

Is the European Employment Strategy the Answer?

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Abstract. In this paper I discuss the recent Europeanisation of employment policy. In the centre of my analysis will be the European Employment Strategy, its underlying philosophy towards social and employment policy, its method of achieving common goals in Europe, and its implementation, policy learning effects and limitations in one particular case, the Netherlands. A brief comparison with the OECD Jobs Strategy helps to illustrate the political nature of the process, the common focus on supply-side policies, but with a stronger emphasis on activation policies. My choice to concentrate on employment rather than social policy is justified in the context of the current attempt among European policy makers to redefine social policy as employment policy and present paid employment as a key element in the strategy against social exclusion and poverty. Two issues will be discussed at some length: low quality service employment and its implications for skill development, income, and welfare; and the limited net effectiveness of active labour market policies. This raises questions about the current exclusive emphasis on supply-side policies in European employment policy.

The European Employment Strategy.....

In the second half of the 1990s a growing number of policy makers became convinced that separate coordination instruments had become necessary within the Economic and Monetary Union to combat the high level of (structural) unemployment in most member states. The EMU itself was designed for creating economic stability and a common monetary policy, but not for preventing unemployment turning into structural unemployment (Van Riel and Van der Meer, 2002). The European Commission, the European Parliament and some member states strongly supported an employment policy at the European level (Goetschy, 1999). An 'Employment Chapter' was added to the Treaty in Amsterdam and gives the Council and Commission the task to promote a 'co-ordinated strategy for employment' and, particularly, 'a skilled, trained and adaptable workforce and labour markets responsive to economic change' (Arts. 125-128 TEC). Following the special Employment Summit in Luxembourg in November 1997, the Council adopted the first set of employment guidelines, based on the four 'pillars' of *employability, entrepreneurship, adaptability and equal opportunity*.

On the basis of a set of special policy guidelines within these pillars, member states are required to make National Action Plans (NAPs), which become the basis for an iterative process of monitoring, benchmarking and peer pressure. Although this was, pressure from the Commission notwithstanding, rejected in Luxembourg, in March 2000, at their Lisbon Summit, the Council became more ambitious and issued a set of measurable targets – like the 70% employment rate to be achieved in 2010 (CEU, 2000; Pochet and Degrijse, 2001). In contrast to monetary policy, however, in the area of employment policies no decision-making power has been transferred from the member states to the European level. As in the case of the so-called Broad Economic Policy Guidelines, specified by the Council (of Economics and Finance Ministers), the peer pressure process of the EES works with guidelines, agreed upon by the Council (of Social and Labour Ministers). The EES is however not as committing as the monetary strategy, which allows sanctions, defined in the Stability and Growth Pact (Arts. 98-104 TEC). Instead, the EES is entirely based on soft instruments like outcome targets, benchmarking and peer pressure. Benchmarking serves to make policy performance transparent by comparing countries using standardised measures. Peer pressure is at the core of the political model of the EES.

The National Action Plans, which member states present in the Spring of each year, are first discussed in a multilateral meeting in the Employment Committee (EMCO), followed by non-official bilateral meetings with Commission officials. These 'country examinations' are not public and intended to clarify different views and interpretations concerning the data-input from member states. Presumably, if these meetings were public, discussions would be less frank and domestic policy makers would be

tempted to defend policies rather than discuss the real problems they face. In the Fall of each year the Commission drafts a Joint Employment Report, which is first discussed in EMCO, followed by a political discussion in the Council and another review by the Employment Committee. Final decision-making takes place in the Council of Ministers. In the event the European Commission sees room for improvement of employment policy in member states, it drafts a recommendation. These recommendations are discussed in EMCO, but issued by the Council. The European Council of Heads of State and Governments discusses the final document, but has no (formal) decision-making power. The recommendations are the closest thing to political sanctions. An additional instrument for mutual learning is the so-called peer review. In this case, the Commission selects an issue ('best practice') on which a particular member state performs well and invites that member state to prepare a presentation. Other member states are free to participate and explain how they deal with the issue, what problems they experience, and what opportunities they see from copying from the example(s) given.

An alternative example of employment policy benchmarking is found in the OECD Jobs Strategy (OECD, 1994a/b; 1996; 1997). It is useful to highlight some differences. The OECD, too, engages in multilateral surveillance through peer pressure (Sullivan, 1997; Marcusson, 2002). At the core of the OECD's work is the continuing process of consultation, involving – in the words of the organisation's first Secretary-General 'regular discussion between officials coming from capitals, regular examinations of the policies of each individual member country, studies undertaken by expert groups (...) and formal or informal recommendations to countries (Kristensen 1967: 106). The overall objective of this activity is to frame a common value system and shared definition of policy problems and solutions. At the heart of the mutual surveillance process is the OECD's Economic and Development Review Committee, convening 4-6 times each year in special sessions and 20-24 times a year to examine a draft 'country survey' issued by the OECD Secretariat. The recommendations issued in the context of the Jobs Strategy are integrated in the country surveys and discussed in the EDRC. As in the EES, there is a lengthy process of preparation, clarification, and negotiation, both in bilateral and multilateral meetings (Marcusson, 2002).

A major difference, however, is that the OECD follows a more centralised approach, in which country specialists prepare and examine the data on policies, outputs and outcomes. The OECD 'country desks' perform a seemingly academic, technocratic analysis, which does hardly depend on the co-operation of member states and may not be endorsed by them. The EES explicitly relies on co-operation from the member states even in the provision of data, is therefore more contextualised by domestic concerns and probably also more binding. While the OECD tells how it should be, the EES tells what is feasible (Hemerijck and Visser, 2001).

Paradoxically, unlike the EU, the OECD's policy review process can be more centralised because the organisation is more intergovernmental and cannot play the regulatory game. However, its format allows stronger domination by one particular framing of ideas on policy problems and solutions. The OECD has endorsed the neo-liberal programme of flexible labour markets (and less regulation in labour relations) without much critical comment (recently some doubts have been expressed though). The EES has much more embraced the discourse of activating social and labour market policy, whereas the OECD is more reserved about the cost effectiveness of many active labour market policies (Martin 2000; Martin and Grubb, 2001). The two approaches share the focus on supply-side measures as the dominant approach to lowering the high level of (structural) unemployment in Europe.

.... and the Active Welfare State

The choice of the four pillars of the European Employment Strategy is revealing. Apart from 'equal opportunities', which has a basis in the original EEC Treaty, the other three refer to supply-side policies fully compatible with further economic integration (Scharpf, 2002). These very words – in the original document of Luxembourg 'entrepreneurship came before 'employability' – stress the values of initiative, readiness to change and flexibility. As such they embody the pragmatists compromise of the *Neue Mitte* and *New Labour*—a pastiche between the neo-liberal project of de-regulation and the social democratic vision of full participation (Visser, 2000). Allan Larsson, former Secretary-General of the Department of Employment, Industrial Relations and Employment of the European Commission and one of the chief architects of the EES, has defended its fundamental philosophy of activation as a way to rescue a less ambitious social policy agenda in a financially more austere environment: 'One important conclusion for policy makers in governments and among social partners is this: in the economy you need to save in order to be able to invest. In the social protection systems, the relationship is different. Your need to invest—in human resources—in order to make the labour market flexible, and in order to be able to save on income maintenance transfers' (Larsson, 1998: 44).

The EES is consistent with attempts to create an *active welfare state*, with more attention for enabling strategies that improve the employment and earning capacity of people as the best way of (self) protection; lowering the need for social protection from and dependency upon the state; and removing the disincentives for activity, within or outside the formal labour market, in those forms of social protection and social policy which, inevitably, will continue to exist for people with inherited or acquired disabilities. Embedded in a policy environment which has removed their control over the traditional instruments of macroeconomic policy, the EES is an attempt to lower the willingness of national governments and politicians to condone high unemployment and inactivity, and strengthen their resolve to engage in reform.

It tries to emulate the successful race to qualify for EMU membership, a success that was made possible by invoking popular feelings of national pride. Whether that extraordinary feat can be repeated remains to be seen—the hard convergence criteria for EMU membership that were put in the Maastricht treaty are absent in this case and the gains of labour market and welfare reforms are surrounded by much more uncertainty and political risk. That makes the *European* approach all the more interesting. We can see it as an example of how policies are *Europeanised*, not through centralisation or harmonisation, but through a combination of soft multilateral constraints and pressures, increasing the awareness of national actors and institutions of their European context, but leaving them to act and operate within still highly national, and hence varying, political conditions.

