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NETHERLANDS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Publié également en français.

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BASIC STATISTICS OF THE NETHERLANDS (1998)

THE LAND

Area (1 000 km^2):		Major cities, 1st January (thousand inhabitants):	
Total	42	Amsterdam	718
Agricultural land	20	Rotterdam	590
Woodland	3	The Hague	443

THE PEOPLE

Population (thousands)	15 654	Employment (thousands, full-time equivalents):	
Number of inhabitants per km^2 of land	460	Total	6 128
Net natural increase (thousands)	57	Agriculture, fishing and forestry	232
		Industry	1 468
		Other activities	4 428

PRODUCTION

Gross domestic product (billion guilders)	776	Origin of GDP (%):	
GDP per head (US$)	25 011	Agriculture, fishing and forestry	3
Gross fixed investment:		Industry	23
Per cent of GDP	22	Construction	5
Per head (US$)	5 432	Other	69

THE PUBLIC SECTOR

Per cent of GDP:		Composition of Parliament (number of seats):	
Public consumption	23	Labour Party	45
Curent receipts	43	Liberals (VVD)	38
Current disbursements	44	Christian democratic appeal	29
		Liberals (D'66)	14
		Green/Left	11
		Other	13
		Total	150
		Last general election: May 1998	

FOREIGN TRADE

Exports of goods and services (% of GDP)	60	Imports of goods and services (% of GDP)	55
Main exports, 1997		Main imports, 1997	
(% of total merchandise exports):		(% of total merchandise imports):	
Food, beverages and tobacco	17	Food, beverages and tobacco	11
Energy	7	Energy	8
Chemicals	16	Chemicals	12
Machinery and transport equipment	31	Machinery and transport equipment	35

THE CURRENCY

Monetary unit	Guilder	Currency units per US$, average of daily figures:	
Currency units per euro, 1st January 1999	2.20371	Year 1998	1.98
		November 1999	2.13

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of the Netherlands by the Economic and Development Review Committee on 10 December 1999.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 27 January 2000.

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The previous Survey of the Netherlands was issued in March 1998.

Assessment and recommendations

Growth has slowed but remains robust, supported by sizeable wealth effects

The Dutch economy has continued to perform well over the past two years, despite the emergence of some tensions. Especially in terms of growth and employment, its performance has been significantly better than that of the EU or the OECD area on average. The expansion, which is in its sixth year, was relatively little affected by the crisis in emerging markets and the subsequent slowdown in the euro area. It has been driven by both investment and private consumption, which has been buoyed by sizeable capital gains resulting from the boom in asset prices. Real GDP growth – after averaging a little over 3 per cent a year from 1993 to 1997 and approaching 4 per cent in 1998 – may have decelerated to 3 per cent in 1999, mainly as a result of a slowdown in business fixed investment and exports. Pressure on resource utilisation has been strong: capacity utilisation is relatively high, and the positive output gap, as calculated by the OECD Secretariat, has progressively widened, to an estimated 1½ per cent of potential output. Hence, a modest slowdown may provide a welcome cooling-off of the economy.

Job creation has been rapid, and the labour market has tightened...

As employment has continued to grow faster than the labour force, the labour market has progressively tightened. The unemployment rate on national definitions has fallen to around 3¼ per cent in 1999, a level last seen in the early 1970s, and is well below the structural rate (or NAWRU) estimated by the OECD Secretariat at over 4 per cent. The number of vacancies is greater than at the peak of the previous cycle at the beginning of the decade – when the economy was in a situation of overheating. On the other hand, the employment rate, especially in full-time equivalents, remains relatively low, and ''inactivity''

– *i.e.* persons of working age on welfare – is still high, even though the "dependency ratio" – *i.e.* the ratio of persons of working age on welfare to the total number of working persons (in full-time equivalents) – is low compared with most other EU countries. Due to a lack of skills and incentives to work, the return of older persons in various social security schemes to the active labour force is a difficult process – despite a tight labour market and persistent efforts by the authorities.

... some inflationary tensions have emerged, and asset prices have boomed

Reflecting continuing pressures on resource utilisation, some inflationary tensions have appeared. Both wages and compensation per employee have accelerated – the latter to 3.8 per cent in 1999, compared with an EU average of 2.7 per cent. Consumer price inflation has remained broadly stable at a little over 2 per cent. Since inflation has generally declined in Europe, Dutch inflation has somewhat exceeded the EU average for a couple of years. These inflationary developments may reflect tensions in the labour market which may lead to a loss of international competitiveness. Hence, they are a cause for concern and call for continuous surveillance. But they need to be put in a proper perspective. Within a common currency area, they can be seen as part of the normal adjustment process which rechannels demand pressures from one country to another according to relative conjunctural positions. They also represent a reversal of trends which prevailed over the previous decade or so, when, due to wage moderation and the firm link of the guilder with the deutschemark, the Netherlands significantly improved its international competitive position and the current account surplus widened to 7½ per cent of GDP in 1997. In contrast with the relative moderation in "traditional" forms of inflation, asset price inflation has surged: house prices have nearly doubled since the beginning of the decade; and Dutch share prices have quadrupled. Partly in response to these windfall gains, households have taken out a growing number of second mortgages which have often financed the purchase of consumer durables. While it is difficult to determine whether asset markets are currently overvalued, the financial position of households and financial institutions – especially those engaged in the mortgage market – needs to be monitored carefully.

The outlook is generally good, but tensions in the labour market may persist for some time, and the risk of overheating cannot be excluded

Real GDP growth is projected to slow moderately to around 2¾ per cent in 2000-01 – slightly below the potential rate of growth estimated by the OECD Secretariat of around 3 per cent. This should contribute to an orderly cooling-off of the economy. Private consumption may continue to lose buoyancy and investment should remain sluggish, but the deceleration in domestic demand is likely to be offset to some extent by a stronger foreign balance, as export market growth picks up. Wages are projected to accelerate somewhat in 2000. With import prices rebounding, consumer price inflation is projected to edge up and remains higher than the EU average. Risks and uncertainties mainly concern domestic developments. Due to wide-ranging structural and regulatory reforms, it is particularly difficult to assess the degree of tightness of the labour market and of pressures on resource utilisation in general. Hence for the projections of wages and prices the margin of error is rather large. Wage moderation could be less effective and growth stronger than expected, leading to overheated conditions. On the other hand, a major downward correction in house prices, perhaps combined with a sharp fall in stock prices, could lead to a stronger than projected slowing of GDP growth.

The challenge of economic policy is to continue non-inflationary growth

A cornerstone of the success of the Dutch economy has been the combination of a rigorous and stable macroeconomic policy with wide-ranging structural and regulatory reforms. On the macroeconomic side, before the introduction of the euro, Dutch anti-inflationary monetary policy, based on the close link with the deutschemark, enhanced confidence in the guilder and secured low interest rates. The Netherlands was also more successful than many other European countries in fiscal consolidation: the general government budget deficit fell below the Maastricht ceiling of 3 per cent of GDP already in 1996, and was thought to have fallen to around ½ per cent in 1999 (though the Dutch authorities now expect the deficit to have turned into a small surplus). With the economy close to potential and monetary policy not available as a tool of policy, other policies, notably fiscal policy and structural and regulatory reforms, are needed to ensure that continuing job creation and non-inflationary growth is not undermined by a boom/bust cycle.

Fiscal policy is broadly neutral but needs to remain vigilant regarding the risk of overheating

Since the 1994 Coalition Agreement, fiscal policy has had a stable medium-term orientation centred around a strict public expenditure norm – with a ceiling for central government, social security and health spending. Revenue windfalls are used both for tax cuts and additional deficit reduction. Windfall saving in expenditure subject to the ceiling is not automatically used for other spending categories. Although in this budgetary framework the automatic stabilisers are not given full play, it needs to be recognised that they start working as soon as economic growth exceeds the rate used in the "cautious scenario" (2¼ per cent). Moreover, even in the case of revenue windfalls, on a yearly basis there is nothing automatic about their use: the related reductions in taxes take place only at a later stage. Hence, within the government period, this framework offers some degree of flexibility with respect to the fiscal stance, on the revenue as well as on the expenditure side. On the basis of the 2000 Budget, which includes a decrease in both government expenditure and taxes as a percentage of GDP, the stance of fiscal policy is broadly neutral. Given the projected slowdown in the economy and the expected tightening of monetary conditions – with an increase in both short and long-term interest rates – this stance seems appropriate. However, fiscal policy needs to remain particularly vigilant concerning the risk of overheating. If the symptoms of overheating were to become evident, the degree of flexibility embodied in the budgetary framework should be exploited fully, especially on the expenditure side, to tighten the fiscal stance.

Structural reform has been a key element of Dutch economic policy but there is an important unfinished agenda

Structural and regulatory reforms have been an integral part of the major reorientation of Dutch economic policy decided in 1982, after over a decade of dismal economic performance – the so-called "Dutch disease". The reform process has no doubt interacted with other factors – such as appropriate macroeconomic policies and wage moderation – and allowed output growth and job creation to exceed the EU average without major inflationary pressures.

In many respects, the Netherlands can be seen as a leader in structural and regulatory reform in Europe. However, these achievements should not lead to complacency. In some cases – notably disability and the sick-leave scheme – promising initial results have been followed by less favourable outcomes. The proposed reform and partial privatisation of the unemployment and disability schemes has been replaced by a new proposal which limits the privatisation of these schemes to the reintegration of unemployed and disabled persons. Structural reform has always been a gradual process, in line with the Dutch ''consensus approach''. But in the recent period, this process seems to have slowed, as the urgency of implementing reforms has progressively waned as a result of a decade of good economic performance. The authorities should prevent structural reform from becoming a victim of its own success. Indeed, there is an important unfinished agenda of structural reform. As discussed in the following paragraphs, structural policies need to be pursued on a wide front, including the labour market, the tax system, product markets and the health care system.

The government has significantly reduced non-wage labour costs, but incentives to work should be increased...

In the labour market, despite the strength of the expansion and very low unemployment rate, the employment rate (in full-time equivalents) remains low. There are still important pockets of ''hard core'' inactivity, such as older unemployed and other older persons on welfare, including many ''disabled'', who have left the labour force. The authorities aim at raising the employment rate by both increasing the demand for labour and working on the supply side to increase the active labour force. More specifically, their priority is: first, to enhance the employment prospects of low productivity workers; second, to prevent people from becoming long-term unemployed; and third, to increase the outflow from the various social security schemes. With respect to the first problem, policy efforts have centred on reducing non-wage labour costs through cuts in employers' social security contributions for low-paid workers (SPAK). These measures have had positive employment effects, but they may hamper the move of workers to higher paid jobs (although available empirical evidence does not confirm the last mentioned effect). This is an example of the trade-off between reducing unemployment traps but intensifying poverty traps that the Dutch authorities consider as a key issue in the design of their labour market policies. To enhance its effectiveness, SPAK should be complemented by stronger incentives to work and through measures to provide better skills and qualifications so that firms can find the right type of workers and hire them at the lower labour costs. Hence, the proposed income tax reform which, among other things, will introduce an earned income tax credit making work more financially attractive and increasing the labour supply, is urgently needed (see below). Also, in the social security system, job search controls, and the application of benefit sanctions should be made more effective. Finally, the authorities should pursue their efforts aimed at raising the productivity of workers through education, training and life-long learning.

... and wages should be made more flexible

As noted in the previous *Survey*, the authorities have taken measures to make the wage formation process more flexible and responsive to local conditions and individual skill levels. The present system affords some flexibility in this regard by allowing for the introduction in collective wage agreements of bottom pay scales that are close to the legal minimum wage and "opening clauses" that allow firms, under specific circumstances, to negotiate with their work force for pay levels below the minima set in collective contracts at the branch level. But while bottom wage scales are now on average only about 5 per cent above the legal minimum wages, for various reasons they do not seem to be widely used. Similarly, although about 75 per cent of collective labour agreements include "opening clauses", their effective use is still rather limited. Hence, the authorities should continue to press for the effective use of these arrangements. It would also be useful if, as envisaged by the authorities, the administrative extension of sectoral wage agreements were refused or at least limited for future arrangements which offset reforms to employees' social security schemes.

The recently introduced "comprehensive approach" will need close monitoring

To tackle the second problem, that of preventing long-term unemployment, the authorities have introduced a "comprehensive approach" for providing support to people who become unemployed, and reintegrating them into the active labour market within 12 months of losing their jobs. This is to be done through personal plans, based on a "four phase model" which classifies job seekers according to their "distance" from the labour market. According to the authorities only a small proportion of those who become unemployed are incapable of finding a job independently and need to be assisted through "the comprehensive approach". Moreover, as about half of these people are already covered by existing programmes, the new initiative is expected to have to take care of only about 135 000 people a year. For budgetary and administrative reasons, the government envisages implementing the "comprehensive approach" over a period of 5 years. Existing long-term unemployed will also receive additional attention through this new approach, which will need to be closely monitored to ensure that it is effective. The Netherlands has a long tradition of direct job creation (or subsidised jobs) and an additional 20 000 such jobs are to be created over the coming four years, in addition to the 40 000 already created under the EWLW scheme – the so-called Melkert jobs. The total scheme covering these 60 000 jobs is referred to as the "inflow/outflow" scheme. These jobs, which are mainly low paid jobs in the public sector – may provide a unique chance for certain long-term unemployed to gain experience in the labour market. However, the whole programme of subsidised jobs (which, in addition to the "inflow/outflow" jobs, also includes other subsidised jobs) needs some streamlining and better co-operation between the various institutions involved. Furthermore, it should be better attuned to the needs of the market so as to enhance the outflow of people into the regular labour market, and the period that people can stay in such jobs should be limited. Hence, the authorities have recently introduced an "outflow premium" for people in the "inflow/outflow" scheme.

The most difficult problem is that of the large number of older unemployed and disabled persons

The third major problem and priority of the government in the labour market is the low outflow from the various social security schemes. The "comprehensive approach", "inflow/outflow" jobs, and other active policies are steps in the right direction. But, as noted, skills and competences need to be improved further, and the employability of workers should be enhanced through additional measures, such as a formal ban on age discrimination and removing perverse incentives embodied in occupational pension schemes for those who accept lower paying jobs. The really hard part of the problem, however, is the large number of older long-term unemployed and disabled persons. The number of unemployed persons over 57½ years of age – who are not required to seek a job and hence are not included in registered unemployment – is around 100 000. Despite several years of corrective efforts, the number of "disabled" remains totally out of line with the general health status of the population or any other objective criteria; over one half of them – or nearly 500 000 persons – are older than 50. As noted in the previous *Survey*, this problem largely reflects various age-related social security arrangements and, ultimately, choices made by Dutch society. Under these conditions the reintegration of many of these persons into the active labour force may not be a realistic option. Nonetheless, taking advantage of the window of opportunity provided by the good conjunctural situation, the authorities should tighten eligibility rules by raising the age threshold above which unemployed persons are no longer required to seek a job (as laid down in the Coalition Agreement) and disabled persons are no longer subject to medical re-examinations to determine their status. These measures should be combined with appropriate retraining and counselling programmes.

The proposed tax reform aims at increasing work incentives...

Improving the functioning of the labour market has been one of the major reasons for the comprehensive reform of the income tax system, which is planned for 2001. According to the proposals, tax rates on labour income will be reduced, partly financed by broadening the tax base and increasing indirect taxes, including environmental levies. Incentives to enter the active labour market will be strengthened by reducing replacement rates, in particular at the minimum wage level, through the substitution of the employed person's allowance with a higher earned income tax credit (or employment rebate) without phase-out range. In addition, the conversion of the standard tax allowances into individual tax credits is expected to remove the current disincentives for non-working partners from entering the labour market. The tax package can be expected to boost employment and potential output.

... and making the system neutral to different forms of investment

Income from capital will no longer be taxed according to the progressive income tax schedule. The new tax regime on capital income introduces a tax on imputed income from capital. This approach, by lumping together all kinds of real and financial assets, virtually eliminates tax arbitrage between different forms of investment. However, in the new system the favourable tax regime for homeownership and occupational pension saving remain in place. With respect to the tax treatment of the principal residence, the imputed rent (after deductions of expenses such as mortgage interest payments) continues to be fully taxed. The reform could have gone further by reducing subsidies and taxes in a wider range. But in this respect, the advantages for homeowners should be assessed in the light of rent subsidies and social and efficiency considerations.

Regulatory reform needs to be expanded and accelerated

As regards product market policy, the government follows a two-pronged approach: first, the Market Forces, Deregulation and Legislative Quality Project (MDW), combined with the tightening of competition policy; and second, the introduction of market forces in the formerly public utilities sector. The MDW project aims at strengthening product market competition through a comprehensive reassessment of existing regulations with a view to reducing the administrative burden. The early achievements of this project included a major liberalisation of shopping hours which resulted in a significant creation of new jobs. However, the implementation of the recommendations from the MDW working groups have proved increasingly problematic. Hence the authorities have recently introduced some changes in order to make this initiative more visible and acceptable. As suggested by the recent OECD report on regulatory reform, the whole process of regulatory reform needs to be expanded and accelerated. The scope of the review of regulations should be enlarged, made systematic, and more transparent. Also the cost-effectiveness of government action could be increased by strengthening the role and vigour of regulatory impact analysis.

The new Competition Authority needs to pursue its efforts and the introduction of market forces in former public utilities should be continued

The Netherlands Competition Authority (NMa), created to implement and enforce the 1998 Competition Act, has received an unexpectedly large number of requests for exemption from the prohibition of agreements that restrict competition. It also had to deal with a large number of complaints about abuse of dominant positions and has had to cope with a wave of notifications for merger. While it is too early for a full assessment of the performance of the NMa, the impression after a little over one year of operation is generally positive. Once the initial backlog has been dealt with, the Authority should move ahead with its own investigations, notably in the health care system, construction, agriculture and the financial sector. The Authority, which is at the moment dependent on the Ministry of Economic Affairs, should be made completely autonomous. The authorities have pursued their policy of introducing market forces and market discipline in a number of former public utilities, notably in the areas of telecommunications, mail and electricity. But there are other sheltered sectors and public activities where greater reliance on market forces is needed, especially in public transport – where hardly any progress has been made in the recent period – in the water supply sector and in health care services.

The Dutch health care system performs relatively well but has too many rules and regulations

The Dutch health care system is rather unusual since it is financed by a mixture of a risk-based private insurance and income-based social insurance, with mainly private providers. On the basis of standard indicators of costs and health outcomes, the performance of the system would seem to be relatively good – total spending has remained around 8 per cent of GDP, only a little above the OECD average. However, cost containment has been based on an overall expenditure norm combined with budget capping for specific sectors and many other rules and regulations. Waiting lists have appeared in some areas and are generally regarded as the major drawback of the system. They are also an indication of rigidities and misallocations which need to be corrected by replacing some price and supply regulations with more market-based solutions as well as streamlining and developing administrative and evidence-based mechanisms. Moreover, recent European legislation and the tightening of Dutch competition policy require a reconsideration of current regulations in this sector.

While reforms may be gradual they should be visible and cover a wide front

The authorities recognise the need for reforming the health care system but, Dutch society being deeply divided on the direction of such reform – in particular concerning the balance between risk-based private insurance and income-based social insurance – they envisage making only incremental changes. A gradual approach may be the only realistic option at the moment, but reforms should be visible and wide ranging. The emphasis should be on introducing, through well-designed measures, more competition and incentives – without however altering the broad balance between private and social insurance. More specifically: competition between private insurers should be improved by facilitating consumers' choice of health plans; the effectiveness of purchasers of health care could be increased, for instance by giving insurers more leeway for selective contracting and increasing the number of physicians; and the cost efficiency of suppliers should be enhanced by relying more on a therapy-based payment method and benchmarking health care institutions. Policies to tackle the problem of waiting lists need to be pursued, and measures should be taken to curb expenditures on pharmaceuticals. Evidence-based systems – *i.e.* systems based on the systematic use of up-to-date research findings – seem promising and should be developed further. Finally, there is a need to step up preventive health care policies and target them more at specific groups with health status below the average of the overall population.

Summing up

In its sixth year of expansion, the Dutch economy has continued to perform well, with strong real GDP growth and job creation. But some tensions have appeared, and inflation is close to the upper limit of price stability as defined by the European Central Bank. The outlook is broadly favourable as GDP growth is expected to slow only moderately: this would provide a welcome cooling-off of the economy. However, fiscal policy needs to remain particularly vigilant concerning the risk of overheating, and stand ready to tighten promptly, within the budgetary framework, if so needed. A major challenge facing the authorities is to deal with the important unfinished agenda in the structural area through speeding up the process of structural reform. The announced income tax reform is particularly necessary, not only to improve fiscal efficiency and equity, but also to redress incentives to work. This would enhance labour market policies aimed at increasing the outflow from social security schemes, and would boost the active labour force and potential output. Other necessary actions include reforming the health care system and introducing more market forces in public transport and some other former public utilities. Taking advantage of the favourable conjunctural situation, the authorities should move ahead forcefully along all these lines, thereby contributing to the continuation of strong job creation in an environment of sustainable economic growth.

I. Recent trends and prospects

Overview

Continuing a trend that started after the 1993 slowdown, the macroeconomic performance of the Netherlands has continued to be good over the past two years; it has also been significantly better than that of the other EU countries on average – especially in terms of growth and job creation (Table 1).[1] Indeed, the Dutch economy seems to have been relatively little affected by the crisis in emerging markets, and the subsequent slowdown in the euro area. However, some tensions have emerged and the increase in wages and prices has been above the EU average. The expansion is projected to continue in 2000-01, although at a somewhat slower pace. Compared with the previous expansion of 1988-92, the current one has been distinctly less rapid – especially in its earlier stage – has already exceeded the previous one in length and, because tensions and imbalances have not built up to a significant degree seems likely to continue for some time to come.

Recent developments in a longer-term perspective

Demand and output

After approaching 4 per cent in 1998,[2] real GDP growth may have slowed to 3 per cent in 1999 – a rate equal to the OECD Secretariat's estimate of the potential growth rate. Reflecting a fall back in the capacity utilisation rate and in profitability, as well as the completion of a few large projects, business fixed investment may have decelerated sharply from 8.5 to 2 per cent. On the other hand, private consumption slowed only modestly as it continued to be underpinned by rapid job creation, the boom in house and share prices, and high consumer confidence. Exports were severely hit by the Asian crisis and the slowdown in the euro area but, after reaching a trough in the first quarter of 1999, they have recovered. Nonetheless, for 1999 as a whole, the contribution of the foreign balance to growth may have remained moderately negative – as in 1998. Pressures on resource utilisation have been strong, and the positive output gap

Table 1. **Macroeconomic performance at a glance**[1]

	Netherlands						EU average[2]					
	1995	1996	1997	1998	1999	Average 1995-99	1995	1996	1997	1998	1999	Average 1995-99
	Year on year percentage change[3]											
Real total domestic demand	1.9	2.8	3.5	4.2	3.4	3.2	2.1	1.3	2.2	3.6	2.8	2.4
Real GDP	2.3	3.0	3.8	3.7	3.0	3.2	2.4	1.6	2.5	2.7	2.1	2.3
Inflation[4]	1.6	1.9	2.1	1.8	2.1	1.9	3.1	2.8	2.1	1.5	1.4	2.2
Total employment	2.4	2.0	3.4	3.0	2.5	2.7	0.6	0.4	0.8	1.4	1.3	0.9
	Per cent[3]											
Unemployment rate (% of labour force)	7.1	6.6	5.5	4.2	3.2	5.3	10.8	10.9	10.8	10.1	9.4	10.4
General government balance – actual (% of GDP)	–4.2	–1.8	–1.2	–0.8	–0.6	–1.7	–5.4	–4.2	–2.5	–1.6	–1.1	–3.0
General government balance – cyclically adjusted (% of potential GDP)	–3.9	–1.8	–1.8	–1.8	–1.7	–2.2	–4.9	–3.5	–1.9	–1.3	–0.7	–2.5
Current account (% of GDP)	5.8	5.4	7.5	5.5	3.6	5.6	0.6	1.0	1.5	1.0	0.3	0.9

1. The Netherlands has introduced the European System of National and Regional Accounts 1995 (ESA95) – see Annex I.
2. Except for total employment, weighted average using the method described in the *Economic Outlook*.
3. Estimates for all variables for 1999.
4. Private consumption deflator.

Source: OECD Secretariat.

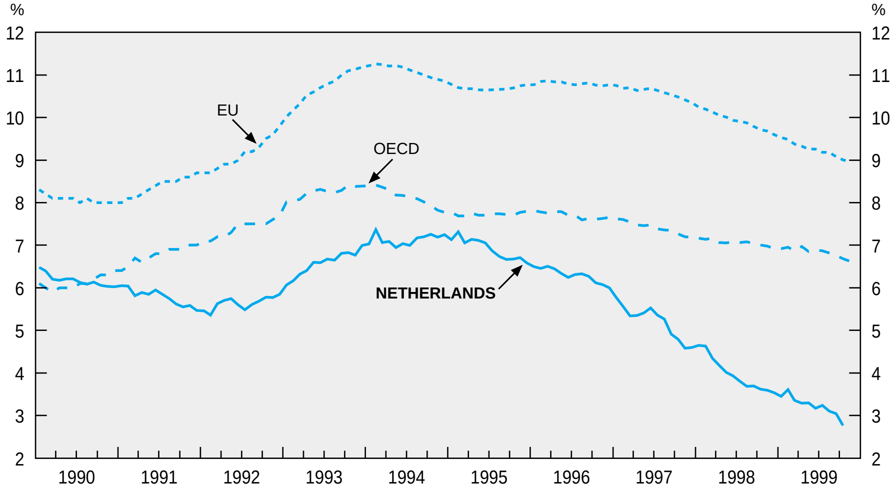
estimated by the OECD Secretariat has progressively widened, reaching 1½ per cent of potential output in 1999. At around 84 per cent, the rate of capacity utilisation in manufacturing is still somewhat below the peak of the 1988-92 expansion (around 86 per cent). But the share of manufacturing in GDP is now smaller than a decade ago, and in this expansion the pressure of demand has been especially strong in the services sector.

The expansion, which is in its sixth year, has been essentially investment and consumption-driven, even though, in line with the "Dutch model" of the past two decades or so,[3] net exports have played a major supporting role. At least until recently, business investment has been buoyed by strong order books, high rates of capacity utilisation, good profits, surging share prices, and the fall in real long-term interest rates to historically low levels. In line with the experience in a number of other EU countries, private consumption has also been an engine of growth. It has been boosted by a "feel good" factor, possibly related to a number of developments, including: strong employment growth and the steady improvement in labour market conditions in general; progress in fiscal consolidation; and sizeable capital gains stemming from the increase in asset prices (see below). According to the Netherlands Bureau for Economic Policy Analysis (CPB), about one tenth of capital gains in the housing market are generally used to finance additional private consumption, this effect being somewhat spread out over time. On the other hand, capital gains on shares have a proportionally smaller impact on private consumption since share prices are much more volatile than house prices and shares are concentrated in the hands of relatively few and wealthy people less inclined to change their consumption patterns in response to capital gains. However, given the magnitude of the increase in share prices and the related capital gains, the effect on private consumption through this channel in recent years may have been of the order of ¼ of a percentage point a year, while the impact stemming from house prices may have been around ½ of a percentage point, representing a total wealth effect on GDP growth of some ¾ of a percentage point a year. The Netherlands Bank has published broadly similar estimates.[4]

The labour market

Owing to demographic factors and a rising participation rate the labour force has continued to grow at around 1½ per cent a year – a much higher rate than the EU and OECD averages (½ and 1 per cent respectively). But employment – both in persons and full-time equivalents – has grown even faster, so that the labour market has progressively tightened. The standardised unemployment rate has fallen to 2.8 per cent in October 1999, one of the lowest in the OECD area (Figure 1). The unemployment rate on national definitions, has fallen to around 3¼ per cent in 1999 – the lowest level since the early 1970s and well below the

Figure 1. **Unemployment rate:[1] an international comparison**



1. Standardised rate based on civilian labour force.
Source: OECD, *Main Economic Indicators*.

structural rate (or NAWRU) estimated by the OECD Secretariat at over 4 per cent. Shortages have been reported for skilled workers and middle and high-ranking employees in several sectors including construction, metal industry, information and communication, technology, education, and health care.[5] Shortages of skilled labour are nothing new in the Dutch economy, but overall, unfilled vacancies have steadily increased since the trough of 1994 and, at nearly 2½ per cent of the labour force, exceed the levels of the 1988-92 expansion when the economy was in a situation of relatively high inflation by Dutch standards.[6]

On the other hand, the employment rate, although rising steadily over the past few years, at 57 per cent in full time equivalents, remains relatively low (Table 2). This is mainly the result of two factors: *i)* the very high proportion of part-time work; and *ii)* most importantly, the large number of persons who have effectively withdrawn from the active labour force by entering various social security schemes, such as early retirement, disability, and unemployment for elderly persons. Part-time work is one of the distinguishing characteristics of the Dutch economy. It currently accounts for nearly 40 per cent of all employment, by far the highest proportion in the OECD area.[7] Among the many reasons for its success, a major one for employees is the flexibility it offers combined with full health care coverage. As noted in the previous *Survey*,[8] it is difficult to assess

Table 2. **Employment and unemployment**

In full-time equivalents, thousands

	1970	1975	1980	1985	1990	1995	1996	1997	1998
1. Working-age population	8 156	8 728	9 362	9 922	10 305	10 569	10 604	10 642	10 684
2. Employment	5 058	5 009	5 174	4 978	5 476	5 663	5 808	5 968	6 128
of which: Sickness	269	334	370	310	409	352	334	347	380
Subsidised employment schemes[1]	44	56	74	80	93	132	151	164	166
as a percentage of working-age population (employment rate)	62	57	55	50	53	54	55	56	57
3. Benefit recipients not in employment[2]	478	788	1 159	1 801	1 848	2 001	1 956	1 895	1 797
of which: Unemployment schemes[3]	68	211	259	682	579	742	716	674	594
Social assistance	63	105	112	180	176	164	164	151	142
Early retirement	..	..	12	70	128	152	149	145	148
Disability	196	310	608	698	778	752	740	743	764
Surviving relatives insurance	151	162	168	171	187	191	187	182	149
as a percentage of broad labour force[4]	9	14	18	27	25	26	25	24	23
Memorandum items:									
4. Registered unemployment	44	195	217	511	358	462	441	375	286
as a percentage of labour force (unemployment rate)	1	4	4	9	6	7	7	6	4

1. WSW (Social Employment Act), WIW (Job-seekers Employment Act) including JWG (Youth Work Guarantee Law) and Job pools, and EWLW (Melkert I), I/D (“Inflow-Outflow” Jobs) and EAU (Melkert II).
2. Benefit recipients not in employment comprises people of working age who are inactive and who are receiving social security benefits.
3. Unemployment Insurance (WW) and Social Assistance Schemes RWW, IOAW and IOAZ. Due to the integration of the RWW into the social assistance scheme ABW in 1996, the number of claimants of unemployment benefits after 1995 has been partially estimated by the OECD Secretariat.
4. Broad labour force is employment plus benefit recipients not in employment.

Source: Ministry of Social Affairs and Employment, *Sociale Nota 2000*; CPB Netherlands Bureau for Economic Policy Analysis, *Macro Economische Verkenning 2000;* Statistics Netherlands, *Statistical Yearbook 1999*; and OECD Secretariat.

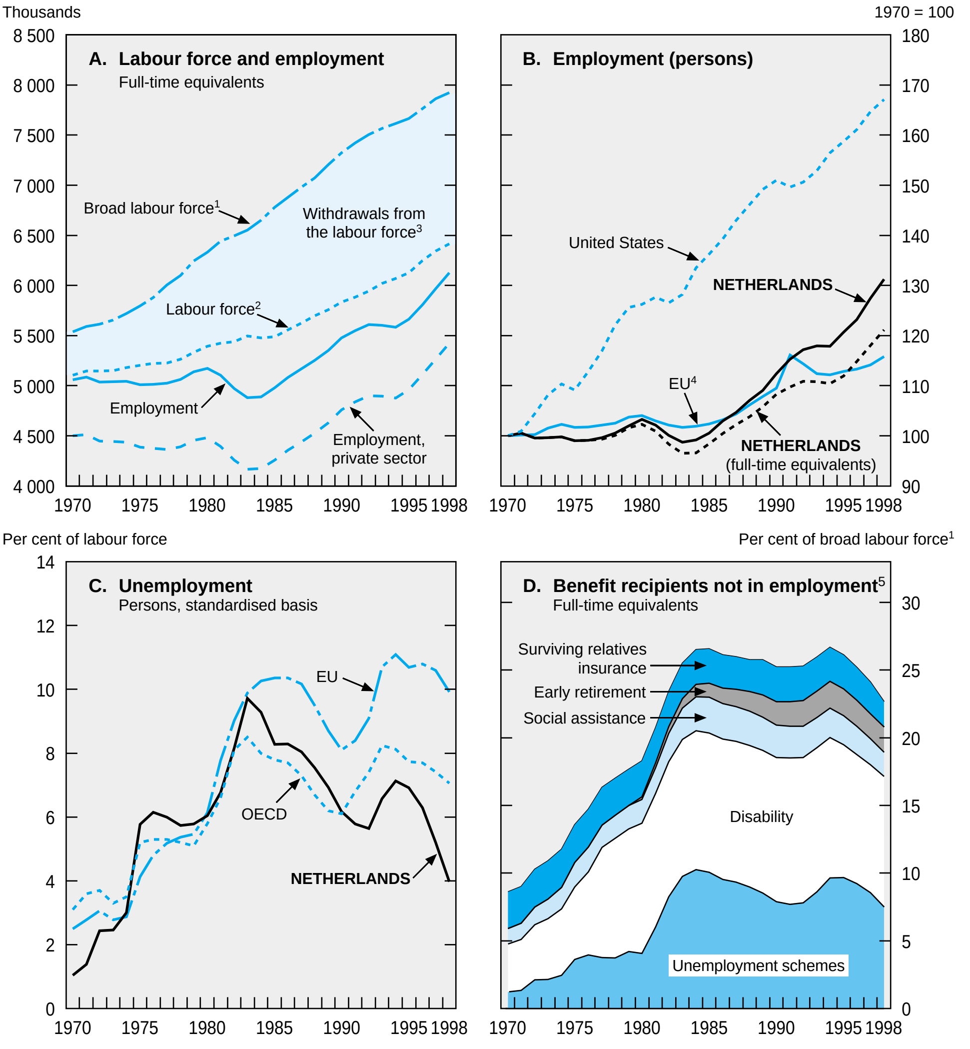
precisely to what extent the very high level of part-time work in the Netherlands reflects personal preferences and to what extent it is involuntary. Nevertheless, on the basis of the findings of various surveys it would seem that, given present institutional conditions, part-time work indeed represents mostly a personal choice.

The other major characteristic of the Dutch labour market is the very high number of persons of working age without a job and on welfare. The number of persons in the early retirement schemes and in social assistance schemes (excluding those who are required to seek a job) has broadly levelled off in the past few years – at around 150 000 (in full-time equivalents) in both cases. The total number of persons in the unemployment schemes has declined somewhat, but it still amounted to nearly 600 000 in 1998: the number of registered unemployed (or job seekers) has indeed declined significantly, in line with the strength of the economy, but the number of benefit claimants over 57½ years of age who are not required to look for work and hence are not included in registered unemployment has remained broadly unchanged. Finally, the number of persons in the disability scheme, after declining for several years, has started rising again – to 760 000 in full-time equivalents in 1998. Hence, broad measures of under-utilisation of labour – such as "inactivity"[9] and "benefit recipients not in employment"[10] – point to a sizeable pool of unused labour (Figure 2, Panel D), even though, according to the Dutch authorities, the "dependency ratio"– *i.e.* the ratio of persons of working age on welfare to the total number of working persons (in full-time equivalents) – is low compared with other EU countries.[11] Ongoing reforms in the labour market and the social security system aim at tapping this pool of unused labour. However, due to a lack of qualifications and incentives to work, the reintegration of long-term unemployed and persons in the disability scheme is a difficult process (Chapter III).

Wages and prices

Reflecting a tight labour market, contractual wages and compensation per employee have accelerated somewhat – the latter to 3.8 per cent in 1999, compared with an EU average of 2.7 per cent. This acceleration has been broadly in line with the decline of the unemployment rate below the NAWRU as estimated by the OECD Secretariat (Figure 3). The somewhat surprising slow-down in the increase in contractual wages in the most recent period may have been due to the fact that when these contracts were negotiated the economy was widely expected to decelerate sharply in the wake of the international financial crisis – a miscalculation which may carry the risk of a catching-up process in the near future. CPI inflation has remained broadly stable (Figure 4). Since inflation has declined in most other European countries, Dutch inflation has somewhat exceeded the EU

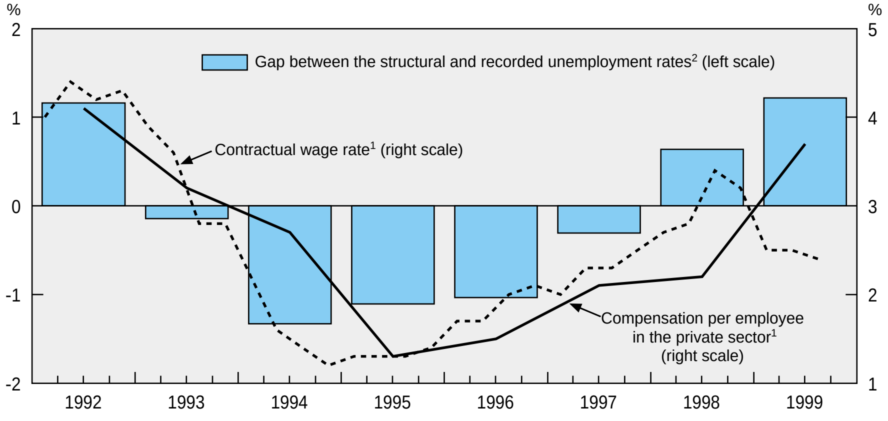
Figure 2. **Overview of the labour market**



1. Employment (including subsidised employment schemes) plus benefit recipients not in employment.
2. Employment (including subsidised employment schemes) plus registered unemployed persons seeking a job.
3. Difference between broad labour force and labour force *i.e.* benefit recipients who are not registered job seekers.
4. Includes western Germany to 1990, Germany from 1991 onwards.
5. Inactive people of working age receiving social security benefits.

Source: CPB Netherlands Bureau for Economic Policy Analysis, Ministry of Social Affairs and Employment; OECD, *Main Economic Indicators* and OECD Secretariat.

Figure 3. **Labour market conditions, contractual wages and compensation per employee**



1. Year on year percentage change.
2. Structural unemployment rate (or NAWRU), as estimated by the OECD Secretariat, less the recorded unemployment rate (national definition).

