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Article

The Minimum Wage in the Netherlands

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Jan van Ours¹ The Minimum Wage in the Netherlands

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.² 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.³ 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.⁴

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

² Initially, this minimum wage only applied to male workers. From 1966 onward, the minimum wage also applied to female workers.

³ Initially, the minimum wage applied only to workers who worked at least one-third of the number of hours of a full-time job. In 1993, this restriction was removed.

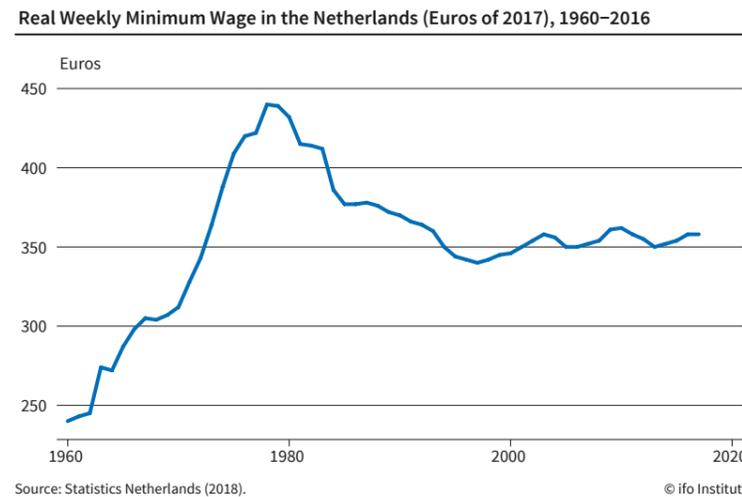
⁴ Currently, the youth minimum wage applies to workers younger than 22 years of age. One of the peculiarities of the youth minimum wage is that it does not apply to employees from outside the EU. Employers need to apply for a working permit if they want to hire workers from outside the EU. Even if the employee is younger than 22 the employer has to pay the adult minimum wage.



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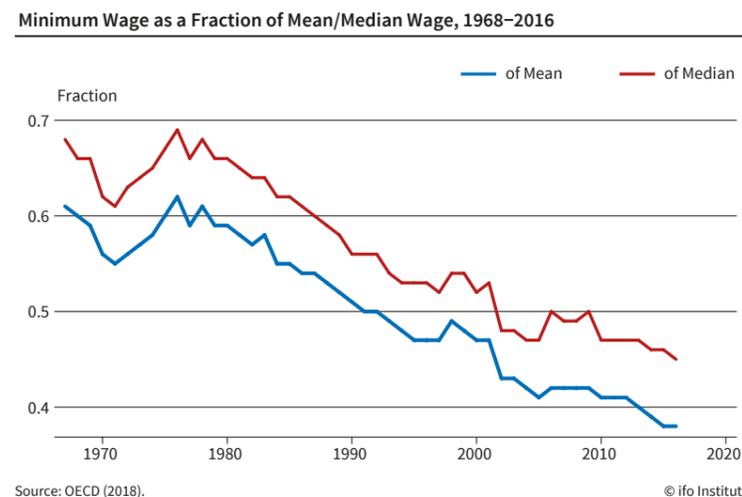
Figure 1



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 include incidental wage increases. Furthermore, motivated by labour market conditions, the minimum wage has not been adjusted and remained constant in nominal terms over a total period of eleven years (1984-89, 1993-95, 2004-05). Furthermore, in many years there was an incomplete compensation in the minimum

Figure 2



wage compared to the development of the contractual wage (De Beer et al. 2017).

A frequently used measure to assess the relative development of the minimum wage is the Kaitz-index, or the ratio of minimum wage and average or median wage.⁵ 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, 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 over time. Initially, the minimum wage was reduced by 7.5% points for every year that an employee was aged below 23 years old. In 1981, motivated by the idea that this would increase employment among youngsters, the percentage reduction among the higher youth 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 per-

⁵ Formally, the Kaitz index also includes the minimum wage coverage, i.e. the share of the workforce to whom the minimum wage applies, but in many countries - including the Netherlands - coverage is universal (see Boeri and Van Ours 2013).

centages 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. As shown in Table 2, in the age category 15-20 year olds about 17% of all jobs are minimum wage jobs. This age category accounts for 7.3% of all jobs, which in full-time equivalents is equal to 3.2%, indicating that

the share of part-time jobs is very high among workers in this age category. Higher age categories have an employment share of roughly 10% in terms of jobs and full-time equivalents. The employment share of minimum wage jobs declines steadily with age. Beyond age 35, the share of minimum wage jobs is about 3% in terms of jobs and 2-2.5% in terms of full-time equivalents. Over half of employment among 15 to 23 years old consists of jobs that involve employment for less than twelve hours per week. Since 15-year-olds and 16-year-olds are still legally obliged to go to school, they often combine work and education. The share of young workers who combine work with school declines strongly with age and weekly working hours, but even among 21-year-olds and 22-year-olds with fulltime jobs one-third is also still at school (CPB 2015).

