amount and partly a percentage. For the year 2015, the aim of the FNV was to increase wages by 3% with a minimum of € 900 a year, which meant that the percent increase for wage rates below € 30,000 a year would be higher than 3%. The Christian union confederation CNV has not formulated explicit goals regarding the lowest wage scales, but supports the introduction of new lowest wage scales for handicapped persons.

In the 1990s, the employers' association readily agreed with the pleas from the government to create new lowest wage scales. However, it was never a big issue for them. In recent years, the employers' associations did not take a particular stance with respect to the lowest negotiated wages. In their memoranda on employment conditions for the years 2015 and 2016 the subject was not mentioned at all. As a representative of employers' association AWWN stated: 'Agreements on lowest wage scales are not a spearhead for employers'. An exception, however, is the agreement with the unions to create special wage scales for handicapped persons. This agreement is a consequence of the Social Agreement of 2013, in which the social partners agreed about the creation of 125,000 extra jobs for handicapped persons (see p.34). In 2014 the social partners in the Labour Foundation agreed to create special wage scales for this target group, starting at 100% of the minimum wage up to a maximum of 120% of the minimum wage (StvdA 2014). According to the AWWN this issue gets special attention from employers.

Regarding youth wage scales, the position of the unions is – and has been at least since 1997 (FNV 1997) – that they should be abolished. According to their view, based on the principle of equal pay for equal work, wages should be based on competence and experience, but not an age (FNV 2009, 2014; see also CNV 2014, 2015, 2016). Already in 1997, the employers agreed with this position in the joint Agenda 2002 of the Labour Foundation, which stated that: 'the present system of negotiated youth wage scales should be further considered with respect to a phased transition from the current age criterion to the criterion of experience and competence (*'vakbekwaamheid'*).'
(StvdA 1997: 6) This statement was repeated in the recommendations of the Labour Foundation of 2001. Nevertheless, youth wage scales still exist in many collective agreements, which indicates that employers are not very eager to abolish these. In 2015, the FNV formulated an intermediate target, as a step towards the complete abolishment of youth wages: the age at which employees are entitled to the adult wage (the so-called *'vakvolwassenleeftijd'*) should be reduced from 23 to 18 years and the level of the youth wages for ages 15, 16 and 17 should be raised.

2.7 Conclusion

Although the Netherlands has had a legal minimum wage that is binding for all sectors since 1969, the trade unions and the employers nevertheless play an important role in determining the lowest level of actual pay. Many collective agreements include wage scales which start above the legal minimum wage. However, the gap between the lowest wage scale and the minimum wage varies over time and has narrowed significantly since the 1990s.

There is a rather complex bi-directional relationship between the minimum wage, collective bargaining and low-wage employment. The impact of the minimum wage on the incidence of low-wage employment in the Netherlands is largely mediated through collective bargaining, since around 80 per cent of employees are covered by a collective agreement and in many agreements the lowest wage scales are higher than the mandatory minimum wage. However, collectively

agreed lowest wage scales are also affected by the evolution of the minimum wage level and by pressure from the government and agreements between the social partners and the government. The evolution of the minimum wage in its turn is affected – though not completely determined – by the overall evolution of contractual wages, due to the legal indexation mechanism.

Over the last twenty years, since 1994, the level of the lowest negotiated wages has dropped sharply compared to the minimum wage, even though the minimum wage itself has lagged behind average contractual wage growth. This implies that the room for wage differentiation at the lower end of the wage distribution has been determined much more by the evolution of the lowest wages in CLAs than by the development of the minimum wage. Put differently, the social partners have significantly increased the opportunity for employers to create low-paid jobs between 1994 and 2015. Since 2010, the real value of the average lowest negotiated wages has fallen by 4 per cent, while the real minimum wage has declined by 2 per cent. Although the protection that the minimum wage offers to low-paid workers has deteriorated somewhat during the crisis, the impact of the relative reduction of the lowest negotiated wages has been more important. This is so because, on the one hand, most of the employees are covered by a collective agreement, and, on the other hand, the lowest wage scales have declined more than the minimum wage. Since our analysis suggests that in most CLAs this decline was due not to the introduction of new lowest wage scales (which only affect new hirees) but to the gradual erosion (*vis-à-vis* the minimum wage) of existing lowest wage scales, this probably has had a real impact on the pay of the lowest-paid workers. Indeed, we found that there has been a substantial shift in the wage distribution towards the lowest wage brackets. While the number of jobs (for adults aged 25 and over) up to 110 per cent of the minimum wage increased by 21 per cent from 2006 to 2014, the number of better-paid jobs declined.

What explains this lowering of the lowest negotiated wages and the strong growth of low-paid jobs? In the second part of the 1990s, the decline of the lowest wage scales can be explained by the pressure from the government, resulting in the agreement between the social partners to create more low-paid employment opportunities for disadvantaged groups. However, it is more difficult to explain the further erosion of the lowest wage scales after 2000. Already in 1999, the FNV pleaded for a stronger increase of the lowest wages than the average pay rise and since 2011 the official goal is to lift the lowest wage scales to 130% of the minimum wage. Apparently, the unions have in general not been successful in realising this goal.

More recently, since the Social Agreement of 2013, the social partners have agreed on the introduction of new lowest wage scales that range from 100% to 120% of the minimum wage, which should however be used exclusively for the employment of special target groups of handicapped persons.

With respect to youth wages, the social partners in the Labour Foundation agreed already in 1997 that the system of wage scales based on age should be replaced by wages based on experience and competences. Although, the age at which an employee is entitled to the adult wage has been lowered by a few years in many CLAs, almost twenty years later the youth wage scales are still present in many CLAs. Despite the formal agreement between the social partners, the sectoral employers' associations are apparently not very eager to agree with the abolishment of the youth wage scales and the unions have not been able (or willing?) to force them to comply.

Since, based on the previous analysis, we are not able to answer the question what determines the evolution of the lowest wage scales satisfactorily, we will perform an in-depth analysis of the development in some specific sectors. Therefore, the next chapter will focus on the evolution of the lowest wage scales and the policies of the employers as well as the unions in three specific industries, namely cleaning, super markets and the metal industry.

3 Minimum wage and wage formation in three sectoral case studies: Cleaning, Super markets, and Metal industry

3.1 Introduction

In the previous chapters we discussed the legislation, policies and evolution with respect to the minimum wage and the lowest wage scales at the national level. However, as we stressed in Chapter 2, the impact of the minimum wage on the lowest pay scales and on low-wage employment is largely intermediated through collective bargaining at the sectoral (and company) level. We noted a distinct evolution of the lowest wage scales and of low-wage employment over time, but national statistics and aggregate information on lowest wage scales in collective agreements do not allow us to infer causal relationships between the minimum wage and the lowest wage scales. Therefore, this chapter focuses on three specific sectors to examine the interaction between the minimum wage and collective bargaining more closely. In line with the comparative international project that this study is a part of, we selected the cleaning sector, super markets, and the metal industry. While the first two sectors are typical examples of low-wage sectors, in which one can expect the legal minimum wage to have a significant impact on collective bargaining, the third sector is an example of a relatively well-paying sector, where much less influence of the minimum wage is to be expected. This contrast allows us to test whether the role of the minimum wage does indeed differ according to the average wage level in a sector.

In the next section we briefly discuss the methodology that we apply in this chapter, and in the following sections we discuss the results for the three sectors. In the last section, we draw some general conclusions from these cases.

3.2 Methodological approach

The sectoral case studies in this chapter are mainly based on two sources. First, we analysed the relevant collective agreements for the sector, paying particular attention to the evolution of the lowest wage scales, the youth scales, preliminary scales ('aanloopschalen'), new wage scales for handicapped workers, and the age at which young workers are entitled to the adult wage ('vakvolwassenleeftijd'). For this part we used the database of the Ministry of Social Affairs and Employment that was used also in chapter 2. Secondly, we interviewed negotiators on both the union side and the employers' side of each of the three sectors. The interviews took place in June and July 2016. The views of the negotiators expressed in this chapter thus reflect the time period until Summer 2016. At the union side we interviewed the negotiators of the FNV as well as of the CNV (the two largest trade union confederations). At the employers' side we interviewed the negotiators of the most important sectoral employers' association(s). An overview of the interviews is given in Appendix 4. We enquired about their views on the minimum wage and the lowest wage scales, the role that these play in collective bargaining, the importance of low-wage employment in their sector, and their expectations and preferences regarding the future of the minimum wage and the lowest wage scales.

For each sector, we first give some basic facts on the sector, and then we discuss the nature of the collective agreement(s) and the level of the lowest wage scales and the youth scales. Next, we analyse the role (of the uprating) of the statutory minimum wage in collective bargaining, followed by a discussion of youth wage scales, the introduction of a new wage scale for specific target groups and the monitoring of the compliance with the contractual wage scales. We end each case study by drawing some conclusions.

3.3 Case 1: Cleaning sector

In the Netherlands, the cleaning sector²⁹ is characterized by many small organizations. During the third quarter of 2016, 13670 enterprises belonged to the sector of which 97 per cent employed less than 20 people (Statline, 2016). In addition, there are several large organizations in the sector. According to the interviewees, the large number of small organizations is a reflection of the comparative easiness to start a company in the sector, which has led to fierce competition. Moreover, they mention that as most of the work is bestowed on open tender in this context of fierce competition, the margins are low. The sector contains around 143.000 jobs. However, because employees in the sector often combine (several) jobs, around 72.000 people work in the sector (UWV, 2013). The major share of the work is low-skill and low-wage employment.

