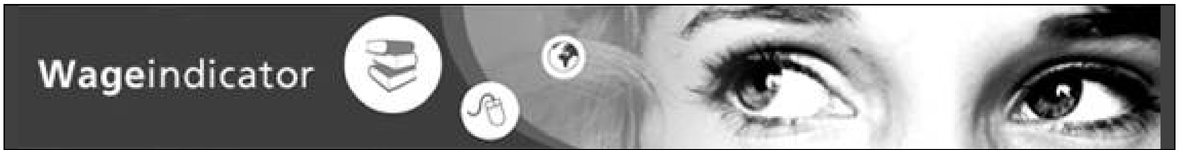

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Maarten van Klaveren, Kea Tijdens, Nuria Ramos Martin

***WAGEINDICATOR* SUPPORT FOR TRADE UNION BARGAINING IN EUROPE (WIBAR)**
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1. Introduction

This is a paper in the framework of the WIBAR project. This project aims to promote the input of cross-country, comparative analyses at the level of themes and industries using the *WageIndicator* survey data about wages, working conditions and working hours. The Amsterdam Institute of Advanced Labour Studies (AIAS) / University of Amsterdam has developed the WIBAR project in co-operation with the European Trade Union Confederation (ETUC): the project is focused on the European trade union involvement in developing workplace industrial relations and Europe-wide bargaining. ETUC has formulated four major bargaining spearheads and related guidelines for 2006: wages in general and low pay work; working time; gender equality; training and lifelong learning.[2] For the ETUC, the European industrial secretariats and their national trade unions, the need for detailed and industry-specific comparisons is more urgent than ever. The WIBAR project should produce usable tools and intensify dissemination and debate on Europe-wide bargaining.

Section 2 of this report deals with the (limits of the) EU policy making concerning low pay, and related debates. Section 3 concentrates on a specific issue that is playing a major role in these debates: the Statutory Minimum Wage. In section 4 we present available evidence on the incidence of low pay from sources other than the *WageIndicator* data. We were especially lucky to be able to use here the final drafts produced by the large RSF research project on Low Wage Work in Europe, running from 2004-06 and commissioned by the New York-based Russell Sage Foundation (RSF), in which AIAS (for the Netherlands jointly with STZ consultancy & research) participated. In section 5 we treat the position of the minimum wage in the national labour relations, legislative frameworks and wage structures of the European *WageIndicator* countries Belgium, Denmark, Finland, Germany, Hungary, the Netherlands, Poland, Spain, and the United Kingdom. Finally, in section 6 we present outcomes of the *WageIndicator* survey on behalf of a closer look at the employee characteristics of the low paid in seven of these countries.

2. EU and low pay: the debate

One of the key objectives of the Lisbon Strategy of the European Union was to secure more and better jobs, as well as fighting social exclusion and poverty. These objectives have often been closely linked: employment ('Jobs, jobs, jobs') is often claimed to be the protection against poverty. However, this does not hold for all EU citizens. At the turn of the century, the problem of the 'working poor', familiarized by studies from the Anglo-Saxon countries, was recognized at European level. 1999 data at EU level shows that 14% of the self-employed and 6% of the employees and civil servants have to be classified as poor[3]. Poverty among employed people turned out to be higher in the Southern European member states, France, and the UK.[4]

Low-paid workers face a high risk of working poverty, although the dynamics of mobility into and out of poverty does complicate the picture. What remains is the issue of persistent poverty, which indeed presses for a particular policy concern. EU figures pointed out that in the course of the 1990s about 60% of the active poor continued to be in that situation or even became inactive poor in the next three

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2 Keune, 2005; ETUC, 2005.

3 Which, following the EU risk of poverty threshold, means earning less than 60% of the median equivalent household income.

4 Pena-Casas & Latta, 2004.

years.[5] As we will show in this paper, the incidence of low pay in a number of EU member states is large and persistent. Moreover, recently 'wage dumping' may cause growing uncertainties of continued employment throughout the EU, notably in certain industries, occupations and regions. These are convincing reasons to reinvigorate the attention of EU policy makers, the European trade union movement and the general public towards the low pay issue, after that faded away in the 1990s.[6]
In EU policy making the issue of low pay is rather complex, as art. 137.5 of the European Community Treaty explicitly states that the provisions of this article shall not apply to pay. This means that the EU cannot adopt any kind of harmonizing legislative measure introducing a minimum wage for all member states. This competence remains totally at the national level, and concerning this issue not even European coordination or cooperation measures are foreseen. However, according to the second paragraph of the provision mentioned above cooperation measures can be adopted in the related field of social inclusion.

