

## EMPLOYMENT: THE LESSONS FROM THE NETHERLANDS

*Thanks to very strong job growth, the Netherlands has witnessed its unemployment rate fall from nearly 10% in 1983 to less than 3% in 1999. This reduction stems mainly from the development of part-time work and sustained growth. But it also follows a slow-down in hourly labour productivity, since the mid-1980s. Moderate wage growth appears to have played a key role. The virtuous circle it seems to have triggered is not independent of the economic and demographic features of the Netherlands. Analysing these features is all the more instructive for France, which shares some of these characteristics<sup>1</sup>.*

### ■ A Miracle or Catch-Up?

In 1982, the Dutch rate of unemployment was one of the highest in the OECD (the harmonised rate stood at 9% at the end of the year), and had in fact risen by 2.8 percentage points during the year. Today, the rate is under 3% (2.8% in October 1999), and certain commentators do not shy from speaking of a miracle<sup>2</sup>. The very high number of people considered as disabled (nearly 11% of the workforce in 1997<sup>3</sup>) is often cited, incorrectly, as one of the reasons for the fall in unemployment: this figure was proportionately higher in 1982. On the contrary, the massive influx of women into the labour market<sup>4</sup> has clearly raised activity rates since the beginning of the 1990s.

The very strong growth in jobs is thus the main explanation for the fall in unemployment: the working population has grown by 30% since its lowest level in 1983, and by over 25% when compared with 1979, which was in the middle of the business cycle (in France, the number of jobs increased by only 3.5% between 1979 and 1998). Two underlying trends have contributed to this performance in Holland. First, the working age

population, which is the main determinant of long term employment, has risen strongly (up by 15.8% between 1979 and 1998, compared to 13.1% in France). Second, part-time labour, which was only moderately developed in the early 1970s, has expanded rapidly to levels that are exceptional worldwide<sup>5</sup>. Economic policies have not fostered this development, which has been regular over the last quarter century, but they have accompanied it. In 1997, part-time work affected 38.4% of the labour force, according to national definitions (16.7% of male employment and 68.1% of female employment). If short term work is excluded (less than 10 hours per week), and by adopting a better measure for international comparisons, the proportions remain high: 21.1% as opposed to 12.7% for France<sup>6</sup>. Thus, in the Netherlands the cumulative growth in the workforce between 1979 and 1997 was 9.4 percentage points greater than the number of full-time equivalent jobs (FTE)<sup>7</sup>, a spread more than twice as large as in France.

Apart from such trends, the dynamism of Dutch employment stems from the rise in FTE jobs (the ratio of

1. This study has benefited from support by the DARES (of the French Ministry of Employment and Solidarity). For a more detailed presentation see: S. Jean, "Syndrome miracle, modèle polder et autres spécificités néerlandaises : quelles leçons pour l'emploi en France ?", *CEPII Working Paper*, to be published.

2. J. Visser and A. Hemerijck, *A Dutch Miracle*, Amsterdam University Press, 1997.

3. Source: J. Visser and A. Hemerijck, *op cit.* Disabled people are accounted for in numbers of benefit-years paid out, in 1997, to inactive individuals. The number of people receiving such benefits fell after 1994, rising again in 1997, though this does not challenge the overall observation.

4. The activity rate of women stood at only 31.3% in 1973, the lowest in the OECD after Italy. The present rate is running at 62.2% (1997), and is thus higher than in France (60.4% - though the present difference is due mainly to the difference in participation rates by the under-25s).

5. This rise in part-time work does not seem to have had a negative impact on the evolution of the total volume of hours worked; it is also largely voluntary. For more detailed information about this issue see: G. Cette, *Le temps partiel en France*, report for the Conseil d'Analyse Economique, 1999, in particular Annex 1, "Temps partiel choisi aux Pays-Bas", by E. Aubry, G. Cette, F. Lahéra, and M. Wierink.

6. Part-time workers are defined as working more than 10 hours per week and less than 30. Calculations made by the author, on the basis of the Eurostat *Labour Force Survey*, 1997.

7. The calculation of full-time equivalent (FTE) jobs involves considering part-time work as a fraction of full-time work, proportional to the time worked. For example a half-time job is counted as half an FTE job.

FTE employment to the working age population). This turnaround appears to be a form of catch-up in two ways (see Graph 1). To begin with, there has been catch-up over time: the fall experienced in the early 1980s was very sharp and it was not until 1997 that the rate of FTE employment rose above its 1979 level. Subsequently, there has been catch-up with respect to the Netherlands' partners: after its spectacular turnaround, the level of Dutch employment in 1997 was still clearly lower than in France and below the European average, which stood at 55% in 1996<sup>8</sup>.

