

## NETHERLANDS

- Since 2009, the advantage in GDP per capita against the upper half of OECD countries has been reduced, mainly due to a declining trend in hourly productivity.
- Welcome policy steps have been taken to ease somewhat the protection of regular employment contracts and improve work incentives by increasing tax credits, and reforming disability and unemployment benefits. Some measures have also been adopted to reduce housing policy distortions.
- Priority should be given to broaden and deepen recent reforms to improve labour supply and its reallocation, by further easing the protection of regular contracts and sharpening work incentives through tax and benefit reforms. Raising the scope of the unregulated part of the housing market would also boost labour mobility.
- Ensuring swifter reduction in mortgage interest deductibility and better targeting social housing to low-income earners would stimulate the rental market while at the same time reducing income inequality.

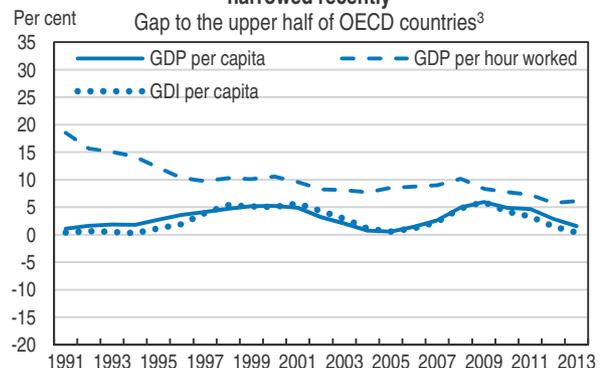
### Growth performance indicators

#### A. Average annual trend growth rates

Per cent

	2003-08	2008-13
Potential GDP per capita	1.1	0.3
Potential labour utilisation	0.2	-0.2
of which: Labour force participation rate	0.2	-0.1
Employment rate <sup>1</sup>	0.0	-0.2
Trend employment coefficient <sup>2</sup>	0.1	0.1
Potential labour productivity	0.9	0.5
of which: Capital deepening	0.7	0.8
Labour efficiency	-0.1	-0.6
Human capital	0.3	0.3

#### B. The small positive gap in GDP per capita has narrowed recently



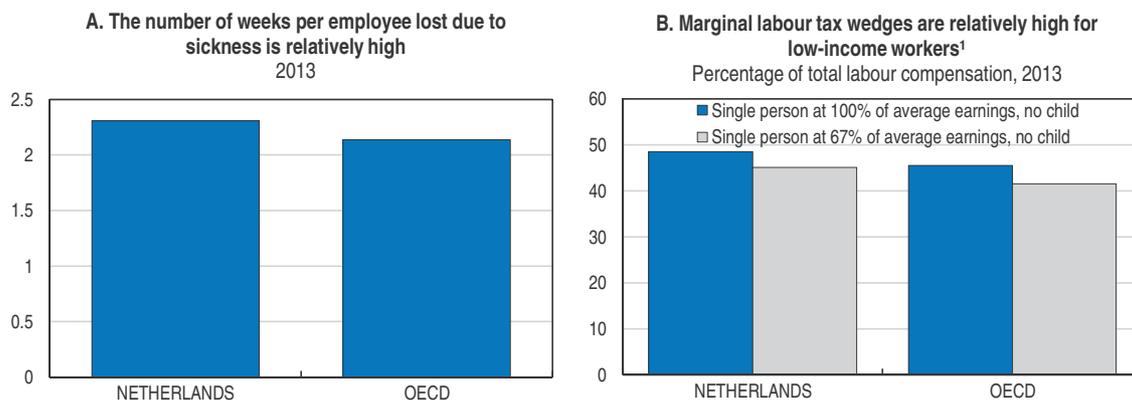
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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## Policy indicators



1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Source: Panel A: OECD estimates based on the European Labour Force Survey (unpublished data). Panel B: OECD, *Taxing Wages Database*.

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## Going for Growth 2015 priorities

**Priorities supported by indicators**

**Lower marginal effective tax rates on labour income.** High marginal effective tax rates hinder work incentives of low-income households and second-income earners.

**Actions taken:** The tax credit for low and middle-income earners was increased in 2013 and 2014 and will be further raised by 2017. Also, the withdrawal of the credit will start at an annual income level of around EUR 40 000 and will be abolished at about EUR 110 000.

**Recommendations:** Increase reduced value-added tax rates and phase out the tax credit at lower income levels to finance lower labour taxes for low-income earners. Phase out more rapidly the transferability of the individual tax credit. Make childcare support more dependent on second earners' income rather than family income.

