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Abstract

After the Second World War in the Netherlands, one of the most open economies in the world, wage moderation has be a leading theme in macroeconomic policy and industrial relations. When wage restraint met with an overheated labour market and strike movements, social partners accepted the replacement of a voluntary 'social minimum wage' by a statutory minimum wage, introduced in 1969. Due to governmental freezes in the 1990s and 2000s the statutory minimum wage fell relative to the average wage, which left room for the increase of low-wage employment. In the 2000s the Dutch economy generated large trade surpluses. However, in 2008-13 domestic private consumption fell substantially and this has, in combination with a housing bubble, seriously frustrated the recovery of the Dutch economy from the crisis. Continuing the Dutch wage moderation tradition in current conditions would cause negative effects, not only on domestic demand but also on the country's labour productivity and growth potential. Thus, there are good reasons to defend a wage-led strategy as a recovery option in the case of the Netherlands.

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Inhalt

1 Introduction

After 1945, industrialisation based on low wages was to be the cornerstone for rebuilding the Netherlands after the devastating Second World War, and since then wage moderation has been key to the consensual Dutch model of socio-economic governance. One of the solutions social partners sought when wage restraint met with an overheated labour market and strike movements, in 1963-65, was the replacement of a voluntary 'social minimum wage' by a statutory minimum wage, introduced in 1969 and extended to universal coverage in 1993. Though supposed to automatically follow the general evolution of wages, governmental freezes have made the minimum wage lag considerably behind average wages since the early 1980s. In the 1990s and 2000s, due to the relative decline of its value the minimum wage did not play a substantial role in lifting wages; by contrast, that decline left room for the increase of low-wage employment. At the same time, trade unions managed at best to attain small year-to-year real wage increases (from 1991 to 2010) or had to accept decreasing real wages (2011-2013). In this paper we follow two interdependent lines of reasoning; first, that the extremely moderate wage evolution did not prevent the Dutch highly open economy from being hit seriously by the worldwide 2008-09 crisis, and second, that the related export-led strategy does not seem to provide perspectives on a sustainable recovery from the crisis.

As a first building-block for our line of reasoning, we here briefly indicate the recent vicissitudes of the Dutch economy and macroeconomic policy. As a matter of fact, GDP (Gross Domestic Product) per capita in 2009 fell 4.2 per cent, followed by two years of anaemic growth. Thereafter, the Netherlands went into the much-feared 'double dip' recession, with its GDP falling in 2012 and 2013. Though initially, in 2008-2009, both in terms of GDP decrease and unemployment increase the economic downturn in the Netherlands was slightly less serious than in Germany, in the years to follow the German recovery was much stronger, and between 2008 and 2013 the Dutch GDP fell 6 per cent compared to the German GP (Tijdens et al. 2014). The relatively large financial sector of the Netherlands, in particular, has been through hard times. In 2008, the state nationalized two major banks that were obviously 'too big to fail' and injected billions of Euros into these and into other financial institutions. In 2013 a third bank followed[1]. In 2009-2010, the government embarked upon a stimulus program of over € 7 billion. The first two bank bailouts, combined with this program resulted in growing budget deficits; the administration in charge reacted by opting for a policy of economic austerity and implementing expenditure reductions, for the period 2010-13 ending up at around € 65 billion or 8 per cent of the Dutch GDP, to be effected between 2010 and 2017 (Teulings 2014). Unemployment, which until 2012 had remained relatively low at less than 5 per cent, recently rose quickly and reached a rate of 7.0 per cent in the second quarter of 2014. Until 2011, unemployment in the Netherlands had been far below that of most of its peer countries, like Germany and the Nordic countries. This drastically changed in the second phase of the crisis, in the Netherlands characterized by the

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1 Yet between 2007 and 2014, employment in the Dutch financial sector fell by 16 per cent (source: CBS, Statline).

'double dip'; currently, the Dutch unemployment rate is on par with or even above that of its peers (Van den Berge et al. 2014, 7, 30-3).

The rest of this paper is organized as follows. In section 2 we go into the characteristics of the Dutch labour market. Then, we review wage and social security institutions. We in particular deal with the system of minimum wage fixing; collective bargaining, and trade unions and workers' representation (section 3). Section 4 concentrates on developments in wages and social security: firstly, in minimum wages; secondly on trends in collectively agreed and actual wages alongside consumer price movements and productivity development, before focusing on wage, income and wealth inequality, and on developments in social security. The chapter concludes with a discussion of the policy options available for the recovery of the Dutch economy, in particular questioning the logic of continuing with the current export-led growth and wage moderation path.

2 The labour market

In the Netherlands, the 2012 labour force participation rate (LPR, headcount measured) was high, with a fairly small disparity between the rates of men (79.7 %) and women (70.4 %), though it should be noted that when measured in FTEs the LPR fell to 57.3 per cent because of the large proportion of part-time workers (EC 2014). Until the early 1970s, the Netherlands had a very low LPR due to the fact that married women withdrew from the labour market. From then on, however, the re-entry of married women into the labour market moved massively in the other direction, which included (somewhat later) the emergence of a trend for women to continue working whilst raising young children. This female influx was a major contribution to the Dutch 'employment miracle' whereby between 1982 and 2010 the number of persons employed increased by 2.5 million or 48 per cent, of which 2.1 million were in part-time jobs.

Table 1 documents the changes in the labour market structure of the Netherlands over the period 1947-2012. The table clearly displays the rapid decrease of the share of employment in manufacturing industry, in the 1990s in particular, and the simultaneous expansion of services. Though the country was and is home to industrial multinational enterprises like Philips, Shell, Unilever, AkzoNobel and Heineken, manufacturing has remained comparatively limited. In 2012, the share of employment in the overall services sector was at 81.7 per cent, the second highest in the EU after the United Kingdom (EC 2014). Employment in agriculture, fishing and mining dwindled to a low level, though it should be noted that highly productive Dutch agriculture connected with food manufacturing has developed into a successful exporting and internationally investing cluster. Aside from agri-business, three other trade-related clusters have latterly developed into economic powerhouses: commercial services; chemicals; and the 'gateways' to Europe whereby Rotterdam seaport and Schiphol airport connect with the important transport and logistics sector. The second to last row indicates the massive increase of the part-time (less than 35 hours per week) share in employment that reached 49.8 per cent in 2012 (77.0 % for females, and 26.4 % for males – EC 2014).

Table 1: Development of employment shares by sector, employees, The Netherlands, 1947-2012 (headcount)

	1947	1960	1975	1990	2000	2010	2012
Agriculture, fishing, mining	16.2	12.1	9.8	4.4	3.0	2.6	2.5
Manufacturing	31.8	30.7	25.9	20.4	13.3	11.8	10.9
Construction	8.3	9.1	8.9	7.4	6.3	4.9	5.0
Commercial services	22.6	27.6	29.2	36.3	46.9	49.0	48.5
Community, social and personal services	21.1	20.5	26.2	31.5	30.5	31.7	33.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Of which private sector	74	72	71	71	71	67	68
Of which full-time employees	?	94	85	71	58	51	50
Total x 1,000	3,612	4,169	4,683	5,626	6,998	7,860	7,872