Against the backdrop of a continuously large low wage incidence and the danger of 'wage dumping', the low pay issue is of particular importance to the trade unions. Theirs is not an easy task. In collective bargaining, two major goals are often at stake. First, increasing the lowest wages faster than the average wage is a key objective of many unions. Second, most trade unions set targets for what they consider a socially acceptable level of minimum pay.[7] Because of the major differences in purchasing power between countries and prevailing national conditions, union policies have to be grounded basically on those national conditions and wage levels. Yet, in co-operation with the unions, ideas have been developed concerning a European minimum wage policy. In Spring 2005, a German-French-Swiss research group published theses on this behalf, proposing that every European country be obliged to gradually raising its minimum wage, to a level of at least 50% --and, in the future, 60%-- of national average earnings. Following this proposal, such a European minimum wage policy could make a concrete contribution to the development and strengthening of a European Social Model, which has as a fundamental principle that wages paid to every dependent employee will enable a 'decent' life and financial independence.[8]

It is interesting to note that various international union federations are actually undertaking campaigns to tackle low pay. For example, at its February 2006 meeting, the EPSU executive endorsed the idea of such a campaign. This would include a political campaign on statutory minimum wage (SMW) rates and a coordinated campaign of collective bargaining targeting minimum wages in collective agreements. In its 2006 resolution on collective bargaining coordination, the ETUC Executive Committee stressed that the situation of low wage earners remains a concern. The ETUC calls upon affiliates to pay specific attention to fighting low pay and poverty wages by developing 'solidaristic' wage bargaining strategies.[9]

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5 'Active' means being employed in the basic year during at least six months. Cf. Pena-Casas & Latta, 2004, 26.

6 Cf. the 1989 European Community Charter of the Fundamental Social Rights of Workers (the 'Social Charter'), the 1993 European Commission opinion on equitable wages and the 1997 progress report of the Commission (See www.eirofound.eu.int/2002/08/study/tn0208101s.html).

7 Keune, 2005, Section 4.

8 Cf Schulten *et al*, 2006.

9 ETUC, 2006.

3. The Statutory Minimum Wage

The issue of the legally binding or statutory minimum wage is playing a major role in each debate concerning low pay throughout Europe. The SMW can act as a powerful instrument of sustaining living standards and combating poverty, especially if in many countries it determines a number of social benefits, like pensions, unemployment benefits, disability benefits, and maternity allowance.

SMW legislation is far from new: it has already been introduced at the end of the 19th century in Australia and New Zealand. In the second half of the 20th century, an increasing number of countries introduced SMWs setting a general nation-wide minimum wage level. Here, the USA played a leading role by introducing, in 1938, the federal Fair Labor Standards Act.[10] In 1970, the ILO adopted Convention no. 131 concerning minimum wage fixing.[11]

Actually, 20 of the 27 EU member states have a SMW. Of these countries, the UK and Ireland did not introduce such standards until 1999 and 2000 respectively. The Scandinavian countries –Denmark, Sweden and Finland— as well as Germany, Austria, Italy and Cyprus until now rely on collective agreements to ensure minimum wage protection. Recently, however, the idea of a legally binding minimum wage has growingly become an issue in some of these countries, like in Germany and Sweden.[12] The development of the SMW is greatly influenced by the countries' institutional setting and political developments. Four ideal-typical systems can be identified (although in practice combinations can be identified)[13]:

1. purely political systems, like that prevalent in the USA;
2. institutionalized consultation processes where employers' associations and trade unions are involved, like in most EU member states;
3. systems in which the national minimum wages are negotiated at national level by employers and unions, and subsequently made law by the state: Belgium, Greece, and some new member states;
4. system where SMWs are index-linked: the Netherlands, France, and Poland, whereas notably in the Netherlands governmental decisions to deviate from automatic increases are possible.

In countries with a SMW, union strategies to improve low pay generally focus first of all on this minimum wage, although sometimes minimum wage scales substantially above the SMW level are agreed in collective agreements. This is common practice in, for example, France, Spain and the Netherlands. In 2002-05, in most countries with a SMW analyzed by ETUC and ETUI-REHS, its growth was equal to or higher than inflation. Mostly the real value of the minimum wage was safeguarded and increased. Since 2002, minimum wage growth has been particularly strong in the new member states as well as in Ireland and the UK.[14] On the other hand, at the same time the SMWs of Germany and the Netherlands have been lagging behind both inflation and the development of the median wages.[15]

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[10] Schulten, 2006a, 6-7.

[11] Article 1, 1: 'Each Member of the ILO which ratifies this Convention undertakes to establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate'.

[12] Schulten, 2006a, 8 ff; Funk & Lesch, 2005.

[13] Schulten, 2006a, 10 ff.

[14] Keune, 2005, Section 4.

[15] Salverda *et al*, 2007, Chapter 3; Bosch *et al*, 2007, Chapter 1.

Table 1 gives an overview of the recent values of SMWs for those countries where these are applicable, in the left hand column in national currencies and in the right hand column after correction for differences in household purchasing power. The so-called PPS[16] shows that the real SMW levels in Poland and Hungary are at about one-third of the level in the Northwestern European countries.

