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To cite this article: Lei Delsen & Erik Poutsma (2005) Labour market institutions and economic performance in the Netherlands, International Economic Journal, 19:2, 169-196, DOI: [10.1080/10168730500080576](https://doi.org/10.1080/10168730500080576)

To link to this article: <https://doi.org/10.1080/10168730500080576>



Published online: 15 Aug 2006.



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Labour Market Institutions and Economic Performance in the Netherlands

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ABSTRACT The central question of this article is whether or not effectiveness and efficiency are improved by the stronger reliance on markets given Dutch labour market institutions and their resulting corporatist wage formation. In answering this question, besides the influence on the production costs (neoclassical approach), we explicitly deal with and quantify the ‘hidden’ transaction costs (institutional economics approach) of more decentralized labour relations, flexibilization of the labour market, and working conditions ‘à la carte’. The results presented cast doubt on both the efficiency and the effectiveness of recently introduced tailor-made solutions in the Dutch economy.

KEY WORDS: Corporatism, economic performance, Netherlands, transaction costs
JEL CLASSIFICATION: J88, P51

Introduction

The Dutch polder model refers to a unique combination of institutions and culture. The Netherlands stands as a good example of a corporatist economy, with the extent of corporatist institutions only slightly less-developed than in the Scandinavian countries and Austria. The Dutch economy remains one of the most coordinated economies in the western world (Visser, 1998; Soskice, 1999; Slomp, 2002, 2004; Poutsma & Braam, 2004). The Dutch system emphasizes consultation, cooperation,

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1016-8737 Print/1743-517X Online/05/020169-28 © 2005 Korea International Economic Association
DOI: 10.1080/10168730500080576

and consent in the interactions between economic and political actors – something referred to as ‘concertation’. Based on the dominant view that labour and capital should develop harmonious sectoral relationships, a variety of issues have been delegated to institutions and business, such as stock market regulation, regulation of wages and working conditions, vocational training systems, pensions and social security, and collective dismissals. Self-regulation provides sufficient flexibility to adjust in response to new challenges. For decades this set of institutional arrangements generated good economic performance (Van Waarden, 1997) and became known as the ‘Dutch Miracle’ or the ‘Polder Model’ (Visser & Hemerijck, 1997; Delsen, 2002). This ‘path-dependent’ history has created institutional complementarities between corporate governance, industrial relations, vocational training, and employee relations typical of coordinated market economies. The recent introduction of market forces and more freedom of choice modify the unique Dutch economic order. The intentions of these institutional changes can be summarized by the buzzwords: decentralization, individualization, ‘flexicurity’, and differentiation in working conditions, hence tailor-made solutions. This ‘Anglo-Saxonization’ implies an increase in flexible working practices and less stable employment relationships.

In this paper we review the theoretical and empirical relationship between the (changing) Dutch labour market institutions, corporatist wage formation and Dutch social-economic performance practices over the past two decades. The central question is whether effectiveness and efficiency have been improved by greater market reliance. In answering this question we explicitly deal with, and quantify, the ‘hidden’ transaction costs of more decentralized labour relations, flexibilization of the labour market, and working conditions ‘à la carte’. In judging economic performance we will focus on the wage level, nominal and real wage flexibility, employment and unemployment. A comparative institutional economics’ analysis of the Dutch institutions is applied to explain the relative performance. The United States, the United Kingdom, Germany, Sweden, Belgium and the EU-average are used as benchmarks. Our point of departure is that no market can function without an appropriate institutional setting and that market institutions and regulations or government interventions are not simply sources of inertia and resistance to adaptation; they may actually act as the very vehicles for innovation and change.

The paper is structured as follows. In the next section the theoretical framework is described and key points are made about trade unions, collective wage bargaining and job security. The third section reviews the Dutch employment protection system. The focus will be on the 1999 ‘Flexicurity’ Act, aimed at improving the employment security and extending the opportunities to use on-call labour, agency work and fixed-term contracts. In the fourth section, the Dutch system of industrial relations is addressed. We focus on the decentralization of labour negotiations and discuss the recent innovation of collective labour agreements ‘à la carte’. In the fifth section, we establish the relationship between the (changes in) Dutch labour market institutions and labour market performance. The final section concludes.

Transaction Costs and Institutional Economics

Neoclassical economic analysis focuses on *production costs*. According to this analysis, in the long run, the market mechanism will equilibrate demand and supply in all markets. Institutions are mostly seen as market distortions and impediments to adaptability. Institutions and (social) policy arrangements do have detrimental effects: there is a trade-off between economic and social targets. According to Okun (1975: 1) inequalities in living standards and material wealth ‘reflect a system of rewards and penalties that is intended to encourage efficiency and channel it into socially productive activity’. To the extent that the system succeeds, it generates an efficient society. According to this neoclassic view, ‘rigidity’ in the price of labour, the quantity and quality of manpower and conditions of employment hinder the functioning of labour markets. Flexibility of the external labour market and flexible working conditions have positive economic results for employers, employees, and society. The scientific foundation for this argument is rather weak. Rigidity in wages and prices is not necessarily a symptom of insufficient market forces. Markets never are ‘perfect’, which is not due to institutions and conventions that reduce uncertainty, but to uncertainties connected to exchange itself. Rigidity in wages and prices (contracts) decrease these uncertainties and can improve markets. Moreover, labour is heterogeneous. Hence the probability of becoming unemployed, and remaining unemployed, are unequally distributed. Apart from the rationing problem there is a distributional problem. Given the heterogeneity of the labour force, left to itself the market tends to produce and reinforce inequalities between those in and out of work, between advantaged and disadvantaged groups and between regions and countries. Particularly vulnerable are the unskilled, older workers, disabled persons and minorities, especially in depressed regions. Failure to intervene is likely slow down adjustment at a higher social costs. This may explain why competition-restraining institutions and anti-competition practices are introduced in the labour market to a greater extent than in other markets.

In institutional economics the focus is on the *transaction costs*, the costs of running the economic system. Old, new and neo-institutional economics have in common the argument that information is costly and time consuming to acquire. Information is acquired through time, by experience, by the process of learning-by-doing and is less than perfect. This lack of information causes coordination problems. This leads human agents either to develop norms of behaviour, rules of thumb, or to adhere to social conventions. The most critical dimension for describing transactions is the condition of *asset specificity*. Asset specificity refers to durable investments in transaction specific assets. Asset specificity arises in an intertemporal context. Implying that unlike neoclassical transactions exchanges are neither faceless nor instantaneous (Williamson, 1975, 1985). Specialized assets cannot be redeployed without sacrifice of productive value. One consequence of this is that long-term relations emerge in which contracting parties enjoy particular information advantages. ‘Voice’ rather than ‘exit’ clears the market. This

may result in above market clearing wages. However, collusion among workers may save on transaction costs by giving a ‘voice’ to the workforce; it may also foster more harmonious relations between workers and management in the pursuit of common goals and strengthen social consensus in the society.

