

# M<sub>yth</sub>

## and Reality of the Polder Model



The Dutch 'polder model' for running the national economy appears to be attracting a sizeable following. Some people even talk of a 'Dutch miracle' (Visser and Hemerijck, 1997). This article will explore whether 'economic model' and 'miracle' are the appropriate terms here, or whether it would not be more accurate to regard the 'polder model' as a myth.

When compared with the surrounding countries, the Dutch polder model stands out through its strong employment growth and resultant low unemployment, low interest rates and small budget deficit.

The chief instruments used to construct the polder model are pay moderation, tax cuts, reductions in government deficits, withdrawal of the government in favour of market forces and increased flexibility in the labour market. The atmosphere in which this policy is pursued is neo-liberal. This can be made clearer by mentioning a couple of measures which have been discussed within the present government coalition, but which have not made it to the statute book. The first is the reduction or even abolition of the minimum wage, the second the proposed abolition of the binding nature of collective labour agreements. Both are measures which would lead to an increase in inequality.

This article will examine in broad outline whether the favourable results really are so favourable, and whether they have been attained through conscious policy or through chance or other external factors.

First, a few words about government spending cuts. These have indeed been made. But they have demanded a high price, which must be deducted from the positive side of the balance sheet. Social security benefits have been reduced, eroding financial security and even creating poverty among recipients. In this sense the divisions in society have been given a 'positive' boost by government policy. This is strange, because the government's avowed aim is precisely to combat poverty. This doesn't add up, therefore. There have been other spending cuts, too. For example, spending on education has shrunk considerably as a percentage of national income. There could be a heavy price to pay for this later, because education is 'human capital' and thus an investment in the future. We have therefore no cause to

be proud of cuts such as these.

The growth in gross domestic product in the Netherlands averaged 1.83% per annum in the period 1987-1994. This compares with a figure of 1.11% for North-Western Europe generally, 1.5% for the European Union and 1.32% for the OECD as a whole. The Netherlands thus appears to be the champion performer. Nothing could be further from the truth, however. These figures take no account of the number of people in work; if we factor this into the calculation, we obtain the increase in GDP per hour worked. For the Netherlands, this figure then turns out to be 1.4% per annum in the period referred to, compared with 2.05%, 2.31% and 2.13%, respectively, in the other regions (Delsen and De Jong, 1997). This time, therefore, the Netherlands is limping along at the bottom. To a large extent this is caused by the low productivity of the new jobs, which has caused a substantial reduction in the lead over the foreign competition: whereas the level of productivity in the Netherlands in 1987 was 15% higher than in Germany, for example, by 1994 this lead had fallen to 10%.

The apparent high productivity of Dutch workers is to some extent a deception. A major cause of this is that relatively large numbers of people who are not (or no longer) so productive have ended up in the ranks of the unemployed or incapacitated for work, or have taken early retirement. Only the strongest then remain; per capita productivity then goes up, but the costs of paying benefits are also enormous. The high level of productivity, then, appears to be an asset, but this is by no means the case in every respect.

### **Not all jobs are 'jobs'**

The growth in the number of jobs is described as the greatest success of the polder model. A distinction needs to be made here between full-time, part-time and flexible jobs.

Where employees prefer to work part-time, there is in my view little negative to be said and a good deal that is positive. By making their choice they are after all serving their own well-being best, otherwise they would have a different preference. This view is not shared by the Amsterdam professor B.M.S. van Praag. He is so spellbound by the desirability of ever more production that he completely loses sight of the fact that the production of goods and services is a means, not an end. The end, surely, is the well-being of the citizen, and that well-being can be very well served by less production but more free time, attention for others, rest, personal development and many other aspects of well-being. Allowing the economic aspects of life to dominate everything else typifies our times and is also a characteristic of the polder model, in which far too many things are seen purely or mainly in a narrow economic sense. It would be better to keep our eye fixed on public well-being instead of being mesmerised by the misleading criterion of gross national product per head of the population.

Flexible jobs include standby, reserve and relief workers, as well as temporary staff and employees with contracts shorter than one year. These now account for more than 10% of the total number of employee jobs (Delsen and De Jong, 1997). The jobs growth can be portrayed as follows:

Period	Full-time		Part-time		Flexible		Total	
	Number	%	Number	%	Number	%	Number	%
1987-1993	106,000	16%	437,000	66%	117,000	18%	662,000	100%
1994-1996 Q2	54,000	20%	115,000	39%	106,000	39%	275,000	100%

Source: *Delsen and De Jong, 1997*

The figures show that the number of full-time jobs grew least in the period 1987-1996 (second quarter), rising by 160,000. This largely explains the relatively small decline in unemployment. The number of part-time jobs rose in the same period by 542,000, and the number of flexible jobs by 223,000. Delsen and De Jong conclude from these figures that 60% of the recent jobs growth in the Netherlands is made up of 'marginal jobs'. These are highly sensitive to economic developments, which means that in the event of an economic downturn, the Netherlands will immediately be confronted to a greater extent than its neighbouring countries by rapidly rising unemployment figures. A substantial proportion of the workers with part-time jobs will then (once again) become unemployed. Poverty and exclusion will then be lurking on the horizon.

