

# Moderate Wage Policy and Employment in the Netherlands: Theory, Practice and Inspiration

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**Abstract:** The unemployment rate is an important indicator reflecting the operation of the national economy and national happiness. The Netherlands is one of the more successful countries in dealing with unemployment. The Okun's law is verified by using the economic growth and unemployment rate data of the Netherlands from 1980 to 2021. It was found that Okun's law did not pass the model test in the Netherlands. The preliminary conclusion is that general economic growth does not necessarily increase employment. The theoretical analysis of the labor market supply and demand curve, found that a moderate reduction in wage growth rate can increase the actual employment, to achieve higher target employment. In theory, the smaller the wage growth rate, the more employment growth, the greater the decline in unemployment. Moderate Wages are the result of negotiations between employers and employees under government coordination. Positive negotiations at the national level are a prerequisite for this policy. The government not only coordinates negotiations but also actively provides social security. The policy not only improves the profit margin of employers, increases the enthusiasm of investors, increases the competitiveness of product exports, but also protects the fundamental interests of employees.

**Keywords:** Employment; Moderate Wage; Economic Growth

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## 1. Economic Growth and Unemployment

### 1.1 Okun's law

Okun's law was first discovered by American economist Arthur Okun. He tried to find a link between economic growth and unemployment through data comparisons and modelling. The conclusion is that there is a linear negative correlation between the change of economic growth rate and the change of unemployment rate. Okun's Law states that each 2% increase in the real GDP is associated with about a 1% decrease in the cyclical unemployment rate as more employees are needed to achieve a higher output while keeping other variables the same.

### 1.2 Data for Netherlands

Compare trends in economic growth and unemployment in the Netherlands from 1980 to 2021, using data on unemployment rate and annual GDP growth rate <sup>[1]</sup>. As shown in Figure1. Unemployment peaked in 1983 and then gradually declined. Unemployment remained stable after 1996, staying below 6 %, only briefly reaching 6.14 % in 2019. However, at the same time, the annual growth rate of GDP fluctuated greatly. The fluctuation after 1996 was not stable.

### 1.3 Model regression

According to Okun 's law, a regression model is established. The two variables selected are ' unemployment rate change ' and ' annual GDP growth rate ', and the period is 1980-2021. The purpose is to study the correlation between the two variables. The results are shown in Table 1. GDP annual growth rate coefficient  $\beta=-0.33157$ . It shows that there is a negative correlation between the two variables, which is basically consistent with the description of Okun 's law. However, the determination coefficient R Square = 0.399083. This shows that the regression model does not accurately explain the prediction results. Okun 's law has not been verified in the data of the Netherlands from 1980 to 2021.

Table1 Model Regression

Variable	Coefficient	Standard Error	T	P
Constant Term ( $\alpha$ )	0.700744	0.170103	4.119524	0.000191
Annual Growth Rate of GDP( $\beta$ )	-0.33157	0.065151	-5.08929	9.45E-06
R Square	0.399083	Adjusted R Square		0.383675

## 1.4 Summary

Okun 's law has not been tested in the Netherlands. In fact, general economic growth does not necessarily increase employment.

## 2. Moderate Wage theory

### 2.1 Labor market

As shown in Figure2. In a rectangular coordinate system, the horizontal axis(L) represents labor and the vertical axis(W) represents wages. The labor supply curve SL and the labor demand curve DL intersect at  $e_0$ , corresponding to the equilibrium wage  $W_0$  and the equilibrium employment  $E_0$  [2].

If the aggregate labor demand increases as the economy grows, the labor demand curve DL moves right to D'L, the equilibrium wage  $W_0$  increases to  $W_1$ , and the equilibrium employment  $E_0$  increases to  $E_1$ , turning into a new equilibrium point  $e_1$ . In the short term, assuming labor supply remains unchanged, the labor supply curve does not move. The faster the economic growth, the greater the labor demand, the longer the curve D'L right shift distance, the equilibrium wage and equilibrium employment will increase, and the increase will be greater.

### 2.2 Intervened labor markets

The market employment volume relying solely on economic growth may be less than the target employment volume expected by the government. As shown in Figure3.If the Government decides to intervene in the labor market, assume that the expected target employment is  $E^*$ ,  $E^* > E_1$ .

Assuming that the minimum amount of labor employed by the employer is  $E^*$ , the labor supply curve is a vertical line  $L=E^*$ . Under the condition that the employment volume is  $E^*$ , the enterprise will not use higher wages  $W_1$  to pay less employment volume  $E_1$ , but use lower wages  $W^*$ , absorbing the target employment volume  $E^*$ , and  $E^*$  is greater than  $E_1$ .

