Does the Dutch Model Really Exist?

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Abstract

The policy that has led from the 'Dutch disease' (in the 1980s) to the 'Dutch miracle' (in the 1990s) consists of three tracks: 1) wage moderation, 2) retrenching public expenditure and reducing the tax burden, 3) slimming the welfare system. The wage moderation track seems to have been the most important one. The term 'Dutch model' refers to the socioeconomic system of the Netherlands. Most observers point in particular to the relatively low unemployment rate to indicate the success of this model. However, the economic inactivity rate in the Netherlands is not lower than in neighboring countries. This suggests that open unemployment in the Netherlands has partly been replaced with hidden unemployment. In particular the disability scheme seems to contain a large component of hidden unemployment. Another feature of the Dutch model is its consensus seeking nature, which is fostered by its institutional structure. (JEL code: H50)

Introduction

Unemployment is one of the main socioeconomic problems of the European Union. In 1999, an estimated 17 million persons were unemployed in the EU, which corresponds with an unemployment rate of 10.1% of the labor force (OECD, 1999, p. 247 and 249). This compares to an unemployment rate of 4.2% in the USA and 4.9% in Japan. Obviously, the European economies performed relatively poorly in the 1990s. Table 1 displays that Luxembourg is the country with the lowest unemployment rate of all EU member states (3.1%). Other countries that perform relatively well are the Netherlands (3.9%), and Portugal (5.0%). Spain suffers the highest unemployment rate (17.4%), but Italy (12.1%), France (11.3%), Belgium (11.1%), Germany (10.7%), Finland (10.6%), and Greece (10.2%) are not very successful in fighting unemployment either. Projections for 2000 show a slight decrease of the unemployment rate in the European Union, but it is not expected that this will significantly change the rank order of member states.

Table 1. Unemployment rates in the European Union.

	1999	2000
European Union	10.1	9.8
Luxembourg	3.1	3.0
Netherlands	3.9	4.1
Portugal	5.0	5.0
Sweden	5.6	5.3
Denmark	5.7	5.8
Austria	6.3	6.1
United Kingdom	6.7	7.3
Greece	10.2	10.1
Finland	10.6	10.0
Germany	10.7	10.0
Belgium	11.1	10.9
France	11.3	10.8
Italy	12.1	11.9
Spain	17.4	16.2

Source: OECD, 1999, p. 247.

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In this paper I will focus on the Netherlands,[1] a country that has attracted much attention from foreign observers. In the 1970s, the Netherlands gave rise to the concept of the Dutch disease. By the end of the decade the economic situation was considered to be more or less deplorable and in the early 1980s the country served as a kind of bugbear to other countries. Within a quarter of a century, however, the Netherlands seems to have experienced a metamorphosis witness a leader in *The Wall Street Journal Europe* of April 25-26, 1997:

> 'Compared to its European neighbors, the Netherlands is a case apart. The Dutch have successfully kick-started their economy by reforming their generous welfare state despite the generally reform-stifling constraints of consensus politics. The "Dutch miracle" was helped by cross-party agreement of a generally positive nature.'

It seems a rather flattering comment that is largely true. In 1997, the Dutch model was even awarded a prize of DM 300,000 by the Carl Bertelsmann Foundation. The president of the biggest federation of trade unions, Mr. Lodewijk de Waal, and his counterpart at the employers' side, Mr. Hans Blankert, received the prize on September 19, 1997. Obviously, the Dutch model is considered a success and seems to be admired by some observers. Another dimension of the Dutch model was stressed by *The Economist* of October 12, 1996:

> 'One quality that suffuses Dutch political and social mores is the notion of gedogen, a nigh-untranslatable term that means looking the other way when you must. It seems to feed a national need to compromise at all costs. It is often translated as "tolerance", but could also come to mean something pretty close to sogginess, fudge or even hypocrisy.'

Though less flattering, this statement also seems fairly realistic. The observation in *The Economist* of a national need to compromise at all costs seems fairly telling. Consensus and consultation are key words in any characterization of the Dutch society. As Van der Ploeg (1998, p. 74) observes, the Dutch love to have meetings about everything and nothing. Sitting around the table seems a collective social habit and a quintessential feature of the consensus society. The point is that everybody can participate, have their say and feel part of the decision making process. Consensus thus seems to be an essential part of the Dutch mentality.

