van Ours, Jan

Article

The Minimum Wage in the Netherlands

ifo DICE Report

Provided in Cooperation with:
Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: van Ours, Jan (2019) : The Minimum Wage in the Netherlands, ifo DICE Report, ISSN 2511-7823, ifo Institut – Leibniz-Institut für Wirtschaftsforschung an der Universität München, München, Vol. 16, Iss. 4, pp. 31-36

This Version is available at:
http://hdl.handle.net/10419/199046

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.
You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.
If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
**INTRODUCTION**

The Netherlands has a national, government legislated minimum wage, which is usually adjusted twice a year, on 1 January and 1 July. Depending on the payment period of the firm or the industry, the minimum wage is defined on a monthly, weekly or daily basis. In 2017, 47% of the employees had a 36-hour working week, 9% had a 37-hour working week, 31% had a 38-hour working week and 13% had a 40-hour working week (Ministerie van Sociale Zaken en Werkgelegenheid 2018). Because of the specification of the minimum wage, the hourly rate varies substantially between workers depending on their usual working hours. As of 1 July 2018, the gross minimum wage for full-time workers aged 22 and older is 367.90 euros per week. For workers with a 36-hour working week, this implies an hourly minimum wage of 10.22 euros, while for workers with a 40-hour working week it is 9.19 euros per hour, a difference of 1 euro per hour. Like many European countries with a minimum wage, the Netherlands has a separate minimum wage for young workers, in the Dutch case this applies to workers who are 15 to 21 years old. Youth minimum wages are defined as a percentage of the adult minimum wage. For 15-year-olds, this wage is currently 30%, which implies that the hourly minimum wage for a 15-year-old worker in an industry with a usual working week of 40 hours is 2.76 euros.

**A SHORT HISTORY OF THE MINIMUM WAGE**

After World War II, the Netherlands had a centralised guided wage policy. There was wage bargaining between unions and employers, but this was a highly centralised process starting with a directive from the Minister for Social Affairs on the permitted wage increase during a particular year (Van Zanden 2005). Every collective agreement had to be approved by a special Board of Mediators. Initially, wage increases were connected to living costs, while the development of labour productivity was subsequently also taken into account. A minimum wage was defined as a wage that would be sufficient for an unskilled worker to support a family with two children. For workers in one of the big cities, in 1945 the minimum wage was NLG 35 (15.90 euros) per week, for unskilled workers in rural areas it was NLG 31 (14 euros) per week (Sociaal-Economische Raad 1985). In 1963, the guided wage policy was abolished. Up to the introduction of the statutory minimum wage, negotiations between employers and unions determined the minimum wage. In 1964, the minimum wage was set at NLG 100 per week for employees aged 25 years and older. In 1965, employers and unions did not reach an agreement. As a response, the government increased the minimum wage to NLG 110 per week. In 1966, the Minister of Social Affairs asked the Socio-Economic Council (SER) for advice on a legal minimum wage. The request stated that the minimum wage needed to be sufficient to provide every worker with a labour income sufficient to have a socially acceptable existence (Van Damme 2013). In 1968, the parliament discussed the proposed law on the minimum wage. The proposal suggested a minimum wage of NLG 135 per week. Every year on 1 July, the minimum wage would be adjusted to the average wage and price level following information from Statistics Netherlands. On 1 July 1968, the government increased the minimum wage to NLG 135 per week.

The Netherlands introduced a legal minimum wage in 1969. Initially, it applied to employees aged 24 years and older. In 1970, the age threshold was lowered to 23 years and older. In 1974, the youth minimum wage was introduced. The youth minimum wage is specified as a fraction of the adult minimum wage, whereby that share depends on the age of the worker.

Over the course of time, the minimum wage has not merely been an instrument of wage policy. The minimum wage also defines the level of old age state pension benefits and the level of various welfare benefits. The level at which the minimum wage was set has therefore had far-reaching implications for government budgets. Although the general idea of the minimum wage was that it should follow the evolution of average wages and prices, there have been multiple deviations from this general idea. In the 1980s and early 1990s in particular, the minimum wage was not adjusted to price changes nor to wage changes. The main argument for keeping the wage at a standstill was the labour market situation, and particularly the rise in unemployment that occurred in the first half of the 1980s.

