6 Institutions and regional labour markets in The Netherlands

Jouke van Dijk & Andries de Grip

6.1 Introduction

This chapter sheds light on the effects of institutional factors on the performance of regional labour markets in the Netherlands. Through various regulations the influence of institutions is rather strong. However, the regional differences in institutional factors are rather small in the Netherlands and the role of regional and local institutions on labour market performance is rather limited. This does not imply that a rather similar institutional structure automatically causes the same type of regional effects with the same magnitude. Stoffelsma (1992) clearly shows that nationwide policy measures can work out quite different for regions with a different economic situation. For example, he shows that the social security system, which does not differ by region, has much larger redistributive effects among regions than regional policy measures with the specific goal of narrowing regional differences. Since the main focus of this paper will be directed to the spatially differentiated effects of similar institutional frameworks, a considerable part of this chapter will consist of a discussion of the national policy measures which affect the regional labour market, viz. employment policy, regional policy and labour market policy.

The organisation of this chapter is as follows. In section 6.2 the socio-economic setting is discussed. First, some general data on labour market developments with respect to employment, labour supply, participation and unemployment are presented. Special attention will be paid to some specific Dutch features like the social security system, female labour market participation, wage determination and the role of unions. The regional setting will be discussed in section 6.3. In this section some basic regional data are presented and regional labour market disparities will be analysed. Section 6.4 focuses on the main policy issues. We successively discuss national economic and employment policies, regional policies and labour market policies. Attention is paid to changes in policy during the last decades and its regional dimension. In particular we focus on the changes in the objectives and
instruments of regional economic policy (equity versus efficiency; subsidies on capital or labour) and labour market policy (objectives of the Public Employment Services and the shifts in its organisational structure; active versus passive labour market policies; experience on-the-job-training). Section 6.5 gives an overview of the effectiveness of the policy measures. Finally, section 6.6 summarises the main conclusions of this chapter.

6.2 The Dutch labour market

This section provides some background information for the functioning of regional labour markets. First, an overview of some basic economic and labour market indicators and their development over time on the national level is presented. Moreover, the objectives of macro-economic policy and the wage bargaining process are discussed. Furthermore, the main objectives of employment, regional and labour market policy are analysed.

6.2.1 The economic framework and socio-economic background

As the largest of the smaller countries in the European Union (EU), the Netherlands has about 15 million inhabitants, of which over 10 million are in the working age of 15-64 year. About 65 percent of the working-age population is employed, which is above the EU average of 60 percent (EC, 1994). GDP per capita is still above the EU average, but the difference declined substantially in the 1980s and is now about 10 percent above the EU average. In the period 1983-1995 the labour force increased by 0.9 percent per year. In the same period the annual growth of real GDP was 2.5 percent and the growth of employment 1.7 percent per year (OECD, 1994a). This implies that labour productivity still increases, but much less than in the 1960s when GDP growth of 3 percent hardly increased the number of jobs (jobless growth). In the period 1980-1990 labour costs per unit output increased 1.4 percent annually.

A typical feature for The Netherlands is the traditionally low female participation rate. Although the female participation rate is increasing rapidly, it is still lower than in the surrounding countries, notably among women with young children. Since the 1980s there is a large increase in part-time employment, which effectively meant that total employment was shared among more people. Because most part-time jobs are occupied by women, the share of female workers in full-time equivalents of employment is lower than shown by the participation rates (Pott-Buter, 1994). Part-time working is much more common in The Netherlands than in other European countries (see section 6.5 for more details).
Figure 6.1  Total employment and labour supply, 1981-1993

Source: de Koning et al. (1995)

Figure 6.1 shows the development of total employment and labour supply for the period 1981-1993. The number of people with a job -of at least 12 hours a week- increased with more than one million. As in most other countries the growth of jobs was mainly in the service sector. Measured in full-time equivalents the increase was substantially lower than the growth in the number of jobs. The difference can be attributed to the growth in part-time jobs. Figure 6.1 shows that the increase in labour supply exceeded the increase in employment. About 70 percent of the increase in labour supply is caused by the increased female participation. Another 20 percent is due to the migration of workers of foreign origin. The increasing participation in education, as a result of which young people enter the labour force at an older age, reduced the growth of the labour force. The proportion of individuals with only primary education -the 'unskilled' workers- declined substantially.

Figure 6.2 shows the development of the shares of various groups in the labour force in the period 1981-1993. As the number of people searching for a job is much higher that the number of vacant jobs, the rate of unemployment was rather high in this period. It is, however, difficult to get a clear picture of unemployment in The Netherlands and the development over time. This is due to the fact that several definitions of unemployment have been used during the last 15 years. Moreover, we
have to keep in mind that official unemployment figures do not tell the complete story.

According to the official unemployment definition the number of unemployed was almost 500,000 in 1993. When a broader definition is used unemployment is much higher. The number of people who want a paid job and are available in the labour market, but not actively searching during the last four weeks is somewhat over 300,000. Furthermore, hidden unemployment among those who receive minimum subsistence or disability benefits is estimated as several hundred thousands. Finally, about 200,000 people participate in all types of labour market policy programmes. Taking all these groups into account, unemployment is twice as high as the official figure.

