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BETTER POLICIES FOR BETTER LIVES

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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of The Netherlands were reviewed by the Committee on 23 May 2018. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 6 June 2018.

The Secretariat's draft report was prepared for the Committee by Rafal Kierzenkowski, Annabelle Mourougane and Mark Baker under the supervision of Pierre Beynet. Statistical research assistance was provided by Gabor Fulop and editorial assistance by Claude-Annie Manga-Collard. The Survey also benefitted from contributions by Andrew Auerbach, Boele Bonthuis, Balázs Égert, Lindy Gielens and Marius Luske.

The previous Survey of The Netherlands was issued in March 2016.

Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys.

Basic statistics of the Netherlands, 2017

(Numbers in parentheses refer to the OECD average)*.

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	17.1		Population density per km²	507.1	(37.2)
Under 15 (%)	16.5	(17.9)	Life expectancy (years, 2015)	81.6	(80.5)
Over 65 (%)	18.7	(17.0)	Men	79.9	(77.9)
Foreign-born (%, 2015)	12.1		Women	83.2	(83.1)
Latest 5-year average growth (%)	0.4	(0.6)	Latest general election	March	2017
ECONOMY					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	826.2		Primary sector	2.1	(2.5)
In current prices (billion EUR)	733.5		Industry including construction	19.5	(26.9)
Latest 5-year average real growth (%)	1.8	(2.1)	Services	78.4	(70.7)
Per capita (000 USD PPP)	53.0	(42.2)			
GENERAL GOVERNMENT Per cent of GDP					
Expenditure	42.5	(40.6)	Gross financial debt	68.7	(110.2)
Revenue	43.6	(39.3)	Net financial debt	36.1	(71.2)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.885		Main exports (% of total merchandise exports, 2016)		
PPP exchange rate (USA = 1)	0.815		Machinery and transport equipment	30.2	
In per cent of GDP			Chemicals and related products, n.e.s.	16.0	
Exports of goods and services	86.6	(55.0)	Food and live animals	14.7	
Imports of goods and services	74.9	(50.5)	Main imports (% of total merchandise imports, 2016)		
Current account balance	10.2	(0.4)	Machinery and transport equipment	32.9	
Net international investment position	74.1		Miscellaneous manufactured articles	14.2	
			Mineral fuels, lubricants and related materials	13.2	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate for 15-64 year-olds (%)	75.9	(67.7)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	4.8	(5.8)
Men	80.4	(75.4)	Youth (age 15-24, %)	8.9	(11.9)
Women	71.3	(60.1)	Long-term unemployed (1 year and over, %)	1.9	(1.7)
Participation rate for 15-64 year-olds (%)	79.7	(72.1)	Tertiary educational attainment 25-64 year-olds (%, 2016)	36.0	(35.7)
Average hours worked per year (2016)	1 430	(1 763)	Gross domestic expenditure on R&D (% of GDP, 2016)	2.0	(2.3)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2015)	4.2	(4.1)	CO_2 emissions from fuel combustion per capita (tonnes, 2015)	9.2	(9.2)
Renewables (%, 2015)	5.1	(9.6)	Water abstractions per capita (1 000 m³, 2014)	0.6	
Exposure to air pollution (more than 10 μg/m³ of PM2.5, % of population, 2015)	99.8	(75.2)	Municipal waste per capita (tonnes, 2016)	0.5	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2015)	0.303	(0.311)	Education outcomes (PISA score, 2015)		
Relative poverty rate (%, 2015)	7.9	(11.3)	Reading	503	(493)
Median disposable household income (000 USD PPP, 2015)	28.1	(22.9)	Mathematics	512	(490)
Public and private spending (% of GDP)			Science	509	(493)
Health care (2016)	10.5	(9.0)	Share of women in parliament (%, 2016)	37.3	(28.7)
Pensions (2013)	6.4	(9.1)	Net official development assistance (% of GNI)	0.60	(0.38)
Education (primary, secondary, post sec. non tertiary, 2014)	3.6	(3.7)			

Better life index: www.oecdbetterlifeindex.org

Note: * Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 29 member countries.
Source: Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, World Bank, International Monetary Fund and Inter-Parliamentary Union.

Executive summary

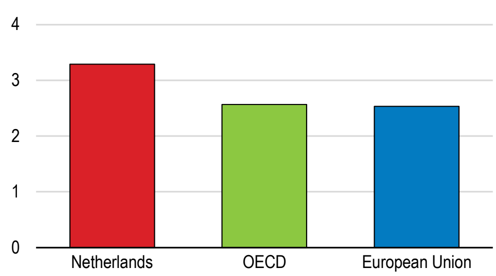
- *Economic growth is strong, although there are significant near-term risks.*
- *Non-standard forms of work have risen, creating opportunities but also challenges for job quality.*
- *Labour markets can be made more inclusive by lowering the gender gap in part time work and supporting employment of vulnerable workers.*

Growth is strong, although there are significant near-term risks

The economy is in the midst of a strong expansion (Figure A). Improved global economic developments have led to solid export growth. In turn, high domestic and external demand and still favourable financial conditions have stimulated private investment. Positive labour market developments, supportive fiscal policy and a stronger housing market have boosted private consumption growth.

Figure A. Growth remains vibrant

Annual percentage change, 2017



Source: OECD Economic Outlook database.

StatLink http://dx.doi.org/10.1787/888933774963

Underpinned by high confidence, growth is projected to remain robust. Household consumption growth should contribute strongly to economic activity, notably as the unemployment rate falls further below 4% (Table A). Although moderating from a strong 2017, business investment growth is set to remain elevated. A tighter labour market is projected to put upward pressure on wages. Consumer price inflation is set to rise from very low levels to 2½ per cent in 2019.

There are important risks to the outlook. Low interest rates have hampered the profitability of financial institutions and the life insurance sector faces severe stress. Rapidly rising house prices point to a potential risk to the growth outlook in case of a turnaround. Rising global protectionism would be a major shock to economic activity, given the Netherlands' position as a major European and global trading hub. In case Brexit results in significant trade barriers, the impact would be felt disproportionately in some Dutch sectors, such as agriculture and food, while other sectors, such as financial services, would potentially benefit from diverted trade in the European Union.

Table A. Economic outlook is robust

Annual percentage change, volume (2010 prices).

	2017	2018	2019
Gross domestic product (GDP)	3.3	3.3	2.9
Private consumption	1.9	2.7	2.5
Government consumption	1.2	3.0	2.6
Gross fixed capital formation	5.7	6.1	5.4
Exports of goods and services	6.4	4.0	3.8
Imports of goods and services	5.7	4.7	4.3
Unemployment rate	4.9	3.9	3.5
Consumer price index	1.3	1.6	2.4

Source: OECD Economic Outlook database.

Public finances are healthy, but the tax system could be improved.

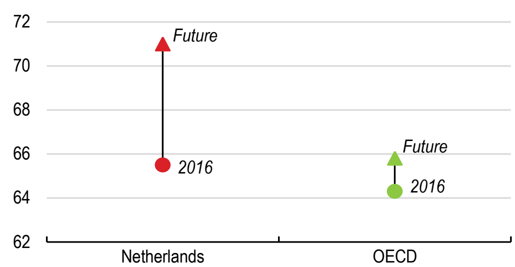
The fiscal balance is set to remain in surplus in the medium term. The government plans a slightly stimulatory stance in the near term, but strong growth and fiscal surpluses are setting the public-debt-to-GDP ratio firmly on a downward trend. In the context of high economic uncertainties, potential economic shocks could lead to a significant fall in fiscal revenues. It is important to continue to increase fiscal buffers in good times.

Population ageing raises debt sustainability challenges, which are manageable. Older workers have increased their workforce participation in response to a higher minimum retirement age. The Netherlands is set to see a further rise in the retirement age, reflecting its link with life expectancy (Figure B). Older workers should enjoy greater flexibility in tasks and hours worked to sustain their employment.

The tax system should support growth and be adapted to a changing global and digital environment. Progress in implementing measures to avoid tax base erosion and profit shifting (BEPS) should continue. The Dutch government recently announced a new policy agenda to tackle tax evasion and avoidance, which is welcome. With this policy agenda, the government wants to overturn tangibly the Netherlands' image as a country that makes it easy for multinationals to avoid taxation. The government has announced that an expansion to non-EU countries of the zero tax rate on outbound dividend distributions will be accompanied by measures that deny the zero rate in case of abusive situations or of distributions to low-tax jurisdictions. The dual rates for the VAT should be streamlined to reduce inefficiencies in the tax system by phasing out the lower rate and, if need be, compensating the potential monetary losses incurred by low-income households. The number of tax exemptions or tax expenditures needs to be reduced.

Figure B. Substantial increase in expected retirement age

For men entering labour market at age 20



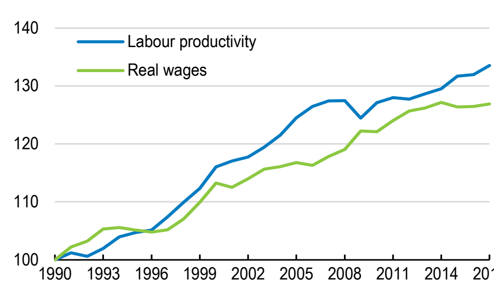
Source: OECD (2017), *Pensions at a Glance 2017: OECD and G20 Indicators*.
StatLink http://dx.doi.org/10.1787/888933774982

Wages have not grown one to one with productivity

Wage growth is slower than productivity developments. The level of labour productivity is high by international standards and growing but this has not translated into higher real wages to the fullest extent (Figure C).

Figure C. Wages and productivity

Index 1990=100



Note: Labour productivity refers to real GDP per total hours worked. Wages of employees are divided by total hours worked by employees and deflated by GDP deflator.
Source: Statistics Netherlands (CBS).
StatLink http://dx.doi.org/10.1787/888933775001

Social partners and the government should work together to support a better sharing of productivity gains. One avenue would be to lower the tax wedge of low-income employees by scaling down social security contributions. Another avenue would be to review incentives for non-standard forms of employment, which may exert a downward pressure on wages.

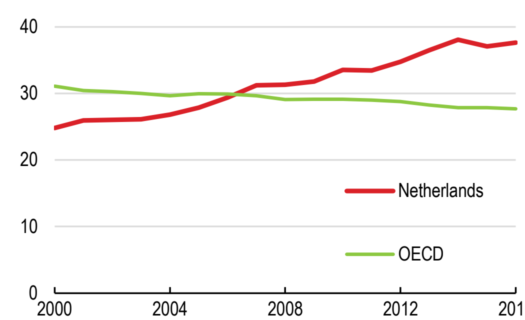
Non-standard forms of work have risen, putting downward pressures on wages and job quality

Non-standard work has risen considerably in the Netherlands. Temporary contracts and self-employment have become more pervasive (Figure D). Minimum wage requirements do not apply to self-employed, which could also hold back wage growth. Moreover, growing ranks of self-employed raise competition on the labour market and may reduce the ability of dependant workers to obtain pay rises.

The development of self-employment could also result in lower job quality. The self-employed do not contribute to sickness and invalidity insurances, where coverage is mandatory for employees. Consequently they are exposed to greater financial losses associated with health-related risks.

Figure D. Non-standard work has become more prevalent

Share of self- and temporary employment as a percentage of total employment



Source: OECD Employment and Labour Market Statistics database.
StatLink http://dx.doi.org/10.1787/888933775020

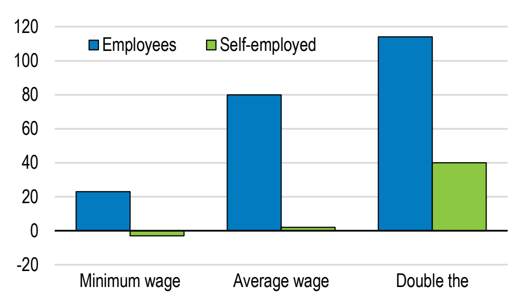
Reducing excessive incentives to self-employed

Self-employed should be supported in a more balanced way. Self-employed take risk and could bring benefits to the society by developing entrepreneurship. This justifies some support from public policies, but not to the extent it deteriorates job quality. However, generous tax incentives for the self-employed do little to spur genuine entrepreneurship, but contribute to a large difference in taxation compared to employees (Figure E). Introducing minimum social security coverage for self-employed workers, and gradually reducing the size of the tax incentives would diminish the gap in tax treatment between worker types.

Regulatory reform in the labour market should continue. The strictness of employment protection of permanent contracts should be lowered to reduce dualism and increase labour market flexibility. The dismissal system should be made more flexible by lowering severance pay for employees dismissed under reasonable grounds, as unemployment benefits already provide adequate income support to these workers.

Figure E. The tax incentives for self-employed are high

Tax wedge as a percentage of net income, 2017



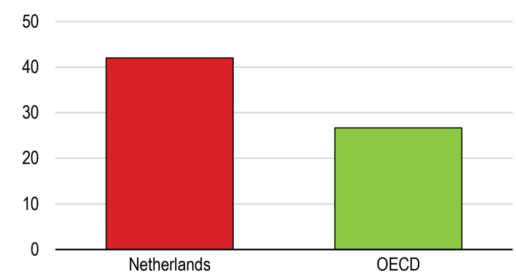
Note: Tax wedges for self-employed exclude pension and insurance contributions. "Average wage" represents the modal wage.
Source: NLD Government.
StatLink http://dx.doi.org/10.1787/888933775039

Making the labour market more inclusive

Part-time work is widespread, notably among women. High rates of part-time employment to some extent reflect personal preferences. However, women disproportionately work part-time throughout their careers when compared to men. As women work fewer hours than men, their earnings are lower and the gap in pension entitlements between men and women is amongst the highest in the OECD (Figure F). Greater gender equality in using part-time work could be achieved by introducing a longer paid paternity leave entitlement than planned by the government.

Figure F. Large gender gap in pension wealth

Difference in pension entitlements, in per cent, 2014 or latest available



Note: The OECD aggregate is calculated as an unweighted average and it covers 25 countries.
Source: OECD (2017), *The Pursuit of Gender Equality: An Uphill Battle.*
StatLink http://dx.doi.org/10.1787/888933775058

Activation policies need to be better targeted. The national government should work toward a more coordinated approach in delivering support across regions. Disadvantaged groups should also benefit from stronger activation policies to raise their job prospects.

Skills investment is strong, except for disadvantaged groups. Low-skilled workers, older workers and individuals with migrant backgrounds are under-represented in different learning programmes. This situation can be improved by targeting the planned individual lifelong learning accounts to low-skilled workers to increase their qualifications and job opportunities. Older workers should receive more training to support them in adapting to dynamic workplace changes. New migrants, particularly refugees and asylum-seekers with low skills, should receive targeted and front-loaded training to better improve their ability to integrate into society.

MAIN FINDINGS	KEY RECOMMENDATIONS
Fiscal policy	
Economic uncertainties are high (e.g. rising trade protectionism and Brexit). Potential economic shocks could lead to a significant fall in fiscal revenues.	Maintain the trend-based fiscal policy in order to continue to increase fiscal buffers in good times.
The tax system is overly complex and a broad reform of the tax system has not been implemented. The dual rate for the VAT contributes to inefficiencies in the tax system.	Reduce the number of exemptions and other tax expenditures. Phase out the dual rates for the VAT by raising the lower rate. If needed, introduce targeted income support to compensate low-income households for the potential income loss.
Despite progress to combat base erosion and profit shifting (BEPS), the Netherlands could still be seen as a conduit of BEPS by multinational corporations.	Carry out plans in the new policy agenda to tackle tax evasion and avoidance that has recently been sent to Parliament by the Dutch State Secretary for Finance. Ratify the BEPS multilateral instrument and impose a withholding tax on dividend, interest and royalty earnings transferred to low-tax and non-cooperative jurisdictions, as planned.
Financial stability	
While macro-financial vulnerabilities have diminished significantly, household debt is still high by international standards and house prices have sharply increased, especially in large cities. As of yet, this has not been accompanied by an increase in credit growth.	Continue the gradual phasing out of mortgage interest deductibility. Consider taking appropriate macroprudential actions.
Making employment more inclusive	
The self-employed pay less tax and social contributions, lowering the inclusiveness of social insurance and pension systems.	Phase out the permanent self-employment tax deduction. Introduce minimum coverage for sickness and disability insurance for workers regardless of their contract.
The tax burden on employees is high, particularly for the low-skilled, mainly due to high social security contributions.	Lower social security expenses, for instance by reducing the generosity for sickness insurance.
Despite recent reforms, severance pay remains high, especially when considering the generous unemployment benefits that workers can access following a dismissal.	Reduce severance pay for employees who are dismissed under reasonable grounds.
Spending on employment or reemployment support is low, notably to help properly disadvantaged individuals. Many activation programmes are carried out at the local level with little coordination.	Improve the targeting of employment support policies to vulnerable groups. Work toward a more coordinated approach, in implementing activation policies across regions
There exists a large gender disparity in part-time work with women accounting for most of the part-time positions.	Increase the period of paid paternity leave to encourage greater participation of fathers in childcare responsibilities. Maintain existing provisions to keep childcare affordable and ensure the high quality of services.
Overall investment in skills and workers' training is high in the Netherlands. However, older workers, individuals with migrant backgrounds and low-skilled individuals do not have sufficient support to improve their job prospects.	Introduce individual lifelong learning accounts targeted specifically at vulnerable workers.
Addressing population ageing	
Older workers face disincentives to remain in the labour market.	Allow more flexibility in tasks and hours worked for senior persons.
The Netherlands has an adequate supply of properly trained physicians, although population ageing and an official limit on new medical students could imply insufficient supply in the future.	Periodically assess the need for new health professionals and adjust the institutionalised limit on medical students accordingly.
The sustainability of most occupational pensions is at risk as depressed returns on investment do not match generous pension promises. The lack of harmonisation of pension parameters across funds also hinders labour mobility.	The government should encourage social partners to agree on a new pension contract to ensure pension funds' sustainability and facilitate transfers of pension rights across funds.

Key Policy Insights

- *Macro-financial developments*
- *Medium-term challenges: towards more inclusive growth*
- *Structural focus: addressing population ageing*

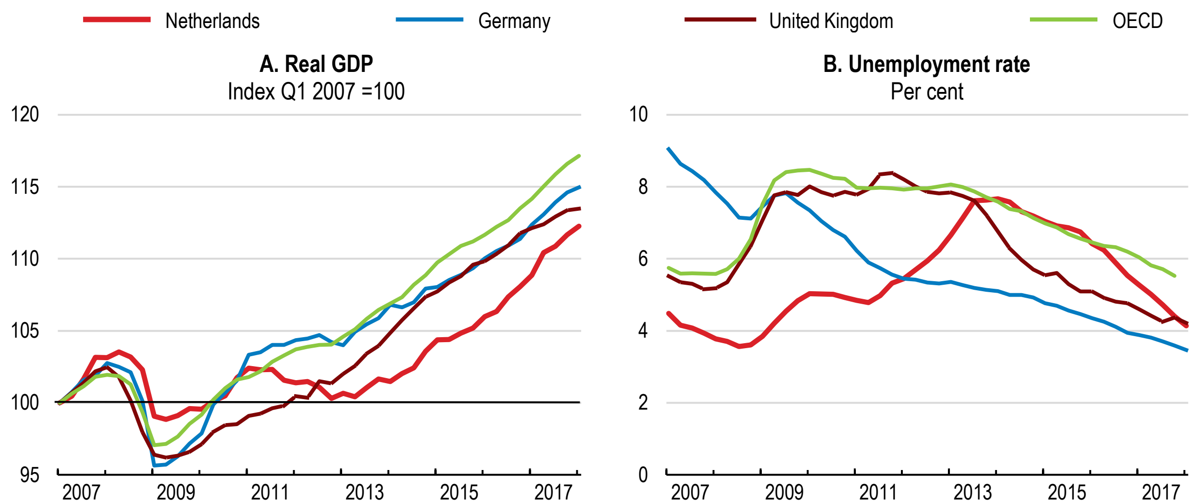
Macro-financial developments

The Netherlands is experiencing vibrant economic activity, with gross domestic product (GDP) at about 8% above its pre-crisis peak and the unemployment rate below 4% (Figure 1). Growth picked up to above 3% in 2017, which was well above the euro area and OECD averages. This sharp economic recovery has been broad-based, with spending by businesses and households contributing to growth while external demand, mainly from other European countries, has also had a positive impact. Despite moderating somewhat in upcoming years, growth is projected to remain strong at around 3% on average in 2018 and 2019. The fiscal balance is in surplus and public debt has fallen to below 60% of GDP.

Domestic policies have contributed to the rapid pace of economic expansion, as the Dutch consensus-driven policy framework facilitates the implementation of structural reforms. In the aftermath of the global financial crisis and the European debt crisis, the Netherlands undertook a number of structural reforms to heal public finances, strengthen the banking sector, foster competition and address some long-standing challenges in the labour and housing markets.

Despite an overall strong performance of the Dutch economy, some important challenges remain in a context where globalisation and digitalisation continue to deeply alter the functioning of the world economy. Reform efforts should continue to address potential vulnerabilities associated with the housing market and the financial sector, given the importance of both for the Dutch economy. Real wages have grown at a slower pace than the growth in output per hour, implying that workers have not enjoyed the full benefits of increased spending power commensurate with a comparatively high level of labour productivity in the OECD. Large increases in non-standard forms of work, notably self-employment, may have put a downward pressure on wages, reflecting weak representation in the consensus-driven collective bargaining system, lower safety nets and possibly a weaker productivity relative to dependent employment. Non-standard forms of work could also have a negative impact on job quality if they are involuntary and prevail among vulnerable groups. Population ageing creates pressures on the pension and healthcare systems, while the rising retirement age will require steps to ensure that older workers remain attached to the labour market.

Figure 1. Output has accelerated and the unemployment rate has fallen



Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June.

StatLink http://dx.doi.org/10.1787/888933775077

Against this backdrop, the main messages of this *Survey* are:

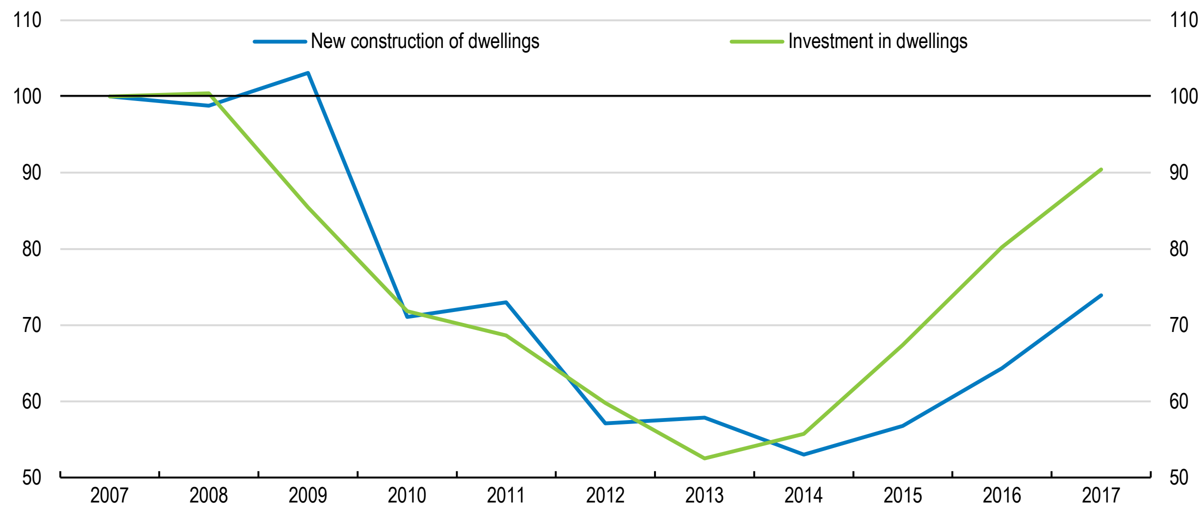
- Policy-makers should continue to monitor and address potential risks to financial stability notably implied by low interest rates and sharp rises in housing prices, which could be dealt with by relaxing housing supply constraints.
- The rise in flexible forms of work, presents opportunities but also challenges. In particular, a combination of tax and regulatory reforms would ensure a better job quality for the self-employed and workers on temporary contracts without discouraging these types of work.
- The ageing of the workforce and increases in the retirement age require a more transparent pension system and improved job mobility of older workers.

Strong economic outlook

Growth has been robust with average annualised quarterly growth at 3.1% since the beginning of 2016 (Figure 1, Panel A). All-time high levels of business and consumer confidence, strong labour market and rising purchasing power have supported household consumption (Figure 1, Panel B). A bright economic outlook and narrowing capacity utilisation have sustained strong business investment growth (Table 1). House price inflation, particularly high in large cities, has stimulated residential investment growth to record-high rates, but new construction developments have been weaker (Figure 2). This gap could be accounted for by housing transactions, with fees of real estate agents being statistically recorded as investment for the service they provide. Fiscal policy has been accommodating, and public consumption and investment have been making a positive contribution to growth.

Figure 2. Residential investment has been more vibrant than new housing construction

Index 2007 = 100



Note: Investment refers to gross fixed capital formation.
Source: CBS (2018), "Voorraad woningen; standen en mutaties vanaf 1921"; *Statline Database*, Statistics Netherlands, June; and OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June.

StatLink http://dx.doi.org/10.1787/888933775096

Growth is projected to be strong and broad-based in 2018 and 2019 (Table 1). Private consumption should continue to expand at a robust pace, underpinned by further increases in employment, higher wage growth supported by a tighter labour market, continued rises in house prices and a small fiscal stimulus announced in the recent Coalition Agreement for 2018-21 (Box 1). Robust domestic demand, growing export markets and tightening capacity constraints are expected to sustain business investment. The Netherlands should continue to benefit from a stronger global trade outlook, being a trade-oriented economy and a European markets gateway. Wages are projected to pick up as labour and product markets tighten. Inflation is expected to gradually increase from a very low level to 2½ per cent, given the weak link between inflation and economic slack. Fiscal policy is projected to remain expansionary over the projection horizon, in line with the Coalition Agreement. This should help to reduce the current account surplus, which will remain sizeable in the absence of structural measures to incentivise non-financial businesses to pay higher dividends.

Table 1. Macroeconomic indicators and projections

Annual percentage change, volume (2010 prices)

	2014 Current prices (EUR billion)	2015	2016	2017	2018	2019
Gross domestic product (GDP)	**663.1**	**2.3**	**2.1**	**3.3**	**3.3**	**2.9**
Private consumption	296.7	2.0	1.5	1.9	2.7	2.5
Government consumption	172.0	-0.2	1.1	1.2	3.0	2.6
Gross fixed capital formation	119.5	11.0	5.2	5.7	6.1	5.4
Housing	20.1	20.9	19.0	12.7	8.8	6.9
Business	76.1	10.1	3.1	3.9	3.2	5.6
Government	23.3	5.5	-0.3	4.0	5.6	2.6
Final domestic demand	588.2	3.2	2.2	2.6	3.6	3.2
Stockbuilding[1]	2.9	0.1	-0.4	-0.2	0.1	0.0
Total domestic demand	591.2	3.3	1.7	2.4	3.7	3.2
Exports of goods and services	547.7	6.5	4.1	6.4	4.0	3.8
Imports of goods and services	475.8	8.4	3.9	5.7	4.7	4.3
Net exports[1]	71.9	-0.7	0.6	1.2	0.0	0.1
Other indicators (growth rates, unless specified)						
Potential GDP	. .	1.5	1.7	1.9	2.0	2.1
Output gap[2]	. .	-2.3	-1.8	-0.5	0.8	1.6
Employment	. .	1.0	1.3	2.1	2.2	1.8
Unemployment rate	. .	6.9	6.0	4.9	3.9	3.5
GDP deflator	. .	0.8	0.6	1.1	2.0	2.3
Consumer price index (harmonised)	. .	0.2	0.1	1.3	1.6	2.4
Core consumer prices (harmonised)	. .	0.9	0.6	0.8	1.2	2.1
Household saving ratio, net[3]	. .	6.5	6.4	6.1	6.1	6.1
Current account balance[4, 5]	. .	8.7	8.5	10.2	10.5	10.3
General government fiscal balance[4]	. .	-2.1	0.4	1.1	0.7	0.9
Underlying general government fiscal balance[2]	. .	-1.3	1.4	1.3	0.3	0.0
Underlying government primary fiscal balance[2]	. .	-0.4	2.2	2.1	0.9	0.6
General government gross debt (Maastricht)[4]	. .	64.6	61.8	56.7	54.2	51.6
General government net debt[4]	. .	42.4	40.6	36.1	33.6	31.0
Three-month money market rate, average	. .	0.0	-0.3	-0.3	-0.3	-0.2
Ten-year government bond yield, average	. .	0.7	0.3	0.5	0.7	0.9

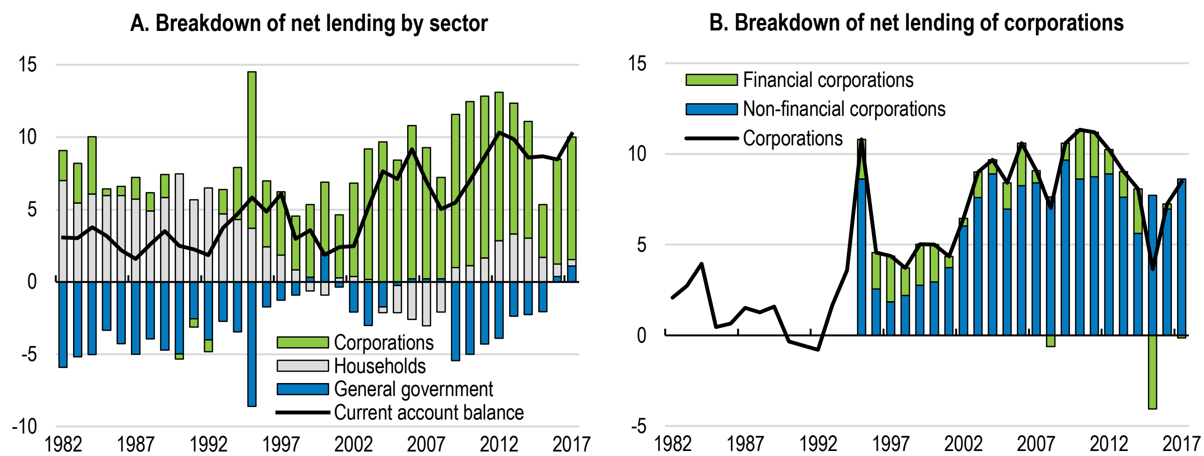
1. Contribution to changes in real GDP
2. As a percentage of potential GDP
3. As a percentage of household disposable income
4. As a percentage of GDP.
5. On May 24, Statistics Netherlands (CBS) and De Nederlandsche Bank (DNB) published a revision of the Dutch external account statistics. For the year 2015, the current account surplus was revised downwards to 6.3%. A large part of the downward revision is nonrecurring.

Source: OECD (2018), "OECD Economic Outlook No. 103, Volume 2018 Issue 1", *OECD Economic Outlook: Statistics and Projections* (database), June.

The current account surplus remains unprecedentedly large. A savings-investment approach points to high net savings of Dutch corporations to be the main driver, mostly accounted for by retained earnings of the non-financial corporate sector (Figure 3). In particular, multinational enterprises tend to have large savings, as a result of a high profitability and low levels of profit distribution (European Commission, 2018[1]). The persistent and large current account surpluses are not always concomitant with improvements in the net international investment position of the Netherlands, and could in part reflect the international tax planning practices of large multinational corporations (see below).

Figure 3. High net lending of non-financial corporations is driving the current account surplus

As a percentage of GDP



Note: Net lending (+) or net borrowing (-) is the balancing item on the current and the capital account. Households also include non-profit institutions serving households.

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), April; Thomson Reuters Datastream and CBS (2018), "Current transactions by sectors; National Accounts" in Macroeconomics, *Statline Database*, Statistics Netherlands, April.

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Box 1. Key policy measures announced in the Coalition Agreement for 2018-21

The new government has outlined its planned tax and regulatory policy reforms between 2018 and 2021, as part of the Coalition Agreement announced in October 2017. The Netherlands Bureau for Economic Policy Analysis (CPB) estimates that the stimulatory nature of the policies will result in the fiscal surplus being on average 0.6 percentage point lower per year throughout the 2018 and 2021 period than otherwise (CPB, 2017[2]). Some of the key fiscal measures include:

Fiscal framework

- The cyclical part of unemployment benefit and social assistance benefit will be removed from the capped expenditure system that underlies the trend-based fiscal policy framework. The interest expenditure on national debt and any fiscal consequences associated with natural gas extraction will now be considered in spending ceilings.