Under the condition of government intervention in the labor market, enterprises absorb more employment by reducing wage growth. The final result is to reduce the unemployment rate [3].

## 2.3 Summary

Reducing the wage growth rate can increase the actual number of employees and achieve higher target employment. In theory, the smaller the wage growth rate, the more employment growth and the greater the decline in unemployment. The real wage growth rate is related to economic growth, the moving distance of the labor demand curve, and the government 's intervention in the labor market.

## 3. Moderate Wage practice

### 3.1 Tripartite cooperation

In the 1960 s, the Netherlands faced the dilemma of increasing labor demand and insufficient actual labor supply after economic expansion. Wages have increased substantially, corporate profits have declined, incentives for capital investment have declined and the competitiveness of export products has declined. Influenced by the traditional history, culture and values of the European continent, the Netherlands chose the co-employment policy based on the tripartite cooperation system of government-labor-employer to solve the problems.

The co-employment policy is based on a tripartite cooperation system. The tripartite cooperation system is based on the balance of power and benefit among the government, employer organizations and labor organizations.

## **3.2 Moderate Wages**

The Wassenaar Agreement signed in 1982 between the Netherlands ' Central Union and the Employer 's Union under the active coordination of the Government. The agreement reached two important consensuses: First, the Central Trade Union accepts indefinite self-restraint and no longer demands higher wages. Second, the Employers Association agreed to generally reduce working hours and introduce flexible working hours.

The Wassenaar Agreement laid an important foundation for the rapid economic growth and stable employment in the Netherlands and became a key factor in the creation of the Dutch Miracle. This agreed-upon wage, also known as Moderate Wage, is intended to keep the wage growth rate basically stable.

## **3.3 Summary**

Moderate Wage increases the profit space for employers, increases the enthusiasm of investors, and increases the competitiveness of product exports. Modest Wage stimulates labor-intensive employment, reduces unemployment, and helps control the polarization between the rich and the poor.

## **4. Inspiration**

### **4.1 Consultative cooperation system**

The Dutch regard the social economy as a negotiating economy. Both employers and employees resolve conflicts and balance interests through negotiations.

Negotiation is divided into several different levels. In the enterprise, union representatives negotiate with employers or managers. In the industry, labor unions and employers' associations represent collective bargaining. Nationwide, consultations are held between the Socio-Economic Commission and the Labor Foundation. The result of collective negotiation is a collective agreement with a certain period of validity. The enterprise agreement is valid within the enterprise, and the industry agreement is valid throughout the industry. It is binding on employers and employees who have not participated in the negotiation.

### **4.2 The role of government**

The role of government is not just to coordinate negotiations. After the Netherlands enacted the first social security Legislation Work Injury Security Act in 1901, the Dutch government introduced a series of social security legislation.

The basic national welfare system of the Netherlands includes three parts: The National Basic Security and Social Assistance based on the protection of civil rights, and the Labor Security based on the protection of employment. The government can even compensate the relatively weak employee class in the negotiation by increasing the share of social security to balance the labor market [4]. The government has lifted some controls, and promoted the development of flexible employment models such as part-time, temporary and flexible employment, while strengthening safeguards to promote the equal rights of part-time and full-time workers.

In fact, the Dutch government is gradually withdrawing from the employer-employee relationship negotiation system and turning to the formulation of social welfare policies and systems rather than directly intervening in the employer-employee relationship. The government strives to transform unemployment relief into employment incentives, that is, to change post-management into pre-management, thereby curbing the polarization between the rich and the poor [5].

### **4.3 Benefits to employers**

Excessive wage costs can lead directly to layoffs by employers and then to higher unemployment, which may further lead to an outflow of investment capital and a balance-of-payments deficit. The Moderate Wages reduce the cost of enterprises, increase the attractiveness of investment, improve the competitiveness of export products, and benefit the overall social economy.

It is worth noting that behind the consultative cooperation is the trend of enterprise alliance dominance and trade union alliance compromise. Dutch social security as a share of GDP is relatively high, which is the government's protection of employees<sup>[6]</sup>.

#### **4.4 Benefits to employees**

The most prominent characteristics of the Dutch labor market are high employment rate and short working hours per capita. Flexible employment types such as part-time and temporary employment are common. Under the guidance of flexible employment and comprehensive security policies, Dutch workers are more willing to accept part-time employment, especially female employees.

The concept of sustainable economic development and gradual improvement of living and working conditions helps to achieve comprehensive development goals such as full employment, efficient work, equal opportunities, and social security.

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