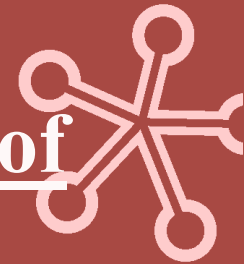


**EMPLOY**

**Conference, Barcelona, 23 September 2006**

**Firm behaviour in the low-wage labour market: A taxonomic approach to the role of institutions - for the Netherlands**  
*work in progress*



Wiemer Salverda

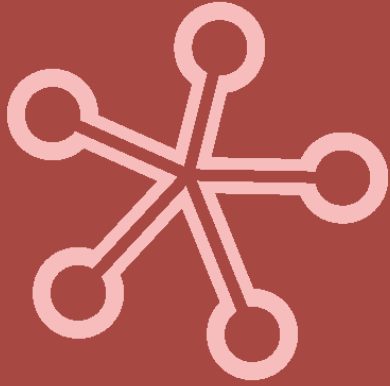
*Amsterdam Institute for  
Advanced Labour Studies*  
Universiteit van Amsterdam



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## Three issues

1) Low-wage employment and the economy

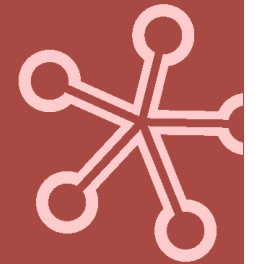
*incidence & composition, economic significance*

2) How to analyse institutions ?

*conceptualising, measuring, classifying*

3) The bite of institutions on firms and low pay

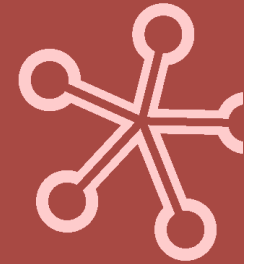
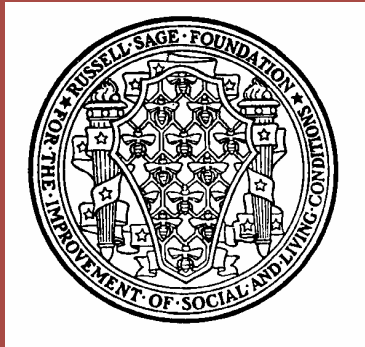
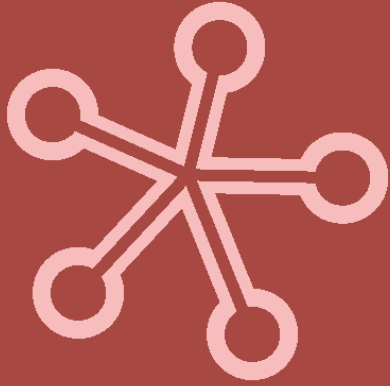
*pay, work content, work organisation*



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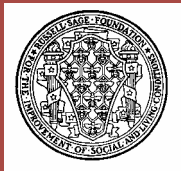
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**Russell Sage Foundation:**

*Firms shaping opportunity in the work place*

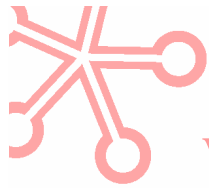
**DK, FR, DE, NL, UK**



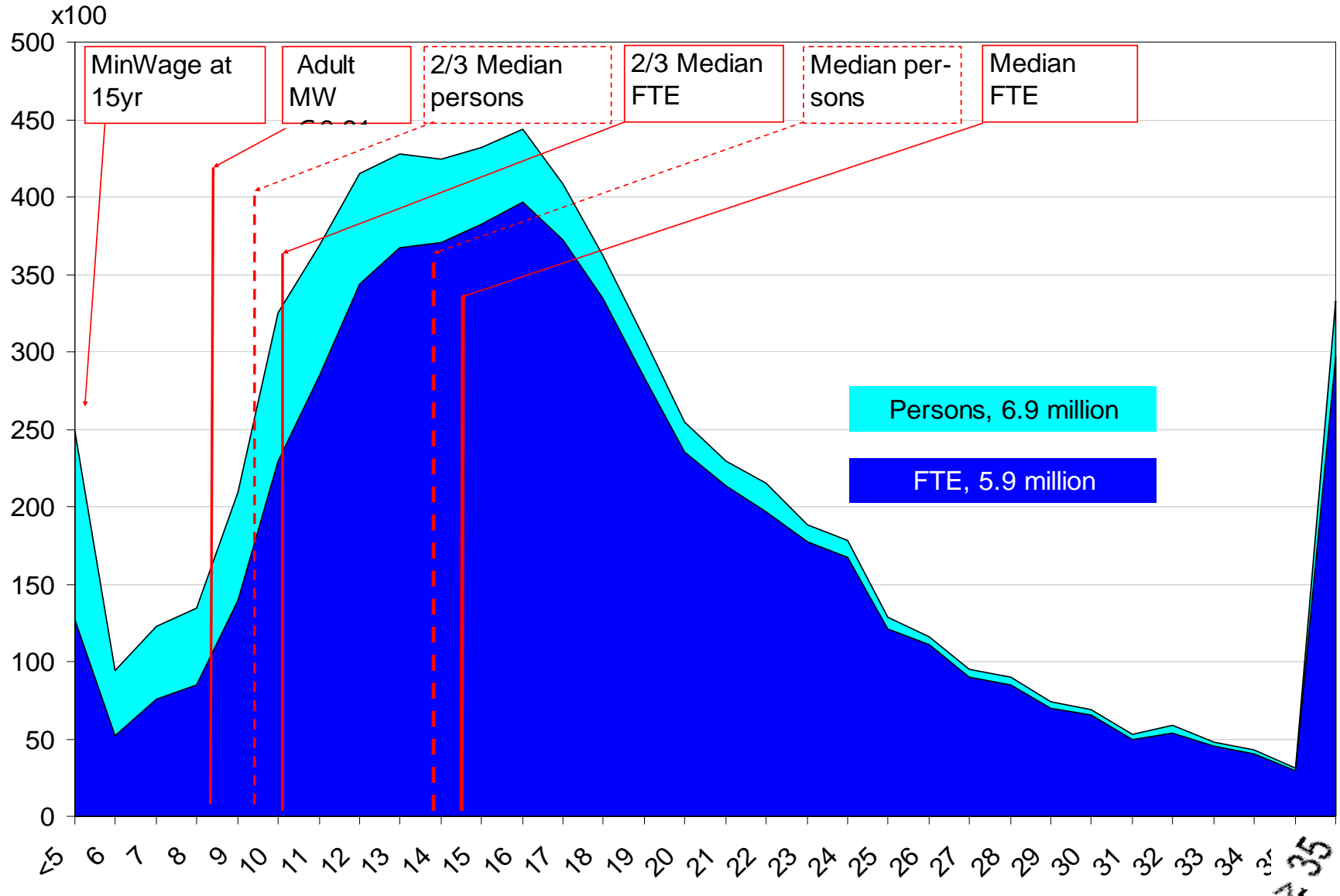
**LoWER**

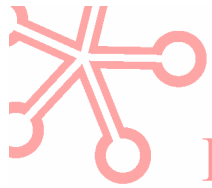


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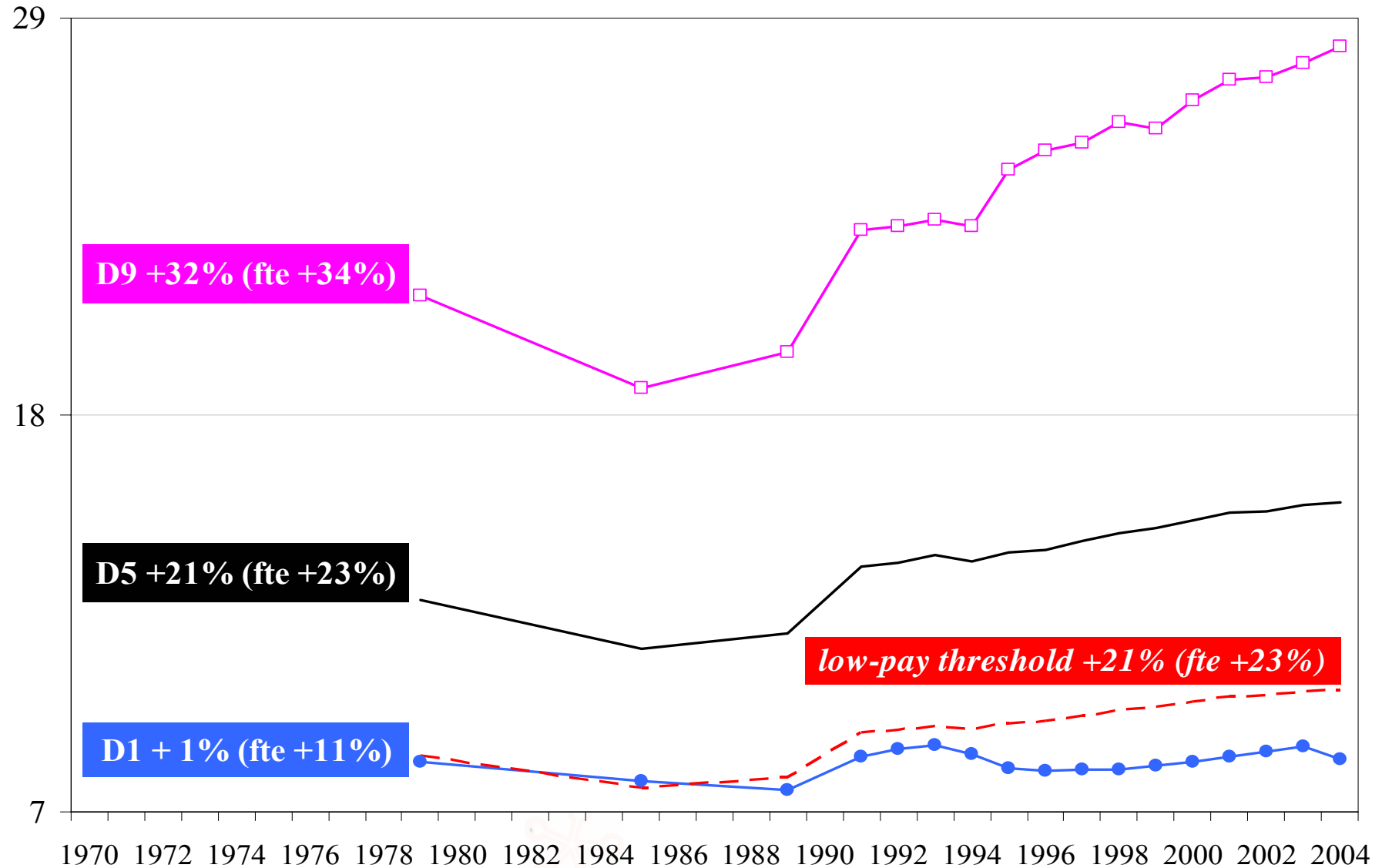


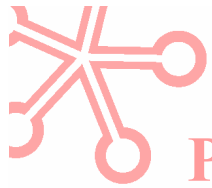
# Wage distribution, head count and FTE, 2004



