

## DO WE NEED CRISIS-SPECIFIC LABOR MARKET POLICIES? LESSONS FROM THE DUTCH MIRACLE – PART II

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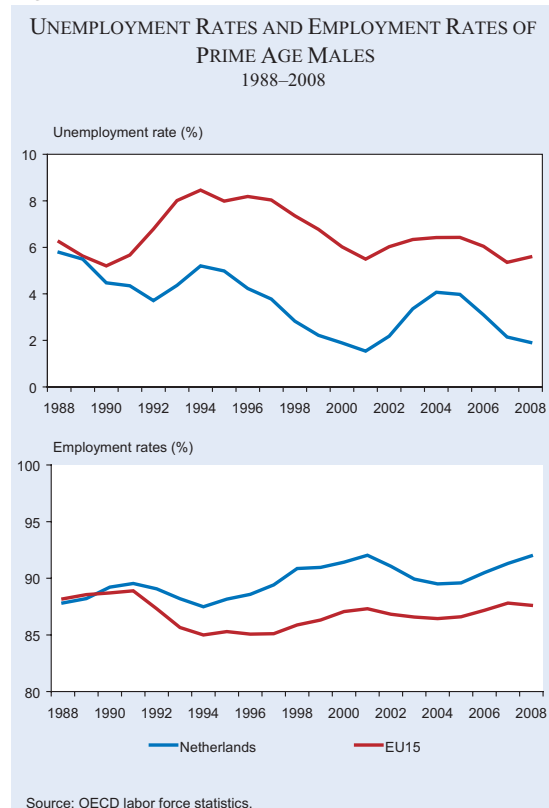
### Introduction

A ghost wanders about Europe, a ghost of rising unemployment. In some countries, such as Ireland and Spain, the rise in unemployment has been spectacular. In other countries the rise in unemployment has been milder and its rate is still low. A striking example of this is the Netherlands, where the unemployment rate amounted only to 4 percent in 2009. Figure 1 gives an overview of unemployment and employment developments in the past two decades, comparing the Netherlands to the EU15. The upper diagram shows the evolution of unemployment rates of prime age men (age 25–54) over the period 1988–2008, 2008 being the year before the crisis started. Clearly, whereas the unemployment rate of the EU15 at the end of the investigated period was roughly as high as in its beginning, reaching around 6 percent, the Dutch unemployment rate declined to about 2 percent in 2008, from 6 percent in 1988. Furthermore, it is also clear that the cyclical fluctuations in the unemployment rate in this country have been very much the same as in the EU15. Unemployment rates declined until the early 1990s, then increased in 1994/95, fell thereafter until the early 2000s, rose in 2004/05 and then fell again until 2008, shortly before the crisis started to affect the unemployment rate. The lower diagram in Figure 1 suggests that in terms of employment rates of prime-age men, developments in the Netherlands were also different from those in the EU15. Whereas the employment rate in the EU15 remained at about 88 percent, its rate increased in the Netherlands from 88 percent in 1988 to 92 percent in 2008.

The drop in unemployment and the increase in employment during past decades fall under the heading of ‘Dutch miracle – part I’. The long-lasting good performance of the Dutch labor market is attributed to three policy shifts (Visser and Hemerijck 1997). First, there was wage moderation, which started in the early 1980s and ended in the negotiations between trade unions and employers in 1982. Because of this the competitiveness of Dutch industry increased significantly. Second, there was the reform of the social security system, starting with a freezing of benefits in 1983 and an overhaul of unemployment insurance in 1987, followed by further reforms in social security in the early 1990s and the early 2000s. The third policy shift concerns the innovative labor market policies and the emphasis on activating measures of various kinds. Nickell and Van Ours (2000) conclude that the unemployment rate in the Netherlands decreased because of a significant reduction of the equilibrium unemployment rate since the early 1980s. An important



Figure 1



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characteristic distinguishing the Dutch labor market from other European countries is the emphasis on financial incentives to get the unemployed back to work or prevent them from entering the pool of workers collecting disability benefits (see, for example, Van Ours 2006a and 2006b).

