Smart policies or sheer luck?

Labour market resilience in the low countries

Menno Fenger [a]
Ferry Koster [b]
Ludo Struyven [c]
Romke van der Veen [b]

[a] Department of Public Administration, Erasmus University Rotterdam, Rotterdam, The Netherlands
[b] Department of Sociology, Erasmus University Rotterdam, Rotterdam, The Netherlands
[c] Research Institute for Work and Society, KU Leuven, Belgium

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Abstract

This article explores the labour market resilience of Belgium and the Netherlands. We define labour market resilience as the capacity of labour markets to resist, withstand or quickly recover from negative exogenous shocks and disturbances and to renew, adjust or re-orientate in order to benefit from positive shocks. This article focuses on the labour market consequences of the crisis in these two countries and discusses their policy responses. Belgium and the Netherlands are often considered as comparable countries because of their open economies, their institutional characteristics and the fact that they usually are grouped together in the same welfare regimes. This article clearly shows that there are considerable differences between the countries. Although both countries have managed tolimit the labour market consequences of the crisis, they have done so through the application of different interventions and reforms. From the comparison of these two countries we distillate more general conclusions about the factors that promote or limit labour market resilience.

Keywords

Labour market resilience; Labour market policy; Unemployment; Labour market participation

Introduction

The financial and economic crisis that has hit Europe since 2008 has made it evident that European labour markets differ remarkably in their ability to deal with crises in general and, more specifically, to handle the economic and fiscal crisis that now holds Europe in its grip. Different routes can be followed to understand how countries respond to the crisis, and to explain which responses are most successful. A common research strategy is to compare countries with different characteristics such as size of population, economic openness or level of deindustrialization and from that explain different labour market outcomes. By investigating what factors explain these differences, it is possible to pinpoint what country characteristics contributed most to the success and failure of these countries. This is a line of argumentation that has produced Katzenstein's 'small states' thesis. Katzenstein (1985) claims that the policy responses of small states differ from those of large states as their economic and social challenges also differ. In a similar way, Obinger et al. (2011) have investigated the transformation of social policies in small countries.

In this article we take an alternative approach. Rather than focusing on the similarities of small, open welfare states we try to deconstruct these similarities by describing and analysing in-depth the labour market dynamics and policy responses of two comparatively small and open European economies: Belgium and the Netherlands. The main reason for this is that it may be too simplistic to assume that comparable countries show similar responses if they are confronted with similar challenges. In other words, by looking at the similarities, one may overlook the differences that account for the performance of these countries.

In this article, we present an analysis of similar cases by contrasting how two countries that are alike in many respects – Belgium and the Netherlands – have dealt with the economic and financial crisis. We focus on these two countries because the economic, demographic and political situation of these countries show significant similarities. In the traditional welfare regimes approach (Esping-Andersen, 1990) both countries are considered as conservative welfare states, and also more refined approaches (see Arts and Gelissen, 2002; Fenger, 2006) cluster these countries in the same welfare regime.

The central theme in this article is how these two countries have managed to limit the labour market consequences of the current economic and financial crisis. It analyses and explains how the economic and financial crisis that started in 2008 has impacted the labour markets of Belgium and the Netherlands, how these countries have responded to this crisis and to what effect. Explaining the differences and similarities of the responses of these two countries might lead to important insights in the backgrounds of labour market resilience. The OECD (2012) uses the concept of labour market resilience referring to the extent to which labour markets weather through economic downturns with limited social costs. In a more general perspective, we define labour market resilience as the inclusive capacity of the labour market to resist, withstand or quickly recover from negative exogenous shocks and disturbances and to renew, adjust or re-orientate in order to benefit from positive shocks (see Bigos et al, 2013). Resilience is theoretically constructed as a dynamic, interactive process contingent upon regional economies and labour markets, social policy systems and welfare regimes. The significance of this article is threefold. Firstly, it creates in-depth knowledge about the ways in which small, open welfare states respond to economic shocks. Secondly, it contributes to the theoretical knowledge about labour market resilience and the impact of policies and institutions of labour market resilience. Finally, it draws lessons about policies and institutions that contribute to or limit labour market resilience and therefore may offer practical insights for policy makers, especially in small open economies.

The article is structured as follows. Section two discusses the theoretical backgrounds of the concept of labour market resilience and theoretically identifies structural factors that may explain resilience. This theoretical part structures the empirical examples provided in the next sections, although it should be noted that there is no encompassing and fully developed explanatory theory of labour market resilience. Hence, the two country descriptions are exploratory and aimed at developing such a theoretical framework. Sections three and four offer two qualitative case-studies of the impact of the financial and economic crisis in Belgium and the Netherlands and explain the differences in labour market resilience. These two sections focus on the policy responses and reflect on the impact of these policy responses. In the final section we reflect on these findings from a ‘small states’ perspectives as well as a ‘resilience’ perspective and offer some practical and theoretical lessons.

Similarities and differences in labour market resilience: theoretical explanations

When explaining the labour market consequences of the economic crisis for Belgium and the Netherlands, two initial questions come up. The first question is to what extent the labour market consequences of the crisis in these two countries differ from those of other countries (and how similar they are between these two countries). The second question is to what extent this may be explained from external factors, most notably the impact of the economic crisis as marked by fluctuation in GDP in these two countries. Figure 1 provides an answer to the first question. This figure illustrates the development of unemployment rates in the EU-27, Belgium and the Netherlands since 2006. As we can clearly see, the initial labour market conditions in Belgium were comparable to those of the EU-27, whereas unemployment in the Netherlands was, and still is, clearly lower. Belgium and the Netherlands seem to have managed to ‘control’ the crisis’ impact especially during the first two years of the crisis. The EU’s total unemployment rate rose with 2.6 percentage points from 7.1 to 9.7, whereas unemployment growth in these years remained limited to 1.3 points in Belgium and 1.4 in the Netherlands. In sections 4 and 5 we will discuss the policy initiatives that these countries have implemented in detail and will reflect on their success.

