

WHITHER DUTCH CORPORATISM?
Or: A Turbulent Tango for Market and State

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Abstract

The “Dutch Model” has attracted wide international attention for its presumed ability to reduce unemployment, introduce market incentives in the former public domain, and maintain essential provisions of the welfare state. This paper documents and evaluates policy changes, labor market performance, and welfare reform, with emphasis on the institutional framework, its continuity, and the reforms themselves.

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1. FROM DISEASE TO MIRACLE

1.1 Introduction

The performance of the Dutch labor market is an eye-catching meander along the trace set out by international averages (see Figures 1 and 2). In the postwar period, up until the early 1970s, the unemployment performance was superior. Then it shot up after 1973, leveled off for several years, and exploded relative to the international mean in the late 1970s. This episode came to be known as the “Dutch Disease.” But then, starting in the mid-1980s, came an exceptional recovery in terms of unemployment reduction and employment growth. These developments attracted wide attention, and the “Dutch Model,” or “Polder Model,” is sometimes presented as something of a miracle, a cure for the disease of persistently high unemployment. Is there a Dutch Model? And if so, is it a reliable treatment for troubled labor markets?

In the international arena, everyone is watching everyone else in the hope of detecting valuable tricks, so this paper will serve as a little spy-mirror for watching the Netherlands. It will outline labor market performance and offer a review of Dutch policies and the behavior of key players in the last two decades. This will be done against the backdrop of a brief sketch of the historical development of the Dutch economy. Obeying the laws of perspective that also reign in little mirrors, the present will be much larger than the past, but of course cannot be disconnected from it. In the end, evaluating our results, we will explore the questions of whether something like a “Dutch Model” exists and how much institutional reform has taken place.¹

¹Other analyses of the recent Dutch experience can be found in Broersma, Koeman, and Teulings (1999), Nickell and van Ours (1999), Salverda (1998), Schettkat and Reijnders (1998), and Visser and Hemerijck (1997). A broader comparative perspective is given in Auer (1999), with reference to the other papers of the ILO project. Details on earlier periods in the Netherlands are given in Hartog and Theeuwes (1993, 1996).

FIGURE 1
Standardized Unemployment Rates, 1969-1997

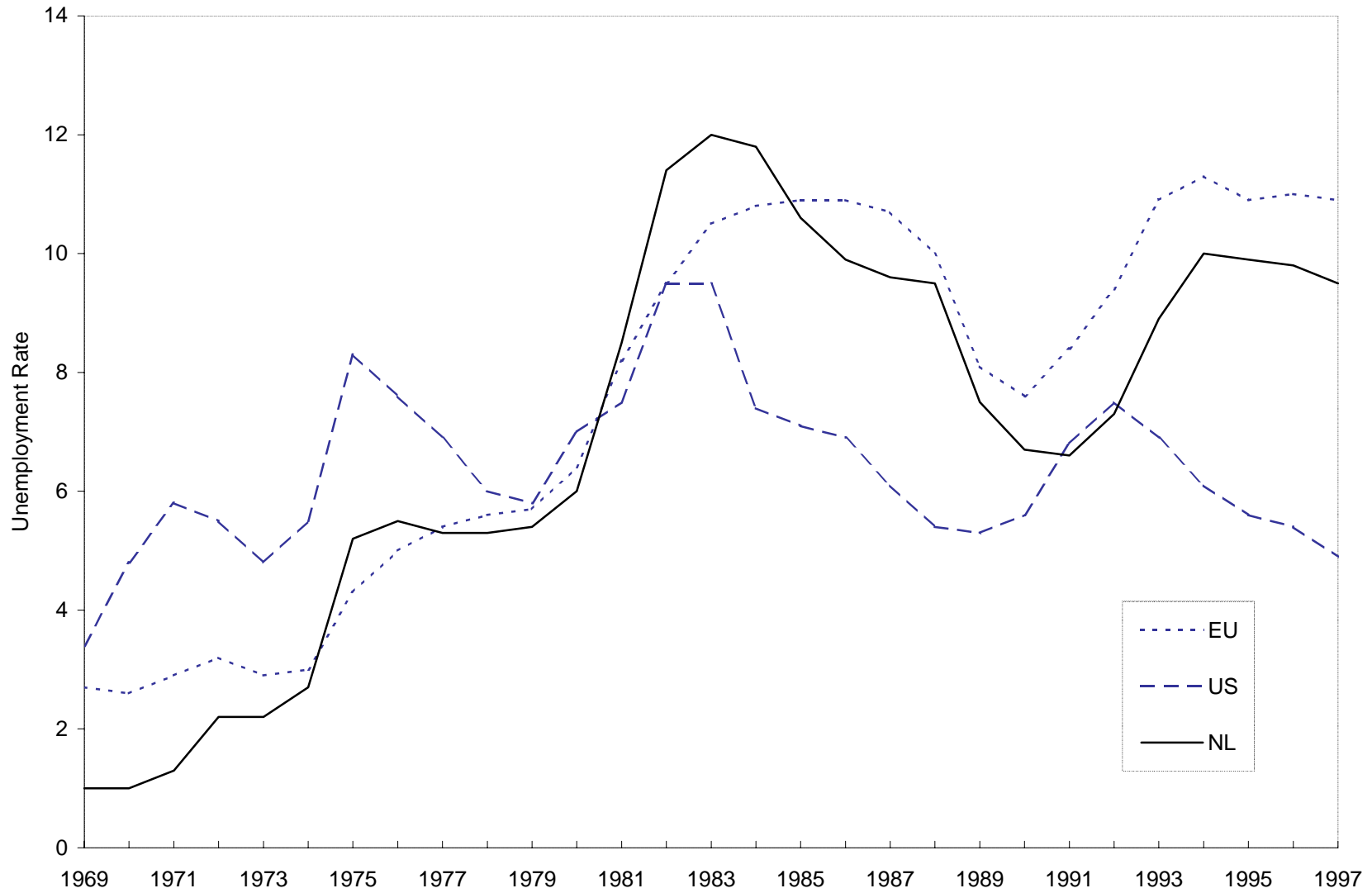
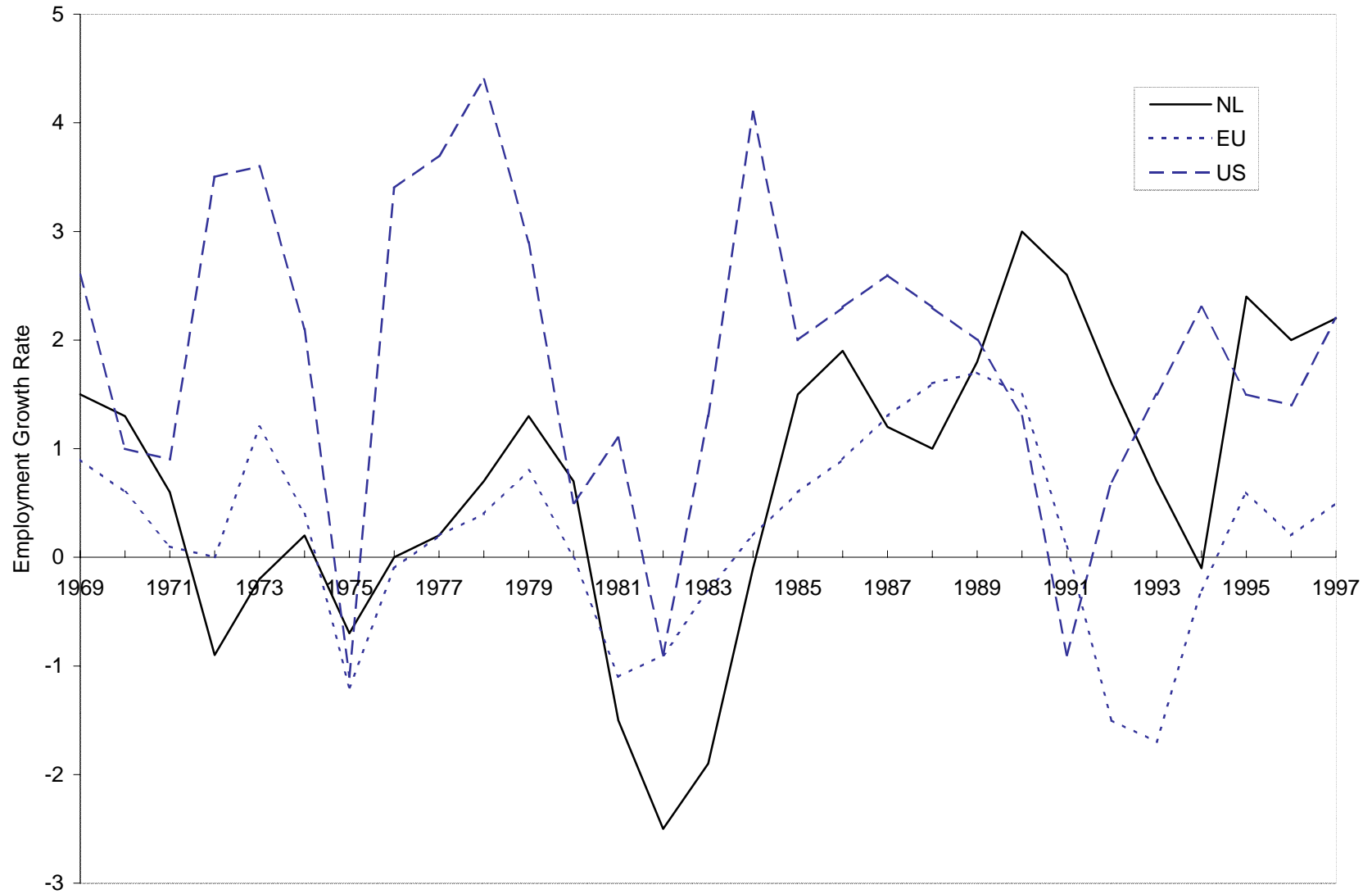


FIGURE 2
Employment Growth Rate, 1969-1997



1.2 Setting the Stage

An important structural Dutch feature is the consensus-oriented mode of operating in politics and social relations. Some observers trace this even to the earliest history of Dutch society, where protecting (and winning) land from water and floods created the oldest cooperative public bodies of government (the waterboards, founded in the 12th and 13th centuries). Others link it to the particular *modus vivendi* that emerged in a religiously divided country where no political party has a majority and coalition governments are the only viable option. Under that *modus*, the late 19th century brought the development of a system of political management in which strict ideological separatism at the bottom combines with willingness to compromise at the top, to produce a fair degree of social and political stability. The consensus orientation is clearly present in the institutions of the labor market that will be discussed below, and that exhibit a remarkable continuity throughout the century.