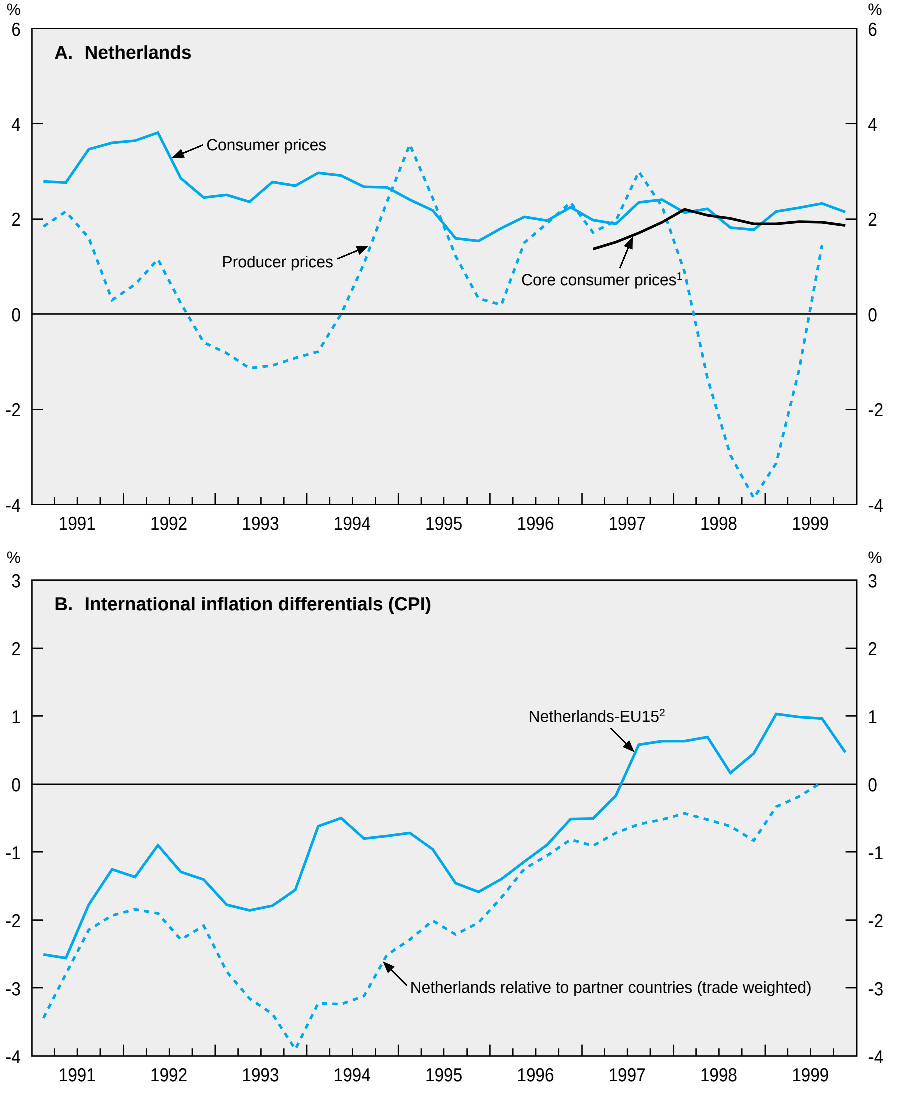
Source: Statistics Netherlands; OECD Secretariat.

average for a couple of years; nevertheless, it has remained slightly below the (trade weighted) average of all its trading partners. These inflationary developments, which may reflect pressures in the labour market, must be put in a proper perspective. Among the various factors which need to be considered for their assessment four seem especially relevant: *i)* within a common currency area, moderate inflation differentials can be seen as part of the normal adjustment process which rechannels demand pressures from one country to another according to relative conjunctural positions; *ii)* according to the Dutch authorities, about one percentage point of consumer price inflation in the Netherlands has been accounted for by policy factors, such as increases in excise taxes, local charges and rents; *iii)* recent inflationary developments represent a reversal of trends which prevailed from 1983 to 1997 when, due to wage moderation and the firm link of the guilder with the deutschemark, the Netherlands markedly improved its international competitive position and the current account surplus widened to 7½ per cent of GDP in 1997;[12] and *iv)* core inflation – defined by the Dutch authorities as excluding food, energy, and government levies and taxes – has been rather volatile on a month-to-month basis but declined slightly in 1999.

As is typical in a late stage of the business cycle, increases in productivity have slowed in the recent period. Combined with the acceleration in compensation per employee, this has resulted in significant increases in unit labour costs in

Figure 4. **Inflation developments**

Change from corresponding quarter of previous year



1. As defined by the Dutch authorities, *i.e.* consumer prices excluding food, energy, government levies and indirect taxes.
2. Netherlands-EU15 is HICP inflation in the Netherlands minus HICP inflation in the European Union, where HICP is the harmonised index of consumer prices.

Source: Statistics Netherlands; OECD, *Main Economic Indicators* and OECD Secretariat.

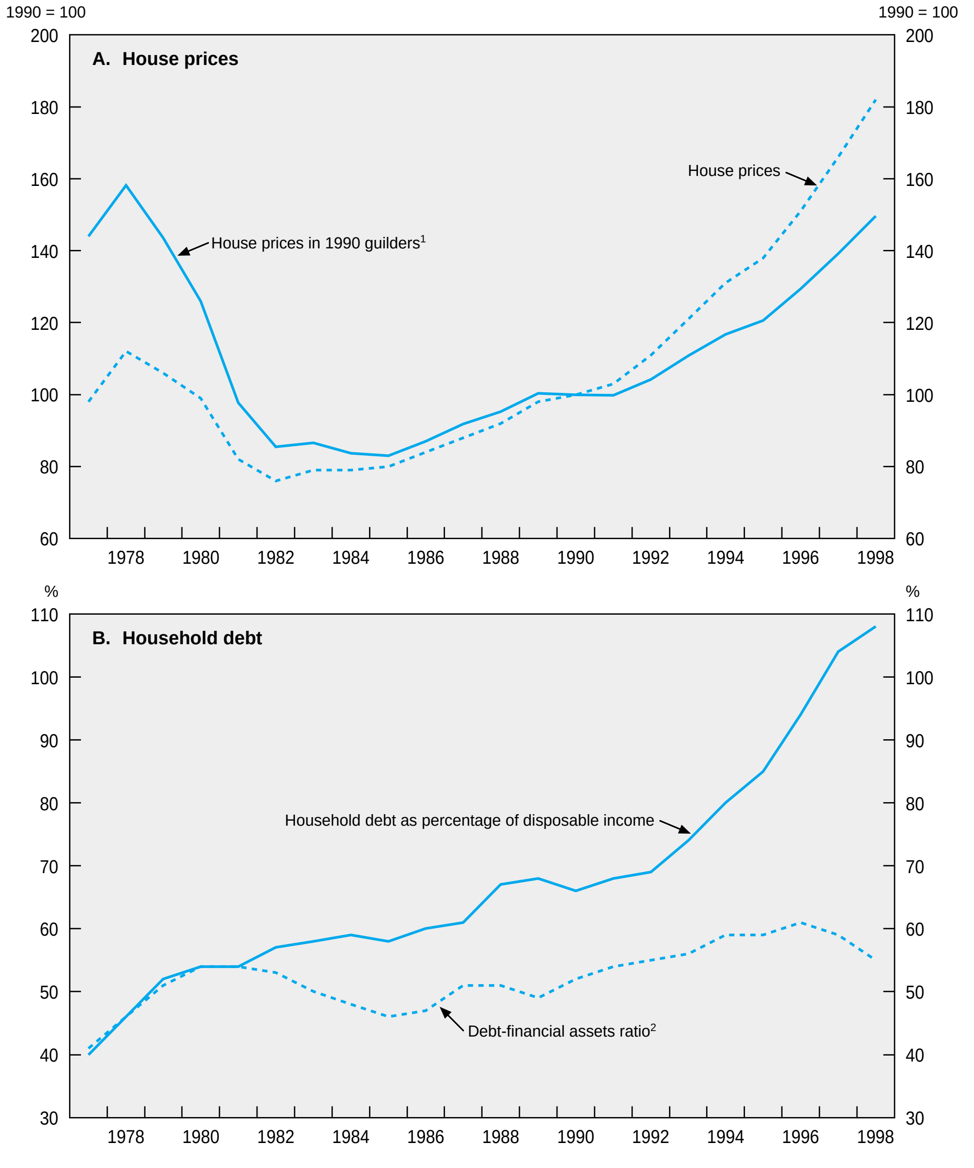
the business sector – 1.2 per cent in 1998 and 3.0 per cent in 1999, compared with a euro area average of –0.4 and 1.4 per cent, respectively. While in 1998 the increase in unit labour costs was still below the OECD average of 3.6 per cent, in 1999 it may have slightly exceeded it. More generally, recent developments in costs and prices have somewhat reduced the competitiveness of Dutch firms within the euro area, even though, given the depreciation of the euro in effective terms, their overall international competitive position has remained comfortable. The major factor accounting for the decline of the current account surplus to 5.5 per cent of GDP in 1998 and to an estimated 3½ per cent in 1999 has been the weakness of export markets: the market growth for Dutch manufactured merchandise exports fell from 8.5 per cent in 1997 to 4.5 per cent in 1999.

In contrast with the relative moderation of wages and prices of newly produced goods and services, financial and real asset prices have surged. Unlike in most other EU countries where, until recently, house prices had remained broadly stable or fallen, in the Netherlands, average sale prices for houses have nearly doubled since 1992; in real terms – *i.e.* allowing for CPI-inflation – house prices have risen by around 50 per cent and now exceed the previous peak reached at the end of the 1970s (Figure 5). Over the same period, in tandem with stock markets in most other OECD countries, the AEX index of Dutch blue-chip stocks has broadly quadrupled. Partly in response to these windfall gains, households have reduced their saving ratio to historically low levels, although this ratio remains higher than in many other OECD countries. The discretionary saving ratio – *i.e.* excluding net contributions (actual and imputed) to life insurance and pension schemes – has fallen to around 3 per cent of personal disposable income. Households have also taken out an unprecedented amount of second mortgages which, in addition of financing home improvements, have often been used for financial investment or the purchase of consumer durables. As a result, household mortgage debt as a percentage of personal disposable income has increased from 56 per cent in 1990 to 94 per cent in 1998 and household total debt has risen from less than 70 per cent to nearly 110 per cent of income. However, total debt has increased only marginally as a proportion of household financial assets (Figure 5), and the ratio of mortgage debt to the value of the collateral has diminished slightly. On balance, it would seem that these developments have made the household sector more vulnerable to a fall in house prices and to an increase in interest rates – even though Dutch mortgage contracts are generally at fixed rates.[13]

A comparison of two expansions

A comparison of the current expansion with the previous one in the late 1980s to early 1990s may provide some useful insights on how the economy may

Figure 5. **House prices and household debt**



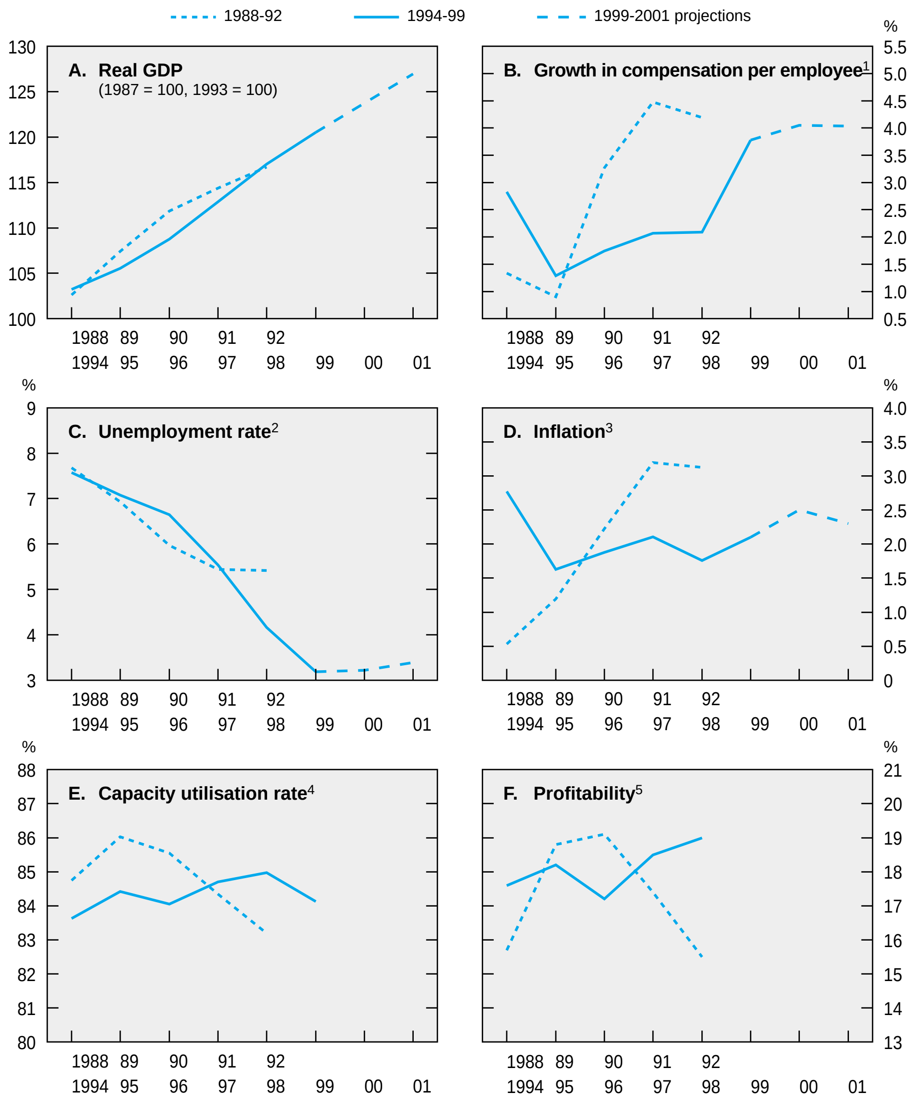
1. House prices deflated by the consumer price index.
2. Total household debt as a percentage of their holdings of financial assets.

Source: Kusters (1998), NVM (Netherlands Association of Estate Agents), Statistics Netherlands and OECD, *Main Economic Indicators*.

have changed as a result of, among other factors, wide-ranging structural and regulatory reforms. A first difference is that in the previous episode, growth was highly concentrated in the first few years, while in the current one it has been more spread out with private consumption playing a stronger role (Figure 6). External shocks have played an important role in both cases: but while the ERM crisis in the autumn of 1992 and the consequent appreciation of the guilder in effective terms largely contributed to the slowdown which followed, the recent crisis in emerging markets has been weathered much better by the Dutch economy, partly because of the concomitant boom in asset markets and the related wealth effects on consumption. In line with these developments, the decline in the unemployment rate was much more rapid at the beginning of the previous expansion (1988-90) than of the current one (1994-96); and the rate of capacity utilisation reached a peak already in 1989 – a peak which has not yet been matched in the more recent period. A second and more fundamental difference is that cost-price inflation, as measured by the wage rate, compensation per employee and the private consumption deflator, accelerated markedly and relatively early in the first episode, while in the current one its acceleration has been more progressive and contained. Also, unlike in the previous episode, profits have remained robust, an outcome which has, no doubt, contributed to buoying investment, keeping the capacity utilisation rate at healthy levels, and allowing the expansion to continue. In sum, the current upturn has been more spread out, and has had fewer tensions and imbalances. It has already lasted one year longer than the 1988-92 upturn, and seems likely to continue at least for another couple of years (see next section).

The difference in inflation in the two episodes seems too large to be satisfactorily explained by the difference in GDP growth and in the evolution of the unemployment rate. The unemployment rate is now a little over 3 per cent, compared with a trough of some 5½ per cent in 1991-92, and yet inflation is still below the level of those years. Several factors may have contributed to improve the unemployment/inflation trade-off. There has been a renewed commitment to wage moderation after a partial relapse in 1988-92. Comprehensive structural and regulatory reforms have been undertaken in virtually all sectors of the economy (Chapter III). The use of flexible labour contracts, especially in the services sector where the pressure of demand has been particularly strong, has continued to grow. Among other results, this shift may have made workers less secure and less demanding. And a boom in capacity expanding investment has contributed to avoiding major bottlenecks. These factors can be expected to have increased the non-inflationary potential rate of growth, but they have also made an assessment of the position of the economy in relation to its potential and the associated risks of overheating particularly difficult.

Figure 6. **Comparison of two business cycles**



1. Business sector.
2. National definition.
3. Private consumption deflator.
4. Manufacturing.
5. Share of capital in business GDP (excluding mining and housing).

Source: CPB Netherlands Bureau for Economic Policy Analysis, *Macro Economische Verkenning 2000*, OECD, *Main Economic Indicators* and OECD Secretariat.

Short-term prospects

The forces acting on the economy seem relatively balanced. Monetary conditions have been relatively easy for a few years. Since early 1999, long-term interest rates have rebounded but this may have been more than offset by the depreciation of the euro, in effective terms, since its introduction at the beginning of 1999. However, monetary conditions may tighten over the projection period, as interest rates are expected to rise at both the short and long-end of the market, in line with the continuing expansion in the euro area. A gradual increase in interest rates should contribute to an orderly cooling-off of the housing market and to the progressive fading out of its impact on private consumption. The fiscal stance is projected to remain broadly neutral: the 2000 Budget includes a decrease in both government expenditure and taxes as a percentage of GDP (Chapter II). The government has announced a comprehensive tax reform for 2001 which would imply a temporary easing of the fiscal stance. However, this reform has yet to be approved by Parliament and hence is not included in the projections. While wage-price developments in the Netherlands may progressively erode the international competitive position of Dutch firms, this position is rather comfortable at the moment and should continue to underpin foreign trade. Moreover, export market growth is projected to pick up vigorously, so that the external sector may become again an engine of growth, albeit a moderate one.

Real GDP growth is projected to slow moderately to around 2¾ per cent in 2000-01 (Table 3). With somewhat less rapid job creation and the fading out of wealth effects, private consumption should progressively lose buoyancy. Business fixed investment, while remaining at a very high level, may grow little, hampered by declining profit margins, a somewhat lower rate of capacity utilisation and rising interest rates. The contribution of the foreign balance to growth, which was negative in 1998-99, is expected to become moderately positive and partly to offset the deceleration in total domestic demand. Wages and compensation per employee could accelerate somewhat in 2000. With import prices rebounding, consumer price inflation is projected to edge-up and remain higher than in the EU area on average. After the decline in 1998-99, the current account surplus may increase again to 4 per cent of GDP in 2001.

A key domestic risk to this projection concerns wages and prices. As discussed above, it is particularly difficult to assess the degree of tightness of the labour market. Moreover, there are growing questions concerning the continuation of wage moderation, and commodity prices have rebounded sharply which, in addition to the mechanical effects included in the projections, may have a negative impact on the inflationary climate. Hence for wages and prices, the margin of error of the projections is rather large and the risk of overheating cannot be ruled out, especially if growth were somewhat stronger and wage moderation

Table 3. **Short-term projections**

	Estimates 1999	Projections 2000	Projections 2001[4]
	Percentage change		
Demand and output (volume)			
Private consumption	4.1	3.5	2.7
Government consumption	2.7	1.0	2.1
Gross fixed capital formation	2.6	2.0	2.6
Private sector non-residential	2.0	1.7	2.7
Private sector residential	0.8	1.8	2.2
Public sector	10.2	3.7	2.5
Final domestic demand	3.4	2.5	2.5
Change in stockbuilding[1]	0.0	0.1	0.0
Total domestic demand	3.4	2.6	2.5
Exports of goods and services	3.9	5.3	5.3
Imports of goods and services	4.7	5.5	5.4
Change in net exports[1]	–0.2	0.2	0.2
GDP at market prices	3.0	2.7	2.6
Inflation			
GDP deflator	2.1	2.4	2.5
Private consumption deflator	2.1	2.5	2.3
	Per cent		
Others			
General government balance (% of GDP)	–0.6	–0.2	–0.1
Unemployment rate[2]	3.2	3.2	3.4
Household non-contractual savings ratio[3]	3.2	2.9	3.9
Current account balance (% of GDP)	3.6	3.8	4.0
Short-term interest rates	2.9	3.3	4.3
Long-term interest rates	4.6	5.7	5.9

1. Contribution to GDP growth.
2. National definition (registered unemployment as percentage of labour force).
3. Excluding net contributions (actual or imputed) to life insurance and pension schemes.
4. The proposed 2001 Income Tax Reform is not included.

Source: OECD Secretariat.

less effective than expected. On the other hand, a major downward correction in house prices, perhaps combined with a sharp fall in stock prices, could have a significant impact on growth and the economy in general. The main upside external risk is that the strength of the recovery in the euro area might exceed expectations and add to inflationary tensions in the Netherlands. On the downside, a hard landing in the United States could have significant contagion offsets for Europe and, hence, for the Netherlands.

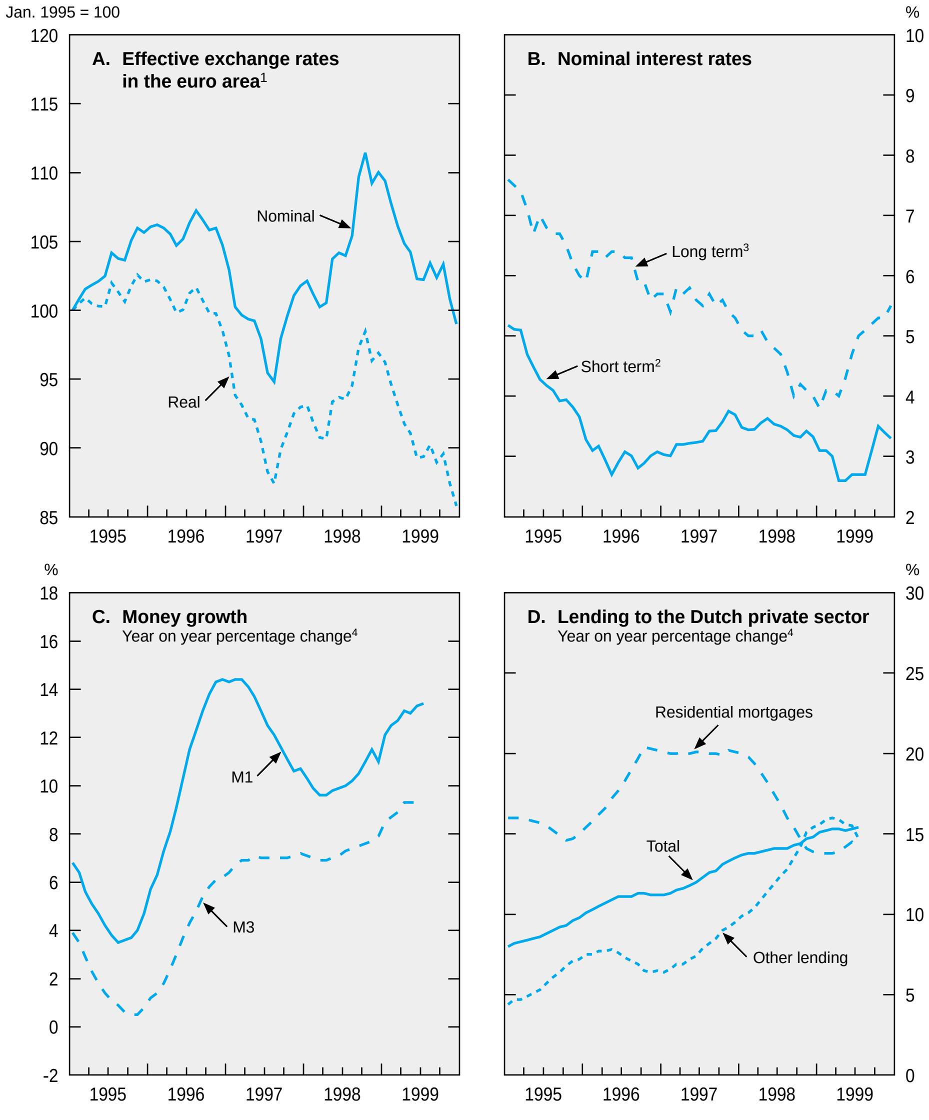
II. Macroeconomic policies

Monetary conditions

Since the start of European Economic and Monetary Union, monetary conditions are no longer under the exclusive control of the Dutch authorities, but are determined by the Eurosystem[14] and are attuned to the area as a whole. However, the loss of the monetary instrument has not been a significant policy change for the Netherlands since, in practice, an independent interest rate policy was not possible as a consequence of the overriding objective of the Dutch monetary authorities of maintaining a stable link between the guilder and the deutschemark. Indicators such as low interest rates and a depreciating euro currency show that monetary conditions in the euro area have been relatively easy (Figure 7). In April 1999, the governing council of the European Central Bank (ECB) eased monetary policy further by lowering the repo rate by 50 basis points, a decision induced by the prospects of weaker output growth and the favourable outlook for price stability. Although the decision was taken in line with the requirements for the euro area as a whole, tighter monetary conditions may have been more appropriate for countries that are more advanced in the cycle, such as the Netherlands. Some indicators, such as the strong expansion of the money supply, may have suggested that, even for the area as a whole, a less easy monetary stance was warranted. In November 1999, the ECB tightened the policy stance by reversing the April reduction in interest rates.

In the first half of 1999, M3 in the Netherlands was growing at about 10 per cent, well above the growth in the euro area (just above 5 per cent). The driving force behind this development was the strong credit expansion to the private sector, which is partly related to the developments in the housing market, where the decline in interest rates has stimulated the demand for real estate and mortgage lending, and boosted house prices.[15] Moreover, using the substantial capital gains on their homes as collateral, people have taken out second mortgages, which may have been used for consumption purposes or to buy financial assets. Corporate borrowing, which reacts with a lag to changes in interest rates has also been very buoyant. Nevertheless, according to the monetary authorities, the part of the credit expansion that cannot be attributed to macroeconomic

Figure 7. **Overview of monetary conditions**



1. For effective exchange rate indices, an increase indicates an appreciation.
2. 3 month AIBOR, 1995-98; 3 month EURIBOR, 1999.
3. Yield on 10 year Dutch government bonds.
4. Year on year percentage change of 12 month moving averages.

Source: OECD Secretariat; OECD, *Main Economic Indicators*; Bloomberg; Netherlands Bank and Statistics Netherlands.

developments has been exceptionally large. A possible explanation could be the high level of activity in mergers and acquisitions, which may have been partly financed by borrowing (De Nederlandsche Bank, 1999*a*). The narrow money measure M1 has also been growing relatively fast, reflecting favourable cyclical developments and low interest rates. Partly as a result of the rise in interest rates in 1999, the annual growth of credit to the private sector has decelerated strongly in recent months, to 13 per cent in October, after having peaked at 17 per cent at the beginning of the year. The money supply is difficult to control in a small open economy such as the Netherlands. Nevertheless, viewed from a long-term perspective, money growth has been a good indicator for inflation and periods of high and accelerating money growth have coincided with periods of high inflation (De Nederlandsche Bank, 1999*c*). However, this relation has considerably weakened due to the liberalisation of capital movements in the last decades, and it is of course very difficult to assess whether past relationships that applied in the Netherlands, still have significance in the new environment of a single currency.

Fiscal policy

Fiscal policy is set in a medium-term framework. Since 1994, it has been centred on an expenditure norm. By limiting the growth of real expenditure, the government is able to pursue fiscal consolidation and also reduce taxes and social security contributions, the so-called collective burden. The fiscal objectives are set in conjunction with a cautious growth scenario, but independent of actual cyclical conditions. In general, over-expenditure has to be strictly compensated by offsetting expenditure cuts elsewhere and lower-than-expected outlays can be used to compensate for overspending of other budgetary appropriations or new spending initiatives. Since 1998, the framework has been supplemented with clear rules for dealing with deviations from the projected revenue developments.[16] Depending on the size of the budget deficit, revenue shortfalls have to be compensated for 25 or 50 per cent by increasing the collective burden. On the other hand, higher-than-expected receipts from taxes and social security contributions will be split between reducing the deficit and reducing the collective burden. And given the conservative bias in the macro-economic assumptions, budget out-turns are more likely than not to turn out better than expected.

The 1998 Coalition Agreement sets out the fiscal policy stance for the period 1999-2002 (Table 4):

– Real government expenditure growth is to be limited to 1.5 per cent a year over this period, compared with only 0.3 per cent annual growth during 1995 to 1998.[17] Government spending as a share of GDP is still projected to fall by about 2 percentage points under cautious macro-economic assumptions.

Table 4. **Fiscal measures in the Coalition Agreement to 2002**[1]

Billion euros, 1998 prices

	Expenditure savings	Expenditure increases
Expenditure	**3.0**	**4.8**
of which:		
Public sector employment	0.4	0.1
Defence	0.2	..
Education	0.0	0.8
International co-operation	0.8	..
Employment policy	..	0.9
Reform social security	0.7	0.4
Health care	..	1.0

1. Cumulative savings and increments for the period 1999-2002, above baseline of existing policies.

Source: Okker and Huizinga (1998), Ministry of Finance, *Miljoenennota 1999.*

– Expenditure will be reduced through a reform of the administration of social security (Chapter III), and cuts in government employment, international transfers (including EU transfers) and defence spending. The reduction in EU transfers are to be achieved by focussing in the EU budget negotiations for 2000-06 (the so-called Agenda 2000 proposals) on a better control of EU expenses and preventing any further increase in the net contributions of the Netherlands.
– Expenditure will be increased for the health sector (pharmaceuticals and reductions in waiting lists, Chapter IV), education, police and the judiciary, and infrastructure. In addition, active employment programmes will be intensified by the creation of 20 000 additional low paid jobs in the public sector for long-term unemployed and a four-phase training and job placement scheme (the so-called comprehensive approach) (Chapter III).
– Taxes and social security contributions will be reduced by € 2 billion (0.6 per cent of GDP) for the period 1999-2002, mainly as part of a comprehensive income tax reform in 2001. The tax reform includes among other things a reduction of the tax burden on earned income, a widening of the basis of assessment and a shift from direct taxation to indirect taxation.

Assuming a cautious 2¼ per cent annual growth scenario as embodied in the coalition agreement, the Netherlands Bureau for Economic Policy Analysis (CPB) estimates that the general government deficit could come down to 1¼ per

Table 5. **Macroeconomic scenario of the Coalition Agreement 1999-2002**

	"Cautious" medium term scenario [1]	"Cautious" scenario incorporating the 1998 Coalition Agreement
	Average annual rate of growth	
GDP	2	2¼
Employment	¾	1
Compensation per employee, market sector	2¾	2¼
Consumer price index	1¾	1½
	Levels in 2002	
Unemployment rate (national definition)	4	3¼
Public sector deficit [2]	1	1¼
Gross debt [2]	67	65½
Taxes and social security contribution [2]	42½	41¼
General government expenditure [2]	48¾	47¾

1. Prepared by the CPB Netherlands Bureau for Economic Policy Research before the 1998 elections, assuming 2 per cent growth per year and no change in policies.
2. As a percentage of GDP.

Source: Okker and Huizinga (1998), Ministry of Finance, *Miljoenennota 1999.*

cent of GDP by 2002 (Table 5).[18] Moreover, employment could increase by 1 per cent, of which ¼ percentage point due to the coalition agreement, and the unemployment rate could come down by almost 1 percentage point. In the case of more favourable economic developments, the deficit reduction will be larger.

Fiscal consolidation is in compliance with the EU Stability and Growth Pact (Box 1), which requires sound fiscal policies as a supplement to the common monetary framework to create room for the operation of the automatic stabilisers. Recent estimates show that a structural deficit of 1 per cent of GDP would be sufficient for the actual deficit to remain below the 3 per cent threshold over a five-year horizon, without needing to make discretionary fiscal policy adjustments.[19] The European Commission and the Ecofin Council have concluded that the Dutch Stability programme, based on the 1998 Coalition Agreement, is broadly in line with the obligations of the Pact. However, both institutions have recommended that the Dutch authorities take all favourable opportunities to reinforce the safety margin aimed at preventing the deficit exceeding the Maastricht criterion of 3 per cent of GDP. In any case, these obligations should be seen as an absolute minimum: further fiscal consolidation could well be pursued to create room to manage the expected costs related to the ageing of the population. Moreover, since monetary policy is now in the hands of the Eurosystem, fiscal policy should play a more important role in stabilising the business cycle by

Box 1. The EU's Stability and Growth Pact

The Pact for Stability and Growth, finalised at the Amsterdam Summit in June 1997, consists of two Council regulations. One clarifies the Maastricht Treaty's provisions for an Excessive Deficit Procedure and the other strengthens the surveillance and co-ordination of economic policies. The Pact also calls on participants in the monetary union to commit themselves to aim at a medium-term budgetary balance or at a surplus.

Avoiding excessive government deficits (above 3 per cent of GDP) is considered essential for the success of Economic and Monetary Union. The Maastricht Treaty already included a procedure aimed at discouraging, and reducing when one occurs, excessive deficits. The 3 per cent reference value, however, can be exceeded if: *i)* the origin of the excess lies outside the normal range of situations (exceptionality); *ii)* the excess is limited in time (temporariness); and *iii)* the excess is small enough for the deficit to remain close to the 3 per cent reference value (closeness). These three conditions need to apply simultaneously. The Treaty, however, does specify a precise interpretation of these constraints.

The Stability and Growth Pact gives a more specific interpretation of exceptionality and temporariness. For countries participating in monetary union, the Pact considers a general government deficit above 3 per cent as excessive unless the country is in economic recession. A recession is defined as an annual fall in real output (GDP) of at least 0.75 per cent. Implementation of the Excessive Deficit Procedure depends on the severity of the economic decline. If economic output in a Member State declines by 2 per cent or more, and provided the deficit is temporary, exemption from the Excessive Deficit Procedure is granted. In the event GDP falls by between 0.75 per cent and 2 per cent, exemption can be granted in special circumstances by the Council of Ministers. The country would need to convince the Council that the economic decline was "exceptional" in terms of its abruptness or in relation to past output trends.

Failure to adhere to the Pact could result in the imposition of sanctions. Initially, these would take the form of non-remunerated deposits starting at 0.2 per cent of GDP and a variable component rising in line with the size of the excessive deficit. Such deposits are limited to a maximum of 0.5 per cent of GDP, but would accumulate each year until the excessive deficit is eliminated. Provided the excessive deficit is corrected within two years the deposits are returned to the country. Otherwise, the deposits could ultimately be converted into a fine.

offsetting monetary conditions not strictly in tune with the requirements of the Dutch situation. Hence it would be appropriate to use fully the degree of flexibility embodied in the budgetary framework.

Recent developments

The 1998 Budget outcomes were substantially better than projected, and the government deficit was 0.8 per cent of GDP, down from 1.2 per cent in 1997

(Table 6). This largely reflected favourable economic developments, resulting in substantially higher tax revenues and lower social security spending. Indeed, the underlying fiscal stance eased somewhat and the structural primary surplus is estimated to have edged down by 0.2 percentage points. Higher outlays on health care, particularly pharmaceuticals (Chapter IV), were almost completely offset by lower spending in the social security sector. In fact, government spending exceeded the expenditure norm of the 1994 Coalition Agreement by € 0.2 billion. The government also eased taxes and social security by € 2 billion, more or less evenly divided between households and enterprises. Nevertheless, government revenues were substantially higher than expected due to buoyancy in social security contributions and business taxes. However, income taxes were less than initially projected, reflecting the substantial increase in mortgage interest relief, related to developments in the housing market (Chapter I).

The 1999 Budget projected a government deficit of around 1¼ per cent of GDP which would imply a broadly neutral fiscal stance, given the expected slowdown of the economy. Government expenditure was estimated to grow more or less in line with GDP, as a package of new policy measures for education, infrastructure and health care (€ 1.3 billion) largely outweighed expenditure cuts elsewhere (€ 0.7 billion). Infrastructure spending was projected to rise sharply, reflecting the construction of the freight railway between Rotterdam and Germany (the so-called Betuwe-line). The tax burden continued to be shifted from direct taxes to indirect taxes, including a "greening" of the tax base. Reduced income taxes and corporate taxes would offset an increase in environmental taxes that added around ½ percentage point to consumer price inflation. Health insurance contributions were increased sharply following surging costs in the health care sector. Employers' social security contributions were projected to rise on average by 0.4 per cent of gross wages. The increase in employees' contributions was largely offset by the abolition of the co-payments in the basic public health insurance (Chapter IV). The reduction in employers' social security contributions for low-wage earners (SPAK) was further increased to stimulate their employment chances. Other employment stimulating measures included the creation of 5 000 low-paid jobs in the public sector for long-term unemployed and reduced tax burdens for low-income earners.

Budget outcomes are likely to have been better than projected, largely because of stronger than anticipated economic growth. In the 2000 Budget Memorandum, the general government deficit was estimated to decline to ½ per cent of GDP in 1999. However, more recent data indicates that the deficit may have come down to close to zero or even turned into a small surplus. Outlays are expected to be at least € ¾ billion below the expenditure ceiling, mainly reflecting lower unemployment benefits and lower interest payments, although expenditure is expected to be substantially higher for pharmaceuticals, asylum seekers and compensation for water damage. Tax receipts are expected to be some

Table 6. **Appropriation account for general government**

Percentage of GDP

	Average 1990-1994	1995	1996	1997	1998	1999[1]	2000[2]	2001[2, 5]
Current receipts	41.1	39.2	39.5	39.4	39.1	39.8	39.6	39.4
Total direct taxes	15.1	12.4	12.9	12.4	12.2	12.0	11.6	11.4
on households	11.7	9.1	8.8	7.8	7.6	7.6	7.5	7.5
on business	3.2	3.2	4.0	4.4	4.4	4.2	3.9	3.8
Social security contributions	15.4	16.0	15.5	15.5	15.3	15.9	15.8	15.9
Indirect taxes	10.6	10.7	11.2	11.4	11.6	12.0	12.1	12.0
Current disbursements	46.0	43.0	41.6	40.7	39.9	39.8	39.1	38.6
Government consumption	24.4	24.0	23.1	22.9	23.0	23.2	23.0	23.0
wages and salaries	10.9	10.8	10.4	10.2	10.2	10.2	10.2	10.1
non-wage expenditure	13.5	13.3	12.7	12.7	12.8	13.0	12.8	12.9
Subsidies	1.7	1.1	1.2	1.5	1.5	1.5	1.4	1.3
Interest payments (net)	2.7	3.0	2.9	2.6	2.8	2.7	2.3	2.1
Current transfers (net)	17.1	14.9	14.4	13.6	12.6	12.5	12.4	12.2
Net capital outlays	–0.6	0.3	–0.3	–0.2	0.0	0.6	0.7	0.9
of which: gross investment	2.6	2.4	2.4	2.4	2.2	2.8	2.8	2.8
Net lending	–4.2	–4.2	–1.8	–1.2	–0.8	–0.6	–0.2	–0.1
Memorandum items:								
Net primary balance	0.1	0.6	2.9	3.2	3.4	3.3	3.3	3.1
Cyclically-adjusted net primary balance[3]	–0.2	0.8	2.9	2.6	2.4	2.3	2.5	2.4
Cyclically-adjusted net lending[3]	–4.6	–3.9	–1.8	–1.8	–1.8	–1.7	–1.1	–0.9
Gross debt[4]	79.4	77.9	76.1	70.8	67.5	65.4	63.1	60.8

1. Partly estimated.
2. Projections.
3. As percentage of potential GDP.
4. General government gross public debt (Maastricht definition).
5. The proposed 2001 Income Tax Reform is not included.

Source: OECD Secretariat.

€ 2¾ billion higher than projected in the 1999 Budget, largely related to the buoyancy of private consumption (VAT and car sales tax), larger than expected employment growth (payroll tax) and higher dividend taxes.

The 2000 Budget

The emphasis in the 2000 Budget is again on improving the social and economic resilience of the Netherlands by improving infrastructure, education and the functioning of the labour market. Expenditure on infrastructure is projected to grow by almost 6 per cent in real terms, as construction starts on the high-speed rail link with Belgium (HSL-South). Measures to enhance the quality of and access to education include smaller class sizes, reducing dropout rates and increasing the number of computers in schools. Furthermore, contributions to the EU – increasingly linked to Gross National Income – will increase substantially due to the relatively high growth in the Netherlands.[20] As a result of the EU budget negotiations for 2000-01 (at the Berlin summit), Dutch transfers to the EU will decline, although the saving will be fully effective only in 2001, and in 2000 the saving will be less than foreseen in the coalition agreement. Because the Netherlands is one of the few countries that respects the UN commitment to a 0.7 per cent GDP target for development assistance expenditure, the upward revision of the National Accounts should lead to additional resources for development aid, which will be used for humanitarian aid to Kosovo. Nonetheless, government expenditure is projected to be € 0.4 billion lower than the expenditure norm from the coalition agreement, largely due to the favourable development of unemployment.