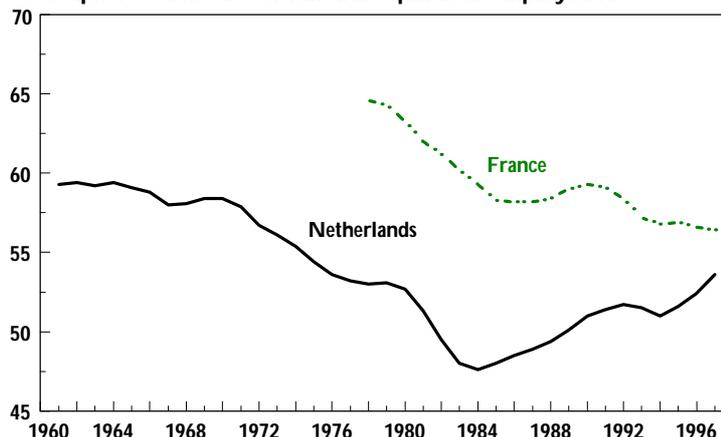
This observation puts the Dutch performance into perspective, but the turnaround of the previous trend and the rise in the rate of FTE employment are nevertheless remarkable. It is thus worth examining its causes and in particular the role which changes in Dutch economic policy have played; 1982 being a turning-point with the coming to power of a new government and the signing of the Wassenaar accords<sup>9</sup>.

## Factors for Recovery

An accounting breakdown of the rate of employment highlights the main factors for recovery and allows the comparison with France to be made (Table 1).

The reduction in working time does not seem to have played a decisive role. To be sure, for 20 years the Netherlands has experienced two waves of collective cuts in working time: the generalised shift from 40 to 38 hours per week as an annual average, following the Wassenaar accords; as well as the shift, since 1994, from 38 to 36 hours in a certain number of collective, wage agreements (which, however, covers less than 50% of all employees). However, the length of full-time work has only fallen at a rate similar to that experienced by France, and less than that which occurred in the Netherlands during the 1970s.

Graph 1 - The rate of full-time-equivalent employment\*



Source: author's calculation based on the *Labour Accounts, Statistics Netherlands* (CBS, for the Netherlands); the *National Accounts* (base year 1995), INSEE, for France. The population data are taken from the OECD's *Employment Outlook*.

\* Full-time-equivalent employment relative to the population aged between 15 and 64.

In contrast, the dynamism of growth has been determinant. At the beginning of the 1980s, company competitiveness and profitability were re-established thanks to the devaluation of the guilder and real wage moderation. The nominal pegging to the mark as of 1983, and rapid disinflation (especially due to the Wassenaar accords which marked the end of wage-indexing) brought about a favourable, stable macroeconomic environment. Growth in the Netherlands over the last twenty years has not been exceptional: in cumulative terms for the period 1979-1997, real GDP growth per person of working age has only exceeded that of France by 4 percentage points. It is not the only key for the recovery in employment.

The slowdown in hourly labour productivity, which occurred in the mid-1980s has also had an important impact. To gauge this evolution correctly, it is preferable to examine the marketable sector only, and to use specific evaluations<sup>10</sup> (Table 2). Following the first oil-shock, hourly labour productivity fell markedly in all the industrialised countries. But Holland's marketable sector experienced a second slowdown, which occurred in the mid-1980s. The Dutch experience is remarkable both for

its scale and for the weakness of annual hourly productivity gains obtained in recent years (1.5%). In addition, productivity gains have slowed just as growth has accelerated. This is not therefore a cyclical phenomenon, but a structural evolution. It affects both industry and services, and results from a concomitant fall in the rates of growth of capital intensity and that of total factor

Table 1 - The evolution of full-time-equivalent (FTE) employment

	Netherlands					France					
	1965-1973	1973-1979	1979-1987	1987-1997	Cumul 1979-1997	1965-1973	1973-1979	1979-1987	1987-1997	Cumul 1979-1997	
Rate of FTE employment	(a)	-0,7	-0,9	-1,0	0,9	0,9	n.d.	n.d.	-1,2	-0,3	-12,3
GDP at constant prices, per person of working age	(b)	3,5	1,2	0,3	2,3	28,9	4,3	2,1	0,7	1,7	25,0
GDP per hour worked	(c)	5,0	3,1	2,0	1,5	36,1	5,6	3,4	2,7	2,1	52,8
Length of full-time work	(d)	-0,8	-0,9	-0,7	-0,1	-6,2	n.d.	n.d.	-0,7	-0,1	-6,8

Note: all the results are expressed in annual % growth rates, except the cumulative totals which use % growth. "n.a." data not available. (a) = (b) - (c) - (d), except for the cumulative totals.