![Graph showing unemployment rates for different groups over time.](image)

**Figure 6.2** Shares of various groups of workers in the total labour force, 1981-1993

**Source:** Statistics Netherlands; de Koning et al. (1995)

Oosterhaven and Post (1993) used various methods to calculate differences in regional unemployment. Most unemployment measures show a difference in level caused by different definitions in unemployment, but the regional differences are highly correlated. The most striking differences are found if, instead of the actual labour force, the potential labour force is used as denominator. This reflects the differences in participation rates, which can be related to spatially differentiated
discouragement effects and differences in the number of individuals receiving disability benefits (AWW/WAO). The latter benefit system is a well-known source of hidden unemployment. Moreover, commuting between some regions is important. Commuting flows are quite large between certain regions and it is quite well possible that a change in the number of jobs in one region leads to changes in unemployment in (adjacent) regions. Figure 6.3 shows the development of the unemployment rate for the period 1981-1993 according to a definition, which is close to the internationally accepted ILO-definition.¹

![Unemployment Rate Chart]

**Figure 6.3  Unemployment rate, 1981-1993**

Source:  Statistics Netherlands; de Koning et al. (1995)

Unemployment is not equally spread among the various supply categories. The unemployment rates of females, people from foreign origin, those with only basic education and youngsters under the age of 25 are above the national average. Apart from the number of unemployed, also the duration of unemployment is of importance. In 1993 about 45 percent is unemployed for more than one year. Long term unemployment is especially high among the workers who only attended basic education, the age group of 45-64 years old and people from foreign origin (see de Koning, 1995).
6.2.2  *The policy framework*

As mentioned in the introduction, the most relevant policy measures for the regional labour market are the regionally undifferentiated policies by the central government. Since World War II the Dutch government has had a rather strong influence on economic and labour market policy. In the 1950s five generally accepted objectives of macro-economic policy were formulated:

1. stable economic growth;
2. full employment;
3. stable price level;
4. stable balance of payments, resulting in stable exchange rates; and
5. a fair income distribution.

With respect to the labour market, the Dutch government has a strong, but mainly indirect, influence. Traditionally, regulations deal with issues like minimum wages, collective bargaining, wage moderation, employment security, working hours and conditions, social policies and taxation.

For the Netherlands, as a relatively small economy, the international competitive position is of major importance. However, since the 1970s the economy showed some structural weaknesses that became manifest by the lack of sufficient employment, which refers to both a high rate of unemployment and a low rate of participation in the labour force. For this reason macro-economic policy focused on three main targets (Miljoenennota, 1995):

1. to increase employment and the labour participation rate;
2. to strengthen the economic growth potential and the functioning of markets; and
3. to diminish the budget deficit of the public sector.

Three types of policy instruments are important for regional labour markets (see also section 6.4).

1. *Employment policy*

The main objective of employment policy is the stimulation of job-creation by improving the international competitive position of the Dutch economy. Traditionally, wage moderation is one of the main lines in macroeconomic labour market policy. Wage bargaining mainly takes place at the level of economic sectors or large firms. However, trade union federations often negotiate national wage agreements with central employer organisations and sometimes entered into additional agreements with the government. Wage agreements do not differ by region.
2. **Regional policy**

Since World War II regional policy measures have been used to stimulate employment growth in the lagging regions. Until 1980 the main aim of regional policy was to achieve a geographically more balanced development of economic activities: the *equity objective*. For that purpose a combination of stimulating measures for lagging regions and restrictive measures for congested areas has been used, although the latter have only been pursued effectively in the mid 1970s. Since 1980, a second objective of regional policy has been introduced: the *efficiency objective*. Its aim was to achieve the maximal contribution of each region to the national welfare (EZ, 1990).

3. **Labour market policy**

While the aim of the employment policy is to stimulate job creation, the main aim of labour market policy is the improvement of the matching process in combination with the stimulation of the (re-)entry into employment of unemployed workers and new-participants. Labour market policy is supplemented by a social security system aimed at the reduction of the negative financial consequences of not having a job. In the middle of the 1980s substantial changes occurred in the use of active and passive policy measures. Furthermore, there has been a major change in the institutional structure for labour market policies by restructuring the Employment Services from a governmental organisation into a tripartite organisation. Moreover, the reorganisation implied a major regional decentralisation of the Employment Services into 28 relatively independent Regional Boards (RBA’s). Another major change was the demonopolisation of labour market mediation, which allows private employment agencies to intermediate. The tripartisation, regional decentralisation and demonopolisation of the employment services all aim at improving the allocation process on the labour market (de Koning et al., 1995).

Local (municipalities) and regional (provincial) authorities do not have special statutory tasks in regional economic policy. Consequently, they are lacking special instruments and budgets. They can use, however national instruments more or less intensive. Furthermore, they can use their statutory tasks in the fields of spatial planning, transport, education and environmental protection to stimulate economic development indirectly. According to Bartels and van Duijn (1981) the local governments are more powerful in this respect than the regional (provincial) governments. This, because of their more important role in spatial policy issues, in particular their right to lay down land use destinations. This still holds for the moment, although an increasing part of the budget for regional policy is decentralised from the central government to the provincial level and to the thirteen so-called ‘urban nodes’ (stedelijke knooppunten), the biggest urban agglomerations of the Netherlands.
Figure 6.4  Spatial demarkation of the 28 RBA-regions in The Netherlands
In spite of their dependence from national budgets or, better said, their smartness to use such budgets for their own specific goals, especially the local governments in the Netherlands have been very active in the past 10-15 years in creating economic development initiatives. In some of these activities the social character prevails like care for the unemployed, re-education programmes and job-experience plans for youngsters. Others are purely economic like stimulating firm start-ups, improvement of location conditions, active local promotion and acquisition campaigns (van Dijk & Pellenberg, 1995).

