IZA Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

Netherlands (October 2020)

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ABSTRACT

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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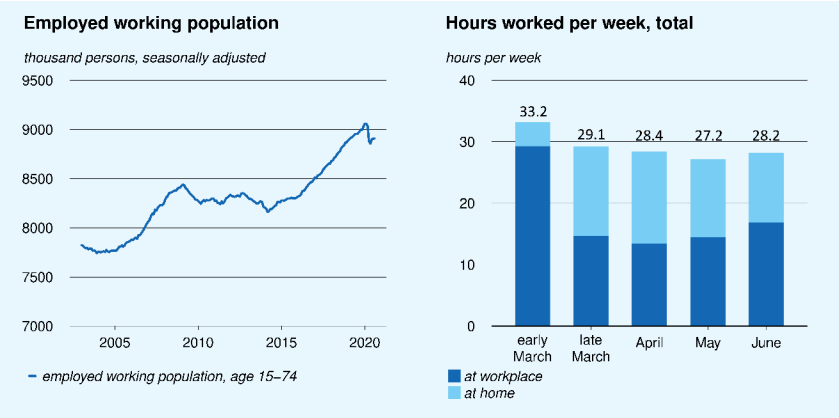
Labor market impact of COVID-19

The latest data from Statistics Netherlands shows a partial recovery after an initial substantial drop in employed persons (Figure 1 left). The 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. The number of employed persons recovered partially in June (+45 thousand persons) and in July and August (both +4 thousand persons), leading to a cumulative reduction of -148 thousand persons since the start of COVID-19 pandemic (-1.6%). Until May, the increase in unemployment was moderate, up to 56 thousand persons between February and May, due in part to a reduction in the labor force participation rate, from 71.4% in February to 70.2% in May.[1] By now, though, the labor force participation rate has almost fully recovered (71.3%) and the number of unemployed persons has increased substantially: from 274 thousand persons in February to 426 thousand in August (+55%).[2] 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 12% (-4 hours), and have remained at that lower level in April (Figure 1 right).[3] In May the number of hours worked continued to fall by another 3% (-0.8 hour).[4] In June we saw a slight recovery in hours worked equal to 4% (1 hour). This is no coincidence because June 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 -5% in 2020 (CPB, 2020c).

Figure 1: Employment in persons and hours worked per week



Source: Statistics Netherlands (employed, until August 2020) and Von Gaudecker et al. (2020) (hours worked).

1 For other labor market developments in the Netherlands, see CPB (2020a) and CPB (2020b).

2 The unemployment rate increased from 2.9% in February to 4.6% in August.

3 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%).

4 The figures in the right panel of Figure 1 are slightly different from the June country report. This is because the sample of persons who completed the survey for the months March-June is somewhat different from the sample of persons who completed the survey for the months March-May.

Orientation and targeting of adopted measures

Around 16% 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).[5] In March-May, 139 thousand firms with in total 2.7 million employees (36% of all employees in the Netherlands) have claimed short-time work subsidies (NOW, Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid). In June-August this figure dropped to 63 thousand firms with in total 1.3 million employees (18% of all employees). 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 with an amount of 9.9 billion euro in March-May and 5.3 billion euro in June-August. 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 in March-May (Tozo, Tijdelijke overbruggingsregeling zelfstandig ondernemers), which dropped to 103 thousand in June-August (7% of all self-employed). The first part (March-May) of this special form of welfare did not depend on partner income or wealth, whereas the second part (June-August) did involve a partner income test. Additionally, the government has granted firms tax deferrals (for a total of 13 billion euro by end August)[6] and provided a lump sum transfer 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*). The use of this latter scheme was however rather limited (10 thousand persons receiving 17 million euro).

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.[7] At the end of August both schemes (NOW and Tozo) have been renewed for another 3 quarters until July 1st 2021, although the terms have somewhat changed: the NOW-subsidy on the wage bill will be gradually reduced from 90% to 60% and the Tozo becomes subject to a wealth 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.[8] The government has also made a budget available to support retraining and job-to-job transitions for individuals in affected sectors.

