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.

Chasing the frontier: Digitalisation for stronger productivity in the Netherlands

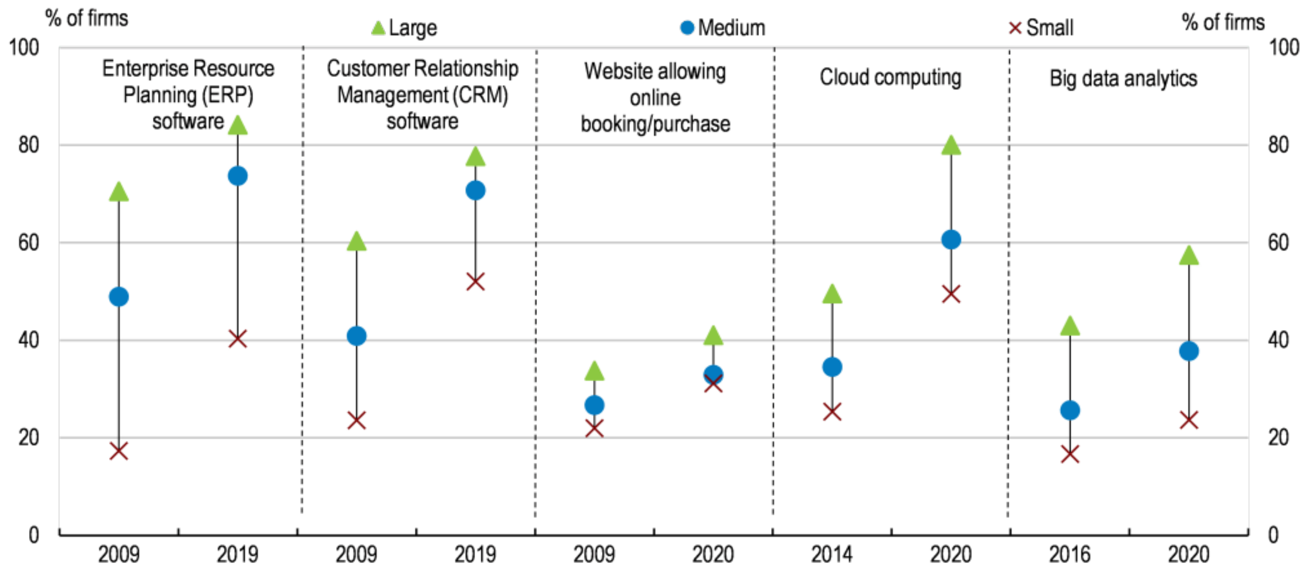
By Martin Borowiecki, Jon Pareliussen and Daniela Glocker, OECD Economics Department

The COVID-19 crisis has accelerated the digital transformation of the Dutch economy. E-commerce and teleworking helped cushioning the immediate economic shock as many firms rapidly stepped up their digital capacities and adopted digital technologies to stay in business. What's more, the digitalisation of products and services offered new opportunities to expand into new markets such e-health. Looking ahead, digitalisation has the potential to boost long-term productivity growth, which has been disappointing in the last decade leading up to the COVID-19 crisis. The 2021 OECD Economic Survey of the Netherlands puts the spotlight on digitalisation and productivity. It highlights that policy can support the digitalisation of the economy by boosting skills and removing barriers to the reallocation of talent and capital to most productive firms (OECD, 2021).

Supporting an inclusive and efficient digital transformation

Digitalisation is in general high in the Netherlands. A high share of households have a broadband connection, use e-government services and telework regularly. The country's digital infrastructure is well developed, allowing most businesses to have fast broadband connections and purchase cloud services. The government is investing considerable resources in frontier digital technologies, notably quantum computing and artificial intelligence, through its new National Growth Fund. However, the uptake of digital technologies has so far been concentrated among the largest firms with slow diffusion to the rest of the economy (Figure 1). Smaller firms lack the awareness, finance and skills to get the most out of the digital transformation.