Another aspect that for a long time has been characteristic for the Dutch society is pillarization (Lijphart, 1968). This was a kind of social apartheid dividing the population in subcultures (pillars). It is not unusual to assume that there were four pillars (a catholic, a protestant, a socialist, and a conservative pillar), though there is no unanimous agreement about the number of pillars.[2]. In the pillarized society the masses were segmented, but the elites closely cooperated on the national level. As a result, the policy making process could be characterized as functional decentralization giving considerable room to pillarized interest groups. Political leaders usually sought the best compromise possible, an elite style that Lijphart calls a 'consensus democracy'.

In the late 1960s, however, a process of depillarization began (Andeweg and Irwin, 1993, pp. 44-49). This may have been triggered by the results of the general elections of 1967, when 15 (of the 150) seats in parliament unexpectedly changed political hands. In both the 1971 and 1972 elections this number rose to a record 20, earthshaking by Dutch standards. Though increased electoral volatility is just one indicator, it illustrates the process as such. It may be questioned whether or not the consequences of pillarization have been overemphasized in the past. More important may have been the minority position of all the subcultures providing for a crucial incentive for the elites to cooperate rather than compete. Until to date all political parties are still far removed from a parliamentary majority. The Netherlands continues to be a country of minorities, which may be a main reason that consensus seems so engrained in the Dutch political culture.

The remainder of this paper is organized as follows. Section 2 describes the oscillation from consensus to polarization and vice versa that can be observed in the Netherlands from the 1970s through the 1980s. Section 3 analyses the policy that led from the Dutch disease in the 1970s to the Dutch miracle in

[1] The country is often referred to as Holland, not only by the weekly *The Economist* - that calls itself a newspaper - but also by Dutch nationals. This may be confusing, however, because the name Holland actually refers to the provinces North-Holland and South-Holland located in the western part of the country.

[2] Some authors discern three pillars by taking the socialist and conservative pillars together and merging them into one general (or neutral) pillar. Others reject the concept of a general pillar as such (see, for example, Kruyt, 1959). On the other hand, the protestant pillar might be divided into two separate pillars (a calvinist and a Dutch reformed pillar).

the 1990s. Section 4 deals in more detail with the phenomenon of economic inactivity. Finally, section 5 presents some concluding remarks.

From consensus to polarization to consensus

In many areas an oscillation can be observed, including fashion, politics, and economics. Even the degree of consensus seeking, though a basic feature of Dutch society, seems subject to oscillation. The first decades of the post-war period the will to seek consensus was very strong in the Netherlands as a result of the devastating effects of World War II. There was an obvious need to rebuild and reconstruct the country's industry and infrastructure. In the early 1970s, however, the pendulum started to move into the other direction. Consensus began to erode (Albeda, 1982, p. 170) and polarization became a key word in Dutch politics. This may have to do with the increased electoral volatility, but also with the economic stagnation following the first oil crisis of 1973.

In 1973, five parties formed a cabinet led by the socialist Prime Minister Den Uyl. The formation of this cabinet took five and a half months, which is exceptionally long, even to the Dutch standard.[3] This cabinet adopted as its device 'spreading of knowledge, income, and power'. Political parties and their leaders stressed political differences more than before, thereby giving rise to polarization in Dutch politics. This was not limited to the political arena, but could also be observed in the relationship between the social partners. In the 1960s, the number of working days lost by labor unrest amounted to 69,000 per year, whereas in the 1970s this number rose to 170,000 per year (Central Bureau of Statistics, 1994, p. 214). In the early 1980s, however, the pendulum began again to move into the reverse direction and the Dutch socioeconomic system returned to its tradition of consensus seeking. In the 1980s, the number of working days lost by labor conflicts was even somewhat lower than in the 1960s: 66,000 per year.

Retrospectively, the cabinet-Den Uyl (1973-1977) - a center-left coalition - can be considered a transition cabinet (Van der Hoek, 1999). Starting as a keynesian oriented cabinet, it attempted to cope with the diminishing economic growth by expanding the public sector, resulting in an increasing budget deficit and a rising tax burden. However, during its term non-keynesian insights began to influence policy makers, while the break in policy makers' line of thinking was completed over the term of its successor, the cabinet-Van Agt I (1977-1981), a center-right coalition. This cabinet explicitly gave up keynesian oriented politico-economic concepts. As a result, keynesian concepts such as 'overspending' and 'cyclical injections' were replaced with neoclassical concepts such as 'real wage cost moderation' and 'production cost'.

