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Labour market participation in the Netherlands: trends, policies and outcomes

Wim van Oorschot

Introduction

The Netherlands is no exception to the general European trend towards the activation of unemployed people and may even be seen as one of its forerunners. When Wim Kok, the former Labour prime minister, came to power in 1994 and declared 'work, work, work' as the central guiding slogan for his government, he only intensified a general policy aimed at increasing the (re)integration of the unemployed that had already been installed in the 1980s by Ruud Lubbers, his Christian-Democratic predecessor. From the early 1980s onwards, the country had been plagued by high numbers of (long-term) unemployed for nearly 15 years. In recent years, however, unemployment has decreased steadily, at present being back at the low levels of the prosperous early 1970s, and employment has skyrocketed. It is generally believed that Dutch activation policies and wage moderation have contributed significantly to this 'Dutch miracle' (Visser and Hemerijck, 1997).

In this chapter Dutch activation measures taken in the field of social security and labour market policies are critically reviewed. On the basis of an initial sketch of developments in Dutch (un)employment over the last three decades, the main trends in social security and labour market policy will be discussed, as well as the most important of the actual activation measures taken. Subsequently the nature and extent of the Dutch success story will be subjected to a critical analysis.

Developments in Dutch (un)employment

Following the oil crisis of 1973, unemployment increased from about 50,000 to 200,000 in 1975. This number was unacceptable to the then current government. After the second oil crisis, unemployment figures reached an all time high of 800,000 in 1984. From then on the numbers dropped gradually

Figure 6.1: Dutch unemployment rates (1975-99)

Source: OECD (1999b)

(among other things because of a change in the government's definition of unemployment in 1988), but a third economic crisis in the beginning of the 1990s resulted in again rising figures. In recent years, the number of unemployed has decreased significantly. Figure 6.1 shows the sketched development in terms of unemployment rates. In 1999, the rate had returned to its pre-recession level of about 3%, which equals about 250,000 registered unemployed people.

Suggesting that unemployment developments only follow economic ups and downs and the resulting variations in the demand for labour, would be to pass judgement on the basis of an incomplete picture. In the Netherlands, developments in the supply of labour have been equally important. Figure 6.2, which compares labour demand and labour supply for the period between 1970 and 1999, shows that employment has risen permanently, with the exception of the recession years of the 1980s. A steep rise in job growth occurred subsequently – the 'Dutch job machine' or 'Dutch miracle'.

The miracle did not result in vanishing unemployment, however, because the labour force grew even quicker than the number of jobs. For a large part, this was due to the massive growth in female labour market participation, which started at the end of the 1970s, stabilised at the beginning of the 1980s, and then accelerated after the major economic crisis. The male labour force increased by only 20% between 1970 and 1999, while the female labour force expanded by 139%. In the same period, the participation rate of men dropped from around 90% to 83% (due to long-term unemployment for some, and favourable early retirement and disability benefit schemes for others), while participation by women grew from about 29% to 64% (due to a number of different factors, such as the increased educational level of women, the gradual improvement of childcare facilities, and primarily the swiftly changing attitudes regarding women's roles; Visser, 1999; SCP, 2000). Overall participation increased in this period from 59% to 74% (OECD, 1999c, 2000a).

It is known that the steep increase in female labour participation, and therefore in employment, consists mostly of part-time jobs. Freeman (1998) claims the

Figure 6.2: Labour force and employment (000s)

Source: SCP (2000)

Netherlands had “the first part-time economy in the world” (p 14). Traditionally, slightly less than half of Dutch working women worked part-time, but the recent newcomers (who are mostly women in their 30s with children) have brought it up to a level of nearly 70%. Part-time work has also become more popular among Dutch men since the 1980s, but appears to have stabilised in the 1990s at about 16%. Among Dutch couples, the modern work pattern is one of ‘one-and-a-half jobs’, the man working (nearly) full time, and the woman part-time. As a whole, about one-third of the Dutch working population works part-time (Eurostat, 1998).

At present, there are major shortages on the Dutch labour market. The number of unfulfilled vacancies increased from 41,000 in 1994 to about 200,000 in 2000, which is about 2.5% of total employment. A comparison with the total of 230,000 registered unemployed people in 2000 shows that there is a serious mismatch between the qualifications demanded by employers and those possessed by unemployed people.