While the political-institutional base of social solidarity in Europe has remained national, in spite of internationalisation and European integration, its substance is changing. In trying to adapt to the new economic circumstances, national states seek to defend their internal cohesion less through social protection and redistribution of wealth and more through joint competitive and productive success (Rhodes, 2001). The message is one of ‘competitive solidarity’ (Streeck, 2000), improving the ability of individuals and communities to survive in a rougher and tougher environment. The citizens of the ‘active welfare state’ should not (or not so much) be protected from the market but rather be helped to survive in the market. In this view, redress of inequality is sought through broad and equitable investment in productive capacities, especially in the human capital and employability of individuals whose optimal development therefore becomes a matter for public concern. Ideally, equalizing through public investment the starting positions of individuals as they face the demands of the market would make *ex post* political redistribution less pressing – or so it is hoped, given that the revenues for such distributions are in any case limited by fiercer international competition. Supply-side egalitarianism, according to Streeck (1997), holds the promise that most social policy is fortuitously pre-empted by employment and training policy, with rough equality of outcomes – or less ambitious: a level of inequality that is still compatible with social cohesion – being achieved through more equality of initial endowments.

Employment is the key to social policy

I find it not hard to agree with the thesis that ‘welfare policy cannot be reduced to employment, but employment is the key issue in welfare reform’ (Vanderbroecke, 2001: 161). This can be read in at least three ways, probably all of them true. Firstly, employment is one of the most robust routes to individual welfare, self-reliance, and perhaps well-being, though additional policies (labour law, social protection, training, collective labour agreements, workplace representation) are needed in to order to make jobs ‘decent’ (to adopt the expression currently used by the International

Labour Organization). Secondly, on an aggregate level, the availability of a sufficient number of jobs is a key to reforms of social protection systems, in which room has to be made for new needs and new risks (Visser and Hemerijck, 1997). Stagnating or declining employment levels will not only endanger the financial basis for the welfare state; in combination with open and hidden unemployment it will tend to erode the social and political basis for necessary welfare reforms. And thirdly, whatever success can be attributed to employment (and economic and education) policies, there is always a place for social policies addressing the needs of those who cannot help themselves through the market place.

.... but what is employment?

Paid work has made a remarkable come-back. Whereas in the 1970s the quality of much (industrial) work was deplored and later many preached 'the end of work', in the final decade of the millennium employment once again took up a central position in socio-economic policy discourse in Europe.

Generally speaking, three main benefits are attributed to paid work (WRR, 1990; De Beer, 2001). Firstly, paid work is viewed as an essential source of wealth and as a (financial) means of support for the welfare state. A (one-time) fall in labour participation, as did happen after the two oil crisis, threatens to erode the support for the welfare state, by initiating a vicious spiral of 'welfare without work', with expanding social security expenditure, increasing social security contributions and taxes, rising wage costs and fewer employees (Esping-Andersen, 1996; Scharpf and Smith, eds., 2000b;). This macroeconomic story dominates much of the new thinking about the architecture of the welfare state and social protection in the 21st century (Esping-Andersen, Gallie, Hemerijck and Miles, 2001; Ferrera, Hemerijck and Rhodes, 2000).

The second function attributed to work is that of a distribution mechanism. This is no surprise, given that approximately two-thirds of the population depend for their income, directly or indirectly, for example via a working partner, on paid employment. In addition, having or not having a job is one of the most important determinants of the level of income, and the risk of poverty. The promotion of labour participation is then viewed as a key instrument in preventing and tackling poverty. Because those in work run far less risk of (financial) poverty than the out-of-work, it would seem obvious that increasing labour participation would reduce poverty. Nonetheless, even the relationship between employment growth and the development of poverty has proven more complicated than this simple reasoning would suggest.

Firstly, it is not so much a question as to whether the average person in employment is not poor, but whether the same applies for the out-of-work individual who finds work. Many studies indicate that the vast majority of poor people who find work do

indeed rise above the poverty line if they remain in employment for a longer period. Dutch research, however, shows that almost half of those who find new work drop out of the labour process after a period of time (De Beer, 2001). As a consequence, employment only offers a structural escape route from poverty for only half of all poor people who find paid employment. Though this is more than is achieved by any comparable measure, it is not comprehensive.

Secondly, the development in labour participation relates to individual persons, whilst poverty is mostly a characteristic of households. If the individuals who find work mainly come from households already receiving an income from employment, and who were as a result not poor before, the effect of increased labour participation on poverty will be much lower, than if they came from poor households with no income from employment. The development of the percentage of poor households in the Netherlands between 1977 and 1997 was mostly determined by changes in the poverty rate within the group of employed and within the group of non-employed, and only to a minor degree by shifts between the two groups. This is further amplified by the fact that the considerable growth in employment in the 1980s and 1990s had a minor effect on the number of 'inactive households', because the vast majority of the new jobs went to re-entering women and to school leavers, which in combination with the expansion of part-time jobs resulted in massive growth in the number of one-and-a-half and multi-income households (De Beer, 2001; Visser, 2002).

Thirdly, changes in employment levels may be only spuriously related to changes in poverty-rates. During the 1990s Ireland was the most successful European economy in terms of GDP growth and job creation (Auer, 2000) and yet, not only did income differentials widen, the high poverty rate did hardly come down (Cantillon, Corrigan, Kirby and O'Flynn, 2001; Layte, Nolan, Whelan, 2000; O'Reardon, 1999). This may have particular causes, related to the design of Irish incomes and tax policies, the role of foreign investment or the rapid transition to services. Yet, it should caution us against the naïve presumption that more paid work means less poverty. High employment rates are not the end of story, since not all jobs ensure social inclusion. Poverty rates for the working population in the US are twice as high as in France and Germany, although a far greater proportion of the working age population has a job. Working poor do not exist in the US only (Marx and Verbist, 1997).

In the Dutch case, we find that the rise in unemployment in the first half of the 1980s was accompanied by a rise in poverty, whilst the rapid growth in employment in later years was accompanied by a fall in poverty. Yet, changes in employment need not be the cause of these fluctuations. Economic growth, improved earnings and benefits, may be the root cause behind both developments. The slump of the early 1980s not only caused considerable losses in employment, but also a fall in purchasing power of those in and out work (Visser and Hemerijck, 1997). People on minimum wages and benefits experienced a further setback through the nominal

lowering of the minimum in 1984 and the non-application of the linking-mechanism between contractual wages and the statutory minimum for wages and social benefits (until 1989, and again between 1992 and the first half of 1995). In the later 1980s and during the 1990s the economic recovery translated in massive employment growth and a rise in the purchasing power of the population from which recipients of (minimum) benefits also profited through the restoration of the linking mechanism. Since real wages outrun contractual wages nearly every year by a small margin, the rise was larger for the employed than for the non-employed.

Finally, paid work fulfils the function of providing a source of individual 'utility' or well-being. Perhaps the most important change which the value attached to work has undergone is that today the psychological and sociological (positive) functions of work for one's personality, status or independence rather than the economic (negative) disutility of work are emphasised. It has of course never been denied that paid work is the most important source of income in the majority of households, but over the last decade, increasing attention has been focused on the importance of labour participation of personnel development, breaking out of social isolation and improving social participation and inclusion.

The currently prevailing attitude that work is good for individual welfare is in general confirmed by empirical studies (see the overview in Kohn, 1990). Both the objective life situation (income, health, social contacts, social participation) and subjective well-being (satisfaction with current life situation) of those in employment is, on average, much better than for those out-of-work. There are however major differences within the latter category. Those who for reasons beyond their control have no paid employment – the unemployed and disabled – are worst off. The disabled and chronically ill suffer above all due to their poor health, whilst the unemployed are clearly the least satisfied with their life situation (Clark and Oswald, 1994). Individuals who, for a variety reasons, voluntarily reject paid work, seem to be only marginally worse off than those in work. In objective terms, they generally achieve lower objective scores on their life situation than the employed, mostly due to their lower income (with the exception of those having taken early retirement). However, the (subjective) satisfaction with their life situation may be the same or better.

