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Article

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THE DUTCH LABOUR MARKET: GREAT RECESSION – SMALL IMPACT

JAN C. VAN OURS

Introduction

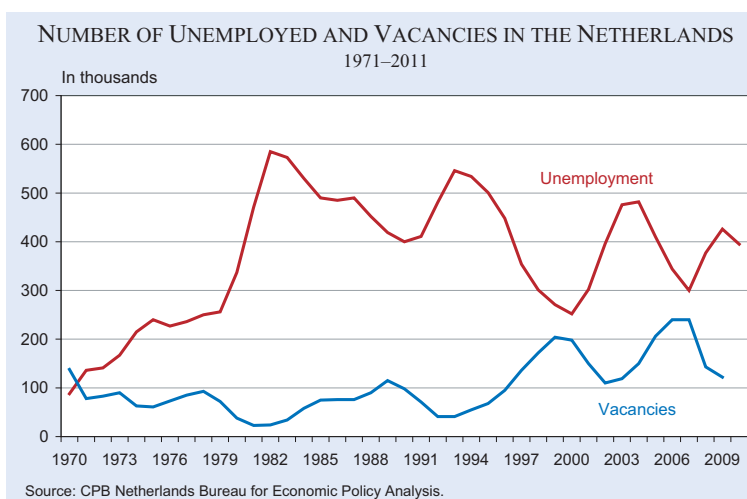
The Netherlands have been an economic role model for various reasons. In the 1970s the Netherlands were famous for the “Dutch disease”, a term that was used to describe a situation in which the exploitation of natural resources (natural gas in the Dutch case) through a process of currency depreciation leads to a decline in the manufacturing sector. In the 1990s there was a “Dutch employment miracle”, a term used to indicate the spectacular growth in employment and decline in unemployment. The Great Recession hit the Dutch economy hard. In 2009 GDP decreased by 3.5 percent. This drop in production was unprecedented. Even in the early 1980s when the Netherlands experienced a big increase in unemployment the drop in production was only 1 to 1.5 percent. Yet, at the start of the Great Recession unemployment rates did not go up substantially. An important explanation for this is labour market tightness shortly before the Great Recession kicked-in. Figure 1 shows the evolution of unemployment and vacancies in the Netherlands over the period 1971–2011.

Clearly, the number of vacancies in 2008 was close to the number of unemployed, which is rare. Except for at the turn of the century this had not occurred since the early 1970s. Rather than reducing their workforce as a response to the

negative production shock, firms started hoarding labour. See for details De Jong (2011), who also shows that the use of temporary shorter working hours only had a mild effect on the unemployment rate of about 0.1 to 0.2 percent.