Active employment measures will be increased with the creation of 5 000 low-paid jobs in the public sector for long-term unemployed and an expansion of the number of reintegration routes for unemployed, as part of the four-phase programme (Chapter III). Strengthening incentives to look for work is an important instrument to improve the functioning of the labour market. Hence, the government has decided to increase further the employed person's tax allowance (*arbeidskostenforfait*). In accordance with the "windfall" formula, part of the higher-than-expected budgetary receipts in 2000 will be use to reduce income taxes by € 0.5 billion. This decrease will largely offset the increase in income taxes due to the replacement of the television licence fee by public funding in 2000. Moreover, VAT rates on labour-intensive services[21] will be reduced from 17.5 per cent to 6 per cent.

The general government deficit is projected to fall to ¼ per cent of GDP and the GDP-debt ratio could come down to slightly above 60 per cent. The fiscal stance is broadly neutral, with the cyclically adjusted primary surplus remaining around 2½ per cent of GDP. The structural deficit comes down to 1 per cent of GDP, consistent with the requirements of the Stability and Growth Pact. On the basis of unchanged policies, the general government budget is projected to remain close to balance in 2001. However, the government has announced a comprehensive tax reform in 2001, implying an easing of the fiscal stance by slightly over ½ percentage point of GDP.

To improve the transparency and the marketability of the national debt, the government has started to restructure government debt, by giving investors the opportunity to exchange selected government loan issues for larger, more liquid issues. Furthermore, the annual capital market borrowing of about € 25 billion will be spread over only two or three issues, each comprising several tranches. This policy will lead to a further reduction in the number of issues from 33 by the end of 1999, to 27 in the year 2000.

The 2001 Income Tax Reform

Background

The present taxation system in the Netherlands suffers from several shortcomings and the need to address these has led to a comprehensive set of proposed reforms. Since the last income tax reform in 1990, the income tax base has been steadily eroded and, by 1998, the standard tax allowance had almost doubled. This increase reflected a policy of maintaining purchasing power for minimum wage earners and benefit receivers during a period when increases in their wages and benefits were lagging behind rises in consumer prices, as well as adjusting tax brackets for inflation. As a result, 11.5 per cent of income earners did not pay income taxes in 1998, compared with 9 per cent in 1990. The tax base has also been narrowed by the increase in deductions for life annuity premiums (€ 2.5 billion) and the deduction of mortgage interest payments (€ 13 billion).[22] The erosion of the tax base has required a higher tax burden for income earners over a wide range. The marginal tax rate for a single person rises quickly from 35.75 per cent at the minimum level to 50 per cent for the average production worker and this could have encouraged people to trade work for leisure by seeking part-time employment. The increase in tax allowances may have also contributed to the large number of part-time jobs with remuneration just below the threshold for the income tax. In particular, partners of high-wage earners face high effective marginal tax rates in accepting longer hours or a more highly paid job, as the household would lose the tax allowance for single-income households. Moreover, as noted in the 1996 *Survey*, the combination of high marginal tax rates and means-tested benefits discourages those receiving benefits (and their partners) from seeking paid employment. To redress the incentive balance, the authorities have steadily increased the employed person's allowance.[23] However, while the allowance was meant to compensate for the costs associated with working, it now bears little relationship to the actual costs incurred. The 1996 *Survey* also noted that effective tax rates on different forms of savings varied widely.

For example, the deductibility of pension contributions and occupational saving schemes make these forms of saving very attractive relative to other types of saving.

The reform proposals

In the 1998 Coalition Agreement, the government agreed on an outline of the tax reform plans, and draft legislation was submitted to Parliament in September 1999. By creating a robust tax system, with a broader basis of assessment and lower tax rates, the reform aims at strengthening work incentives, and promoting environmentally sustainable development. The tax reform is partly financed by removing or limiting some of the existing tax deductions, replacing allowances and deductions by tax credits, and increasing indirect taxes such as VAT and environmental levies (Table 7). In addition, the overall tax burden will be reduced by € 2.3 billion.

Table 7. **Financing of the proposed 2001 Income Tax Reform**

Billion euros

Resources		Uses	
Limiting tax deductions	4.4	Reducing tax rates	7.0
Increasing VAT rate	2.0	Earned income tax credit	3.6
Increasing environmental levies	1.7		
Tax on imputed income from wealth	0.2		
Reducing tax burden	2.3		
Total	**10.6**		**10.6**

Source: Ministry of Finance.

The key elements of the proposed tax reforms are the following:

– the "box" approach to taxable incomes, whereby income will be classified into one of three boxes depending on how the income was generated. The new system differentiates between income from labour (including home-ownership), income from a substantial business interest and imputed income from wealth, and taxes each box at a different rate (see Box 2);
– broadening the tax base by eliminating some tax deductions such as for interest payment on private loans, and narrowing deductions for occupational saving and life insurance schemes. These measures would boost revenues by about € 1.1 billion, and could be used to reduce

Box 2. Overview of the proposed 2001 Income Tax Reform

One of the main changes of the tax reform is the so-called "Box" system. Each type of income falls in one of the three boxes, with its own tax rate and deductions. It is not possible to offset the negative income in one of the boxes against a positive income in another box. However, negative amounts can be offset against a positive income in the same box in past or future years.

The proposed tax system has three taxable incomes:

Box I. Taxable income from work, including self-employment, and home ownership

– Taxable income comprises wages, salaries, pensions, social security benefits, and gains from self-employment and other activities. In addition, homeowners have to add the imputed income from the principal residence (*i.e.* the rental value) minus mortgage interest payments, to their taxable income.
– The basic tax allowances are replaced by tax credits *(heffingskorting)*. In addition to the standard tax credit (€3 321 for each person), employed and self-employed persons receive an earned tax credit to a maximum of €697. Additional tax credits also exist for elderly persons (€44 up to a maximum of €412 depending on income) and single parents (€1 206, and up to €2 412 for those working).
– Income is taxed according to a progressive tax schedule, with marginal tax rates rising from 32.9 per cent to 52 per cent. The tax in the first income tax bracket consists largely of contributions to the general social insurance schemes.
– 97 per cent of taxable income is currently derived from work or home-ownership and will be taxed in this tax box.

Box II. Taxable income from "a substantial (business) interest" (at least 5 per cent shareholding)

– Income from "a substantial business interest" is taxable, subject to deductions for allowable losses arising from this interest, at a proportional tax rate of 30 per cent.

Box III. Imputed income from wealth

– Wealth consists of real estate (excluding the principal residence), stocks, savings deposits, and non-exempt endowment insurance. The existing exemptions for employee saving schemes and premium saving schemes are maintained. However, the maximum combined amount of saving and the non-taxable premiums will be lowered. There is a tax-free capital allowance of €17 000.
– The imputed income – fixed at 4 per cent of wealth per annum – is taxed at 30 per cent. The actual yield on net assets is tax exempt.

overall tax rates. With respect to the tax treatment of the principal residence, the imputed rent (after deduction of expenses such as mortgage interest payments) continues to be fully taxed. This tax regime for homeowners should be assessed in the Dutch context characterised by a tradition of rent subsidies and strong social preferences (for instance, homeownership is perceived as enhancing the social climate);

– tax allowances will be replaced by tax credits (*heffingskortingen*). The standard tax allowances will be replaced by a single tax credit, independent of the taxpayer's personal circumstances. Non-working partners are also entitled to this credit, thereby removing the fiscal disincentives for them to enter the labour market. The employed person's allowance will be replaced by an earned income tax credit (EITC) or employment rebate (*arbeidskorting*).[24] The aim is to increase incentives for people to look for work, by reducing the replacement rate for low-skilled workers. The proposed Dutch EITC has a flat rate of € 697 above the statutory minimum wage, which is not phased out as earnings rise, thus minimising the impact of high marginal effective tax rates;
– the first tax bracket will be split while the top marginal tax rate will be reduced from 60 per cent to 52 per cent.[25] As a result, the top rate in the Netherlands (52 per cent) will be substantially lower than in most neighbouring countries, such as Belgium (65 per cent), France (61 per cent), and Germany (56 per cent), though still higher than in the United Kingdom (40 per cent). However, this change is in line with the trend to lower top rates: the top rate in Spain was recently lowered to 48 per cent and Germany is also planning to reduce its top rate to 45 per cent (excluding the solidarity surcharge). Nevertheless, the level of income at which the top rate starts to apply remains rather low compared with these countries;[26]
– indirect taxes will be raised, with an increase in the standard rate of VAT (from 17.5 per cent to 19 per cent) and higher environmental levies. This could yield another € 3.4 billion, which can be used to finance income tax rate reduction;
– the wealth tax and the tax on investment income will be replaced by a tax on the imputed income from wealth. All net financial and real assets will be assessed together and a 30 per cent tax rate applied on an assumed 4 per cent yield.[27]

The tax on the (imputed) income from wealth

The most fundamental change in the tax proposals is the move from a combination of the taxation of actual income from wealth (according to the progressive schedule of the income tax) and net wealth (according to a flat rate) to a tax on the imputed yield (legally fixed at 4 per cent) according to a flat tax rate (30 per cent). The advantage is that, by being neutral between different types of savings and investment, it eliminates forms of tax arbitrage that target the generation of capital gains, which are currently untaxed. The removal of such distortions in allocating savings could enhance the dynamics of the capital market and make more risk-bearing capital available, thereby stimulating investment in R&D.

As the new system would be neutral between dividends and retained earnings, it could result in significant changes in dividend policies. Listed enterprises with many Dutch shareholders may increase their dividends and finance new investment by either more loan financing or issuing new shares instead of retained earnings. To prevent drastic changes in dividend policies, the government envisages a surtax until 2005 on excessive dividends, *i.e.* not corresponding with earlier dividend policies. Moreover, by increasing the after-tax yield for most private investors, it could also increase the yield requirements on other investment possibilities, such as pension saving.

The equal treatment of different types of assets at the shareholders' level increases the relative tax discrimination of own funds *vis-à-vis* loan capital, as the tax disadvantage of own capital at the company level is no longer compensated by a tax advantage at the shareholders' level (the untaxed capital gains). This could result in an increase in yield requirements on shares and changes in investment portfolios, whereby taxpayers may reduce their shareholdings in favour of holding bonds.[28] As a result, companies could become more dependent on loan funds or a larger part of their shares may end up in the hands of institutional or foreign investors.[29]

Although the proposed reform, in particular the introduction of a separate taxation of (immobile) labour and (mobile) capital, is a step in the right direction, it has some elements which might be reconsidered in the future. Firstly, taxing imputed instead of actual income from wealth may not fully take into account the taxpayer's financial capacity. However, the proposed system is an improvement on the existing system, in which tax arrangements exist whereby taxable income such as interest and dividends can be "converted" into non-taxable capital gains. Nevertheless, a capital gains tax could, at least in principle, take better account of the taxpayer's financial capacity – as was recently recommended by the *Vereniging voor Belastingwetenschap* (Association of Fiscal Science). Drawbacks of a capital gains tax are the relatively volatile tax base and the possibility of tax planning, whereby deductible capital losses are taken as early as possible and spread over many years, whereas the realisation of capital gains are postponed. Moreover, a capital gains tax is more complicated, especially with respect to implementation and administration, as opposed to the simplicity of the proposed tax on imputed capital income. Hence, the Dutch authorities believe that a capital gains tax provides little prospect of improving capital income taxation. Secondly, tax arbitrage will still remain possible in the proposed system by so-called "box hopping". The tax on the imputed income from wealth (Box III) can be easily exchanged for the tax on a substantial interest (Box II) by transferring assets to a limited company. Although the tax rates in these two boxes are equal, the tax in Box II is on the actual income stream, while tax in Box III is on an imputed income. Investors could minimise their tax liabilities by taking the losses in Box II and their profits in Box III. Furthermore, it still remains possible for first-time home buyers to take out a 100 per cent mortgage, while leaving their other assets in the capital market where they are only subject to the imputed revenue regime. Nevertheless, the authorities are confident that the proposed tax regime has less loopholes than the existing one, by virtue of a complicated set of rules to avoid some forms of arbitrage. Finally, entrepreneurs (and large shareholders) are relatively heavily taxed compared with the small investor, which could be a disincentive for entrepreneurship and investing in one's own company. However, the effective rate for entrepreneurs is reduced by a number of (already existing) measures in the fiscal infrastructure. Moreover, the authorities are proposing to reduce the corporate tax rate for small profits from 35 per cent to 30 per cent for the first € 22 689 of profits.

With the introduction of a tax on the imputed yield on net wealth, the Dutch tax system has taken a clearly different route from most other OECD countries, where actual returns are normally taxed. Given that under the present income tax system some items are already taxed on an imputed return, the authorities do not expect that the new regime will cause any problems with respect to bilateral double taxation treaties.[30] The proposed system also does not seem to correspond with those currently under discussion for an EU wide tax on income from investment. However, the authorities are confident that the system can be easily adapted once agreement has been reached in the EU by making the EU withholding tax deductible from the tax on capital income. Such deductions already exist for the Dutch withholding tax on dividends.

Taxation of owner-occupied housing

In the Dutch tax system the owner-occupier is fully taxed on the imputed rents (*huurwaardeforfait*) after deduction of expenses, such as mortgage interest. However, in practice, imputed rents – in most cases 1.25 per cent of the property's value – are well below market rents, whereas interest deductions are allowed at the actual rates, thus providing homeowners with a substantial benefit.[31] As a result, in 1998, homeowners deducted around € 13 billion from their taxable income for mortgage interest, reducing their tax liabilities by about € 6.5 billion, whereas they paid only around € 2 billion in taxes on their imputed rent.

In the present tax proposals, the favourable regime for homeowners is hardly changed since (imputed) income from the principal residence remains taxed according to a progressive schedule as income from labour. Moreover financial assets built up through endowment mortgages will remain untaxed, whereas other real and financial assets are taxed on their imputed income.[32] However, the government will limit the possibilities of tax arbitrage between income from home-ownership and returns on other assets by excluding second mortgages, which are not used for house alterations, from interest deduction.

Secondary homes will no longer be eligible for mortgage interest relief either, and taxed on their imputed income (4 per cent of the property's value taxed at 30 per cent). In addition, the effective value of the interest deduction will diminish as a result of lower marginal tax rates. The favourable treatment granted to homeowners raises equity concerns because relatively well-off taxpayers benefit most from it. It also reduces economic efficiency by giving investors an incentive to invest in owner-occupied property at the expense of other assets. The reform could have gone further by reducing subsidies and taxes in a wider range. But in this respect, as noted above, the advantages for homeowners should be assessed in the light of rent subsidies and social and efficiency consideration.

The macroeconomic impact of the tax reform

The impact of the tax reform proposals on outcomes comes primarily from the overall cut in taxes, rather than from the shifts among taxes. Model simulations of the *ex ante* neutral tax shifts embodied in the reforms show that the long-run macroeconomic effects are limited; production and employment are expected to remain virtually unchanged (Table 8, column 1).[33] Labour supply could increase slightly due to the lowering of marginal tax rates but as the replacement rate (*i.e.* the ratio between unemployment benefits and wages) rises, unemployment could increase.[34] The impact on production and the labour market could improve in a variant where standard tax allowances are replaced by the general tax credit, due to improved incentives to enter the labour market (Table 8, column 2). The impact of a budget neutral tax exchange of the employed person's allowance for an EITC is very small as the replacement rates hardly change.[35] However, the EITC – being a flat rate for all employees – is a cheaper instrument for reducing the replacement rate than an allowance. In the tax reform proposals introduced by the government, the € 2.3 billion tax reduction is used for increasing the EITC and lowering tax rates, thereby strengthening incentives to look for work or increase the work effort. In the long run, the share of part-time work could diminish and employment (in full-time equivalents) is expected to increase by 1½ per cent (compared with a 1 per cent increase in persons employed), particularly at the lower end of the wage scale (Table 8, column 3). With the gap widening between minimum wage earners and minimum social benefit receivers, the (long-run) unemployment rate is projected to fall by ½ percentage point. With employment creation concentrated at the lower end of the wage scale, average wages per employee could come down by 1½ per cent, despite a rise in consumer prices of 1¼ per cent following an increase in indirect taxes.

The tax reform should generate a substantial improvement in disposable income for all taxpayers, largely due to overall tax cuts. In general single workers – in particular those close to the statutory minimum wage – and two-income households would benefit most. For a single worker on the statutory minimum wage, real disposable income is expected to increase by 6¾ per cent, compared

Table 8. **Long-term impact of the proposed 2001 Income Tax Reform on the labour market**[1]

Percentage change from base

	Basic package[2]	Replace tax allowance by general tax credit[3]	Proposed 2001 Income Tax Reform[4]
Production	0.0	1/4-1/2	1 3/4
Employment	0.0	1/4-1/2	1 1/2
of which: low-skilled	0.0	1/4	2 1/4
Labour supply			
persons	0.0	3/4	1/2
hours	1/4	1/2	3/4
Unemployment rate	1/4	1/4	–1/2
of which: low-skilled	1/4	1/4	–3/4
Ex-ante partial purchasing power effects[5]			
minimum wage earner	0.6	0.6	6 3/4
average production worker	1.1	1.1	4 1/4
high wage earner[6]	1.6	3.9	5
social minimum	0.9	0.9	3 1/2

1. Based on simulations by the CPB Netherlands Bureau for Economic Policy Analysis with the MIMIC model.
2. Narrowing tax deductions by euro 1 billion, increasing indirect taxes and environmental levies by euro 3.4 billion, lowering tax rates by 2.25 percentage points, 1.6 percentage points and 1.8 percentage points and increasing basic tax allowance by euro 363.
3. The tax credit amount is euro 1 457. The upper bound of the first bracket is increased by euro 2 269. The tax rates of the second and third tax brackets are lowered by 4.5 and 2.0 percentage points respectively.
4. Tax proposals dated November 1999.
5. Excluding the effects of eliminating some tax deductions and the introduction of a tax on the imputed income from wealth.
6. Person earning twice the wage of an average production worker.

Source: Ministry of Finance, CPB Netherlands Bureau for Economic Policy Analysis (1999).

with 3½ per cent for a single person receiving the minimum benefit. However, these projected trends in spending power do not take into account the dynamics in the labour market, and could be even misleading in judging the redistributive impacts of the reform. The benefits from the tax reform for people currently on welfare or non-working partners in sole-income households could be substantially higher if – as a result of this reform – they move into the active labour market.

III. Progress in structural reform

The good performance of the Dutch economy since the early 1990s has certainly benefited substantially from persistent and wide-ranging efforts at structural reform. Reforms in the labour market, social security sector and product and financial markets have interacted with other factors – such as appropriate macroeconomic policies and wage moderation – allowing output growth and job creation to exceed the EU averages without major inflationary pressures (see Chapter I). In many respects, the Netherlands can be seen as a leader in structural reform within continental Europe. Indeed, a recent OECD report on regulatory reform has commended the Netherlands on its efforts and commitments in this area.[36] While the process is slow, regulatory reforms are changing the supply side of the Dutch economy. The country is on track towards the creation of a more open, competitive, and market-based economy, backed up by strong social safety nets. And Dutch firms, toughened by strong domestic and international competition, are increasingly well positioned to benefit from European integration and to adapt to changing economic conditions.[37]

However, as the analysis in the 1996 *Survey* stressed, the emergence and persistence of unemployment in various forms has been a major challenge and reflects a variety of complex and often interacting factors. In response, the *Survey* called for a wide-ranging, multi-annual programme of action, centred on the labour market, the social security system and the tax system, but covering virtually the whole economy, to make it more competitive, dynamic and responsive to change. Such a ''package deal'' was also desirable to exploit synergies resulting from the mutually-reinforcing character of most of the specific measures suggested; to soften the human and equity impact of some liberalisation measures; and to preserve social consensus and cohesion which, by giving explicit attention to equity issues, has served the Dutch economy well. Among the many specific suggestions, the 1996 *Survey* stressed the need to:

- make the wage formation system more flexible and correspond more to skill differentials;
- tighten further the welfare system which remained among the most generous in the OECD area, with strong disincentives to active job search on the part of inactive persons on welfare;

– step up active labour market policies and improve co-operation among the institutions in charge of implementing social security law; and
– introduce institutional and tax reforms in order to enhance the supply of risk capital and support the commercialisation of private research.

The 1998 *Survey* assessed developments in these areas over the 1996-97 period and presented a new set of recommendations. It noted that structural reform had "progressed at a slow but sustained pace, in line with the Dutch consensus approach". In the labour market, the authorities had chosen to reduce non-wage labour costs through subsidies to employers in the form of a permanent tax relief for firms hiring low-wage workers and temporary tax reductions for firms hiring long-term unemployed. Moreover, in view of the concentration of unemployment among low-skilled workers, the authorities had moved forcefully towards the creation of subsidised jobs for the long-term unemployed, mostly in the form of permanent jobs in the public sector. In the social security system, the re-examination of disabled persons initially exceeded expectations. But the results became less impressive as the process concentrated increasingly on older persons, pointing to the need for further corrective measures. More generally, the continuing problem of the small outflow from social security schemes had to remain the focus of policy attention. On the positive side, the privatisation of the sick-leave scheme had substantially reduced sickness-related absenteeism.

The main goals, motivation and underlying philosophy of structural reform have not changed over the 1998-99 period. But as it matures, the reform process has continued its progressive evolution: healthy public finances, a more cost-effective social security system, and wage moderation supported by tax relief have been long established notions, and in the 1990s, a more flexible labour market, deregulation and competition policy have been added. The Dutch authorities feel that all these elements have become an integral part of economic policy with strong public and political support. However, the urgency of implementing comprehensive reforms, which was broadly felt in the years following the "Dutch disease" of the 1970s and early 1980s, may have waned considerably as a result of a long period of good economic performance. In this environment, the Dutch "consensus approach" ultimately makes significant changes possible with a minimum of disruption, by avoiding confrontation and preserving social cohesion, but may result in an especially long time span between the time when recommendations are formulated by the government and their actual implementation. Furthermore, with the economy performing relatively well, there is also the risk of complacency with difficult decisions being delayed until such time as problems become more serious and finally provoke action.

The rest of this chapter considers progress in structural reform over the past couple of years and identifies remaining problems and needed initiatives. The discussion is organised under the headings of the labour market, the social security system, product markets and financial markets, followed by a section on assessment and scope for further action. (The income tax reform is considered in Chapter II, while the health care system is discussed in detail in Chapter IV.)

The labour market

In the labour market, the overall aim of the authorities has long been to provide sustainable non-inflationary economic growth and thereby create sufficient jobs, both to absorb the large number of prospective new entrants into the labour market and, along with other measures, to reduce the level of inactivity. More specifically, the top priority of the current coalition government is to prevent people from becoming long-term unemployed and enhance the outflow from the various social security schemes. Both the authorities and the social partners are especially concerned with the employment prospects of low productivity workers.

Increasing wage and labour cost flexibility

The OECD has repeatedly stressed the importance of increased wage flexibility. For social and political reasons, the Dutch authorities have continued to centre their efforts on reducing non-wage labour costs through cuts in employers' social security contributions (or payroll subsidies) for low-paid workers (SPAK). Complementary measures have included the lowering of wage scales in collective labour agreements and the introduction of "opening clauses" (see previous *Survey*).

SPAK was introduced at the beginning of 1996 and was targeted at workers with wages up to 115 per cent of the legal minimum wage (defined as a wage for full-time workers, rather than as a wage per hour).[38] At the beginning of 1997 the transitional SPAK (t-SPAK) was introduced. This was designed to cushion the increase in the tax burden of employers who start paying a worker between 115 and 130 per cent of the legal minimum wage, by allowing employers to claim half of the SPAK for a maximum of two years. The Dutch authorities consider this approach to offer the following advantages:

- it is simple, with no significant administrative costs;
- it is a structural measure, likely to have stronger effects on employment than temporary measures;
- it is cost effective – compared with general tax relief schemes – since it is targeted at low-wage workers;
- it is non-discriminatory, since it applies to every eligible worker and firm;
- it does not raise difficult socio-political issues since it affects neither the statutory minimum wage nor minimum social benefits.

Table 9. **The reduction in labour costs due to SPAK**[1]

Case of full-time adult workers earning the legal minimum wage, 1999

euros

	Without SPAK	With SPAK
Workers' net income	10 177	10 177
Employees' wedge	3 745	3 745
Workers' gross income (wage cost)	13 922	13 922
Employers' wedge	3 117	1 311
Labour cost	17 040	15 233
SPAK (euro 1 806) as a per cent of labour costs		10.6
SPAK (euro 1 806) as a per cent of employers' wedge		58.0

1. SPAK applies to workers earning up to 115% of the legal minimum wage.
Source: Ministry of Social Affairs and Employment.

SPAK reduces gross labour costs by a little over 10 per cent, but reduces the employers' tax wedge by almost 60 per cent (Table 9). Moreover, firms hiring long-term unemployed can qualify for an additional reduction in social security contributions for a period of four years (the VLW scheme) and the combination of SPAK and VLW can cut gross labour costs by up to 23 per cent. In 1997, 80 per cent of the firms that could use SPAK did so, and 88 per cent of eligible workers were covered. Model simulations carried out by the Netherlands Bureau for Economic Analysis (CPB) show that reductions in employers' tax burdens are more effective in increasing total employment when – like SPAK and VLW – they are targeted to the lower end of the labour market. For instance, the simulations showed that if SPAK were used to reduce employers' contributions by 0.5 per cent of GDP, net total employment would increase by 0.9 per cent and unemployment among unskilled workers would fall by 3.6 per cent. If VLW were used to produce the same reductions in employers' contributions, the net increase in employment would be 1.2 per cent, and unemployment among unskilled workers would fall by 4.2 per cent.[39]

Recent empirical research by the Netherlands Economic Institute shows that, despite fears of major dead-weight losses,[40] SPAK has created about 60 000 extra jobs in the market sector since 1996, and VLW has provided a job for 10 000 to 20 000 long-term unemployed. This research has also confirmed that SPAK is cost efficient compared with other measures. Another fear concerning SPAK was that by raising the marginal tax burden, it might provide a disincentive for firms to increase salaries of low-paid workers. To attenuate this negative effect, the t-SPAK was introduced. In the event, the share of workers moving from below 115 per cent of the legal minimum wage to a wage level above this threshold has not decreased following the introduction of SPAK. On the contrary, according to estimates, this share has increased from 12 per cent in 1995 (the year before SPAK) to 17 per cent in 1998.[41]

As noted in the previous *Survey*, the authorities have taken measures to make the wage formation process more flexible and responsive to local conditions and individual skill levels. This has been done essentially through two measures which increase flexibility and enhance employment at the lower-end of the labour market. The first is the introduction in collective labour agreements of bottom pay scales that are close to the legal minimum wage. The second is the use of "opening clauses", which allow firms, under certain circumstances, to negotiate with their work force to pay below the minimum wages set in collective contracts at the branch level. As a result, bottom wage scales in collective labour agreements are now, on average, only about 5 per cent higher than the legal minimum wage, compared with a 14 per cent gap in 1994. But, for various reasons, they do not seem to be widely used. Available evidence shows that about 27 per cent of all firms with new lower bottom pay scales actually use them, and about 25 per cent of firms with a wage scale close to the legal minimum wage use it. As regards "opening clauses", about 75 per cent of all collective labour agreements now include them, but it seems that their effective use is still rather limited. According to the authorities, as a result of the strength of the expansion, labour shortages have appeared in certain segments of the labour market, with employers often paying significantly more than the minimum wage. This situation points to supply-side difficulties and makes lowering the minimum wage no longer a serious policy option.

Although it is impossible to establish a direct link and isolate the effect of each of these measures, there has been a rather impressive increase in low-paid jobs in recent years. In 1997, the number of legal minimum wage earners exceeded 300 000 or 5 per cent of total employees.[42] As in other countries, most minimum wage earners are women and youngsters. These results have been achieved despite a relative lack of financial incentives for many people on welfare to search for and accept low-paying jobs. Accepting a job at the minimum wage can result in a 10 per cent drop in disposable income,[43] often making it difficult for firms to hire workers at the legal minimum wage. Recently, the government has asked a commission to make recommendations on how to reduce poverty traps.

Expanding and enhancing active labour market policies

With the overriding goal of preventing people from becoming long-term unemployed, and as part of the EU National Action Plan for Employment, the government has introduced a "comprehensive approach" (*sluitende aanpak*)[44] for providing support when people become unemployed. More specifically, people becoming unemployed are to be contacted rapidly and a personal plan is to be elaborated with a view to reintegrating them into the active labour market within 12 months of becoming unemployed. For this purpose, the Public Employment Service has developed a method for classifying job seekers – the so-called "four-phase model". Upon registration as job-seekers with the employment office, newly unemployed have their "distance" from the labour market assessed and classified in one of four possible phases:

– *Phase 1*: the person in question can be helped directly. No guidance "route" (programme) is needed. The person can make use of the basic services of the employment office, including the information and advisory function, and can peruse the list of vacancies.
– *Phase 2*: the chances of finding a job must be improved. The job-seeker is regarded as being suitable for the labour market within a year, provided targeted job guidance instruments are deployed.
– *Phase 3*: the person's distance from the labour market is so great that a "route" lasting at least one year is needed to make the person employable on the labour market.
– *Phase 4*: the person is temporarily not available for work because his/her distance from the labour market is too great. The person is initially in need of care or assistance, or of a "route" aimed at social activation – for instance, voluntary work.

According to the authorities, the vast majority of those who become unemployed are capable of finding a job independently. They estimate that while approximately 865 000 people register as job seekers every year, only some 265 000 of those need additional support to find a new job. These people would be in Phases 2, 3 and 4, as well as those who were initially placed in Phase 1 but who failed to find a job on their own within a year. They are the target group of the "comprehensive approach". Since about half of them are already covered by existing programmes – notably the Job-seekers Employment Act for people under 23 and the Occupationally Handicapped Reintegration Act (REA) – the "comprehensive approach" will have to take care of only about 135 000 people a year. For budgetary and administrative reasons, the government envisages implementing the "comprehensive approach" gradually, over a period of five years. In 1999, some 30 000 additional people should be taken care of by means of this new programme.

The Job-seekers Employment Act (WIW), which came into force at the beginning of 1998, has consolidated two existing programmes for subsidised jobs – the Youth Work Guarantee Act and the Labour Pools. All responsibilities have been decentralised and entrusted to the local authorities that have the power to decide on the appropriate mix of work, training, education, social activation and financial incentives. Almost three-quarters of these jobs are created in the public sector or with non-profit organisations and only one-quarter in the market sector. The WIW Act has introduced a new instrument, the "work experience place", which is a subsidised labour contract with a regular employer to gain work experience. The latest data available show that in the third quarter of 1998 an estimated 42 500 long-term unemployed and unemployed youngsters were in a subsidised job and over 4 000 in a "work experience place". Around 25 per cent of them were younger than 23, over 60 per cent were older than 23 and also unemployed for more than three years – the rest belonging to other categories. Half of those in the scheme had a large distance from the labour market and were effectively incapable of holding a regular job. The remaining participants needed a long-term programme before they could apply for a regular job. Also in the third quarter of 1998, the outflow of persons from subsidised jobs was 8.5 per cent – 60 per cent of them found a regular job or started a full-time education programme. The "work experience place" instrument is too recent to record any outflow. It is not known when a full assessment of the programme – including education, training, social activation and financial incentives – will be available.

As part of the "comprehensive approach", existing long-term unemployed will receive additional attention. For instance, the government is seeking the creation of another 20 000 subsidised jobs over the coming four years, in addition to the 40 000 jobs under the "Additional Employment for the Long-Term Unemployed" scheme (EWLW) – the so-called Melkert jobs. The total scheme covering these 60 000 jobs is referred to as the "inflow/outflow" scheme. Of the 20 000 new jobs, 10 000 will be designated as "transition jobs" with a maximum wage level of 150 per cent of the legal minimum wage. All these new jobs will be allocated to the local authorities which, each year, will have to create a quarter of the total number of newly allocated jobs. Moreover, savings resulting from the reduction in the number of new long-term unemployed will be used for a small target group of existing long-term unemployed.

Of the initial 40 000 "inflow/outflow" jobs which were scheduled to be created in the four-year period to end-1998, nearly 35 000 were actually created – with large cities creating nearly 95 per cent of their allocated jobs. So far the emphasis seems to have been more on creating these jobs than on assessing the success of the programme in returning participants to regular work. But in the future, the focus will be shifted to training and schooling, as a way to qualify participants for regular jobs.

Reforming job protection legislation

The Flexibility and Security Law (Flex Law) – introduced in January 1999 – has promoted the use of flexible working contracts and increased employment with a limited duration and a variable number of working hours. The Law has changed the rules on the renewal of fixed term contracts, with a maximum of two renewals in three years, after which period the employee is assumed to have a permanent position. Similar rules apply for employees of temporary work agencies, giving them the right of a permanent contract after three consecutive contracts with the agency. An exception is made for the first 26 weeks, when temporary contracts are not automatically converted into permanent ones. However, many of the rules of the Flex Law can be overruled by alternative arrangements in collective agreements. The experiences with the Flex Law have been mixed. A quick evaluation – commissioned by the Ministry of Social Affairs and Employment – showed that about 50 per cent of employers complained about the increased administrative burden and the fact that only a small number of collective agreements have been adjusted to the new law. Moreover, about 10 per cent of temporary workers experienced negative consequences of the Flex Law, against 20 per cent experiencing positive effects.

The Flex Act has also streamlined somewhat dismissal procedures. In the Netherlands, an employee can be dismissed either with the approval of the Regional Director of the Public Employment Services (PES) or by a court decision. An indication of the lack of flexibility of the dismissal procedure through the Regional Directors of the PES was that in the second quarter of 1998, for the first time, there were more requests to handle a dismissal procedure by a court decision than by a permit from Regional Directors.[45] With the introduction of the Flex Act, the dismissal procedure at the PES has been shortened and the prohibition to dismiss employees who fall ill after the start of the procedure at the PES has been lifted.[46] If a worker – temporary or permanent – becomes redundant for economic reasons and does not object to being dismissed, the regional director can deal with the redundancy application in a "shortened procedure" and in most cases can issue a redundancy permit relatively quickly. However, if the worker does object to the dismissal, the procedure remains rather long and inflexible compared with other OECD countries. Probation periods have not been changed and remain relatively short (two months).

With a view to enhancing the participation of women in the labour force and promoting their independence – which is a major aim of Dutch policy – the government, after discussions in Parliament and with the social partners, is preparing the Work and Care Act which is expected to be in force in early 2000. It comprises four parts:

i) a bill (already in Parliament) introducing the right to increase and decrease individual working time;

ii) a bill (shortly to be sent to Parliament) extending current legal arrangements to include collective labour agreements' practices concerning the payment and leave terms for pregnancy, birth and adoption;

iii) a bill (to be sent to Parliament in early 2000) introducing, under certain conditions, the right to take short-term care leave, of a maximum of 10 days a year and with a payment of 70 per cent of the normal salary. This bill will integrate some current leave arrangements and will rely on collective labour agreements to determine specific arrangements suiting individual enterprises and workers (employers will be compensated by an amount of € 84 million); and

iv) the possible introduction (depending on the conclusions of an ongoing feasibility study) of the right for workers to claim long-term paid leave for providing family care.

Moreover, the government will spend an additional € 220 million to increase the number of childcare places. The coalition agreement foresees a total increase of 71 000 places, 60 per cent of which will be for the 4-12 age group during non-school hours. In 1998, the number of childcare places exceeded 100 000, representing an increase of 15 per cent in one year.

Improving labour skills and competences

The authorities feel that it is still too early to assess whether vocational training courses have been improved by the setting up in 1996 of regional training centres (ROCs). The Vocational Training Act (WEB), which led to the creation of ROCs, will be evaluated in 2001. It is, however, possible to note some positive developments. As a great number of small schools have merged into the 46 ROCs, economies of scale seem to have led to a broader and more efficient supply of vocational training courses for young people and also for employees and the unemployed. ROCs have also started to offer training for private parties on a commercial basis. The national qualification structure introduced with the WEB has ensured a better matching of the demands of the labour market with educational programmes, even though further progress is possible in this area.

Moreover, as part of a broad programme of life-long learning, the Dutch authorities have taken various active measures to improve the employability of job seekers. For instance, together with the social partners they have set up an employment agenda to promote life-long learning and employability of workers and/or job seekers. Education is already an important element in the reintegration routes of the Public Employment Service which offer an effective combination of vocational training, job application training and/or experience.

The social security system

The Netherlands has been engaged in a process of reforming its social security system since the early 1980s when overall economic policy changed course. This process has been motivated by the conviction that introducing private initiative and competition in the delivery of social security services can lead to important efficiency and welfare gains. The principles of solidarity and equity that characterise Dutch economic policy have remained broadly intact. But they have been complemented by the notion that solidarity is ensured primarily by providing a reasonable chance for everybody to earn an income by working, relying on the welfare system only if this fails. Hence, the focus has shifted from providing protection through passive income support to strengthening incentives for all parties involved to enhance labour market participation. Employers should have an incentive to minimise inflows into social security schemes and facilitate outflows. And the administrative bodies responsible for distributing social benefits should have an incentive not only to reduce administrative costs but also to limit the inflow into the schemes to legitimate cases while promoting the outflow and reintegration of beneficiaries.

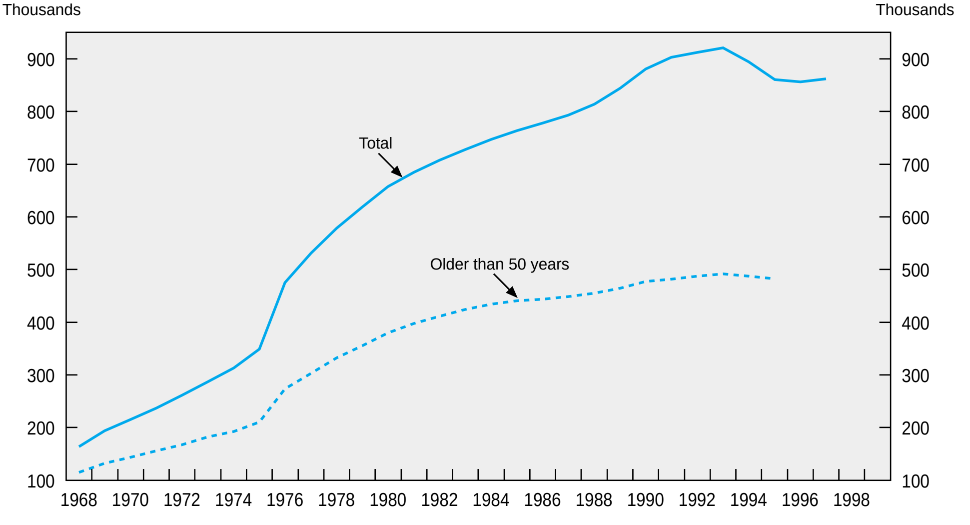
These considerations have provided the conceptual underpinning of a number of major initiatives.

- In the early 1990s, a more stringent definition of "disability" was introduced, combined with the obligation for beneficiaries already in the scheme and under the age of 50 to be re-examined on the basis of the new definition.
- In January 1998, a new law (PEMBA) introduced a system of premium differentiation among firms according to the relative incidence of disability (experience rating), and gave employers the possibility of opting out of the public disability scheme, taking out a private insurance or bearing the risk themselves.
- The sick-leave insurance was almost fully privatised[47] in a two-step process between 1994 and 1996.
- The social assistance scheme was revised in 1996, giving more responsibilities to local authorities for assistance policies, and restricting exemption from looking for work.
- In 1995 the government started a process of overhauling the institutions administering and supervising employees' social security schemes – *i.e.* the unemployment and the disability schemes.

With respect to the last of these points, *i.e.* the reform of the institutions administering the unemployment and the disability schemes, following a negative assessment by Parliament, a first proposal has been replaced by a new one centred around two main points. First, the social security agencies will be merged into a single public institution that the authorities expect to operate more efficiently since it will be easier to manage and will benefit from economies of scale. Second, competition will be introduced in the reintegration process, including activities of the Public Employment Service related to reintegration. This new government proposal is currently being discussed with the social partners and in Parliament.