Figure 1. Small firms lag behind in adopting digital technologies



Note: Firms with at least 10 employees. Small firms are those having 10-49 employees, medium-sized firms 50-249 employees, and large firms 250 employees or more.
Source: OECD (2021), ICT Access and Usage by Business (database).

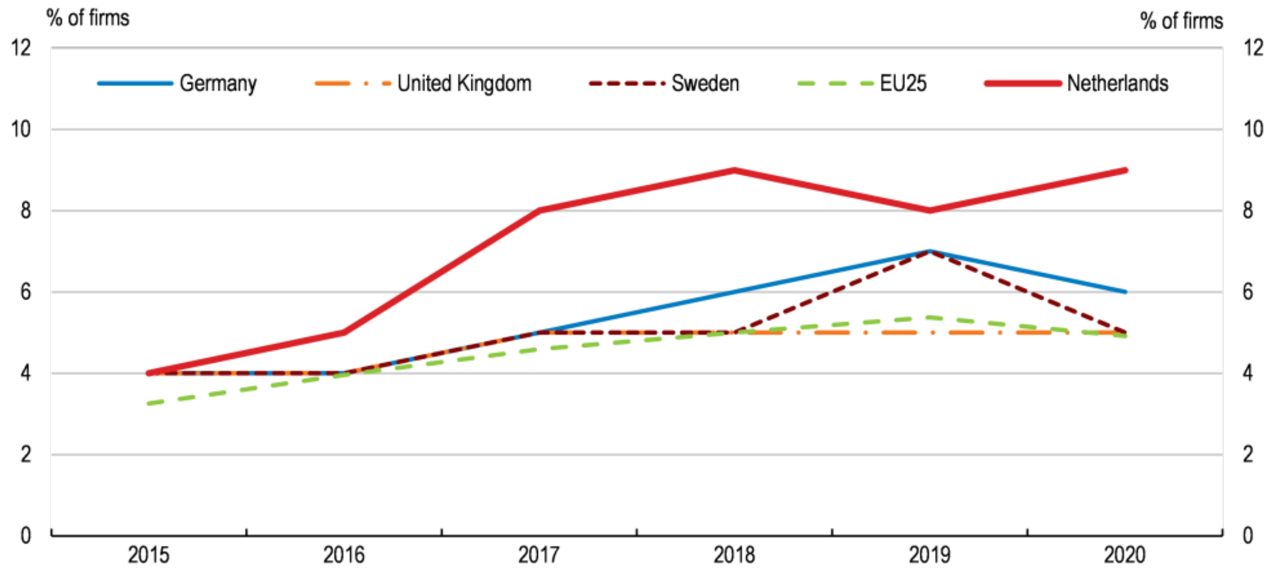
New OECD research conducted for the Survey shows that stepping up the adoption of digital technologies and digital skills among laggard firms could translate into significant productivity gains in the Netherlands (Borowiecki et. al, 2021). In this regard, increasing support to small- and medium-sized enterprises, through targeted public-private programmes to facilitate the adoption of digital tools and to provide business advisory services, could raise awareness and help small firms overcome barriers to digital adoption. Furthermore, easing the strict employment regulations for the regular employed and improving access to capital for young innovative firms, including credit and collateral registries and stronger competition in the FinTech sector, would support a more efficient reallocation of labour and capital to most productive firms.

Boosting digital skills

Shortages of ICT professionals constrain firms' ability to increase productivity (Figure 2). Despite a well-developed vocational training system and high tertiary education attainment, educational outcomes could be better matched to labour market needs. The share of ICT graduates is low and a considerable share of students, especially those in vocational training, lack essential digital skills. The education system will need to ensure that all students are equipped with the right skills to prosper in the digital age. This entails giving digital skills more prominence in the national curriculum, raising funding for teachers' digital training, and an expansion of part-time higher education pathways for ICT professionals. A stronger involvement of the private sector in the design of curricula for ICT programmes can help aligning curricula with labour market needs.

