

Brexit and Dutch Exports: Fewer glasshouses, more glass towers as agri-food shrinks and finance gains.

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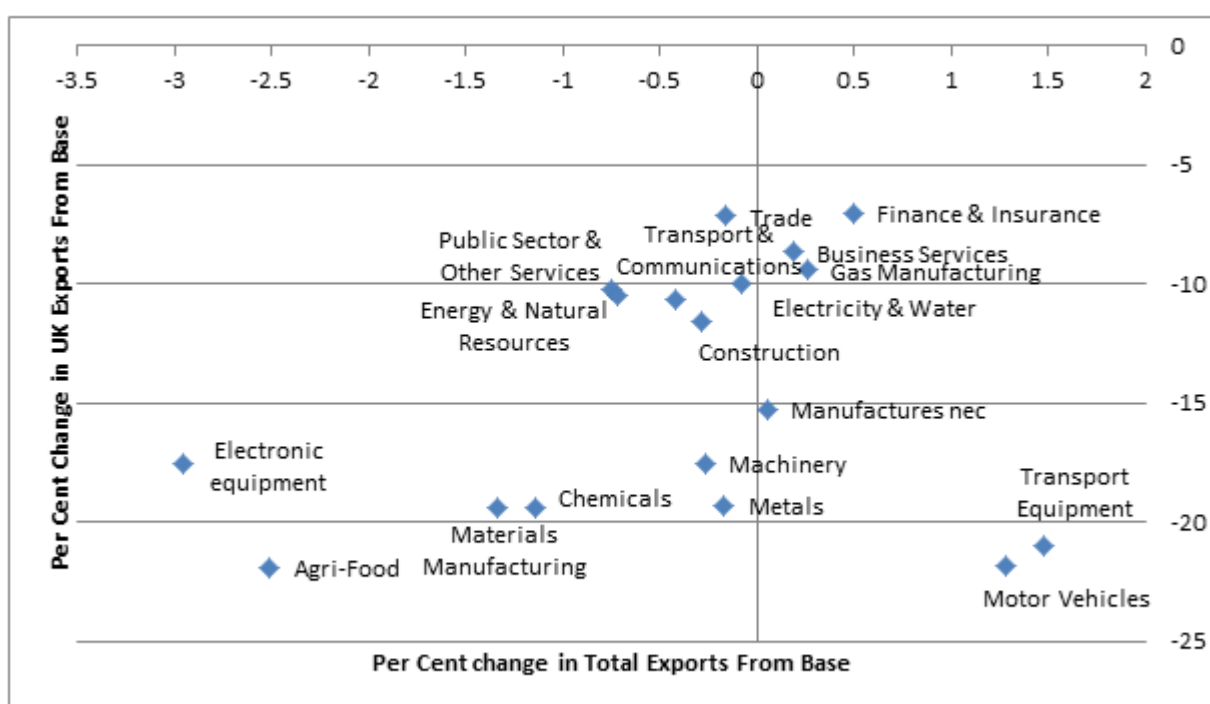
The Netherlands is likely to be one of the European countries that is going to be significantly affected by the United Kingdom's planned departure from the European Union (Brexit). As an open economy with strong trade and investment links to the United Kingdom, the Netherlands is exposed to increases in barriers to trade between the United Kingdom and EU (Vandenbussche et al., 2017). New OECD simulations show the potential extent of this impact, as well as the different sectors of the Dutch economy likely to be affected.

The sector-level impacts will depend on differing UK trade exposures, tariff rates and non-tariff measures (NTMs) applied to different products; varying degrees of global value chain integration of the sectors; and differences in sectors trade diversification opportunities. On trade exposure for example, the agri-food sector has a comparatively high UK exposure. This sector accounts for 23% of the total exports of the Netherlands to the UK while the UK market makes up 12% of total Dutch agri-food exports (OECD 2018). [\[1\]](#)

An illustrative worst-case Brexit scenario – assuming the UK leaves the EU without any trade agreement – is simulated using the OECD METRO model (OECD, 2015). [\[2\]](#) The key advantage of this analysis is that it accounts for changes in both tariff

and non-tariff barriers. The scenario assumes that trade relations between the EU and UK default to the World Trade Organisation's (WTO) Most-Favoured Nation (MFN) rules, that is, the most basic trade relationship. Relative to current arrangements, this corresponds to an increase in tariffs on Dutch trade with the United Kingdom of between 0 and 12 per cent.