In an economy with perfect employment contracts, companies need not to worry about how they should motivate their employees. The existence of transaction costs implies that contracts are ‘incomplete’. Incomplete employment contracts are a rule rather than an exception and mutual trust between the employer and the employee is an important source for motivation and commitment. Trust is the expectation of one party that the other party will behave in trustworthy fashion.¹ The extent to which parties are trustworthy and refrain from opportunistic behaviour can be inferred from the availability of and effectiveness of institutions, personal characteristics and observed behaviour (Nooteboom, 2003; Butter & Mosch, 2003). This leads to wage rigidity, but can be viewed as an ‘invisible handshake’, profitable for both the employer and the employee (Agell, 1999). Contrary to neoclassical theory, these institutions and conventions increase economic stability. Networks of social relationships between players are also important. They form the basis for trust, discourage misbehaviour, and decrease uncertainties. This trust is not the consequence of rational calculation; it arises from sources like religion or ethic habit (Fukuyama, 1996: 351–352). Trust is not truly exogenous; it may increase with good past performance of a society’s institutions (see La Porta *et al.*, 1997).

Societies can save substantially on *transaction costs* when economic agents trust one another. Such societies can be more efficient than those that require detailed contracts and enforcement mechanisms. Like Denmark, the Netherlands is a high trust country (see Table 1). The Dutch trust their institutions. Because of this, relatively few people are members of political parties or trade unions. In Denmark and Belgium, union density is high, suggesting that the Netherlands has a higher level of trust than those countries. Even at the peak of the passed boom (1999), trust by the Dutch in their institutions was very high. Thus, the Dutch polder model has not been constructed, but rather is the result of historical developmental and is culturally based.

An important indicator for trust and its effect on societal transaction costs is the expenditure to maintain law and order (see Table 2). The contribution by the public sector (police) does not show much variation between the different economic models. Apart from public sources, the private security industry also absorbs significant resources, especially in the United States and Australia. The total picture of security efforts clearly shows that Anglo-Saxon countries devote much more resources to maintaining law and order. The highest effort is found in the United States and the lowest in the Netherlands.

¹A general definition of trust is by Sako (1992: 32): ‘... a state of mind, an expectation held by one trading partner about another, that the other behaves or responds in a predictable and mutually expected manner’, cited in Nooteboom (2003).

Table 1. Trust in institutions, population of 15 years and over (percentages, 1999)

	NL	B	D	UK	DK
Trade unions	61	39	37	41	51
Large enterprises	55	38	33	30	48
Government	66	25	47	41	42
Parliament	65	28	49	41	56
Law system	61	23	53	50	72
Political parties	42	18	20	18	28
Average trust 1999	64	43	48	48	58
Average trust 1997	61	35	45	49	61

Sources: Eurobarometer 48.0 (Autumn 1997) and Eurobarometer 51.0 (Spring 1999), weighted results. Dutch Social and Cultural Planning Bureau.

For the United States the total of 975 public and private security officials per 100,000 inhabitants is more than twice as high as the 419 in the Netherlands.

National cultures are very stable over time. Changes mainly come from outside (Hofstede, 2001). The level of trust at a given date influences the future level of trust. Consensus is earned on a daily basis. Consensus and cooperation are inextricably linked to mutual trust and that trust is based on the past conduct of other players. Hence, trust is path-dependent. In the Netherlands, the culture of cooperation and consensus favours the formation of trust. The polder model is characterized by organized solidarity and organized decentralization. The Dutch institutional framework fits almost completely with micro findings on how to build trust-enhancing networks (Delsen, 2002; Butter & Mosch, 2003; Nooteboom, 2003). Essential organizations that facilitate the institutionalized negotiations and cooperation at the national level are the tripartite Social-Economic Council and the bipartite Foundation of Labour. The Social-Economic Council is the official advisory

Table 2. Staff numbers in police service and private security industry per 100,000 population, about 2000

Country	Police	Private security industry	Total
United States	375	600	975
Austria	285	516	801
Canada	253	432	685
England/Wales	297	275	572
Germany	342	217	559
Sweden	320	184	504
France	375	121	496
Denmark	229	221	450
Austria	375	75	450
Netherlands	271	148	419

Source: Social and Cultural Planning Office (2004).

body of the Dutch government on social-economic policy, and is composed of representatives from employer and employee organizations as well as independent crown-appointed members, including the representatives of Dutch central bank and the CPB Netherlands Bureau for Economic Policy Analysis.² The social partners also meet in the Foundation of Labour to discuss labour-market-related issues. In addition, spring and autumn consultations – the half-yearly meetings – are held by social partners and the cabinet, and are among the highlights of the Dutch consultation economy. The aim of these meetings is not to enter into agreements, but rather to exchange views and to create an atmosphere of trust. These institutionalized and frequent forms of formal and informal consultation create high levels of trust.

(Changes in) Dutch Employment Protection System: Flexicurity

Since 1983, the Netherlands has acquired experience in a type of monetary union. In that year the Dutch guilder was pegged to the German Deutschmark. This reduction in monetary autonomy and the absence of the exchange rate instrument not only created the need for a flexible labour market to cushion economic shocks, but also the need for a policy of wage restraints to escape the deep economic crisis of the early 1980s. Moves toward flexibility and deregulation were intensified by the European Economic and Monetary Union (EMU).³ EMU and the euro, accompanied by increased competition in the capital market greatly influenced the labour market and the industrial relations system. In the 1980s the internationalization of the economies and the accompanying competitive pressure helped decentralize wage bargaining in Europe (Hartog & Teeuwes, 1993). EMU intensifies competition between companies and enables firms to take more advantage of economies of scale. The stronger grip of the financial markets on the Dutch economy forced enterprises to strive for maximum profitability and competitive dividends. Moreover high share prices are the best way to prevent hostile takeovers. A major change in corporate governance was the result with a focus increasingly on short-term financial results. In response, the growth of insecure temporary and marginal jobs was intensified. This accelerated the shift from the stakeholder capitalism of the Rhineland towards Anglo-Saxon shareholder capitalism, i.e. a shift from non-market coordination via the government or consultation towards market coordination via the functioning of the price mechanism. This shift applies to the institutional structure of the labour markets and the product markets, as well as to the financial

²The CPB provides objective and, wherever possible, scientific founded information for policy-making. In particular, the quality of the prognoses plays a positive part in this. In this way, the Social-Economic Council is provided with macro-economic figures, analyses and recommendations that are trusted by all parties involved.

³Although there are surely economic benefits to be expected from a monetary union, the main driving force behind EMU concerns political considerations. Its aim is also largely political. Monetary union is regarded as an engine of European integration (see Fratianni *et al.*, 1992; Feldmann, 1997).

markets (Delsen & De Jong, 1998). Since a considerable part of the wage costs in continental Europe are taxes and premiums, there is a direct link between macro-economic competitiveness and social protection. After the introduction of the euro, a policy of wage cost moderation becomes even more effective to improve the country's competitive position. Negative policy competition between governments to attract or retain foreign investment and to protect domestic jobs involves competitive deregulation and flexibilization, tax cuts, and privatization, explaining the development in the direction of a more liberalized market system. According to Scharpf (1997), it is remarkable that negative integration in the EU includes elaborate rules that prevent distortion in competition arising from subsidies, preferential public procurement and other forms of 'affirmative action' favouring national producers, but not against the practices of competition deregulation and competitive tax reductions.