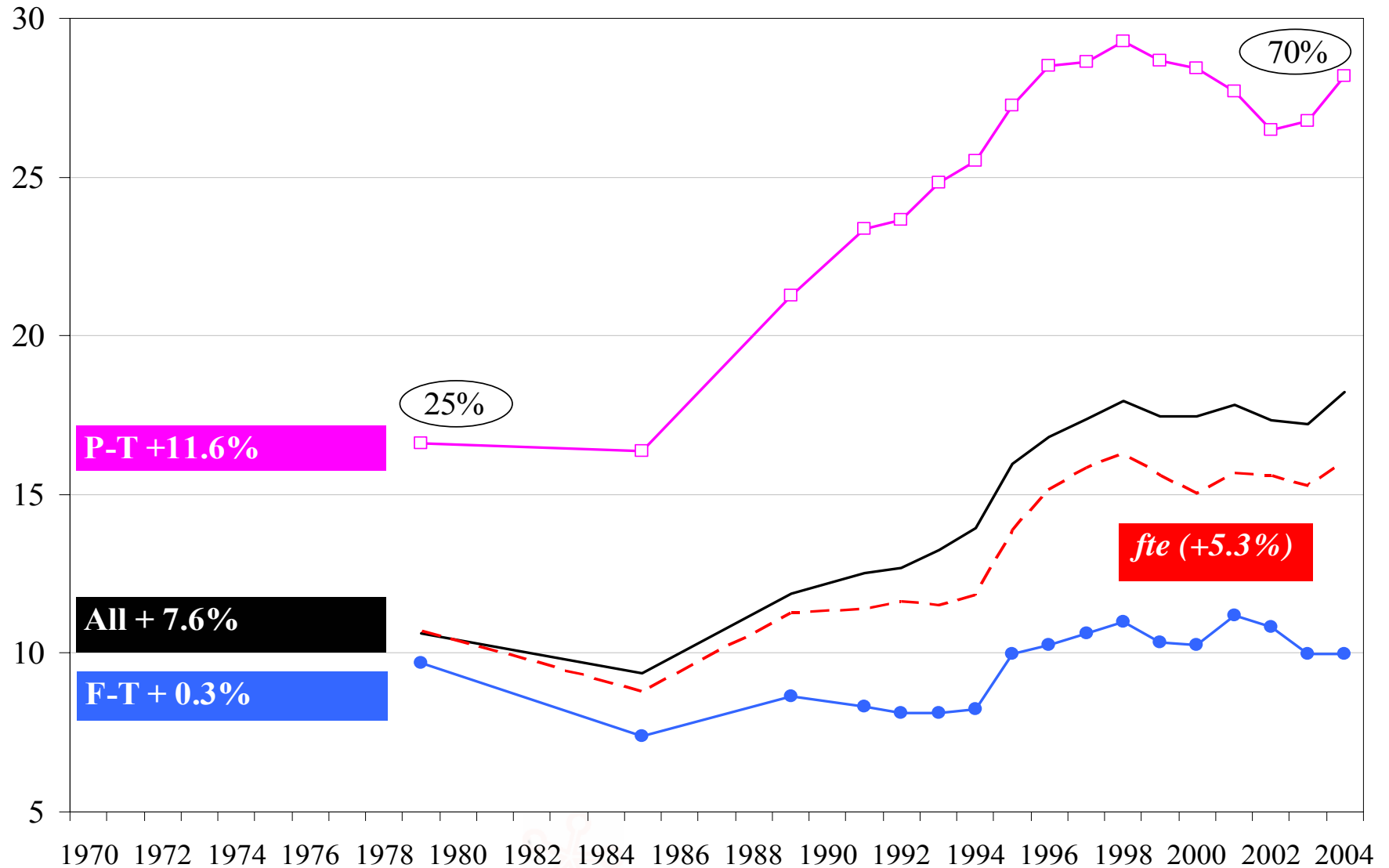


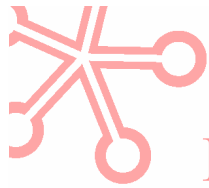
## Decile and low-pay threshold wage growth (€), 1979-2004



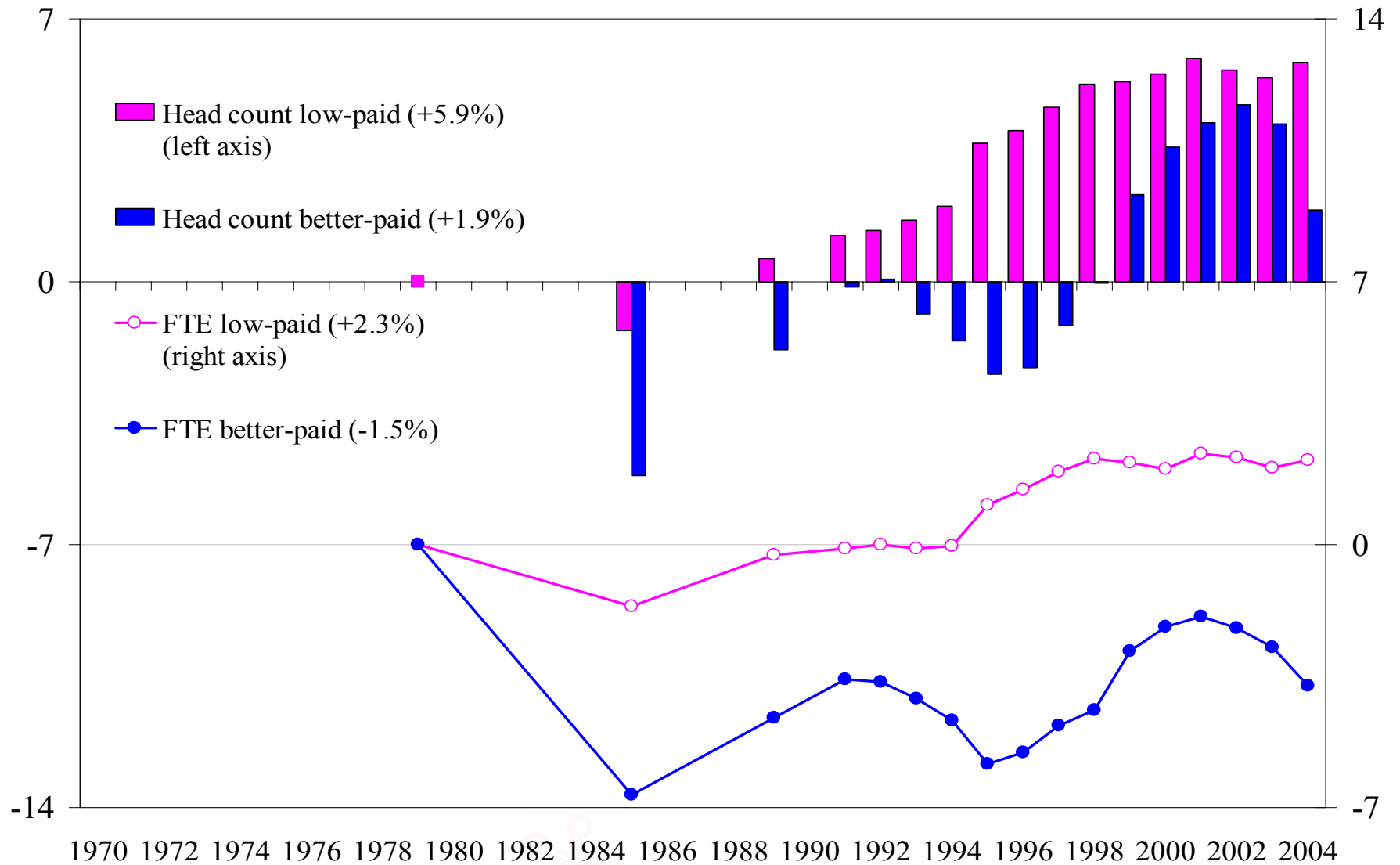


# Part-/full-time low-wage employment incidence (%), 1979-2004

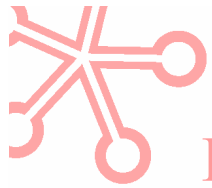




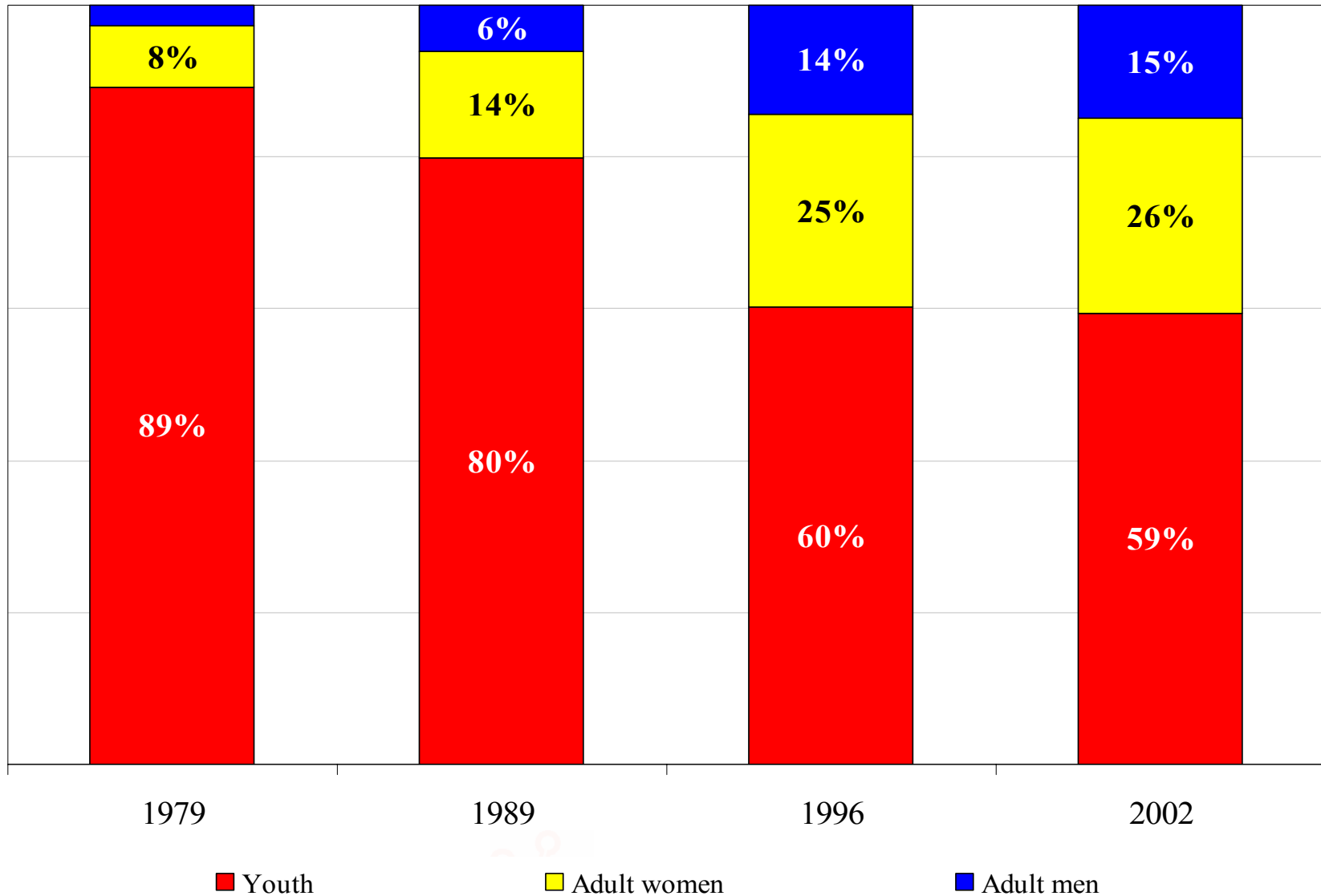
## Low-/better-paid EPOPs, persons/FTE (%), 1979-2004

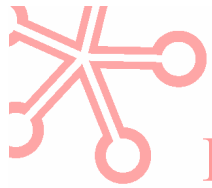






## Demographic composition low-wage employment, 1979-2002

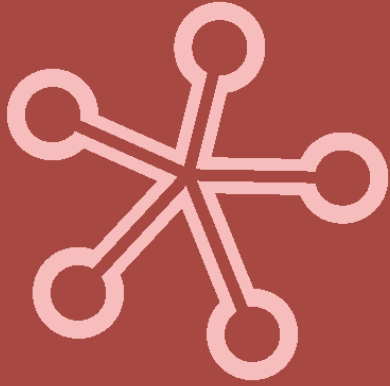




## Evolution of Dutch employment overall, 1979-2004

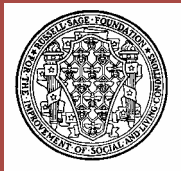
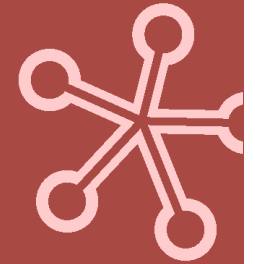
- Highest youth employment-population rate  
55→64%
- Highest part-time employment-population rate  
21→46%
- Most rapid growth of female EPOP  
44→65%





## 1) Low-wage employment & Economy

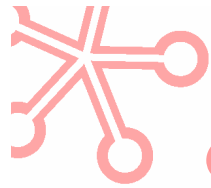
- *Fundamental to include part-time employment and look at hours of work*
- *EPOP is increasing for low pay, falling for better pay (vanishing middle?)*
- *Dramatically changing youth labour market and increasing role of adult low pay*



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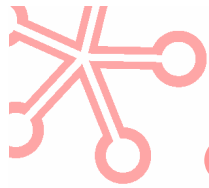


## Conceptualising Institutions 1. Definitions

- Too abstract or too empirical  
*North/Hodgson/Bowles vs OECD et al.*
- Not independent from labour market (effects)  
*Blau/Kahn (spot market), Saint Paul (rigid)*
- Too aggregate, without transmitting mechanism  
*Soskice/Hall, Kenworthy, Calmfors/Driffill*
- Not well delineated to policies (difficult)  
*e.g. minimum wage*

