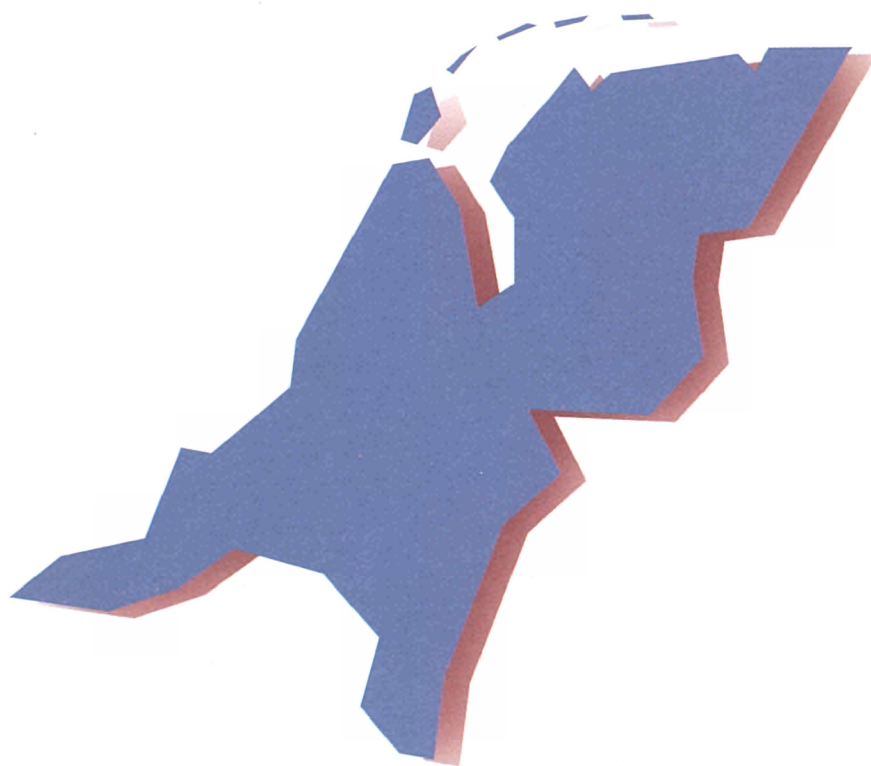


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Preface

This report presents the results of a study carried out on behalf of the European Commission, Directorate V for Employment, Industrial Relations and Social Affairs, by NEI. First of all the report gives a description of the Dutch labour-market and Dutch labour-market institutions. Furthermore, the most important developments are discussed and explained, using existing data and studies.

The structure of the report is as follows. In chapter 1 a detailed description is given of the structure, the development and the prospects of the Dutch labour-market. Themes covered are demographic development, labour supply, labour demand, unfilled demand, unemployment, wages and macro-economics. Special attention is paid to the strong increase of unemployment in the 'seventies and the first half of the 'eighties, and the subsequent fall in unemployment in the second half of the 'eighties. An attempt is made to explain that development. Government policies are, of course, among the factors discussed. Are the policies chosen the most appropriate ones? In what way can they be improved?

Chapter 2 deals with labour-market institutions. In the last decade many things have changed in the Netherlands concerning labour-market institutions. Major changes are the reforms of the Public Employment Service and the social security system. Privatisation and decentralisation are the key words if we want to characterise most changes briefly. Changes in labour-market legislation go hand in hand with changes in labour-market institutions. Legislation is the subject matter of chapter 3.

Labour-market policies, both passive and active policies, are treated extensively in chapter 4. The system of unemployment compensation is changed considerably. Reducing inflow in unemployment and stimulating outflow is the basic philosophy behind most changes. We know quite a lot about active labour-market policies in the Netherlands. Most individual measures have been evaluated. Furthermore, a thorough evaluation has been carried out with respect to the 1991 reform of the Public Employment Service. Using that information Dutch active labour-market policy is described on the basis of such indicators as numbers and characteristics of participants and net effects on labour-market efficiency and equity.

Chapter 5 deals with other fields of policy which affect the labour-market. Education and training is perhaps the most important topic addressed in this chapter. Many changes are occurring in the Dutch educational system. Schools are more and more seen as enterprises and education as a product which is produced for a market. Decentralisation, increasing labour-market orientation and a shift from full-time initial education to apprenticeships and company training are important changes.

The report concludes with a discussion of current trends in labour-market policy and future perspectives.

I Labour market analysis and forecasts

In this chapter we will give an overview of the Dutch labour market. Section I.1 deals with demographic trends and changes in the size and structure of the labour force. Of course, labour force participation is among the themes covered. The structure of the workforce in terms of employment and unemployment is the main topic in section 1.2. In section I.3 attention is paid to the main trends in job creation and job loss. In section I.4 trends in wages and salaries are discussed, followed by an analysis of principal causes of the rise in unemployment since 1980 in section I.5. The chapter is concluded with a discussion of macroeconomic policy and macroeconomic forecasts (section I.6).

I.1 Demographic trends

I.1.1 Population

In table I.1 the population of 15 - 64 years (the potential labour force) is divided according to gender and age for the period 1987 - 1994. The average annual growth rate of total population is 0.6 to 0.7 percent. Striking is the sharp decrease of the population with age 15 - 24. The decreasing share of young people in the total population is obvious. This tendency is also visible in age structure of the labour force (see section I.1.2). We observe quite the opposite tendency if we look at the age-group between 45 - 54 years which represents the post World War II babyboom. Both the share in total population and the share in the labour force of this age-group rose significantly. The share of the other age-groups hardly changed. Compared to other EU-countries such as Germany, the Netherlands still has a relatively "young" population.

Table I.1 Population 15 - 64 years according to gender and age (1987 - 1994)

	Population (in thousands)			Average annual change (%)		Share of total population 15 - 64 years (%)		
	1987	1990	1994	1987 - 1990	1990 - 1994	1987	1990	1994
<i>Gender</i>								
Male	5,071	5,182	5,317	0.7	0.6	51	51	51
Female	4,953	5,046	5,156	0.6	0.5	49	49	49
<i>Age</i>								
15 - 24	2,447	2,311	2,100	-1.9	-2.4	24	23	20
25 - 34	2,407	2,506	2,593	1.4	0.9	24	25	25
35 - 44	2,214	2,335	2,335	1.8	0.0	22	23	22
45 - 54	1,576	1,686	2,014	2.3	4.5	16	17	19
55 - 64	1,381	1,389	1,430	0.2	0.7	14	14	14
Total	10,024	10,228	10,473	0.7	0.6	100.0	100.0	100.0

Source: CBS, *Enquête Beroepsbevolking*.

In table I.2 total population is divided in natives and foreigners¹. The native population grew hardly over the entire period considered. In 1994 the native population even stabilised. The foreign population grows with 4 to 5 percent per year, which implies that the share of non-natives in total population grows quite rapidly. There are some differences between the various groups of foreigners. The growth rate for Turks and Moroccans decreases. On the other hand, the rise in the number of Surinamese/Antilleans/Arubans and other immigrants has been stronger between 1990 and 1994 than between 1987 and 1990. The difference in the development between natives and foreigners is due to a) the positive net immigration and b) the relatively high fertility rates among non-natives.

Table I.2 Total population 15 - 64 years according to ethnicity (1987 - 1994)

Ethnicity	Population (in thousands)			Average annual change (%)		Share of total population 15 - 64 years (%)		
	1987	1990	1994	1987-1990	1990-1994	1987	1990	1994
Natives	9,186	9,291	9,340	0.4	0.1	91.6	90.8	89.2
Foreigners	838	938	1,133	3.8	4.8	8.4	9.2	10.8
<i>of which</i>								
Turks/Moroccans	165	221	285	10.2	6.6	1.6	2.2	2.7
Surinamese/Antilleans/ Arubans	188	196	237	1.4	4.9	1.9	1.9	2.3
Other	486	521	611	2.3	4.1	4.8	5.1	5.8
Total	10,024	10,228	10,473	0.7	0.6	100.0	100.0	100.0

Source: CBS, *Enquête Beroepsbevolking*.

The immigration of persons without the Dutch nationality increased with more than 25,000 persons from about 60,9 thousands in 1987 to 87,6 thousands in 1993 (table I.3). However, in 1994 a sharp decrease of nearly 20,000 persons in the number of people immigrating occurred. Figures for 1991 show that almost 40 percent of immigration is because of family reunification and family formation². Between 1987 and 1991 family formation has become relatively more important and family reunification relatively less important as a reason for immigration. The table shows also a rapid increase of the number of applications for asylum. There has been a rise in applications during the entire period with the exception of 1988³. The 1995 level will be lower than the 1994 one. Probably, the more strict policy with regard to immigration has contributed to this slow down of immigration. Another reason may be that the attitude of the native population towards immigrants has become less

1 Foreigners are defined as persons who are not born in the Netherlands or do not have the Dutch nationality (CBS, 1994).

2 Sprangers, 1994. The proportion of immigration because of these reasons is especially high for Turks and Moroccans.

3 Surinameses, Antilleans and Arubans need no application for asylum to migrate to the Netherlands.

tolerant and positive (CBS, *Maandstatistiek van de bevolking* 1996). Furthermore, the decrease in the number of asylum applications may be due to political reforms in Eastern Europe. The consequence of these reforms is that inhabitants of these countries no longer are acknowledged as refugees.

Table I.3 Immigration of persons without the Dutch nationality and number of applications for asylum (1987 - 1995, thousands)

Year	Immigration	Applications for asylum
1987	60.9	13.5
1988	58.3	7.5
1989	65.4	13.9
1990	81.3	21.2
1991	84.3	21.6
1992	83.0	20.3
1993	87.6	35.4
1994	68.4	52.6
1995 ^{a)}		29.0

a) Estimated figure on the basis of the first ten months.

Source: CBS, *Maandstatistiek voor de bevolking*, february 1996.

How will the future size and structure of the population look like? Forecasts of the CBS (*Statistisch jaarboek*, 1996) point at a steady growth of the Dutch population up to 2010. The figures presented in table I.4 are based on the CBS base scenario. CBS also present low growth and high growth scenarios, but the base scenario is considered to be the most likely one. According to the latter one in 2010 the Dutch population will exist of nearly 17 million persons compared to about 15.4 million in 1995. The population growth will be about 1.6 million persons in 15 years time. Between 1995 and 2000 the average growth rate will be 0.7 percent and between 2000 and 2010 0.5 percent per year. So, the growth rate will diminish only very slowly. A striking result is the sharp decline in the number of persons in age group 20 - 39 years. Their share in total population will fall back from nearly one third in 1995 to one fourth in 2010. The number of people in age group 40 - 64 years will rise and so will their share in total population. In 2010 nearly 15 percent of population will be 65 years or older. At this moment this is just over 13 percent. These developments will have serious consequences for the labour market. Persons in age group 20 - 39 will become more scarcely and the age group 40 - 64 will be available in larger quantities. Secondly, the growing share of people of 65 years and older implies that, given the present retirement age, the burden of pension premiums will increase.

Table I.4 Prognoses Dutch population according to gender and age (1995 - 2010, CBS middle scenario)

	Population (in thousands)			Average annual change (%)		Share of total population (%)		
	1995	2000	2010	1995 - 2000	2000 - 2010	1995	2000	2010
<i>Gender</i>								
Male	7,627	7,925	8,371	0.8	0.5	50	51	51
Female	7,796	8,058	8,439	0.7	0.5	50	49	49
<i>Age</i>								
0 - 19	3,758	3,922	4,061	0.8	0.3	24	25	24
20 - 39	4,982	4,799	4,231	-0.7	-1.3	32	30	25
40 - 64	4,649	5,097	6,031	1.8	1.7	30	32	36
65 - 79	1,558	1,662	1,872	1.3	1.2	10	10	11
80 and older	475	503	615	1.2	2.0	3	3	4
Total	15,423	15,983	16,810	0.7	0.5	100.0	100.0	100.0

Source: CBS, *Statistisch jaarboek 1996*.

I.1.2 Labour force

The labour force increased considerably in the last decennium. In this section we will discuss the changes in the size and composition of the labour force. The increasing supply of labour is partly caused by the still growing population of working age, though the trend of population growth is flattening as we have seen in the previous section. The major sources of the labour force growth are the increasing participation of women and the net-immigration. Changes in participation will be analysed in the next section. The CBS defines the labour force as:

- persons in employment for at least 12 hours a week, or
- persons who have accepted employment for at least 12 hours a week, or
- persons who want to work for at least 12 hours a week, who are available as such and who undertake activities to find work for at least 12 hours a week.

Table I.5 shows the development of the size of the labour force. In the period 1987 - 1994, the growth has been over 100,000 persons per year on average, which is equal to an average growth rate of 1.7 percent per year. Compared with other EC-countries the growth of the Dutch labour force has been high. In the period 1984-1992 the labour force growth rate in the Netherlands was the highest of all EU-countries and the same picture emerges for the period 1993-1996 based on provisional data and forecasts. (OECD, *Employment Outlook 1995*). Between 1993 and 1996 the EU labour force as a whole will hardly grow, while the growth rate of the Dutch labour force will remain about 1.7 percent per year.

Table I.5 Size and yearly change of the labour force 15 - 64 years (1987 - 1994)

Year	Labour force (in thousands)	Change (%)
1987	5,743	
1988	5,867	2.2
1989	5,929	1.1
1990	6,063	2.2
1991	6,189	2.1
1992	6,296	1.7
1993	6,406	1.7
1994	6,466	0.9

Source: CBS, *Enquête Beroepsbevolking*.

Table I.6 shows the changes in the structure of the labour force during the same period. Summarizing, we observe:

- an increasing share of women in the total labour force;
- a sharp decrease of the share of young people up to 24 years of age and an increase of the share of age-group 45 - 54 years;
- an increased share of non-natives;
- a decrease of the share of the lowest educated (primary education) and persons with lower vocational secondary education. On the other hand, the share of persons with higher vocational education and university is growing considerably.

The labour force share of non-natives increased and is still increasing, but the level is average compared to the other EU-countries.

Table I.6 Structure of the labour force according to gender, age, ethnicity and level of education (1987, 1990 and 1994)

	Share in total labour force (%)		
	1987	1990	1994
<i>Gender</i>			
Male	65.5	63.7	62.1
Female	34.5	36.3	37.9
<i>Age</i>			
15 - 24	20.2	17.9	14.6
25 - 34	30.3	31.4	31.8
35 - 44	26.7	27.6	27.1
45 - 54	16.1	18.2	20.7
55 - 64	6.6	5.9	5.8
<i>Ethnicity</i>			
Natives	92.2	91.8	90.6
Non-natives	7.8	8.2	9.4
<i>Educational level</i>			
Primary education ^{a)}		12.3	9.5
Lower general secondary education		7.1	7.2
Lower vocational secondary education		18.1	15.9
Higher general secondary education		4.8	5.4
Higher vocational secondary education		36.3	37.9
Higher vocational education		14.6	16.5
University		6.8	7.5
Total	100.0	100.0	100.0

a) Includes unknown level of education.

Source: CBS, *Enquête Beroepsbevolking*.

Although the share of women in the labour force is growing, the male labour force still exceeds the female labour force by roughly 1.5 million persons. Younger people are getting more scarcely on the labour market since the number of young people entering the labour force decreases. As we have seen this is caused by the demographic development. The fact that young people stay longer in education also plays a role. Increased participation in education has led to an increase in educational level of the labour force. In 1990 about 58 percent of the labour force attended at least higher vocational secondary education (MBO). In 1994 this share has risen to 62 percent. Firstly, the trend is that young people tend to choose for a higher education on average. Secondly, in the labour force relatively low educated

elder groups (leaving the labour market) are replaced with relatively high educated young groups (entering the labour market).

I.1.3 Participation

In section I.1.1 we observed that during the period 1987 - 1994 the total working age population has risen with about 0.7 percent per year. The labour force has grown with 1.7 percent per year on average (see section I.1.2), which means that the participation rate also has risen (table I.7).

Between 1987 and 1994 the total gross participation rate has grown with nearly 4.5 percentage points. This growth is due to the sharp rise in the participation of women. The participation of women increased from 40 percent in 1987 to over 47 percent in 1994. The rise in male participation has been quite moderate. So, the participation rate of women is catching up with that of men. The last two years of the period considered (1993 and 1994) the participation rate of men hardly changed. In the age group 55 - 64 years the already very low participation rate has even gone down, which is undesirable.

In most EU-countries the participation rate has remained more or less constant over the last decade⁴. In Germany a slight increase took place from 67.5 percent in 1983 to 69.5 percent in 1994. For France the corresponding figures are 66.4 and 67.3 percent. The participation rate even decreased in Italy. The Netherlands is again an exceptional case, the participation rate having grown from 59.0 percent in 1983 to 70.2 percent in 1994.

4 OECD, *Employment Outlook*, 1995.

Table I.7 Gross participation rate according to gender, age, ethnicity and level of education (1987, 1990 and 1994)

	Gross participation rate (%)		
	1987	1990	1994
<i>Gender</i>			
Male	74.2	74.6	75.5
Female	40.0	43.6	47.6
<i>Age</i>			
15 - 24	47.5	46.9	45.0
25 - 34	72.3	75.9	79.3
35 - 44	69.3	71.6	75.1
45 - 54	58.8	61.2	66.3
55 - 64	27.5	26.9	26.4
<i>Ethnicity</i>			
Natives	57.7	59.9	62.7
Non-natives	53.2	53.2	53.7
<i>Educational level</i>			
Primary education ^{a)}		36.7	36.7
Lower general secondary education		39.0	41.7
Lower vocational secondary education		58.1	58.8
Higher general secondary education		43.6	49.0
Higher vocational secondary education		73.4	74.2
Higher vocational education		79.0	78.4
University		87.1	86.7
Total	57.3	59.3	61.7

a) The gross participation rate is the number of persons in the labour force (employed and unemployed) divided by the total number of persons of working age (15 - 64 years).

Source: CBS, *Enquête Beroepsbevolking*.

The low and not growing participation rate of migrants gives reason for concern. The participation rate of non-natives structurally lies below the native's participation rate and the gap has widened in the period under observation. The participation rate of migrants remained at the low level of about 53 percent, whereas the participation of natives increased from 58 to 63 percent. The participation pattern differs among the groups of migrants (see table I.8). The participation of Turks and Moroccans is very low, namely 40 percent; especially the participation of women in these groups is very low (23 percent). The participation rate of the other four groups of migrants distinguished (Surinamese, Antilleans and Arubans, persons from other mediterranean countries and other) varies between 56 and 60 percent. The situation

of Turks and Moroccans is becoming even worse when we also take their high unemployment rates into account (see section I.2.2).

Table I.8 Gross participation for different groups of migrants (1994)

Ethnicity	Gross participation rate 1994 (%)
Turks	42.4
Moroccans	40.0
Other mediterranean countries ^{a)}	56.3
Surinamese	60.3
Antilleans/Arubans	55.8
Other	57.3
Total	53.7

a) Persons from Algeria, Greece, Italy, former Yugoslavia, Portugal, Spain and Tunisia.
Source: CBS, *Enquête Beroepsbevolking*.

I.2 Structure of the workforce

I.2.1 Employment

I.2.1.1 *Some general trends*

Firstly, in this section some general trends in employment will be highlighted. This serves as a framework for the more detailed description of the various developments in the following sections. Three large structural changes with respect to employment have taken place since the early sixties (OSA, 1995). These changes, which are at least partly related to each other, are visible in other EC-countries as well. In the first place the share in employment of industry, agriculture and fishery is decreasing in favour of a growing share in employment of the service and (semi) public sector. Recently employment in the (semi) public sector has been put under pressure due to cut backs in government expenditure. Secondly, with respect to the occupational structure the number of low qualified jobs is diminishing and the number of high qualified jobs is increasing and white collar workers replace blue collar workers. In the third place lower educated employees are being replaced by higher educated employees. On the one hand, this is caused by the changing structure in terms of qualification level of the available jobs. On the other hand, there are signs that lower educated are displaced by higher educated, even in jobs where a higher education is not needed (Teulings, 1990; Social Cultural Planning Bureau, 1995). This may be partly the result of substitution, as the relative wage level of higher educated has decreased in the last decade (Teulings, 1994). Draper and Manders (1996) find that substitution between low- and high-skilled labour is relatively strong, especially in the sheltered sector. Furthermore, they conclude that the greater part of the shift in demand away from low-skilled labour can be attributed to asymmetric labour-saving technological change.

Other trends in employment, are a sharp rise in part-time employment and a high and still growing use of temporary workers and fixed-term employees. The share of part-time labour in total employment is very high in the Netherlands: 37.4 percent in 1995. This is the highest figure for all OECD-countries. The 1995 figures for France, Germany, Italy, Spain and the United Kingdom are: 15.6, 16.3, 6.4, 7.5 and 24.1⁵.

The incidence of temporary employment is not exceptionally high in the Netherlands. In 1994 10.9 percent of employment was of a temporary nature, which implies an average score. However, the Dutch figure doubled between 1983 and 1994, whereas it remained more or less stable or even declined in most EU-countries with the exception of France⁶.

I.2.1.2 Developments in employment

There has been quite a considerable growth in employment (table I.9). Both the data about the number of employees and the number of employed persons (including self-employed) are from the Labour Force Survey⁷. During the period 1987 - 1994 the number of employees has grown with 600,000 in total, which equals an average growth of 1.8 percent per year. The average growth of the number of employed persons has been 1.7 percent per year. Between 1987 and 1992 the growth has been rather strong (employees 2.5 and employed persons 2.3 percent per year on average). In 1993 and 1994 employment growth stagnated. However, provisional figures for the year 1995 point at a considerable growth in employment again.

Table I.9 Number of employees and employed persons (1987 - 1994)

Year	Employees ^{a)}		Persons in employment ^{b)}	
	Number (thousands)	Change (%)	Number (thousands)	Change (%)
1987	4,647		5,257	
1988	4,774	2.7	5,378	2.3
1989	4,858	1.8	5,477	1.8
1990	5,016	3.3	5,644	3.0
1991	5,162	2.9	5,790	2.6
1992	5,258	1.9	5,885	1.6
1993	5,261	0.1	5,925	0.7
1994	5,222	-0.7	5,920	-0.1
1995			6,074	2.6

a) Average number of employees with employment for at least 12 hours per week.

b) Average number of persons with employment (employees and self-employed) for at least 12 hours per week.

Source: CBS, *Enquête Beroepsbevolking*.

5 OECD, *Employment Outlook*, 1996.

6 OECD, *Employment Outlook*, 1996.

7 The Annual Employment and Wage Survey (an establishment based survey) measures the number of jobs of employees (one person may occupy more than one job).

The above figures are in terms of persons. Many of the new jobs are part-time jobs. Therefore employment growth has been less impressive in terms of full-time equivalents, although still quite high. If we also take account of the structural reduction in worktime, we observe that total labour hours did not grow for a long time (De Beer, 1994).

Table I.10 gives the results for the period 1987-1994. The figures on the number of employees in this table, which are based on the Labour Accounts of the CBS, are not comparable with the figures in the previous table⁸. The growth in full-time equivalents and working hours lies structurally below the growth in persons (on average 0.5 percentage point a year).

Although the labour volume in hours rose in the period 1987 - 1994, the level in 1994 is comparable with that in the late sixties and the early seventies. So, taken over a longer period (more than thirty years!) the number of working hours has not grown at all, implying that the same total number of working hours is now distributed over a far larger number of people. Both the increasing share of part-time workers and the collectively agreed reductions in the contractual work time (for full-time employees) most probably have contributed to this redistribution process.

Table I.10 Employees, full-time labour years and working hours (1987 - 1994)

Year	Employees		Full-time labour years (employees)		Hours worked (employees)	
	Number (thousands)	Annual average change (%)	Number (thousands)	Annual average change (%)	Number (millions)	Annual average change (%)
1987	5,140		4,406		7,694	
1990	5,563	2.7	4,702	2.2	8,185	2.1
1994	5,775	0.9	4,786	0.4	8,329	0.4

Source: CBS, *Labour Accounts*.

Part-time work can not only lighten the unemployment problem by dividing the available volume of employment over a larger number of people, but it can also offer employees the opportunity to combine work with care taking tasks (at home or elsewhere). In the Netherlands part-time work is expanding more than total employment (table I.11), but this concerns only women. The number of men working less than 35 hours a week has not increased in the period 1987 - 1994. In 1994, only 9 percent of the men worked less than 35 hours; for women this percentage was equal to 56 percent. Persons who work less than 12 hours per week are not counted as employed in the Labour Force Survey. Their number grew with 200,000 between 1987 and 1994 (from 572,000 to 772,000)⁹.

8 Table I.9 contains the number of persons in employment for at least 12 hours a week. Table I.10 is based on the total number of employees, regardless of the number of hours per week. So, also employees working less than 12 hours a week are incorporated in the figures.

9 More than two-thirds concerns students and housewives/men (CBS, *Enquête Beroepsbevolking 1994, 1995*).

Table I.11 Employment according to working hours per week and gender (1987, 1990 and 1994)

Gender and working hours per week	Employed (in thousands)			Average annual change (%)	
	1987	1990	1994	1987 - 1990	1990 - 1994
<i>Male</i>					
12 - 19 hours	72	75	65	1.4	-3.5
20 - 34 hours	291	287	287	-0.5	0.0
35 hours or more	3,173	3,324	3,396	1.6	0.5
Total male	3,536	3,686	3,747	1.4	0.4
<i>Female</i>					
12 - 19 hours	262	312	321	6.0	0.7
20 - 34 hours	572	690	895	6.5	6.7
35 hours or more	887	955	956	2.5	0.0
Total female	1,721	1,958	2,172	4.4	2.6
Total male and female	5,257	5,644	5,920	2.4	1.2

Source: CBS, *Enquête Beroepsbevolking*.

In the previous section we showed that the incidence of part-time labour is very high in the Netherlands. In 1994 just over 65 percent of the active women worked part-time (defined as working shorter than the contractual full-time working time). For men this figure was 15 percent. Research by Delsen (1995) indicates that a larger share of part-time work in total employment (the Netherlands, Denmark) goes together with a relatively high share of "large" part-time jobs.

Four sectors in particular have very high percentages of part-time work: health care, 'other' services, the government sector and the educational sector. In these sectors part-time work can be found in more than 90 percent of the organisations. For the economy as a whole this figure equals 69 percent (OSA, 1994). Part-time work is more common in larger than in smaller organisations.

Finally, we pay some attention to the development of self-employment. The figures in the table below include family-members working in the company owned by their partner or their parents. The number of self-employed is increasing. Remarkably, self-employment has grown less than total employment during the period 1987 - 1990, but faster during the period 1990 - 1994. Especially in 1993 and 1994, when economic growth was relatively low, the number of self-employed has grown considerably. The growth in self-employment in these two years has been 71,000 persons, whereas the total number of employed (including self-employed) grew with only 35,000 persons. In the preceding years with a stronger economic growth the rise in self-employment has not been that high. So, it seems that the rise in self-employment is negatively correlated with economic growth. Perhaps, a shortage of jobs stimulate people to start their own business.

Table I.12 Self-employment (1987, 1990 and 1994)

Year	Number of self-employed (thousands)	Average annual change (%)
1987	610	
1990	628	1.0 (1987-1990)
1994	698	2.7 (1990-1994)

Source: CBS, *Enquête Beroepsbevolking*.

I.2.1.3 Employment structure

This paragraph deals with the developments in employment according to some characteristics of the employed (see table I.13). First, the number of employed women is growing much faster than the number of employed men. Secondly, the number of employed young people up to 24 has decreased quite rapidly, especially in the period 1990 - 1994. The employment of persons with age 25 - 54 has risen during the whole period. The strong rise in employment in age group 45 - 54 is striking. Thirdly, the number of employed migrants is growing at a relatively fast rate. Finally, employment is growing for the higher educated. The number of employed persons with primary education is diminishing.

The developments described above are caused by a combination of supply and demand factors. Changes in the structure of the labour force (which have been discussed in section I.1.2) will almost automatically have consequences for the structure of employment. This is most obviously true for the age-structure. On the other hand, demand factors also play an important role. Sectors differ strongly according to the structure of employment in terms of age, gender and education. Sectoral differences in employment growth therefore will influence the structure of employment.

Table I.13 Employed labour force according to gender, age, ethnicity and level of education (1987, 1990 and 1994).

	Employed			Average annual change (%)	
	1987	1990	1994	1987 - 1990	1990 - 1994
<i>Gender</i>					
Male	3,536	3,686	3,747	1.4	0.4
Female	1,721	1,958	2,172	4.4	2.6
<i>Age</i>					
15 - 24	1,009	973	819	-1.2	-4.2
25 - 34	1,596	1,773	1,877	3.6	1.4
35 - 44	1,418	1,561	1,609	3.3	0.8
45 - 54	870	978	1,255	4.0	6.4
55 - 64	365	359	360	-0.6	0.1
<i>Ethnicity</i>					
Natives	4,898	5,233	5,435	2.2	1.0
Non-natives	359	411	484	4.6	4.2
<i>Educational level</i>					
Primary education ^{a)}		641	511		-5.5
Lower general secondary education		383	411		1.8
Lower vocational secondary education		1,023	932		-2.3
Higher general secondary education		256	308		4.7
Higher vocational secondary education		2,109	2,303		2.2
Higher vocational education		844	1,006		4.5
University		388	449		3.7
Total	5,257	5,644	5,920	2.4	1.2

a) Includes unknown level of education.

Source: CBS, *Enquête Beroepsbevolking*.

Table I.14 shows the shift in sectoral structure of employment in the period 1985 - 1993. Trade, hotel, catering and repair services and the sector banking, insurances and other business services have a growing share in employment. The shares of the industrial sector and the building and construction sector are decreasing. The share of 'other services' is more or less constant. However, 'other services' includes the public sector which shows a declining share in employment.

Table I.14 Employment according to sector (1985, 1990 and 1993)

	Jobs of employees (thousands)			Share in total employment (%)		
	1985	1990	1993	1985	1990	1993
Agriculture and fishery	71	87	98	1.5	1.6	1.8
Minerals extracting industry	9	10	10	0.2	0.2	0.2
Industry	965	1,034	972	20.4	19.1	17.4
Public utilities	47	45	44	1.0	0.8	0.8
Building and construction sector	325	353	339	6.9	6.5	6.1
Trade, hotel and catering, repair services	794	1,001	1,090	16.8	18.5	19.6
Transportation and communication services	320	362	377	6.8	6.7	6.8
Banking and insurances and other business services	517	677	721	10.9	12.5	12.9
Other services	1,684	1,837	1,921	35.6	34.0	34.5
Total ^{a)}	4,732	5,407	5,573	100.0	100.0	100.0

a) Persons with unknown profession not included.

Source: CBS, *Enquête Beroepsbevolking*.

I.2.1.4 Temporary and fixed-term employment

Information on temporary and fixed-term workers is only available for the most recent years. The category workers with a flexible contract (table I.15) consists of:

1. Employees with a fixed-term contract for a duration of less than one year without the notice of a permanent contract.
2. Employees who do not have a contract for a fixed number of hours per week.

Temporary workers, that is workers who work through mediation of a Temporary Work Agency (TWA), are included in this definition. In 1995 just under 9 percent of the employees working 12 hours or more per week have a flexible contract (481,000 employees). Although the period concerned is very short, there are indications that:

- a) fixed-term workers are the first ones to become redundant as soon as economic prospects are deteriorating (for example in 1993)
- b) when the economy is recovering and demand for labour is rising, the first reaction of employers is to hire flexible workers (for example in 1994 and 1995).

Table I.15 Development of the number of employed with a flexible contract (1992 - 1995)

	Number of employees with a flexible contract (thousands)	Change (%)	Share in total number of employees (%)
1992	399		7.6
1993	393	-1.5	7.5
1994	425	8.1	8.9
1995	481	13.2	9.0

Source: CBS, *Enquête Beroepsbevolking*.

Table I.16 provides some information about temporary work. Most interesting is the development in the total number of worked hours by temporary workers. Up to 1993 total hours worked by temporary workers developed more or less parallel with the business cycle, for which the total number of vacancies (last column of the table) may be taken as indicator. From 1994 on, the relation is less clear. It seems that the number of hours worked by temporary workers grows much faster than the number of vacancies. This may point at a structural change, temporary work becoming more common in the economy. Most likely this development is demand driven, employers increasingly preferring temporary work. Increased competition is among the factors inducing them to make more use of flexible contracts. Research shows that the great majority of the workers prefer stable working relations. Note that the first column in table I.16 refers to persons who have usually worked only part of the year, and in many cases on a part-time basis. The numbers strongly decrease if they are transformed to full-time equivalents.

Table I.16 Information on temporary work (1986-1994)

	Number of persons who worked through a TWA during the year ^{a)}	Number of hours worked by temporary workers (millions) ^{b)}	Index temporary hours (1990 = 100) ^{b)}	Index vacancies ^{c)}
1987		160	77	
1988		174	83	81
1989		195	93	86
1990		209	100	100
1991	422,000	195	93	91
1992		183	88	87
1993	569,000	165	79	69
1994		198	95	60
1995	648,000	253	121	

a) Source: NEI (1993, 1995) and Marktplan Adviesgroep (1991)

b) Source: CBS.

c) Source: LBA, the annual survey *How do employers recruit?*

1.2.1.5 Discrepancies on the demand side

Firms do not always succeed in attracting workers with the required qualifications. If jobs remain unfulfilled firms may be confronted with a possible loss of production. They may try to prevent this in several ways, namely through:

- using forms of flexible work (overtime, temporary work, subcontracting, etcetera);
- using a less labour intensive production process or a production process which requires labour which is available;
- hiring employees who are not fully-qualified for the jobs;
- improving the labour conditions.

As far as these alternatives are available, they will increase the costs and thus influence the operating results of firms (lower profits, lower sales due to higher prices, etcetera). When the alternatives cannot be used to solve the problem, there will be a loss of production anyway.

The number of unfilled vacancies is the most common indicator for unfilled demand. This indicator has some drawbacks however. In the first place, a vacancy does not always mean that a job is unfulfilled. The job can still be occupied by someone else, for instance a worker who is expected to leave. On the other hand, employers do not always notify vacancies at an employment service when a shortage of workers exists¹⁰. Besides, supply-side shortages on the labour market in many cases lead to wage increases quickly and as a consequence labour demand will decrease. Higher wages may not always attract more labour because unemployed workers in other sectors may not have the required qualifications. As a result vacancies may disappear without more jobs being fulfilled. Finally, firms may compete for a share in the market. When this market share is directly related to the possibilities to hire new employees, then the filling of vacancies by one firm leads to a loss of market share of another firm. In that case, it is questionable whether one can speak about a real shortage on macro level.

Besides the number of unfilled vacancies, table I.17 contains the percentage of firms in industry with production hindrances due to a shortage of personnel as an indicator for demand-side discrepancies. Some of the remarks made above are also applicable for this indicator. Finally, the share of the unfilled vacancies that is considered to be hard to fill is presented. This gives an indication of the problems in solving the shortages.

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We use survey data from the CBS, so this drawback is not relevant.

Table I.17 Some indicators for discrepancies on the demand side of the labour market (1981-1993)

Year	Number of unfilled vacancies (thousands)	Share of hard to fill vacancies (%)	Share of firms in industry with production hindrances caused by a shortage of personnel (%)
1980	52	53%	
1981	27	39%	
1982	18	27%	1%
1983	24	31%	1%
1984	35	35%	1%
1986	66	46%	2%
1987	71	48%	1%
1988	64	42%	2%
1989	92	51%	3%
1990	105	47%	6%
1991	87	43%	4%
1992	58	35%	2%
1993	34	18%	0%
1994	39	20%	0%
1995	55		

Source: Centraal Bureau voor de Statistiek.

Obvious is that the number of unfilled vacancies fluctuated strongly in the period concerned. The lowest number was reached in 1982 with 18,000 unfilled vacancies. After 1982 the number of vacancies increased to 105,000 in 1990, whereupon, especially after 1991, a strong decrease has set in to 34,000 vacancies in 1993. The number of vacancies coming into existence and the number of filled vacancies during a year is many times higher than the number of unfilled vacancies at a certain moment. In 1993, the total number of filled vacancies was about 400,000. So, behind the low level of stocks in 1993 still goes a great dynamic flow. After 1993, the number of unfilled vacancies has risen again to 55,000 in 1995. In 1995 the rise has been considerable.

The share of vacancies that is hard to fill is correlated positively with the number of vacancies. In years with a high (low) amount of vacancies a high (low) proportion of the vacancies seems hard to fill. Problems with filling vacancies may be partly due to requirements (in respect of educational level and work experience for example) but also to relatively low wages and working conditions. Table I.18 gives the total number of vacancies and the share of hard-to-fill vacancies according to required level of education for the years 1990 and 1994. The number of unfilled vacancies decreased at all educational levels. The largest decrease was for those with primary education or (lower or higher) vocational secondary education. The share of hard-to-fill vacancies diminished from 47 to 20 percent of the total number of unfilled

vacancies. In 1994, this share is relatively large for vacancies at university, higher vocational and lower vocational level.

Table I.18 Number of unfilled vacancies and share of hard-to-fill vacancies according to required level of education, 1990 and 1994

	Number of unfilled vacancies (thousands)		Change (%)	Share of hard-to-fill vacancies in total number of unfilled vacancies (%)	
	1990	1994	1990 - 1994	1990	1994
Primary education	9.0	1.0	- 89	54	10
Lower general secondary education	9.6	4.2	- 56	35	7
Lower vocational secondary education	30.8	8.7	- 72	56	29
Higher general secondary education	2.8	2.0	- 29	25	10
Higher vocational secondary education	32.1	12.2	- 62	52	17
Higher vocational education	12.3	8.4	- 32	47	26
University	1.6	1.0	- 38	44	50
Total ^{a)}	104.7	39.4	- 62	47	20

a) Including required level of education unknown.

Source: CBS.

The percentage of firms in industry with production hindrances due to a shortage of personnel follows the same pattern as the number of vacancies. The highest percentage is reached in 1990 (about 6 to 7 percent), whereupon the percentage decreases to 0 in 1993.

We have to conclude that the discrepancies on the demand side are limited in the present situation. Since 1990 the number of vacancies, the share of hard to fill vacancies and the production hindrances due to a shortage of personnel has been decreasing. But there are some indications that the discrepancies on the demand side are growing again as a result of the positive general developments on the labour market in 1995 and 1996.