Figure 1. Development of unemployment during the crisis

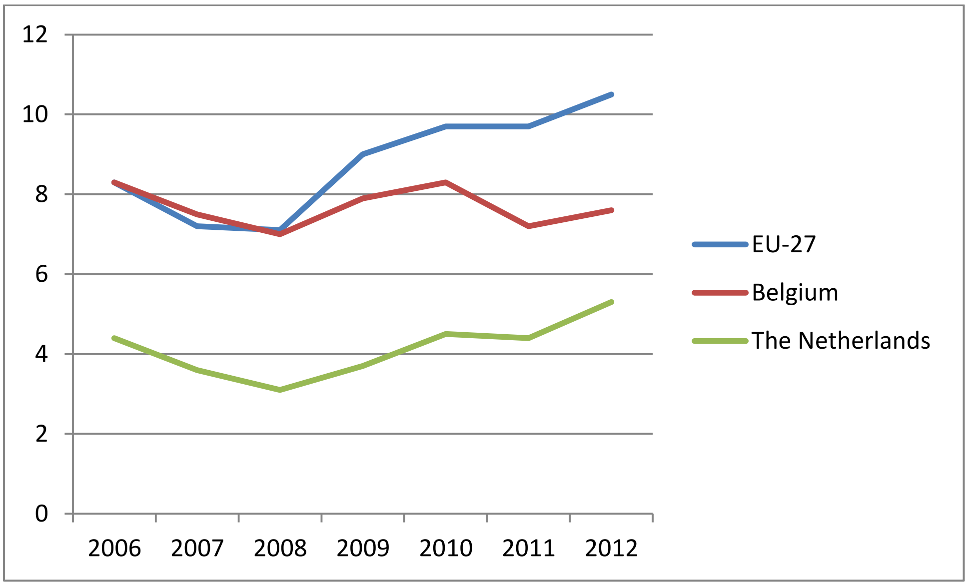
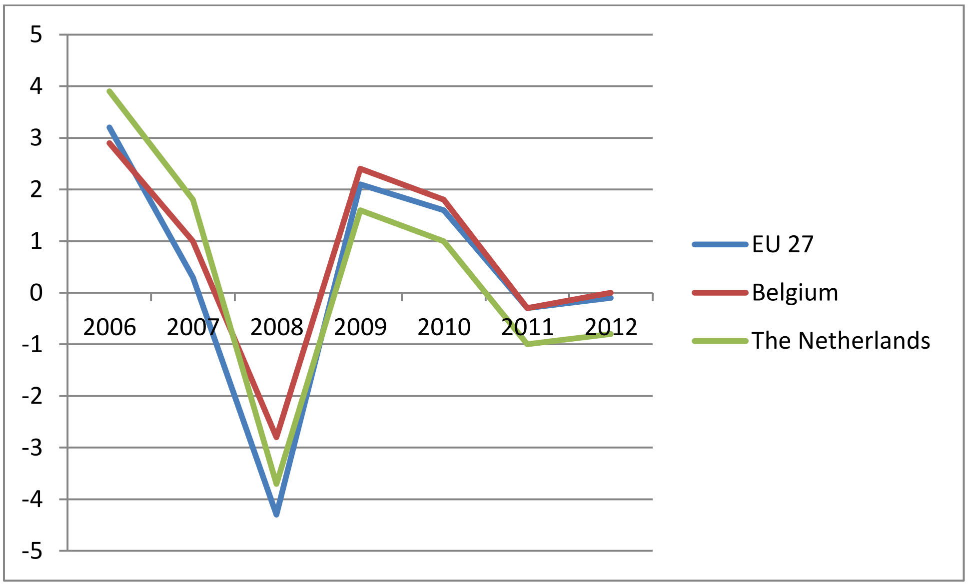


Figure 2 shows the average GDP-growth in the EU-27 and the growth of GDP for Belgium and the Netherlands separately. From this figure it becomes clear that the pattern of GDP-growth was similar to the EU-average, suggesting that in this country the crisis has had the same impact as in other EU countries. The peak-to-bottom decline between 2006 and 2008 in the Netherlands is similar to the EU-average, the initial recovery was not as good as in other countries and the second stage of the crisis seems to affect the Netherlands more than the EU average. This contrasts with the rather limited labour market consequences that we have identified earlier. Belgium seems to follow the European average in the second stage of the crisis, although the crisis was not as intense in the first two years. From this graph we may conclude that differences in GDP-growth seem to be not the only explanations for the labour market consequences of the crisis in Belgium and the Netherlands.

Figure 2. GDP development



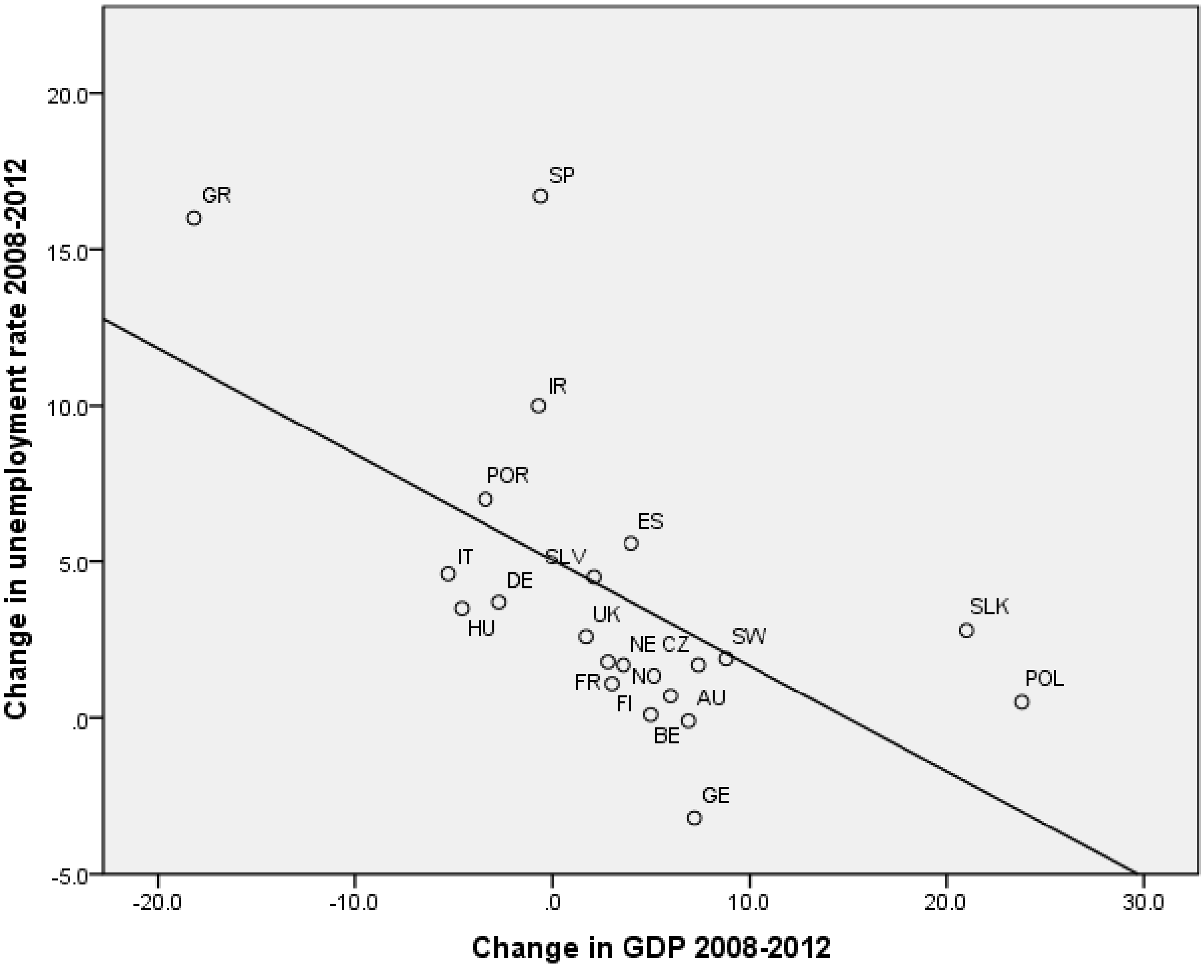
To analyse the different capacities of labour markets to deal with external shocks, the concept of labour market resilience has recently gained popularity (see for instance OECD, 2012; Bigos et al, 2013). There is a general consensus that interactions between macroeconomic shocks (such as shifts in productivity growth, caused by global recessions) and structural policy settings play a key role in determining labour market outcomes (OECD, 2006). Moreover, in the long-run perspective, the ability of a certain region to have more and better jobs largely depends on the intensity and characteristics of economic growth and on the patterns of structural change, interacting with changes in the global division of labour (Brada and Signorelli, 2012). In this respect, sectoral productivity dynamics (Kruger, 2008) together with demographic and migration trends (Bauer and Zimmerman, 1999; Colyer, 2011; Galgóczi et al., 2011) are of key importance for economic decline of different regional labour markets. Consequently, there are many institutional, structural-demographic and socio-economic explanatory variables of labour market resilience.