The opportunities and threats of service employment

The rise of the post-industrial economy constitutes an opportunity and a threat. If net job creation today depends on services, where even at the low end of the labour market social skills are required for employment, this tends to favour women and college students rather than male workers who lose their jobs in manufacturing. (Hence, the need to step up retraining efforts, directed towards older (male) workers.) The threat, for women and entrants into the labour force, is that the new service jobs

are of poor quality. Where the expansion of service employment comes together with the expansion of a low-wage labour market, it may help their employment chances but not their life chances (Esping-Andersen, 1999b: 78-82). To the extent that the underlying problem is productivity, training and skill development, a service economy based on low wages may make things worse, since it breeds employers who produce on the cheap and demand ever lower wages for their survival. Employers who do want to invest in training and skills face a severe collective action problem. The result is a low-skill – low wage – low productivity equilibrium (Alogoskoufis et al., 1995; Finegold and Soskice, 1988).

Table 1: Employment population ratio's in service employment, 1998

	Ratio of employed to working-age (15-64) population, by sector				
	total	manufacturing	distributive services	personal services	social services
Sweden	75.2	14.4	14.6	4.4	25.1
Denmark	80.2	15.6	16.9	4.7	25.0
UK	75.1	13.9	16.4	6.9	19.3
US	78.5	12.4	16.6	9.5	19.5
France	67.3	12.8	13.4	5.6	19.7
Belgium	64.2	11.8	14.0	4.4	19.1
Germany	71.4	17.2	14.2	5.1	17.7
Netherlands	73.2	10.8	16.1	4.5	20.2
Italy	60.2	13.7	13.0	4.8	13.2
Spain	61.2	11.9	13.7	7.2	11.3

Source: OECD Labour Force Statistics

Tables 1 and 2 present some basic statistics on the relative size and the gender compensation of three main branches of services: distributive services (retail and commerce, hotels and restaurants), personal services (cleaning, services to households), and social services (education, health, social welfare, culture, government). The first point to note in Table 1 is that more people work in either distributive or social services than in manufacturing. Second, we observe that the Social Democratic welfare states regimes of Denmark and Sweden have a far more extended sector of social services, whereas the US is a clear frontrunner in personal services. The backward position of the Southern European welfare states with regard to social services is also apparent. Table 2 shows that the four welfare state regimes—Social Democratic, Liberal, Continental, and Southern or familialist (Esping-Andersen, 1990; Ferrera, 1996)—are also quite distinct with regard to the degree of 'feminization' of social services, which is again much more pronounced in

Social-Democratic welfare states. We finally note that the chances for female employment are most clearly connected with (the expansion of) social and personal services.

The distribution between personal and social services is an important one, since skill levels and wages tend to be generally lower in personal services (OECD, 1999). For instance, in France, the Netherlands and Spain between 65% and 80% of all low-paid workers (2/3 or less of median earnings) are in restaurant and personal services. In the US low wages are found in manufacturing (e.g., textiles, clothing and shoes), transport, in personal services and in (voluntary) social services. Given the influence of immigrants on wage setting and the absence of significant language barriers, the domestic service sectors in the US cannot be treated as sheltered from international competition. In the Social Democratic welfare states, on the other hand, 'high employment rates even among mothers with young children have been compatible with high wages because women's employment has been so concentrated in protected public welfare state jobs' (Pedersen and Smith, 1995).

Table 2: Gender composition in service employment, 1998

	Ratio of women to men, by economic sector			
	manufacturing	distributive services	personal services	social services
Sweden	.38	.58	1.34	2.98
Denmark	.46	.58	1.42	2.44
UK	.36	.71	1.45	2.07
US	.47	.70	1.12	2.09
Belgium	.31	.62	1.17	1.66
Germany	.39	.86	1.48	1.67
Netherlands	.28	.61	1.32	1.50
Italy	.44	.47	1.05	1.15
Spain	.29	.56	1.28	1.21

Source: OECD Labour Force Statistics

The demand for social and personal services is both cause and effect of women participating in the market for (paid) employment outside the home (Esping-Andersen, 1999a). To begin with, demand for these consumer services generates a large number of 'easy entry jobs' that do not, initially, require a high level of training or a strong attachment to the labour market. Demand, however, depends on three conditions: the disposable income of households and families (low-income

households cannot afford services or care bought in the market); the relative price of services (if too high, families will opt for 'do-it-yourself' solutions); and time constraints (dual earning families, with children, act under time, rather than money constraints and are more likely to purchase services in the market).

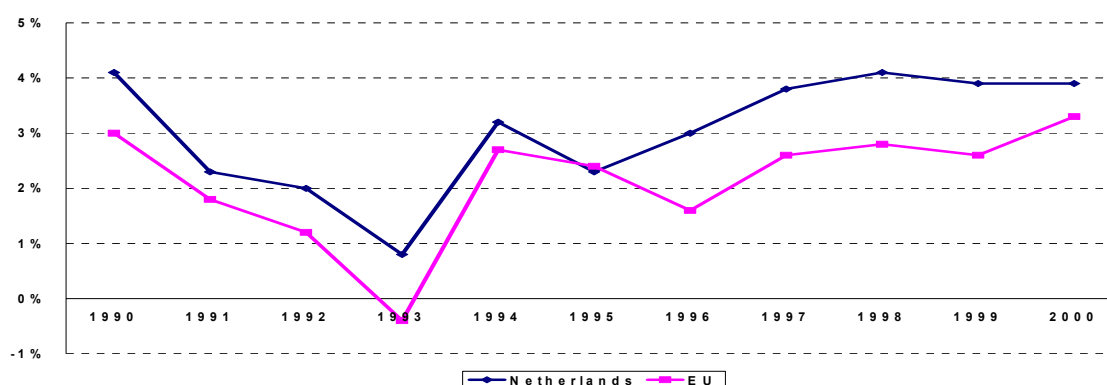
Labour-intensive household services are potentially inflationary since economies of scale are harder to bring about and, hence, productivity growth is modest compared to manufacturing. Yet, wages in services tend to follow those in manufacturing, pricing consumer-oriented services out of the market (the so-called Baumol cost-disease). This problem can be addressed by a) subsidies, b) direct government provision; c) by 'designed' flexibilities (planned deregulation, flex-time, part-time and flexible employment; exemption of labour and social protection in the case of self-employed workers and small firms); and d) 'hidden' flexibilities (wild deregulation, informal and underground employment, self-employment). While Social Democratic welfare states tend to make greater use of b), Liberal welfare states have relied to a greater extent on c) and Southern welfare states on d). Continental welfare states tend to rely mostly on a). The Netherlands has combined a) and c), quite successfully if measured by quantitative standards.

The Dutch Labour Market and the Lisbon Targets

In the 1990s the Dutch labour force increased with 1 million and the employed labour force with 1,2 million persons. This translates in a rising employment/population ratio by one percentage point per year. Almost 70 percent of this rise was due to the influx of women in the labour force and nearly all net job growth was in services. Unemployment has halved in the case of men, and decreased strongly in the case of women.

The proximate cause is strong economic growth. During the 1990s real GDP in the Netherlands grew considerably above the EU average (Figure 1). This may be explained by a number of causes, including strong export (due to a combination of strong world trade growth, a favourable real exchange rate due and wage moderation cq. Phillips curve effects), as well as strong domestic growth partly related to initiatives to make the Dutch economy more flexible and competitive (business and opening hours; working time; institutional reform and tax reform). Labour productivity (still among the highest per manhour worked in the OECD) did not increase dramatically, as a result labour demand (actual employment) showed a very favourable development.

Figure 1: Real GDP Growth in the Netherlands and in the EU



Source: OECD, *Economic Outlook*, various years.

The European Council in Lisbon of March 2000 agreed to set targets concerning the employment participation rates (CEU, 2000; CEC, 2001). The EU-target for 2010 is 70%. The Netherlands is one of four member states – with Denmark, Sweden and the UK – that met this target already in 2000 (CEC, 2002). In 1990 the employment rate was still below EU average, the current rate is 73%. However we should note at this point that meeting the target depends on the definition used. In the Eurostat Labour Force Surveys all people working more than zero hours a week are counted as employed. Eurostat also presents employment rates based on national definitions of employment, in the Dutch case counting only jobs of more than twelve hours per week. In that case the employment participation rate in 1999 was 60.2% in the Netherlands and 50.6% at the EU level.