A further cause for concern is the fact that in the most recent period the number of flexible jobs increased strongly, from 18% of the total in the period 1987-1993 to 39% in 1994-1996 (second quarter). These flexible jobs are of poor quality, however, and place the worker in a weak position. In other words, the growth in employment in the Netherlands is moving in the wrong direction. And while it may be true that a bad job is always better than no job at all, we certainly cannot speak of an employment miracle.

Unemployment among specific groups, such as ethnic minorities and the unskilled, is much higher than average. A relatively large proportion of the unemployed have also been jobless for more than a year. The labour market participation rate of women is still low, while older workers are leaving the jobs market in droves: 40% of those in the 55-59 age group participate in the labour process; in the 60-64 age category the figure is only 11% (Van den Brink, 1997). It could almost be concluded that people end their active careers in the Netherlands at around age 60. Changing this will not be a simple matter.

Looking at this state of affairs, the least we must conclude is that the polder model still needs a great deal of work before we can speak of an economically healthy situation.

The fact that the unemployment rate in the Netherlands is so low is caused largely by the very restrictive definition of unemployment. The following groups, for example, are not included: those seeking work via a temporary employment agency; those who have been exempted from the job application obligation, such as single mothers on national assistance with young children and people aged over 57; those who are incapacitated for work, who in reality are partially unemployed, but have been placed wholly among the ranks of the invalidity benefit claimants; those following a retraining course; those covered by the Youth Work Guarantee plan; and those with a so-called Melkert or 'additional' job. These jobs, which carry the name of the Dutch Minister of Social Affairs and Employment, Ad Melkert, are filled by the long-term unemployed, for whom something is at last being

done. Finally, the national assistance scheme covers not only mothers with young children, but also a degree of hidden unemployment.

No-one knows precisely how many people are unemployed, particularly if the hidden jobless total is included. It is estimated that they account for 25% of the labour force, considerably more than in the 1930s when the situation was rightly described as disastrous.

The increase in employment does not mean that the number of benefits – and thus the social security burden – is falling at the same rate. A third of those with a new job were not receiving benefit before starting it. The number of national assistance benefits, which accounts for a part of the hidden unemployment, is hardly falling at all. The same applies for those on invalidity benefit. In total, there are some 1.7 million benefit claimants covered by one of the three schemes referred to.

The influx into invalidity benefit has not increased. This in itself says something positive about the policy, even though the price paid (a reduction in benefit entitlements) is high. It remains to be seen what the outcome of this will be in the future. The very high outflow from the labour market of somewhat older people is not occurring because people enjoy working so much: rather, it becomes too much for them, there is too much stress and people have had enough. Increased flexibility and demotion will further exacerbate this negative view of work. It is extremely doubtful whether making everything more flexible and faster will be enough to halt the early exodus from the production process. We do not believe it for a minute.

There are a number of important exceptions to the idea that there is a general consensus regarding the policy. The changes to the invalidity benefits scheme in 1991 met with great resistance from both employers and employees. The Prime Minister, Wim Kok, had to threaten resignation in order to persuade his party to accept the changes. But there are also major objections within the socialist PvdA party to other main lines of policy (see Berkouwer and Hoogerwerf, 1997). Survey after survey has shown that the dismantling of government provisions can *not* count on majority support among the population. Naturally, there is general agreement on the need to reduce unemployment. There is no agreement at all, however, regarding the way in which this should be done. The trade union movement, for example, is committed to a reduction in working hours. There is no provision for this anywhere in the polder model. There are also wide differences within the ruling coalition regarding the policy to be pursued, for example on the minimum wage. Wim Kok has so far skilfully managed to extinguish each of the fires that keep breaking out, but that does not stop disagreements continually coming to the surface.

Summarising, therefore, there is only slight evidence of a broad consensus regarding the policy to be pursued.