1.2.1.6 Regional variations

Table 1.19 gives some insight into the regional variations in employment growth. A first conclusion is that employment growth in metropolitan areas in the "Randstad", such as Amsterdam/Zaanstreek/Waterland, Den Haag/Delft and Rijnsmond, is relatively low. Generally the highest employment growth is found in the other regions in the Randstad (West-Utrecht, Kennemer-, Amstel- en Meerlanden and Rijnstreek) and regions which are directly adjacent to the Randstad (such as Veluwe, Flevoland, Oost-Utrecht, Westelijk Noord-Brabant and Breda). The employment growth in the north, the east and south is not far from average, which means that

the relative position of these regions has improved. Previously the growth of employment in these regions stayed behind the national average.

Table 1.19 Number of jobs of employees by RBA-region (1987, 1990, 1994, thousands)^{a)}

	Year			Average annual change (%)	
	1987	1990	1994	1987 - 1990	1990 - 1994
Groningen	175.2	186.2	189.8	2.1	0.5
Friesland	162.6	175.8	184.3	2.6	1.2
Drenthe	121.9	134.1	138.9	3.2	0.9
IJssel-Vecht	98.9	109.1	117.6	3.3	1.9
Twente	169.7	182.2	195.9	2.4	1.8
Midden-IJssel	67.0	73.4	76.8	3.1	1.1
Veluwe	174.2	193.5	212.9	3.6	2.4
Arnhem/Oost-Gelderland	204.9	223.0	227.0	2.9	0.4
Nijmegen/Rivierenland	131.4	146.4	154.7	3.7	1.4
Flevoland	42.8	52.6	65.1	7.1	5.5
Oost-Utrecht	145.9	160.9	176.1	3.3	2.3
West-Utrecht	217.6	247.5	267.4	4.4	2.0
Het Gooi and Vechtstreek	83.0	86.3	87.4	1.3	0.3
Noord-Holland Noord	134.2	147.7	160.6	3.2	2.1
Amsterdam/Zaanstreek/Waterland	429.6	450.1	457.5	1.6	0.4
Kennemer-, Amstelland and Meerlanden	244.1	271.0	274.1	3.5	0.3
Rijnstreek	199.3	221.2	234.1	3.5	1.4
Den Haag/Delft	376.8	391.5	401.9	1.3	0.7
Drechtsteden	117.5	127.4	131.2	2.7	0.7
Rijnmond	436.4	457.7	464.4	1.6	0.4
Zeeland	106.8	114.8	118.8	2.4	0.9
Westelijk Noord-Brabant	67.1	75.1	75.8	3.8	0.2
Breda	118.3	132.2	138.7	3.8	1.2
Midden-Brabant	120.0	131.4	138.4	3.1	1.3
Noord-Oost Brabant	170.9	190.0	214.1	3.6	3.0
Zuid-Oost Brabant	226.0	246.0	248.6	2.9	0.3
Midden- and Noord-Limburg	147.6	162.3	175.9	3.2	2.0
Zuid-Limburg	197.4	214.7	213.0	2.8	-0.2
Total	4,890.6	5,304.1	5,541.0	2.7	1.1

a) This table concerns the number of jobs of employees by location of the jobs.

Source: CBS, Annual Employment and Wage Survey.

1.2.1.7 Informal labour market

Thus far we have discussed in short the main aspects of the "formal" labour market. Besides the formal labour market there is a paid informal labour market, or the so-called black labour market. On this informal market wages are paid without payment of taxes and social security contributions. The increasing importance of the informal economy is partly due to the high Dutch tax schemes and the expanded system of social security, although the latter has been reduced in the last few years. A number of studies have shown that the informal labour market offers little opportunity for outsiders to enter the labour market. The persons who are active on the informal labour market primarily are persons who are active on the formal labour market as well. Persons who have few opportunities to enter the formal labour market have also few opportunities to enter the informal labour market. It seems that the informal labour market exists primarily to avoid the high tax rates at the top. For example a dentist who practices dental care partly in the informal economy. The informal labour market does not only consist of blue collar employees but the share of white collar employees is also substantial.

Measuring the extend of the informal economy encounters difficulties. The sensitivity of the subject makes that survey results are less reliable. People are less willing to admit being active in the informal economy, for example because they are afraid of getting caught or because of moral thresholds. This implies an underestimate of the extend of the informal economy. Labour without paying taxes and social security contributions is not always illegal. Certain groups (students, people with income less then the tax-free exempt) do not have to report their income below a certain maximum. In surveys it is hard to distinguish between persons work without paying taxes and social security contributions legally or illegally. An overestimate occurs when legal working persons are also counted as being active in the informal economy.

Research of Van Eck and Kazemier (1990) indicates that there are over one million illegal workers (in this survey legal workers, for example students with small additional income, were not counted)¹¹. Their activities mainly have the character of gaining additional income. Roughly one out of nine persons (of 16 years and older) claims to have revenues out of black labour. This is confirmed by the most recent study in this field (OSA, 1993). Expressed in terms of money, total illegal work amounts to roughly three billion guilders. This amounts to around 1 percent of national income. It concerned about 100,000 labour years (of 1,800 hours per year). According to the researchers this should be seen as a minimum estimate.

In table I.20 the main estimates of the available research are presented. Besides the survey of van Eck and Kazemier, the results of two other surveys are shown (Koopmans, 1988 and Allaart and De Voogd-Hamelink, 1989). In the latter a minimum and a maximum variant are distinguished. The results of the various studies cannot be compared with each other directly, because of different definitions of the informal labour market. What we can say is that the illegal labour market has a large volume. The total amount of money involved is between 1 and 5 billion Dfl. The number of suppliers on the informal labour market is 1 to 3 million people.

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This research was based on a relatively small number of interviews.

They earn between Dfl 1,050 and Dfl 2,300 a year with illegal work. In labour years, the informal labour market is estimated to amount 51 to 239 thousand labour years.

Table I.20 Estimates of the extend of the informal economy

	number of suppliers (millions)	Average annual earnings (in Dfl)	Number of labour years (thousands)	Total amount (billion Dfl)
Van Eck and Kazemier (CBS)	1.3 (min)	2,300	100 (min)	3.0
Koopmans (SEO)	3.3	1,050	239	3.5
Allaart and De Voogd-Hamelink (OSA)				
- minimum	0.6	1,900	51	1.1
- maximum	2.5	1,900	206	4.8

Koopmans (1989) confirms our earlier conclusion that the chances of persons on the black labour market are mainly determined by the chances on the formal labour market. Only a small proportion (13 percent which equals their share in population) of illegal work is done by unemployed and disabled. Employees account for half of the total amount of illegal work. The informal labour market does not offer special opportunities to persons with few opportunities on the formal labour market. And the lesser educated do not profit most from the informal labour market. Especially persons with professional skills relatively often work illegally.

If the official wage level would be asked for illegal labour, then a large proportion of the demand of private households would disappear. This means that formalizing these activities would only be possible if the prices go down. The opposite is true for the demand for illegal paid work by firms (Mot en Roozen, 1990); this demand would for the biggest part remain if the official wage level would be asked.

Besides paid illegal labour the informal economy incorporates household work (in and around the house), informal assistance and voluntary work (the non-paid part of the informal market). Household work accounts for about 6.5 million labour years and informal assistance and voluntary work together for about 0.6 million labour years (Geurts, 1991).

1.2.1.8 Latent needs

Besides the fact that an informal labour market exists, the simultaneous presence of latent needs on the one hand and fallow laid labour on the other raises the question whether the current mechanisms work sufficient (OSA, *Ruimte aan werk* 1995). In society numerous needs are present, which at this moment remain unfulfilled (or maybe are fulfilled through the informal labour market). Latent needs in society include for example more security in the streets, guarded bike shed and neighbourhood-janitors. The idea of solving part of the unemployment problem with the use of latent needs in society has already been presented in the White Papers of the European Community. These latent needs are a consequence of changes in way

of life, changes in the role the family plays within society, and demographic and emancipational developments (OSA, 1995). According to the White Papers there exist hindrances which prevent the development of services which answer to these needs. Fulfilment of latent needs can induce employment growth in two ways. The first way is an increase in the consumption of services (labour intensive, like care services) at the expense of consumption of capital intensive goods. This shift means a more labour intensive production overall. The second way is dissaving. The latent needs lead to an increased consumption financed out of savings. Savings can be hidden money, savings account balances or deposits etcetera (OSA, 1995).

Question is why these latent needs are not translated into employment by the market mechanism. Regulation by the government as well as by branch organisations and by employers/employees organisations is one reason. Changes in society with respect to family, the increasing share of elderly and labour could have made the existing care taking structure insufficient and inadequate. As the (semi) public sector is very active in the care taking sector this could explain why private enterprises have not fully taken advantage of the existing latent needs. The major role of the (semi) public sector might also explain why there exist discrepancies between demand and supply (OSA, 1995). Finally, we may follow Beaumol in arguing that labour productivity growth in this type of services is persistently low compared to other sectors, implying that the relative costs will increase.

In the remaining of this section we will, in line with the White Papers, discuss the latent needs of two groups in more detail. These two groups are the elderly and the two-earner families. The former because of their increasing share in the total population and because of the expectation that this group - as a consequence of better pension arrangements - will have an improved purchasing power in the future. The latter because the number of two-earning families is rapidly increasing. Other life and labour patterns lead to contracting out certain family and household tasks like day care.

Not only is the share of the elderly increasing, the elderly are becoming older over time. This group is becoming more wealthy, although recent research has indicated that this process is very slow (Klaus and Hooijmeijer, 1994). Furthermore can the group elderly not be considered as one homogenous group. The differences in income among elderly are substantial. With respect to possible changes in the care-system we can distinguish two employment increasing substitution effects. The first is the substitution of expensive care in care organisations with cheap care at the home of the elderly. Projections of the integrated elderly care of *Nieuwegein* and the individual care subsidy of *Rotterdam* indicate that this substitution can create 3,000 - 10,000 jobs for low educated persons. Other research confirms this estimate. The figures mentioned are net mutations. Employment loss takes place in the care organisations while employment growth is expected in the home care sector. The second substitution effect is an increasing demand for practical support to enable elder people to stay living independent. This support consists for example out of small repair, transport and house maintenance. As these projects are of a very small scale the employment growth due to these projects is very moderate. Estimates indicate an increase in the number of jobs of 5,000 - 7,000 (De Kemp and Lijsen, 1995). Noted is that there are some problems with the financing of these projects. The means of the elderly are limited. Furthermore are the skills of the unemployed

not always sufficient. Not only must they have technical abilities, they must also have certain social skills required. Another problem is a lack of motivation. Besides all there must be pointed at the risk of crowding out and false competition.

The traditional family with one breadwinner - usually the husband - is becoming less popular. The popularity of two-earning families is expanding. In this section we will define a two-earning family as being a family with one partner as breadwinner and the other working at least 20 hours per week. Two-earning families usually have a lack of time. They do not come round to certain household activities or hobbies. Relaxation, maintenance, repair and cleaning of the house, purchasing of durables and clothing are the most common. But also shopping is skipped under time pressure (OSA, 1995). Contracting out can enlighten the time problem.

To get an idea of the latent needs of two-earning families table I.21 shows the latent needs and actual use for services for sole-wage earners and two-earning families. The column "actual use" shows the percentage of the households that already use the service concerned. The column "needs" shows the percentage of the households that would like to use the service concerned. This are households who have not yet used these services and households who would like to expand their use of these services.

Table I.21 Single earners' and two-earner households' latent needs for services

	Two-earners households (%)		Single-earners (%)	
	Actual use	Needs	Actual use	Needs
Domestic help	29	36	9	21
Handyman	69	17	63	11
Day care:				
- children 0 - 3 years old	95	18	65	28
- children > 3 years old	63	9	72	9
Direct available baby-sitter	-	26	-	15
Care during shopping, eating out, etc.	-	14	-	15

Source: Mot and Paape, 1995.

The latent needs of two-earning households are significant larger than the latent needs of single wage-earners except for day care in department stores and restaurants and day care for very young children. The table indicates large needs for children related services. The insufficient supply of these services is probably due to the costs concerned. In particular the responsibility of employers and government in this respect should be mentioned (OSA, 1995).

Although the figures indicate large latent needs, it should be noted that whether these needs are real depends on the price families are willing to pay. The SEO survey results indicate that the purchasing power of the households is sufficient to use the services concerned. The purchasing power of families without any children is larger than the purchasing power of families with children. As expected is the

financial situation of two-earning families better than single wage-earners. Table I.22 presents the results of an estimate (minimum variant) of the employment effects when the latent needs of both groups are effectuated. Besides the potential employment due to effectuation of latent needs is shown the actual employment related to the actual use of the services. Noted is that this concerns the formal as well as the informal labour market. The fulfilment of the latent needs could generate 45,000 full-time labour years, which equals some 60,000 jobs.

Table I.22 Employment effects of fulfilling latent needs of single earner households and two-earners households (in full-time years)

	Latent needs	Fulfilled needs
Two-earners with children	16,000	52,000
- Day care children	7,000	33,000
- Domestic help	5,000	16,000
- Chores	4,000	3,000
Two-earners without children	6,000	11,000
- Domestic help	3,000	8,000
- Chores	3,000	3,000
Single earners with children	21,000	42,000
- Day care children	9,000	23,000
- Domestic help	7,000	11,000
- Chores	5,000	8,000
Single earners without children	2,000	2,000
- Domestic help	1,000	1,000
- Chores	1,000	1,000

Source: Mot en Paape, 1985.

A specific problem with the transformation of needs into employment is that these services are very personal. Parents do not easily let a stranger invade their privacy. Let alone that they would let a stranger take care of their young children. A bond of trust with the service employee seems necessary. This is especially true for direct available baby-sitters. Parents will demand high qualifications.

Another reason why these services are not fully used is government influence. The tax and social security contributions make the formal price for these services perhaps too high. Households might resort to the informal labour market (see the previous section). The government could stimulate household services by tax reductions. A milder tax regime for this kind of labour could reinforce the demand for these

services¹². Furthermore this will imply a partial formalization of the informal labour market. This could mean a positive stimulus for the formal employment in these branches. In the Netherlands some measures have been taken recently to make low skilled labour cheaper (see section IV.2.3).

I.2.2 Unemployment

The most prominent problem on the labour market is the high level of unemployment. Until the seventies the unemployment level was very low. In this period the fulfilment of vacancies was the main problem. The labour market was characterised by supply side shortages. From the beginning of the seventies demand side shortages have arisen and unemployment has become more and more structural. In our discussion we will primarily use the official CBS-figures on unemployment. In appendix A this and other probable measures for unemployment are discussed. Because of the problems sketched in this appendix, we will first try to give an indication of the total volume of the quantitative supply side discrepancies.

I.2.2.1 Volume of quantitative supply side discrepancies

Based on the CBS definition of unemployment (the unemployed labour force) the level of unemployment is 547,000 persons in 1994. Persons who want to have a job for at least 12 hours per week but did not search actively in the reference period (4 weeks) are excluded in this figure. When this group is included, the number of unemployed would be 920,000 (see table I.23).

Table I.23 An estimate for total "unemployment" in 1993 and 1994

	1993	1994
Without a job for 12 hours or more, available and searching actively (CBS)	481,000	547,000
Persons who want to have work for at least 12 hours, are available but do not search actively	329,000	372,000
Hidden unemployment in Disability Insurance (WAO)	A couple of hundred thousand	A couple of hundred thousands (probably diminishing slightly)
Hidden unemployment in National Assistance (ABW)	p.m.	p.m.
Persons in labour market measures	About 200,000	About 200,000

12 A tax reduction can be interpreted as a diminished interference of the government in the price mechanism. Lower taxes improve the allocative function of prices.

But even then we underestimate total unemployment, because we have not counted:

1. Hidden unemployment in Disability Insurance (WAO). It is not unrealistic to assume that a couple of hundred thousand persons receiving a disability benefit must in fact be counted as hidden unemployed. This estimate is based on both more dated and more recent studies¹³. Recently, major reforms in the WAO have taken place. These reforms will probably reduce the number of hidden unemployed in the WAO.
2. Hidden unemployment in General Social Assistance (ABW). Persons receiving an ABW benefit basically are not available for work. The question is what would happen under other circumstances (different regulations with respect to benefits, different labour market situation, etcetera)? Most probably, some of these persons would offer themselves on the labour market. However, figures are not known. Probably the introduction of the new ABW will give some clarity¹⁴.
3. Persons participating in labour market measures. Those who work in Sheltered Workshops or have a job through a job creation scheme (additional jobs) are counted as employed according to the CBS definition. Besides, persons participating in training measures are not counted as unemployed (because they are not available in short notice).

The level of total unemployment in 1994 amounts to 550,000 for sure and to more than 1,200,000 if persons who do not search for a job, hidden unemployed and persons who participate in labour market measures are added.

As was indicated in the previous paragraphs reforms such as the reform of the Disability Act may reduce the number of hidden unemployed. However, this may lead to an increasing use of unemployment insurance, and therefore of registered unemployment.

1.2.2.2 Trends in unemployment

In appendix A four possible measures for unemployment are discussed. Table I.24 shows the development of unemployment according to three of these measures¹⁵. They show the same direction of change. Up to and including 1991 the number of unemployed has been decreasing. From 1992 on the numbers are increasing. Especially in 1993 and 1994 the increase has been considerable. In 1995 a moderate decrease occurred.

13 Van den Bosch and Petersen, 1980 and Aarts and De Jong, 1990.

14 Since 1996, most persons receiving an ABW-benefit have to search for paid work. This may influence the level of official unemployment.

15 For the number of registered not-working persons at the PES there is no consistent time series available for the period under consideration.

Table I.24 Development of unemployment according to three different measures (1987 - 1994)

Year	Unemployment ^{a)}		Registered unemployment ^{a)}		Persons receiving an unemployment benefit ^{b)}	
	Number (thousands)	Change (%)	Number (thousands)	Change (%)	Number (thousands)	Change (%)
1987	486		456		620	
1988	490	0.8	453	-0.7	601	-3.1
1989	452	-7.8	407	-10.2	579	-3.7
1990	419	-7.3	358	-12.0	538	-7.1
1991	400	-4.5	334	-6.7	523	-2.8
1992	411	2.8	336	0.6	536	2.5
1993	481	17.0	415	23.5	598	11.6
1994	547	13.7	486	17.1	676	13.0
1995	538	-1.6	464	-4.5		

a) Source: CBS.

b) Persons receiving a WW-, RWW- or IOAW-benefit in benefit years. Source: Ministry of SZW and CTSV.

If we look to the rate of change however, we reveal some differences between the various measures. The most strong changes are taking place in the number of registered unemployed. The changes in the number of persons receiving an unemployment benefit are the most moderate. This will be due to the differences in definitions (searching/not searching, registered/not-registered, etcetera).

From now on we will use the figures on unemployment according to the Labour Force Survey for our discussion of the main trends in unemployment. The table above shows that unemployment decreased from nearly 500,000 in 1987 (8.5 percent of the labour force) to 400,000 in 1991 (6.5 percent of the labour force), whereupon the figure has risen to almost 550,000 in 1994 and 1995 (8.5 percent of the labour force in 1994, 8.1 percent in 1995). Recently, the unemployment rate has fallen below 8 percent.

Table I.25 gives information on the developments according to gender, age, ethnicity and level of education of the unemployed during the period 1987 - 1994. Between 1987 and 1990 the decrease in unemployment has been 4.8 percent per year on average and in the period 1990 - 1994 the average growth of unemployment has been 6.9 percent per year. Between 1987 and 1990 unemployment declined especially for men, persons younger than 25 years of age and for natives. The decrease in unemployment for women and persons older than 34 years has been moderate. Finally, unemployment among non-natives rose slightly between 1987 and 1990. Also in the period 1991 - 1994, youngsters went relatively better than older people and natives better than non-natives. The sharp increase in the number of unemployed men is remarkable because the male labour force has not grown strongly in the period concerned. It seems that men are hard hit by redundancies in especially industry. Furthermore, we see a strong increase in unemployment among the higher educated (higher vocational secondary education and higher), which is related to the

strong growth of labour supply of this group. The unemployment rate of higher educated is still (well) below the average unemployment rate however.

Table I.25 Development of unemployment according to gender, age, ethnicity and level of education (1987 - 1994)

	Unemployed (thousands)			Average annual change (%)		Unemployment rate (%)		
	1987	1990	1994	1987-1990	1990-1994	1987	1990	1994
<i>Gender</i>								
Male	226	179	266	-7.5	10.4	6.0	4.6	6.6
Female	259	240	280	-2.5	3.9	13.1	10.9	11.4
<i>Age</i>								
15 - 24	154	112	126	-10.1	3.0	13.3	10.3	13.3
25 - 34	144	128	180	-3.9	8.9	8.3	6.7	8.8
35 - 44	116	112	143	-1.2	6.3	7.6	6.7	8.2
45 - 54	56	52	82	-2.4	12.1	6.0	5.0	6.1
55 - 64	15	14	17	-2.3	5.0	3.9	3.8	4.5
<i>Ethnicity</i>								
Natives	399	330	423	-6.1	6.4	7.5	5.9	7.2
Non-natives	87	89	123	0.8	8.4	19.5	17.8	20.2
<i>Educational level</i>								
Primary education		100	103		0.7		14.1	17.1
Lower general secondary education		46	56		5.0		10.7	12.0
Lower vocational secondary education		75	98		6.9		6.8	9.5
Higher general secondary education		36	42		3.9		12.4	12.0
Higher vocational secondary education		94	151		12.6		4.3	6.2
Higher vocational education		43	63		10.0		4.8	5.9
University		24	34		9.1		5.8	7.0
Total	486	419	547	-4.8	6.9	8.5	6.9	8.5

Source: CBS, *Enquête Beroepsbevolking*.

For nearly all groups the unemployment rate in 1994 is back on more or less the same level as in 1987. Women are the exception in this respect, although for women the unemployment rate is still much higher than for men. For older age groups the unemployment rate is lower than for youngsters. The high unemployment among non-natives is still alarming. Their unemployment rate is three times as high than the unemployment rate for natives. Turks and Moroccans have the highest unemployment level, 31 percent in 1994. Surinamese, Antilleans and Arubans and persons from other mediterranean countries (than Turkey and Morocco) have unemployment rates between 20 and 21 percent. One of the problems of these

groups is the low average level of education. Language barriers (especially for Turks and Moroccans), differences in culture and customs and of course discrimination play a role too.

Between 1990 and 1994 the unemployment rate has risen for nearly all levels of education. Unemployment is the highest among persons with primary education (17 percent in 1994). Although the number of people entering the labour market with only primary education decreased steadily in the nineties, this group still is in a bad position to enter the labour market. Firstly, jobs for the lowest educated remain relatively scarce. Secondly, there is evidence that higher educated are hired for many of the low skilled jobs (*Hoe werven bedrijven*).

Although their unemployment level is less worse, persons with lower and higher general secondary education are suffering from high unemployment rates too (12 percent). This could be explained through their lack of vocational education. But on the other side their unemployment rate has risen less than average between 1990 and 1994. The situation is somewhat better for persons with lower vocational secondary education. The groups with higher vocational secondary education, higher vocational education and university education have below average unemployment rates. Interesting question is whether a higher degree of education lowers the chance of being unemployed? Or, whether higher educated people have a better labour market prospective? The figures indicate that this is the case. The unemployment levels of the highest three categories do have less than average unemployment levels. Furthermore their participation rate is substantially higher than that of the lower categories.

1.2.2.3 Long-term unemployment

Indications for a relative bad position on the labour market are not only given by the unemployment rate. The duration of unemployment is important too. Long-term unemployed have problems with (re)entering the labour market. Furthermore, the chance on a job decreases if unemployment duration increases. The degree in which certain groups are hit by "hard-core" unemployment can be made clear by looking at the distribution of unemployment durations. The duration of unemployment is only known for registered unemployment. So, to say something about the incidence of long-term unemployment figures on registered unemployment have to be used.

In 1993 45 percent of all registered unemployed were unemployed for one year or longer (table I.26). In 1994 and 1995 this percentage has risen to 50 and 53 percent respectively. The recent economic depression has caused an increase in the share of long-term unemployment in total unemployment. That the share of long-term unemployment also rose in 1995 (the first year of economic recovery), is due to the fact that the most advantaged unemployed (i.e. the short-term unemployed) find a job as first when the situation on the labour market is improving.

A high share of long-term unemployed is primarily found among persons with primary education only, non-natives and older people (45 - 64 years). The combination of a low level of participation (see section I.1.3), a high level of unemployment (section I.2.2.3) and a high share of long-term unemployment

illustrates the severe problems low educated and non-natives are faced with. For elderly the unemployment rate is below average, but those who are unemployed stay unemployed rather long in general. For younger people the opposite is true: a high unemployment rate and a low proportion of long-term unemployment.

Table I.26 Share of long-term unemployed (one year or longer unemployed) in registered unemployment (1993)

Group	Share in total unemployment of the group
Primary education	55%
Lower secondary education (general and vocational)	43%
Women	44%
Non-natives	54%
Younger than 20 years	11%
45 - 64 years	62%
All registered unemployed	45%

Source: CBS, *Enquête Beroepsbevolking*.

1.2.2.4 Regional variations

There are significant differences between regions too. In which regions unemployment is mainly concentrated? The level of unemployment is above average in the north and the east (the provinces Groningen, Friesland, Drenthe and Overijssel) and the four big cities Amsterdam, Rotterdam, Den Haag en Utrecht. High unemployment levels do not only have (income) effects for the individual but they entail social problems for society as well, like impoverishment and crime. This is especially true for the four big cities, although a number of medium sized cities are confronted with high levels of unemployment too.

Table I.27 gives information on differences in the unemployment level between regions of the Regional Boards of the Employment Service (RBA's), the so called RBA-regions¹⁶. Roughly speaking, the level of unemployment in regions with the highest unemployment is about twice the unemployment level in regions with the lowest unemployment. This means that the differences are significant.

Table I.27 Regional information on unemployment (1987 - 1994)

RBA-region	Unemployment rate (%)		Index unemployment rate (the Netherlands = 100)	
	1987	1994	1987	1994
Groningen	11.5	11.0	135	129
Friesland	9.9	9.7	116	114
Drenthe	8.8	9.9	104	116
IJssel-Vecht	8.0	7.3	94	86
Twente	10.0	10.1	118	119
Midden-IJssel	9.4	8.1	111	95
Veluwe	7.1	6.0	84	71
Arnhem/Oost Gelderland	9.7	8.3	114	98
Nijmegen/Rivierenland	11.9	9.2	140	108
Flevoland	9.6	8.2	113	96
Oost-Utrecht	7.2	6.6	85	78
West-Utrecht	7.7	7.5	91	88
Het Gooi en Vechtstreek	7.9	7.7	93	91
Noord-Holland Noord	7.3	7.7	86	91
Amsterdam/Zaanstreek/Waterland	12.2	11.8	144	139
Kennemer-, Amstelland and Meerlanden	5.3	5.8	62	68
Rijnstreek	4.9	6.4	58	75
Den Haag/Delft	7.0	7.3	82	86
Drechtsteden	7.0	9.0	82	106
Rijnmond	9.5	11.1	112	131
Zeeland	6.9	7.6	81	89
Westelijk Noord-Brabant	7.7	8.7	91	102
Breda	6.8	6.5	80	76
Midden-Brabant	8.8	9.4	104	111
Noord-Oost Brabant	6.6	7.2	78	85
Zuid-Oost Brabant	7.5	7.8	88	92
Noord- en Midden-Limburg	6.5	7.2	76	85
Zuid-Limburg	10.2	8.4	120	99
Total	8.5	8.5	100	100

Source: CBS, *Enquête Beroepsbevolking*.

In 1987 the RBA-regions Groningen, Friesland, Twente, Nijmegen/Rivierenland, Amsterdam/Zaanstreek/Waterland and Zuid-Limburg had high levels of unemployment. But there have been some changes in time. In 1994, Drenthe and

Rijnmond also have above average unemployment levels and the situation in Nijmegen/Rivierenland and Zuid-Limburg has improved significantly.

1.2.2.5 Other discrepancies on the supply side

There are more disequilibrium phenomena on the supply side than unemployment. A person may be forced to accept a part-time job while looking for a full-time job, or vice versa. People having a part-time job but who want to work longer, should be counted as partial unemployed¹⁷. On the contrary, there also are people who want to work shorter. From the OSA supply side survey we know that the number of people wanting to work shorter is greater than the number of people wanting to work longer. This implies that there are possibilities to increase the number of jobs. There could be 110,000 jobs more if workers would have a working time according to their preferences (Praat and Vosse, 1993). The level of employment and well-being could be higher when the available jobs are redistributed among suppliers of labour.

It is also possible that workers are not satisfied with their job due to other reasons. Around 10 percent of the workers is not satisfied with their job, which equals 600,000 persons in 1993 (OSA, 1993). Reason could be that the job is not in line with their education. In a significant number of cases the qualification level of the job is lower than the level of education of the worker (Huygen, 1989). With other words: there exists a certain degree of under-utilization of education. This applied to one third of the employees in 1985. This was a quarter in 1977. Furthermore, the job may be not in line with the field of education. This is the case for just over 10 percent of the workers (OSA, 1993). Combining those figures however shows that just a small part of the workers with a job not in line with their education is dissatisfied. Furthermore, the part of the workers that searches for another job because of these discrepancies is unknown. Anyway, we may assume that a certain degree of mobility of workers could improve the allocation of labour. But here too, the discrepancies are especially severe when they are structural. That is to say, when people are "imprisoned" in the segment of less attractive jobs. It is less problematic if someone has to accept a less attractive job when he or she is entering the labour market, but is able to find a better job after some time.

I.3 Main trends in job creation and job loss

1.3.1 Introduction

As on other markets we can distinguish between supply and demand on the labour market. The demand for labour includes occupied jobs/positions and unfilled vacancies (whether or not hard to fill). The suppliers of labour (job searchers, working or not working) interact with the demanders of labour (organisations with vacancies) on the labour market. This process involves friction. The friction is caused by demand discrepancies as well as supply discrepancies, which are discussed in

17

In the CBS figures this happens in a certain degree. Persons with a job for less than 12 hours wanting to work at least 12 hours a week are counted as (fully) unemployed.

earlier sections on basis of stock data. But in such an approach, two important features of the labour market are neglected:

1. Friction may be caused by an imperfect match between demand and supply too.
2. Stock data don't give an insight into the dynamic processes on the labour market.

In this section will be dealt with these two topics.

I.3.2 Match between demand and supply

A separate problem is the simultaneous occurrence of supply and demand discrepancies, though this seems hardly the case in the present labour market situation. To which degree is the simultaneous occurrence of discrepancies due to frictions within (more or less) homogenous submarkets (frictions within) or to frictions between submarkets (frictions between)¹⁸? That is hard to say on basis of the available figures, because detailed breakdowns are not possible.

Table I.28 shows the vacancy rate and the unemployment rate simultaneously (both as percentage of the labour force). The vacancy rate is lower as the employment level is higher. In the period 1989 - 1991 demand side discrepancies and supply side discrepancies were existing simultaneously. Not only the vacancy rate but the share of hard to fill vacancies was high too (see section I.2.1.5), while at the same time the level of unemployment still was 7 percent.

18 Frictions *within* occur when on a homogenous submarket (for example for electricians) both unemployment and vacancies exist. Frictions *between* occur when on some submarkets unemployment exists and on other submarkets demand side discrepancies exist.

Table I.28 Vacancy rate and unemployment rate (1980 - 1995)

Year	Vacancy rate (number of unfilled vacancies as % of labour force)	Unemployment rate (% of labour force)
1980	1.0	1.0
1981	0.5	6.0
1982	0.4	8.4
1983	0.5	10.2
1984	0.7	10.2
1986	1.2	8.6
1987	1.2	8.5
1988	1.1	8.4
1989	1.6	7.6
1990	1.7	6.9
1991	1.4	6.5
1992	0.9	6.5
1993	0.5	7.5
1994	0.6	8.5
1995	0.8	8.1

Source: Centraal Bureau voor de Statistiek.

The figures suggest that between 1987 and 1994/1995 the efficiency of the labour market has improved slightly. Both in 1987 and 1994 the unemployment rate was 8.5 percent, whereas the vacancy rate in 1987 was two times as high than in 1994. But we can not conclude that easy. Firstly, in 1995 the vacancy rate has increased significantly but the unemployment rate decreased just slightly. This points at a worsening of the efficiency of the labour market again. Secondly, really saying something about the efficiency of the labour market is only possible when detailed information on labour market flows is available. Sadly, flow data are rather scarce and if they are, they often are not comparable to each other.

I.3.3 Job turnover

The stock data used in I.3.2 conceal the dynamic process of job creation, job finding and job loss. In reality job turnover is considerable, even during times the developments on the labour market are negative. For example, the stock of vacancies amounted 55,000 in 1993 whereas 400,000 vacancies were filled during that year. Both the CBS and the National Bureau of the Employment Service (LBA) publish flow data on vacancies (table I.29). The series are not mutually comparable due to differences in the definitions and the questionnaires used. Figures on job turnover are provided by supply side surveys too. Per year, between 800,000 and 1 million persons do find a (new) job (*Hoe zoeken werkzoekenden*). We can only conclude that

the flows on the labour market are quite considerable. According to the LBA about 50 percent of the new hires consist of unemployed and school-leavers. The other half concerns persons who have left another job.

Table I.29 Flow data on vacancies (1988 - 1995)

Year	CBS ^{a)}		LBA ^{b)}
	Created vacancies (thousands)	Filled vacancies (thousands)	Filled vacancies (thousands)
1988			720
1989	730	708	767
1990	637	633	887
1991	639	661	804
1992	542	575	774
1993	383	396	612
1994	438	428	534
1995	523 ^{c)}	505 ^{c)}	

- a) Source: CBS, *Vacancy Survey*. Up and including 1993 vacancies at the government and educational sector, sheltered workshops, TWA's and lending companies are excluded. From 1994 on, vacancies at the government and educational sector are excluded.
- b) Source: LBA, *How do employers recruit?*
- c) Number estimated on basis of the first three quarters of the year.

Within organisations vacancies can either be created by an expansion of the number of workers or by the leave of employees. If an organisation has many unfilled vacancies this does not necessarily mean that there is great mismatch between labour demand and labour supply. The number of unfilled vacancies is mainly determined by three factors (OSA, 1994).

The first factor concerns the extension of the job turnover. Normally the tendency is that the higher the job turnover the higher the number of vacancies. The number of vacancies can also be expressed as a percentage of the total number of workers. Of course the positive relation than still holds. The sketched relation between job turnover and vacancies is less clear during recessions (the relation is cyclically sensitive). Probably organisations use a high job turnover to diminish their number of workers in times of cyclical distress. Employees who have left the organisation voluntarily will not be replaced then.

The second factor is the development of employment. We expect rising employment to go along with a rise in the number of vacancies. From the OSA study turned out that organisations which had expanded strongly also had one and a half as much vacancies in comparison to organisation which had expanded slowly to average. So it seems that strongly expanding organisations form a source of job turnover.

Thirdly, the time it takes to fill a vacancy plays a role. When it takes more time to fill job-openings then the number of vacancies within companies is higher. A note is here in place. That an opening exists for a long period of time is not solely due to

difficulties with fulfilment. Also other factors contribute to this. Long selection procedures and explicit delay of fulfilment are the two most important other contributants.

I.3.4 Job creation and job loss

Behind the employment development on macro level lies an extensive dynamic process. First, the development is different between sectors. Secondly, the dynamic process determining total and sectoral development includes changes within current enterprises, the start of new companies and the dissolution of enterprises. In this section we pay attention to both the sectoral development and the factors behind the growth or loss of employment.

It is well known that jobs are mainly created in the service sectors and small and medium sized enterprises (SME's). Job losses are mainly reported in the industrial sectors, the building and construction sector and in large firms¹⁹. The sectoral trends, based on stock data, were already presented in table I.14. But within sectors differences exist too. Within industry the development is the most negative in the chemical industry, the metal and electrical industry and the food, beverages and tobacco industry. In printing industry and other industry the developments have been less worse. The wholesale services, the retail trade services and the lodging and catering services are growing strongly. Within the transport sector job creation takes place in road transport and job losses are reported in the maritime and the inland shipping transport services. The banking and insurance sector is not growing as strong as the other business services. Finally, in the sector other services employment in government services is declining whereas the growth in the health care sector is considerable.

Interesting is whether employment growth is correlated with certain characteristics of companies, like size, rate of expansion, sector, investment activity, profitable or not, turnover per employee, export and turnover development. Are there any differences between expanding, shrinking and stable companies? This has been examined in a recent OSA study (Van der Hoeven and Verhoeven, 1994). This study is based on data at firm-level.

The company size influences the employment growth. The study results make clear that small enterprises (companies with less than 10 employees) have a stable size. Large companies on the contrary do have more changes in their size. This concerns expansion as well as shrinking. Medium-sized companies are in the middle. The results seem to suggest that large companies cannot afford themselves to stay of the same size. A stable market-share can mean the end for a large company. The severe competition forces them to search continually for new opportunities. To secure their long term continuity they must behave actively in their swift changing environment. Smaller companies do not necessarily need to expand to secure their continuity. A

19 It must be noted however that the more positive development of employment in SME's may be the result of policies of larger firms (for example large firms may contract out more work to other firms, including SME's).

lot of small enterprises are satisfied with their turnover and the income which goes with it. They can concentrate on their existing customers.

In general organisations between 5 - 9 years old generate the highest employment growth. Very young organisations contribute the least to employment. The older the organisation becomes the smaller the annual increase in employment (OSA, 1994). As we expect intuitively, expanding companies do have the largest increase in turnover. Increasing employment goes with an increased turnover. This effect is valid for every sector. Loss making companies are found in all three categories (expanding, shrinking and stable-sized companies), but their share is highest in the category shrinking companies. Somewhat surprising is that the development of investment is equal for expanding, shrinking and stable-sized companies. Investing companies do not necessarily generate employment growth. This may be due to labour saving investments.

The change in labour productivity is strongly correlated with the employment development. Labour productivity can be approximated by the turnover per employee. Remarkable is the effect that expanding companies have a diminishing labour productivity (a decreasing turnover per employee). Shrinking and stable-sized companies, however, have an increasing labour productivity. To explain this effect we presume that in expanding companies the increase in employees proceeds the rise in production and turnover.

As said previously, van der Hoeven and Verhoeven (1994) used data at firm-level. In 1992 private sector employment has grown with 60,000 jobs, which equals the difference between the creation of 240,000 new jobs and the loss of 180,000 jobs. A third of the new jobs was created through the start of new enterprises and two-third through growth within already existing enterprises. Nearly 40 percent of the loss of jobs was due to the closing down of enterprises and 60 percent to the shrinking of existing enterprises. As regards existing enterprises the small sized enterprises (1 - 9 employees) take care of a net employment growth in all sectors. To a lesser extend, this also applies to medium sized enterprises (10 - 99 employees). The prospects for employment in SME's are well too (Coopers & Lybrand, 1994).