In terms of economic development, the first postwar decades, until 1964, were characterized by reconstruction and catching up. Right from the beginning, wages were a key variable of economic policy, because of their pivotal role as a cost factor for an open economy that had to sell much of its product in competitive world markets. From 1945 until 1954 there was government wage control, until 1959 there were national wage guidelines, between 1959 and 1962 the guidelines permitted differentiation by industry, and in 1963–1964 the system exploded. From 1945 to 1954, collective agreements were only binding after approval of the Committee of Government Negotiators (with independent members, but appointed by the government); the Committee always first asked advice from the Foundation of Labor. The Foundation of Labor is a private organization, with half the seats for union federations, the other half for employer organizations, and the chair rotating between them. Between 1954 and 1959, the wage guidelines were no longer binding, but only set an upper limit. Between 1959 and 1962, differentiation by industry became accepted—wages should follow the increase in the industry's productivity. In 1963,

the authority to approve (or reject) collective agreements shifted from the Foundation to the Social Economic Council, a public organization, with the seats equally divided between union federations, employer associations, and independent members appointed by the government; the chairman is independent. In 1968, the system was formally abandoned, but effectively it had already broken down in 1963, when the rank-and-file translated the excess demand in the labor market (unemployment below 1 percent) into much higher wage demands than centrally agreed, and individual employers accepted. The important point is that there is a tradition of consultation and bargaining at the central level, with wage cost as a key variable, and with peak level organizations of workers and employers dealing with each other and with the government. And there is a tradition of government intervention, interwoven in a process of consultation and advice, not as bluntly imposed rulings. In the Foundation, social partners had been jointly involved in setting the norm for the wage increases, which would then be imposed or sanctioned by the government.

The decade of the 1960s, for the present purpose running from 1963 to 1973, was a period of building up the welfare state at high speed. The share of taxes and social security premiums increased by 1 percentage point per year. Revenue from natural gas started to flow toward the government. It was also the period of a very tight labor market; from 1960 to 1966 unemployment on average was below 1 percent. Yet, the first signs of structural change were also visible. After 1967, unemployment increased and there are clear indications that the unemployment-vacancy curve shifted outward. Government concern over wage cost never waned, and in 1970, the Law on Wage Formation was passed. It allowed the Minister of Social Affairs to nullify wage agreements and to impose a temporary freeze on wage increases (this right was removed in 1976). Resistance to that law from social partners has been quite strong.

The oil price shock in 1973 definitely marked the end of the “golden era.” Unemployment rapidly increased. The problems were initially tackled with Keynesian expansion policies, job creation

programs, and investment subsidies, all aided by the government's share in the gas revenue. The large export of gas, however, also made for a strong external position, a high exchange rate, and large losses of employment in the exposed sector. Government revenue from gas increased in a few years from 2.4 to 4.9 percent of the national income (it is now down to 0.5 percent). After 1975, the policy goals changed toward budget deficit reduction and government retrenchment. However, the policy failed utterly. In a period of 5 years, the government share in national income went up by 9 percentage points. This is the period of "Dutch Disease"—exports curtailed by a strong guilder and government (transfer) programs fueled by high gas revenues. Wages continued to increase (stimulated by the shifting of taxes and social security premiums) and profits were squeezed. The wage share in market sector income increased to 92 percent. The government continued to stress the necessity of wage restraint, and actually intervened in 1974, 1976, 1979, 1980, 1981, and 1982 with mandates on wages: wage freezes, outlawing of automatic cost-of-living adjustments, etc. The 1973–1982 period was one of muddling through with the government's fiscal policies, rapidly increasing unemployment, and intervention in wage formation that increasingly irritated and frustrated social partners.

In hindsight, 1982 is usually cited as the turning point because it saw the Central Agreement between the leading labor federation and the employers' federation, struck in Wassenaar, and hence dubbed the "Wassenaar Agreement." The agreement included wage restraint and reduction in working hours, intended to restore profit levels and create employment growth. At the same time, the government became more determined to control its expenditures and its deficit, and to reform social security. In particular, the flow into the disability pension had been incredibly high. More generally, and following the mood in the rest of the world, there was a definite change from a Keynesian to a neoclassical, market-based orientation. After 1982, consensus replaced antagonism in labor relations.

Why could this new start be made in 1982? There are several reasons. Perhaps the key is that unemployment had skyrocketed in the early 1980s, creating a strong sense of urgency. Second, unions

and employers “were not amused” by the repeated government interventions in wage formation. The government had intervened with six binding wage regulations of various sorts between 1974 and 1982; they now had a strong desire to settle their affairs among themselves. And third, the whole institutional structure had always been there to allow a return to the consensual nature of industrial relations that is typical of the Dutch situation. A social agreement fits in the history and in the institutional and sociocultural environment; it is by no means a social innovation. Centralized, corporatist decision-making could resume its course. The Wassenaar Agreement has been updated and confirmed on several occasions, as bi- or tripartite agreements, in 1989, 1993, and 1997. Other agreements concern early retirement and labor market flexibility.

The program that was developed after 1982 has several components and several actors. It was not formulated as some “Manifesto 1982,” but the goals were certainly around at the time, and so was the sense of interrelatedness of the elements. The program consisted of the following components:

- The government was to get its expenditures under control: government retrenchment, with a reduction in the burden of taxes and social security premiums.
- The social partners were to implement the Wassenaar Agreement: wage restraint, working time reduction, more labor market flexibility.
- Social security was to be reformed.

Before considering this program in greater detail, we will sketch the Dutch institutional setting and the way it works in the next section. The particular institutional environment (and history) has been essential in allowing the policy mix that has been implemented.²

²More details are given in chapter 8 of Teulings and Hartog (1998) and in Freeman, Hartog, and Teulings (1995).

1.3 The System of Labor Relations

The Dutch labor market has strongly corporatist features. It is not easy to give a sharp definition of corporatism, let alone measure it unequivocally, but its core elements are widely accepted.³

Essentially, corporatism is a form of organization in which government and organized interests (mainly trade unions and employer associations) jointly develop and implement social-economic policies. The government does not operate at a distance and organized interests do not have to lobby; they are welcome partners in the conference room. There is tripartite consultation at all stages of legislation and policy-making. Often this is institutionalized in advisory bodies, but much coordination takes place in an informal way. Organized interests are usually united in large federations or peak level organizations. Bargaining over collective labor agreements is usually highly centralized. Quite often there is a strong concern for equity issues and income policies. Austria and the Nordic countries are highly corporatist; Germany is also rated as rather corporatist. Noncorporatist countries have very decentralized, firm-level bargaining and no institutionalized consultation between government and organized interests. Examples of noncorporatist countries are the United States and Canada, and in Europe, the United Kingdom.⁴

The Dutch institutional setting is governed by two key laws on collective agreements. The 1927 Law on the Collective Agreement makes such an agreement binding for all workers in the firm, not just members of the union who sign the agreement. Formally, it is possible to negotiate in the agreement that contract terms only apply to union members. If this is done, it is not exclusively for a particular union but applies to members of any union. Exclusive bargaining for union members only is never possible.

³For discussion of the concept and various measures, see Teulings and Hartog (1998), chapter 1.

⁴Teulings and Hartog (1998) document that the higher the degree of corporatism in a labor market, the smaller the magnitude of noncompetitive wage differentials, such as differentials associated with industry affiliation, firm size, and collective bargaining regime. The authors also argue that there is certainly no evidence that wage flexibility (a complicated concept to deal with, both theoretically and empirically) is higher in decentralized than in corporatist settings. It might just as well be the other way around.

Formally, the legal basis of labor relations allows free entry of new unions. Anyone can start a union and ask for negotiations with an employer. The employer is free to honor or to ignore such a request. Formally, he may choose to negotiate with one union and not with another, or he may use different channels, like works councils. There are no formal representation rules, no compulsory elections, no rules on bargaining or bargaining structures. Because of the 1927 Law on the Collective Agreement, when an employer signs a contract with a single union, this contract automatically applies to all its employees. Other unions are then left out. This happens infrequently, but when employers demand concessions in harsh times, it sometimes occurs that one union agrees, and the others can only follow suit, their protests notwithstanding.⁵ The 1937 Law on Mandatory Extension states that if a collective agreement covers a substantial majority of the industry, the Minister of Social Affairs can extend the agreement to the entire industry, at the request of one of the signing parties.

In the Foundation of Labor, bargaining parties meet and consult each other, and give joint recommendations to their members regarding wage restraint, training, and additional employment policies. In some years, a Central Agreement has been negotiated within the Foundation of Labor. The Wage Committee of the Foundation of Labor plays an important role in the system of labor relations.

Mandatory extension enables contracting partners to extend contracts in a large number of industries. Only in retail and wholesale trade, where there are many small firms, is it difficult to satisfy the requirement of a substantial majority of the workers to be bound directly. Instead, agreements bargained in joint public bodies (PBOs) of employers and trade unions are imposed under the title of *rulings*, without interference from the Ministry.

⁵Some examples are the managers union *De Unie* and VHPP (Philips managers) signing a solo agreement in 1996 with Philips when FNV and CNV demanded a 36-hour work week and the CNV breaking up the union front by signing an agreement with NS (Dutch Railways). In April 1994, CNV signed an agreement with Heineken, while FNV called out a strike (which they lost, after a blockade at the gate was ruled illegal in court).

In 1996, only 28 percent of workers were union members. Most unions belong to one of three federations that are members of the Foundation of Labor (one with socialist and Catholic roots, one Protestant, and one for white collar and management). Bargaining is mostly multiunion. On the employer's side is a large, broad-based general federation, one federation for small and medium-size firms, and an agricultural association. Also, there is a large employer association that specializes in services to individual employers, including bargaining for company agreements.

When there is a collective agreement in a firm, it does not necessarily imply that all employees are covered. Top-level management is always excluded from the agreement. Furthermore, other categories of workers may be excluded; for the most part, these are low-paid workers on temporary employment. Most collective agreements are industry agreements, and the share is rising. In 1990, 82 percent of covered workers were covered by an industry agreement; this figure rose to 88 percent in 1997. The share of company agreements was 14 percent in 1975, climbing to 18 percent in 1990 and then dropping to 12 percent in 1997. The number of workers covered by a nonextended industry contract has been increasing, from 3 percent of covered workers to 10 percent. Coverage through mandatory extension has been declining. Focusing just on the formal bargaining level would not do justice to the intricate system of labor relations. The system has a remarkable balance with unions and union federations playing an important role, precisely because their formal position is rather weak. Union density is less than a quarter of the labor force and multiple unionism combined with the nondiscriminatory status of collective agreements weakens the union side (an agreement signed with any union is binding for all workers in the firm and possibly in the industry). Mandatory extension seems to give organized interests a strong grip on their playing field, but the grip is different from a tight monopoly. The system operates in a very flexible way and there are several escape routes (such as bargaining over the domain of an agreement that is usually extended, or setting up a company agreement).

The existence of escape routes and the potential vulnerability of established positions lead to quite moderate results. There is no evidence that actual wages are substantially above market wages. Econometric analysis shows that wage differentials between bargaining regimes are quite small, no more than a few percent (Hartog, Leuven, and Teulings, 1997). The regime with mandatory extension does not generate the highest wage levels; these are realized under company agreement. Collective bargaining mostly sets minimum wage levels. If these were binding constraints, we should observe spikes in the wage distribution at the level of the contract wage, but this does not happen. We only observe spikes in cleaning and retail trade, but they occur at the level of the legal minimum wage. Many wages seem to follow the pressure from market forces. For example, in construction, wages are determined “at the gate,” when employers recruit for a going construction project. In wholesale trade, wages in the eastern part of the Netherlands are quite close to the contract level, but in the western part wages are easily 10 to 15 percent higher. And representatives of unions and employers do not deny that payment below agreed scales occurs if the market situation allows.

Freeman, Hartog, and Teulings (1995) conclude as follows on the Dutch system of wage formation:

The essential characteristic of the system is the balancing act that the organisations of workers and employers have to perform. They get a fair amount of background support from the government, endorsing, extending and influencing the outcome of bargaining. But the organisations have no monopoly, no legal exclusivity and they can only play their role as long as workers, employers and member-organisations of the federations are satisfied. Potentially, there are escape routes for the players in the game. The escape routes are seldom used however, suggesting the system does not function as a straightjacket on labour market participants.

