Title: The impact of a social welfare system on a labor market in a changing economy—lessons from the Netherlands

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Summary: This paper examines how the Dutch welfare system has influenced its labor market during times of structural economic changes. The findings are as following. The evolution of the Dutch welfare system has led to a smoother restructuring process and a burdened welfare state during the 1970s and 1980s. The workers were greatly channeled to the insurance programs and through this the firms have gained higher flexibility. The later reform of the welfare system tried to keep flexibility while rid its harms, resulting to decreased unemployment rates, highered participation rates, and the economy regained high growth rates.

The economic shocks experienced by today’s Taiwan and the past Netherlands are similar. Although differences in their social and political conditions exist, there still are lessons to learn from the Dutch experience. First of all, the different welfare benefits in Taiwan should be rearranged into a consistent system to avoid pork barrel politics, complication of the system, and unnecessary public expenditures. Secondly, since the increase of part-time workers is inevitable, their job security should be protected by laws. Lastly, we can see from the Dutch experience that extra cost for economic restructuring is unavoidable. A way to keep off redundant costs is the cooperation between employers, labor, and the government in times of economic changes. Without lengthy negotiation, the restructuring process can be accelerated and costs less to the economy.

Key Words: Labor Market, Structural Economic Change, Social Welfare System, Flexicurity, the Dutch Disease
I. Introduction and Research Questions

1. Introduction

One of the main economic problems faced by the newly developed East Asian countries today is the emigration of labor-intensive industries and the task of labor market adjustment. From the 1960s, the global division of labor has significantly changed the economic structure of many countries. The two oil crisis and the increasing labor costs shifted the labor-intensive industries first from the West to regions like East Asia. And then after countries in these areas have also faced the problem of high price level and the need to restructuring, a new industrial emigration again appeared. The labor markets in these areas have to readjust to fit in the new global division of labor and to re-accommodate their domestic labor force. However, the laggardness in adjusting often leads to problems in the labor market.

Some European countries have proven to be rather successful in tackling the labor market problems brought by the structural change of the economy. To name a few, there are the Netherlands, Denmark, and Austria. With some different stories and fluctuations, they have achieved steadier growth rates, lower unemployment rates, and better income equality than other Western countries recently. In this paper the experience of the Netherlands will be examined to shed light on the situations faced by East Asian countries nowadays. For the sake of a more in depth analysis and the convenience of comparison, this paper will only use Taiwan as the representative of East Asian countries.

A major difference between the East Asian countries and the European countries is the welfare state models they adopt. For the latter, the sound welfare system has supported the labor market go through the structural change of economy. The rather generous benefits for the unemployed have prevented them from economic inadequacy, but on the other hand have stressed the public finance. However, the newly developed East Asian Countries do not have welfare systems that commmeasure the ones in Europe. How the Netherlands has coped with the changes, and to what extent their experience can apply to Taiwan, are the main concerns of this paper.

2. Research Questions

The main focus of this paper is to examine how the Netherlands has gone through the period of structural change in economy in the 1970s and 1980s. To say more clearly, the paper is meant to find the answers to the following questions:

(1) What was the major means used to stabilize the Dutch labor market in the period of structural economic change?

(2) What were the effects of these measures taken by the Dutch administration authorities?
(3) What can Taiwan learn from the Dutch experience?

The plan to bring out the answers to the research questions is as following:

The research methods of this paper will be presented in chapter one. And then for the convenience of readers who are unfamiliar with the Netherlands, the paper will first provide a more detailed background of the Dutch welfare system and how it has evolved in chapter two. Thus chapter three will start from discussing the structural change of the Dutch economy in the 1970s, a consequence of the oil crisis and the increased labor costs, describing the crisis faced that time and the solutions taken both in the field of labor market and social welfare. The next chapter, chapter four, will go through the consequences of the policies carried out in that period of time and the subsequent welfare reform beginning from the mid-1980s and going to its full extent in the 1990s.

Chapter five is a discussion of the short-term and the long-term effects of the measures used by the Dutch authorities in mid of the economic recession. In this section, the pros and cons of a generous welfare system will be examined to see the role of such a system in a changing economy. Finally, to apply the Dutch experience to Taiwan, the paper will analyze the difference between the two countries and see if there is any common ground for Taiwanese policy makers to learn from the Dutch experience. The conclusion will be made in the end.

II. Research Method and Limitations

The research method of this paper is qualified as a historical research. According to Earl Babbie (1995), it is a method used by social scientists to trace how social forms have developed over time and to compare the different processes across cultures. Therefore it involves the use of secondary data that shows how the target social form has varied in different stages of history, and both qualitative and quantitative data can be relied on in addressing the evolution of target social forms (Babbie, 1995).

To discuss the changes and impacts of the Dutch welfare system, the ideal data to draw on includes a large quantity of literature and government reports written in Dutch. However, due to the author’s inability to read Dutch, all the data of this paper are secondary data including articles, reports, and books written in English and some time-series data available from the website of the OECD Statistics online database, Eurostat website, and the IMF website. Putting more clearly, the research is based on analyzing statistical data and reviewing other authors’ opinions on the issues related to the research questions.

Of course the kind of data sources used here casts several limitations on the results of this paper. One of the limitations is the degree of novelty in the research field of Dutch labor policy. Because the content is mainly a digestion of other existing
research works, there is less chance for a brand new idea of the Dutch labor policy/welfare system to emerge in the end of the paper; the major contribution will be in the comparison of the Netherlands and Taiwan, seeing if there is any new enlightenment for the Taiwanese policy makers from the Dutch experience. Therefore the target reader groups of this paper are scholars, students, and policy makers from Taiwan and other East Asian countries. And the limitation of novelty is less relevant to them than to the western readers.

The second limitation is about the degree of objectivity due to the heavy use of existing research works. It is a common threat to researches that rely primarily on secondary data since it is harder to check the credibility of the original data and to know whether the view points of literature authors are biased or not. Although by comparing the opinion of different authors on the same topic can filter out those who have unreasonably extreme ideas, the danger to lose a certain degree of objectivity here is still higher than papers using mostly primary data.

