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**CHAPTER 4: THE IMPACT OF INSTITUTIONS ON THE SUPPLY
SIDE OF THE LOW-WAGE LABOR MARKET**

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The previous chapter focused on the impact of institutions on wage setting across firms and sectors, with an eye toward the impact of these factors on the industry and economy-wide share of low-wage work. That chapter identified the degree of inclusiveness or exclusiveness of the national pay-setting institutions and the possibility for firms to opt-out these institutions as the key factors driving cross-national differences in the share of low-wage work.

In this chapter, we turn our attention to the supply side of the low-wage labor market. In crude terms, if the bargaining and regulatory structures analyzed in the preceding chapter are the primary determinants of the quantity of low-wage work, we find that the various institutions affecting labor supply play a large role in shaping the composition of low-wage work, which in most of our countries is disproportionately made up of women, young people, older workers, less-educated workers, and immigrants.¹

If firms are to pay low wages to a portion of workers, they must have access to a pool of workers willing to work for low wages. In our six countries, the pool of low-wage workers consistently has three separate (frequently overlapping) features. The first is low levels of skills relative to the typical national worker. In most of our countries, low-wage work is heavily concentrated among less-

¹ Of course, the bargaining and regulatory institutions discussed in the preceding chapter and the labor supply factors here interact with one another. In particular, some of the labor supply related institutions discussed in this chapter --including unemployment insurance, social assistance, active labor market policies, and immigration policy-- have an important impact on the bargaining power of low-wage workers relative to their employers.

educated (and less-trained) workers², younger workers with the lowest amounts of on-the-job experience, and less-skilled immigrants. The second feature of the pool of low-wage workers is that these workers can count on little or no financial support when they are not in work. Sometimes this lack of non-work income reflects national policy --such as in the United States, which offers little or no support to out-of-work workers and their families. Sometimes, the low level of non-work income is related to income-support policies originally designed to support full-time male workers with long job histories, which tend to work against younger workers or women, who typically have less labor-market experience and tend to move in and out of the labor market too frequently to qualify for important forms of income support. Finally, the pool of low-wage workers also includes many workers --overwhelmingly women-- who have substantial responsibility for child-care and elder-care. These women, whose responsibilities reduced their bargaining power relative to employers, frequently trade fewer hours or more flexible schedules for lower pay, as part of a strategy to balance their market and non-market work responsibilities.

The chapter begins by showing that the difference in the incidence of low-wage work across countries cannot be explained by a simple “market driven” supply-side story. There is no simple correlation across countries between the share of the less-skilled in the working-age population and the national incidence of low-wage work. Immigration has been important and increasing in the recent years in countries such as the United States, the United Kingdom and Germany, where the incidence of low-wage work has been high and rising in the past decade or so. Over the same period, however, Denmark has also witnessed a large increase in immigration without any visible consequence on the incidence of low-wage work. The impact of immigration does not appear to be automatic, but rather mediated through the national system of labor-market institutions. The pay-setting institutions and other labor-market regulations analyzed in the previous chapter and the availability of out-of-work income support play a particularly important role in this respect.

² Germany is an exception with important share of skilled workers among low wage workers – see below.

The range of institutions that affect the labor supply decisions of women, younger (and older) workers, and immigrants is wide: from the income tax system to child-care benefits, systems of student grants or early retirement schemes – to give only a few examples. Differences across our six countries in these institutions explain part of the difference in both the overall *incidence* and the national *composition* of low-wage work.

Two distinct models of institutions stand out. On the one hand, in some countries (such as the United States, the United Kingdom, and to some degree Germany since the Hartz IV reforms), unemployment benefits are low, and active labor market policies (ALMPs) are geared toward a “*work-first*” strategy – i.e. job-search assistance and monitoring that place pressure on the unemployed to return to work as quickly as possible, and therefore to accept low-wage work if available (with in-work benefits acting as an additional incentive in the United States and the United Kingdom). On the other hand, the “Danish model” relies on a generous welfare system, complemented by ALMPs based on training. The Danish approach aims to provide workers with both human capital and out-of-work income to foster their “individual bargaining power” in the labor market. Whether Denmark has gone too far in this direction is an open question. France and the Netherlands are somewhere in between, with more generous out-of-work benefits than the United States, United Kingdom and (in more recent years) Germany, but less active ALMPs than Denmark.

1. The share of low skilled and immigrants and the incidence of low pay

1.1. Education, training and the supply of low skilled work

In the individual-level logistic regression analyses reported in chapter 2, for all six countries in our study, we found that less-skilled workers have a higher probability of being in low-wage employment than do skilled or highly educated workers. Using national-level data, however, we found no evidence of a correlation between the size of the less-skilled labor force and the share of workers on low-wages using our definition of low-wage work. Two common proxy measures of skill levels are average years

of formal schooling and the proportion of the population holding qualifications above upper secondary level. Table 1 shows that only one of the two countries with a relatively low incidence of low-wage employment (Denmark) is highly-placed in terms of these two skill measures. The other country with relatively few low-paid workers (France) is second-lowest among the six countries in terms of average years of schooling and tied for lowest in terms of qualifications held above upper secondary level. Conversely, the country with the highest incidence of low pay (the United States) is relatively highly ranked on both skill indicators.

Skills, however, are notoriously difficult to measure. Neither years of schooling nor formal qualification measures do justice to important institutional differences between these countries. The relatively high proportion of workers with upper-secondary qualifications in Germany and Denmark, for example, reflect their strong apprentice training systems. By contrast, in the United States, the bulk of upper-secondary qualifications probably refer to high-school graduation rather than certified vocational skills. Literacy scores, available from the International Adult Literacy Survey (IALS) for the mid-1990s, may be a better measure of skills for our purposes. The IALS data cast doubt on skill rankings based on years of schooling and formal qualifications. For example, after defining a ‘low-skilled’ category as all persons in the bottom quintile of literacy scores among IALS respondents across 10 countries, Mühlaup and Horgan (2001) estimated that some 23% of the United States working-age population were low-skilled by this definition compared to 29% in the United Kingdom and only 15% in Germany and 13% in the Netherlands.³ Low levels of basic skills such as literacy may well contribute to the relatively high incidence of low pay in the United States and the United Kingdom, but the relatively strong performance of countries such as Germany on such skill measures has not prevented the low-paid share of the German workforce from approaching UK levels in recent years.

Table 1

³ These rankings do not change if analysis is confined to native speakers in each country.

In addition, analysis of labor force data shows that high skill levels are not a sufficient condition to avoid low-paid employment. While, as noted above, the probability of being low paid is higher for less-skilled workers than it is for skilled workers in all six countries, four of the countries have non-trivial shares of low-paid workers who hold intermediate-level qualifications and, in some cases, even tertiary qualifications. In Germany, more than 75% of all low-wage workers are qualified to at least craft apprentice level (Bosch and Kalina, 2008). In the United Kingdom, a fifth of workers holding NVQ 3 (craft-level or upper-secondary) qualifications are low-paid (Mason, Mayhew, Osborne and Stevens 2008). In France, in recent years the incidence of low pay among the two most highly-educated groups has increased, whereas it has decreased among the least educated (Caroli, Gautié and Askénazy, 2008). In the Netherlands in the 2000s, the low-paid share of employment has increased among both skilled and less-skilled (Salverda, 2008). In Denmark, low pay has become more concentrated on youth with secondary education but there are low paid among all skill groups. (Westergaard-Nielsen, 2008).