Collective agreements, wage scales and lowest wage level in cleaning

There is one collective agreement covering the cleaning sector (called 'Schoonmaak- en glazenwassersbedrijf'). It is signed by the 'OSB' representing the employers and 'FNV Bondgenoten' and 'CNV vakmensen' representing employees. The current agreement runs from 1 January 2017 until 31 December 2018, while the previous agreement which was valid at the time of the interviews, ran from 1 January 2014 to 31 December 2016. The agreement is extended to the sector, which is defined by 'every enterprise that has taken up cleaning and/or window cleaning as its main or sub-activity'. The union representative who was interviewed for this sector states that this definition is formulated in this all-embracing manner on purpose. By formulating it broadly, it can be avoided that competing employers have the opportunity to side-step the collective agreement and to pay the minimum wage rather than the agreed wage. The resulting wage competition is seen as an unwanted situation: *'no one in his sector works without collective agreement: if not the extended collective agreement, than another (company) agreement. Otherwise, the resulting wage competition would lead to degradation of employment conditions within the sector at large'* [union representative cleaning sector]³⁰.

The collective agreement has a minimum character, meaning that the agreement sets the baseline for employers in the sector. Nevertheless, according to the representatives of both employers and employees, very few companies pay above the level of the collective agreement. This is explained as the consequence of the open tender system in this market. If companies pay above the minimum level agreed in the collective agreement, they run the risk of losing their contracts because their services will be more expensive compared to those paying at the level of the collective agreement.

29 SBI code 812

30 Translated freely from the interviews which were held in Dutch.

There are three wage groups indicated in the collective agreement. Wages are attributed in accordance with one's position as determined by the job rating system. Specialized functions receive a five per cent bonus upon the wage set for the group to which the function belongs. In each group, the salary is flat for the first 8 years, after which a wage increase is assigned. The wage groups thus contain only two steps. This situation will change from 1 January 2018 onwards: after this date the system will change from a period of 8 years on a flat salary to a system in which employees are in the first scale for a period of 4 years during which the salary increases every year. The first 12 months of employees' appointment are used as a learning period. During this period, the employee receives 85 per cent of the highest hourly wage in the wage group to which (s)he belongs. It is specifically defined that those employees, and only those employees, that fall under the Participation Act may be paid at the statutory minimum wage level (compare Section 2.4).

The youth minimum wages, for employees 21 years and younger, are defined as a percentage of the lowest hourly wage for adults. Those aged 17 or younger receive 45 per cent, which increases every year with 10 per cent until 85 per cent is reached at age 21. Upon age 22, employees receive the adult wage. Moreover, from this point onwards the years of experience start to count for the wage increase after 8 years of service (system until 2018). This means that the youth scales deviate from the statutory minimum youth wages in several ways. First, the age that employees receive the full adult salary is reduced by one year from the legal age of 23 years. Second, as the youth scales in the collective agreement combine age 15 to 17, the employees aged 15 and 16 are relatively well paid. Third, the wage levels lay above the statutory minimum youth wage, both in absolute level (because it is related to the adult wage levels which lay also above the statutory minimum) and because the age-related percentages exceed the statutory ones.

Figure 29 Cumulative wage increases in the cleaning sector, 2008 - 2016

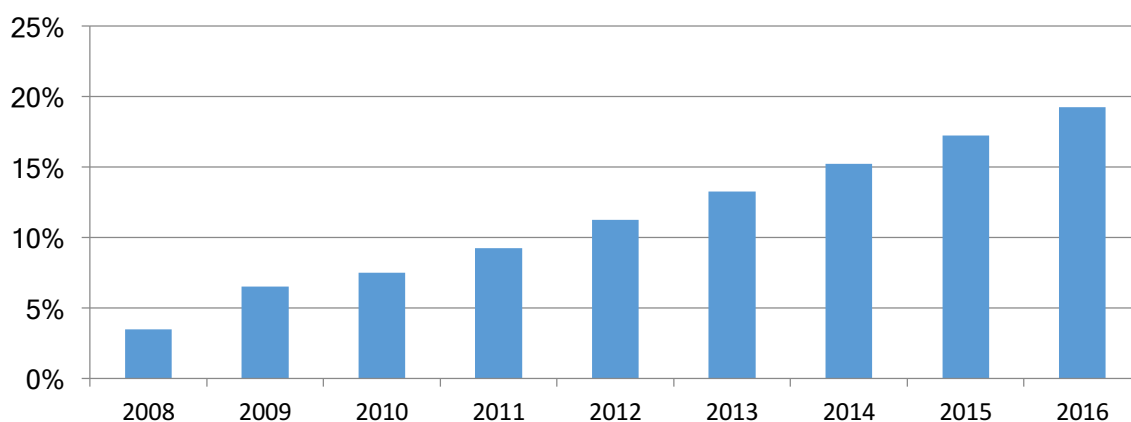
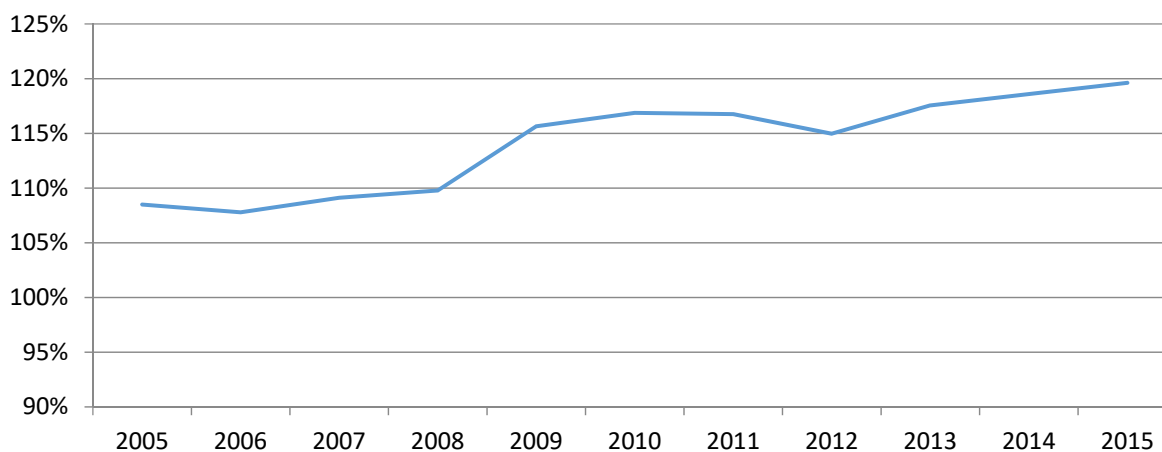


Figure 30 lowest adult wage scale as percentage of statutory minimum wage, cleaning sector



Source: based upon a database of the Ministry of Social Affairs and Employment, department UAW (own calculations)

The wage development has been quite stable over the last several years. Figure 29 shows the agreed cumulative wage increases since 2008. In 2008 and 2009, the wage increase was relatively steep with 3.5 per cent (2008) and 3 per cent (2009) increases. In 2010 and 2011, the wage increase dropped to 1 per cent (2010) and 1.75 per cent (2011), after which the yearly increase has stabilized at 2 per cent. Figure 30 shows the evolution of the level of the lowest adult wage scale as a percentage of the statutory minimum wage. In 2005, the lowest wage scale was about 108 per cent of the minimum wage level, which increased to about 120 per cent in 2015.

The role of (the uprating of) the statutory minimum wage in cleaning

The lowest wage scale is very important for this sector, as almost everyone starts in this scale. As a consequence, many people get paid at this level. The negotiator of the trade union stated that they regard it important to bargain for a good salary in these lowest scales, especially because so many people get paid at his level. For the cleaning sector, the trade union FNV has therefore made it their policy to reach a general wage level of 130 per cent of the statutory minimum wage. Hence, the statutory minimum wage level serves in this sector as a reference point for wage bargaining. As a consequence, both at the side of employers' representatives and at the side of employee representatives, negotiators are very aware of how the current wage level relates to the statutory minimum wage. Currently, the level of the lowest adult wage scales (leaving the wage level during the learning period out of the picture) is over 120 per cent of the statutory minimum wage for adults. At both sides, negotiators are keen to keep it at this level, both because it is good for employees (stated by the unions) and because it is good for the public opinion about the sector (stated by the employers' organization).

As was shown in Figure 29, the wage level started to increase both in absolute terms and relative compared to the statutory minimum wage after 2008. Starting point for this increase was a drastic change of the collective agreement at the time. After negotiations, the parties agreed to simplify the agreement and to remove additional benefits in return for higher wages. During the bargaining round that has led to the collective agreement of 2017/2018, the reshaping process of the collective agreement was finalized. Several models were on the table. Central to all of them was the

reduction of the period of 8 years before one goes up a step in salary. It was agreed that it will be brought down to 4 years, to be implemented from 1 January 2018 onwards. This was in line with the preference of the trade unions as expressed during the interviews. The unions moreover like the starting scale of 85 per cent to be removed in the future. Their argument for doing so is that the lowest wage level then really is as high as 120 per cent, and will be 130 per cent after 4 years. This counts for them as having reached the level of 130 per cent of the statutory minimum wage. Something they perceive as a good level for the sector. This indicates that in these negotiations, the statutory minimum wage level served as an important reference point.

The representative of the employers' organization in the sector stated that during earlier bargaining rounds they have proposed to link the uprating of the wages one-on-one to the nationwide uprating of the statutory minimum wage level. Motivation was that they reached a wage level which they believe to be in line with the market. In order to keep it that way, they proposed to tie it to the statutory minimum wage level. Unions did not agree, stating they want to hold on to their negotiation room.