Sources: authors' calculations based on CBS; CPB; EC 2014

A major change not covered by this table has been the substantial rise in the level of flexibilisation in the Dutch labour market after 2000. According to Statistics Netherlands (*Statline*), the percentage of all flexible employed increased from 24 per cent in 2001, to 33.0 per cent in 2008, reaching 37.4 per cent in 2013. The proportion of employees with flexible contracts grew particularly in 2006-2007 before remaining stable until 2012, when it rose again and reached 21.7 per cent in 2013. Similarly, from 2001 until 2013 self-employment (the second flexible category), grew continuously and reached 15.7 per cent in 2013; three quarters of which were self-employed-without-staff. In the crisis years 2008-2013 the number of employees with permanent jobs fell (by 7.6 %), whereas the numbers of those with flexible jobs and the self-employed increased (by 12.4 % and 12.1 % respectively – authors' calculations based on *Statline*). The highly-educated were to a larger extent self-employed (in 2012 17 %) and had less flexible contracts (14 %), while such contracts were more widespread among low-educated (in 2012 20 %) and self-employment less (13 %) (Driessen and Lautenbach 2012, 2014; CBS 2014). There is quite some evidence that this flexibilisation, giving rise to a larger share of precarious jobs, cannot be separated from the growing importance of short-term, shareholder-value based goals in the decision-making of many firms, the related rapid shifts in business strategies and the rise of outsourcing practices – shifts that lawmakers and trade union leadership alike seem to have underrated in the 1990s. Various Dutch researchers have warned that large flexible employment shares may well weaken the competitive strength of the country's economy, especially as many employers have hardly invested in the training and employability of their non-core workers (Muffels and Wilthagen 2011; Heyma and Theeuwes 2012).

3 Collective bargaining and social security institutions

3.1 The minimum wage fixing system

After the Second World War had destroyed over a quarter of the economic capacity of the Netherlands and had thrown a large part of its population into poverty, the Dutch government promised to offer social security along the lines set out for the United Kingdom in the Beveridge Report (1944). An industrialisation strategy based on low wages was to be the cornerstone for rebuilding the country. When the Netherlands, in 1949, had to accept the independence of Indonesia, the need for such a strategy was felt even more strongly. The state took a major role and, for longer than any other western democracy, the Netherlands ran a statutory wage policy. From 1945 onwards, collective labour agreements (CLAs) needed prior approval of a government-appointed board. In 1945 one of the first recommendations of the newly established Labour Foundation (STAR), the top-level platform of employers' associations and union confederations, was about the introduction of a 'social minimum wage'. They followed this with a recommendation that the approval procedure of CLAs must include the checking of the minimum-wage income available to a full-time, unskilled breadwinner and his family. These recommendations fitted in a pattern of wage restraint, decreasing wage inequality, and the achievement of substantial GDP growth: from 1951-1960 GDP increases averaged 4.7 per cent yearly and from 1961-1970 4.4 per cent (CBS *Statline).* In 1963-65 the system of statutory wage control broke down under pressure from tight labour markets and concomitant strikes (De Rooij 2001; Van Klaveren and Sprenger 2004).

With the threat of social unrest in the background, employers' associations and union confederations agreed in 1964 that CLAs should respect a national statutory minimum wage, albeit only for 'breadwinners' aged 24 and over. In 1968, a minimum wage was established by law, applicable to anyone age 24 or older, irrespective of their household position. A few years later the threshold was lowered to the age of 23. In 1974 a provision was added setting a minimum wage for young people aged between 15 and 23 years. Whereas initially the youth minimum wage was set at 40 per cent of the adult minimum wage for 15-year-olds, during the 1980s it was lowered to 30 per cent thus extending the 'tail' of the wage distribution. From there the minimum wage increases stepwise by 7.5 per cent per age year to 85 per cent for 22-year-olds. Across European countries, the Netherlands sets by far the lowest youth minimum wage rate and the highest age at which the full minimum wage is granted. Finally, in 1993 the government dropped the working at least 13 hours a week qualifying condition for the minimum wage, and from then on the minimum wage was supposed to provide universal legal coverage for all employees in the Netherlands (Salverda 2008).

Three features of the Dutch minimum wage fixing need special attention. First, the statutory minimum wage is defined on a weekly or monthly basis for what is termed the 'normal working week' laid down in the relevant CLA. Actually, that week varies from 36 to 40 hours. As a result, the *hourly* minimum wage depends on the CLA and differs across industries and employers. Thus, by 1 January 2014 the adult gross monthly minimum wage of € 1,485.60 covers hourly minimum wages varying from € 8.57 (40-hours' week) to € 9.52 (36 hours). Until 2011, the Dutch minimum wage was not legally enforced by an official inspectorate. As a result, an underpaid employee had to take his or her employer to court to demand the payment due. In 2011, the Minister of Social Affairs and Employment (SZW) decided to intensify and simplify the enforcement role of the Labour Inspectorate. In order to ease controls, the Inspectorate would in future calculate hourly wages based on a 40-hours' week: a regulation that disadvantages those with a contractual working week of between 36 and 39 hours as their hourly minimum wage rate would be higher.[2] The Labour Inspectorate, however, could now force employers to pay minimum wage arrears and could claim non-compliance penalties.

Second, the intricacies of the Dutch uprating mechanism should be noted. Formally, the minimum wage is supposed – with some time lag – to follow automatically the general trend of negotiated and actual wages. Negotiated wages are monitored at half-year intervals and the development of actual wages is reviewed every four years. However, the government has the discretion to set aside up-ratings, thus, to freeze the minimum wage. The main impetus for such freezes resulted from the third distinctive feature of Dutch minimum wage fixing. Between 1969 and 1974 the minimum benefits of all social insurance provisions (unemployment benefits, disability schemes, social assistance and the public old-age pension scheme) were linked to the minimum wage, based on net amounts. Between 1969 and 1979, strong wage growth induced equally strong minimum wage and social benefit increases, yielding what appeared to be tangible advantages for workers over this period. However, in the recession that followed the disadvantages of this coupling for minimum wage earners became clear. Decision-making on the minimum wage level was repeatedly mixed up with public finance considerations. Suspension, already allowed by the 1969 minimum wage law, received a further boost in 1992 when: a provision was introduced stating that no up-rating will take place if the ratio of welfare recipients to employment rises above a certain level. Finally, in a 2003 Central Accord government, employers' associations and trade unions decided to de-link wages and social insurance benefits.

3.2 Collective bargaining

Basically, Dutch industrial relations were shaped in the early 20th century, with national-level bargaining between trade unions and employers' organisations as a main feature. The Dutch union movement was 'born outside the factory gates' and has remained highly centralized. Currently, collective bargaining is framed under the law of 1927 which prioritized collective over individual labour agreements. Additionally, a 1937 law allows the government to extend a CLA and declare it binding on all employees in the same sector, the so-called mandatory extension. Extension can take place if the CLA covers 55 per cent of employees, which is mostly the case as around 80 per cent of employees work for employers organised in industry associations. The continuous high employer density and the latent pressure of mandatory extension largely explain the high collective bargaining coverage in the Netherlands which after 2000 fluctuated between 82 and 86 per cent and reached 85 per cent in 2013 (Van Klaveren and Tijdens 2012;

[2] The minimum wage data in the figures included in this paper and in Table 2 takes a 38-hours' week as a starting-point.

authors' calculations based on Ministry of SZW 2013, 2014[3]). At the same time, there was a large and growing gap with union density.

Since 1945, Dutch industrial relations have been dominated by consensus between government, employers and the mainstream of trade unionism. This 'Polder Model' was prepared during the Second World War in illegal meetings of union leaders and employers, that resulted in the foundation of the bi-partite STAR directly after the war. The institutional infrastructure was completed in 1950 when the tri-partite Social and Economic Council (SER) was created, with unions, employers and independent members appointed to advise the government on a broad range of law- and policy-making issues. In the first post-war years unions and employers had clear power bases. The propensity to strike was high, and union membership grew to reach 43 per cent density in 1950, while the employers' associations covered a clear majority of firms. A trade-off in the STAR gave the unions a position at the bargaining tables at national and industry levels in exchange for the promise of industrial peace at company level (De Rooij 2001). The three 'recognized' trade union confederations, namely, Social Democratic (NVV), Catholic (KAB/NKV) and Protestant (CNV), formed stable elements in industrial relations. In the 1950s they supported the official industrialisation strategy based on state-set yearly wage rounds.

