

IZA COVID-19 Crisis Response Monitoring

## Netherlands (June 2020)

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### ABSTRACT

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The Netherlands witnessed an unprecedented drop in hours worked of -11% in March, which dropped further to -15% in May. The drop in employment in persons was more modest, a total of -2.2% by May. The massive expansion of short-time work in the Netherlands is likely to play an important role in this, where now one quarter of all employees works in a firm that is using short-time work. Initially, speed was of the essence, and the targeting of the policies was limited. The current policy debate is about improving targeting and improving incentives for output and reallocation.

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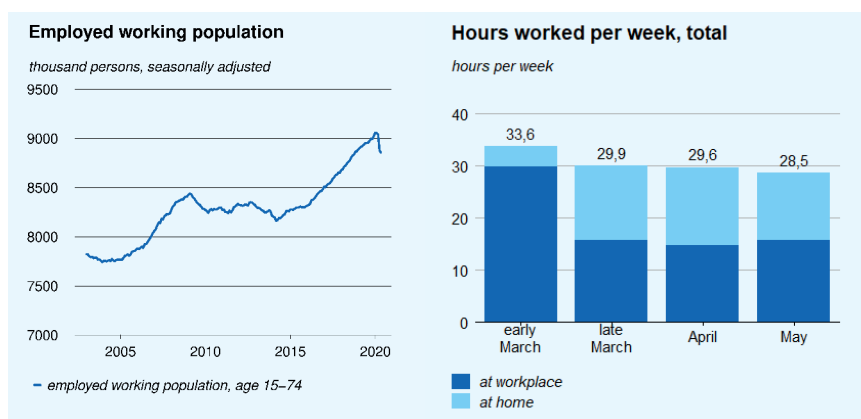
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## Labor market impact of COVID-19

The latest data from Statistics Netherlands shows a substantial drop in employed persons (Figure 1 left). This reduction was limited to -17 thousand persons in March, then increased to -160 thousand persons in April, and dropped back to -24 thousand persons in May, leading to a cumulative reduction of -201 thousand persons since the start of COVID-19 pandemic (-2,2%). However, so far, the increase in the number of unemployed persons was moderate, up 56 thousand persons between February and May<sup>1</sup>, indicating that the labor force participation rate has fallen, from 71.4 in February to 70.2 in May.<sup>2,3</sup> The special policies that were enacted or expanded, like short-time work, are likely to have limited the drop in employment (CPB, 2020b).

The large drop in employed persons during April and May was preceded by an unprecedented drop in hours worked per week, which we already observed in March. After the lockdown mid-March, hours worked per week dropped by 11% (-4 hours), and have remained at that lower level in April (Figure 1 right). In May the number of hours worked continued to fall by another 4% (-1 hour).<sup>4,5</sup> We still have to see if the drop in hours worked will rebound to some extent in June, which marked the beginning of some substantial alleviations of the lockdown. The upcoming recession, however, is likely to be quite severe, with a forecasted drop of GDP of -6% in 2020 (CPB, 2020c).

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



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

- 1 The number of unemployment insurance recipients increased by 61.000 since February (+25%).
- 2 The unemployment rate increased from 2.9% in February to 3.6% in May.
- 3 For other recent labor market developments in the Netherlands, see CPB (2020a) and CPB (2020b).
- 4 In April, this drop in hours worked was particularly large 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%).
- 5 The figures in the right panel of Figure 1 are slightly different from the May country report. This is because the sample of persons who completed the survey for the months March-May is somewhat different from the sample of persons who completed the survey for the months March-April.