Tax and regulatory policies

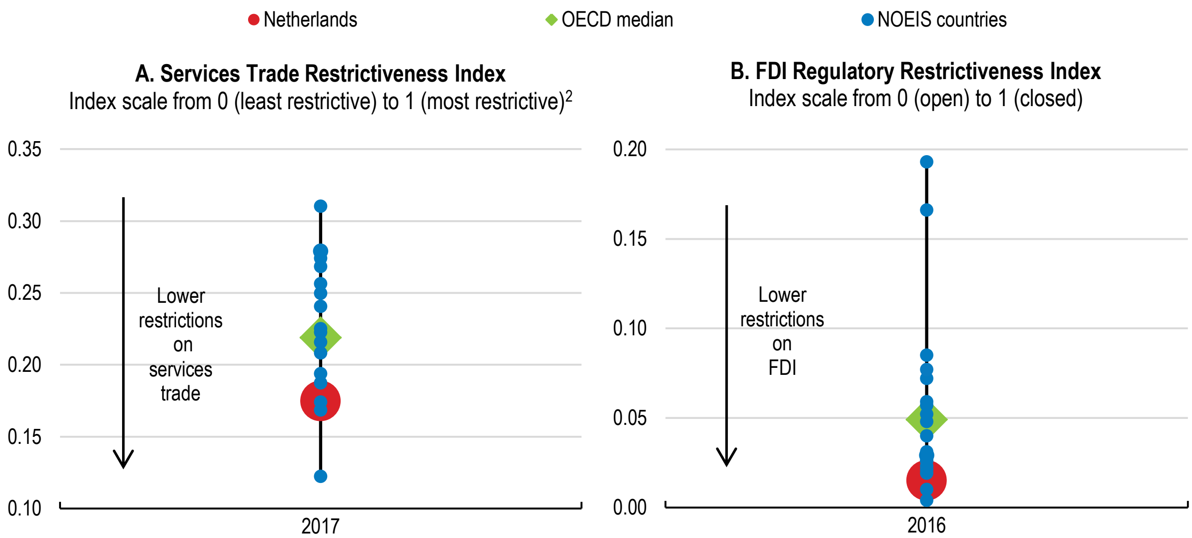
- **Mortgage interest deductibility**. The previously planned reduction in mortgage interest tax relief will be accelerated. Homeowners will be partially compensated through a reduction in the imputed rent tax.
- **Personal income tax brackets**. The number of personal income tax brackets will be reduced to 2, the lower bracket will be 36.93% applied to earnings below EUR 68 600 and the upper bracket will be 49.5% for earnings above this threshold.
- **Increase in the reduced VAT rate**. The low rate for the VAT will be increased from 6% to 9% in 2019. The high VAT rate will remain at 21%.
- **Corporate income tax reduction**. The corporate income tax (CIT) rate will be gradually reduced from 25% to 21% by 2021. The lower CIT rate, which applies to the first EUR 200 000 of earnings, will likewise be reduced from 20% to 16%. This will be mostly financed by a broadening of the tax base.
- **Dividend withholding tax**. The withholding tax will be abolished to counter the use of the Netherlands as a conduit jurisdiction. However, a planned withholding tax will be applied to earnings distributed to low-tax jurisdictions.
- **Innovation box tax**. The effective tax rate on earnings related to intangible assets will be increased from 5% to 7%.

Spending measures

- The government has earmarked a total of EUR 2 billion over the next three years to finance investment in infrastructure. It has also announced new investment in defence, police, healthcare and education.

Stronger global trade growth would further strengthen economic activity over the projection horizon, but rising global trade protectionism would represent a major shock to the very open Dutch economy (Table 2). The Dutch authorities are leading the Network for Open Economies and Inclusive Societies (NOEIS), which gathers 20 countries and is facilitated by the OECD. It has the dual purpose of peer learning and effective exchange of good practices, with a view to providing a new voice in the international policy arena. The Dutch authorities have been pro-active in reducing barriers to international trade and investment, as measured by the OECD product-market regulation indicator. Notwithstanding a small increase in barriers to trade in broadcasting services in 2016, restrictions to service trade are amongst the lowest in the group of NOEIS countries (Figure 4).

Figure 4. Policies aim at facilitating trade and FDI[1]



1. The participating countries in the Network for Open Economies and Inclusive Societies (NOEIS) include Argentina, Belgium, Canada, Chile, Colombia, Costa Rica, the Czech Republic, Finland, Germany, Hungary, Japan, Latvia, Luxembourg, Mexico, the Netherlands, Norway, Peru, Poland, Spain and Sweden. FDI: foreign direct investment.
2. Data is missing for Argentina and Peru. Figures are calculated as a geometric average of all services sectors.

Source: OECD Services Trade Restrictiveness Index Database; and OECD FDI Regulatory Restrictiveness Index Database.

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There are important downside risks associated with this economic outlook. Further increases in house prices could stoke a credit boom and result in further increases in already large household debt levels (see below), weakening financial stability. Conversely, a sharp fall in house prices would negatively affect growth by weakening private consumption. The stability of the financial sector has been hampered by the low interest rate environment, with the life insurance sector facing severe stress (IMF, 2017[3]). A failure of a financial institution would send shock waves through the economy. The uncertainty surrounding the exit of the United Kingdom from the European Union (Brexit) is an important downside risk, as Brexit is likely to create frictions in bilateral trade and investment relations (see below).

Table 2. Possible shocks to the Dutch economy

Shock	Possible impact
Rising trade protectionism	A sudden rise in protectionism would be detrimental for the Dutch economy, which has largely benefited from globalisation over the past decades.
Brexit	A significant increase in trade and investment barriers between the European Union and the United Kingdom would have major negative economic effects in the agriculture and food sectors.
Distress of financial institutions	A continuation of the low interest rate environment would jeopardise the solvency of insurance sectors.
Housing prices	A pick up in credit growth or a search for yields in a low-interest environment could spur further house price increase and overheating.

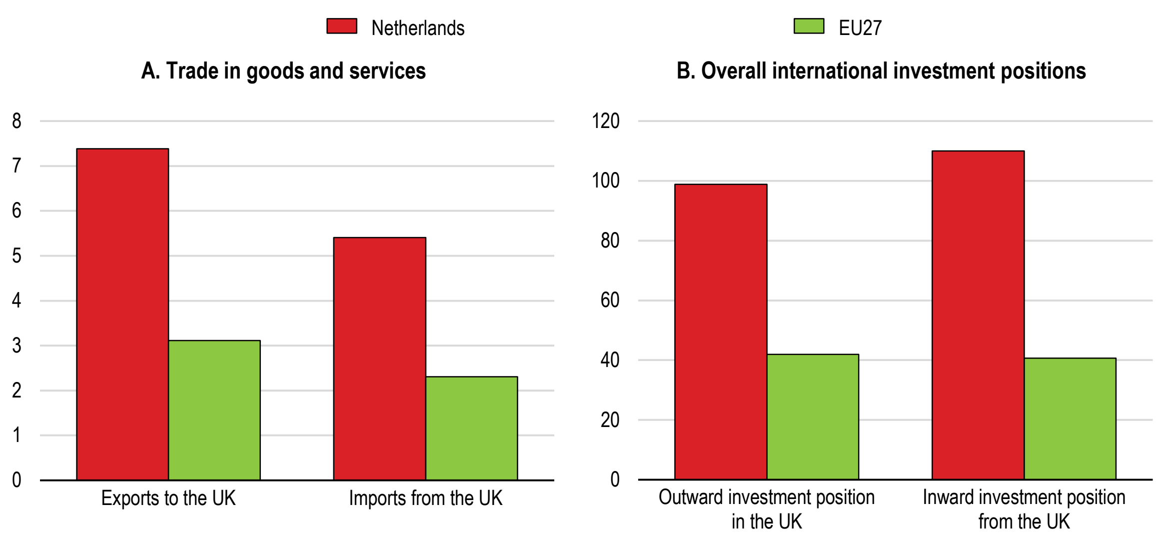
Preparing for Brexit

The Netherlands has important trade and investment linkages with the United Kingdom. Dutch exports across the Channel are high, and dependence on imports from the United Kingdom is also significant (Figure 5, Panel A). Outward and inward investment positions with the United Kingdom represent around 100% of Dutch GDP and are twice as high as with the rest of the European Union (Figure 5, Panel B).

Model-based scenarios, which are purely illustrative and do not represent a judgement about the most likely outcome of Brexit negotiations, suggest that several Dutch sectors would be hit − in particular agriculture and food − should the United Kingdom leave the European Union without any trade agreement (Box 2). Yet, other sectors such as financial services would likely increase their overall exports as other EU countries would divert their trade from the United Kingdom.

Figure 5. Trade and investment exposure to Brexit is important

As a percentage of respective country's GDP, 2016



Note: Outward investment position in the UK refers to UK overall international investment liabilities in relation to the respective country. Inward investment position from the UK refers to UK overall international investment assets in relation to the respective country.
Source: Adapted from ONS (2017), "UK Balance of Payments, The Pink Book: 2017", Office for National Statistics, October.

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These results highlight the need to develop contingency plans, including *ex ante* policy offsets, to minimise possible economic disruptions in selected sectors. Some steps have already been taken to prepare for some of the disruptions that could be caused during the transition to a new economic relationship with the United Kingdom. For instance the Dutch authorities have announced plans to recruit additional customs officers as the United Kingdom intends to leave the EU customs union and single market. Support is also provided to help firms to assess the impact of Brexit on their activities and prepare accordingly.

Box 2. Simulated impact of an illustrative worst-case Brexit scenario on Dutch sectoral exports

The United Kingdom's planned departure from the European Union (Brexit) could have important economic consequences for the Netherlands, given strong bilateral trade and investment linkages. The estimated economic impact on the Netherlands associated with Brexit depends on channels through which the potential shock will play out, with the GDP impact ranging from -1¼ to -4¼ per cent by 2030 (Bollen, Meijerink and Rojas-Romagosa, 2016[4]; Rojas-Romagosa, 2016[5]; Erken et al., 2017[6])

This exercise estimates the effects of a worst-case Brexit scenario through the trade channel only, focusing on Dutch sectoral exports. The modelled scenario illustrates downward risks around the outcomes of Brexit negotiations underpinning future EU-UK trade. The effects on Dutch trade will vary, depending on tariff rates and non-tariff measures (NTMs) applied to different products, different degrees of global value chain integration of various sectors, and differences in opportunities to absorb trade diversion as countries may shift away from trade with the United Kingdom.

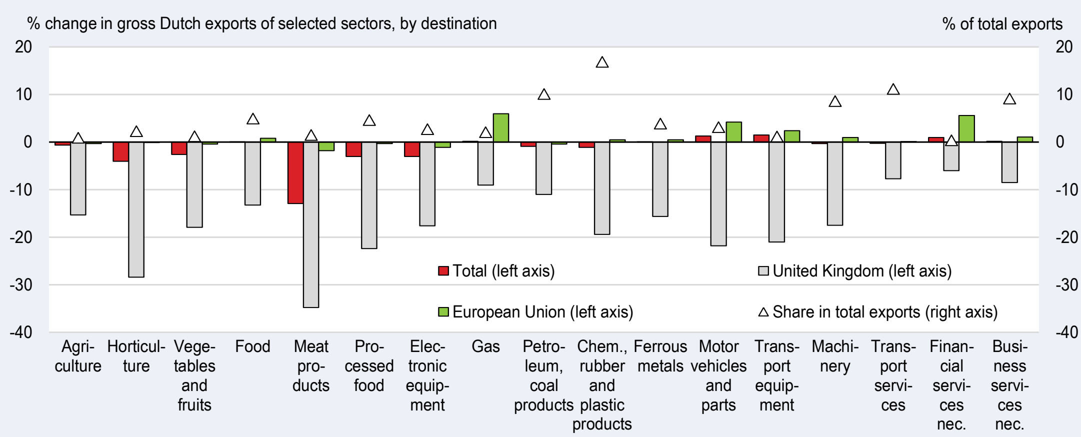
The potential impact on the Dutch economy is quantified using the OECD METRO Model (OECD, 2015[7]) This model is a computable general equilibrium model calibrated to 9 regions (with the United Kingdom and the Netherlands disaggregated from the rest of the European Union for the purpose of this simulation), 40 sectors, and 8 production factors (land, capital, natural resources and five distinct labour types). The selected sectors correspond to the most traded products between the Netherlands and the United Kingdom, including petroleum products, horticulture, motor vehicles, meat, medicaments and processed foods (Walhout, Ramaekers and Vergouw, 2017[8]).

Under the scenario, trade relations between the United Kingdom and all of its trading partners, inside and outside the European Union, are assumed to be governed by the World Trade Organisation's (WTO) Most-Favoured Nation (MFN) Rules. Consistent with past OECD work (Kierzenkowski et al., 2016[9]; OECD, 2018[10]), the scenario assumes that tariffs on goods imported from the United Kingdom increase to the importing country's WTO MFN bound rates once the United Kingdom formally exits the European Union. The United Kingdom contemporaneously imposes tariffs, equivalent to EU bound rates, on good imports from its trading partners, including the European Union. The scenario additionally imposes increases in trade costs related to NTMs on imports of both goods and services bilaterally between the United Kingdom and its trading partners, incorporating new OECD NTM estimates on goods trade (OECD, 2018[11]). Increasing costs of NTMs could arise once Brexit occurs due to regulatory divergence and the associated compliance costs (e.g. through health or technical compliance reviews). Detailed technical assumptions are described in OECD (2018[12]).

The negative economic impacts of Brexit on the Netherlands through the trade channel are estimated to be larger than on the average of all other EU countries, reflecting a higher economic exposure of the Netherlands. However, the impact on total Dutch exports is considerably weaker given that exports will increase to other EU countries, which together account for a much larger share of Dutch exports (Figure 6). The most severe contraction in exports to the United Kingdom is expected in the agricultural and food sectors, which both account to 15% of total Dutch exports, which exports to other EU countries fail to offset. This export reduction is driven in particular by decreased exports to the United Kingdom in meat products, processed foods, horticulture, and vegetables and fruits. The reduction in meat exports is in line with recent estimates showing that some of the major agricultural exports to the United Kingdom, in particular meat, would be negatively impacted from a similar "hard Brexit" scenario (Van Berkum et al., 2018[13]). The second most consequential contraction is for the electronic equipment sector, this sector would experience a large fall in total exports and production in the scenario. Financial and business services exports to the United Kingdom would also be negatively affected. However, gross exports would increase, reflecting the Netherlands' absorption of the additional demand for these services in Europe, following the reduction of the UK services exports to other EU countries. Motor vehicles and parts and transport equipment are also likely to benefit from trade diversion outside the United Kingdom.

Turning to labour markets, employment is estimated to fall by 1.3% relative to baseline in this worst-case scenario. The declines in each category of worker would range from 0.9 – 1.5% with office managers and professionals seeing the largest reductions. At the sectoral level, four of the five sectors that record the largest declines in employment are in the agri-food sectors, which are, along with public administration, the most labour intensive sectors in the Dutch economy. The largest fall would be observed in the meat sector and would amount to almost 10% compared to baseline.

Figure 6. Brexit could have a large impact on Dutch exports



Note: Transport services include air transport, sea transport and transport not elsewhere classified (nec). Chemicals, rubber and plastic products also include pharmaceuticals.

Source: OECD calculations using the METRO model.

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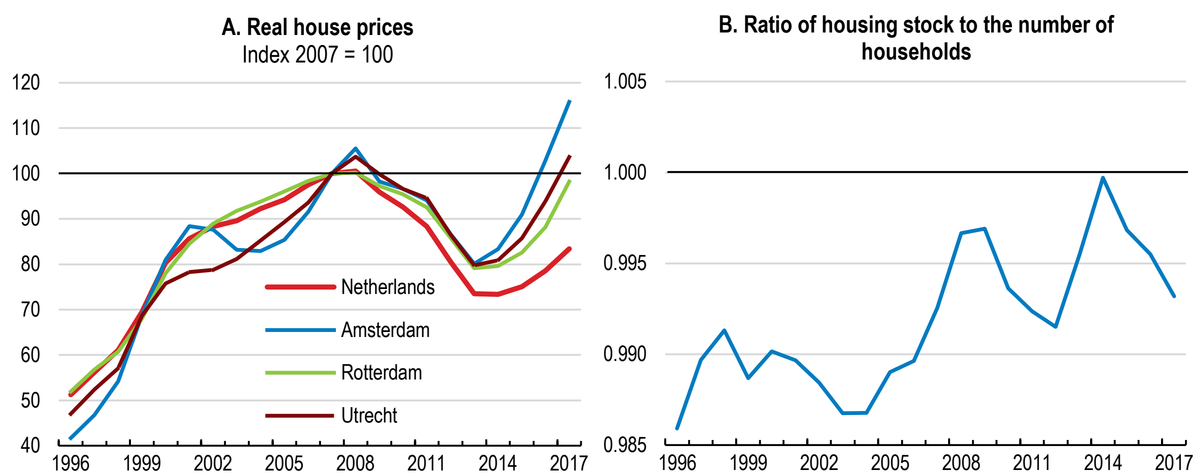
Heading off macro-financial vulnerabilities

Continued increases in house prices could trigger another rapid credit expansion, with negative implications for financial stability. Housing investment has been booming, growing between 11% and 21% per year since 2015 (Table 1), but this growth has not been sufficient to prevent large increases in house prices in major cities. One possible explanation is that additions to the stock of housing have not kept pace with the high rate of household formation. This could be to a large extent related to the high rates of net migration which accounts for most of population growth, and points to still insufficient supply in the market (Figure 7). In turn, rising house prices have induced wealth effects and supported private consumption, in particular of households with a mortgage loan and also helped to reduce the number of "underwater" mortgages (DNB, 2018[14]). However, the ratios of house prices to household incomes and rents are still low, in comparison with the pre-crisis peak in the euro and OECD areas (Figure 8).

Figure 7. House price inflation is high in large cities



Note: House prices refer to price index of existing own homes that are located on Dutch territory and sold to private individuals. Nominal house prices deflated by consumer price index.
Source: CBS (2018), "Voorraad woningen; standen en mutaties vanaf 1921"; "Households; size, composition, position in the household, 1 January"; and "Existing owner-occupied homes; selling prices; region; price index 2015 = 100", *Statline Database*, Statistics Netherlands, June; and OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June.

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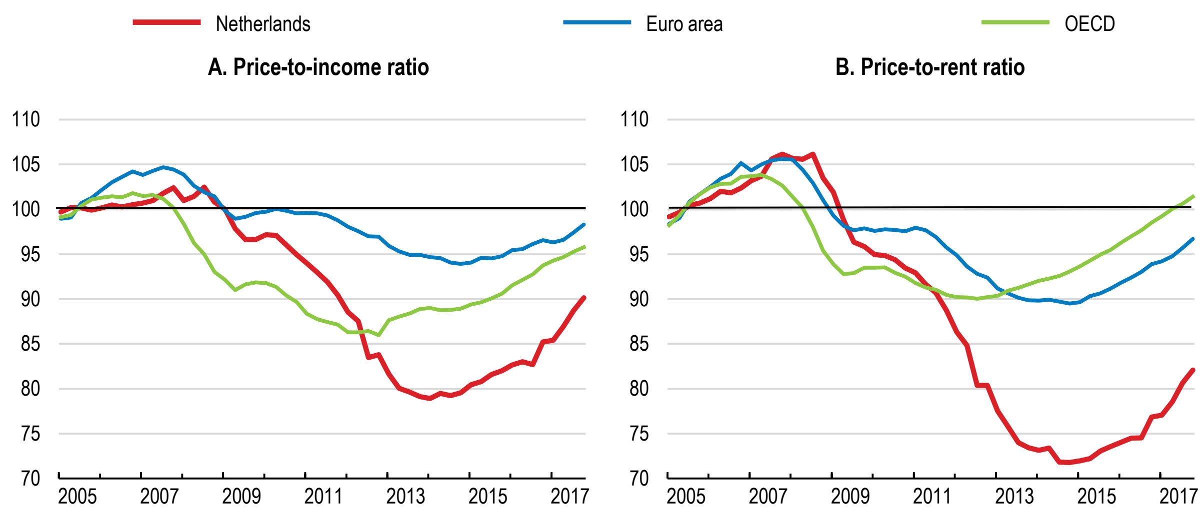
Despite the rise in prices, mortgage growth has been subdued so far, which suggests that house purchases have been mainly financed by cash (Figure 9, Panel A). Lending to large companies is also depressed and could reflect a broader trend of deleveraging by the banking sector (Figure 9, Panel B). Household debt as a share of GDP, however, remains amongst the highest in the OECD, in large part reflecting high mortgage debt accumulated in previous credit booms (Figure 10).

Figure 8. House prices relative to incomes and rents are still comparatively low

Index 2005 = 100



Note: Price-to-income ratio refers to nominal house prices divided by nominal disposable income per head. Price-to-rent ratio refers to nominal house prices divided by rent price indices. The Euro area aggregate covers 16 countries.
Source: OECD (2018), *OECD Analytical House Price* (database), April.

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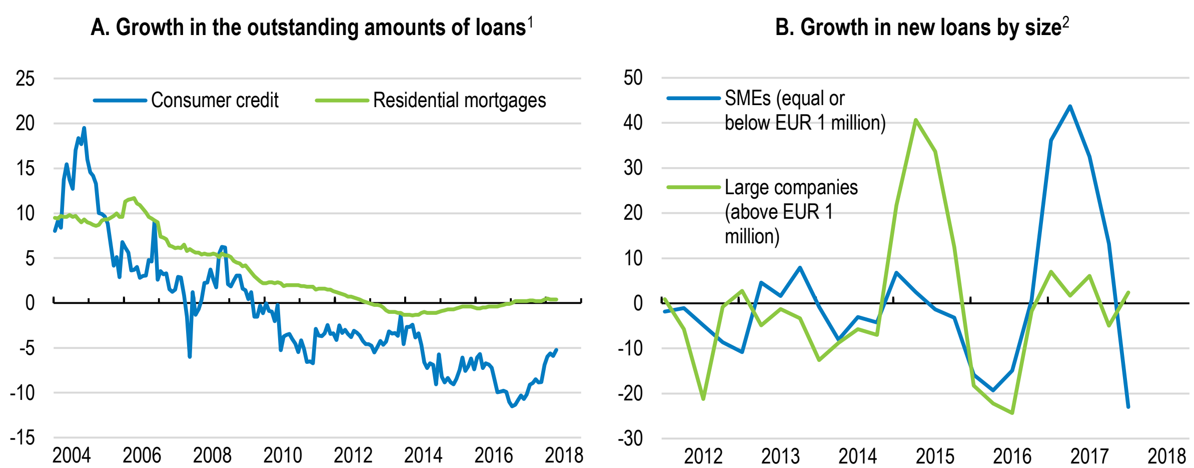
Figure 9. Credit growth to the private sector is stagnant or falling

Year-on-year percentage change



1. Series are adjusted for securitisations and breaks. Residential mortgages extended by Dutch monetary financial institutions (MFIs) to Dutch households.
2. Series are adjusted for breaks. Volume of new loans to non-financial corporations by MFIs.
Source: DNB (2018), "Key indicators monetary statistics (Month)" and "MFI non-financial corporations deposits and loans, volumes (Quarter)", De Nederlandsche Bank, June.

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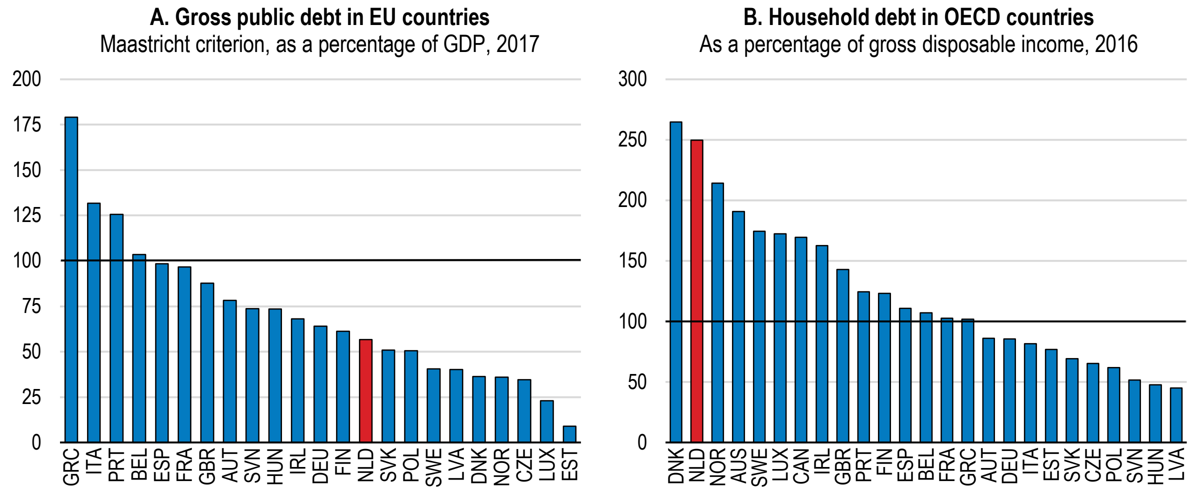
Figure 10. Public debt is low but household debt remains high



Note: Data for household debt includes debt of non-profit institutions serving households and for Hungary it refers to 2015.
Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June; and OECD (2018), "Financial Dashboard", *OECD National Accounts Statistics* (database), June.

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Housing market reforms would improve banking sector stability (Table 3). The Coalition Agreement has proposed to accelerate the phasing out of mortgage interest deductibility, in line with previous OECD recommendations (OECD, 2014[15]; OECD, 2016[16]). However, budgetary savings are planned to be used to reduce the taxation of imputed rents, lowering the impact of the policy on influencing the incentives for housing. A buoyant housing market presents an opportunity to further reduce the maximum loan-to-value ratio on new mortgages. Its limit should be lowered below 100%, reached in 2018, to a level more closely aligned to international standards of between 60 and 85% (DNB, 2017[17]; OECD, 2017[18]). Such a measure would ensure that new borrowers are more resilient to financial shocks because of a lower interest rate burden, reduce the incidence of negative home equity, make banks less dependent on wholesale funding and diminish their cost of capital funding. However, a lower loan-to-value ratio may increase wealth inequality, and potentially increase the age by which first-time buyers can become homeowners. It thus requires an implementation of important reforms to deregulate the rental market and relax constraints holding back new construction. Housing supply could be stimulated by accelerating the delivery of construction permits, encouraging the release of land owned by municipalities or lowering sky-line restrictions, as discussed in the previous *Economic Survey* (OECD, 2016[16]).

Potential macro-financial vulnerabilities emanating from the financial sector have diminished significantly (Figure 11). Fiscal and external positions are sound. Banks are better capitalised, have a lowered external debt and the size of the banking sector is somewhat smaller than before the financial crisis. Also, the share of non-performing loans in total assets is considerably lower than in most other OECD countries, although the amount of capital net of provisions would be high in case of losses. Credit growth remains under control, although house price growth has picked up sharply. The prevailing low interest rate environment puts pressure on the financial position of life insurance companies and pension funds, though. High growth in equity prices is also a potential source of concern.

Table 3. Implementation of OECD recommendations on the banking sector and housing market

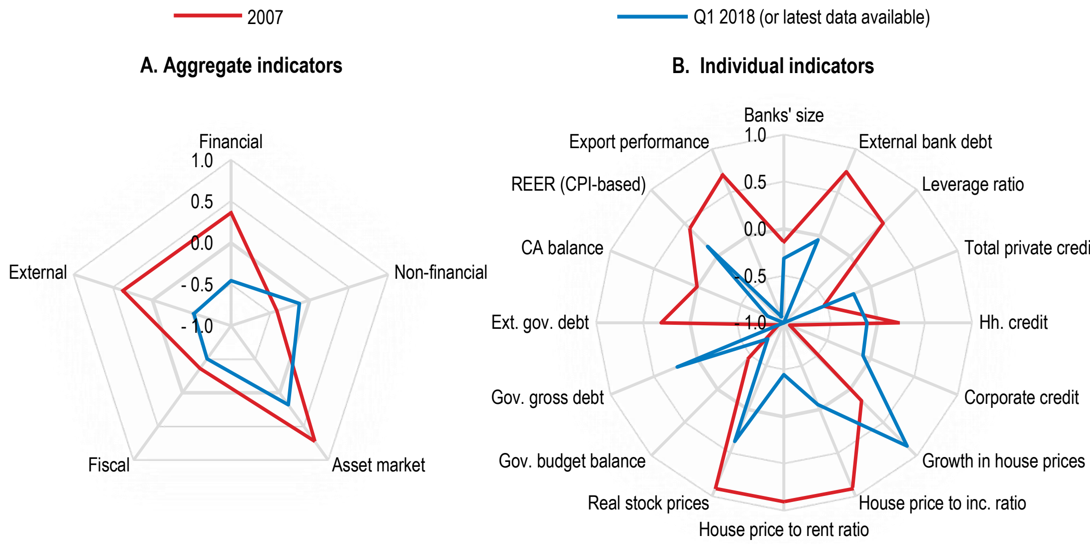
Earlier OECD recommendations	Actions taken
Encourage banks to further increase their capital adequacy ratios by issuing equity and retaining earnings.	Dutch banks are on course to meet the capital requirements under Basel III, by restricting dividend distribution and continuing to reduce operating expenses and other costs.
Once the housing market starts to recover durably, accelerate the reduction of mortgage interest relief to increase incentives for amortisation of mortgages and further lower the maximum loan-to-value ratio significantly below 100%.	The Coalition Agreement foresees a major acceleration of the reduction of the rate of mortgage interest deductibility from 0.5 percentage point per year (to reach 38% in 2041), to 3 percentage points per year from 2020 onwards (to reach 37% in 2023). Yet, taxes on imputed rents are planned to be reduced accordingly, with no improvement of tax incentives for homeownership.
Support the supply of rental housing by further limiting strict rent regulation in the private market.	To support the provision of affordable rental dwellings in the non-regulated sector, an independent committee elaborated a report in 2017, with recommendations to increase the supply of middle-segment rental dwellings. The authorities have announced a simplification of tender procedures for housing associations.

Fiscal policy

Public finances have improved considerably, reflecting both consolidation efforts in the years following the global financial crisis and, more recently, the high pace of economic activity. The budget balance is firmly on track to remain in surplus (Figure 12, Panel A), and public debt has now fallen below 60% of GDP, after peaking at nearly 70% in 2015. The "trend-based" fiscal policy framework – whereby limits are set on individual spending items for the full five year period of government – continues to serve the Netherlands well in guiding effective fiscal management and ensuring sound public finances. The trend-based framework was indeed strengthened as part of the recent Coalition Agreement, with the removal of the cyclical part of unemployment and social benefits from spending limits, which will allow fiscal policy to play an even more stabilising role in the future. This change will strengthen the counter-cyclical role of fiscal policy, which has been limited at times (Figure 13).

Figure 11. Macro-financial vulnerabilities have significantly abated and are low

Index scale of -1 to 1 from lowest to greatest potential vulnerability, where 0 refers to long-term average, period since 2003



Note: Each aggregate macro-financial vulnerability dimension is calculated by aggregating (simple average) normalised individual indicators from the OECD Resilience Database. Individual indicators are normalised to range between -1 and 1, where -1 to 0 represents deviations from long-term average resulting in less vulnerability, 0 refers to long-term average and 0 to 1 refers to deviations from long-term average resulting in more vulnerability. Financial dimension includes: banks' size (% of GDP), external bank debt (*% of total liabilities of banks*) and leverage ratio (*capital and reserves of banks % of total liabilities of banks*) (inverted). Non-financial dimension includes: total private credit *(% of GDP*), household credit (% of GDP) and corporate credit *(% of GDP*). The asset market dimension includes: growth in house prices (*year-on-year % change*), house price to disposable income ratio, house price to rent ratio and real stock prices. Fiscal dimension includes: government budget balance *(% of GDP*) (inverted), government gross debt *(% of GDP*) and external government debt *(% of total gross general government debt*). External dimension includes: current account balance *(% of GDP*) (inverted), real effective exchange rate (REER) (*relative consumer prices*) and export performance (*exports of goods and services relative to export market for goods and services*) (inverted).
Source: Calculations based on OECD (2018), *OECD Resilience Database*, June; and Thomson Reuters Datastream.

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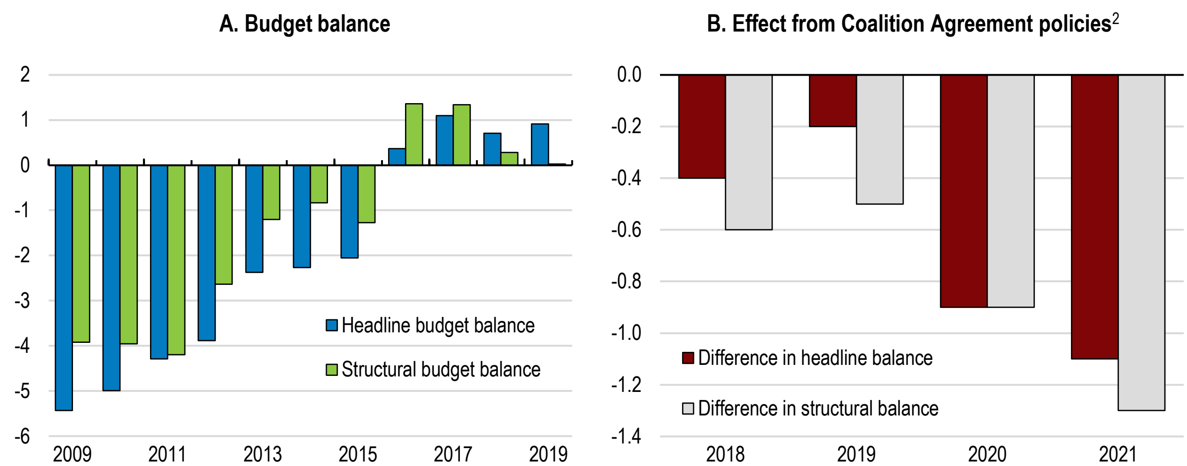
The healthy fiscal situation and strong economic recovery allowed for a small fiscal stimulus, through increases in spending, notably in security and education, and a number of tax cuts outlined in the Coalition Agreement in October 2017 (Box 1). The impact of policies announced in the Coalition Agreement are estimated to reduce the headline budget surplus by an average of 0.3% of GDP in 2018 and 2019, and by an average of 1% of GDP in 2020 and 2021 (CPB (2017[2]); Figure 12, Panel B). Despite the stimulatory impulse, the structural balance is projected to remain at slightly above zero in 2018 and 2019 (Figure 12, Panel A).

Figure 12. Public finances are healthy and the fiscal stance is expansionary

As a percentage of GDP[1]



1. Structural budget balance is expressed as a percentage of potential GDP.
2. Based on estimates from the Centraal Planbureau (CPB).

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June; and CPB (2017), "Analysis economic and budgetary effects of the financial appendix to the Coalition Agreement", Centraal Planbureau, The Hague.