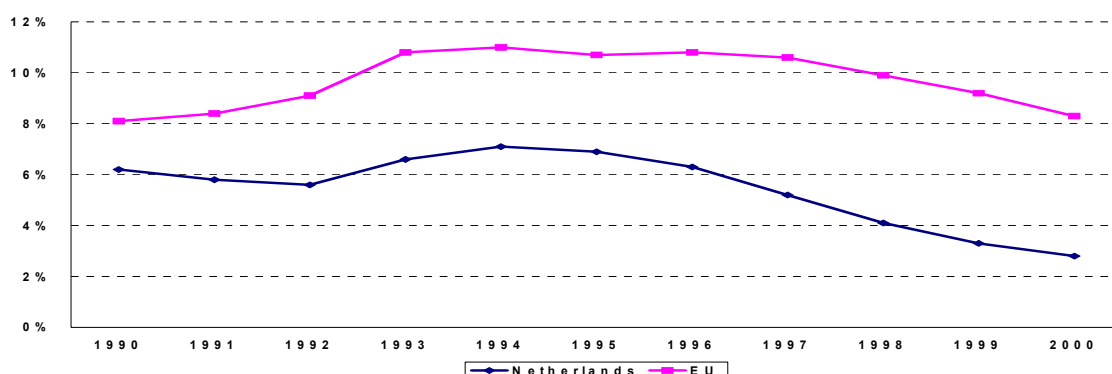
The Lisbon target for female employment participation is 60% in 2010. Since 1993 the Dutch rate lies above the EU-average and the Netherlands now set its own target (based on national definitions, i.e. those working more than 12 hours a week) at 65% for 2010. The Netherlands is one of seven countries – with Sweden, Denmark, Finland, the UK, Portugal and Austria – that meets the target already (CEC, 2002). If the national definition is applied, the employment participation rate of women in the Netherlands – 52% in 2000 – is still way off target.

Finally, with regard to older workers (between the age of 54 and 64) the Netherlands is an average performer, though working its way up steadily since 1994. The employment rate of older workers rose to 38% in 2000, still 12% below the Lisbon target for 2010. Only four countries - Sweden, Denmark, the UK and Portugal – meet the target already (CEC, 2002).

Due to the strong increase in labour demand, (official) unemployment rates in the Netherlands dropped far below the EU average, as figure 2 shows. We should note

however that official unemployment statistics paint a picture that is too favourable, since a significant proportion of the labour force is absorbed in the disability insurance scheme. Approximately 9.5% of the potential labour force receives disability benefits: 7% of the potential labour force is regarded as being fully disabled and another 2.5% as partially disabled.

Figure 2 Standardised Unemployment Rate



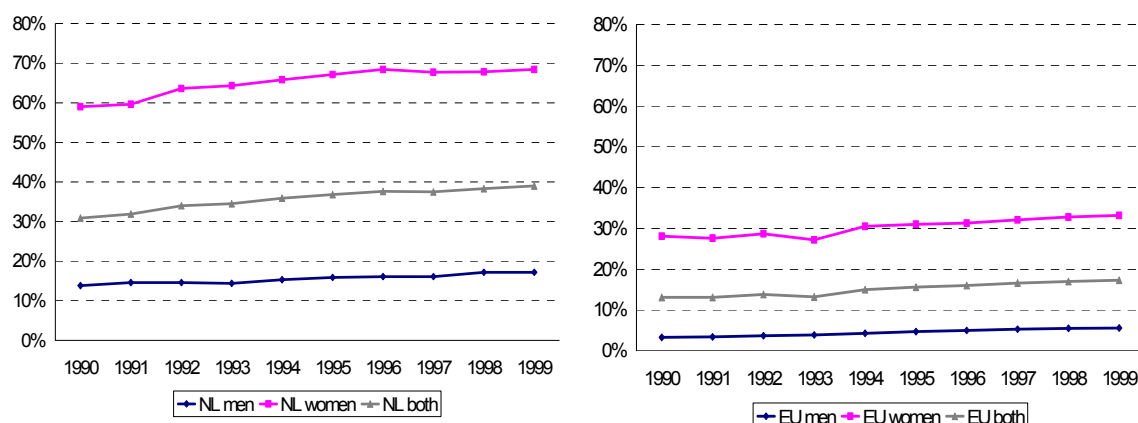
Source: Eurostat Labour Force Surveys.

An important dimension of unemployment is its duration. The EES guidelines (in the 'employability' pillar) pay special attention to long-term (more than twelve months) unemployment. The share of long-term unemployment in total unemployment was stable until 1998, but dropped sharply in following years (for men the share dropped from 52% to 32%, for women from 45% to 33%, latest figures for 2000). This contrasts to the EU average, where there was no serious improvement in the long-term unemployment share (CEC, 2002).

With regard to quality two measures would further seem of importance—part-time and flexible work. Roughly two of every three women in employment work part-time. Among men in employment, one in seven works part-time. These proportions make the Netherlands the world's champion of part-time work (Visser 2002; and Figure 3). The size of the market for part-time *and* flexible work is larger in the Netherlands than in many other countries—the selection in Table 3 is chosen so as to represent countries with widely different industrial relations and welfare state systems, ranging from liberal-pluralist (US, UK), to conservative-familialist (Spain), corporatist (Germany) and Social Democratic (Denmark). Not only has the Netherlands become the champion of *part-time work*, the market for temp jobs did also expand more than elsewhere. In the 1990s the market share of temporary work agencies (TWA) doubled. With regard to *flexible jobs*, the Netherlands occupies a middle position. The OECD (1998) ranks the Netherlands as most rigid in terms of employment protection (EP), using a combined indicator of the difficulty of dismissal, notice,

severance pay, and inconveniences of procedure. This reflects legal rules rather than actual procedure, which is more flexible. In terms of actual practice and on the basis of employer surveys, employment practice in the Netherlands is ranked average, stricter than in Anglo-Saxon or Nordic countries, but more flexible than in Southern Europe (Mayes and Soteri, 1994). Temporary contracts tend to develop as a by-pass around strict EP.

Figure 3: Part-time employment in the Netherlands and the EU-average
(as % of total employment)



Source: Eurostat.

Table 3: Part-time, Flexible and Temporary agency work in selected countries

	part-time a)				flexible jobs b)		TWA 1998 e)		EP f)	
	women 1983	men 1999	women 1983	men 1997	modal age class c)	average duration in months c)	% labour force	% sales per agency	value	rank- order 1-27
Netherlands	21.2	30.4	8.0	12.0	<25	7-12	4.50	13,300	3.1	25
Denmark	23.8	17.9	12.5	11.0	<25	7-12	0.25	1,100	1.6	7
Germany	12.6	17.1	10.0	11.0	<25	25-36	0.50	1,600	2.8	21
Spain	5.0	7.9	11.0	24.0	25-49	4-6	0.75	2,800	2.6	18
UK	19.0	23.0	7.0	7.5	25-49	7-12	3.00	3,500	0.8	2
US	18.4	18.3	d) 0.5	d) 1.9	2.25	8,400	0.2	1

a) Restricted definition, less than 30 hours weekly and (in the Dutch case) more than 11 hours weekly (OECD, 2000).

b) Jobs based on employment contracts of determinate length, in the Netherlands usually less than one year (OECD, 1998).

c) based on ELFS data for 1998, Eurostat, *European Labour Force Survey 1998*.

d) US figures (not strictly comparable) from NATS, the *National Association of Temporary Staffing*.

e) TWA-figures provided by CIETT, the *International Confederation of Temporary Work Businesses*. The figures refer to daily averages of working hours worked through temporary work agencies, as a percentage of man-hours worked.

f) OECD, 'Employment protection and labour market performance', Staff Paper, Paris 2000

In the Netherlands, part-time jobs are neither atypical nor flexible, though they have probably increased the aggregate flexibility of the Dutch labour market. (This is not a foregone conclusion, however, because flexibility in time-use is limited by the operating hours of schools, nurseries, shops and government offices). From the employers' perspective, part-time jobs may serve different purposes. A survey in 1991 showed that 60 percent of the firms judged part-time jobs as a means to meet extra demand; 30 percent saw as the main benefit that they opened a new labour reservoir; 29 percent mentioned that part-time work helped to match shorter working with longer business hours, while one in five firms stressed that part-time jobs helped to limit costs related to overtime. Employees, when asked why they work part-time, mention study, social responsibilities (family, childcare), and a preference for more leisure time.