Figure 1. Netherlands exports to the UK and total exports, per cent change from base total exports



Source: OECD METRO model estimates.

Simulation results show that Dutch exports to the UK would fall by 17% in the medium-term. The Dutch agri-food sector is estimated to experience a 22% fall in its UK exports (Figure 1). This is driven by a substantial 35% decline in exports in the meat products sector. Smaller materials manufacturing sectors such as wood and leather products and textiles would see a 20% fall in their UK exports. The 2% fall in production in agri-food contributes to a 7% decline in the value of agricultural land. Four of the five sectors that record the largest declines in employment following production falls are in the agri-food sectors.

Of all the non-agri-food sectors, electronic equipment would see the largest decline in total exports at 3% and the largest decline in production at 2.4% in the scenario. Access to supply chains for intermediate imports from the UK for Dutch sectors is also curtailed; intermediate imports from the UK would fall by over 40% in the finance and insurance sector in the scenario.

There are a few sectors which have export gains under this scenario. These include motor vehicles, finance and insurance and transport equipment, these sectors show increases in exports to the rest of the EU as well as the United States. The gas sector expands slightly, but this translates into relatively larger gains of gross exports of 6% (to EU) and 10% (to US).

[1] [OECD METRO model data.](#)

[2] This shock implies a scenario could be the result of a disorderly conclusion to negotiations and can be considered something close to a worst case outcome and does not consider the impact via investment.

References

OECD (2018), [OECD Economic Surveys: Netherlands 2018](#), OECD Publishing, Paris.

OECD (2015), [“METRO v1 Model Documentation”](#), TAD/TC/WP(2014)24/FINAL.

Vandenbussche, Hylke and Connell Garcia, William and Simons, Wouter, Global Value Chains, Trade Shocks and Jobs: An Application to Brexit (September 2017). Available at SSRN: <https://ssrn.com/abstract=3052259> or <http://dx.doi.org/10.2139/ssrn.3052259>

The rise of self-employment in the Netherlands: is the “polder model” at risk?

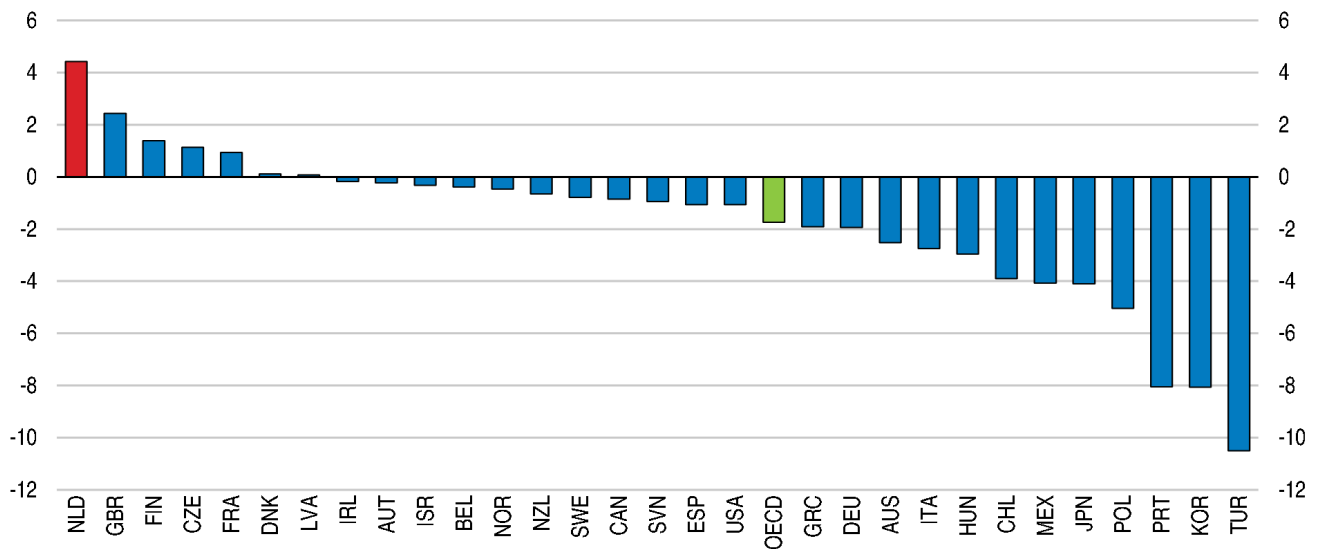


By Mark Baker, Netherlands Desk, OECD
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The Netherlands has experienced a large rise in the number of individuals working as self-employed with the share in total employment rising rapidly over the past decade. This is the largest rise in the OECD countries. This contrasts with trends in most other OECD countries where the share has, on average, fallen over that period. There are a number of positive aspects that can be associated with self-employment, as well as possible negative aspects, implying that any policy responses to address the increasing prevalence should aim to facilitate the former while mitigating the latter.

