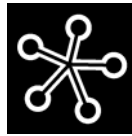


University of Amsterdam



**AMSTERDAM INSTITUTE FOR
ADVANCED LABOUR STUDIES**

**DISTRIBUTION OF RESPONSIBILITY FOR SOCIAL SECURITY
AND LABOUR MARKET POLICY
COUNTRY REPORT: THE NETHERLANDS**

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This paper is part of an international comparative research project on the distribution of responsibility for social security, financed by Stichting Instituut GAK and performed by the Amsterdam Institute of Advanced Labour Studies (AIAS) and SEO Economic Research. The main goal of the overall project is to investigate how a different distribution of responsibility for social security, and unemployment insurance in particular, affects the labour market and society more in general. The overall project involves a theoretical study and five elaborate country studies in the Netherlands (AIAS working paper no. 49), the United Kingdom (AIAS working paper no. 50), Denmark (AIAS working paper no. 51), Germany (AIAS working paper no. 52) and Belgium (AIAS working paper no. 53). The country papers form the input for the international comparative analysis. This paper concerns the country study for the Netherlands.

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ABSTRACT

High levels of unemployment, or high levels of social expenditures as well as the growing demand for a flexible labour force have given new impetus to the world-wide discussion on what model to use for an efficiently operating labour market and in particular on the role of institutions. Although there seems to be a growing consensus on the restricted governmental role in recent decades, this has not been translated into a unanimous appraisal of the role of intermediary organisations, such as trade unions. There is no clear view on an appropriate distribution of responsibility between government, social partners and the market. The research project 'distribution of responsibility for social security' aims to create a scientific basis for a clear and consistent view on the role and distribution of responsibilities between the different labour market institutions. As part of this research project, this paper provides an elaborate country study of the Netherlands, on the organisation of unemployment insurance, employment protection and active labour market and the performance of the labour market with respect to these fields. Both first-order effects (e.g. coverage rates, expenditures, replacement rates) and second-order effects (e.g. flows in and out of unemployment insurance) are analysed in this paper.

It is shown that national legislation for social insurance is set by the national government. The intermediary organisations, among which are the trade unions, mainly have an advisory role with respect to national legislation. The advice, however is not binding. Yet, national law leaves some room for sector level legislation, in collective labour agreements. Here, the trade unions do play an important role and it depends on their collective bargaining power what kind of provisions are established in collective labour agreements. The administration of social insurance is also left to public institutions. In the past decades, the role of the trade unions has been reduced drastically in this field. On the market for reintegration of the unemployed, some competition is introduced with the outsourcing of activities to private reintegration companies. As for the performance of the Dutch labour market, this is characterised by relatively high levels of employment, job security, income security during unemployment spells and growing activation policies.

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I INTRODUCTION

“For the first time in a long time, the big issues in economic policy are about the labour market [...]. Labour economics and the institutions and rules that govern labour markets have moved from the periphery to the centre of economic discourse” (R. Freeman, 1998).

I.1 INTRODUCTION

In the last decades, the relation between labour market institutions and labour market performance has become the centre of both academic and policy debates in many OECD countries. High levels of unemployment, or high levels of social expenditures as well as the growing demand for a flexible labour force have given new impetus to the discussion on what model to use for an efficiently operating labour market. Generally two contrasting views are put forward in the discussion. Some argue that labour market institutions can help to find efficient solutions to economic problems, by overcoming the market failures (Coase, 1992). Yet, others argue that institutions too exhibit failures and lead to extra constraints on the labour market, hindering economic efficiency (North, 1991).

In the Netherlands too, the social and political discussion on the socio-economic order has concentrated on the role of institutions on the labour market. As in the international debate, one of the main questions centres around the role of the government on the labour market. Whereas the government operates along vertical, hierarchical lines and uses commands and prohibitions, though sometimes also tax deductions, subsidies and other financial incentives, the market works through horizontal contractual relations that are, in principle, entered into voluntarily, and relies on individual cost/benefit calculations and the price mechanism. It is generally believed that the government works opposite to the market and that governmental influence and the public sector have grown too big, squeezing out the market. To restore the balance, the role of the government should be restricted and that of the market enhanced.

Other labour market institutions too affect the working of the labour market, such as trade unions, works councils and employer organisations. These can be characterised as intermediary organisations. They are generally established voluntarily and operate on the basis of the mutual interests of their members. In the view sketched above, in which the government should retreat in favour of the market, it is not evident what role these intermediary organisations should play. Again the two contending views exist, the first being that intermediary organisations form as much an impediment to the market mechanism as the government, and that their role should therefore also

be curtailed as much as possible. Trade unions and employers' organisations are perceived to constitute a cartel on the labour market, obstructing free, market-driven wage-setting and flexibility. Involving the social partners in providing social security would promote the abuse of these arrangements to pursue particular (group) interests at the expense of the community. By contrast, the second view assigns an important role to the intermediary organisations in resolving coordination problems that cannot be adequately tackled by either the government or the market. They could constitute an efficient mechanism to reconcile conflicting interests of different social groups, or provide the means to highlight the concerns and interests of weaker market actors. In fact, the government's retreat can in part be achieved by actually transferring certain responsibilities to intermediary organisations.

The growing consensus on the restricted governmental role in recent decades has not been translated into a unanimous appraisal of the role of intermediary organisations. There is no clear view on an appropriate distribution of responsibility between government, social partners and the market (de Beer, 2005a). In the Netherlands, this difference in opinion is expressed, for instance, in the widely divergent appreciation of the so-called 'polder model', the typical Dutch consultative structure for government and social partners.

This research project 'distribution of responsibility for social security' aims to create a scientific basis for a clear and consistent view on the role and distribution of responsibilities between the different labour market institutions. Elaborate country studies in five countries with differences in the role of the intermediary organisations (*viz.* Belgium, Denmark, Germany, the Netherlands and the United Kingdom) are performed and are the input for a comparative research on the consequences of these institutional differences for the performance of the labour market. The focus is on unemployment insurance, employment protection, active labour market policy and their interrelation. The underlying paper presents the country study for the Netherlands. Before turning to the outline of the report, first a short overview is given of three key issues in current debates on the labour market (e.g., flexibility, social security and active labour market policy) and the role of the main institutions (e.g., government, trade unions, employers) in the Netherlands. Details, however, are provided in subsequent sections of this report.

1.2 FLEXIBILITY, SOCIAL SECURITY AND ACTIVE LABOUR MARKET POLICY

Flexibility, social security (or flexicurity) and active labour market policy are three key concepts in current debates on the labour market. In short, flexibility refers to the possibilities for both employers and workers to adapt their labour market behaviour to their individual needs or to

changes in the economic environment. Social security provides income protection for workers who are (temporarily) out of a job and active labour market policies facilitate their reintegration into the labour market. As part of the so-called 'Golden Triangle' such a system could lead to an efficiently operating labour market, with Denmark often used as an example with high flexibility, generous social security and strong activation policies (Bredgaard *et al.*, 2005; Wilthagen & Tros, 2005). In many countries, such as the Netherlands, measures are now taken to achieve a 'Golden Triangle'. How does the Dutch labour market currently look like in this respect?

In some respects, the Dutch labour market is characterised as a flexible labour market, especially when it comes to working time flexibility. Part-time work is common, albeit more for women than for men and jobs with flexibility in determining when to work (contrary to the usual nine to five) are growing. In addition, flexible work arrangements such as temporary contracts or working through temporary work agencies are large in the Netherlands. Contrary to this, numerical flexibility is relatively low in the Dutch labour market. Numerical flexibility refers to the possibilities to quickly adapt the workforce to economic changes through hiring and firing (Bredgaard *et al.*, 2005). Employment protection legislation for workers on permanent or standard contracts is relatively strong in the Netherlands (e.g., Tregaskis and Brewster, 2006; Deelen *et al.*, 2006). National legislation still depends on rules set out during the second World War and collective labour agreements accomplished by the social partners on the sector or company level sometimes provide even stronger, yet in some cases less strong employment protection rules. Employers are not free to dismiss their workers, *i.e.* they formally need the consent of either a public employment service or from the court. In both cases the dismissal involves either a lot of time or high costs.

Social security is well-developed in the Netherlands. In terms of the characterisation of welfare states by Esping-Andersen (1990), the Dutch system is a hybrid case, having social-democratic, corporatist and even liberal features (Goodin *et al.*, 1999). The basic welfare system is social-democratic, with universal, partly tax-funded, benefits on relatively high levels to prevent all residents from falling into poverty. Entitlement conditions are relatively easy to meet, although these have recently been tightened for most social insurances. In addition, corporatist features include a strong link to employment history for unemployment benefits and relatively strong employment protection for workers with long service. Finally, some liberal elements have entered the welfare state, with more free choice in health insurance and in the reintegration market, where clients can choose between reintegration companies.

Active labour market policies are aimed at two objectives: keeping the insiders in and getting the outsiders in. In both cases this is established by encouraging investments in human capital (e.g., training vocational and social skills) at different stages of the life cycle, to enhance employability

throughout the worker's lifetime. Responsibility for maintaining the employment relation and the employability of the worker is a responsibility shared by employers and workers (Kluytmans & Ott, 1999). Employers have to be willing and able to offer permanent training for workers and create a working environment in which the worker has full potential to develop and the worker has to be willing to enrol in training programmes and invest in his own human capital.

Recently, criticism on these provisions and their relation has grown. The strict employment protection legislation for permanent contracts is perceived to reduce the (permanent) job opportunities for 'outsiders' or newcomers on the labour market (e.g., women), which might have a negative impact on employment growth (Deelen *et al.*, 2006). Accordingly, relaxation of Dutch employment protection has been proposed, both by the most important advisory institutions and by the political parties in light of the latest elections (November, 2006). Yet, in a European context, the Dutch system is named as being a good example of ensuring "that labour markets are made more flexible by diversifying the types of contracts in order to meet the needs of workers and firms, while providing workers with appropriate levels of security (employment protection and the capacity to remain in work)" (European Employment Task Force, 2003). Criticism on unemployment benefits too has grown. The levels is perceived to be too high and duration too long discouraging workers to find a new job. In combination with the relatively strict employment protection legislation, it reduces flows in and out of unemployment (Deelen *et al.*, 2006). Recently, changes have been made to the system of unemployment insurance mainly to prevent the inflow and to increase the outflow. In addition, active labour market policy has been liberalised a little with the outsourcing of reintegration activities to private companies. The public institutions, however, still remain responsible for the reintegration of unemployed workers.

It is difficult to change the system, because of the interrelations between the three concepts. When employment protection is reduced, employers can more easily fire workers and hire others, which might lead to better employer-worker matches in the end and more efficient production (MacLeod, 2005). When unemployment benefits are not reduced at the same time, or their duration not shortened, people might stay too long on unemployment benefits, which has negative consequences for their human capital and their future career possibilities (Pissarides, 1992). When employment protection is lowered and unemployment benefits are reduced but active labour market policies are not strengthened at the same time, this might have negative consequences for the living standard of the Dutch population. It is a matter of fine-tuning the key buttons on the instrument board of the labour market.

1.3 THE ROLE OF INSTITUTIONS

The fine-tuning in the level of these provisions is, however, only part of the story. Another issue is who, or what institution, is responsible for the provision and at what level these are supplied. Who determines employment protection rules and what institutions monitor the implementation? Who is in charge of determining the conditions or the implementation of unemployment insurance? What institutions are involved in the reintegration of unemployed workers into the labour market? Are these activities to be organised at a national level or a local or sector level? The responsible institution might be the employer, the (local or central) government, the trade unions or a private company. This largely depends on the organisation of labour market policy in a country.

In the Netherlands, the so-called '*poldermodel*' or 'consensus model' mainly governs labour market policy (Visser & Hemerijk, 1997). One of the main characteristics of the model is that employers' associations, trade unions (together often denoted as the social partners) and government are organised in bipartite or tripartite bodies, such as the Foundation of Labour (STAR, see Box 1.1) and the Social and Economic Council (SER, see Box 1.1). In general, the government determines the rules, whereby the advice received from the social partners is taken very seriously. The probability of adoption by the government is largest when an advice in the SER is unanimously achieved, which is the case in over eighty percent of the advices (SER, 2006a). In addition, the social partners used to have a relatively large role in the administration of social security, but after some critical reports on the inefficiency of labour bureaus (which were partly governed by the social partners), the large inflow in disability insurance and doubts about the representativeness of the trade unions (e.g., low union density and mainly targeted at the interest of the 'insiders'), their role was largely reduced with the reform of the social security administration in 2002 (Algemene Rekenkamer, 1992).¹

Apart from their advisory role in national labour market policy, another main activity of Dutch trade unions is the accomplishment of collective labour agreements (CLA's), through collective bargaining. National labour law is, for the majority of issues at least, only '75 percent binding' (*3/4 dwingend recht*), which means that deviations from the national legislation are allowed in collective labour agreements. This leaves an important role for trade unions in actual labour law provisions. Legally, CLA's are regulated in the Collective Labour Agreements Act (*Wet CAO*, 1927) and can be accomplished by one or more employers or employers' organisations and one or more trade unions. When an employer who is a member of an employers' organisation accomplishes a CLA, this agreement is binding for all his workers, regardless whether these are trade union members.

¹ More information on this is to follow from an ongoing research on the changes in the distribution of responsibilities for social security in the Netherlands in recent history (research also funded by Stichting Instituut GAK and conducted by AIAS under supervision of Paul de Beer).

Box 1.1: The STAR and the SER.

The Foundation of Labour (STAR), a civil-law institution established in 1945, is a bipartite consultative institution in which central employers' associations and trade unions, i.e. the social partners, are represented. The represented employers' organisations are: the Confederation of Netherlands Industry and employers (VNO-NCW, the most important employers' organisation) with four seats, the Association of Small and Medium-sized Enterprises (MKB-Nederland) with two seats and the Dutch Organisation for Agriculture and Horticulture (LTO-Nederland) with two seats. The represented trade unions are: the Federation of Netherlands Trade Unions (FNV, consisting of sixteen unions) with four seats, the National Federation of Christian Trade Unions in the Netherlands (CNV) with two seats and the Federation of managerial and professional staff unions (MHP) with two seats. Discussions centre around labour issues such as wage moderation, social security and pensions, education and training, personnel policy and part-time or flexible employment. Its goals are to stimulate negotiations between employers and workers and their organisations, inform and advice trade unions and employers' associations. Twice a year, in the spring and in the fall, a meeting with the government is held and central issues are discussed. The majority of agreements reached in the STAR are recommendations at the sector or company level. Several illustrious national level agreements have been reached in the STAR, such as the '*Wassenaar Akkoord*' (1982) on wage moderation and reduction of working hours, the '*Nieuwe Koers Akkoord*' (1993) on wage moderation and sector-specific measures to combat unemployment, the '*Flex Akkoord*' (1996) on flexible work and protection of flexible workers, and the '*NajaarsAkkoord*' (2003) on reduction of the wage increases to zero. This latter agreement, however, has been removed in 2004, when the negotiations on early retirement schemes got stranded. Yet, after a huge demonstration in Amsterdam, consensus was reached on the early retirement age, changes in disability insurance and unemployment insurance and wage agreements in the '*Museumpleinakkoord*' (2004).

The Social and Economic Council (SER), a public institution established in 1950 by law, is a tripartite advisory body. It has three main objectives: balanced economic growth, high labour participation and a reasonably fair income distribution. The main task is to advise the government on these issues. For the employers' associations and trade unions, the distribution of seats in the SER depends on the size of the organisations. The represented employers' organisations are (as in the STAR) VNO-NCW with seven seats, MKB-Nederland with three seats and LTO-Nederland with one seat. The represented trade unions are FNV with eight seats, CNV with two seats and MHP with one seat. Besides these employers' organisations and trade unions, so-called 'crown members', to represent the government. These crown members are usually professors in the field of economics, financial sciences, law or social sciences, and usually involve representatives of the Dutch Central Bank and the Central Planning Bureau. Although they are appointed by the government, they do not have to give account to the government.

In addition, the negotiating partners can request the Ministry of Social Affairs for a legal extension of the coverage of the CLA to all workers in the concerning sector, including those working with employers who are not a member of any employers' organisation, which is regulated by Act (*Wet AVV*, 1936). According to the Netherlands Bureau of Economic Policy Analysis (CPB), this legal extension increases the coverage rate of CLA's with about five percent, while the SER argues that this increase is slightly over ten percent (CPB, 2005; SER, 2006b). As a result, while trade union density is only about 25 percent in the Netherlands, the coverage of collective bargaining is about 85 percent (SER, 2006a). A final point to mention here is that for CLA's to come into force, notification of the Ministry of Social Affairs is needed. According to the Wage Formation Act of 1970, no CLA can be enforced without this notification (van Hoek, 2002).

There are two types of CLA's : the sector agreement and the company agreement. Sector agreements are accomplished by negotiations between trade unions and employers' organisations and they apply to a specific sector of the economy. They apply to about 86 percent of the employees under a CLA (SER, 2006b). Company agreements are accomplished by negotiations between trade unions and specific employers. In the CLA's, apart from provisions on salary, working hours, care arrangements etc, additional regulations can be included on employment protection, unemployment insurance or even reintegration activities. These might be a substitute or a complement to national legislation. Collective labour agreements are important in the Dutch labour market since they determine actual labour market policy and are typical for the industrial relations in the Netherlands.

Apart from the role of the government and social partners in the determination of national and sector legislation, other institutions are involved in the implementation of employment protection, unemployment insurance and active labour market policy. In the field of employment protection, the main actors are employers, the civil court and the Centre for Work and Income (CWI). In the field of unemployment insurance, the main actors are the CWI again, the Social Security Agency (UWV) and the municipalities with administrative power, the Council for Work and Income (RWI) with an advisory role and the Inspection for Work and Income (IWI) with a monitoring role. Finally, with respect to reintegration policy, apart from the same institutions as those involved in unemployment insurance, private reintegration companies are involved. The exact role of these institutions is discussed in the specific sections of this paper.

1.4 OUTLINE OF THE PAPER

This report gives a detailed overview of the Dutch system of employment protection, unemployment insurance and active labour market policy. Section 2 describes the system of employment protection in the Netherlands, section 3 describes the system of unemployment insurance and section 4 describes active labour market policy. Each section includes a brief description of the recent development of the particular institution (*i.e.*, since the 1990s) and the main elements of the system (*i.e.*, regulations and practice) including industrial relations and the role of collective bargaining. Particular attention is paid to the distribution of responsibilities: what is the role of the central and local government, the social partners and of private actors? In addition, the first order effects are discussed, *e.g.* coverage rate, average notice period, average severance pay, average procedural time, replacement rates, social expenditures, reintegration rates.

Second, section 5 analyses the performance of the overall system. How does the formal relation between the three types of institutions as discussed earlier works in practice? What are the second order effects, e.g. employment and unemployment rates, hiring and firing rates for different groups of workers, structural unemployment rates, flows between employment and unemployment (including average duration of unemployment spells), costs and benefits of social insurance and active labour market policy, cleavage between insiders and outsiders, income inequality between the unemployed, social assistance recipients and the employed. Both the description of the systems and the performance indicators are illustrative for the Dutch system and are the input for the internationally comparative study to follow. Finally, section 6 concludes.

2 EMPLOYMENT PROTECTION

2.1 NATIONAL EMPLOYMENT PROTECTION LEGISLATION

Dutch employment legislation was first established in 1907 with the Employment Contracts Act (*Wet op de Arbeidsovereenkomst*) in which, among other things, a notice period was established to protect workers against instantaneous dismissal. Recently the discussion about employment protection legislation has been given new impetus in the Netherlands, both with the awaited advice on this subject from the SER and the publication of the political standpoints on employment protection in light of the elections of November, 2006. In the past years, several discussions between the trade unions, employers and the government were held, but never an agreement has been reached about reshaping the Dutch system of employment protection. In 2000, an advisory committee was established to evaluate the system and their conclusion was that it is not transparent, not in line with the systems in other EU countries and that the state has a relatively large role in, what should be according to them, private law issues such as the dismissal of workers (*Adviescomité Duaal Ontslagstelsel*, 2000). Employers further argue that the high costs of dismissals have a negative impact on the economy (e.g., on productivity and economic growth) because the company's workforce cannot be quickly adapted to changing circumstances at the market. Right-wing or liberal political parties therefore want to relax or reduce employment protection. The trade unions and left-wing parties, on the other side, argue that a fair 'justification test' of dismissals and a reasonable severance pay need to protect workers against unreasonable dismissal. Moreover, they argue that state intervention is necessary to protect weaker groups of workers (STAR, 2003).

The system of employment protection might, however, be simplified, as the Dutch system is characterised by dualism as is explained shortly. Although the final advice of the SER on this subject is delayed until the end of 2006, some changes have already been made recently to the Dutch system of employment protection. An overview of recent changes is shown in Table 2.1 and discussed in the next section.

Table 2.1: Changes in the Dutch system of employment protection, 1990-2006.

Date	Change made to the system
January, 1999	Law Flexibility and Security: limitation of the number and total duration of a sequence of temporary contracts to protect temporary and flexible workers.
March, 2006	Seniority principle no longer needs to be the dominant principle when selecting workers in the case of collective dismissal. The mirror image or reflection principle should be the first selection criterion.
March, 2006	Trade union rather than the Public Employment Service judges the economic conditions for collective dismissal.

Source: CWI (2006a).

The main employment protection regulations, *i.e.* any laws regarding the termination of the employment relation between the employer and the worker are to be found in the Civil Code (*Burgerlijk Wetboek*), in the Special Decree on Employment Relationships (*Buitengewoon Besluit Arbeidsverhoudingen*, 1945), in the Works Councils Act (*Wet op de ondernemingsraden*, 1971), in collective labour agreements and in individual labour contracts. The main institutions involved in employment protection are employers, the court, a public employment service, the government and the social partners. Their role and responsibilities in dismissal procedures is explained below. In general, individual labour contracts can end in several ways (see Table 2.2): The contract ends legally; the contract ends by mutual consent; the worker is fired on the spot; the worker is fired during his trial period; the contract is dissolved by the court; or terminated by the CWI. An important distinction has to be made between regular (or permanent) contracts and temporary contracts.

Table 2.2: Ways in which labour contracts have been terminated^a, 1997-1999.

	Number of terminations	
	Absolute	Relative
Legally	480,000	48
By mutual consent	175,000	17
Fired on the spot	35,000	4
During probation time	140,000	14
Dissolved by court	90,000	9
Terminated by CWI	85,000	8
Sector procedures ^b	5,000	0.5
Total	1,010,000	

^aThis only concerns contracts that are terminated on the employer's initiative. ^bIn the Graphic Industry and Special Education separate dismissal procedures existed during this period, see Van Zevenbergen & Oelen (2000) for details on this.

Source: Van Zevenbergen & Oelen (2000)

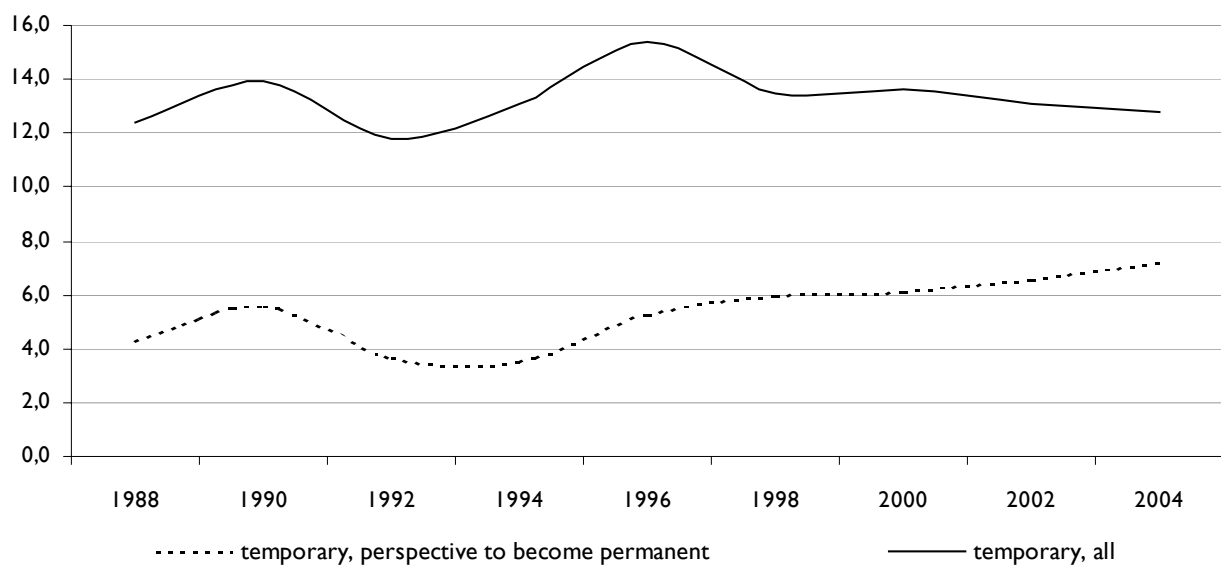
2.1.1 WORKERS ON TEMPORARY CONTRACTS

Table 2.2 shows that the majority of contracts that end, end legally, because they are of a temporary nature. In the case of temporary contracts, *i.e.* with a given duration, the worker knows when his contract is going to end. Labour law does, however, provide some regulations concerning the validity of the termination of temporary contracts. The Flexibility and Security Act dating from January, 1999 (*Wet Flexibiliteit en Zekerheid*, based on an agreement between workers and employers dating from April 3, 1996) has been established to enlarge the possibilities for flexible contracts but at the same time protect the workers on such contracts. One of the main regulations within this law concerns the limitation of the number and total duration of a sequence of temporary contracts. Crucial here is the interval period in between the temporary contracts: only contracts that follow each other within a period of three months are counted as sequential contracts. Law states that either a fourth sequential temporary contracts or the running contract after a sequence of

temporary contracts with a total duration of more than 36 months is automatically transformed into a permanent contract. For example, it is possible to have three sequential contracts of a year. For a fourth contract to be a temporary contract, the break after the third contract needs to be more than three months, otherwise it is transformed into a permanent contract. There is no notice period for the termination of temporary contracts (since the end date is specified in the contract). All these provisions, however, might be differently arranged in collective labour agreements, as shown in section 2.2.

