Exploring the small increase in Dutch unemployment during the Great Recession

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Puzzle: unemployment in NL

![Graph showing unemployment trends](image)

- 78.Q4-85.Q1
- 91.Q3-96.Q4
- 01.Q1-06.Q3
- 08.Q1-11.Q2

CPB Netherlands Bureau for Economic Policy Analysis

Dutch labour market developments during the Great Recession

June 2011
Production growth: decomposition

- Production/Hours
- Hours/Workers
- Workers

Dutch labour market developments during the Great Recession

June 2011
Labour hoarding (LH)

• Option value of retaining employees:
  - employee may be unproductive now, but productive in the future
    (e.g. Mortenson and Pissarides, 1994)

• Does a company want to LH? Depends on:
  - production expectations (uncertainty)
  - search/hire/fire/training costs

• Are companies financially able to LH?
  - financial buffer
  - profitability of operations
Do companies want to hoard labour?
Production: expectations

![Graph of production expectations and production growth (q-o-q)](image)

- Production expectations
- Production growth (q-o-q) (right-axis)
Beveridge curve
Survey results: reasons for LH

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Essential employees/retaining good workers</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Fewer external workers suffices</td>
<td>22</td>
<td></td>
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<tr>
<td>Work in pipeline/probably soon more work available</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Dismissal is expensive/difficult</td>
<td></td>
<td>16</td>
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% companies that LH 2009: 19 2010: 13

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June 2011
Are companies financially capable of LH?
Profit level and solvency rate

- Profit share (left axis)
- Solvency rate (right axis)
Conclusion

• Why did Dutch unemployment react so moderate?
  - Labour hoarding during crisis
  - Firms may believe personnel to be scarce
  - Firms were in a financially good position

• Explanation for other countries:
  - Denmark: labour hoarding before the crisis (Andersen)
  - Germany: firms restraint before the crisis (Burda/Hunt)

• Role for labour market institutions!?
Not laying off flexible workers

Fraction of workers that worked in quarter t-1 and was unemployed in t

- **Fixed contract**
- **Self employed**
- **Flexible (right axis)**