→ **Delineation (flexibility), linkages/coherence, comprehensive**



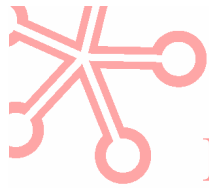


## Conceptualising Institutions 2. Effects

- How to fit or distinguish from an economic explanation?  
*ad hoc Fremdkörper*
- Type of effects: prescriptive, stimulating, pricing
- Level of effects: linked or single institutions – reinforcing or compensating, trade-offs
- Spread of effects: costs and benefits – in different places
- Setting of effects: in international comparison similar institutions with different effects, different institutions with similar effects

→ **Detail the nature of possible effects**

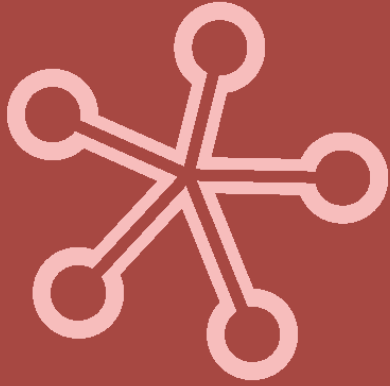




## Measuring Effects

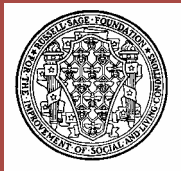
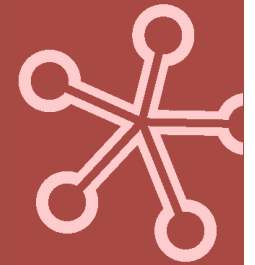
- Usual causality problem  
*reinforced because of vague concepts and broad effects*
  - Aggregate level cannot be missed for linked institutions
  - Need for variation in nature of individual institutions
  - Doubts about use of country level  
*actors may act in different space, intracountry variation, specialisation*
  - Actual use vs rules on paper: bite in own right before effects on economy
- **Long-run approach, focus on bite, mutual links**





## 2) Analysing institutions

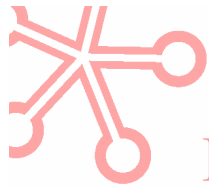
- *No compelling theoretical framework of concepts and effects: be comprehensive, maximise economic explanation*
- *Methodological problems of measuring effects: focus on 'bite'*
- *Taxonomy with different dimensions: fields, room for manoeuvre*



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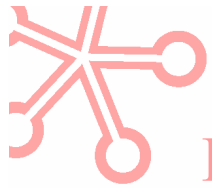


## Relevant institutions (driven by quality of low-wage jobs)

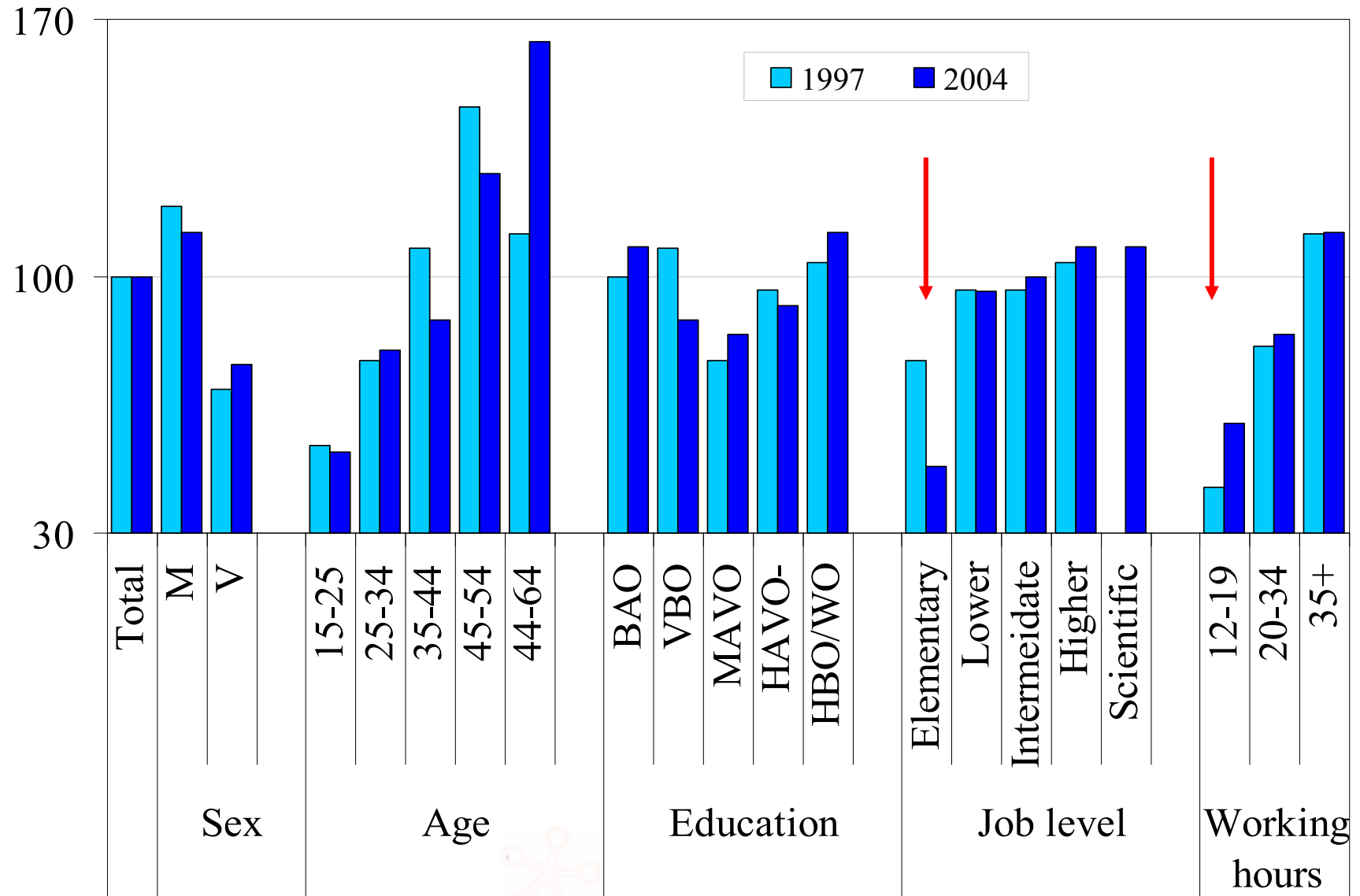
- Deliberative institutions - Polder Model unchanged since 1945 & falling (union) representation of low skilled/paid
- Collective agreements – importance of employer density
- Minimum wage – strongly lowered by government
- Equal pay – small jobs entitled to minimum wage
- Taxation – helps part-time jobs
- Subsidies - distort competition
- Active labour market policies – proportional contribution
- Social Benefits – replacement fell but (non-)entitlement counts
- Skilling – output of vocational education is suffering
- Hiring – increasingly flexible & firing – used differently
- Health & safety, working hours – important but shrinking

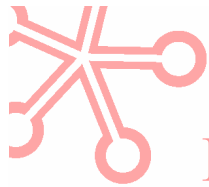
*Legal basis, behavioural aims, stability, effects general + on low pay*





## Differential union densities, average=100, 1997-2004



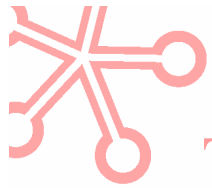


## Differential densities unions vs employers

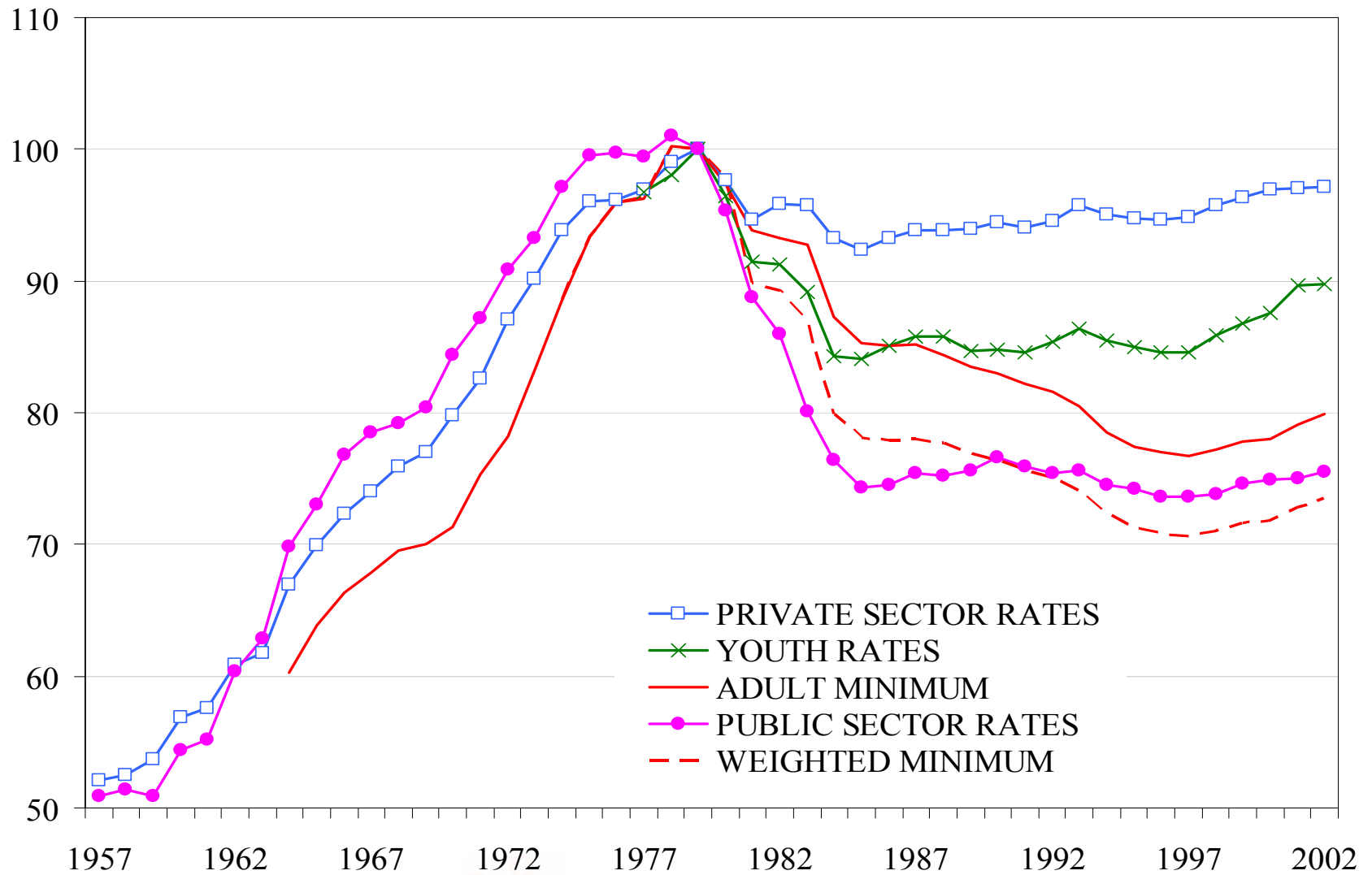
- Unions declining, 40% in 1950s to 26% of employees now (19% private sector)
- CLA-coverage is high and unchanged at about 80% of employees, with only 4% mandatory extension (15% of firms) and 15% company agreements
- “Employer density” much higher – 46% of firms with 74% of employees, larger firms

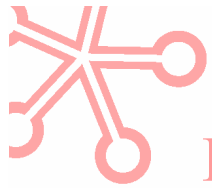
*Depressed wage growth is not very surprising, esp. since Wassenaar Accord of 1982*



