Index of Modern Social Market Economies

Netherlands Country Report

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BertelsmannStiftung

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OPEN MARKETS

Controls on Capital Movement 9

Historically the Netherlands accumulated high savings during the Golden Age of the 17th century, then owing to the exploitation of its colonies and subsequently to high rates of saving. This encouraged many Dutch firms to invest abroad and to profit from cheaper production facilities. All this has inculcated a liberal attitude amongst the Dutch towards cross-border capital and payments.

A dilemma exists between being a competitive country in attracting foreign capital and firms – in particular their financial headquarters – and at the same time being fair in its tax rates for domestic firms and citizens.

The Netherlands has a very open capital market with high capital mobility in and out of the country. It is a major financial center, has a lot of financial expertise and many large multinational corporations have their financial headquarters in Holland and use trust companies as such headquarters. There are a number of regulations that "invite" such establishments and capital mobility. The Netherlands has 80 double taxation treaties with other countries. That makes it after the UK (110 treaties) and Belgium (90 treaties) the third largest in Europe.[1] These agreements make the country a very attractive location for firms to headquarter their international financial operations and minimize their corporate taxes. These treaties are usually to the competitive advantage of the Netherlands. The official tax rate on corporate profits is 25.5 percent. However, the effective tax rate is much lower because of the many opportunities for tax deductions. The effective tax rate via the Dutch Antilles can be as low as 1 percent. The Dutch authorities are however rather secretive about this, as they care for Holland's international reputation and do not want the country to be regarded as a tax haven. However, the British have again highlighted it. A British parliamentary investigation committee recently scolded three CEOs of quite visible American companies - Google, Starbucks, and Amazon - for having major business activities in the UK (together 7.45 billion Euros sales, 25,700 employees and names like 'www.amazon.co.uk, which ships the books with the British queen on the stamps) but paying hardly any taxes there. As Troy Alstead, the CEO of Starbucks Britain, told the House of Commons Committee: "We have a special but secret arrangement with the Dutch Treasury."[2]

[1] Stichting Onderzoek Multinationale Ondernemingen SOMO (2006) 'The Netherlands: A Tax Heaven?'
[2] De Volkskrant Nov. 14, 2012, p. 23.

Yet, in the interests of preserving its reputation, especially with the US, the Netherlands has created some constraints on transactions that seem suspicious and could involve money laundering. For example, it had to adopt and enforce two European Union directives that require the registration of international cash-transactions. The first obliges European banks to report any cash transaction over 10,000 Euros across European borders. The second directive requires banks to report any cash deposit over 15,000 Euros. Both are considered 'suspicious transactions', under the Dutch Law on Money Laundering and Terrorist Financing, (*Wet Witwassen en Financiering van Terrorisme, WWFT*). The law has further operationalized the concept of 'suspicious transactions' in a list of objective and subjective indicators. It was drawn up by the Financial Intelligence Unit of the Finance Ministry and evaluated by the global Financial Action Task Force. A major sanction that enforces such regulations is that countries with a poor record of fighting money laundering are blacklisted by the US and consequently their banks cannot engage in transactions with US banks. This situation currently affects Iranian banks. European countries are forced to follow the US example in order to do business with US banks. As a result, Iranian students in Europe currently cannot receive any money from their own Iranian banks.

Freedom of Migration 7

The Netherlands has traditionally been quite open to migration. In the 17th century it attracted many religious refugees. These included Protestants from the Southern Netherlands (now Belgium), Jews from Spain and Portugal and later Huguenots from France. Economic migrants also came from the German lands and eastern Europe. Between 1600-1900, there was a strong "trek to the borders of the North Sea"[3] where the wages were higher due to economic prosperity and the opportunities for work on the ships and in the colonies exerted a strong pull. An 18th century tourist guide introduces the Netherlands as a "country with many foreigners".

The decolonization of the Dutch Empire brought migrants from the former colonies. In the 1940s and 1950s they came from Indonesia, in the 1970s from Surinam and later also from the Dutch Antilles. This was paralleled and followed by labor migration in the early 1960s from Italy, Spain and Yugoslavia, later Turkey and Morocco and currently from eastern Europe, especially Poland. The Dutch had originally been less restrictive to citizens of the new EU member states, than the bordering countries of Germany and Austria, which had, after the entrance of these countries into the EU and based on their experience with labor immigration, bargained for a longer transition period. In the later round of new entries - Romania and Bulgaria - the Dutch became even more restrictive than the Germans and Austrians. But in the meantime several hundred thousand eastern European labor migrants from the earlier eastern entrants are currently working in

[3] Title of a 1984 book by Dutch migration historian Jan Lucassen.

horticulture, construction and various services. In addition, political or economic refugees have been arriving from Africa and the Middle East.

Many courses in universities are given in English, which has attracted a large number of foreign students, who also come because of the relatively low tuition fees for EU citizens, many of whom stay in the country after finishing their studies. Most recently German and British students are discovering Holland. However, there are much stricter rules regarding students from Bulgaria and Romania. At the same time, in practice there are many practical restrictions for non-EU foreign students, and so much paperwork, that it diminishes the attraction of the country for them. So far, immigration laws do not allow for taking the education level of potential immigrants into account, and this hinders also the influx of students from abroad.

There has also been emigration. Many Dutch left especially after the Second World War for classic immigrant welcoming countries, such as Canada, Australia and the US, and this phenomenon has recently picked up again.