Trends in Dutch social policies

Since the successive oil crises of the 1970s, the Dutch welfare state has been permanently under pressure. The main trends in social security and labour market policies from these years onwards are described here (based on Visser and Hemerijck, 1997; van Oorschot, 1998a; SCP, 1998a; SZW, 1998), and are followed by a more detailed focus on activation measures proper.

Social security

The economic crisis made it clear that the Dutch system of social security could be overloaded and could eventually collapse. The initial reaction was to try to keep social expenditures under control by lowering the duration and level of insurance benefits and by 'freezing' the level of assistance and the state pension. This reaction was known as 'price policy', because it was mainly directed at keeping the system affordable. By 1990, however, the number of employees insurance beneficiaries had increased by over 300,000 from 1982, which more than offset the decline in the number of social assistance beneficiaries during this period. Subsequently, the emphasis was put on 'volume' policies which were aimed at reducing the accessibility of schemes and gaining control over the inflow of beneficiaries. Among the measures taken were:

- the sharpening of work record requirements for unemployment insurance;
- a limitation of the duration of earnings-related disability and unemployment benefits;
- a restriction of the concept of disability and a re-examination of the disability-status of 400,000 disabled workers according to the new concept;
- a nearly full privatisation of sick pay;
- a differentiation of employers' disability benefit contributions;
- the exclusion of young people from social assistance benefits.

The reconstruction of national insurance also reflected changes in Dutch society and culture. Some revisions were aimed at modernising the schemes by making them consistent with changing role patterns of men and women, particularly the increased participation of women in the labour force. Where modernisation implied an increased coverage, and therefore conflicted with the general aim of cutting back on social expenditures, means-testing was introduced to keep total expenditures under control, as was the case in the old age and survivors pensions.

There is no doubt that the measures have contributed to reducing social security expenditures – from 20% of GDP in 1980 to 13% of GDP in 1999 (SCP 2000, p 332). The system's collapse was prevented. At present, there is no prospect for a further rapid and substantial decrease in benefits expenditure, due to the very high number of disability benefits (nearly one million claimants) and the structural long-term unemployment among social assistance claimants. The ageing of the Dutch population can be added to this as a factor that most probably will lead to increasing demands for social protection (and health) expenditures in future.

Overall the level of citizens' social protection has declined. This, however, has not affected everybody to the same degree. Part of the decrease in protection offered by the collective system has been 'repaired' for workers in newly bargained collective labour contracts. The loss of collective social protection is also compensated at the household level as a result of the increased labour market

participation of women: more often the misfortunes of one partner can be compensated by the other partner's means. Clearly, however, those who have lost most of their social protection are people with weaker or no ties to the market for paid labour. These include workers on flexible contracts, young workers, workers with repeated unemployment spells, and beneficiaries who have little chance of returning to the labour market, such as pensioners, disabled workers, long-term unemployed and single parents.

Employment and labour market policies

In a first reaction to the initial increase in unemployment in the 1970s, a Keynesian approach to stimulate the economy, and thus labour demand, was tried. Extra investments in housing, for instance, were stimulated, unprofitable industries were supported and employment in the (semi-)government sector extended. When these measures had no direct impact on unemployment, a strategy directed at reducing labour supply was soon adopted. Early retirement of older workers was stimulated, older unemployed were no longer subjected to a work test and many redundant older workers were 'shoved aside' into the then easy accessible disability benefits program.

The measures taken, however, were no match for the economic effects of the oil crisis of 1979. The idea took hold that the Keynesian approach was part of the problem. It had resulted in an increasing budget deficit and growing collective expenditures, and therefore in high interest rates and wage costs, which both blocked economic recovery and employment growth. The period of 'price' policy, of major cutbacks on collective and social expenditures, began. Curtailing wage costs was regarded as the prime effective instrument for stimulating employment. The benefit cutbacks had to result in lower contributions, and therefore in lower wage costs, but the main emphasis was placed on wage moderation. The Wassenaar Agreement of 1982, under which social partners, pressed by the central government, agreed on a moderate development of wages, is seen by some as a central and effective event in Dutch (un)employment policy making (Visser and Hemerijck, 1997). Others see it merely as a formalisation of a trend that was already present, since real wages had decreased from the late 1970s onwards, due to increased unemployment and the weakening position of Dutch unions (SCP, 2000, p 290). In any case, the agreement had no immediate effect on (un)employment.