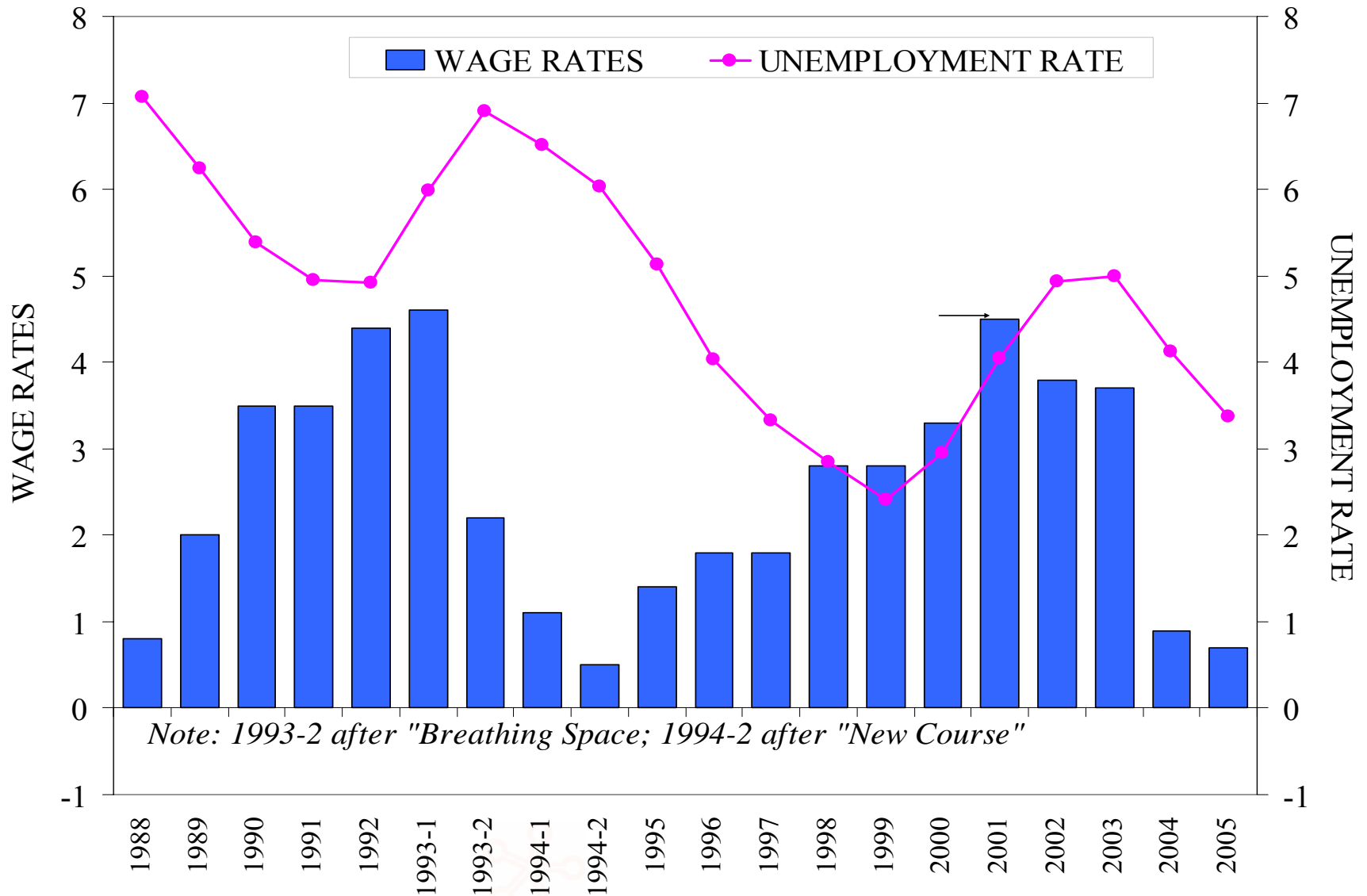


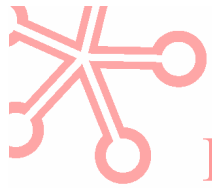
## Two stages of real wage formation, 1957-1980-2002, 1979=100



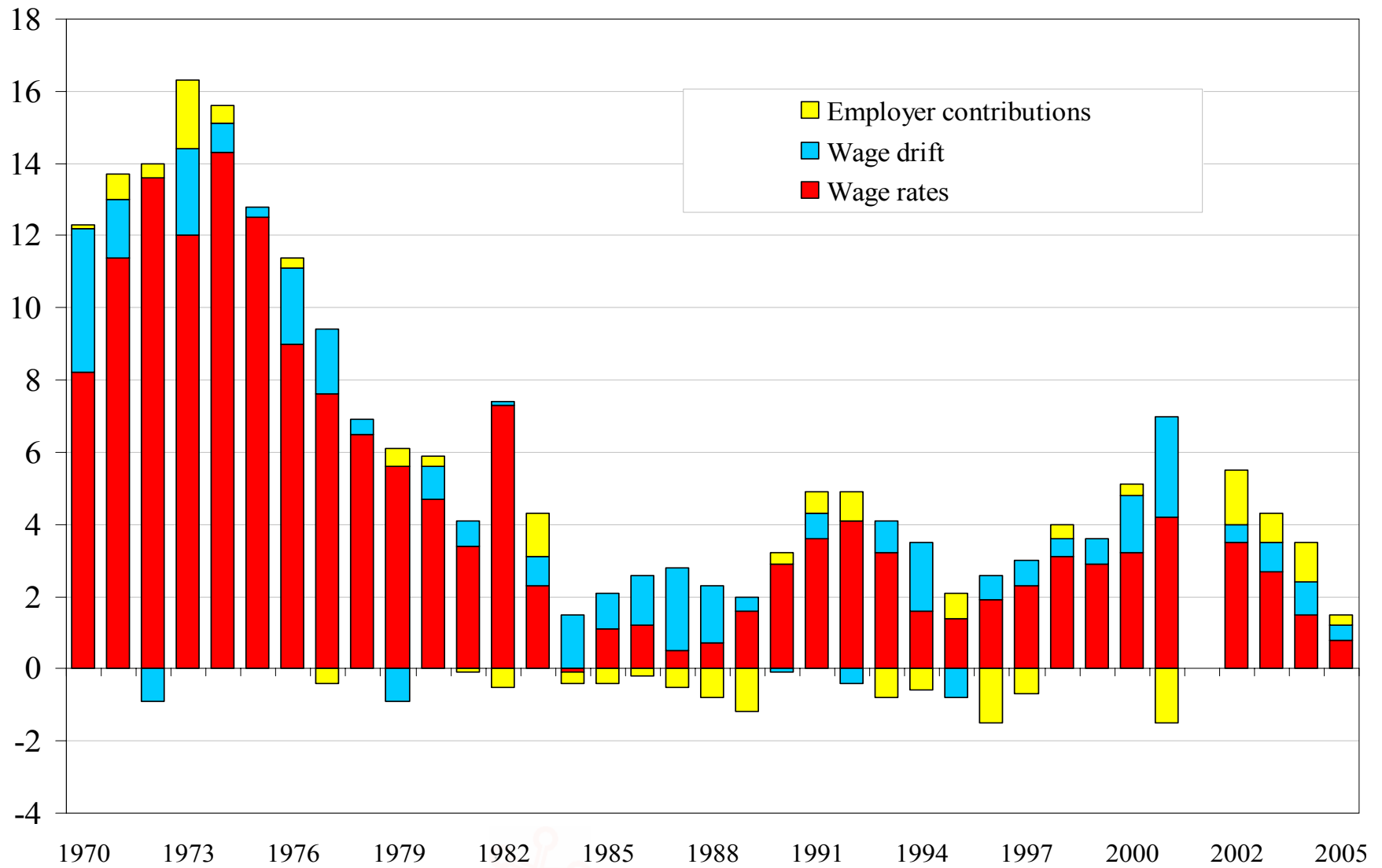


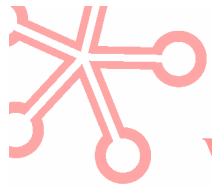
## Increased labour-market sensitivity of wage bargaining



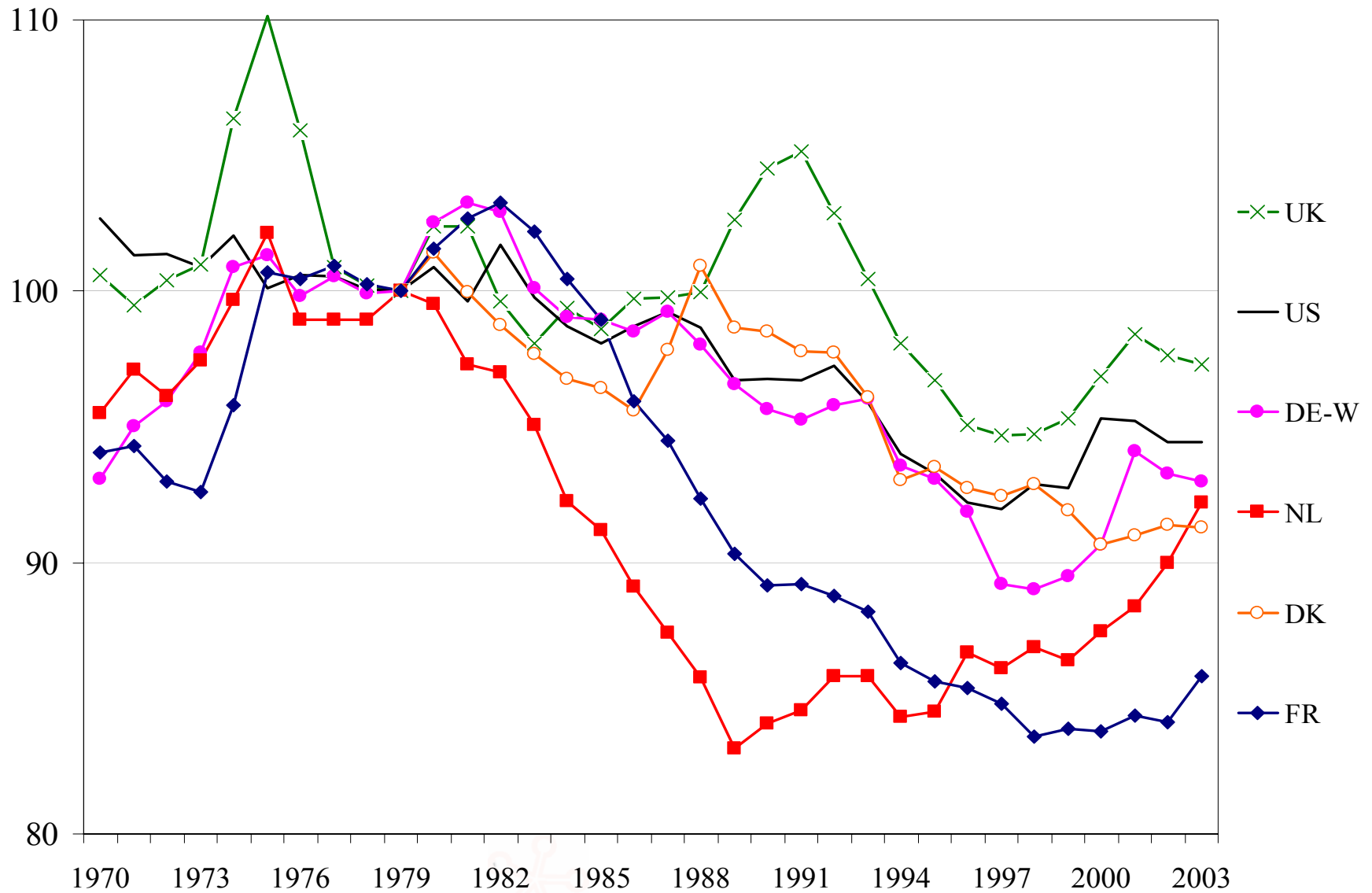


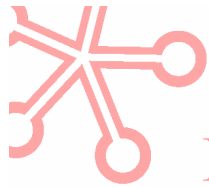
## Employers add to collective wage rates (ann. %), 1970-2005