## Orientation and targeting of adopted measures

Around a quarter of all workers in the Netherlands are now in one way or another dependent on the special support policies that were enacted or expanded (Ministry of Social Affairs and Employment, 2020).<sup>6</sup> In early June, 144 thousand firms with in total 2.1 million employees (24% of all employees in the Netherlands) have claimed short-time work subsidies (NOW, Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid). 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. As a result, the Dutch government has supported firms in advance with an amount of 4.5 billion euro at the beginning of June, which corresponds to a three-month total of 8.7 billion euro. Furthermore, it is estimated that around 374 thousand self-employed (25% of all self-employed in the Netherlands) have claimed a special form of welfare from municipalities (Tozo, Tijdelijke overbruggingsregeling zelfstandig ondernemers). 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. Additionally, the government has granted firms tax deferrals (for a total of 10 billion euro by mid June).

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 policy response.<sup>7</sup> At the start of June both schemes (NOW and Tozo) have been renewed for another 4 months until October 1st, although the terms have somewhat changed: the penalty for people leaving the firm within the NOW is reduced and the Tozo becomes subject to a partner income test. These adjustments to the original schemes are aimed to make the support more targeted, and to mitigate adverse incentives for reallocation and working hours.<sup>8</sup> Furthermore, concerns have been expressed that the special support policies may fail to protect persons with flexible hours contracts, agency workers and seasonal workers. The government is currently setting up a scheme of lump sum transfers for ‘flexible’ workers that lose a substantial part of their income but do not have access to unemployment insurance or welfare (TOFA, *Tijdelijke overbruggingsregeling voor flexibele arbeidskrachten*).<sup>9</sup>

## Immediate liquidity support to businesses

As noted above, some 25% 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. The Tozo-scheme has been recently extended until October 1st, though this renewed scheme is now subject to a partner income test.

<sup>6</sup> For an overview of all financial policy measures in the Netherlands related to COVID-19, see: <https://www.rijksoverheid.nl/onderwerpen/coronavirus-financiele-regelingen/overzicht-financiele-regelingen>.

<sup>7</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>8</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.

<sup>9</sup> See: <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/werknemers/tijdelijke-overbruggingsregeling-voor-flexibele-arbeidskrachten-tofa>

Small firms can also use the NOW for their employees, see also above. In addition, in selected sectors that are hit particularly hard, firms can get a one-time subsidy of 4 thousand euro (TOGS). In early June, about 200 thousand firms received the TOGS. This amounts to a total financial support of 790 million euro (Ministry of Economic Affairs and Climate Policy, 2020). 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.

## Support of dependent workers

So far we have witnessed a substantial decline in employment in persons, though the decline up to and including April (and May) appears to be quite limited compared to other western countries (CPB, 2020b). This is generally considered to be related to the special policy measures taken, including financial support for short-time work<sup>10</sup>, which also contains a penalty on dismissals, and financial support for the self-employed. To the best of our 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. It remains to be seen how the renewed support scheme, with a reduced dismissal penalty, will affect employment. Regarding ALMPs, training and schooling programs for job seekers have been put on hold.<sup>11</sup>