2. IMPACT EFFECTS: GOVERNMENT BUDGET, WAGES, WORKING HOURS

How effective was “Manifesto 1982”?

2.1 Government Budget Control⁶

The central government budget deficit was reduced from 8.9 percent of GDP in 1983 to 1.4 percent in 1996, the deficit of the total public sector (central government, local government, social insurance) from 8.6 percent to 2.0 percent. The share of taxes and social security premiums was reduced from 47.4 percent to 44.4 percent. The share of public expenditures in GDP fell from 58.0 percent to 46.9 percent. Employment volume in the public sector dropped from 698,000 person-years to 650,000, which means a drop from 15 percent of employment volume to 11.7 percent. The national debt, at 63 percent of national income in 1983, initially increased to about 81 percent in 1993 but then fell to 78 percent in 1996. The “wedge,” i.e., the difference between gross and net wages, as a percentage of gross wages, fell from 34 percent at the level of the minimum wage to 21 percent in 1996, and at the wage level for the “modal employee” (a specific Dutch definition for an employee with a wage at the lowest upper boundary for compulsory social insurance) from 48 to 41 percent. At the lowest wage levels, there are substantial rebates on social insurance contributions.

The reduction in the burden of the public sector is mostly accounted for by income transfers and civil servant wages. Wage restraint in the public sector has been substantial. The index for contractual wages, base 1980 = 100, stood at 155 for private sector workers in 1996, while for public sector workers it stood at 123 (contract wage increases refer to the changes in scale wages; they are net of individual wage changes related to tenure, experience, and other career effects).⁷ Whereas in earlier days public sector wages had been indexed to the private sector wage, a substantial gap was created in the first half of

⁶Data in this section come from CPB, *Centraal Economisch Plan*, 1997, annexes.

⁷CBS, *Statistisch Zakboek*, 1992, Table 3.21, p. 114, and CBS, *Statistisch Zakboek*, 1998, Table 3.25, p. 119.

the 1980s. By 1983, public sector wages had dropped 2 percent, while private sector wages had increased by 15 percent. By 1985, private sector wages climbed further to a 21 percent gain, while the public sector wage stabilized. After 1985, contractual wages developed almost in parallel—the relative wage cut for civil servants has been accomplished within just a few years.⁸ As noted above, the share of employment in the public sector fell substantially. This substantial decline in employment and relative wage has taken place without major disruptive labor conflicts. This requires accommodating labor union behavior. As everywhere, union density is relatively high in the public sector: 46 percent in 1985 versus 17 percent in the private sector (Visser, 1990, Table 11, p. 50). Only 1982 had a relatively high incidence of strikes, with 21/100,000 workdays lost; in other years, it is usually below 10 (CBS, *Statistisch Zakboek*). Public sector unions are affiliated with the large federations and share the generally restrictive policies.

The reduction in expenditures on social security (transfers) is a pure price effect. From Table 2 (page 32) we can calculate that between 1980 and 1995, the number of benefit years increased from 2.2 million to 3.4 million, an increase of 52 percent. The average benefit per benefit year increased from Dfl 14,040 to Dfl 15,116, an increase by less than 8 percent, while over the same period national income per inhabitant increased by 79 percent.⁹

So, the conclusion on the relative reduction in government expenditures is clear. The bulk of the cuts came from reduction in transfers and in the wage bill. For transfers, it is overwhelmingly a price effect, as the number of recipients increased substantially. For the public sector wage bill, it is both a price and a volume effect. Over the period 1983–1996, public sector employment fell by 7 percent. Over the period 1980–1996, nominal public sector wages increased 30 percent less than private sector wages. The relative wage reduction was mostly established in the early 1980s.

⁸Real wages were reduced by not adjusting for inflation. From 1980 to 1985, consumer prices increased by 21 percent (CBS, *Statistisch Zakboek*, 1987, Table U1, p. 329). Over the same period, nominal civil sector contract wages per hour fell by 1.8 percent, per week/per month by 3.3 percent (Table V1, p. 337).

⁹CBS, *Statistisch Zakboek*, 1990, Table 11.9, p. 337, and CBS, *Statistisch Zakboek*, 1998, Table 11.12, p. 387.

2.2 Wage Restraint

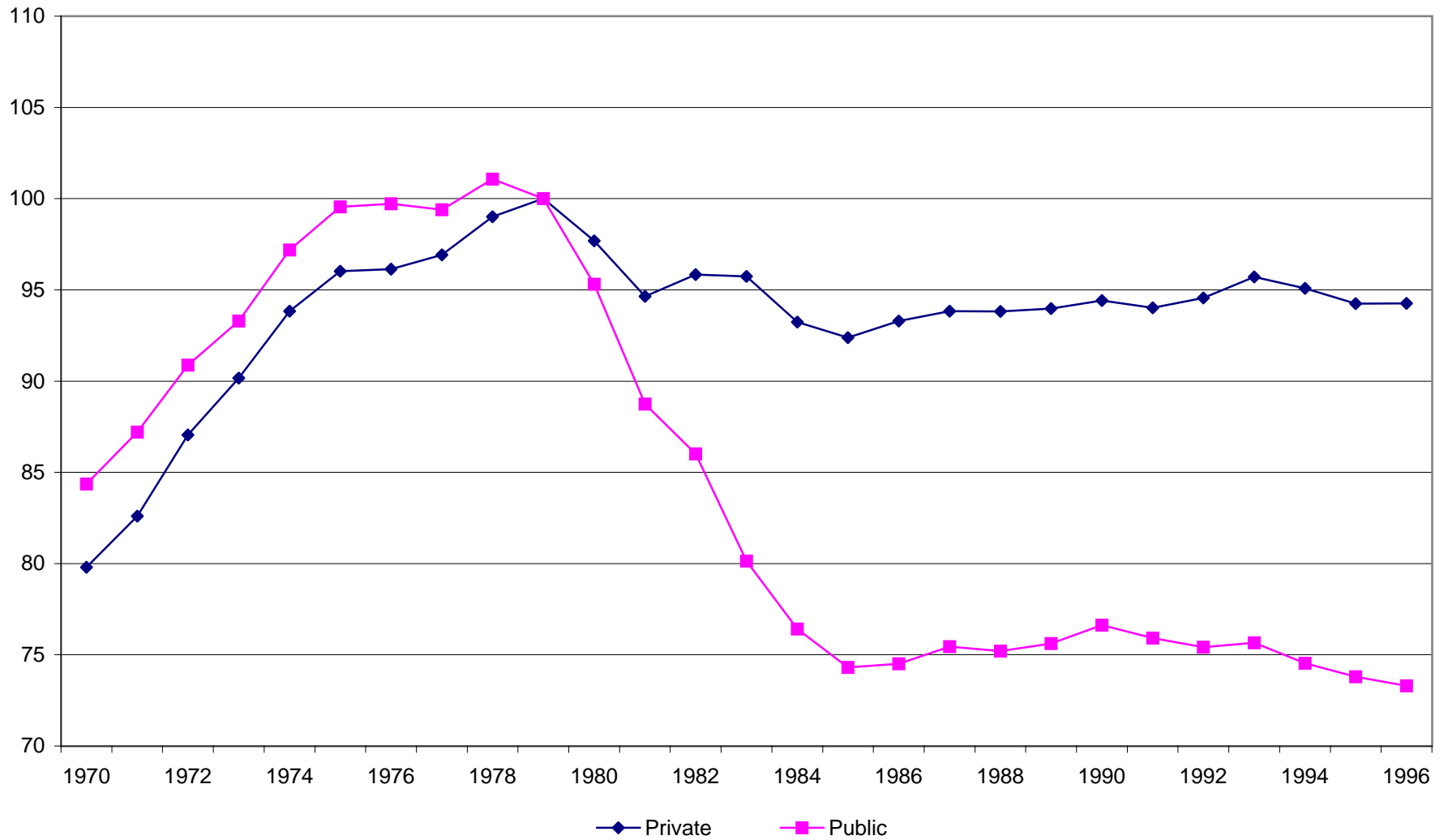
Nominal wage increases after 1983 have been modest, with a peak of 4 percent in 1992; in most years, the increase has been less than 2 percent. Figure 3 gives the index of contract wages in the private and public sectors. Note that real market wages were stable between 1975 and 1979, then decreased, and stabilized again after 1981. Hence, the Wassenaar Agreement was *not* the *beginning* of wage restraint—rapidly increasing unemployment during the 1970s had already triggered moderation. As Figure 4 shows, unit wage cost in 1996 was at the same level as in 1981. Over the same period, it increased by 40 percent in Germany and by 15 percent on average in the European Union (EU). The wage share in market sector income dropped from 93 percent in 1987 to 82 percent in 1997.

At the low end of the wage distribution, restraint was even stronger. The adult legal minimum wage, in real terms, was reduced by 20 percent in less than 20 years. The legal minimum wage is differentiated by age. In 1979, half of the minimum wage population was on the minimum youth wage; in 1994 the figure had dropped to a third (Salverda, 1997a). The minimum youth wage declined even more than the adult minimum; this is reflected in the graph for the weighted minimum, i.e., weighted by the age category's employment share in 1979. The share of employment yielding no more than the legal minimum wage dropped from 7.9 percent in 1979 to 2.6 percent in 1994 (in full-time equivalents). In 1979, the legal adult minimum wage was 70 percent of the median wage. The share of employment at or below that relative wage level was 12.4 percent in 1979 and had climbed to 14.0 in 1994 (Salverda, 1997a). In other words, the share of workers at the minimum wage has declined substantially. But since the minimum wage itself has dropped below its former relative level, the share of workers in the low-wage tail defined by the initial relative level has increased.