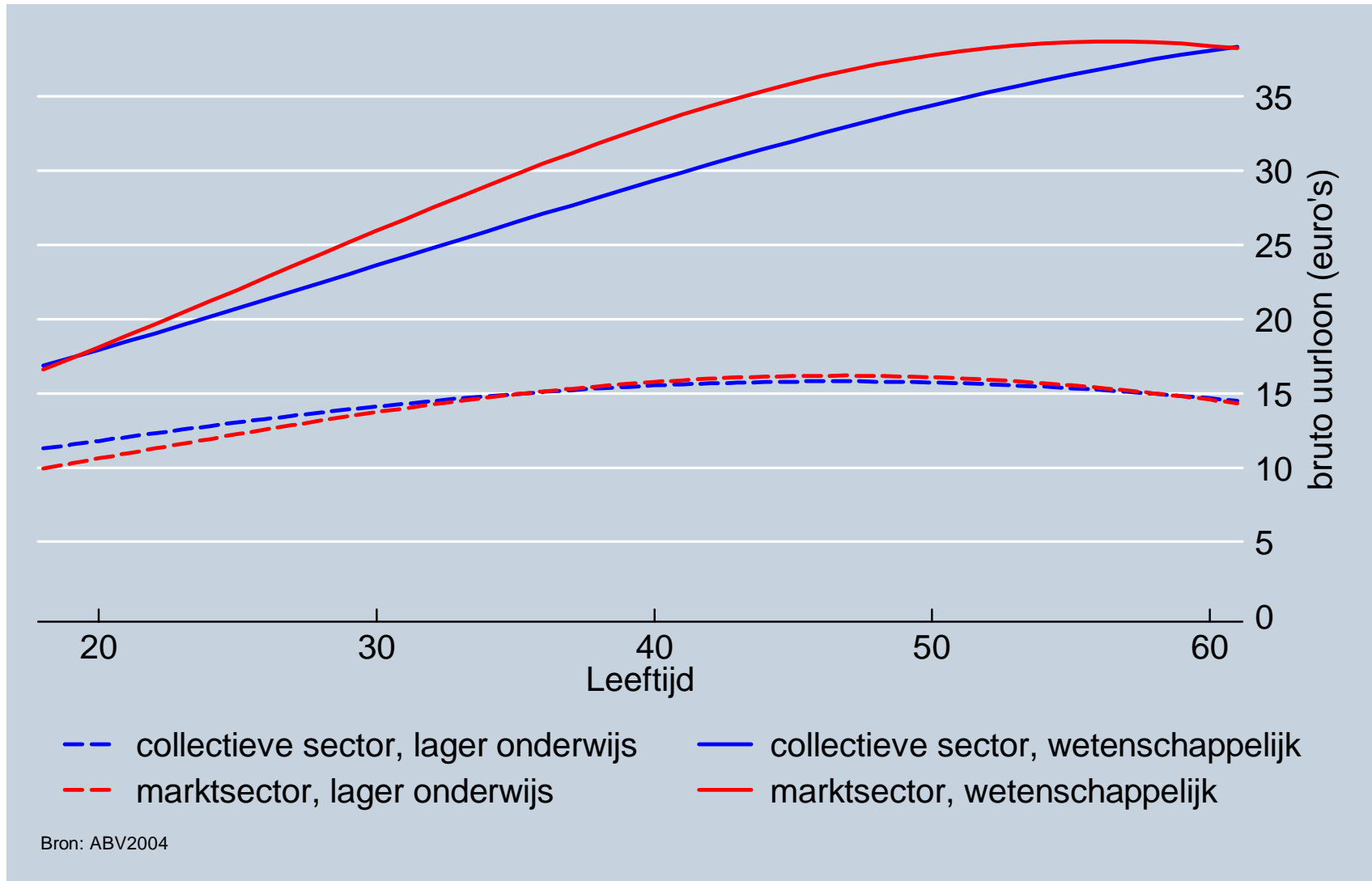


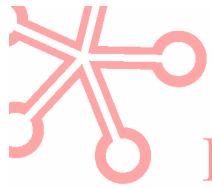
## Wage earnings have lagged behind productivity since 1979



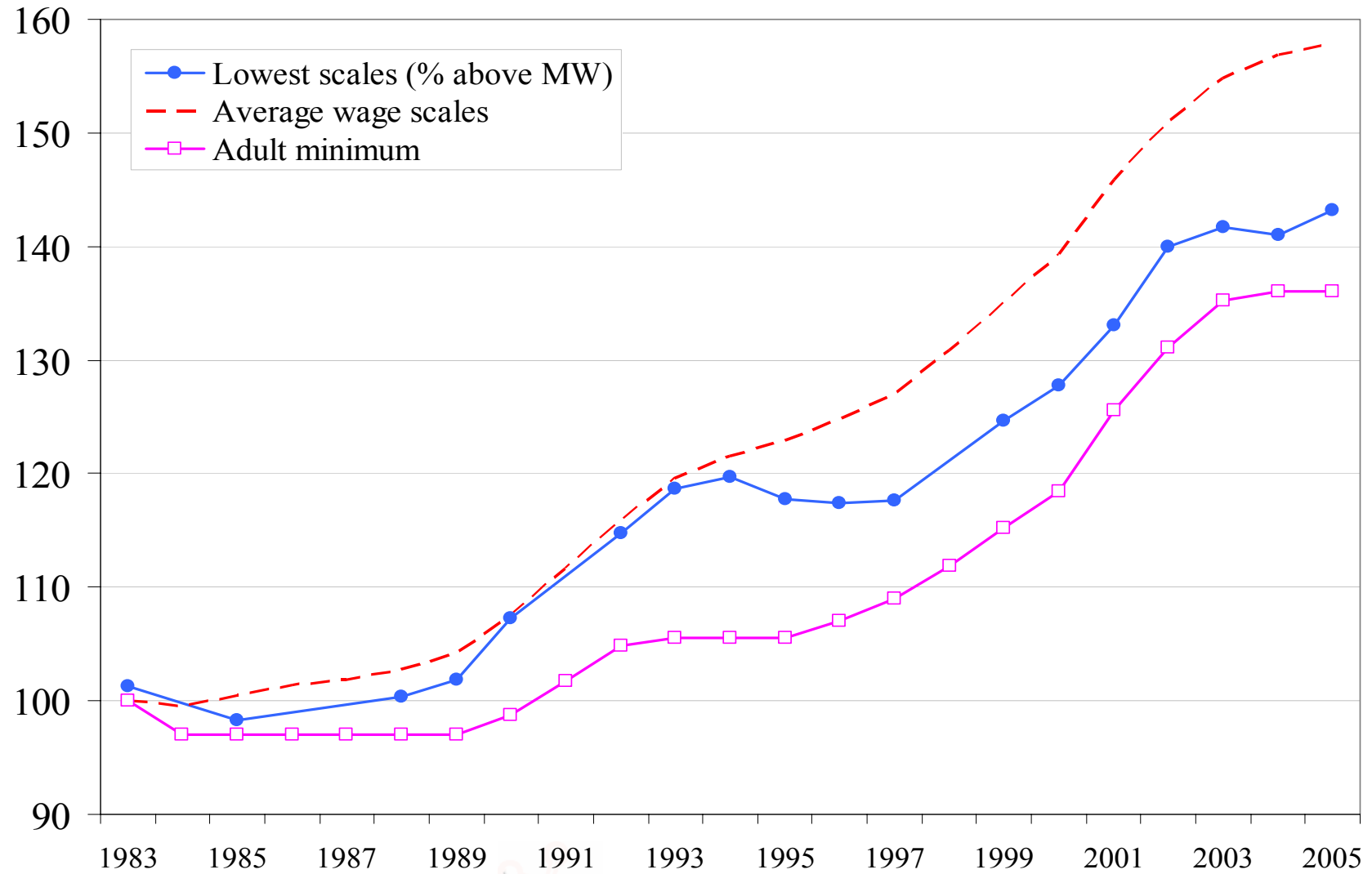


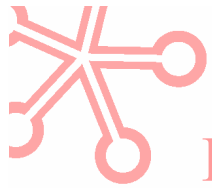
## Flat outcomes for low-skilled earnings, 2004



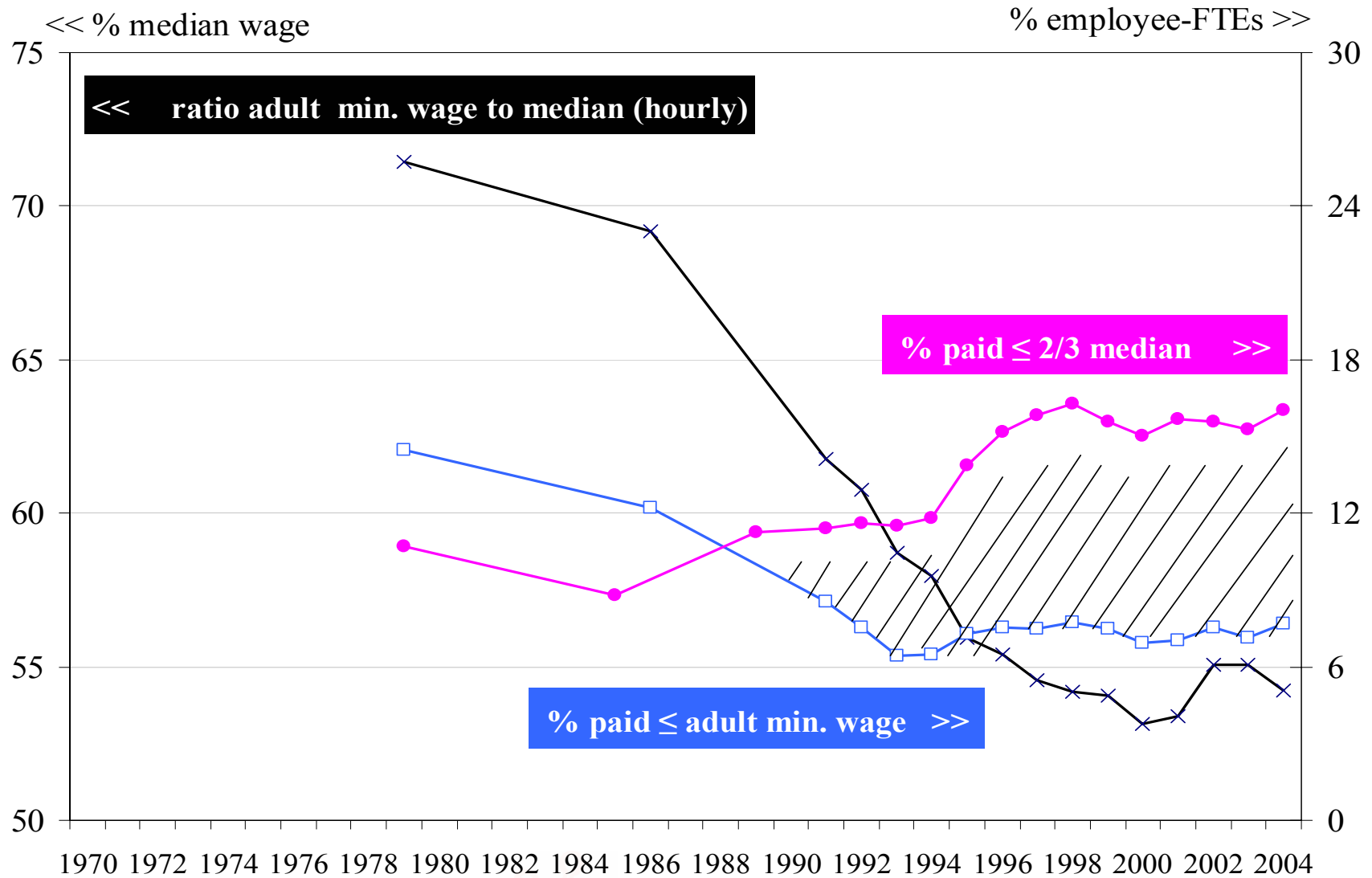


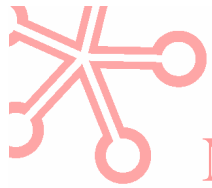
## Response to government: lowest scales vs minimum wage



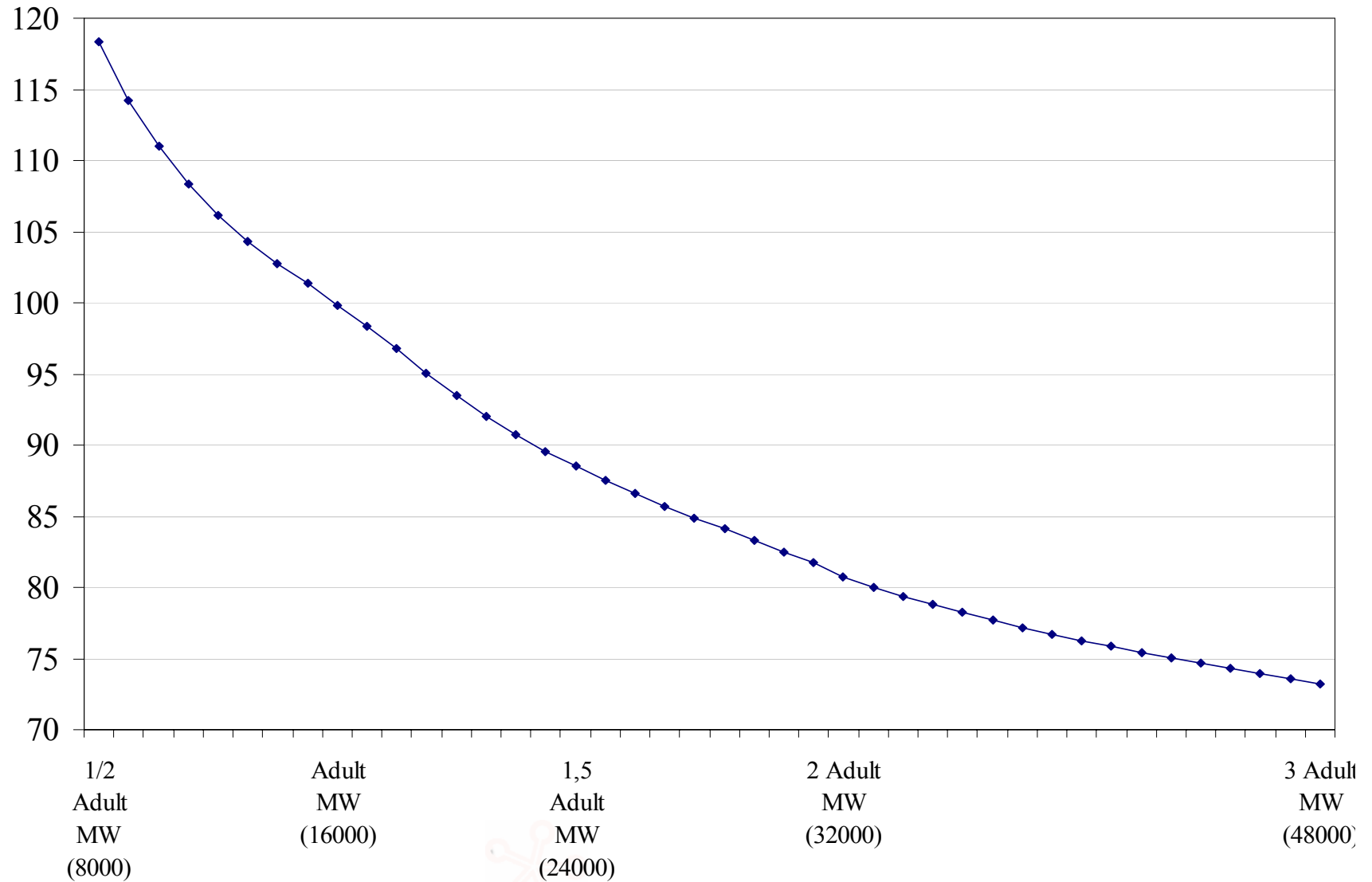


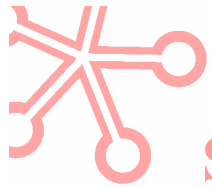
# Diverging minimum-wage and low-wage employment