The question addressed in this article is whether there are lessons to be learned from the current low level of unemployment in the Netherlands, which might go under the heading of 'Dutch miracle – part II'. A review of recent developments in the Dutch labor market is provided with a focus on financial incentives and the use of labor market related benefits, i.e. unemployment benefits (UB), welfare benefits (WB) and disability benefits (DB). This will be followed by a comparison of recent developments in the Netherlands to those in other European countries and the United States. After comparing recent policy measures aimed at tackling the 'jobs crisis', some conclusions will finally be drawn.

### Recent events in the Netherlands

#### *Pre-crisis characteristics*

Table 1 provides an overview of Dutch labor market characteristics shortly before the effects of the crisis started kicking in. The table distinguishes unemployment rates, employment rates and the use of benefits by gender and age.<sup>1</sup> Unemployment rates of prime age individuals were rather low in 2008. Even youth unemployment rates, at 5.7 percent for men and 5.5 percent for women, were not very high. In comparison, unemployment rates among elderly workers were rather high but still lower than youth unemployment rates. In 2008 employment rates were low at the extremes of the age distribution. Yet, for prime age men (consisting of the age groups between 24 and 54) employment

<sup>1</sup> Note that the use of particular benefits is not exclusive of other benefits. Individuals may, for example, receive part-time disability benefits in combination with part-time unemployment benefits.

**Table 1**  
**Characteristics of the Dutch labor market, 2008**

Age group	U (%)	E (%)	The use of			Pop (million)
			UB (%)	WB (%)	DB (%)	
<i>Men</i>						
15–24	5.7	69.6	0.3	0.5	2.9	1.0
24–34	2.0	92.9	1.1	1.7	3.3	1.0
35–44	1.6	93.6	1.5	2.2	4.6	1.3
45–54	2.2	89.5	1.9	2.5	9.3	1.2
55–64	4.0	60.2	3.5	2.4	20.8	1.0
Total	2.8	81.9	1.7	1.9	8.2	5.5
<i>Woman</i>						
15–24	5.5	68.7	0.3	0.9	2.3	1.0
24–34	2.5	83.2	1.1	2.6	3.7	1.0
35–44	2.8	80.5	1.6	3.1	5.6	1.3
45–54	2.6	75.2	1.9	3.4	8.9	1.2
55–64	3.4	41.1	2.2	3.4	14.4	1.0
Total	3.2	70.2	1.5	2.7	7.1	5.5

Notes: U = unemployment rate; unemployment as a percentage of the labor force, E = employment rate; employment as a percentage of the population (Pop); UB, WB, DB = unemployment benefits, welfare benefits and disability benefits as a percentage of the population, respectively.

Sources: Statistics Netherlands (CBS), Netherlands Institute for Social Insurance (UWV), OECD labor force statistics.

rates were close to or above 90 percent, compared to 75 to 85 percent in 2008.

In Table 1 the use of benefits is given as a percentage share of the population in a particular age group. The use of unemployment benefits (UB) generally amounted to below 2 percent in 2008, except for elderly men (3.5 percent) and elderly women (2.2 percent). The use of welfare benefits (WB) increased with age, from less than 1 percent for young individuals to about 2 to 3 percent for elderly individuals. The main distinctions between the age groups are shown in the use of disability benefits (DB). Whereas 0.5 percent of young men and 2.3 percent of young women collected disability benefits in 2008, the comparable share amounted to 20.8 percent and 14.4 percent for older men and for older women, respectively.

#### *Unemployment benefits*

The law on unemployment insurance benefits was introduced in 1949 to insure workers against the financial consequences of unemployment.<sup>2</sup> In the aftermath of the large-scale unemployment growth in the early 1980s, the UB system was greatly restructured in 1987. One of the main elements of this restructuring was to make entitlement to UB dependent on previous work experience. Entitled to unemployment insurance (UI) benefits are all employees