In the 1960s processes of deregulation emerged. The Wage Formation Act of 1970 handed wage-setting back to unions and employers, although the government could intervene and order temporary wage freezes. This it did repeatedly, for instance in order to mitigate the negative employment effects of strong wage increases supported by wage indexation combined with the oil price hikes of 1973-74. These freezes fuelled the more autonomous positions the NVV and NKV centres and their affiliates took at this time (Visser 1999). As a result, the 1970-82 period became a relative conflict-prone intermezzo in Dutch industrial relations. Nearly simultaneously, the Thirty Glorious Years of the Dutch 20th century economy came to an end, not least as industrial policy had used the rapid exploitation of the huge natural gas reserves discovered in 1959 in the North of the Netherlands to transform the country into one of the most energy intensive economies of the world (Van Zanden 1998). The second oil crisis (1980) effectively ended the heyday of Dutch economic growth and gave way to a recession that was deeper than in many European countries. Again, successive administrations took refuge in wage freezes. From 1981 until 1989, the minimum wage was subject to freezes and after a 3 per cent nominal lowering in 1984, public sector wages were frozen for years to come (Salverda et al. 2008). As we will see, under these conditions income inequality rose substantially.

The period of considerable real wage increase thus ended in 1982 with the Wassenaar Accord, the first central agreement of unions, employers and government. The trade unions exchanged wage restraint and gave up wage indexation for an emphasis on job creation and working time reduction; the Accord stimulated the development of the 'first part-time economy in the world'. Under pressure from union women's groups, the FNV unions demanded that part-time workers should be granted the same rights as full-timers. Later, part-time work was formally de-marginalised through the adoption of equal treatment legislation (Tijdens 2005). The Wassenaar

[3] In the period 2002-2013 the share of CLAs based on the mandatory extension mechanism stabilized at about 11 per cent of all employed. Non-coverage applies to small sectors without CLAs and is also due to the fact that in most companies CLAs do not cover higher management layers (Ministry of SZW 2011, 2014).

Accord had in effect prevented another government intervention in wage-setting and in 1987 the law was changed enabling the social partners to regain substantial wage autonomy. Basically 'Wassenaar' remained a 'single choice' agreement. In 1993, another social pact, 'New Course', paved the way for the broadening of collective bargaining to issues like training, career development, working-time scheduling, child care, et cetera. (Visser and Hemerijck 1997). In between, real negotiated wages, whilst increasing on average by 2.6 per cent yearly in 1971-80, thereafter decreased by on average 0.8 per cent in the decade 1981-90 (authors' calculations based on CBS, *Statline*).

In the recent Great Recession and like in earlier periods of adversity, Dutch collective bargaining patterns have been remarkably resilient, at least in the private sector where few employers have tried to escape from the regular negotiation patterns. Neither has there been a substantial shift in the last decade from sector to company agreements, the main moves in this respect having taken place between 1996 and 2002. In 2013, industry agreements still accounted for 91 per cent of all those covered by CLAs (Ministry of SZW 2013). In the public sector, by contrast, a different story unfolded as government and local authorities de facto took refuge in a freeze of nominal wages lasting over two years. Indeed, recent trade union action and strikes have concentrated among public sector workers. In the crisis, the unions in the market sector aiming to preserve jobs moderated their wage claims even more firmly than before. In doing so, union negotiators met only rather weak opposition from their rank-and-file. At the same time employers and their associations made hardly any efforts to negotiate opening clauses in CLAs nor were CLAs renegotiated during their agreed timescale. On the other hand, shortening the duration of agreements with mutual consent, like at the Tata steel works from two years to six months, has created opportunities to reconsider and re-negotiate the CLA (AIAS-ETUI 2009-2014).

3.3 Trade unions and workers' representation

In the 1970s the Dutch union landscape went through major changes. The Social-Democratic and Catholic confederations merged in 1976 to become FNV, currently representing two-thirds of all union members. The Protestant CNV centre stayed apart, whereas MHP, a federation of white-collar unions, was founded and gained seats in STAR and SER. At industry or company level, cooperation between the unions affiliated with these three confederations has mostly proceeded smoothly and demarcation conflicts have been rare. Within FNV and CNV subsequent mergers have resulted in large conglomerate unions. In the FNV confederation in 2013 two major conglomerates organised two-thirds of the membership, FNV Bondgenoten covering the largest part of private industry, and AbvaKabo FNV similarly covering the public sector. In 2011, these two unions refused to sign the accord on pensions (lifting the pension age from 65 to 67 in 2020) that the three confederations had agreed upon with the government and the employers' associations. This fuelled an internal crisis in the FNV, followed by efforts to 'redesign' the confederation and create smaller union entities.

Their weakness at company and shop floor level continues to be the Achilles heel of the Dutch unions, and may help to explain widespread non-compliance concerning non-wage issues like working time. As regards wages, the shop-floor effects of union weakness have been mitigated, or maybe even taken away, by the solidity of the 'wage building'. Nearly all CLAs contain a grid that links detailed wage scales to jobs irrespective of the occupant and, in most CLAs, the wage scales are connected to separate, long-term job evaluation schemes down to the lowest job levels. These schemes act rather effectively as a shield against employer's arbitrariness in individual wage-setting. Nevertheless, it remains a drawback that Dutch politics has denied union delegates a legal status at company level. This has only been partly compensated by the development of a dual system of industrial relations. Under the 1950 Works Councils Act, employees were entitled to representation in joint Works Councils, initially chaired by the employer. A 1979 revision of this act provided for mandatory councils elected by and from the workforce, independent of the employer. The councils are endowed with information and consultation rights as well as co-determination rights on personnel policy regulations, but without wage bargaining powers. Lay trade unionists dominate the Works Councils, and an estimated 65 per cent of all councillors are unionized. Nevertheless, many councils have encountered problems in recruiting new members (Cf. Van het Kaar and Smit 2007).

The available figures point to a long-term fall in union density. In 1980, density was 34 per cent; in 1990: 24 per cent; in 2000: 23 per cent, with a further fall to 19.7 per cent in 2008 and 19.0 per cent in 2011 (Visser 2013). By March 2013, compared to mid-2011 trade unions lost another 5 per cent of their membership (CBS, *Statline*), bringing density to 18 per cent. This negative trend puts the union confederations at risk because their representativeness may be questioned, both in terms of the extension mechanism and more generally in the national political arena. Clearly, the need for unions to recruit young workers as members is most urgent, given their heavily ageing rank-and-file. For example, in 2011 only 6 per cent of the workers aged 15-24 were organized. The unions should also be aware that currently half of all workers in this age group have a flexible employment contract (Driessen and Lautenbach 2014). This is the more important since young workers with permanent contracts have tended to be more unionized – 21 per cent were members – than those in flexible employment where just 9 per cent were members in 2011. Similarly, those working over 35 hours (23 %) were more likely to be unionized than those in small part-time jobs (12-20 hours: 10 %) (Ter Steege et al. 2012).

