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**The Dutch Labour Market:
Preparing for the Future**

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THE DUTCH LABOUR MARKET: PREPARING FOR THE FUTURE

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By Mathijs Gerritsen and Jens Høj

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ABSTRACT/RESUME

The Dutch labour market: preparing for the future

The well performing labour market has delivered low unemployment and relatively stable wage developments. However, it is divided into a small flexible segment and a large more rigid segment, where the adjustment burden of external shocks falls disproportionately on the first group. At the same time, labour utilisation is relatively low, despite a relatively high overall participation rate, due to a high frequency of part-time employment, a low effective retirement age and a high use of disability benefits. Looking ahead, it is unlikely that the organisation of the labour market will allow the economy to continue reaping fully the benefits of globalisation. That would require a labour market that facilitates the allocation of increasingly scarce labour resources to their best use and mobilises underutilised labour resources to counter the ageing related contraction of the labour force.). This Working Paper relates to the 2012 OECD Economic Survey of the Netherlands (www.oecd.org/eco/surveys/netherlands)

JEL classification codes: F66, J3, J08, J62, J65

Keywords: Globalisation and labour market, labour market policies ; allocation of the labour supply, wage formation, severance pay

Le marché du travail néerlandais : préparer l'avenir

Le bon fonctionnement du marché du travail a permis de maintenir un faible niveau de chômage et des évolutions salariales relativement stables. Cependant, ce marché est divisé en un grand segment assez rigide et un petit segment flexible, sur lequel pèse de façon disproportionnée la charge de l'ajustement en cas de chocs extérieurs. En outre, l'utilisation de la main-d'œuvre est faible, malgré un taux d'activité global relativement élevé, en raison de la grande fréquence de l'emploi à temps partiel, d'un faible âge effectif de départ à la retraite et d'un recours important aux prestations d'invalidité. À terme, il est peu probable que l'organisation du marché du travail permettra à l'économie de continuer à tirer pleinement parti de la mondialisation. Il faudrait pour cela un marché du travail qui facilite la réallocation des ressources de main-d'œuvre de plus en plus rares vers leur meilleure utilisation et mobilise les ressources de main-d'œuvre sous-utilisées pour contrer la contraction de la population active liée au vieillissement. Ce document de travail se rapporte à l'Étude économique des Pays-Bas de 2012 (www.oecd.org/eco/etudes/Pays-Bas).

Classification JEL : F66, J3, J08, J62, J65

Mots clefs : Mondialisation et marché du travail, les politiques du marché du travail; répartition de l'offre de travail, la formation des salaires, indemnités de départ

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THE DUTCH LABOUR MARKET: PREPARING FOR THE FUTURE

By Mathijs Gerritsen and Jens Høj¹

At the overall level, the labour market has adapted well to globalisation as reflected by prolonged periods of low unemployment. However, this strong performance masks a labour utilisation rate (defined as hours worked relative to working age population) that is about 7 ½ per cent lower than the European average. The positive effect of a high participation rate is offset by the highest rate of part-time employment in the OECD, an effective retirement age that, despite recent increases, is still several years lower than the mandatory retirement age and an extensive use – despite a reduction in enrolment – of disability benefits. Moreover, the labour market is characterised by a small flexible segment (often younger workers on temporary contracts or self-employed) and a large more rigid segment (often older and better skilled workers with strong social protection). The adjustment to external shocks falls disproportionately on the first group, positively as well as negatively. Possibly more worrying in the context of globalisation is that productivity growth has been lower than in other OECD countries, indicating that the labour market may not be sufficiently effective in transferring labour resources to new and fast growing sectors. Looking ahead, a concern is whether the organisation of the labour market facilitates the transfer of increasingly scarce labour resources at a time of continued globalisation and an ageing labour force. The first section of this paper shows how the labour market so far has adjusted to globalisation. This is followed by an examination of avenues to foster efficient allocation of labour and mobilise additional labour resources.

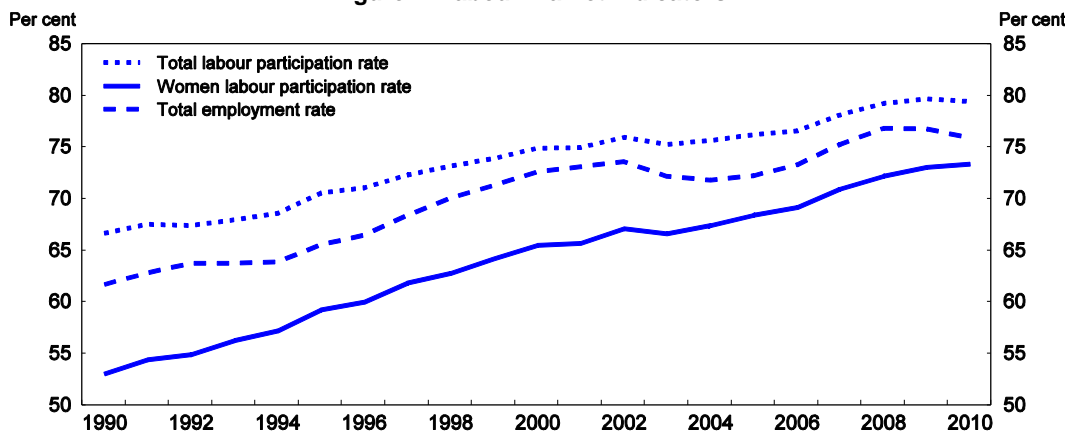
The effect of globalisation on labour demand

Globalisation is leading to greater integration of national labour markets. Emerging economies have provided an unprecedented pool of labour, which, together with technological progress and continued liberalisation of international trade and capital flows, have allowed an unbundling of the production process of goods and services. As a result, advanced economies have benefited from access to these labour resources via imports, off shoring of production, and immigration (IMF, 2007). The internationalisation of the production chain has driven up wages for higher skilled workers in the advanced economies relative to lower skilled workers. In addition, technical changes have proved a powerful driver of increased wage dispersion (OECD, 2007a). Moreover, overall employment should benefit as the competition enhancing effect of globalisation boosts demand for final products, increasing labour demand at given real wages, and as greater external competition reduces wage pressures at given employment levels. However, whether this leads to a reduction in unemployment depends on whether labour resources are successfully reallocated from declining to expanding industries (OECD, 2007a).

1. Jens Høj is Head of Belgium and the Netherlands desk in the Economics Department of the OECD. Mathijs Gerritsen is an Economist at the Dutch Ministry of Economic Affairs. This Working Paper is based on Chapter 2 of the OECD's 2012 Economic Survey of the Netherlands which was prepared under the responsibility of the Economic and Development Review Committee. The author is grateful for the valuable comments received from Andrew Dean, Bob Ford, Pierre Beynet and other colleagues in the Economics Department. Special thanks go to Sylvie Foucher-Hantala for statistical assistance and to Maartje Michelson and Sylvie Ricordeau for secretarial assistance.

The Dutch labour market has benefited from globalisation and skilled-biased technical change over recent decades, as reflected in higher employment, low and declining unemployment and modest structural mismatches (Figure 1, and 2). At the same time, a more efficient international division of labour has moved production up the value-added chain, fostering higher labour productivity and real wage growth (DNB, 2005; SER, 20008; Heyma and Theeuwes, 2008). Employment in sectors like agriculture, textile and (low-tech) manufacturing industries has fallen, while the share in business services has increased (Figure 3 and 4). Further specialisation took place within sectors, *e.g.* shipbuilders moved from producing heavy large-scale ships to high-tech vessels (SER, 2008). The shift towards knowledge intensive work was enabled by an increase in the overall skill level of employees (Figure 4).