### **Pay moderation**

Voluntary pay moderation has had a number of consequences. For one, companies have seen their profits increase. Here the trade union movement has made things very easy for employers. It is after all also possible that low profits might have stimulated employers to make investments which would in turn have led to better corporate results. According to the Delft professor Kleinknecht (1996), higher wages would also have resulted in more productive behaviour by employers. The ideas of Schumpeter can be recog-

nised in these views: it is challenges that lead to new, productive methods, not the indolence fostered by high profits.

Pay moderation by definition leads to lower income and thus to reduced demand for goods, which in turn results in less work. In this sense, pay moderation is its own worst enemy. On the other hand, the extra profits are sometimes – though by no means always – also ploughed into the domestic economy. We shall return to this shortly.

Reference has to be made in this connection to the ‘fallacy of composition’ regarding pay moderation (Garretsen, 1997). If *all* trading partners had moderated their wages, the demand for products would have fallen so much that there may have been no recovery in employment. What may be good if one country does it, therefore, is by no means always good if all countries do it. In other words, the Netherlands has been a ‘free rider’ with its policy, at the expense of its trading partners.

There is a generally accepted rule in economics that increases in wages must keep pace with increases in labour productivity. If the latter rises faster than the former, the share of wages in the national income falls and the share of profits rises. This has indeed occurred in the Netherlands. However, a proportion of those extra profits has been invested abroad; to this extent, therefore, pay moderation in the Netherlands has had favourable economic consequences, but not in the Netherlands itself, where the sacrifices were made.

Pay moderation has thus undoubtedly contributed to the recovery in employment, but this has been ‘paid for’ by Dutch workers and by the Netherlands’ trading partners. On the other hand, other countries have also benefited from profits and investments from the Netherlands.

### **Flexibility is not necessarily better**

Increasing globalisation is an argument often used by the Dutch government to demonstrate the need for flexibility in the economy in general and the labour market in particular. That globalisation is indeed a genuine phenomenon, though a limited one. The countries of the West are increasingly specialising in services. Export of these services is not simple, and is not rising particularly strongly. The vast bulk of the trade of the countries of the European Union is with each other and with other rich countries such as the US, Canada, Australia and Japan. The trade with the Visegrad countries (Poland, Hungary, the Czech Republic and Slovakia) can serve as a concrete example here. Wages in these countries are only a fraction of those in the European Union. If the trade between the EU and third countries is set at 100%, then only 4% of this relates to the four Visegrad countries. The reason for this lies in the relatively low labour productivity in these countries, the poor quality of their products and the weakness of their marketing.

In spite of this, the short-term future of the low-wage countries lies in industrial mass production. The rich countries will have to live off their knowledge. There will be fewer and fewer jobs for unskilled workers in these countries; dropping out of school will therefore increasingly lead to unemployment and social deprivation. Schools will have to set more stringent standards; however, the ‘permissive society’ and the lack of a system of rapid sanctions too often leads to a lack of commitment in this respect. The Dutch Minister of Education, Jo Ritzen, is trying to do something about this, and more of this type of policy will be needed, while the sanctions on insufficient effort will have to be increased.

Because of the displacement of the lower-skilled by the highly educated on the jobs market, the overall demand for products must be such that there is a job available for everyone who wishes to work. Anyone who does not *want* to study or work will have to take care of themselves.

The demand for products can only be adequate if the policy is geared to this. No country in Europe can achieve this on its own; a genuine European government is essential here. The current employment policy of the EU is in reality an empty shell, however. The politicians need to learn to think big; otherwise the unemployment problem cannot be solved. The French Prime Minister Jospin has taken a lead in this respect, and his initiative deserves support. The disastrous consequences of the narrow thinking which we also saw in the 1930s are otherwise in danger of being repeated.

'Flexijobs' have disadvantages for both the employee and the employer. They do have some advantages in the short term, but only for employers. In the long term, employers do not invest in their flexiworkers, because they may never see them again. The same applies to the flexiworker: every day in his or her job may be the last. This hardly promotes an affinity for work, nor loyalty to one's employer. Flexiworkers are not really interested, and are in fact constantly searching for permanent jobs.

The same consequences can be expected from increased mobility. People will stay with the same employer, and especially in the same post, for only a short time, but disintegration will be the result. The business loses all stability; everything has to be learned over again because the experienced people have left. In time, this lowers the quality of the work. This view is supported by research in the field.

Better utilisation of labour is put forward as being a benefit of increased flexibility of the labour market. Labour, it is argued, can be deployed more rapidly where it is most needed, or where it produces the highest returns. This higher productivity leads to higher wages and profits and more rapid growth of the organisation.

The disadvantages of this increased flexibility are also well known: it encourages short-term thinking and actions. One consequence of this is that investment in human capital is discouraged – while it is precisely this investment that is so vital for the economically developed countries.