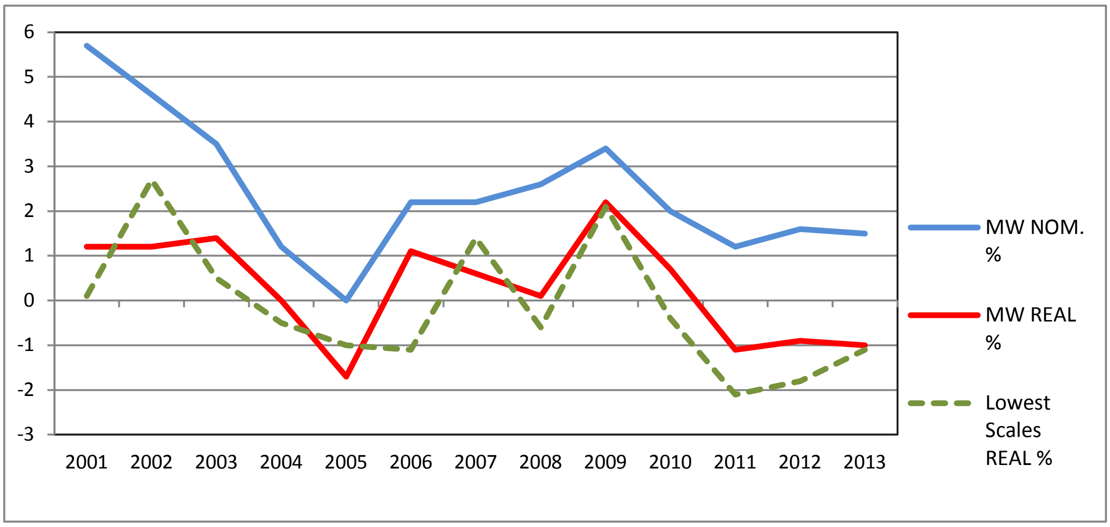
4 Development of wages and social security

4.1 The minimum wage

As said, although the statutory minimum wage in the Netherlands is supposed to follow the general wage development, governmental minimum wage freezes have covered 13 of the 36 years between 1979 and 2014 and most recently were applied between July 2003 and January 2006. Remarkably, in the crisis years 2008-13 the successive administrations have abstained from freezes. Nevertheless, the government has not made up for the arrears caused by the earlier freezes either, and as a result, over a longer time span the 'bite' of the minimum wage has declined considerably. For instance, compared with its 1979 value, the *adult* minimum wage by 2012 had fallen 37 per cent below average adult hourly earnings. Its ratio to the *average adult* full-time hourly wage (the Kaitz index) decreased by one third from 0.64 in 1979 to 0.42 in 2005, to remain from then on at about the same level. Relative to its 1979 value, the adult minimum wage had lost 23 per cent of its purchasing power by 2012. The purchasing power of the *average* minimum wage between 1979 and 2012 fell even further by 30 per cent – although this was partly due to the addition of the youngsters' share. The estimated real minimum wage per hour fell less, by some 19 per cent for adults over 1979-2012 when the reduction in average full-time working hours in this period of time is taken into account (Salverda 2008; additional calculations by the authors based on CBS, *Statline*, and OECD Minimum Wage Database). Simultaneously, the position of the minimum wage in the Dutch wage distribution deteriorated, most obviously between 1979 and 2005, although neither has it improved after 2005. In 1979, the minimum wage level was 27 per cent above the lowest decile of the hourly earnings distribution, but by 2005 it had fallen to exactly the level of that decile. If the minimum wage had kept its relative position, the first decile would have moved up more and wage inequality would have grown less (Salverda 2008, 305-6).

Figure 1 shows the nominal and real development of the adult minimum wage in the 2000s year-on-year, based on hourly wages. The freeze in 2003-05 led to a decrease of purchasing power attached to the minimum wage in 2005. That was repeated in 2011-13 due to the low collectively agreed wage increases on which minimum wage fixing is based. Over 2001-13 the real value of the minimum wage increased on average by only 0.3 per cent yearly, while during the crisis years 2008-13 it ended up slightly negative (see Table 2, below Figure 3).

Figure 1: Development of nominal and real adult minimum wages and development of real lowest pay scales in collective agreements, hourly wages, % annual change, The Netherlands, 2001-2013



Sources: WageIndicator database; CBS, Statline; lowest CLA scales: Ministry of SZW

The figure also illustrates the relationship between the development of the lowest pay scales in the CLAs and that of the adult minimum wage; the dotted line indicates the development of the real average value of starting wages attached to these scales. The impact of government intervention in collective bargaining through minimum wage fixing in the Netherlands partly depends on whether CLAs endorse the minimum wage or lay down higher wage levels. In the 1970s and 1980s the lowest CLA scales had followed the average wage trend, and in the early 1990s they diverged on average 11 per cent from the minimum wage. The government pressed unions and employers to bring these scales down to the minimum wage level, arguing that this would stimulate employment opportunities for disadvantaged and low-waged groups. SER and STAR produced similar recommendations. Indeed, in 1993-97 the social partners narrowed the gap with the minimum wage to 6 per cent, with a further decline to 3 per cent in 2012-13 (SZW 2013). Initially, this move may have largely been an academic exercise. In the 1990s many companies due to skill-biased technological change and offshoring of activities had already 'emptied' their lower pay scales of employees and hardly employed anyone at these levels. Hence, a large majority of companies did not use the new, lower scales. Thus, the relative decline of the minimum wage lacked a direct effect on low-wage employment. The latter, in effect, replaced minimum-wage employment, ending up with wage levels somewhat above the lowered minimum wage. It can be argued that the content attached to the minimum wage as an institution gave room for the increase of low-wage employment in the Netherlands (Salverda et al. 2008, 79, 83-4).

According to Statistics Netherlands data, the share of those at or below the minimum wage in total employment has increased slightly during the crisis, from 5.9 per cent in 2008 to 6.2 per cent in 2012. In line with their deteriorating labour market position, this increase was greater amongst 20 to 30 year olds moving from 10 to 12 per cent. Furthermore, at 16 percent the minimum wage incidence was at its highest for young workers in both the 15-19- and 20-24-year old age groups. The data also showed both gender and industry effects. In 2012, for example, female employees were more likely to earn the minimum wage (7.4 %) than males (5.1 %). Across industries, the highest percentages of minimum wage earners were found in hotels, restaurants and catering, for females (14 %) and males (13 %) alike, and in transport and storage where 12 per cent of females were on the minimum wage (authors' calculations based on CBS, *Statline*).

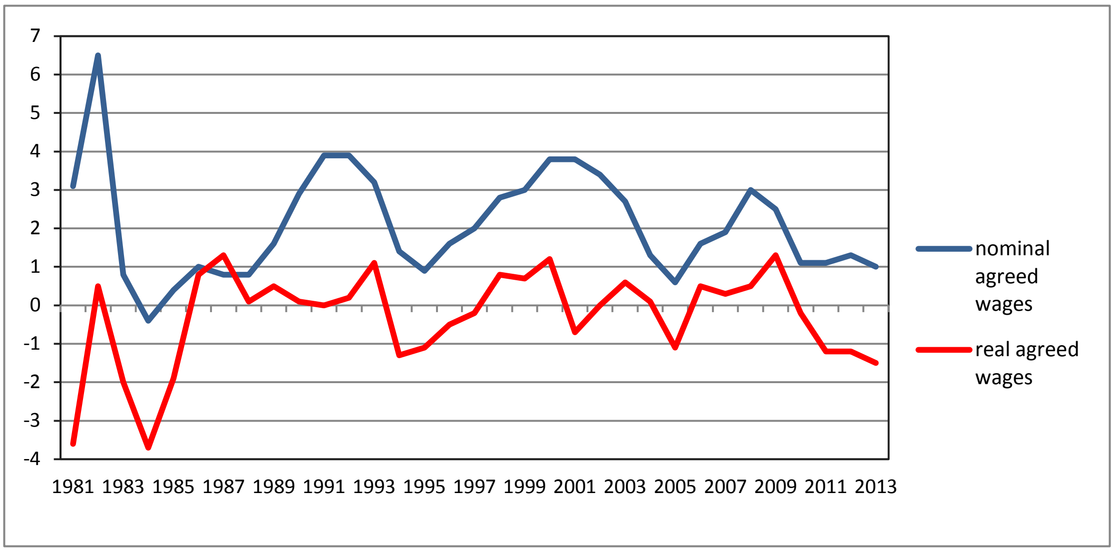
A minority of the minimum wage earners may in fact be earning *below* the minimum wage, though statistical data on under-payment (ie. non-compliance with the statutory minimum wage) is rather outdated. Over 2008-2013 both the Labour Inspectorate and trade union officers reported non-compliance with the statutory minimum wage), often combined with sub-standard working conditions, mainly from seven industries: food processing (in particular meatpacking); construction; hotels, restaurants and catering; agriculture (and in particular horticulture); transport (particularly road haulage); industrial and related cleaning, and domestic work. Recently, the Minister of Social Affairs and Employment complained that employers used more and more ways to evade the statutory minimum wage, such as paying expense allowances instead of wages and using bogus international constructions (Second Chamber of Parliament No. 17050, letter of April 11, 2013).