In most cases, the employer notifies the temporary worker whether he wants to renew the contract or not. If he does not specify this, the contract is silently renewed for the same duration as the previous contract. In case it would be the fourth renewal, the contract is transferred into a permanent contract. In practice this might cause problems and the best thing for employers is to clearly state whether the contract is going to be renewed or not.

Figure 2.1: Number of workers on temporary contracts (% of total workers on all contracts), 1988-2004.



Source: OSA (2004, 2006).

Figure 2.1 shows the percentage of workers on temporary contracts over the past decades. As de Beer (2005b) already argued, the pattern very much follows the economic business cycle. When the economy starts growing, employers first attract workers on temporary contracts. These workers are offered permanent contracts only when the economy remains growing. This is supported by the growth in the number of temporary contracts with a perspective to become permanent in recent years, when economic prospects are improving again. In downward periods, workers on temporary contracts are the first to be dismissed (or contract is not renewed).

2.1.2 WORKERS ON REGULAR CONTRACTS

Both the worker and the employer can be the initiator for the termination of regular or permanent contracts. When the worker takes the initiative for termination of the contract, *i.e.* he resigns from the job, he has a minimum notice period of one month (Article 672.3 of Civil Code). Collective labour agreements or individual labour contracts might state a longer notice period, provided that the notice period for the employer is not shorter than that of the worker, this to stress the higher protection of the worker. No further legal requirements have to be met, but the advise is to give written notice to the employer with a reasonable reason for the resignation. When no reason is given, the employer might start a procedure against the worker for ‘unreasonable resignation’ and demand a compensation fee. The employer has a legal duty to investigate the proposed resignation of the worker. Resigning from the job, however, might lead to non-entitlement to unemployment benefits, something which the worker should keep in mind. When he resigns, he usually does so in mutual consent with the employer. Finally, workers have the possibility to resign on the spot, yet very urgent reasons are needed for this (*e.g.*, mental or physical abuse, sexual harassment, not being paid or compensated according to contract). If there is no such urgent reason, the employer might claim compensation pay. When resigning on the spot, no notice period applies.

When the employer takes the initiative for termination of the contract, he too has to comply with a notice period (article 672.2 of Civil Code). The employer has a legal notice period depending on the duration of the labour contract (*i.e.* ranging from one month in case of a contract of less than five years to four months in case of a contract of at least fifteen years). This period might be differently arranged in the collective labour agreement (see section 2.2). A notice period is costly for an employer, for example, when his company is hit by a negative productivity shock and jobs become unprofitable, the existence of a notice period extends their duration (OECD, 2004). When a worker already starts searching for a new job during his notice period, this might reduce the duration of dependence on unemployment benefits. One might argue that with a notice period, the costs of unemployment are shifted from the collective (*i.e.* society as a whole) to the employer. The costs for society might be lower when the costs for the employer are below those of the payment of unemployment benefits and reintegration activities. More on the relation between employment protection and unemployment insurance in section 5.

For dismissing a worker, there are several routes to follow. Most commonly is dismissal by mutual consent, following from Table 2.1. The worker and the employer together agree on the terms of contract termination that are reported in a so-called ‘termination agreement’. The terms include severance pay, the end date of the contract, the payment of non-claimed holiday days but might also include more detailed things such as help with finding another job, or the organisation of a farewell

reception. This termination agreement is often ratified by court, who dissolves the labour contract on neutral grounds, the so-called 'pro forma' cases. This procedure is mainly applied to safeguard the worker's entitlement to unemployment benefits. After all, the worker loses his entitlement to unemployment benefits when he is blamefully dismissed. Research suggests that 67 to 80 percent of the dismissal cases that go to court are pro forma cases (van Zevenbergen & Oelen, 2000). Recently the SER has advised to relax the test for whether the worker is blamefully dismissed, which is expected to reduce the number of pro forma cases (SER, 2005). However, it might have unintended consequences for the number of unemployment insurance beneficiaries (see section 3).

To terminate the labour contract 'more formally' the employer can choose between two routes. This unique dual system, which consists of a civil law route and a public route, was introduced first in 1940, under the German occupation. It was meant to prevent mass unemployment and the corresponding increase in benefit claims. Over the years, several proposals have been made to abolish this regulation, based on the following arguments (Adviescommissie Duaal Ontslagstelsel, 2000): (1) the legislation was adopted for a temporary extraordinary situation and no longer has a decent ground after the war; (2) it primarily concerns an individual interest for which reason civil law should apply; (3) the dual system is too complex and not transparent; (4) contracting role of the government with respect to employment protection in particular; (5) it makes integration in the European Union more difficult with respect to labour and social policy. Until now these arguments were not decisive and have not led to a change of the system. One of the main reasons for the government to maintain the dual system is the protection of weaker social groups against socially unacceptable dismissal practice and to prevent high inflow into social security.

First, a contract can be terminated by the CWI (see Box 2.1 for a description of this institute).² When applying for such a dismissal permit, the employer needs to provide the CWI with an elaborate report on the case with a thorough explanation of the reasons for dismissal. The CWI first looks whether all relevant information is provided, and the next step is the hearing of the worker. He or she is, in writing, asked for a response to the proposed dismissal. At this hearing, the worker can oppose to the proposed dismissal. Research shows that in the majority of cases (75 percent), the worker only 'formally objects' to the dismissal, mainly to keep entitlement to unemployment benefits (van Zevenbergen & Oelen, 2000). If the dismissal permit is granted by the CWI, the worker still has legal grounds to contest its validity (in court). If the employer is granted a permit to dismiss there is no severance pay, but the earlier explained notice period still applies. This period is reduced with one month, because of the dismissal procedure, with a minimal notice period of one month remaining. If the dismissal permit is denied, the employer can still go to court.

² Before 2002, the Regional Director Labour Supply (Public Employment Service) dealt with dismissal procedures.

Box 2.1: The CWI.

The Centre for Work and Income (CWI) is an independent public body (ZBO). A ZBO is an institution which performs a public task independently of the government. The responsible Minister, in this case the Minister of Social Affairs and Employment, is *not* held responsible for the decisions made by the institution itself and has limited power. He can appoint members of the boards or (dis)approve the budget of the institution. The CWI is centrally governed, but operates on a decentralised level with 130 branch offices and about 4,500 employees. The objectives and tasks of CWI are determined by law and recorded in the budget of the Ministry of Social Affairs and Employment and in the annual reports of the CWI (Algemene Rekenkamer, 2004). The main tasks of the CWI are: judgement dismissal claims, registration of the unemployed, determination of 'type of unemployed' and preparation of social security dossier, support unemployed in finding a job.

The CWI procedure acts as a check on the fairness of the dismissal. It is financially less burdensome than the alternative but the procedure takes much longer, mainly because of the hearing of the worker. According to the CWI about eighty percent of the dismissal cases are handled within six weeks, as shown in Table 2.3. For dismissals that are not due to economic reasons (e.g., non-functioning or disability of the worker), this percentage is lower due to the fact that a more in-depth research is usually needed. However, when employers are questioned on the duration of the CWI dismissal procedure, a different outcome is found. Employers argue that only about ten percent of the dismissal procedures are handled within six weeks and that about thirty percent even takes longer than half a year (van Zevenbergen & Oelen, 2000). This is mainly due to the preparation of the elaborate dossier for the dismissal giving the employer the idea that the full procedure takes much longer. In case the worker signs a 'statement of no objection', the so-called short procedure is applied in which case no hearing is held and the procedure takes about ten days. In 2005, only fifteen percent of the dismissals were of this latter type (Ministry of Social Affairs, 2006a).

Table 2.3: Average procedural time for dismissals via CWI, 2005 (%).

Average duration	Reason for dismissal			Total
	Economic	Non-economic	Disability	
< 2 weeks	28	6	9	22
2 – 4 weeks	33	29	28	32
4 – 6 weeks	20	26	14	19
> 6 weeks	19	39	48	27
Absolute total	50,167	4,373	15,614	70,154

Source: Ministry of Social Affairs (2006a).

Dutch labour law states that fair dismissals are those on ground of worker behaviour, unsuitability, or for economic reasons. The majority is because of economic reasons, either individual (e.g., the worker no longer matches the required working profile) or collective (e.g., reorganisation), as Table 2.4 shows. The employer has to provide the CWI with data on the financial situation of the company and alternatives to the dismissal (e.g., another position within the firm including possible re-training). In case of a collective dismissal, the selection criteria (e.g., seniority principle) have to be specified as well. More on collective dismissals in section 2.1.3.

Table 2.4: Reasons for dismissal, 2005 (CWI procedures only).

Reason for dismissal	Percentage of total dismissals at CWI
Economic – individual	56
Economic – collective	16
Economic - total	71
Not economic	7
Disability	22
Unknown	1
	100

Source: Ministry of Social Affairs (2006a)

Dutch labour law also specifies some grounds on which dismissal is unfair or prohibited: pregnancy, membership of a works council, sickness or disability, sex, race, religion, membership of political party or union membership (article 670 of Civil Code). If the dismissal is not sufficiently founded on reasonable grounds the employer is denied a permit to dismiss. In 2005, 7 percent of the dismissal applications treated by the CWI was rejected (Ministry of Social Affairs, 2006a). In case of unreasonable dismissal, a compensation pay might be paid to the worker, of which the amount is governed by application of the regular severance pay formula ('court rule', see Box 2.2). The option of reinstatement is rarely made available to the worker. When the CWI rejects the dismissal, the employer can still decide to use the alternative route to dissolve the contract.

Second, instead of turning to the CWI, the employer can file a request with the court to dissolve the employment contract. In most cases a severance pay is determined by the court. The amount (i.e. the number of monthly gross salaries) is calculated based on the earlier mentioned 'court rule' and depends on the worker's age, the duration of his labour contract, his earnings and a correction factor (see Box 2.2 for the details of this formula). Research to actual severance payments in the Netherlands shows that in 83 percent of the dismissal cases a severance pay is being paid, varying from 488 to 363,000 euros. When the worker takes the initiative for the dismissal, the average severance pay is lower (about 9,740 euro) than when the employer takes the initiative (about 12,660 euro) (Beltzer, 1999). In some cases, the severance pay is higher than what the employer expected and there is simply no 'budget' to dismiss the worker (van Zevenbergen & Oelen, 2000).

When the court route is followed by the employer, the legal notice period does not apply, but the court can still decide on notice period, usually to a maximum of three weeks (Hassink *et al.*, 1998). This could imply that the worker has an earlier entitlement to unemployment insurance compared to the CWI route. And he receives severance pay. To prevent this 'double income', the CWI applies a fictitious notice period. This means that entitlement to unemployment insurance only starts after a 'waiting period' which is equal to the notice period the employer would have had when he followed the CWI route (UWV, 2006a).

Box 2.2: The court rule on severance pay.

The formula: $A \times B \times C$, where

A = the weighted number of working years, with the following weights:

- 1 for every year worked until the age of forty;
- 1.5 for every year worked in between the age of forty and fifty
- 2 for every year worked in after the age of fifty

The age is taken at the time of dissolution of the contract and working years are measured in full years.

B = the worker's last monthly gross earnings plus eight percent holiday money. Fixed age supplements such as a thirteenth month, an allowance for people working in shifts are added to this.

C = a correction factor. Starting point is a correction factor of one, which is referred to as a neutral dissolution. When the court considers that the payment of a severance pay not in place, for example when the worker is to blame, a correction factor below one, even zero, is applied. When the courts considers that the employer is to blame for the dismissal, he might apply a correction factor above one.

Although the court route is more expensive (because of the severance pay and court costs) it is shorter and administratively less burdensome. According to Deelen *et al.*, (2006), the average duration of dismissal procedures via court is eleven days for pro-forma cases (about eighty percent of all court cases) and six to eight weeks for cases with objections. For the employer, the court route is even more attractive since the dismissal dossier for the court has to be less elaborate compared to the CWI route. In addition, because of the workload of most courts, in many cases no further hearing is held or inquiry is started on the details of the dismissal. As a consequence, the 'success rate' is higher for the court route, compared to the CWI route. In 1998, only 3.5 percent of the dismissal cases by court are rejected (compared to about 7 percent via the CWI route, van Zevenbergen & Oelen (2000)). Although the court also looks at the reasons for the proposed dismissals and tests according to the same principles as the CWI, a different outcome is possible (see Box 2.3 for an example of this). For the opponents of the dual dismissal system in the Netherlands, this is one of the reasons to abolish the dualism. Although employers are reluctant to reveal the main reason for opting for the court route rather than the CWI route, the speed and the success rate of the procedure is an important reason (van Zevenbergen & Oelen, 2000).

Box 2.3: The two dismissal procedures compared in one case.

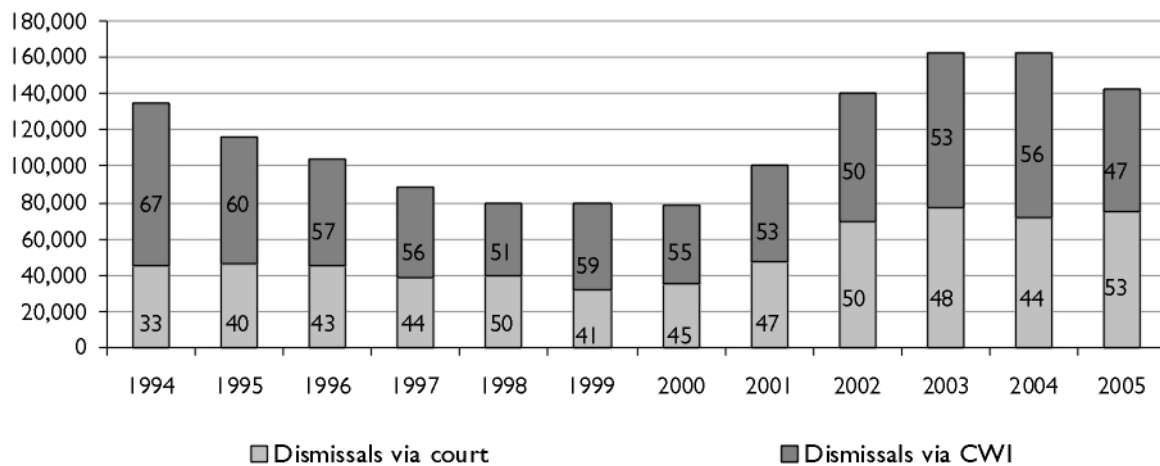
An employer wanted to dismiss thirty of his workers because of economic reasons. He started a procedure at the CWI, but a permit to dismiss was refused (reasons unknown). Subsequently, the employer started a procedure to dissolve the contracts via court. While this procedure was running, the CWI admitted to have made a mistake and was willing to re-evaluate the case. The employer accepted but continued to keep the court-procedure running. The judge had no problems with this and argued that "the two procedures are totally independent".

For 28 out of the 30 workers both the court and the CWI agreed with the dismissal. In two cases, however, the outcome was different. For person A, the court rejected the dissolution of the contract because it was not in accordance with the 'last in, first out' principle. The CWI, however, argued that this principle was applied correctly and gave permission to dismiss the contract. For person B, the reverse happened, with the court giving permission to dissolve the contract, but he CWI rejecting this permission because of non-accordance with the 'last in, first out' principle.

Source: De Greef (2005)

During the 1990s the number of dismissals decreased from 140,000 to a minimum of about 80,000 dismissals in total, as can be seen in Figure 2.2. During the next period, however, the number of dismissals doubled to about 160,000 in 2004. In the second half of the 1990s, the share of dismissals by court increased from one third to about a half of the total number of dismissals. These changes in dismissal rates are likely to follow the economic business cycle. Today, still about half the dismissal cases go to court, notwithstanding some small fluctuations in the intermediary years. Research suggests a relation between the worker's age and the route followed by which the labour contract is terminated. When the worker is young, the court route is the most likely choice, because the severance pay, which is related to the worker's age, is not likely to be high. When the worker is older, however, the severance pay is much higher and the CWI route is a more likely choice for the employer (van Zevenbergen & Oelen, 2000). In addition, large firms are more likely to use the court route compared to small or medium-sized firms, most probably because of the higher costs (Deelen *et al.*, 2006).

Figure 2.2: Number of dismissals via court and CWI (% of total number of dismissals), 1994-2005.



Source: Ministry of Social Affairs (2006a)

Workers on trial can be dismissed at any moment, without notice. Law states that trial periods are one month for contracts shorter than two years and two months for other contracts (article 652 of Civil Code). Deviations set explicitly in collective labour agreements are only allowed for contracts shorter than two years, a longer period is allowed, with a maximum of two months. Finally, the employer can fire the worker on the spot, for which urgent reasons are needed. No notice period applies when firing the worker on the spot, the contract is ended immediately. In addition, since the workers is usually blamefully dismissed, no entitlement to unemployment insurance exists.

2.1.3 COLLECTIVE DISMISSAL

According to law collective dismissal refers to the dismissal of at least twenty workers because of economic reasons within three months in one working area of a county manager (*'districtsmanager'*). In this situation, the employer has to follow certain rules. According to the 'Reporting Collective Dismissal' Act (*Wet melding collectief ontslag*), he has to report the proposed collective dismissal to the CWI. He also has to inform the works council and start negotiations with the trade unions concerned. The works councils play an important advisory role in the collective dismissal procedure. Their advice mainly concerns how to replace the workers within the firm, to the best needs of the company and the workers.³ The trade unions play a large role in the conditions under which they agree on the collective dismissal (e.g., benefits, retraining, career support), which are reported in a social plan. This is a collective arrangement covering the consequences for workers in case of termination, bankruptcy, take-over, shrinking or movement of the company at which they work. It serves as a minimum provision for the collectively dismissed workers. In most collective agreements a clause is included that makes the establishment of a social plan obligatory. The social plan is binding for the employer, but not always for all workers, *i.e.* in most cases only union members are formally bound by the plan. Non-union members still have the opportunity to demand for higher severance pay than those agreed upon in the social plan, with the risk however of not getting it. In section 2.2.2 some examples of recent social plans are given.

When both the employer and the trade union decide that the collective dismissal is inevitable, an announcement is made to the CWI, after which the permits for individual dismissals are demanded.⁴ It is possible to report earlier to the CWI (*i.e.* before the negotiations with the trade union have started), but then a waiting period applies in which the employer is expected to negotiate with the trade union on the conditions of the collective dismissal. With respect to the choice of workers to dismiss, the employer has to follow certain rules. To start, the employer has to divide the workers in groups with similar jobs (*i.e.* based on the nature of the work, the working conditions and other conditions of the job). As to whom should be dismissed within these groups of workers, the seniority principle has been applied for years. This 'last in, first out' principle, holds that the worker with the shortest job duration is the first to become eligible for dismissal. To prevent an uneven age distribution within the firm or branch office, the seniority principle might be applied within age groups. An additional condition is that the age distribution of the workers that are eligible for dismissal is similar to that of the firm or branch office.

³ No literature is found on whether the works council can also advise the employers on who to dismiss.

⁴ The court route is not available for collective dismissals (Deelen et al, 2006).

Box 2.4: An example on the reflection principle for collective dismissal.

Assume that 15 percent of the workers in a firm is aged between 25 and 35; 45 percent is aged between 35 and 45; 35 percent is aged between 45 and 55; and 5 percent is aged over 55.

25 workers in similar jobs have to be dismissed. Under the seniority principle, the first to be dismissed would be the ones with the shortest tenure. Under the reflection principle, however, the dismissals are spread among these age groups:

→ 15% of 25 = 4 dismissals among the workers aged between 25 and 35

→ 45% of 25 = 11 dismissals among the workers aged between 35 and 45

→ 35% of 25 = 9 dismissals among the workers aged between 45 and 55

→ 5% of 25 = 1 dismissals among the workers aged over 55

Within the age groups the seniority principle is applied and persons with the shortest tenure are dismissed first.

As from March, 2006, the seniority principle no longer is the leading principle in collective dismissal procedures. The general view is that it has a negative effect on the flexibility and innovativeness of employers and for this reason, Minister de Geus of Social Affairs and Employment changed the employment protection law in this respect. Key change is that under the old regulation, the age distribution of the company's workforce before and after dismissal had to be similar. The new rule changes this into a similar age distribution among workers with similar jobs. For the company as a whole, however, there might be a change in the age distribution of the workforce. This principle is known as the 'reflection' principle (*afspiegelingsprincipe*, see Box 2.4). For employers the application of this principle is expected to be easier, for workers supervision on whether rules are correctly applied is expected to be easier and for the CWI execution is expected to be easier and hence procedures are expected to be shorter. A drawback of this change is that a higher percentage of older workers might become unemployed (CPB, 2006). The new regulation is also expected to make dismissal of incapable workers easier. In addition, problems might occur with respect to the definition of similar jobs. The question is who judges this? The employer, the works council, the labour union or the CWI?

In addition, the minister proposed that the social partners should be able to decide themselves, in collective agreements, what dismissal criteria to use. This should even further relax employment protection in the Netherlands and increase the flexibility for the employer. Opponents of this, argue that this might negatively affect older workers. Since most of the early retirement routes have been tightened, full flexibility with respect to whom to dismiss in collective dismissal procedures might lead to an increased number of workers who retire early through unemployment. Yet, recent changes have been made to the system of unemployment insurance to discourage the use of this exit route, which are discussed in section 3, which might counteract this effect (CPB, 2006). The proposal has not (yet) been adopted or rejected, the discussion is still ongoing.

A final change in the system of employment protection made recently, though of a much smaller size, is that it is no longer the CWI but the trade union who judges the economic conditions for the collective dismissal. A written declaration of the trade unions that the economic reasons that the

employer had for the collective dismissal are verified by them is needed after which the CWI does not investigate the reasons anymore. This is expected to reduce the dismissal period via the CWI route. The CWI, however, might still oppose to these reasons on behalf of individual workers whose claims are based on new information, *i.e.* after the declaration of the unions has been written.

2.2 EMPLOYMENT PROTECTION LEGISLATION ON SECTOR LEVEL

2.2.1 COLLECTIVE LABOUR AGREEMENTS AND EMPLOYMENT PROTECTION REGULATION

In 2005 about 750 CLA's existed, covering about 85 percent of the employed labour force (SER, 2006b). Just over one-fifth (23 percent) of these CLA's are sector agreements, covering 86 percent of the workers under CLA. The remaining CLA's are company CLA's. In this section, an analysis is presented of provisions on employment protection in CLA's. For this analysis, the FNV databank on CLA's is used, which was set up in the early 1990s by the FNV (largest trade union in the Netherlands) and consists of all CLA's of which the FNV was a negotiator, which is 92 percent (Schreuder & Tijdens, 2004). By the end of 2003, 983 different CLA's are prevalent in the FNV Databank, including those that have expired. An in-depth analysis of all these CLA's is not feasible within the time span of this study and the analysis is limited to an explorative study among a random set of current CLA's in some sectors of industry, covering about a quarter of the workers under currently running CLA's in the database.⁵ Table 2.5 shows a summary of these CLA's.

Table 2.5: Summary statistics of collective labour agreements included in the analysis.

Sector	Number of collective agreements investigated	Number of workers covered by the investigated collective agreements
Agriculture	14	87,627
Construction	5	158,144
Industry	30	81,766
Retail	15	121,772
Education	5	267,854
Government	6	478,570
Total	75	1,260,269
	(=14.6% of CLA's in data)	(=25.4% of workers covered by CLA's in data)

Source: FNV CAO Databank, 2006.