After policy makers had adopted the (neoclassical) vintage approach (Den Hartog and Tjan, 1974) in the late 1970s, more attention was paid to the development of the labor income share in the value added produced in the private sector (Van der Hoek, 1999, p. 1118). The deteriorating employment situation in the early 1980s forced both the government and the social partners to give a higher priority to an employment policy. On November 24, 1982, the social partners reached an agreement in the Foundation of Labor, a private body for talks between employers' organizations and trade unions. This agreement is usually referred to as the Wassenaar agreement after the place where it was reached. Though the body of the agreement entitled *Central recommendations concerning aspects of an employment policy* did not take up more than one page, it was of historic significance and it marked a turning-point in Dutch industrial relations. Government interference with wage formation came to an end and a trend towards decentralization in wage bargaining emerged.

The agreement expressed that a recuperation of economic growth, a stable price level, strengthening enterprises' competitive edge, and improving companies' profits were crucial to a structural improvement of employment. In addition, the agreement called on government to make it possible to social partners to freely negotiate collective wage agreements on the basis of the central recommendations. Essentially, the trade unions committed themselves to wage moderation, while the employers' organizations accepted shortening of working hours and redistribution of labor.

[3] Negotiations about the formation of a new cabinet started immediately after the general elections of November 29, 1972. The eventual result was the cabinet-Den Uyl that was sworn in on May 11, 1973 (see P.F. Maas, 1982, pp. 319-368).

The government responded positively to the agreement by slimming the social security system and retrenching[4] public expenditure, thereby enabling a reduction of the tax burden. Gross salaries of public sector workers were cut by 3% in 1984 and subsequently frozen for a number of years. The minimum wage for adults was cut by 3% in 1984 followed by freezes, while the minimum wages for youths were already reduced twice by about 10% each time. Social benefits were cut, while eligibility requirements were tightened. By shortening the period in which unemployment compensation was paid the incentive for unemployed to find a job was reinforced. Three consecutive cabinets pursued this policy of retrenchment and slimming the welfare state during the 1980s and early 1990s. The first two of these cabinets were center-right coalitions, whereas the third cabinet was a center-left coalition. The fact that by and large politically differently composed cabinets pursued a policy that was basically the same stresses the consensus seeking nature of Dutch politics.

In addition to the Foundation of Labor another institution plays an important role in the Dutch socioeconomic system: the Social Economic Council (SEC). Whereas the Foundation of Labor is a private body of employers' and employees' organizations, the SEC is a broader public institution established by public law. It is composed of 33 members: 1/3 of them are representatives of employers' organizations, 1/3 are representatives of employees' organizations, and 1/3 are independent experts ('crown' members). The SEC serves as an advisor to the government and offers an opportunity to employers' organizations, trade unions and government officials to meet and to consult together. Until 1995, it was mandatory to the government to ask the SEC for advice about its planned policies and measures. Even though this statutory obligation was abolished in 1995, the SEC still is the heart of the consult economy where all important parties meet, discuss compromises, and build consensus.

Three tracks

The policy that has led from the Dutch disease to the Dutch miracle consists of three tracks: 1) wage moderation, 2) retrenching public expenditure and reducing the tax burden, 3) slimming the welfare system. With wage moderation I mean wage rises that lag behind those in neighboring countries. In the 1980s and early 1990s, the increase of labor costs per hour worked was lower in the Netherlands compared to most neighboring countries, as Table 2 displays. After this long period of wage moderation, the level of labor costs in the Netherlands appears to be middle of the road compared to neighboring countries (see Table 3). In 1994, it was lower than in Germany, comparable to that in Belgium and Denmark and considerably higher than in Britain.

Table 2. Proportional change of labor costs (in DM) per hour worked in manufacturing industry, 1980-1994.