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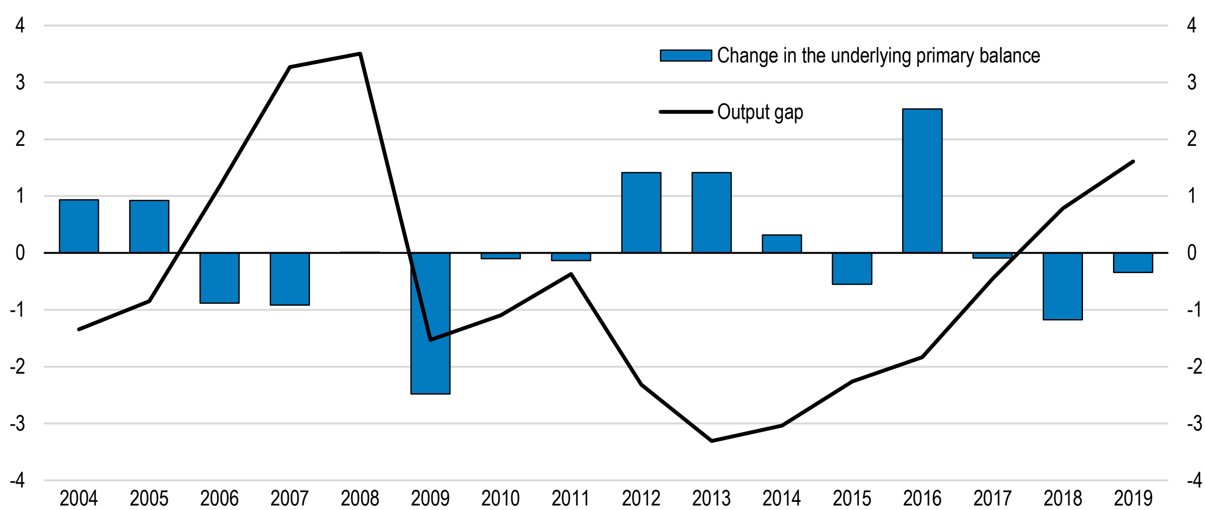
Figure 13. The fiscal stance is accommodative

As a percentage of potential GDP



Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June.

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Strong public finances and robust growth create a unique opportunity to undertake a broad reform of the tax system to make it more inclusive and better adapt to the ongoing digital transformation of the economy. Reforms should address the discrepancies in tax treatment of different work contracts, broaden the tax base and reduce the overall complexity of the tax system. A high marginal tax wedge provides strong disincentives for workers to increase the number of hours, including low-income individuals. Tax expenditures lower taxes for households and companies by EUR 18.5 billion (3% of GDP) per year, but often benefit richer households, and do not have the envisaged effect or have not been evaluated (Algemene Rekenkamer, 2015[19]). The government should undertake a thorough review of the multiple tax deductions, with an aim of simplifying the system as a whole. The dual rate for the VAT – where a portion of goods and services are taxed at a lower rate should be simplified by introducing a single rate. Recent evidence from Europe suggests that such a measure is likely to have limited cross-border shopping linkages, except for some special items such as vehicle fuel and dental services (European Commission, 2015[20]). Reduced rates have been found to be a poor instrument to support low-income households and the negative impact of an increased lower VAT rate on low-income households could be offset by targeted transfers (OECD/KIPF, 2014[21]). Without offsetting measures, implementing these and other recommendations will have a net positive impact on the budget balance based on a back-of-the-envelope calculation of their quantitative impact (Box 3).

Box 3. Quantifying the fiscal impact of selected recommendations

The following estimates roughly quantify the fiscal impact of selected recommendations in this Survey, as some of them – such as the introduction of the individual learning accounts or changes to employment protections – are not quantifiable given available information or the complexity of the policy design. The estimated fiscal effects abstract from behavioural responses that could be induced from policy changes.

Table 4. Illustrative fiscal impact of recommended reforms

Policy	Measure	Annual fiscal impact, % of GDP
Additional Expenditures		
Extend paternity leave for a more equal allocation between parents	Double the planned parental leave allocation for fathers from 6 weeks to 12 weeks.	-0.2
Additional Revenues		
Adopt a single VAT rate	Increase the lower level rate to the higher rate (using estimates from IMF, 2016 with adjustments based on recently planned increase in the lower rate).	0.7
Lower tax discrepancies between contract types	The self-employed tax deduction is halved (based on estimates in: IBO, 2015).	0.02
Extend social security coverage to self-employed workers	All self-employed pay the basic premium of 6.27% for the WAO and WIA sickness and disability benefits (based on 2014 average self-employed worker earnings).	0.3

Medium-term challenges towards more inclusive growth

Maintaining debt sustainability

Reflecting past fiscal consolidation efforts and strong growth, the public debt-to-GDP ratio has declined significantly after peaking at around 70% of GDP in 2015. Given current fiscal policy settings and the outlook for long-term growth, the debt-to-GDP ratio is expected to fall to around 25% by the mid-2030s and rise only gradually afterwards (Figure 14). Although there could be challenges related to population ageing and the potentially negative fiscal impacts associated with current structural labour market trends, risks to the sustainability of public debt are small.

Spending on health and long-term care could rise by nearly 4% of GDP between 2020 and 2060, as a result of demographics alone (European Commission, 2015[22]). However, even without introducing countervailing policies, public debt would only rise to around 30% of GDP by 2040 and 50% by 2050, which is measured by international standards. The government has also been proactive in addressing population ageing challenges, as reflected by reforms to increase the pension age and linking it to life expectancy, and by an ongoing dialogue with social partners to further improve the sustainability of the pension system.

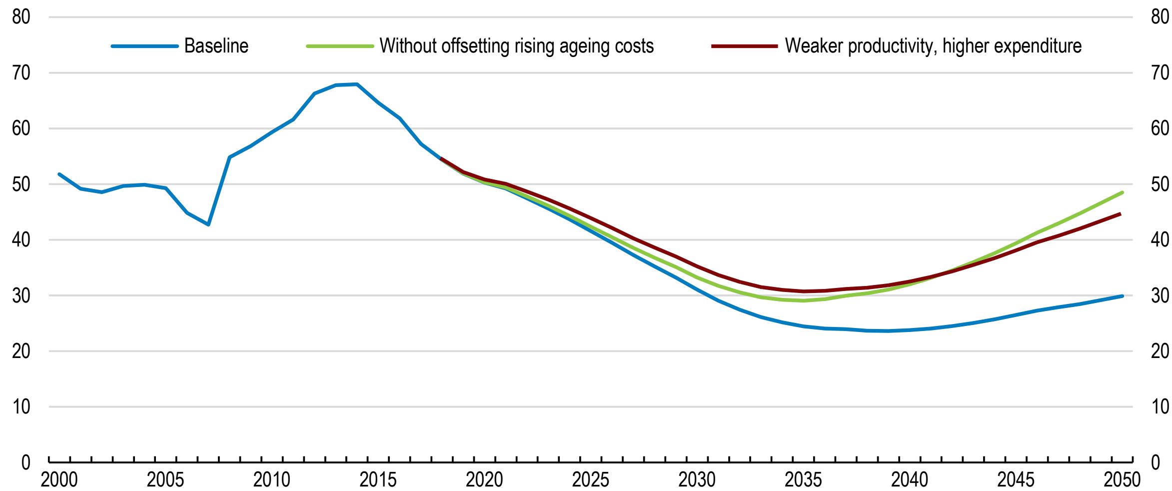
Increasing self-employment might also have a negative impact on government finances in the longer term through the channels of reduced revenues and a negative impact on productivity growth. In such a scenario, real GDP growth would be weaker and public spending would be slightly higher. This would, however, only push up the public debt to 45% of GDP by 2050 (Figure 14).

Tackling tax planning

In the past, the Netherlands has been considered to be an important jurisdiction for multinational corporations, which created a reputational issue linked to aggressive tax planning. Dutch tax rules, designed for avoiding double taxation, are used by companies that engage in tax planning, as suggested by high levels of dividend, royalty and interest payments made via the Netherlands (European Commission, 2018). The Netherlands has, however, made significant progress to contain base erosion and profit shifting (BEPS), in line with OECD recommendations (Box 4). A new policy agenda to tackle tax evasion and avoidance was recently sent to Parliament by the Dutch State Secretary for Finance to overturn the Dutch reputation of leniency towards BEPS by multinationals. The authorities have announced further measures, whose implementation, in line with the EU's first and second anti-tax avoidance directives, would provide rules on earnings stripping, controlled-foreign company rules to prevent shifting of profits to subsidiaries in low-tax countries, prevent the avoidance of tax through corporate emigration, provide for anti-hybrid measures and implement a general anti-avoidance rule.

Figure 14. Illustrative public debt paths

General government debt, Maastricht definition, as a percentage of GDP



Note: The baseline assumptions are in line with the long-term forecasts from the CPB, where real GDP growth averages around ¾%, inflation averages 2% and the fiscal balance remains in surplus until the mid-2030s before turning to a deficit for the remainder of the projection period. This reflects the linkage between pensionable age and life expectancy. The "Without offsetting rising ageing costs" scenario assumes that increased ageing effects could add an additional 1.2 percentage points of GDP to annual government spending by 2050, in line with European Commission (2015). The “Weaker productivity, higher expenditure” scenario assumes real GDP growth is reduced by 0.5 percentage point and public expenditure in per cent of GDP is increased by 0.25 percentage point per year throughout the simulation period.

Source: Adapted from OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), March; CPB Long-term projections; and European Commission (2015), "The 2015 Ageing Report - Economic and budgetary projections for the 28 EU Member States (2013-2060)" Directorate-General for Economic and Financial Affairs.

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The Netherlands is planning to introduce a number of measures to counter the use of the Netherlands as a conduit jurisdiction, which is welcome. As part of this reform, the Netherlands announced several changes to its withholding tax regime. Under current law no dividend tax needs to be withheld if the recipient is a member of the EU or the European Economic Association (EEA). It is proposed to expand this dividend tax provision, by 2020, to third countries which have concluded a tax treaty with the Netherlands including qualifying provisions relating to dividend withholding taxes. Dividend withholding taxes would still be levied in case of abusive situations or in case of distributions to low-tax jurisdictions. This provision also applies to interest and royalty payments. In addition, the Netherlands will include anti-abuse provision in its tax treaties by means of the multilateral convention to implement tax treaty related BEPS measures.

Box 4. Progress in the implementation of the OECD Base Erosion and Profit Shifting project

The Netherlands has been a strong supporter of the Base Erosion and Profit Shifting (BEPS) project, and is active in its implementation. The Netherlands is a member of the OECD/G20 Inclusive Framework on BEPS and of its Steering Group. With its 113 members, the Inclusive Framework is monitoring the BEPS implementation and in particular it is undertaking the peer reviews of the four BEPS minimum standards.

The Netherlands has started to implement the BEPS measures in a comprehensive way. It has effectively started to exchange information on tax rulings with its partners, and none of the Netherlands' preferential tax regimes have been considered as harmful, in line with BEPS Action 5 on harmful tax practices. In this regard, the new Dutch innovation box also follows the internationally agreed nexus approach. On Country-by-Country reporting, and in line with BEPS Action 13, the Netherlands has the domestic legal framework in place (it has signed the Multilateral Competent Authority Agreement for the automatic exchange of Country-by-Country reports) and has activated its information exchange network, ahead of the first exchanges which will start in 2018.

In addition, the Netherlands signed in June 2017 the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, also known as the BEPS multilateral instrument. It will enter into force amongst countries that ratified it on 1 July 2018. This will allow the Netherlands to update its significant tax treaty network (close to 100 bilateral tax treaties) and reinforce it against abuse. The Netherlands has gone further in accepting the provisions of the BEPS multilateral instrument than many other countries, thereby leading by example. One of the key provisions of the instrument is an anti-abuse rule, which will be a key measure to reduce treaty shopping through the Dutch treaty network. The Netherlands has expressed its intention to ratify the convention – which has 78 signatories to date – by mid-2018.

Making the economy more inclusive and greener

Improving the inclusiveness and sustainability of economic growth has been an important policy priority in the Netherlands. Since the introduction of Sustainable Development Goals (SDG) in 2013, the country has actively pursued its achievement to ensure an inclusive and environmentally sustainable global society by 2030 (Figure 15). The Netherlands ranks highly in areas of social progress, with teenage pregnancy and early school dropout rates being the lowest in the European Union (CBS, 2018[23]). The poverty rate, measured as the share of households earning less than 50% of median earnings, remains low at around 7% and below the EU average of around 11% (CBS, 2018[23]). However, the poverty rate has been rising gradually in recent years and the share of older individuals who are at risk of poverty or social exclusion – measured as those who earn less than 60% of median earnings – doubled from 5% to 10% in 2016 (CBS, 2018[23]).

Despite progress in meeting a number of the targets related to reducing poverty and income inequality, more progress is needed in other areas. Gender inequality is important, reflecting insufficient participation of men in household work and a persistent gender wage gap (UN, 2017[24]). The gender bias in part-time work can in part explain this, given that the Netherlands has one of the highest wage gaps in terms of annual labour income in the OECD, while the gap of full-time employee earnings is below the OECD average (OECD, 2017[25]). Furthermore, ambitious targets to improve the representation of women in senior roles have shown little progress. The target of achieving 30% female representation on the boards of large companies by 2016 was missed, and the Netherlands has recently ranked 25th out of the 28 EU countries in this area (UN, 2017[24]; CBS, 2018[23]). However, the Netherlands has made considerable headway in the representation of women in Parliament, with women making up 38% of elected representatives, which is the fourth highest percentage in Europe (CBS, 2018[23]).

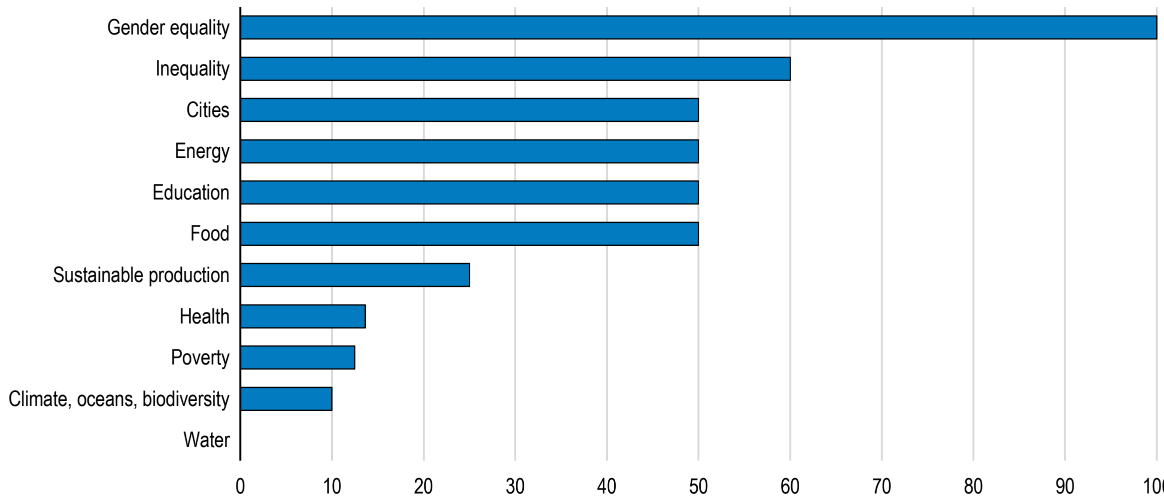
Youth and high-skilled immigrants have benefitted from the robust economic recovery and associated labour-market improvements, but low-educated immigrants and long-term unemployed have benefited less. The unemployment of youth and the percentage of young people neither in unemployment nor in education and training (NEET) have fallen markedly. The unemployment rate of foreign-born workers declined from 13% in 2013 to 9.6% in 2016, despite a 46% increase in the number of immigrants over the same period. However, as most of the support has been directed to facilitate the integration of high-educated migrants (European Commission, 2016[26]), it is likely that the latter have benefited more from the recovery than low-skilled migrants. Immigrant youth were also still more likely to be NEET than native youth in 2016. In addition, the share of long-term unemployment in the total of unemployed has increased since 2013, contrary to what is observed in the average of OECD countries.

The Netherlands is a leading OECD country in promoting the sustainability of climate and biodiversity (Figure 15). Just over 80% of waste is recycled in the Netherlands, which is the third highest rate in the European Union. As part of its SDG implementation monitoring process, the Netherlands aims to limit the cross-border impact of environmental policies, for instance by shifting high-polluting production to a neighbouring country which would improve emissions targets in the Netherlands, but would be neutral at the EU level or for global emissions. Focusing on cross-border concerns in the monitoring of SDGs is laudable and sets a good example for other countries.

The Netherlands has been proactive in addressing certain areas of climate policy and sustainable growth and the Coalition Agreement has announced strong ambitions to reach the Paris' agreement of maintaining global temperature well below 2 degrees. It has set an ambitious goal (49% reduction of greenhouse gases in 2030 compared to 1990), which would be achieved through a number of policies including a CO2-minimum price in the electricity sector (including coal), the closing of coal plants by 2030 at the latest and a kilometer charge for freight traffic. The government has been promoting renewable energy and a more efficient energy use (Table 6). Progress in achieving the renewable energy targets has been nonetheless slow, as the Netherlands continues to have one of the lowest rates of renewable energy production in Europe (UN, 2017[24]; CBS, 2018[23]). However, further actions are expected to be introduced in the 2018 Climate Agreement (Table 5). The Netherlands has one of the highest revenues from environmentally-related taxation (as a share of GDP) in the OECD, although some of these taxes do not provide the proper incentives to address environmental concerns. For instance, the discrepancy between the lower tax rate on diesel and higher tax rate on petrol fuel should be reduced by raising the former (OECD, 2018[27]). Furthermore, most taxation and other policies aimed at mitigating climate and environmental issues put a heavier burden on smaller users, particularly households (OECD, 2016[16]; OECD, 2015[28]). The government should shift more of this burden onto larger businesses, by increasing rates on high-polluting energy sources used in production and abolishing the tax exemption for the use of coal in energy production.

Figure 15. Further efforts are needed to ensure a more inclusive society

Proportion of sub-indicators by SDG goals where progress is slow, in per cent



Note: Slow progress is defined as the distance from reaching the target (by 2030) in standardised units being higher than 1. SDGs: Sustainable Development Goals. For detailed metadata, see http://www.oecd.org/std/OECD-Measuring-Distance-to-SDG-Targets.pdf and http://www.oecd.org/std/OECD-Measuring-Distance-to-SDGs-Targets-Metada.pdf.

Source: OECD (2017), "Measuring Distance to the SDG Targets - An assessment of where OECD countries stand", June.

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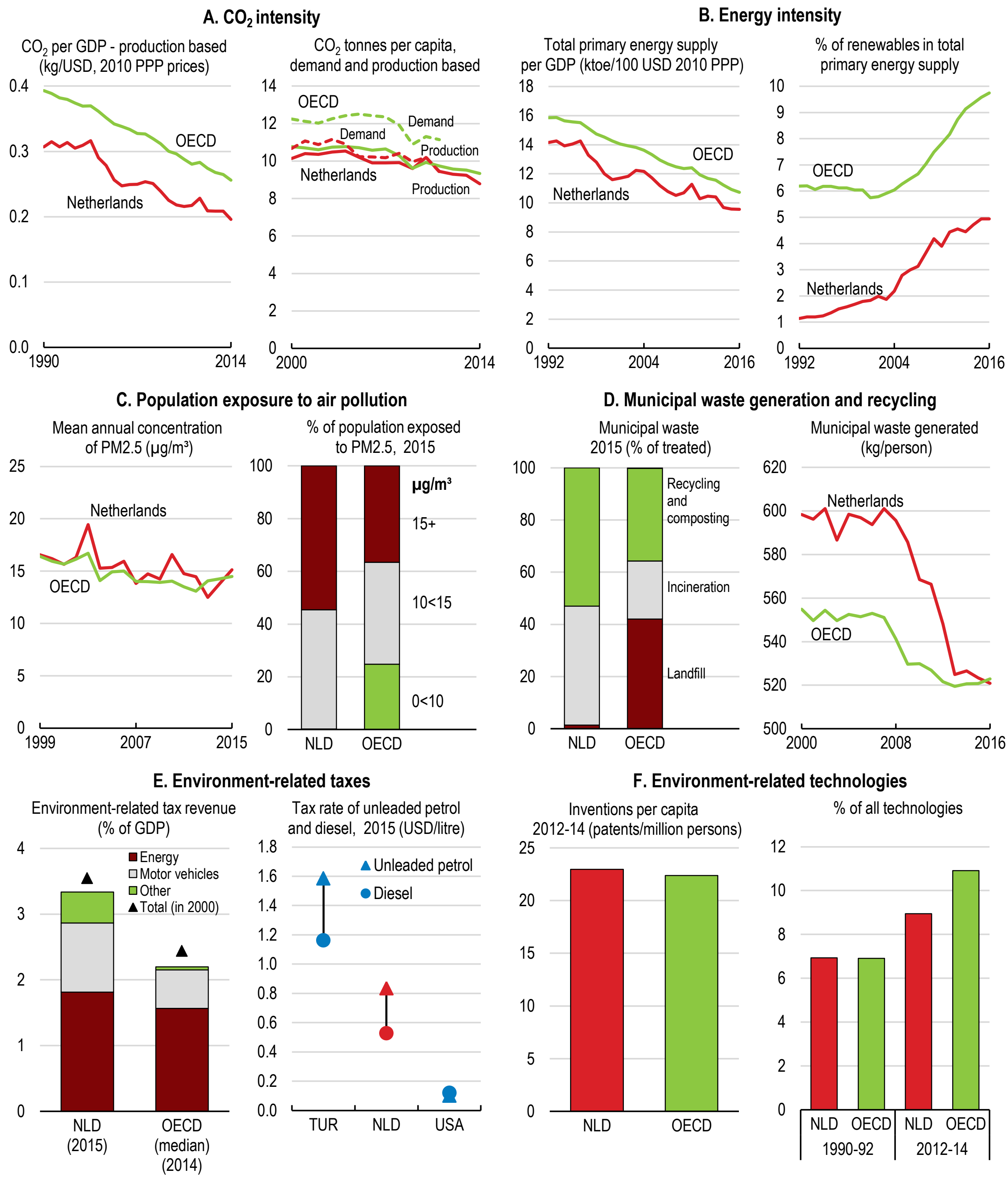
The Netherlands is on track to meet the Sustainable Development Goals related to the protection of the environment. Nevertheless, air pollution in some large cities remains a source of concern, and the country does not comply with the European Commission's norms. In addition, intensive farming has long posed a serious challenge to improving the quality of ecosystems and water. Around a third of the country's territory is used for agricultural purposes, and the quantity of nitrogen fertiliser and pesticides used per square kilometre of farmland is well above the OECD average (OECD, 2015[28]).

Figure 16. Green growth indicators: Netherlands



Source: OECD (2018), *Green Growth Indicators* (database). For detailed metadata, see http://stats.oecd.org/wbos/fileview2.aspx?IDFile=7ad102dd-e16d-4da0-a20c-624582b9984e.

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Table 5. Implementation of OECD recommendations on green growth

Earlier OECD recommendations	Actions taken
Ensure stronger investment in renewable energy and energy efficiency by improving cost-effectiveness of existing instruments and possibly increasing their scale.	Following an Energy Agreement from end-2015, new deals have been reached to improve energy efficiency for industrial use and to promote renewable energy. The government plans to start negotiations on a Climate and Energy Agreement to lower greenhouse gases by nearly half by 2030, relative to the 1990 level. The Coalition Agreement has also announced the construction of new offshore wind parks and measures to reduce the dependency of households and firms on natural gas.

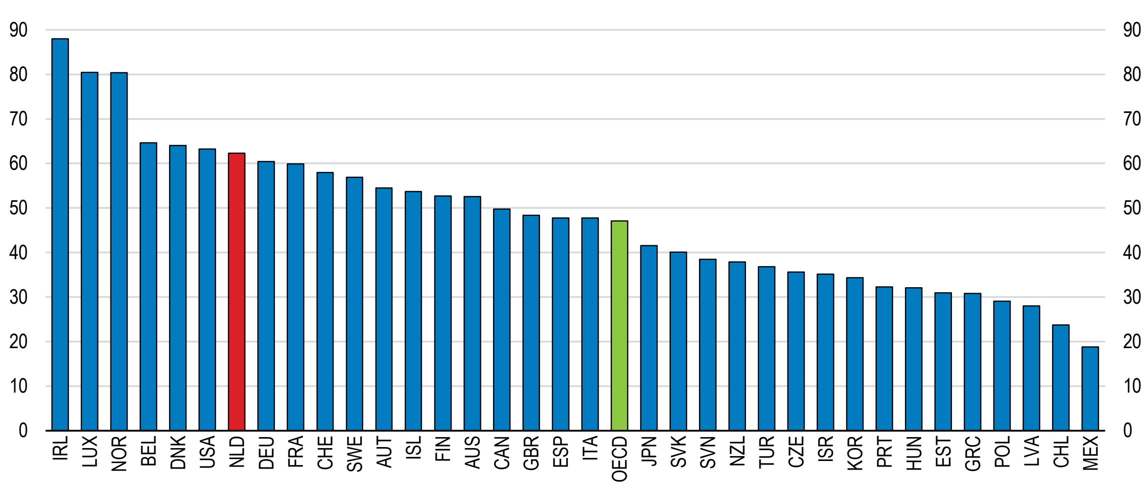
Reviving labour productivity growth and sharing its benefits more widely

The level of productivity of the Dutch economy, as measured by output per hour, is high, significantly above the OECD average and slightly below that in the United States (Figure 16). However, labour productivity has been slow to recover since the global financial crisis and an important gap persists relative to its pre-crisis trend growth rate of 2% per year (Figure 17, Panel A). Average labour productivity growth was only 0.5% per year since 2008. This productivity underperformance reflects volatile total factor productivity growth and subdued growth of capital per hour worked (Figure 17, Panel B).

The authorities have taken some steps to enhance private sector investment and skills, which were the two special topics of the previous Survey, but further measures, considered by the new government, and in line with previous OECD recommendations, have not yet been implemented (Tables 6 and 7). Social partners and the government should also work to increase the effectiveness of the so-called Polder Model, the Dutch decision-making process based on consensus, to ensure a greater responsiveness of wages to productivity developments.

Figure 17. Labour productivity is above the OECD average

GDP per total hours worked, in USD constant prices 2010 PPPs, 2017



Note: 2016 for Australia, Belgium, Chile, Iceland, Israel, Japan, Mexico, New Zealand, Poland, Switzerland, Turkey, the United States and the OECD aggregate. PPPs: purchasing power parities.
Source: OECD (2018), "GDP per capita and productivity levels", *OECD Productivity Statistics* (database), June.

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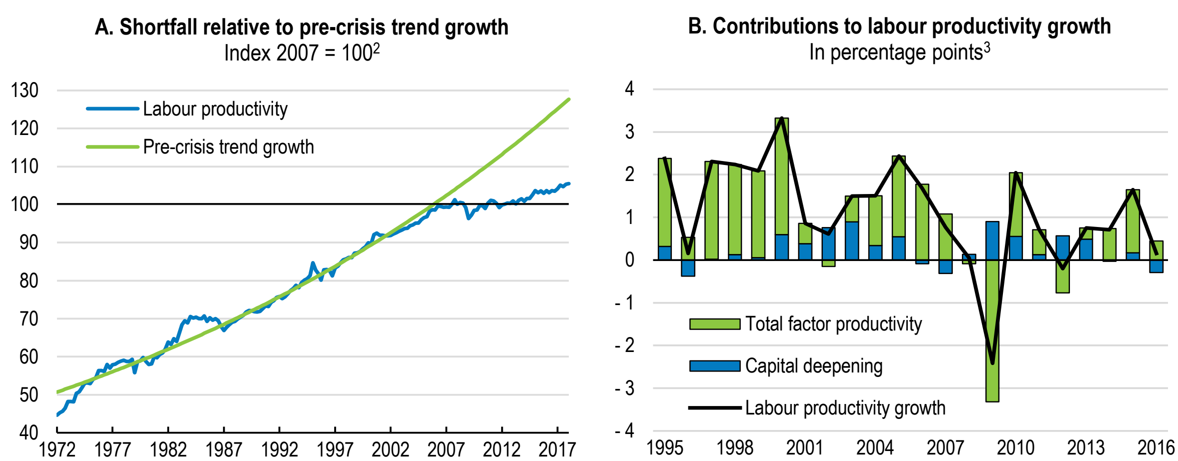
Dutch real wages have been growing at a slower pace than productivity over the last three decades or so (Figure 19). Accounting for wage inequality, as measured by the difference between average and median wage, would lead to an even larger gap between wage and productivity growth, as also observed in other OECD economies (Schwellnus, Kappeler and Pionnier, 2017[29]). A number of reasons have been put forward to explain this gap. One explanation is that wage developments have been lagging, and as the recovery strengthens the gap is likely to vanish. But the gap could also be explained by structural factors like the shift in the sectoral composition toward capital-intensive activities such as information and telecommunication where many occupations can be automatised, capital-augmenting technological change and globalisation. In addition, the expansion of part-time and non-standard forms of employment, with existing labour market institutions (collective bargaining, trade unionisation, etc.) becoming less widespread and attractive could also be influencing wage dynamics. Non-standard forms of employment, including self-employment and temporary contracts, have witnessed a rapid rise in recent years and now account for a large share of total employment (Chapter 1, OECD (2018[30])). Self-employed workers may have, on average, a lower productivity and do not actively participate in the collective wage bargaining that underpins the Polder Model. They are also not subject to minimum wage regulations. This could be putting further downward pressure on labour costs.

Figure 18. Labour productivity growth has edged up but remains weak[1]



1. Labour productivity refers to real GDP divided per total hours worked.
2. Pre-crisis labour productivity trend growth is calculated between 1972 Q1 and 2007 Q4, and is projected from 2008 onwards.
3. Contributions to labour productivity growth are calculated using a weight of 0.67 for total hours worked and 0.33 for productive capital; total factor productivity is calculated as a residual. Productive capital excludes investment in housing.

Source: OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), June.

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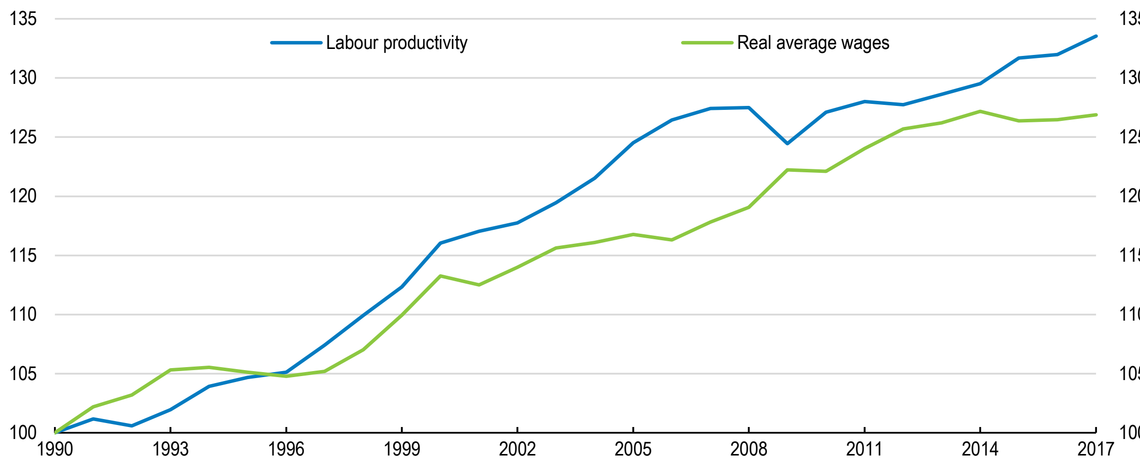
Figure 19. Wages and productivity developments over the long term

Index 1990 = 100



Note: Labour productivity refers to real GDP per total hours worked. Wages of employees are divided by total hours worked by employees and deflated by GDP deflator.
Source: Adapted from Statistics Netherlands (CBS).

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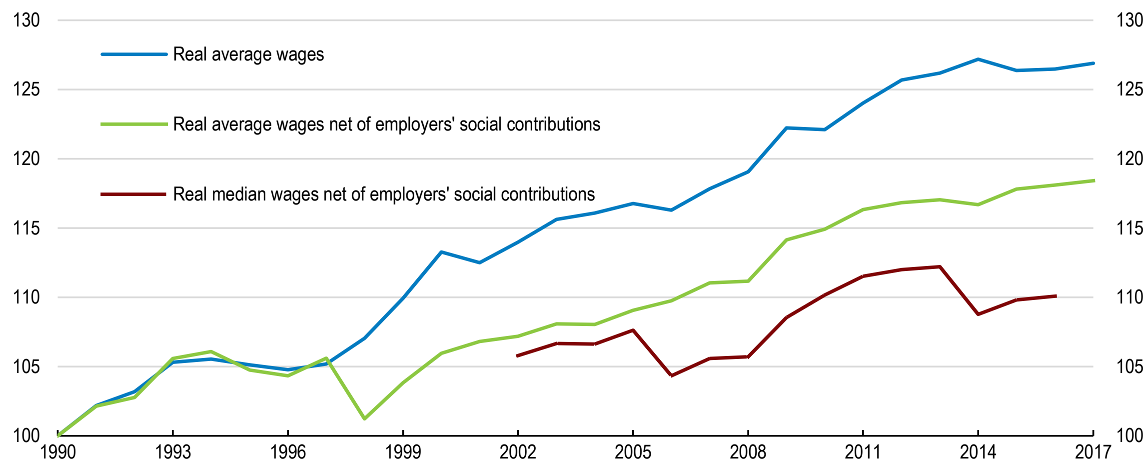
There is a need to level the playing field between regular workers and self-employed. This could be done by lowering fiscal incentives and establishing mandatory participation in social security programmes for the self-employed. While there are important benefits associated with the flexibility that self-employed work allows for, tax differences are also large when compared to employees, which influences the decision of more workers to shift towards self-employment. At the same time only around 2-3% of the self-employed (per year) tend to scale up their business and begin to take on staff (ter Weel et al., 2017[31]). The lack of social security coverage exposes the self-employed to the potential financial losses associated with disability risks. Many of the structural reforms recommended in the thematic chapter will improve the inclusiveness of the labour market by reducing the incentives for non-standard forms of employment. In particular lowering labour-market duality is expected to have a growth-enhancing effect in the medium to long term (Box 5).