6.3 The regional setting

There are several types and levels of administrative regions in The Netherlands. Below the central government there are twelve provinces, whereas below the provinces there are about 600 municipalities. For specific policy purposes there are other regional subdivisions and cooperations between municipalities. As mentioned before, for the Public Employment Services a regional subdivision in 28 Regional Boards is effective since 1991. Due to some mergers, now 18 RBA’s exist. Figure 6.4 shows the spatial demarcation of the 28 RBA-regions. Table 6.1 provides some key figures about some labour market developments. These will be discussed in detail in the rest of this section. The RBA-regions show large differences in size. The regions with the three big cities Amsterdam/Zaanstreek/Waterland (incl. Amsterdam), Rijnmond (incl. Rotterdam) and Den Haag/Delft (incl. The Hague) are the largest RBA-regions, with around half a million jobs, where the smallest have less than 100,000 jobs.

Gross domestic product (GDP) per capita and the regional unemployment rate are the two main indicators to measure regional differences. They are often used to decide whether a region is eligible for assistance. As far as regional production and income are concerned we have to use data at the provincial level. Data by RBA-region are not available. Setting the national average to 100 for 1991, the province of Groningen shows a very high GDP per capita of 135 in official statistics. This is caused by the fact that the production of natural gas is for a very large part attributed to this region. In the recently established province of Flevoland on reclaimed land, GDP per capita is only 74, but this is mainly due to high out-commuting rates. Relying on GDP per capita may lead to misleading conclusions, because the province of Groningen is considered since World War II to be a problem region, whereas Flevoland is not. A better indicator is disposable income per capita. In this perspective regional welfare differences are much smaller and range from 90 to 108 (national average = 100). The lowest values are found in the provinces in the North and East and the highest in the provinces Utrecht, Noord- and Zuid-Holland (see van Dijk & Oosterhaven, 1994). The differences in income per capita between the Dutch provinces are not very substantial.
<table>
<thead>
<tr>
<th>RBA region</th>
<th>Empl. (x 1000)</th>
<th>Empl. growth percent 88-93</th>
<th>Labour force 1993</th>
<th>Lab. force growth percent 88-93</th>
<th>percent higher education</th>
<th>RUC percent¹ 1993</th>
<th>Unempl. change 88-93</th>
<th>Vacancies per 100 unempl. 1993</th>
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<td>1. Groningen</td>
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<td>-1.6</td>
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1 RUC = Regional unemployment component: regional unemployment rate minus the national unemployment rate of 7.7 percent.

Source: CBS (1994) and de Koning et al. (1995)
Although the most important indicator for regional policy purposes in The Netherlands is the regional unemployment rate, table 6.1 also shows figures about the dynamics of unemployment, employment and the labour force. The number of vacancies per 100 unemployed is used as an indicator for the extent to which unemployment is due to frictional or structural mismatches or to a lack of jobs. Theoretically, one should expect that a growth in employment will lower unemployment and a growth in the labour force increases unemployment.

In contrast to the small differences in average income between regions, the differences in unemployment rates are considerably larger and persistent. The regional differences decreased in the period 1971-1981, but since then it increased again. Besides the changes over time also the spatial pattern changed. Since World War II the northern provinces show unemployment rates above the national average. Only the northern province of Drenthe has unemployment rates which are in recent years close to the national average. In the beginning of the 1980s, unemployment rates in the eastern provinces Overijssel and Gelderland and the southern provinces North-Brabant and Limburg were also above the national average. The lowest unemployment rates were found in the three western provinces Utrecht and Noord- and Zuid-Holland. Since then, the most striking changes in the spatial pattern occurred in the large cities in the western and in the southern parts of the country.

The large cities of Amsterdam and Rotterdam and, to a lesser extent, The Hague and Utrecht are now regions with the highest unemployment rates. In an absolute sense the majority of unemployed workers is concentrated in the Western part of the country where these cities are located. The number of unemployed in the three largest cities is twice as high than in the three northern provinces. With the exception of Zuid-Limburg, all regions in the South showed a remarkably lower unemployment rate in the beginning of the 1990s than ten years before. In all, except three regions, the unemployment rate decreased from 1988 till 1993. The correlation between the regional level of unemployment and the growth of unemployment is positive ($R = 0.38$), indicating that regional differences are not narrowing.

Table 6.1 also shows the spatial distribution of the number of vacancies in relation to the number of unemployed. The absolute number of vacancies is lowest in the peripheral regions. The number of vacancies per 100 unemployed workers shows substantial differences over time and between regions. For The Netherlands as a whole this ratio decreased from 25.2 to 9.4 over the short period 1990-1993 (de Koning et al., 1995). Especially, in the RBA-regions in the South the decrease was most severe. In 1993 the number of vacancies per hundred unemployed is only 2.7 in the province of Groningen, where in the RBA-region Drechtsteden the ratio is 22.8. This spatial variation implies that the possibility of reducing unemployment by a better matching of unemployed workers and vacancies are in some regions much larger than in others. A negative correlation is found for the relation between the level of unemployment and the ratio vacancies/unemployment ($R=-0.60$). This implies that a high level of unemployment goes together with low vacancies/unemployment ratios. In regions with high unemployment this is not
caused by frictional or structural mismatches between demand and supply, but mainly by a lack of job openings.

Besides unemployment some other indicators are relevant for the situation on the regional labour market. Although the working population increased in all regions during the period 1988-1993, there are considerable differences in the growth of employment and the growth of the labour force. The newly established province of Flevoland stands out with an employment growth of over 30 percent. The other regions vary between 0 and 17 percent. With the exception of the three northern provinces, which all show relatively low growth rates between 6 and 9 percent, the regions with the highest or lowest growth rates are not located in specific parts of the country. The regions with the lowest employment growth are dominated by the larger cities. Regions located just next to the larger cities show the highest growth rates of employment.

