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**SEVENTH INTERNATIONAL MEETING OF ECONOMIC AND
SOCIAL COUNCILS AND SIMILAR INSTITUTIONS**

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This presentation is structured as follows.

First subject: the **main challenges** that gave social dialogue its prominent role in the Dutch social and economic policy of the past 50 years.

The second topic deals with the **social and economic trends** that shaped social and economic policy in the more recent past.

Thirdly, the **policy instruments** that helped accommodate these trends will be discussed.

The fourth topic introduces the **institutions** of the consultation economy, the Labour Foundation and the Social and Economic Council, and compares their functions.

This presentation concludes with the main **policy challenges** in the coming years



- **WW-II: need for economic recovery** inspired social partners to join forces. Establishment of Labour Foundation on 17 May 1945 (just a few days after the end of the war), Social and Economic Council in 1950.
- **Centralised policies** until 1982:
 -**with emphasis on wage moderation** (1945-1963), created stable industrial relations, necessary to rebuild the economy. And this policy proved to be successful. Within a decade the economy had reached full employment, and the national income was back on its prewar level. In short, the cooperative stance of the social partners helped a speedy recovery of economic prosperity which enabled the development of the welfare state in the 1950s and 1960s.
 - In the 1960s the model of cooperation and coordination collapsed under its own success. An extremely tight labour market led to a wage explosion. **Polarisation of labour relations** was the result. In the 1970s two oil crises “fuelled” inflation and thereby induced a wage-price spiral. The government frequently intervened in the wage setting process (wage freeze) in order to control prices. To no avail. By the end of the 1970s unemployment had risen by 9 percentage-points in a decade; social benefits payments caused a fast rising budget deficit. The question arose if the Dutch economy was able to carry the weight of the welfare state.
- **Decentralisation since 1982:**
 - It was this sense of social and economic crisis which in 1982 forced a new coalition between social partners. This new partnership was formalized in the so-called Agreement

of **Wassenaar**. Social partners agreed on reductions in work time and creation of (part-time) jobs in return for moderate wage claims. On its part, the government changed the 1970 Law on Wage Formation and abstained from intervention in the wage setting process. This became the sole responsibility of social partners.

The Agreement of Wassenaar proved a turning point in Dutch labour relations. It restored the **trust** between social partners which created the basis for economic expansion in the next two decades.

- **European integration:**

Maastricht Treaty (1991) and breakdown of the European Monetary System (1992) led to a revival of the consultation economy. In its advisory report on *Convergence and Consultation* (1992) the Social and Economic Council stressed the need to prepare for the EMU.

Key elements:

- (1) A **joined orientation** was needed on international developments with the aim to
- (2) increase the adaptability of the Dutch economy to changes in the international context (essential to a small open economy).

Result: a greater focus on **labour market flexibility** and **employability** in government policies and collective agreements (based on central agreements between social partners).



Performance of the Dutch economy in the 1980s and 1990s and the role of consultation have to be placed in the context of a number of **social and economic trends**.

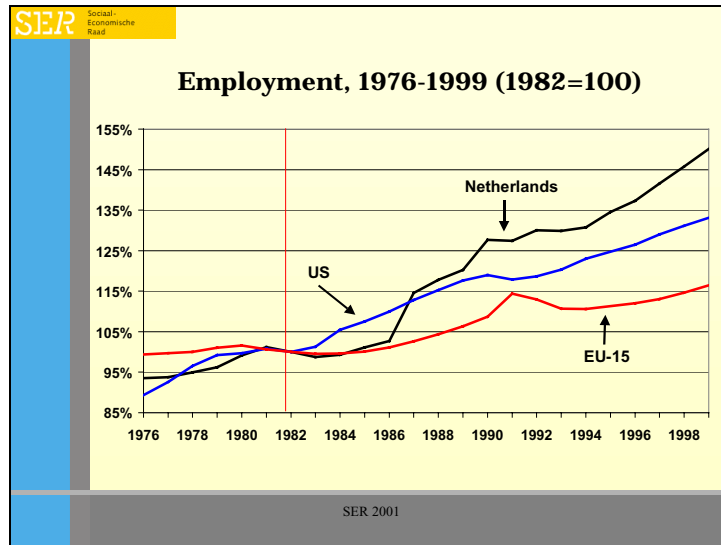
First of all the development of the **employment** situation. For a number of reasons the economic crisis of the late 1970s hurt the Dutch economy more than other countries in Europe:

- automatic price-indexing in collective agreements caused a **price-wage spiral**
- wage costs and a high tax burden **depressed profit rates** in the private sector and thereby investment
- a generous system of social benefits led to a fast **growing budget deficit**

As a result the Dutch economy went into recession and **unemployment rose to postwar record levels**.

This of course **eroded economic welfare**, which can be measured in terms of per capita income and is the **second trend** to be discussed.

Reduction of the average number of working hours; 30 percent of Dutch workers is now working in part-time employment. This is both wanted (a majority of the workers desires a part-time job) and needed (flexible working organisation). This development is the **third trend**.

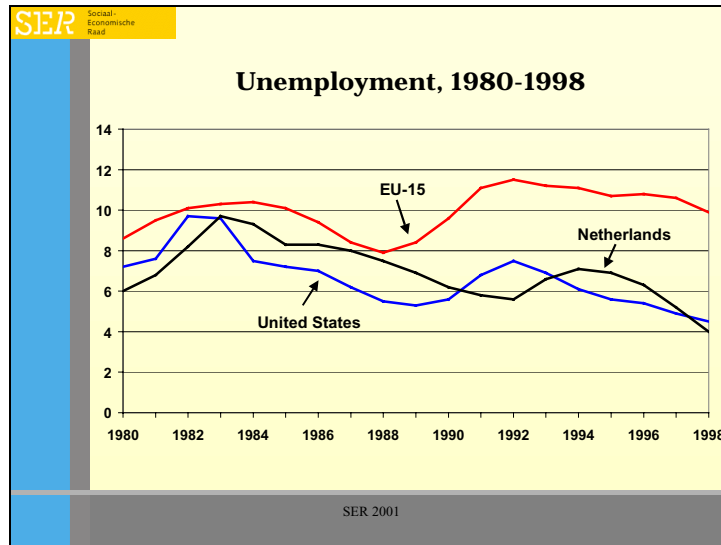


The remarkable recovery of the Dutch economy from the 1980 recession can be documented by looking at the growth of employment since the beginning of the 1980s. This has been an outstanding feature of the Dutch economy, as can be seen in this figure. This graph shows the **growth of the number of people employed** over a period of 25 years, with 1982 as the benchmark year (the year which has proved a landmark in Dutch social and economic policy of the past 20 years).

It shows the success of Dutch labour market policies: in 1999 employment had **risen by 50 % since 1982**, a performance unrivalled even by the US (33%). By comparison, the growth rate of employment in the fifteen countries of the European Union in this period was a mere 16 %.

Note: Employed person is someone who is either in paid employment or self-employment for at least one day during a specified period (OECD-definition).

Source: OECD, *Labour force statistics*



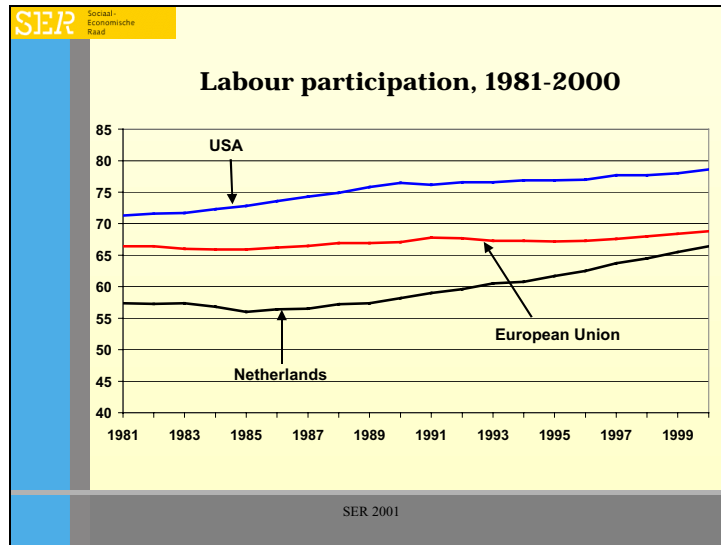
The fast growth of employment has resulted in a **low unemployment rate**. This can be seen from the following figure. In 1983 unemployment reached its peak with almost 10 % of the labour force out of work. Since then the unemployment rate has fallen steadily and is currently even below the unemployment rate in the US. Again, it appears that the labour market situation in the rest of the European Union is much worse with the unemployment rate still hovering around 10 % of the labour force.