The role of the youth minimum wages in cleaning

The interviewees indicate that in the cleaning sector, youth minimum wage levels do not play an important role in the bargaining process. The most important reason being that young people only form a minor part of the employees. Youth wages in the sector lie well above the statutory minimum. This means that even with the recent upgrading of the statutory youth minimum wages (see Chapter 1), the youth wages as agreed in the collective agreement do not fall below the statutory minimum. According to the employer organization, there is however no intention to upgrade the youth wage levels in the collective agreement in response to the statutory changes to maintain the same distance to the statutory minimum. It is accepted that the distance between the two will grow smaller. Only when they are overtaken by the statutory minimum level, employers state that they intend to upgrade the wages accordingly.

Introduction of a new wage scale for target groups in cleaning

The employers' representatives state that even before the introduction of the Participation Act many people belonging to the target group of this act were already employed in the cleaning sector, the reason being that the type of work allows this. These people were however not put in the minimum wage scale introduced especially for this target group, as this scale did not exist previously. Therefore, only newly hired employees from the target groups will be put in this scale.

Compliance and control in cleaning

Both employer representatives and employee representatives emphasize in the interviews that compliance with the wage levels as set in the collective agreement is an important issue in the sector. The employers' organization 'OSB' hereto introduced a quality label. All companies with the quality label are controlled on a yearly basis. The representatives of the employers' organization moreover emphasize that the simplification of the wage scales have contributed to compliance: control is easier and mistakes by employers are less easily made.

Conclusion cleaning sector

The interaction between the lowest wage scales in the collective agreement in the cleaning sector and the statutory minimum wage can be labeled as distant interaction. Both employers' organizations and employee representatives evaluate the adult wage levels in the collective agreement in terms of relative distance to the statutory minimum wage. For youth wages, the statutory minimum is less apparent in the minds of the negotiators at the moment.

3.4 Case 2: Super markets

During the third quarter of 2016, 3055 enterprises belonged to the super market sector³¹ of which 76 per cent had less than 20 employees (Statline, 2017). By 2013, the sector employed around 300.000 people (CBL, 2016). Most of the work is low-skill and low-wage employment. The market is dominated by two players: Albert Heijn (35% market share in 2015) and Jumbo-groep (18.5%) (CBL, 2016). Most of the employees in the sector are young and many jobs are small, reflecting that most young employees in the sector work here besides their studies to earn some money.

Collective agreements, wage scales and lowest wage level in super markets

There are two main sectoral collective agreements in the super market sector: the 'VGL collective agreement' covering the larger super markets³² and the collective agreement 'Levensmiddelenbedrijf' which covers the smaller super markets and franchise takers. The agreements are identical except the parts about pensions and early pensions. Also wage scales are the same. Currently, both collective agreements are valid for the period 1 April 2013 until 1 April 2017. In June 2017, at the time of writing, bargaining for a new version was still going on. The collective agreement 'Levensmiddelenbedrijf' is agreed between the 'Nederlandse Vereniging voor Coöperatieve Werkgevers' and the 'Vakcentrum' at the side of the employers and 'CNV vakmensen' at the side of the employees. The 'VGL collective agreement' is signed by the 'Vereniging Grootwinkelbedrijven in Levensmiddelen' at the employers' side and 'CNV vakmensen' at the side of the employees. The trade union 'FNV' has refused to sign the latest collective agreements, because they could not agree with the outcome of the negotiation process. Especially *'the abolishment of supplements without proper compensation'*, was mentioned as the argument for not signing the current agreement according to the FNV negotiator interviewed.

The collective agreements have a minimum character: they set a baseline for employers with regards to wages as well as other employment conditions. Nevertheless, the interviewees indicate that in practice the baseline is what employees in lower wage groups get paid in most organizations. For higher wage groups the salary is set more frequently above the minimum level that is stipulated down in the collective agreement. Most employees in the sector are however employed in scale A or B and are paid youth wages. This means that both the lowest wage scales and the youth wages are very important for this sector.

31 SBI code 4711

32 Albert Heijn, Aldi, Boni, Deen, Detailresult, Em-Té, Hoogvliet, Jan Linders, Jumbo, Lidl, Nettorama, Poiesz, Stationsfoodstore, Vomar.

The collective agreements contain nine wage groups (A – I). Functions belonging to scale A (lowest) are future salesperson, re-stockers of shelves and future cashiers. The wage level in this scale is flat and does not include any steps. Scale F to I contain only a minimum and a maximum and set no steps in between. The general rule is that after five years of experience employees are entitled to at least the maximum amount mentioned in the scale. On-call employees and temporary agency workers are paid the statutory minimum (youth) wages³³. There is a specific (lower) wage scale for the long-term unemployed entering the sector.

Youth scales are incorporated in the general wage scales. The lowest wage scale starts at age 15. Those aged 13 and 14 earn the amount set for age 15. The youth wages are a set percentage of the lowest adult wage category in the scale, and reflect the percentages used in the statutory youth wage scales (see Chapter 1). However, as the adult lowest wage is higher than the statutory minimum, this is also true for the youth wages. The ‘adult age’ in the collective agreements used to be set at the statutory ‘adult age’ of 23. This was however reduced to 22 years mid-2016, after campaigns of Young & United, the youth department of the trade union FNV (this decision has meanwhile been superseded by changing legislation as explained in Chapter 1). From age 18 onwards years of experience start to count within scales B to E, with a maximum of 1 experience year at age 18, 2 experience years at age 19 and 20 and 3 experience years at age 20 to 23. The experience years entitle employees to a higher salary.

The wage development has varied over the last years. Figure 31 shows the agreed cumulative wage increases since 2005. In 2006 and 2007 the wage increase was twice a year 0.75 per cent. In 2008 and 2009, the wages increased by 3.25 and 3.5 per cent. After that the wage development has slowed down to 1 per cent in 2010, 1.8 per cent in 2011 and 2 per cent in 2012. In 2013 there has been no general wage increase. Nevertheless, the youth minimum wages were increased. In 2012, those under 18 received an additional wage increase of 1.5 per cent and in 2013 again. In 2014 and 2015 there was no collective agreement. Employers nevertheless decided together to increase the wages by 1.25 in each year. This was on a voluntary basis. When the current collective agreement was formalized, this wage increase was made obligatory in retrospect. For the years 2016 and 2017 wage increases of 1.75 and 0.75 have been agreed.

33 This point has since this agreement been outmoded by new agreements in the ABU collective agreement (temporary employment agencies sector), stating that temporary agency workers should be paid at the level of the hiring companies collective agreement starting from day one of the contract.

Figure 31 Cumulative wage increase super market sector 2005-2016

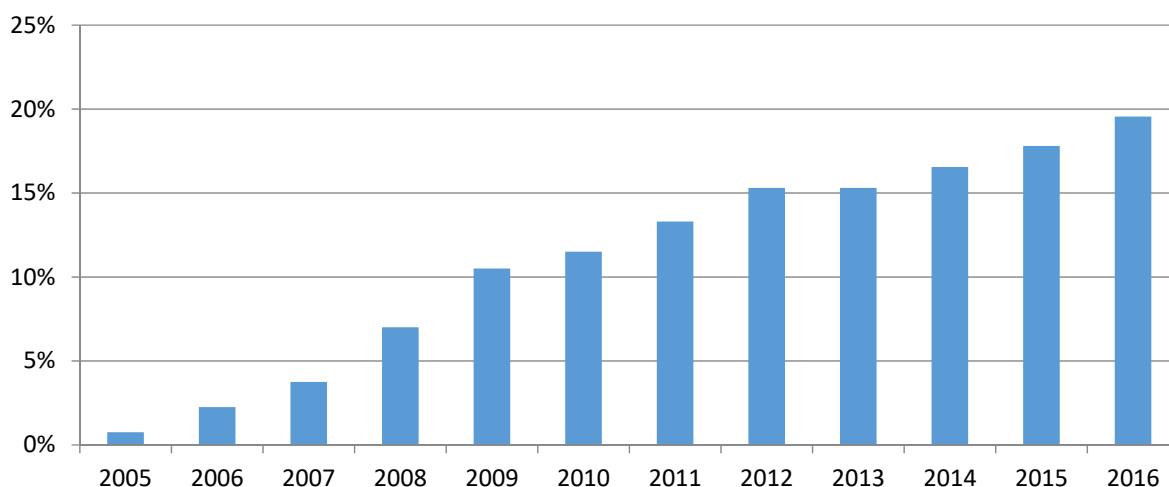
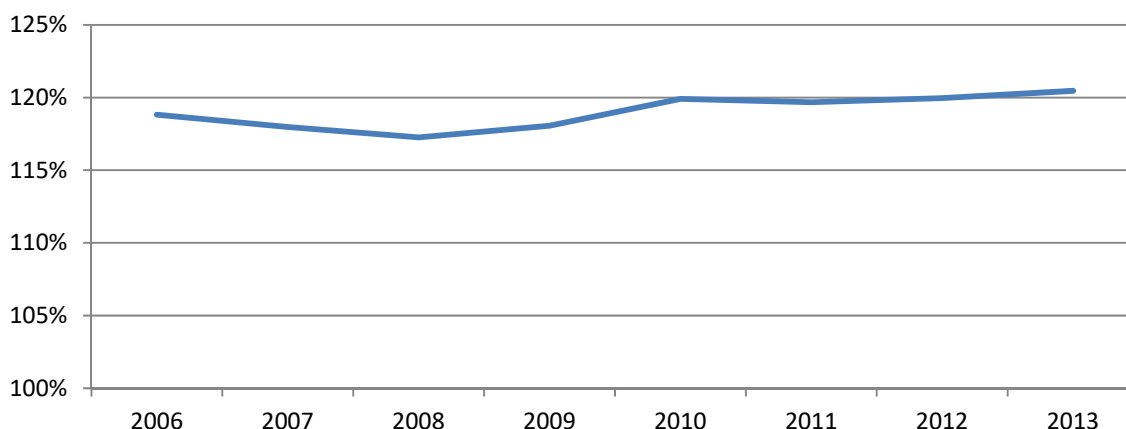