Netherlands	57.5
Belgium	59.2
Denmark	68.4
United Kingdom	83.1
Germany	102.4

Source: Link, 1995, p. 7 (as cited in Ministry of Social Affairs and Employment, 1996, p. 2.3)

Not only total labor costs, but also labor productivity is relevant, since together they determine unit wage costs. In the 1980s and early 1990s, labor productivity growth in the Netherlands was more or less middle of the road, as Table 4 shows. The developments of wage costs and labor productivity resulted in unit labor costs that were relatively low in 1994, as displayed by Table 5. Though they were comparable to unit labor costs in Belgium and Denmark, they were markedly lower than in Germany and Britain. Interesting is the position of the UK. Though labor costs in Britain are low relative to other European countries, labor productivity is also low and is not fully compensated for by the low labor costs. That is the reason

[4] Retrenchments do not necessarily imply cutbacks. Analytically, they can be distinguished in economies, which refer to a decline of current expenditure, and slim-downs, which refer to a decline of planned spending levels (Van der Hoek, 1991, p. 400).

why unit labor costs are relatively high in the UK. Table 6 shows relative unit labor costs with 1995 as the base year. In Germany, unit labor costs fell after 1995, but they still exceed the 1981 level. In recent years, unit labor costs also decreased in the Netherlands and Belgium, but to a level below that of 1981. In Denmark, they increased slightly in recent years, but in the UK they rose very rapidly and approached the 1981 level.

Table 3. Level of labor costs (in DM) per hour worked in manufacturing industry, 1994.

	Indirect labor costs	Direct labor costs	Total labor costs	Index (Germany=100)
UK	6.31	15.75	22.06	50
Denmark	6.21	28.21	34.41	78
Netherlands	15.50	19.37	34.87	79
Belgium	18.08	19.27	37.35	85
Germany	19.76	24.21	43.97	100

Source: Schröder, 1995, p. 49 (as cited in Ministry of Social Affairs and Employment, 1996, p. 2.4).

Table 4. Labor productivity in the business sector.

	1973-79	1979-89	1989-1996[a]
Denmark	2.3	1.5	2.9
Belgium	2.7	2.3	1.6
Netherlands	2.6	1.7	1.5
UK	1.6	2.2	1.2
Germany	3.1	1.6	0.1

a. 1994 for Germany and 1995 for the UK.
Source: OECD, 1998d, p. 94.

Table 5. Unit labor costs, 1994.

Netherlands	89
Belgium	90
Denmark	93
Germany	100
United Kingdom	106

Source: Link, 1995, p. 13 (as cited in Ministry of Social Affairs and Employment, 1996, p. 2.4).

Table 6. Relative unit labor costs (1995=100).

	1981	1998
United Kingdom	143	142
Germany	68	89
Netherlands	111	95
Belgium	110	93
Denmark	75	102

Source: OECD, 1999, pp. 268.

The second track of the Dutch model is retrenching public expenditure and reducing the tax burden. With respect to the development of the total tax burden the Netherlands stands apart from neighboring countries, as Table 7 displays. It is the only country of those included in the table where the total tax burden was reduced somewhat in the period 1980-1996. The burden was stable in Germany and increased in Belgium, Denmark, and the UK. In the Netherlands, the total tax burden is now lower than in Belgium and Denmark, but it still well exceeds the burden in the UK and Germany.[5]

Table 7. Total tax revenues as percentage of GDP.

	1980	1996
United Kingdom	35	36
Germany	38	38
Netherlands	45	43
Belgium	44	46
Denmark	46	52

Source: OECD, 1998c, pp. 78-79.

Table 8. General government total outlays and financial balances (as a percentage of GDP).

	Total outlays		Financial balances	
	1980	1998	1980	1998
United Kingdom	43	40	-3.4	-0.4
Germany	48	47	-2.9	-2.0
Netherlands	56	47	-4.3	-0.7
Belgium	58	51	-8.9	-1.3
Denmark	56	55	-3.3	+1.2

Source: OECD, 1996b, pp. A31 and A33; OECD, 1999, pp. 252 and 254.

Table 8 shows the development of general government total outlays and financial balances. Though general government total outlays in the European Union slightly increased from 45% in 1980 to 46% in 1998, they decreased in all countries included in Table 8. Most pronounced are developments with regard to financial balances. The desire to join Economic and Monetary Union has led to more financial discipline with EU member states (Van der Hoek, 1998). In the Netherlands, for example, the public deficit decreased to 0.7% from 4.3% of GDP. In Denmark there was even a surplus in 1998.