Table 3 gives an overview of the share of minimum wage workers by industry in 2016. There are major differences between industries. In accommodation and food serving, as well as in renting and other business support, over 10% of the jobs are minimum wage jobs. In mining and quarrying, only 1% of all workers have a minimum wage job. Differences in the share of minimum wage workers between industries are not only related to the type of jobs, but also to bargaining between employers and unions. Collective agreements often specify a lowest pay scale above the level of the legal minimum wage. An increase in the legal minimum wage leads to an increase in these minimum pay scales. Collective agreements also sometimes specify a lowest pay scale for young workers above their youth minimum wage. According to a recent study, about one-third of all collective agreements had a lowest pay scale of between 100% and 110% of the legal minimum

Table 1

Age-related Minimum Wages as a Percentage of the Adult Minimum Wage

Age	From Jan 1, 1974	From Jan 1, 1981	From Jan 1, 1983	From July 1, 2017	From July 1, 2019
15	40.0	35.0	30.0	30.0	30.0
16	47.5	40.0	34.5	34.5	34.5
17	55.0	45.0	39.5	39.5	39.5
18	62.5	52.5	45.5	47.5	50.0
19	70.0	60.0	52.5	55.0	60.0
20	77.5	70.0	61.5	70.0	80.0
21	85.0	80.0	72.5	85.0	100.0
22	92.5	90.0	85.0	100.0	100.0
23 and older	100.0	100.0	100.0	100.0	100.0

Source: Ministerie van Sociale Zaken en Werkgelegenheid (2016).

wage in 2017. On average, the minimum pay scale was 1.3% above the legal minimum wage (SZW 2018).

In addition to differences in the share of minimum wage workers by age group and industry, there are small differences between males and females (more among females), full-time jobs and part-time jobs (more among part-time jobs) and firm size (more among small firms) too. 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. As shown in the lowest age categories, over half of the workers (both in terms of jobs and in terms of full-time equivalents) earn at most 130% of the minimum wage. For the age category 25-30 year olds this is about 30%, 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%.

Table 2

Percentages of Minimum Wage Workers and Share of Total Employment

by Age Group, 2016

Age	Share MW workers		Employment	
	FTE	JOBS	FTE	JOBS
15-20	24.5	17.0	3.2	7.3
20-25	19.4	18.9	8.4	10.4
25-30	6.8	8.4	12.0	11.2
30-35	3.3	4.2	11.5	10.3
35-40	2.6	3.3	10.8	9.9
40-45	2.4	3.2	11.3	10.5
45-50	2.3	3.1	13.0	12.1
50-55	2.2	3.0	12.5	11.7
55-60	2.0	2.8	10.5	9.9
60-65	2.1	2.9	6.8	6.5
Total	5.2	6.6	100.0	100.0

Note: FTE = Fulltime equivalents

Source: Statistics Netherlands (2018).

Table 3
Share of Minimum Wage Workers and Share of Total Employment by Industry, 2016

Standard Industrial Classification 2008	Share MW workers		Employment	
	FTE	JOBS	FTE	JOBS
A Agriculture, forestry and fishing	8.2	8.4	1.2	1.3
B Mining and quarrying	1.0	1.0	0.2	0.1
C Manufacturing	3.4	4.0	11.2	9.4
D Electricity and gas supply	1.2	1.5	0.4	0.3
E Water supply and waste management	1.7	2.1	0.5	0.4
F Construction	2.0	2.3	4.6	3.8
G Wholesale and retail trade	6.0	7.8	15.0	16.7
H Transportation and storage	3.1	6.0	5.0	4.6
I Accommodation and food serving	9.5	10.9	3.4	4.9
J Information and communication	3.4	3.8	3.8	3.1
K Financial institutions	2.7	2.9	4.1	3.5
L Renting, buying, selling real estate	4.6	5.1	0.9	0.8
M Other specialized business services	4.5	5.0	6.9	6.1
N Renting and other business support	11.3	13.7	11.1	12.4
O Public administration and services	4.3	4.7	7.5	6.3
P Education	2.0	2.2	6.4	6.5
Q Health and social work activities	4.5	5.1	14.8	16.3
R Culture, sports and recreation	8.6	9.6	1.3	1.6
S Other service activities	7.2	8.4	1.5	1.6
Total	5.2	6.6	100.0	100.0

Source: Statistics Netherlands (2018).