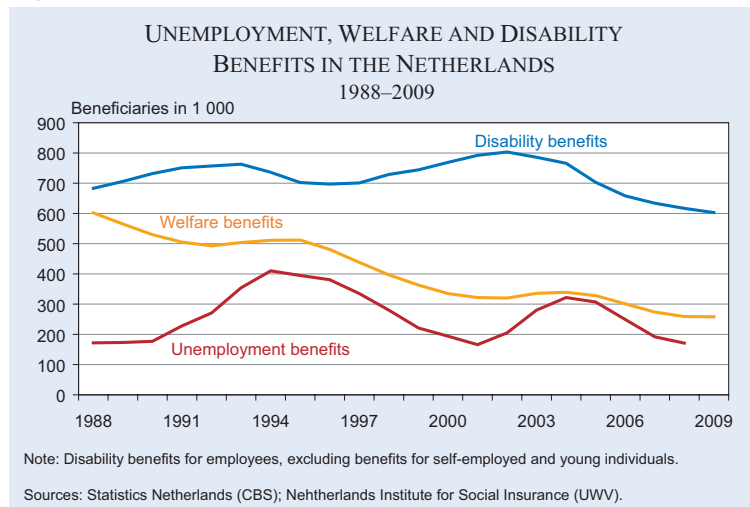
<sup>2</sup> Excluded from UB are individuals who receive full-time disability benefits or have reached the age of 65.

who become unemployed involuntarily and lose their earnings for at least 5 hours or half of their working hours. They must have been employed for a particular part of the period before becoming unemployed. The benefits end when individuals are no longer unemployed or reach the maximum benefit duration. The potential benefit duration (PBD) and the benefit level depend on the type of UI-benefits that may be collected. After the 1987 reform, individuals were eligible for short-term benefits, wage-dependent benefits or extended benefits. Eligibility for these three benefit types depended on labor experience and the age at which the individual became unemployed. The wage-dependent benefits are granted for at least 6 months and are extended at 3 months intervals to 4.5 years, depending on labor experience. Initially, labor experience was calculated as the number of years in the 5 calendar years prior to being unemployed, in which the individual has received wages for at least 52 days, plus the number of calendar years between the year in which the individual turned 18 and the 5 years prior to unemployment. In 2005, a larger part of actual labor market experience was used to determine potential benefit durations. All individuals who received wage-related UI-benefits were also entitled to extended benefits. However, extended benefits were abolished on 11 August 2003.

In the course of 2006, the new Unemployment Insurance Act was introduced (see De Mooij 2006). First, the maximum duration of unemployment benefits was reduced from 60 to 38 months; the maximum benefit duration in months equals the employment record in years prior to the application. So, the maximum period applies to people with an employment record of 38 years. Second, the benefit level was raised from 70 to 75 percent of the last wage for the first two months of unemployment. After this initial period, benefits were reduced to 70 percent. Third, the new act had more stringent entitlement conditions.

Figure 2 illustrates the annual number of unemployment benefits over the period 1988–2009. There are clear and sizeable fluctuations. Whereas in 1988 less than 200,000 workers collected unem-

**Figure 2**



ployment benefits, in 1994/95 this number was more than 400,000. This was followed by a decline to a low of 200,000 in 2001, and then an increase to a little over 300,000 in 2004 and another decline to 200,000 in 2008. So, whereas there are sizeable fluctuations, there is no clear trend in the use of unemployment benefits. The upper diagram in Figure 3 shows the inflow and outflow of unemployment benefits. Clearly, the cyclical fluctuations in benefits flows mimic the fluctuations in the number of benefits provided with the fluctua-