The third track, slimming the social security system, is closely related to the second. Table 9 displays the gross outlays for social protection relative to GDP. With the exception of Germany the share of gross outlays in GDP has increased in all countries included in the table, which is in line with the development in the European Union (the EU-average increased to 28% from 24%).

[5] In the Netherlands (and in Denmark and Sweden), both social expenditure and the tax burden are somewhat overestimated relative to most other countries. The reason is that in these countries most benefits are taxed, whereas in other countries many benefits are exempt from taxation. As a result, social security expenditure in the Netherlands seems to be overestimated by 2.6 percentage points compared to Germany (Einerhand, et al., 1995, p. 45; Adema, et al., 1996, p. 14; Adema, 1997, p. 163).

Table 9. Gross outlays for social protection as percentage of GDP.

	1980	1995
Denmark	29	34
Netherlands	30	31
Belgium	28	30
Germany	29	29[a]
United Kingdom	22	28

a. 1994
Source: Ministry of Social Affairs and Employment, 1998, p. 102.

Economic inactivity

The Dutch economy seems to perform well relative to neighboring countries. This is in particular true with regard to total wage costs and unit labor cost (since the growth of labor productivity is middle of the road). Developments in the field of public finance have also been favorable in recent years. Although the tax burden has been high, it was reduced in the 1990s. The same can be observed pertaining to public expenditure and the budget deficit. The reduction of the minimum wage and the subsequent freezes may have increased employment of low-productive workers (Central Planning Bureau, 1998, p. 49). However, public spending on social protection has not been reduced and the share of GDP spent on social protection is in line with levels in neighboring countries. This raises the question why unemployment in the Netherlands is so much lower than in other EU countries. Another reason to have a closer look at the unemployment rate is that those who speak about the Dutch model usually seem to focus on the unemployment rate.

Unemployment cannot be considered apart from the social protection system at large. It is part of total economic inactivity. The inactivity/activity ratio (I/A-ratio) represents the arithmetical relationship between economically inactive persons receiving a social security benefit and economically active – i.e., working – individuals. Table 10 shows I/A-ratios for several countries both in 1980 and in 1992. The I/A-ratio appears to be relatively high in Belgium both in 1980 and 1992. The British ratio was relatively low in 1980, but has increased relative to other countries. Though the Dutch I/A-ratio was on the low scale, it did not significantly differ from that in Denmark, Germany, and the UK. As Table 11 displays, this picture is confirmed by data about non-employment rates for working-age individuals (OECD, 1998b, pp. 9-11).

Table 10. I/A-ratios.

	1980	1996
Denmark	0.72	0.80
United Kingdom	0.62	0.83
Netherlands	0.67	0.79
Germany	0.72	0.81
Belgium	0.80	1.11

Sources: De Voogd, et al., 1996, p. v; Ministry of Social Affairs and Employment, 1998, p. 102.

On the basis of the data presented above it can be concluded that despite the relatively low unemployment rate, the Dutch model has not led to a relatively low economic inactivity rate. This suggests that it is not justified to focus solely on the unemployment rate since this presents a biased picture. Moreover, the unemployment rate is a matter of definition. The concept of registered unemployed pertains to individuals who have registered at the employment service, who do not work or work shorter than 12 hours per week, and who are willing and able to accept within two weeks a job of more than 12 hours per week. This definition leaves aside a large group of economically inactive persons, for example those who did not register as unemployed, those taking a course (and, thus, cannot accept a job within two weeks), those who are exempt from the obligation to actively apply for a job such as individuals over 57.5 years old and lone parents with children younger than 5 years old (Social and Cultural Planning Bureau, 1998a, p. 66).

Table 11. Non-employment rates for working-age individuals, 1996.

Netherlands	35
Belgium	44
Germany	36
United Kingdom	31

Source: OECD, 1998b, p. 9-11.

Definitions can be changed over time, however. In 1998, for example, the Central Bureau of Statistics announced that for the first time since 1981 the number of unemployed had fallen to a level below 300,000 (Central Bureau of Statistics, 1998). However, the lowest number of registered unemployed in 1981 totaled well over 300,000. That was in April 1981 when the number of registered unemployed amounted to 334,000 (Central Bureau of Statistics, 1981, p. 27). Since then, the definition of registered unemployment has been altered twice. In particular the definition change of 1988 significantly diminished the number of (registered) unemployed: to 433,000 from 686,000 (Central Bureau of Statistics, 1988, p. 168 and 1990, p. 22). The definition's significance is most obvious if the number of registered unemployed is compared with the number of people receiving unemployment benefits. In 1995, the number of registered unemployed amounted to 464,000, whereas 784,000 individuals received unemployment compensation (Kartopawiro, 1997, p. 27). It seems not unjustified to state that a considerable part of unemployment has been defined away.