In 2012, of a Dutch population of 16.7 million, which includes a potential working population of 11.1 million, there are 1.5 million western immigrants (defined as from Europe and North America) and 1.7 million non-western immigrants (from the other continents). The number of those with dual nationality stands at 1.2 million.

Recently, the large number of foreign-born inhabitants has caused concern among parts of the population, leading to an increased popularity of right-wing parties advocating more restrictive immigration policies. That has led to some constraints and controls on immigration for people from non-EU countries. Thus, for example, the conditions for bringing brides over from countries of origin require that the migrant earns at least 120 percent of the minimum wage. And the immigrant should have acquired already a minimal knowledge of Dutch in courses in the country of origin.

EU citizens of the old member states have free access, as do those from the newer member states of central and eastern Europe, with the exception of Romanians and Bulgarians whose countries joined in 2007. The Netherlands is currently the only EU member state preventing these countries from joining the Schengen area. However, migrants from other EU countries have the freedom to work and settle (and in practice this is easiest from Schengen countries) and the non-discrimination principle of the EU is largely adhered to. This implies that legal migrants who lose their jobs have full access to social security programs. Thus, at the end of 2011, there were 12,000 Polish and other eastern European migrants receiving welfare benefits (*bijstand*), while a larger number had access to unemployment benefits.

For non-EU citizens there are compulsory integration programs, notably Dutch language courses, which are provided for free. EU citizens cannot be forced to participate in such programs, and neither can citizens of EU candidate countries like Turkey.

Barriers to Market Access 9

Without an abundant supply of natural resources and with a strong need for open borders to allow its firms to export, the Netherlands has always had strong competition from abroad. However, in certain specific sectors, cartels were allowed for a very long time. Only in the 1990s was this cartel paradise dismantled. Finally, so called ZZP companies (*zelfstandigen zonder personeel*, or "independents without personnel") have also dramatically increased in number, so firms in this way were able to circumvent existing labor market regulations that were seen as too restrictive.

There are hardly any monopolistic markets, and many former government monopolies have been privatized over the last few decades. These include public utilities, energy, telecommunications, postal services, public transport, etc. As elsewhere in the EU this has been done partly under pressure from Brussels. In this the Netherlands has gone further than other EU countries like Germany or Austria, where postal services are still a monopoly.

In the past there have been business licensing conditions (*vestigingswet bedrijven*) requiring specific training and diplomas for many retail and handicraft branches. These were very specific, so for example, if one had a diploma as a butcher one could not also deal with poultry without another. However, in the 1990s many of these were either abolished or liberalized. They have only been kept for sectors with hygiene issues, (e.g., butchers, hotels and catering) and, of course, for professions such as medicine and law. This makes the Netherlands as a corporatist country stand out in comparison to other corporatist countries like Germany, Austria and Switzerland, which retain strict licensing conditions for many *Handwerk* (handicraft and retail) sectors, compulsorily organized by profession. It should be noted that this system has great advantages, notably the organization and funding of collective goods for the various sectors, such as the dual system (theory and practice) of vocational training schemes.

Some professions still have licensing conditions and are compulsorily organized by their respective professional associations, as they are in most other modern western countries. Market access is only available to those who have proven themselves to be qualified to perform these services. The professional associations also regulate the quality of service provision, enforce their own rules and regulations, and exercise disciplinary authority. These all serve to protect the interests of consumers and hence increase public trust in these service providers and thus their reputation and standing. Some legally backed regulations of these professionals can be seen as limiting market access, such as limited traineeship places, or limiting competition, for example through fixed prices for specific treatments, bans on advertising and on contingency fees for lawyers, etc. However, they add to the public trust in these professions. A loss of trust could lead to less consumption and thus "market failure".

Comparatively low litigation rates and low damages awarded in liability cases by Dutch courts imply that professionals do not have to fear high damages and do not really need expensive

insurance for these risks, as they do in more litigious and legalistic cultures, most notably the US and in countries like Germany or Italy. Many commercial conflicts are solved more informally and cheaply in sectoral "alternative dispute settlement" institutions, made up of representatives from the profession, their customers and some legally trained people. This is also the case for commercial conflicts in general. This adds to low market entry barriers.

The rather pragmatic and non-legalistic, commercial and political culture also means that people intent on founding a new business do not need to consult numerous lawyers before they can do so, as in the US. All one has to do is to incorporate by registering at a Chamber of Commerce which costs between €40 for a one-person business and €840 for a limited liability company with more than 250 employees. The procedure is quite efficient and unbureaucratic and the Chamber actually helps and informs those setting up a business. These low barriers have facilitated the recently increased popularity of ZZPs, one-person firms, as described above.

Framework for Efficient Rules

FREEDOM OF CONTRACT

Occupational Choice 9

In general, Dutch citizens have free occupational choice. No one can be legally forced into an occupation or kept out of one. Some jobs require a proof of ability and knowledge in the interests of consumers, as described above when discussing the liberal professions. However, citizens then have a free choice to acquire the required skills. There are no formal restrictions on access to the respective training, except proof of ability. Anyone with a high school degree can sign-up for technical, medical or legal training programs. Apart from this high school degree there are no other formal admissions criteria, although in reality there exist subtle, informal practices of selection and exclusion. Social inequality can also play a role here, as the income and education of parents may prejudice the educational careers of youngsters.

In the past, an aristocratic family background was a de facto requirement for diplomatic and political service. However, this is less the case than it was before. Now there is only one occupation that is formally inaccessible to Dutch citizens not having the right ascribed status: that of Dutch monarch.