There is also room to reduce the marginal tax wedge for employees, at low levels of income, which is higher in the Netherlands than in the average of OECD countries. This will help to bring the unemployment rate of low-skilled workers further down, but also reduce the tax gap between work types and lower the gap between productivity and real wages net of social security contributions (Figure 20). At low-income levels, the tax wedge is primarily due to employees' social security contributions/expenses, which in turn reflects the generous social security benefits.

Figure 20. Net average and median wages

Index 1990 = 100



Note: Wages of employees are divided by total hours worked by employees and deflated by GDP deflator.
Source: Adapted from Statistics Netherlands (CBS); and OECD (2018), *OECD Earnings Database*, April.

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Table 6. Implementation of OECD recommendations on SMEs and self-employed

Earlier OECD recommendations	Actions taken
Consider converting the two-rate corporate income tax into a single rate tax system while not increasing the tax burden on SMEs and levelling the playing field between smaller and bigger companies by broadening the corporate income tax base.	The Coalition Agreement is set to broaden the corporate income tax base for bigger companies only.
Reduce the gap between social security contributions and coverage of own-account self-employed and employees and consider mutualising the costs of disability through a dedicated fund for SMEs.	The government plans to explore ways in which the coverage by disability insurance among self-employed can be increased and discuss with insurers to promote a better insurance offer.

Table 7. Implementation of OECD recommendations on business investment

Earlier OECD recommendations	Actions taken
Step up efforts to strengthen innovation performance by increasing direct public support for R&D.	The Coalition Agreement has announced an increase in spending on public support of R&D of up to EUR 400 million (0.05% of GDP) per year by 2020. Moreover, the government plans to provide EUR 100 million (0.01% of GDP) of additional funding on research infrastructure in 2018 and 2019. Additional funds for R&D and innovation could become available over the next four years as part of new spending on cybersecurity and climate change.
Increase competition in the market for SME loans by considering the creation of a credit register for companies, based on standard reporting data if possible.	The creation of a public credit register for companies is not being considered. The authorities have started a new programme to improve access to finance for SMEs through stronger competition, enhanced information availability on SME creditworthiness, greater availability of transaction data, and support for private initiatives in the field of FinTech (private platforms and credit ratings).

Box 5. Quantification of structural reforms

Overview of the framework

This box quantifies the effect of structural reforms for the Netherlands based on the OECD's most recent quantification framework set out in Égert and Gal (2017[32]). The framework, like previous ones used in the OECD Economics Department (Barnes et al., 2013[33]; Bouis and Duval, 2011[34]; Johansson et al., 2013[35]), relies on a production function approach. The influence of policies on GDP is assessed through their impact on three supply-side components: i) multi-factor productivity, ii) capital deepening, and iii) employment. The overall impact on GDP per capita is obtained by aggregating the policy effects of the various channels. A large number of policy variables are included in the quantification framework. They cover product and labour market regulations and policies, and proxies for innovation, and tax policies. The effects are derived from a range of time-series cross-country reduced-form panel regressions on a sample of OECD countries. The estimated effects are allowed to vary across country as a result of difference in factor shares, the level of the employment rate and a country's demographic and skill composition.

Effect on reforms on the level of per capita income in the Netherlands

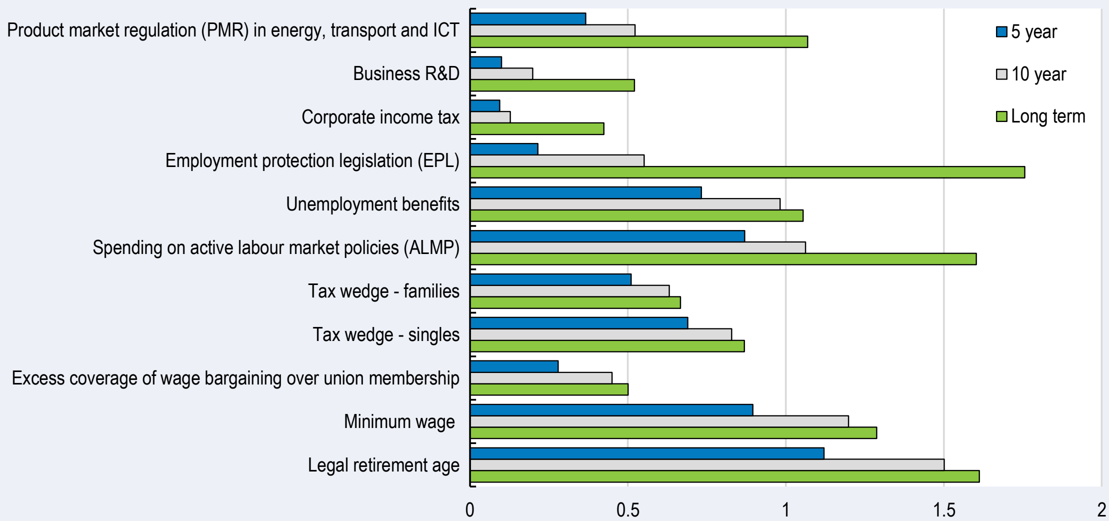
The quantification framework can be used to assess the impact of specific (past or planned) reforms or to quantify the effect of hypothetical reform. This box assumes a reform scenario of a 10% improvement in selected policy measures.

Reforms in selected labour market policies including unemployment benefits, ALMP spending, minimum wage and the legal retirement age have a large effect on per capita income in the 5 years following the reform, with a marginally higher effect at the 10 year and in longer-term horizons (Figure 21). Pro-market reforms in product and labour market regulations show subdued effects in the medium term, although their impact increases considerably at longer time horizons. A 10% reduction in employment protection legislation restrictiveness has the second-highest impact on per capita income in the long run. Finally, higher spending on R&D and lower corporate income tax go hand in hand with a modest rise in per capita income.

The approach is illustrative and results should be interpreted with care. In addition to the usual caveats related to empirical analysis, it assumes a linear impact of structural reforms, and does not account for the interaction between structural reforms and macro-economic settings which can play a role in the short to medium term. Confidence bands around point estimates are large.

Figure 21. Impact of policies on per capita income at different horizons

Total effect on GDP per capita in per cent



Note: Calculations are based on a 10% policy change scenario.

Source: Calculations based on Égert, B. and P. Gál (2017), "The quantification of structural reforms in OECD countries: A new framework", *OECD Economics Department Working Papers*, No. 1354, OECD Publishing, Paris.

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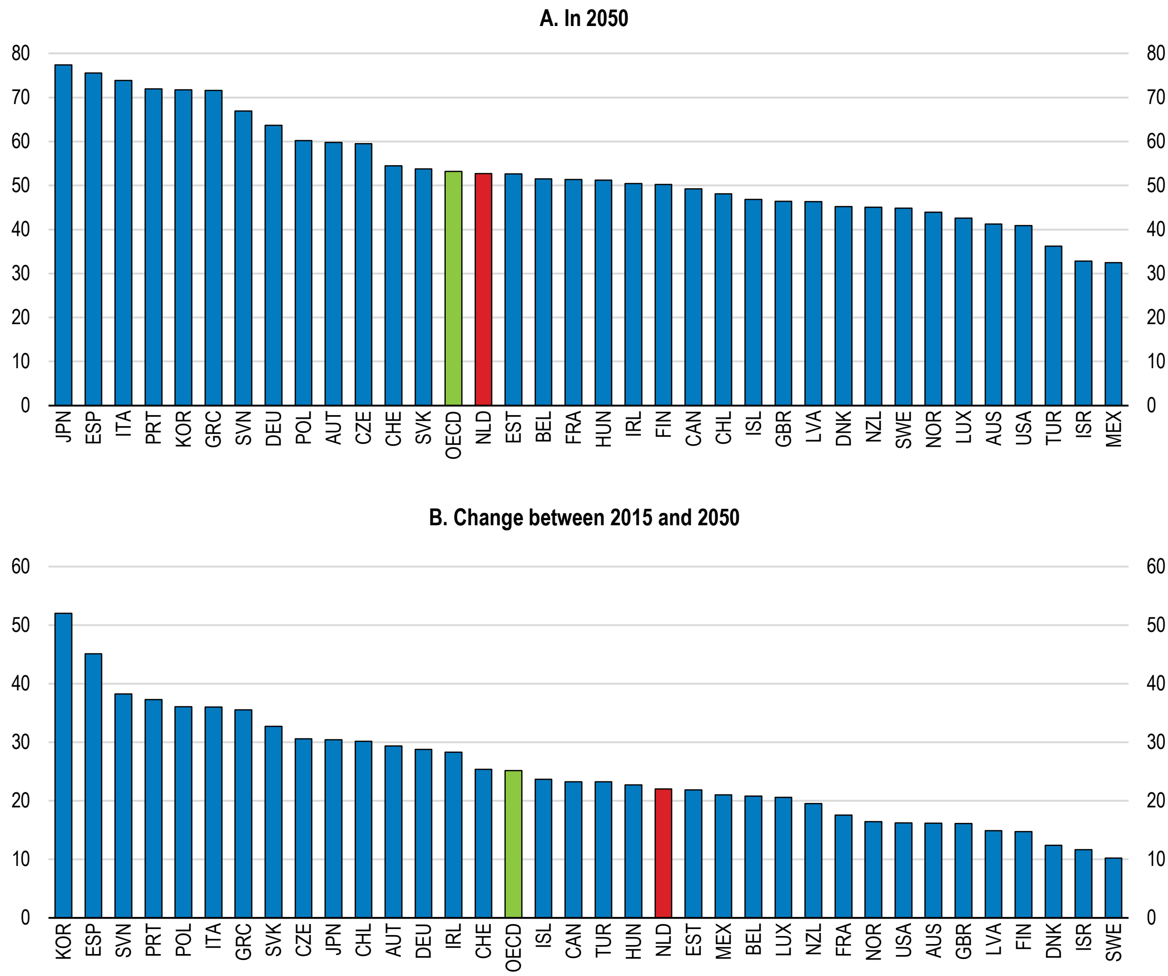
Structural focus: addressing population ageing

In the Netherlands, like in all other OECD countries, demographic changes represent a major transformation affecting all branches of society. Population ageing poses major societal and economic challenges and will continue to do so in the future. Labour markets will need to adapt to a greying population, the pension system will have to ensure adequate pensions for an increasing number of retirees and the health system will be confronted with rising costs.

Population ageing reflects weak fertility and rising longevity. The so-called old-age dependency ratio – the number of people aged 65 and over per 100 people of working-age (25-64) – stood at close to 30% in 2015 and it is projected to reach nearly 55% by 2050 (Figure 22). Ageing prospects in the Netherlands are in line with demographic developments elsewhere, with fertility being stable at around 1.7 children per woman and life expectancy being similar to the OECD average.

Figure 22. Population ageing will be important

Old-age dependency ratio, number of people aged 65 or older per 100 people of working-age (20-64)



Source: OECD (2017), *Preventing Ageing Unequally*, OECD Publishing, Paris.

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Increasing employment at older ages

Over the past years, the Dutch authorities have made sizable efforts to foster employment at older ages. They increased the statutory retirement age to receive the basic pension and linked it to life expectancy, took steps to reduce the misuse of disability benefits as a pathway out of the labour market, and implemented measures to fight against the discrimination of older jobseekers. The government has also made employment of older workers more flexible. For instance, employers have large possibilities to offer temporary contracts to workers above the pension age and they need to comply with shorter periods of notice in case of dismissals.

In line with these efforts, employment at older ages has increased sharply since 2000 (OECD, 2017[36]). While employment rates of 55-64 year-olds were below the OECD average 15 years ago, they are above-average today (Figure 23). Yet, despite these increases, the Netherlands lags behind OECD countries with the highest employment rates among 55-64 year-olds, such as Iceland, Japan and Sweden. Moreover, employment rates among 65-69 year-olds are below the OECD average both among men and women.

The number of 20-54 year-olds is projected to decrease by around 10% between 2017 and 2050, while the number of 55-74 year-olds is expected to remain broadly stable. Assuming, for illustrative purposes, that age-specific employment rates remain as they are today, the percentage of employed people in the total population will decrease from 50% today to around 45% in 2050, thereby negatively affecting the country's growth prospects (Figure 24). Conversely, if the employment rates of workers over 55 years were to gradually converge to the current levels of the highest-performing OECD countries, the percentage of employed people in the Dutch population would remain close to 50%, even without higher employment rates among younger age-groups.

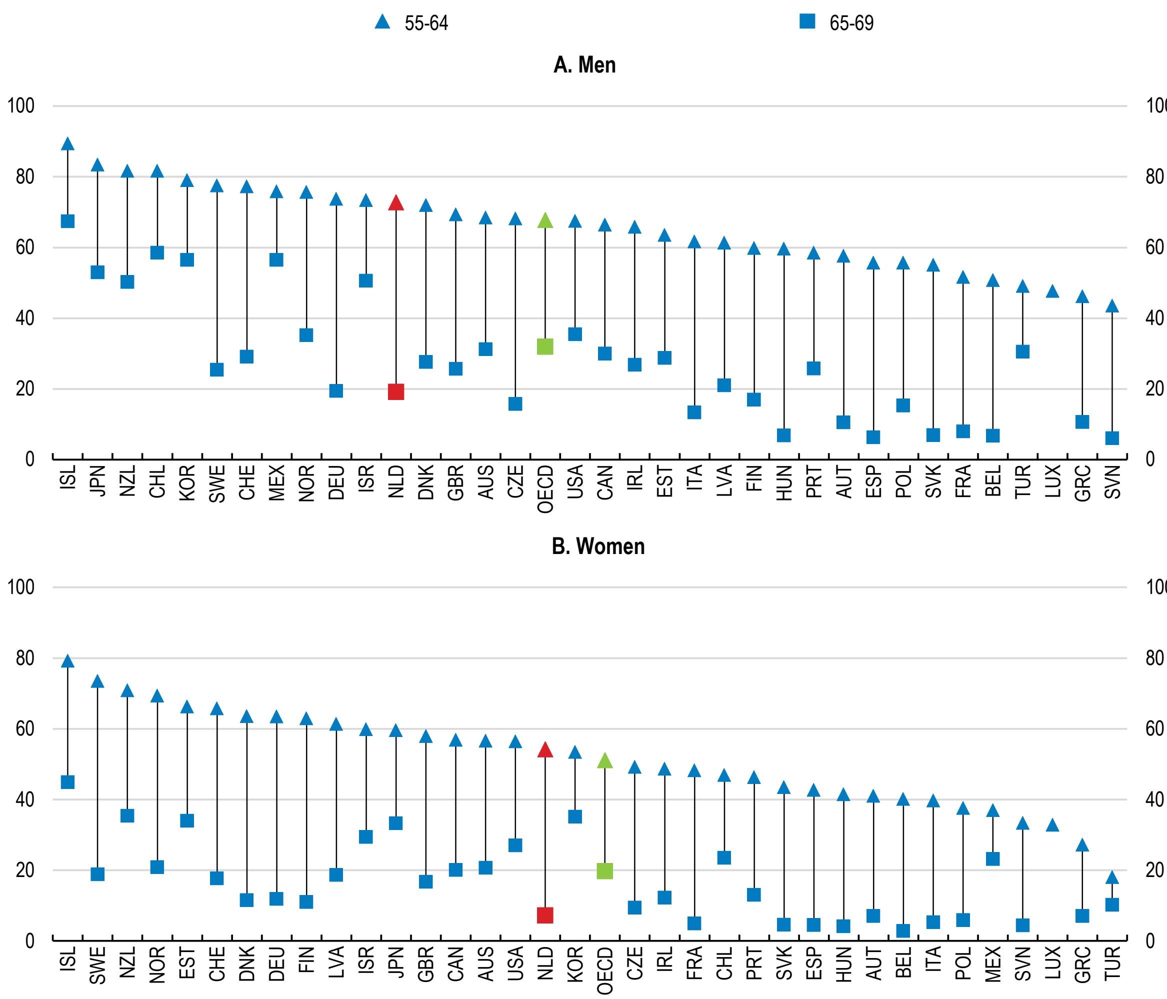
Mandatory retirement remains a barrier to longer working lives. Under mandatory retirement provisions, employment contracts automatically end as soon as workers reach a statutory age. Employers may or may not re-employ them on new contracts afterwards. While a universal mandatory retirement age at the national level does not exist in either the public or private sectors in the Netherlands, mandatory retirement provision in collective and individual agreements are still in place. Pension dismissal clauses, i.e. automatic contract termination upon reaching the state pension age, are common (OECD, 2018[37]).

In order to foster employment at older ages, mandatory retirement should be discouraged as far as possible. Such provisions can reduce well-being by forcing people who wish to work longer to retire prematurely. The combination of mandatory retirement with high employment protection for permanent contracts in the Netherlands, grants employers little flexibility in dismissing ageing workers for poor performance and retaining those who do well (OECD, 2017[38]).

Some professions can be more difficult to pursue at older ages, requiring a change of jobs to keep working. Lifelong learning should be enhanced, rather than promoting early retirement. The abolishing of the VUT scheme (Vervroegde uittreding), which allowed people to exit the labour market before the official retirement age, is a step in the right direction. However, lifelong learning is essential, especially with increasing life expectancy, to boost employability and ensure that older workers remain competitive in the labour market until older ages. Training opportunities throughout the career can also increase mobility within and across sectors, hence facilitating job changes at older ages to less arduous jobs and jobs requiring a lower degree of physical ability; this in turn obviates the use of mandatory retirement provisions. The government, in particular the Ministry of Social Affairs and Employment, has been active in putting the issue of "Sustainable Employability" on the political agenda, addressing the potential of older workers and the threats of losing valuable skills (OECD, 2018[37]). As the Dutch population keeps ageing, reinforced training opportunities throughout the career are essential to foster longer careers.

Figure 23. Employment rates are above OECD average, but are low for 65-69

As a percentage of population by age group, 2016



Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), March.

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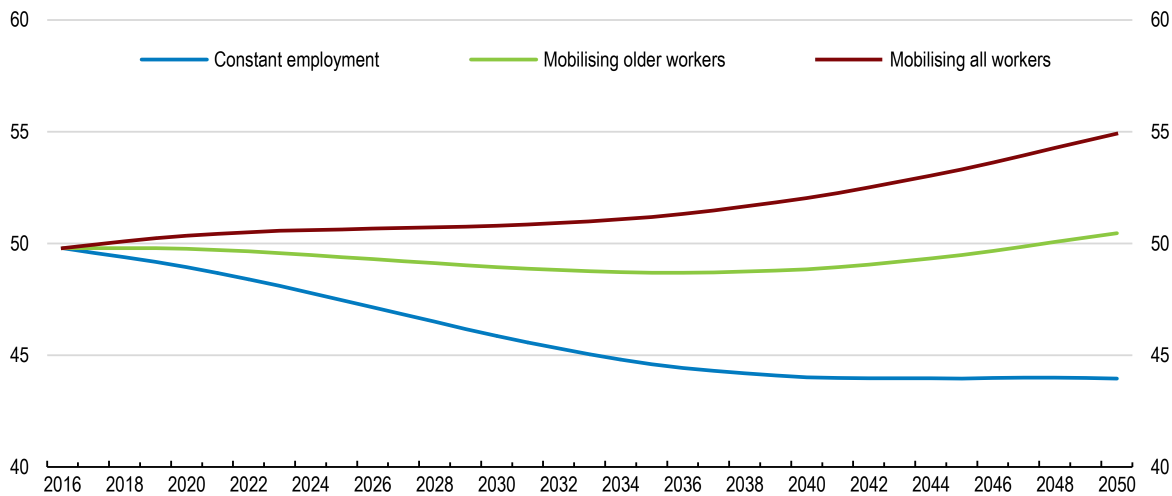
Figure 24. Projections of employment rates under different scenarios

As a percentage of population, 2016-2050



Note: The "Constant employment" scenario assumes that employment rates remain as in 2016. The "Mobilising older workers" scenario assumes that employment rates of people under 55 gradually converge to the highest levels in the OECD for people 55+. The "Mobilising all workers" scenario assumes that employment rates of all age-groups gradually converge to the highest levels in the OECD. Calculations based on gender and 5–year-age-group specific employment rates.
Source: Adapted from United Nations World Population Prospects: The 2017 Revision and OECD Labour Force Statistics.

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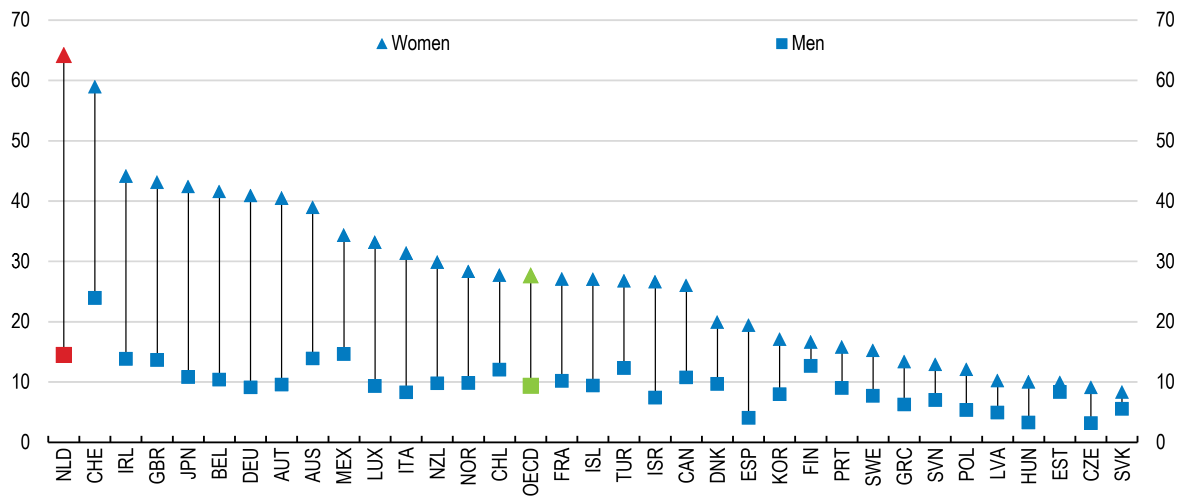
Seniority wage settings are extensively used in the Netherlands (OECD, 2018[39]). They contribute to the high relative wages of workers over 50 years, and could possibly be an impediment to extended careers. Although seniority wages could be seen as the counterpart of lower wages at the beginning of the career, too low wages among young workers should be tackled rather than granting automatic pay rises as a function of age, as this might reduce labour demand for older workers substantially. The so-called "efficiency wage" theory (Akerlof and Yellen, 1986[40]) does suggest that employers might pay older workers more than their productivity, but at some point the gap may become so large that the employer will be reluctant to keep older workers on the job. A more flexible wage setting arrangement later in life might therefore be needed so that workers and firms agree to alter the wage schedule in order to make the continued employment of older workers attractive. Also a reduction in some tasks and the number of hours worked are rarely used in collective agreements, even though it could be proposed to older workers as a possible option to increase their employability (OECD, 2018[37]; van Dalen and Henkens, 2016[41]).

The government has implemented measures to decrease financial disincentives to work longer, but monitoring their effects is crucial. For instance, to help to increase job-search efforts for both younger and older unemployed workers, unemployment benefits, which were paid for up to 38 months in the past – i.e. considerably longer than on average in the OECD – will have a maximum duration period of 24 months. However, a scheme for older unemployed (IOW) was introduced in 2006, and will run at least until 2020, which grants special benefits to older jobseekers once they are no longer entitled to unemployment benefits. Although its take up is low, this scheme may undermine the incentives older jobless people face to look for employment.

Working part-time is widespread in the Netherlands, but few men work part-time compared to women, and this gap persists at older ages. Also, part-time work is mainly voluntary and a higher percentage of older individuals work part-time than do younger ones. High part-time rates among older workers are consistent with gradual retirement and nearly 65% of 55-64 year-old women worked part-time in 2016, which was a higher percentage than in any other OECD country (Figure 25). By contrast, only slightly over 20% of men worked part-time in the same age bracket. It is important to assess the gap in part-time work between women and men, whether it reflects differences in employment opportunities at an older age or existing social norms, and the extent to which its closure is amenable to policy action, as discussed in the thematic chapter of this *Survey*.

Figure 25. Gender gap in part-time work at older ages is high

Share of part-time workers aged 55-64 by gender, in per cent, 2016



Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), March.

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Making the pension system more inclusive

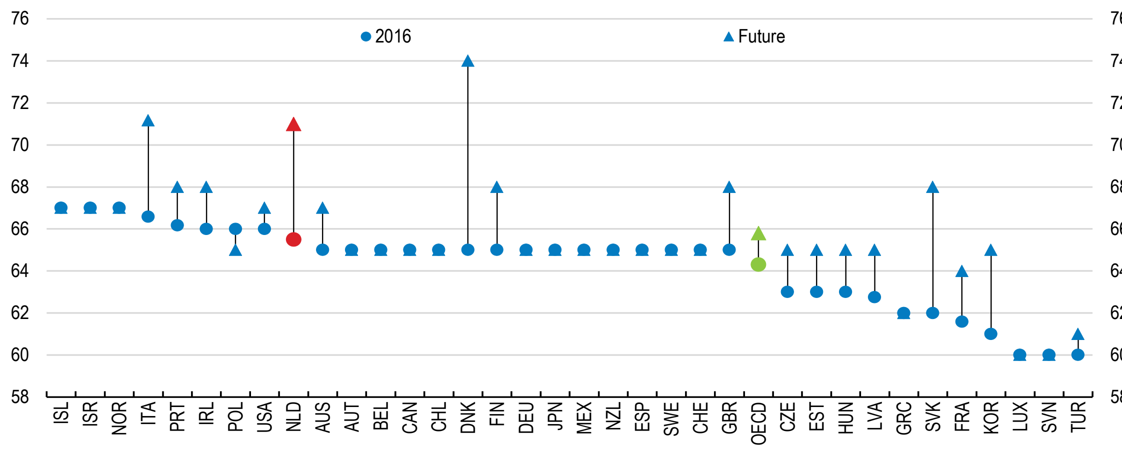
The Dutch flat-rate basic pension has been successful at preventing poverty among older people – relative poverty rates in the Netherlands are among the lowest in the OECD. In addition, defined benefit occupational pensions have secured significant asset accumulation to fund generous pension promises. However, the future of pensions is debated in the Netherlands. Rising life expectancy, and therefore longer retirement periods, puts pressure on the financial sustainability of both the basic pension and occupational pensions. Pension liabilities increase with rising life expectancy and ageing has a potentially negative effect on potential growth making it difficult for pension funds to live up to pension promises. The financial crisis and low interest rates in its aftermath have prompted calls for a reform of occupational pensions.

The Netherlands is one of the few OECD countries linking the official pensionable age to life expectancy (together with Denmark, Finland, Italy, Portugal and the Slovak Republic), which will lead to a high retirement age. To ensure financial sustainability, the

Netherlands has increased the retirement age for the basic pension (AOW), which serves as an anchor for the overall pension system. The basic pension was payable from age 65 and 6 months in 2016, rising to 66 in 2018 and to 67 in 2021. Thereafter, the retirement age will be linked to gains in life expectancy. As a result, according to current life expectancy projections, the statutory retirement age will reach 71 for men in 2067 in the Netherlands, as much as in Italy and three years earlier than in Denmark, and higher than the average normal retirement age 65.8 years in the OECD (Figure 26). Therefore, maintaining robust health standards and healthy lifestyles will be critical (see below).

Figure 26. Future normal retirement age will be one of the highest in the OECD

Retirement age for men entering the labour market at age 20



Source: OECD (2017), *Pensions at a Glance 2017: OECD and G20 Indicators*, OECD Publishing, Paris.

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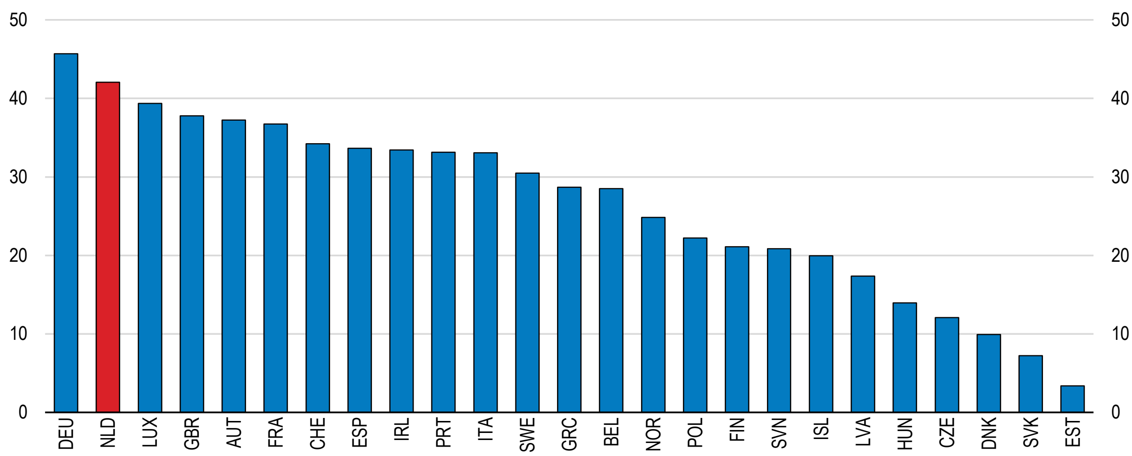
The Netherlands has the second-highest gender pension gap after Germany in the European Union (Figure 27). Theoretical future pension replacement rates for a full career are high, at nearly 100% against the average for the OECD at 53%, as they reflect a high retirement age. However, not everyone has a full (contributory) career or even a career with relatively limited employment breaks. For instance, the high prevalence of women's part-time work in the Netherlands contributes to gender earnings gap and in turn to the high gender pension gap. In addition, the lack of mandatory survivor benefits, both in the accrual phase and at retirement, widens the gap. It would be beneficial to convert part of the pension into survivor pension benefits mandatory to smooth income for spouses after the death of their partner. This could be done through joined annuities which take into account the joint mortality risk of a couple and would therefore, for the same entitlements, lead to a lower initial pension for couples, thereby avoiding redistribution from singles to couples.

A more gender equal sharing of paid work and care activities between men and women could reduce the gender pension gaps over time (OECD, 2017[42]). Narrowing the gender pension gaps requires more women to enter paid work, work longer hours and receive equal pay. This could be facilitated by men taking on more unpaid work. The recently announced extension of paid leave for fathers or partners (to 5 days on 100% of wage income and additionally 5 weeks on 70% of wage income) in the Netherlands is a step in the right direction. These steps could facilitate women to remain in the labour market after childbirth, which will likely reduce the negative effects of childbirth on their careers and, at a later stage, help to narrow the gender pension gap. However, the Netherlands still lags most OECD countries in terms of paid parental leave entitlements. In addition to reducing the negative effects of childbirth on women's careers, greater transparency regarding pay by companies and building a policy structure that facilitates women's labour force participation is needed (OECD, 2017[43]). One way to facilitate labour force participation is to make high-quality childcare more affordable (Table 8). While Dutch children aged 0-2 are often in formal childcare, the average hours per week spent in formal childcare are very low. The cost of childcare is amongst the highest in the OECD, but large subsidies markedly lower those costs, in particular for low-income families.

Figure 27. Women have a much lower pension than men

Gender gap in pension payments for people aged 65 and older, in percentage of men's average pensions, 2014



Note: 2013 for Austria, Denmark, Greece, Finland, Hungary, Iceland, Latvia, the Netherlands, Norway, Slovenia and Spain.
Source: OECD (2017), *The Pursuit of Gender Equality: An Uphill Battle*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933775571

Reforming occupational pensions

The global financial crisis negatively impacted the financial health (i.e. the funding ratios) of pension funds in the Netherlands. Since returns do not always match pension promises most pension funds became underfunded as financial market turbulence depressed returns on investment (OECD, 2012[44]). This affected a large share of employees since occupational schemes are negotiated through collective agreements and approximately 96% of employees were covered by an occupational scheme at the end of 2013. Most of these schemes are defined-benefit schemes with a small but rising share of defined-contribution schemes.

Table 8. Implementation of OECD recommendations on skills

Earlier OECD recommendations	Actions taken
Raise the quality of early childhood education and care further and foster generic skills in vocational education and training. Further raise teachers' qualification, in particular in disadvantaged schools, and subsequently their wages.	The required levels of Dutch and mathematics have been stepped up in early childhood education and care and vocational training. Teachers' qualifications are being improved through scholarships to obtain a master's degree, higher educational attainment of new hires. The government has agreed to promote more teachers in higher salary scales. Schools with disadvantaged students receive extra budget which they can use at their own discretion.
Enhance entrepreneurial skills by evaluating the effectiveness of programmes in formal education, developing online stand-alone training programmes, and promoting peer-to-peer learning.	A state-financed evaluation of the effectiveness of universities for applied sciences is being performed, using an OECD method to assess education and research in the field of entrepreneurial skills.
Strengthen the provision of public employment services, and create programmes combining work experience and on-the-job training as well as language courses for immigrants.	The government plans to increase the funding of public employment services by EUR 40 million (0.005% of GDP) from 2019 and started several pilots to improve the link between working experience and part-time education. Local governments have the responsibility to organise language courses for immigrants.
To ensure higher prevalence of permanent contracts while enhancing resource allocation in the economy, further ease employment protection legislation on permanent contracts by continuing to reduce the cap on severance payments.	No action taken to reduce severance payments (or transition allowance) of maximum EUR 79 000 (gross). The Coalition Agreement plans to allow courts to award an extra allowance of up to half of the transition allowance and entitle employees to a transition allowance from the start of their employment contract (instead of after two years). However, all employees will be entitled to severance payments of one-third of a month's salary for each year of service. This also applies to employees who have been in service for more than 10 years, who currently receive an amount of half of a month's salary for years of service after the 10th year.