It is useful to first keep in mind what the research method of this paper and the possible constraints of it are before starting the full discussion. Nevertheless as gaps exist between any research findings and the reality, the constraints cannot take away the value of a carefully conducted research in finding the solutions to questions in real life.
### III. Background of the Dutch Welfare System

#### Table 1. Timetable of Major Welfare Policies

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Welfare Acts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1854</td>
<td>Poor Act</td>
</tr>
<tr>
<td>1901</td>
<td>Industrial Injuries Act</td>
</tr>
<tr>
<td>1919</td>
<td>Workers disability act</td>
</tr>
<tr>
<td>1930</td>
<td>Workers sickness insurance</td>
</tr>
<tr>
<td>1942</td>
<td>Health cost insurance funds</td>
</tr>
<tr>
<td>1945</td>
<td>Extraordinary Decree on Labor Relations</td>
</tr>
<tr>
<td>1949</td>
<td>Unemployment Insurance Act</td>
</tr>
<tr>
<td>1956</td>
<td>General Old Ages Pension Act</td>
</tr>
<tr>
<td>1959</td>
<td>General Widows and Orphans Act</td>
</tr>
<tr>
<td>1963</td>
<td>General Family Allowance Act</td>
</tr>
<tr>
<td>1964</td>
<td>Unemployment Relief Act</td>
</tr>
<tr>
<td>1965</td>
<td>National Assistance Act</td>
</tr>
<tr>
<td>1967</td>
<td>Labor Disability Act</td>
</tr>
<tr>
<td>1965/1968</td>
<td>Health Cost Funds</td>
</tr>
<tr>
<td>1976</td>
<td>General Disability Act</td>
</tr>
<tr>
<td>1970</td>
<td>Wage Act</td>
</tr>
<tr>
<td>1979</td>
<td>New Works Councils Act</td>
</tr>
<tr>
<td>1994</td>
<td>New Sickness Act</td>
</tr>
</tbody>
</table>

Arranged from the text of “A Dutch Miracle” (Visser & Hemerijck, 1997)

In this part the history of the Dutch welfare system will be examined to see how it has evolved.

1. The Laggard Giant

The Dutch welfare system is one of the most generous systems in the world today; however, this has not always been the case. The late modernization of the Netherlands postponed the social problems that come along with industrialization. And it was until 1901 through the stimulation of Bismarck’s policies in Germany, the first policy
Regarding the worker’s insurance was enacted, the *Industrial Injuries Act* (van Waarden, 1993). Therefore the Dutch social welfare system is also one of the latest developed among the OECD countries. Table 1 shows that most major social acts are enacted as late as in the 1950s and the 1960s, in the post-war period.

Furthermore, although the current Dutch welfare system is sometimes considered following the social-democratic model with its level of social payment commensurate the Scandinavian countries, this has also not always been the case. What characterizes the Dutch system in the history is actually pillarization, the coexistence of different ideologies and the constant competition or cooperation between them. Therefore all the characteristics of the three models of welfare states which Esping-Andersen distinguishes, the social-democratic, the liberal, and the conservative-corporatist, can be found in the Dutch social welfare system, and each has its dominance in some period of time in history (van Waarden, 1993). A successful implementation of a policy requires intense cooperation between different parties or interest groups, and the process of allying, negotiation and compromising is one of the most significant traits of the Dutch politics, called corporatism (Visser & Hemerijck, 1997). The term corporatism captures the “structure of the institutions that formulate and administer (the Dutch) welfare policy (Cox, 1993).”

Why did the development of the Dutch welfare system come later than in its neighbors and why were there the traditions of pillarization and corporatism? What are the consequences of them? Some brief explanation will be offered here followed by a discussion of their impact on the Dutch welfare system.

The lateness of the Dutch welfare system can be attributed to three reasons. The first is the late industrialization and the subsequent social problems, the second is the lower degree of division between social classes, and the last one is the disagreement between social pillars and a consequently lower degree of centralization of the Dutch government (Cox, 1993). The success of commercial activities in the eighteenth century produced a large middle class and made the Dutch less motivated to join the new industrialization movement in the nineteenth century. While its neighbor in the north, the Great Britain, was the first industrialized country and its close neighbor in the south, Belgium, was the first continental country that introduced the new industrial production method, the Netherlands started industrialization late until the twentieth century (Cox, 1993).

This lateness and the strong middleclass thwarted the activities of labor unions which lead to the growth of social policies. Also, the Dutch society has a tradition of being divided by different religious groups and social ideals, the pillars, namely Protestant in the north, the Roman Catholic in the south, the liberals in the urban area, and the socialists. None of the above groups by itself had dominance in the society and as a consequence the government was usually composed of a coalition of two or more groups. And the policy making process was influenced by the corporatist bodies,
for example the trade unions, business associations, etc. Furthermore, the social order of the pre-industrial period was to limit the power of the state. The two factors—a co-governed state and the tradition of a weak government—together made it less possible for the government to push through major welfare programs. It was until the end of the Second World War has this situation changed.

During the Second World War, the Nazi forces occupied the Netherlands, forcing many political leaders to flee to England. A government in exile was thus established in London (Cox, 1993). The very situation made the leaders of different parties realize the need to stop the conflicts between different pillars and to cooperate with each other for the sake of reconstruction after the war. A major focus of the government was to examine the social insurance system, see if any change should be made for the postwar period. The commission in charge of this task borrowed extensively from the British Beveridge Report and the U.S. Wagner report. They proposed to expand the coverage of the existing system from an exclusive worker’s insurance to an inclusive public one (Cox, 1993). However, they have also suggested that the system should maintain the characteristics of an insurance program that is financed by premiums, instead of a flat-rate pension system financed by taxes. In this way the feature of the conservative-corporatist model was kept.

However, the plans made by the commission were not fully implemented after the war due to the obstruction of the conservative power (Cox, 1993). It was after the mid-1960s that the welfare system started growing rapidly. In the 1960s, the diminishing power of religion forced the religious parties to seek new issues to attract the electorate, and what they drew upon was the reform of welfare system. A more universal plan was proposed. And the narrowing cleavage between the religious pillars also made it more possible for labor to unionize regardless of their religion backgrounds (Cox, 1993). These political and social changes fostered an environment suitable for the welfare system to expand. During the same time, the Dutch economy was enjoying a prominent growth, and the projection of the future seemed optimistic enough for the government to implement more welfare programs (Cox, 1993). Some major social acts enacted in this period of time are the Unemployment Relief Act of 1964, the National Assistance Act of 1965, the Labor Disability of 1967, and the General Disability Act of 1976 which replaced the Labor Disability Act. These Acts especially the last Disability Act have great influence on how the Dutch society has gone through the economic transition of the 1970s.

2. The Dutch Corporatism

From the brief description of the evolution of the Dutch welfare system it is shown that there has never been a single political actor that determined the direction of the system. Rather it is through the competition and compromise of different social political groups that the system is gradually formed to its current state. This compromising character is not neutral to the developing of the Dutch welfare system.
On the contrary, it has some important impacts on the form and content of the system (van Waarden, 1993).