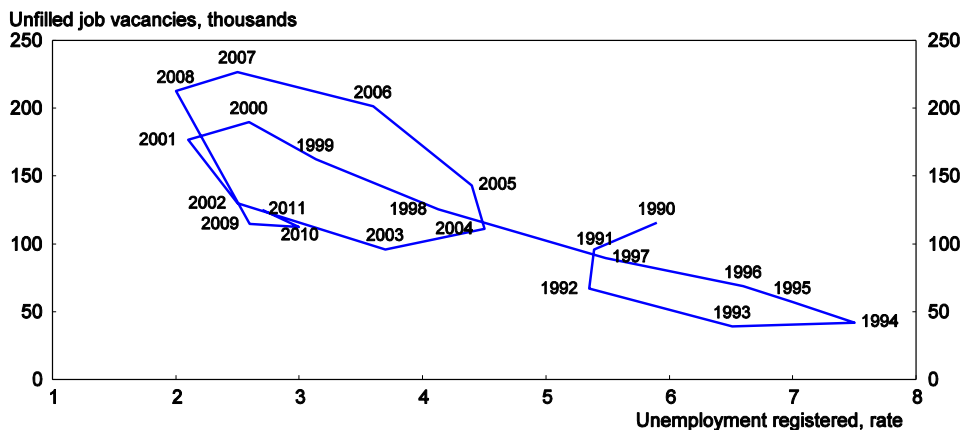
Figure 1. Labour market indicators¹



1. As a percentage of working-age population.

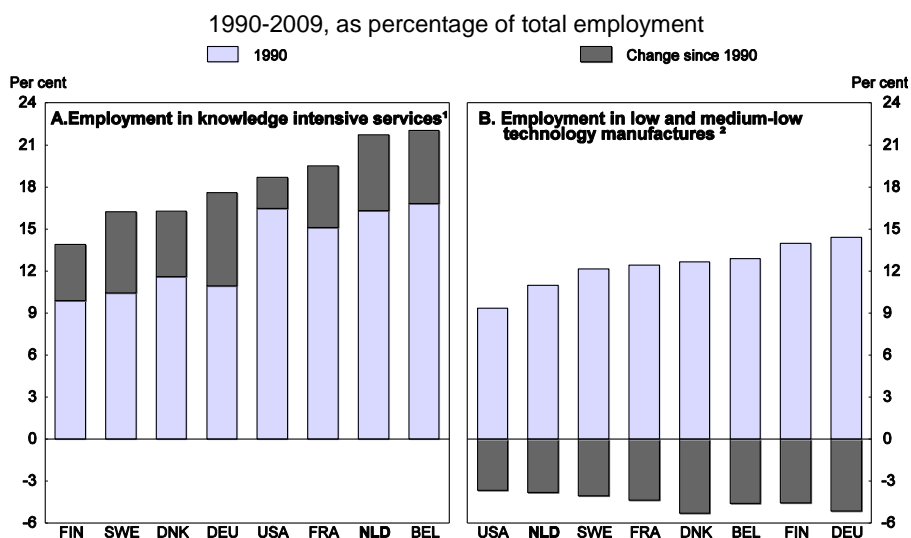
Source: OECD (2012), Labour Force Statistics database.

Figure 2. Beveridge curve



Source: OECD, Main Economic Indicators Database and CBS Statline.

Figure 3. Employment shifts to knowledge intensive services

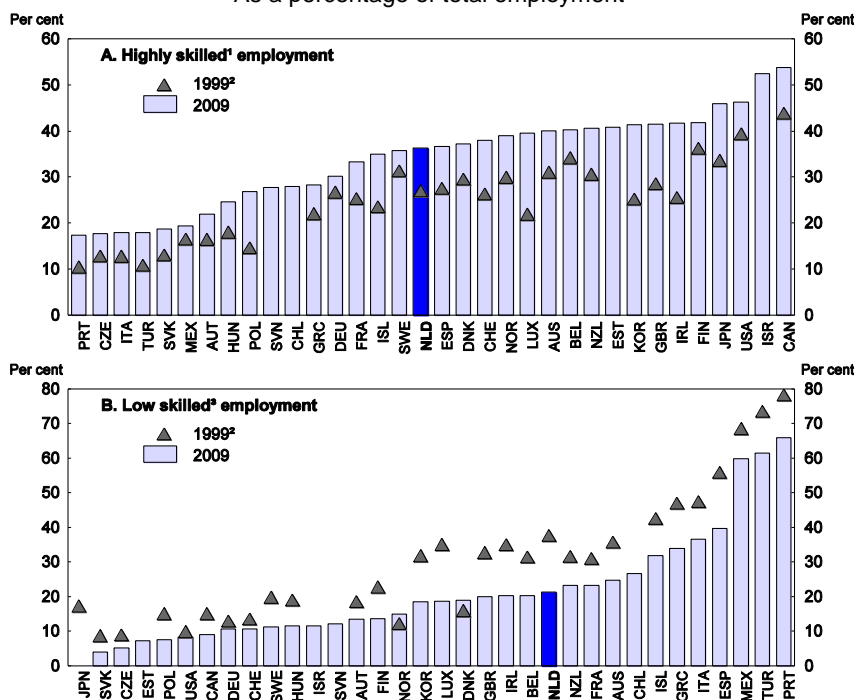


1. Knowledge-intensive market services refers to Post and Telecommunications (ISIC Rev.3, division 64), Finance and insurance (division 65-67), and business activities (division 71-74).
2. Low and medium-low technology manufactures refers to manufactures excluding chemicals and chemicals products (ISIC rev.3, division 24), manufactures of machinery and equipment, n.e.c (division 29), electrical and optical equipment (division 30-33), and transport equipment (division 34-35).

Source: OECD (2012), STAN Structural Analysis database.

Figure 4. Employment of high skilled workers increased

As a percentage of total employment

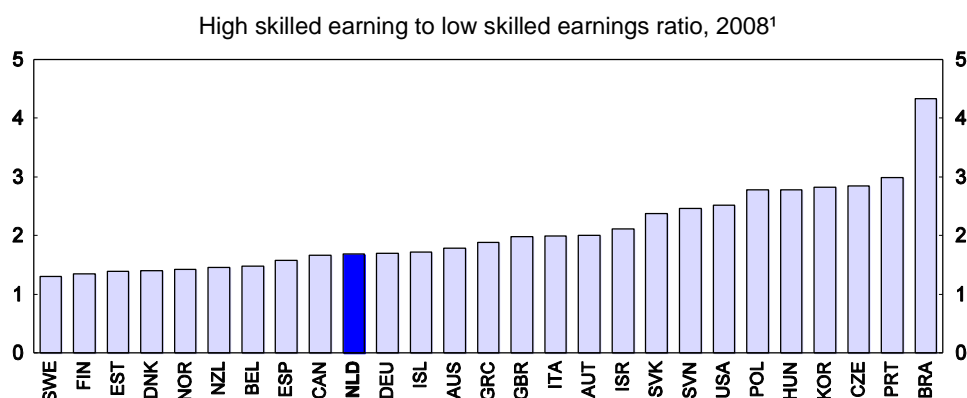


1. High-skilled workers are defined as workers with tertiary education or higher.
2. 1999 not available for Chile, Estonia, Israel and Slovenia.
3. Low skill workers are defined as workers with pre-primary, primary and lower secondary education.

Source: OECD (2012), Education at a Glance database.

Lower-skilled workers as a group have benefited from globalisation and skilled-biased technical change, mirrored in an increase in their real wages and an unemployment rate that is less than half the EU-15 average.² On the other hand, they have benefited less than high-skilled workers, as there has been a concurrent shift in relative labour demand in the favour of the latter (outpacing the substantial increase in supply). This has led to an increasing rate of return on investment in human capital (and higher earning dispersion) since the early 1990s (Jacobs, 2004; Jacobs and Webbink, 2006; CPB, 2008; OECD, 2008a).³ Nonetheless, wage dispersion remains compressed compared to most OECD countries (Figure 5). Moreover, there are no strong indications that globalisation has threatened the jobs and wages of middle-skilled workers (CPB, 2008; Groot and De Groot, 2011), in contrast with findings for the United Kingdom and the United States (Goos and Manning, 2007; Autor *et al.*, 2008).

Figure 5. Wage dispersion is relatively small



1. 25-64 year-old population. 2005 for Australia, 2006 for Austria, Belgium, Denmark, Greece, Iceland, Italy, Netherlands, Poland, Portugal, Sweden and Slovenia, 2007 for Canada, Finland, Korea and Spain.

Source: OECD (2010), OECD Education at a Glance.

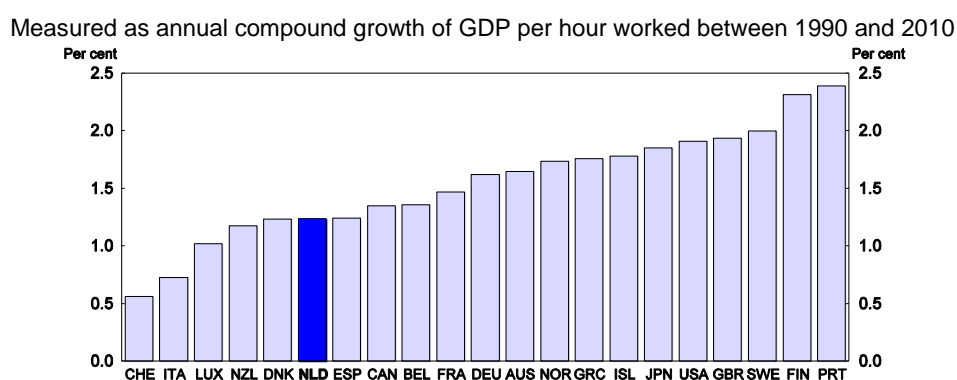
Over the past decades, there has been an increase in the flexible part of the labour market, which may have facilitated the reallocation of labour resources. Nowadays, about a quarter of the Dutch labour market consists of workers on temporary contracts and self-employed individuals, who are typically younger and lower skilled (Cörvers, *et al.*, 2011). This part of the labour market faces higher unemployment risk and lower social protection as this is positive related to job tenure (*e.g.* lower severance pay, unemployment benefits as well as sickness coverage). The implication is that the adjustment burden from external shocks falls disproportionately on this group. At the same time, globalisation is making tax bases more mobile, making risk sharing via the tax benefit system more difficult. It should be noted, though, that part of the group with short-term contacts consists of students that combine studies with small hour jobs, facilitating school-to-work transition (OECD, 2008 and 2010). In addition, the rest of the labour market (often older and high-skilled workers with permanent contracts) typically has high social protection (in terms of severance pay and unemployment benefit) that increases with tenure, giving few incentives for changing

2. Globalisation could have turned out negatively for individual (low skilled) workers, insufficiently mobile to find a new job in another sector, or at a higher skilled level. For instance, the Social and Economic Council considers especially low skilled production workers “the losers” of increased international competition (SER, 2008), although this assumption has not been quantified.
3. On average, people with university education earned twice as much as people with secondary vocational education in the period 2007-2009. The income difference is especially pronounced for older workers, while being much more moderate at a younger age (Statistics Netherlands, 2011).

employment and thus often denying expanding sectors easy access to experienced high-skilled workers. Moreover, employers of this group of workers have incentives to provide (job-specific) training.