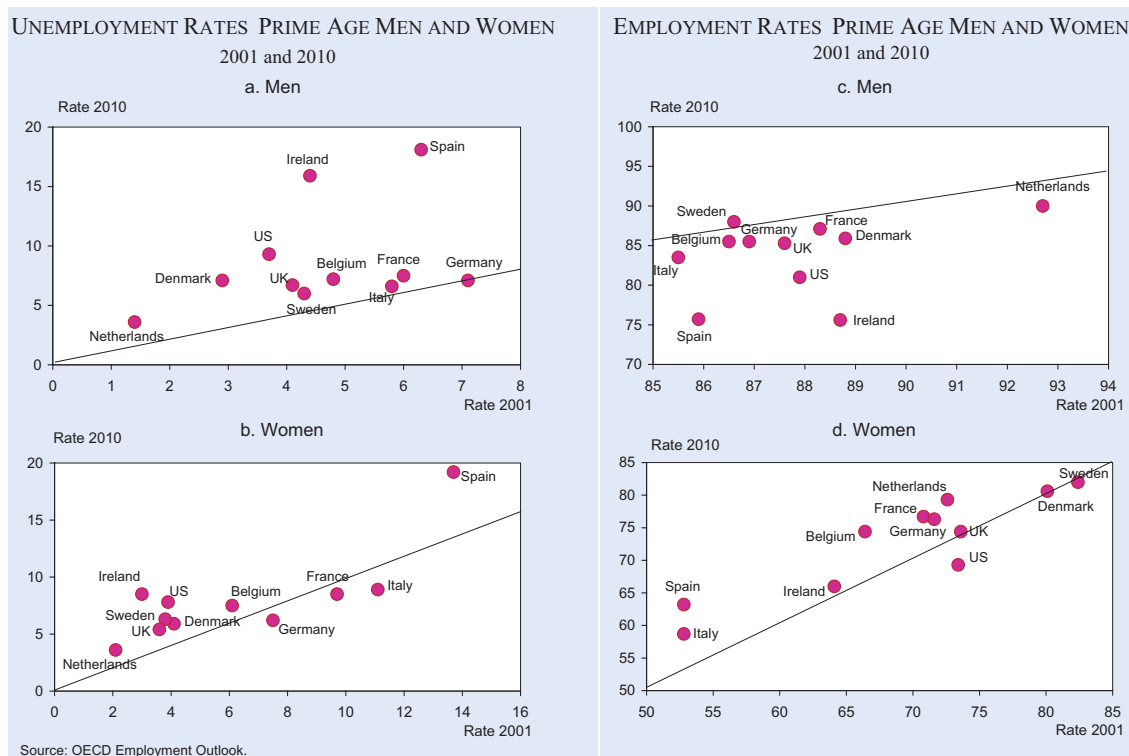
Figure 2 puts labour market developments over the past decade in the Netherlands into an international perspective by comparing the evolution of unemployment rates (unemployment as a percentage of the labour force) and employment rates (employment as a percentage of the population) of prime age workers (age 25 to 54) with those of 10 OECD countries (Belgium, Denmark, France, Germany, Ireland, Italy, Spain, Sweden, UK, US). As shown in Figure 2a, with the exception of Germany, the unemployment rate of prime age men was higher in 2010 than in 2001, although in the Netherlands the unemployment rate was lowest in both years. The same holds for the unemployment rate of prime age women (Figure 2b). Figure 2c shows that in 2001 and 2011 the employment rate of prime age men was higher in the Netherlands than in the other countries considered. The employment rate of prime age women increased in the past decade, with the relative position of the Netherlands improving (Figure 2d). In 2001 employment rates of prime age females in Denmark, Sweden, UK and US were higher than in the Netherlands, while in 2011 only Denmark and Sweden boasted a higher employment rate than the

Figure 1



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Figure 2



Netherlands. At the beginning of the second decade of the 21st century it seems as if the Great Recession has only had a small impact on the labour market performance of the Netherlands. To understand the country's relatively favourable labour market performance it is helpful to go back to the origins of the Dutch employment miracle and consider developments over the past decades in greater detail.

Origins of the Dutch employment miracle

In the mid-1990s unemployment in the Netherlands dropped dramatically. According to Nickell and Van Ours (2000) this was due to a significant reduction in the equilibrium unemployment rate since the early 1980s. Wage moderation, the popularity of part-time work and in particular the re-enforcement of financial incentives for work for unemployed workers collecting benefits were responsible for this decrease.

When the Dutch economy was hit by the second oil crisis at the end of the 1970s, it was confronted with declining employment and rising unemployment. In the course of the 1980s the reform of the welfare state began, initially with changes in benefit levels and later on with institutional reforms that also included the public sector. As a result, public sector

wages and social benefits no longer increased as much as private sector wages. Furthermore, replacement rates in Unemployment Insurance (UI) benefits were reduced from 80 percent to 70 percent of gross wages and the minimum wage, to which the minimum social benefits are linked, was frozen in nominal terms, which reduced the minimum wage from 61 percent of the median wage in 1980 to 47 percent in 2000 (Van Ours 2006a).

