

Tackling tightness in the Dutch labour market

Labour-saving innovation alone is unlikely to reduce overall labour demand. To lift supply, childcare, immigration, and adult training need an overhaul.

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The Netherlands has a very strong labour market. The employment rate is one of the highest in the OECD, while unemployment is low. Workers are paid well on average and experience significantly less job strain than in many other OECD countries. This contributes to making the Netherlands a country with a high reported life satisfaction.

But the Dutch labour market is also very tight. Job openings are plenty and available workers are scarce (Figure 1). Pervasive labour shortages across occupations and regions prevent businesses from operating at their desired production level. Shortages are reported in many OECD countries, reflecting the unprecedented speed of the post-pandemic recovery. However, labour market tightness is structural in the Netherlands: the number of people available for work, either unemployed or inactive, has declined steadily in recent years.

Figure 1. Dutch labour market tightness predates the pandemic

Labour market tightness
vacancies per 100 unemployed

Note: OECD (resp. EA17) average based on 23 (resp. 17)

countries for which data are available.

Source: OECD Labour Market Statistics (database); Eurostat Job Vacancy Statistics.

Lifting labour supply to tackle tightness is urgent in the Netherlands: not only do enduring shortages generate wage inflation, but they also hold back the green and digital transitions, weighing on potential growth. In complement to raising productivity, the latest Economic Survey of the Netherlands identifies areas for policy reform that together have the potential to increase labour supply.

Strengthening incentives to work full time

More than a third of employees work fewer than 30 hours per week in the Netherlands, by far the highest incidence of part-time work in the OECD, with a particularly unequal distribution between genders. The system of taxes and benefits implicitly promotes the “one-and-a-half earner model” (Figure 2, Left), whereby one partner (often a man) works full-time and the second earner (often a woman) works relatively few hours. Expensive or unavailable childcare weighs on incentives to work more (Figure 2, Right), as looking after a child is the main reason for part-time employment in the Netherlands.

Figure 2. Stronger incentives on moving to full-time employment and more affordable childcare would increase labour supply

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Note: LHS refers to second earners with two children. (more details). Source: OECD Benefits, Taxes and Wages (database);

OECD Social and Welfare Statistics (database).

Reducing work disincentives arising from childcare, school hours, and leave arrangements is a necessary complement to the steady reduction in the effective tax rate on moving to full-time employment. The planned reform to make childcare free for all working parents is expected to worsen staff shortages in childcare facilities, raising doubts about feasibility. Phasing in the reform gradually, monitoring access and evaluating the repeal of the link between hours worked and the amount of the childcare support would help.

Realising the potential of migration

While labour market participation overall is high, the gap between the native-born and the foreign-born is the largest in the OECD (Figure 3), especially for migrants from outside of the European Union. Most highly educated foreign-born work in jobs that require a lower level of formal education than what they hold or are not in employment. Moreover, the immigration system is not responsive to labour market needs, and no migration scheme exists for medium-skill workers, despite their importance for the green transition.

Figure 3. Better migrant integration could attenuate labour shortages in some occupations

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Source: OECD Migration Statistics (database).


Streamlining and accelerating the processes of recognition and validation of qualifications acquired abroad for shortage skills would improve employment outcomes for underemployed groups and partially address labour shortages. Repealing labour market tests, whereby employers are required to search

for applicants from the Netherlands or other EU countries before turning to non-EU migrants, would increase supply for the middle-skill segment of the labour market and for occupations related to the low-carbon transition.

Promoting a culture of lifelong learning

Training needs are important in the Netherlands, given the massive number of new jobs that will be necessary for the low-carbon transition and the continued digitalisation of the economy. Yet, the country only allocates a relatively little share of active labour market policy spending to training (Figure 3). In a first approximation, a threefold increase in public spending on training is necessary to achieve the required reskilling and upskilling. Moreover, concerns have surfaced regarding the quality and relevance of some trainings subsidised under the recently discontinued individual learning scheme STAP.

Figure 4. Higher spending on quality public training would promote growth in expanding industries

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Source: OECD Statistics on Labour Market Programmes (database).

Major scaling-up and stronger incentives for co-financing by employers are needed to deliver on the stated objective of promoting a new culture of lifelong learning. Focusing expenditure on adult learning related to occupations where shortages are the most pressing would reduce the overall fiscal cost and better channel labour towards the tightest segments of the labour market. More emphasis should be placed on ensuring that providers maintain training quality,

including renewing providers' accreditation regularly, assessing the outcomes of education activities, and ensuring that the ensuing information is transparent and publicly available.

References

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