

## **FISRT DRAFT – DO NOT QUOTE**

### **CHAPTER 1: SOME LESSONS FOR THE UNITED STATES FROM LOW-WAGE WORK IN EUROPE**

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This volume grows out of the research on the United States summarized in *Low-Wage America: How Employers Are Reshaping Opportunities in the Workplace*,<sup>1</sup> which sought to understand how U.S. firms were responding to economic globalization, deregulation, and technological progress, and how such responses were affecting typically low-wage front-line workers.

Two broad conclusions emerged from the array of qualitative and quantitative data presented in *Low-Wage America*. First, while most U.S. firms responded to the economic pressures of the last three decades by engaging in cost-cutting efforts that resulted in deteriorating pay and working conditions for their front-line workers, some firms chose different competitive strategies that yielded better outcomes for workers. The alternative "high road" labor-market strategies included focusing on reorganizing the work process, increasing capital intensity, introducing new technology, implementing innovations in products and services, and more and better training. These measures generally sought to raise the productivity or lower the turnover of low-wage workers in ways that justified higher initial investments or ongoing costs of taking the "high road."<sup>2</sup>

The second broad conclusion of *Low-Wage America* was that labor-market institutions have an

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<sup>1</sup> See Appelbaum, Bernhardt, and Murnane (2003).

<sup>2</sup> In this chapter, and throughout this volume, we use the term "high road" to refer to firm's labor-market strategies, as distinct from product-market strategies. As several of the case studies illustrate, firms can choose "high road" product-market strategies while simultaneously pursuing "low road" (low wage, low skilled, low training, low productivity) labor market strategies. The hotel industry provides some of the clearest examples.

important impact on firms' choices about how to respond to competitive pressures. From the end of the 1970s to the present, the decline in unionization rates and the erosion of the real value of the minimum wage, for example, have made it substantially easier for U.S. firms to respond to market challenges by taking the "low road." Some firms, of course, still choose "high road" labor-market strategies, but the deterioration in legal rights and social norms opened up the possibility of a "low road" that had been previously blocked.

The present volume builds on the research that produced *Low-Wage America*, with the focus now placed on five industries --retail, hotels, hospitals, food processing, and call centers-- in each of five European countries --Denmark, France, Germany, the Netherlands, and the United Kingdom. Given *Low-Wage America's* twin conclusions that firms can choose from a range of business strategies and that labor-market institutions have an important impact on firms' choices about business strategy, the varied experience of European firms offers a rich source of insights into the interaction of firm strategies, labor-market institutions, and economic outcomes for low-wage workers.<sup>3</sup> Relative to the United States, the generally higher degrees of government regulation of product and labor markets and the substantially higher rates of unionization and coverage by collective bargaining agreements in Europe mean that European firms typically face greater constraints on the business strategies than similar firms in the United States.

This chapter provides a tentative summary of the main lessons from the six-country comparative research effort.<sup>4</sup>

## **Two Starting Points: Different Jobs, Fewer Jobs?**

One obvious and notable outcome of the constraints on European firms' behavior is that, in general, Europe has a lower --and in some cases, a substantially lower-- share of low-wage work than the United

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3 Throughout this volume, we define low-wage workers as those who earn less than two-thirds of the median gross hourly wage.

4 The volume, in turn, summarizes and extends on industry case studies presented in Bosch and Weinkopf (2008), Caroli and Gautié (2008), Lloyd, Mason, and Mayhew (2008), Salverda, van Klaveren, and van der Meer (2008), and Westergaard-Nielsen (2008).

States does. The initial stages of the research reported here concentrated on testing two possible hypotheses for the lower prevalence of low pay in Europe. The first, more optimistic hypothesis, was that European labor-market institutions (defined broadly to include labor-market regulations, collective-bargaining systems, and welfare-state benefits) would push many European firms toward "high road" labor-market strategies that only a relatively small share of firms choose in the less regulated U.S. labor market. The second, more pessimistic, hypothesis --an outgrowth of the debate about the causes of high unemployment rates in many European economies-- was that the lower incidence of low-wage work in European economies would mean higher rates of unemployment there, especially for less-skilled workers.<sup>5</sup>

Indeed, an early observer of this project might well have expected that the research would ultimately find evidence supporting both of these hypotheses. On the one hand, the higher levels of market regulation, higher rates of unionization and coverage by collective agreements, and stricter labor laws in Europe would all but force firms there to transform the nature of the typically low-wage jobs studied in the United States in *Low-Wage America*. Jobs such as retail clerks or nursing assistants, for example, which are typically low-wage and less-skilled in the United States, would be qualitatively different in Europe, with different forms of work organization, more training, a higher degrees of capital intensity, or a greater reliance on technology. On the other hand, wherever European firms' strategies did not succeed in transforming these low-wage jobs, the economy would face problems providing employment opportunities for less-skilled and entry-level workers, many of them young or immigrant workers. In the absence of a substantial transformation of the nature of front-line work, European labor-market institutions would effectively price less-skilled and entry-level workers be priced out of employment by wages set in excess of their productivity levels.

