

IZA COVID-19 Crisis Response Monitoring:

# Netherlands

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According to your knowledge, how do you assess the following issues:

- 1. The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms:** According to early information, who is affected the most? What do you see in terms of sectoral employment reactions, and regarding permanent, fixed-term or agency workers? Are current figures/estimates more or less in line with earlier forecasts or are there some unexpected/surprising deviations?

The latest data from Statistics Netherlands (March 2020) shows only a limited drop in employed persons (-17 thousand persons, Figure 1 left), no change in the unemployment rate (which remained at a record low 2.9%) and hence a small drop in the labour force participation rate.<sup>1</sup> The limited drop in employment is in part due to the special policies that were enacted or expanded (see below). Some people still have lost their job though, according to a recent survey about 10% of agency workers have lost their job, and people with fixed-term contracts are likely to be overrepresented in the increase in unemployment insurance benefit recipients which increased by 10 thousand benefits. However, there has been an unprecedented drop in hours worked per week. After the lockdown mid-March, hours worked per week dropped by 13%, and have remained at that lower level in April (Figure 1 right). Particularly large was the drop in hours worked in the catering industry (-48%), the cultural sector (-35%), retail (-18%) and transport and communication (-12%). The drop in hours was more pronounced for self-employed (-24%) than for employees (-12%), for women (-16%) than for men (-11%) and for low educated (-21%) than for high educated (-11%).

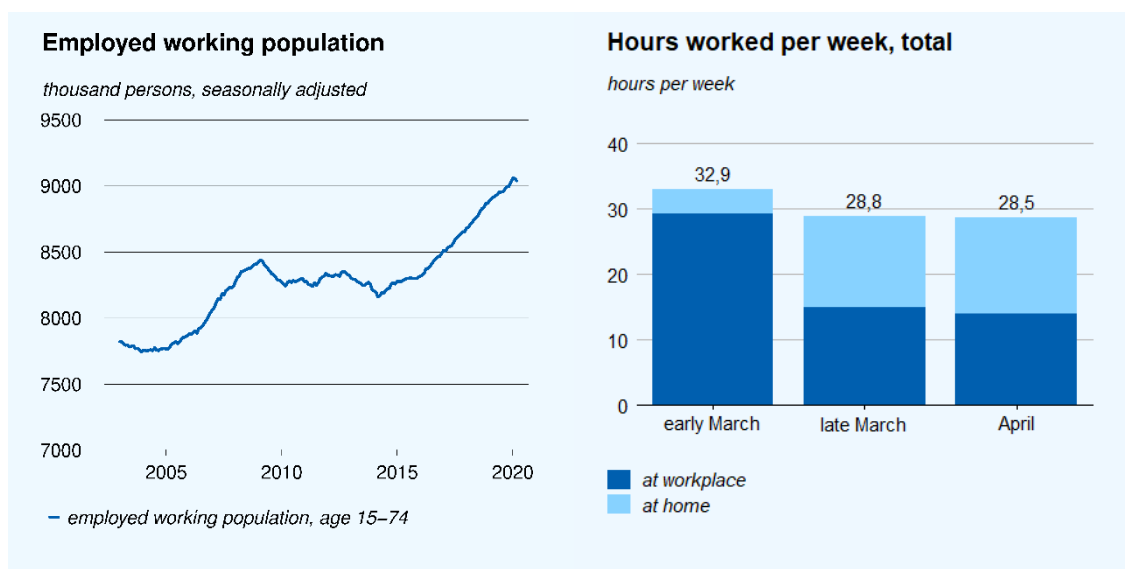
We still have to see if the drop in hours worked will rebound to some extent in May and June, but the upcoming recession is more likely to be closer to the more severe scenarios published by CPB Netherlands Bureau for Economic Analysis (CPB) than to the milder scenarios.<sup>2</sup>

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<sup>1</sup> An overview of recent labour market developments in the Netherlands can be found in Jongen *et al.* (2020).

<sup>2</sup> See CPB (2020) for the COVID-19 scenarios for the Dutch economy.