Thus, it is clear that differences in average skill levels between countries explain little of the differences in low pay between them. Nonetheless, analysis of income mobility in each country shows that skilled low-paid workers have a higher probability of moving up and out of low-wage employment in the future than do less-skilled workers. Thus, the most likely link between low skills and low pay is the relatively low mobility of the less-skilled which, in combination with other factors discussed below such as growth in immigration and the supply of student labor, may severely reduce the individual bargaining power of the majority of low-paid workers in some countries.

1.2. Immigration policies and the impact on the low-wage labor market

In some countries, immigration may provide an important supply of less-skilled workers who for

reasons of legal status or language ability may also have relatively little bargaining power.⁴ The incidence of low-wage work among immigrants is indeed above the average in all six countries. The potential depressing effect on wages (and, to a lesser extent, employment opportunities) at the lower end of the labor market has been much debated in the United States, where the number of less-skilled immigrants has increased substantially over the last fifteen years (see, for example, Aydemir and Borjas, 2007 and Card, 2005).

Table 2

The stock and the change in the stock of immigrants differ substantially across our six countries. First, in 2005, Germany has the same share of immigrants in its total population (12.9%) as the United States, with the Netherlands (10.6%) and the United Kingdom (9.7%) fairly close behind. France (8.1%) and Denmark (6.5%), meanwhile, have the lowest immigrant populations. The highest relative inflow of immigrants is found in the United Kingdom, the United States, and Denmark. In all countries except Denmark, immigrants have a higher employment rate than the native population. Immigrants are also more likely than natives to be self-employed. That said, the most dramatic increase in employment among the foreign-born is found in Denmark, where the foreign-born almost doubled their employment share between 1995 and 2006. The employment share has increased in all countries except France (where it was essentially flat)

The size and growth of immigrant populations, of course, reflects the strictness of both *de jure* and *de facto* national immigration policies. Among the countries in our sample, France appears to have the strictest immigration policy. High and persistent unemployment there have contributed to the view that immigration represents an economic threat to native workers. As a consequence, the number of legal immigrants has grown slowly over the past three decades. Meanwhile, the United Kingdom has more actively encouraged immigration, particularly since the second half of the 1990s. The explicit aim of

⁴ Of course, immigrants often have levels of education that are above the national average. For evidence of a bimodal distribution of immigrant educational qualifications --with immigrants over-represented at both the low-end and high-end of the education distribution-- in the United Kingdom and the United States, see Schmitt and Wadsworth (2007).

the British government was to provide the economy with an available pool of labor for low-paid jobs – especially for sectors where recruitment difficulties threatened to induce wage inflation. In recent years, the large inflow into Britain of workers from East European countries (new entrants in the European Union) has helped to reduce upward wage pressure in sectors like hotels and food processing. British employers have often taken advantage of the country's limited regulation of temporary agency work (see chapter 3) to recruit an increasing number of immigrant temps. This strategy has allowed employers to keep down both wages and the costs of fringe benefits. German and, to a lesser degree, Dutch employers have in recent years also implemented similar strategies –using both foreign temps and “posted-workers” from eastern European countries (Bosch and Weinkopf, 2008; Salverda, Van der Klaveren and Van der Meer, 2008). National policies also shape shorter-term flows of migrant labor. Work permits in Germany and, to a lesser degree in the United Kingdom and the United States, have contributed to significant increases in labor supply. Short-term migrant labor does not play any significant role in France, the Netherlands, or Denmark.

An important policy question is whether immigrants put downward pressure on wages, especially of less-skilled workers. This does seem to be the case at the bottom of the wage distribution, even when immigrants have an intermediary level of education. Empirical evidence from the United Kingdom, for example, shows that many immigrants have to downgrade substantially upon arrival and accept work in occupations below their skill level, competing with unskilled natives, and especially with other immigrants (Dustman et al, 2008). According to Manacorda, Manning and Wadsworth (2007), as natives and immigrants are imperfect substitutes, the most sizeable effect is on recent immigrants. However, in the medium run, the effects of immigration on natives may depend on institutional characteristics, and therefore may differ between countries: according to Angrist and Kugler (2003), the negative impact on natives’ employment may be significant in countries with restrictive institutions (high employment protection legislation and high barriers to entry for example), in particular because these restrictions may dampen the rate of job creation.

Employers take advantage of “holes” in pay-setting and labor-market institutions analyzed in the

previous chapter, including the absence of equal treatment for temporary workers in the United Kingdom, Germany and the Netherlands; the absence of a legal minimum wage in Germany; and the decrease in the coverage of collective agreements also in Germany (see Chapter 3). The impact of immigration on the labor market is clearly mediated by these institutional contexts. Denmark provides an interesting illustration. The number of immigrants has more than tripled between 1980 and 2004 – reaching about 6% of the population in 2005 – while the national incidence of low-wage work has remained low. At the same time, the labor force participation rate of immigrants is much lower than that of the Danish natives – and their unemployment rate is twice as high. The main reason for that is that unions have maintained control over wage levels, including the right (held for more than 100 years) to demand a contract on any work performed in Denmark. If the employer refuses to sign a contract, the unions have a right to take industrial action. In most cases, employers have found that it is cheaper to have a contract on the minimum tariff than to resist union pressure. As a result, the Danish unions have been able to police the wage levels at the lower end of the labor market. The contrast with the American experience is striking. In the United States, immigrants have much higher (regular and nonstandard) employment rates and much lower wage rates than in Denmark.

The pattern of inflow of immigrants has radically altered the German labor market, moving Germany in the direction of the United States, the other big immigrant society in our sample. In Germany, an increasing share of jobs are now performed by non-natives, with a simultaneous rise in the low-wage labor market within the least regulated industries. No other countries in our sample show a similar development.

2. How national institutions shape the labor supply of the vulnerable groups

Women, young people, and older workers are the demographic groups most vulnerable to low-wage work (see chapter 2). Members of these groups are more likely to fall victim to employers' “monopsony power” because these groups often lack alternatives to low-wage work due to low human

capital (relative lack of labor-market experience for younger workers, reduced capacities or obsolete human capital for older workers) and other factors such as mobility costs (especially for women who may have child- and elder-care responsibilities) or employer discrimination. The preceding chapter discussed the extent to which “collective bargaining power” may help to offset this potentially low “individual bargaining power.” The less inclusive the institutional system, the more likely these individual differences in bargaining power are to give rise to a dualistic labor market, resulting in a higher incidence of low-wage work among these disadvantaged groups.

When human capital (including mobility opportunities) is low, the main alternative to low-wage work is some form of public income support. Following Bertola et al (2007), youth, older workers and women can be labeled “secondary labor force groups” because their labor supply is more elastic (as compared to middle age males) – i.e. “*the value of their alternative uses of time is closer to that of being employed*” -, and, as a consequence, they are less “attached” to the labor market. In this section, we examine the role of institutions in shaping the “alternative uses of time” for groups experiencing a high level of low-wage work in most of our six countries.

2.1. Women

In all the countries women tend to be overrepresented among low-wage workers. But the ratio of relative concentration (adult women/adult men) differs across the countries (see table 2.2. in chapter 2). The highest concentration is in the United-Kingdom (about 3.3), followed by the Netherlands (about 2.7) and Germany (about 2.5), then France (2.2), Denmark (2.0) and, finally, the United-States (1.9).