Between 1990 and 1993 the balance in terms of employment change due to the start and the closing down of enterprises has been moderate (around 10,000 positive per year) but rather constant. On the contrary, the influence of the business cycle has been obvious in respect of the change in employment within existing enterprises. In 1993 the net change has been negative for existing enterprises.

Between 1987 and 1992 the average annual number of new enterprises was 42,000. On the other side, an average of 24,000 enterprises per year ended their activities. The average number of workers with a new started enterprise lies between 1,5 and 2. The enterprises that closed down had between 2,5 and 3 workers on average.

I.4 Wages and salary trends

I.4.1 Introduction

In this section there will be dealt with the development of wages and the wage structure. We will pay attention to the macro level, wages by industry and wages for different groups of employees (male and female for instance).

I.4.2 The macro level

The wage increase per employee consists of two components. The first element is the increase due to collective wage agreements. Indexation (for inflation) is normally part of this wage increase. Second element is the occasional (individual) wage increase related to promotion, age, number of service years, etcetera. This occasional wage increase includes the in and outflow effects. These effects are caused by differences in pay between leaving and new personnel. Leaving employees in general have a higher wage level than new ones. The net effect is included in the occasional wage increase. In the period 1985 - 1990 the general wage increase accounted for 75 percent and the occasional wage increase for 25 percent of the total wage increase (CBS, 1994, page 210). So, general wage increases seem to be the most important component. The wage increase in the Netherlands has been moderate during the period 1987 - 1995. This can be seen from table I.30. Only in 1987 and 1992 real wages grew substantially. In 1994 and 1995 real wages decreased.

Table I.30 Development in nominal and real wages (1987 - 1995)

	Nominal contractual wage market sector (% change)	Real contractual wage market sector (% change)
1987	0.8	1.8
1988	0.8	0.3
1989	1.4	0.3
1990	2.9	0.4
1991	3.5	0.4
1992	4.3	1.1
1993	3.1	0.5
1994 ^{a)}	1.8	-0.9
1995 ^{a)}	1.3	-0.8

a) Estimates.

Source: CPB, MEV 1996.

Due to the low real wage increases the purchasing power has almost not grown. For persons at the subsistence level ("*de minima*") the purchasing power has even worsened in the nineties (Ministry of SZW, 1995).

The wage cost structure is for the major part determined through the level of taxes and (general or employee) insurance contributions. Ultimately the government expenditure and the expenditure on social security determine the level of taxes and the level of contributions. In the Netherlands, the share of taxes and insurance contributions in labour costs is substantial. Table I.31 contains the structure of labour cost per hour worked in 1994 for five sectors²⁰.

Table I.31 Structure of labour cost per hour worked for five sectors (1994)

Component	Industry	Wholesale	Retail	Banking	Insurance
Total wage costs per hour (in Dfl)	45.82	42.71	27.66	55.79	55.21
Of which:					
Direct hourly wage	56%	59%	62%	50%	50%
Wage for hours not worked	11%	9%	9%	10%	10%
Special payments	7%	8%	6%	11%	10%
Legal social contributions	14%	12%	16%	14%	13%
Contractual social contributions	8%	9%	4%	10%	11%
Other wage cost	4%	3%	3%	5%	5%
Total	100%	100%	100%	100%	100%

Source: CBS, *Sociaal Economische Maandstatistiek*.

In this section not the differences in labour cost structure among the sectors are important but the general structure of labour cost will be examined. The table shows that there is a large difference between the direct wage and the total wage cost. The direct wage accounts for between 50 and 60 percent of total wage cost. This means that total labour cost are between 1.6 and 2 times as high than the direct wage. The difference between the total labour cost and the direct wage is higher as the direct wage is higher. On average an employer must pay Dfl 80 for social and other contributions to pay an employee Dfl 100 (gross)²¹.

The largest non wage cost component are the legal social contributions paid by the employer. The average of these employer expenses are about 13 percent of total labour cost in 1994 and vary from 12 percent in the wholesale sector to 16 percent in the retail sector. Three other cost increasing factors are of about equal size: wage for hours not worked, special benefits and social security contributions as a result of collective agreements, which all account for about 10 percent of total labour cost. Other wage cost contribute to a smaller extend. Wage cost subsidies (not included in the table) hardly effect the total wage cost structure.

20 In the figures only companies with at least 10 employees are considered.

21 Furthermore, the employee has to pay taxes and social contributions out of the (gross) direct hourly wage.

These previous figures do not include the employee taxes and the employee social contributions (for the Employee Insurance Schemes). So, the difference between the total labour cost for the employer and the net wage of the employee is even greater. Table I.32 contains the overall marginal tax wedge in selected OECD-countries in 1985 and 1991/1992. From the table we may conclude that the wedge is relatively high in the Netherlands.

Table I.32 Overall marginal tax wedges in selected OECD countries (1985 and 1991/1992)^{a)}

	1985	1991/1992
UK	54,6	50,4
Germany	67,5	63,8
Belgium	65,8	66,3
Denmark	75,1	72,1
Sweden	71,2	62,6
the Netherlands	72,3	70,8
United States	48,1	38,5
Japan	22,8	22,2

a) The "overall tax wedge" contains both employers' and employees' premiums for social security, income tax and value added tax.

Source: OECD, 1994.

I.4.3 Wages by industry

In the Netherlands collective labour agreements are an important determinant of the level of gross wages. In many of these agreements minimum wage levels are determined for the sector concerned. We can distinguish between agreements at branch level and agreements at company level. Agreements at branch level can be strict and detailed, which may hinder individual enterprises in their operation. Agreements at company level offer more room to specify the agreement according to the specific situation of the company.

The wage level differs between sectors. To get a picture of the differences among sectors table I.33 shows the gross wage income for different sectors in 1994. The wage level in the minerals extracting industry is far above average. Other sectors with high wage levels are the banking and insurances sector, public utilities and the educational sector.

Table I.33 Gross wage income per year (special payments included) of full-time employees (* 1,000 Dfl, 1994)

Sector	Gross wage	Index (average = 100)
Agriculture, forestry and fishing	42.9	74
Minerals extracting industry	88.6	152
Industry	58.0	100
Public utilities	69.2	119
Building and construction	56.1	96
Trade, repair of consumer products	51.0	88
Lodging and catering services	41.4	71
Transport, storage and communication	63.3	109
Banking and insurances	71.7	123
Business services	65.0	112
Government, social security	59.7	103
Educational sector	68.2	117
Health and social care	52.5	90
Culture, recreation, other services	53.7	92
Personnel in service of households	31.2	54
Total	58.2	100

Source: CBS, *Labour Accounts*.

Sectors with a substantially lower wage level are private households with employees, the lodging and catering services and agriculture, forestry and fishing. From 1990 on, the rank-order of the different sectors has not changed much. In some sectors employees receive structurally higher gross wages than others, what will be caused at least partially by differences in employment structure in respect of educational level between sectors.

The development of the contractual standard hourly wage during the period 1990 - 1995 has been rather uniform for the various branches of economic activity (see table I.34). On average, in 1995 the wages are 13 percent higher than in 1990. Only wages in the building and construction sector rose significantly more than average. In the public utilities sector the rise has been below average. The wage increase in the government and subsidised sector has been somewhat lower than in the private sector.

Table I.34 Development of the contractual standard hourly wage 1990 - 1995

	Index at the end of October 1995 (1990 = 100)
<i>Total</i>	113.3
<i>Sector</i>	
Private enterprises	113.9
Government sector	111.8
Subsidised sector	112.7
<i>Economic activity</i>	
Agriculture and fishing	114.8
Minerals extracting industry	115.0
Industry	113.5
Public utilities	110.9
Building and construction	117.0
Trade, lodging and catering	114.1
Transport, storage and communication	113.5
Banking and insurance, other business services	112.8
Other services	112.1

Source: CBS, *Labour and Wages of Employees*, 1993, page 206.

I.4.4 Wages by employee characteristics

Women earn less than men on average. A male employee finds on average a 43 percent higher gross wage than his female colleague (CBS, 1994, page 220). This difference is partly caused by differences in the average number of working hours. But the difference in hourly wages is still 23 percent. The question is whether this is due to the fact that women are paid less than men for the same or a comparative position, or that differences in wages are caused by an over-representation of women in low paid sectors. The Organisation for Statistical Labour Market Research (OSA) has done research in this field (OSA, 1994b). It can be concluded that women are over-represented in the lower paid sectors. One could say that women work in the 'wrong' sectors. Furthermore, female employees are younger on average and often have lesser years of service²². Women also work more on the basis of flexible employment contracts, which pays less than full-time work (CBS, 1994). However, even if we correct for these factors an unexplained gap between the wages of men and women remains, which may have to do with discrimination.

²² The difference in wages between men and women is for younger age groups smaller than for older age groups.

Wages are not the sole rewardance for employees. There also are additional payments such as free products (or discount), car arrangements, travel allowance, education paid for by the company, savings arrangements or other fringe benefits. It turns out that men profit more from these emoluments than women (OSA, 1995). This is mainly due to the fact that men are better paid in general; they work in the better paid sectors and occupy for the most part the better paid positions. And especially these high positions entail extra income arrangements. There is one exception however. The free or discounted supply of goods is almost equally distributed. Free goods arrangements are most common in the trade, catering and travel sector. Furthermore, lower income groups take more advantage of free products. These two effects can explain why women take as much advantage of free products as men. Women are over-represented in the lower income segments and women are strongly represented in the sectors previously mentioned.

Differences in wages are also caused by the level of education (see table I.35). Although the figures concern the year 1991, the table illustrates the influence on wages of differences in education.

Table I.35 Average gross yearly wage by level of education and sex (full-time equivalents, * 1,000 Dfl, 1991)

Education	Females	Males	Difference between male and female (%)
Primary education	31.2	48.1	54
Lower general secondary education	34.6	49.5	43
Lower vocational secondary education	31.2	48.0	54
Higher general secondary education	39.2	56.4	44
Higher vocational secondary education	40.8	56.2	38
Higher vocational education	50.9	71.8	41
University education	61.7	85.6	39
Total	40.4	57.6	43

Source: CBS, *National Accounts 1994, 1995*.

As we expected higher levels of education go along with higher wages. This is valid for men and women. The large difference in wages between men and women is again stressed. The differences in pay between men and women become somewhat smaller the higher the educational level. Compared with primary education, the wage increase due to lower general secondary education or lower secondary vocational education is negligible. Higher (general and vocational) secondary education lead to higher wages than primary education. The highest wage levels are reached by university graduates. They earn more than people with a higher vocational education. So education does not only has a positive effect on the participation rate and the unemployment rate, it also has a positive effect on the wage level.

Not only the level of education, but also the type of education influences the wage level. Groot and Mekkelholt (1995) have examined differences in pay between males with a technical and a not-technical education. They found that men with a lower non-technical education earned on average 11 percent more than men with a low technical education. Men with a higher non-technical education earn 1.5 percent more than men with a higher technical education. Furthermore they found that the start salaries of technical educated persons are lower than those for non-technical educated persons. This applies to all educational levels. The wage profile is the same for both groups. But the wage profile does differ between the levels of education. The wage profile is steeper the higher the educational level.

I.4.5 Minimum wages

In the Netherlands a legal minimum wage is effective. Table I.36 shows the development of the minimum wage level for the period 1992 - 1996. There are legal youth minimum wages for persons up to 22 years old. The minimum wage level has almost been stable during the last five years. In 1994 and 1995 government decided not to increase the minimum wages since the ratio between inactives and actives worsened.

Table I.36 Legal minimum wage level (gross, in Dfl, 1992 - 1996)^{a)}

Age	1992	1993 - 1995	1996
23 and older	2,133	2,163	2,184
22	1,813	1,839	1,856
21	1,547	1,568	1,583
20	1,312	1,330	1,343
19	1,120	1,136	1,147
18	971	984	994
17	843	855	863
16	736	746	754
15	640	649	655

a) Excluding 8 percent holiday pay.

Source: Sociaal info (1992 - 1996).

The role of minimum wages should not be exaggerated. In most sectors the lowest wage scale starts at a level that is far above minimum wage level (Ministry of SZW, 1995). The wage scales are generally determined by collective agreements. The vast majority of workers receive wages which are substantially higher than the minimum wage level. In 1993 almost 170,000 workers, about 3 percent of total workers,

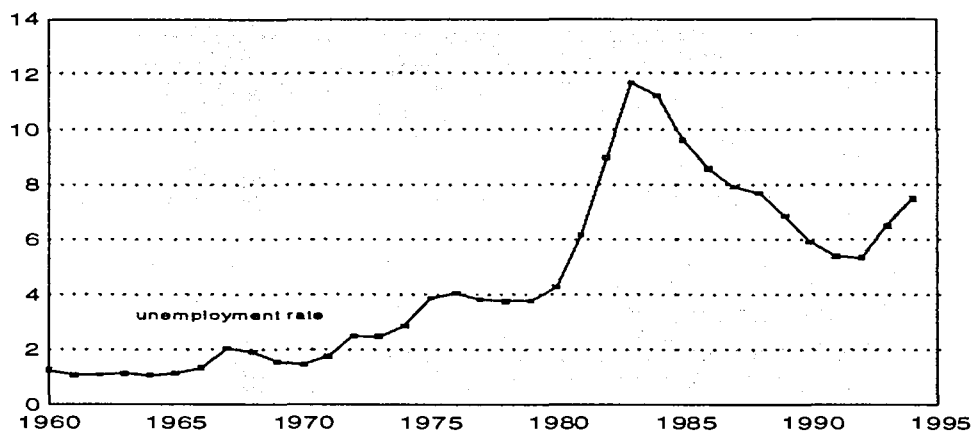
received a wage equal to the minimum wage²³. This implies that changes in the minimum wage level will have just a small direct effect on employment. It is far more important that the social partners agreed upon the introduction of wage scales which start at a lower level (near to the minimum wage level).

1.5 The rise and fall in unemployment

The basic facts

The basic facts about unemployment are the following. Firstly, there has been a sharp trend-wise increase in the rate of unemployment rate since the early seventies. The high level of unemployment was reached in two steps: the first one in the 'seventies and the second one in the 'eighties. The highest post-war level of the unemployment rate - 12 per cent²⁴ of the active population - was reached in 1983. Since then the unemployment rate has fallen. In 1994 the unemployment rate was equal to 7.5 per cent, and recently it has even fallen below 7 per cent, which is much lower than the 1983 level but still much higher than the pre-1980 levels, let alone the pre-1970 levels²⁵.

Figure I.1 The unemployment rate 1960-1994



Source: Netherlands Economic Institute, series constructed on the basis of the actual definition of unemployment

23 About 70,000 of these workers worked less than one third of the normal worktime.

24 This of course is an underestimation of the true figure since many unemployed became officially 'disabled'.

25 The figures presented in figure I.1 differ from unemployment rate data presented in previous sections. In order to construct a consistent time series over a long period, the data had to be adjusted.

The second basic fact about unemployment is the high share of low-educated persons among the unemployed. According to section I.2.2.3 47 percent of the unemployed is low-skilled, while the share of the low-skilled in the total labour-force is only 33 per cent²⁶.

Last but not least the share of the very long-term unemployed in total unemployed has increased dramatically. Until the eighties it was exceptional that people would remain unemployed for more than a year. In 1994 half of the unemployed were out of work for more a year (see section I.2.2.4).

Labour demand and labour supply are the main determinants of unemployment. Therefore, if we are looking for causes of the rise of unemployment factors determining supply and demand come to mind first. However, the friction between demand and supply is also relevant. Even if demand is higher than supply, some unemployment will exist due to friction. Increasing friction may also partly explain the rise in unemployment. Neo-classical theory would claim that the wage-mechanism could bring about equilibrium. However, this mechanism may have been weakened due to increasing minimum-wage and benefit levels. This is also a possible cause for the rise in unemployment.

In the following sections we will discuss a number of factors which may possibly explain the rise in unemployment. Some of these factors can be classified as demand or supply factor or as a factor influencing the interaction between demand and supply. However, it is not always that easy to classify a factor. Wages, for instance, may influence demand, supply and the interaction between the two. If on sub-market level relative wages are flexible and demand and supply are sensitive to the wage level, on macro level friction will be low.

Fluctuations in economic activity

Fluctuations in economic activity are, of course, a major cause of fluctuations in unemployment. An open economy such as the Dutch economy is extremely sensitive to the ups and downs of the world economy. A slow-down of world trade will strongly affect Dutch exports, which amount to more than 50 per cent of total GDP. Therefore, GDP will depend heavily on exports and a slow-down of world trade will have a negative effect on GDP. This will in turn affect employment and, consequently, unemployment. Usually, the effects on employment and unemployment lag behind one year. To a large extent the rise in unemployment in the 'seventies and the 'eighties can be explained in this way.

Normally, a recession is followed by a recovery. Unemployment could then fall back to previous levels. This, however, did not happen. Despite a considerable growth in the number of employed persons in the second half of the 'eighties and the first half of the nineties, unemployment is still much higher than before 1970. In the following sections we will discuss a number of factors which all contributed to this phenomena.

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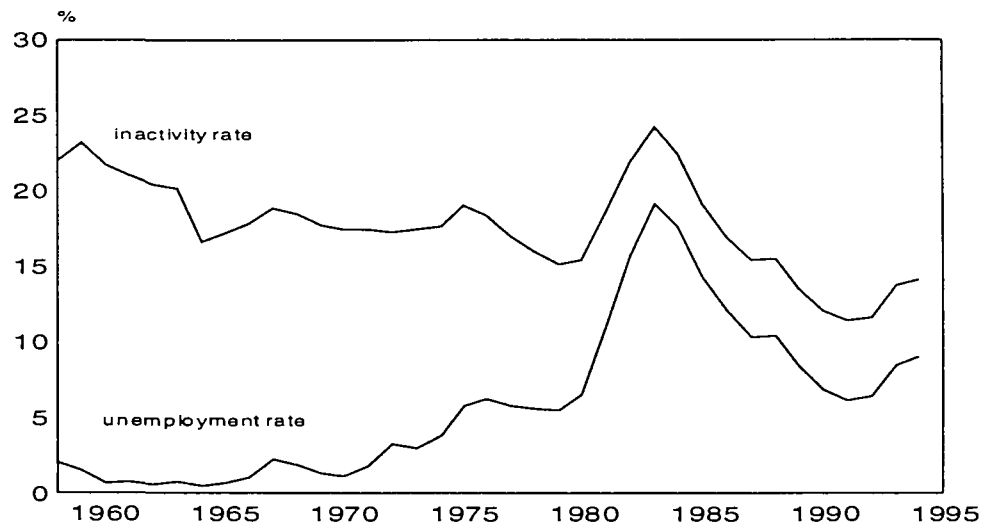
Low-skilled are those with primary education, lower general secondary education and lower vocational secondary education.

The increasing participation of women

When looking at the rise in unemployment one has to realize that the official unemployment figures do not include women who are full-time involved in household production. In the Netherlands labour force participation among women has remained very low for a long time. In recent decades women participation has increased considerably due to the emancipation process. As section I.1.3 shows in 1987 the women participation rate was only 40; by 1994 it had almost reached the level of 48 percent.

This development can be interpreted as a redistribution of paid work between men and women. Figure I.2 illustrates this point for people aged below 25 years. Total inactivity is defined as every young person who is not in full-time education and who does not have a paid job. From the figure it is clear that inactivity as a percentage of the potential labour force has not increased to the same degree as official unemployment. Total inactivity among young people has remained relatively stable through time. During the recession period in the early eighties it did increase, but it returned to the 1978 level and even showed a declining trend.

Figure I.2 Unemployment and inactivity rates among young people, 1960 - 1994



Source: Time series constructed by NEI on the basis of data from the statistical office and the public employment service.

However, the share of men and women in total inactivity has changed dramatically as is shown by table I.37. Nowadays, inactivity is more evenly distributed between men and women, although it is still higher among women. In 1960 total inactivity consisted almost completely of women; in 1990 this share had dropped to 70 percent. Contrarily, the share of women in registered unemployment has increased.

Table I.37 Inactive young people (< 25 years) by gender (percentage shares; 1960, 1970, 1980 and 1990)

	Share young women	Share young men	Total
1960	96	4	100
1970	94	6	100
1980	78	22	100
1990	70	30	100

Source: Time series constructed by NEI on the basis of data from the statistical office and the public employment service.

Our conclusion is that the rising trend in unemployment partly reflects a redistribution of paid labour between men and women. Inactivity among men has increased and this increase is to a large extent reflected in the rise in official unemployment. However, inactivity among women has decreased, but this has not been reflected by the official figures, because most inactive women were not registered as unemployed. Furthermore, many women not registered as unemployed in the past are now officially as unemployed. Therefore, the rise in official unemployment is at least partly an artefact of the way we measure unemployment.

This reasoning may suggest that we consider the increasing participation of women as an exogenous process, which it is not. Not only cultural but also economic factors have contributed to the rise in female labour participation. Income per capita growth and the increase in educational level lead to an declining birth rate and more opportunities for women to accept paid jobs. Improved household technology may also have been a factor favouring women labour participation. Last but not least the changing structure of employment has played a role. The share of blue collar work, traditionally the domain of men, has dropped considerably and the share of employment in service professions, in which women have more opportunities, has increased.

The growth in labour supply

The number of unemployed on a given point in time can be broken down in a flow and a duration component. In a static situation the stock of unemployed is exactly equal to the product of the inflow of unemployed and the average unemployment duration. Therefore, the stock of unemployed will increase if more people are entering the labour-market. The labour-market will need some time to absorb the new entrants. The Netherlands has experienced a relatively high growth of labour supply. The increasing participation of women already dealt with in the previous section was one of the two main factors explaining the growing labour supply. The other factor was the continuous immigration.

Wages

Starting in the 'sixties there has been a sharp decline in employment in the manufacturing industry. Many traditional industries such as ship-building and textiles and clothing almost disappeared in the Netherlands and other rich countries. Most of the activities concerned moved to - at that time - low-wage countries such as Korea.

It is not very likely that this development could have been stopped by a wage moderation policy in the 'seventies. The gap in wage level between the developed countries and the developing countries was simply too big. However, wage moderation would have contributed to a slower adjustment process. In that case the fall in employment could have been partly prevented. The rise in unemployment in the first half of the 'eighties would not have been as dramatic as it was now.

What actually happened is that a wage moderation policy²⁷ was implemented after the rise in unemployment had occurred. That policy has been very successful in terms of employment creation. This is in line with the results of scientific research into the relation between employment and wages. The long term elasticity of employment with respect to wages lies somewhere between -0.3 and -1, implying²⁸ that a 10 per cent decrease in wages leads to a 3 to 10 per cent rise in employment. Therefore, we conclude that wages do matter when employment is concerned. However, the wage elasticity will differ by industry. Employment is particularly sensitive for wages in industries such as the retail trade and the hotel and catering sector, but also in the remaining labour-intensive exporting sectors.

Technology or globalisation

At the moment a discussion is going on whether the decline in low-skilled labour is a result of asymmetric technological change or of the tendency towards globalisation²⁹. Asymmetric technological change means that technological progress is such that low-skilled labour is substituted by capital and high skilled labour. Globalisation means that low skilled labour does not disappear, but is transferred to low-wage countries.

Relatively high wages for low-skilled work will strengthen the substitution of capital and high skilled labour for low-skilled labour. In the 'sixties and 'seventies there has been a rise in the relative wages of low-skilled workers which was mainly due to the introduction and subsequent increase of the legal minimum wage. One may argue that this development has also stimulated the transfer of a number of traditional sectors to developing countries. However, the wage gap between developed and developing economies was that high, that this transfer would have occurred anyhow. Perhaps, this process would have been more gradual if the relative wages for low-skilled work would not have changed. In that case the economy would have got more time to adjust to the external shocks. For the explanation of the structural

27 And in recent years a reform in the social security system and a general cut in government expenditure.

28 Theeuwes, (1988).

29 Ruigrol and van Tulder, 1995.

development of employment the technology hypothesis seems more convincing than the globalisation hypothesis. A strong argument in favour of the technology hypothesis is that employment volume as measured by the total number of hours worked has remained more or less constant for a very long time³⁰.

Some economists have argued against a policy of prolonged wage moderation³¹. In their view this policy will lead to concentration on low-wage activities with a low growth potential. This may lead to more employment in the short-run, but in the long-run we may be worse off. High growth rates can only be attained in the knowledge intensive industries. In those types of industry productivity growth is relatively high, but output growth will be even higher, and employment may still increase as a result.

Minimum wages

Minimum wages were already mentioned as a factor causing substitution of particularly low-skilled labour and - less important, we think - transfer of activities to low-wage countries. However, high minimum wages can also cause problems in labour-intensive home-market services. The retail trade and the hotel and catering industry are obvious examples. In these types of sector production costs almost completely consist of labour costs. Moreover, most labour in these sectors is low-skilled labour. Higher minimum wages will automatically lead to higher production costs, higher output prices, lower output levels and lower employment levels.

On average the effects of minimum wages on total employment should not be exaggerated, however³². It is well known that even without a legal minimum wage market wages would be higher than the market clearing level and unemployment would prevail. There are two theories explaining this fact. Firstly, according to the wage-efficiency theory employers set their wages above the market-clearing level in order to keep productivity above average levels. The insider-outsider theory states that workers will have a certain amount of monopoly power because of the firm-specific human capital embodied in them, and can therefore claim wages that lie above the market-clearing level. Both theories explain why unemployed people may want to work for lower wages than employed workers, but are still not hired.

During the last decade minimum wages have grown considerably less than average wages. In many sectors the lowest contractual wages are much higher than the legal minimum wage. Therefore, introducing lower minimum contractual wages seems much more effective than a further reduction of minimum wages. This view is shared by the government. Collective agreements are only accepted by the government if the social partners introduce lower minimum contractual wages. In addition, the government has introduced fiscal measures to reduce wage costs for low-paid labour.

30 Therefore labour-time reduction, in the last decade particularly achieved by promoting part-time labour, has been extremely important to realize job growth.

31 Brouwer and Kleinknecht, 1994.

32 A review of studies concerning the impact of minimum wages on employment is given by OSA, 1990.

Downward displacement

One of the reasons why wage reduction may not work is that the high unemployment among the low-skilled is to a large degree caused by downward displacement. This is caused by the increased skill level of the labour force. In the early 'sixties there was a shortage of skilled workers and many workers were undereducated, but nowadays many people are doing work below their capacities. Employers prefer hiring a skilled worker for simple work and many skilled workers are willing to accept a low-skilled job because they cannot find a job on their own qualification level. Teulings (1990) has found evidence supporting the downward displacement hypothesis.

We do not know exactly the magnitude in which downward displacement occurs. If it is really that important as some labour economists claim, the consequences for policy making could be far reaching. It would mean that we do not need more low-skilled job but more high-skilled jobs. Creation of high-skilled jobs would stop downward displacement and the simple jobs would be available for low-skilled workers again. This, then, would support the proposition that wage moderation and a further reduction of the costs of low-paid labour are not sufficient measures to increase the chances for low-skilled workers.

Increasing friction between demand and supply

Employers trying to fill their vacancies and job-seekers looking for a job do not meet instantly and a 'meeting' does not necessarily result in a job-seeker fulfilling a vacancy. This is caused by the heterogeneity of jobs and workers. Both parties will have to acquire information about the jobs and the workers that are suitable to them. Therefore, a vacancy may stay open for a while despite the fact that jobs-seekers with the right qualifications are available. And a job-seeker may stay unemployed for some time, although suitable vacancies are available. Furthermore, given the heterogeneity of jobs and workers it may not be optimum to accept the first offer one gets or to hire the first worker applying.

There is evidence that the friction between demand and supply has increased over time³³. The three main factors are:

- labour is becoming more and more heterogenous and the labour-market has become more segmented. It becomes less easy to find a job in another segment;

33

There is extensive literature in this field. A recent contribution is by Muysken, Bierings and De Regt, 1993.

- the social security system has been expanded³⁴. During the 'sixties and the 'seventies more people have become eligible for the various unemployment and other social benefits and the level of the benefits has gone up. As a result people became more critical in accepting jobs;
- discrimination by employers on racial and cultural grounds has increased. The share of ethnic minorities in the labour force is considerably higher now than, say, twenty years ago, and the attitude of employers towards minorities has probably not improved.

Hysteresis

Unemployment is partly caused by unemployment. This may look strange at first sight. However, there is strong evidence that once a person has become unemployed, this fact alone will lower his chances to get a job. The longer a person is already unemployed, the further his chances will be reduced. Very long-term unemployed people are hardly taking part in the labour-market process any more. This implies that wage formation is not affected any more by a large part of people who are formally unemployed and receive an unemployment or other social benefit. As a result wages cannot bring about equilibrium on the labour-market.

This mechanism implies that if due to a slow-down in economic activity unemployment increases strongly and many people become long-term unemployed, unemployment will stay high if the economy recovers. This is precisely what happened³⁵.

However, the question still is why unemployed people and particularly long-term unemployed people have less chances to get a job. There are a number of reasons. First of all, employers are uncertain about the productivity of potential recruits. If someone has become unemployed, that might be due to a low performance. Therefore, employers prefer other job-seekers to unemployed job-seekers. The employers will be less inclined to hire an unemployed job-seeker the higher the wage costs he has to pay. As was mentioned in a previous section the employer has to pay at least the legal minimum wage³⁶ and in many sectors he has to pay considerably more because minimum contract wages are set higher than minimum wages.

However, also factors related to the unemployed individual and his or her environment may be relevant. Unemployment is concentrated in the big cities and even in particular parts of the big cities. In some quarters being unemployed is the rule rather than the exception. When most people in your family and among your friends are unemployed, you will be inclined to adjust to your environment and not to be 'exceptional'. The relatively high unemployment and social benefits imply that

34 Not only the incentive for unemployed persons to accept jobs has diminished as a result, but also the rising volume of beneficiaries and the increasing benefits induced higher social premiums and therefore higher wage costs. This had a negative effect on employment, causing more unemployed and higher expenditure on social security which implied higher wage costs, and so on.

35 Graafland, 1990.

36 There is an experiment going which implies that employers are temporarily exempted from paying the minimum wage if they hire a long-term unemployed person.

there is not a strong incentive to accept low-paid jobs, particularly if the benefit can be supplemented by income from informal labour. When people are out of work for a long time they tend to adjust to that situation. They are reluctant to change their way of life for a paid job if there is no long-term perspective. This is one of the major bottlenecks in the implementation of job creation schemes for (very) long-term unemployed persons. It is difficult to find long-term unemployed persons that are acceptable for employers and are willing to do temporary work which gives some hope (but not more) for a steady well-paid job in the future.

Evaluation

There is no easy explanation of the rise and subsequent fall in unemployed. Most factors explaining unemployment are strongly interwoven. A lesson we have learned from recent years is that extremely high unemployment levels are not an inevitable feature of highly developed economies as some people claimed in the 'eighties'. Wage moderation, reduction of the costs of (low-paid labour), part-time labour, adjusting the social security system and active labour-market policy have all contributed to the fall in unemployment, although it is very difficult to say precisely how much each factor contributed. A further decrease in unemployment seems possible. However, it is not very likely that we can bring unemployment down to levels experienced in the 'sixties. Technological change and globalisation will inevitably continue to throw out low-skilled labour and not everyone has the talents to follow higher education. Even if benefits and minimum wages are cut further, some people will not get a regular job. Long-term scenario's by the Central Planning Bureau in which social security is set on a minimum level, illustrate this point. Even then unemployment will remain considerable. Therefore realistically, unemployment cannot be solved completely. However, what we can do is reduce long-term unemployment further. Even if by doing so total unemployment stays on the same level this is worthwhile. A situation in which many people are unemployed for a short period is much better than a situation in which some people are unemployed for a very long time.

Low-paid jobs are needed for the long-term unemployed, most of them being unskilled. However, that does not imply that we simply need to create more low-skilled jobs. At least partly the problem is that simple jobs are occupied by skilled workers. Therefore, in the future more attention should be paid to the creation of skilled jobs. That may imply more wage dispersion. In the knowledge intensive industries wage growth may be even useful to attract high productivity workers, while in other sectors wage costs and wage growth have to be low in order to maintain employment. On the other hand, there will be limits to the degree of income inequality acceptable to society, as we are already experiencing what is called 'the new poverty'.

I.6 Macroeconomic policies and forecasts

I.6.1 Introduction

A sound macroeconomic environment is the basis for growth and job-creation. The main objective of Dutch macroeconomic policy is the stimulation of employment in the private sector through reducing the budget-deficit, reducing the burden of taxes and social premiums, by promotion of a moderate wage growth and by improving the general conditions for the private sector. The main aspects of this policy will be discussed in section I.6.2. A sound macroeconomic climate also is a necessary precondition for entering the third phase of the EMU. In paragraph I.6.3 we will pay attention to the EMU criteria. We conclude this chapter with a discussion of medium and long-term macroeconomic forecasts, with an emphasis on employment and unemployment.

I.6.2 Highlights of the Dutch macroeconomic policy

Reducing the collective burden on labour income is one of the most important elements in macroeconomic policy. The objective is to stimulate employment growth and to improve the labour market process. To reduce the burden of taxes and social contributions it is necessary to cut back on government expenditure at the same time.

The Dutch guilder has been able to maintain its exchange rate with the German mark. The external stability of the guilder has been realised by pegging the Dutch guilder to the German mark. This is a central element of the monetary policy to realise price stability. The inflation level is one of the lowest in Europe, which enhances a moderate wage growth. A stable exchange rate is important as the European economies are slowly melting together, eventually to (at least) a monetary union. The strong guilder has even made possible larger decreases of the interest rate than in Germany. Low interest rates mean a stimulance for investment and economic growth but also a cost advantage for private enterprises.

Social partners are urged to stimulate job creation in the lower wage segment (between the lowest CAO-wage and minimum wage). This is currently monitored. If actions remain insufficient then no longer declaration of general binding will be considered. Furthermore will it made possible for a number of sectors to hire employees beneath the minimum wage, at least temporary.

Also other measures are used to improve the functioning of the labour market. Regulations and rules will be altered or even abolished. The social security system will be further rearranged. Financial incentives will be enhanced. Tightening of the inflow will go together with stimulating the outflow. This is to reduce the Inactive/Active ratio. In a recent study De Voogd et al (1996) computed inactivity/activity ratios for a number of EU-countries. The results indicate that contrary to common belief the Netherlands have an average score on this ratio.

I.6.3 EMU criteria

The EMU criteria do have a substantial effect on macroeconomic policy and government expenditure. In table I.38 the Dutch performance as regards the EMU criteria is shown. At the moment only one of the four criteria, namely the criterium in respect of the gross governmental debt, is not met. The Dutch gross debt level - expressed as percentage of GDP - was 78 percent in 1994. In 1995 this was 79 percent. This figure is also expected for 1996. The required level of 60 percent is substantially less. A lowering trend of the gross government debt is not yet expected, though this has high priority in policy. Inflation and the long interest rate stay well below the required EMU level. This has been so for the last few years. The governmental budget balance has been decreasing steadily. In 1996 this deficit will be slightly less than the criterion of - 3 percent.

Table I.38 Dutch performance as regards the EMU criteria (1994 - 1996)^{a)}

	1994	1995	1996
Price index of family consumption (annual change in %)	2.7 (3.1)	2.0 (3.25)	2.5 (3.75)
Long interest rate (%)	6.9 (9.9)	7.0 (9.75)	7.0 (9.25)
Government budget balance (% GDP)	- 3.2 (-3.0)	- 3.0 (-3.0)	-2.75 (-3.0)
Gross governmental debt quote (% GDP)	78 (60)	79 (60)	79 (60)

a) Between () the EMU criteria for the year concerned.
Source: CPB, 1995.

I.6.4 Forecasts of employment and unemployment

In 1995 the Central Planning Bureau expected an economic growth rate of 2.25 percent in 1996 (CPB, 1995). This forecast has been revised to 2 percent (CPB, 1996), which is somewhat less than the 2.5 percent of last year. Labour-market indicators indicate that the upward trend in employment will continue. Although the job-creation rate (about 100,000 jobs a year) is rather high in international terms, it is barely sufficient to absorb the relatively large number of people entering the labour market. So, unemployment will hardly diminish; a decrease of 10,000 persons is expected. The unemployment rate will diminish with 0.15 percentage points. The strongest employment growth still takes place in the sheltered sector, mainly in the tertiary service industries. Employment growth in the open sector is low, although a recovery is expected. The labour income quote is expected to rise slightly this year. The recovery of profits has come to a halt. The labour productivity for 1996 is expected to be almost 1 percent higher than in 1995.

Forecasts of the CPB for the period 1997 - 2000 are available on the basis of two scenarios ("cautious" and "favourable"). The differences between the two scenarios arise primarily from different assumptions on international economic developments. Economic growth will be between 2 and 3 percent per year. Over the next years the labour force will continue to grow at a faster rate (with 70,000 to 80,000 persons per year; a growth rate of 1.0 to 1.25 percent per year) than the labour force in the other European Countries. In the cautious scenario employment growth will not be

sufficient to absorb the growth of the labour force; the unemployment rate will go up to 9 percent. The favourable scenario predicts that unemployment will fall to 7 percent.

The CPB (1992) also has made long term forecasts for the Dutch economy. Even in the optimistic (Balanced Growth) scenario - with serious reforms in social security and a very positive international economic development - the transformation-process to labour market equilibrium will last several decades.

ERECO (1995) has made medium-term employment forecasts for the EU. The trends for the Dutch labour market presented in this study are a sufficient labour supply in quantity (though not in quality), a rising female participation rate and an ageing labour force. The decreasing number of young workers and increasing training cost will affect productivity negatively. Other highlights are an expected high level of long-term unemployment, in particular among foreigners, and a limited success of re-integration programmes. A significant number of vacancies will be hard-to-fill. The forecasts indicate a declining ratio of full-time to part-time workers by 0.5 percent per year. Employment is expected to grow 0.8 percent per year in the period 1991 - 1997.

The largest employment growth takes place in the service industries, as we have already seen in previous sections. A sharp decline of employment is visible for agriculture, forestry and fishery products. The employment in industry has a mixed character. Some sectors are expected to expand (agricultural and industrial machinery) while others are expected to shrink (textiles and clothing, leather and footwear).

II Labour market institutions

The objective of this chapter is to discuss the role and function of the most important labour market institutions. In the Netherlands, labour market policy is mainly conducted by three types of institutions:

- the central government;
- the regional and local governments;
- the social partners.