In the book *Cultures of Unemployment*, Frans van Waarden (1993) has a comprehensive analysis of the impact of the compromise-character on the corporatist policy making process. The situation he describes mainly applies to the Dutch welfare system in the 1970s and 1980s, but not to the current status after some substantial changes happened in the 1990s. Five consequences are listed in the book as following.

The first consequence is a mixed use of welfare state models in different welfare policies. For example, some acts like the general old age pension and widow insurance follow the ideal of universal pension of the social-democratic, while some other acts like the Health Insurance Act are the realization of the liberal model (van Waarden, 1993).

Secondly, the compromising character of the system has pushed up the level of benefits of the system. Because none of the parties is of unconditional majority, a stable support from their clients, the electorate, become especially important. And it is through the exchange of social benefits and ballots the implicit political contract is consolidated. Both the scope covered by the welfare system and the level of benefits have been raised due to this situation (van Waarden, 1993).

Thirdly, the system has generated a system with complex implementation agencies. The different models require different implementation agencies, for example, the flat-rate pension is governed by the state while the labor insurance is preferably administered by semi-state agencies (van Waarden, 1993).

Fourthly, the way these programs are financed is also affected by the compromise character of the system. The taxes only covered less than ten percent of the expenses in 1974, and most programs are financed by the premiums paid. However, since most of the programs are income-related, the premiums have the same quality as the progressive tax system. Ironically, some premiums are even collected by the state tax offices (van Waarden, 1993).

The last consequence of the compromise character is the eligibility of the benefits. The rather loose eligibility makes it very easy for new recipients to enter the system. And this was especially important in the period of structural economic change that through the different programs the mass unemployed workers were supported after they left the job market (van Waarden, 1993).

In sum, these five qualities of the welfare system were very relevant to the period of structural change in the 1970s and 1980s when the government and firms had to cope with the problems brought by the structural economic change. The high level of benefits and the loose eligibility of recipients made the best exit for unemployed labor, and the complex system made it hard for government to control the growth of the
system. All of these led to the welfare reform in the 1990s. The two issues, the use/abuse of welfare system in the 1970s and 1980s and the reformation in the 1990s will be the focus of the next two sections.

IV. The transitional period: the 1970s

1. The Adverse Shocks

Starting from the beginning of the 1970s, some macroeconomic adverse shocks hit the European economy, and since then, unemployment has become a big issue to most European countries, including the Netherlands (Blanchard, 2006). The main shocks in that period of time are the two oil crisis and the slowdown of total factor productivity growth. While the effect of the former is more visible, the latter one has actually a much prolonged impact on the labor market (Blanchard, 2006).

2. Change in Production Costs and Prospect Productivity Growth

For the sake of discussing the impact of the adverse shocks in the 1970s, it is necessary first to introduce two economic concepts, the warranted wage and the bargained wage. According to Blanchard (2006), the price set by firms in accordance to the rate of Harrod-neural technological progress is the warranted price. If the prices of the other factors of production increase, to maintain the zero net profit for firms, the warranted wage must decrease. On the other hand, the wage that set by the bargaining of unions is the bargained wage.

When the bargained wage is higher than the warranted wage, the firms hire fewer workers and the unemployment rate increases. The same argument applies the other way around. Thus a change in either the price of other factors of production or the growth rate of labor productivity influences the unemployment rate.

The two oil crisis in the 1970s pushed the price of the main raw materials for industry up, and significantly increased the production cost of firms. As mentioned before, the increase in the price of the other factors of production leads to tension to cut the labor cost by lowering the warranted wages. In the same period of time, the major economies in the world experienced a slowdown in productivity growth, and as a result the projected production growth became smaller. This led the firms to adjust the growth rates of warranted wages to a level that matched the new production growth rate. In short, one of the consequences of the adverse shocks in the 1970s was a considerably decrease in the warranted real wages.

3. Real Wage Rigidities and Nominal Wage Rigidities

Does a change in the warranted wages affect the level of unemployment? According to Jeffrey Sachs and Michael Bruno (as cited in Blanchard, 2006, p. 10), the answer is yes, on certain circumstances. They argue that when a fall in the warranted wages is accompanied by two types of wage rigidities, real and nominal, it
also results to a change in the unemployment rate.

The real wage rigidities refer to the laggardness of real wages in adjusting to changes in warranted real wages (Blanchard, 2006). The slower the adjustment, the higher the bargained real wages, results to “the higher and the longer lasting the effects of adverse shocks on unemployment.” (Blanchard, 2006, p.16) Furthermore, the nominal wage rigidities capture “the speed at which nominal wages adjust to changes in prices” (Blanchard, 2006, p.16). In time of adverse shocks, the slower the adjustment, the more the government can use monetary policies to lower down the real wages by imposing inflation (Blanchard, 2006). Therefore both higher nominal wage rigidities and lower real wage rigidities can help bringing down the unemployment rate when the real warranted wages goes down. By implication, different levels of wage rigidities in different countries determine the performances of national economies when facing adverse shocks.

4. Change in the Unemployment Rates

In the Netherlands, due to high real wage rigidities and low nominal wage rigidities, the shocks in the 1970s severely hit the supply side of the economy. Fig. 1 shows a steep increase in the unemployment rate starting from the beginning of the 70s, and a related decrease in the participation rate.

A cause of the high real wage rigidities in the Netherlands in that period of time was the degree of centralization of the trade unions. While highly centralized unions like the case in Sweden are much easier to realize the need to slowdown the growth of real wages for the good of the labor market and thus to compromise with the
employers, the Dutch unions were not like that (Calmfors & Driffill, 1988, as cited in Blanchard, 2006). The Dutch trade unions were split up by different industries and firm scales and did not recognize the need to temporarily sacrifice the real wages in return for higher employment rates (A. Hemerijck, B. Unger, and J. Visser, 2000).

Also, the Dutch wage laws in the 70s had clear indexation rules which required wages to increase at the same rate of inflation. This rule decreased the nominal wage rigidities and as a consequence curtailed the possibility for monetary authorities to use inflation as a tool to cut the real wages. In sum, the situation that time in the Netherlands was not in favor of a flexible response to the impact of the adverse shocks on the labor market. And the result is what can be seen in Fig.1, a large increase in the unemployment rate in the 70s.

