

Dutchmen at work

To put the once successful Dutch economy back on track, the ‘carrot’ needs to be replaced by the ‘stick’. But many of the people most affected by the new policies do not deserve to be beaten.

Marijke is 31 and suffers from brain damage. She has since the age of 18 been eligible for an incapacity benefit. However, under a new act implemented in October 2004 all the people incapable of work need to get medically re-examined. Marijke’s medical report ranges from poor motor movement skills to poor problem solving capacities but concludes that Marijke is fully capable of work.

At the same time, Bastiaan (28) could not find work after he graduated three years ago. “I was not invited for interviews because companies had lots of candidates with lower qualifications but more practical experience.” Applying for work became almost a job in itself and Bastiaan had to demand for unemployment benefits for the first time in his life. Recently he took up a PhD position. In England though, because the “labour market situation in Holland has become worse and worse.”

Marijke’s inability but obligation to work seemingly contradicts Bastiaan’s determination but failure to become employed. Yet, both experiences are the outcome of tougher regulations in the labour market and symptomatic of recent changes to the Dutch economy. Some people say ‘inevitable’ but others disagree.

Less than a decade ago Holland led Europe in terms of economic expansion. The social welfare system was praised for its inclusiveness and the consensus-based model of decision making between government, unions and employers (*polder model* or third-way

politics), kept wages, unemployment, budget deficits and inflation low. This seemed to work well as the economy grew at an annual rate of almost four percent between 1997 and 2000. But at the start of the new millennium, the shine wore off.

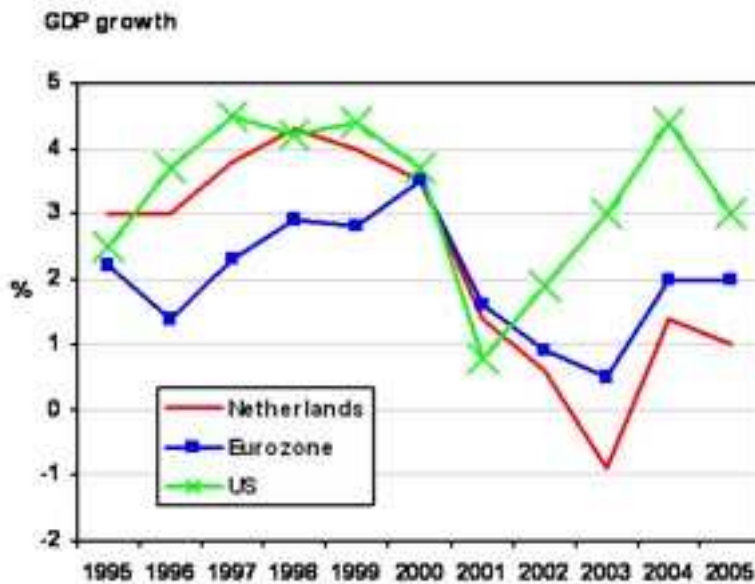


Figure 1: Comparative GDP growth, derived from Central Plan Bureau (2004) and EU statistics. Figures for 2005 are estimates.

As figure one shows, the Dutch economy, even though slowly recovering, has since 2000 performed weaker than other Euro zone countries. In 2003 GDP growth reached a through of -0.9 percent. Also, inflation peaked at 4.9 percent in 2001 and consumer spending dipped to -1.3 percent in 2003: all figures not seen since the early 1980s.

Additionally, unemployment has since 2001 doubled to 6.4 percent of the working population and currently almost half a million people are without a job. Although figure two suggests that unemployment follows the ‘normal’ cyclical curve of economic progress followed by recession, figure three shows that, especially among young people like Bastiaan, unemployment got recently a more structural component.