Figure 2. Shortages of ICT specialists are pressing

Share of enterprises with hard-to-fill vacancies for jobs requiring ICT skills



Note: Firms with at least 10 employees, excluding the financial sector. 2015 data for Germany refers to 2014. The EU25 aggregate includes 25 European OECD Member countries.
Source: Eurostat (2021), Digital Economy and Society (database)

The COVID-19 crisis has created additional challenges for productivity. School closures reduced skill accumulation. Parts of the job losses may become permanent in some sectors due to accelerated automation, and skill mismatches are likely to increase going forward. A high share of own-account workers with lower skills and less access to training may be an additional drag on productivity. Hence, training efforts should be ramped up. To reduce the social costs of the digital transformation, a stronger focus on training jobseekers and workers with high up-skilling and re-skilling needs is necessary.

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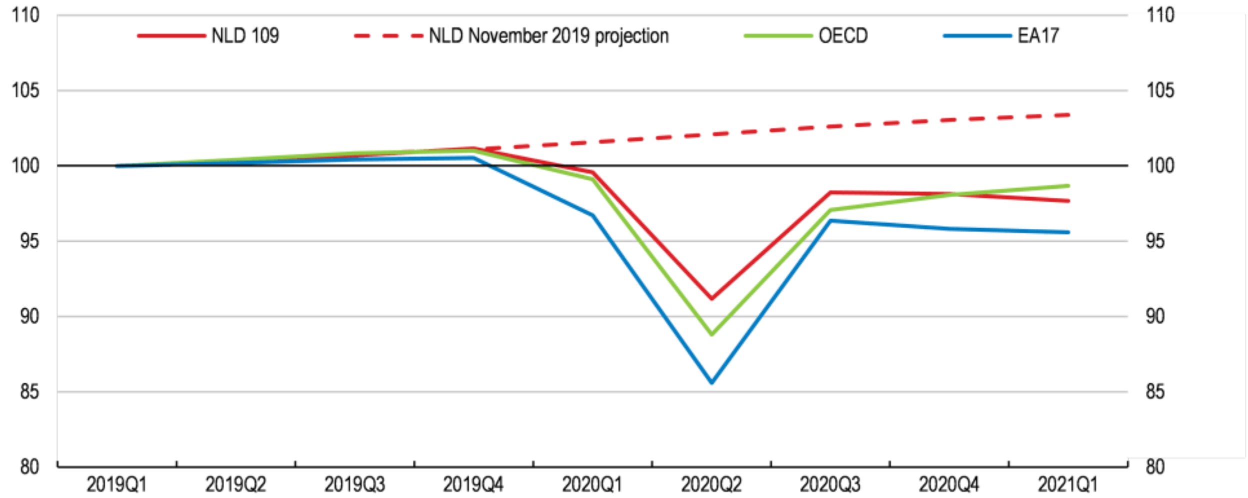
The Netherlands: Building a stronger recovery

By Daniela Glocker, OECD Economics Department

The Netherlands is recovering from its largest economic contraction since the Second World War. Almost overnight, the COVID-19 outbreak restricted people’s daily lives. Work and education shifted to take place from home. Many businesses offering non-essential but close contact jobs could not easily adjust, leading to a reduction in working hours or number of employed. Travel, social interactions, shopping, cultural and leisure activities were restricted to hold back the spread of the virus. The Dutch government swiftly implemented a comprehensive support package, and extended and adjusted the measures several times in response to prolonged restrictions. These policies reduced uncertainty and protected people, businesses and jobs. In combination with structural and institutional strengths and a high level of digitalisation, the generous fiscal support helped the country to weather the COVID-19 crisis with limited economic damage compared to many OECD countries (Figure 1).

Figure 1. The economy contracted less than elsewhere
Real GDP, Index Q4 2019=100



Note: The pre-crisis growth path is based on the November 2019 OECD Economic Outlook projection, with linear extrapolation for 2022 based on trend growth in 2021.
Source: OECD Economic Outlook 106 and 109 databases.