5. The Pro-longed High Unemployment Rates

However, until the beginning of the 1980s, already ten years after the initial macroeconomic shocks, the unemployment rates in the Netherlands did not seem to drop down. Contrary to the common view point that the rise in unemployment was only a cyclical phenomenon, the prolonged high unemployment suggested that there was actually a rise in the natural unemployment rate. Fig.2 shows the change of the inflation rates and unemployment rates from 1961 to 2006. If the increase in unemployment was only due to cyclical changes, then the unemployment rates in the 1970s and 1980s should have been swinging between the former natural unemployment rates, which were around 1% to 2% in the 60s. But instead of swinging between 1%, the unemployment rates in the 70s and 80s have an average of 7%. Fig.3 gives a much clearer picture of the change in natural unemployment rates. Using the Phillips curve to derive the natural unemployment rates in the 80s, we get a rate of 9.5%, an excessively high level of unemployment.
Some reasons provided by economists to explain the high natural unemployment rates in the 1980s include the effects of capital accumulation, insider bargaining, and the reinforcement by high unemployment benefits...etc (Blanchard, 2006; Holmlund, 2002). Due to the limit of scope of this paper, here we would not go deeper into these specific reasons, but focus more on the Dutch government’s attempt to solve the problems.
Recalled from the last chapter, two of the consequences of the Dutch corporatist policy making process are the high benefit level and the rather loose eligibility to enter welfare programs. And these two characteristics had great influence on how the Dutch authorities dealt with the high unemployment problem in the 1970s and 1980s.

First of all, while the cost of the other factors of production has risen, the unions insisted on the indexation rule of wage setting and thus pushed the cost of production and the overall price level high. The increasing price level again made it even harder for the unions to give up the indexed wages, forming a vicious cycle (Hemerijk et al., 2000). The higher wage level also increased the unemployment rates, and as more and more people became unemployed or reached the qualification of their insurance program, the amount of public transfer payment also became much higher (Hemerijk et al., 2000).

Moreover, due to the strict employment protection laws and the shorter duration of unemployment benefits payment, a popular alternative for firms to dismiss workers was through the worker’s disability insurance program, instead of the regular layoffs (Visser & Hemerijk, 1997). The lenient qualification of the disability insurance program further reinforced this situation. The results of this excessive use of the worker’s disability program were the low participation rates and the high dependent/worker ratio. In the end of the 1980s, of every six workers, one is “disabled” on the official record, a rate that was almost twice as high as of other major European countries (Visser & Hemerijk, 1997). This phenomenon was also known as “the Dutch disease”.

6. “The Dutch Disease”

The increased recipients of the welfare programs reflected directly on the sky-rocketed amount of public expenditures. From 1960 to 1980, the percentage of public sector’s claim on national income (GDP) has doubled from 30% to 60% (Hemerijk et al., 2000). And according to de Kam (as cited in Hemerijck et al., 2000, p.212), “this expansion was almost exclusively caused by sharply higher transfer payments to households and, in later years, rising interest payments.”

Together with the appreciation of the Dutch currency guilder, the wage (cost) growth and the accreting public budget deficit cast a gloomy prospect on the Dutch economy (Hemerijck et al., 2000). Capitals flew out from the country and CEO of different multinationals called for a change of policy. Though the Dutch government did recognize the stagflation problem, some attempts to restrain the unions are all failed due to strong union objections (Hemerijck et al., 2000). It was until the middle of the 1980s that some consensus was made by both the public and private sectors to reorganize the economy.
## V. Welfare Reform from the 1980s to the 1990s

### Table 2. Some selected Dutch welfare reforms

<table>
<thead>
<tr>
<th>Reforms (Selected)</th>
<th>Content</th>
<th>Impact on labor</th>
<th>Impact on employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Wassenaar Agreement</td>
<td>Recommendation to forsake wage indexation and use the savings for a cost-neutral reduction of working hours</td>
<td>Wage (-)</td>
<td>Labor cost (-)</td>
</tr>
<tr>
<td></td>
<td>Flexibility (+)</td>
<td></td>
<td>Flexibility (+)</td>
</tr>
<tr>
<td>Freeze public sector wages, minimum wages, related benefits</td>
<td>Decrease the real wages and thus reduce the public expenditure</td>
<td>Wage (-)</td>
<td>Labor cost (-)</td>
</tr>
<tr>
<td></td>
<td>Benefits (-)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>System reform in social security</td>
<td>Tightened eligibility and lowered guaranteed benefits</td>
<td>Bargaining power (-)</td>
<td></td>
</tr>
<tr>
<td>New linking mechanism</td>
<td>Indexation of min. wages and benefits depend on the I/A ratio (inactive/active)</td>
<td>Incentive to decrease the number of unemployed workers</td>
<td></td>
</tr>
<tr>
<td>The ‘New Course’</td>
<td>More organized decentralization and negotiated flexibility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equal rights legislation for part-time/full-time workers</td>
<td>Abolish residual differences in rights and fringe benefits</td>
<td>Encouraged to participate in part-time jobs</td>
<td></td>
</tr>
<tr>
<td>Reforms of the sick and disability program</td>
<td>Reduction of replacement rates, decrease in benefits, new medical examination. Compensated by extra legal supplementary benefits.</td>
<td>Bargaining power (-)</td>
<td></td>
</tr>
<tr>
<td>New sickness law of 1994</td>
<td>The wages of workers on sick leave are charged from the employer for the first year</td>
<td>Financial responsibility (+)</td>
<td></td>
</tr>
<tr>
<td>New Disability Act of 1997</td>
<td>Employers of occupational disabled workers either pay them 70% of previous earnings for five yrs or remain in the public system and share the risks of the whole industry</td>
<td></td>
<td>Incentives to invest in health and safety at work (+)</td>
</tr>
<tr>
<td>The tripartite administration of employment services</td>
<td>Replacing the former public employment services to increase the efficiency and effectiveness</td>
<td>Influence on employment service (+)</td>
<td>Influence on employment service (+)</td>
</tr>
</tbody>
</table>

Excerpted and arranged from the fifth chapter of “Welfare and work in the open economy” (Scharpf)
Table 2. Some selected Dutch welfare reforms (cont.)

<table>
<thead>
<tr>
<th>Privatization of administration agencies of social security</th>
<th>Reduce the abuse of social securities as means of industrial restructuring by unions and employer associations</th>
<th>Influence on benefits distribution (-)</th>
<th>Influence on benefits distribution (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active labor market policies</td>
<td>Intensify ‘activation’ obligations for the unemployed</td>
<td>Forced to enter lower level jobs or education programs</td>
<td></td>
</tr>
</tbody>
</table>

Excerpted and arranged from the fifth chapter of “Welfare and work in the open economy” (Scharpf and Schmidt, 2000)

1. The Three-track Reform

An overhaul of the Dutch welfare system was initiated by the Lubbers government in the year 1982. Considering the gravity of the economic and financial crisis, the government determined to bring out a three-track strategy of economic revitalization, fiscal consolidation, and unemployment problem alleviation (Hemerijck et al., 2000).