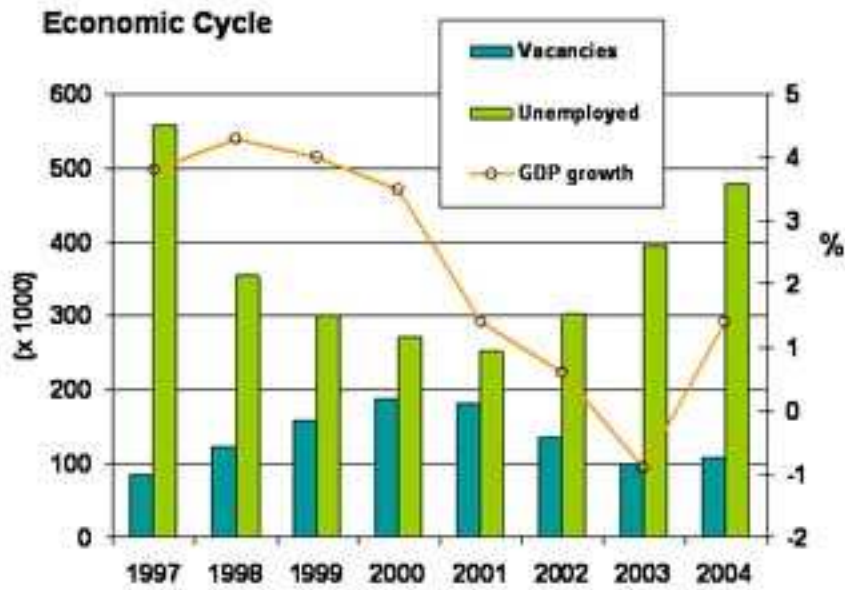


Figure 2: Economic cycle of GDP growth and unemployment. Derived from Central Plan Bureau, <http://www.cpb.nl>.



Figure 3: Unemployment per age group and total. Derived from Central Bureau of Statistics, <http://www.cbs.nl>.

Notably, unemployment figures for the young have always been higher due to their relative inexperience, but between 1997 and 2004 the ratio of unemployment in the 15-24 age group, compared to overall unemployment, increased from 1.8 to 2.6 percent. This is partly caused by the entrance of relatively low-skilled employees in the market during the economic boom in the late 1990s, which caused incompatibility between qualifications of

employees and employers' requirements. But there are more reasons for the current 'Dutch dip'.

As the Netherlands has one of the most open and trade-oriented economies in the world, underperformance of the Dutch economy and increasing unemployment can to a large extent be attributed to external factors like global economic slowdown, an unfavourable Euro exchange rate, Euro-related price increases and fierce competition from recovering economies in the US, China and Japan. Furthered by mounting EU regulations, the Dutch government increasingly becomes unable to implement 'tailor-made' economic policies in order to turn the tide.

However, also internal weaknesses impede growth such as years of high wage rises which caused labour costs to increase by 15 percent between 1995 and 2002. Compared to the two percent increase in labour costs in the Euro zone, Dutch companies have become less profitable and Dutch labour less competitive. Additionally, critics say that the *polder model*, in search of consensus at all cost, has made welfare policies too generous and takes away the incentive to work.¹ Compared to other European countries, this has resulted in a disproportionate low level of labour participation.

However, low levels of labour participation is not something which can solely be pinned down as cause of the recent economic recession as, according to the president of the Dutch Central Bank, Mr Wellink, the Dutch have always been people who "work smart, not hard".² Part time labour, an outcome of negotiations with unions on more flexible working hours and the increased entrance of women on the labour market in the 1990s, makes up forty percent of all work done in Holland. Herewith in 2002 the Dutch worked on average 1338 hours of work per person; almost 100 hours less than other countries in the Euro zone and 600 hours less than in the US.

¹ Economist, May 2, 2002.

² DNB, February 26, 2004.

Another factor contributing to low labour participation is the high number of people unfit for labour in the Netherlands. By the early 1990s 14.3 percent of the working population, or one out of seven people, were classified as incapable of work due to a chronic illness or handicap. As figure four shows, this figure slightly dropped to one in eight, or 970.000 people in 2004.

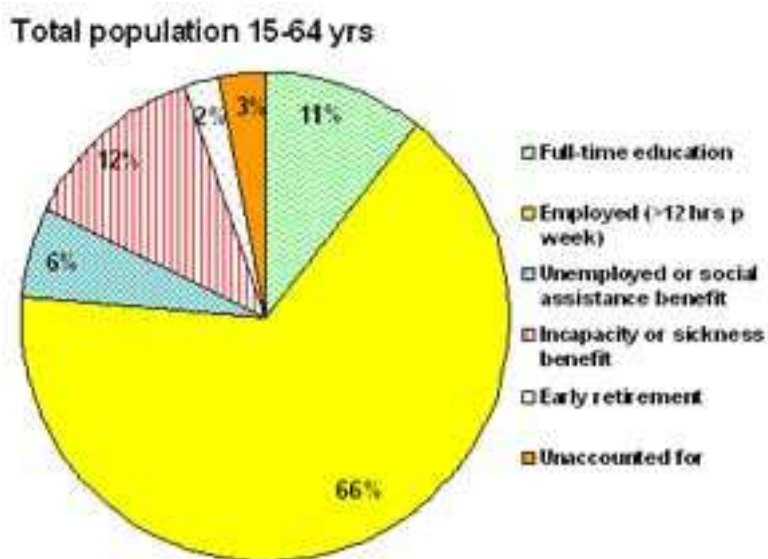


Figure 4: 'Occupation' figures for population 15-64 year age group. Derived from Central Plan Bureau, <http://www.cpb.nl>.