As indicated above, the concept of labour market resilience refers to the absorption capacity of labour market. We have defined labour market resilience as the inclusive capacity of the labour market to resist, withstand or quickly recover from negative exogenous shocks and disturbances and to renew, adjust or re-orientate in order to benefit from positive shocks. This definition implies that even in a context of convergent developments in GDP, the labour market consequences may vary between countries. Indicatively, we have shown for the two countries that take a central place in this article – Belgium and the Netherlands – that the relation between GDP-development and labour market outcomes is not linear or straightforward.

To explore this relation further, we have compared the GDP development and development of unemployment rates for 21 countries. Figure 3 shows the outcome of this comparison. It shows the development of GDP and of unemployment for 21 European countries between 2007 and 2012. As expected, there is a clear negative correlation between these two variables (-0.59). More important for this article is the observation that there are various bigger and smaller outliers as well.

These outliers point towards differences in the capacities of national labour markets to absorb the external shock of the crisis. These differences in capacities to absorb GDP shocks is what the concept of labour market resilience tries to catch. From this figure we can see remarkable differences between the European countries not only in the developments of GDP and unemployment, but also in the relations between these two variables. This becomes clear in the distance from the artificial line that represents the linear relation between GDP development and unemployment. From this figure we can see that although the impact of the current crisis has been limited in Belgium and the Netherlands.

Figure 3. GDP growth and development of unemployment



Source: Eurostat (own calculations)

As the aggregated change in GDP comes closer to 0 for most countries, it is hard to identify the resilience of labour markets for these countries. In economics, Okun's coefficient is used as an empirical description of the relation between GDP growth and unemployment. Okun (1962) observed that more labour is typically required to produce more goods and services within an economy. Originally, Okun expected a more or less fixed, negative relation between GDP growth and unemployment levels. However, the evidence suggests that Okun's relation varies over time, over the business cycle and between countries (Knotek, 2007). Therefore, not the original law, but the calculated coefficient that Okun introduced is increasingly used to assess the flexibility, absorption capacity or resilience of labour markets. The OECD (2012) has calculated Okun's coefficient during the crisis for 20 European countries. The higher the coefficient, the stronger one percentage point of GDP growth is translated into a reduction of unemployment levels and, more important for this article, reversed: the lower the index, the more resilient the labour market in a country.

Table 1. Okun's coefficient in European countries during the crisis

Country	**Okun's coefficient**
Austria	0.24
Belgium	0.20
Czech Republic	0.36
Denmark	0.32
Estonia	0.56
Finland	0.18
France	0.35
Germany	-0.06
Hungary	0.33
Ireland	0.58
Italy	0.15
The Netherlands	0.08
Norway	0.16
Poland	0.00
Portugal	0.26
Slovak Republic	0.14
Slovenia	0.15
Spain	1.96
Sweden	0.17
United Kingdom	0.36

Source: OECD, 2012, Table 2.A1.3

As we can see from Table 1, Okun's coefficient is relatively low for the Netherlands and Belgium although the countries also differ. This implies that in a period of economic crisis, the institutional backgrounds of the countries apparently have limited the labour market consequences of the crisis.

All in all, from the following can be concluded that the labour markets of Belgium and the Netherlands have shown to be considerably resilient. Now, the next question is which factors contributed to these outcomes. More specifically, is it because these countries have followed the same institutional pathway or can it be that they have taken different routes leading to comparable levels of resilience? To answer these questions, the next two section will analyse the labour market developments in Belgium and the Netherlands in detail.

Labour market developments and responses to the economic crisis: Belgium

In Belgium, after a first period of economic recession in 2008 and 2009, employment started to expand again between 2009 and 2011. This period of economic recovery was followed by a second dip in the second half of 2011 (Bulté and Struyven, 2013; Heylen et al., 2013). In terms of decrease in GDP, the second dip of the economy was not as sharp as the first one, but in terms of employment the second dip hit the job market relatively harder than in the first period. During the first dip the net employment change rate in the Belgian job market turned negative during only one year (-0.5 percent between 2008-2009). More recently, the evolution of the net employment shows two consecutive negative years (resp. – 0.4 percent between 2011-2012 and -0.7 percent between 2012-2013). At the same time, the unemployment rate increased less than in other European countries. This is widely interpreted as a result of labour hoarding, in particular through the large use of short working time schemes (Hijzen and Venn, 2011; OECD, 2013). However, a closer look reveals that several factors that have contributed to the relatively favourable reaction of the Belgian labour market, at least in the short term. But various indicators suggest that the rather positive situation in the short term will turn out negative in the long term.

To explain these labour market dynamics, in the remainder of this section we examine four issues more detailed. First, we focus on the employer’s use of existing and new instruments that help to keep workers employed. A second means of flexible adjustment of the labour force consists of the employer’s use of flexible contracts, in particular fixed-term temporary agency contracts. Third, the underlying job dynamics reveals which part of the economy is most vulnerable to cyclical fluctuations and which sectors are most resilient. Fourth, we consider the role of job creation schemes and the evolution in public sector employment.