One has to disentangle the different factors that may affect the trade-off between low-wage work and non-work – which is mainly a trade-off between paid work and home production for households at low income levels.

The basic facts are that women have increased their labor force participation rates substantially in recent years. Women's labor force participation rates are highest in Denmark (74%), followed by the United States and the United Kingdom (both 68%). The Netherlands (66%) in 2006 trailed closely behind, after a remarkable 19 percentage point jump in female participation rates in less than two decades. Germany has also seen a large increase in female participation since 1990 (up nine percentage points), but still lags well behind the previous four countries. A similar situation holds in France, where female participation is up seven percentage points, but French women are still 17 percentage points behind their Danish counterparts (Table 3.)

Table 3.

The labor force participation rates in Table 3, however, don't tell the full story. Participation rates, on the own, don't tell us about the number of hours of paid work that women perform, nor do they shed light on the pattern of participation over the life cycle⁵.

Women's normal work hours differ substantially between the countries (see Figure 1).

Figure 1:

Women in the United States tend to work 40-44 hours per week; and a relatively small share work fewer hours or longer hours. The same concentration is found in France and Denmark, though at a lower mean value reflecting a lower maximum hours (35 and 37, respectively) in both countries. Relatively few work part time. German and British women tend to work lower hours, and therefore we see more part time. Almost as many work short hours as are working 35-39 hours. The Dutch women are clearly working shorter hours than anywhere else. The lower the hours, the more marginal the workforce is likely to be. As the hourly pay of part-time work is also on average below that of

⁵ Note that for women aged 25-54, the differences in participation rates between countries are much lower and France and Germany get much better scores: in 2006, this rate amounted to 85.1% in Denmark, 81.2% in France, 80.3% in Germany, 78.4% in the Netherlands, 77.9% in the UK and 75.5% in the US (see also chapter 2).

full-time work, there is overall a negative correlation between the number of hours worked and the incidence of low wage. Women are least overrepresented among the low-wage workers in the United States, Denmark, and France where they tend to work “normal” hours as seen above.

The tax system

National income tax systems have an important effect on women's incentives to work. Different countries tax couples in such a way that the second taxpayer in the couple is taxed differently from the first Table 4 presents OECD data on income tax rates in our six countries for couples at different income levels. In all countries, the second earner actually pays a higher tax rate compared to a single earner. The difference means that there is a clear tax incentive not to work or at least not to work as many hours and this is especially true for low-wage earners (except Denmark). The disincentives are clearly largest in Germany. Joint taxation in Germany, France, and to a lesser degree in the United States, contributes to this situation. The difference in marginal taxation may actually encourage overtime work for men, which may compensate for fewer hours for women. The net result of these tax incentives is to diminish women's incentives to work and to push women towards a more marginal position in the paid labor market.

Table 4

Employee's social contributions may also play a role in setting the reservation wage. In Bismarckian welfare systems, such as Germany, France and the Netherlands, entitlements of spouses and children to health insurance are typically derived from the entitlements of “male bread winners”. Groups relying on these derived entitlements are more likely than they are in other systems to take low-paid jobs exempted from employees' social contribution (such as “mini-jobs” in Germany, which are also exempted from income tax – see chapter 3) or even undeclared jobs. Whenever workers' individual bargaining power is weak, employers operating in these Bismarckian systems may take advantage of this legal or *de facto* exemption from social contributions (and income taxes) by

lowering compensation.

Child care provision and parental leave

Looking at the participation rate over the life cycle, women are less likely to work when they have small children. This tendency is greater in the United States, the United Kingdom, Germany and, to a lesser extent, France than it is in Denmark and the Netherlands. The reason is undoubtedly the much higher prevalence of relatively cheap child care in Denmark and the large number of low-hour part-time jobs in the Netherlands (which allow women to combine paid work and child-care responsibilities).

Large differences in the availability of paid and unpaid maternity, paternity, and parental leave undoubtedly influence women's labor supply decisions. The United States is the only one of our six countries where maternity leave is unpaid (and the right to maternity leave is limited to 12 weeks); moreover, because the US Family and Medical Leave Act includes restrictions on establishment size (only establishments with 50 or more employees are required to grant unpaid leave) and job tenure (only employees with at least one year of tenure with their employer), many low-wage workers in the United States are not eligible even for unpaid leave⁶. The other five countries have paid maternity leave of 12 to 26 weeks, and even short periods of paid paternity leave. The United Kingdom also offers an additional entitlement to unpaid leave of another 26 weeks. The European countries are also more generous when it comes to post-maternity and post-paternity leave, often referred to in Europe as "parental" leave. France, for example, provides a three-year entitlement, albeit it at a low replacement rate equal to about 26% (OECD family database, 2007) of an average manufacturing worker wage. Germany guarantees 104 weeks of leave, but the replacement ratio is only 11%.

A long entitlement to a leave paid at a low level relative to the typical wage may render low-wage families unable to take advantage of long leave periods. At the same time, long and generous leaves made available exclusively to women or taken up overwhelmingly by women, may inadvertently act

⁶ See Ray, Gornick and Scmitt (2008).

to marginalize women in the labor market, by reducing employers' incentives to hire women of child-bearing age or by taking women out of the labor force for prolonged periods of time precisely at the time in many workers' careers when they make their most rapid wage and occupation gains.

After the initial leave period, -the availability of child-care institutions matter. Denmark and France have a mixture of publicly provided, center- based care and family day care for the smallest children and preschool and kindergarten for the 3+ age group. Germany also offers publicly provided, center-based day care and kindergarten. The Netherlands has mainly privately provided child-care centers and playgroups for children below 3.5 and from then on, publicly provided pre-school. In the United Kingdom and the United States, the large majority of care for small children is privately paid for. The United Kingdom offers so-called reception classes for four years olds.

The level of government subsidies to child care (in the form of direct state payment or sliding-scale benefits) and the tax treatment of child-care are also important.

Child-care subsidies work by reducing the relative price of child-care and thereby increasing the return to market work relative to home production. In this respect, child-care subsidies can be seen as a way of offsetting the negative effect on participation embedded in the tax systems discussed above.⁷ Subsidies can also be seen as a mechanism to encourage low-wage working mothers to participate in the work force. This effect is often reinforced by making the subsidy means tested. In the absence of a generous subsidy for child-care work, low-wages, the availability of out-of-work supports, and the tax structure can combine to send a clear signal to mothers to decline paid work or to work only relatively short hours as is the case in Germany and Netherlands. In the United States, though, where women's employment rates are relatively high despite the absence of significant child-care subsidies, low-wage mothers have a strong incentive to choose cheaper and usually lower quality day care arrangements.

⁷ Child-care subsidies might also offset the rise in child-care workers' wages in response to higher demand for child-care workers.

Finally, there is a public good element in child-care subsidies, where the public sector in some countries set relatively high standards for the quality of child care. In order for the low income moms to afford these services there is clearly an argument for subsidizing child care facilities - see Waldfogel, 2006; Folbre, 2001.

The OECD has estimated the generosity of child care in the different countries by how far (in standard deviations) a country lies above or below the OECD mean level of expenditures on child care. (Immervoll and Barber, 2005). According to the OECD, Denmark spends 2.5 standard deviations more on child care than the OECD average. France about 0.8 standard deviations above the OECD average, while Germany is just a little above the OECD average. The Netherlands, the United Kingdom, and the United States, however, all spend less than the OECD average. These numbers clearly reflect the high public-sector involvement in child-care provision in the first three countries and the low involvement in the other three countries.