Looking ahead, it is unlikely that the organisation of the labour market into a relatively small flexible segment and a much larger rigid segment within the context of an ageing labour force will allow the economy to fully reap the benefits of future globalisation. That would require a labour market that can reallocate increasingly scarce labour resources to their best use, particularly in sectors where the economy enjoys a comparative advantage (OECD, 2007b and c). Such reallocation would raise (a relatively low) productivity growth (Figure 6).⁴ A possible contributing factor to low productivity growth is that the labour market has been more successful in preserving employment for low-skilled workers than in many other countries (Figure 4, Panel B). By 2040, the working age population will have contracted by 10%, while the dependency ratio will have doubled (Figure 7). In addition, a considerable part of the retiring labour force is employed in traditional manufacturing sectors, adding to the necessary speed of adjustment to maintain the Dutch export performance at the same time as population ageing accelerates.

Figure 6. Labour productivity growth



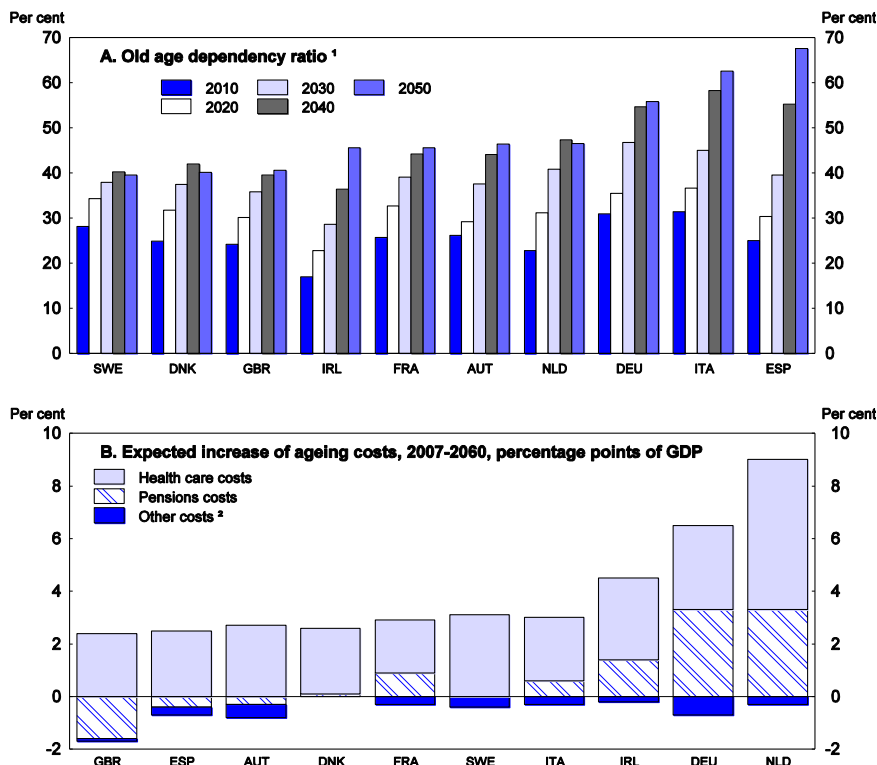
Source: OECD (2012), Productivity database.

Accelerating globalisation increases the premium on flexibility in the sense that the reallocation of resources across sectors, firms and occupations allows firms to make the necessary move up the value-added chain and boost productivity growth (Rae and Sollie, 2007). Moreover, globalisation is becoming increasingly complex, moving from the traditional trade in products, to “trade in tasks” as different stages and tasks of the production process are outsourced to various countries (Baldwin, 2006; Akçomak *et al.* 2010; Gelauff *et al.*, 2010). In this respect, the Dutch labour market is not well adapted to such changes as labour mobility is relatively low with long average job-tenures and unemployment spells,

4. Reallocation of labour, has found to be an important driver of productivity growth, insofar as less productive firms tend to destroy more jobs and more productive ones create more jobs. However, the positive relation between job flows and productivity growth does not imply that all labour reallocation is efficiency enhancing (OECD, 2009c; 2010a).

especially among older workers (where the incidence of long-term unemployment is 46% compared with 43% for the OECD average) (Figure 8). Even in terms of job-to-job mobility, the Dutch position is about average in the OECD (OECD, 2010a). Indeed, there is a concern that older workers are becoming increasingly misallocated, *i.e.* they could be more productive in other jobs (Euwals *et al.*, 2009).

Figure 7. Population ageing

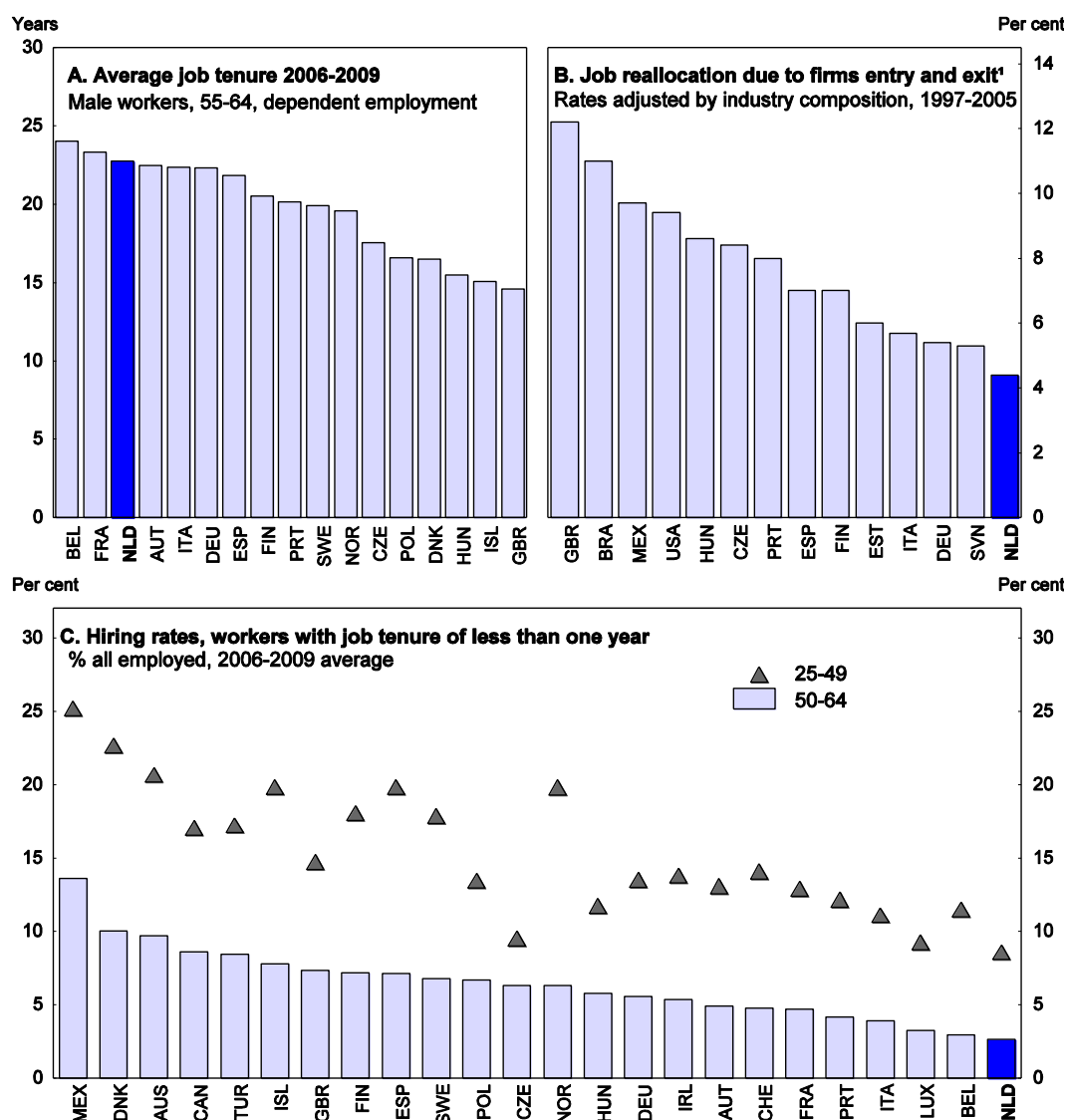


1. Population 65 years and over divided by 15-64 years population.

2. Unemployment benefits and education costs.

Source: OECD (2011), Historical population data and projections database (1950-2050) and European Commission (2009), "Ageing report: Economic and budgetary projections for the EU-27 Member States (2008-60).

Figure 8. Job mobility is low



1. Adjusted reallocation rates are estimated average rates of job creation and destruction by entry and exit to total dependent employment that would be observed in each country if it had the same industry composition as the average country.

Source: OECD (2012), Employment Outlook database and OECD (2009), Employment Outlook.

