LoWER
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The issue of low-paid employment has undergone a change of emphasis in the last twenty years. Initially seen as a indicator of the effectiveness of mechanisms such as collective bargaining to regulate wages, it has since become a key issue in the debate about how Europe should deal with its ongoing unemployment problems. Essentially, the debate has shifted from concern over the social and economic consequences of the existence of high proportions of low-paid workers, towards the question of to what extent the development of low-wage employment is an acceptable approach to employment creation. This in turn has raised the question of whether protecting the low paid through institutional wage regulation mechanisms, such as minimum wages, hinders job creation of this kind. A number of European countries have already decided to pursue the low-wage option while others have done so implicitly by permitting the development of non-conventional forms of employment.

In policy terms the European experience has varied from the drive for maximum flexibility in the UK to the refusal of the low-wage approach in France. However, in between these two polar approaches lie others such as that adopted in the Netherlands, where wage regulation mechanisms have been interfered with in an attempt to increase employment. In this chapter we consider the experiences of these three countries – France, the Netherlands and the United Kingdom – which have adopted different policy stances on low wage employment. In the first section we examine how low-paid employment has evolved in each country for the period spanning the mid-1970s to the early 1990s. We then go on to account for the experience of each country, and we place particular emphasis on the role played by minimum wage legislation and other institutional factors. In the final section we set out the current policy stances of these countries, noting the shifts in position compared to the 1980s.
1 WHAT HAS HAPPENED TO LOW-WAGE EMPLOYMENT?

Defining Low Pay

In order to examine the evolution of low paid employment over time we need to define what we mean by low pay. In making international comparisons, the adoption of an absolute definition of low pay – such as 3 ECUs an hour – would normally mean that low-wage employment would not exist in richer countries of Northern Europe. Apart from differences in living costs, an absolute definition takes no account of how rich the country is, and it does not take into account the notion that certain groups of workers may not share the benefits of economic growth. A relative definition – in which a wage is deemed low in relation to the general level of wages that prevails in a country – provides a more satisfactory basis on which to make international comparisons.

In this chapter, following the work of the European Commission Working Group on Equitable Wages (as published in CERC, 1991) we adopt in each country a low-pay benchmark of two thirds of the overall level of median earnings for full-time workers. While the choice of benchmark is to a large extent arbitrary, the two thirds of the median cut-off is commonly used for two principal reasons. Firstly, in countries that have a national legal minimum wage, the level is usually such that no full-time workers earn below a benchmark of half median earnings. Secondly, a higher figure serves to emphasize that low-paid employment is not simply a matter related to the fixing of minimum wages.

Data Sources

For each country, we use earnings data from published tabulations. In order to make comparisons, we had to restrict the analysis to full-time adult workers. The exclusion of the very young and part-time workers is an unfortunate limitation in the analysis of low-wage employment given the importance of these two groups in the low-paid population. Furthermore, part-time work has played a key role in recent increases in employment both in the UK and in the Netherlands. The data we use are taken from the following employer-based surveys: the New Earnings Survey for Great Britain, the Déclaration Annuelles des Données Sociales for France and the Yearly Earnings Survey for the Netherlands. The earnings definitions vary between countries as does the coverage of the survey (see Table 2.1), so that inter-country comparisons of the extent of low-paid employment are made difficult (see Atkinson and Bazen, 1984, for an attempt to compare earnings in France and Great Britain). However, our aim is to see how low-paid
employment varies for each country over time, and we believe that the change over time can be reliably compared across the three countries. Chart 2.1 provides a justification for this claim.

Table 2.1:
Main features of the earnings survey data used

<table>
<thead>
<tr>
<th>Country</th>
<th>Earnings definition</th>
<th>Coverage</th>
<th>Main exclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Annual earnings net of social security of full-time workers aged 16 to 65</td>
<td>Private and semi-public sectors</td>
<td>Civil servants, agricultural workers</td>
</tr>
<tr>
<td>Great Britain</td>
<td>Weekly earnings of full-time workers paid adult rates in April of each year</td>
<td>All sectors</td>
<td>Certain part-time workers, recent job-changers</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>Weekly up to 1986 Annual after 1986</td>
<td>All sectors</td>
<td>Recent job-changers</td>
</tr>
</tbody>
</table>

* The entries refer to the data used here or data released into the public domain by the data collection agency. The actual data collected may not have the properties mentioned here.