Table 1 Monthly SMWs in selected EU member states, January 2006, in national currencies and using PPS, in €

	National currency (NAC)	*Using PPPs (PPS)*
Belgium	1,234	1,184
Netherlands	1,293	1,210
United Kingdom*	1,269	1,202
France	1,218	1,128
Spain	631	722
Hungary*	247	401
Poland*	234	379

* via exchange rate (not PPP) converted in €

Source: Eurostat, *Statistics in focus*, 2006/9, Minimum Wages 2006

4. The incidence of low pay

4.1. Various indicators

We can differentiate between four indicators of low wages:
1. the (EU) risk of poverty threshold: household incomes less than 60% of the median equivalent household income;
2. the factual national minimum wage standards for individual workers, mostly the SMW;
3. the factual lowest wage scales in collective agreements for individual workers;
4. the (EU) threshold to define 'low pay' or 'low wage' for individual workers: two-thirds of the national median gross hourly wage.

The indicators 2 and 3 are results of intricate processes in which trade unions nearly always play pronounced roles, be it directly through wage bargaining, be it through political pressure, be it through combinations of both. The indicators 1 and 4 are statistical outcomes aiming at measuring and benchmarking the incidence of poverty i.e. low pay across countries, industries, gender, occupations, and age groups.[17]

The European Commission indicated for 2000 that already in the EU-15 15.1% of all employees working at least 15 hours per week earned less than two-thirds of the median wage: this regarded over 20 million people.[18] Moreover, it may be expected that the low pay incidence in the 12 new member states is substantially higher.[19]

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16 Purchasing power standard (PPS) is an artificial common currency used to neutralise the effects of differences in price levels between countries, taking into account the final consumption expenditures of households.

17 See on the definition issue: Pena-Casas & Latta, 2004, 5 ff. On benchmarking: Salverda, 2005.

18 EC, 2004, 167 ff.

19 Cf. Vaughan-Whitehead, 2005.

Indications are the substantial shares of those earning the SMW or less among full-time employees in some of these countries. According to *Eurostat*, such shares were in 2005 under 3% in the Netherlands, Spain and the United Kingdom, but between 3 and 8% in Hungary and Poland.[20]

Table 2 shows the 1995 and 2000 incidence of low pay for the seven countries from the 'old' EU included in the *WageIndicator* data, plus Italy and France. When observing three-year moving averages, it emerges that in the second half of the 1990s there has been rather little variation in the over-all incidence of low pay. As the table shows, in 2000 the highest incidence was in the UK (also among the EU-15), the lowest in Denmark and Italy. The Spanish figures show a marked decline in this period, while the Netherlands experienced the same amount of increase.

Table 2 Low-paid employment (share below 2/3 median wage threshold) in selected EU member states, 1995 and 2000

	1995	*2000*
Belgium	13.4	12.2
Denmark	9.0	8.6
Finland	-	10.8
Germany	14.3	15.7
Netherlands	13.3	16.6
Spain	18.9	15.6
United Kingdom	20.9	19.4
Italy	10.4	9.7
France	15.8	15.6
EU-15	*15.6*	*15.1*

Source: EC, *Employment in Europe 2004*, 168 (based on the European Community Household Panel, UDP version December 2003).

Statistics on low-paid employment published by the EU thus far hardly allow for detailed divisions and, moreover, are rather outdated. We are able to fill this gap at least partly by adding and analyzing statistics from two sources. Of course, this first and foremost applies to *WageIndicator* data. Second, as already stated we could use draft results of the project on Low Wage Work in Europe, running from 2004-06 and commissioned by the RSF. The RSF researchers applied the same low wage threshold as the EU does: two-thirds of the national median gross hourly wage. The RSF outcomes include detailed analyses, partly on a national and partly on an industry level, for five EU member states: Denmark, Germany, the Netherlands, the UK and France – thus, except France, four countries also represented in the *WageIndicator* dataset. Using these results and integrating them with *WageIndicator* data enables us to present recent figures, including interesting and policy-relevant breakdowns, and tracing developments over time.

4.2. Employee characteristics

Looking at the personal characteristics of employees, three groups show by far the largest shares of low-paid: women, low skilled, and youngsters.[21] It is striking that in 2001 on average low pay in the EU-15 was twice as high for female employees than

[20] Eurostat, 2006.
[21] EC, 2004, ff.

for male ones. This difference was particularly high in the UK (14.4%points) and the Netherlands (12.7%pts), and low in Finland (3.2%pts) and Denmark (4.6%pts). Second, the over-all incidence among the low skilled[22] was 2.5 times as high as for the high skilled; this difference was highest in Denmark (21.5%pts), and lowest in the Netherlands (7.2%pts) and Finland (9.4%pts). Third, the low pay incidence in the EU-15 was particularly high (39.9%) for young employees aged 16-24.[23] Considering industries, 40% of those working in hotels/restaurants remained under the low pay threshold as well as 26% of the employees in trade, against 11% in manufacturing. As one will see, the national data presented below will by and large confirm these outcomes.

