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The Liberal Road to High Employment and Low Inequality? The Dutch and Swiss Social Models in the Crisis

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If low employment and high unemployment rates have been considered two of the key weaknesses of continental European social models (Sapir 2004; Scharpf 1999), Switzerland and the Netherlands appear as notable exceptions. Over the last 20 years, employment rates in both countries have been much higher and unemployment has been consistently lower than among their neighbors. Most interestingly, these outcomes have been achieved without the large inequalities observed in the Anglo-American economies, and without the sizable public sectors that prevail in Nordic countries. According to Kenworthy (2009: 80), the Netherlands is the only country where pre-tax and pre-transfer income inequality *decreased* between 1979 and 2005, although recent data from Salverda et al. (2013) show a rise in both (hourly) earnings and (post-transfer) income inequality in the late 1980s and little change since. In Switzerland income inequality increased less than in all the other countries in Kenworthy's sample. OECD data show that hourly gross earnings differentials decreased or were stable in the lowest half (P5/P1) of the distribution and rose only slightly in the top half (P9/P5). Five years into the crisis, both countries had managed to keep unemployment at much lower levels than the EU average, even if their resilience into the crisis differed. In 2012 and 2013, the Dutch economy moved into a prolonged recession, triggered by staggering levels of mortgage debt and falling housing prices combined with a sharp austerity drive, while Switzerland continued to display a relatively stable economic performance as of mid-2014.

Within the framework of the "service economy trilemma" outlined by Iversen and Wren (1998), the Dutch and Swiss cases present a puzzle. The experience of the past 20 years in these countries challenges the hypothesis that high levels of employment in post-industrial economies can be achieved either through the expansion of public employment (the Nordic way), requiring high levels of taxation, or through de-regulation to stimulate the growth of a low-wage service sector (the Anglo-American way), thus increasing income inequality. Switzerland and the Netherlands have high employment rates, and the public sector only represents about 15 percent of total employment, compared with around 30 percent in Sweden, Denmark, and Norway. Yet inequality, both before and after tax and transfers, remains lower not only than in the Anglo-American world, but also lower than in many continental countries, notwithstanding the moderate redistributive impact of the welfare state in these countries, especially in Switzerland (Kenworthy 2009). In Switzerland, pre-tax and pre-transfer market inequality is even lower than in Scandinavia. This outcome justifies a deeper analysis: how could these two countries be so successful in achieving and maintaining a high employment rate, keeping unemployment down, and checking the rise in inequality, yet with smaller public sectors and much lower taxation levels than in Scandinavia? Moreover, how resilient have these arrangements been in the face of the global economic crisis?

In this chapter, we outline the combination of supply-side and demand-side factors which have allowed these countries to reconcile high employment with comparatively low inequality, and outline the trade-offs associated with them. We discuss the combination of negotiated policy-making, continuous wage moderation, and flexibility through part-time employment and other entry routes into employment (on the supply side), combined with a number of measures that have supported domestic consumption, such as immigration and tax incentives (on the demand side), with diverging impacts throughout the crisis. We begin with a brief presentation of some basic facts and features of the social models of the two countries and their development during the past two decades. Next, we summarize and explain the key reforms undertaken in the social models, and then outline their impact on labor market outcomes in the lead-up to the crisis. Finally, we assess the performance of the social models during the latest economic crisis and outline their limits.

7.1 Negotiated Social Models in Two Open Economies

In his analysis of the political economy of small European states, Peter Katzenstein (1985) classified both Switzerland and the Netherlands as examples of *liberal corporatism*. The main characteristics of this model were patterns of consensual policy-making and cooperation in industrial relations on the one hand, coupled with a weak position of labor and social democracy on the other. According to Katzenstein, this particular configuration of power relationships favored stronger internationalization patterns and a stronger emphasis on private strategies of adaptation to economic change. A tradition of cooperative behavior between the main political and economic forces has fostered negotiated change in labor market governance rather than unilateral reforms, and has therefore prevented sharp changes in the direction of policy.

In both countries, cooperative policy-making has historically been underpinned by societal fragmentation along religious and/or linguistic lines, and is marked by a high degree of political and institutional continuity. Switzerland and the Netherlands are among the few European democracies (with Belgium and Luxembourg) that have "never experienced either a wholesale alteration in government or the development of bipolar competition during the later post-war period" (Mair 2008: 237). This is especially significant in Switzerland, where the same main parties have consistently been represented in government since 1959, with only slight alterations in 2003, when the Swiss People's Party gained a seat at the expense of the Christian Democrats, and in 2007, when the SVP leader Christoph Blocher was not re-elected, and his successor, Evelyne Widmer Schlumpf, was excluded from the party and formed a splinter party, the BDP.

Left-of-center political forces and trade unions have been rather weak both in the political and the industrial arena, thus frustrating social-democratic strategies of public sector expansion as found in the Nordic countries. In Switzerland, social democrats have uninterruptedly participated in government since 1943, but always in a minority position within center-right governments with the liberal FDP, the Christian-democratic CVP, and the initially agrarian, then turned national-populist, SVP. In the Netherlands, the Social Democratic PvdA party participated in post-1945 governments half of the time, usually alternating with the liberal party VVD in a coalition with the centrist, later increasingly right-of-center, Christian-democratic CDA party.

Trade unions in both countries have been divided along religious lines (Christian vs. social democratic) and have achieved modest rates of organization. As elsewhere in the OECD, unionization levels have decreased steadily (Visser 2006). In the Netherlands, union density dropped from 37 to 24 percent between 1979 and 1990, remained almost unchanged at 23–24 percent until 1999, but then decreased to 18 percent in 2012. A very similar pattern of de-unionization can be observed in Switzerland: a decline from 31 to 23 percent between 1979 and 1990, stabilization at 21 percent until 1999, and further decline to 16 percent in 2012 (Visser 2013). In spite of this, unions have remained central actors of labor market regulation. Collective bargaining has kept a central place in labor market governance in both countries, and provided for a high degree of wage moderation throughout the last few decades, even if they have not kept up with Germany. Employers are highly organized, although bridging interest differences between small and large firms, and between domestic and export sectors, has become more problematic in recent years (Mach 2006; Visser and Wilts 2003).

By European standards, both countries have been latecomers in welfare state development, and display strong private elements in their social protection arrangements. This is especially the case for Switzerland due to a multitude of veto points (federalism and direct democracy) in the political system (Obinger 1998). The Netherlands raced ahead in the 1960s and 1970s, followed by retrenchment in the 1980s (Visser and Hemerijck 1997). In 2009, total public and private social expenditure represented 29.9 percent of GDP in the Netherlands and 26.4 percent in Switzerland, against an OECD average of 24.8. In both countries the main architecture of social policy is “Bismarckian,” based on payroll taxes, oriented toward status preservation and with the involvement of unions and employers in the organization and management of the welfare system (Esping-Andersen 1990). However, union co-management has clearly diminished in the Netherlands during the past two decades. In both countries, the Bismarckian welfare system is mixed with universalistic elements and a strong private component, especially in old age pensions and health, where a strong role is given to private insurance and pensions by capitalization. Private social expenditure in the Netherlands and Switzerland represented 6.7 and 8 percent of GDP in 2009, the highest share in the OECD after the US.[1]

Both countries share a “male breadwinner” heritage in employment and social policy, which only started to break down in the past 20 years due to increasing female employment. This legacy underpins the popularity of part-time employment, for which the Netherlands and Switzerland rank first and second in the OECD. Part-time work allows for high levels of female labor market participation without the extensive state-funded childcare facilities available in the Nordic countries. Accessible public education and a collectivist skill training system provide for relatively high levels of qualification of the workforce even in the lower segments of the labor market so as to lift up wages at the bottom (by contrast to Anglo-Saxon economies) (Bonoli and Mach 2000). In the case of the Netherlands, however, this is not without severe shortcomings for the immigrant workforce and their children. As a result of efforts to target migration policies toward high-skilled workers from the 1990s onwards, employment rates of immigrants in Switzerland (mainly coming from other European countries) have not been substantially different from

[1] See <http://www.oecd.org/els/soc/expenditure.htm#socx_data>.

those of the native-born, whereas non-western migrants and their children tend to be severely disadvantaged in the Netherlands.

Besides these common features, however, the institutional framework of policy-making displays sharp differences. The unitary structure and a low number of veto points in the Netherlands contrast with strong federalism, perfect bicameralism, and direct democracy in Switzerland. Whereas the Dutch state could exert substantial pressure for reform with its "shadow of hierarchy" and make credible commitments in negotiating social pacts with trade unions and employers (Visser and Hemerijck 1997; Visser and Van der Meer 2011), Swiss governments have never been in a position to do so because their decisions could always be challenged in parliament or via a referendum vote. Any law passed in parliament can be voted upon if 50,000 citizens request to do so by way of signature. This difference has had major consequences for the path and extent of reform of the social model in the two countries during the past 20 years, and perhaps also during the crisis, as the strong austerity drive pursued by the Dutch government was barely hampered by the kind of limits one finds in Switzerland.

7.2 Incremental Change and Social Pacts: Reforming Social Models

Social reforms have differed in the way they have been carried out in both countries. Social pacts linking several issues featured prominently in the Netherlands, whereas the fragmentation of power in Switzerland has favored incremental and sectoral reforms. In general terms, the extent of change over the past two decades has been larger in the Dutch case, which managed to limit and reduce dependence on welfare schemes that in Switzerland did not exist—early retirement is a case in point—or were much less generous to begin with.