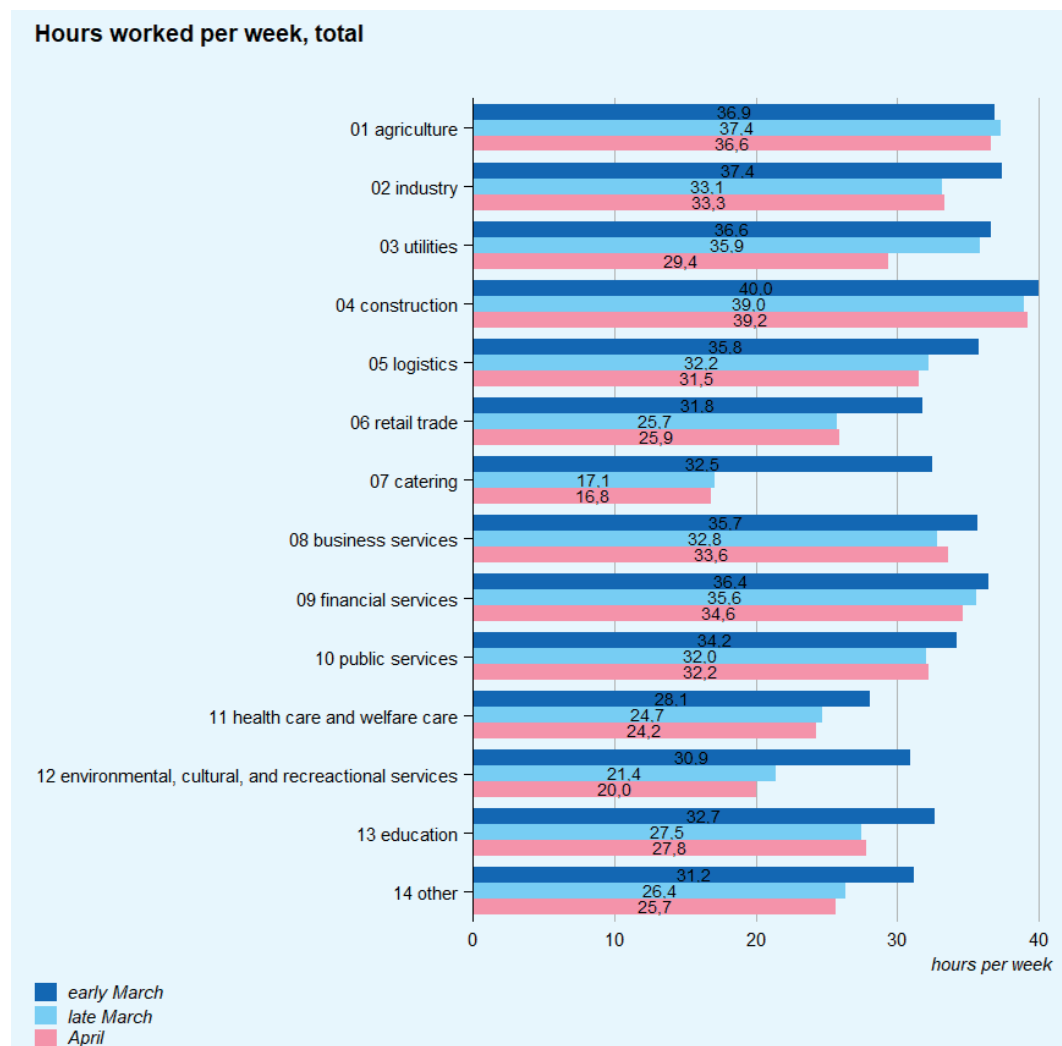
## Working conditions and work organization

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.<sup>12</sup> 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). Several sectors have witnessed a large increase in demand, like supermarkets, online shops and delivery services.

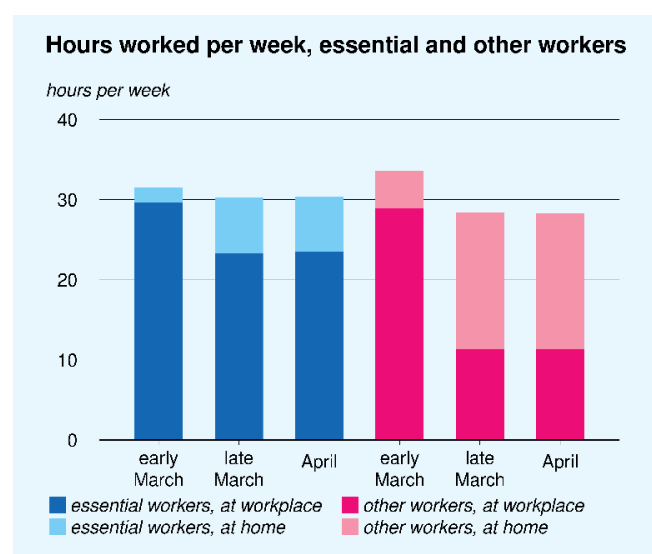
<sup>10</sup> This is consistent with the evidence presented in Cahuc et al. (2018) and Giupponi and Landais (2020) for the short-run effects of short-time work policies in France and Italy, respectively, during the Great Recession.

