

NETHERLANDS

GDP per capita is at par with the average of the upper half of OECD countries, due to a combination of high hourly productivity and employment offset by a low number of hours worked per employee. In 2009, the government introduced a number of policy measures to increase activation and hours worked, but in order to improve economic performance other reforms are necessary in the following areas.

Priorities supported by indicators

Ease employment protection legislation for regular contracts

Employment protection legislation for regular contracts imposes either high severance payments (the court route) or lengthy bureaucratic barriers. This increases the risks associated with hiring, limiting the possibilities for workplace reorganisation and the diffusion of new technologies, ultimately hurting productivity.

Actions taken: In 2009 local courts adopted guidelines limiting severance payments awarded through judicial procedures, though such payments remains generous compared with other countries. The previous government proposed to cap severance pay at one year's salary for incomes above EUR 75 000.

Recommendations: Make the system simpler and more predictable. The rules governing layoffs should be clearly specified in law with appeal to local courts only possible as an *ex post* option. Severance payments for older workers should be capped with the cap decreasing as they approach retirement.

Reform the disability benefit schemes

The share of working-age population receiving disability benefits remains high.

Actions taken: Starting from 2010, new participants in the programme for the young disabled (Wajong) are entitled to job support rather than passive income support. Participants are assessed upon entry and again at the age of 27, and can only subsequently be transferred to passive income support.

Recommendations: Apply recently tightened entry controls to all existing benefit recipients and enhance monitoring mechanisms. Benefits should be gradually de-coupled from past earnings over the disability spell. They should also be excluded from wage agreements.

Lower marginal effective tax rates

Marginal effective tax rates are high, in particular for low-income households and second earners, lowering their participation rates and hours worked.

Actions taken: The transferability of the individual tax credit is being phased out gradually (by 2025), reducing the marginal taxation of low-income second earners. Starting from 2009 the combination tax credit is income dependant to encourage lower-earning partners to extend working hours.

Recommendations: The transferability of the individual tax credit should be phased out more rapidly to reduce the effective marginal tax rate that low-income spouses face. Likewise, more of the family-income based child tax credit should be shifted to the individual or second-earner child tax credit. The tapering-off rate for housing and child benefits should be further flattened while certain work-related entitlements and tax credits could be conditioned on the number of hours worked.

Other key priorities

Increase the scope of the unregulated part of the housing market

The rigid housing market dampens geographical labour mobility and contributes to high levels of congestion, with detrimental effects on productivity.

Actions taken: No action taken.

Recommendations: Housing market policies should be reformed by deregulating the rental sector, shifting the taxation of housing (cutting transaction taxes and increasing property taxes) and easing strict land regulation.

Reform the unemployment benefit system

The high level and maximum duration of unemployment benefits lower job-search incentives.

Actions taken: In 2009 the government tightened job requirements for the long-term unemployed and introduced a temporary top-up on the initial salary in order to make work pay.

