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**Working Paper**

## The Dutch employment miracle? A comparison of employment systems in the Netherlands and Germany

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**discussion paper**

**WZB**

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**The Dutch Employment Miracle?**

A comparison of employment systems  
in the Netherlands and Germany

Günther Schmid

in collaboration with Maja Helmer

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## **Abstract**

In the 1980s, the Netherlands had one of the highest unemployment rates in the European Community, Germany one of the lowest. Today, the reverse is true. Is there a Dutch employment miracle? If so, how can it be explained? This essay is an attempt to answer these questions in seven steps. Beginning with the development of an analytical framework within which employment systems are compared, the author measures the performance of the two labour markets and economies, paying particular attention to the role of labour market policy in the process of adapting to structural change. It is shown that the Netherlands has an interesting new configuration in which the advantages of competitive and coordinated capitalism are combined with a modernised form of the welfare state. A key shortcoming of both employment systems remains the hitherto highly passive character of employment redistribution. Transitional labour markets would be a more appropriate strategy for redistributing employment in order to link long-term social needs and economic efficiency. On the whole, however, developments in the Netherlands point much more clearly than those in Germany to a path along which the European model could move.

## **Zusammenfassung**

In den achtziger Jahren war die Arbeitslosenquote in den Niederlanden noch eine der höchsten in der Europäischen Gemeinschaft, und Deutschland hatte eine der niedrigsten Quoten. Heute ist es umgekehrt. Gibt es ein niederländisches Beschäftigungswunder und wie ist es zu erklären? Der folgende Essay versucht, diese Frage in sieben Schritten zu beantworten. Nach der Entwicklung eines analytischen Bezugsrahmens zum Vergleich von Beschäftigungssystemen wird die Performanz der beiden Arbeitsmärkte und Volkswirtschaften gemessen. Besondere Aufmerksamkeit gilt der Rolle der Arbeitsmarktpolitik im Anpassungsprozeß an den Strukturwandel. Der bewertende Vergleich der Beschäftigungssysteme ergibt, daß sich in den Niederlanden eine interessante neue Konfiguration herausbildet, in der die Vorteile des Konkurrenz- und Konkordanzkapitalismus mit einer modernisierten Form des Wohlfahrtsstaats verknüpft werden. Ein zentrales Defizit beider Beschäftigungssysteme bleibt der bisher stark passive Charakter der Arbeitsumverteilung. Übergangsarbeitsmärkte wären eine geeignetere Strategie der Arbeitsumverteilung, um langfristig soziale Belange mit wirtschaftlicher Effizienz zu verbinden. Insgesamt zeigt die Entwicklung in den Niederlanden jedoch deutlicher als in Deutschland in eine Richtung, in die sich das Modell Europa bewegen könnte.

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## **The Dutch Employment Miracle?**

A comparison of employment systems  
in the Netherlands and Germany<sup>1</sup>

The Netherlands are attracting increasing admiration. There are many good reasons why this should be so. However, the one that concerns us here is the country's recent successes in the labour market. In the 1980s, the unemployment rate in the Netherlands was still one of the highest in the European Community, and Germany had one of the lowest. Today, the positions have been reversed. Why is this? Is there such a thing as a Dutch employment miracle? What contribution has labour market policy made to this state of affairs? Can we learn anything from the Netherlands or does the German model, once so highly praised, still retain a certain charm?

The following attempt to answer these questions is divided into seven stages. First, the problems facing modern industrial societies are described and an analytical framework for comparing employment systems developed (section 1). The performance of the two labour markets (section 2) and economies (section 3) is then measured and the role of labour market policy in the process of adjusting to structural change investigated (section 4). Comparative assessment of the two employment systems shows that an interesting new situation is emerging in the Netherlands, in which flexible, high-quality production is combined with labour market mobility and social welfare (section 5). A fundamental shortcoming of both employment systems, however, is the extremely passive nature of employment redistribution; transitional labour markets, in which long-term social considerations could be combined with economic efficiency, would be a more suitable strategy for redistributing employment (section 6). In general terms, however, developments in the Netherlands point more clearly than those in Germany to the direction in which the European model might move (section 7).

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<sup>1</sup> An expanded version of a lecture given at a conference held on 25 October 1996 in Nijmegen, Netherlands to celebrate the fifth anniversary of the founding of the Centrum voor Duitsland-Studies in 1991.

We are grateful to Jacqueline O'Reilly for her detailed comments and suggestions on an earlier draft, and to Christoph Hilbert for his assistance in the calculations for Tables 2 and 3. Thanks are also due to Lei Delsen for providing material on the Netherlands, and to Andrew Wilson for translating the German version of this essay.

# 1 Employment systems in the modernisation process

Employment systems in advanced industrial societies are faced with a dual problem of adjustment: they have, on the one hand, to struggle against the increasingly chill wind of globalisation and, on the other hand, to cope with increased social differentiation and ever greater individualisation. What exactly does this mean?

The oil price shocks of the middle and late 1970s, and the recessions that followed, heralded dramatic changes in the world economy and in international politics.<sup>2</sup> While restrictions on capital flows and financial transactions have been gradually lifted, new technologies, information systems and organisational methods provide the means for the flexible, real-time management and coordination of activities, regardless of geographical boundaries. As a result, there has been an exponential increase in transnational trading, production and financial relationships. A network of some 39,000 multinational companies, with 270,000 foreign subsidiaries, has now spread throughout the entire global economy (UNCTAD 1996). Irrespective of the extent to which prophecies of transnational companies and virtual factories are already a reality and whether or not it is really possible to speak of a single world market, the powerful trend towards **globalisation** is a reality and determines the discourse throughout the world.<sup>3</sup>

Neither economic actors nor national governments can escape this integrative dynamic. Success in world markets requires new economic and political management skills in order to survive in the increasingly tough competitive environment of the global economy. The more mobile capital is and the smaller the differences in competitive factors become, through increasing similarities in infrastructure or the availability of skilled labour, for example, the more impor-

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<sup>2</sup> For example, all controls on the movement of capital were gradually removed from the beginning of the 1970s onwards, in order to underpin the liquidity of the oil-importing economies and to finance government budgets. The deregulation of financial markets that began in the 1970s was intended to extend governments' scope for manoeuvre in adjusting financial policy to deal with the "stagflation" crisis; in the long term, however, the massive increase in capital mobility began to undermine the economic autonomy of nation states. The opening up of capital markets is reflected in various indicators, including the growth in private transnational financial transactions, the ratio of national savings rates to the volume of domestic investment, the removal of restrictions on capital movements and also the growing interdependence of national interest rates (Garrett and Lange 1995). On the liberalisation of capital markets since the 1950s, cf. Helleiner 1989 and Strange 1986.

<sup>3</sup> There is space here for only a few selected references to the literature on the globalisation debate: Albert 1992, Altvater and Mahnkopf 1996, Crouch and Streeck 1995, Dörre 1966, Dunning 1992, Esping-Andersen 1996, Giddens 1995, Ohmae 1996, Ruigrok and van Tulder 1996, Thurow 1996.



tant the remaining differences between employment regimes become. Among other things, but not least of all, these include labour costs, both wage and non-wage. These costs must either tend towards convergence or acquired renewed justification through innovation and consequent differences in productivity. No economy can escape from price competition unless it has a “vanguard” whose innovations can be disseminated to many other firms that are suppliers and customers of the pioneering elite.

However, consideration should also be given to another major trend, one that is usually ignored in the often very ideological debate on international competitiveness, namely increasing social differentiation, possibly even a renewed drive towards individualisation. The associated change in family and demographic structures creates new challenges for the employment systems in modern industrial societies that are at least as dramatic as the changes in the global economy. The historical phases of civilisation, rationalisation and differentiation<sup>4</sup> are now being followed by a new element of modernisation, namely individualisation: individuals are increasingly seeing themselves as the creators of their own, non-collective life plans. This phenomenon has always existed in individual cases. However, the early 1970s saw a significant shift in this direction. It has been possible since then to talk of a phase of **individualisation**, in which a critical mass of separate individual interests, not only of men, but also of women and children, is defined and put into practice not only in the face of the state and the church, of local communities and kin but even of individuals’ families.<sup>5</sup>

The consequences can only be intimated with the aid of a few key terms: an endogenous trend towards increasing female participation in the labour market, rising divorce rates, increasing numbers of single parents and declining birth rates. The process of individualisation is further reinforced by demo-

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<sup>4</sup> **Civilisation** denotes the process of exerting control over the exterior and, above all, the interior nature of human beings as part of the monopolisation of power by the state (Elias 1976). **Rationalisation** denotes, on the one hand, the “demystification of the world”: not the increasing general awareness of the conditions under which one lives but rather the knowledge or the belief “that, in theory at least, **one could control** all things if one only **wanted to**” (Weber 1992 [1917], p. 87; thus the rationalisation of society denotes a belief in the increasing intellectual mastery of living conditions **and** the concomitant trust in or reliance on the appropriate experts. On the other hand, rationalisation also denotes the pluralisation of value systems and the scientific search for the means to put them into practice (Weber 1992 [1917], p. 103). **Differentiation** denotes the defining of various spheres of action and their individual participation in several fields of action (Durkheim 1977).

<sup>5</sup> Cf., among others, Beck 1986, Huinink 1995, van de Loo and van Reijen 1992, Miegel and Wahl 1993, Meyer 1996.

graphic trends. Between the end of the working life and eventual death there is now an increasingly long period of independent living that can be organised according to individual taste. Thus individualisation also denotes a society in which life expectancy is long and increasingly long periods of people's lives can be organised to suit individual wishes. The consequence is a shift in the age structure, which in turn has an effect on the conditions under which the labour market operates. Until now, for every 100 economically active individuals aged between 20 and 60, there were about 35 pensioners; soon there will be 70 or more.<sup>6</sup>

As far as the employment systems of modern industrial societies are concerned, the process of individualisation and longer life expectancy create two major problems. First, the notion of full employment can no longer be sustained: work for all<sup>7</sup>, eight hours per day, five days per week, 46 to 48 weeks per year, 40 to 50 years per individual life, is both outdated and unachievable. Second, the growing number of pensioners, or more precisely the increasing number of older people not burdened by paid work, is becoming a drain on the social security system. The old-age pension system can no longer be financed primarily by those in work (through social security contributions and income tax); other sources of finance or subsistence must be institutionalised.

Employment systems have to adjust to these major trends, and current mass employment can be interpreted as an expression of the inability to adapt to these trends. But what does the ability to adjust consist of? This question, a classic one in comparisons of different systems, will be addressed in what follows.

**Employment systems** are understood here as the set of institutions and policies affecting them that simultaneously determine the level of unemployment and of employment.<sup>8</sup> These institutions act as filters, suggesting certain reactions to external shocks or challenges and more or less excluding other, theoretically possible ones.<sup>9</sup> In turn, employment systems are characterised by the interaction of two subsystems: the production system and the labour market system. It is in the **production system** that decisions on production are taken.