Figure 32 Lowest adult wages as percentage of statutory minimum wage, super market sector



Source: based upon a database of the Ministry of Social Affairs and Employment, department UAW (own calculations)

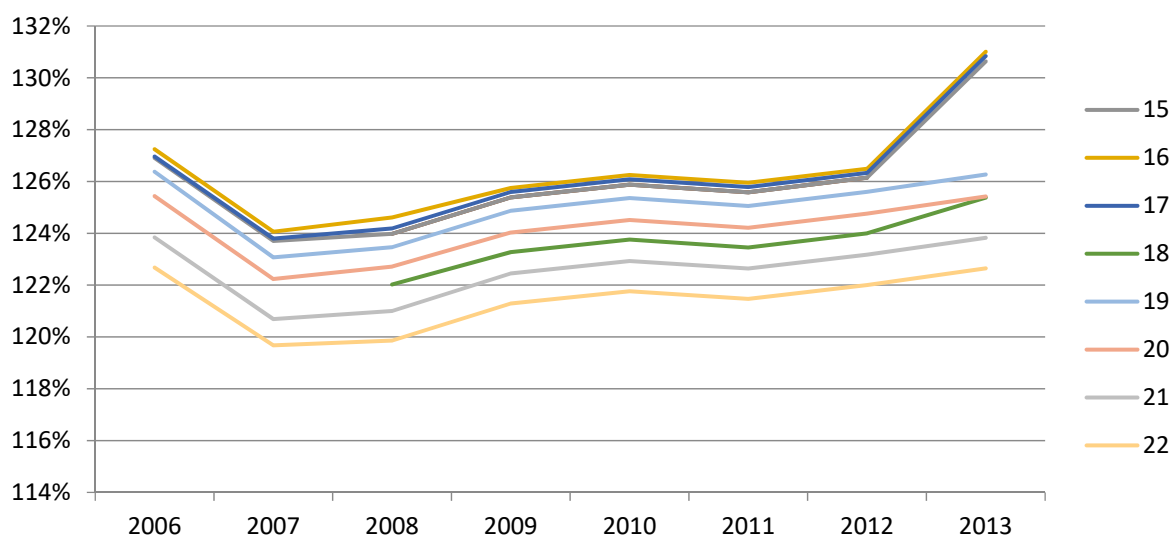
Figure 32 shows the wage development of the lowest wage scales in the super market collective agreements compared to the statutory minimum wage development. In the figure one can see that the lowest adult wages in the super market collective agreements now lay around 120 percent of the adult minimum wage level³⁴.

As youth wages are central to the super market sector, Figure 33 shows the development of the youth wages in the super market sector in relation to the statutory minimum between 2006 and 2013³⁵. In both 2012 and 2013 it was decided to increase the youth wages below 18 with an additional 1.5%. As a result the youth wages for those aged below 18 were in 2013 at a level of 31% above the statutory minimum. For those aged 18 years to 23 years, this varied between 22% (22 years) and 26% (19 years) of the statutory minimum.

34 Because the wage increase of 2014 and 2015 were formalized in retrospect, the data for these years in the database of the Ministry of Social Affairs and Employment is no longer correct and therefore not presented here.

35 See previous footnote

Figure 33 Youth minimum wages as percentage of the statutory minimum youth wage 2006-2013



The role of (the uprating of) the statutory minimum wage in super markets

According to the representatives of both the trade unions and the employers' organizations in the super market sector, the statutory minimum wage does not play a role in the bargaining process. The reasons given are that the wage levels *'have always been above the minimum wage level'*, so they were not forced to take it into account. The trade unions also state that they do not relate their wage claim to the statutory minimum wage level. Nevertheless, the increase of the statutory minimum wage is related to the sectoral wage increase in an indirect sense: according to the employer representative the wage increase in the sector often equals the indexation plus a little extra. This means that both the statutory minimum wage increase and the sectoral wage increase are based on the indexation.

Even though the representatives of employers and employees state that they do not directly relate the sectoral wage increase to the statutory minimum wage increase, they are aware of its relative level. Moreover, the statutory minimum wage increase is seen as the minimum desirable wage increase. This is expressed by an employers' representative stating: *'that from now on we want to keep up with the statutory minimum wage development at the minimum, because the wage increases have been at a minimal level over the last few years. More reduction is not possible, as the lowest possible level has already been reached'*.

The role of the youth minimum wages in super markets

The youth minimum wages are central to the super market sector, as many employees in the sector are young. During the last bargaining rounds, the main discussion point with regard to youth wages was the age at which employees are to receive the adult wage. Outcome of the discussion was the reduction of the adult age from 23 to 22 years. Since this bargaining round, the government has decided to further reduce the statutory age on which employees are to receive the adult wage to 21 years next year. The employers' representatives of the super market sector stated during the interview that they think a reduction of the adult age to 21 is fine, but that they are *'in*

favour of keeping the sliding scale in the youth wages as it is' (meaning the percentages of the adult wage for each year group). They state that during the coming period they are going to re-think the youth wage levels. At this moment, they do not feel the relative distance to the statutory minimum youth wages is most relevant. Therefore, they have no intention of increasing the youth scales with the same rates as the statutory youth wages have been increased. They accept that the distance between the statutory minimum and their own wage scales grows smaller. Rather they think that in the long run, the statutory minimum is going to be the level of the youth wages in the sector. To them the question remains whether they are going to stick to the current levels as set by the collective agreement until the statutory minimum sweeps them up, or whether they are going to use the new statutory minimum for youth wages right from the moment the new legislation is introduced. The union representatives also point out that the reduction of the adult age to 21 does not really affect the sector, as most people employed are younger. Union representatives are -contrary to the employers' organization- in favour of a further increase of the youth wages for all age groups. Their argument is that they do the same work at the same level as older employees. Therefore their earnings should be similar. However, they see how it can be difficult to reach this, as youth wages are so central to the sector's business model. The lower youth wages are a strategy to keep to total wage sum low and are as such a business model for the sector.

Introduction of a new wage scale for target groups in super markets

Within the super market sector collective agreements, no specific scale has been introduced for the target group employees of the Participation Act. Employer representatives state that people belonging to this target group were already employed in the sector before the introduction of the act. Until his moment, no need is felt by them to introduce a specific wage scale: most target group employees are below the age of 21 and therefore affordable.

Trade union representative's mention that employers in the sector have very different approaches with regard to the target group of the Participation Act: some employ few while others take a very active approach. As an example of a very active employer they mention Albert Heijn. Their practice is to put target group employees in scale A. These employee representatives however state that this might not be the best solution in the long run: according to the collective agreement employees in scale A need to move up to scale B after a while, something that is not realistic for most target group employees. They foresee a discussion about the introduction of a specific scale in the next round of negotiations. Something they see as potentially benefitting the target groups as well, because it increases their options for a permanent contract.

Conclusion super markets

The interaction between the statutory minimum wage and the lowest adult wage scale in the collective agreement can be characterized as distant coexistence: both relate to the indexation but the lowest wage scales are not directly related to the statutory minimum wages. More important to the sector than the lowest adult wage scales are the youth scales: most employees are below the age of 21. The youth wage scales are distantly related to the statutory youth minimum wages in a sense that the same percentages of the adult minimum wage that make up the statutory youth minimum wages are applied to determine the youth wages within the current collective agree-

ment. The level is however related to the lowest adult wage in the collective agreement rather than the statutory adult minimum wage. However, consequent to the recent changes of the statutory youth minimum wages this will probably change during the next round of negotiations.

3.5 Case 3: Metal industry

During the third quarter of 2016, 11175 enterprises belonged to the metal sector³⁶ of which 91 per cent had less than 20 employees (Statline, 2017). By 2015, the sector employed around 106.000 people (Statline, 2017). Most of the work in the sector is skilled work. The sector is male dominated: around 89 per cent of the employees are male (Statline, 2017).

Collective agreements in metal industry

There are two sectoral collective agreements: 'Metalektro' for those companies with over 34 employees and the 'Metalworking and Engineering Industry' collective agreements (collection of five collective agreements) that include the collective agreement 'Metaalbewerkingsbedrijf' which is relevant in the context of the metal industry (from now on referred to as 'M&T Metaalbewerkingsbedrijf'). This collective agreement is meant for those companies having less than 35 employees. The collective agreements have their own wage tables.

The current collective agreement 'Metalektro' runs from 2015 until 2018. It is signed by the 'FME-CWM' representing employers and by 'FNV', 'CNV Vakmensen' and 'De Unie' representing employees. The collective agreement contains eleven wage scales (A-K). To each scale, a certain set of functions is assigned. These functions are classified according to an official classification system³⁷. The lowest scale (A) starts well above the minimum wage level. People younger than 23 can be placed in a scale based upon their age combined with their educational degree rather than their function. There are 4 different youth scales (I – IV). At age 23, employees reach the adult working age. During their first year of employment, people can be placed in a starting scale. This scale makes use of the statutory minimum wages.