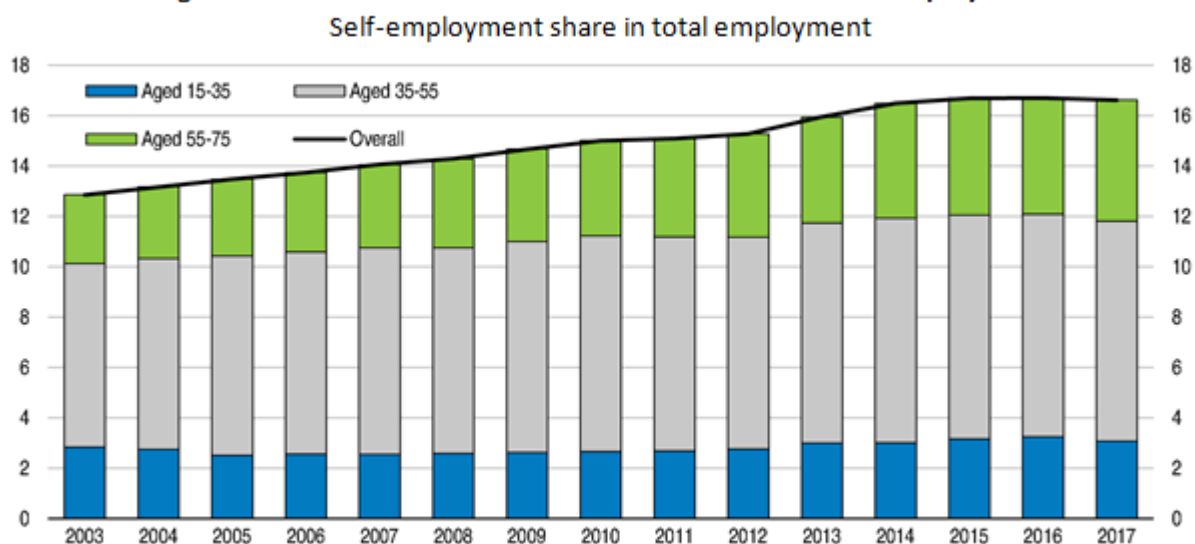
Figure 1. Self-employment has risen considerably since 2005

Change in the self-employment share in total employment between 2005 and 2016 (% pts)



On the positive side, higher rates of self-employment could be associated with increased entrepreneurial activity, innovation and more labour market flexibility. Flexibility is particularly important in the Dutch context, where the level of protection on permanent contracts is high. Younger workers and recent migrants, who have limited attachment to the labour market, can use self-employment as an avenue to gain valuable working experience and to potentially transition towards a more permanent position. Self-employment can also be a useful avenue for older workers who want to remain marginally attached to the workforce, and potentially view their existing pension savings as adequate for their retirement. Indeed, older workers have seen the largest rise in terms of self-employment when compared to other age groups.

Figure 2: Older workers account for much of the rise in self-employment



Source: CBS (2018), "Arbeidsdeelname; kerncijfers", Statline Database, Statistics Netherlands, June.

On the negative side, rising self-employment can also be associated with reduced job quality and job security, and can potentially be used as a method for individuals and employers to avoid tax and social security obligations, and promoting an unfair treatment across different work types. With regards to social security, the self-employed individuals have no obligation to contribute to sickness and disability insurance while employees do. Not only does this significantly reduce the tax wedge for self-employed work, but it exposes the self-employed to increased loss of income risks associated with injury or sickness. Employers are incentivised to hire self-employed contractors and potentially to re-label existing staff as self-employed contractors to lower labour costs, through lower social security contributions, and to avoid the strict protection of employment contracts. Furthermore, self-employment can be used by employers/clients to prevent paying statutory minimum wage rates.