In the 1990s, institutional reforms continued: eligibility criteria for social benefits were tightened, the legal definition of the appropriate job was widened in the disability scheme, the government reduced the discretion of decentralized administrations by issuing specific criteria for determining disability and residual earning power, and a program of reassessment of disability claims started in 1994 (Van Ours 2006b). In 1996 a new law on benefit sanctions was introduced in the Netherlands. Under this law people who receive UI benefits saw their benefits reduced if they didn't follow the rules related to benefits (see Abbring, Van den Berg and Van Ours (2005) for a study on the effectiveness of the new law). Furthermore, sickness insurance was privatized and competition in disability insurance was introduced to achieve efficiency gains in the implementation and administration of the insurance. In the early

years of the 21st century institutional reforms continued in the systems of unemployment insurance and disability insurance. Responsibilities for unemployment assistance benefits were decentralized and early retirement schemes were transformed into actuarial fairer schemes.

Over the past decade further changes in the UI benefits were introduced. The maximum duration of unemployment benefits was reduced from 60 to 38 months. The maximum period only applies to people with an employment record of 38 years. Furthermore, the benefit level was raised from 70 percent to 75 percent of the last wage during the first two months of unemployment. After this initial period, benefits are reduced to 70 percent of the previous wage. More stringent entitlement conditions were also introduced. Unemployment Assistance (UA) benefits are part of the system of welfare benefits that are means-tested. For a couple, welfare benefits are 100 percent of the minimum wage; a single parent gets 70 percent of the minimum wage and single persons – from 21 years onwards – are entitled to 50 percent of the minimum wage. For a long time the municipalities could claim a large part of their expenditures on UA benefits from the central government. The new Welfare Act introduced in 2004 changed this. It made municipalities financially responsible for UA benefits and reintegration policies. UA benefit recipients were also subject to a system of monitoring and benefit sanctions (see Van der Klaauw, Van den Berg and Van Ours (2004) for a study on the effectiveness of this system).

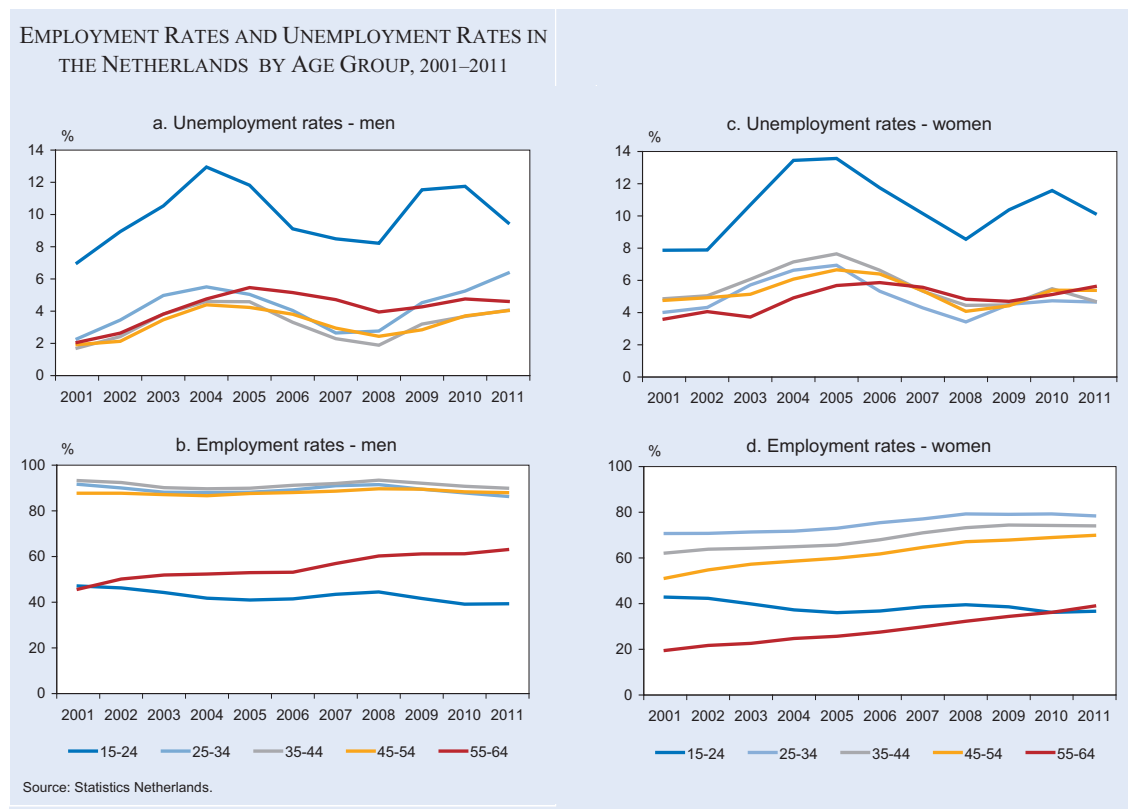
Disability Insurance for employees (WAO) was introduced in 1967. Under the terms of this law workers were insured against wage loss due to long-term disability. From then on if a worker became ill, he was allowed to claim a benefit under the illness scheme for a maximum period of one year. After that period he could claim a disability benefit. Workers were entitled to disability benefits after a so-called disability examination, which consisted not only of a medical examination, but also of an investigation of the labour market position of the worker. A worker could be considered disabled if there was no suitable job for him at his own educational level in his previous occupation. Furthermore, unemployment was “internalized”, which means that those workers who were considered to be partially (more than 15 percent) disabled, could collect full disability benefits because it was assumed that partially disabled were doomed to remain unemployed. The ben-