It was only with the improvement of the global economy from 1985 onwards that the ranks of unemployed started to shrink. This process was markedly gradual, however, and the problem of long-term unemployment persisted. This gave rise to the idea that the unemployment problem was not only based on a lack of jobs, but also on the characteristics and behaviour of the unemployed and employers themselves. Therefore, the government's attention shifted from a macro approach, to a more micro-directed approach. Labour market participation of unemployed people was given top priority, and various means were applied.

On the whole, the activation of beneficiaries and social security entitlements became more closely interlinked. In the beginning of the 1990s, in particular, activating 'sticks and carrots' were introduced in unemployment, sickness and disability insurance, as well as in social assistance. Work came to be seen as a better means of social protection than benefits¹.

A closer look at Dutch activation measures

In the course of the past two decades, numerous activation measures have been taken. A distinction is made between activation measures proper and work-related benefit criteria. The first can be defined as measures that are directly and explicitly aimed at the (paid or unpaid) labour participation of unemployed people or at preventing employed people from becoming unemployed. Introducing and tightening work-related criteria for benefit entitlements has an indirect (but mostly not unintended) activation effect: they make unemployment less attractive for workers and result in higher pressures on unemployed people to find work. (Measures aimed at the [re]integration of disabled workers are discussed separately: disabled Dutch workers have no formal obligation to find work, but their labour market participation has become a major concern.)

Activation measures

Since the second half of the 1980s, there has been an 'explosion' of activation measures (see van Oorschot and Engelfriet, 1999, for a detailed review of measures). Prior to this period, the main scheme was *Loonsuppletie*, which offered a temporary wage supplement for all categories of unemployed willing to accept a job with a wage below their previous wage level. The newly added measures specifically were aimed at young and the (very) long-term unemployed, who by then formed a large segment of total unemployment. However, three groups with notoriously bad labour market chances – the older unemployed, women and ethnic minorities – have been conspicuously absent as explicit target groups for activation measures. There are specific schooling and training programmes for these groups, and within the measures for long-term unemployed they are sometimes seen as groups deserving extra attention, but apparently the government has hesitated to design any explicit measures for them. No public statements on the reasons for this could be found, but it could have to do with a fear of (further) stigmatising unemployed women and people from ethnic minorities in the eyes of employers. It might also be related to government sensitivity to public opinion, which is not in favour of positive discrimination of ethnic minorities and women (van Oorschot, 1998b). With respect to the older unemployed, the situation is different. It was among the first reactions to the economic and budgetary crisis of the early 1980s to exempt unemployed of 57.5 years-of-age or older from the obligation to seek work as

a means of creating more opportunities for younger cohorts. It was only very recently, in 1999, when unemployment has dropped substantially, that this exemption has been abolished. In other words, the older unemployed have most emphatically not been among the priorities for activation.

Only few activation measures are solely aimed at the unemployed individuals themselves: wage supplement for those accepting a job with a lower wage level, reorientation interviews aimed at designing individual re-insertion plans (*heroriënteringsgesprekken*) and 'social activation' (unpaid, so-called *Melkert III* jobs). These are the only measures that do not require the immediate cooperation of employers. All other schemes do, in the sense that they try to encourage employers to employ long-term unemployed mainly by means of temporary or permanent wage subsidies and reduction of taxes and social security contributions. Apparently, the perceptions and attitudes of employers, and their related selection behaviour, is seen as more of a concern than the motivations and qualifications of the unemployed. Studies have indeed shown that by far the largest segment of all unemployed individuals is very eager to find a job (for example, Kroft et al, 1989; Hoff en Jehoel-Gijsbers, 1998) and that employers are prejudiced against (long-term) unemployed people (van Beek, 1994; Zwinkels en Besseling, 1997).

There is a mix of measures aimed at employment in additional and in regular jobs. Both types of job can be realised in either profit or non-profit organisations. Paid additional jobs are mainly created for the very long-term unemployed (*Banenpool*, *Melkert I* and *II* jobs) when such jobs are the only way of avoiding the strong barriers for this group, consisting of their stigmatisation among employers, their above-average age, their below-average skill level and the higher proportion of ethnic minorities. In the case of the young unemployed, additional jobs under the Youth Work Guarantee (JWG) scheme have replaced the right to social assistance benefit.

Schemes vary in the number of people participating in them. Generally, the participation rate, as the percentage of participants relative to the total target group, is very small. In 1988, for instance, about 7,000 young unemployed participated in the forerunner of the JWG, while nationally about 45,000 met the criteria. The *Vermeend-Moor* Act, which offers payroll tax reduction, covered 170,000 people in 1987, but only 6,000 participated (SCP, 1992). Even the 'larger' schemes, like *Banenpool* (23,000 participants) and *Melkert I* (40,000) and *Melkert II* (20,000) only cover small parts of their target groups of a few hundred thousand long-term unemployed.

