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# THE ‘DUTCH MIRACLE’ EMPLOYMENT GROWTH IN A RETRENCHED BUT STILL GENEROUS WELFARE SYSTEM

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Tony Eardley
Editor

# Abstract

The Netherlands, until the mid-1980s a country with high unemployment, has seen rising employment for some years. Currently its unemployment rate is below five per cent. Employment growth is mostly due to the expansion of part-time jobs, particularly for women. Because there are many people in disability and early retirement schemes, unemployment is, however, still high. A special feature is that the Dutch have managed to bring down unemployment in a context of a welfare system which is still relatively generous. There have been cuts, but the Dutch poverty rate is still one of the lowest in the world. The most frequently advanced explanation for this 'miracle' is the wage restraint the unions accepted for more than a decade within the framework of the Dutch corporatist institutions. Looking at other low unemployment/high employment countries, however, one can doubt that this explanation is valid. The causes of the Dutch development are probably more complex, and perhaps include sharply rising house prices and the right of tax reduction through mortgage payments, an opportunity the Dutch people have used very extensively in recent years. By doing this they have raised purchasing power more than it was reduced by wage restraint.

# 1 Introduction

During the 1980s and 1990s in most western countries, labour market participation has been going down or at least has stagnated, and unemployment has risen. One of the few countries where the reverse has happened is the Netherlands. Harmonious relations and cooperation between capital and labour, and particularly the exchange of wage moderation for jobs, are seen as the secret of its success. This success is discussed in other European countries as a model. One of the reasons for this is that the Dutch have not paid the price of rising poverty for employment growth. Their relatively generous welfare system has largely survived. We will, however, see that Dutch development is not so magnificent as it superficially seems to be. Part-time employment is particularly high, labour market participation is still relatively low and, consequently, non-employment - including a very high rate of people in disability and early pensions schemes - is high.

# 2 The Netherlands' Employment Record

The starting point of the so-called Dutch employment miracle was in the early 1980s when registered unemployment soared to 12 per cent. Today it is not even five per cent. Nearly twenty years ago the Netherlands was, as were other countries, hit by the second oil crisis, and at the same time its labour market was put under stress by a sharply rising inflow of women. Participation rose at the very moment employment declined. At its peak, in the summer of 1983, unemployment reached more than 14 per cent.

Since then, however, the situation has improved. Until 1990, the Netherlands still lagged behind most of the surrounding states both in terms of participation and unemployment. The great leap forward only took place in the 1990s (see Tables 1 and 2; job growth continued in 1998 by 200 000; *Media News*, February, 1999). In Germany, the Netherlands' most important trading partner, standardised unemployment approached ten per cent. The same happened in Sweden, the former model country, and in Belgium and the Latin countries this threshold was exceeded. In Europe, countries with a record comparable to the Dutch one are Denmark, where participation stabilised at a high level and unemployment went

**Table 1: Participation in the Labour Market, Percentage of Age Groups 15-64 and 55-64: 1983-1996/97**

| | Persons | | | Women | | Persons aged 55-64 | | Persons in part-time work | | Women in part-time work | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | 1983 | 1990 | 1997 | 1983 | 1997 | 1983 | 1996 | 1983 | 1996 | 1983 | 1996 |
| Australia | 68.8 | 73.8 | 72.5 | 51.9 | 63.0 | 40.9 | 45.9 | 17.5 | 25.0 | 30.4 | 42.6 |
| Austria | 65.6 | 67.7 | 70.9 | 49.7 | 61.8 | | 30.8 | 8.4 | 14.9 | 20.0 | 28.8 |
| Belgium | 60.5 | 59.0 | 62.6 | 44.5 | 52.9 | 30.6 | 22.8 | 8.0 | 14.0 | 19.7 | 30.5 |
| Denmark | 79.6 | 84.1 | 79.8 | 72.8 | 74.2 | 54.0 | 50.6 | 23.3 | 21.5 | 43.7 | 34.5 |
| Finland | 77.4 | 76.8 | 74.3 | 72.9 | 71.1 | 50.4 | 46.4 | 7.7 | 8.0 | 11.3 | 10.9 |
| France | 67.4 | 66.5 | 67.1 | 55.6 | 60.7 | 42.6 | 36.6 | 9.6 | 16.0 | 20.1 | 29.5 |
| Germany[(a)] | 67.5 | 69.1 | 70.4 | 52.5 | 61.4 | 41.8 | 40.3 | 12.6 | 16.3 | 30.0 | 33.8 |
| Great Britain | 75.9 | 79.1 | 76.2 | 62.5 | 68.0 | 52.4 | 51.4 | 18.9 | 22.1 | 41.3 | 42.7 |
| Ireland | 62.8 | 61.9 | 62.7 | 37.8 | 49.7 | 48.4 | 43.2 | 6.7 | 11.6 | 15.6 | 22.1 |
| Italy | 60.1 | 60.8 | 57.7[(b)] | 40.1 | 43.6[(b)] | 34.7 | 28.5 | 4.6 | 6.6 | 9.4 | 12.7 |
| Netherlands | 59.0 | 66.8 | 71.5 | 40.2 | 61.3 | 32.8 | 31.2 | 21.0 | 36.5 | 49.7 | 66.1 |
| New Zealand | 65.3 | 74.1 | 76.9[(b)] | 45.7 | 68.0[(b)] | | 55.8 | 15.3 | 22.4 | 31.4 | 37.3 |
| Sweden | 83.0 | 80.4 | 76.8 | 78.3 | 74.5 | 68.2 | 68.6 | 24.8 | 23.6 | 45.9 | 39.0 |
| Switzerland | | | 81.5 | | 72.7 | | 59.2 | | 27.4 | | 52.2 |
| United States | 75.2 | 78.7 | 77.4 | 63.5 | 70.7 | 54.5 | 57.9 | 18.4 | 18.3 | 28.1 | 26.9 |

Notes: a) 1995 instead of 1996.
b) 1996 instead of 1997.
Sources: OECD, 1997a: 165-81; 1998: 191.

**Table 2: Registered Unemployment: 1983-1996/97**

| | Percentages | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Persons[a] | | | Women[a] | | Person aged 15-24 years | | Unemployed => 1 year | | Low education |
| Year | 1983 | 1990 | 1997 | 1983 | 1996 | 1983 | 1996 | 1983 | 1997 | 1994[a] |
| Australia | 9.9 | 7.0 | 8.7 | 9.9 | 8.0 | 17.9 | 14.4[b] | 27.5 | 28.4 | 8.6 |
| Austria | | | 4.4 | 5.1 | 5.2 | | 6.9 | | 30.8 | 4.9 |
| Belgium | 12.1 | 7.2 | 9.2 | 17.8 | 12.4 | 23.9 | 20.5 | 64.8 | 60.5 | 12.5 |
| Denmark | | 7.7 | 6.1 | 10.4 | 8.4 | 18.9 | 10.6 | 44.3 | 27.2 | 17.3 |
| Finland | 5.4 | 3.4 | 14.0 | 5.3 | 16.5 | 10.5 | 24.7 | 19.2 | 31.1 | 22.7 |
| France | 8.3 | 8.9 | 12.4 | 10.6 | 14.2 | 19.7 | 26.3 | 42.2 | 41.2 | 14.7 |
| Germany | 7.7 | 4.8 | 9.7 | 8.8 | 10.2 | 11.0 | 8.0 | 41.6 | 47.8[b] | 13.9 |
| Great Britain | 12.4 | 6.9 | 7.1 | 11.5 | 6.3 | 19.7 | 14.7 | 45.6 | 38.9 | 13.0 |
| Ireland | 14.0 | 13.4 | 10.2 | 11.1 | 11.9 | 20.1 | 18.2 | 36.7 | 57.0 | 18.9 |
| Italy | 8.8 | 10.3 | 12.0[c] | 14.3 | 16.5 | 28.9 | 34.1 | 58.2 | 66.3[c] | 8.4 |
| Netherlands | 12.0 | 7.5 | 5.2 | 13.7 | 8.1 | 21.1 | 11.4 | 48.8 | 49.1 | 8.2 |
| New Zealand | | 7.8 | 6.7 | 5.2 | 6.1 | | 11.9[b] | | 16.9[c] | 9.3 |
| Sweden | 3.5 | 1.6 | 10.2 | 3.6 | 7.4 | 8.0 | 15.7 | 10.3 | 29.6 | 8.8 |
| Switzerland | | | 3.5[c] | | 4.3 | | 4.9 | | 25.9 | 5.1 |
| United States | 9.5 | 5.6 | 4.9 | 9.2 | 5.4 | 17.2 | 12.0 | 13.3 | 8.7 | 12.6 |

Notes: a) 15-64 years; the general rates are standardised.
b) 1995 instead of 1996.
c) 1996 instead of 1997.