2.3 Working Time Reduction

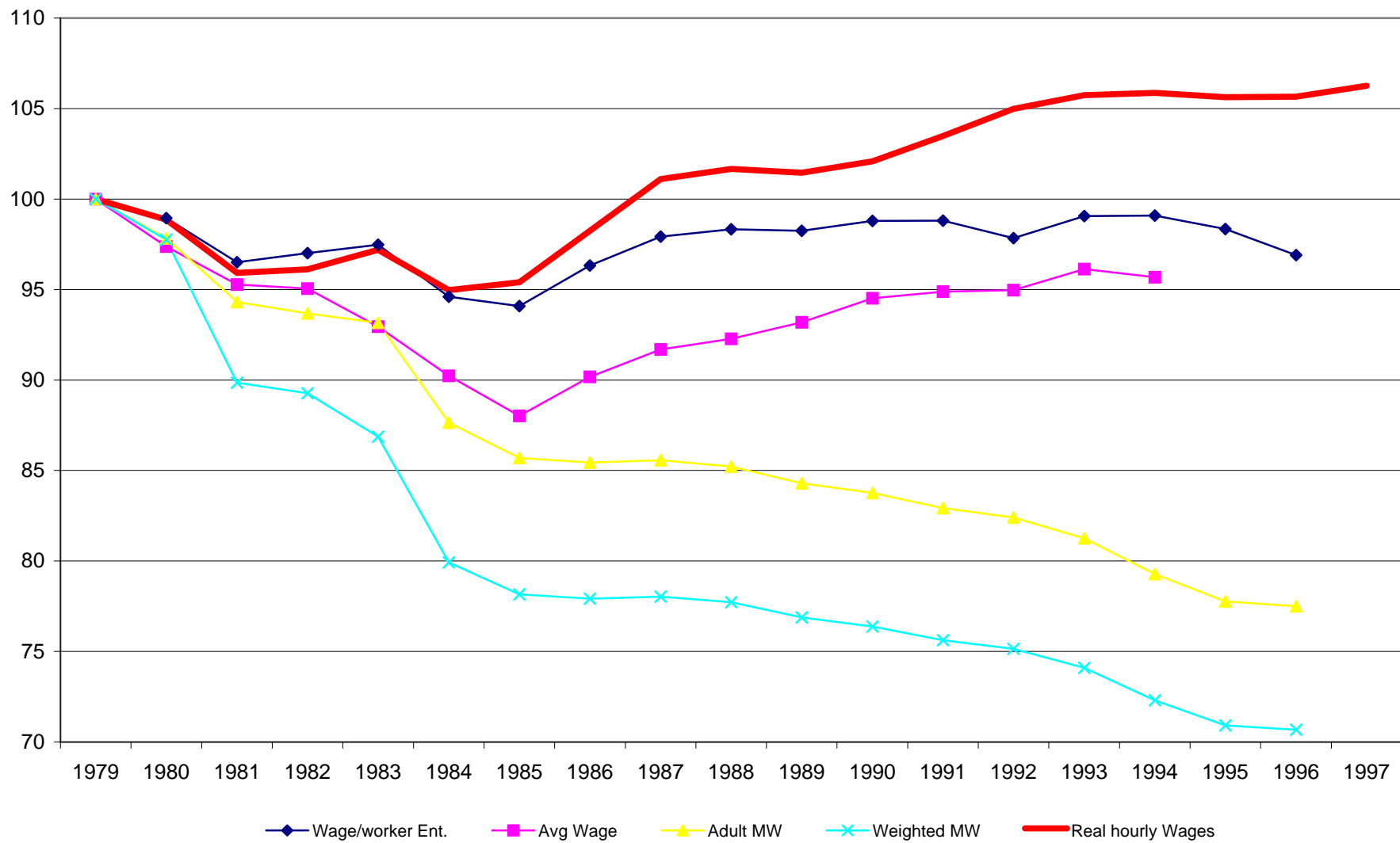
Actual hours worked per year dropped to the lowest level in Europe: 1,452 hours in 1993, while the average in the EU stood at 1,669, and Germans worked 1,592 hours. This is due mainly to part-time

FIGURE 3
Real Contract Wages, Market Sector and Public Sector 1970-1996 (1979=100)



Source: Salverda (1997a).

FIGURE 4
Real Wages 1979-1997 (1979=100)



Source: Salverda (1997a).

work. Average annual hours for full-time workers are about equal: 1,788 in the Netherlands, 1,797 in the EU. Great Britain is the exception here, with an average of 1,953 annual hours. Dutch part-timers work less (817 annual hours versus 921 in the EU), and there are relatively more of them. There clearly has been a substitution of persons for hours. Total hours worked per annum by the total labor force in 1990 were equal to the total in 1970 (Den Butter and van Vuuren, 1997). In 1975, all full-time workers had a standard 40-hour work week. In 1998, the *average* work week for a full-timer was about 36 hours (Plantenga and Dur, 1998).

Table 1 portrays the shift in employment composition for 1987 and 1995, two cyclically comparable years (the unemployment rates in both years were virtually equal). For both men and women, annual contractual hours declined. Overtime hours increased, as could be anticipated from the relative increase in fixed cost when contractual hours decline. Part-time work and flexible contract work increased. The share of full-time male work diminished from 66 to 60 percent of the annual employment volume. The total of full-time work, for men and women together, decreased from 83 to 75 percent. The share of women increased from 29 to just under 33 percent, with a big increase in the share of part-time female work. Part-time work increased from 13 to 19 percent, and flexible contract work increased only modestly from 4 to 5 percent.

Part-time work covers all jobs in which the agreed hours of work are less than the full-time contractual hours of the firm. Over three-quarters of the volume of part-time work is done by women; for the most part it appears in line with preferences. The labor force participation rate for women has increased steadily (from 40 percent in 1987 to 49.9 percent in 1996), and many women like to work part-time. Given the social and institutional environment, there are no signs that those working part-time want to supply more hours. The relation between women's labor supply behavior and child care facilities in the Netherlands is not well established. Provision of day care facilities by employers is not common. Use of informal child care (friends, relatives, neighbors) is more common than use of formal facilities among

TABLE 1
Changes in Number of Jobs (Thousands) by Contract and Industry, 1987–1995

	Men				Women			
	Full	Part	Flex	Total	Full	Part	Flex	Total
Agriculture	3	2	7	12	1	3	9	12
Mining	0	.	.	-1	0	.	.	0
Manufacturing	-73	19	-2	-47	1	18	8	27
Energy and water	-5	0	-1	-5	0	2	.	1
Construction	-4	4	6	7	0	-1	3	2
Trade	64	24	20	107	22	54	27	103
Hotels, restaurants	8	17	12	38	2	32	19	52
Transport, communication	-3	9	6	12	8	15	7	30
Finance	3	2	-1	3	-2	10	1	8
Business service	82	14	33	129	32	52	46	131
Public administration	-80	10	4	-65	1	22	2	25
Education	-7	9	-5	-4	-9	27	0	17
Health and welfare	-4	23	5	24	-57	148	40	132
Culture	13	9	-6	16	2	19	11	33
Household service	.	0	0	0	.	17	.	13
Total	-6	143	77	215	0	417	170	587

Source: CBS, Arbeidsrekeningen (Labor Accounts), various years.

women with and without paid employment. In fact, among women using child care facilities, the differences by types of care between women with and without paid employment are modest. The effect of the price of the child care facility on leisure demand has been estimated as zero (Maassen van den Brink, 1994; Maassen van den Brink and Groot, 1994). Perhaps availability of facilities is relevant for labor supply, but given the high probability that at least informal facilities are available, it is hard to conclude that lack of facilities is the key factor in explaining the high incidence of part-time work among women.

The reduction in contractual hours after 1982 did not stem from demands by the workers. The earlier reductions had been increases in demand for leisure induced by increases in the wage rate—an income effect dominating the substitution effect. After 1982, the stimulus came from union leadership, and workers only reluctantly accepted. With constant or even declining real wages, they were not interested in buying more leisure. More recently, however, surveys indicate an interest in a shorter work week, among both men and women (Plantenga and Dur, 1998).

Labor supply has also been reduced by a sharp drop in the participation of older men. They received a disability pension, benefitted from early retirement schemes, or, when long-term unemployed, were exempted from the obligation to search for a job. In 1996, only 39 percent of men aged 55 to 65 had paid work. Among women, this figure was 13 percent (CTSV, *Kroniek van de sociale verzekeringen*, 1997). The financial cost to the individual pensioner was usually very low. There were private sector supplements for workers older than 57.5 to their unemployment benefits. In 1975, unemployed persons over 60 became eligible for unemployment benefits until age 65 without the requirement of active job search and involuntary layoff (which implied benefit entitlement from the age of 57.5 until national pension entitlement at 65). Optional early retirement schemes started to emerge after 1976, organized at the level of firms and industries (Teulings, van der Veen, and Trommel, 1997, p. 31).

2.4 Effectiveness

Government policy consisted of reducing expenditures by reducing the public sector wage bill, reducing transfers, and lowering the legal minimum wage. Although the initial impact of such policy must be negative, the Central Planning Bureau (CPB) used a simulation showing that the ultimate effects were positive. The CPB compared the actual situation in 1990 with the predicted outcome under alternative policies (CPB, 1991). The econometric model has a wage equation in which wage growth responds to prices, unemployment, the burden of taxes and social security premiums, and the net replacement rate. Investment responds to the share of wages in national income. Before the policy interventions, public sector wages, social security benefits, and the legal minimum wage were indexed to the private sector wage. Had this indexation continued (at budget deficit as actually realized, hence at higher taxes), private sector employment in years would have been lower by 125,000 (by 150,000 in persons) and unemployment would have been higher by 105,000 persons. Between 1979 and 1990, the share of value added labor income in the private sector decreased by 10 percentage points. In the CPB calculations, three-quarters of this decrease was due to the endogenous effect of higher unemployment. Had wages increased to maintain the private sector labor share at the level of 1979, private sector employment in years would have been lower by 220,000 and unemployment in persons would have been higher by 275,000 (actual unemployment in 1990 was 419,000). Had both indexation and constant labor share wage development occurred, predicted private sector employment in 1990 would have been 8 percent lower than actually observed. Had indexation continued, real national income would have been lower. Had wage development maintained the labor share in income, real national income would have been higher. The contribution of world trade growth to employment growth and unemployment was estimated to be very modest.

How effective has work sharing been for creating additional employment? Most economic analyses are skeptical.¹⁰ Dur (1997) estimates that for the Netherlands, 1966–1993, annual wage cost decreases by 0.6 percent if contractual hours are reduced by 1 percent, implying an increase in the *hourly* wage of 0.4 percent. De Regt (1997) reports that hourly wages are constant if working hours are reduced. Dur (1996) estimates a four-equation model: employment, unemployment share of long-term unemployed, real hourly wages, and labor supply, for the period 1969–1994. Employment in hours (annual employment in labor years multiplied by contractual annual hours) is not significantly affected by contractual hours. This suggests proportionality for work sharing at given hourly wage cost and at given total employment, i.e., equivalence of persons and hours. Work sharing thus has the potential of reducing unemployment. But real hourly wages (including employer premiums for social security) respond significantly to contractual hours, with an elasticity of -0.8 : a reduction of contractual hours by 1 percent increases hourly wage cost by 0.8 percent. Since wages affect employment with an elasticity of -0.5 , there is a negative effect of work sharing on employment through cost increases. Labor supply responds significantly to wages and unemployment, positively to the former, negatively to the latter. Wage effects and labor supply effects take away much of the proportionality effect of work sharing—less than 20 percent of the proportional effect on unemployment remains. This is due to a primary effect of wages on employment, cutting directly into the proportionality, and to secondary effects, as reduced unemployment increases wages and labor supply. Work sharing indeed reduces unemployment, but at a high cost in terms of employment and output. In Dur’s decomposition of the unemployment history

¹⁰See Calmfors (1985) for an early analysis. Layard, Nickell, and Jackman (1991) argue that working hours have no effect on the unemployment rate. They cite an OECD wage equation for 19 countries (and 30 years) in which the effect of average weekly hours on wages is insignificant. With wage pressure unaffected, equilibrium unemployment is also unaffected in their model. Their “casual” analysis of plotting the decrease in working hours against the increase in unemployment in 11 countries for the period 1975–1988 even shows a perverse relation, but De Regt (1997), plotting observations for cyclically comparable years 1983 and 1993 (both troughs of the cycles), exactly reverses the relation! Plotting changes over the years 1979–1989, both more or less cyclical peaks, restores the relation as found by Layard, Nickell, and Jackman.

between 1970 and 1994, unemployment was strongly pushed upward by population growth. Reduction in contractual hours had a substantial mitigating effect between 1970 and 1989. Negotiated reduction in working time in collective agreements mostly took place in two periods: by 8 percent in 1970–1975 and by 6 percent in 1980–1985. During the 1990s, the effect has been negligible (Plantenga and Dur, 1998).