The analysis focuses on clauses on notice period, trial period, the number and maximum duration of a sequence of temporary contracts. We have investigated whether (a) provisions on these issues are made in the CLA's and (b) whether and how these differ from the national regulations. A comparable study was undertaken by the Ministry of Social Affairs some years ago, in which case over a hundred of the largest CLA's were analysed, covering about five million workers, 85 percent of all workers under a CLA (Ministry of Social Affairs, 2004a). Our preliminary results will be

⁵ In a future paper, a detailed analysis on the full set of collective agreements is performed.

compared with their results. Differences might be due to the fact that the CLA's in our study are of a more recent date, or because in our study only a small fraction of the total number of CLA's is analysed.

Table 2.6: Notice period in months (m), weeks (w) or wage periods (p) found in collective labour agreements.

Sector	Number of CLA's analysed	Conform National legislation	Different from national legislation	Notice period at x years of tenure, x =						
				< 1 yr	1 yr	2 yrs	5 yrs	10 yrs	15 yrs	20 yrs
Employer: national legislation				1m	1m	1m	2m	3m	4m	4m
Agriculture	14	10	1	1m	1m	1m	5w	10w	13w	13w
			3	2 to 4m, according to age of employee						
Construction	5	3	1	1m	1m	1m	5w	10w	13w	13w
			1	1w	1w	2w	4w	10w	13w	13w
Industry	30	17	8	1m	1m	1m	5w	10w	13w	13w
			2	1m	1m	1m	2m	3m	4m	5m
			1	1m	1m	1m	2m	3m	4m	4m
			1	1m	1m	1m	2m	3m	4m	4m
Retail	15	14	1	> 1 m						
Education	5	1	4	2m	3m	3m	3m	3m	3m	3m
Government	6	4	1	2m	3m	3m	3m	3m	3m	3m
			1	2m	2m	2m	2m	2m	2m	2m
Total	75	49	26							

Source: FNV CAO-Databank, 2006.

Table 2.6 shows the results of the provisions on the employer's notice periods. In about 65 percent of the CLA's, no differences are found with national regulations (corresponding to 70 percent in the Ministry's research). In the majority of cases in which a difference is found, this is for workers with contracts longer than two years. In one CLA (in the retail sector) a fixed notice period applies and in two (in agriculture) the notice period depends on the age of the worker rather than his tenure. In a group of CLA's, the employer's notice period is slightly shortened, with a maximum of thirteen weeks rather than four months. In the CLA's analysed in the retail sector, hardly any differences are found with respect to the employer's notice period, while in those from education, almost all differ from national legislation. In this latter sector, only one of the analysed CLA's complies with national regulation. In the other four, longer notice periods for labour contracts with a duration in between six months and ten years are found. This is likely explained by the fact that the worker's notice period is also longer in this sector, mainly because of teaching responsibilities. Law states that the worker's notice period might not be shorter than that of the employer, implying that a longer worker notice period yields a longer employer's notice period. Our analysis reveals that in education, the worker's notice period is indeed equal to that of employers, at least for contracts longer than one year. In addition, about one third of the analysed CLA's have special provisions for workers aged over 45. The notice period is longer, most likely reflecting the longer and more

difficult search for a new job for older workers as well as higher protection merely based on seniority (i.e. corporatist feature). Finally, in three (in the agricultural and retail sector) of the CLA's a longer notice period applies for higher level personnel. These findings correspond with those of the Ministry's research.

Another aspect of employment legislation that might be differently arranged in CLA's is the trial period. During this period, the worker can be dismissed without notice (i.e. without costs for the employer) and a longer trial period therefore coincides with a lower protection level of the worker. Table 2.7 shows that in about 55 percent of the analysed CLA's, no differences are found (corresponding to only 42 percent in the Ministry's research). In the majority of divergent CLA's (in 28 out of the 34 cases), however, a general (maximum) trial period is agreed upon for all contracts, disregarding the duration of the contract. One could say that employment protection of workers on short-term contracts is reduced, or that flexibility on the employer's side is increased.

Table 2.7: Trial period in weeks (w) or months (m) found in collective labour agreements.

Sector	Number of CLA's analysed	Conform National legislation	Different from national legislation	Provision in CLA:
Agriculture	14	9	4	2m for all contracts 1 2w for contracts < 3m, 1m for contracts 3-12m, 2m for contracts > 12m
Construction	5	3	1	2w for contracts < 1yr, 1m for contracts 1-2yrs, 2m for contracts > 2 yrs 1 2m for all contracts
Industry	30	15	13	2m for all contracts 1 1m for all contracts 1 no trial period
Retail	15	7	8	2m for all contracts
Education	5	4	1	2m for all contracts
Government	6	3	2	2m for all contracts
Total	75	41	34	1 no trial period, but trial contracts < 1yr.

Source: FNV CAO-Databank, 2006.

A final aspect of employment protection legislation which can be differently agreed upon in CLA's are the provisions on the maximum number and duration of sequential temporary contracts. Table 2.8 shows that in about 64 percent of the analysed CLA's, no differences are found from national legislation. In 23 percent of the CLA's, a difference is found with respect to the number of sequential temporary contracts allowed (corresponding to 19 percent in the Ministry's research). In one CLA no limit is given, in three others it is higher than national legislation and in thirteen cases it is lower (e.g., the second contract gives rise to a permanent contract). In fifteen percent of the CLA's, a difference is found with respect to the total duration of sequential temporary contracts (corresponding to 23 percent in the Ministry's research). In seven cases it is shorter, implying higher

employment protection and in four cases it is longer, of which two are for researchers who are likely to work on research projects with a longer time span. In eight percent of the CLA's, a difference is found with respect to the interval time in between temporary contracts (corresponding to 30 percent in the Ministry's research). In all cases this interval is shortened from three months to 31 days or even seven days.

Table 2.8: Provisions on total duration and number of sequential temporary contracts in collective labour agreements.

Sector	Number of CLA's analysed	Conform National legislation	Different from national legislation	Different provisions mentioned
Agriculture	14	7	4	Interval is 31 days; sequence and duration according to law
			2	Permanent when 2nd contract (interval is 7 days)
			1	Permanent when total duration >24m or 3rd contract
Construction	5	2	1	Permanent when total duration >12m and 2nd contract, or 3rd contract
			1	Permanent when total duration >12m
			1	Permanent when 3rd contract
Retail	15	12	1	Permanent when 3rd contract
			2	Permanent when total duration > 24m
Industry	30	20	1	Permanent when total duration > 72m or 7th contract
			1	Permanent when 2nd contract
			1	In general no sequence, but 'out or in'.
			1	Permanent when 5th contract
			1	Only 1 extension possible.
			2	Permanent when total duration >24m or 4th contract
			2	Permanent when 2nd contract
			1	Permanent when 3rd contract (from 01/04/05 - 31/03/07, 4th)
Education	5	3	1	Permanent when total duration > 8 yrs, unlimited sequence
			1	Permanent when total duration >36m, or 7th contract.
Government	6	4	1	Permanent when either total duration >3yrs, 4th contract or for 1 job with a total duration of 6yrs, 3rd contract
			1	Permanent when total duration > 6yrs, or 4th contract (scientific personnel only)
Total	75	48	27	

Source: FNV CAO-Databank, 2006.

2.2.2 SOCIAL PLANS – SOME FEATURES

Apart from collective labour agreements, trade unions are actively involved in the negotiation of social plans. As explained before, these apply in situations of collective dismissals. Analogous to the analysis on the provisions in CLA's, we have investigated some social plans to see what provisions are found. At this point, the explorative analysis is limited to a small number of social plans (thirteen, see appendix for details) that have been made publicly available on the trade unions websites.

The criteria for dismissal are thoroughly described in all social plans. In most cases workers are made redundant because the organisation has to shrink or because certain activities are terminated.

In three of the social plans the seniority principle is the leading principle for selecting whom to dismiss, however in one case it is explicitly mentioned that there is room for application of the reflection principle if the age distribution of the company would change too much. In three of the social plans the latter principle is the leading principle, and in one social plan the selection has to be negotiated with the works council. In the other social plans the selection condition is not specifically mentioned and national law applies accordingly.

In all social plans details are provided with respect to the replacement possibilities of the redundant workers, either internal or external. These vary considerably between the social plans. In some social plans, a replacement period is applied in which the redundant worker receives support to be internally replaced. Training costs, both training for new tasks and assessment trainings are paid for by the employer. In addition, when a job within the firm is found, in most social plans detailed information is given on what costs are paid by the employer, including moving costs to a new place if necessary, possible costs for double rent in case of such move and in one social clause a 'discomfort compensation' is mentioned. In case the wage in the new job is lower than the old wage, either a temporary compensation is paid (with a common maximum of 24 to 26 months), or the new wage is being supplemented (usually depending on the worker's age). When no internal job is found for the worker, in most cases again a replacement period applies. In this period, the worker gets support via professional job agencies paid by the employer and in most cases when he finds a new job within this time span, he receives a subsidy for 'fast leaving' (*vertrekstimulering*). This subsidy varies from 50 to 100 percent of his gross wage. In case the wage in the new job is lower than his old wage, again a compensation is paid in most cases, depending on the worker's age and tenure.

When no suitable internal or external job is found, a formal dismissal procedure is started, as described in section 2.1. With respect to severance pay in case of dismissal, the following clauses are found in the analysed social plans. In six out of the ten social plans a severance pay is granted which is equal to the neutral (with a correction factor of one) court rule. In two social plans a correction factor below one is applied for all employees and in two cases the correction factor depends on the worker's age. It varies from 0.75 for workers aged below 45 to 1.6 for workers aged over 55. In one social plan a different regulation applies, ranging from one monthly wage for worker with a tenure shorter than four years to five for workers with a tenure of over 25 years. In addition, an age-related supplement is granted for workers aged over 45, ranging from two to four months wage. In two social plans, finally, no clause is found on severance pay, but the earlier mentioned subsidies to encourage fast leaving are present here.

2.3 THE ROLE OF THE INSTITUTIONS SUMMARISED

In this section, a brief summary is presented on the role and responsibilities of the main institutions involved in Dutch employment protection. First, national legislation is set by the national government, *i.e.* dismissal procedural rules, notice period, trial period, number and maximum duration of a sequence of temporary contracts. An important advisory task is given to the SER, in which employers' organisations and trade unions are represented. Severance pay according to the so-called 'court rule' is not determined by law, but by practice.

In national legislation, room is left for divergence on sectoral or individual level, in collective labour agreements or individual labour contracts (only when specifically mentioned in collective agreements). Collective labour agreements are the result of collective bargaining between the trade unions and the concerning employers and individual labour contracts are the result of bargaining between the individual worker and the employer. Although in our preliminary analysis here it was not possible to determine the share of workers in the labour force to whom the differences apply, the findings suggest that sectoral divergence is likely to be around thirty percent. This shows the influence of trade unions. The provisions in the collective labour agreements, are found to be a substitute for national legislation, *i.e.* an explicit divergence from national legislation. In some sectors, employment protection is re-enforced by the collective labour agreements (e.g., education) while in others it is reduced (e.g., industry). A more detailed analysis on this point is necessary to establish the impact of trade unions on employment protection. Sectoral legislation is to become of greater importance in case the government would step back from employment protection policies. In addition, for collective dismissals works councils are involved as an advisory institution and the trade unions are involved in the establishment of the social plan, *i.e.* the conditions for the collective dismissal.

As for the implementation of employment protection rules, two institutions can be responsible: either the CWI, a public institution, or the court, a civil law institution. Both institutions test whether national, sectoral and individual regulations are correctly applied to the specific dismissal case and accordingly grant permission for the dismissal. In sum, for a dismissal by court, the costs are relatively high, the time span is relatively short, the dismissal report to be prepared is minimal, a severance pay is granted in most cases, a short or a fictitious notice period applies (during which the worker receives no wage, but can rely on his severance pay), uncertainty on the outcome is low. The route cannot be used for collective dismissals and is mainly used by large firms for the dismissal of young workers (because the costs are related to the worker's age). For dismissals by the CWI, costs are relatively low, the time span is relatively long, the dismissal report to be prepared is elaborate, no severance pay is granted, a notice period applies (during which the worker remains on

the payroll), and the workers can be eligible for unemployment benefits. This dual dismissal system dates back from the second World War and recently discussion has been re-opened on the abolishment of the dismissal procedures by the CWI, yet while protecting the weaker groups among the working population. Collective dismissals are dealt with by the CWI, who usually permits the dismissal since the trade unions were already involved in the determination of the conditions for the collective dismissal.

3 UNEMPLOYMENT INSURANCE

3.1 NATIONAL UNEMPLOYMENT INSURANCE

The current system of national unemployment insurance legislation (WW, *WerkloosheidsWet*) in the Netherlands was established in 1949. This law provided in either unemployment benefits or 'reduced pay' (*wachtgeld*, for civil servants) consisting of seventy percent of previous wages, depending on the worker's employment history. Since then a great deal of reforms have been made. For this paper, we describe the system existing as from March 30, 2006 when the latest reforms have been implemented and we include some of the changes implemented in recent years (after 2002), as presented in Table 3.1.⁶

Table 3.1: Recent changes in the Dutch system of unemployment insurance, 2002-2006

Year	Measure
2006	Abolishment of short-term flat-rate unemployment benefits. Workers who are not entitled to earnings-related unemployment benefits previously received short-term benefit based on minimum wage.
2006	Reduced duration of earnings-related benefits from a maximum of 5 years to a maximum of 38 months. In addition, replacement rate during the first 2 months is increased from 70 to 75 percent.
2006	Abolishment 'verwijtbaarheidstoets'. Previously a worker who lost his job had to show he was not blamefully unemployed for this, to become entitled to unemployment benefits.
2006	Tightening of entitlement conditions: now employment in 26 out of previous 36 weeks rather than previous 39 weeks.
2005	Trial employment while maintaining entitlement to unemployment benefits. Workers who have been unemployed for at least six months, can start working on a trial basis for three months without losing their benefit entitlement.
2005	Actual work history from 1998 determines the duration of unemployment benefits. For the years before 1998 the working history is still fictitiously determined based on age. Previously the actual working history only concerned the final five years.
2005	WALVIS, new legislation on administrative reduction of social insurance contributions and simplification of social security laws.
2004	Job search requirement unemployed aged over 57.5 years. The unemployed aged over 57.5 years used to be exempted from active job search.
2004	Work and Social Assistance Act (WVVB), municipalities now fully responsible for social assistance administration.
2003	Abolishment of follow-up benefits. When the duration of the earnings-related benefits was expired, workers were entitled to a follow-up benefit for 2 years at 70 percent of the minimum wage.
2003	WFSV, Financing Social Security Act, changes way in which social insurance contributions are collected.
2002	SUWI, change in administration of social insurance including, among others, the creation of one single Social Insurance Agency (UWV).

Source: UWV (2006b)

3.1.1 ENTITLEMENT CONDITIONS

The entitlement conditions for unemployment insurance are determined by law. As in the case with employment protection legislation, in most cases first an advice is obtained from the SER. Another institution, the Council for Work and Income (RWI), established in 2002, consisting of

⁶ See Hoogenboom (2007) for an elaborate historical overview of unemployment insurance in the Netherlands.

representatives of employers, workers and municipalities, also advises the government on work and income policies. The latter institution was created with the full reorganisation of the administration of the system of unemployment insurance under the SUWI (see section 3.1.2). While the SER mainly advises the government on the medium and longer term, the RWI advice focuses on the short term (Obbink, 2002).

Entitlement to unemployment benefits first depends on whether the worker is blamefully unemployed (e.g., to reduce moral hazard). Law states that a worker is blamefully unemployed when there is serious misbehaviour usually followed by dismissal on the spot (e.g., theft, violence, refusal of work), when he resigns without reasonable reasons, or when he has not tried his best to keep his job (e.g., by participation in re-training activities, talking to his employer about other job possibilities within the company) or objected against his dismissal. With the set of changes to the system of unemployment insurance, the test for whether the worker is blamefully unemployed is partly relaxed. The clause stating that 'the worker has to have tried his best to keep his job when a mutual agreement is reached on the dismissal' is dropped in the new legislation. The claim is that this leads to less pro forma cases as explained in section 2, which benefits the employer. One might argue, that, although flexibility on the labour market might increase (e.g., easier lay off), more workers might claim unemployment benefits than before since the test is relaxed. Yet, other changes in the system such as the shortened duration of benefits and increased reintegration efforts (see section 4) might counteract this effect.

Entitlement to unemployment benefits further depends on the worker's employment history. To be entitled to unemployment benefits, he should have been employed in 26 out of the previous 36 weeks. This so-called 'weeks condition' has recently (March 30, 2006) been tightened to reduce the inflow into unemployment insurance. It used to be 26 out of the previous 39 weeks. If this requirement is not met, no entitlement to unemployment benefits exist and the worker can apply for social assistance benefits (more on these later). If the worker, however, meets this 'weeks condition', he is entitled to unemployment benefits.

For workers who meet this 'weeks condition', a basic unemployment benefit exists with a maximum duration of three months. An earnings-related benefit is being paid: for the first two months the worker receives 75 percent of previous wages and in the third month he receives 70 percent. Benefits are maximised by law. The maximum daily wage is 168 euro yielding a maximum monthly benefit of about 2365 euro. For workers whose unemployment benefits are below the social minimum a supplement is granted until the level of benefits are equal to the social minimum (i.e. 59.06 euro for couples, 41.34 euro for single persons and 53.16 euro for single parents, 2006). This system has only recently been introduced, in October 2006. For workers who became

unemployed before this date, the old system still holds. Under this system a short-term unemployment benefit is being paid for a maximum of six months. This benefit, however is flat-rate and amounted to seventy percent of the minimum wage, again with the supplement for people below the social minimum. With the new system, which grants higher benefits but for a shorter period, the mobility in and out unemployment is expected to increase (Buevink, 2005). This is expected to enhance the worker's probability to find his optimal job match.

For workers who also meet the 'years condition' (*i.e.* they have worked in four out of the previous five years) in addition to the 'weeks condition', the earnings related benefit is paid for a longer period of time. Depending on the working history the duration is three to 38 months. For each year of working experience, a month of benefit is received, with the minimum of three months of the first mentioned benefits. Again the worker receives 75 percent of previous wages in the first two months and as from the third month onwards he receives 70 percent. The higher benefits in the first two months are expected to work as a 'search subsidy' and encourage fast outflow out of unemployment (Buevink, 2005). The maximum duration of benefits is 38 months. Before January 2004, a follow-up unemployment benefit existed for the latter group of unemployed. This was paid for an additional two years and amounted to 70 percent of the legal minimum wage. This follow-up unemployment benefit is abolished in December, 2003, to encourage the outflow out of unemployment.

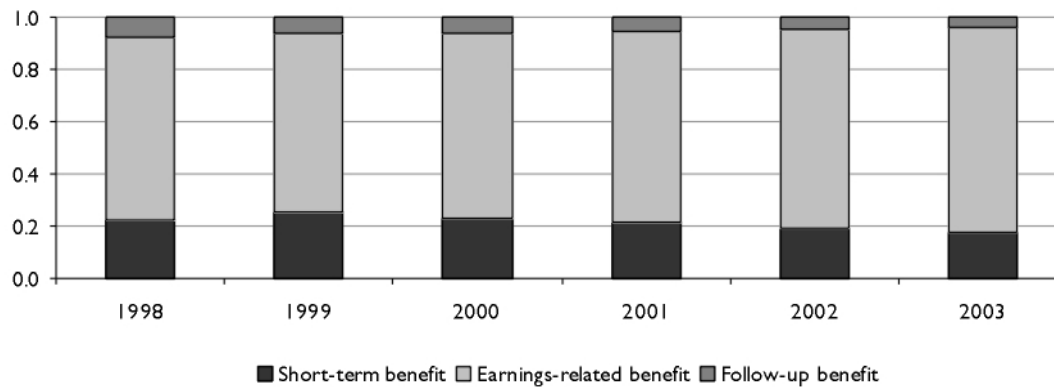
With respect to the percentage of workers in the different benefit groups, Figure 3.1 shows that about 70 to 80 percent of the unemployed workers are entitled to the earnings-related benefit (SER, 2004). About one-fifth of the people who become unemployment do not meet the years condition (which are likely to be young workers and women) and only receive the short-term unemployment benefit. For a small number of workers, entitlement to a follow-up benefit is granted, due to the revival of former benefit rights⁷.

To keep entitlement to unemployment benefits, the worker has to search actively for a job, with a minimum of four search activities within four weeks. Search activities refer to sending an application letter (whether an open application or a response to a vacancy add), having an application interview (when this follows an earlier letter, these count for two activities), doing assessment tests or other to find out capabilities and interests, calling or visiting a company to ask for vacancies, registering at a temporary work agency and starting one's own business (making business plans, talking to investors etc.). For all search activities, proof has to be kept, such as letters, names and telephone

⁷ For example, under the old system benefits were appointed for a minimum period. In case the worker found a job within this period, the 'remaining unemployment benefits' were saved and when the workers lost his job again within a certain time span, the old benefit revived.

numbers of people spoken to. The sanctions when not meeting the search activities are that benefits are being cut or withdrawn. More on the support for reintegration into the workforce in Section 4.

Figure 3.1: The unemployed by type of unemployment benefit (% of new benefit claims only), 1998-2003.



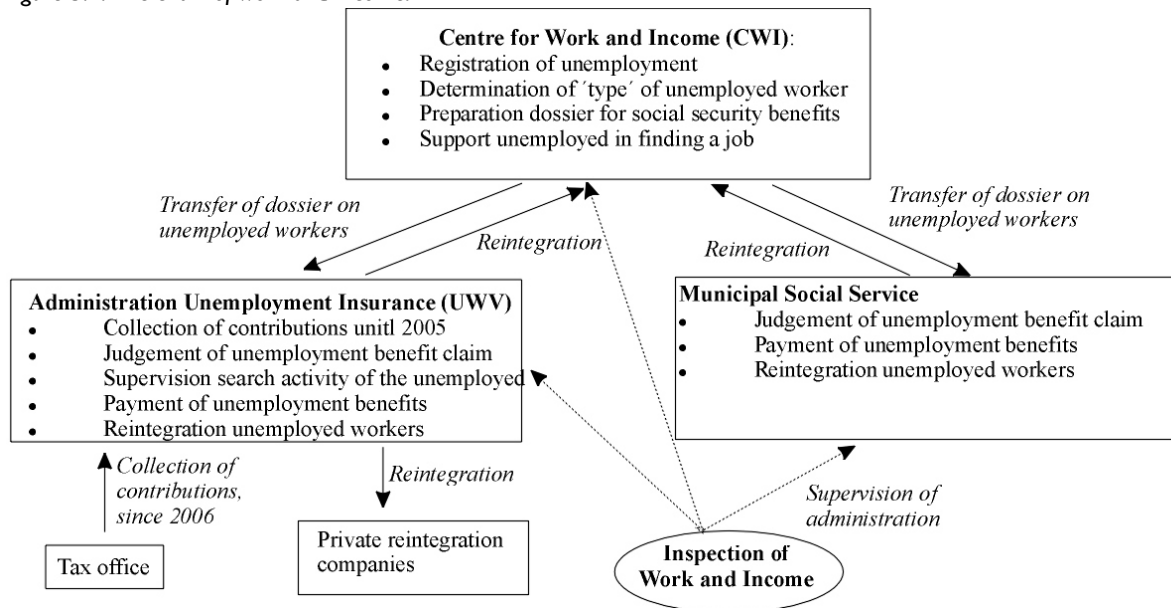
Source: SER (2004)

When unemployment benefits are exhausted, or in case of non-entitlement to unemployment benefits, the unemployed worker can apply for social assistance. Unlike unemployment benefits, social assistance is means-tested on family income. The individual is still expected to actively look for work, yet monitoring is different compared to the situation with unemployment benefits (see section 4). Social assistance benefits only provide minimum incomes, for example for single people without children benefits can amount to seventy percent of the minimum wage (including housing benefits). As with unemployment benefits, sanctions such as cuts in the benefits or a fine are applied when the entitlement conditions are not met, for example when the individual has additional unreported income or when he is not actively looking for a job.

3.1.2 PROCEDURES AND INSTITUTIONS

Figure 3.2 shows the main institutions and their relation in the so-called chain of Work and Income, established in 2002 with the SUWI law. With this new law, the government wanted to establish 'less government and more market' in the implementation of social security law. A mix was proposed between public and private institutions in the implementation of social security. While the judgement of social security claims and the provision of benefits remained in public hands, active labour market policy was moved to the private sector (de Heer, 2002). With respect to the provision of unemployment benefits, there are three main institutions in the Netherlands: The CWI (introduced in section 2), the UWV (see Box 3.1) and the Municipal Social Service (i.e. the municipalities). In addition, private reintegration companies are used for the reintegration of unemployed workers (see section 4).