The accessibility of child care in each country, together with characteristics of the national tax and benefit system, has an important influence on the participation rates of women as well as on the types of jobs that women hold. In Germany and the Netherlands, which have social systems originally built on the "male-breadwinner model" and only modest publicly provided child care, many women accept "mini-jobs" in Germany and low-hour part-time jobs in the Netherlands. In the UK, the lack of publicly provided child care certainly contributes to the high share of part-time work among women. Partly as a consequence, Germany, the Netherlands, and the United Kingdom have the highest concentration of women in low-wage work.

The marketization issue

Families make joint decisions about the amount of labor to supply in the market. In deciding the number of hours that fathers and mothers, in particular, will work for pay, families weigh the hourly wage (net of taxes and subsidies) received by each member for an extra hour of paid work against the value of home production (child-care services, for example) for each member. The tax wedge --the gap

between a worker's gross pay and net pay-- acts to lower the return of paid work relative to home production, thus discouraging work, especially among low-wage workers. The mechanism is explained in the box below.

Box 1: the marketization trade-off, an illustration

Let us say that the household work in question is doing the family laundry. The value of that work is cost of "outsourcing" the dirty clothes to a laundry service. The cost of the laundry service will depend on the market wage for laundry workers, plus social contributions to be paid by the employer, plus any value-added or sales tax on the service, minus any subsidy for laundry workers or laundry services. At a laundry, the productivity is undoubtedly much higher than at home because the laundry will have bigger and better washing machines, dryers, and presses. From a productivity standpoint, we should all send our dirty clothes to a laundry and use our time to working on what we do best. Using laundering machines in the household will, of course, lower the amount of time that the household will spend doing laundry "in house" and help to close at least part of the productivity gap between household and market production.

A concrete example of the choice facing a family illustrates the complexity of the family's labor supply decisions. If a Danish professional earns say, €40.00 per hour and is, therefore, paying a 61% marginal tax rate, that professional's after-tax earnings for their last hour of work will be €15.60. The minimum wage rate in Denmark is about €14.00 per hour, to which must be added a value-added tax for services of 25%. As a result, for a professional to pay for an hour of service work at the Danish minimum wage rate would cost about €17.50, or more than his or her net wage from an hour of work at the professional rate. In other words, working one hour at a typical Danish professional wage buys only 53 minutes of assistance at the effective Danish minimum wage disregarding capital costs.

In France, Germany, and the Netherlands the income tax are clearly lower than in Denmark, but here the social contributions (paid by the employer or the employee) are particularly high, creating situations not unlike the case described for Denmark above.

The total tax wedge is clearly lowest in United Kingdom and United States, suggesting that we should expect to see more market work in those countries than in the higher tax wedge countries of Denmark, France, Germany, and the Netherlands. Since many of the low-wage jobs in the United States, for example, are low-wage service jobs in child-care, food preparation, and other personal services, the tax wedge could have an important impact on the demand for low skilled workers. But other things are also at play.

One key factor is the degree of wage inequality. If the wage distribution is compressed, then the before-tax earnings of the professional (in search of outsourcing) and the (low-wage) worker hoping to do the outsourced work will be small and for any given level of the tax wedge and relative productivity levels, the amount of outsourced work will be smaller than if wage differentials were large. The greater the degree of wage dispersion, the more it pays for the high income earners to outsource home work to the lower paid workers. Americans and to a lesser extend British professionals, who work in countries with a high degree of wage inequality, will be more likely to choose to outsource household tasks than would be the case for professionals in Denmark, France, Germany, or the Netherlands, where hourly earnings are more compressed.

In this context, child-care subsidies can work to counteract the disincentive effects of a large tax wedge. Child-care subsidies in France and the Scandinavian countries, for example, are sufficiently large to induce women, in particular, to choose market work over child-care.⁸ Similarly, you will here find very few child care facilities outside the public and subsidized sector in these countries. In the

⁸ Note that at least some portion of the women who choose market work over unpaid child care in the home are choosing to work in the paid labor market as child-care providers.

United States, however, subsidies play little role in creating a market for child-care services. The relatively low wage in the child-care sector together with the country's small tax wedge combine to provide generally private solutions to child care.

Another important area for outsourcing is food preparation. Time-use studies show that American women work more hours than their European counterparts, but the American women still have more leisure time than European women do because the Americans spend less time on household production. According to Freeman, 2007 and Freeman and Schetkatt, 2005, the biggest reason for the difference in time spent in household production is differences in the degree of *marketization* in the United States and Europe. Americans move more activities from home production including meal preparation, child care, and household cleaning and maintenance, to market production. Americans, for example, spend only four hours a week on cooking, compared to 6.5 hours per week in Germany and the Netherlands. Not surprisingly, Americans simultaneously spend almost 3 times as much eating out in restaurants.

Immigrant workers appear to play an important role in providing the relatively abundant, less-skilled labor that performs the marketized service-sector work. Consistent with this view, the United States and the United Kingdom clearly have more immigrant friendly policies than do Denmark, France and the Netherlands where home-production is more prevalent than it is in the United States. Germany falls somewhere in between these two sets of countries. The German immigrant population is similar in size to that of the United States, but marketization is not yet as extensive as it is in the United States, partly due to the larger German tax wedge.

2.2. Youth and older workers

Youth

In all our countries, young workers are much more likely than the average worker to be in a low-wage job. The concentration index (the incidence of low-wage work among youth over the total

incidence of low-wage work— see table 2.2 in Chapter 2) is highest in Denmark (about 5), followed by France (about 3.7), the Netherlands (about 3.3) and Germany (3), and lowest in the United States and the United Kingdom (about 2.3).

Youth usually have fewer entitlements to income support than the rest of the population. The reduced entitlement may reflect their limited employment experience (unemployment insurance benefits typically depend on having made a stream of contributions), or the lower relevance for young people of some income-support programs such as sickness leave, incapacity or invalidity benefit, and early-retirement. In some cases, government programs explicitly exclude young people, as in Denmark or France – where, for instance, the means-tested Basic Minimum Income – *RMI*, is available only for those age 25 and older. Overall, the relatively limited access to income supports creates substantial incentives for the young to take low-wage jobs.

Across the six countries, students (who are overwhelmingly young) consistently have a higher-than-average rate of low-wage work. In Denmark, and, to a lesser extent, the United Kingdom and the Netherlands, students comprise an important share of low-wage workers (see Chapter 2). The generosity and conditions of student grants play an important role in shaping the labor-market experience of students. In the United Kingdom, for instance, publicly funded maintenance grants have almost disappeared in the past decade (except for the poorest students), and this has induced a big increase in student work. In France, until recently, students who received a maintenance grant could not legally combine it with earnings from work. As the level of grants was usually not sufficient to survive, many students were obliged to take an undeclared low-wage job. In Germany, students in “mini-jobs” have their health insurance provided through their student status. In the Netherlands, a universal system of grants was put in place in the 1980s. Since students are allowed to combine their work earnings with their grants up to a threshold amounting to about 70% of the adult minimum wage, these grants effectively act as a subsidy enabling students to compete with working adults for low-wage part-time jobs.