The principle of 'concertation' has influenced industrial relations and their outcomes. Collective labour agreements are still the main vehicle establishing the terms of employment. Despite an intention to deregulate and decentralize, the government still supports this centralized instrument by maintaining the extension principle i.e. labour agreements cover an entire sector or category of personnel, whether they are union members or not. At the sectoral level, various institutions that are jointly controlled by trade unions and employers' federations have been established. Examples include pension funds, training institutes, and institutes to promote health care and good working conditions. Labour management by firms is therefore constrained by institutionalized employee influence. The institutional cooperation between management and labour facilitates employment security and human capital development. Not only the collective labour agreement, but also the mandatory extension of agreements as well as collective financing of company training are solutions to market failures. Management pursues business strategies that depend on workers with firm/industry-specific skills and high levels of commitment. These are secured by offering workers long-term employment, industry-based wages, and protective works councils. Vocational training schemes, supported by an industrial relations system that discourages poaching, provides high levels of industry-specific skills. However, with respect to this path dependent institutionalized system, the position of the government is changing substantially. In May 2004, the government announced it will not declare collective labour agreements legally binding for the entire sector if wage increases are too high or weekly working time is not increased to 40 hours (coming from an agreed weekly working time of 36 or 38 hours).

In this and the next section we will discuss recent changes in or 'attacks' on the traditional pattern of institutional complementarities. These changes include: increasing emphasis on contingent rewards (such as performance-related pay and share option schemes), flexible working practices, and fewer stable long-term relationships. It also suggests less focus on binding collective agreements, a weakening of works councils, less employment protection, less use of internal labour markets, and decreasing emphasis on long-term investments in human capital. First, the focus is on flexible

pay, the 1999 'Flexicurity' Act, and linking to it the changes in dismissal protection.

Flexible Pay

The literature shows that employee option and share schemes are far more common in market-outsider systems than in countries with relational-insider systems (Pendleton *et al.*, 2001; Gospel & Pendleton, 2004). As already mentioned, the Netherlands is moving in the Anglo-Saxon direction. A main argument for introducing these schemes is to establish an alignment between workers and shareholders. Employee option and share ownership plans may reduce the distinction between employee and shareholder interests and may shift labour management practices toward greater involvement of employees, more employee responsibility and stimulation of employees to position themselves as co-entrepreneurs.

Dutch empirical evidence shows that financial participation schemes, which are mostly share or share option plans, are growing fast. The number of firms listed on Euronext Amsterdam offering opportunities for financial participation increased substantially in the late 1990s. Nearly 90% of firms in 2000 had some form of financial participation compared with just under 70% five years earlier; 82% of firms were operating employee share option plans, and 39% stock ownership plans by 2000. Large multinationals and service-sector firms are most likely to have financial participation (Mol *et al.*, 1997). Perhaps unsurprisingly, all-employee share option plans are most common in young and knowledge intensive companies. Share ownership and share option plans occur less in smaller and unlisted companies.

It is clear that, as in Anglo-Saxon countries, the role of stock options in executive remuneration has grown substantially. Cools & Van Praag (2000) found that the contribution of options to executive pay packages ranged from 15 to 25% in 2000, compared with 10% in 1997. Executive remuneration in the Netherlands consciously imitates Anglo-US practices. The strong increase in the use of share options for higher staff and management indicates the possibility of greater orientation to shareholder value.

Profit sharing is also more common. From 1992 to 2000, the Netherlands moved gradually to the top five of countries in the European Union in the proportion of companies adopting profit-sharing schemes for management and staff (Pendleton *et al.*, 2001).⁴ In addition, although competence-based job evaluation is the main basis for rewarding employees, the '*Jaarboek Personeelsmanagement*' (Year Book of Personnel Management of the Dutch Association of Personnel Management) notes a shift towards performance-based pay (Vinke & Larsen, 2001). Currently 38% of male and almost 20% of female employees receive performance-related pay (PRP). Performance-related pay is mostly in workplaces not covered by collective agreements and for more highly educated employees aged 35–44 (Verboon, 2001: 67,

⁴The other countries in the top five in 2000 were: France, the UK, Austria and Germany.

76). It appears that Dutch companies are adopting Anglo-Saxon elements of labour management in those niches not directly covered by corporatist institutional arrangements (Poutsma & Braam, 2004: 169).

'Flexicurity'

A decade ago, the Ministry of Social Affairs and Employment showed that employers are able to offer more permanent employment relations. In the Netherlands, large groups of on-call labourers do work with a regularity that is more nearly a permanent relationship. Over two thirds of the flexible labour relations last longer than one year, and over one third longer than three years. In these cases, why do employees still have a 'flexible contract?' Other research shows that the total pool of on-call labourers per firm even in peak periods is only deployed 70% on average. In reality this implies that employees are forced to keep themselves available for a call, while they have little or no security, and don't know how many hours they will be able to work and when. Moreover, there is limited freedom to refuse a call in general. Increasingly, Dutch employers formally preclude the payment of wages if no work is available. This means the normal business risk is placed increasingly on the employee. The law governing dismissal is circumvented and the costs are passed on to the social security system (see SZW, 1995: 25–26).

The increase in flexible working practices fuelled the debate over whether or not more protection for flexible workers should be provided and at the same time generated a debate over whether or not permanently employed personnel should have a less restrictive dismissal system. The 1993 paper of the Foundation of Labour, *A New Course (Een Nieuwe Koers)*, developed an agenda for the collective bargaining round of 1994. The Foundation said that parties should achieve a new balance between the demands for flexible production in the context of globalization and technological development, and the legal protection of workers. While central unions were convinced of the need for employment flexibility, individual union members were divided. Some 40% thought that unions should oppose the growth of temporary work (threatening permanent jobs), while another 40% wanted unions to negotiate. The latter is in line with the polder model, workers and employers alike, to reach consensus over delicate issues (Van Velzen, 2004: 60).

Stimulated by the Foundation's attitude, the government produced a paper on Flexibility and Security (*Flexibiliteit en Zekerheid*: SZW 1995) presenting ideas for legislation aimed at (1) increasing the flexibility of permanent workers; (2) improving the legal status and protection of flex-workers; and (3) enhancing the possibilities for flexible labour contracts. The Government invited the social partners to conclude an agreement on more flexibility in the labour market. The Foundation of Labour acknowledged the need for more flexibility, but feared the segregation of core permanent workers and peripheral temporary workers. It recommended modernized labour law that combined flexibility and of security. In April 1996, the main confederations of employers and trade unions reached an agreement on increased flexibility combined with strengthening the position of temporary employees and

agency workers (STAR, 1996). In 1998, the Minister of Social Affairs sent proposals to parliament based on these recommendations. The 1999 Flexibility and Security Act (*Wet Flexibiliteit en Zekerheid*) tried to redistribute employment flexibility and security: workers in flexible staffing arrangements are provided with more employment security, while employers face fewer obstacles in dismissing permanent workers.

Prior to this Act, an Act on Workers Allocation via Intermediaries (WAADI) was introduced, which liberalized the temporary work industry: agencies were no longer required to have a licence for the temporary placement of workers at a client firm (Koene *et al.*, 2003). Furthermore, limits were removed on the duration of a temporary assignment: temporary workers can be placed indefinitely at a client firm's job site. The Flexibility and Security Act complements and limits this freedom with the securing of the legal position of agency workers: the relationship between an agency and its temporary workers is an *employment relationship*. This brings the relationship under the governance of the Civil Code and hence a subject of collective bargaining and collective agreements. Two collective agreements developed: the ABU agreement covering 280,000 temp workers at 280 large agencies, and the NBBU agreement covering 15,000 temp workers at 320 smaller agencies. The agreements extended the rights and benefits beyond the law (which is possible since the law is a framework law with minimum specifications) covering the possibility for training, paid holidays and paid sickness leave for those temp workers with longer non-tenured tracks at the agency (Van Velzen, 2004: 61–62).