In certain professions such as medicine, the enrolment of new students and later traineeships for specialists have been restricted to prevent oversupply. This was and is also a way to keep wages at a higher level than otherwise would be possible. In the same way there are still restrictions on the establishment of new general practitioners' surgeries and pharmacies. In the past, the same applied for notaries and other similar positions.

It should be noted, however, that freedom of contract is limited by many regulations and conditions in civil law as well as in public statutory regulation. The classic case is Holland's ban on child labor in 1874 the first modern case on limitation of freedom of contract.

Market Transparency and Consumer Protection 9

Markets are generally quite transparent and have become ever more so. For various reasons, and due to different public and private regulatory instruments, public actors have enacted regulations, both in civil law as well as in public statutory law to reduce the physical and commercial risks of prospective buyers. This is fair trade in the old sense of the word, i.e., not getting cheated. This is a tradition that goes back many centuries to municipal and guild regulations. Most modern regulations on market transparency and product quality now stem from the EU.

In the wake of market liberalization, new public regulatory agencies for consumer protection and the reduction of risk and uncertainties in transactions have been created, from a general consumer authority to the sectoral telecommunications and health care authorities.

Many of these public product quality regulations are regularly assessed, in response to repeated calls for the reduction of administrative burdens on business. It should be noted however that business itself has also provided many sources and standards for product assurance. They can and do come from a variety of different sources: From the producers themselves who try to build or sustain a reputation of quality backed by trademarks, by retailers imposing standards on their suppliers, as well as by producers imposing standards on their customers down the value chain about how to use and apply their products. In addition, quality standards are provided collectively per sector by trade associations, commercially by information sellers like publishers of product or service specific guidebooks, by certifiers, accreditors, rating agencies and by other "judgement devices", as the French sociologist Karpik[4] has called all aids that buyers may use to come to a sensible judgment about potential purchases.

Market liberalization has fueled an explosion of private labeling and certification (keurmerken).[5] Recently, the internet especially has substantially increased the transparency of markets. There are many websites specializing in comparing the quality and price of all kinds of products and services.

Product advertising is not regulated much. In order to avoid public disapproval, the government has delegated judgments about advertising content to a private Advertising Code Committee, composed of the representatives of producers, sellers, consumers and the media. This committee

[4] See Karpik (2010) *Valuing the Unique* (Princeton UP).
[5] For an overview, see for example: van Waarden. *Varieties of Private Market Regulation: Problems and Prospects*, in David Levi-Faur (ed.) (2011) *Handbook on the Politics of Regulation*, Cheltenham: Edward Elgar. pp. 469-485.

decides on the appropriateness of advertising. Their power of sanction is that the media represented in the committee will not use such advertisements that it deems inappropriate.

Certain markets are however characterized by intransparencies. Mostly, these consist of sellers with a strong market position. In these markets, the levels of prices are not easily related to costs and buyers find it difficult to learn what the relevance of these price differentials is and how to value them. Recent examples are notary and dentistry costs. In 2012 the prices for dentists were liberalized, which resulted in sharp price increases. In some other markets, there are implicit hindrances. For instance, it is still not possible to keep the same account number after changing to another bank, as is in the meantime possible with phone numbers. This implies that someone who changes banks will have to inform all his financial relations (employer, supplier, customer) of the new account number. As with having to change phone numbers before, such a burden tends to hinder mobility in the marketplace. Therefore, the legal requirement of transferability of phone numbers was imposed. Even though there has been considerable pressure from government, banks have been able to prevent this option being introduced, making a consumer choice for a somewhat cheaper bank, less attractive.

LIABILITY

Private Insolvency Rules 8

There has been a gradual, but slow improvement in the way people judge failure when young entrepreneurs start their own business, but then go bankrupt. One reason that the change is slow is the influence of stories about “clever” people, who use this option to evade tax and social security obligations, to the detriment of other creditors.

According to experts, it is relatively easy in the Netherlands, compared to other countries, to have someone, or a business, declared insolvent. All that is required is the declaration that someone has stopped paying their debts and that there is a creditor with a claim on that person or company. Then the courts can decide to seize the assets of the debtor. This ease is in the interest of the creditors and reduces their risks of engaging in transactions and indeed is typical of Dutch regulatory culture, which aims for risk reduction. Culturally, bankruptcy is seen as something to be ashamed of, a sign of failure. This contrasts with the US where the attitude seems to be more one of “nice try, try again”.

One would expect that all this would reduce people’s appetites for risky entrepreneurial initiatives. The data, however, shows otherwise. According to one source[6] the Netherlands ranks 5th on

[6] www.nationmaster.com, originally based on the CIA World Factbook. Most data 2005-2007.

a list of countries according to new businesses registered per capita. Of the larger countries, only the UK ranks higher, in 4th place. The US comes 32nd, France 33rd, Italy 42nd and Germany 51st. The Dutch high score may be due to the new popularity of ZZP companies, as described above.

Ratio: Medium-Sized Companies to Total Companies 8

There seems to be quite a balance. The country has a lot of very small firms (1-10 employees), a fair amount of middle-sized ones (10-100 employees), fewer medium-large size ones (100-2,000 employees) and a small number of very large ones, (2,000+ employees).