**Figure 1 Employment in persons and hours worked per week**



Source: Statistics Netherlands (employed, up to and including March 2020) and LISS-panel (hours worked).

**2. The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 (as listed in the OECD inventory):** Is this summary appropriate? Have there been most recent changes or new initiatives? How do you assess the overall policy set adopted so far? Have certain aspects or target groups been neglected in the policy packages adopted?

More than 20% of all workers in the Netherlands are now in one way or another dependent on the special support policies that were enacted or expanded. By the end of April, 114 thousand firms with in total 1.7 million employees (21% of all employees in the Netherlands) have claimed short-time work subsidies (*NOW*). Firms that have a drop in sales of more than 20% can get a subsidy of 90% of the wage bill that corresponds with the drop in sales. Furthermore, there is a penalty in the subsidy scheme when people leave the firm. 350 thousand self-employed (23% of all self-employed in the Netherlands) have claimed a special form of welfare from municipalities (*Tozo*). This special form of welfare does not depend on partner income or wealth. Firms and self-employed could initially claim the *NOW* and *Tozo* for 3 months, respectively, from March onwards.

The government is currently considering an extension of the *NOW* and *Tozo*. They are considering dropping the penalty in the *NOW*, to facilitate the reallocation of workers.<sup>3</sup> Furthermore, they are considering introducing a partner income test in the *Tozo*, to target the special welfare more at individuals with low household income.

The focus of the Dutch government with the *NOW* and *Tozo* was on getting support to firms and workers quickly. This has kept individuals out of unemployment, at least for the time being. This is generally considered to have been a timely and successful initial

<sup>3</sup> Indeed, e.g. Cahuc (2019) and Krugman (2020) note that short-time work arrangements like the *NOW* work best for a short-lived V-shape recession, but inefficiencies due to reduced reallocation will increase as the recession is more likely be U-, L- or 'Nike-swoosh'-shaped.

policy response.<sup>4</sup> Now the government is looking into whether the policies can be made more targeted, to reduce the deadweight losses, and to mitigate adverse incentives for reallocation and working hours. Furthermore, concerns have been expressed that the special support policies may fail to protect persons with fixed hours, agency workers and seasonal workers. The government is currently looking into ways to support these groups, via targeted social insurance.

- 3. Regarding policies providing immediate liquidity to small firms and freelancers:** How do you see the actual take-up of support by small firms and self-employed? To what extent do the measures in practice help mitigate the economic impact of COVID-19? How do you see the delivery and implementation by public agencies and other entities, taking into account the trade-off between quick delivery and deadweight losses or misallocation?

As noted above, some 23% of self-employed have claimed the special welfare benefits (Tozo), which runs through the municipalities. Self-employed can claim the special welfare benefits from March, actual transfers have started in April. The government chose for quick delivery in the first installment of the Tozo, which was independent of wealth and partner income. There is no information on the extent to which these measures have mitigated the economic impact of COVID-19 on self-employed yet.

Small firms can also use the NOW for their employees. In addition, in selected sectors that are hit particularly hard, firms can get a one-time subsidy of 4 thousand euro (TOGS). By mid-April, about 25 thousand firms received the TOGS. Again, speed was considered to be of the essence. Furthermore, all firms can delay paying their taxes and many firms can also delay payments on their loans. There is no information on the extent to which these measures have mitigated the economic impact of COVID-19 on small firms yet.

- 4. Regarding dependent workers:** How do you assess the effectiveness of unemployment insurance and short-time work in stabilizing income and jobs at the moment? To what extent do short-time work measures help reduce or postpone inflows into unemployment (and for whom)? Is this being complemented by sectoral or firm-level agreements? What is known about the support delivered to job seekers now? Has activation by ALMPs come to a halt?