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5 A third, maintained, hypothesis was that the five European economies would, indeed have a lower share of low-wage workers than the United States. While the data support this maintained hypothesis, the differences between the low-wage share in the United States and several European countries, most notably, Germany and the United Kingdom, was surprisingly small. In many respects, the intra-European differences in the low-wage share turned out to be as interesting as the differences between the United States and the European economies as a group.

In fact, the research here has found only mixed support for these two hypotheses. With respect to job design, we did find important differences across the six countries, but also a surprising degree of similarities. The largest differences in job design were in the hospital sector, where what are relatively low-skilled and poorly paid jobs as cleaners and nursing assistants in the United States have been transformed into more-skilled, better-paid jobs as "hospital service assistants" in Denmark, "joint assists" in the Netherlands, and "ward housekeepers" or "patient service assistants" in the United Kingdom (see Chapter 8). The hallmark of these new jobs is the broad set of tasks incorporated into traditionally more narrowly defined occupations. Food processing jobs are another area where job design differs at least in some of our countries. Front-line jobs in meat processing, for example, are generally more capital-intensive and higher-skilled in high-wage Denmark and France (see Chapter 9). At the other extreme, however, job content and work organization for hotel cleaners was "remarkably similar" across all six economies (see Chapter 7) and the core tasks were also "quite similar" for most retail workers (see Chapter 6).

The data also provide only weak support for the view that European labor-market institutions lead inevitably to fewer employment opportunities for entry-level workers. The country in our study with what is arguably the most generous social welfare state, Denmark, also has the highest employment rate and the lowest unemployment rate, not just overall, but for younger workers and less-educated workers, too (see Chapter 2, Table 6). The Netherlands, which has a far more generous social welfare system than the United States or the United Kingdom, also does at least as well as both those countries on most employment measures, and actually surpasses the United States and the United Kingdom when it comes to the employment of the young and the less-educated. At first glance, at least, the experience of Germany over the last decade also runs somewhat counter to the standard inequality-unemployment trade-off. The share of low-wage workers in Germany has increased sharply, but the overall employment situation has not improved notably as a result. Only France, which has both a small share of low-wage workers and high rates of unemployment, appears to fit the standard "inequality-unemployment" trade-

off.

## **Explaining Differences in Shares of Low-wage Work**

The main challenge of the research presented here is to explain the international differences in the prevalence of low-wage work. According to our coordinated analysis of separate national household surveys in each of the six countries, in the mid-2000s, the United States had the highest share of low-wage employment, with about 25 percent of workers earning less than two-thirds of the national median wage (see Chapter 2, Table 1). Germany, contrary to widespread expectations, was the country in the mid-2000s with the next highest share of low-wage work (22.7 percent), followed closely by the United Kingdom (21.7 percent). The Netherlands (17.6 percent) fell about midway between the three low-wage intensive economies, on the one hand, and France (11.1 percent) and Denmark (8.5 percent), on the other hand, both of which had substantially smaller low-wage shares.

A closely related task facing this volume is to explain the divergent trends over time in the same shares of low-wage work (see Chapter 2, Figure 1). Since the 1970s, the low-wage employment share has been falling steadily in France. Over the same period, low-wage shares were relatively constant in Denmark (at a low-level) and in the United States (at a high level, with some cyclical variation). In the remaining three countries, however, low-wage employment was much higher in the mid-2000s than it had been at the end of the 1970s. The Netherlands and the United Kingdom both saw large increases in the low-wage share over the 1980s and 1990s, with no further increases in the 2000s. In Germany, before reunification, the low-wage share was flat or falling, but from the mid-1990s, the German low-wage share also increased steadily.<sup>6</sup>

The focus in this volume on the experience of front-line workers in five industries across five European countries offers important clues about the causes of these international differences in the low-

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6 The data set used in Chapter 2, Figure 1, to calculate the low-wage share gives a much lower estimate of the low-wage share than the data set used in Chapter 2, Table 1. We believe that the data in the table provide the most accurate figure for international comparisons; we believe that the data in the figure give an accurate picture of trends over time in Germany, even if they are not well-suited for international comparisons.

wage share. As the case studies in the second half of this volume demonstrate, the share of low-wage workers differs widely both across industries and occupations within the same country and across countries within the same occupation and industry. In Denmark, for example, less than four percent of workers in meat production earned low wages, compared to almost one fourth of Danish retail workers. In the hotel sector, only about 20 percent of workers in France were on low wages, compared to about 70 percent in Germany. Differences in the way that unionization, statutory and negotiated minimum wages, national benefit systems, employer subsidies and other labor-market institutions affect specific industries can shed important light on the workings of these institutions, as the detailed case studies will illustrate.