Parametric changes to pension entitlements decided by pension funds in order to deal with solvency issues are inefficient. Such practice generates complexity and introduces distortions in switching pension funds, which could have a negative impact labour mobility. In addition, the rules concerning pension parameters (in particular the uprating mechanism, the process of revaluing past wage rates to compute the reference pensionable earnings) and the reality of persistently low interest rates have also rendered the defined-benefit system in many aspects similar to a defined-contribution system. This hybrid system is opaque and difficult to navigate for participants. Therefore, the Dutch pension system should strive to become more transparent about the mechanism governing pension benefits; either harmonising defined-benefit contracts based on stable uprating rules and well-defined sustainability factors or by switching to a truly defined-contribution system in which entitlements grow with realised returns.

In its Coalition Agreement, the government stated that it wishes to reform the pension system, rendering pension capital more "personal in nature" and sharing risks collectively (NLD Government, 2017[45]). The detailed design is still unclear, but this would mean making occupational pensions closer to options 3-5 designed by the Dutch socio-economic Council (Box 6), which would represent a shift to a defined-contribution system, with some collective elements, such as sharing of longevity risks.

In general, switching to funded defined-contribution schemes would have both advantages and disadvantages. With defined-benefit arrangements, pension providers bear the responsibility to ensure that pension claims are matched by the accumulated assets. This can threaten the solvency of such pension plans. In defined-contribution arrangements, pension members (i.e. individuals) bear most of the risks. Pension members are not able to accurately anticipate the amount of the pension benefits they will receive and may end up with benefits well below their expectations (OECD, 2016[46]). Simulations using the OECD pension model suggest that replacement ratios in a defined-contribution scheme could vary markedly depending on real investment returns. With a contribution rate of 20%, they could range from 97%, assuming real returns of 3% to 68% with real returns of 1% (Box 6). At the same time, changes in wages or price uprating in a defined-benefit system can result in similar differences in replacement rates. The choice between defined-benefit and defined-contribution schemes is ultimately a societal choice since it defines the risk-sharing between pension providers and pension members.

Box 6. Switching to defined-contribution occupational pensions

Currently, most of occupational schemes are defined-benefit schemes with a small but rising share of defined-contribution schemes. Most defined-benefit schemes calculate benefits based on lifetime average earnings whereas for less than 1% of participants the final salary is used, either as such or combined with lifetime earnings. As with most defined-benefit schemes, the accrual rates are fixed and do not vary over someone's career. Finally, while there is no legal uprating requirement of past pension entitlements, most pension funds tend to uprate when their financial health allows for it ("uprating" refers to the process of revaluing past wage rates to compute the reference pensionable earnings).

Since the financial crisis, the second pillar of the Dutch pension system has been under severe strain. Many pension funds ceased uprating or uprated only partially during most of the crisis. Uprating is prohibited for pension funds with a funding ratio of less than 110%. In 2013, around 100 funds (representing about 40% of all pensioners) even announced average reductions by 2.25% in nominal pensions. Current rules stipulate that pension funds with funding ratios below a certain threshold (currently around 104% but dependent on the official discount rate) for more than 5 years are even forced to cut pension entitlements. Recently, the Dutch Socio-economic Council has investigated five different options to reform occupational pensions:

- Option one – to keep most of the current pension system features intact but replace the fixed accrual rate with a declining accrual rate by age. This would reflect the funded nature of the pension system in which contributions of the young have a longer time to accrue returns.
- Option two – the indexation depends directly on the funding ratio of the pension fund. If the funding ratio is below 100%, indexation will be negative.
- Option three – to switch entirely to a defined-contribution system, in which only longevity risks are shared at retirement through annuities.
- Option four – same as third option, but shares in addition investment risk after retirement.

- Option five – a defined ambitions system in which some investment risk during the accrual phase is also shared; in good times a collective buffer is built to be distributed in bad times.

The consequences on benefits of moving from a defined-benefit to a defined-contribution system can be illustrated by simulating the OECD pension model, which includes all mandatory pension schemes for private-sector workers, regardless of whether they are public (the basic pension) or private (the occupational pension). Since occupational pension schemes in the Netherlands have near-universal coverage they are included in the calculations.

The calculations show the replacement rates of an average wage earner who enters the system at age 20 in 2016 and retires after a full career. In the Netherlands under current legislation this would mean that someone would have to work until age 71 (until 2067). The replacement rates are theoretical, meaning that they assume a full career without interruptions, an average wage throughout life and no change in the pension system from its current state. They show how generous a pension system can be in theory. In reality replacement rates might differ significantly if careers are shorter, earnings vary over time or the pension system changes.

The comparisons are based on a single set of economic assumptions. In practice, the level of pensions will be affected by economic growth, rate of return on financial assets, real wage growth, the discount rate and inflation, and these will vary across countries and over time. A single set of assumptions, however, ensures that the outcomes of the various pension regimes are not affected by different economic conditions. In this way, differences across regimes in pension levels reflect differences in the pension system and policies alone.

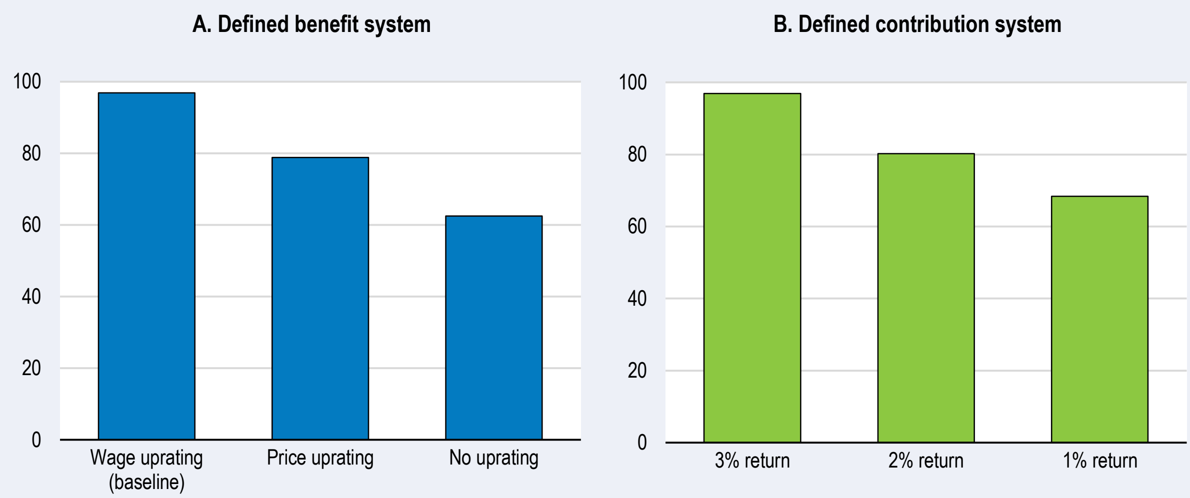
In the calculations price inflation is assumed to be 2% per year. Real earnings are assumed to grow by 1.25% per year on average (given the assumption for price inflation, this implies nominal wage growth of 3.25%). Individual earnings are assumed to grow in line with the economy-wide average. The contribution rate in the defined-contribution scenarios is 20%. The real rate of return on defined-contribution pensions is assumed to be 3%, 2% or 1% per year in the different scenarios. Administrative charges, fee structures and the cost of buying an annuity are assumed to result in a defined-contribution conversion factor of 90% applied to the accumulated defined-contribution wealth when calculating the annuity. The real discount rate (for actuarial calculations) is assumed to be 2% per year.

The simulations assume that tax system and social-security contributions remain unchanged in the future. This constant policy assumption implicitly means that “value” parameters, such as tax allowances or contribution ceilings, are adjusted annually in line with average worker earnings, while “rate” parameters, such as the personal income tax schedule and social security contribution rates, remain unchanged.

The benefits under a defined-contribution system are estimated to differ from the benefits promised under the current system. Under the current pension system a theoretical replacement rate of almost 100% is reached through both the basic pension and the occupational pension if past entitlements are uprated with wages (Figure 28, Panel A). Under a defined contribution system this replacement rate could be reached if real returns are on average 3%. Such assumption may be questioned in the current low interest rate environment. More realistically, with returns of 2% or 1% replacement rates would drop to 80% and 68%. However, it should be noted that these replacement rates are still well above the OECD average replacement rate (53%) and that these replacement rates do not differ much from the current system if past entitlements are only uprated with prices or not uprated at all (Figure 28, Panel B).

Figure 28. Pension replacement ratios under different scenarios

In per cent



Source: OECD Pension Model.

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Strengthening health care

Older people in the Netherlands are amongst the healthiest in OECD countries, especially high-educated population groups (Figure 29). One reason for the good health outcomes at older ages may be that access to health care is virtually universal today, and unmet health needs are an exception (OECD, 2017[18]).

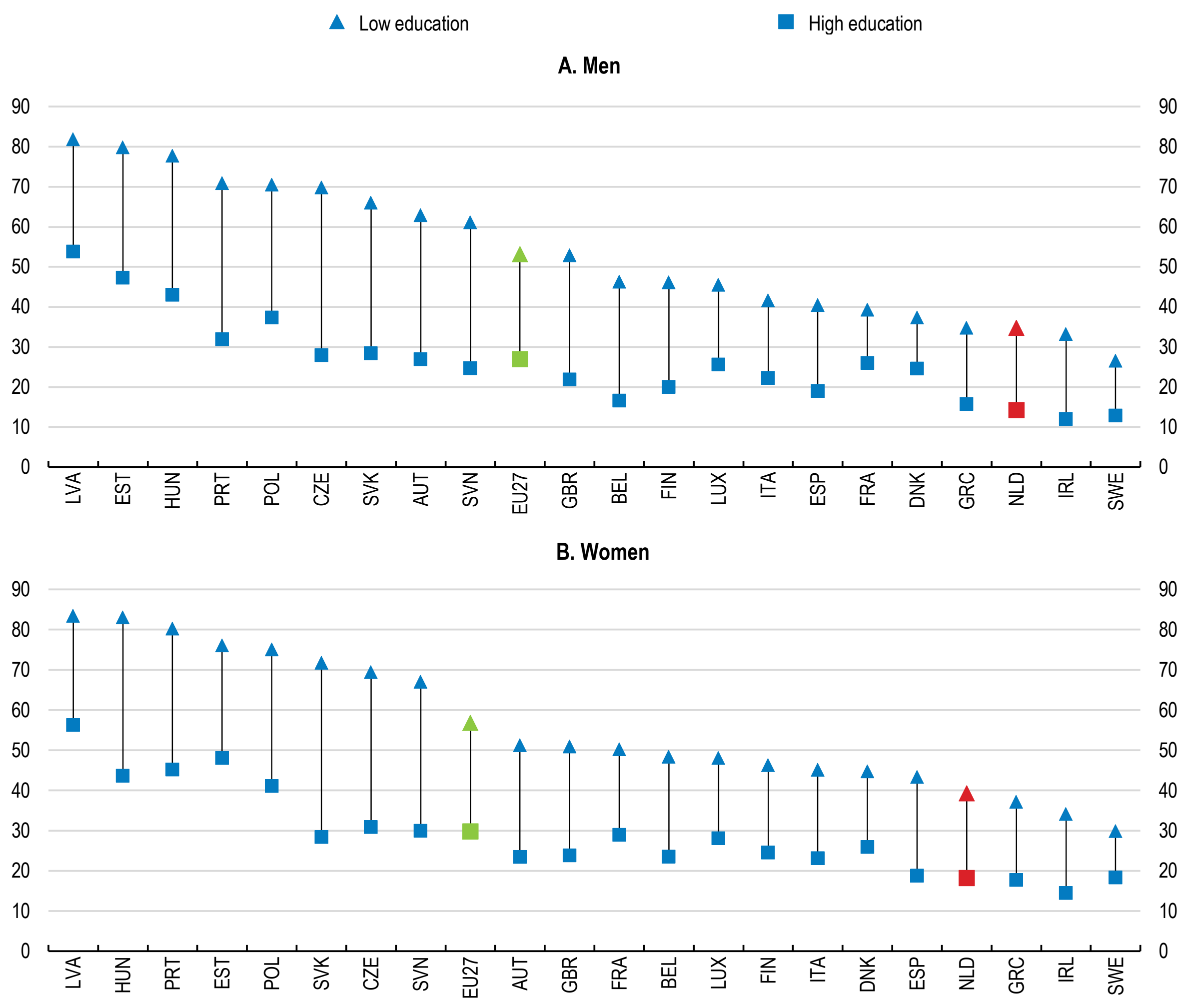
Despite the comparatively good health outcomes, health issues remain an obstacle to longer working lives in the Netherlands. While health alone cannot account for the strong decrease in employment at older ages in OECD countries (OECD, 2017[25]), a large proportion of jobless 55-64 year-olds declare that they are not looking for a job due to health reasons. Even though the Netherlands has made major efforts to accommodate unhealthy workers and jobseekers in order to retain them on the labour market (OECD, 2018[37]), sickness as a reason for not looking for a job is more common among 55-64 year-olds in the Netherlands than personal reasons, such as care activities (Figure 30).

The Netherlands has made significant progress in terms of risk factors avoidance over the past years. Many of the leading causes of death, such as lung-cancer and stroke, are still closely connected to the prevalence of risk factors, such as smoking and excessive alcohol consumption, even though both have become less important. The Netherlands should continue to promote health risk factor avoidance through a comprehensive set of anti-tobacco policies, including measures such as more smoke-free environments, reinforced help to quit smoking and taxes.

With population ageing, health systems will have to adapt to better manage the growing number of people living with one or more chronic conditions and who come from lower socio-economic groups (OECD, 2018[39]). In particular, health care should be better integrated across various disciplines towards a patient-centred approach; physician and nurse specialisation in geriatric care should also be further developed. There is a growing recognition that managing the care of ageing population will require changes in education and training to promote inter-disciplinary education and to ensure that health care professionals can work effectively as a team across different disciplines (social care, mental health, long-term care, medical care) (OECD, 2018[39]).

Figure 29. Older people in the Netherlands are healthy

Share of 50-64 year-olds in bad health (self-declared) by gender, in per cent, 2015

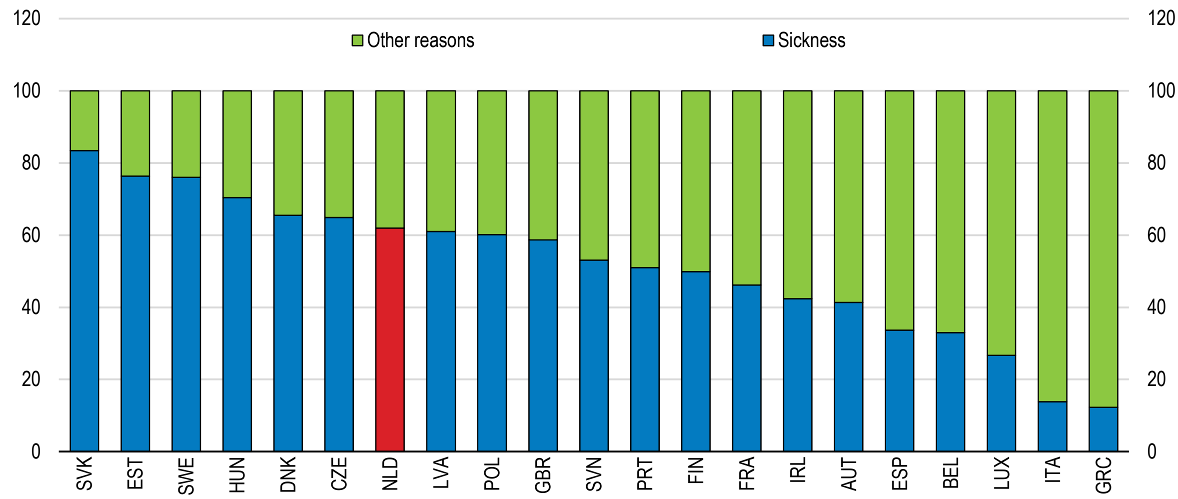


Source: Adapted from European Union Statistics on Income and Living Conditions (EU-SILC).

StatLink http://dx.doi.org/10.1787/888933775609

Figure 30. Sickness is the most common reason for not looking for a job among older inactive people

Reasons why 55-64 year-old jobless people do not look for a job, in per cent, 2016



Note: Calculations exclude "retirement" as a reason for not looking for a job. "Other reasons" include personal reasons, such as care activities and other personal activities, the belief that no work is available, unavailability for work due to a spell of education and other non-specified reasons.
Source: Adapted from European Union Labour Force Survey (EU LFS).

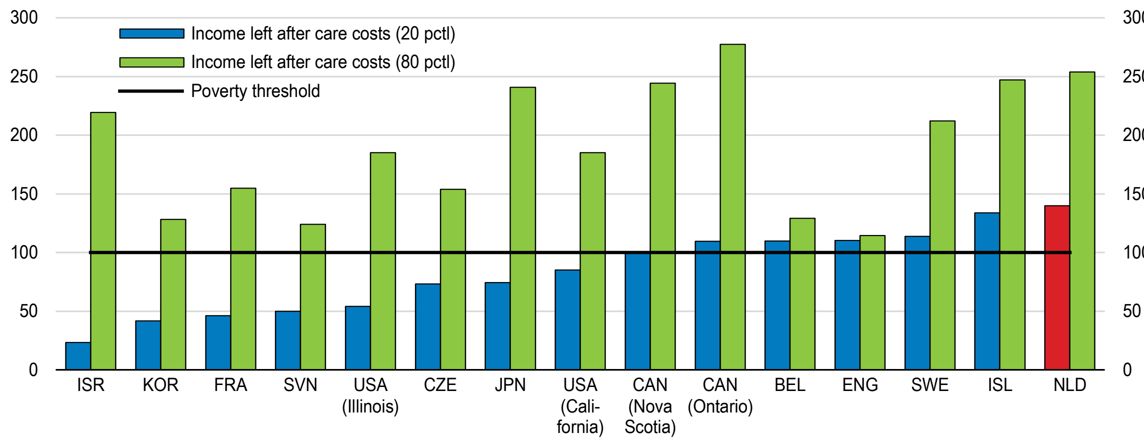
StatLink http://dx.doi.org/10.1787/888933775628

In the Netherlands, integrated care is being addressed by concentrating several pilots for chronic diseases and care for people with multi-morbidities, and the shift of care to lower levels (OECD and European Observatory on Health Systems, 2017[47]). However, tensions are likely to persist around how to reconcile competition with the need to facilitate greater care integration and the concentration of specialist skills. The number of newly trained health professionals is limited in the Netherlands. There is an institutionalised upper limit on the number of medical students, the so-called "numerus fixus". A low number of medical students increases the risk of a shortage of health professionals in the future, however. Raising the numerus fixus can be an important step towards a more resilient health-care system in the long run (OECD, 2012[44]). If a shortage of healthcare professionals occurs, this could also be addressed through increased international recruitment.

Long-term care is very well covered in the Netherlands and the individual financial consequences of long-term care needs are small, but the impact of recent reforms has to be monitored. The share of out-of-pocket long-term care costs is minor for low-income individuals, and it remains moderate also for those with higher incomes, avoiding a sharp fall in disposable income once long-term care costs are accounted for (Figure 31). The generous Dutch long-term care system has to be financed, however, and the Netherlands stands out as the OECD country with the highest long-term care spending as a share of GDP (Figure 32). This financial burden prompted the Netherlands to implement a major long-term care reform in 2015, as part of a broader reform of devolving the administration of social services to municipalities, aiming to contain the quickly growing costs and to make long-term care as efficient as possible. Municipalities are now in charge of social care, as a local organisation of social care was expected to be more efficient, whereas health providers are in charge of home nursing (OECD and European Observatory on Health Systems, 2017[47]). While the reform has also raised criticism, it is too early to evaluate its long-term effects.

Figure 31. Individual financial consequences of long-term care needs are small

Disposable income as percentage of the relative poverty threshold, selected OECD countries, 2016

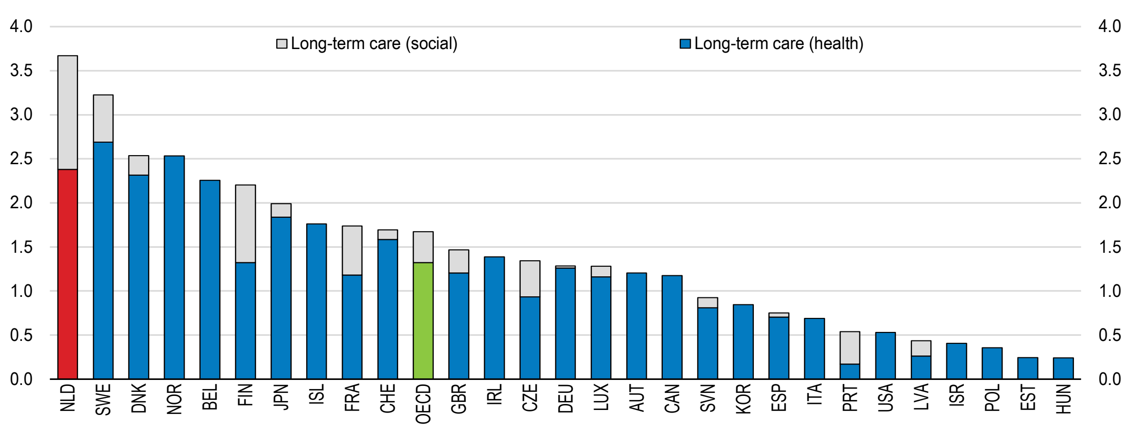


Note: Disposable income of home care recipients with moderate needs before and after their out-of-pocket contribution to care costs. The relative poverty threshold is half the median disposable income for the whole population. 20 percentiles refer to 20th income percentile; 80 percentiles refers to 80th income percentile. Percentiles refer to the distribution of disposable income among the over 65s in each country. Analysis assumes that people do not have savings which they can use to pay for care.
Source: OECD (2017), *Preventing Ageing Unequally*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933775647

Figure 32. Spending on long-term care is high in the Netherlands

Long-term care expenditure by government and compulsory insurance schemes, as a percentage of GDP, 2015



Note. 2014 for Japan. 2013 for Israel. The OECD aggregate is calculated as an unweighted average and it only covers the 15 countries that report both health and social long-term care.
Source: OECD (2017), *Health at a Glance 2017: OECD Indicators*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933775666

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Annex A. Progress in structural reforms

This annex reviews the actions taken since the previous Survey that are not mentioned in the Key Policy Insights.

Recommendations	Actions taken since the previous Survey
Fiscal policy	
Increase tax efficiency, notably by accelerating the reduction of mortgage interest rate relief and phasing out lower VAT rate, while keeping the tax reform fiscally neutral.	As planned in the Coalition Agreement income tax rates will be lowered, which will be partly financed by an increase of the lower VAT rate from 6% to 9%. In addition, the decrease of the mortgage interest rate deductibility will be accelerated.
Reconsider the degree of tax incentives for self-employed, and explore alternatives for ensuring they build adequate savings for disability, and ageing risks if needed.	The Coalition Agreement has proposed reducing the tax incentives for self-employment by gradually decreasing the maximum tax rate against which those incentives can be deducted. The government will also explore ways in which the rate of disability insurance among self-employed can be increased.
Continue to actively participate in international negotiations about coordinated action to combat tax base erosion and profit shifting (BEPS) of multinational enterprises and, within this international context, take appropriate domestic measures to support such action.	The Netherlands is one of the few countries intending to agree on all options of the multilateral treaty (BEPS), and is also implementing the EU ATAD-directive with appropriate measures.
Health and long-term care	
Further improve the risk-equalisation scheme to reduce insurers' incentives for risk selection, particularly in view of the government's intention to terminate ex post compensations before 2015.	Further improvements have been carried out. No signs of risk selection have been observed. Ex post compensations have been terminated.
Lift the current capacity constraints (numerus fixus) for medical schools and facilitate the recognition of foreign diplomas from outside Europe.	No action taken.
Allow for-profit hospitals to enter the hospital market. In addition, the orderly exit of bankrupt hospitals should be secured via measures to guarantee access to essential facilities.	No action taken.
Health insurers should not receive more responsibility for purchasing care until they are given proper incentives for cost-efficiency. In the longer term, the decentralisation of home care to municipalities could be completed and institutional patients should directly choose their care provider to push institutions to compete on quality to attract patients.	The incentive structure for insurers has remained unchanged. The decentralisation to municipalities is underway and good progress is being made. Providers of institutional care are increasingly dependent on the choice of patients and their relatives, although waiting lists somewhat hamper the selection process.
Keep the cash benefits scheme for home care but combine it with better screening and monitoring to avoid unintended use. To this end, a system of vouchers directly payable to professionals and topped up by co-payments should be envisaged	Unintended use has been reduced by means of the introduction of centralised accounts in combination with the right for recipients to draw on their personal benefits.
Unleashing SME dynamism	
Broaden access to academic research and increase the share of direct innovation grants to SMEs.	Tax incentives remain the primary instruments to promote R&D by SMEs. Two thirds of the financing of the WBSO tax incentive scheme is accounted for by SMEs. The Innovation Credit can also provide up to 50% of the cost of an innovation project for SMEs. As planned in the Coalition Agreement, financing for R&D funding schemes for SMEs and more intensive of the Small Business Innovation Research Programme.

Thematic chapter

Chapter 1. Making Employment More Inclusive in the Netherlands

The Dutch labour market has recovered and the unemployment rate has been converging towards pre-crisis levels. Non-standard forms of work have expanded with a strong trend towards self-employment and an increased reliance on temporary contracts. These developments may reflect a preference of some individuals for a more flexible working relationship, but they could also lower job security and job quality for others. Policies need to protect vulnerable groups in the more dynamic working environment without creating barriers to labour mobility and flexibility of the overall labour market. To improve the fairness of the tax system, policies should ensure a more level playing field between workers on different types of contracts. Regulatory policies should aim at raising labour market mobility to improve the matching of skills to jobs by easing the protection on permanent employment contracts and through a more targeted approach to activation policies for disadvantaged groups. Finally, measures should improve the skills of individuals in vulnerable groups to enhance their opportunities to find better jobs.

A stronger but changing labour market

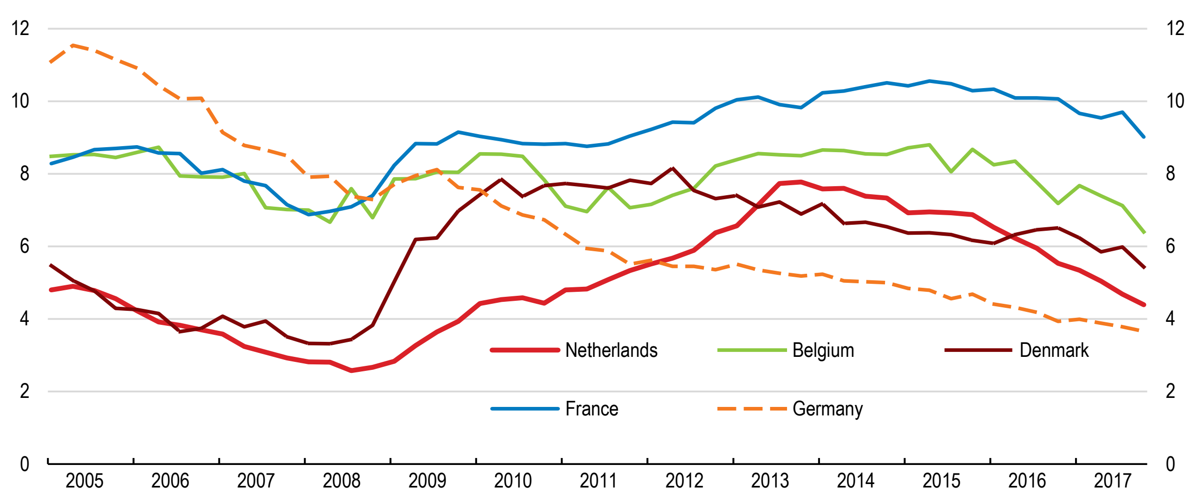
Overview of key challenges

The labour market situation in the Netherlands has improved significantly in recent years, largely reflecting robust gross domestic product (GDP) growth, but also reflecting strong labour market institutions and policies. After peaking in early 2009, employment remained broadly flat for a number of years, related to economic weakness associated with the European debt crisis and considerable fiscal adjustment undertaken in the Netherlands. However, the Dutch economy has now recorded employment growth in each of the past three years, at a growing pace. Unemployment has correspondingly fallen back towards pre-crisis rates and wage growth has gradually picked up reflecting falling slack in the labour market (Figure 1.1). Labour force participation remained strong throughout the crisis and the Netherlands continues to have one of the highest rates of labour utilisation in the OECD, with an employment rate of around 80% (Figure 1.2). Labour productivity growth has also begun to recover in recent years, although it remains below its pre-crisis trend growth (see Key Policy Insights).

The strong headline indicators of labour market performance mask transformations and new challenges. Perhaps the most important is a high and rising percentage of non-standard forms of employment, which includes individuals who are on temporary or flexible contracts and those who are self-employed (Figure 1.3). In particular, the share of self-employment in total employment has risen considerably over the past decade (Figure 1.4).

Figure 1.1. Labour market has improved considerably since the crisis

Unemployment rate, in per cent

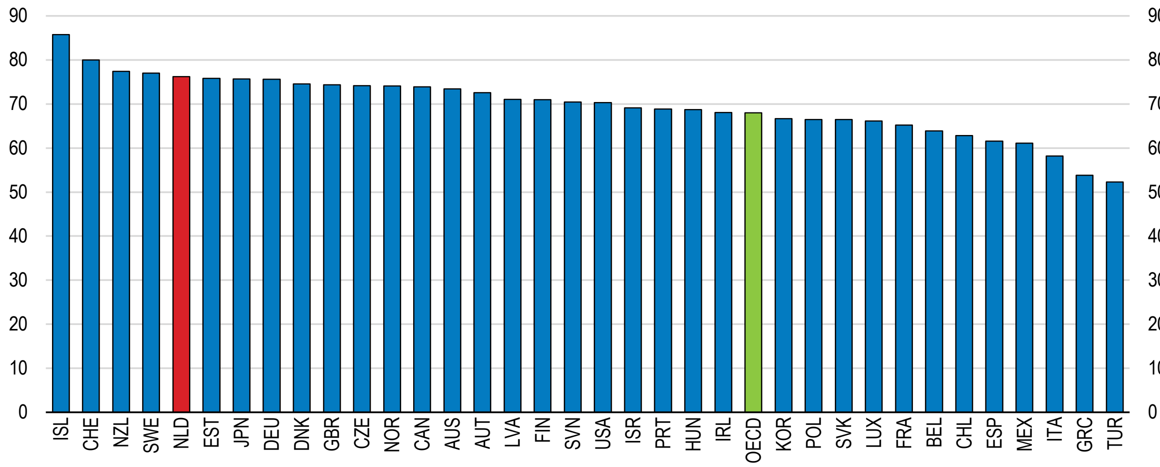


Note: Data refer to population aged 15-64.
Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), June.

StatLink http://dx.doi.org/10.1787/888933775685

Figure 1.2. Labour utilisation remains high in the Netherlands

Employment-to-population ratio, in per cent, Q4 2017



Note: Data refer to population aged 15-64.
Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), April.

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The overall rise in importance of non-standard work contracts could partially be explained by large gaps in the tax and regulatory treatment of these types of work compared to permanent employment. This could particularly be the case for self-employment, where labour market policies and institutions have had an impact in determining the share of self-employment in total employment across countries (Box 1.1). In the recent Coalition Agreement, the government announced planned measures aimed at addressing challenges associated with non-standard forms of work and other labour market issues (Box 1.2).

Box 1.1. To what extent do policies contribute to self-employment? Cross-country evidence

Recent research (Baker et al., 2018[11]) aims at identifying the potential labour market policies and institutions that could play a role in the decisions of individuals to become self-employed. Policy indicators include: the strictness of employment protections, approximated using an OECD's employment protection indicator; the difference in the tax and social security treatment between employees and the self-employed; the size of the overall tax wedge on labour income; the relative minimum wage rate to the median; unemployment benefit replacement rates; and the level of spending on labour activation programmes (ALMP) for unemployed individuals, corrected for the business cycle. Panel regressions for the period of 1995-2013 which include 26 OECD European countries find that:

- **The generosity of unemployment benefits** is a major determinant of the long-term share of self-employment in Europe. This result holds when focusing on the share of own-account self-employed, also for all age groups, gender, and skill levels. One interpretation of this result would be that unemployed workers might be more willing to take on the risks of starting their own business if their income support from benefits is low.
- **ALMP spending** is found to have a negative impact on the level of self-employment across countries. However, this relationship is not as strong when focusing on own-account workers or younger age groups. Enhanced job matching increases the chances of finding a new job and reduces the necessity to opt for self-employment.
- No significant relationship between the stringency of **employment protection legislation** and the share of self-employment was found. However, there is a significant negative relationship when focusing only on the share of self-employment amongst highly skilled workers. When protection is high, high-skilled workers opt for more regular employment, to benefit from such a protection, as those workers are more likely to have permanent contracts than low and mid-skilled workers. By contrast high employment protection is associated with an increase in self-employed for low-skilled, as self-employment could be used to circumvent the costs associated with regulation for this type of workers.

Furthermore, although the formal education system and participation in lifelong learning is generally quite good in the Netherlands, certain vulnerable groups tend to be under-represented, further disadvantaging them and their labour market prospects. Older workers do not necessarily receive the training and support that help them adapt to modern labour market dynamics; immigrants and individuals with immigrant backgrounds face barriers to labour market integration reflecting a potential lack of skills or skills that are not adequately acknowledged by Dutch employers; and low-skilled workers, who tend to be much more responsive to training in terms of labour market outcomes are also under-represented in lifelong learning.