Table 1: Category / Number of Firms

Category	Number of Firms
1-10 employees	1,181,255
10-100 employees	58,775
100-2,000 employees	7,130
2,000+ employees	280

Source: Central Bureau of Statistics: Statline, 2012 | BertelsmannStiftung

The Netherlands has quite a few dynamic and innovative small firms, e.g., in horticulture, logistics and the creative industries. All of these are strong economic sectors in the Netherlands. Innovation is in part due to the fact that firms often team up with research institutes, for example in horticulture. The same holds for the country's very large multinationals such as Shell, Unilever, Philips, ASML (ex-Philips) etc. However, even though the Netherlands still has a relatively high number of multinationals for a comparatively small country, these firms have become less Dutch and more global. A relatively high number of them have been sold to foreign companies. The impression exists that other countries have given their "national champions" more protection.

Manager Liability 6

The period of liberalization after 1985 was characterized by increasing incomes and bonuses for top managers. These included high rewards, even in cases of dismissal due to blatant failure. This was the case in privatized public firms, in housing and healthcare for instance. In recent years, there have been a number of new laws to reduce incomes and bonuses in the semi-public sector, which stipulates that they should not exceed the *Balkenende-norm*, the salary of the prime minister. The same applies for severance payments, which are now limited to a maximum of one year's salary.

In principle, the managers of Dutch legal entities such as limited liability companies or foundations cannot be held personally liable for acts of the organization they have run. There are however

some exceptions. In cases of obvious mismanagement, for example, culpable negligence or *onbehoorlijk bestuur*, which has been defined by the Supreme Court of the Netherlands as something "no reasonable thinking manager would have done under similar circumstances," the corporation can try to recover part of the damages from the private assets of the managers.

Recovering damages could also be possible under the principle of *onrechtmatige daad*, the Dutch version of tort liability. But it should be noted that Dutch tort law is rather underdeveloped in comparison with American and British liability law, which has its roots in the age-old law of torts in English common law. There are generally few tort cases in the Netherlands, the requirements for proof of causality being high and the damages awarded by Dutch courts being rather low in comparison to those awarded by American ones. Hence, it rarely pays to sue under tort law.

After some recent scandals of gross mismanagement from which the managers personally profited while their companies suffered serious losses, there have been proposals to increase the personal liability of corporate CEOs. Such a scandal was the takeover of the major Dutch bank ABN-Amro by a consortium of Fortis, the Royal Bank of Scotland and a Spanish bank. This was a deal in which the Dutch CEO personally earned millions, but which led to serious damage to the Dutch bank, as it was divided into three pieces - notwithstanding their interdependencies - one for each of the foreign takeover banks. The ensuing financial crisis first aggravated this situation as the three takeover banks all came into serious trouble, but the Dutch bank was salvaged through a quick takeover and temporary nationalization by the Dutch Minister of Finance. In the wake of this major incident, the role of the former CEO of ABN-Amro and his personal enrichment came under heavy criticism, putting manager liability again on the political agenda.

Economic and Ecological Sustainability

FINANCIAL STABILITY

Central Bank Independence and Goals 7

As regards the independence of central banks, a distinction can be made between formal political independence and economic, technical independence from the state.

In terms of political independence, the Dutch central bank (DNB) has historically been independent since 1948. The government, notably the Ministry of Finance, could not tell it what to do. However, the government did appoint the bank's president and could potentially sanction the leadership for its policies and not reappoint a president. On the other hand, the bank had only one main goal according to the law, which was monetary stability by maintaining the inflation rate between 0 and 2 percent. The DNB was very successful in realizing this goal in the postwar period. The issue of independence of the DNB, however, has become less important as the power and

authority of the central bank and its responsibility for financial stability have been transferred to the European Central Bank. This question is thus rated according to the independence and goals of the ECB.

Prevention of Too-Big-to-Fail 6

The Netherlands has a highly concentrated banking sector consisting of a few very large banks. That does not immediately imply that there is no competition. As the Dutch financial market is a very open one, the market in which these banks operate is an international one, in which they compete with very large banks located in other countries. Domestically, there is still quite some competition of the kind we find in an oligopoly or even a duopoly akin to the famous "Cola Wars" between Coca Cola and Pepsi. The open financial market and global competition is also a major incentive for banks to grow bigger. All the current main players, ING, ABN-Amro and Rabo are the result of a series of mergers of former domestic banks, as well as takeovers of foreign ones.

The size and concentration of banks is not particularly problematic for competition or financial stability. Account holders at Dutch banks are guaranteed by the government, which allows for the creation and maintenance of trust in the banking system. However, with a company like ING whose total financial assets are estimated at four times the Dutch GDP, this is quite a potential risk. Such banks are indeed "too big to fail" and when they threaten to do just that, this could usher in a period of huge Icelandic-style disruption. Therefore, a European-level guarantee for bank holdings seems unavoidable, and de facto this is what happened recently with the EU supporting Spanish banks to the tune of € 100 billion.

In 2008, the Dutch government did interfere, when Fortis (which had then just bought ABN-Amro,) threatened to go bankrupt. The government used an amount equal to 30 percent of GDP to subsidize the banking sector by buying up, i.e., in effect nationalizing, ABN-Amro from Fortis. That stabilization intervention was successful because it was early, quick and flexible, as a result of which the problem turned out in the end to be less serious than later in other countries, such as Spain today.

Equity Ratio of Companies (7)

At the beginning of the recent financial crisis, it became apparent that banks had handed out too many loans leaving them very vulnerable. As a consequence, their assets declined in value. With Basel I and II, Dutch banks now have much stricter rules regarding the minimum level of equity ratio.