Finally, most of the various measures have recently been integrated into two framework laws. One, the Act on the Integration of Jobseekers (*Wet Inschakeling Werkzoekenden* [WIW]) administered by municipal social services, is aimed at the participation of long-term unemployed in additional jobs. It incorporates both the JWG and *Banenpool*. The other, the Act on Reducing Contributions (*Wet Vermindering Afdracht* [WVA]) integrates schemes aimed at other types of unemployed or employed people, mostly schemes offering reductions and subsidies to employers. Government reasons for integration vary:

- there was overlap between some of the measures, and at some points even competition;
- clients and administrations had difficulties in distinguishing between the various conditions and target groups;
- there was lack of overall coordination.

Work-related benefit criteria

From the mid 1980s work-related benefit criteria and conditions have been introduced and tightened. Initially they mainly served the purpose of cutting back on social expenditure, later they are explicitly motivated by government on the basis of their activating effects. Work-related benefit criteria and conditions make unemployment less attractive for workers and result in higher pressures on unemployed people to find work.

With regard to unemployment insurance two moves were made. The 1996 new Law on Penalties and Measures (*Wet Boeten en Maatregelen*) intensified the sanctioning policies of social security administrations in order to activate unwilling unemployed more strongly. Formerly, issuing penalties for non-compliance with job-search obligations was a 'competence' of administrative bodies, some of which acted quite lenient, but with the new law, sanctioning is an obligation, penalties are nationally prescribed per type of misbehaviour and administrations are policed on their implementation. Secondly, during the 1980s and 1990s the work-relatedness of eligibility and entitlement criteria has increased significantly, mainly through linking them (more strongly) to a person's work record. Where benefit eligibility before 1987 depended on having worked at least 130 days in the year previous to unemployment, this has been changed in a number of steps into a combination of 26 weeks of work in the previous 39 weeks and having worked during four out of the last five years. The combination of these criteria means that nowadays only about 45-50% of workers will be entitled to the standard wage-related benefit would they become unemployed. Those who only meet the criterion of 26 out of 39 weeks are entitled to a short-term benefit of 70% of the minimum wage, and others will have to rely on means-tested social assistance. Maximum duration of the standard benefit has extended from 2.5 years to a maximum of 7.5 years, but this only counts for those with a very long work record. For those with smaller work records it has become more difficult to get benefit for more than half a year. On average being unemployed now means lower benefits, and for shorter periods. Consequently, keeping or finding paid work has become more important and compelling to workers.

Being the safety net of the Dutch social security system, the means-tested social assistance scheme has no work-related requirements regarding benefit eligibility. Benefit level and duration are independent of work record criteria too, but in practice they may vary according to whether clients conform to work related obligations or not. Non-compliance may result in penalties (of

5–20% of the amount of benefit) or a withdrawal of the full benefit (for maximally one month). Work-related obligations have not changed in the last decades but, as in case of unemployment insurance, the previously mentioned Law on Penalties and Measures (applied to assistance since 1997) has resulted in a more rigid and systematic implementation. Relevant changes are:

- for young people under 21 entitlement to benefit was replaced by a job entitlement through the JWG;
- single parents with children over five instead of 12 years-of-age became subjected to work obligations;
- the standard of 'suitable work' has been broadened, implying that beneficiaries are expected to accept work well below their educational and former job level;
- for each client with a reasonable labour market chance the municipal social service, that administers social assistance, has to design and implement an individual re-insertion plan.

Since it has been recognised that nearly half of the social assistance beneficiaries have very little real chances of finding a job municipalities have been given the possibility of implementing 'social activation' policies to prevent social isolation and apathy; that is, to stimulate clients to do voluntary or community work in exchange of exempting them from the work obligations.

Workers with disabilities

Traditionally, the (re)insertion of workers with disabilities has had little attention in Dutch social policy. There were (and there still are) sheltered workplaces for a limited number of disabled people, and the disability benefit scheme offered some possibilities for adjusting workplaces to additional needs, but structural and effective measures were not taken. This all changed, however, when the number of disability benefit claimants kept growing and stayed at very high levels, even after the economic recovery of the late 1980s. A variety of measures were taken to try and stimulate labour market participation of workers who were (at least partly) disabled (see van Oorschot and Boos, 2001, for details).

