

## NETHERLANDS

*The income gap vis-à-vis the United States reflects lower average hours worked, employment rates and hourly productivity levels being relatively high. Recent government measures have focused on expanding labour supply, particularly of females and older workers, but additional measures are required, notably in the following areas.*

### Priorities supported by indicators

#### **Reform employment protection legislation for regular employment**

Employment protection legislation for regular contracts is characterised by a dual system that imposes either high severance payments (the court route) or bureaucratic barriers that allow local public employment services to prevent layoffs. This limits workplace reorganisation and hampers the diffusion of new technology.

**Actions taken:** In October 2008, the government and the social partners agreed on capping severance payments at 100% of the annual pay for workers earning more than EUR 75 000 per year. New internal guidelines to determine the amount of severance payments in court cases that were adopted in November 2008 should imply a substantial fall in actual firing costs.

**Recommendations:** Make the current dual system of dismissal simpler and more predictable. In particular, the rules governing layoffs should be clearly specified in law, with appeal to local courts only possible as an *ex post* option, in case one of the parties feels unfairly treated. Moreover, in order to safeguard labour market opportunities for workers after the age of 50, the rate of accumulation of their severance payment rights should be aligned with that of other workers.

#### **Lower marginal effective tax rates**

Marginal effective tax rates are high, in particular for low-income households, lowering their hours worked and participation rates. Marginal tax rates are also high for second earners due to the transferability of the individual tax credit.

**Actions taken:** As earlier decided, the transferability of the individual tax credit will be phased out over 15 years. Moreover, in-work benefits are being increased by replacing the current general tax credit and the tax credit for second earners in families with children with an earned income-dependent scheme.

**Recommendations:** The transferability of the individual tax credit should be phased out more rapidly. Moreover, more of the family-income-based child tax credit should be shifted to the individual or second-earner child tax credit. In addition, the tapering-off rate for housing and child benefits should be reduced further and certain work-related entitlements and tax credits could be conditioned on the number of hours worked.

#### **Reform disability benefit schemes**

Recent reforms have sharply reduced the inflow into disability. However, the stock of disability benefit recipients is still high, with adverse effects on employment performance.

**Actions taken:** The required sickness absence period paid by employers has been expanded from one to two years; a “no-risk policy” with respect to sickness pay for employers hiring partially disabled workers has been introduced; and disability benefits are now partly dependent on the hypothetical earnings capacity of benefit recipients. Further reform of the eligibility rules for the disability benefit scheme for young disabled people (Wajong) has been announced.

**Recommendations:** Further limit or phase out the initial disability periods where benefits are based on previous earnings. Apply the new stricter medical testing criteria in the periodic medical reassessment to the existing pool of disability recipients.

### Other key priorities

- **Incentives for the long-term unemployed.** Activation policies for the long-term unemployed should be strengthened further to raise overall labour participation; and benefit duration should be shortened.
- **Retail trade regulation.** Retail distribution should be further liberalised by phasing-out the restriction on shop-opening hours, facilitating the entry of large retail stores and easing zoning regulations.

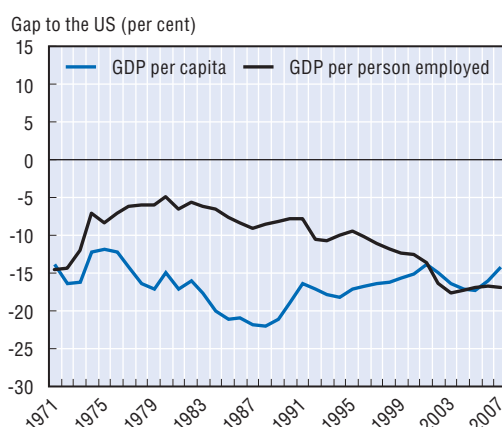
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## Structural indicators

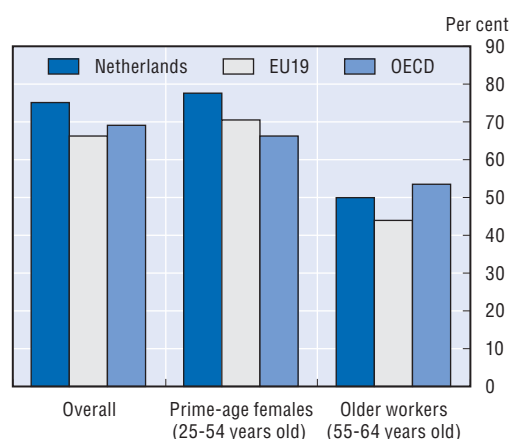
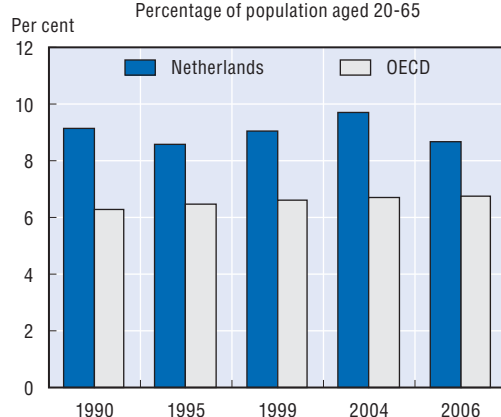
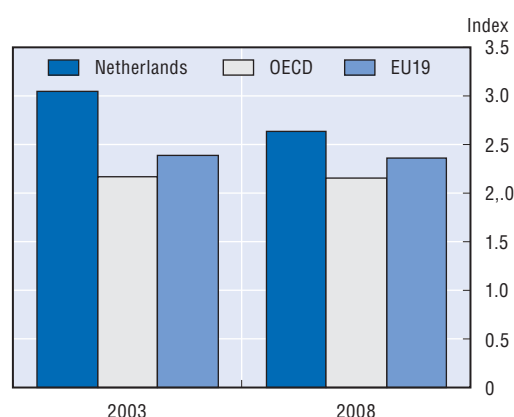
Average annual trend growth rates, per cent

	1997-2007	1997-2002	2002-2007
GDP per capita	2.0	2.1	1.9
Labour utilisation	0.7	0.7	0.7
of which: Employment rate	0.8	1.0	0.5
Average hours	-0.1	-0.3	0.2
Labour productivity	1.3	1.4	1.2
of which: Capital intensity	0.5	0.6	0.5
Multifactor productivity	0.8	0.9	0.7

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.


A. Gaps in GDP per capita and productivity are persistent<sup>1</sup>

B. Employment rates are high except for older workers, 2007

C. The share of working-age population receiving disability benefits remains high<sup>2</sup>D. Employment protection legislation on regular contracts is still restrictive<sup>3</sup>

1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).
2. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.
3. Indicator scale of 0-6 from least to most restrictive.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD (2003), Transforming Disability into Ability and OECD estimates; Chart D: OECD (2004), OECD Employment Outlook and OECD estimates.

StatLink  <http://dx.doi.org/10.1787/533865864603>