Table 3 shows a more recent overview of the incidence of low pay for the five EU member states researched in the RSF project, based on calculations on various national datasets. The over-all figures per country come close to those of Table 2, except the figure for France. The growth of the low-pay incidence under the threshold for Germany, with 2%points since 2000, is in line with the growth in that country since 1998 observed by others.[24]

Table 3 Incidence of low pay (under 2/3 median wage threshold, gross hourly wages, headcount) in 5 EU member states

	Denmark (2002)	*Germany (2004)*	*Netherlands (2002)*	*UK (2005)*	*France (2002) X*
Total workforce	8.5	20.8	16.9	20.8	12.2
Men	6.4	12.6	13.6	15.1	8.0
Women	10.7	29.6	21.0	26.6	17.0
under age 25 (DK, FR: age 26)	35.0	42.3*	61.0	49.4	26.1
age 25-64	4.8	11.0*	8.2	16	10.9
(only) secondary education	15.0	42.1**	30.8	32.7	21.9/12.7***
manufacturing	4.6	9.1	11	13	6.2
services	9.1	27.5****	16	29	13.6
of which retail	23.3	42.0	45	49	18.4
of which hotels	21.0		26	59	20.4
full-timers		17.7	10.0	14.0	8.9
part-timers		21.1*****	28.2	42.5	27.1-30.7

X hourly wages excl. social contributions
* 2003, only full-time
** unskilled
*** no diploma/only lower secondary
**** excluding household and personal services (32.1%)
***** excluding marginal part-time (mini-jobs) (85.8%)

Sources:
Denmark: calculations Aarhus Business School (ABS) on CCP/IDA data
Germany: calculations Institut Arbeit und Technik (IAT) on GSOEP employee panel data
Netherlands: calculations AIAS / SEO (University of Amsterdam) on CBS/LSO microdata
UK: calculations NIESR on ASHE dataset
France: Enquete Emploi
Calculations for age groups and industries supported by *Eurostat* and *Groningen GGDC industry database* figures

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22 Which corresponds with less than the second stage of secondary education (ISCED 0-2).
23 Even though those working in paid apprenticeships and under special training schemes are excluded.
24 Bosch *et al*, 2007.

Of course, the relative level of the national minimum wage matters. Recently, Schulten *et al* in their reader for the ETUI-REHS argue that in most member states minimum wage regulations are insufficient to counter the growing phenomenon of the 'working poor'. They state that wages below the threshold value of 50% of the average national (monthly) wage must be viewed as 'poverty wages'. Following their figures of this so-called Kaitz index, in 2004 from the 18 EU member states only Ireland reached that threshold (exactly). Table 4 shows the figures for the countries under scrutiny here.

Table 4 Monthly SMWs as percentage of the average gross national monthly wage in industry and services, 1995 and 2004, in selected EU member states[25]

	1995	*2004*
Belgium	52	46
Netherlands	48	46
Hungary	31	41
Spain	42	38
United Kingdom	-	38
Poland	41	36

Sources: 1995: Funk & Lesch, 2005; 2004: Schulten, 2006a, 18 (based on European Commission figures).

The table indicates that in the last decade the position of the minimum wage (earners) deteriorated relatively in Belgium, the Netherlands, Spain and Poland, while it improved in Hungary.

5. Minimum wages in nine countries

5.1. Belgium

In Belgium, minimum wages are largely determined by collective bargaining at national (cross-industry), industry and company levels, covering about 90% of the workforce. Wages are automatically adjusted to keep up with price inflation; since 1994, the Belgian employers have refused additional increases. The minimum wage system is enshrined in the Belgian Constitution, laying down the right to 'a fair level of pay' (art. 23). The current regulations date back to a cross-industry agreement concluded on February 10, 1975, within the framework of the bipartite National Labour Council and introducing a monthly minimum wage for all private sector employees over age 21. This agreement was declared legally binding by royal decree and thus has force of law. In 1991, minimum youth wages were introduced from the age of 15 on, starting at a level of 64% of the adult minimum wage. In practice, minimum wages agreed at industry level are mostly significantly above the national minimum wage, although one has to keep in mind that after 1990 average wages rose nearly 20% over the minimum wage rise. Recently, there has been little public discussion about the national minimum wage system in Belgium.[26]

[25] On the basis of ETUC Questionnaires 2004 and 2005, Keune (2005, Section 4) mentions a substantially 2004/05 higher figure (53%) for Hungary, and 37% for both Spain and the UK. Yet, Neumann (2005) mentions for Hungary, based on figures of the Hungarian Central Statistical Office, 36% in January 2004 For Spain, Recio (2006, 162) mentions 29% for 2004. For the UK, the UK Institute of Fiscal Studies mentions 40% for 2004 (Burgess, 2006, 47n).

[26] Schulten, 2006b, 90-5.

Based on a threshold derived from Belgian National Institute of Statistics figures and *WageIndicator* data, we were able to calculate a low-wage incidence among adult employees in Belgium for 2005 of 18%.

