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- Since 2009, hourly productivity has grown less than in the most advanced OECD countries, causing GDP per capita to fall behind.
- Income inequality is below the OECD average and has fallen further in recent years although the crisis negatively affected disposable incomes of the poorest somewhat more than average incomes.
- The tax stimulus of early 2016 supports employment, in particular among low-income earners and women. Employment protection legislation of regular contracts has been eased somewhat, in line with past *Going for Growth* recommendations, but an agreement among the social partners offsets the gradual reduction in the legal duration of unemployment benefits. Some welcome steps have been taken to reduce the stringency of rent regulation. Considerable progress has been made in reducing the share of the working-age population receiving disability benefits, and further reform in this area is no longer a *Going for Growth* priority.
- Further reforms to improve the functioning of the labour market are needed. Work incentives of low-income households, second earners and the unemployed should be strengthened through a lower marginal effective tax rate and targeted active labour market policies. Raising the scope of the unregulated rental market would strengthen housing investment and boost labour mobility. Stepping up direct public support for research and development would help to raise innovation and hence productivity.

Going for Growth 2017 priorities

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: As part of a stimulus package in early 2016, income tax rates have been reduced, and the effective tax rates on labour income fell even further, as the tax credit for employed persons was raised while the phasing out of the general tax credit was accelerated. A higher childcare subsidy and a lower effective tax rate on second earners with young children were introduced in 2016 to support women's participation in paid work. Labour costs for employers will be lowered from 2017 onwards for workers with incomes at or just above the minimum wage.

Recommendations: Continue to lower marginal effective tax rates on labour income, in particular for low-income earners, and phase out the transferability of the individual tax credit more rapidly. Increase reduced value-added tax rates to finance lower labour taxes.

Ease employment protection legislation for regular contracts and duality with the self-employed. The stringent employment protection legislation reduces the prevalence of permanent contracts and, together with tax incentives, pushes workers towards self-employment.

Actions taken: In July 2015, the maximum duration of consecutive temporary contracts with the same employer has been shortened from 3 to 2 years, and 6 months instead of 3 will now have to pass before the beginning of a new contract. Dismissal procedures of regular contracts have been somewhat simplified since July 2015.

Recommendations: Continue to lower the cap on severance payments and ensure that the dismissal system works efficiently to further narrow the difference between permanent and temporary contracts. Reconsider the degree of tax incentives for self-employed, and

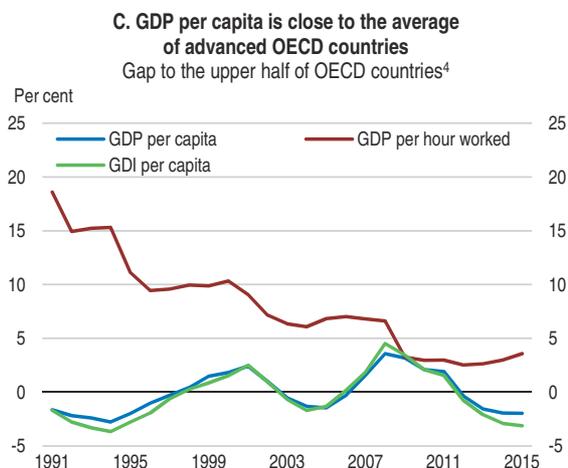
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Growth performance and inequality indicators

A. Growth		
Average annual growth rates (%)	2003-09	2009-15
GDP per capita	1.2	0.5
Labour utilisation	0.5	-0.5
of which: Labour force participation rate	0.8	-0.1
Employment rate ¹	0.1	-0.4
Employment coefficient ²	-0.3	0.1
Labour productivity	0.6	0.9
of which: Capital deepening	0.4	0.3
Total factor productivity	0.2	0.7
Dependency ratio	0.0	0.0

B. Inequality		
	Level	Annual variation (percentage points)
	2014	2008-14
Gini coefficient ³	28.3 (31.7)*	-0.1 (0)*
Share of national disposable income held by the poorest 20%	8.6 (7.7)*	0 (0)*