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<sup>6</sup> Cf., among others, Baltes and Mantada 1996, Deutsche Gesellschaft der Vereinten Nationen 1994, Enquete Kommission 1994, Harrison 1994, Hof 1993, Klose 1996.

<sup>7</sup> For ideological reasons, of course, restricted to (usually male) heads of households.

<sup>8</sup> For a more detailed exposition cf. Schmid 1997.

<sup>9</sup> On the significance of institutions cf., among others, Garrett and Lange 1995; North 1991; Schmid et al. 1992; Schmid 1994.

These decisions depend on interest and exchange rates, technological innovations, actual demand and the cost of production factors. Changes in these parameters are determined by actors whose decisions are, in turn, made within a framework of institutionalised rules: by central banks, (Schumpeterian) entrepreneurs, private households, treasury officials, bodies representing various interests and executive authorities. From this point of view, unemployment can be seen as the result of unrealised or uncompetitive production.

Viewed from this angle, the long-term rising trend in unemployment can be readily explained. In the 1970s and 80s, growth rates fell by half in virtually all industrialised countries, with the exception of Japan. Industries with the highest productivity increase are no longer those in which employment is expanding, as was the case in the 1950s and 1960s. On the contrary: in many industries in which employment levels have hitherto been high, the price elasticity of demand is declining because saturation points have been reached. In consequence, investment to serve larger markets is not worthwhile and large numbers of jobs are lost. International price competition worsens the situation, and there is not yet any sign of a new longterm (Kondratief Cycle) economic cycle in which jobs will be created over a sustained period through the application of new information and communications technologies.<sup>10</sup>

Why, however, has Europe's position worsened dramatically in comparison with competitors who are subject to the same trend? Since there is virtually no difference in quantitative rates of growth between the USA and Europe, this is clearly not where the essence of the matter lies. However, there are indications that Europe has a qualitative growth problem. European production systems seem to be less innovative than the American one. In any event, Europe is lagging behind in several new growth areas.<sup>11</sup> Moreover, there are also signs that monetary and financial policy is not sufficiently well coordinated. Money deposits still earn higher returns than real investments, and labour is taxed too highly relative to consumption and wealth.<sup>12</sup> It will not be possible to investigate this side of the employment regime in greater detail here. However, these brief remarks were made because there is a current tendency to focus solely on the labour market in the search for a scapegoat for the desperate employment situation in Europe.

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<sup>10</sup> Cf. Appelbaum and Schettkat 1993; for a somewhat more optimistic view, see Freeman and Soete 1994.

<sup>11</sup> Cf., for example, OECD 1994; Freeman and Soete 1994; Lehner 1996.

<sup>12</sup> Cf., among others, Dornbusch 1994; European Commission 1993.

If we now turn to the other side of the employment regimes, then decisions on employment do not necessarily follow those on production. These decisions are made in the labour market. The rules and incentives that lead to employment decisions constitute what we term the **labour market system**. From this perspective, unemployment can be seen as the result of unrealised or misplaced employment. At least four institutions play a role in such decisions, and all of them interact with each other:

- first, the private **household system**, which offers alternatives to paid employment, shapes cultural attitudes towards work and places constraints on the volume of time available for paid work;
- second, the **industrial relations system**, in which the conflicting interests of the various labour market actors come up against each other and whose rules and power relationships determine, in particular, the level and structure of wages;
- third, the **education system**, which produces general knowledge, learning skills and vocational qualifications and determines the limits of occupational mobility and flexibility;
- fourth, the **social security system**, which affects employment decisions in a variety of different ways: a) through the state as employer, which can offer alternative employment in social spheres outside the market; b) through the largely state-regulated benefit system, which offers alternatives to earned income for workers in certain risk situations (unemployment, sickness, old age); c) through the regulation of certain aspects of the employment relationship, such as dismissal protection, fixed-term contracts and working-time arrangements.

**Labour market policy** can influence employment decisions through all four of these institutional channels: by providing systematic information and advice (job placement); by subsidising wage costs; by eliminating skills shortages; by creating publicly-funded “bridges” into employment or altering the level and duration of benefit payments and, finally, by deregulating or re-regulating employment relationships.

Thus employment systems are very complex institutional arrangements. Their very complexity rules out one-dimensional theories of unemployment; equally, however, they cannot be regarded as an arbitrary conglomeration of possible institutional factors. They usually form a coherent functional framework, in other words, an employment policy configuration or **employment**

**regime**, that has developed over time and has regional and national characteristics. There seems to be something akin to institutional hegemony at work, ensuring that this overall coherence is preserved in the multitude of everyday interactions between individual members of society.

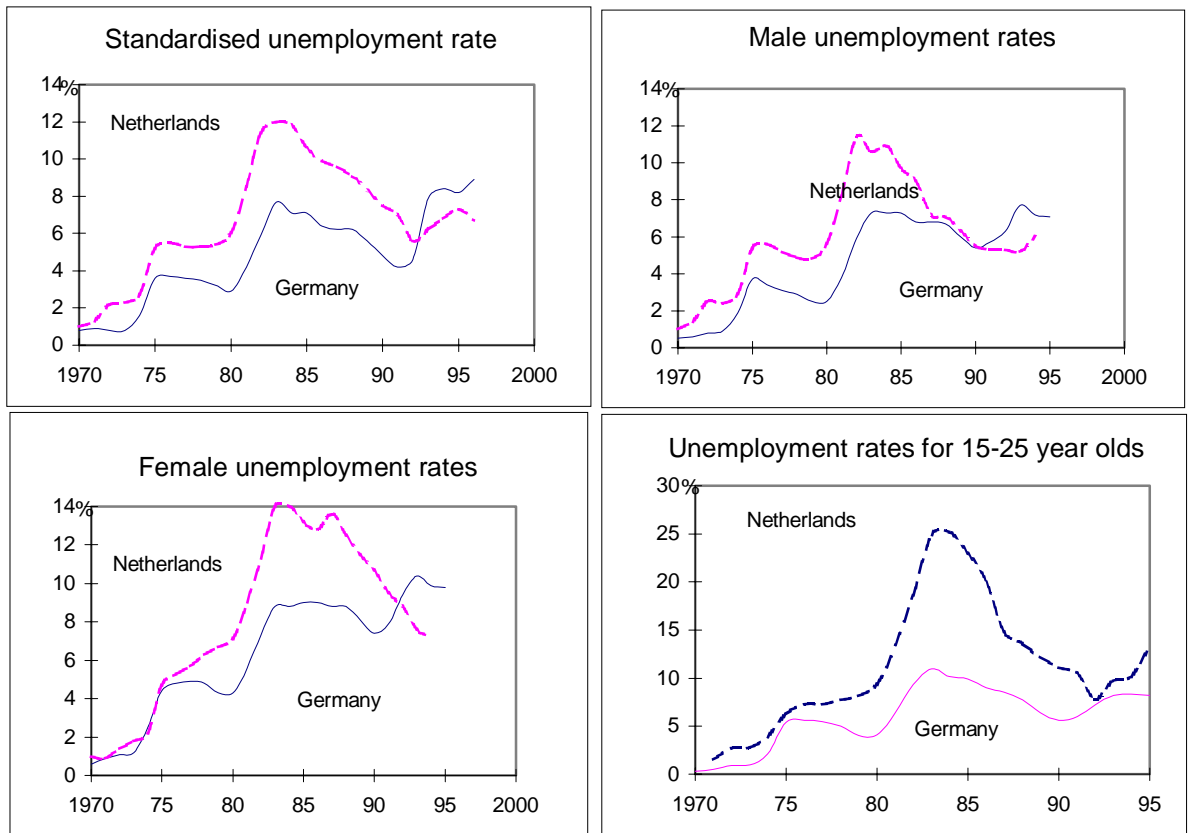
One such configuration, for example, is often referred to as **competitive capitalism**, which denotes the predominance of market mechanisms in decisions on production and employment, as exemplified by the USA. Another is known as **coordinated capitalism**, which refers to the close coordination between state and business in decisions on production and employment that characterises Japan, for example. A third configuration is commonly referred to as **welfare capitalism**, which alludes to the important role played by social security systems in decisions on production and employment in most European countries. The competition that used to exist between capitalism and socialism has now been replaced by competition between these variants of capitalism.

There are considerable differences in this respect within the European Union. Not only are these differences more visible because of the competition between the various regimes, but they are also relevant to the question of whether a new, independent and successful European model will emerge from this competition. Will that model develop more in the direction of the Netherlands or more in that of Germany? Or, expressed in normative terms, what factors are there in favour of the one direction, and what in favour of the other? Let us turn first to the empirical evidence and ask how the two employment systems have reacted to the major trends outlined above.

## **2 Performance of the German and Dutch labour markets**

We shall begin with a few simple indicators of labour market performance. The one that most obviously suggests itself, the **unemployment rate**, has already been mentioned. In 1970, unemployment in both countries was about 1%, a situation of full employment of which we dare not even dream today. The gap then widened to the disadvantage of the Netherlands. The two recessions of 1974/75 and 1980/81 were a considerably greater shock to the Netherlands than to the former West Germany. In the mid-1980s, however - before German unification -, the tables began to turn. The gap began to close, initially among men, then among women as well, and since the beginning of the 1990s, the gap has been widening again, this time to the disadvantage of Germany.

**Figure 1: Unemployment rates in Germany and the Netherlands**



The labour market situation in the Netherlands has improved, particularly for older and younger workers, while unemployment rates among ethnic minorities remain high, and are above the corresponding rates in Germany (Table 1). The deterioration in the labour market situation in Germany has been mainly at the expense of low-skilled and older workers. In both countries, long-term unemployment is high, although the trend is improving in the Netherlands and deteriorating in Germany.