Chart 2.1:
Comparisons of the extent of low-paid employment

Comparisons at a given point in time place countries on a scale indicated by a vertical line such as AA'. The coverage of the earnings survey and the
definition of earnings, and not simply the extent of low-wage employment, will play a crucial role in determining the position occupied by the different countries to such a degree that the ranking may be spurious. However, the direction in which low-wage employment evolves within a country is comparable across countries unless the coverage of the earnings survey is altered. A change in the structure of the labour force (e.g., more female workers) will alter the position of the median and thus the low-pay benchmark, as will a rise in unemployment (see Salverda, 1996 for an analysis of the earnings distribution in the Netherlands taking account of these kinds of changes). Nevertheless, our prime interest is whether the extent of low-wage employment has changed for whatever reason, and this can be analysed satisfactorily with the available data.

**Trends in Low-Wage Employment**

In order to examine in a comparative fashion how low-wage employment has evolved over time, we present a sequence of four graphs for the incidence of low-wage employment and separately for a number of earnings inequality measures. The first graph contains the country trends super-imposed one upon the other so that the overall picture can be assessed. The three others present the trends separately for each country in order to see more clearly what has happened.

In Figure 2.1, the proportion of full-time adult workers earning less than the chosen low benchmark is presented for the period 1976 to the early 1990s. The overall trends are clear-cut. In France the proportion of low-paid workers has decreased from 17% to 14%; in the UK the proportion has increased substantially from around 14% in 1977 to 20% in the mid-1990s; and in the Netherlands the proportion fell up to 1984 and increased a little thereafter. In France and the UK the trends are more or less monotonic once it is recalled that the data have at times been interpolated from published tabulations. The ranking of countries, which is not without problems, puts the UK highest in terms of the extent of low pay, followed by France with the Netherlands having the lowest proportion of low-paid workers. This ranking holds for all of the period bar the late 1970s.

The trend in low-paid employment is mirrored to a large extent in the evolution of the lowest decile wage relative to median earnings (see Figure 2.2). In the UK lowest decile earnings have declined by twelve percentage points in the period, from around 67% to 55% of median earnings. In France the lowest decile rose up to 1984 to around 62% before dropping back and stabilizing at a higher level (60%) than in the late 1970s. In the Netherlands, it varies around a figure of 64% for most of the period.

Thus the relative position of the low paid in the Netherlands and France has remained stable and has possibly slightly improved over the period.
considered. In the UK, it has deteriorated substantially. However, the UK has also differed in terms of the overall distribution of earnings. The ratio of the highest decile to the lowest decile of the earnings distribution has also grown substantially – from 2.4 to nearly 3.4 (see Figure 2.3). In France and the Netherlands, this ratio declined slightly over the period as a whole with the main part occurring in the period up to 1983/4. While the ratio picked up thereafter, it did not return to previous levels.

What is striking about the UK experience is that at the beginning of the period considered (the late 1970s) the ratio was at its lowest in the UK, slightly below the Netherlands and some ten points lower than in France, which exhibits a high degree of earnings inequality with a ratio of 3.4. By the early 1990s, the UK had a ratio slightly above the ratio in France. Inequality (thus measured) had fallen slightly from a high level in France, remained fairly stable and fell slightly from a low level in the Netherlands and became far more pronounced in the UK.

This rise in inequality is not simply the result of a worsening of the position of the low paid in the UK. As Figure 2.4 shows, the highest decile relative to median earnings has also risen from under 1.6 to over 1.8 over the period. In France and the Netherlands, overall there has been little net change over the period (although the ratio did fall slightly up to 1983/4 and then rise again). In the Netherlands the relative decline of the highest decile is partly the result of reductions in public sector pay during the early 1980s and the result of budget cuts. In fact public sector wage rates followed exactly the same path as the minimum wage over this period which was decreased in nominal terms and thereafter frozen (see below).

In order to see how the low paid have fared in absolute terms, in Figure 2.5 the evolution of the real value of the lowest decile wage is presented. In France there has been more or less continuous growth, while in the Netherlands it fell in the early part of the period but rose subsequently to finish at roughly the same value in real terms in the early 1990s as in the late 1970s. In the UK, the lowest decile hardly changed at all in real terms during the 1980s although there is some growth in the 1990s.