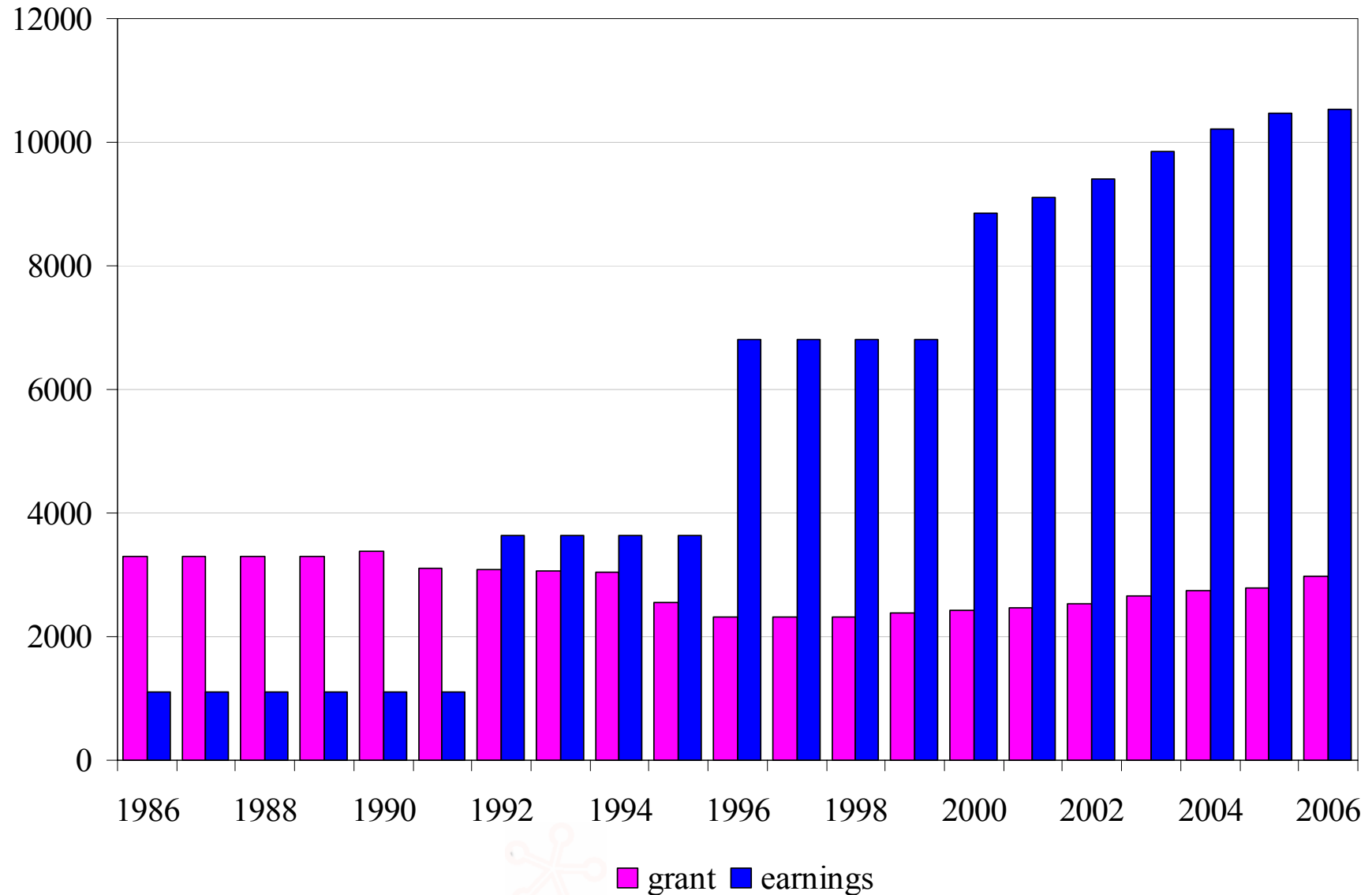


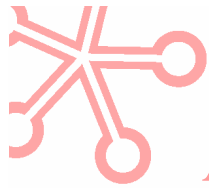
## Net after-tax income at low-wage levels, 2005



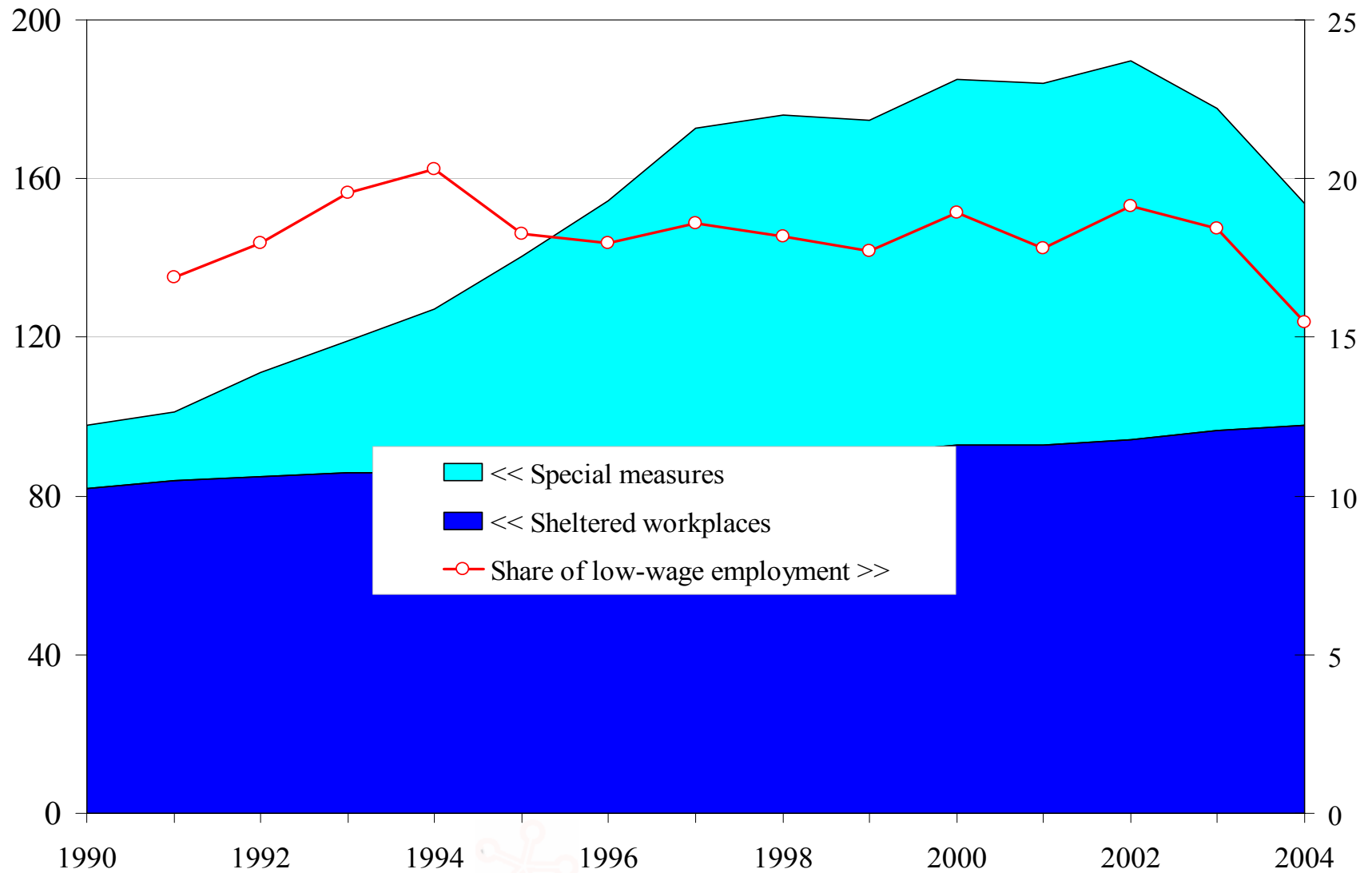


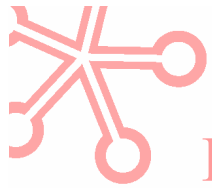
## Student job competition: grant & free net earnings, 1986-2006



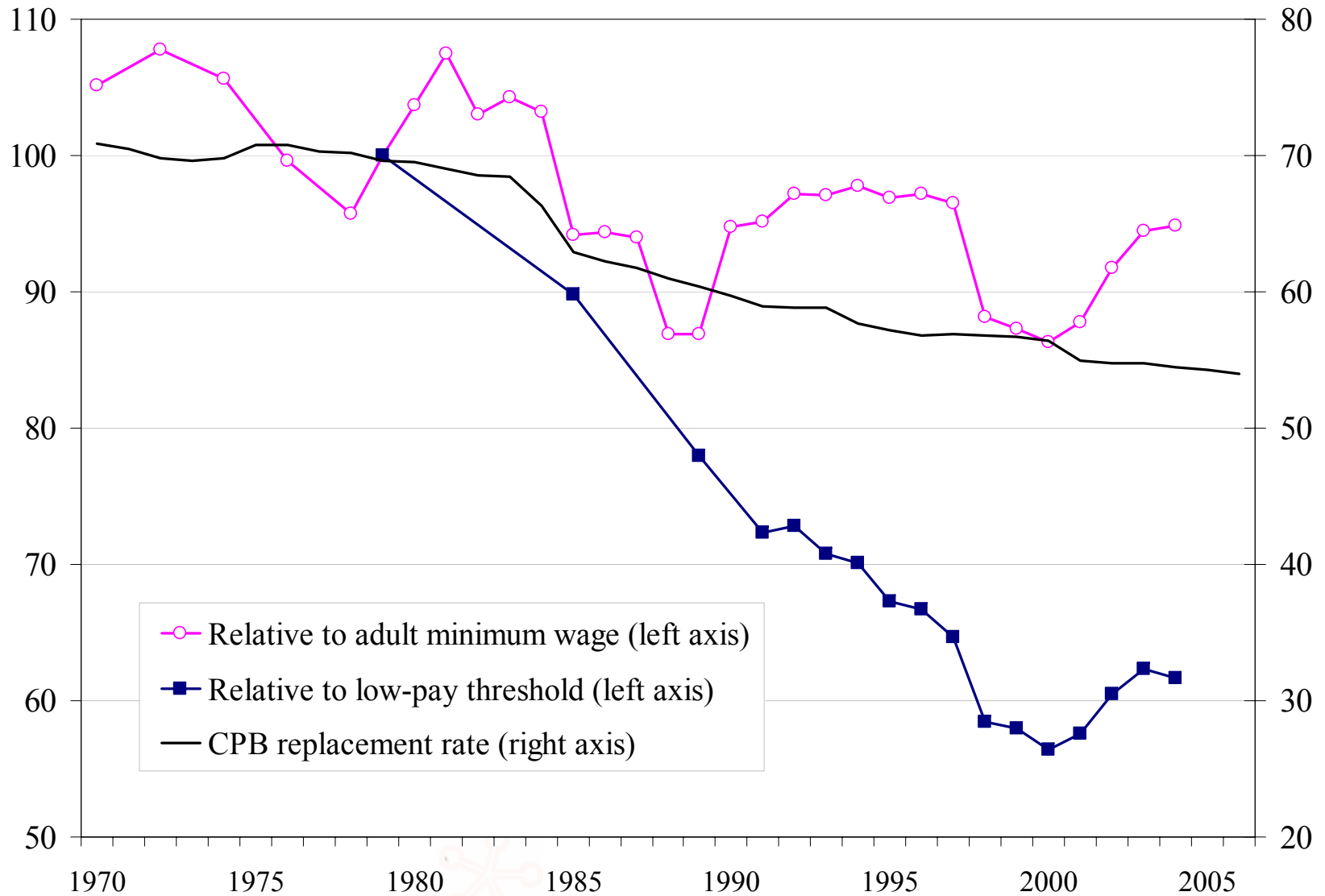


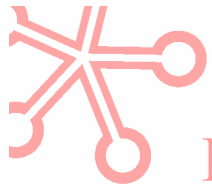
## Active low-wage job creation, 1990-2004