However, it must be observed that the unemployment rate hides a persistent social problem in the Netherlands and this is that the **level of inactivity** remains high. Causes:

- too strong incentives for early retirement.
- in spite of reforms the number of people receiving a disability benefit is still rising.

Note: Graph shows unemployment as a percentage of the labour force

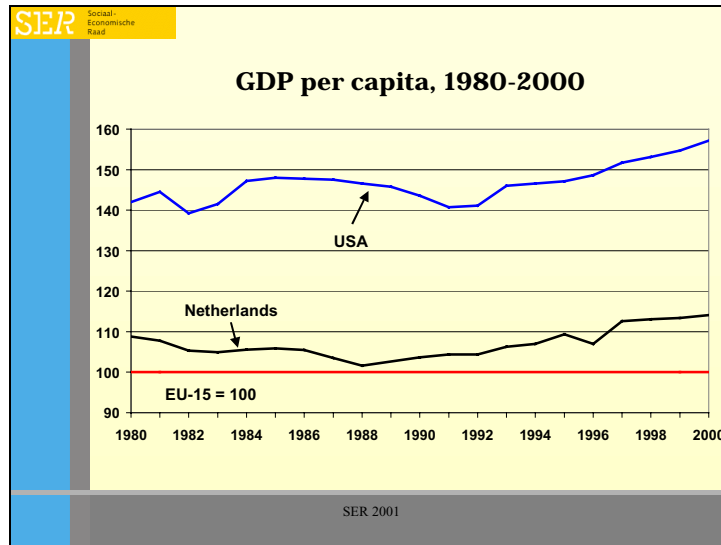
Source: OECD, *Employment Outlook*



- High level of inactivity can be seen when we look at the labour participation rates. In spite of the fast growth of employment in the 1990s, labour participation rates in the Netherlands are still below the EU-average.
- In the mid-1980s the difference between the European Union and the Netherlands was more than 10 percentage-points (66% versus 56%).
- Then followed the **remarkable rise in Dutch labour participation** in 1990s: from 58% to 66% in 10 years time. **Causes:**
 - 1) booming economy;
 - 2) a significant higher labour participation rate of women, which used to be very low in the Netherlands;
 - 3) social security reforms.
- But the participation rate is still below the EU average. Compared with the USA there is even a large gap.

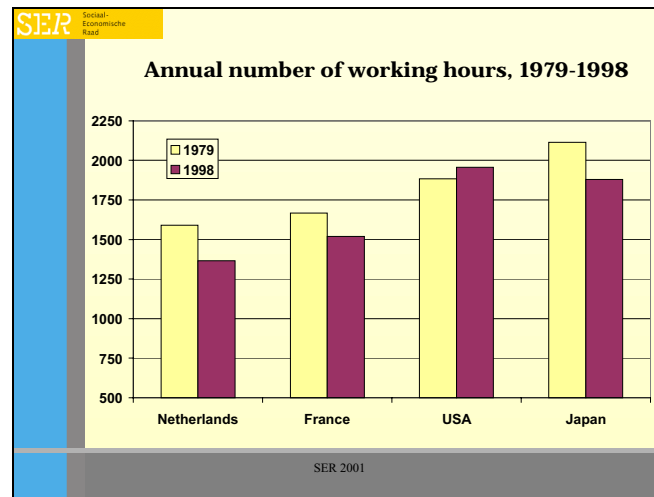
Note: Graph shows labour participation rate = number of employed persons as a percentage of the total number of people between the age of 15 and 65 year.