Sources: OECD, 1997a: 165-81; 1998: 190.

down, Austria, Switzerland and Norway (not in the table) where unemployment remained below five per cent. Outside Europe, Dutch participation growth was equalled in New Zealand (until 1996[1]), and in the Netherlands and the US unemployment also went down to five to six per cent. Australia saw nearly six per cent participation growth and only a slight decrease in unemployment since 1983.

Though the Netherlands did very well in comparative labour market terms, it is obvious that it started from a very low level of participation. Moreover, the high increase is entirely due to the female labour force doubling since 1973. Until the mid-1960s, the Netherlands was a conservative country with - as in Italy, Spain and Ireland - a strong Christian impact on daily life. In this context, the place of women was, of course, the kitchen, and their labour market participation was extremely low. Until 1957, female civil servants automatically lost their jobs when marrying (Bruyn-Hundt, 1988). In the ‘swinging sixties’, then, Dutch society quickly changed. The Christian-conservative order was replaced by the so-called ‘permissive society’ (with Amsterdam as a sort of Mecca), secularisation was more rapid than elsewhere (SCP, 1994: 27-33), and feminist movements became strong. With a certain time lag, these changes reached the labour market at the end of the 1970s.

Rising female employment meant a rising number of part-time jobs and in the Netherlands there was a real explosion of female part-time work. In comparison not only to the Scandinavian countries, the facilities for public child care are still poorly developed in the Netherlands (Veil, 1997: 37), and given the persistence of inequality between the sexes, part-time work is often the only possibility for married women to combine housework and (a certain degree of) economic independence. It is not surprising, therefore, that part-time employment, as opposed to employment in general, has been rising sharply in the Netherlands. Perhaps poor child care facilities are one of the reasons that only slightly more than 10 per cent of Dutch part-timers want to have a full-time job.  In Denmark and Sweden, which also have high part-time rates, but better facilities, then respective figures are 30 and 40 per cent (*The Economist,* 2 May, 1998, reporting Eurostat data).

1 The 1997 employment figures for New Zealand show a decline of nearly ten per cent compared to 1996. There was no sudden slump in that country and the OECD does not explain this change. So the 1996 figures are reproduced in the table. They are in line with the development in preceeding years.

There must, however, be something more at stake here than just the peculiar situation of Duch women, since male part-time work is also very high, at more than 16 per cent. In part, this is probably the result of a development ‘from below’; in the late 1970s and early 1980s, public employers, particularly in health care and education, offered part-time work as a solution to job shortages. In the first instance, part-time employment was neither an aspect of public policy nor was it supported by the unions. ‘It just came our way’, a civil servant is quoted saying (Schmitter and Grohe, 1997: 539). Today, part-time work is also the destination of the majority of the unemployed, if they find a job at all. Nearly three-quarters of the unemployed women getting a new job and about 40 per cent of unemployed men move into part-time contracts. In most other European countries, slightly more than ten per cent of the males move this way and roughly two to three times this percentage of women (in the UK and Germany their percentage is about 50 per cent; see O’Reilly and Bothfeld, 1996: 23).

When rising labour market participation is mainly due to part-time employment, the expansion of labour volume (full-time equivalents) will be less dramatic than overall participation figures suggest. This is exactly the case in the Netherlands: participation has increased sharply since the early 1980s, but the labour volume only slightly (SCP, 1998a: 358f.). Comparatively, it is still on the lower edge. What has happened is largely a redistribution from full-time to part-time work. On average, Dutch employees worked about 1400 hours in 1995, whereas their US counterparts worked nearly 2000 hours (in Australia the figure was nearly 1900; OECD, 1996: 190).

Perhaps part-time employment is the future prospect for distributing life-chances in societies that can no longer create full-time full employment. At the moment, however, and put in the right comparative proportions, the large percentage of part-time jobs renders the Dutch employment miracle less miraculous. A closer look at unemployment reveals a similar picture. Registered unemployment is low (and lower in 1998 than in 1997), but this figure only covers people actively seeking work. Non-employment is much higher. It includes:

- a high percentage of retired persons 55 to 64 years old (Table 1). This general feature of continental European countries is in contrast to the Anglo-Saxon world, Switzerland and Scandinavia and caused Esping-Andersen (1996: 76) to call them ‘pensioner states’;

- a large number of people no longer seeking a job and receiving social assistance. Thus, with the long-term unemployed (defined as those unemployed more than a year) who are looking for work numbering less than half of the registered 300 000 unemployed, the labour offices reported a figure of 419 000 long-term unemployed in 1996 (SCP, 1998a: 401). Also, the number of persons receiving unemployment assistance is higher than 700 000 (Hoffman, 1997: 157f.), even though for eligibility one does not need to be 100 per cent unemployed; and

- a large number of people who have resorted to the disability scheme. Currently, their number is 900 000, or nearly 14 per cent of the economically active population. With the exception of ‘clientelist’ Italy (Ferrera, 1996: 26) this number is (more than) twice as high as that in any other comparable country (Visser and Hemerijk, 1997: 118; *NRC Handelsblad*, 28 January, 1999). In fact, the Dutch disability scheme turns out to incorporate nearly half a million long-term unemployed. Everybody familiar with the scene was aware of this, but it took a parliamentary inquiry in 1993 to make it official wisdom. Redistribution of work not only went towards part-time employment, it also went to younger and healthier people.

Taking all the figures together (Table 3) the Dutch picture is still one of relatively low participation, low labour volume and high non-employment (according to the OECD, ‘broad unemployment’ is about 23 per cent - roughly the same as in Germany; SCP, 1998a: 381).

Finally, two special features should be mentioned. First, employment chances for teenagers and those in their twenties leaving school are much better than in the Latin world (where the situation is disastrous); even in the US their unemployment is slightly higher. In fact, only the (predominantly) German-speaking countries with their dual education system - work and school - score equal or better. The Dutch picture is less

**Table 3: Labour Market Participation, Employment and Non-employment in Selected Countries**

| | Participation[a] | Labour volume[a] | Registered unemployment[a] | Non-employment[a] |
|---|---|---|---|---|
| Austria | M | M | M/H | M/L |
| Belgium | L | L | H | H |
| Denmark | H | H | L | L |
| France | L | L | H | H |
| Germany | M/L | M/L | H | H |
| Great Britain | M | M | M | M |
| Italy | L | L | H | H |
| Netherlands | M/L | L | L | H |
| New Zealand | H | H | L | L |
| Sweden | H | M/H | M | M |
| United States | H | H | L | L |

Notes: a) M = medium; L = low; H = high

bright if one takes into account the fact that flexibility and part-time work offer precarious jobs to many younger people. One-third of them are working part-time, one-third (in part the same persons) have a flexible contract and one-sixth got their job through a ‘work detachment agency’ (SCP, 1998c: 61).

Secondly, ethnic minorities fare very badly on the Dutch labour market. Dutch society is famous for its tolerance, but it is a tolerance of a traditionally segmented society where the segments, although tolerating each others’ peculiarities to a high degree, are rather closed. As a result, unemployment of Islamic (male) people from Turkey and Morocco is six times as high as that of the indigenous population, with that of males from Surinam and the Dutch Antilles four times and that of other cultural minorities five times as high (SCP, 1998a: 247). The figures for ethnic females are more favourable though their participation rates are low. The overall unemployment rate of immigrants (including westerners) is three times that of the indigenous Dutch; in France and Germany their rate is 60-70 per cent higher, in Australia it is more or less equal and in the US it is even lower (*NRC Handelsblad*, 17 October, 1998).