As noted in the previous *Survey*, the results of the re-examination of disabled persons, at first, exceeded expectations, but as the process moved to older persons the results became less impressive. Moreover, a significant proportion of persons who lost their disability benefit as a result of re-examination joined the unemployment scheme. The regulator for the social security sector, CTSV, recently concluded that the reform of the disability scheme has largely failed. Indeed, since the second half of 1996, the number of disabled has been rising again – a trend that apparently cannot be entirely explained by demographic factors and the increasing participation of women in the labour force. The number of disabled is now approaching 900 000 (Figure 8).[48] In relation to the insured population, disability (in full-time equivalents), declined from 11.2 per cent in 1992 (when the measures mentioned above were introduced) to 9.7 per cent in 1997, before increasing slightly in 1998 to 9.8 per cent. Among other factors, this may have reflected the fact that employers have been able to take out insurance against premium increases caused by an employee becoming disabled, thereby reducing the possible effects of premium differentiation.[49] To check this new increase in the volume of disability, a set of measures improving claim assessment practices is currently being introduced. The reintegration of disabled people has remained difficult and the regulator notes that the number

Figure 8. **Disability insurance: number of claimants**



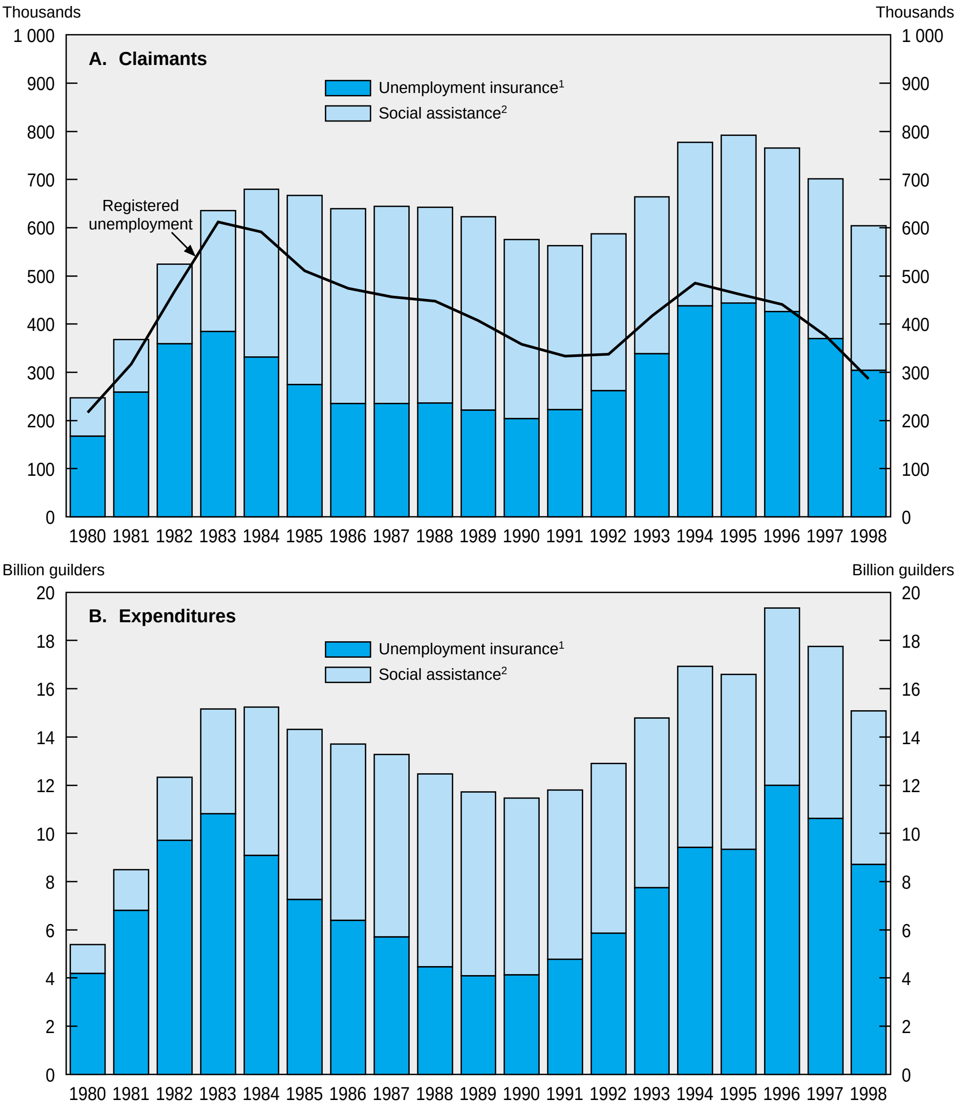
Source: Ministry of Social Affairs and Employment.

of employed disabled remains below the legal 5 per cent target that was set in 1986.[50] A new Act on the (re-)integration of disabled (REA) was introduced in July 1998: it included stepped-up reintegration programmes, and instruments like trial employment, subsidies to employers hiring disabled employees and various provisions enabling handicapped persons to be employed. A total of € 360 million is available in 1999 for (re-)integration policies for the disabled, which could pay for 63 000 reintegration cases.

The results of the privatisation of the sickness scheme have also been mixed. After a substantial decline, sick leave has broadly stabilised, instead of falling further as expected. More recent figures actually show a slight increase. According to the Dutch authorities, this may primarily reflect the tightness of the labour market which result in high work pressure and more sickness among employees. Also, there are signs that labour shortages cause employers to hire persons in weaker health conditions. Moreover, the abuse of sickness schemes by employees may have increased, since with a tight labour market fears of being dismissed as a result of such abuses may be smaller. As a result of the privatisation of the sickness scheme the cost of a standard package of sickness benefit insurance is substantially lower under current private arrangements than it was under the former social insurance scheme. However, given the substantial losses reported by insurers, premiums are likely to rise – which, according to the Dutch authorities, was exactly the result sought by the reform, *i.e.* to bring premiums in line with risks.

One of the major problems in the unemployment schemes in recent years has been its misuse as an alternative route to early retirement for older workers who either lose their jobs as a result of restructuring or voluntarily stop working.[51] Hence, despite the strength of the economy and the trend decline in the number of registered unemployed (or job seekers), the number of persons receiving unemployment benefits has remained high and the gap between the two groups has merely stabilised (Figure 9). The government has tried to curb the misuse of the unemployment insurance scheme by introducing a new law on administrative penalties (*Wet boeten*), which prohibits unemployment benefits in cases of voluntary unemployment. However, employers and employees can usually claim that a dismissal is unavoidable, so the effectiveness of the new law has seemed likely to be limited. In a recent evaluation of the law,[52] the CTSV concluded that the number of sanctions has increased. However, most of these penalties are for relatively minor infractions. The regulator also noted that some of the administration offices, in certain situations, rarely check some obligations, such as the requirement to look for work. Moreover, penalty policies are sometimes influenced by the potential income loss for the benefit receiver. Administration offices are more likely to impose sanctions on young people, for whom the loss in income is often relatively minor; penalties for people with relatively high benefits

Figure 9. **Unemployment compensation schemes**



1. Data before 1990 include the WWV scheme.
2. RWW, IOAW and IOAZ schemes. Due to the integration of the RWW scheme into the social assistance scheme ABW, the OECD Secretariat has estimated claimants and expenditures of unemployment benefits after 1995.

Source: Statistics Netherlands, *National Accounts 1998*; CPB Netherlands Bureau for Economic Policy Analysis; *Macro Economische Verkenning 2000*; OECD Secretariat.

are often reduced or even waived. Finally, the effectiveness of the law is likely to be diminished because benefit receivers are often ignorant of the requirements of the penalty law.

As a possible further step towards reducing the risk of moral hazard from employers as well as employees, the government is considering the possibility of introducing different forms of premium differentiation in the unemployment scheme, and is expected to take a decision soon. Premium differentiation based on experience rating would give employers more incentives to develop career paths for older employees or to find suitable positions for them elsewhere, possibly relying on job agencies, and hence reduce the use of the unemployment scheme. The government has asked the Social Economic Council for advice on how to enhance the participation of older people.

As regards social assistance, no initiatives have been taken following the introduction of a new social assistance law (*nieuwe Algemene Bijstandswet*, nABW) in January 1996, which has been modified several times. The aims of the new law were to enhance the reintegration of benefit claimants in the active labour market, improve supervision and reduce fraud, and simplify the benefit structure. Progress in implementing the law is somewhat uneven: some local authorities are very active in formulating local assistance policies and helping social assistance beneficiaries in finding work, but others are still working through the reorganisation process. Moreover, the increased independence of local authorities in setting social assistance policies may increase the marginal effective tax rate for benefit receivers, thereby creating new obstacles to accepting work. To improve insight of the effects of local assistance policies on work incentives, it would be advisable that local authorities regularly report on the effects of their income support policies on the unemployment trap.[53]

Product markets

The government's product market policy is based on three pillars: the Market Forces, Deregulation and Legislative Quality Project (MDW), the tightening of competition policy, and the introduction of competition in the formerly public utilities sector.[54]

The so-called MDW project aims to strengthen product market competition and the quality of legislation through a comprehensive reassessment of existing regulations and a reduction of the administrative burden. The project has two components. First, new legislation proposals have to be accompanied by an analysis of the expected impact on enterprises and the environment. Second, every year the government selects a number of areas for reassessing existing regulations. The early achievements of this project included the Shop Hours Act, which resulted in a major liberalisation of shopping hours. A recent evaluation of this Act has shown that many shops and people make use of the possibility of prolonged opening hours – 66 per cent of people do so on weekdays. From its introduction in June 1996 until the beginning of 1998, an estimated 7 000 new jobs have been created as a result of the Act. However, the implementation of the recommendations from the MDW working groups has proved to be problematic. Of the 36 projects of the first phase of the project (1994-98), only eleven have been implemented *i.e.* approved by Parliament after the usual consultation period. The authorities have recognised that the implementation process is the weak point of the MDW operation and the government has thus decided to introduce some institutional changes to make the whole process more visible. These changes include: introducing an orientation phase during which interested parties can give their views on the definition of new projects; setting specific time schedules for each proposed reform sent to Parliament; and closely monitoring the implementation of reforms approved by Parliament.

The recent OECD report on regulatory reform mentioned above notes that, though still in its early stages and slow, regulatory reform has produced major benefits for the Netherlands by:

- reducing the cost structure of exporting, distribution and transit sectors to improve competitiveness in Europe and global market;
- redressing the lack of flexibility and innovation in the supply side of the economy which will be an increasing constraint to growth;
- boosting consumer benefits by reducing prices for services and products such as electricity, transport, and health care, and by increasing choice and service quality;
- helping to increase employment rates by creating new job opportunities thereby reducing fiscal demands on social security programmes – a particularly important consideration in an ageing population;
- maintaining and increasing high levels of regulatory protection in areas such as health, safety, and the environment.[55]

The second pillar of the government's product market policy is the tightening of competition policy, which resulted in the 1998 Competition Act. The Act declares both abuse of dominant position and restrictive agreements and practices to be illegal, and includes a system of preventive merger control. It covers all sectors of the economy. It is implemented and enforced by the newly created Netherlands Competition Authority (NMa) which is at the moment dependent on the Minister of Economic Affairs. However, to ensure an objective and transparent implementation and enforcement of the Competition Act, the NMa needs to become completely autonomous. While it is too early for a full assessment of the performance of the NMa, the authorities feel that the overall impression after a little over one year of operation is positive. The NMa has been confronted with a considerable workload:

- it received an unexpectedly large number of requests for exemption from the prohibition of agreements that restrict competition, in particular from the health care, construction, and the wholesale distribution and retail sectors. In total, it received 1 040 requests in 1998, compared with an expected 350.[56] Of these, 486 were dealt with in the same year. Only 15 per cent of the requests were rejected;
- it dealt with 139 of the 266 complaints about dominant positions abuse that it received (compared with an expected 150);
- it dealt with 139 of the 154 received pre-notifications for mergers. Most cases were approved within four weeks and in only 5 per cent of the cases was a further investigation required.

Once the Authority has dealt with the backlog of requests for exemption and complaints, it will have more room for its own investigations. The Authority has already announced that it will investigate construction, agriculture and the financial sector – banks, insurance companies and other institutions. In the overall evaluation of the NMa – scheduled for 2001 – it should be considered if, in view of the large number of merger approvals, the legal turnover thresholds for notification are still appropriate or whether they should be raised.[57]

The third pillar is the introduction of market forces and market discipline in a number of former public utilities, such as telecommunications, mail, electricity, gas, water and public transport. The programme is mainly driven by EU policies to open these markets for competition.

- *Telecommunications*.[58] The liberalisation of the Dutch telecommunication market has resulted in the entry of many companies. In 1998, two national licences were auctioned in addition to the two existing ones. A new Telecommunications Act took effect in December 1998 covering practically all aspects of telecommunications. The act abolishes the need for licences for infrastructure or services, except in the case of the spectrum for which a licence still has to be obtained. To guarantee universal service, the formerly public operator KPN (*Koninklijke PTT Nederland*) must offer everyone basic services or facilities at an affordable price. If it wants to end this function, it must give 12 months notice and another telecommunications company can be commissioned by means of a tender. Despite the opening of the telecommunications market, KPN remains overwhelmingly dominant in the area of local calls. The newly established regulatory authority OPTA (*Onafhankelijke post en telecommunicatie autoriteit*) is responsible for guaranteeing a level playing field. Since the task of the regulator OPTA and the Competition Authority (NMa) could overlap, the two organisations have agreed on a protocol. Nevertheless, the authorities have expressed concern about overlapping interventions of the supervising organisations and other organisations such as local authorities and (in the case of the cable sector) the Media Authority. The ensuing uncertainty about the direction of competition policy could be a factor in explaining the reluctance of cable companies to upgrade the current cable systems to interactive digital networks.[59]

– *Mail*. The government has recently sent a new Postal Bill to Parliament to implement the Postal Directive of the European Commission. According to the Dutch authorities, although progress is rather slow, this bill will put the Netherlands ahead of other EU countries. The EU Directive restricts the reserved area to letters weighing no more than 350 grams and costing no more than five times the unit tariff. However, the Postal bill will restrict the reserved area to letters weighing no more than 100 grams and costing no more than three times the unit tariff (€ 0.36). The bill is expected to open up the Dutch market for postal services in a gradual and controlled way.

– *Electricity*.[60] The Electricity Act of 1998 has recently come into force and has already had a considerable impact. The production of electricity has been liberalised and a licence is no longer needed. Large energy users are free to choose among suppliers, while small and medium-sized users will have this option only in 2007 (however, the possibility of a faster liberalisation process is currently being considered). Until then, a licence is still needed to service small- and medium-sized customers. Supply contracts are traded on the Amsterdam Power Exchange (APX). The Energy Regulation Agency (DTE) – a department of the NMa – regulates transmission and distribution grids, including grid access prices and other terms of access, and will review plans for network expansion. It has the power of setting maximum tariffs through a price cap system for captive users (similar to the United Kingdom). The NMa has general responsibilities to police mergers, and horizontal and vertical agreements in the new electricity markets. The liberalisation of the electricity market has resulted in several mergers and take-overs of electricity producing and distributing companies. Recently, the NMa decided that an authorisation is required for the announced merger between the energy distribution companies Pnem/Mega and Edon as the new combination would get a share of 40 per cent in electricity distribution. The NMa expressed concern that after the proposed merger, the two largest players (Pnem/Mega-Edon and Nuon/ENW) could – by parallel behaviour – dictate the market. The Authority expressed doubt that competition from foreign suppliers could play an important role in the Netherlands. Given the existing overcapacity, new companies are unlikely to enter the Dutch market. Moreover, the possibility of further increasing imports of electricity is limited by capacity constraints on the international grid. In fact the significant increase in imports in 1999 – following the liberalisation of this market – has resulted in the full utilisation of the interconnection capacity.

– *Gas*. The Gas Act – which is in line with the EU Gas Directive – has been sent to Parliament and is expected to come into force in 2000. Under this Act, licences will be needed only to service captive users. Tariffs for these users will be subject to a price cap system, supervised by the Competition Authority (NMa).

– *Water*. No measures have been taken recently, but the government intends to increase the role of market forces in the water supply sector. In March 1998, a letter was sent to Parliament outlining the proposed reform of this sector. According to this proposal, the market for water supply to large users will be liberalised so that those industrial customers will be able to choose the company from which they buy their water. On the other hand, small and medium-sized customers will remain captive. The performance of water supply companies will be monitored by a system of compulsory benchmarking. Although, for the time being, it has been decided to preserve the regional monopoly of water supply companies, privatisation should remain under consideration.

– *Public transport*. Limited progress has been made in introducing market forces in public transport. Few bus companies were privatised in the past two years even though the government intends to assign 35 per cent of city and regional bus transport by open tendering in 2003. Competition in passenger rail transport completely disappeared when the only private rail operator left the market in September 1999. The government is currently considering legislation to introduce (in 2001) a system of franchises (concessions) for private operators for passenger transport by subway, tramway, and rail – including, in 2005, the new high-speed link (HSL). This franchise, however, will be split into two separate parts: one for domestic and one for international transport. Most franchises for domestic rail passenger transport will be assigned to the national railway company, Nederlandse Spoorwegen (NS) for a ten-year period based on a performance contract. At the end of this period, the government will decide whether the introduction of more competition is possible. Franchises for most local trains could be assigned to local authorities, by open tender procedures. Given the dominant position of NS in rail transport, the authorities should consider setting up, in co-ordination with the NMa, an independent regulator for this sector to ensure fair competition.

As regards entrepreneurship, the Dutch authorities feel that despite recent improvements – especially concerning small and medium-sized enterprises – further progress is desirable. The number of start-ups is stagnating and the number of entrepreneurs as a percentage of the labour force remains lower than in the United States. The number of technology-driven start-ups is relatively low (6 per cent of total start-ups), and the number of high growth companies is also relatively low – 6 per cent in the Netherlands compared with 12 per cent in Denmark and 25 per cent in the United States. Hence, the authorities are taking measures to reduce impediments to entrepreneurship, such as high administrative burdens, complicated subsidy schemes, and growth barriers for potential high-growth companies – mainly resulting from poor organisation and lack of networking opportunities. More specifically, some of the corrective measures focus on the gradual phasing out of the Establishment Law for certain sectors of self-employed, reducing the administrative hurdles to the hiring of a firm's first employee, enhancing technological start-ups and streamlining various tax requirements.

Financial markets

In October 1996, a Committee appointed at the initiative of the Amsterdam Stock Exchange and the Association of Securities Issuing Companies published its report – referred to as the Peters Report after the name of the Chairman of the Committee. It contained 40 recommendations aimed at helping Dutch financial markets to compete in an increasingly international environment emphasising shareholder value. In December 1998, the so-called Monitoring Commission on Corporate Governance published an assessment on how publicly traded companies abided by the 40 recommendations. It concluded that Dutch corporations voluntarily complied with most of the recommendations aimed at enhancing transparency, accountability and the independent functioning of the Board of Supervision, but that little had changed with regard to the influence of shareholders. In response, the government has sent a letter to Parliament on enhancing shareholders' rights: it regards the OECD Principles of Corporate Governance as an important international benchmark and contains specific legislative proposals on:

- proxy voting;
- disclosure of remuneration of the members of the Supervisory Board and key executives, including incentive schemes, such as stock options schemes;
- disclosure of corporate governance structures and policies, including major share ownership, voting rights and anti-takeover devices;
- the right of shareholders to put certain items on the agenda of the annual general meeting of shareholders.

In addition, in its letter to Parliament, the government has announced forthcoming legislation proposals to improve the (voting) rights of shareholders in so-called peacetime situations (*i.e.* other than during a public takeover bid). Shareholders have little power in the Netherlands compared with other countries. Among other reasons, this is due to the extensive practice of certification of shares. Between 35 and 40 per cent of shares of all listed companies are certified. Hence, to effectively enhance shareholders' influence this situation needs to be changed.

Concerning specifically anti-takeover devices, the bill proposed by the government in January 1997 is still pending in Parliament. The bill is based on the principle that a shareholder owning more than 70 per cent of the outstanding share capital of a listed company for a period of over 12 months should be able to challenge in court the limitations on voting rights resulting from anti-takeover devices. A serious acquirer should be able to exercise voting rights proportional to his/her shareholdings, unless there is a reason to believe that the acquirer has intentions that entail a threat to the interests of the target company.[61] Such intentions will have to be proven by the target company and will largely depend on: the manner in which the shares of the company were acquired; the degree of consultation with the management of the target company; the reputation of the acquirer; and whether the duration of the shareholding has exceeded a required minimum of 12 months. In October 1999, the government announced an analysis of the impact of the 13th EU directive on takeover bids.

The Bankruptcy Law is currently being revised, notably with respect to the "suspension of payments period". This clause was originally intended to provide leeway for a possible reorganisation of companies in financial difficulty, but in fact 95 per cent of companies using it ultimately go bankrupt. The current revision project aims at strengthening the reorganisation possibilities during the suspension period. It will provide first, suggestions for "easy fixes" to the Bankruptcy Law, and later, recommendations for more fundamental changes. Meanwhile, a new Law for the bankruptcy of consumers and entrepreneurs acting as natural persons (*Wet Schuldsanering Natuurlijke Personen*) came into force at the end of 1998. It reduces the liability period of debtors from an indefinite duration to a maximum of three years, and gives debtors more possibilities to reach an agreement with their creditors under the supervision of the courts.

Another reform affects pension funds. In the Netherlands, there is no direct competition between occupational pension funds, which are closed funds and are in charge of the main pension schemes of a single firm or group of firms within the same industry branch. However, if the average performance of a compulsory pension fund over a period of time – four years, starting in 2002, and five years from 2003 onwards – is significantly worse than the average of the pension fund industry, firms will be able to withdraw from the compulsory fund.

The tax reform scheduled to come into force on 1 January 2001 (see Chapter II) includes a flat rate of 30 per cent on an assumed return on capital of 4 per cent. Hence, in contrast to the present situation, various forms of savings – such as stocks, bonds, and bank deposits – will have an equal tax treatment under the proposed regime. While there are no plans to alter the tax treatment of mortgages on primary homes, the reform will abolish the deduction of interest payments on mortgages for secondary homes.

Assessment and scope for further action

The Netherlands has undertaken many structural reforms on a wide front and as noted, its overall economic performance has been good, with ongoing improvements on the supply side to be expected. But this should not lead to complacency. The Dutch labour market can be characterised as being "double faced". On the one hand there are shortages of labour and unfilled vacancies. On the other hand, there is a relatively large pool of unused labour. In fact, despite a very tight labour market with a historically low rate of unemployment, the reintegration of low-skilled workers into the active labour force continues to pose problems and the level of inactivity remains high. Hence, the authorities should prevent structural reform from becoming a victim of its own success: several years of prosperity may have caused the sense of urgency and the degree of public support to fall below the levels required for the introduction of major and somewhat painful measures. In this environment, given the traditional Dutch consensus approach, even the implementation of relatively modest reforms seems to require an increasingly long period. Nonetheless, with the economy facing new challenges in the world arena, a generally tight labour market, and acute shortages of various categories of skilled workers, further progress in structural and regulatory reform is needed and should be pushed ahead now while the economic climate is favourable (Boxes 3 and 4).

In the labour market, the government has significantly reduced non-wage labour costs for low-skilled workers and the unemployed. It has also continued to rely on the introduction in collective labour agreements of bottom pay scales that are close to the minimum wage and "opening clauses" to make the wage formation process more flexible and responsive to local conditions and individual skills. But the effective use of these arrangements seems to remain rather limited and the authorities should continue to press for their use. More generally, further progress in the reduction of both non-wage and wage labour costs – especially at the lower end of the labour market – would be desirable. It is doubtful, however, whether this approach can be fully effective unless incentives to work and skills and qualifications are substantially increased so that firms can find the right type of workers and hire them at the lower labour costs. Hence, the envisaged reform

Box 3. **Follow up of previous recommendations for structural reform**

Previous recommendations	Action taken
Increase wage and labour cost flexibility	
– Further reduce the gap between the legal minimum wage and bottom wage scales.	– The gap has been reduced from 14 per cent to around 5 per cent.
– Promote greater use of bottom scales and "opening clauses".	– Relatively few firms are applying the bottom wage scales or making use of "opening clauses".
– Cushion impact of legal minimum wage on employment either by: – reducing the minimum wage in combination with in-work benefits for employees; or – by providing further subsidies to employers.	– Legal minimum wages remain frozen in real terms and employers' social security contributions have been reduced for low paid workers and for newly employed long term unemployed.
Reform employment security provision	
– Simplify dismissal procedures for permanent workers and extend probation period.	– Dismissal procedures have been streamlined under the Flex Act (1999). Probation periods remain unchanged.
Expand and enhance active labour market policies	
– Review results of the joint nation-wide project and consider moving further towards a "one-counter" system.	– A "comprehensive approach" has been adopted to deal with the newly unemployed and reduce their likelihood of becoming long-term unemployed.
– Reconsider whether all public placements should remain within the PES.	– Further subsidised jobs for long-term unemployed have been created.
– Assess whether recent steps have been sufficient to ensure an appropriate degree of surveillance and sanctions.	– The Penalty Law will be evaluated in the year 2000.
– Assess whether the implementation (although not the elaboration) of social security laws has effectively become independent of the social partners.	
Improve labour force skills and competencies	
– Review results of the recent merger of education institutions.	– Some economies of scale have been realised, but it is too soon for a more complete assessment of results.
Reform unemployment and related benefit systems	
– Provide financial incentives to administrative bodies to reduce the amount spent on social benefits by prompting reintegration.	– Funds have been made available but the uptake has been limited.

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– Tighten the medical (re)-examination process and improve reintegration efforts.	– The medical re-examination process has not been tightened further. Also, despite efforts and additional programmes, reintegration remains difficult.
Enhance product market competition	
– Monitor implementation of the new competition law and its effectiveness.	– Policy was tightened in the 1998 Competition Act. Early results are encouraging. – An evaluation of the Competition Act and the Competition Authority is planned for 2001.
– Make sure that the Competition Authority is sufficiently independent.	– Legislation is being prepared to make the Competition Authority fully independent.
– Continue and step up efforts to increase exposure to market forces of the public sector especially in public transport, health care, public utilities and housing.	– Liberalisation is largely complete in telecommunications, and well underway in mail, electricity and gas. Little progress has been made in water and public transport. – There has been an assessment of existing regulation (MDW project) of some aspects of health insurance (the AWBZ scheme concerning long-term care and exceptional medical expenses), pharmaceuticals and social housing.
Make financial markets more dynamic	
– Increase competitive "pressure" on pension funds.	– No direct competition between funds, but from 2001, firms can withdraw from poorly performing compulsory funds.
– Accelerate the process of revision of the tax system to equalise treatment for various forms of savings.	– According to the proposed 2001 Income Tax Reform, various forms of savings will have an equal tax treatment.
– Assess whether self-regulatory action is sufficient to enhance shareholders' rights.	– Self-regulation has not proved sufficient, so legislative proposals have been prepared, drawing on the OECD principles of Corporate Governance.
– Implement legislation on anti-takeover devices and monitor results.	– The bill proposed in 1997 is still pending in Parliament.

of the income tax system (see Chapter II) which, among other things, will increase the financial attractiveness of paid work as compared with welfare, is urgently needed. Also, in the social security system, job search controls and the application of benefit sanctions should be more effective, and eligibility criteria could be tightened (see below). Moreover, the authorities need to pursue their efforts aimed at raising the productivity of workers through education, training and life-long learning.

Box 4. Recommendations for further structural reforms

Labour markets

- Make further progress towards increased wage and labour cost flexibility through greater use of bottom wage scales in collective labour agreements and "opening clauses".
- Strengthen the financial attractiveness of work relative to welfare status, for instance by making job search controls and the application of benefit sanctions more effective.
- Consider refusing or, at least, limiting the administrative extension of future insurance provisions in sectoral wage agreements which offset reforms to employees' social security schemes.
- Enhance the employability of older workers through: life-long learning schemes; a formal ban on age discrimination; removing perverse incentives embodied in complementary pension schemes for those who accept lower paying jobs; and tightening eligibility rules by raising the age threshold above which unemployed persons are no longer required to seek a job (as laid down in the coalition agreement) and disabled persons are no longer subject to medical re-examinations to determine their status.
- Ensure that subsidised work and low paid jobs created in the public sector are better attuned to the needs of the market and limit the period that people can participate in them.

Product market competition and regulatory reform

- The new Competition Authority (NMa), which is at the moment dependent on the Ministry of Economic Affairs, should be completely autonomous.
- In the overall evaluation of the NMa (scheduled for 2001), it should be considered whether the turnover threshold for notification of mergers should be raised.
- Expand the scope of regulatory reform and accelerate its pace. Many sheltered sectors and public sector activities are as yet untouched and greater reliance could be placed on market forces in public services, transport, and health care services. This may require new working methods to preserve the benefits of consultation and consensus building, while moving faster.
- Regulatory reviews under the current systematic review of regulations project should be continued, expanded, made systematic, and more transparent. Areas subject to fast technological change or where regulatory failure is most costly should have highest priority.
- Increase the cost-effectiveness of government action by strengthening the role and rigour of regulatory impact analysis.
- Strengthen the institutions responsible for competition, regulation and reform and better co-ordinate policy linkages. Control more tightly the regulatory powers shared with other supervising organisations to maintain a level playing field and open markets (for instance in the cable sector).
- In the telecommunications sector, streamline the role of the temporary sector regulator, OPTA, and the Competition Authority, NMa.

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Financial markets

– Implement legislation on anti-takeover devices and monitor results.
– Develop and implement legislation to improve (voting) rights of shareholders in order to strengthen Corporate Governance in line with OECD principles.

The authorities had set considerable hope on the overhaul and partial privatisation of the employees' social security schemes. However, as noted, employers and trade unions agreeing on additional insurance in collective agreements have substantially diminished the effectiveness of these reforms. Hence, the authorities could at least consider refusing or limiting the administrative extension of future arrangements which reduce the effectiveness of reforms to employees' social security schemes.

One of the major problems that needs to be addressed in this area is the large number of persons of working age on welfare. This problem has two aspects: the slow outflow from the large stock of persons on social security schemes and particularly of older persons in the disability and unemployment schemes; and then the inflow of new benefit claimants into these two schemes. Although over the past few years, some progress has been recorded concerning the second aspect, further progress is needed. In addition to programmes aimed at increasing skills and competences, a formal ban on age discrimination and pension reforms can contribute to enhancing the employability of the older workers and reduce the inflow into the disability and unemployment schemes.[62] But a further tightening, along the lines discussed below, may also be needed for both the unemployment and disability schemes.

As regards the "stock" aspect of unemployment, the "comprehensive approach", which is currently being implemented, should be closely monitored. Subsidised work and the creation of low paid jobs in the public sector may provide a chance for long-term unemployed to gain experience in the labour market. However, to enhance the outflow of people from active labour market schemes into the regular labour market, these schemes should be more attuned to the needs of the market and, as a rule, the period during which people can participate in them should be limited.

But the real challenge is the "stock" aspect of older long-term unemployed and disabled persons. Out of a total of some 550 000 persons receiving unemployment benefits, only about 220 000 persons (or 3.2 per cent of the labour force) are registered as unemployed and seeking a job. The remainder are persons who, for various reasons, are not seeking a job. For instance, some 100 000 persons are over 57½ years of age and are not required to seek a job. As for the "disabled", despite severe years of corrective efforts, their number remains totally out of line with the general health status of the population (see Chapter IV) or any other objective criteria. Over one half of them – or nearly 500 000 persons – are older than 50 year of age. There does not seem to be any obvious solution to this problem which largely reflects various age-related social security arrangements and, ultimately, choices made by Dutch society. As discussed in the previous *Survey*, an appropriate level and duration of benefits must be preserved for persons with a genuine medical need. However, stricter eligibility rules, combined with appropriate retraining and counselling programmes, might return some of the other persons to the active labour market. Stricter eligibility rules could include raising the age threshold above which unemployed persons are no longer required to seek a job (as laid down in the coalition agreement), and disabled persons are no longer subject to medical re-examinations to determine their status.

Concerning regulatory reform, the OECD report concluded that the task is far from complete, and that there are continuing problems that merit attention. The economy faces new challenges from the completion within the European Single Market of deregulation of infrastructure sectors, from globalisation, from the rapid pace of technological progress and the resulting structural change in OECD economies, and from population ageing. Regulatory reform can continue to play an important role in responding to these challenges. Hence, a number of steps are recommended. The scope of regulatory reform could be expanded and the pace accelerated. Regulations could be systematically reviewed to ensure that they continue to meet their intended objectives efficiently and effectively. The role and vigour of regulatory impact analysis could be strengthened to increase the cost-effectiveness of government action, and the institutions responsible for competition, regulation and reform could also be strengthened. At the same time, policy linkages could be better co-ordinated.[63] Moving forward in these ways, along with the development and implementation of further legislation, could help to build on the progress of the MDW project and the other initiatives aimed at strengthening the competitive tones in the economy, thereby enhancing efficiency and sustaining the strong performance of the Dutch economy in recent years.

IV. The health care system

Introduction

Despite many attempts at reform over the past decade or so, the Netherlands continues to face difficulties with the financing, delivery and performance of its health care system, although in a less severe form than many other OECD countries. The 1987 Dekker report provided a blueprint for health care reform: it suggested the creation of a national health care insurance scheme (or ''basic'' insurance), combined with a decisive shift away from direct government involvement in the determination of the volume and price of health services towards regulated competition, both in the market for health insurance and in the market for health care itself. These proposals were only partly implemented in the early 1990s, as the process met with fierce opposition and was subsequently stopped. In the more recent period, reform has been more of a piecemeal nature and, despite advocating the introduction of more market-oriented mechanisms, the authorities have in fact steadily increased their reliance on rules and controls in an attempt to contain expenditure while preserving a high degree of solidarity. As a result, the Dutch health care system has become institutionally quite complex, with equity and social considerations permeating virtually all its arrangements. Simplifying somewhat, it can be said to be rather unusual in the OECD area in that it is financed by a mixture of social and private insurance, with mainly private providers.

Despite some overshooting, the cost-containment approach, centred on an expenditure norm complemented by budget capping for specific sectors, has broadly worked. Total health care spending has remained at around 8 per cent of GDP – only a little above the OECD average. However, waiting lists have appeared in some areas, and this is regarded by many observers as the major current problem of the Dutch health care system. Over the longer term, faced with the prospect of a growing demand for health care services as a result of developments in medical technology and population ageing, the authorities feel that health reform is necessary to keep the system affordable. More generally, keeping health expenditure under control is an important element in the government strategy of curbing overall public expenditure in order to cut taxes and enhance economic growth. Nonetheless, given the partial failure of the Dekker reform, the government is reluctant to attempt a new overhaul of the system, even though the recent discussion and advices on pharmaceuticals may point to an increasing willingness to think about larger reforms of the entire health care system.

This chapter is divided into four sections. After presenting a brief overview of the historical evolution of the Dutch health system, in the first section, its main features – in terms of institutional aspects and outcomes – are discussed in the second section. The third section considers recent reforms and developments. And the final section identifies current and prospective problems, major policy issues, and recommendations for further policy initiatives.

Historical overview

Before the Second World War, government involvement in the health sector was very limited. Health services were mainly provided by non-state organisations, in particular based on religion, or independent working doctors. Sickness funds – set up by either mutual societies or doctors – assured access to these services while charities formed a safety net for the poor and the elderly. Proposals for a social health insurance failed due mainly to divisions between the governing coalition parties and fierce opposition from the medical profession fearing for their autonomy. The 1941 Sickness Fund decree (*Ziekenfondsenbesluit 1941*) imposed by the German occupying authorities was the first step toward social health insurance. This decree required all wage earners with income below a certain limit to join a sickness fund. Moreover, sickness funds no longer faced any insurance risk, as they were fully reimbursed for their expenditure by central government. From 1941 to 1965, the system of compulsory insurance was progressively developed, extending it both to new type of entitlements and new groups of non-employees, such as pensioners. In 1966, the Sickness Fund decree was replaced by the Sickness Fund Act (ZFW or *Ziekenfondswet*).

The insurance system was broadened by the introduction of a mandatory insurance for long-term care and exceptional health expenditures (AWBZ) in 1968. However, the introduction of a general social health insurance – an idea first debated in 1904 – failed on several occasions. The most radical and influential reform along this line was that proposed by the Dekker Committee in 1987. The government endorsed most of the Dekker proposals, and in particular the setting up of a single and universal health care insurance. A detailed timetable was prepared with a view to completing the transition to the new system by 1992. The main idea was to broaden the AWBZ and change it into a basic insurance scheme. However, as the project progressed, opposition strengthened and the reform was abandoned in 1992. The Willems Committee – investigating the failure of health care reform – concluded that, although the general goals of the reform were widely supported, the reform was lacking in clarity on some key technical and political questions, in particular the budget criteria for the sickness funds, the scope and coverage of the basic insurance, and the degree of income solidarity in health care funding. Other important reasons for the abortion of the reform were the disagreement over the introduction of co-payments in the basic insurance scheme and a fear of uncontrolled spending.

From the mid-1970s, consecutive governments became increasingly concerned about controlling rapidly increasing costs and about better planning of health care services. This resulted in the adoption of laws on health care charges (1980) and centralised planning of health care facilities (1982). In the mid-1980s, the hospital tariff system was replaced by a system of budget financing for each medical department and, starting in the mid-1990s, specialists' budgets were also integrated in this system. Since 1995, the government has used an expenditure growth norm for the health care budget, as part of an overall public expenditure norm.[64] Given the overall health care budget, the Minister of Health determines budgets for each sector. Health care insurers and providers have to remain within these budgets and, hence, negotiations between these parties mainly concentrate on the volume of medical acts. For the period 1995-98, health care expenditure was set to grow by only 1.3 per cent per annum in real terms but, as this proved to be too strict, the government allowed for some overruns and increased it to 2.1 per cent for the period 1999-2002.

As divisions on health care reform run deep also in the current coalition of socialist and liberal parties – which came to power in 1994 – the government has decided to abandon the idea of a universal mandatory health insurance and broadly to retain existing arrangements. The government programme for the period 1999-2002 proposes only minor changes in the insurance system, mainly to open the sickness funds to self-employed with a low income, and to streamline insurance arrangements between the basic public health care scheme (ZFW) and the long-term care and exceptional medical expense scheme (AWBZ).

Main features of the heath care system

Institutional aspects

Health care in the Netherlands is mainly provided by independent practitioners and non-profit institutions. The system is financed by a mixture of social and private insurance contributions, combined with co-payments and government grants. The whole population is insured for chronic health risks (or long-term care) and exceptional medical expenses. As for the other health risks (or basic and supplementary insurance), a distinctive feature of the system is the co-existence of private and social insurance: about 65 per cent of the population is compulsorily insured for these health risks by sickness funds (social insurance), while the rest of the population relies on voluntary private insurance.[65] The general practitioner plays a key role as provider of nearly all primary medical care and as gatekeeper for specialists and hospitals.

Health care insurance

There are four main schemes (or groups of schemes) (see Box 5 for more details):

– A social long-term care and exceptional medical expense scheme (AWBZ) covering the whole population. It is financed mainly by income-related contributions (up to a maximum amount). It represented € 12.7 billion in 1998, or 40 per cent of total health care expenditure.
– A compulsory social scheme (ZFW) for basic health care, covering mainly private sector employees and social benefit receivers below a certain level of income and their dependants (about 65 per cent of the population); from 2000 self-employed with a low income will be able to join the scheme. It is implemented by sickness funds and largely financed through income-based contributions (paid by both employers and employees). Benefits are provided in kind, basically without co-payments. It represented € 10.9 billion in 1998.
– Compulsory social schemes (IZA, IZR, DGPV) covering employees from local authorities and police forces, corresponding retirees and their dependants (about 6 per cent of the population). Contributions are income-related and equally shared between employers and employees. It amounted to € 0.1 billion in 1998.
– Voluntary private insurance for basic and supplementary risks for the rest of the population (about 30 per cent of the population). Contributions are risk-based and include a lump-sum solidarity fee to the sickness funds. It amounted to € 5.0 billion in 1998.