Box 1.2. Key labour market policies announced in the Coalition Agreement for 2018-21

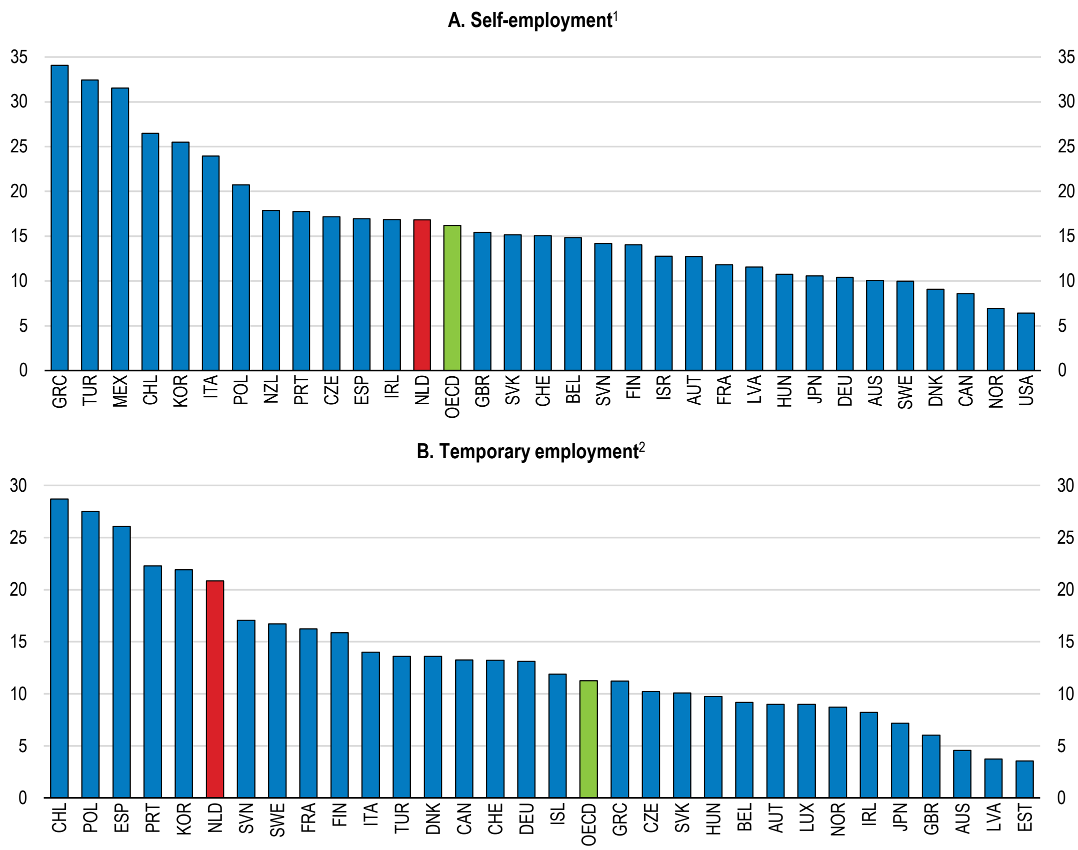
The new government has outlined its planned tax and regulatory policy reforms between 2018 and 2021, as part of the Coalition Agreement announced in October 2017. The Netherlands Bureau for Economic Policy Analysis (CPB) estimates that the stimulatory nature of all the policies will result in the fiscal surplus being on average 0.6 percentage point lower per year throughout the 2018 and 2021 period than otherwise (CPB, 2017[2]). Some of the key labour market policies include:

- **Introduction of a collective ground for dismissals**. A cumulative ground for dismissal can be made based on meeting and adding up multiple dismissal criteria if each individual criterion by itself is not sufficient to allow for dismissal (which was the condition in the previous system), but the criteria combined make a strong enough case.
- **Severance payments**. All employees will now be eligible to receive severance payments from the start of their employment contract. Employees will be entitled to one-third of a month's salary each year of service. This also applies to employees who have been in service for more than 10 years, who currently receive an amount of half of a month's salary for years of service after the 10th year. Proposed changes to the system for small- and medium-sized enterprises (SMEs) include compensating small employers for severance payments to workers who are dismissed due to long-term incapacity to work and if they need to close down due to retirement or illness of the employer.
- **Fixed term and zero hour contracts**. The period for which successive temporary contracts will be automatically converted into a permanent contract will be increased from 2 to 3 years. Permanent availability requirements will be prohibited unless the work involved warrants them. Employees will not be required to respond to work calls on short notice, and will be entitled to pay if work is cancelled on short notice.
- **Sick Leave and incapacity to work**. For small enterprises, the public employment services (PES) will cover the second year of wages for a worker who is away from work due to illness or injury. Small enterprises would pay for this by means of an insurance premium. The method for assessing the degree of incapacity will be adjusted with the aim of reducing the number of individuals declared fully incapable of work. More training and support will be available to improve the prospects of disability benefit recipients to return to work.
- **Self-employed**. A minimum rate of earnings will be applied to self-employed workers, with hourly earnings between EUR 15 and 18 per hour, unless they work for less than three months for the same employer and do not perform the firm's core activities. If workers earn a lower hourly rate than this band, they will automatically be deemed an employee for tax and regulatory purposes. A new client statement system is planned for workers who earn more than the minimum rate, which is planned to replace the current system of model agreements (*Wet DBA*). There will also be a "high-rate" of EUR 75 per hour, whereby workers who charge more than this will be able to opt out of any salaries tax or insurance schemes if the work they provide lasts less than one year or do not perform the firm's core activities.

- **Personal Learning Accounts**. Individual accounts that cover the training costs for individuals and are attached to the individual, not the job, are planned to be introduced. Only individuals with a basic educational qualification will be eligible for an account.
- **Paternity leave**. Paternity leave on full pay will be extended from 2 to 5 days. A further 5 weeks of paternity leave at 70% of earnings will also be introduced.
- **Pension system**. The government outlined its intention to modernise the second-pillar pension system, while acknowledging that any changes will require agreement by the social partners. The government suggests that an individual account system with collective risk sharing, in line with one of the possible options proposed by the Social and Economic Council of the Netherlands (SER) would be the best avenue for change. It is also the government's intention to abolish the uniform pension contribution system, to allow for more flexibility.

Figure 1.3. Share of non-standard forms of work in total employment is high in the Netherlands

As a percentage of total employment, 2016



1. 2015 for the Slovak Republic. 2014 for Latvia. Data refer to population aged 15 and over.
2. 2015 for Australia. Data refer to employees.

Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), April.

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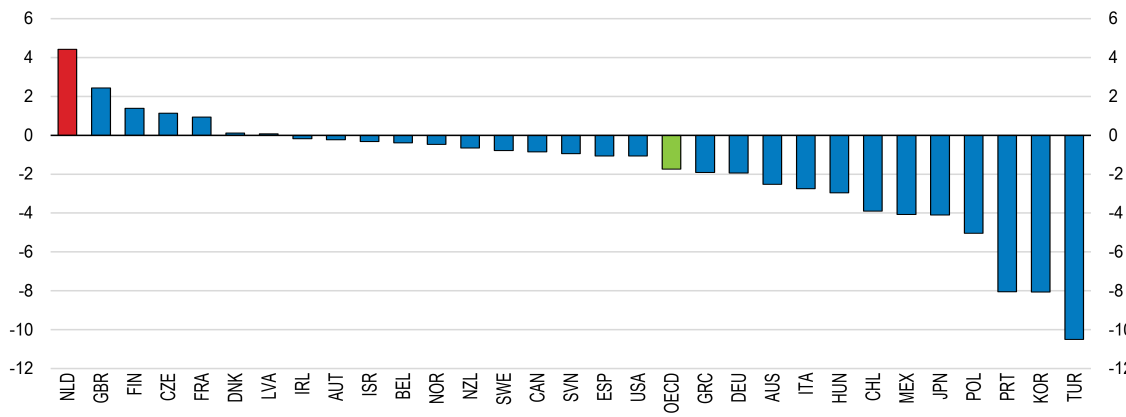
Figure 1.4. Self-employment's share in total employment has risen strongly over the past decade

Change in the share of self-employed between 2005 and 2016, percentage points



Note: Change between 2005 and 2014 for Latvia. The OECD aggregate is calculated as an unweighted average of the data shown.
Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), April.

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Non-standard types of work can reflect new opportunities and individual preferences for more flexibility in working relationships on some occasions. However, they could result in a deteriorating quality of work, with weaker job and income security in some cases, affecting vulnerable groups disproportionately (OECD, 2015[3]). These trade-offs implied by non-standard forms of employment call for calibrated policy responses to address the downsides of lower job quality while preserving the benefits of increased labour market flexibility, knowing that large differences exist across and within different types of work. Policies to address some of the negative implications of higher rates of non-standard work, without restricting the benefits of increased flexibility that these types of work allow for, are a key theme of the most recent OECD *Jobs Strategy*. The *Strategy* is organised around three principles: to promote an environment in which high-quality jobs can flourish; to prevent labour market exclusion and protect individuals against labour market risks; and to prepare for future opportunities and challenges associated with a rapidly changing economy and labour market (OECD, 2018[4]).

According to the *Strategy*, it is important that new forms of working arrangements are not stifled but facilitated. It is equally important that the ability of the workforce to adapt to the dynamics and flexibility of a modern labour market is strengthened. Furthermore, from a regulatory and tax policy viewpoint, it is essential that different forms of employment are treated as fairly as possible. Any benefits or disadvantages which are given to a particular group should be proportionate to the risks they bear, or to the extent to which they are exposed to increased flexibility - for example, how they are taxed and what types of insurance coverage they have.

Accompanying the shift to non-standard work forms and more flexible relationships is the sharp increase in jobs that are usually short-term and task-based, and are facilitated through digital platforms. This shift towards the “gig” or “sharing” economy has important implications for how services are delivered and on modern working practices. As with other non-standard forms of work, there are considerable benefits associated with the flexibility of these working arrangements, but also risks to job quality. Indeed, policies that aim at regulating flexible work, should aim at protecting those who are most likely impacted by the potential negative consequences, without reducing the benefits associated with increased flexibility and a more targeted delivery of services to clients that these digital platforms facilitate.

Preparing for future opportunities and challenges advocated by the *Strategy* also has resonance in the Dutch context, given the low levels of skills investment by vulnerable or disadvantaged groups into lifelong learning strategies and other off-the-job training in the Netherlands (OECD, 2017[5]). Firm-specific, on-the-job learning plays an important role in improving the skills of workers who stay in the same job for the duration of their careers. However, with increased flexibility of working arrangements, the need for more transferable, non-job-specific skills is equally important to increase the resilience of the Dutch workforce and to foster its income prospects. Furthermore, workers on temporary contracts generally tend to receive less training than those on permanent contracts which could be a particular problem in the Netherlands given the high use of the former.

When introducing policies to address the rise in non-standard forms or work, it is important to ensure that all workers have a level playing field with regards to tax and regulatory measures. Decisions to work fewer hours, work under a temporary contract or become a self-employed contractor should be based on the preferences of individuals and businesses and not hinge exclusively on incentives related to differences in regulatory treatment of different contract types. Furthermore, given that the labour market of the future will involve constant evolution, disruption and adaptability, policies should: increase labour mobility across jobs and from unemployment or inactivity to employment; ensure an appropriate use of different types of work contracts; and facilitate a greater flexibility in the number hours worked.

Rapid expansion of self-employment

The Netherlands has witnessed a considerable rise in the share of self-employment in total employment, predominantly those who are own-account workers and do not hire other employees. This increase has been greater than in most other OECD countries, where the proportion of workers who are considered self-employed has fallen on average since 2005 (Figure 1.4). The composition of self-employed is very heterogeneous in the Netherlands, with rising levels across most regions, sectors and age groups. The industry share of self-employed is currently the highest in professional and technical services, wholesale and retail trade, and construction and healthcare sectors, which collectively account for over half of all self-employed (Figure 1.6). There has been a rising share of self-employment across all age groups, with the strongest growth amongst older workers (Figure 1.7, Panel A). Using educational attainment to approximate skill levels indicates that the rise in self-employment has occurred across all skill levels, but the rise in those with high educational attainment has been the strongest (Figure 1.7, Panel B). Much like the industrial composition of self-employment, attainment levels differ across the different age groups. Younger workers with higher levels of education are increasingly undertaking self-employment as are older workers of all skill levels.

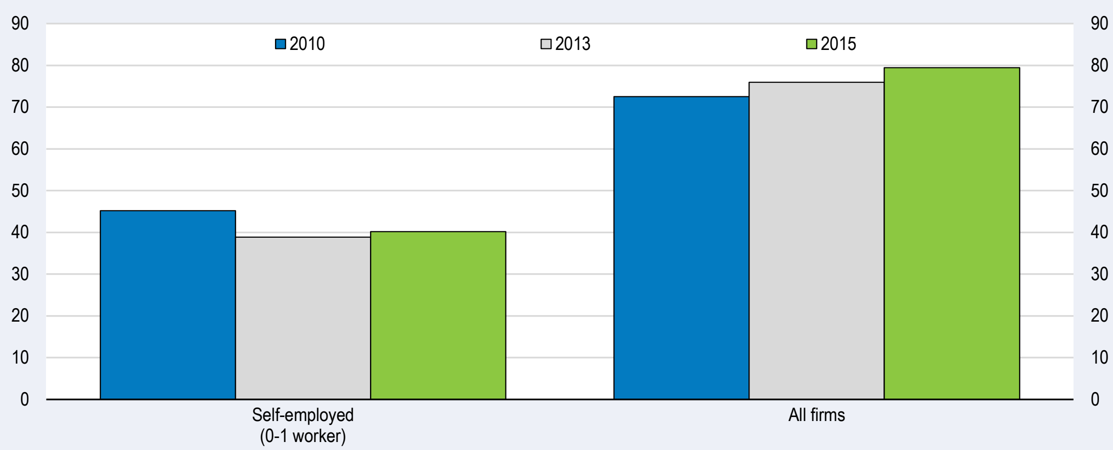
Box 1.3. Self-employment and productivity

The relationship between self-employed and productivity is not straightforward, and there are many different channels through which one can impact the other (IBO, 2015[6]). Own-account workers can be, in theory, more selective in choosing work assignments which generate the highest rate of return, although this information is not available. There are also more indirect ways for self-employed to contribute to productivity growth, which however are difficult to measure. Self-employed can take a role as a facilitator of innovations because of their flexibility and their specialist knowledge. By working for different clients they can also acquire new knowledge (by learning on the job) and spread this knowledge onto new clients and other self-employed. Finally, the rise of the self-employed and the high degree of entry and exit contribute to the dynamics of the market, which can stimulate competition and in turn lead to higher rates of productivity growth.

On the other hand, self-employed are not able to achieve economies of scale compared to firms with more employees and they have a lower bargaining position vis-à-vis their clients. Self-employed also spend less time on training than employees do (Van Echtelt et al., 2016[7]). Furthermore, self-employed workers, as a group, tend to invest less in innovation and productivity-enhancing technologies (Berden et al., 2010[8]; Dosker et al., 2011[9]). In the Netherlands, empirical evidence shows that the productivity of self-employed workers is lower than that of employees. When measured on a comparable basis, the average labour productivity of own-account workers has been significantly lower than for workers in all other businesses (Figure 1.5).

Figure 1.5. Employees are more productive than own-account workers in the Netherlands

Value-added per full-time equivalent worker, in EUR thousand



Source: CBS (2017), "CBS-analyses voor het jaarbericht", Statistics Netherlands, November.

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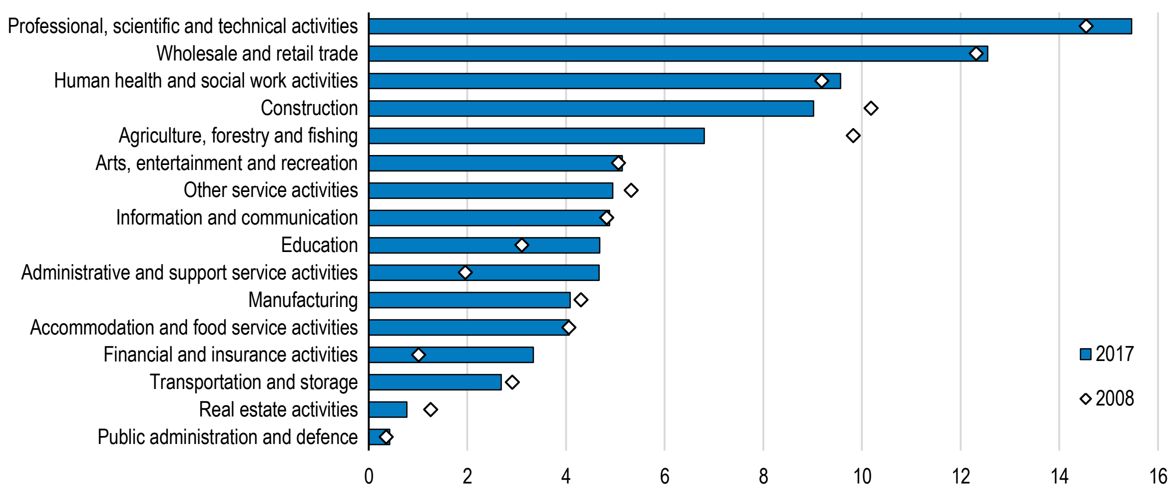
To the extent that the rise in self-employment is associated with entrepreneurial activity and more innovative activity, this would be positive for productivity growth and living standards, although in the Netherlands this has generally not been the case (ter Weel et al., 2017[10]). Self-employment can also be an avenue to avoid existing protections and labour market institutions, for instance by businesses hiring self-employed as contractors to avoid paying minimum wages, to pay lower social security contributions or to provide a less secure contractual relationship. There is also no relationship between rising levels of self-employment and aggregate productivity growth in the Netherlands over recent years, and data show that employees are generally (or on average) more productive (Box 1.3).

Figure 1.6. Self-employment is more important in services industries

As a percentage of total self-employment



Note: Data refer to population aged 15-74.
Source: Eurostat (2018), "Self-employed - LFS series", *Eurostat Database*, April.

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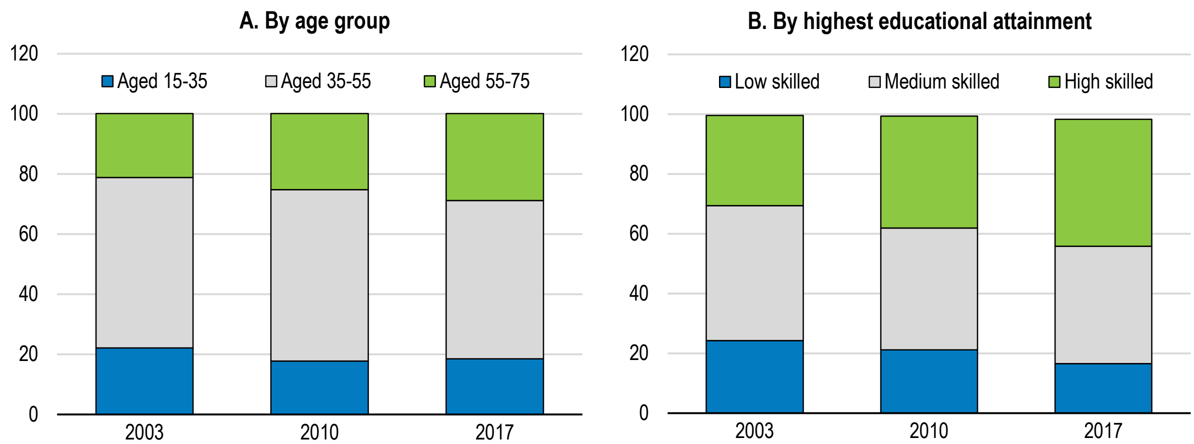
Figure 1.7. Older individuals and the high skilled account for an increasing share of self-employment

As a percentage of total self-employment



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

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The growing share of older self-employed workers could partly reflect the return of marginally attached or unattached workers who have retired from permanent employment and have now decided to re-enter the workforce (van Solinge, 2014[11]). Older workers who have accumulated more pension and housing wealth than younger workers, might consider that the flexible benefits of self-employment – in particular choosing when and how much you work – far outweigh the potential negative impact that health and age-related issues can have on their individual financial security. Older workers returning to work through self-employment, after retiring from permanent employment, has also contributed to the increase in overall self-employment in the United Kingdom, another country that has witnessed considerable self-employment growth in recent years (ONS, 2018[12]). Policies could also have a role to play, as returning from retirement or staying in work longer than initially planned might be a reaction to the increased pensionable age.

Recent surveys show that self-employed workers are generally happy with their situation, which could be an indication that the increase in this type of flexible working relationship is not related to a rise in one-sided flexibility which benefits the business/client disproportionately. In fact, self-employed individuals, either with or without employees, report a slightly higher job satisfaction than permanent employees (CBS, 2017a). However, workers who find themselves self-employed for negative reasons – for instance, if they were made redundant from their previous employment – have lower levels of job satisfaction than other self-employed workers (Lautenbach et al., 2017[13]).

This positive assessment of job quality by self-employed could partly reflect the current stage in the business cycle. Given the strength of prevailing economic conditions, self-employed workers are most likely benefiting from the flexibility without being faced with the potential negative consequences. Self-assessed job satisfaction might not be as high during an economic downturn, when demand for their services could be limited, and it is easier for firms to cut down on their contracted services than it is to reduce the number of employees. Furthermore, the lack of social protection could also be a greater issue for the self-employed during a period of deteriorating demand or over the longer term.

There are large fiscal incentives for the self-employed

Differences in the tax treatment of different types of work contracts play a key role in contributing to the sharp rise in self-employment in the Netherlands (IBO, 2015[6]). Self-employed workers enjoy large tax deductions that are not available to employees and are not subject to a number of social security contributions, covering against unemployment, sickness and disability risks. As a result, employers and employees have to pay considerably higher insurance premiums than self-employed. Also, for self-employed workers there is no obligation to make contributions to supplementary second pillar pension schemes, at the occupational or sectoral level.

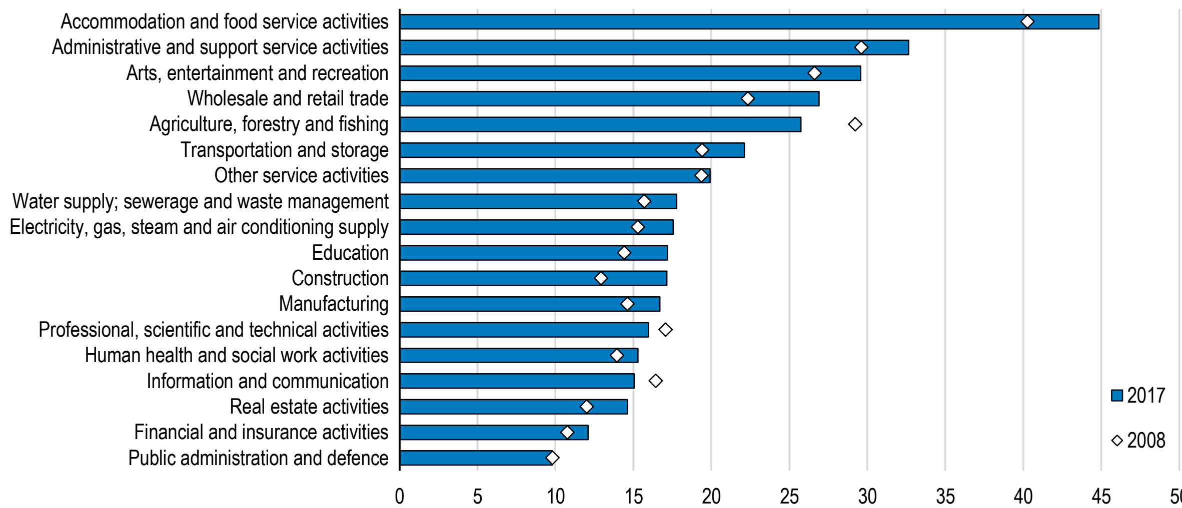
These features shift the burden of pension and insurance coverage to the individual. Given the lower labour costs and increased flexibility associated with self-employed work, there are important implications for job quality and income security of low-skilled and low-income workers, who are less likely to have sufficient savings to insure against unforeseen medical risks or to build up a suitable pension. A self-employed worker, who has recently been an employee, has the opportunity to opt into public social security, with contributions and benefits calculated based on their past wage rate (while in employment) or the prevailing minimum wage. They can also decide to compensate for periods of illness, incapacity of work, and unemployment through private insurance schemes, which can be deducted from income tax. Individuals can increase the size of their own pension contributions to likewise compensate for the lack of participation in second pillar pension schemes. In practice, most self-employed workers do not take out insurance to address these risks. It is important to note that a portion of self-employed have additional jobs, for which they are covered by social security, and therefore not as exposed to the risks to income security that a complete lack of coverage would entail. According to recent estimates, around 10% of workers work both as an employee and as an own-account worker (SER, 2018[14]).

Temporary contracts are also on the rise

The growing importance of temporary contracts has also implications for job quality and income security. Between 2000 and 2016, the share of employees on fixed-term contracts increased from around 15% to slightly more than 20%, and now represents one of the highest shares across OECD countries. Temporary contracts are most prominent in the hospitality and administrative support industries and are overwhelmingly used by individuals in lower-skilled occupations (Figures 1.8 and 1.9). Younger workers account for the largest portion of the increase in temporary work contracts in the Netherlands, which could indicate the use of flexible contracts by students, who might prefer to work variable hours to meet their study demands. Indeed, the majority of 15-24 year olds are employed on temporary contracts at a rate higher than the EU average.

Figure 1.8. Temporary contracts are most prominent in the hospitality and administrative support sectors

Employees with temporary contracts, as a percentage of total number of employees by industry



Note: Data refer to population aged 15-74.
Source: Eurostat (2018), "Temporary employment - LFS series", *Eurostat Database*, April.

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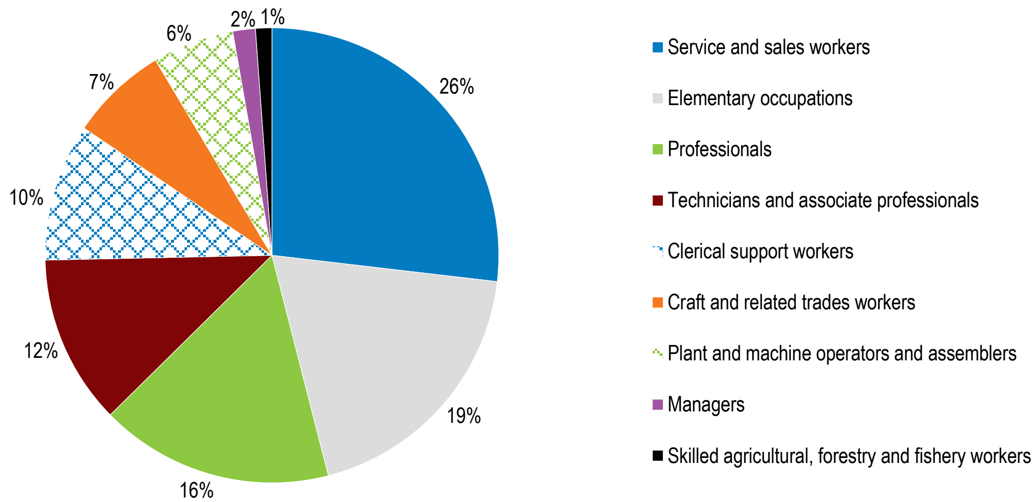
While temporary contracts could also be considered a bridge to a permanent contract – essentially an alternative to a probationary period – in practice this is not the case for all workers in the Netherlands. The rate of conversion between fixed to open-ended contracts is low when compared to other European countries (OECD, 2016[15]) and, unlike for the self-employed, workers on temporary contracts tend to have lower levels of worker satisfaction than employees with permanent contracts (CBS, 2017[16]).

"On call" or "zero hour" contracts, where there is no obligation for the employer to provide any prior notice about working hours, are becoming more prevalent in the Netherlands. These contracts rose from around 3% of employment to over 6% by 2015 (Figure 1.10), far outpacing the growth in other types of flexible contracts in that period (Bolhaar, Brouwers and Scheer, 2016[17]). Although the increased flexibility associated with these contracts is beneficial from a business standpoint, for workers in vulnerable groups the lack of income and job security could make them undesirable. There has been a similar rise in the use of such high-flexibility, low commitment contracts in other OECD countries. Their possible negative implications have garnered much attention in the United Kingdom, Ireland and New Zealand in recent years, with policies being introduced in the latter two countries to significantly curb their use (UK DfBEIS, 2017[18]; O'Sullivan et al., 2015[19]). In Ireland, the usage of non-guaranteed work contracts have been banned except in the case of genuinely casual work and in New Zealand employers are prohibited from requiring employees to work more than the mutually agreed upon hours that are set out in the work contract.

Figure 1.9. Temporary contracts are predominantly used in low-skilled occupations

As a percentage of total number of temporary employees, 2017



Note: Data refer to population aged 15-74.
Source: Eurostat (2018), "Temporary employment - LFS series", *Eurostat Database*, April.

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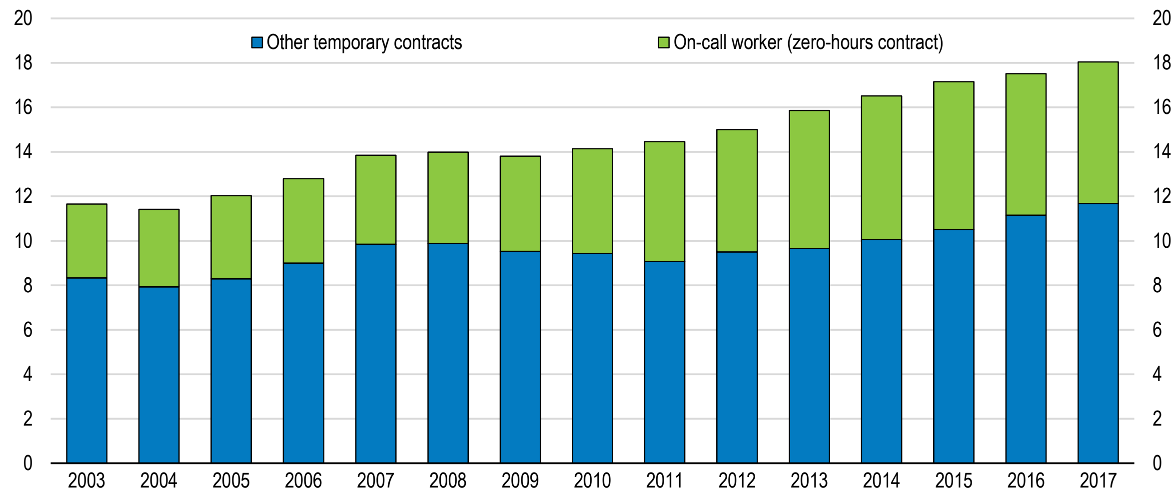
Part-time employment is high but not gender-balanced

Workers in the Netherlands have a stronger preference for working shorter hours than their OECD counterparts. As a result, the Netherlands has the highest incidence of part-time work in the OECD. Workers who work part-time tend to enjoy high levels of job satisfaction, when compared to full time workers, and the share of individuals who are 'involuntarily' employed part-time is very small relative to total part-time employment (Figure 1.11). A further indication of the preference to work part-time is that the Netherlands is the highest ranking country in the work-life balance measure of the OECD's better life index (OECD, 2017[20]).

However, women account for a large majority of part-time workers (Figure 1.12). This high share can be partly attributed to cultural aspects of the family, where women are considered to be the primary care givers and men the primary income earners (OECD, 2017[21]; Van Doorne-Huiskes and Schippers, 2010[22]). A trend towards more equality in household and professional duties has been important in recent decades across most OECD countries, including in the Netherlands, reflecting both higher labour force participation by women and increasing participation in family-related domestic duties by men (Goldscheider, Bernhardt and Lappegård, 2014[23]). The increased participation of women has coincided with little change in the share of total part-time work.

Figure 1.10. Contracts with a high degree of flexibility account for the increase in temporary contracts

Employees with a temporary contract, as a percentage of total employment



Note: On-call workers are available on demand for carrying out work.
Source: CBS (2018), "Werkzame beroepsbevolking; positie in de werkkring", *Statline Database*, Statistics Netherlands, April.

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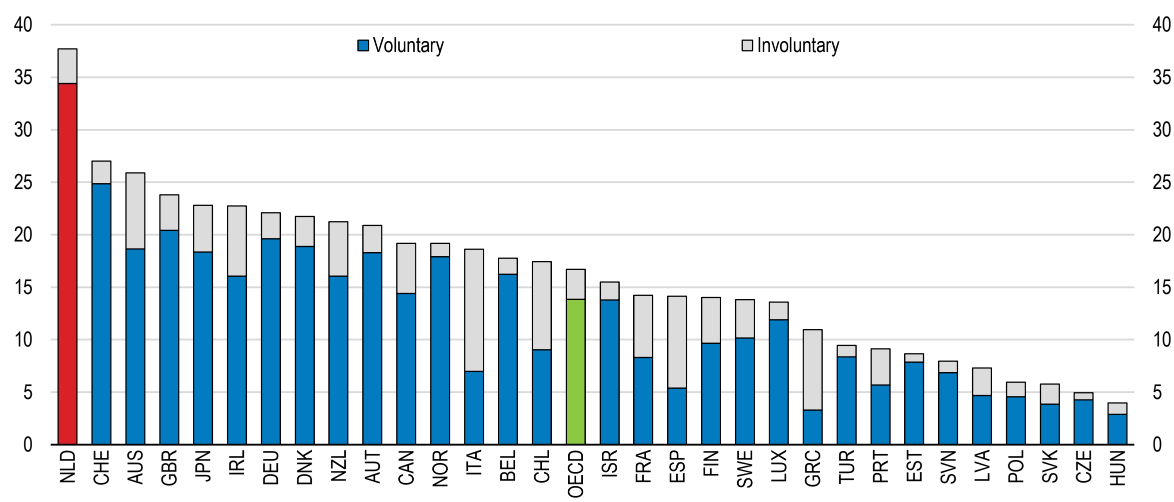
Figure 1.11. Many individuals work part-time, and only a minority do so involuntarily

Part-time employment as a percentage of total employment, 2016



Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), March.

