

**The Netherlands:
So what's so special
about the Dutch model ?**

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Foreword

The present study is part of the ILO's follow-up to Commitment 3 of the Declaration and Programme of Action of the World Summit on Social Development in Copenhagen in 1995. Commitment 3 reiterates the importance of full, productive and freely chosen employment, as a basic condition for social progress among UN organizations. The ILO has a specific responsibility for monitoring the progress made by countries in the fulfilment of Commitment 3.

In addition to the preparation of Country Employment Policy Reviews (CEPRs) in the developing and transition countries the ILO also decided to review progress of some OECD countries towards full employment. Among the countries experiencing improvements in their labour markets in recent years, four smaller European countries (Austria, Denmark, the Netherlands and Ireland) were selected. Contrary to some of the bigger European countries, these four countries have been experiencing an impressive labour market recovery, or have maintained a low level of unemployment over the long term. For each of these countries, a national CEPR was prepared in consultation with the social partners and the governments.

The present CEPR shows the achievements of the Netherlands in curbing unemployment and in increasing employment and employment rates. Especially unemployment has decreased continuously since 1993 reaching a low of around 3,4 per cent today.

Reasons for the success on the Dutch labour market are the social partner's commitment to wage moderation, labour market and social security reform and a stability oriented macroeconomic policy. Other reasons include the increase in part-time and other "flexi" jobs and a depreciation of wage costs relative to the country's most important trading partners.

However, some problems remain: while long-term unemployment is decreasing quickly, it remains high and a large number of people is still dependent on social security transfer payments (e.g. invalidity pensions). Gender gaps in employment are also important, especially when measured in full-time equivalent employment rates.

This report, together with those on Austria, Denmark and Ireland, form part of the project on Country Employment Policy Reviews in selected OECD countries. Two other publications are planned under this activity: Peter Auer "Employment revival in Europe: Labour market success in Austria, Denmark, Ireland and the Netherlands (ILO, Geneva, forthcoming) and Peter Auer (ed.) "Labour market institutions for decent work (ILO, Geneva, forthcoming).

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1. Introduction

Nations are just like individuals. In consumer theory, the reference group effect has long been recognized as an important factor in determining household consumption behaviour, with consumption decisions in one household geared to observed behaviour in other households. Similarly, political debates often have a setting like a densely populated street, where everyone is watching everyone else, with little spy-mirrors on the window for fear of missing out on important moves: what are the neighbours doing, how can they afford it?

If we step behind, and look from a distance, it is like watching a merry-go-round. We see a country take the lead in economic performance on some dimension and all the spectators are impressed. But the carrousel makes its eternal turns, both in the long run and in the short run. The eye-catching leader disappears around the corner, and the runner-up proudly rises to prominence. Long ago, the historian Herbert Heaton (Heaton, 1963, 724) noted how countries imitated social protection measures from each other, with England copying health insurance schemes from Germany and Germany copying the English unemployment insurance system. This process still goes on, in a continuing attempt to learn from the good and the bad experiences in other countries.

A striking recent illustration is given in Van Ark and De Haan (1997). They analyse GDP growth performances in north-west Europe since 1960. North-west Europe consist of 11 countries.¹ For every country except Sweden, they can identify a period of above-average growth (five years or more of growth above the NW Europe average). In 12 out of 14 cases, the five year period *after* the interval of success had below-average GDP growth. Strikingly, the average growth surplus across countries and periods was 1 per cent the average shortfall in the subsequent five years was also 1 per cent! Assuming the reverse also holds, this suggests an intriguing hypothesis. A period of lagging behind in the reference group then calls forth a period of catching up. There may be responses in the economic system that prevents permanent, ever stronger lagging. A key response may be the adjustment through economic policies.

This report is not meant to test such a general hypothesis. It only attempts to offer a little spy-mirror on the window for watching The Netherlands. The performance of the Dutch economy in the last decade caught a lot of attention, and we will outline that performance. But it turns out that the Dutch case does seem to fit in the general pattern, of lagging behind from an initially strong relative position and then catching up again. We will offer a review of Dutch policies and behaviour of key players in the last two decades. We will do that against a brief sketch of the historical development of the Dutch economy, outlining some long-lasting structural features and a brief overview of main postwar developments. Obeying the laws of perspective that also reign in little mirrors, the present will be larger than the past, but of course cannot be disconnected from it. In the end, evaluating our results, we will face the question to what extent there exists something like a "Dutch model".

¹ Austria, Belgium, Denmark, Germany, Finland, France, Netherlands, Norway, Sweden, Switzerland and United Kingdom.

2. Setting the stage

2.1. Old traits

History does not determine the present in every minor detail. But throughout history, a nation develops some traits and behavioural rules that become essential elements in the way it operates. And the Dutch economy has some features that are so old as to look like a genetic structure of our economic bones: rich, fertile, low female participation, consensus oriented.

The Dutch nation has been a rich nation for centuries. In fact, De Vries and Van der Woude (1995) argue, in a fascinating study, that modern economic growth started in the low countries, preceding the industrial revolution in England, and perfectly obeying Rostow's "stages of economic growth", fitting even better than the English case. Population growth has been extremely high. In the five centuries after 1500, the Dutch population increased fifteenfold, whereas the French increased only fourfold and the Belgian sixfold (De Vries and Van der Woude, 67). Married women's participation was very low by international standards in the prosperous seventeenth century (De Vries and Van der Woude, 1995; Schama, 1988), easily interpreted as a strong income effect on female choices.

High income and wealth, low female participation and strong population growth are still characteristic for the twentieth century. For most of the century, the Dutch fertility rate was the highest among the seven countries compared by Pott-Buter (1993, 181) with some swings more marked than elsewhere. The baby boom after the Second World War was more excessive, and so was the drop after 1970. In fact, after 1970, the Dutch fertility rate sank from the top to the bottom of the distribution. Still, all during the period 1913-90, the rate of population growth in The Netherlands was substantially above that in north-west Europe, easily reaching double that rate in many sub-periods (Van Ark et al., 1994, table 1). In the seven-country comparison, the labour force participation rate of Dutch married women was the lowest for most of the century (Pott-Buter, 1993, 200-201). The growth rate of GDP in the period 1913-79 was higher than in north-west Europe, and higher than in the United States.¹ Only in the period 1979-90 was it lower compared to both standards. Growth rates per capita were not always the highest, because of high population growth, low participation rates and reductions in working hours. But GDP per hour worked was always above the NW European average and climbed from 71 per cent of the United States value in 1913 to 97 per cent of that value in 1990 (Van Ark et al., 1994).

Another structural Dutch feature is the consensus oriented mode of operating in politics and social relations. Some observers trace this even to the earliest history of Dutch society, where protecting (and winning) land from water and floods created the oldest cooperative public bodies of government (the waterboards, founded in the twelfth and thirteenth century). Others link it to the particular *modus vivendi* that emerged in a religiously divided country where no political party has a majority and coalition governments are the only viable option. Under that modus, the late nineteenth century brought the development of a system of political management where severe ideological separatism at the bottom combines with willingness to compromise at the top, to produce a fair degree of social and political stability. The consensus orientation is clearly present in the institutions of the labour market that will be extensively discussed below, and that exhibit a remarkable continuity throughout the century. The postwar institutional structure is clearly rooted in the prewar institutions (Windmuller and De Galan, 1979). The cooperative spirit of labour relations is often traced to deliberate choices made to that effect in the beginning of the century by one of the leading union federations, after bitterly loosing a major strike (Windmuller and De Galan, 1979). The consensus approach often seems all pervasive. Macroeconomic forecasts by CPB, the government advisory institute have always played a prominent role in policy discussions. D'Alcantara, commenting on forty years of CPB model building, even senses the consensus tradition in research decisions, characterizing Dutch macroeconomic modelling "as a mechanism which builds up consensus, which selects from the results those that are common to all models" (d'Alcantara, 1988, 198).

¹In the interval 1929-38 it was below that of NW Europe, but higher than for the United States.

2.2. Highlights of postwar economic performance

Table 2.1 shows the very high population growth rates relative to NW Europe during the postwar period. GDP per capita grows less than in NW Europe in the early decades. In the period 1960-73 the growth rate is about equal to the average, and then it starts to lag behind. Van Ark and De Haan (1997) extend the data and use 1973 and 1987 as period boundaries. GDP growth per capita is relatively sluggish in 1973-87 (1.2 versus 1.8 per cent) and relatively strong in 1987-1996 (2.1 versus 1.4 per cent). The growth rate in GDP per hour does not recover in the later years. GDP per hour grows faster until the end of the 1970s and then starts to lag behind. It was clearly above the NW European average in 1973-87, but it was clearly below in 1987-96 (Van Ark and De Haan, 1997, figure 4). Still, the *level* of GDP per hour worked was always above the average for north-west Europe and in 1990 was only 3 per cent below the United States level. In that year, value added per hour worked in manufacturing was higher than in Germany, the United Kingdom and the United States (Van Ark et al., 1994). In 1996, GDP per hour worked was about the same as in the United States, while the average for NW Europe was 89 per cent of the United States level. GDP per capita in the Netherlands was then 75 per cent of the United States level, while the average for NW Europe was 78 per cent of the United States level (Van Ark and De Haan, 1997, table 6). The growth in income per capita may be related to the growth in labour force participation, from below the EU average in 1983 to above the average in 1996.²

Some key statistics for the labour market are presented in table 2.2. Labour force growth has always been very strong. For men, the growth rate was never below the EEC average, for women it was always substantially above that average, and in the eighties even substantially above the United States growth rate. Employment growth matched this, and was never below the EEC average. As a result, the unemployment performance was relatively favourable most of the time. The exceptions are the period right after the first oil crisis and the recession period in the early eighties. Figure 2.1 illustrates. It also illustrates the faster than average recovery after the deep dips. This is the eye-catching performance: an unemployment rate markedly below the EU average during the 1990s. Whereas the EU average was 11 per cent in 1995, it was 6.5 per cent in the Netherlands. Similarly, annual employment growth was clearly above the EU average (see the Appendix tables). Moreover, GDP growth was strong, with an average of 2.8 per cent per annum in 1983-89 and 2.6 per cent during 1990-96. Clearly, a good performance by international standards.

2.3. A brief postwar economic history

Recent economic policies build on a history of policies and institutions. As ever, understanding the present is enhanced by knowing the past. We will give a brief summary here, and refer to Hartog and Theeuwes (1993) for a fuller account and further references.

The first postwar decades, until 1964, were characterized by reconstruction and catching up. Right from the beginning, wages were a key variable of economic policy, because of their pivotal role as a cost factor for an open economy that had to sell much of its product in competitive world markets. From 1945 until 1954 there was government wage control, until 1959 there were national wage guidelines, between 1959 and 1962 the guidelines permitted differentiation by industry, in 1963-64 the system exploded. From 1945 to 1954, collective agreements were only binding after approval of the Committee of Government Negotiators (with independent members, but appointed by the government); the Committee always first asked advice from the Foundation of Labour. The Foundation of Labour is a private organization, with half the seats for union federations, the other half for employer organizations, and the chair rotating between them. Between 1954 and 1959, the wage guidelines were no longer binding: they only set an upper limit. In practice, the upper limit became the actual increase. Between 1959 and 1962, the formal system was maintained (advice by the Foundation, approval by the Negotiators), but rather than setting uniform national wage increases, differentiation by industry became accepted: wages should follow the increase in the industry's productivity. In 1963, the rules were changed. Now, the Foundation

² Gross participation increased from 59 to 71 per cent, while the EU average increased only from 65 to 67 per cent. (Sociale Nota 1998, Bijlage 1).

became the authority to approve (or reject) collective agreements. Agreements should be compared with norms set by the Foundation, based on assessment of the general economic outlook by the Social Economic Council. The Social Economic Council is a public organization, with the seats equally divided between union federations, employer associations and independent members, appointed by "the Crown" (i.e. the government, with a signature of the Queen). The chairman is independent. In the decision-making cycle of the initial postwar decades, the Central Planning Bureau would analyse the economic situation and give annual economic forecasts. The Social Economic Council would outline desirable policies, and produce a semi-annual advice. Until recently, the government was even under legal obligation to ask advice of the Council on all important socio-economic policies and legislation. In 1968, the system was formally abandoned. The Committee of Government Negotiators lost its authority, contracts were formally approved by the Foundation without testing against any norms: wage determination was free. Effectively, the system of centralized wage determination already broke down in 1963, when the rank-and-file translated the excessive excess demand in the labour market (unemployment below 1 per cent) into much higher wage demands than centrally agreed, and individual employers agreed. The important point is that there is an early tradition of consultation and bargaining at the central level, with wage cost as a key variable, and with peak level organizations of workers and employers dealing with each other and with the government. And there is a tradition of government intervention, interwoven in a process of consultation and advice, not as bluntly imposed rulings. In the Foundation, social partners had been jointly involved in setting the norm for the wage increases, which would then be imposed or sanctioned by the Government.

The decade of the 1960s, for the present purpose running from 1963 to 1973, was the period of building up the welfare state at high speed: 1963, Law on Child Allowances; 1965, General Social Assistance Law; 1967, Disability Law; 1966, Law on Sickness Benefits. The share of taxes and social security premiums increased by 1 per cent point per year. Revenue from natural gas started to flow towards the government. It was also the period of a very tight labour market; in the period 1960-66 unemployment on average was below 1 per cent. Yet, the first signs of structural changes were also visible. After 1967, unemployment increased and there are clear indications that the UV curve shifted outwards. Government concern over wage cost never waned, and in 1970, the Law on Wage Formation was passed. It allowed the Minister of Social Affairs to nullify wage agreements and to impose a temporary freeze on wage increases (the right is removed in 1976). Resistance against that law from social partners has been quite strong.

The oil price shock in 1973 definitely marked the end of the "golden era". Unemployment rapidly increased. The problems were initially tackled with Keynesian expansion policies, job creation programmes, investment subsidies, all aided by the Government's share in the gas revenue. The large export of gas, however, also made for a strong external position, a high exchange rate, and large losses of employment in the exposed sector. The government revenue from gas increased in a few years from 2.4 to 4.9 per cent of the national income (it is now down to 0.5 per cent). After 1975, the policy goals changed towards budget deficit reduction and government retrenchment. However, the policy utterly failed. In a period of five years, the government share in national income went up by 9 per cent points. This is the period of "Dutch disease": export curtailed by a strong guilder, government (transfer) programmes fuelled by high gas revenues. Wages continued to increase (stimulated by the shifting of taxes and social security premiums), profits were squeezed. The wage share in market sector income increased to 92 per cent. The government kept hammering out the necessity of wage restraint, and actually intervened in 1974, 1976, 1979, 1980, 1981 and 1982 with mandates on wages: wage freezes, outlawing automatic cost-of-living adjustments, etc. The period 1973-82 was a period of muddling through with the government's fiscal policies, rapidly increasing unemployment and intervention in wage formation that increasingly irritated and frustrated social partners.

2.4. Turning point 1982

The year 1982, in hindsight, is usually marked as the turning point. It is the year of the Central Agreement between the leading labour federation and the employers' federation, struck in Wassenaar, and hence dubbed the "Wassenaar Agreement": wage restraint, reduction in working hours, intended to

restore profit levels and create employment growth. At the same time, the government became more determined to control its expenditures and its deficit, and to reform social security. In particular, the inflow into the disability pension had been incredibly high. More generally, and following the mood in the rest of the world, the policy orientation definitely changed from Keynesian to a neoclassical, market based orientation. After 1982, the great Dutch consensus machine became effective again, as it had been before.

Why could this new start be made in 1982? There are several reasons. Perhaps the key reason is that unemployment had really skyrocketed in the early 1980s, and there was a strong sense of urgency. At some point in time, unemployment increased by 10,000 persons per month (Visser and Hemerijck, 1997, Chapter 1): the boat was sinking dramatically fast. Second, unions and employers "were not amused" by the repeated government interventions in wage formation. The government had intervened with six binding wage regulations of various sorts in the period 1974-82. They really had a strong desire to settle their affairs among themselves. And third, the whole institutional structure had always been there to allow a return to the consensual nature of industrial relations that is typical of the Dutch situation. A social agreement fits in the history and in the institutional and socio-cultural environment, it is by no means a social innovation. Centralized, corporatist decision making could resume its course again. The Wassenaar Agreement has been updated and confirmed on several occasions, as bi- or tripartite agreements, in 1989, in 1993 and in 1997. Other agreements concern early retirement and labour market flexibility.

The programme that has been developed after 1982 has several components and several actors. It has not been formulated as some "Manifesto 1982", but the goals were certainly around at the time (they were not suddenly set 1982), and so was the sense of interrelatedness of the elements. It consisted of the following components:

- The government was to get its expenditures under control: government retrenchment, reduction in the burden of taxes and social security premium.
- The social partners were to implement the Wassenaar Agreement: wage restraint, working time reduction, more labour market flexibility.
- Social security was to be reformed.

Before considering this programme in greater detail, in the next section we will sketch the Dutch institutional setting, and the way it works. The particular institutional environment (and history) has been essential to allow the policy mix that has been implemented.³

2.5. The system of labour relations

The Dutch labour market has strong corporatist features. It is not easy to give a sharp definition of corporatism, let alone measure it unequivocally, but there is wide agreement on core elements.⁴ Essentially, corporatism is a form of organization where government and organized interests (mainly trade unions, employer associations) jointly develop and implement social-economic policies. The government does not operate at a distance, organized interest does not have to lobby, they are welcome partners in the conference room. There is tripartite consultation at all stages of legislation and policy making. Often this is institutionalized in advisory bodies, but much coordination takes place in an informal way. Organized interests are usually united in large federations or peak organizations. Bargaining over collective labour agreements is usually highly centralized. Quite often there is a strong concern for equity issues and incomes policies. Highly corporatist countries are Austria and the Nordic countries. Germany is also rated as rather corporatist. Non-corporatist countries have very decentralized, firm level bargaining and no institutionalized consultation between government and organized interest. Examples of non-corporatist countries are the United States and Canada, and in Europe, the United Kingdom. Teulings and Hartog (1998) document that the higher the degree of corporatism in a labour market, the smaller the magnitude of non-competitive wage differentials, such as differentials associated

³ More details are given in Ch. 8 of Teulings and Hartog (1998) and in Freeman, Hartog and Teulings (1995).

⁴ Further discussion of the concept and various measures are discussed in Ch. 1 of Teulings and Hartog (1998).

with industry affiliation, firm size and collective bargaining regime. We also argue that there is certainly no evidence that wage flexibility (a complicated concept to deal with, both theoretically and empirically) is higher in decentralized than in corporatist settings.

The Dutch institutional setting is governed by two key laws on collective agreements. The 1927 Law on the Collective Agreement makes such an agreement binding for all workers in the firm, not just members of the union who signed the agreement. Formally, it is possible to negotiate in the agreement that contract terms only apply to union members, but if so, this cannot be exclusively for a particular union: they should apply to members of any union. Exclusive bargaining for union members only is never possible.

Formally, the legal basis of labour relations allows free entry of new unions. Anyone can start a union and ask for negotiations with an employer. The employer is free to honour or to ignore such a request. Formally, he may choose to negotiate with one union and not with another, or he may use different channels, like works councils. There are no formal representation rules, no compulsory elections, no rules on bargaining or bargaining structures. Because of the 1927 Law on the Collective Agreement, when an employer signs a contract with a single union, this contract automatically applies to all its employees. Other unions are then left out. This happens infrequently, but when employers demand concessions in harsh times, it sometimes occurs that one union agrees, and that the others can only follow suit, their protests notwithstanding.⁵

The 1937 Law on Mandatory Extension states that if a collective agreement covers a substantial majority of the industry, the Minister of Social Affairs can extend the agreement to the entire industry. By now, a substantial majority means 55 per cent of the workers employed by employers that are directly bound by the agreement. To get extension, at least one of the parties that signed the agreement must send a request to the Ministry of Social Affairs. The Ministry checks some formal criteria and publishes the request to allow other parties to raise objections. Formally, the Ministry is obliged to ask the Wage Committee of the Foundation of Labour ("Stichting van de Arbeid", a private organization introduced above) for advice. In practice, advice is only asked when objections are raised. After receiving the advice, the Ministry comes to a decision on the request. The maximum duration of an extension is two years.

In the Foundation of Labour, bargaining parties meet and consult each other, give joint recommendations to their members regarding wage restraint, training and additional employment policies. In some years in the past, a Central Agreement was negotiated within the Foundation of Labour. The Wage Committee of the Foundation of Labour plays an important role in the system of labour relations.

Mandatory extension enables contracting partners to extend contracts in a large number of industries. Only in retail trade and wholesale, where there are so many firms and their size is so small, is it difficult to satisfy the requirement of a substantial majority of the workers to be bound directly. Instead, joint public bodies (PBOs) of employers and trade unions have been installed by law in most of these branches. Negotiations on industry agreements take place within these bodies, which then have the legal right to extend these agreements to the whole industry without interference from the Ministry. These agreements are called *rulings*. The character of these rulings differs from the usual industry contracts, in the sense that they are really imposed upon the firms in the sector, as most firms are too small to affect the outcome. The most important ruling is in retail trade.

In 1996, only 28 per cent of the workers is member of a union. Most unions belong to one of three federations that are member of the Foundation of Labour: FNV, with socialist/catholic roots,⁶ the protestant CNV, and the middle and higher personnel federation MHP. FNV is by far the largest federation. In 1985, 58 per cent of the union members were affiliated with FNV, 20 per cent with CNV,

⁵Some examples are the managers union *De Unie* and VHPP (Philips managers) signing a solo-agreement in 1996 with Philips when FNV and CNV demanded a 36-hour working week and the CNV breaking up the union front by signing an agreement with NS (Dutch Railways). In April 1994, CNV signed an agreement with Heineken, while FNV called out a strike (which they lost, after a blockade at the gate was ruled illegal in court).

⁶In 1982, the socialist NVV merged with the catholic NKV to become the FNV.

7 per cent with MHP and 15 per cent belonged to other unions. At the bargaining table, the most common situation was the joint presence of FNV and CNV unions: 52 per cent of the collective agreements. 29 per cent of the agreements were entered jointly by FNV, CNV and MHP, 11 per cent were entered only by a FNV union, and 4 per cent by unions belonging to the two main federations (FNV, CNV) and some other union (like a company union, such as for the railways).⁷ The organizational structure is now highly stable.⁸ The largest federation, the FNV, consisted until recently of 20 industry unions. However, their size distribution was heavily skewed, the two largest unions (civil servants and manufacturing) covering about 50 per cent of its total membership. In the Spring of 1998, four large unions merged, further adding to the skewness. A similar structure (but somewhat more concentrated in the public sector) can be found in the CNV.

On the employers' side, there were until recently two national federations (VNO and NCW) which have now merged into a single federation (VNO-NCW). Membership is made up of both firms and lower level employer organizations, often organized by industry. These lower level organizations are the ones involved in bargaining. Their involvement differs across sectors. There is a separate organization for small and medium size firms, KNOV. Sometimes an employer organization bargains directly with the unions (in the metal and banking sector for instance), sometimes the employer organization provides mainly support to employers who do the negotiations themselves.

The institutional setting of the Dutch labour market generates four relevant bargaining regimes in the private sector.⁹ First, a company can negotiate its own collective agreement with one or more unions; second, a company can be part of an industry agreement; third, it can be roped in by an extension of an industry agreement; finally, a firm can be uncovered and have no collective bargaining.

Whenever there is a collective agreement in the firm, this does not necessarily imply that all employees are covered. Top level management is always excluded from the agreement. Furthermore, other categories of workers may be excluded. Mostly, these are low-paid workers on temporary employment. The formal rules for exclusion are not clear and we have no good information on exclusion practices. Table 2.3 gives an overview of the coverage situation in 1990 and 1997 (showing the joint effect of firm and individual coverage). Most collective agreements are industry agreements, and the share is even rising. In 1990, 82 per cent of covered workers were covered by an industry agreement, in 1997 it was 88 per cent. The share of the company agreement was 14 per cent in 1975, it climbed to 18 per cent in 1990 and then dropped to 12 per cent in 1997. The number of workers covered by a non-extended industry contract has been increasing, from 3 per cent of covered workers to 10 per cent. Casual evidence suggests that non-extension occurs mainly because either almost every firm in the industry joins the contract "voluntarily" or because requesting extension has a disadvantage for the signing parties.¹⁰ Coverage through mandatory extension has been declining. As the table indicates, by far the majority of covered workers is covered by industry level bargaining. But focussing just on the formal bargaining level would not do justice to the intricate system of labour relations. The system has a remarkable balance with unions and union federations playing an important role, precisely because their formal position is rather weak. Union density is less than a quarter of the labour force and multiple unionism combined with the non-discriminatory status of collective agreements weakens the union side (an agreement signed with any union is binding for all workers in the firm and possibly in the industry).

Mandatory extension seems to give organized interest a strong grip on their playing field, but the grip is different from a tight monopoly. The system appears to operate in a very flexible way. Flexibility

⁷These numbers are taken from Voskamp (1992).

⁸Sometimes, new organizations emerge. A few years ago, dissatisfied nurses started an interest group that entered into negotiations with some employers, but the established unions quickly attempted to take over.

⁹The wage differentials between bargaining regimes are analysed in Hartog, Leuven and Teulings (1997).

¹⁰For example, in one case, the employer federation for the industry runs a retirement fund for its members. Mandatory extension would require the federation to allow every firm in the industry to become a member and therefore to participate in this fund.

comes through different channels. The first channel is through flexible boundaries. The collective agreement itself defines the domain of application, the firms it intends to cover. Coverage is subject to bargaining and may move over time. Firms may seek coverage by other agreements if they become dissatisfied. Peak organizations advise on boundary conflicts (The Wage Committee of the Foundation of Labour) and they try to solve conflicts as much as possible by inviting the parties themselves to work out a solution. Shifting boundaries prevents rigid imposition of collective bargaining results by mandatory extension. Sometimes employers seek reduction of wage cost by moving particular jobs from one collective agreement to another. An example is the transfer of jobs covered by an agreement in construction to an agreement in agriculture, where pay is lower. There are also some ways to evade the effect of mandatory extension. Several agreements explicitly allow for permission to deviate from the terms of the agreement under "special circumstances". Also, some agreements have a clause calling for adjustment of the agreement under "exceptional and grave changes in the general socio-economic situation". However, these clauses only serve as emergency exits when the continuity of the firm is at stake. But existence of a company agreement is sufficient argument for exemption from mandatory extension. And after a recent, tough battle it has been accepted that a company agreement does not have to be concluded with a union that belongs to any of the established federations. Firms may also opt for non-compliance with an industry agreement. This may occur in sectors where the union is too weak to enforce compliance. It is known to happen in construction, retail trade and wholesale trade.

The existence of escape routes and the potential vulnerability of established positions lead to quite moderate results. There is no evidence that actual wages are substantially above market wages. Econometric analysis shows that wage differentials between bargaining regimes are quite small, no more than a few percentages (Hartog, Leuven and Teulings, 1997). The regime with mandatory extension does not generate the highest wage levels: they are realized under company agreement. Collective bargaining mostly sets minimum wage levels. If these were binding constraints we should observe spikes in the wage distribution at the level of the contract wage, but this does not happen. We only observe spikes in cleaning and retail trade, but they occur at the level of the legal minimum wage. Many wages seem to follow the pressure from market forces. For example, in construction wages are determined "at the gate", when employers recruit for a going construction project. In wholesale trade, wages in the Eastern part of the Netherlands are paid quite close to the contract level, but in the Western part wages are easily 10-15 per cent higher. And representatives of unions and employers do not deny that payment below agreed scales occurs if the market situation requires it.

Freeman, Hartog and Teulings (1995) analyse the Dutch system of wage formation and draw the following conclusion:

"In summary, the Dutch system of corporatism as it stands now is characterized by weak unions which, however, have got leverage by a system of mandatory extension of contracts that is based on legal support by the Ministry of Social Affairs. Mandatory extension provides a barrier to entry for new unions because they are not represented in the Wage Committee of the Foundation of Labour. It helps therefore to keep together the federation of unions. A similar argument applies to employer federations. Employers gain from this system by the fact that unions do not care too much about having a strong organization within the firm (like the shop steward system in the United States and the United Kingdom), so that distributional conflicts are resolved outside the firm. The essential characteristic of the system is the balancing act that the organizations of workers and employers have to perform. They get a fair amount of background support from the government, endorsing, extending and influencing the outcome of bargaining. But the organizations have no monopoly, no legal exclusivity and they can only play their role as long as workers, employers and member organizations of the federations are satisfied. Potentially, there are escape routes for the players in the game. The escape routes are seldom used however, suggesting the system does not function as a straightjacket on labour market participants."

There is more evidence that the Dutch system of wage formation is flexible and sensitive to the interest of outsiders. Kniesner and Goldsmith (1987) discuss aggregate models for the United States labour market and they start with some regressions to assess the cyclical sensitivity of unemployment and wages. They regress unemployment, nominal and real wages on the logarithm of GNP, for the period 1948-85. Replicating that relation for the Netherlands points to smaller unemployment fluctuation and

greater wage flexibility in the Netherlands.¹¹ Layard, Nickell and Jackman (1991, page 58, table 7) find that real wage rigidity in the United States and the Netherlands rank about equal, while nominal rigidity is ranked much higher in the United States than in the Netherlands. However, it is important to repeat the warning on the complexities of assessing aggregate wage flexibility (see the elaboration in Teulings and Hartog, 1998, Chapter 7).

In Teulings and Hartog (1998), interviews with key players are used to picture how the game of collective bargaining is played. These interviews clearly establish the influence and the power of labour federations over member unions, with federations always emphasizing the need for wage restraint. In fact, union federations are the essential institutions for imposing this restraint. Van den Toren (1996, Chapter 4) tells the same story. Negotiators indicate that their claims in collective bargaining are heavily influenced by internal coordination within the union movement. Central agreements carry not much direct weight, but the translation of such an agreement into the formulation of the initial bargaining claims by the union federation is important. Our conclusion is also supported by results reported in Hartog, van Opstal and Teulings (1996). For the United States, Beaudry and DiNardo (1991) established asymmetry in wage adjustment to labour market conditions. Wages appear to respond to the minimum unemployment rate during a worker's tenure: wages are increased in booming times, but a slack labour market does not affect incumbent's wages. The burden of adjustment thus falls on workers who are new to the firm. Such asymmetry cannot be established for the Netherlands: market conditions affect incumbents and the firm's new hires alike.