The growth of employment can be related to the growth of the labour force. The most striking results are found for the RBA-regions Flevoland, Breda and Nijmegen-Rivierenland, which all show an employment growth substantially above the national average together with a relatively limited growth of the labour force. In the latter two regions the growth of employment is about twice as high as the growth of the labour force. Although in both regions the decrease in unemployment is larger than the national average, there are quite a number of regions where the difference between employment growth and labour force growth is much smaller and the reduction in unemployment much larger. In only two regions (Veluwe and Zuid-Oost Brabant) the growth in the labour force exceeds the growth in employment. In general the spatial pattern of the growth of the working population is almost similar as for employment growth: the correlation coefficient between the two is 0.92. Both the level of unemployment and the growth of unemployment show a negative correlation (around -0.35) with both the growth of employment as the growth of the labour force. These results imply that an increase in the number of jobs goes together with both an increase in participation and a reduction in unemployment. A possible explanation for the counterintuitive result that a decrease in the growth of the labour force goes together with an increase in unemployment, is that high unemployment lowers participation via discouragement effects.

Between the various RBA-regions the differences in educational level of the labour force are quite large. Table 6.1 shows that in 1993 the percentage of the workforce with a higher vocational or academic education ranges from around 17 percent in the peripheral areas like the three northern provinces to more than 25 percent in the Western provinces (Gooi en Vechtstreek even 32 percent). In a region with a high percentage of well educated workers a higher growth of employment and, hence, lower unemployment can be expected. However, it is well known that the participation rates among higher educated people are higher. This implies that more education also leads to an increase of labour supply. Therefore, the effect of education on unemployment is a priori not clear. The partial correlation coefficients of the educational level with the growth of employment, the growth of the labour
force and the level of unemployment are all almost equal to zero. This suggest that there is no relation at all or that the opposing tendencies neutralise each other. Surprisingly there is a weak positive relation between the percentage of higher educated workers and the growth of unemployment (R = 0.39). Probably this is due to the large increase of the inflow into the labour market of graduates from higher education in this period. Moreover, unemployed graduates are often concentrated in the cities where they attended higher education, whereas the greater part of those who found a job moved to other regions.

It is clear that there are important differences in the performance of regional labour markets in The Netherlands. However, there are no clear relations between the spatial patterns and the developments over time of employment growth, labour force growth, education and the level and growth of unemployment.

6.4 Main policy issues

In section 6.2 some introductory remarks have been made about the regional policy framework in the Netherlands. In this section the various policy issues with respect to employment policy, regional policy and labour market policy, are discussed more in detail.

6.4.1 Employment policy

Wage moderation is traditionally one of the main policy lines in the macroeconomic labour market policy in the Netherlands (OECD, 1994a; de Kam et al., 1995). In the period of economic recovery after World War II wages were heavily controlled by the government in order to keep wages low. In the 1950s this policy of direct economy-wide co-ordination was continued, based on central negotiations with the social partners. However, in the beginning of the 1960s this system eroded and wages increased rapidly. Since then, collective agreements on wages became increasingly the exclusive right of the unions and employers’ organisations, but the government still had the right to interfere and used this right several times. After 1982 the government did not interfere directly in the wage setting process any longer and wage negotiations were more and more decentralised by economic sector. Unions and employers’ organisations still negotiate at a central level, but since 1982 this resulted only four times in a central agreement. The last time was in 1993 due to the threat of the government to freeze wages.

The social partners have the legal monopoly for settling collective agreements (CAOs) and since 1937 these can be extended to non-signatory parties by Ministerial Decree. At the end of 1993 there were about 200 collective agreements for specific branches and 750 for large companies. Although in 1980 only 35 percent of the workers in the Netherlands were union members, the wages of 76 percent of the employees in the private and public sector were determined by collective agreements.
and their extensions. In 1990 these figures are somewhat lower: 25 percent union members and 71 percent coverage. The extensions mainly concern the small and medium sized firms in the building, trade and the hotel and catering industry (Lever & Marquering, 1995).

A legal national minimum wage exists. In 1991, however, indexation was abolished. In 1993 a minimum rate for 15-year-old workers was set at 30 percent of the adult rate. The number of people actually earning the adult minimum wage is very small, because in most CAOs the lowest wage scales are substantially above the statutory minimum wage. Apart from limiting the annual wage increases, decreasing the wedge between net-wages and the gross labour costs is a main policy focus. The government attempts to decrease the high wedge both by increasing the low labour participation rate ('the volume-effect') and by lowering the spending on social security benefits. In the past, social security payments were rather generous in The Netherlands, but since the 1980s the level of benefits was lowered, the criteria were tightened and the period of entitlement shortened (OECD, 1994b). In particular for low skilled workers the high wedge between net and gross wages, the small difference between wages and unemployment benefits and the inflexibility of the (minimum) wages 'at the bottom of the labour market' are seen as major causes of the high hidden and open unemployment of this group of workers. For this reason the government puts pressure on the collective bargaining process, in the sense that CAOs that do not classify sufficient jobs in the wage scales between the legal minimum wage and the (until than) lowest CAO-wages will no longer be binding for outsiders (Miljoennnota, 1995).

Apart from the policies aiming at a moderation of gross wages, since the 1980s employment policies are aiming at a redistribution of employment by stimulating part-time work (Kloosterman & Elfring, 1991; Borstlap, 1995). Part-time working is stimulated by a lessening of the traditional prejudice against such jobs and the disappearance of cultural barriers. In most cases part-time jobs have the same legal status and conditions as full-time jobs. Moreover, in the 1980s trade unions succeeded to decrease the extent of the full-time working week in the various CAOs.