The research contained in this volume has arrived at the following conclusions, which may go some distance toward understanding these international differences in low-wage work.

*1. There is no simple U.S.-versus-Europe story.*

Taken together, the evidence on the national prevalence of low-wage work in the mid-2000s, the longer-term trends in the national incidence of low-wage work, and the differences in low-wage work across industries in the same country, all suggest that there is no simple story of the United States versus Europe. Low-wage work is more common in the United States than in the five European countries examined here --twice as likely in the United States as in France, and three times as likely in the United States as in Denmark. Nevertheless, some European economies --the United Kingdom and Germany, most notably-- have low-wage employment rates that are much closer to those in the United States than they are to those in Denmark and France.<sup>7</sup> Moreover, the United Kingdom, the Netherlands, and, surprisingly, Germany, have seen sizable increases in low-wage work in the 1990s or 2000s. Even in countries with relatively few low-wage workers, some industries still have important shares of low-wage work, such as hotels in Denmark and France.

*2. Long-run, structural, economic factors seem to play little role in explaining international differences in*

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<sup>7</sup> Aggregate differences in the incidence of low-wage work between the United States and Germany, the Netherlands, and the United Kingdom are even smaller when we control for differences in industry structure.

*low-wage work.*

National shares of low-wage work do not appear to be correlated with a country's: GDP per capita, GDP growth rate, hourly labor productivity, productivity growth rate, or a range of long-term demographic factors including female employment rates and immigration. Nor do between-country differences in the labor share of total value added appear to play a decisive role in explaining the incidence of low-wage work. The incidence of low pay, however, is strongly related to the distribution of income *within* the labor share of value added in each country, a phenomenon on which we hope our findings here shed some light.

Macroeconomic policy and events, however, do appear to influence the evolution of low-wage work over time in some countries. The unification of Germany, for example, produced an unemployment shock that set in motion a deterioration in the collective-bargaining regime that has led to a significant rise in the low-wage share there. In the United States, the share of low-wage work, while showing no clear long-term trend, falls when the economy is booming and rises when the economy is in a slump.

*3. The most important influence on the level of low-wage work appears to be the degree of "inclusiveness" of a country's labor-market institutions, especially its industrial relations system, broadly defined.*

The two countries examined here with the smallest low-wage shares, Denmark and France, have labor relations systems, that are highly "inclusive." By inclusive, we mean that the systems have formal --and sometimes informal-- mechanisms to extend the wage, benefit, and working-conditions negotiated by workers in industries and occupations with strong bargaining power to workers in industries and occupations with less bargaining power. In Denmark, about 70 percent of the work force is a union member and collective-bargaining agreements cover about 90 percent of all workers. Moreover, solidaristic wage-bargaining practices there act to raise pay, benefits, and working conditions most for workers at the bottom, further reducing the share of low-wage workers. In France, despite relatively low levels of union membership (union membership rates in France are similar to those in the United States),

the extension by law of union contracts to non-union workers and sectors also results in a workforce that has close to 90 percent of its members covered by union pay rates. These high rates of union coverage, alongside a high minimum wage (see below), appear to have had a substantial impact on reducing the share of low-wage workers in France.

The Netherlands traditionally has also had a fairly inclusive industrial-relations system. In important respects, the degree of inclusiveness in the Netherlands is close to that of France. A key feature of the Dutch industrial-relations system, however, is that the government and the social partners have agreed to a lower minimum wage for young workers. As a result, the share of low-wage work in the Netherlands lies somewhere between Denmark and France, on the inclusive end of the spectrum, and the United Kingdom and United States, at the less inclusive end. The negotiated deterioration in the real value of the minimum wage in the Netherlands, as well as agreements among the social partners to allow extensive use of temporary contracts (especially for younger workers) and part-time employment (especially for women and younger workers) contributed to the rise from the mid-1980s through the mid-1990s in the share of low-wage work.

Historically, the German industrial relations system has also had a high degree of inclusiveness. Since the mid-1990s, however, the inclusiveness of the German system has declined substantially, as many employers, especially in small and medium enterprises, have decided not to participate in nationally negotiated wage agreements. The deterioration in the inclusiveness of the system promoted the creation of largely unregulated "mini-jobs," the use of temporary agency and "posted" workers<sup>8</sup> from lower-wage eastern European countries, and the outsourcing of some work to small and medium enterprises outside national collective-bargaining agreements, all contributing to a sharp increase over the last decade in the share of low-wage workers in Germany.