As mentioned above, our findings for the Netherlands are part of a broader result on wage formation under corporatism (Teulings and Hartog, 1998). Empirical research shows that non-competitive wage differentials are smaller in more corporatist countries. In that sense, corporatist countries get closer to the competitive rule of one price for a given quality of labour: deviations associated with industry affiliation, firm size, tenure and bargaining regime (e.g. industry versus company bargaining, or union-nonunion in decentralized countries) are smaller. Such a non-competitive wage differential serves no allocative goal. It can even be harmful, as is demonstrated by Hibbs and Locking (1995) for Sweden. Augmenting a production function with a term for wage dispersion, they find that increased wage dispersion within the firm is beneficial to labour productivity, while increased dispersion between firms and between industries is harmful.

Freeman, Hartog and Teulings (1995) present evidence that structural adjustment of labour does not appear to be prevented by the system of wage formation. Their report examines the degree to which employment moved across industries in the period 1975-89. The measure of reallocation is the Index of Structural Change (ISC), defined as half the sum of the absolute value of the change in the share of employment in the relevant grouping. It gives the percentage point change in the distribution of workers that would equate the distribution of employment in two periods. Large values indicate that the labour market is subject to large shocks *and* that the labour market is adjusting well to those shocks. Low values are more difficult to interpret. They could mean that large shocks are taking place but the labour market is adjusting sluggishly *or* that the shocks are small and the labour market is making the appropriate adjustment.

European countries, like the United States have redeployed their work force away from manufacturing into service sectors. From 1975 to 1989, the ISC is calculated for the Netherlands, the United States and various European economies, based on one-digit industry classifications. See table 2.4. It turns out that the ISC for the Netherlands and countries with mandatory extension (ME) was essentially no different than those for the United States and various economies without mandatory extension.¹² In these data, the United Kingdom stands out with a high index value, pointing to large shocks and quick adjustment. The data do not support the notion that the Netherlands and other countries with ME had smaller quantitative flexibility over this period. The same conclusion emerges from a more

¹¹The coefficient of unemployment was -7.26 for the United States and -2.67 for the Netherlands (both significant). For the nominal wage, the coefficients were 0.004 and 0.53 (neither significant), for the real wage 0.02 and 0.61 (with only the Dutch coefficient significant).

¹²These data are calculated from OECD, *Labour Force Statistics*, 1969-89, Paris, 1991

disaggregate grouping of 3 and 4 digit ISIC code industries using data for 35 manufacturing industries from 1977 to 1990. Again, the resultant statistics show no difference in ISCs by use of ME in wage-setting. The countries with the most structural change are the Scandinavian countries without ME but with high collective bargaining. The Netherlands has a roughly comparable index of structural change as the United States and the United Kingdom. There is no evidence that the reallocation of workers across industry lines was greatly affected by the system of industry wage-setting and industry bargaining.

For several years, there has been a public debate about the system of mandatory extension and the employment losses it would entail. Freeman, Hartog and Teulings (1995) summarize the debate and argue that moving towards deregulation by abolishing mandatory extension is unlikely to bring benefits. Rather, it may threaten the entire system of labour relations. In some sectors unions and collective bargaining may disappear, in other sectors unions may be forced to increase membership by costly unionization drives. Instability may emerge as a more confrontational system of labour relations takes hold with employers opposing unions, possibly taking the form of "organization wars" and resulting in an increased dispersion in collective bargaining coverage across industrial sectors. And as the empirical literature indicates, it is not very likely that the new system, with more wage variation, will bring any benefits in terms of additional employment.¹³

¹³In the United States, falling relative wages for the low skilled were not associated with increasing employment. See Freeman, Hartog and Teulings (1995), 43-45.

Table 2.1 Population and DGP: annual growth rates

	Population			GDP per capita			GDP per hour worked		
	NL	NW Europe	US	NL	NW Europe	US	NL	NW Europe	US
1947-1960	1.36	0.87	1.75	3.89	4.22	1.66	4.02	4.06	2.47
1960-1973	1.22	0.79	1.23	3.57	3.74	2.68	5.21	4.98	2.45
1973-1979	0.73	0.21	1.01	1.93	2.05	1.39	4.33	2.90	1.13
1979-1990	0.57	0.32	1.01	1.16	1.90	1.62	1.39	2.21	1.00
1947-1973	1.29	0.83	1.49	3.73	3.98	2.17	4.70	4.57	2.46
1973-1990	0.63	0.28	1.01	1.43	1.95	1.53	2.42	2.50	1.06

Source: Van Ark, De Haan and De Jong (1994), Table 1.
 NW Europe: Austria, Belgium, Denmark, Finland, France, Germany, The Netherlands, Norway, Sweden, Switzerland, U.S.

Table 2.2 Labour force growth, employment growth and unemployment

Table 2.2	Labour force growth, employment growth and unemployment									
	1960-1967		1968-1973		1974-1979		1980-1985		1986-1989	
Labour force growth										
Men										
NL	0.9		0.0		0.1		1.1		1.0	
EEC	0.1		0.0		0.0		0.2		0.3	
US	0.9		1.7		1.7		1.0		1.1	
Women										
NL	2.0		2.5		3.6		4.8		2.8	
EEC	0.3		1.6		1.9		1.6		1.7	
US	2.9		3.6		4.1		2.4		2.2	
Employment growth										
NL	1.1		0.5		0.5		0.9		2.4	
EEC	0.1		0.5		0.1		-0.3		1.7	
US	1.8		2.1		2.5		1.4		2.1	
Unemployment rate										
NL	0.7		1.5		4.9		11.1		9.0	
EEC	2.1		2.7		4.8		9.4		9.9	
US	5.0		4.6		6.7		8.0		5.8	

Source: OECD, Historical Statistics and Economic Outlook, Standardized Unemployment Rates, ILO-OECD Guidelines.

Source: OECD, Historical Statistics and Economic Outlook, Standardized Unemployment Rates, ILO-OECD Guidelines.

Table 2.3 Employees in private and subsidized sectors bound by collective agreements in 1990 (in millions and per cents)

	1990		1997	
1. Employees directly bound by extended industry contracts	2.1	46%	3.3	56%
2. Employees bound by an extension	0.5	11%	0.5	8%
3. Employees bound by an industry agreement	0.1	2%	0.5	8%
4. Employees bound by a company agreement	0.6	13%	0.6	10%
5. Total employees bound by a collective labour agreement or an extension	3.3	72%	4.9	83%
6. Employees not bound by a collective labour agreement	1.3	28%	1.0	17%
7. Total employees in private and subsidized sector	4.6	100%	5.9	100%

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Dienst Collectieve Arbeidsvoorwaarden (1991), DCA-bevindingen 1990- Een verslag van werkzaamheden en bevindingen van de Dienst Collectieve Arbeidsvoorwaarden over het jaar 1990.
 VUGA Uitgeverij B.V., 's-Gravenhage, tabel 2.2., blz. 14 en.
 Min SZW/Arbeidsinspectie 1997, Najaarsrapportage cao-afspraken, Bijlage 5, Tabel 2.

Table 2.4 Country indices of structural change, 1975-1989

Netherlands	0.093
Other countries with ME	
Germany	0.091
France	0.085
Belgium	0.130
Australia	0.088
Countries without ME, low collective bargaining	
Canada	0.066
US	0.067
UK	0.129
Countries without ME, high collective bargaining	
Sweden	0.100

Source: Freeman, Hartog and Teulings (1995).

Figure 2.1A A Standardized unemployment rates, 1969-1997

Figure 1 Standardized unemployment rates, 1969-1997

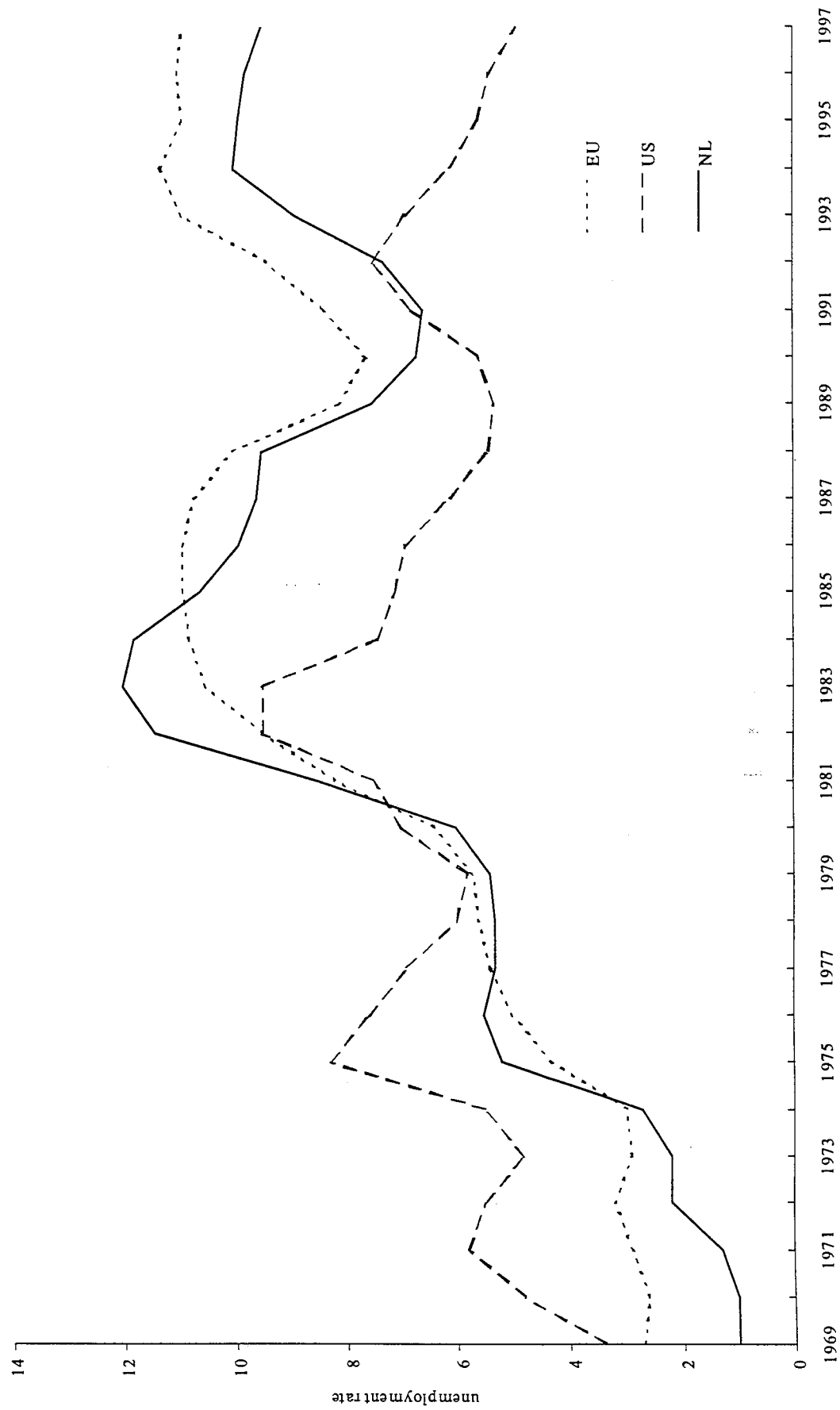


Figure 2.1B

Fig. 2.1B Real GDP growth rate, 1969-1997

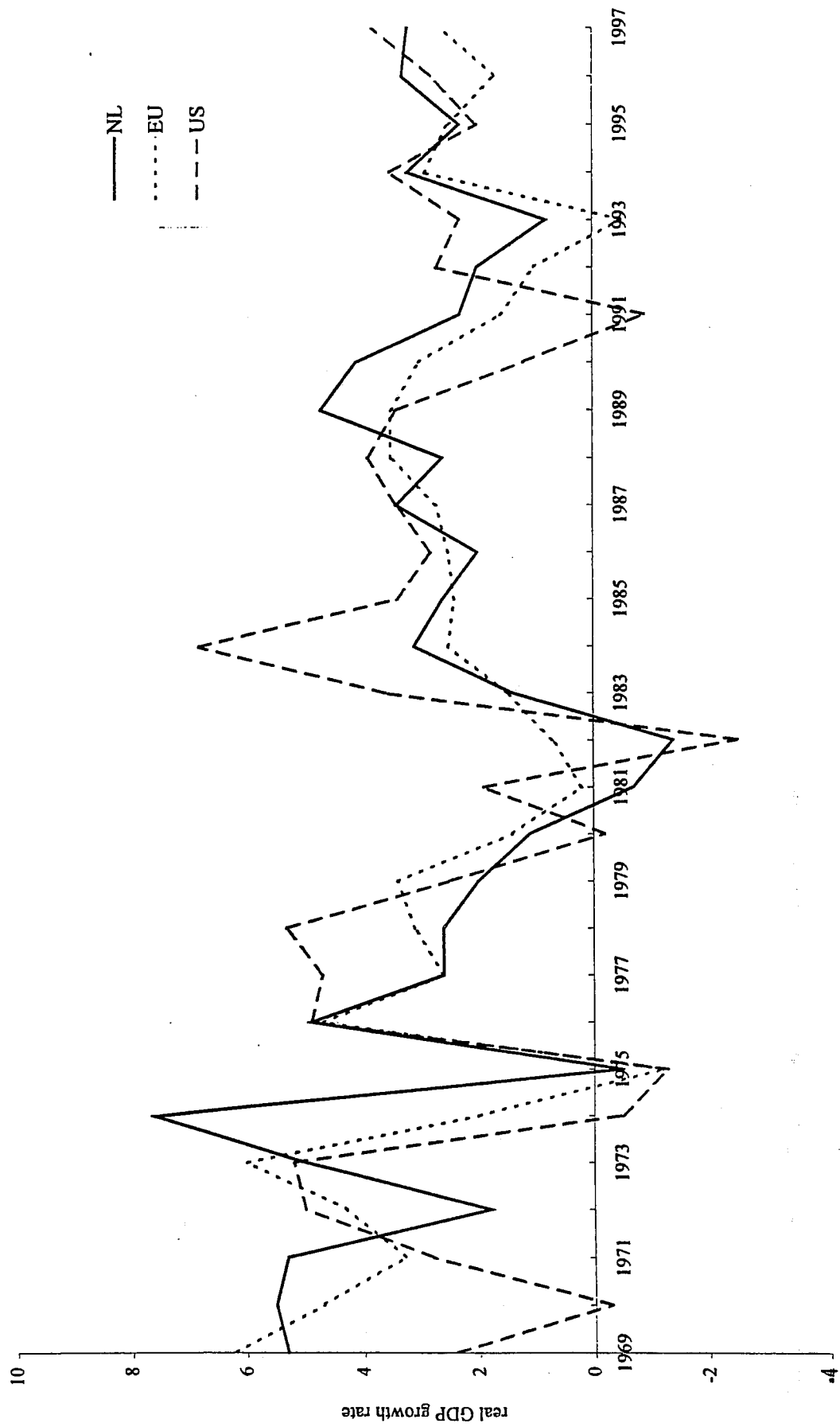
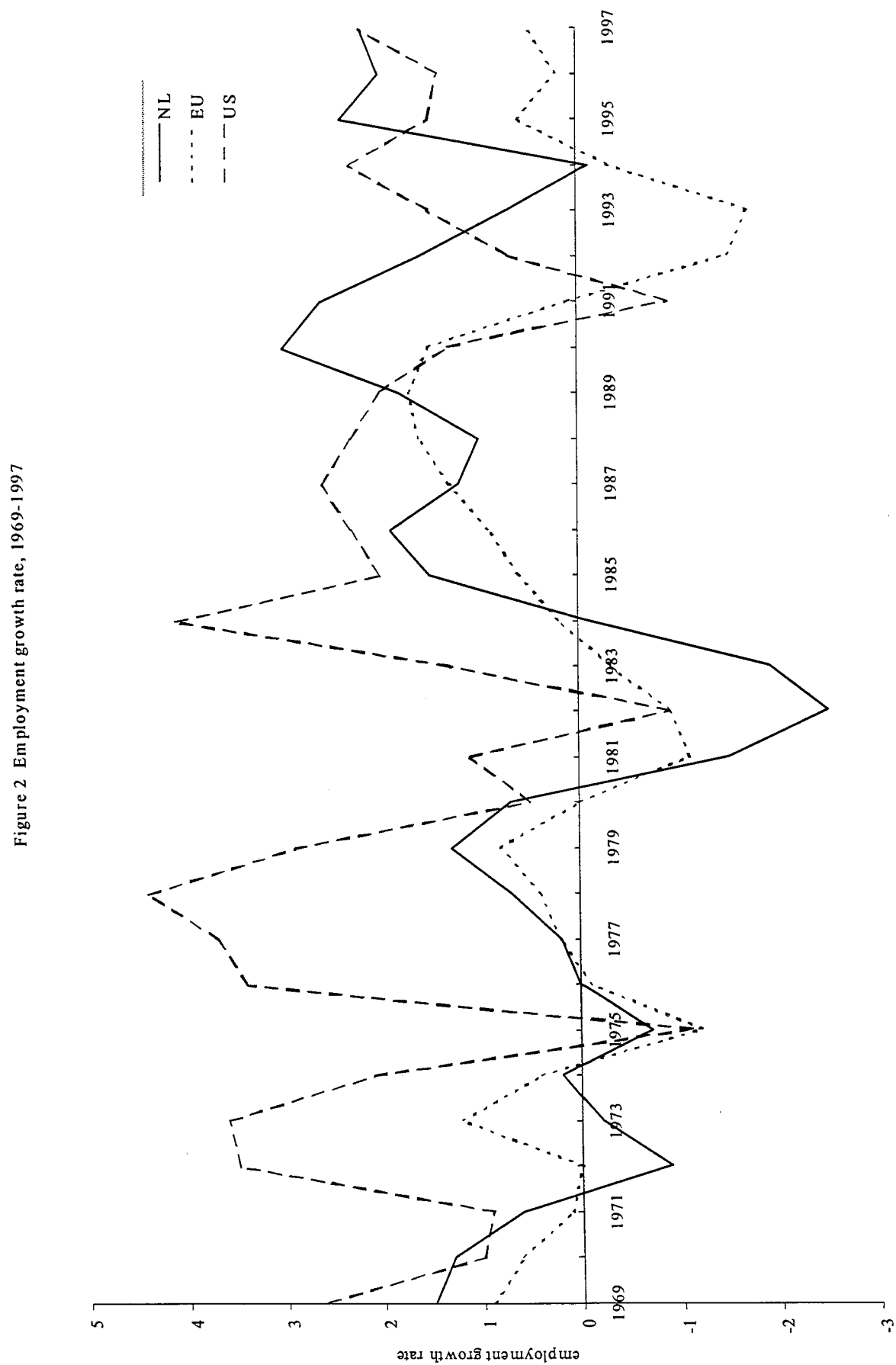


Figure 2.1C Employment growth rate, 1969-1997



3. Impact effects: Government budget, wages, working hours

3.1. Government budget control¹

The central government budget deficit has been reduced from 8.9 per cent of GDP in 1983 to 1.4 per cent in 1996, the deficit of the total public sector (central government, local government, social insurance) from 8.6 per cent to 2.0 per cent. The share of taxes and social security premiums was reduced from 47.4 per cent to 44.4 per cent. The share of public expenditures in GDP fell from 58.0 per cent to 46.9 per cent. Employment volume in the public sector dropped from 698,000 person years to 650,000, which means a drop from 15 per cent of employment volume to 11.7 per cent. The national debt, at 63 per cent of national income in 1983, initially increased to about 81 per cent in 1993 but since then has fallen to 78 per cent in 1996. The “wedge”, i.e. the difference between gross and net wages, as a percentage of gross wages has fallen from 34 per cent at the level of the minimum wage to 21 per cent in 1996, and at the wage level for the “modal employee” (a specific Dutch definition, i.e. an employee with a wage at the lowest upper boundary for compulsory social insurance) from 48 to 41 per cent. At the lowest wage levels, there are substantial rebates on social insurance contributions (see section 6).

To see what caused the reduction in the burden of the public sector, consider the following decomposition:

In a period of 13 years, the share of public expenditures has been reduced by 13.5 per cent gross and by 11.1 per cent net. There are three main contributors: income transfers, civil servant wages, and loans.

The drop in transfers and in civil servant wages should be decomposed in a volume and a wage component. Wage restraint in the public sector has been substantial. The index for contractual wages, base 1980 = 100, stood at 155 for private sector workers in 1996, while for public sector workers it stood at 123 (contract wage increases refer to the changes in scale wages: they are net of individual wage changes related to tenure, experience and other career effects).² Whereas in earlier days public sector wages had been indexed to the private sector wage index, a substantial gap was created in the first half of the 1980s. By 1983, public sector wages had dropped 2 per cent, while private sector wages had increased by 15 per cent. By 1985, private sector wages further climbed to a 21 per cent gain, while the public sector wage stabilized. After 1985, contractual wages developed almost parallel: the relative wage cut for civil servants has been accomplished within just a few years.³ As noted above, the share of employment in the public sector fell substantially. Note that this substantial decline in employment and relative wage has taken place without major disruptive labour conflicts. This requires accommodating labour union behaviour. As everywhere, union density is relatively high in the public sector: 46 per cent in 1985, relative to 17 per cent in the private sector (Visser, 1990, table 11, page 50). Only 1982 had a relatively high incidence of strikes, with 21/100,000 workdays lost; in other years, it is usually below ten (*Statistisch Zakboek*). Public sector unions are affiliated with the large federations, and share the generally restrictive policies.

The reduction in expenditures on social security (transfers) is a pure price effect. From table 4.3 below, we can calculate that between 1980 and 1995, the number of benefit years increased from 2.2 million to 3.4 million, an increase by 52 per cent. The average benefit per benefit year increased from

¹Data in this section from *Centraal Economisch Plan*, 1997, Bijlagen.

²*Statistisch Zakboek 1992*, table 3.21, p. 114 en *Statistisch Zakboek 1998*, table 3.25, p. 119.

³Real wages were reduced by not adjusting for inflation. From 1980 to 1985, consumer prices increased by 21 per cent (*Statistisch Zakboek 1987*, table U1, p. 329). Over the same period, nominal civil sector contract wages per hour fell by 1.8 per cent, per week/per month by 3.3 per cent (idem, V1, p.337).

Dfl 14,040 to Dfl 15,116, i.e. an increase by less than 8 per cent, while over the same period national income per inhabitant increased by 79 per cent.⁴

So, the conclusion on the relative reduction in government expenditures can be clear. The bulk of the cuts came from reduction in transfers and in the wage bill. For transfers, it is overwhelmingly a price effect, as the number of recipients increased substantially. For the public sector wage bill, it is both a price and a volume effect. Over the period 1983-96, public sector employment fell by 7 per cent. Over the period 1980-96, nominal public sector wages increased 30 per cent less than private sector wages. The relative wage reduction was mostly established in the early 1980s. This is illustrated in figure 3.1, copied from Salverda (1997).

3.2. Wage restraint

Nominal wage increases after 1983 have been modest, with a peak of 4 per cent in 1992; in most years, the increase was less than 2 per cent. Figure 3.1 gives the index of contract wages, in the private and in the public sector. Note that real market wages were stable between 1975 and 1979, then decreased, and stabilized again after 1981. Hence, the Wassenaar Agreement was *not* the *beginning* of wage restraint: rapidly increasing unemployment during the 1970s already had triggered moderation. As figure 3.2 shows, unit wage cost in 1996 were at the same level as they were in 1981. Over the same period, they increased by 40 per cent in Germany and by 15 per cent on average in the EU. The wage share in market sector income dropped from 93 per cent in 1987 to 82 per cent in 1997.

At the low end of the wage distribution, restraint was even stronger. The adult legal minimum wage, in real terms, has been reduced by 20 per cent in less than 20 years. The legal minimum wage is differentiated by age. In 1979, half of the minimum wage population was on the minimum youth wage, in 1994 it had dropped to a third (Salverda, 1997). The minimum youth wage has declined even more than the adult minimum; this is reflected in the graph for the weighted minimum, i.e. weighted by the age category's employment share in 1979. The share of employment yielding no more than the legal minimum wage has dropped from 7.9 per cent in 1979 to 2.6 per cent in 1994 (in full-time equivalents). In 1979, the legal adult minimum wage was 70 per cent of the median wage. The share of employment at or below that relative wage level was 12.4 per cent in 1979 and had climbed to 14.0 in 1994 (Salverda, 1997). In other words, the share of workers at the minimum wage has declined substantially. But since the minimum wage itself has dropped below its former relative level, the share of workers in the low wage tail defined by the initial relative level has increased.

3.3. Working time reduction

Actual hours worked per year have been reduced to the lowest level in Europe: 1452 hours in 1993, while the average in the EU stood at 1669, and Germans worked 1592 hours. This is mainly due to part-time work. Average annual hours for full-time workers are about equal: 1788 in the Netherlands, 1797 in the European Union. Great Britain is the exception here, with an average of 1953 annual hours. Dutch part-timers work less (817 annual hours versus 921 in the EU), and there are relatively more of them. The reduction fits in a downward trend over the postwar period. Contractual hours took their first substantial dive in 1961-62, with the introduction of the five-day working week. There clearly has been a substitution of persons for hours. Total hours worked per annum by the total labour force in 1990 were equal to the total in 1970 (Den Butter en Van Vuuren, 1997). See figure 3.3. In 1975, all full-time workers had a standard 40 hours working week. In 1998, the *average* working week for a full-timer is about 36 hours (Plantenga and Dur, 1998).

Table 3.2 portrays the shift in employment composition for 1987 and 1995, two cyclically comparable years (the unemployment rates in both years are virtually equal). Both for men and women, annual contractual hours have been reduced. Overtime hours have increased, as could be anticipated from the relative increase in fixed cost when contractual hours decline. Part-time and flexible contract work

⁴Statistisch Zakboek, 1990 table 11.9, p. 337 and 1998, table 11.12, p. 387.

have increased. The share of full-time male work has diminished from 66 to 60 per cent of the annual employment volume. The total of full-time work, for men and women together, decreased from 83 to 75 per cent. The share of women increased from 29 to just under 33 per cent, with a big increase in the share of part-time female work. Part-time work increased from 13 to 19 per cent, flexible contract work increased only modestly from 4 to 5 per cent.

Part-time work covers all jobs in which the agreed hours of work are less than the full-time contractual hours of the firm. Over three quarters of the volume of part-time work is done by women. Mostly is in line with preferences. The labour force participation rate for women has increased steadily (from 40 per cent in 1987 to 49.9 per cent in 1996), and many women like to work part-time: given the social and institutional environment, there are no signs that those working part-time want to supply more hours. The relation between women's labour supply behaviour and child care facilities in the Netherlands is not well established. Day care facility provision by employers is not very frequent. Use of informal child care (friends, relatives, neighbours) is more common than use of formal facilities, both among women with and without paid employment. In fact, among women using child care facilities, the differences by types of care between women with and without paid employment are modest. The effect of the price of the child care facility on leisure demand has been estimated as zero (Maassen van den Brink, 1993; Maassen van den Brink and Groot, 1994). Perhaps, availability of facilities is relevant for labour supply, but given the high probability that at least informal facilities are available, it is hard to conclude that lack of facilities is the key factor to explain the high incidence of part-time work among women.

The reduction in contractual hours after 1982 did not stem from demands by the workers. The earlier reductions had been increases in demand for leisure induced by increases in the wage rate: an income effect dominating the substitution effect. After 1982, the stimulus came from union leadership and workers only reluctantly accepted. With constant or even declining real wages they were not interested in buying more leisure. More recently, however, surveys indicate an interest in a shorter working week, both among men and women (Plantenga and Dur, 1998).

Labour supply has also been reduced by a strong reduction in the participation of older men. They got a disability pension, benefitted from early retirement schemes or, when long-term unemployed, got exempt from the obligation to search for a job. In 1996, only 39 per cent of the men aged 55 to 65 had paid work. Among women, this was 13 per cent. (*Kroniek van de Sociale Verzekeringen*, 1997). The financial cost to the individual pensioner was usually very low. There were private sector supplements for workers older than 57.5 to their unemployment benefit. In 1975, unemployed over 60 became eligible for unemployment benefit until age 65 without the requirement of active job search and involuntary lay-off (which implied benefit entitlement from the age of 57.5 until the age of national pension entitlement 65). Optional early retirement schemes started to emerge after 1976, organized at the level of firms and industries (Teulings, Van der Veen and Trommel, 1997, page 31).

3.4. Effectiveness

Government policy consisted of reducing expenditures by reducing the public sector wage bill, reducing transfers and lowering the legal minimum wage. The initial impact of the policy is negative: it directly reduces public sector employment and it reduces consumption demand from civil servants and transfer recipients. The benefits should come from wage cost reduction, stimulated by a lower tax burden, a lower legal minimum wage and lower benefit levels (lowering reservation wages). Wage cost reduction should be reinforced by deliberate wage restraint by the labour unions. At given output, lower wage cost stimulates more labour intensive, less capital intensive production. The lower wage will reduce consumption demand from employees, but higher profits may stimulate investment demand and lower export prices may stimulate foreign demand. The lower minimum wage may lead to a more extended lower tail in the wage distribution, stimulating growth of low-wage jobs. The lower wage rate may reduce labour productivity, from reduction of the capital intensity of production and from less pressure to seek and implement process innovations. Reduced consumer demand may reduce the stimulus to product innovations. While the policy may benefit employment, it might come with a reduced labour productivity and with demand composition effects from consumption towards investment and exports.

To assess the balance of potential positive and negative effects on employment, the Central Planning Bureau has compared the actual situation in 1990 with the predicted outcome under alternative policies (CPB, 1991). The econometric model has a wage equation in which wage growth responds to prices, unemployment, the burden of taxes and social security premiums and the net replacement rate. Investment responds to the share of wages in national income. Before the policy interventions, public sector wages, social security benefits and the legal minimum wage were indexed to the private sector wage. Had this indexation continued (at budget deficit as actually realized, hence at higher taxes), private sector employment in years would have been lower by 125,000 (by 150,000 in persons) and unemployment would have been higher by 105,000 persons. Between 1979 and 1990, the share of labour income in private sector value added decreased by 10 percentage points. In the CPB calculations, three quarters of this decrease was due to the endogenous effect of higher unemployment. Had wages increased to maintain the private sector labour share at the level of 1979, private sector employment in years would have been lower by 220,000 and unemployment in persons would have been higher by 275,000 (actual unemployment in 1990 was 419,000). In both simulations, consumption would have been higher and investment and exports would have been lower. Had both indexation and constant labour share wage development occurred, predicted private sector employment in 1990 would have been 8 per cent lower than actually observed. Private sector labour productivity would have been higher. Had indexation continued, real national income would have been lower. Had wage development maintained the labour share in income, real national income would have been higher. Between 1982 and 1990, relevant world trade annual growth was 1 to 1.5 per cent higher than in the previous eight year period. According to simulations that suppress this higher growth rate, the effect on employment and unemployment was very modest, although of course exports would have grown much faster.