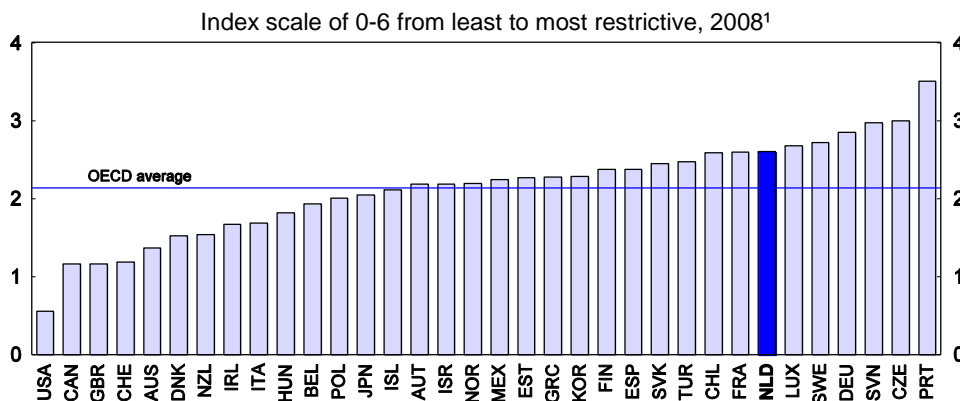
Policies to foster labour mobility

Easing employment protection legislation

The main impediment to the reallocation of labour is strict employment protection legislation (EPL) for workers with permanent contracts (Figure 9). In the Dutch system, there are two routes to terminate open-ended contracts: the costly but predictable court route or the cheaper but less predictable and lengthier administrative route (via the public employment service body - “UWV”) (See also the 2008 *Survey* for a detailed description). The system benefits workers with a strong labour market position as

severance pay increases relatively fast with age and with income, giving increasing incentives for remaining in the same job.⁵

Figure 9. Employment Protection Legislation (EPL) for workers with permanent contracts remains high



1. 2009 for France, the Netherlands and Portugal. This indicator refers to version 3 as defined in the methodology.

Source: OECD (2012), OECD Employment Protection database.

As discussed in the 2010 *Survey*, strict EPL for workers with permanent contracts reduces labour turnover, hampering productivity-enhancing reallocation of labour resources. This is particularly relevant in the context of globalisation, as internationally exposed firms often need to reorganise workplaces and move/attract employment to new economic activities. A particular problem is that accumulated severance pay rights are lost when changing jobs, severely reducing the incentives for older workers with substantial accumulated rights to change jobs (Euwals *et al.*, 2009). In addition, older unemployed have high reservation wages, resulting from a combination of their often generous severance pay and generous unemployment benefits as well as strong seniority element in wages (see below).

Easing EPL for workers with permanent contracts can contribute to an improved allocation of labour by increasing job flow via more exit and entry in and out of unemployment, reduced incidence of long term unemployment, more job creation and destruction, and higher job-to-job flows (OECD, 2004; Deelen *et al.*, 2006; Haltiwanger, *et al.* 2008; Bassanini *et al.*, 2008).⁶ For example, reducing EPL to the level of Denmark would shorten average unemployment duration by 5 months to 15 months and reduce the share of long-term unemployed by 3 percentage points (Deelen and Jongen, 2009). Moreover, a less strict and more predictable EPL system could make the Netherlands a more attractive country for foreign direct investment – a government objective (OECD, 2012). Over the years, several attempts aimed at reforming the EPL system, such as the effort to establish an upper ceiling on severance pay of EUR 75 000, have failed. Smaller changes to the system, however, have been introduced. The Last-In-First-Out firing principle has been replaced by the principle of collectively dismissed workers reflecting the overall age composition of the firm’s employees, moving some of the unemployment risk to older workers. More recently, there has been an adjustment of the general court guidelines for severance pay, reducing somewhat severance pay across the board, but especially for younger workers.

5. The court may determine severance pay roughly according to the following rule: half a month per year of service for workers under 35 years of age; 1 month for workers between 35 and 45; 1.5 months for workers between 45 and 55 and 2 month for workers 55 years and over.

6. By contrast, in industries where firms restructure through internal adjustments, changes in EPL can be expected to have little impact on labour reallocation (Bassanini *et al.*, 2010).

The small successes in reducing severance pay do not suffice and renewed efforts to implement an upper ceiling on severance pay are needed. Moreover, there is a need to make the dismissal system simpler, more predictable and less time-consuming, as recommended in previous OECD *Surveys* and *Going for Growth*, including clearly specifying the rules governing layoffs in law and making court appeals only possible *ex post*. Such reform would promote productivity-enhancing reallocation of labour and enhance older workers' job-to-job mobility, particularly if combined with reform of the generous unemployment benefits (see below).

Reducing tenure-based pay

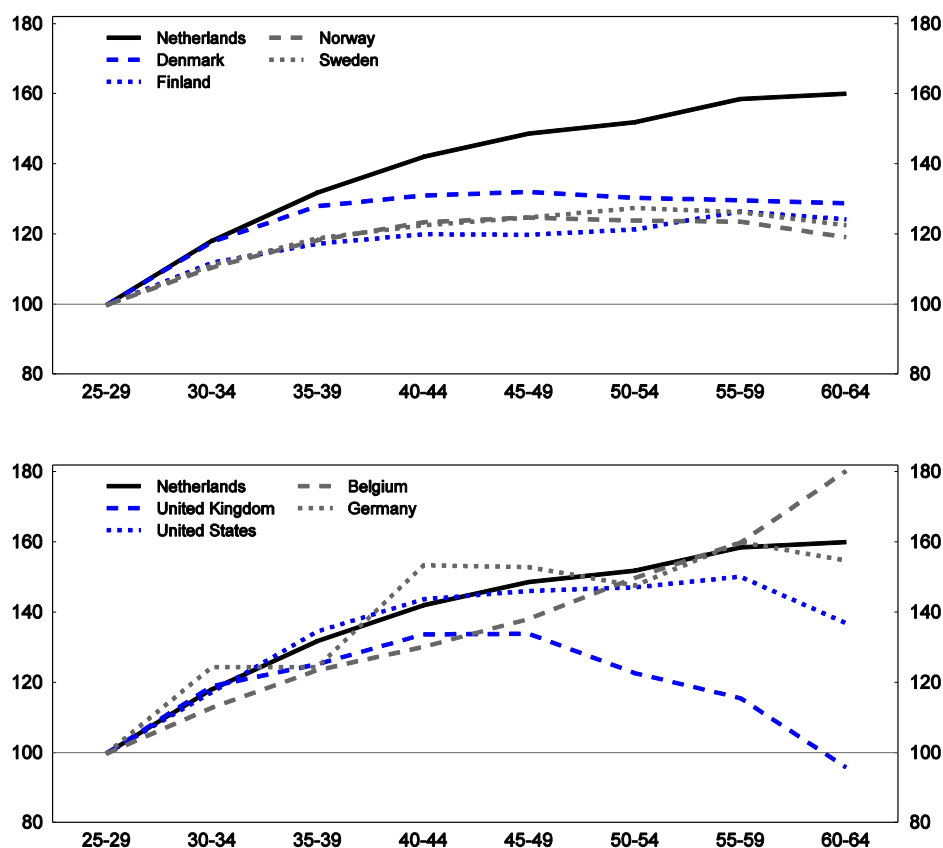
The return to tenure in the Netherlands is relatively high, making it unattractive for older workers to switch jobs, as this often implies lower wages (Deelen, 2011; Van Vuuren and De Hek, 2009; Borghans *et al.*, 2007).⁷ Male employees between 55-59 earn almost 160% of the level at the age 25-29: a profile that is roughly comparable to Belgium and Germany, but much higher than in the UK, the US and the Nordic countries, where the wage-tenure profiles tend to decline after 60 (Figure 10). The increasing tenure profile can be explained to some extent by the strict employment protection legislation, which tightens with increasing seniority and boosts insiders' bargaining power (Deelen, 2011). In recent years, the social partners have tried to move away from tenure-based pay by basing wage increases more on individual performance (see below). This has had a positive effect on labour mobility for the concerned companies (Gielen *et al.*, 2006). Nonetheless, around 70% of the collective agreements provide an automatic yearly salary increase (Ministry of Social Affairs and Employment, 2011a). Moreover, for older workers who have often reached the highest grade of their wage scale – wage reduction is still very unusual (Van Vuuren and De Hek, 2009). Thus, the reallocation of older workers can be further supported if social partners would reduce the automatic tenure element in wages. In addition, such a measure may enhance reemployment chances of the older unemployed.

Another reason why social partners should address the issue of tenure based wage is that the current wage formation system may drive up wage costs, eroding external competitiveness. The strong tenure element in wage means that population aging leads to an automatic wage increase that is not related to productivity developments (OECD, 2008b). Additional pressures on total wage costs may arise from the need to finance increasing ageing related costs, particularly in the area of health care (OECD, 2012). Indeed, the great majority of employers expect ageing to push up wage costs (Van Dalen *e al.*, 2008). These issues can be addressed by changing the wage formation system to secure a closer link between wage and productivity developments.

7. Returns to tenure are generally interpreted as the firm-related component of wages, which may act as an impediment to mobility (Deelen, 2011).

Figure 10. High tenure premia for men¹

Salary of 25-29 year old = 100



1. The data refer to full-time workers and to various years over the period 1998-2003, and to median salaries for Denmark and the Netherlands.