Figure 3.2: The chain of work and Income.



The Inspection of Work and Income (IWI) is responsible for the supervision on the administrative institutions for social security. It is independent but has an indirect relation with the government, with the minister of Social Affairs in particular. The Inspection regularly reports on the supervision tasks to the minister. The minister of Social Affairs responsible for the direction and control of the implementation of unemployment insurance. Before the 1990s, the trade unions had an important role in the administration of unemployment insurance, a short overview of their historical role is presented in Box 3.2.⁸

Box 3.1: The UWV.

The Social Security Agency (UWV) is a ZBO under assignment of the Ministry of Social Affairs and Employment. Until 2002, the implementation of social security was divided among five sectoral institutions: GAK (largest, Joint Administration Office) Cadans (sectors care and well-being, chain store, retail, craftsmen and cleaning), GUO (agriculture, tobacco and meat sector), Cordares (construction), USZO (civil servants). These were with the SUWI law merged into one institution, the UWV (de Heer, 2002). This rather complex merger takes some years to be complete, since the administration and implementation processes of the five different institutions have to be synchronised. During the first two years, the names were partly kept, e.g., UWV Cadans, UWV GAK etcetera. As from 2004, the name for all branches is changed into UWV, however, still some activities are left to certain branch offices. For example, claims of civil servants are still handled at the Leeuwarden branch, the former USZO office. Especially with respect to the administration of disability benefits, a great deal of problems existed. For example, for medical examinations different physicians were used, according to the sector in which the disabled workers was employed. The UWV now consists of 31 branch offices and has around 20,000 employees. The main tasks of the UWV are shown in Figure 3.2.

⁸ See footnote 1.

Box 3.2: The historical role of trade unions in the social insurance administration

After the Second World War the general opinion was that the social partners should have an important role in the administration of social security, in particular of the workers' insurances (e.g., unemployment insurance, disability insurance). With the Act Organisation Social Insurance (*Organisatiewet Sociale Verzekeringen*, 1952) a new organisational structure for the administration of social security was established. The administration of workers' insurances was left to the trade associations (*bedrijfsverenigingen*) that were organised by sector (i.e., one trade association per sector) and all employers in the sector were associated by law. The board of these trade associations was formed by representatives of trade unions and employers' organisations. The trade associations' objectives were: judgement of benefit claims, payment of benefits, monitoring beneficiaries, collection of contributions and management of unemployment funds. In addition, trade unions were part of the Social Insurance Council (*Sociale Verzekeringsraad*) that monitored the administration of social insurance.

During the 1980s, when the costs of social security increased rapidly, criticism on the system increased. In 1993, the report Buurmeier was published after an inquiry to the efficiency of social security administration. The main conclusions presented in this report were that the current organisational structure was no longer efficient, mainly due to the increased inflow into unemployment and disability insurance and reduced outflow out of disability insurance. In addition, doubts were raised about the representativeness of the trade unions, because of the low union densities. As a consequence, the administration social insurance was changed. The trade associations were abolished and replaced by five administration offices (*Uvi's*), who were responsible for the administration of social insurance. The social partners were now part of the National Institute for Social Insurance (*Lisv, Landelijk Instituut Sociale Verzekeringen*), the principal for the administration of social insurance and manager of the social insurance funds. In addition, their role in the monitoring process was also reduced, with the abolishment of the Social Insurance Council by an independent monitoring institute, the Committee of Monitoring Social Insurance (*College van toezicht sociale verzekeringen*).

With the second organisational change in social insurance within a relatively short time span, the SUWI II 2000, the role of the social partners in the social insurance administration was further reduced. The uvi's were abolished and the administration of social insurance was now in the hands of the UWV, as explained in the main text. Reintegration activities of the beneficiaries was privatised. The social partners' role is now merely advisory role through their representation in the SER, STAR and RWI. Furthermore, collective bargaining and the establishment of collective labour agreements is still one of their main activities.

Source: Berkhout et al. (2003)

The relation between these institutions and the procedures with respect to unemployment insurance will now be explained. The first step for an unemployed worker is to register at the CWI. He has to do so the moment he knows he is going to lose his job, whether his temporary contract ends or whether he is going to be fired, and no later than one day after the first date of unemployment. After registration at the CWI, an intake takes place to collect information on previous working history, education history, medical history and the family situation of the individual. The individual also receives immediate information on how to find a job as soon as possible, i.e. he receives a login for the CWI website on which a large number of vacancies are published and where the individual can make a curriculum vitae that is accessible by employers. After a legal transfer period of eight days, the CWI sends an application for unemployment benefits to the UWV or for social assistance to the municipal Social Service. An important evaluation measure in this respect is the prevention quote of the CWI, which is the percentage of unemployed workers who find a job within these eight days, i.e. without having to apply for unemployment benefits. Table 3.2 shows that this quote was 20,1 percent in 2005 (the target was twenty percent as

is the target for 2006, CWI (2006b)). It is slightly higher for men than for women, and for younger workers it is twice as high as older workers. This is what one would expect.

Table 3.2: Prevention quote unemployment insurance, 2003-2005.

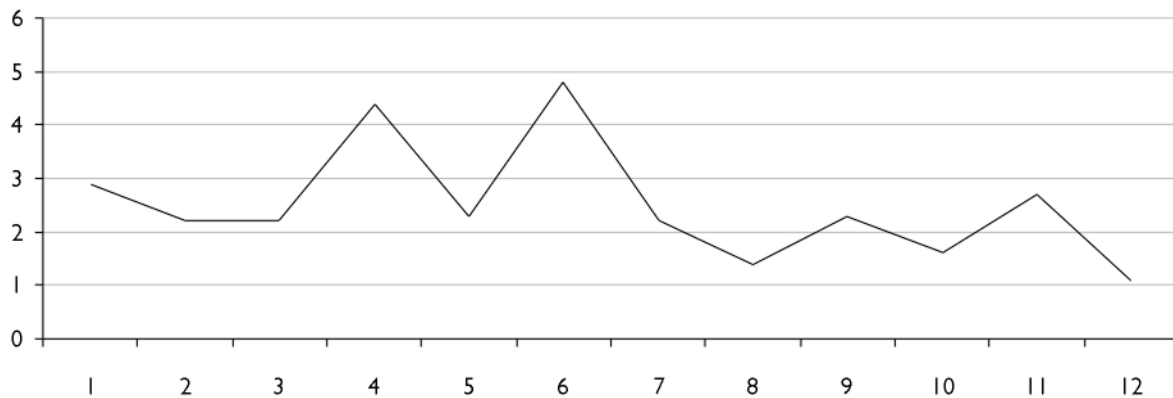
Year	Total	Men	Realised Prevention quote		
			Women	Younger < 23	Older than 57.5
2003	17.3				
2004	19.9				
2005	20.1	21.4	18.4	31.3	15.3

Source: CWI yearly reports, 2000-2005.

After receipt of the dossier on the individual, the UWV or the municipal Social Service have a legal obligation to handle the case within eight weeks. In 2005, about 94 percent of the applications for unemployment benefits at the UWV were handled within this period, compared to about ninety percent in 2004 (UWV, 2006c). Before the introduction of the UWV in 2002, when the implementation of social security law was divided over five different institutions (the *uvi's*, largely organised by sector), this procedure took longer. For example, the institution responsible for the government sector (USZO) only had about one fifth of the claims judged in time (IWV, 2002a). The UWV currently has three relevant objectives (Koning & Deelen, 2003): (1) to handle benefit claims in time and ensure a high level of customer service with respect to benefit administration and contribution collection; (2) legitimacy and efficacy with respect to benefit payment; (3) reintegration of clients.

When unemployment benefits are granted, the unemployed worker receives a monthly form of the UWV at which he has to register his search activities, complete with the information of contact persons, to keep his entitlement to benefits. The worker also needs to inform the UWV of planned holidays and sickness or other mutations that relate to his search activities. In a recent study on the unemployed in the Netherlands, it was found that the average number of search activities is four in the past four weeks (Schils *et al.*, 2006). Figure 3.3 shows the average number of search activities by the duration of unemployment for people receiving unemployment benefits. In general, the requirement of four applications in four weeks is not met by the unemployed. In between months four and six, search activity is higher. This is likely to be explained by the fact that the short-term unemployment benefit (which was still in practice during the period of the research) is only granted for six months, after which the unemployed worker falls back into the much lower social assistance benefits. This increases his search activity. It is well-known that a limited duration of benefits increases the exit probability out of unemployment (Lalive *et al.*, 2006, among others). Unfortunately the data do not show what type of unemployment benefits the workers have.

Figure 3.3: The average number of search activities relative to unemployment duration (in months), 2005.



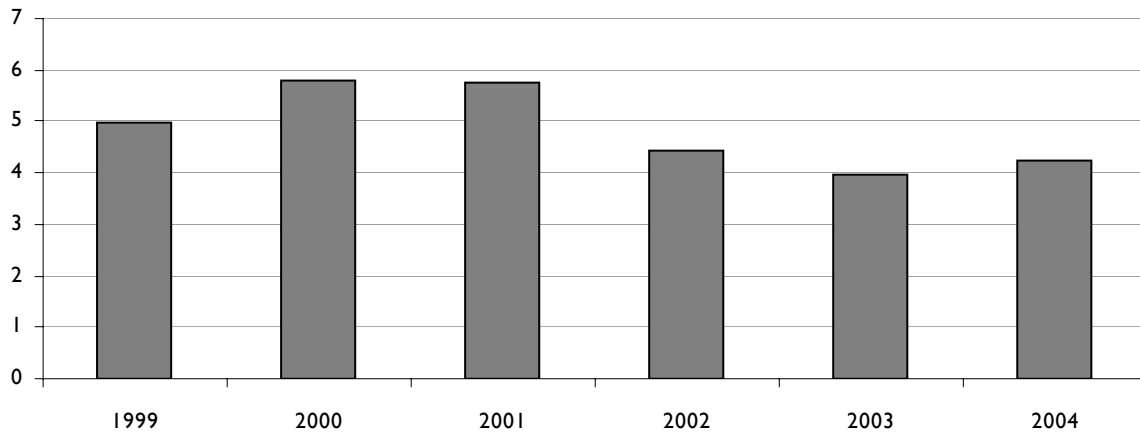
Source: Schils et al. (2006).

To find a job, several support possibilities exist for the unemployed worker. The first six months of his unemployment, a job seeker is classified as Group A or phase I by the CWI and is left on his own. He can search for himself, looking for vacancies in newspapers, at vacancy websites, company websites or temporary working agencies. Exceptions are situations in which the CWI believes that the job finding probability of the job seeker is very small or when he himself asks for support. In 2005, 59.3 percent of the unemployed registered at the CWI. About 46 percent of these individuals found a job without making use of the CWI vacancy website, pointing to the intermediary function of the CWI in reintegration of the unemployed worker (CWI, 2006b). Second, job seekers who do not find a job within six months are transferred to the UWV and can enrol in a reintegration program. More details on this in section 4 on active labour market policy.

The UWV devotes about a quarter of its capacity to the prevention of fraud. Using interviews among benefit recipients, compliance is measured. This refers to the percentage of clients who are known with the conditions and sanctions related to their benefits. The compliance percentage ranges from 75 to 90 percent, indicating that the majority of benefit recipients know the rules of the game (UWV, 2006e). Figure 3.4 shows the total number of detected fraud cases by the UWV for unemployment beneficiaries.

The number of detected fraud cases has declined slightly since 2000 with about two percentage points to about four percent of the total number of beneficiaries. The UWV argues that this is mainly due to a better monitoring of the UWV (UWV, 2006e). In about seventy percent of the fraud cases the fraud was detected within three months after the start of the fraud. The sanctions mainly concern full or partial reduction of benefits or a formal warning. In line with the high percentage of fraud cases related to unemployment insurance, the majority of measures is applied to such benefit recipients. With the detected fraud cases, the UWV has saved about 179 million on benefits (all benefits, not only unemployment benefits) in 2005 (UWV, 2006c).

Figure 3.4: The number of detected fraud cases by UWV (% of the total number of unemployment beneficiaries), 1999-2004.



Source: UWV (2005).

3.1.3 THE GROUP OF INSURED AND CONTRIBUTIONS

The group of individuals contributing to unemployment insurance consists of workers aged under 65 in paid employment (including people in public services but excluding the self-employed or free-lance workers) and people without a job on a disability, sickness or unemployment benefit. These are all compulsory insured. In addition, people can be voluntarily insured (e.g., the self-employed and free-lance workers). The voluntary insured can determine, with a maximum, the insured wage and contributions are paid accordingly. The maximum daily insurance wage is 168 euro, similar to the maximum for compulsory insured employees. Contributions are 5.43 percent of daily (maximised) wages, which is higher than that of compulsory insured workers as we will shortly see.

Table 3.3. shows that by the end of 1998 about 6.4 million people were insured for unemployment and in 2004 the group of insured was about 6.9 million people. About 85 percent of them was insured because of their employment relation and 15 percent because of a social benefit or because of voluntary insurance. With a labour force population of 10.6 million people, about sixty percent of them is insured corresponding to about 92.2 percent of the working population, which consisted of 6.9 million people in 1998. (In 2004 the percentage of the working population that is insured has remained 92 percent).

The contributions for unemployment insurance are paid by the employers. Until the beginning of 2006, these were paid to the UWV, but with the Act Financing Social Insurance these are collected by the tax office. The main reason for this is to have only one institution for the employer, with respect to payment of social contributions and taxes. For workers, the UWV remains the main institution, and therefore contributions of the voluntarily insured are still collected by the UWV.

Table 3.3: The number of people insured for unemployment insurance, 1998.

	Absolute	% of total
People in paid employment (including those partly receiving benefits)	5.454.000	85.1
People on disability benefits (excluding those partly in paid employment)	661.000	10.3
People on unemployment benefits (excluding those partly in paid employment)	234.300	3.7
People on sickness benefits (excluding those partly in paid employment)	58.000	0.9
Voluntary insured	3.900	0.06
Total number of insured	6.411.200	100

Source: UWV(2005)

The employers pay both their own part and the worker's part. The contributions consists of two types. First both employer and worker pay contributions into the unemployment insurance fund (*WW-awf*), independent of actual unemployment. The employer pays 3.45 percent on wages and the worker pays 5.2 percent. With respect to this, a maximum wage and a franchise exists. The franchise is the part of the wage on which no unemployment contributions are levied. For 2006, the maximum wage is set at 168 euro a day (corresponding to 3,654 euro a month for a fulltime worker) and the franchise is 58 euro a day (corresponding to 1,261.50 for a fulltime worker). For certain groups of partly disabled workers, the employer can receive a reduction on the unemployment contributions. These groups concern workers that before received disability benefits, or those who have no entitlement to disability benefits because their disability is less than 35 percent, or those who are notified by the CWI as 'difficult to employ' or those who work for Social Workplaces (e.g., mentally or physically disabled persons).

Second, a sector-specific contribution (*WW-wgf*, sectoral reduced payment fund) has to be paid, yet only by the employer. These contributions are used to pay the first half year of the worker's unemployment benefits. The level of these contributions depends on the unemployment risk in the sector. Contributions vary from 0.50 percent to 12.50 percent of the worker's wage (Belastingdienst, 2006). In some sectors, where unemployment is of a repeating nature (e.g., agricultural business, construction companies, hotel and restaurant industry, cultural companies and painting companies) employers are allowed to use lower contribution rates for personnel on permanent contracts. Recently, Minister de Geus proposed to relate this sector-specific contribution to the duration of contracts, with the intention to reduce the number of repeating unemployment spells. These mainly burden the reduced payment funds of which the first six months of unemployment benefits are being paid. With the lowering of *Wgf*-contributions for contracts that last at least a year, the minister wants to reduce this pressure (Ministry of Social Affairs, 2004b).

Table 3.4 shows the balancing accounts for unemployment benefits of the UWV for 2003-2005. It can be seen that the UWV has built a surplus in recent years and as a consequence, the UWV recently advised the Minister of Social Affairs to reduce the contributions for unemployment insurance. This is now part of the proposed government budget for next year (Miljoenennota 2006). In the past, the government was rather reluctant to reduce unemployment contributions, partly because of uncertainty with respect to future unemployment risk and partly because the funds had a positive effect on the public debt, which was advantageous in light of the EMU conditions. The largest part of the costs of unemployment insurance are made for the judgement of benefit claims (Koning & Deelen, 2003). As for the efficiency of this, in 2001 about ten percent of the claims was incorrectly granted due to incomplete information or mistakes made by the UWV (IWI, 2002b), compared to only one percent in 2005 (UWV, 2006c). Recent research showed that the efficiency of the UWV has increased, explaining the lower incorrectly granted benefit claims, yet improvements can still be made in the field of customer service. Especially the cooperation with the CWI has to be improved and standardisation of procedures needs to be accelerated. The UWV has been mostly busy with the merger and its consequences (e.g., former sector specialists now have to be trained to be all-round UWV workers) and room for customer service improvement was limited. (see recent reports on the evaluation of SUWI law implementation of PriceWaterhouseCoopers (2006) or TNO (2006)).

Table 3.4: Costs and benefits of unemployment insurance (x1,000), 2003-2005

	2003	2004	2005
Benefits	7,165	7,894	8740
Contributions	6,822	7,402	8,226
Other ¹	343	492	514
Costs	5,246	6,262	6,315
Unemployment benefits	3,745	4,376	4,381
Social expenditures ²	518	697	623
Other	354	515	623
Administration costs	629	674	688
Result	1,919	1,632	2,425

¹Via 'reduced pay funds' (wachtgeldfondsen), some public money for reintegration 'sluitende aanpak' and received interest. ²To employers, don't know (yet) what is meant by this.

Source: UWV Yearly Reports 2003, 2004 and 2005.

Social assistance benefits are tax financed, by income tax paid by all citizens. Each year, the central government attributes a budget to all municipalities for the administration of social assistance. The level of the budget depends on previous years' budget, the number of social assistance benefits paid, the size of the labour force and the education level of the labour force. Table 3.5 shows some indications of the budgets attributed to the six largest cities in the Netherlands as well as the number of social assistance beneficiaries at March 1, 2006. The budget consists of an 'income budget' to finance the payment of social assistance benefits and a 'work budget' to finance the reintegration activities. When a municipality exceeds its budget, an own-risk applies of ten percent

of the income budget, to increase efficiency. For example, suppose a municipality received fifty million euro for the income budget, the first five million euro exceeding these fifty million are for the municipal account itself. In case the actual expenditures are even higher than that, a formal investigation by the IWV is decisive for whether the central government pays for it or not. Only in case the higher expenditures are not due to mistakes or inefficiency of the municipality (e.g., economic shocks), the central government pays. Finally, the municipality can use a possible surplus for other means, which is meant as an incentive to reduce the inflow into social assistance. Although the small municipalities complain that they do not have sufficient means to back up any deficiencies, in general the municipalities are satisfied with the new system (Ministry of Social Affairs, 2005).

Table 3.5: Indicative budgets for social assistance attributed to municipalities, 2006.

Municipality	Work budget	Income budget 65-	Income budget 65+	Number of SA beneficiaries ¹
Amsterdam	202,415,000	575,420,000	30,788,000	39,440
Rotterdam	223,127,000	507,870,000	21,437,000	39,780
Den Haag	114,771,000	292,610,000	13,313,000	21,690
Utrecht	49,445,000	111,090,000	4,572,000	9,020
Eindhoven	26,085,000	78,310,000	6,777,000	5,860
Tilburg	28,686,000	70,790,000	1,901,000	5,610

¹2005

Source: Ministry of Social Affairs and Employment (2006), CBS(2006b)

The efficiency of the implementation of the Work and Social Assistance Act (WWB, *Wet Werk en Bijstand*) by the municipalities, is evaluated on municipal level. With respect to the reintegration efficiency of the municipalities, see section 4 of this report. A detailed study of the efficiency with respect to the income budget per municipality, however, goes beyond the scope of this study (see www.gemeenteloket.szw.nl for some evaluation reports).

3.2 SECTORAL UNEMPLOYMENT INSURANCE

In some sectors, supplementary unemployment insurance exists. These are recorded in the CLA's negotiated by the trade unions and employers' organisations or company representatives if no such organisation exists. Again, as in section 3.1.2, we analysed 75 CLA's. Table 3.6 shows that in 44 percent of these, provisions on supplementary unemployment insurance exists, acting as a complement to national legislation. In some sectors, almost all CLA's contain provisions on this, such as in construction, education and government. In 20 percent of the analysed CLA's the provisions are for all workers covered by the CLA, and the level of benefits after supplements varies from 70 to 82 percent (of non-maximised previous wages). In some CLA's the provisions are only for workers who are also partially disabled or for older workers who are made redundant. In both cases, up to 100 percent of previous earnings is granted. In other CLA's supplementary benefits are paid in case of working hours reduction or suspension of business activities (e.g., due to weather

conditions or other external factors). In this case, again up to 100 percent of previous earnings is granted.

Table 3.6: Provisions on supplementary unemployment insurance found in collective labour agreements.

Sector	Number of CLAs analysed	Conform National legislation	Different	
			from national legislation	Special provisions
Construction	5	1	2	8 wks to 80% of previous wage
			2	13 wks to 80% of previous wage
Retail	15	14	1	1 yr to 100% in case of partial disability
Industry	30	30	5	1 yr to 100% in case of partial disability
			5	to 100% in case of working hours reduction.
Agriculture	14	5	1	8 wks to 80% of previous wage
			6	for older workers.
			1	to 100% in case of working hours reduction.
			1	1 yr to 100% in case of partial disability
Education	5	1	3	1 yr to 78%, afterwards to 70% (earningsrelated benefit) or to 108% of minimumwage (short-term benefit)
			1	1 yr to 83%, afterwards to 75% (earningsrelated benefit).
Government	6	1	4	1 yr to 80%, afterwards to 70% (earningsrelated benefit).
			1	1 yr to 78%, afterwards to 70% (earningsrelated benefit).
	75	52	33	

Source: FNV CAO-Databank, 2006.

Apart from provisions in CLA's, social plans might also contain provisions on supplementary unemployment insurance. In nine out of the thirteen analysed social plans, no additional provisions were given on such supplements, yet in case a severance pay is granted, this might be received as supplements on national unemployment insurance (*i.e.* in monthly terms). In four social plans, provisions are included on a supplementary unemployment insurance. In all cases this supplement is given for the full duration of unemployment benefits and starts with 90 or 95 percent of previous wages and ends with 80 or 90 percent of previous wages. This supplement is much more generous than that in case of 'normal' unemployment, *i.e.* not as a consequence of a reorganisation or bankruptcy.

3.3 THE ROLE OF THE INSTITUTIONS SUMMARISED

In this section, a brief summary is presented on the role and responsibilities of the main institutions involved in Dutch unemployment insurance. As in the case of employment protection, national legislation on unemployment insurance is set by the government, *i.e.* contribution levels, entitlement conditions, benefit levels and benefit duration. Again, the SER has an important advisory task, but advice on unemployment insurance also comes from the RWI (in which the municipalities are represented) and the UWV (the Social Security Agency). Dutch unemployment insurance shares some corporatist features in that there is strong link to the working history. Benefits are relatively

generous. In addition, social assistance, *i.e.* unemployment insurance for workers who do not meet the entitlement conditions for the regular unemployment insurance, shares social-democratic features in that benefits are universal, though means-tested.

In collective labour agreements on the sector or company level, supplementary unemployment insurance can be provided. In contrast to the provisions on employment protection in collective labour agreements, provisions on unemployment insurance are not a substitute for national legislation, but complementary. Entitlement to sectoral provisions is only open for those workers who are entitled to national unemployment insurance. Benefit levels are increased, yet benefit duration is similar to that in the national insurance system. In most collective labour agreements, the supplementary benefits are for specific groups of workers, *e.g.* disabled workers, older workers or workers who are made redundant.

While government and the social partners are responsible for the determination of unemployment insurance policy, other institutions are responsible for the implementation of this policy. First, the CWI is responsible for the registration of the unemployed and for the benefit intake procedure. No judgement, however, is given on entitlement to claims. CWI however, is responsible for avoiding (or reducing) the inflow into unemployment benefits, by encouraging a fast reintegration into the labour market. The CWI sends the intake report to the institution(s) responsible for the judgement and payment of benefit claims, either the UWV or the municipality. The UWV deals with claims for unemployment insurance (both national and sectoral insurance) and the municipality deals with claims for social assistance. The legitimacy of granted claims and the efficiency of the administration both by the CWI, UWV and municipalities is evaluated by the IWI and the minister of Social Affairs and Employment. The social partners historically had an important role in the social insurance administration, but since the beginning of the 1990s this role has been gradually reduced until the current role of the social partners' which is being an important initiator/partner of collective bargaining and advising the administrative institutions.