* OECD average



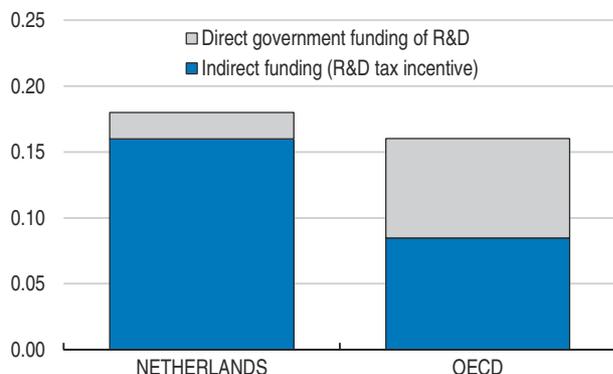
- The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
- This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
- The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
- Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

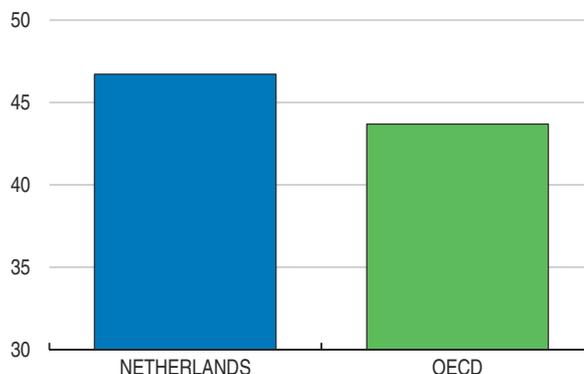
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Policy indicators

A. Support for business R&D is skewed towards tax incentives
Percentage of GDP, 2014



B. Marginal labour tax wedges are relatively high
Percentage of total labour compensation,¹ 2015



- Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a couple with two children with the first earner at 100% and the second earner at 67% of average earnings.

Source: Panel A: OECD, R&D Tax Incentives Database, www.oecd.org/sti/rd-tax-stats.htm, December 2016; Panel B: OECD, Taxing wages Database.

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ensure that they are sufficiently insured against disability and have adequate pension savings.

Reform the unemployment benefit system and strengthen active labour market policies.

The high level and duration of unemployment benefits reduce job-search incentives, while public employment services play a limited role.

Actions taken: Social partners agreed to share the costs of unemployment benefits during the third year of unemployment, which offsets the gradual reduction in the legal duration from 3 to 2 years that started in 2016. Retraining possibilities for the unemployed have been stepped up since March 2015 to improve job transition.

Recommendations: Lower the cap on unemployment benefits to further enhance job-search incentives for the high skilled. Target re-integration services through public employment services from the beginning of the unemployment spell onwards to those most in need, instead of waiting 3 months. Enhance performance management and the evaluation of instruments to ensure that interventions are cost-effective.

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 October 2015, the property value partly determines the maximum initial rent, which increases financial incentives for private landlords to undertake investments. The 2015 Housing Law requires that housing corporations separate administratively or legally commercial activities from the provision of social housing as of January 2017, which creates a more even playing field for the unregulated rental sector.

Recommendations: Support the supply of rental housing by further limiting strict rent regulation in the private market and increasing the weight of the property value in setting the maximum initial rent. In social housing, introduce tighter income conditions for eligibility. Accelerate the reduction of mortgage interest relief and lower the maximum loan-to-value ratio of new mortgages significantly below 100%.