Source: OECD, Earnings database, unpublished data.

Greater wage flexibility can support better allocation of increasingly scarce labour resources

Nominal labour costs in the Netherlands have developed broadly in line with most euro area competitors over the latest decade, notwithstanding the relatively tight labour market. This has been supported by the highly coordinated and broad wage-setting framework (including administrative extension of agreements) that takes into account the macroeconomic situation, reduces transaction costs, and secures common standards for working conditions (Box 1). However, the system also often delivers relatively high wage increases after the economy is slowing down, damaging cost-competitiveness at an unfortunate point in the business cycle (Leering, 2007; OECD, 2008b; SER, 2006). Indeed, there has been upward pressure on unit labour costs (Figure 11). In addition, strong centralisation/coordination tends to preserve relative wage structures, distorting wage signals between declining and expanding sectors and thus hampering labour reallocation, putting the Netherlands at a disadvantage in a globalised world (OECD, 2007b; OECD, 2004).⁸

8. Studies on inter-industry wage differentials generally find that Dutch workers in financial intermediation and energy sectors are paid relatively well, especially compared to workers with similar characteristics in trade, hotels and restaurants and clothing industries (Du Caju *et al.* 2010; Advokaat *et al.*, 2005; Van der Wiel, 1999; Hartog *et al.*, 1994).

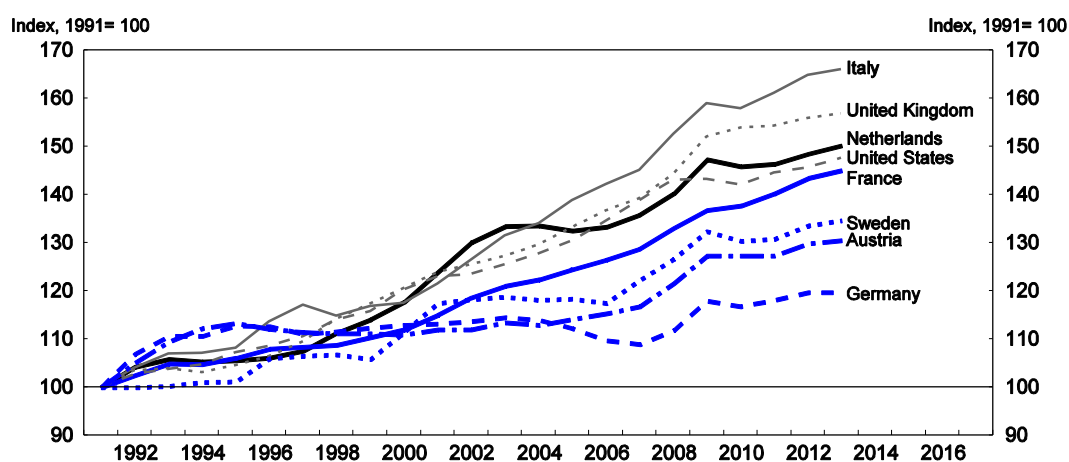
Box 1. Wage bargaining and a shift to decentralisation

Compared to other EU countries, a higher share of the labour force in the Netherlands is covered by collective agreements (about 80% of the dependent labour force against 60% for the EU27), although the union density (of about 20%) is somewhat below average (European Commission, 2011). The high collective coverage results from the relatively high enrolment in employers' organisations and is complemented by the Ministerial extension of collective agreements within an industrial sector to employers who are not members of an employer's organisation (*Algemeen Verbindend Verklaren*) (SER, 2007a).

The bargaining takes predominantly place at the sector-level: sector agreements account for about 90% of all employees covered, against 10% at the company level (Ministry of Social Affairs and Employment 2011a). The lower level bargaining is accompanied by coordination at the central level. In some years, this involves agreements between federations on wage developments, or – occasionally with involvement of the government – the settlement of other working conditions or social pacts (e.g. on pensions, working hours, disability benefits) (Leering 2007; Ministry of Social Affairs and Employment, 2008). In years where employers and union federations do not set common wage recommendations at the central level, trade union federations tend to set a maximum for wage bids, thereby taking into account macroeconomic conditions (Leering, 2007; SER 2007a). The ceiling serves as a guideline for associated trade unions when negotiating (contract) wages at the industrial or company level. Upward deviations from the rule are mainly via “incidental wage” growth (*i.e.* wage drift), including e.g. promotions, allowances, bonuses and dividend payments.

In recent decades, decentralisation and wage differentiation have been promoted. For instance, more collective agreements contain performance-based pay arrangement (like profit sharing, individual bonuses, or a salary increase depending on performance) or other flexible pay arrangements (like one off payments being independent of any performance) (SER, 2006 and 2008). Most collective arrangements at the sector level provide “opt-out” clauses (*dispensatiebepalingen*), allowing firms to (partly) deviate from branch agreements under certain conditions, although these are seldom used (SER, 2007a; Basis en Beleid, 2007; Regioplan 2008). At the lower end of the wage distribution, the real statutory minimum wage has been reduced, and the lowest adult salary in collective agreements has been brought close to the statutory minimum wage level (SER, 2007a; Ministry of Social Affairs and Employment, 2011a).

Figure 11. Unit labour costs have increased relatively fast



Source: OECD (2012), Economic Outlook database.

In the future, it will become increasingly important to align wage and productivity developments, both to preserve external competitiveness and to assure the proper allocation of increasingly scarce labour resources. The Wassenaar Agreement from 1982 (the founding document for the current wage formation process) included an objective of more decentralised wage agreements – a move reinforced in a 1993 agreement (SER, 2006; Ministry of Social Affairs and Employment, 2008). The social partners have stated

that decentralisation should be pursued and could include collective agreements at the company level, fewer detailed rules and regulations in collective agreements, further emphasis on performance-based pay and a degree of macro-economic policy coordination (SER, 2007a; SER, 2008). So far, decentralisation measures include wider use of performance-based pay arrangements and greater availability of (seldom used) opt-out clauses (Box 1). However, sector level wage agreements still dominate, and have even been increasing (Table 1).

Table 1. Workers covered by collective agreements¹

	Collective agreements	Covered workers	Share of workers covered at:	
			Sector level	Company level
	Total number	Millions	% of all covered workers	
2003	712	5.8	88.7	11.3
2004	759	6.1	88.2	11.8
2005	748	6.2	86.1	13.9
2006 ²	538	4.8	81.4	18.6
2007	715	5.8	89.9	10.1
2008	716	5.9	90.7	9.3
2009	748	6.1	90.3	9.7
2010	709	6.4	91.0	9.0
2011	688	6.1	91.3	8.7

1. Concerns regular, notified collective agreements.
2. Outlier because of lower registration.

Source: Voorjaarsrapportages CAO-afspraken.

Decentralisation of wage negotiations would enhance the signal value of relative wages and the productivity enhancing reallocation of labour resources. In this respect, a continued good employment record would depend on not only moving away from the strong coordination, but also moving wage setting to the local level as otherwise there is a risk that the wage determination system would neither take into account macroeconomic conditions nor local productivity developments (Bassanini and Duval, 2006; OECD, 2004). In addition, the increase in job turnover is likely to boost on-the-job life-long learning effects, furthering productivity growth (Box 2). Indeed, more relative wage flexibility sends clear signals for human capital investment (OECD, 2004). At the same time, more decentralised wage formation would facilitate that tenure-based wage profiles are in line with productivity developments, enabling older workers to remain employed.

Box 2. Life-long learning incentives

In a globalised world, high human capital is key to create greater mobility as it facilitates life-long learning, boosting the ability to change jobs (Baldwin, 2006; Rae and Sollie, 2008). However, Dutch workers have few incentives for investing in life-long learning. Only about 40% of all employees are involved in training, whereas the share is double that in Denmark, Finland and Sweden (Euwals *et al.* 2009). The combination of EPL that tightens with seniority and the strong seniority elements in wages gives strong incentives to keep the same job as long as possible thereby reducing the return on (non-firm specific) human capital accumulation. The effect of limited investment in human capital on mobility is exacerbated by the fact that the sector training funds ("O&O-fondsen") mainly focus on acquiring sector specific skills, instead of general training that can facilitate labour mobility between sectors and particularly out of declining sectors (Government, 2010a; SER, 2011). Using the funds collectively for more general training should be promoted but may be complicated by the fact that the size of the funds differs substantially among sectors. The 2013 Vitality scheme contains training budgets specifically targeted to facilitate mobility between sectors.

Reforming the wage determination system requires action from the government and social partners. The government should as a first step towards more decentralised wage setting limit or abolish ministerial extensions of sector collective agreements, as they restrict the scope for local wage setting. At the same time, social partners should facilitate the use of opt-out clauses to allow firms to deviate from sector agreements – a little known option (especially among SMEs) as almost three-quarter of companies are unaware of the possibility, which is thus hardly ever used despite that most agreements contains such clauses (Regioplan, 2007; Regioplan, 2008; Basis en Beleid, 2007). This implies that social partners should ensure that collective agreements contain clear procedural guidance for judging opt-out requests, which is often lacking (Basis en Beleid, 2007). Even better would be to mandate that opt-out clauses are solely determined by the directly involved parties at the local level, doing away with sector approvals.