The first track of economic recovery is meant to be achieved by increasing the profitability of firms through means like reducing the labor costs of business, restructuring the industries, and casting less business regulations (Hemerijck et al., 2000). A policy focus here is on wage moderation, which will be explained below.

Also, regarding the second track of fiscal consolidation, an important task of the Lubbers government was to decrease the high level of public debts, a result of the excessive transfer payments to households and individuals. Therefore it implemented several policies to cut down both the level of payments and the number of benefit recipients, as well as reorganizing the administration agencies of the welfare benefits. These, too, will be discussed more thoroughly below.

Lastly, to cut off the high unemployment rates, the government resorted to two solutions, the flexible working time patterns like part-time jobs and the cost-neutral work-sharing plans and the active labor market policy (Hemerijck et al., 2000). We will later go deeper into these solutions.

Before going deeper to the reform led by the government, it is also necessary to mention some other sources that have helped the Dutch economy and labor market to recover in the same period of time. Three of them are worth mentioning here. The first one is the international economic recovery which gave the investments and working hour reduction some additional effects on work-sharing (Visser, 1999, as cited in Hemerijck et al., 2000). And the second one is the union’s awareness of the Dutch economic crisis and their chance to lose more jobs if the condition kept deteriorating.
They acknowledged the fact that in order to increase the jobs in the labor market, higher level of investment and thus higher profit for the firms were needed. And lastly, the natural gas income mitigated the effect of the high oil prices (Visser and Hemerijck, 1997). Also, worrying that the high labor cost would further weaken the manufacture industry, the unions agreed to compromise from their previous stance on strict wage indexation (Hemerijck et al., 2000). Their compromise made the wage moderation possible and what they asked for exchange—a reduction in working hour—also contributed to the prevalence of part-time jobs.

2. The Features of the Policy Reform

The welfare reforms led by the Lubbers government in its three terms of office had some common features. First of all, when the government contracted the level of benefits or the eligibility to welfare programs, normally there would be some compensation policies for those who endured the loss in the reform. Without compensation, the reforms were likely to be boycotted by the unions and the employer associations. The best example was the exchange of fewer working hours for wage restraints, and there were also some other compensating means like tax and social contribution reduction for workers and firms who bore the cost of the reforms (see table 2). Another example was the use of active labor market policy when restricting the number of recipients of unemployment benefits. This could also be viewed as a way to make up for the loss of unemployment benefits in the form of job training or less satisfactory jobs. The later on introduced “flexicurity” agreement was also a practice of this compensation concept. With more people participated in work-sharing programs and worked part-timed, the job security and rights of part-time workers has also been improved.

Another feature of the reform was the higher financial responsibility for employers and unions to support the recipients of the benefit programs. Some good examples of this higher internal responsibility are like the new I/A ratio linking mechanism, the New Sickness Law of 1994, and the New Disability Act of 1997 (details see table 2). These reforms shifted part of the risk of having more benefit dependents unto the employers and unions and thus encouraged them to cooperate in improving the participation rate, the safety and health of workers, etc (Hemerijck et al., 2000).

The third characteristic of the reform was a balance between the active and passive policies. While the policy focus of the unemployment problem had been on the economic relieving for those who were unemployed, during the time of reform, part of the focus has been shifted to activating those long-term unemployed and to improving the existed employment service. Measures like greater activating obligation and the restructuring of the employment service have been used (see table 2). And more resources were allocated for the local authorities for initiating activating projects (Hemerijck et al., 2000).
3. Wage Moderation

The wage moderation started from the Wassenaar agreement in 1983 that suggested unions to suspend wage indexation in return for reduced working hours. Recognizing the need for such compromising for the economy, most unions and employers agreed with the concession. In the same year, the government also froze the salaries, minimum wages, and the related benefits, and in 1984 cutting the public sector wages by 3 percent (Hemerijck et al., 2000). The immediate results were a 9 percent drop in real wages in 1985, and a 3 percent decline in public deficits between 1983 and 1986. Another effect of wage moderation the fall in inflation rate; in the mid-1980s, the inflation rates approached to near zero and thus relieved the unions from worrying about the indexation of wages and inflation.

4. Part-time Jobs and Cost-neutral Work-sharing Plans

The expansion of part-time jobs was the result of all the three factors: Changes in female’s working behavior, employer’s response to worker’s campaign for fewer working hours, and lastly the policy reform. During the time of recession, the Dutch women started participating more in the labor market, and without sufficient childcare facilities, they asked for more part-time jobs. Also, the overcapacity problem during recession made the firms willing to adopt more part-time jobs as a form of voluntary layoff (Hemerijck et al., 2000). The first boost of part-time jobs came from the two factors, and later on, the restriction of public budget reinforced the trend by creating more part-time jobs in the public sector (Hemerijck et al., 2000). Likewise, the Wassenaar agreement encouraged more work-sharing plans to come about, and more people right now participated in jobs with fewer working hours than before.

To make sure that the workers would not bear additional costs from their part-time jobs other than the decrease in income, the unions and the employers first set an agreement to abolish residual differences between full-time and part-time workers in their employment rights and fringe benefits, and then a formal law against discrimination between the two kinds of workers further reinforced the agreement (Hemerijck et al., 2000).

As a solution to the low participation rates and high unemployment rates, the use of flexible working time patterns in combination with the augmented protection on part-time workers was a typical case of the “flexible-security” approach used by the Dutch government.

5. Active Labor Market Policy

Beginning from the 1990s, the Dutch government started to put more effort on active labor market policy, targeting mainly on the youth unemployed and the long-term unemployed. Several measures like the creation of permanent jobs in the public sector, tax reduction, and subsidies for employers to hire the disadvantaged
groups in the job market were implemented (Hemerijck et al., 2000).

Also, the activation requirements in social security were reinforced. For all the newly unemployed, a job offer or an education program would be offered within the first year of unemployment for the purpose of social integration and avoiding long-term unemployment and the increase of discouraged workers (Hemerijck et al., 2000). The traditional monetary form of unemployment benefits was partly replaced by the form of job offer. Some five million guilders were put into this ‘integral approach’, showing how determined the Dutch government was in the activating programs.

