IZA COVID-19 Crisis Response Monitoring

Netherlands (December 2021)

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ABSTRACT

The Netherlands witnessed an unprecedented drop in the number of hours worked per worker during the first wave, up to -18% in May according to the LISS panel. During the months May-September hours worked have recovered to some extent. The drop in employment in persons was more modest, -2.2% by May, which has since rebounded to -1.2% in October. The massive expansion of short-time work is likely to have played an important role in keeping employment in persons up, peaking at 36% of employees in March-May and dropping back to 18% of employees in June-August. Initially, speed was of the essence, and the targeting of the policies was limited. After the Summer, policies have become more targeted, and incentives for output and reallocation have been improved.
Labor market impact of COVID-19

Employment has recovered from the large drop that occurred last year (Figure 1 left). During the months March through May 2020, the number of persons employed declined by over 200 thousand persons. When restrictive measures were lifted step by step, a gradual recovery set in that, somewhat surprisingly, continued more or less uninterruptedly during the second wave of the pandemic. After May 2020 monthly declines in employment occurred only in September 2020 and March 2021. During the months June 2020 through July 2021 employment increased by 17 thousand persons per month on average, bringing the level to over 9 million persons in July. The number of persons employed now slightly exceeds the number reached in February 2020, just before the onset of the pandemic in the Netherlands.

In the period March–August 2020 the number of unemployed persons increased by over 150 thousand persons. In August 2020 the unemployment rate peaked at 4.6% of the labour force. Since then it has come down steadily to 3.1% in July 2021, increasing just slightly to 3.2% in August 2021, only 0.3%-point above the historic low of 2.9% recorded in February 2020. Gross labour participation stood at 71.6% of the population in July 2021, a record high since 2003, the first year of the time series that is currently available. Last year already participation veered back quickly, but not fully, after the steep decline that occurred between February and May (from 71.4% to 70.2%). It remained below its pre-crisis level until July 2021.

Workers that became unemployed during the COVID–19 crisis so far were typically young, had a low or intermediate level of educational attainment, had a non-western migration background and/or were working on a non-standard type of labour contract. For most of these groups, labour market conditions have improved considerably by now. Unemployment among those with a non-western migration background now is lower than it was when the COVID–19 crisis started. However, unemployment among those 15 to 25 years of age is still 1.0%-points higher now than it was in February 2020. In the second quarter of 2021, unemployment among those with a low level of educational attainment was also 1.0%-points higher than it was in the first quarter of 2020. During the first wave of the pandemic, workers with non-standard labour contracts were hit particularly hard, whereas those with open-ended contracts have fared relatively well all along (Figure 1 right). In the second quarter of 2021 the number of workers with non-standard contracts was 115 thousand lower than it was in the first quarter of 2020, while the number of workers with open-ended contracts was 96 thousand higher. Over the same time period, the number of self-employed has risen by 38 thousand, but provisional data indicate that hours worked by the self-employed decreased substantially last year and the self-employed are still working fewer hours now than they did before the crisis.
The dramatic fall in employment in April 2020 (160 thousand persons) was preceded by a remarkable shortening of the working week. After the start of the first lockdown in March 2020, the average number of hours worked per week (per worker) went down by 12% (4.0 hours per week; Figure 2 left). In April and May 2020 the number of hours worked continued to fall, to a level 18% below that in early March (5.9 hours per week). In June, after the first wave, there was a slight recovery of hours worked per week that coincided with relaxations of restrictive measures. The number of hours worked was at nearly the same level in September 2020. From September to December 2020 however it rose by 5%, to a level that was still 10% below that of early March 2020 (3.1 hours per week). This increase occurred in spite of the reinstatement of restrictive measures, first a partial lockdown in October 2020 followed by additional measures in November 2020. In October 2020 the government made an urgent appeal to everyone to work from home again as much as possible. While in April 2020 more than half of weekly working hours were spent at home instead of at the workplace, by September 2020 the part spent at home had fallen to about a third. In December 2020 it had risen again, to about 40%. By far the largest fall in labour volume (total hours worked) occurred in business services (Figure 2 right).