The tax system, which allowed interest payments on debt to be deducted from gross revenues, encouraged debt-increasing behavior, towards levels that were unsustainable once the economic crisis started. A similar observation can be made of the financial behavior of housing corporations and of individual homeowners, who made similar decisions.

On the whole, Dutch culture is one that values thriftiness and caution with regard to high indebtedness. An old value is, "earn and save first, then spend..." unlike the US where it is more, "spend and then earn and pay back." This financially conservative culture can also be seen in the relatively low rate of public debt of the country and the political priority given to the policy goal of balanced budgets.

The thrifty image the Dutch have acquired over the centuries has found expression in the use of the term "Dutch" in English expressions such as "going Dutch", "a Dutch treat", a "Dutch bargain", "Dutch comfort", a "Dutch book(maker)", etc.

CORRECTION OF EXTERNALITIES

Market Economy Instrument: Internalization of Externalities 7

Negative externalities, varying from environmental pollution, overuse or even abuse of common pool resources, and the exploitation of workers (e.g., in third-world countries,) may harm a corporation's public and therefore market reputation. Depending on how visible a corporation is, i.e., how well known its brand name is, and how sensitive it is, or could be, to having its reputation damaged, the market may be able to correct for such externalities or negative consequences of producing and selling goods and services. In other cases, regulation is necessary, which may raise production costs for business and thus internalize these externalities in the price. Often such regulations have come about at the explicit request of business representatives, as statutory regulations have been considered also by them to be the best way to create a level playing field for all companies competing in an economic sector.

Another manner in which the market mechanism could correct for negative externalities is through the use of tort law: Those third parties who suffer from business activities could claim damages in court. However, this is not very effective in the Netherlands, because unlike Britain or the US, it does not have a well-developed tort law system and hence the courts are not given to awarding substantial damages that could function as a deterrent. Reputational and municipal deterrents are therefore not strong enough to justify, in the eyes of corporate leaders, the costs of prevention or substitution for polluting or exploiting. The Netherlands can therefore be considered a country in which local governments early on and the national government later on enacted a variety of regulations to force businesses to avoid or compensate for externalities and created inspection agencies to enforce these regulations as much as possible, equally across the board. This was done from the Middle Ages, the Golden Age of the 17th century, and again from the late 19th century on, starting with the 1874 law banning child labor.

Nowadays, most such environmental and social market regulations, protecting workers, consumers, and citizens at large, stem from the EU, as its member states place great value on having a level playing field across the whole union. Hence, the Netherlands does not differ very much from

other EU countries as regards the nature of such regulations, but there may still be differences in degree and seriousness when it comes to enforcement, which may mean differences in costs to violating entrepreneurs and hence differences in the deterrent effects. The Dutch government effectively and consistently enforces environmental and social market regulations. However, climate protection mechanisms leave room for improvement.

Social Inclusion

EFFECTIVE LABOR MARKETS

Prevention of Duality 8

Dutch workers have strong protections against dismissal. There is nothing similar to the US system of "easy fire, easy hire/easy hire, easy fire". The Dutch have always attached great importance to protection against all kinds of risks and uncertainties, ever since they created institutions around the year 1000 against the risks of flooding. Hence the trade unions have made this an important issue, both in negotiations with employers and by exerting pressure on government.

Job security has been the prime concern in the Netherlands. That has resulted in protection against dismissal, both by statutory law and in collective wage contracts. Most workers have the legal right to a permanent appointment after a minimal period of temporary employment. When dismissed, workers can appeal that decision in court. In addition, collective dismissals require the agreement of the director of the regional public labor exchange office (*Arbeidsbureau*) or a local cantonal judge. Furthermore, dismissed workers have a legal right to financial compensation, related to the length of their employment.

This could and does create "insider-outsider" cleavages, between those with a permanent job and those without, namely the ones who do not get a permanent position after a period of temporary work. Thus, this policy could have created inflexibility and inequality. But here Dutch pragmatism has come up with a solution and compromise: Commercial temporary employment agencies. Long before other countries, like Germany, allowed for such agencies, the Dutch developed them. The Randstad company even became a multinational enterprise in this business sector, supplying temporary workers abroad, e.g., to the Olympic Games in the US.

Such temporary employment agencies hire workers and then lend them out to other companies. The employees get rights to primary and secondary working conditions from the employment agency, including rights to social security and a pension, while the companies that use the services of these agencies can get temporary workers by the week or even by the day. Of course they have to pay a premium to the agency for this, but that is the price of flexibility. While the unions originally objected to these agencies, they have in the meantime accepted them and negotiate

collective agreements with these agencies about the wages and working conditions of the temporary-permanent workers (uitzendkrachten).

The perspectives for such temporary workers have however changed since this system was introduced. In the early years most of the workers gained more experience and then obtained the option of a fixed contract. In recent years though, more and more people have had to settle for flexible contracts, while the option of a fixed contract is less frequently available. Highly qualified and flexible workers seem to adapt well to this situation because they are able to find a new job relatively easily if they lose their old one. For those without these advantages however, the situation in the labor market has deteriorated.

Despite these developments, many economists still do not find that there is enough flexibility in the Netherlands. Therefore, the country has been under pressure to further reform the labor market, by the European Commission among others. Such labor market flexibility has been made a condition for financial assistance from the EU and, while of course the Netherlands has not asked for such help, it is hard for the government to insist on such reforms in the highly indebted countries like Greece and Spain, without setting a good example itself by implementing such flexibility standards at home.