A first significant revision took place in 1987, with regard to long-term disability. Unemployed people without a job and who were partly disabled used to receive a full disability benefit on grounds of their very low labour market chances, but with the revision their benefit was proportioned to the degree of their disability. For the unemployment part they became entitled to unemployment insurance or assistance, and were therefore subjected to work obligations. In the early 1990s a 'bonus-malus-system' was introduced under which employers received a subsidy for employing a worker with additional needs for at least a year. In addition to this one-off subsidy, a 20% wage subsidy was also provided. Employers had to pay a fine or 'malus' in case an employee suffered a disability at work and was fired as a result. Next to this the reference

standard for the assessment of the degree of disability was broadened from work 'suited' one's educational and former job level into 'generally accepted work', a standard not connected to these criteria. As a result more jobs became regarded as being available for the workers with disabilities. At the same time, every disability claimant aged less than 50 years-of-age was reassessed according to the new standard, resulting in a (partial) withdrawal of benefit in 50% of all reassessed cases. The people concerned were declared to be partly or fully unemployed and had to rely on work-tested unemployment insurance or assistance. In 1995 the 'bonus-malus' system was abolished after it had met strong resistance among employers unions and administrative bodies. To carry further the 'battle' against the volume of workers with disabilities, new financial incentive measures were taken:

- an extension of the wage subsidy for employers;
- a wage supplement for disabled workers in case they lose income when accepting work;
- a guarantee for workers aged over 50 years of age and with disabilities that they will get their previous benefit level back if they have to stop working again;
- the possibility of working in a 'try out' job without loss of benefit rights.

Just recently, in 1998, an attempt was made to influence the behaviour of employers in such a way that they feel an individual responsibility for the prevention of disability as well as for the (re-)insertion of workers with disabilities. This is done by differentiating previously uniform premiums according to the number of disability claims that are generated in individual firms and sectors of industry. And by offering individual firms the option to leave the collective system and assume responsibility for the disability and subsequent benefits that it generates. (Some large companies have already chosen to 'opt out', but the first signs are that only few will follow.)

In the meantime, the Dutch government acknowledged that all the measures taken were still not effective (and were even contra-productive in some respects, as we shall see). It therefore introduced still further measures: employers get a fixed budget in case a job is offered to a worker with additional needs from which they are expected to pay the necessary workplace adaptations and access improvements. If costs are less than the budget the surplus does not have to be reimbursed. If costs exceed the budget an extra amount is possible. Furthermore, sickness pay for an employee with a disability will be paid from the national sickness fund, rather than the employer. Finally, an employer can get a reduction on his disability benefit contributions if 5% or more of his wages is paid to employees with additional needs.

With regard to short-term disability benefit, or sickness pay, measures taken were far more drastic. In a series of steps the sickness insurance scheme has been (nearly) fully privatised. The scheme still exists, since it still covers the sickness risk of specified categories (estimated at 15% of the previously covered

population), such as pregnant women, workers who are (at least partly) disabled, people on temporary contracts and apprentices. But for the largest part of the Dutch workers it is replaced by the employer's duty to keep on paying wages during sickness leave. Either employers now pay wages for sick employees directly, or like most of them did, reinsure the risk with private insurance companies. Reducing sickness absenteeism is now in the employer's interest.

In short, the labour market participation of workers with long-term and short-term disabilities has been the subject of major policy concern. Access to the schemes is restricted, more work is seen as suitable for people with disabilities, partly disabled unemployed have stronger work obligations, and a number of financial incentives have been introduced for unemployed, but mainly for employers.

A critical view

Having sketched trends in (un)employment and activation policies, let us now address the question of the policies' successfulness on the basis of two questions: to what extent is there a 'Dutch miracle'? And how effective are the activation measures with regard to the (re)insertion of unemployed and disabled people?

A Dutch miracle?

The 'Dutch miracle' of strong job growth and steady decrease of unemployment figures of the past years gets admiring attention from academics and policy makers alike. It is generally believed that corporatist wage moderation – wage moderation explicitly agreed on between government and social partners – is at the heart of the success. We feel that this straightforward view on the Dutch success story needs to be put into perspective.