A first factor that has played a major role since 2008 is the extensive use of schemes such as temporary unemployment and reduction of working hours, both function as anti-crisis measures. The main mechanism, already well documented in literature, consists of a reduction of the number of working hours without redundancies. The largest permanent scheme for blue-collar workers, the so-called temporary or economic unemployment allows employers to suspend (partially or completely) wage contracts, i.e. stop remuneration but keep workers on the pay-roll. This scheme already existed for many years, but was made more attractive during the recent crisis by allowing branches to make more exceptions to the maximum duration. Compensation by unemployment benefits increased from 60 percent to 70 percent of the (bounded) gross monthly salary. A second, more restrictive scheme for white-collar workers was introduced in 2009. A third temporary scheme was introduced in 2009 and expired in early-2011 to allow employers to reduce working time for all employees within a collective agreement at the firm level (so-called collective reductions). The take-up of reduced working time schemes nearly doubled between 2007 and 2009. With 5.6% of workers in one of these systems in 2009, Belgium comes first in Europe; Germany follows with 3.2%. Following OECD estimates, in the case of Belgium short time working schemes may have damped the fall in permanent employment by as much as 1.3% by the autumn of 2009, relative to a scenario where such schemes would not have been available (OECD, 2010). This figure represents 0.9% of the employment rate[1]. The most popular instrument, the use of temporary unemployment, supported at the height of the crisis the equivalent of 60 000 full-

[1]In the Employment in Europe 2010 report, European commissioner for employment Laszló Andor declared: “This scheme has been particularly important in Belgium, where it has played a major role in moderating the rise in "full" employment”.

time workers. It concerned mainly workers in export-sensitive, male-dominated economic branches such as metal, automotive, textiles and clothing and the wood and paper industry. Once the production caught on again, these workers could be employed again . Remarkably, even after the economic crisis the level of temporary unemployment remained very high: mid-2011 the scheme supported still the equivalent of 20,000 full-time workers. Short-time work allows a much quicker reaction to demand fluctuations then hiring and firing workers. It offers employers the opportunity of 'strategic waiting' in the face of uncertainty (Schmid, 2013). It is a reversible instrument, unlike dismissals. But when it becomes a permanent instrument, it risks to be counterproductive. Employees remain too long without work. In the second period of the crisis on the Belgian labour market, employers made less use of temporary unemployment for their blue-collar workers, while the introduction of a similar instrument for white-collar workers has never been a success. The most important internal buffer is used up and dismissals became more frequent (Bulté and Struyven, 2013).

A second explanation for the Belgian labour market response to the crisis is concerned with employers' intensive use of temporary agency work to adapt rapidly to changes in demand. The recession in 2008-2009 led to a sharp drop in temporary employment (-29,000 full-time equivalents), which immediately was followed by a strong recovery in 2009-2010 (+ 14,000 full-time equivalents). The extent to which the temp agency sector endured the recession was much greater than during the previous crisis in 2001 (Geurts, 2012). This is because temp agency jobs today represent a much more important part of employment than in the past (1.7% in 1995 compared to 3.2% in 2011), but also because of the exceptional nature of the crisis, which struck above all sectors where many use is made of temporary agency work. This is shown in Figure 4.

Figure 4a. Evolution in the number of temporary agency workers in Belgium, June 2006- June 2012

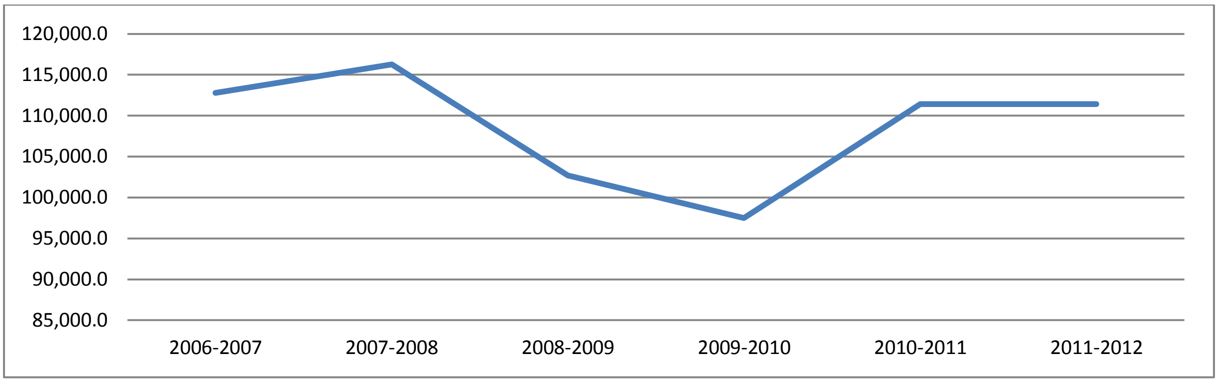
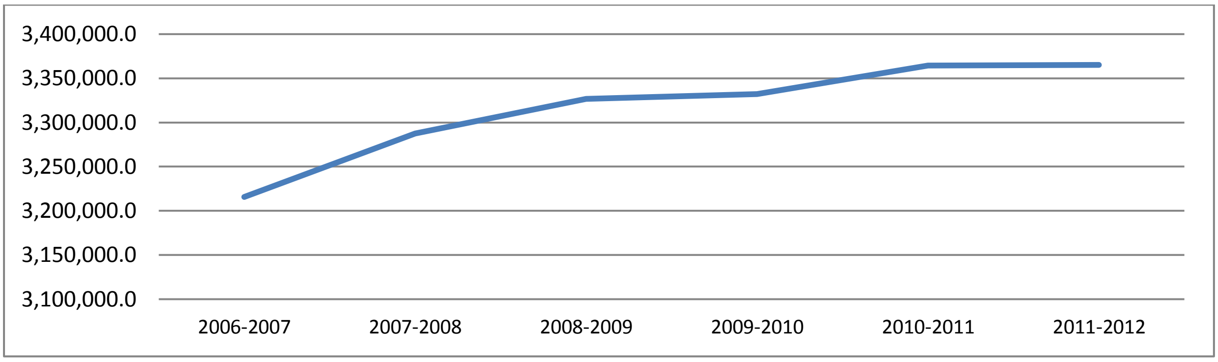


Figure 4b. Evolution in the number of wage earners in Belgium (excluding temporary agency workers), June 2006-June 2012



