

# The social dialogue in the Netherlands

**The social dialogue in The Netherlands has a long history. Some claim it even goes back hundreds of years, but especially since World War II the institutionalized position of social partners became really apparent.**

Since the 90's this has changed, in the sense that the number of institutions with a bipartite or tripartite board has diminished. But still the influence of employer and workers organizations is strong, which also became clear in the recent crisis. How this will develop in the situation with a right wing government with the support of a populist party is still insecure.

## The Polder Model

The Dutch model of consulting social partners on socio-economic issues is often referred to as the 'Polder model'. Polders are pieces of land that have been conquered from the sea by laying dykes around them and pumping the water away. By means of wind mills, of course.



Some support the theory that in order to fight the sea successfully it was necessary to co-operate and not fight each other. In that case it would indeed be a way of doing things that has been part of this country for hundreds of years.

Whether or not this is true, this idea of having a common goal between classes and also between employers and workers, was certainly dominant when the country tried to get back to its feet after the Second World War. Then the government made the choice to seek co-operation, because rebuilding the country asked for joint efforts of all parties concerned. The institutions responsible for the labor market, health care and social security were all formed in a tripartite fashion: the board consisted of representatives of the government, trade unions and employer organizations. The Foundation of Labor was already formed in 1945, the Socio Economic Council (SER) followed in 1950. And after that many more institutions.

## Political changes in the 90's

The situation changed drastically in the 90's. The political wind was blowing from a different (liberal) direction in that period. The parliament found a reason for changing the system in the development that had taken place in the arrangements for disability within the social

security system, that was governed by the social partners. The number of disabled persons had grown rather rapidly, and the social partners were held accountable.

The impression was that in the period of mass lay-offs the disability insurance was misused to guarantee workers a reasonable income, compared to unemployment benefits. The latter were limited in time, and disability benefits could be continued until the pension age. The social partners were under the suspicion of making arrangements in which for instance one third of the group that would lose their job went into early retirement, one third would receive an unemployment benefit, and one third would be declared disabled (a small physical or mental problem was easily found). In 1993 a parliamentary inquiry was held, and indeed there were cases of misuse uncovered.

This led to drastic changes in the tripartite system within the social security, but also in health care and labor market institutions. Moreover, the change was not aimed at tackling the flaws in the system, but at reducing the power of the social partners.

One could indeed argue that there were too many roles in one hand: the social partners had their influence in policy making, in the controlling agencies, but also in the administration. They were part of the decision making process in individual cases. But instead of reducing their role to policy making, the social partners were removed from the system altogether. So it became clear parliament used the inquiry as an instrument for reducing the power of employer organizations and trade unions. Another example of this political trend was the role of the SER. In 1995 the legal obligation of government to ask for advice from the SER in the case of major changes in socio economic policies was ended.



Interestingly, this did not lead to a decrease in the number of cases the SER was asked to advise on topics. After this change, the SER still proved to be an institution that could help solve policy problems the political parties could not cope with.

Examples of this are radical changes in health insurance, unemployment arrangements and, again, disability arrangements.

So through the SER and also through the Council of Work and Income, a new institution established in 2002, as a form of compensation for the lost influence of social partners, there is still a position for them in the realm of the labor market and the broader socio economic topics. But this is not comparable with the situation before the 90's.

## **The end of dialogue?**

Does this mean the social dialogue is almost dead in the Netherlands? Not at all. The overall culture of trying to reach an agreement through negotiations instead of stressing the differences and fighting each other over them, is still very much alive.

And there are a few institutions that are still standing firm.

The Foundation of Labor is an important one. This platform for interests shared by employers and workers is in permanent contact with the most important department for policies that concern the social partners, that of Social Affairs and Employment.

Moreover, there is a strong tradition of meeting the government twice a year on the major topics of importance; the Spring Meeting and the Autumn Meeting. All the chair persons of the trade unions and the employer organizations, the prime minister and the most important ministers (Social Affairs, Foreign Policies, Economic Affairs, and so on), all meet in the SER building, and all the media are present. This is still one of the major events every year.