5.2. Denmark

Fitting in the Scandinavian tradition, Denmark has no SMW legislation, and low-wage regulation is mainly based on collective bargaining. Like in Finland, Sweden and Norway, minimum wage floors are laid down in nearly all collective agreements. Bargaining coverage in the private sector is 77% and in the public sector 100% (figures 2002). Thus, the lack of minimum wage floors can mainly be a problem in the private sector. Yet, neither Danish practitioners nor experts widely advocate the introduction of a SMW; on the contrary, there seems to be a near-consensus about its negative impact among the social partners' organizations.[27]

Denmark is known for its highly compressed wage structure, and thus the share of low-pay workers is comparatively low: in 2002, 6.4% of the male employees and 10.7% of the females, resulting in an over-all figure of 8.5%. The groups with a nearly universally high low-pay incidence show up in Denmark as well, although in an international perspective their shares are also low: in 2002, the incidence among those with (only) secondary education was 15%, in the age group 18-25: 35%, in the retail industry 23% and in hotels 21%. Denmark has also a reputation for its very flexible labour market. Indeed, only 30% of the low-paid proved to remain low-wage workers in the following year.[28]
Calculations on *Wageindicator* data, based on the low-wage threshold used in the RSF research project, led to a low-wage incidence among adult Danish employees for 2005 of 10%: in line with earlier results, the second lowest share of the seven countries analysed.

5.3. Finland

Since the early 1970s, Finland has a minimum wage system based on collective agreements. Members of the employers' associations are obliged to follow the collective agreement signed by their respective association; normally, collective contracts have *ergo omnes* applicability, meaning that non-organised employers have to observe as well the collective agreements in their area of employment. Bargaining coverage is about 90% and, including *erga omnes* applicability, it is 100% even in industries like retail and hotels/restaurants. In 2003, in these sectors respectively 4.3% and 1.5% of staff on monthly salaries received the minimum wage. The minimum wages normally follow the general wage increases realized in the collective agreements. There are no demands for setting a SMW in Finland.[29]
Considering the collectively agreed minimum wages in the retail industry and in hotels and restaurants, the Kaitz index (minimum : average monthly wages) in Finland in March 2005 was at the comparatively high level of 52-53.5%.[30]
Calculations on *Wageindicator* data based on the low-wage threshold mentioned in the source used above (corrected for wage increases) resulted a low-wage incidence among adult Finnish employees for 2005-2006 of only 6%: the lowest share out of seven countries.

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27 Lismoen, 2006, 272.
28 Westergaard-Nielsen, 2007.
29 Lilja, 2005.
30 Lilja, 2005; *Eurostat.*

5.4. Germany

Because of the fact that for many years in Germany the conviction governed that wages and working conditions should be dealt with directly by the social partners, the country does not have a SMW. More recently, the system of collective bargaining has a declining impact and bargaining coverage is going down (1998: 76%, 2004: 68%). Moreover, as we already indicated, since 1998 Germany has been confronted with an expansion of low-wage sectors. If minimum wages are collectively agreed, they vary according to sectors and regions, and in some cases the lowest agreed wages turn out to be significantly less than € 6 hourly. Based on collective agreement contents, classical low-wage sectors are hotels/restaurants, agriculture, hairdressing, the clothing industry and, depending on the region, retail.[31] Not surprisingly, the German food, hotel and restaurant workers' union (NGG) and the services workers' union Ver.di have come out strongly in favour of a national SMW.[32]

In Germany, however, SMWs do exist for specific branches. They are based on regulations introduced to implement the EU Directive on the posting of workers in the framework of the provision of services. The first branch-specific minimum wage was introduced in January 1997 in the main construction industry. The social partners negotiated further minimum wages for employees in the electrical engineering industry who work on construction sites and for workers in the roofing industry in the same year. Nowadays, there are four branches with this kind of sector-specific minimum wages: the main construction industry and three related industries.[33]

Calculations based on 2003 figures show a share of low-pay workers among full-time employees (monthly income) of 17.3% for West Germany and 19.5% for East Germany (calculated with their respective thresholds), resulting in an average for Germany of 17.7%. The same 'risk groups' pop up again: the low-wage incidence among women was nearly 30%, among 'regular' part-timers 21% (but among marginal part-timers or mini-jobbers 86%), among those with (only) secondary education just over 30%, and among under 25 of age 42.8%. From 1995 onwards, a slight increase of the low pay incidence among women was visible, but the share among men nearly doubled. The 2003 figures confirm the picture derived from the collectively agreed wage scales, with a high incidence in business services (27.5%) as well as in household and personal services (32.1%). With 36% under the low-pay threshold, employees of SMEs (1-19 employees) are heavily over-represented.[34]
Calculations on *Wageindicator* data based on the low-wage threshold used in the RSF research project, led to a low-wage incidence among adult German employees for 2005 of 12%, thus somewhat lower than the figures cited above.