**Table 1: Structure of unemployment in Germany and the Netherlands**

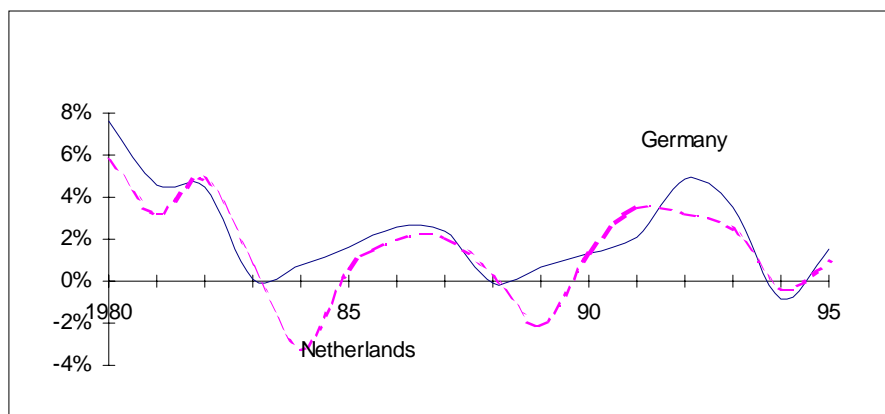
	Germany		Netherlands	
	1983	1995	1983	1995
Overall unemployment rates <sup>1</sup>	7.7	8.2	12.0	6.5
> Older workers (55-64)	8.9	11.6	13.4	3.0
> Young workers (15-24)	11.0	8.5	24.9	12.8
> Women	8.8	9.7	14.0	9.1
> Low-skill workers <sup>2</sup>	11.9	19.7	19.8	15.7
> Foreigners <sup>3</sup>	12.3	16.6	19.3 <sup>b</sup>	18.3 <sup>a</sup>
Long-term unemployed <sup>4</sup>	41.6	48.3	47.8	43.2

<sup>1</sup>standardised, <sup>2</sup>without vocational qualification; <sup>3</sup>ethnic minorities in the Netherlands; <sup>4</sup>share in all unemployed; <sup>a</sup> = 1993, <sup>b</sup> = 1987; <sup>c</sup> = 1991

Source: OECD Employment Outlook, July 1996; Jahrbuch StBA Strukturanalyse

What initiated the turn-round in the Netherlands in the mid-1980s? The first (and often the only) explanation that occurs to economists is wages. It is indeed the case that **unit wage costs** have been rising less rapidly in the Netherlands than in Germany since the middle of the 1980s. However, this does not apply across the board, and in any case the difference has been less marked in the 1990s (Figure 2).

**Figure 2: Annual increase in unit wage costs in %**



Source: OECD Employment Outlook, July 1996.

Thus the key to the Dutch employment miracle cannot be found in pay policy alone. Are there differences in the wage structures? Wage differentials are comparatively low in both countries and have scarcely changed. In Germany, however, there has been an above-average increase in the real wages of low-paid workers. The consequences can be seen in the dispersion of wages in the low-pay sector. Whereas the ratio of the middle(D5) to the lowest decile (D1) in the Netherlands has remained more or less constant at 1.55, it fell in the former Federal Republic from 1.65 to 1.44 between 1983 and 1993.<sup>13</sup> In the light of these wage structures, neo-classical economists would again ask: does this not have negative consequences for **employment**?

This is clearly not the case in the Netherlands, at least not at first sight. Between 1971 and 1991, the number of employees rose from 4.8 to 6.5 million, or by no less than 36%. Even in the USA, the rise was lower (33%), and in West Germany during the same period, the employment level rose by only 8% (IAB 1994). The Dutch employment miracle is also reflected in the high level of **employment elasticity**. Between 1974 and 1995, one percentage point of economic growth in the Netherlands produced an increase in employment of 0.41%; the corresponding figure for the USA was 0.75%, but for West Germany it was only 0.23%.

However, more detailed analysis reveals a somewhat different picture. By far the greatest share of the Dutch job miracle is attributable to the creation of **part-time jobs**. No other OECD country currently has such a high level of part-time employment as the Netherlands. Over a period of 25 years, and particularly in the 1980s, the overall rate of part-time work rose from about 5 to 35%, and for women from 15 to no less than 65%. The rise in part-time work in Germany was considerably lower, and has now reached an overall level of 18%; the figure for women is about 33%, that for men only 3.3%.

Further illuminating information can be gleaned from a comparison of participation and employment rates. **Participation rates** among men have run parallel to each other at more or less the same level; the trend is downwards. However, participation rates among women in Holland used to lag far behind those in Germany, which are themselves low by international standards. As can be seen from the statistics, Dutch women have now caught up with, but not overtaken, their German counterparts. The same applies to **employment rates**.

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<sup>13</sup> Wage dispersion in the low-pay sector fell particularly sharply among women; among men, the fall was only slight (cf. OECD 1996b, Table 3.1, pp. 61-2).



Four positive aspects of the Dutch employment miracle are worthy of particular note. The vast majority of part-time work is voluntary and clearly reflects the preferences of the employees concerned. Two thirds of part-timers have high levels of education, which would suggest that most part-time jobs make high demands of those holding them. Part-timers in the Netherlands also enjoy better social security cover than those in Germany, since the entitlement thresholds have been reduced.<sup>14</sup> Finally, 17% of men are in part-time employment, compared with an EU15 average of only 5%, which is indicative of a highly developed sense of equality in the Netherlands, which seems to have deep historical roots.<sup>15</sup>

On the other hand, the high share of people working short hours seems to be a cause for concern: 35% of part-timers in the Netherlands (43% of men, and 32% of women) work fewer than 10 hours per week. The corresponding figures for Germany are 29% of male and 17% of female part-timers. Because of the low working hours, and the low wages that must be associated with them, most of these workers are presumably people who derive their subsistence from other sources. The proportion of involuntary part-timers is three times as high as in the Federal Republic: 5.5% of people currently working part time would prefer a full-time job. Another cause for concern is the restricted legal protection enjoyed by those working short hours (Delsen 1993, 1995). It is true that this enables firms to react to fluctuations in demands by hiring and firing those on short-hours contracts, but equally, it could hinder the sustainable integration of young people, female returners or workers on fixed-term contracts into the regular labour market.

However, deregulation of this kind can also lead to higher turnover rates, thereby increasing the chances of integration for those workers with a competitive advantage in the labour market. The balance can be determined only by detailed studies of work histories and income distribution. Thus a recent study found that 50% of those in “flexible jobs” in 1988 (fixed-term

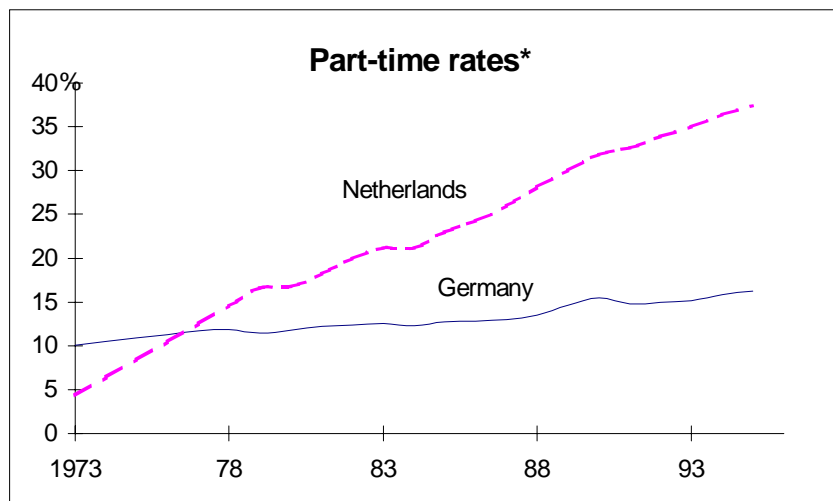
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<sup>14</sup> Cf. den Broeder 1995, p. 301, and the bibliographical references listed there.

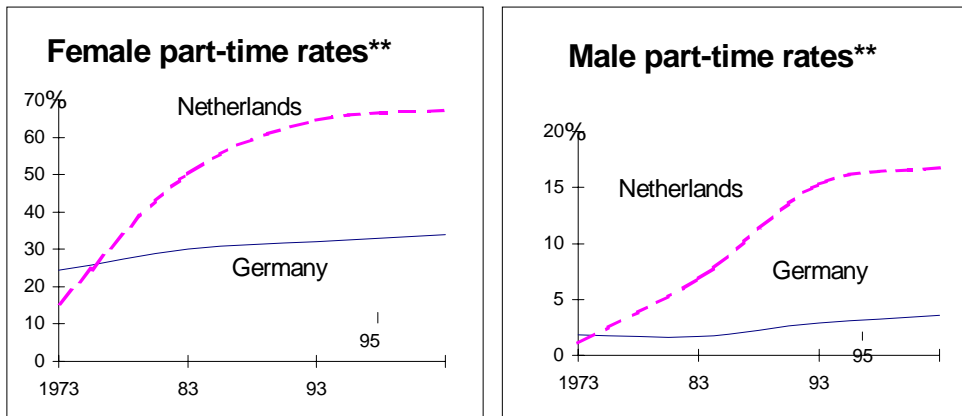
<sup>15</sup> Unfortunately, I cannot go into this in greater detail here, although it would be very tempting to do so. However, the following cheering quotation, taken from a government document intended to initiate visitors to the Netherlands into the Dutch way of life, may provide further support for this thesis of cultural difference: “Great attempts were made in the Republic to create greater equality between the sexes. The contemporary fashion of sitting men and women alternately at the dining table originated in the Netherlands in the seventeenth century. ... In England at that time, wife-beating was still a popular sport; but it was different in the Netherlands ... [and] the Dutch were one of the first nations to provide commercial education for both boys and girls ... which ... was one of the main reasons for their great success as a trading nation” (Huggett 1982, 57-9).

contracts, temporary work, short hours) were in “regular employment” three years later. On the other hand, only 4.5% of those in “regular jobs” had been in non-standard employment three years earlier. The Netherlands have the highest rate of part-time work among young people in Europe (25%) which would suggest that entry into the labour market is commonly effected through part-time jobs (Muffels et al. 1996).