The overall picture that emerges is one where there are pressures that serve to widen the earnings distribution in all three countries. It would appear that the earnings distribution widened slightly from 1984 onwards in France and the Netherlands in response to these pressures. There was less inequality in the early 1990s compared to the late 1970s in these countries. This was mainly the result of the lowest decile not declining. On the other hand the earnings distribution widened from 1981 onwards in the UK at both ends. The lowest decile fell away and the highest decile grew slowly but monotonically relative to median earnings.
THE ROLE OF MINIMUM WAGES

As has already been noted, part of the explanation for differences in the observed trends in low-wage employment is the existence of institutional mechanisms to regulate low wages. Given the striking differences in how the earnings distribution has changed between the UK on the one hand and France and the Netherlands on the other, an obvious contributory factor would be the presence of national minimum wages in the latter two countries and the piecemeal, limited minimum wage protection provided by the Wages Councils in Great Britain up to 1993. In this section, we consider firstly the conditions in which a minimum wage reduces low-wage employment, secondly the attitudes of the three countries towards minimum wages and finally the impact that minimum wages have had on low wages both in real and relative terms.

Minimum Wages and Low-Wage Employment

The presence of a national minimum wage in principle provides a floor to earnings. In practice, there may be groups of workers who are excluded, and legally earn below the minimum wage. Furthermore, given the definitions of earnings used and the coverage of earnings surveys, the minimum wage will only directly affect a small minority of the workers considered. In terms of the impact of the minimum wage on the evolution of low-paid employment, two further factors will be important: the uprating policy adopted and the interaction of the minimum wage with the system of collective bargaining.

If the minimum wage is not uprated on a regular basis, the proportion affected by it will tend to fall as the rise in the general level of wages lifts them off the minimum wage. However, the relative position of someone on the minimum wage will decline, and the extent of low-wage employment will in general increase. This is what happened in the United States in the 1980s. In order to protect the relative position of the lowest paid workers, the minimum will need to rise in line with the general level of wages.

Each time the minimum wage is increased, wage differentials are initially compressed. Among the affected group of workers, differentials are eliminated: all those earning the old minimum wage, and those with earnings between the old and new minimum wage, will move up to the new value of the minimum wage. Furthermore, the gap between the minimum wage and the lowest collectively agreed rates is initially reduced. Thus each uprating brings more workers into the scope of the minimum wage and will probably trigger the renegotiation of collectively agreed wage scales. The more active
the uprating policy, the greater the likelihood of the minimum wage leading to the alteration of collective agreements. Thus in order to have a real impact of the proportion of workers regarded as low paid, the minimum wage must lead to the revaluation of other rates of pay.

**Minimum Wage Fixing Arrangements**

One of the major differences between the three countries concerns attitudes towards minimum wages. Historically, the trade union movement in the United Kingdom has been against minimum wage legislation and has argued for wage regulation through voluntary collective bargaining. Under the Wages Councils, which fixed legally binding minimum rates in a limited number of sectors up to 1993, a number were in fact abolished due to the development of satisfactory collective bargaining arrangements (see Craig, Rubery, Tarling and Wilkinson, 1982). The policy of introducing a national minimum wage was not approved until 1986 by the Trades Union Congress, when it was realized that a system of incomplete collective bargaining associated with Wages Councils would not provide effective protection of low-paid workers.

The Wages Councils set minimum rates of pay in a limited number of low-paying sectors from 1909 to 1993. At the time of their abolition, Wages Councils operated in 26 sectors and roughly 2.5 million workers were covered, with a minority directly affected by the minima set. New rates were set each year but there were no formal indexation mechanisms. The outcome was determined by a form of surrogate collective bargaining in which independent members were final arbiters when employer and employee representatives were unable to reach agreement. The rates set were very low, and there is some evidence of non-compliance even with these low rates.

Compared to the UK, France has a tradition of seeking to regulate wages in general through widespread collective bargaining. After 1945, most branches of industry had collective agreements that extended to all employers in the sector, and set minimum rates that were legally binding. To fill the remaining gaps, a national minimum wage was introduced in 1950 but with a complicated system of sub-minimum rates that varied by region and town. Over the subsequent eighteen years, these lower rates were phased out. Furthermore, by the end of the 1960s there was increasing dissatisfaction with the way in which the minimum wage had declined relative to overall earnings (even though it did not decline in real value). In 1970, a new minimum wage was introduced with stated aim of ensuring that the lowest paid workers enjoyed the benefits of economic growth.