Kleinknecht *et al.* (1997) report on research showing the consequences of increased flexibility. The authors distinguish between knowledge-intensive and knowledge-extensive companies. In the former the high mobility of workers has little effect: the average wages paid in a company, its profits and its turnover growth are not systematically affected. The reason could be that a good deal of knowledge held by individual workers is lost by the constant job-changing.

In knowledge-extensive companies, a steady influx and outflow of personnel pushes down average wage levels and boosts profits. The former is disadvantageous for workers, while the latter does not generate a single job. Kleinknecht *et al.* see a possible explanation for this in the fact that the extra profits do not lead to extra investments and thus do not result in extra economic growth.

Kleinknecht *et al.* conclude on the basis of the foregoing that a more efficient system of market forces has major disadvantages, particularly for knowledge-intensive businesses. Knowledge can largely be characterised as

a collective asset. This can produce favourable consequences for society, which cannot be rewarded via the market. The result is a shortfall in knowledge.

Innovative companies in particular have to continually renew their knowledge. The term often used for this is 'learning organisation'. Much of this knowledge is contained in people's heads, however; if they change their jobs, that knowledge is lost.

All in all, according to Kleinknecht it is very debatable whether, on balance, a more flexible labour market is such a blessing.

## **Retreating government**

The neo-liberal polder model increases the scope for the individual and reduces that for collective or community action. The choices available to the individual have to be increased, while the government must pull back and take a smaller slice of the national resources.

Underlying this increase in the role of the individual is the glaring misunderstanding that social order will be best served if individuals are allowed as much freedom as possible. This is very foolish reasoning: things can be going very well for individuals but very badly for society as a whole – all the more so if the main interest of the individual is defined primarily as an increasing per capita income. In her 1997 Christmas message, Queen Beatrix indicated in a striking manner where society is going if only short-sighted individual interests are served. While she noted a great increase in wealth, this is accompanied by a lack of time for one's neighbours, material advancement rather than genuine progress, averting one's eyes from poverty, environmental destruction, erosion of community spirit and the production of useless things for a throw-away society. The result is erosion of the quality of existence and indifference to the environment we share with others. People become entrapped in the illusion that they can be happy in an unsafe, egotistical environment.

The phenomena highlighted here are very broad, and are not attributable only or even mainly to the polder model. The excessive emphasis on the individual which emanates from the neo-liberal polder model, however, contributes to an undesirable development.

The withdrawal of the government is the first step in the dismantling of the welfare state. This leads to a reduction in social cohesion, which means that more weak groups fall through the net, and more quickly, and become marginalised. The more market forces are given their head, the more inequality, the more uncertainty of having or keeping a job, and the more poverty there will be (*The Economist Review*, 13 December 1997, p. 7).

It can be said without much exaggeration that the polder model is based on the neo-liberal model which sets such great store by more free market operation, lower inflation and government spending cuts. Holes have been shot in this bastion recently, leaving it nothing more than a ruin. The following examples can be cited (largely taken from Van der Zwan, 1997).

In its 1995 annual report, the International Labour Organisation (ILO), based on a detailed statistical analysis, expresses the view that liberalisation of the labour market does not produce the envisaged effects in practice.

The Organisation for Economic Cooperation and Development (OECD), by no stretch of the imagination a socialist umbrella organisation, concludes in its *Employment Outlook* for 1996 that the traditional plea for more mar-

ket forces is not a panacea for curing the structurally increasing unemployment. UNCTAD, the UN organisation for trade and development, warns in its 1996 *Trade and Development Report* that government economies and the anti-inflation policy have a deflationary effect and thus pose a threat to the growth of world trade and employment. As regards that inflation, the highly respected monetary economist Stiglitz recently claimed that a moderate rate of inflation is not bad for growth. It is in fact good for the economy because wages adapt more easily. This is in line with the ideas of the Nobel Prize winner Tinbergen, who died in 1994 and who in personal interviews always defended the view that a moderate rate of inflation was good for ensuring the greatest possible utilisation of the production apparatus, and thus for full employment.