Kapteyn, Zaidi, and Kalwij (1997) try to assess the effect of work sharing from an international comparison but fail to identify many significant effects. In particular, working hours have no effect on employment, unemployment, wages, labor supply, or GDP per capita. This suggests that work sharing is both useless and harmless: no effect on the target variables (employment, unemployment) and no cost effect (GDP per capita).

Clearly, there is no strong empirical support for a policy of worksharing as a method to reduce unemployment. CPB (1991) also finds a very modest effect. It may have had some effect in the Netherlands, but at a cost to the volume of employment. An important issue, not studied in the econometric analyses, is the decision on the timing of working hours. It will matter a great deal whether standard weekly hours are rigidly reduced, or only reduced on average, and it will also matter whether workers can take time off at will or whether employers can decide when a worker should take additional days off. A survey covering the period 1982–1985 found that in half the firms, reduced working hours per employee resulted in reduced operating hours of the firm, while in the other half, operating hours were maintained (CPB, 1991, p. 10). Several recent collective agreements in the Netherlands attempt to combine reduced standard hours with increased flexibility, with a say for employers on the timing of work and leisure.¹¹ If additional leisure can be taken during slack times, the effect on wage cost is

¹¹In banking, reduction of the standard week to 36 hours (in 1995) was combined with an extension of the hours that banks are open to the public. A large retail firm moved to a 35-hour work week and a 60-hour operational week, also extending open hours (restrictions on open hours of retail stores have recently been lifted). A large chemical company introduced an average work week of 36 hours, with the company determining the timing of 50 percent of 23 days of annual leave and the possibility for the worker to sell some of these days for work (Plantenga and Dur, 1998).

reduced, but so is the effect on labor demand. Indeed, authority over the spacing of working time seems quite important for the effects.

3. SOCIAL SECURITY REFORM

3.1 The Reforms

The period of constructing and expanding the welfare state lasted until the late 1960s. From then until the mid-1980s, the period for which the term “Dutch Disease” was coined, the welfare state provided a comfortable safety net, with generous benefit levels for sickness (100 percent or more!), unemployment, and disability, and rather easy access. But halfway through the 1980s, reforms got under way, with 1987 marking a watershed.¹²

Until the reforms in 1995, the organization of social security was distinctly corporatist. Eligibility, benefit level, and benefit duration are specified by law. But implementation, administration, and control were in the hands of social partners through their position in Industry Associations, created by law in 1953 precisely for this purpose. The 18 Industry Associations (26 initially) were governed by the organizations of employers and employees. The social partners had a strong grip on operating unemployment, sickness, and disability insurance programs. For example, they jointly decided on disputed insurance benefit claims in a Disputed Claims Commission. Until 1994, social partners even controlled supervision of the Associations, because they had a joint majority in the supervisory Social Insurance Council. The Social Insurance Council consisted of union and employers’ representatives and independent members appointed by the Minister of Social Affairs (eight members for each category) under a chairman appointed by the government. The same applies to national insurance (old age and

¹²Details of the social security system are given in an appendix to the ILO report.

widow[er] pensions), where the Social Insurance Bank with tripartite governance administers the insurance and sets the premiums.

In all cases, social partners had a strong hand in setting premiums. The premiums for sickness insurance were set by the Industry Associations and, hence, differed by Association. The premium for disability insurance was set by the Social Insurance Council, where partners had a (two-thirds) majority. The premium did *not* fluctuate across Associations, but was uniform across the labor force.

Unemployment insurance had a mixed structure. Part of the premium was uniform across the labor force, set by the Unemployment Fund, with tripartite governance. Another part (on average, about one-tenth of the total premium) was set by the Industry Associations and hence was industry-specific. The industry-specific part related to the first stages of unemployment, i.e., the first 8 weeks (later extended to 26 weeks). Considered from the perspective of the decision-makers at the industry level, there was no scope for shifting the burden of generous policies in the sickness insurance to outsiders (premiums were specific for the Industry Association).¹³ There was, however, full scope in case of disability insurance (because of the undifferentiated, national premium) and some scope in case of unemployment insurance.

During the 1980s, when unemployment had risen dramatically and a large share of the population received social security benefits, attempts to reduce expenditures aimed at three targets: the employee (to make benefit regimes less appealing), the employer (to confront him with the cost of referral to a program), and the controlling and supervising organizations (to create a self-governing system more conducive to sober and efficient utilization).

Tracing the history of social security reform is close to a nightmare. Regulations are complex, legislated changes in the mandatory components are often countered by adjustment in collective bargaining (e.g., supplementing legal benefit entitlements), and the process of reform has created many

¹³Of course, the product price of the industry's output may increase. But the population of beneficiaries was the same as the population that pays the premiums.

exceptions and transitional provisions. It is simply misleading to characterize the full system by an average replacement rate and an average duration entitlement. Properly assessing the impact of the system and its changes is even more complicated. Still, it is immediately clear that reforms have not been very effective because the population of benefit recipients is still very high.

The reform on the employee side meant first of all a reduction of benefit ratios. In the period 1985–1987, the basic replacement ratio for unemployment, sickness, and disability was lowered from 80 percent to 70 percent. For each of these insurance programs, eligibility rules were also tightened.

The incidence of sickness increased sharply from the early 1950s to the mid-1970s. Until 1985, the national sickness insurance paid 80 percent of the wage during the sickness, starting at day 3 of a sickness interval, for a maximum of one year (after which transition to the disability program was considered). Premiums were differentiated by industry (for 18 Industry Associations). Through collective agreements, the benefits were raised to 100 percent, from the first day of sickness, at the expense of the employer. In 1985, the benefit level was lowered to 75 percent, in 1986 to 70 percent, but again collective agreements safeguarded the workers by simply adjusting the employer supplements (Teulings, van der Veen, and Trommel, 1997, p. 287). There was thus no financial loss for sick employees and until 1985 often even gains in net income, as sickness benefits were exempt from social insurance premiums. It is quite likely that the strong increase in sickness incidence was due to the combination of full income coverage and a very lenient system of monitoring (for which there is ample anecdotal evidence). In the reform of 1994, employers were mandated to pay at least 70 percent of the wages for the first 6 weeks of sickness (2 weeks for small employers), with the option for employers to seek private insurance. In 1996, this was extended to full employer liability for 70 percent of the wages for one year. Essentially, the sickness insurance program for employees has been privatized.

Just looking at the available time series for sickness incidence shows that between 1993 and 1995, the sickness absence rate fell markedly. Since then, it appears to have stabilized. On the face of it,

without conditioning on external factors, the extension of employer liability from 6 weeks to one year does not seem to have had much of an impact, while the first step (liability for the first 6 weeks) is associated with a substantial drop in sickness rates. However, the sickness absence rate in the public sector also fell, from 6.3 percent in 1993 to 5.6 percent in 1994. In 1995, it increased again to 5.8 percent (CBS, *Sociaal-economische maandstatistiek*, May 1996, p. 14). If we use the public sector sickness rate as a crude index for external conditions, the indexed private sector rate would have been 5.5 percent in 1994 and 6.3 percent in 1995. That would imply a drop of sickness incidence by 11 percent in 1994 and another 11 percent drop in 1995, giving a total reduction due to privatization of 22 percent.¹⁴

But conclusions should not be drawn too easily. Sickness absenteeism policies had already been on the agenda for collective bargaining before privatization was enacted.¹⁵ The result has been more attention to the quality of working conditions and more frequent and earlier checks by physicians. Sickness leave compensation as a percentage of the wage bill increased from 2 percent in the early 1950s to almost 7 percent in the late 1970s. It declined toward 5 percent in the late 1980s and then rose again before the privatization dip occurred (CTSV, *Kroniek van de sociale verzekeringen*, 1997, Figure 4.2.b, p. 67). It had always been possible to opt out of the collective insurance system at the industry level and as a firm to either fully absorb the risk or set up insurance under joint governance of employer and employees. In terms of total benefits paid, the latter two groups initially were about half the size of the collective insurance system, but the share gradually dropped to about a quarter (before returning to one-half when the privatization reforms started). The incidence of absence due to sickness (measured by benefits paid relative to the wage bill) appears quite similar for the different systems (CTSV, *Kroniek*, 1997, Figure 4.1.b, p. 65). This might suggest that the type of organization of the insurance is immaterial

¹⁴Teulings, van der Veen, and Trommel (1997, pp. 79–80) document how firms have adjusted with active prevention policies.

¹⁵Collective labor agreements sometimes contained provisions to reduce absenteeism related to sickness.

as long as the insurance contract (level of benefits paid, intensity of monitoring, etc.) is not affected. More solid comparisons are not available, however.

The privatization of sickness leave compensation (and the attention already paid to the high absence rates before the privatization took hold) does appear to have changed the policies of employers and insurance associations. More intensive monitoring and more active prevention policies have been instituted. In 1996, under full privatization, five of ten firms paid less than 100 percent as sickness benefit, and four of ten paid 70 percent. Before privatization, compensation at 100 percent was the rule. There are also indications that firms are more selective in hiring and that they evaluate absenteeism indicators in their hiring decision (CTSV, 1997, pp. 53–60).

In conclusion, the sickness incidence rate, after a long climb to a high plateau maintained between the mid-1970s and the mid-1990s, has come down in reaction to privatization and a set of policies leading to lower financial compensation, more intense monitoring, and more active prevention policies. The downside, however, is more selective hiring decisions by firms.

The most worrisome development in the Netherlands, and a painful claim to international notoriety, has been the explosion in the number of disability benefit recipients. This has been caused by a combination of a generous benefit scheme, generous and fuzzy eligibility criteria, and a governance structure that is not conducive to restraint. Disability insurance was enacted in 1967. Individuals were placed in disability intervals, with a disability of 80 to 100 percent giving entitlement to the full benefit of 80 percent of lost earnings. Disability was determined with reference to the wage that could be earned for the incapacitated worker's education and experience, *taking into account the situation in the labor market*. This condition implies that disability became explicitly related to the level of unemployment—if the state of the labor market would make it hard to find a job for the remaining capacity to work, the disabled worker would be placed in a higher disability interval. The inflow into disability was massive

and dramatic, and clearly responsive to economic incentives (Aarts and de Jong, 1992). It has extensively and convincingly been argued that the disabled population contains a large component of unemployment.

In 1987, the benefit level was lowered to 70 percent. However, it stimulated the provision of supplementary benefits through collective agreements, from applying to 68 percent of employees in 1984 to 88 percent in 1989 (Teulings, van der Veen, and Trommel, 1997, p. 286). Also, the “labor market criterion” was abolished. In 1993, eligibility conditions were tightened. The disability had to be a direct consequence of the impairment, by objective standards, and the remaining earnings capacity came to be estimated from a selection of the best-paying jobs that would be open to the individual. Also in 1993, the principle of constant benefit levels until age 65 was abandoned. The benefit level came to be related to age and work experience. Recipients younger than 50 were subjected to new medical examinations, in successive cohorts. Half of the new examinations for “cohort 94” (recipients younger than 35) led to lower disability levels and hence to lower benefit levels; in 37 percent of the cases, the benefit was even ended altogether. For “cohort 95” (recipients between 35 and 40), 35 percent got a lower estimate (of which 18 percent saw their benefit ended) (CTSV, 1995, pp. 50–51).