So far we have witnessed a limited decline in employment in persons, and a limited rise in unemployment insurance claims. This is generally considered to be due to the special policy measures taken, including short-time work and special support for the self-employed.<sup>5</sup> To the best of my knowledge, this is typically not being complemented by sectoral or firm-level agreements. However, note that there are already strong incentives for firms to maintain their employees, as they receive less subsidy and an additional penalty when people leave the firm during the subsidy period. Regarding ALMPs, training and schooling programs for job seekers have been put on hold.<sup>6</sup>

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<sup>4</sup> According to survey results from the end of March reported in Von Gaudecker *et al.* (2020), only about 10% of employees was worried about their job in the next 4 weeks, in part due to the special policies to maintain employment, whereas about 30% of self-employed was worried about losing their work.

<sup>5</sup> It is also consistent with the evidence presented in Cahuc *et al.* (2018) and Giupponi and Landais (2018) for the short-run effects of short-time work policies in France and Italy, respectively, during the Great Recession.

<sup>6</sup> Source: <https://www.fnv.nl/corona/veelgestelde-vragen-per-sector/veelgestelde-vragen-voor-uitkeringsgerechtigden#werkloosheid>.

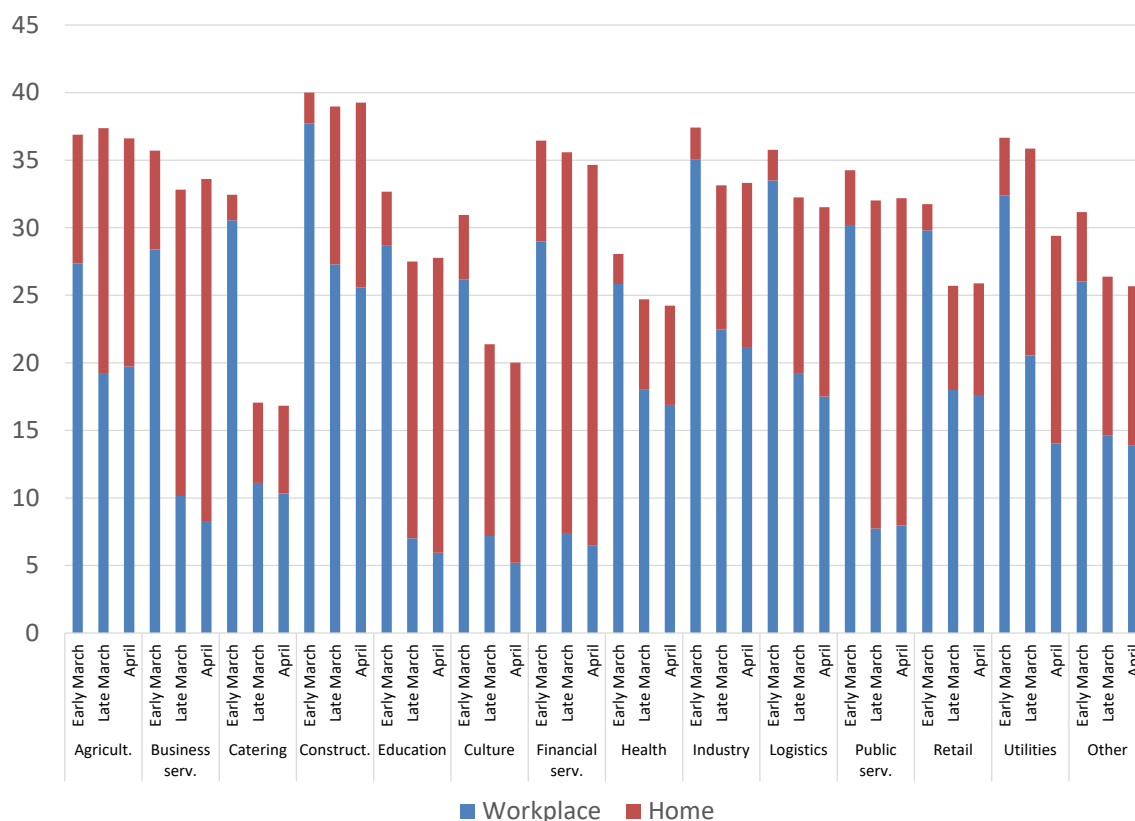
5. To what extent are **working conditions and work organization within firms** changing at the moment, in particular in sectors where there is an increased or normal workload? How do working time / mobile working rules or care arrangements respond to that in practice?