Denmark is the country in our sample where youth (and particularly students) play the biggest role in the low-wage labor market. Beyond the elements already mentioned, it is worth noting that access to further education in Denmark depends on grades from High School and, if a student has poor grades, then on work experience (although work experience now plays a lesser role). As a result, many students take jobs at the low end of the wage scale in order to improve their opportunities in the educational system. In any event, young people can only receive welfare or unemployment benefit for a short period and students are not eligible to most transfer payments. A selection bias may also be at play in Denmark: since the Danish Welfare system is quite generous, *“only those who expect to move out of low-wage work relatively quickly accept low-wage jobs”* (Westergaard-Nielsen, 2008).

Older workers

The picture is more mixed for *older workers*. In the United States, many older workers have to take low paid “bridge-jobs” to retirement⁹, or to combine retirement with employment because of low pensions. In Europe, pensions and other forms of financial support for older workers are generally higher than they are in the United States. Low-wage jobs are often replaced by benefits such as early retirement schemes - or incapacity benefits, which may act as a functional equivalent to an early retirement scheme.

In Denmark, an early retirement program was introduced as an option for all members of the national unemployment insurance system. Under the scheme, called “post-employment wage,” eligible workers were entitled, from age 60 through the regular retirement age, to receive a benefit equal to the unemployment insurance for the first years and then gradually reduced to the level of pension. In Denmark, the number of beneficiaries of invalidity benefits is also high (including many workers below the retirement age).

⁹ “Bridge jobs”, are lesser paid jobs older workers take after leaving their “career job” (see Rhum, 1990 for this distinction).

While access to invalidity benefits used to be stricter in France and Germany, publicly funded early retirement schemes (from the age of 55) have also been used intensively in these countries in recent decades. In both countries, unions and employers have negotiated early retirement as part of restructuring packages. But in France, since the beginning of the 2000s, the new priority has been to curb the number of early retirees, and to suppress the remaining publicly funded programs. The result has been an increase in the number of recipients of other benefits (such as long-term sick leave or a special unemployment allowance that come with no job-search requirement).

In 2006, the Netherlands abolished an early retirement program that until then had played an important role in the labor market.¹⁰ Three years before, in 2003, the special unemployment allowance for those aged 57.5 or older was also ended. Over the last decade, the Netherlands has also seen significant reforms to the various types of incapacity benefits (sickness benefit, comprehensive disability insurance, and others), whose beneficiaries had reached record levels due to relatively easy eligibility criteria. Even though early retirement schemes had not been implemented in the United Kingdom, the number of beneficiaries of the invalidity benefit system reached high levels.

Overall, even though the existence and particulars of early retirement policies vary considerably across the six countries, these schemes prevent many older workers from falling into low-wage jobs. Since, all else constant, older workers tend to have less formal education than younger workers, we would expect older workers to be over-represented among the low-paid. Country-level regressions (see Chapter 2), however, find that older workers are less likely than young workers to be low-waged, though, older workers are generally more likely to be low-waged than prime-aged workers. Older workers, of course, tend to have substantial labor-market experience and firm-specific human capital, but early retirement schemes (and functional equivalents) play some role in explaining the low incidence of low-pay among pre-retirement-age workers. The United States, meanwhile, has little in the way of publicly funded early retirement plans – though rates of disability insurance have been

¹⁰ The reform faced strong opposition, and as a result, workers are allowed to use their “life course scheme” – i.e. tax deductible individual saving accounts – to retire early.

rising in recent decades. As a result, the incidence of low-wage work among older workers is higher there than in the European countries (see chapter 2). The so-called low-wage “bridge jobs” to retirement that many older American workers have – often accepting wage and benefit cuts relative to compensation earlier in their careers -- are much less developed in the European countries mainly because there are early retirement and disability programs. But as the legal retirement age is increasing in Europe and as reforms in all European countries tend to tighten eligibility or even to abolish early retirement and disability programs, Europe may see a rise in "bridge jobs" and accompanying low wages.

3. Incentives and pressures on the unemployed to take low-wage jobs

The supply of low-wage workers also depends on the pressure the labor market institutions put on the unemployed (and those out of the labor market) to accept low-wage jobs. The main determinants of the degree of pressure operating on potential low-wage workers are the benefit system (unemployment insurance, social assistance, and in-work benefits) and Active Labor Market Policies (ALMPs), which seek to "activate" the unemployed as well as "marginally attached" and discouraged workers.

3.1. Unemployment benefits (UB)

Unemployment benefits affect the reservation wage of the unemployed – and therefore their incentives to accept or refuse a low-wage job. The four most important features of any unemployment benefit system are: (1) the replacement rate, that is the average share of the unemployed worker's on-the-job earnings replaced by unemployment benefits; (2) the ease of eligibility, including any employment or contribution history requirements; (3) the duration of the benefits; and (4) eligibility rules and monitoring, including the possibility to refuse a job offer and criteria for what constitutes an "acceptable" job offer.

The generosity of the UB systems differs widely across countries. Table 5 shows large differences in the duration of unemployment insurance. The United Kingdom and the United States offer unemployment insurance for a maximum of six months; Germany, up to 12 months; France (23 months) and the Netherlands (24 months) for about two years; and, Denmark, up to 48 months. Replacement rates also tend to be more generous in Denmark, France, and the Netherlands, than they are in Germany, the United Kingdom, and the United States. Note that when including other social benefits, the net income loss for a low paid single worker is even higher in Germany than it is in the United States.

Table 5

Various characteristics of the national unemployment benefit systems, however, often make UB less relevant for the low-wage labor market. In all six countries, the existing UB systems reflect a strong, historical emphasis on a "bread winner" model built around beneficiaries who were assumed to be in stable, therefore with long employment records. Low-wage workers often have more unstable employment. As a result, many features of the UB systems, such as minimum requirements for continuous employment or minimum earnings or contribution levels work, in practice, to exclude many low-wage workers, who are often new entrants or re-entrants to the labor force (and therefore have no record of contributions to the UB system), or have erratic employment histories that don't meet continuous-employment criteria, or have earnings or contributions records that fall below eligibility thresholds. Overall, UB are likely to be less generous for low-wage workers than the official replacement rates presented in table 5 – which are relevant only for those who meet the eligibility criteria.

3.2. Social assistance and inwork benefits

Other income replacement benefits (IRBs) also affect incentives to take a low-wage job. The first, and probably the most important of these IRBs are various types of social assistance schemes – i.e.

means-tested income supports¹¹: *Kontanthjaelp* in Denmark; Unemployment social assistance (ASS), Social assistance for lone parents (API), and Basic Minimum Income (RMI) in France; Unemployment social assistance (so-called “*Unemployment Benefit 2*”) and “*Livelihood Assistance to Persons Outside of Institutions*” in Germany; *ABW* in the Netherlands; Unemployment assistance and Income Support in the UK; and, to a lesser degree, Temporary Assistance for Needy Families, *TANF* in the United States. Many beneficiaries of these schemes are unemployed workers who have exhausted their eligibility for UI benefits but still have not found a job.

Over the last 15 years, the potential negative impact of IRBs on the incentives to take a job has been a growing concern in the countries in our sample. To tackle this issue, a first strategy has been to reduce the generosity of the benefits (in terms of level, eligibility, and duration). The United States opened the way with “welfare reform” in the mid-nineties, which required that many “welfare” beneficiaries work in return for benefits (“workfare”). The United States is also the only country in our sample to have introduced a maximum (cumulative) life-time duration of social assistance (five years for the beneficiaries of *TANF*). More recently, in Germany, the Hartz IV reforms merged unemployment assistance with social assistance, to create a substantially less generous program known as “*Unemployment Benefit 2*”.