## Social dialogue in times of crisis

Some institutions have survived the clash in the 90's, which means there is still a solid base for social dialogue. But more important, there are still topics that are considered to be in the realm of the social partners. Their leading role is broadly acknowledged in these cases.

A strong example is the pension system. I'll get to that in a moment.

First I'd like to illustrate my point with the recent situation as a result of the financial crisis. Compared to many other European states the downfall in employment was much less steep in the Netherlands. Moreover, unemployment grew, but much less than the Planning Agency had predicted.

Unemployment could grow from around 4% of the professional population to maybe 9 or even 10%, it was predicted. This came out to be a very poor prediction. In the end, unemployment reached a peak of about 5,5%, and has been going down again for almost a year now. How can this be explained?



First of all, there is a growing group on the labor market that is not protected against unemployment by the social security system. This group includes selfemployed, who are not insured at all, and 'flex-workers', who are formally insured, but often cannot fulfill the first requirement for entitlement to an unemployment benefit; having worked 26 weeks out of 36, before becoming unemployed. But this effect of a group that became unemployed (or less employed) without being registered formally, is only a part of the explanation.

More important is the situation on the labor market. Before the crisis hit our country, many studies were conducted predicting the situation in a few years. All these studies confirmed the general picture that we were heading for serious problems. Not in terms of unemployment, but in terms of

shortage in working power. The baby boom generation, born shortly after World War II, will be reaching the pension age in the years to come, and at the same time less and less children were born from the seventies up to now. So a large group will leave the labor market and the group that should replace them is getting smaller and smaller.

When the crisis started to have its effect on companies, most larger enterprises were very aware that if they would fire a large part of their personnel, they would have trouble finding new personnel when the crisis was over. especially trained personnel.

So individual employers understood this and tried to keep as much personnel in as possible. Many companies made large profits in the years before the crisis, and were expecting to be profitable again shortly after the crisis was over, so they could afford to behave in this manner.

But more important, the government and the social partners were also very aware of the situation in the long run. This created the conditions for a special arrangement, that can serve as an exemple for the way that the social dialogue can still function.

The arrangement I am referring to is the 'part time unemployment scheme'. Of old we had just one arrangement to help companies that were in trouble for a short time. In case of a calamity, like for instance a fire, a company could use the unemployment fund as a subsidy for wage costs, to bridge a period that was needed to rebuild the production site.

But the period in which this was possible was only seven weeks up to a maximum of thirteen weeks. As a contrast with countries like Germany and France, this arrangement could not be used to bridge the period of economic crisis. The period was too short, but it was also formally excluded to put it to this use.

So the social partners negotiated with the government to make a special arrangement that *could* be used in times of crisis. The trade unions put some pressure on these negotiations with a demonstration by workers whose jobs were on the line, which of course helped, but all in all the government was very willing to make this arrangement. In a short period of time we succeeded in getting this arrangement effective, but also we were very succesfull in shaping this arrangement in such a manner that the position of the trade unions was secured.



There was some danger of misuse: companies could make use of this subsidy and after a certain period still fire most of their personnel. And another delicate subject was that of companies using this arrangement, but still giving bonuses to management. In stead of creating al large overhead for administration and scrutinize all applying companies, the government chose a more elegant solution.

Officials of the trade unions were made partly responsible. A company could only apply if the trade union that was its partner in collective bargaining agreed. So the unions were in a position to prevent misuse and, very important for the unions themselves, they were also clearly visible as part of the system. They could combine negotiations over this arrangements with a deal in case of a reorganization of the company. And they could make sure the time people had to spend at home because of a lack of work, was used to train them for other skills or for their employability in general.

And this mode of operation was indeed successful. It is broadly acknowledged that the part time unemployment scheme helped prevent a substantial increase in unemployment, and the evaluation made clear that misuse was hardly a problem.

So in times of crisis the government still sees the added value of social dialogue. This is against the trend of diminishing influence, but could be considered a very special case and an exception to the rule.

In the case of the pensions this is very different.

## **The pension discussion**

The Dutch pension scheme is usually referred to is a 'three pillar system'. The first pillar is the state pension, that guarantees a minimum income comparable with the minimum wage. On top of that there is a collective pension which is arranged through collective bargaining for a whole sector, or which is part of the agreement within a large company.