How effective has work sharing been for creating additional employment? A simplistic, strict proportionality between contractual working hours and unemployment is unrealistic for many reasons, and in fact not many people adhere to such a naive view. But many believe the positive relation sufficiently strong to have policy relevance. Calmfors (1985) is probably the first to analyse the potential effects of work sharing. Work sharing will tend to increase the cost of labour, which by itself will reduce demand for labour. With fixed cost relatively more important, labour demand will shift in favour of hours per person over persons, hence stimulating working overtime. This has indeed been observed, as noted above (see table 3.2). In bargaining models, the monopoly union model and the right-to-manage model yield ambiguous predictions on the effect on wages (and hence employment). Efficient bargaining models predict a decrease in annual earnings and an increase in the hourly wage. Layard, Nickell and Jackman (1991) argue that working hours have no effect on the unemployment rate. They cite an OECD wage equation for 19 countries (and 30 years) in which the effect of average weekly hours on wages is insignificant. With wage pressure unaffected, equilibrium unemployment is also unaffected in their model. They offer further evidence ("casually", as they call it) by plotting the decrease in working hours against the increase in unemployment in 11 countries for the period 1975-88. The highest increase in unemployment appears to have occurred in countries with the strongest reduction in working hours. However, De Regt (1997) points out that 1975 and 1988 mark different stages in the business cycle. Drawing up a figure for cyclically comparable years 1983 and 1993 exactly reverses the relation! Plotting changes over the years 1979-89, both more or less cyclical peaks, restores the relation as found by LNJ.

Dur (1997) reports an estimated wage equation for The Netherlands for the period 1966-93, and finds that annual wage cost decreases by 0.6 per cent if contractual hours are reduced by 1 per cent, implying an increase in the *hourly* wage of 0.4 per cent. De Regt (1997) refers to nonreported estimation results in which hourly wages are constant if working hours are reduced, a result similar to the LNJ finding above.

Dur (1996) estimates a four-equation model: employment, unemployment share of long-term unemployed, real hourly wages and labour supply, for the period 1969-94. Employment in hours (annual employment in labour years multiplied by contractual annual hours) is not significantly affected by contractual hours (coefficient 0.14, t-value 0.56). This suggests proportionality for work sharing, at given hourly wage cost and at given total employment, i.e. equivalence of persons and hours. Work sharing thus has the potential of reducing unemployment. But real hourly wages (including employer premiums

for social security) respond significantly to contractual hours, with an elasticity of -0.6: a reduction of contractual hours by 1 per cent increases hourly wage cost by 0.6 per cent. Since wages affect employment with an elasticity of -0.5, there is a negative effect of work sharing on employment: through cost increases. Dur claims his results for the wage equation to be similar to results for Germany, Denmark, Finland and Australia. Labour supply responds significantly to wages and unemployment, positive to the former, negative to the latter. Wage effects and labour supply effects take away much of the proportionality effect of work sharing: less than 20 per cent of the proportional effect on unemployment remains. This is due to a primary effect of wages on employment, cutting directly into the proportionality, and to secondary effects, as reduced unemployment increases wages and labour supply. Work sharing indeed reduces unemployment, but at a high cost in terms of employment and output. In his decomposition of the unemployment history between 1970 and 1994, unemployment was strongly pushed upward by population growth. Reduction in contractual hours had a substantial mitigating effect between 1970 and 1989. Negotiated reduction in working time in collective agreements mostly took place in two periods: by 8 per cent in 1970-75 and by 6 per cent in 1980-85. During the nineties, the effect has been negligible (Plantenga and Dur, 1998).

Kapteyn, Zaidi and Kalwij (1997) draw on the international literature and new econometric evidence for a sceptical (or perhaps agnostic) view on the effects of worksharing. Among the empirical regularities that can cautiously be deduced from the modest existing evidence are the following. Actual hours worked per employee tend to follow standard hours worked rather closely, with a coefficient (or elasticity) just below 1. The partial elasticity of employment with respect to hours, holding wages fixed is about -0.5 to -0.6. Perhaps the effect of hours worked on wages is most disputed. Some claim no effect (Layard et al., see above). Other studies suggest that a reduction in hours worked increases the hourly wage; this would hold for Germany, Sweden and Norway, and according to Dur's results, for the Netherlands. Kapteyn et al. present estimation results for 13 OECD countries for the period 1971-94. It is a highly aggregate analysis, estimating relations between employment in persons, gross hourly wages (national averages), average actual weekly hours, the unemployment rate, GDP and some other variables. The results are mostly dominated by absence of significant effects. In particular, working hours have no effect on employment, unemployment, wages, labour supply or GDP per capita. This suggests that work sharing is both useless and harmless: no effect on the target variables (employment, unemployment), no cost effect (GDP per capita). The authors also offer a simulation analysis of policies for the Netherlands (country specific effects emerge from country dummies in the relations), indicating that reduced working hours reduce employment and increase unemployment. But they rightly point out that given the low significance levels of the estimates, these predictions are very uncertain.

Clearly, there is no strong empirical support for a policy of worksharing as a method to reduce unemployment. CPB (1991) also concludes to a very modest effect. It may have had some effect in the Netherlands, but at a cost to the volume of employment. An important issue, not studied in the econometric analyses, is the decision on the timing of working hours. It will matter a great deal whether standard weekly hours are rigidly reduced, or only reduced on average, and it will also matter whether workers can take time off at will or whether employers can decide when the worker should take additional days off. A survey covering the period 1982-85 indicates that in half of the firms reduced working hours per employee was met by reduced operating hours of the firm, while in the other half, operating hours were maintained (CPB, 1991, page 10). Several recent collective agreements attempt to combine reduced standard hours with increased flexibility, with a say for employers on the timing of work and leisure. In banking, reducing the standard week to 36 hours (in 1995) is combined with extension of opening hours to the public. A large retail firm moved to a 35 hours working week with a 60 hours operational week, also extending opening hours (restrictions on opening hours of retail stores have recently been lifted). A large chemical company introduced an average working week of 36 hours, with the company deciding over the timing of 50 per cent of 23 days of annual leave and the possibility for the worker to sell some of these days for working (Plantenga and Dur, 1998). If additional leisure can be taken during slack times, the effect on wage cost is reduced, but so is the effect on labour demand. Indeed, authority over the spacing of working time seems quite important for the effects.

Table 3.1 Public expenditure categories, share in GDP

	1983	1996	96-83
Direct expenditures			
- wages	20.8	17.8	-3.0
- consumption	12.2	9.4	-2.8
- investment	5.8	5.7	-0.1
Income transfers	2.9	2.7	-0.2
Subsidies	31.6	27.1	-4.5
Interest	2.1	1.2	-0.9
Wealth transfers	5.3	5.6	-0.3
Loans	2.4	1.0	-1.4
	4.3	0.5	-3.8
GROSS PUBLIC EXPENDITURES	66.7	53.2	-13.5
Non-tax income	8.5	6.4	-2.1
NET PUBLIC EXPENDITURES	58.0	46.9	-11.1

Source: Centraal Economisch Plan 1997, Bijlage A8, 186-187.

Table 3.2 Shifts in employment composition by type of contract

	Men				Women			
	Full-time	Part-time	Flexible	Total	Full-time	Part-time	Flexible	Total
Annual hours								
1987	1746	805	772	1613	1750	860	688	1185
1995	1740	861	819	1569	1741	900	684	1115
Annual overtime hours								
1987	32	9	9	29	4	9	3	6
1995	38	6	16	33	6	7	3	6
Employment volume in person years, fraction of total								
1987	0.662	0.029	0.019	0.710	0.166	0.104	0.020	0.290
1995	0.603	0.026	0.026	0.672	0.151	0.145	0.032	0.328

Source: CBS, Arbeidsrekeningen (Labour Accounts).

Figuur 3.1 Real contract wages, market sector and public sector, 1970-1996
(1979=100)

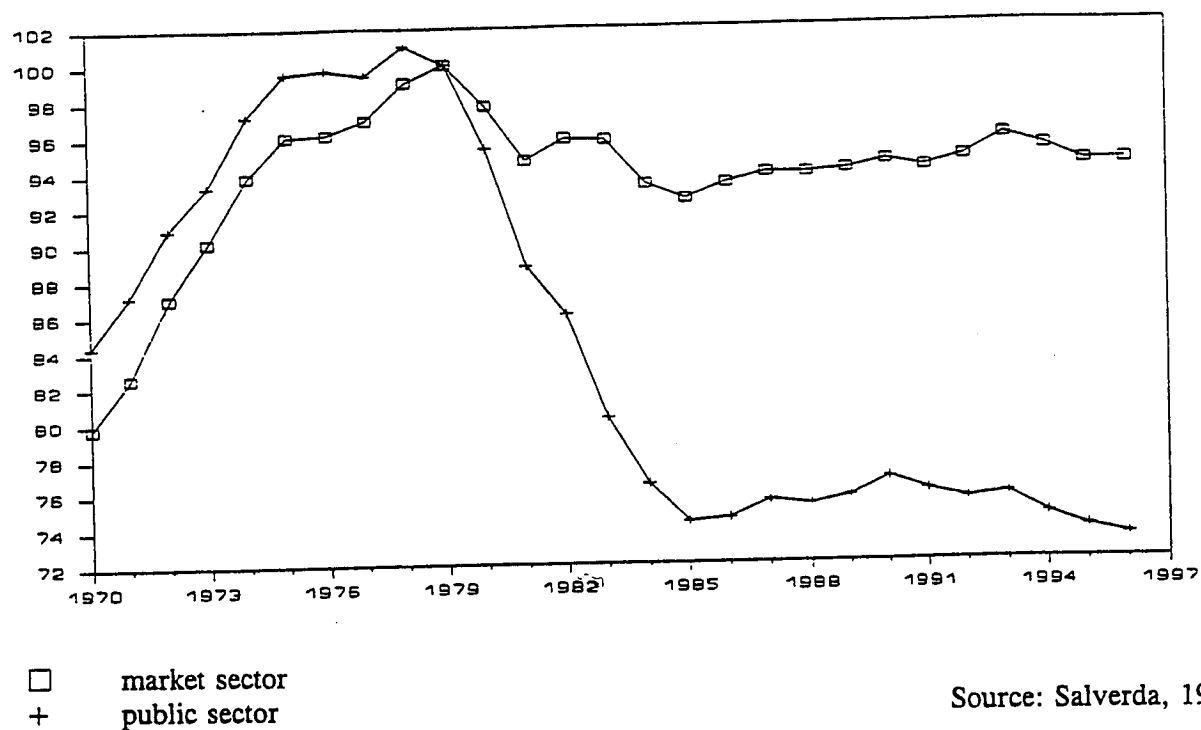


Figure 3.2 Real wages in the Netherlands, 1979-1997 (1979=100)

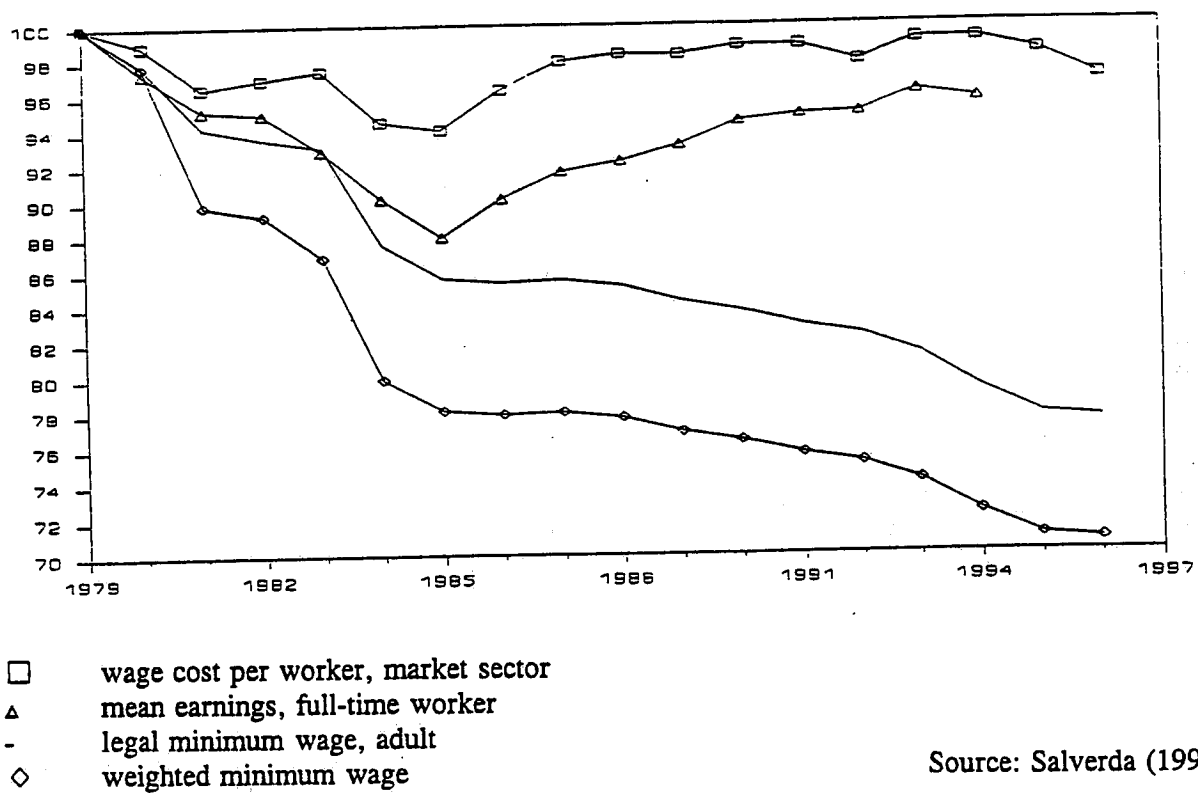
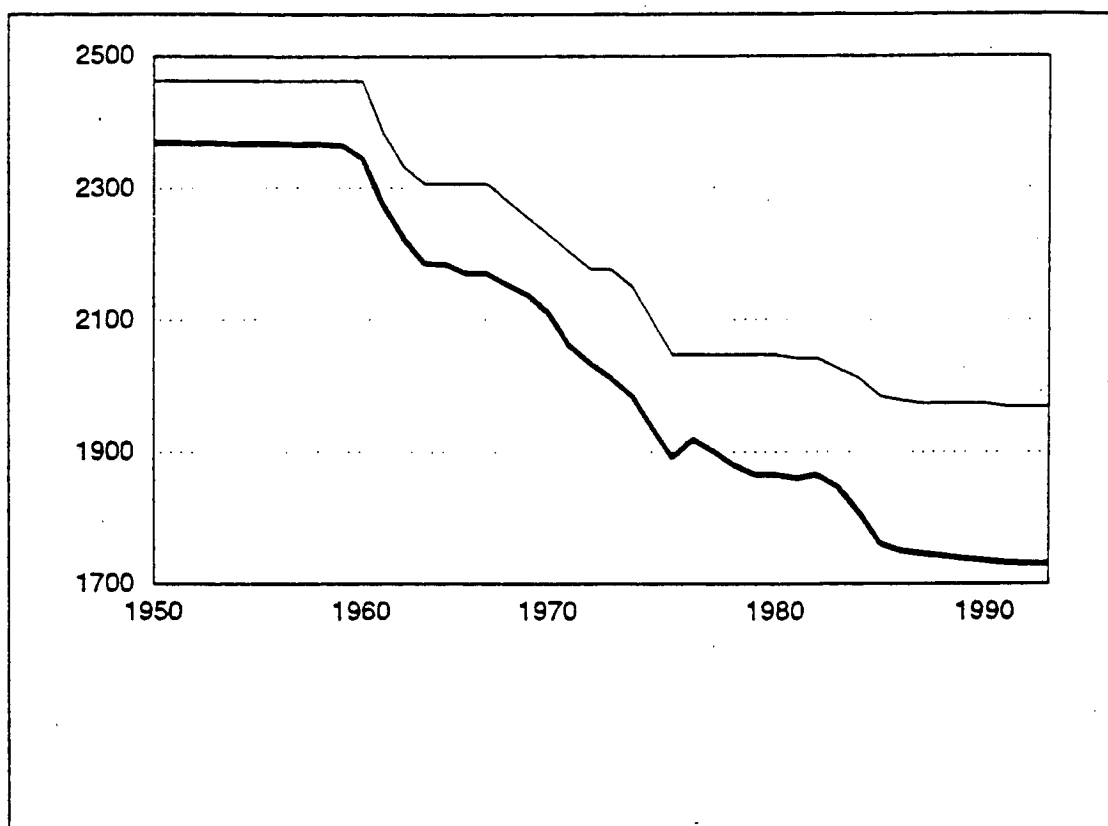


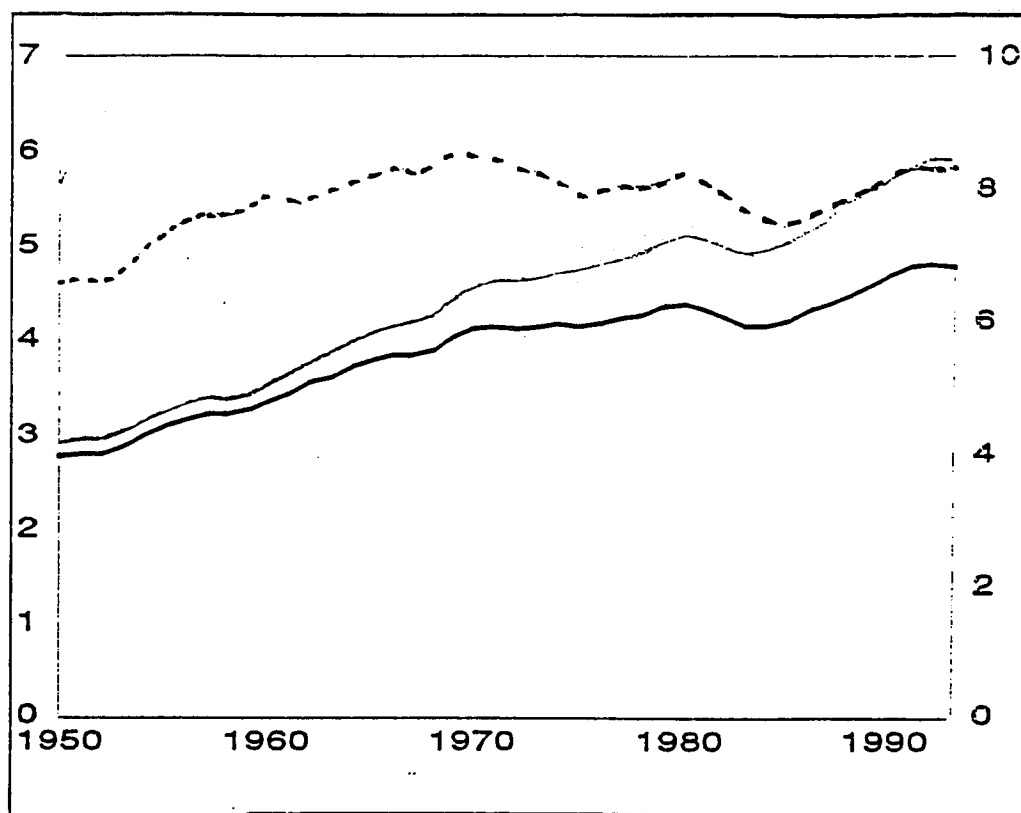
Figure 3.3a Annual contractual hours 1950-1995



- holidays excluded
- holidays included

Source: Den Butter and Van Vuuren (1997)

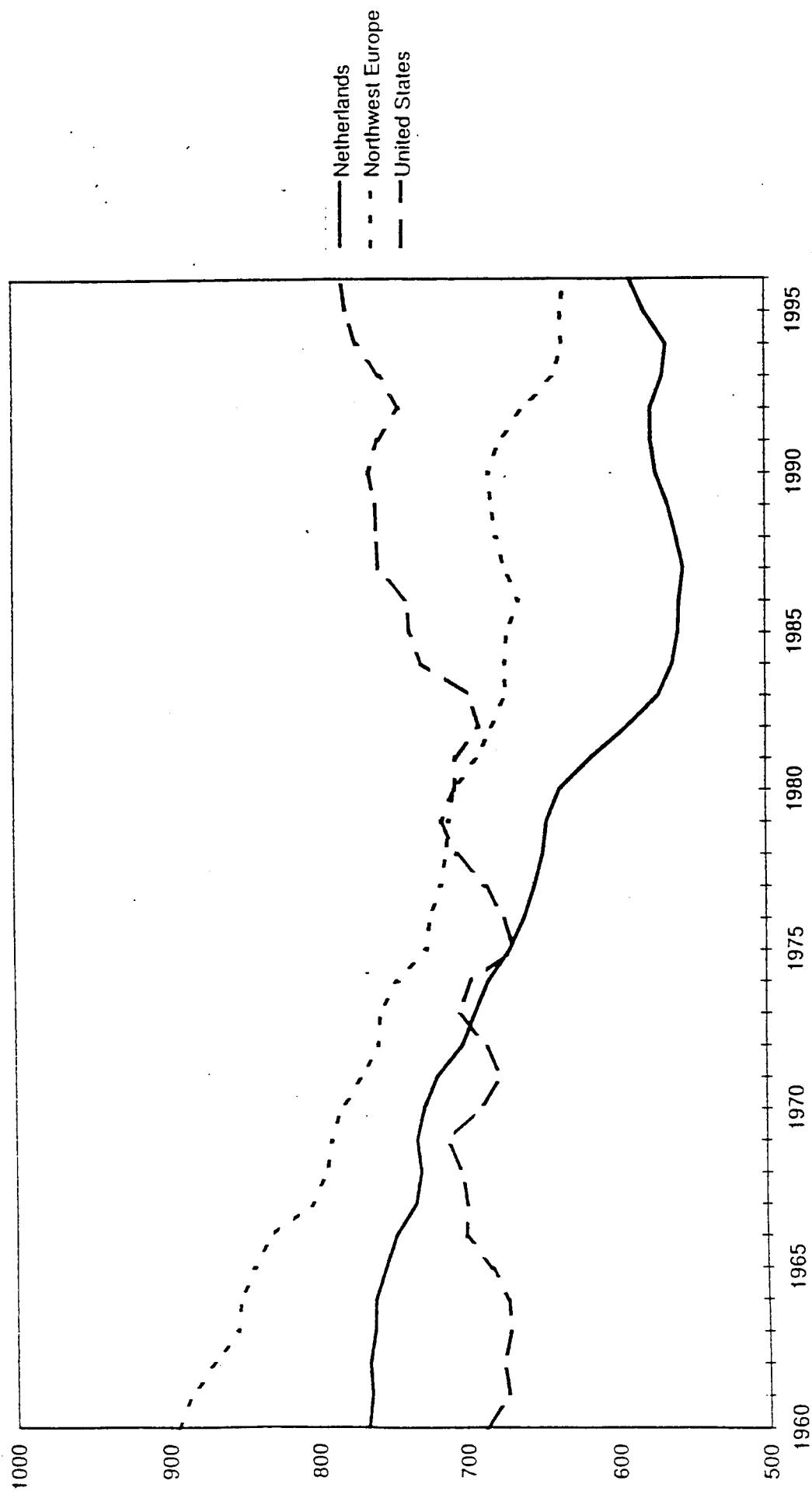
Figure 3.3b Total employment volume 1950-1990



-- hours
— persons
— years

Source: Den Butter and Van Vuuren (1997)

Fig. 3.3C Hours worked per head of total population



Source: Van Ark (1998)

4. Social security reform

4.1. The reforms

The period of construction and expansion of the welfare state lasted until the late 1960s. By the end of that decade, the legal structure of insurances and provisions was more or less complete. Later periods added streamlining and refinement. In the period from the late 1960s until the mid-1980s, the period for which the term “Dutch Disease” was coined, the welfare state provided a comfortable safety net, with generous benefit levels for sickness (100 per cent or more!), unemployment and disability, and rather easy access. But halfway during the 1980s reforms got under way, with 1987 marking a watershed. Let us consider this history in some detail.

The system of social security consists of *social insurance* and *social provision*. Social insurance is financed by premiums paid by the insured, and is divided into employee insurance, covering employees only (unemployment, sickness, medical expenses, disability) and national insurance, covering the entire population (national pension, widowers, child allowance and some other insurances). Social provisions, financed from general tax revenue, aim at guaranteeing the social minimum income. Social provisions also include the Income Supplement Act, which guarantees minimum income levels for recipients of benefits from social insurance. The big adjustments took place in the employee insurances.

Until the reforms in 1995, the organization of social security was distinctly corporatist. Eligibility, benefit level and benefit duration, i.e. the terms of the contract, are specified by law. But implementation, administration, control, was in the hands of social partners through their position in Industry Associations. Industry Associations were created by law in 1953 (Law on Organization of Social Security) precisely for this purpose. Initially there were 26 such Associations, governed by the organizations of employers and employees (as a result of mergers only 18 were left in 1995). The social partners had a strong grip on operating the insurances for unemployment, sickness and disability. For example, in the disability insurance they jointly decided on disputed benefit claims in a Disputed Claims Commission. Up until 1994, social partners even controlled supervision of the Associations, because they had a joint majority in the supervisory Social Insurance Council. The Social Insurance Council consisted of union and employers’ representatives and independent members appointed by the Minister of Social Affairs (eight members for each category), under a chairman appointed by the Crown (i.e. the Queen). The same applies to national insurance (old age and widow(er) pensions), where the Social Insurance Bank with tripartite governance administers the insurance and sets the premiums.

In all cases, social partners had a strong hand in setting premiums. The premiums for the Sickness Insurance were set by the Industry Associations, and hence, differed by Association. The premium for Disability Insurance was set by the Social Insurance Council, where partners had a (two-thirds) majority. The premium did *not* fluctuate across Associations, but was uniform across the labour force. Unemployment Insurance has a mixed structure. Part of the premium is uniform across the labour force, set by the Unemployment Fund, with tripartite governance. Another part (on average, roughly half the premium) was set by the Industry Association, and hence, industry specific. The industry specific part relates to the first stages of unemployment, i.e. the first eight weeks of unemployment (later extended to 26 weeks). Considered from the perspective of the decision makers at the industry level, there was no scope for shifting the burden of generous policies in the Sickness Insurance to outsiders (premiums were specific for the Industry Association).² There was however full scope in case of Disability Insurance (because of the undifferentiated, national, premium) and some scope in case of Unemployment Insurance.

During the 1980s, when unemployment had risen dramatically and a large share of the population was covered by social security, attempts to reduce expenditures have been launched along three routes:

¹ Highlights of the system of social security and the reforms are given in an Appendix.

² Of course, the product price of the industry’s output may increase. But the population of beneficiaries was the same as the population that pays for the premiums.

along the employee side, the employer side and at the level of the controlling and supervising organizations. By making benefit regimes less attractive and less accessible for employees and by improving cost-reducing incentives for employers, the price and volume of benefit reciprocity should be reduced, to reduce premiums and wage cost. Also, policies to increase the outflow from unemployment and disability were intensified (for example, allowing schooling while on unemployment benefit and subsidies to hire disabled). Changing the management organization of social insurances should generate a self-governing system more conducive to sober and efficient utilization.

The reform on the employee side meant first of all a reduction of benefit ratios: in the period 1985-87, the basic replacement ratio for unemployment, sickness and disability was lowered from 80 to 70 per cent. But for each of these insurances, eligibility rules were also tightened.

Eligibility for unemployment benefits required 13 weeks of work out of the last 52 in the period 1949 to 1987. In 1987, this was increased to 26 weeks of work out of the last 52, in 1995 it was raised to 26 out of the last 39 weeks, and in addition four years of work (for a minimum of 52 days) out of the last five years. Benefits stood at 80 per cent, for a maximum of six months in the period 1965-85, then were reduced to 70 per cent, and in 1987 were "kinked": 70 per cent of last wages for a maximum of six months (with extension up to four and a half years as a function of work experience) and a so called extended benefit of 70 per cent of the legal minimum wage for a maximum of one year. The unemployed not covered by unemployment insurance (for example, for lack of sufficient work experience, were covered by a national benefit plan financed from tax revenue (with benefits at the level of the social minimum); this was abolished in 1996. After exhausting the benefits, the unemployed are entitled to General Welfare Assistance, means tested, with partners' incomes pooled, and limited to the social minimum.

As a crude test on the effectiveness of tighter eligibility rules, we may relate the number of unemployment beneficiaries to the number of "real" unemployed. The real unemployed are those who qualify for the ILO definition: without a job, actively searching and immediately available for work. We may also look at the average unemployment benefit per "true" unemployed (see table 4.1). With tighter eligibility rules, one would expect the number of beneficiaries to be closer to the number of "real" unemployed and hence a lower ratio.

The first and perhaps surprising result is the fact that we have 25 to 40 per cent more unemployment beneficiaries than unemployed. This is a consequence of the fact that several categories of unemployment beneficiaries are exempt from the obligation to seek a job, such as elderly unemployed. The pick-up rate has certainly not declined structurally over time, although there is a slight dip after 1987, when eligibility rules were tightened up. The total amount of benefits paid, related to the "real" unemployed, has increased by 11 per cent between 1983 and 1995. Over the same period national income per capita increased by 56 per cent. Thus, the benefit level has indeed been lagging the general income development. This reflects the decline in benefit levels and may also reflect some composition effect towards legal regimes with lower benefit level.

The incidence of sickness covered under Sickness Insurance is shown in figure 4.1. It has increased strongly from the early fifties to the mid-seventies. Until 1985, the national Sickness Insurance paid 80 per cent of the wage during the sickness, starting at day three of a sickness interval, for a maximum of one year (after which transition to the Disability programme was considered). Premiums were differentiated by industry (for 18 Industry Associations). Through collective agreements, the benefits were raised to 100 per cent, from the first day of sickness, at the expense of the employer. In 1985, the benefit level was lowered to 75 per cent, in 1986 to 70 per cent, but again collective agreements safeguarded the workers by simply maintaining the employer supplements (Teulings, Van der Veen and Trommel, 1997, page 287). There was thus no financial loss for sick employees and until 1985 often even gains in net income, as sickness benefits were exempt from social insurance premiums. Moral hazard will lead to excess "consumption" (high levels of sickness absenteeism) which can only be countered by intense monitoring. It is quite likely that the strong increase in sickness incidence was due to the combination of full income coverage and a very lenient system of monitoring. In the reform of 1994, employers were mandated to pay at least 70 per cent of the wages for the first six weeks of sickness (two weeks for small employers), with of course the option for employers to seek private

insurance. In 1996, this was extended to full employer liability for 70 per cent of the wages for one year: essentially, the Sickness Insurance programme for employees has been privatized.