In practice, the situation is not that simple. There are various so-called tri-partite labour market bodies with a specific policy or advisory task, which are managed by (central or local) government, employers' organisations and unions together. These bodies perform public tasks, therefore they can be seen as semi public. A well known example is the Public Employment Service (PES) which in 1991, both at central and regional level, was placed under the responsibility of a tri-partite Board and is no longer part of the Ministry of Social Affairs and Employment. More generally, the tendency towards decentralisation and privatization and towards a more important role of the market (deregulation) is rather strong.

In section II.1 public and semi-public institutions will be discussed on a national, regional and local level. Furthermore, the role of private services, like temporary work agencies and private employment services will be looked at. The introduction of the Employment Service Act of 1991 has created conditions for a more important role by private services. However, the question is whether major changes actually occurred. Section II.2 deals with the role of the social partners in the field of labour market policy and contains a description of industrial relations. The emphasis will be on collective agreements in general and collective wage negotiations in particular.

II.1 Public institutions

II.1.1 The national level

The Ministry of Social Affairs and Employment (SZW)

The Ministry of SZW is the most important public labour market institution at the national level. It is responsible for the vast majority of the labour market policies and has representatives in various tripartite labour market bodies. The structure of policy directorates of SZW gives an insight into the main policy fields. The following directorates can be distinguished:

- the Directorate for the Labour Market (e.g. general labour market policy, policies with respect to target groups, Employment Service policy and the regulation of additional employment);
- the Directorate for Labour Relations;
- the Directorate for Labour Conditions;
- the Directorate for National Assistance;
- the Directorate for Social Insurance;
- the Directorate for General Social-Economic Affairs;
- the Directorate for Supervision.

The Directorate for Supervision has the task of supervising governing bodies and private organisations performing public tasks, such as the PES and the Board for the Supervision of Social Insurance.

General economic policy is primarily the responsibility of the Ministry of Finance, the Ministry of Economic Affairs (EZ) and SZW. General economic policy is characterised by a strong emphasis on the recovery of employment in the market sector. Amongst others through reducing the budget deficit, reducing the burden of taxes and social premiums, through promoting a moderate wage growth and through creating good general conditions for the market sector. In the context of general economic policy, the influence of SZW is mainly in the field of wage development, social security (national assistance and social insurance) and more in general the efficiency of the labour market.

Other Ministries

Besides the Ministry of SZW, at central level the Ministry of Education, Culture and Science (OCW) and the Ministry of EZ are directly involved with the labour market. The policy of the Ministry of EZ is mainly directed at the demand side of the labour market (stimulating exports, infrastructural investments and innovation, etcetera). The educational and vocational training policy of the Ministry of OCW is mainly focused on the qualifications of the (future) labour force. OCW is responsible both for initial education and for "second chance" education for adults (targeted at disadvantaged groups like women, migrants and low educated). Although the unemployed may participate in "second chance" education, (vocational) training for the unemployed is mainly the responsibility of the PES. OCW also is responsible for the theoretical part (off-the-job, in school) of the apprenticeship system.

Furthermore, some ministries can be seen (directly or more indirectly) as really "big employers". For example, the Ministry of Health, Well-Being and Sport (VWS) is responsible for the policy in the field of health care and social care. The share of health care and social care services in total employment is more than 10 percent. The same applies to the Ministry of OCW as regards the educational sector.

The Central Board for the Employment Service

A main semi-public institution at national level is the Central Board for the Employment Service ("*Centraal Bestuur voor de Arbeidsvoorziening (CBA)*"). The CBA has a tri-partite structure, each of the three parties, i.e. central government, employers' organisations and unions, being represented by three voting board members. The chairman is independent and has no voting rights. One non-voting member represents the Association of Dutch Municipalities ("*Vereniging van Nederlandse Gemeenten (VNG)*"). Until 1995 the central government was represented by high-level civil servants from the Ministry of Social Affairs and Employment, the Ministry of Education and Science and the Ministry of Economic Affairs. The amended Employment Service Act may change this. So-called crown members will represent the central government in the future³⁷. The CBA is supported by staff working at the National Bureau for the Employment Service ("*Landelijk Bureau voor de Arbeidsvoorziening (LBA)*"). The LBA also provides central services (for example

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Although the amended act has been ready for several months now, it still has to be approved by Parliament.

legal affairs, information technology, personnel and salary administration) for the regional bodies.

Although the CBA formulates the main lines and the main scopes of policy³⁸, the decision-making structure is strongly decentralised. There are also 18 tri-partite Regional Boards for the Employment Service ("*Regionale Besturen voor de Arbeidsvoorziening (RBA's)*") which have a high degree of autonomy as long as they stay within the guidelines of the CBA³⁹. In this way, the RBA's are able to tune their policy to the regional labour market situation. The RBA's will be further discussed in section II.1.2.

Although the PES is tri-partite, the Ministry of Social Affairs and Employment has a dominant position. First of all, the activities of the PES are constrained by the level of financial resources provided by the Ministry, after voting in Parliament. Secondly, up to 1995 the vote of the Ministry was required for a qualified majority in the CBA. Thirdly, the Ministry is able to adjust the relevant legislation, that is the Employment Service Act which contains regulations on the task, the structure and the financing of the PES. This actually happened in 1995, when the Act was amended on the basis of a thorough evaluation of the first four years of the tri-partite PES⁴⁰.

Employee Insurance Institutions

The social partners administer a large part of the social security arrangements. They implement, through bi-partite Industrial Insurance Boards ("*Bedrijfsverenigingen (BV-en)*"), the Employee Insurance Schemes: unemployment insurance (WW), sickness insurance (ZW) and disability insurance (WAO)⁴¹. They also execute the general disability insurance (AAW, a general insurance) and the Supplementary Benefit Act (TW, a social arrangement)⁴².

The IIB's have some discretion to develop benefit award and related management policies, to the extent that social security legislation is open to interpretation. One has to think of policies with respect to sanctions and with respect to possibilities to attend training with continuation of benefit. Up to 1995, the IIB's prepared collective policies through the Federation of Industrial Insurance Boards ("*Federatie van Bedrijfsverenigingen (FBV)*"), which could issue directives. In 1995, the FBV was replaced by the Temporary Institute for Co-ordination and Tuning ("*Tijdelijk Instituut voor Coördinatie en Afstemming (TICA)*"). The TICA and the reasons for this change will be discussed later on.

Until 1995, the IIB's may run its own administration, but if it did not, the administration had to be run by an approved administrative office. These were the Joint Administrative Office ("*Gemeenschappelijk Administratie Kantoor (GAK)*") and the Joint Implementation Organisation ("*Gemeenschappelijk Uitvoerings Orgaan (GUO)*"). The Joint Medical Service ("*Gemeenschappelijke Medische Dienst (GMD)*") was a body

38 In the National Policy Framework ("*Landelijk Meerjarenbeleidskader (LMBK)*") and the National Policy Plan ("*Landelijk Meerjarenbeleidsplan (LMBP)*").

39 Up to 1996 there were 28 RBA's. After the recent reform 18 RBA's remained.

40 De Koning et al, 1995.

41 The ZW was abolished in March 1996.

42 Most of the insurances and arrangements are discussed in more detail in section IV.1.

closely related to the GAK. The task of the GMD was to advise the IIB's on all social medical aspects arising from the implementation of the two disability acts⁴³. The GMD as an independent organisation was abolished in 1995. The personnel has been spread over the different administrative offices.

Recently, major reforms have taken place as regards supervision and implementation of the social insurances. In the eighties central government policy was aiming to create a payable social security system, also in the future, through changes in legislation, rules and the level of benefits. During the late eighties and the early nineties the attention shifted more and more to the management of the system, though the reduction in expenditure on social insurance remained a major policy issue. The reforms in the early nineties were focused on the management of the system. They have led to a more stringent division between supervision, policy and implementation.

In 1994 the new Organisational Act for Social Insurances ("*Organisatiewet Sociale Verzekeringen (OSV)*") was approved by Parliament. The new Act tries to stimulate a movement to regional instead of sectoral implementation of the Social Insurances. The previously mentioned TICA, which replaced the FBV, has to start this process. The board of the TICA consists of representatives of employers' organisations and unions and has an independent chairman. So, the social partners still have an important role to play in this respect. The TICA has also taken over the advisory tasks of the Social Insurance Council ("*Sociale Verzekeringsraad (SVR)*").

A more radical reform took place in supervision. Till 1995, the social partners also had supervisory and advisory tasks within the tri-partite SVR. Each party - central government, employers' organisations and unions - had eight members in the SVR. In 1995 the supervisory tasks of the SVR were taken over by the independent Board for Supervision Social Insurances ("*College van Toezicht Sociale Verzekeringen (CTSV)*"). The CTSV has a board consisting of three independent members, who are appointed by the Minister of SZW. So, supervision has been taken away from the social partners. The direct cause of this change was a study of the General Audit-Office, which concluded that the supervision by the SVR could have been better. Later on, a Parliamentary Study into the institutions implementing social insurances concluded that the SVR had failed completely in her supervisory tasks.

The new OSV of 1994 did not change directly the position of the IIB's and the administrative offices, but the act stated that IIB's were not allowed to run their own administration. The IIB's had to abolish their links with the administrative offices before 1996. The objective was to separate policy making and implementation. So, the social partners no longer have influence on the implementation of the social insurance schemes.

Except for the general disability insurance (AAW), most of the other general social insurances are administered by the Social Insurance Bank ("*Sociale Verzekeringsbank (SVB)*"). Like the former SVR, the SVB has a tri-partite Board. The Ministry of SZW appoints five board members and the chairman. The employers' organisations and the unions each appoint five members. The SVB implements the General Retirement

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The staff of GMD consisted of doctors and labour specialists ("*Arbeidsdeskundigen*").

Pensions ("*Algemene Ouderdoms Wet (AOW)*"), the General Survivors' Pension ("*Algemene Weduwen- en Wezenwet (AWW)*") and child benefit ("*Algemene Kinderbijslagwet (AKW)*"). These insurances are less directly linked with the labour market than the Employee Insurance Schemes. The above mentioned general insurance schemes have been changed recently in order to cut back on the expenditures, or otherwise changes are in preparation.

The social arrangements are implemented by the municipalities (see section II.1.2)⁴⁴.

Advisory institutions

The Social Economic Council (SER) is an advisory tripartite body. The Council consists of 11 crown members (generally experts), 11 employer and 11 union members. All the major unions and employer-organisations are represented in the Council. The main task of the Council is to advise the government. Up to 1995, the government was obliged legally to ask the SER for advice on all important social and economic affairs including major labour market issues. Since 1995, this obligation no longer exists.

The Scientific Council for Government Policy (WRR) is another advisory body. The main task of this Council is to provide government policy with scientifically found information on developments which could influence society in the long run and to point out potential contradictions and expected bottlenecks.

In the Foundation of Labour, the central organisations for employers and employees (i.e. the unions) discuss social-economic issues. The foundation, dating back to 1945, consists of representatives of all acknowledged central organisations for employers and employees. From the employers' side, seven organisations take part in the Foundation. The four most important are VNO (Federation of Dutch Industry), NCW (Dutch Christian Federation of Employers), the Royal Dutch Industry Federation (KNOV) and the Dutch Christian Industry Federation (NCOV)⁴⁵. For the rest, three agricultural employers' organisations are represented. From the side of the employees, three organisations are active in the Foundation. The largest is the Federation of Dutch Trade Unions (FNV), followed by the Christian National Trade Union Federation (CNV). The list is completed by the Trade Union Federation for Middle and Higher Personnel (MHP). The foundation expresses the opinions of the organised business community. The government is obliged to consult the Foundation concerning important socio-economic questions before implementing regulations in this field (based on the *Buitengewoon Besluit Arbeidsverhoudingen* of 1945).

Finally, there is the Central Economic Committee (CEC). The CEC consists of a number of highly placed civil servants and advises the government regarding general and social economic affairs.

44 To be complete: compulsory insurances for medical costs are implemented by the National Health Insurance and partly by private Health Insurances.

45 The KNOV and NCOV went together in Medium and Small Enterprises Netherlands ("*MKB-Nederland*")

II.1.2 The regional and local level

The Regional Boards for the Employment Service (RBA's)

At regional level the tri-partite RBA's are the most important labour market institutions. In the RBA's employees are represented by local union officials and employers by local employers, personnel managers of major employers and/or officials from employers' organisations. The local government is usually represented by an alderman. Each of the three parties in the RBA has three voting members. There is also one non-voting member representing the provincial government. The chairmen of the RBA's are independent and have no voting rights. The RBA's supervise the regional organisations of the Public Employment Service (PES), mainly consisting of a Regional Office (with policy makers, labour market researchers, financial and clerical personnel, etcetera), the Employment Offices ("*arbeidsbureaus*") and Vocational Training Centres ("*Centra Vakopleiding (CV's)*"). The operational management is in the hands of a regional director for the Employment Service, who is the link between the RBA and the regional organisation.

Until recently the RBA's were responsible for all elements of active labour market policy, that is:

- registration of job seekers and vacancies;
- active matching of job seekers and vacancies;
- training measures for the unemployed;
- training subsidies for employees and apprentices;
- wage subsidy measures;
- job creation measures.

Subsidised labour for disabled and handicapped people traditionally is not covered by the PES. Recently, a number of changes occurred. First of all, job creation measures are now almost completely the responsibility of the local authorities (under supervision of the Ministry of SZW). Secondly, placement activities are increasingly implemented by other organisations such as IIB's and municipalities. Furthermore, commercial agencies for temporary work play an increasing important role. Active labour market policies are treated more extensively in section IV.2.

Municipalities

The Netherlands has over 600 municipalities. At the national level, they co-ordinate their policies and are represented by the VNG. As regards the labour market the local authorities have three main tasks: the implementation of Social Assistance, to stimulate benefit claimants to (re)enter the labour market and the implementation of job creation schemes. They implement the Labour Pools ("*Banenpool (BP)*"), the Guaranteed-Jobs-for-the-Young Act ("*Jeugdwerkgarantiewet (JWG)*") and the recently introduced Job-Schemes⁴⁶.

Most of the guaranteed minimum income arrangements are executed by the local authorities. The Social Assistance Act is the most important one among them. The main provision is the National Assistance Act ("*Algemene Bijstandswet (ABW)*"). This act can be seen as the "safety-net" in the Dutch social security system. The main group of users of the ABW are single-parent families and part-time employees

without sufficient means of income, unemployed without the basic right to Unemployment Benefit ("*Werkloosheidswet (WW)*") and unemployed who have used up all their rights to the WW. Up to and inclusive 1995, there were also some special provisions which were derived from the National Assistance Act: the "*Rijksgroepregeling Werkloze Werknemers (RWW)*" and the "*Bijstandsbesluit Zelfstandigen (BZ)*". The RWW was meant for the unemployed and the BZ for self-employed with insufficient income. With the introduction of the New National Assistance Act (*NABW*) in 1996, the RWW and BZ are no longer operational. According to the NABW municipalities are obliged to activate benefit-claimants in order to let them (re)enter the labour market. The former difference between the RWW (claimants have to search for a job) and the ABW (claimants do not have to search for a job) has disappeared. Each benefit claimant, except single parents with children up to 5 years, has to accept paid work now. Almost all municipality have a Municipal Social Welfare Office ("*Gemeentelijke Sociale Dienst (GSD)*") which implements the Social Assistance arrangements. Their main function is to pay assistance benefit. The local management of benefits is supervised by the Ministry of Social Affairs and Employment (State Consultants for Social Security ("*Rijksconsulenten Sociale Zekerheid*")); the benefits are namely 90 percent financed by central government with public means. Social Assistance will be discussed further in section IV.1, passive labour market measures.

The BP and the JWG are generally implemented by municipal organisations, which are related to the GSD. In a number of cases these organisations ("*Banenpoolorganisaties (BPO's)*" and "*Jeugdwerkgarantieorganisaties (JWGO's)*") implement the schemes for a number of municipalities at the same time. Since 1995 the municipalities also are involved in the implementation of the new Job-Schemes. Both the BP, the JWG and the Job-Schemes can be seen as job-creation measures; these schemes create additional jobs for specific target groups (see also section IV.2 on active measures).

Some municipalities still manage the Centres for Vocational Orientation and Preparation ("*Centra voor Beroepsoriëntatie en Beroepsoefening (CBB's)*") which are meant for poorly educated unemployed (mainly persons belonging to ethnic minority groups). Until recently, all the CBB's were managed by municipalities and mainly financed by the Regional Employment Service. Some RBA's have taken over the CBB/the CBB's in the region and joined them with the CV's. In other regions the CBB's don't exist anymore because of the cut backs in the budget of the PES and the resulting policy choices by RBA's⁴⁷.

Most of the above tasks concern the supply side of the labour market. Local authorities also have some instruments to foster local economic development and the demand side of the local labour market, for example through creating good conditions for the settlement of businesses. The overall impact at national level seems to be small, municipalities often compete with each other for one and the same business.

47 Most of the RBA's have mainly cut back in the budgets for vocational training, placement subsidies, Labour Pools and job creation schemes (and not direct placement).

Regional Offices for Education (RBO's) and Regional Service Offices for Education and Occupation (RDC's)

The Regional Offices for Education ("*Regionale Bureaus Onderwijs (RBO's)*") have arisen from the co-ordination points for Primary Vocational Adult Education ("*Primaire Beroepsgerichte Volwasseneneducatie (PBVE)*"). The RBO's have to act as a broker between the demanders of education and training (such as the RBA and private firms) and the suppliers of education and training. The RBO's act on behalf of the regular system of educational facilities (schools). One objective is to obtain more income for the schools through the organisation of education on contract.

In the PBVE-programme the RBA and the educational organisations did co-operate in order to provide courses relevant to the labour market. The RBA's financed elementary training for certain disadvantaged groups of unemployed, mainly migrants and low educated. The courses were mainly organised in the regular system of initial education (schools). Up to 1993, a national covenant between the Ministry of OCW and the PES existed in respect of the PBVE. Since 1994 the RBA's could decide whether to continue with the PBVE programme or not, or at a lower level.

The Regional Service Offices for Education and Occupation ("*Regionale Dienstencentra (RDC's)*") perform tasks in the field of occupational and vocational guidance, both in charge of the PES and in charge of schools.

Other regional and local institutions

At regional level bi-partite councils (with representatives of employers en employees) exist which advise the PES on authorisation for dismissals. There are also tripartite committees which have to test whether subsidised jobs for specific target groups will compete with or substitute existing regular jobs.

II.1.3 Recent reforms, the role of private agencies⁴⁸

The Employment Service Act of 1991 authorises the establishment of private employment agencies offering a full range of services, acting as intermediaries between job-seekers and employers. Agencies must obtain a licence before starting operations. The Act states that their activities must not be detrimental to workers' interest or to good relations between labour market parties. These general requirements may be supplemented by instructions from the CBA. In fact, the monopoly of the PES in the field of placement has been abolished. The effect could be that an increase in the activities of other intermediaries would contribute to the objective of the Employment Service Act, namely to stimulate the efficiency of the labour market process and to increase the labour market chances of disadvantaged groups. A similar licence system already existed for Temporary Work Agencies (TWA's).

In many cases employers with vacancies and job-seekers are able to find each other relatively easily. In certain cases a third party - an intermediate organisation - is used in the search process. Then there is a demand for employment services (with

employers and/or job-searchers) and a supply of employment services (through the intermediate organisations). This section highlights the role of private services in the market for employment services. In this market a number of submarkets can be distinguished, which are directly related to the existing market imperfections. The most important submarkets are:

1. The market for information, guidance and advice. This market for example contains occupational and vocational guidance.
2. The market for brokering and placement activities.
3. The market for temporary work agencies.

Training and education can be seen as needs derived from the intermediate services, in case employers cannot find workers with the required qualifications. We will discuss the role of private agencies in each of the three submarkets distinguished. Because of the historical links of the PES with training (mainly for the unemployed), the market for training will be discussed too.

The market for information, guidance and advice

The boundary between general information about the labour market situation on the one hand and guidance and advice related to placement and training on the other, is rather vague. General information about (the possibilities) on the labour market and the market for education and training is given by many organisations which are active in this field. This concerns, apart from the PES, other organisations which have contact with job-searchers, such as the municipal Social Welfare Offices (GSD), the administrative offices implementing the Employee Insurances (GAK, etcetera) and TWA's. Information on the (future) possibilities in occupations and economic activities is also given by special officers at schools and universities, private training services, the Regional Offices for Education (RBO's) and the Regional Service Offices for Education and Occupations (RDC's). Employers' branch organisations, the organisations for apprenticeships and other sectoral organisations inform school-leavers about the possibilities in their own branch. One specific product on this market, the individual occupational and vocational guidance, is provided by the PES and a limited number of private agencies. The private sector is also contracted by the PES, for a part direct and for a part by means of the RDC's. The RDC's also have their own professional staff. All these forms of information provision are personal and formal.

Newspapers and periodicals are the most important impersonal information channels. In 1992, about 2.5 million help-wanted ads were placed. The number of ads varies strongly with the economic situation. In times of strong economic growth 3.5 million ads per year are placed. In recession years (for example 1983) the number of ads was less than a million. Besides the information on vacancies and job-searchers, the media play a role in the provision of background information. A substantial number of the labour contracts are brought about through other informal search channels, like searching by means of own personnel, of family and other relations.

Although studies into this submarket are very rare, there are no indications that the role of private agencies has become more important in the last few years.

The market for brokering and placement activities

Activities in the field of employment services are a crucial factor for the functioning of the labour market. Nothing is known about many of the organisations which have received a placement licence in the last few years. That is why we only can give some indications about the activities of private employment services. In the Netherlands, about one third of the vacancies for regular jobs (excluding temporary jobs) are filled through the use of an intermediate organisation. The PES is the most frequently used intermediate organisation, followed by the TWA's and other employment services (including GSD and GAK). Through help-wanted ads about one third to half of the vacancies are filled. The remaining vacancies are filled without the use of intermediate organisations.

Between 1988 en 1993 the relative position of the various recruitment channels did not change much. This applies both to the market reach and to the market share⁴⁹. Developments in market reach and market share of the various channels can almost entirely be explained by conjunctural movements in the economy. A break in the trend cannot be observed in the available figures, neither in the development of the number of hours worked through TWA's. This means that the relative importance of private employment agencies did not change structurally in the period 1988 - 1993. But in section I.2.1 we have seen that this may have been the case for TWA's in 1994 and 1995.

The activities of private employment services are for the major part complementary to those of the PES. In general, the private services provide for those segments of the labour market which are not provided for by the PES, namely the higher income segments (above Dfl 60,000 gross wage per year). PES' activities in the higher segments are almost exclusively targeted at long-term unemployed and persons with limited work experience. Private placement activities are still rare in the lower labour market segments. In these segments sufficient cheap alternatives are available, like help-wanted ads, relations and also the PES. So, for the private services few opportunities exist to ask a cost-effective tariff of employers. There is some overlap between the activities of the PES and the activities of private services in the field of collective outplacement in the lower segments.

The activities of the GSD and the GAK on the labour market partly overlap the activities of the PES. The activities of the GSD in the so called first phase (before vocational training or placement) are for the major part complementary to the activities of the PES. This also applies to the recruitment of additional jobs. In the field of elementary training there are overlaps however, and tuning the activities of the PES and the GSD seems to be difficult in practice. The (former) GMD had specific expertise as regards the (re)integration of the partially disabled. Strong forms of co-operation between the PES on the one hand and the GSD and the GAK/GMD on the other seem no more than logical, because they have to do with the same groups of jobseekers. If the GSD and the GAK/GMD are going to extend their placement activities, the chance of overlap with activities of the PES is very high.

49 The market reach of a search channel is equal to the number of vacancies for which the channel is used as recruitment device divided by the total number of vacancies. The market share is equal to the number of vacancies filled by means of the specific channel divided by the total number of filled vacancies.

The market for Temporary Work Agencies

In the market for flexible workers TWA's play an important role. These agencies fulfil about a quarter of total flexible employment. Because of the relatively short duration of the placements, the number of transactions is much higher than on the market for regular personnel. In the period 1988 - 1993, the development in the number of hours worked by temporary workers is parallel to the conjunctural development and the development in the number of vacancies. Since 1993, there are indications that the importance of temporary work has grown fast.

In first instance, the TWA's were introduced to provide for temporary shortages of personnel, because of sickness or leave of permanent employees, and to meet production peaks. But nowadays, employers also use TWA's to recruit personnel for permanent jobs. In this way, the statutory probation period is extended. Jobseekers also see temporary work as a possibility to find a permanent job. Many of the temporary workers (about 60 percent) are actually searching for a permanent job.

If we look at the character of the services, the PES and the TWA complement each other. An important function of the TWA is to fill the need for flexible workers. The PES has an important function in the provision of information. Furthermore, the PES has a relatively large number of instruments (guidance, training, placement subsidies), which could support the placement activities in case of labour market bottlenecks⁵⁰.

The activities of both intermediate organisations complement each other. Although they partly reach the same persons on the supply side (the same job searchers), on the demand side they do business with different individual employers. Persons who search via one of the two channels in many cases also search via the other channel. About a quarter of the unemployed job seekers make use of both the PES and the TWA. The characteristics of the jobseekers reached by the PES and the TWA differ in a number of important aspects however. Low educated and elderly search more often by means of the PES, whereas youngsters and migrants more often search by means of the TWA. The PES and TWA on the demand side serve different individual employers. Apparently, employers do know when to use the PES and when to use the TWA. This is probably related to the specific "product" each of the two organisations is offering.

Besides the private TWA's, there is a temporary work agency, START, which is closely related to the PES. Start has a tri-partite structure too and its objective is to provide temporary work for job seekers who are difficult to place.

The market for (vocational) training

In the field of training and education the various organisations play a complementary role to each other. Private and public adult education is mainly focused on the training of employees. The broad supply in terms of levels and types of education, the possibilities for qualification and the positive effects on the placement chance explain why these organisations are set in for the training of the

50 Through the cut backs in the government budget for the PES, the budgets available for these instruments have diminished. At first, the PES chose not to cut back on the personnel and material costs (housing). This caused a reduction in budgets for supporting instruments.

unemployed. The value added of the training centres of the PES differs. The technical Vocational Training Centres have a specific position, mainly due to the character of the training (individual, short and practical). The reach of target groups is small however. The Centre for Vocational Orientation and Preparation (CBB) and the Women's Vocational School ("*Vrouwenvakscholen (VVS)*") differ from comparable institutes because they have a high reach of unemployed belonging to target groups. In that sense, the CBB and the VVS play a complementary role on the market for training. With regard to the training of unemployed, there is overlap in the clerical segment, where the PES' own centres (the administrative Vocational Training Centres and partly the VVS) supply training comparable with the training supplied by regular and private education. This comparability also applies to the characteristics of the participants.

II.2 The system of industrial relations

II.2.1 Introduction

In the previous section the role of the social partners in various governing bodies and tripartite institutions has already been stressed. This section will further deal with the role of the social partners in respect of the labour market and labour market policy. We will begin our discussion of the industrial relations' system with a sketch of the legal framework in paragraph II.2.2. Paragraph II.2.3 deals with the wage negotiations. In II.2.4 we pay attention to the declaration of general binding ("*Algemeen verbindend verklaring (AVV)*") of collective agreements. In paragraph II.2.5 union membership will be discussed. We conclude this section with an outline of the changes in the system (II.2.6).

II.2.2 Sketch of the legal framework

As was mentioned in chapter 1, collective agreements ("*Collectieve Arbeidsovereenkomsten (CAO's)*") play an important role with regard to wages, worktime and other terms of employment. About 75 percent of the labour force is dependent on a collective labour agreement (Schutte, 1995). Since almost three decades the Netherlands have free determination of wages, based on the Determination of Wages Act ("*Wet op de loonvorming*") of 1968. The CAO-parties have the responsibility for the determination of wages and other terms of employment. However, the Minister of SZW can issue a temporary wage regulation when the interest of the national economy so demands. This regulation must be accompanied by other regulations, for example price regulations. The temporary wage regulation may freeze the current terms of unemployment (including wages) or impose a maximum allowed increase and can be in effect for a maximum of eighteen months. The wage regulation has the same effect for all workers, regardless of whether they fall under the scope of a CAO.

The existence of CAO's does not mean that certain aspects of labour relations are no longer determined by law. We mention for example the Working Conditions Act ("*Arbeidsomstandighedenwet*"), the Working Time Act ("*Arbeidstijdenwet*"), the Equal Pay Act ("*Wet Gelijk Loon*") and the Minimum Wage and Minimum Holiday

Allowance Act ("*Wet Minimumloon en minimumvakantietoelage*"). The basic assumption is that in CAO's the legal regulations regarding labour relations and terms of employment must be taken into account.

CAO's do have some limitations (Schutte, 1995). The maximum duration of a CAO is five years. Durations of 1 to 2 years are the most common. Secondly, CAO's are not binding for every single employer and employee. In essence only the contracting parties and their members have rights on the basis of the CAO. The impact of CAO's is larger due to the declarations of general binding. These limitations of CAO's mean that supplementary legislation remains necessary (Schutte, 1995).

II.2.3 Wage negotiations

The Dutch wage negotiation process normally has a yearly cycle, although cycles of two years also occur. In the autumn central consultation starts in the Foundation of Labour. An important source of information is formed by the Governmental Memorandum in which the socio-economic policy is reflected (*Miljoenennota* in September) and the Macroeconomic Exploration by the CPB. These documents form the basis for the employers and employees organisations to determine their position. These points of view are laid down in two separate Central Terms of Employment Memoranda (*Centrale arbeidsvoorwaardennota's*). One for the employers' side and one for the side of the employees. Then representatives of employers' organisations and unions try to reach agreement on wage increases and other terms of employment for the coming year. If successful, the results are laid down in a Central Agreement ("*Centraal Akkoord*") which then forms the framework for the actual negotiations at branch and company level. The Central Agreement usually contains recommendations covering a whole range of subjects, including recommendations on (re)integrating long-term unemployed and ethnic minorities. However, the effects of these latter agreements are not clear.

Although primarily the responsibility of the central employers' organisations and unions, the government does play a role too. There is coordination, consultation and concertation between the central social partners and the government. Furthermore, if no Central Agreement is established the government can interfere in the wage determination (on basis of the Wage Act). Otherwise, the negotiations proceed at branch and company level without the restraints of a Central Agreement. Government interference was rather common in the seventies and early eighties. From the mid-eighties on, the government has only interfered occasionally. This change was partly due to protests from the side of the social partners (the economic recovery in the late eighties and early nineties has also played an important role). They argued that they had the primary responsibility for wage determination, in line with the treaties of the International Labour Organisation (ILO). They argued that government interference in wage negotiations could only be justified in extraordinary situations, for example external shocks which hit the entire economy (van Drimmelen, 1987).

Although the CAO negotiations at branch and company level are based on the results of the central consultations in the Foundation of Labour, this does not imply that the CAO-parties at branch and company level wait and see. They prepare

themselves for the decentral negotiations and try to influence the consultations at central level. But the actual negotiations at branch and company level only start when the central consultations have been rounded off. Normally the negotiations at branch and company level start with a set of demands from the labour unions. These demands should take the results of the central consultations into account, but this is not always the case. Employers determine their point of view in reaction to these union demands and then the actual negotiation process can begin. Delegations from both parties negotiate and try to reach agreement on the various points. The first round of negotiation has an exploratory character, followed usually by a dispute about the various demands. The expected costs of the demands are normally the central theme. In the decisive stage, the employers determine which demands they are willing to grant and which they will refuse. At this point, it is still possible for the viewpoints to be far apart. The union then usually threatens employers with strikes and other actions. In the Dutch case, the vast majority of CAO's can normally be agreed upon without strikes. When employers and labour unions have reached agreement then an agreement in principle is established. In this phase the CAO is not yet in effect. The agreement has first to be approved by the members of the contracting parties. Rejection of an agreement is very rare however.

In some sectors (for example the printing industry) CAO's at branch level are the most important, whereas in other sectors (for example the chemical industry) CAO's at company level are. Some of the CAO's at company level are particularly important, such as those of Philips and AKZO. Not only do they concern a great number of employees, they also have a radiating effect on other CAO's. We can distinguish therefore between nucleus-CAO's and satellite-CAO's. The companies involved in nucleus-CAO's are considered to be wage leaders. These CAO's are expected to influence the negotiations of the satellite-CAO's.

Strikes are rare in the Netherlands. Compared to other EU countries the Netherlands lose few working days due to strikes. In the period 1985 - 1994, the average number of disputes has been 28 per year. On average 23,500 employees per year were involved and 70,000 working days per year were lost. This last number is equal to 300 labour years. So, the relation between employers' organisations and labour unions is normally stable. The Dutch labour unions use strikes only as a last resort.

II.2.4 General binding declaration (AVV)

The legal basis for the AVV of CAO's is formed by the *Wet op het algemeen verbindend en het onverbindend verklaren van bepalingen van collectieve arbeidsovereenkomsten* of 1937. The Minister of SZW plays an important role, he or she can refuse AVV of a CAO when:

- the CAO-parties concerned do not represent an important majority (about 50 to 60 percent) of the people working in the branch concerned;
- in his or her opinion certain CAO stipulations conflict with the general interest the minister may withhold AVV of these CAO stipulations (not used since 1970);

- the CAO stipulations disproportionately harm the rightful interests of third parties. Third parties involved can submit a notice of objection. But the minister may also refuse AVV without the submission of a notice of objection when he or she feels that this would disproportionately harm a third party. In practice notices of objection are honoured.

The government has an even stronger potential influence on CAO's through the authority to declare CAO-stipulations not binding. In this way the government interferes in the (harsh) negotiations between employers' and employees organisations by eliminating the result. In practice however, the government seldom uses this means of pressure but it does have a precautionary effect.

The purpose of AVV is to protect the institution of the CAO and to stimulate the creation of CAO's at sector or industry level. The legislator apparently values CAO's highly. They preserve order and peace in the field of labour relations and they ensure employers a stable production environment. Conflicts with employees organisations are reduced to a minimum. Furthermore the employer can be sure that his competitor has to meet the same social standards. Employees also benefit. CAO's have created better working conditions and have strengthened the legal position of workers⁵¹. Another goal of the government in installing the AVV was to withdraw itself (partially) from the field of labour relations and to give employers and employees more responsibility. They were intended to have a great self-regulating power.

The above seems to suggest that the AVV of CAO's only has positive effects for all parties concerned. However, negative side-effects of the AVV of CAO's must be mentioned as well. The function of AVV of CAO's will be examined in three respects: the economic perspective, developments in the social area and the determination of terms of employment and industrial relations. This division in three areas is derived from a SER (Social Economic Council) advice concerning the AVV (SER, 1992).

Within the economic context is it mentioned that AVV leads to a diminished competition in terms of employment. There is no consensus as to whether this should be encouraged or not. Proponents mention that a somewhat diminished competition in terms of employment creates an environment for long term co-operation, which could have a positive impact on labour productivity. The reasoning behind this is that when there is no longer competition in terms of employment, companies will put more effort into quality and productivity. Opponents blame the AVV for the high level of labour costs. They acknowledge the risk of a wage-price spiral at the expense of the consumer. This is mainly valid for the sheltered sector. In the open sector this is hardly possible, due to international competition. Furthermore, the AVV makes it impossible for unorganised employers to hire employees below the minimum CAO-wage. This is mainly a problem for companies which have a below average productivity, like for example starting or small companies. The high inactivity rate as discussed in the previous chapter raises the

51 The points mentioned can be derived from the explanatory memorandum accompanying the AVV Act of 1937.

question whether the AVV forms a floor in the wage structure which is too high to create jobs in the lower segment.

When we look at the AVV in a social perspective, it may have contributed to improvements in the field of working conditions. The AVV determines a minimum level of working conditions for *all* employers. In recent years, extensive legislation has been created in the field of dismissal, minimum income, participation of employees and social security system. Some think that this legislation takes the legal justification of the AVV away. Others oppose that the legislation has only changed the content of the CAO. They see the CAO as a supplement with other, no less important, elements than those covered by law. Besides, they say that CAO's and legislation influence each other (SER, 1992). Sometimes legislation is effected in response to CAO's en vice versa. The AVV of CAO's reinforces this relation.

In the past years CAO's have received a broader scope. Not only wage level and working time is agreed upon, but also numerous other things have been determined in CAO's such as reimbursement of expenses, supplementary benefits concerning Sickness Insurance and Disability Insurance, day care, agreements on education and employment of minorities. Whether this extension of the content of CAO's could have been possible without the AVV Act is hard to estimate. It is however, plausible that the AVV of CAO's has made it easier and certainly has meant a stimulation for agreements on immaterial things. The AVV has eliminated the free-riders problem. Some are afraid that abolition of the AVV would lead to a large reduction of collective negotiations and in more limited CAO's. It will be harder to reach agreement on immaterial things. And there is the risk of more volatile labour relations in general and an increased number of strikes in particular.

The AVV has certainly contributed to the low organisation rate of employees. Through the AVV employees who are not organised receive (some exceptions excluded) the same rights from CAO's as organised employees. So, union membership is not necessary to gain from the CAO-results obtained by the unions.

II.2.5 Union membership

One element which determines the strength of labour unions is the degree of organisation of employees in unions. This degree of organisation is defined as the proportion of union members in the total number of employees. Table II.1 shows the union membership for 1992 and 1993 according to gender, age and ethnic background.

Table II.1 Percentage of union members (employees) in total number of employees (1992 and 1993)

	1992	1993
<i>Gender</i>		
Male	33%	34%
Female	18%	19%
<i>Age</i>		
15 - 24 years	15%	16%
25 - 44 years	27%	27%
45 - 64 years	37%	39%
<i>Ethnic background</i>		
Natives	28%	29%
Non-natives	20%	21%
Total	27%	28%

Source: CBS.

In 1993 the total number of union members rose slightly. The degree of organisation differs according to gender, age group and ethnic background. Men participate more than women and the degree of organisation is highest for older employees. Natives have a higher degree of organisation than non-natives.

Labour-union membership can also be connected with other characteristics (not shown in the table). Employees who work in shifts have a substantially higher organisational degree (44 percent). Part-time workers are less organised than persons with a full-time job. A strong correlation exists between the company size and the organisational degree. The larger the company, the higher the organisational degree. To conclude we mention the relation between sector of industry and labour-union membership. Sectors with a high organisational degree are public services, transportation and construction. Low organisational degrees are found in the trade sector and the hotel and catering sector⁵².

II.2.6 Developments in the system

The international environment is becoming more and more competitive and there is a trend of individualization. This raises the question whether negotiations at branch level are the most appropriate alternative for the nineties. Negotiations at branch level cannot fully incorporate all individualistic needs, both for the employee and for the employer. This implies that the terms of employment and working conditions should be negotiated at a more decentral level.