7.2.1 *Switzerland: Between Retrenchment and Recalibration*

The 1990s were a difficult decade and an era of change in Switzerland due to economic stagnation and rapid changes in the international environment (Bonoli and Mach 2000; Mach 2006). Unemployment increased from zero to 5 percent in the early 1990s; a decade of very low growth followed, and Switzerland struggled to become part of the single market without formally joining the EU by carrying out a series of "market liberalizing" reforms. Even if unemployment remained lower than in other European countries, its increase created substantial budget problems as notoriously low payroll taxes could not cover rising expenditures.

Up to the 1980s, Swiss social protection arrangements had remained underdeveloped precisely because of the set of institutional veto points mentioned above (Obinger 1998), but also because the social costs of economic change could be *externalized*, to a large extent, onto specific "outsider" groups, most notably foreign workers, whose residence status was tied to employment, and women, who massively retired from the labor market in the mid-1970s (Fluckiger 1998). In the aftermath of the 1973–74 oil crisis, GDP fell by more than 7 percent and employment shrank by more than 10 percent in two years. Yet, as only one-fifth of the workforce was covered by the "optional" unemployment insurance scheme, women and immigrants massively "returned home" without creating costs for the welfare system (Bonoli and Mach 2000; Fluckiger 1998). The departure of such a large number of foreign workers, however, also contributed to worsening the crisis as it depressed domestic demand (Flückiger 1998).

From the 1990s onwards, it was no longer possible to use foreign labor and the female workforce as a cyclical buffer. A compulsory national unemployment insurance scheme was put in place in the early 1980s, female labor market participation increased, and it became ever more difficult to discriminate between Swiss and EU workers as a result of political pressure from EU countries. In this new context, unemployment could no longer be "privatized," or "exported." In particular, the costs of decades of systematic recruitment of low-skilled foreign workers fell onto the social system, as the low-productivity jobs in which immigrants were over-represented, especially in construction or tourism, proved less resilient to the crisis of the 1990s. In this context, the 1990s can be understood as a period of "normalization" of the Swiss social model, with a substantial catching-up process in terms of welfare expenditure as compared to other European countries. In 1990, Switzerland was spending 13.4 percent of its GDP in social expenditures, essentially the same share as the United States. In 2005, public social expenditure had moved up to 20.3 percent of GDP. This is close to the OECD average, albeit still low by EU standards.

Despite mounting distributional conflicts and the deterioration of economic conditions, the veto points in the political system favored negotiated, incremental, and sectoral policy adjustments rather than radical and encompassing change (Armingeon 2003). Within this general trend, however, there have been distinct reform paths in universal social schemes enjoying high popular support, such as pensions, on the one hand, and more targeted schemes, such as unemployment and disability insurance, on the other.

In pensions, retrenchment took place at a modest scale and was combined with recalibration, most notably by shifting resources into measures favoring previously neglected social groups and new needs, particularly of working women (Häusermann 2010). For instance, while the retirement age for women was raised from 62 to 64 years in 1995, pension credits for mothers and equal splitting of contributions between spouses were introduced. In contrast to the Netherlands and other countries, Switzerland did not have to reform systems of early exit from the labor market, as pre-retirement schemes hardly existed. Family policy and schemes to support childcare facilities were expanded—from a very low level—only recently at the federal level, notably to remedy great discrepancies across cantons. A compulsory maternity insurance scheme only entered into force in 2005. The 1990s also witnessed a substantial development of active labor market policies, activation being a policy issue on which the political left and right were able to compromise (Bertozzi et al. 2005). A toughened system of sanctions for jobseekers, proposed by the right, was combined with a significant increase in resources for active labor market measures supported by the left (Häusermann et al. 2004). In many instances, social democrats and centrist fringes within the center-right CVP and FDP parties formed the political base of those modernizing compromises. Interestingly, however, these measures dealing with so-called "new social risks" did not belong to the core preoccupations of trade unions, which played at best a marginal role in these reforms (Häusermann 2009).

Retrenchment was somewhat more substantial in schemes where the number and power of beneficiaries—and therefore voter support—was smaller, such as unemployment or disability insurance. With the rise of unemployment in the early 1990s, contribution rates for the unemployment insurance scheme had to be raised through emergency measures. The maximum benefit duration was first extended to cope with the rise of long-term unemployment, and maximum replacement rates were lowered, even if they remained fairly high in comparative terms. Reform efforts in this domain during the past two decades have been directed toward building a sustainable system of funding that could accumulate sufficient reserves for periods of economic downturn. This has been particularly difficult given the persistent resistance of employers and right-wing parties to raising payroll taxes, which they consider a key factor of competitiveness. Reforms in the funding system were only accepted by the center-right FDP and CVP parties in parliament in exchange for a tightening in the conditions of entitlement, reduction of the maximum duration of benefits, longer waiting times (especially for young people), and more sanctions for unemployment benefit recipients "not actively seeking work" (Bertozzi et al. 2005; Häusermann 2010).

Until the end of the 1990s, reforms of unemployment protection and disability insurance were structured around "modernizing compromises" similar to those observed in the field of pensions. From 2000 onwards, however, retrenchment has taken ascendancy over recalibration, due to changing power relationships in parliament. The increase in the parliamentary strength of the SVP and the weakening and fragmentation of center-right parties basically deprived social democrats and trade unions of the traditional allies with whom they could negotiate compromises at the center of the political spectrum (Afonso 2013). Contrary to the field of pensions, however, where direct democracy constituted a stumbling block for any reform involving retrenchment only, the rhetoric of abuse could be used fairly effectively in referendum campaigns over reforms of unemployment or disability benefits. In these cases, social democrats and trade unions have been systematically outvoted by right-wing majorities. center-right parties faced with substantial electoral losses and eager to reframe themselves as the "parties of the economy" have moved substantially to the right and away from social democrats on a number of social and economic issues (Afonso 2013).

Despite its already fairly liberal nature, the Swiss system of industrial relations also became the target of reforms from the 1990s onwards. Since the second half of the 1990s, the setting of wages and/or working time has been decentralized to the company level in a number of important industries, such as chemicals, clothing, banking, media and printing, and, to a lesser extent, watch-making, some of which retained a sectoral agreement on procedures, conflict settlement, and non-wage issues. Whereas a developed system of employee representation and (in)formal bargaining at the company or plant levels through shop stewards or works councils mitigated similar decentralization trends in the Netherlands (as in Scandinavia, Germany, and Austria), this was much less the case in Switzerland, where union or council representation is weakly developed below the sector level. In this context, decentralization clearly meant a weakening of trade unions. In many ways, the traditional weakness of Swiss trade unions, the high degree of employer coordination, and the flexible legal framework allowed for swift changes toward a more flexible deployment of labor. This contributed to a very high degree of wage restraint in comparative terms throughout the last 20 years. After a period of uncertainty, trade unions progressively turned to more active strategies to temper liberalizing trends, notably by resorting to direct democracy or lobbying for legislation (Oesch 2010). By doing so, they tried to regain in the political sphere the ground lost in the sphere of industrial relations.

The case where this strategy proved most successful was probably the broadening of collective agreements as instruments to set minimum conditions, thanks to substantial trade union mobilization and the divisions within the camp of employers and right-wing parties. This success was achieved at the time of, and as compensation for, opening the Swiss labor market for EU workers in 2002, and after 2004 for workers from the new EU member states of Central and Eastern Europe. In this context, trade union support for opening the labor market was exchanged for a strengthening of the collective bargaining framework, most notably of the rules of procedural extension (Afonso 2013). Collective agreements have been used as a tool to set minimum wage standards (Switzerland has no statutory federal minimum wage legislation). The right of foreign firms to set up shop in Switzerland, with the possibility of undercutting the wages paid by domestic firms, created an interest among the latter to also adopt and extend collective agreements to non-organized (and foreign) firms operating in Switzerland as a tool to set a binding minimum wage floor so as to guarantee fair competition, thereby favoring alliances with the unions (Oesch 2007; Afonso 2012). Another boost for bargaining coverage came from the public sector, where public servants lost their special status, thereby opening many segments of the federal and cantonal administrations to collective bargaining. The number of collective labor agreements that were extended to non-organized firms increased from 14 in 1995 to 41 in 2003, 69 in 2009 and 74 in 2012, covering 926'000 workers (19 per cent of the workforce) . This was a near doubling of the rate of coverage of extended agreements compared to 2003 (360,000 or 9.6 percent) (Statistics Switzerland; Visser 2013). This has contributed to the stabilization of the bargaining coverage rate and ended the erosion that set in during the 1990s. From 1992 to 1999 coverage decreased from 45.3 to 41.7 percent, but after 2002 it recovered, reaching 47.8 percent in 2009 (Statistics Switzerland; Visser 2013). In these two decades, however, union density steadily decreased from 22.7 percent in 1992 to 17.3 percent in 2009 (Visser 2013).