Another policy strategy has been to “make work pay” by increasing the financial benefits of taking a job. Income-tax credits are the most common in-work benefits. Such a scheme exists in the United States (*Earned Income Tax Credit*), the United Kingdom (*Working Family Tax Credit*, the most generous in-work benefit in the OECD countries, which was replaced in 2003 by the *Working Tax Credit* and the *Child Tax Credit*), and in France (*Prime Pour l’Emploi* – which, so far, is less generous than the EITC and the WTC). Denmark recently introduced a sort of income-tax credit, but with limited scope (only 2.5% of the wage, up to a maximum of €1000, which was increased in 2008 to 4%

¹¹ Note that “unemployment assistance” benefits are usually included in passive labor market policies (PLMPs), while other means-tested benefits (“social assistance”) are not. The merger of unemployment assistance with social assistance in Germany (see below) explains the big increase in the beneficiaries of “PLMPs” counted by the OECD (+ 53% between 2004 and 2005).

of the wage and a maximum of €1630). Evaluations in the United States and the United Kingdom tend to show that such schemes increase incentives for job take-up for lone parents and primary earners in couples, but tend to reduce slightly incentives for secondary earners (especially with respect to the number of hours worked). Beyond in-work benefits (that is, benefits conditional on employment), some other IRBs can, under certain conditions, be combined with earnings from work (for example, with means-tested unemployment assistance benefits and minimum incomes, such as “*Unemployment Benefit 2*” in Germany and the *ASS* and the *RMI* in France).

In-work benefits may act as a subsidy to low-wage work. Depending on program design, employers may have an incentive to lower wages or flatten wage profiles, with the knowledge that government-provided in-work benefits will make up the difference. High marginal implicit net tax rates may also make it difficult for workers to escape low-wage work, by introducing a “low-wage trap”. As a consequence, a legal minimum wage may be a useful complement to generous in-work benefits. In the United Kingdom, for example, the national minimum wage (NMW) was introduced simultaneously with the increase in the level of the national earned-income tax credit (the Working Family Tax Credit, replaced by the Working Tax Credit).

Another possible trap is that workers and employers collude at the expense of the government. In the United Kingdom, for example, in order to comply with the minimum wage (which is defined on an hourly basis), some British employers understate their workers total hours of work, but also understate the real pay of the worker (by a smaller degree), so that employees can benefit from higher in-work benefits (Ram, Edwards, Jones, 2004).

Overall, taking into account all the social benefits (including in-work benefits), what is the incentive to take a low-wage job in the different countries in our sample? The OECD provides comparative data on the so-called “inactivity trap”, based on the estimation of the “Marginal Effective Tax Rate”¹² (METR) applicable to the after-tax earnings of those who move from social assistance to

¹² Defined as: $1 - [\text{increase in net income} / \text{increase in gross work activity earnings}]$.

work. In 2001, for example, a single person who moved from social assistance to a job with a wage equal to 67% of the average production worker wage, faced a METR of 83% in Denmark, 80% in Germany, 71% in France, 84% in the Netherlands, 70% in the United Kingdom, and only 29% in the United States. On the same basis, Carcillo and Grubb (2006, Figure 6) provide an estimate for 2004 of the financial incentive to work at the minimum wage in several countries, depending on the household structure. The gap between all three European countries in our sample with a minimum wage, on the one hand, and the United States, on the other, is high. For a single person without children, for instance, the net income from social assistance¹³ amounts to about 90% of the minimum wage in the Netherlands, 80% in the United Kingdom, 60% in France, but only 20% in the United States.

3.3. *The role of Active Labor Market Policies (ALMPs)*

ALMPs cover a wide range of policies running from placement and job search assistance (provided by the Public Employment Services or mandated service providers), to training, job subsidy in the private sector, direct job creation in the non-private sector, and start-up incentives for the unemployed. Table 7 presents OECD data on ALMP public expenditures for our six countries. Denmark (1.74 percent of GDP) and the Netherlands (1.33 percent of GDP) spend substantially more on ALMPs than do the other countries in the table; Germany (0.97 percent) and France (0.90 percent) follow; and the United Kingdom (0.49 percent) and the United States lag far behind (0.13 percent). After we adjust these expenditures for the share of unemployed workers¹⁴ in each country, Denmark (0.36 percent of GDP per percentage point of unemployment) and the Netherlands (0.28) still far

¹³ Net incomes are calculated taking into account incomes taxes and secondary benefits adjusted to each situation. Data include: unemployment assistance, social assistance, minimum income or lone parent benefits (depending on the situation), income tax (net of any tax credits) employees social security contributions, housing-related cash-benefits, family benefits, lone parent benefits and in-work or employment-conditional benefits. They exclude unemployment insurance benefits.

¹⁴ This measure, though convenient may not be ideal since ALMP to some extent reduces the number of unemployed by moving them out of the unemployment statistics.

outpace the remaining countries. Germany (0.10) and France (0.09)¹⁵, however, now fare no better than the United Kingdom (0.10) because the greater German and French expenditures must be spread across much larger shares of unemployed workers. The United States (0.03) continues to spend far less on ALMPs than the other countries, even after adjusting for its relatively low unemployment rate.

As we saw in the preceding section, Denmark and the Netherlands manage to provide extensive and generous UB and related benefits, yet also maintain unemployment rates as low as the much less generous United Kingdom and United States. The expenditure patterns in Table 6 suggest that one reason why Denmark and the Netherlands achieve these results may have to do with both countries' strong emphasis on ALMPs.

ALMPs seek to overcome a host of problems in the low-wage labor market. Various ALMPs focus on closing skill deficits (through education and training); overcoming informational problems in the low-wage labor market (through creation of centralized hiring halls, payment of recruitment bonuses, job-search counseling, and assistance with job applications); and directly or indirectly creating more low-wage job opportunities (through job subsidies¹⁶ and public-employment creation). Finally, it should also be mentioned that ALMPs may also serve as a threat or an enforcer to discipline recipients of unemployment and other benefits. The main reason for this is that participation in ALMP is often a condition for eligibility for unemployment benefits.

More widely, ALMPs attempt to "activate" benefit recipients to find and take jobs, by "making work pay" - either through raising the costs and responsibilities involved in receiving government-provided benefits or by helping overcome work-related costs (including child care, transportation, and taxes). In the last decade, the idea of "activation" has increasingly become the unifying principle across most ALMPs. As the OECD explains: *"activation includes both the provision of employment services and obligations on individuals who are able to work, to look for jobs and participate in*

¹⁵ This amount does not take into account the public budget dedicated to the exemptions of employers social security contributions at low wage levels, which are the main "employment subsidies" in France – see below.

¹⁶ As mentioned above, income tax credits, which are not taken into account in the ALMP expenditures, are important low-wage job subsidies, at least in the United Kingdom and the United States, and, to a lesser degree, in France.

*programs. Activation reforms can take two main forms: i) limiting access to non-employment benefits by individuals who are considered able to work...; ii) applying certain requirements, usually short of requiring full work-availability, to a significant proportion of all individuals on non-employment benefits."*¹⁷ (Carcillo and Grubb, 2006, p. 6).

ALMPs initially developed as part of efforts to reduce the prevalence of long-term unemployment (the RESTART program in the United Kingdom, for example). Subsequently, governments began to employ ALMP-style strategies to reduce benefit rolls for means-tested income support ("Welfare Reform" in the United States) and disability-benefit programs.