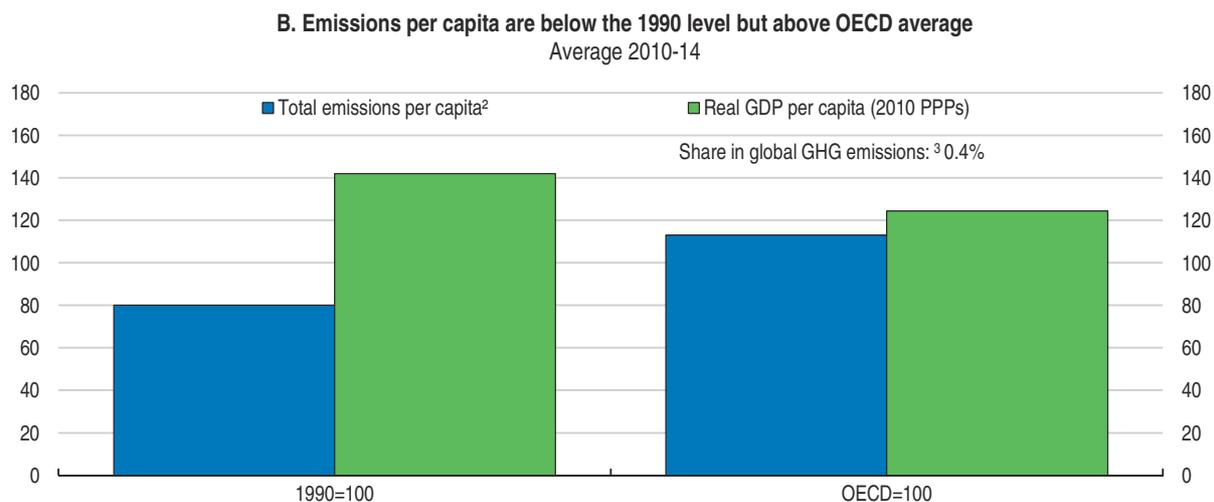
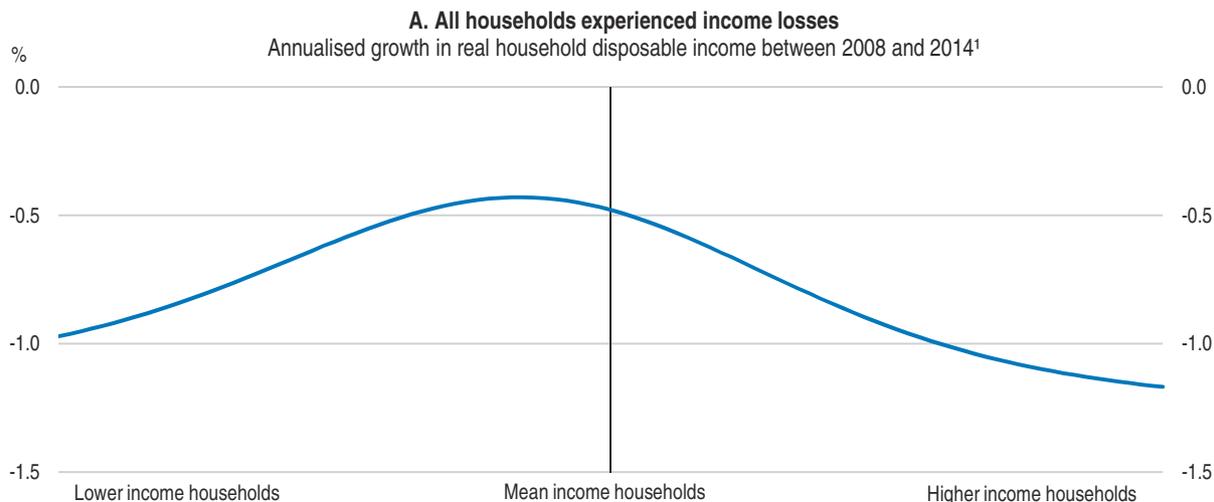
***Increase direct public support for R&D.*¹** Private spending on R&D is low, and public support is skewed towards tax incentives.

Recommendations: Complement the well-designed tax incentives with more direct funding such as grants, loans and procurement to cater better for the various needs of businesses in different sectors and stages of development, and to leverage private sector innovation in promising sectors and potentially “disruptive” technologies.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.

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Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2014. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

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

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