# 3 Explanations

Taking into account the nuances of the Dutch labour market, some shadow falls on its success. However, this does not change the fact that the overall development of the labour market has been very positive over the past 15 years when stagnation or decline was dominant in many other countries.

The most prominent and ideologically most attractive explanation of this success for liberals as well as employers' associations is the wage restraint the unions accepted for years, within the corporatist framework of the Dutch labour market. This is called the 'delta model'. The idea guiding this supply-side scenario is that low or moderate wage growth enhances competitiveness and improves profitability which will bring about rising investment and, as a consequence, more jobs. Specifically, low wage growth is thought to create labour intensive investment. In the Netherlands, this is a tenet which is largely accepted without dispute by left as well as right, and by most economists and journalists. It is also the frame of reference of the often quoted book, *A Dutch Miracle,* by Visser and Hemerijk (1997). In the early 1980s the unions 'learned', they argue in their first chapter, that companies need profits, and this process of learning was the basis for turning economic development upside down.

Given the fact that collective wage agreements in 1994 covered more than 80 per cent of Dutch wage earners (similar or even higher figures apply to most comparable countries on the European continent; only Switzerland - 50 per cent - and Denmark - 69 per cent - show lower percentages; in Australia the figure is 80 per cent), the attitude of the unions is much more important for overall wage development than in liberal countries where bargaining coverage is limited (not even 20 per cent in the US and 47 per cent in Britain; OECD, 1997a: 71). Wage restraint results when it is part of the strategy of relatively strong unions[2], in countries with a high collective bargaining coverage, or where direct market regulation is at the centre of wage determination. The former occurred in the Netherlands (and

2 Dutch unions are relatively strong in the sense that they are generally accepted. The unionisation rate of labour is, however, rather low with only 26 per cent in 1994 (35 per cent in 1980; OECD, 1997a: 71). In economically comparable countries, unionisation is only lower in France (nine per cent) and the US (16 per cent). In Germany it is 29 per cent (36 per cent in 1980), in the UK 34 per cent (50 per cent), in Australia 35 per cent (48 per cent), in Italy 39 per cent (49 per cent), in Denmark 76 per cent (76 per cent), and in Sweden 91 per cent (80 per cent).

Australia), where moderation has been a part of the unions' strategies (or as in Australia, part of an 'accord' between the unions and the Labor Government; Kriesler and Halevi, 1995) and the latter in the US and New Zealand (see Table 4).

In the Netherlands, moderate unions are rooted in traditional corporatism as well as in a specific mixture of elitism and consensualism. The Dutch Republic, lasting for three centuries until 1795, was an extremely fragmented political entity where reaching consensus and 'regents' rule' (regents were local and provincial administrators mostly recruited from rich merchant families) were central traits. With Napoleon's army, centralism came to the country and general suffrage in 1917 to 1919 brought a permanent Christian majority in parliament and continuous government participation of Christian parties until 1994. At least until the mid-1960s, 'regents rule' was able to continue in a new form (Daalder, 1974), and liberalism and socialism were partially 'Christianised'.

Christian elitism was paternalist: government was from God, serving the public good, and the subjects with their various special interests had to adjust to this framework. Political society was conceived of as one of 'the authority and its subjects' ('overheid en onderdanen'), and the whole idea of popular sovereignty was underdeveloped for a long time (Kennedy 1995: 18,150). Corporatism was part of the Christian, particularly Catholic, doctrine. Its creed was that society is a naturally hierarchical order whose parts have to live in harmony with each other. Therefore, capital and labour have to work together for the common future of the country. The building of corporatist institutions like the *Foundation of Labour* and the *Socio-Economic Council* in the late 1940s was a logical consequence. Guided by government, wage moderation was the main target of these bodies where capital and labour regularly met (and still meet) and the unions had a 'semi-public status' (Visser and Hemerijk, 1997: 17).

Until the early 1960s, this formula worked, but thereafter the years of wage explosion (increases of 10 per cent to 17 per cent in 1963 to 1965; see Empel, 1997) and the general radicalisation of society put cooperation

**Table 4: Comparative Economic Growth and Labour Costs**

| | Real growth GDP Annual average | | | Development wage costs[a] per employee | | Relative unit labour costs[b] |
|---|---|---|---|---|---|---|
| | 1984-94 | 1995 | 1996 | 1985-94 | 1990-94 | 1996 |
| 'Low' unemployment countries in 1996 | | | | | | |
| Austria | 2.6 | 1.8 | 1.1 | 17.9[d] | 5.5[d] | |
| Denmark | 1.9 | 2.7 | 2.5 | 9.6[e] | 5.3[e] | 200 |
| Netherlands | 2.7 | 2.1 | 2.7 | 7.3[c] | 3.9 | 110 |
| New Zealand | 1.4 | 2.7 | 2.1 | 1.5 | -3.4 | |
| Switzerland | 1.7 | 0.1 | -0.7 | 15.1[f] | 3.3[f] | |
| United States | 2.5 | 2.0 | 2.4 | 2.2[d] | 0.9[d] | 100 |
| Medium and high unemployment countries in 1996 | | | | | | |
| Australia | 3.1 | 3.7 | 4.0 | -1.9[f] | 4.4[f] | 120 |
| France | 2.1 | 2.1 | 1.5 | 10.2 | 5.8 | 150 |
| Germany | 2.8 | 1.9 | 1.4 | 14.1 | 4.1 | 150 |
| Great Britain | 2.3 | 2.5 | 2.1 | 15.7[f] | 5.1[f] | 160 |
| Italy | 2.0 | 2.9 | 0.7 | 20.1[e] | 10.3[e] | 90 |
| Sweden | 1.2 | 3.6 | 1.1 | 15.1 | 1.5 | 140 |

Notes:
a) Real costs, including indirect costs.
b) Nominal costs; the absolute level is indexed in relation to the US (= 100).
c) 1987-94.
d) 1986- resp. 1991-95.
e) 1984- resp. 1989-1993.
f) 1987- resp. 1992-96.

Sources: OECD, 1997b: 2,5,7; *The Economist*, 19 December, 1998 (last column).

between capital and labour under stress. Agreements were difficult to reach, in some cases even impossible, and the government, in its statist tradition, repeatedly released binding guidelines for wage agreements. After the crises of the 1970s and early 1980s and the disillusionment following the cultural-political shift of the 1960s, corporatism and wage moderation are back on stage, however. In 1982, unions and employer associations agreed (the Accord of Wassenaar) to exchange wage moderation for working time reduction, though in the course of time the general aim of job creation was substituted for this moderation. Since then, wage increases (sometimes decreases) nearly every year have remained below economic growth and the state, as the third player in Dutch corporatism (being different from the bi-partite variety in Scandinavia and Germany), has brought down wage earners' tax burdens by raising the ceiling of tax-free income.

In 1992-93, the only years since 1982 that wage increases surpassed economic growth, the (then Christian-Labour) Government quickly returned to the threat of a wage stop. This was not without success, for in 1994-95 wages did not move at all (Visser and Hemrijk, 1997: 106ff.). In spite of verbal attacks by the unions on rising, but underinvested company profits, moderate wage increases also seem to result from the ongoing 1999 negotiations (*NRC Handelsblad*, 29 January, 1999). Since 1983, capital income rose from about ten per cent to 20 per cent of GDP in 1990, and since then it has been on a level of about 17 per cent, but investment (as a percentage of GDP) did not rise at all in this period (Kool et al., 1998: 319). The big companies, particularly the banks, have, however, made some spectacular acquisitions abroad. And some of them simply do not know what to do with their swollen profits.[3]

One can discuss whether the unions returned to wage moderation through learning or under pressure of changing power relations between capital and labour in the context of declining employment, decreasing union membership and the weakening of the Labour Party in the 1980s. (With the exception of an interval in 1982, the country was governed by a Christian-Liberal Coalition from 1977 until 1994.) Another possible

3 Sometimes they pay their stockholders enormous dividends, as did Unilever - one of the largest European companies with a turnover of about 90 billion. After announcing a super-dividend totalling 16 billion guilders, Unilever's CEO said: 'We don't need the money' (*De Volkskrant*, 24 February, 1999). A day later the same newspaper reported that according to research by ABN-AMRO Bank, four out of ten big enterprises do not know what to do with their profits.

explanation is increased international competition and a general shift towards liberal and supply-side ideas in politics and economic science. And one should also not forget that a fifth of organised Dutch wage earners are members of Christian unions which never radicalised and have always understood themselves in traditional corporatist terms.