The start of the vaccination campaign earlier this year marked the beginning of the end of the health emergency. As the Dutch roll up their sleeves, restrictions are progressively lifted, business and consumer confidence are improving, and the economy is set to recover gradually. The *2021 Economic Survey of the Netherlands* foresees annual growth of 2.7% in 2021 and 3.7% in 2022, with GDP recovering the pre-crisis level at the beginning of 2022. Private consumption will drive the recovery as households can eat out, shop and enjoy many of the social, cultural and leisure possibilities that have been off-limits during the pandemic. Nevertheless, private consumption will be held back by households facing an increase in pension premiums and rising unemployment as the result of support measures being phased out. Uncertainties still abound. Quicker than expected vaccine roll out can contribute to faster economic growth, especially if returning confidence spurs people to spend some of the savings amassed during the pandemic. On the other hand, potential outbreaks of vaccine-resistant virus strains could postpone the recovery. Well-targeted fiscal support should remain in place in the short term to support the recovery, but the government should also plan forward and carefully weigh permanent spending increases against pressures emerging from population ageing and related health care expenditures.

The *2021 Economic Survey of the Netherlands* argues that coming out of the pandemic is an opportunity to build back stronger, fairer and greener, by addressing some long-standing structural challenges:

- In the Netherlands, a high share of workers are on non-standard contracts. This trend has increased over recent years, driven largely by lower labour costs for the self-employed and other non-standard workers than for regular employed. During the crisis, self-employed and other flexible workers on freelance or on-call contracts were more likely to lose their job as the job retention scheme mainly protected workers on permanent contracts. Temporary contracts are also used more frequently in hospitality and service sectors, which were hit hard by the COVID-19 crisis, in lower skilled occupations and among young workers. Although the government provided some income support for the self-employed, the crisis may have exacerbated income inequality. Implementing the Commission for the Regulation of Work recommendations is key to reducing labour market duality. More should also be done to reduce the gap in part-time work between women and men.
- People living in the Netherlands are exposed to the risk of local air pollution and to climate change risks such as floods, as large parts of the country are below sea level. People’s exposure to nitrogen emissions remains among the highest in the EU owing to high population density, high industrial and agricultural production and being home to Europe’s main seaport. A High Court ruling in 2019 stipulated a re-evaluation of permits for a range of nitrogen emitting activities, notably for construction and agriculture projects near natural preservation areas. The available

nitrogen space for new developments remains limited, constraining new investment in infrastructure, buildings and agriculture. Greenhouse gas emissions are also high compared to the EU average, and a High Court ruling in 2019 mandated a 25% reduction compared to 1990 levels by the end of 2020. This prompted a reduction in coal power capacity and other measures. The 2020 target was just met, owing in part to the COVID-19 crisis that reduced economic activity and mobility. Long-run prosperity and people’s well-being hinge on the reduction of local air pollution and greenhouse gas emissions, which requires concrete national-level actions, as well as enhanced regional and international cooperation.

- High debt and a high share of illiquid assets, mainly housing, held by households create macroeconomic and financial vulnerabilities. Household debt is at more than 200% of disposable income, among the highest in the OECD, mainly consisting of mortgages. Limited housing supply and favourable tax treatment for owner-occupied housing have contributed to soaring house prices. As a result, home-owners are not only better off compared to people not yet owning a house, i.e. often the young and people on non-standard work contracts, due to higher equity, but also compared to investors of other assets. A possible future correction in house prices is a risk to economic growth, as households who suffer large capital losses tend to cut back on consumption in order to continue servicing their debt. A more balanced housing market with affordable prices and a better functioning rental market would not only reduce inequality and macroeconomic risks but also boost growth. A coherent package of reforms is needed, including to the tax treatment of owner-occupied housing, spatial planning and rental regulations.

As the Netherlands re-emerges from the shadows of the pandemic, and people and businesses are weaned off emergency support, it is not the time to return to the old ways. It is the time to build a new future. A future that is better.