6. The Three-tier Pension Scheme

The Dutch pension system has a reputation of better adapted to the flexible working time patterns of today’s job market. The three-tier design allows more flexibility in a worker’s job career, like part-time jobs and interrupted working experience, without having him/her worry about significant pension losses (Alber, 1998, as cited in Hemerijck et al., 2000). The system comprises three tiers—the flat rate basic public pension, the occupational-based obligatory pension, and the private non-compulsory pension. Provided that the occupational-based pension is only one part of the total pension scheme and that even it has adapted some measures to reduce the loss from flexible working patterns, the system is much friendly to a flexible job market. For the sake of a concise discussion, the detail of the pension system would not be provided here. Readers who are interested in this topic can refer to related works.

7. The Political Consequences

Of course, there was political price for such a big welfare retrenchment. In March, 1992, after the government resolved to restructure the sickness and disability programs, the unions set up the biggest protest after the war, shaking the ruling parties (Hemerijck et al., 2000). Later in the general election of 1994, the third Lubbers government, the Lubbers-Kok coalition, faced the discontent of the electorate. The ruling party CDA (Christian Democratic Party) lost nearly 40% of its seats in the parliament, and the new coalition government had to slow down its pace of reform (Hemerijck et al., 2000).
Fig. 4 shows a clear decline in the unemployment rates and a slow ascendance in the GDP growth rates from 1984 to 2000. Compare to the bleak economic situation in the 1970s and the beginning of the 1980s, the Dutch certainly has rid of the dismal. Some call it ‘the Dutch miracle’, an outstanding performance among its European fellow countries.

Some specific achievements include a 30% GDP growth between 1987 and 1996, a 5% decline in the transfer from government to the households, a 10% decrease in the share of government expenditure in the total GDP, a doubled female participation rate, and a surge in the service sector employment (Hemerijck et al., 2000). Some argued that the main cause of the growth was the wage moderation policy. It helped restore the profitability of firms by maintaining constant unit wage costs, supported export growth by decreasing the external exchange rate, and kept more people on the payroll as the effect of the first two. About two-third of the job growth between 1983 and 1996 was attributed to the wage moderation. In sum, the reform successfully formed a positive relation between price stability, fiscal consolidation, increased profitability, and part-time job creation in the private service sector, and thus alleviated the unemployment problem without severely harming the wholesome of the welfare system (Hemerijck et al., 2000).
VI. Discussion: the Short-term and Long-term Effects of the Policies

For the sake of the purpose of this paper, here the discussion will be limited to the effects of the welfare policies on the labor market: The wellbeing of labors, the process of economy restructuring and labor market adjustment, and the vitality of the labor market. And as the benefits of the reforms have been discussed above, here the focus would be on the effect of the welfare system and policies before the reform.

1. The Wellbeing of Labor

The generous benefits provided by either the unemployment insurance or the sickness and disability insurance have indeed financially relieved the unemployed families during the recession. According to Dreze & Sneessens (1997), those who are affected the most by cyclical unemployment are the lower-skilled labor, due to labor hoarding and the ladder effect in the labor market. And they are more associated to the lower-waged jobs. Thus, the provision of benefits from the insurance programs avoided the problem of poverty and huge income gap in the society.

However, these programs also deteriorated the participation rates. With massive number of workers retreated to the cover of sickness benefits and disabled benefits, the cleavage between the employed and the unemployed became larger, having a bad effect on social integration. Moreover, the long period of unemployment sometimes prevents the workers to go back to the labor market either because that they have lost their original working ability or their skill has not updated and cannot meet the need of labor market right now (Holmlund, 2002). Therefore the high benefit level reinforced the problem of unemployment, and subsequently cast a heavier burden of social contribution to those who are employed.

To solve the dilemma between social security and labor participation, a suggestion is that government applies the active labor market policies when there is a large inflow of the unemployed to the benefit programs. This was exactly what the Dutch government used in the reform in the 1990s and also what the Swedish government employed in the later half of the 1990s after a severe recession. However, if only there were a mechanism to call for the use of active labor market policies whenever an adverse shock disfavoring the labor market occurs, the problem of unemployment would be lessoned. And the suggestion here is that government should develop better links between the welfare programs and the economic prediction.

2. The Restructuring of Economy and the Labor Market Adjustment

Some scholars argue that the use generous welfare program actually helped the Netherlands go through the time of structural economic change more peacefully than the others, having lower incidence of social riots (Visser & Hemerijck, 1997). This implies two meanings. First is that the time period used for restructuring has been shortened, and secondly the costs on workers and employers have been reduced.
We can see from Fig. 6 that when the percentage of workers employed in the industrial sector dropped the fastest, from 1966 to 1984, it was also approximately the same time of the ‘Dutch disease’. A possibility is that when the benefit programs served as easy options to channel to redundant industrial workers out from their previous jobs, the speed of economic restructuring has increased. The smooth restructuring was done at the expense of a burdened public finance.

As mentioned above, the living condition of the unemployed was maintained to a certain degree by the related benefits. However, the provision of social benefits also blocked the chance for the labor force to adjust and to fit the new economic activities. Or say, a good proportion of the working force was now out of the labor market, without active retraining programs and stimulations from their job tasks, they lost the opportunity to go together with the new trends in the labor market. Furthermore, using the insurance programs as an alternative to a fundamental restructuring of the labor market prevented the market to develop a new institution that could last in the new economy.

We have seen that the insurance programs served as an alternative for the employers to layoff workers during the recession and to increase their flexibility in adjusting labor force. The need for more flexibility was indeed there, as firms must adjust to the new market situation, but the problem was that the strict labor laws did not give room for the flexibility to occur within the legitimized frame. The suggestion here is, for countries that do not want to give up a higher level of labor protection for good, there should be a temporary cut down of labor protection—an increase in flexibility—during times of intense economic structural change.

However, this usually requires a tedious negotiation between the trade unions and the employers. Like what we have seen in the Netherlands, it took the unions almost twenty years to realize that cooperation was needed to break the deadlock in the economy. Thus what more efficient is that the unions and the employer associations set a long-term agreement or committee that specifies the situations where compromise must be made between employers and workers. For example, when the cost of certain major production factors has risen to be relatively high in the global market and thus significantly changed the profitability of certain industries, the committee can call for a negotiation for wage moderation or reduced working hours. And there should be caps on both the degree labor bear the cost of the recession and the extra profit firms earned from the flexible arrangement. For the purpose of the committee, it should be composed of the representatives of labor union, representatives of the employer, and credible economists who forecast the need of the economy, and certified accountants.