7.2.2 *The Netherlands: Modernizing the Social Model Through Social Pacts*

The trajectory of social model change in the Netherlands from the 1990s onwards was rather different. By contrast to Switzerland, where the weak autonomy of the central state made this option unavailable, tripartite social pacts between the central union, employers' federations, and the government played a key role in wage moderation and social policy reform even in a context of further decentralization of labor relations (Visser and Hemerijck 1997; Visser and Van der Meer 2011). Central employers' and union federations routinely meet in the Labor Foundation (StAr, *Stichting van de Arbeid*), their joint institution which was founded in the final days of the German occupation (1940–45). The StAr serves as a standing committee for negotiating central agreements, the issuance of joint recommendations and opinions, and meetings with the cabinet, which occur twice every year, to discuss the budget and wage developments. The StAr is also the place where social pacts are prepared and signed. In addition, union and employer representatives meet in the tripartite Social Economic Council (SER, *Sociaal-Economische Raad*), in which each "partner" occupies one-third of the seats, with the remaining third held by government-appointed experts, including the president of the Dutch Central Bank and the director of the government's forecasting agency

CPB (*Centraal Planbureau*). The SER advises the government on medium-term socioeconomic policy, social policy, and social insurance.

Since 1990 there have been nine social pacts and agreements over major policy issues (see Visser and Van der Meer 2011). The so-called New Course agreement of 1993 and the pacts of 2003–04 and 2008–09 "advised" union negotiators to moderate wages in response to the international downturn in the economy due to the 1992–93 ERM crisis, the 2001–02 Dotcom crisis, and the Great Recession of 2008–09. In this aspect, they followed the path of the famous 1982 Wassenaar pact, which had advised the removal of automatic price compensation clauses and inaugurated two years of real wage decline (Visser and Hemerijck 1997). Although non-binding, these agreements proved very effective in lowering union wage demands across the economy, a fact acknowledged by employers despite their preference for decentralized wage bargaining. Besides wage moderation, the issues negotiated in these agreements and pacts were the decentralization of labor relations (1993); flexible employment contracts (1996); pensions (1997, 2011); active labor market programs (2003); early retirement, unemployment, and disability pensions (2004); crisis measures and short-time working schemes (2009). In 2013, a broad set of social policy reforms (including employment protection and unemployment insurance) were negotiated with the current Social–Liberal government coalition (taking office in 2013), as a way to compensate for its minority position in the Upper House of parliament. In between these years, the StAr issued joint opinions on various issues relevant to the modernization of employment relations (e.g., part-time work, work–family balance, personal employability and training budgets, telework).

The force of Dutch social pacts rests in part on the very high coverage of collective agreements. Together with the continued high level of employer organization—between 80 and 90 percent of all employees work for firms that have joined an employers' association—collective bargaining coverage has been stable at around 85 percent (or between 75 and 80 percent in the private sector), which is three to four times the level of unionization. There are far more firm-level than sector agreements, but most employees—about 70 percent—are covered by sector agreements, of whom 7–10 percent are covered through mandatory extension. Somewhat similarly to what happened in Switzerland, decentralization occurred not by breaking up sector agreements, but by making existing sector and company agreements leaner, and by delegating more issues to negotiations at the firm level or offering individual choice—for instance, in exchanging pay for working hours, and vice versa—in so-called *à la carte* agreements, which took off after 2001 following a StAr recommendation. There has been a slight tendency to make greater use of performance-related pay, but the pressure from some employers, such as Philips, to stop across-the-board pay rises has been resisted.

All Dutch governments have been keen on wage moderation in the expectation that lower wage rises would keep more people in employment, thus reducing the claim on benefits and widening the tax base. In addition to lowering the implicit exchange rate and defending the country's competitiveness, the government has a direct interest in lowering the public sector wage bill. Within the unions, the supporters of a centrally coordinated approach are generally found in the public sector and sectors with low pay or strong dependence on public investment, like construction. The private sector union, FNV Allies (*Bondgenoten*), which resulted from a merger between a group of industrial unions (including metals and chemicals) with the main unions in services and transport and the union in food and agriculture, combines both skilled and low-skilled, high-wage and low-wage segments in the labor market. It has therefore had to temper its policies, though since 2000 it has tried to limit central coordination through the central federation (FNV, *Federatie Nederlandse Vakbeweging*) and has become more critical of social pacts, not only on wages.

Direct intervention in wage setting has fallen into disuse since the 1982 Wassenaar agreement. It is probably no longer acceptable, even though the 1987 (revised) Wage Act grants the government powers to temporarily freeze private sector wages or suspend negotiations for 6–12 months in the case of economic emergency, powers which governments have occasionally threatened to use. Employers fear the centralizing effects of such interventions, and unions have discovered that self-imposed moderation can be "sold" at a price. In social pacts they gain some control over the pace and direction of social policy reform, and can slow the adverse effects on their ageing membership. Social pacts, therefore, fulfill similar functions as referendums in Switzerland: slowing down retrenchment and recalibrating reform, with some modernizing elements.

Unlike Switzerland, the Netherlands has a mandatory minimum wage. This minimum is "pegged" to contractual wage increases and is itself the anchor for social assistance benefits and mandatory flat-rate old age pensions. The law does, however, allow the government to temporarily suspend the adjustment of minimum wages and benefits if unemployment rises. This happened in the 1992–93 recession, and again between 2002 and 2004, but not in the 2008–09 crisis. Although the minimum wage itself affects only about 2–3 percent of workers above the age of 23 (but larger shares of young workers, to whom a "youth minimum wage" applies, starting at 30 percent for 16-year-olds), a freezing or lower increment in the minimum wage also affects the lowest wage scales in collective agreements applied to unskilled workers and new entrants.

While unions have recurrently been able to agree—internally and with the employers—on wage moderation, they were most of the time at odds with governments over the social policy *quid pro quo* for moderation. This was dramatically the case with the disability and sickness reforms in the early 1990s (Visser and Hemerijck 1997). When its affiliates rejected a compromise negotiated by the FNV leadership in the SER in 1991, the government, based on a coalition of Christian Democrats (CDA) and Social Democrats (PvdA), both with roots in the unions, decided to proceed on its own and drastically curtailed disability pensions, with some cushioning for older workers. The FNV unions organized mass rallies and there were deep conflicts, especially in the PvdA, but the government survived and enacted major reforms in disability insurance in 1992 and 1993 and sickness insurance in 1994.

Similarly to Switzerland, reforms in Dutch social security arrangements have been a mix of retrenchment and recalibration, the latter in favor of women, fixed-term and agency workers, part-time workers, the fully disabled (without any capacity for earning an income) and, until recently, older workers over the age of 57. In the domain of sickness and disability pensions, conditions of entitlement have become more restrictive, thereby making it more difficult to enter or stay in the system, putting far more pressure on the partially disabled to seek paid employment, and shifting more responsibility for prevention to employers by making it obligatory to continue wage payments over a two-year period. The eligibility criteria for unemployment benefits have been tightened, especially for young workers and those with limited prior employment.

From 1994 to 2002 the PvdA was the leading party in government, with its leader, former union leader Mr Wim Kok, as prime minister, in a coalition with a conservative (VVD) and centrist (D66) liberal party. With a focus on job creation, supported by job subsidy programs in the public sector, the government's mission was to reform social programs toward "activation." Despite removing the unions and employers from the governance of social insurance programs and from the management of the public employment services, the government was able to gain support from the social partners for legal changes in working time regulation, employment contracting, and agency work. The Working Time Act of 1995 offered more possibilities for union and employer negotiators to arrange working time by agreement, seek solutions for work sharing and part-time work, and for annualized working time schemes. New laws on part-time work offered workers the opportunity to request a reduction, or lengthening, in working hours corresponding with personal needs (Visser et al. 2004). In 1996, union and employer negotiators concluded the Flexibility and Security Agreement, taking the initiative away from an internally divided government and laying the foundations for legal changes a few years later. The compromise was that the market for work agencies and temporary work was liberalized, but the employment conditions, training, and social security of agency and temporary workers were improved. In essence the employers conceded income security, whereas the unions conceded employment flexibility. With enhanced possibilities to regulate these issues by collective agreement, both employers and unions hailed the compromise as an illustration of their renewed self-governing powers in labor relations—the opposite of what had happened, and was happening, in social security and public employment services.

Although the issue of labor migration, which has been so prominent in Switzerland, became politically salient only after 2000, in 1993–94 the unions had already been developing a regime to deal with "posted workers," mainly concentrated in the construction sector, by applying the technique of extending collective agreements throughout the entire sector. In 2005 the law was updated and applied beyond construction in order to deal with the migration effects of EU enlargement, similar to what had happened in Switzerland (Dølvik and Visser 2009). In response to criticism from the Central Bank and economists that such extended collective agreements set the actual minimum too high and create barriers for new firms and low-skilled workers, unions and employers have defended the practice by bringing entry wages closer to the legal minimum wage and allowing "opt outs" for fledgling firms. It is perhaps for this reason that the issue of immigrant labor after the opening of the EU market to Central and Eastern Europe (CEE) played only a small role in wage bargaining in spite of the considerable concentration of such workers, especially in horticulture. Under pressure from the new anti-immigrant political parties Pim Fortuyn's LPF and then Geert Wilders' PVV, the Dutch government gave up on fully opening its labor market to workers from new EU member states, and for three years used transitional measures to delay access to its labor market for workers from accession states. In August 2013, PvdA Minister Lodewijk Asscher openly declared that curbs on the free movement of workers within the EU had to be put in place, showing the general mood change in this area.