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

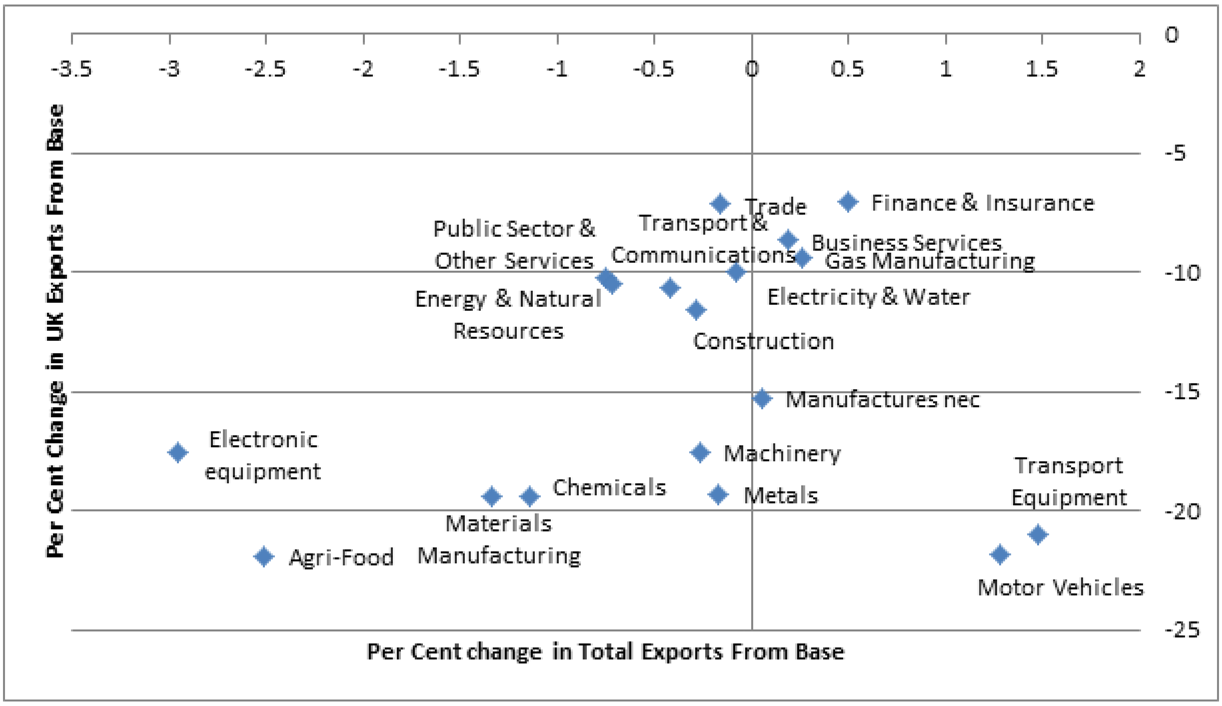
by Donal Smith, OECD Trade Directorate and Economics Department

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.