Source: National Social Security Office and www.dynam-belgium.org

A third explanation for the Belgian response deals with the restricted job creation which reflects a less dynamic labour market, which is less resilient against economic downturns. The Belgian labour market is less able to benefit from the cautious economic recovery, job creation remains at a lower level. As a result, job growth is very limited. The sectoral structure of the economy to a large extent determines the resilience of the economy and labour demand. A high proportion of industrial firms is characteristic of an economy with strong foundations, but which is also highly sensitive to cyclical fluctuations. Furthermore, Belgium's enterprise sector does not perform well in terms of innovation. Conversely, while non-commercial services act as a buffer against cyclical fluctuations affecting labour demand, too high a proportion may have a stifling effect on the economy. The industrial sector in Belgium is a large sector characterized by fairly weak job dynamics. It has high start-up and expansion costs, limiting the effect of economic revival on job creation. Conversely, a cyclical downturn leads to increased job destruction, despite potential buffering instruments such as temporary unemployment or reduction in working hours. The sector's response to the economic downturn in 2009 was clear: the job creation rate declined, while the job destruction rate increased sharply. In some subsectors, the negative job change was primarily caused by the recession, whereas in other subsectors, it reflected the structural decline of the industrial sector. In service sectors, start-up costs are lower and existing enterprises are generally younger and smaller, thus boosting employment dynamics. Part of the job losses in the industrial branches were compensated by job creation in the commercial sector. This sectoral shift was accompanied by a strong shift from full-time to part-time jobs (Geurts, 2012). The creation of part-time jobs reflected a long-term trend of a declining volume of labour. This is illustrated in Figure 5.

Figure 5a. Evolution in the number of full-time employment in Belgium, 2003-2012 (x 1000)

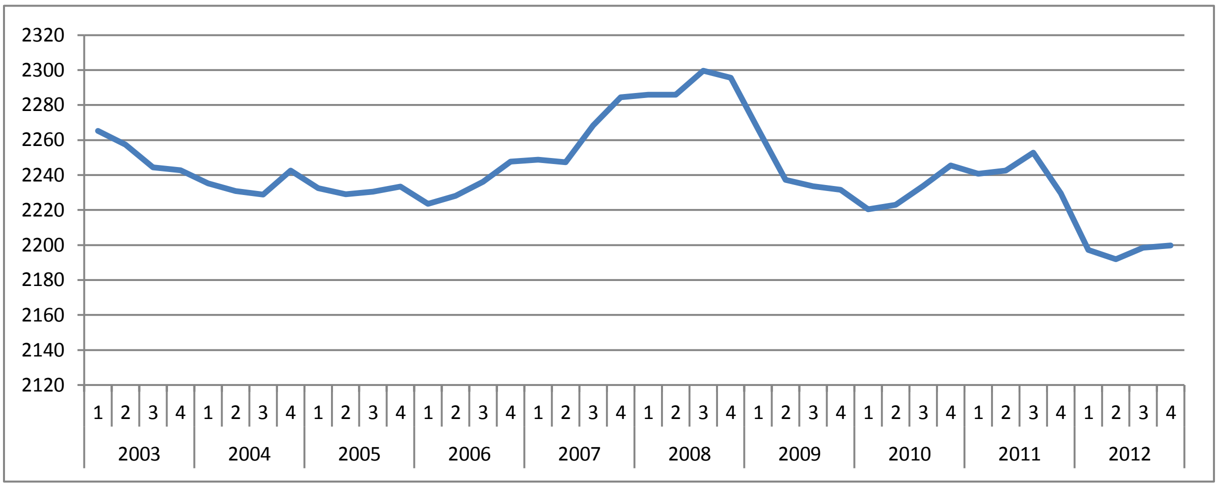
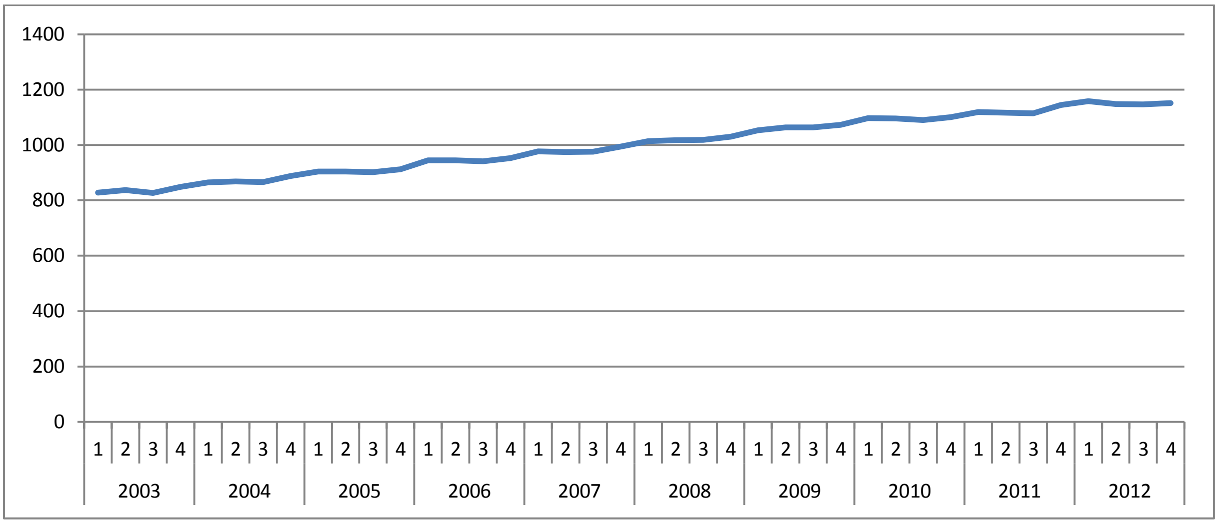


Figure 5b. Evolution in the number of part-time employment in Belgium, 2003-2012 (x 1000)



Source: National Social Security Office

As a fourth explanation for the Belgian response, during the first wave of the crisis there was still a considerable job growth in the public sector and in non-commercial services. A typical result of Belgian labour market policies, is the rise of jobs in the social services sector, consisting of cleaning services for private households paid for by the service voucher scheme. This job creation scheme had a moderating influence on unemployment among low-skilled women. This also fits into a tradition of supply-driven policy. Recently, the public sector as well as the educational sector in the French speaking community were affected by severe spending cuts. As a consequence, replacement of employees on retirement was delayed or drained. Particularly in healthcare and social services job creation was high, which compensated for job losses in the industrial and commercial sectors during the economic downturn. In recent years however, their compensating role as economy-stabilizing sectors is cancelled out.

In sum, the Belgian economy has been resilient throughout the crisis with a smaller increase in unemployment than in many other OECD countries, which reflected widespread labour hoarding. Furthermore, more people were (temporarily) employed through the extensive use of temporary agency work. Third, the creation of part-time jobs reflected a long-term trend of a declining volume of labour. Besides the extensive use of short time working schemes, another factor that contributed to the declining volume of labour resulted from a sectoral shift in employment from the industrial towards the tertiary and quaternary sectors of economy. Besides time adjustment mechanisms, there has been a significant decrease in temp agency contracts during the crisis.