The shift in politics after 2000 is reflected in a change in policies and sharper conflicts with the unions. After 2002 the job subsidy and activation programs were scaled down or ended. Citing the EU Lisbon Agenda, the center-right government focused on ending early retirement and initiated further retrenchments in disability and unemployment insurance provisions. Unusually, but with open encouragement from the main employers' organizations, the government tried to bypass the advice from the SER on these issues. Yet, after protracted negotiations and considerable mobilization of the unions, first the employers and then the government backed off, and a social pact was reached in October 2004 in which the government substantially softened its initial stance (Visser and Van der Meer 2011). Fiscal facilitation of early retirement ended in 2006, but unions won a transition regime for workers over 55, and it is still possible to retire at 62—albeit with lower benefits. On unemployment insurance, the government had wanted to reduce unemployment benefits by the amount of any severance payment(s) received by the claimant in the case of voluntary dismissals or as awarded by courts. Employers opposed this for fear that it would make company restructuring more difficult. In the end the government rescinded its plan and deferred to the SER, which in 2005 issued unanimous advice that became the basis for two minor adjustments in unemployment insurance, raising benefit levels for the first two months, but shortening the duration. The 2006 overhaul of the disability insurance program into an "ability to work" program also followed an agreement already reached in the SER. The new law makes a distinction between full and partial disability, based on much stricter selection criteria, and includes an obligation for partially disabled workers to accept part-time employment and for firms to offer reintegration services. Benefits for fully disabled workers were raised, whereas those for part-time disabled workers have been lowered, and shortened in duration of entitlement.

During the 2006 center-left government, a number of initiatives to reform dismissal protection for regular workers with open-ended contracts emerged. The prevailing system was considered cumbersome, restrictive, and unfair, as it tended to treat workers from small and large companies differently. However, the unions have persistently resisted change unless employers could offer iron-clad guarantees for the continuous employment or re-employment of their aged membership. This, along with opposition from the PvdA, which was under pressure from a growing populist party on the left, killed all initiatives for reform. The main social policy issue tackled by the Rutte I cabinet, whose minority liberal–Christian democratic coalition was supported by the populist PVV, was pension reform. The retirement age was scheduled to increase from 65 to 66 in 2020 and further steps were planned for 2025. After initial resistance toward acceptance of any change of mandatory retirement at 65, the main union Federation FNV received a mandate from its member unions, supported in a referendum, to negotiate a pension deal with the employers and the government. A pension pact was reached in June 2011 and officially ratified in September 2011. However, FNV Allies and the main public sector unions—which together represent three-fifths of the membership but do not have a majority on the FNV council—rejected the deal in open defiance of FNV's leadership, throwing the organization into a deep crisis (De Beer 2013). Opposition to this plan was also one of the factors that, in April 2012, led Geert Wilders' PVV to withdraw its support for the minority coalition, leading to the government's collapse.

New elections in September 2012 produced two clear winners, the Liberals (VVD) and the Social Democrats (PvdA), which together formed the new coalition government. Because this government has no majority in the Upper House (based on mid-term regional elections), the government was keen on gaining union and employer support for its austerity and reform plans. In April 2013 a tripartite social pact was reached, in which the unions conceded reforms in unemployment insurance (shortened to two years, with an additional year guaranteed through a yet-to-be-established joint fund managed by the unions) and in employment protection (lower termination-of-employment payments) in exchange for changes in the organization of unemployment insurance (to be placed in the hands of the social partners after the second year), a more equal distribution of termination-of-employment payments (to workers in small firms), some employment and training initiatives for young people, and temporary measures to compensate pre-retired workers for raising the pension age (in stages, over the next 15 years) to 67. In addition the unions gained stronger controls on agency and temporary work, and a limitation on temporary contracts from a maximum of three down to two years. Employers won the concession that plans to introduce a mandatory quota for handicapped workers were shelved and changed into voluntary targets. Political maneuvering in October 2013, when the government wanted an additional austerity round of €6bn in order to comply with EU budget norms, led to tightening of the social pact (for instance, by compelling unemployed workers to take a job offer below their qualification and earnings level after half a year), against protests from the FNV. However, still recovering from a severe leadership (and membership) crisis, the federation needed the social pact as much as the government in order to prove its relevance.

7.3 Labor Market Outcomes

In 2007, the Netherlands and Switzerland were amongst the OECD members with the lowest unemployment rates: 3.2 percent of the civilian labor force in the Netherlands, and 3.4 percent in Switzerland. By the first quarter of 2014, the unemployment rate stood at 4.8 in Switzerland, and had increased to 7.2 in the Netherlands, even if it remained much below the Eurozone average of nearly 12 percent. Employment–population ratios have consistently been among the highest in Europe, standing at 77 percent in the Netherlands and 79 percent in Switzerland in 2009. This was higher than in Sweden, Denmark, and Finland, and at the same level as Norway. A case can be made, however, that in the Netherlands the unemployment rate would be higher, and the employment ratio lower, if small jobs below 12 hours (with an average of 6.5 weekly hours) are excluded (as they are in Dutch but not in international, ILO, EU, or OECD statistics). The Netherlands has a high incidence of such jobs (about 1 million out of 8 million employed persons; Visser 2013), especially among young people (students) and women with children. This proportion is about twice as high as in Switzerland, Germany, or the Nordic countries. The

Swiss employment figures, for their part, are somewhat inflated by the relatively large numbers of migrant workers who reside in, or commute from, neighboring countries.

7.3.1 *Performance and Employment Structure*

Employment performance up to the crisis can be assessed against the level and variations in demand as measured by GDP growth, as well as the sectoral distribution of the economy. Throughout the 1990s the Netherlands experienced much higher GDP growth (3 percent on average) than its neighbors. By contrast, the period 1991–97 was characterized by stagnation in Switzerland, with average annual growth rates of below 1 percent. After 2000 the two countries became more similar, with growth rates averaging just under 2 percent until 2008, albeit with larger ups and downs in the Netherlands. Such differences were reflected in job growth: during the 1990s there was no job growth whatsoever in Switzerland, whereas in the Netherlands employment expanded by more than 20 percent. Between 2000 and 2008, employment growth was similar: 11 percent in Switzerland and 13 percent in the Netherlands.

The Netherlands is a member of the Eurozone and Switzerland is not, but both countries have followed a "hard currency" policy. The Netherlands has followed the German Bundesbank since 1983, long before it became an EMU member. The Swiss National Bank, for its part, was one of the forerunners in the monetarist course. Together with the near complete abolition of automatic price compensation in wage contracts and a restrictive long-term fiscal and budgetary policy, this has driven out inflationary expectations. While trends in employment have shadowed GDP growth in both countries, what is remarkable in the Dutch case is that the country managed to combine reduction of public deficits and debts in a context of low European growth and tight monetary policies with strong growth in GDP and employment.

In both countries the average hours worked decreased, but this was much more pronounced in the Netherlands as a result of work-sharing policies by the unions and the government. At an average of 1,384 hours worked per employee per year—full-time and part-time workers combined—Dutch employees worked the shortest hours in Europe in 2012, followed by Norwegian workers and ahead of France and Germany, both known for work-sharing campaigns in the 1980s and 1990s. At 1,619 hours, Swiss employees worked much longer hours, albeit still below the OECD average, which stood at 1,772 hours per year in 2012. These differences reflect both the lower contractual work-week of full-time employees in the Netherlands—36 or 38 hours—and the greater diffusion of part-time work in the Netherlands. Thus, as is shown in Figure 7.1, a "usual" working week of 40 hours is still rather common in

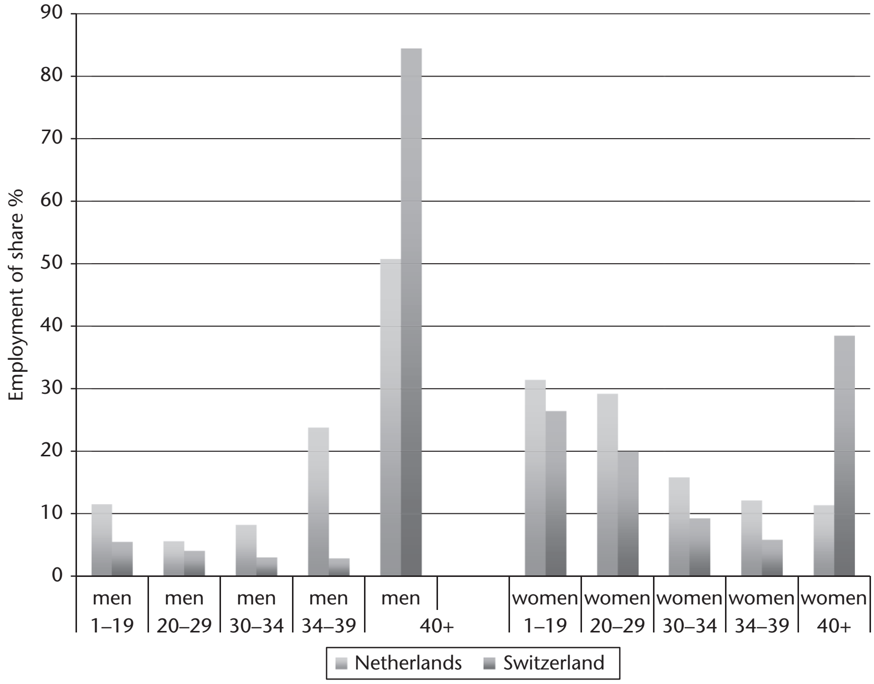

Figure 7.1 Employment by usually hours worked, men and women
Source: calculated from OECD *Labor Force Statistics* (<http://www.stat.oecd.org/>)

Switzerland (the average working week in 2013 was 41.7 hours), while it has increasingly become exceptional in the Netherlands after the successful union campaigns for shorter working weeks after the Wassenaar (1982) and New Course (1993) pacts. Moreover, people usually working less than half of the work-week are far more common in the Netherlands, among both men (under 30 and above 55) and women (all age groups).