6.4.2 Regional policy

Dutch regional policy started after World War II. For an extensive overview we refer to van Dijk and Oosterhaven (1994). During the period of rapid economic growth (1959-1975) congestion problems and, in particular, the tight labour market situation in the Randstad -the most heavily urbanised part of the Netherlands- were the main causes for the spread of employment from the Randstad to adjacent regions. To minimise the social costs of the concentration of population and economic activity in the Randstad, regional policy tried to strengthen this autonomous tendency and at the same time tried to extend it from the adjacent, so-called 'intermediate areas', to the peripheral areas. Traditionally the kernel of the toolbox consisted of:
- investment premiums; and
- infrastructural programs.

The main goal of both measures is to stimulate investment in problem regions. Because investment premiums and infrastructural programs make investment more attractive they can be categorised as *stimulative* instruments. These two main types of instruments have an *indirect* effect on the regional economy, in contrast to more *direct* measures.

In the beginning of the 1970s some direct policy measures were introduced, namely.

- Relocation of government offices; a total of 16,000 jobs was relocated to three cities in The North and to one in Zuid-Limburg. This policy was terminated after a few years.
- Regional Development Companies (RDC) were established, of which the NOM for the three northern provinces is by far the biggest (and oldest). RDC have funds to participate financially in new or existing firms. Furthermore, they try to attract (foreign) investors and serve as a regional network for the circulation of knowledge relevant to entrepreneurs.

There was a tendency for regional policy to be directed to more and more regions and more and more policy areas. Since the 1980s regional policies returned to a more purely economic policy for a limited number of regions. This shift could be justified by the decreasing regional disparities. Moreover, there is since 1975, a growing criticism on this 'spreading policy' due to the overall increase in unemployment in all regions. As a result of the criticism this spreading strategy was officially abandoned in 1985. In the 1990s the emphasis is put on the optimal use of the potential of each region to boost the whole Dutch economy. Consequently, regional policy measures are now more directed at improving the performance of the private sector, while using instruments that are more in conformity with market forces. Instead of leaning mainly on subsidies from the central government, regions now have to rely primarily on their own strength.

At the moment the most important problem areas are the big cities Amsterdam and Rotterdam, the northern part of the Netherlands, consisting of the provinces Groningen, Friesland and Drenthe, and Zuid-Limburg, especially because of the high registered and hidden unemployment. For the northern part of the Netherlands the traditional regional policy instruments (IPR, Investment Premium Regulation and ISP, Integrated Policy Programme) are continued, but will be terminated for other regions. Instead, some new policy elements are introduced. The bigger cities get larger budgets for social and employment policies to combat the high rates of unemployment, particularly among ethnic minorities. Financially most important is the new ‘Firms Environment Policy’ (FEP). The main aim is to create the physical conditions for an internationally competitive production and location
environment. This should give all regions the opportunity to contribute maximally to national economic growth (EZ, 1990). Most important for the distribution of the budget of the FEP is the improvement of the international competitive position of the four big cities, the other 'urban nodes', large industrial areas and large distribution nodes. FEP was terminated in 1996 and succeeded by StiREA (Stimuleringsregeling Ruimte voor Economische Activiteit). The main aim is the development of new and restructuring existing industrial zones, because shortages are expected (EZ, 1995).

The budget for regional policy measures has always been rather limited, but decreased further in the 1990s. In 1985 the total budget for regional policies was over 800 million guilders. After 1995 this is reduced to less than 300. For the lagging regions the financial support from the European Structural Funds become increasingly important. Various Dutch regions qualify for Objectives 1, 2 and 5b area as an EU. At the moment the total budget allocated via these funds exceeds the budget of national regional policy substantially (see EZ, 1995).

6.4.3 Labour market policy

In the middle of the 1980s there was a general notice that, compared to other countries, the spending on social security benefits for unemployed workers ('passive policy') was much more dominant than the spending on 'active' labour market policies directed to the training and replacement of unemployed workers. Although in the second half of the 1980s the expenses on active labour market policies increased as a percentage of the Gross Domestic Product, the expenses on active labour market policies remained more or less at the same level slightly below the EU-average but still substantially above the level in North-America and Japan (SZW, 1990; OECD, 1994c).²

As mentioned, there has been a major change in the institutional structure for labour market policies by restructuring the Employment Services from a governmental organisation into a tripartite organisation. The reorganisation of the Employment Services intended to increase the efficiency as well as the equity of the allocation process on the labour market. The efficiency target refers to a better matching between vacancies and unemployed workers, whereas the equity target is related to the improvement of the labour market perspectives of groups of unemployed workers with a weak labour market position: long-term unemployed, ethnical minorities and women.

In the Employment Services Act ('Arbvo-wet') of 1991 the followings tasks of the reorganised Public Employment Services are mentioned (see also Stanmeyre, 1990):

- to generate and supply information on labour market developments;
- vocational and occupational guidance;
- labour market mediation; and
- to stimulate training activities.

The new organisational structure lead to some important shifts (see de Koning et al., 1995). First, the Employment Services changed its policy focus from a supply-side to a demand-side orientation. The idea behind this policy was the so-called *slipstream philosophy*. In this approach the mediation of the unemployed workers most attractive for employers is seen as an essential mechanism to increase the job placements of workers that belong to target groups with a weak labour market position. This shift towards a demand-side 'market' orientation was probably one of the reasons for the second shift from specific labour market instruments (training and work experience projects) towards the *general mediation task*. This shift is reflected in the increase of the number of mediation consultants as well as in the shift from subsidies given towards staff costs. However, the market orientation of the Public Employment Services did not imply that more emphasis is given to increasing labour market transparency and guidance activities. Probably this is due to the fact that in their 'make-or-buy' decisions the Public Employment Services consider their own mediation task as their core business.