The percentage of workers on disability increased to a high of 13.5 percent in 1984 and then slowly declined to 9.7 percent in 1996. In equivalence years, correcting for the degree of disability, there was a peak of 568,000 years (for employees) in 1992 and 1993, and then a decline to 509,000 years in 1996. During the 1990s the inflow rate seems to have responded to the policy measures with a structural decrease. The outflow rate has clearly gone up, from 8.2 percent in 1990 to 12.2 percent in 1994. In that year, for the first time since the introduction of the law, the outflow surpassed the inflow. However, in 1996, the tide turned again. On the face of it, the reforms show no lasting effect on the size of the disability population. The reform of 1987, in particular the elimination of the labor market situation from the disability criterion, appears to have had no effect either. Econometric analyses of inflow into disability before 1987 showed a considerable impact of the situation on the labor market, and one study

using postreform data showed a much smaller impact, suggesting the change may have had an impact (Stigter, 1997, p. 15). However, Teulings, van der Veen, and Trommel (1997, p. 80) report that after 1987, the labor market situation remained influential for examiners' decisions, in particular for older men. And the time series does not show signs of a marked effect. What did change, however, was the share of partial disability—the gradual increase of this share after 1977 steepened after 1986 and after 1990.

Among the three lines of attack on the expanded welfare state distinguished above, the second is targeted at employers. The changes have already been mentioned above. In 1994, employers became directly liable for wages of sick employees in the first 6 weeks (or first 2 weeks for small employers). In 1996 this 6-week period was extended to a full year. The employer is held responsible for a policy to reduce sickness absenteeism (which includes the obligation to consult expert advice) and is under obligation to monitor a worker's inability to work. Between 1992 and 1994, the disability insurance had a bonus-malus system: a penalty for every employee of the firm who became disabled, a premium for hiring a disabled person. Since January 1998, the firm's premium for disability insurance includes an experience rating. There is an obligation for firms to consult a Working Conditions service ("Arbo dienst") to improve working conditions and prevent the incidence of disease and disability.

The third line of attack is focused on the organizational structure. Unemployment, sickness, and disability insurance used to be administered by the Industry Associations and supervised by the Social Insurance Council, and social partners dominated administration and operative control. In 1995 the Council was discontinued and supervision was handed over to the Commission for Supervising Social Insurances, CTSV. This is an independent body, without participation from social partners. It oversees the Industry Associations and initially the temporary committee for coordinating the Associations' policies, TICA. In the same year, the public Joint Medical Service GMD was abolished. It used to do the medical inspections for disability claims. In 1997, both TICA and all the Industry Associations were

abolished. Administration of employee insurance, disability insurance, and the Income Supplement Act is now the responsibility of the National Institute for Social Insurances, LISV, which contracts out to five Executive Institutes, UVIs, organized by (clusters of) industries. LISV is supervised by CTSV. Thus, social partners have lost their operational control over social insurance programs.

There is a widespread view that social partners were responsible for the dramatic expansion of the population on disability benefit, a view underscored by an extensive parliamentary investigation. Social partners have been punished for their mismanagement by the drastic administrative reform. In the old system, until 1995, social partners administered disability and part of the unemployment benefits through their role in the Industry Associations. In the supervisory body, they had a joint majority over the independent members. After 1997, when the Industry Associations were abolished, they are no longer involved in administration or supervision. This is an important move away from the former intentionally corporatist organization set up in the early 1950s.¹⁶ The dust has not settled, however, and the new organization is still under construction. A key issue is the precise mix of public and private elements. We will return to this question below.

3.2 Effectiveness of the Reforms

What is the upshot of all these reforms?

For an overview of what happened during a decade and a half of discussions and policy changes, we compare 1980, 1986, and 1995 (1986 is the last year before serious reforms in social security got under way). We consider four categories: sickness benefits, disability benefits, and unemployment benefits, with the latter grouped in two subcategories—the standard unemployment benefits from entitlement under the WW, the unemployment benefit act, which covers the first 6 months of

¹⁶Debates on the management structure and organization of the social insurance programs have a long history. See Teulings, van der Veen, and Trommel (1997, chapter 9) for discussion and further references.

unemployment, and other unemployment. Other unemployment covers all these special provisions, under such headings as unemployment provision, general assistance, etc.

Even admitting the crudity of the picture generated by Table 2, it certainly does not impress an observer as a splendid success story. Indeed, the size of the labor force increased, from 5.344 million in 1980 to 5.955 million in 1986 and to 6.596 million in 1996. The incidence of sickness is at the same level as 1980 and, hence, relative to the labor force has clearly diminished.¹⁷ The other categories have increased substantially, in particular unemployment. The cost per recipient year has increased for sickness and disability and decreased for the unemployed. Cost and incidence of sickness have developed favorably; disability and unemployment recipiency have increased strongly.

Figure 5 illustrates the development of the relative social minimum over 25 years: from two-thirds of the average wage in the early 1970s to over 80 percent between 1975 and 1983, and then gradually back to two-thirds. The social minimum is the guaranteed minimum income, either as minimum wage or minimum benefit in combination with income supplements. The increase in the relative benefit level has made benefit status more attractive relative to work. Wolfe et al. (1984) estimate that the 21 percent increase in benefits between 1974 and 1980 has reduced average hours worked by 17 percent of the 1980 level, i.e., an annual decrease of 2.7 percent. Teulings, van der Veen, and Trommel (1997, chapter 6) apply some “guestimated” elasticities and hold the high benefit level between 1974 and 1985 responsible for an upper level of 100,000 additional unemployed.

The social minimum puts a floor in the market, and this affects the reservation wage at the low end of the distribution. This may be a factor in explaining why rising unemployment has not put more pressure on low wages. From the data in Hartog, Oosterbeek, and Teulings (1993), we may deduce that between 1979 and 1985 the relative wage of unskilled labor increased by 11 percent and then stabilized

¹⁷Taking percentages, it fell from 5.7 to 4.6 percent, but note that the labor force is not in full-time equivalents. The labor force was taken from CTSV, *Kroniek*, 1997, Table 3.3.

TABLE 2
Transfers for Inactivity

	<u>Beneficiary Years (x 1,000)</u>			<u>Benefit/Recipient Year</u>		
	1980	1986	1995	1980	1986	1995
Sickness	306	271	306	24392	28081	28183
Disability	608	713	752	22808	23272	28370
Unemployment						
WW	69	73	341	34014	38767	31320
Other	1273	1793	1983	6282	8559	5615

Sources:

Beneficiary Years: SZW, *Sociale Nota*, 1998, Annex 11.

Sickness: Table 11A.6 (Ziektewet)

Disability: Table 11A.7 (WAO, AAW)

Unemployment WW: Table 11A.9 (WW)

Unemployment, Other: Table 11B.1 (WWV) + Table 11B.2 (IOAW) + Table 11B.6 (JWG)

+ Table 11B.7 (Banenpools) + Table 11B.8 (BKR) + Table 11B.17.B (Bijstand

Rijksgroepsregelingen) + Table 11B.17A.1 (Bijstand, niet Rijksgroepsregeling, onder 65)

Benefit/Recipient Years = total expenditures/beneficiary years, in guilders

Expenditures: SZW, *Sociale Nota*, 1998, Annex 13

Sickness: Table 13A.A (loonderving door ziekte)

Disability: Table 13A.A (arbeidsongeschiktheid)

Unemployment WW: Table 13A.A (werkloosheid)

Unemployment, Other: Table 13A.B (werkloosheid + bijstand exclusief RWW + BKR)

Figure 5
Social Minimum Related To Average Wage



Sources: CPB and Ministerie SZW

until 1989.¹⁸ The effect of this increase on labor demand of the unskilled, from substituting higher-skilled for unskilled workers, depends on the magnitude of the elasticity of substitution by skill level. With an elasticity of substitution of 1, the employment ratio would drop by 11 percent. At an original share of low-skill labor of 0.5 in 1979 (lower education plus extended lower), this would come down to a drop in demand for unskilled labor by 5.5 percent of total employment. Related to the labor force of about 4.5 million person-years in the 1980s, this would amount to a reduction in demand for the unskilled of some 250,000 person-years. Between 1978 and 1985, the number of unemployment benefit recipients increased by some 400,000.

During the first half of the 1990s, outflow rates from unemployment benefits to work were still not high. During that time, 53 percent of those on unemployment benefit (WW) for a year or less found a job, as did 30 percent of those on benefit for 1 to 2 years and 22 percent of those on benefit for 2 to 3 years. For those on general assistance (ABW), these rates were much lower (16, 13, and 9 percent) (SZW, *Sociale Nota*, 1998, Annex 17). Among registered unemployed in 1996, almost a quarter had been unemployed for more than 3 years (102,000 out 441,000) and one-half had been unemployed for more than a year. In 1988, with registered unemployment at 453,000, the division by duration was virtually identical. (SZW, *Sociale Nota*, 1998, Annex 4).

Why have the reforms and the reductions in benefit levels during the 1980s and 1990s been so ineffective? One factor may be that replacement ratios at the bottom have not really diminished. The ratio between minimum benefit and legal minimum wage stood at 98.5 in 1983 and at 98.1 in 1997 and has barely fluctuated in the intervening years (CPB, 1997, *Centraal Economisch Plan 1997*, Annex A6). While the relative social minimum has declined substantially over time, there is no evidence that work

¹⁸In a standard Mincer earnings equation, the rate of return was 0.089 in 1979, 0.072 in 1985, and 0.073 in 1989. We assume an unskilled worker has 4 years of education after primary school (to conform to the legal minimum) and a more-educated worker has 7 years. The relative wage rate then changes by $4 * (0.072 - 0.089) = -0.119$.

incentives for the unemployed at the minimum level have improved. In fact, the financial incentives for return to the labor market, from a benefit situation, are generally weak. Only single individuals would experience a substantial income increase by exiting from unemployment. In the case of a married worker formerly employed at the level of the minimum wage, returning to a minimum wage job would yield an income increase of 1 percent. Returning to a job at the same wage level as before, at 125 percent of the legal minimum wage, increases income by 17 percent relative to the unemployment benefit. However, taking a job for one day a week would in this case boost income by 8 percent. Thus to gain 9 percent in income, 4 days of leisure per week have to be sacrificed (Groot, Hartog, and Pott-Buter, 1992, p. 85). And this even ignores the cost of work, such as travel, clothes, etc. These calculations were made for 1992, but it is doubtful whether much has changed since then. In a detailed study, Engbersen, Schuyt, and Timmer (1990) established that many long-time unemployed are resigned to their situation and are reasonably satisfied. They may participate in volunteer work and in the underground economy, but they have given up all efforts to search for work. On top of the lack of incentives for individuals, it has also been observed that Dutch expenditures long favored passive policies relative to active policies, in comparison with other countries (Groot, Hartog, and Pott-Buter, 1992).

It is hard to say whether the other reforms (tighter eligibility rules, increased sanctions, curtailment of duration) have had much of an impact. In general the relation between unemployment duration and level and duration of benefits is not firmly established. Many studies find no relation at all or, at best, only a small effect. However, studies on unemployment benefit systems often ignore the fine details of the system (cf. Atkinson and Micklewright, 1991), and the Dutch system has many fine details. For the Netherlands, effects have been established for specific elements such as approaching the end of benefit entitlement (Lindeboom, 1992; Van den Berg, 1990) and sanctions applied to insufficient job-finding efforts (Abbring, 1997). Between 1987 and 1994, the number of sanctions has increased fourfold, to 17 percent of the inflow of unemployed; sanctions may substantially influence the probability of

outflow to work, depending on gender, age, and wage (Teulings, van der Veen, and Trommel, 1997, p. 166). But careful econometric evaluations of the system overhaul are barely available.