Figure 2: Hours worked per week and total hours by sector

Sources: a) Von Gaudecker et al. (2021), b) Statistics Netherlands.

The availability of effective vaccines seems to have changed the course of the pandemic dramatically in the Netherlands, though uncertainty about the lasting effectiveness of vaccines against existing and new strains of the virus and the possible need for booster shots and new vaccines remains. After a rather slow start in the beginning of this year, the vaccination campaign gained considerable speed. However, the vaccination rate now seems to plateau at about 80 percent of the population over 12 years old, which still leaves about 2 million people unprotected. Nonetheless, on September 14th 2021, the government announced that most restrictive measures (social distancing, the recommendation to work from home, restrictions on cultural and sports events) will be eased or lifted altogether on September 25th. So far this has not resulted in a new surge in cases in the Netherlands.

Returning to the labour market, labour demand has recovered so strongly that labour market tightness is increasing fast. The unemployment rate is almost as low as it was when the crisis started, and pressure points that existed before the COVID-19 crisis resurface. Macroeconomic indicators of labour market tightness all show the same pattern: the number of vacancies, the vacancy rate (number of vacancies per job held by employees), and the ratio of vacancies to unemployed peaked in the course of 2019, dived during the first half of 2020, and have been rising since, reaching record levels in the second quarter of 2021. The number of vacancies currently exceeds the number of unemployed, which has not happened in 50 years. Labour shortages are ubiquitous. Scarcity seems to be most pressing in education, ICT services, the health care sector and technical professions.
Orientation and targeting of adopted measures

In order to mitigate the economic damage caused by the crisis, early last year the government was quick to introduce a variety of support schemes. Most of these have been extended several times, but by the end of August 2021 it was announced that most support measures (NOW, Tozo, TVL) would end on the First of October 2021, meaning that new applications are now no longer accepted and support payments have come to an end.\(^1\)

Under the job retention scheme called NOW (Tijdelijke Noodmaatregel Overbrugging voor Werkgelegenheid), firms that expected to experience a decline in sales of over 20% relative to sales in a fixed reference period were entitled to a subsidy of up to 90% of the wage bill.\(^2\) Employees continued to receive 100% of their gross wages.\(^3\) The budgetary claim of this support measure exceeds that of all others. During the first application period, March–May 2020, 140 thousand firms that employed a total of 2.7 million persons (30% of all employees in the Netherlands) were granted short–time work subsidies. In June–August these numbers fell to 64 thousand firms employing 1.3 million persons (15% of employees). In the fourth quarter of 2020 the numbers were 78 thousand firms and 1.3 employees (14% of employees) and in the first quarter of 2021 they were 38 thousand firms and 0.5 million persons (6% of employees).\(^4\) The total amount granted in 2020 was 15.9 billion euro. The amount is expected to be 8.0 billion euro in 2021.\(^5\)

Compared to other European countries, the job retention scheme in the Netherlands was relatively generous, especially at the start.\(^6\) Dutch employees under NOW1 (in 2020) continued to receive their full wage, whereas the gross replacement rate in other countries was lower (Figure 3 left). The gross replacement rate of the NOW1 was much higher than that of the traditional unemployment benefits.\(^7\) Relative to other countries, the Dutch government paid for a large share of the total labour cost in the early phase of this support measure (Figure 3 right). In the Netherlands, the use of the NOW was initially the highest of most European countries. In many other countries, firms could only apply for this support if the employee would not work at all. In the Netherlands, the NOW was based on the expected revenue drop. As such, in the NOW employees could work fewer hours, rather than not work at all.