Health care providers

General practitioners perform the role of gatekeepers of the system for people insured in the ZFW scheme, as well as for those insured in one of the private schemes. Typically, they can deal with more than 90 per cent of cases without referring the patient to specialised (para-) medical professionals. Generalists receive a capitation fee for people in the ZFW scheme and are paid on a fee-for-service basis by privately insured patients. Specialists are paid for their services at fee levels applicable to both private and sickness fund patients. In general, maximum health care fees are determined by the independent government agency COTG (*Centraal Orgaan Tarieven Gezondheidszorg* or Central Agency for Health Care Charges), after being negotiated between insurers and health care providers.[66] In the past, the minister of Health fixed the budget for each medical

Box 5. The main health insurance schemes

AWBZ (Exceptional Medical Expenses Act)

The AWBZ is a compulsory scheme that covers the whole population mainly for long-term care in nursing homes, psychiatric institutions and hospitals. It is financed by income-related contributions (up to a maximum amount), government grants and co-payments. The scheme is managed by the Board for Health Care Insurers (*College voor Zorgverzekeringen*, CVZ)[1] and implemented by health care insurers – in practice, the dominant regional sickness fund.

ZFW (Sickness Fund Act)

The ZFW provides mandatory coverage for around 65 per cent of the population, consisting of private sector employees and social security benefit receivers below an income threshold and their dependants. The ZFW is implemented by sickness funds, most of which have a strong regional basis. The financing of the ZFW and the sickness funds has a large solidarity element: members' contributions are not related to risk but are largely dependent on income (and paid to the social security system), with only a small lump-sum contribution for each insured person being levied directly by the sickness funds. Moreover, privately insured persons participate in the financing through a solidarity contribution, and the government also pays a small contribution. Benefits are provided in kind without co-payments.[2] The government – on advice from the CVZ – determines the income-dependent part of the ZFW contributions, the income threshold and the contents of the scheme. From January 2000, self-employed with an income below the threshold will be able to join the ZFW scheme. Sickness funds also offer a complementary health insurance for a small additional lump-sum contribution, usually covering more extensive dental care, higher standard of hospital accommodation and alternative medicine.[3]

Civil servants health care schemes

Civil servants in local authorities and police forces are statutorily insured in the IZA, IZR or DGPV schemes. The insurance package is broader than the ZFW package, in particular concerning dental care. Contributions are income related and equally shared between employers and employees. Like private insurance, patients pay for most ambulatory care and are reimbursed in most cases for 90 per cent of their expenditure.

Private insurance

People who are not covered by a compulsory scheme can take out a voluntary private health insurance. Premiums are risk related and depend on the chosen degree of insurance cover. To guarantee access to health insurance, private insurers have to offer a standard package (the so-called WTZ) comparable with the ZFW and with a contribution rate determined by law. Almost all privately insured pensioners are in the WTZ scheme. On top of their own premiums, privately insured persons pay lump-sum solidarity contributions to the sickness funds (the so-called MOOZ contribution) and to the WTZ scheme (mostly for people over 65). Product and premium differentiation is so wide and complex that it is difficult for the consumer to make a choice. Also, other factors such as service and policies to avoid waiting lists may play a role in the choice of insurer. Private insurance is offered to the consumer in different ways: some insurers use direct mail to inform potential clients about their products; others sell their products through independent consultants, who receive a standard fee from the

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insurer.[4] Moreover, insurers may offer collective contracts to employers for their employees and their dependants. About 20 per cent of privately insured people are insured in such a way.

1. The CVZ is a quasi-autonomous non-governmental organisation that was set up in 1999. The nine board members are appointed by the government. Its main tasks are the administration of the AWBZ scheme and the central fund of the ZFW scheme. It also controls the administration of health care insurers and advises the Minister of Health concerning contributions for the ZFW and AWBZ schemes. The CVZ is the successor of the Sickness Fund Council, which had a much broader representation, with representatives from employers, employees, insurers, providers and patients.
2. For pharmaceuticals, a co-payment of 100 per cent is required for the portion of the price exceeding the reimbursement level.
3. Expenditure covered by this complementary health insurance is recorded as being "private", rather than "public".
4. There is no supervisory body for independent consultants, but there is an ombudsman for complaints. However, in the case of wrong advice, it can be difficult and costly for the insured to claim damages.

speciality. If the budget was exceeded, prices for treatments were reduced accordingly. Since 1995, almost all specialists practising in a hospital setting agree with the hospitals and insurers on lump-sum payments for a contracted number of treatments.

General practitioners and specialists are well organised in professional associations. The bargaining power of these groups is strengthened by the strict limitations of the number of care providers. The number of medical students is limited by *numerus fixus* at medical faculties and available training places for students. Moreover, in case of excess supply, the sickness funds effectively control the number of general practitioners, dentists, physiotherapists and pharmacists by selective contracting. The number of other specialists is limited by the availability of hospital places and, in general, doctors who want to practise in a hospital have to pay a substantial goodwill fee.

Hospitals – with the exception of academic hospitals – are private non-profit institutions. Outpatient departments are an integral part of the hospital system. Since 1988, hospitals have been subject to the so-called "function-directed" budget system in which hospitals and insurers (private and sickness funds) agree with each institute on the number of hospital admissions, day treatments, initial polyclinic visits and hospital days. Hospital charges are determined by dividing the hospital budget – corrected for costs of certain specialised treatments – by a normative number of days of hospitalisation, irrespective of the actual costs of the treatment. The budget is guaranteed regardless of whether these production agreements are fulfilled, but the actual production will be taken into account in the agreements for the following year. The budget needs approval from the COTG, which may reduce it if the total of the hospital budgets exceeds the government's objective in this area.

Pharmaceuticals

The registration of pharmaceuticals is regulated by law, based on quality, efficiency and safety as defined in EU directives. Prices for pharmaceutical products are strictly regulated by the 1996 Drug Prices Act (*Wet Geneesmiddelenprijzen*) which prescribes that the maximum list price (or sale price) of a pharmaceutical product is the mean of list prices of comparable products in Belgium, Germany, France and the United Kingdom. Once a pharmaceutical has been admitted, the Board of Health Insurers advises the Minister of Health on its reimbursement. In the case of a positive outcome, the new product will be clustered in a group of "therapeutically interchangeable" drugs.[67] Public reimbursement limits are set by the Minister on the basis of the average list price for each cluster. This so-called "reference pricing system" is also used in many other European countries. Drugs with a price above these limits are subject to co-payments.

Pharmaceuticals are mainly dispensed by about 1 600 pharmacies. In addition, many general practitioners in rural areas and one sickness fund (AZIVO) have their own dispensaries. The number of pharmacies is strictly controlled by the sickness funds and starting pharmacists often have to pay goodwill fees to take over an existing pharmacy. In the Dutch health system, pharmacists are considered more as health care providers than as shopkeepers. For this role, they receive, from the sickness funds and privately insured patients, a small amount for every prescribed drug.[68] Pharmacists are allowed to substitute cheaper alternatives (generic drugs) for brand name drugs, if the physician prescribes a drug by its substance name. To encourage this substitution, pharmacists can keep a third of the difference between the average cluster price and the price of the generic drugs. However, doctors' unfamiliarity with substance names as well as the ease of writing down well-known brand names has limited the effectiveness of this measure. Furthermore, this substitution is made financially unattractive, and the use of generic medicines is undermined, by bonuses and discounts that pharmacists receive from brand-name manufacturers. Nonetheless, the reference pricing system, combined with the substitution incentive, has allowed for a widespread use of generic drugs comparable with that of countries with the most developed generic drug systems, such as the United Kingdom, Germany and Canada. Their use may be increased further by the recently introduced electronic prescription system (EVS) for generalists, which facilitates prescriptions by active ingredients.

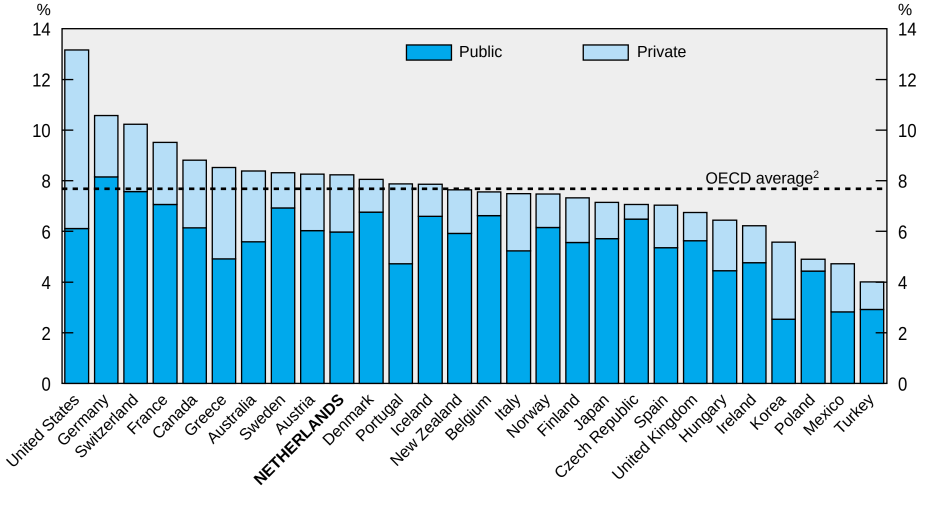
Performance and costs

Health care spending

According to OECD data,[69] health care spending in the Netherlands is broadly in line with that of other Member countries on average.[70] Total health spending (public and private), accounted for 8.2 per cent of GDP in 1997, only a little above the (unweighted) OECD average (Figure 10). Per capita health expenditure (measured at purchasing power parity) was also only marginally above the OECD average, and was in line with the "expected" level, given the Netherlands' per capita income (Figure 11). Compared with other OECD countries, a relatively large proportion of health expenditure is privately financed, the main reason being that, as noted, high-income earners are not covered by the basic social scheme (ZFW). Most private health spending is covered either by private insurance schemes or by the sickness funds' complementary insurance schemes. Co-payments, at around 8 per cent of health expenditure, are relatively unimportant compared with other countries, and are mainly incurred by privately insured persons.

Figure 10. **Health expenditure in OECD countries**

As a percentage of GDP, 1997[1]

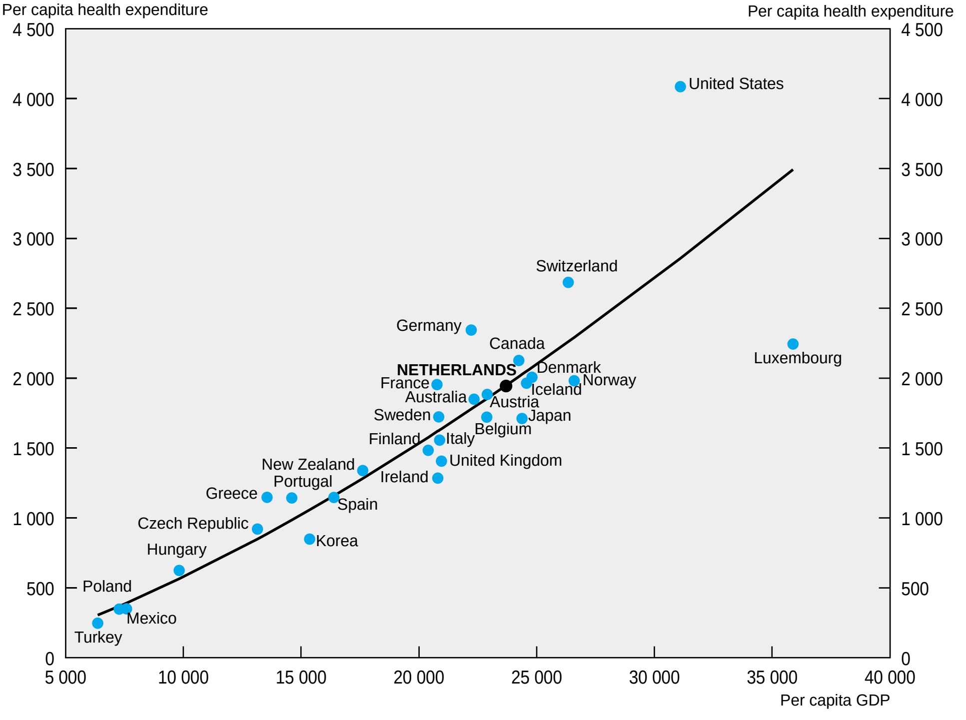


1. Calculated using values, current prices.
2. Unweighted average of total health expenditure as a percentage of GDP, for the 28 countries shown.

Source: *OECD Health Data 99* and OECD Secretariat.

Figure 11. **Health expenditure and GDP per capita, 1997**

US$[1]



1. Total expenditure on health care and GDP, at current prices, converted into US dollars at purchasing power parity exchange rates.

The equation of the regression line is the following:

LN(Health expenditure per capita) = -6.6 + 1.4LN(GDP per capita)

R squared = 0.93 T : (-8.8) (18.3)

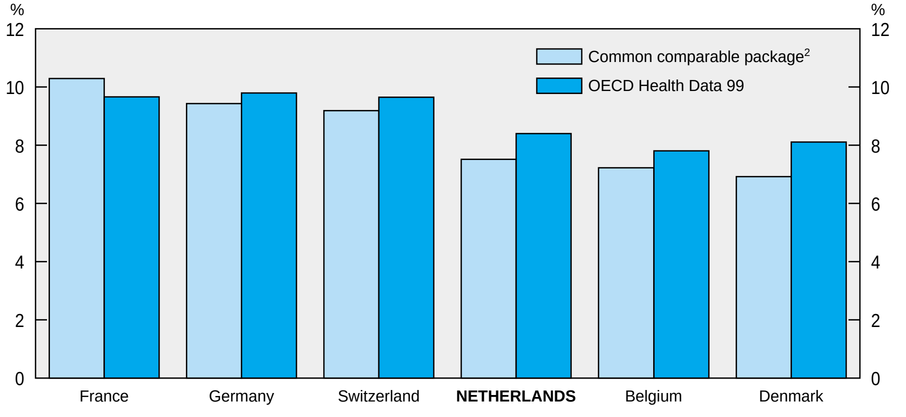
where LN is the natural logarithm and T is the t statistic.

Fitted values are converted to levels to produce the line graph.

Source: *OECD Health Data 99.*

Given differences in definitions, comparing health data among countries is difficult. Hence, Statistics Netherlands – at the request of the Dutch Ministry of Health, Welfare and Sports – has undertaken a project in this area ("International Comparison of Health Care Data") in co-operation with experts from Belgium, Denmark, France, Germany, Switzerland, OECD, WHO/Europe and Eurostat. After bilateral comparison between Dutch health data and those in participating countries, a common comparable package (CCP) of health care was defined.[71] On this basis, the difference in health care spending – as a percentage of GDP – between

Figure 12. **International comparison of health expenditure**
as a percentage of GDP, 1995[1]



1. 1994 for Germany.
2. Reference health care package constructed for international comparisons by Statistics Netherlands (see Van Mosseveld and Van Son, 1998).

Source: Statistics Netherlands; *OECD Health Data 99* and OECD Secretariat.

the Netherlands and the lowest spending country, Denmark, is about the same (½ of a percentage point) as on the basis of the OECD data. But the difference with the highest spending country, France, widens from 1.0 to 2.5 percentage points (Figure 12). In per capita terms, CCP health spending in the Netherlands is, after Belgium, the lowest among the countries participating in the project.

The Netherlands tends to spend relatively more on intramural care than most other countries. The number of beds per inhabitant is one of the highest in OECD countries (Table 10), but this is only due to the relatively high number of nursing home beds; the Netherlands has one of the highest proportions of elderly people receiving long-term care in institutions. This factor also accounts for the relatively long average length of hospital stay. On the other hand, the number of acute care beds is – at almost four beds for 1 000 inhabitants – relatively low compared with neighbouring countries. The number of health practitioners in the Netherlands is very low compared with other OECD countries, reflecting a strict control on the access to medical schools (*numerus fixus*) and specialist training (Table 11). There are only five general practitioners for every 10 000 inhabitants compared with more than ten general practitioners in surrounding countries and only a little less in EU and OECD countries on average. As older doctors are increasingly opting for early retirement and younger doctors often only want to work part-time, there is a shortage of general practitioners in certain regions.[72]

Table 10. **Hospital capacity and utilisation**[1]

	Beds per 1 000 population		Average bed occupancy %		Average length of hospital stay, days		Admission rate of population %	
	1970[2]	1997[2]	1970[2]	1997[2]	1970[2]	1997[2]	1970[2]	1997[2]
Netherlands	**11**	**12**	**91**	**88**	**38**	**32**	**10**	**11**
United States	8	4	80	66	15	8	16	12
Japan	13 ¦	16	82	84	55	43	5	10
Germany	11 ¦	9	89 ¦	76	24 ¦	13	15 ¦	22
France	9	9	83	82	18	11	7 ¦	23
Italy	11	7	78	73	19	9	16	19
United Kingdom	9	4	82	80	26 ¦	10	11 ¦	23
Canada	7	4	80	84	12 ¦	12	17	12
Australia	11 ¦	9	82 ¦	82	17 ¦	15	18	16
Austria	11	9	86	78	22 ¦	10	16 ¦	27
Belgium	8	7	86	84	21	11	9	20
Czech Republic	11	9	79	75	16	12	20	21
Denmark	8	5	81	83	18	7	14	20
Finland	15 ¦	9	91	88	24	12	18	26
Greece	6	5	76	69	15	8	11	15
Hungary	8	8	90	80	15	10	17	25
Iceland	13 ¦	16	98 ¦	84	28	17	16	29
Ireland	6	4	80	83	13	7	12	15
Korea	2	5	57	70	14	13	..	..
Luxembourg	13	8	83	75	27	15	13	19
Mexico	1 ¦	1	66 ¦	71	4	4	4 ¦	6
New Zealand	11	6	57	57	16	7	9	14
Norway	16	15	83	83	21	10	13 ¦	15
Poland	5	5	..	..	13	10	12	14
Portugal	6 ¦	4	74 ¦	74	24 ¦	9	7	12
Spain	5	4	69	77	18 ¦	11	7	10
Sweden	15 ¦	5	84 ¦	82	27	8	17	18
Switzerland	20	21	85	83	26	25	13	15
Turkey	2	3	52	59	9	6	4	7
EU[3]	10	7	82	79	22	12	12	19
OECD[3]	9	8	79	78	21	13	12	17

Note: ¦ indicates break in series.

1. For in-patient care; refer to the *OECD Health Data 99, Sources and Methods* for details of concept variations across countries.
2. Or nearest year available:
   beds per 1 000 population,
   instead of 1970 – France 1972; Czech Republic 1975; Ireland 1972; Korea 1978; Mexico 1980; Norway 1975; Switzerland 1988;
   instead of 1997 – United States, Italy, Australia, Belgium, Finland, Greece 1996; Iceland 1992; Spain 1995; Switzerland 1991;
   average bed occupancy (%),
   instead of 1970 – Netherlands, Ireland, Luxembourg, Mexico, Switzerland 1980; France, Czech Republic 1975; Canada 1976; Australia 1969; Belgium, Denmark 1977; Korea 1971; New Zealand 1990; Norway 1978; Spain 1972; Sweden 1973;
   instead of 1997 – United States, Belgium, Finland 1995; Italy, Australia, Denmark, Ireland, Norway, Sweden 1996; United Kingdom, Greece, Luxembourg, Spain 1994; Canada 1993; Iceland, New Zealand, Switzerland 1991;
   average length of hospital stay (days),
   instead of 1970 – Australia 1985; Belgium 1977; Czech Republic 1975; Korea 1971; Mexico 1986; Poland 1990; Spain 1972;
   instead of 1997 – United States, Italy, United Kingdom, Canada, Australia, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, Norway, Spain, Sweden 1996; Iceland 1992; Switzerland 1987;
   admission rate of population (%),
   instead of 1970 – Australia 1985; Czech Republic 1975; Mexico 1982; Poland 1980; Spain 1972;
   instead of 1997 – United States, Italy, United Kingdom, Canada, Australia, Belgium, Denmark, Finland, Ireland, Mexico, Norway, Spain, Sweden 1996; Greece 1995; Iceland 1992; Luxembourg, Switzerland 1994.
   For all variables, data for 1970 refers to western Germany and data for 1997 refers to Germany.
3. Unweighted average for figures in table.

Source: OECD Health Data 99.

Table 11. **Indicators of resource use in the health sector**[1]

	Average annual growth in number of physicians[2] %		General practitioners per 10 000 population	Specialists per 10 000 population	Consultations with physicians per capita[3]	Total expenditure on pharmaceuticals per capita[4]
	1970-80[5]	1980-97[5]	1997[5]	1997[5]	1997[5]	1997[5]
Netherlands	**3.9**	**2.4**	**5**	**10**	**6**	**212**
United States	3.3	2.8	8	15	6	408
Japan	2.8	2.8	..	..	16	363
Germany	3.4	ǀ 2.5	10	22	7	290
France	5.2	ǀ 1.1	15	15	7	341
Italy	9.8	ǀ 3.7	9	5	7	303
United Kingdom	2.7	2.0	6	..	5	235
Canada	3.6	2.1	9	9	7	293
Australia	5.4	ǀ 1.9	14	9	7	218
Austria	2.0	3.8	13	16	6	286
Belgium	4.8	2.8	15	16	8	318
Czech Republic	2.7	1.4	7	22	..	235
Denmark	4.9	2.0	6	1	6	174
Finland	6.8	3.6	16	14	4	222
Greece	5.1	3.6	13	21	5	237
Hungary	4.0	0.8	7	28	15	174
Iceland	5.3	3.6	6	..	5	308
Ireland	2.5	3.4	4	3	7	127
Korea	..	7.0	..	..	..	..
Luxembourg	4.9	ǀ 4.5	8	16	..	251
Mexico	..	3.9	6	7	2	29
New Zealand	5.2	3.1	8	7	4	193
Norway	4.1	ǀ 2.6	8	19	4	181
Poland	3.2	2.3	..	18	5	..
Portugal	9.0	2.7	6	21	3	309
Spain	6.6	4.2	..	..	6	239
Sweden	5.7	ǀ 1.5	6	22	3	220
Switzerland	5.4	2.6	6	11	11	207
Turkey	7.0	6.2	6	5	2	60
EU[6]	5.1	2.9	9	14	6	251
OECD[6]	4.8	3.0	9	14	6	238

Note: ǀ indicates break in series.
1. Refer to the *OECD Health Data 99, Sources and Methods* for details of concept variations across countries.
2. For the Netherlands, the number of physicians is estimated as the sum of general practioners with their own practice and specialists.
3. Consultations in ambulatory care activity.
4. Expenditure is converted into US dollars at purchasing power parity exchange rates.
5. Or nearest available year:
   average annual growth in number of physicians,
   instead of 1970-80 – 1979-80 for the United Kingdom; 1971-81 for Australia; 1971-80 for Belgium, Ireland and New Zealand;
   instead of 1980-97 – 1980-96 for Netherlands; 1991-97 for Germany, Mexico and Sweden; 1995-97 for France; 1985-97 for Italy; 1993-97 for Australia; 1987-97 for Luxembourg; 1991-96 for Norway;
   Germany, 1970-80, refers to western Germany;
   general practitioners per 10 000 population,
   instead of 1997 – 1995 for Belgium; 1990 for Greece; 1996 for Sweden and Turkey; 1994 for Switzerland;
   specialists per 10 000 population,
   instead of 1997 – 1996 for Netherlands, Sweden and Turkey; 1993 for Italy; 1995 for Belgium and Poland; 1992 for Greece; 1994 for Switzerland;
   consultations with physicians per capita,
   instead of 1997 – 1996 for United States, Japan, Germany, France, United Kingdom, Australia, Finland and Iceland; 1994 for Italy; 1995 for Canada and Hungary; 1982 for Greece; 1988 for Ireland; 1981 for New Zealand; 1991 for Norway; 1989 for Spain; 1992 for Switzerland;
   total expenditure on pharmaceuticals per capita,
   instead of 1997 – 1996 for Japan, Australia, Greece, Hungary, Ireland, Luxembourg and Norway; 1993 for Mexico; 1994 for Turkey.
6. Unweighted average for figures in table.

Source: *OECD Health Data 99.*

After a rapid growth in the sixties, health care spending has remained well under control in the Netherlands compared with other OECD countries. Since 1990, strict budget capping of health care expenditure has resulted in it only rising annually by about ½ of a percentage point above GDP growth, close to the EU average but well below the OECD average (Table 12).[73] For the period 1988-94, the National Institute for Public Health and Environment (*Rijksinstituut voor Volksgezondheid en Milieu* or RIVM, 1997) has estimated the contributions of several health care spending determinants for a comparable subset of expenditure, covering 85 per cent of care. This subset increased by 2.3 per cent per annum in

Table 12. **The growth of nominal health spending**[1]

	Average annual growth in excess of GDP				As a percentage of GDP	
	1960-70[2]	1970-1980[2]	1980-90[2]	1990-1997[2]	1960	1997
Netherlands	**4.9**	**3.3**	**0.2** |	**0.4**	**3.7**	**8.2**
United States	3.5	2.5	3.4	1.3	5.1	13.2
Japan	5.0	4.1	–0.8	2.4	3.0	7.1
Germany	2.2 |	3.8	–0.1 |	2.6	4.7	10.6
France	3.9 |	3.0	1.8	1.3	4.1	9.5
Italy	4.0	3.7	1.6	–1.1	3.6	7.5
United Kingdom	1.5	2.6	0.6	1.8	4.0	6.8
Canada	2.8	0.3	2.6	–0.4	5.4	8.8
Australia	1.7	3.2	0.7	0.8	4.8	8.4
Austria	2.3	4.2	–0.7	2.1	4.3	8.3
Belgium	1.9	5.4	2.2 |	–0.6	3.4	7.6
Czech Republic	..	..	..	7.4	..	7.1
Denmark	5.6	1.0 |	–1.2	–0.5	3.6	8.1
Finland	4.2	1.5	2.3 |	–3.4	3.9	7.3
Greece	6.7	1.9	1.7	2.0	3.1	8.5
Hungary	..	..	..	1.1	..	6.4
Iceland	5.0 |	2.5	3.5	–0.1	3.3	7.9
Ireland	3.8 |	3.0	–2.9	–0.5	3.7	6.2
Korea	..	6.2	3.9	1.2	..	5.6
Luxembourg	..	5.8	0.4 |	–0.3	..	6.3
Mexico	..	..	..	5.5	..	4.7
New Zealand	2.2	1.8	1.2	1.4	4.4	7.7
Norway	4.6	5.2	1.2 |	–2.0	2.9	7.5
Poland	..	..	..	2.1	..	4.9
Portugal	..	9.4	1.5	3.3	..	7.9
Spain	10.5	5.1	2.3	0.9	1.5	7.0
Sweden	5.1	2.6	–0.7 |	–0.6	4.6	8.3
Switzerland	5.1	3.1	2.0	3.1	3.3	10.2
Turkey	..	4.5	1.3	2.6	..	4.0
EU[3]	4.4	3.7	0.6	0.5	3.7	7.9
OECD[3]	4.1	3.6	1.1	1.2	3.8	7.6

Note: | indicates break in series.

1. Including investment; refer to the *OECD Health Data 99, Sources and Methods* for details of concept variations across countries.
2. Variations to take into account series breaks:
   instead of 1960-70 – Germany, France 1960-69; instead of 1970-80 – Denmark 1970-79; Iceland 1972-80; Ireland 1975-80;
   instead of 1980-90 – Belgium 1980-87; Netherlands 1980-88; instead of 1990-97 – Germany, Belgium 1991-97; Finland, Norway 1993-97; Luxembourg 1996-97; Sweden 1992-97.
   Data for Germany up to 1990 refer to western Germany.
3. Unweighted average for figures in table.

Source: OECD Health Data 99 and OECD Secretariat.

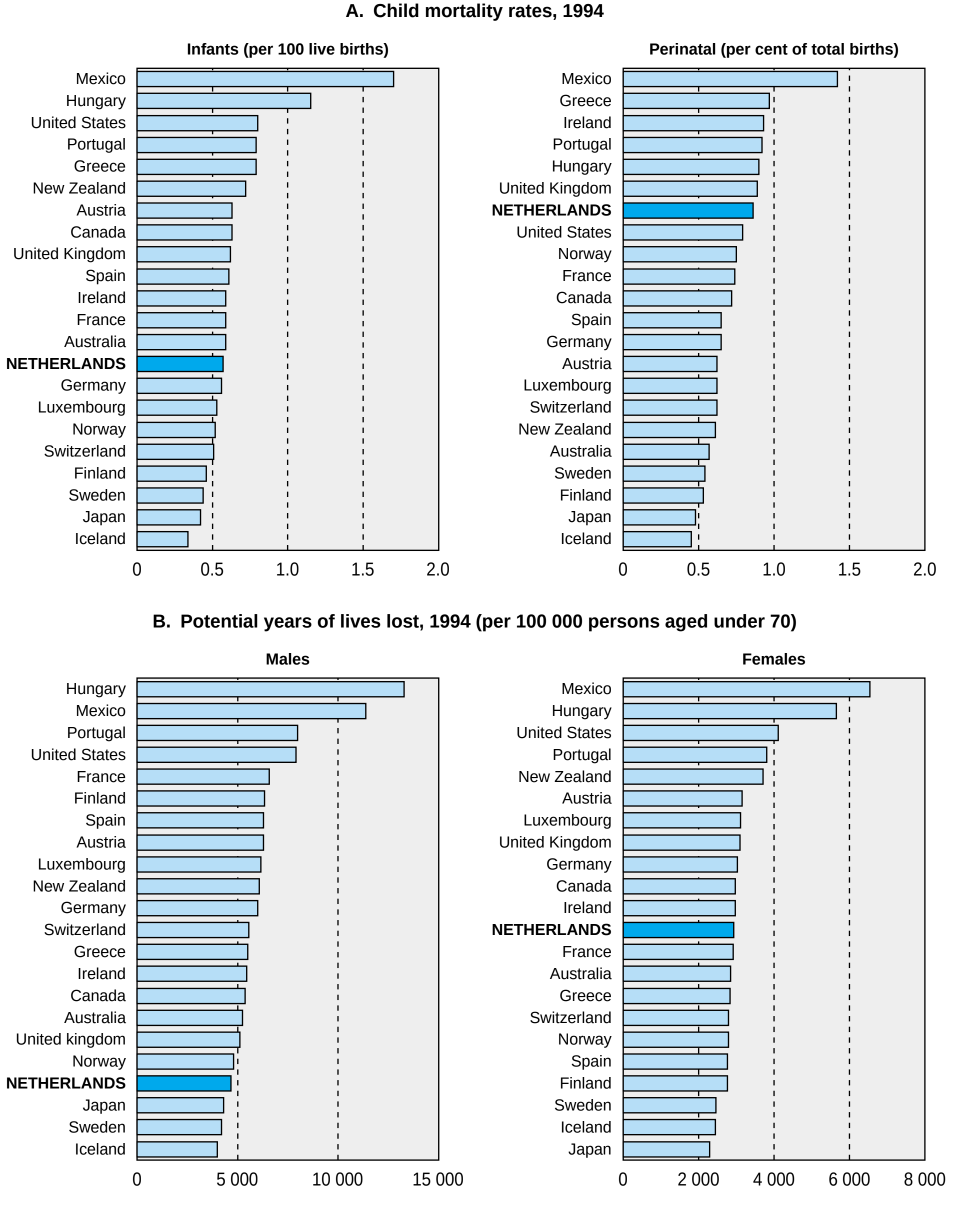
volume, of which 1.3 per cent was due to demographic factors and 1 per cent to other factors such as epidemiological and medical technological developments. Among the different disorders, expenditure for cardiovascular diseases and dementia were rising fastest, mainly related to medical progress such as open heart surgery and an increase in the number of nursing homes.

Performance

The purpose of health care policy is at least threefold: to improve the overall health status of the population; to deliver health services which are responsive to consumer wishes; and to minimise costs subject to achievement of the foregoing. Traditionally, the health status indicators have concentrated on mortality data, such as life expectancy, infant mortality, and potential life years lost (Figure 13). Life expectancy at birth – which was 77 years for women and 71 years for men in 1970 – rose to 80 and 75 years, respectively, in 1996 and ranks among the highest in the OECD area. However, it is not easy to link these outcomes directly to health care spending as mortality is affected by many factors such as life style.[74] Moreover, the primary aim of most health care spending and medical intervention is not so much to prolong life but more to improve living conditions. Therefore, as in many other OECD countries, the authorities have started to collect data on morbidity and quality of life (see Jee and Or, 1998).

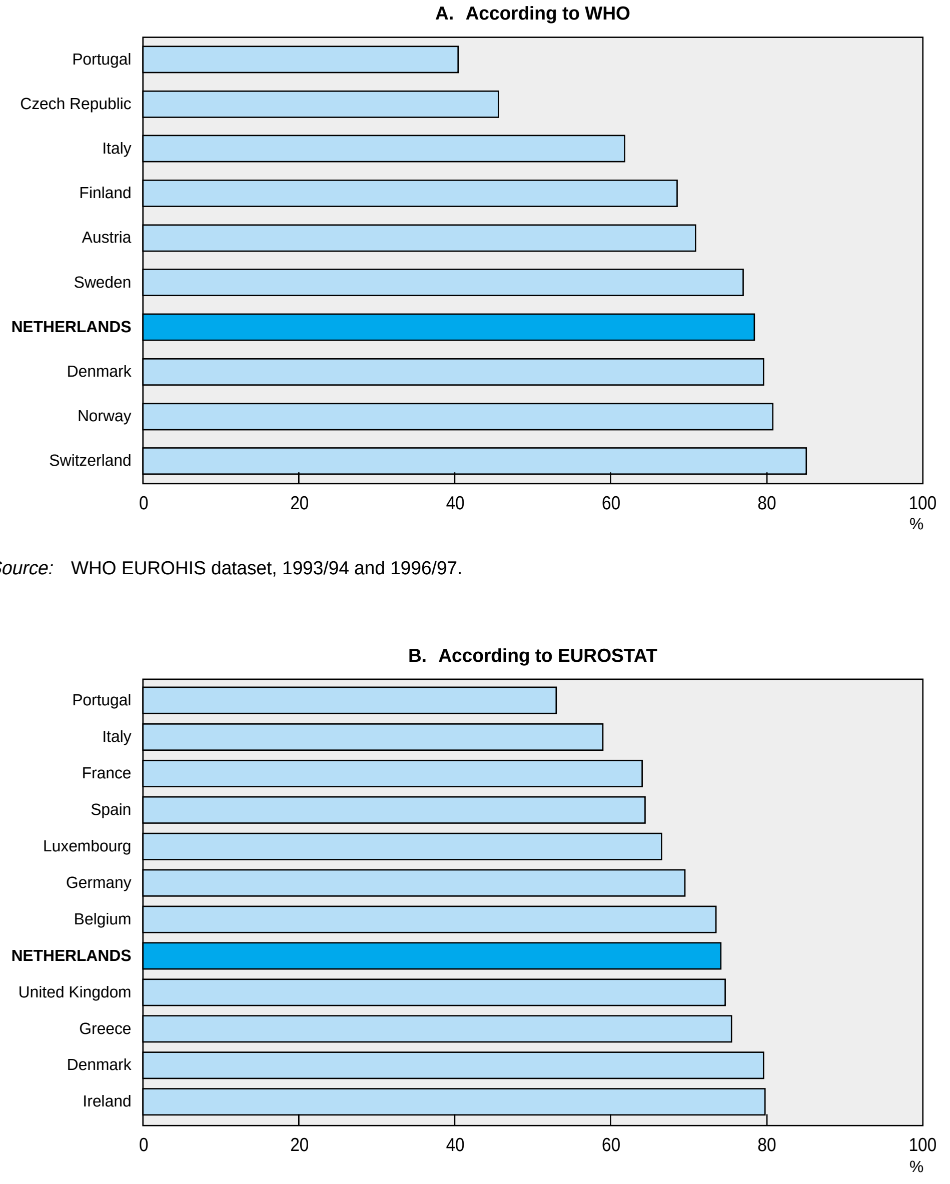
One measure for the overall health status of the population is the self-perceived health status. Despite its subjective nature, this measure seems to be a useful indicator as it is associated with other health status indicators and the use of health services. However, international comparisons are difficult due to different methods and instruments used across OECD countries. Both the WHO EUROHIS[75] and Eurostat's European Community Household Panel Survey have developed internationally comparable heath status indices for selected European countries (Figure 14). Based on these estimates, the Netherlands ranks among the countries with the best health status. Mortality data can be combined with health status data to construct a Healthy Life Expectancy (HLE) measure. For the Netherlands, the HLE for both men and women is about 60 years. However, the HLE for men has been steadily increasing, whereas the female HLE has been declining as women have adopted more health damaging lifestyles partly as a result of their rising participation rate in the labour market. A more refined method to measure the overall health status of the population is the Disability-Adjusted Life Years (DALY).[76] The Netherlands has begun to calculate estimates of DALYs, which could contribute to the setting of priorities in health care. Although the overall health status of the population is relatively high, some groups (*e.g.* disabled, divorced, less educated, low-income earners, and immigrants) have a substantially worse health status than the population average. Less-educated people have a life expectation at birth that is 3½ years lower than for people with a higher education and their expected healthy life expectation is

Figure 13. **International comparison of health outcomes**



Source: *OECD Health Data 99.*

Figure 14. **Proportion of total population reporting "good" and "very good" health status in selected countries, 1991-96**



Source: WHO EUROHIS dataset, 1993/94 and 1996/97.

Source: EUROSTAT, European Community Household Panel Survey, Wave 1994.

11½ years lower (RIVM, 1997). Some health indicators show that health differences between social economic groups have increased over the past decade, but other show a narrowing of the gap. Furthermore, the share of lower educated people in the total population has decreased.

Taking into account all of the above indicators the performance of the Dutch health care system, on the whole, would seem to be rather good. Also, after the Danes and the Finns, the Dutch reportedly are the most satisfied with their health system in the European Union (Mossialos, 1997). Nonetheless, the existence of waiting lists represents an important qualification. In this respect, it is important to distinguish between waiting lists that are used for an optimal utilisation of existing capacity – the so-called "planning lists" – and the "problematic" waiting lists that may be seen as evidence of insufficient resources. However, the lack of uniform registration and norms on acceptable waiting times in many areas of health care makes it difficult to establish when a planning list becomes problematic. It is also difficult to determine to what extent problematic waiting lists result from an overall lack of resources requiring a rationing process, and to what extent they reflect a misallocation of resources. Excess demand in some regions can co-exist with excess capacity in neighbouring regions, and even within a given institution waiting times can differ substantially depending on the area of specialisation. Nonetheless, it would seem that, following the introduction of a strict overall growth norm, health care has been rationed and waiting lists have appeared in several areas. In March 1999, about 145 000 people were on waiting lists for specialist care in hospitals, about 5 000 less than a year earlier; but the number of patients waiting longer than a month – a proxy for the "problematic" waiting list – rose by 1 per cent to almost 90 000 (Laeven and van Rooij, 1999).[77] Areas of specialisation with long waiting lists are orthopaedic care, ophthalmology, plastic and general surgery and ear, nose and throat diseases. According to the same research, the average waiting time for hospital admission is especially long for plastic surgery (24 weeks), ophthalmology (16 weeks) and orthopaedics (14 weeks). In these areas, average waiting times for outpatient departments are around 10 weeks. However, in all these instances, there were outpatient departments without significant waiting lists. Long waiting lists also exist in other areas such as care for the elderly, disabled, and mentally ill people. As noted below, waiting lists, in addition to human costs, may have a significant economic cost.

Recent policy measures and developments

More rules and regulations...

With steadily rising costs and a relatively easy access to health care, government policy has increasingly emphasised the containment of health care expenditure. Over the years, a highly centralised and complex system of price and volume regulations has been built up.[78] The centrepiece of this policy is an overall expenditure norm for the health care sector – first introduced in the 1994 Coalition Agreement – which is complemented by a number of sub-norms (or budget capping) for specific sectors.[79] The overall norm initially limited the growth of health care expenditure to 1.3 per cent per annum in real terms. In case of budget overruns, the minister had to take corrective measures. As the growth target turned out to be too tight, the health care budget was later allowed to grow by 1.9 per cent per annum. In the current coalition agreement for the period 1999-2002, the expenditure growth norm for the health sector has been set at 2.1 per cent. According to the authorities, this time the growth norm will be strictly applied, and overruns will have to be compensated within the health care budget through the introduction of corrective measures. At the same time, in the framework of a new administrative approach, the government will reach multi-annual agreements with health care sectors which, in return for additional budgets, will curb waiting lists and tackle workload problems.