More importantly would be for the social partners to reorganise the wage formation system to move wage negotiations to the local level. This could, for example following the Danish model, be achieved by maintaining central or sector negotiations for framework conditions (such as work time rules, pension, etc.) while wages are determined at the local level. The government could contribute to this process with a reform of the strict employment protection legislation to counter the potentially strong bargaining position of older workers, particularly in SMEs.

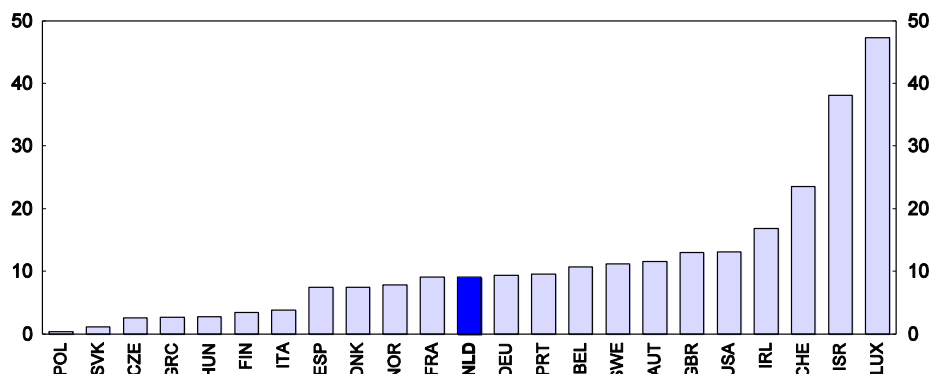
Mobilising underutilised labour resources

The flows of skilled workers across national borders and the global competition for talent have become important aspects of globalisation (OECD, 2008c and 2009a). The Netherlands benefits from non-EU high-skilled immigrants, reflecting their substantial contributions to economic and innovative activities and their minor demands on the education and social welfare systems (Theeuwes, 2011; Roodenburg *et al.* 2005; Muysken and Ziesemer, 2011). Compared to other countries, however, the share of highly educated immigrants in high-skill jobs is relatively low, despite the admission policy for such immigrants being relatively liberal (Berkhout *et al.*, 2010) (Figure 12). Various – mostly demand-driven – admission policies are in place to support entrance of non-EU high-skilled workers (Box 3). Not all of these policies reflect the fact that the decision of a high-skilled person to settle abroad depends on a broad range of factors, including career and financial opportunities, the presence of highly ranked research institutions, attractive living conditions or personal reasons (OECD, 2009a; Berkhout *et al.*, 2010). Moreover, demand for immigrant workers is often for low-skilled workers, for instance in agriculture and construction, in part reflecting problems of mobilising these workers domestically.⁹

9. This is reflected by the fact that the number of immigrants that entered the Dutch labour market via a work permit over the last years has substantially exceeded the number of workers who entered the country via knowledge workers scheme. For instance, in 2006 the number work permits mounted to 74 thousand (mainly polish workers), against 2 thousand migrants under the knowledge workers scheme (Ministry of SZW, 2011c). Mainly as workers from most new EU member states do no longer require a permit, the first group declined considerably (to 14 thousand in 2010), but still concerning more than twice as many workers involved in the knowledge migrant schemes.

Figure 12. Immigrants in high-skill jobs

As a percentage of all persons in high-skill jobs, 2009



Source: OECD (2011), International Migration Outlook.

Box 3. Policies to attract high-skilled workers

The Netherlands has implemented policies to attract high-skilled workers from outside the EEA. On the demand side, the “knowledge workers scheme” exempts workers from work permit requirements if their yearly income meets the gross annual income criterion of EUR 51 239 (in 2012) or about 10% more than an average full time gross wage. Young workers below 30 have to earn at least EUR 37 575 (the average wage for the 25-30 year olds is about EUR 33 000); while no income requirements are in place for scientific researchers and doctors in training. Besides the fact that the employer has to be enrolled in the high-skilled workers programme, income is essentially the only criterion, making the scheme more straightforward than the EU “blue card” scheme. Since its introduction in 2004, the number of immigrants under this scheme has increased from 2 200 in 2005 to 6 570 in 2010, and accounts for about a third of all work permits distributed to workers from outside the EEA (and Romania and Bulgaria). Moreover, to facilitate the entrance of high-skilled workers for a short stay, a short-term work permit for high-skilled workers has been introduced in January 2012 (in the form of a pilot project).

The Netherlands has also implemented policies to increase the supply of high-skilled workers: International Bachelor and Master students from outside the EEA are entitled to find a job within a year of graduation from a Dutch University (Zoekjaar Afgestudeerde Buitenlandse Studenten), which pays at least EUR 26 931. The government plans to explore possibilities to increase the retention rate of international students, for example by encouraging students to learn Dutch and fostering connections between students and the private sector (Ministry of Education, Culture and Science, 2011).¹⁰ Similarly, Master and PhD graduates from internationally highly ranked universities are allowed to stay for one year in the Netherlands to search for a job that pays as well as in the knowledge workers scheme (*Regeling Hoogopgeleiden*). In addition, there is a scheme for self-employed, whose access is granted based on personal skills and experience, a business plan and the potential contribution to the Dutch economy. In practice, few immigrants enter the Netherlands via these supply side measures (roughly one out of five high-skilled workers), of which the recent graduates are the most important group.

Moreover, tax incentives are in place to attract high-skilled foreign workers via the “30% ruling”, which is a tax-free allowance of 30% of the employee's salary for up to 10 years. To qualify for the allowance the foreign employee has to have specific expertise not readily available in the Dutch labour market, a criterion that is linked to the minimum income level of the knowledge workers scheme. The ruling has recently been revised to include foreign PhD candidates who graduated in the Netherlands and to exclude employees living in neighbouring countries within a short distance to the Dutch border.

The most important country of origin for non-EEA high-skilled workers in the Netherlands is India (30% of recent yearly inflows), followed by the US (15%), and thereafter China, Turkey and Japan (INDIAC, 2010). Surveys suggest that most knowledge workers are employed in financial and business services (33% of total). Other important sectors are research and education (17%), manufacturing and utilities (13%), and transport and communication (11%) (Berkhout *et al.*, 2010).

10. A proxy for stay rates as calculated by the OECD suggest that the “stay rate” in the Netherlands is somewhat above the OECD average (OECD, 2011c).

The “knowledge worker” scheme is driven by (mainly larger) firms’ demand for high-skilled workers and is based on long-term work relationships between the employer and employee. It does not allow for short time assignments that are often required in a globalised world and thus hampers employment of foreign staff, or complicates training of employees of foreign companies in the Netherlands (for instance on their latest purchase of Dutch equipment) – an issue also identified in the new policies for the business sector (OECD, 2012) (Top-team High Tech, 2011). To address part of this problem, a short stay (*i.e.* less than 3 months) work permit for high-skilled workers was introduced in early 2012 as a two-year pilot.¹¹ As such a scheme enables a better match of labour supply and demand, it should be made permanent. Another issue on the demand side is the income criterion in the knowledge workers scheme, which some sectors, like creative industries (concerning sectors like art, entertainment, fashion design and architecture), consider too high, weakening their international competitiveness (Top-team Creative Industries, 2011). To address this particular bottleneck, the current income restrictions should be eased substantially. This should take the form of a general reduction (*i.e.* not sector specific) to avoid overly heterogeneous regulation among sectors (OECD, 2012).

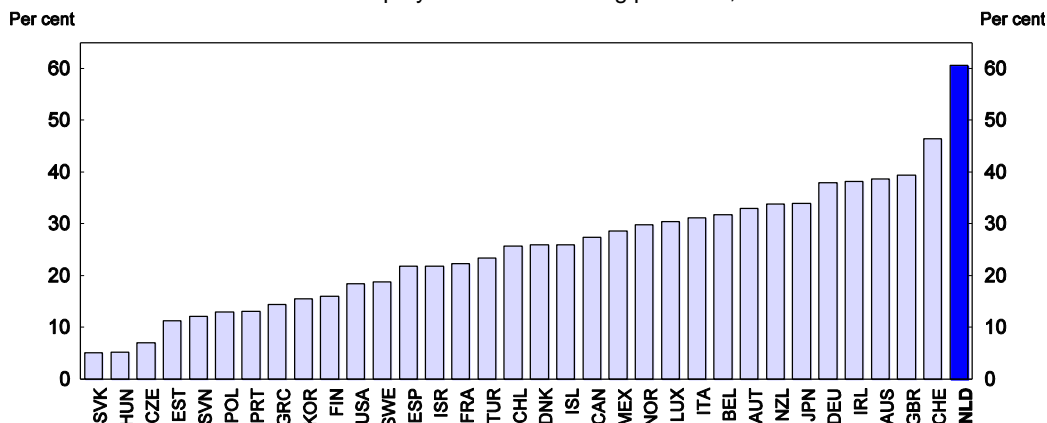
Further options to enhance the available pool of high-skilled workers should be explored. As recommended in the 2008 Survey, the (firm) demand-driven scheme should be supplemented by a scheme to expand the available supply of high skilled immigrants, who should be granted job-search visas to make themselves available on the Dutch labour market. Under such a scheme (for example in the form of a points based system to determine the relevant skill level) workers with desired characteristics would be granted a job-search visa without the *ex ante* requirement of a job contract – the latter should automatically lead to a work permit. Such a scheme has the advantages of expanding the availability of high-skilled workers for SMEs and of increasing their mobility between different employers (SER, 2007b; OECD, 2008b). Another – easy to implement – measure to boost the availability of high-skilled immigrants is to make it easier for non-EEA graduates from Dutch universities or internationally recognised foreign universities to seek employment by relaxing or abolishing current income restrictions and time limitations. Another avenue to explore is to be more active in recruiting high-skilled foreign workers through participation in international job fairs, more multilingual job postings and special job-search assistance to high-skilled immigrants who might lack host-country-specific knowledge (Chaloff and Lemaitre, 2009). For instance, Denmark has set up a “work in Denmark” centre in India to attract high-skilled immigrants, such as health care workers, engineers and IT and communications specialists (OECD, 2009b).