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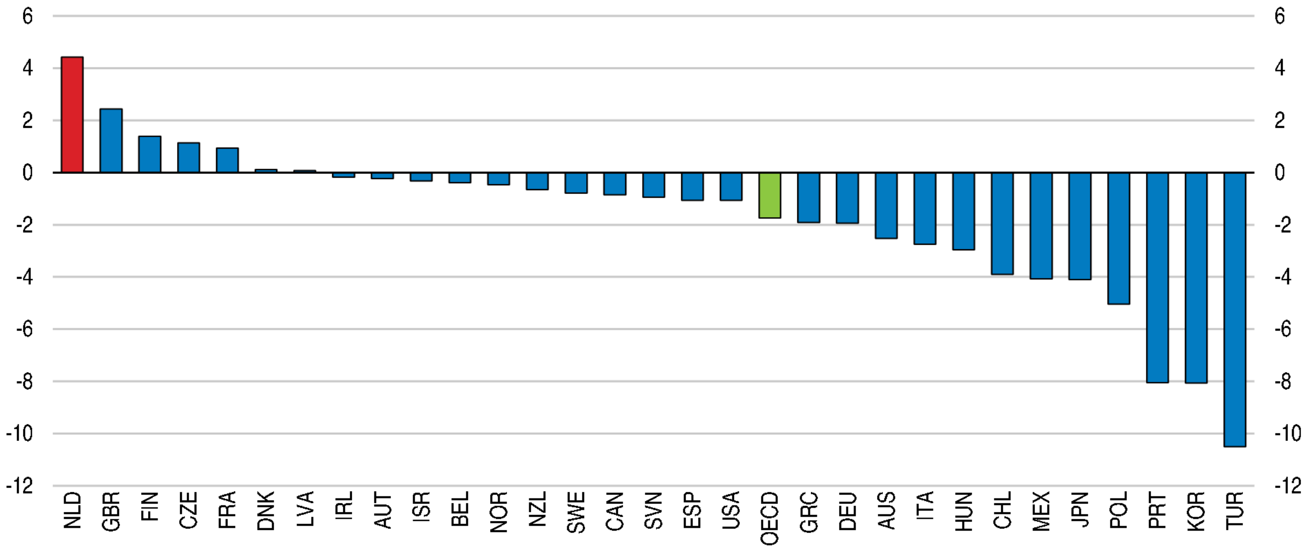
The rise of self-employment in the Netherlands: is the "polder model" at risk?

By Mark Baker, Netherlands Desk, OECD Economics Department

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

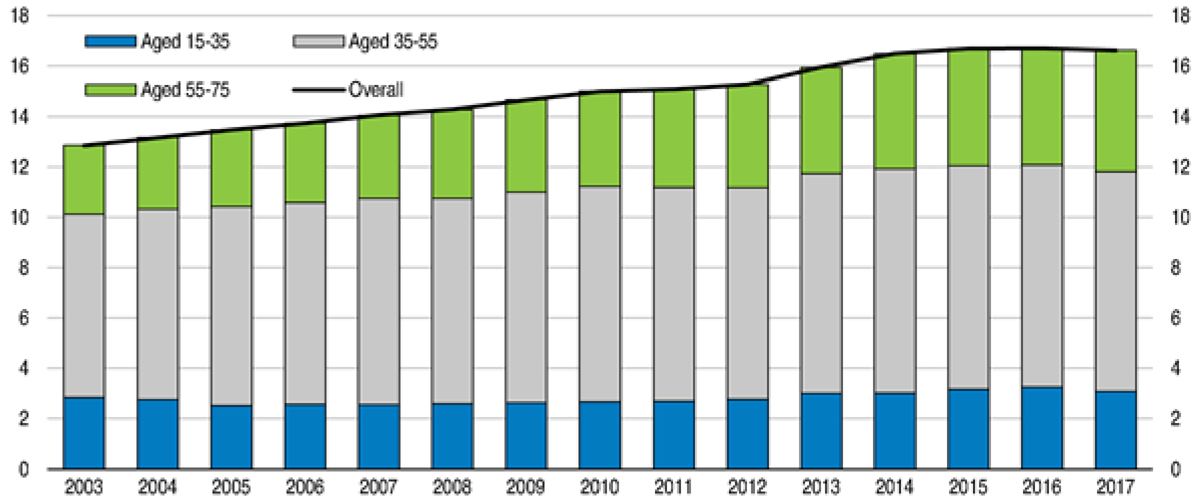
Change in the self-employment share in total employment between 2005 and 2016 (% pts)



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

Self-employment share in total 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:

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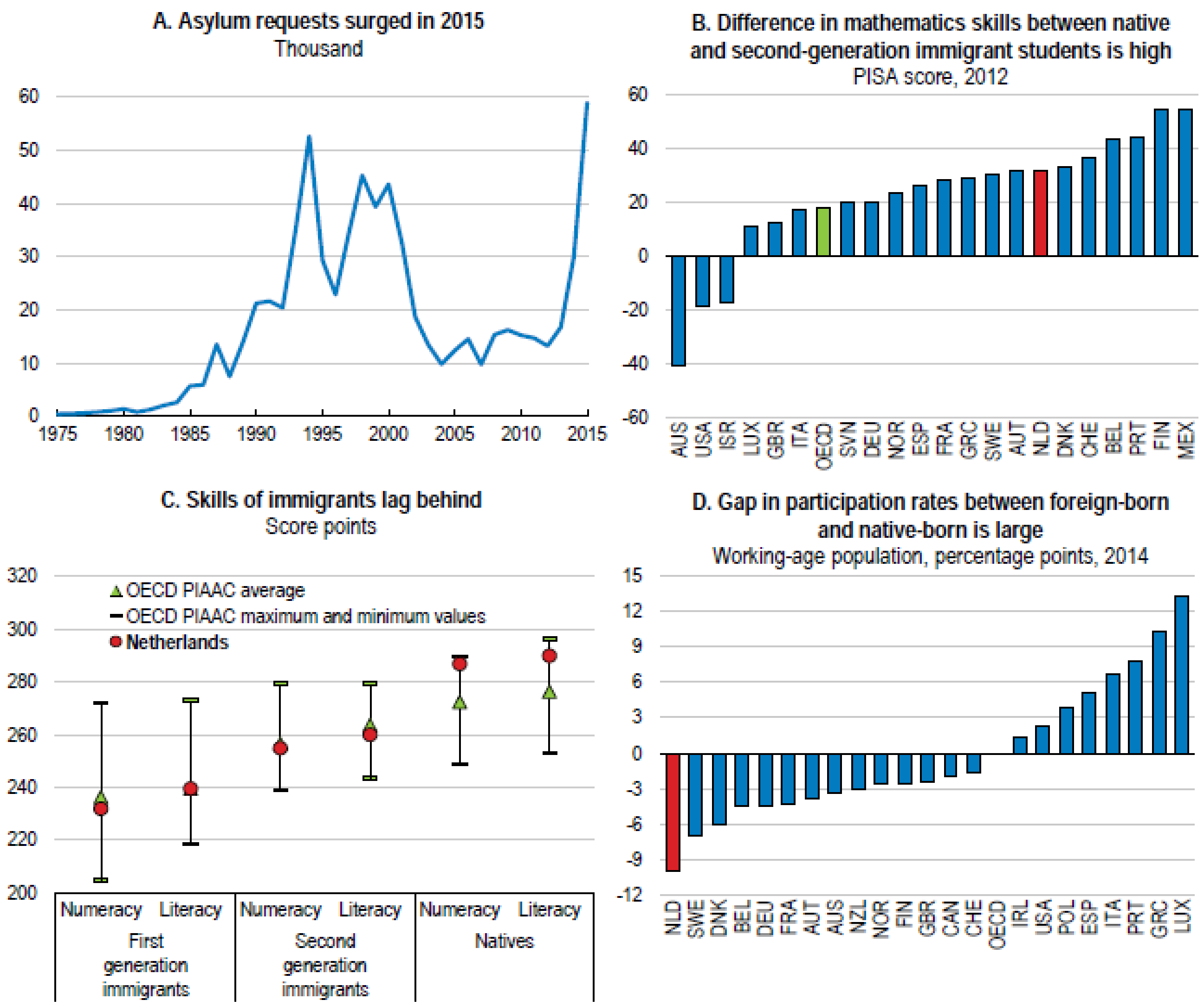
The refugee crisis: a challenge but also an opportunity for improving policies to integrate immigrants into the Dutch labour market

By Gabor Fulop, Analyst, & Rafal Kierzenkowski, Senior Economist
The Netherlands Desk, Country Studies, OECD Economics Department

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.

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