It would go too far, however, to conclude that the relatively low unemployment rate in the Netherlands is merely the result of a particular definition. Given that the level of social expenditure in the Netherlands does not fundamentally differ from that in neighboring countries, it seems more plausible that in the Netherlands unemployment takes other forms and that open unemployment has been replaced with hidden unemployment. It seems that a considerable number of those listed as disabled should more properly be listed as unemployed. Table 12 shows that in 1980 and in 1992 the Netherlands spent 2-3 times more on disability than neighboring countries in terms of GDP. This is confirmed by data on the incidence of disability (the number of disabled as a percentage of the labor force). In 1990 and 1995, it was over 2.5 times higher in the Netherlands relative to neighboring countries, as Table 13 displays. There is no reason, however, to assume that the Dutch are significantly less healthy than people in Belgium, Germany, Denmark, or the UK. It seems a logical conclusion, therefore, that the disability scheme in the Netherlands contains a considerable component of hidden unemployment.

Table 12. Outlays on disability benefits as percentage of GDP.

	1980	1992
Denmark	2.6	2.4
Germany	2.6	2.4
Belgium	2.7	2.5
United Kingdom	1.9	3.8
Netherlands	7.3	7.7

Source: Einerhand et al., 1995, p. 164.

Table 13. Incidence of disability (as a percentage of the labor force).

	1990	1995
Germany	3.3	3.1
Denmark	3.8	4.2
Belgium	4.2	4.4
United Kingdom	3.4	4.9
Netherlands	8.9	8.0

Source: Ministry of Social Affairs and Employment, 1998, p. 103.

As early as in the late 1970s attempts were made to explain the growth of the number of disablement beneficiaries by linking it to the demand for labor and the relative level of unemployment compensation (Bax et al. 1979; Hilverink, 1981[6]). Later estimates of the hidden unemployment component in the number of disabled persons vary greatly from 12 to 50% (OECD, 1991, p. 63-64). The Dutch Central Planning Bureau has referred to research by Prins (1990), who observes a difference in sociocultural experience compared to other countries: 'in the Netherlands a sociocultural climate has developed in which it is acceptable to stay away from work on account of vague physical and in particular psychological complaints' (as cited in Central Planning Bureau, 1991, p. 22-23).

Clearly, the disability scheme has played a special role as a cushion for unemployment. Initial policy responses consisted of cuts in the rate of benefits from 80 to 70% of the last earned wage followed by a freeze on nominal benefits from 1984 to 1990. Further measures were taken in the early 1990s, while simultaneously a parliamentary inquiry into the administration of the social security system was carried out (Tweede Kamer, 1993). The latter triggered a most significant redefinition of disability. Until 1993, the degree of disability was determined on the basis of the concept of 'suitable' work, i.e., what a person was still capable of earning in his or her previous function or in an equivalent job. From August 1993, however, the assessment is based on the concept of 'acceptable' work and the degree of disability now depends on the maximum income someone is still capable of earning, regardless of his or her former function or education. Beneficiaries already in the disability scheme have been re-examined on the basis of the new definition with quite impressive results. Over 50,000 persons were re-examined in 1994 and nearly 40,000 in 1995, with a reduction or withdrawal of benefits in 52 and 35% of cases, respectively (OECD, 1998a, p. 85). Thus, the measures to reduce the number of disablement beneficiaries have not been unsuccessful. From 1997, however, a renewed increase[7] occurred (College toezicht sociale verzekeringen, 1998), while a continued rise has been projected from 1998 through 2002 (Ministry of Social Affairs and Employment, 1998, p. 152).