**Figure 3: Part-time rates in Germany and the Netherlands**



\*Share of part-time employment in total employment

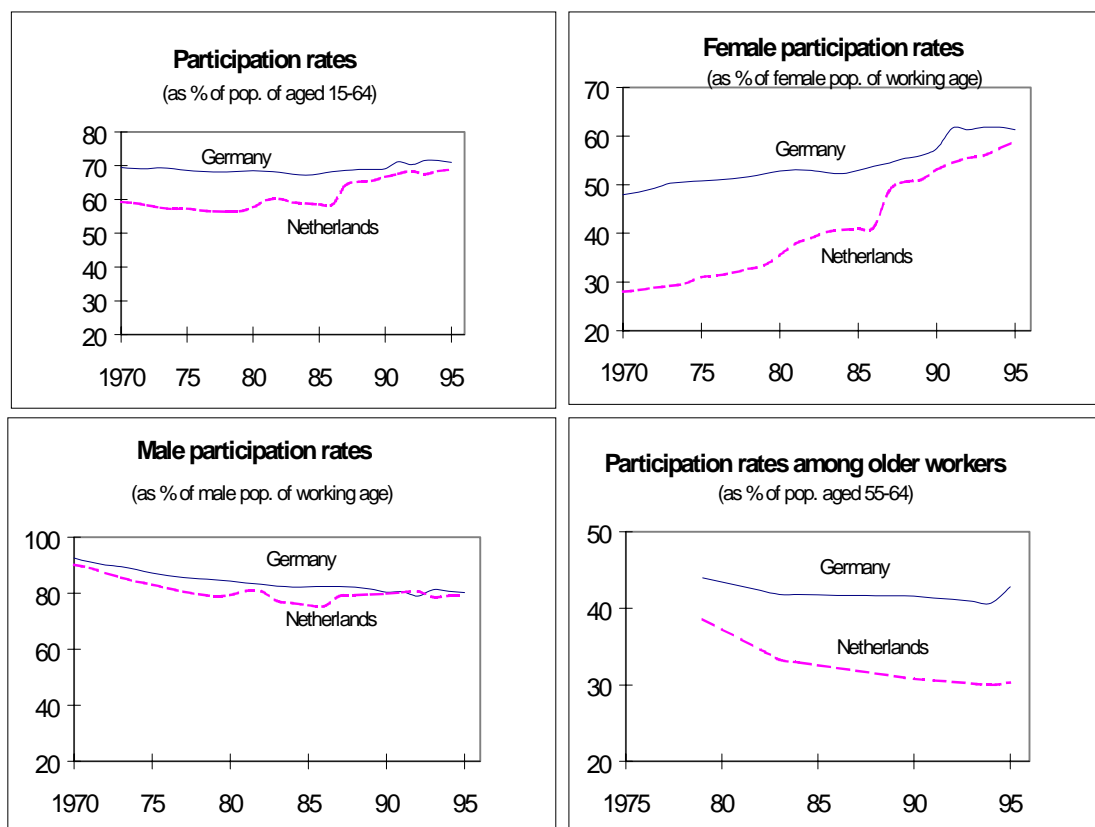


\*\*Percentage share of female/male part-timers in all female/male employees

Source: OECD Employment Outlook, July 1996

Admiration for the Dutch job miracle is further diminished by the knowledge that the volume of work declined in the 1980s, despite the growth in the number of people in work, and did not return to the 1970 level until 1993. Rising numbers of people in work with static or even declining volumes of work can mean only one thing: there has been a massive redistribution of work, with a corresponding redistribution of earnings. We will return later to the question of how such a redistribution of work is to be judged in economic terms.

**Figure 4: Participation rates in Germany and the Netherlands**



Source: OECD Employment Outlook, July 1996

However, part-time work (in newly created jobs) is only one of the elements in the Dutch model of employment redistribution. The second element is (or was) the early retirement of large numbers of older or handicapped workers. As a result, employment rates among older people in the Netherlands are the lowest in the world (see Figure 4). If all forms of exclusion from the labour market, together with participation in labour market programmes and highly subsidised types of employment, are added together, the result is the so-called “broad unemployment rate”. The latest OECD report on the Netherlands puts this at 27.1%, an order of magnitude that brings the Netherlands close in this respect

to Eastern Germany. However, the exclusion strategy has also been adopted in Germany, albeit in a moderated form, and the “broad unemployment rate” in Germany, at about 22%, is considerably lower (see Figure 5), despite the greater numbers involved in active labour market policy measures (cf. below).

Sceptics may object that such a strategy impairs economic efficiency and competitiveness. Whether such scepticism is justified will be examined in the next section.

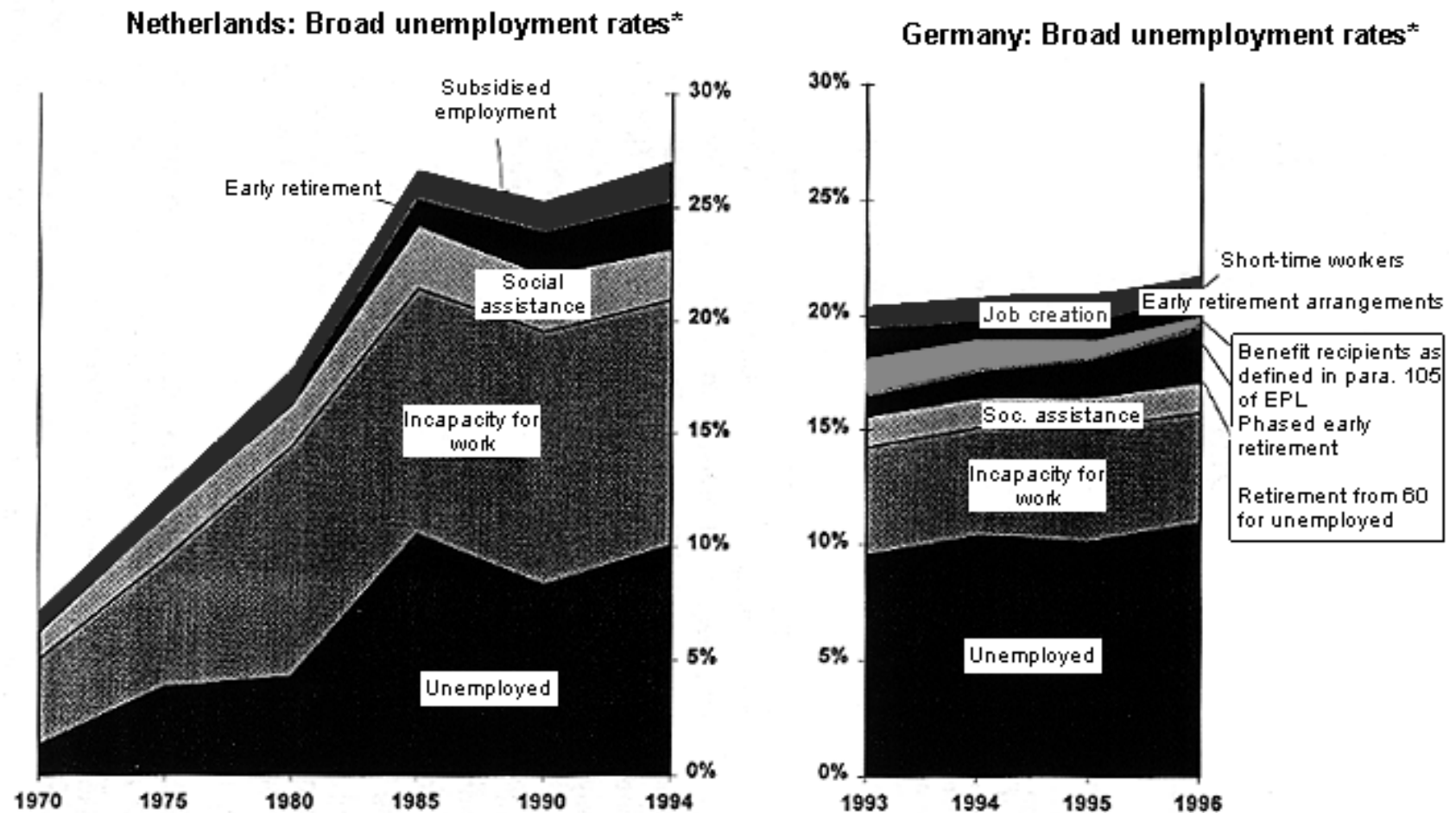
### **3 The macroeconomic performance of the German and Dutch employment systems**

The economic effect of the institutional economic filters can be seen in the level and dynamic of national income and in the contribution of the individual components that make up value added. **Disaggregation** of the various components of per capita GNP into separate figures for labour productivity, working hours per person employed and participation rate is well suited to the purpose. Whereas labour productivity can be used as an indicator of labour market efficiency, working time per person employed will serve as an indicator not only of the degree of employment and income redistribution but also of individual control of time management and flexibility; the participation rate, for its part, serves as an indicator of the degree of social integration.

Table 2 shows that, measured in terms of GNP per capita (in purchasing power parity terms), the USA enjoyed the highest level of economic well-being, followed by Japan and Germany and with the Netherlands trailing all three countries in this respect. Whether national income per capita is still the right criterion for measuring economic well-being is another question, to which we shall return at the end.

As far as the **indicator of efficiency** (i.e. hourly productivity) is concerned, however, the rank order is quite different. The Netherlands and (by some distance) Germany head the table, followed by the USA and Japan. The Netherlands also leads the pack when it comes to the indicator of **employment redistribution** and **individual control of time management**: the Dutch have the lowest average working time per person employed, followed by Germany, with Japan and, surprisingly, the USA, bringing up the rear.

Figure 5: Broad unemployment rates in Germany and the Netherlands



\*% of economically active pop., f-t. equivalents

Source: OECD LabourForce Survey Netherlands 94; StJB 96; VDR; IAB-Kurzberichte; Arbeit+Beruf 2/96; G. Schmid, 1996(b)

**Table 2: Disaggregation of GDP per capita (GDP/POP) into indicators of efficiency, employment redistribution and integration (1994 and in ecus)**

	GDP/POP	=	GDP/h	*	h/E	*	E/POP
USA	19,364	=	21.09	*	1,945	*	0.47
Japan	15,735	=	16.07	*	1,898	*	0.52
D	14,933	=	21.50	*	1,575	*	0.44
NL	14,109	=	23.43	*	1,397	*	0.43

GDP/POP = Gross domestic product per capita; h = actual hours worked per year (i.e. the volume of work); E = economically active employed person; h/E = actual hours worked per year per person; E/POP = employed persons/total population (i.e. employment participation rate). Source: Own calculations; data on GDP from OECD 1996c (Basic Statistics, International Comparison) and conversion of data given there in US \$ into ECU at a rate of 0.759; data on hours worked from OECD 1996a (Table C, S. 190); data on economically active population from OECD 1996c (Basic Statistics, Total Civilian Employment); population data ditto.

It will be no great surprise, finally, that the rank order for the indicator of the degree of **social integration** in the labour market is different again. Japan has the highest degree of integration, followed by the USA, with the Netherlands trailing behind Germany. This breakdown of GNP into its various components reveals more clearly the reason why the Netherlands has a relatively low GNP per capita, despite having the highest ranking for efficiency. It is due mainly to the low level of employment, which is the result of the early retirement strategy that has been pursued over a long period and has not been fully redressed even by the creation of large numbers of part-time jobs. If the Dutch are to stick to the strategy of redistributing work and reducing average working time (over the working life), then ways have to be sought of raising the general employment level further. Germany is faced with a similar problem, although with a somewhat different emphasis: there is still scope for a further redistribution of work in the interests of job creation, and the degree of labour market integration could also be improved.