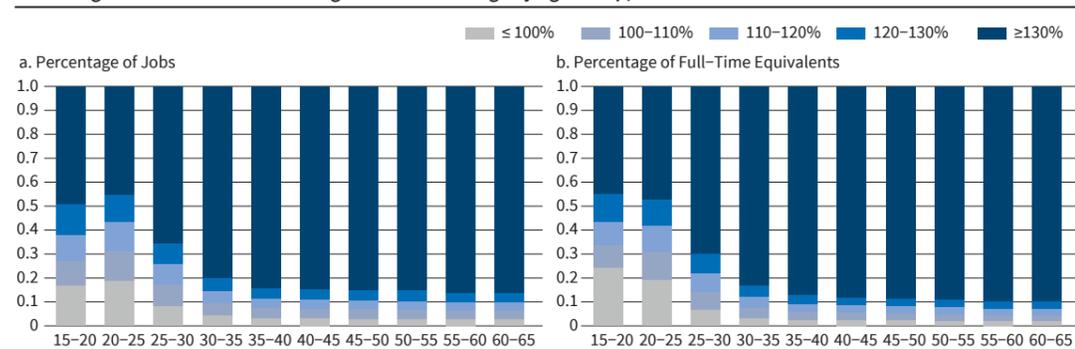
the situation in the 1980s when unemployment was high. Van Soest (1989) for example argued that lowering the minimum wage reduced unemployment. Van Soest and Kapteyn (1991) showed that high minimum wages in the early 1980s were contributing to high unemployment and the reduction of the minimum wage helped to reduce unemployment. Centraal Planbureau (1991) reached a similar conclusion. Later, when the situation in the labour market improved, Van Soest (1999) argued in favour of a modest increase in the minimum wage given the low share of minimum wage workers, i.e. the limited spike in the wage distribution at the minimum wage. Van den Berg et al. (2005) argued that although for most workers the employment effects of a higher minimum wage would be small, for lower educated workers they could be substantial.

In terms of the current 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 birthday to the birthday. For example, 19-year-olds are entitled to 55% of the adult minimum wage, but on their

RESEARCH AND POLICY

Economic theory does not give much guidance as to the optimal level of the minimum wage. In imperfect labour markets, there is a range in which an increase in the minimum wage leads to an increase in employment. Nevertheless, if the increase is too large, employment will go down (Boeri and Van Ours 2008). In past decades, the minimum wage in the Netherlands has declined significantly, both in real and relative terms. Whether the current minimum wage is too high or too low is hard to tell. Past research has mainly focused on

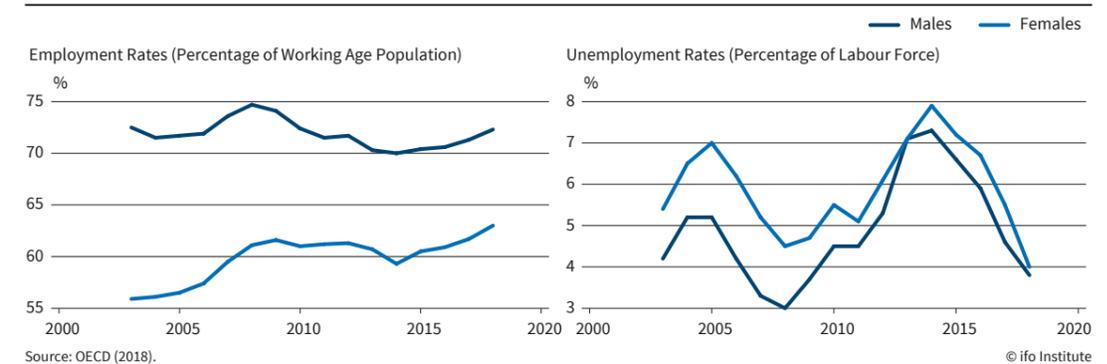
Figure 3
Percentages of Dutch Workers Earning the Minimum Wage by Age Group; 2016



Source: Central Bureau of Statistics (2018).

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Figure 4
Employment and Unemployment Rates in the Netherlands
Second quarters 2013-2018



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 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.

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