In 1996, the OECD introduced the concept of 'broad unemployment' including all unemployed and inactive persons of working age receiving a social security benefit and persons enrolled in special job creation programs (OECD, 1996a, p. 46). While registered unemployment amounted to less than 6% (440,000 persons) in 1996, 'broad unemployment' was calculated at 24% (over 2 million persons). The definition of broad unemployment is not less questionable, however, than the definition of registered unemployment. A large part of those registered as disabled are physically unable to work. And though subsidized jobs can be seen as an artificial way of reducing unemployment, those in subsidized jobs do work and cannot be considered unemployed. On the other hand, the broad unemployment concept does not cover discouraged workers. They are mainly women who do not receive unemployment compensation and have not registered at the employment service, but do look for a job (Social and Cultural Planning Bureau, 1998b, p. 383).

[6] Hilverink's paper was originally published in 1978 in *Tijdschrift Sociale Geneeskunde*.

[7] Despite the absolute rise of the number of disablement beneficiaries it continues to fall as a percentage of the labor force.

Concluding remarks

The answer to the question 'Does the Dutch model really exist?' seems to be affirmative, at least in a specific sense. Although most observers point to the low unemployment rate, this is misleading. Open unemployment has partly been replaced with hidden unemployment, mainly in the form of disablement. The way the social partners operate and cooperate and consult together with the government seems crucial to the Dutch model. A key word is consensus, which seems to be related to the Dutch mentality. Therefore, the Dutch model seems not only unique, but may have more to do with sociology than with economics. The way employer's organizations and trade unions deal with one another furthers consensus. The institutional structure also fosters the consensus seeking character of the Dutch model. Institutions such as the Social-Economic Council and the Foundation of Labor offer platforms where representatives of employers' and employees' organizations can meet and consult together. Frequent and informal contacts between these representatives seem quintessential to the Dutch model.

The policy that has led from the Dutch disease to the Dutch miracle consists of three tracks: 1) wage moderation, 2) retrenching public expenditure and reducing the tax burden, 3) slimming the welfare system. The wage moderation track seems to have been the most important one. Most interesting is that this track is the result of an agreement between the social partners rather than a form of government policy. From this point of view the Carl Bertelsmann Foundation was quite right by awarding a prize to the social partners. Nonetheless, the government did play an important role by consulting with the social partners and pursuing a policy enabling them to continue the Wassenaar agreement. But it has primarily been the wage moderation that helped to cure the Dutch disease. Recently, the OECD (1998a, p. 41) also recognized the crucial role of wage moderation:

> 'All considered, the "wage moderation for jobs" approach pioneered in the Wassenaar agreement may have been the single most important element of the "Dutch model".'

The recovery of the economy has also benefited the public sector since it increased tax receipts. Reducing tax rates seems to have been a profitable investment. In the 1990s, real GDP growth in the Netherlands has exceeded the average GDP growth in the EU.

It seems that the Dutch model consists of both social and economic components. The way social partners consult and negotiate seems a crucial element as voiced in *The Wall Street Journal Europe* of October 21, 1997:

> '… the Dutch success story is built on a form of national consensus so rare that it would be nearly impossible to replicate elsewhere.'

In addition, there is another reason why the Dutch model cannot be replicated elsewhere. Normally, the combination of wage moderation and low inflation would have led to a revaluation of the Dutch guilder. The Dutch government, however, has pegged the guilder to the Deutsche mark from 1983. As a result, persistent surpluses on the current account of the balance of payments have occurred. From 1981 the Netherlands did not have a trade deficit in any single year. If the Netherlands were a large country this would most likely have evoked quite a lot of criticism. Other countries may have accused the Netherlands of pursuing a 'beggar-my-neighbor' policy, even though it did not devalue its currency.

Developments that occurred from 1980 resemble more or less developments in the post-war period until the early 1960s. In the early post-war period wage and price levels were also relatively low in the Netherlands. This period has also been characterized as a 'Dutch miracle', like the German *Wirtschaftswunder*. In the mid-1960s, however, this period came to an end and the pendulum began to move into the reverse direction. In the early 1970s, the Netherlands began to suffer from the Dutch disease. The pendulum might reverse its direction again around the turn of the century, but it is hard to predict. The consequences of the introduction of the euro are unknown. The Netherlands and all other countries in Euroland lost the policy instrument of exchange rate adjustment. It does not make a real difference in Dutch practice, however, since the Netherlands did not use this instrument since 1983. In addition, the fifth kondratieff may have started in the 1980s (Van Duijn, 1989). As a result, the period of sustained prosperity may last until late in the first decade of the 21st century, which may prevent another period of some economic disease.

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