4.2 Wages, prices and productivity

The available statistics do not confirm the textbook statement that in the Netherlands the collectively agreed (negotiated) wages are the main determinant of wage growth. Figure 2 shows the long-term development of collectively agreed wages since the Wassenaar Accord, in nominal and real terms. The real increase has been quite small or non-existent: the average decrease of 0.8 per cent over the period 1981-1990; a tiny 0.1 per cent yearly growth in 1991-2000; 0.15 per cent annual growth in 2001-2010, and an average 0.6 per cent decrease between 2011 and 2013.

Overall this yielded around 0.3 per cent annual average decrease over 33 years (authors' calculations based on CBS, *Statline*).

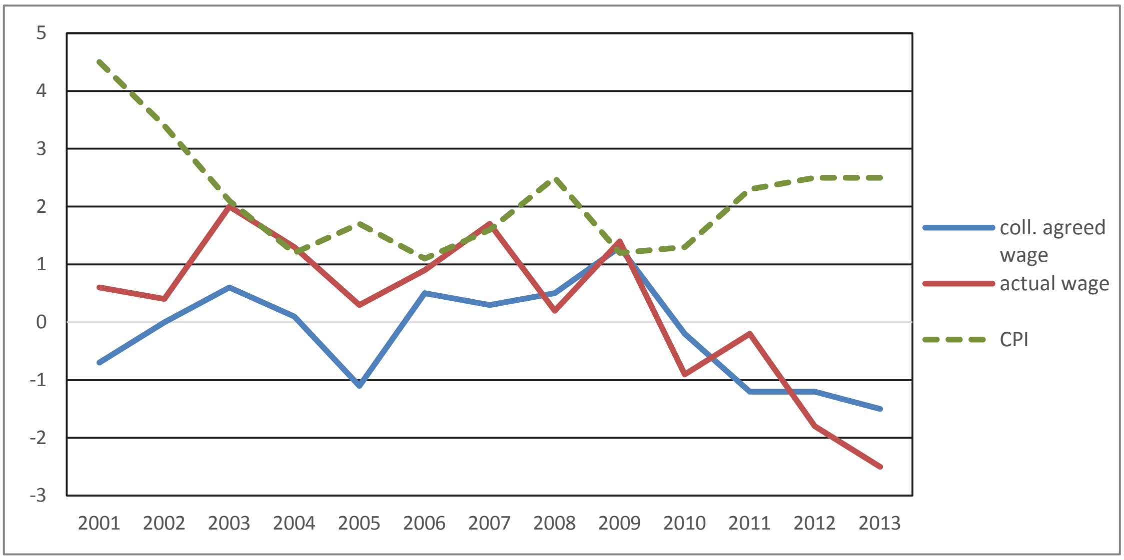
Figure 2: Nominal and real development (deflated for CPI) of collectively agreed hourly wages, annual change in %, The Netherlands, 1981-2013



Source: CBS, Statline

Figure 3 shows the real (adjusted for inflation) development of both collectively agreed and actual (effectively paid) wages since 2001. In six of the 13 years (2001, 2005 and 2019-13) real collectively agreed wages fell. In the four years of the prolonged crisis period (2010-13), this was also the case for actual wages, partly due to increases in taxes and social insurance contributions (Eggelte et al. 2014, 25). In the early 2000s, nominal agreed and actual wage increases were substantial, but so was inflation. Even with the much lower inflation rate in later years the real growth of both collectively agreed and actual wages was either very low or negative. Table 2 summarizes the developments in the 2000s. It has to be concluded that after the turn of the century the development of wages has continued to be very moderate.

Figure 3: Real development (deflated for CPI) of collectively agreed and actual hourly wages, annual changes in %, The Netherlands, 2001-2013



Source: CBS, Statline. Note: based on revised figures 2010-2013 (October 2014)

Table 2: Average annual change in % of real minimum wages, collectively agreed wages and actual wages, consumer prices (CPI), and labour productivity, The Netherlands, 2001-2010, 2001-2013 and 2008-2013

year	real wages			CPI	labour product.
	MW	collect. agr.	actual		
2001-10	0.68%	0.15%	0.88%	1.93%	0.71%
2001-13 *)	0.31%	-0.20%	0.30%	2.15%	0.55%
2008-13 *)	-0.11%	-0.56%	-0.81%	2.05%	-0.19%

Sources: wages: WageIndicator database and CBS, Statline; CPI: CBS, Statline; labour productivity: OECD database (output per unit of labour input) *) based on revised figures 2010-2013 (October 2014)

In contrast to Germany, where wage development has been characterised by a strong negative wage drift, actual wages in the Netherlands traditionally rose above collectively agreed wages. In other words, there has mostly been a positive wage drift, albeit limited. For 1990-2000, on an hourly-wage basis wage drift averaged 0.5 per cent for this period, while for 2001-10 it rose to 0.7 per cent, before reversing to on average 0.2 per cent negative in the crisis years 2008-13 with 2008, 2010, 2012 and 2013 proving to be exceptional years in the Dutch context posting negative wage drift. Also, unlike Germany, differentiation in *collectively agreed* wages across industries has remained limited in the Netherlands. In the 2000s the longer-term variation continued to be small: over 2001-2010 a spread of just 0.6 percentage points between the highest nominal yearly average (construction, 2.6 %) and the lowest (public administration, 2.0 %). However, differentiation in *actual* wages was, on average, larger over 2001-2010, with a spread of 1.4 percentage points between the highest nominal yearly averages (construction and finance, both 3.6 %) and the lowest (retail, 2.2 %) (Van Klaveren and Tijdens 2012). Such differences were almost wiped out during the financial crisis between 2010 and 2013 (Eggelte et al. 2014, 27).[4]

Also before 2009 the business cycle played a major role, in particular in determining earnings in the finance industry. Boom periods tended to see a strong increase in additional pay (bonuses et cetera) and in overtime compensation leading to positive wage drift, whereas in years of contraction negative wage drift tended to show up. At the other end of the wage spectrum, the retail industry has also showed a volatile pattern albeit less extreme, with tight labour market conditions inducing extra payments for shop-floor staff (for example in 1995-99 and 2007-08) alternated by negative drift due to the influx of younger workers with lower wage rates (2002-04) (Van Klaveren and Tijdens 2012[5]). The various forms of additional pay were and are mostly outside union control, and remain a risk factor in wage moderation as a trade union policy.