5.5. Hungary

The SMW was introduced in Hungary in 1991, starting at a level of 36% of average gross earnings (Kaitz index). Although quite low in terms of living standard, it pointed at the aim of the first freely elected government to accompany the transition to a market economy with social policy measures. Since then, the SMW is set yearly by government decree after the tripartite National Interest Reconciliation Council has

31 Bispinck & Schaefer, 2006, 336 ff.
32 Bispinck & Schaefer, 2006, 360.
33 *Eironline* (http://www.eiro.eurofound.eu.int/2005/07/study/tn0507101s.html).
34 Calculations IAT on GSOEP employee panel: Bosch *et al*, 2007.

concluded an agreement. The SMW is of paramount importance for Hungarian workers considering the low bargaining coverage: 14% covering the private sector and state-owned enterprises. The Kaitz index gradually fell to 29% in 2000, before consecutive governments in the course of 2000 and in 2004 lifted the value considerably, from HUF 25,500 in 2000 to HUF 57,000 in 2005; consequently the latest available Kaitz ratio, that for 2004, was 41%, These hikes have enlarged the reported employers' use of loopholes in the SMW regulation, like the use of piece-rates, reporting workers as part-timers while leaving their actual working hours unchanged, and forms of undeclared work.[35]
Figures concerning the share of Hungarian wage earners under the two-third median low-wage threshold are outdated. We found 20% for 1995 as the latest seemingly reliable figure.[36]

5.6. The Netherlands

In 1969, a Dutch SMW was established by law, applicable for all employees aged 24-64, but as early as 1970 the lower limit was reduced to 23. Finally, in 1974 the minimum wage for youngsters was introduced with its long tail (35% for age 15, up to 85% at age 22), after long opposition of employers. Since the mid 1970s, many social benefits have been linked to the SMW. An adjustment mechanism has been created with both economic and political components. Economic: automatic indexation at regular half-yearly intervals, since 1991 linked to the average trend in collectively agreed pay; political, as the Dutch government is authorized to refrain from this index-linking under certain conditions. From 1979 until the late 1990s, successive administrations followed highly restrictive minimum wage policies, leading to a growing gap between the average agreed wage scales and the adult SMW. Substantial rises in the relative level of the SMW in the years from 1997 to 2002 were virtually undone in 2003-2005. On the long term, recipients of the Dutch SMW have suffered significant losses in their purchasing power.[37] Following Statistics Netherlands, in December 2005 126,800 male employees (3.3% of the male workforce) and 157,500 women (5.0%) were paid below or equal to the SMW.[38]

Traditionally, the lowest wage scales laid down in collective agreements were substantially higher than the SMW, both for adults as for youth wages. In 1993, the government started to press for lowering the ratio between collective agreed scales and SMW. Under this pressure, social partners joined in the Labour Foundation (StAr) recommended introducing lower wage scales in collective agreements. Indeed, the average of the lowest scales in all major agreements in percentages of adult SMW fell from 112 in 1994 to 102 in 2004. Yet, the real scales in which more than a few workers can be found start on average 6% above SMW.[39]

In 2002, the share of employees under the low-wage threshold was 16.9% in the Netherlands, growing to 18.2% in 2004 (head-count). Calculations on Statistics Netherlands microdata show a smaller gap between the incidence for men and women than EC/Eurostat data does, but with 7.3%pts (2002) the difference is still considerable. The industry low-wage pattern shows the usual suspects, notably retail and hotels. The gap between full-timers and part-timers is substantial, especially if

35 Neumann, 2005.
36 Rutkowski, 1997.
37 Salverda *et al*, 2007, Chapter 3; Schulten, 2006b, 97 ff., 113.
38 CBS, *Statline (EWL statistics).*
39 Dept. of Social Affairs and Employment, 2005.

one keeps in mind that the Netherlands early embraced the principle of *pro rata* pay for part-timers. In 2004, notably the low-wage incidence among those working less than 12 hours per week was high (49%), followed by those working 12-20 hours (27%).[40]
Calculations on *Wageindicator* data based on the 2004 low-wage threshold (corrected for wage increases) concluded to a higher low-wage incidence among adult Dutch employees for 2005 than cited above for 2004: 23%.

5.7. Poland

During the Communist era, the Polish state-decreed minimum wage constituted the basic wage for full-time entry-level workers. After 1990, the basic principle was adopted that there should be a single, universal minimum wage for all employees irrespective of their professional skills or work experience. The 2002 Minimum Wage Act stipulates that the tripartite Economic and Social Committee is responsible for negotiating the minimum wage rate for the next year. If this committee fails to reach an agreement, the Labour Minister sets the rate independently. Moreover, a strict indexation procedure was introduced, based on the inflation forecast for the coming year. It did not take into account productivity trends, although they are key indicators for all other aspects of wage policy. Yet, in July 2005, the Polish parliament approved a new indexation rule, stating that the SMW will be calculated by adding 66% of the GDP growth rate to the inflation forecast, until the Kaitz index has reached the level of 50%. This may well give a firm boost, because the 2004 Kaitz level was as low as 41%. In that year, 4.2% of all Polish employees were on the minimum wage.[41]
Based on a threshold derived from the Polish Central Statistical Office and *WageIndicator* data, we were able to calculate a low-wage incidence among adult employees in Poland for 2005 of 27%. This was substantially higher than the Polish figure we found for 1995: 17.3%.[42]