efit had a maximum of 80 percent of the wage in the last job. Disability benefits could be collected until age 65. Since the introduction of this law the number of workers collecting DI benefits has increased massively. This huge increase in the numbers on disability benefits induced the government to adjust the system several times. In 1985 the maximum replacement rate was reduced from 80 percent to 70 percent. In 1987 there was a major restructuring of the DI benefit system, primarily with the objective to reduce the inflow into disability. The most important change was the abolition of the “internalization of unemployment” rules. Partially disabled workers were considered as such and were expected to find a job or claim unemployment benefits for their remaining work capacity. In the 1990s and the first decade of the 21st century further changes were introduced that aimed to reduce inflow into disability and increase outflow from disability (see De Jong, Lindeboom and Van der Klaauw (2011) for an empirical analysis). In 2006, the government replaced the disability scheme with the Law on Work and Income According to Labour Capacity – WIA. Under this new law entitlement rules are stricter. For example, workers can only apply for WIA after a period of two years of sick leave, which is covered by employers. Workers themselves and their employers are obliged to explore possibilities for reintegration to avoid entering the disability program. Under the new disability law the inflow into disability decreased substantially.

The Dutch labour market of the first decade 21st century

After decades of reforming social security the Dutch labour market was in pretty good shape at the start of the 21st century. Employment rates were high, unemployment rates low. Nevertheless, in the first decade of the 21st century there were clear cyclical fluctuations. Figure 3 shows the evolution of unemployment rates and employment rates in the Netherlands for men and women distinguished by age. From Figure 3a it is clear that there are two peaks in the unemployment rate for men in the first decade of the 21st century, in 2004–05 and towards the end of the decade. At the start of the decade and in 2007–08 the unemployment rates of men were relatively low. The main age distinction is at age 25. Whereas the unemployment rate of men older than 25 fluctuates between two and six percent of the labour force, for young individuals the fluctuation is

Figure 3



between seven and 13 percent. Figure 3c shows that the evolution of the unemployment rates of women are very much the same.

Figure 3b shows the evolution of the employment rates for men distinguished by age category. For prime age men the employment rate is around 90 percent. Employment rates are only substantially lower for younger and older men. For young men there is a clear decline in the employment rate, while for old men there is a strong increase. The increase in the employment rate for older workers is related to the abolition of early retirement programs. Figure 3d shows that for women employment rates increased, except for young women. There are also clear differences in employment levels, with the employment rate for women aged 25 to 34 being the highest. The lower employment rate for women above 34 is more due to a cohort effect than to an age effect. For young individuals the employment rate is below 50 percent, which remains substantially above average. At a young age many individuals are still in education and have not yet entered the labour market. As a percentage of the population, unemployment among young individuals is not much different from that among older workers.