The employers' organisations VNO and NCW have stipulated some points for the future (VNO/NCW 1994). They prefer a more market oriented wage determination which makes more differentiation possible. Firstly, they have the opinion that a moderate wage development has positive employment effects. Therefore wage determination should be more in line with the needs of the individual firm and branches which should lead to a more differentiated wage increase. Implementation of profit-sharing arrangements make the labour cost dependent on the results of the firm. This means that part of the income increase of employees is not for granted but must be "earned". This would also lead to more dynamics on the labour market. Secondly, they strive after an enlarged differentiation and choice as regards the terms of employment. This also asks for more decentralized negotiations. Furthermore, it should be possible to adjust working time to the preferences of the individualistic employee and employer. More flexibility is needed as regards the working hours and working patterns. Employers should be able to change the production swift and efficient to meet the demand on highly competitive markets. On the other hand, there are the changes needs of employees. Paid work is increasingly combined with other activities. This may result in changes of the preferred working time. For employees the classical 9 - 5 job is also no longer automatically the most favourable. So, both sides should be enabled to make agreements concerning flexible labour relations.

But not every worker will have the need for more flexible working relations⁵³. The social position of current workers who are completely satisfied must be taken into account. They do not have the need to change their working hours. When the concept of normal working hours is enhanced then part of the overtime hours may no longer be extra paid. There is a task for the future to find a balance between the needed flexibility and compliance to individualistic needs on the one hand and the (social) position of workers and their families on the other.

III Labour market legislation

III.1 Employment protection schemes

High costs of dismissal are seen as one of the causes for unemployment. Most workers still have a permanent job and dismissal is restricted by law, making employers risk-averse in hiring new employees. It also suggests that employment cannot be adjusted easily to changes in demand and output. The fast growing number of fixed-term workers could be seen as a response to the employment protection system. This section deals with these topics. Section III.1.1 pays attention to the existing legislation on dismissal in the Netherlands. Also, a short comparison with other countries will be made. In section III.2 we turn to the rules governing fixed-term contracts and temporary work through the TWA.

III.1.1 Redundancy rules and regulations

The content of the current legislation on individual and collective dismissal is based primarily on the Special Decision on Labour Relations ("*Buitengewoon Besluit Arbeidsverhoudingen (BBA)*") of 1944. The most controversial point in the Dutch system is that employers first have to obtain permission for dismissal from the PES or the district court. The Ministry of SZW has delegated the administrative authorisation of dismissals to the regional directors of the PES. The PES has to allocate resources to this task but doesn't have influence on the policy in this field. The PES only implements the legislation. The PES officers who perform this task are supported by a bi-partite regional dismissal committee (see section II.1.2). Authorisation of dismissal can be given on:

- economic grounds, when jobs are reduced because of the economic situation of the company. Within this category there is a distinction between collective (20 or more employees) and individual redundancy (up to 20 employees);
- medical grounds, when the employee has been sick for at least two years or has become disabled;
- other non-economic personal grounds, for example in the case of misbehaviour, malfunctioning or troubled work relationships.

Table III.1 shows the number of applications for permits to dismiss workers and the number of applications dealt with in the period 1986 - 1994.

Table III.1 Number of applications to dismiss workers and number of applications dealt with (in thousands, 1986 - 1994)

Year ^{a)}	Number of applications	Applications dealt with			
		Total	of which permitted	of which refused	of which cancelled
1986	80	80	78%	6%	16%
1987	83	83	76%	6%	18%
1988	84	84	78%	6%	17%
1989	66	67	75%	6%	19%
1990	62	62	75%	6%	18%
1991	76	73	77%	6%	18%
1992	86	81	77%	6%	17%
1993	114	108	77%	7%	15%
1994 ^{b)}	101	106	76%	10%	15%

a) Since 1989 dismissals which result from bankruptcy of companies no longer need authorisation by the PES.

b) The figures for 1994 are derived from information about the first six months.

Source: Statistics on Dismissals, Ministry of SZW.

In the case of collective dismissals on economic grounds, the PES investigates whether the distribution of proposed dismissals is biased against older workers. This in order to prevent a more than proportionate forward shift of costs onto social security benefits. The last-in-first-out principle or an even distribution across age groups should be adopted.

The PES dismissal procedure is related to unemployment insurance benefits. Persons have to be unemployed involuntarily to be entitled to an unemployment benefit. This criterion is evaluated by the IBB's. Approval by the PES does not automatically lead to a benefit allowance, but it is taken into account. Even when employees in fact agree with their dismissal, they may object to it because otherwise they would not be entitled to a benefit.

In the case of mass-dismissals, legislation requires employers to give advance warning to unions. Bargaining between employers and unions often resulted in an agreement to dismiss only workers aged 57,5 year and over (Trommel and De Vroom, 1991). These workers qualify for unemployment benefit at 70 percent of their former wage until retirement. According to some specific case studies mass dismissals apparently were in fact "social plans"; under these plans older workers were dismissed on an individual basis over many years. Collective dismissals have to be approved by the PES which checks if economic conditions still make the dismissals necessary, but companies could validly suppress some posts (from which older workers were dismissed) while creating other posts into which new staff were hired. Thus such dismissals under social plans run counter to the principle that dismissals should not be disproportionately among older or less productive workers

and legitimate allowances of unemployment benefit for employees who have voluntarily left work, and do not expect to seek another job.

A main issue of debate in the Netherlands is whether the dismissal system is too restrictive and hence hindering the Dutch economy's international competitive position (Mayes and Soteri, 1994). There is no simple answer to this question. One of the reasons is that employment protection is in itself a complex phenomenon because of the fact that employers' freedom to dismiss one or more employees may be restricted by a number of factors (OECD, 1994):

1. A requirement for prior warning or written justification to the person to be dismissed and notification to third parties like unions, work councils, the PES or the labour inspectorate.
2. A requirement for authorisation from a third party before dismissal can take place or a requirement that rehabilitative measures be attempted before a worker is dismissed.
3. A requirement to give a certain period of notice to the worker before dismissal becomes effective, and/or to provide severance payments upon dismissal (except in the case of worker fault).
4. Provisions for appeal against unfair dismissal, such that a finding of unjustified dismissal will result in exceptional compensation or reinstatement of the dismissed worker.

Seen in an international context, the Netherlands have an intermediate level of employment protection (Mayes and Soteri, 1994; OECD, 1994). The Dutch dismissal system is more restrictive on certain points than in other countries but less restrictive on other points. In most other countries employers don't have to obtain permission for dismissal from the PES or the court. On the other hand in the Netherlands:

- employers have to consult with work councils and unions in the case of collective redundancy (20 or more redundancies within any three month period), whereas in some other countries this is a legal obligation in all cases;
- the notice periods (the statutory period between issuing a dismissal notice and the effective cessation of employment) are not exceptionally long;
- unlike some other countries no legal provisions on severance pay exist. In case termination of the contract is by court ruling, the average severance pay is one month's pay per year of service. Provisions on severance pay can be covered by collective agreements; the amount then normally depends on age and/or length of service;
- there are no legal provisions on penalties for unfair dismissals. In the case of unfair dismissal the authorisation for dismissal will be refused by the PES or the court.

So, the uncertainty regarding the possibility of appeal and penalties that exists in some other countries does not exist in the Netherlands. In the Netherlands there is uncertainty as regards obtaining permission for dismissal. The Dutch level of employment protection is not exceptionally high and so the effects on the international competitive position of the economy may not be having as negative an

impact as some individuals and firms believe. However, the government intends to shorten the authorisation procedure or even to abolish it.

III.1.2 Probational period, fixed-term and temporary contracts

The statutory probational period is maximum 2 months for newly hired permanent and fixed-term workers. Employers in many cases extend the statutory probational period using fixed-term contracts as a recruitment device for permanent jobs.

The use of fixed-term contracts is restricted by law, however. The main restriction is that renewal of a fixed-term contract at the end of the contract period gives the employee the same rights as a permanent employee. This means that the employer has to obtain authorisation for dismissal from the PES at the end of the second contract period. However, this rule is not applicable when the period between the end of the first and the beginning of the second contract is more than 31 days. Further, the use of fixed-term contracts is not restricted. These contracts may be used in all branches of industry and to fulfil all possible needs. There is no statutory maximum duration for fixed-term contracts and they may be open-ended (a contract for the time the work or the project lasts). Furthermore, fixed-term employees don't have the right to an allowance (from the employer) at the end of the contract period.

Hiring employees through a TWA (temporary work) is permitted, except in the building sector in which TWA's are forbidden. Temporary work may be used to fulfil all possible needs. The maximum duration of temporary work with the same hiring employer has been extended to one year in 1995. Before that time the maximum duration was six months.

III.2 Regulation of working time

III.2.1 Legislation and contractual working time

The Netherlands, like Belgium, Germany and Sweden, has a separate working time legislation. The amended new Working Time Act (*Arbeidstijdenwet*) became operational in 1996. This new act has to be placed in the trend towards more flexible arrangements and deregulation. In table III.2 the major changes in the rules are summarized.

Table III.2 Changes in the rules regarding working times since the introduction of the new Working Time Act

Rule	"Old" situation (hours)	"New" situation (hours)
Maximum working time per day	8.5	9
Maximum working time per week	48	45
Average working time per week		40
Average working time per 13 weeks		520
Minimum resting time per day		11
Minimum successive resting hours per 7 days	36	36 (or 60 in a period of 9 days)
Maximum duration of night work per 24 hours	Night work forbidden between 18.00 and 7.00 hour	8
Minimum leave per year		4 weeks
Minimum hours of work requiring a break		5.5 hours

In the new situation average working time is restricted to 40 hours per week or 520 hours per 13 weeks, and the maximum to 9 hours per day and 45 hours per week. As can be seen in the table, the maximum per day has been increased by half a hour and the maximum per week has been decreased by 3 hours.

Apart from the statutory rules being amended, the new act partly shifted the responsibility for working time to the social partners. This is the major form of deregulation. Before 1995, the structure of the Working Time Act already provided different rules for some sectors or branches of industry by means of so-called statutory orders (*Algemene Maatregelen van Bestuur*). The amended act offers more scope for agreement-based working time arrangements however. Deviations from the statutory rules are possible through collective agreements or written agreements between employer and works council (*overlegregeling*)⁵⁴. The sectoral or company agreements can be up to a maximum of 10 working hours per day, maximum 200 hours per 4 weeks or maximum 585 hours per quarter. The compulsory resting time is 11 hours a day.

The Dutch Working Time Act does not define the concept of overtime. However, overtime is only permitted in circumstances stated in the law. Overtime (as night work) requires an official permit or a General Measure of Government and the total working time, overtime included, is bound to maximum standards. There are no central statutory rules for wage supplements in the case of overtime. Usually, wage supplements are incorporated in collective agreements.

The normal working times, according to collective agreements, vary between 36 and 40 hours per week for a full-time employee. The contractual number of working hours for an adult full-time employee has not changed much in the period 1990 - 1995⁵⁵. At the moment however, unions are fighting for the introduction of a

54 However, this means that the Act does not take much account of sectors in which employees are not organised (in unions), or are organised only to a low degree (Sloot et al, 1994).

55 Statistics Netherlands, *Sociaal-economische maandstatistiek*.

working week of 36 hours in those sectors which still have a longer working week. In some branches employers are willing to agree on the condition that possibilities are created for more flexible working hours (for fixed-term and permanent employees). In other sectors the employers have not agreed (yet) and the negotiations are still going on. Leave is normally 5 weeks by collective agreement.

III.2.2 Working time and part-time work

In the preceding section the working time legislation and the contractual working time have been discussed. In this section we pay some attention to developments in the actual and usual working time and the incidence of part-time work. Collective work time reduction and particularly part-time work are the most common models of work sharing in the Netherlands. In many sectors the normal working time has been reduced from 40 to 38 (in the eighties) or even to 36 hours (early nineties) per week by collective agreements. In the government sector new employees are hired for maximum 32 hours per week. The effects on employment, calculated in number of employed persons, of collective work time reduction are not clear however. The main difficulty in determining the effects is that work time reduction may have led to the maintenance of jobs that otherwise would have been redundant. Policies aimed at increasing part-time working may be used as an instrument to redistribute the available employment. Recently, a statutory ban on discrimination based on the length of working time has been imposed by the government. Full-time and part-time workers should be equally treated.

For the years 1983, 1988 en 1993, table III.3 shows the average usual working time and the proportion of part-time workers according to gender. The average number of hours per week has not changed much since 1988, which supports the observation that contractual working time has been rather stable since 1990. There is no legal definition of part-time work. A part-time worker generally speaking is any employee who works less than the normal collectively agreed working time. According to this description, the proportion of part-time workers is very high: about 35 percent in total and 65 percent of the employed women. As can be seen from the table, the increase in the share of part-time workers is slowing down. Between 1983 and 1988 this share increased with 9.2 percentage points, whereas between 1988 and 1993 the increase was 4.5 percentage points. The diminishing growth rate is due to the fact that the proportion of part-time working men hardly increased between 1988 and 1993.

Table III.3 Average usual working time per week and percentage of part-time workers in total number of workers

	1983	1988	1993
Usual number of hours per week			
Total	37,7	33,6	33,1
Men	41,9	38,0	38,1
Women	29,1	26,0	25,5
Share of part-time workers			
Total	21,2	30,4	35,0
Men	6,8	14,5	15,3
Women	50,2	57,7	64,5

Source: Eurostat, Labour Force Survey on basis of Ministry of SZW, 1995.

The above table indicates that a further growth in part-time work can be mainly realised amongst men. Firstly, the percentage of men working part-time hardly increased since 1988. Secondly, the percentage of women working part-time is already high. Therefore job-sharing policies through stimulating part-time work should mainly be focused on men.

The decline in the actual number of working hours was also slower during the beginning of the nineties (table III.4). In the seventies and eighties reductions in the average actual work time were realised through both collective reductions and a strong increase in part-time work. Because the contractual number of working hours did not change much on average between 1990 and 1995, reductions in average work time in the early nineties are largely or wholly caused by the (diminishing) growth of part-time work.

Table III.4 Average actual working hours per year per employee (full- and part-time employees)

Year	Actual working hours per year	(Average) annual change (%)
1970	1860	-
1980	1606	- 1.5
1990	1433	- 1.1
1991	1423	- 0.7
1992	1413	- 0.7
1993	1404	- 0.6
1994	1392	- 0.9

Source: CBS on basis of Ministry of SZW, 1995.

III.2.3 Trends towards more flexible hours

Recently in the Netherlands, the attention seems to be moving somewhat from external flexibility (flexibility through the hiring of temporary employees) to internal flexibility, through for example introducing flexible working hours for permanent employees⁵⁶. Flexibility measures include the extension of shop opening times. Legal restraints, for instance rigid opening hours of shops, are steadily disappearing.

III.3 Minimum wage regulation

The minimum wage regulation in the Netherlands is rather simple. There is one standard statutory minimum wage for persons of 23 years or older. An age related youth minimum wage exists for workers under 23. The minimum wages (and also benefits that are linked to the minimum wage) are indexed on the basis of average trend in the collectively agreed wages in the public and private sectors. The principle ground behind this indexing is that, when possible, workers with a minimum wage and benefit claimants also have to share in the general growth of prosperity. The "when possible" makes clear that indexing is not automatic. When the ratio between non-active and active persons (the I/A-ratio) comes above 82.6, the government may decide not to apply the indexing of minimum wages and benefits. The indexing and the possibility not to apply the indexing in economic hard times are regulated in a separate Act which was introduced in 1992 ("*De Wet Koppeling met Afwijkingmogelijkheden (WKA)*"). In 1993, 1994 and 1995, indexing did not take place on the basis of this Act.

Table III.5 shows the development of the nominal contractual wage in the private sector and the development of gross minimum wage in the period 1986 - 1995. In all the observed years, the growth of the minimum wage has been lower than the growth in average contractual wages. The gross minimum wage only grew substantially in 1991 and 1992. This means that the ratio between the average wage level and the minimum wage level increased.

56 The NEI has recently completed a study into the possibilities for more flexible working hours in the wood-trade sector.

Table III.5 Development of the nominal contractual wage (private sector) and gross minimum wage

Year	Change in nominal contractual wage (%)	Change in statutory minimum wage (%)
1986	1.2	0.0
1987	0.8	0.3
1988	0.8	0.2
1989	1.4	0.0
1990	2.9	1.8
1991	3.5	3.1
1992	4.3	3.1
1993	3.1	0.7
1994	1.8	0.0
1995	1.3	0.0

Source: Ministry of SZW, 1995.

The minimum wage for persons of 23 years or older is relatively high in the Netherlands. In 1990, the ratio between the average wage and the minimum wage (for adults) was low compared to other EC-countries and the USA (Van der Heuvel, 1992). Recently, a number of measures have been taken to decrease the (now wage) labour costs for workers at or just above the minimum wage level.

IV Labour market policies

This chapter deals with labour market policies in the Netherlands. Both passive measures (section IV.1) and active measures (section IV.2) will be considered. Passive measures are those measures which provide workers with work-related benefits which replace wages in case of unemployment. These measures can be seen as income support measures. In section IV.2 we will discuss unemployment benefits in the Netherlands. Furthermore, we pay some attention to the unemployment component in the disability and sickness insurance benefits. Early retirement schemes, usually provided for through collective agreements, also are a form of passive policy and will also be considered.

Active policy consists of activities which have the objective to place the unemployed in a (regular or additionally created) job. One can think for example of placement activities, training measures and job creation schemes. Active policy is used as a steering device to promote an efficient matching of demand and supply on the labour market and to improve the qualifications of job seekers. Usually, the improvement of the labour market chances of disadvantaged groups (like the lower educated and the long-term unemployed) is also an objective of active policy. Till recently, the PES was responsible for the major part of the active measures.

IV.1 Passive measures

Passive measures originate both from social security and from collective agreements in branches (such as early retirement arrangements). The Netherlands has an extensive social security programme. Some of the social security regulations are General Insurance Schemes ("*volksverzekeringen*") and cover all residents, whereas others are Employee Insurance Schemes ("*werknemersverzekeringen*"). Both types of insurances are financed through premiums. A third branch of the social security system consists of Social Provision Arrangements which are financed by public means. The broad aim of social security is to maintain income at a certain level in case of specific "social damage" (such as sickness, disability, unemployment) and old age. Within the social security a distinction is made between the wage-loss function (benefits are related to the wage previously earned) and the subsistence function (in that case benefits are on "the" minimum subsistence level). Table IV.1 contains a brief outline of the most important social security schemes. Only those schemes which are directly or indirectly related to unemployment will be discussed in this section.

Table IV.1 Brief outline of the most important social security schemes (situation 1993)

Social risk	Legislation	Insurance/arrangement
Old-age	Algemene ouderdomswet (AOW)	General Insurance
Survivors	Algemene Weduwen- en Wezenwet (AWW)	General Insurance
Maternity	Ziektewet (ZW)	Employee Insurance
Sickness/ invalidity	Ziektewet (ZW)	Employee Insurance
	Algemene Arbeidsongeschiktheidswet (AAW)	General Insurance
	Wet op de Arbeidsongeschiktheidsverzekering (WAO)	Employee Insurance
	Toeslagenwet (TW)	Social Arrangement
	Wet Inkomensvoorziening Oudere en Gedeeltelijk Arbeidsongeschikte Werkloze Werknemers (IOAW)	Social Arrangement
	Wet Inkomensvoorziening Oudere en Gedeeltelijk Arbeidsongeschikte Gewezen Zelfstandigen (IOAZ)	Social Arrangement
	Algemene Wet Bijzondere Ziektekosten (AWBZ)	General Insurance
	Ziekenfondswet (ZFW)	Employee Insurance
Unemployment	Werkloosheidswet (WW)	Employee Insurance
	Wet Inkomensvoorziening Oudere en Gedeeltelijk Arbeidsongeschikte Werkloze Werknemers (IOAW)	Social Arrangement
	Wet Inkomensvoorziening Oudere en Gedeeltelijk Arbeidsongeschikte Gewezen Zelfstandigen (IOAZ)	Social Arrangement
	Toeslagenwet (TW)	Social Arrangement
Child benefits	Algemene Kinderbijslagwet (AKW)	General Insurance
Guaranteeing sufficient resources	Algemene bijstandswet (ABW)	Social Arrangement
	Bijstandsbesluit Zelfstandigen (BZ)	Social Arrangement
	Rijksgroepsregeling Werkloze Werknemers (RWW)	Social Arrangement
	Wet op de Studiefinanciering (WSF)	Social Arrangement
	Wet Individuele Huursubsidie (IHS)	Social Arrangement

Source: Based on J. de Voogd et al, 1994.

In section IV.1.1 attention will be paid to unemployment benefits. Section IV.1.2 briefly deals with the unemployment component in the sickness and disability insurance. Finally, in section IV.1.3 we will discuss early retirement schemes, mostly agreed upon in collective agreements.

IV.1.1 Description of unemployment benefits

In this section we discuss unemployment benefits. Unemployment is compensated by both insurance benefits and assistance benefits. Insurance benefits are granted under the Unemployment Act ("*Werkloosheidswet (WW)*"). Assistance benefits are provided by means of the State Group Regulation for Unemployed Workers

("Rijksgroepsregeling Werkloze Werknemers (RWW)"), the Law on Income Supply to Elderly and Partially Disabled Unemployed Workers ("Wet Inkomensvoorziening Oudere en gedeeltelijk Arbeidsongeschikte Werkloze Werknemers (IOAW)") and the Law on Income Supply for Elderly and Partially Disabled former Self-Employed ("Wet Inkomensvoorziening Oudere en gedeeltelijk Arbeidsongeschikte gewezen Zelfstandigen (IOAZ)"). These regulations all are part of National Assistance but since they are especially meant for the unemployed they are included here. Civil servants have their own benefit scheme: the waiting allowance/reduced pay scheme ("Wachtgeld"). Around 95 percent of civil servants are insured by the General Civil Pension fund ("Algemeen Burgerlijk Pensioenfonds (ABP)").

The WW

Almost all employees up to 65 years old, except civil servants, are compulsory insured for involuntary unemployment by means of the WW. Some minor categories of employees which are not compulsory insured, can insure themselves voluntary. In 1987, the new WW was introduced in the major system reform and replaced both the old WW and the Extended Unemployment Act ("Wet Werkloosheidsvoorziening (WWV)"). Before 1987, WWV-benefit could be granted to persons insured for the WW but who had no more rights to WW-benefit and to persons who were not insured by means of the WW. In the period 1965 - 1986 the duration of WW-benefit was limited to six months. The WW was followed by a wage-related WWV benefit for two years. From 1975 onwards, the duration of the WWV-benefit was related increasingly to age. From 1975, employees over 58 years remained eligible for WWV until age 65 and in 1983 WWV was limited to 6 months for those under 23 years. In 1985, benefit duration was limited to 1 year for 23 - 30 years old and 1.5 years for 30 - 35 years old (Aarts and De Jong, 1992). The WWV was implemented by the municipalities. In 1987 the WWV was integrated into the new WW of 1987 and the Social Assistance Schemes.

The right to WW-benefit arises when an insured person becomes unemployed, the person meets certain requirements regarding the length of preceding participation in the labour market (*the week requirement and the work experience requirement*) and when no grounds for disqualification exist. In the WW of 1987 unemployment is defined by means of the following elements:

- the employee must have lost five or half of his work hours;
- the employee must have lost the right to unreduced salary for those hours;
- the employee must be available to accept (other) work.

The week requirement states that the employee must have worked in at least 26 of the 39 weeks before unemployment. Furthermore, the employee must have received salary for at least 52 days in at least four of the five calendar years before he or she became unemployed (work experience requirement). An exception is made for persons who meet the first but not the second requirement (see below).

A second requirement is that unemployment is involuntary, the employee has to ensure that:

- he or she is not to blame for becoming unemployed;
- he or she is not to blame for unemployment or the continuation of unemployment.

Thirdly, there are some more formal and procedural requirements for getting a WW benefit. When one of the conditions is not met, the IBB may decide to reduce the benefit by a certain percentage or to refuse the benefit (permanently or temporarily).

Since 1995, four kinds of WW benefits exist:

- the general benefit, which is 70 percent of previously earned wages;
- the extended benefit, also 70 percent of previously earned wages;
- the follow-up benefit, 70 percent of the minimum wage;
- the short benefit, 70 percent of the minimum wage.

The short benefit was introduced in March 1995 and is meant for persons who do not meet the more strict work experience requirements which have become operational at the same time. Persons who do meet the week requirement (*26 out of 39 weeks*) but do not meet the work experience requirement (*four out of five years*) are entitled to the short benefit (with a duration of six months). Before March 1995 everybody who was employed in at least 26 weeks out of the last 52 weeks preceding unemployment was entitled to the general benefit. Table IV.2 summarizes the changes in the requirements regarding work experience which were introduced in March 1995. Firstly, the requirements are more strict. Secondly, the requirements for entitlement to the general benefit are the same as the requirements for the extended benefit since that time. Before that time the work experience requirement was not applicable for entitlement to the general benefit.

Table IV.2 Changes in requirements in respect of work experience for entitlement to the various benefits

	Before March 1995	From March 1995 onwards
General benefit	at least 26 weeks out of the last 52 weeks	at least 26 weeks out of the last 39 weeks at least 4 years out of the last 5 years
Extended benefit	at least 26 weeks out of the last 52 weeks at least 3 years out of the last 5 years	at least 26 weeks out of the last 39 weeks at least 4 years out of the last 5 years
Follow-up benefit	at least 26 weeks out of the last 52 weeks at least 3 years out of last 5 years	at least 26 weeks out of the last 39 weeks at least 4 years out of last 5 years
Short benefit	Short benefit did not exist	26 weeks out of the last 39 weeks

The duration of the general benefit is six months. The benefit can be extended when the former employee has an employment record of at least five years. If that is not the case, no rights to extended benefit exist. The period of extended wage-related benefit is dependent on the length of the work experience, which is calculated as:

- the number of calendar years in which the employee received a salary for at least 52 days during the five calendar years before entering unemployment (which has to be at least four years), plus
- the number of calendar years between the year in which the former employee reached the age of 18 (including that calendar year) and the beginning of the above mentioned period of five calendar years.

Table IV.3 shows the duration of extended unemployment benefit according to the length of *calculated* work experience.

Table IV.3 Work experience and the continued duration of the wage-related benefit WW

Work experience	Duration extended wage-related WW benefit
Less than 5 years	0
5 - 9 years	3 months
10 - 14 years	6 months
15 - 19 years	1 year
20 - 24 years	1.5 year
25 - 29 years	2 years
30 - 34 years	2.5 years
35 - 39 years	3.5 years
40 years and more	4.5 years

Source: College van Toezicht Sociale Verzekeringen (1995).

When the period of extended wage-related benefit ends, the unemployed person receives a follow-up benefit. This is also applicable to those unemployed who meet the "four out of the last five years" requirement, but whose work experience is less than five years and therefore have no right to the extended wage-related benefit. The duration of the follow-up benefit is now two years (before March 1995: one year). If the former employee is at least 57.5 years old on the first day of unemployment the duration of the follow-up benefit is 3.5 years. The actual duration is limited to the first day of the month in which the benefit claimant reaches the age of 65.

Prior to 1987, the benefit rate was already cut back from 80 to 70 percent of earlier gross wage (up to a certain maximum)⁵⁷. This applies to the wage-related benefit, which has a duration between six months and 5 years (see above). The follow-up benefit rate is 70 percent of the legal minimum wage or if this is less, 70 percent of the previous gross wage. This also applies to the shortened benefit. Before 1987, unemployed who accepted a job with a lower wage than the wage in the last job before unemployment could get a supplement (*loonsuppletie*) to their new wage. This possibility was abolished in 1987 when the new WW came into existence.

57

The maximum is related to the so called maximum day-wage which since July 1992 is set at f 286,84.

Until 1995, the WW was implemented through the IBB's and the General Unemployment Fund ("*Algemeen Werkloosheidsfonds (AWf)*")⁵⁸. Since 1995, the AWf has lost its corporate rights and the fund is administered by the Temporary Institute for Co-ordination and Tuning ("*Tijdelijk Instituut voor Coördinatie en Afstemming (TICA)*"), which replaced the Foundation of IBB's. The implementation of the WW is the responsibility of the IBB's and the TICA.

WW benefit can also be granted in the case of short-time working and in the event of bad weather ("natural disasters"). Companies which for reasons other than the normal risks of business, are confronted with a temporary reduction in activity may, subject to certain conditions, apply for dispensation from the ban on reducing the working time of employees. Workers then receive WW of up to 70 percent of their last earned wage for the hours not worked. In the event of bad weather, workers (mainly workers in the construction and road-construction sector) receive WW. WW is supplemented by employers up to 100 percent of last earned wages. This supplement is financed through a wage-related contribution by employers and employees⁵⁹.

In 1987, the Supplementary Benefit Act ("*Toeslagenwet (TW)*") was introduced, with which it was intended to make a clear division between the loss of wages function (by means of the Employee Insurance Schemes) and the subsistence function (by means of Social Assistance and some of the General Insurance Schemes) in the system of social security. This act can be seen as a preceding provision for Social Assistance. Claimant is entitled to a TW-benefit if his amount of benefit on basis of the Employee Insurance Schemes (WW, ZW, WAO, AAW and WAMIL) is below the relevant social minimum level⁶⁰. Before 1987, each individual Employee Insurance Scheme provided for supplements to the wage-related benefits. So, the TW is connected with the Employee Insurance Schemes and also implemented by the IBB's, but it is financed by public means. The TW contains, contrary to the Assistance Schemes no test of assets.

The conditions for claiming benefits are:

- claimant is married or living together and receives an income in the form of benefits from employee insurance lower than the minimum wage. The supplementary TW-benefit is the difference between the minimum wage and the income, but no more than 30 percent of minimum wage;
- claimant is unmarried and supports a child younger than 18 years of age (entitled to *Kinderbijslag*) and receives an income under 90 percent of the minimum wage. The TW-benefit is equal to the difference between 90 percent of minimum wage and the income, up to a maximum of 27 percent of the minimum wage;

58 In the financing of the WW a distinction is still made between the first eight weeks (thirteen weeks from January 1st 1996) of unemployment (the waiting allowance funds) and the period thereafter (AWf). The premium contributions for the waiting allowance funds are set by the IBB's, and those for the AWf by the TICA. The premium for the waiting allowance funds differs per sector, whereas the premium for the AWf is the same for all sectors and branches.

59 In the construction sector this is called the *Frost Leave (Vorstverlet)*.

60 To provide for the relevant social minimum not only the TW but also the IOAW and the IOAZ are introduced.

- claimant is single and receives an income under 70 percent of the minimum wage. The TW-allowance is equal to 70 percent of minimum wage minus the income, with a maximum of 21 percent of the minimum wage.

In all three cases the TW-benefit cannot be more than the difference between the employee benefit and the former earned wage. The income is calculated by adding the total amount of family income out of labour and/or business. A relatively low income out of labour (maximum 15 percent of the minimum wage) does not count in the calculation for a period of two years. If the benefit on basis of the Employee Insurance Schemes has been granted with a sanction, the applicable amount of benefit based on the TW will be calculated as if there has been no sanction. Furthermore, some negative conditions exist which we will not discuss here.

The (N)ABW, IOAW and IOAZ

When an unemployed person (no longer) has a right to WW-benefit he or she is entitled to benefit based on the New Social Assistance Act (NABW). Up to 1995, a difference was made between RWW and ABW benefits (see also section II.1.2, municipalities). RWW was meant for those who were dependent on a job in the labour market. Especially school-leavers and those not or no longer entitled to WW benefit belonged to this category. RWW claimants were obliged to search for a job, ABW claimants were not. ABW benefits were mainly paid to single-parent families, elderly without a full General Retirement Benefit (AOW) and disabled without claims on the General Disablement Benefits Act (AAW). In 1996 there is no longer a difference between RWW and ABW: all assistance benefit claimants, except single-parents with children up to 5 years, have to accept paid work when offered. RWW no longer exists. As said in an earlier section, municipalities implement the NABW.

The NABW has the same principle grounds as the "old" ABW. First of all, the provision of a minimum subsistence level is maintained. Secondly, the complementary character with respect to preceding provisions (like the Employees Insurance Schemes and the General Insurance Schemes) is also maintained. Finally, the NABW like the ABW is based on the responsibility of the claimants and the possibility to take account of the individual circumstances of claimants (Van Woerden, 1995).

However, there are some main differences between the ABW and the NABW. Firstly, the ABW focused on the provision of an income at minimum subsistence level to persons without sufficient means of income. In the NABW the central attention is shifted to the outflow of benefit claimants to (regular) jobs. The abolition of the RWW must be seen in this context. Municipalities have to play an active role in promoting the outflow of benefit claimants. The municipalities have to make individual "route-plans" in order to support the possibilities for integration in the labour process. Municipalities are obliged to work together with the PES in this respect. The concept of "suitable labour" will be adjusted.

Secondly, the system of basic standards (*normen*) is much simpler in the NABW than in the ABW. In the ABW there were a large number of basic standards. The NABW has three basic standards for persons which are 21 or older. The national basic standard for married couples and couples living together remains at 100 percent of the net minimum wage. The standard for singles is 50 percent and for single-parent

families 70 percent of the basic standard for couples. In case the last two standards are not sufficient, the municipalities may grant supplementary benefits to a maximum of 20 percent. Table IV.4 shows the differences in national standards between the old ABW and the NABW.

Table IV.4 Differences between the ABW and the NABW in national basic standards for people who are 23 years and older

Type of Household	National basic standard ABW ^{a)}	National basic standard NABW ^{a)}	Maximum with supplement ^{a)}
(Un)married couple	100%	100%	100%
Single-parent family	90%	70%	90%
Single, sharing a house with others			
>= 23 years	60%	50%	70%
22 years	50%	50%	70%
21 years	50%	50%	70%
Single, not sharing a house with others			
>= 23 years	70%	50%	70%
22 years	60%	50%	70%
21 years	50%	50%	70%

a) As percentage of the net minimum wage.

The specific basic standards for people sharing a house with others, for 21 and 22 years old, for school-leavers up to 27 years and for those living at home or living away from home are no longer valid in the NABW. But municipalities have to incorporate the possibilities for sharing the necessary subsistence costs (mainly the costs for housing) in their decisions on the high of the supplementary benefits. For youngsters up to 20 there are lower standards which are no longer linked with the youth minimum wage but with the level of the Children's Allowance ("*Kinderbijslag via de Algemene Kinderbijslag Wet (AKW)*"). With this change a relation is made with the parental duty of maintenance. Exceptions are made for persons up to 20 years old, who are single-parents or married and have one or more children. A higher basic standard is applicable to these persons. The reason is that parental duty of maintenance does not extend to grandchildren.

Thirdly, the NABW has broadened the possibilities for checking the applicant's rights to benefit and fighting benefit fraud. A central theme is a more thorough selection at the application stage. But also re-investigations have to be directed more at verification and validation through seeking and checking information, if possible through the exchange of information with other institutions.

So far, we discussed some major changes in the National Assistance Act (the former ABW and NABW) including (the standards which determine) the level of benefit. But how is entitlement and duration of the benefit regulated? These points will be treated now. All Dutch residents, including foreigners with a valid residence permit

and "tolerated" foreigners ("*gedoogden*"), and who do not have sufficient means of income to support themselves, have the right to social assistance provided by the government on the basis of the NABW. Some additional conditions for self-employed are incorporated in the Social Assistance Act. Persons are entitled to general assistance benefits when the income is below the standard basic norm and the property to be considered is zero. So, the level of (non-assistance) income and assets affects the applicable amount of benefit. Until a few years ago, income out of labour was partially (25 percent of the net amount of labour income) exempted from means-testing. This was seen as a stimulus for claimants to accept work. However, claimants could use this rule only for a period of two years; under special circumstances this period could be extended. Secondly, the exempted amount could never exceed 15 percent of the applicable amount of benefit. The partial exemption of labour income was rejected some years ago, which means that since that time the full amount of labour income is deducted from the applicable amount of benefit. For couples, either married or unmarried and for single-parent families an amount of Dfl 17,200 is free of means-testing. For singles the amount is Dfl 8,600. If the means exceed the threshold, they must be used to meet the cost of living. For means in the form of an own house there are some special conditions. Firstly, there is an extra threshold: Dfl 15,000 plus an amount of 50 percent of the rest of the means in the form of an own house. The total threshold can not be more than Dfl 77,200 for couples and single-parents and Dfl 68,600 for singles. The duration of ABW benefit is unlimited as long as the claimant has insufficient means to support himself. If claimant fails to meet some specific requirements the benefit can be granted with a sanction.

As well as general assistance, there is also special social assistance ("*Bijzondere Bijstand*"). This assistance is meant for special subsistence costs not covered by the general benefit (including the eventual supplement). Not only general benefit claimants are entitled to special social assistance but also other persons with low income. In principle, a claimant has to pay an own contribution, with a maximum of Dfl 183 per year.

The IOAW and IOAZ are both introduced after the system revision of 1987. The idea was that it is not reasonable to confront elderly unemployed or former self-employed with the strict regulations involved in means-testing for the ABW. The IOAW and IOAZ do not have a means-test and their income limit is smaller than the ABW's. In that respect the IOAW and IOAZ are more favourable than the ABW and otherwise they are almost similar to the ABW. The IOAW is granted, under certain conditions, to unemployed persons who have used up their rights to WW benefit, namely:

- Unemployed who were at least 50 and not older than 57.5 years of age at the start of their unemployment. Unemployed who were older than 57.5 at the beginning of unemployment are entitled to the special follow-up WW benefit (flat rate, 70 percent of the minimum wage).
- Persons who became unemployed after the age of 57.5 but who are not entitled to the special follow-up WW benefit;
- Partially disabled (less than 80 percent) with an AAW/WAO benefit who cannot claim WW benefit (for the part they are able to work).

To qualify for IOAZ benefit a claimant must have ended a concern, business, trade or profession and must have reached a certain age or must be partially disabled. The conditions are:

- Previously self-employed; aged between 55 and 65 years; and total annual income less than Dfl 37,900. There are some extra conditions, for example that there must have been earned an income under the subsistence level in the former three years and that claimant must have worked as an employee or a self-employed person in the former 7 years.
- Partially disabled (less than 80 percent); younger than 65 years; business ended due to; a minimum period of three years self-employment in the Netherlands.

Both the IOAW and the IOAZ are subject to a subtraction of income out of labour or out of previous labour (pensions, early retirement pensions, disablement benefits, etc.). A certain percentage of the income out of labour is exempt from subtraction. The most important difference between IOAW and IOAZ is that the IOAZ includes a means-test. If the property is more than Dfl 195,000, 5 percent of this amount will be considered as income that will be subtracted from the applicable amount of IOAZ benefit. Property is calculated according to the method of the Wealth Tax.