Source: OECD, *Economic Outlook*.



- Lower participation rate has a cost in terms of economic welfare. This can be seen when we look at GDP per capita in the period 1980-2000.
- Figure shows the relative rise of income levels in the Netherlands compared to the average in the EU in the 1990s.
- Note that the Netherlands has a higher per capita income than the average in the EU in spite of lower participation rates. This points at a **high level of Dutch labour productivity** which indeed ranks among the highest in the world and is comparable to the level of labour productivity in the USA. However, when we look at the income levels a large difference between the USA and the Netherlands remains.
- In part, this difference can be explained in terms of a lower labour participation rate (see previous graph). But there is also another reason: on average the Dutch employee works less hours than his American colleague. The next graph shows this difference.

Source: European Commission, *European Economy* (Eurostat figures)



- The difference in income levels between the USA and the Netherlands is partly explained by the difference in the annual number of working hours.
- This picture shows the decline in working hours over the past 20 years. Already in 1979 the average Dutch employee was working fewer hours than colleagues in France, the USA and Japan. Since then the difference in working hours has only become greater. On average the **Dutch employee** is currently working **1350 hours a year**. In comparison in the **USA** the annual number of hours of an average worker is more than **40% higher** (1950 hours).

The trend towards fewer working hours reflects a number of **issues**.

- In the 1980s social partners agreed on a reduction of working hours as an **instrument to create more (part-time) jobs**.
- Gradually the **preference** of Dutch employees has shifted towards shorter working hours; reduces obstacles in the work-care relationship, frees time for study or leisure, etc.
- Level of **Dutch labour productivity is among the highest in the world** which means that there is the possibility to reduce working hours without a serious negative effect on the standard of living.

Note: the average annual number of working hours is the total number of hours worked over the year divided by the average number of people in employment. In other words, it includes both full-time and part-time employment.

Source: OECD, *Employment outlook*

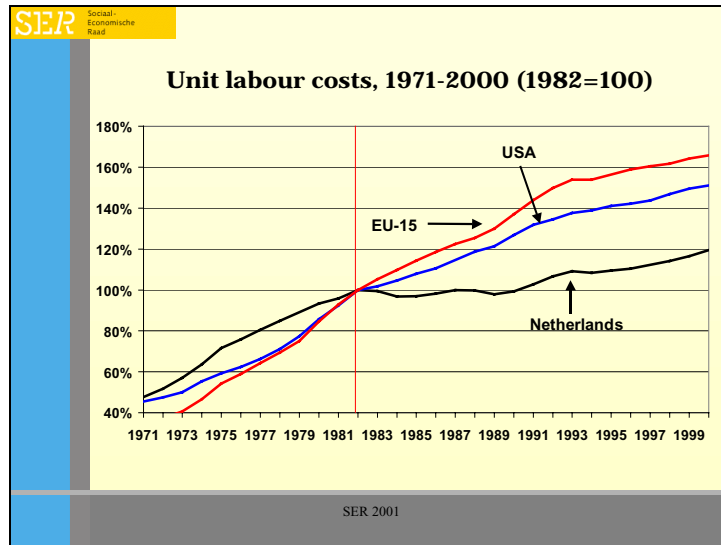


Instruments of social and economic policy in the past 20 years reflect

- the **mutual effort** of social partners and the government to create employment (from Dutch disease to Dutch miracle), and
- the **increased responsibility** of social partners for labour market policies.