**EVOLUTION OF THE MINIMUM WAGE**

The weekly minimum wage was about 35 euros in 1960, versus around 360 euros today. The tenfold increase in 55 years is not informative about the changes in real terms, considering inflation, or in relative terms, compared to the average or median wage. Figure 1 shows

---

1 The author thanks Sanne Lin for excellent research assistance.
the evolution over the period 1960-2017 of the real minimum wage (deflated by the consumer price index). Both before and after the introduction of the legal minimum wage in 1969, there was a strong increase. Measured in euros of 2017, the weekly minimum wage increased from about 240 euros in 1960 to a maximum of 440 euros in 1978. After that, the real minimum wage declined to about 340 euros per week in 1996. In later years, the real minimum wage increased slightly to fluctuate at around 350 euros per week.

In theory, the minimum wage follows the evolution of the contractual wage. The actual wage may deviate from the contractual wage because this does not motivate the labour market conditions, the minimum wage is deflated by the consumer price index. Figure 2 shows the evolution of the minimum wage both as a fraction of the mean wage and the median wage over the period 1965-2016. Due to skewed wage distribution, the Kaitz-index is slightly higher as a fraction of the median wage. There is nevertheless a strong correlation between both indicators. In the late 1960s, the Kaitz-index dropped by about 5% points only to increase to the 1960-level in the early 1970s. From the mid-1970s onwards, the Kaitz-index declined steadily. In terms of median wages, the drop was from about 70% in the mid-1970s to about 45% at present.

**MINIMUM WAGE BY AGE GROUP AND INDUSTRY**

### Youth Minimum Wages

Youth minimum wages, introduced in 1974, have always been specified as a fraction of the adult minimum wage. Table 1 gives an overview of the changes in the youth minimum wage. The percentage reduction among the higher age categories was set to ten. A few years later, in 1983, worries about rising youth unemployment led to a further reduction of the youth minimum wage. In recent years, the age threshold for the adult minimum wage was lowered. From 2017, the adult minimum wage applies to employees age 22 and older. From 2019, the adult minimum wage will also apply to 21-year-old workers. Table 2 gives an overview of the percentages of minimum wage workers by age group. The percentages are both in terms of full-time equivalents and in terms of jobs. For the younger age groups, the percentages in terms of full-time equivalents are higher than the percentages in terms of jobs. This implies that for young workers part-time jobs are less likely to be minimum wage jobs. From age 25 onward, part-time jobs are more likely to be minimum wage jobs.

<table>
<thead>
<tr>
<th>Age</th>
<th>Share MW workers</th>
<th>Full-time</th>
<th>Part-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>24.0</td>
<td>3.7</td>
<td>20.3</td>
</tr>
<tr>
<td>16</td>
<td>20.0</td>
<td>3.8</td>
<td>16.2</td>
</tr>
<tr>
<td>17</td>
<td>18.3</td>
<td>3.9</td>
<td>14.4</td>
</tr>
<tr>
<td>18</td>
<td>16.6</td>
<td>3.9</td>
<td>12.7</td>
</tr>
<tr>
<td>19</td>
<td>15.2</td>
<td>3.8</td>
<td>11.4</td>
</tr>
<tr>
<td>20</td>
<td>14.1</td>
<td>3.7</td>
<td>10.4</td>
</tr>
<tr>
<td>21</td>
<td>12.9</td>
<td>3.6</td>
<td>9.3</td>
</tr>
<tr>
<td>22</td>
<td>12.0</td>
<td>3.5</td>
<td>8.5</td>
</tr>
<tr>
<td>23</td>
<td>11.2</td>
<td>3.4</td>
<td>7.8</td>
</tr>
<tr>
<td>24</td>
<td>10.5</td>
<td>3.3</td>
<td>7.2</td>
</tr>
</tbody>
</table>