The 'Flexicurity' Act has another feature that tries to overcome too many long-time temp relationships: workers on a temporary contract become a permanent worker if the worker has been employed temporarily for 36 months or if three consecutive temporary employment contracts have expired, provided that the period in between contracts is less than 3 months. In practice, this last addition makes it possible for employers to circumvent the change to permanent contracts by a so-called 'draaideur constructies' (Swing door construction), longer periods between contracts.

Within the flex segment, agency work became more important in the 1990s. It more than doubled during the boom after 1994, and reached its peak in 1998. Its share in the total flexsegment increased from almost 26% at the beginning of the 1990s to over 38% in 1999 (see Table 3). Half the growth of flexwork is attributable to the growth of agency work. Measured in full-time equivalents in the Netherlands, the share of agency work in total employment (measured in full-time equivalents) in 2000 was 4.5%, very high internationally. After 1998 an absolute and relative drop of agency work was recorded. In 2003, its share in the total flexsegment was 32%. After 1999, fixed-term contracts became more important.

Preventive System of Dismissal

'Anglo-Saxonization' is assumed to increase hiring and firing due to a short-term focus on labour costs. The more openly competitive practices associated

Table 3. Employees with flexible employment relations by contract, (× 1000) 1992–2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Agency work	102	98	114	149	191	214	225	222	196	188	178	149
On-call labour	118	119	126	137	165	164	186	153	117	116	101	104
Fixed-term (< 1 year)	112	113	126	132	134	135	134	136				
Others	69	58	59	58	62	60	60	69	219 ^a	202 ^a	209 ^a	214 ^a
Total	399	393	425	477	545	573	606	578	533	505	488	466

Note: a: including fixed-term (<1 year) contracts.

Source: Statistics Netherlands (CBS), *Statline*.

with Anglo-Saxon labour markets support rent seeking by both parties. Firms outsource functions to freelance professionals to enhance the return on these functions and workers extract high fees from firms through job-hopping. Are these practices being increasingly found in the Netherlands? There is a unique feature in Dutch employment relationships that hinders easy termination of labour contracts: the preventive system of dismissal. In this system, redundancies, individual and collective dismissal, and partial unemployment (including short-time working and temporary lay-offs) are subject to prior administrative authorization by the Minister of Social Affairs and Employment. As a result, dismissal takes longer in the Netherlands than in many other countries and it takes longer for an employer to quit. Despite the opposition of employers (Delsen, 1993), discussion in the tri-partite bodies and several reform proposals, not much has changed.

In practice, the preventive dismissal test is circumvented in two ways. First, by direct negotiations between employer and employee the contract is ended, and second by using civil law procedure. This costly civil law procedure is increasingly used as the courts may make compensation decisions. Courts usually decide to give compensation based on months or years of salary to the employee who is dismissed. Although these ‘golden parachutes’ are much lower than in the US, in many cases the amount outweighs the extra salary payment that would arise from adherence to the longer dismissal period associated with the authorization regime of the public employment service. This ‘hire and fire’ route appears especially likely to be taken in instances involving reorganizations and mergers of successful firms since it is believed that authorization via the public employment services will be less easy in these circumstances.

The number of applications for collective and individual dismissal to the directors of the Regional Employment Office (RDA) has decreased since 1983, while the number of requests for dissolution dismissal by the district judge submitted to the cantonal courts has increased (see Delsen, 2002: 131). For the first time in 1998, the number of termination applications

submitted to the cantonal courts (40,106) exceeded the number of termination requests submitted to the Employment Offices (39,618) (see Table 4).

The length of the notification period is one of the important differences between the cantonal court procedure and the Employment Office procedure. In the Flexicurity Act it was decided that the preventive dismissal test would be maintained. However, the procedure was shortened because the notification period and the termination request period now commence simultaneously. The increase in the number of termination requests in 1999 can be explained by the 'flexicurity' Act. After 1999, the number of requests for dissolution dismissal increases again, relative to the number of applications for dismissal permit. The strong increase in the number of terminations of employment contracts via the cantonal courts in the Netherlands demonstrates the increasingly business-like nature of the relationship between the employer and the employee. Reorganizations and personnel reductions that are accompanied by high profitability detract from the necessity for involuntary dismissal. This could cause difficulties in the termination request through the director of the Regional Employment Office, giving employers a reason to bypass this termination route. The business-economic interest cannot compete with the higher exchange quotation interest. This explains why the preventive termination assessment is losing its validity and why the number of cantonal court procedures is increasing significantly.

Decentralization of Collective Labour Agreements and Collective Bargaining

After the Second World War, corporatist views had a powerful influence upon collective bargaining. Collective labour agreements were tightly controlled by a central tripartite institution, in which successive governments played a major role by establishing the parameters of negotiations. This came to an end in 1982 with the signing of an agreement between the social partners to moderate wage increases and to reduce working time aimed at investment growth and job growth. Following this famous 'Accord of Wassenaar', consultation and the conclusion of collective agreements shifted from the national level to the sectoral level. This decentralization has continued. The agreement *Een nieuwe koers* (A new course) can be regarded as a plea for further decentralization to the company level. The

Table 4. Number of applications for a dismissal permit (RDA) and requests for dissolution dismissal by the district judge, 1994–2003

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Applications	89,732	68,348	60,423	49,790	39,618	46,745	44,159	54,376	70,925	85,881
Requests	43,869	45,555	44,426	38,220	40,106	31,277	34,434	45,629	45,629	78,491

Source: Ministry of Social Affairs and Employment, *Ontslagstatistiek (Dismissal statistics)*, The Hague, various years.

need for differentiation and tailor-made solutions within the collective agreements is emphasized. However, since 1982 there has not been as much differentiation in bargaining outcomes as might be expected from this relative freedom of the contracting parties. Coordination between the social partners persists as it appears to work. Indeed, this coordination is an essential part of the *Dutch Miracle* (Visser & Hemerijck, 1997). Decentralization and flexibilization are positively associated. The demand by employers for increased flexibility arose in direct response to trade union demands for general working time reduction after 1982. They proposed a more flexible working time arrangement in collective agreements and that it should be left to the enterprise to negotiate detailed arrangements with the unions. They also were in favour of more flexible labour contracts, like temporary contracts and on-call labour. This variation in employment contracts and hour regimes reinforced the process of decentralization started by the Wassenaar Agreement. On the other hand, decentralization of negotiations is a requisite for reorganizing work: decentralization resulted in a higher degree of differentiation of working conditions, it reduced standardization.

In the Netherlands deregulation and decentralization in industrial relations are still widely discussed. However, it appears that policies to promote decentralization and deregulation may have led instead to further centralization and regulation. Despite discussions about the desirability of micro-flexibility, emanating especially from employers, most employers still embrace centralized collective labour agreements.

There are some pressures to decentralize sectoral collective agreements, but so far only a few larger companies have their own agreements with the trade unions. This development might be described as controlled and coordinated devolution of functions (Ferner & Hyman, 1998), resulting in the creation of new institutions. Tros (2001), in his study of decentralization in Dutch industrial relations in the period 1980–2000, confirms that such a process has been taking place and that regulations were decentralized from the national level to the sector level.