Now we turn to labour productivity as the next important issue. As in other countries, keeping wages up with consumer price and productivity increases is a declared goal of Dutch trade unions in order to at least maintain the economy's wage share. Dutch labour productivity whilst still comparatively high (in 2012 the 6th highest in the world), has, since 1980, seen its growth gradually falling away. Whereas in the 1970s annual growth averaged 3.4 per cent, it fell in the 1980s to 2.0 per cent and in the 1990s to 1.7 per cent (WRR 2013, 192). Nevertheless, this growth remained higher than wage increases and in 1981-2000 the gap between nominal wages and productivity increased by 26 per cent (Salverda et al. 2008). In the 2000s the growth of labour productivity declined further, to an annual average of 1.2 per cent between 2001-07, followed by an average fall of 0.2 per cent annually between 2008 and 2013, not least due to employers' practices of labour hoarding (authors' calculations based on OECD data; Van den Berge et al. 2014). As a result, since 2005 the productivity performance of all major industrial economies has surpassed that of the Netherlands. The assumption that wage moderation in the Netherlands by depressing aggregate demand has induced slower investment and has lowered labour productivity in the long run, has convincingly been supported by the evidence (Cf. Storm and Naastepad 2013).

Figure 4 shows the development since 2000 of the minimum wage, collectively agreed and effectively paid wages (all in real terms taking the CPI into account) and of labour productivity. Table 2 already indicated that over the 2001-13 period at large the collectively agreed wage increase remained below zero while the minimum wage and the actual wage showed a slight increase. In the crisis years 2008-13 all three wage entities fell in real terms, the actual wages even strongest. At first sight surprisingly, the minimum wage fell somewhat less. This was largely due to the time lag with which, as explained, the minimum wage uprating in the Nether-

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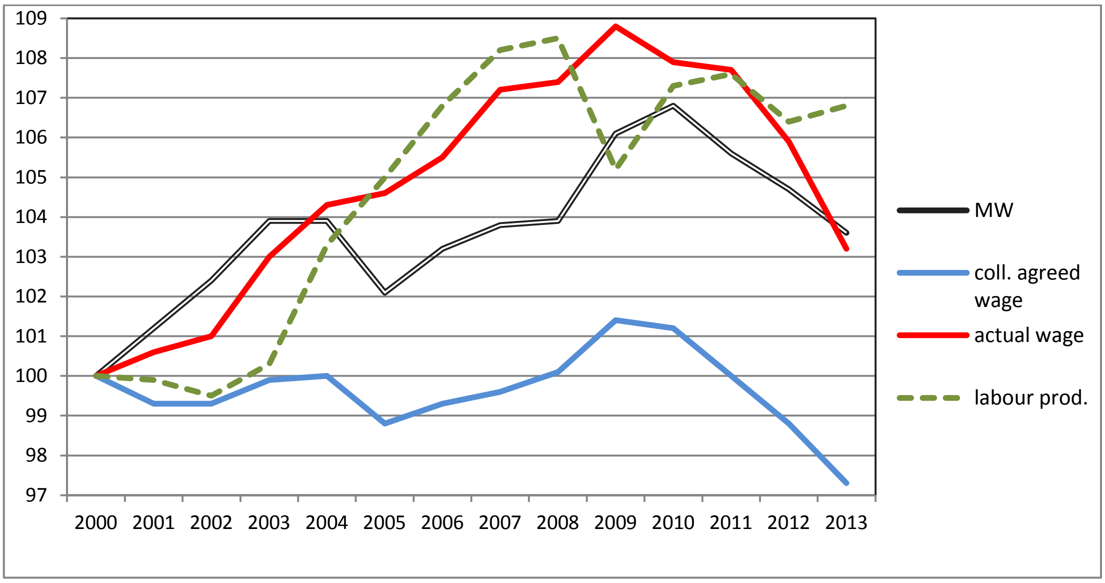
4 Between 2010 and 2013 the industry picture changed drastically, with construction showing a strong fall in nominal actual wages (averaged 2.8 % yearly) and finance showing an average 0.1 percent decrease on average whereas the other main industries on average showed a slightly positive development. As a result, over the period 2001-13 at large the spread between the highest nominal yearly average growth (finance, 2.5%) and the lowest (construction, 1.8 %) was 0.7 percentage points (authors' calculations based on CBS, *Statline*).

5 In this development, wage leadership changed from metal and electronics manufacturing in the 1970s, to banking in the 1990s and back to the (small) metal industry in the 2000s. A few company agreements, like that of the Tata steel works, remained influential in the national bargaining process (Van Klaveren and Tijdens 2012).

lands follows the general wage trend, in 2008 still leading to a considerable minimum wage increase; by contrast, over 2009-13 the decrease of the minimum wage was at 0.7 averaged yearly considerable.

Figure 4: Real minimum wages, collectively agreed wages, actual wages and labour productivity, The Netherlands, 2000-2013, 2000=100



Sources: wages: CBS, Statline; labour productivity: OECD database (output per unit of labour input)

4.3 Wage, income and wealth inequality

As stated, in the Netherlands the existence of the statutory minimum wage has not been able to counteract the long-term growth in wage inequality. The low-wage share of employment (those earning less than two-thirds of the national hourly median wage) grew significantly, from 11 per cent of all hours worked in 1979 to 16 per cent in 2004. Measuring headcount, the proportion of low-wage earners increased further to reach 18.1 per cent in 2010 – across Europe an upper-middle ranking score (Salverda et al. 2008; Bezzina 2012). The incidence of low pay among full-time workers remained virtually stable at 10 per cent. However, part-timers, who already had a higher incidence in 1979 (17 per cent), saw that proportion increase to about 30 per cent in the second half of the 2000s. As for demographic categories, low-wage work has been concentrated amongst adult women and in young workers. In 2010 the proportion of low-wage earners among women (21.2 %) was higher than among men (15.1 %), though the gap was less than the overall EU27 average (21.2% versus 13.3% for men), implying that the Netherlands had a relatively high proportion of low-paid men. Certainly, with 46.1 per cent of all young workers (below the age of 30) in 2010 listed as low-paid, the Netherlands in this respect performed the worst in the EU (average 27.5 %). This was also the case for those with fixed-term contracts, 47.9 per cent of whom were low-paid in the Netherlands compared to 31.3 per cent average for the EU (Bezzina 2012). These adverse comparisons cannot be separated from the Dutch youth minimum wage and the widespread use of fixed-term contracts. In the crisis, young labour market entrants have been increasingly disadvantaged by the combined effects of the low youth minimum wage rates and the near-impossibility of obtaining permanent contracts. Evidence from the Dutch retail industry showed how such conditions were at odds with any career ambitions (Van Klaveren et al. 2009). According to both official Dutch statistics and *WageIndicator* data, the industries with the largest shares of the low-paid have been, in descending order: hotels, restaurants and catering; wholesale and retail; agriculture; and transport and communications (Salverda et al. 2008; Van Klaveren and Tijdens 2008; CBS, *Statline*[6]).

Recently a debate has arisen on whether or not income inequality has increased in the last three decades in the Netherlands. One group of researchers has emphasized that the large and growing redistribution effects through progressive taxation and social transfers have countered rising inequality in gross incomes. These researchers suggested for the period 2001-2012 a near-constant Gini coefficient after redistribution on average of 0.275 (that is, below the Gini ratio of about 0.29 the OECD presented for the Netherlands over 2000-2010). They found a similar result for 1990-1999 although, due a time series break in 2000, the outcomes were not fully comparable (Caminada et al. 2014). Through the use of various inequality measures, including the Gini coefficient, another research group has pointed to an increase of inequality, though that increase has been concentrated in 1985-1990 (Salverda et al. 2013). The use of inequality dispersion ratios makes clear that between 1977 and 2011 significant changes have occurred that were not captured by the Gini coefficient. The S10 : S1 ratio[7] calculated over gross (primary) incomes increased from 10.5 to 14.0, again, most strongly between 1980 and 1990, but also in the years afterwards. Between 1977 and 2011, the real gross incomes in the lowest four deciles (in Euros at 2011 prices) fell between 3 and 7 per cent, whereas they increased in the upper half of the distribution, topped off by the 28 per cent rise in the highest decile (Salverda 2013, 2014).