Immediate liquidity support to businesses

As noted above, at the peak of the crisis 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.

5 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.

6 See: https://www.rijksoverheid.nl/actueel/nieuws/2020/08/28/belastinguitstel-tot-1-januari-ruime-terugbetalingsregeling-voor-ondernemers

7 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.

8 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.

The Tozo-scheme has been recently extended until July 1st 2021, though this renewed scheme is now subject to a partner income test and a wealth test.

Small firms can also use the NOW for their employees, see also above. In addition, in selected sectors that are hit particularly hard, firms could 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 800 million euro (Ministry of Economic Affairs and Climate Policy, 2020). Again, speed was considered to be of the essence.[9] 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) was quite limited compared to other western countries (CPB, 2020b), and has even recovered somewhat in the last months. This is generally considered to be related to the special policy measures taken, including financial support for short-time work[10], which also contained a penalty on dismissals, and financial support for the self-employed. This is typically not being complemented by sectoral or firm-level agreements, although specific support for specific firms is sometimes conditional on wage cuts (the support for Air France – KLM for example).

Working conditions and work organization

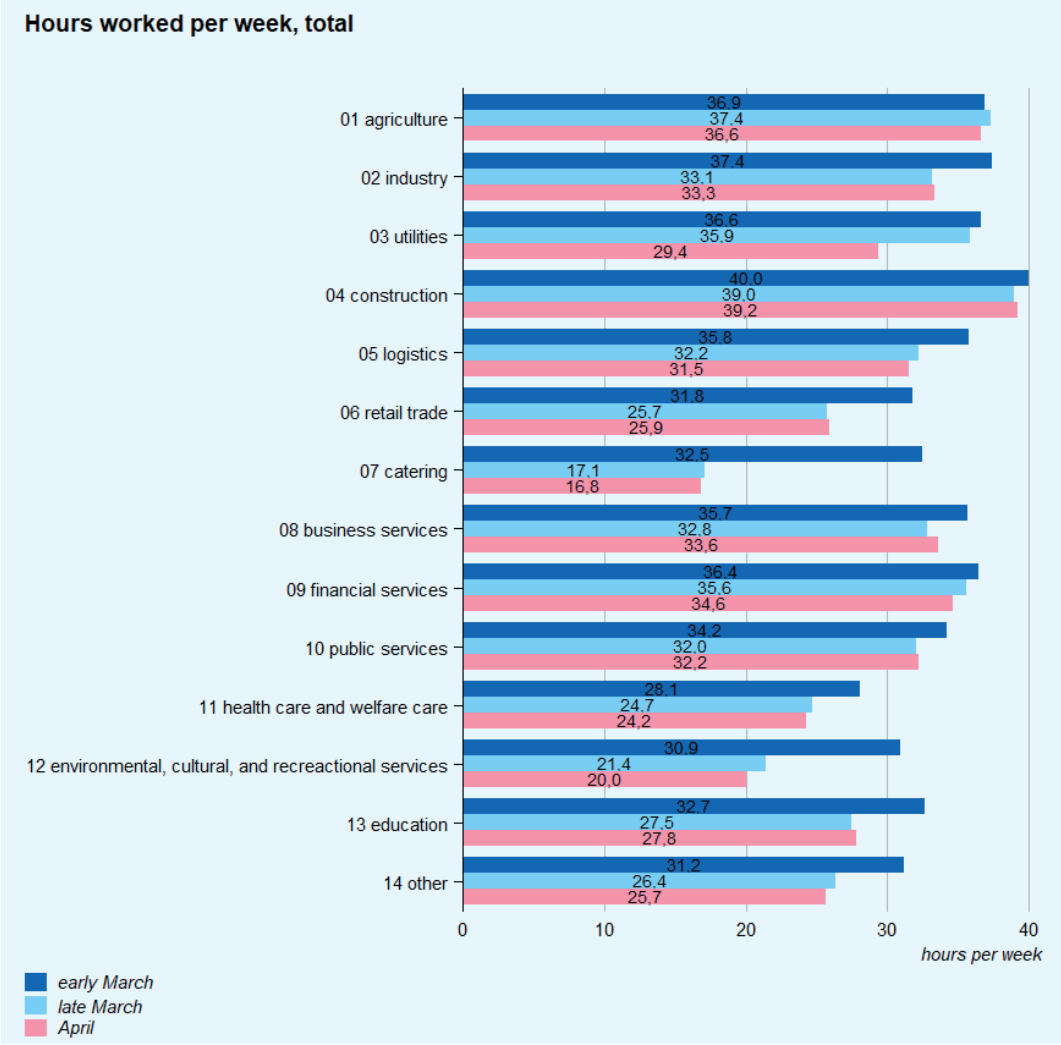
In general, there has been a large shift in hours worked at the workplace and hours worked from home. The drop in hours worked was most pronounced in sectors where there is limited opportunity to work from home, like the catering sector, the culture and entertainment sector and the retail sector (see 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. [11] 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.