### Minimum Wage as a Percentage of the Adult Minimum Wage

In 1960, the share of minimum wage workers was about 10% of the workforce to whom the minimum wage was applied, but in many countries - including the Netherlands - coverage is universal (De Beer and Van Ours 2013). Furthermore, the share of minimum wage workers is larger among temporary jobs as compared to permanent jobs (De Beer et al. 2017). Except for youngsters, the share of workers earning the minimum wage is not very high although there are quite a few workers earning slightly above the minimum wage. Figure 3 gives an overview of the shares of workers earning 100–110%, 110–120%, and 120–130% of the minimum wage. For the age category 25-30 years old this is about 7%, while in the age category 30-35 about 20% of the workers earn at most 130% of the minimum wage. Among the higher age categories, this figure is about 10 to 15%.
Nevertheless, if the increase is too large, employment minimum wage leads to an increase in employment. Past research has mainly focused on markets, there is a range in which an increase in the low is hard to tell. In terms of the current research and policy debate, the focus is on youth minimum wages. From an international perspective, the system of youth minimum wages in the Netherlands has two distinguishing characteristics. Firstly, the adult minimum wage applies from a relatively high age onward. Secondly, the age gradient of the youth minimum wage is relatively steep. As a result, minimum wages among youngsters are relatively low. Because the level of the youth minimum wage depends on the exact age, there are clear discontinuities from the day before one’s twentieth birthday, their minimum wage increases to 70% of the adult minimum wage. Using micro data with detailed information about employment status, Kabatek (2016) finds that job separations increase before birthdays, while job accessions increase after birthdays. These effects are significant, but relatively small. Recently, youth minimum wages were increased and the age from which workers are subject to the adult minimum wage was lowered to 22 years. From next year onwards, the adult minimum wage will be applicable to workers of 21 years and older. It is still too early to assess how these recent changes will affect youth employment. Prior to the changes, Centraal Planbureau (2015) concluded that small increases in the youth minimum wage would not have severe effects, but a substantial increase in youth minimum wages would not only harm youth employment, but might also stimulate youngsters to leave school earlier. Somewhat surprisingly, given its sharp decline, the level of the minimum wage is no issue in the current policy debate. Nevertheless, the labour market in the Netherlands is performing well overall. Figure 4 shows recent developments in employment and unemployment rates grouped by gender. The employment rate of males has fluctuated over this period a little, but in 2018 the level is about the same as it was in 2003, with 72.5% of the male working age population having a job. There is a clear upward trend in the employment rate of females from 56% in 2003 to 63% in 2018, representing a 7%-point increase over a period of 15 years. The unemployment rate of both males and females fluctuated a lot. From 2003 to 2005, there was an increase, followed by a decrease in unemployment which reached its lowest points in 2008 shortly before the Great Recession. From 2008 onwards, the unemployment rate increased until 2014, followed by a sharp decline until in 2018 when unemployment rates for both males and females were about 4%. In the discussion on the level of the minimum wage, there is a trade-off between too high a minimum wage having negative effects on employment, and too low a minimum wage having negative effects on income distribution. An increase in the minimum wage will undoubtedly cause the low end of the wage distribution to become denser and the spike at the minimum wage level to increase. After all, about 80% of all employees in the Netherlands are covered by collective agreements. An increase in the minimum wage will affect the negotiated lowest pay scales either directly if the new minimum wage is higher than the negotiated lowest pay scales; or indirectly if unions prefer to have some distance between the minimum wage and the lower pay scales. An increase in the negotiated minimum wage will affect the minimum wage directly through the formal connection between the two. Nevertheless, given the low share of minimum wage workers, increasing the minimum wage does not seem to be problematic in terms of wage distribution. However, the minimum wage in the Netherlands is more than a floor in the wage distribution. It is also used as an instrument to define a socially acceptable minimum. Thus, the minimum wage in the Netherlands is not only important for workers at the low end of the wage distribution. The minimum wage is also used as an instrument for redistributing income and reducing poverty. For example, welfare benefits and old age state pensions are linked to the minimum wage. This implies that an increase in the minimum wage will induce an increase in welfare benefits and old age state pensions, and thus increase government expenditure.