The Economist remarks that the Dutch are not “particularly sickly people” but merely seek to benefit from the existing system for incapacity benefits.³ This also shows from EU figures on perceived reasons for unemployment. In 2004, 6.3 percent of the total working population said they could not work due to illness or disability: a high figure compared to 2.7 percent in the Euro zone but considerably lower than the 12.5 percent registered for an incapacity benefit.⁴ The Atlantic Institute of Marketing Studies states that the scheme “provides a free way out for employers [and] those in low-paid or unsatisfying jobs or employees near retirement have an incentive to move to the disability

³ Economist, May 2, 2002.

⁴ Figures calculated from <http://europa.eu.int/comm/eurostat>.

rolls”⁵ and the Economist adds that “the WAO has been used to mop up disguised unemployment.”⁶

Prospects for a healthier labour market are also contained by an increasingly ageing population. By 2040 the number of people older than 65 years will rise from two to four million, doubling the so-called ‘grey pressure’ (the ratio between people aged over 65 and those between 20 and 64) from 22 to 43 percent. This trend develops alongside a large number of people who retire before they are 65; some as early as 50. According to the Central Bureau of Statistics, of the age group 60-64 only 19 percent still participates on the labour market.⁷

As a result of these internal weaknesses in the Dutch labour market, high government expenditure on healthcare, pensions, and social benefits have become of major concern. For the year 2005, €58.2bn of the €187.7bn (£130.3bn) spent in the collective sector will go to social welfare schemes and €36.9bn goes to healthcare. Against a state income of €175bn (£121.5bn) through taxes and national insurance contributions, such a pattern of expenditures has, amongst others, driven the EMU-deficit (budget deficit) up from 1.9 in 2002 to 3.2 percent of GDP in 2003. Also, governmental debt increased from 52.6 percent of GDP in 2002 to 56.3 percent in 2004, consuming almost eleven percent (€15bn; £10.4bn) of the total 2005 state budget in interest payments.

Because the 2003 EMU-deficit was breaching the three percent EU ceiling and the debt levels were closing in to the EU threshold of 60 percent of GDP, Holland has been urged to cut public and collective spending. To begin with, drastic cuts in healthcare spending have been implemented and the freeze of civil service salaries and the minimum wage has,

⁵ AIMS (2000, p.124).

⁶ Economist, May 2, 2002.

⁷ CBS (2004).

in conjunction with the reduction of food prices by 5.2 percent in August 2004, reduced inflation to a record low of 1.2 percent in 2004.

However, in order to structurally transform the Dutch economy, it is deemed necessary that more people work. With the slogan “if you can work, you have to work”,⁸ the government aims at increasing labour participation and thereby decreasing costs for welfare payments (for an overview of Dutch social benefit schemes see the box below). According to the Central Plan Bureau, higher labour participation can only be achieved by imposing harsher measures on to the unemployed because soft instruments like training, testing and subsidised labour are less effective. In other words, “the stick works better than the carrot.”⁹

Types of social benefits

- **WW: Unemployment benefit**

People who lose their job without their fault are eligible for an unemployment benefit. The amount and length depend on the number of worked years (min. six months) and the previously earned salary. Beneficiaries also have to register with the CWI (Centre for Work and Income) that considers the application and helps people to find a new job. They also have to apply for any type of work at least once every week.

- **Social Security**

People who do not meet the WW requirements are eligible for a social security benefit which varies from € 1149 per month for married persons to € 805 per month for single parents and € 574 per month for singletons. Since January 2004 everybody is obliged to apply for work every week, including people over the age of 57.5 and single parents with children younger than five years who were previously excluded from this requirement.

- **WAO**

People who are or have become incapable of work due to a handicap or illness for a period longer than two years are eligible for an incapacity benefit. The first two years are paid for by the employer and thereafter the government supplies a monthly income depending on age, previous salary and the level of incapacity (measured in percentages). Previously beneficiaries had to undergo medical checks every five years but as from October 2004 all the WAO beneficiaries have their case reconsidered.

- **WAJONG**

This incapacity benefit is specifically for handicapped young people who are or become for 25 percent incapable of work under the age of 17, or when studying, under 30. The height of the benefit is based on age and level of handicap, varying from minimal € 6.6 per day when 18 and incapable for 25 percent to maximal € 46.5 per day when older than 23 and incapable for 80 percent or more. There is a one year waiting time for application.