4 ACTIVE LABOUR MARKET POLICY

4.1 INTRODUCTION

Active labour market policy is a comprehensive term including a wide range of policies to enhance the employability of people. In the literature, five main categories are distinguished (Martin, 2000): (1) public employment services and administration, such as activities of job placement and benefit administration; (2) labour market training: spending on training programmes for both the unemployed (to increase their reintegration probabilities) and the employed (to keep them on the labour market); (3) subsidised employment, including hiring subsidies for employers who hire an unemployed worker and subsidies to the unemployed who want to set up their own business; (4) special youth measures to enhance young workers' position on the labour market; and (5) special measures for the disabled to increase their employment probabilities. For this report, the focus is on reintegration of the unemployed.

During the 1990s the emphasis in the Dutch active labour market policy changed from passive to active policies, *i.e.* from merely paying unemployment benefits to activating benefit recipients (Rutte, 2003). To achieve this, the social expenditures on active labour market policy increased from one percent of Gross National Product (GDP) in 1990 to 1.7 percent of GDP in 2001. This is fully tax-funded. With the earlier mentioned SUWI law, 'more market and less government' is introduced with respect to the reintegration of the unemployed. Yet as Koning (2005) correctly argues, the national objectives on active labour market policy are rather vaguely determined: 'towards a better working labour market', yet this is not specified any further nor are standardised quantitative measures developed, apart from inflow and outflow rates into employment. Yet, common opinion is that active labour market policy should prevent the inflow into social insurance, increase the outflow out of social insurance benefits, not only instantly but also in the longer run and remove the unequal distribution of unemployment over different groups in society.

In general, two main effects can be established by activation policy, a motivation effect and a qualification effect (Madsen, 2002). The motivation effect refers to the increased job search activities of an unemployed worker. The qualification or training effect refers to the fact that an unemployed worker who participated in a reintegration program has improved his skills and qualifications and hence better equipped to enter the labour market.

A number of instruments are open for the institutions responsible for the reintegration of the unemployed. Job mediation, by public authorities or by private companies, wage subsidies and training and education of the unemployed are all possible instruments. The type of reintegration support in the Netherlands depends on the 'routing' of an unemployed individual. With the new organisation of social security since 2002, the CWI, UWV and municipalities are held responsible for the reintegration of the unemployed. All unemployed workers start at the CWI branch and receive reintegration support. In case of entitlement to unemployment benefits, they are transferred to the UWV and in case of entitlement to social assistance benefits they are transferred to the municipalities.

In this section information is provided on the different reintegration procedures of the institutions and the number of successes. Evaluation studies are still limited though, partly because the legislation is still new and partly, as de Koning (2006) argues, because the evaluation is largely left to the institutions themselves. They have been busy implementing the new administration strategies and left evaluation for the future. However, they might also be 'afraid' of bad results, leading to reduction of their budget or responsibilities (de Koning, 2006). Nevertheless, at this point in time a rather positive image is growing on the reintegration of the unemployed.

4.2 REINTEGRATION OF THE UNEMPLOYED

4.2.1 JOB MEDIATION BY THE CWI

In the previous section on unemployment insurance it was already mentioned that the CWI is the first institution where job seekers turn to. The CWI is partly responsible (together with the other institutions in the chain of work and income) for avoiding and reducing unemployment benefit claims by encouraging a fast return to the labour market. As stated in its objectives the CWI task is "limited to basic reintegration, *i.e.* the job finding process of job seekers with a short distance to the labour market" (Algemene Rekenkamer, 2004). The emphasis is on job mediation rather than reintegration. During the intake interview, the CWI advisor evaluates the probability that the worker will find a job within six months. The CWI divides the job seekers in two groups (CWI, 2005): (1) the A-group are job seekers who are 'ready' to look for work and the emphasis in this group is on finding a job, *i.e.* for whom the motivation effect is likely to be dominant; and (2) the B-group are the job seekers who first need to be 'prepared' for the labour market, *i.e.* for whom the qualification is likely to be dominant. These people are unable to immediately start looking for a job due to personal problems (e.g., addictions, psychiatric problems) or physical limitations (e.g., disability). The emphasis in this group is on training and assessment after which a job match will be

sought. Regardless, however, to which group the job seekers belongs to, “for every client, the right approach is used” (CWI, 2005; p.5). The CWI uses several instruments. For the A-group of job seekers, one of the main instruments in the job mediation process is the CWI work website. On this website the job seekers can place their profile and browse through available vacancies and employers can place their demand for labour or browse through the profiles of the registered unemployed. In 2005 72,584 vacancies were placed on the CWI website (which is about eight percent of new vacancies), of which about fourteen percent were matched with workers through the CWI. 336,717 worker profiles were available on this website (which is 89 percent of the inflow into unemployment insurance) of which on average 41,000 are emailed daily to employers looking for personnel. About 130,000 workers daily visit the website to look for a job (which is 34 percent of the inflow into unemployment insurance, CWI (2006b)). Apart from this direct job information, links to training and assessment are provided as is information on recent developments on the labour market. With the website the CWI wants to increase the labour market transparency and follow modern techniques of communication.

By regularly (every three months) checking the status of the job seeker⁹, the CWI keeps track of the search efforts of the job seeker. In some cases, the CWI advises the job seeker to take part in training courses to enhance labour market skills (e.g., computer skills), yet, no budget is available at the CWI for this. The UWV might support such activities, provided that the training is of a short duration, that the trained skills are explicitly demanded on the regional labour market and that the training costs are below 2,000 euro (CWI, 2005). Due to differences in capacity, the supply of these activities differs between the CWI branches. In large branches less personal attention is paid to the job seeker, which is not conform the CWI objectives (Algemene Rekenkamer, 2004). In addition, the job mediation activities depend on the number of vacancies, i.e. when only a few vacancies are available, the possibilities for job mediation are limited. The CWI checks whether the job match between the job seeker and the employer is of good quality. Not only job seekers have to be satisfied, employers too. These are the input for the CWI and unsatisfied employers might decide not to go to CWI with new vacancies in the future (Algemene Rekenkamer, 2004). In 2005, the employers graded the CWI with a 7.0 for customer service, and the job seekers graded a little higher with a 7.3 (CWI, 2006b).

As shown in Table 3.3 in the previous section, about one-fifth of the job seekers who report at the CWI find a job within eight days, the prevention quote (CWI, 2006b). In addition, the percentage of job seekers (A-group) on unemployment insurance who find a job within six months is 59.3, i.e. the motivational effect. As expected, it is lowest among older workers (33.4%) and still below average

⁹ In fact, the registration at the CWI is limited to three months, facilitating regular contacts between CWI and the unemployed worker.

for ethnic minorities (51.2%) and women (55.4%). The prevention quote and the outflow out of unemployment (into employment) within six months are the main performance indicators based on which the CWI is evaluated every year. Note that the extent to which these performance indicators are reached, also depends on the economic situation and the mobility at the labour market, an external factor which has to be dealt with by the CWI when developing new yearly objectives.

4.2.2 REINTEGRATION BY THE UWV

The B-group, but also the A-group clients who are unsuccessful in finding a job within six months, are transferred to the UWV, to the reintegration coach. This is an employee of the UWV who works at a CWI branch, thus formally the client falls under the responsibility of the UWV. This is to keep in close contact with both the contact person at the CWI and the individual himself. The reintegration coach evaluates the client (by using specially developed assessment tests to determine what kind of support the client benefits most from) and then supports him in finding a job by giving advice or by stimulating him to participate in training activities organised by the CWI. According to a recent research of the Inspection for Work and Income, by the end of October 2005 391 reintegration coaches were employed at the UWV and in 2006 this increased to 450, which should enable the UWV to reach about 76,500 to 120,000 clients. In most cases, a reintegration coach has about 200 to 300 clients (Algemene Rekenkamer, 2004). Due to the short period of time that these coaches have been active (in some regions since 2004, on a national level since 2005), it is not possible to give quantitative evidence of the positive effects of the reintegration coaches. Yet, the opinion is that in individual cases the reintegration coach has a positive effect, mainly because of the short distance to the individual, the close contact with the CWI contact persons and the fast start of reintegration projects. To recover the costs of the reintegration coaches, every supported client should be reintegrated 3.7 days earlier than without the support.

The UWV states that about eighty percent of its clients finds a job within nine months (Algemene Rekenkamer, 2004).¹⁰ This probably includes the sixty percent mentioned by the CWI who find a job within six months, since most of these people are already benefit clients of the UWV. In case of a longer duration of unemployment (*i.e.* over nine months), the reintegration coach can decide to enrol the individual in an individual reintegration project of the UWV. European Union guidelines state that every benefit recipient should get an offer for a reintegration project within twelve months, the '*Sluitende Aanpak*' (Algemene Rekenkamer, 2004). The actual reintegration activities are outsourced by the UWV. The UWV has contracts with private reintegration companies, at least two per region. Currently, over forty reintegration companies are contracted by the UWV (UWV,

¹⁰ This likely refers to all UWV clients, not only those on unemployment benefits.

2006b). The individual is able to choose between a number of these reintegration companies. The outsourcing of the UWV takes place by means of public tender, to ensure transparency of costs. The conditions for a contract are yearly determined by the UWV and online available (www.uwv.nl). Job seekers can also organize their own reintegration. The job seeker then signs an Individual Reintegration Contract (IRO) with the UWV and chooses his own reintegration company. The reintegration company, however, has to comply with the conditions of the UWV.

Table 4.1 shows some evidence on the numbers of reintegration clients in different phases of the procedure. Unfortunately, these figures are for all UWV clients, including people on disability benefits, not only those on unemployment insurance. About one-fifth of the clients who are eligible for a reintegration program are not enrolled in such a process. In about half of these cases this is because the client (still) conducts his own search for a job (and is most likely to find one according to the reintegration coach) and in the other half this concerns clients who are not available for work due to sickness, personal problems or other reasons. In 36 to 40 percent of the cases the reintegration program is performed with the former (or current in case of partially jobless clients) employer. This merely concerns people on disability benefits. About one third of the clients is enrolled in a reintegration program.

Table 4.1: Evidence on reintegration by the UWV, 2005-2006.

	2005		First quarter 2006	
	Absolute	Relative	Absolute	Relative
Clients to whom reintegration applies	46,566	100	11,063	100
No reintegration advice (yet)	505	1.1	30	0.3
Reintegration advice made by labour market expert	46,061	100	11,033	100
No reintegration action	8951	19.4	2,260	20.5
client conducts own search for work	4339	9.4	1,148	10.4
client is not available for work	4214	9.1	1,022	9.3
no reintegration possibilities for client	398	0.9	90	0.8
Not yet reintegration action	4,801	10.4	1,165	10.6
Reintegration via employer	16,376	35.6	4,189	38.0
Reintegration via private market	15,933	34.6	3,419	31.0

Source: UWV (2006c, 2006d)

One of the main performance indicators on which the UWV is evaluated is the percentage of job seekers who are reintegrated into the labour market. Using different evaluation studies, however, different outcomes are found. It is not always certain what kind of UWV clients are included in the numbers, e.g. are only unemployment benefit recipients included or do the numbers include all UWV clients, including those on sickness and disability benefits? For 2005 the UWV argues that about thirty percent of job seekers under their responsibility have returned to the labour market, regardless of a reintegration program (UWV, 2006d).¹¹ With respect to the effectiveness of

¹¹ This likely excludes the job finding rate of sixty percent reported by the CWI. After all, the UWV also reported that about eighty percent of the clients returns to the labour market within nine months. This could mean that about two-third of the clients enrolled in a reintegration program are reintegrated within nine months.

reintegration by the private companies, results over the first half year of 2006 show that for clients on individual reintegration contracts (about 35 percent of the unemployment benefits clients who started a reintegration program), i.e. the job seekers who choose their own reintegration company, about seventy percent has found of job (percentage taken of the total number of contracts that ended with the companies). For regular clients, who used the UWV list of reintegration companies to choose from, 37 percent has found a job (UWV, 2006d). One might argue that the first group is more motivated to find a job since they start their own reintegration program, and includes job seekers with the highest abilities (e.g., possible selection effect into reintegration trajectories), which explains the difference.

The reintegration numbers differ between the reintegration companies. Table 4.2 shows the percentage of job seekers that are reintegrated through private reintegration companies, in this case information on the group of job seekers with unemployment benefits is available. The percentage varies from 9 to 34 percent. Note, however, that the reintegration programs are still running at this point in time.

Table 4.2: Overview of the results of the reintegration companies 01-07-2004 to 30-06-2006 (intermediate results)

Reintegration company	Percentage reintegrations (total)	Percentage reintegrations (Unemployment Insurance)
<i>Companies with >2,000 reintegration clients</i>		
Agens de Werkende Kracht B.V.	16.6	14.8
Alexander Calder Arbeidsintegratie B.V.	21.6	24.8
Consolid Reintegratie B.V.	20.1	26.6
Kliq B.V.	22.6	28.7
Krew Reintegratie B.V.	10.7	15.3
Randstad HR Solutions B.V.	30.4	33.5
Van Dreumel Depiro B.V.	22.0	20.4
<i>Companies with 750 to 2,000 reintegration clients</i>		
Argonaut B.V.	13.7	19.4
Epheon Reintegratie B.V.	29.2	29.2
IWA Arbeidsintegratie	33.7	33.9
Lelie Hollander Reintegratie B.V.	10.8	13.0
Serin B.V.	28.8	29.4
United Restart Services B.V.	18.1	29.3
<i>Companies with < 750 reintegration clients</i>		
Capability	26.9	26.9
DHG Reintegratie B.V.	16.4	22.3
Hudson Human Capital Solutions B.V.	9.3	9.3
Idplein B.V.	22.6	18.7
Manpower Uitzendorganisatie B.V.	21.8	21.8
TTp Personeelsdiensten	24.9	24.9

Reintegration companies are also responsible for the reintegration of clients on disability benefits, which are omitted here.

Source: www.uwv.nl

To enhance the transparency of the reintegration market and to increase the competition between the reintegration companies, the UWV publishes so-called benchmark analyses on its website. The performance of all reintegration companies is recorded, yet only numbers on the effectiveness are

available. No information is presented on customer service and customer satisfaction. To make the information as comparable as possible, several criteria are included on which a selection can be based: year in which the reintegration started, region in which the reintegration companies are working (the UWV contracts out by region) and the target group of clients (e.g., clients with a short distance to the labour market, with a long distance to the labour market, older clients, clients from an ethnic minority, or highly educated clients). The main outcome variables are the (actual and expected) percentage of reintegrated clients, the average duration of the reintegration program, and the percentage of clients who dropped out of the program. In this way, the UWV can directly monitor the effectiveness of the reintegration companies and they themselves can always see how competitive they are. Apart from the number of successfully reintegrated clients, the UWV is evaluated on the percentage of reintegration programs that start within four weeks, the so-called 'quick starts'. While the target for 2005 was eighty percent, only 42 percent of the programs started within four weeks. The main reason given by the UWV for this weak performance is that the reintegration coaches are not trained yet and that their number is insufficient to meet demand for reintegration counselling (UWV, 2006c).

As for satisfaction of benefit recipients the numbers are not as positive as those for the CWI discussed earlier. Benefit recipients grade the customer service of the UWV with a 6.3, which has slightly decreased since 2003 (6.5). The dissatisfaction mainly concerns the payment of unemployment benefits, which is not always in time or the correct amount. The number of complaints has increased, yet about eighty percent of the complaints is handled within the legal six weeks, about sixty percent even within three weeks (UWV, 2006d). About sixteen percent of the complaints is unjustified, about sixty percent is justified. Complaints are mainly about information or communication to the clients (41 percent), payment of benefits (27 percent) or the duration of the judgement of benefit claims (15 percent).

4.2.3 REINTEGRATION BY THE MUNICIPALITIES

Reintegration for the unemployed on social assistance benefits is left to the municipal Social Services. They too are bound by the EU guideline stating that benefit recipients, including those on social assistance, have to be offered reintegration support within twelve months. The municipalities are free to choose how to support the unemployed in finding a job. Instruments commonly used are the reintegration by private companies, wage subsidies and training of the job seekers. Note that if the municipalities offer assistance to the individual, he is obliged to take this support. This might refer to an application training, a language or other course, vocational education, subsidised work, social activities or volunteer work. The individual who refuses such support or work can expect a cut in his social assistance benefits.

For the municipalities there is a financial incentive to successfully reintegrate job seekers into the labour market. When the targets, set by the Ministry of Social Affairs and Employment, are reached, next year's work budget (see Table 3.5 in the previous section) is increased, as kind of a reward. If the targets are not reached, the budget is cut. In 2002, 89 percent of the targets were reached (Peters & van Selm, 2004). The probability that a client is enrolled in a reintegration program after six months of unemployment is about fifteen percent, after twelve months it is slightly over twenty percent and after eighteen months it is about thirty percent (Groot *et al.*, 2006).

The reintegration probabilities not only differ by the duration of unemployment, but also between the municipalities. Table 4.3 shows the number of people on social assistance and the number of people in reintegration programs by municipality, only for municipalities with at least 100,000 inhabitants. It can be seen that at least 38 percent of the social assistance recipients is enrolled in a reintegration program. Note that the percentage exceeds a 100 percent in some cases, which is due to the fact that a number of reintegration programs include people who are already employed (and therefore no longer receiving benefits) but who are still under the responsibility of the municipality (e.g., subsidised jobs). In addition, the percentage also includes some people who are receiving unemployment benefits but whom the UWV has transferred to the municipality.

Statistics Netherlands recently analysed the effectiveness of reintegration programs of the municipalities (van den Berg & van Poeijer, 2006). The research shows that in 2005, about thirty percent of the people aged between 23 and 57,5 who started receiving social assistance benefits, found a job within twelve months. Of this group, 30.4 percent received integration support from the municipalities and the others found a job without such support. Of the seventy percent of the people on social assistance benefits who did not find a job within twelve months, 44 percent did receive reintegration support. 56 percent of this group, which is about forty percent of the total inflow into social assistance benefits does not get reintegration support and does not find a job within twelve months. The research further shows that the outflow out of social assistance benefits is higher for men, for people with higher education levels and for natives. With respect to this latter, the lowest outflow percentages are found for people from non-western countries.

Table 4.3: The number of people on social assistance benefits and in reintegration programs, 2005.

Municipality	Number of inhabitants	Number of social assistance recipients	Number of reintegration clients (abs)	Number of reintegration clients (%)
<i>Municipalities with >200,00 inhabitants</i>				
Amsterdam	743079	39570	19710	49.8
Rotterdam	588697	39980	35830	89.6
Den Haag	475627	21710	12030	55.4
Utrecht	280949	9070	4230	46.6
Eindhoven	209172	5880	7840	133.3
Tilburg	200380	5150	5090	98.8
<i>Municipalities with 150,000 to 200,00 inhabitants</i>				
Groningen	180729	9290	5150	55.4
Almere	178466	4630	2600	56.2
Breda	169709	4270	4040	94.6
Nijmegen	159522	6960	4510	64.8
Apeldoorn	156051	2550	2630	103.1
Enschede	154377	5470	4420	80.8
<i>Municipalities with 100,00 to 150,000 inhabitants</i>				
Haarlem	147015	3390	2750	81.1
Arnhem	142195	6600		0.0
Zaanstad	140270	3000	1550	51.7
Amersfoort	136999	2750	1620	58.9
Haarlemmermeer	135136	1220	650	53.3
Den Bosch	134717	3360	2440	72.6
Maastricht	120175	3780	4620	122.2
Dordrecht	118821	4090	2650	64.8
Leiden	118069	3100	1900	61.3
Zoetermeer	116979	2600	1000	38.5
Zwolle	113678	2690	1360	50.6
Emmen	108589	2610	2050	78.5
Ede	107048	1600	610	38.1

Source: CBS Statline 2006

Another recent study of SEO Economic Research shows that the probability to find a job when enrolled in a reintegration program increases almost linear with the duration of enrolment (Groot *et al.*, 2006). After six months of reintegration support, the job finding rate is slightly below ten percent, at twelve months it is fifteen percent and at eighteen months it is just over twenty percent. After this duration of reintegration support, the job finding rate increases less fast and at 36 months of reintegration support it is about 35 percent. In coming years more evaluation studies are expected to be published, since the market of reintegration is now functioning for some years. The main difficulty, however, with the evaluation studies is that is not always clear what the reference group is. In addition, when comparing reintegration percentages between CWI, UWV and the municipalities it is not always clear how much overlap there is between these numbers. For example, a person receiving unemployment benefits for three months, is an UWV client since he receives benefits, but he is also a CWI client because he is still within the first six months of his unemployment. This might cause differences between evaluation studies and results should therefore be carefully compared.

The Netherlands Bureau for Economic Policy Analysis (CPB) completed an interesting study on the economics of outsourcing reintegration activities to private companies (Koning & Onderstal, 2004). The authors state that outsourcing of reintegration activities is relatively new and an economic framework has not yet been specially developed for this. It is argued, however, that because the outsourcer is the same institution as the benefit distributor, the UWV, an economic cost benefit analysis is easy to make. The costs of the reintegration program have to be compared to the benefits of no longer paying unemployment benefits. The authors show that a cost efficient reintegration program meets three criteria; it is simple, efficient and effective. These conditions, however, do not necessarily comply with the objectives of the government. For example, one of the government's objectives (or EU guidelines) is the earlier mentioned '*sluitende aanpak*', i.e. the offering of a reintegration program within twelve months. This might not be cost efficient for some groups of unemployed workers for whom the costs of the reintegration program are higher than the costs of twelve months of unemployment benefits. In fact, the authors generalise this line of reasoning to adverse selection. Private companies who compete on prices of reintegration programs try to lower the price as much as possible. This usually implies that they can only select 'easy' clients, i.e. the ones who are relatively fast reintegrated into the labour market. The UWV remains stuck with the 'non-easy' clients, or the ones for whom reintegration might be too expensive. In fact, the authors argue, it might be even better for society as a whole, to not reintegrate these people, in case the costs of the reintegration are higher than the benefits of not paying them any social insurance benefits any longer. Outsourcing of reintegration in this case is not efficient, as long as competition is solely based on price. Durability of the employment relation after the reintegration program should be part of the competitive tools as well to reduce adverse selection.

De Koning *et al.* (2004) focused on the effects of schooling on the reintegration of unemployed workers, i.e. to measure the qualification effect. Interesting results of this study are that the idea that the weaker groups among the unemployed, such as women, people from ethnic minorities, older workers and the low-skilled, are over-represented in schooling programs, is not supported by empirical studies. However, the positive effect –albeit very small- of schooling programs on the job finding rate is higher for these groups. Yet, the authors state that the empirical studies did not correct for selection bias due to differences in motivation, i.e. the most motivated clients are more likely to enter schooling programs. This could imply that the positive effect of schooling is overstated and given the fact that only a small effect is found, the net effect might be negligible. However, the studies do not take into account non-market effects of training, such as the increase in social capabilities and the usability of the workers. Because of schooling the usability of the unemployed workers might be maintained, thereby increasing the effective labour supply with positive effects on employment. In addition, the positive effect of schooling is significantly higher when the schooling is completed. One of the recommendations of the authors is therefore that

institutions should focus more on the completion of schooling and training courses and prevent people from dropping out due to other reasons than employment.

4.3 THE ROLE OF INSTITUTIONS SUMMARISED

In this section, a brief summary is presented on the role and responsibilities of the main institutions involved in the reintegration of unemployed workers. Objectives as to the time span within which such workers should be enrolled in a reintegration program or have returned to the labour market, are set by the government and even the European Union (Employment guidelines). For example, the 'sluitende aanpak' states that unemployed workers should be enrolled in a reintegration program within twelve months, when they have not returned to the labour market. The minister of Social Affairs and Employment is responsible for the monitoring of this objective, the administrative institutions are responsible for achieving the objectives.

The first six months, regardless of what type of unemployment benefit the worker receives, the CWI is responsible for the reintegration into the labour market. The main instrument used by the CWI is job mediation electronically by means of a website and physically by means of a 'exchange market' at the CWI offices where the most recent vacancies are posted. After these six months, the job seeker is transferred to the institution that is responsible for the payment of the unemployment benefits. In case of unemployment insurance this is UWV and in case of social assistance this is the municipal Social Service.

The UWV contracts out its reintegration activities, to private companies that meet the conditions set by the UWV. The UWV, however, remains responsible for meeting the objectives on reintegration. Individuals are either mandatory enrolled in a reintegration program and are then able to choose between a limited set of (regional) reintegration companies, or they are voluntary entered into an individual reintegration program and are then able to choose a reintegration company themselves. The municipal Social Services can also choose to contract out their reintegration activities, but they might also choose to leave the reintegration to the UWV or use other instruments such as subsidised jobs.