Quality of Social Partnership 7

Comparatively speaking, the Netherlands has had, ever since the inter-war years, but especially since the post-war period, a well-developed system of social partnership. Collective agreements, negotiated by employers' organizations and unions, were almost always declared the standard for the whole sector, meaning for all employers and employees regardless of membership. This gave the unions an especially strong position. Also, the relative success of wage moderation policies, during the 1950s, the early 1960s and again from 1983 until the end of the 1990s, were seen as excellent examples of positive union influence on economic policy. In recent years, the position of the unions has been undermined however and they no longer play a decisive role. Lower representation rates, internal fights between older and younger members and a reluctance to accept new welfare state arrangements have made the previous so-called *Poldermodel* less attractive.

Social partnership in the Netherlands was institutionalized at the national level for the first time after the war. Its institutions include the private Labor Foundation, under whose roof the leading employers' organizations and trade unions meet to and carry out macro-level negotiations about labor relations, working conditions, collective bargaining and, more generally, to discuss major macroeconomic issues and socioeconomic policy. This is also the institution at which sector-level collective wage bargaining has often been coordinated.

The Social and Economic Council (SER) is a tripartite rather than bipartisan body, which involves in addition to 11 representatives of each of the employers' organizations and trade unions also a third category, 11 experts appointed by the government, among them always the president of

the DNB (the Dutch central bank), and the director of the CPB Netherlands Bureau for Economic Policy Analysis. Unlike the private Labor Foundation, this organization is part of the Ministry of Economic Affairs, Agriculture and Innovation. CPB is where social partners discuss and consult with, and advise the government on socioeconomic policy.

In addition there are similar institutions of social partnership at the sectoral level. These include semi-formal bodies in which the sectoral social partners negotiate collective wage agreements. There are also institutions like committees and boards for cooperation on specific issues, such as the implementation of social security legislation or adjudication in legal conflicts regarding, for example, industrial relations at the company level, working conditions and social security.

There are also other institutionalized bodies with formal legal powers such sectoral statutory trade associations, formed by the social partners in certain economic sectors, notably in agro-processing, where the social partners not only advise but also enact legally binding regulations under public law which order their markets. Formal oversight of these bodies is one of the tasks of the SER.

These statutory trade associations can be compared in structure, legal authority, tasks and composition to the economic, labor, agriculture, small business and handicrafts chambers in Austria, Germany and Switzerland. It should be noted though that the continued existence of these statutory trade associations has repeatedly been questioned and the government is now considering abolishing them.

The system of institutions for social partnership, as developed after the war, is one with more formal legal institutions than the system that developed in other typically corporatist countries, for example, Austria. There, cooperation is channeled through more informal institutions notably the *Paritätische Kommission* (parity commission).

Institutionalized cooperation between employers and employees has had its ups and downs over the years. There have been periods in which relations have been rather cooperative, if not even harmonious. These were the 1950s to 1970s and the mid-1990s to the present. In some periods relations were more adversarial, notably the 1980s. Recently the social partners managed, after long negotiations, to agree on a recommendation regarding the raising of the pension age and changes in the nature of pension provision. It was however quite controversial and led, in its aftermath, to a major conflict within the major FNV trade union federation, resulting in a subsequently still ongoing major internal reorganization of that federation.

One classic indication of the absence of major frictions in the process of conflict resolution between employers and employees is the incidence of strikes, other labor conflicts and working days lost due to industrial action. In country-comparative statistics on this, the Netherlands scores at the bottom end. Another indicator is a long-term trend in moderate wage increases, keeping inflation and unemployment relatively low and thus the Dutch economy internationally competitive and innovative.

Employer-Employee Parity 8

At the company level, there are well-established and on the whole well-functioning institutions for cooperation between employers and employees, namely the works councils (Dutch: 'ondernemingsraden'), which can be compared to the German 'Betriebsräte'. These works councils have statutory backing, i.e. firms over a certain size are by law required to have such councils, and the law regulates their tasks and powers, the legal protection of workers on those councils, etc. On the whole they are still working well. They really have become solidly institutionalized in labor relations at the company level.

Parity at the macro-level is also well established, notably in the already mentioned national tripartite Social Economic Council where representatives of employers associations and trade unions are officially represented, have advisory rights to the government, and are regularly consulted by the government. In addition, organized employers and employees cooperate also in a bipartite institution, the Foundation of Labor ('stichting.van de arbeid').

In recent years the existing parity at the macro-level is however under pressure from the above mentioned developments inside the unions, declining membership and increasing struggles between older and younger members over pension rights, pension age and dismissal rights.

Effective Labor Market Programs 8

For a long time, the emphasis in reducing unemployment was on better matching supply with demand, and in raising the experience and education levels of the unemployed. These reintegration processes have not been very successful. For both employment agency and reintegration firms it was better to choose only those unemployed with better prospects. Nevertheless, even for those more attractive of the unemployed, reintegration efforts did not bring that many back to the labor market. In 2000 and again around 2007, vacancy rates were high, firms were looking for new personnel, but too many people depending on benefits remained unemployed. At the same time, people from Poland and other eastern European countries found it relatively easy to find jobs. In the last few years, consideration has been given to ideas about lowering wages and toughening the regime regarding the unemployed, i.e., about compelling them to accept any job that is offered. This debate is still ongoing.