The fact that the Netherlands is famous for its bargaining culture does not justify an idyllic view of consensus finding. Everything of importance may be negotiated in this culture, many interests and groups may be included in socio-political bargaining processes, and there may even exist the tendency not to obviously disadvantage any participant in the process. However, this does not exclude very subtle mechanisms of unidirectional accommodation resulting in consent, in this case of the unions, rather than consensus. In that case, perhaps tradition, particularly the tradition of the public interest, changed power relations and learning were all important. And perhaps learning should be translated as 'consent to subordination'; for the learning argument, pointing to the necessity of higher profits is weak, since until the end of the 1980s, wage moderation did not correlate to any outstanding employment growth. In the entire period until now, job growth primarily took place in the service sector, a sector largely beyond international competition (SCP, 1998a: 362f).

The question of whether or not wage restraint is the main explanation of the positive employment development, therefore, is mainly related to the 1990s. To begin with, no agreement was reached where the employers promised a certain number of jobs in exchange for wage moderation. Table 4 shows economic growth and labour costs in comparison with other countries. The distinction between the low and the medium/high unemployment countries is based on standardised OECD figures and is of course, somewhat artibrary[4]. Nevertheless Table 4 reveals a clear correlation between slow wage growth and an improved labour market in the decade preceding 1995-96 in the Netherlands as well as in New Zealand and the US. An exception is Australia, where wage moderation

4 Britain, Sweden and perhaps Australia are the medium countries. If we take their current national figures as they are published weekly by *The Economist,* Swedish unemployment (5.5 per cent in December 1998) is already again below the Danish percentage. But Swedish unemployed placed in short-term employment and training programs raise the standardised OECD figures to a considerably higher level. A question is whether their Danish counterparts are treated with the same rigour by the OECD. It is difficult to produce good statistics on unemployment.

was not accompanied by a clear decline in unemployment; the same is true for German development in the seven years before 1997; and since the early 1970s, the US has had more than a decade of low wage increase without visible employment effects. Are these, then, examples of exceptions to a rule? The case is not so simple: for Austria, Denmark and Switzerland show wage increases roughly in line with economic growth, but unemployment remained stable at a low level, or has even moved down in the case of Denmark.

Looking at unit labour costs[5] the picture is even more complicated. Like Australia, the Netherlands is approaching the low US level, but Italy, with both high wage increases and high unemployment, has the lowest unit labour costs of all. By contrast, Britain combines relatively high unit labour costs with medium participation and unemployment. As ‘deviant’ as Italy, but this time in the opposite direction, is Denmark. It combines very high labour market participation and relatively low unemployment with the highest unit labour costs in the western world. And in Germany, declining unit labour costs since 1996 have raised productivity, but not created new jobs, whereas the reverse development took place in Britain (*The Economist*, 5 December, 1998).

These comparative considerations seem to suggest that wage levels and wage moderation are not so important for a country’s employment performance as supply-siders assert - at least not in isolation from other processes. One has also to look at the goods a country is producing, at its employment structure, at comparative trade advantages, and whether companies prefer labour-intensive or capital-intensive investment. No such comprehensive comparative study has yet been carried out. According to researchers from the Dutch Economic Planning Bureau, wage restraint explains half of the past 15 years’ employment growth (Visser and Hemerijk, 1997: 113). How do they know, except by their supply-side assumptions? It is not difficult to find *correlations* between wages and employment, but it is much more difficult to identify them as *causal* relationships.

Moreover, the whole discussion seems to be about price competition. Very often, however, prices are only one factor determining economic decisions. If you prefer Danish beer, as many people do, you will have to pay more

5 As with many statistics, these data from the OECD are disputable. In particular, some economists would claim that German unit labour costs are lower than in the OECD study (see Adam, 1995: 177ff.).

for it than for Dutch or American brands. Danish or Italian design, Swiss watches and American jeans (outside the US) also have their special prices; German cars, such as the smaller BMWs and Mercedes, are much more expensive than their Italian rivals, Lancia and Alfa Romeo, but nonetheless they have much higher sales. They have the image of being solid and they are, just because of their high prices, 'positional' goods. In some fields of the machinery and tool industry, German producers with their high wages[6] are not seriously challenged by competitors from other countries (see Seitz, 1998). Many other examples of this sort could be mentioned. Competition is based not only on prices but also on quality, images and ideas.

This is not to say that wage moderation was not important at all in raising Dutch employment. That is a difficult subject. Here, the message is only that the relationship between these entities is more complex than the simple theories or the two-country comparisons - often between the Netherlands and Germany - which have been put forward. And if wage restraint is a big factor in explaining the Dutch employment rise, we cannot be sure that it was not the effect of a 'beggar thy neighbour policy'. Then the Dutch would have been successful only because their main competitors did not adhere to the same strategy.

Another factor often mentioned as an explanation of the 'Dutch miracle', for example, by the chairman of the German *Bundesbank*, Tietmeyer (*NRC Handelsblad*, 21 December, 1996), is the flexibility of this country's labour market. We can be brief here, because closer investigation (by the European Commission; see Smulders and Klein Hesselink, 1997) shows that flexibility is not special to the Netherlands. It is top of the list in part-time work, and the possibilities for 'flex-work' are above European average, yet on most criteria, e.g. night, weekend and home work or extra hours, the Netherlands is below the average level. It is also not particularly simple to dismiss employees and its rules are far more difficult to use than those valid in the US. According to the 'Competitiveness Report' of the *World Economic Forum*, Dutch dismissal legislation was 3.47 in 1994-96 on a scale of 0 (very rigid) to 10 (very flexible), a figure much lower than in the rather liberal countries and, perhaps as a surprise, Denmark (see Empter and Esche, 1997: 193).[7] No wonder the US-American 'Chamber of

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6 To keep the label 'Made in Germany' attractive it would be counter-productive, Haucap et al. (1997) argue, to bring down wages in industry to, for example, the Italian or American level.

7 For Britain, Denmark, Germany, New Zealand and the US the figures were

Commerce' has criticised Dutch rigidity in this matter (*NRC Handelsblad*, 1 December, 1997).

Finally, wage flexibility is restricted by the relatively high minimum wage and the great reach of collective wage agreements - though companies do have the possibility of setting their own wages within the framework of these agreements. One may, however, ask, whether wage flexibility is crucial for the reduction of unemployment: the United States has relatively high unemployment rates among younger as well as among the least skilled people - in spite of a low minimum wage and being champion in flexibility (see Table 2).

Is there nothing special in the Dutch economy that could, in part, explain the recent employment rise? Perhaps to a certain degree they have, as the Japanese had in the late 1980s, a 'bubble economy'. Wages have been lagging behind productivity for years, and apart from redistributing work towards part-time jobs in the 1980s, this did not bring about any significant improvement in the labour market. Therefore there have been considerations pointing to a structural inability of the Dutch political economy to create jobs (see, for example, Braun 1989). The 'miracle' is a feature of the 1990s, but the 1990s (and late 80s) were also a period of sharply rising real estate prices: houses became more than twice as expensive as a decade before. This is only a correlation, which is perhaps not even worth mentioning. But there is more. Like their American counterparts, Dutch taxpayers are allowed to offset the whole of their mortgage interest payment against taxable income. Particularly, however, they also have the right to reduce their taxable income by the amount they pay for mortgages on the 'overvalue' of their houses.