Firstly, regarding employment growth, it is true that in terms of the number of employed persons the second half of the 1990s witnessed an explosive increase: the working labour force grew with nearly 900,000 people from 1994 to 1999. However, in terms of the total of hours worked annually in the Dutch economy, the growth was much less impressive. After 1970 the number of hours worked decreased steadily to 90.6 in 1985 (indexed at 100), from which moment on it started to increase – but it did not reach the level of 100 before 1994. Until 1999 it increased to only 109.8 (SCP, 2000, p 280). In other words, the Dutch miracle comes down to an increase of the total of available work of 10% only, compared to 1970. Clearly, the discrepancy between the large growth in persons with a job and the much smaller growth in hours worked annually can be explained by the fact that the largest part of the new jobs (65%) are part-time. Most of these part-time jobs are occupied by women, which entered the Dutch labour market *en masse* in the 1990s. One could conclude that the Dutch jobs-machine mainly consisted of a giant redistribution of the work available. Grossly put: fulltime jobs held by men in an industrial economy have been replaced by service economy part-time jobs held by women.

Secondly, now unemployment is very low at about 3%, it looks as if a situation

of full employment – as in the early 1970s – is near. However, the 3% concerns registered unemployment, that is, people without a job, who have registered at the Labour Office, who want to work for at least 12 hours a week, and who are directly available for work. This is a very strict definition of unemployment, compared both to the ILO standardised unemployment definition (that counts persons seeking any hours of work) and the number of registered job seekers as such. In 1998 there were about 300,000 registered unemployed in the Netherlands, about 425,000 people who were unemployed according to the ILO standard, and about 700,000 registered job seekers (SWZ, 2000b, p 28). Clearly, there is more real unemployment within the 'Dutch miracle' than the official figure suggests.

Thirdly, the suggested prime importance of Dutch corporatism and wage moderation needs to be put into perspective too. During the 1980s, Sweden was the exception when in most European countries unemployment was high. It was believed then that this was due to Swedish corporatist policy making, in which social partners and government agreed upon important industrial, employment and labour market policies. In the 1990s, however, Sweden has high unemployment rates of 7–10%. Is corporatism gone, or is it not such a strong guarantee for low unemployment after all? In this respect it should be noted that in the 1980s Ruud Lubbers, the then Dutch prime minister, complained about the 'Dutch disease' – he meant that the tradition of consensus building between social partners and government was a major obstacle for taking necessary policy measures aimed at reducing unemployment. At least, then, there are various interpretations possible of the relation between corporatist policy making and combating unemployment. Anyway, corporatism is not the only road to success. There are other countries in Europe that have succeeded in bringing their unemployment rates down significantly in the 1990s, like Denmark (8.5% to 5.2%), Ireland (13.2% to 5.8%), Portugal (7.6% to 4.6%) and Norway (5.3% to 3.2%) (OECD, 2000a). Especially in the case of Portugal and Ireland, explanations for success – other than corporatism – are valid.

Regarding Dutch wage-moderation it can be questioned whether the so-called Wassenaar Agreement of 1982, in which government and social partners agreed on a moderate development of wages in return for employment creation measures, had such an important effect as Visser and Hemerijck (1997) suggest. Firstly, since the fundamental shift from strong wage increases to more moderate levels already occurred in the second half of the 1970s (SCP, 2000, p 290), worsening (un)employment had already turned the tide. And secondly, the real growth in employment took place after 1994, more than 12 years after the agreement. Although the effect of corporatist agreement on employment development is questioned here, it does not mean that wage moderation as such had no role. On the contrary, there is a broad consensus in the Netherlands that it had (Bovenberg, 1997; Van der Ploeg, 1998). The processes involved, however, may differ from the 'corporatist agreement' hypothesis. An alternative explanation of the continuous Dutch wage moderation over a period of nearly 20 years is that high unemployment rates suppressed wages, since they weakened

the position of Dutch unions, and that the strongly increased female labour participation compensated at the household level the negative effect that wage moderation had on household incomes (SCP, 2000).

In short, the 'Dutch miracle' contains less employment growth than suggested by the growth in the number of people in paid work. Furthermore, it conceals a high degree of hidden unemployment, and corporatist agreements seem not to have played a prime role.

The effectiveness of activation policies on reinsertion of unemployed people and people with additional needs

Many individual people have found a job with the help of activation measures. For instance, about 60,000 have been employed in additional jobs (SCP, 2000, p 288), and the 'SPAK-measure' (*Speciale Afdrachtskorting*, Special Tax Deduction) that reduces employers' taxes and premiums on low wages is estimated to have created between 44,000 and 76,000 extra jobs (Van Polanen Petel et al, 1999). However, while the number of jobs grew from 1994 to 1999 with about 900,000, the total number of beneficiaries under 65 years-of-age decreased in that period with only 225,000 beneficiaries, of which 60,000 through additional jobs. Whether this decrease in beneficiaries is a direct effect of activation measures only remains difficult to assess. It is for example difficult to separate it from the effects of other factors, like employment growth due to economic revival or the effects of social security restructuring. Labour market participation of unemployed is influenced further by the degree to which measures are actually implemented, by selection behaviour of employers, the willingness to work of unemployed and their 'reintegration ability'.