Table 6

Beyond the general principle of "activation", different types of active labor market policies have different impacts on the low-wage labor market.

In some countries, ALMP is more geared towards a "*work-first*" strategy: job search assistance and monitoring that place pressure on the unemployed to return to work as quickly as possible. These approaches seek to reduce workers' scope to refuse a job offer, including broadening the definition of what constitutes a "suitable job". Among the European countries, the United Kingdom offers the best illustration of this approach. In 1996, the UK's Unemployment Benefit was replaced by the "Jobseeker's Allowance". Administrators at national Job Centers became more aggressive in their efforts to persuade unemployed workers to accept jobs –withholding benefits in cases where job-seekers refused an offer. The "New Deal" was introduced two years later (initially targeted only at youth, later extended to older groups of workers). The New Deal is now compulsory for all young

¹⁷ The 2005 OECD Employment Outlook provides greater detail: "Key examples of activation programmes are requirements on unemployed people to attend intensive interviews with employment counsellors, to apply for job vacancies as directed by employment counsellors, to independently search for job vacancies and apply for jobs, to accept offers of suitable work, to participate in the formulation of an individual action plan and to participate in training or job-creation programs. The main target groups for activation programs are recipients (or claimants) of income-replacement benefits which are conditional on availability for work. This includes most recipients of unemployment benefits. Comparable availability-for-work conditions often apply to lone-parent and social assistance benefits. Participation in employment services can also be made obligatory for disability beneficiaries, but the services involved are relatively specific." (p. 175)

people aged 18-24 who have been on the Jobseeker Allowance for more than six months. Participants are given four months of intensive job search assistance, and if they do not succeed in getting a job during this period, they have to choose one of the four options: education, subsidized job with training, voluntary work, or environmental work (all at low or no pay). In recent years, the British government has also put greater pressure on recipients of incapacity benefits. Overall, ALMP in the United Kingdom probably contributed to the downward pressure on wages by increasing the labor supply at the bottom end of the labor market.

Since the Hartz reforms adopted in the beginning of the 2000s, Germany has also put much more emphasis on forcing the unemployed to take jobs, notably by widening the definition of “suitable jobs” (failure to accept a suitable job offer results in loss of benefits). At the same time, as mentioned above, the reform of the Unemployment Assistance has left the program much less generous than it had been.

Other countries put less emphasis on job-search assistance and monitoring, and have so far kept a more traditional strategy focused on different kinds of job subsidies in the private sector and direct job creation in the public sector. This approach may also amount to promoting low-wage work by directly subsidizing it. The French government, for example, subsidizes a wide variety of specific jobs and workers on certain types of employment contracts that promote training in the private sector; over the last three decades, France has also provided temporary jobs in the public sector as a last resort. Beneficiaries of these programs are usually paid at the minimum wage (sometimes less) while they work on special employment contracts designed to promote training. As a result, subsidized jobs through ALMP schemes have become an important segment of the low-wage labor market (especially for youth). Beyond these targeted schemes (mainly for youth and the long-term unemployed), a general public subsidy for low-wage jobs was also introduced in 1993.¹⁸ The general subsidy consists in reducing employers' social security contributions. Since the rate of exemption decreases as the wage

¹⁸ The general scheme is based on employers social security contributions. Before exemptions, the employers' social contributions amount to 40% of gross wage. At minimum wage levels, the exemptions reaches a maximum and amounts to about 26% (in 2005) – i.e. the employer pay only 14% of the gross wage, while the State pays the remaining 26% to the Social Security System.

increases (from 26 percentage points of gross wage at the minimum wage level down to 0 at 1.6 times the minimum wage and beyond), employers have an incentive to fix wages as low as possible and as well as to flatten wage profiles – which may contribute to a “low-wage trap”. Until recently, the general approach in the Netherlands has been similar to that of France. The largest employment-subsidy program is the WVA, which provides substantial subsidies (€2,500 for workers earning less than 130 percent of the minimum wage) to firms that take on and train low-wage workers. Until 2005, the Netherlands also operated a program known as SPAK, which sought to promote low-wage employment by subsidizing employers that hired workers earning up to 115 percent of the minimum wage.¹⁹ On a financial basis, the largest ALMP, however, was the WSW (“Sheltered Workplaces”), which, as a last resort, activated workers (often on disability) through public employment. Overall, as Mulau and Salverda (2000) note, subsidies conditional on low-wages may have actually ended up increasing, rather than decreasing the prevalence of low-wage work in the Netherlands, as employers restructure work in order to qualify for subsidies.

Denmark offers an alternative approach both to the “work first” strategy and the *de facto* subsidy to the low-wage sector. Denmark initiated “activation” with its 1994 labor-market reforms, requiring job-seekers on unemployment benefit to enter an ALMP program after one year of unemployment (after six months for young people)²⁰. It has never been proven that ALMP in Denmark has a general positive impact on the probability of getting a job nor on the pay level once a job is located. More recent research in Denmark and other places put more emphasis on the threat effect of ALMP. Exit rates from unemployment to employment, for example, appear to increase sharply as the one-year benefit deadline approaches (Rosholm and Svarer, 2004). But training plays a crucial role in Danish ALMPs: public expenditures on training amount to 0.53% of GDP in 2005, as compared to 0.29% in France and 0.25% in Germany (where the unemployment rate was twice as high - see table 7), 0.13%

¹⁹ The employment effects of the SPAK, which was abolished in January 2006 for budgetary reasons, were, at best, mixed (see Muhlau and Salverda, 2000) and dead-weight losses were over 90 percent.

²⁰ For youth under 25, the UI runs for only six months. After this period, the young unemployment must take an education course of at least 18 months if he/she has no qualification, or undergo job training.

in the Netherlands, 0.09% in the United Kingdom and 0.05% in the United States. In recent years, four out of five job-seekers in the activation programs have chosen educational courses; others take subsidized jobs. Workers involved in on-the-job training through an activation program work in either a subsidized job in the private sector, where the employer receives half of the typical low-wage salary over a six-month period and the employee receives the regular rate of pay for the job, or the worker receives a government job on a wage rate that is relatively low. About 20 percent of on-the-job training programs work in the private sector and the rest are in low-wage public employment. But in both sectors, the wage rate of the collective agreement must apply, so subsidized jobs are not derogatory contracts which can be used to circumvent normal wage rates – in contrast with ALMP schemes in France, for instance. Overall, the Danish ALMPs put less pressure on the unemployed to take low-wage work than the American, the British or the German systems, and Denmark does not appear to subsidize low-wage jobs in the way that seems to be the case in France, and, to a lesser extent, the Netherlands.

Concluding remarks

Taking into account how institutions shape the labor supply of different groups at the low end of the labor market helps to better understand the different national patterns of low-wage employment across our six countries.

One consequence of the labor supply institutions is that the social meaning of low-wage work differs substantially across countries. Denmark, for example, has a low share of low-wage workers, and a high concentration of low-wage work among young people, which suggests that low wage work is mainly a transitory state in the first stage of the life cycle there. By contrast, Germany, the Netherlands and the United Kingdom low-wage work is more widespread and the concentration among women is particularly high. At the household level, the “compensation” process through the household (i.e. thanks, in part, to the matching between low paid women and better paid male) is

uneven, and maybe decreasing during the last decade. Both the overall share of low-wage workers and the gender gap in incidence of low-wage work is lower in France. The overall share is quite high in the United-States, but the probability of being low paid is more evenly distributed across socio-demographic groups in the United States than it is in the five European countries; and the incidence of low-wage work among older workers in the United States is notably higher than it is in other countries.