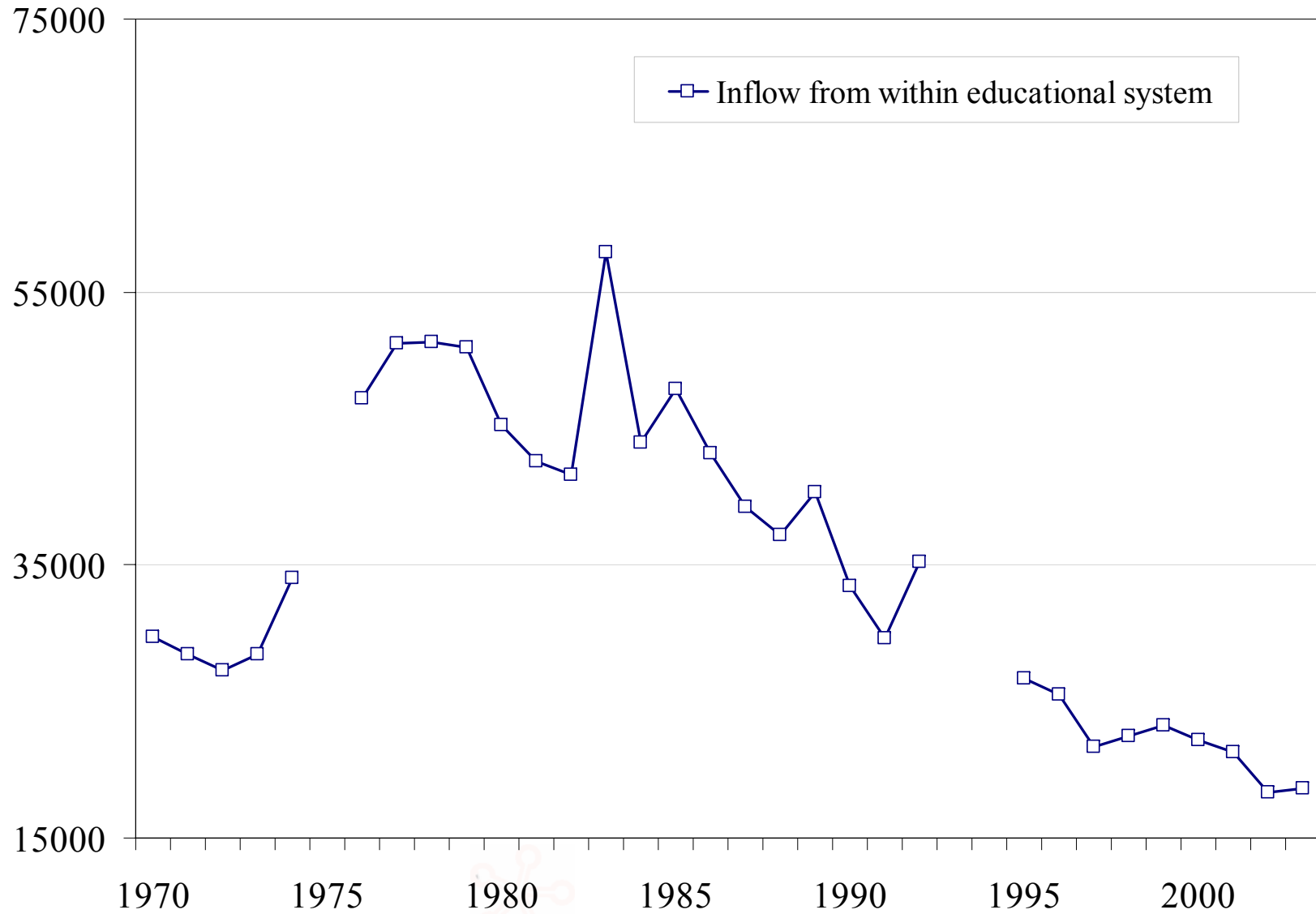


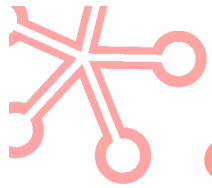
## Declining replacement rates even to low pay, 1970-2005



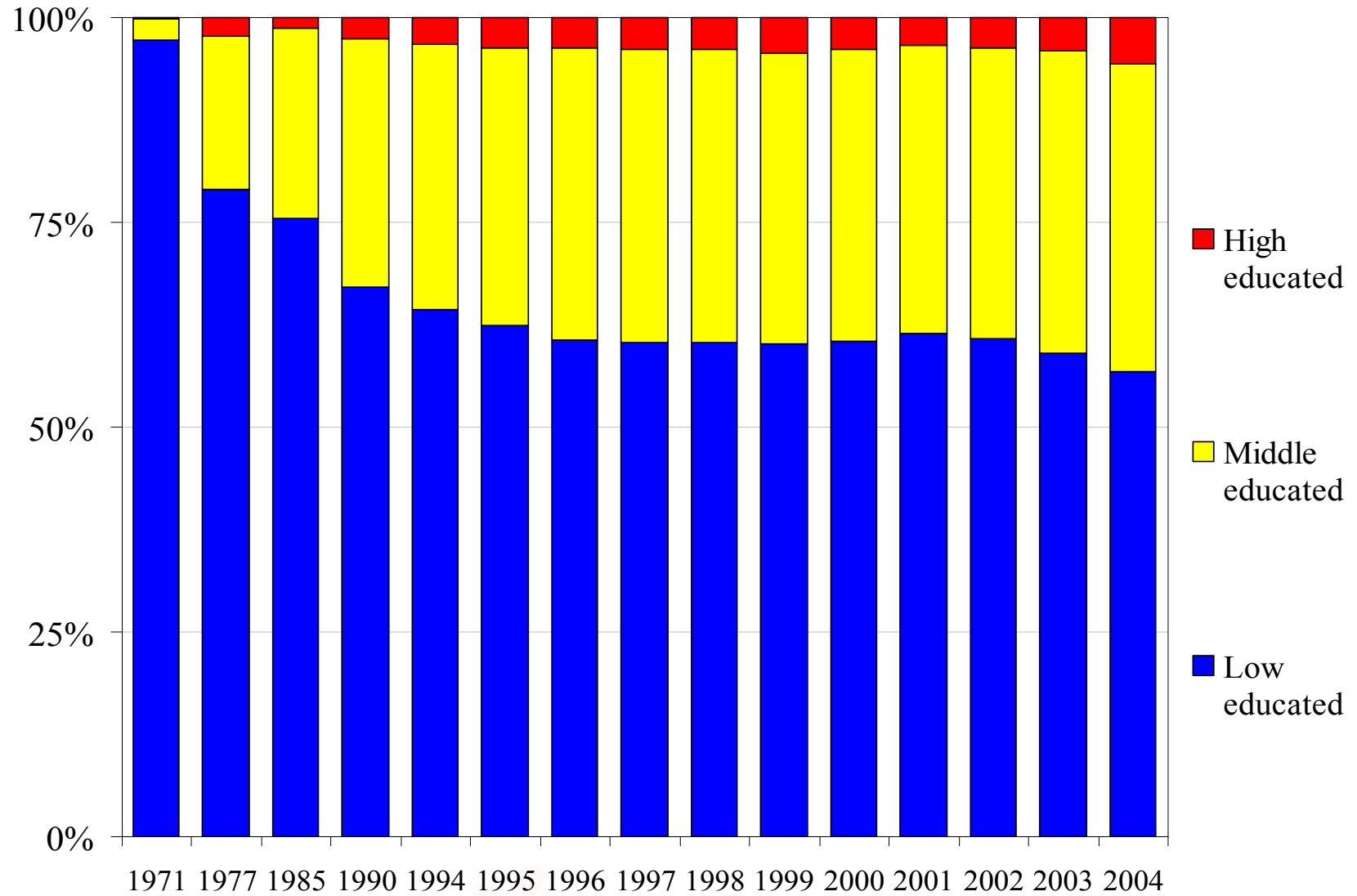


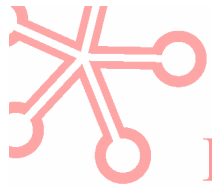
## Declining throughput vocational education, 1990-2004



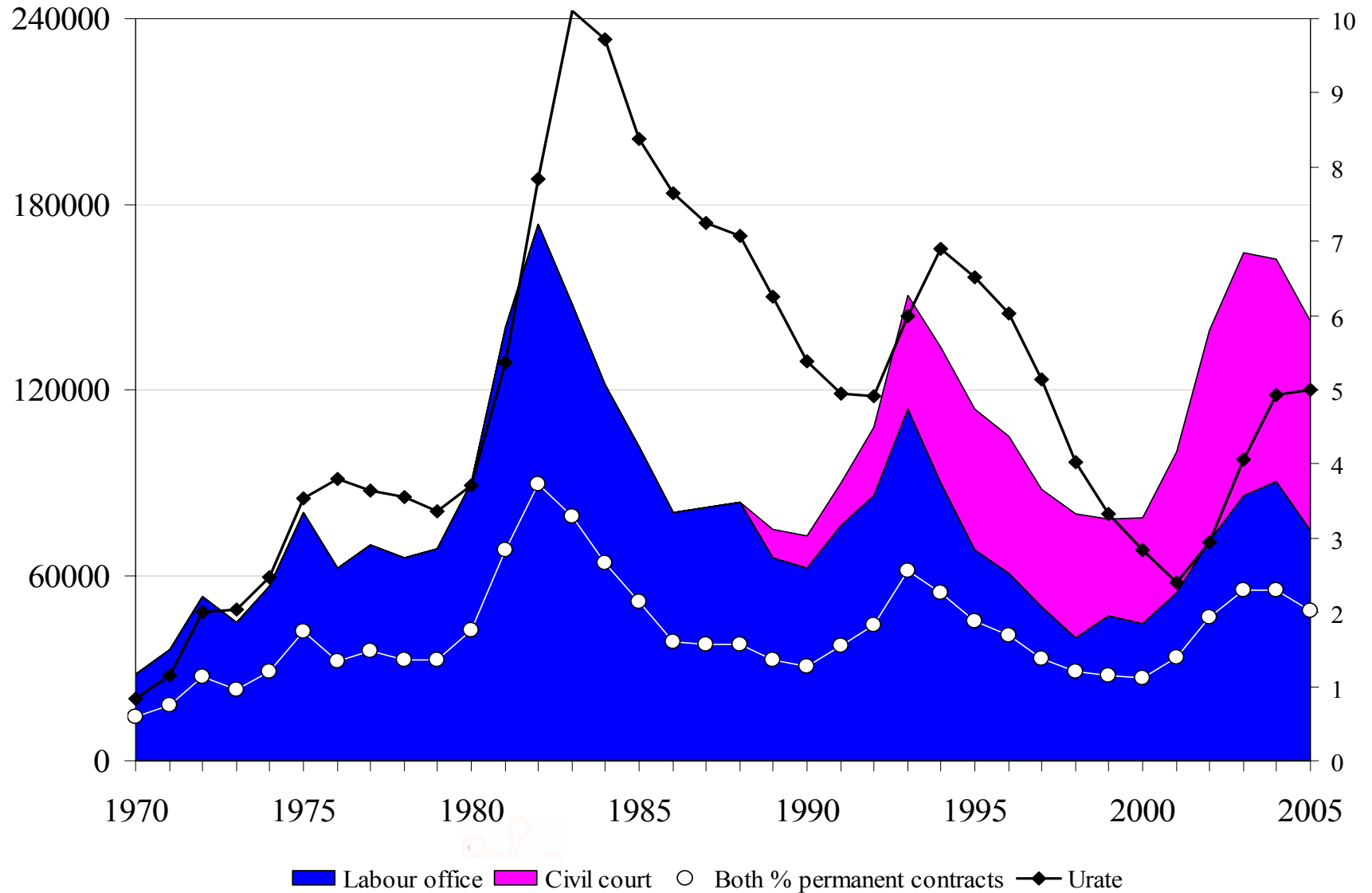


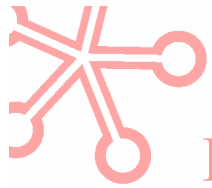
## Growing overeducation in low-wage jobs, 1970-2004