The institutions are responsible for the evaluation of reintegration activities, but the IWI also evaluates the effectiveness and efficiency of the reintegration programs of the institutions and reports to the Minister of Social Affairs and Employment. As in the case of social insurance administration, the role of the social partners, and in particular that of the trade unions, in active labour market policies has also been reduced. With the existence of the trade associations, the social partners had an important role in the reintegration of disabled and unemployed workers. And

although one of the main criticism was the failing outflow out of these insurances into the labour market, the social partners were said to be given a role in the National Institute of Social Insurance (Lisv) partly because of their experience with reintegration activities (de Grave, 1996).

5 PERFORMANCE OF THE DUTCH LABOUR MARKET

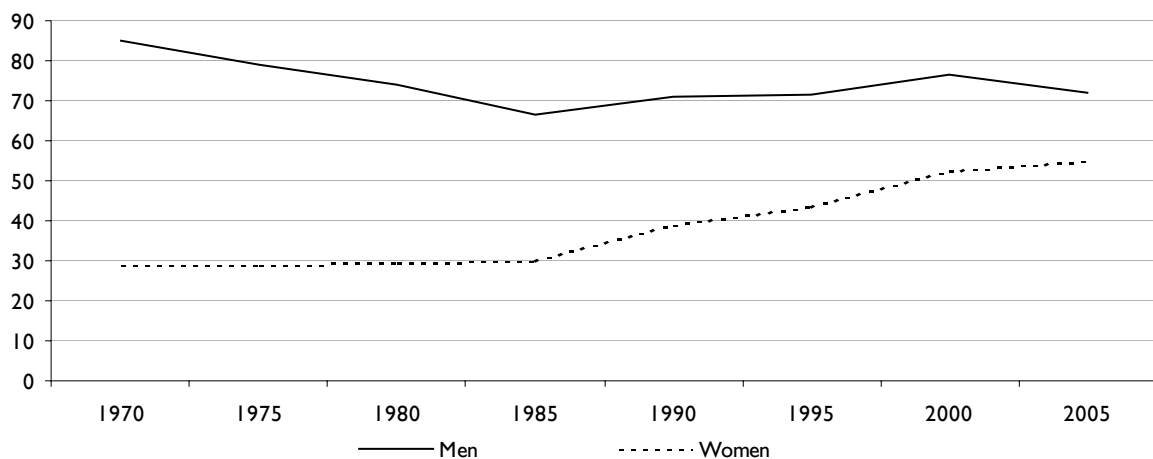
In this section, an overview is given of the performance of the Dutch labour market with special reference to the system of employment protection, unemployment insurance and active labour market policy as explained in the previous sections. With the effects discussed here, as well as the evidence presented in the previous sections, not only do we give some conclusions for the Dutch social security system in general, but also the groundwork is laid for the international comparison of the role and responsibility of institutions in social security.

5.1 EMPLOYMENT AND UNEMPLOYMENT

5.1.1 GENERAL EMPLOYMENT AND UNEMPLOYMENT RATES

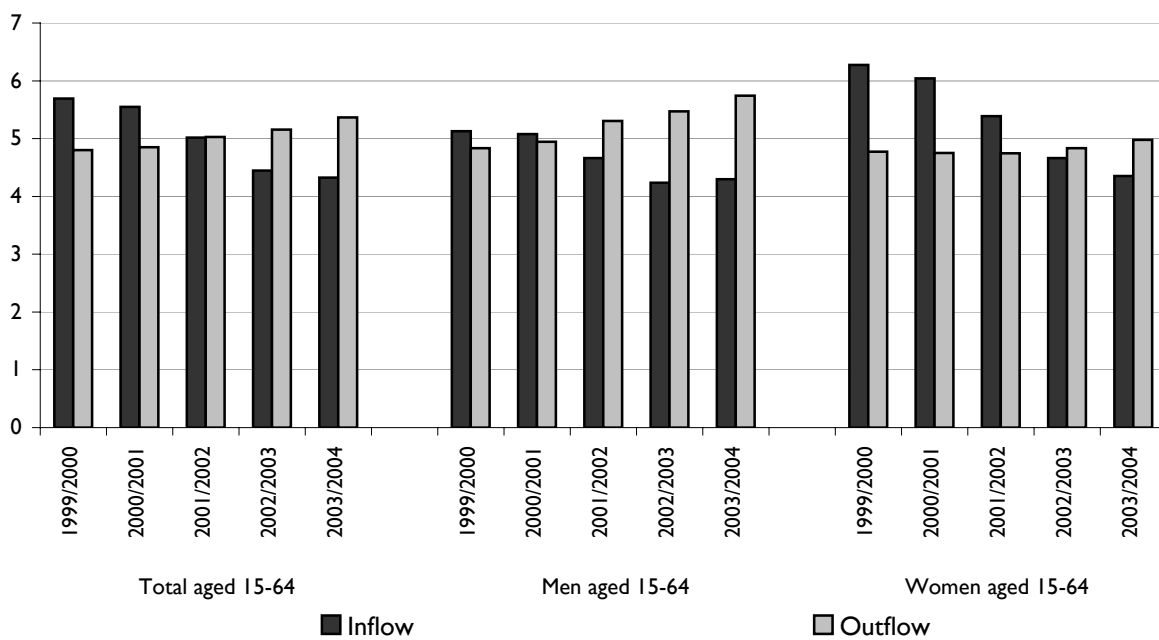
The Dutch labour market is characterised as a relatively flexible labour market with good labour market performance, *i.e.* with relatively high levels of employment, perceived job security and job quality (Auer, 2005). Partly as a consequence of the activating employment policies in the last decades, employment rates are among the highest in Europe, both for men and women. Figure 5.1 shows that employment rates for men are traditionally over seventy percent. From 1970 to 1985 male employment have decreased as a consequence of the economic crises and the following recession in the Netherlands. After this period, male employment rates stabilised, while those of women have been increasing since then. Figure 5.2 shows some evidence on the inflow and outflow rates into the labour market (as a percentage of the labour force). Notwithstanding the cyclical effects on these rates, it can be seen that until 2003 the inflow rates for women are higher than those of men, while outflow rates are lower for women. This is due to the fact that government and social partners emphasised an equal treatment for men and women on the labour market, and because of the increasing possibilities for flexible working hours and child care arrangements as from this time (STAR, 2006). In addition, active labour market programmes were more and more targeted at the employability of women, also to increase their education levels. From 1960 to 2000 the share of women in higher education has increased from 41 to 55 percent. Accordingly, the labour participation of higher educated women increased the fastest, with an increase of 5.4 percentage points from 1996 to 2005 for women with higher vocational education and with 8.6 percentage points for women with an academic education. The labour participation of lower educated women increased with about 4 percentage points from 1996 to 2005 (CBS Statline, 2006).

Figure 5.1: Employment rates in the Netherlands by sex (% of labour force), 1970-2005.



Source: CBS Statline (2006)

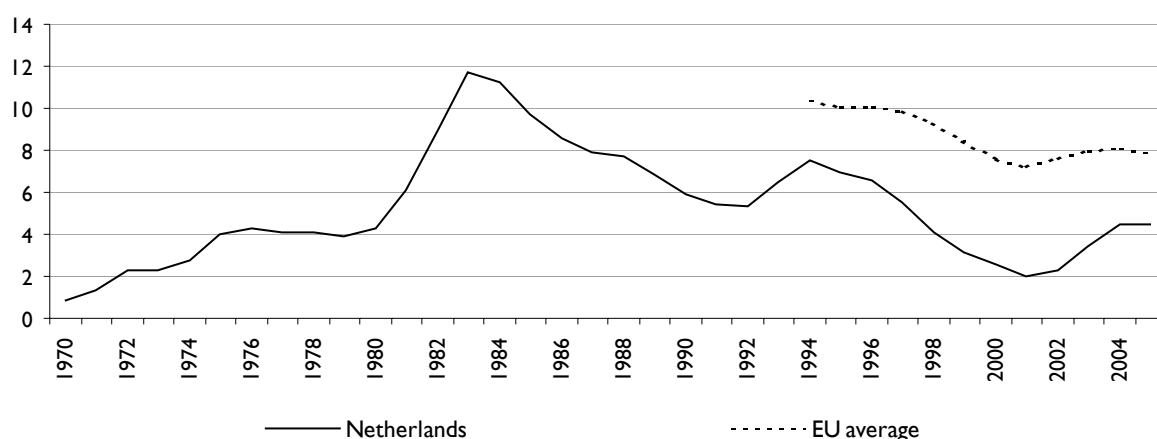
Figure 5.2: Inflow into and outflow out of the labour market (% of labour force), 1999-2004.



Source: CBS Statline (2006)

Dutch unemployment rates are relatively low with currently an unemployment rate of about four percent (*i.e.* number of unemployed workers as a percentage of the labour force), as shown in Figure 5.3. Again the recession in the first half of the 1980s as well as the economic downturn halfway the 1990s are clearly visible. For the last ten years, the average unemployment rate for the EU (15 countries) has been shown and the Dutch rate is clearly below this European average, and following the same trend.

Figure 5.3: Unemployment rates in the Netherlands (registered unemployment as a % of the labour force), 1970-2005.



S

Source: CBS Statline (2006)

As for flows between employment, unemployment and non-participation, the OSA trend reports on the supply of labour provide some information on this. As from the mid 1990s, the information on mobility flows on the labour market has increased, partly because of the availability of longer running data sets (Borghans, 1996). Table 5.1 shows that both employment and non-participation are relatively stable states, with staying percentages of eighty percent or higher. It can be seen, however, that non-participation has become less stable than in the beginning of the 1990s, mainly because of a higher number of transitions into employment (this group mainly consists of re-entering women and school leavers, OSA (2006)). For unemployed people, the most common transition is that into employment, with about half of the unemployed re-entering employment. About one-third remains unemployed (over a two year period) and about fifteen percent moves out of the labour market (e.g., discouraged workers or retirees).

Table 5.1: Transition rates between employment, unemployment and non-participation, 1992-2004

	1992-1994	1994-1996	1996-1998	1998-2000	2000-2002	2002-2004
From employment to:						
• employment	91	-	95	95	94	94
• unemployment	3	-	1	1	2	2
• non-participation	6	-	4	4	4	4
From unemployment to :						
• employment	45	48	50	55	40	52
• unemployment	34	31	30	34	47	33
• non-participation	21	21	20	11	13	15
From non-participation to :						
• employment	7	-	7	17	10	13
• unemployment	2	-	1	1	1	7
• non-participation	91	-	91	82	89	80

Source : OSA (1999, 2002, 2004, 2006), Borghans (1996)

As for the average job duration, it is often heard that the current Dutch labour market is characterised by less long-term relations between employers and workers (e.g., job hopping

behaviour of young workers), yet both de Beer (2005b) and the OSA labour supply report show that this is not supported by empirical evidence. The average job duration of workers has increased in the early 1990s and since then remained about stable at a level of around nine years. The trend follows the economic business cycle. During times of economic uncertainty, workers are more likely to stick to their jobs and not take the risk of moving to another job (OSA, 2006). When only looking at the average job duration of permanent contracts, the trend is similar but the average duration is (naturally) higher at a level of about 10.5 years. In addition, the OSA study shows that the average job duration increases with age, as expected, with workers aged between 25 and 34 having an average job duration of 5.3 years compared to an average job duration of 22 years for workers aged over 55. Moreover, the average job duration is negatively related to the worker's education level. Worker's with the lowest education level have an average job duration of twelve years compared to an average job duration of eight years for worker's with an academic degree. The average job duration is highest in the government sector (13.5 years) and lowest in retail and commercial services (7.7 years).

5.1.2 UNEMPLOYMENT IN MORE DETAIL

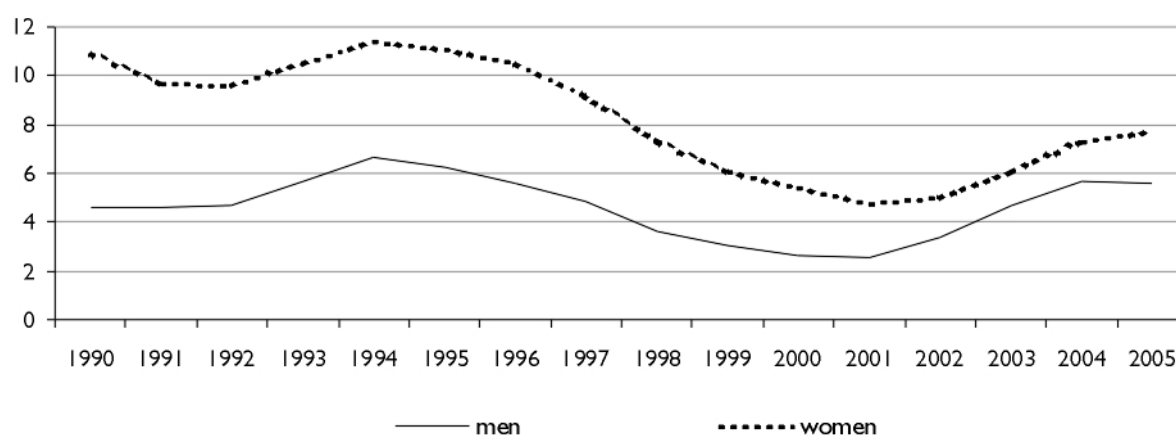
In this section, some details are provided on unemployment rates for different groups on the labour market. The evidence is merely of a static nature, but in the next section on unemployment insurance more dynamic information (e.g. flows in and out of unemployment insurance) are provided. Figure 5.4 reveals that unemployment rates are slightly higher for women than for men, although this difference has been declining in recent years.¹² In 1990 the male-female gap in the unemployment rate was 6.3 percentage points, whereas this has declined to 2.7 percentage points in 2000 and further to 2.1 percentage points in 2005. As mentioned before, this is likely to be related to the increased emphasis on equal opportunities for men and women in the labour market, the higher education levels of women, the increased number of flexible work arrangements and increased facilities for child care.

Table 5.2 shows unemployment rates by age and education level. Those aged between 15 and 24 have the highest risk of unemployment. This is especially true for young people without any qualifications, *i.e.* they only finished primary education. 29.4 percent of these youngsters is unemployed. Yet, according to recent evidence of the CBS, the number of unemployed young workers is declining, and especially the number of unemployed young workers without a qualification (CBS, 2006a). It is generally true, and not only for young workers, that having no qualification produces the highest unemployment risk. Workers with higher vocational education

¹² For this figure, evidence on 'full' unemployment is presented, not only registered unemployment as depicted in Figure 5.3. This explains the differences in unemployment levels.

(HBO level) have the lowest risk of unemployment, even lower than academics who are most likely competing for fewer jobs. For example, in 2003 there were 19,000 vacancies for 51,000 unemployed higher vocationally educated (i.e. 2.7 workers per vacancy), while there were only 4,300 vacancies for 32,000 unemployed academics (i.e. 7.4 workers per vacancy)(CBS Statline, 2006).

Figure 5.4: Unemployment rates by sex (% of labour force), 1990-2005.



Source: CBS Statline (2006)

Table 5.2: Unemployment rates by age and education level (% of labour force), 1996-2006.

	By age			Primary education	VMBO	By education level		
	15-24	25-44	45-64			MBO, HAVO/VWO	HBO	Academic
1996	12.7	7.1	5.9	16.0	9.3	6.2	5.0	6.4
1997	10.2	6.4	5.3	14.8	8.8	5.2	4.1	5.5
1998	8.6	4.7	4.4	12.2	7.1	4.1	3.1	3.6
1999	7.5	3.9	3.6	9.2	5.9	3.5	2.8	3.2
2000	6.7	3.4	3.2	7.6	5.0	3.2	2.8	2.6
2001	7.4	3.0	2.7	7.1	5.0	2.8	2.5	2.2
2002	8.5	3.6	3.1	7.8	5.8	3.5	2.7	3.7
2003	10.6	5.0	3.8	10.8	7.5	4.7	3.6	4.2
2004	13.3	5.8	4.9	13.3	8.1	6.2	4.2	5.0
2005	13.1	5.9	5.3	13.3	8.9	6.3	3.8	5.0

Source: CBS Statline (2006)

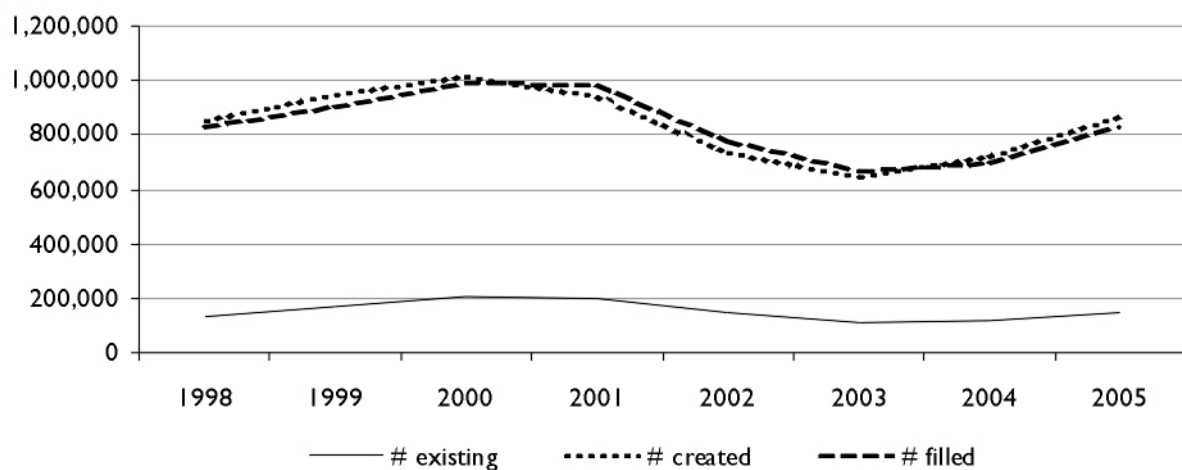
The difference between the other age groups is rather small, but when looking more closely we find the lowest unemployment risk of workers aged over 45. At first, this is rather unexpected since we know that older workers might be at risk of layoff because of their higher labour costs and because of the opportunity to retire early through this route. Because of reduced job search requirements, increased benefit durations for older workers and supplementary unemployment provisions from the employer, the unemployment route provided an alternative route for early retirement.

However, the existence of generous early retirement opportunities in the 1990s prevented a high inflow in unemployment of older workers (Fouarge *et al.*, 2004). As a result of recent policy changes in employment protection (e.g., the drop of the seniority principle as the leading dismissal principle in collective dismissals) in combination with the tightening of entitlement to disability insurance and

the closing of many early retirement routes, one of the main concerns is a future increase of the number of older workers in unemployment (CPB, 2006).

As a measure of the demand for labour, the number of vacancies is used. Figure 5.5 shows the number of existing vacancies, the number of created vacancies and the number of filled vacancies in recent years. The number of existing vacancies (measured at the end of each quarter) results in a sort of baseline or structural demand for labour. The figure nicely shows that the line representing the number of filled vacancies closely follows the one of created vacancies, representing a well-functioning labour market.

Figure 5.5: The number of existing, created and filled vacancies, 1998-2005.



Source: CBS Statline (2006)

Table 5.3 reveals more detailed information on the number of vacancies. Looking at the distribution of vacancies by education level, we find that the majority of vacancies (40 to 45 percent) are for the group of workers with a medium vocational education (MBO level). The number of vacancies for workers with a lower education level has decreased since 2000. This is likely due to higher education levels of the workforce in general and the improved technologies which increases the need for medium and higher educated workers. The number of vacancies in the academic field has been rather stable, which is mainly due to long tenure of people in higher academic positions (e.g., professors), reducing the mobility in these jobs (VAWO, 2006). In addition, most vacancies exist in the commercial service sector, which is in accordance with the growth of this sector in the economy. The number of vacancies in industry has decreased in past years which is likely related to outsourcing of activities to low-wage countries. The share of number of closed down companies in industry in the total number of closings has increased from 13.1 percent in 1998 to 14.3 percent in 2004, whereas the share of closings in commercial services (the largest group) has declined from 71.5 to 68.3 percent in the same period (CBS Statline, 2006).

Table 5.3: The number of vacancies by education level, sector and duration of vacancies, 2000-2004.

	% of total number of vacancies				
	2000	2001	2002	2003	2004
By education level					
Primary education	5.51	7.92	4.60	1.97	n.a
VMBO	28.6	29.52	30.23	22.76	n.a
MBO	40.89	40.12	41.09	46.62	n.a
HBO	19.14	19.46	18.85	23.37	n.a
Academic	5.86	2.98	5.21	5.29	n.a
By sector					
Agriculture	1.53	1.58	1.04	1.35	2.29
Industry	23.28	20.50	16.25	15.38	14.27
Commercial services	53.71	51.61	51.43	50.80	57.18
Non-commercial services	21.43	26.30	31.28	32.47	26.26
By duration					
< 1 month	20.07	20.91	22.85	29.52	24.34
1-3 months	27.10	30.52	34.06	32.35	30.56
> 3 months	52.84	48.56	43.09	38.13	45.11

Source: CBS Statline (2006)

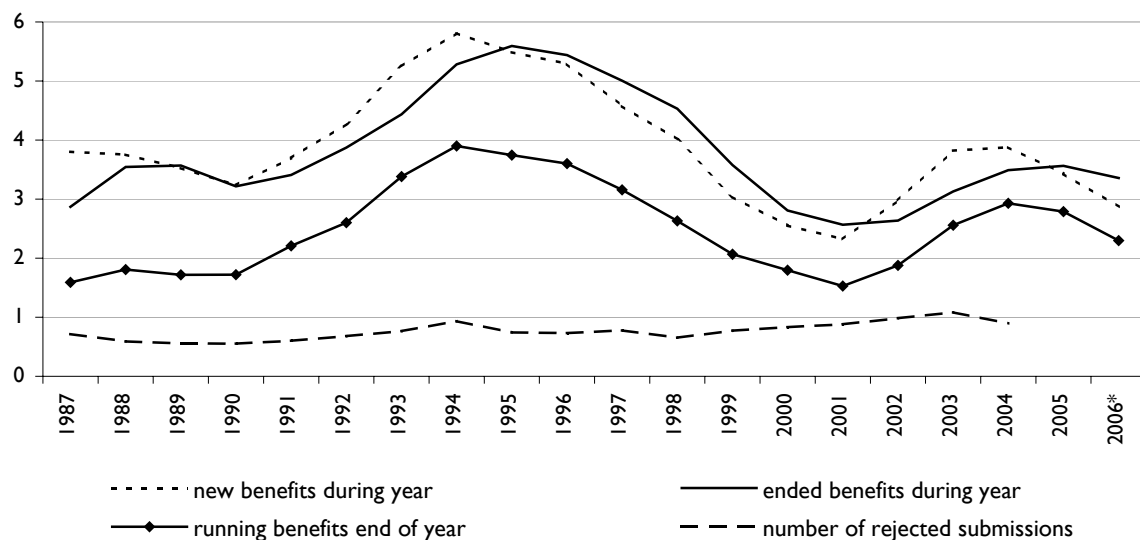
Finally, it is interesting to look at the average duration of vacancies. In recent years the number of vacancies that is filled within one month has increased, from about one-fifth to about a quarter. Still, about half of the vacancies remain open for more than three months. This is expected to decrease in the future due to the outsourcing of reintegration activities to private companies that are, in part, evaluated on the speed of the reintegration. The involvement of the private market is expected to increase the efficiency on the labour market, and reduce the number of months a vacancy is open.

5.2 UNEMPLOYMENT INSURANCE, INCOME AND COSTS

5.2.1 UNEMPLOYMENT INSURANCE

Figure 5.6 shows the number of new, ended and running number of unemployment benefits from 1990 to 2006 as a percentage of the labour force. As a consequence of the economic downturn halfway the 1990s the number of entrants into unemployment insurance increased from three to almost six percent of the labour force. When corrected for the outflow out of unemployment insurance, this increase is more moderate, from two to about four percent of the labour force (i.e. the number of running unemployment benefits at the end of the year). In addition, although there was a new spike at the beginning of the current decade, again following the economic cycle, this spike is smaller than that of the early 1990s. This might be related to the changes in the benefit system, in particular to the increased entitlement conditions, the shorter duration of benefits and increased monitoring of job search behaviour by the UWV, but it might also reflect a less severe economic shock.

Figure 5.6: Inflow into and outflow out of unemployment insurance (% of labour force), 1987-2006.