Moreover, the distribution of private wealth although rarely debated (until Piketty's recent book) is highly relevant in the Netherlands. For 2011 and 2012, different research teams calculated the wealth Gini coefficient 0.83 (including value of housing property and mortgage debts, excluding pension rights; Van Bavel and Salverda 2014; Pouwels-Urlings and Van den Brakel 2014), implying that the Dutch wealth distribution is highly unequal. However, for the Netherlands the relationship between wealth and income inequality still needs to be clarified.

The development of the wage share in the Dutch GDP reflects in particular the long-term fall of wages relative to GDP from the early 1980s. Earlier in the course of the 1970s the Dutch wage share had caught up with those of other advanced European countries. As Figure 5 shows, following a modest peak in 1993 (69.7), the wage share fell in the 1990s accelerating between 2003 and 2007 to a low of 64.3 in the latter year before, as in other European countries, low overall profit levels in the crisis pushed the share up to 67.9 in 2013.

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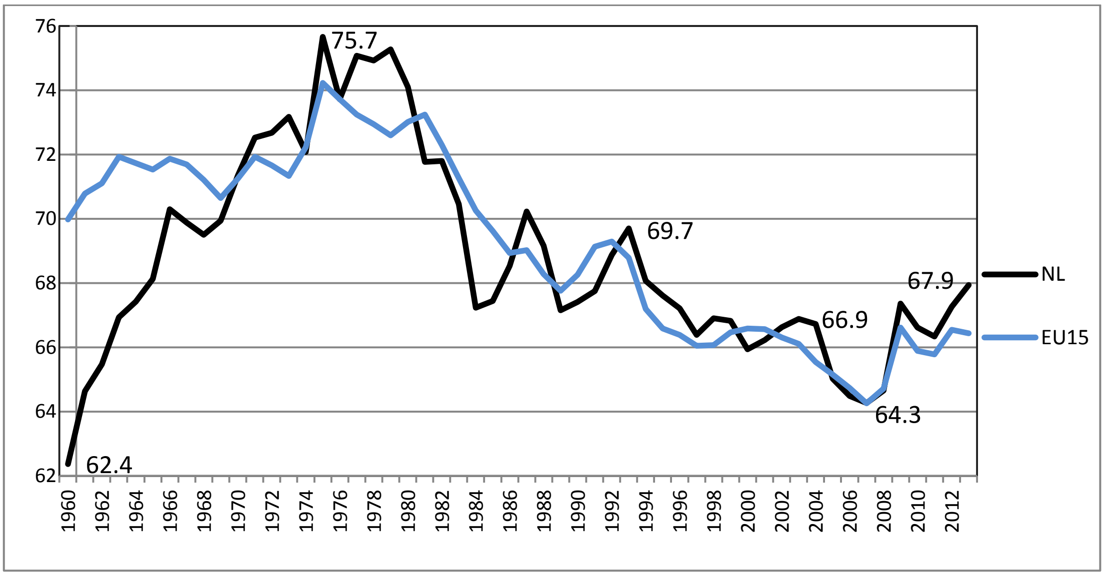
6 The Eurostat website (earn_ses_pub1n) indicates for the Netherlands in 2010 a small variation in the shares of low-wage earners across sectors, from 15.3 per cent in accommodation and food services to 22.3 per cent in finance and insurance, in contrast to other countries including Germany (68.6 % in accommodation and food services, 2.6 % in finance and insurance). The Dutch outcomes are also in contrast to those of comparative international research on low-wage work, that showed strong similarities between low-wage patterns and levels in notably the Netherlands and Germany (Mason and Salverda 2010; Van Klaveren and Voss-Dahm 2011).

7 Differing from the D9 : D1 ratio as it is not based on the threshold above which the top decile incomes are earned (D9) and below which the bottom decile incomes are earned (D1). Rather, it is based on the average incomes of the top and bottom deciles.

Figure 5: Development of adjusted wage share, The Netherlands and EU15, 1960-2013



Source: Ameco database. Note: adjusted wage share is compensation per employee as percentage of GDP at factor cost per person employed.

4.4 Social security

Before the Second World War, social provisions remained at a very basic level. From the very beginning in the 1880s, most unions ran their own insurance funds covering sickness and unemployment. After the Second World War, broad parliamentary support for the expansion of the welfare state resulted in a number of social insurance provisions: for the population at large (1958: General Old Age Pensions Act (AOW), 1965: Act on Welfare), and for employees only (1945: dismissal protection; 1949: Act on Unemployment Insurance; 1966: Labour Disability Insurance Act, WAO), the latter initially ran by the social partners. Until in the 1980s, taxation and social insurance provisions were committed to the preservation of traditional family life. However, save for a short period in the 2000s and most recently, day-care facilities have been in short supply and expensive; the same holds for related facilities and arrangements -- pushing women towards part-time work as the dominant strategy to cope with work-life balance problems (Tijdens 2005).

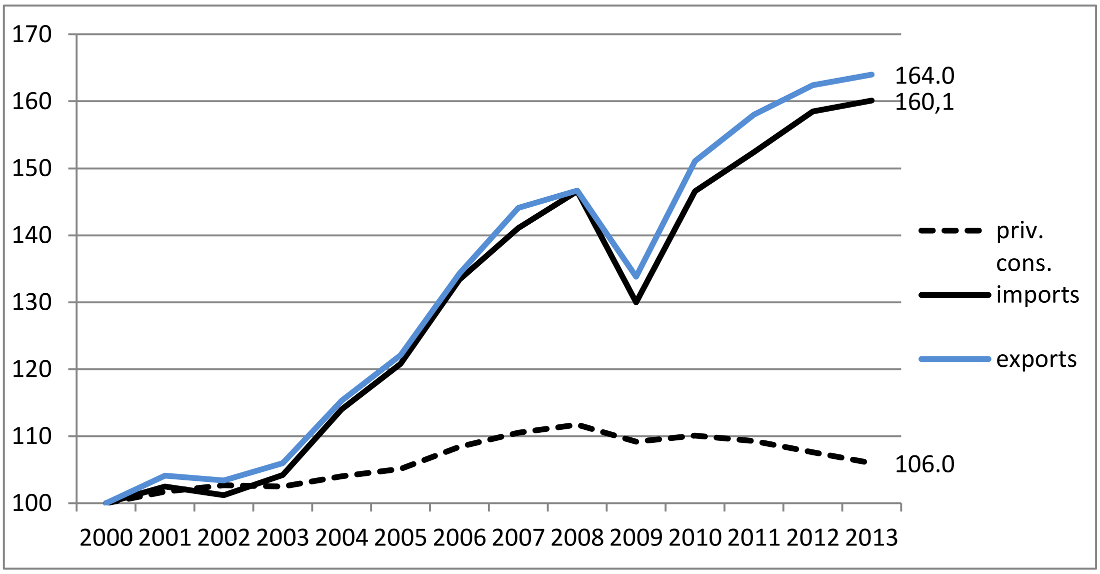
Since 1980, there has been a retrenchment of the rather generously expanded welfare state and the cumulative dismantling of the social insurance provisions (entitlements as well as levels) gained in the three preceding decades. Overall, this retrenchment has exerted a clear negative effect on the purchasing power of those dependent on social assistance. For example, unemployment insurance was reduced in 1987, when the benefit-to-previous-earnings (replacement) ratio fell from 80 to 70 per cent. Since 1990, the entitlement criteria for the other benefits have also been tightened several times and benefit durations shortened. As those qualifying for social assistance are, by definition, at the bottom of the income distribution, the net effect of these measures has been a growing gap between the median income and the lowest decile (Salverda et al. 2013).