Another choice is that the government took over the responsibility. Using the same kind of committee as before, the state can grants it the right to suggest additional funds for the rising unemployed population or reform in the pension system to support
the workers affected in the predicted economic structural change. However, the two mechanisms actually say the same story. If it is the labor and employers bear the cost of economic transition, the cost appears on the wellbeing of today’s generation. And if the government takes over the responsibility and by putting extra money into the special programs, the increased public debts will be cast on the future generations. Most of the time the policy is a combination of the two, but the point here is that a forecast should be made and be taken seriously through a permanent mechanism to avoid the cost of tedious negotiation during the times of adverse shock.

Take the Netherlands in the 1970s and the first half of the 1980s as an example. From Fig.5 and Fig.6 below, it is clear that the decline of industrial employment was faster in this period than before. The slope of the percentage of civilian employment in industry is steeper in that period of time (Fig.5). And Fig.6 shows that there are negative changes in the percentage of industrial employment from 1972 to 1984. If this trend of intense structural change is observed and predicted, and there is an established mechanism that links this trend with needed measures in the labor market to stable the market, it might have reduced the period of “Dutch Disease”.

![Fig.5 Employment composition—the Netherlands](source: OECD Statistics)
3. The Vitality of the Labor Market

Lastly, the effects of the welfare policies in the 70s on the wholesomeness of the labor market can be summarized as following. While it brought the Netherlands low participation rates and high unemployment rates, it also gave firms the higher labor productivity needed for competitiveness (Hemerijck et al., 2000). Later on, as a windfall, the gloomy economic situation resulted from the abuse of the welfare system provoked the cooperation between unions and employers and a successful wage moderation in the 90s. This extensive safety net also served as a base for the later on reform that there was enough for the reform to cut without severely harming the wellbeing of those affected by the reform.

As a response to these pros and cons of the previous policies, the reform in the 1990s reacted as such. As we can see, there were special measures taken by the Social Minister de Koning to take care of the poor and single-income families during the reform as to keep the welfare’s social benefits (Hemerijck et al., 2000). And the flexicurity policy was actually an attempt to legitimize the route to flexibility and yet bear in mind the balance on the labor side. Lastly, the reorganization of the three-tier pension system reallocated the financial responsibility to both the state, the firms, and to labor themselves in supporting labor under the new working time regime. In sum, the reform actually tried to keep the pros of the generous welfare system and to rid the cons.
VII. Discussion: the Dutch experience and Taiwan

1. The Changing Economy

The comparison between the Netherlands and Taiwan first appears to be hard because of the totally different social arrangements in the two countries. However, we do observe similar economic situation in today’s Taiwan and in the past experience of the Netherlands. While Fig. 7 shows that there has not been a major shift of employment from the industrial sector to the service sector, however some information is hidden in the constant share of industrial employment in the total employment. The industrial sector in Taiwan comprises two very distinctive business types: the high-tech computer related companies and the small and medium...
enterprises (SMEs). The increasing international competition has more adverse effects on the SMEs than on the high-tech companies; the latter is actually benefiting from its leading role in the foundry service in the hi-tech industry. Therefore the decrease in either SMEs or other sub-industries like mining and construction can well be compensated by the increased employment of the hi-tech firms.

However, Fig.8 and Fig.9 tell clearer stories. From 1995 to now, the percentage of workers who are unemployed due to business close-off or layoffs has risen from 20% of the total unemployed to around 40% to 50%. A great number of firms have moved to China or South-East Asia countries like Cambodia and Thailand in seek of lower labor and production costs.
As in the Netherlands, the deteriorating position of the firms is shown in an increasing unemployment rate, though the range of fluctuation is much smaller here. A main reason of a smaller change in the unemployment rate is that labor in Taiwan has very limited bargaining power due to the liberal economic policies. Neither a high degree of employment protection nor any generous unemployment program exist in Taiwan, and as a consequence, the workers are forced to look for a new job after being unemployed. This is more like the situation in the United States where the government has limited intervention in the job market, and the incidence of long-term unemployment is fewer.

Nonetheless, the labor market does react to the adverse shocks, but in a different way. According to Dreze and Sneessens (1997), the deterioration of labor market manifests itself in countries like the United States through lower real and relative wages, while in Europe it does it through a higher unemployment rate. And the decrease in relative income of the lower-end labor is what exactly has happened in Taiwan. Fig.10 shows a trend of increasing income gap between the richest and poorest families in Taiwan. The ratio has expanded more than 20% within fifteen years, indicating an increase in the number of working poor and a similar adverse shock in Taiwan as in the Netherlands.

2. The Small and Medium Enterprises

In order to reduce complication, the discussion about the labor market situation in Taiwan will only focus on the small and medium enterprises (SMEs). The number of registered SMEs in Taiwan is about a million, claiming a 97.6% share of the total firms in Taiwan. And there is around 78% of the total labor force now working in the SME sector (Lue, J.D., Chiu, J.H., & Chen, C.J., 2003). So it is not only convenient but also representative for here to limit the scope of discussion on the SMEs.

The SMEs sector in Taiwan is known for its high flexibility in export processing. Through its high flexibility in allocating labor, working times, production factors, and orders, this sector has brought Taiwan the high GDP growth rates in the 80s and the reputation of “the Asian Dragon.” However, the flexibility is built at the expense of weak labor protection. There are little regulations concerning the working hours and protection of employment. And due to the nature of the SME, it is very hard for workers to unite and establish labor unions to bargain with the employers (Lue, et al., 2003). The limited legal protection combined with little, if any, union activities in the SMEs, lead to a very insecure working condition.

In times of high production growth, the employment is rather sure in the SME. Yet in recent years, the intensive competition in the South East Asia and China made it harder for employer to maintain a stable contract with the workers. Like what the Dutch firms have done, the SMEs have also relied on the creation of part-time jobs to
reduce the labor costs (Lue, et al., 2003). However, this time it is without the same rights and protection. According to a general survey of the part-time workers (Council of Labor Affairs, 2000, as cited in Lue, et al., 2003), the proportion of employers providing labor insurance, health insurance, or other fringe benefits to part-time workers are mostly below 60%. The rise in part-time jobs is not a sign of higher labor market flexibility, for the flexibility was already high, but a deterioration of the workers’ rights.

3. Suggestions

Therefore, using the three-track reform scheme applied by the Dutch government in the past—economic revitalization, fiscal consolidation, and unemployment problem alleviation—some suggestions for Taiwan from the Dutch experience are presented below.