In 1999 in the Netherlands 72% of the people working in part-time jobs deliberately chose to do so (Schulze-Bischoff, 2001). On average in the EU this was 60%. We may conclude from these figures that Dutch part-time employment is more developed than in the EU, largely because of individual preferences and because the Dutch system is more facilitating towards part-time employment than most other systems in the EU (Visser, 2002). Though it may be comforting that so many people chose to work part-time voluntarily, such choices, particularly in the case of mothers and young parents are constrained by the absence of facilities for family services and childcare. By its own admission, the Dutch welfare state ranked in 1996 lower than most European welfare states in terms of provisions and services supporting young families (SZW, 2000; Rostgaard and Fridberg, 1998). There were only 9 places in day-care centres per 100 children between 0 and 3 years, though many places were shared, and 17 percent of all children in this age group did spend some time of the day or week in such centres, compared to, for instance, 48 percent in Denmark (Rubery, 2001). This is one main feature in which the Dutch Social Democratic (?) welfare state model deviates from its Northern variants (Esping-Andersen 1990; Lewis 1992).

With regard to temporary jobs the quantitative differences between the EU-average and the Netherlands are small, but a qualitative difference remains. In the Netherlands more than 50% of the people with a temporary job do not want a regular job. According to Eurostat statistics, in the European Union this is true for only 10% of the people who had a temporary job. This reflects probably the fact that currently the Dutch labour market operates at near full employment. It is tempting, however, to hypothesise a relation with the relative attractiveness of such jobs and the degree of social and employment protection. In the Netherlands, following the Flexibility and Security Agreement of 1996 between the social partners, some (legal and extra-legal) improvements in the social protection of temporary workers have taken place. Significantly, this is one of the issues on which the Netherlands was asked, by the European Commission, to prepare an EES peer review for other Member States.

What did a ‘successful’ country learn from the EES ?

In terms of employment growth the Netherlands performed already well at the start of the Luxembourg process in 1997 (Auer, 2000; Schmid, 1997).¹ Since the early nineties the Netherlands devoted an increasing amount of effort and money on labour market policy. In 1990 the Scientific Council for Government Policy issued a report, called ‘A Working Perspective’ (WRR, 1990), which was highly influential and helped to bring about a paradigmatic or ‘third order’ change in Dutch labour market policy away from its passive bias (Hall, 1993; Visser and Hemerijck 1997). Labour market participation became closely tied to a program of welfare reform. Compared to 1990, the expenses on activating labour market policies have tripled and reached €5 billion in 2001, of which about €1 billion on fiscal compensation. The expenditures on activating labour market policies as compared to the EU average are shown in table 4. The European average of activating labour market expenditures has risen in the 1990s, but have stagnated after 1995, both as a percentage of GDP and as a share of total expenditure on unemployment. The Dutch expenditures continued to rise.

Table 4: Expenditures on activating labour market policies

	1986-90	1991-95	1996-99
<i>% of GDP</i>			
Netherlands	0.56%	0.85%	1.07%
EU average	0.62%	0.79%	0.78%
<i>% of total unemployment expenditures</i>			
Netherlands	16%	22%	25%
EU average	28%	28%	29%

Source: Calmfors et al. (2001)

In the Netherlands the shift to activating policies had been translated in the ‘Jobs, Jobs and more Jobs’ program of the first Lib-Lab coalition taking office in 1994 (Visser and Hemerijck, 1997). Via the High-Level Conference on Social Policy and Economic Performance in the early months of the Dutch Presidency, the Netherlands had tried to sell its new philosophy of ‘social policy as (good) economic policy’ to its

¹ This section is based on interviews with the former Minister of Social Affairs and Employment, who participated in the negotiations in Amsterdam and Luxembourg in 1997, top civil servants from several Dutch Ministries involved in the EES (and the preparation of the NAPs), Dutch representatives in EMCO and European-level negotiations, members of the Employment and European Committees in Dutch Parliament, and the social partners. These interviews were conducted in the Fall of 2001 as part of the Dutch evaluation study of the EES (Zijl, Van der Meer, van Seeters, Visser and Keuzenkamp, 2002).

peers (Hemerijck, 1998). In the preparation of the Luxembourg Summit, top civil servants from the Ministry had been very active in laying the foundation for the EES. The question, then, is, what impact did the new European Employment Strategy have on policies (and policy output) in the Netherlands?

Most importantly, the activating approach to unemployment has gained impact due to the EES. The Netherlands had already started a comprehensive activating approach for young people in 1992, in accordance with guideline one. All jobless people under the age of 23 receive in the first six months of unemployment some offer of training or job placement. But there had been no political support, and much resistance from the Finance Ministry, to extend the scheme to the adult unemployed, reaching them, comprehensively, in the first 12 months of unemployment in order to prevent the hardening of their status in long-term unemployment. The prevailing philosophy was that scarce resources should go to young people and to the most difficult categories of the long-term unemployed. Here we have a clear case of European pressure that was 'invited in' (by the Dutch labour ministry negotiating the start of the EES in Luxembourg) for domestic purposes. According to interviews with politicians and officials, the external pressure through the EES was decisive for policy change. Implementation of guideline two required a huge extra expenditure of some €2 billion. During the introduction phase of the comprehensive approach, Dutch government officials organised meetings about the implementation of the new policy with colleagues from several member states. In the process, Dutch officials learned that they tended to use instruments that were too strong. Instead of training, for instance, simpler and less expensive forms of support, like assistance in job search, might suffice for a return to employment.

The EES has also put pressure on the Netherlands to improve statistical monitoring, especially in connection with preventive policies. Twice, in 2000 and 2001, the Council issued a recommendation. Insufficient monitoring was attributed to the fact that implementation of labour market policies involves many different organisations, agencies and interests (e.g., government departments, municipalities, social partners, social insurance organizations; public employment service, private contractors; schools and training boards). The recommendations from Europe added pressure to co-operate. A next step would be to use the information for improving the measurement of policy effectiveness, which according to our evaluation study is indeed very poor (Zijl, van der Meer, van Seeters, Visser and Keuzenkamp, 2002). Other recommendations to the Netherlands included, in 2000, a further improvement of the tax-benefit system with a view to removing disincentives which may discourage participation in employment, in particular of women and older workers; and, in 2001, further attempts, in co-operation with the social partners, to reduce disincentives in the benefit system leading to poverty traps and discouraging people, especially those receiving disability benefits, from participating in the open labour market.

Other issues that were mentioned as possible learning effects related to lifelong learning and female labour market participation. Lifelong learning had been longer on the table and the social partners had already issued a joint study in 1996, but the EES helped to give the issue a higher political profile. The EES also helped in defining a more ambitious Dutch target for labour market participation of women (65% in 2010). The co-ordinating Department for Emancipation in the Dutch Ministry of Social Affairs used the pressure from Europe to make this new target into an official government position.

Our respondents agreed that there is an implicit hierarchy in the guidelines. Employability issues are believed to be the most important ones, both in the Netherlands and in the European Commission. Several argued that especially the 'comprehensive' approach to activating the unemployed in an early stage has been by far the most important aspect of the EES for the Netherlands. Entrepreneurship, some suggest, is ill placed in the Employment Strategy and hardly receives attention. (It fits better in the Cardiff process about the product market strategy.) The adaptability pillar is according to some respondents not fully developed, because the unions and employers (who in the Foundation of Labour work on a bipartite and voluntary basis on the issue of working-time, flexibility and security) resist government interference. This feeling is particularly strong among employers (and not restricted to the Netherlands). Some respondents argue that the equal opportunities pillar should be part of all policies; hence no separate pillar and guidelines should be necessary.