### **Prosperity or well-being**

So far, the underlying objectives of the polder model have not been discussed at all. Why *does* everything have to be more, faster, more effective, bigger, longer, longer open, more flexible? The answer is: so that ever more goods and services can be consumed. But almost no-one talks about the price of this prosperity which is not prosperity at all, but at best a sham prosperity. It has after all long been known that people measure their own prosperity by that of others. If everyone moves ahead by the same percentage, everyone's prosperity remains the same. But what about everybody's well-being? I do not think so. The fast, flexible 24-hour economy also has many negative aspects which are never deducted from the growth calculations. A flexijob means that you can no longer count on a steady income, and thus on being able to obtain a mortgage. Family life suffers because of flexiwork, and sometimes so does the day of rest which everyone needs, leaving aside any religious motives. The environment is harmed, the stock of raw materials shrinks. The higher pace of everything causes more and more stress. Already 30% of those newly declared incapacitated for work are suffering from stress. The claim that work is so pleasant and provides so much status is highly relative: as soon as people are reasonably able to leave the process, the vast majority do so. The enormous influx of older people into unemployment, disability and early retirement schemes speaks volumes here.

In 1996 60% of employees stated that they worked under high pressure of time. Virtually all groups suffer as a result, but the highest educated suffer most. Almost 70% of those with a higher professional education background work under high levels of stress, and the figure for university graduates is almost 80% (*Economisch Statistische Berichten*, 19 November 1997, p. 891). These percentages are much too high from the point of view of public health. It also does not take a great deal of imagination to make a connection between these percentages and the massive early exodus of employees as soon as they get the slightest chance.

Even the underlying objectives of the polder model, therefore, are highly controversial, with the exception of increased employment. This latter objective can however also be achieved without the unpleasant side effects mentioned above. The growth in prosperity will then be less, but this will be more than offset by the growth in well-being.



## **Father Christmas doesn't exist**

Following the Second World War, the policy of increased spending was popular everywhere, based on the work of Keynes. His analysis has not proved incorrect, but rather incomplete. As regards the demand for goods, his insights are still up to date. If there is sufficient demand but insufficient supply, inflation and stagnation are the only result. And insufficient demand for goods arises if there are insufficient workers actually participating in the production process. Precisely this latter phenomenon is what has occurred. Many of those who have taken advantage of the social provisions did so unjustifiably or were insufficiently willing actively to seek suitable work. The demand policy does not work under such circumstances.

This very brief portrayal of the situation in fact also traces the outline of an alternative to the polder model. This consists in increasing effective demand on the one hand and the supply of labour on the other. This supply must come mainly from people now receiving benefit, such as the unemployed, the incapacitated for work or those who have taken early retirement. This requires an employment generation policy and tough action against lead-swingers and those unwilling to participate. They must receive no benefit at all.

Support for this alternative can be found in the literature. With regard to the demand side, I would refer to Mogdiliani, who points out that monetary policy has been much too tight, leading unnecessarily to a huge collapse in demand. The tough approach to unemployment is supported among others by Hartog (1997); in his view, it is perfectly acceptable to encourage people to get used to work and a business-like environment by '*ramming the message home with heavy financial sanctions*'. The language is clear enough.

Can the polder model, in so far as it exists, now be declared useless in all its parts? No. A great many measures have been implemented over the years which were both useful and necessary. I shall list a few.

From the early 1980s onwards, the policy of the government was focused on restoring company profits. This was urgently needed: inadequate company earnings led to a lack of investment and forced many businesses to close.

Another positive achievement is the reduction in the government deficit. During the boom, these deficits could not be defended in any way, not even by referring to Keynes. The steadily rising interest rates, which led to an ever-increasing national debt, put more and more government spending items under pressure, with negative consequence for well-being. Later, these spending items were again reduced in order to make room for tax cuts. The reduction in the government deficit could also have been achieved in another way, by raising taxes instead of reducing spending. There are many arguments in favour of this, in view of the increasing income inequality which has resulted from the tax reductions.

Another positive achievement is that the vastly excessive use of the invalidity benefits scheme has finally been placed on the agenda. As demonstrated earlier, the success of this policy has so far been slight, and the direction chosen is debatable. However, the increasing use of the invalidity benefits system is no longer accepted. A final positive achievement worth mentioning is the creation of the 'Melkert jobs'.

To summarise: there is no such thing as a polder model as a special and co-

hesive whole (a sort of 'grand design'). The policy as pursued has certainly produced some results, but many of these appear temporary and questionable. The downside is not included in the calculation - a technique which makes it easy to describe any policy as successful. In addition, some positive results have arisen by chance or through causes which have nothing to do with any influence by the Dutch government.

The polder model, then, is a myth. This does not mean that the policy was totally wrong; what it does mean is that there is no such thing as a universally applicable recipe which can be exported to other countries. The disastrous economic situation of the early 1980s could not continue. It was right that there should be a radical change of course. Many measures have been and are being announced with which we heartily agree. However, the improved situation has exacted a high price. Father Christmas simply does not exist in the economic world. There is currently a danger that the equally non-existent polder model will be described as a miracle.

JAN BERKOUWER

*Translated by Julian Ross.*

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