The initially favourable analysis of five years of crisis on the Belgian labour market to a certain extent hides deeper structural changes in the employment structure (especially due to deindustrialisation), which causes shocks to which labour market actors are barely prepared. According to employers' advocates, the low degree of job creation is caused by the high labour costs and the strong employment protection of insiders on the labour market. A large number of labour market institutions have come under pressure: minimum wages (which are high by international standards), automatic wage indexation (along with Greece the only country in EU), wage-setting based on seniority instead of productivity (loss of cost competitiveness), employment protection (costly layoff procedures for white-collar workers), generous unemployment benefits, and a complicated tax-benefit system. These latter elements of fiscal policy are defined as automatic stabilizers which mitigate output fluctuations without discretionary government action (Dolls et al., 2012). In particular in the recent economic crisis in Belgium, the workings of automatic stabilizers in the fiscal system are found to play a key role in providing income insurance for households and hence in stabilizing demand and output. Belgium is one of the countries within the EU for which the highest stabilization coefficients are found.

However, the favourable working of automatic stabilizers – wage indexation mechanism, centrally negotiated wage formation, generous social security system and progressive tax system – also has its down side. The annual OECD report on the Belgian economy (2013) points out that there are many inbuilt factors which reduce the competitiveness of Belgium's labour market. These include high taxes and the perverse effects automatic wage indexation has on salary growth. The OECD recommends that this mechanism be phased out and that wage growth be more closely linked to performance. Encouraging labour hoarding is now called a high-risk practice for companies during a recession as it reduces profitability, although it guarantees that talent remains in the company.

To conclude, the Belgian labour market is preserved by a strong legacy of several protective measures, further enhanced by the anti-crisis schemes of the government, relying on large use of mainly permanent short working time schemes and subsidized job creation, furthering a long term trend of a decreased total volume of labour. By sticking on existing wage structures and a stabilizing fiscal system, this may have a negative effect on employment in the presence of future shocks, when workers need to be reallocated across industries. The unintended consequence is a resilient labour market in the short term, but a less resilient labour market in the long term once the economic cycle will restore.

Labour market developments and responses to the economic crisis: the Netherlands

As has been illustrated in figure 1 unemployment was and is significantly lower in the Netherlands at the start as well as during the financial and economic crisis than in the other EU-27 countries. Until 2012 the Netherlands, as well as Belgium, also seems to have managed the crisis more effective than the EU-27 countries: unemployment growth was half of that in the EU-27. In this section we will discuss the labour market dynamics during the 2008-2013 crisis in the Netherlands in detail. We will first give a short overview of the main developments in social security and labour market policies since the 1990's. As we will show next, these developments have had a profound effect on the labour market and on labour market participation in the Netherlands. The participation rate rose sharply and labour relations became much more flexible. We hypothesize that it are these policy changes, prior to the financial and economic crisis, that have abated the negative labor market consequences of the crisis. This effect is however probably short-lived. We will finally show that as the crisis continues the negative impact on the Dutch labour market increases. This fuels new policy changes.

In a recent analysis of transformations in welfare state policies in small states Obinger et al. (2010) observed that in general policy changes were directed to the so-called supply side of the labour market without dismantling the welfare state. This development towards supply-side oriented policies and at the same time maintaining a welfare state tradition is also illustrative for the developments that have taken place in the Netherlands since the 1990's (see Van der Veen 2009; Van der Veen et al., 2012). Since the 1990's a restructuring of social security policies, of the administration of social security and of labour market policies has taken place that was intended to facilitate a smoother functioning of the labour market and to stimulate participation.

With regard to social security policy, a reduction of the replacement rate and the duration of benefits has been implemented in order to increase the incentive to re-enter the labour market. Replacement rates in disability and unemployment insurance were lowered and the duration of the unemployment insurance was made dependent on the number of years the insured had worked and paid premiums. Secondly, at the same time a strengthening and stronger enforcement of the duties of benefit-recipients in order to make them re-enter the labour market faster, took place. It became increasingly difficult to refuse job-offers and disabled were more and more seen as partially disabled and thus still capable of work.

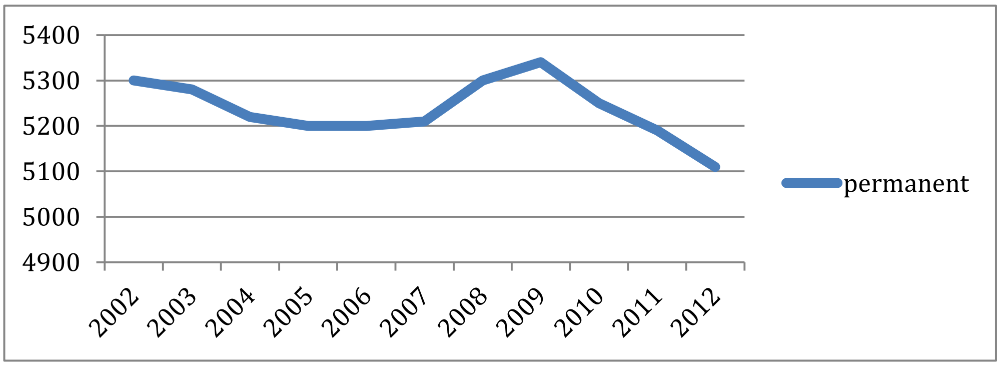
These policy changes were accompanied by fundamental changes in the administration of social security. First, a reshuffling of the financial and administrative responsibilities for social security took place. The employer now pays the benefits in case of sickness and occupational disability during the first two years of sickness. Only after these first two years the benefits are paid from social security funds. This extensive responsibility of employers in case of sickness is intended to prevent sickness and occupational disability. Next to this privatisation of the risk of sickness and disability, secondly, the state has taken over the responsibility for the administration of social insurance (that used to be the responsibility of social partners). Finally, the premiums of unemployment insurance are paid for by the state in order to reduce labour costs.