Box 1: Overview of social benefit schemes in Holland (non exclusive), derived from Ministry of Social Affairs and Employment, <http://www.szw.nl>.

⁸ MoSZW.

⁹ Elsevier, February 28, 2005 and Elsevier, March 1, 2005.

One of the reforms in the social welfare sector concerns the state disability scheme (WAO and WAJONG). A new law makes it more difficult to benefit as the ‘waiting-time’ for disability support has been increased from one to two years, obliging an employer to continue paying a salary for two years and thereby creating an incentive to get sick people back to work. Additionally, the majority of sick or disabled people have to get a renewed medical check before 2007 in order to keep their WAO benefits. The UWV, dealing with the approval of social benefits, estimates that ten percent of all WAO beneficiaries, or around 80,000 people, will lose their allowance in part or whole and have to start working again.

Another new law, replacing the ‘General Unemployment Law’, is the law on labour and unemployment benefits (WWB, *Wet Werk en Bijstand*- by some called the *Wet Water and Bread*) implemented in January 2004. Under the previous law everybody who was unemployed, except people over 57.5 years old and single parents with children under five, had to apply for jobs at least once a week in order for them to keep their right on either WW or social welfare allowances. Under the new law, however, there is no longer an exception.

This law has been strongly criticised by the Dutch Union Federation (FNV) because it is especially unfavourable to the elderly who become “ghost applicants”,¹⁰ having little chance of increasing their chances on the labour market. According to figures by the CWI (Centre for Work and Income), out of the 17,000 unemployed of 57.5 years and older only 1.5 percent found a job in 2004. The FNV has calculated that those 17,000 elderly with a weekly obligation to apply for a job send 884,000 application letters per year. “That is almost € 350,000 on costs of stamps alone.. for 256 jobs...!”¹¹

¹⁰ FNV, February 11, 2005.

¹¹ Volkskrant, March 11,2005.

All these measures set to increase labour participation and economic growth do not easily settle with the Dutch and an estimate of 60 percent is opposing them. Last October at least 200,000 people took the streets in Amsterdam in, according to the BBC, the “largest protest there for over two decades”.¹² Carrying banners and placards bearing the slogan ‘The Netherlands deserves better’, the protesters articulated their fears that stricter regulation of social benefits will increase the number of people who fall back to the minimum welfare scheme because they can not live up to the new standards.

Besides, in a period of high unemployment among young people it seems contradictory to aim for getting the old, sick and disabled back to work. Not only might re-examinations of those eligible for a WAO benefit result in misjudgement, as the case of Marijke showed, currently the labour market is too flawed to take up an inflow of a large group of elderly and partly capable workers. When companies can choose from a large pool of young unemployed candidates, such as Bastiaan, they are reluctant to major investments in for example education and the creation of adapted workspace.

Even though unemployment in the Netherlands is likely to increase to seven percent in 2005 and the general outlook has only slightly improved with an expected GDP growth figure of 1.5 percent, the future of the Dutch economy does not seem too gloomy as the Dutch and their economy have proved flexible and prosperous in earlier days. However, there is some reason for concern as forging economic growth has, compared to the old days, become increasingly difficult to accomplish.

Over the last decade regulations by the EU and supranational economic institutes have taken a lot of strategic economic tools out of the hands of individual governments. Previously, changes in interest rates could boost the economy but since the introduction of the Euro, interest rates are set by the European Central Bank. Also, the growth and

¹² BBC, October 2, 2004.

stability pact, aiming at containing governmental deficits, hampers governments to temporarily increase public and collective spending for the benefit of the economy. The Dutch government is thus left with little room for manoeuvre to get the economy out of its slump and increasingly relies on a multitude of peripheral measures that work against its own people.