A third shift refers to the tendency towards policies that aim at preventing long-term unemployment instead of the traditional 'curative' policies for unemployed workers with bad job chances due to their long-term unemployment. The rationale behind this shift is that long-term unemployment causes dequalification and demotivation as well as a stigmatisation of these workers, which makes it more and more difficult to find a job (see de Grip, 1987). In particular the labour market policy with respect to youngsters has almost entirely a preventive character. In 1992 the 'Activating labour market policy for youngsters' ('AAJ') started. Youngsters who cannot find a job or apprenticeship on their own, are supported by additional training and/or placement subsidies of the Public Employment Services. If they still fail to get employed within a year, the 'Youth employment-guarantee act' ('JWG') guarantees that they are offered a temporary appointment at the local JWG-organisation. However, this appointment does not necessarily imply that they actually have a job.

A fourth tendency is the increased regionalisation of the labour market instruments. This shift refers to both the character of the instruments applied and the criteria used to define the target groups of the various instruments. A fifth tendency is the increased support for job creation projects and the cooperation with organisations that are responsible for supplying unemployment benefits: the local social benefit organisation ('GSD') and the Industrial (unemployment and disability) Insurance Boards. De Koning et al. (1995) indicated that 19 of the 28 Regional Boards cooperate intensively with the local social benefit organisation, of which 6 state that the effect on job placements is large. Also the local authorities are playing a more important role in job creation for specific target groups. This holds in particular for the prevention of long-term unemployment of youngsters who enter the labour market (the JWG) and the creation of additional temporary jobs (Banen-
pool, Melkert-banen) for individuals with labour market characteristics which prevent access to regular jobs.

A last tendency is the rise of national and regional agreements between government and employers organisation and unions (covenants) for several economic sectors. Arrangements are made with respect to training activities, work experience places, the inflow of particular target groups, etcetera. These covenants can be seen as a positive result of the tripartisation of the Public Employment Services' organisation. However, in several sectors it appears that individual firms do not consider the sectoral agreements as binding.

6.5 Effects of policy measures

In this section we look at the effects of the policy measures. As mentioned, regional differences in the institutional framework are very small in the Netherlands, although with respect to regional and labour market policies, the regional autonomy increased to some extent. Therefore, the main effects of the various policy instruments on the performance of regional labour markets must be caused by differences in regional circumstances which lead to different regional outcomes of a similar institutional framework.

6.5.1 Employment policy

The policy to moderate the annual increase in wages was rather successful in the period 1980-1990 when measured in terms of change in unit labour costs. The annual change in The Netherlands was only 0.8 percent, where the averages for the European Union and all OECD countries was 4 to 5 percent. In the beginning of the 1990s the increase in unit labour cost was close to the EU-average (OECD, 1994a). Whether this can be related to changes in the bargaining process and the influence of the government and social partners at the national level is not clear. In a OECD-study (OECD, 1994a) it is argued that the least centralised and the most centralised bargaining structures produce better economic performance than 'intermediate', i.e. industry-level, bargaining. This latter structure is becoming more and more the Dutch case: 80 percent of the CAO-negotiations is at the level of industrial sectors (Lever, 1995). Although the causal relationship between wages, labour costs and employment growth is rather complicated, it can concluded that the relatively small increases in labour costs have been accompanied by a substantial increase in the number of jobs. Lever (1995) estimates that a 1 percent-point lower increase in wages leads to an increase in employment in the range 0.25-0.5 percent. Some disagree with this view. Kleinknecht (1994) argues that a wage increase would improve economic performance in The Netherlands, because it stimulates innovations and leads to higher productivity. The employment effects of abolishing the statutory minimum wage are also questionable (Teulings, 1994; 1995). Lever and
Marquering (1995) estimated that abolishing the extension rules for CAOs increases employment with only 10,000 jobs.

Besides the wage level, collective bargaining can also deal with agreements on the number of jobs, the shortening of the number of working hours and flexible working hours. The latter two may also have positive effects on employment growth, but the precise elasticities are not clear. The Netherlands have by far the highest rate of part-time employment of all member-states of the European Union (Hoevenberg & de Grijp, 1994). In 1991 more than 32 percent of all workers was employed on a part-time basis, compared to only 22 percent in the two next-highest countries, Denmark and the United Kingdom. Borstlap (1995) notices that almost half the growth in the number of people employed since 1980 can be attributed to the increase in part-time work (see also Figure 6.1).

Part-time work has expanded the number of people in employment in the Netherlands in the period 1979-1990 by 300 thousand. On average about 5 workers do the equivalent of 4 full-time jobs. Around one-third of all employees work part-time, most of them women, in services especially, and in less skilled positions. The growth of part-time work is also above average for male workers in manufacturing and in high skilled jobs. Even in periods of decline of full-time equivalent employment, the number of persons employed has not fallen because of the continuous growth of part-time working. Especially among female workers a substantial part of the part-timers is employed for less than 10 hours a week. For employers this atypical employment is a way to meet labour needs in peak periods, although to some extent the increase of part-time work is also supply-side induced (see de Grijp et al., 1995; Delsen, 1995). The increasing needs of Dutch employers for flexible labour is also reflected in the increasing number of workers (more than 600 thousand) with flexible contracts and the strong increase in the use of labour via temporary employment agencies (SZW, 1994).