The two countries with the least inclusive labor-market institutions and industrial-relations system are

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8 In Germany during the time period covered by most of the analysis in this volume, "mini-jobs" were jobs of less than 15 hours per week, with earnings below 400 euros per month, and were exempt from employee's social security contributions and some other forms of taxation. "Posted workers" work, for a limited period, outside the European Union member country where they normally work.



the United States and the United Kingdom. These countries also have among the highest shares of low-wage workers in our study. In the United States, only about 12 percent of US workers are members of a union or covered by a union contract. The U.S. system also provides only weak legal regulation of wages, benefits, and working conditions, including a minimum wage that is low relative to the average production-worker wage. The United Kingdom has a higher unionization rate than the United States (about 25-30 percent of UK workers are in a union and the same share are covered by a union contract), but the British system is far less inclusive than the industrial-relations systems in place in the rest of the European countries in our study. The introduction in 1999 of a national minimum wage, at a level that is substantially more generous than the U.S. level (measured in absolute terms or relative to the median wage), has helped to stabilize the share of low-wage work in the United Kingdom at a time when labor force participation rates have increased at the bottom of the labor market.<sup>9</sup>

*4. Minimum wages can be an important mechanism for extending the "inclusiveness" of labor-market institutions.*

The high French minimum wage (about \$7.75 dollars per in purchasing power parity terms in 2006, compared to \$5.15 in the United States in the same year) is one of the most important reasons for the country's low incidence of low-wage work. Denmark does not have a legislated minimum wage, but does have a widely recognized collectively bargained, national-level minimum wage set above the value of what is available from state-provided income support. As noted above, the introduction of a minimum wage in the United Kingdom in 1999 has probably helped to put a stop to the long, steady increase in low-wage work there (without, however, leading to a decline in the level of low-wage work). The low value of the minimum wage relative to the median in the United States, even in the many states that have decided in recent years to set minimum wages above the federal standard, has been too low to have an effect on the prevalence of low-wage work. In Germany, where there is no national minimum wage, a

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<sup>9</sup> The British National Minimum Wage was set below the low-pay threshold as we have defined it, and remains below that level. The stabilization in the low-wage share in the United Kingdom was also a reflection of various institutional changes that had been increasing low-wage work, but that had worked their way through the system by the mid-1990s.

national debate is currently underway to introduce a minimum wage in order to shore up the traditionally inclusive but deteriorating German industrial relations system.

*5. Generous and accessible income supports --including unemployment insurance, unemployment assistance, child support, disability insurance, and early retirements benefits-- for non-working adults probably reduce the share of low-wage work.*

The country with the most accessible and generous benefits for non-working adults --Denmark-- is also the country with the lowest incidence of low-wage work. The country where benefits for non-working adults are hardest to access and least generous relative to a typical worker's wages --the United States-- is the country where low-wage work is most common. In between these extreme cases, France, Germany, and the Netherlands have income supports for non-working adults that are more generous, and rates of low-wage work that are lower than those in the less generous United Kingdom.

Set high enough, income support can create an effective floor for wages in the low-wage labor market.<sup>10</sup> Workers will be unlikely to accept work at low wages if they are also eligible for income supports that provide a roughly comparable standard of living without the need to work. In Denmark, for example, high income supports effectively constitute an independent wage floor, reinforcing the collectively bargained minimum wage. In this regard, the existence of a generous, universal, income support system could function as another dimension of the "inclusiveness" of a country's industrial-relations system.

Changes in the generosity of benefits, however, appear to have relatively little role to play in explaining the rise in low-wage work in Germany after the mid-1990s<sup>11</sup> and in the Netherlands between the mid-1980s and the mid-1990s.<sup>12</sup> Benefit generosity as well as access to benefits have been either

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10 The effect of benefit systems on employment outcomes also depends on the strictness of eligibility criteria, the strictness of the administration of those criteria, and the duration of available benefits.

11 Since 2004, the Hartz reforms in Germany, however, have cut the generosity of benefits for the long-term unemployed.

12 In all of the countries analyzed here, benefit eligibility rules tend to make it relatively less likely that some groups, especially immigrants, young people, and women, will be eligible for many forms of benefit such as unemployment insurance

stable or increasing in both countries, even as the share of low-wage work has been on the rise. The case of the United Kingdom, the other country that saw a long, steady, increase in low-wage work (before the introduction of the national minimum wage in 1999), is more complicated. Over the last three decades, out-of-work benefits have generally become less generous, while, especially since the late-1990s, in-work benefits, such as the Working Tax Credit, have become more generous.