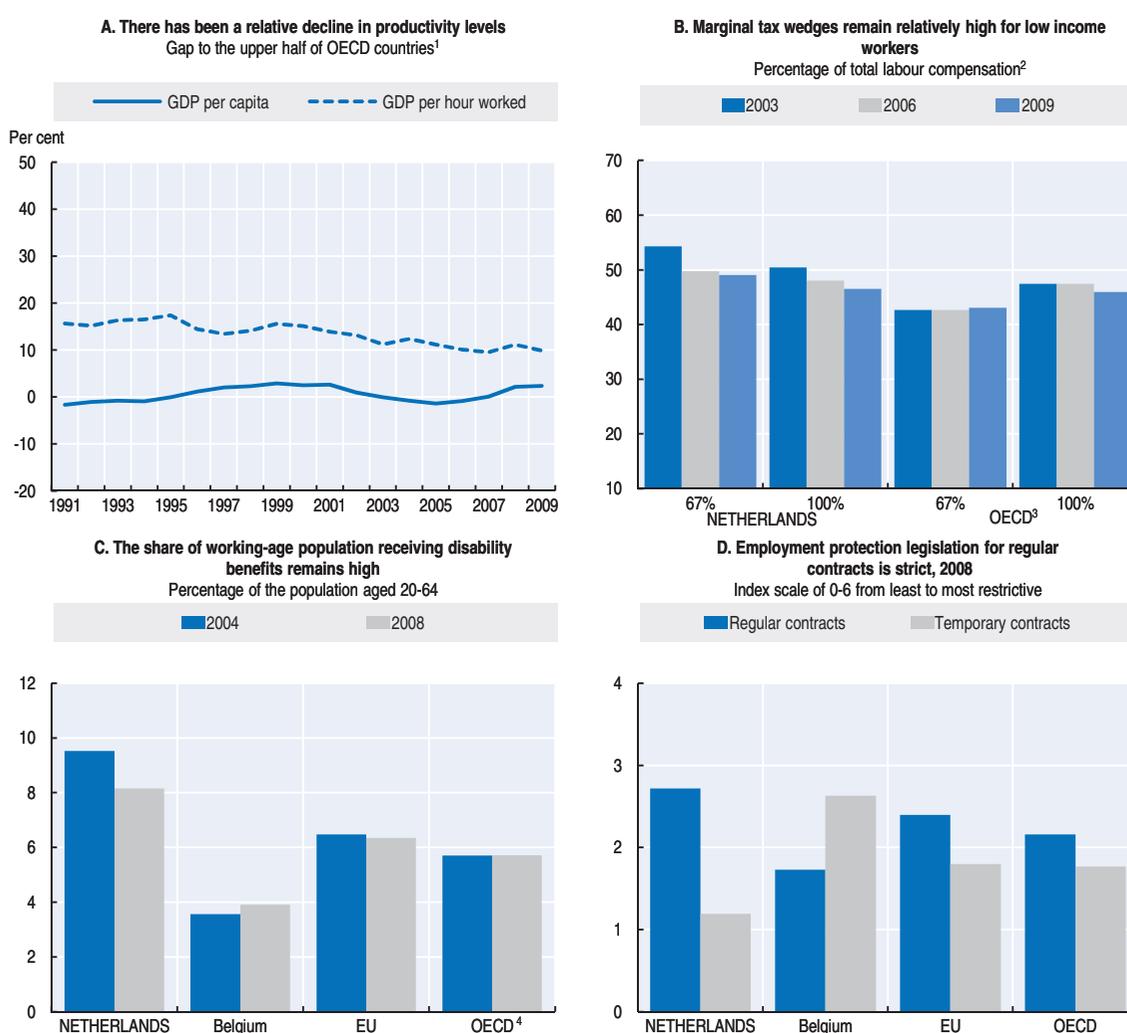
Recommendations: Unemployment benefit duration should be tempered and benefits should fall more rapidly throughout the unemployment spell. The cap on unemployment benefits should be lowered to further enhance the job-search incentives of the high-skilled unemployed.

NETHERLANDS

Structural indicators

Average annual trend growth rates, per cent

	1999-2009	1999-2004	2004-09
GDP per capita	1.7	2.0	1.5
Labour utilisation	0.5	0.6	0.4
of which: Employment rate	0.6	0.8	0.3
Average hours	0.0	-0.2	0.1
Labour productivity	1.2	1.4	1.1
of which: Capital intensity	0.6	0.6	0.6
Multifactor productivity	0.6	0.7	0.4

Source: Estimates based on OECD (2010), *OECD Economic Outlook No. 88: Statistics and Projections Database*.

1. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs).
2. Evaluated at 67% and 100% of average earnings for a single person with no child.
3. Average of OECD countries excluding Chile, Estonia, Israel and Slovenia.
4. Excluding Chile.

Source: Chart A: OECD, *National Accounts* and *OECD Economic Outlook No. 88 Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD (2010), *Sickness, Disability and Work: Breaking the Barriers: A Synthesis of Findings across OECD Countries*; Chart D: OECD, *Employment Database*.

StatLink  <http://dx.doi.org/10.1787/888932374103>