However, before we bid a premature farewell to the Dutch model, we should take a quick look at the dynamic of economic well-being. Has the dynamic of growth in the Netherlands deteriorated in relative terms as a result of the massive redistribution of work and income, as the received wisdom of neoclassical economists and of classical Keynesians would lead us to

suppose? Far from it. A breakdown of annual average rates of growth in per capita GNP between 1983 and 1994 into separate figures for labour productivity, work redistribution and labour market integration produces the following picture (Table 3):

**Table 3: Disaggregation of economic growth into indicators of efficiency, employment redistribution and integration (1983-94)**

Annual average growth rates							
	$\Delta\text{GDP/POP}$	$=$	$\Delta\text{GDP/h}$	$+$	$\Delta\text{h/E}$	$+$	$\Delta\text{E/POP}$
USA	2.0		0.8		0.3		0.9
Japan	3.0		3.2		- 0.9		0.7
D (West)	1.8		0.3		- 0.9		2.4
NL	2.0		0.8		- 0.8		2.1

Source: OECD Employment Outlook; OECD National Account, OECD Economic Outlook; Statistisches Jahrbuch; UN Demographic Yearbook; own calculations. Because of "noise" in the basic data and rounding errors caused by failure to extend decimal places to the full, the sum of the various components does not always produce the exact figure for GDP/POP.

A breakdown of the increase in national income per capital over the last decade reveals an astonishing picture. The dynamic of growth in the Netherlands is the same as in the USA, while West Germany actually comes out slightly worse. Only Japan performed better. The relatively low rate of growth in the (former) Federal Republic is probably attributable to the enormous transfer payments made to the new *Länder* of former East Germany in the years following unification.

However, the composition of this growth differs widely from country to country. Just about half of the growth in the USA is derived from labour productivity and from the increase in labour market participation. If the increase in average working time per person employed is taken into account, then the employment regime in the USA can be described as one of extensive growth. Japan, on the other hand, is the high-productivity regime par excellence: labour productivity exceeds growth, and the relative employment rate could be increased only by reducing individual working time (albeit from a very high starting level).

What is surprising is the extent of the contribution made by the integration factor in Germany and in the Netherlands. At first sight, this result completely contradicts what might have been expected on the basis of other indicators, which suggest that exclusion is rising and that economic growth is producing little in the way of new jobs. However, the contradiction is resolved if account is taken of the drastic reduction in individual working time relative to growth. True, this has reduced potential growth by almost 50%, but the effect in both cases on job creation and work redistribution has clearly been positive. In the Netherlands, this effect was achieved by the creation of part-time jobs and the early retirement policy, as already outlined above; in Germany, it was achieved largely by reducing weekly working time and through early retirement programmes.<sup>16</sup>

If it is assumed that the early retirement policy can no longer be sustained and that considerable scope for a policy of employment redistribution through increased part-time working still exists only in Germany, then the question to be answered is what policy is capable of encouraging employment-intensive growth.<sup>17</sup> It should not be forgotten (cf. section 1) that the employment level depends primarily on decisions taken in the production system, i.e. on monetary and financial policy and on the extent to which structural policy is conducive to innovation. However, it is labour market institutions - the private household, education, industrial relations and social security systems - that determine whether production decisions are converted into jobs. Labour market policy is an important intermediary factor, having a catalytic and coordinating function in improving the interfaces between the various labour market institutions. So we shall pursue our comparative study and investigate the role of labour market policy in the Dutch and German employment systems.

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<sup>16</sup> Furthermore, the growth in employment in the USA is due, to a much greater extent than in the Netherlands or in Germany, to the increase in the population of working age. In other words, the American jobs miracle has less to do with the soundness of the employment regime than with demographics: 75 to 80% of the growth in employment can be explained by the increase in the number of people of working age (Houseman 1995). It may be that the declining ratio of the population of working age to total population in the USA further relieved the strain on the labour market (1983: 66.3; 1994: 65.2), whereas the same ratio increased slightly in Germany and the Netherlands, and is considerably higher than in the USA (West Germany 1983: 69; 1994: 67.2; Netherlands 1983: 67.5; 1994: 68.6)

<sup>17</sup> There is still scope in the Netherlands for a redistribution of employment between men and women, although this would of course be employment neutral in overall terms.



## 4 Labour market policy in Germany and in the Netherlands

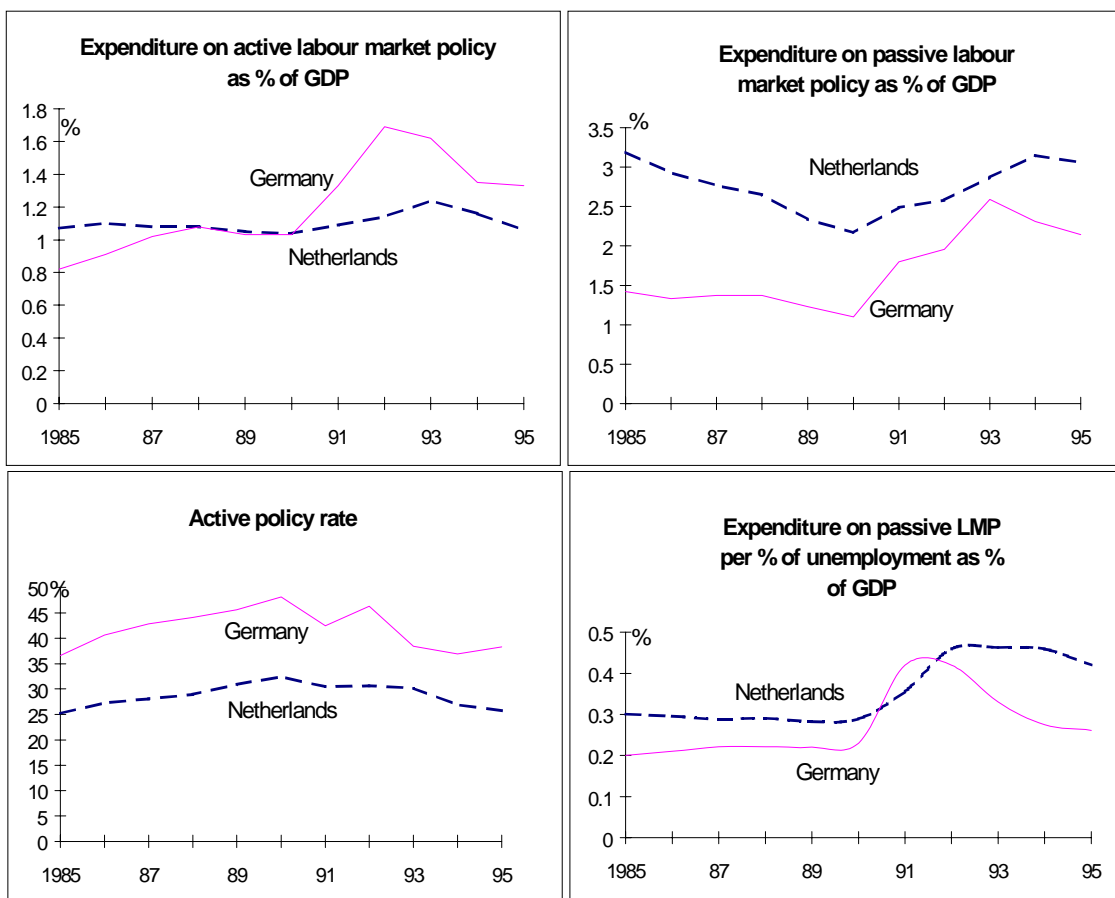
Despite lower unemployment, the Netherlands spend a higher share of GDP on **passive labour market policy** than Germany in 1995; this was true in absolute as well as in relative terms. Whereas the Dutch spent a good 3% of GDP on providing for the unemployed, the corresponding figure in Germany was “only” 2%. In other words, for each unemployed person, the Dutch pay out an average of 19,329 ECUs per year, compared with “only” 12,057 ECUs in Germany (Figure 6).

Thus the social security provision for unemployed people in the Netherlands is considerably more generous than in Germany. This can also be seen in the wage replacement rates. The wage replacement rate (before tax) in the Netherlands for a single person on average pay is 70% in the first month of unemployment, compared with 37% in Germany. The net wage replacement rate (after tax, including transfer payments) is 77% for a married couple without children, compared with 60% in Germany; the corresponding figures for a married couple with two children are 84 and 78%. Even the maximum period of entitlement, which mainly applies only to older employees with a long employment history, is considerably longer in the Netherlands than in Germany - 54 months compared with 32. Once the period of entitlement has expired, unemployment benefit is replaced by means-tested unemployment or social assistance. In the case of a person who has been unemployed for 60 months, who is entitled to claim, who is married and also has two children, the net wage replacement rate in the Netherlands is still 80%, compared with 71% in Germany; these figures are even higher for low-earners.<sup>18</sup>

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<sup>18</sup> All figures taken from OECD 1996a, Table 2.1, pp. 31-32.

**Figure 6: Expenditure on labour market policy in Germany and the Netherlands**



\* Active policy rate = Share of expenditure on active labour market policy in total expenditure on labour market policy  
 Source: OECD Employment Outlook, July 1996.

On the other hand, **active labour market policy** has a higher profile in Germany than in the Netherlands. In 1995, Germany spent a total of 1.33% of GDP on employment promotion measures, the Netherlands “only” 1.06%. However, activity in this area in Germany is still distorted by the extraordinary situation in Eastern Germany, where an above-average number of programmes are still running, since there is virtually no other alternative to high unemployment. The structure of the measures is also very different. The main focus in Germany is on further training and job creation programmes, while 50% of expenditure in the Netherlands goes on employment promotion schemes for handicapped people. One striking difference is in the use of labour market policy as an instrument for smoothing out cyclical fluctuations in demand: short-time allowances play a considerably smaller role in the Netherlands than in Germany. And the option of using the short-time allowance for structural adjustments, introduced in Germany at the beginning of the 1990s, is not available in the Netherlands (den Broeder 1995). It is also

noticeable that no expenditure on occupational rehabilitation is listed in the Netherlands, whereas it plays an important role in Germany. Finally, German labour market policy seeks, to a greater extent than in the Netherlands, to place unemployed people in regular employment in the private sector by subsidising wage costs or providing support for those setting up their own businesses (Table 4).

**Table 4: Expenditure on (as % of GDP) and participants in (as % of total labour force) in labour market policy measures in 1992 and 1995**

	Germany		Netherlands	
	1992	1995	1992	1995
<b>Expenditure on passive LMP</b>	<b>1.96</b>	<b>2.14</b>	<b>2.58</b>	<b>3.06</b>
<b>Expenditure on active LMP</b>	<b>1.69</b>	<b>1.33</b>	<b>1.14</b>	<b>1.06</b>
> Employment service	0.24	0.23	0.16	0.17
> Training and further training	0.65	0.38	0.23	0.16
> Youth programmes	0.06	0.06	0.06	0.09
> Wage cost subsidies	0.07	0.07	0.03	0.01
> Business start-ups	-	0.02	-	-
> Job creation schemes	0.43	0.31	0.05	0.09
> Occupational rehabilitation	0.14	0.13	-	-
> Programmes for the disabled	0.11	0.13	0.61	0.54
<b>Entries into</b>	<b>6.3</b>	<b>4.2</b>	<b>2.9</b>	<b>2.5</b>
> Training and further training	4.1	2.0	1.6	1.2
> Youth programmes	0.6	0.7	0.8	0.7
> Subsidised employment	0.2	0.2	0.2	0.2
> New business start-ups	0.1	0.2	-	-
> Job creation schemes	1.0	0.9	0.2	0.2
> Occupational rehabilitation	0.3	0.3	-	-
> Workshops for the disabled	n.d.	n.d.	0.1	0.2

Source: OECD Employment Outlook 1996, Table T.