*6. Employment protection legislation has an ambiguous impact on the level of low-wage work.*

On the one hand, employment protection legislation (EPL) increases the bargaining power of incumbent workers by making it harder for employers to fire them. This greater bargaining power can help to reduce the number of workers on low pay. On the other hand, EPL may create incentives for employers to hire workers under legal arrangements designed to provide little or no employment protection. These less-protected jobs can become havens for low-wage work. In the Netherlands, for example, many low-wage workers are on temporary contracts or are employees of temporary agencies. In Germany, "mini-jobbers," "posted" workers, and temporary agency workers make up an important portion of low-wage workers.

Much depends on how countries choose to apply labor-market regulations to non-standard work arrangements. In Denmark, for example, agency workers receive the same pay as their counterparts employed on standard contracts, and "posted workers" are generally covered by collective bargaining agreements; in France, agency workers receive an additional 10 percent "insecurity premium" relative to their permanent counterparts. In France, the Netherlands, and the United Kingdom, minimum wages apply to posted workers. Generally, the European Union's Part-Time Workers Directive requires that part-time workers receive pay equal to, and non-wage benefits proportional to, full-time workers, but the directive does not apply to agency, posted workers, and, in practice, to "mini-jobbers" in Germany.<sup>13</sup>

*7. Changes in the regulation of product markets can affect the bargaining power of workers.*

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<sup>13</sup> The EU Directive on Fixed-Term Work also stipulates that fixed-term workers not be treated on less favorable terms than equivalent permanent workers.

The privatization of state-owned enterprises, product-market deregulation, and changes in foreign trade policy (including the opening of national service sectors to intra-European competition) can all affect the bargaining power of workers.<sup>14</sup> In general, the kinds of changes in product-market regulation in the six countries over the last quarter century --privatization of state-owned enterprises and state-run activities, the deregulation of sectors such as finance and telecommunications, and the opening up of domestic markets to foreign competition-- would have had the effect of reducing workers' bargaining power by reducing industry rents, conceivably contributing toward an increase in the share of low-wage workers. The impact of deregulation, however, appears to depend in an important way on both the specifics of deregulation --in Denmark and the Netherlands, for example, important product-market deregulations included protections for existing work forces-- and the broader "inclusiveness" of the national labor relations systems.

*8. At least at current levels, the impact of immigration on low-wage work depends largely on the institutional structures governing immigrant and migrant labor and broader labor-market regulation.*

Across the six countries, the share of immigrants in the labor force is positively correlated with the share of low-wage work. In the short term, depending on labor-market institutions, a greater share of less-skilled immigrants --or generally more temporary migrant workers-- will put downward pressure on the wages of less-skilled jobs. In the long-run, however, labor-market institutions, including the degree of "inclusiveness" of the industrial-relations system appear to play an important role in reducing downward pressure on wages caused by immigration. In 2004, for example, in Denmark, France, the Netherlands, and the United Kingdom, immigrants accounted for between about four and six percent of the national labor force, yet the low-wage shares ranged from less than 10 percent in the more "inclusive" Denmark and France, to more than 20 percent in the less "inclusive" United Kingdom.

*9. The effective degree of "inclusiveness" in national labor-market institutions depends crucially on employers' ability to use "exit options" to side-step institutions that would otherwise raise wages for*

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<sup>14</sup> The impacts are not limited to workers in directly effected sectors. Labor markets can transmit the bargaining power effects to workers with similar skills in other sectors of the economy.

*workers at the bottom of the wage distribution.*

Our analysis suggests that the "inclusiveness" of national institutions is the principal determinant of the national share of low-wage work. As the preceding discussion has illustrated, however, all of the national systems, even the most inclusive, offer employers at least some "exit options" that facilitate the emergence of a low-wage sector. These "exit options" take many forms including: the ability of employers to withdraw from national collective bargaining agreements (as many small and medium enterprises have chosen to do in Germany); youth sub-minimum wages (in the Netherlands, the United Kingdom, and in the retail sector in Denmark); non-standard work arrangements, such as temporary contracts, temporary agency employment, part-time work, and German "mini-jobs"; and outsourcing, including the use of "posted" employees who work under the labor laws of their countries of origin rather than the countries where they are actually employed. In some cases, exit options are legal and formal; in others, the lack of enforcement of existing laws constitutes its own form of "exit option" (see, for example, the widespread violation of legal and collectively bargained labor standards in the hotel sector, likely related to the extensive use of immigrants in the sector).