Although it is impossible to say whether or not the situation would have been worse if activation measures had not been taken, I think that a reserved position towards their real effectiveness is justified.

Firstly, in a recently published report in which various types of Dutch and foreign activation measures are compared, the Nederlands Economisch Instituut (NEI) concluded that (easy to administer, fiscal) measures aimed at reducing wage costs for employers (like SPAK) are most successful in terms of reinserting the unemployed on the regular market of paid labour (NEI, 1999). For measures creating additional labour, however, it concluded that they mostly result in only a very few participants flowing into regular jobs. Once in an additional job, there seems to be a lack of possibilities and motivation to move on, since it was found that the flow from subsidised to regular jobs is smaller when the subsidy period lasts longer, and when the subsidised jobs are in the public sector. The NEI report, which is as critical on the effectiveness of most activation measures as two comparative OECD studies (OECD, 1996a; Martin 2000), shows finally that reinsertion of older people and lowly educated people is least successful, despite measures focusing explicitly on these groups. Another review of activation evaluation studies concludes that it is standard practice that administrations that want to show impressive success rates tend to cream their clientele – that is,

concentrate their efforts on those with the highest labour market chances, among which many would have found a job without the assistance of a specific measure. Also, in many cases of additional labour, the jobs that are created are in effect pushing away other people's regular jobs (SCP, 1992).

Secondly, would the total of Dutch activation measures have had a significant effect, then the 'outflow probability' of unemployed people would have increased strongly in the years following the mid-1980s, which was the period in which the number of measures increased strongly. Table 6.1 shows that this is hardly the case. In the early 1990s the outflow chance of unemployed people even decreased, most possibly because of the second recession of the early 1990s, and at present the chances are at the same level still as in the early 1990s. It is not without reason that the first government of Wim Kok in 1994 declared that 'work, work, work' would be its leading slogan, since it started from the assumption that existing measures were not effective enough.

Thirdly, despite the measures taken there is still a large proportion of long-term unemployment. With the favourable developments in the labour market the contours of a relatively large group of people who are seen as very difficult to integrate, if at all, become visible. According to the Social and Cultural Planning Office (SCP) this counts for as much as two-thirds ($n=1,100,000$) of all people on unemployment insurance, unemployment assistance and disability benefit ($n=1,600,000$) on the basis of legal criteria (SCP, 2000). These criteria exclude people from the legal work obligation on grounds of older age, medical and social reasons, care tasks and so on. However, many of the reintegration measures are intended to promote the labour market participation of these people only. On subjective grounds – that is, when the unemployed and disabled people were asked how they experienced their labour market chances – four-fifths were very negative. That is, only one-fifth had the idea that there would be jobs available, and that soon they would find one (Research voor Beleid, 1998). Also according to administrative criteria the number of 'reintegratable' unemployed is very low. When unemployed people register at the Labour Office their 'distance to the labour market' is assessed in terms of 'phases', on grounds of their personal qualifications, the labour market situation in their profession and so on. Phase 1, 2 and 3 clients are regarded to be 'reintegratable';

Table 6.1: Outflow probability^a of Dutch unemployed people and disability claimants

	1992	1993	1994	1995	1996	1997	1998	1999
Unemployment insurance	35.8	32.6	31.9	35.2	33.7	36.1	36.5	35.4
Unemployment assistance						16.0	15.2	
Disability insurance	4.4	4.4	5.8	6.1	3.7	3.2	3.5	

^a Terminated benefits due to resumption of work, as a proportion of the number of benefits at the end of year $y-1$ and the number of new benefits in year y .