The social benefit systems and the active labor market policies differ markedly across our six countries. Denmark and the United States occupy two extreme positions. The “Danish model” relies on a generous social system, and on an ALMP-based policy that focuses primarily on training. This approach could be labeled an “*empowerment strategy*” in that it aims to provide workers with both human capital and out-of-work income to foster their “individual bargaining power” in the labor market. Whether Denmark has gone too far in this direction is an open question. Some argue that social benefits in Denmark are too generous and may create unemployment traps for some groups (such as immigrants), and the real impact of training on employment prospects and wages needs to be assessed.

Nevertheless, the Danish approach is completely different from the one taken in the United States, where the social system gives little support to those outside of employment. The social supports that do operate in the United States generally give strong incentives to take low-wage jobs, with a priority given to in-work benefits, especially the EITC. At the same time, ALMPs in the United States are weak and mainly based on a “work first” strategy (the 1996 welfare reform), with any kind of jobs being considered as better than no job.

The other four countries in our study lie somewhere between these two extremes. The Netherlands is closest to Denmark, but has some features similar to the French system that act to promote low-wage jobs – through employment subsidies of different kinds. At first glance, the United Kingdom appears to share important characteristics of the US model, including the emphasis on in-work benefits and the priority given to the “work first strategy,” but a closer look suggests important differences. In

the United Kingdom, for example, the minimum wage is much higher than it is in the United States, social benefits are more generous (including health insurance, child support, and housing benefit, for example), and ALMPs expenditures are higher in the United Kingdom, especially for young people. In its own distinct way, the United Kingdom is, in this sense, more a part of the European “social model” than it is a representative of US-style policies in Europe.

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Table 1: Years of schooling and educational attainments, 2004

	Average number of years in formal schooling		% tertiary qualifications	% upper secondary education	% below upper secondary education	TOTAL
Denmark	13.4		32	49	19	100
France	11.6		24	41	35	100
Germany	13.4		25	59	16	100
Netherlands	11.2		29	41	29	100
United Kingdom	12.6		29	36	35	100
United States	13.3		39	49	12	100

Source: OECD, Education at a Glance, 2006

Table 2: share of foreign born population in total population and in employment

	Share of foreign born population of total population		Growth	Share of employed foreign born of total employment		Increase in foreign born compared to native born
	1995 (1)	2005, (2)	1995-2005 (1), (2)	1995	2005	1995-2005
Denmark	4.8	6.5	35.4	3.1	5.8	87
France, (1)	7.3	8.1	11.1	10.7	10.5	-1
Germany (2)	11.5	12.9	12.2	11.6	13.7	18
Netherlands	9.1	10.6	16.5	7.4	10.9	46
United Kingdom	6.9	9.7	40.6	7.0	9.8	41
United States	9.3	12.9	38.7	10.1	15.3	51

Source: International Migration Outlook: SOPEMI - 2007 Edition - OECD © 2007 ;

(1) France: 1999; (2) Germany : 2003

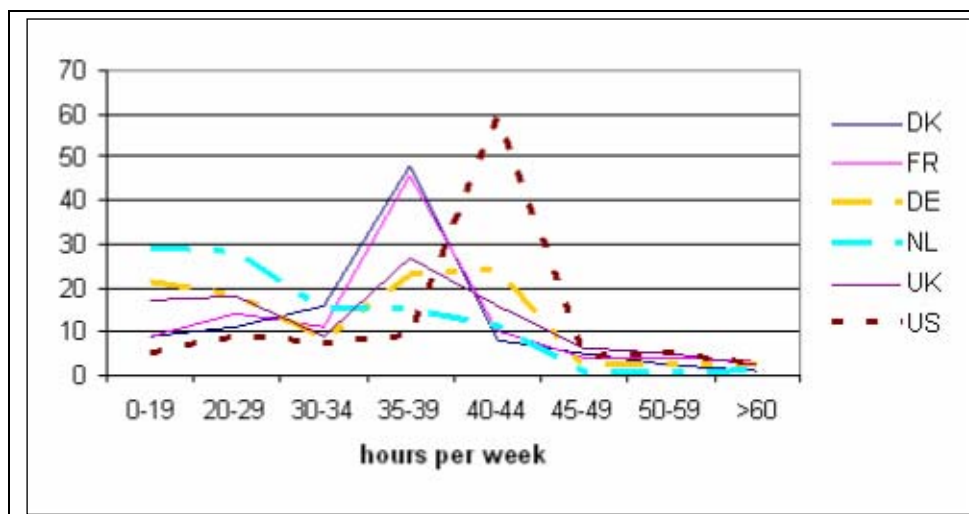
Table 3. Labor force participation in the six countries 16-64 (%)

	Females			Men		
	1990	2006	1990-2006	1990	2006	1990-2006
Denmark	72	74	2	83	82	-1
France	51	57	7	70	68	-3
Germany	53	62	9	76	74	-2
Netherlands	47	66	19	76	80	4
United Kingdom	64	68	4	84	80	-3
United States	66	68	3	83	81	-2

Source: International Migration Outlook: SOPEMI - 2007 Edition - OECD © 2007;

Figure 1: Number of hours worked per week (female employees)

(Source: OECD Family database, 2007, chart LMF 7.1)

**Table 4: tax incidence on women's wage**

(Source: OECD database "Taxing Wages", OECD Tax Models; OECD, 2001.)

	Women earning 67 per cent of APW, 2001			Women Earning 100 per cent of APW, 2000		
	Second earner	Single	Ratio	Second earner	Single	Ratio
DK	50	41	1.2	51	44	1.2
F	26	21	1.2	26	27	1.0
DE	50	34	1.5	53	42	1.3
NL	33	27	1.2	41	36	1.1
UK	24	19	1.3	26	24	1.1
US	29	22	1.3	30	26	1.2

Table 5: Unemployment Benefits (UB) and income consequences of becoming unemployed, first month of unemployment (2005)

	Maximum duration of UB (in months)	Gross Replacement rate of UB in % of previous wage (single, without children, earning 60% of average wage) (1)	Net Replacement rate in % of previous wage including other social benefits (single, without children, earning 60% of average wage) (2)
Denmark	48	82,8	90,2
France	23	60,8	76,1
Germany	12	38,7	59,7
Netherlands	24	70,1	80,1
UK	6	16,6	64,3
US	6	53,3	62,0

Source: OECD (1) OECD Tax benefit calculator: gross UB/gross earnings; (2) OECD Tax benefit calculator: [net total income while unemployed (gross UB + housing and family benefits – income tax – social contributions) / net total income while employed (gross earnings + in-work benefits + housing and family benefits – income tax – social contributions)]

Table 6: Active labor market policy expenditures (2005-2006)

	Total expenditure (% GDP)	Unemployment rate (% labor force)	Total expenditure/unemployment rate
Denmark	1.74	4.8	0.36
France	0.90	9.7	0.09
Germany	0.97	9.5	0.10
Netherlands	1.33	4.7	0.28
UK	0.49	4.8	0.10
US	0.13	5.1	0.03

Source: OECD, *Employment Outlook*, 2007