5.8. Spain

The SMW was introduced in Spain under the Franco regime, in need of strengthening its political legitimacy, as a means of controlling wage costs. The transition to a democratic government led to the Workers' Statute, passed in 1980. Art. 27 of this Statute redefines the SMW principles, stipulating that the SMW shall be reviewed by the government yearly following consultations with both sides of industry, and taking account of inflation and productivity trends as well as the overall health of the economy. The SMW came to be used as a reference point for a growing number of welfare benefits. Here, the main importance of the SMW in Spain can be found, as its influence on wage policy is marginal.[43]
The real value of the Spanish SMW rose sharply during the 1970s, but since the beginning of the 1980s it has fallen more or less continuously. Actually, its value is 20% lower than in 1980, representing a significant fall in the standard of living of all those that are dependent on the minimum wage. At the same time, the Kaitz index has been fallen by 10%pts. Even in low wage industries like the clothing industry and hotels and restaurants, this index is actually under 50%. In June 2004, shortly after being elected, the Zapatero government reaffirmed its commitment to raise the

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[40] Salverda *et al*, 2007, Chapters 2-4.
[41] Kohl & Platzer, 2006, 192-195; Funk & Lesch, 2005.
[42] Rutkowski, 1997.
[43] Recio, 2006, 151-56, 164-70.

SMW. In order to achieve this, the unions have supported the idea of breaking the link between the minimum wage and welfare benefits.[44]

5.9. United Kingdom

In the UK, the Blair government introduced the National Minimum Wage (NMW) as a SMW in 1999. As long as the government supported the collective bargaining instrument, mainstream unionism relied on that instrument in setting wages, working hours and working conditions. From 1979 on, the Thatcher government withdrew that support, contributing to the erosion of collective bargaining in the UK. Even the bipartite Wages Councils, functioning in weakly organized sectors, were abolished. In the private sector bargaining coverage fell from some 50% in 1980 to 20% in 2004. Under such conditions, the campaign for a SMW came to be supported by the TUC confederation and the Labour Party. Finally, after that Party's landslide victory in the 1997 general elections, CBI, the employers' association, accepted the SMW. It definitely helped that jointly with the NMW, the Low Pay Commission was created and employers were formally included into the process of introducing the minimum wage. The initial (low) hourly rate of UKP 3.60 was the outcome of negotiations between employers and unions in the Low Pay Commission.[45]

There is no automatic mechanism for regularly raising the NMW; the government sets its level following recommendations of the Low Pay Commission. In 2003-06, the NMW has been ratcheted up to the median wage. Negative effects on economic growth can hardly be proved, and most advantageous seem the effects on improving work organizations. In a declaration as of September 28, 2006, the ETUC argues that there is no automatic trade-off between competitiveness and the European social dimension, referring among other things to the introduction of the SMW in the UK and Ireland: "Despite claims to the contrary, both the UK and Ireland have continued to enjoy a growing economy and a booming jobs market. In the UK in particular, one fifth of business responded to the minimum wage by improving work organisation and making it more productive".

Calculations based on 2005 figures result in a UK over-all incidence of low-pay workers of 20.8%: a fall compared to the 2002 level of 22.1%, which was the culmination point of an long-term growth pattern from 16% in 1981 on. It seems that in the years 2001-05 the incidence among men went up and among women down, though in 2005 the gender gap remained 11.5%pts. Since 1981, the proportion of the low-paid nearly doubled among full-time men, diminished among female full-timers, and grew substantially among part-timers, males as well as females. In the last two decades the low wage incidence grew among all age groups, but mostly among the 16-24 of age (49% in 2005).[46]

6. A closer look at employee characteristics

Calculations on the *WageIndicator* dataset covering 2005 for seven countries allow us to elaborate section 3.2, and trace the low-wage incidence for five employee characteristics: gender, industries, working hours/week, age group, and educational level: see Table 5 (next page). All figures used concern gross hourly adult wages. As recent reliable information on the Hungarian and Spanish low wage thresholds are

44 Recio, 2006, 156-64, 171-2.
45 Burgess, 2006, 27 ff.
46 Lloyd *et al*, 2007, Chapters 1, 2.

missing, we were not able to calculate outcomes for Hungary and Spain. Furthermore, it has to be noted that the Danish sample size is very limited, implying any conclusions concerning Denmark have to be drawn cautiously.