Sources: author's calculation based on France's *National Accounts* (base 1995), INSEE; the *Labour Accounts*, CBS, for the Netherlands; OECD, *Annual Hours Database*, and *Economic Outlook*.

8. Source: *Employment in Europe*, 1997, the European Commission.

9. Signed in November 1982, the Wassenaar accords marked the lifting of the employers' veto of the collective reduction of the working week, and the unions' acceptance of the de-indexing of wages along with wage restraint.

10. The figures used in Table 1 are calculated from national accounting data for hours worked, and differ from those presented in Table 2, which come from studies specifically aimed at measuring hourly labour productivity. The latter data are more reliable.

**Table 2 - Hourly labour productivity**  
The annual rate of DGP growth per hour worked in the marketable sector

In %	Netherlands	France	West Germany	United States	United Kingdom
1960-1973	6,0*	5,6	5,7	2,6	4,0
1973-1979	3,6	4,1	4,0	0,7	2,2
1979-1985	3,2	2,7	1,3	0,8	2,2
1985-1995	1,5	2,3	2,9	1,6	3,1

\* This figure is for the period 1962-1973, and was estimated by the author using data from the *Labour Accounts*, of Statistics Netherlands (CBS).

Sources: Data by the CBS presented in "Recent trends in Dutch labour productivity: The role of changes in the composition of employment", *CPB Working Paper*, N°98, 1998, for the Netherlands; M. O'Mahony, *Britain's Productivity Performance, 1950-1996, An International Perspective*, NIESR, 1999, for the other countries.

productivity<sup>11</sup>. The rise in the relative size of sectors with low productivity has contributed nearly half a percentage point per year to this phenomenon<sup>12</sup>. Given these characteristics, the explanation favouring wage restraint, within a context of strong demand for labour, appears to be the most relevant. Faced with the durable, slower growth in the real cost of labour, companies have had less incentive to substitute capital for labour and have been less constrained in improving total factor productivity.

## ■ Wage Restraint and Productivity

Wage restraint and the rise in employment are closely linked. To a large extent, the marked fall in the rate of employment and the strong, trend rise in the supply of labour led the government and the social partners to reach a strategic agreement on wage moderation at the beginning of the 1980s. The Wassenaar accords clearly signalled the commitment by the social partners to such a policy<sup>13</sup>. These accords, which were consistent with the economic orientation of the new government, helped bring about a change in companies' expectations.

The influence of wages on productivity and employment was surely reinforced by the initial characteristics of the Dutch economy. The very high level already obtained by hourly productivity and by the stock of capital relative to hours worked<sup>14</sup> made further rapid gains in these areas less indispensable (and more difficult), which was all the more the case given the presence of large reserves of labour. The last two decades have thus witnessed a reduction of the Dutch exception which consists of an economy with a very effective base, but one that was very narrow in terms of the number of people in paid work.

However, the slowdown in productivity is *a priori* bad news over the medium term. While a slight rise in capital intensity reflects more employment-yielding growth, which benefits the fight against unemployment, the slowdown in total factor productivity is more problematic. In the Netherlands, it has not affected the rate of GDP growth, thanks to the positive impact induced by the level of employment. For households, the additional income brought in by women working has made it easier to accept the slow growth in the main income. For the economy as a whole, the dynamism of employment has compensated for slow wage growth, stemming any fall in consumption. This virtuous dynamism has also facilitated the reduction of social security contributions on labour. As the rate of employment rises, the number of individuals receiving benefits falls, while the social security contributions base increases. It is therefore possible to lower contribution rates without provoking financial disequilibria. The specificity of the Dutch case lies in the scale of these mechanisms, which follow from the country's demographic dynamism and the entry of women into the labour market.

Economic activity has therefore not slowed down. Its growth has merely become more "extensive" in terms of jobs, and may remain so for several more years. The rate of FTE employment in the Netherlands is still lower than that of its main European partners, as hourly productivity, along with the stock of capital per hour worked continue to be clearly greater than elsewhere. Indeed, there are three sources of labour which can still feed this process: women aged 55 to 64, whose participation rate is low; individuals receiving disability benefits; and women aged 15 to 55 who are working part time.