As collective bargaining is organised at the national level and only decentralised by industrial sector, the regional labour market situation is not reflected in regional wage differences. Van Dijk and Folmer (1992) estimated that the difference in wages between the central part of the country (Randstad) and the rest is only 3 percent. Others state that wages in the North are 7 to 10 percent below the national average. It is quite likely that this regional difference is mainly caused by the fact that the high paid jobs in the public and private sector are mainly located in the Randstad and not by differences in payment for jobs with the same requirements. With regular intervals there are plans to use differences in labour costs as instrument to increase employment in less favoured areas. To avoid negative effects of lower disposable income, the idea is to lower gross wages instead of net wages by means of lowering the employers' contributions in social security or by the introduction of so-called 'fiscal zones' with subsidies on labour costs (Oosterhaven, 1993).
6.5.2 Regional policy

Although several studies dealt with the evaluation of regional policy measures, the results are not unambiguous. Regional differences still exist and although the economic situation in the southern regions improved, it is not clear to what extent this is caused by regional policy. More generally it can be stated that the evaluation of regional policy measures is very difficult due to limitations in the analytical tools, lack of adequate data and the fact that a 'policy off' situation can not be properly specified (Armstrong & Taylor, 1993).

One of the most effective instruments in Dutch regional policy was the direct instrument of relocation of government offices. The multiplier effects for the relocation of the Headquarters of the Dutch PTT from The Hague to Groningen are considerably higher than expected and it improved the regional economic structure (Eekma, 1995). However, for various reasons this direct instrument has only been used for a very short period in the 1970s. In the latest official memorandum on Dutch regional policy (EZ, 1995) positive evaluation results are mentioned for the Firms Environment Policy, the Investment Premium Regulation and the Regional Development Companies.

However, even when the policy measures are effective, both national and European budgets for regional policies are by far to small to achieve a substantial reduction in regional differences. In particular, for the North of The Netherlands it is not very likely that the regional unemployment rate will move closer to the national rate given the weak economic structure and the potential increase in labour supply. Although the effects of regional policy are rather limited, it is interesting to note that Stoffelsma (1992) shows that national policy measures for social security and infrastructure, although not targeted to specific regions, have a larger spatially differentiated equalizing impact than specific regional policy measures.

6.5.3 Labour market policy

Also the general organisational effects of the restructuring of the Public Employment Services and the effectiveness of the various labour market policy instruments have been evaluated (see Commissie Evaluatie Arbeidsvoorzieningsswat, 1995; de Koning et al., 1995). With respect to the organisational structure it was concluded that the Central Board did not fulfil its coordinative task adequately. Two main causes of this failure are mentioned. The first is the inadequate cooperation of the members of the Central Board due to their close connections with the organisation they represent, which turned the Employment Services into an 'insiders instrument' (Scholten & de Groot, 1995). The second is that due to the autonomy of the Regional Boards, the Central Board lost its grip on the entire organisation. Moreover there has been a vicious circle between, on the one hand, the inadequate co-ordination of the generation of information on vacancies, unemployment and the participation in the various training and work experience activities and, on the other hand,
the lack of adequate management information required for well-considered management decisions.

As described in section 6.4.3, the reorganisation of the public Employment Services lead also to several major shifts in the labour market policies pursued. Survey results show that both in absolute and relative terms more persons that are searching for a job make use of the Employment Services. In 1992 291,000 persons, i.e. 33 percent of those searching for a job, used the Employment Services. This increased to 422,000 persons, i.e. 46 percent of those searching for a job in 1994. However, the percentage of the vacancies for which firms made use of The Employment Services as a recruitment channel remained more or less the same during this period: 20 percent (de Koning et al., 1995).³

| Table 6.2 |
| Number of unemployed workers |
| reached by the main labour market policy lines |
| and the number of participants that found a job (1993) |

<table>
<thead>
<tr>
<th>applications</th>
<th>1991</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guidance</td>
<td>-</td>
<td>68,000</td>
</tr>
<tr>
<td>Mediation</td>
<td>181,000</td>
<td>341,000</td>
</tr>
<tr>
<td>Training</td>
<td>168,000</td>
<td>162,000</td>
</tr>
<tr>
<td>Job placement</td>
<td>11,000</td>
<td>9,000</td>
</tr>
<tr>
<td>Work experience</td>
<td>12,000</td>
<td>35,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>job finders</th>
<th>1991</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>21,000</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>83,000</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>71,000</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>9,000</td>
<td></td>
</tr>
<tr>
<td>ca.4,000</td>
<td>ca. 6,000</td>
<td></td>
</tr>
</tbody>
</table>

- = unknown

Source: de Koning et al. (1995)

Table 6.2 gives an overview of the development of the number of unemployed workers reached by the five main labour market policies and the number of participants that found a job. Altogether about 600,000 'applications' of labour market policy instruments are measured in 1993, whereby several unemployed participate in more activities. The table shows that, as mentioned before, employment mediation is by far the most prominent instrument with a reach of 341,000 persons in 1993, compared to merely 181,000 in 1991. Although the labour market situation worsened, this also resulted in an increase of the number of workers that found a job by Public Employment Services' mediation from 64,000 in 1991 to 83,000 in 1993.

Second in importance are the training activities with a slight decrease in participation from 168,000 in 1991 to 162,000 in 1993. The number of participants who found a job decreased more sharply from 101,000 to 71,000. The three other policies are much less important. Most remarkable is the substantial increase in projects that
refer to the work-experience places agreed upon in collective agreements for particular sectors of industry and the JWG and so-called ‘Labour pools’ (‘Banenpools’), although the latter two policy instruments are not organised by the Employment Services. At the end of 1993 almost 14,000 youngsters participated in the JWG, which is more than 80 percent of the target group, whereas in this year more than 16,000 workers participated in labour pools, i.e. 17 percent of those unemployed for longer than 3 year.