Table 5 Incidence of low pay (under 2/3 median wage threshold) in 7 EU member states, detailed shares per category, 2005, adults aged 21 and over

	BE		*DK*		*FI*		*GE*		*NL*		*PL*		*UK*	
Total	18%		10%		5%		12%		23%		27%		16%	
By gender														
Male	12%		9%		4%		9%		16%		23%		12%	
Female	26%		12%		7%		18%		31%		30%		21%	
By industries (13, incl. ranking per country)														
Agriculture	38%	12	25%	5	5%	6	24%	12	30%	10	47%	12	50%	13
Manufacturing	12%	2	8%	1	4%	3	9%	5	19%	6	21%	4	13%	5
Utilities	14%	3	-	-	14%	13	6%	2	11%	2	16%	1	5%	1
Construction	19%	6	-	-	8%	10	15%	8	18%	4	24%	6	10%	2
Wholesale/retail	30%	11	18%	4	12%	11	22%	11	39%	12	35%	8	27%	11
Hotels, rest., catering	45%	13	-	-	13%	12	48%	13	47%	13	58%	13	40%	12
Transport, commun.	19%	6	8%	1	7%	8	15%	8	28%	9	24%	6	14%	7
Finance	8%	1	-	-	2%	2	5%	1	18%	4	16%	1	13%	5
Other comm.services	17%	5	12%	3	4%	3	12%	6	21%	8	20%	3	12%	4
Public sector	19%	6	-	-	1%	1	8%	3	10%	1	39%	9	11%	3
Education	14%	3	-	-	4%	3	8%	3	16%	3	21%	4	15%	8
Health care	20%	10	-	-	7%	8	15%	8	19%	6	44%	11	18%	9
Other	19%	6	-	-	6%	7	14%	7	34%	11	40%	10	18%	9
By working hours / week														
0-40	18%		9%		5%		11%		23%		26%		14%	
40.1-48	14%		12%		12%		16%		26%		34%		21%	
48.1-99	21%		33%		29%		22%		32%		33%		28%	
By age group														
< 25 yr	46%	5	33%	5	20%	5	38%	5	64%	5	50%	5	34%	5
25-34 yr	20%	4	9%	2	6%	4	13%	4	22%	4	26%	4	15%	4
35-44 yr	14%	3	5%	1	4%	3	9%	2	15%	3	21%	3	12%	1
45-54 yr	11%	1	11%	4	2%	1	9%	2	14%	2	14%	2	15%	4
>=55 yr	11%	1	11%	4	2%	1	8%	1	12%	1	12%	1	13%	2
By educational level														
low	28%		19%		9%		19%		33%		41%		21%	
middle	23%		7%		4%		12%		29%		41%		25%	
high	12%		6%		2%		6%		11%		23%		9%	
Sample size														
N	11025		136		4293		32668		44204		3662		8380	

Source: *WageIndicator* dataset 2005 (unweighted)
Only cells with more than 9 observations are included

In general, the national averages vary compared to the official statistics presented earlier: those of Belgium and the Netherlands based on the *WageIndicator* are higher, those of Finland, Germany and the UK are lower, while the Danish figures are rather close to the outcomes of the official statistics. Yet, as we will show the patterns for the characteristics remain highly relevant and are largely in line with those from other sources.

The shares by gender confirm the fact that the low pay incidence for female employee is much higher than for males: in Belgium, Finland, Germany and the Netherlands about twice as high, while the differences in the other three countries are lower but still considerable.

Quite interesting is the distribution of low pay over 13 industries. We ranked the low wage incidence by industry per country, with the lowest incidence on top. Over all, finance, utilities and the public sector are overall the three industries showing the lowest low-wage incidence, with the exception of utilities in Finland (the highest incidence!) as well as the public sector in Poland and to a lesser extent in Belgium. Education, manufacturing, construction, and other commercial services generally have positions in the middle of the spectrum. Transport & communications and health care tend to be in the lower ranks, concerning health care quite pronounced in Belgium and Poland. Three industries can rather consistently be found at the bottom: hotels/restaurants/catering, wholesale/retail, and agriculture. The hotels /restaurants/catering industry has the doubtful honour of ranking in the no. 13 position in four out of six countries, with in most countries (Belgium, Germany, the Netherlands, Poland and the UK) 40% or more of the adult workforce in the low-wage area. Except for Denmark and Finland agriculture can be found in the lowest ranks too. Except for Poland, the same holds for wholesale/retail too.

The wage figures related to weekly working hours are revealing. In categories with long (40-48 hours) and extremely long (over 48 hours) working weeks the share of low hourly wages goes up, in all countries to a level of over 20%. This means that long working weeks to a considerable extent are related to (very) low hourly wages. We can add that regular working weeks over 48 hours were found mostly in Germany (5.9% of the German sample, against a 7-country average of 4.2%), the UK (5.7%) and Poland (4.6%).

The results on low pay incidence by age group confirm that low pay is particularly an issue for youngsters, here the 21-25 of age. In all countries the incidence among them is large, with the Netherlands (64%) on top. In all countries except the UK and Denmark (but mind the small sample!) the shares of low-paid diminish regularly by the climbing of age.

Finally, we traced the low-pay incidence for three educational groups. Again, the results go in the assumed direction. The lowest educated show the highest incidence, except for the UK (4%pts higher in the middle group) and partially in Poland (equal with the middle group). The high educated consistently report the lowest shares, although in Belgium, the Netherlands and especially Poland these shares are still considerably.

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