The collective agreement 'M&T Metaalbewerkingsbedrijf' runs from 1 March 2015 until 30 April 2017. At the time of writing in June 2017 no new version of the collective agreement had been signed yet. It is signed by the 'Koninklijke Metaalunie', 'de Nederlandse Vereniging van Modelmakers' and 'NGO-SBG' at the side of the employers and the 'FNV', 'CNV vakmensen' and 'De Unie' at the side of the employees. The collective agreement contains ten wage scales (A-J). Scale A is the lowest wage scale. It starts at the statutory minimum wage level. The collective agreement contains four different youth scales. The first scale is set at the level of the statutory minimum youth wage. This scale applies to those young people without a completed level of education. The second scale is for those who have completed a relevant level of general education and the third and fourth scale apply to those who have earned a professional degree. At age 23 the adult wages starts to apply. To new employees that have been unemployed for at least one year prior to their appointment and are not (yet) capable of fulfilling a function at the level of wage scale A, a learning period of 1 year can be imposed. During this period, they earn the statutory adult minimum wage.

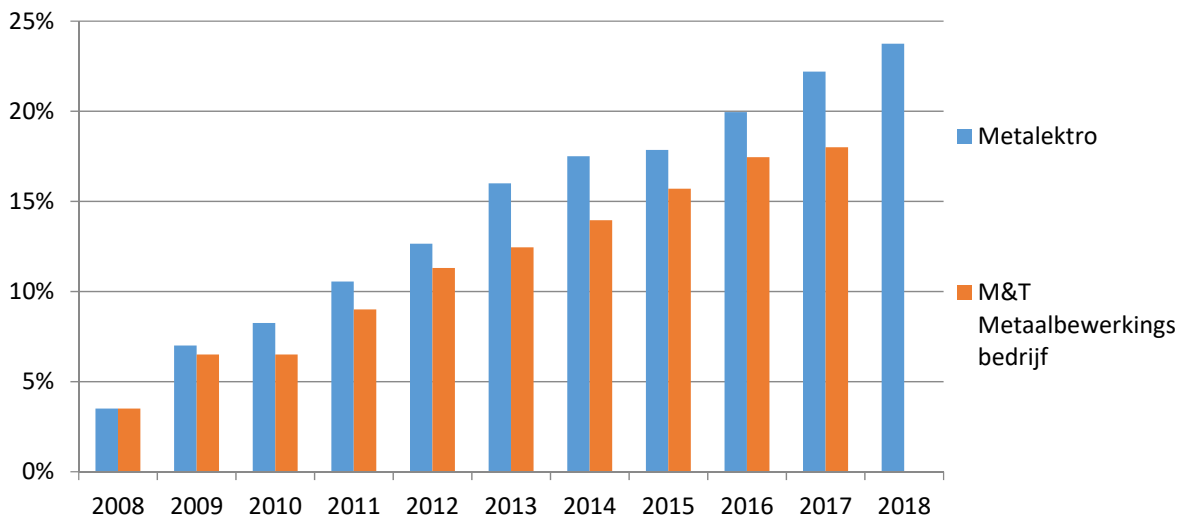
36 SBI code 24 & 25

37 The standard in the sector is the ISF classification system

Both collective agreements are minimum-level collective agreements, meaning that it sets the baseline for wages and other employment conditions. According to the employers' representatives, companies generally pay their staff about 10 to 20 percent above the wages of the collective agreement. The explanation given by the employers' representatives is that most companies pay above the baseline set by the collective agreement *'to attract and maintain personnel and to be an attractive sector to work in'*.

Both collective agreements contain a scale specifically meant for the target group of employees as specified in the Participation Act. This scale ranges from 100% until 120% of the statutory minimum wage. If the earning potential of employees belonging to the target group reaches 100 percent (as determined by the UWV), they will move to the regular (youth) scales.

Figure 34 Cumulative wage increases in the Metal sector, 2008-2018



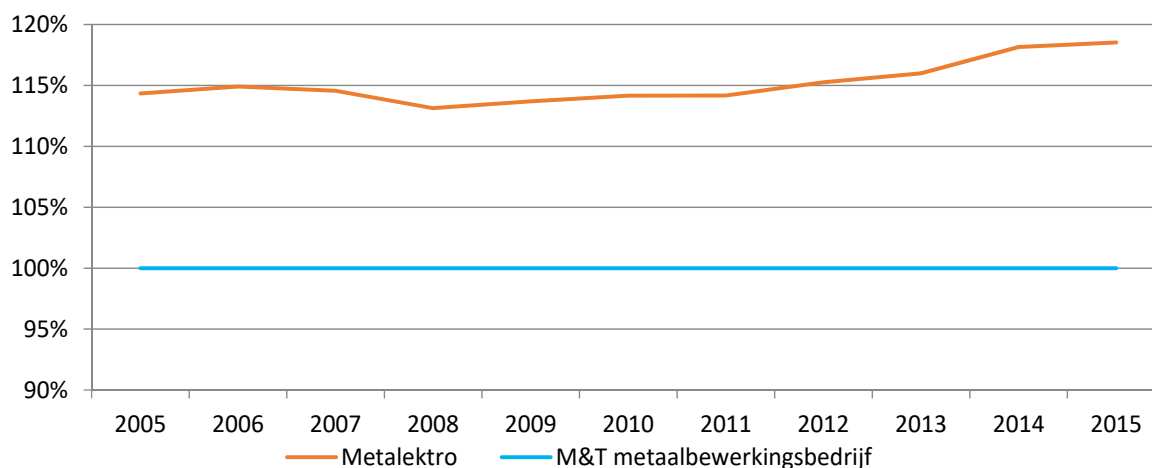
Comparing the wage scales of the 'Metalektro' collective agreement and the 'M&T Metaalbewerkingsbedrijf' collective agreement, one can observe that whereas in the 'M&T Metaalbewerkingsbedrijf' both the youth and the adult scales start at the statutory minimum wage level, the 'Metalektro' scales lay well above the statutory minimum. Also the yearly general wage increases are not uniform throughout the sector. Figure 34 gives an overview of the cumulative wage increases since 2008 in the sector's two collective agreements. Like in the cleaning- and retail sector, it can be observed that the wage increases have slowed down since 2010, two years after the economic crisis hit the Netherlands. In both the Metalektro (additional 3% in 2015 plus addition 1% in 2016) and the 'M&T Metaalbewerkingsbedrijf' (additional 3% in 2008 plus additional 3% in 2009 plus additional 3% in 2013 + additional €38,- in 2016) collective agreements, the youth scales have received additional increases. By setting a minimum amount in euros for the wage increase within the 'Metalektro' agreement (minimum of €20.62 in 2011; €20.14 & €18.11 in 2012; €18.49 in 2013), the CLA has also given an additional boost to the wages in the lowest paying jobs.

Evolution of the lowest wage scale(s) in metal industry

Figure 35 shows the development of the lowest adult wage scales in the two collective agreements covering the sector compared to the development of the statutory minimum wage. The flat line of

the 'M&T Metaalbewerkingsbedrijf' shows that the lowest wage scale in this collective agreement equals the statutory minimum wage. The 'Metalektro' collective agreement remained between 2005 and 2012 just below the level of 15 percent above the level of statutory minimum wage. Since 2012, this has risen to 18 percent above the statutory minimum.

Figure 35 Lowest general wage as percentage of statutory minimum wage, metal sector



Source: based upon a database of the Ministry of Social Affairs and Employment, department UAW (own calculations)

The role of (the uprating of) the legal minimum wage in metal industry

The representatives of the employers' organizations and the trade unions which were interviewed in the metal sector stated that the level of the statutory minimum wage is not discussed or referred to during the negotiation process. In the collective agreement 'M&T Metaalbewerkingsbedrijf', the lowest wages equals the minimum wage. This has been made official policy: the lowest wages are automatically adjusted twice a year in accordance with the uprating of the statutory minimum wage level. The negotiators about this collective agreement state that there is no discussion, especially because it has become the standard to use the statutory minimum as the lowest wage level in the collective agreement. The negotiators about the 'Metalektro' collective agreement state that there is no discussion, especially because the lowest level within the collective agreement lies far above the statutory minimum. Therefore, they see the uprating of the wages in the collective agreement as an independent process.

The role of the youth minimum wages in metal industry

The youth scales have been increased more than the adult scales within the collective agreements of the metal sector. The main reason given by the negotiators is that by doing so they intend to make the sector more attractive to young people³⁸. They emphasize that they want to encourage people in vocational training to choose a technical training trajectory. This is also the reason that

³⁸ In response to changes in the law regarding youth minimum wages, the wage scales for young people were discussed during the current bargaining round. This bargaining round had by June 2017 resulted in an agreement in principle and can therefore be expected to become affective soon. It is decided to let workers join the adult wage scales from age 22 onwards (used to be 23). Moreover, a committee is set up to investigate and update the structure of youth wages in the collective agreement.

there are several youth scales: as soon as young people are committed and they choose to do additional training, their pay rises. Even though both employee and employer representatives support this goal, they have different views on what the youth scales should look like in the future. The trade unions would like to get rid of the youth scales in the collective agreements, whereas employers want to hold on to them in order to have more influence on the total wage sum.