## ■ The Similarities with France

France shares a number of these characteristics. Its rate of employment is relatively low and its level of hourly labour productivity appears to be very high compared to its partners. France also has substantial labour reserves among the unemployed, as well as in the under 25 and over 55 age cohorts. Lastly, the country has pursued wage restraint since 1983. However, the growth in jobs has been far weaker than in the Netherlands, over the last twenty years.

To begin with, wage restraint has not been the same in both countries: despite the break observed in the mid-

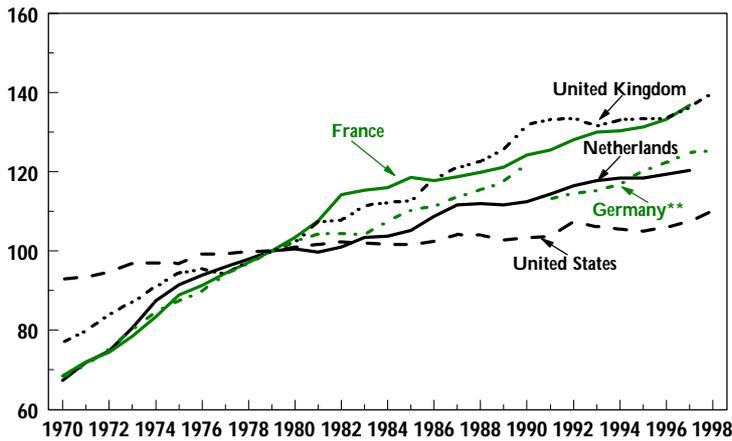
11. Total factor productivity is a measure which takes all production factors into account, and not just labour. Its rise is thus linked to the difference between the growth in value-added and a measure of the pace of growth of the total quantity of factors used in production.

12. CPB, *op. cit.*, and H. van der Wiel, "Sectoral labour productivity growth: A growth accounting analysis of Dutch industries, 1973-1995", *CPB Research Memorandum*, No 158, 1999.

13. The collective reduction in working time, whose positive impact on labour productivity has been borne out by various studies, could also explain the fact that the slowdown in productivity did not become apparent before 1986, four years after the accords.

14. According to B. van Ark and H. de Jong ("Accounting for economic growth in the Netherlands since 1913", Research Memorandum, GD-26, University of Groningen, 1996), the hourly productivity and the capital stock per hour worked in the Netherlands, in 1987, was 10% and 22% greater on average than for France, Germany, and the United Kingdom taken together.

Graph 2 - The hourly cost of labour in the private sector France\*



Sources: OECD, Database on hours worked, and Main Economic Indicators.  
 \* Expressed in national currencies, deflated by the GDP deflator (index 1979 = 100).  
 \*\*West Germany, up until 1990, the Germany.

1980s, the cumulative labour cost per hour worked has been clearly higher in France since 1979 than in the Netherlands (see Graph 2). The spread is due essentially to social security charges on labour, which have risen substantially in France (during the first half of the 1980s in particular), compared to a reduction in charges in the Netherlands<sup>15</sup>. Although it has been facilitated by the rise in the rate of employment, the reduction in contributions has involved radical choices in cutting public spending in the Netherlands, especially the pay of government employees and the size of social benefits, choices which have no equivalent in France.

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Time lags may also explain part of the difference in the dynamism of employment in both countries. Real wage restraint took place earlier in the Netherlands. Furthermore, France's risk premium on interest rates took a lot longer to fall, while the recession in the first part of the 1990s was much more protracted. It is possible that France may experience positive developments in employment similar to those in the Netherlands, with a lag of some years.

In fact, numerous studies have shown that hourly labour productivity in France has slowed considerably since the early 1990s, with annual gains fluctuating around 1.5% in the non-agricultural, marketable sector. The real nature of this slowdown will not be apparent for a few more years, but its cause

seems to be largely linked to wage restraint and some measures to reduce social security contributions on low salaries. As in the Netherlands, such a slowdown will only be beneficial if it marks the start of a transition period, characterised by growth which is more extensive in labour, and which allows the economy to extend the overall volume of hours worked in creating national output.

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15. This is particularly clear for the movement in trends, whereas the absolute tax/contribution levels on labour in both countries are comparable. See notably CSERC, *L'allègement des charges sociales sur les bas salaires*, Report to the Prime Minister, La Documentation Française, 1996. For the trends in France, see in particular, Y. L'Horty, R. Méary and N. Sobczak, "Le coin salarial en France depuis 1970", *Economie et Prévision*, No 115, 1995.

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