The lower number of hours worked in the Netherlands comes together with one of the highest levels of labor productivity per hour worked—in fact, the highest in Europe, after Norway. Productivity levels in Switzerland, on the other hand, are rather low, at 82 percent of the US (against 101 for the Netherlands), well below Germany and France. This may reflect differences in the structure of the economy (for instance, the presence of a still large non-tradable sector: heavily subsidized agriculture, tourism), though data for manufacturing confirm this lag as well. The common explanation for these low productivity levels has been the steady channeling of low-skilled foreign workers into these sectors, thereby making rationalization less pressing. During the past two decades, labor productivity growth has been sluggish in both countries, as in the rest of Europe, though average annual productivity growth in Switzerland—0.3 in the 1990s and 1.2 in the 2000s until the recession—was well below the Dutch growth rate of 1.3 in the 1990s and, 1.6 percent in the 2000s. The two countries are counted among the richest in Europe in terms of GDP per capita, even if they rely on different combinations of factors. In Switzerland, this is based on high employment rates in terms of people and hours worked, with modest levels of productivity. In the Netherlands, a high employment rate is combined with short working weeks and, in most sectors, high productivity levels.

Following Kenworthy (2008: 57–80), employment performance can be understood in terms of sectoral developments as well. One can distinguish between jobs in manufacturing and agriculture; in "high-end" services (finance, business, and real estate); and in "low-end" services (trade, repair, hotels, and social and community services). Within the latter category, a further distinction can be made between public sector jobs in government and education (which one would usually not classify as "low-end" service jobs) and the rest (health care, social work, culture, environment, personal services). The omission of the sectors not mentioned (mining, utilities, construction, transport, and communication) is warranted because there was in fact very little change. Figures 7.2 and 7.3 show the developments in the four sectors in the two countries.

In 2008, there were hardly any differences in the sectoral employment structure in the two countries. The public sector, as measured here, was marginally smaller and the size of the low-end service sector marginally larger in Switzerland. The share of jobs in manufacturing and agriculture, and in

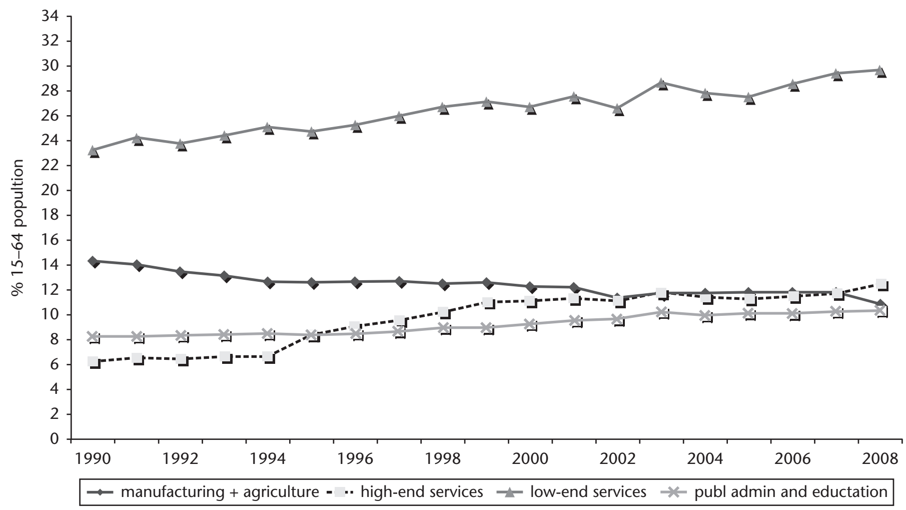

Figure 7.2 The Netherlands: employment rates by sector
Source: calculated from OECD *Labor Force Statistics* (<http://www.stat.oecd.org/>)

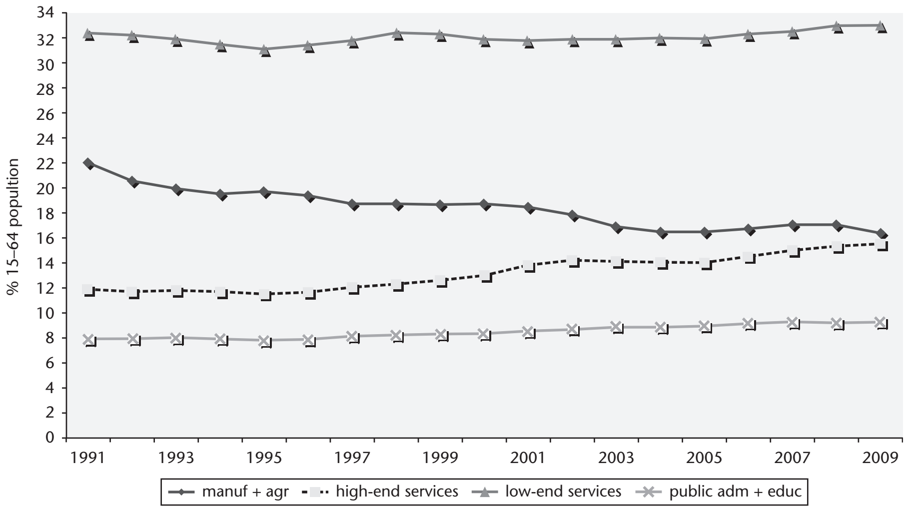

Figure 7.3 Switzerland: employment rates by sector
Source: calculated from OECD *Labor Force Statistics* (<http://www.stat.oecd.org/>)

"high-end" services such as finance, were higher in Switzerland than in the Netherlands, producing an overall higher employment rate, but the distribution was similar. The big difference, however, is how the countries got there. Firstly, de-industrialization and important losses in construction played a much bigger role in Switzerland than in the Netherlands and explain a good deal of the overall stagnation of job growth in Switzerland in the 1990s. The rise of "high-end" services was not sufficient to compensate for the decline in industry, and the "low-end" service sector, notably in tourism, was already large in 1990. In the Netherlands the decline of industry and agriculture had taken place before 1990 and the expansion of services was more sustained, both at the low and high ends. Overall, these developments correspond with employment stagnation in Switzerland during the 1990s, but at a high level of participation, and rapid job growth in the Netherlands, but starting from a lower level.

In general, wage moderation has been a central plank of economic policy in both countries, although the way in which it was realized differed. In the Netherlands, wage negotiators need strong signals from their central organizations and, occasionally, the "shadow of hierarchy" of government, whereas the more liberal (bargaining coverage is below 50 percent) and decentralized industrial relations environment in Switzerland relies more upon implicit informal coordination across employers rather than centralized steering. Other contributory factors are union weakness in Switzerland and the rather pragmatic approach of union leaders in the Netherlands, favoring jobs and job sharing over wage growth, and using the supply of "moderation" in pact negotiations as leverage to gain some influence over welfare reform (Visser and Van der Meer 2011).

Figure 7.4 shows some similarities in nominal wage growth between the two countries, with moderation concentrated in the 1990s, after the 2001–02 recession, and again after 2008, following the outbreak of the financial crisis. On a cumulative basis, between 1990 and 2008 contractual wages, as negotiated by the unions, increased on average by a mere 7 percent in real terms in the Netherlands; actually earned wages increased by 25 percent, reflecting performance-related pay, internal promotion and "drift." At the household level the increase was near to 70 percent, mostly reflecting the change from one to two (or rather one-and-a-half) earner households (calculated from CBS-statline). Wage growth is concentrated in the years around 2000 and was much stronger in the Netherlands, reflecting the very tight labor market at the time. How much of it was related to the conversion of the Euro and perceived rises in consumer prices is unclear, but this was a reason that union leaders cited when they defended "high" wage settlements, outpacing the official inflation plus productivity formula used to calculate wage demands (Van der Meer and Visser 2010).