Table 1 provides more detailed information on labour market developments by comparing the situation in 2001 and 2011. The unemployment rates of men increased from 2.5 to 5.2 percent, while for women the increase was from 4.9 to 5.6 percent. The employment rates for men went down slightly from 76.4 to 74.2 percent, while the employment rate for women increased substantially from 51.7 to 60.2 percent. The evolution of unemployment rates and employment rates by age are presented above in Figure 1. As shown in Table 1 there are also significant differences in unemployment levels and trends according to the level of education achieved. Unemployment rates decline with the level of education and the absolute difference in unemployment rates between lower educated and higher educated workers increased in the first decade of the 21st century. The employment rates of higher educated workers are substantially higher than those of less educated workers, and the differential is even bigger for women. One in two men and three out of four women with a basic education do not have a job. The employment rates of men have gone down at every level of educational attainment, while they have increased at every level of educational attainment for women. Finally, Table 1 presents differences in

Table 1

Unemployment rates and employment rates; men and women – 2001–2011

	Unemployment rates (percentage of labour force)				Employment rates (percentage of population age 15-64)			
	Men		Women		Men		Women	
	2001	2011	2001	2011	2001	2011	2001	2011
Total	2.5	5.2	4.9	5.6	76.4	74.2	51.7	60.2
By age								
15-24	7.0	9.5	7.9	10.1	47.1	39.3	42.8	36.6
25-34	2.3	6.4	4.0	4.7	91.6	86.3	70.7	78.4
35-44	1.7	4.1	4.9	4.7	93.2	89.9	62.1	74.0
45-54	1.9	4.0	4.8	5.4	87.7	88.0	51.1	69.9
55-64	2.1	4.6	3.6	5.6	45.7	63.1	19.5	38.9
By education								
Basic	5.1	9.7	8.9	10.4	51.0	50.0	24.2	28.6
Lower	3.1	6.3	6.6	8.6	70.8	62.8	37.8	41.0
Secondary	2.0	5.0	4.2	5.4	80.7	77.1	60.2	64.9
Higher vocational	2.2	3.9	3.8	3.4	87.2	85.0	72.4	78.9
University	2.0	3.9	4.4	4.1	88.7	88.4	81.5	82.1
By immigrant status								
Natives	1.8	3.9	4.4	4.5	79.0	76.5	52.9	62.5
Western immigrants	3.5	6.7	6.3	7.6	73.6	71.4	50.2	58.8
Non-western immigrants	8.1	13.5	9.3	12.5	61.6	60.9	42.4	46.3
of which: Turks	6.6	10.5	10.1	12.3	64.1	65.2	33.2	43.0
Moroccans	6.9	13.4	13.0	12.3	58.9	61.9	32.2	38.3
Surinamese	7.2	11.9	6.9	8.8	66.6	63.7	56.7	59.9
Antilleans (incl. Arubans)	11.2	20.6	7.2	13.7	59.6	53.5	52.5	50.2

Source: Statistics Netherlands.

labour market development according to immigrant status. Unemployment rates among native workers are substantially lower than those among immigrant workers. Especially unemployment rates among Antillean men and non-western women are high. The mirror image holds for employment rates in terms of levels. In terms of trends, however, there are differences. Whereas the employment rates of native men went down from 79 percent in 2001 to 76.5 percent in 2011, the employment rates of Turkish and Moroccan men went up.

Table 2 gives an overview of developments in various social insurance benefits from 2001 to 2011. As a point of reference, between these years average employment rate went up from 64.2 to 67.2 percent, while the average unemployment rate went up from 3.5 to 5.4 percent. As shown, the number of UI benefits went up from 1.6 percent to 2.4 percent of the working age population, while the number of UA benefits hardly changed. As discussed previously in

2004 there was a major change in the system of UA benefits, which made it more difficult to qualify for entitlement and made eligibility stricter. The system of UI benefits was also adjusted at around the same time, but this referred mostly to the maximum benefit duration. Table 2 also provides information on trends in the various types of disability benefits. The reforms of the past decades have caused a big drop in the percentage of the working age population receiving old-style disability benefits (WAO), from 7.3 in 2001 to 4.0 in 2011. This big drop is partly due to the fact that since 2006 new entrants are entitled to the more strict disability benefits under the Work and Income Act. In 2011 1.3 percent of the working age population received this new type of disability benefits. Over the period 2001-2011 there was a small drop in the number of self-employed collecting disability benefits, while there was a big increase in the number of individuals collecting benefits under the Young Disabled Persons Act. About 100,000 individuals are working under the Sheltered