In addition, very large tax deductions exist which further widens the difference in tax treatment between the self-employed and other workers. One of the largest deductions available is meant to incentivise increased entrepreneurial activity. However, the vast majority of the rise in self-

employment has been own-account workers who tend not to scale up their business, by hiring employees, or invest in innovative activities or training, so this deduction is hardly justifiable.

The Dutch government has been active in constructing different policies to target some of these issues. Regulatory policies associated with the self-employment statement system have been reformed in recent years. To combat the potential for employers to re-brand employees as contractors, the government plans to introduce a minimum tariff system, whereby any individual earning below a stated minimum tariff, comparable to the minimum wage rate, will be deemed an employee for tax and regulatory purposes. This will be difficult to implement, however, given the potential difficulties in monitoring the hours worked of self-employed individuals.

Recommendations from the [2018 OECD Economic Survey of the Netherlands](#) aim at ensuring a more level playing field, particularly in terms of the tax treatment, between the self-employed and other workers. The government should phase out the permanent self-employment tax deduction while also introducing coverage for sickness and disability insurance for self-employed workers. Additional to the self-employment specific recommendations, the Survey calls for a reduction in the tax burden, particularly for lower-income workers, by lowering social security expenses and also reducing the high level of employment protections through a reduction in severance pay for employees dismissed under reasonable grounds.

References:

OECD (2018), [OECD Economic Surveys: The Netherlands 2018](#), OECD Publishing, Paris.

The refugee crisis: a challenge but also an opportunity for improving policies to integrate immigrants into the Dutch labour market

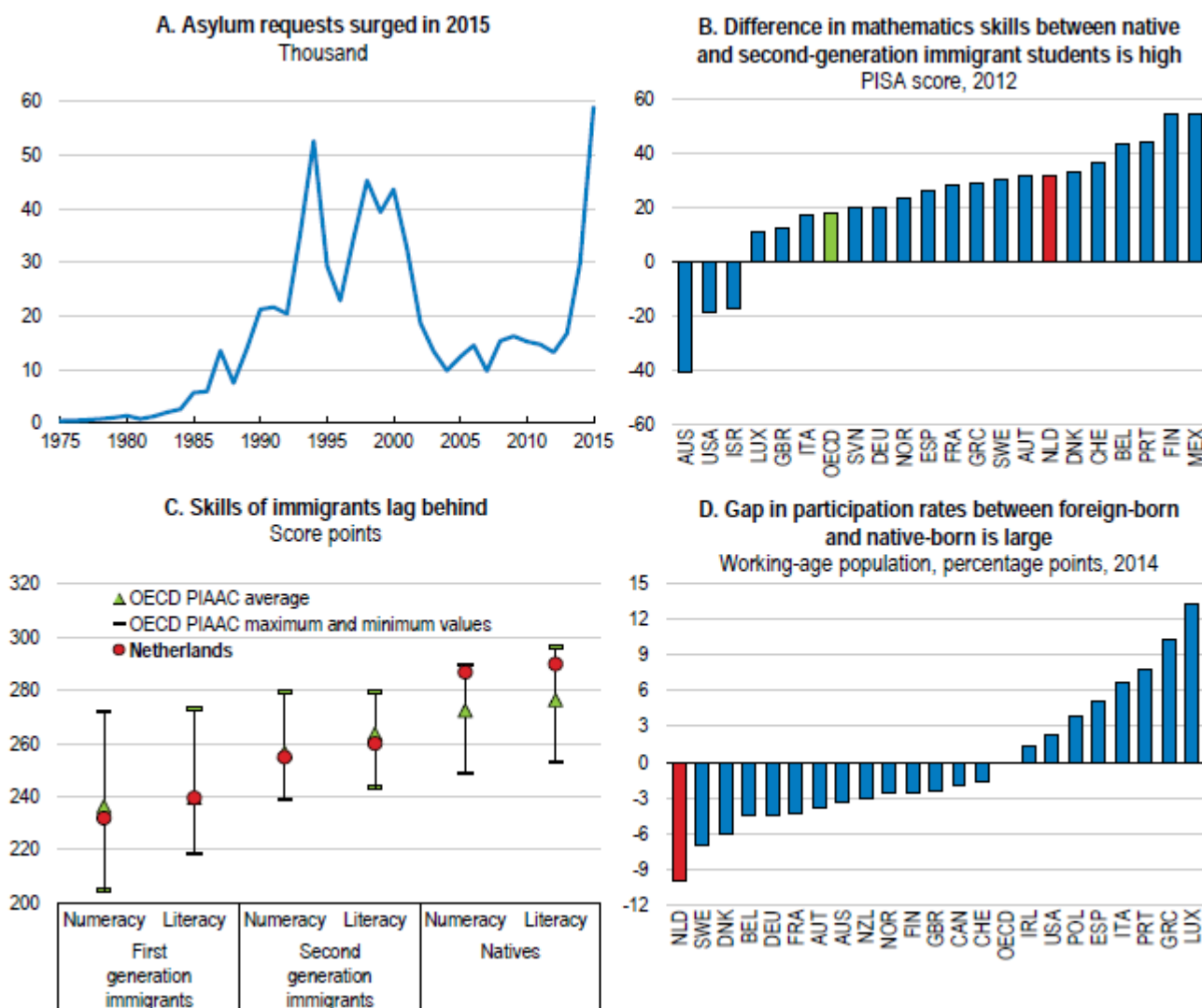
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The ongoing refugee crisis in Europe has particularly affected the Netherlands. Asylum requests surged in 2015 to nearly 60 000 (Panel A), more than three times the yearly average of 2010-14. This is a significant challenge for the authorities, who need to provide decent housing and help these people finding a job for the time they will stay in the Netherlands as refugees, which could be much longer than expected. Getting work is key for refugees to develop social contacts and economic independence, and acquiring new skills could be helpful for those refugees who eventually return to their own country. Therefore, good policies to facilitate the labour market integration for migrants are critical.