To evaluate the effect of the reforms, there is the disrupted data series of CTSV and there is a new dataset initiated by CBS, the Sickness Absence Survey. The CTSV series is disrupted when employers became liable for sickness compensation and no longer needed to report to the Industry Association to make sure the employee got the benefit.³ Absence percentages from the latter survey, for the private sector, excluding maternity leave are given in table 4.2. Between 1993 and 1995, the sickness absence rate fell markedly. Since then, it appears to have stabilized. Just at the face of it, without conditioning on external factors (cold winter? influenza epidemic?), the extension of employer liability from six weeks to one year does not seem to have had much of an impact, while the first step (liable for the first six weeks) is associated with a substantial drop in sickness rates. However, the sickness absence rate in the public sector also fell: a drop from 6.3 per cent in 1993 to 5.6 per cent in 1994. In 1995, it increased again to 5.8 per cent (Sociaal Economische Maandstatistiek, Mei 1996, page 14). If we use the public sector sickness rate as a crude index for external conditions, the indexed private sector rate would have been 5.5 per cent in 1994 and 6.3 per cent in 1995. That would imply a drop of sickness incidence by 11 per cent in 1994 and another drop by 11 per cent in 1995, giving a total reduction due to privatization of 22 per cent.

Privatization of sickness leave insurance is not a sudden policy disruption. Sickness absenteeism policies had already been on the agenda for collective bargaining before privatization was enacted.⁴ Some of the reduction of sickness incidence might be due to the increase in monitoring that took place in recent years, often on the basis of the bargaining results in collective agreements. Recently, sickness incidence has been an important topic on the bargaining agenda (Van den Toren, 1996, Chapter 5) and employers and employees have jointly adopted measures to reduce it. It has resulted in more attention for the quality of working conditions, but also in more frequent and earlier checks by physicians. As the data in figure 4.1 indicate, sickness incidence had already fallen from its peak in the mid-1970s. Sickness leave compensation as a percentage of the wage bill increased from 2 per cent in the early 1950s to almost 7 per cent in the late 1970s. It declined towards 5 per cent in the late 1980s and then rose again, before the privatization dip took place (*Kroniek van de sociale verzekeringen*, 1997, Grafiek 4.2.b, page 67). It has always been possible to opt out of the collective insurance system at the industry level and to either as a firm fully absorb the risk or to set up an insurance under joint governance of employer and employees. In terms of total benefits paid, the latter two groups initially were about half the size of the collective insurance system, but the share gradually dropped to about a quarter (before returning to one half when the privatization reforms started). The developments of sickness incidence (measured by benefits paid relative to the wage bill) appear very similar for the different systems (*Kroniek*, 1997, Grafiek 4.1.b, page 65). This might suggest that the type of organization of the insurance is rather immaterial as long as the insurance contract (level of benefits paid, intensity of monitoring etc.) is not affected. However, a more inquisitive comparison might reveal otherwise.

The privatization of sickness leave compensation (and the attention already paid to the high absence rates before the privatization took hold) does appear to have changed the policies of employers and insurance associations. There is more intensive monitoring and there are more active prevention policies. In 1996, under full privatization, five out of ten firms paid less than 100 per cent as sickness benefit, and four out of ten paid 70 per cent. Before privatization, compensation at 100 per cent was the

³ Actually, for data on sickness leave, there are three data sources: the Chronicle of CTSV (*Kroniek van de Sociale Verzekeringen*, data from the sickness leave insurance administration), the Labour Force Survey EBB of CBS and a special Sickness Leave Survey, also by CBS. The former used to be the most complete database until 1994, when employers became liable for compensation during the first six weeks of absence, which eliminated the incentive to register (and collect the insurance benefit). Things got even worse when employers became even liable for the full first year of sickness in 1996. The data based on the Labour Force Survey only give full information on sickness absence for workers in a tenured job requiring at least 12 hours a week; for other workers, absence is only recorded if it has lasted for at least two weeks. That leaves the special Sickness Absence Survey, among private sector employers, as the best source for recent information. Annual data were first collected in 1995, starting with observations for 1993. In 1995, it became a quarterly survey.

⁴ Collective labour agreements sometimes contained provisions to reduce absenteeism related to sickness.

rule. There are also indications that firms are more selective in hiring and that they evaluate absenteeism indicators in their hiring decision (CTSV, *Augustus rapportage arbeidsongeschiktheids verzekeringen 1997*, pages 53-60).

In conclusion, the sickness incidence rate, after a long climb to a high plateau maintained between the mid-seventies and the mid-nineties, has come down in reaction to privatization and a set of policies leading to lower financial compensation, more intense monitoring and more active prevention policies. The down side however, is more selective hiring decisions by firms.

The most worrisome development in the Netherlands, and a painful claim to international fame, has been the explosion in the number of disability benefit recipients. This has been caused by a combination of a generous benefit scheme, generous and fuzzy eligibility criteria and a governance structure that was not conducive to restraint. The Disability Insurance was enacted in 1967. Individuals were placed in disability intervals, with a disability of 80-100 per cent giving entitlement to the full benefit of 80 per cent of lost earnings. Disability was determined with reference to the wage that could be earned for the incapacitated's education and experience, *taking into account the situation in the labour market*. This condition implies that disability became related to the level of unemployment: if the state of the labour market would make it hard to find a job for the remaining capacity to work, the disabled would be placed in a higher disability interval. The inflow into the disability was massive and dramatic, and clearly responsive to economic incentives (Aarts and De Jong, 1992).

In 1987, the benefit level was lowered to 70 per cent. However, it stimulated the provision of supplementary benefits through collective agreements, from applying to 68 per cent of employees in 1984 to 90 per cent in 1989 (Teulings, Van der Veen and Willems, 1997, page 286). Also, the "labour market criterion" was abolished. In 1993, eligibility conditions were tightened. The disability had to be a direct consequence of the impairment, by objective standards, and the remaining earnings capacity came to be estimated from a selection of the best paying jobs that would be open to the individual. Also in 1993, the principle of constant benefit levels until age 65 was abandoned. The benefit level came to be related to age and work experience. Recipients younger than 50 were subjected to new medical examinations, in successive cohorts. Half of the new examinations for "cohort 94" (recipients younger than 35) led to lower disability levels and hence to lower benefit levels; in 37 per cent of the cases, the benefit was even ended altogether. For "cohort 1995" (aged between 35 and 40), 35 per cent got a lower estimate (of which 18 per cent saw their benefit ended) (CTSV, *In en uit de WAO*, pages 50-51).

Until 1993, disability benefits were constant until retirement (allowing for purchasing power indexing). This made disability a far more attractive exit route than unemployment, where benefits are reduced to the social minimum after some time. An element of generosity, no doubt, was the permission to take the labour market situation into account when determining the benefit level. Fuzziness surrounded the very concept of disability. This is to some extent always inevitable, but in combination with the lenient control and supervision culture, it opened the gates widely and let many pass through (Aarts en De Jong, 1992).

The percentage of workers on disability increased to a high of 13.5 per cent in 1984 and then slowly declined to 9.7 per cent in 1996. In equivalence years, correcting for the degree of disability, there was a peak of 568,000 years (for employees) in 1992 and 1993, and then a decline to 509,000 years in 1996. Figure 4.2 depicts the annual inflow and outflow. For the first time since the introduction of the law, the outflow surpassed the inflow in 1994. However, in 1996, the tide turned again. For employees, the inflow rate in 1996 was 1.4 per cent, down from a high of 2.4 per cent in 1978; the outflow rate was 9.6 per cent, up from a low of 8.2 per cent in 1989-90.

It has extensively and convincingly been argued that the disabled population contains a large component of unemployment, and this is clearly reflected in its time path: it parallels the development of the unemployment rate quite closely. During the 1990s the inflow rate seems to have responded to the policy measures with a structural decrease. The outflow rate has clearly gone up, from 8.2 per cent in 1990 to 12.2 per cent in 1994. The reform of 1987, in particular the elimination of the labour market situation from the disability criterion, appears to have no effect. Econometric analysis of inflow into disability before 1987 showed a considerable impact of the situation on the labour market, one study using post-reform data shows a much smaller impact, suggesting the change may have had an impact (Stigter, 1997, page 15). However, Teulings, Van der Veen and Willems (1997, page 80) report that after

1987, the labour market situation remained influential for examiners' decisions, in particular for older men. And the time series in figure 4.2 does not show signs of a marked effect. What did change, however, is the share of partial disability: the gradual increase of this share after 1977 steepened after 1986 and after 1990.

Among the three lines of attack on the expanded welfare state distinguished above, the second is targeted on employers. The changes have already been mentioned above. In 1994, employers became directly liable for wages of sick employees in the first six weeks (or first two weeks for small employers). In 1996 this six week period was extended to a full year. The employer is held responsible for a policy to reduce sickness absenteeism (which includes the obligation to consult expert advice) and is under obligation to monitor the worker's inability to work. Between 1992 and 1994, the disability insurance had a bonus/malus system: a penalty for every employee of the firm that becomes disabled, a premium for hiring a disabled person. Since January 1998, there is experience rating in the firm's premium for disability insurance. There is an obligation for firms to consult a Working Conditions service ("Arbo dienst") to improve working conditions and prevent the incidence of disease and disability.

The third line of attack is focussed on the organizational structure. Unemployment, sickness and disability insurance used to be administered by the Industry Associations, supervised by the Social Insurance Council, and social partners dominated administration and operative control. In 1995 the Council was discontinued and supervision was handed over to the Commission for Supervizing Social Insurances, CTSV. This is an independent body, without participation from social partners. CTSV has three independent members (and a staff of some 200 employees). It oversees the Industry Associations and initially the temporary committee for coordinating the Associations' policies, TICA. In the same year, the Joint Medical Service GMD was abolished. It used to do the medical inspections for the disability claims. In 1997, both TICA and all the Industry Associations are abolished. Administration of employee insurances, disability insurance and the Income Supplement Act is now the responsibility of the National Institute for Social Insurances, LISV, which contracts out to five Executive Institutes, UVIs, organized by (clusters of) industries. LISV is supervised by CTSV. Thus, social partners have lost their operational control over social insurances.

With respect to disability and unemployment, the new coalition government that resulted from the May 1998 elections intends to change the organization. The discussion centers on the extent of privatization. Social partners (and independent members) in the Social Economic Council have presented a unanimous advice to let private organizations evaluate claims for disability compensation, provided that unions and employer jointly select the organization. The government intends to maintain claim evaluation as a public sector activity, while agreeing on private sector administration of the disability payments. Social partners were shocked⁵ by the planned refusal to accept the Social Economic Council advice.⁶ The discussion between government and social partners is still going on.

There is a widespread view that social partners were responsible for the dramatic expansion of the population on disability benefits, a view underscored by an extensive Parliamentary Investigation. Social partners have been punished for their mismanagement by the drastic administrative reform. In the old system, until 1995, social partners administered disability and part of the unemployment benefits through their role in the Industry Associations. In the supervisory body, they had a joint majority over the independent members. After 1997, when the Industry Associations were abolished, they are no longer

⁵ "Flabbergasted, confused and disbelieving". *Trouw*, 17 June 1998, p. 7.

⁶ Interestingly, the Dutch Competition Authority (recently started as a consequence of a new pro-competition, anti-monopoly and anti-cartel policy) has argued in an advice to the government that GAK (now private, but formerly the public administrative body working for 13 out of 18 Industry Associations) has a dominant market position. The government is urged to take action to promote competition. (*NRC Handelsblad*, 19 June 1998, p. 11).

involved in administration or supervision. This is an important move away from the former intentionally corporatist organization set up in the early 1950s.⁷

4.2. Effectiveness of the reforms

So, what is the upshot of all these reforms?

Let us take a gross picture of what happened over a decade and a half of discussions and policy changes. We compare 1980, 1986 and 1995. 1986 is the last year before serious reforms in social security got under way. We consider four categories: sickness benefits, disability benefits and unemployment benefits, with the latter grouped in two subcategories: the standard unemployment benefits from entitlement under the WW, the unemployment benefit act, which covers the first six months of unemployment, and other unemployment. Other unemployment covers all these special provisions, under headings as unemployment provision, general assistance, etc..

Even admitting the crudity of the picture generated by table 4.3, it certainly does not strike as a splendid success story. Indeed, the size of the labour force increased, from 5.344 million in 1980 to 5.955 million in 1986 and to 6.596 million in 1996. The incidence of sickness is at the same level of 1980 and hence, relative to the labour force has clearly diminished.⁸ The other categories have increased substantially, in particular unemployment. The cost per recipient year has increased for sickness and disability, and decreased for the unemployed. Cost and incidence of sickness have developed favourably, disability and unemployment reciprocity have increased strongly.

Figure 4.3 pictures the development of the relative social minimum over 25 years: from two-thirds of the average wage in the early seventies to over 80 per cent between 1975 and 1983, and then gradually back to two-thirds again. The social minimum is the guaranteed minimum income, either as minimum wage, or minimum benefit in combination with Income Supplements. The increase in the relative benefit level has made benefit status more attractive relative to work. This can be illustrated by a study of Wolfe et al. (1984). They estimate a labour supply equation (weekly hours worked) on predicted earnings, predicted benefits and a vector of demographic characteristics in 1974 and in 1980. They find substantial effects of increased generosity of the benefits between the two years. For the earnings elasticity they find (for the Netherlands) 0.77 in 1974 and 1.35 in 1980, for the benefit elasticity they find -1.51 and -.82. With the transfer elasticity for 1980, they find that the 21 per cent increase in benefits between 1974 and 1980 has reduced hours worked by 17 per cent of the 1980 level, i.e. an annual decrease of 2.7 per cent.

Teulings, Van der Veen and Trommel (1997, Chapter 6) consider the effects of benefit levels on job search and transition to employment. With a duration elasticity of outflow of 0.25 and a benefit elasticity of job finding of 0.6 they estimate that the increase in benefit levels of 15 per cent after 1970 has increased unemployment by 60,000 persons. Adding that higher benefits also stimulate inflow, they hold the high benefit level between 1974 and 1985 responsible for an upper level of 100,000 additional unemployed.

The social minimum puts a floor in the market, and this affects the reservation wage at the low end of the distribution. This may be a factor to explain why rising unemployment has not put more pressure on low wages. From the data in Hartog, Oosterbeek and Teulings (1993) we may deduce that between 1979 and 1985, the relative wage of unskilled labour increased by 11 per cent and then stabilized until 1989.⁹ The effect of this increase on labour demand of the unskilled, from substituting higher skilled for unskilled workers, depends on the magnitude of the elasticity of substitution by skill level. With an

⁷ Debates on the management structure and organization of the social insurances have a long history. See Teulings, Van der Veen and Willems (1997, Ch. 9), for some discussion and further references.

⁸ Taking percentages, it fell from 5.7 to 4.6 per cent; but note that the labour force is not in full-time equivalents. The labour force was taken from *Kroniek 1997*, table 3.3

⁹ In a standard Mincer earnings equation, the rate of return was 0.089 in 1979, 0.072 in 1985 and 0.073 in 1989. We assume an unskilled has four years of education after primary school (to conform to the legal minimum) and a higher educated has seven years. The relative wage rate then changes by four * (0.072 - 0.089) = -0.119

elasticity of substitution of 1, the employment ratio would drop by 11 per cent. At an original share of low skilled labour of 0.5 in 1979 (lower education plus extended lower), this would come down to a drop in demand for unskilled labour by 5.5 per cent of total employment. Related to the labour force of about 4.5 million person years in the eighties, this would amount to a reduction of demand for the unskilled of some 250,000 person years.

During the first half of the nineties, outflow rates from unemployment benefit to work are still not high. 53 per cent of those on unemployment benefit (WW) for a year or less find a job, 30 per cent of those on benefit for one to two years, 22 per cent of those on benefit for two to three years. For those on General Assistance (ABW) these rates are even much lower (16, 13 and 9 per cent). Outflow rates decline steeply with age (for a duration of less than a year on unemployment benefit, it is 64 per cent for 18-24 year-olds and 14 per cent for 55-64 year-olds). (Sociale Nota 1998, Bijlage 17). Among registered unemployed in 1996, almost a quarter had been unemployed for more than three years (102,000 out of 441,000), one half had been unemployed for more than a year. In 1988, with registered unemployment at 453,000, the division by duration was virtually identical. (Sociale Nota 1998, Bijlage 4). In 1990, unemployment of individuals with lower or extended lower education (LO, MAVO, LBO) was just over 210,000 persons.

Why have the reforms and the reductions in benefit levels during the eighties and nineties been so ineffective? One factor may be that replacement ratio is at the bottom have not really diminished. The ratio between minimum benefit and legal minimum wage stood at 98.5 in 1983 and at 98.1 in 1997 and has barely fluctuated in the intervening years (Centraal Economisch Plan 1997, Bijlage A6). While the relative social minimum has declined substantially over time, there is no evidence that the work incentives for the unemployed at the minimum level have improved.

During the eighties a large group of hard core long term unemployed developed, with low education and including many immigrants. In a detailed study Engersen, Schuyt and Timmer (1990) established that many of them resign in their situation, are reasonably satisfied with their situation (including volunteer work or some participation in the underground economy) and have given up all efforts to search for work. It was also often observed that among the expenditures for the unemployed (and the disabled), the share of cash transfers was relatively high, and the share of training and reintegration expenditures low. Dutch expenditures for a long time favoured passive policies relative to active policies, in comparison with other countries (Groot, Hartog and Pott-Buter, 1992). The financial incentives for return to the labour market, from a benefit situation, were also pretty weak. Only single individuals would experience a substantial income increase by exiting from unemployment. In case of a married worker formerly employed at the level of the minimum wage, returning to a minimum wage job would yield an income increase of 1 per cent. Returning to a job at the same wage level as before, at 125 per cent of the legal minimum wage, increases income by 17 per cent relative to the unemployment benefit. However, taking a job for one day a week would in this case boost income by 8 per cent. Thus to gain 9 per cent in income, four days of leisure per week have to be sacrificed (op. cit., page 85). And this even ignores the cost of work, such as travel, clothes etc. These calculations were made for 1992, but it is doubtful whether much has changed since then.

It is hard to say whether the other reforms (tighter eligibility rules, increased sanctions, curtailment of duration) have had much of an impact. In general the relation of unemployment duration and level and duration of benefits is not firmly established. Many studies find no relation at all, or at best, only a small effect. However, studies on unemployment benefit systems often ignore the fine details of the system (cf Atkinson and Micklewright, 1991) and as the Appendix shows, the Dutch system has many fine details. For the Netherlands effects have been established for specific elements such as approaching the end of benefit entitlement (Lindeboom, 1992; Van den Berg, 1990) and sanctions applied to insufficient job finding efforts (Abbring, 1997). Between 1987 and 1994, the number of sanctions has increased fourfold, to 17 per cent of the inflow of unemployed; sanctions may substantially influence the probability of outflow to work, depending on gender, age and wage (Teulings, Van der Veen and Trommel, 1997 page 166).

In 1979, 79 per cent of employees were paid at the legal minimum level. The rate then dropped, to 5.0 per cent in 1985, 3.8 per cent in 1989, 2.9 per cent in 1991 and to 2.6 per cent in 1994 (Salverda, 1997; table 4). This suggests that the wage distribution has been lifted relative to the social minimum.

Indeed, while between 1983 and 1990, the legal adult minimum wage was nominally constant, the lowest pay scales in collective agreements¹⁰ increased by 3.5 per cent (Salverda, 1997, table 6). Frequency curves given in Teulings et al. (1997, page 180) show that indeed in 1979 there was some bumping at the lowest wage rate. However, such a minimum spike is barely visible in 1985 or 1989. The constraint is mostly binding in two industries, retail trade and cleaning services, and mostly apply to women. It has been argued that the distance between the minimum wage and the lowest pay scales in collective agreements shows that collective bargaining maintains wage rates above market equilibrium levels. To stimulate employment for the unskilled the government had pushed for creating wage scales between the social minimum and the lowest pay scale in the collective agreement. Bargaining partners indeed created such pay levels, and in 1996, they applied to 4 per cent of employees, mostly in small firms (Salverda, 1997, table 7).

Summarizing the development over the last 15 to 20 years, we may say that the increase in generosity of social insurance and social security has created a large volume of benefit recipients. The high social minimum may have been a factor in eliminating low-skilled jobs, as the high reservation wage at the low end kept wages high and stimulated substitution of higher educated for low educated workers. Reducing the high volume of benefit recipients has proved extremely difficult. In fact, only the reduction in sickness incidence in the most recent years may qualify as a success. Apparently, the reservation wage of the benefit recipients was higher than what employers wanted to pay for their qualifications.

The high incidence of disability that developed under the control of social partners is something of a puzzle. In terms of wage determination, there can be no doubt that the corporatist structure is conducive to wage restraint (see Teulings and Hartog, 1998). Federations of trade unions play an important role in attempting to keep wage increases within limits set at the national level. So why was such restraint absent in the admission to social security? Why did federations not adopt a similar policy in the face of a similar problem as general wage increases: loss of employment due to high wage cost? Even though individual industry unions could pass on the bill of generous provisions (as the premiums were set nationally, not by industry), the federations might have intervened. After all, it should not matter whether high wage cost stems from high direct wage claims from the unions or from high disability premiums. Confronted with massive restructuring and mounting unemployment, the generous disability insurance set up by the government was used as an attractive exit from the labour force. At the industry level (and *a fortiori* at the firm level) this is not unexpected, given that the premium was set nationally, undifferentiated by incidence. But at the national level, it is unexpected, at variance with internalization of cost and surprisingly at odds with the policy of wage restraint that union federations preached and implemented. In fact, initially it was a deliberate policy, to use the generous disability benefits as an attractive way of retiring older workers and reducing labour supply. In that sense, it fitted the general policy of combatting unemployment by reducing supply. Later, in a different political climate, the failure of the social partners, in their role as supervisors, to curb the explosion of disability incidence, has been the prime motive to put supervision in the hands of an independent institution. So far, it still proves very difficult to obtain substantial reductions in the number of disability recipients.

¹⁰ This relates to the lowest pay scales for collective agreements where in 1983 the lowest wages were no more than 1 per cent above the legal minimum.

Table 4.1 Unemployment reciprocity and amount received

Year	Beneficiaries/Unemployed	Benefits/unemployed
1983	2.340	27 362
1984	1.260	27 717
1985	1.344	28 201
1986	1.284	27 118
1987	1.288	25 724
1988	1.241	24 588
1989	1.252	25 310
1990	1.267	27 095
1991	1.395	28 572
1992	1.445	30 521
1993	1.432	29 536
1994	1.384	29 702
1995	1.390	30 308

Source: Unemployment beneficiaries: *Kroniek van de Sociale Verzekeringen, 1997*, Tabel 2.1, totaal benefits: idem, Tabel 2.2, totaal unemployed: Centraal Economisch Plan 1997, Bijlage A7, Werkloze beroepsbevolking (ILO definition).

Table 4.2 **Sickness absence rates**

	1993	1994	1995	1996	1995	1996	1997			
					IV	I	II	III	IV	I II
Total	6.2	4.9	4.9	5.1	5.6	5.8	4.9	4.6	5.2	5.4 5.0
Firm size: 1 to 9	3.9	3.4	3.3	3.3	3.9	3.8	2.9	3.0	3.3	2.8 2.9
10 to 99	6.0	4.1	4.2	4.3	4.9	4.7	4.2	3.9	4.5	4.8 4.3
> 100	7.0	5.8	5.8	6.6	6.8	7.3	6.3	6.0	6.6	7.4 6.4

Note: Private sector only, excluding maternity leave

Source: Annual data 1993-1995: Van Cruchten, Social Economische Maandstatistiek, 1997/4, Staat 7, p. 29; 1996 and quarterly data: Sociaal Economische Maandstatistiek, 1997/12,

Table 2.5.9, p. 41.

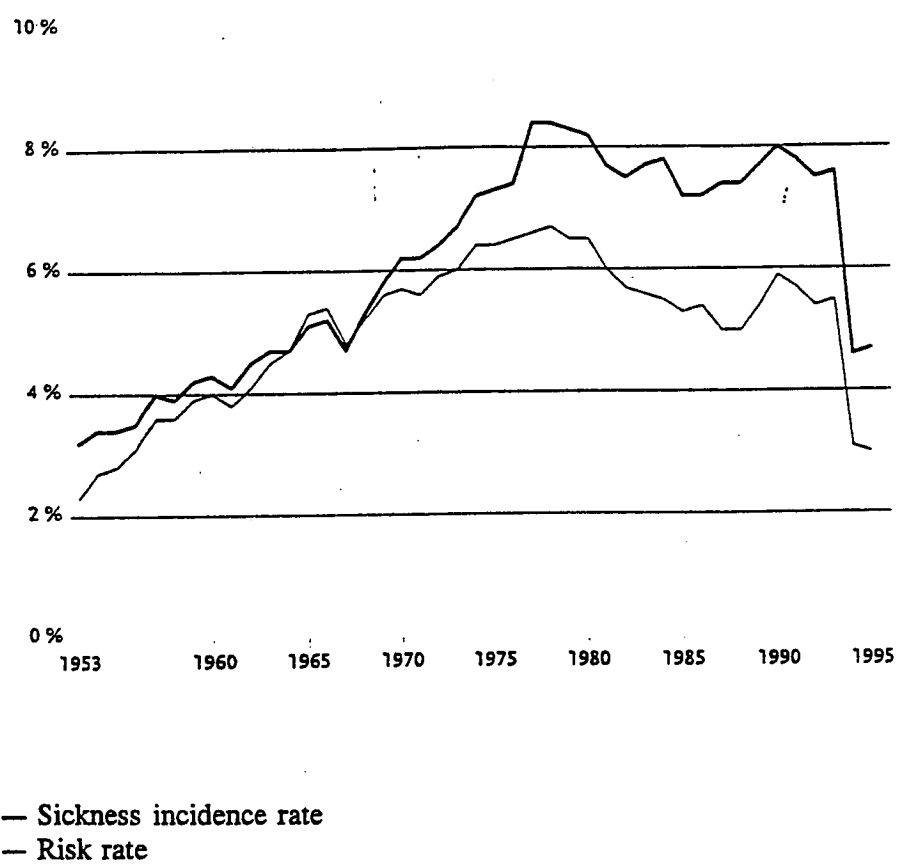
Table 4.3 **Transfers for inactivity**

	Beneficiary years			Benefit/recipient year		
	1980	1986	1995	1980	1986	1995
Sickness	306	271	306	24392	28081	28183
Disability	608	713	752	22808	23272	28370
Unemployment						
- WW	69	73	341	34014	38767	31320
- Other	1273	1793	1983	6282	8559	5615

Sources:

Beneficiary years: Sociale Nota 1998, Bijlage 11, in 1000 years sickness; 11A.6, Ziektewet; disability: 11A.7, WAO, AAW; WW: 11A.9, WW: unemployment, other: 11B.1, WW + 11B.2, IOAW + 11B6, JWG + AAB.7 Banenpools + 11B.8 BKR + 11B.17.B, Bijstand Rijksgroepsregelingen + 11B.17A.1 Bijstand, niet Rijksgroepsregeling, onder 65; benefit/recipient years = total expenditures/beneficiary years, in guilders; expenditures: Sociale Nota 1998, Bijlage 13; sickness: 13A.A, loonderving door ziekte; disability: 13A.A, arbeidsongeschiktheid; WW: 13A.A, werkloosheid; unemployment, other: 13A.B, werkloosheid + bijstand exclusief RWW + BKR.

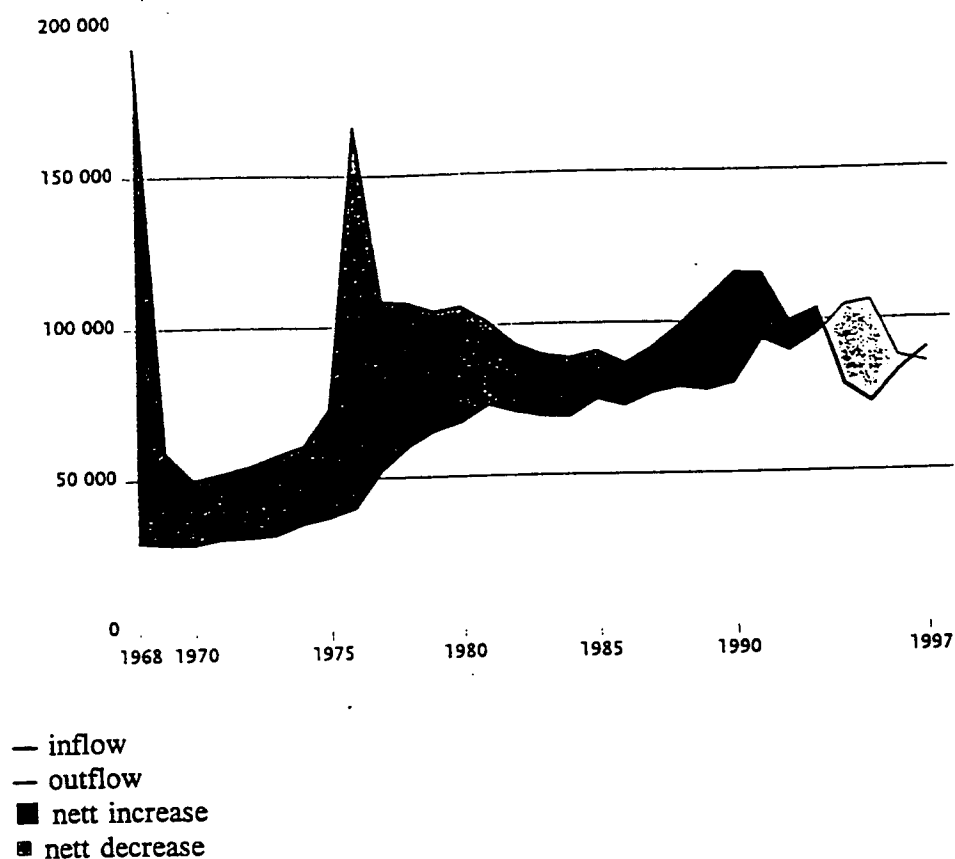
Figure 4.1 **Sickness incidence rate**



Source: Kroniek van de Sociale Verzekeringen (1997)

Figure 4.2

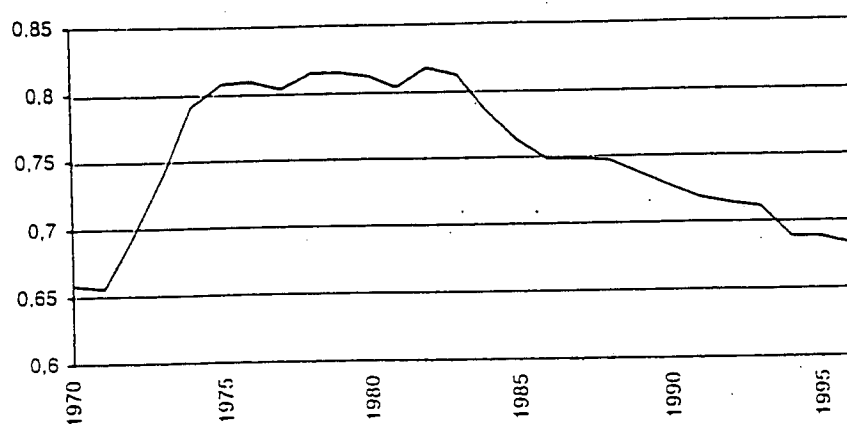
Inflow and outflow disability insurance 1968-1997



Source: Kroniek van de Sociale Verzekeringen (1997)

Figure 4.3

Social minimum as a proportion of the average wage



Source: Teulings, Van der Veen and Trommel (1997)

5. Stimulating labour market flows.

5.1. Changes in the market structure for flow management

Flexibilization of the labour market has been an essential part of the post-1982 programme. Flexibility is a broad concept, without a straightforward standard definition. It refers in general to the ease of adjustment of worker allocation and worker efforts to changes in external conditions. It assigns an important position to flows in the labour market and between the labour market and benefit recipient status. The nature of the employment contract is often seen as very influential for a number of these flows. From that perspective the development in the Netherlands has indeed been remarkable. The growth in the volume of employment (in person years) between 1983 and 1996 has almost fully been realized by "flex-workers" and part-timers. In fact, from 1970 till 1996 the volume of full-time jobs has been stable at about 3.7 million.