Source: SCP (2000, p 341)

phase 4 clients are not. Significantly, of all disability benefit claimants, as well as of all social assistance clients, 45% belongs to phase 4 (Research voor Beleid, 1998). The SCP study concludes, on grounds of these figures, that there is a “stagnation of reintegration” in the wider context of job growth and decreasing overall unemployment, and it is therefore critical on the effectiveness of reintegration measures. It considers the process of reintegration as “very laborious” (SCP, 2000, p 288). The study mentions several factors that can explain this stagnation for long-term unemployed, social assistance clients and workers with disabilities. One is that employers prefer younger, healthy, ‘Dutch’ people, who are not stigmatised by a (long) period of benefit dependency (see also Van Beek, 1994; Zwinkels and Besseling, 1997), another that the fast increase in female labour participation prevented the long-term unemployed from filling the many places that became vacant in recent years. The fact that most of the new jobs are part-time plays a role here too: part-time wages are mostly too low for beneficiaries to overcome the poverty trap, while they are attractive as a second household income for women.

In the case of workers who are (at least partly) disabled, the conclusion that measures taken are ineffective and even contra-productive can be drawn without much reserve. The privatisation of sickness benefit and premium differentiation in the disability insurance scheme have created a remarkable tension between the intended activation impact of these measures and their actual effects. For, the incentives for employers are set such that they profit from having a workforce with a minimal disability and sickness risk. A number of evaluation studies (CTSV, 1996, p 199; Schellekens et al, 1999; Van der Giezen and Jehoel-Gijsbers, 1999; Schoenmakers and Merens, 2000) have shown that chronically ill people and (partially) disabled people nowadays even have more, in stead of less, difficulties in (re-)entering employment. This is because employers screen new employees more stringently on their health status – therefore, the chances of being fired have increased for workers with a poor health status. The number of temporary labour contracts, as a means of prolonging the period of screening employees on their ‘sickness leave behaviour’, nearly doubled between 1993 and 1995 from 11% to 20% of all labour contracts. Hiring workers via employment agencies, to reduce the risk of sickness pay, rose in the same period from 4% to 9%. Furthermore, while 20% of job applications from people with additional needs in 1991 led to an interview, this had decreased to 11% in 1998.

On grounds of these findings one would expect that the ‘outflow probability’ of disabled people would have gone down in the second half of the 1990s, after the introduction of privatisation and premium differentiation. This is precisely what is shown in Table 6.1.

To conclude, although many thousands of people got a (additional) job through activation measures, the aggregate effect of such measures on the labour market participation of unemployed people seems not to be very strong. In the second half of the 1990s the decrease in the number of beneficiaries has been much lower than the explosive growth in the number of jobs, the outflow chances of unemployed people have not improved and those of disabled people

have even worsened. The reintegration of the most vulnerable groups is 'stagnating'. Overall it seems that on aggregate activation measures have at best further facilitated the labour market participation of those who might have got a job anyway in the period of strong job growth.

Brief discussion

In this chapter we have described developments in Dutch (un)employment, as well as general trends in social security and labour market policies, and we have critically discussed the successfulness of activation policies. The Netherlands suffered from high unemployment for nearly 15 years, but at present the socioeconomic situation seems very favourable. Registered unemployment is about 3% and back at its pre-recession 1970 level. Employment has grown explosively over the last six years. The main problem now seems to be a mismatch between labour qualifications asked and supplied, since unfulfilled vacancies add up to 2.5% of the working labour force.

We have seen, however, that actual unemployment is much higher than what is officially registered, that employment has mainly grown because of a large-scale redistribution of the work available, and that there is a large proportion of part-time work. Furthermore, the 'Dutch miracle' failed to improve the labour market situation of the most vulnerable groups, while social security restructuring worsened their social protection rights.

If the Dutch economy continues to do well and employment increases further, the labour market situation of vulnerable groups might improve. It is much more likely, however, that in that case other sources of available labour supply will be used first, like a further increase in women's (full-time) labour participation, since there is the reality of the mismatch between preferences of employers and characteristics of those who are regarded as 'not reintegratable'. The stagnation of reintegration might harden.

If the Dutch success story comes to an end, as is feared on grounds of increasing price inflation, and unemployment increases significantly, Dutch society will fully experience for the first time the consequences of the decline in social protection rights. Large proportions of the newly unemployed will be on means-tested social assistance immediately, while the non means-tested benefits for others will expire quickly. The miracle could turn into a nightmare.

Note

¹ With the linkage of benefit and participation policies, the need for administrative coordination and cooperation increased. To this end, new regional Centres for Work and Income (CWIs) were implemented in the course of 2001. They function as 'one-stop' service organisations, combining participation and benefits assessment. The idea is that benefits assessment and payment takes place only after possibilities for participation are assessed. The CWI format should also promote participation in active labour market policies during benefit dependency.