The interviews reveal that the EES receives broad political support in the Netherlands. Our respondents argue that they take the EES seriously, and we believe they do. The largest benefit is that employment policy is being discussed at the highest European level, Ministers and national civil servants are kept alert, and an activating approach towards social policy is more widely diffused. The EES helped the national discussion in the Netherlands on some issues (such as long-term unemployment) out of a blind alley. It also helped the introduction of some new instruments of labour market policy, so a 'second order' learning effect (Hall, 1993; Visser and Hemerijck, 1997) might be said to have occurred. However, in other areas and in its general orientation towards supply-side measures and activation, the EES served as an additional justification for policies that would have been introduced anyway.²

² These learning effects are by no means unique to the EES but are also channeled through sources like the OECD or in bilateral exchanges. For example, the annual so-called 'Benchmarking' studies of the Ministry of Economic Affairs or the bi-annual international meetings of the department for industrial relations (at the Ministry of Social Affairs and Employment) provide alternative learning experiences. The EES does encourage the formation of ad hoc committees on certain themes. For instance, Dutch government officials invited foreign colleagues to learn about the comprehensive approach in 1999 and 2000. Other civil servants went to Sweden to learn about labour force participation of women, and child care; some went to Britain for its 'one office' approach of social security, to Germany and France

.... and how did it matter for policy output?

Under the heading of 'employability' or 'activating labour market policy' one can find a broad range of different measures, like job mediation, incentives to reintegration, education and vocational training, wage cost subsidies and direct creation of jobs.³ All measures consist of different instruments, which can be aimed at individuals who have to be activated or at employers who must be encouraged to hire these individuals. Table 5 lists eleven specific instruments of activating labour market policy used in the Netherlands. (In the present paper I shall discuss only some; for an evaluation of all instruments, and of the policies under the other pillars of the EES I refer to Zijl et al. 2002). The aim of all measures is to get people from benefits into employment. This can be done by stimulating inflow into employment or by preventing outflow out of employment. The inflow into employment can be into subsidised jobs or (ultimately) into regular jobs. This distinction is important if we want to evaluate the effectiveness of policies

A few methodological points about measuring effectiveness are necessary. Data about the number of persons who participate in a particular scheme – for instance temporary job subsidies - are in many cases available. This is sometimes known as gross effectiveness. But many participants in a subsidy scheme might have found a non-subsidized job by themselves. Gross effectiveness therefore overstates the contribution of a policy measure to actual labour market performance. Correcting for this overstatement leads to the notion of net effectiveness. This is much harder to measure, especially when we consider that target groups may be ill-defined and that there are not only the effects on the target group but on other groups in society as well. In addition, policies have indirect effects. The policy may in fact have no direct effect whatsoever but nevertheless signal to society that politicians care or that the issue is deemed important. Consequently, the policy may change the perceptions and behaviour of workers, enterprises and officials.

The issue of net versus gross effectiveness is clearly present in research regarding activating labour market policy. Gross effectiveness, outflow into regular work, will be higher than net effectiveness because of dead-weight loss, substitution and displacement effects. There are dead-weight losses if the participants of the program would have found a regular job also had the policy measure not been introduced.

for the reintegration of occupationally handicapped, and to Denmark for the integration of ethnic minorities. In a similar way Germany perhaps has learned from the Dutch approach to part-time work and the Netherlands learned from the Belgian approach to funding career-breaks. These examples may be supported by, but are not a unique effect of the EES. Also, both employers' associations and trade unions have European organisations where learning takes place outside the EES process. The fifteen NAPs however provide a potentially useful comparison of policy initiatives in the different member states, which allow for mutual visits and communication among politicians and bureaucrats.

³ This section is also based on our evaluation study (Zijl et al., 2002).

There is a substitution effect if the improved employment for the target group is at the expense of worsened employment prospects for non-subsidised workers. A displacement effect means that subsidised jobs have displaced unsubsidised jobs elsewhere in the economy.

Table 5: Instruments of activating labour market policy

TYPE OF MEASURE	INSTRUMENT
Mediation	1.Active mediation 2.Vocational choice tests 3. Application courses
Incentives for individuals	4. Outflow premiums 5. Sanctions in unemployment benefits and social benefits
Vocational training	6. Training routes offered by Employment Office or municipality 7. Fiscal payment reduction on educational expenses
Wage costs subsidies / direct job creation	8. Subsidised jobs (WIW, I/D, WSW) 9. Subsidies for occupationally handicapped (REA) 10. Fiscal payment reduction for low skilled workers (SPAK) 11. Fiscal payment reduction for long term unemployed (VLW)

source: Zijl, van der Meer, van Seeters, Visser and Keuzenkamp, 2002.

The comprehensive approach

Approximately 865,000 people registered as jobseekers with the employment office every year (12% of the labour force). The vast majority of the new inflow is capable of finding a job independently. In 1998 it was estimated that 265,000 people annually do not manage to do so and that they need additional support. Half of this group was already reached using existing tools, for example by the Occupationally Handicapped Reintegration Act (REA). This leaves some 135,000 people per year to whom an additional offer had to be made. This was the potential target group of the new 'comprehensive approach' (*integrale aanpak*), covering instruments 1, 2 and 3 listed in Table 5.

The comprehensive approach could not be 'comprehensive' as early as 1999, because its funds were not adequate and the executive administration was not ready. The NAP of 2000 announced that the Dutch government set itself the task of introducing a comprehensive approach for all new unemployed by 2002 at the latest. Depending on their distance to the labour market (every newly unemployed is grouped into one of four categories depending on their distance to the labour market), different measures can be taken to lead them to work. The personal plans or trajectories generally consist of education, application courses and work experience.

There is a paucity of data for evaluation, partly because of the recent introduction of the policy. It appears that coverage of the young unemployed is complete and that in 2000 two out of three new unemployed adults received an offer or had a reintegration plan started. Of those who found a job and were previously unemployed, coverage of one of these measures was as high as 86 percent. The exclusive organisation of these activities by the public employment office has been ended. Municipalities and social insurance organisations are now free to bring in private companies to do the job. In 2000, roughly 15% of all reintegration activities were outsourced to private companies and this is expected to rise in the near future.

These data do not tell us whether these measures are effective in preventing people from becoming long-term unemployed. Until 2000, long-term unemployment in the Netherlands, as a share of total unemployment, was above the EU average. After 1998, both male and female long-term unemployment decreased rapidly. What part was due to the overall improvement in the economy and labour market – unemployment fell to the lowest level in almost thirty years – and what part to the more active approach of the unemployed is hard to say. It is possible that the new approach has helped to bring about a cultural shift among the unemployed and in the organisations dealing with the unemployed. In short, the net effectiveness of the new policy is hard to measure but a positive indirect effect is quite possible.

Job mediation, application courses and vocational choice tests are part of the comprehensive approach. An evaluation on the macro level led to the conclusion that public mediation in the early 1990s did not have value added compared to other job search possibilities (de Koning et al., 1995). Of the two controlled social experiments on the effect of counselling and monitoring, one shows a positive effects (Gorter and Kalb, 1997) and the other a mere shift from informal to formal search (van den Berg and van der Klaauw, 2000). It is difficult to compare these controlled social experiments, because the labour market situation very different during the two evaluation periods. A review of the available evaluations on labour market policy in the OECD concludes that counselling and monitoring may have an impact in the order of 15-30% on the exit rate from unemployment into employment. Combined with additional strategies of intervention by the Employment Office, it may increase the exit rate by 30-50% (Martin and Grubb, 2001).

Incentives and sanctions

Individual incentives in the Netherlands consist of imposing sanctions in case of abuse of benefit schemes and the provision of outflow premiums. (Incentives for employers, not discussed here, include the obligation to continue paying the wage of sick workers during the first year of illness and experience rating in disability insurance). Examples of abuse are insufficient job search activity, rejecting suitable job offers or not providing enough information on search activities to the

administrative agency providing benefits. The new Unemployment Act (nWW) of 1987 allows for serious sanctions.

Different Dutch evaluations of the effectiveness of sanctions on the exit rate from unemployment into work have taken place. The majority of these evaluations show positive results. Mullenders (1996) showed with data from 1992 and 1993 that a reduction of unemployment benefits after eight weeks of unemployment increases the probability of outflow of unemployment within six months from 59% to 68% and after 12 months from 71% to 81%. Van den Berg et al. (1998) and Abbring (1997) found even a doubling of transition rates to work when sanctions are imposed. These authors suggest that the real effect of sanctions might even be stronger when the threat effect of sanctions is taken into account.