It is important to realize that not all flex-workers can be summoned to work just when and where the employer decides. The term flex-workers covers workers on call-basis and otherwise flexible arrangements, workers hired through a temp work agency, and workers with a contract for less than one year. A Memorandum of the Department of Labour (SZW, 1997) points out that differences in definitions and data sources on "flex-workers" may create some confusion. But the system of Labour Accounts of CBS gives a consistent picture for the period up to 1996. In that year, just over one half of all the jobs was a tenured full-time job, one quarter a tenured part-time job, one tenth a flexible job and one eighth self-employed position. From 1970 to 1996, the number of part-time jobs increased from 600,000 to 1.8 million and the number of flexible jobs increased from 200,000 to 700,000. Table 5.1 gives annual growth rates of each category.

However, the Labour Force Survey EBB, presumably the source for the CBS Labour Accounts, does not cover workers with a job below 12 hours a week, temporary contracts lasting longer than one year (100,000), home-based workers (55,000) and workers on outplacement (80,000). Adding these categories to EBB's estimate of 830,000 flex workers in 1995 generates a total of 1 065,000 flex workers in 1995. EBB estimates an average of 920,000 flex workers in 1996.

A decomposition and a characterization of flex-workers is given in table 5.2. Workers on call and workers with unspecified hours make up some 40 per cent of flex-workers. These workers get closest to flexible labour input, directly responsive to the spur of the moment. Most of them are women. Note that not all of this work is at the lowest job levels. Temporary substitutes make up 8 per cent, again mostly women. Temporary workers, making up almost one quarter of flex-workers, certainly provide for flexible adjustment to labour demand. But workers on contracts for less than one year, more than a quarter of the number of flex-workers, are certainly not exclusively hired in conjunction with demand fluctuations. While this category will be hired by employers in case of demand uncertainty, the short-term contract is also used as a probationary contract, to check out the worker's capabilities. Especially these contracts are often the stepping stone towards a regular, tenured job. Indeed, among workers with a temporary job in 1992, two thirds had a tenured job two years later. Among workers with a flexible contract in 1988, half of them had a tenured job in 1991. This is not necessarily with the same employer, though. Flex-work may simply refer to a certain stage in a worker's career. Quite frequently, it covers a starting job for young workers and re-entering women. Almost half the workers in a flex job are under 25. In fact, for workers older than 25, the share of tenured contracts has been stable at 90 per cent for the last ten years.¹

The growth of employment through temporary work agencies from virtually nothing in the late 1960s to over 200,000 person-years in 1997 has created a large market for temp agencies, which allowed some to grow into large agents in the European market (e.g. Randstad). Over time, the role of temp agencies has changed. As noted above, flex workers come in two categories. The first group is workers on probation. Temp agencies serve as intermediaries for the selection and hiring of such workers. If accepted, the workers get trained by the firm and move on to a tenured position. The second group is the

¹ All the data mentioned here are from the Department of Labour Memorandum (SZW 1997).

flex workers hired to match demand fluctuations. Here, agencies also apply a sharp selection, as the quality of their workers is important for their market share (OSA, 1996, page 138).

Unions have come to accept the role of temp agencies. Whereas initially they attempted to prevent temporary work as much as possible, they have now chosen to bargain a collective agreement for workers employed through these agencies. New legislation, *Flexibiliteit en zekerheid* (Flexibility and Security, accepted May 1998 and in force by January 1999), gives temp and flex workers more protection.² Workers on call should be paid for at least three hours per call. A contract with a temporary work agency is now considered as an employment contract. After 26 weeks, the legal rules for a sequence of temporary employment contracts apply, which implies that the contract gives entitlement to a tenured position after three consecutive temporary contracts with the same employer. Collective agreements may set other rules, however. The maximum duration of six months for a temp work contract has been eliminated (*Sociale Nota 1998*, page 117).

The volume of temp work develops closely parallel to the business cycle, except for a structural increase in the mid-1980s, from about 1 per cent of the employment volume in 1982 to 2 per cent in 1986. (De Koning et al., 1995, page 128). On the labour supply side, in the early 1990s about a quarter of the workers seeks a job as holiday worker, about a fifth seeks the individual advantages of temp work. More than half the temp workers is looking for a permanent position. On the demand side, in 1993, 44 per cent of the firms hired temp workers specifically for temporary jobs, 31 per cent for substituting personnel and 16 per cent as the first step in hiring permanent workers. Thus, temp agencies have a foot in two markets: temporary flex work and the initial probation stage of regular tenured positions.

The market structure for agencies dealing with job placement and labour market mediation has changed quite drastically. Up until 1990, the Public Employment Service had a monopoly for job placement services (intermediation between supply and demand) and there were only a few permits for temp work agencies. The Public Employment Service was a pure government service. In 1991, with the new Law on the Employment Service (*Wet op de Arbeidsvoorziening*), the service became an "Independent Administrative Agency": an agency with a specified administrative task, a public body but not under the control of the Minister. Membership of its Central Board got a tripartite composition and so did the 28 Regional Boards (see next section). The Central Board is authorized to give out licences for Temp Work Agencies and for Job Placement Agencies and thus has led to an abundant growth: 887 for the former and 908 for the latter in 1994 (OSA, 1996, page 135). Not all license holders are active, however. Moreover, under the old "monopoly" private agencies were active anyway (De Koning et al., 1995, page 121). As of July 1998, temporary work agencies no longer need a license (WAADI).

Agencies for labour matching services active in 1994 are listed in table 5.3.³ In terms of broad market structure, the employment service and temp agencies operate in closely related segments of the market. Municipal Social Services have a role in finding work for welfare recipients. The Joint Medical Service and the Industry Associations had a role to play for job placement of Disability pension recipients. Both organizations have been demolished, but their task is now in the hands of the UVIs. The Joint Medical Service had a license for job mediation, the social services had not. Outplacement agents and hiring consultants are only active in the higher segments of the labour market, for salaries of Dfl 60,000 and above, roughly the cut-off level for the top quartile of the wage distribution. Temporary work agencies are not active in the construction industry due to a clause in the Collective Labour Agreement of the sector. *Start* is a temp agency affiliated with the Public Employment Service, and has special targets for problem groups. In 1994, some 900 agencies had a license for temp work, but according to the annual reports of the employer association of temp agencies ABU there are about 300 active agencies, with over 2100 offices.

Precise market shares of each of the agents are hard to get. An indication can be obtained from the employer surveys on filling vacancies. Temp work agencies, including *START*, have a constant share,

²The Act on Flexibility and Security and the Act on Allocation of Employees by Intermediary Organizations (WAADI) are both nearly fully based on a unanimous advice from the Foundation of Labour on a government memorandum on these issues.

³Information in the next paragraphs is taken from De Koning et al. (1995, Ch. 5).

between 1988 and 1993, of 7 per cent. The Employment Service has a share that fluctuates countercyclically (increasing with unemployment), between 8 and 14 per cent. The Employment Service has a higher relative reach among the low educated, elder and unemployed job seekers, temp agencies among women and the young. Job seekers often use both the Employment Service and a temp agency. Half of those searching at the employment service also search at a temp agency. Three quarters of temp agency job seekers also search at the public service. Firms use the channels more dichotomously: either the one or the other, seldom both simultaneously.

The market for job placement and mediation has seen the development of new activity, new partnerships and thus a new market structure after the demonopolization (Bergman, 1997). Job placement and related services are now provided by the Public Employment Service, the Social Insurance Organizations, by commercial temp work agencies and by agencies or government subsidized job creation (see below). These agents cooperate in many ways to offer their services jointly and to make a living (or a profit) from the funding that is available: from the government, the social security services, unions and employers. For example, in the biscuit industry redundancies emerge from reorganizations. A temp agency, *Randstad*, has made a contract to hire these redundant workers, train them, and seek alternative employment. Note that they are hired as regular employees, not as temporary workers (Salverda, 1997, page 4). In the collective agreement for the Metal and Electrical Engineering sector, 0.5 per cent of the wage bill has been set aside for job creation, placement and training. A special non-profit foundation has been created to implement these plans (Bergman, 1997, page 79). Often commercial intermediaries are also employed to implement such job creation agreements in collective bargaining. A temp agency (Manpower) and the city of Amsterdam cooperate, on the basis of funding by the central government (Melkert-jobs, see below) to mediate long term unemployed into private sector jobs at heavily subsidized rates (*De Telegraaf*, 19-09-97), i.e. at Dfl 5 per hour.

Lay-off regulation may have an important impact on labour market flows. After some recent deregulation, Dutch lay-off regulation is not particularly restrictive in comparison with other European countries (OSA, 1996, page 107), neither in terms of arrangements in collective labour agreements, nor in terms of legal provisions in case of mass lay-off. Exceptional by international standards is the case of individual lay-off. Here, employers can select from two routes. The route through the Regional Employment Agency applies "preventive evaluation": the director tests the dismissal for reasonableness. If permission is granted, there is no compensation for damages. The procedure has recently been shortened. Appeal is not possible. The other route is through the court. A fired worker can make a claim at the court, and if granted, the judge will set a compensation. The court route is faster. There is some shift towards this route, in particular if employers fear that the case for dismissal is not outright convincing to the director of the Employment Agency (OSA, 1996, page 106).

5.2. The Employment Service

An administrative overhaul has taken place in the Employment Service. During most of the post-war period, the Employment Service was a national government agency, under the responsibility of the Minister of Social Affairs. It operated as a labour exchange where vacancies and unemployed would meet and it had a monopoly in labour market brokerage services. Registration at a regional employment office is required for entitlement to certain benefits, such as Unemployment Benefits. The Employment Service was also active in training and retraining programmes.

In 1991, the Employment Service was drastically reorganized. It became independent, with a tripartite Central Board: three representatives of employer federations, three of union federations, three of the central government⁴ (and an advisory member from the Association of Municipalities) and an independent chairperson. The Central Board supervises 28 Regional Boards, administered by employer, union and local government representatives. The move from a government agency to a joint body of social partners and government and a decentralization with regional boards should improve the

⁴One from the Department of Social Affairs, one from the Department of Economic Affairs and one from the Department of Education and Sciences.

employment service, by integrating the activities of all agents, drawing fully on the information that each had available and by integration and cooperation with the government agencies administering welfare, social insurance and welfare provisions. Municipalities were included because they became responsible for welfare benefits and for policies to reintegrate recipients in the labour market. It is been a long standing complaint that organizations that provide for social benefits (disability, unemployment, social assistance) and that should stimulate clients back into the labour market, have poor coordination with job placement services.

The reorganization implied a move towards an explicitly corporatist structure that has a long experience in the Netherlands. However, the reforms started out in conflicts and confusion. Right from the beginning, the Central Board failed to operate as the central steering body that it had been supposed to become. An early contribution to the conflict was made by the central government, by severely cutting the budget, in spite of explicit legal guarantee of a specified annual budget. An Evaluation Committee reporting to the Minister of Social Affairs draws very harsh conclusions.⁵ The Central Board never managed to define and implement good policies. The Evaluation Committee assigns this to the fact that board members strictly operated as representatives of their principal, to financial asymmetry (only the government incurred any cost) and to an inconsistency in the position of the ministerial representatives: through his representative the Minister of Social Affairs participates in the policies of the Board, but the Employment Service Act also holds the Minister responsible for supervision of the policies of the Board. To eliminate this inconsistency, it would be better to return to the traditional solution in Dutch socio-economic governance: appoint a Crown member, i.e. an independent expert to take care of the "general interest", appointed by the Queen. This, indeed, is what the Evaluation Committee recommends. The Committee concludes that the Central Board has not been able to set up an adequate administrative system, neither for financial accounting and accountability of the Regional Boards, nor for the output of the Boards (job placements, participation in training and other programmes, etc.), that it has not succeeded in coordinating and unifying policies of the Regional Boards, that there was no integration of administration and counseling of benefit recipients and job seekers by the different authorities in local government (such as local welfare departments) and in social insurance (such as the Industry Boards, at that time involved in disability insurance). However, at the level of the Regional Boards the Evaluation Committee concludes to some improvement in cooperation, both among the public agencies and among these agencies and the social partners. In general, the Committee is rather negative on the effectiveness of the placement and training activities.

In 1993, the Employment Service spent just over 2 billion guilders. 48 per cent of total expenditures is spent on schooling programmes, 20 per cent on mediation, 13 per cent on re-integration and work experience programmes, 8 per cent on information and counselling, and 10 per cent on other activities (De Koning et al., 1995, page 209). The reorganization in 1991 was meant to increase the effectiveness of policies to generate a good match between labour supply and labour demand. The evaluation by De Koning et al. (1995), on behalf of the Evaluation Committee, is rather critical. There is no evidence of a break in the market share in job placements from its cyclical behaviour.⁶ In estimated matching functions over the period 1989-93, where the probability of finding a job is related to the ratio of vacancies to job seekers, there is no evidence of any improvement after 1991, when the Employment Service was reorganized (De Koning et al. 1995, Bijlage 4.4, Bijlage 6.1). With schooling programmes taking up half the budget, effectiveness of these programmes is an important question. De Koning et al. observe that many RBAs try to predict the demand for schooling, by analysing labour market

⁵ *Arbeidsvoorziening in perspectief; evaluatie Arbeidsvoorzieningswet 1991-94*, Rapport van de Commissie Evaluatie Arbeidsvoorzieningswet (Commissie Van Dijk), The Hague: VUGA Uitgeverij, 1995.

⁶ J. de Koning et al. (1995), 54-57. The data provided by the Employment Service itself are unreliable, because of intertemporal changes in definitions, different applications by different Regional Boards and lack of checks and controls. Hence, the Central Board has not managed to set up a reliable registration system for its performance (op. cit., 47-51). De Koning et al. use data from surveys on employers' hiring behaviour. In view of the unreliability of the data, it does not make sense to evaluate the performance of the Employment Service in terms of target groups such as women and ethnic minorities, for which only data from the Service are available.

developments themselves, or from external sources, and by keeping in touch with sectoral organizations. But many of them are not really keen on assessing the real effect of schooling programmes. (op. cit., page 103). There is only a small literature on the evaluation of the Dutch schooling programmes. De Koning et al. have used some 50 studies covering the period 1985-94 to summarize some results, but these studies allow only a very superficial approach. 45 to 65 per cent of participants have found a job (probably within 18 months, this is not clear from the report; op. cit., page 96-97). 60 per cent of the unemployed who find a job after participation in a schooling programme indicate that without the schooling they would not have gotten the job (op. cit. page 181). There are only four studies that analyse the impact of schooling programmes properly, by using a control group. These studies suggest a substantial effect of some specific schooling programmes, with highest effect for deprived groups: unskilled, long-term unemployed, the elderly. But the evaluation study concludes that in general, "there is no evidence that all RBAs are very efficient in spending for schooling programmes" (page 237). It is interesting to note how RBAs have reacted to a change in incentives. With more emphasis on job placement scores as the goal of the Employment Service, activities have indeed shifted towards placement, using more placement officers, and less expenditures directed towards schooling programmes (page 237-238). RBA explicitly acknowledge this policy change (page 84).

There have been debates about the most effective policy to improve the labour market position of particular target groups, those with low probabilities to find a job: minorities, the unskilled. The discussion focussed on effectiveness of the Surf Policy: in order to be effective for deprived categories in the labour market, the Employment Service should be active in all labour market segments, so that the deprived groups can ride into jobs on the surf of the strong groups for which employers are waiting at the beach. The Evaluation Committee opposes such a policy, referring to empirical research in the report by De Koning et al. But in fact, this research does *not* support the rejection. For one thing, as the authors of the report time and again emphasize, the job placement data used for the empirical analysis are not reliable. And for another, the regression analysis applied to these data certainly do not reject the surf theory: relative job placements and minorities increase if the market share of the regional employment office increases (there is no effect for the low educated and a negative effect for women and the young). Relative job placements increase for women and minorities in firms that have more intensive contact with the employment office (De Koning *et al.*, 1995, Bijlage 4.4).

Has the "corporatization" of the Employment Service paid off? Certainly not in the period 1991-94. There is no evidence that the service was more effective than before. A key problem appears to be the failure of the Central Board to provide the RBAs with clear guidance on the administration of their activities and a system of critical assessment of effectiveness.

In 1997, the Law on the Employment Service 1996 became active. The public employment service becomes more focussed on problematic elements in the job matching process: on job seekers with low employment probabilities and on vacancies that are hard to fill. Government funding is divided in a budget for basic service and a budget for particular targets (40 per cent of the Dfl 1.4 billion budget going to the former in 1998, 60 per cent to the latter). Part of the budget for employment and job placement services is no longer given directly to the public employment service, but to local government and agencies in the social security administration.

Table 5.1 Employment 1970-1996 by type of contract, annual percentage change

	Full-time	Part-time	Flexible	Of which temp	Employees	Sel-employed	Total
1970-1974	0.3	3.4	3.1		0.8	-0.7	0.6
1975-1979	0.5	4.1	3.6		1.3	-1.0	0.9
1980-1984	-1.8	4.0	3.9		-0.3	0.2	-0.2
1985-1989	1.2	4.5	6.1		2.3	1.2	2.2
1990-1993	0.3	5.2	3.0	-4.1	1.8	1.1	1.7
1994-1996	-0.9	3.8	10.8	20.4	1.6	2.2	1.7
1970-1996	0.0	4.2	4.7	8.2	1.2	0.4	1.1

Source: SZW, Maandelijkse Analyse.

Table 5.2 Characteristics of flexible contracts

Number of contracts 1996		Characteristics
Temporary worker		More than women; 55 vs. 45 per cent Just more than halfworkers over 37 hours a week
214400	23.30%	Many lower and intermediary job levels Mostly in industry Mostly couples without children and adult children not living independently
Regular workers on call		70 per cent women 85 per cent less than 20 hours a week
276300	30.10%	Mostly in intermediary and higher job levels Mostly in trade and in health and welfare Mostly adult children, member of parental household
Temporary substitutes		70 per cent women Many small jobs and jobs over 37 hours a week
77200	8.40%	Many in lower job levels Mostly in trade, education and health and welfare Mostly couples with non-adult children
Temporary contracts, less than 1 year		Slightly more women than men Many small jobs and jobs over 37 hours a week
249600	27.10%	Many in lower job levels Mostly children
Contracts with unspecified hours		60 per cent women Many small jobs Many lower job levels
101900	11.10%	Mostly in trade Mostly couples with young children
Source: Ministerie van Sociale Zaken en Werkgelegenheid, Maandelijkse Analyse, Flexibele Arbeid in Perspectief, September 1997.		

Table 5.3 Labour market intermediaries, 1994

Activities		Labour supply category	Number of employees	Number of job placements	Number of workers reached
Temporary agencies ¹⁾	Matching to temporary work in all sectors except construction	Unspecified	8,500	1,000,000	570,000 (temp workers)
Municipal Welfare Services (GSD)	Implement labour market programmes in public sector	Welfare recipients	6-7 thousand (not full-time)	unknown	unknown
Medical Services GMD, Industry Associations	Consult, train and match job	Unemployment and disability benefit recipients	180	10,000	100,000
Sector-organization	Consulting, training for workers in the sector	Mostly employed job seekers	?	?	?
Outplacement and career consulting		Individual workers with wage > Dfl 60,000; collectively: all workers	400	10,000	10,000
Hiring and selecting agents	Hiring-selection higher level employees	Employed workers, wage > Dfl 60,000	150	10,000	10,000
Matching agents		All job seekers	20-30	?	?
Target organizations	Training and intensive mediation for specific groups		Tens to hundreds in Regional Employment Service		

Note: ¹⁾ includes Start.
Source: De Koning et al., (1995), p. 123.

6. Active labour market policies

6.1. Introduction

With the persistence of unemployment and in particular of a large share of the long term unemployed, several programmes have been developed to improve the skills of benefit recipients and to create additional demand at the low end of the market. A brief survey of these programmes is given below.

6.2. Schooling programmes

As noted above, the Employment Service administers a host of schooling programmes, mostly for the unemployed. However, 30 per cent of its budget for schooling is spent on subsidies for the Apprenticeship Programme, a dual system for job training (De Koning et al., page 76). The data on participation are of poor quality, certainly after 1991; they consist of just counting "applications", without specifying details on duration etc. The number of applications increased from 71,200 in 1985 to 16,2400 in 1993 (De Koning et al., 1995, Bijlage 4.2), with the biggest jumps in 1987 and 1990. The most popular measures are, apart from the apprenticeship programme, Frame Provision Schooling (KRS), Primary Vocational Training Adults (PBVE) and Adult Training Centers (CV). As noted, there are only very few good evaluation studies.

The Law on Education and Vocational Training (Wet Educatie en Beroepsonderwijs), effective since 1996, has integrated training for youth and adults in Regional Training Centers. A dual system, combining work and training is stimulated by fiscal compensation for firms. Subsidies from the European Social Fund are used to stimulate training of low skilled workers in small firms (covering almost 160,000 employees).

6.3. Direct job creation

There are several types of direct job creation by the government. In this field too, new legislation has been introduced to improve or integrate existing policies. A summary is given in Salverda (1997), while the *Sociale Nota* 1999 describes the current situation.

(i) Sheltered workshop

Based on the Law on Social Work Provision 1969, sheltered workshops provided work for the handicapped, by selling products at market price and collecting a wage subsidy from the government. Workers are paid according to a collective agreement. The workshops are controlled by local government. In 1996 they employed 87,000 workers.

The new Law on Social Work Provision, effective January 1998, has tightened eligibility rules, now requiring explicit medical restrictions of a physical, mental or psychic nature. The handicap should restrict work opportunities. The new law also allows for "outplacement" of the handicapped at regular employers. The covered population has not changed. At present, there is a waiting list for participation in the programme (20,000 at the end of 1997).

(ii) Youth employment guarantee

This was a local government activity for work mostly in the public sector, started at the end of the 1980s. The programme, funded by the central government, aimed to offer a job to every youth unemployed for at least six months, but never reached that goal (in 1994, only half the target population was reached). Pay was at the minimum wage rate for 32 hours a week. The intended outflow to regular jobs was below expectation, at only 15 per cent, according to an evaluation cited by Salverda (1997). In 1995 the programme covered 23,000 workers.

CPB (1997) reports that according to their employers, about a quarter of participants would have found a job without the programme. CPB reports that about 70 per cent of participants move on in the

intended direction: most to a regular job, some to further schooling. The programme ended in 1998, when it was integrated in the WIW, Law on Employment for Jobseekers (Wet Inschakeling Werklozen).

(iii) Labour pools

Labour pools provided work for the low skilled (23,000 in 1996). The programme was funded from unemployment benefits and government subsidies. Non-profit foundations, set up by unions, employers and the local government arranged for jobs, often temporary work for employers in a particular sector (e.g. the docks). CPB (1997) reports that only 7 per cent of participants move on to a regular job; without definition or reference they state an efficiency loss of 13 per cent (page 251). This programme was also integrated in the WIW 1998.

(iv) "Melkert jobs"

The Melkert-I programme is named after the Minister of Social Affairs who initiated it. Officially, it is called EWLW: Extra Work for Long-term Unemployed. It provides work for the long term unemployed, for 32 hours a week, at the minimum wage or at most 20 per cent above. The programme is funded by the central government. Jobs so far are in the public and subsidized sector (public security, parks, sports and health care). The jobs are heavily regulated, mainly to prevent crowding out of regular jobs. From about 15,000 jobs in 1996, it increased to about 30,000 in 1998.

"Melkert-II" jobs are created under the EAU programme: Temporary Ruling on Experiments to Activate Unemployment funds. Long-term unemployed on social welfare are subsidized into employment with a subsidy to the employer of Dfl 18,000 for a maximum of two years. The programme covers 22,000 jobs.

(v) WIW

The WIW 1998, the Law on Employment for Jobseekers, integrates several earlier programmes, such as the Labour Pools and the Youth Employment Guarantee. The basic responsibility for the programme has been shifted to local government.

Adding up these programmes yields at present a total of over 170,000 individuals covered by direct job creation efforts of the government, up from about 100,000 in 1992.¹

6.4. Wage cost subsidies

Low wage subsidies take the form of reduction of social security premiums to be paid by the employer. The reductions are based on the Law Reduction Wage Tax and Premiums Social Insurance (WVA 1996). The reductions are related to training, child care facilities, research and development expenses, and low wage reductions. The low wage reductions take two forms, a general reduction and one for long term unemployed. The general reduction (SPAK, Specifieke Afdrachtskorting) is for jobs with a wage no more than 15 per cent above the minimum wage (at 36 hours a week) the reduction was Dfl 1185 per year in 1997 and 3660 in 1998 (about a quarter of the total of premiums to be paid in 1997, more than half in 1998). For the long term unemployed, with wage no more than 30 per cent above the legal minimum (at 32 hours a week), there is an additional Dfl 4610 rebate, for a period of four years (the VWL, Verminderend Landurig Werklozen). The general reduction reduces wage cost by 10 per cent, in combination with the reduction for long term unemployed social premiums at the minimum level are eliminated, cutting wage cost by 23 per cent. The reach of the programmes is substantial. 72 per cent of the 141,000 firms that qualify make use of the general SPAK reduction, thus covering 85 per cent of the 922,000 workers that qualify. The programme has a high share of youth and part-time workers (the latter leading to tightening of rules to aim more specifically at full-time workers). In the segment of the wage distribution up to 115 per cent of the minimum wage, 3/4 works less than 32 hours a week, 40 per cent is not older than 23 years and 70 per cent is woman. There is an additional subsidy to soften the blow

¹Data from Ministry of Social Affairs and Employment.

of the increased marginal tax wedge created by the programme. The reduction for long term unemployed has been requested for 35,000 workers in 1996; two thirds of the requests was for subsidized jobs.

For an earlier wage cost subsidy programme (Law to Stimulate Re-employment, Wet Bevordering Arbeidsinpassing, commonly known as "Vermeend-Moor"), predecessor of the VLW programme for long term unemployed with a wage cost reduction of 20 per cent, and aiming at low educated, women and immigrants, the effectiveness was low, according to CPB (1997, 256), with a deadweight loss of 30 to 50 per cent and 30 per cent substitution with other than targeted workers.

7. The anatomy of employment changes

7.1. Macroeconomic history and final demand shifts

So far, the discussion has focussed on policies and institutions. After all, if there is anything like a Dutch model, it must indeed be some combination of these two. But of course, policy alone does not shape events. So let us turn to developments in spending and production, to see what structural changes may have taken place and how they may have interacted with these policies. It is also important to find out where the demand for labour has been created.

Table 7.1 summarizes some macroeconomic developments since the turning point of 1983. It starts out with world trade, a key exogenous variable for the open Dutch economy. Except for the early 1990s, growth has been strong, with growth rates of 4 per cent or more. Unit labour cost in manufacturing mostly developed favourably relative to competitors (exports of commodities by far dominate exports, although the share of services increased from 16 per cent in 1983 to 18 per cent in 1996). This certainly stimulated the export performance; in eight out of 14 years the commodity export growth was stronger than the growth in world trade. Investment growth is very cyclical, with strong growth in the mid-eighties and mid-nineties. Consumption growth made up for some of the sluggishness in the early 1990s. As table 7.2 indicates, over the entire period of a decade and a half, the share of consumption in national expenditures has increased and so has the share of investment. The share of exports has even declined a little. Given the emphasis on wage restraint, and the direct negative effect on consumption expenditures, the growing share of consumption is remarkable, and so is the decline of the export share.

Ronald Schettkat and Jan Reijnders (1998) related employment to shifts in final demand categories, including the structure of intermediate production, for the period 1987-96. Hence, they calculate the labour intensity of final demand categories by multiplying industry shares of final demand by employment shares of industries, taking into account the Input-Output structure of production. This allows for indirect employment effects. They find that exports generated income, but no employment growth. Exports were stimulated by wage restraint and a real depreciation of the Dutch guilder. The depreciation came about as a nominally fixed exchange rate against the German mark and a lower inflation than elsewhere. It created a large surplus on the current account. It did not create employment growth because of strong productivity increases in the sector. Exports are very manufacturing intensive (figure 7.1). Between 1990 and 1996, employment in manufacturing fell by 37.5 per cent (in full-time equivalents; the drop is entirely in full-time contracts; Schettkat en Reijnders, 1998, table 3-1.2). Figure 7.2 shows a declining share of exports in employment. Final demand has shifted towards private consumption, private consumption is service intensive, services are employment intensive. Moreover, the shift to services was facilitated by the flexibilization: the move from exports to consumption goes along with a move from full-time jobs to part-time and flexible jobs (shifts by type of contract are analysed below).