The budget overruns during the 1995-98 coalition period mainly occurred in the pharmaceutical sector – one of the few sectors without budget capping. In the past couple of years, the Minister of Health has taken several measures to curb expenditure growth in this sector. The 1996 Drug Prices Act – which fixed the list price (or sale price) of a pharmaceutical product as the mean of list prices for comparable products in Belgium, Germany, France and the United Kingdom – resulted in a one-off reduction in list prices of 15-20 per cent for brand-name drugs. However, this act had several limitations. First, pharmaceutical prices and profit margins may have remained too high since the act uses list prices, while actual purchase prices for pharmacists can be substantially lower.[80] The authorities tried to claw back some of the bonuses and discounts that pharmacists receive from the pharmaceutical industry by lowering (in July 1998) most of the reimbursement prices received by pharmacists. In October 1999 a covenant was signed with the pharmacists organisation KNMP containing an agreement on bonuses and discounts. Second, the introduction of the Act was not accompanied by a lowering of the reimbursement limits, so that co-payments on drugs largely disappeared. In February 1999, the Minister "updated" the 1991 reimbursement system by drastically reducing the reimbursement limits for certain products. But, according to the authorities, low-price alternatives below the reimbursement limit exist for each group of "therapeutically interchangeable" drugs. In reaction to this "updating", some manufacturers have reduced their prices to remain within the reimbursement limit or offered to directly reimburse co-payments. Third, manufacturers could influence reimbursement limits by re-labelling existing drugs and listing them at higher prices. Since the first half of 1999, such re-labelling has, however, become impossible owing to a tightening of the reimbursement system as a result of the so-called pharmo-economic research; it stipulated that producers have to prove that a new product is more effective or cheaper than existing drugs in the same therapeutic cluster. In mid-1999, the role of co-payments for drugs was further enhanced as over-the-counter drugs were excluded from the reimbursement system, except in the case of chronic use.

... with only a little more competition,...

In 1987, the Dekker Commission concluded that regulated supply resulted in too many rules and bureaucracy, lack of efficiency, and insufficient responsiveness to changing and diverging needs of the population, and advocated the introduction of more market forces in health care. Although, as noted, the reforms were never fully implemented, some of the Dekker proposals have been introduced in the social insurance scheme (ZFW). They have included a lump-sum health insurance contribution which is a complement to the income-related contribution and is fixed by the individual sickness funds – the idea being that more efficient sickness funds would set lower lump-sum contributions than other funds, thus becoming more competitive. Moreover, insured persons have been given the right to change from one sickness fund to another once a year. Competition between sickness funds has also been enhanced by the 1992 decision to allow them to determine their own area of work and to operate nationally.[81] However, in practice, the relative size of the lump-sum contribution has remained well below that proposed by the Dekker Commission, and the difference in these contributions has been too small for people to change from one sickness fund to another.[82] According to the authorities, people mainly change because of the quality of service and the terms and conditions of complementary insurance (Ministry of Health, Welfare and Sports, 1998).

An essential condition for competition between providers is that insurers bear some of the financial risks and thus have incentives to minimise costs, for instance by shopping around to find the most efficient providers. As a first step towards meeting this condition, the government has increased the financial risks of the sickness funds. Since 1993, the income-related premium is distributed among the sickness funds on an *ex ante* risk-adjusted basis, using objective criteria.[83] Moreover, while until then the government almost completely reimbursed the difference between the allocated budgets and the actual costs of the sickness funds, now it reimburses only around 70 per cent of this difference. Some sickness funds have achieved considerable cost reductions, in particular concerning the consumption of pharmaceuticals, by means of mutual agreements with hospitals, general practitioners and pharmacists on prescription behaviour. However, sickness funds have only limited means to reduce costs and the possibility for selective contracting is also limited, given shortages of health care providers. Moreover, in the hospital sector, they have to contract every institution irrespective of the price or quality of the service. To allow them to bear more financial risks and enhance competition, sickness funds must be given more leeway in reducing costs.[84]

In the mid-1990s, the government started to introduce more competition in the delivery of services in the long-term care and exceptional health expenses scheme (ABWZ). In the home care sector, a small part of the budget (a little over 1 per cent) was transferred to the health insurers who could buy care from providers other than the traditional home care organisations. The purpose was to increase efficiency and introduce a more client-oriented approach. As a result, 25 new organisations entered the market between 1994 and 1996. However, these newcomers did not offer a broad package of home care activities but concentrated on the most profitable ones. At the same time several other measures were taken, affecting the financing of the home care and the distribution of the budget among organisations. The traditional home care organisations were not able to compete under these conditions. The experiment was stopped in 1997 by banning newcomers to the home care market and requiring the existing new organisations to offer the same broad package as the traditional organisations. A positive outcome of the experiment has been that home care organisations have given more attention to efficiency, resulting in a benchmark study in 1998. This study showed that the traditional home care institutions had much higher overhead costs and lower productivity than the newcomers. The study also pointed to a lack of uniformity in the registration of waiting lists. The government intends to repeat the benchmark study in 2000.

In 1996, following a number of pilot projects with people using home care and mentally disabled people, a system of individual budgets was introduced. These budgets enable people with a care indication to purchase their own assistance, subject to certain conditions. The scheme has increased the flexibility in longer-term care, giving institutions and people the possibility to better match demand and supply in this area.[85] More recently, the authorities have presented a plan for reforming the whole long-term care and exceptional health expenses scheme (ABWZ). According to the plan, the already existing regional care offices will become single purchasers of care in their regions and will no longer be bound to contract all the traditional care institutions. In each region, the dominant insurer (in practice one of the sickness funds) will be in charge of the care office for a period of four years. The insurer will not be liable for any shortfalls and, hence, will not have any direct financial incentive in a cost-effective execution of the scheme.[86] Nonetheless, the authorities expect spending efficiency to improve, given the better knowledge of dominant insurers concerning local needs. An independent organisation will be set up to assess the need for medical care. The plan is supposed to be implemented over several years. In addition, as part of the ongoing regulatory reform process (MDW), the government is studying proposals to increase financial incentives for the insurers, as recommended by the Council for Health and Social Service (*Raad voor de Volksgezondheid en Zorg*).[87]

To step up competition in the pharmaceutical sector, the authorities have taken measures to increase the number of outlets. First, from January 1999 sickness funds have been allowed to own a pharmacy. However, other sickness funds apparently have no plans to follow the example of the sickness fund AZIVO, which owns a pharmacy under a grandfather clause. Second, the ban on pharmacists being employed by non-pharmacists has been lifted. This further paves the way for supermarkets and drugstores to sell prescription drugs. The authorities recognise the risk that wholesalers and pharmaceutical companies could also employ their own pharmacists, who may promote more expensive brand-name drugs. But they expect insurance companies to have enough countervailing power to oppose such practices. Finally, the authorities have proposed allowing hospital pharmacies to deliver drugs to ambulatory patients, enabling them to pass on the large discounts they receive to the general public. According to the COTG, the consequences of this measure are difficult to assess. Currently, hospitals receive substantial discounts on drugs, as producers hope that patients will continue to use these high-price drugs once they have left the hospital. If hospital pharmacies start to sell drugs to ambulatory patients, producers may reduce these discounts. The COTG also fears that the measure may have a negative effect on the co-operation between hospitals and pharmacies. Three recently published reports[88] on reforming the pharmaceutical sector broadly agree on their suggestions, *i.e.* improve the (cost) effectiveness of doctors' prescriptions, increase the efficiency of purchasing, introduce more flexibility in the sickness funds (ZFW) and enlarge the role and responsibility of insurers. However, the reports disagree on the pace and scope of the reforms as well as on the instruments to be used.

In an effort to strengthen financial incentives on the demand side, the government briefly experimented with a system of co-payments in the basic social insurance scheme (ZFW). In 1997, a co-payment – of a maximum of € 91 per family per year – was introduced and, at the same time, the lump-sum contribution was reduced by € 50 on average.[89] The system did not result in a noticeable reduction in the consumption of medical services. This may have reflected the way the system was implemented and perhaps also the fact that the system was in force for only two years. Many patients were apparently not fully aware of what they had to pay for as they were billed by their sickness fund only several months afterwards. Moreover, the exclusion of dentists and general practitioners from the system reduced its effectiveness. Sickness funds and insured persons were opposed to the system, which was abolished at the beginning of 1999.

... and special attention to waiting lists

A number of initiatives have been taken to address the problem of waiting lists. Sickness funds and private insurers have voluntarily agreed on normative waiting times for some cases.[90] If these norms are exceeded, insurers will help their clients on a waiting list to find treatment by looking for spare capacity in other hospitals and, if necessary, making arrangements with private health clinics or foreign providers. Moreover, given the significant economic cost of waiting lists (see below), employers and employees have become more interested in these problems.[91] In line with the Dutch tradition of consultation, their organisations together with representatives of health care providers have presented an action plan to reduce waiting lists in the care sector (Labour Foundation *et al.*, 1998). The plan includes the introduction of a uniform registration of waiting lists and improving information to the public concerning waiting times in hospitals. The authors of the plan estimate that the health care budget should grow structurally by 2.5 per cent a year, slightly more than the overall growth norm for 1999-2002. Apart from this last point, the plan has been adopted by the government and is in the process of being implemented. The Minister of Health expects waiting lists in the cure sector to be reduced to acceptable lengths by 2002; and to tackle this problem in the care sector, it envisages providing more home care and relying more on individual budgets (as a way of enhancing the allocation of resources).

Partly in response to waiting lists, employers have also supported initiatives to set up private clinics for occupational health diseases. In addition, doctors have opened private clinics, specialised in certain treatments (*e.g.* eye clinics), which often operate more efficiently than general hospitals.[92] In some cases, sickness funds have been able to put pressure on general hospitals to improve efficiency by threatening to buy treatments from these clinics. The government has been concerned about these developments, fearing that they might result in a dichotomy in health care, with people willing to pay extra for treatment being able to jump the queue. Moreover, these clinics could undermine the strict budgeting of the health care sector.[93] Hence, in February 1999, the government regulated the operation of independent private clinics, and effectively brought them within the budget system.[94] Nevertheless, there is a growing number of private initiatives operating in the grey area between the formal health care sector and private occupational health services.

The task ahead

Current and expected problems

As discussed above, in terms of standard indicators of cost and health outcomes, the Dutch health care system seems to perform broadly in line with, or somewhat better than, other OECD countries. However, the relatively satisfactory cost performance is largely due to a rather strict and arbitrary growth norm for health expenditure, complemented by an increasing number of sub-norms to allocate the health budget among specific sectors. It is doubtful whether a policy largely based on price restrictions and supply regulations can result in an efficient determination and allocation of health care resources. In fact, some of the current problems in this area seem to be the result of a general lack of competition and market forces; others are more related to specific aspects of the Dutch system, such as the coexistence and partial interaction of private and social health insurance.

Both patients and health care insurers have very weak financial incentives to ensure an efficient delivery of health care and contain expenditure. Patients in the social schemes face basically no co-payments and the cost is, in effect, paid by all insured as a group. Insurers are completely reimbursed for the costs they incur in administering the social long-term care and exceptional medical expense scheme (AWBZ). As regards the basic social scheme (ZFW), since sickness funds have been made more responsible for their budget shortfalls, their cost-consciousness in the delivery of health care has increased and they have become more active in improving efficiency, in particular at the regional level.[95] In principle, private insurers should also have an incentive to be efficient, since it would enable them to keep insurance premiums low and improve competitiveness. However, they effectively compete only for people younger than 45 years and collective insurance contracts with enterprises. In such contracts, insurance firms offer enterprises comprehensive packages that, in addition to health insurance for private patients, often include a sickness benefit insurance combined with occupational health services, and complementary insurance to top up public schemes – such as the disability scheme and the survivors' scheme. Mobility in the private insurance schemes is limited as, in general, persons above 45 years are not accepted by another private insurer other than at the statutory maximum premium of the WTZ scheme. Their relative indifference is strengthened by the fact that they do not run any risk for their insured members older than 65, since shortfalls for this group – which accounts for 35 per cent of health care expenditure of privately insured patients – are covered by all other privately insured people.[96] Moreover, they often lack enough leverage in regional health markets to effectively put pressure on health care providers. On the demand side, following the abolition of co-payments in the ZFW scheme, sickness fund patients have hardly any financial incentive to limit their demand for care.

Despite some recent measures, competition remains very limited also in the provider market – with actual prices generally equal to the maximum prices set by the Central Council for Health Care Charges (COTG)– and in the pharmaceutical sector, where only one wholesaler provides the whole market and the number of practising pharmacists per inhabitant is among the lowest in the OECD area. Although supermarkets have been allowed to sell drugs, sickness funds have been reluctant to contract these newcomers, fearing that it could harm their co-operation with existing pharmacists in regional prescription agreements. Such agreements between insurers and health care providers are widespread in the health sector and, as they could limit competition, are subject to the recently introduced Competition Act. The Competition Authority (NMa) has set up a special task force to study conditions in the health care sector and deal with some

300 requests from this sector for exemption from the prohibition of agreements that restrict competition (see Chapter III). The work and decisions of the NMa could have important implications for the entire health care sector.

Agreements between insurers and health care providers may also be threatened by EU regulations. First, some elements of the mixed system of private and public insurance could be at odds with the sharp distinction in the EU between market and public sector regulations. Second, cost control by supply side regulations may conflict with the EU regulations concerning free traffic of persons, goods and services. In this respect the recent Kohll/Decker ruling[97] by the European Court may have significant implications for Dutch health care policy, since it obliges private insurers to reimburse their clients for care received from foreign suppliers. Moreover, it allows sickness funds to contract foreign health institutions for treatment of their patients. It could thus undermine the budget system in the same way as private clinics. However, until now, bureaucratic procedures and differences in health care systems with neighbouring countries have been major obstacles to cross-border care.[98]

In terms of actual problems, perhaps the most obvious one is the existence of waiting lists, at least in some sectors. Waiting lists clearly represent a disutility for patients and may have a significant economic cost. First, patients can be kept in hospital longer than strictly necessary, because of the lack of home care. Second, and even more importantly, it can increase the duration of sickness absenteeism. A recent study suggests that the additional costs in terms of sickness benefits are between € 245 million and € 591 million (NZi, 1998). Moreover, waiting lists may result in further additional costs, such as production losses and inflow in the disability scheme.

Another problem is the rapid increase in the consumption of prescription drugs. A number of structural factors, such as the growth and ageing of the population, have contributed to this trend. The consumption of life style drugs – which improve the quality of life and alleviate the symptoms of old age, such as products to lower the blood cholesterol level and psychopharmacological drugs – has recorded an especially rapid increase. Moreover, health care services have been shifting from hospitalisation to one-day care surgery combined with new and expensive forms of drug therapies. Although they have contributed to the overruns of the budget for pharmaceuticals, these new therapies have presumably resulted in better treatments for patients and cost savings elsewhere in the system. At the same time, drug prices have resumed their rapid increase, as the effects of previous measures, such as the Drug Prices Act of 1996, have petered out.[99] The government has hiked the budget for pharmaceuticals for the period 1999-2002, but – without further corrective measures – still expects the budget to be exceeded. Cost control policies have proved to be difficult to implement in this area, a major obstacle being the uncertainty concerning profit margins in the pharmaceutical sector and, hence, the level of "fair" prices for drugs.

In the hospital sector, budget capping has been very effective in keeping expenditure in check, although it seems to have been less successful in achieving an efficient allocation of resources not only between hospitals but also within each hospital. First, the hospital budget is not linked to actual production; rather, it is determined on the basis of production agreements between health care institutions and insurers and is guaranteed, regardless of whether these agreements are respected or not. Production overruns or shortfalls only affect budget arrangements for the following year. Second, the charges paid by the insurers are input charges rather than output charges – *i.e.* they are based on the use of resources rather than on diagnosis. This can lead to distortions in the allocation of resources within hospitals and hamper cost comparisons for treatments between health institutions. Third, the budget system does not ensure an optimal treatment of patients: for instance, the *ex ante* production agreements between hospitals and insurers discourage the substitution of hospital care by more appropriate and cheaper one-day care surgery since it could result in budget cuts in the following year. Fourth, new treatments – in particular those that cannot be classified in existing therapeutic-equivalent clusters – become available to patients only if hospitals can finance them within their budgets. Hence, hospitals have to set priorities, which means that to give some patients the best possible treatment, funds may have to be diverted from other activities and more patients put on waiting lists.[100]

The remuneration of specialists by a system of lump-sum budgets for a contracted number of treatments has come under pressure. Being based on 1994 production levels, the system lacks flexibility and makes it difficult to accommodate the growth of certain fields of specialisation or, more generally, shifts in the composition of demand. In general, specialists would be better off if they were paid on a fee-for-service basis, with the level of fees set by the authorities. Hence, they may be tempted to leave the lump-sum system when it comes up for renewal.[101, 102] In short, the determination of an "optimal" remuneration system for specialists is a difficult task: fee-for-service could lead to over-treatment, while a lump-sum system may result in a less than desirable level of treatment.

The co-existence of risk-based private insurance and income-based social insurance results in substantial inequities in the financing of health care between income groups, with potentially significant distorting effects. In particular, some wage earners close to the maximum income level of the sickness fund scheme may face something equivalent to large marginal effective tax rates, as a small increase in income would force them to shift to the more costly private insurance.[103] In addition, the separation of the insurance system into a long-term care scheme (AWBZ) for the financing of nursing homes, and a basic scheme (ZFW and private insurance) for the financing of hospitals, can be an obstacle to receiving appropriate care. In some regions, health care institutions and insurers have made arrangements whereby the general hospital buys the necessary care from nursing homes.

The long-term outlook of the system also causes some concern, although it does not seem to be especially alarming, as the impact of population ageing is not expected to play a major role before 10-15 years. Based on official demographic projections for the period 1994-2015, the National Institute for Public Health and Environment (RIVM) expects the volume of health care to increase by 2.1 per cent a year on average – of which 0.4 per cent due to population growth and 0.6 per cent due to population ageing. Based on historical trends during the 1988-94 period, other variables – notably epidemiological developments and progress in medical technology – are assumed to contribute 1.1 percentage points. However, the National Institute for Care (NZi) – a private research centre for organisations of health care providers – estimates that the need for health care could increase by 2.6 per cent a year over the period 1999-2002 (NZi, 1998). During this period the need for pharmaceutical care is expected to grow by as much as 7.6 per cent a year. Based on these projections, current budgetary provisions look rather tight, unless the envisaged corrective measures are fully implemented and yield the hoped for results. Moreover, the degree of uncertainty attaching to these projections is very high – especially concerning factors such as progress in medical technology and epidemiological developments. It is also impossible to know how fast the economy will grow, and to what extent the problem of ''inactivity'' and related public expenditure will be corrected, thereby freeing resources for other social uses. Another important parameter is the share of GDP that Dutch society will decide to use for health care. All considered, it would seem that corrective measures need to be taken, not only to tackle the problems identified above, but also – over the longer term – to curb the underlying growth of health spending without relying on an arbitrary overall growth norm. While these reforms may be gradual, they should be visible and go beyond tinkering around the edges.

The need for further initiatives[104]

Although recognising the need for further reform and the desirability of replacing some price and supply regulations with more market-based solutions, the authorities envisage making only incremental changes for the time being, rather than considering a complete new blueprint. This is understandable, given that Dutch society is deeply divided on the direction of health care reform, in particular concerning the health provisions in the basic insurance package and the balance between risk-based private insurance and income-based social insurance. The partial failure of the Dekker/Simons health reform plans has shown that radical reforms are difficult to implement in a society based on consensus building. But the authorities still need to move ahead, if necessary improving the system by small incremental steps, where each step is perceived as being fair and predictable in its consequences. Over time, these various changes would provide a greater element of competition and lead to a more efficient system. Ideally, even a policy of gradual reform should be consistent with a set of long-term goals or a reference model.

Unfortunately, there is no theoretical reference model in the realm of health care. In practice, health systems are fairly different from one country to another and typically include elements of both the administrative approach and the market approach – the exact mix reflecting country-specific conditions and preferences. Hence, it cannot be assumed that a mix that suits a given country would be equally appropriate for other countries. The systematic use of market mechanisms is no panacea in this area as these mechanisms may conflict with the principle of equity or equality of treatment – which is especially important in the Netherlands – and even their effectiveness is not always proven.[105] On the other hand, in health systems subject to arbitrary rules, rigidities and distorted incentives – which, to a certain extent, seems to be the case in the Netherlands – the injection of more market forces, when done in a judicious and well-designed way, may secure substantial welfare gains.

In the following paragraphs discussing corrective measures, the emphasis will be on introducing, on a selective basis, more competition and incentives in the Dutch health care system, without, however, altering its broad balance between private and social insurance. Several features of the Dutch health system seem favourable for a conversion from a highly regulated market to a more competitive model.

– Health care practitioners and hospitals are already largely in the private sector.
– Health care insurance is provided or managed by private organisations – private insurers and sickness funds – and competition, albeit on a limited scale, already exists. Moreover, these organisations have, to a varying degree, experience in contracting with providers.
– As Dutch patients are familiar with the gatekeeper system whereby general practitioners control specialist referrals, the limitation of freedom for patients associated with a managed competition model would not be entirely new.

To increase competition between private insurers and put pressure on them to improve the quality of service and the insurance package, consumers should be allowed, at regular intervals, to choose among insurers without being financially penalised. In general, persons above 45 years are not accepted by another private insurer other than at the statutory maximum premium of the WTZ scheme.[106]

As a first step in this direction, the authorities could aim at assuring a more cost-effective delivery of health care services to people over 65 and in the WTZ scheme. The financial incentives for private insurers could be increased by subsidising them only for expected, rather than actual, losses on these patients,

Box 6. Recommendations for reforming the Dutch health care system

Like many other health care systems, the Dutch system suffers from many rules, rigidities and distorted incentives. On the other hand, there does not seem to be an urgent need for drastic corrective measures, and a major change in the existing balance between risk-based private insurance and income-based public insurance may be socially and politically unfeasible. While bearing these constraints in mind, policy needs to take into account that some of the current problems seem to be the result of a general lack of competition and market forces. Hence, reforms should concentrate over time on replacing some rules and regulations with market-based solutions, as well as streamlining and developing administrative and evidence-based mechanisms.

Improving competition between private insurers

– *Allow consumers to choose, at regular intervals, among risk-bearing health plans without undue financial costs.*
– *Compensate insurers only for expected losses in the scheme for elderly people (WTZ).* If this is not possible, consider the integration of the WTZ scheme into the basic public scheme (ZFW).

Improving competition in the health care system in general

– *The ongoing examination of "agreements" limiting competition in the health care system by the Competition Authority (NMa) should be pursued and extended to the whole health care system* since it could lead to significant changes, enhancing competition.

Making purchasers of health care more effective

– *Give health insurers more leeway for selective contracting.* By allowing insurers to move some or all of their resources away from established providers, they can put pressure on these providers to improve the quality and efficiency of their services.
– *Increase the number of training places at medical schools.* At present, selective contracting is hardly effective due to a shortage of physicians.
– *Make sure that the regional health care insurance markets do not become too fragmented.* Insurers can only act as effective purchasers in regional markets if they have enough leverage.
– *Reconsider current restrictions on the operation of private specialised clinics.* Such clinics can play an important role in benchmarking general hospitals.

Improving cost efficiency of suppliers

– *Continue to work on defining standard procedures and treatments in health care.* A better system of product descriptions is a necessary condition for improving contracting methods in health care.
– *Refine the lump-sum payment system for in-patients by relying more on a DRG-based system.* A therapy-based payment method may result in more cost-effective services.
– *Benchmark health care institutions on a regular basis.* Benchmarking will spur institutions to improve productivity and can give contractors a better insight in their functioning.

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Improving waiting list policies

- *Continue to develop a system of uniform registration of waiting lists and formulate objectives concerning maximum acceptable waiting periods*. If waiting lists remain intolerably long, insurers should be allowed to contract additional treatments.

Reducing the costs of pharmaceuticals

- *Encourage insurers to monitor pharmaceutical expenditure and prescription policies*. The insurers should use the recently introduced Electronic Prescription System (EVS) to monitor prescriptions. Similar systems should be developed in the hospital and outpatients care sectors and linked to the EVS.
- *Reconsider the role of the pharmacist in the health care system*. Assess whether establishment rules for pharmacies can be relaxed and in particular if pharmacists can serve several pharmacies at the same time.
- *Strictly separate the roles of prescribing drugs and dispensing them*. In the long-run general practitioners should not be allowed to own a dispensary.
- *Make the prescription fee less dependent on the number of items prescribed.*

Influencing consumer behaviour

- *Reduce the reimbursement limits for prescription drugs*. However, for equity reasons, make sure that at least one drug in each "therapeutic-equivalent" cluster is available without co-payment.

Enhancing health care policies

- *Explore ways to prioritise health care by developing evidence-based systems*. The availability of treatments in the public system should become more dependent on the contribution to the health status of the population.
- *Step up preventive health care policies and target them more at specific groups with health status below the average of the overall population.*

as suggested by the working group on regulatory reform in the WTZ Project (MDW, 1998). If such an *ex ante* risk-adjusted payment system was not acceptable, the authorities should pursue their plans to allow more pensioners into the public scheme by raising the income threshold. Ultimately, all pensioners could be allowed into the sickness schemes with, at the same time, an increase in solidarity payments of the privately insured to the sickness funds.[107]

Several measures could make health care providers more efficient. If entrance barriers for health care providers were lowered or abolished and health insurers were able to choose among providers, they would put pressure on the latter to deliver health care in a cost-effective way. But, to effectively choose among providers, insurers need to have more knowledge of health care costs. Hence, the authorities should continue to give priority to defining standard procedures and treatments in health care, which improve transparency concerning the volume and quality of services. For some specific medical conditions, the current lump-sum systems for hospitals and specialists could be refined by introducing payments based on prospective costs, such as the Diagnostic Related Groups approach (DRG), as is already the case in some OECD countries. Being output based, this system has the advantages of facilitating competitive contracting for treatments and reducing suppliers' incentives to increase services. The development of product definitions is also necessary for benchmarking health care institutions. The primary aim for such benchmark studies is to provide information to institutions for improving their efficiency. Moreover, insurers – in their role of purchasers of health care – could use the information from these studies to enhance contracting methods. Benchmarking has become increasingly important for providers in the AWBZ scheme. Benchmark research in the home-care sector has shown that it can be a useful instrument in comparing institutions and improving efficiency. Currently, the authorities are preparing benchmark studies in other areas such as mental health care and care for the elderly. The recent proposals for the AWBZ scheme, allowing the regional care offices to contract institutions outside the traditional providers, is likely to give further impetus to the use of benchmarking in this sector.

The sickness funds have hardly used the possibility of selectively contracting health providers at prices below the legally fixed maximum fees. On the contrary, selective contracting has strengthened the long-standing bilateral monopoly of providers' and insurers' organisations, and facilitated agreements between them – for instance, market sharing arrangements. To improve competition and selective contracting, the authorities could in the first place increase the supply of specialists and general practitioners by making more training places available. Because of selective contracting and the capitation system, a larger number of practitioners is unlikely to entail a major increase in the volume of health care: on the other hand, it may cause a significant drop in prices, and hence result in a net decrease in total expenditure (compared with baseline). Furthermore, the curb on private specialised clinics should be lifted, and sickness funds should be allowed to contract them: in this way, private clinics could play an important role in benchmarking general hospitals. Finally, the current investigation of the Competition Authority (NMa) in the health care sector may also improve competition by opening the market for providers outside the professional organisations.

In the Dutch context, a more promising approach than rules and regulations to curb expenditure on pharmaceuticals may be to give health care insurers more leeway to put pressure on physicians and pharmacists to conclude agreements on prescription behaviour and effectively control them. An important development has been the recent introduction of an electronic prescription system (EVS) for generalists, which could not only improve the treatment of patients but also result in significant savings in prescription expenditure. By giving for each diagnosis the active ingredients of a drug, EVS makes it possible for the pharmacist to replace a brand-name drug by a cheaper generic one. The system also contains information on the interaction of different pharmaceuticals, which could reduce the role of the pharmacists. In future, it should be linked to similar systems in the hospital sector, once they become operational. Insurers could use EVS to improve their controls on prescriptions. Questions concerning the threat to privacy that such information systems are likely to raise, are legitimate and should be taken duly into account, but they should not be allowed to prevent the introduction of these promising statistical tools.

Over the past decade, the task of pharmacists has evolved from preparing pharmaceuticals to advising the public on the use of them, which was primarily the task of physicians. Moreover, information technology is playing an increasingly important role, making the task of pharmacists easier – for instance by signalling abnormalities in prescriptions. On the basis of these developments, the authorities could reconsider the role of pharmacists in the health care system and the establishment requirements for pharmacies. In particular, they could investigate the possibility of allowing pharmacists to serve several pharmacies at the same time, thereby reducing the cost of running a pharmacy. The prescription fee – which is linked to this cost – could thus be reduced. In addition, the prescription fee could be made less dependent on the number of pharmaceuticals that are delivered, given that the cost of running a pharmacy is only weakly related to them. At the same time, generalists should be forbidden to have a dispensary, as it may give them a direct interest in dispensing pharmaceuticals.

"Moral hazard" considerations are always important in a solidarity-based health scheme – like the ZFW – where consumers tend to make an excessive use of what they perceive as a nearly free good. This problem is often tackled through the use of co-payments. While the recently aborted experiment with co-payment in the ZFW scheme may not be conclusive, there are few seemingly valid reservations concerning this technique. Its effectiveness may be limited, given the low price elasticity of health expenditure – in particular for in-patient services (Newhouse, 1993). Moreover, it is generally acknowledged that it may conflict with equity principles. Although exempting certain categories, such as the chronically ill and the poor, could solve this problem, it could make the system rather complicated to manage and open to fraud. It is thus difficult to form a view on this technique. Each country may have to decide on the basis of its own specific conditions and the balance it wants to strike between conflicting considerations. In the case of drugs, the authorities (as noted) have chosen to lower the reimbursement limits, while assuring that a low-price alternative exists in each group of "therapeutic equivalent" drugs. This approach has the advantage of giving consumers the right to choose between a relatively expensive brand-name drug with co-payment and a cheaper equivalent drug without co-payment. The reimbursement limits could be decreased further, to the level of the lowest price in each "therapeutic equivalent" cluster.

A more competitive and efficient health care system may be expected to help reducing waiting lists – a question currently at the top of the policy agenda. As noted, an action programme, developed by the social partners, health care insurers and health care providers has been broadly adopted by the government, and a system of uniform registration is being introduced to gain more knowledge about waiting lists. The proposed setting up of an independent organisation for assessing the need for medical care in the AWBZ scheme should give a better insight into waiting lists in this scheme. Such an assessment should also allow a better comparison of performances of health care insurers, institutions and practitioners and may lead to a more efficient allocation of resources. In addition to waiting list registration, it would be desirable that health care insurers and providers determine maximum acceptable waiting periods. If waiting lists remained intolerably long, a relaxation of the budget norm might then be considered appropriate.

Given budget limitations, the setting of priorities in health care has become crucial. In recent years, health care has become more evidence based – *i.e.* based on the systematic use of up-to-date research findings. Overall health indices such as the Disability-Adjusted Life Years and Quality-Adjusted Life Years have been used in the development of clinical guidelines.[108] Cost-effectiveness evidence has been incorporated progressively in these guidelines. In practice the main effect of evidence-based medicine is to reduce the use of less effective techniques, rather than removing them altogether from the insurance coverage. However, the existence of less effective techniques weakens the capacity to refuse new technologies on the basis of evidence. Similarly, health care policy and norms have already become more evidence-based (Ham *et al.*, 1995; Borst-Eilers, 1996). For instance, every four years, the National Institute of Public Health and Environmental Protection (RIVM) prepares a study on the health status of the population and trends in morbidity and mortality, which is used as an element for the development of health policy.[109] In its latest report, the RIVM stresses again the substantial health gains that could be achieved by modifying lifestyle, especially in relation to smoking, eating habits and exercise. Hence, the authorities should consider stepping up preventive health policy, in particular targeted at young people, given the increase in smoking, soft drug use and alcohol abuse in this group. The overall health status could also be improved by targeting preventive health care policies at some other specific groups, such as people with a low social-economic status, the elderly, disabled, unemployed, single persons and ethnic minorities, whose health status is well below the average of the overall population. As a further step towards evidence-based policy, the introduction of reforms should be preceded by the systematic setting up and assessment of pilot projects.

In sum, the authorities agree that the health care system needs further reforming: first, to tackle the problem of waiting lists, curb the rapid growth of drug expenditure and generally improve incentives and efficiency; and, second, over the longer term, to prepare for the pressure that population ageing will progressively exert on health care resources. Given the emphasis of Dutch society on equity and solidarity considerations, the best approach may be to broadly retain the existing balance between risk-based private insurance and income-based public insurance and judiciously inject into this mixed system more market forces – especially in the delivery of services. At the same time, administrative and evidence-based mechanisms should be streamlined and refined with a view to eventually abolishing the expenditure growth norm.

Notes

1. The Netherlands has introduced the European System of National and Regional Accounts 1995 (ESA95), see Annex I.
2. According to the Dutch authorities, 0.3 percentage points of the 1998 GDP growth rate can be attributed to the recovery of the pig-rearing sector, after the swine fever epidemic in 1997.
3. See OECD (1998), pages 29-41.
4. The Bank has estimated that capital gains in the housing market have boosted private consumption and GDP growth by ½ of a percentage point in 1998 (De Nederlandsche Bank, 1999*a*).
5. Vacancies also have a regional aspect: in Amsterdam and the city of Utrecht – where there are many firms in the services sector – they are twice as high as the national average.
6. Since 1993, the sustained growth of the economy and the emergence of labour shortages has not been reflected in a growing number of foreign workers as in other OECD countries. On the contrary, their number has actually declined. However, the share of foreign workers in unemployment is roughly three times their share in the labour force.
7. However, being very sensitive to cyclical developments, the growth of part-time work nearly stopped at the end of 1998.
8. OECD (1998), page 36.
9. Persons of working age on welfare (including persons on sick leave but excluding early retirement schemes).
10. Persons of working age on welfare and in early retirement schemes (but excluding persons on sick leave). While this concept is not entirely satisfactory, it may provide useful additional information on the degree of under-utilisation of labour resources in the Dutch economy. This concept is not entirely satisfactory because, on the one hand, it overstates the degree of labour under-utilisation since it includes all persons receiving disability benefits and, on the other hand, it may understate it since it does not include involuntary part-time work and discouraged workers, *i.e.* workers who either leave the labour force in the face of poor job prospects or decide not to enter it. Moreover, there are no standardised calculations of this concept that would serve as a basis for international comparisons. International comparisons are possible for the rate of employment which is the broadest indicator of the degree which a country uses its potential labour force. The problem with this indicator, however, is that it does not show the extent to which a low employment rate is due to individual choices – that is, the preference between working and not working (or working only part-time) – or to market imperfections. Moreover, in full-time equivalents, international comparisons are particularly difficult also for this indicator.

11. This result is based on research done by the Netherlands Economic Institute.
12. It is true that the trade balance remained broadly unchanged, but given relative demand pressures, without a significant improvement in international competitiveness, it would probably have deteriorated.
13. De Nederlandsche Bank (1999*b*).
14. The European Central Bank and the 11 national Central Banks in the euro area.
15. According to the Netherlands Bank, the Dutch housing market is relatively sensitive to developments in interest rates. (De Nederlandsche Bank, 1999*b*)
16. In the case of revenue windfalls (taxes, social security contributions, environmental levies):
    - if the public sector deficit is greater than 0.75 per cent of GDP, 25 per cent of the revenue windfalls will be used for a reduction of the collective burden and the rest for deficit reduction;
    - otherwise the windfall will be shared equally between reducing the collective burden and reducing the deficit.

    In the case of revenue shortfalls:
    - if the deficit is smaller than 1.75 per cent, 25 per cent of the shortfall needs to be compensated by an increase in the collective burden;
    - if the deficit is higher than 1.75 per cent of GDP, 50 per cent of the shortfall has to be compensated by an increase in the collective burden as long as the deficit remains below the 3 per cent Maastricht criterium.

    41.5 per cent of higher-than-expected revenues from natural gas exploration will flow into the Economic Structure Enhancing Fund (FES) for the financing of major infrastructure projects; the rest will be split between deficit reduction and tax cuts according to the revenue windfall formula. The tax reductions resulting from the windfall formula can be introduced during the whole government period, which ends in May 2002.
17. Budgetary spending could increase by 1.3 per cent, social security spending by 0.7 per cent and health care spending by 3 per cent. Given the higher price deflator for health care spending, this will result in an increase of 2.1 per cent for real spending in the health care sector (Chapter IV).
18. In the so-called favourable scenario with 3¼ per cent GDP growth, the general government account is projected to turn into a surplus of about ½ per cent of GDP (Okker and Huizinga, 1998).
19. Dalsgaard and de Serres (1999). This result is based on a stochastic simulation with an estimated structural VAR model, using a 90 per cent likelihood. It is consistent with an earlier report by the Studiegroep Begrotingsruimte (1997).
20. The upward revision of the National Accounts will not effect the transfers to the EU in 2000, as the EU member states have agreed to use the ESA95 only from 2002.
21. Hairdressing, shoe, clothing and bicycle repair, and the maintenance of private dwellings older than fifteen years, restricted to painters and plasterers.
22. These amounts do not take into account the tax receipts from life insurance benefits and imputed rent.
23. According to the CPB, a budget neutral increase of the standard tax deduction for employees of 0.2 per cent of GDP increases employment in the long-term by 58 000 persons and reduces unemployment by 46 000 persons. The employment effects of other measures (such as reducing tax rates, increasing tax allowances) are negligible.

24. The EITC will be paid to all employed and self-employed people earning more than € 6 950 and is about 10 per cent of earned income above this amount. Income earners at and above the statutory minimum wage receive the maximum credit of € 697.
25. The marginal top rates cited here are ''all-in'' rates, including local taxes and uncapped social security contributions (*cf*. OECD Tax Data Base).
26. Ministry of Economic Affairs (1999).
27. According to the authorities, the assumed yield of 4 per cent corresponds to the average return that can be obtained over a longer period when investing with little or no risk.
28. A taxpayer who invests €100 000 in a 5 per cent yielding bond pays €700 in wealth tax and €2 500 in income tax (50 per cent tax rate). After introduction of the tax proposals, he/she will only pay €1 200.
29. CPB (1998).
30. With respect to non-residents, the regime on imputed capital income is limited to real estate situated in the Netherlands and certain profit rights.
31. However, maintenance expenses and other costs connected with the use of the dwelling are not deductible and are assumed to be included in the imputed rental value. Hence, the imputed rental value is not directly comparable with the ''gross'' market rent.
32. Under the proposed Income Tax Act 2001, the exemption of interest on a (life) endowment policy, which will effectively repay the amount borrowed, will relate directly to homeownership only. There must be a direct link between the endowment policy and the outstanding mortgage debt on the property involved. The payment upon maturity must be used to repay the mortgage, and this intended use must be clearly stated in the policy itself.
33. CPB simulations reported in Ministry of Finance (1998). The simulations in this section are made with the MIMIC model (Gelauff and Graafland, 1994 and Bovenberg *et al*., 1998). MIMIC is a general equilibrium model, developed for quantifying the effects of welfare state reform. In line with the Walrasian equilibrium concept, the goods market is assumed to clear. However, in the labour market, unemployment can exist and depends on factors such as the reservation wage, *i.e.* the wage below which an individual chooses not to participate in the labour market.
34. However, the environmental effects could be substantial. Higher energy taxes, combined with measures to stimulate energy saving investment, could reduce CO_2 emission by 7-10 megaton (CPB, 1997).
35. The EITC could be attractive for people with part-time jobs above the statutory minimum wage as they will receive the maximum credit. In the current system, their deduction is dependent on the number of hours worked.
36. OECD (1999).
37. OECD (1999), page 17.
38. The subsidy amounted to €538 per worker (over 23 years old) per year. For workers aged between 15 and 23, there is a lower SPAK, graduated according to age. Since its introduction, SPAK has been steadily increased: in 1999 it amounted to €1 806 a year for a full-time adult worker. Moreover, in 1998 the definition of full-time work was modified from 32 to 36 hours a week to exclude a group of part-time workers with hourly wages well above 115 per cent of the minimum wage per hour.