**Figure 3**

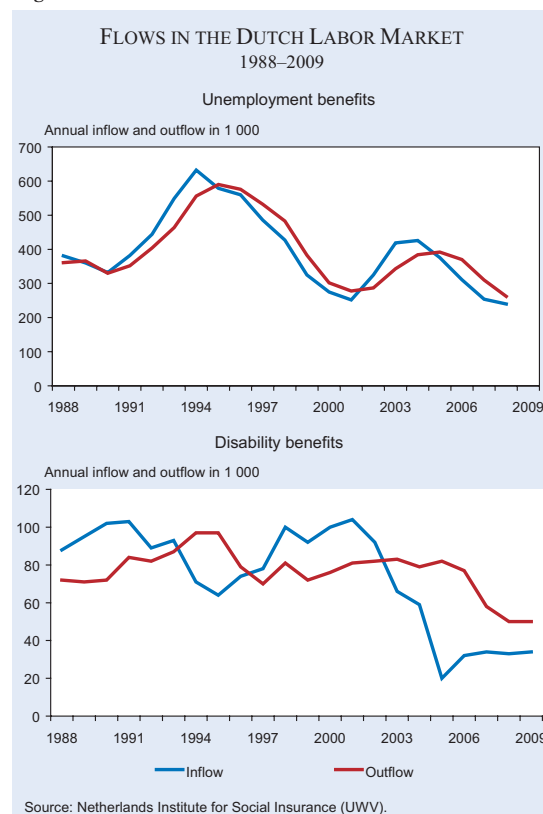
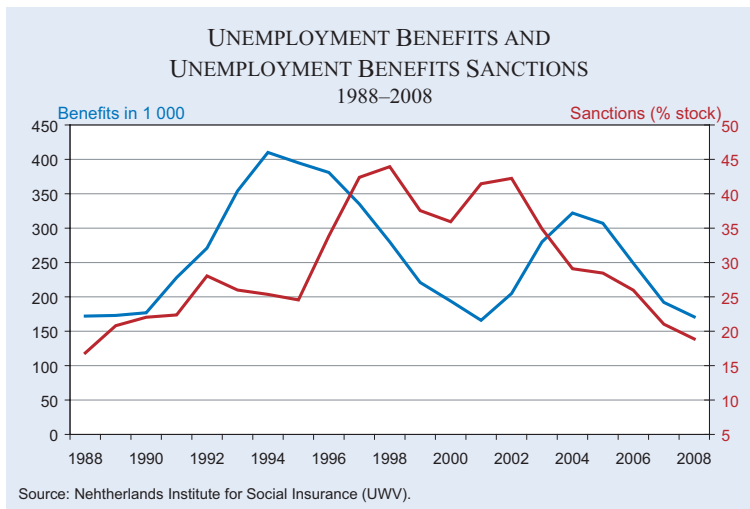


Figure 4



tions in inflow preceding those in the outflow by about a year.

Unemployed workers are entitled to UB as long as they fulfill certain requirements with respect to search intensity and administrative obligations. In August 1996 a new law on benefit sanctions was introduced in the Netherlands. Figure 4 presents information about the use of UI benefit sanctions over the past 20 years. As a percentage of the stock of UI benefits, the sanction rate increased substantially from 1988 onwards, from about 17 to 45 percent in 1998. From 2002 onwards there is a strong decline in the sanction rate, which is due to the number of sanctions falling more than the number of UI benefits.<sup>3</sup>

#### *Welfare benefits*

Welfare benefits (WB) support those people without income who are not entitled to any other benefits scheme. In addition, the individual must be legally allowed to stay in the Netherlands, and be over 18 years of age. Unemployment assistance (UA) benefits are means-tested. If the unemployed worker has a partner with a sufficiently high labor income, or if the worker has a sufficiently high amount of assets, he generally does not qualify for welfare payments. Young individuals aged 18 to 21 are supposed to be financially supported by their parents. Welfare recipients have the obligation to search for a job in order to remain entitled to the

<sup>3</sup> The use of benefit sanctions is effective in inducing unemployed workers to find a job more quickly. Abbring et al. (2005) analyze how benefit sanctions affect the transition out of unemployment, using data from the early 1990s. They find that individual re-employment rates of males increase by about 60 percent and of females by about 100 percent.

benefits. Municipalities have the power to provide bonuses on top of the basic benefits level. For example, some municipalities pay bonuses for the use of sports facilities and public transport, or for health-related expenses. The types of bonuses, the rules on entitlement to a bonus and the levels of the bonuses vary considerably across municipalities.

Figure 2 shows the development of the number of WB over the past decades. There appears to be a secular decline apart from

some ‘wrinkles’ that are highly correlated with the evolution of the unemployment rate. The decline is from about 600,000 in 1988 to less than 300,000 in 2009.