Summarizing from Schettkat and Reijnders, we get the following story. Manufacturing lost employment, mainly because it increased productivity. The good manufacturing export performance did not help employment. To the contrary, it meant a loss of employment on the basis of full-time contracts. Services created employment growth, in particular in trade, hotels and restaurants and financial and business services. But here we get heterogeneity. Food and beverages evenhandedly expanded in full-time and part-time employment contracts, not in flexible contracts. This illustrates the character of flexible contracts as probationary periods rather than contracts with flexible working hours. Banking, etc., grew strongly in full-time and also in both part-time and flexible employment. Again, this suggests that flexible contracts are contracts for job entrants or for temp workers, not for flexible hours jobs. "Other services" shows a big compositional shift: from full-time contracts with public government and education to part-time contracts in health and social services: probably a big influx of part-time working women.

So, suggestively, there is a story like this. Wage restraint and increased flexibility in contracts have facilitated labour demand. Output demand came from abroad and from consumption. Abroad, there was the good export performance, but it came with productivity growth rather than employment growth.

Consumption demand was fed by wage restraint that created redistribution along two channels: both profits and capital income in the business sector increased, thus creating income for a selected category of entitled employees and management. They spent this, in service oriented consumption. It also increased stock prices of the firms. Hence, a wealth effect for stock owners. This also stimulated consumption expenditures, as well as household investment in durables and in homes. Moreover, rising housing prices created another wealth effect. It suggests a divergent development in society. Wage earners, benefit recipients and civil servants lag behind, with a very modest development of incomes. In the private sector, capital owners and higher management personnel benefit from the strong economic recovery, rising profits and share values. The new wealth is spent in services, a sector that also grows because of increasing labour force participation of women and the associated substitution of market production for former household production (e.g. food, care for the sick and the elderly). It would be useful to know the contribution of this chain of events to labour demand more precisely. Crude indications used by Schettkat and Reijnders (op. cit., page 49-50) suggest that the contribution of the shift in final demand is modest. Perhaps the painting just given was too impressionistic. Extension of their calculation of the employment content of final demand with budget study information on actual spending by type of income (labour, capital) and by level of income might be quite informative.

Another way of decomposing the developments is to compare the exposed and the sheltered sector. CPB makes a rough distinction, by industries: agriculture and fishing, manufacturing, public utilities, transport and communication in the exposed sector, trade and repair, banking and insurance, other tertiary services in the sheltered sector. From 1987 to 1996, value added in the exposed sector grew by 31 per cent in both sectors. However, employment declined by 7 per cent in the exposed sector and it increased by 33 per cent in the sheltered sector (CPB, 1997, cumulated annual changes, Bijlage C3 and C4). Clearly, it is not the export sector where employment growth is located.

7.2. Employment composition changes

As noted earlier and reiterated by table 7.3, there has been a tremendous shift in the composition of employment by type of contract. Between 1987 and 1995, 802 thousand extra jobs were created, and half of this volume is part-time jobs for women. Two thirds of job growth is growth in part-time jobs, almost three quarters of the growth is in jobs taken up by women. Richard Freeman, discussing the "War of the models" has called the Dutch economy the first part-time economy in the world (Freeman, 1998).

In the previous section, we came across the shift in employment from manufacturing to services. Here, we will analyse in greater detail the employment shifts between 1987 and 1995, across industries by type of contract and separately for men and women. In the Appendix, the composition of employment by contract type and 15 industries is given (tables A7.1 and A7.2). For men, the share of part-time jobs grew from 8.2 to 11.7 per cent, the share of flexible jobs grew from 5.7 to 7.5 per cent. For women, the growth was from 49.5 to 54.6 per cent for part-time jobs and from 11.7 to 15.8 per cent for flexible jobs. Table 7.4, derived from the two Appendix tables, lays out the industrial anatomy of expansion and decline. For men, the expansion is in business services and trade; while part-time and flexible work substantially increased, the majority of this expansion is in full-time jobs. The decline is in public administration and in manufacturing, in both cases strongly dominated by decline in full-time jobs. For women, there is no declining sector; there is only a decline in full-time jobs, modestly in finance and education, substantially in health and welfare. The biggest expansion for women takes place in health and welfare, business services, trade and in the hotel-restaurant sector. Part-time employment growth dominates in health and welfare, in the hotel-restaurant sector and in trade. In business services, the growth in women's employment is more even.

Looking at a more detailed classification of industries (the basic data refer to 71 industries) yields no surprises, but fills in the general picture already obtained. For men, there are 21 thousand more jobs in department stores and supermarkets, mostly part-time and flexible. In non-food retail, there is a growth of 29 thousand jobs, this time mostly in full-time jobs. And 38 thousand extra jobs in the hotel-restaurant sector, 17 thousand of them part-time. For women, the number of flexible jobs in non-specified wholesale trade (non-food, non-machinery) increases from 2 to 29,000, in hotel-restaurants there are 42,000 more jobs (part-time and flexible), in department stores and supermarkets 33,000 extra

jobs (all part-time and flexible). There were 47 thousand additional part-time jobs in hospitals and 65 thousand additional part-time jobs in homes for the old and the long-term sick. Interestingly, while the number of jobs in public administration declined dramatically for men, it increased for women, by 25 thousand, almost all of them part-time. And finally, the number of jobs for women in household services increased from 6 to 38 thousand.

In public debates, there is often reference to an alleged low quality of the new jobs or to a dualization in the labour market, with growing distance between the top and the bottom. The story unfolded in section 7.1, with consumption growth based on rapid wealth and income growth for the already well-to-do, spent on personal services like eating and drinking and retail services, has the implicit connotation of the emergence of a "Yup and servant" economy: the new rich spending their money on low-wage personal services. To check this, we analysed employment growth by wage level. For 71 industries, we calculated the ratio of employment in 1995 to employment in 1987, distinguishing gender and contract type. We characterize the industry by the position of the average hourly industry wage (for the category under analysis) in the percentile distribution of wages (percentiles are calculated from the number employed in each industry). Using the percentile position has the advantage of indicating the distributive relevance of an industry's average wage level. The results are presented in eight figures (figures 7.3.1 to 7.3.8).¹

For men, working full-time, part-time or as flex worker, there is no relation between employment growth and wage level. There is no U-shape in the plot, as required for dualization, no concentration of employment growth in low-wage activities: employment growth is independent of wage level. But taking all contract types together does lead to something like a U-shaped pattern, with higher employment growth at the extremes of the hourly wage distribution. Since this pattern was absent for each of the separate contract types, it must be a composition effect, due to the shift in distribution across contract types.

For women, the results are different. For flex-workers and part-timers, employment growth is independent of the wage level. For full-timers, employment growth is somewhat concentrated in the middle, while at higher wage levels growth is higher than at the bottom of the industry wage distribution. On balance, taking all contract types together, there appears to be a slight upward relation between employment growth and wage level. Considering all these results, the conclusion must be that employment growth is really across the board of the entire wage distribution, with neither support for a marked dualization nor for a concentration of employment growth in low wage pockets.

¹I am grateful to Jesse Levin (University of Amsterdam) for designing the graphs, based on data from the Labor Force Accounts (Arbeidsrekeningen) generously e-mailed by Bart Emich of CBS.

Table 7.1 Macroeconomic development 1983-1996, annual percentage change

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Relevant world trade	1.7	8.0	4.6	5.0	7.5	6.7	7.6	3.8	3.1	3.6	-0.7	8.8	7.8	4.4
Unit labour cost manufacturing	-2.6	-5.6	1.3	3.2	2.5	-2.3	-2.8	1.5	3.7	4.7	1.7	-6.7	-2.0	0.7
Idem, competitors	1.5	5.2	3.1	-3.4	-1.9	1.1	3.2	0.5	6.7	0.8	0.0	-2.1	-3.7	2.3
Real private consumption	1.0	1.2	2.8	2.6	2.7	0.8	3.5	4.2	3.1	F2.5	1.0	2.2	1.8	3.0
Real private gross investment	6.5	5.5	13.1	10.7	0.4	1.6	7.5	2.3	3.2	-2.2	-4.5	0.0	7.6	9.3
Real commodity export	4.4	9.7	5.7	2.9	5.1	11.0	6.5	5.9	4.9	2.8	1.2	8.0	8.3	4.4
Real national income	1.8	2.7	3.7	3.3	-0.2	2.5	5.6	4.4	1.9	1.0	0.9	4.0	2.1	4.0
Employment growth (1000 years)	-86	5	87	98	83	78	95	119	70	55	-5	-18	75	97
Unemployed labour force (1000 years)	533	534	482	475	486	490	452	419	400	411	481	547	533	494
Unemployed benefit recipients (1000 years)	635	680	667	639	644	642	623	575	563	587	664	777	792	765

Table 7.2 Composition of national expenditures

	1983	1990	1995
Consumption, private	0.397	0.392	0.408
- Government	0.113	0.097	0.097
Gross investment	0.124	0.148	0.132
- Housing	0.035	0.035	0.035
- Other	0.071	0.088	0.080
- Government	0.018	0.017	0.017
Exports	0.366	0.362	0.363
- Goods	0.307	0.301	0.299
- Services	0.059	0.061	0.064

Source: Centraal Economisch Plan, 1997, Beilage A2.

Table 7.3 Changes in number of jobs held, 1987-1995

	Full	Part	Flex	Total
Men	-6	143	77	215
Women	0	417	170	587
Total	-6	560	247	802

Source: CBS, Arbeidsrekeningen (Labour Accounts).

Table 7.4 Changes in number of jobs (thousands) by contract and industry, 1987-1995

	Men				Women			
	Full	Part	Flex	Total	Full	Part	Flex	Total
Agriculture	3	2	7	12	1	3	9	12
Mining	0			-1	0			0
Manufacturing	-73	19	-2	-47	1	18	8	27
Energy and water	-5	0	-1	-5	0	2		1
Construction	-4	4	6	7	0	-1	3	2
Trade	64	24	20	107	22	54	27	103
Hotels, restaurants	8	17	12	38	2	32	19	52
Transport, communication	-3	9	6	12	8	15	7	30
Finance	3	2	-1	3	-2	10	1	8
Business service	82	14	33	129	32	52	46	131
Public administration	-80	10	4	-65	1	22	2	25
Education	-7	9	-5	-4	-9	27	0	17
Health and welfare	-4	23	5	24	-57	148	40	132
Culture	13	9	-6	16	2	19	11	33
Household service		0	0	0		17		13
Total	-6	143	77	215	0	417	170	587

Source: CBS, Arbeidsvoorzieningen (Labour Accounts).

Appendix Table A7.1 Jobs (thousands) by contract and industry, 1987-1995, men

	1987				1995			
	Full	Part	Flex	Total	Full	Part	Flex	Total
Agriculture	54	7	9	70	57	9	16	82
Mining	8			9	8			8
Manufacturing	789	52	20	861	715	71	18	804
Energy and water	41	1	1	42	36	1		37
Construction	323	9	5	336	319	13	11	343
Trade	392	42	19	454	456	66	39	561
Hotels, restaurants	35	8	9	52	43	25	21	90
Transport, communication	258	18	11	287	255	27	17	299
Finance	105	3	4	113	108	5	3	116
Business service	207	28	69	304	289	42	102	433
Public administration	375	12	12	398	295	22	16	333
Education	146	54	10	210	139	63	5	206
Health and welfare	112	23	8	144	108	46	13	168
Culture	68	20	15	103	81	29	9	119
Household service								
Total	2915	277	193	3385	2909	420	270	3600

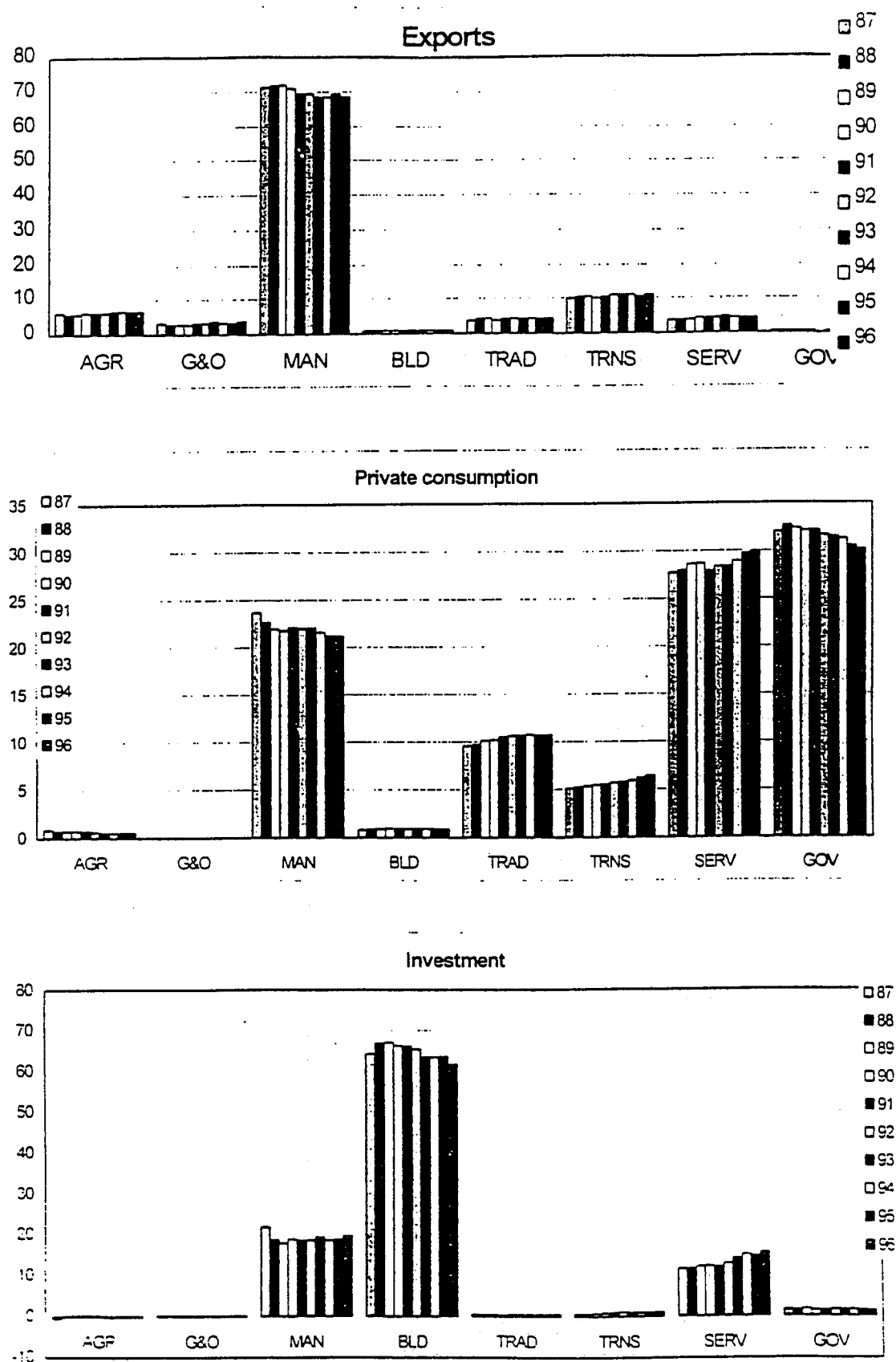
Source: CBS, Arbeidsvoorzieningen (Labour Accounts).

Appendix Table A7.2 Jobs (thousands) by contract and industry, 1987-1995, women

	1987				1995			
	Full	Part	Flex	Total	Full	Part	Flex	Total
Agriculture	5	9	5	20	6	12	14	32
Mining	1			1	1			1
Manufacturing	108	65	15	188	109	83	23	215
Energy and water	3	2		5	3	4		6
Construction	10	12	2	24	10	11	5	26
Trade	126	141	46	313	148	195	73	416
Hotels, restaurants	16	19	10	46	18	51	29	98
Transport, communication	29	26	6	61	37	41	13	91
Finance	51	29	2	82	49	39	3	90
Business service	56	99	67	222	88	151	113	353
Public administration	58	46	6	110	59	68	8	135
Education	54	106	9	170	45	133	9	187
Health and welfare	181	317	34	531	124	465	74	663
Culture	30	44	16	89	32	63	27	122
Household service		18		25		35		38
Total	731	934	221	1886	731	1351	391	2473

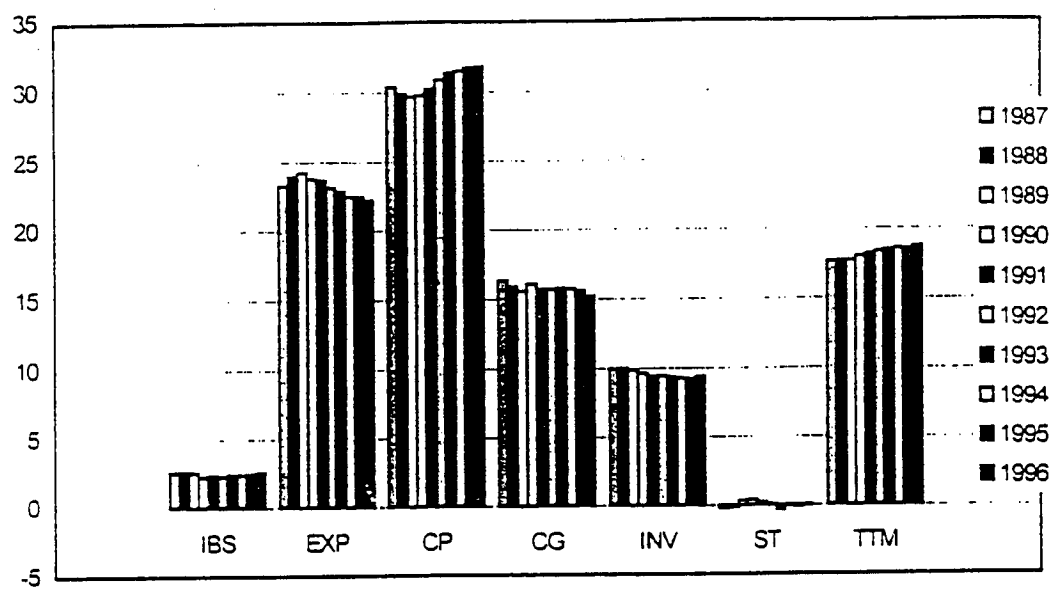
Source: CBS, Arbeidsvoorzieningen (Labour Accounts).

Figure 7.1 Composition of Final Demand Categories



Source: Schettkat 1997

Figure 7.2 **Relative Contribution of Final Demand Categories to total**



Employment (in person years, direct- and indirect employment)

Source: Schettkat (1997)

Figure 7.3.1 Percentile ranking of average full-time male wages versus 1995/1987 employment ratio by industry

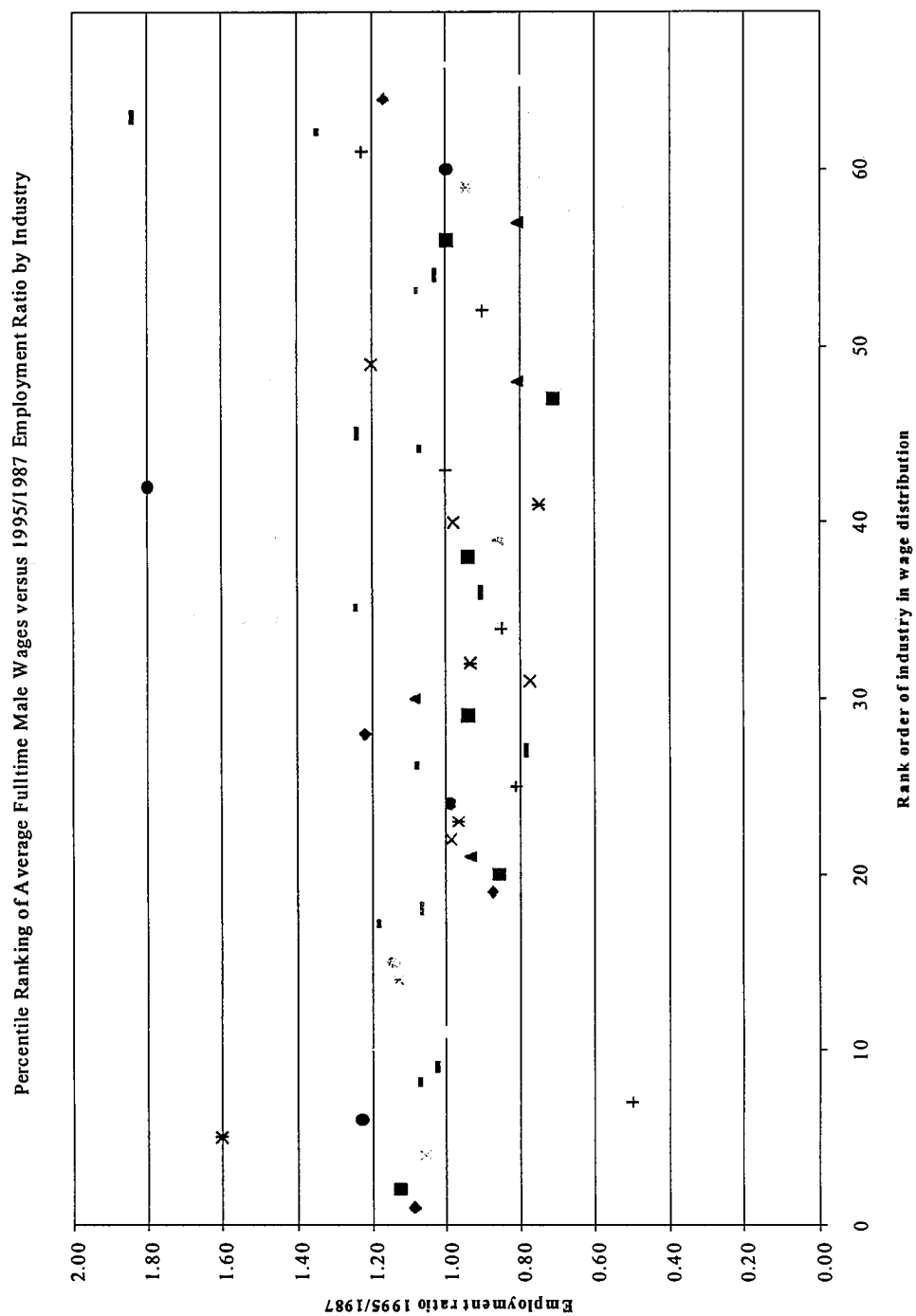


Figure 7.3.2 Percentile ranking of average part-time male wages versus 1995/1987 employment ratio by industry

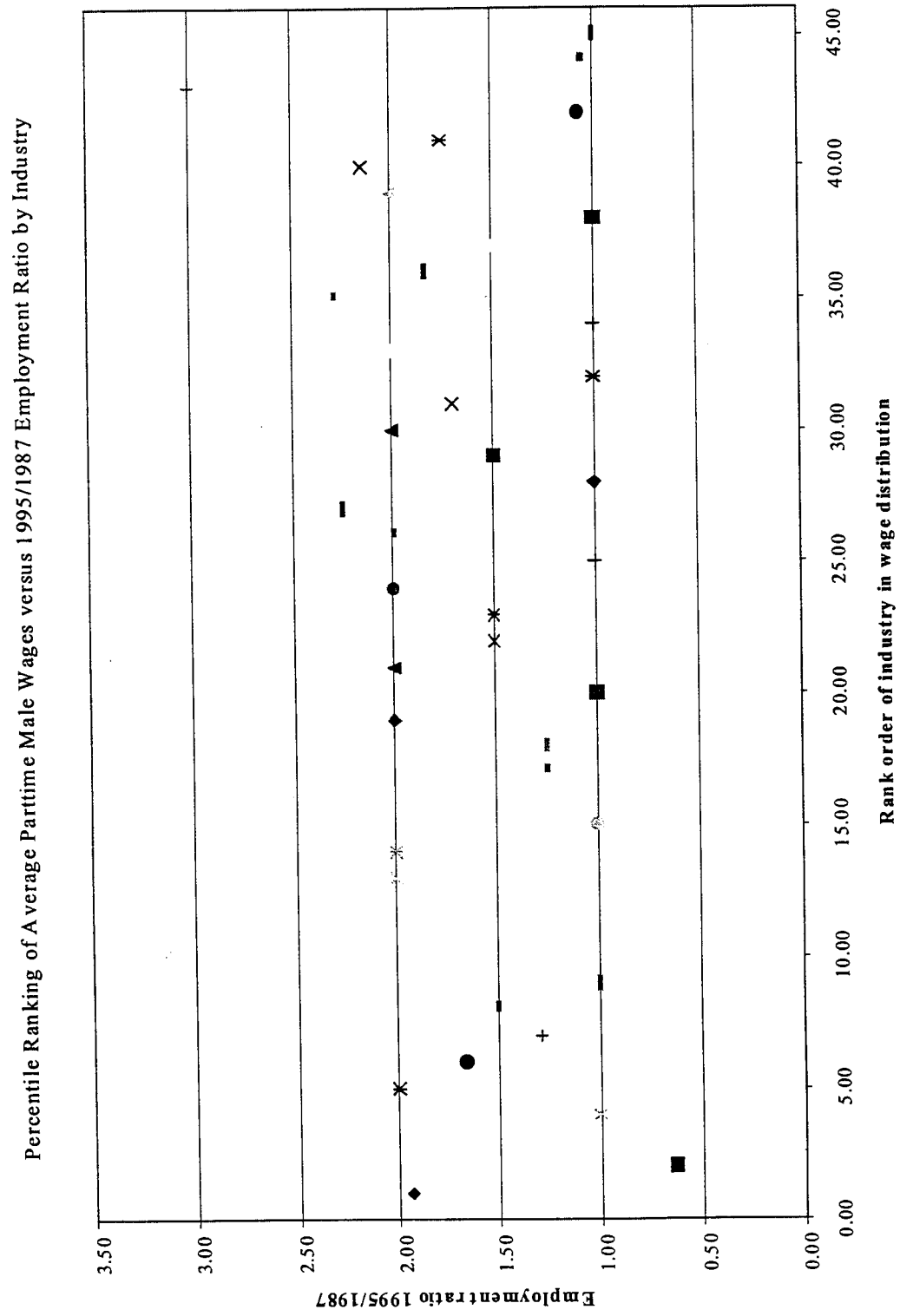


Figure 7.3.3 Percentile ranking of average wages of flexible male workers versus 1995/1987 employment ratio by industry

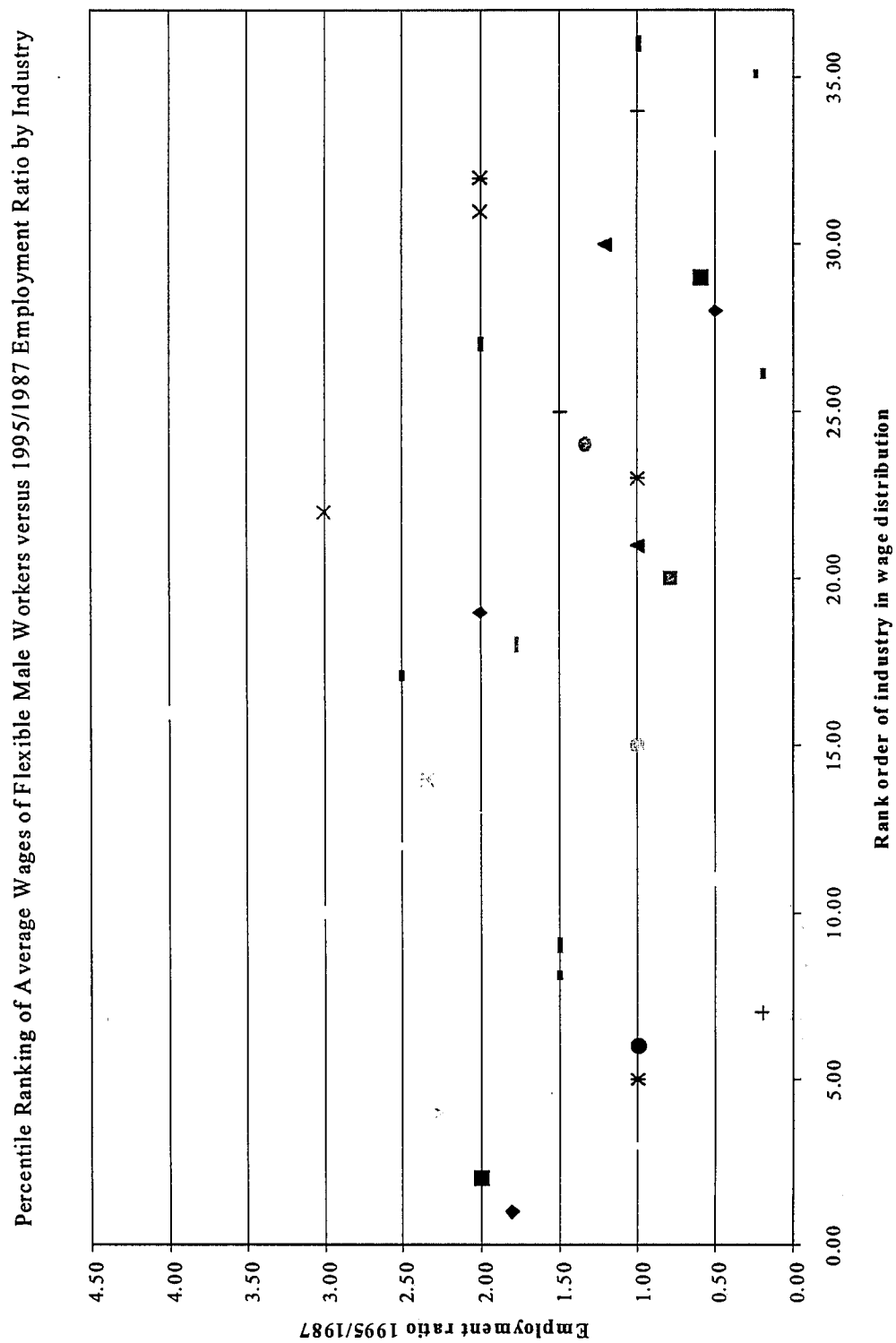


Figure 7.3.4 Percentile ranking of average wages of all male workers versus 1995/1987 employment ratio by industry