39. Graafland and de Mooij (1998). The reduction in the tax burden is financed by a similar reduction in government expenditure.
40. SPAK applies to low wage workers who were already at work, which raises the budgetary cost of each additional job created.
41. Van Nes *et al.* (1998) and Arbeidsinspectie (1999).
42. Due to a break in series, it is difficult to compare this level with that of previous years.
43. According to a recent study, the main reasons are occupational expenses (on average 6.4 per cent) and a reduction in income benefits – *i.e.* rent support and local anti-poverty measures (van Wijnbergen, 1998).
44. This is also referred to as the "Offer for All" strategy.
45. However, the court procedure can be costly as the sub-district judge can set a compensation for the employee.
46. In the old situation, employees could delay procedures by falling ill after notification from the PES that a dismissal procedure had started.
47. More precisely, the public sick-leave scheme was almost fully abolished.
48. Especially worrying is the increase of young disabled in the so-called WAJONG scheme, who have never worked. The inflow probability in this scheme increased from 0.16 per cent of the population between 15-25 years to 0.28 per cent in 1997. On current demographic projections, 230 000 people would be in this scheme in 2023. The Ministry of Social Affairs and Employment is currently investigating the reasons for this increase.
49. In some cases, such insurance is compulsory according to the collective labour agreement.
50. The actual figure is 2 per cent of the labour force, but this may be an underestimate, since employers are not always aware that they employ people who fall under the legal definition of "disabled".
51. Older unemployed workers – *i.e.* those above 57½ years of age – are effectively not obliged to seek a job.
52. *Straffen met beleid* (Penalty Policies).
53. Such a report was recently produced by the Social Service of Leeuwarden.
54. For a more detailed discussion of this operation and of regulatory reform in general, see OECD (1999).
55. OECD (1999), pages 11-12.
56. Agreements for which a request for exemption was filed before the April 1998 deadline benefited from a grace period of up to 18 months.
57. Currently, a merger notification is required if the total turnover of the involved companies is more than €114 million in the preceding calendar year, of which at least €14 million is realised in the Netherlands by two of the companies.
58. A more detailed discussion of the Dutch telecommunication sector can be found in OECD (1999), Chapter 6.
59. Van Wijnbergen (1999).
60. A more detailed discussion of the Dutch electricity sector can be found in OECD (1999), Chapter 5.

61. OECD (1998), page 68.
62. The current complementary pension schemes based on defined benefits have a perverse incentive on labour market participation, by lowering the pension rights for people accepting lower paid jobs. However, the people who leave the labour market by joining the disability scheme will keep their full pension rights.
63. OECD (1999), page 14.
64. Separate expenditure growth norms were also introduced for the central government sector and the social security sector.
65. Although private insurance is voluntary, less than 1 per cent of the population is not insured for health care charges (mainly for religious reasons).
66. In practice, actual fees are in most cases equal to maximum fees.
67. Products that cannot be clustered are put on a waiting list and are only eligible for reimbursement (at the manufacturer's price) if they are effective against conditions for which no other drugs exist.
68. In 1999, pharmacists receive €5.1 for each prescription item. This fee is based on a survey of pharmacy practice carried out periodically by independent auditors.
69. *OECD Health Data 99*.
70. However, health care spending in the Netherlands, for the time being, may not have been as affected by population ageing as in other countries.
71. The methodology is described in van Mosseveld (1998).
72. The local doctors' association in the Hague has started a recruitment campaign in Belgium, which has a surplus of general practitioners.
73. However, GDP growth has been relatively high over this period in the Netherlands.
74. However, Or (forthcoming) does establish statistically significant associations between health expenditure and premature mortality.
75. European Region Health Interview Survey Project.
76. DALYs are the combination of Years of Life Lost due to premature mortality and Years of Life Lived with Disability.
77. A waiting list consists of patients who have been diagnosed for a clinical procedure, treatment or medical care, but have not yet received such intervention. People waiting for an outpatient consultation have not been included.
78. The main regulations are: Sickness Fund Scheme (ZFW), the Exceptional Medical Expenses Scheme (AWBZ), the Hospital Act (WVZ), the Health Care Charges Act (WTG), and the Drug Prices Act.
79. The growth norm applies to all "necessary" health expenditure – *i.e.* excluding expenditure related to supplementary insurance ("third compartment") – regardless of its financing (by sickness funds or private insurance) and net of co-payments.
80. According to a report by Price Waterhouse Coopers, pharmacies received €164 million in discounts and bonuses in 1997. According to the tax office, discounts and bonuses by wholesalers amounted to €262 million. However, this also included discounts on products other than prescription drugs and discounts that pharmacists passed on to nursing homes and insurance companies.
81. In 1994, only 2.4 per cent of insured lived outside the traditional working area of their own sickness fund. This increased to 6.6 per cent in 1997 (Hooykaas and Klaasen, 1997).

82. In 1999, the average lump-sum contribution was only €182, compared with the maximum income-related contribution for the ZFW and AWBZ schemes – including employers' contributions – of €3 905 per year. Moreover, the highest lump-sum contribution was 28 per cent higher than the lowest.
83. Initially the budgets were based on age and gender. The allocation rule was later refined by adding region and the number of disabled.
84. In practice, the sickness fund budget is split between hospital care and other provisions. In the hospital care budget a distinction is made between fixed costs and variable costs. Sickness funds only run a risk for the variable costs of the hospital care sector and the budget for other provisions.
85. In 1998, around 5 500 people received an individual budget, with an average daily allowance of €24. In addition, individual budgets were allocated to 2 000 mentally handicapped, with an average daily allowance of €35.
86. However, the insurer may lose its concession after the four-year contract period, which could harm its position in the region.
87. Raad voor de Volksgezondheid en Zorg (1997).
88. Project MDW (1999), Boston Consulting Group (1999) and Begeleidingscommissie uitvoering geneesmiddelenbeleid (1999).
89. The co-payments were 20 per cent of the costs and €3.6 per day in the case of hospitalisation.
90. Patients should be able to see a GP within 48 hours for non-urgent care and see a specialist within three weeks. Treatment or surgery should take place within two to four weeks.
91. See Social Economic Council (1998). Since the privatisation of the sickness scheme and the introduction of a risk-dependent premium in the disability scheme (the so-called PEMBA law), the financial incentives of curbing waiting lists have been substantially increased.
92. A private eye clinic in Amsterdam could perform transplants of the cornea in day-care for a third of the price paid in a general hospital (Het Financieele Dagblad, 17 December 1998). Part of the price difference is due to cross-subsidisation of other activities in a general hospital.
93. Treatments contracted by insurers with private clinics are part of the health care budget. Hence, unless these treatments are allowed for in the budget – through production agreements approved by the COTG – they will result in budget overruns.
94. In order to operate, a private clinic needs a licence and a formal alliance with a general hospital to provide assistance in the case of complications.
95. Many sickness funds have become part of large financial conglomerates, offering not only complementary insurance but also all kinds of other financial and insurance services. In this way, sickness funds can circumvent the prohibition to participate in enterprises that provide services to the social schemes ZFW and AWBZ. In mid-1996, the administration of 18 of the 29 sickness funds was handled by for-profit organisations. The Board of Health Care Insurers is charged with ensuring that the private activities of sickness funds are not subsidised by public money, since this could lead to unfair competition in the private insurance market. However, the National Audit Office recently concluded that this supervision is insufficient and should be strengthened. The Minister of Health has created a working party to investigate the rules and legislation in this area.

96. Recently, the government withdrew proposals to extend the risk bearing to people younger than 70 years instead of 65 years, as announced in the Coalition Agreement. This measure proved to be too expensive, requiring a substantial increase in both the solvency margins and reserves of the insurance funds, and could be legally impossible due to European regulations.
97. In the Kohll/Decker ruling, the European Court of Justice decided that ambulatory health services are subject to the free movement of goods and services in the European Union and that the discriminating restrictions against foreign suppliers were illegal. The Court has not taken a decision on hospital treatment in another EU country.
98. Nonetheless, in some border areas such as Zeeuws-Flanders, cross-border care is well established. Since 1978, the sickness fund in this area has agreements with five Belgian hospitals for urgent care and certain clinical services.
99. In 1998, drug prices rose again, partly due to a ruling by the State Council that the Drug Prices Act had been wrongly applied. In calculating the maximum drug prices, the Ministry of Health had used only the cheapest packages of drugs in neighbouring countries, instead of all available packages.
100. The Minister of Health has put Hycamtin, a treatment against ovarian cancer, on the waiting list for pharmaceuticals. Hospitals can treat patients with Hycamtin only if it is paid for from the general hospital budget.
101. However, as in the past, the COTG may reduce the remuneration for each treatment to keep the remuneration for specialists within the specialist budget. The lump-sum system was introduced to end the steady reduction of specialists' charges that were necessary to stay within the budget.
102. The lump-sum system has not eliminated large income differences between specialists, not only in general but also within each field of specialisation. In 1998, the average remuneration for full-time specialists ranged from €140 000 for paediatrics to €253 000 for cardiopulmonary surgeons. Moreover, in 1996, the lowest paid full-time orthopaedic specialists received €49 000, compared with €0.5 million for the highest paid one.
103. Contributions paid by those insured in sickness funds are mainly determined by the level of income, and not as much by the number of insured family members. After exceeding the maximum income level of the sickness fund scheme, people can only find cover with a private health insurer, where premiums have to be paid for every family member irrespective of the income level. Insurance costs for single family earners with children may rise steeply while wage earners without dependent family members are better off in a private scheme.
104. See Box 6.
105. For instance, in the United States, despite a widespread use of market forces, health expenditure represents about 14 per cent of GDP without even covering the entire population. It might be argued, however, that the reason why market mechanisms sometimes fall short of hoped-for results is that they are not properly designed.
106. Bartelsman and ten Cate (1997) suggest introducing a new market party, the so-called sponsor. The sponsor acts as a purchasing agent for a pool of consumers (for example, all inhabitants of a region), lays the ground rules for competition among insurers and health care providers, supplies consumers with information. The consumer can make a choice of health plans at a price based on the risk characteristics of the entire pool.

107. However, the authorities should make sure that competition between purchasers of health care does not result in fragmented regional insurance markets. Experience with contracting health care providers has shown that health insurers (sickness funds) with a dominant position in regional markets are more effective purchasing agents than other health insurers. Typically, they can negotiate better agreements with health care providers on prescription policies, waiting list policies and control of health care spending. Some regionally operating sickness funds have achieved considerable savings on the consumption of pharmaceuticals by reaching agreements with hospitals, physicians and pharmacies on prescription behaviour. Recent proposals for reforming the AWBZ scheme – notably the suggestion to enhance the role of the regional care office as single purchaser – could strengthen the position of health insurers that act as care offices for their region, giving them a firm lead in setting regional health policies.

108. Wetenschappelijke Raad voor het Regeringsbeleid (1997).

109. RIVM (1997).

List of acronyms

ABW	Social Assistance Scheme
AEX	Amsterdam Stock Exchange
AIBOR	Amsterdam Interbank Offered Rate
APX	Amsterdam Power Exchange
AWBZ	General insurance for long-term and exceptional health expenditures
CCP	Common comparable package of health care provisions defined by Statistics Netherlands
CPB	Netherlands Bureau for Economic Policy Analysis
COTG	Central Agency for Health Care Charges
CPI	Consumer Price Index
CSTV	Regulator of the social security sector
CVZ	Board of Health Insurers
CWI	Centre for Work and Income (one-counter system for unemployed and disabled)
DALY	Disability-Adjusted Life Years
DTE	Regulator of the electricity market
EAU	Subsidised employment scheme in the private sector for long-term unemployed (Melkert II)
ECB	European Central Bank
ERM	Exchange Rate Mechanism preceding European Economic and Monetary Union (EMU)
ESA95	European System of National and Regional Accounts 1995
EU	European Union
EURIBOR	Euro Interbank Offered Rate
EUROHIS	European Region Health Interview Survey Report
EWLW	Additional Employment for the Long-Term Unemployed Scheme (Melkert I)
HLE	Healthy Life Expectancy
HSL	Proposed high-speed rail link to Belgium (HSL-South) and Germany (HSL-East)
HICP	Harmonised Index of Consumer Prices
I/D	Subsidised employment scheme in the public sector (''Inflow-Outflow'' Jobs)
IOAW	Social Assistance Scheme for Older Unemployed and Partially Disabled Persons
IOAZ	Social Assistance Scheme for Former Self-Employed
IZA/IZR/DGPV	Civil servants' health care schemes
JWG	Youth Work Guarantee Law
KNMP	Royal Dutch Society for Pharmacists
KPN	Royal PTT Netherlands

MDW	Market Forces, Deregulation and Legislative Quality Project
MOOZ	Solidarity contribution of privately insured patients to the sickness funds
NAWRU	Non-Accelerating Wage Rate of Unemployment
NMa	Competition Authority
NS	Netherlands' Railways
NVM	Netherlands' Association of Estate Agents
OECD	Organisation for Economic Co-operation and Development
OPTA	Regulator of the telecommunication sector
PEMBA	Law on Premium Differentiation and Competition in the Disability Insurance Scheme
PES	Public Employment Service
RIVM	National Institute for Public Health and Environment
ROC	Regional Training Centre
RWW	Social assistance scheme for unemployed
SPAK	Reduced remittances of taxes and social security contributions for low-paid workers
UVI	Administration Office for Employees' Social Security Insurance
VLW	Temporarily reduced remittances of taxes and social security contributions for long-term unemployed
WAJONG	Disability scheme for people who have never worked
WEB	Vocational Training Act
WHO	World Health Organisation
WIW	Job-seekers Employment Act
WSW	Social Employment Act
WTZ	Standard private health insurance package at a contribution rate fixed by law
WWV	Unemployment Provisions Act
ZFW	Sickness Fund Act

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Annex I

The revision of the National Accounts

Due to the introduction of the European System of National and Regional Accounts 1995 (ESA95), Dutch GDP has been revised upwards by a little over 4 per cent for the period 1995-98. The main changes and their impact on GDP in 1995 are:

- depreciation of roads, dykes, sewerage systems and other infrastructure have been taken into account (1.4 per cent);
- software and other intangible assets have been included in investment (0.8 per cent);
- company cars and other forms of wages in kind have been included in the wage sum (0.4 per cent);
- payments to workers in social workshops have been recorded as wages and no longer as social benefits (0.6 per cent); and
- the recording of insurance services, including endowment mortgages, has been changed (0.4 per cent).

Net national income is 1.1 per cent higher in 1995, which is largely due to the fact that it now includes undistributed profits of foreign subsidiaries of Dutch companies.

The government financial deficit has changed only slightly due to differences in the registration of the receipts of taxes and social security contributions, and changes in the definition of the public sector. The general government debt has been increased by about €5 billion but the debt-GDP ratio has come down by 1 percentage point, due to a higher GDP.

Statistics Netherlands has published national accounts' aggregates on the basis of the ESA95 for the period 1995-98. The OECD Secretariat has estimated these aggregates for the period before 1995 on the basis of the unrevised aggregates.

Annex II

Calendar of main economic events

1998

January

The new Competition Law comes into force, including a system of preventive merger control. It is implemented and enforced by the Netherlands Competition Authority (NMa).

The PEMBA Law comes into force, introducing premium differentiation in the disability scheme (based on experience rating) and the possibility of opting out.

March

The government submits its National Action Plan on Employment to the European Commission, in preparation for the European Council meeting in Cardiff in June 1998. The social partners have been consulted when drawing up the Plan.

The Labour Foundation (employers and employees) together with organisations of health insurers and health care practitioners proposes a plan to reduce waiting lists in the health care sector.

April

A new law, SAMEN, comes into force to promote the participation of people from ethnic minorities in the labour market. Many provisions of the new law have been borrowed from a 1996 agreement between the employers' and employees' organisations.

May

After the general elections, the governing coalition of socialist and liberal parties maintains its majority in Parliament. The Queen nominates the chairman of the Social Economic Council to investigate the formation of a new coalition government.

At a special EU council meeting, the Netherlands is one of the eleven EU countries, that meets the requirements for the single currency. Dr. W. Duisenberg, the former President of the Dutch Central Bank, will become the first Governor of the European Central Bank.

July

The Dutch Central Bank joins the European System of Central Banks.

August

A new government, headed again by Prime Minister Kok, is formed after the May elections and consists of the same parties as the outgoing one. The coalition agreement for the period 1999-2002 includes €3 billion expenditure savings but almost €5 billion expenditure increases for education, health care, public security and child-care. The government has included in its projections €2 billion for tax reduction as part of the income tax reform to be introduced in 2001 (Chapter II).

September

The government presents the 1999 Budget to Parliament. The budget includes an increase in taxes and social security contributions, with offsetting additional expenditure for infrastructure, education and the health sector. The budget deficit for 1999 is projected to stabilise at around 1¼ per cent of GDP (Chapter II).

November

The government releases privatisation plans for the overhaul and partial privatisation of some aspects of the social security sector. The Public Employment Service will be transformed into Centres for Work and Income (one-counter system for unemployed and disabled) and some of its activities will be privatised. The five administration offices for employees' schemes are also to be privatised (Chapter III).

December

The Ecofin Council approves the Dutch stability programme, but recommends that the authorities take all favourable opportunities to reinforce the safety margin aimed at preventing the deficit from exceeding the Maastricht criterium of 3 per cent of GDP. At the end of the month, the Ecofin Council fixes the conversion rate for the guilder at 2.20371 for one euro.

The Monitoring Commission on Corporate Governance (Commission Peters II) presents its report on how publicly traded companies have abided by the 40 recommendations of the 1996 Peters Report. The report concludes that Dutch corporations voluntarily complied with most of the recommendations aimed at enhancing transparency, but that little has changed with respect to the influence of shareholders (Chapter III).

1999

January

The Netherlands becomes part of the euro area.

The Law on Flexibility and Security comes into force, changing the rules concerning the renewing of fixed term contracts. The law also slightly changes dismissal procedures by lifting the prohibition to dismiss employees who fall ill after the start of the dismissal procedure (Chapter III).

The Secretary of State for Social Affairs and Employment announces that older workers, who become disabled or unemployed after having accepted a lower paying job, could still receive a benefit related to their previous higher salary.

The Competition Authority, NMa, and the regulator of the telecommunication sector, OPTA, reach agreement on co-operation in this area.

February

The Minister of Health lowers reimbursement limits for pharmaceuticals (Chapter IV).

The Minister of Finance publishes two reports, by Price Waterhouse and Baker McKenzie, on corporate taxation in the European Union, as a contribution to the discussion on EU taxation policy, including the work on harmful tax competition. The report shows that tax rates at the level of the corporation differ considerably between the EU member states but that these differences diminish if the comparison is made at the level of the shareholder.

The Dutch electricity market is opened to competition. No licence is required for the production of electricity and large energy users are free to choose among suppliers. Electricity contracts are traded at the Amsterdam Power Exchange (Chapter III).

March

The Minister of Economic Affairs introduces the Gas Act before Parliament. The Gas Act opens the gas market to competition by giving medium-size users the right to choose their supplier from 2002.

April

The Minister of Finance publishes a report on the effective corporate tax rates in the European Union, commissioned from the Maastricht Accounting and Auditing Research and Education Centre. On the basis of an analysis of almost 3 000 industrial enterprises, the report concludes that effective tax rates can differ substantially from the statutory tax rate.

The Governing Council of the European Central Bank reduces its refinancing rate (repo rate) by 50 basis points to 2.5 per cent.

The telecommunication regulator, OPTA, gives notice to the telecom operator, KPN, to solve the problem of shortage of telephone lines by 1 July 1999. In the meantime KPN should make a fair distribution of the limited capacity between itself and its competitors. OPTA also decides that KPN's inter-connection charges have been too high and forces KPN to reimburse its competitors.

May

The government hands in its resignation after the rejection by the First Chamber (Senate) of a proposal to call referanda. After three weeks of negotiations, the government resumes its functions.

Following the report by the Monitoring Commission on Corporate Finance in December 1998, the government announces that it will increase shareholders' influence by improving the transparency of the annual accounts, strengthening the control of the Supervisory Board, and introducing proxy voting.

June

The Minister for Agriculture and Fisheries resigns after the coalition government fails to support his proposals to restructure the pig sector.

The State Secretary of Health presents a plan to give health insurers more responsibilities in the implementation of the general scheme for long-term care and exceptional medical expenses (AWBZ) (Chapter IV).

The government withdraws proposals concerning the overhaul and partial privatisation of some aspects of the social security sector after the plans met with fierce opposition in Parliament. Earlier, the Social Economic Council unanimously advised against the government proposals (Chapter III).

July

The government re-issues its tender to 700 logistical, financial and construction companies in the Netherlands and abroad to invest in the construction of a freight railway from Rotterdam to Germany (the so-called Betuwe line) to be completed in 2005.

The Competition Authority NMa announces that it will investigate the financial, construction and agriculture sectors.

August

In a report to Parliament, the supervisory body of the social security sector CSTV notes that the number of persons in the disability and sickness schemes is rising again. In a separate report, it concludes that the law on administrative penalties had not been well implemented (Chapter III).

September

The Minister of Health announces that over-the-counter drugs are no longer reimbursed, with the exception of those related to chronic cases (Chapter IV).

Draft legislation for the 2001 Income Tax Reform is presented to Parliament. The proposals include a larger than previously proposed tax reduction (€2.3 billion or 0.6 per cent of GDP) and a shift from direct taxation to indirect taxation. Tax allowances will be replaced by tax credits. The introduction of an Earned Income Tax Credit strengthens the financial incentive to look for work. The most fundamental change is the integration of the tax on actual income from wealth and the wealth tax into a tax on the imputed yield (Chapter II).

The government presents the 2000 Budget to Parliament. Expenditure on infrastructure is projected to grow by 6 per cent. Measures to improve the functioning of the labour market include the creation of 5 000 low-paid jobs and an increase in the employed person's tax allowance (*arbeidskostenforfait*). Due to the decline in unemployment, government expenditure is likely to remain well below the expenditure ceiling. The authorities project the general government deficit to fall to 0.5 per cent of GDP (Chapter II).

November

The Governing Council of the ECB increases the refinancing rate (repo rate) by 50 basis points to 3 per cent.

The government abandons its project to privatise the administration of the employees' social security schemes and proposes to merge the five current administration offices into one state office. The reintegration activities of the Public Employment Service (PES) are to be privatised, and the remainder of the PES is going to be transformed into Centres for Work and Income (one-counter system for disabled and unemployed).

2000

January

The Minister of Finance announces that the general government budget deficit is likely to show a small surplus of ¼ per cent of GDP in 1999.

STATISTICAL ANNEX AND STRUCTURAL INDICATORS

Table A. **Selected background statistics**

	Average 1990-98	1990	1991	1992	1993	1994	1995	1996	1997[1]	1998[1]
A. Percentage changes from previous year										
Private consumption[2]	2.7	4.2	3.1	2.5	1.0	2.2	1.8	4.0	2.6	4.1
Gross fixed capital formation[2]	2.8	1.6	0.2	0.6	–2.8	2.2	5.0	6.3	5.9	5.2
Public[2]	2.5	6.7	2.4	7.4	–1.1	2.8	2.6	10.8	–6.6	2.4
Residential[2]	2.1	–2.5	–5.4	6.4	–0.3	6.2	0.9	3.9	6.4	–0.9
Business[2]	3.1	2.6	2.2	–3.0	–4.2	0.2	7.5	6.5	8.4	8.5
GDP[2]	2.6	4.1	2.3	2.0	0.8	3.2	2.3	3.0	3.8	3.7
Implicit price deflators:										
GDP	2.0	2.3	2.7	2.3	1.9	2.3	1.8	1.2	2.0	1.9
Private consumption	2.3	2.2	3.2	3.1	2.1	2.8	1.6	1.9	2.1	1.8
Exports of goods and services	–0.1	–0.8	0.1	–2.2	–2.1	0.6	0.9	0.5	2.6	–1.2
Imports of goods and services	0.0	–1.3	0.4	–1.4	–2.3	0.1	0.6	1.2	2.6	–1.5
Industrial production	2.2	3.8	0.4	–0.6	–1.8	6.1	4.5	2.6	5.0	2.1
Employment (in persons)	2.0	3.0	2.6	1.6	0.7	–0.1	2.4	2.0	3.4	3.0
Employment (in full-time equivalents)	1.4	2.3	1.3	1.0	–0.1	–0.3	1.4	2.6	2.8	2.7
Compensation of employees (total economy)	4.3	5.9	6.0	5.8	2.8	1.9	3.3	3.9	5.0	5.6
Productivity (GDP[2]/employment in full-time equivalents)	1.2	1.7	0.9	1.0	0.9	3.6	0.8	0.5	1.0	1.0
Unit labour costs (compensation of employees/GDP[2])	1.6	1.7	3.7	3.7	2.1	–1.2	1.0	0.8	1.1	1.9
B. Percentage ratios										
Gross fixed capital formation as % of GDP[2]	20.8	21.4	21.0	20.7	20.0	19.8	20.3	20.9	21.4	21.7
Stockbuilding as % of GDP[2]	0.8	2.0	1.7	1.3	–0.1	0.9	0.7	0.2	0.1	0.2
Foreign balance as % of GDP[2]	5.1	3.0	3.4	3.8	5.6	5.7	5.9	6.1	6.4	5.9
Compensation of employees as % of GDP (at current prices)	51.8	52.2	52.7	53.4	53.4	51.6	51.2	51.0	50.6	50.6
Direct taxes as % of household income	10.9	12.1	13.3	12.5	13.1	10.7	9.8	9.5	8.6	8.5
Social security contributions as % of household income	16.6	15.3	16.0	16.3	16.2	17.0	17.3	16.8	17.1	17.1
Household saving as % of disposable income	7.1	11.9	7.2	8.4	6.8	7.1	6.5	5.7	5.7	4.2
Unemployment as % of labour force	6.0	6.0	5.4	5.4	6.6	7.6	7.1	6.6	5.5	4.2
C. Other indicator										
Current balance (billion US$)	16.9	9.2	7.8	7.4	13.6	17.8	24.2	22.1	28.3	21.5

1. Provisional figures.
2. At 1995 prices.

Source: OECD Secretariat.

Table B. **National product and expenditure**

	1990	1991	1992	1993	1994	1995	1996	1997[1]	1998[1]
	1. Million guilders, current prices								
Private final consumption expenditure	259 065	275 616	291 392	300 627	315 779	326 672	346 122	362 764	384 433
Government final consumption expenditure	130 880	137 016	144 717	150 297	153 454	160 042	160 565	168 638	178 237
Gross fixed capital formation	119 663	122 454	125 627	123 736	127 716	135 192	146 285	157 568	168 580
Private	106 095	108 211	110 037	108 095	111 442	118 227	127 177	139 461	149 753
Government	13 568	14 243	15 590	15 641	16 274	16 965	19 108	18 107	18 827
Increase in stocks	8 687	8 629	6 526	–1 975	6 351	4 568	1 451	957	1 421
National expenditure	518 294	543 715	568 262	572 684	603 300	626 474	654 423	689 927	732 671
Exports of goods and services	315 210	330 242	332 262	330 346	354 305	382 621	402 086	449 737	472 941
less: Imports of goods and services	295 654	309 014	311 078	297 590	318 009	343 060	362 211	404 811	429 451
Gross domestic product at market prices	537 850	564 943	589 447	605 440	639 596	666 035	694 298	734 853	776 161
	2. Million guilders, 1995 prices[2]								
Private final consumption expenditure	294 106	303 223	310 881	314 000	320 912	326 672	339 737	348 730	363 192
Government final consumption expenditure	151 020	153 351	155 920	158 246	159 129	160 042	159 384	164 694	170 135
Gross fixed capital formation	128 522	128 776	129 563	125 952	128 733	135 192	143 732	152 204	160 179
Private	113 748	113 645	113 308	109 882	112 206	118 227	124 935	134 645	142 196
Government	14 773	15 130	16 254	16 071	16 527	16 965	18 797	17 559	17 983
Increase in stocks	11 987	10 147	7 838	–556	6 122	4 568	1 358	877	1 291
National expenditure	585 636	595 497	604 201	597 642	614 896	626 474	644 211	666 505	694 797
Exports of goods and services	306 378	320 773	329 990	335 030	357 389	382 621	400 095	436 071	463 968
less: Imports of goods and services	288 212	300 090	306 284	299 878	320 039	343 060	358 037	390 167	420 193
Gross domestic product at market prices	600 149	613 779	626 209	630 986	651 319	666 035	686 269	712 265	738 357

1. Provisional figures.
2. The figures are computed using volume indices, therefore the aggregates differ from the sum of the components.

Source: OECD Secretariat.

Table C. **Origin of net domestic product at factor cost**[1]

Million guilders, current prices

	1990	1991	1992	1993	1994	1995	1996	1997[2]	1998[2]
Agriculture, forestry and fishing	15 899	16 335	15 174	12 754	15 000	16 384	16 407	17 908	16 522
Mining and quarrying (including natural gas)	13 381	16 326	14 087	13 074	12 613	13 676	16 516	16 482	14 026
Manufacturing	79 441	80 578	79 526	78 749	83 219	95 004	94 671	99 953	104 017
Construction	26 266	27 065	27 776	28 418	29 298	31 562	32 377	34 231	36 383
Electricity, gas and water (excluding natural gas)	5 139	5 444	5 558	5 847	6 236	7 763	8 243	8 904	9 496
Trade	69 619	72 450	75 156	76 658	79 072	83 102	84 589	88 879	93 363
Transport and communication	27 777	29 810	31 904	32 700	35 093	34 099	34 852	38 407	40 719
Other private sector	139 945	150 294	162 444	173 215	184 559	173 569	186 239	200 770	219 219
of which:									
Finance and business activities	..	..	..	..	..	111 841	122 366	134 649	149 397
Care and other service activities	..	..	..	..	..	61 728	63 873	66 121	69 822
less: Imputed bank service charge	–18 061	–19 767	–20 481	–22 751	–22 242	–19 458	–19 388	–19 935	–21 678
Government	47 820	49 662	52 953	54 891	55 856	59 348	59 960	61 887	64 833
Difference imputed and paid VAT	1 610	1 880	2 100	1 720	1 790	2 469	1 868	1 372	956
Net domestic product at factor cost	408 836	430 077	446 197	455 275	480 494	497 518	516 334	548 858	577 856
Net income from the rest of the world	–910	–940	–2 250	–600	1 740	8 005	3 498	13 125	8 615
Net national income (= Net national product)	407 926	429 137	443 947	454 675	482 234	505 523	519 832	561 983	586 471

1. Up to 1994, figures are based on the System of National Accounts 1968 (SNA 68) and from 1995 onwards, on the European System of National and Regional Accounts 1995 (ESA95).
2. Provisional figures.

Source: Statistics Netherlands *National Accounts 1997, 1998.*

Table D. **Income and expenditure of households and private non-profit institutions**

Million guilders, current prices

	1990	1991	1992	1993	1994	1995	1996	1997[1]	1998[1]
Compensation of employees	280 556	297 458	314 612	323 550	329 858	340 840	354 120	371 673	392 436
Wages and salaries	241 504	255 687	270 019	276 643	280 903	289 475	300 570	316 569	315 043
Employers' contributions to social security and pension schemes	39 052	41 771	44 593	46 907	48 955	51 365	53 550	55 104	77 393
Property and other income	92 732	99 788	104 858	106 162	114 595	116 957	121 047	127 284	131 598
Self-employment income	43 086	48 263	52 485	62 718	63 971	68 029	69 187	73 862	76 251
Net property and entrepreneurial income	49 647	51 525	52 373	43 444	50 624	48 928	51 860	53 422	55 347
Transfers received	132 189	139 879	148 826	154 778	158 367	160 730	164 954	168 163	170 630
Current receipts	505 478	537 125	568 296	584 490	602 821	618 527	640 121	667 120	694 664
Income taxes	61 069	71 407	70 912	76 472	64 211	60 702	60 827	57 356	58 958
Transfers paid	150 422	168 722	179 182	185 323	198 675	208 271	212 187	225 130	234 572
Social security contributions paid	77 541	85 982	92 430	94 873	102 741	106 754	107 371	113 767	118 489
Other current transfers paid	72 881	82 741	86 752	90 450	95 934	101 517	104 816	111 363	116 083
Private consumption	259 065	275 616	291 392	300 627	315 779	326 672	346 122	362 764	384 433
Current disbursements	470 555	515 745	541 486	562 422	578 665	595 645	619 136	645 250	677 963
Net savings	34 922	21 380	26 811	22 068	24 155	22 882	20 985	21 870	16 701
Savings ratio	11.9	7.2	8.4	6.8	7.1	6.6	5.7	5.7	4.2

1. Provisional figures.
Source: OECD Secretariat.

Table E. **Industrial production and productivity**

Index 1995 = 100

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Mining and quarrying	89	97	99	100	99	100	113	102	97
Manufacturing industries	93	94	93	91	97	100	101	106	109
Food, beverages and tobacco	85	89	91	92	97	100	102	107	109
Textiles, wearing apparel, leather and footwear	128	123	112	110	108	100	99	105	110
Publishing, printing and reproduction	96	98	96	96	98	100	103	108	114
Chemicals and chemical products	86	83	83	84	93	100	96	101	102
Office, accounting and computing machinery	79	79	72	67	80	100	97	107	127
Electricity, gas and water	91	94	95	95	97	100	105	106	110
Total industry	92	94	94	93	97	100	103	106	107
Manufacturing employment and productivity									
Employment	109	109	108	105	101	100	100	100	101
Output per employee	86	86	86	87	96	100	101	107	108

Source: OECD *Indicators of Industrial Activity.*

Table F. **Money and banking**

	1991	1992	1993	1994	1995	1996	1997	1998
	Million guilders, end of period							
Money supply								
Total primary liquidity	138 884	147 847	164 521	168 496	187 558	212 907 ❙	240 061 ❙	259 571
Notes and coins	36 597	36 560	37 234	37 712	37 800	37 820 ❙	38 622 ❙	37 296
Demand deposits	102 287	111 287	127 287	130 784	149 758	175 087 ❙	201 439 ❙	222 275
Secondary liquidity	288 560	308 359 ❙	324 443	321 023	326 427	329 139 ❙	347 503 ❙	378 219
Claims of money-creating institutions on								
Private sector	459 392	483 031 ❙	511 605	554 062	616 472	688 946 ❙	802 913	929 591
General government	123 858	124 398	132 144	134 260	143 200	146 565 ❙	150 261	155 383
Foreign sector	38 929	48 296	48 033	59 440	66 917	96 638 ❙	117 956	172 669
	Per cent, annual average							
Interest rates								
Advances (Central Bank)	8.6	9.0	6.8	4.7	3.8	2.2	2.5	2.8
Call money (Amsterdam)	9.0	9.3	7.1	5.1	4.2	2.9	3.1	3.2
Three-month loans to local authorities	9.2	9.3	6.8	5.1	4.3	3.0	3.3	3.4
Capital market yields								
Government bonds	8.8	8.2	6.3	6.7	6.6	5.7	5.2	4.5
of which:								
Short-term (3-5 year)	8.9	8.2	6.0	6.3	6.0	4.8	4.6	4.2
Medium-term (5-8 year)	8.8	8.1	6.2	6.7	6.5	5.6	5.2	4.4
Privately placed public utility loans	8.9	8.3	6.7	7.3	7.1	6.3	5.8	4.9
Mortgages on dwellings	9.8	9.3	7.6	7.6	7.5	6.4	6.2	5.7

❙ Indicates a series break.

Source: De Nederlandsche Bank *Annual Report 1998.*

Table G. **Merchandise trade**

US$ million

	Imports, cif					Exports, fob				
	1990	1995	1996	1997	1998	1990	1995	1996	1997	1998
Total	135 834	157 703	162 451	158 260	156 754	136 547	177 351	178 970	173 809	167 636
By area:										
OECD countries	109 974	126 004	126 507	122 185	119 182	118 934	143 546	141 908	138 256	133 853
EU 15	86 070	96 922	95 856	90 263	85 493	106 456	126 574	124 938	120 471	115 586
Other Europe	5 264	7 716	8 792	8 603	8 784	4 727	7 487	7 392	7 644	8 556
North America (NAFTA)	11 828	14 538	14 556	15 860	15 915	5 798	6 465	6 409	6 982	7 036
Japan	5 394	5 618	6 004	6 139	7 061	1 055	1 695	1 785	1 674	1 512
Australia	582	347	314	293	404	484	445	432	509	463
New Zealand	63	62	71	80	100	86	120	102	104	92
Non-OECD countries	25 860	31 699	35 944	36 075	37 572	17 613	33 805	37 061	35 553	33 784
South Africa (including Namibia)	358	374	452	463	686	318	472	439	478	647
Central and eastern Europe	440	1 271	1 328	1 220	1 264	331	965	946	1 053	1 267
China	1 321	2 166	2 457	2 925	3 540	236	722	654	721	598
Developing countries	24 268	27 431	30 403	30 196	32 133	11 384	17 516	16 915	17 277	15 930
Unspecified	1 592	4 268	5 541	5 879	5 439	6 229	16 289	20 146	18 276	17 854
By SITC (revision 3) section:										
0. Food and live animals	13 687	16 810	16 328	13 900	13 003	23 578	28 722	26 924	23 735	22 448
1. Beverages and tobacco	1 626	2 082	2 073	2 084	1 907	2 931	4 612	4 870	4 439	3 989
2. Crude materials, inedible, except fuels	7 441	7 929	7 567	7 377	6 885	7 683	9 123	8 611	7 979	7 730
3. Mineral fuels, lubricants and related materials	15 470	12 092	14 859	14 289	10 482	13 266	12 580	14 898	13 832	10 736
4. Animal and vegetable oils, fats and waxes	680	1 330	1 204	930	1 506	892	1 565	1 471	1 491	1 697
5. Chemicals and related products, n.e.s.	14 169	20 635	19 574	18 889	17 858	20 631	29 074	30 915	29 453	26 718
6. Manufactured goods	22 967	25 097	23 043	21 836	21 316	17 973	22 108	21 310	20 665	19 564
7. Machinery and transport equipment	41 166	51 939	57 016	58 691	64 275	32 308	47 144	52 199	54 287	57 442
8. Miscellaneous manufactured articles	18 011	18 871	20 545	20 028	19 344	12 079	15 448	17 215	17 334	16 816
9. Commodities and transactions, n.e.s.	616	917	240	235	179	5 206	6 976	557	595	497

Source: OECD *Foreign Trade Statistics, Series C.*

Table H. **Public sector**
1. Indicators and structure

	1980	1985	1990	1993	1994	1995	1996	1997	1998
Budget indicators (% of GDP)									
General government accounts									
Current receipts (excl. property income)	40.4	39.6	39.6	42.5	40.2	40.7	41.1	40.9	40.7
Non-interest expenditures	49.6	45.2	42.6	44.0	42.1	41.2	40.0	39.4	38.3
Primary budget balance	–9.2	–5.5	–3.0	–1.6	–1.9	–0.5	1.1	1.5	2.3
Net interest (including net capital transfers)	4.5	1.5	–2.7	–2.0	–2.3	–3.6	–2.9	–2.7	–3.1
General government budget balance	–4.7	–4.1	–5.7	–3.6	–4.2	–4.2	–1.8	–1.2	–0.8
Structure of expenditure and taxation									
Government expenditure	52.3	52.0	49.3	51.1	48.7	47.4	45.9	44.7	43.5
Consumption	29.1	26.4	24.3	24.8	24.0	24.0	23.1	23.0	23.0
Transfers	17.2	16.6	16.7	17.7	16.8	16.4	16.0	15.1	14.2
Subsidies	1.7	2.0	1.7	1.7	1.5	1.1	1.2	1.5	1.5
Investment	3.4	2.7	2.5	2.6	2.5	2.6	2.8	2.5	2.4
Total taxes and social security contributions	40.4	39.6	39.6	42.5	40.2	39.2	39.5	39.4	39.1
Direct taxes	15.0	12.1	14.8	16.0	13.4	12.4	12.9	12.4	12.2
Households	12.0	9.0	11.4	12.6	10.0	9.1	8.8	7.8	7.6
Business	2.5	2.7	3.3	3.2	3.2	3.2	4.0	4.5	4.4
Social security contributions	15.3	17.3	14.4	15.7	16.1	16.0	15.5	15.5	15.3
Employees, self and non-employed	10.7	13.0	12.2	13.4	14.1	14.1	13.5	13.7	10.8
Employers	4.6	4.3	2.2	2.2	1.9	2.0	1.9	1.8	4.4
Indirect taxes	10.1	10.2	10.3	10.8	10.8	10.7	11.2	11.4	11.6
Other indicators									
Elasticity of household tax and social security contributions to household receipts	0.9	0.4	0.9	1.7	–0.8	0.1	0.1	0.4	0.9
Tax on households as % of total tax receipts	47.6	40.2	45.2	47.2	41.6	39.4	36.4	32.7	31.8
Net public debt as % of GDP	23.6	40.6 |	35.4	40.6	42.0	53.2	53.7	55.4	54.0

\| Indicates a series break.
Source: OECD Secretariat.