For a long time, the municipalities could reclaim a large part of their expenditures on welfare benefits from the central government. The new Welfare Act introduced in 2004 changed this. It made local authorities financially responsible for the welfare benefits they provide. In particular, local governments receive a fixed budget for welfare benefits and activation. If they are successful in getting UA recipients back to work, saved funds can be used for other local spending. This encourages local governments to invest in efficient administration, tight monitoring and tough activation programs.<sup>4</sup>

#### *Disability benefits*

Disability insurance for employees was introduced in 1967. Under the terms of this law, workers were insured against wage losses caused by long-term disability. From then on, if a worker became ill, he was allowed to claim a benefit under the illness scheme for a maximum period of one year. After that he could claim a disability benefit. Workers were entitled to disability benefits (DB) after a so-called disability examination that consisted not only of a medical examination but also of an investigation of the labor market position of the worker. A worker was considered ‘disabled’, if there was no suitable job for him at his own educational level in his previous

<sup>4</sup> Monitoring and benefit sanctions are also very effective in bringing welfare recipients back to work more quickly – see, for example, Van der Klaauw et al. (2004).

occupation. Furthermore, unemployment was ‘internalized’, which means that those workers who were considered to be partially (more than 15 percent) disabled, could collect full disability benefits because it was assumed that the partially disabled were doomed to remain unemployed. The benefit amounted to a maximum of 80 percent of the wage in the last job. The DB could be collected until age 65.

Since its introduction, the number of workers collecting disability insurance (DI) benefits has increased massively. This huge increase in DB numbers induced the government to adjust the system several times. In 1985, the maximum replacement rate was reduced from 80 to 70 percent. In 1987 there was a major restructuring of the DI benefit system, whose the main objective was to reduce the inflow into disability. The most important change was the abolition of the ‘internalization of unemployment rules’. Partially disabled workers were considered as such and were expected to find a job or claim unemployment benefits for their remaining work capacity.<sup>5</sup> In the early 1990s, there were some further changes. The DI premium was experience-rated, the disability examination no longer considered the availability of suitable jobs with respect to education and previous employment, the duration of benefits was limited to five years, after which a re-examination had to take place, and all disabled workers below 50 years of age had to be re-examined. In 2002, the so-called ‘gatekeeper’ model was extended. In this model employers and workers carry more responsibility concerning the inflow of workers into disability.

In 2006, the government replaced the disability scheme by the Law on Work and Income According to Labor Capacity – WIA (see De Mooij 2006). As before, WIA offers insurance for occupational diseases and employment injuries (*risque professionnel*) and for other risks (*risque social*). People can apply for WIA after a period of two years of sick leave that are covered by employers. WIA consists of two schemes: one for the fully and long-term disabled (IVA), and the other for the partially disabled (WGA). The term ‘fully and long-term disabled’ means that someone will never be able to

earn more than 20 percent of his previous salary. The IVA equals 75 percent of the final wage until retirement.

Figure 2 also presents the development of the DB number in the past two decades. It increased until 1990. Then after a decline in the number of benefits, the use of DB increased again and reached a maximum in the early 2000s, followed by a reduction thereafter. The lower diagram of Figure 3 depicts the inflow and outflow of DB. Until the early 1990s, the entry into DB was substantially larger than the exit. In the 1990s there were a number of reforms which are discussed in more detail below and over a couple of years in the mid-1990s the outflow was larger than the inflow, causing a decline of the DB stock. The reform of the DI system in the early 2000s also contributed to the outflow being larger than the inflow for a couple of years. After the most recent reform, the outflow has again remained larger than the inflow.