In our view, the increase in the use of various "exit options" in Germany --the decline in employer participation in collective labor agreements, the rise in outsourcing, and the dramatic expansion in "mini-jobs"-- has been the principal factor behind the rise in low-wage work there since the mid-1990s. Similarly, the negotiated youth sub-minimum wage and the intentional expansion of short-hour part-time work for women, explains much of the rise of low-wage work in the Netherlands in the 1990s.

### **Explaining the Absence of a Clear-Cut Wage-Employment Trade-off**

With a few exception, the countries in our study provide only weak support for a trade-off between wage inequality and employment outcomes. Of course, the small sample of countries, industries, and years analyzed here cannot provide definitive conclusions about the existence or the size of a national-level trade-off between wage levels and employment. Given these limitations, however, what we find particularly intriguing are the apparent exceptions to the idea that having a small low-wage share should

imply a poor national employment performance, or that having a high share of the national work force in low-wage work implies high employment rates. Denmark, for example, has the smallest low-wage sector of the six countries examined here, but, also has the highest aggregate employment rate (75.5 percent of 15-to-64 year olds).<sup>15</sup> Moreover, Denmark's small low-wage sector does not seem to have shut less-skilled workers out of the labor market. Of the six countries, Denmark has the highest employment rates for workers with less than a high school degree (60.4 percent) and for younger workers (62.0 percent).<sup>16</sup> The United States, meanwhile, has the largest low-wage sector, but overall employment rates in the United States (71.5 percent) trail those of Denmark and the United Kingdom (72.6 percent) and are barely above those of the Netherlands (71.1 percent). Even more strikingly, the U.S. low-wage sector does not appear to give much of a boost to the less-skilled workers that are supposed to benefit from access to low-wage work. Young people in the United States are less likely to have jobs (53.9 percent) than their counterparts in Denmark (62.0 percent), the Netherlands (61.9 percent), and the United Kingdom (58.6 percent); and U.S. workers with less than a high school degree are less likely to have a job (57.2 percent) than are similar workers in Denmark (60.4 percent), the Netherlands (59.5 percent), and even France (57.8 percent).

Based on the new evidence presented in this volume, Germany also appears to fit poorly the standard inequality-employment trade-off. According to the data analyzed here, in 2005, after a decade of increasing its share of low-wage workers, Germany had the second highest share of low-wage workers (22.7 percent) among the six countries studied, trailing only the United States (25.0 percent). Yet, in the same year, Germany had the second-lowest employment share (65.5 percent) of the six countries. France, however, follows more closely the posited pattern of a wage-employment trade-off, with the second-lowest low-wage share (11.1 percent) and the worst employment performance, for overall employment (62.3 percent) and with respect to both younger (26.0 percent) and older workers (40.7 percent).

Several factors might explain the lack of a clear-cut trade-off between wage inequality and

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<sup>15</sup> See Chapter 2, Table 2.6, and related discussion.

<sup>16</sup> Apprentices and students who work count as employed in all national survey data.

employment outcomes.

*1. Some, but far from all, European employers have chosen "high road" labor-market strategies.*

Many employers in Danish food processing have responded to competitive pressures from globalization by increasing the capital intensity of their production facilities, increasing workers' productivity enough to justify wages above the low-wage threshold. Danish, Dutch, and British hospitals have upgraded the skills content of nursing assistants to include some of the responsibilities of more-skilled nurses. In Germany, the apprenticeship system trains many retail sales clerks in electronics to a level that improves firm sales enough to pay for higher wages. Moreover, the case-study evidence suggests that in an important number of cases, employer strategies adapt over time to long-standing features of national institutions. In many European industries, employers have learned to live with legislated and negotiated costs that many US firms would view as prohibitive.

*2. Government programs that partially fund or directly provide health insurance, pensions, parental leave, training, and other non-wage benefits may subsidize part of the "high road" employment path, independent of individual employers' decisions about job design.*

The biggest differences in low-wage work between the United States, on the one hand, and the five European countries, on the other, are not related to wages, but rather to a range of non-wage benefits including health insurance, sick pay, vacation and holiday pay, parental-leave plans, training, and other terms and conditions of work. In the five European economies, the government assumes the financial responsibility for *some* of these non-wage benefits (health insurance, most notably), especially on behalf of low-wage workers and their employers. As a result, some employers of low-wage workers don't face the full cost of the non-wage benefits they provide workers.

The incidence of the costs of these subsidies depends on the structure of related national institutions. All employers, not just those who employ low-wage workers, may pay for these subsidies in the form of lower profits, driven by higher corporate taxes to support social spending on low-wage workers. Taxpayers more generally may bear the costs, with the exact incidence reflecting national tax systems.