The Netherlands has a great variety of educational and training programs. First of all, there is the regular, partly compulsory primary to tertiary system, which gives young people a variety of levels of education (see below for more detail) and provides skills to citizens in order to prevent long-term unemployment. In addition, there are training programs provided for people who lose their job. Participation in such training programs is often made a condition for receiving unemployment benefits or social assistance.

The commercial reintegration services mentioned above provide such training facilities even to the individual unemployed. These are funded out of the price that these companies receive from the government for promising to do their best to find them a job. The unemployed are practically 'sold' to be reintegrated by the government to these reintegration services, in batches or categories defined among others by whether it is easier or more difficult to place them. The reintegration agencies negotiate a higher price for categories of unemployed considered difficult to find a job for, as it is a greater challenge and more work for them. However, the commercial risks of these more "expensive" unemployed are great, and so hence the risk that the most expensive facilities were open to those whose labor market prospects were most difficult to be improved.

SOCIAL MOBILITY

Guaranteed Minimum Social Security 8

Minimum social security exists in the Netherlands and is comprehensive in comparison to other OECD countries. The Netherlands has several provisions aimed at ensuring a minimum income and avoiding poverty with fixed minimum levels, for workers, the unemployed, pensioners and other categories.

The Dutch tax system is less progressive than often thought, given the international reputation of the country as a rather generous welfare state. In 2011, the total income of the state amounted to €221 billion. Of that, only €65 billion (29.4 percent) came from direct taxes, €69 billion (31.2 percent) from indirect taxes and €86 billion (39.5 percent) from social security premiums. Indirect taxes on transactions are in principle the same for all consumers, hence not very progressive. Their contribution is actually even increasing as the government has just decided to raise VAT from 19 to 21 percent.

Of the 29.4 percent direct taxes - on income - 7.3 percent of total tax income came from capital (dividend and corporate profits) and 21.1 percent from labor. The progression of income tax is also quite limited. There are four tax brackets.

Table 2: Dutch Tax on Income: 2011

Tax on Income		in percent
1 On income from	0 – €18,628 (Just above the minimum wage of €17,359)	33
2 On income from	€18,629 – €33,436	41.95
3 On income from	€33,437 – €55,694	42
4 On income above	€55,694	52

Source: www.belastingdienst.nl (website Dutch Tax Office) | BertelsmannStiftung

There hardly exists any progression between brackets 2 and 3, and above €55,694 there is no further differentiation. While the tax system may be progressive in the lower brackets, this is no longer the case for higher earners. Most social security contributions are a fixed percentage of income while the premium for health-care insurance is fixed annually at a flat amount, equal for all, both the high and low income earners. Thus the very rich do not pay a higher percentage of their earnings than the middle-income earners.

Against this background, it cannot really be concluded that the higher incomes subsidize public provisions and services for the lower income earners. The latter pay quite a bit themselves for these provisions. Taking into account these public services provided by the government, from rent and mortgage interest subsidies to education or public transport offered for free or below market price, both the lowest and the highest income groups profit.

Nevertheless, a large part of public income goes to well-developed and relatively generous welfare state programs. These include compulsory public insurance against various risks such as unemployment, disability, sickness, invalidity, infirmity in old age, etc. These effectively protect against social exclusion. Legally defined minimum wages and minimum welfare benefits also protect against poverty for workers, as well as those who do not work.

Those who lose their job first get an unemployment benefit, the level of which is related to their working history, i.e., the length and degree of part or full-time employment. After this working-history-related period, they receive welfare benefits, which come close to the minimum income for all. This benefit, called *bijstand* (social assistance) amounts to 100 percent of the legal minimum wage for a family headed by someone aged between 21 and 65 years, 70 percent of the minimum wage for a single parent with child (same age range) and 50 percent of the minimum wage for a single person (again same age range). On top of that, they may be eligible for "earmarked welfare contributions" for incidental expenses.

Pensioners, all citizens 65 years and older, receive in 2012 a minimum pension from the government which amounts to €1,003 net per month for singles and twice €699 net, for couples. Former employees receive in addition, pension payments from a pension fund provided by their employers. All public and private employers are, by law, obliged to provide for pension facilities for their employees.

Finally, there is a social security program for income for the sick and disabled that used to be rather generous. It became quite attractive both for employees who were not very motivated to work and for employers that wanted to get rid of less productive or otherwise problematic employees. This program was also used between the 1960s and 1980s to facilitate major economic restructuring and to decrease the unemployment rate without actually creating new jobs. In this way, older people in traditional sectors, those in poor regions and the less educated were taken out of the labor force and given all kinds of social security benefits, such as unemployment, social assistance,

sickness, disabled and early-retirement payments. It was only after 1990 that the strategy turned into job creation. All those without paid work who are not, or no longer, registered as unemployed are called economically inactive. They may not contribute to a higher overall net income, but do not suffer from poverty.

Incentives to Work 8

For workers, there is a legal minimum wage that avoids the phenomenon known as the working poor. At the beginning of 2012, the Dutch minimum wage for anyone 23-years or older was € 9.27 per hour or € 1,446.60 per month, based on a 36 hour working week. For a 15-year old the minimum wage is € 2.78 per hour or € 434 per month.