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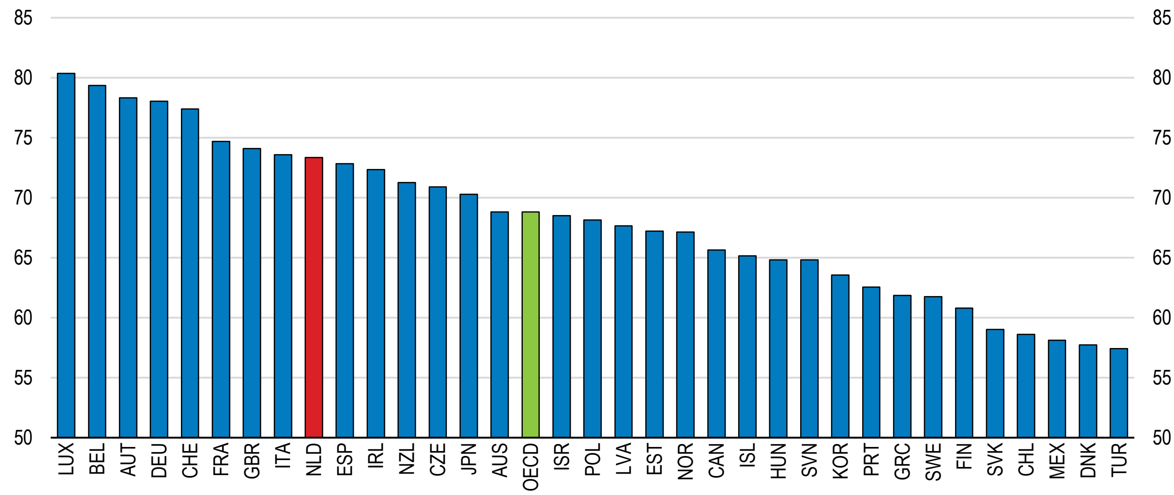
Figure 1.12. Large gender bias exists in part-time employment

Women part-time employees as percentage of total part-time employment, 2016



Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), March.

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Women are working part-time earlier in their careers, before they have children, which could be an indication of non-family-related drivers behind the decision to work fewer hours. Young women are more likely to work part-time or work on a flexible contract, with a higher proportion wanting to work more hours, upon completing their education than compared to men (Merens and Bucx, 2018[24]). Indeed, younger women tend to have a higher degree of involuntary part-time work, but correcting for this, the evidence still suggests a strong preference towards fewer working hours.

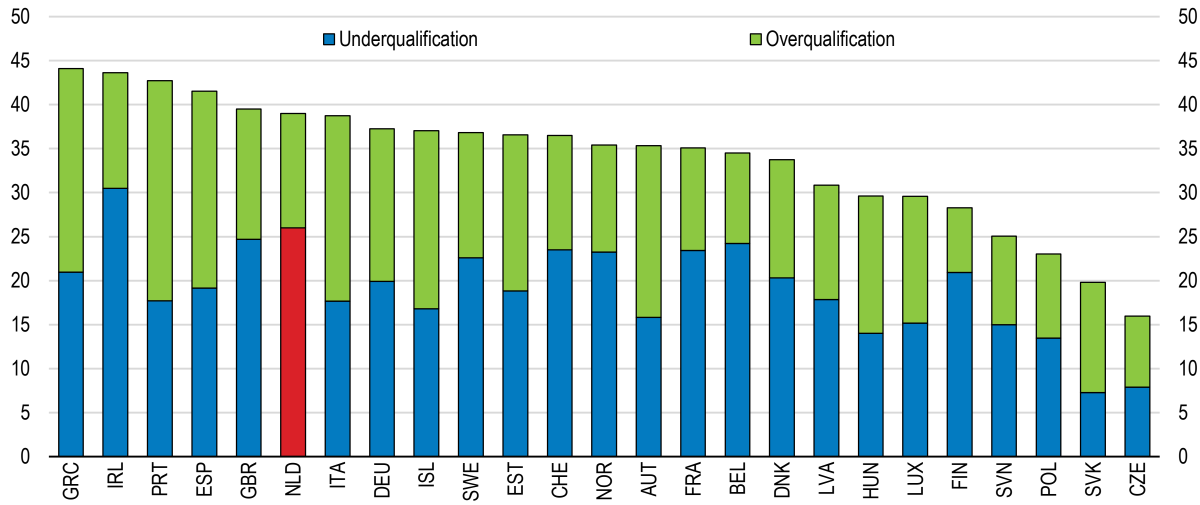
Gender inequality in working time implies that women are more likely to attain less expertise and knowledge through on-the-job learning, and might find it more difficult to be promoted over men who work longer hours. Furthermore, women who work fewer hours accumulate less pension and financial wealth making them more exposed to unforeseen financial or economic shocks. Women are much more likely to suffer a significant financial loss than men as a result of a divorce or separation (OECD, 2017[21]).

Vulnerable groups lack the skills needed on the labour market

Skills investment throughout a worker's lifetime is important to adapt to future risks and challenges. The importance of lifelong learning is another key pillar of the OECD *Jobs Strategy*, and one of the key themes in the previous *Economic Survey* (OECD, 2018[4]; OECD, 2016[15]). Creating a learning culture in the Netherlands has been a policy goal for successive governments and social partners for some time, although progress in achieving this has been slow. The Netherlands scores consistently above the OECD average with regards to participation in training, but it lags behind some of the best performing countries (OECD, 2017[5]). Furthermore, skills mismatch after formal education is a particular problem, as the Netherlands has one of the highest levels of under-qualification in the OECD (Figure 1.13). However, this could in part be an indication of how effective on-the-job and lifelong learning is in the Netherlands, implying that workers gain the required skills and training to do their current jobs after they have finished formal education.

Figure 1.13. Many workers are considered to be underqualified for the job

Workers indicating their qualifications are higher or lower than required for their current job, as a percentage of all workers, 2015



Note: Qualification mismatch arises when workers have an educational attainment that is higher or lower than that required by their job. If their education level is higher than that required by their job, workers are classified as over-qualified; if the opposite is true, they are classified as underqualified.
Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), March.

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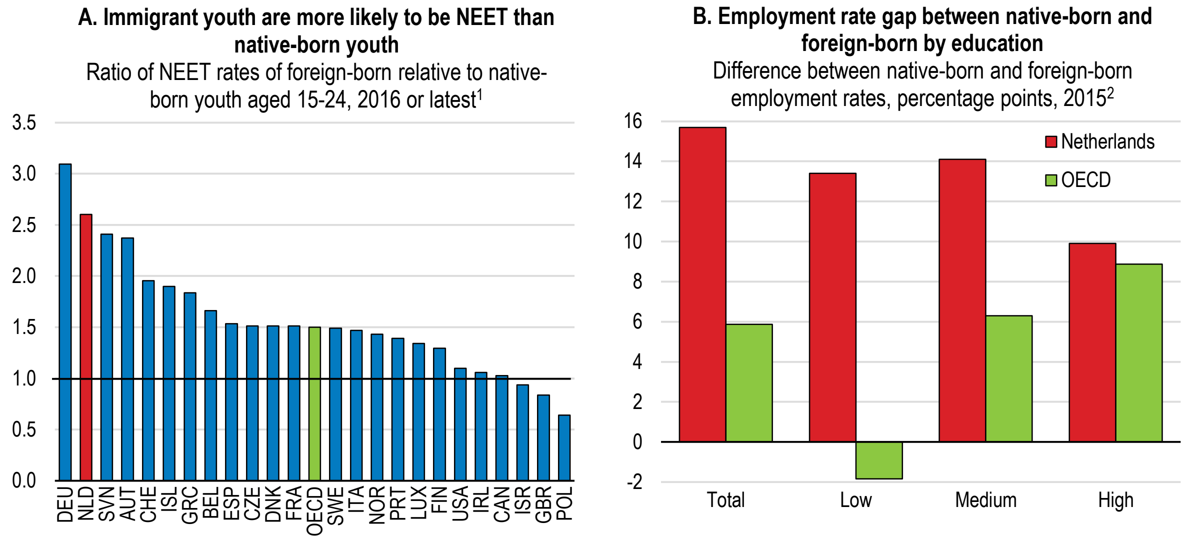
The increase in flexible working relationships in the Netherlands could also be contributing to underinvestment in skills, as employers might be less inclined to train individuals marginally attached to their business and self-employed individuals might balk at the costs of funding such training themselves. The incidence of formal training is much higher for workers on permanent contracts than those on temporary contracts or who are self-employed, although the self-employed report considerably higher levels of informal self-learning than permanent employees (Borghans et al., 2014[25]).

Vulnerable groups receive considerably less lifelong learning and formal education (OECD, 2017[5]). For instance, low-skilled workers receive less lifelong learning than high-skilled workers. Even amongst adults who indicated that further skills investment is a necessity for their job, higher skilled individuals are significantly more likely to participate in training (Van Echtelt et al., 2016[7]). Unemployed individuals engage less in education and training than those who are employed, with the gap between participation rates being amongst the highest in OECD countries. Migrant workers tend to have poorer employment outcomes and are less likely to be enrolled in formal education or training than Dutch individuals, particularly in young age groups (Figure 1.14, Panel A). The difference between the employment rates of native-born and foreign-born individuals is amongst the highest in the OECD, and considerably higher when looking only at low-skilled individuals (Figure 1.14, Panel B).

Figure 1.14. Immigrants are more detached from the labour market than natives



1. NEET: not in employment, education or training. The data for European countries, including the Netherlands, refer to 2015.
2. Data refer to population aged 25-64.

Source: OECD (2017), *International Migration Outlook 2017*, OECD Publishing, Paris; and OECD (2018), "Employment rates by educational attainment and place of birth", *OECD International Migration Statistics* (database), January.

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Older workers lack the necessary training and skills to prepare and adapt to changes in their job situation, and also experience few opportunities to undertake training in this area. Older individuals face high barriers in re-entering the labour market which leads to a higher incidence of long-term unemployment in the Netherlands amongst OECD countries. As in other countries, it is difficult for older workers to find a job once they are displaced, as they tend to be less-educated than their younger peers. Older workers in the Netherlands are potentially less prepared for economic displacement than in other countries, given the low level of training that they receive to support evolving workplace dynamics and given their tendency to remain in the same job most of their working career.

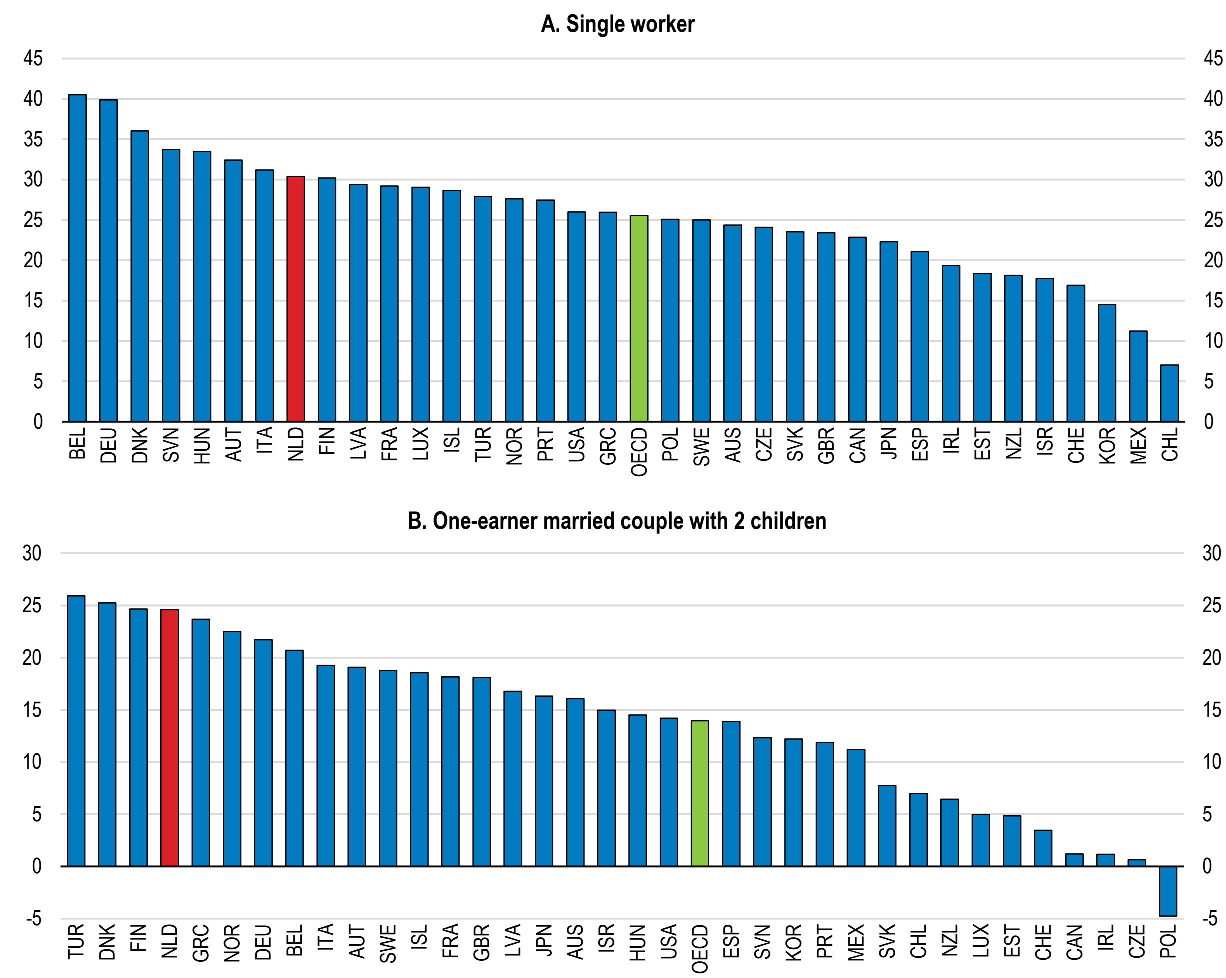
For a tax and benefits system that is fair and incentivises work

How labour is taxed can have a direct influence on the hiring decisions by employers and the working time decisions of workers. Also, the extent to which different types of work are taxed differently can influence the types of working arrangements used by workers and firms. In the Netherlands, a comparatively high marginal tax wedge across the income distribution creates disincentives for workers to increase their working hours (OECD, 2016[15]; OECD, 2018[26]), while the large gap between the tax treatment of regular employees and self-employed is having an influence on the rising incidence of self-employment (IBO, 2015[6]).

The tax wedge represents the difference between the gross pay of the employer or client and the disposable income of the individual, and therefore includes any payroll taxes paid by the employer and income taxes paid by the individual, as well as social security contributions. The net average tax wedge paid directly by employees in the Netherlands is above the OECD average for single earners, both with or without children (Figure 1.15). High contribution rates for social security reflect in large part the generous out of work benefits in the Netherlands, but also contribute to a high marginal tax wedge at low levels of income (OECD, 2018[26]). Likewise, comparatively large pension contributions at low levels of income reflect the generosity of the Dutch pension system.

Figure 1.15. Tax burden on Dutch workers is high

Net average tax rate including social security contributions, as a percentage of gross wages, 2017



Source: OECD (2018), "Taxing Wages: Comparative tables", *OECD Tax Statistics* (database), April.

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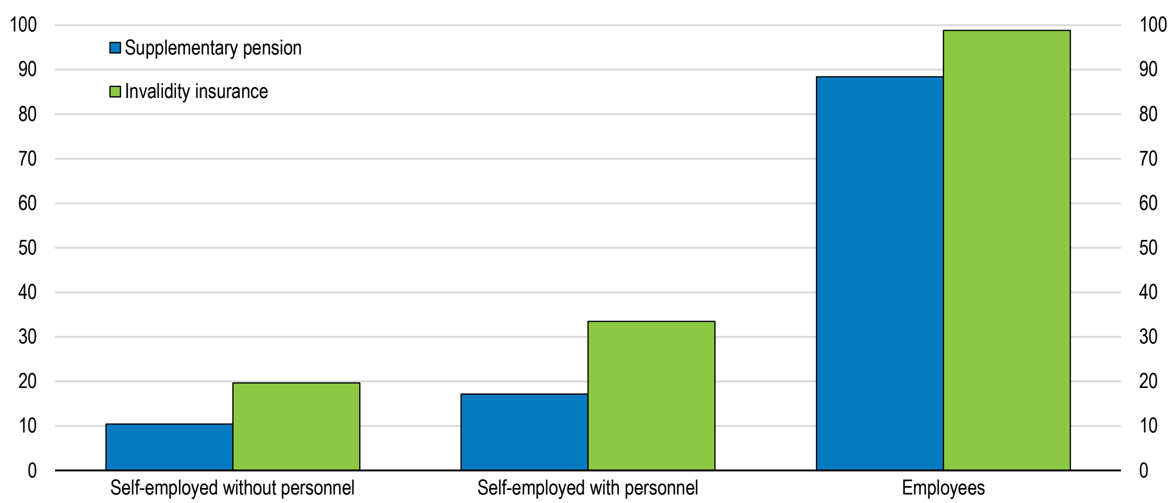
Addressing the discrepancies in access to the social security system

There is currently no obligation for self-employed workers to be covered against sickness and disability or unemployment and therefore no mandatory contributions are paid, which is a major contributor to the large gap in the tax wedge between different types of work (Figure 1.16). Workers with a strong labour market position - for example because they are highly skilled and have a stronger bargaining position in setting the price for their services - could benefit from this large gap by using the extra earnings to independently insure themselves. Workers with a weak labour market position, who are unlikely to have a strong hand in their bargaining position or in setting the tariffs for their services, might not accrue the financial benefits that a lower tax burden entails. Businesses that employ low-skilled workers have the incentive to hire self-employed workers while enjoying the benefits of the lower tax wedge by paying out less in labour costs.

Sickness and disability insurance, which provides income support for individuals who are unable to work due to injury or sickness, is a key pillar of the social security system but an area where the self-employed have little to no coverage. Self-employed individuals can enter into a private insurance scheme, although a large proportion opt not to and are therefore exposing themselves to risks and associated loss of income that regularly employed individuals are not exposed to (Figure 1.16). As the share of self-employed workers who are not insured against these risks rises, this could become a growing contingent liability for the government. Lower income workers are particularly exposed to these negative outcomes, as they are likely to have lower savings, or other types of wealth that could support them following a sharp and possibly permanent loss of income. Recent research shows that many self-employed justify the decision to not insure against these risks by relying on other sources of income and wealth, like the income of a partner or housing wealth (Berkhout and Euwals, 2016[27]).

Figure 1.16. Most self-employed workers are not covered for disability and old-age risks

Percentage of individuals covered by invalidity insurance or make pension contributions, 2015



Source: Statistics Netherlands (CBS).

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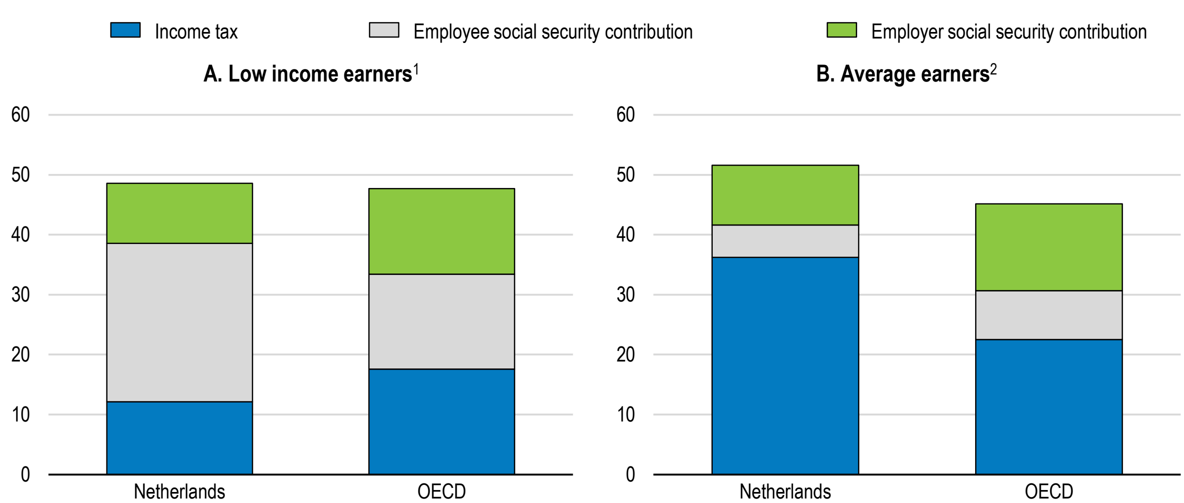
The low coverage of self-employment in sickness and disability insurance schemes can be addressed by mandating a minimum level of insurance coverage for all workers, which would improve the solidarity and inclusiveness of the existing system. A minimum coverage system for the self-employed should use the minimum wage as a benchmark, to calculate the amount of sickness and disability benefits to receive, essentially making obligatory the currently optional participation in the public insurance scheme for self-employed who formerly worked as employees. Under such a system, should risks materialise, there would need to be a tight assessment of illness and disability and a re-integration plan would need to be introduced by public institutions, in the absence of an employer for self-employed individuals. The Dutch public employment services (PES) provider or individual municipalities, through increased budgets, should be tasked with providing these assessments and preparing and implementing individual re-employment plans. Introducing a minimum coverage system would reduce the size of the tax gap between different types of contracts by increasing the burden on the self-employed.

Policies that lower the tax wedge on employees should also be undertaken in parallel to further reduce the tax gap between work types, while also lowering the wage costs to businesses. The marginal tax wedge in the Netherlands is higher than the OECD average across the income distribution, with the difference at lower-income levels due mainly to social security contributions (Figure 1.17). The high contributions reflect the generous social security benefits that workers are entitled to, meaning that any reduction in contribution should be accompanied with a reduction in the generosity of the benefits. Sickness leave entitlements should be reduced by shortening the two-year period for leave that workers are entitled to. If an employee cannot perform his/her duties and needs to be employed elsewhere or put on disability benefits, this assessment should be made at an earlier stage in the sickness.

Figure 1.17. Social security contributions make up a large share of the tax wedge at low income levels

Marginal tax wedge, as a percentage of total labour costs, 2017



1. Low income earners refer to those earning 50% of average earnings.
2. Average earners refer to those earning 100% of average earnings.

Source: OECD (2018), "Taxing Wages: Tax wedge decomposition", *OECD Tax Statistics* (database), April.

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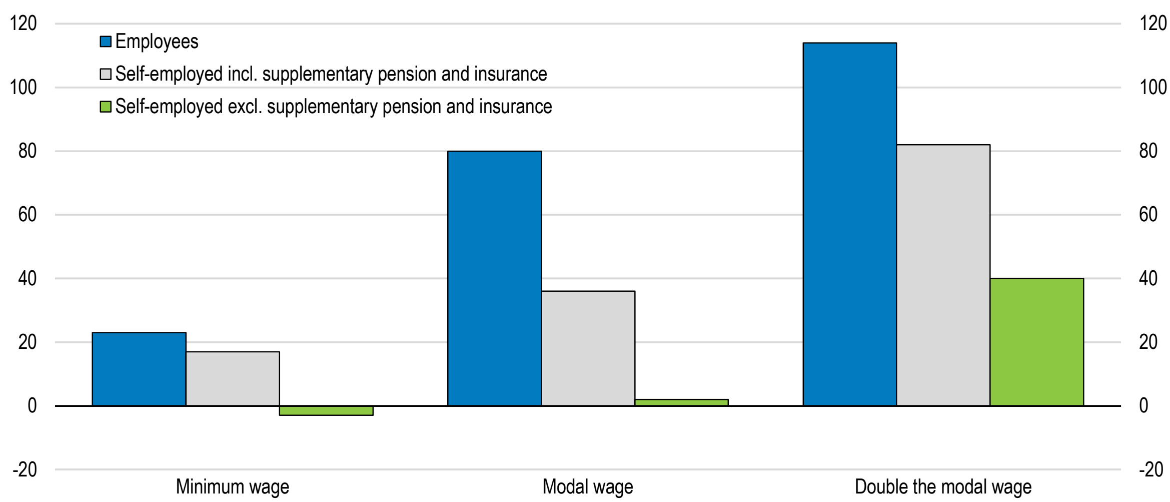
Better targeting tax deductions to level the playing field

Self-employed individuals enjoy a number of tax deductions which also lower the tax wedge when compared to employees. Own-account workers benefit from a permanent self-employment deduction, a one year starters' deduction, and also benefit from an small- and medium-sized enterprise (SME) tax deduction on earnings. Through the self-employment deductions, the first EUR 9 400 of profits are tax deductible while the SME deduction allows a lower taxable rate of earnings of 14%. In 2015, 840 000 individuals made use of the self-employment tax deduction and 1 million self-employed workers made use of the SME deduction with a budgetary impact, in terms of lower revenues, amounting to around EUR 3 billion (IBO, 2015[6]).

The contribution of these deductions to the tax wedge differential between self-employed and employees is large and plays a role across the income distribution. Assuming that a self-employed individual makes similar pension contributions and uses sickness and disability insurance comparable to an employed individual, the residual difference in tax wedges is large, particularly for middle-income earners but also for high-income earners (Figure 1.18). Recent research and official tax data indicate that around 40-50% of self-employed workers without personnel and without other income sources pay no income tax or make any social security contributions at all (ter Weel et al., 2017[10]; CBS, 2017[28]). Importantly, due to the lower taxable income as a result of these large deductions, the self-employed can potentially benefit from means-tested benefits like rent and healthcare credits that employees at similar levels of gross income would not be entitled to.

Figure 1.18. Tax deductions play a large role in the tax treatment of the self-employed

Tax burden as a percentage of net income, 2017



Source: IBO (2015), "Interdepartementaal Beleidsonderzoek over zelfstandigen zonder personeel" (*Interdepartmental report on the self-employed without personnel*), NLD Government, The Hague; with updates from the Ministry of Social Affairs and Employment.

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The aim of tax deductions for the self-employed are to encourage entrepreneurship in order to stimulate innovation and ultimately for individuals to scale up their operations, expand their workforce and make greater contributions to economic growth. However, most of the rise in self-employment over the last two decades has been own-account workers who do not hire personnel and the rate at which these workers begin to hire staff remains quite low, at an average annual rate of 2-3% (ter Weel et al, 2017). This suggests that although the deductions are playing a role in easing the (already smaller) tax burden of individuals who want more flexibility in their work, they do little to stimulate entrepreneurial activity through scaled up operations.

The permanent self-employment deduction is one of the largest tax facilities available to individuals, yet it does little in terms of incentivising individuals to engage in entrepreneurial activity. To make for a fairer tax treatment compared to employees, whilst still providing some compensation for the increased business risks that the self-employed face, this permanent deduction should be gradually phased out. To compensate for a lower permanent deduction, to some extent, the self-employed starters' deduction could be reduced gradually over a few years, instead of being applied three times in the first five years, as is currently the case.

Planned reforms of the pensions system

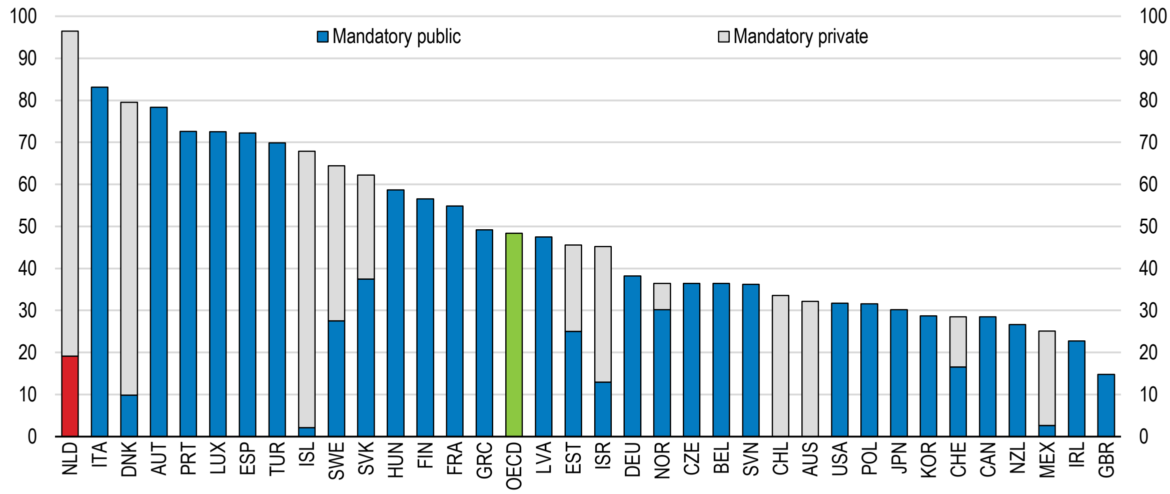
All citizens in the Netherlands receive a basic pension (AOW) (calculated based on years of residence) once they reach the legal age at which they can access their pension benefit. This entitlement is funded through national insurance contributions of workers and represents a minimum level of pension wealth for all workers. In the second pillar of the pensions system, occupational or business pension schemes cover mostly employees, but not self-employed individuals. As discussed above with regards to social security, well-paid workers can increase the size of their own pension contributions to make up for the lack of pension wealth via the second pillar of the system, an avenue that might not be available to poorer-paid workers. Additionally, self-employed individuals can rely on the pension wealth of their partner, or from accumulated wealth from past or secondary employment.

The avoidance of pension contributions could be an important incentive for older workers who deem their pension entitlements and other savings are already sufficient for their retirement. According to recent surveys, around half of retired individuals indicated that their pension wealth was in excess of what they needed for a suitable retirement (Knoef et al., 2016[29]). The Netherlands has one of the most generous pension systems in the world, largely reflecting the contributions made by individuals throughout their working lives, with a gross theoretical replacement rate (including both public and private pensions) of nearly 100%, the highest in the OECD (Figure 1.19).

The current discussions around proposed changes to the occupational pension system should aim to give individuals more of a say on what their targeted retirement savings are, and should allow them to adjust their (supplementary) contributions to reflect this. Regardless of the outcome of the deliberations on changes to the second pillar, the transition should also be carefully planned and monitored to ensure that the sustainability and integrity of the overall pensions system is maintained.

Figure 1.19. The pension replacement rate is the highest in the OECD

Gross pension replacement rates for high earners as a percentage of individual earnings, 2016



Note: Gross pension replacement rate is defined as gross pension entitlement divided by gross pre-retirement earnings. High earners are defined as workers earning 50% above average earnings. The OECD average refers to total mandatory pension schemes.
Source: OECD (2017), *Pensions at a Glance 2017: OECD and G20 Indicators*, OECD Publishing, Paris.

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Regulatory policies to improve labour market flexibility

Reducing rigidities while protecting job quality

Reducing labour market rigidity allows for a more efficient allocation of labour in the economy, and improves innovation by increasing the willingness of companies to take more risks (Bartelsman, Gautier and De Wind, 2016[30]). With higher labour market mobility, flows into and out of unemployment are both higher and the average unemployment duration is lower (Cournède, Denk and Garda, 2016[31]). Increasing the flexibility of permanent contracts will increase the willingness of employers to award such contracts, and potentially reduce the need for non-standard work for individuals who prefer a permanent employment contract. The strictness of employment protections plays an important role in restricting the transition to a permanent contract from a temporary one (Bassanini and Garnero, 2013[32]). In reducing labour market rigidities, care should however be taken to ensure that income security and job quality are not impacted negatively particularly for lower income workers.

The stringency of protection on permanent contracts in the Netherlands is amongst the highest in the OECD, while protections on temporary contracts rank considerably lower (Figure 1.20). This labour market dualism is likely playing a role in the high share of non-standard work. Since the last employment protection legislation measures were finalised (as of January 2013), the government has taken a number of steps to reduce the restrictiveness 'gap' between contract types. However, evidence suggests that the reforms introduced in recent years have not been effective in reducing the restrictiveness of permanent contracts (Houweling, Keulaerds and Kruit, 2016[33]).

Improving the dismissal and severance pay system

Dismissals remain restrictive in the Netherlands, despite positive changes undertaken in recent years that have simplified the system considerably. The dual system where employers could either apply for grants for dismissal through the district courts or through the public employment service (PES) has been abolished. Also, a more formal and less complex severance payment calculation has been introduced and refined in successive reforms.

The Coalition Agreement announced plans to change the system that are likely to have mixed effects on the employment protections (Box 1.1). On the positive side, the minimum period of work for which an individual is eligible for severance pay will be abolished which should provide more security for workers on temporary contracts. Previously, an individual would have to work 2 years of continuous work before being eligible for a payment, which effectively put temporary workers on short-term contracts at a disadvantage. Although this will improve the income security of temporary workers, increased severance pay would effectively be a tightening of employment protections and at variance with the OECD *Jobs Strategy* objective of keeping it limited (OECD, 2018[4]).