9 This policy measure has since been closed.

10 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.

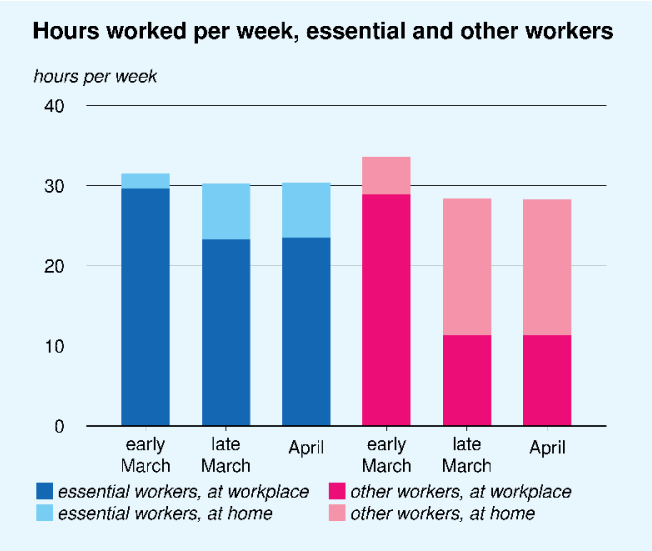
11 See the May country report for the Netherlands for worked hours at the workplace and at home by sector.

Figure 2: Hours worked by sector



Source: LISS-panel. No update has been made since April.

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



Source: LISS-panel. No update has been made since April.

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.[12]

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.[13] Given the social distancing measures and overall decline in labor demand (vacancies have plummeted after the lockdown[14]), things look pretty dim for new labor market entrants. To the best of our knowledge there are no (sizeable) policy innovations and initiatives related to hiring of new labor market entrants or the provision of apprenticeships (these have been largely postponed for vocational education in sectors that significantly reduced their activities due to the COVID-19 pandemic and the resulting social distancing rules).[15]

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. We are still in the midst of the pandemic, so it remains hard to speculate about 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.[16] 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.[17]

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

13 See: Van den Berge (2018).

14 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).

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

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

17 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 49% of GDP in 2019 to 60% in 2020 and 62% 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 72% of GDP in 2021.

However, it is now clear that this is not a V-shaped recession, but more likely to be a 'Nike-swoosh' or W-shaped recession. This is because at least part of the social distancing policies will remain in effect until a vaccine or cure arrives, and a second wave is gaining momentum in Europe. Hence, a reallocation of workers from firms and sectors that are shrinking to other firms and sectors seems 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.[18, 19]

18 See also Blanchard et al. (2020) and Jongen and Koning (2020).

19 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 Regulering van Werk) published in January 2020. (https://www.reguleringvanwerk.nl/)

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