However, within sectors, some specific aspects of labour management became more centrally regulated than before. Overall, there has been no significant change in the relative importance of sector and company agreements. In 1975, sector-wide agreements covered 85% of employees: by 2003 this figure had dropped to 81% (see Table 5). Furthermore, the government has retained the traditional extension rule associated with centralized bargaining that makes sector agreements generally binding on all employees in the sector (despite trade union density being only 27%). The number of company agreements increased gradually from 450 in 1975 to 836 in 2003, although employment coverage did not increase at the same rate: from 15% in 1975 to 19% in 2003.

There have been regular discussions about decentralizing the system of collective agreements and making it more voluntary. However, most of the proposals for change have come to nothing. Despite the rhetoric, both sides of industry acknowledge that the current system is well established, and that the institutions of regulation operate largely successfully. It is still

Table 5. Development of CLAs and covered employees, 1975–2003

Year	Number of Sector CLAs (%)	Employees × 1000 (%)	Number of Company CLAs	Employees × 1000	Total CLAs	Total employees × 1000
1975	184 (29)	2011 (85)	450	344	634	2355
1980	185 (25)	2350 (85)	543	412	728	2762
1985	192 (23)	2353 (85)	627	421	819	2772
1990	199 (22)	2742 (82)	704	603	903	3345
1996	222 (23)	4264 (87)	625	625	973	4889
2000	185 (19)	4910 (86)	767	785	952	5695
2001	193 (20)	5268 (86)	770	855	963	6122
2002	223 (22)	5512 (82)	803	1176	1026	6687
2003	231 (22)	5556 (81)	836	1283	1067	6838

Source: Minister of Social Affairs and Employment (2001, 2002, 2003).

attractive to have a collective agreement. Also new sectors that had individual or works council negotiations and contracts, like the Information Technology and Communication (ICT) sector, develop more company CLAs and even sector CLAs (Van Liempt & Van Uffelen, 2002).

However, there is a profound change *within* collective agreements. The role of the collective agreement as a framework or guidelines has increased allowing for more specific regulations on the local level. Agreements are less prescriptive and binding and give general principles with more room for manoeuvring on the company level and even the individual level. This has been described as agreements ‘à-la-carte’ or the ‘cafeteria’ system.

An agreement ‘à-la-carte’ is where employees get a choice of elements and structure for his or her remuneration package. Choices mainly consist of time for time, where free days can be saved for longer sabbatical, study or parental leave; time for money where employees can buy leave, or the other way around, where employees can exchange free days for work and money. A recent study conducted for the Ministry of Social Affairs and Employment shows that 21.6% of the labour force is covered by this type of agreement (Muconsult, 2003). According to trade union research the coverage is 44% (Hupkes, 2003).

Decentralization, Flexicurity and Economic Performance

This section looks at the consequences of the changes in the Dutch labour market institutions mentioned in the previous sections. Hence, what are the implications of decentralization of wage formation and flexibilization of employment relations and wages for the efficiency of the Dutch labour market? To answer this question, first the implications for the level and flexibility of nominal and real wages are pictured. Next we look at the impact on the employment level and net employment growth. Finally we look into the transaction costs implications of the institutional changes.

Non-competitive Wage Differentials

In assessing the efficiency of the corporatist wage formation in the Netherlands, two criteria are relevant. In the first place the extent to which wage differences between companies reflect the market relationships, i.e. are market clearing, and in the second place the speed of adjustment of the average wages to the market clearing level.

Characteristic for decentralized countries is the non-competitive wage differentials (see Table 6). If the market mechanism worked, these differences would be eliminated through competition. The limited effect of collective bargaining on the wage rate (the adjusted wage gap) in the Netherlands can be explained by the larger collective labour agreement coverage level and by the centralized and coordinated wage negotiations, enabling the labour unions in the Netherlands to take more into account both the effects on the job market in economically-weaker companies and the interests of the unemployed. Because negotiations in the Netherlands are held on the sector level, the negotiating position of individual companies scarcely affects the outcome of the negotiations. This limits the power of the insiders. Corporatist wage formation reduces these non-market clearing wage differences and therewith contributes to the efficiency of the economy. At the same time, the openness of the economy of the Netherlands plays a part. This limits the possibilities for wage increases. Moreover, the legal extension of collective labour agreements guarantees the influence of the unions at a relatively low union density level, so that the unions need not place extreme wage demands.

Because a balance must be continually sought between multiple interests, the consultative model is syrupy. The coordination by the market, however, is slow and also damaging, for example because high wages must first result in bankruptcies and unemployment before modifications are made. Coordination on the national level makes it possible to readily respond to price and wage developments and prevent unemployment. The corporatist negotiations explain why the nominal wage rigidity in the United States is greater than in the Netherlands (see Table 7). The nominal wage flexibility is measured by looking at the effect that an unexpected change in the inflation has on the real wages. With perfect flexibility, the outcome is 0 and with complete inflexibility it is 1. The real wage flexibility in Table 8 measures the sensitivity of the wages to the level of unemployment: the effect of 1% less

Table 6. Effect of collective negotiations on wage rate (in percentages)

Austria	7
Germany	8
Netherlands	4–5
United Kingdom	10
United States	22

Sources: Blanchflower & Freeman (1992: 64) and Delsen (2002: 119).

Table 7. Nominal and real wage flexibility in a number of countries, 1965–1985

	Nominal wage flexibility	Real wage flexibility
Germany	–0.14	0.01
Netherlands	0.09	0.01
Sweden	0.13	0.03
United States	0.46	–0.02

Source: Teulings & Hartog (1998: 175).

unemployment on the percentage wage increase. The greater the number, the greater the effect. As a result of a hold-up, nominal shocks have extensive real consequences in the United States. If the actual inflation deviates from the inflation upon which the wage contracts are based, no adjustment is made in the United States to the macro-economic circumstances due to the hold-up problem. Labour contracts are not renegotiated, due to the uncertainty regarding the division of the surplus resulting from firm specific investments. Coordinated wage negotiations between employers and employees on a level higher than the company, for instance sector wage negotiations as seen in the Netherlands, are a solution to this hold-up problem (see Soskice *et al.*, 1998; Teulings, 1997; Teulings & Hartog, 1998). As a result, an individual employer and his employee can bypass the hold-up problem because they cannot influence the outcome of the negotiations by suspending their specific investments. In this respect, labour relationships in the Netherlands are more flexible than in the United States, where the enterprise is the dominant level for wage negotiations.

With reference to real wage flexibility, there is no clear relationship to corporatism. However, contrary to what is often believed, wages in the United States are not extremely flexible. The average wages even increase as unemployment increases. This may indicate that in the United States the insider–outsider problem is present. Inexpensive, temporary workers and newcomers – the outsiders – serve as a buffer and are the first to be dismissed when economic developments take a turn for the worse. As a result, companies are stuck with relatively expensive insiders and the average wages increase. The opposite occurs when economic developments are favourable (Delsen, 2002).

Table 8. Increase in the number of jobs in the Netherlands according to type of employment (×1000), 1987–1999 (first quarter)

	Full-time	Part-time	Flexible	Total
1987–1993	106 (16%)	437 (66%)	117 (18%)	662 (100%)
1994–1999	108 (14%)	348 (49%)	262 (37%)	716 (100%)

Source: Calculated using information provided by CBS, *Arbeidsrekeningen*. Voorburg/Heerlen: Statistics Netherlands, several editions.