Instruments

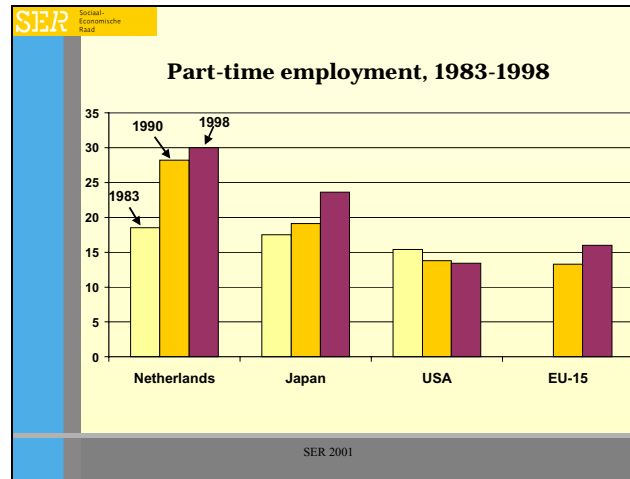
- **Wage moderation:** from 1982 onwards there was a mutual effort to keep wage costs under control (renewed effort in 1993 after the breakdown of the European Monetary System);
- Improve **Labour market flexibility** with the aim to reduce the burden of regulation and improve the match of supply and demand in the labour market;
- **Other structural reforms**, for instance in the field of fiscal policy or improvement of the working of product markets (reform of competition policy).



The importance of wage cost moderation can be seen in the following figure. It compares **nominal unit labour costs** between 1971 and 2000 for the Netherlands, the USA and the 15 countries which today form the European Union (EU-15). The year 1982 was chosen as a benchmark to highlight a turning point in Dutch industrial relations (Agreement of Wassenaar).

From the Wassenaar agreement onwards, **wage setting is arranged at a decentralised level** (firms, industries) as part of collective agreements between social partners. At the national level, guidance is provided by means of a general framework for negotiation. The result: a remarkably **stable development of labour costs** and **improvement of the terms of trade** in 1980s and 1990s: both in the US and the EU-15 unit labour costs rose much faster over this period.

Source: European Commission, *European Economy* (Eurostat figures)



The next graph illustrates an aspect of the **increased labour market flexibility** in the Netherlands, **part-time employment**.

- Part-time employment is a job of 30 hours or less;
- Graph shows part-time employment as a percentage of total employment.

Netherlands is the **world-champion part-time employment**. Part-time employment was an instrument to reallocate employment over more workers but also increased the flexibility of labour as a factor of production (smaller labour units improve the match between labour supply and demand). Other indicator in this respect: the **well-developed market for temporary work**.

Further measures to increase employment and labour market flexibility

- to increase the wedge between wages and social security benefits
- to reduce the wedge between gross and net wages
- to make labour in the lower end of the labour market cheaper through subsidies and tax reductions.
- **More Flexible Labour Law...**
 - New Working Hours Act (1996). Made it easier to diverge from the 9 to 5 working day.
 - Temporary employment agencies no longer need a special permit to run their business.
 - Flexibility and Security (1999). Maximum temporary employment period extended from 6 months to 3 years.

- **...in return for additional security**

Flexibility and Security (1999). Legal position of temporary workers is improved: minimum wage in certain cases; workers are entitled to permanent contract in case of third consecutive temporary contract with the same employer.

SER Sociaal
Economische
Raad

Institutions

- Labour Foundation (1945)
- Social and Economic Council (1950)

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The two bodies of the consultation economy

- **Labour Foundation** was established on 17 May 1945, just a few weeks after the official end of the War. It is so to speak the meeting place of employers and workers organisations to discuss problems and make arrangements as they see fit.
- By contrast the **Social and Economic Council** was founded in 1950 by law: the Industrial Organisation Act. Its official task is to advise the government, solicited or unsolicited, on all major social and economic affairs.

SER <small>Sociaal-Economische Raad</small>	
Social Econ. Council	Labour Foundation
<ul style="list-style-type: none"> • Public • Tripartite • Advisory reports 	<ul style="list-style-type: none"> • Private • Bipartite • Negotiation and Consultation
SER 2001	

These institutions can be compared as follows.

The Labour Foundation is a **private body**. By contrast, the Social and Economic Council is a public body as it was founded by law. However, it is financed by Dutch enterprises alone (through the Chambers of Commerce) and in that sense independent of the government.

This independence can also be seen in the **composition of the Council**. It consists of three parties, workers, employers and independent members which are appointed by the Crown (mostly professors in the social and economic sciences). The three parties all have 11 members in the Council (in total 33 members). By contrast the **Labour Foundation is bipartite**; twice a year it consults with the government (Spring and Autumn consultations).