First of all, to have the unemployment problem stay on its natural level, which is quite low in Taiwan, the economy has be “revitalized”, in other words, to grow in steady rates. However, this task is far harder for today’s Taiwan than before due to the rising fuel prices and the expected global recession. And unlike the Netherlands, increasing the flexibility of the labor market is not an option for Taiwan for the degree of regulation is already low. Therefore the need to upgrade the existed SMEs to be more competitive and have higher value-added is even greater now. Due to the scope of this question on economic revitalization and the division of labor in the academic field, the paper will leave this question to the economists and focusing more on the next solutions on the social welfare side.

The second track of the Dutch reform was fiscal consolidation. What the Dutch has done was cutting the amount of transfer payments and thus decreasing the high level of public debts. Also, they have changed the form of some benefits from money to jobs or training opportunities. Although the total proportion of welfare expenses on the national GDP is lower in Taiwan than in the Netherlands, the design of the Taiwanese benefit programs make it also necessary for a contraction on the level of certain social payments. The existence of the different benefit programs today is sometimes the results of pork barrel politics and these programs have arguable effects on poverty alleviation. A typical case of such programs is the Old-Age Farmers’ Welfare Allowance which has no means-test in selecting recipients and costing 50 billion Taiwanese dollars (approximately one billion Euros) per year. Suggestions for reorganizing these different benefit programs into a consistent system has been there for years, but due to the fear of political results, no single party dares to push through the reform. The progress has been very slow and often thwarted. A suggestion is that while cutting down the amount of in cash benefit payments, what has been saved can be used to expand the existed active labor market projects for more workers.
Furthermore, the sustainability of the new public pension systems, the Labor Pension System and the National Pension System, is worth worrying. To give an example, the selection of the premium rate and the income substitution rate of the former is a result of political bargaining instead of an actuarial outcome. According to the Bureau of Labor Insurance, the rates that have been chosen now will lead to the bankruptcy of the Labor Pension Fund in no more than twenty years. The Dutch has suffered greatly from unrestrained benefit payments as means of political exchange. And with even tighter government budgets, Taiwan better learn from the Dutch experience and reexamine the design of its social welfare programs.

The third track of the Dutch reform is the use of “flexicurity” in labor market policies. As mentioned before, the degree of flexibility is already high in the SMEs sector, however without a matching degree of labor protection. And this is especially true for the increasing number of part-time workers (Lee, Chien-Hung, 2008). According to the Employment Insurance Act, those who are involuntarily switched from full-time to part-time jobs are not eligible for the unemployment benefits, and neither can they receive the allowance for participating in the vocational training programs. The design of the public employment insurance only compensates the loss of income for a very short period for those who are fully unemployed (from three months to six months), neglecting the growing risk of unexpected working-hour reduction. Moreover, the employment protection is weak for most part-time workers. For example, only 75% of the employers contribute to part-time workers’ pension account, 20% of the part-time workers receive birth allowance, and fewer than 50% get the mandated advance notice before lay-off (Council of Labor Affairs, 2007). Compared to the great flexibility, the degree of protection is far behind its level under the “flexicurity” principle.

A suggestion is that the criteria of receiving benefits from the Employment Insurance to be amended. It should include those who are involuntarily switched from full-time to part-time jobs to fulfill its purpose of risk-sharing. The definition of “unemployment” right now has limited the percentage of total labor receiving benefits from the Employment Insurance (Table 3) and consequently the level of benefit payment is far below the level of premium collected every year (Table 4). Therefore it is not only rightful but also financially feasible to support the increasing part-time workers by the Employment Insurance.
Table 3. Percentage of workers who have received unemployment insurance benefits

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>4.5%</td>
</tr>
<tr>
<td>2005</td>
<td>5.2%</td>
</tr>
<tr>
<td>2006</td>
<td>5.7%</td>
</tr>
<tr>
<td>2007</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Source: Labor Statistics Database, Council of Labor Affairs

Table 4. The amount of Employment Insurance benefit payments as a percentage of total premium received annually

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>26%</td>
</tr>
<tr>
<td>2005</td>
<td>30%</td>
</tr>
<tr>
<td>2006</td>
<td>33%</td>
</tr>
<tr>
<td>2007</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Labor Statistics Database, Council of Labor Affairs

Although the enactment of the Employment Insurance Act in 2002 has paved the way for a number of active labor market projects, such as the Program to Expand Employment in Public Services and the Diverse Employment Development Project, the coverage of these projects has been limited to those who are full-time unemployed (Lee, Chien-Hung, 2008). This is another example of the unequal protection toward the part-time workers who have also endured income loss due to involuntary work hour reduction. Following the “Non-Discrimination” principle used by the Dutch to prevent discrimination of rights between full-time and part-time workers, the rights of the latter to receive a fair degree of income compensation and to join related employment programs...
VIII. Conclusion

In sum, to answer the three questions raised in the beginning, we have found that the evolution of the Dutch welfare system has unintentionally led to a smoother restructuring process and a burdened welfare state during the 1970s and 1980s. The workers were greatly channeled to the insurance programs and through this the firms have gained a higher flexibility to reduce labor costs and to increase their productivity. The later reform of the welfare system has tried to keep the benefits of the old system while rid its harm. Through labor market agreements and law reforms, the flexibility was maintained and the security of workers under flexible working plans was assured. Active labor market policies were introduced to avoid the abuse of welfare benefits, forcing workers to participate in the labor market. The level of protection of the unemployed did not significantly drop, but switching from monetary forms to job and training opportunities. Unemployment rates decreased, participation rates boosted, and the economy regained high growth rates.

The economic shocks experienced by today’s Taiwan and the past Netherlands are similar. Although differences in their social and political conditions exist, there still are lessons to learn from the Dutch experience. First of all, the different welfare benefits should be rearranged into a consistent system to avoid pork barrel politics, complication of the system, and unnecessary public expenditures. Secondly, since the increase of part-time workers is inevitable in a changing economy, their job security should be more concerned in related laws and official documents, especially when the level of employment flexibility is already high. The government should soon amend the related labor laws like the Employment Insurance Act and grant these workers equal rights to public services and benefits.

Lastly, we can see from the Dutch experience that special care and extra expenditure for the labor market in a changing economy is unavoidable. It should be seen as a necessary evil for smoothing the restructuring process and be used deliberately. However, a way to keep off redundant costs is that the mechanism of cooperation between employers, labor, and the government is standardized and normalized for periods of significant economic changes. Without lengthy negotiation, the restructuring process can be accelerated and costs less to the economy.
Reference