**Ease employment protection legislation for regular contracts.** Dismissal procedures are complex and costly, especially for older workers, hindering labour reallocation.

**Actions taken:** From July 2015, dismissal procedures of regular contracts will be somewhat simplified. The severance pay will be linked to seniority rather than age and reduced to EUR 75 000 or an annual salary, whichever is higher, but workers over 50 will benefit from a more generous scheme until 2020.

**Recommendations:** Further simplify the dismissal system by ensuring swift decision-making and reduce uncertainty by capping additional compensation costs in the case of employer's unlawful behaviour. Make the cap on severance payments decreasing as workers approach retirement to prevent severance payment from being used as an early retirement route.

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**Reform the disability benefit schemes.** The share of the working-age population receiving disability benefits is high.

**Actions taken:** From 2015, a new reform will be introduced with tighter eligibility criteria for disability benefits for young disabled persons.

**Recommendations:** Apply tighter criteria for eligibility to disability benefits for all recipients and strengthen monitoring mechanisms.

### Other key priorities

**Increase the scope of the unregulated part of the housing market.** The rigid housing market hinders labour mobility, generating congestion and hampering housing investment and productivity.

**Actions taken:** Since 2013, new mortgages are eligible to interest tax deductibility only if they are regularly amortised. The tax treatment of mortgage interest has been made less generous for new and existing mortgages with a very gradual reduction over a 30-years horizon. Since July 2013, a gradual differentiation of rents by income has been initiated to encourage higher-income households to leave social housing.

**Recommendations:** In social housing, introduce tighter income conditions for eligibility, continue to differentiate rent increases depending on income and further relax rules for the sale of dwellings by housing associations. Fully liberalise rents for new constructions and for new contracts in the private rental sector. Ease strict land regulation. Accelerate the reduction of mortgage interest relief once the housing market starts to recover durably.

**Reform the unemployment benefit system.** The high level and duration of unemployment benefits reduce job-search incentives.

**Actions taken:** The maximum duration of unemployment benefits will be decreased from 36 to 24 months between 2016 and 2019, although social partners can agree on an additional insurance. From July 2015, the period after which all job offers will have to be accepted will be shortened from twelve to six months, in association with a broader definition of “suitable work”.

**Recommendations:** Further reduce benefit replacement rates and make them decline more rapidly throughout the unemployment spell. Lower the cap on unemployment benefits to further enhance job-search incentives for the high skilled. Continue to support training policies to reduce risks of skill mismatches and ensure appropriate allocation of labour resources in the economy.

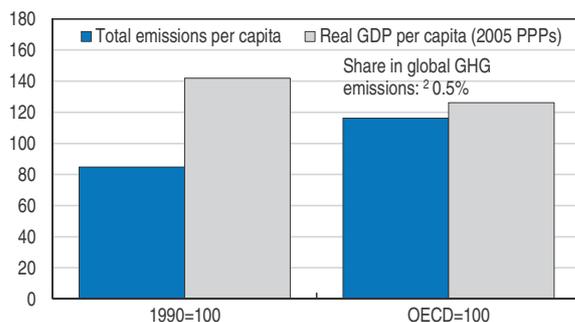
### Reform areas no longer considered a priority in *Going for Growth*

For the Netherlands, all priority areas from the 2013 issue of *Going for Growth* are maintained.

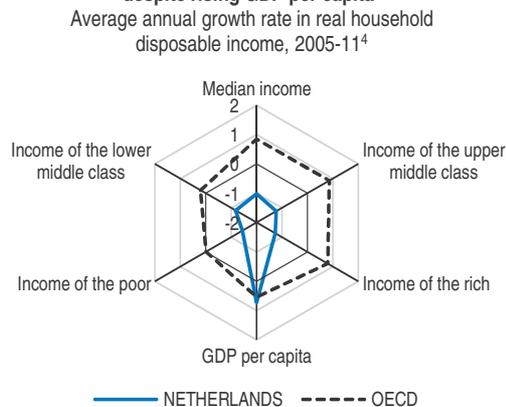
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## Beyond GDP per capita: Other policy objectives

**A. Emissions per capita are below the 1990 level and above OECD average**  
Average 2008-12<sup>1</sup>



**B. Households experienced real income losses despite rising GDP per capita<sup>3</sup>**  
Average annual growth rate in real household disposable income, 2005-11<sup>4</sup>



1. Total GHG emissions including LULUCF in CO<sub>2</sub> equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.
4. Data refer to 2005-12 for the Netherlands.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

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