In general, there has been a large shift in hours worked at the workplace and hours worked from home. The drop in hours worked is most pronounced in sectors where there is limited opportunity to work from home, like the catering sector, the culture and entertainment sector and the retail sector (see Figure 2). In the business, financial and public services sectors and the education sector there has been a limited drop in hours worked, due to a large shift to working from home.

As expected, the drop in hours is much less pronounced for ‘essential workers’ like doctors, nurses, teachers, policemen and -women, military personnel, people that work in transportation, media or supermarkets (see Figure 3).<sup>7</sup> They can also continue to bring their children to daycare or school during the lockdown.

Several sectors have witnessed a large increase in demand, like supermarkets<sup>8</sup>, online shops<sup>9</sup> and delivery services. There are some concerns that the social distancing rules (1.5 meters in the Netherlands) are violated occasionally in supermarkets and warehouses.<sup>10</sup>

**Figure 2 Hours worked at the workplace and at home by sector**



Source: LISS-panel.

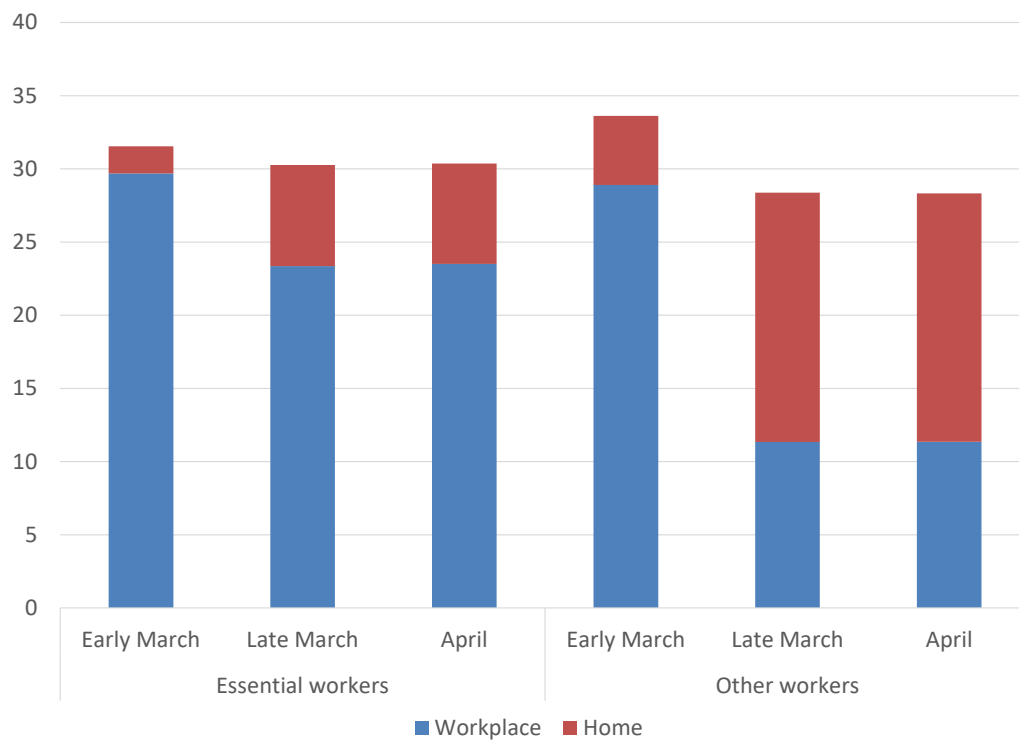
<sup>7</sup> For a list of the workers deemed essential in the Netherlands during the COVID-19 pandemic, see: <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs/noodopvang-cruciale-beroepen-en-vitale-processen>.

<sup>8</sup> At the start of the lockdown sales of supermarkets increased by 35%, which surpassed the increase in sales for Christmas 2019, see: <https://www.cbs.nl/nl-nl/nieuws/2020/13/supermarkten-in-tweede-week-maart-meer-omzet-dan-in-week-voor-kerst>.