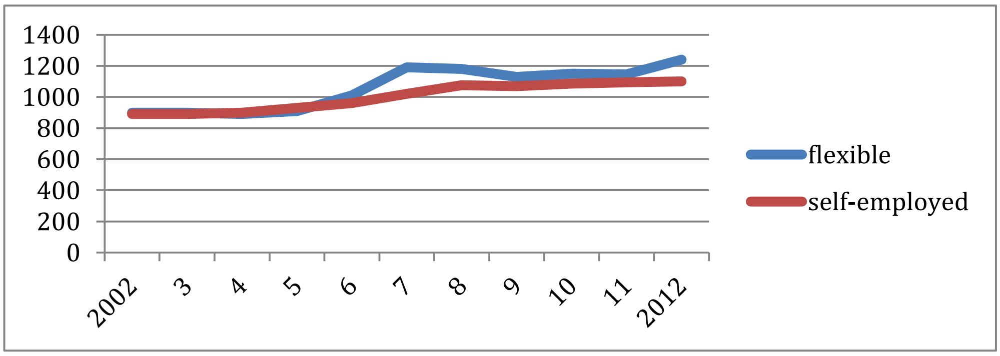
At the same time labour market policies have gradually changed from passive to more activating measures. This affected social security policies as well as the administration of social security, but it also translated into new labour market policies that were intended to make the labour market more flexible. This led, first, to the encouragement of part-time labour contracts (Visser, 1999) in order to stimulate labour market participation (especially of women). Secondly, flexible labor contracts and temporary agency working was stimulated. Also early retirement was strongly discouraged. These policies were, finally, accompanied by an increase of the legal protection (since 1999) of flexible labour relations: after a period of three years employers are forced to offer workers with flexible employment contracts a permanent employment contract. With these changes in social security and labour market policies the Netherlands hoped to create a new policy of flexicurity: a labour market that can respond quickly to changes in economic and production processes, without sacrificing the social protection of workers. The social security of workers has to be primarily achieved by maximizing their labour market participation, not by social insurance.

As may be expected, these policy changes have had significant consequences for the supply-side of the labour market. Three consequences are of importance to the country's response to the current economic crisis: (1) an increase in flexible labour relations; (2) a steady growth of the number of self-employed; and (3) an increase of the participation rate of older workers.

The Netherlands have developed a labour market that is characterised by a relatively high percentage of part-time employment: the highest of all OECD-countries: 37% in 2011 (OECD statistics). Also the percentage of workers with a flexible labour relation (temporary contracts, stand-by workers etc.) is relatively high: depending on the definition up to 30% of the working population. (Hilbers, Houwing and Kuster, 2011). Figure 6a and 6b illustrate this shift from permanent to flexible labour contracts.

Figure 6a and 6b. Development of permanent and flexible labour contracts and of self-employed (x 1000)





Source: CBS (Statline)

The percentage of self-employed in the Netherlands has also grown steadily during the last 10 years. Nevertheless, it should be noted that the group of self-employed is very heterogeneous. Next to (starting) entrepreneurs the category also includes a large group of high educated professionals as well as a large group of craftsmen (for example construction workers) whose work has been 'outsourced' and who, out of necessity, have started as entrepreneur. The rise of these self-employed *without employees* and the outsourcing of work is, among others, due to the high risks employers run with permanent employment contracts in case of sickness and disability (Dekker 2011, 2013).

Finally, the labour market participation of the elderly has risen strongly in the last 15 years. The participation of the 55 and older has risen with 20 percentage points, of the 60 and older with 40 percentage points. (UWV 2013: 20) In the last decade the mean retirement age has risen with more than three years to 62 for men and 60 for women and it is still rising. (SCP 2012: 134)

Therefore, the labour market in the Netherlands in the first decade of the 21st century is characterised by a high participation rate, which is partially the product of the high level of part-time work and of the increasing participation of elder workers. One-third of the work-force is working in a flexible employment relation and there is high number of self-employed (without employees). As said before, these characteristics of the Dutch labour market have helped to absorb the first shocks of the financial and economic crisis. The Dutch CPB -the Agency for Economic Policy Analysis- however also points to 'labour hoarding'. (CPB 2011) Companies have retained more personnel than can economically be expected and therefore unemployment increased at a lower rate than the development of the labour force and economic conditions would have predicted. This too explains why the economic crisis of 2008 is in this respect very different from earlier crises, as the Table 2 illustrates.

Table 2. Mean growth of GDP, production (per hour, hours per person and per person), working population and unemployment during three periods of economic crisis.

average growth in %	**1980-1983**	**2001-2004**	**2008-2010**	**1970-2010**
GDP	0.3	1.1	0.0	2.4
- production per hour	1.2	1.5	0.0	1.9
- hours worked per person	-0.5	-0.6	-0.2	-0.7
- participation	-0.4	0.3	0.1	1.2
Working population	0.6	0.7	0.7	1.2
Unemployment (mean change in %points)	1.3	0.5	0.3	0.1

Source: CPB 2011

Policy change in reaction to the financial and economic crisis does not play a major role in explaining the apparent resilience of the Dutch labour market. Although in 2009 a temporary part-time use of unemployment insurance has been made possible, at its peak only 40.000 workers have used this part-time unemployment insurance. This is too low to explain the above mentioned labour hoarding: it has reduced the unemployment level with only 0.2% (CPB 2011:9). The high number of flexible workers is another, more important factor that explains the relatively low level of unemployment. Companies have absorbed economic shocks by reducing the use of flexible workers. The reduction of labour market participation of flexible workers however is not visible in unemployment figures because the reduction of income of the self-employed (8% according to the CPB, 2011:9) is not insured and will often not lead to unemployment. (Dekker 2013). A deceleration in the increase of the working population is another possible explanation. As Table 2 illustrates, the working population is however still increasing. The CPB estimates the effect of a decrease in the supply of labour because of the economic crisis at 0.5% (CPB 2011: 9). A final factor that has to be mentioned as part of the explanation of the relatively low unemployment in the Netherlands is the expectation of employers of a coming labour shortage (CPB 2011: 13) Because of this shortage employers are reluctant to dismiss workers and they delay dismissal as long as possible. The quantitative consequences of this are difficult to measure, but this expectation is now gradually disappearing. The crisis lasts longer than expected and the expectation of labour shortage in the future is fading away: people, companies and labour markets adjust to expected shortage.

Our conclusion is that the resilience of the Dutch labour market cannot be explained as a consequence of policy measures that have been taken in response to the economic crisis. More important is the fact that the high percentages of part-time workers, of workers with flexible labour contracts and of self-employed without employees have created a dualisation on the labour market between insiders (with protection of their labour market position and social security rights) and outsiders (with little or no protection and rights). The outsider were first hit by the economic crisis and they were also hit the hardest. In the official statistics this is however not noticeable. So, one might say it are probably the unexpected consequences of the changes that have been implemented in social security and labour market policies in the 1990's and later, resulting in a very flexible labour market with a high level of part-time workers and self-employed and a high labour market participation, that explain the relatively low level of unemployment in the Netherlands and the apparent resilience of the Dutch labour market until recently. The resilience of the Dutch labour market is therefore vulnerable. A first sign of this vulnerability is the fact that the Netherlands Institute for Social Research (SCP) observed a sharp rise in poverty since 2011 (SCP 2013). This rise is also the result of increasing poverty among the working population and the self-employed. At the same time unemployment figures have gone down slightly at the end of 2013. The Dutch Statistics Agency (CBS) however does not attribute this to an improvement of the labour market but to what they call a 'discouraged worker' effect: the high and continuing level of unemployment makes workers leave the labour market, not registering again as jobseeker.