The structure of expenditure is reflected in the numbers of **participants in labour market programmes**: in 1995, 4.2% of the economically active population in Germany was involved in such programmes, almost twice as many as in the Netherlands (2.5%). Once again, however, this difference is largely a result of the extraordinary situation in the new *Länder* of Eastern

Germany. The greatest differences are in the further training and job creation programmes that were initially more part of social than of labour market policy in Eastern Germany. These differences are diminishing over time, as a result both of cuts in funding and the gradual process of normalisation taking place in Germany. It also seems that the resources allowed per person are used more effectively in the Netherlands than in Germany.<sup>19</sup> It is noticeable, however, that the Netherlands devotes considerably fewer resources to wage-cost subsidies but succeeds in returning as many people to the regular labour market as Germany.

The **active policy rate**, which measures the share of expenditure on active labour market policy in the total labour market budget, is correspondingly lower in the Netherlands than in Germany; only about a quarter of the Dutch budget is devoted to employment promotion measures, compared with a good third in Germany. These shares have remained virtually unchanged over the past ten years. What is to be concluded from this?

First, a high active policy rate is better than a low one, provided that the outcomes of the employment promotion programmes thus financed are not wholly negative. Even if the marginal productivity of German labour market policy is declining, most programmes can still be given a positive assessment. This applies at least to a high proportion of the further-training programmes, to the assistance given to unemployed people seeking to establish their own businesses, to the short-time allowance and to the wage subsidies that form part of structural policy.<sup>20</sup> In these respect, the Netherlands have something to learn from Germany. This is particularly true in the sphere of training, which is where the gap between Dutch and German labour market policy is greatest in quantitative terms. This statement is supported by a comparative analysis of human capital supplies, which reveals the Netherlands' relative disadvantage compared with Germany in the sphere of medium-level skills (de Jager 1995).

On the other hand, Germany can learn something from the modernisation of the Dutch employment service. Of particular interest here is the placement service for the long-term unemployed, who under normal conditions have virtually no chance of finding employment again. Some new ideas have

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<sup>19</sup> Comparison of the annual average numbers of participants has not been possible to date, although it would be essential for any attempt to make a rough comparison of cost-effectiveness. For more detailed comparisons, the rate of success in placing participants in permanent work would also have to be taken into account; unfortunately, there are no data on this either.

<sup>20</sup> On the evaluation of German labour market policy, cf., among others, Arbeitskreis 1994; Bach et al. 1993; Blaschke and Nagel 1995; Schmid and Schömann 1994, Schmid et al. 1996.

already been introduced, for example the START and MAATWERK concepts.<sup>21</sup> Other forward-looking measures include cooperation agreements between employment offices and key actors at regional level, and attempts to allocate resources to programmes with a proven record of success.<sup>22</sup> However, the low level of active labour market policy measures in both countries would suggest that there are still considerable untapped resources that could be used for productive employment promotion measures. We shall return to this question later.

It is now time to take stock provisionally. As far as unemployment is concerned, the situation in the Netherlands is more favourable than that in Germany, and the gap is currently widening to the further disadvantage of Germany. As far as the structure of unemployment is concerned, both countries still face the unresolved problem of long-term unemployment, although the situation in the Netherlands seems to be easing slowly, while that in Germany is deteriorating at the same time as the number of people unemployed continues to rise. On the other hand, the position of the young unemployed and of ethnic minorities is more serious in the Netherlands than in Germany, where it is older workers, and those with few skills, who are increasingly threatened by permanent exclusion from the labour market.

As far as employment growth is concerned, however, the Netherlands is the undisputed European champion. This success is the result of an aggressive strategy of employment and income redistribution, which has involved the trade unions and been supported by a rigorous policy of wage moderation. Despite this, hourly productivity in the Netherlands is one of the highest in the world. In international terms, Germany is also a high-productivity country, although to a lesser extent than the Netherlands. However, this

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<sup>21</sup> START is the name given to non-profit-making employment agencies whose main task is to find work for the long-term unemployed who are otherwise difficult to place. This model, Dutch in origin, is currently being adapted for use throughout the German *Land* of North Rhine-Westphalia; cf. Weinkopf 1996. MAATWERK, which literally means "tailor-made work", is now also being tested in Hamburg, for example. Employment agencies located in the immediate vicinity of benefit offices send applicants capable of work immediately to "Maatwerk" as well, on the assumption that a high proportion of vacancies (estimated at about 70% in the Netherlands) are neither notified to employment offices nor advertised in the press. Such vacancies are tracked down by contacting employers directly. If a benefit recipient stays in the new job for longer than six months, the benefit office pays Maatwerk 4000 DM per person placed in work. The department of social security in Hamburg estimates that, for every 300 claimants placed in work in this way, savings of 3.8 million DM can be made in the benefits budget. This model is also attractive for the long-term unemployed.

<sup>22</sup> For an assessment of Dutch labour market policy cf. Dercksen and de Koning 1996; Moraal 1994; Schmid 1995.

performance indicator should be interpreted with caution in both countries, since in part it merely reflects the extremely low average working times and the low degree of social integration in the labour market.

The Dutch success in this field is also tarnished by the high number of precarious part-time jobs involving short hours. And despite the jobs miracle, the employment level in the Netherlands is not (yet) anything to write home about, and has just about reached the level in Germany. Even in Germany, however, the potential for employment (unemployment aside) is far from fully exploited in international terms.

Whereas German labour market policy has used short-time working (coupled in part with further training), occupational rehabilitation, wage subsidies and further vocational training to provide considerable and, for the most part, successful support for the process of adjustment to structural change, Dutch labour market policy is still to a large extent rooted in passive social security. The target groups for active labour market policy measures in the Netherlands tend to be the most needy; basically all that is provided for the “average” unemployed person is a placement service.

To what are these differences to be attributed? The answer is to be found in the labour market institutions outlined at the beginning. The next section focuses on the interaction between industrial relations, social security and labour market policy, which is of decisive importance in converting decisions taken in the productive system into employment.<sup>23</sup>

## **5 Employment systems in comparative perspective**

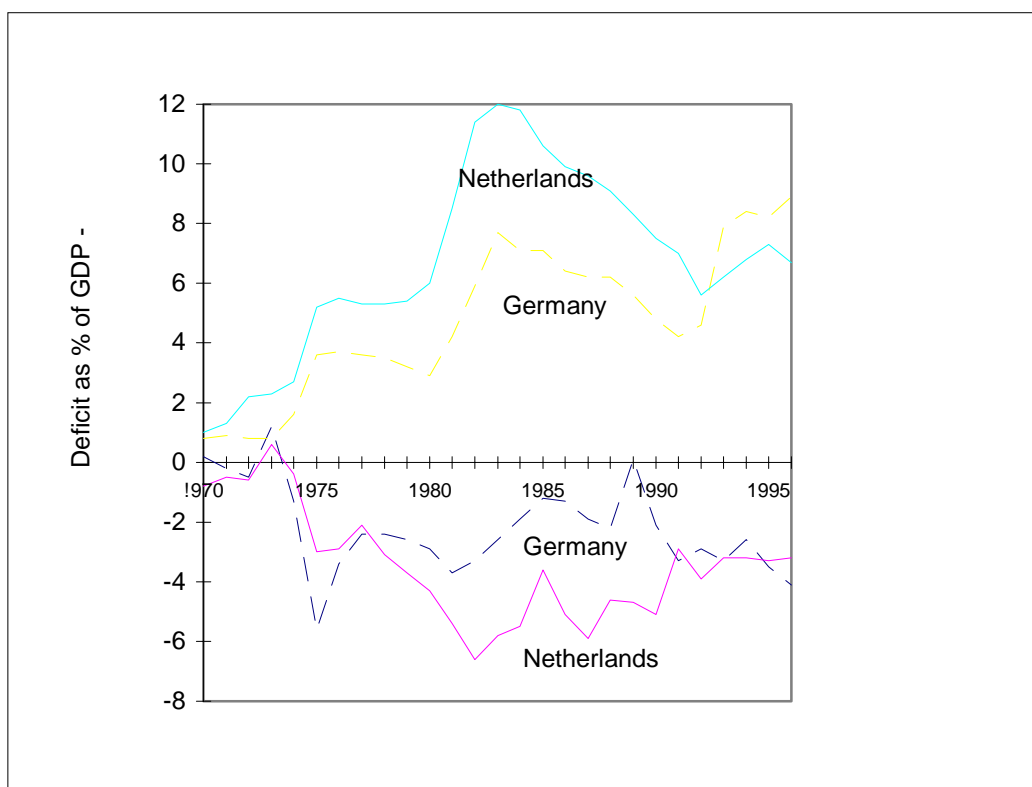
The starting point for such a comparison is not uninfluenced by the fact that the Netherlands is an extremely open economy, one that is becoming ever more open and is more dependent than virtually any other country in the world on its ability to compete in international trade. Exports of goods and services accounted for 51% of GDP in 1994, compared with 43% in 1970; the corresponding figure for Germany was only 23% (1970: 21%), although that is still considerably higher than Japan (9.5%) and the USA (11%).

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<sup>23</sup> For a comparison of the education systems see de Jager 1995. The general political situation in the 1980s was at least comparable, with both countries seeing a shift in 1982 from a social democratic/liberal to a conservative/liberal coalition government.

These differences offer a preliminary explanation of why the Netherlands was initially clearly harder hit by external trends than the Federal Republic of Germany. A good indicator of this is the government **budget deficit**, which rose to over 6% in the 1980s in the Netherlands, whereas the German national budget was slowly stabilised over the course of the same decade. In the 1990s, on the other hand, German fiscal policy was rocked by the shock of unification, while the Dutch national budget began slowly to stabilise and now easily meets the Maastricht criteria. It is difficult to predict how the (West) German economy would have evolved without unification. In any event, it should be noted that the Dutch success in job creation was not bought at the expense of increased state indebtedness, whereas the employment and fiscal situation in the German economy has deteriorated, particularly recently.<sup>24</sup>

**Figure 7: Unemployment rate and budget deficit in Germany and the Netherlands**



<sup>24</sup> It would be appropriate at this point to examine the monetary, fiscal and structural policy measures put in place in the Dutch and German productive systems in order to support the essential process of adjusting the economy to structural change. However, such an undertaking lies outside the scope of this article. Nevertheless, there are signs that structural policy in the Netherlands was considerably more active than in Germany - cf., among others, Ministry of Economic Affairs 1996.