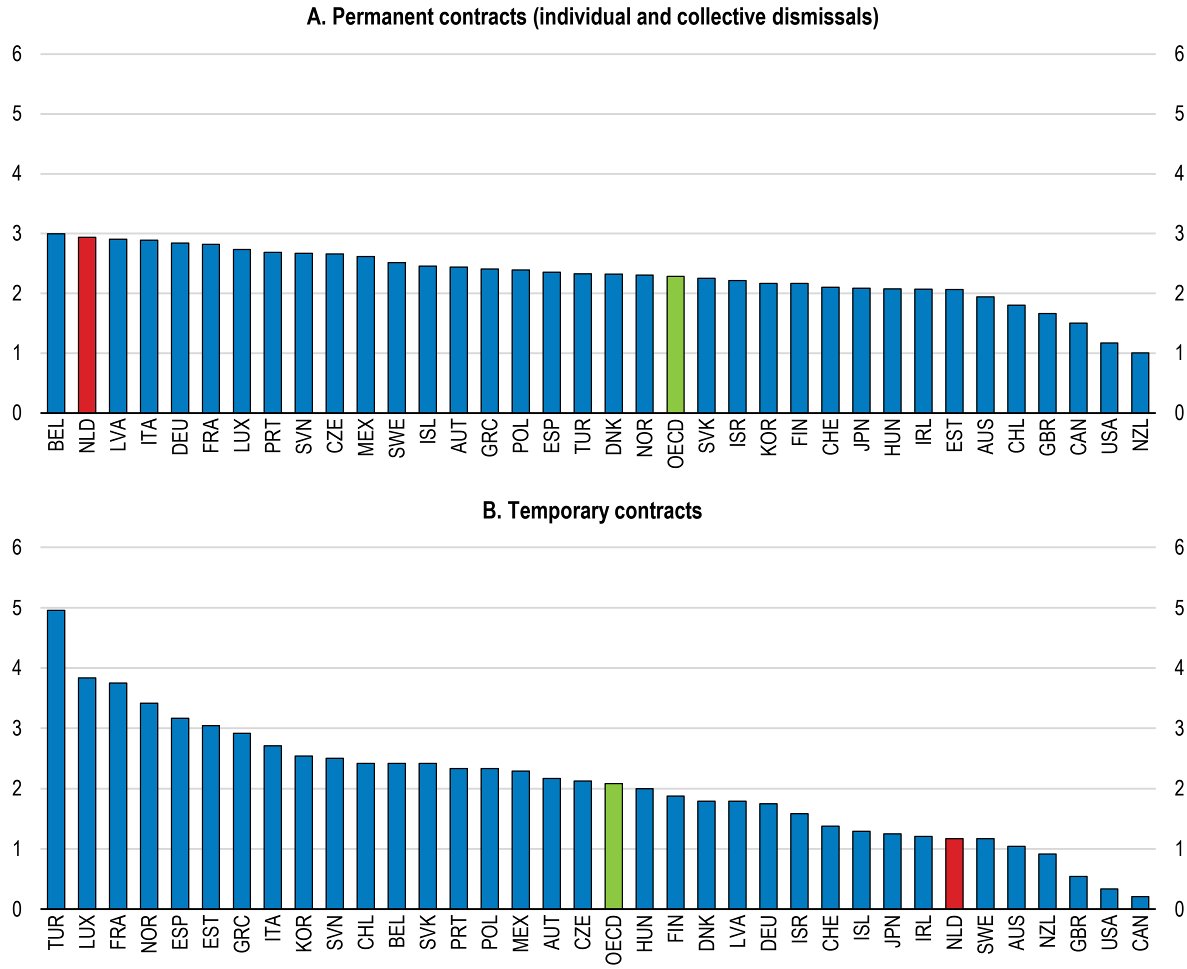
The need for severance payments as a means to provide income security for an individual after separating from work is not as strong in the Netherlands, as is the case in other countries, given the social security benefits that employees enjoy. The generous unemployment benefits that are available provide adequate income support for a worker who has recently separated from their job. Severance payments should be reduced for dismissals that occur under reasonable grounds, to a greater degree than is currently the case, to ensure that these payments are targeted towards unfair dismissals. Employees who underperform based on lack of effort or willingness to work, and would be assessed by the courts as a reasonable dismissal based on the criteria, should be compensated considerably less, and rely more on unemployment benefits to provide income security. Furthermore, those employees who are dismissed for reasons of invalidity or frequent sickness should instead be compensated under existing insurance benefits.

Protections on temporary contracts have been improved

One area where the government has made impactful changes is the protection for workers on low security, highly flexible contracts. Workers on zero hour, or on-call contracts, are no longer obliged to show up for work if the employer gives only late notice, and compensation must be given to those workers who were called in but are not provided work (NLD Government, 2017[34]). As of 2015, probationary periods on contracts shorter than 6 months in length are now deemed illegal, as are in most cases non-compete clauses on fixed-term contracts of any length. Employers are also now obliged to give workers notification prior to the expiry of a temporary contract; for workers on a temporary contract of more than 6 months in length, notice must be given one month prior to the contract ending on whether the contract will be renewed or outlining the reasons for non-renewal. Finally, if an individual works for 3 months continuously on an on-call contract the average hours that they have worked in those months will then become the minimum guaranteed hours that must be provided to them in subsequent months.

Figure 1.20. Protections are considerably higher for permanent relative to temporary contracts

Strictness of employment protection legislation, scale from 0 (least stringent) to 6 (most restrictive), 2013



Source: OECD (2018), "Employment Protection Legislation", *OECD Employment and Labour Market Statistics* (database), January.

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A self-employment contracts system that protects job quality

The government has been active in reforming the regulatory treatment and operations of self-employed individuals with a focus on the negative implications that self-employment can be having on the job quality of lower-income workers. Regulatory reforms to address these issues should be balanced to ensure that the benefits of the increased flexibility are maintained but the possible negative impacts to job quality, particularly for low-income workers, are mitigated.

The aim of recent reforms has been to limit the use 'fictitious' self-employment, whereby employers re-brand their employees as self-employed individuals to avoid paying higher labour costs (associated with high tax and social security contributions) as well as avoiding employment protections. Recently introduced policies attempt to clarify what constitutes a formal employment relationship and to limit the potential exploitation of low-income workers through fictitious self-employment.

In the previous system, which in its current state had been in place since 2005, the worker would obtain a "VAR" statement from the tax authorities that assessed the worker as being a self-employed contractor, and the client should not withhold tax and social security contributions. Following reforms in 2016, a new system was introduced whereby the onus now fell on the employer to verify whether or not the person they were hiring was in fact a self-employed contractor, or if that person would be deemed an employee for tax and social security purposes. Full implementation of the system, however, has not occurred, given that there remains no enforcement of penalties associated with non-compliance.

Underlying the different self-employment statement regimes are criteria to assess a deemed employment relationship whereby if one of the criterion is not met, then a business cannot claim that the worker is self-employed, and that proper taxes and contributions would be withheld and proper employment protections would apply. The criteria represent a clear and effective way to communicate the information to employers of what constitutes a genuine employment relationship. Before the 2016 reforms, employers would not have to meet these criteria if they requested the contractor's VAR statement in advance. The three criteria for determining a deemed employment relationship are:

- **Obligation for personal work** – if self-employed individuals have to do the work themselves, and cannot send someone in their place to complete a task.
- **Degree of authority** – if the individual worker cannot exercise their own independence when performing the work assigned to them (i.e. choice of task, tools used, hours worked).
- **Payment of wages** – if the individual earns a wage or payment for their services on a regular basis.

Despite the lack of full implementation of the 2016 reforms, the government announced in the Coalition Agreement plans to abolish and replace with a new system, citing clarity issues for clients and truly independent contractors being adversely affected (Box 1.1). Under the proposed system, the responsibility for assessing the employment relationship would still fall upon the business or client but would now be facilitated through an internet-based module. A planned minimum hourly tariff for self-employment contractors will also be part of the system, whereby any services provided below the minimum tariff will automatically considered to be a deemed employment relationship.

Defining a minimum hourly tariff for self-employed individuals under the planned system (Box 1.1) is problematic given the possible difficulties in observing the hours worked of a self-employed individual, depending on the specific tasks or occupations. The proposed minimum tariff should be applicable only to tasks that are prevalently performed by low-skilled and low-income workers based on existing occupation and task qualifications. Low-skilled workers are more likely to be affected by attempts to bypass minimum wage regulations as they are more likely to be earning near the minimum wage rate.

Adjusting policies to improve gender equality

The gender differences of part-time work in the Netherlands expose women disproportionally to negative financial and economic shocks, and could limit their opportunities for promotion and attaining better quality work when compared to men. Given the higher incidence of part-time work, women are also limited in their opportunities to improve their skills through both formal and informal training programmes. However, job satisfaction is high and involuntary part-time employment is low relative to other countries, which is an indication that personal preferences for a better work-life balance are contributing to the lower average hours worked by women. Nonetheless, there is scope for modifying existing policies to better incentivise the increased participation of men in working part-time, while improving the participation of women who do not necessarily want to work fewer hours.

Policies should ensure that women, when starting a family, are making the choice to work fewer hours based on their own personal and family preferences and not on the policies themselves. Women are incentivised to stay home and be the primary carer of the child given the more beneficial maternity leave entitlement relative to the paternity leave entitlement. To reduce these incentives, the current Coalition Agreement plans to substantially extend the paid paternity leave benefit period although a gap between paternity and maternity leave entitlements still remains (Box 1.1). Designated leave for fathers should be further expanded, so that there is a more even split between maternity and paternity leave.

Gross childcare costs in the Netherlands are high from an international perspective but large subsidies lower the net costs considerably, in particular for low-income families (OECD, 2017[35]). Existing provisions should be maintained to keep childcare affordable and the high quality of services should be ensured. To stimulate conscious choices regarding the division of caring activities between fathers and mothers, the government is currently designing a campaign that targets future parents and those with young children.

Empirical evidence for the Netherlands suggests that tax policies in general do not significantly discourage women from working full time (Graaf-Zijl et al., 2015[36]) and that existing policies incentivise second earners to re-enter the workforce after having a child, which is positive for participation (Jongen, Boer and Koot, 2018[37]). However, the high marginal tax wedge for all workers acts as a disincentive to increase the hours worked of women and men.

Stronger and better targeted activation policies to improve labour market transitions

Reducing the restrictiveness of employment protections would lead to increased job separations, but it would also improve the transition from unemployment or inactivity into employment. The government could improve these transitions through targeted active labour market policies (ALMPs), which provide counselling and training support and other re-employment assistance. A renewed emphasis on activation policies would ensure that unemployed and inactive individuals can more effectively move into new rewarding and productive jobs, which is essential to foster more inclusive and resilient labour markets, a key pillar of the OECD *Jobs Strategy* (OECD, 2018[4]). A combination of lowering the stringency of protection on employment contracts and more effective activation policies would make for a more efficient allocation of work and reduce the likelihood of inactivity.

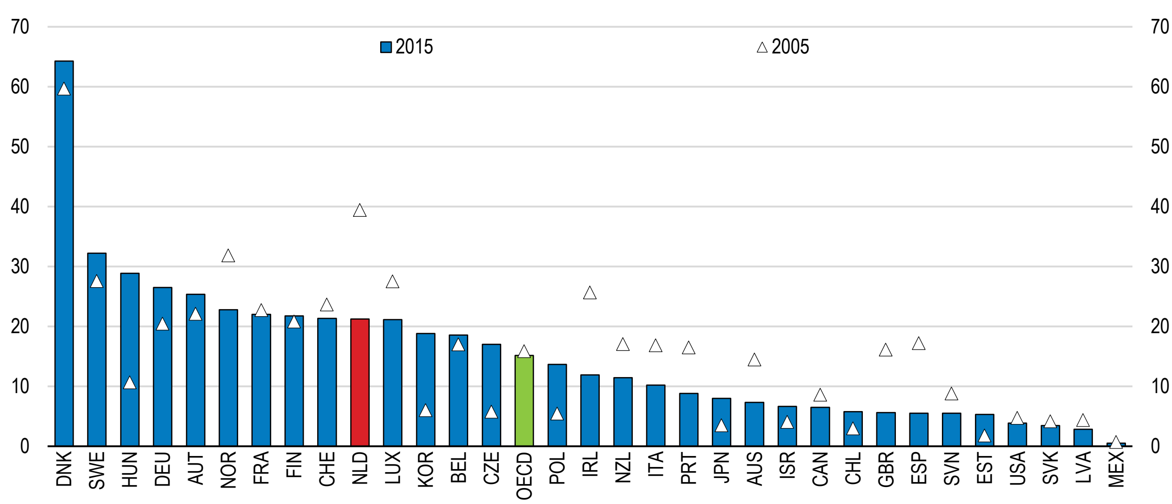
Despite remaining above the OECD average, the Netherlands has seen a considerable decrease of spending on ALMPs even when accounting for the improved labour market conditions (Figure 1.21). Activation policies have been particularly affected by fiscal consolidation throughout recent years. Compared to other countries, a relatively low part of the budget goes to services, training, employment incentives, direct job creation and start up incentives. Since October 2016, however, the budget for reintegration increased from EUR 100 to 160 million, and from January 2019 onwards another EUR 70 million will be invested to improve employment services.

The reduction in spending on ALMPs may to some extent reflect efforts to improve efficiency in service provision. The digitalisation of the Dutch public employment service (PES) has decreased costs while improving performance (Algemene Rekenkamer, 2017[38]). However, the drawback of this approach is that it could undermine outreach to the most vulnerable groups – including the low-skilled migrants and older workers – who typically have weaker information and communication technology (ICT) skills and thus poor access to digital services (OECD, 2017[39]). Therefore, since 2016 the PES has received additional budget to provide more personal employment services.

Lower levels of ALMP spending could also be felt disproportionately by disadvantaged groups, who find it more difficult to find work. Improving the policies that target disadvantaged individuals through a more comprehensive activation approach, which acknowledges the different barriers faced, is another key pillar of the OECD's *Jobs Strategy* and an area that could be improved upon in the Netherlands (OECD, 2018[4]). Older workers in the Netherlands experience greater difficulties to remain attached in the workforce. Migrants also face particular challenges to enter and integrate into the labour market, due to a number of factors including poorer literacy and numeracy skills, lack of social and economic networks, discrimination, and issues regarding the recognition and validation of their existing skills (OECD, 2017[5]).

Figure 1.21. Active labour market policies have been scaled down significantly

Spending on active labour market programmes per unemployed as a percentage of GDP per capita



Note: 2008 instead of 2005 for Chile. 2011 instead of 2015 for the United Kingdom. 2014 instead of 2015 for Estonia and New Zealand. Active labour market programmes include all social expenditure (other than education) which is aimed at the improvement of the beneficiaries' prospect of finding gainful employment or to otherwise increase their earnings capacity. The OECD aggregate is calculated as an unweighted average of the data shown.
Source: OECD (2018), *OECD Employment and Labour Market Statistics* (database), April; and OECD (2018), *OECD Economic Outlook: Statistics and Projections* (database), April.

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The government should strengthen the outreach of the PES and municipalities to vulnerable populations, and design ALMPs that better respond to their unique needs. Best-practices include job-search verification, early and high-intensity personalised counselling interventions, programmes developing work experience and labour market training for the long-term unemployed, liaising with employers to both fill vacancies and improve the matching of jobs with skills, and performance management and evaluation of instruments to ensure that PES interventions are cost-effective (OECD, 2015[40]).

Improving the activation of these disadvantaged groups should not, however, be the sole responsibility of government. The private sector should be encouraged to take an active role in hiring people from among vulnerable groups, and undertake other efforts to support their participation in the economy (OECD, 2017[5]). Since 2017, the government introduced wage cost subsidies for low-income earners (between 100 and 125% of the minimum wage), lowering the cost up to EUR 2 000, which could improve hiring incentives. Another avenue could be the creation of private initiatives, with some fiscal support, aimed at providing support and facilitating the matching between workers with migrant backgrounds and companies that want to diversify their workforce. In many countries, social enterprises play an important role in promoting the labour market integration of vulnerable individuals. In both Norway and Sweden for instance, several organisations, based at the municipal level, screen all early school leavers and support their labour market integration. In France, Mozaïk RH has been facilitating job matching and providing support for school-leavers with migrant backgrounds for over a decade (OECD, 2017[5]). Any increase in public spending on targeted PES and municipal services should be accompanied with a cooperative approach among the social partners to ensure an efficient targeting of the system.

While the national government determines the budget available for ALMPs, both the PES and the municipalities are in charge of the design and implementation of the policies. The PES is responsible for the administration of unemployment benefits and disability benefits, while municipalities are responsible for administering additional benefits for job-seekers that are not receiving any PES benefits, and also providing local counselling and support services. The decentralised way in which ALMPs are implemented can have both positive and negative consequences for the effectiveness of the system as a whole (Graaf-Zijl et al., 2016[41]). Policies can be better targeted to the needs of the regional labour market and the regional composition of the population. However, similar individual cases might not receive equal treatment across municipalities, given that different municipalities have different policies and procedures in place to address the reintegration of workers, partly reflecting the decision to decentralise the delivery of social policies in recent years (Vermeulen, 2015[42]). There is also limited scope or incentives to provide re-employment services to individuals interested in finding work in a region or local area outside of their current one. The national government should therefore work towards a more central and coordinated approach in the administration of re-employment services to ensure that barriers to the mobility of individuals looking for work are reduced.

Progress in improving the employment of disabled workers

The government has taken positive steps to improve the employability and re-integration into the workforce of people with disabilities in recent years. An ambitious target of 100 000 newly created jobs in the private sector and 25 000 jobs in the public sector for workers with a disability has been set for 2026. An enforced quota system, with a non-compliance levy for individual employers, is also in place if the government deems that sufficient progress is not being made to meet these targets. According to the most recent annual assessment, the public sector is slightly off the pace of meeting the 2026 target and the government is taking steps to enforce the quota and levy system by the end of 2018 (Klijnsma, 2017[43]).

In 2016, the government also introduced the "no-risk" policy, which will have a positive impact on the re-integration of disabled workers by reducing the tax burden through lower social security payments. Under the policy, employers who hire a disabled worker will not pay higher premiums for invalidity and disability coverage and the government will cover the benefit payments if the worker becomes sick. Reducing the wage costs in this way, in addition to the enforcement of the target, quota and levy system will be very effective in ensuring that the 2026 targets for disabled worker employment will be met. The government should continue to implement these policies with continued assessment of their progress.

The Coalition Agreement indicated plans to increase the budget for municipalities for the targeted activation of disabled individuals, who in some cases may require support in order to return to work. The additional funds will be used by municipalities to allow for more wage dispensation (paying less than the minimum wage, with the difference being covered by the municipality) for workers with disabilities (NLD Government, 2017[34]). Adjustments will also be made to the assessed eligibility of existing disability and incapacity benefits with the goal of improving the reintegration into work of benefit recipients. Although these are steps in the right direction for improving the employability of disadvantaged groups, the increased budget for which policy costings were announced is quite small: an initial 0.01% of GDP in 2021 with an increase of around 0.06% of GDP over the longer term (CPB, 2017[2]).

Skills investments for a more resilient and inclusive workforce

The formal education system in the Netherlands performs well in preparing individuals with the necessary skills to enter the workforce (OECD, 2016[44]). Furthermore, participation of Dutch workers in lifelong learning throughout their working lives is above the OECD average, although slightly below some of the best performing countries (OECD, 2017[5]). On top of formal training and education undertaken throughout their careers, workers also have a high degree of on-the-job learning in the Netherlands, in part reflecting the tendency of some of the older generations to remain in the same job for the majority of their working lives.

The shift towards significantly more flexible working relationships, however, has major implications for how workers accumulate skills and the possible impact this can have on their productivity and job quality. As the workforce is increasingly entering into temporary working relationships, businesses might view investment in the skills of their workers as risky, as workers are more likely to move jobs. Furthermore, although increased training and individual learning may contribute positively to the productivity of self-employed individuals and therefore increase their earnings in the longer term, the near-term costs for the training might discourage participation. On the job learning of individuals might also suffer, due to the shorter tenure in various jobs, although constantly changing positions might improve the resiliency of the individuals to adapt to evolving labour market dynamics. An increased emphasis on policies that enhance lifelong learning is essential to improve the quality of work and the adaptability of individuals to meet the evolving demand for skills, as underlined in the OECD's *Jobs Strategy* (OECD, 2018[4]).

Improving the participation of lifelong learning of the low-skilled

Although the participation in lifelong learning is quite high in the Netherlands, the participation of individuals with low skills, who are likely to benefit disproportionately from adult learning, is quite low compared to higher skilled individuals, as is the case in most OECD countries (OECD, 2017[5]; Pleijers and Hartgers, 2016[45]). Low-skilled individuals are more likely to have lower savings, making it more difficult to fund their own education and training, and also to take the time away from their work to participate in off-the-job training courses. Given the large proportion of low-skilled individuals who are in flexible working relationships, there are also disincentives for employers or clients to finance the lifelong learning of the individual.

To address the possible underinvestment in skills, and to replace existing tax deductions available for businesses on their training expenditure, the government announced in the Coalition Agreement their plans to introduce individual learning accounts (NLD Government, 2017[34]). The benefit of such a system is that the training account remains with the individual and not their individual job, implying that their accounts will go with them if they transition to other work. Such a system would be similar to the personal learning account scheme introduced in France (CPF), where workers accumulate allowable training time, which can be taken through an approved training or educational provider.

One criticism of individual learning accounts is that they tend only to benefit medium to higher skilled individuals, who would have already invested in training without the existence of the scheme, and individuals with lower skills remain under-represented (OECD, 2017[39]). Indeed, the current plan discussed in the Coalition Agreement explicitly states that the accounts would only be available for individuals with formal qualifications, and therefore excludes those who have not finished their formal education or individuals with migrant backgrounds whose previous education might not necessarily be recognised or validated in the Netherlands. Effectively, these two disadvantaged groups of people, who are likely to benefit the most from the scheme, are excluded.

The proposed scheme for individual learning accounts should instead be targeted specifically to low-skilled individuals who have not achieved formal qualifications and migrants with under-developed skills. Targeting the accounts in such a way would help contain the overall cost of the scheme, and would take into consideration the already considerably high participation in lifelong learning, on average, in the Netherlands (OECD, 2017[5]). Social partners and individual companies could also share in the costs of any lifelong learning account programme to reduce the burden on the Government. In France, the CPF relies on both government and employer contributions to fund the take-up of training and lifelong learning by individuals. The introduction of a personal learning account system should be accompanied with targeted guidance services to ensure that the low-skilled and migrants understand the system, and can make informed decisions on how best to utilise their training entitlements.

Improving the skills of older workers

Older workers also tend to participate less in education and training for job-related reasons than younger workers. Although this likely in part reflects the fewer incentives to engage in training opportunities given the shorter remaining working life than other age groups, it also shows that these workers might be unprepared and less adaptive to shocks that might affect how their work is performed, or potentially leading to their dismissal.

Given the comparatively high dismissal costs from an international perspective, and the fact that most wage-setting in the Netherlands is tenure or seniority-based as opposed to productivity or performance based, employees are incentivised to remain in the same job, or same sector for their whole careers. In a recent survey, only around 10% of employers had a negative view of the usefulness of older workers (compared to younger workers), while nearly 25% indicated that the productivity of their older workers did not justify their salary (Van Echtelt and Voogd-Hamelink, 2017[46]).

When economic disruptions occur, older workers, who might have expected to remain in the same job until their retirement, could find themselves particularly vulnerable if they are dismissed. Given that they tend to have lower levels skill levels (based on formal education) and potentially more firm-specific knowledge than younger workers, they might find it more difficult to secure a new position. Age discrimination could also play a role in that employers deem that older workers are unable or unwilling to learn and improve their skills (Farber, Silverman and von Wachter, 2016[47]; Baert et al., 2016[48]). Perhaps reflecting some of these considerations, the labour market mobility of older workers, measured as separation and hiring rates, is quite low when compared to other OECD countries (Figure 1.22).

The PES, or relevant municipal organisations (*leerwerkloketten*), could take a more active role in providing counselling and general training to improve the adaptability of older workers who are in employment but are in a vulnerable position, due to planned redundancies or due to disruptive change. Targeted activation policies will also play an important role in providing the needed up-skilling or job coaching to older workers following an abrupt loss of work. The Netherlands performs poorly with regards to the training and support provided to older workers to help them face possible job disruptions (Figure 1.23). To address the possibility of age discrimination, the government should also organise a comprehensive awareness campaign to show employers the value of older workers. Pilot programmes are currently underway that provide additional services to improve the support for workers who are at risk of dismissal and to stimulate regional labour market co-operation.

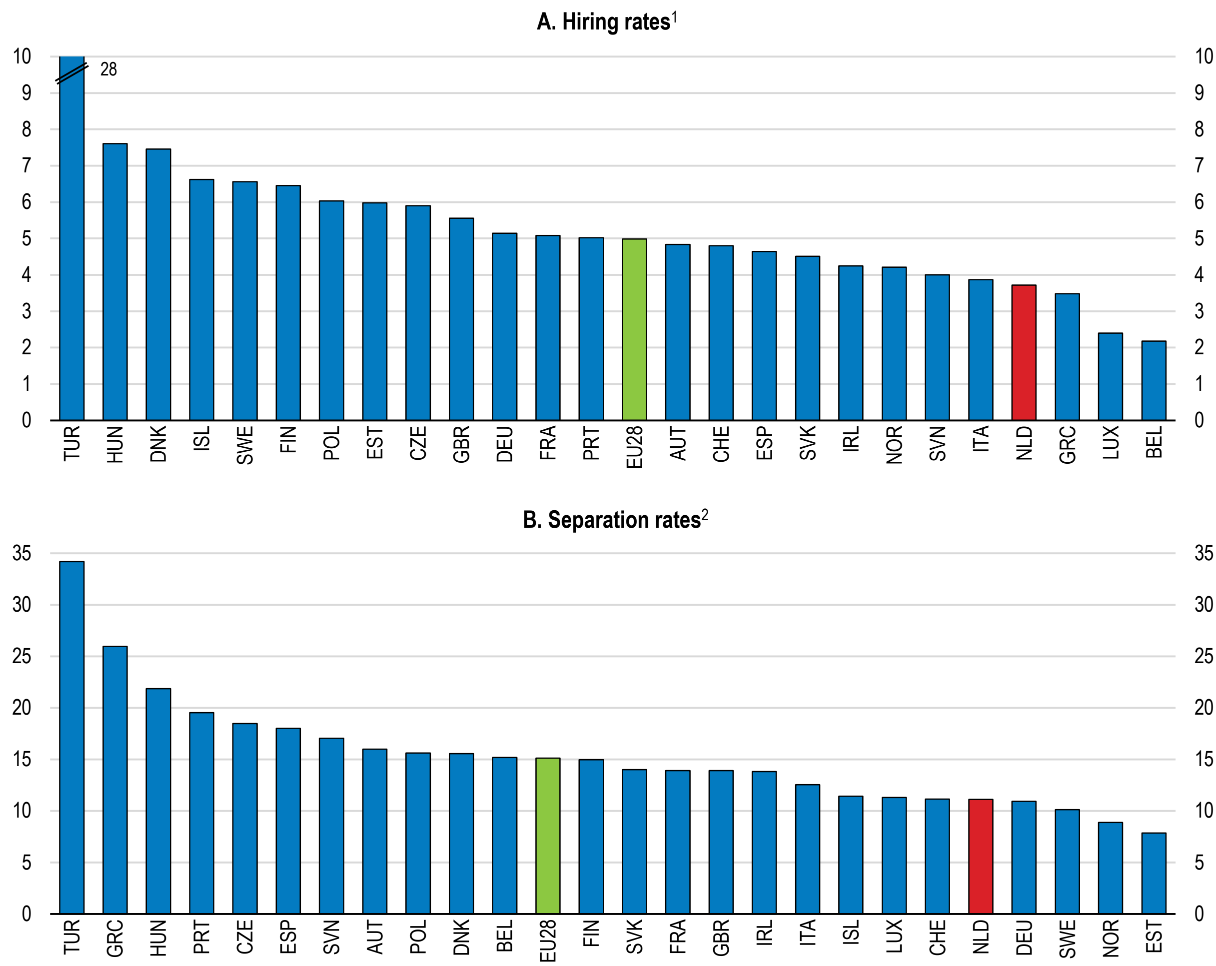
In the Coalition Agreement, the government pledged to bolster the funds to the PES (by EUR 40 million per year, which however is less than 0.01% of GDP) to provide targeted personal coaching for older (over 60), whilst also planning to link the eligibility age for support directly to the official retirement age by 2020 (NLD Government, 2017[34]). Improving the job coaching and assistance is a step in the right direction of improving the reintegration of older workers and in line with the Jobs Strategy guidelines of supporting the re-employment of vulnerable workers whilst also providing benefits support (OECD, 2018[4]).

Ensuring the effective integration of migrants

Recent migrants, or individuals with migrant backgrounds, face barriers to increase their investment in skills, and have much lower levels of lifelong learning participation than the native population in the Netherlands (OECD, 2017[5]; OECD, 2016[15]). Individuals with a migrant background, who are more likely to be NEET and have significantly lower rates of employment and labour force participation then their native counterparts, can be restricted in their accumulation of skills due to possible issues of the validation and recognition of skills and formal education acquired in their home country. The government's procedure for qualification recognition, the EVC (*Erkenning Verworven Competenties*) was reformed in 2016 to better target the needs of recent migrants through separate labour market and education tracks, the former focusing on formal and informal learning experiences in their previous careers and the latter to assess their formal education qualifications.

Figure 1.22. Labour market mobility of older workers is comparatively low

Hiring and separation rates for workers aged 55-64, in per cent, 2012



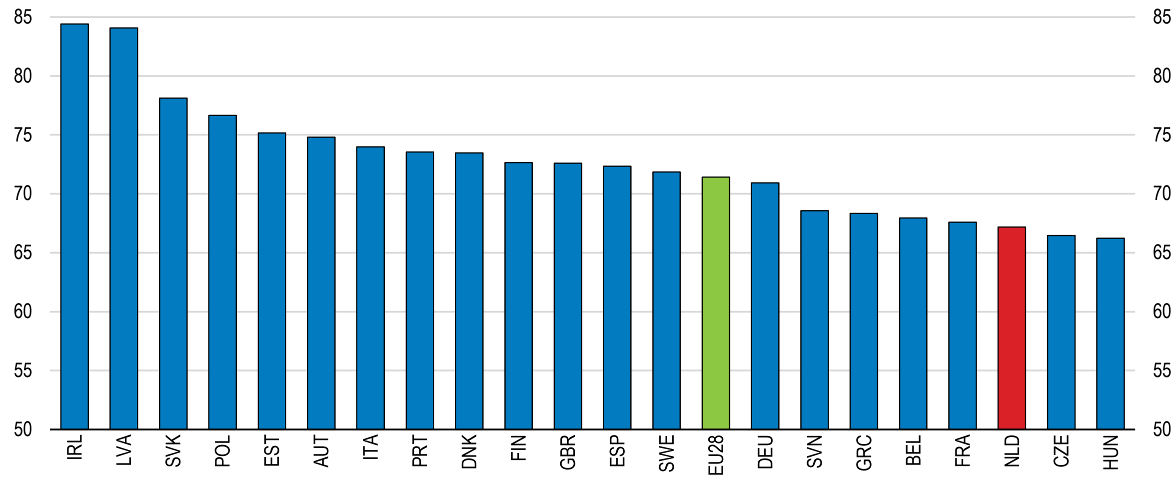
1. The hiring rate is the ratio between all employees aged 55-64 with tenure of less than one year and the total number of employees aged 54-63 the year before.
2. The separation rate is the difference between the net employment change rate and the hiring rate (net employment change in year t = hiring in year t – separations in year t).

Source: OECD (2014), *Ageing and Employment Policies: Netherlands 2014: Working Better with Age*, OECD Publishing, Paris.

StatLink http://dx.doi.org/10.1787/888933776084

Figure 1.23. Training to support workplace changes for older workers is low

Percentage of workers aged 50-64 who received training or support when their work tasks changed, 2014



Source: CEDEFOP (2014), "European Skills and Jobs Survey (ESJS)", European Centre for the Development of Vocational Training, Thessaloniki, www.cedefop.europa.eu/en/events-and-projects/projects/european-skills-and-jobs-esj-survey.

StatLink http://dx.doi.org/10.1787/888933776103

Various stakeholders contribute to the financing of the current skills validation system including the government, educational institutions, the social partners and even the individuals themselves in some cases. Although shared financing incentivises the increased participation and shared responsibility of the system, low-skilled migrants may not have the necessary access to funding (OECD, 2017[5]). Further, although the funding for skills recognition is shared across both public and private institutions, a reduction in government subsidies during the years of the global economic crisis contributed to a drop in participation in the validation programmes (CEDEFOP, 2016[49]). Enhanced and targeted government investment in the system, which focuses on the validation of particularly vulnerable groups like refugees and asylum seekers, would improve the skills recognition and validation system and better ensure the employability of recent migrants, and improve the ability to match them to jobs when their skills sets are in demand.

Improving the Dutch language proficiency of immigrants will significantly enhance their integration into the labour market and society more generally. International evidence shows that strengthening social connections and improving local language proficiency have very strong positive effects on employment outcomes, in terms of earnings and occupational status (Chiswick and Wang, 2016[50]). The government can improve the proficiency in Dutch while further enhancing the integration of new immigrants by introducing subsidised language courses which are job-specific or targeted based on the existing skills and experience of the immigrant. Such a system was implemented in Germany in 2016, whereby German language courses are combined with skills-building courses and employment services. The targeting of language and skills-building courses for immigrants should be similarly undertaken in the Netherlands. Of course, for such an integrated system to work the skills assessment and validation system must be effective in determining which jobs are best suited to the individual.

The targeting of active labour market policies also plays an important role in ensuring that vulnerable migrant groups, particularly asylum seekers and refugees, receive the counselling and training needed to better adapt to the Dutch labour market. Migrants who come from countries with poor governance and weak labour market institutions might find it difficult to adapt to working in the Netherlands. These individuals would benefit considerably from targeted education programmes on civics and social studies, as well as courses to help understand basic social and economic interactions, like working for a business and receiving regular wages. An enhanced role of the government in coordinating labour policies across municipalities would improve the integration of migrants by ensuring that they are channelled or relocated to the regions where their skills are in the greatest demand. To work towards this end, the government has recently announced the VIA (Further Integration into Labour Market) plan, whereby the national government will work with the municipalities to provide personalised integration plans for new migrants immediately upon arrival in the Netherlands.

Box 1.4. Key recommendations to make employment more inclusive

Creating a tax system that is fair and incentivises work

- Phase out the permanent self-employment tax deduction.
- Introduce minimum coverage for sickness and disability insurance for workers regardless of contract type.
- Lower social security expenses, for instance by reducing the generosity of sickness insurance.

Reforming regulatory policies to improve labour market inclusiveness

- Reduce severance pay for employees who are dismissed under reasonable grounds.
- Increase the period of paid paternity leave to encourage greater participation of fathers in childcare responsibilities.
- Maintain existing provisions to keep childcare affordable and ensure the high quality of services.

Boosting skills investments for a more adaptable workforce

- Introduce individual lifelong learning accounts targeted specifically at vulnerable workers.
- Improve the targeting of employment support policies to vulnerable groups.
- Work toward a more coordinated approach in implementing activation policies

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SPECIAL FEATURE: LABOUR MARKET INCLUSIVENESS

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