Tasks

The **Labour Foundation** is the place where **negotiations** between social partners take about the central framework for collective bargaining at a decentralised level. **Consultations with the government** are used to coordinate social and economic policies (labour market flexibility, life-long learning, etc.)

Social and Economic Council: Our official task is to advice the government on all major social and economic issues. This advice is delivered in the form of advisory reports and is guided by **three main objectives** of social and economic policy (sustainable growth, maximal labour participation and reasonable distribution of incomes).



Picture of the monthly meeting of the Social and Economic Council.

Arrangement of the Council Chamber reflects the three parties represented in the Council.



Employers' organisations

- 11 seats are divided among 3 organisations
- representatives of big industries, the small and medium enterprises (SME), and the agricultural sector.

Workers' representatives

- 11 seats are divided among 3 organisations
- Federation of trade unions is biggest party, the other two are the federation of Christian trade unions and the trade union for intermediate and higher employees.

Crown members

- appointed by the crown

Government representatives

- Attend the official meeting of the Council as well as the closed door sessions of SER committees and working groups as **observers**
- Their presence helps to make possible an **effective exchange of information** between the Council and its committees and the relevant government ministries.



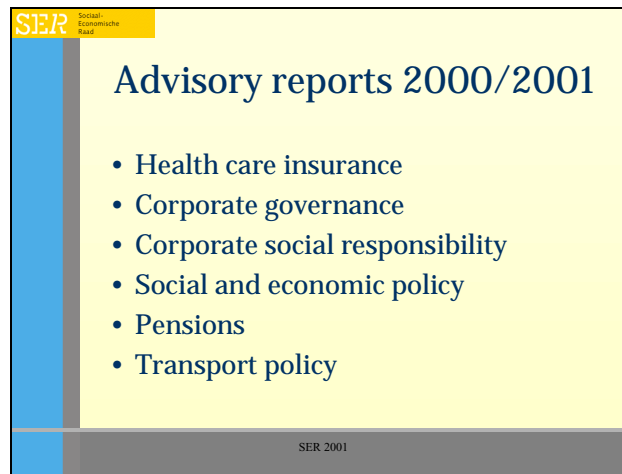
In relation to comparable institutions in the world, role of Crown Members in the Dutch Social and Economic Council stands apart.

- make up one third of the Council (11 of the 33 members)
- appointed by the government
- independent members, selected on basis of their expertise in social and economic affairs.
- two chairs are taken by the president of the Dutch Central Bank and the director of the Netherlands Bureau for Economic Policy Analysis
 - sources of information on the current and expected economic situation
 - they are able to assess the impact of measures proposed by the Council
- Crown Members chair the preparatory committees.
- Their independence should guarantee that the Council is more than a pressure group. Their role stimulates a learning process which teaches employers and workers to look beyond their own interests and take account of public interests as well. In this respect Crown Members also perform a **mediating role**.



A brief look at a selection of recent advisory reports shows the wide range of issues which form the working field of the Social and Economic Council.

- **Labour participation** of older people and ethnic minorities. Two advisory reports in the context of a tight labour market in the late 1990s.
- **Policy coordination in the European Union.** Increasingly social and economic policy is a matter of coordination with the member states of the European Union. What is the role of social dialogue in this process?
- **Education.** Both the future and the current labour force need to be educated, so that their skills and knowledge match the needs of the labour market. Advisory reports of the Council in this field address the question of how this match can be improved.
- **Social Security** is one of the pillars of the Dutch welfare state and therefore of continuing interest to the Council.
- **Climate Change and emissions trading.** Reports in this field examine the preconditions for sustainable development. For instance in the context of the Kyoto protocol.



Health care insurance

After years of discussion in the political arena, the Social and Economic Council managed to reach a breakthrough with its advice *Towards a sound system of medical insurance*.

Compared to other countries in the Western world, the quality of Dutch health care service is good. Yet, that does not mean that problems are absent.