Since about one-quarter of Dutch exports and one-fifth of Swiss exports are directed toward Germany, and German exporters are their main competitors

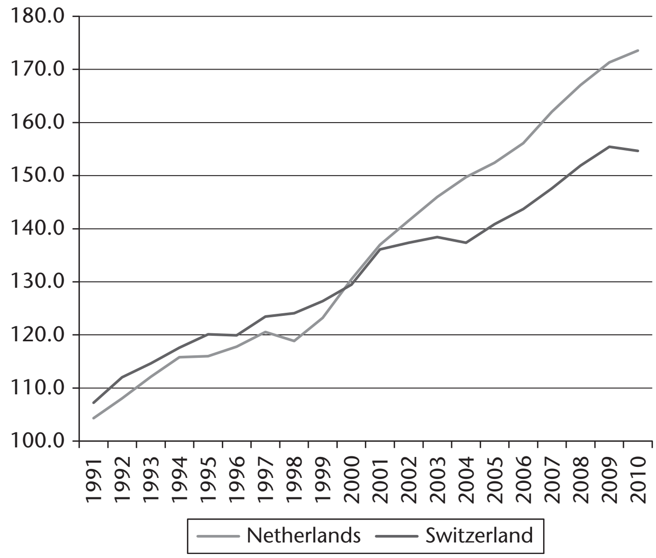

Figure 7.4 Nominal wage developments (1990=100)
Source: Swiss Statistical Office, CBS

in world markets, even small differences in wage growth, productivity, and unit labor costs are extremely important. Until around 1998, Dutch wages progressed at a slower pace than in Germany, and with productivity growth about the same, Dutch firms realized a competitive advantage. From the start of EMU (1999) the tables turned and average annual wage growth was about 1.2 percent higher in the Netherlands and, with slightly lower productivity rises, unit labor costs increased even more, wiping out the competitive advantage built up in the previous decade. However, since other countries in the Eurozone underwent even greater difficulties in following the German course of wage moderation, the price/cost competitiveness of the Dutch economy remained relatively good by European standards. Within EMU, the Netherlands is one of the few countries (with Germany, Finland, Austria, and Luxembourg) with a positive "payments" balance, which is indicative of relative "competiveness." A similar evolution can be observed for Switzerland over this period, with unit labor costs not following the downward course observed in Germany, but keeping up better than most European countries. Policymakers and economic analysts in the Netherlands have seen wage moderation as a strong contribution to job growth. Given the tightening of the labor market after 1998, stronger wage growth was not very problematic from a short-term policy perspective, and apparently prevented a growing wage gap at the lower end of the labor market. It might even have speeded up rationalization of production processes, innovation, and productivity growth, although evidence of such effects has not been produced. Usually, the argument has been the other way around, with claims that continued wage moderation in the 1990s slowed down innovation and productivity growth.

In the Netherlands, flexibility in labor supply was provided first and foremost by the rising influx of female labor and the expansion of part-time work—two factors that arguably also slowed down wage growth (and at the same time compensated for it by speeding up the move to two-earner households). In Switzerland, these two elements have also been present, but have been supplemented by the flexible supply of a sizable migrant population expanding steadily throughout the 2000s as a result of the opening of the Swiss labor market for EU workers in 2002. In many ways, EU law did for Swiss migrants what it did, over a longer period, for Dutch women—namely, make their unequal treatment and pay unlawful. With women and part-timers gaining the rights of men and full-time employees, and with the majority of migrants in Switzerland gaining the right to a permanent stay and comparable employment rights, they were no longer "free" sources of flexible adjustment and wage moderation. If migration continued to play a strong role into the economic crisis, other sources of flexibility became more important: adjustment of working hours (voluntary part-time work); the market for agency work and temporary contracts; and the strong recent growth, especially in the Netherlands, of self-employment.

One major engine of job growth in both countries has been the combination of rising female employment with the availability of part-time jobs. In 2008, 59.9 percent of Dutch women and 45.9 percent of Swiss women worked part-time, i.e., in jobs of less than 30 hours (OECD definition). The Netherlands and Switzerland rank first and second in the OECD. In a context where the Bismarckian male-breadwinner oriented legacy is still present, part-time employment has allowed for high employment rates of women without the publicly subsidized childcare facilities available in Nordic countries. Between 1990 and 2008, the female employment rate (calculated over the working-age population and including small jobs) increased from 46.7 to 70.2 percent in the Netherlands and from 66.2 to 73.5 percent in Switzerland. The comparable figures for the OECD-Europe are 47.1 and 50.9 percent. Part-time employment has become deeply embedded in social norms in the Netherlands (Visser 2002). Despite lower marginal taxes for partners since 2001 and the expansion of affordable and higher-quality childcare, women have not substantially exchanged part-time for full-time jobs, not even in sectors (like health care) with labor shortages. Even if the factors underpinning the high incidence of part-time work in Switzerland have been weakly studied, similar mechanisms are surely at work.

7.3.2 *Dualization*

Recent scholarship has argued that advanced economies are moving toward increasing dualization—that is, sharper divisions between a core of stable workers enjoying full employment rights, and a growing periphery of workers (for instance migrants, fixed-term, and agency workers) with precarious conditions, allowing for flexible adjustments of the labor market (King and Rueda 2008; Palier and Thelen 2010; Emmenegger et al. 2012). Such evolutions can be observed to some extent in both the Netherlands and Switzerland. Data from the European Confederation of Temporary Work Agencies suggest that, after the UK, the Netherlands has the largest market for agency work. Eurostat data indicate that temporary work in the Netherlands affects 18 percent of all people in employment, up from 12 percent in the mid-1990s. This is a comparatively large share and a strong rise in Europe. Similarly, the number of self-employed workers rose sharply between 2006 and 2008, with many getting into difficulties during the recession. A moderate increase in temporary work could also be observed in Switzerland, although the lower general degree of regulation of employment contracts—which measures up to that of the UK or Ireland—have tempered the needs for this form of flexibility. Temporary agency work was at the European average (1.7 percent against

3.8 percent in the United Kingdom and 2.7 percent in the Netherlands), while the proportion of people working under fixed-term contracts almost doubled (to 5.1 percent) during this period (Champion 2011: 124).

However, as in the case of part-time employment, the rise of temporary, agency, and self-employment has also proved to be a deliberate choice for students, new entrants (sometimes in high-skill services in finance and IT-services), second earners in households, and people who combine work with other tasks and interests. Surveys indicate that younger cohorts in the labor market favor greater flexibility in terms of hours and commitments, and that such options may ease their access to the labor market. There are also changes on the employer side, besides the usual uncertainty in predicting the stability and growth prospects of a business, seasonal work, and filling positions on a temporary basis (for instance, for replacement of women on maternity leave). The social policy reforms of recent years, especially relating to illness and disability, have shifted more responsibility and potential costs to employers, who must now continue wage payments up to two years. This makes hiring more risky, and there are indications that temporary contracts serve as a prolonged screening device. All this makes a change in employment protection for standard contracts a more pressing issue for employers and more problematic for the unions.

As already argued, labor market adjustments in Switzerland have relied fairly heavily on migration. Despite ups and downs in the business cycle, the migration surplus over the last 20 years was always positive, with an average of 40,000 immigrants entering Switzerland each year. Whereas migration from the European Union moved in line with labor market conditions (net migration was negative for EU citizens between 1995 and 2000, following the economic slump), migration from outside the EU remained constant. Between 2003 and 2008, the labor force increased by about 8.4 percent, but there was a two-year lag before GDP translated into a substantial improvement in the labor market due to a surge in overtime and low hiring. After 2005, however, unemployment decreased significantly. Immigration, especially from the new EU member states, contributed significantly to employment growth between 2003 and 2008. The number of immigrants in employment increased three times more than the increase in the number of natives (Swiss Federal Statistics Office 2010). This made a substantial difference, implying that the number of employed immigrants rose to 1.271 million, compared to 3.382 million natives, which is well above one-third of employment. Immigrants are over-represented in industry, with an incidence of 36 percent compared to 24 percent in services. Employment behavior between immigrants and natives differs, especially for women: immigrant women tend to work part-time less often: in 2008, 43.5 percent of immigrant women worked part-time, whereas this share was 60.6 percent amongst native Swiss women.

In the Netherlands immigration peaked in the period 1999–2002, when the labor market was very tight, with an average immigration surplus of 50,000. Between 2004 and 2006, however, more people left the Netherlands than entered the country, with a net emigration surplus of 25,000. Since 2006 immigration has again become dominant, at a net rate of 25,000 per year. This is the balance of some 150,000 migrants entering each year and 125,000 leaving. One-third of the migrants are from non-western provenience, including asylum seekers. Of the western immigrants, the largest group comes from Poland, followed by Germans. The problem with these data is that they do not register temporary migration of people working in one country and keeping their main residence in their country of origin. Also, illegal migrants are completely under the radar. Estimates are that after the gradual opening of the EU labor market to Central and Eastern Europe, some 100,000 workers from Poland work in the Netherlands, mainly in construction and horticulture. The issue of immigrant workers from Central and Eastern Europe has stirred remarkably little workplace conflict in the Netherlands. They are usually in jobs that the native workforce shuns, and the fact that the overall unemployment rate has been low helps. There is an issue, however, over the use of shady temporary work agencies, which pay below the statutory minimum wage and do not pay social contributions. Legal changes in 1998 suppressed the obligation of these agencies to require a state license; attempts at self-regulation of the sector, under pressure from the trade unions, have proved difficult. The main conflict over migration in the Netherlands, however, is political and focuses on the lack of integration of non-western migrants. Non-western migrants, even those who have now been one or two generations in the Netherlands, have much lower levels of schooling, lower employment rates (especially women), a much higher probability of being unemployed, and they often find themselves in poor urban conditions.