Introduction of a new wage scale for target groups in metal industry

In both collective agreements a specific wage scale has been created for the target group of employees of the Participation Act. In line with the recommendations³⁹, the scale ranges from 100 percent until 120 percent of the statutory minimum wage. It is an open scale without predetermined steps. The employers' representatives state that an open scale was created in order to give individual employers the freedom to scale their employees according to what they think fitting in each individual case. Moreover, an open scale removes the automatic upgrading after one year that is part of the regular wage scales; something they believe reflects more fairly the limited productivity that can be expected from employees belonging to the target group. Also the negotiators of the trade unions argued in favour of a specific scale for this target group. They state that without a specific wage scale, it is very hard for this target group of employees to find a job, especially a steady job, and therefore to join the labour market. They moreover argue that when no specific wage scale would be created for this target group, they would most likely be in the (newly created) lowest wage scale. That would involve the risk that employers would also more easily put other groups of employees (starting employees, long term unemployed) also in this wage scale.

Other issues regarding minimum wage and lowest wage scales in metal industry

The representatives of employers and employees state that the lowest wage scales in both collective agreements are not extensively used. Only young people that are still in an educational trajectory are generally placed in these scales. The explanation that the lowest wage scales are little used is that for the jobs in the sector generally a certain degree of training is necessary giving access to higher wage scales. Work that requires less training, such as cleaning, tends to be outsourced nowadays.

Conclusion metal industry

Within the metal sector, the lowest wage scale is either set at the statutory minimum wage level ('M&T Metaalbewerkingsbedrijf' collective agreement), or develops independently from the statutory minimum because the lowest level is set above it (Metalektro). The sector can be characterized by the fact that both collective agreements have a minimum character and that companies tend to pay well above this minimum level. Moreover, the lowest wage scales are relatively empty, being filled only by those in learning positions entering the sector.

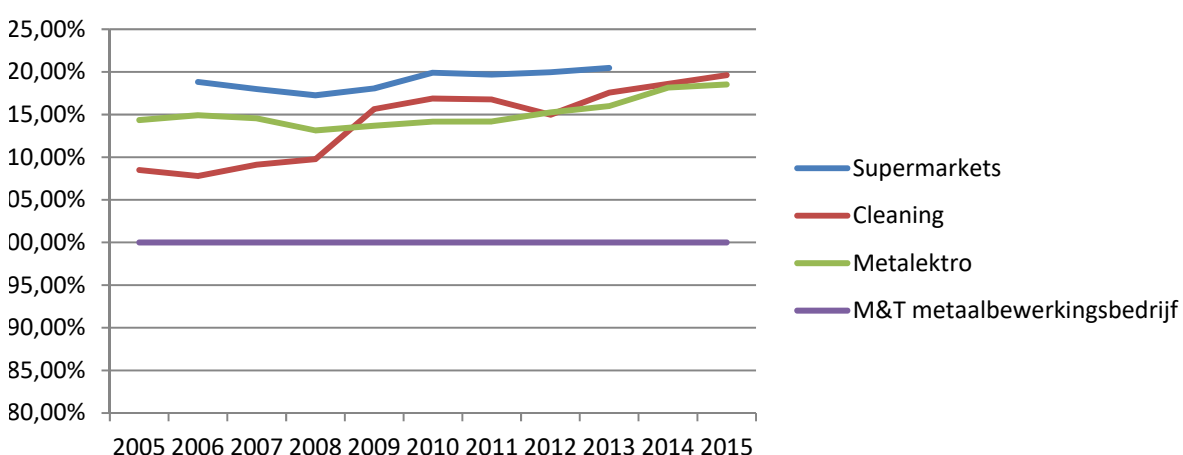
39 Sociaal Akkoord 2013.

3.6 Sector comparison and conclusion

Sectoral comparison

Comparing the cleaning, super market and metal sectors, important differences can be observed. Figure 36 shows the relative level of the lowest wage scales in their collective agreements as a percentage of the statutory minimum. The lowest wage scales are highest in the super market sector and lowest in the metal industry. However, one should take into account the importance of the lowest adult wage scales for the different sectors when interpreting these differences. The lowest wage scales in the collective agreements are extensively used within the cleaning sector and the super market sector, whereas they are less frequently used in the metal sector. Most important cause of this difference is the skilled nature of the work in the metal sector as opposed to the work in the other two sectors. Because employees need to be educated to do the jobs available, the lower wages scales are only used by those still in learning positions entering the sector. Low-skill jobs (cleaning, catering etc.) have generally been outsourced from the metal sector. Important to note is moreover that although the lowest wage scales are a bit lower within the metal sector, companies tend to pay above the minimum levels set in the collective agreement within this sector whereas this is not the case in cleaning and super markets. In addition, a far larger proportion of the employees is actually placed within the lowest wage scales within these two sectors. A final important difference is the centrality and use of youth scales. They are really at the core of super market pay, whereas they are far less important in cleaning and the metal industry. In these sectors, relatively few young people are employed in contrast with the super market sector where the employment of young people may be regarded a business strategy aimed at restricting the wage sum. The lowest adult wage scales in the super market sector are therefore less important.

Figure 36 Comparing the level of the lowest wage scales relative to the statutory minimum wage level across the sectors



Conclusion

Based on the case studies of the three sectors, we can conclude that there is generally low awareness among negotiators about the level of the statutory minimum wage. In general, both trade union and employers' representatives at the sectoral level state that the mandatory minimum wage does not play a substantial role in collective bargaining. Both claim that the demands (of the union) and the acceptability (for the employers) regarding the lowest wage scales in collective agreements are independent of (the uprating of) the level of the minimum wage. In some sectors, such as the metal industry, this is related to the fact that many low-paid activities, such as cleaning, catering and surveillance, have been outsourced and are therefore no longer covered by the CLA of the sector itself. Most negotiators do not have a clear picture of the evolution of the (relative) level of the lowest wage scales in their sector over time. Usually, there is no explicit policy aspiring to realize a particular distance between the lowest wage scales and the minimum wage (the cleaning sector is, however, an exception). In general, the negotiators have little insight into the extent to which the lowest scales are actually filled by employees and whether this number is increasing or decreasing.

However, when the topic of lowest wage scales is discussed further, the minimum wage does appear to play an indirect role. To some extent, it is a point of reference for negotiating the lowest wage scales. But as long as these are (significantly) higher than the minimum wage, the uprating of the minimum wage is usually not mentioned explicitly during the bargaining process.

An exception is the cleaning sector: both employer representatives and employee representatives are very aware of how the lowest wages in the collective agreement relate to the statutory minimum wage. This is caused by the strategy of the trade union FNV aimed at increasing the level of the lowest wage to 130 per cent of the statutory minimum. Another exception occurs when the lowest wage scale is not tied to the statutory minimum wage but is taken over from below as the contractual wage increase lags behind the increase of the statutory minimum. Both employer and employee representatives consider this to be a problem because it disturbs the wage structure as determined in the collective agreements.

There is much more awareness among negotiators regarding the youth minimum wage. In all sectors, the mandatory youth minimum wage is an important reference point for setting the youth wages in the collective agreement. In some sectors, the youth wage scales are identical to the youth minimum wage. In sectors, in which the youth scales lie above the youth minimum wage, they often follow the same or a similar pattern of an increasing percentage of the adult (minimum) wage with rising age, although employees may be entitled to the adult wage already at age 21 or 22 instead of 23. In general, changes in the youth minimum wage also affect the outcome of the bargaining process regarding youth wages. Recently, a change of the youth wage scales has been discussed in numerous negotiations. Usually, the unions demand either a lowering of the age at which the ordinary (adult) wage scales apply or an increase of the youth wages, or both.

In most sectors, the social partners have agreed to the introduction of a new lowest wage scale, ranging from 100% to 120% of the minimum wage, for the target groups of the Participation Act. Both the unions and the employers tend to prefer a separate wage scale for this group. In this way, the unions hope to prevent that other employees will also be placed in these lowest wage scales. The employers prefer these separate scale, since it limits the rise of these wages due the annual steps in the ordinary wage scales.

4 Conclusion and discussion

In view of the long history – almost half a century – of the statutory minimum wage in the Netherlands, it is not easy to summarize and characterize it in a few lines. Even though the minimum wage is an integral part of the Dutch labour market legislation and is accepted as such by almost all collective actors, its role has fluctuated considerably over time. This is remarkable, because the minimum wage legislation has undergone only relatively small changes over time. The changing role of the minimum wage is, therefore, not so much caused by legal changes, but by changing policies and practices of the government and the social partners. Most of these changes can be characterized as ‘drift’, gradual changes that affect the actual meaning of the minimum wage. A good example of this is the gradual erosion of the relative level of the minimum wage, compared to the average wage level, that has occurred since 1983. Initially, this was due to an intentional freeze (and in 1984 a nominal lowering) of the level of the minimum wage. But it was also caused by the fact that the indexation mechanism, which links the minimum wage to average contractual wage rises, causes it to gradually lag behind actually earned wages. So, even without any policy change, the relative level of the minimum wage has tended to erode over time. More or less similar remarks apply to the relative level of the lowest wage scales in collective agreements and to the evolution of low-wage employment over time. These, too, have changed considerably, but these changes were only partly intended, and partly the unintended outcome of other developments. From our interviews with representatives of the unions and the employers, it became clear that they are not always fully aware of the changes that have taken place over time and that they do not always acknowledge the role they play themselves in this process.