<sup>9</sup> Online sales have increased by 29%, see: <https://www.cbs.nl/nl-nl/nieuws/2020/18/omzet-detailhandel-3-5-procent-hoger-in-maart>.

<sup>10</sup> See: <https://www.trouw.nl/economie/werknemers-in-distributiecentra-van-supermarkten-lopen-grote-kans-op-besmetting-met-het-coronavirus~bc7add68/>.

**Figure 3 Hours worked at the workplace and at and home by ‘essential workers’ and other workers**



Source: LISS-panel.

6. How do you assess the situation of **new labor market entrants** this year, in particular with school or university graduates? Are there policy innovations and initiatives to cope with this particular situation regarding hiring, provision of apprenticeships etc.?

Previous research has shown that vocational and academic graduates in the Netherlands did suffer in terms of wages for 6 to 8 years after graduating, and to a lesser extent in the employment probability, when graduating during a recession.<sup>11</sup> Given the social distancing measures and overall decline in labour demand (vacancies have plummeted after the lockdown<sup>12</sup>), things look pretty dim for new labor market entrants. I am not aware of (sizeable) policy innovations and initiatives related to hiring of new labor market entrants or the provision of apprenticeships (these have been postponed for lower vocational education where the sectors had to close due to COVID-19).<sup>13</sup>

<sup>11</sup> See: Van den Berge (2018).

<sup>12</sup> By the end of March, vacancies had dropped by 21%, see: <https://www.cbs.nl/nl-nl/nieuws/2020/20/aantal-vacatures-daalt-met-60-duizend-in-eerste-kwartaal>.

<sup>13</sup> Information for students is available here: <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs>.

7. Do you see **further remarkable developments** and issues, maybe unexpected policy innovations, changes in employment, new trends? Can you already identify **(changes in) medium-term or long-term trends on the labor market** that are due to the crisis (e.g. accelerated structural change)? How will the general functioning of the labor market in your country be affected in the long run?

The response of the government during this unprecedented crisis has also been unprecedented in terms of the speed and breadth of the interventions. Perhaps as a result, the consequences for employment in persons in the affected sectors and (spillovers to) other sectors have been limited so far. This could be considered remarkable. These are really early days in the pandemic and the aftermath, it is hard to identify changes in medium- and or long-term trends, which will also depend on the length of the crisis. However, it is not unreasonable to assume that we will see an acceleration in working from home and a more rapid adoption of technologies to collaborate and work online. Furthermore, online shops will get a boost, as they did in Asia after the 2003 outbreak of SARS.<sup>14</sup> Furthermore, at least for the medium run, we may expect reshoring of certain activities and a drop in international labor mobility. Even more difficult to gauge are the long-term effects. An optimistic view is that this was a prototypical external shock, not due to an imbalance in the system, which suggests that we may return to the growth path from before the coronacrisis eventually.<sup>15</sup>

8. Can the **current policy stance** (reduced economic activity, combined with public income support) be sustained, and for how long? What do you see as necessary and **useful next steps**, in particular to revive economic activity (soon)? How do you see the **current and future fiscal viability** of the crisis relief measures?

The scenario analysis of CPB (2020) revealed that the shock to public finances due to the crisis and the special policies was going to remain bearable in the Netherlands, even in the most severe scenario. However, it is now becoming clear that this will not be a V-shaped recession, but more likely to be a U-shaped or 'Nike-swoosh' shaped recession. This is because at least part of the social distancing policies will remain in effect until a vaccine or cure arrives. Hence, a reallocation of workers from firms and sectors that are shrinking to other firms and sectors is becoming inevitable. Hence, we should protect workers, but at the same time provide sufficient incentives and possibilities for workers to relocate to where they are the most productive. In this process we also have to make sure that there is not an excessive loss of firm- and sector-specific capital in the process of scaling down, and scaling up once the vaccine or cure arrives.

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<sup>14</sup> See: <https://www.cnbc.com/2020/03/26/chinas-2002-2003-sars-outbreak-helped-alibaba-become-e-commerce-giant.html>.

<sup>15</sup> See: Krugman (2020).

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