## International comparison

### Developments

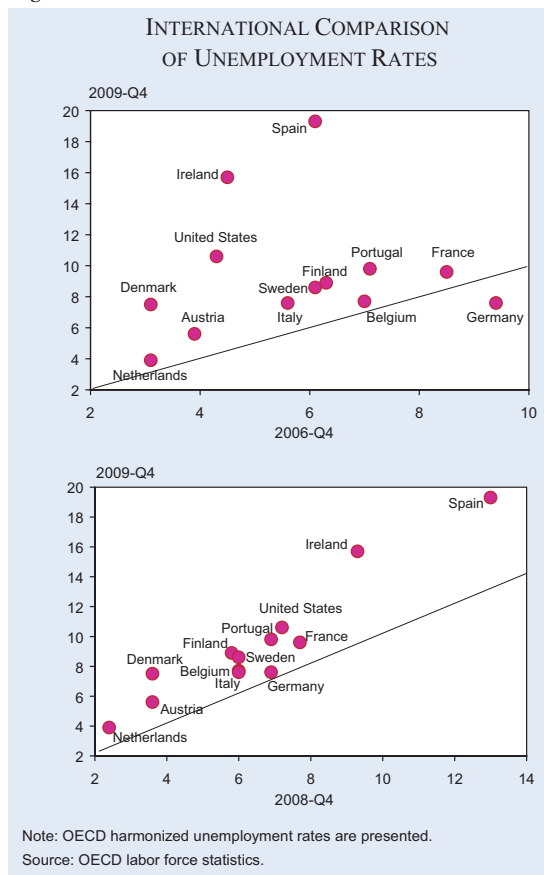
Figure 5 shows recent changes in unemployment rates across a number of European countries and the United States. The upper diagram plots the unemployment rates in the fourth quarters of 2006 and 2009. Clearly, except for Germany, these rates increased over this three year period. Unemployment growth was particularly significant in Spain, Ireland and the United States. The lower diagram of Figure 5 gives the most recent growth, from the fourth quarter of 2008 to that of 2009. In this later period, unemployment rates went up in all countries by the same figure. Surprisingly, with the exception of Ireland and Spain, it is a shift that occurred almost parallel to the straight line shown in the diagram, which indicates a non-changing unemployment rate. Apparently the crisis has affected countries in a similar way.

The upper diagram of Figure 6 shows the relationship of GDP growth in 2008 to the change of the unemployment rate in 2009. Although there is variation across countries (and Spain is an exception), there is a clear negative relationship between GDP growth and change in the unemployment rate. To the extent that there is variation in unemployment growth, this can be at least to

<sup>5</sup> Empirical studies find that before the DB system reform in 1987 up to 50 percent of the disability enrollment was related to the redundancy of workers. Hassink et al. (1997), for example, show that at the end of the 1980s employers used disability enrollment as an alternative to dismissals. They find that about 10 percent of the transitions into disability were due to the redundancy of the worker.



Figure 5



some extent explained by differences in GDP growth.

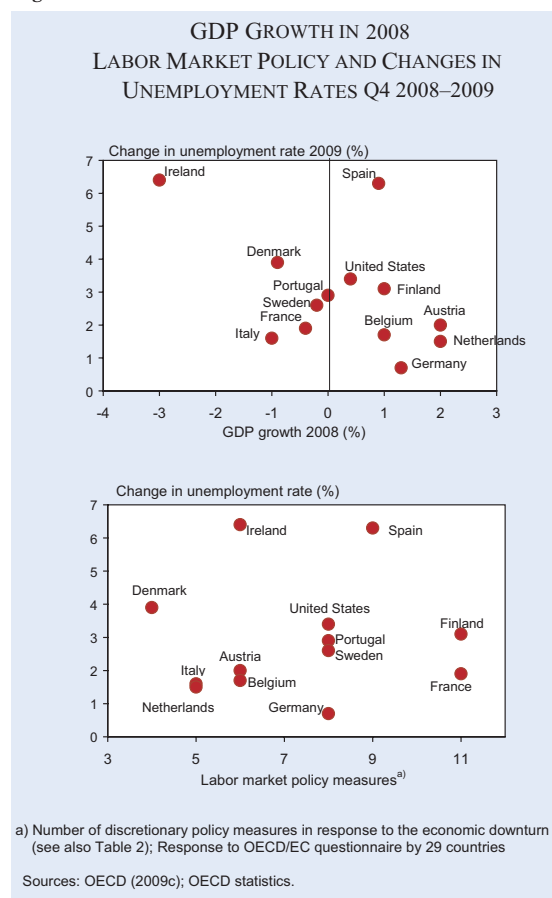
#### *Tackling the jobs crisis*

Many countries have used extensive fiscal packages to support their economy and thus aggregate demand. So, at least in the short run, job losses were limited. In addition, many countries have taken additional measures to cushion the effects of the crisis on their labor market.