The increased emphasis on employment mediation is reflected in the decrease of the share of subsidies for training, job placement and work experience in the total expenses of the Employment Services from 60 percent in 1991 to 40 percent in 1994. However, the increased demand-side orientation of the Employment Services lead to a debate on the relevance of a publicly financed organisation (Dercksen, 1994; Glebbeek & van Bruggen, 1996). One might wonder if a public organisation is needed in order to improve the efficiency of the allocation process on the labour market, or should be seen as a subsidised competitor of the private employment agencies. In this view the major task of the Public Employment Services refers to the increase of job placements for workers with a weak labour market position. In that case the validity of the slipstream philosophy is of crucial importance.

De Koning et al. (1995) find some evidence on the relevance of the slipstream hypothesis. The regions where the Employment Services have a larger market share in the number of vacancies, show relatively more placements for ethnic minorities, older workers and long-term unemployed. (The adjusted $R^2$ of the regressions is however small, indicating that more factors play an important role.) Another analysis shows that firms that report more vacancies to the Employment Services, recruit relatively more female workers and workers who belong to an ethnic minority group. However, the recruitment of long-term unemployed in these firms is lower.

The shift from training and job placement subsidies towards employment mediation has unfavourable consequences for the net-effectivity of the policy instruments for some target groups, as training and job placement subsidies have significant positive effects on the employment chances of long-term unemployed, older and low educated workers. For ethnic minorities and women the net-effects of training subsidies is not clear, whereas for youngsters the effects are often small. It is striking that many unemployed workers who participate in vocational training find jobs in other sectors than the sector for which they were trained. This indicates that firms use the participation of unemployed workers in training activities in particular as a screening device, which confirms the hypothesis of Thuro (1975).

De Koning et al. (1995) do not find any effects of the labour market policies of the Employment Services in general on the efficiency of the allocation process on the labour market. Hardly any research has been done on the effectiveness of training activities for the matching process between labour demand and supply, although a study of de Grip (1988a) finds some statistical evidence for a positive effect of the Public Employment Services’ training activities on the allocation process on the labour market for the building trades.
6.6 Conclusions

In the Netherlands the working population is still growing. Almost half of this growth is due to the increase in part-time work. At the moment the Netherlands have by far the highest rate of part-time employment of all EU member-states. However, the increase in labour supply mostly exceeded the increase in employment, in particular due to the increased labour market participation of women. For this reason the level of unemployment was for a long time still high. In contrast to the small differences in average income between regions, the differences in unemployment rates are considerably larger and persistent. At the moment the most important problem areas are the northern part of the country, Zuid-Limburg, and the big cities Amsterdam and Rotterdam.

Three types of policy instruments are most relevant for regional labour markets; national employment policies, regional policies and labour market policies. At the national level, wage moderation and regulation, lowering the spending on social security benefits and stimulating part-time work are the major policies. The influence of national policies and institutions on regional development is rather strong. For instance the social security system - which does not differ by region - has in absolute terms much larger distributive effects among regions than specific regional policies that aim to narrow regional differences.

Local and regional authorities do not have special statutory tasks in regional economic policy, although in practice particular local authorities have some power in this respect. The budget for regional policies was further diminished in the 1990s. At the moment regional policies are more directed at the performance of the private sector with a main focus on the improvement of the international competitive position of the big cities and other 'urban nodes', larger industrial areas and large distribution nodes.

In the beginning of the 1990s there has been a major change in the institutional structure for labour market policies by restructuring the Public Employment Services from a governmental organisation into a tripartite organisation, with representatives of the social partners and the government. Apart from this tripartisation the reorganisation implied a major regional decentralisation of the Employment Services into 28 (now 18) relatively independent Regional Boards (RBA's) which also consist of tripartite representatives. A third major change was the demonopolisation of the labour market services, which allows private employment agencies to intermediate between firms and persons searching for a job.

A major policy shift of the Public Employment Services was the change from a supply-side to a demand-side orientation. This shift towards the 'market' was probably one of the reasons for the shift from specific labour market instruments (training and work experience projects) towards the general mediation tasks. The idea behind this policy was the so-called slipstream philosophy. The mediation of the unemployed workers that are most attractive for employers is seen as an essential mechanism to increase the job placements of workers that belong to the target
groups with a weak labour market position. The creation of the Regional Boards increased the regionalisation of the labour market policy instruments to some extent. Moreover, recently the local authorities are playing a more important role in the job creation for particular target groups.

The wage moderation policy was rather successful in the 1980s. However, the increase of part-time jobs also played a major role in the growth of the working population. One of the most effective instruments in Dutch regional policy was the direct instrument of relocation of government offices. There are also positive results of the Firms Environment Policy, the Investment Premium Regulation and the Regional Development Companies. However, even when these regional policy measures are effective, both national and European budgets for regional policies are by far to small to achieve a substantial reduction in regional differences in economic performance and unemployment rates in the Netherlands.

The Public Employment Services considerably increased the number of persons they mediated to find a job. Older unemployed workers, long-term unemployed and ethnical minority groups slightly improved their employment chances. With regard to the target group objectives of the Employment Services, some evidence has been found on the relevance of the slipstream hypothesis. However, no effect could be found on the effect of the labour-market policies on the efficiency of the allocation process on the labour market.

Notes

1. The ILO-definition states that individuals are unemployed when they are without a paid job but are available for work and have been actively seeking work in the past four weeks. This differs from the official definition of Statistics Netherlands, which counts individuals only as unemployed if they search for a job of at least 12 hours. Furthermore, those who have a job for less than 12 hours but want a job for at least 12 hours are also counted as unemployed.

2. In the period 1980-1985, however, the training subsidies were more than doubled (see de Gripp, 1988b).

3. If the vacancies registered by the Employment Services are related to the data of the Vacancy Survey of Statistics Netherlands, the Employment Services are much more important as a recruitment channel: 59 percent and 63 percent in the last two quarters of 1994 (SZW, 1995).
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