Table 2**Unemployment benefits, disability benefits and sheltered employment (percent of population 15 to 64)**

	2001	2011
Unemployment benefits		
Unemployment insurance benefits	1.6	2.4
Unemployment assistance benefits	3.0	2.9
Total unemployment benefits	4.6	5.3
Disability		
Invalidity Insurance Act (WAO)	7.3	4.0
Work and Income Act (WIA)		1.3
Disability Insurance Self-employed (WAZ)	0.5	0.2
Young Disabled Persons Act (Wajong)	1.2	2.0
Total disability benefits	9.0	7.5
Sheltered Employed (WSW)	0.9	0.9

Note: For new entrants WIA replaced WAO in 2006.

Sources: Statistics Netherlands, UWV (Netherlands Social Security Benefits Administration) and Ministry of Social Affairs and Employment.

Employment Act because they have a physical or mental handicap, but are still able to work in a sheltered environment. This could be in a subsidized firm offering only sheltered employment or in a regular firm where the job is subsidized and adjusted to the capacities of the worker. As shown, 0.9 percent of the working age population had a sheltered job.

Small impact so far – but what's next?

The Great Recession clearly had an impact on the Netherlands, but from an international perspective the impact on the Dutch labour market is small. Average unemployment rates are still low; employment rates are high with a small decline for men, but an on-going increase for women. Unemployment rates among young workers, low-educated workers and non-western immigrants are high, but even for these groups of workers unemployment rates are not much different from average unemployment rates in neighbouring countries. Nevertheless, the current prospects for economic growth in the Netherlands are poor. The drop in unemployment in 2011 is expected to be temporary; and unemployment is expected to rise again in 2012. The government deficit is predicted to be 4.5 percent of GDP in 2013, above the magical 3 percent that is acceptable from an EU perspective. Further labour market reforms will be implemented. In the on-going debate about labour market institutions various policy changes are discussed, some of which are close to being implemented, while other proposals may take more time before.

One of the near-future institutional changes refers to disability benefits and welfare benefits. A new Law “Work according to Ability” will be introduced in 2013. This new law will be implemented by municipalities and will replace the old Unemployment Assistance Law, the Young Disabled Persons Act and the Sheltered Employment Act. The new law intends to increase incentives for long-term and partially disabled workers to seek and accept jobs, for employers to hire these workers and for municipalities to speed up the matching process. Under the entitlement of the old laws, the level and duration of benefits were different, whereas under the new law there are uniform rules. The new law is also stricter than the old laws. For example, partially disabled young workers who under the old law received non-means-tested benefits without any obligation to attend labour market programs will receive means-tested benefits and will be obliged to attend labour market programs under the new law. To stimulate workers, individual-specific wage subsidies will be available. In a more distant future other reforms are likely to occur as well. From an international perspective, Dutch labour market institutions especially stand out in terms of the maximum duration of UI benefits (38 months), which are longer; and in terms of employment protection legislation for regular jobs, which is stricter than in other countries. It is highly probable that the maximum duration of unemployment benefits will be reduced substantially; perhaps to 12 months. The Dutch labour market is flexible through its high share of temporary jobs and flexible contracts. However, there is a great deal of

inflexibility when it comes to regular jobs. Therefore, reforms of employment protection are expected to make the labour market for regular jobs more flexible in the longer term. Now – at the time of writing at the end of March 2012 – the parties in the Dutch coalition government are negotiating how to reduce the government deficit. The outcome of these negotiations is unclear, as is the future of the coalition government.¹

¹ Indeed, the political parties who were supporting the coalition government could not come to an agreement and the government resigned. September 2012 there will be elections and after that negotiations between political parties to form a new government. The outcome of these negotiations will determine which types of labour market reforms will be implemented in the near future. At the moment it is not clear whether the new law "Work according to ability" will indeed be implemented in 2013.

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