Dutch employers too are sceptical about wage incentives, since these are accompanied by high administration costs and it is difficult to measure performances, and also because of the downward rigidity. Measuring productivity at the individual level remains a major problem. Besides, the achieved effectiveness can be questioned. More money is paid than would have been the purpose, because of the lack of objective criteria. These inefficient wage increases confirm the principal-agent problem. The performance-linked payments' paradox is that people can only stand a critical assessment in a good working relationship. If the relationship is good, however, the employee will probably perform all right. Extra money for higher performances will only cost the company extra money and will discourage those who do not get a bonus. Incentive payments can boomerang. If young peoples' achievements are openly acknowledged, they will not quickly commit themselves to the company. Instead, they will soon sell themselves to the highest bidder, and again and again. This pushes up the price of scarce talents. Wages shoot up and the customer ends up paying for it all. A recession, however, can change all this. Incentive payment systems do not fit in the Dutch culture, which is characterized by solidarity and equality. Besides, implementation problems occur because of the difficulties encountered in establishing standards, measuring performances and the negotiations that must be held with individual employees. As a consequence, employees on incentive payments earn 10% more than employees on standard pay. This illustrates that, generally speaking, incentive payment is favourable for employees and unfavourable for employers, unless this is countered by a productivity gain of over 10% (see Delsen, 2002). Experience shows that in the Netherlands, variable remuneration is mainly regarded as an extra with respect to other employers/companies, and does not replace structural wage rises.

Apart from the micro-economical consequences, macro-economical consequences also occur. Performance linked payments can cause income developments and thus purchasing power and consumptive expenditure to become more sensitive to business cycle fluctuations. In fact, flexible labour costs, i.e. the pro-cyclical development of aggregate demand, exacerbate the cyclical swing. This undermines the macro-economic stability. This also negatively influences consumers' confidence. This is also very important since a major part of the economic and employment growth in the second half of the 1990s was related to consumption.

Net Employment Growth?

Although deregulation and decentralization are put forward in order to increase flexibility, it is not yet obvious that increasing flexibility is stabilizing. In fact it may increase the extent of overshooting and may result in short-sightedness and reduce the incentives of firms to embark on long-run training programmes for their workforce. Between 1991 and 2000, employment in the Netherlands increased by 25.1%; but 9.9% of the additional jobs was temporary (OECD, 2002: 135). More than one third (37%) of the recent strong growth in net employment in the

Netherlands involved flexible jobs, compared with only 18% in the period 1987–1993 (see Table 8). These flexible jobs comprise on-call employees, agency workers and employees with a contract valid for less than a year. The share of flexible jobs increased from 9.1% of all jobs in 1990 to 12.9% of all jobs in 1998, and the rate went down to 11.7% in 2002 as a result of the stagnating economic growth. Within the flexsegment, agency work became more important in the 1990s. As mentioned above, half of the growth of flexwork is attributable to the growth of agency work.

The Netherlands has been referred to as being the first part-time economy in the world (Freeman, 1998). In 2003, over one third of the employment concerns part-time jobs, the highest rate in the European Union. The latter applies to the female part: about two-thirds of Dutch women work part-time, representing three quarters of all part-timers. More than in other EU-countries, the strong growth of the number of part-time jobs in the last decades in the Netherlands can be ascribed mainly to the demands of employees, which is acted upon by the employers. Dutch part-time employees are known to be more satisfied with their jobs than full-timers, i.e. voluntary part-time work prevails (Delsen, 1995; Buddelmeyer *et al.*, 2004). The contribution of part-time work to the recent net growth in employment (49%) is lower than the preceding period from 1987 to 1993 (66%) (see Table 8). The portion of part-time jobs in the overall number of jobs increased from nearly 24% in 1988 to almost 30% in 1998. More than 20% of the overall increase in the number of jobs, roughly 29% of all new part-time jobs involve small (<12 hours) part-time jobs (see Delsen, 2002). It can be concluded that during the period 1994–1999, more than half of the Dutch employment miracle comprised *marginal jobs*, i.e. flexible jobs and small part-time jobs. The Dutch job machine in the second half of the 1990s showed a resemblance to the *American job machine*.

In 1997 and 1998, the increase in the number of flexible jobs in the Netherlands levelled off (see Table 3). This is related in part to the economic situation and the new Flexibility and Security Act (*Wet flexibiliteit en zekerheid*) that came into force in January 1999. This Act improves the employment protection of agency workers. An agency relationship is usually regarded as an employment contract for a definite period of time that is subject to all of the regulations laid down under employment contract law. The Flexibility and Security Act has also improved the position of employees with a fixed-term contract. After three successive temporary employment contracts have been concluded, a contract for an indefinite period of time arises. As employers can react in different ways, the effect of the ‘flexicurity’ Act is uncertain. The temporary employee is either hired for an indefinite period of time or the employer starts looking for another temporary employee or another way to recruit flexible personnel.

In anticipation of the ‘flexicurity’ Act, employment agencies are employing more and more permanent employees in labour pools, who are then deployed. This resulted in an increase in labour market dynamics in the 1990s relative to the 1980s. It is remarkable that for temporary workers this job mobility follows a pro-cyclic pattern, while for permanent workers

it follows an anti-cyclic pattern. Moreover, for flexworkers relative to permanent employees this more often is a downward functional mobility, indicating the presence of the insider–outsider problem (Delsen, 2003). These marginal jobs are insecure jobs and very sensitive to the business cycle situation. Moreover, they increase the employment intensity of growth. Within the EU, after Spain, the employment intensity of growth in the Netherlands is the highest: 0.5 in 1980–1990; 0.6 in 1991–2000 and 0.7 in 1995–2000 (EC, 2001: 54). Hence, the business cycle oscillation of the labour market has become stronger.

The flexicurity Act – both the relaxation of dismissal protection and the increased opportunities to use flexible jobs – has contributed to this stronger business cycle movement and to more dynamics on the Dutch labour market. Notably, the developments of agency work is an indicator for the business cycle (Moolenaar, 2002). Hence, extending the opportunity to conclude such a contract widens the amplitude of the business cycle. The pro-cyclical response of employment is larger after deregulation of flexible contracts: it increases employment in booms, but lowers it in recessions. This indeed can be recorded in the Netherlands. Extending the opportunities to use flexible contracts involves a reduction in firing cost without much affecting hiring costs. Reduction of firing costs affects firing decisions more than hiring decisions. As a result, the loss of jobs in a downturn may be larger than the gains in an upswing. Also, the increased costs of agency work stemming from the flexicurity Act result in an asymmetric impact on the business cycle: anti-cyclical in a boom and pro-cyclical in a downturn. The Act puts a break on the growth of agency jobs in a boom, while in a downward phase the Act does not offer any additional employment security relative to the old Act. Agency workers still have little legal protection in bad economic circumstances. Table 3 indeed shows that agency work is more sensitive to the business cycle. Also, the recorded shift towards fixed-term contracts may be induced by the flexicurity Act. The flexicurity Act intensified the recent Dutch recession. Also, the present cutback and tax increases by the government to comply with the Stability and Growth Pact in the European Union slowed down the economic growth: a procyclic economic policy is applied.

In the final analysis, the Dutch employment miracle turns out to be an unstable one: in the present downturn, the Netherlands is immediately, and more than other EU-Member States, confronted with considerable lay-offs and increasing unemployment figures (Delsen, 2002). At this moment, the number of unemployed in the Netherlands increases faster than the EU-average. It may be expected that the employment gains during the second half of the 1990s will completely disappear and the Dutch labour market is thrown back to a situation that resembles the beginning of the 1990s or, even worse, the beginning of the 1980s (Delsen, 2003).