When a house is worth twice the amount of the owners' mortgage (s)he can get an extra mortgage on 70 per cent of this 'overvalue'. In a period of exploding house prices, a mass of people came into such a situation and many of them took the opportunity. In addition, the interest rate moved down to about five per cent in recent years. This means that the rate to be paid after tax reduction is only 2.5 per cent for people in the tax group of 50 per cent, starting at an income of about ƒ50 000. Given an inflation rate

respectively 7.34; 8.08; 4.02; 7.43 and 6.97. These figures reflect managers' views. On the same scale, research by the OECD on the dismissal legislation in 1989 revealed scores of 4.91 for the Netherlands, 8.42 for Britain, 7.72 for Denmark, 1.58 for Germany, 9.49 for New Zealand, and 9.75 for the US (Empter and Esche, 1997).

of 1.5 per cent, the real rate is only one per cent. Until the end of 1997, these mortgages could be used, without any restrictions, for rebuilding houses, buying cars or for buying life insurance and stocks. According to the Central Bureau of Statistics, by taking advantage of this provision, Dutch households in 1996 and 1997 alone, pumped some 50 billion guilders into their economy. This is much more than they lost by wage restraint. In 1992, household income made up 80 per cent of total disposable income; in 1997, this share was 75 per cent. Even at the level of 80 per cent, the households' disposable income would have been 27 billion guilders higher (*NRC Handelsblad*, 8 September, 1998).

One could call this phenomenon 'mortgage Keynesianism', for it is a form of subsidised income that is used here. The question is, how important has this extra income been for the expansion of the labour market? This is not clear, but it must have had some, if not considerable, impact. The same also seems to be true for the growing number of people drawing income from the stockmarket. Between 1996 and 1998, stock prices as well as the number of shareholders more than doubled (*NRC Handelsblad*, 14 August, 1998). And it is precisely the financial, insurance and business services where most new jobs have been created (SPC, 1998a: 362f.). There seems to be a correspondence between mortgages, stocks and these services.[8]

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8 The question of whether mortgages on real estate 'overvalue' on such a large scale as has happened in recent years and stock investment by means of these mortgages are inducing a bubble economy is discussed in *Economisch-Statistische Berichten*, 16 January, 1998: 34-40. The danger is that eventually rising interest rates will bring down house prices as well as the stockmarket which is widely regarded as being overvalued.

Perhaps a side effect of the real estate and the stock market euphoria has been that many people in the Netherlands have developed a sense of being wealthy. Economic well-being is good for overall life satistaction and trust. And there is no member state of the European Union where trust in politics, companies, unions, the police, the media etc. or even food is as high as it is in the Netherlands (*NRC Handelsblad*, 24 October, 1998, reporting a *Eurobarometer*) (Table 5 shows that only Denmark, the other 'miracle' country has 'trust' levels which roughly equal those of the Netherlands.) Possibly, this psychological factor has been an impulse of economic acceleration in itself. So, wages were up by 2.2 per cent in 1998, and economic growth by 3.8 per cent, but consumer spending rose by nearly six per cent (*Media News*, 4 February, 1999 reporting figures from the Central Bureau of Statistics).

The basic attitude of the Dutch population is positive at the moment. No political scandal or comparative news of consumer organisations about the high percentage of rotten fish and poultry the Dutch buy seems to have the power to change this. The news reports high unemployment abroad and low figures at home; journalists, obviously not aware of the real proportions, write stories about the Swedish decline or the disastrous situation in East Germany with an undertone of: 'they are doing badly because they do not do what we do'. In economics there is no challenge to neo-classical doctrines.

The Labour Party, in a (so-called 'purple') government coalition with the liberals and the small left-liberals since 1994, is on its 'third way' where, with the exception of the intention to protect the 'really disadvantaged', any social democratic spirit is no longer recognised. Dutch respondents, including those from the left, Vic George (1996: 207) observed in a comparative survey on socio-economic attitudes of political elites, generally reveal New Right thinking. Although the unions sometimes criticise spectacularly rising CEO incomes (see L. de Waal, chairman of the peak organisation of the secular unions *FNV*, in *NRC Handelsblad*, 5 June, 1998), they seem to be prisoners of the success attributed to their strategy of wage moderation. Currently, there seems to be no opposition in this country: leaving aside crime, everything is fine - according to public opinion. In a certain sense, the Netherlands is on its way back to the 1950s,

**Table 5: Trust in Political and Politically Relevant Institution in Selected EU Member States: 1997** (Percentages)

| | Institutions | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Government | Parliament | Parties | Civil service | Police | Justice Department | Unions | Big companies | News-papers | Radio | TV |
| Austria | 41 | 45 | 24 | 65 | 69 | 62 | 38 | 34 | 46 | 71 | 69 |
| Belgium | 16 | 20 | 10 | 29 | 30 | 14 | 36 | 29 | 62 | 72 | 72 |
| Britain | 46 | 46 | 18 | 46 | 69 | 48 | 36 | 32 | 15 | 67 | 65 |
| Denmark | 54 | 61 | 31 | 58 | 90 | 72 | 52 | 56 | 45 | 78 | 68 |
| France | 37 | 38 | 12 | 47 | 51 | 36 | 36 | 44 | 51 | 62 | 46 |
| Germany | 29 | 35 | 13 | 37 | 66 | 50 | 39 | 25 | 42 | 62 | 59 |
| Italy | 27 | 29 | 13 | 24 | 59 | 31 | 29 | 38 | 34 | 49 | 42 |
| Netherlands | 67 | 64 | 40 | 58 | 70 | 54 | 62 | 54 | 61 | 78 | 75 |
| Sweden | 36 | 48 | 16 | 50 | 66 | 48 | 38 | 41 | 41 | 76 | 69 |
| EU | 37 | 40 | 16 | 40 | 62 | 43 | 38 | 36 | 40 | 63 | 56 |

Source: Eurostat, 1998, B.4, 5, 6 and 27.

when everything had its place, when people and unions had high trust in government and were obedient (see Windmuller and De Galan, 1979: 139; Lijphart, 1990: 130-40, for a general characterisation of the politico-cultural relations in those years).

## 4 On the Dutch Welfare State

The idea of welfare state retrenchment fits into supply-side economics. Not only wages, but also social assistance and replacement rates have to be brought down. It is not surprising, therefore, that journals like *Business Week* (7 October, 1996) or the German *Wirtschaftswoche* (20 February, 1997) wrote that other countries could learn from the Netherlands how to trim the welfare state for the future. In the words of the former: 'They're showing Europe how to shrink the welfare state'. Such comments overlook, however, the fact that the Dutch welfare state, though it has shrunk to some degree, is still one of the most generous social security systems in the world. The Dutch case, and even more the Danish one, seem to indicate that a cut-back of the welfare state toward the United States' level is not necessary for increasing employment.

In the 1980s, the welfare systems of all economically developed states came under pressure because of the price of population ageing because of the price of population ageing and of rising non-employment in all its different forms. On average, nearly 70 per cent of total social expenditures in the EU member states is going on pensions and health care for the elderly and in Italy it is even more than 80 per cent (Hanisch, 1998: 20). In order to reduce costs and/or deficits, all states tried to encourage employment. Furthermore, most of them, inter alia raised social security contributions or taxes, cut back provision levels, changed eligibility criteria and introduced more means testing. Often - the Netherlands is one of the exceptions - these measures did not bring down the overall level of social expenditure as a percentage of GDP. This induced some scholars (Pierson, 1994; Rhodes, 1997) to assert that no retrenchment of the welfare state has taken place at all. However, this is not the case (and the writers just mentioned do in fact describe retrenchment), for the growth of the numbers of recipients of any form of welfare/social security provision in many countries more than neutralised the cut-backs. Retrenchment and the expansion of social spending went together.