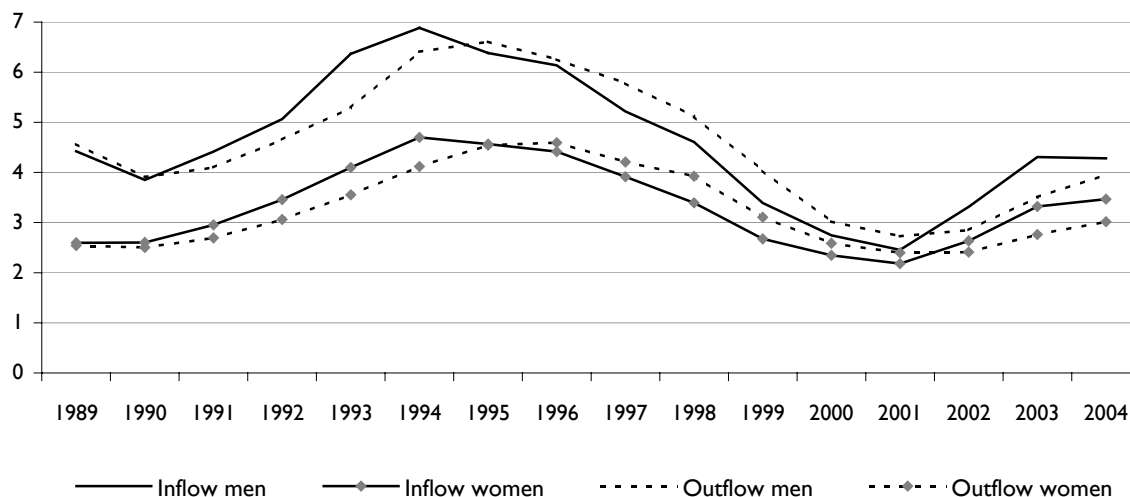


Source: UWV (2005, 2006c, 2006d)

In addition, Figure 5.6 shows that about 0.7 percent of the labour force applies for an unemployment benefit but this application is rejected. The main reasons for rejection are not being unemployed (37% of reasons for rejection, e.g. still working some hours or not available for the labour market), job history is not long enough (21% of reasons for rejection) or that no benefit is granted because of a sanction (24% of reasons for rejection) (UWV, 2005).

Figure 5.7 shows the inflow into and outflow out of unemployment benefits by sex. As noticed before, in recent years, the differences between men and women have become smaller. In 1990 60.4 percent of the inflow into unemployment insurance was male, while in 2004 this share decreased slightly to 55.8, showing the larger share of women in the inflow into unemployment.

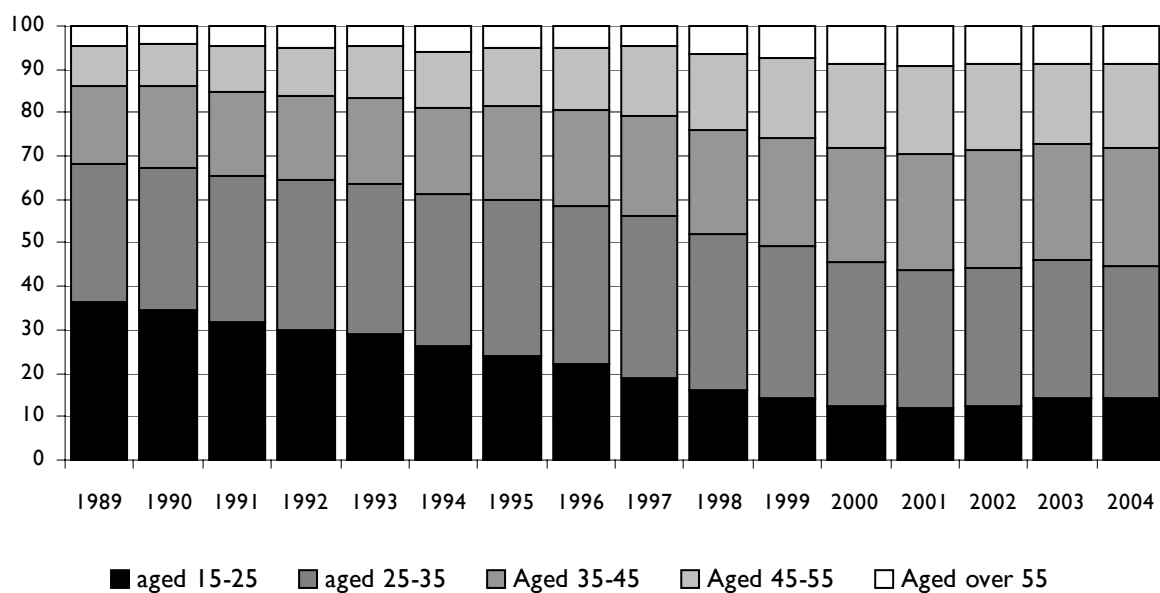
Figure 5.7: Inflow into and outflow out of unemployment insurance by sex (% of labour force), 1989-2004.



Source: UWV (2005)

Figure 5.8 shows the composition of inflow into unemployment benefits by age. It can be seen that, probably partly in response to activation policies targeted at young workers, the share of young workers aged under 25 in the total inflow has decreased the most during the 1990s. The share of those aged over 35 has increased, in particular that of workers aged between 45 and 55, whose share has doubled from ten percent in 1990 to twenty percent in 2004. The share of workers aged over 55 has increased as from the late 1990s from five percent in 1997 to ten percent in 2004, probably because of the earlier mentioned abolishment of generous early retirement schemes (*VUT*).

Figure 5.8: Age composition of inflow into unemployment benefits, 1989-2004.

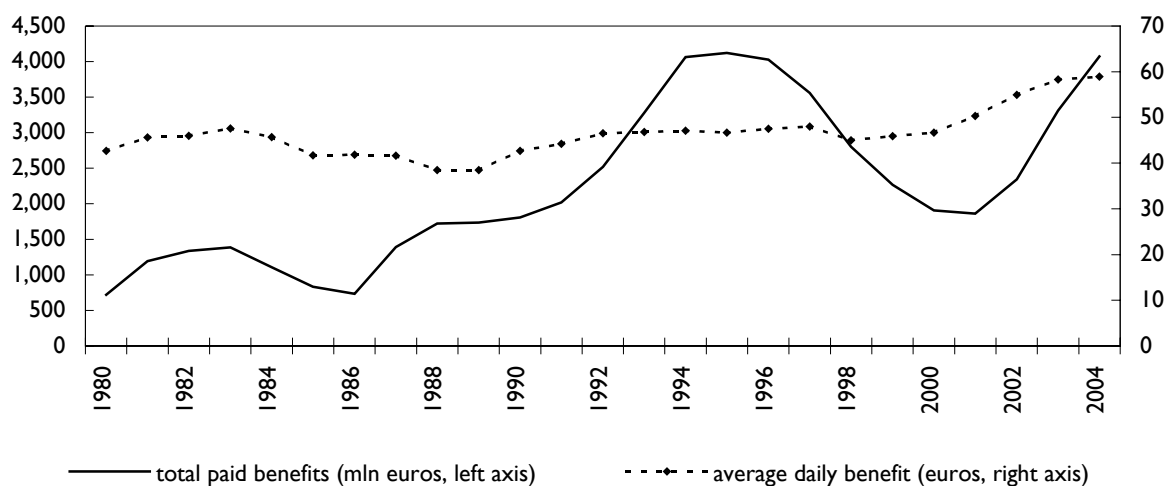


Source: UWV (2005)

Figure 5.9 shows the amount of money that is yearly paid on unemployment insurance, as well as the average unemployment benefit per day. The same trend is seen as with the inflow into unemployment benefits, yet a difference is that the spike following the most recent economic downturn is now as high as that of the mid 1990s, which is probably due to inflationary reasons. The average daily benefit has been quite stable, only slightly increasing to follow the inflation, and is between forty to sixty euros a day.

Table 5.4 shows some evidence on the amount of unemployment insurance by unemployment fund. As explained in section 3, the first six months of unemployment insurance are being paid from the sector fund and it can be seen that about a quarter to one-third of the total amount paid out of this fund. The majority of unemployment benefits is paid out of the general unemployment fund (*Agf*)

Figure 5.9: Total and average daily amount of unemployment benefits paid, 1980-2004.



Source: UWV (2005)

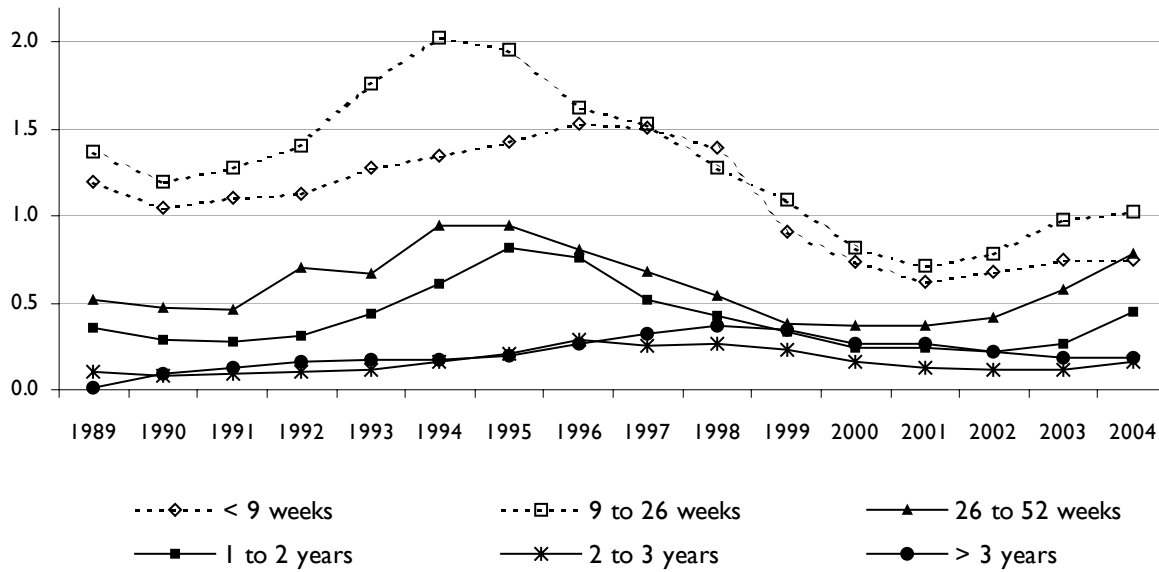
Table 5.4: Unemployment insurance paid a year by unemployment insurance fund, 2000-2005.

	Percentage paid from sectoral reduced pay fund (Wgf)	Percentage paid from national unemployment fund (Agf)	Percentage paid from smaller funds or in advance
2000	25.1	73.8	1.1
2001	27.8	69.9	2.3
2002	33.2	62.9	3.9
2003	36.8	62.1	1.1
2004	31.6	68.2	0.3
2005	27.9	71.9	0.2

Source: CBS Statline (2006)

As for the average duration of unemployment benefits, according to the UWV, in 2004 about one-fifth of the outflow was within nine weeks, half of the outflow was within six months and 75 percent was within one year. A quarter of the unemployment beneficiaries received an unemployment benefit for at least one year. Figure 5.10 shows the recent development of the outflow by duration of benefits. All curves, except those for benefit durations longer than two years follow the economic business cycle. The bottom curves representing duration longer than two years are likely to represent structural unemployment rates, which seem to be below 0.5 percent of the labour force. In general, people with a longer duration of benefits have a lower outflow rate, except for the 'short' durations. It seems that most of the unemployment beneficiaries are people who are on benefits in between 9 to 26 weeks, although the difference with the group having a duration of less than nine weeks has decreased. Part of the explanation might be that in the period under consideration, the 1990s, many benefit recipients only receive a benefit of six months (e.g., short term benefit) and they either start searching more intense in the months before the benefits are to be exhausted or they move out of unemployment benefits into social assistance (Fouarge *et al.*, 2006). In addition, most application procedures might take longer than nine weeks to be completed.

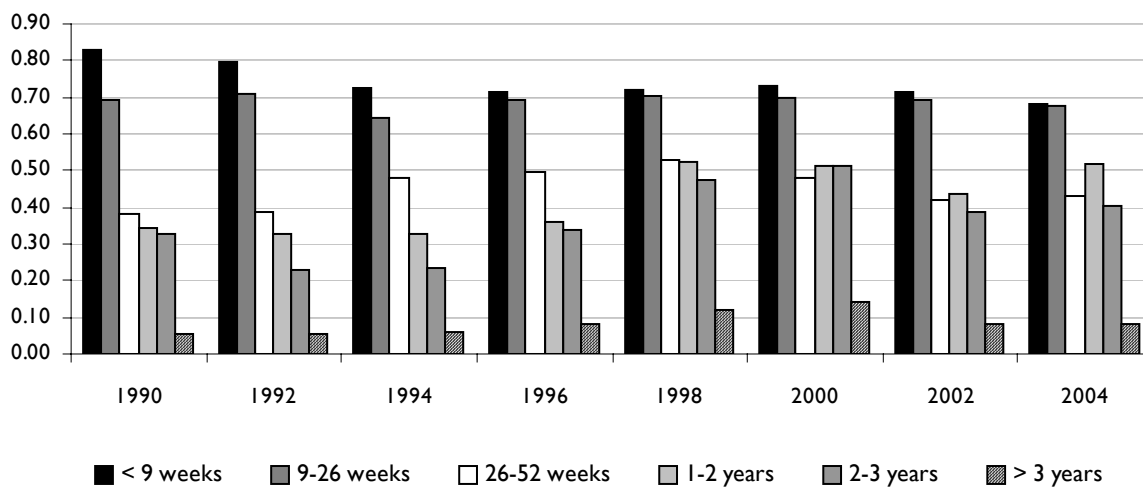
Figure 5.10: Outflow out of unemployment by duration of benefits (% of the labour force), 1989-2004.



Source: UWV (2005)

Looking at the share of outflow into employment, which is shown in Figure 5.11, it can generally be concluded that a longer duration of benefits lowers the outflow into employment (i.e. discouraged worker effect). Although decreased since the beginning of the 1990s, on average about seventy percent of people who received benefits for less than nine weeks move into employment, which is about the same for people receiving benefits for less than half a year. In contrast, only about ten percent of people who received unemployment benefits for more than three years move into employment. Unemployment benefits are likely to be exhausted for this latter group of people, for which reason they move either into social assistance or into other income sources.

Figure 5.11: Outflow into employment by duration of benefits (% of total outflow), 1990-2004.

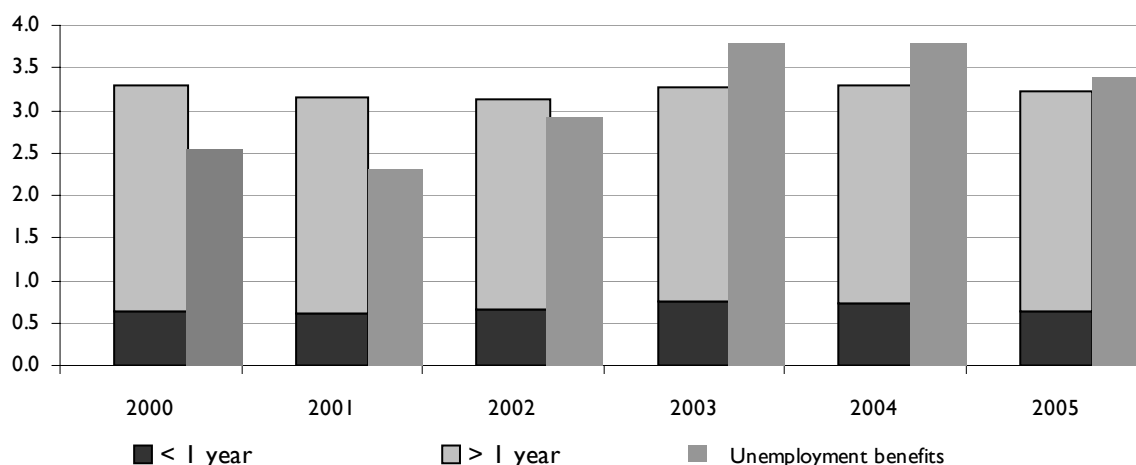


Source: UWV (2005)

5.2.2 SOCIAL ASSISTANCE BENEFITS

Figure 5.12 shows the number of social assistance benefits (as a percentage of the labour force) paid by duration of the benefit period. In contrast to the number of unemployment benefits, which had been increasing since 2000, the number of social assistance benefits has been rather stable over the past five years. About 3 to 3.5 percent of the labour force moves into social assistance every year. By far the majority of social assistance benefits, 75 to 80 percent, has a duration of at least one year. A large number of social assistance recipients already have received the maximum duration of unemployment benefits, (i.e. the long-term unemployed) and are most difficult to reintegrate. Another part of the group is made up of workers who did not meet the conditions for unemployment insurance, most likely because of a short employment history. These have less working experience and might be difficult to match with employers. In addition, the social assistance group also includes those who are unable to work and living on social assistance ‘for life’. One might argue that the group of outsiders in the economy (i.e. the group of unemployed) can be divided into two groups: an A group that is least detached from the labour market and mainly concerns unemployment insurance recipients and a B group which is further detached from the labour market and mainly concerns social assistance recipients.

Figure 5.12: The number of social assistance benefits by duration of benefit receipt, 2000-2005.



Source: CBS Statline (2006).

Table 5.5 shows some characteristics of people on social assistance benefits and those on unemployment insurance. With respect to age, we find a higher percentage of young people in social assistance, compared to unemployment insurance. This is likely due to the fact that young people do not meet entitlement conditions for the latter insurance in terms of working years. When unemployed, they have to rely on social assistance. The higher percentage of older workers among the unemployment beneficiaries is also likely to include the hidden early retirement in the unemployment route (see among others Fouarge *et al.*, 2006). With respect to the education level

of beneficiaries, an important finding is that the majority of social assistance recipients do not have any qualifications, most likely referring to the earlier mentioned B group of outsiders. Of people on unemployment insurance, the majority has a medium vocational education and therefore has a higher likelihood of finding employment again. In addition, most non-native inactive people are receiving social assistance benefits, especially those from non-western countries. These are again the B group of outsiders on the labour market, due to language barriers, education differences, cultural differences etcetera. Recently, active labour market programmes have been more targeted at ethnic minorities, especially on the young among these groups, to reintegrate them in the labour market and accordingly into society as a whole. Finally, about one-third of people on unemployment benefits has a job. This is most likely a job with less hours than before the unemployment, which still yields entitlement to unemployment benefits. Only thirteen percent of people on social assistance benefits have a job, which refer most likely to 'try out' jobs (e.g., subsidised) to find a good match for the future.

Table 5.5: Characteristics of beneficiaries, by type of benefit, 2002.

	People on social assistance (% of total population on SA)	People on unemployment insurance (% of total population on UI)
By age:		
15-24 years	9.02	5.10
25-34 years	28.89	21.18
35-44 years	26.64	20.0
45-54 years	20.70	21.57
55-64 years	14.55	32.16
By education level:		
Primary school	35.66	17.25
VMBO	26.43	27.06
MBO	26.23	40.39
HBO	6.76	11.37
Academic	4.71	3.92
By ethnicity:		
Native	54.30	79.61
Western non-native	11.68	10.98
Non-western non-native	34.02	9.42
Has a job	12.58	29.48

Source: CBS Statline (2006).

Outflow numbers out of social assistance are relatively low. In 2005 about 109,060 people moved out of social assistance (unfortunately, the destination is unknown), which is one-third of the social assistance recipients. Oei (2006) analysed whether the outflow out of social assistance differs between certain groups. The outflow to employment probability is highest for young people, about 26 percent of the workers aged between 15 and 23 years move into employment, compared to only about eight percent of the workers aged between 23 and 57.5 and only one percent of workers aged over 57.5. This latter group is likely to move into retirement, as 34 percent of them moves out of social assistance without finding a job.

5.2.3 LABOUR COSTS

As a consequence of the universal and extensive system of social insurance (*i.e.* the social democratic type of social insurance), labour costs in the Netherlands are relatively high. Table 5.6 shows that about 75 percent of labour costs are related to wages, including supplements such as holiday allowance, public transportation cards etcetera. Just over one-fifth of the employer's labour costs are paid for social contributions, with both unemployment insurance and severance pay for dismissals comprising 1.3 percent.

Table 5.6: Structure of labour costs for employers, 2004.

	Percentage of total labour costs	
Direct wage	57.1	
Wage supplements (e.g., holiday allowance)	8.9	
Wage for non-worked hours (e.g., paid leave)	8.6	
Wage in kind (e.g., business car or public transport card)	1.3	
Total wage costs		75.9
Contribution disability benefits	4.5	
Contribution sickness benefits	2.1	
Contribution unemployment benefits	1.3	
Contribution pension funds	7.6	
Other social contributions	0.4	
Wage paid during sickness of worker	3.1	
Contribution in health costs worker	1.4	
Severance pay for dismissal	1.3	
Total social contributions		21.7
Training and education costs	1.2	
Other costs	2.1	
Subsidies	-0.9	
Total other costs		2.4
Total labour costs	100	100

Source: CBS Statline (2006)

Table 5.7 reveals that the structure of labour costs varies by sector. As explained in section 3, unemployment contributions partly depend on the risk of unemployment. In this way, costs are to a higher extent paid by those 'responsible' for the unemployment, or better they are more related to the firing behaviour of employers'. Contributions for unemployment insurance are lowest for companies in health care, government and education, all public sectors where employment protection is highest and unemployment probabilities are lowest. The contributions are highest in commercial services and agriculture, where unemployment probabilities are highest.. Looking at severance pay in case of dismissal, this is clearly highest in the government sector where the so-called 'gouden handdruk' is famous for administrators at higher levels (e.g., mayors and central administrators). Severance pay is lowest in agriculture, retail, and in construction. For the first two sectors this might be explained by the fact that over the use of flexible contracts, *i.e.* without employment protection in terms of severance pay applying to it, is very common. The share of

flexible contracts in the total number of jobs is fourteen percent in agriculture and twelve in retail, both above the overall average of nine percent (*i.e.* over all sectors, CBS Statline 2006). For construction, however, this reasoning does not apply with the share of flexible jobs in the total number of jobs being below two percent, yet in this sector supplementary unemployment insurance is common (as the analysis of collective labour agreements showed), which might indicate that most dismissal cases in this sector go via CWI to secure entitlement to unemployment benefits. Unfortunately, no further evidence on this is found.

Table 5.7: Structure of labour costs by sector, 2004.

	Wage	Unemployment insurance	Severance pay	Other social contributions	Other costs
Agriculture	78.2	2.2	0.3	18.9	0.1
Industry	76.1	1.3	0.6	20.6	1.3
Public facilities	75.5	0.6	1.9	19.6	2.3
Construction	76.8	2	0.3	18.9	2.1
Retail	78.4	1.5	0.4	17.8	2.0
Transport, storage and communication	76.6	1.5	0.9	19.3	1.8
Financial services	73.5	0.6	1.5	21.1	3.4
Other commercial services	78.4	2.4	1	16.1	2.1
Government and social security	70.3	0.4	5.4	20.5	3.3
Education	73.5	0.5	2.4	20	3.7
Health care	77	0.3	0.4	19.6	2.8
Cultural and recreational services	78	1.6	0.5	18	1.9

Since the focus of this paper is on unemployment insurance, the other contributions which were specified in Table 5.6 are summarised into 'other social contributions'.

Source: CBS Statline (2006)

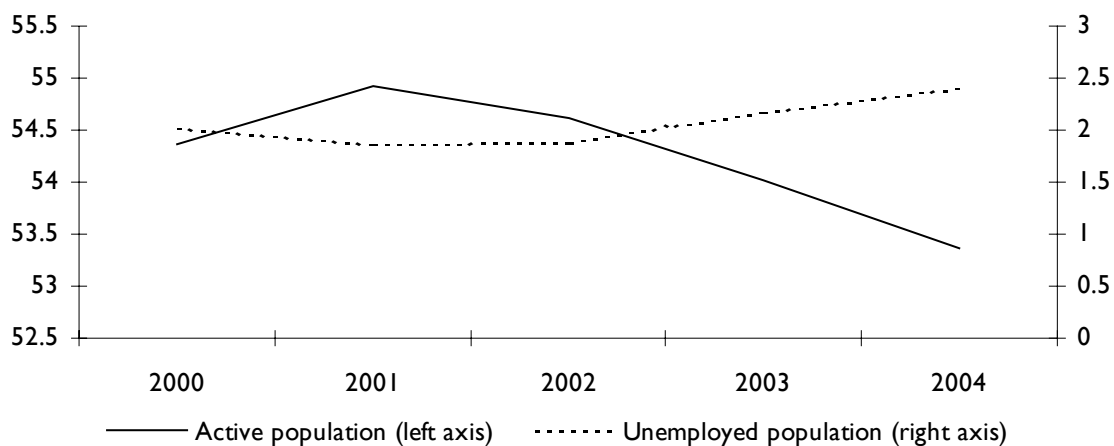
As a consequence of higher contributions to unemployment insurance or higher levels of employment protection, wages might be lower (because the non-wage costs for the employer are higher). Looking at sectoral wages published by Statistics Netherlands (CBS Statline, 2006), however, no evidence is found for this. On the contrary, hourly wages seem to be highest in the government sector, education and financial services, all sectors with relatively strong employment protection legislation. Yet, the wages also reflect differences in human capital, which distort this picture. Unfortunately controlling for this is impossible with these data, yet in future it might be possible by using microeconomic data (*e.g.*, Social Economic Panel Study).