5 The recovery: export-led or wage-led?

As said, the Netherlands is one of the most open economies in the world. The share of its value added created through production for exports grew slowly during the period 1995-2011 and reached 38 per cent in 2011 which, except for Belgium, was considerably higher than that of other EU countries (CBS 2013, 56). Moreover, it has developed into a transit economy *par excellence.* This is illustrated by the fact that in 2013 re-exports (in particular to Germany) accounted for roughly one half of the Dutch goods balance compared to one third in 1995, and that domestically-produced exports have relatively underperformed (EU DG ECFIN 2014, 21-2). Netherlands-based firms invest heavily abroad, whereas inward foreign direct investment (FDI) in the country is also large. Between 2001 and 2011, FDI inflows and re-investment by foreign firms increasingly affected the Dutch economy. By 2011, foreign-controlled multinationals accounted for 944,000 jobs in the Netherlands or 21 per cent of jobs in private industry (2001: 14 %) (CBS, *Statline*). By contrast, in 2009 Dutch-controlled enterprises employed 2.1 million persons abroad, of which 1.3 million were elsewhere in the EU (CBS 2013, 75-8). The internationalization of major Dutch-based multinationals has shown that the relevance of their home markets continues to diminish. In 2013, the Dutch market contributed less than 10 per cent to the turnover of the largest five (Philips, Shell, Unilever, AkzoNobel and Randstad); who by then, could also demonstrate that only 12 per cent of their workforce was Dutch (WRR 2013). In 2011, the largest stocks of foreign capital in the Netherlands were invested in mining, oil and chemicals (27 % of total FDI), food, beverages and tobacco manufacturing (14 %), and finance and insurance (16 %) (CBS 2013) – industries where wage levels may play a marginal role in managerial decisions on international (re)location. The composition of inward FDI lends support to the thesis that wage moderation is hardly relevant as a factor for attracting foreign investors to the Netherlands.

The recent trends in key macroeconomic variables such as wages, private consumption, imports and exports for the Netherlands show a remarkable resemblance with those for Germany. While the growth of Dutch exports was somewhat less spectacular, Figure 6 indicates that between 2000 and 2013 these exports increased in real terms by 64 per cent, against just 6 per cent for private consumption and 60 per cent for imports. By 2013 the Dutch current account surplus had grown to nearly € 47 billion, or over 9 per cent of the country's GDP; the export vis-à-vis the EU member states had by then reached € 115 billion (CBS, *Statline*). The European Commission forecasts a further increase of the current account surplus to around 10 per cent of GDP in 2015 (EC DG ECFIN 2014, 21).

Figure 6 **Development of exports, import and private consumption (deflated), The Netherlands, 2000-2013, 2000=100**



Source: CBS, Statline

This Dutch export-led growth model is, like that of Germany, problematic in two ways. First, the heavy reliance on export surpluses has left other European countries with corresponding deficits and thus has contributed to growing international imbalances. The second problem concerns the domestic economy. The stagnating development of private consumption has, in combination with a housing bubble, seriously frustrated the recovery of the Dutch economy. From the early 1990s, house prices in the Netherlands rose massively, stimulated by mortgages exceeding property market prices and the generous system of tax rebates on the marginal rate of interest paid on mortgages. However, after 2008 house prices have dropped by approximately 25 per cent. Currently, one in three Dutch households have so-called ‘negative equity’ where their mortgage debt is higher than the market value of their home. In 2008-13, the fall of real wages combined with the widespread uncertainties related to house prices, expected changes in the fiscal treatment of mortgages and the related disadvantages for current house owners as well as growing unemployment has increased income uncertainty and has put substantial downward pressure on domestic consumption (Mastrogiacomo 2013; Teulings 2014). In these six years, Dutch private consumption deflated for CPI fell by 5.1 per cent, whereas, by contrast in neighbouring countries (modest) real consumption growth was maintained (Jonkers and Notten 2013; Eggelte et al. 2014). As indicated in our introduction, under these conditions unemployment rose quickly.

Many economists have concluded that the continuation of the wage moderation tradition in the Netherlands in current conditions would cause negative effects, notably on domestic private demand but also, as mentioned earlier, on the country’s labour productivity and growth potential. They have also cautioned that this might spill over to its export performance (Cf. EU DG ECFIN 2014, 15). Clearly, the dominance of the wage moderation discourse has hampered the development of a broader debate on the importance of innovation for the Dutch economy. In this field, there are weaknesses that should be addressed. Hausmann and Hidalgo (2013), for instance, have argued that since current Dutch export strongholds, notably the agri-food business, rely on lower-complexity productive knowledge they will inevitably meet stiff competition. They add that the traditional orientation of the Dutch economy towards European and US markets is changing into a principal source of vulnerability, now readily apparent as intra-European trade registers negative growth. Also, leaning on the classical means of transportation and the current 'gateways' may be risky in view of innovation (3D-printing, cradle-to-cradle, et cetera), changing transport modalities, and above all environmental pressures to limit physical transport (WRR 2013, 121). We should add that the Netherlands may have lost quite some attractiveness for foreign investors in technologically advanced activities. In recent years foreign-based multinationals such as Ericsson, MSD, and Abbott, divested their Dutch R & D and laboratory facilities, and that may diminish the R&D- or knowledge-intensity of Dutch exports (WRR 2013). At the time of writing, falling oil prices may well stimulate the recovery of the rather energy-intensive Dutch economy, at least temporarily, but that does not alter the underlying need for a reorientation of macroeconomic policy in relation to socio-economic governance in the Netherlands.

We have to conclude that coordinated wage policies in the Netherlands have played a major role in linking a deliberate strategy of wage moderation with a socio-economic governance model that has been instrumental in keeping actual wage increases behind labour productivity growth. A substantial role here was played by the at least partial conversion of the minimum wage as a tool to guarantee a wage floor into a tool for wage moderation (Cf. Streeck and Theelen 2005). Majorities of trade union members have tended to accept the wage moderation strategy as long as they perceived tangible advantages from the underlying trade-off: (preserved) jobs, improved working conditions, and the realisation of individual working hours' and other preferences. Yet, in the last five years and against the backdrop of falling real wages, growing unemployment and cuts in social insurance provisions, wage moderation does not appear to be delivering anymore. Under these conditions the already questionable proposition that such moderation would improve the competitive position of the Netherlands has altogether lost its credibility. It is widely recognized that compared with the recession of the 1980s, macroeconomic conditions have fundamentally changed. Under present conditions, therefore, repeating the old mantra 'jobs before wages' may not be conducive to a sustainable and equitable recovery. All in all then, there are good reasons to defend a wage-led strategy as a recovery option in the case of the Netherlands. Against this backdrop, trade union demands for real wage increases are very well defendable. A minimum wage hike over the regular wage increase can also be defended particularly since in all probability the wages of many low-paid workers in the crisis have approached the minimum wage floor, as in the retail industry; hotels, restaurants and catering, as well as in sectors where liberalisation, privatisation and central government's pressure on municipalities to cut budgets are the order of the day, like in the care sector.

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