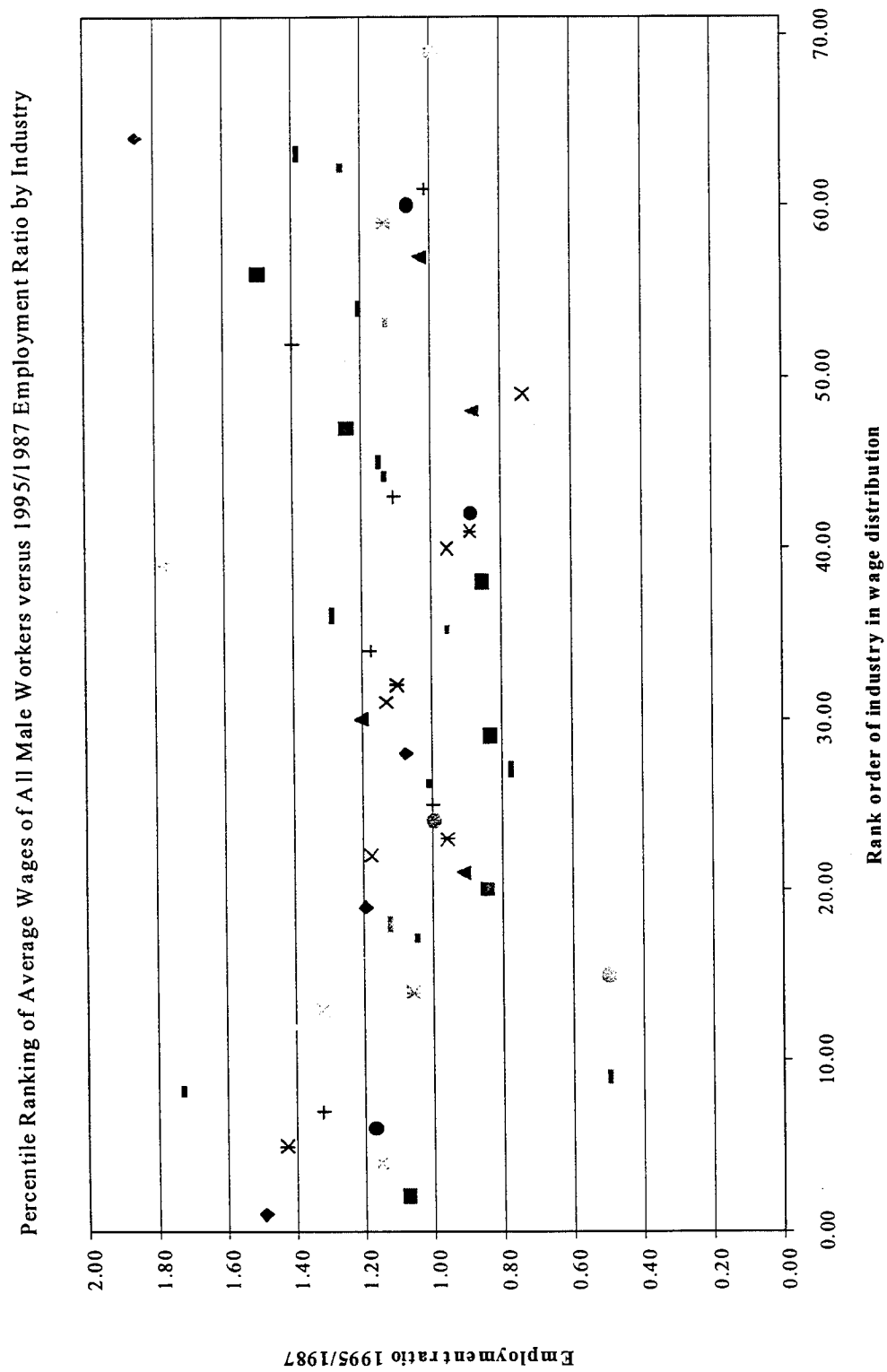


Fig. 7.3.5 Percentile ranking of average fulltime female wages versus 1995/1987 employment ratio by industry

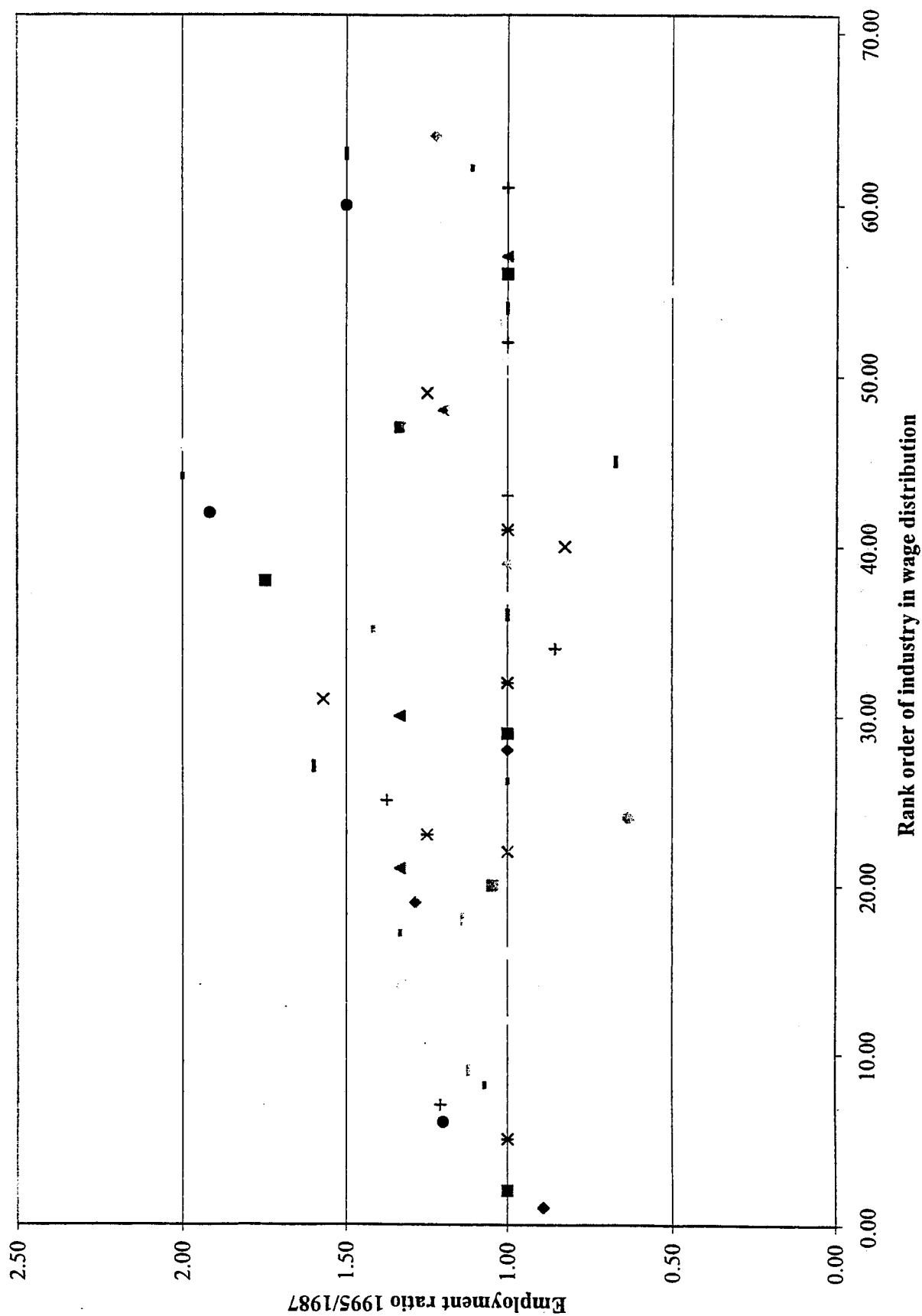


Figure 7.3.6 Percentile ranking of average flexible female wages versus 1995/1987 employment ratio by industry

Fig. 7.3.6 Percentile ranking of average flexible female wages versus 1995/1987 employment ratio by industry

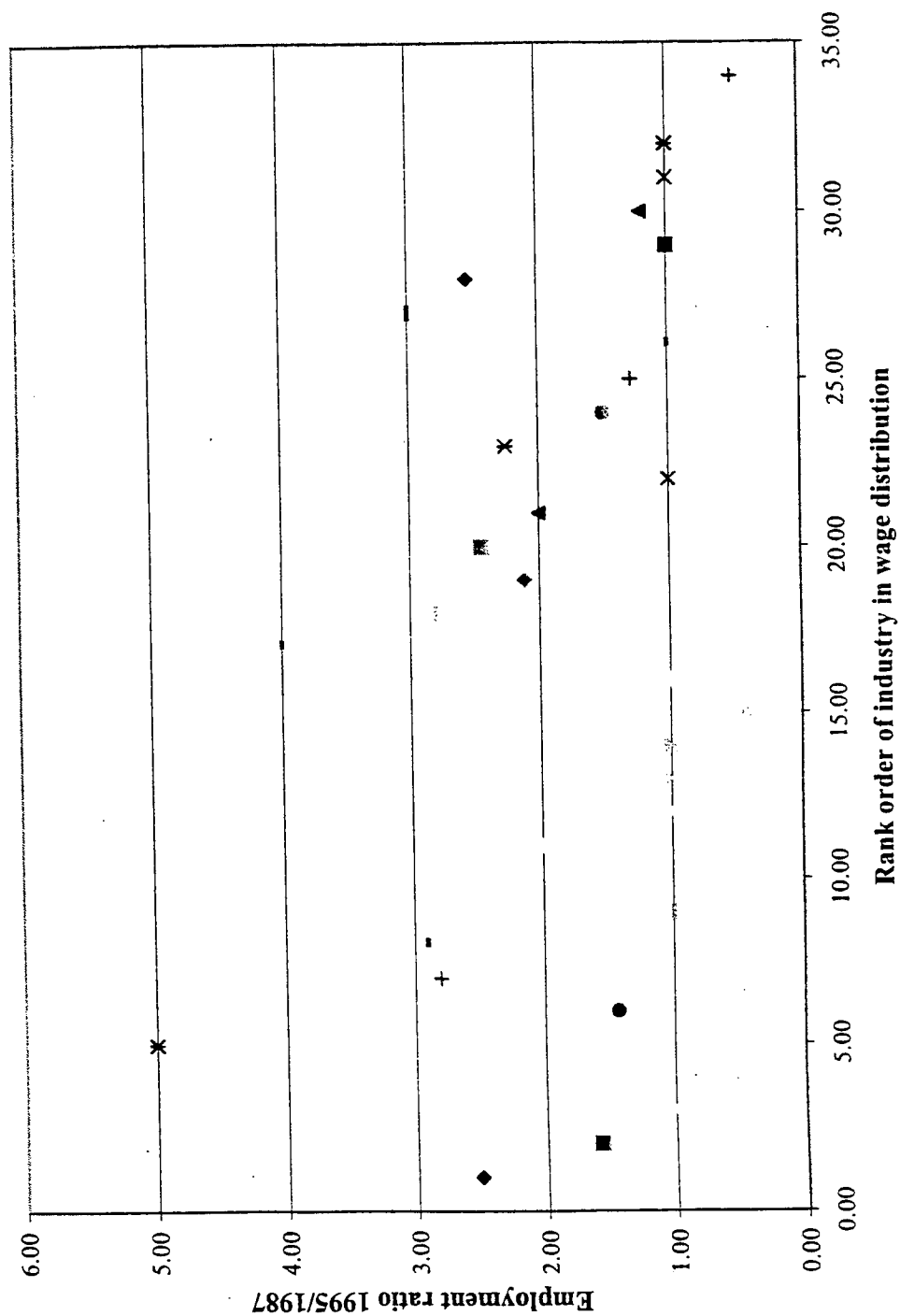


Fig. 7.3.7 Percentile ranking of average parttime female wages versus 1995/1987 employment ratio by industry

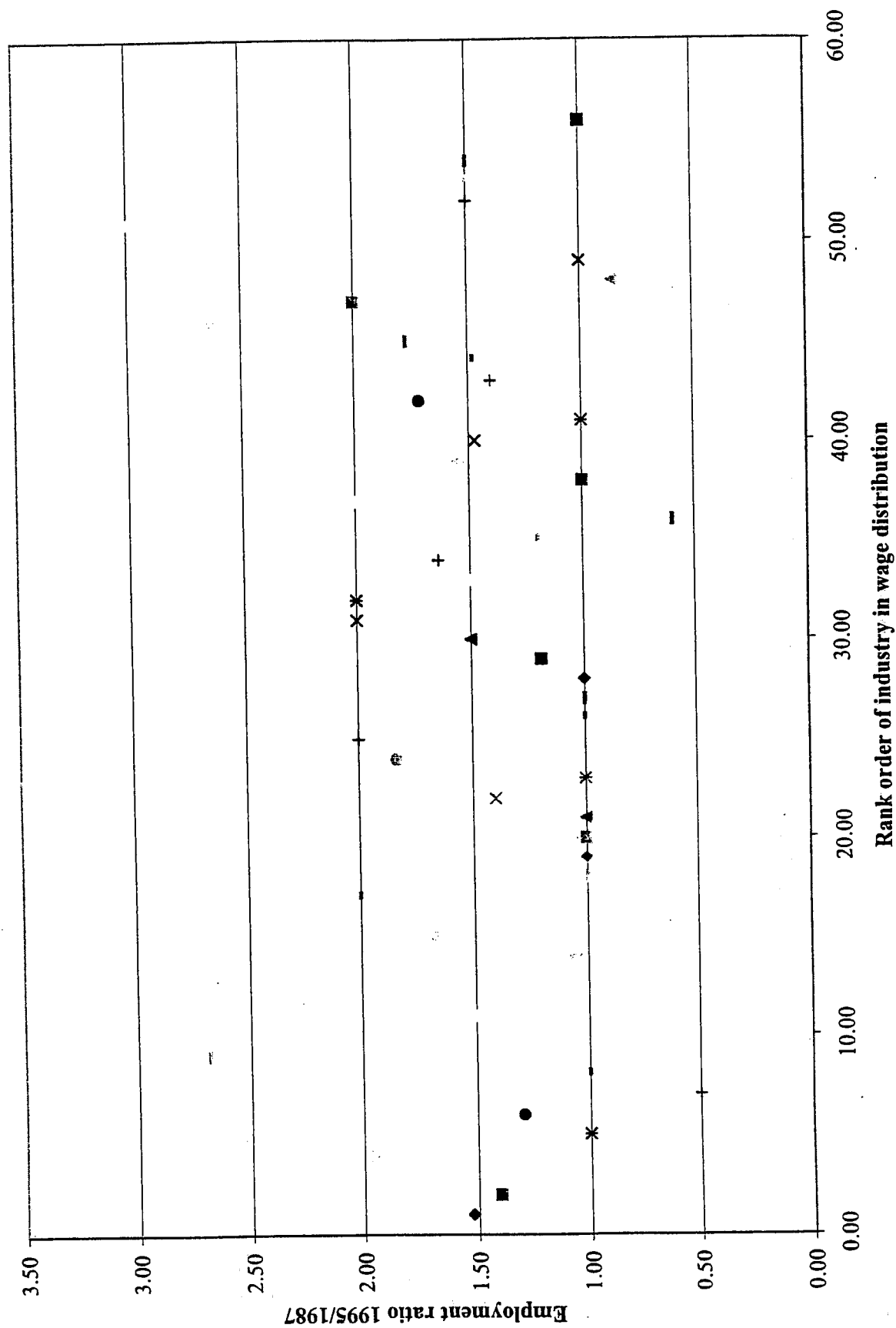
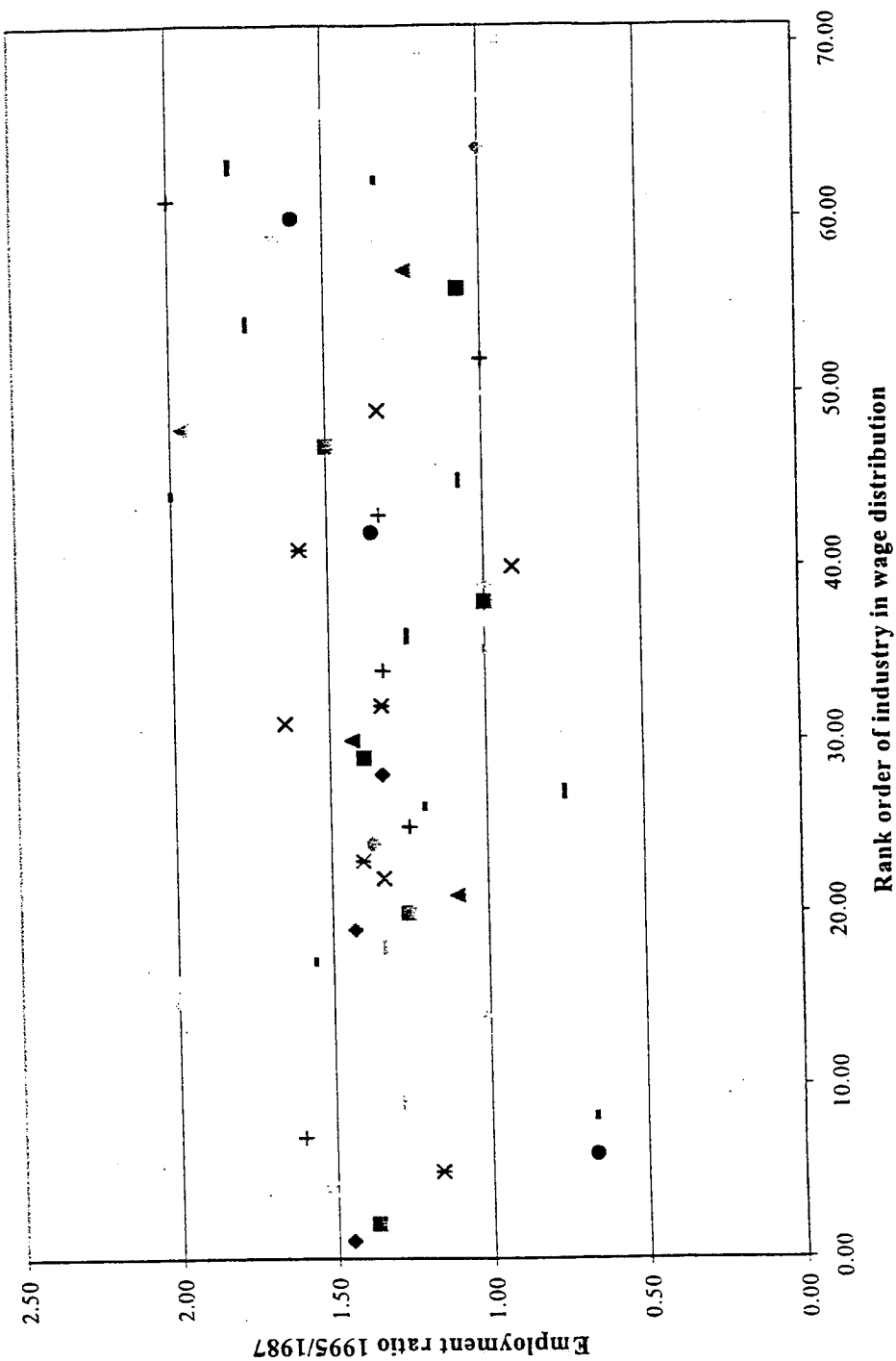


Figure 7.3.8 Percentile ranking of averages wages of all female workers versus 1995/1987 employment ratio by industry

Fig. 7.3.8 Percentile ranking of average wages of all female workers versus 1995/1987 employment ratio by industry



Source: Schettkat and Reynders (1997)

8. The distribution of income

In 1914, personal income taxation was introduced in the Netherlands, and ever since that time, the information collected by the tax authorities has been the source for statistics on the distribution of income (Hartog and Veenbergen (1978)). In the postwar period, the income tax regime changed frequently; also, concepts and definitions were often changed. It is therefore hard to derive a consistent and reliable time series from the published statistics. The statistical bureau (Central Bureau of Statistics) has made special efforts to publish a time series that is comparable over time. The series is presented and discussed in Van de Stadt (1988) and updated frequently in CBS publications.¹

In tables 8.1, 8.2 and 8.3 we reproduce the basic data on income inequality since 1959. All data refer to *spendable income*. Spendable income is gross income minus taxes and premiums for social security. Gross income is market income (from supplying labour and capital) augmented by social security and other benefits. Corrections have been made for changes in definition during the period.² The data are restricted to full-year incomes: persons receiving income during the entire year. This excludes schoolleavers, holiday workers, immigrants and emigrants, people who died during the year, but not part-time workers. The income unit is the *income earner*. An income earner is a single person or a married couple. Hence, a married man and woman count together as one unit. The data are useful for getting an insight in developments in inequality over time, but they cannot answer all questions. Clearly, they are not particularly suited for assessing the changes emanating directly from the labour market: we do not have information on individual earnings, let alone on wage rates.

Considering total income inequality, 1983 marks the turning point. Three measures tell the same story: the 10/3 decile ratio (table 8.1), the relative interquartile distance (table 8.2) and the Theil coefficient (table 8.3). From 1959 to 1962, inequality increased, but then started to decline until 1983. By all measures the decline was substantial: the 10/3 decile ratio fell from 5.5 to 3.2, the relative interquartile distance fell from 0.83 to 0.61 and the Theil coefficient was cut in half, from 0.264 to 0.139. After 1983, an increase in inequality started, but only the interquartile range approached its 1962 high. The trend in overall inequality is dominated by the trend for employees and unemployed, not surprising given their numerical dominance. For the self-employed, the development is more erratic and there is no clear trend; but for non-participants, the same trend is visible as for the employed.

The data suggest an important conclusion. It appears that social policies are not countering trends in market inequality, but rather reinforcing them. When inequality in market earnings started to increase, inequality emanating from the public sector also started to increase, as if a general mood towards more inequality developed. The data do not allow a careful test of this hypothesis. One indication is the similarity in the development of the series for employees and unemployed. Another is the decrease in all kinds of social security transfers we noted earlier.

For further information on what happened in the 90s, we use data on gross incomes: gross profits, labour earnings and transfers. Table 8.4 summarizes the developments in the income distribution by decile, for some socio-economic groups. The income unit now is the individual recipient.

The data reveal rising income inequality among the working population, stability among the inactive population and a strong increase in total inequality between 1992 and 1993. The rise in inequality among the active population is located entirely among the private sector workers (and perhaps in increased between-group inequality; average civil servant compensation has been lagging behind the private sector for many years). Among the inactive population, we see stability for pensioners and welfare recipients, and compensating developments for unemployment and disability beneficiaries. For unemployment beneficiaries, the share of the top (deciles 8,9 and 10) has increased and the share of the bottom has fallen: a clear case of top and tail growing wider apart. For disability beneficiaries, we see a drop in the share of the 10th decile and a slight increase in the share of the 3rd decile. Considering the

¹The first publication of the data was in Van de Stadt and De Kleyn (1986)

²A correction was not possible for income from home ownership. For income tax purposes, income from home ownership is defined as imputed rental value of the home minus mortgage interest and other deductible cost of home ownership.

entire distribution, the bottom deciles have stable or increasing shares, the upper half of the distribution has an increasing share and the top decile suffers a marked loss. The table provides clear support for growing earnings inequality in the market sector. If we consider the distribution in greater detail, we note that deciles 1 to 5 lose, that 6, 7 and 8 hold steady and that 9 and 10 gain between 1991 and 1993.

The changes in inequality are by no means small. The increase in the 10:3 decile ratio for private sector employees is 0.12 over two years, i.e. an increase of 0.06 per year. In the 1980s, according to the *Employment Outlook* survey, the increase in the male 9:5 decile ratio of gross hourly wages, on average across countries, was 0.16 per five-year period: 0.03 per year (but admittedly on a smaller basis: the 9:5 decile ratio in the United Kingdom was 2 in 1990). In the United States, the male 9:5 decile ratio increased by only 0.02 per year during the 1980s. The data clearly suggest a substantial increase in private sector earnings inequality in the Netherlands during the early years of the present decade.

In their annual report, the Social and Cultural Planning Bureau (SCP, 1996), presents Theil coefficients for gross individual incomes as registered by CBS, i.e. the same data as analysed in table 8.4. Table 2.9 of that report (page 56) confirms the conclusions just reached. The data given there cover a longer period, viz. 1990-94. Over that period, earnings inequality in the private sector increased markedly; for civil servants there was also a clear increase over this longer period (from 0.081 to 0.089). They also report a strong increase among the unemployed, from 0.101 to 0.164. Between-group inequality fell however, from 0.049 to 0.042.

It is now straightforward to summarize the findings on inequality. After a long period of decline, during the 1960s and 1970s, inequality reached a low in 1983 and then started to rise again. The long time series on which this conclusion is based uses spendable income as its income concept and the income earner as its recipient unit. This makes it hard to disentangle changes in factor market prices from changes in welfare state provisions. However, considering the changes in the distribution of individual gross incomes, we find that inequality rises substantially among private sector employees during the first years of the recent decade. Inequality is stable among civil servants. For transfer recipients, we find stability also for pensioners and individuals on welfare. Inequality increases substantially for the unemployed and falls substantially for the disabled. Recent data published by CBS show that between 1993 and 1995 income inequality has further increased, both within socio-economic groups as between the groups (CBS, *Sociaal-economische Maandstatistiek*, 1997/2). The increase is modest, but steady.

Table 8.1 Ratio of the income share of the tenth and third 10 per cent group of spendable income by socio-economic category

	Self-employed	Employees and unemployed	Non-participants	Total
1959	5.6	3.9	8.6	5.4
1962	6.1	4.0	6.2	5.5
1964	5.6	3.9	5.6	5.3
1967	5.7	3.8	4.1	4.7
1970 ¹	5.5	3.8	3.5	4.5
1973 ¹	4.7	3.3	3.3	3.9
1975 ¹	4.6	3.1	3.2	3.6
1979 ¹	5.0	3.1	3.1	3.6
1979 ¹	5.3	3.1	3.1	3.7
1979	5.2	2.9	3.0	3.4
1981	5.0	2.9	3.0	3.3
1983	4.5	2.8	3.0	3.2
1985	4.4	2.9	3.1	3.5
1987	4.8	2.9	3.2	3.6
1988	4.2	3.0	3.2	3.5
1989	3.9	3.1	3.2	3.6
1990	4.3	3.2	3.4	3.8

Note: ¹ Excluding income from home ownership

Source: Sociaal-economische Maandstatistiek, CBS, June 1993, Table 6.4.

Table 8.2 Relative interquantile distance based on spendable income by socio-economic category

	Self-employed	Employees and unemployed	Non-participants	Total
1959	0.91	0.65	1.15	0.81
1962	0.93	0.68	0.92	0.83
1964	0.89	0.69	0.87	0.84
1967	0.91	0.67	0.65	0.77
1970 ¹	0.88	0.67	0.55	0.76
1973 ¹	0.85	0.59	0.56	0.69
1975 ¹	0.84	0.59	0.59	0.68
1977 ¹	0.85	0.61	0.58	0.68
1979 ¹	0.89	0.60	0.58	0.67
1979	0.89	0.57	0.57	0.63
1981	0.90	0.57	0.58	0.63
1983	0.86	0.55	0.58	0.61
1985	0.84	0.57	0.57	0.67
1987	0.90	0.60	0.59	0.71
1988	0.84	0.62	0.60	0.71
1989	0.81	0.64	0.60	0.71
1990	0.81	0.68	0.62	0.76

Note: ¹ Excluding income from home ownership

Source: Sociaal-economische Maandstatistiek, CBS, June 1993, Table 6.5.

Table 8.3 **Theilcoefficient based on spendable income by socio-economic category within group inequality**

	Within group inequality			Between group inequality	Total
	Self-employed	Employees and unemployed	Non-participants		
1959	0.297	0.182	0.299	0.036	0.260
1962	0.320	0.189	0.259	0.035	0.254
1964	0.302	0.182	0.221	0.034	0.248
1967	0.318	0.166	0.158	0.027	0.220
1970 ¹	0.305	0.162	0.137	0.021	0.202
1973 ¹	0.253	0.135	0.121	0.020	0.169
1975 ¹	0.266	0.127	0.114	0.017	0.157
1977 ¹	0.300	0.127	0.103	0.017	0.157
1979 ¹	0.309	0.128	0.099	0.019	0.160
1979	0.321	0.115	0.100	0.015	0.149
1981	0.328	0.119	0.103	0.012	0.146
1983	0.271	0.113	0.105	0.014	0.139
1985	0.264	0.123	0.113	0.019	0.152
1987	0.311	0.128	0.129	0.018	0.164
1988	0.295	0.133	0.119	0.015	0.160
1989	0.254	0.142	0.121	0.019	0.165
1990	0.283	0.152	0.129	0.016	0.174

Note: ¹ Excluding income from home ownership

Source: Sociaal-economische Maandstatistiek, CBS, June 1993, Table 6.6.

Table 8.4 **10/3 Decile income share ratio, individual gross income**

	1991	1992	1993
<i>Active</i>	4.26	4.32	4.39
Civil servants	2.55	2.53	2.55
Other employees	24.00	4.09	4.12
<i>Inactive</i>	4.75	4.75	4.76
Unemployment beneficiaries	3.43	3.97	3.92
Disability beneficiaries	2.93	2.80	2.79
Pensioners	5.57	5.46	5.57
Welfare recipients	1.72	1.73	1.77
<i>Overall</i>	6.80	6.80	7.05

Source: CBS, Sociaal, economische maandstatistiek, December 1994, ch. 6.

9. An assessment

9.1. Some problems that remain

The discussion of policies to combat unemployment and to stimulate economic growth has not been complete. Just focussing on the “1982 programme” made the paper long enough. We have not considered the changes in the qualifications of the labour force. Yet, the composition of the labour force by schooling levels has changed drastically. In 1977, 31 per cent of the labour force had only basic education, 11 per cent had tertiary education (academic or higher vocational). In 1996, only 8 per cent had basic education and 25 per cent had a tertiary degree. Stimulated by a generous scholarship programme, participation in continued education has increased enormously. Neither have we touched on the recent changes in policies to stimulate product market competition. Until fairly recently, legislation and policies supported cartels and other collusive agreements; now, there is an explicit anti-monopoly policy, and active deregulation across a wide spectrum. We have not even touched on all the issues and policy debates related to the “1982 programme”. Here, we will briefly discuss a few points.