*3. Much greater wage compression in Europe (outside of the United Kingdom) may act as an effective subsidy supporting wage and non-wage benefits of front-line workers in Europe.*

Solidaristic bargaining strategies, in Denmark, and to a lesser degree in the Netherlands, may function, in practice, as a subsidy for the wages and benefits of less-skilled workers. Solidaristic wage bargaining typically involves paying less-skilled workers "too much," but also paying higher-skilled workers "too little."<sup>17</sup> Such an arrangement may allow employers to maintain relatively high rates of less-skilled employment without a strong negative impact on firm profits.

### **Other Lessons Learned Along the Way**

The research summarized in this volume also yielded some other important lessons along the way. While these other lessons don't directly contribute to an explanation for the pattern of low-wage work across the six countries, or for the apparent lack of a wage inequality-employment trade-off, these additional findings help to put our research into context.

*1. For workers in our industries, wage differences across the six countries are far less important than benefit differences when it comes to assessing both the standard of living of low-wage workers and the total labor costs faced by employers.*

Low-wage workers in all five European countries have: health insurance (as a right of citizenship and often of residency); paid vacation and holidays (at least 20-days per year mandated by the European Union, including a pro-rated vacation entitlement for part-time workers); paid sick leave; paid parental leave; a much greater likelihood of free or low-cost child-care; and, in most countries, legal rights to request or demand scheduling flexibility. As a result, the "social meaning" of low-wage work is different in Europe, even in the United Kingdom, than it is in the United States. In the United States, over one-fourth of low-wage workers in the United States have no health insurance (private or public), more than

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17 Solidaristic bargaining may also be seen as a strategy to overcome the long-standing undervaluation of women's work. The argument that the 'market' pay reflects productivity while collective bargaining 'distorts' market outcomes may ignore the sources of social disadvantage that lead to a much wider distribution of earnings than is justified by differences in productivity. In this view, institutions such as collective bargaining act to counter the impact of social disadvantage on pay outcomes. In Denmark, for example, where solidaristic wage bargaining is important, prime-age women are not substantially more likely to be in low-wage work than men are.



one-fourth have no paid vacation or paid holidays, and more than one half have no paid sick leave.<sup>18</sup>

*2. Mobility out of low-wage work appears to be higher in Europe than it is in the United States.*

Internationally comparable data on wage mobility are scarce, but the available evidence indicates that mobility out of low-wage work is generally higher in European economies than it is in the United States. Denmark and France appear to offer low-wage workers the best opportunities for exiting low-wage. These findings are consistent with a large body of research that finds higher income mobility in Europe over individuals' working lives and across generations.

The array of social supports available for less-skilled workers in Europe, from child-care to training, may play a role in the greater mobility there. The lower level of wage inequality itself is also probably an important factor: economic mobility is easier when the distance a worker must travel to advance is smaller.

*3. In most of the our countries, the same groups of workers --women, young people, the less-educated, and immigrants-- have a higher incidence of low-wage work, but important differences exist.*

Women, young people, the less-educated, and immigrants are all disproportionately represented among the low-paid. Prime-age men are consistently far less likely to be low-wage workers. Two important exceptions are the high-share of more-skilled workers among the low-paid in Germany, and the particularly high rate of low-wage work among students in Denmark. Even among groups with a high risk for low-wage work, however, rates vary considerably across countries. Danish and American women are more likely to be low-wage workers than their male counterparts, but the relative risk of low-wage for women is much lower in these countries than it is in Germany, the Netherlands, and the United Kingdom. The Danish experience raises the possibility of "sharing" less-desirable low-wage work broadly as part of workers' professional life-cycle, rather than concentrating the burden of low-wage work semi-

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<sup>18</sup> If we were to use total hourly compensation, including government-financed benefits, rather than the gross wage, to calculate wage inequality, measured inequality would be higher in the United States --and lower in Europe-- than what we find in this volume. In addition, the share of low-wage workers using a total hourly compensation measure would be higher in United States, and lower in Europe, than what we calculate here.

permanently on a reduced portion of the workforce.

*4. Institutions evolve over long periods of time and interact in complex ways in particular national settings. Countries can learn a lot from other national experiences, but deciding to "follow" or "adopt" a particular model will be difficult.*

The Danish model of "flexicurity" is currently popular in discussions of labor-market and social policy in Europe. The Danes combine a high degree of flexibility --low levels of legal employment protection, an open attitude on the part of Danish unions toward globalization, new technology, and changes in work organization-- with generous social benefits, including unemployment insurance. A key element of the model appears to be substantial expenditures on Active Labor Market Policies (ALMPs) that seek to "activate" benefit recipients for work by providing training, job placement, and financial and other incentives. Another important ingredient of the model appears to be the high degree of trust held by the various social actors.

