Netherlands: Trade unions agree to two-year wage freeze

The failure of the “Polder Model”

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The so-called Dutch “Polder Model” has been praised throughout Europe as an example of how to modernise an economy on the basis of social consensus. The “Agenda 2010” recently introduced by the German government is to a large extent based on the Dutch model.

Now, however, two decades after trade unions, government and big business mutually agreed on deregulating the labour market and introducing a low-wage sector, the Dutch economy is in deep crisis. The response by the unions and management is to undertake new attacks on the working class. The trade unions have now agreed that wages are to be frozen at current levels for the next two years.

The Polder Model has led to a downward spiral into deeper and deeper social misery. At the same time, the claim made by the Social Democrats and trade unions that the system will in the long term lead to a recovery of the Dutch economy is proving to be an illusion.

This summer, the newly formed government had already threatened to impose wage freezes without the assent of the trade unions. At the time, the two biggest trade union federations, FNV and CNV, protested these plans, but since then have agreed to the government’s proposals during this year’s negotiations on pay.

Parallel to the wage freeze, the government has implemented a programme of public spending cuts unprecedented in the history of the Netherlands. The first victims will be those working in the public sector and social services. This programme has its roots in the groundwork done by the Social Democrats, who at the beginning of this year entered into negotiations with the government coalition and collaborated in drawing up the current programme. After the eventual collapse of negotiations with the Social Democratic Workers Party (Pvda), the Christian Democrats (CDA) went on to form a coalition with left- and right-wing Liberals and implemented the programme of cuts.

The government intends to cut state public spending by 17 billion euros (10 percent) by the year 2007. A total of 5.7 billion euros are to be saved next year. To achieve this, 100,000 public sector jobs will be cut, taxes will be raised and national insurance benefits will be severely slashed.

The government’s aim is to strengthen the Dutch economy for competition within Europe. According to a government press statement, the Netherlands has lost ground regarding wage costs compared to its European competitors. It claims that wage costs have risen 10 percent in comparison to the European average. The freezing of wages and programme of cuts are aimed not only at helping Dutch companies catch up, but also at enabling them to gain a lead over their rivals. Thus, a race for cuts in wages and social services is being fuelled, and will be intensified by the eastward expansion of the European Union.

The agreement to ban any wage increases for the next two years intends to save the state about 800 million euros. There are no figures regarding the reduction of costs in private industries, but both businessmen and representatives of the government are very enthusiastic about the deal. Prime Minister Jan-Peter Balkenende (CDA) stated, “The agreement is good for the economy and the employees.” It will have a positive effect on the competitiveness of the Dutch economy, he said, adding, “The best pay increase is to get a job.”

The trade union federations justify their assent to the wage freeze by claiming they have toned down some of the worst aspects of the government’s programme. But if one takes a closer look, this claim is revealed to be total nonsense.

For instance, the agreement proposes that tax incentives for taking early retirement should not be abolished immediately, but instead at the beginning of next year. At the same time, the participants of the discussion on the programme agreed that in January 2006, a new system is to be introduced. It is widely anticipated that the next programme of cuts will bring about a complete elimination of today’s arrangements regarding early retirement.

The decision to not link pension scheme payments to the rise of average wages until 2006 is just as hypocritical. Since wages are frozen, pension scheme payments will also not rise during the next two years. The government left no doubt that this link will be abolished if wages should begin to rise again.

Additionally, payments made by the national insurance company covering work disability (WAO) are to be increased in 2007—conveniently at a time when the next elections are to be held. A prerequisite for this step, however, is that the number of people drawing these services be reduced. This means that the criteria of the WAO are to be tightened up while the period of payments is to be reduced.

This effective drop in real wages will severely affect employees and those dependent on social insurance payments. Today, many workers already hold several part-time jobs to provide for their families. As a result of the Polder Model, the Netherlands is the country with the largest proportion of part-time jobs in relationship to full-time jobs in Europe. At the moment, 42 percent of all jobs in the country are part-time.

At the same time, the Netherlands is experiencing a wave of mass redundancies, and predictions for the rate of unemployment next year are rising on a monthly basis. At the moment, the government predicts that 540,000 people will be unemployed next year (out of a workforce of about 7 million).

As in many other European countries, prices have risen in the Netherlands following the introduction of the euro. In contradiction to the official rate of inflation (estimated at 2.3 percent), research has shown that prices for basic food, supplies and services have exploded since 1998. The price for potatoes, for instance, has risen by 80 percent, fish products by 37 percent, and transportation fares by 50 percent, as well as electricity by 47 percent and gas by 45 percent.

Statistics from the WAO, which was founded 100 years ago, cast light on the pressures bearing down on ordinary workers. Since the middle of the 1980s, the number of those dependent on WAO payments has risen to about 1 million people today. The majority of these people are women and minorities—sections of the population forced to take temporary jobs when the Polder Model came into effect. Two thirds of people working in part-time jobs, for example, are women. One third of those dependent on WAO payments suffer from psychological illnesses, mainly depression and stress.

The Polder Model amounted to the introduction of "American conditions" with the full collaboration of the trade unions. The spread of poorly paid part-time jobs and temporary employment mainly affected the service sector, which today provides work for 70 percent of Dutch employees. The Dutch-German economist Alfred Kleinknecht describes the typical "new jobs" as "*Hondon-Uitlaat-Service*,"—taking dogs for a walk in wealthy residential areas where predominantly double-income households live.

But in major industries, the costs of production also went down as a result of low wages and cuts in social services. Under conditions of boom and a rising stock market, major companies were able to increase sales, production and profits without increased investment. But when the boom was over, the long-term consequences became visible: as a result of low wages, investment in modern means of production was overdue. While international competitors had been lowering costs by eliminating jobs, Dutch companies had mainly been decreasing their costs of production by continuously lowering wages. This explains why, despite the introduction of the Polder Model 20 years ago, productivity in the European Union per man-hours worked has increased about two times faster than in the Netherlands.

In addition, the infrastructure of the country has fallen victim to the Polder Model. Education, science, health service and transport services have declined as a result of the large number of low-wage and part-time jobs. As a consequence, all these areas lack qualified employees. The education of teachers and working conditions in schools are already so bad that the Netherlands suffers from a chronic lack of teachers. Some schools are already open only four days a week, and classes are becoming increasingly bigger. These problems are more manifest in those parts of towns with high unemployment and large numbers of immigrants than in wealthy districts. This represents a development that stands in stark contrast to the typical evolution of Dutch society since World War II.

Since the introduction of the deregulation of working conditions, the health service has suffered universal decay. Reduced capacity and long waiting periods for necessary operations have been common for a long time, with patients travelling to neighbouring countries to seek treatment. Private profit-oriented clinics are often characterised by deplorable conditions. The population has the right to choose neither doctors nor pharmacists. At the same time, the costs of health insurance are being transferred from the state and companies to the patient.

The rapid growth of unemployment, which began in the autumn of 2001, was the final straw for the Polder Model. Unemployment figures continuously reached new peaks. Today, the level of joblessness is comparable to that of 20 years ago.

Although, even from an economic viewpoint, it has become apparent that cuts in wages and social services and deregulation of the labour market are no solution for the economic crisis in the Netherlands, both the government and trade unions are sticking to the course of freezing wages. They are reacting to the pressure from international competition by implementing short-term decreases of production costs and public spending—without regard for the long-term consequences.

Thus the living and working conditions of the European population are the victims of a vicious cycle in which each cut is followed by further cuts made "necessary" by the cut before. This process can only be stopped by an independent political movement of the working class, which stands for the reorganisation of economic life on the basis of social need, not the narrow interests of private profit.