What might the Dutch labour market system have contributed to this success? Let us begin with the industrial relations system. A distinction is made in comparative research on social systems between liberal and social corporatism.<sup>25</sup> The Netherlands tends to be regarded as belonging to the former, with Germany generally allocated to the latter category. The trade unions in the Netherlands are more fragmented than in Germany, and have lost both density and power. The decentralisation of the public employment service, which gave the social partners greater rights of codetermination in the implementation of regional labour market policy, did little to alter this situation. On the other hand, employers in the Netherlands are considerably better organised than their German counterparts, and maintain close links with the political decision-making elites. Moreover, the Netherlands has always had many of the characteristics of a consensual democracy<sup>26</sup>, and these were further strengthened during the 1980s and 90s. Finally, there are several consultative institutions at central level in the Netherlands (the Socio-economic Council and, in particular, the Central Planning Office) that play a prominent role in the development of a common strategy, or at least of a common diagnosis of the country's problems. In Germany, in contrast, despite an initial period of success under Karl Schiller, institutions engaged in concerted action have been unable to establish themselves. The recent failure of the "Alliance for Work" is an eloquent example.

In general terms, industrial relations in the Netherlands are even more consensual than in Germany. Concerted efforts by employers' associations, trade unions and government to achieve understanding, mutual trust and common standpoints constitute one of the pillars of the Dutch employment system. This is reflected in the strike statistics, which are even more impressive than the German figures, which are themselves by no means shaming in international terms.<sup>27</sup>

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<sup>25</sup> The characteristics of liberal corporatism include fragmented trade unions and a strong conservative alliance, whereas social corporatism is characterised by strong and largely centralised trade unions and a weak conservative alliance; cf. the thesis of Werner Eichhorst (1995), which provides an excellent survey of research into corporatism.

<sup>26</sup> The term denotes a democracy in which the political elites cooperate at the highest level in order to further the common good, irrespective of religious or ethnic differences. Japan is regarded as the best example of a consensual democracy.

<sup>27</sup> In the period between 1980 and 1994, the Netherlands lost an average of 18 days' work to strikes each year for every 1,000 dependent employees; the figure for Germany is 29 days (Bertelsmann Stiftung 1996, p. 252).



Moreover, the Dutch trade unions - whether because of their (looming) loss of power, because of intense pressure to act (cf. the evolution of the budget deficit) or for cultural reasons - were much quicker to become persuaded of the need for more flexible forms of work and employment. Whereas the German engineering workers fought one of their bitterest disputes in 1984 in support of their claim for a 35-hour week with full wage compensation, the social partners in the Netherlands had agreed as early as 1982 on a social pact, in which wage moderation was accepted in exchange for jobs, albeit part-time ones for the most part, and the retention of social security cover for the unemployed and those taking early retirement. It is known from many studies that the employment effect of working-time reductions is all the smaller the narrower the gap is between full-time working and the reduced hours, since work intensification and rationalisation effects predominate if the gap is small. This is why the Dutch strategy was converted more quickly and effectively into jobs than the German one. Whereas the German unions still feared part-time work as much as the Devil fears holy water, the Dutch unions clearly came to terms with this form of flexible working time at an early stage, and sought to regulate and control it.<sup>28</sup>

Does **labour market policy** make a difference? To what extent can active labour market policy have any influence at all on the level and structure of employment? The theoretical response to these questions is important, not least because the empirical evidence for the effectiveness of the forms of active labour market policy used to date is as scanty as it is contradictory.

Active labour market policy<sup>29</sup> can initially increase competition on the labour supply side: if the **labour market competitiveness of unemployed people** is increased through training, those still in work will moderate their wage demands, so that the demand for labour increases. However, this effect can be cancelled out if those at risk of unemployment come to rely to such support (**moral hazard**). As a result, the risks associated with unemployment are diminished, particularly since participation in labour market policy programmes is often more lucrative than claiming unemployment benefit.

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<sup>28</sup> The precise forms taken by this social pact are still to a large extent a mystery to outsiders.

<sup>29</sup> The term "active labour policy" is taken to denote measures intended directly to promote employment; these include job placement, further vocational training, job creation programmes and wage subsidies for employers recruiting unemployed people or to preserve jobs (e.g. through the short-time allowance). Passive labour market policy includes wage replacement benefits for the unemployed, and in some cases also early retirement programmes.

Moreover, the **search for work** comes to a halt or is neglected for the duration of such programmes, so that re-entry into the regular labour market is delayed.

The **negative effects** can, however, be mitigated by making the payment of unemployment money dependent on a claimant's willingness to take part in constructive programmes and by ensuring that all possible steps are taken while the programmes are running to find a new job, for example through the acquisition of relevant practical skills or periods of work experience with potential employers. Arrangements of this kind require both a powerful and effective public employment service and close coordination of active and passive labour market policy. Both of these conditions seem to be met more satisfactorily in Germany than in the Netherlands, where passive and active labour market policies are administered by separate organisations.<sup>30</sup>

Active labour market policy can also improve the **matching process**. If the labour market can be made more transparent by improving the supply of information and knowledge, then employers should no longer be forced to attract the workers they want by offering high wages; this will encourage them to register more vacancies, which it will be quicker and cheaper to fill.

Increasing the productivity of unemployed people through training reduces the marginal costs of labour, thereby increasing demand for labour. However, a positive employment effect will not be achieved unless product demand is price elastic. In the case of mass consumer goods, where saturation limits have more or less been reached in Europe, this is not the case. Moreover, the fast-developing nations are incomparably cheap in these areas. Thus training programmes are most worthwhile in those sectors that are largely protected from international competition; these include education, health, environmental projects and local crafts, as well as the new mass consumption sectors such as media and communications and tourism.

However, shortcomings in policy design and implementation may make labour market policy damaging, or at best merely ineffective. Employers may simply take advantage of certain measures, for example by accepting wage subsidies to hire workers they would have recruited anyway (**dead-weight effect** or **windfall profit**); moreover, labour market programmes may simply **displace** other manufacturers or service-providers, as when new companies set up by unemployed people with government subsidies squeeze other self-employed workers out of the free market. Job creation programmes can also

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<sup>30</sup> Cf. Dercksen and de Koning 1996; Moraal 1994; Schmid 1995.

produce similar substitution effects, if local authorities, for example, use participants in such programmes to fulfil their statutory obligations. And finally, there may be **substitution effects** if subsidies are used to hire long-term unemployed workers who then squeeze out other unemployed people not in receipt of subsidies, or if subsidised cereal production squeezes non-subsidised potato production out of the market.

Thus it should be clear from this that more does not necessarily mean better. High and rising expenditure on active labour market policy may actually lead to higher unemployment, just as there are good arguments to support of the view that active labour market policy can have a positive effect not only on the structure but also on the level of employment. Thus the outcome depends on the type, mix and implementation of policies. For this reason, it is not a simple matter to conduct a comparative assessment of Dutch and German labour market policy. In general terms, however, the theoretical benefits listed here are confirmation that, in a well-defined, targeted and implemented labour market policy, there is considerable room for manoeuvre which, in the light of the enormous sums devoted to passive labour market measures, particularly in the Netherlands, seems to be far from fully exploited. The direction that the new active labour market policy should take will be outlined later.

Finally, mention should be made briefly of the effects of **social security systems**. In both countries, but more particularly in the Netherlands, the social security systems have, to date at least, offered both the unemployed and those taking early retirement decent compensation for the loss of their jobs. Any assessment of such a large-scale exclusion strategy is necessarily complex. In social policy terms, such a strategy is extremely dubious if paid work is a powerful force for social (and possibly also) political integration; on the other hand, if leisure or, more accurately, free time is highly preferred, then such a policy will be judged more positively. Free time is particularly highly preferred among older workers, and it would seem that these preferences are culturally more marked among the Dutch than among the Germans.<sup>31</sup>

One economic advantage of the early retirement policy is that older, less efficient workers can be replaced by more efficient, more highly skilled younger workers. *Ceteris paribus*, therefore, productivity is improved. Moreover, if wage structures are rigid and based on seniority and if pay differentials are low (both of which apply to the Dutch and German labour markets), then early

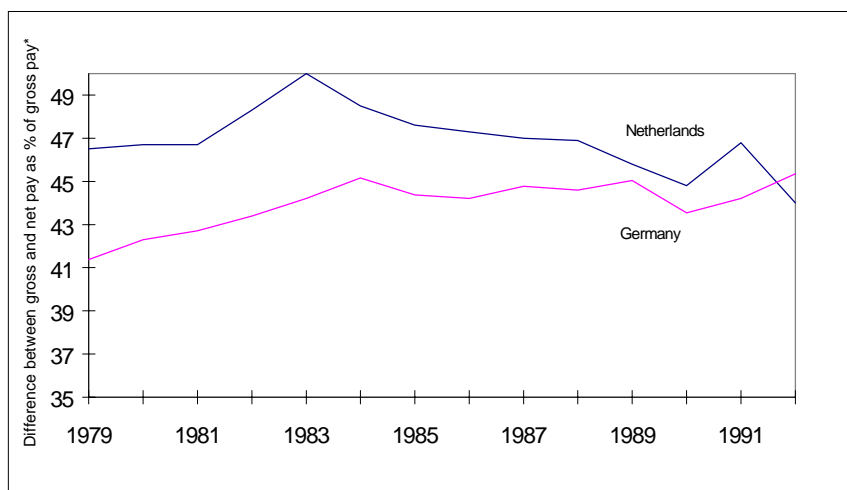
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<sup>31</sup> There is no verifiable empirical evidence to support this statement, but further research would be worthwhile.

retirement also becomes an instrument of wage flexibilisation. *Ceteris paribus*, this will have a favourable effect on employment and earnings.

On the other hand, social security expenditure is rising. The social security budgets in Germany and, even more so, the Netherlands are thus very high. If this expenditure is financed out of earnings-related contributions or taxation, then the “tax and contributions wedge” (i.e. the difference between gross and net pay) increases. The greater the wedge becomes, the higher labour costs are and the lower the incentives to work. And when the wedge is high and rising, then it is difficult for trade unions to support a moderate wage policy. All these factors have a negative effect on employment and earnings. As far as the tax and contributions wedge is concerned, the Netherlands has succeeded in reversing the upward trend; the same cannot be said of Germany, where a high proportion of the transfer payments to the new *Länder* had to be financed out of increased contributions and income tax.

**Figure 8: The evolution of the tax and contributions wedge in Germany and the Netherlands**



\*Tax and contributions wedge= income tax, employers' and employees' contributions as % of gross pay.