As already mentioned, the Netherlands took part in the nearly universal process of welfare retrenchment. France has been an exception (see

Hantrais, 1996); in Germany the stalemate between the two houses of parliament made social legislation very difficult; in the poor (official) Italian system, apart from pensions there was little to retrench; and the Danish and Australian systems maintained their levels, though eligibility rules were tightened (see Castles, 1996). In absolute terms, the cut backs were not dramatic, however. As elsewhere, what happened in the Netherlands could best be described as a certain liberalisation of the system. State intervention became somewhat discredited, individual responsibility became more important, and duties were stressed as much as or even more than rights (see Cox, 1998, for the general western shift in this direction). For example, social assistance recipients can now be forced to accept a job, and in order to become eligible for unemployment assistance one needs to be actively seeking work. In order to improve the possibility of creating cheaper jobs, the minimum wage was frozen for a number of years and social assistance as well as unemployment provisions were cut by about ten per cent (this is actual retrenchment; changing eligibility rules comes under the heading of restructuring the welfare system).

Originally, the Dutch welfare system was rather an elitist-paternalist one.[9] Everybody who could, had to pay social security contributions, but the guiding idea was that ‘the strong’, particularly the state, had to care for the weak (Kersbergen, 1995, chapters 8-10). This resembles the spirit of medieval poor relief and fits very well with traditional corporatism. It is not surprising that the Dutch welfare state is still called the ‘caring state’

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9 To rank the differences between many national welfare systems, it is practical to work with a typology. One can construct typologies for the level of welfare provisions (e.g. generous or residual) or for their organisation (e.g. tax- or contribution-financed), but in the modern western world the most encompassing typology has to take into consideration the principles of how people and societies deal with market risks and social inequalities resulting, inter alia from market processes. Such a typology is about collective vs individual responsibility, the relationship of politics to market, the relevance of rights and duties, whether liberty, equality or a natural hierarchy of the weak and strong are emphasised, whether or not social security is a personal privilege as in clientelist relations, and whether equality of condition or equality of opportunity is central (see Becker, 1999, chap. 1).

The best known distinction of types is the one Esping-Andersen (1990) developed between liberal, social democratic and corporatist-conservative welfare systems. Of these only the third type is disputed, and some discussion is going on about enlarging the typology. Perhaps this would make sense. For the purpose of characterising the Dutch welfare system in a western comparative context, it is, however, sufficient to work with Esping-Andersen’s three types, to change his third one into elitist-paternalist (whereof traditional corporatism is a variety) and to have in mind that some welfare systems (like the Italian) exhibit strong clientelist traits (Ferrera, 1996). Furthermore, the types should be seen as ideal types only being approached by real welfare systems. These are located between the ideal types and may change their position historically.

(Verzorgingsstaat). Consider the following definition of the caring state by the then well-known sociologist Thoenes in 1962: ‘The caring state is a form of society characterised by a democratic system of governmental care ... guaranteeing the collective well-being of its subjects’ (quoted from Kersbergen, 1998: 312). A distinguishing feature of the Dutch system from the very beginning has been its relative generosity (with gross replacement rates for nearly all categories of 80 per cent already in the late 1940s and early 1950s and a universalist pension scheme in 1957). Probably, this relates to the Calvinist notion that only the good state deserves to exist.[10]

In the 1960s and 1970s, the Dutch welfare system to a certain extent became social-democraticised. Social rights received central attention, and not only equality of opportunity but also equality of condition (for the first time including women) became main goals, particularly of the social-democratic led government of the mid-1970s. Much social legislation, like the introduction of the minimum wage in 1967 in a generally leftist ideological climate, but by a Christian-Liberal coalition, had, however, already been established before the Labour Party took power. Yet even in this period, when the stance of politics against the market was relatively critical, the Dutch welfare system largely remained passive, not like the Scandinavian, particularly Swedish, social democratic systems of actively creating employment in the public sector. Currently, about two per cent of the economically active population have subsidised jobs in one or another form (Schmid, 1997: 21), and relative expenditure for labour market policy is not even a third of the Danish or Swedish amount (Empter and Esche, 1997: 182ff.).

10 In the Christian Netherlands the south was, and comparatively still is, inhabitated by Catholics, whereas the Calvinists were concentrated in the north and the urban west. It was the Calvinists who fought successfully against Spanish (Catholic) rule between 1566 and 1648. So, in religious terms the ‘Republic’ became dominated by Calvinism and even Catholicism underwent a certain Calvinisation.

Already during the period of Labour-led government the budget deficit started to rise; thereafter the situation of public finance deteriorated through the oil crisis and increasing unemployment. This was the time that the term ‘Dutch disease’ was coined: a very generous welfare system combined with high unemployment in an economy that had lost competitiveness. Whether this was true or not, it was the starting point for attacking the welfare state, and in the mid-1980s most gross replacement rates were brought down from 80 per cent to 70 per cent. For several years the minimum wage was not adjusted to inflation so that it is down now from two-thirds of the average income in 1978 to half this income (OECD, 1997a: 13). General child and student allowances were also frozen. As in other countries, the guiding philosophy was that social legislation should not demotivate people from working. In the same spirit, the top marginal income tax was reduced from 72 per cent to 60 per cent. Budgetary reasons, however, were more important for the cuts often than any welfare philosophy or ideology. The Netherlands is called ‘a country of preachers and shopkeepers’, and it was shopkeepers arguments that mainly dominated the debate on welfare.

A good example is the disability scheme which at the end of the 1980s supported nearly a million people. In 1990, Prime Minister Lubbers called his country ‘sick’, and without serious discussion, the scheme was judged much too expensive (Vendrik, 1995). In the following years disability was redefined and the maximum period of eligiblity for a disability pension was reduced. The scheme thus became cheaper and the number of recipients declined. After some years, however, it started to rise again. Now it is mainly people older than 55 who are ‘dumped’ there. Younger people who genuinely become disabled are the victims of the whole operation. After a few years their payments will fall to a level just above social assistance. They have been forgotten in the drift to bring down the budget deficit, and are now worse off than persons who were disabled after 1901 when the first disability scheme was introduced (Vuijsje, 1997: 136).

To summarise, the current Dutch welfare system is based on a specific mixture of paternalist, social democratic and liberal principles. Most of its provisions are financed by and related to social contributions, but the basic pensions are universalist. All basic provisions are related to the minimum wage which in 1999 and in ‘purchasing power parities’ is about $US1100 (ƒ 2345) for adults. Maximum social assistance for couples is equal to the net minimum wage (about ƒ1796); for different household types the percentages are 50 per cent to 70 per cent with a maximum supplement of

20 per cent; basic pensions, very important as a condition of part-time work, are equal to gross minimum wages; and unemployment and sickness provisions are (for a maximum of five years) at least equal to the gross minimum wage. Relatively, the amounts of these basic provisions are much lower now than a decade or two ago, but retrenchment started at a comparatively very high level. In 1995, the average household of welfare recipients (including pensioners) received an income of 79 per cent of the average household; in 1977 it was 92 per cent (SCP, 1998a: 12). Further dismantling has been (until now) limited by an institutional structure of proportional representation that in this country always results in coalition cabinets, by popular pro-welfare attitudes,[11] and by corporatism.

Table 6 summarises the central features of the Dutch welfare system in comparison with a number of other countries. In the context of this paper it is enough to let the data speak largely for themselves. Surprisingly, Denmark and Sweden do not have a legal minimum wage, and it should be added that the replacement rates would be different in non-standard situations.

11 This aspect is put forward by Pierson (1996: 143ff.) as a main obstacle to welfare retrenchment. Indeed, a majority of people in most countries (for the Netherlands, see SCP, 1998a: 467) are against lowering welfare provisions. One should, however, be careful in interpreting these results because most surveys do not distinguish between moral and instrumental orientations (in the latter case respondents are also asked the price they are willing to pay for a provision). Stefan Mau (1998: 31) has carried out such research covering Britain, Germany and Sweden. His results show that in the latter countries, a majority prefers lower taxes rather than higher social provisions. Even in their moral orientations there is no majority in any of the countries that want to increase unemployment provisions (see George, 1998: 21, for similar results in Denmark and France; for the Netherlands, SCP, 1998a: 467). Everybody wants to become a pensioner, and everybody has the risk of becoming sick, but many people think that they, because of their personal efforts, will not become unemployed. So, there is a tendency to individualise unemployment. But it is previous unemployment provisions that are at stake in the ideological battle about how to raise employment.