Summarizing developments over the last 15 to 20 years, we may say that the increase in generosity of social insurance and social security has created a large volume of benefit recipients. The high social minimum may have been a factor in eliminating low-skill jobs, as the high reservation wage at the low end kept wages high and stimulated substitution of higher-educated for less-educated workers. Reducing the high volume of benefit recipients has proved extremely difficult. In fact, only the reduction in sickness incidence in the most recent years may qualify as a success. Apparently, the reservation wage of the benefit recipients was higher than what employers wanted to pay for their qualifications.

4. FLOWS AND FLEXIBILITY

4.1 Changes in the Market Structure for Flow Management

“Flexibilization” of the labor market has been an essential part of the post-1982 program. Flexibility is a broad concept, without a straightforward standard definition. It refers in general to the ease of adjustment of worker allocation and worker efforts to changes in external conditions. It assigns an important position to flows in the labor market and between the labor market and benefit recipient status. The nature of the employment contract is often seen as very influential for a number of these flows. From that perspective the development in the Netherlands has indeed been remarkable. The growth in the volume of employment (in person-years) between 1983 and 1996 has almost fully been realized by “flex-workers” and part-timers. In fact, from 1970 until 1996 the volume of full-time jobs has been stable at about 3.7 million.

It is important to realize that not all flex-workers can be summoned to work just when and where the employer decides. The category of flex-workers covers workers on call and with otherwise flexible arrangements, workers hired through a temporary-work agency, and workers with a contract for less than

one year. In 1996, according to the Central Bureau of Statistics (CBS) Labor Accounts, just over one-half of all jobs were tenured full-time jobs, one-quarter were tenured part-time jobs, one-tenth were flexible jobs, and one-eighth were self-employed positions. From 1970 to 1996, the number of part-time jobs increased from 600,000 to 1.8 million, and the number of flexible jobs increased from 200,000 to 700,000. However, the Labor Force Survey EBB, presumably the source for the CBS Labor Accounts, does not cover workers with jobs below 12 hours a week, temporary contracts lasting longer than one year (100,000), home-based workers (55,000), and workers on outplacement (80,000). Adding these categories to EBB's estimate of 830,000 flex-workers in 1995 generates a total of 1,065,000 flex-workers in 1995. EBB estimates an average of 920,000 flex-workers in 1996.

A decomposition and a characterization of flex-workers is given in Table 3. Workers on call and workers with unspecified hours make up some 40 percent of flex-workers. These workers get closest to flexible labor input, directly responsive to the spur of the moment. Most of them are women. Note that not all of this work is at the lowest job levels. Temporary substitutes make up 8 percent, again mostly women. Temporary workers, making up almost one-quarter of flex-workers, certainly provide for flexible adjustment to labor demand. But workers on contracts for less than one year, more than a quarter of the number of flex-workers, are certainly not exclusively hired in conjunction with demand fluctuations. Whereas this category will be hired by employers in case of demand uncertainty, the short-term contract is also used as a probationary contract, to check out worker's capabilities. These contracts are often stepping-stones toward regular, tenured jobs. Indeed, among workers with a temporary job in 1992, two-thirds had a tenured job 2 years later. Among workers with a flexible contract in 1988, half of them had a tenured job in 1991. This is not necessarily with the same employer, though. Flex-work may simply refer to a certain stage in a worker's career. Quite frequently, it covers a starting job for young workers

TABLE 3
Types of Flexible Contracts

	Number of contracts 1996
Temp worker	214,400 23.30%
Regular workers on call	276,300 30.10%
Temporary substitutes	77,200 8.40%
Temporary contracts, less than 1 year	249,600 27.10%
Contracts with unspecified hours	101,900 11.10%
Total	919,400

Source: Ministerie van Sociale Zaken en Werkgelegenheid, Maandelijks Analyse, Flexibele Arbeid in Perspectief, September 1997.

and re-entering women. Almost half the workers in a flexible job are under 25. In fact, for workers older than 25, the share of tenured contracts has been stable at 90 percent for the last 10 years.¹⁹

The growth of employment through temporary work agencies from virtually nothing in the late 1960s to over 200,000 person-years in 1997 has created a large market for temp agencies, and allowed some to grow into large agents in the European market (e.g., Randstad). Over time, the role of temp agencies has changed. As noted above, flex-workers come in two categories. The first group is workers on probation. Temp agencies serve as intermediaries for the selection and hiring of such workers. If accepted, the workers get trained by the firm and move on to tenured positions. The second group includes the flex-workers hired to match demand fluctuations. Here, agencies also apply a sharp selection, as the quality of their workers is important for their market share (OSA, 1996, p. 138).

Unions have come to accept the role of temp agencies. Whereas initially they attempted to prevent temporary work as much as possible, they have now chosen to bargain a collective agreement for workers employed through these agencies. New legislation, *Flexibiliteit en zekerheid* (Flexibility and Security, accepted May 1998 and in force by January 1999), gives temp and flex-workers more protection.²⁰ Workers on call should be paid for at least 3 hours per call. A contract with a temporary work agency is now considered an employment contract. After 26 weeks, the legal rules for a sequence of temporary employment contracts apply, which implies that the contract gives entitlement to a tenured position after three consecutive temporary contracts with the same employer. Collective agreements may set other rules, however. The maximum duration of 6 months for a temporary work contract has been eliminated (SZW, *Sociale Nota*, 1998, p. 117).

¹⁹All the data mentioned here are from the Department of Labor Memorandum (SZW, 1997).

²⁰The Act on Flexibility and Security and the Act on Allocation of Employees by Intermediary Organizations (WAADI) are both nearly fully based on unanimous advice from the Foundation of Labor in a government memorandum on these issues.

The volume of temporary work has closely paralleled the business cycle, except for a structural increase in the mid-1980s, from about 1 percent of the employment volume in 1982 to 2 percent in 1986. (De Koning et al., 1995, p. 128). On the labor supply side, in the early 1990s about a quarter of the workers sought jobs as holiday workers and about a fifth sought the individual advantages of temporary work. More than half the temp workers were looking for permanent positions. On the demand side, in 1993, 44 percent of the firms hired temp workers specifically for temporary jobs, 31 percent for substituting personnel, and 16 percent as the first step in hiring permanent workers. Thus, temp agencies have a foot in two markets: temporary flex-work and the initial probation stage of regular tenured positions. This fits in with the tendency of firms to contract out parts of their personnel departments.

The market structure for agencies dealing with job placement and labor market mediation has changed quite drastically. Until 1990, the Public Employment Service was a government monopoly for job placement services (intermediation between supply and demand), and there were only a few permits for temporary work agencies. In 1991, the service became an “Independent Administrative Agency”—an agency with a specified administrative task, a public body but not under the control of the Minister. Membership of its Central Board has a tripartite composition, as does the membership of the 28 Regional Boards (see next section). The Central Board is authorized to give out licenses for Temp Work Agencies and for Job Placement Agencies, and this has led to an abundant growth: 887 for the former and 908 for the latter in 1994 (OSA, 1996, p. 135). Not all license holders are active, however. According to the annual reports of the employer association of temp agencies, ABU, there are about 300 active agencies. Moreover, under the old “monopoly,” private agencies were active anyway (De Koning et al., 1995, p. 121). As of July 1998, temporary work agencies no longer need a license. The share of temporary work agencies in filling vacancies was constant between 1988 and 1993, at 7 percent. The Employment Service has a share that fluctuates countercyclically (increasing with unemployment), between 8 and 14 percent.

The market for job placement and mediation has seen the development of new activity, new partnerships, and thus a new market structure after the demonopolization (Bergman, 1997). Job placement and related services are now provided by the Public Employment Service, by the Social Insurance Organizations, by commercial temp work agencies, and by agencies for government-subsidized job creation. These agents cooperate in many ways to offer their services jointly and to make a living (or a profit) from the funding that is available from the government, the social security services, unions, and employers. For example, in the biscuit industry redundancies emerged from reorganizations. A temp agency, Randstad, has contracted to hire these redundant workers, train them, and seek alternative employment; they are hired as regular employees, not as temporary workers (Salverda, 1997b, p. 4). In the collective agreement for the Metal and Electrical Engineering sector, 0.5 percent of the wage bill has been set aside for job creation, placement, and training. A special nonprofit foundation has been created to implement these plans (Bergman, 1997, p. 79). Often commercial intermediaries are also employed to implement such job creation agreements in collective bargaining. A temp agency (Manpower) and the city of Amsterdam cooperate, on the basis of funding by the central government, to mediate long-term unemployed into private sector jobs at heavily subsidized rates (*De Telegraaf*, September 19, 1997), i.e., at Dfl 5 per hour.

Layoff regulation may have an important impact on labor market flows. After some recent deregulation, Dutch layoff regulations are not particularly restrictive in comparison with other European countries (OSA, 1996, p. 107), either in terms of arrangements in collective labor agreements or in terms of legal provisions in case of mass layoff. Exceptional by international standards is the case of individual layoff. Here, employers can select from two routes. The route through the Regional Employment Agency applies “preventive evaluation”: the director tests the dismissal for reasonableness. If permission is granted, there is no compensation for damages. The procedure has recently been shortened. Appeal is not possible. The other route is through the court. A fired worker can make a claim in court, and if granted,

the judge will set the compensation. The court route is faster. There is some shift toward this route, in particular if employers fear that the case for dismissal is not outright convincing to the director of the Regional Employment Agency (OSA, 1996, p. 106).

4.2 The Employment Service

Originally, as noted, the Employment Service was a public monopoly. Registration at a regional employment office was required for entitlement to certain benefits, such as Unemployment Benefits. The Employment Service was also active in training and retraining programs. In 1991, the Service was drastically reorganized. It became independent, with a tripartite Central Board: employer federations, union federations, and the central government. The Central Board supervised 28 Regional Boards, administered by employer, union, and local government representatives. The move from a government agency to a joint body of social partners and government and a decentralization with regional boards were meant to improve the employment service by integrating the activities of all agents and drawing fully on the information that each had available, and by integration and cooperation with the government agencies administering welfare, social insurance, and welfare provisions. Municipalities were included because they were responsible for welfare benefits and for policies to reintegrate recipients into the labor market. It has been a long-standing complaint that organizations that provide for social benefits (disability, unemployment, social assistance), and that should stimulate clients back into the labor market, have poor coordination with job placement services.

The reforms started out in conflict and confusion. From the beginning, the Central Board failed to operate as the central steering body that had been envisioned. The central government severely cut the budget, in spite of explicit legal guarantees of a specified annual budget. An evaluation committee reporting to the Minister of Social Affairs drew very harsh conclusions (Commissie Van Dijk, 1995). The Central Board never managed to define and implement good policies. The evaluation committee attributed this to the fact that board members operated strictly as representatives of their principals, to

financial asymmetry (only the government incurred any cost), and to an inconsistency in the position of the ministerial representatives: the Minister of Social Affairs participates in the policies of the Board, but the Employment Service Act also holds the Minister responsible for supervision of the policies of the Board. The committee concluded that the Central Board has not been able to set up an adequate administrative system, either for financial accounting or for the output of the Boards (job placements, participation in training and other programs, etc.), that it has not succeeded in coordinating and unifying policies of the Regional Boards, and that there has been no integration of administration and counseling of benefit recipients and jobseekers by the different authorities in local government (such as local welfare departments) and in social insurance (such as the Industry Boards, at that time involved in disability insurance). However, at the level of the Regional Boards the evaluation committee found some improvement in cooperation, both among the public agencies and among these agencies and the social partners. In general, the committee was rather negative about the effectiveness of the placement and training activities.