5.2.3 UNEMPLOYMENT INSURANCE INCOME

In this section we report some information on the income position of people on unemployment and social assistance benefits, compared to people on wages, to show the extent of the cleavage between insiders and outsiders. Incomes used are equivalised personal disposable incomes. Equivalised incomes are used to correct for differences in household composition and disposable

incomes are used to correct for subsidies and taxes that might affect the income of the individual. At this point the information is limited to averages on a macro economic level, in future research micro economic analyses will be performed on individual level replacement rates for people in unemployment, especially in an internationally comparative perspective. The unemployed in the Netherlands receive on average about sixty percent of what the active population receives. For people on unemployment benefits this is slightly over seventy percent while for people on social assistance this is about fifty percent (CBS Statline, 2006), showing the difference between the two groups of outsiders. In addition, for people on unemployment benefits, the unemployment income is about seventy percent of their total income while for people on social assistance this is almost ninety percent. The main reason for this, is that social assistance is means-tested on household income and unemployment insurance is not. Figure 5.13 shows some information on the relative income of the active and unemployed population. The active population earns about 55 percent of total income in the Netherlands, with a decline of one percentage point in recent years. This is mainly explained by the larger relative income of pensioners (CBS Statline 2006). The unemployed earn about two percent of total income in the Netherlands and their relative income has slightly increased in recent years.

Figure 5.13: Relative income of active and unemployed population (% of total income), 2000-2004.



Source: CBS Statline (2006)

It is of interest to look at the so-called unemployment trap in the Netherlands. People on unemployment or social assistance benefits are commonly entitled to other social benefits as well, such as housing benefits or child subsidies. These subsidies are means-tested meaning that when their income increases because of employment, they might lose the entitlement to these benefits and even experience a less strong increase in income than in a situation without such benefits. It is often argued that this unemployment trap is one of the disturbing factors of Dutch labour market policy and discourages groups of people to find a job. A recent research of Statistics Netherlands to poverty in the Netherlands shows, among other things, that this unemployment trap influences the

job search intensity. 54 percent of the unemployed with only unemployment benefits searched more than eleven times within the last three months, compared to only 35 percent for the unemployed who had means-tested benefits as a supplement to their unemployment income. 23 percent of this latter group never applied for a job within the last three months, compared to nineteen percent in the former group (CBS, 2006b). It is difficult to quantify the unemployment trap, as there are different ways to interpret it, yet box 5.1 shows an illustrative example (Eurostat yearbook, 2004).

Box 5.1: An illustrative of the unemployment trap

A situation without means-tested supplementary income for the unemployed:

Suppose an unemployed person receives 1152.33 euro gross unemployment benefits. The income tax paid on this amount is 24.14 euro and social contributions are 273.28 euro. This leaves the unemployed person with a net monthly income of 854.91 euro.

When he would find a job, he would be able to earn 1645.98 euro gross a months. The income tax (progressive) paid on this amount is 57.29 euro and social contributions are 384.49. This leaves him with a net monthly income of 1204.20 euro.

His income would increase with $(1,204.20 - 854.91)/854.91 \times 100 = 40.9$ percent when he moves from unemployment to employment.

A situation with means-tested supplementary income for the unemployed:

Suppose the unemployed receives a housing benefit of 105.69 euro a month when unemployed, because of his low income position. This changes his net monthly income to $(1152.33 + 105.69 - 24.14 - 273.28) = 960.60$ euro.

When he moves to employment, he loses this housing benefit and his net monthly income when employed is the same as in the previous situation.

However, the increase in his income is now much smaller, $(1204.20 - 960.60)/960.60 \times 100 = 25.4$ percent.

Eurostat calculates the unemployment trap as follows:

$$\begin{aligned} \text{Unemployment trap} &= 100 \times \{ 1 - [(\text{net income in work}) - (\text{net income out of work})] / (\text{gross earnings}) \} \\ &= 100 \times \{ 1 - [(1204.2) - (960.60)] / (1645.98) \} = 85.2\%. \end{aligned}$$

Without the housing benefit, this would reduce to 78.8 percent, an unemployment trap resulting from the tax system and social contributions. In case of no taxes or social contributions the unemployment trap would be 70 percent, due to the existence of unemployment benefits. Naturally, without unemployment benefits the unemployment trap would be zero.

5.3 PUBLIC ATTITUDE

In this section, some information is given on the public opinion on issues related to employment protection, unemployment insurance and active labour market policy, yet very briefly. First, results are taken from the European Value Studies 2005 provided by the EVS Foundation. In this survey, questions are asked, among others, on the opinion of respondents on work and the responsibility for social security. As for the importance of work, about half (47.5 percent) of Dutch respondents state that work is very important and almost all (86.5 percent) find work quite or very important. About 60 percent of the respondents agrees with the statement that work is a duty towards society. Only about 27 percent agrees that it is humiliating to receive a state income without working.

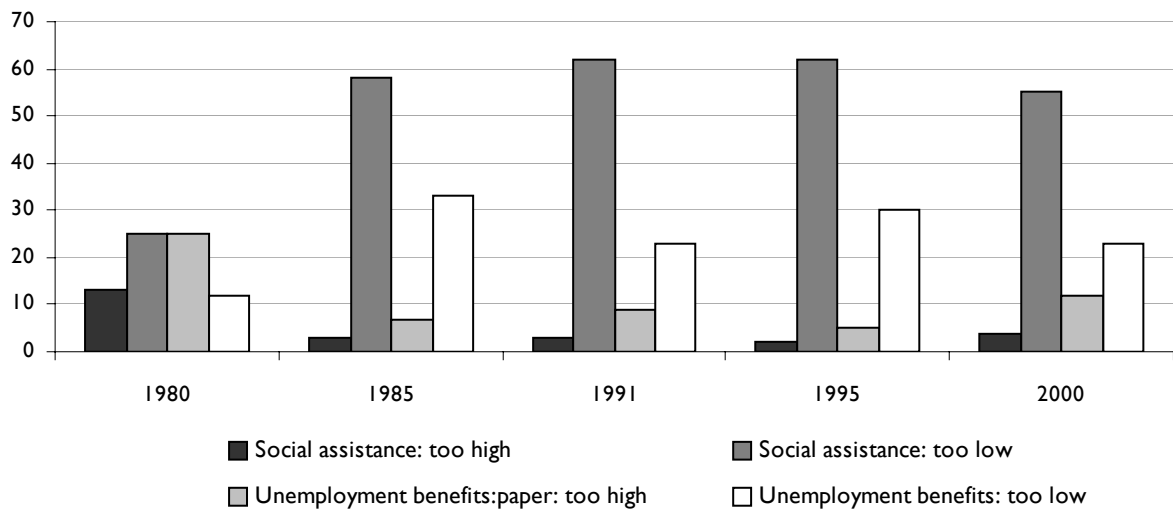
A more detailed research by Hoff (1998) measures the difference in the work ethic between workers and unemployed people. The respondents had to grade the statement “people who do not work, take advantage of society”, with a grade in between one (fully disagreeing) and five (fully agreeing). Currently, there is no large difference between the attitude of the workers, who graded a 3.9 and the unemployed who graded a 3.6 (1995 figures). In 1982, however, the difference was large, with the workers grading a 4.6 (almost fully agreeing) and the unemployed grading a 3.7. One might conclude that the working population has become more accepting towards people on social insurance, perhaps partly because in the period in between the research moments, they have been dependent on social insurance themselves.

In addition, in the study by Hoff (1998), the statement “social insurance is a right, we have contributed long enough” was also posed to the unemployed. In 1982 a higher percentage of the unemployed agreed with this (average grade 4.07), compared to 1995, when the average grade has dropped to 3.9. One of the main explanations given is that during the 1990s the emphasis in the welfare state has changed from a “right to entitlement of social insurance” to “a duty to move out of social insurance”, with the activating welfare state. Partly because of the increased activation measures, it has become less stigmatising to receive social insurance benefits. The average grade of the unemployed in 1982 was 3.5, which has declined to 3.1 in 1995 on the statement whether “people treat you differently when you receive a social insurance benefit”.

As to whom should provide social security, the EVS survey shows that on a one (fully disagreeing) to ten (fully agreeing) scale, people were in the middle when it comes to the statement “it is the government’s responsibility to provide people with a minimum income”. It is unknown how people think about whether it should be the responsibility of the trade unions to provide social security. About sixty percent of the people has confidence in the trade unions’ actions, while only about a quarter of the population is a trade union member. More research into the opinions of citizens on these issues is necessary.

Another study, by Becker (2005), shows the opinion of people on the level of benefits. Figure 5.14 shows the opinion of people on the level of social assistance and unemployment benefits in the past decades. First, at least since the second half of the 1980s more than half of the people find social assistance benefits too low. About twenty to thirty percent find unemployment benefits too low and about ten percent find them too high, the majority finds the level sufficient. Remarkable is that the same research shows that about forty percent of the people thinks that these benefits are misused (or abused), 36 percent with respect to social assistance and 45 percent with respect to unemployment benefits. This, however, does not lead to less support for the arrangements.

Figure 5.14: Opinion on the level of social assistance and unemployment benefits, 1980-2000.



Source: Becker (2005)

6 CONCLUDING REMARKS

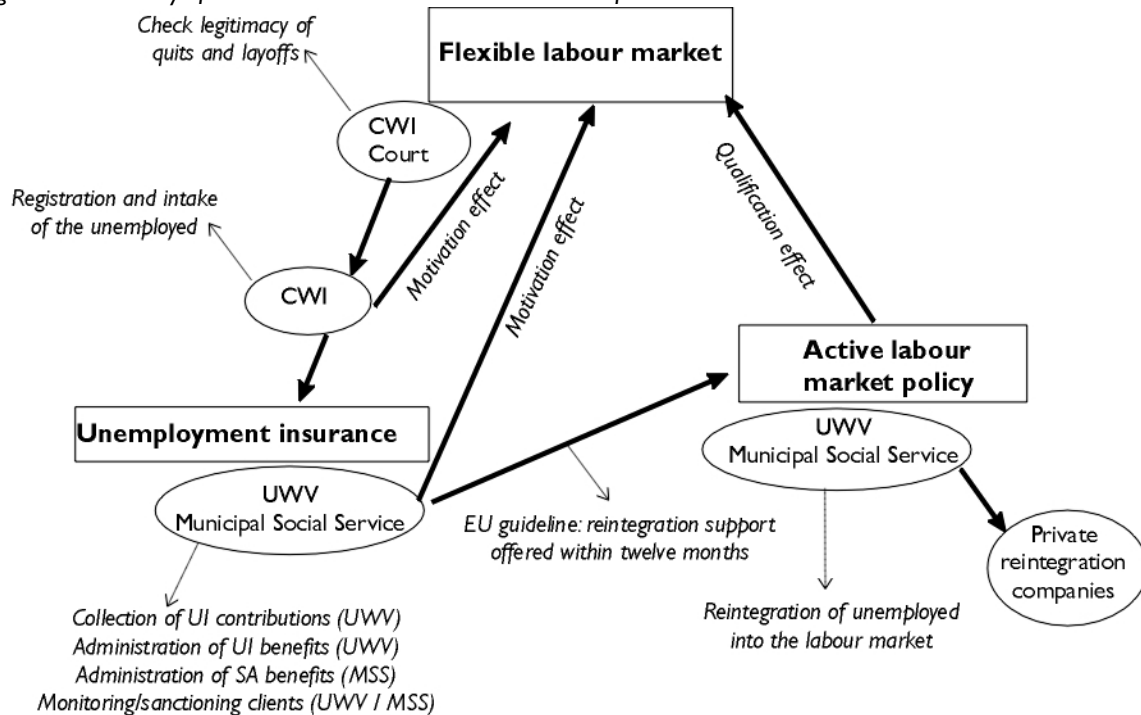
In this paper an elaborate overview is presented of the Dutch system of employment protection, unemployment insurance and active labour market policy, with a particular focus on the institutions involved. In all three fields, national legislation is set by the national government. Dismissal procedural rules, notice periods, maximum trial periods, maximum duration and number of temporary contracts, entitlement conditions for unemployment insurance, level and duration of unemployment benefits, reintegration objectives, budgets for reintegration programs, those are all decided by the national government. The intermediary organisations, among which are the trade unions, only have an advisory role with respect to national legislation. By taking part in bipartite or tripartite council organisations they advise the government on the mentioned issues. The advice, however, is not binding.

Nevertheless, in many fields Dutch national law is only $\frac{3}{4}$ legally binding, implying that deviations or supplements are allowed for at the sector level, in collective labour agreements. These are established by the trade unions and employers and as such these intermediary organisations have a say in legislation on employment protection, unemployment insurance and active labour market policy. With respect to unemployment insurance, legal provisions determine the minimum protection level for the workers and only supplements are allowed in collective labour agreements, i.e. the worker cannot be made worse off by sector provisions. In contrast, for employment protection, less strict provisions are allowed in the collective labour agreements. It depends on the collective bargaining power of the trade unions what kind of provisions are established in collective labour agreements. There might even be a trade off with supplementary unemployment insurance at the sector level or with wage increases.

As for the administration of policies in these three fields (e.g., employment protection, unemployment insurance and active labour market policy, again mainly public institutions are found in the playing field in the Netherlands. Figure 6.1 shows an overview of the main institutions and their 'position' in the golden triangle discussed earlier. Though dominated by public institutions, most of them operate on an independent basis of the government, such as the Centre for Work and Income (CWI) and the Social Security Agency (UWV). On a local level we find a role for the municipalities, in the administration of social assistance benefits. As for more private or independent actors, the court has a growing role in the administration of employment protection policy and private reintegration companies have entered the field of active labour market policy. The trade unions not really play a role in the administration of social insurance, except in the case of collective dismissals where the trade unions establish the social plan and where they judge the conditions of the collective dismissal. In the past however, the trade unions did have a role in the administration

of social insurance, in the trade associations that were responsible for the administration of unemployment insurance and reintegration of the unemployed. With the reforms implemented during the nineties, their role has been drastically reduced.

Figure 6.1: Summary of institutions involved in the administration of social insurance in the Netherlands.



The Dutch labour market is characterised by relatively high levels of employment, job security, income security during unemployment spells and growing activation policies. Male employment rates are traditionally over seventy percent, while female employment rates have increased to over fifty percent in recent decades. Inflow into unemployment insurance is about three to four percent a year, as are outflow rates out of unemployment insurance. About half of the outflow out of unemployment insurance takes place within the first six months and about seventy percent of this group moves back into employment. Another twenty percent of the outflow out of unemployment insurance takes place after six months but within the first year of unemployment, yet less than half of this group (45%) moves into employment. About seven percent of the outflow only takes place after three years of unemployment and almost all of these people (over 90%) move into social assistance and can be considered to be fully dropped out of the labour market (e.g. over eighty percent of people on social assistance benefits remain social assistance beneficiaries for more than one year). Naturally, these labour market flows differ between groups on the labour market. Flows into unemployment are more concentrated among young workers (aged between 15 and 24), workers with the lowest qualifications (e.g. only primary school) and among women.

As for the costs of the system of employment protection, the evidence shows that about 75 percent of the employers' labour costs are related to wages, just over one-fifth are paid for social contributions (including sickness and disability insurance). This differs among sectors, since part of the contributions to unemployment insurance depend on the sector unemployment rate. The unemployed workers receive unemployment benefits amounting to seventy percent of previous wages, which is relatively high compared to other European countries. Nevertheless, public opinion research shows that only about ten percent of the population finds this level of unemployment benefits too high, compared to about a quarter of the population who finds these benefits too low.

Important questions that emerge from this country study are to what extent the labour market outcomes would be different when there is a different organisation of social insurance? Or better, when there is more involvement, for example, of the trade unions? Will lower employment protection lead to higher unemployment rates or will it increase mobility on the labour market (i.e. increasing flow into unemployment, but also flow back into employment)? Will lower unemployment benefits lead to shorter unemployment spells? What will such changes imply for the equality on the labour market? Will it increase the cleavage between insiders and outsiders? These and other questions are being answered in forthcoming papers within the research project 'The distribution of responsibility of social security'. With this country study for the Netherlands and the other country studies for the United Kingdom (AIAS working paper no. 50), Denmark (AIAS working paper no. 51), Germany (AIAS working paper no. 52) and Belgium (AIAS working paper no. 53), the input for such an international comparison is established.

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LIST OF ABBREVIATIONS

AVV	Legal Extension collective agreements (<i>Algemeen Verbindend Verklaring</i>)
CLA	Collective Agreement (<i>Collectieve Arbeidsovereenkomst</i>)
CNV	National Federation of Christian Trade Unions (<i>Christelijk Nationaal Vakverbond</i>)
CWI	Centre for Work and Income (<i>Centrum voor Werk en Inkomen</i>)
FNV	Federation of Netherlands Trade Unions (<i>Federatie Nederlandse Vakverenigingen</i>)
GDP	Gross Domestic Product (<i>Bruto Binnenlands Product</i>)
IRO	Individual Reintegration Contract (<i>Individuele Reintegratie Overeenkomst</i>)
LTO-Ned	Dutch Organisation for Agriculture and Horticulture (<i>Land- en Tuinbouw Organisatie</i>)
MKB-Ned	Association of Small and Medium-sized enterprises (<i>Midden en KleinBedrijf Nederland</i>)
MHP	Federation of Managerial and Professional Staff Union (<i>Midden- en Hoger Personeel</i>)
RWI	Council for Work and Income (<i>Raad voor Werk in Inkomen</i>)
SER	Social and Economic Council (<i>Sociaal Economische Raad</i>)
STAR	Foundation of Labour (<i>Stichting van de Arbeid</i>)
SUWI	Structure Reorganisation Work and Income (<i>Wet Structuur Uitvoeringsorganisatie Werk en Inkomen</i>)
UWV	Social Security Agency (<i>Uitvoeringsinstituut WerknemersVerzekeringen</i>)
VNO-NCW	Confederation of Netherlands Industry and Employers (<i>Vereniging van Verbond Nederlandse Ondernemingen en Nederlands Christelijk Werkgeversverbond</i>)
WW	Unemployment Insurance Law (<i>WerkloosheidsWet</i>)
ZBO	Independent Public Body (<i>Zelfstandig BestuursOrgaan</i>)

APPENDIX

COLLECTIVE LABOUR AGREEMENTS INCLUDED IN ANALYSIS

Name	Duration of CLA	Number of employees
<u>Agriculture</u>		
Agterberg	01/03/05 - 01/03/07	160
Bedrijfsverzorgingsdiensten land en tuinbouw	01/07/04 - 31/06/06	2,480
Dierhouderij	01/04/05 - 30/06/07	3,591
Glastuinbouw	01/07/05 - 30/06/07	47,570
Hoveniersbedrijf	01/01/06 - 28/02/07	9,389
Koppert	01/01/06 - 31/12/07	160
Landbouwwerktuigen Exploitatie ondernemingen	01/01/05 - 31/03/07	19,264
Rundveeverbetering	01/01/05 - 30/06/07	1061
Tuinzaadbedrijven	01/04/06 - 01/04/07	3,300
Varkensverbetering	01/01/05 - 30/06/07	250
Weefselkweeksector	01/04/06 - 31/03/08	402
<u>Construction</u>		
Bedrijfsteakeigenregeling Bouwbedrijf	01/04/04 - 31/03/07	114,956
BIK Bouwproducten B.V.	01/01/04 - 31/12/04	108
Bitumineuze en Kunststof Dakdekkingsbedrijven	01/01/06 - 31/12/07	4,000
Bouw en UTA	01/04/04 - 31/03/07	38,000
Mortel en Morteltransportondernemingen	01/04/06 - 31/03/06	1,080
<u>Industry</u>		
Acheson	01/01/06 - 01/04/07	135
Akzo Nobel Pharma	01/06/04 - 31/03/07	6,048
Bakkersbedrijf	26/03/06 - 31/05/07	26,541
BASF Nederland	01/01/06 - 31/03/07	55
Centraal Orgaan voor Kwaliteitsaangelegenheden in de Zuivel	01/04/06 - 31/03/07	165
Crompton Europe	01/01/06 - 01/01/07	70
Eternit	01/01/06 - 31/03/07	200
Heineken	01/01/05 - 31/03/06	4,811
Knauf Insulation	01/04/06 - 31/03/07	30
Koffiebranderij en Theehandel "De Drie Mollen"	01/05/06 - 31/04/07	125
Kollo Silicon Carbide	01/06/06 - 30/09/06	110
Koninklijke "De Poreceleyne Fles"	01/07/06 - 01/07/07	70
Kunstof en Rubberindustrie	01/11/05 - 31/05/07	5,000
Lafarge Gips	01/04/06 - 31/03/07	91
Mallinckrodt Baker	01/07/05 - 30/06/06	250
Melkcontrolestations	01/07/06 - 30/06/07	92
Mode, Interieur, Tapijt en Textiel	01/05/06 - 31/12/10	16,000
Nederlandse Baksteenindustrie	01/01/06 - 31/03/07	1,350
Nederlandse Gasunie	01/01/06 - 31/05/07	1,292
Polimoon	01/04/06 - 31/03/07	130
Recticel	01/06/06 - 31/12/06	350
Rieter Automative Nederland	01/05/06 - 31/13/07	80
SCA Hygiene Products Gennep	01/01/06 - 30/06/08	250
Suikerunie en Cosun	01/01/06 - 01/03/07	2,900
Suikerwerk en Chocolade	01/01/05 - 31/12/06	5,385
Teepak	01/04/06 - 01/04/07	80
Umicore Nederland	01/04/06 - 31/03/07	62
Vredestein	01/01/06 - 30/06/07	1,225
Winpac Netherlands	01/07/06 - 31/03/07	69
Zuivelindustrie	01/04/06 - 31/03/08	8,800

Retail

Detailhandel Aardappelen, Groente en Fruit	01/04/05 - 01/04/06	6,416
Ambulante Detailhandel	01/01/06 - 01/06/07	3,600
Detailhandel Bloemen en planten	01/01/05 - 31/12/06	7,848
Boekhandel	01/01/06 - 31/03/07	10,000
Handel in Bouwmaterialen	01/04/05 - 01/07/06	8,780
Drankindustrie en Groothandel in Dranken	01/01/05 - 31/12/06	4,999
Groothandel in Eieren en Eiproducten	01/01/05 - 31/12/06	700
Ikea Nederland	01/04/05 - 30/09/07	4,000
Interpharm	01/01/05 - 31/03/07	535
Kantoorvakhandel	01/01/06 - 31/03/08	5,500
Optiekbedrijven	01/01/06 - 31/12/06	6,500
Praxisgroep	01/01/05 - 31/12/05	3,790
Slijterijen	01/10/01 - 30/06/07	4,728
Technische Groothandel	01/01/06 - 31/12/07	29,762
Wonen	01/01/06 - 31/12/07	24,614

Education

Beroepsonderwijs en VolwassenEducatie	01/02/06 - 31/01/07	45,000
CINOP	01/01/06 - 31/12/07	154
Primair Onderwijs	01/08/06 - 31/07/08	181,000
Ons Middelbaar Onderwijs	01/08/06 - 30/06/07	6,700
Hoger Beroepsonderwijs	01/02/06 - 31/01/07	35,000

Government

Onderzoekinstellingen	01/0/05 - 30/09/06	3,000
Provincies	01/04/05 - 31/05/07	13,650
Sociale Werkvoorziening	01/01/06 - 31/10/07	97,000
Universiteiten	01/01/06 - 31/08/07	46,952
Sociale VerzekeringsBank	01/01/06 - 31/03/08	3,578
Rijksambtenaren	01/01/05 - 31/12/06	125,390
Gemeenten	01/12/05 - 31/05/07	190,000

SOCIAL PLANS INCLUDED IN THE ANALYSIS

<i>Company</i>	<i>Date</i>
ASML Netherlands B.V.	01/03/04 – 28/02/05
Dumeco Groep Retail	28/02/04 – 01/07/05
Dynadro	01/03/04 – 31/12/04
Fugro	15/03/03 – 15/03/04
Laurus totaal	01/02/06 – 01/01/08
Marca	2004 – 31/08/05
Media Groep Limburg	29/11/04 - 31/12/05
SNS Reaal	01/01/04 – 31/12/06
SNT	01/04/05 – 31/12/06
Unisys	01/12/06 - 01/10/07
Volker Wessels	11/03/05 – 01/03/06
Koninklijke Wegener N.V. (KrantenBedrijven)	01/04/06 – 31/12/07
UWV	25/05/05 – 31/05/08

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