**Figure 3:** Gross replacement rate of job retention scheme, and costs for the government

![Gross replacement rate and costs for government](chart)


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2. Later on the terms were changed: the NOW subsidy was gradually reduced from 90% to 60% of the wage bill, while the required minimum loss in turnover was raised from 20% to 30%. Also, firms were no longer required to pay 100% of gross wages.
5. CPB (2021a).
7. The unemployment benefit (WW) is 75% of the gross wage in the first two months, and after that 70% of the gross wage.
In March 2020 the government also introduced a special form of welfare for self-employed called Tozo (\textit{Tijdelijke overbruggingsregeling zelfstandig ondernemers}), which was administered by the municipalities. Initially, this form of welfare did not depend on partner income, whereas from June 2020 it did involve a partner income test.\textsuperscript{8} According to Statistics Netherlands, already in March 2020 there were 258 thousand outstanding grants under this scheme (16\% of all self-employed in the Netherlands). In April the number rose to 289 thousand (18\% of self-employed). Next month, the number fell slightly to 279 thousand (17\% of self-employed), but in June the number of grants declined to 120 (7\% of self-employed). Since then, the percentage of self-employed taking up Tozo has been between 4\% and 6\%. In June 2021 it was 4\%. The total amount granted in 2020 was 2.3 billion euro. The amount is expected to be 0.9 billion euro in 2021.\textsuperscript{9}

NOW and Tozo were aimed to provide support to firms and workers fast. These arrangements certainly have helped to limit the number of people becoming unemployed.\textsuperscript{10} As noted above, the unemployment rate peaked at \textquoteleft just\textquoteright 4.6\% in August 2020. The NOW and Tozo are generally considered to have been timely and effective initial policy responses.\textsuperscript{10} Later adjustments of the original schemes were aimed to make support more targeted and to mitigate adverse incentives for reallocation and working hours.\textsuperscript{11} The government has also made available a budget to support retraining and job-to-job transitions for individuals in affected sectors.

\section*{Immediate liquidity support to businesses}

Firms have been granted substantial tax deferrals. The total amount outstanding is expected to be around 17 billion euro by the end of 2021.\textsuperscript{12} It is however unlikely that the total tax debt that has been built will be repaid.\textsuperscript{13} The government has provided guarantees for loans that firms took out for liquidity and offered loans to certain types of firms.

Under a measure called TOGS (\textit{Tegemoetkoming Ondernemers Getroffen Sectoren COVID-19}), firms in sectors that were hit particularly hard could get a one-time subsidy of 4 thousand euro to cover fixed costs. Early June 2020, about 200 thousand firms received this subsidy, amounting to financial support of 800 million euro.\textsuperscript{14} In June 2020 TOGS was replaced by TVL (\textit{Tegemoetkoming Vaste Lasten MKB}), which also provided financial support for small to medium sized firms (up to 250 employees) in hard-hit sectors. Only firms with a revenue loss of 30\% could apply for this subsidy. The size of the TVL subsidy depended on turnover loss as well as the share of fixed costs in the sector. The total amount granted in 2020 was 2.9 billion euro (TOGS and TVL). The amount is expected to be 4.8 billion euro in 2021 (TVL).\textsuperscript{15}

There has been a lump sum transfer to those working on non-standard contracts who suffered a substantial income loss but who did not have access to unemployment

\begin{itemize}
\item \textsuperscript{8} A once planned wealth test never materialized.
\item \textsuperscript{9} CPB (2021a).
\item \textsuperscript{10} According to survey results from the end of March 2020 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.
\item \textsuperscript{11} Indeed, e.g. Cahuc (2019) and Krugman (2020) note that short-time work arrangements like NOW work best for a short-lived V-shape recession, but inefficiencies due to reduced reallocation will increase as the recession is more likely U-, L- or \textquoteleft Nike-swoosh\textquoteright-shaped.
\item \textsuperscript{12} CPB (2021a).
\item \textsuperscript{13} CPB (2021b).
\item \textsuperscript{14} Ministry of Economic Affairs and Climate Policy (2020).
\item \textsuperscript{15} CPB (2021a).
\end{itemize}
insurance or welfare (TOFA, *Tijdelijke overbruggingsregeling voor flexibele arbeidskrachten*). The arrangement was withdrawn by the end of July 2020. By then, about 11 thousand applications had been approved.16

As noted above, at the peak of the crisis 18% of the self-employed claimed special welfare benefits under Tozo. Self-employed could claim Tozo already in March 2020, actual transfers started in April 2020. NOW also has enabled small firms to retain employees. There is no information yet on the extent to which these measures have mitigated the economic impact of COVID–19 on self-employed.