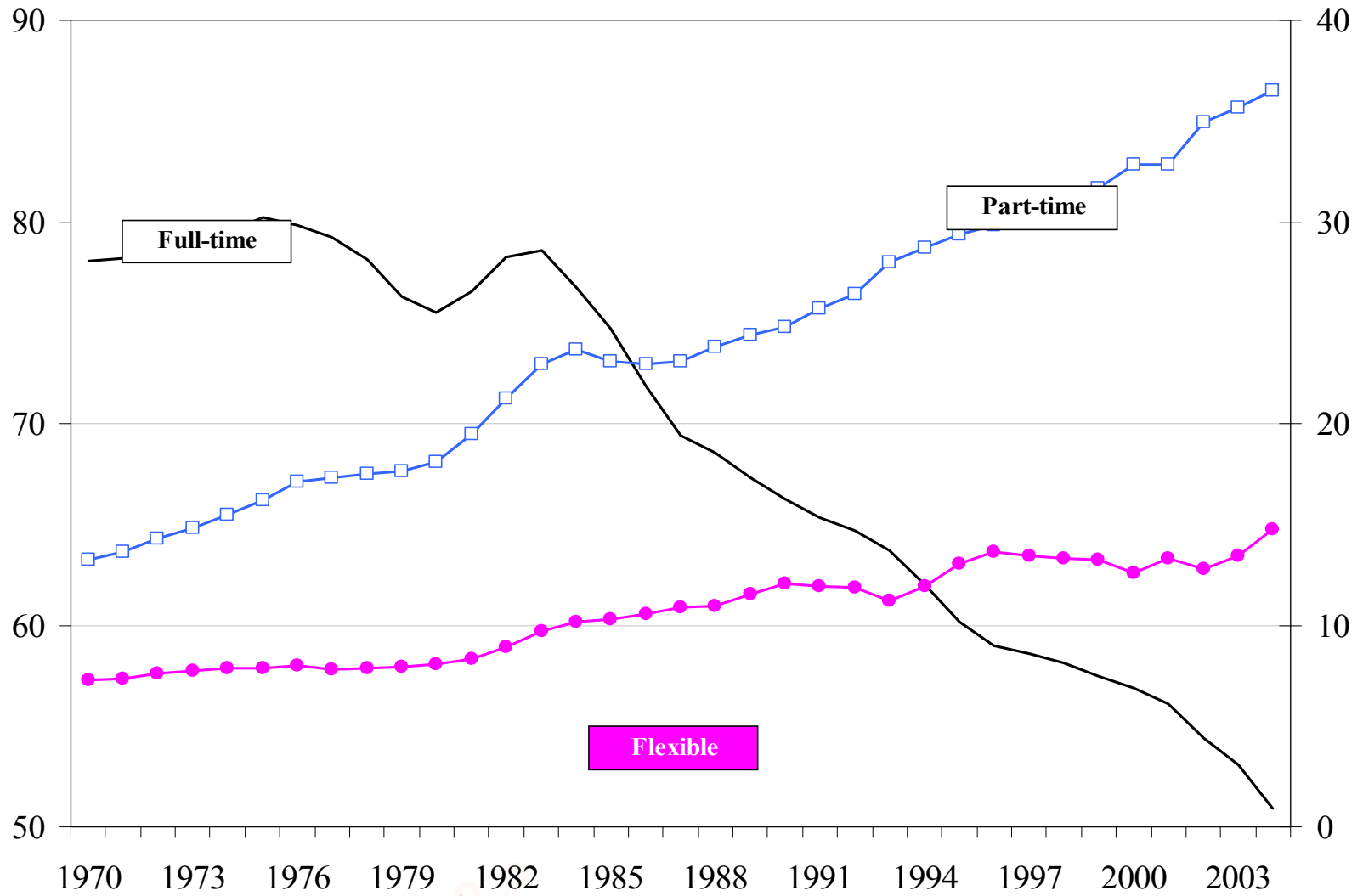


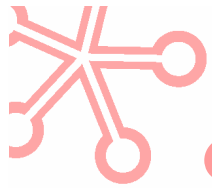
## Increasing & additional dismissal sensitivity, 1970-2005



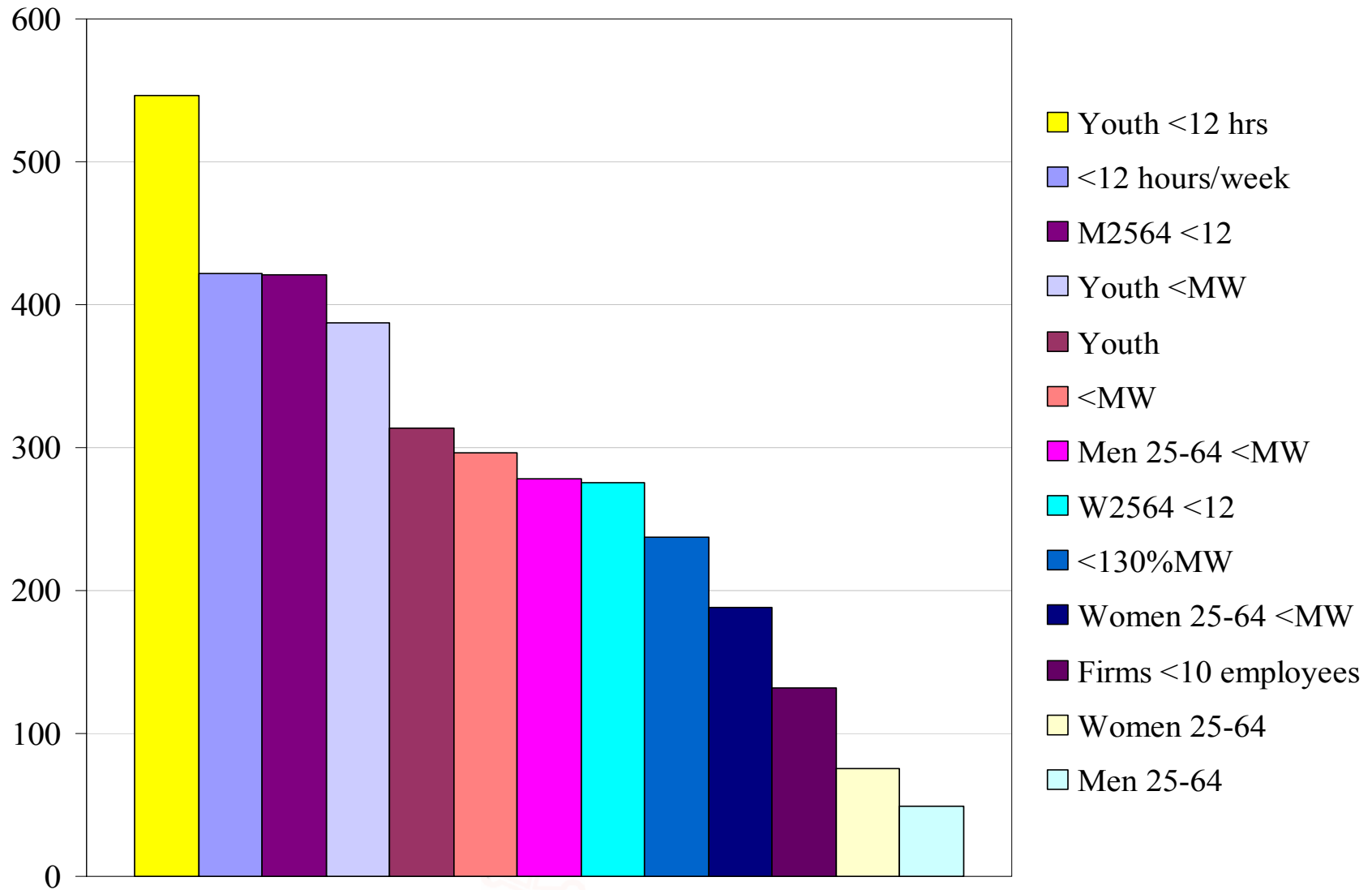


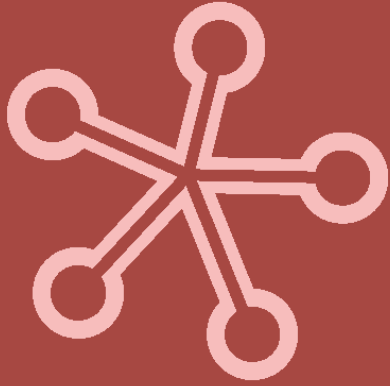
## Increased non-dismissal options, 1970-2004





## Concentration flexible contracts, general average =100, 2004





### 3. Bite of institutions: 1

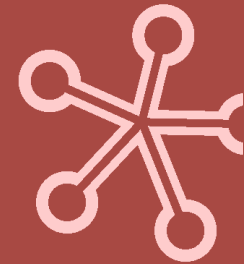
- *Lower-end jobs less and less represented*
- *CLA's and MW enable employers*
- *Income taxation enables (part-time) employees and social benefits did not withhold them, equal treatment made it equally worse, student competitors get subsidised, active labour-market policies contributed slightly*

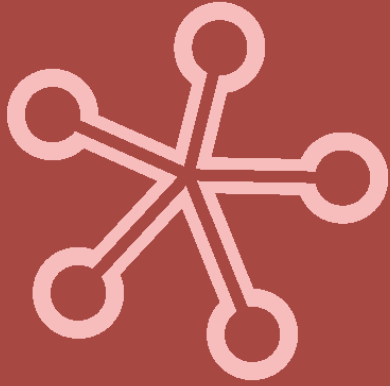


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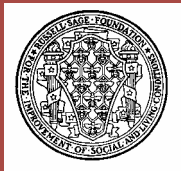
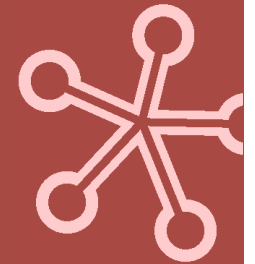
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### 3. Bite of institutions: 2-3

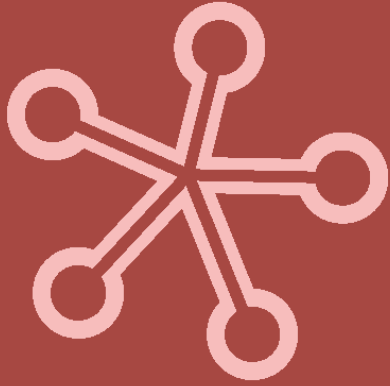
- *Educational system helped overeducation*
- *Employment protection endorsed on-going flexibilisation*
- *Health & safety hits lower end harder and offers decreasing protection*



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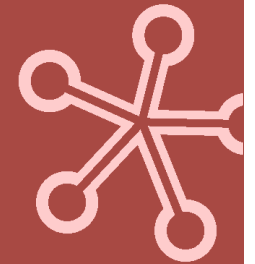


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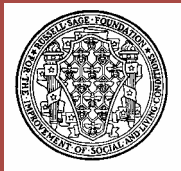


### 3. Bite of institutions: final (*preliminary*)

Institutions often don't force but leave room to firms for manoeuvre and are often linked:



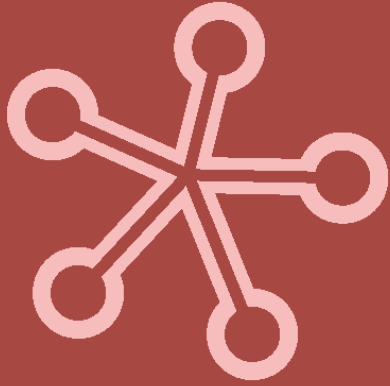
- *MW was endorsed much later,*
- *Flexibilisation preceded flexicurity,*
- *Dismissals developed in existing framework,*
- *part-time growth preceded taxation*
- *vocational education perennial problem*



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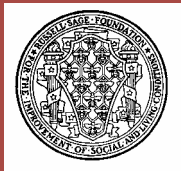
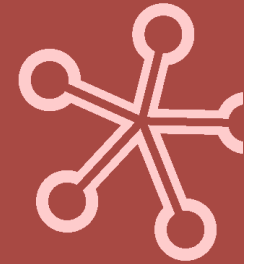


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[www.uva-aias.net](http://www.uva-aias.net)

[www.uva-aias.net/lower.asp](http://www.uva-aias.net/lower.asp)



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