The period since the introduction of the statutory minimum wage in 1969 can be roughly divided in four sub periods:

1969-1983: relative uprating of the minimum wage;

1984-1993: steep fall of the level of the minimum wage, relative increase of lowest contractual wages, large decline in the incidence of the minimum wage;

1994-2004: slight real increase of the minimum wage, strong (relative) fall of lowest wage scales, increase of the employment incidence of the minimum wage;

2005-present: stable real minimum wage, moderate decrease of lowest wage scales, stable incidence of minimum wage but increase in low-wage employment between 100% and 110% of the minimum wage.

We briefly describe the first two subperiods and analyze the subperiods since 1995 in more detail. During the first fifteen years after the introduction of the statutory minimum wage, the government mainly aimed to increase the relative level of the minimum wage compared to the average wage level. As a consequence, the minimum wage reached 68% of the average wage in 1976 and stayed at that level until 1983. Although the government also introduced youth minimum wages in 1974, their level was very low compared to the adult minimum wage. In 1984, in the middle of a deep recession, the right-wing Lubbers government cut the minimum wage by 3% – just as all social benefits and the salaries of civil servants – as part of its austerity policy. Until the end of

the 1980s the minimum wage remained frozen, which resulted in a steep decline of its real value and of its relative level compared to the average wage. However, since the lowest wage scales in collective agreements were often not adjusted downward simultaneously, the incidence of the minimum wage declined sharply, from 6% in 1983 to less than 3% of employment in 1993. The lowering of the minimum wage in that period was mainly an instrument to cut expenditure on social benefits – which were linked to the minimum wage – and had a much smaller effect on low-wage employment.

The ten year period that started in 1994 is interesting, since the government tried – successfully – to influence collective bargaining in order to create more low-wage employment. Although the government did not interfere directly in collective bargaining, it threatened to do so if the social partners would not agree on lowering the lowest contractual wages. In 1993, the social partners in the Labour Foundation agreed on creating new lowest wage scales between the minimum wage and the existing lowest wage scales. As a consequence, the average gap between the lowest wage scales and the minimum wage declined sharply between 1994 and 2004. In the same period, the incidence of the minimum wage increased.

Interestingly, although the minimum wage legislation did not change and the (relative) level of the minimum wage was more or less stable in this period, its role as the floor of the wage distribution became significantly more important. The incidence of the minimum wage increased from 3% in 1993 to over 5% in 1996. This shows that changing views of the government and the social partners can have a substantial impact on the role of the minimum wage, without any change in formal rules or regulations. This might be interpreted as an example of *layering*: next to the more or less unchanged minimum wage policy, additional policies regarding low-wage employment were introduced that affected the impact of the minimum wage on low pay.

The period since 2005 does not mark a break with the previous period, but nevertheless differs from it in some respects. Perhaps the most important difference is that the consensus between the government and the social partners regarding the lowering of the lowest contractual wage scales broke down. Since 2005, the FNV aspires to raise the level of the lowest wage scales. Since 2011, the official target is to bring these up to 130% of the minimum wage. Special wage scales for target groups are exempted from this goal. However, the FNV has not been very successful, yet, in achieving this goal, since the average level of the lowest wage scales has continued to decline vis-à-vis the minimum wage since 2005. Nevertheless, in some sectors, including the cleaning sector, the unions and employers have agreed to raise the lowest wage scale substantially above the minimum wage. Employers may agree with this in order to make the sector more attractive for potential employees.

Although the incidence of the minimum wage has remained more or less stable in this period, the share of jobs between 100% and 110% of the minimum wage has increased, especially since the start of the economic crisis in 2009. Apparently, employers have used the opportunity of the crisis to replace better-paid jobs by low-paid jobs.

Already in 1997 the unions and the employers in the Labour Foundation agreed on a ‘phased transition’ of the current system of youth wage scales to wages based on experience and competence. Nevertheless, youth scales are still present in many collective agreements. All the same, in a

number of sectors the social partners have agreed to increase the level of the youth wages and/or to lower the adult age. More recently, unions and employers have agreed on introducing new wage scales that range from 100% to 120% of the minimum wage for specific target groups.

This final sub period can be characterized by a combination of layering (new policy regarding target groups) and drift (lowering of lowest wage scales and increase of low-wage employment despite lack of agreement on this point).

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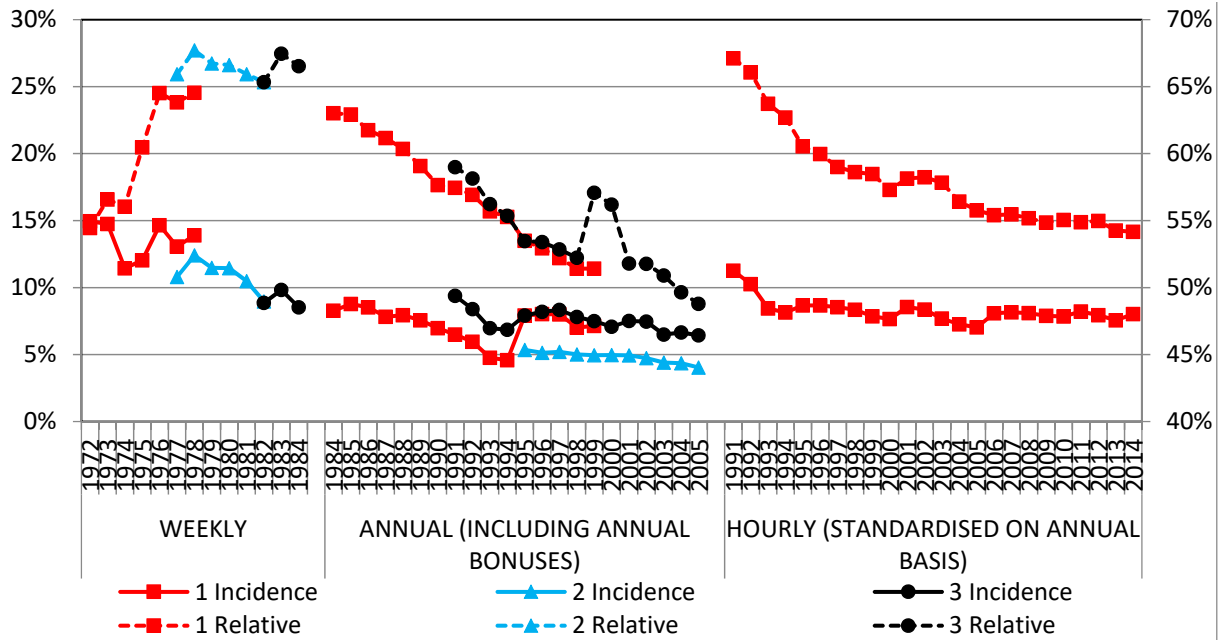
Wet minimumloon en minimumvakantietoeslag (Wet van 27 november 1968, houdende regelen inzake een minimumloon en een minimumvakantiebijslag)

Appendix 1. Abbreviations

AMW	Adult minimum wage
AWVN	Algemene Werkgeversvereniging Nederland (the largest association of employers)
CBS	Statistics Netherlands
CLA	Collective labour agreement
CNV	Christelijk Nationaal Vakverbond (2 nd largest trade union confederation)
FNV	Federatie Nederlandse Vakbeweging (the main trade union confederation)
FT	Full-time
FTE	Full-time equivalent (here 35 hours / week)
MW	Minimum wage
PT	Part-time
SER	Social and Economic Council
StvdA	Stichting van de Arbeid (Labour Foundation)
YMW	Youth minimum wages

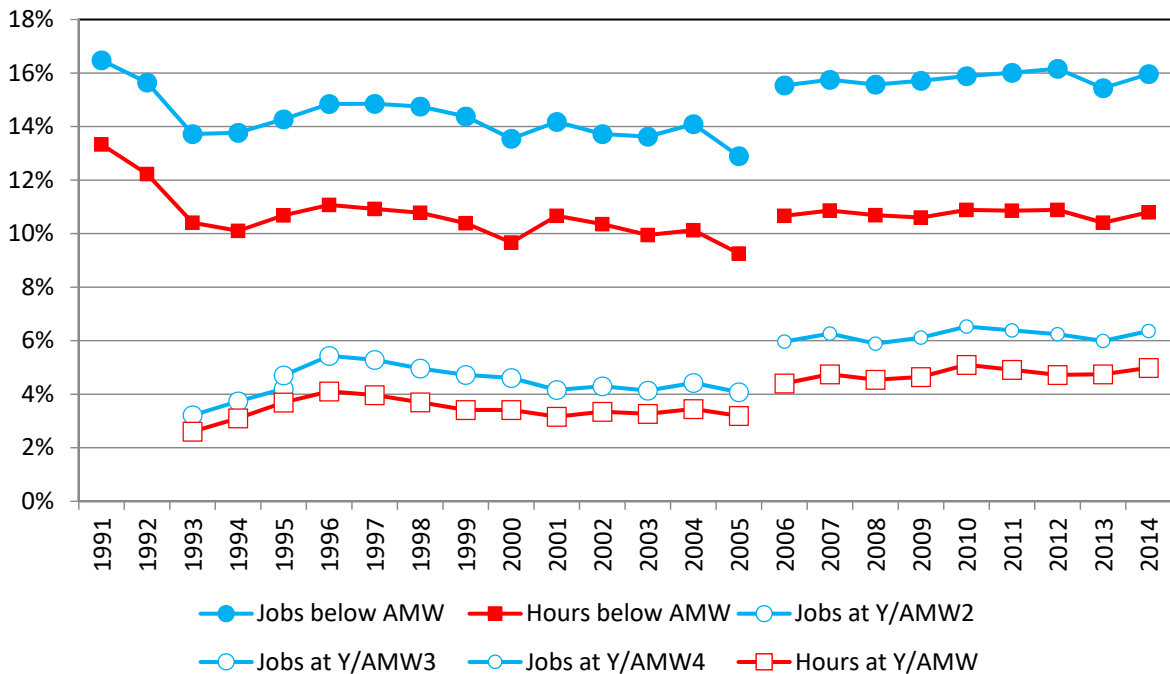
Appendix 2. Data treatment

Figure A1: Adult minimum wage: incidence and ratio to the median wage – three types of data and periods, full-time employees only, 1972-2014



Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

Figure A2: Minimum-wage employment incidence: four measures, 1991-2014

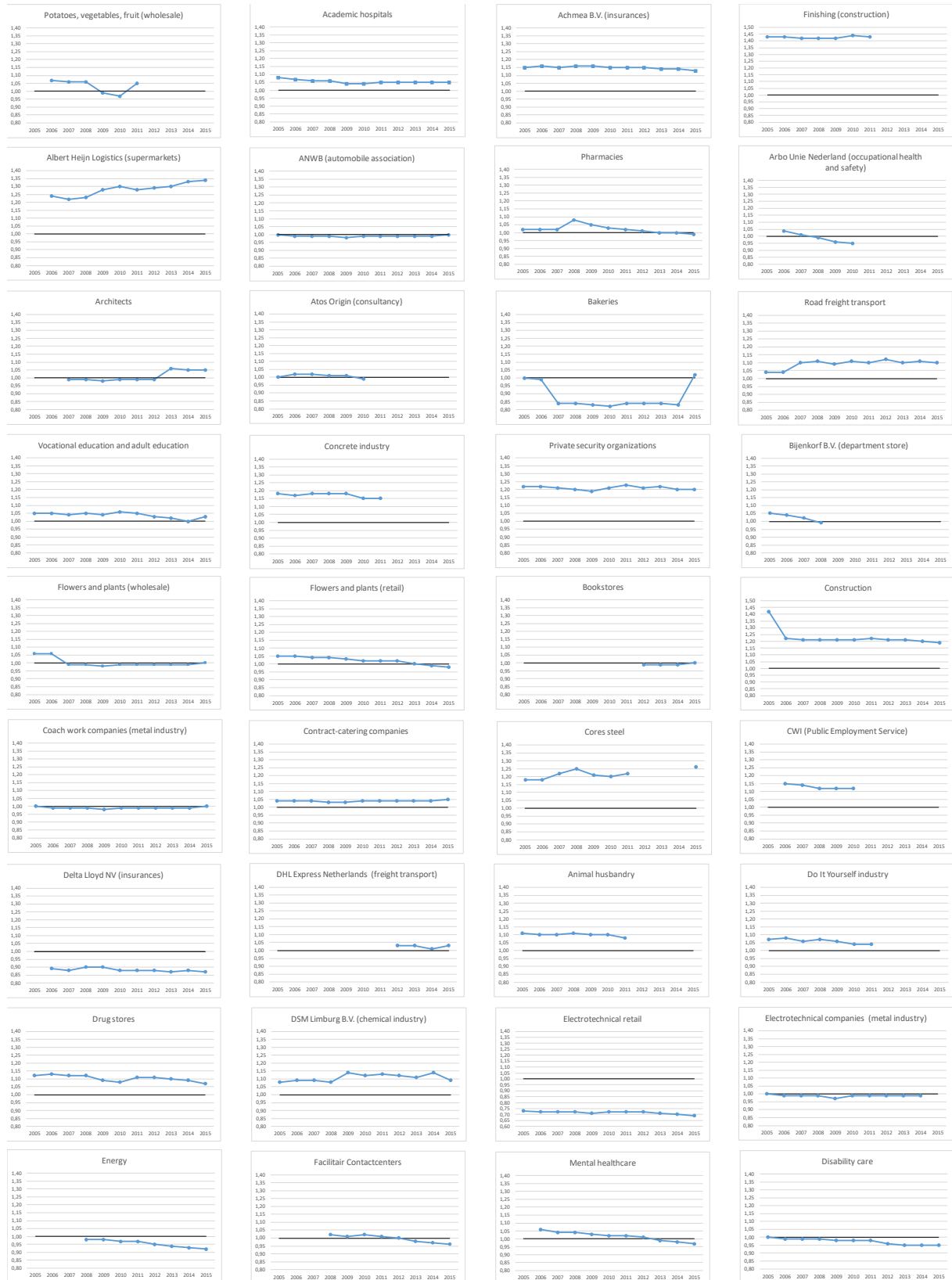


Reading note: 'below AMW' – anyone paid up to the level of de adult minimum wage; 'at Y/AMW' – anyone paid exactly the youth or adult minimum wage.

Source: Our calculations from CBS (Statline) and Sociaal-economische maandstatistiek.

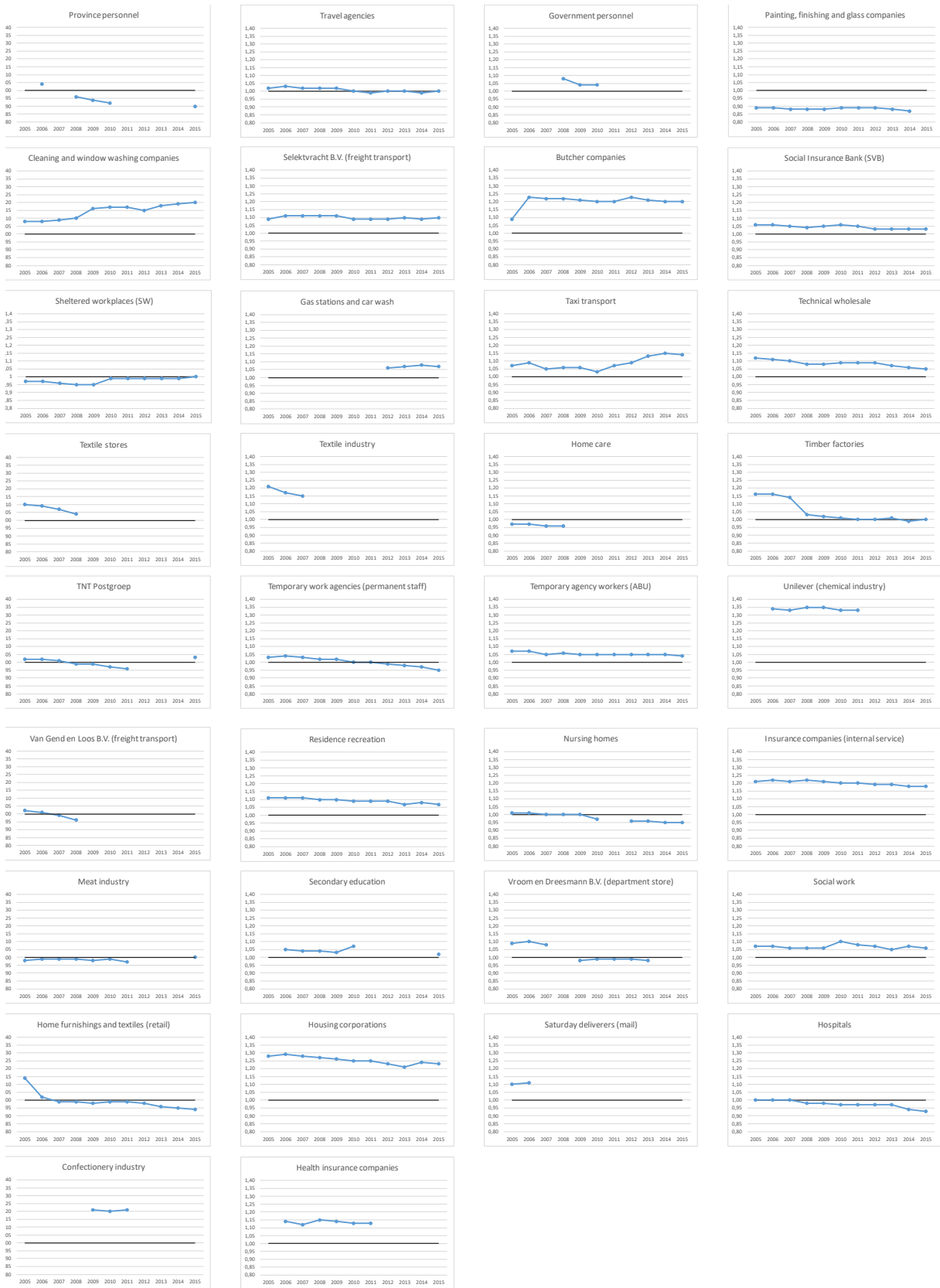
Appendix 3. Lowest contractual wages by sector

(Source: CLA database SZW; calculations by the authors)



The interplay between the minimum wage and collective bargaining in the Netherlands





Appendix 4. List of interviewees

National level	
AWVN	Laurens Harteveld
FNV	Chris Driessen
FNV wage development	Ron Peters
Cleaning sector	
FNV	Jet Linssen
OSB	Hannie van der Berg & Jan Kerssens
Super markets	
CBL	Pieter Verhoog
CNV Vakmensen	Wessel Breunesse
FNV	Peter van der Put
Vakcentrum	Patricia Hoogstraaten & Theo Urselmann
Metal Industry	
CNV Vakmensen	Marco Hietkamp
Federatie Werkgeversorganisaties Techniek	Ron Follon
FNV	Jacqie van Stigt
Koninklijke MetaalUnie	Jan Alfons Vaas

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