Source: OECD Economic Surveys, Netherlands 1994, 1996; OECD Economic Surveys, Germany 1995/ 1986

The final balance between the positive and negative effects of a strategy of employment redistribution has to be determined empirically. Indeed, the evidence initially confirmed the sceptical view that the general economic outcome is slighter if increasingly few people are employed in the labour market. This is no longer even offset by the resultant high productivity. On the other hand, the sceptical view was countered by the finding that, in the

Netherlands in particular, the dynamic of growth has not suffered and that therefore the gap between that country and the other three compared here has not increased (Tables 2 and 3).

However, in the light of the changes in technical, economic and social structures that we described in broad outlines in our introduction, is the national product still an up-to-date yardstick? It may reasonably be asked whether **GDP per capita** is still an appropriate **indicator of economic well-being**. It is indeed appropriate only to the extent that it measures transactions mediated through the market. This of course also includes transactions that merely rectify damage, such as the repair of accident or hurricane damage and the cleaning-up of environmental pollution, although they do absolutely nothing at all to increase economic well-being. On the other hand, GDP per capita does not measure the additional economic well-being that is created without market transactions. Examples include do-it-yourself work in the house or garden, but above all child-rearing and other housework, most of which is still “contributed” by women, who remain unpaid for their efforts.<sup>32</sup> Not to mention the informal economy. According to the most recent calculations, the goods and services produced in the informal economy are equivalent in value to 13.9% of GDP in the Netherlands, 13.1% in Germany, but only 8.6% in the USA.<sup>33</sup>

One important precondition, finally, for productive independent work is the availability of own capital or assets to supplement current income when it is reduced as a result of part-time work or retirement, whether early or not. The employment policy role of policy on the distribution of wealth has not even been properly recognised yet, let alone put into action. However, for any given level of technology (which can assumed to be relatively equal in the industrialised countries), productive independent work is all the more likely the shorter working time in the official labour market is and the greater the assets available to individuals are. In that sense, a country with a low GNP per capita can be economically wealthier than one with a high GNP per capita. This is particularly true if hourly productivity is very high, as it is in the Netherlands,

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<sup>32</sup> Without undermining our essentially academic approach, we can allow ourselves the indulgence of injecting a romantic note into the proceedings at this point by thinking, for example, of the (not virtual, but real) experience of catching crayfish in a remote Swedish lake, cooking them with mushrooms one has gathered oneself and washing them down with a bottle of Australian Chardonnay. This whole event takes up time, of course, but gives (not for every character type of course) more pleasure (although little or no employment) than an expensive meal in one of the so-called international metropolises.

<sup>33</sup> On the estimates, cf. Schneider 1994 and 1996.

quite apart from the fact that there are other aspects to well-being apart from the economic one. Free time, for example, can also be used for cultural, entertainment or sporting activities that may be only partially mediated through the market, if at all. In other words, and with reference to the interface between the private **household system and the labour market**: an egalitarian distribution of wealth on a broad basis encourages a redistribution of work that will have a positive employment effect.<sup>34</sup>

The reverse side of this redistribution of work and income, however, is the threat it poses to competitiveness. A high degree of wage moderation and pay differentials that take little account of performance relieve the pressure on firms to innovate and give workers little incentive to acquire new skills (Kleinknecht 1996). And, as the most recent pay agreements show, particularly at the transnational company Philips, acceptance of lasting wage cuts is also limited.<sup>35</sup> Furthermore, strict wage moderation and the exclusion of less efficient people from the labour market reduce purchasing power. Finally, if high social security expenditure is financed primarily from individual contributions and taxation, which are a burden on earned income, rather than from taxes on consumption, energy and wealth, then incentives to work and ability to invest are also undermined.

Thus both countries are faced with the question of whether there are approaches to the distribution of work that do not threaten productivity and competitiveness in the long term and encourage better social integration in the labour market.

## 6 **Transitional labour markets as a strategy for the productive redistribution of work**

One answer to this question might lie in the stronger institutionalisation of transitional labour markets. In metaphorical terms, **transitional labour**

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<sup>34</sup> The Dutch model seems to have advantages over the German one in this respect as well. Anecdotal evidence would seem to suggest, for example, that private house ownership is much broadly based in Holland than in Germany; income from assets also seems to play a greater role in household income. However, these and other aspects require more detailed empirical evidence.

<sup>35</sup> In the spring of 1986, Philips and its 44,000 employees concluded a two-year collective agreement that provides for a 6% pay increase but does not meet the unions' objective of the 36-hour week; moreover, the agreement alters the pension entitlement of all new recruits, who in future will receive 70% of average pay in the company as a whole rather than 70% of their final salary (IRES - Chronique Internationale, no. 41, July 1996, pp. 7-9).

**markets** are institutional “bridges” between unemployment and the regular labour market that allow a choice permanently to be made between various employment forms. As already outlined in the first section, current trends require a major advance in optional or even virtual employment forms. The traditional social contract underpinning the social-security system devised by Lord Beveridge in Britain is now outmoded: to provide continuous, full-time employment for all - in the past self-evidently male - heads of households would not only be an unrealistically utopian goal, but also backward looking. A 30-hour week for all, men and women alike, would be a more realistic target figure. However, in view of the changed economic and social conditions, this would have to be an average figure achieved over the course of the working life. Actual working time would fluctuate widely around the 30-hour mark, depending on the phase of the life cycle and economic needs. In extreme cases, this model would allow for periods of transitional unemployment as well as periods of extremely intensive work; even in normal cases, however, increasing use would be made of hybrid employment forms combining part-time work and training or dependent employment and self-employment.

Transitional labour markets are characterised by the following principles:

- In organisational terms, by a combination of wage work with other socially useful activities, such as further training, retraining, child-rearing, creative or cultural work, political activity, voluntary work or self-employment;
- in terms of income policy, by a combination of earned income with transfer payments from social security funds or tax credits or with income from self-employment and assets;
- in social policy terms, by the acquisition of entitlement to the periodic use of institutionalised “bridges”, under conditions that are laid down in company or collective agreements or in legislation and are therefore enforceable;
- in fiscal policy terms, by the financing of employment or other useful activity with money that would otherwise be used to support the unemployed.

There is space here merely to indicate, with the aid of a few examples, the ways in which a cooperative rather than an interventionist active labour market policy might support such transitional labour markets in future:

- First, instead of redundancies, company agreements providing for fixed-term part-time work for all, possibly combined with further training, could be concluded; the four-day week at Volkswagen is an example.

- Second, the employment of unemployed people in socially important areas, such as environmental, social and infrastructure activities, could be encouraged by long-term, degressive wage subsidies; generous support for those setting up on their own who then go on to develop their businesses into small firms is also part of such a policy of structural wage subsidies. The regional authorities should have a great deal of latitude in defining those employment structures worth supporting.
- Third, large-scale “rotation” models along Danish and Swedish lines could be promoted, in which employees on training leave are replaced by unemployed people hired on fixed-term contracts.
- Fourth, again following the Danish model, the right to take sabbaticals could be established in collective agreements or in law; during such sabbaticals, cost-neutral wage replacement payments could be made if the temporary vacancies are filled by unemployed people, or the sabbaticals could be financed by savings on wages, along the lines of the Berlin system of sabbaticals for teachers.
- Fifth, phased early retirement systems could be implemented on a wider scale, in other words, part-time working for older workers could be encouraged instead of full early retirement, which is socially questionable and economically very costly.<sup>36</sup>

## 7 Summary

This paper has sought to “explain” the Dutch jobs miracle by comparing the employment systems in Germany and the Netherlands. An analytical framework has been developed that provides a basis for meaningful comparisons of employment systems, which have to be able to meet the new challenges of globalisation and individualisation. An important part of this process was making a distinction within the employment system as a whole between the production system and the labour market system. The institutional arrangements that constitute the production system influence and filter decisions on production, and it is in inadequate coordination within that system that initial explanations for Europe’s competitive disadvantage must be sought. However, production decisions are merely a necessary, not a sufficient

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<sup>36</sup> For a more detailed study of the theory and practice of transitional labour markets in the Federal Republic of Germany, cf. Schmid 1994 and Schmid 1995c.



condition for a high and balanced level of employment. Decisions on employment are taken in the labour market, which has the task of coordinating a range of different institutions, including private households and the industrial relations, education and social security systems.

One cause of the “European sickness” is obviously the inability to transform production decisions into employment decisions. The Netherlands seems to be an exception. However, the country’s success in increasing employment in quantitative terms, which is also reflected in relatively low unemployment figures, must also be subjected to a qualitative test. A more complex diagnosis of this kind does indeed take some of the shine out of the Dutch model. Nevertheless, the Dutch employment strategy of redistributing work and income on a massive scale must, initially at least, be judged a success. Sceptics may object that a strategy of this kind impairs economic efficiency. It is indeed true that GNP per capita in the Netherlands is lower than in comparable countries, but there are no signs that the dynamic of growth is flagging.

Nevertheless, it must be asked whether the current approach to redistribution, namely the exclusion of older and less efficient workers from the labour market, can be sustained. In this respect, Dutch labour market policy, which to date has done little to enlarge the economically active population, will have to change direction. However, this also applies to Germany labour market policy, which is only a few lengths ahead of the Netherlands in terms of participation levels. Our comparative assessment of the two countries has shown that an interesting new configuration is emerging in the Dutch employment system that combines in an effective way the advantages of competitive and consensus capitalism with a modernised welfare state.

One new element that should be highlighted is that the new active labour market policy can no longer focus solely on the interfaces between the social security (unemployment insurance), education (further and continuing training) and industrial relations (wage subsidies) systems, but must concentrate to a greater extent than hitherto, and to a certain extent also in a completely new way, on the interface between the labour market and private households. In addition to making available options for flexible working time, it must also include an active policy on the distribution of wealth in order to reduce individual dependence on the labour market and thus widen the scope for making up reductions in earned income caused by part-time working, frictional unemployment, short-time working or further training.

One fundamental shortcoming of both employment systems, however, is the extremely passive nature of way in which work has been redistributed to date. A more suitable strategy for the redistribution of work would be one based on transitional labour markets, which combine temporary reductions in working time with non-market but nevertheless productive activities such as training, voluntary work, child-rearing and creative and cultural activities. The consequent temporary reduction in earned income should be offset partly by transfer payments, which could be financed predominantly from the resources that would otherwise be devoted to unemployment benefit and social assistance. Moreover, the linking of reduced dependency on wage work to new entrepreneurial activities will be a forward-looking element of transitional labour markets.

In general terms, the Dutch employment system is evolving in a direction that seems better suited to meeting the twin challenge of globalisation and individualisation than the German system. However, there is no empirical or normative reason why the German system should go down the same path in adapting to meet that challenge. The specific characteristics of national employment systems will endure, and should provide an incentive to initiate institutional innovations in keeping with those characteristics.

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