This second pillar is compulsory for all workers (and employers) that are part of the collective bargaining agreement. Usually, that is the case for the whole sector.

The third pillar consists of private insurances, and is in practice not very important, except for the highest incomes.

In general, the state pension is very important for people who earn just a minimal income, and for inhabitants that never worked. The only ground to become eligible is that a person has to have lived in the Netherlands. Every year gives you 2%, so a full benefit requires 50 years of living here, from age 15 to age 65 (the current pension age).

A few years ago a political discussion started about the need for people to work longer, in order to keep the state pension and the collective pensions affordable, and to heighten the labor participation. The trade unions agreed upon the need for higher labor participation, but to heighten the pension age from 65 to 67 for everybody was not deemed necessary by them.



Within the group from 55 to 65 labor participation is still so low that the necessary improvement could be reached there. Moreover, there is a group that started work at an early age, and often worked a life long in physically exhausting circumstances, a group that really wasn't able to work any longer. The government refused to find a solution to this problem, so the unions decided to oppose to the higher age.

After a number of discussions the parliament agreed upon a higher age for the state pension, so this was a lost case for the unions.

But the next thing that happened was that the government fell. So the act that would make the higher pension age part of the system could not be passed. Moreover, the pensions became the focus of attention, both in the media and in parliament.

Because of the financial crisis the portfolios with stocks devaluated, and the long term interest that the pension funds have to take into account was at an all time low. There was an immediate threat that pensions would have to be set at a lower level.

Social partners looked at this problem as a kind of a second chance for making a new system for both the collective pensions and the state pension, in order to make a flexible pension age possible. For the trade unions it was crucial to have a possibility for people in professions with exhausting working conditions to be still able to stop working at an age of 65.

So the social partners made an agreement in the Foundation of Labor for the collective pensions, in which all the recent problems would be tackled. But they needed the cooperation of government. For two reasons. Firstly, the government has to facilitate pension building by a tax deduction. That is part of the system.



Secondly, the level of the state pension had been going down for years, relatively speaking, because the index used was not linked to the real wage development, but to the average development through collective bargaining. This concerns only the 'bare' wages, and not all the extra's a working person gets every year, because of a higher age, a career step, etcetera. This development boils down to an extra raise of 0,7% every year.

So now the social partners ask the government to apply this higher index to the state pension, in order to alleviate the pressure on the collective pensions. And to make it possible, when the pension age goes up to 66 in 2025, for people to stop working at the age of 65 when they need to. In that case the state pension is 6,5% lower, but in the ten years that have gone by the level will have become about 7% higher. So the level will still be comparable to that of today.

After the elections this summer we now have a minority government, that is dependent upon a right wing populist party to get a majority in parliament.

This government can be considered right wing and liberal, which means they are not in favor of trade unions. But because of their narrow base in parliament they look for support for their policies, also by binding social partners.

In the starting paper of the government it was stated that the Pension Agreement of the social partners would be adopted, but upon writing this article this is still not quite sure. Using a higher index for the state pension is of course something that has to be covered by government finances, so there is still some discussion there.

But in general it is clear that the pension scheme is still a terrain in which the competence of the social partners is acknowledged.

### **Conclusions**

My conclusion would be that the support in parliament for a large role for social partners has become smaller, but as is the case with the pension scheme, there are still fields where this role is not disputed.

On the decentral level, support for the system of collective bargaining, in which the agreement reached is applied to every company and every worker in a certain sector, is still very strong. All workers, also the non-members, think the unions do a good job there. The alternative, all workers having to make their own agreement, is not very popular, apart from a small group of high paid officials.

And on the national level, the SER is still a force to be reckoned with. I wouldn't be surprised if the really complicated issues in politics are again put forward to the SER.

The minority government has to organize support, and at least make the impression to be just another government, that can arrange important topics. To do so, they strive towards a broad Social Agreement with the social partners, especially on employability of older workers.

But the social partners agreed that first of all the Pension Agreement had to be fully adopted. This is the real testcase for the position of all parties involved.

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