4 Benchmarking the German and Dutch Welfare States

Arthur van de Meerendonk

4.1 Introduction

Several times a year competitiveness reports are published in which countries are ranked according to their economic performances. These reports as a rule conceive welfare state institutions to be improductive and detrimental to the growth potential of economies. The incidence of institutions, such as a large share of public expenditure on social security, statutory minimum wages and a centralised bargaining structure in industrial relations, in these reports is subtracted from economic performance on, what is basically no more than an assumption that it is a competitive disadvantage (see, for example, Sachs and Warner 1996). Yet, this has left observers of the sound economic performance of extensive welfare states in the past and the present puzzled. The Dutch Ministry of Social Affairs and Employment has published a competitiveness report in 1996 that explicitly focuses on the impact of the welfare state on economic performance. This chapter draws primarily on this report. It will address two questions: i) to what extent are economic performances determined by welfare state institutions? and, more specifically ii) are there differences in German and Dutch institutions that explain the current diverging economic performances of both economies? To examine these questions the Federal Republic of Germany and the Netherlands are compared with two liberal market economies: the United States of America and the United Kingdom, and another welfare state: Sweden.

The methodology used throughout this chapter is the structure – conduct – performances framework (SZW 1996). The institutional structure determines the opportunities and restrictions that economic agents (individuals or, for example, trade unions) face and thus influences their conduct. Trade unions in liberal market economies will use different communication channels and different

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instruments to achieve their objectives than trade unions in corporatist economies. Their objectives may differ as well. The institutional order also determines the adjustment potential of an economy to structural trends such as internationalisation and technological change, and hence the competitiveness of economies. This methodological framework aims at explaining why some economies will adjust differently (using other channels; but not necessarily adjusting more or less) than others.

The setup of this chapter is as follows. Section 4.2 explores the economic performances of the Federal Republic of Germany and the Netherlands and compares the economic track-records of both with the United States, the United Kingdom and Sweden. That section also discusses the policies of Germany and the Netherlands in the past one-and-a-half decade. Section 4.3 maps the institutional infrastructure. Several similarities and disparities in German and Dutch industrial relations, social security and health care will be discussed. Section 4.4 describes some of the mechanisms (the conduct of economic agents) through which the institutional infrastructure determines economic outcomes. It also generalises some of the findings from the limited sample of five countries, to an analysis of the impact of the welfare state on economic performance. Section 4.5 provides some conclusions.

4.2 Economic Performances

4.2.1 Macroeconomic and Labour Market Performance

The perception of a poor competitiveness of the German and Dutch economies is widespread. However, it is not very instructive, as is often done, just to compare wage levels per hour with Poland, the Czech-Republic or South East Asian countries. This may indeed point at high wage costs in Germany and the Netherlands but, apart from absolute wage costs, a proper assessment of competitiveness should include a wider set of indicators such as the schooling level of the labour force, the social and political climate and several other factors that determine the overall level of productivity. This, in turn, is reflected in unit wage costs which is a better measure for competitiveness than wage costs per hour. Moreover, there are numerous conditions in the transition economies in Eastern

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2 A 1995 DIW-report Hat Westdeutschland ein Standortproblem? (Wochenbericht 38/95, Deutsches Institut für Wirtschaftsforschung) in this respect poses the question whether "... die deutsche Wirtschaft" is wedged "mehr und mehr zwischen die Mühlsteine der Niedriglohnländer einerseits und der Hochtechnologieländer Japan und USA andererseits"; in the Netherlands the perception of poor competitiveness is mainly communicated through the domestic press: see for example J.F. Hoogervorst in Het Financieele Dagblad, 3 September 1996; Van Wijnbergen in Trouw, 26 June 1996. In observing the performance of the Dutch 'model' the foreign press as a rule is much more positive.