<sup>11</sup> Source: <https://www.fnv.nl/corona/veelgestelde-vragen-per-sector/veelgestelde-vragen-voor-uitkeringsgerechtigden#werkloosheid>.

<sup>12</sup> See the May country report for the Netherlands for worked hours at the workplace and at home by sector.

**Figure 2:** Hours worked by sector


Source: LISS-panel.

**Figure 3:** Hours worked at the workplace and at home, essential and other workers


Source: LISS-panel.

Research provides a mixed picture of the effects of the corona crisis on gender inequality in the Netherlands (Yerkes et al., 2020). On the one hand, more fathers than mothers take on additional care responsibilities (22% versus 12%), which seems to be related to the fact that women are overrepresented in crucial professions. On the other, more mothers than fathers have less free time (57% versus 36%) and experience more work pressure (39% versus 31%).

Some firms had to shut down business temporarily because of outbreaks of COVID-19, in particular the meatpacking industry, which employs many migrant workers which live in close quarters and travelled to work packed in small buses.<sup>13</sup>

## New labor market entrants

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>14</sup> Given the social distancing measures and overall decline in labor demand (vacancies have plummeted after the lockdown<sup>15</sup>), things look pretty dim for new labor market entrants. We are 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 vocational education where the sectors had to close or significantly reduce their activities due to the COVID-19 pandemic and the resulting social distancing rules).<sup>16</sup>

## Policy innovations and labor market trends

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 other sectors so far appear relatively mild from an international perspective. This could be considered remarkable. These are still relatively early days in the pandemic, let alone the aftermath. Hence, 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 are likely to get a boost, as they did in Asia after the 2003 outbreak of SARS.<sup>17</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 COVID-19 pandemic eventually.<sup>18</sup>

<sup>13</sup> See: <https://nos.nl/artikel/2334580-vleesindustrie-blijkt-coronahaard-bonden-en-werkgevers-willen-testen-en-controles.html>.

<sup>14</sup> See: Van den Berge (2018).

<sup>15</sup> By the end of March, vacancies had dropped by 21% (CBS Netherlands, <https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs>).

<sup>16</sup> Information for students is available here (<https://www.rijksoverheid.nl/onderwerpen/coronavirus-covid-19/ouders-scholieren-en-studenten-kinderopvang-en-onderwijs>).

<sup>17</sup> See: <https://www.cnn.com/2020/03/26/chinas-2002-2003-sars-outbreak-helped-alibaba-become-e-commerce-giant.html>.

<sup>18</sup> See: Krugman (2020).

## Next steps and fiscal viability

The most recent economic outlook of CPB (2020c) revealed that the shock to public finances due to the crisis and the special policies will remain bearable in the Netherlands, even in the most severe scenario. The gross government debt increases very sharply in the base scenario though, from 48.7% of GDP in 2019 to 62% in 2020 and 61% in 2021. Also in the scenario where we have a weaker recovery than in the base scenario and in a scenario with a second contamination wave, gross government debt will remain sustainable, at a debt level of 76% of GDP in 2021.

However, it is now also 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.<sup>19, 20</sup>

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<sup>19</sup> See also Blanchard et al. (2020).

<sup>20</sup> The projected recession has also fueled the debate about the rather strict employment protection of workers with a permanent contract combined with limited restrictions for the use of 'flexible' contracts, where 'flexible' workers typically have limited insurance but sometimes special tax deductions (self-employed), which may be one of the reasons why the share of flexible work in the Netherlands is relatively high from an international perspective. This was already high on the agenda following the report of the Committee for the Regulation of Work (Commissie Reguleren van Werk) published in January 2020. (<https://www.regulerenvanwerk.nl/>)



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