Evaluation studies of the Flexicurity Act (Grijpstra *et al.*, 1999; Bos *et al.*, 2000; De Klaver *et al.*, 2000) show that there are some signals that temp agencies were initially reluctant to act accordingly, and that they laid off temp workers who might qualify for a permanent position. Nearly 27,000 on-call contracts were replaced by temp work contracts, nearly 18,000 were changed

into fixed-term contracts, 48,000 on-call contracts were extended or made more permanent (positive effects), while only about 25,000 were terminated (negative effect). As for fixed-term contracts, in 145,000 cases contracts were perpetuated, 72,000 turned into permanent contracts (positive), while 46,000 were terminated and 30,000 were temporarily terminated (negative). However, the studies express serious doubt of whether the effects are attributable to the introduction of 'Flex Wet' only. It is suggested that the strong economic upturn of the Dutch economy, and the related shortage on the labour market has improved the bargaining position of employees strongly, resulting in fewer flex-jobs, since most workers prefer steady, secure and permanent jobs and working hours. This situation may also be the reason for the fact that the new regulations have as yet not led to serious disputes. The impact on permanent jobs has not been established in evaluation studies.

The procyclic development of flexwork in the Netherlands in the 1990s was around a increasing trend, indicating a structural increase in the use of flexwork, resulting from changes in regulation concerning the use of flexwork and the opening hours of shops as well as a change in management style, focusing more on short-term results. The latter is an important explanation for a more flexible input of labour. These developments can be explained by several other factors. One, growth in the number of flexible contracts emanates from employer uncertainty as to whether increases in product demand are permanent (Delsen, 2002: 89). Two, flexible workers can be dismissed more easily than full-time workers protected by collective labour agreements. In other words, employers seek to circumvent collective agreements. Three, there are strong indications that the Dutch labour market has become a dual labour market with a primary segment of core full-time employees and a secondary segment of flexible workers (Kleinknecht *et al.*, 1997). This is partly caused by outsourcing strategies of larger companies focused on enhancing short-term shareholder value. This strategy appears to be especially prevalent in multinationals with UK or US links, such as Shell, Unilever, and Philips (Van Witteloostuijn, 1999). Fourth, the growth of flexible jobs is partly caused by a change in culture, a growth in labour market participation of married women (with desired work option to balance work–family activities) and young student-workers. Contrary to other EU-countries, where temporary employment is mainly introduced by employers, in the Netherlands the preferences of employees play an important part with temporary labour (see Garibaldi & Mauro, 2002; Delsen, 1995, 2002; Moolenaar, 2002).

Transaction Costs

The consultative model renders more feasible decisions than a hierarchical model. Prerequisites, however, are that the various interest groups be sufficiently representative and that their representatives have sufficient support from the members to make the decisions binding. These prerequisites are satisfied in the Netherlands. Trust in institutions is high (see Table 1). As a result, decisions made based on consultation have a large level of support and therefore lower implementation or maintenance costs (transaction

costs) than unilateral decisions. Internalization of the external effects of one's own behaviour is then possible. Measures can be easily implemented. Decision making based on consultation also supplies the participants with sufficient information about one another's interests and position of power, therewith increasing the predictability of one another's behaviour. The lower level of uncertainty promotes orientation in the longer term.

Apart from wage flexibility and employment flexibility, transactions costs are important to judge the efficiency of the institutional changes in the Dutch labour market. Related to the latter in this section the focus is on the developments in lawyer density, industrial peace, and in manager's intensity. As already indicated the Netherlands is a high trust economy. The maintenance costs of regulation in decentralized Anglo-Saxon countries may be expected to be higher than in the more centralized Rhineland countries. Regulation based on cooperation and trust may remain more general and limited to certain standard regulations. Based on World Values Survey data, NYFER (1997) concludes that there are differences in the character of trust between Anglo-Saxon countries and continental Europe. In European capitalism, trust is based on *personal relations* built up over the years. In the more liberal market economies of the Anglo-Saxon countries, the market parties base their trust on *objective criteria* like annual reports. There is a significant positive relationship between trust and average annual real growth of GDP per capita. Trust or social capital determines the performance of a society's institutions (NYFER, 1997).

Large complexity of legislation, as in the US, implies that firms are dependent on lawyers, and this results in higher transaction costs for the business sector. In the Netherlands, the tendency to go to court has always been very limited. In the Netherlands, the lawyer density – the number of lawyers per 100,000 inhabitants – is low relative to the US and other countries in Europe (see Table 9). Also the number of judges is low in the Netherlands, relative to the population size (only half of that of Germany). Table 9 also shows that the expenditure on legal services as a percentage of GDP is relative low in the Netherlands. However, this favourable situation has changed recently. The number of court cases and hence the number of lawyers has increased. Between 1988 and 1998 the lawyer density increased from 35 to 70. This increase in transaction costs is partly related to recorded commercialization and rationalization.

Apart from wage moderation, the polder model, consultation and cooperation, also contributed to industrial peace. Industrial peace contributes to the economic climate and is an important competitive and settlement factor to attract foreign investments. No other western country loses so few days to strikes and other industrial conflicts as the Netherlands (see Table 10). In addition to the decision making structure, the norms and values in which the consultations are held play an important part. As long as there are conflicts and those conflicts are being decided, they serve to help get to know the opposition better. Different norms and values apply to the Anglo-Saxon model, and conflicts are fought out with the intent of beating the other party. The consultation economy renders not only contracts

Table 9. Lawyer density ratio, number of lawyers per 100,000 inhabitants (1988) and lawyering costs (1987), in a number of countries

	Lawyer density (1988)	Costs (% of GDP) (1987)
Netherlands	35	0.1
England and Wales	134	0.5
France	49.1	0.6
Italy	812	0.5
United States	312	2.4
West Germany	190.1	0.5

Source: Van Waarden (2001).

but also norms. If everyone is satisfied, it is not difficult to demand fulfilment of the agreements. This means that the maintenance costs are also low. After a period of time, the agreements are not satisfied based on the principle of 'a contract is a contract', but because it is the accepted behaviour: the agreement as made has become a norm (see Teulings, 1997). In the 1980s, the number of days lost because of strikes was quit low. However, in the 1990s this position changed considerably. The Netherlands lost part of its lead, and it even turned into an arrears relative to Germany in the 1990s. During the past decennium the number of days lost due to strikes per 1000 employed increased in the Netherlands, while in other countries a considerable decrease was recorded. Also, this development is partly related to the recorded commercialization and rationalization.

Corporatism is associated with cooperative labour relations and decentralization with antagonistic relations. Firms in countries with decentralized wage setting spend more resources on disciplining activities than do firms in more centralized economies. These increasing transaction costs are also expressed, for example, in a higher intensity of supervision – the ratio of supervising personnel to staff carrying out the work – to prevent motivation and discipline problems (see Table 11). Indeed, in the Anglo-Saxon countries

Table 10. Number of days lost through strikes per 1000 people employed in 1980–1989 and 1990–1999, in a selection of countries

	1980–1989	1990–1999
Germany	22.9	10.5
France	61.7	31.2
Italy	433.3	110.6
Netherlands	12.8	19.3
United Kingdom	292.8	25.0
United States	132.0	37.0

Source: ILO, *Yearbook of Labour Statistics*, Geneva, various years.