In 1993, the Employment Service spent almost half its total expenditures on schooling programs, 20 percent on mediation, 13 percent on reintegration and work experience programs, 8 percent on information and counseling, and 10 percent on other activities (De Koning et al., 1995, p. 209). The evaluation of the reorganization by De Koning et al. (1995) is rather critical. There is no evidence of an improvement in the market share in job placements²¹ or in the labor market matching process. De Koning et al. have reviewed some 50 school program effect studies covering the period 1985–1994; only four of them analyze the impact of schooling programs properly by using a control group. The studies suggest a

²¹De Koning et al. (1995), pp. 54–57. The data provided by the Employment Service itself are unreliable because of intertemporal changes in definitions, different applications by different Regional Boards, and lack of checks and controls. Hence, the Central Board has not managed to set up a reliable registration system for its performance (pp. 47–51). De Koning et al. use data from surveys on employers' hiring behavior. In view of the unreliability of the data, it does not make sense to evaluate the performance of the Employment Service in terms of target groups such as women and ethnic minorities, for which only data from the Service are available.

substantial effect of some specific schooling programs, with the highest effect for deprived groups—unskilled, long-term unemployed, the elderly. But the evaluation study concludes that in general, “there is no evidence that all RBAs are very efficient in spending for schooling programs” (p. 237). It is interesting to note how Regional Boards (RBAs) have reacted to a change in incentives. With more emphasis on job placement scores as the goal of the Employment Service, activities have indeed shifted toward placement, using more placement officers, and less expenditure directed toward schooling programs (pp. 237–238). RBAs explicitly acknowledge this policy change (p. 84).

Has the “corporatization” of the Employment Service paid off? Certainly not in the period 1991–1994. There is no evidence that the service has been more effective than before. A key problem appears to be the failure of the Central Board to provide the Regional Boards with clear guidance on the administration of their activities and a system of critical assessment of effectiveness. Glebbeek and Sol (1998) largely agree with the evaluation of poor performance (although they put more emphasis on improvements at the local level), but they argue that the reform was not really in the corporatist direction, and that it was unwarranted to expect direct success of a new structure that should be allowed to develop and mature. In their view the new structure was not corporatist because it lacked centralization and “rank and file” compliance—no binding bargaining at the top implemented top-down by the partners.

In 1997, the Law on the Employment Service 1996 became active. The public employment service became more focused on problematic elements in the job matching process, namely on job seekers with low employment probabilities and on vacancies that are hard to fill. Government funding is divided into a budget for basic service and a budget for particular targets (40 percent of the Dfl 1.4 billion budget going to the former in 1998, 60 percent to the latter). Part of the budget for employment and job placement services is no longer given directly to the public employment service but to local government and agencies in the social security administration. The shift in emphasis means that the

government leaves a larger share of job mediation services to the private sector, stepping back to focus more explicitly on problems that the market is least likely to solve.²²

5. AN ASSESSMENT

5.1 Assessing the “1982 Program”

The long and strong postwar recovery ended in the 1970s with the “Dutch Disease”: strong expansion of the welfare state—in part financed by the proceeds of natural gas, gas exports that pushed the guilder to a high level and thus crowded out other exports and employment—and a political paralysis, in which the need for reform was recognized but not implemented. The year 1982 is regarded as the turning point, although only in hindsight can it be seen as yielding something like a coherent program: wage restraint, government retrenchment, welfare reform, work sharing, “flexibilization.”

Wage restraint was convincingly realized. The government certainly retreated. The welfare state has been drastically reorganized, with much direct control taken away from the social partners. Work sharing and flexibilization marched hand in hand, as redistribution of hours worked across the labor force has led to a loss in the share of regular full-time jobs and an increase in the share of part-time and flexible contracts. The volume of temporary work has greatly expanded. The organization of labor market mediation and job placement has undergone a major overhaul after the government monopoly was abolished, and new partnerships of public and private organizations have emerged.

Employment has drastically changed in composition. Exaggerating a little, we may say that most employment has been lost in full-time male manufacturing jobs and that much has been gained in services. These services are both high level and low level. They provide many opportunities for women, including women who want to work part-time. Restructuring has not taken place *within* the labor force.

²²De Koning (1999) claims that his negative evaluation of the reforms also applies to the more recent years—no relative improvement for vulnerable categories.

The exit from manufacturing was not linked to the entry into services; exit meant exit from the labor force (disability, long-term unemployed, welfare). The heritage of disconnected outflow and inflow is the large stock of benefit recipients.

Is this a success story? If we take the perspective of the entire postwar period, there are several indications that the interval between 1973 and 1983 is the exception, not the post-1983 period. In that sense, the “miracle” of the recovery is not a miracle at all, but a restoration of the earlier position. “Restoration” took place in wage determination, in social security, and in productivity. Moderate wage development is a Dutch postwar tradition that got disrupted in the late 1960s and early 1970s, after a long period of high excess demand in the labor market. The welfare state was strongly expanded during the 1970s, and in the early 1980s absorbed many into benefit reciprocity. Restoration of benefit levels started in the early 1980s, and by the mid-1990s they were back at the level of 1970. GDP growth resumed its old track: “The position of the Netherlands in terms of GDP per capita relative to Northwestern Europe is now more or less the same as it used to be in the 1960s and 1970s” (Van Ark and de Haan, 1997, p. 22).

The policy was not a mere resetting of parameters. There have been substantial institutional reforms in social security and the employment service. Bargaining over the employment contract, however, has taken place in an essentially stable system of labor relations, even though appearances have changed.²³ It is still a system with intense, high-level coordination and consultation, as in a truly corporatist structure. Its precise contribution to wage restraint is hard to determine. The CPB study discussed earlier (CPB, 1991) allocates three-quarters of the reduction in labor’s income share to the effect of the high unemployment rate, but the reaction coefficient of wages to excess supply of course already includes an institutional effect of the Dutch bargaining tradition. The impact of institutions on labor market outcomes is much debated (see Teulings and Hartog, 1998), but a recent OECD study

²³Hemerijck (1994) gives the same assessment: essential continuity, in spite of an interval of polarization between 1968 and 1982.

certainly supports the beneficial effects of labor market coordination (Elmeskov, Martin, and Scarpetta, 1998). Broersma, Koeman, and Teulings (1999), after estimating a small econometric model, argue that the residuals from their wage equation show no sign of wage moderation after 1982; if anything, moderation started before then, about 1975. However, the residuals from the wage equation have a strong impact on employment. In their analysis, the key changes are those in labor supply induced by changes in social benefits (i.e., increased generosity in the 1970s, reduced generosity since the mid-1980s.)

Introducing increased labor market flexibility has certainly been facilitated by corporatist coordination in the Dutch vein. There is reason to doubt whether work sharing has contributed to a better economic performance. But if there has been any virtue to it, it is also related to the flexible implementation, the combination of reduced worker hours with increased operating hours, and the say of management in the timing of work and leisure.

In welfare-state reform, the biggest success seems to be the reduction of sickness incidence. Perhaps this was relatively easy, because the population of the sick has a high turnover, and flows are easier to control than stocks. Disability is a much more permanent condition than sickness. The volume of the disability recipient population is still high and inflow has recently again surpassed outflow. Many people still receive unemployment-related benefits.

5.2 A Dutch Model?

In terms of institutional structure, if there is anything like a Dutch model, it is the Dutch brand of corporatism, with consultation, coordination, and bargaining over all important issues of socioeconomic policy between union federations, employer federations, and the government. The Dutch example shows that corporatist institutions are not synonymous with suffocating rigidity. Instead, they appear to allow for much flexibility. International comparative analyses confirm this (Teulings and Hartog, 1998; Elmeskov, Martin, and Scarpetta, 1998). But the tango for market and state has changed the model and, characteristically, in different directions. In job mediation and matching, the government monopoly has

been abandoned, the market for mediation services has been opened up for the private sector, and the public service has been given a corporatist governance structure. In social security, the corporatist structure has been demolished, governance has been made independent, and administration will be privatized. The reorganization of the employment service and social security continues, and it is not yet clear where the tango dancers will end up. The government is now establishing 200 local Centers for Work and Income: one front desk for local welfare benefit, a benefit for disability or unemployment administered by the privatized UVIs, a job placement and job search service for the employment service. In the most recent proposals, disability benefit claims will be evaluated by a public servant, stationed with the private UVIs. Job placement services for the hard-core unemployed will be bought from private organizations, and the Public Employment Service will disappear. Supervision of the Centers for Work and Income will be by a board with membership from social partners, local government, and independent members. The tango is moving into complicated twists.²⁴

The institutional reforms so far have not paid off visibly, except perhaps in the case of the privatization of sickness benefits.²⁵ This may very well be related to sustained absence of financial incentives for the administrative agents. The unemployment benefit was once administered by Industry Associations, but the Associations had no incentive whatsoever to reduce incidence and duration of unemployment. No one within the Associations had a particular interest in reducing the caseload. Differentiation of unemployment insurance was not very relevant, with only one-tenth of the average premium variable across sectors. After 2.5 years, an unemployed worker gets benefits from national, tax-funded sources, and administrative agencies are in no way rewarded for getting the long-term

²⁴The new proposals are discussed in a special issue of *Economisch-Statistische Berichten*, 84 (4201), April 29, 1999. The discussion centers around the balance between the private and the public share in organizing the transition from unemployment and social security recipient status to a job. The policy goal is to increase financial incentives through private sector competition.

²⁵Private insurance companies report (large) losses on their sickness insurance and raise premiums, sometimes substantially. However, it is commonly alleged that they started out with premiums that were too low so they could gain market share at the introduction of privatization.

unemployed back to work. Disability used to be administered by Industry Associations, assisted by a Medical Service for claim evaluation, but the agencies had no incentives to reduce their caseload; they were not rewarded for performance. Instead, it has often been suggested that employers, unions, and the government all had their own motives for preferring the disability channel to the unemployment benefit channel (Teulings, van der Veen, and Trommel, 1997, p. 250). In the new structure, administration is done by UVIs, but as long as employers have no free choice of UVI, there is no premium on efficiency. In Sickness Insurance, also initially administered by Industry Associations, there was no premium on efficiency. With the privatization of sickness insurance, and free choice by employers of the agency to fulfill the legal requirement to have professional guidance on prevention and reintegration, this is the only program that has a clear premium on efficiency. In the Employment Service, there was no real premium on performance until the introduction of a new funding system in the Employment Service Act 1996, including performance-related budgets for hard-core unemployed (Glebbeck and Sol, 1998). This leads to an important conclusion. With the exception of sickness insurance, the complete administrative overhaul—the “decorporatization” of social security and the corporatization of the Employment Service—has meant that basic financial incentives for the administrative agencies have largely been absent. Only in case of the general welfare benefit or social assistance (“Bijstand”) have the local government agencies come under tighter monitoring by the central government. But here, too, the financial incentives are adverse: if the local government spends resources to reduce the caseload, the largest financial gain accrues to the central government (because it pays 90 percent of the benefits). In light of this, it is not surprising that the incidence of social security reciprocity has not been reduced. Only real incentives can make the difference here. Further reforms are under discussion, but as long as they do not generate substantial incentives, the impact, no doubt, will be negligible. The tango goes on, and swirls into hitherto unknown figures. And it is hard to predict where the dance will end.

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