Table 2 provides an overview of these additional measures.<sup>6</sup> The measures are categorized under four headings. First, there are measures to support labor demand, including reductions in non-wage labor costs and new or expanded job subsidies as well as public sector job-creation schemes. New subsidies to encourage short-time working schemes, which avoid layoffs, have been introduced in some countries while existing schemes have been reinforced in other countries. Eligibility for short-time subsidies has

<sup>6</sup> The information in this table comes from an OECD/EC questionnaire sent to all member countries in January 2009 with an update of responses in May 2009. The information refers to discretionary measures at a national level.

Figure 6



been extended to new groups of workers and participation has been made more attractive by increasing the maximum duration of the subsidies. The introduction of subsidized training for workers on short-time work is a notable new tendency.<sup>7</sup> Second, there are measures aimed at helping the unemployed find work. Some countries relaxed activation requirements, while others have tightened activation requirements for the unemployed by intensifying contacts with the case-workers. Most countries strengthened job search assistance available to the unemployed, sometimes targeted at particular groups or regions facing high numbers of mass redundancies. A number of countries expanded the capacity of their public employment service. Some countries introduced expanded work experience programs; other countries expanded training programs with often the extra training slots being reserved for vulnerable groups. A third category comprises income support measures for job losers and low paid workers. Some countries reinforced

<sup>7</sup> The short-time work scheme in the Netherlands has a novel feature which requires employers to reimburse one-half of the benefit paid to participating employees if they are dismissed during the three months following short-time work.

Table 2

## Discretionary changes in labor market policy in response to the economic downturn

	AUT	BEL	DNK	FIN	FRA	DEU	IRL	ITA	NLD	PRT	ESP	SWE	USA
<i>Labor demand</i>													
Job subsidies, etc.						x				x	x	x	x
Non-wage labor costs reductions		x		x	x	x				x	x	x	
Short-time work schemes	x	x	x	x	x	x	x	x	x				
<i>Help unemployed find work</i>													
Relaxation of activation requirements			x	x			x	x		x			
Job search assistance	x	x		x	x	x	x	x	x		x	x	x
Job-finding incentives				x						x	x		
Work experience programs					x		x			x		x	x
Training programs	x		x	x	x	x	x	x	x	x	x	x	x
<i>Income support measures for job losers</i>													
Changes of generosity or coverage of unemployment benefits		x		x	x			x		x	x	x	x
Social assistance		x			x								
Other payments				x	x	x				x	x		x
Fiscal measures for low earners	x	x		x	x	x					x	x	x
<i>Other training measures</i>													
Training for existing measures	x			x	x	x			x		x	x	x
Apprenticeship schemes	x		x	x	x		x		x				

Notes: This table refers only to federal government initiatives; in Denmark active labor market expenditure increases automatically when the unemployment rate increases; neither these automatic increases, nor increases in expenditure on unemployment benefits as a result of growing numbers of unemployed, are shown in the table.

Source: OECD (2009c).

income support for job losers through changes of unemployment benefits, social assistance or in-kind support systems. Other countries increased benefit generosity, extended maximum benefit durations or combined the two. The fourth heading relates to other training measures. Most of the measures are of a temporary nature, and additional funds for labor market programs are rather limited. Indeed, the lower diagram of Figure 6 shows that there is no obvious relationship of the number of crisis policy measures to the change in unemployment rates in 2009.

## Conclusion

The Netherlands has been successful in bringing unemployment rates down to a level far below the European average. This improvement of the labor market falls under the heading of ‘Dutch miracle – part I’. There was no blueprint for the reform of the labor market. Not everything was carefully planned, and the effects of the reforms did not occur immedi-

ately. The Netherlands started the reform of the social security system in the mid-1980s and continued it until the second half of the 1990s before the Dutch employment miracle occurred.

Although the economic crisis kicked in, the unemployment rate in the Netherlands has remained low and it looks like the Dutch miracle is continuing. The ‘Dutch miracle – part II’ is not due to recent crisis policy measures, but to a structural improvement of the Dutch labor market. The latter does not mean, however, that the labor market is robust to cyclical fluctuations in the economy. Indeed, as Figure 2 shows, the cyclical fluctuations in the Netherlands and across Europe are very much the same. This graph provides the best representation of the idea that bringing unemployment down requires restructuring of the labor market and a lot of time. It does not seem to be possible to deviate from these long-term developments over a short-time period. Country-specific labor market policies to tackle the crisis are bound to have limited short-run effects.

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