Waiting allowance for civil servants

Civil servants and employees who are civil servants in the sense of the General Civil Pension Fund ("*Algemeen Burgerlijk Pensioenfonds (ABP)*") are not insured against unemployment by the Unemployment Act, but have their own scheme. This scheme is called the waiting allowance ("*Wachtgeld*"). The waiting allowance is far more generous than WW benefits, as regards the duration of entitlement and the level of the allowance. However, the government has decided to subsume the civil servants under the Employee Insurance Schemes, in order to make the labour terms of civil servants more equal to those in the private sector.

IV.1.2 Figures on unemployment benefits

The number of benefit years for the various unemployment benefit schemes is shown in table IV.5. A number of remarks must be made:

1. Up to and including 1995, ABW-benefit claimants did not have to search for a job. For this reason the ABW is excluded from the table. In contrast to the WW and RWW the development in the number of ABW-benefits hardly reflects the labour market situation. The number of benefit years for the ABW has been rather constant since 1985 (between 180,000 and 190,000 benefit years). Both points indicate that ABW is not directly related to unemployment (which fluctuated in the period concerned).
2. The number of TW-benefit years are excluded because TW-benefits are supplementary to AAW/WAO-, WW- and ZW-benefits. Including them would result in double counting.
3. With respect to the waiting allowance for unemployed civil servants there are no consistent figures available on the number of benefit years. According to the CTSV (1995), in 1993 and 1994 about 45,000 unemployed former civil servants received a waiting allowance.

The influx in the WW has increased considerably since 1991 up to more than 600,000 persons in 1994. The influx rate (the number of new claimants as percentage of the number of insured full-time working years) has not been so high since 1958, but this is at least partly caused by the growing number of part-time workers. But even when we look at the number of benefit years during the period 1992 - 1994, both absolutely and as a percentage of the number of insured years (the WW rate), we have to conclude that claims on WW have not previously been that high. Up to 1990, the WW rate was never higher than 4.4 percent (in 1988). However, WWV benefits should be added to WW benefits for a clear comparison in time. If we do this we see that the number of benefit years WW and WWV in 1982 and 1983 was higher (over 350,000) than in 1994. The number of WW-benefit years because of short-time working and bad weather has been rather small since 1987 (between 2 and 6 thousand benefit years). The number of benefit years RWW has declined between 1986 and 1992. The number of IOAW- en IOAZ-benefits is negligible compared to the number of WW-, WWV- and RWW-benefits. The total number of unemployment benefit years rose strongly between 1980 and 1983. In 1985 a decrease set in, which lasted up to 1991. After 1992 the number of benefit years has increased rapidly.

Table IV.5 Number of benefit years unemployment (in thousands, 1980 - 1994)^{a)}

Year	Kind of benefit							Total
	WW (because of dismissal)		WW (short time working and bad weather)	WWV	RWW	IOAW	IOAZ	
	Number	WW- rate (%) ^{b)}						
1980	65	1.8	6	86	89			246
1981	101	2.8	11	139	118			369
1982	112	3.3	11	219	175			517
1983	112	3.5	9	245	260			626
1984	93	2.9	5	213	358			669
1985	77	2.3	6	174	397			654
1986	68	1.9	5	148	407			628
1987	129	3.4	15	64	399	13		620
1988	172	4.4	3	16	394	16	1	602
1989	173	4.2	2		386	18	2	581
1990	163	3.8	2		355	18	3	541
1991	175	3.9	6		325	17	3	526
1992	208	4.6	3		308	17	3	539
1993	269	5.9	3		308	18	3	601
1994	332	7.2	5		320	19	4	680

a) Waiting allowance for unemployed civil servants not included.

b) Percentage of the total number of insured full-time working years.

Source: College van Toezicht Sociale Verzekeringen, 1995 and Ministry of SZW, 1995.

Table IV.6 shows the total amount of expenditure on unemployment benefits. TW-benefits and waiting allowances for unemployed former civil servants are included in the table. Between 1980 and 1994 total expenditure rose by over 200 percent in total. The sharpest rise took place between 1980 and 1983, when expenditure rose from Dfl 6.5 billion to Dfl 16.5 billion. Between 1984 and 1990 the expenditure decreased slightly. After 1990 there has been strong growth.

Table IV.6 Expenditures on unemployment benefits (in million Dutch guilders, 1980 - 1995)^{a)}

Year	Kind of benefit							Total	
	WW ^{b)}	TW	WWV	RWW	IOAW	IOAZ	Waiting allowance civil servants ^{c)}	Amount	% GDP ^{d)}
1980	2,347		2,116	1,240			850	6,553	1.92
1981	3,782		3,329	1,668			870	9,649	2.69
1982	4,273		5,843	2,592			840	13,548	3.63
1983	3,976		7,231	4,334			920	16,461	4.25
1984	3,205		6,263	6,128			922	16,518	4.07
1985	2,897		4,713	7,036			923	15,569	3.66
1986	2,830		3,957	7,319	24		971	15,101	3.45
1987	4,484	434	1,669	7,261	312		1,285	15,445	3.50
1988	4,593	553	363	7,657	325	21	1,454	14,966	3.27
1989	4,534	555	74	7,201	381	48	1,905	14,698	3.03
1990	4,708	563	105	6,895	381	63	2,026	14,741	2.85
1991	5,734	566		6,573	385	76	2,033	15,367	2.83
1992	6,701	602		6,576	385	92	2,172	16,528	2.92
1993	8,708	610		6,542	410	98	2,376	18,744	3.24
1994	10,955	664		6,886	425	101	2,287	21,318	3.50

a) Including costs for administration, social insurance premiums and wage taxes.

b) Including WW benefits because of bad weather and WW benefits because of short-time working.

c) Including expenditures on early retirement of civil servants.

d) Gross domestic product, market prices (in current prices).

Source: CBS, National Accounts (Ministry of SZW, Sociale Nota 1996).

IV.1.3 Unemployment component in the sickness and disability insurances

Until 1996, three "work incapacity" insurance schemes existed. The Sickness Insurance Act ("Ziektewet (ZW)") was abolished in March 1996. The ZW was a compulsory insurance for employees against temporary work incapacity because of sickness, ailment or disability. The maximum duration of the benefit was one year. From 1994 on, no sickness benefit was paid during the first six weeks of illness. The employer was obliged to pay the sick employee 70 percent of the wage during the first six weeks (two weeks for small firms). Now that the ZW has been abolished,

the employers can take the risk of sickness or insure against sickness of employees through private insurances.

Two insurances against long-term incapacity still exist. The first is the General Disability Insurance Act ("*Algemene Arbeidsongeschiktheidswet (AAW)*") introduced in 1976. The AAW is a compulsory General Insurance Scheme and insures persons younger than 65 years who live in the Netherlands against the financial consequences of long-term disability. The amount of AAW benefit is related to the degree of incapacity to work and is based on a fixed amount, namely the for the beneficiary applicable minimum wage. The benefit ends when claimant is no longer (at least 25 percent) incapacitated or reaches the age of 65 years. For employees a supplementary arrangement exists as well, namely the Disability Insurance Act ("*Wet op de Arbeidsongeschiktheidsverzekering (WAO)*"). The benefit is calculated on the basis of a percentage of the claimant's last earnings, with a ceiling. The percentage depends on the degree of incapacity. A number of reforms have been introduced in the AAW and WAO. We only mention four major changes which were made to reduce the number of benefits:

1. Till 1993, persons unable to earn the same as a comparable healthy person (in terms of education and work experience) due to illness or incapacity were said to be partially or fully disabled. The definition of disability changed in 1993. From then on, it must first of all be possible to show that the cause for disability is on medical grounds. Disability has to be a direct cause of illness or incapacity. Secondly, in determining the degree of disability the former education and the former occupation of the person involved is no longer relevant. In practice this results in more cases of partial disability than in the old situation and even in a total loss of benefit. Persons receiving a disability benefit before August 1993 and younger than 50 years of age, are to be re-examined on the basis of the new criterion in the period 1994 - 1997.
2. The benefit rates, which are linked to the degree of incapacity, were reduced in 1985 (WAO) and 1987 (WAO and AAW). Persons who are fully disabled (at least 80 percent) now receive a benefit of 70 percent of minimum wage (AAW) or last earned income (WAO). These rates were 80 percent before 1985. The benefit rates for the partial disabled are reduced by the same fraction.
3. For those who became (partially) disabled after January 1993 the duration of wage-related WAO benefit is calculated on the basis of age. After the first period of benefit, the claimant receives a follow-up benefit based on a percentage of the minimum wage plus a supplement, depending on age and former salary. These rules apply to persons of 33 years and older. Younger persons are not entitled to the wage-related benefit, they only receive the follow-up benefit.
4. From August 1993 onwards benefits are granted for a maximum period of five years. After this period the IBB has to re-examine benefit entitlement on the basis of a new application. In the near future this period will be three years.

We will now turn to a discussion of the unemployment component in the WAO and AAW. We know that in the past a substantial number of the WAO beneficiaries left

the labour process on economic grounds. In other words: their job became redundant or the employer wanted to replace them with younger workers. The WAO in that case was more attractive than the WW. Some studies have shown that 30 to 50 percent of the disability benefits concern the financing of hidden unemployment. At the beginning of the eighties hidden unemployment was estimated at one third of the WAO benefits (Van den Bosch and Petersen, 1980). In the early nineties the level of hidden unemployment in the AAW/WAO was still high (Aarts and De Jong, 1992). The reforms in 1993 as regards the definition of disability, the duration of wage-related benefit and the level of benefit (it became less easy to get a WAO-benefit and the WAO-benefit became less attractive) will most probably have led to a reduction of hidden unemployment. This will especially be true for the re-examined groups and the new inflow into the AAW/WAO.

IV.1.4 Early retirement

The statutory retirement age in the Netherlands is 65. The retirement state pension via the AOW is mostly supplemented by sectoral or company pensions (provided in sectoral or company collective agreements). This may, dependent on the number of years of service, bring the total pension up to maximum 70 percent of earnings during the year preceding retirement.

Early retirement may be provided in sectoral or company collective agreements. There are provisions for both full-time and part-time early retirement. The financing of the early retirement schemes is shared by employers and employees. They pay a certain percentage of wages each month or each year.

IV.2 Active measures

IV.2.1 Introduction

We have discussed passive measures in the previous section. In this section we will give an outline of (the wide range of) active labour market measures⁶¹. In section IV.2.3 we will describe the active measures in general terms and give an indication of their scope. Furthermore, we will take a look at the effectiveness of the various active measures. Both the gross and the net effectiveness of the measures will, as far as possible, be taken into account. This section is primarily concerned with those active measures for which the Public Employment Service (PES) is responsible. In section IV.2.4 we will pay some attention to recent developments, which demonstrate that the responsibility for active measures is shifting to other organisations, such as the municipalities/councils. But first we will make some general remarks about the PES (IV.2.2).

61 This overview is primarily based on the evaluation of the Employment Service Act (de Koning et al, 1995), unless otherwise mentioned.

IV.2.2 The role of the PES

The objectives and tasks of the PES are described in the Employment Service Act ("*Arbeidsvoorzieningswet*") of 1990. The main objective of the PES is to promote an efficient and even balance in the supply and demand of workers on the labour market. In order to achieve this objective, the following tasks must be performed:

- the registration of job-seekers and vacancies notified by employers;
- the collection and provision of labour-market information;
- the provision of information or advice, such as professional guidance;
- the placement of job-seekers;
- the provision of (vocational) training and the encouragement of other organisations' activities in this field;
- contributing to the development of policy regarding the apprenticeship-system.

The structure of the PES (with CBA and RBA's) was already discussed in chapter two. The reforms of 1990, i.e. the new legal structure, had three central themes: tripartition, decentralization and demonopolisation⁶². Apart from that, the PES was attributed a coordinating and stimulating role concerning labour market policy as well as the implementation of active labour market measures. The coordination and stimulation of the activities of organisations (including the PES itself) on the (regional) labour market was seen as an important part of its task. The evaluation of the Employment Service Act in 1995 led to a proposed revision of the act, in order to improve the workings of the PES⁶³. Most important changes are:

- the new act explicitly states that the PES has to concentrate on the hard-to-place unemployed;
- the cooperation between the PES, the municipal social services and the industrial insurance boards is to be increasingly stimulated;
- changes in the administrative and financial structure;
- a reduction of the number of regions (from 28 to 18).

One could question whether the PES has the ability to improve the functioning of the labour market. The actual labour market situation is characterised by enormous unemployment and a low number of vacancies. This implies that the powers of the PES are limited since their measures can only influence employment to a small extent. What the PES can do in the short-term is to fill the existing vacancies to the best of their ability and equalize the chances for different groups on the labour market as far as possible. As regards the first point, little can be achieved at the moment: vacancies which are difficult to fill are a marginal phenomenon. But there are no equal chances on the labour market. It is composed mainly of disadvantaged, weak groups (non-natives, lower-educated, older people and partially disabled) who have difficulty finding a job. Not only do these groups exhibit high and persistent unemployment rates (relatively high percentage of long-term unemployed) but also a low participation rate, which can be seen as an indication of hidden unemployment. So, policy has apparently had insufficient effect on the equalization of chances thus far.

62 The permit policy regarding placement activities and temporary work activities by third parties is also covered by the act.

63 The amended Act is expected to be adopted in 1996.

The most significant labour market problem is the shortage of jobs and the PES is not equipped to tackle this problem. The PES does not have the instruments to create sufficient jobs for the unemployed. Job growth (in the private sector) is primarily stimulated by general economic policy. But job growth, even on a large scale, will still leave a number of people unemployed. Furthermore, unemployment remains unequally distributed over the various groups, so the redistribution of chances is still extremely relevant. Therefore, the PES should help disadvantaged groups to find (regular) employment through the use of a range of measures. If one can reduce long-term unemployment through a redistribution of chances and improve the chances of disadvantaged groups, then the problem of unemployment can be diminished significantly. That still leaves the question whether equalization of chances can be achieved through the instruments of the PES. These instruments will be discussed in the following section.

IV.2.3 Measures of the PES

We can distinguish five types of active measures:

- information and advice;
- placement;
- training;
- placement subsidies;
- work experience.

Within each category a number of different measures exist. Appendix B gives an extensive outline of the measures. The list is limited to measures which were in effect in 1995⁶⁴. We will first make some general remarks.

Some measures are only aimed to a small extent at the primary function of the PES. They are of a somewhat varying character. For example, the information and advice function of the PES is not primarily aimed at the placement of job seekers and the filling of vacancies but also concerns questions regarding social security and social legislation. The treatment of applications for dismissals and the granting of work permits to foreign workers - both legal tasks of the PES - are also of a different character. The implementation of the aid programme of the European Social Fund (ESF) also occupies a special place. The ESF means are partly used for activities implemented by the PES. Generally, existing measures are (partly) financed through the ESF, that is to say measures mentioned elsewhere in the schedule.

Within the range of measures, three developments have taken place in the early nineties. First, a shift took place from curative to preventive policy. The policy with respect to youngsters (Active Labour Market Policy for the Young) is almost entirely aimed at prevention. Furthermore, the placement subsidies are increasingly channelled towards the prevention of long-term unemployment. The second

64 Some measures still exist, though the corresponding financial means have diminished (General Training Scheme, General Employment Scheme). The Contribution Scheme for the Apprenticeships System (BVL) and the Contribution Scheme for Sectoral Training (BBS) were in 1995 combined in the General Scheme for Sectoral Training (KBS). Since 1996 the scheme for the apprenticeships system does not exist any more. Employers can get a reduction of taxes for apprentices.

development is the regionalisation of the measures. The RBA's can give their own interpretation to national measures; RBA's may, with regard to certain measures and within certain boundaries, decide on the target groups and the level of subsidies. Apart from that, RBA's have used the (legal) possibility to develop their own regional measures. One of the reasons is that the national measures offered insufficient possibilities to tackle the specific regional labour market problems. Some regional measures replace national placement subsidies, which generally led to a further relaxation of the criteria for application. Thirdly, RBA's seem to be increasingly interested in job creation. Some RBA's developed regional measures aimed at job creation but little is known about the results. The third development is the shift from specific policy (training, placement subsidies, work experience) towards (direct) placement. The decrease in the role of specific policy in the total expenditure of the PES and the increase in the number of advisors both point in that direction.

IV.2.3.1 Reach

In this section we will discuss the reach of the five types of active measures. The reach gives the number and the composition of the applications of instruments. To get an idea, appendix C presents the number of applications for training, placement and work experience measures for the period 1985 - 1993/1994. More recent reliable information is not available⁶⁵. Reach can be related both to job-seekers and to vacancies. Some preliminary remarks have to be made:

- some measures, such as placement subsidies and work experience measures, are primarily concerned with the supply side and will be related only to job-seekers;
- as regards legal measures, we will also pay attention to the representation of groups like women, elderly, lower educated, ethnic minorities and long-term unemployed. Only women, ethnic minorities and long-term unemployed are official target groups of the PES. We added lower educated and elderly because of their weak labour market position (see chapter 1);
- one has to distinguish between the formal target group of a specific measure and the group of people actually requiring application of the measure. Training measures especially, have a broad target group. Each unemployed person may follow training at the Vocational Training Centres for example, which does not always mean that this is automatically useful in each case. Measures to deal with long-term unemployment had a limited target group at first, but even these target groups have been extended now it is also possible to apply these measures to persons threatened with long-term unemployment.

General

We will first give an indication of the use of the PES by employers and job-seekers in general (see table IV.7). In 1994 about 422 thousand job-seekers used the PES, which is almost half of the total number of job-seekers (scope of the PES on the

65 Since 1991, the providence of information by the PES on the number of applications has worsened. Most RBA's only can give an incomplete picture. So for the most recent years there is no complete (reliable) overview of the number of applications of instruments.

supply side). Since 1992, job-seekers' use of the PES has increased significantly. Employers use the PES as a recruitment channel for about 20 percent of all vacancies. This percentage is more or less stable. The service to employers is much broader, but information on other aspects is not available.

Table IV.7 Total service to job-seekers and employers

Year	Job seekers' use of PES		Employers' use of PES as a recruitment channel	
	Number of users (thousands)	In % of all job-seekers	Number of vacancies for which the PES is used as a recruitment channel (thousands)	In % of all vacancies
1988			140	19
1989			163	21
1990			190	21
1991			155	19
1992	291	33	141	18
1993	362	41	121	20
1994	422	46	115	22

Sources:

- LBA, *Hoe zoeken werkzoekenden*, several years.
- LBA, *Hoe werven bedrijven*, several years.

Information and advice

According to LBA research ("*Hoe zoeken werkzoekenden*"), 78,000 job-seekers received professional or educational advice from the PES in 1994. The numbers were somewhat lower in previous years (1992: 74,000; 1993: 68,000). The small percentage of ethnic minorities is remarkable; 5 percent of advice was given to ethnic minorities whilst they make up more than 20 percent of the jobless.

Placement

Recent information about placement is scarce. Some figures are available for direct placement and route-placement (aimed at specific target groups). For other placement measures, like job papers, vacancy banks and application banks information is very rare. Direct placement means referring registered job seekers to registered vacancies. The number of registered vacancies to which at least one job seeker is referred, gives an indication of the effectiveness on the demand side of direct placement. According to information from the RBA's this number increased from about 70 percent in 1991 to over 80 percent in 1994. The number of registered job seekers referred to a vacancy at least once is unknown; only the total number of references is available. The average number of references per registered job seeker was 0.4 to 0.5 in the period 1992 - 1994. "*Hoe Werven Bedrijven*" supplies information on the number of applications to companies through the placement activities of the PES. This number was estimated at 323,000 in 1988, diminished to 181,000 in 1991 and went up again to 341,000 in 1993.

Route-placement, often a cooperation between the PES and the municipal social service, is the intensive guidance of unemployed job-seekers with a "long distance to the labour market". The ultimate aim is to place these unemployed in a job through a combination of activities (which are usually documented in an action plan). The *reorientation interviews (HOG)* were the most well known form of route-placement. Evaluation studies (Hoffius, 1989; Hoffius and Langeveld, 1990; Schoorl et al, 1992) show that 30 thousand reorientation interviews were held with long-term unemployed in 1988 (that is equal to 80 percent of those called up). The interviews led to action plans for 24 thousand long-term unemployed, which equals 80 percent of the interviewed. For elderly and very long-term unemployed (five years or longer unemployed) this percentage was somewhat lower. According to the *Rapportage Arbeidsmarkt 1991* in 1990 around 42 thousand interviews were held, which resulted in 28 thousand action plans. The reorientation interviews continued until the end of 1991.

After that, forms of route-placement still existed (several initiatives were developed at regional level) but a systematic approach to the group of very long-term unemployed no longer took place. Moreover, there seems to have been a shift from the very long-term unemployed (the HOG concerned those who were unemployed three years or longer) to lesser long-term unemployed and persons who are expected to become long-term unemployed without intensive guidance. The *Active Labour Market Policy for the Young (AAJ)* belongs to this development. This scheme was started in 1992 to prevent long-term youth unemployment. The PES was to give intensive guidance to young people who were unable to enter a job or education on their own (first phase). The activities of the PES should lead to placement (in a job or education) within six months or ultimately within one year of being registered. Should this not succeed, the young unemployed is referred to *JWG (Guaranteed-Jobs-for-the-Youth-scheme)* to gain work experience. When the youngsters have gained sufficient experience, the PES has to try to place them in a regular job.

The most recent evaluation of the AAJ (De Koning et al, 1994) indicates that only 23 percent of the AAJ target group claims to have received information from the PES about vacancies, and 22 percent explicitly claims to have received no help from the PES. But we have to keep in mind that job-seekers are inclined to underestimate the role of the PES as regards job-searching. A recent evaluation of the JWG also looked at the first phase of the AAJ (Olieman et al, 1996). The AAJ target group was offered 0.7 jobs by the PES on average (in the first phase). A quarter of the target group finds that the help of the PES was insufficient and nearly 40 percent gives the qualification "moderate". So, nearly two-thirds of the target group is not satisfied with the role of the PES.

Training

The schedule in appendix B presents a great variety of training instruments. Most of these measures are exclusively or mainly aimed at the unemployed. Only the *General Training Scheme (KRS)* has a variation for employed. In 1990 one out of five KRS-applicants was employed (de Koning en van Nes, 1990). The other measure for employed, the *Contribution Scheme Apprenticeship System (BVL)*, a subsidy scheme for the practical component of the apprenticeship system, is implemented outside the

PES⁶⁶. The *Primary Vocational Adult Education (PBVE)* was a cooperation between the PES and the Ministry of Education, Culture and Science. This training instrument was abandoned at national level, but some RBA's have continued the measure, sometimes in a changed form.

The number of applications for training measures increased considerably in the period 1985 - 1991 (from almost 80,000 in 1985 to nearly 170,000 in 1991). After 1991, a stabilisation set in and in 1993 the number of applications diminished to 160,000. In 1994 and 1995 the effectiveness of training measures decreased further, at least partly as a consequence of the significant cuts in the PES' budget. We estimate the total number of applications in 1994 at about 130,000 and in 1995 at 120,000. The number of KRS-applications in particular, decreased in 1994 and 1995. Up to 1993 the rate of orientation and primary vocational training in the total number of applications increased.

The percentage of groups represented varies significantly according to the training measures (see table IV.8). Women are well represented except in the technical CV. Immigrants are over-represented in the CBB (which was actually set up for immigrants); their representation in clerical CV is very low. The poorly educated generally have a low representation in all training programmes. Long-term unemployed are represented in proportion.

Table IV.8 Relative representation of target groups in training measures (share in training divided by the share in unemployment (* 100))

	CV ^{a)} Technical	CV ^{a)} Clerical	CBB ^{b)}	VVS ^{c)}	PBVE ^{d)}	KRS ^{e)}	Other ^{f)}
Women	34	142	97	239	159	133	134
Migrants	117	41	236	82	137	89	235
Elderly	81	109	81	231	106	163	112
Low educated	116	19	95	32	61	21	54
Long-term unemployed (> 1 year)	95	112	117	117	90	92	76

- a) Vocational Training Centre.
- b) Centre for vocational orientation and preparation.
- c) Women's vocational school.
- d) Primary Vocational Adult Education.
- e) General Training Scheme.
- f) Other training instruments.

Source: Nederlands Economic Institute, secondary analysis of evaluation of training measures.

66 In 1996 this subsidy scheme is taken away from the PES. Employers now can get a reduction in wage taxes for apprenticeships.

Placement subsidies

The *General Employment Scheme regular jobs (KRA-RAP)* offers employers a one-time subsidy when they hire a long-term unemployed person. Under certain conditions the employer can be temporarily exempted from part of the social contributions⁶⁷. The involvement of the PES goes no further than some administrative actions. The exemption from social contributions is not funded out of PES-budget. Besides the KRA-RAP, there is a work experience variant of the KRA, the *KRA-WEP* (see appendix B under work experience). The one-time subsidy for the KRA-WEP is much higher than for the KRA-RAP, but the job has to be additional for the period of one year. The reason we mention this work experience measure now is that the differences between the two measures are marginal; the two have much in common.

The KRA was introduced in 1990, although its predecessor (MLW) had been active since 1986. In the period 1986 - 1990 the number of applications of the KRA (MLW) increased. In 1990 a total of almost 19,000 applications were realised. From 1991 on the trend is lower. From that time the PES gives the KRA less priority because of its high labour intensity. According to the PES the use of other instruments (direct placement) leads to a greater number of placements with the same manpower. So, the number of applications was just over 10,000 in 1994, which may be partly the result of the cuts on the PES' budget. The decline in the number of applications in combination with the broadening of the target group (see below) has resulted in a sharp decline in the percentage of the target group that is reached, from 12 percent in 1990 to 5 percent in 1993.

With regard to the share of the different target groups, we can mention the following. The ratio of women has increased strongly, from 25 percent in 1987 to 50 percent in 1993. The opposite happened for the lower educated. Their number has decreased between 1987 and 1991 from 23 to 11 percent. The number of short-term unemployed has expanded. This can largely be attributed to the broadening of the target group. At first persons had to be unemployed for at least 3 years to qualify. Later this was brought back to 2 years, for migrants even to 1 year. The flexibilisation of the KRA in 1993 resulted in a minimum unemployment duration of a half year to qualify; RBA's may determine that a higher minimum duration is required in their region. In 1988 about 17 percent of applications concerned persons unemployed for less than 2 years; in 1993, 15 percent had been unemployed for less than one year. The proportion of ethnic minorities is increasing (8 percent in 1989 and 13 percent in 1993). We must note however that the concept of "ethnic minorities" has been widened a few years ago.

Subsidised temporary work (KRU, previous VU and JOB) has been decreasing since the late eighties. We can mention some possible reasons. Many RBA's ascribe a low effectivity to subsidised temporary work. This is partially due to low confidence in placement subsidies. The implementation of subsidised temporary work is done by temporary work agencies. Some RBA's see them as competitors. The proportion of the target group reached is only marginal for the VU (less than 1 percent), for the JOB-measure which was targeted at long-term unemployed young people (a much

67 This exempt from employers' contributions is replaced by the part "Reduction long-term unemployed" of the Act reduction wage taxes and contribution general insurances ("*Wet Vermindering Afdracht loonbelasting en premie voor de volksverzekering*").

smaller target group) the reach was relatively high. The difference in target group between JOB and the VU has also led to a sharp decline in the number of young people in the total number of applications. The decreasing amount of long-term unemployed (almost 100 percent for JOB and 59 percent for the KRU) and low-educated (39 percent for JOB and 14 percent for the KRU) are striking however. On the other hand: the number of women increased and the number of people of 40 years and older is relatively high for the KRU (roughly one third).

Summarizing: there was an increase in the total number of placement subsidies up to 1991. Afterwards the use of placement subsidies diminished. The representation of target groups is diminishing, which we find rather questionable. An exception is the increasing number of women.

Work experience

The number of applications of the *KRA-WEP*, already mentioned above under placement subsidies, has been decreasing for some years now. One reason is that *KRA-WEP* applications are even more labour-intensive than *KRA-RAP* applications. RBA's think that in the time spent on one *KRA-WEP* application a higher number of regular placements can be realised, as already mentioned. As regards the representation of target groups the picture for the *KRA-WEP* is the same as for the *KRA-RAP*, whereas the *KRA-WEP* was meant for the weakest groups in the *KRA* target group.

Under the *JWG* the municipal organisation hires young people who are threatened with long-term unemployment and places them in temporary jobs. Explicit purpose of the *JWG* is the placement of young unemployed in regular jobs when they have gained sufficient work experience. The *JWG* is part of the *AAJ*, which is aimed at the prevention of long-term unemployment among young people. The group that qualifies for the *JWG* is being expanded gradually. At first only the youngest groups qualified. But eventually the age-limit will be 27 years. The *JWG* is not comprehensive. Young people over 20 years old who become unemployed after having a job do not qualify for the *JWG*. This implies that youth unemployment will not completely be solved by *JWG*. Even then, the *JWG* does not reach the whole target group. In 1992 over two thirds of the target group was reached. The reach increased to 77 percent at the end of 1993 and 82 percent at the end of 1994 (Olieman et al, 1996). This high reach includes persons with a *JWG* agreement but not having a *JWG*-job (this is called underutilisation). The for underutilisation adjusted reach is much lower. In 1994, the underutilisation was about 38 percent on average and the adjusted reach 51 percent. The composition of the *JWG*-group by gender and ethnic origin is the same as the target group of the *JWG*. With regard to education no figures for the target group are available; almost half of the *JWG*-group has not completed secondary education.

Labour pools are aimed at long-term unemployed who have no chance of a regular job. The idea is to let these unemployed perform beneficial work for society. Outflow from labour pools to regular jobs is not expected but not excluded either. The number of people in labour pools grew steadily in the first years after its introduction in 1990 (Research voor Beleid, 1994). Mid 1993 over 16,000 people were working in labour pools, about 17 percent of the target group (unemployed for 3 years or more). There is set a limit to the number of people in labour pools, in the

beginning of 1995 there was a waiting-list. With the introduction of the 40,000 jobs plan in 1995, it was intended to place a number of the labour pool participants in those (regular) jobs in order to create possibilities for people waiting for entrance to the labour pool. The unemployed group in labour pools does not differ from the composition of the target group; women and lower educated are somewhat under-represented. According to the labour pool monitor about one-sixth of the persons in labour pools have been unemployed for less than three years, which is remarkable.

Some differences exist between the labour pools and the JWG which imply that the problem of under-utilization is significantly less for labour pools than it is for the JWG. First, persons are only hired by the labour pool when there are jobs for them. Secondly, the labour pool jobs are permanent which is not true for the JWG. A JWG-participant can have the same job for a maximum of one year, after which job-switching has to take place, which may result in frictional under-utilization. Finally, in contrast with the JWG the labour pools are not intended to be comprehensive (to reach the whole target group) which implies that labour pools can be more selective in their hiring policy.

The number of unemployed reached by work experience measures has been growing since 1988. The same cannot be said of training measures and placement subsidies. Another difference is that lower educated are represented well in the case of work experience measures (with the exception of the KRA-WEP).

ESF

The ESF facilitates the co-financing of training or work experience projects. Since 1991 the RBA's implement the ESF ("old objectives" 3 and 4). The number of participants in ESF-projects increased strongly in the early nineties, from just 29,000 in 1990 to almost 97,000 in 1992. So the reach of ESF is broad. The degree in which this reach is additional is unknown, but there are indications for the substitution of regular means through ESF-means. Firstly, the RBA's spent a large part (40 percent in 1994) of the ESF-budget to finance their own measures. Over a third of the RBA's say that these ESF-means flow into the total RBA-budget and are not or just partially related to specific projects or instruments. Secondly, the ESF is partially used for the funding of regular activities such as the JWG, labour pools, KRA, CBB and CV. The applications for ESF were largely for already existing projects. Target groups are well reached by ESF, partially because a large part of the ESF work experience projects concern the labour pools and the JWG⁶⁸.

Combined application of measures

Sometimes measures are applied in combination to one person, either at the same time or consecutively. If this is a conscious policy then we can call this placement- or training-routes. Otherwise combined application is an inefficient use of funding. There is no (reliable) overall information about this subject. On the basis of regional studies (de Koning et al, 1993; de Koning et al, 1993) we estimate that only a small percentage is involved in more than one training measure. Other combinations of measures probably occur on a larger scale. According to "*Hoe zoeken werkzoekenden 1994*" 15 thousand persons received "other help" besides training from the PES. This

help includes for example direct placement. One other instrument was also applied to 56 thousand persons who received vocational guidance.

Conclusions

We conclude that there has been a shift from on the one hand training and placement subsidies to on the other hand (direct) placement and work experience. In 1994 and 1995 this development further continued under influence of the reduced budget of the PES (the JWG and labour pools are mainly financed through other means). This could lead to a segregation into two groups. One chanceful group on which (direct) placement can be applied and a group with little or no chances on the labour market for which additional jobs are seen as the only possibility. This relates to the fact that target groups are well represented in work experience measures only. Other measures (training, placement subsidies) show a declining representation of target groups. We note that municipal organisations primarily implement the work experience measures.

IV.2.3.2 Effectiveness

In the previous section we have discussed active labour market measures and their reach. In this section we will treat their effectiveness. First, we will discuss the concepts of efficiency and justice (with regard to the functioning of the labour market), then gross and net effects, followed by a paragraph on the effectiveness of the PES in general.

Efficiency and equity

The labour market is functioning more efficiently if at a given number of job-seekers and vacancies more people find a job. The labour market functions completely efficiently if all vacancies are fulfilled immediately as long as there are sufficient job-seekers and all job-seekers find a job as long as there are sufficient vacancies. In that case there is either unemployment or unfulfilled demand, but they do not exist together. An equitably functioning labour market cannot be defined very objectively. We assume that the labour market is functioning equitably if the difference in unemployment-rates and unemployment duration between groups is small. We realise that other definitions are possible and even better, but the most obvious alternatives are difficult to operate.

It is very important to distinguish between gross and net effectiveness. The functioning of the labour market does not automatically improve if the PES "does more", for example places more unemployed into jobs. It is possible that without an increase in the number of placements the same number of people (perhaps from different groups) would have found a job through other channels (advertisements, etcetera). Therefore, it is not the level of activity of the PES as such, but the additional value of the PES which is important. We speak of gross effects if registered job-seekers find a job and if registered vacancies are filled after application of one or more PES measures⁶⁹. The net effects are the gross effects adjusted, because of the fact that a part of the registered job seekers would have found a job anyway and a part of the registered vacancies would have been filled anyway. One

of the main problems with the determination of net-effects is that many factors influence the outcome of the labour market process and the results of the PES. One important factor is the situation on the labour market. For example, if there is a large excess supply then vacancies will be filled relatively easily.

The gross and net effects can be analysed at different levels: for the labour market as a whole, for individual groups and for individual instruments. The research into the effectiveness of measures can be divided into micro- en macro-research. The former is based on individual information. For example, do the individuals who follow training find a job afterwards (gross effects). For the determination of net effects a control-group approach is sometimes used. Macro-research includes research on an aggregated level, for example the effect of a particular instrument on the level of long-term unemployment.

A complete picture of gross and net effects does not exist however. So, we will first give a general outline of job finding by registered job-seekers and the filling of registered vacancies. These figures overestimate the results of the PES because (an unknown) number of registered job-seekers find a job and (an also unknown) number of vacancies are filled without the application of an instrument or instruments by the PES. However, the PES does spend funds on these job-seekers and vacancies since they are also registered⁷⁰.

Effectiveness in general

In the period 1988 and 1992 the number of registered job-seekers finding a job increased. In 1993 the number slightly decreased. The number of *unemployed* job-seekers finding a job did not increase structurally, but the number of registered *employed* job-seekers did. This is in line with PES-figures on placements⁷¹.

Table IV.9 The number of registered job-seekers who found a job (1988 - 1993, thousands)

Year	Registered unemployed		Registered employed job-seekers		Total registered job-seekers	
	number (thousands)	% of total number of unemployed that finds a job	number (thousands)	% of total number of persons that finds another job	number (thousands)	% of total number of persons that finds a job
1988	187	41	78	28	265	36
1989	220	48	93	33	313	42
1990	233	48	99	31	332	41
1991	209	44	107	31	316	39
1992	228	49	117	35	344	44
1993	225	51	112	41	336	47

Source: Centraal Bureau Statistiek, de Koning et al, 1995.

70 A substantial part of the available manpower of the PES is spend to the registration of job-seekers and vacancies.

71 We do not discuss the PES' figures on placements because of the low degree of reliability and validity and because of the fact that the figures are not comparable between RBA's.

Table IV.10 gives an indication of the degree in which registered unemployed job-seekers found a job and the degree in which registered vacancies were filled. After 1990, the chance of registered vacancies being filled increased. One may assume that the new structure of the employment service had an effect on the filling of registered vacancies. But a growing number of these vacancies were probably filled by employed job-seekers. As long as the former jobs of these persons remain vacant this will not necessarily diminish the frictions on the labour market, because with the filling of one vacancy a new vacancy will come into existence. Secondly, the filling of vacancies greatly depends on the balance between total demand and total supply. The filling of vacancies becomes more easy if the excess supply increases. Job opportunities were practically stable between 1990 and 1992 and decreased strongly at the end of the period under consideration. Our analysis of the evaluation of the Employment Service Act did not provide evidence that the new act had an effect on the number of registered job-seekers successful in finding a job.

Table IV.10 Number of registered vacancies filled, chance of filling, number of registered unemployed registered job-seekers finding a job and chance of finding a job (1989-1993)

	Number of registered vacancies filled (thousands)	Chance of filling for registered vacancies	Number of registered unemployed job-seekers that finds a job (thousands)	Chance of finding a job for registered unemployed job-seekers
1989	228	0,86	220	0,35
1990	246	0,87	233	0,39
1991	250	0,90	209	0,38
1992	258	0,94	228	0,40
1993	267	0,97	225	0,35

Source: Centraal Bureau Statistiek, de Koning et al, 1995.

The labour market functions more efficiently if with the same numbers of job-seekers and vacancies more people find a job and more vacancies are filled. This relationship can be specified in a matching-function. The matching-function does not show an upward tendency since 1989 and there is no evidence of a break in the trend in 1991, the year the new act became operational. So, an effect of the act on the efficiency of the labour market has not been found. This does not mean that the activities of the PES have no additional value; one can only conclude that the additional value did not change much. But cross-section analyses at RBA-level do not show a relationship between the efficiency of the regional labour market and the activities and results of RBA's either⁷². Therefore, the additional value of the PES is at least questionable.