**Comparing the Netherlands to other European countries**

Partially because of the budgetary claim of the job retention scheme, the total budgetary support of the Dutch government in 2020 is slightly above the average of the support packages in 26 European countries (Figure 4).17 The budgetary support in the Netherlands was 3.6% of GDP (of 2019). In the UK, Ireland and Italy, the governments spend more on COVID–related support measures, whereas for example Germany and Denmark had smaller budgetary claims.18

*Figure 4: Budgetary support of European countries*

The drop in GDP and increase in unemployment in the Netherlands were smaller than in most other European countries (Figure 5). In all countries, COVID–19 and accompanying containment measures led to a decline in GDP in 2020. The decrease in Dutch GDP was 3.8%, whereas the GDP decline in Spain, the UK and Italy was more than twice as large. Unemployment in the US rose more than in Europe, at least partially since government support in the US was not coupled to the retention of jobs as in Europe. The CPB has conducted an analysis with international data on the relation between the budgetary support and macro–economic outcomes.19 Macro–economic outcomes are not only affected by the support measures introduced by each country’s government, but also by other factors such as the severity of the pandemic itself and the strictness of the lockdown measures imposed by the government. These factors are taken into account in this analysis, but the limited number of observations and problem of reverse causality complicate the analysis. Based on the study with international data, it is not possible to conclude that larger support packages have led to smaller recessions.

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17 See: Adema et al. (2021).
18 The data is based on the European Fiscal Monitor by the IFI’s (https://www.euifis.eu/eng/fiscal/307/european-fiscal-monitor-june-2021), and therefore restricted to these 26 countries. For certain countries, such as Belgium and Switzerland, information on the total budgetary support was unavailable. The budgetary support data in the figure only takes into account measures that are relevant for the EMU budget, because high-quality comparative data on guarantees, loans and tax deferral is not available. Support via automatic stabilizers are not published by the IFI’s. It is possible that countries with strong automatic stabilizers would have given a smaller amount of budgetary support.
19 See: Verstegen et al. (2021)
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Figure 5: Development of GDP and unemployment in 2020 in European countries

Source: Eurostat (extracted on July 8th, 2021). To correct for the impact of foreign multinationals on the Irish national accounts, Irish GDP is replaced by ‘modified gross national income’.

Effect of the Dutch budgetary support on unemployment

In that same study, simulations with the CPB macro-economic model are used to examine the extent to which the support measures in 2020 have limited the increase in unemployment in the Netherlands. The starting point is the realized unemployment rate for 2020, which includes the budgetary support from the government. The three most important support measures, for a total of 20.7 billion euro (NOW, TVL, Tozo) are taken out of this path. The effect of guarantees and tax deferral is taken into account via an investment shock. Particular for the Dutch labour market in 2020 was the drop in hours worked that did not translate into many layoffs. Without the NOW, more employees would have been fired. Two assumptions on the link between the hours worked and number of workers lead to two different scenarios. In the first scenario, it is assumed that the decrease in hours worked would have translated for 100% into a decrease in number of employees. In the second scenario, a link of 55% is imposed, which is comparable to the labour market developments during the Great Recession. According to model simulations, the average unemployment rate in 2020 would have been between 0.7 and 2.0 percentage point higher without budgetary support from the government (Figure 6). If all employees whose hours were cut would have been fired immediately, the unemployment rate would have gone up to almost 8% in the second quarter of 2020.