A large underutilised labour resource is the large number of high-skilled part-time female workers. Almost two-thirds of female workers hold part-time jobs, contributing to low average hours worked (Figures 13 and 14). As covered in the 2008 Survey, the high share of part-time work is partly linked to labour market policies that promote part-time employment, insufficient provision of child care services as well as high effective marginal taxes - in some specific cases even exceeding 100% (Ministry of Social Affairs and Employment, 2011b). Moreover, the tax benefit system is fairly complicated in this area, with for example no less than twelve different tax and subsidy measures in place to support parental income and/or labour participation, which are partly overlapping and countering each other (Government, 2010b; Ministry of Social Affairs and Employment, 2012a). Plans are being made to reduce the number of child benefits from 12 to 4 in 2014.

11. The short-term work permit for high skilled workers does not address the issue of foreign staff (working for foreign companies) that have to be trained in the Netherlands for a short period. There is an income criterion attached to the short-term permit, which is similarly to (the per month ratio of) the knowledge workers scheme.

Figure 13. High incidence of female part-time employment

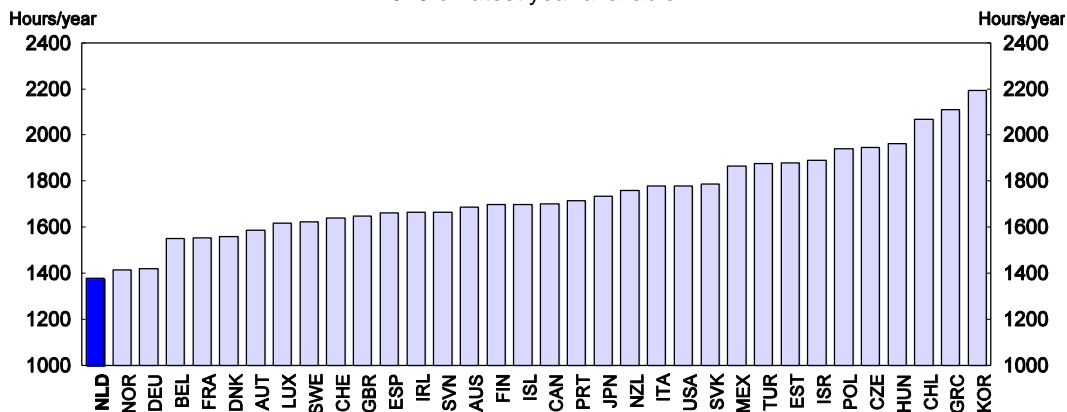
Share of employed women working part-time, 2010



Source: OECD (2012), Incidence of FTPT employment - common definition database.

Figure 14. Low average annual hours actually worked per worker

2010 or latest year available ¹



1. 2009 for Denmark, France, and Israel, 2008 for Switzerland.

Source: OECD (2012), Average annual hours actually worked per worker database.

Efforts to raise hours worked have been stepped up. Child care related spending increased in the second half of the 2000s by more than 40% to reach 1.7% of GDP in 2010, including participation supporting measures as well as income support.¹² Moreover, the transferability of the tax credit for second earners is being phased out over 15 years to enhance employment incentives - a measure that was recently strengthened by abolishing the exception for families with young children. In addition, the double tax credit will be phased out of the reference minimum wage for calculating social assistance benefits in 20 steps from 2012 onwards to prevent the benefits from being higher than the minimum wage. Also from

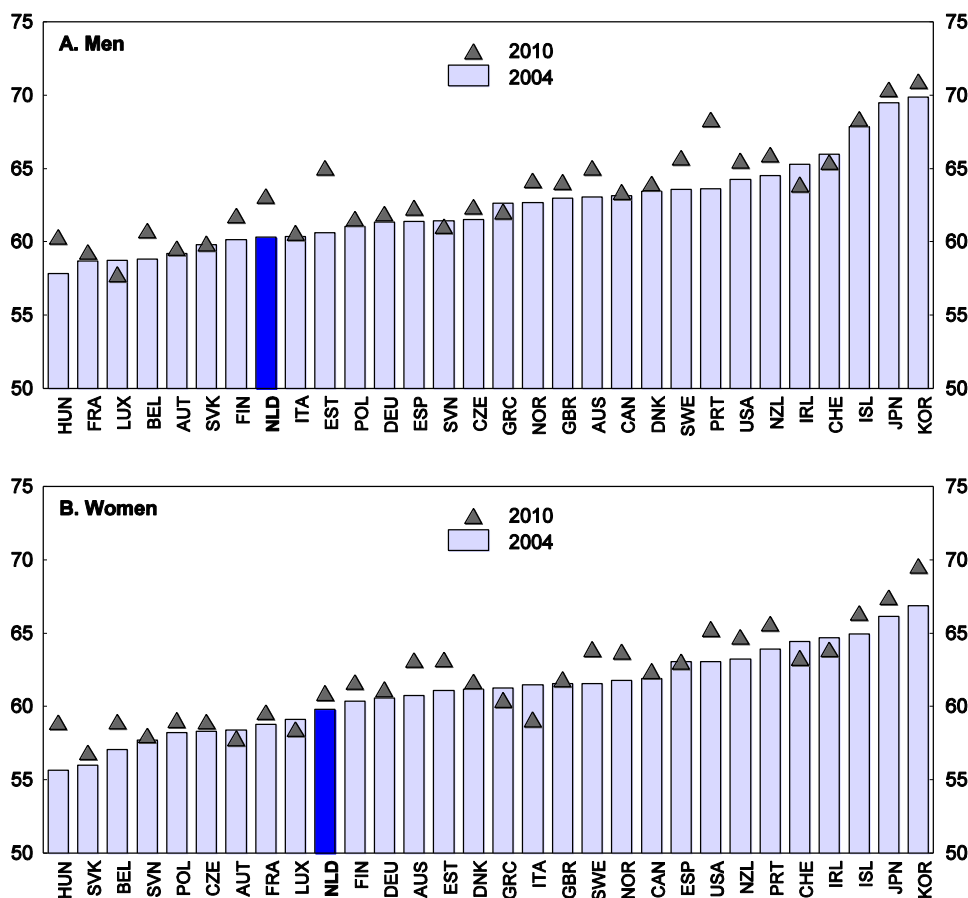
12. Besides having positive effects on the participation of young mothers, the increase in childcare support replaced some informal care with more formal childcare facilities (Jongen, 2010).

2012 onwards, child care support provisions depend on the number of hours worked by the least-working parent. The government aims at streamlining supporting measures to make the system more transparent and effective (Ministry of Social Affairs and Employment, 2012a). As recommended in the 2008 *Survey*, the effective marginal tax rates for second earners can be lowered by making child care support provisions more dependent on secondary earners' income rather than family income. In this respect, care should be taken in the design of such a measure to ensure that the effective marginal tax rates for second earners come down. It should be noted that boosting hours worked involve higher fiscal costs – something the government is preventing with the planned reduction in childcare spending of about EUR 1.5 billion by 2015 at a time when population ageing is accelerating. Indeed, given the current bias towards female part-time work, the effects of measures to promote female full-time work may only materialise over the medium-term. In this perspective, cuts in childcare support should be avoided so as not to deter the promotion of female full-time work. Moreover, frequent policy changes in childcare provisions may damage the balance of long-term decisions on how to combine work and care responsibilities. Hence, it is important to secure a long-term commitment to childcare policies to favour work-care decisions towards work.

The effective retirement age of men has increased from 60½ years in 2004 to 63 in 2010, whereas the retirement age for women increased by one year to 61 (Figure 15) – a trend that is reflecting past reforms to make early retirement less attractive (Statistics Netherlands, 2012). As the state pension age will be increased from 65 to 66 in 2020 and thereafter be linked to life expectancy, this should together with the 'vitality scheme' further boost the effective retirement age.¹³ The effectiveness of these measures could be enhanced by securing that older workers do not use a combination of high severance pay and generous unemployment benefits as a route to early retirement.¹⁴ As discussed in the 2010 *Survey*, this would require that the strict EPL for workers with permanent contracts should be eased by, for example imposing an upper ceiling for severance pay and particularly effective if the ceiling declines as workers approach retirement (preferably as a function of the working life remaining before becoming eligible for state pension). In addition, the system of unemployment benefits should be reformed by reducing the maximum duration of 38 months for workers with long tenures. More dynamic search incentives can be given by maintaining the initial generosity of unemployment benefits, but gradually lowering it to the level of social assistance by the end of the benefit period. Moreover, the high upper ceiling for unemployment benefits - of about an annual EUR 35 000 – should be reduced to sharpen search incentives for high-income workers.