Low participation rate

One concern of policy makers is the low labour force participation rate. Traditionally, the participation rate of married women has been very low in the Netherlands. There has been strong catching up, but still most of this participation concerns part-time work. Most part-timers express satisfaction with their working hours, however. The real problem is the persistently high rate of subsidized inactivity: receiving benefit of one sort or another without contributing to output. The problem has even led to the definition of a criterion variable, the *i/a* ratio (inactive/active): the number of benefit recipient years divided by the labour force, in fulltime equivalents (employees and self-employed). In 1983, the *i/a* ratio (multiplied by 100) was 81.3, the next year it reached a maximum of 83.4 and then slowly declined to a value of 80.3 in 1996 (CPB, MEV, 1998, Bijlage A4). A large component of inactivity is retirement. The national old-age pension operates as a pay-as-you-go system, the supplementary private pension plans are capital-based systems. Hence, pensions are only redistributive between individuals to the extent that the state pension is redistributive (it is modestly pro-poor, with equal benefits for all and contributions related to earnings, but with an upper limit on annual contributions). If we restrict the *i/a* ratio to individuals below 65 (the state pension entitlement age), it is cut in half. It was 43.5 in 1985 and fell to 39.7 in 1996. An *i/a* ratio greater than zero may have strong disincentive effects, but this depends very much on the precise structure of the burden of premiums on earnings and on the distribution of benefit entitlement. The below-65 ratio is substantially lower than in Belgium, slightly lower than in Denmark, about equal to Germany, higher than in France and the United Kingdom and substantially higher than in the United States and Japan (CPB, 1997, page 79).

Productivity slowdown?

We already noted in Chapter 2 that productivity growth was slowing down relative to other countries in north-west Europe after 1979. Productivity slowdown is not unique to the Netherlands. Productivity growth generally declined in developed economies during the 1970s. However, after the mid-1980s, productivity growth further declines in the Netherlands, and this is not a general international phenomenon. It is rather specific to the Netherlands, although shared with similar developments in the United States. It has been suggested that lower productivity growth is a consequence of wage restraint. Wage restraint moderates effective demand, while strong demand stimulates innovations. It lengthens the economic life of capital equipment, prohibiting the adoption of newer and more productive technology. And it retards the process of business selection, by allowing less efficient firms to survive on low wage cost, i.e. it retards “creative destruction” (see Kleinknecht, 1998).¹

¹The argument that high wages stimulate high productivity was a key ingredient in the “Swedish model” as developed by Rehn and Meidner.

To some extent, the productivity slowdown is a composition effect. As CPB (MEV 1998) has shown, the earnings distribution has gotten a fatter lower tail after 1979, especially in the interval 1989-94 (op. cit., page 113). An increase in the employment share of low-paid (and, by assumption), low-productivity workers exerts downward pressure on overall labour productivity. This, by itself need not be a reason for concern. It may even be beneficial if workers formerly receiving some benefit now make a productive contribution. To assess this factor, it would be better to analyse output in relation to the size of the labour force instead of to employment, thus including the effect of a variable rate of utilization of labour. A more general labour force composition shift effect is not visible. CPB weighted the change in hours worked by quality (education, age, gender, part time) with weights derived from a wage regression. The quality adjustment did not explain the productivity slowdown.

Sectoral analysis indicates that productivity growth in manufacturing has increased again (CEP 1998). It was about per cent between 1974 and 1985, dropped to 2.1 per cent in the next five year period and in the early 1990s increased to 2.9 per cent per year. The contribution of total factor productivity in the increase dropped from about two-thirds to 60 per cent; in the last five year period the share of growing capital intensity increased: the high profits of the period stimulated capital investment. In commercial services, there was no improvement in productivity growth: it declined steadily after 1974. Among the services, transport and communication did quite well (3 per cent productivity increase in 1991-95), but trade, banking and other services had barely any productivity increase, in spite of a modest contribution of growing capital intensity. Increased capital intensity in services is taken as evidence that wage restraint did not stop capital-labor substitution. In fact, between 1980 and 1995, the relative price of labour and capital in "other tertiary services" did not structurally change (CEP, 1998, p131). CPB speculates that lack of strong competition and sluggish adjustment of the organization of management explain the lack of total factor productivity growth in services other than transport and communication (where competition is strong, certainly after deregulation took place).

Increasing required work effort and stress

In the public debate, there is a growing concern over mounting pressure at work. Reduced working hours without full compensation by additional workers and cost cutting personnel reductions have increased the required work effort of employees. Survey evidence presented by De Beer (1998) over a longer period of time confirms this. Although the effect is certainly plausible and can be backed up by anecdotal evidence, the obvious drawback of the evidence is the subjective character: for one reason or another, employees perceive the required speed of work as higher than it used to be. Additional evidence on the basis of more objective measures would be most welcome. For example, for education, it has been documented that required actual teaching hours and class size per teacher in secondary education in the Netherlands are the highest in Europe (OECD, quoted in Webbink, 1998)

For the public sector, there are signs that the increased level of required work effort is felt as a real and serious problem. In education, health care and other public sector services, discontent on working conditions is mounting. There have been several strikes and related actions (like working Sunday shifts on a weekday) in health care, day-care centers, education and welfare services, all presenting the same claims: higher wages (to make up for the large loss relative to the private sector) and reducing required work effort by increasing staffing levels.² The decline in relative wages in the public sector has been dramatic, and has in the past been accepted with reluctance. Indeed, union membership in the public sector fell by 12 per cent, from 704 100 in 1979 to 619 400 in 1987 (although it later recovered to 629 800 in 1989). The public sector increasingly is confronted with negative consequences of low relative pay and cuts in staffing levels. Recruitment becomes problematic. It is also quite conceivable that this has a negative impact on the quality of civil servants, but this is notoriously difficult to measure.³

² See for example the overview in *Trouw*, 20 June 1998, p. 6.

³ In Hartog and Oosterbeek (1993) we found that public sector employees in 1983 were not underpaid, if unobserved heterogeneity is taking into account. But the switching regression model we used is known to be very sensitive to specification.

9.2. Assessing the “1982 programme”

In the postwar period, the Dutch economy has started with a strong performance in terms of employment, growth and income distribution. In 1970, the unemployment rate was the lowest among the 15 OECD countries for which data are assembled in the *Economic Outlook*. In the early sixties, unemployment was not above 1 per cent for five consecutive years. After the early seventies, a combination of factors led to a dramatic deterioration: changes in the world economy, strong expansion of the welfare state, in part financed by the proceeds of natural gas, gas exports that pushed the guilder to a high level and thus crowded out other exports and employment: the Dutch disease. A political paralysis, in which the need for reform was recognized but not implemented. The year 1982 is given the status of turning point, although only in hindsight can it be dressed up as yielding something like a coherent programme: wage restraint, government retrenchment, welfare reform, work sharing, flexibilization.

Wage restraint was convincingly realized. In 1996, private sector contractual real wages were 5 per cent below their level in 1979, public sector contractual wages were a quarter behind their 1979 level. Individual wage growth had to be realized by individual “careers”: the effects of tenure, age, and promotions. The average wage also increased because of a composition effect: the level of education of the labour force substantially increased over the last decades. But mean real earnings for a full time worker in the mid-nineties were not higher than in 1979.⁴ The government certainly retreated: between 1983 and 1996, the share of public expenditures in GDP dropped from 58 to 47 per cent, the number of civil servants dropped by 7 per cent and the gap between gross and net wages fell from 48 to 41 per cent at the mode, and from 34 to 21 per cent at the level of the legal minimum wage. The welfare state has been drastically reorganized, with much direct control of the social partners taken away from them. Worksharing and flexibilization marched hand in hand, as redistribution of hours worked across the labour force has led to a loss in the share of regular full-time jobs and an increase in the share of part-time and flexible contracts. The volume of temp work has greatly expanded. The organization of labour market mediation and job placement has undergone a major overhaul after abolishing the government monopoly, and new partnerships of public and private organizations have emerged.

In almost every year after 1984, employment grew by at least 70 thousand years (1993 and 1994 are the only big exceptions, with declines of 6 and 18 thousand years). From 1984 to 1996, employment grew by 834 thousand years, that is 18 per cent. In persons, employment grew by 1291 thousand, i.e. by 23 per cent. Unemployment fell from 9.7 to 7.6 per cent. Total private consumption increased by 37 per cent in real terms (in total, not per capita; population increased by 8 per cent).

Is this a succes story? And if so, can we isolate the contribution of each element of the programme to this succes or is the secret in the mix? As Freeman (1998) notes: “Maybe the Dutch have put the pieces together in the right way - by combining work-sharing with substantial wage moderation and various welfare state reforms”.

Wage restraint has contributed its share, by reducing the cost of labour. Wage restraint has also eased liquidity constraints on investment. The share of capital in national income increased from 10.7 to 16.9 per cent, the profit share from 5.7 to 10.2 per cent. But investment growth has been highly irregular and only reached substantial levels in a few years: 1985-86, 1989 and 1995-96. Foreign demand helped: world trade increased strongly during the entire period, with an acceleration after the early 1990s. The acceleration comes as a strong recovery after a European recession brought about by the combination of both tight fiscal policy and tight monetary policy to meet the standards set by the Maastricht treaty, especially in Germany and France (see the evidence in De Grauwe, 1998). Export growth was quite strong in most years. The shift in the production structure helped, away from manufacturing, from the exposed sector, to the sheltered sector, to labour intensive services.

⁴See figure 3.2. The OECD statistics give the same result. Between 1980 and 1996, real average earnings (compensation per employee in the business sector) grew by 0.2 per cent annually in the Netherlands. The EU average was 1.1 per cent. Source: OECD Economic Outlook (table 4 in the ILO project data set).

If we take the perspective of the entire postwar period, there are several indications that the interval 1973-83 is the exception, not the post-1983 period. In that sense, the "miracle" of the recovery is not a miracle at all, it is a restoration of the earlier position. "Restoration" took place in wage determination, in social security and in productivity. Moderate wage development is a Dutch postwar tradition that got disrupted in the late sixties and early seventies, after a long period of high excess demand in the labour market. The welfare state was strongly expanded during the seventies, and in the early eighties absorbed many into benefit reciprocity. Restoration of benefit levels started in the early eighties, and by the mid-nineties were back at the level of 1970. GDP growth resumed its old track: "The position of the Netherlands in terms of GDP per capita relative to Northwestern Europe is now more or less the same as it used to be in the 1960s and 1970s" (Van Ark and De Haan, 1997, page 22).

Wage restraint can be related to the corporatist coordination at the top level of the socio-economic organization. But its precise contribution is hard to determine. The CPB study discussed in section 3.4 (CPB, 1991) allocates three quarters of the reduction in labour's income share to the effect of the high unemployment rate, but the reaction coefficient of wages to excess supply of course already includes an institutional effect of the Dutch bargaining tradition. The impact of institutions on labour market outcomes is much debated (see Teulings and Hartog, 1998), but a recent OECD study certainly supports the beneficial effects of labour market coordination (Elmeskov et al., 1998). Introducing increased labour market flexibility may also be facilitated by corporatist coordination. There is reason to doubt whether worksharing has contributed to a better economic performance. But if there has been any virtue to it, it is also related to the flexible implementation, the combination of reduced worker hours with increased operating hours, and the say of management in the timing of work and leisure.

Hours worked per head of the population have declined steadily during the 1960s. The decline accelerated during the 1970s and became quite steep in the early 1980s. But since 1987 they have increased again, and the distance to the average in Northwest Europe declined (Van Ark, 1998). The drastic changes in the level and composition of working hours have had their impact on output. Calculations by Van Ark (1998) show that the reduction in hours worked per employed person between 1982 and 1996 reduced GDP per capita by almost 20 per cent. But the increase in the participation rate raised it by just under 15 per cent. In the end, wage restraint and reduced working hours per worker outweighed the effect of increased participation: consumption lagged the average for the United States and Europe by some 10 per cent between 1979 and 1996 (Salverda, 1998).

Employment has drastically changed in composition. Exaggerating a little, we may say that most employment is lost in full-time male manufacturing jobs and that much has been gained in services. These services are both high level and low level. They provide many opportunities for women, including women who want to work part-time. Restructuring has not taken place *within* the labour force. The exit from manufacturing was not linked to the entry in services, exit meant exit from the labour force (disability, long-term unemployed, welfare). The heritage of disconnected outflow and inflow is the large stock of benefit recipients.

In welfare state reform, the biggest success seems to be the reduction of sickness incidence: by nature a mobile population where persistence is not possible, except by transfer into the disability programme. The volume of the disability recipient population is still high and inflow has recently again surpassed outflow. Many people still receive an unemployment related benefit.

9.3. A Dutch model?

In the introduction, we mentioned merry-go-rounds and spy-mirrors as metaphors for the international interest in the "Dutch model". In the discussions, the Holland watchers seem to employ two meanings to the term, one referring to the policies, the other to the institutions. The policies were, for convenience, summarized as the "1982 programme": government retrenchment, wage restraint, work sharing, increased labour market flexibility, social security reform. The goals of that programme were largely met. But we should add that worksharing mostly came about as a shift from full-time male jobs to part-time female jobs, and was associated with a large employment shift from manufacturing to services. And the benefit receiving population is still large.

In terms of institutional structure, if there is anything like a Dutch model, it is the Dutch brand of corporatism, with consultation, coordination and bargaining over all important issues of socio-economic policy between union federations, employer federations and the government. The Dutch example shows that corporatist institutions are not synonymous with suffocating rigidity. Instead, they appear to allow for much flexibility. International comparative analysis confirm this (Teulings and Hartog, 1998; Elmeskov et al., 1998). But some puzzles certainly remain. In terms of wage determination, the joint coordination by social partners is widely acclaimed as a success. In social insurance, social partners were blamed for allowing far too easy access to benefits, and a key goal of the reorganization has been to kick them out. In reorganizing the Employment Service in the early 1990s, they were supposed to be indispensable to improve labour market matching processes and labour market reintegration of benefit recipients: they were invited to participate in governance.

The process of institutional restructuring has not ended, as it probably never will. Current policies aim at integrating social insurance (disability, unemployment, welfare) and the employment service, in Centers for Income and Work. The debate is about the borderline between the public and the private sector (are requests for disability and unemployment benefits evaluated by a private or a public body?) and about the role of social partners (will they have a seat in the boards of the Centers?). Large shifts have already been made from the public to the private domain. Sickness compensation was changed from a public insurance to a private (employer) liability. Administration of social insurance moves from a pure public activity to a pure private activity.

Questions on optimal organization essentially turn on incentives. In that sense, the choice between private or public organizations is secondary. The experience with "privatizing" sickness compensation suggests that a proper incentive structure can have powerful effects. However, public organizations can also be influenced by a proper set of incentives. And privatizing the administration of social insurances will have no lasting effects if competition among the organizations does not flourish.

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Appendix

Summary of social security and its history¹

1. General structure

Social security consists of *social insurance* and *social provisions*. Social insurance is compulsory insurance against loss of earnings, social provision guarantees the social minimum. Social insurance comprises *employee insurances* and *national insurances*.

Employee insurance covers private sector employees for loss of earnings due to sickness (initiated by the Sickness Act, ZW, 1930), disability (initiated by the Disability Act, WAO, 1967, predeceased by Accidents Acts, 1919, 1921, 1922), unemployment (Unemployment Act, WW, 1949) and covers medical expenses (Sickness Fund Act, ZFW, 1964). Employee insurances are financed by premiums.

National insurance covers the entire population. It comprises old age pension (General Old Age Act, AOW, 1957), pension for widows, widowers and orphans (General Widows and Orphans Act, AWW, 1959, replaced by General Survivors Act, Anw, 1996), child allowance (General Child Allowance Act, AKW, 1963), exceptional medical expenses (General Exceptional Medical Expenses Act, AWBZ, 1967) and disability for others than employees (General Disability Act, AAW, 1976). Child allowances are financed from general tax revenue, all other social insurances are financed by premiums in a pay-as-you-go system.

Social provisions, to guarantee income at least at the level of the social minimum, ensue from general social assistance (General Social Assistance Act, Abw, 1996), income provision for elder and partially disabled unemployed employees (Income Provision Act Elder and Partially Disabled Unemployed Employees, IOAW, 1986) and for former self-employed (Income Provision Act Elder and Partially Disabled Former Self-employed, IOAZ, 1987) and from income supplements when benefits in case of sickness, unemployment and disability fall short of the social minimum (Supplement Act, TW, 1987). The new Social Assistance Act of 1996 replaces an older act of 1965 and a provision for unemployed who are not entitled to benefits from the Unemployment Act, WW. Social provisions are financed from general tax revenue.

Administration and supervision cut across the organisational structure by grouping according to type of benefit. Benefits related to medical expenses (sickness fund, ZFW, and exceptional medical expenses, AWBZ) are administered by Sickness Funds (not-for-profit organisations) and commercial health cost insurances, under supervision of the Sickness Fund Council (Ziekenfondsraad). Membership of the Council is tripartite-plus: union federations, employer federations, independent ("Crown") members plus representatives of insurance corporations, hospitals etc. Old-age pensions, survivor pensions and child allowances (AOW, Anw, AKW) are administered by the Social Insurance Bank (SVB). The Social Insurance Bank is a non-profit organisation with tripartite governance. The benefits covering earnings loss related to sickness, unemployment and disability (ZW, WW, WAO, AAW, TW) used to be administered by Industry Associations (with 13 out of 18 passing the job on to GAK, the Joint Administrative Service), supervised by the Social Insurance Council (SVR, tripartite membership). In 1995, the Social Insurance Council was abolished, in 1997 Industry Associations were abolished. Since then, the five laws are administered under responsibility of the National Institute for Social Insurances LISV, which delegates the job to Executive Institutes (Uitvoeringsinstellingen, UVI's). These Executive Institutes are private institutes, each covering a sector of economic activity. LISV determines the premiums and assigns firms to sectors, and hence to Executive Institutes, which affects premium levels. LISV has a tripartite governing board (unions, employers, independent, i.e. appointed by the Crown) and an independent chairman. It is supervised by the Committee for Supervision of Social Insurances, CTSV, for legitimacy and efficiency of expenditures. The board of CTSV (3 members) is appointed by the government. CTSV also supervises the Social Insurance Bank. There are now five UVIs, but in 2000 there will be free entry for other organisations. The present debate is about responsibility for claim evaluation: private or public?

2. Unemployment, disability and sickness

Unemployment benefits used to be based on the Unemployment Act 1949 (effective since 1952), which combined an industry-specific lay-off compensation and a national unemployment compensation. Benefits are now based on the Unemployment Act 1987. The Act imposes compulsory insurance for private sector workers. To be

¹ The information is taken from *Kroniek van de sociale verzekeringen 1997* (LISV, Amsterdam) and its earlier editions. Further details and statistical information can be found there. Some details are taken from Teulings, Van der Veen and Willems (1997).

entitled to benefits, the unemployed should have worked at least 26 weeks. The benefit has two components: the wage-related part, 70 per cent of earnings (up to a maximum) and the extension part, 70 per cent of the legal minimum wage². The duration of the wage-related part is six months, but it can be extended depending on the length of work experience. The extension is three months for a five years of experience and 4.5 years for 40 years of experience³. Since March 1995, the rules for extending the wage-related benefit have become more complex. The premium has a uniform part and a part differentiated by sector (there are 60 sectors). The mixed character of the system reflects the merger of employer-provided lay-off benefits and union-based unemployment compensation, both subsidised by the government in the Interbellum. There were 18 such Associations, created by the 1953 Law on the Organisation of Social Insurance and governed jointly by trade union and employer association representatives. Related to the uniform premium contribution there was a fund for its administration, the General Unemployment Fund. Until 1995, Industry Associations and the General Unemployment Fund were supervised by the Social Insurance Council. Since January 1995, there is a new supervisory body, the Committee for Supervising Social Insurance, CTSV, with an independent board, i.e. not controlled by social partners. In 1997, Industry Associations have been abolished. Industry specific premiums are now set by LISV.

The Sickness Act imposes compulsory insurance against loss of earnings due to sickness for all workers in the private sector. Sickness includes (since 1967) accidents not occurring during work hours. Benefits are limited to a maximum duration of one year, after which a disability benefit may become relevant. The benefit is now 70 per cent of earnings, constraint to some maximum level (the ratio was lowered from 80 to 75 per cent in 1985 and to 70 per cent in 1986). Until January 1994 there was no benefit for the first one or two days of sickness. However, many collective agreements provided for 100 per cent compensation from the first day of sickness. The premium is differentiated by industry and, since 1994, by an employer's sickness rate. Sickness benefits were administered by the Industry Associations. However, one or more employers could set up their own sickness insurance under responsibility of the Industry Association or even opt for non-participation in the collective arrangements (while remaining subject to the obligation to provide the standard benefits to employees). Since January 1994, sickness benefit entitlement only starts after six weeks (and after two weeks for small employers, with wage bill below 15 times the average wage). Legally, the employer is compelled to pay at least 70 per cent of earnings, with the option of an agreement with employees (unions) to skip the first one or two days. Of course, the firm can buy private insurance for this risk. Also since that time, the firm is obliged to use the services of an advisory agency on working conditions and sickness incidence. Administration of the Sickness Act is supervised by Tica, Temporary Institute for Coordination of Social Insurance from January 1995 until January 1997. Since 1997, administration is by LISV and supervision by CTSV. In March 1996 the government has extended employer responsibility for sickness benefits from 2-6 weeks to one year.

The Disability Act 1967 is an employee insurance against earnings loss due to disability, no matter whether disability is caused by a job-related event or otherwise. Since 1976, the provisions are supplementary to the General Disability Act 1976, a compulsory national insurance. Disability is distinguished in seven intervals. 80-100 per cent disability yields a benefit of 70 per cent of previous earnings, 15-25 per cent disability yields a benefit of 14 per cent. The present benefit ratios were set in 1987. Initially, in 1967, the maximum benefit ratio was 80 per cent. The reduction mostly took place in 1985. Until 1987, it was possible to obtain a full benefit for partial disability if the labour market situation made it hard to find a job. To match remaining earnings capacity the unemployment rate was taken into account. The definition of disability was changed in 1993. Initially, disability meant that the individual was unable to earn the same wage as a healthy person with the same education and experience, because of sickness or impairments. In the new regime, disability should be a direct consequence of the impairment, according to objective medical standards. The earnings loss from disability is no longer defined in relation to education and experience. It is now estimated from a selection of best-paying jobs for which the person still qualifies, i.e. a direct estimate of remaining earnings capacity. The selection of jobs contains at least three jobs, jointly employing at least 30 persons in the Netherlands. New estimates of remaining earnings capacity are made for individuals who in August 1993 were younger than 50, in successive age cohorts until 1998. Because of all the changes in the regime, there are all kinds of transition regimes for individuals with vested rights. The benefit regime has been further complicated in 1993, by distinguishing a wage-related benefit and an extended benefit, as in the unemployment insurance. Benefit recipients older than 33 receive a wage-related benefit: 70 per cent of their previous earnings. The duration of the wage-related benefit depends on age, starting from 0.5 year for those aged 33 to 37 to six years for those aged 58 or older. After that, the disabled get an extended benefit. Those under 33 only

²Or 70 per cent of previous earnings, if that is lower.

³To qualify for extension, the worker should have been employed for at least 52 days in three of the five years prior to unemployment.

receive an extended benefit right from the start. The extended benefit is a percentage of the base-pay, consisting of the minimum wage plus 2 per cent of the difference between the actual earned wage before the onset of disability and the minimum wage for every year that the individual is older than 15. In case a reader may think this is a complex situation, we should add that we only have given essentials, leaving out many details, exceptions and refinements. The premium is uniform. The Disability Act was administered by the Industry Associations, who used to be advised by the Joint Medical Service to determine the extent of disability. In January 1995, the Service was abolished, and the Industry Association itself became responsible for the administration. Until that time, the Social Security Council supervised Industry Associations and Joint Medical Service, since then supervision rests with the Committee for Supervision of Social Insurance, CTSV. In 1997 Industry Associations were abolished; since then, administration is by LISV (who delegates to Executive Institutes, UVI's), supervision by CTSV. Since 1992, there are provisions to promote reintegration of the disabled into the labour force. There is a wage cost subsidy for hiring (or rehiring) disabled workers. And there was an element of firm specific experience rating, the so called bonus/malus system, from 1992 to 1995. If an employee became entitled to a (higher) disability benefit, the employer would pay a fine of 3 per cent of the worker's salary (initially, it was 5 per cent). A firm hiring a disabled worker got a bonus. As of January 1998, a new law (PEMBA) provides for premium differentiation by firms, based on the level of benefit expenditures they generate. The maximum premium is four times the average premium (three times for firms with less than 16 employees). Firms may also opt out for the first five years of worker disability: they may assume responsibility for the benefits themselves, or seek private insurance.

The Income Supplement Act 1987 guarantees social minimum incomes. A couple (married or permanently living together) with income below the legal minimum wage gets a supplement up to the minimum wage; the supplement is limited to 30 per cent of the minimum wage. A similar provision is available for singles with a dependent child (up to 90 per cent of the legal minimum) and for singles without dependent child (70 per cent of the legal minimum). Since 1990, young couples (born after 1971) only get a supplement if there is a dependent child younger than 12. During a period of two years, earnings not surpassing 15 per cent of the minimum wage have no consequences for the Supplement. The Income Supplements were administered by the Industry Associations, until LISV took over. Supplements are paid to 8 per cent of unemployment benefit recipients and also to 8 per cent of disability benefit recipients.

3. Benefit and eligibility reforms: a summary

Unemployment benefits

Legislation: WW 1949; WW 1987.

Eligibility

1949-1987: required weeks worked 13/last 52

1987-1995: required weeks worked 26/last 52

1995-: required weeks worked 26/last 39
required years worked 4/last 5 (minimum 52 days)

Benefit level

1965-1985: 80 per cent (up to a maximum), maximum six months

1985-1987: 70 per cent (up to a maximum), maximum six months

1987-: wage-related: 70 per cent last earnings up to a maximum, (maximum duration six months),
extension = f(experience): 4.5 years for 40 years
extended benefit: 70 per cent minimum wage, maximum one year
benefit determination has a complex relation to work experience; since 1995 there is a specific
short benefit, for a particular work experience category

NB: after exhaustion of benefit entitlement from the Unemployment Act, WW, an individual could qualify for other unemployment entitlements.

Premium

Determination of the premium has an industry-specific component (for the so-called lay-off benefit, Wachtgeld), determined and administered by the Industry Association until 1997, since then by LISV, followed by a general, not industry-specific part (for the unemployment benefit, Werkloosheidsuitkering), with non-differentiated premium. Until January 1996, the differentiated premium covers the first eight weeks of unemployment; since then, it covers the first 13 weeks.

Disability

Legislation: WAO 1967; AAW 1976; 1998 PEMBA

Eligibility

Disabled for at least 15 per cent, lasting for at least 52 weeks

Disability criterion

1967-1993: disabled if incapable of earning what able individuals with similar education and experience usually earn

1993: disability has to be a direct and medically objective consequence of disease or handicap education and experience irrelevant for degree of disability

disability derived from three best paying potential jobs that the individual qualifies for new medical check-up for all beneficiaries under 50, in successive cohorts

Benefit level

Seven intervals of disability, from 15 to 100 per cent

80-100 per cent disability gives full benefit

1967-1985: benefits 80 per cent of relevant wage

1985-1987: benefits 70.5 per cent of relevant wage

1967-1987: if labour market conditions prohibit earning an income proportional to remaining capacity, partial disability may give entitlement to full benefit

1987-1993: benefits 70 per cent of relevant wage

1993-: distinction between wage loss compensation (70 per cent of last earnings) and extended benefit (70 per cent of minimum wage plus mark-up depending on work experience)

Benefit duration

1967-1993: until age 65

1993-: for wage loss compensation dependent on age (0 years for 33 years or younger, six years for 58 or older); for extended benefit five years, renewal possible

Premium

Until 1998, the premium is uniform, not differentiated by industry. From 1992 to 1995, there was a *bonus/malus* system. An employer hiring a disabled worker gets a bonus, an employer from which a worker becomes disabled is charged a fine (*malus*). Initially, the maximum fine was 5 per cent of the annual wage, in 1994 reduced to 3 per cent.

As of January 1998, the law (PEMBA) provides for premium differentiation by firms, based on the level of benefit expenditures they generate. The maximum premium is four times the average premium (three times for firms with less than 16 employees). Firms may also opt out for the first five years of worker disability: assume responsibility for the benefits, or seek private insurance.

Sickness benefits

Legislation: ZW 1930; Wulbz 1996

Eligibility

Private sector employees unable to work due to sickness

Benefit level

-1985: 80 per cent of wage; in 1984 net benefit limited to net wage (sickness benefit not subject to employee insurance premiums)

1985: 75 per cent, benefit subject to employee insurance premiums

1986-1996: 70 per cent

Duration

maximum duration one year (after which possible qualification for disability). Start at day three of sickness spell. Most collective agreements provide for supplements from day one on to 100 per cent of the wage. Possible insurance of supplementary benefits by Industry Association banned in 1994.

Premium

Premium differentiated by industry (by Industry Association), possibly by risk class; 1993-1996 differentiated by firm (experience rating)

Reform 1994

As of January 1, 1994, employers are liable to pay sickness benefit of 70 per cent of the wage for the first six weeks (two weeks for small employers), coverage of Sickness Insurance is suspended.

Reform 1996: ZW privatized

As of March 1, 1996, employers are held to pay at least 70 per cent of the wage all during the first year of sickness. This implies abolishing the Sickness Insurance for employees. It now only applies to unemployed and some special categories of workers. Premiums are in fact collected jointly with unemployment insurance premium.

4. Reform of administration and supervision

1953-1995

Unemployment (WW), sickness benefits (ZW), disability insurance (WAO) are governed by Industry Associations (bi-partite membership, unions and employer federations). The Industry Associations set the premiums for part of the Unemployment Insurance (for the first stage of a benefit spell) and for Sickness Insurance. Supervision of Industry Associations and general policies are in the hands of the Social Insurance Council (tri-partite membership, with independent members appointed by the Minister of Social Affairs) and a chairman appointed by the Crown (Minister plus Queen).

Reform 1995

The Social Insurance Council is abolished. Tica (Temporary Institute for Coordination) coordinates the policies of the Industry Associations. Tica is governed by unions and employer federations, under an independent chairman. CTSV (Committee for Supervising Social Insurance) supervises the Industry Associations and Tica; its board has three independent members.

The Joint Medical Service (GMD) has also been abolished. It used to do the medical examinations for disability claims. Since then, the examinations are done by the UVIs.

Reform 1997

Tica and Industry Associations abolished. LISV (National Institute for Social Insurance) is responsible for administering Employee Insurances (except insurance for medical expenses, ZFW), for the General Disability Act AAW and for the Supplement Act, TW. Administration is delegated to Executive Institutes (UVIs, organized by sector). A firm was not free to select an Industry Association, and is not free to select a UVI. In 1997, there are five UVIs (GUO for agriculture, CADANS for retail, crafts and health care, SFB for construction, USZO and GAK). In 2000 entry will be open to other UVIs, to promote competition in administrative processing of social insurances. LISV is also responsible for efficiency and for stimulating policies to limit benefit claims. CTSV supervises the administration and management of social insurances (except those for medical expenses, ZFW and AWBZ) and the Supplement Act, TW. This includes supervising LISV.