The size of this shock is in line with the analysis of the European Commission with the Quest-model, see: Pfeiffer et al. (2020).
The COVID-19 crisis has had a smaller impact on firm dynamics than during the Great Recession in 2008–2009 (Figure 7 left). The number of exits among firms with more than 1 worker did not increase in 2020, but the total number of exits did go up. In 2020, fewer new firms entered, but the decrease in entries is much smaller than during the Great Recession. The number of bankruptcies was at a historical low in 2020 (Figure 7 right). Hence, government support has saved firms from bankruptcy, but at the cost of the dynamics. Non-viable firms, i.e. with low productivity and low solvability before the COVID-19 crisis, received a large share of the support. Besides, highly solvable firms also received support from the government, although these firms probably would have been able to take the hit.\(^2\)

Support of dependent workers

In June 2020 the CPB observed that the decline in employment, though substantial, was limited compared to other western countries (CPB, 2020b). This is generally considered to be related to the special policy measures taken at an early stage, including financial support for short–time work\(^2\), which initially also involved a penalty on dismissals, and financial support for the self–employed, see also above. Measures were typically not complemented by sector–level or firm–level agreements, although support for specific firms was conditional on wage cuts, as was the case for government support for Air France – KLM. Dramatic unemployment forecasts made early on in the crisis – in its September 2020 forecast the CPB still expected the unemployment rate to be 5.9% in 2021 – have not materialized. In August 2021 the unemployment rate was 3.2%, just 0.3%–points above the record low level of the unemployment rate before the COVID–19 crisis. Right now, labour shortages are top of mind.

\(^2\) See Freeman et al. (2021).

\(^2\) 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.
**Working conditions and work organization**

In general, there has been a large shift in hours worked at the workplace and hours worked from home, see above. 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 the May 2020 country report for the Netherlands). In the business, financial and public services sectors and the education sector there has been a limited drop in total hours worked, due to a large shift to working from home.23 As expected, the drop in hours worked was much less pronounced for ‘essential workers’ like doctors, nurses, teachers, policemen and -women, military personnel, people that work in transportation, media or supermarkets (again, see the May 2020 country report for the Netherlands). At the same time, during the COVID–19 crisis several sectors have witnessed a large increase in demand, like supermarkets, online shops and delivery services.

Research provides a mixed picture of the effects of the COVID–19 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 hand, more mothers than fathers have less free time (57% versus 36%) and experience more work pressure (39% versus 31%).

Back in 2020 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.24

**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.25 Given the social distancing measures and overall decline in labour demand in 2020 (vacancies plummeted after the lockdown26), things looked pretty dim for new labour market entrants. To the best of our knowledge there were no (sizeable) policy innovations and initiatives related to hiring of new labour market entrants or the provision of apprenticeships (these were largely postponed for vocational education in sectors that significantly reduced their activities due to the COVID–19 pandemic and the resulting social distancing rules).27 There was some relaxation of study progress requirements, both in the academic/school years 2019–2020 and 2020–2021, where students in tertiary education did not have to fulfill the requirement to obtain a particular number of study points.28 However, things look much better for new entrants in the Fall of 2021.

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23 See the May country report for the Netherlands for worked hours at the workplace and at home by sector.
28 See e.g. here [https://www.nu.nl/coronavirus/6089771/hogescholen-geven-eerstejaars-ook-dit-jaar-geen-bindend-studieadvies.html].
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, see above. We appear to be approaching the end of the pandemic when it comes to its effects on the labour market, though uncertainty remains. We have seen an acceleration in working from home, which is also expected to remain at least in part after the coronapandemic, 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. 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 largely return to the growth path from before the COVID-19 eventually.

Next steps and fiscal viability

The most recent economic outlook of CPB (2021a) reveals that the shock to public finances due to the crisis and the special policies have remained bearable in the Netherlands. The gross government debt has increased from 49% of GDP in 2019 to 54.3% in 2020, and in the base scenario is expected to rise to 57.5% in 2021 before dropping to 56.5% in 2022. Also in the scenario where we have a new lockdown in the coming period, gross government debt is expected to remain sustainable, growing to just above 60% in 2022. What is top of mind right now, is the very tight labour market and the resulting labour shortages in many sectors of the economy.

29 Working from home is expected to increase from on average 4 hours per week before the coronapandemic, to on average 8 hours per week after the coropandemic (it peaked at on average 14.6 hours per week during the first lockdown), with the largest increase in sectors where remote working was already commonplace, see Jongen et al. (2021).
31 See: Krugman (2020).
References


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