**Table 6: Basic Data on Western Systems of Social Security in the Mid-1990s and Replacement Rates for Average Production Workers**

| | Australia | Denmark | France | Germany | Great Britain | Italy | Netherlands | New Zealand | Sweden | United States |
|---|---|---|---|---|---|---|---|---|---|---|
| Level[a] of active social security | | H | | M | L | L | L/M | | H | L |
| Level of basic provisions | M | H | M | M | L | L | H | M/L | H | L |
| Universalist basic pension | N | Y | N | N | N | N | Y | Y | Y | N |
| General social assistance | N | Y | Y | Y | Y | | N | N | N | N |
| Legal minimum wage | | N | Y | N | Y | N | Y | Y | N | Y |
| (Nearly) universalist health care | Y | Y | Y | N | Y | N | N | Y | Y | N |
| Supplementary social assistance (housing etc.) | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Impact of means testing | H | M/H | M | M | H | M | M | H | M | H |
| Net Replacement rate (%) of an unemployed, SF[b], 1st month | 71 | 83 | 80 | 78 | 77 | 47 | 84 | 70 | 89 | 68 |
| Net Replacement Rate, SF, 60th month, incl. housing assistance | 71 | 83 | 65 | 71 | 77 | 11 | 80 | 70 | 99 | 17 |

Notes: a) H = relatively high, M = medium, L = relatively low.
b) SF = standard family with two children.

Source: Replacement rates: OECD, 1996: 31.

Particularly in the US, they would be much lower for single people, who only receive 30 per cent for 26 weeks. In Italy the situation is even worse. Here a single person only gets 26 per cent for the same period (juvenile unemployed people living at home receive no assistance at all), and in both countries no general social assistance exists. For supply-siders, Italy must be of great interest. Unit labour costs are low, social security for the working-age population is the poorest in the developed western world, and yet unemployment and non-employment are very high. Is that only the result of high taxes and tight labour market regulations (which companies often escape by corruption; Regini, 1997: 107)?[12]

Compared to the US-Americans, Italians and also Britons, the Dutch and the Scandinavians, seem to live in a social paradise - despite recent cut-backs. Looking at Table 6, Britain seems also to fare well in welfare terms. In reality, however, many more provisions are subject to means-testing than in European countries with comparable replacement rates. Justifiably or not, this discourages many people from taking the full social provisions they could be entitled to (see Einerhand et al., 1995[13]). As a result the British poverty rate is one of the highest in the countries compared here (Table 7), and it is the British unemployed who suffer most. The percentage of them living in poverty, 45.5 per cent in 1988, is even higher than that of their Italian counterparts (35.2 per cent), whereas in Denmark, the country with the highest provisions (90 per cent of earned wages up to a ceiling), only 2.7 per cent of unemployed people are statistically poor (Eurostat, 1996: 213).

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12 Even including the black economy, unemployment and non-employment are very high. The Italian black economy accounted for 26 per cent of Italy's GDP in 1994. That is twice the Dutch and even three times the US level (the estimates for Denmark are 17 per cent, for Germany 13 per cent, for Sweden 18 per cent, for the UK 12 per cent; see *The Economist*, 3 May, 1997). The official participation rate, however, is lower than 60 per cent in Italy, whereas it is higher than 70 per cent in the other countries (see Table 1).

13 This book is largely a summary of a larger working paper of the Dutch Department of Social Affairs and Employment, *Unemployment Benefits and Social Assistance in Seven European Countries* (Werkdocument 10, Ministerie van Sociale Zaken en Werkgelegenheid, Den Haag, 1995), written by specialised civil servants from the countries covered.

**Table 7: Poverty in the 1980s and 1990s** (Percentages)

| | OECD poverty rates[(a] | | LIS poverty rate[(b)] | Eurostat 1985 poverty rate[(b)] | |
|---|---|---|---|---|---|
| | | | | Households | Individuals |
| Australia 1993/94 | 9.5 | | | | |
| changes 1975-1994 | -2.4 | | | | |
| Belgium | | | | 5.2 | 5.9 |
| Denmark 1994 | 5.0 | | | 8.0 | 8.0 |
| changes, 1983-1994 | -2.0 | | | | |
| Finland 1995 | 4.9 | | | | |
| changes, 1986-1995 | -0.2 | | | | |
| France 1990 | 6.8 | 1989 | 8.2 | 14.8 | 15.7 |
| changes, 1979-1990 | -1.5 | 1984-1989 | -2.1 | | |
| Germany 1994 | 9.1 | 1989 | 5.5 | 9.2 | 9.9 |
| changes, 1984-1994 | +2.9 | 1978-1989 | -1.0 | | |
| Great Britain | | | | 18.9 | 18.2 |
| Ireland | | | | 17.4 | 19.5 |
| Italy 1993 | 14.2 | | | 14.7 | 15.5 |
| changes, 1984-1993 | +3.9 | | | | |
| Netherlands 1994 | 6.1 | | | 7.9 | 11.4 |
| changes, 1977-1994 | +3.7 | | | | |
| Sweden, 1994 | 6.7 | 1992 | 6.5 | | |
| changes, 1975-1994 | - | 1975-1992 | +0.1 | | |
| United States, 1995 | 17.1 | 1994 | 17.7 | | |
| changes, 1974-1995 | +1.6 | 1974-1994 | +2.4 | | |

Note: a) OECD poverty rate is defined as the percentge of individuals with equivalent disposable income below 50 per cent of median, after taxes and transfers.
b) Luxembourg Income Study (LIS) poverty rate is the same as that of the OECD.
c) Eurostat 1985 poverty rates are based on expenditure levels below 50 per cent of the average.

Source: OECD, 1997b: 54; Ferrera, 1996: 24

The Netherlands belongs to the group of countries with the lowest poverty rates[14]. Compared with 10 and 20 years ago, welfare and social security provisions are lower, but today employment is higher and, because of the sharp rise in the number of female wage earners, there are many households with two incomes where there was only one in the past. Long-term poverty seems to be even lower than the five per cent listed in the table. For the period 1985-1989, Headey et al. (1997: 341f.) found a percentage of only 2.1 per cent. This is in harsh contrast to the United States where long-term poverty in the same period was only slightly lower

14 The appropriate method of measuring poverty is contested, but this is true for all countries. Regarding the Netherlands, it might be of interest that 13 per cent of the population feel subjectively poor, whereas only half of those who are ‘objectively’ poor also subjectively feel so (SCP, 1998a: 11f).

than short-term poverty (16.5 per cent to 18 per cent). The image of the US as a socially mobile society seems to be a myth, at least in the lower income deciles.

This brings us to the final subject of our considerations: income inequality. The generosity of the Dutch social system has been reduced in recent years. Did this development widen income differences? Yes, by about 12 per cent in Gini terms (Table 8).[15] The level of inequality in the Netherlands still is, however, relatively low. As in Scandinavia and Germany, social spending is high in the Netherlands and the biggest share of social transfers goes to households in lower income deciles. In Australia, an even bigger share goes to the lower deciles, but here the total volume of transfer income is much lower than in the Netherlands. Market income, therefore, is more decisive in this case - as in the US - for the overall distribution of disposable income. For the rest, the table speaks for itself. In general, income inequality has risen. Exceptions are Denmark and, perhaps, France. The predominantly social democratic Scandinavian as well the paternalist, Calvinist Netherlands - where hierarchical feudalism always has remained weak and where preachers told the people for centuries that they have to be modest and humble - still reveal the lowest level of income inequality, whereas the more liberal Anglo-Saxon countries represent the highest level.[16]

Because of increased social mobility, one might expect long- or life-time inequality to be lower in the Anglo-Saxon countries, particularly in the United States, than it is on the European continent. According to the

15 The Gini index is only one of several indices. Other indices may show somewhat different developments. Therefore, for control, the table also includes the changes per decile groups of disposable income.