7.3.3 *The High Employment Route to Low Inequality*

Kenworthy (2008) argues that a high employment rate is key to limiting the growth of income inequality. An increase of the employment rate is "doubly beneficial for redistribution efforts: it yields an increase in tax revenues without an increase in tax rates and to the extent that it moves some current recipients off government benefits into the workforce, it reduces welfare state costs" (Kenworthy 2008: 5). By reducing the number of households with no income, rising employment rates can also reduce the pre-tax/pre-transfer or market rate of income inequality. However, he argues, the expansion of employment is likely to be accompanied by increased earnings inequality (between persons working full-time) and market inequality (between households). Earnings inequality tends to rise with a declining share of manufacturing and the public sector, both of which are more unionized and more covered by collective bargaining than (labor-intensive) private services, the latter being the engine of job growth in advanced economies.

Of the 12 countries analyzed by Kenworthy (2008: 32), earnings inequality has risen in all but Norway and France. Pre-tax income inequality between households increased in all countries, except in the Netherlands, where it declined (Kenworthy 2008*:* 41). The Netherlands experienced the greatest drop in zero-income households, from 15 percent in 1979 to just over 6 percent in 2000, a level comparable to the Nordic countries (Kenworthy 2008: 37). Finally, the most relevant outcome—income inequality after tax and transfers—also increased in 11 of the countries, whereas in the Netherlands, with the exception of the first half of the 1990s, the opposite trend was observed. This was achieved by a drastic lowering of cash social expenditure on the working-age population (Kenworthy 2008: 48). Also, in other countries, including the Nordic welfare states, government social expenditure has been lowered, after reaching a peak in the mid-1990s, but it remains at much higher levels. Moreover, in both the Nordic and the continental welfare states, redistribution measured as the difference between the Gini coefficient of household incomes of working-age households before and after tax and transfers, increased, whereas in the Netherlands it decreased. In fact, redistribution is now at a level similar to a liberal welfare state such as the UK. This data indicates that the Netherlands contained the rise in (post-tax/post-transfer) income inequality not through more redistribution, but through more jobs, reducing the number of households without market income, and this in spite of rising earnings inequality. The data presented in Table 7.1, and taken from the OECD, suggest that something similar may have happened in Switzerland, where the amount of redistribution is even much lower. In fact, Switzerland was the European country which redistributed the least in the late 2000s—

Table 7.1 Household income inequality in Switzerland and the Netherlands

Income distribution: Gini-coefficients	Netherlands			Switzerland		
	1990	2000	2005	1990	2000	2005
Working-age households:						
before tax and transfers	0.43	0.39	0.39	..	0.31	0.31
after tax and transfers	0.28	0.28	0.27	..	0.28	0.27
redistribution	0.17	0.11	0.12	..	0.03	0.04
Households over 65:						
before tax and transfers	0.66	0.60	0.57	..	0.55	0.53
after tax and transfers	0.27	0.25	0.24	..	0.29	0.28
Redistribution	0.39	0.35	0.33	..	0.26	0.25

[.. = data not available]
Source: OECD.stat

Gini was only reduced by 14 percent by taxes and transfers; the equivalent figure is 24 percent in the Netherlands and the UK, 29 percent in Germany, and 35percent in Denmark (OECD 2011f). Low equality is achieved within the market rather than through the state.

Most of the increase in inequality in the Netherlands took place between 1989–96, was concentrated in the bottom half of the earnings distribution (P50/P0), and can be related to the temporary de-indexation of minimum wages and the corresponding downward adjustment of minimum rates in collective agreements. This development may have contributed to job expansion, although Hartog (1999) shows that, at least in the later 1990s, job expansion happened across the full earnings distribution. Data for the period between 2000 and 2008 in the Netherlands indicate that inequality decreased in the lower half of the wage distribution while increasing somewhat in the upper half (Groot and De Groot 2011). Earnings inequality in Switzerland increased fairly moderately during these 20 years and was mostly concentrated in the top (P90/50) segment; the P50/P10 ratio decreased from 1.51 to 1.47. This is remarkable given that Switzerland has no mandatory minimum wage.

7.4 Dealing with the Crisis

Both countries entered the 2008 economic crisis from a relatively sound position, with large current account surpluses, governments running a small budget surplus, and very low unemployment rates. From 2004 to 2007, the Swiss economy experienced its most sustained period of growth since the 1980s. In the Netherlands 2006–08 were booming years as well, and in many sectors the labor market was still tight over the course of 2009, even if vacancy rates dropped. The rapid rise in house prices had already stopped prior to the crisis, making a sudden fall in house prices less likely at the time.[2] There was no significant subprime mortgage market in the Netherlands, and the volume of loan packages in the American market bought by Dutch banks was no larger than elsewhere in Europe.[3] In Switzerland, housing prices had been steadily increasing due to immigration and no fall was foreseen.[4] A cause of concern in the Netherlands, however, was the high mortgage debt of Dutch households, mainly encouraged by the large tax rebates and the unwillingness of the main parties to change the tax system for fear of losing votes. This

[2] Average nominal prices rose by 4.6 percent between 2002 and 2006 compared to 11.5 percent in the US, 8.9 percent in the UK, and 13.5 percent in Spain.

[3] De Nederlandsche Bank (DNB), "Overzicht Financiële Stabiliteit in Nederland," bulletin no. 7 and 8, Amsterdam, 2008.

[4] Credit Suisse Economic Research: Swiss Real Estate Market 2009: Facts and trends.

would play an important part in later stages of the crisis, notably from 2010 onwards, as the government pursued substantial cuts in public spending at a time when consumers and firms were trying to pay down their heavy debt loads.

Following the fall of Lehman Brothers in September 2008, the Dutch government had to come to the rescue of the banks with large loan programs, renationalizing the Dutch activities of the ABN-Amro and Fortis banks, the international activities of which had been sold a year earlier. Along similar lines, the so-called stabilization measures undertaken by the Swiss government to cope with the crisis started with a rescue of the big bank UBS, which held large amounts of illiquid "toxic" assets and was faced with massive withdrawals from customers. Its difficulties represented a systemic risk for the whole Swiss economy. This started with a transfer of its illiquid assets to the Swiss National Bank, up to an amount of US$60bn, and a government loan of CHF6bn to restore "confidence" in the bank. Despite an initial commitment to stick to "automatic stabilizers," as of November 2008 Switzerland also engaged in a series of "stimulation programs," which, however, had to remain within the limits of the "debt brake" inscribed in the Constitution in 2001. This mainly involved advancing investments in infrastructure, increased subsidies to cushion the massive increase of health insurance contributions, and measures to maintain purchasing power. As a whole the leeway of the federal state within the constitutional public debt brake is very limited, since the 1.43 percent and 1.53 percent of GDP invested in 2009 and 2010 respectively already reached the full limit of expenditure allowed for these years. The major problem that rapidly emerged from within the crisis was the strong appreciation of the Swiss Franc in the face of the depreciation of the Euro. Even if the Swiss National Bank engaged in a massive program of defense of the Swiss franc by buying large amounts of currency, this made for a very adverse environment for Swiss exports while making Dutch exports cheaper. While stagnation in exports was compensated by increasing demand in Switzerland, the good export context did not compensate for falling domestic demand in the Netherlands. Later on, in 2013–14, the appreciation of the Euro against the Dollar and the Yen created a similar "hard" environment for exporters in both countries.

Although both Switzerland and the Netherlands have relatively large financial sectors, the economic crisis affected the real economy mainly through world trade, and the export sector in both countries was severely hit. In many ways, the recession became deeper in the Netherlands than in Switzerland. In 2009, Dutch real GDP contracted by 3.7 percent, versus 1.9 in Switzerland and 4.4 percent in the Euro area. Afterwards, Dutch GDP again expanded, by 1.5 and 0.9 percent in 2010 and 2011, but entered into recession again in 2012 (–1.2 percent); and 2013 (–0.8 percent) while available forecasts for 2014 (+0.9 percent) point to a very weak and slow recovery. The situation was markedly different in Switzerland, where the contraction of 2009 was quickly compensated by solid real GDP growth in the three years that followed the crisis (3.0, 1.8, and 1 percent respectively for 2010, 2011, and 2012). Available forecasts for 2013 and 2014 predict 1.4 and 1.9 percent growth rates. Starting from similar levels of unemployment at the beginning of the crisis, divergence could be seen there as well: from 3.1 percent in 2010, Dutch unemployment had increased to more than 7 percent early 2014. Over the same period, it remained in the region of 3–4 percent in Switzerland. In many ways, the Swiss economy and labor market proved more resilient than the Dutch throughout the crisis.

The key factor that explains the difference between the Dutch and Swiss economic and employment performance during the crisis has been the diverging behavior of domestic demand. In Switzerland, the biggest contribution to growth throughout the crisis has been a solid domestic demand, with an average annual growth of 1.9 percent between 2010 and 2013 compensating for the stagnation in exports. In the Netherlands, even if automatic stabilizers kept up demand in the beginning, private consumption decreased by 1.1 percent annually during the same period, and real government consumption stagnated as well after a series of austerity measures carried out by the center-right (VVD/CDA/PVV) government in 2011 and the Grand Coalition (VVD/PvDA) government in power since 2012. Net exports were the biggest contribution to growth in 2011, 2012, and 2013, but did not offset the decrease in domestic demand. The diverging dynamics in domestic demand in the two countries under discussion can be explained by two mechanisms: immigration propelling private consumption in Switzerland, and the combination of austerity and high household debt (a so-called balance sheet recession) dampening it in the Netherlands.