The past record of integrating immigrants is mixed. Although at about the OECD average, the skills of first- and second-generation immigrants are well below those of natives and below those of immigrants in the best performing OECD

countries (Panels B and C). In parallel, the gap in labour force participation—those who have jobs or are looking for a job—between first-generation immigrants and natives is the largest in the OECD (Panel D). Many policies that would support job prospects of immigrants would also benefit refugees. Studies of past inflows of refugees show that the proportion of those of working age participating in the labour market is around 45% after being five years in the Netherlands (Vluchtelingenwerk, 2014), which is much lower than the 80% of natives.

Skills and labour market outcomes of immigrants are weak



Source: Statistics Netherlands (2016), "Asylum requests" in

Population, [Statline](#), January; OECD (2013), [PISA 2012 Database](#); OECD (2013), [OECD Skills Outlook 2013: First Results from the Survey of Adult Skills](#); and OECD (2015), "[Employment, unemployment and participation rates by sex and place of birth](#)", [OECD International Migration Statistics](#) (database), October.

The [2016 Economic Survey of the Netherlands](#) highlights the following reforms for improving the labour market integration of immigrants, which could also benefit refugees:

1. Ensuring high equity of compulsory education

Raising the quality of early childhood education and care would help immigrant children, including by improving language proficiency. Stepping up training would provide teachers with the tools to work with students with disadvantaged backgrounds, and reflecting such skills in wages would attract more qualified teachers. Raising student mobility between tracks at secondary schools would foster the development of skills, including for students with immigrant background, and would avoid those with low socio-economic background being trapped in low-qualified jobs.

2. Recognising and upgrading skill sets

Better recognition of foreign qualifications and informal skills would help immigrants to find work that matches their skills. Creating programmes that combine work experience and on-the-job training beyond formal education, especially for immigrants with low qualifications, would help them to demonstrate and upgrade their informal skills. Developing language courses would also support access to jobs.

3. Promoting job search and recruitment

Further lowering the cap on severance payments would make permanent contracts more attractive to employers, which would help refugees and immigrants to find jobs and to support their skills because permanent work tends to come with more skill

development. The government has recently increased the earned income tax credit for lower income-earners, which is welcome. Further reduction of effective tax rates on labour income would sharpen incentives to get a job. Reinstating an equal employment policy would help to overcome discrimination on the basis of race or ethnicity.

Whereas the refugee crisis poses an immediate challenge, it also provides an incentive to improve labour market integration policies of immigrants. This would result in better job prospects benefiting all parties involved, the migrants and the Netherlands.

References

Vluchtelingenwerk (2014), *IntegratieBarometer 2014* (Integration Barometer 2014).

OECD (2016), [*OECD Economic Surveys: Netherlands 2016*](#), OECD Publishing.