Corporate social responsibility

Within society the place of the corporate sector in society is changing. The SER recognized this in its advice on corporate social responsibility. Key of this advice is the observation that the company is not just a profit driven organisation. **Value creation in the company has three dimensions: profit, people and planet.** A firm that incorporates these elements in its strategy realizes the best of both worlds: it safeguards its own long term market prospects (consumers increasingly demand a social stance of firms) and maximizes its social surplus (positive external effects like employment creation and consumer satisfaction minus negative external effects like pollution). In that sense the SER is of the opinion that corporate social responsibility should be considered the **core business of any company**.

This view has implications for policy. **Legislation is not an adequate instrument** to enforce corporate social responsibility because it takes the initiative away from the company. The role of the government should be to create favourable conditions.

The SER also draws attention to the important **role of NGOs**. On the one hand, they increasingly address companies directly about their responsibilities ('trigger' function). On the other hand, NGOs represent a specific public interest and can therefore help companies to gain public acceptance and support for their corporate strategies ('mediation' function).



Policy challenges

- Knowledge economy
- Sustainable development
- Labour market shortages
- Ageing population
- Competitive position

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With the start of the 21st century the Dutch society is confronted with new economic and social situations which raise a new set of issues (from the focus on unemployment to the question how labour shortages can be resolved).

A first challenge concerns the **shift towards a knowledge society and economy**. This shift puts an increasing strain on human capital and technology as decisive factors in the competitive field of national and international trade and production. The importance of this development was affirmed on the Lisbon Summit last year where the European Union adopted the knowledge economy as a strategic goal for the coming decade. In the Netherlands the subject is high on the policy agenda of both social partners and the government (life long learning, fiscal subsidies for R&D).

Three issues play a role in the context of this challenge. The first is the quality of the educational system which is essential to prepare the workers of the future for the challenges of the knowledge economy. The second is life long learning which is necessary to keep the knowledge of present workers up to date and to improve their employability. The third is technological development and innovation. From the perspective of the SER, the introduction of new technologies like information and communication technologies, but also the new materials technology and biotechnology, entails more than the chance of economic gain and competitive advantage. The true aim of these technologies should be to create a better world for more people in both the developed and still developing parts of the world.

A second challenge is **sustainable development**. This requires a focus on renewable energy sources and an incentive structure which stimulates a more efficient energy use of consumers and producers. Of course in the field of energy and climate policy problems have an important international dimension (Kyoto-protocol, possibility of emission trading).


In the Netherlands sustainable development places special constraints on **spatial planning**. This is a subject of specific interest to a comparatively crowded country like the Netherlands which nonetheless has important economic activity in space consuming sectors like transport and agriculture. Also increasingly the tension is felt between the space available for construction of houses and offices and the need for nature preservation.

Labour market shortages are a **third challenge**. In part this challenge is the result of past successes. Predictions are that the growth of labour supply is not able to follow the growth of the demand of labour. This creates the need to search for untapped reserves in the labour market; women, older people and ethnic minorities.

A specific problem in this context and one of the most demanding problems of social and economic policy is the high number of **people with a working disability**. In 1999 12% of the labour force received a disability benefit which is twice as much as countries with comparable labour markets. Currently the SER is working on an advice to curb this problem.

Ageing population. The influence of an ageing population will be felt in the coming decades. Pensions and health care deserve special attention.

Competitive position of the Netherlands in the EU and the world. The tight labour market creates risks for too high wage increases. Further improvement of productivity is here also of crucial importance.



Conclusion

- Past successes and failures
- Consensus and trust
- Contribution to social and economic development

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Concluding remarks

- Looking back on 50 years of social dialogue shows **success and failure**. Success was the quick recovery of the Dutch economy and society from the perils of WW-II and the subsequent development of the welfare state. Drawback of consultation became apparent during the 1960s and 1970s when centralised wage policies broke down under pressure of labour shortages (period of polarisation). Revival of consultation in 1980s, but in a different form (decentralisation of labour relations).
- Main lesson: in periods of need social dialogue provides a channel to reach consensus on the need for often painful reforms.
- Ability to reach that consensus formed the power of the Dutch consultation model and determined its meaningful contribution to social and economic welfare of past 50 years.



For further information: <http://www.ser.nl>. This website gives information about the Dutch Social and Economic Council in English, French and German. It also contains abstracts of the Councils' advisory reports in these languages.

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