From 1970 onwards, the national minimum wage has been indexed in two ways. First it rises in line with retail prices. On July 1st of each year it is raised to cover the rise in retail prices since the last uprating. In between
times, it is uprated every time the price index increase rises by 2%. In this way the real value of the minimum wage can never fall by more than 2% at any one time and it cannot fall at all in the twelve month period between July 1st of each year. Secondly, the minimum wage is partially indexed on real earnings, and indirectly on productivity growth. The minimum must rise in real terms on an annual basis by at least half the real increase in manual workers’ earnings.

The minimum wage will thus tend to rise in real terms over time. However, the application of these indexation mechanisms alone means that the minimum wage will decline as a proportion of average earnings. Thus, in practice, increases went beyond the application of the legal indexation requirements, as successive governments implemented discretionary increases. In the twenty eight years of its existence, discretionary increases have been implemented in twenty four years. These have had the effect of increasing the minimum wage relative to average earnings at certain times. Overall, the minimum wage has been uprated on a regular basis and has remained an effective means of protection for the low paid in France during the period covered.

In the Netherlands, a statutory national minimum wage has existed since 1969. It has national coverage and is formally indexed on average earnings. The full rate is payable for workers aged 23 or over, with differential rates beginning at 30% for 15-year-olds. The minimum wage legislation underwent modifications during the 1980s. In 1984, its level was reduced in nominal terms and it remained frozen – i.e. the formal indexation mechanism was suspended – at that level for the remainder of the 1980s. In addition the differential rates for young persons were reduced on two occasions prior to 1984 in the hope that this would increase youth employment. Towards the end of the 1980s and in the early 1990s the minimum wage was uprated in line with average wages again, only to be frozen once more between July 1992 and December 1995.

Figure 2.6 shows how the minimum wage declined relative to median earnings in the Netherlands while in France it increased substantially during the first half of the 1980s and then slipped back. It finished at a higher level relative to median earnings in the 1990s compared to the late 1970s. The extent of low pay in the Netherlands appears to grow from the time the minimum wage was reduced and frozen. In France, the evolution is less closely related. The reduction in the relative value of the minimum wage after 1984 is associated with only a slight increase in low paid employment.

3 THE 1980S: DIVERGENT APPROACHES
The United Kingdom
At the end of the 1970s, unemployment was rising in a number of countries following a slow down in growth after the oil price shocks of 1973–4 and 1978–9. Many countries were finding it difficult to keep inflationary
International Comparisons
pressures under control without exacerbating the unemployment problem. The change of government in the UK in 1979 brought a new policy of reducing the power of trades unions and deregulating the labour market. As far as low-paid workers were concerned, measures such as the Fair Wages Resolution (which ensured that firms working on public sector contracts paid the wage rates set in public sector collective agreements) were abolished, so that in the case of the FWR, the contracting-out of privatized services led to lower wages for many cleaners and security staff. The Wages Councils system were threatened with abolition on two occasions – 1985 and 1988 – and reprieved because a number of employers wanted to maintain it. From 1988, young persons under the age of 21 were excluded from their scope. Over time, the relative value of Wages Councils minima has declined as a proportion of average earnings. Thus over the 1980s minimum wage protection was progressively weakened in Great Britain only to be abolished in August 1993. At the same time the coverage of collective bargaining has fallen as has union density. The balance of bargaining power has increasingly shifted towards employers as a result of these trends, higher unemployment levels and a series of changes in industrial relations legislation.

France

The opposite of this approach prevailed in France from the early 1980s. The newly elected Socialists increased the minimum wage by 10% in one fell swoop in 1981 (see Bazen and Skourias, 1997 for an analysis of this episode), reduced the length of the working week and reinforced collective bargaining arrangements with a new law. There was an attempt to expand the economy which was abandoned in 1983, and thereafter the control of inflation became a priority. This was achieved however, not through labour market deregulation but through restrictive macroeconomic policy and maintaining a strong Franc. Wage-setting adjusted to this framework to the extent that over the period 1985–96, the share of wages in national income fell by 10 percentage points.