A decision to "adopt" or even "adapt" the Danish model to a different national context, however, runs many risks. One potentially problematic approach would emphasize the need to introduce Danish-style "flexibility" by eliminating existing national employment protections --without increasing the generosity of benefits for those who would find themselves cycling in and out of work with greater frequency. Another approach, also likely to be less-than-satisfactory, might emphasize the generous levels of out-of-work benefits that help to ensure workers' acceptance of lower levels of job security --without a willingness to spend several percentage points of GDP on ALMPs to keep adults from spending too long outside work. Even a complete and faithful replication of the programmatic aspects of the Danish model might still fail because the adopting country lacks the social cohesion and "trust" that many argue lie at the core of the Danish model.

*5. Different combinations of labor-market institutions --even successful combinations-- may not be sustainable indefinitely.*

During most of the 1980s, Germany had faster productivity growth and a lower unemployment rate

than the United States did, making Germany that decade's "model" economy in Europe; after unification, from about the mid-1990s on, however, German performance has deteriorated substantially, productivity growth has decelerated, and unemployment has remained stubbornly high. In the 1990s, the Netherlands saw an enormous increase in female employment rates and was consistently among the OECD countries with the lowest unemployment rate; since the early 2000s, however, the Dutch model seems to have lost much of its luster. In the 2000s, the high wages and high employment rates in Denmark have made that country the reference economy for European economic and social policy makers. Is the Danish model sustainable? Will it succumb to external shocks or internal conflicts? Will other economic models that are currently performing poorly be better suited to conditions of the next decade?

## Conclusions

The United States has a higher rate of low-wage work than any of the five European countries analyzed here. Low-wage work is much less common in Denmark, France, and the Netherlands, but not far from US rates in the United Kingdom and Germany (where low-wage work has been on the rise in recent years).

The countries that have best managed to limit low-wage work generally have "inclusive" industrial-relations systems complemented by broader labor-market institutions such as a national minimum wage and generous income supports for out-of-work adults. Where low-wage work has increased (in the Netherlands and the United Kingdom in the 1990s and especially in Germany since the mid-1990s), the rise has reflected a deterioration in the inclusiveness of the national industrial relations systems, typically through the proliferation of "exit options" that permit firms to side-step institutions that maintain an effective wage floor in national economies.

Most of the European countries --France is the principal exception-- show little or no signs of a clear-cut trade-off between wage inequality and employment outcomes. Denmark has the lowest share of low-wage workers and the highest employment rates among our six countries. The Netherlands also has a relatively low incidence of low-wage work and among the best employment outcomes. Germany now has

the highest share of low-wage work in Europe, without much progress on employment rates, particularly among less-skilled workers. The data point to no simple or single explanation for the lack of a trade-off, but several factors may be at play. Some European employers, encouraged by national labor law and social institutions, appear to have chosen a labor-market "high road" that can afford to pay less-skilled workers at rates that are high relative to the United States. The structure of non-wage benefits, which are partly financed by the government, may alleviate some of the burden on employers of front line workers. Greater wage compression --which means not only higher wages for workers at the bottom, but also lower wages for workers at the top-- may also help to alleviate cost pressures on European firms. Labor law and administrative practice may also give low-wage employers a level of flexibility with respect to employment terms that is not immediately apparent from a review of each country's headline labor laws.

One of the most striking differences between low-wage employment in the United States and the five European countries, however, is the qualitatively different lived experience of low-wage workers in Europe. In strong contrast to the United States, low-wage workers in Europe generally have legal rights to health insurance, paid vacation, paid sick days, paid parental leave, as well as some measure of job security.

The United States potentially has a lot to learn from the experiences of the 25 country and industry combinations analyzed here. Given the complex, historically rooted, nature of national economic models, however, the most important lessons will likely concern broad principles of work organization and policy design, rather than the specifics of plans and programs.

The volume consists of two parts. The first (Chapters 1 through 4) reviews key features of the six national economies, their labor-market institutions, and low-wage work. Chapter 2 presents our main findings on the level and trends in low-wage work, and the principal characteristics of the low-wage labor markets in each country. Chapter 3 analyzes the national pay-setting institutions, broadly defined, that are the primary determinants of wages in each of the six economies. Chapter 4 reviews the effect of national institutions on the supply side of the low-wage labor market. The second half of the volume (Chapters 5

through 10) presents the five industry case studies. Chapter 5 is an overview of the main industry-level findings. Chapter 6 examines retail; Chapter 7, hotels; Chapter 8, hospitals; Chapter 9, food processing; and Chapter 10, call centers.

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