The "fuel" of domestic demand in Switzerland before and during the economic crisis has been high levels of immigration. Between 2007 and 2011, the Swiss population increased by 4.8 percent, whereas the Dutch population increased by only 1.9 percent (the average for the OECD for this period was 2.5 percent); over the same years, total employment increased by 7 percent in Switzerland while it declined by 0.5 percent in the Netherlands. The Swiss employment growth was largely due to immigration. Between 2007 and 2011, annual net immigration flows (inflows minus outflows) averaged 82,000 in Switzerland and 66,000 in the Netherlands, while Switzerland has half the population of the Netherlands. Immigration declined somewhat with the crisis, but remained largely positive due to persisting wage differentials with neighboring Germany, an important source of skilled foreign labor, and the strong recession in Portugal, a traditional source of low-skilled foreign workers in the Swiss labor market. The appreciation of the Franc vis-à-vis the Euro made Switzerland even more attractive for EU workers.

The reorientation toward domestic demand in Switzerland can also be seen in the changes in the structure of employment. Employment expansion only took place in domestic, non-tradable sectors. Between the third quarter of 2008 (when the crisis began) and the second quarter of 2013, the Swiss economy had expanded by 150,000 jobs, due exclusively to employment increases in sectors such as health (+77,000), research (+32,000), education (+28,000), public administration (+28,000), social care, and construction. In the meantime, manufacturing, which is strongly export-oriented, had lost 44,000 jobs. As pointed out by Lampart,[5] the chief economist of the Swiss Federal of Trade Unions, while the Swiss economy has performed at similar levels as Germany in terms of real GDP growth, Swiss GDP *per capita* did not, because of the population increase. GDP growth in Germany, by contrast, was accompanied by a slight population decrease.

As pointed out by Coen Teulings, director of the Centraal Planbureau until 2013, the main reasons for the bad performance of the Dutch economy after 2009 was the combination of severe budget cutbacks and deleveraging by households to pay off staggering levels of private mortgage debt. In the run-up to the crisis, the demand-stimulating Dutch functional equivalent to immigration in Switzerland was the excessive rise in house prices allowed by generous tax reliefs on mortgages. This fueled a prolonged period of strong demand that pushed house prices to extreme levels. When the bubble burst and house prices fell, mortgage debt increased to very high levels, leading households to reduce consumption to pay off debt, similar to what happened in Denmark. In 2012, Dutch households held the world record in household debt, at a whopping 285 percent of household income, not quite balancing the wealth of (capital funded) pension assets, also one of the world's largest. Starting in 2010–11, the government pushed a series of austerity packages to reduce the deficit, and to comply with the EU deficit targets that it was advocating for the debt-ridden southern countries. The public debt, calculated on the basis of EMU norms, jumped from 45.5 percent in 2007 to 65.8 percent of GDP in 2009. The center-right government inaugurated in October 2010 announced savings of €18bn over the next four years (roughly 10 percent of total government outlays), mainly by reducing government tasks, laying off government staff, a standstill in public sector wages, and austerity measures in social security. When this government fell, the new government formed by the VVD and the PvdA, starting in 2012, even intensified the austerity drive, mainly to avoid the wrath of international financial markets and disciplining measures from the EU Commission. According to Teulings, this had an

[5] See <http://www.sgb.ch/aktuell/blog-daniel-lampart/entry/schweizer-wirtschaftswachstum-nur-wegen-bevoelkerungswachstum-jubel-und-eigenlob-fehl-am-platz/year/2013/month/08/day/22/>.

amplifying effect on the recession, whereas government spending could have compensated for the fall in domestic demand.

In both countries, however, it does not seem that the economic crisis has constituted a "critical juncture" for major changes in the social models as outlined above. By contrast to the 1980s in the Netherlands or the 1990s in Switzerland, business profitability or labor market flexibility on the supply side have not become central issues in the Great Recession. As we have shown, the major difference has been in demand rather than in supply. According to the Spring 2013 forecast from the European Commission, the Dutch labor market demonstrated a high degree of wage adjustment during the crisis, one of the highest in the EU. Between 2010 and 2013, real wages decreased by 0.5 percent annually.[6] In Switzerland, real wage growth averaged 0.7 percent annually during this period.[7] Dutch employers were pressing hard for a further shortening of unemployment benefits to a maximum of one year and asked to overhaul the current system of employment protection for open-ended contracts, but these demands predated the current crisis. The April 2013 social pact confirmed a policy trend which the Dutch trade unions were no longer able to resist, to the chagrin of their left-of-center corps of officials. In Switzerland, similar retrenchment reforms were initiated without any direct link with the crisis. In both countries, however, one social protection novelty directly linked to the crisis was the use of part-time unemployment, combined with shorter working hours, particularly in manufacturing, in the first phase of the crisis.

In May 2010, Dutch trade unions reached agreement with employers to raise the retirement age from 65 to 66 in 2020 and to peg further rises to 67 or 68 years to increases in life expectancy. Occupational pension schemes, guaranteed defined benefit pensions, were facing increasing difficulties, having lost much of their value in the financial crisis. Many funds suspended the indexation of pension benefits to contractual earnings or consumer prices; some announced a cut in benefits, up to 5 percent, in 2012 and 2013. With their high reliance on financial markets, many Swiss occupational pension schemes have run into difficulties with regard to ensuring future benefits as well; however, a legislative proposal providing for a lowering of the conversion rate of occupational pensions funds to make them more sustainable over the long term was voted down in 2010.

[6] Statistical Annex to EU commission Spring forecast, p. 197: <http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/2013_05_03_stat_annex_en.pdf>.

[7] See <http://www.bfs.admin.ch/bfs/portal/fr/index/themen/03/04/blank/key/lohnentwicklung/nominal_und_real.html>.

7.5 Conclusion

In many ways, the Dutch and Swiss social models can be understood as examples of success in terms of standard economic indicators like employment, unemployment, and growth, but also in terms of equality. Besides outstanding employment performance in the run-up to the crisis—and a somewhat more difficult position during the crisis, in the Dutch case—both countries have performed relatively well in limiting the growth in income inequalities observed across all the advanced economies throughout the last 20 years This is especially remarkable if one considers that they have not deployed redistributive policies to the extent observed in the Nordic countries. As an extreme case, the Swiss welfare state hardly redistributes any wealth due to low taxation and a high share of fixed per-head contributions, notably in health, yet its levels of inequality have remained moderate due to high employment levels and a favorable distribution of human capital.

In both countries, income equality is primarily achieved within the market, rather than by the state through redistribution. High degrees of redistribution as pursued in Nordic countries have not been a viable option given the weakness of organized labor and the political left in both countries. Low levels of market inequality are underpinned by high employment rates, thereby reducing the share of households without income. High employment, in turn, has been underpinned by elements on both the supply and the demand side. On the supply side, this was underpinned by continuous wage moderation and the opening of entry routes into the labor market for specific groups often marginalized in Bismarckian welfare models, like young workers and women, as well as migrants in the case of Switzerland. In both countries, part-time employment and migration seem to be the tools which have allowed them to overcome the "service economy trilemma" emphasized at the beginning of this chapter, as they constitute central channels of labor market participation, particularly for women. Finally, wage moderation and the development of market-driven policies have been underpinned by the rather subordinate position of labor, yet embedded in a consensual political culture that fosters cooperation rather than conflict in both industrial relations and in public policy-making. However, these supply-side elements have also worked in conjunction with demand-side elements that played out differently into the economic crisis. Increasing house prices led to staggering levels of private debt in the Netherlands, followed by declining private consumption as households were deleveraging. In Switzerland, immigration continued to support demand as of 2013 to compensate for a more difficult environment for exports due to the appreciation of the Swiss franc.

In spite of retrenchment, re-commodification, and de-unionization, by 2013 the Dutch and Swiss social models could be considered more inclusive and egalitarian than in 1990. In the Dutch case in particular, increasing employment rates have meant fewer households with no income and less dependency on welfare. The decrease in long-term and youth employment is probably the most telling change in the Netherlands. The disadvantaged position of immigrant workers and their children, however, has hardly changed, in spite of higher employment rates. In Switzerland, European integration has conferred more rights on EU immigrants, who used to bear the brunt of economic adjustments in the past and who still played a strong part in maintaining demand throughout the crisis. Reforms geared toward the recalibration of welfare arrangements have resulted in greater inclusiveness, for instance in terms of pension coverage, for women and part-time workers in both countries. Yet, patterns of dualization, notably with the rise of self-employment and agency work, can be observed to a substantial extent in both countries, and there are reasons to fear that in some sectors employers have been locked into the use of cheap and flexible labor, particularly migrant labor. In both countries, populist parties capitalizing on an anti-immigration agenda (the SVP in Switzerland and the PVV in the Netherlands) have made great electoral progress in this context. As the bulk of job growth in both countries has been supported by part-time employment to an extent unseen elsewhere, this has also raised questions as to the diffusion of similar strategies in other countries (Visser 2002). for continental countries, many reform proposals in recent years have aimed to create a low-wage service sector, as found in Anglo-Saxon countries, since Nordic strategies of public sector expansion and redistribution are faced with substantial political and economic costs. Within this debate, the Dutch and Swiss examples show the possibility of a middle way between those models, but one should beware of their limits.