-
13. A "Vitality" scheme is promoting longer working lives by enhancing training, continuation, mobility, and career incentives for older workers through tax credits and bonuses, although the total impact on employment is estimated to be negligible and only slightly positive on mobility (CPB, 2011).
14. A move that is further facilitated by the generous tax treatment of housing and pension that promotes the accumulation of capital.

Figure 15. The average retirement age is increasing¹



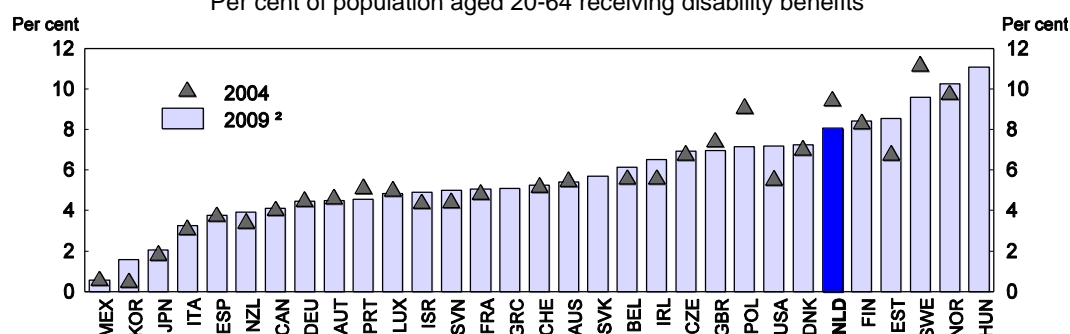
1. The average age of retirement is calculated as the average age of exit from the labour force during a 5-year period. Labour force (net) exits are estimated by taking the difference in the participation rate for each 5-year age group (40 and over) at the beginning of the 5-year period and the rate for the corresponding age group aged 5-years older at the end of the period

Source: OECD (2011), Statistics on average effective age and official age of retirement in OECD countries.

Another potentially underutilised labour resource is the high number of disability recipients. Despite a fall in the number of recipients following reforms, the share of the working-age population receiving disability benefits remains high compared to most OECD countries (Figure 16). This partly reflects a recent strong inflow in the special system for younger disabled people (Wajong), after decentralising activation responsibilities for social assistance recipients to the municipalities (Box 4). To increase employment of these younger workers (as well as older disabled), the government plans to reform and partly merge the schemes for social assistance, younger disabled workers and sheltered work.

Figure 16. Number of disability recipients remains high¹

Per cent of population aged 20-64 receiving disability benefits



1. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non contributory) and work injury schemes.
2. Or latest year available. 2005 for Luxembourg; 2007 for Canada, France, Italy, Spain, and Poland; 2008 for Austria, Belgium, United Kingdom, Greece, Ireland, Japan, Korea, Slovenia; 2010 for Denmark Estonia, Hungary, Israel and Portugal.

Source: OECD (2012), Going for Growth.

Box 4. Integrating the disabled in the labour market

The Netherlands experienced a strong inflow in the special system for younger disabled people (Wajong) in recent years, which has been related to the decentralisation of activation responsibilities for social assistance recipients to the municipalities (OECD, 2010b; Van Vuuren *et al.*, 2011). The decentralisation gave municipalities incentives to offload recipients to the central government funded Wajong programme – as the municipalities are allowed to keep social security budget surpluses for other purposes. To reduce the stock of young disabled, the previous *Survey* recommended that they should be subject to the same controls and activation measures as new applicants to disability benefits. A related problem is the high number of workers in sheltered work places (about 1% of the labour force) as well as the diverse conditions to access social assistance, Wajong and sheltered worker places schemes, giving incentives to use the most favourable scheme and too few incentives for searching for regular work (Ministry of Social Affairs and Employment, 2012b).

To increase employment of (partially) disabled workers in the private sector, the government plans to reform and partly merge the schemes for social assistance, younger disabled workers and sheltered work places (Ministry of Social Affairs and Employment, 2012b). Under the new scheme (the “Work Capacity Act” that is still being considered by parliament), municipalities will get full responsibility for the integration of workers with any (future) work potential together with corresponding financial accountability. Important tools to foster labour market integration are a single integration budget for the municipalities (which need to foster the efficiency of spending), a wage subsidy (dispensation) instrument (*i.e.* granting the possibility to employers to pay only a productivity reflecting wage, while the government supplements the income up to the level of the minimum wage) and a no-risk policy (*i.e.* employers who hire disabled workers do not have to bear the wage burden in case of sickness). In the long run, the reforms should allow budget savings of about EUR 1.8 billion.

However, integrating (partly) disabled younger workers into the labour market is considerably more challenging compared to other groups, especially in light of globalisation that shifts labour demand towards high-skilled workers. One factor that is likely to hamper the smooth integration of younger workers with low earning potential are the collective minimum youth wages that tend to hover considerably above the statutory minimum wage – depending on the exact age, sector and specific collective agreement (Table 2). Hence, for younger workers the social partners should consider bringing the lowest wage of the collective agreements towards the statutory level – an attempt that has already been successfully effectuated for adult wages (for which the average difference between collective and statutory minimum wages is now about 3%).¹⁵ Another concern in this area is the tendency in collective agreements to abolish the salary bands for younger workers (Ministry of Social Affairs and Employment, 2011a), which could worsen employment prospects for (disabled) youth, insofar as this would imply higher entry wages.

Table 2. Lowest collective agreement wage per age category
% of statutory minimum wage (for corresponding age)

Age	15	16	17	18	19	20	21	22
Agriculture and fisheries	133.4 (4)	140.3 (4)	144.3 (4)	148.8 (4)	149.3 (4)	144.8 (4)	137.1 (4)	121.9 (4)
Construction	100.0 (6)	105.3 (11)	105.9 (12)	108.3 (13)	106.9 (13)	105.4 (13)	104.0 (13)	102.7 (13)
Manufacturing	100.0 (1)	109.0 (4)	108.7 (4)	113.7 (4)	118.9 (4)	120.3 (4)	120.0 (4)	117.4 (4)
Trade and hotel and restaurants	109.4 (16)	111.0 (22)	111.1 (22)	110.6 (22)	110.1 (23)	108.5 (23)	106.9 (23)	111.6 (23)
Transport and telecom	142.6 (5)	141.5 (9)	142.3 (10)	140.1 (10)	137.7 (10)	133.9 (10)	127.9 (10)	119.1 (10)
Business services	100.0 (3)	104.9 (5)	112.0 (8)	114.7 (10)	115.1 (10)	113.5 (10)	111.0 (10)	109.6 (10)
Other services	178.8 (3)	155.5 (3)	129.3 (4)	134.2 (4)	134.4 (4)	131.8 (4)	125.7 (4)	116.7 (4)
Total	115.4 (38)	115.9 (54)	116.4 (64)	118.0 (67)	118.2 (68)	116.4 (68)	113.7 (68)	112.0 (68)

The brackets indicate the number of collective agreements that have been taken into account for calculations. Figures are weighted for the number of employees.

Source: Voorjaarsrapportage 2011.

Box 5. Recommendations to support labour reallocation and activation of underutilised labour resources

Facilitate the reallocation of increasingly scarce labour resources

- The social partners should reduce the automatic tenure element in wages to foster the reallocation of older workers as well as support expanding sectors' access to these experienced workers.
- Renewed efforts to implement an upper ceiling on severance pay should be pursued.
- The dismissal system should be made simpler, more predictable and less time-consuming.
- To promote decentralisation of wage formation, the government should limit or abolish ministerial extensions of sector collective agreements.
- Social partners should facilitate the use of opt-out clauses, including clear procedural guidance for judging opt-out requests. A better alternative would be to let the directly involved parties at the local level decide.
- The social partners should reorganise the wage formation process to move wage negotiations to the local level to secure an alignment of productivity and wage developments.

15. The youth statutory minimum wage is relatively low, but the collective agreements stipulate higher sector minimum wages, resulting in high entry wages compared to other countries (Van Vuuren *et al.*, 2011).

Mobilise underutilised labour resources to counter the ageing related contraction of the labour force

- The government should make the pilot scheme with short stay work permits permanent to better match labour supply and demand. In addition, the income restrictions in the knowledge worker scheme should be eased substantially.
- Introduce a scheme to expand the available supply of high-skilled immigrants by granting them job-search visas. The conclusion of a job contract should automatically lead to a work permit. Facilitate job-search by non-EEA graduates from Dutch universities or internationally recognised foreign universities by relaxing or abolishing current income restrictions and time limitations.
- Reduce the effective marginal tax rate for second earners by making childcare support provisions more dependent on secondary earners' income rather than family income.
- Avoid cuts in childcare support so as not to deter the promotion of female full-time work.
- Avoid that older workers use a combination of high severance pay and generous unemployment benefits as an early retirement route by implementing an upper ceiling for severance pay, which would be particularly effective if it declines as workers approach retirement. This should be combined a reduction in the maximum unemployment benefit duration for workers with long tenures as well as by reducing the high upper ceiling for unemployment benefits.
- Job prospects for partly disabled younger workers who will be affected by the reforms of the disability system can be strengthened by bringing the lowest wage of the collective agreements towards the statutory level.

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