Regarding the de-activating elements in the entire benefit system the Netherlands had begun a series of reforms in the 1980s (Visser and Hemerijck, 1997). Guaranteed benefit levels in unemployment and disablement schemes have been lowered to 70 percent of last earned wages, and guaranteed minimum benefits, tied to the statutory minimum wage, had been de-indexed between 1982 and 1989, and again between 1993 and 1995. Between 1985 and 1995 the criteria for accepting work in the disability schemes (WAO) and the reference and employment history requirements in the nWW have been tightened.

Regarding the de-activating elements of its tax system the Netherlands has made some progress. To some extent this was the rationale of the 2001 tax reform. That reform not only meant a reduction of all rates of taxes on wages, but also the introduction of a tax credit for workers and the replacement of personal tax allowances by a system of tax credits. A disincentive for labour supply at the lower level of the labour market is the poverty trap. So far, only minor steps have been made to tackle the problem. One is the introduction, in January 2001, of a uniform temporary tax-free bonus for the long-term unemployed who leave the benefit system for a job and a similar bonus for employees in special 'step-up jobs' (ID-jobs) who move permanently into non-subsidised jobs. It is too early to assess the effectiveness of this policy.

Even if the poverty trap is not resolved fundamentally, a temporary outflow premium can stimulate the unemployed to search for a job. Municipalities can provide outflow premiums to stimulate the transition from the benefit system or a subsidised job into a regular job. Since no Dutch evaluation is available, a conclusion concerning the effectiveness must be drawn from research abroad. Controlled social experiments in the US show that such outflow premiums may lower unemployment duration (Meyer, 1995). Two observations are in place however. Firstly, the increase in outflow might not lead to a net decrease in total expenses, since it is possible that the public savings on benefit payments do not outweigh the expenses on outflow premiums.

Secondly, the US experience suggests that it is possible that people switching from one job to the other may try to stay unemployed in between to receive the premium.

Education and skills

Regarding the transition from school to work the aim of the Dutch government was to increase participation in vocational training programmes and to strengthen the training-work mix. The dual-track approach represented a priority, as did the continuing efforts to combat early school leaving, in order to achieve the objective of the Lisbon Council Summit, which is to halve the number of early school-leavers by 2010. In addition some general measures have been taken to improve the quality of education. This involves smaller classes (the target is 20, whereas in 1996 average group size was 26), improved organisation of secondary and vocational education, more computers in classrooms and upgrading the teaching profession.

Training and education is also used as a way to achieve (re)integration into the labour market of the unemployed, disabled persons and people on general social assistance. Benefits for participants do not end until the training has been completed. This is the case even if the entitlement to that benefit would have terminated had no training been followed and when in training the unemployed are exempted from the obligation to actively look for employment.

With regards to life long learning, the Dutch government has since 1996 encouraged the combining of work and learning for the working population by means of a tax incentive scheme. Employers receive a maximum of €2,160 per year per employee who takes a secondary vocational training or apprenticeship course. Another rebate, of about the same size but limited to one year, is available for employers who provide or facilitate training for graduates of higher vocational courses. In 1998 a tax concession for in-house training was introduced, aimed at older employees and small- and medium-sized firms. Contributions to industry-wide training funds are also eligible. An experiment with individual learning accounts was introduced in 2001. Starting in 2002, a yearly tax reduction of €1,529 is introduced for employers who train formerly unemployed workers aimed at reaching entry qualifications. A task force is examining tax reduction for personal development accounts, introduced by way of collective agreement (and as a means to encourage wage moderation). Nearly all of the 1,400 collective agreements currently in force in the Netherlands contain provisions on training.

Table 6 shows the number of employees who receive some kind of job-related training, both publicly or privately financed. It appears that training has increased significantly between 1993 and 1999. Among these are an estimated number of 100,000 persons for whom the fiscal facility for apprenticeship is used and approximately 28,000 on other publicly financed training.

Table 6: Training within companies with more than 10 employees

	Total of trainings	Total costs (million guilders)	Training's per 100 employees (all companies)	Mean costs per employee (all companies)
1993	841.000	3.374	38%	1.090
1999	1.559.000	6.725	77%	1.820

Source: www.statline.nl.

A quasi experiment with data over the period 1992 and 1993 showed a positive effect of training (van der Aalst and Hermsen, 1994). Training increases the chances of finding a regular (non-subsidised) job by 10 percentage points for individuals who have been unemployed during more than three years before entering a training course. However, possible heterogeneity between the selected control group and the participants group was not taken into account. If participants are more motivated to find a job than non-participants, the effect of training is over-estimated. Another Dutch quasi experiment with data from 1993 till 1997 that did take this selection bias into account showed no significant positive effect of training (CPB, 2000). Surveys of the international literature on training suggest low or even negative rates of return for participants of public training programmes (Fay, 1996; Marin and Grubb, 2001).

Especially the unemployed with the lowest qualifications, and within this group the out-of-school youth, hardly benefit from training programs. Since large costs are involved, this is a very sobering conclusion. However, some training programmes do work, especially when targeted at individuals with high motivation and latent qualities, like women who re-enter the labour market and immigrants with relatively high levels of education in their land of origin. Swedish studies furthermore indicate that small size programmes obtain better results than large size programmes (Calmfors et al., 2001). In this context it is interesting to note that a recent Dutch study showed that the current training system in the Netherlands has many elements that obstruct (re-entering) women from participating in a training program for two reasons: either they are misclassified as not needing training and therefore ineligible for subsidised training, or they are not on benefits and therefore unable to make use of benefit-supported training provisions (Janssen et al., 2001).

Subsidised employment

Subsidised employment schemes in the Netherlands are the Job-seekers Employment Act (WIW, 1998) and the ID-job Program for the long-term unemployed (ID-jobs, 2000). The Sheltered Employment Act (WSW, 1998) provides subsidised jobs for the disabled who can only work under special conditions. All mentioned acts are successors of initiatives developed in previous years. The first two acts result in three schemes of direct job creation:

1. WIW work experience places: the employer receives a subsidy from the municipality to hire an unemployed person. The duration of the wage cost subsidy varies from six to twelve months.
2. WIW jobs: An unemployed is hired by a municipality and employed within the public-, non-profit- or private sector. The employer pays a fee to the municipality. The contract is for two years to start with and afterwards can be changed into a permanent contract.
3. ID jobs: The unemployed gets a subsidised job in the public or non-profit sector, paid by the municipality, for an indefinite period of time.

For 1 and 2 the aim is outflow into regular employment. These subsidised jobs should, possibly in combination with training, reduce the distance to the regular labour market. For 3 the outflow into regular employment is only one of the goals, next to creating jobs for people with few qualifications or experience at the low end of the labour market and improving the collective sector. To judge the effectiveness of ID jobs only on the realised outflow to regular employment would therefore be unfair. Nevertheless, table 7 shows for all three schemes the number of long-term unemployed involved and the share that exits to the 'regular' labour market.

Table 7: Subsidised labour and outflow to regular employment, 2000

	WIW -jobs	WIW-job- experience places	ID-jobs
Average take-up, in fte	34,900 ¹	5,300	43,000
Outflow, as % of take-up	50% ²	147%	18%
Outflow into regular employment, as % of total outflow	39% ²	36%	34%
Outflow into regular employment, as % of take-up	19% ²	53%	6%

Notes: 1) A WIW- job in full time equivalents is 32 hours

2) Exit from WIW-jobs includes a small outflow to WIW job experience place or ID-jobs.

Source: Quarterly data municipalities and WIW-monitor, NAP, 2001.

Table 7 shows that 19% of the WIW jobs flow into regular work, for the WIW job-experience places this is 53%. For ID jobs the table shows that the outflow into regular jobs is lower than for WIW jobs and experience places, which according to the different aim of the scheme is unsurprising.