Discussion

The previous two sections clearly show that countries can achieve labour market resilience through different strategies and policies. Besides that, it can be the result from the structure of the labour market which is less consciously constructed to attain levels of resilience, but may give a country a certain advantage in times is crisis. Hence, some of the factors contributing to resilience are rationally devised, but many others seem to be rather a matter of having the right circumstances at the right time. These findings have consequences for many of the theories that followed Katzenstein's small states argument. Katzenstein (1985) has argued that the policy responses of small states may differ from those of large states, as small economies are opener and therefore more vulnerable to external shocks (see also Rodrik, 1997; 1998 and Koster, 2009). In the literature it is debated whether economic openness reduces the power of states or strengthens it (Koster, 2009), but apart from the direction in which economic openness influences social policies, the literature shows that small states tend to be more flexible as they are able to adapt their social policies more swiftly than larger states as it turns out that their ability to learn is more advanced than larger countries (Katzenstein, 2003). According to small states logic, size and openness are intimately linked as smaller countries are also more open and as such more dependent on the world market. As a response to the volatility, small countries have also developed strategies allowing them to deal with such changes as they are able to adapt their social policies. Following Katzenstein's argument, we may assume that the openness of the economies in the Netherlands and Belgium may make these countries vulnerable to external shocks in GDP, but they seem to have been able to control the labour market consequences of these external shocks through their labour market policies and institutions, both in their own way.

Nevertheless, what the theoretical literature building upon the 'small, vulnerable states thesis' implicitly assumes is: (1) that there is a straightforward relationship between openness and economic development; (2) that similar conditions lead to similar policies and (3) that governments have little room to manoeuvre. The present analysis has challenges all three assumptions.

First, by means of illustration, Table 3 provides an overview of the changes in unemployment rates between 2007 and 2012 for countries ranked by their economic openness. It shows that the relation between economic openness and unemployment is not linear and appears to be complex. For instance, Ireland is a very open country which is hit hard by the crisis, but also closed countries like Spain and Greece have experienced fierce consequences in unemployment rates. Besides that, three countries stand out as economical open countries in which the crisis has only limitedly affected unemployment rates: Belgium, the Czech Republic and the Netherlands.

Table 3. Economic openness and changes in unemployment rates

	Economic openness 2009	Change unemploy-ment 2007-2012
Ireland	83.0	10.0
Hungary	74.8	3.5
Slovak Republic	70.8	2.8
Belgium	70.2	0.1
Czech Republic	66.4	1.7
Netherlands	65.6	1.7
Estonia	61.6	5.6
Slovenia	57.5	4.5
Austria	48.3	-0.1
Denmark	46.0	3.7
Sweden	45.1	1.9
Poland	39.4	0.5
Germany	38.4	-3.2
Finland	36.3	1.1
Norway	35.0	0.7
Portugal	31.7	7.0
United Kingdom	29.1	2.6
Spain	24.5	16.7
Greece	24.2	16.0
Italy	24.1	4.6
France	24.0	1.8

Sources; OECD, Eurostat, own calculations

Secondly, while both the small-states argument and the openness argument state that economic openness implies more market volatility, which leads to more extensive social policies (at least according to the "compensation hypothesis" argument of Rodrik (1997)), the present analysis shows that the two countries Belgium and the Netherlands, which are comparable in size and openness, have formulated different responses to the economic challenges they face. As the economic and institutional context of the Netherlands and Belgium show significant similarities, a comparison of these two countries may shed new light on Katzenstein's 'small vulnerable state' thesis. This means that there may be much more variety within the group of small countries than is generally assumed. Hence, even within the group of 'open' European countries, remarkable differences may be observed in the impact of the current economic crisis and the way in which governments have responded to it.

Finally, and in addition to the previous two points, economic openness is not just a development taking place outside the control of national governments, but is to a certain extent consciously striven for, taking into account how much uncertainty a country can handle and the public is willing to face (e.g. Burgoon, 2012, Koster, 2013). Hence, both economic openness and social policies are the outcomes of interactions between public and private actors. As a result, economic openness and national institutions may gradually develop, each responding to each other. We will illustrate this in the concluding section.

Conclusions

The analysis presented lead to the following conclusions about the labour market resilience of two small welfare states, namely Belgium and the Netherlands. While at first sight there are quite some similarities among these states, a more in-depth analysis provides evidence that both countries arrived at the outcomes through different pathways, using different labour market policies and because of the different structure of their labour markets. In previous research, it was stated that Belgium and The Netherlands differ in their policy of flexibility because of different institutional frameworks (Sels and Van Hootegem, 2001). While Dutch legislation encourages contractual flexibility, Belgian legislation focuses more on temporal flexibility. These different lines of flexibility between both countries disappeared to some extent, which is reflected by a strong increase in temporary employment in Belgium since the 1990s. Finally, the Belgian labour market is less sensitive to cyclical fluctuations given the relatively high proportion of people employed in the public sector.

Considering the labour market policies of these countries, the Belgian ‘success’ seems to be attributed to the re-introduction and the far more frequent use of the traditional instrument of ‘technical unemployment benefits’. This instrument seems to be well equipped for creating resilient labour market during intense, short-term crises. Its structural contribution to creating resilient labour markets however may be questioned. In the Netherlands, the flexibility of labour contracts and the widespread occurrence of self-employment and labour contracts seem to have contributed to labour market resilience. From a resilience perspective this might be considered a more sustainable solution during long-term crisis. However, this solution involves considerable social costs in terms of loss in income and increase in poverty rates. The resilience in the Dutch case therefore is primarily explained by labour market reforms that have been initiated long before the current economic crisis. In the Belgian case, it is closely connected to the reintroduction of an instrument that was already well-known.

These results have a number of consequences for the explanation of welfare state policies in general, and the resilience of these states in particular. We started this article by questioning the impact of the economic crisis on small, open economies. This article clearly has shown that there are significant differences within the group of small, open countries. There is no general response of these countries at economic crises. More importantly, we have observed important differences in the labour market resilience between countries. This implies that although crises may be considered as external events on which small, open countries have little influence, even small, open countries can curtail the impacts of these crises for their populations by introducing policies or creating favourable institutional contexts.

This article has shown that there are different pathways to resilience. While it may be tempting for social policy researchers and practitioners to think in deterministic terms about explaining cross national and longitudinal trends in welfare states, the present article underscores that governments have considerable room to manoeuver in the design of national social policies. Even though the objective starting positions of Belgium and the Netherlands are quite similar, these countries have chosen different responses to handle the economic crisis. In addition to that, the kind of responses that these countries have chosen are not developed in isolation but are taken in relation to the specific institutions and labour market situation. As a result, the reason why these welfare states turn out to be relatively resilient is not just a matter of conscious and rational policy making, but to a large extent also a matter of luck.

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