With regard to the objective of equity, the PES distinguishes several target groups (long-term unemployed, ethnic minorities, women, young unemployed and partially disabled). In chapter 1 we have seen that unemployment among the target groups remains high; their unemployment rates remain well above the average level. Only

⁷² This is also true if we take into account the possibility that the results of the PES are influenced by the functioning of the labour market (so they mutually influence each other).

the relative position of women has somewhat improved. The labour market position of ethnic minorities and long-term unemployed is the most worrying. As previously stated, poorly educated and elderly also have a weak labour market position, but are not official target groups of the PES. The percentage of a target group in the number of job-finders divided by the percentage of the group in the number of job-seekers is a method of measuring the relative chances of that group. The relative chances of young people, women and poorly educated did not change structurally between 1988 and 1993. The situation for long-term unemployed, ethnic minorities and elderly improved (slightly).

Many RBA's base their policy as regards target groups on the slipstream mechanism which incorporates the idea that the placement of privileged groups is necessary in order to place target groups. This mechanism may function in different ways and so there are several variations of the slipstream idea. In one variation, the PES first gains the confidence of employers through the placement of privileged job-seekers before trying to place members of target groups. According to another the market-share of the PES is decisive: the more vacancies notified to and filled by the PES, the more members of target groups can be placed, because they have more opportunities to find a job through the PES than through other search channels. Target groups have less informal channels to find jobs than for example employed persons. In the evaluation of the Employment Service Act (de Koning et al, 1995) both variants were tested. The conclusion was that the slipstream-mechanism is only of limited significance in practice. Other factors play a more important role in explaining the chances of target groups.

The degree of equity in the functioning of the labour market did not change much during the early nineties. The rate of long-term unemployment in total unemployment decreased between 1988 and 1993 (from 54 percent to 45 percent), but the relative position of the different target groups did not change much either in this respect. The same is true for the chances of leaving unemployment. It would be going too far to conclude that the policy of the PES did not effect the relative position of target groups. Without this policy the position of these groups might even have worsened. This fact is very hard to establish because the conjunctural dynamics also influence the position of target groups. Groups entering the labour market suffer most from a deterioration of the economic situation, which explains the high level of youth unemployment during recessions. Analyses adjusted in accordance with this effect on the economic situation indicate that policy has hardly affected the unemployment level among young people.

Information and advice

In 1992 and 1993 about 30 percent of unemployed job-seekers who received vocational or educational guidance found a job some time later ("*Hoe zoeken werkzoekenden*"). In 1994 this was somewhat less, namely 23 percent. In absolute numbers: 22,000 in 1992, 21,000 in 1993 and 18,000 in 1994. For the elderly, low educated and ethnic minorities the chances of getting a job were below average (there is no information according to unemployment duration available). Nothing is known about the net-effects of information and advice.

Placement

The gross effects on the demand side of direct placement can be estimated through dividing the number of direct placements by the number of vacancies to which at least one registered job-seeker has been referred. This ratio did not change in the period 1991 - 1994⁷³.

According to "*Hoe werven bedrijven*" the number of job-finders through PES' placement activities decreased from 87 thousand to 64 thousand over the period 1988 - 1991 and increased again to 83 thousand in 1993. The number of direct placements as a percentage of the total number of applicants via the PES decreased slightly between 1988 and 1993.

The evaluation of the AAJ-programme indicates that in 1992 over 70 per cent of the AAJ-target group found a regular job within a year. The majority of the other young people went to school which leaves only a small part to become unemployed or to be referred to the JWG. Although the economic situation worsened after 1991 the gross effectiveness of the AAJ decreased only slightly (Olieman et al, 1996).

Studies concerning the net effectiveness of placement are scarce. The re-orientation interviews had a small net effect on the chances of long-term unemployed (Hoffius and Langeveld, 1990). The net effectiveness of the first phase of the AAJ is very small (de Koning et al, 1994; Olieman et al, 1996). In this first phase the young unemployed have to be helped to a regular job or education within six to twelve months. In 1992/1993 the net effect was about 7 percent and in 1994/1995 10 percent (persons saying that they would (probably) not have found a job or an education-position without the help of the PES).

The results of these studies are not valid for placement in general because of the specific character of the measures discussed.

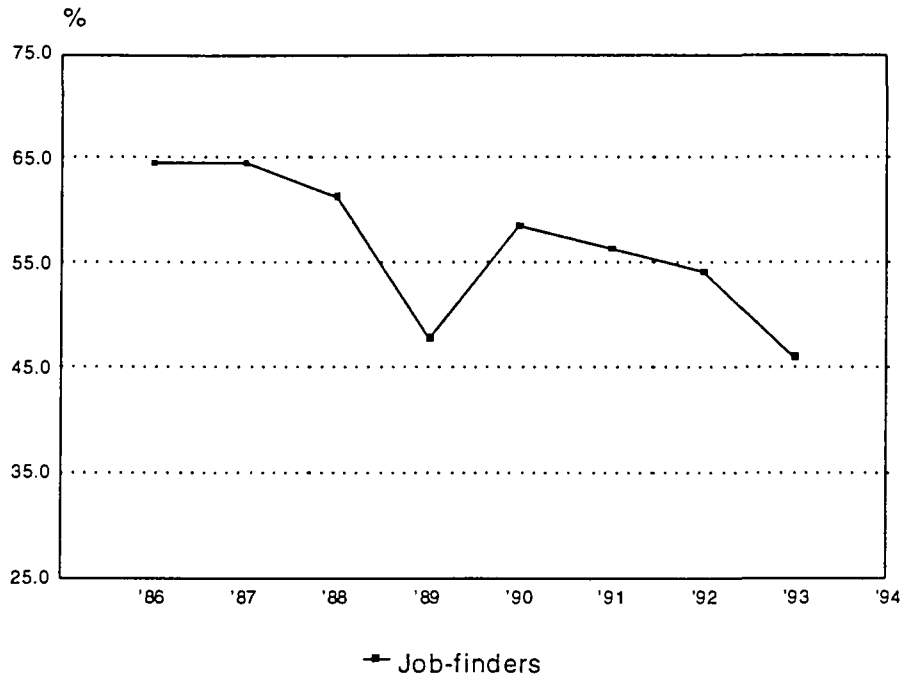
Training

In the early nineties, the chance of finding a job after attending training diminished (see figure IV.1). Figures concerning 1992 indicate the highest chance of finding a job for the technical CV at (61 percent). For the clerical CV, the VVS and the KRS the job-chance was about 55 percent. The CBB and the PBVE have smaller job-chances, 34 and 37 percent respectively, but regarding these instruments we have to take into account the move to follow-up courses. This does not mean that these follow-up courses always lead to a regular position after completion. The job-chance of other training-measures is 43 percent.

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Based on information provided by the RBA's, which we find unreliable. But it probably gives an indication.

Figure IV.1 Improvement in the chance of getting a job after attending training (1986 - 1994)



Source: De Koning et al, 1995; secondary analysis of evaluation-studies training measures

So far we have discussed gross-effectiveness of training measures for the unemployed. Recent information on the effectiveness of training measures for the employed is not available. The evaluation of the KRS (de Koning and van Nes, 1990) showed that almost all persons kept their job. The apprenticeship system trains young people for a variety of professions. In that way the demand for professional skilled workers is fulfilled and the young people are given a good labour market perspective. The number of the young persons remaining in employment after completing the training, is most probably high.

Training measures have a positive net-effect on the job-chances of unemployed job-seekers. This conclusion is primarily based on studies which involved a control-group approach (two national and two regional studies). These studies compare unemployed job-seekers who have been trained by the PES with unemployed who have not received training. Table IV.13 below gives an outline of the studies concerned.

Table IV.11 Outline of Dutch evaluation studies in respect of training with a control-group approach

Study and period	Instrument	Region	Result
De Koning et al. (1986-1987)	CV	National	Small effect (< 10%) on job-chance
De Koning en Van Nes (1988-1989)	CBB	National	50% higher job-chance
De Koning e.a. (1991-1993)	Almost all training instruments	RBA West Utrecht	Job-chance almost twice as high
Bavinck en Van der Burgh (1992-1994)	CV, KRS and application-club	RBA Noord- en Midden-Limburg	Job-chance almost twice as high

The effect of training varies between groups. From the studies of de Koning and van Nes (1990) and Bavinck and van den Burgh (1994), it can be concluded that training is most effective when applied to (relatively) underprivileged groups (lower educated, long-term unemployed and elderly). Both surveys find no large differences between men and women. The lower net-effectiveness in the CBB-study can be explained primarily by the high percentage of younger people in the group of participants, whereas the effect on job-chances is relatively small for this group. The low net-effectiveness of the "old" CV-study can also be explained partially by the composition of the participants (high shares of privileged groups such as young people and persons with a completed secondary education). Because of the small number of studies nothing reliable can be said about the developments of the net-effectiveness in time.

In many other studies, former participants are asked what they think the effect of the training was. To be more precise, the former participants who have found a job are asked whether they think that they would have found that job without the training too. The difference between the percentage that found a job and the percentage that thinks they would also have found the job without training, can be seen as an indication of net-effectiveness. This rather subjective indicator did not change much since 1991. On average about 60 percent of the job-finders claims that they would not have been able to get the job without training. The net-effectiveness is, according to this measure, relatively high among women, long-term unemployed and elderly and relatively low for non-natives. We note explicitly that the results must be handled very carefully because of the subjectivity of the measure concerned.

Placement subsidies (KRA-WEP included)

For the KRA-RAP, 'reach' and gross effects are identical because it concerns placement in regular jobs. In the case of the KRA-WEP this is not formally the case, but the difference between the KRA-RAP and KRA-WEP is very little in practice. The gross-effects of the KRA-WEP has to be measured formally according to the transfer from the additional "work experience" jobs to regular jobs. This is also true for the KRU (subsidised temporary work). Information on the effects is scarce however. Evidence for the KRA-WEP concerns the period around 1990. One year after the start of participation in the KRA-WEP the transfer percentage to regular jobs was 40 percent, which increased to 63 percent two years after the start of participation in the KRA-WEP. A more recent regional study confirms this picture (Bavinck and van der Burgh, 1994). For the KRU, a 70 percent transfer to regular

jobs has been found. For its predecessors (JOB and VU) the transfer percentage was about 60 percent.

Different studies (Gravesteijn-Ligthelm et al 1988, De Koning en Van Nes 1989, De Koning et al 1993) in the period 1987-1992 show that the KRA/MLW had a reducing effect on long-term unemployment. This has been established in several ways:

1. By determining statistically the effect of the KRA/MLW on the development of long-term unemployment in time. This resulted in a net-effectiveness of 70 percent: seventy out of every hundred placements led to a reduction of long-term unemployment. There are indications that the widening of the target group (in 1993) has had a negative influence on this trend (de Koning et al, 1995).
2. By comparing the persons placed by the KRA/MLW with a control-group of persons who were not placed by the KRA/MLW. The net effects of the KRA-WEP are smaller than the net effects of the KRA-RAP. The increase in job-chances:
 - was larger the older the participants;
 - was smaller the lower the educational level;
 - was larger the longer the unemployment duration.
 The differences in net-effectiveness according to gender and ethnicity were less pronounced.
3. By asking the participants their opinion about the effects. A large share (70 percent) of them thought that they would have stayed unemployed without participation. Almost half of them did not apply any more in the period just before participation.

The net-effects of subsidised temporary work (KRU, VU en JOB) depend on two main questions:

- to what extent does subsidised temporary work increase the chance of employment for the target group?
- to what extent does subsidised temporary work increase the flow of long-term unemployed to regular jobs?

Research by Zandvliet et al (1995) estimates a net effect of the KRU of approximately 15 percent (based on the opinions of participants and hiring employers). In the past, there have been several studies into the JOB-measure. First, statistical analyses showed that temporary work through JOB resulted in half of the target group (long-term unemployed young people) entering additional employment. The net-effectiveness was estimated between 25 and 30 percent. This difference in net-effectiveness between the KRU and JOB can be partially explained by differences in target groups. The JOB participants were, though younger than the KRU participants on average, lower educated and unemployed longer.

Work experience

The transfer-rate of the JWG (to regular jobs) is roughly 15 per cent per year. For labour pools this is substantially less, about 4 per cent. There are no indications that these chances changed much recently (see Olieman et al, 1996 for the JWG).

The net effectiveness of labour pools is hardly relevant. The flow to regular work is almost zero. The move to regular jobs is not the main purpose of labour pools, so this result is not surprising. We have already discussed the effectiveness of the KRA above. The effectiveness of KRA-WEP does not differ significantly from the effectiveness of the KRA as a whole.

The JWG is net effective when young people enter the JWG "correctly" and find a regular job after some time. The inflow in the JWG is "correct" when there was no possibility to help the young person towards a regular job or education within a year after registration. For 70 percent of the young persons entering the JWG this is the case, which means that 30 percent could have been placed in regular jobs if they had received more help from the PES. About 30 percent of young persons entering the JWG transfers to regular work in two years. This amounts to a total net-effectiveness of just over 20 percent.

Combination of instruments

There is an information shortage concerning the effectiveness of the combined application of instruments. De Koning (1993d) found that help from the PES to find a job after completion of training, had a positive effect on job-chances.

Concluding remarks

In the evaluation of the Employment Service Act, no evidence was found that the activities of the PES lead to a larger labour market efficiency. A relation between the activities and results of the PES and the efficiency of the labour market has not been established. The new act did not change this. That the PES has little or no additional value for labour market efficiency is related to the enormous excess supply. The majority of the vacancies are filled without any problem. There is very little room for improvement in this respect and if improvements are possible, the measures of the PES are not always the solution (e.g. as regards labour conditions, wage conditions, etc.).

The labour market problems are concentrated primarily on the supply side. An increase in the number of jobs is needed most of all but the PES has little influence on employment. A relatively small number of jobs are created through work experience measures. These measures (JWG, labour pools) are implemented primarily by municipal organisations. The PES can only enhance the chances of underprivileged groups to gain as much as possible from a growth in employment and reduce as far as possible the differences in unemployment between groups. It is most probable that the activities of the PES contributed, though to a small degree, to more equal chances (especially through the use of training measures, placement subsidies and work experience instruments).

Many RBA's base their target group policy on the slipstream-mechanism. Our conclusion is that this mechanism is only of limited significance in practice. Other factors play a more important role in explaining the chances of target groups.

Existing research, both national and international, indicates that only a selective use of measures generates positive net-effects. The PES (but also other public organisations) is still inclined to look at gross-effects. For this reason the measures are applied, to a large extent, to relatively privileged groups of which a large part

would find a job anyway. A more selective use of measures improves the net-effectiveness and also further contributes to the objective of equity. However, what we observe during the last years is a less selective use of measures (widening of target groups).

IV.2.3.3 Examples of good practice

Giving examples of good practice looks easy at first sight. One simply could compare the effectiveness of the different measures. But the effectiveness of measures not only depends on their character and shape but also on the way they are implemented, the target groups and the degree in which the measures are used selectively⁷⁴. In our opinion most of the measures are essentially adequate to tackle particular labour market problems. We think mainly of the KRS, the CV, the CBB, the KRA and the JWG. But with respect to these measures a number of important aspects related to implementation, target groups and selective use must not be forgotten.

First, (in case of the PES) quality is more important than quantity. The PES should not strive for a maximum market-share (often only related to direct placement), but should try to maximize net-effectiveness. Previously we have seen that the application of measures on privileged groups is less effective. The application of measures to prevent long-term unemployment is only desirable when it is clear that short-term unemployed have little chance of finding a job without the help of the PES. If this job-chance is relatively high, the application of measures could better be postponed. Firstly, the more privileged job-seekers should try to find a job themselves, maybe with a little help from the PES in the form of information about vacancies or referral to vacancies. Should this not succeed within a reasonable period of time, the application of more intensive measures may be considered. Existing information already indicates for which groups preventive policy should be considered. Furthermore, there is already some information as to which measure is the best for which group.

Application of training measures, placement subsidies and work experience measures to long-term unemployed, elderly and lower educated is expected to result in a high net-effectiveness.

Secondly, the method of implementation can be most important. In the case of training for example, a permanent flow of information between the organisations involved and coordination between the different activities (recruitment of trainees, the actual training and placement after completion of training) are most important. A permanent flow of information contributes to an effective management of the training and may serve as a basis for future programmes. A good coordination may lead to a higher net-effectiveness, for example through the placement of participants who do not immediately find a job after completion of the training. A monitoring system with regard to participants is needed to determine the results and to

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The target group and selective use of instruments are related with each other but not the same. A person may belong to the target group of an instrument, but this does not imply that application of the instrument is necessary to let him/her find a job.

optimize the implementation (this applies to all instruments). For the KRA/MLW the implementation practice has been studied twice (in 1989 and 1992). De Koning and van Nes (1990) established that the reach of the MLW was relatively large when:

- the PES cooperated intensively with the municipal social service;
- specialized teams within the PES were set up for the implementation;
- there was an active recruitment of vacancies which were suited to the target group ("target-group-approach").

More attention for the less privileged groups implies a larger necessity to cooperate with the municipal social service and the GAK. In fact an operational integration, especially with the social service, may be the best solution. In most other European countries the PES is also responsible for unemployment benefits. De Koning (forthcoming) gives a summary of existing studies about implementation and co-operation in Dutch active labour-market policy for underprivileged groups.

Thirdly, we conclude that target groups must be defined more strictly. Only a part of the current target groups (young people, women and ethnic minorities) should qualify for the application of measures. Which subgroups exactly should qualify, has to be determined on the basis of the labour market position (unemployment rate and unemployment duration). The complete group of long-term unemployed probably has to be seen as target groups. The same is true for the partially disabled. The elderly and the lower educated should be target groups in our opinion.

Most of the measures may fulfil a useful function. But improvements regarding the effectiveness of the measures are possible. More attention should be given to the implementation practice, the target groups should be defined more narrowly and the application of measures should be constrained to these unemployed who really need this help to find a job. Furthermore, the information flows should be improved. Otherwise, the results cannot be determined with a reasonable degree of reliability and the implementation practice cannot be optimized. In the past, measures have been abolished or replaced by other measures because of small (gross-) effects, without determining the reasons (implementation, targeting) for this ineffectiveness.

IV.2.4 Recent developments in active labour market policy

Recently, two developments took place in the field of active labour market policy. The first development is the growing involvement of municipal organisations with the implementation of programmes for long-term unemployed (receiving social assistance benefits). A discussion of Job-Schemes introduced recently will illustrate this development (IV.2.4.1). Furthermore, part of the former PES-budget has been shifted to the municipalities (IV.2.4.2). Secondly, we see a tendency to implement active labour market policy through using the wage-tax system (IV.2.4.3).

IV.2.4.1 Job-Schemes

The recently introduced Job-schemes (which are called after the present Dutch Minister of SZW, Melkert) are divided into three categories:

1. 40,000 regular jobs in the public sector;
2. 20,000 jobs with the use of social assistance benefits;
3. experiments with new ways of encouraging the participation of the long-term unemployed recipients of social assistance benefits.

40,000 regular jobs

Up to and including 1998, 40,000 regular jobs will be created in the public sector for long-term unemployed which serves a twofold purpose. It should reduce long-term unemployment and simultaneously increase public safety, care and education. The emphasis is on the four main cities. The target group consists of persons who have been unemployed for one year and receive an *NABW*, *IOAW* or *IOAZ* benefit⁷⁵. Labour pool participants and *JWG*-participants (who are at least 27 years old) also qualify. The number of labour pool positions must stay the same however (which means possibilities for those on the waiting list).

In 1995 the first 5,000 jobs became available. In 1996 another 10,000 jobs must be created. In both years half of the jobs will be in the public health and care sector and the other half at municipalities. The former will be financed by the Ministry of Health, Welfare and Sports while the latter will be financed by the Ministry of the Interior. Seventy percent of the latter will be located in the four main cities. In the public health and care sector, jobs will consist of care of the elderly and disabled, hospital work, assistance to the youth and homeless and medical day care. The municipal jobs concern areas such as public safety, supervision and day care. In 1996 this has been extended to the management of public spaces (e.g. environmental supervision and management of public monuments) and the educational sector. All persons will be selected by the municipalities.

Wages for these jobs are bound to strict rules. The wage is not allowed to be higher than the minimum wage in the first year and 120 percent of the minimum wage in later years. The idea is to stimulate employment on this wage-level, because the lowest wage-scales have become obsolete. The jobs are for maximum 32 hours per week. For former labour pool participants labour time can be extended to 38 hours per week to prevent a decline in income. This is also true for persons who qualify for additional social assistance benefits, for instance bread-winners and single parents. Shortening of working time is possible for disabled persons.

Very little is known about the result of this 40,000 jobs-scheme up to now. However, there are indications that the results are rather disappointing. The new jobs are not as easily found as was expected and it seems that a large part of the target group is not completely suited for the jobs.

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Persons who have not worked more than 50 days or 400 hours in the previous year are also marked as unemployed for one year.

20,000 jobs with the use of social assistance benefits

The idea of job creation with the use of social security funds has often been put forward by municipalities. Recently, the central government has actually introduced this possibility. From 1996 on, it will be possible to transfer social assistance benefits into a fixed amount of subsidy (Dfl 18,000 per job). The target group consists of NABW-, IOAW- or IOAZ-beneficiaries who are unemployed for at least one year. The participants must be offered a job for at least six months with an average working week of 32 hours. They receive at least the minimum hourly wage and at the most 120 per cent of the minimum hourly wage. Supplementary social assistance should not be necessary. Some groups like bread-winners qualify for larger jobs. The job-subsidy is granted for no more than two years. At the end of 1996 an interim-evaluation report of this Job-scheme is expected.

The organisations involved differ greatly between the various projects. Municipalities, the PES and other organisations (like employers' organisations and unions) were (in 1995) invited to make plans and to send them to the Ministry of SZW. Municipalities have to be involved in the plans because of the target group (social assistance beneficiaries). The Ministry made a selection of the most promising plans. So, the projects are not uniform; they can differ from each other in various ways. For example, the employment project in Rotterdam has a 'pool-system'. All participants (former beneficiaries) flow into this pool from which they are hired by employers. The employer pays a fee which increases during the two years. The subsidy element decreases each year. This should eventually lead to a permanent job. Some implementing organisations demand a guarantee of a permanent position after the subsidized period. This diminishes insecurity and excludes employers whose only intention is to use cheap labour for as long as it lasts. In the PIM-project (Professional Inflow Method) this is institutionalised. The PIM-project is a collaboration of PES, social partners and various municipalities and companies. An initiative in Leeuwarden offers qualifying beneficiaries a cheque of Dfl 18,000,- which employers can cash at the municipality when they have hired one of these long-term unemployed.

Experiments while retaining benefit

A large share of the beneficiaries depend on social assistance for several years. Almost half of them have received social assistance for more than three years, and one-third for more than five years. This means that regular measures - and new measures as described before - are not sufficient to let these people (re-) enter the labour market. A substantial part of them have lost touch with the labour market.

Central government has decided to allow municipalities to deviate from the NABW for certain (described) areas, which should enable municipal social services to experiment with projects to activate social assistance recipients by letting them perform activities while retaining benefit. This is made possible by article 144 of the NABW (the legal framework), in effect since January 1st 1996 (see also section IV.2). From this date the municipal experiments can be implemented. Main purpose is the social activation of the target group. The local authorities decide upon the nature and the content of projects. The activities are unpaid, for example activities in the own neighbourhood. The purpose is twofold: to enhance the labour market chances of long-term benefit recipients and to help them out of social isolation.

IV.2.4.2 Redistribution of means

From 1995 on, the central government has greatly reduced the PES-budget (several hundred million Dutch guilders). A part of this amount has been shifted to municipalities. The municipalities have to use this budget to "purchase" PES-activities for social assistance beneficiaries. Though the purchase of PES-activities is obligatory, the responsibility for a part of the active labour market policy is actually shifted to the municipalities. They can determine which measures have to be used and which persons have to be reached.

IV.2.4.3 Active policy by using the wage-tax system

We see a tendency to implement active labour market policy through the wage-tax system. In the past, under the Vermeend-Moor Act the employer could temporarily be exempted from part of the employers' social contributions when hiring a long-term unemployed⁷⁶. On January 1st 1996 the Act reduction wage-tax and social security contributions, part "reduction long-term unemployed" replaced this act. Some conditions and rules were changed.

More important is that the new Act has two other parts: "reduction apprenticeship system" and "reduction low wages". The reduction apprenticeship system replaces the BVL-subsidy (which was implemented by the LBA) and is meant to stimulate employers to hire apprentices. The reduction low wages is more or less new⁷⁷. The employers can get a reduction of Dfl 1,185,- for each of their employees who has a wage up to 115 percent of minimum wage. In this way the government tries to stimulate the creation of low paid jobs.

76 In the early nineties the Vermeend-Moor Act was replaced by the Act for the promotion of labour-integration ("*Wet Bevordering Arbeidsinpassing*").

77 In the early nineties the Act labour-cost reduction on minimum wage level ("*Wet loonkostenreductie op minimumloonniveau*") existed.

V Other policies having an impact on the labour market

V.1 Education and vocational training

Education and training are very important for the economy; modern economies require a well educated labour force to function properly. Education is generally expected to have a stimulating effect on prosperity and growth. In this section we will examine the Dutch educational system. We will start with an overview of the structure of this system in paragraph V.1.1. This is followed a section (V.1.2) about the transition from school to work. We especially pay attention to possible frictions with respect to this transition. In particular disadvantaged groups will have our attention. In paragraph V.1.3 we will examine the productivity effects of courses for individuals, companies, branches of industries and on macro-level.

V.1.1 Outline of the Dutch educational system

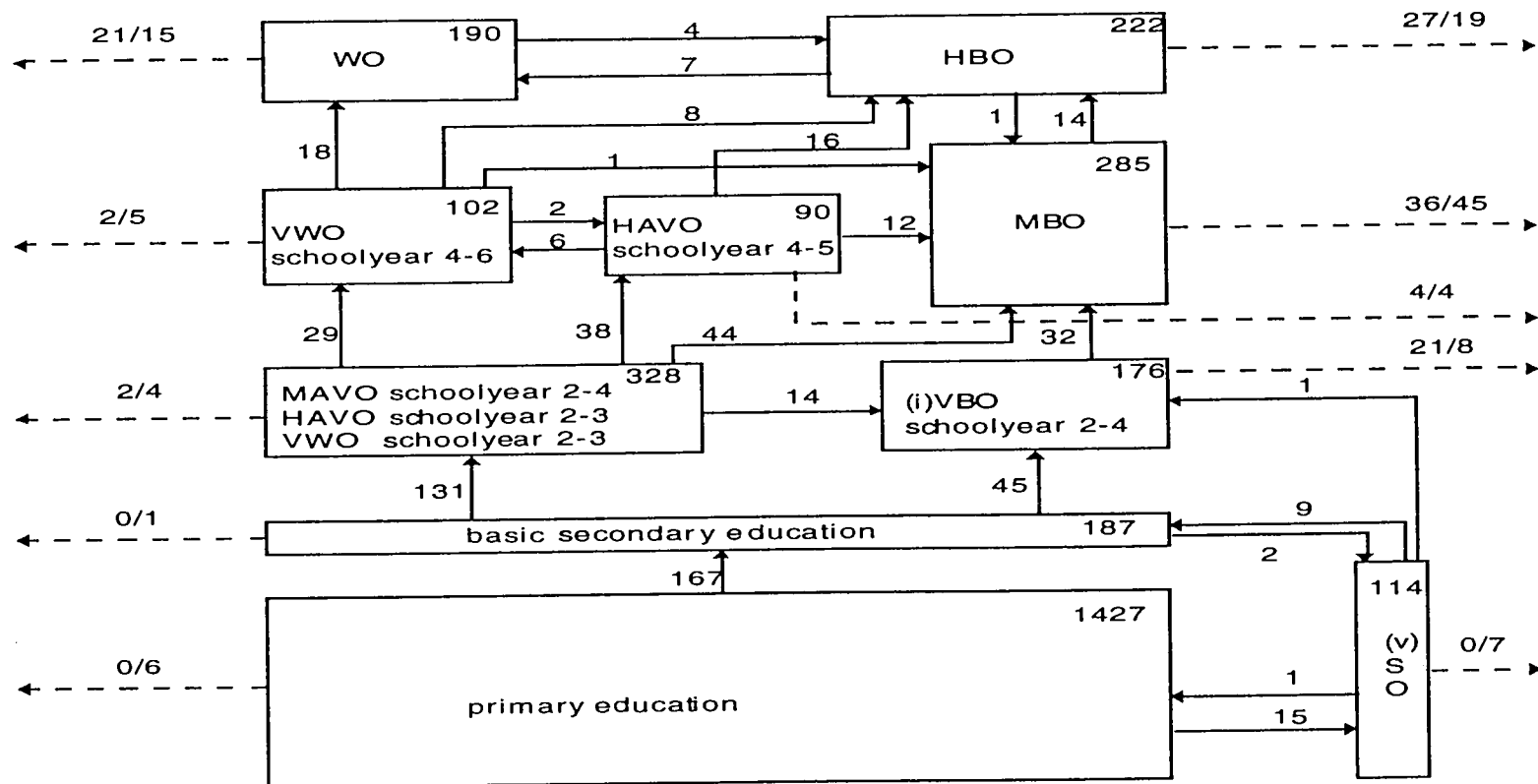
V.1.1.1 *Regular education*

In this section we will describe the main structure of the current Dutch educational system. To get insight into the rather complex system we will start by discussing regular full-time education only. In a later stage, other types of education will be presented as well. These latter include business training, basic instruction, etcetera. Because of limited space, we cannot be exhaustive.

The basic structure of the Dutch educational system is given by figure V.1 on the next page. The educational foundation is laid by eight years of primary education. The first two years can be seen as kindergarten. The latter six years include primary education. For children who are not doing well in the regular education, special primary education ("*speciaal onderwijs*") is available. The primary education phase is followed by basic secondary education of one year for every school-going person, except for young people who attend special education. After this general year, school-going young people disperse over four types of secondary education: three levels of general secondary education and lower vocational secondary education (*VBO*). The three general levels are - from low to high successively - lower general secondary education (*MAVO*), higher general secondary education (*HAVO*) and pre-university education (*VWO*).

The vast majority of the pupils who leave the common basic year enters general secondary education. In the transition of school-year '92/93 to '93/94, 176,000 youngsters moved up from the common year to higher years of secondary education. From the persons 75 percent moved up to general secondary education and only 25 percent moved up to lower vocational education. In previous years a larger proportion of primary education graduates chose for *VBO* (at that time *LBO*).

Figure V.1 Flows and stocks in full-time education



Source: CBS, *Kwartaalschrift Onderwijsstatistieken*, 1995

In 1977 about 38 percent of the primary education graduates chose for a VBO-education. In 1989 this had decreased to 34 per cent⁷⁸. There have not been large shifts between the three types of general secondary education (*MAVO*, *HAVO*, *VWO*). So we can conclude that the share of general secondary education is expanding at the expense of lower secondary vocational education.

Higher secondary vocational education (*MBO*) can be accessed either by *MAVO/HAVO/VWO* graduates or by *VBO* graduates. The former flow is somewhat bigger than the latter. In the transition of school-year '93/'94 to school-year 93/94 44 thousand students moved up from general secondary education to *MBO*. The inflow to *MBO* from *VBO* graduates amounted 32 thousand. An *MBO* education, just like *HAVO/VWO*, gives access to higher vocational education (*HBO*). Pre-university education (*VWO*) gives access to university (*WO*). Whether a university entrance examination should be installed is a topical matter. Minor flows between the different types and levels of education are shown in the graph as well, but will not be discussed in this rough sketch of the educational system.

The schedule also reflects the number of students who leave school without a diploma (the dotted lines, the first number is the number of pupils who leave school with a diploma, the latter number is the number of pupils without diploma). In particular the high outflow of students without diploma at *MBO*-level is striking. People who leave the educational system without diploma have less opportunities on the labour market. This is especially true for those without a completed general secondary education or lower vocational secondary education (*VBO*). They have a bigger chance of being unemployed as we have seen in chapter 1.

Table V.1 shows the number of persons who attend(ed) full-time education. Participation decreased until school-year 1992/1993. Since that year, the trend is slightly positive in nominal terms. In school-year 2000/2001 participation will be 100,000 persons higher than in 1994/1995.

There are no large shifts between the various types of education.

Table V.1 Full-time education, number of pupils/students (1985/86 - 1994/1995 and forecasts 2000/2001, thousands)

	85/86	90/91	92/93	93/94	94/95 ^{a)}	2000/01
Primary education	1,469	1,443	1,451	1,472	1,451	1,550
(Continued) Special education	100	109	111	114	117	128
General secondary education	804	684	668	668	666	889 ^{b)}
Lower vocational secondary education	359	233	217	214	210	
Higher vocational secondary education	276	289	283	285	290	295
Higher vocational education	149	194	214	222	228	240
University ^{c)}	169	181	188	188	185	149
Total	3,326	3,133	3,096	3,118	3,147	3,251

a) Preliminary figures.

b) Including lower vocational secondary education.

c) 1985/86 - 1994/95 full-time and part-time education (number on December 1).

Source: CBS, Statistisch Jaarboek 1996 (1985/86 - 1994/95).
Ministry of OCW, Reference estimate 1995 (2000/01).

The educational participation rate expresses the proportion of people who are in education as a percentage of the total population. Persons are counted as pupil/student when they follow a course for at least six months at a Dutch teaching institute during the year considered. Table V.2 shows this participation rate according to age for the previous five school-years. We see a slowly reducing rate of participation in education. The share of people over 25 years old who attend education is becoming smaller⁷⁹. This trend is also visible for the youngest age group (under 15), although more moderate. The participation rate of the middle age group (15 - 24) is increasing. This is probably due to prolonging of the educational period.

Table V.2 Participation rate (in % of population) according to age (1990/1991 - 1994/1995)

	90/91	91/92	92/93	93/94	94/95
Total	29.3	29.2	28.7	28.1	27.7
Age					
<= 14	72.1	71.5	71.2	71.2	71.7
15-24	63.6	64.2	64.7	65.2	66.1
>= 25	9.5	9.7	9.3	8.8	8.4

Source: CBS, *Kwartaalschrift Onderwijsstatistieken 1995/IV*.

79 This is probably the result of policy as regards university education (shorter courses) and student grant(s).

V.1.1.2 Other forms of education and training

Besides regular full-time education there are various other types of education. In the scope of this text we cannot deal with all of them extensively. Most of the other types of education are part of the broad concept of adult education. An overview of participants in the various types of adult education is given in table V.3. Our discussion is restricted to three types of (adult) education: part-time education, basic education and business training. Other types of adult education are for example acknowledged written education, extracurricular oral education and television courses (teleac).

Table V.3 Participation in adult education (1985, 1990 and 1994, thousands)

Type of education	1985	1990	1994
Basic instruction	87.9	115.1	142.0 ^{a)}
Lower general secondary education	64.2	52.5	47.4 ^{b)}
Higher general secondary education and pre-university training	39.3	35.3	31.5 ^{b)}
Lower vocational secondary education (VBO)	14.2	8.7	7.5 ^{b)}
Higher vocational secondary education (MBO)	34.0	55.1	49.8 ^{b)}
Higher vocational education (HBO)	61.7	53.2	47.6 ^{c)}
University (WO)	10.2	14.7	115.9
Open University	14.5	36.1	32.1 ^{c)}
Vocational guided education	113.8	157.2	165.6 ^{c)d)}
Cursory entrepreneurial education	33.8	33.8	64.8 ^{e)}
Sociological training juveniles	11.1	8.0	19.1 ^{c)d)}
Health education (at branch level)	45.4	39.2	45.3 ^{c)}
Training measures	39.2	110.7	85.5
Acknowledged written education	179.3	237.5	190.8
Extracurricular oral education	92.9	168.0	177.3
Courses in training centres	107.7	106.4	61.9 ^{c)}
Teleac (television courses)	140.3	140.1	120.5
Company training (private sector) ^{f)}	706.5 ^{g)}	1,118.5	1,244.6 ^{c)}

a) Preliminary figure.

b) Concerns the year 1992.

c) Concerns the year 1993.

d) Including part of the short higher vocational secondary education (KMBO).

e) Data not comparable with the data of previous years because of changed questionnaire.

f) Number of attended internal or external courses.

g) Concerns the year 1986.

Source: CBS.

Part-time education

Roughly one million people attend part-time courses. These courses are mainly taught at teaching institutes who also offer regular full-time education (primary and secondary schools, higher vocational schools and universities). Part-time education is of a different character than regular full-time education. Regular education generally raises the educational level of students. For part-time education this is only true for a third of the students. The other students follow courses at a level they already attained. In particular mediate and high educated people follow part-time courses. A large share is taken by language courses⁸⁰.

Basic education

The second type of (non-regular) education we would like to discuss shortly is basic education, which is meant for adults who fell behind in regular education. Language skills, arithmetic and social skills are central in these courses. The participation expanded quickly in the early nineties (see table V.4). In 1990 about 115,000 persons attended basic education. In four years time participation has risen to 142,000 persons (in 1994). This rise is caused by an increasing participation of immigrants. The participation of natives rose slightly in the early nineties but is now back on its original level of nearly 60,000 persons. The number of immigrants rose from 57,000 in 1990 to 85,000 in 1994. For this group basic education is appropriate to learn the Dutch language, which is seen as necessary to function properly in Dutch society and in the labour market. Immigrants who speak and write Dutch reasonably well have a better labour market prospect than those who do not. Basic education can be an instrument to raise the participation of immigrants.

Table V.4 Participation in basic education, total and according to gender and ethnic origin (shares of total), 1990 - 1994

	1990	1991	1992	1993	1994 ^{a)}
Total participation	115,000	121,000	134,000	145,500	142,000
Shares:					
Men	36%	35%	35%	35%	38%
Women	64%	65%	65%	65%	62%
Natives	50%	50%	49%	44%	40%
Migrants ^{b)}	50%	50%	51%	56%	60%

a) Preliminary figures.

b) Not from the Netherlands, naturalized foreigners and Dutchmen from overseas areas.

Business training

In 1993 about one quarter of all employees followed a business course (CBS, 1996). The vast majority of them are men. This difference between men and women diminishes when we express the number of employees who followed a business course as percentage of the total number of employees (men: 26 percent, women 22 percent). The share of the cost in respect of business training in total labour costs is

steady at 1.7 percent. In nominal terms the expenditure on business training rose from nearly 3 billion guilders in 1990 to 3.5 billion guilders in 1993. On average this is almost Dfl 1,000.- per employee. The cost involved in business training consist of the wage cost of employees who attend courses during working time, the cost of personnel who are involved in organizing business training and other cost (for example travel and accommodation expenses).