Table H. **Public sector**
2. Tax rates

	1985	1990	1993	1994	1995	1996	1997	1998
Income tax								
Top rate	72	60	60	60	60	60	60	60
Lower rate	16.0	7.0	13.0	7.05	6.2	6.4	5.1	7.1
Number of brackets	9	3	3	3	3	3	3	3
Tax rate, single average production worker	11.3	11.1	12.2	7.8	6.7	5.8	6.5	. .
Average social security contributions as % of gross wages								
Employees	30.8	27.1	29.4	32.2	32.4	31.2	31.8	26.7
Employers[1]	23.8	16.2	17.0	17.4	17.7	17.8	17.4	24.6
Compensation allowance[2] as % of gross wage[3]	–	10.4	11.4	11.6	11.8	10.0	9.9	1.7
Tax wedge, average production worker	45	41	42	42	43	42	41	41
VAT rate								
Normal rate	19.0	18.5	17.5	17.5	17.5	17.5	17.5	17.5
Reduced rate	5	6	6	6	6	6	6	6
Corporation tax rate								
Lower rate	43	35	35	35	35	35	35	35
Top rate[4]	–	40	40	40	40	37	36	–

1. Excluding the compensation allowance, but including pension premiums and social benefits directly paid by employers.
2. Since 1990, employers pay the so-called compensation allowance to employees to neutralise the income effects of switches in social security contributions between employers and employees.
3. Excluding the compensation allowance itself, and less deductible premiums for employees' social security schemes and less the standard deduction for work related expenses plus the employers' contribution for health insurance.
4. The top rate applies to the first Gld 100 000 (until July 1994: 250 000) of taxable profits; additional profits are taxed at 35%.

Source: CPB Netherlands Bureau for Economic Policy Analysis *Macro Economische Verkenning 2000,* OECD *The Tax/Benefit Position of Employees* and OECD Secretariat.

Table I. **Structure of output and performance indicators**[1]

1. Structure of output (1995 prices)

	1992	1993	1994	1995	1996	1997[2]	1998[2]	1992	1993	1994	1995	1996	1997[2]	1998[2]
	Share of GDP (at factor costs) %							Share of total employment (full-time equivalents) %						
Agriculture, hunting, forestry and fishing	3.3	3.4	3.5	3.6	3.5	3.4	3.2	4.9	4.9	4.8	4.2	4.2	4.0	3.8
Mining and quarrying	2.8	2.9	2.7	2.7	3.0	2.6	2.4	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Manufacturing	17.7	17.3	17.8	18.4	18.0	18.3	18.1	17.5	17.0	16.3	17.0	16.4	16.1	15.7
of which:														
Manufacture of food products, beverages and tobacco	3.2	3.3	3.3	3.5	3.4	3.4	3.4	3.0	3.0	2.9	2.5	2.4	2.3	2.2
Manufacture of textile and leather products	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.9	0.9	0.8	0.6	0.6	0.5	0.5
Publishing and printing	1.7	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7	1.7	1.6	1.6	1.6
Manufacture of basic chemicals and man-made fibres	1.8	1.8	2.0	1.9	1.8	1.8	1.7	1.1	1.0	0.9	0.7	0.6	0.6	0.6
Manufacture of chemical products	0.9	0.9	0.9	1.1	1.1	1.1	1.1	0.6	0.5	0.5	0.7	0.7	0.6	0.6
Manufacture of electrical and optical equipment	1.9	1.9	1.9	1.8	1.8	1.8	1.8	2.0	1.9	1.8	1.7	1.7	1.7	1.6
Electricity, gas and water supply	1.9	1.9	1.9	2.0	2.0	2.0	2.0	0.8	0.8	0.8	0.7	0.7	0.6	0.6
Construction	6.0	5.9	5.8	5.6	5.3	5.3	5.3	7.5	7.5	7.5	7.3	7.3	7.4	7.5
Trade, hotels, restaurants and repair	16.1	15.8	15.6	15.5	15.6	15.8	16.0	20.5	20.6	20.8	19.4	19.3	19.1	19.1
of which: Wholesale trade (excl. motor vehicles/cycles)	..	7.3	7.2	7.5	7.8	7.9	8.0	..	7.0	6.9	6.7	6.8	6.7	6.8
Transport, storage and communication	7.8	7.9	8.0	7.5	7.5	7.7	8.1	7.0	6.9	6.8	6.3	6.2	6.1	6.1
Finance and business activities	..	26.3	26.3	23.5	24.4	25.0	25.5	..	14.9	15.6	16.9	18.1	18.8	19.5
of which:														
Banking	4.3	4.4	4.2	3.2	3.3	3.4	3.4	2.2	2.2	2.1	2.1	2.1	2.1	2.2
Real estate activities	10.6	11.0	11.0	7.7	7.7	7.6	7.5	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Care and other service activities	..	11.4	11.1	11.4	11.3	11.0	10.9	..	14.2	14.5	15.6	15.8	15.9	16.1
Total business sector	92.7	92.7	92.8	90.2	90.7	91.1	91.3	87.1	87.1	87.2	87.6	88.0	88.2	88.5
Statistical discrepancy	–4.2	–4.3	–4.0	–2.8	–3.1	–3.2	–3.3	–	–	–	–	–	–	–
Government	11.5	11.6	11.3	12.6	12.4	12.2	12.0	12.9	12.9	12.8	12.4	12.0	11.8	11.5

1. Up to 1994, figures are based on the System of National Accounts 1968 (SNA 68) and from 1995 onwards, on the European System of National and Regional Accounts 1995 (ESA95).
2. Provisional figures.

Source: Statistics Netherlands *National Accounts 1997, 1998.*

Table I. **Structure of output and performance indicators**[1] *(cont.)*

2. Economic performance (1995 prices)

	1992	1993	1994	1995	1996	1997[2]	1998[2]	1992	1993	1994	1995	1996	1997[2]	1998[2]
	Labour productivity growth (at factor costs) %							Share of total gross investment %						
Agriculture, hunting, forestry and fishing	3.3	2.1	8.9	3.0	–2.7	3.6	0.1	4.8	4.0	3.7	4.0	3.8	3.6	3.7
Mining and quarrying	1.4	1.8	–1.0	11.9	8.6	–3.5	–7.9	2.1	3.4	1.9	2.0	1.8	3.4	1.9
Manufacturing	0.2	1.4	11.2	4.7	1.8	4.8	1.7	13.6	12.3	11.1	12.4	12.2	13.1	13.3
of which:														
Manufacture of food products, beverages and tobacco	2.0	1.5	10.2	4.9	6.8	5.9	1.3	3.0	2.8	2.5	2.2	2.2	2.3	..
Manufacture of textile and leather products	–6.8	2.3	4.4	–3.5	7.0	5.5	4.7	0.3	0.3	0.2	0.2	0.2	0.2	..
Publishing and printing	–2.8	3.1	5.5	3.1	4.5	3.5	3.5	..	1.0	1.1	1.1	0.9	0.9	..
Manufacture of basic chemicals and man-made fibres	1.3	3.3	30.1	14.2	–1.9	4.2	0.7	..	2.1	2.1	2.0	2.3	2.0	..
Manufacture of chemical products	2.6	10.6	6.4	7.9	–1.9	9.2	5.3	..	..	..	..	..	..	..
Manufacture of electrical and optical equipment	6.8	6.0	12.1	5.3	–0.5	4.0	6.9	..	1.2	0.7	1.2	1.8	1.2	..
Electricity, gas and water supply	1.0	2.7	1.9	4.8	9.6	4.4	6.5	2.7	4.3	5.5	3.9	5.0	3.0	2.7
Construction	–2.8	–2.9	2.2	–2.7	–3.9	–1.0	–0.7	1.6	1.6	1.7	1.5	2.0	1.8	1.7
Trade, hotels, restaurants and repair	–0.7	–2.0	1.5	0.8	1.8	3.6	1.6	9.7	9.8	9.3	7.2	7.5	7.6	8.2
of which: Wholesale trade (excl. motor vehicles/cycles)	..	..	3.8	0.1	3.2	3.4	1.1	..	3.9	3.4	3.2	3.4	3.3	..
Transport, storage and communication	1.9	2.9	6.4	2.7	2.7	5.9	4.9	11.6	9.7	11.1	10.5	9.4	9.8	10.6
Finance and business activities	..	..	–1.0	–3.3	–2.9	–0.5	–0.7	..	..	..	41.5	41.4	42.0	42.9
of which:														
Banking	0.8	2.8	2.0	1.6	4.0	1.7	–3.3	..	..	..	2.6	2.3	3.2	..
Real estate activities	0.7	1.3	–2.2	–0.3	0.7	1.6	–0.3	28.8	29.8	31.5	29.2	28.5	28.4	26.8
Care and other service activities	..	..	–0.1	–0.7	–1.1	–2.8	–1.3	..	..	..	7.5	6.4	6.6	6.3
Total business sector	0.6	0.8	–0.2	–1.6	–1.4	–0.8	–0.5	90.6	90.5	90.4	90.4	89.5	91.0	91.4
Statistical discrepancy	–	–	–	–	–	–	–	–3.0	–3.3	–3.5	–2.9	–2.6	–2.5	–2.6
Government	2.2	1.6	1.7	0.9	1.8	1.4	1.5	12.3	12.8	13.1	12.5	13.1	11.5	11.2

1. Up to 1994, figures are based on the System of National Accounts 1968 (SNA 68) and from 1995 onwards, on the European System of National and Regional Accounts 1995 (ESA95).
2. Provisional figures.

Source: Statistics Netherlands *National Accounts 1997, 1998.*

Table I. **Structure of output and performance indicators**[1] *(cont.)*

3. Other indicators (current prices)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
R&D as a per cent of GDP in manufacturing sector	6	6	7	7	6	5	5	5	5	5	5	5	5	..
Total R&D expenditure as a per cent of total GDP	2	2	2	2	2	2	2	2	2	2	2	2	2	..
Government funded R&D as a per cent of total	44	44	44	43	42	48	49	49	49	44	42	42	39	..
Breakdown of employed workforce by size of establishment[2]														
0 to 9 workers	91	92	91	91	91	92	92	92	91	91	91	91	91	91
10 to 99 workers	8	8	8	8	8	8	7	8	8	8	8	8	8	8
Over 100 workers	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

1. Up to 1994, GDP is based on the System of National Accounts 1968 (SNA 68) and from 1995 onwards, on the European System of National and Regional Accounts 1995 (ESA95). Break in series 1993/94 is due to expansion of Business Enterprise sector survey. Break in 1991/92: government, agriculture, hunting and forestry, and electricity, gas and water included from 1992.
2. Classified by the number of workers in full-time equivalents (excluding temporary staff).

Source: Statistics Netherlands and OECD *Main Science and Technology Indicators.*

Table J. **Labour market indicators**[1]

1. Evolution

	Peak	Trough	1991	1992	1993	1994	1995	1996	1997	1998
Registered unemployment[2]										
persons (thousands)	.. ..	.. ..	334	336	415	486	462	441	375	286
as a per cent of labour force	1983: 11.0	1970: 0.9	5.4	5.3	6.5	7.5	7.0	6.6	5.5	4.1
Incidence of long term unemployment[3]	1985: 59.4	1992: 43.9	46.1 ▍	43.9	52.3	49.4	46.8	50.0	49.1	47.9
Unemployment rate (labour force survey)[4]										
Total	1984: 14.2	1980: 4.6	6.5	6.5	7.5	8.5	8.1	7.4	6.4	5.0
Male	1984: 14.6	1998: 3.6	4.6	4.7	5.7	6.6	6.2	5.4	4.6	3.6
Female	1984/87: 13.5	1980: 5.2	9.7	9.7	10.5	11.4	11.1	10.5	9.1	7.2
Youth[5]	1984: 25.2	1998: 8.2	10.0	9.5	11.8	13.3	13.2	12.4	10.1	8.2
Vacancies in private enterprises (thousands)[6]	.. ..	.. ..	96	67	39 ▍	42	57	69	90	126
Paid hours per job, full-time[7]	.. ..	.. ..	1 773	1 771	1 771	1 770	1 772	1 771	1 761	..
Paid hours per job, total[7]	.. ..	.. ..	1 446	1 438	1 429	1 410	1 406	1 396	1 387	..

▍ Indicates a series break.

1. Employment is taken from the national Labour Force Survey and refers to persons, aged between 15 and 64 and working more than 12 hours per week.
2. All persons aged 16-64 years who are registered at an employment office and who work fewer than 12 hours per week and are available for paid work for at least 12 hours per week.
3. People aged 15 years or more who have been looking for a job for one year or more, as a percentage of total declared unemployment durations.
4. According to the national definition, unemployed are people working less than 12 hours per week, actively looking for work of 12 hours or more per week and available for work according to the ILO guidelines.
5. People between 15 and 24 years of age as a percentage of the labour force of the same age group.
6. Average of quarterly data; before the second quarter 1993, vacancies in social workshops and agencies for temporary and contractual staff are excluded.
7. The sum of contractual hours and overtime per job.

Source: Statistics Netherlands *Enquête beroepsbevolking* and *Statistical Yearbook,* OECD *Employment Outlook,* and OECD Secretariat.

Table J. **Labour market indicators**[1] *(cont.)*

2. Structural or institutional characteristics

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Labour force (percentage change)	2.3	2.1	1.7	1.7	1.0	2.0	1.3	2.3	1.7
Participation rate:[2]									
Total	59.3	60.1	60.8	61.5	61.7	62.8	63.5	64.7	65.6
Male	74.6	75.0	75.6	75.5	75.5	76.3	76.6	77.4	78.2
Female	43.6	44.9	45.7	47.0	47.6	48.9	49.9	51.8	52.7
Employment (persons) as % of working age population	55.2	56.2	56.9	56.9	56.5	57.8	58.8	60.6	62.3
Employment by sector (percentage change)									
Agriculture	3.6	–1.2	–6.7	–2.5	2.2	–5.1	2.7	–2.2	–8.4
Industry	2.9	0.1	–1.2	–1.7	–3.6	1.0	1.4	2.2	0.7
Services	3.1	3.8	–4.3	9.8 |	..	2.3	2.6	3.6	4.1
of which: non-market services	..	..	..	.. |	..	3.6	–0.3	4.0	4.6
Total	3.1	2.6	–3.5	6.1 |	..	1.8	2.3	3.1	3.0
Employment by sector (per cent of total)									
Agriculture	4.6	4.4	4.3	3.9	3.7	3.5	3.5	3.3	2.9
Industry	27.6	26.9	27.6	25.6	23.0	22.8	22.6	22.4	21.9
Services	67.9	68.7	68.2	70.5 |	73.3	73.7	73.9	74.3	75.1
of which: non-market services	..	..	..	.. |	30.0	30.6	29.8	30.0	30.5
Total	100.0	100.0	100.0	100.0 |	100.0	100.0	100.0	100.0	100.0
Part-time employment as % of total employment[3]	..	25.3	24.4	25.3	26.5	27.8	28.1	28.9	30.1
Idem, including people working less than 12 hours	31.7	32.5	34.5	35.0	36.4	36.3	36.5	37.1	37.9
Non-wage labour cost[4]	13.9	14.0	14.2	14.5	14.8	15.1	15.1	14.8	19.7
Gross minimum wage as a per cent of a full-time average production worker's wage	51.2	50.6	49.8	49.1	47.7	46.7	46.0	45.6	..

| Indicates a series break.
1. Employment is taken from the national Labour Force Survey and refers to persons, aged between 15 and 64 and working more than 12 hours per week.
2. Labour force as a percentage of the corresponding population aged between 15 and 64 years.
3. Persons at work, including self-employed and unpaid family workers.
4. Total employers' contributions as a percentage of total compensation.

Source: Statistics Netherlands *Enquête beroepsbevolking* and *Statistical Yearbook,* OECD *Employment Outlook.*

Table K. **Financial markets**
1. Sector size and structure of financial flows

	1970	1980	1985	1990	1995	1996	1997	1998
A. Sector size								
Sector employment[1]/total employment	2.8	3.4	3.6	3.0	3.0	3.0	3.2	3.3
Sector GDP[1]/total GDP	3.0	4.6	4.6	4.4	5.5	5.5	5.5	5.6
Funds redistributed by financial institutions/GDP	..	..	10.6	18.0	19.9	24.1	36.6	41.4
Domestic financial assets of financial sector/GDP	..	..	186.6	233.9	259.7	278.5	298.5	363.0
Stock-market capitalisation[2]/GDP	..	17.6	37.2	36.0	65.9	89.5	123.6	140.5
B. Structure of financial flows								
Share of domestic intermediated finance in external financing of non-financial enterprises[3]	..	..	..	42.1	48.9	37.3	44.1	61.9
Share of securities issues in domestic credit flows[4]	23.2	21.8	39.5	53.7	54.1	59.6	55.6	51.6
Structure of non-financial corporate liquidities:[5]								
Equity	..	..	34.5	37.2	35.8	36.5	36.8	..
Short-term: interest bearing	..	..	7.7	7.0	7.9	7.9	7.8	..
Short-term: non-interest bearing	..	..	28.0	24.9	26.4	26.4	26.3	..
Long-term: interest bearing	..	..	20.0	22.8	21.2	20.5	20.6	..
Long-term: non-interest bearing	..	..	9.7	8.0	8.6	8.8	8.4	..

1. Sector defined as financial institutions (including insurance sector).
2. Excluding investment funds.
3. External financing is the sum of intermediated financing (by financial institutions) and non-intermediated financing (share or bond financing, direct foreign investment in the Netherlands and direct borrowing abroad).
4. Value of net bond and share issues by residents as percentage of change in total long-term credit borrowed by residents.
5. The non-financial sector is represented by manufacturing industries, trade corporations, transport corporations and services corporations.

Source: De Nederlandsche Bank and Statistics Netherlands.

Table K. **Financial markets** *(cont.)*

2. Internationalisation and efficiency of markets

	1970	1980	1985	1990	1995	1996	1997	1998
C. Internationalisation of markets								
Foreign business of the banking sector[1]								
Assets	25.8	34.2	33.6	32.4	30.4	30.8	33.7	30.3
Liabilities	24.7	35.4	29.8	26.7	28.7	31.7	37.2	27.8
International banking networks								
Foreign banking presence[2]	..	23	42	47	55	53	47	45
Foreign claims as a per cent of domestic assets[3]	..	..	30.8	27.4	23.3	21.3	22.7	13.0
Relative size of cross-border transactions in securities[4]								
Net purchases of foreign securities by domestic residents	..	1.9	–22.0	–14.3	–32.9	–45.3	–88.3	..
Net purchases of domestic securities by foreign residents	..	34.5	25.9	–5.3	11.9	23.6	39.1	..
D. Efficiency of markets								
Interest rate margins[5]	2.6	2.6	2.5	1.8	1.9	1.9	1.8	1.7
Banks' productivity[6]	73.8	84.0	75.0	68.5	67.1	67.5	69.2	70.3
Cost of commercial bank intermediation[7]	..	0.4	0.6	0.6	0.8	0.8	0.7	0.6
Deviation of domestic interest rates from international levels:[8]								
Three-month loans to local authorities/Euro-guilder three-month deposit rate	..	0.09	–0.05	–0.02	–0.03	0.02	0.03	0.00
Money market: Netherlands-Germany	..	1.61	1.07	0.20	–0.09	–0.28	0.02	–0.08
Netherlands-United States	..	–3.34	–1.96	0.44	–1.61	–2.47	–2.38	–2.06
Capital market: Netherlands-Germany	..	..	0.29	0.21	0.08	–0.07	–0.07	0.05
Netherlands-United States	..	..	–3.28	0.37	0.32	–0.28	–0.76	–0.65

1. Money-creating institutions, excluding Nederlandsche Bank, as a percentage of balance sheet total.
2. Number of branches and subsidiaries.
3. The official reserves of the Nederlandsche Bank are included in the foreign claims.
4. Ratio of cross-border transactions in securities to issues by residents.
5. Interest received minus interest paid divided by total assets.
6. Expenses divided by earnings of universal banks, Rabobanks and (as from 1986) the Postbank. As from 1990, all registered institutions.
7. Net pre-tax earnings as percentage of balance sheet total of universal banks, Rabobanks and (as from 1986) the Postbank. As from 1990 all registered institutions.
8. Differential between Euro-currency 3-month deposit rates (money market) and Government bonds (capital market); yearly averages.

Source: De Nederlandsche Bank and Statistics Netherlands.

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Czech Republic	Denmark	Finland	France	Germany	Greece
Population												
Total	Thousands	1996	18 289	8 060	10 157	29 964	10 316	5 262	5 125	58 380	81 877	10 465
Inhabitants per sq. km	Number	1996	2	96	333	3	131	122	15	106	229	79
Net average annual increase over previous 10 years	%	1996	1.3	0.6	0.3	1.3	0	0.3	0.4	0.5	3	0.5
Employment												
Total civilian employment (TCE)[2]	Thousands	1996	8 344	3 737 (94)	3 675 (95)	13 676	4 918	2 593	2 087	21 951	35 360	3 824 (95)
of which: Agriculture	% of TCE	1996	5.1	7.2 (94)	2.5 (95)	4.1	6.3	4	7.1	4.6	3.3	20.4 (95)
Industry	% of TCE	1996	22.5	33.2 (94)	26.7 (95)	22.8	42	27	27.6	25.9	37.5	23.2 (95)
Services	% of TCE	1996	72.4	59.6 (94)	71.4 (95)	73.1	51.7	69	65.3	69.5	59.1	56.4 (95)
Gross domestic product (GDP)												
At current prices and current exchange rates	Bill. US$	1996	398.9	228.7	268.2	579.2	56.2	174.9	125.1	1 536.6	2 353.5	91.2 (95)
Per capita	US$	1996	21 812	28 384	26 409	19 330	5 445	33 230	24 420	26 323	28 738	8 722 (95)
At current prices using current PPPs[3]	Bill. US$	1996	372.7	172.4	222	645.1	..	118	96.7	1 198.6	1 736.1	133.5
Per capita	US$	1996	20 376	21 395	21 856	21 529	..	22 418	18 871	20 533	21 200	12 743
Average annual volume growth over previous 5 years	%	1996	3.9	1.6	1.2	2.2	2	2.2	1.6	1.2	1.4	1.3 (95)
Gross fixed capital formation (GFCF)	% of GDP	1996	20.3	23.8	17.3	17.7	33	16.7	16.1	17.4	20.6	17 (95)
of which: Machinery and equipment	% of GDP	1996	10.2 (95)	8.8 (95)	7.5 (95)	6.6	..	7.9 (95)	6.4 (95)	7.8	7.6	7.7 (95)
Residential construction	% of GDP	1996	4.6 (95)	5.9 (95)	4.6 (95)	5.4	..	3.2 (95)	3.5 (95)	4.4	7.3	3.3 (95)
Average annual volume growth over previous 5 years	%	1996	5.6	2.1	0.3	2.2	9.4	2	–4.1	–1.5	0.2	0.5 (95)
Gross saving ratio[4]	% of GDP	1996	18	21.9	22.2	17.8	..	17.6	19.6	18.7	20	16 (95)
General government												
Current expenditure on goods and services	% of GDP	1996	17	19.8	14.5	18.7	21.5	25.2	21.9	19.4	19.8	20.8 (95)
Current disbursements[5]	% of GDP	1995	35.6	48.6	52.2	45.8	..	59.6	55.9	50.9	46.6	52.1
Current receipts	% of GDP	1995	34.9	47.4	49.9	42.7	..	58.1	52.8	46.9	45.9	45
Net official development assistance	% of GNP	1995	0.36	0.33	0.38	0.38	..	0.96	0.32	0.55	0.31	0.13
Indicators of living standards												
Private consumption per capita using current PPPs[3]	US$	1996	12 596	12 152	13 793	12 959	..	12 027	10 282	12 506	12 244	9 473
Passenger cars, per 1 000 inhabitants	Number	1994	460	433	416	466	282	312	368	430	488	199
Telephones, per 1 000 inhabitants	Number	1994	496	466	449	576	209	604	551	547	483[8]	478
Television sets, per 1 000 inhabitants	Number	1993	489	479	453	618	476	538	504	412	559	202
Doctors, per 1 000 inhabitants	Number	1995	2.2 (91)	2.7	3.7 (94)	2.2	2.9	2.9 (94)	2.8	2.9	3.4	3.9 (94)
Infant mortality per 1 000 live births	Number	1995	5.7	5.4	7.6 (94)	6.3 (94)	7.7	5.5	4	5.8 (94)	5.3	8.1
Wages and prices (average annual increase over previous 5 years)												
Wages (earnings or rates according to availability)	%	1996	1.7	5.2	2.7	2.4	..	3.2	3.8	2.6	4.2	11.8
Consumer prices	%	1996	2.4	2.9	2.2	1.4	11.9	1.9	1.5	2	3.1	11.6
Foreign trade												
Exports of goods, fob*	Mill. US$	1996	60 288	57 870	170 223[7]	202 320	21 910	51 030	40 576	288 450	521 263	11 501
As % of GDP	%	1996	15.1	25.3	63.5	34.9	39	29.2	32.4	18.8	22.1	12.9 (95)
Average annual increase over previous 5 years	%	1996	7.5	7.1	7.6	9.7	..	6.2	12.1	6.3	5.4	5.8
Imports of goods, cif*	Mill. US$	1996	61 374	67 376	160 917[7]	170 931	27 721	44 987	30 911	271 348	455 741	27 402
As % of GDP	%	1996	15.4	29.5	60	29.5	49.3	25.7	24.7	17.7	19.4	30.4 (95)
Average annual increase over previous 5 years	%	1996	9.7	5.9	5.9	7.7	..	5.6	7.3	3.9	3.3	6.6
Total official reserves[6]	Mill. SDRs	1996	10 107	15 901	11 789[7]	14 202	8 590	9 834	4 810	18 635	57 844	12 171
As ratio of average monthly imports of goods	Ratio	1996	2	2.8	0.9	1	..	2.6	1.9	0.8	1.5	5.3

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour Force Statistics*.
3. PPPs = Purchasing Power Parities.
4. Gross saving = Gross national disposable income minus private and government consumption.
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
6. End of year.
7. Data refer to the Belgo-Luxembourg Economic Union.
8. Data refer to western Germany.
9. Including non-residential construction.
10. Refers to the public sector including public enterprises.

Sources: Population and Employment: OECD, *Labour Force Statistics.* GDP, GFCF and General Government: OECD, *National Accounts*, Vol. I and *OECD Economic Outlook*, Historical Statistics. Indicators of living standards: Miscellaneous national publications. Wages and Prices: OECD, *Main Economic Indicators.* Foreign trade: OECD, *Monthly Foreign Trade Statistics*, Series A. Total official reserves: IMF, *International Financial Statistics.*

BASIC STATISTICS: INTERNATIONAL COMPARISONS *(cont'd)*

	Units	Reference period[1]	Hungary	Iceland	Ireland	Italy	Japan	Korea	Luxembourg	Mexico	Netherlands	New Zealand
Population												
Total	Thousands	1996	10 193	270	3 621	57 473	125 864	45 545	418	96 582	15 494	3 640
Inhabitants per sq. km	Number	1996	77	3	52	191	333	458	161	48	380	14
Net average annual increase over previous 10 years	%	1996	–0.3	1.1	0.2	0	0.4	1	1.3	2	0.6	1.1
Employment												
Total civilian employment (TCE)[2]	Thousands	1996	3 605	142	1 307	20 036	64 860	20 764	212 (95)	32 385 (95)	6 983	1 688
of which: Agriculture	% of TCE	1996	8.4	9.2	10.7	7	5.5	11.6	2.8 (95)	23.5 (95)	3.9	9.5
Industry	% of TCE	1996	33	23.9	27.2	32.1	33.3	32.5	30.7 (90)	21.7 (95)	22.4	24.6
Services	% of TCE	1996	58.6	66.2	62.3	60.9	61.2	55.9	66.1 (90)	54.8 (95)	73.8	65.9
Gross domestic product (GDP)												
At current prices and current exchange rates	Bill. US$	1996	43.7 (95)	7.3	70.7	1 214.2	4 595.2	484.8	17	329.4	396	65.9
Per capita	US$	1996	4 273 (95)	27 076	19 525	21 127	36 509	10 644	40 791	3 411	25 511	18 093
At current prices using current PPPs[3]	Bill. US$	1996	..	6.3	68.8	1 148	2 924.5	618.5	13.5	751.1	324.5	63.6
Per capita	US$	1996	..	23 242	18 988	19 974	23 235	13 580	32 416	7 776	20 905	17 473
Average annual volume growth over previous 5 years	%	1996	–2.4 (95)	1.5	7.1	1	1.5	7.1	4.8	1.7	2.3	3.7
Gross fixed capital formation (GFCF)	% of GDP	1996	19.3 (95)	17.5	17.2	17	29.7	36.8	20.8	18	19.7	20.9
of which: Machinery and equipment	% of GDP	1996	..	6.7	5.5 (95)	8.8	10.1 (95)	13	..	8.8	9.4	10
Residential construction	% of GDP	1996	..	3.9	4.9 (95)	4.5	5.3 (95)	7.6	..	4.7	5	5.6
Average annual volume growth over previous 5 years	%	1996	–0.9 (95)	–1.4	6	–1.4	1.3	6.9	0.2	–0.7	2.2	9.6
Gross saving ratio[4]	% of GDP	1996	..	15.6	21.7	20.5	31.4	34.2	37.5	22.7	25.7	16
General government												
Current expenditure on goods and services	% of GDP	1996	24.9 (95)	20.8	14.1	16.4	9.7	10.6	13.6	9.7[10]	14	14.4
Current disbursements[5]	% of GDP	1995	..	35.1	39.2 (94)	49.5	28.5	15.1	..	..	51.8	..
Current receipts	% of GDP	1995	..	36	39.3 (94)	44.5	32	25.1	..	..	50	..
Net official development assistance	% of GNP	1995	..	..	0.29	0.15	0.28	0.03	0.36	..	0.81	0.23
Indicators of living standards												
Private consumption per capita using current PPPs[3]	US$	1996	..	14 244	10 020	12 224	13 912	7 354	17 811	5 045	12 477	10 895
Passenger cars, per 1 000 inhabitants	Number	1994	212	434	264	517	342	115	544	91	383	457
Telephones, per 1 000 inhabitants	Number	1994	170	557	350	429	480	397	564	93	509	470
Television sets, per 1 000 inhabitants	Number	1993	427	335	301	429	618	215	261	150	491	
Doctors, per 1 000 inhabitants	Number	1995	3.4	3.9 (94)	3.4	3.0 (94)	1.7	1.6 (92)	1.8 (94)	1.1	2.2 (93)	1.6
Infant mortality per 1 000 live births	Number	1995	11	6.1	6.3	6.6 (94)	4.3	9	5.3 (94)	17 (94)	5.5	7.2 (94)
Wages and prices (average annual increase over previous 5 years)												
Wages (earnings or rates according to availability)	%	1996	..	..	3.7	3.5	1.8	..	..	–1.6	2.4	1.5
Consumer prices	%	1996	23.2	2.6	2.2	4.5	0.7	5.3	2.4	19.7	2.5	2
Foreign trade												
Exports of goods, fob*	Mill. US$	1996	15 674	1 891	48 416	250 842	411 067	129 715	..	96 000	203 953	14 316
As % of GDP	%	1996	35.9	26	68.5	20.7	8.9	26.8	..	29.1	51.5	21.7
Average annual increase over previous 5 years	%	1996	8.9	4	14.8	8.2	5.5	12.5	..	17.6	8.9	8.2
Imports of goods, cif*	Mill. US$	1996	18 105	2 032	35 763	206 904	349 149	150 340	..	89 469	184 389	14 682
As % of GDP	%	1996	41.4	27.9	50.6	17	7.6	31	..	27.2	46.6	22.3
Average annual increase over previous 5 years	%	1996	9.6	3.4	11.5	2.5	8	13.9	..	12.4	7.8	11.8
Total official reserves[6]	Mill. SDRs	1996	6 812	316	5 706	31 954	150 663	23 670	..	13 514	18 615	4 140
As ratio of average monthly imports of goods	Ratio	1996	..	1.9	1.9	1.9	5.2	..	..	1.8	1.2	3.4

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour Force Statistics*.
3. PPPs = Purchasing Power Parities.
4. Gross saving = Gross national disposable income minus private and government consumption.
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
6. End of year.
7. Data refer to the Belgo-Luxembourg Economic Union.
8. Data refer to western Germany.
9. Including non-residential construction.
10. Refers to the public sector including public enterprises.

Sources: Population and Employment: OECD, *Labour Force Statistics*. GDP, GFCF and General Government: OECD, *National Accounts*, Vol. I and *OECD Economic Outlook*, Historical Statistics. Indicators of living standards: Miscellaneous national publications. Wages and Prices: OECD, *Main Economic Indicators*. Foreign trade: OECD, *Monthly Foreign Trade Statistics*, Series A. Total official reserves: IMF, *International Financial Statistics*.

BASIC STATISTICS: INTERNATIONAL COMPARISONS *(cont'd)*

	Units	Reference period[1]	Norway	Poland	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States
Population											
Total	Thousands	1996	4 370	38 618	9 935	39 270	8 901	7 085	62 695	58 782	265 557
Inhabitants per sq. km	Number	1996	13	123	108	78	20	172	80	240	28
Net average annual increase over previous 10 years	%	1996	0.5	0.3	–0.1	0.2	0.6	0.8	2	0.3	1
Employment											
Total civilian employment (TCE)[2]	Thousands	1996	2 110	14 977	4 475	12 394	3 963	3 803	20 895	26 088	126 708
of which: Agriculture	% of TCE	1996	5.2	22.1	12.2	8.7	2.9	4.5	44.9	2	2.8
Industry	% of TCE	1996	23.4 (95)	31.7	31.4	29.7	26.1	27.7	22	27.4	23.8
Services	% of TCE	1996	71.5 (95)	46.2	56.4	61.6	71	67.4	33.1	71	73.3
Gross domestic product (GDP)											
At current prices and current exchange rates	Bill. US$	1996	157.8	117.9 (95)	103.6	584.9	251.7	294.3	181.5	1 153.4	7 388.1
Per capita	US$	1996	36 020	3 057 (95)	10 425	14 894	28 283	41 411	2 894	19 621	27 821
At current prices using current PPPs[3]	Bill. US$	1996	106.7	..	130.1	587.2	171.4	180.6	383.3	1 095.5	7 388.1
Per capita	US$	1996	24 364	..	13 100	14 954	19 258	25 402	6 114	18 636	27 821
Average annual volume growth over previous 5 years	%	1996	4.1	2.2 (95)	1.5	1.3	1	0.1	4.4	2.2	2.8
Gross fixed capital formation (GFCF)	% of GDP	1996	20.5	17.1 (95)	24.1	20.1	14.8	20.2	25	15.5	17.6
of which: Machinery and equipment	% of GDP	1996	8.4	..	11.7 (93)	6.1 (95)	7.9	9.3	11.9	7.6	8.3 (95)
Residential construction	% of GDP	1996	2.6 (94)	..	5.2 (93)	4.3 (95)	1.9	11[9]	8.4 (95)	3	4.1 (95)
Average annual volume growth over previous 5 years	%	1996	2.8	5.4 (95)	2.2	–1	–2.6	–0.8	6.9	1.3	6.9
Gross saving ratio[4]	% of GDP	1996	29.9	..	21.6	20.7	16	27.1	22.3	14.6	16.6
General government											
Current expenditure on goods and services	% of GDP	1996	20.5	16.9 (95)	18.5	16.3	26.2	14.3	11.6	21.1	15.6
Current disbursements[5]	% of GDP	1995	45.8	..	42.5 (93)	41.2	63.8	47.7	..	42.3 (94)	34.3
Current receipts	% of GDP	1995	50.9	..	39.8 (93)	37.9	57.5	53.8	..	37.2 (94)	32.1
Net official development assistance	% of GNP	1995	0.87	..	0.27	0.24	0.77	0.34	0.07	0.28	0.1
Indicators of living standards											
Private consumption per capita using current PPPs[3]	US$	1996	11 593	..	8 522	9 339	10 096	15 632	4 130	11 865	18 908
Passenger cars, per 1 000 inhabitants	Number	1994	381	186	357	351	406 (93)	451	47	372	565
Telephones, per 1 000 inhabitants	Number	1994	554	131	350	371	683	597	201	489	602
Television sets, per 1 000 inhabitants	Number	1993	427	298	190	400	470	400	176	435	816
Doctors, per 1 000 inhabitants	Number	1995	2.8	2.3	3	4.1 (93)	3.1	3.1 (94)	1.2	1.6 (94)	2.6 (94)
Infant mortality per 1 000 live births	Number	1995	4	13.6	7.4	6 (94)	4	5	46.8 (94)	6.2 (94)	8 (94)
Wages and prices (average annual increase over previous 5 years)											
Wages (earnings or rates according to availability)	%	1996	3.2	..	..	5.8	4.8	..	..	4.9	2.7
Consumer prices	%	1996	1.9	..	5.6	4.7	2.7	2.2	81.6	2.7	2.9
Foreign trade											
Exports of goods, fob*	Mill. US$	1996	49 576	24 417	24 614	102 067	84 836	79 581	23 301	259 941	625 075
As % of GDP	%	1996	31.4	20.7	23.8	17.5	33.7	27	12.8	22.5	8.5
Average annual increase over previous 5 years	%	1996	7.8	..	8.6	11.2	9	5.3	11.1	7	8.2
Imports of goods, cif*	Mill. US$	1996	35 575	37 185	35 192	121 838	66 825	78 052	43 094	287 033	795 289
As % of GDP	%	1996	22.5	31.5	34	20.8	26.5	26.5	23.7	24.9	10.8
Average annual increase over previous 5 years	%	1996	6.9	..	6.1	5.5	6	3.2	15.1	6.5	10.3
Total official reserves[6]	Mill. SDRs	1996	18 441	12 409	11 070	40 284	13 288	26 727	11 430	27 745	44 536
As ratio of average monthly imports of goods	Ratio	1996	6.2	..	3.8	4	2.4	4.1	3.2	1.2	0.7

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour Force Statistics*.
3. PPPs = Purchasing Power Parities.
4. Gross saving = Gross national disposable income minus private and government consumption.
5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
6. End of year.
7. Data refer to the Belgo-Luxembourg Economic Union.
8. Data refer to western Germany.
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