As stressed before, to determine the net effect of subsidised jobs, information is needed on the comparable outflow out of the benefit system into regular employment for persons without these subsidised jobs. A Dutch quasi experiment with data from the mid-1990s showed a positive effect of subsidised jobs (Jansen, 2001). A group of participants of the subsidised jobs was compared to a group that started working in a subsidised job but dropped out early. The net effectiveness was estimated at 16 to 20 percentage points: from the participants who did not flow out early 73% percent

found a regular job, compared to 53-57% of the early drop-outs. However, a selection bias in this quasi-experiment is very probable, since the motivation to work within the group of early dropouts is likely to be lower than for the group of non-early dropouts. The researchers therefore conclude that, at most, a net effectiveness of 16-20 percentage points is achieved. Not surprisingly another Dutch quasi experiment that did take this selection bias into account found a lower, even negative, net effectiveness (CPB, 2000). A possible explanation for this negative result is that employers consider the fact that somebody held a subsidised job as a negative signal. Another hypothesis is that, in the execution of the schemes, outflow receives too little attention. This may be caused by the way in which subsidised jobs are financed. The (municipal and employment office) organisations that execute the program are financed on the basis of the number of persons with subsidised jobs and have no financial interest in stimulating outflow, even though it is the principal goal of their work and of the scheme.

The majority of international studies on effectiveness of subsidised jobs find that this type of measures have little success in helping unemployed people to get permanent jobs in the regular labour market. While subsidised job creation in the public sector seems ineffective to stimulate outflow to regular work, results are a bit better for wage cost subsidies in the private sector. But a large substitution effect diminishes net effectiveness. Employers tend to fire regular personnel in order to hire subsidised, and therefore cheaper, workers (Fay, 1996; Martin and Grubb, 2001).

A fair conclusion seems to be that Dutch evaluations showed little effectiveness of subsidised jobs in reaching the aim of stimulating outflow into regular employment. International literature confirms these findings. The cost of these instruments are high: €908 million for ID jobs and €891 million for WIW jobs in 2001 (SZW, 2001). However, as noted before, in case of ID jobs not only the effect on outflow to regular labour is important. An evaluation study on the effect of ID jobs within the health and care sector concluded on the basis of interviews that ID jobs are effective in improving the quality of public services (Pen et al., 2001).

Sheltered employment

WSW-jobs offer sheltered employment to persons with a physical, mental or psychological disability since 1969. In the new WSW of 1998, municipalities can place disabled people in social workshops, as before, but they can also place them externally, with regular firms. In addition there is the possibility of supported employment, where the disabled is hired by a regular employer, and the municipality supports by offering a wage cost subsidy, financial compensation for extra job coaching or financial compensation for workplace-adjustments. The number of people with a WSW place has risen in the year 2000 to almost 100,000. The mean duration of a WSW-job is almost 12 years (Van der Geest et al., 2001). Yearly about

5% flows out. Only a small part of that outflow, 15%, is directed towards regular (unassisted) unemployment.

Fiscal instruments

The 'Wet vermindering afdracht loonbelasting en premie voor de volksverzekeringen' (WVA, 1996) aims at reducing the employers' tax wedge for the low-paid. It contains two important fiscal measures:

1. SPAK, i.e. a discount on the tax paid for all employees with a wage up to 115% of the legal minimum wage
2. VLW, i.e. a four year during subsidy to employers who hire a long term unemployed.

In 2000 employers received SPAK for about one million workers, with a total cost of about € 930 million (Table 8). This high incidence is explained by the fact that the scheme applies to all employees and not only to the newly hired. 72 percent of the eligible firms received SPAK in 1996 (Van Nes et al., 1998). The scheme reaches 92% of all workers with a wage below 115% of the minimum wage. (The minimum wage itself applies to 2-3 percent of the adult work force in employment).

Table 8: SPAK coverage and budget

Year	Coverage in number of employers	Coverage in number of employees	Coverage as % of all employees	Budget (in millions of Euro)
1996	162,000	810,000	16%	358
1997	179,000	1,100,000	20%	570
1998	173,000	885,000	16%	814
1999	174,000	880,000	14.5%	902
2000	166,000	1,000,000	?	930

Source: SZW, 2001.

Are employers more likely to hire low skilled unemployed with the SPAK than without? Research findings vary from a moderate positive effect to even a slightly negative effect. A positive effect from the SPAK on employment was estimated in a questionnaire study with employers (Polanen Petel et al., 1999). The net effect on total employment was estimated to be 4-9 percent and the net effect for the low paid 5-9 percent. This means that 5-9 percent of the employees involved in SPAK would not have found a job without the subsidy. For the effect on total employment, the crowding out of non-SPAK employees was taken into account. A problem of this study is the low response rate and the risk of bias due to the use of questionnaires. A cross section study by the same researchers showed no significant effect of SPAK on employment. Another evaluation, using post programme data on a macro level and a quasi-experiment, found no positive effect of the policy measure on employment (Mühlau and Salverda, 2000). The quasi-experiment indicated that

SPAK negatively affects entry-wage levels and pay increments of low-wage employees in countries where these kind of wage subsidies are used. Another study of 1998 (van Opstal et al., 1998) and calculations over 2001 indicate a small positive effect of SPAK on the employment level (SZW, 2001). In May 1999, as part of the peer review process, the European Commission organised a peer review on the Dutch approach to targeted wage cost reductions. The conclusion was that there are some displacement effects and dead-weight losses, but that SPAK does result in extra jobs for the low-paid.

The VLW-subsidy targets the long-term unemployed and applies only to newly hired employees. Its incidence is therefore much smaller. Costs are also lower: € 176 million in 2001, going to about 14.000 employers. Between its introduction in 1996 and the end of 1999, the VLW rebate for low-paid workers has resulted in 46,000-59,000 additional jobs in the private sector since 1996, while the reduction scheme had helped 10,000-19,000 long-term unemployed to find work. The average (employers' plus employees') tax wedge dropped significantly for the lowest income category up to the end of 1999 and is expected to drop further under the new tax regime introduced in 2001.

Regarding its effectiveness, evaluation studies indicate a positive effect of VLW on employment. On the basis of a survey of employers, researchers conclude a net effect of between 13 and 43% on employment (Hoffius et al., 1999). There is considerable overlap with subsidised work, however. In two third of the cases, VLW is given to subsidised labour. Corrected for this, the effect is estimated to lie between 3 and 11% (Polanen et al., 1999). As is always the case with studies based on questionnaires or interviews, the risk of bias is considerable. However, another study in which a macro simulation model was used also found a positive effect from VLW on employment (SZW, 2001). The better result compared to the SPAK is probably caused by the fact that VLW focuses directly on the target group of the long-term unemployed.

Studies on projects comparable to SPAK and VLW in other countries confirm the slightly positive effect and the large dead-weight loss and substitution effects of these measures (Martin and Grubb, 2001). Examples are the American Work Opportunity Tax Credit (WOTC) (dead-weight loss 70%), the English Workstart (dead-weight loss 71%) and the Australian Jobstart program (dead-weight loss 73%) (Welters, 1998).

Conclusions

The conclusion concerning the net effectiveness of activating policies, based on the Dutch case, are mixed. A very serious problem is the lack of robust studies measuring net effectiveness. In addition, the (scarce) existing national evidence, combined with international research results, support the conclusion that the

improvement of the macro labour market performance is primarily the result of the positive development in the economic environment, e.g. high GDP-growth. We do not know how these measures would work in a less benign environment. But even in the favourable overall context of the Dutch economy during the final years of the 20th century, there remain many bottlenecks with regard to activation and employment, like prevention of sickness and disablement, reintegration of partially handicapped workers, continued employment of older workers, training and upgrading the job prospects and earnings potential of re-entering women, the upgrading of the low-skill / low wage sector, and the integration, training and employment of the non-native labour force. More research is necessary, in particular, whether the hugely successful quantitative expansion of jobs, mainly in services and often in the form of part-time work, has created also a pool of poor quality – poor income jobs, accompanied by further polarisation, because training and investment in skills is – for what we know – mostly concentrated in higher occupational classes of work and in full-time jobs. In other words, even on the basis of the successful Dutch case, with its high level of job expansion and comparatively low level of poverty, we cannot dismiss the possibility that an unqualified employment expansion, as is the favoured or perhaps only permissible approach to social and employment policy under the EMU, nourishes a low-end labour market with a class of workers locked into inferior jobs and still high risks of unemployment, hence failing the promise of lowering the costs of social Europe.

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