

NETHERLANDS

Despite a decline in the unemployment rate to one of the lowest levels in the OECD area, labour resource under-utilisation in the Netherlands still accounts for most of the wide income gap vis-à-vis the United States.

Priorities supported by indicators

Reduce tax wedge on labour income

The high tax wedge on labour income and the “tax-like” (i.e. redistributive) elements in the almost universal second-pillar pension system weaken incentives to join the labour force (for low-income earners) and to increase hours worked (for high-income earners).

Actions taken: The special treatment of employers’ social security contributions for low-paid workers (SPAK) was abolished in 2003. Pension fund contributions have been increased sharply to bring fund solvency back to a sustainable track.

Recommendations: Make room for reductions in taxes on labour income by lowering government expenditure on social transfers, reducing tax subsidies for owner-occupied housing and narrowing the range of goods and services not subject to the standard VAT rate.

Further reform disability benefit schemes

Both the number of days lost on sickness leave and the proportion of the working-age population on partial or full disability benefits are among the highest in the OECD.

Actions taken: In 2002 a law on improved gate-keeping took effect in the disability benefit scheme, and a single benefit agency (UWV) was created. In 2004 the waiting period for disability benefit eligibility (required to be spent on sickness leave) was extended to two years, and definitions of residual capacity were tightened.

Recommendations: Implement the new schemes planned for 2006, but shorten the duration of the first-stage disability benefit (which lasts up to 5 years depending on age and employment history) and prevent social partners from topping up benefits by denying sector extension to agreements containing such clauses. Closely monitor and benchmark regional UWV offices’ performance.

Simplify administrative procedures

The lack of single contact points for issuing licenses/permits, poor communication of regulations and the lack of a policy to reduce the number of licenses/permits have contributed to a high administrative burden.

Actions taken: A national electronic one-stop shop for businesses is under construction. Each ministry must produce a list of all simplification opportunities, taking into account businesses’ complaints about conflicting regulations.

Recommendations: Reduce the cost of compliance by linking government agencies with each other. Extend one-stop shop services to accepting notifications and issuing permits. Simplify and publicise regulations.

Other key priorities

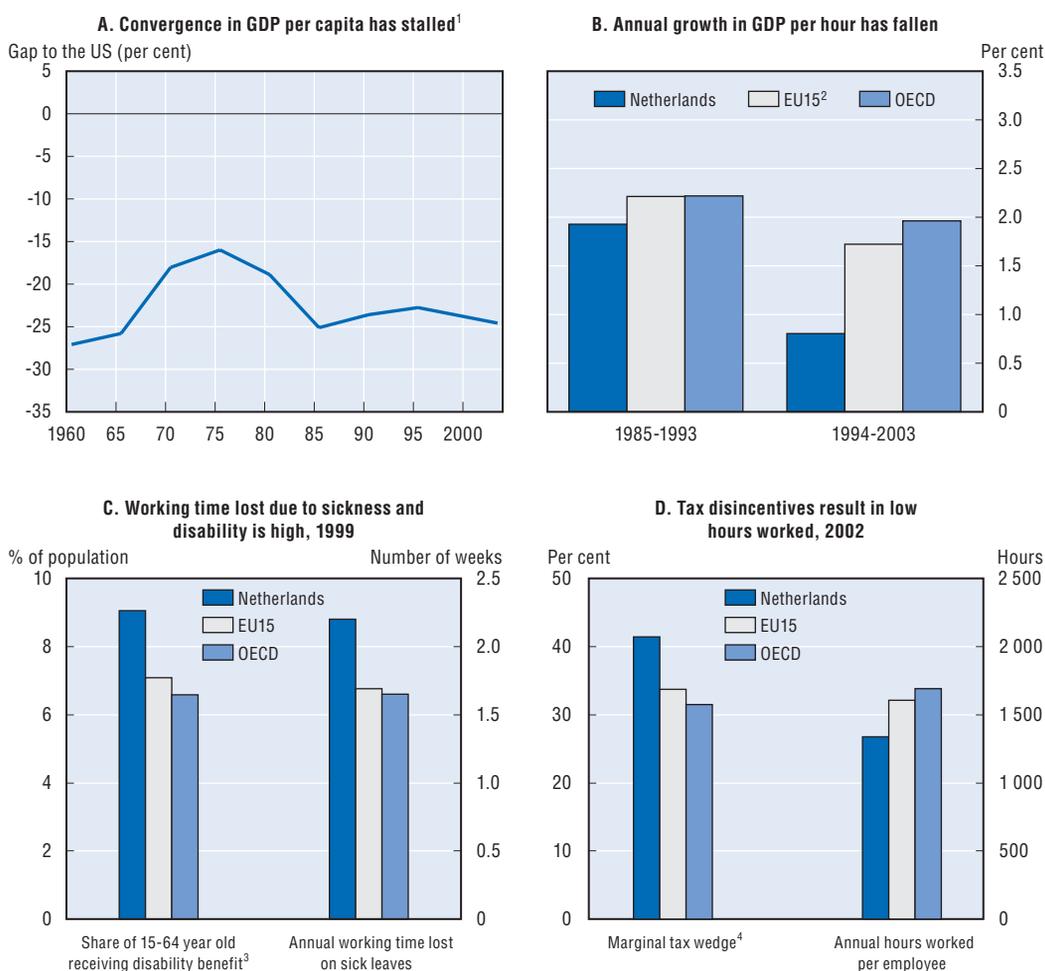
- Remove barriers to product market competition by privatising the retail end of electricity and gas distribution networks, eliminating unwarranted anti-competitive practices in the professions and easing restrictions on large-format retail store operators.
- Ease residential zoning restrictions to stimulate supply of housing, and phase out tax subsidies to owner-occupiers so as to reduce the excess burden of taxation.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	1.7	2.0	2.0	1.6
Trend employment rate	63.4	68.8	73.6	76.1
Trend participation rate	68.6	72.7	77.1	78.7
Structural unemployment rate (NAIRU)	7.5	5.3	4.5	3.3

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

3. Excluding Finland, Greece, Ireland and Luxembourg.

4. Marginal tax wedge, averaged over five representative household and earnings types.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: OECD Transforming Disability into Ability, 2003, OECD Employment Outlook, 2004 and US Bureau of Labor Statistics; Chart D: OECD Taxing Wages, 2003/2004 and OECD Economic Outlook, No. 76.