Table 11. Ratio of supervising personnel to staff carrying out work (percentages)

Belgium	5.5
Germany	4.4
Netherlands	4.5
United Kingdom	15.4
United States	17.6

Source: Gordon (1994).

this ratio is three to four times as high as in the Netherlands. The doubling of the number of managers over the past decade and the continuous decrease in the number of subordinates per manager in the Netherlands is partly related to the recorded commercialization and rationalization. The Dutch business sector increasingly resembles the American one. The number of managers with secondary education in the Netherlands increased from 101,000 in 1994 to 177,000 in 2002 (Statistics Netherlands).

In the Netherlands, tailor-made working conditions tend to be shaped nowadays in the form of collective labour agreements ‘à la carte’. Synonyms for these types of collective labour agreements are ‘elective collective labour agreement’ and ‘cafeteria system’. Employees are offered the right to exchange certain items within an agreed package of working conditions. The Dutch social partners are convinced that these choices offer the opportunity to balance work and private life/care better. Offering à la carte working conditions is supposed to be budgetary neutral and to make employers more attractive for employees, hence, a classical win-win situation. Studies in which the actual choices made by different categories of personnel are analysed in detail are still largely lacking. Elsewhere we analysed the actual choices made by all employees of the Radboud University Nijmegen (Delsen *et al.*, 2004). We find relatively low participation rates compared to the ex-ante preferences. Three-quarters of the participants chose money in return for days off and hardly anybody opted for the reverse. The increased diversity in working time and working conditions, combined with the possibility to exchange between various items also results in substantial transaction costs. Our results cast doubt on the efficiency and the effectiveness of the present options within collective agreements. Dutch employers complain about what they call ‘excessive regulations’ imposed by the state, on the other hand they are themselves actively involved in the creation of complex and expensive systems of à la carte working conditions. The massive sale of days off contradicts the union’s aim of working time reduction and questions the policy of wage moderation.

Conclusions

The polder model is deeply rooted in the consensus-oriented culture of the Dutch. Yet, this paper indicates that Dutch trade and industry have

become more oriented toward short-term results and less toward long-term continuity and consensus. This has detrimental effects on the high levels of trust and cooperation between manager and worker, frustrating the process of change and adjustment. Efficiency losses may result from rising turnover, decreased motivation and commitment and under-investment in general and specific human capital. We argue that the efficiency and effectiveness of this market-induced flexibility is limited due to high transaction costs. Less standardization has a hidden price tag. There is a trade-off between increasing returns to scale and standard regulations and customization. In the Netherlands, these higher transaction costs are shown by the increasing lawyer density, the rising expenditure on legal services, the higher intensity of supervising personnel, as well as the increasing number of days lost due to industrial conflicts. The collective labour agreement 'à la carte' is accompanied by higher engagement, administrative, monitoring, negotiating and maintenance costs. These results at least cast doubt on the efficiency and the effectiveness of recently introduced tailor-made solutions.

Since institutions do not only produce costs but also have a positive effect on labour productivity and economic growth, it is impossible to establish beforehand which system of labour regulation is the most favourable local competitive and settlement factor. Establishing the optimum system is therefore an empirical issue and depends to a large extent on prevailing standards and values and the existing environment. In the Netherlands, the central and sectoral consultative institutions prevent several types of market failures from occurring. For this reason, allocative and dynamic efficiency in the Netherlands is greater than in the USA. The Dutch consultation model, by which corporatist organizations negotiate initial wage increases and individual employees and employers negotiate incidental wage increases, is more efficient than the American system. Market failures, i.e. insider power and the hold-up problem, are prevented. In the past, policymakers have assumed that institutions and conventions disrupt the free market. However, institutions have advantages and disadvantages. This implies that liberalization should be used in a selective and restrained manner. Institutions can resolve coordination problems in society and, in doing so, reduce transaction costs. This leaves more money for investments.

Every institution is embedded in a configuration of institutions, making it is difficult, if not impossible, to compare the effectiveness of individual institutions. Groups of institutions as a whole can be compared. Identical institutions within certain configurations of institutions and policies may even lead to the opposite effects. Relevant comparative research has shown that neither the Rhineland nor the Anglo-Saxon models perform better everywhere or all the time (Delsen & De Jong, 1998). Not everywhere, because the characteristics of a country's economic institutions incorporate its cultural values, which are the result of historical long-lasting processes. It is unlikely that these lengthy processes will undergo significant changes within a number of years. Not all the time, because the preference for an economic system depends on specific economic circumstances (see also Freeman, 2000). In other words, the optimal relationship between market and

non-market coordination, e.g. by consultation, is a flexible one. Albert (1991) sees a battle between the Rhineland model and the Anglo-Saxon model. He concludes that the Rhineland model on which the Dutch welfare system is based is losing ground since the 1980s in favour of neoliberalism, despite the economic and social superiority of the Rhineland model. The market is considered good, the state is considered bad. Deregulation and privatization became the policy issues. Albert sees a real danger that capitalism will derail. The concerted economy seemed to have lost legitimacy because the presently so dominant neoliberal ideology is rather critical and distrustful of concertation and cooperative competition. The consultative model is considered syrupy. The question is to what extent this critique and distrust is justified. Coordination by the market, however, may also be slow and also damaging. For example, in this model, bankruptcies and unemployment are routes for adjusting high wages to less profitable circumstances. In contrast, coordination on the national level makes it possible to readily respond to price and wage developments and prevent unemployment. Hence, there are no sound economic arguments for the model shift. Anglo-Saxonization is just a fashion. Negative policy competition was seen as an appropriate answer to increased economic competition resulting from internationalization and EMU. The challenge for each society is to adapt its economic system to the needs of the present economic environment. Policy makers should be aware that identical institutions within certain configurations of institutions and policies may lead to the opposite effects.

Increasing competition resulting from the internationalization of economies augments the importance of human capital as a competitive factor. Ageing and dejuvenation of the labour force imply that an increasing number of companies have to acquire knowledge via incumbent employees. Continuous education after initial education is necessary for maintaining compatibility in the rapidly changing knowledge economy. The Netherlands cannot compete on costs alone, but can maintain its position in the international competitive battle by putting more knowledge into its products. Knowledge must be acquired, maintained and renewed in order to reinforce competitiveness. After all, if capital is completely mobile, the level of education of the labour force is the most prominent decisive factor of international trade. In addition to education and training, the technology policy is an important cornerstone of international competition. Dutch consultative institutions form an important explanatory factor for the size, participation, content and quality of company training courses. Lifelong learning is reasonably well developed. In the past, the polder model has shown its added value in this respect. A trade-off exists between numerical flexibility and employability. Dutch labour relations are determined by culture, but most of all by the economic environment. Institutions reduce the uncertainty that is inherent in the market. Recent comparative country research performed by Agell (1999) indicates that the more open the economy, the greater the union density and the more centralized will be wage negotiations. Job protection regulations are also more strict and unemployment benefits higher in countries with a relatively high level of export and import. These institutions contribute

to reducing the uncertainty that is inherent to the market. Agell (1999) concludes, based on his research into the relationship between the openness of western countries and labour market institutions, that globalization of the economic activity will lead to an increasing demand for different forms of labour market rigidities.

Acknowledgements

The authors thank the participants of the conference *Flexibility and Performance: International Perspectives on Labor Market Institutions*, July, 19–20, 2004, Seoul, Korea, Woo-Yung Kim and Stanley Siebert in particular, for their helpful comments and suggestions. The usual disclaimer applies.

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