Bibliography

Quoted sources

- AMIS (Atlantic Institute of Marketing Studies) (2000) “The Dutch Miracle”, chapter 3 in McMahon, Fred: *Road to Growth: How Lagging Economies Become Prosperous*, AISM: Halifax.
- BBC News, October 2, 2004 “Dutch protest at austerity plan”,
<http://newswww.bbc.net.uk/2/hi/europe/3710154.stm>
- CBS (Central Bureau for Statistics) (2004) “Vervroegd uittreden of doorwerken?” (Early retirement or continue working?), report on socio-economic trends by Huynen, Bart; Fouarge, Didier and Trudi Schils,
<http://www.cbs.nl/nl/publicaties/artikelen/arbeid/arbeidsmarkt/v4/2004/2004-k3-v-4-p041-art.pdf>
- DNB (De Nederlandse Bank- Dutch central bank), February 26, 2004 “Leidt vergrijzing tot verarming?” (does ageing lead to poverty), Speech by the DNB governor Arnout Wellink, <http://www.dnb.nl/dnb/detail.jsp?pic=tcm:12-39662-64>
- Economist, May 2, 2002, “Going Dutch: Economic Illusions”,
http://www.economist.com/PrinterFriendly.cfm?Story_ID=1098131
- Elsevier, February 28, 2005 “CPB: Hardere aanpak werkelozen nodig” (harsher treatment unemployed needed),
<http://ww.elsevier.nl/nieuws/nederland/nieuwsbericht/asp/artnr/20651/zoeken/ja/index.html>
- Elsevier, March 1, 2005 “Niet de wortel maar de stok” (not the carrot but the stick),
<http://www.elsevier.nl/opinie/commentaren/asp/artnr/30815/zoeken/ja/index.html>
- FNV (Federatie Nederlandse Vakbeweging- Dutch Union Federation), February 11, 2004 “FNV noemt sollicitatieplicht ouderen rampzalig” (FNV says application

obligation for elderly is disastrous), FNV e-Magazine,

www.fnv.nl/.../Attachment1instanceId/11493/

[Forum1instanceId/18860/Forum1itemId/16651/News1realItemId/16651/](http://www.fnv.nl/.../Forum1instanceId/18860/Forum1itemId/16651/News1realItemId/16651/)

- MoSWZ (Ministry of Social Affairs and Employment) “Werk: U kunt werken, dan moet u werken (Work: If you can work, you have to work),
http://home.szw.nl/navigatie/rubriek/dsp_rubriek.cfm?rubriek_id=3&subrubriek_id=1010&link_id=1946
- Volkskrant, March 11, 2005 “57-Plussers ontevreden over CWI” (57-plus dissatisfied with Centre for Work and Income),
<http://zoek.volkskrant.nl/artikel?text=57-plussers&FDOC=0&SORT=date&PRD=10y&SEC=%2A&SO=%2A&DAT=%2A&ADOC=1>

Other unquoted sources of information

- BBC News, April 23, 2003 “Dutch miracle breaks down”,
<http://news.bbc.co.uk/2/hi/business/2882451.stm>
- BBC News, September 21, 2004 “Protests over tough Dutch budget”,
<http://news.bbc.co.uk/2/hi/business/3677458.stm>
- CPB (Central Plan Bureau) (2004b) *Central Economic Plan*,
<http://www.cpb.nl/nl/cepmev/cep> or for English information
http://www.cpb.nl/eng/news/2005_08.html
- CPB (Central Plan Bureau), November 8, 2004 “Effecten wetsvoorstel VUT/pensioen/levensloop” (effects of law on pensions, elderly allowances), note to the tweede kamer, <http://www.cpb.nl/nl/pub/notitie/09nov2004/>
- CPB (Central Plan Bureau), February 28, 2005 “Naar een toekomstbestendig stelsel voor arbeidsmarkt en sociale zekerheid” (towards a solid future plan for labour and social security), <http://www.cpb.nl/nl/pub/notitie/28feb2005/notitie.pdf>

- Economist, October 7, 2004 “Going Dutch: Reform in the Netherlands”,
http://www.economist.com/PrinterFriendly.cfm?Story_ID=3270777
- EU statistics, <http://europa.eu.int/comm/eurostat>.
- MoF (Ministry of Finance) (2004) “Miljoenennota 2005” (governmental budget 2005), <http://rijksbegroting.minfin.nl/>
- MoSWZ (Ministry of Social Affairs and Employment), September 20, 2004
“Feiten en cijfers werkgelegenheid (facts and figures of employment),
http://home.szw.nl/zoeken/dsp_zoekresultaat.cfm
- RMO (Raad voor Maatschappij en Ontwikkeling- Council for society and development) (2004) “Mogen ouderen ook meedoen?” (are elderly allowed to participate as well), Advise to the tweede kamer, no.33 December,
<http://www.adviesorgaan-rmo.nl/?5=16&gw=rmo>
- TKSG (Tweede Kamer der Staten-Generaal- Second chamber of parliament) (2004) “Arbeidsmarkt en sociale zekerheid” (labour market and social security), 29 804, nr.1, <http://www.szw.nl/2005/a/kst78989.pdf>