The French economy avoided the sharp recessions experienced by the United Kingdom, and employment levels did not drop sharply. However, the rate of net job creation was insufficient to absorb the increase in the active labour force so that unemployment has steadily risen, and this led to the large-scale use of special employment measures for young persons and the long-term unemployed. The protection afforded by the minimum wage has not been modified in formal terms, but a number of these employment measures permit firms to pay less than the minimum wage (see Balsan, D.Werquin, Hanchane, S. and Werquin, P., 1998). Another consequence has been the compression of wage differentials among the low paid due to the failure of collectively agreed wage rates to keep pace with the national
minimum wage. This led in 1990 to the Socialist government calling for the renegotiation of collectively agreed wage scales to establish a differential with the minimum wage. By and large this occurred, but the discretionary increase in the national minimum wage implemented following the election of Jacques Chirac as president in 1995 eliminated this differential in the majority of collective agreements. The national minimum wage has therefore been a key influence in the low-wage labour market in France, preventing the wage distribution from falling away in the face of pressure from high unemployment rates, from increasing labour market deregulation elsewhere in Europe and from the strengthening of employer power in collective bargaining. Its place has been assured by an apparent political consensus to maintain it and its use as a political gesture by presidents and prime ministers of different political persuasions. The one time when a government attempted to interfere with it by introducing what appeared to be a lower rate for under 25s, nation-wide protests forced the measure to be dropped.

The Netherlands

The Netherlands saw employment and earnings actually fall across the board in the first half of the 1980s. Since then employment (hours worked) has grown back to its original level and, recently, it has gone above that level. In a comparative perspective, however, recent Dutch employment growth has been considerable with only a temporary standstill, not even a fall, in 1993–94. Average (hourly) earnings slowly made a comparable comeback and present levels are not much higher than those of the late 1970s. Their increase roughly coincides with employment growth. At the same time, because of its lowering and subsequent freezes, the minimum wage has lagged behind average earnings as did adult full-time minimum-wage employment compared with total employment. One could almost say that during its existence, discretionary freezes of the minimum wage have been the rule and not the exception. The initial overall decline in earnings had the approval of the trade unions – who may have been forced by circumstances – in exchange for shorter working hours. Furthermore, in the 1990s, with the threat of a new decline in employment, unions and employers swiftly agreed upon wage restraint. Since 1984 there has been a growing gap between the lowest wage rates in collective agreements and the statutory minimum wage which has aroused intense political debate. On further scrutiny, however, the gap between the minimum wage and those rates in only the relevant agreements, i.e. for the low-paid industries, appears to be much smaller, but there is a gap. In spite of the growth of low-wage employment, unemployment among the less-skilled has remained much higher than for the rest of the labour force. In the policy debate this is often blamed on a shortage of low-paid jobs in the labour market. Since 1994, the new
government has decided to tackle the problem partly by funding such jobs in the public sector (municipalities) and health care, and partly by introducing a subsidy on low wages for private enterprise. The use made of the subsidy is a great success in terms of money demanded; its effects on employment, however, remain to be established.

**Current Policy Stance on Low-Wage Employment**

Since the mid 1990s, there have been further developments in policy on low-wage employment. The change of government in the UK in 1997 means that a national minimum wage will be introduced in 1999. Its level and the treatment of young persons are yet to be determined. However, there are no further policies to help the low paid through encouraging more collective bargaining. On the contrary, low-wage employment is to be encouraged through providing assistance to persons accepting low paying jobs through the tax-benefit system. In France, the return of the Socialists to power in the same year means that France remains committed to an active minimum wage policy. However, low-wage employment is being encouraged through the expansion of schemes to employ unemployed young persons. In the Netherlands, one can say that the minimum wage has lost most of its significance for wage earnings. Nevertheless, it is still a bone of contention partly for different reasons. It determines a large part of public spending, particularly benefits. Also, it is still attacked for ideological reasons. The thesis is that it was originally meant to maintain a family. Now it should be adapted to a single-persons household implying a lowering by thirty per cent but without taking into account its substantial fall in real terms and relative to other earnings.

4 FUTURE RESEARCH

While the way in which low-wage employment has evolved in the three countries considered here has been examined, the analysis is limited to full-time adult workers. This group contains low-paid workers, but excludes two groups in particular: part-time and young workers. Much of the concern about the future of low-paid work involves the impact on these two groups. For part-time workers, there is the question not only of wage levels but also of employment protection and access to social security benefits. For young persons, a number of issues arise. It is important for a young person to gain access to the labour market, and then move up the earnings distribution as he or she gains experience either with their current employer or by changing employers. This poses the dilemma of whether the creation of low-paying jobs is the appropriate way in which to help young workers. There is the
danger that employers use the ability to employ low-paid youngsters as a means of perpetuating low-wage jobs rather than investing in up to date technology. It is hoped that the new, harmonized micro-data sets collected for Eurostat will provide more information on these groups, and enable a clearer picture of their situation to be obtained.

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