The NEI has done research in the field of business training recently (de Koning et al, 1991). Business courses are courses with a distinct link with the company involved. At least part of the cost involved must be brought up by the company. The courses can be either internal or external⁸¹. Internal business courses are only open for employees of the company involved. External courses are also open for employees of other companies. The study indicates that companies attribute high value to business courses. They expect these courses to fit in more closely to the needs of the company than regular education. For this reason they expect business courses to have a high economic return due to an increased corporate performance.

The importance of business courses differs by sector. For example, in the insurance sector business courses are more prominent than in the metal and construction industry. The evidence suggests furthermore a connection between company size and business courses. The proportion of employees who are involved in business courses is larger the company is⁸².

An interesting question is whether companies invest enough in business courses. There are a number of causes for under-investment in education and training. Firstly, there is the free-rider problem. Companies face the risk of losing employees who have followed business courses. Other companies can buy out employees with a high human capital due to business training. This results in economically not-optimal level of investment of companies in business training. This does not explain why employees do not invest in business training themselves. Under-investment in education by individuals can be explained by the uncertainty as regards the benefits of education. This risk is not insurable. The results of the NEI-study indicate that companies would like to invest more in education of personnel but face some bottlenecks. The character of the obstructions differs by sector. In the construction and transportation industry the unwillingness of personnel to attend courses is the most important hindrance. In the insurance and chemical industry, the main problem is the lack of clarity about the possibilities and quality of the various courses. In the chemical industry the working pressure is so high that a higher participation in courses is not possible without endangering production. Extension of courses in the machine industry is hindered by financial limitations.

81 On the job training is excluded.

82 This is confirmed by figures of the CBS about the year 1993 (CBS, 1996).

V.1.2 The transition from school to work

V.1.2.1 *Some evidence*

In this section we will analyse the problems with the transition from school to work in general and the problems of allochthonous juveniles in particular. Does the educational system provide persons who enter the labour market with the required skills? In other words, how is the connection between education and work? It is hard to determine whether the educational system provides the skills required in the labour market. The match between labour supply and labour demand is difficult to quantify. We will have to restrict ourselves to indirect measures like the job-finding-duration and unemployment rates.

We can get an idea of the transition from school to work in terms of job-finding-duration. The concept of "job-finding-duration" can be defined as the time which elapses between the date on which people start searching and the date they find their first "relevant job". The concept of "relevant job" does not include temporary work, holiday jobs, home work, seasonal work etcetera. Job-finding-durations are calculated by SEO based on figures of the CBS. The average job-finding-duration amounted 9 months on average in 1995. For university graduates this was no less than 20 months. This is a gloomy prospect for university graduates. The average duration is high, even in the light of the bad labour market situation. Borghans and Willems (1995) question these very high job-finding-durations. They have made alternative calculations and found considerably shorter job-finding-durations. Their main criticism is that the CBS-data inhibit a bias⁸³.

Over the years 1992 and 1993 the job-finding-durations increased considerably. In particular for graduates of *VBO* and *MAVO*. For graduates of *MBO* and *HBO* the increase was somewhat less. Graduates of technical courses have the best start position. This is valid for every educational level. The start position of school-leavers with a socio-cultural or pedagogical education is less prosperous. Another group of graduates who search (much) longer than average for their first job is formed by academic graduates in the languages and in history. An overview of the effect of the kind of education (on each level of education) on job-search-duration is presented in appendix D.

The job-search-duration is not only influenced by the kind and level of education, but also other factors like ethnic origin, region and age play a role. There is a clear link between job-finding-duration and ethnic origin. The average job-finding-duration of Turks and Moroccons is over twice the time it takes for comparable autochthonous graduates to find their first job. For Surinamese and Antilleans this is no less than 2.7 times the job-finding-duration of natives. The older the graduate, the longer the job-finding-duration. A 24 year old needs about one and a half as much time as a sixteen year old to find the first job. School-leavers in the three northern regions do have more trouble finding a job than school-leavers in the western region. This may be related to the larger labour-surplus in the north compared to western

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This is caused by a different kind of operation of the concept of relevant job, the way in which holiday immediately after graduating is handled with and the exclusion of a job-finding-duration of zero in the SEO-research.

regions. We have mentioned some factors which influence the job-finding-duration. These factors reinforce each other when they are present simultaneously.

Appendix E contains the unemployment rates according to level and field of education for the year 1994. This also gives some insight into the relative position of graduates. What we see is relatively high unemployment rates for persons with a general education (primary education, lower and higher general secondary education). Unemployment amongst persons with a vocational education is generally much lower. The exception are persons with a lower vocational education (VBO). So, a vocational education on mediate and higher level (in certain fields) seems to give relatively good perspectives on the labour market.

The starting position on the labour market of allochthonous young persons is worse than the position of native youngsters. The main explanation for the weak position of allochthonous youngsters on the labour market is the difference in preliminary training (Bokhoven et al, 1994). Another reason is that part of the allochthonous young people have foreign diplomas which are valued less than equal Dutch certificates. Allochthonous young persons have a high drop-out rate. The bad starting position of allochthonous young people is also a result of other factors. Not trying to be complete we mention changes in the economic structure, an increasing supply of migrants, the workings of the labour market and socio-cultural factors (NEI, 1994). Some of the socio-cultural factors are the language barrier, discrimination and cultural factors. With respect to cultural factors we can mention the labour attitude (not meeting formal requirements, presentation at job interviews).

V.1.2.2 Special measures

For unemployed persons additional educational facilities are available. They are mainly the responsibility of the PES. The purpose of these measures is to improve the chances of the unemployed on the labour market. They aim primarily at persons with a weak labour market position (low skilled persons, migrants)⁸⁴. Furthermore, a special place is taken by the Guaranteed-Jobs-for-the-Young scheme (JWG). Both the training measures for unemployed and the JWG are already discussed in chapter 4. They may nevertheless be important to alleviate the transition from school to work. The JWG may enhance the transition from school to (regular) work by letting the young unemployed gain some work-experience in additional jobs. In this context we limit ourselves by a supplement of the already mentioned measures. Besides the PES social partners are involved. In 1990 the social partners in the various branches of industry have obliged themselves to create 60,000 jobs for allochthonous people within a period of five years. In practice a smaller number of jobs has been created.

84 Though we saw in chapter 4 that more privileged unemployed are increasingly reached by these training measures.

For allochthonous persons the educational and training policy offers four special features to improve their chances on the labour market (Bokhoven et al, 1994). These are:

1. Priority policy with regard to education. This means the attribution of extra resources to projects in areas with a high percentage of allochthonous persons.
2. Dutch as second language, aimed at the relief of non-natives who flow in from foreign countries.
3. Education in their own language, which mainly has value for the reinforcement of the cultural identity and to support the learning of Dutch.
4. Intercultural education, educational projects and refresher courses of teachers to realize that students grow up aware of the multi-cultural society.

These specific measures only have an indirect link with the labour market. The expectation is that the improvement of language and arithmetic skills of minorities leads to an equalization of opportunities on the labour market.

V.1.3 Effects of education

Education - seen in an economic perspective - is only useful when the benefits out of education make up for the cost involved. The potential benefits of education are depended on the level of measurement. The potential benefits for an individual employee will differ from the potential benefits at company level. For example, net income is an important benefit at individual level, while at company and sectoral level the productivity-effects are more important. In this section we will discuss the effects at three levels (the micro level, the meso level, i.e. branch of industry and the macro level).

Firstly, we will examine the micro level which incorporates both the level of the individual and the company level. Three kind of benefits can be distinguished for the individual: effects on the (net) wage, other benefits within the labour market and benefits outside the labour-market (Gelderblom et al, 1994). Education can be seen as an investment. The rewardence exists of an increased life-time income. This aspect of education is stressed by the human-capital theory. This higher rewardence is mainly expressed in terms of a higher nominal income, but also fringe benefits can form an extra source of income. Other benefits within the labour market are among other things the chance of being unemployed, the possibilities of job switching and working conditions. Higher educated persons normally work under better working conditions. Examples of benefits outside the labour market are a higher productivity in domestic activities and a longer life-expectation (derived from Haveman en Wolfe, 1984). On the cost side we can think of the direct costs involved in the education: tuition and examination fees, costs of books and other study material. Part of these costs will normally be compensated by the government or family members. Other costs are opportunity costs. In stead of earning income out of labour, the individual is occupied with education. This loss of income forms costs for the individual. These costs, however, are partially compensated by the government (grants) or by family members.

Gelderblom et al (1994) determined the returns of education at the individual level by calculating internal rates of return, similar to returns on investments in physical capital. Direct costs and opportunity costs were taken into account. Higher wages (in comparison with individuals with less extended school-careers) and scholarships and other subsidies were taken as the financial benefits. Most important conclusion is that the internal rate of returns are in most cases positive. If the differences in labour-market participation of those with different educational career paths are taken into account, the returns even increase, especially for women. Several very lasting career paths also have positive returns, in spite of the relatively large costs of these routes. So, individuals do generally make up the costs involved with their education.

At company level an increased productivity is the primary benefit out of education. The wage increase due to education forms the main costs. At branch level the productivity-effects may differ from that at company level because at branch level there is the possibility of crowding out. A growth of productivity of a company can be at the expense of other companies.

Two studies of the NEI indicate positive effects of education on productivity at both the company and the branch level⁸⁵. The higher the educational level of the employed in a sector, the higher the productivity of the sector. Comparisons show that an increase of the working population by one percent-point of higher educated persons leads to an increase in production of nearly 2.5 percent. In the case of persons at secondary level or lower educated, the increase in production is slightly more than 0.5 and 0.25 percent respectively. Differences in marginal productivity between workers with different levels of education seems to be larger than differences in (gross) wages. At company level there are also some indications for a positive effect of education on productivity, though less convincing than at sectoral level⁸⁶. A striking conclusion of both studies is the substantial positive effects of company training on productivity.

At macro level, other effects besides the ones already mentioned also occur. Raising the general educational level means higher taxes and a smaller labour force. On lower levels of analysis these effects are neglected. The higher income due to the higher educational level also affects the size and pattern of consumption. Furthermore do macroeconomic rigidities have their effect on the effectiveness of education.

Gelderblom et al (1994) transformed the private rates of return into social rates of return. In order to do this, the net incomes were transformed in gross incomes. Moreover, the costs were increased by government expenditure on education. The outcomes show positive returns for most educational career paths, though the returns differ quite strongly⁸⁷. These differences show that from a pure financial point of view, government expenditure is not being optimally invested. Shifting of funds from education routes with a low social return to routes with higher social returns raises efficiency and thus prosperity. Most of the very lasting career paths

85 Gelderblom et al, 1995 and Gelderblom et al, 1996.

86 This may be due to data problems as regards determining productivity.

87 The most important limitation of the calculation of social returns is that macro-economic feedback effects of education are not taken into account.

which are considered to be inefficient by policy makers, also show positive return. Simulations were made with the assumption that the individuals also pay the government costs for the type of education they attend. In such a situation the individual rates of return fall to around zero. So, if individuals pay the government costs, they have no incentive to invest in education, while from a social point of view such investments would be profitable. This underlines the importance of the role of the government in financing education.

V.2 Tax and benefit

V.2.1 Social security, the tax system and the demand and supply of labour

In this section we will examine the relationship between social security and the tax system on the demand and supply of labour. Expansion of the social security system and the increase of taxes and social security contributions may have distorted the economy and the functioning of the labour market.

The link between high labour costs (due to high social security contributions and taxes) and the workings of the labour market is stressed more than once⁸⁸.

High labour costs demand a high labour productivity of workers. Otherwise it is not economically efficient to hire workers. This requirement of high productivity has set aside a large number of workers who could not meet the high requirements. These people "disappeared" in social security regulations (unemployment, WAO, VUT). In fact there exists a negative spiral. Due to the high labour costs workers who do not meet the required labour productivity leave the working process. This enlarges the group of people who depend on social security and diminishes the group of workers. The task of the last mentioned group (generating income for both the active and inactive) becomes more difficult to accomplish. This puts pressure on the social security contributions and indirectly also on labour productivity. The negative spiral can only be broken an increase of the group of workers, thus by increasing (net) participation rates. Higher labour costs reduce the demand for labour which causes a decline in employment (Jehoel-Gijsbers et al, 1995). Therefore, lower (gross) labour costs are important for employment growth.

The fact that the burden of social security premiums is put completely on labour, also plays a role. Research shows that if premiums would be based on total value added, this would have positive effects on employment (Den Broeder, 1989).

As previously said, negative effects can arise from the social security system being an easy way of getting rid of redundant employees. In the recent past the WAO regulation was used to get rid of abundant employees on a large scale. Most probably, changes in legislation and implementation has terminated this practice.

At the supply-side it is commonly acknowledged that benefits reduce the incentive to accept work. This is one possible explanation for the low participation rates. In economic theory this relation between benefit-level and wage-level is modelled by the job-search theory. This theory holds that job-seekers accept a job only when the

wage level exceeds their reservation-wage. Within this theory higher benefit-levels lead to higher reservation-wages. This prolongs the search process, because more jobs are rejected. When we apply this theory to the Dutch situation, it makes sense to include also the effects of income-dependent regulations (like housing-subsidy, municipal taxes). A job-seeker who falls under one or more income-dependent regulations may lose these revenues by accepting a job because of a rise in income. The net income improvement under those circumstances is less or might even be negative. This will certainly reduce the incentive to accept a job.

The mildness of the social security system is not only determined by the level of the social security benefits, but also the duration is important in this respect. The primary function of the social security system is to provide a basic income to persons who are not able to raise sufficient income by themselves. This situation should be only temporary. It seems, however, that social security benefits were increasingly seen as a regular source of income during the last decades. Also for longer periods. This change in moral and values has also put pressure on the system.

V.2.2 The wedge

The wedge for employees is the difference between gross and net wages. The wedge in the Netherlands is high. In 1993, the average level amounts just over 35 percent⁸⁹. Other European countries, such as Belgium, France, Italy and the United Kingdom, have a substantially lower average wedge of about 20 percent. Germany and Sweden are in the middle (25 percent)⁹⁰. The Dutch government has taken some measures to reduce the wedge on the lowest level. In 1996 the amount of income out of labour that is free from tax has been increased substantially (with Dfl 1,000,- per year). The lowest tax-rate has gone down the past few years, though the decrease has only be modest (from 38.55 percent in 1992 to 37.5 percent in 1996). The employees' contributions for the WAO has also gone down.

The wedge for employers will be more important for labour demand. In section I.4 it was shown that total labour cost is between 1.6 and 2 times as high as the direct gross wage. Legal social contributions and contractual social contributions account for about half of the difference between total labour cost and the direct wage. This is also high compared to other countries.

The government has also taken measures as regard the wedge for employers (SZW, 1995).

The yearly financial burden of employers for positions near the minimum wage is decrease with Dfl 1,500.-. If employers hire long-term unemployed then they qualify for an extra cut in taxes and social security contributions of Dfl 4,500.-, for a maximum of four years. Condition is that the new employee does not earn more than 130 per cent of the minimum wage. The first measure implies a reduction in wage costs on the minimum wage level of 4.5 per cent. This can mount to over 17 per cent when we also consider the extra cut for hiring long-term unemployed. Since

89 See also section I.4.

90 OECD, 1994.

January 1 1996 a franchise regarding the employers' share of the *AWf*-contributions (General Unemployment-fund) is in effect. This is one of a series of measures to reduce the financial burden at the lowest wage segment. This should lead to an increased demand for low-skilled labour. The franchise amounts Dfl 26,100.- on a yearly basis.

V.2.3 Changes in the system

In section IV.1 we have already discussed the recent reforms in the level and duration of unemployment, social assistance and disability benefits. We will not repeat them here: the main conclusion is that the "attractiveness" of social security has been diminished.

The Dutch social security system struggles with four structural and connected problems (Van Wijngaarden, 1993). Firstly, there are too many consumers of social security which causes problems with its financing. Secondly, the system is too complicated which makes it hard to control and to maintain. Thirdly, the system no longer fits the differentiation in family situation and labour patterns. Fourthly, it does not offer the security in income it objects to an extensive group of people.

Within the social security system a structural change in philosophy can be perceived. Lowering of benefit levels and more strict regulation as a consequence of budgetary cut-backs no longer are sufficient. In the Dutch society the insight has arisen that a fundamental choice regarding social security no longer can be avoided (see for example Van der Dussen and Van den Heuvel, 1995, p.9). No longer should the social security system only aim at the guaranteeing of income but in principle also aim at enlarging labour participation (the idea of the NABW).

To reduce the expenditure on social security and to make the implementation more efficient it is sometimes argued that competition should be introduced in social security. Until recently the Employee Insurance Institutions (for a discussion see section II.1) had a monopoly regarding the implementation of employee insurances. The new Organisation Act Social Insurances (*nOSV*) in effect since January 1, 1995 affects this monopoly position.

Another important change is the privatization of the Health Law (*Ziektewet*). Since March 1st 1996, employers are obliged to pay 70 percent of the wage of a sick employee for a period of 52 weeks. Before effectuation of the new act, employers had to pay at least 70 percent of the wage for 2 to 6 weeks. The extension of this period to 52 weeks means a stimulus for employers to take measures which reduce sickness of employees, for as far as sickness is caused by insufficient working conditions. Employers do no longer receive sickness-money from the Industrial Insurance Board but they have the opportunity to enter into private insurances to cover the sickness risk of employees. The contributions to the Health Act expire.

The special employee-regulations for civil servants will be abolished in the near future. They will come to fall under the normal employee regulations.

V.3 Industrial policies

In the seventies, large sums of money were involved in the restructuring of a number of branches of industry and in the support of individual enterprises (Van Hulst and Willems, 1992). For example in the ship-building and the textile industry. After the seventies we see a diminished popularity of this policy. In the eighties, this decreasing trend persevered. In recent years a strong privatisation tendency can be observed. In Europe as a whole but the Netherlands are no exception. Significant examples are the privatization of DSM, the Postbank and the PTT. Economic reasoning behind privatization of (partially) state-owned companies is an expected increase of efficiency, due to for example the improvement of the management and a stronger influence of the competitive environment.

The current industrial policy is primarily aimed at stimulation of investments in knowledge and related, in technology and innovation. The role of knowledge within the economy is irrefutably important. In a recent report of the Social Economic Council the link between knowledge and the economy is examined extensively (SER, 1995). Knowledge is not only essential for the competitive position of enterprises but also for the chances of individuals on the labour market⁹¹, for the solution of important problems in society and as a result also for prosperity growth. The concept of technological development is strongly related with knowledge. Technological development aims at the efficiency improvement of production processes or the renewal or quality improvement of products. Technological development has as consequence that the same production level can be reached with the use of lesser resources. Often technological progress is denoted as the engine of the economy, as the source of prosperity growth.

For the Dutch government the stimulation of knowledge and innovations are main policy-objectives⁹². Expenditure on research diminished from 2.3 percent of GDP in 1987 to 1.8 percent of GDP in 1993⁹³. Especially the expenditure of the private sector are relatively low in the Netherlands (OECD, 1994). The knowledge-intensity of the Dutch economy will be promoted. Research and development will be stimulated through fiscal measures. There will be additional means for the modernization of vocational education and for technology-programmes. Furthermore, the cooperation between companies and so-called knowledge-centres (research institutes and universities) will be promoted. The government will invest in three main technological institutes. Technological knowledge is central, but other forms of knowledge are important too.

As regards SME's in the "*memorie van toelichting*" of the budget of the Ministry of Economic Affairs 1995 the importance of knowledge for the small and medium-sized enterprises was already acknowledged. The knowledge infrastructure should become more accessible to small and medium-sized companies. Furthermore, the government has proposed a number of fiscal measures to reduce the burden for SME's (also new started firms).

91 See also our discussion of the effects of education in section V.1.3.

92 See "*Kennis in beweging*".

93 Which means a middle-position in the list of OECD-countries.

As regards active labour market policy, SME's are more than once mentioned as an important "target group" on the demand side. Firstly, SME's generally do not have sufficient own resources to organize the recruitment of new employees well. Helping them with recruitment and personnel policy in general could promote a more efficient labour market (matching will be faster). Some RBA's have set up special (paid or unpaid services) for SME's. Secondly, it is thought that lower educated will primarily have to find work in SME's⁹⁴.

The measures to reduce labour cost and public investment-programmes in the infrastructure can also be seen as forms of industrial policy for they intend to create better conditions for the private sector.

94 SME's are concentrated in sectors which employ a relatively high number of low-skilled workers (retail, restaurants and catering, other "personal" services).

VI The national debate: policy perspectives

The key words in today's policy making are:

- 1) market mechanism;
- 2) privatisation;
- 3) decentralisation.

In the 'seventies and the 'eighties it was widely believed that the government could control the economy using the Keynesian approach and that it could strongly diminish inequality in power, knowledge and income. Social protection was highly valued and was amply provided by the government. There is general agreement now that this has led to high government and social security spending, which has caused damage in terms of slowing down income and job growth.

In a way we are now at the other hand of the policy spectrum. There is a strong believe in the market mechanism. Many economists are of the opinion that structural unemployment is caused by government regulations which hamper the wage mechanism. Minimum wages, high social benefits, high firing costs and regulations concerning working hours are blamed. Not surprisingly, deregulation is seen as the solution. What is actually happening now in policy making is perfectly in line with that philosophy. Legal minimum wages still exist, but they are under pressure. For the time being a compromise has been reached between the government parties about minimum wages. According to this compromise employers are temporarily exempted from paying minimum wages when hiring a long-term unemployed person. That could be the first step in the direction towards complete abolition. As was mentioned in one of the previous sections both minimum wages and social benefits have stayed behind average wage growth. Furthermore, it has become less easy to receive a social benefit and many social benefits such as the disability benefit have been severely cut. It has become more easy for employers to get rid of workers and to prolong temporary and flexible contracts. Finally, regulations concerning working hours have become more flexible. For instance, shops are allowed to stay open longer.

In social protection more is left to industries and individual decision making. The most striking example is the complete privatisation of protection against sickness. If a worker is ill the firm has to pay at least 70 per cent of his salary. It can insure itself against the financial risk on the private insurance market. Firms and workers are free to have additional insurance to supplement payment to the full salary level. Similar ideas exist concerning disability. Some people argue that social security could be privatised almost completely, each person being responsible for this own social protection by insuring himself on the private insurance market. Some government regulation is still needed then, for instance to prevent exclusion of certain groups from private insurance arrangements and to prevent employers from using undesirable hiring practices.

However, we doubt whether the market philosophy in this extreme form will remain the dominant philosophy. This philosophy overlooks the importance of external and social effects. Perhaps there has been an overreaction on the previous period in which there was too much faith in what a government can do. Now, we are

beginning to see the disadvantages of a system in which too much trust is put on the market as the co-ordinating mechanism. Poverty, for instance, has not been on the political agenda for a long time, but recently the government has recognized that poverty is a real problem again.

Wage moderation has almost become a tradition and will not easily be abolished. However, it will be recognized more and more that wage moderation and reduction of the costs of low-paid labour is not sufficient to solve the problem that so many low-skilled people are unemployed. It is not just a matter of a shortage of low-skilled work, but in many cases simple work is carried out by skilled workers. Therefore, it is also important that more skilled work is created.

In labour-market policy privatisation and decentralisation are important too. The public employment service is no longer part of the government and may evolve more and more to a private organization just like START, a former government agency for temporary labour. The municipalities are becoming more and more important in active labour-market policy. In the future they may become the main actors in active labour-market policy. The municipalities are already responsible for job creation schemes. The available funds for active labour-market policy are already partly transferred from the public employment service to them. On the regional level there is strong tendency towards co-operation between the public employment service, the municipalities and also the organizations responsible for unemployment insurance.

An unsolved problem which will continuously get attention in the future is the backward position of ethnic minorities. Unemployment rates are much higher among the various ethnic groups and for some groups unemployment is exceptionally high. If the situation does not improve the call for a quota system will be heard again.

In view of the demographic development the position of older workers will probably change. There will be no room left for expensive early retirement or disability schemes. Inactivity rates among the 50 to 60 years old as we experience now will be unpayable. People will have to stay in the labour process longer. The government is already promoting measures that will facilitate that development. For instance, in the future old-age pensions will be based more and more on the average wage a person has earned during his career instead of the final wage. This will make it more easy for older workers to accept a wage reduction, which will lower the gap between wage and productivity. Consequently, employers will be more inclined to keep the older worker longer in active service.

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Annexes

Appendix A Possible measures for unemployment

In the Netherlands unemployment is defined according to the definition of the CBS. Although many definitions are used, the CBS definition is the most favourable because most of the statistical material is based on this definition. According to the CBS persons are unemployed when they do not have a job, are available for work on short notice and are actively searching for a job. A job should consist of at least 12 working hours per week. This implies that people working less than 12 hours per weeks are not counted as employed but as unemployed (when they also met the other criteria). The CBS definition of unemployment differs from the commonly used international ILO definition in that it requires a minimum of 12 working hours a week. The ILO definition does not include a minimum number of working hours per week. The CBS (and also the ILO) definition of unemployment does have some important drawbacks. Making operational concepts like searching activities and availability is rather difficult. Besides, people who really want to have a job stop searching for a job because of the high level of structural unemployment (the discouraged worker effect). So, it is rather questionable whether the "real" excess supply is measured when using this definition of unemployment.

A second measure for the excess supply on the labour market is the number of registered not-working persons at the Public Employment Office (PES). The main drawback of using the registrations of the PES as data source is the relative high degree of pollution of the PES-files. Often persons (still) registered as not-working are in fact having a job (and the other way around). This implies that the PES registration do not correctly present the level of unemployment. But the development in the number of persons registered at the PES may be used as a (conjunctural) labour market indicator.

To correct for the pollution of the PES-files, the CBS also uses a second concept of unemployment. This concerns the registered unemployment. The registered unemployed are defined as the persons between 16 and 64 years old who are registered at the PES and work not or less than 12 hours per week. Furthermore they must be available for a job containing a minimum of 12 working hours a week, or have accepted one so they are going to work 12 hours a week or more. Persons registered at the PES and not (longer) searching actively for work are counted as registered unemployed.

Finally, the number of unemployment benefit claimants can be used as a measure for unemployment. A number of problems arises however. First, we then have to determine which social security arrangements are related to unemployment. In theory, the answer on this question is quite simple but in practice disability benefit schemes and social arrangements contain a certain level of hidden unemployment. The second problem is that unemployment benefits may be granted to persons who are partly unemployed. In fact, entitlement to a Unemployment Act Benefit already exists when a person loses five working hours. So, the number of persons receiving an unemployment benefit overstates the number of full-time equivalents of unemployment¹. Thirdly, a considerable number of the beneficiaries is 57.5 years or older and receive an unemployment benefit up to retirement age (65 years). In many cases these persons don't search for a job, they even are not obliged to look for a job. A considerable share of the persons receiving an unemployment benefit therefore can not be seen as effective labour supply.

¹ However, the other sources do not give the level of full-time equivalents of unemployment either. All the probable measures express unemployment in persons and not in hours of unemployment.

Appendix B Overview of active measures (PES)

Instruments	Characterization	Implementation	Relevance for efficiency/equity	Target group
Information and advice				
Professional guidance	See name	Both internal and contracted out. Sometimes by special agencies.	Efficiency	Job seekers
Providence of information on professions, educational and training courses, etc. with indirect interest for the functioning of the labour market	See name	Both internal and contracted out (RBO's and women and workshops)	Efficiency	No limitations target group
Other providence of information and advice	Numerous subjects	Internal	Efficiency and equity	No limitations target group
Advice regarding the human resource policy of companies	See name	Within the framework of product innovation at a number of RBA's, sometimes in separate agencies	Efficiency	Employers
Placement				
Direct placement	Reference of registered job seekers to registered vacancies	Implementation primarily internal	Mainly efficiency	Employers with registered vacancies and registered job seekers
Route placement, including reorientation interviews (HOG), Active Labour Market Policy for the Young (AAJ), etcetera	Intensive forms of guidance of job seekers, often together with the use of (other) instruments	Cooperation between PES and other bodies (primarily the municipal social service)	Equity	Long-term unemployed; recently also persons endangered with long-term unemployment
Vacancy bank/presentation	Vacancy presentation (may differ by region)	Service of the PES	Efficiency	All job seekers
Application bank	Presentation of job seekers	Service of the PES	Efficiency	All employers with vacancies
Job paper	See name	Service of the PES	Efficiency	Differs by region
Permit policy foreign employees	See name	Internal	Mainly efficiency	Employers with bottlenecks in the recruitment of personnel
Policy with respect to the permit of dismissal	See name	Internal	Efficiency and equity	Employers with redundant personnel and employees threatened with dismissal
Outplacement	See name	Sometimes in separate agencies, established by RBA's	Efficiency	Employers with redundant personnel and employees threatened with dismissal

Instruments	Characterization	Implementation	Relevance for efficiency/equity	Target group
(Vocational) training				
Vocational training centre (CV)	Institution for practically oriented qualifying training	Until recently training institution within RBA context, at present also other constructions	Efficiency and equity	Mainly unemployed
Centre for vocational orientation and preparation (CBB)	Training institution for orientation and preparation	Until recently administratively part of municipality and means primarily through RBA's; at present also other constructions	Equity	Mainly unemployed
Women's vocational school (VVS)	Institution for qualifying vocational training of women	Financing for the most part through the PES; different administrative constructions	Equity	Unemployed women
General training scheme (KRS) for unemployed	Funding facility	Both internal and contracted out	Efficiency and equity	Unemployed
General training scheme (KRS) for employed	Funding facility	Both internal and contracted out	Efficiency and equity	Employed, mainly those who are threatened with unemployment
Application club	See name	Institution within RBA-context; also contracted out	Equity	Mainly unemployed
Primary Vocational Training for Adults (PBVE)	Training of unemployed through regular educational facilities	Constructions differ by region	Equity	Unemployed
Program Additional Training (PAS)/Basic Instruction	Funding facility	Constructions differ by region, primarily contracted out	Equity	Unemployed
Contribution Scheme for the Apprenticeships System (BVL)	Subsidy practical component of the apprenticeships system	Funding facility	Efficiency	Mostly young people
Contribution Scheme for Sectoral Training (BBS)	Training unemployed initiated by the social partners in branches	Funding facility	Efficiency	Unemployed

Instruments	Characterization	Implementation	Relevance for efficiency/equity	Target group
Placement subsidies				
General Employment Scheme regular jobs (KRA-RAP)	Exemption part of employers contributions and/or once-only subsidy	Mainly internal	Equity	Long-term unemployed; since recently also persons threatened with long-term unemployment
General Employment Scheme for Temporary Employees (KRU)	Subsidised temporary work	Implemented by TWA's	Equity	Long-term unemployed; since recently also persons threatened with long-term unemployment
Work experience				
General Employment Scheme Additional Jobs (KRA-WEP)	Work experience positions for maximal 1 year. Relatively high one-time subsidy for employer; can go together with employers contributions exempt	Implementation often together with municipal social service.	Equity	Long-term unemployed; since recently also persons threatened with long-term unemployment
Labour pools	Additional labour	Implemented by municipal organisation	Equity	Long-term unemployed
Guaranteed-jobs-for-the-young scheme (JWG)	Additional labour	Implemented by municipal organisation	Equity	Youngsters threatened with long-term unemployment
Other instruments/activities				
European Social Fund (ESF) aid programme	Training and placement subsidies; activities should be additional to national policy	Drawing up a programme in cooperation with the Ministry of SZW; organisation/coordination internal; implementation both internal and external	Equity	Mainly aimed at disadvantaged groups
Regional instruments	Various instruments (regional placement subsidies, training, job creation, etcetera)	Both internal and contracted out	Efficiency and equity	No limitations

Source: De Koning et al, 1995.

Appendix C Number of applications by instrument, in thousands (1985 - 1993/1994/1995)^{a)}

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total education and training ^{e)}	71.2	86.9	121.7	128.2	131.4	157.9	168.2	172.2	162.4	n.a.	n.a.
of which:											
Subsidy practical component apprenticeship system (BVL) ^{d)}	35.6	39.9	41.3	48.8	46.2	57.2	56.9	56.9	45.7	n.a.	n.a.
Contribution Scheme Sectoral Training (BBS)	-	-	-	-	0.7	3.1	5.1	4.0	4.2	n.a.	n.a.
Vocational training centre (CV)	6.9	10.5	11.9	12.1	12.6	16.1	16.2	16.2	16.9	16.0	19.0
Centre for vocational orientation and preparation (CBB)	3.0	3.2	3.4	3.8	4.0	4.2	4.2	4.2	5.0	6.0	5.0
General training scheme (KRS)	25.7	28.7	58.5	59.0	62.3	71.0	78.2	81.3	80.5	46.5	37.0
Computer courses (NIO, etcetera)	-	4.6	6.3	2.9	2.0	1.0	1.1	1.2	1.1	n.a.	n.a.
Primary vocational training for adults (PBVE) ^{e)}	7.3	3.2	10.8	16.5	18.1	18.7	16.8	21.4	20.5	-	-
Application club	-	-	0.3	1.6	3.6	5.3	6.5	8.4	9.0	9.0	n.a.
Total placement subsidies	16.1	13.2	16.6	17.7	20.8	15.6	15.1	13.8	14.8	10.7	n.a.
of which:											
Placement Stimulation Scheme (PBM)	7.8	2.9	-	-	-	-	-	-	-	-	-
Placement Support Scheme (MOA)	7.4	7.7	5.8	4.6	3.3	-	-	-	-	-	-
Measure long-term unemployed (MLW)/Vernieuw-Moor Act	-	0.8	7.7	8.5	10.0	-	-	-	-	-	-
General Employment Scheme (KRA), contributions exempt only	-	-	-	-	-	0.2	4.0	4.2	5.5	2.1	n.a.
General Employment Scheme, regular jobs (KRA-RAP)	-	-	-	-	3.9	12.3	8.4	7.0	7.0	6.2	n.a.
Youth Development Jobs (JOB)	0.9	1.8	3.1	4.6	3.6	1.0	-	-	-	-	-
General Scheme for Temporary Work (KRU) ^{d)}	-	-	-	-	-	2.1	2.7	2.6	2.3	2.4	n.a.

A.6

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total work experience ^{a)}	5.5	2.6	2.5	10.0	9.7	13.6	18.9	27.6	33.3	42.0	44.0
of which:											
Employment Creation Scheme (WVM)	5.5	2.6	1.3	1.5	0.9	0.2	-	-	-	-	-
General Employment Scheme, work experience (KRA-WEP)	-	-	-	-	1.1	6.4	5.9	5.6	5.3	4.0	n.a.
Municipal Employment Initiatives for the Young (GWJ) ^{b)}	-	-	1.2	8.5	7.7	7.0	n.a.	-	-	-	-
Guaranteed-jobs-for-the-young (JWG) (in benefit years)	-	-	-	-	-	-	7	6	12	18	21
Labour-pools (in benefit years)	-	-	-	-	-	-	6	16	16	20	23

- a) Double counting between instruments does occur.
b) For as far as known up to and including the third quarter of 1994.
c) Total excluding PBVE-applications. Those are also counted with KRS.
d) Formerly Contribution Scheme Vocational Education of the young (BVJ).
e) Formerly Vocational Qualifying Educational Projects (BKE).
f) Formerly Expenses Regulation Temporary Work (VU).
g) Total: new applications WVM and KRA-WEP and benefit years JWG and labour-pool.
h) Predecessor of the JWG.

Sources: Rapportage Arbeidsmarkt 1990 (1985-1990).
Employment Service, revision NEI (1991-1993/1994/1995).
Figures for JWG and Labour pool: Ministry of SZW, 1995.

Appendix D The effect of the field of education (on each level of education) on job-finding-duration

MAVO/VBO-level, compared to MAVO:	Effect on job-search-duration in days (1992)
Technical education	
construction	
furniture making/carpenting	-44
painting/decorating	-44
other construction	-28
metal	
welding/forging	52
other metal	-17
mechanical engineering	-6
electrical engineering	12
process engineering	-16
Economic education	
administrative	
business administration	11
process automation	50
other administrative	-3
retail	-28
Nursing	
home economics	4
other	-15
Languages, history and other	-2
HAVO/VWO/MBO-level, compared to HAVO:	
Technical education	
construction	28
metal	-20
printing	63
electrical engineering	40
general electronics	-33

MAVO/VBO-level, compared to MAVO:	Effect on job-search-duration in days (1992)
Technical education	
Economic education	
process automation	138
retail	-11
tourism	29
management	3
Care taking	
care of the elderly	-7
hotel and catering	-19
Medical education	
Nursing	-49
Social cultural education	
social work	35
HBO-level, compared to graduates HEAO (Higher Economic and Administrative Education, general economics):	
Economic education	
process automation	-34
management	51
Technical education	
electrical engineering	-11
Medical education	
nursing	-30
therapy	73
Pedagogical education	
teacher primary education	-1
Arithmetic and science	43
University-level, compared to general economics/business economics:	
Economic education	
management	15
Technical education	-6
Medical education	
medicine	-50
Arithmetic and Science	2
Legal and administrative	-6
Languages, history	518

MAVO/VBO-level, compared to MAVO:	Effect on job-search-duration in days (1992)
Technical education	
Social cultural	
Technical Education	116
psychology	
other (e.g. sociology)	112

All effects are compared to a reference person:

- female;
- native;
- single;
- living in the west of the Netherlands;
- and for:
 - MAVO/VBO-level: 16 years old, MAVO-graduate (expected duration of job-search 5 months);
 - HAVO/VWO/MBO-level: 18 years old, HAVO graduate (expected duration of job-search 5 months);
 - HBO-level: 24 years old, HEAO-graduate general economics (expected duration of job-search 14 months);
 - University-level: 25 years old, general economics/business economics graduate (expected duration 17 months).

Source CBS/SEO.

Appendix E Unemployment rates by educational level and field of education (1994)

	Unemployed labour force	
	Number (thousands)	Unemployment rate (%)
Primary education	103	17.1
Lower level secondary education	154	10.3
Lower general secondary education	56	12.0
Lower vocational education	98	9.5
nursing	38	14.4
technical	43	6.8
economic-administrative	16	12.8
Higher level secondary education	193	6.9
Higher general secondary education/pre-university education	42	12.0
Higher secondary vocational education	151	6.2
nursing	57	7.9
technical	43	4.5
economic-administrative	50	6.4
Higher vocational education	63	5.9
nursing	38	6.3
technical	11	5.2
economic-administrative	14	5.4
University	34	6.9
nursing	15	6.4
technical	10	7.9
economic-administrative	8	6.6
unknown	1	
Total	547	8.5

Source: CBS, *Enquête Beroepsbevolking 1994, 1995*.

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