Thus, the closure of older industries that had become less competitive due to globalization, such as textiles, coal mining and shipbuilding, was greatly facilitated, i.e., met with less trade union resistance than it would otherwise have done, by agreement among the social partners to place a large share of the older employees in these industries under the disability pension fund, which then provided for 80 percent of their former earnings until retirement age. Thus, at one point in the 1980-90s, over a million people received benefits from the sickness and disability pension funds. The impossibility of continuing with this strategy was made apparent through the development of the so-called inactive/active ratio, with inactives below and above the age of 65. While the latter ratio could be more or less stabilized, with more elderly, there was an equally strong increase among the former in the labor force. The new job creation strategy has resulted in a strong decline of that ratio for people below 65. Through this strategy, a lowering of tax and social security contributions became possible, lowering labor costs in general and so making labor more attractive as a production factor.

These welfare provisions for the unemployed with minimum levels could and do create a problem of reduced incentives of looking for work. When they find work, the income amount is deducted from their benefit. This is not compensated by any form of negative income tax, as this does not exist in the Netherlands. Hence, for this reason, the resulting problem, also known as the poverty trap, has the potential to pose a long-term unemployment or inactive worker problem in the Netherlands. In fact, the official minimum wage remains the base line for almost all adult benefits. Most benefits are around that level. The same applies for many low-qualified workers in the labor market. While a number of subsidies are income-related, the consequence is that a rise in wage income often results in minimal real income increases. This so-called marginal wedge is sometimes over 100 percent, implying that a wage income increase results in a lower net real income, including all subsidies. This does not stimulate efforts to stay in or return to the labor market.

Several measures have been taken to reduce this problem, short of abolishing the minimum benefit. The eligibility for disability pension benefits has been made significantly more difficult and those already receiving such a benefit were reexamined as to their degree of disability and ability

to work. More recently, attempts have been made to put the unemployed under more pressure to look for, and accept jobs. In order to create such pressure, the market model and profit-making incentives have been used. That is, a market has been created for reintegration services. Private reintegration companies can "buy" groups of more or less difficult but placeable unemployed with the task of finding work for them. The more successful they are in doing so, the higher their compensation from the government and the greater their profits. This practice has however met with mixed results. There was the problem of "cream skimming" the supply of the tradeable unemployed and those that got placed often did not keep or stay long in their jobs. Hence, the problem of a large percentage of inactives in the potential working population persists. This is insufficiently reflected in the official unemployment statistics, which are quite low compared to other European countries.

Whether or not the tax progression in the lower income brackets produces a poverty trap - implying that there might not be an incentive to search for work, as wages earned do not lead to more income when people lose benefits in proportion to wages earned, is difficult to judge. Holland's unemployment ratio, which was 5.25 percent in December 2011, is one of the lowest in Europe, and certainly does not point to large numbers of people stuck in a poverty trap. At the moment, tax rates do not seem to hinder labor participation. There is also evidence that the reduction in taxes and social security contributions from 45 percent in 1990 to approximately 39 percent today, has been beneficial for increased labor participation.

Education Structures 6

The Netherlands has quite a differentiated educational system. Primary education is, in principle, the same for all children aged 4-12. That is, up to this age there is something of a level playing field for all pupils, especially as they all finish this stage by taking the same nationwide CITO test. Partly on the basis of their grades, the pupils get selected into 7 streams of secondary education, based on different levels of intellectual capacity. In addition to their results, recommendations from their primary school teachers play a role in the selection process. From this moment on, the level playing field becomes different for different categories of pupils.

This system has its critics. Some feel that a crucial decision is made in the educational career of young people at too early a stage. Consequently, too many students leave secondary school without graduating or with such poor results that they are unable to find a regular job. Many of them subsequently find it hard to earn an acceptable income and they normally have difficulties in their social lives.

The 7 streams, from the hardest to the easiest for pupils are: The first two streams of general-theoretical education, VWO which lasts 6 years and gives graduates access to university, and HAVO which lasts 5 years and which gives students access to polytechnic universities offering what is known as HBO or higher vocational education. Then there are four different streams of

vocational training at the level of secondary education, all organized within one type of school, VMBO or preparatory secondary vocational education, varying from a more practical to a more theoretical approach. This type of school lasts 4 years. Finally there is a 7th stream, called "practical education," which can take up to 6 years.

At the tertiary level, education is provided by universities, polytechnic universities, and a great variety of more specialized secondary, vocational education programs or, in the Dutch abbreviation, MBOs. There is a strong trend nowadays for tougher competition for admission to university for both undergraduate and graduate courses. Until now, a lottery system was used to select a restricted number of students for certain subjects like medicine, but more and more enrolment is being based on extra tests, motivation letters and so on.

Thus the Netherlands has a differentiated system in which pupils are gradually directed into different streams. Flexibility to change educational track is quite limited, at least between the different levels of ability. Notwithstanding the fact that secondary education streams tend to be organized in one and the same, often very large organization (*scholengemeenschap* or community of schools) and similarly many MBO programs are also taught at one and the same large organization, Regional Education Centers or ROCs, there is limited mobility between the levels. There is some downward mobility, but moving upwards requires that a pupil first complete the lower level school and only with that diploma can one gain access to a higher level of education. Horizontal flexibility, between different specializations at the same level, is easier, at least for those that do not require highly specialized skills and knowledge. For example, it is easier for someone doing business economics to reorient himself toward a new job than for someone training to become a nurse, laboratory technician, instrument maker or automobile mechanic.

As to "flexicurity" based on "lifelong learning", the different tertiary school types, varying from universities to secondary vocational training, do offer short-term courses for acquiring further specialized or different knowledge. In addition, there is an Open University for distance academic learning.

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