16 It is surprising that, given their relatively generous level of welfare/social security provisions and the relatively low level of inequality, Denmark, the Netherlands and Sweden are the only OECD countries that meet the target of giving at least 0.7 per cent GDP to poor countries, whereas the US gives only about 0.1 per cent (1997 figures); Australia’s level, about 0.3 per cent is comparable to that of Britain and Germany (*The Economist,* 13 February, 1999).

**Table 8: Income Transfers between Deciles and Secondary Income Distribution by Deciles in Selected Countries: 1990-1995** (Percentages and recent changes)

| | Transfers | | | Disposable income | | | Gini (net) |
|---|---|---|---|---|---|---|---|
| Deciles | 1-3 | 4-7 | 8-10 | 1-3 | 4-7 | 8-10 | |
| Australia | 58.0 | 34.6 | 7.4 | 13.8 | 35.1 | 51.1 | 30.6 |
| changes,1975-1994 | | | | -0.4 | -1.0 | +1.4 | +5.2 |
| Denmark | 45.8 | 37.5 | 16.7 | 17.6 | 38.2 | 44.4 | 21.7 |
| changes, 1983-1994 | | | | +0.8 | -0.2 | -0.6 | -4.9 |
| Finland | 39.8 | 41.4 | 18.7 | 17.5 | 37.2 | 45.3 | 23.0 |
| changes, 1986-1995 | | | | -0.6 | -1.2 | +1.7 | +9.7 |
| France[a] | 53.5? | 36.1? | 10.4? | 15.3? | 34.6? | 50.1? | 29.1? |
| changes, 1979-1990 | | | | +0.4? | -0.2? | -0.2? | -1.7? |
| Germany | 38.6 | 40.1 | 21.3 | 14.8 | 36.1 | 49.1 | 28.2 |
| changes, 1984-1994 | | | | -1.1 | -0.1 | +1.2 | +6.4 |
| Britain | | | | | | | 33.7 |
| changes, 1979-1991 | | | | | | | +35.9 |
| Italy | 20.8 | 44.7 | 34.5 | 12.1 | 34.4 | 53.5 | 34.5 |
| changes, 1984-1993 | | | | -1.9 | -0.7 | +2.6 | +12.7 |
| Netherlands | 43.2 | 35.8 | 20.9 | 16.0 | 36.8 | 47.3 | 25.3 |
| changes, 1977-1994 | | | | -1.8 | +0.3 | +1.5 | +11.8 |
| Sweden | 32.0 | 31.0 | 27.0 | 17.0 | 37.7 | 45.3 | 23.4 |
| changes, 1975-1994 | | | | +0.1 | -0.2 | +0.1 | +0.9 |
| USA | 37.2 | 38.2 | 24.6 | 11.5 | 35.0 | 53.5 | 34.4 |
| changes, 1974-1995 | | | | -1.2 | -1.4 | +2.6 | +10.0 |

Note: a) There is a question mark in the case of France because here the OECD took into account only tax-based, but not social contribution-based transfers.

Source: OECD, 1997b: 51-2; George and Taylor-Gooby, 1996: 196 for Britain.

OECD (1997a: 27ff.) however, this is not the case. Confusing the 'American creed' with American reality is creating a myth. In Britain inequality is back at the level of a century ago (*The Economist*, 5 November, 1994). New Zealand probably resembles this development more or less.

The United States and Britain are also those countries where income inequalities between the sexes are among the highest in the western world. Womens' wages there are only 65 per cent and 68 per cent respectively (in 1991) of mens' wages. Denmark and Sweden are most egalitarian again, with 85 per cent and 89 per cent respectively. The Netherlands, with a level of 77 per cent (up from 76 per cent in 1978) is roughly on a par with the surrounding countries of Belgium, France and Germany (ILO, 1992). Inequality in general terms is nearly as low as in the Scandinavian, social democratic countries, but inequality between the sexes still is considerably higher. Christian egalitarianism was the base for the former, whereas the latter is due to Christian conservatism. The now largely secularised Netherlands did not actively promote sexual equality to the degree the Scandinavians did with their ‘statist feminism’.

# 5 Models in Discussion

Analysing the Netherlands in comparative terms is of interest because it is often put forward as a model for other countries. Once Sweden was seen as a model, as were Germany and Japan, and nowadays it is the United States and the Netherlands. Is it a model? The answer should perhaps be: that Denmark rather than the Netherlands could be seen as a model. A positive development in recent years, the highest participation rate (together with Switzerland), the most generous welfare system and the highest level of equality in the western world have come together in Denmark in recent years, with low rates of unemployment and poverty. Changes to the welfare system, particularly the tightening of eligibility criteria, could be interpreted as a correction of some excesses of the preceding decades when obligations were sometimes forgotten and when it was too easy to obtain sickness benefits or to receive generous provisions in case of unemployment and non-employment. The baby was not, however, thrown out with the bathwater. With the Dutch, the Danes share consensualism (though Scandinavian corporatism does not have Catholic roots), but the culture of ‘conflict if necessary’ seems to survive.

Like Denmark, the Netherlands does, however, demonstrate that rising employment does not necessitate a residual welfare system. Eligibility rules were tightened too, but compared with Denmark and Britain (Bradshaw, 1993), the US (Myles, 1996) and Sweden (Palme and Wennemo, 1997), the level of the whole system was also lowered and income inequality has risen. It remains doubtful, however, whether Dutch wage moderation is a model for others – even supposing they could import or copy it. Switzerland, Austria, Denmark, but also Italy, with its low unit labour costs and poor welfare system yet high unemployment, are the counter cases. In the Netherlands itself, there seem to have been many other factors at work that possibly have reduced registered unemployment. Furthermore, until now the country has only caught up to its neighbours in terms of participation and labour volume. Perhaps the next jump, where the number of early retirees and disability pensioners would have to be reduced, will be more difficult. Without extensively using the predominantly Scandinavian option, of politically created and subsidised jobs the Netherlands probably still faces the dilemma of either high nonemployment in a relatively generous system of social security, or a high, US-like, participation rate in a residual welfare system. Until now, the ‘delta model’, with its huge group of nonemployed people, does not present any ‘third way’. And perhaps ‘mortgage Keynesianism’ will bring serious problems in future years. Remarks to this effect were recently made by the OECD (*De Volkskrant*, 19 May, 1999).

An important question is of course whether it makes sense to discuss small countries like the Netherlands, Denmark, Switzerland etc. as models, not only for other small countries, but as general models. With the exception of the first, which has nearly 16 million inhabitants, they do not even have 10 million (that is, less than Bavaria, the German state that is doing relatively well, with only six per cent unemployment; see *Das Parlament*, 16/23 October, 1998). Because they are small, they can take measures larger countries cannot take without provoking reactions from their competitors.

Probably the most important question, however, is: what do we want? Employment growth at any rate? Very cheap labour - where necessary - easy to hire and fire? To live the myth of the totally autonomous individual who personally may perform at many times the average level or may fail to take the responsibility necessary in a market society? Absolute property rights, and the market as the ultimate mechanism of income distribution as in liberal shareholder capitalism? Residual welfare provisions because only individuals, not markets are supposed to fail? The US (which has already long adhered to these principles), Britain (will Labour bring change?) and New Zealand have taken the lead in these directions, and other countries, though hesitating and often hampered by cultural and institutional structures (parliamentarism, proportional representation), are following. In some aspects of its development (lowering labour costs, trimming minimum wages and provisions) - although not in terms of its current standard of provision - the Netherlands can be seen as one of these small mainstream countries. So, some look to this country as a model because of its employment levels in the context of a welfare system which is still generous, whereas others look to it as a success story because of its synthesis of neo-liberalism and corporatism.

Or do we prefer some model of stakeholder capitalism with only limited trust in market processes, and with at least a grain of popular sovereignty in the economy, be it by politics, co-determination and/or corporatism together with the principles of balanced employment growth, balanced in terms of profits and wages, individual and collective responsibility, income equality and incentives for achievement as well as, what already tends to be forgotten again these days, economy and natural environment. Or has the combination of these aims become completely unrealistic in the context of intensified global competition and the increased mobility of capital and talent?

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