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# Unlocking the potential of the Dutch labour market

Closing the labour market gap by boosting labour force participation



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# Preface

We speak of a perfect storm when several phenomena come together to lead to greater consequences than these events would have individually. If we look at the situation in the labour market, we can say without exaggeration that we are facing such a perfect storm: a combination of unprecedented tightness, an aging population and sky-high inflation.

While this perfect storm rages, you would almost forget that one of the main challenges facing the Netherlands is to get more people into work. The Netherlands has a large labour potential that is not being tapped (yet). This potential is needed to address the tightness of the labour market which, in view of the demographic structure of the population, is really not going to diminish substantially even if the economy cools down.

The tightness in the labour market puts a brake on productivity and growth, on the quality of public services (think health care, police, education, public transport) and on the necessary transformation of the economy. Who will lay the solar panels or build the infrastructure for hydrogen? From a macroeconomic perspective, the labour shortage is bad for these reasons. Moreover, studies have established a clear link between employment, well-being and the feeling of belonging. This makes it desirable from a microeconomic perspective as well to get more people into the workforce.

In this study, we have looked at the extent to which the ‘unused potential’ can contribute to solving shortages. We have determined this potential by comparing the Dutch labour market with that of the best performing countries in Europe. At what level is the average number of hours worked there? What is the labour participation of various groups that are underrepresented in the labour market in the Netherlands? The comparable circumstances make it a reasonable assumption that anything that other countries from this group have achieved is also possible for the Netherlands if specific efforts are made in that direction.

And it turns out that this potential is at least numerically large enough to solve the problem. Expanding the number of hours worked by part-time workers is almost enough to fill the gap. We have not looked in this study at the causes of people being on the sidelines of the labour market and only hint here and there at the beginnings of a solution.

We have, in short, not looked at people, but at the ‘cold numbers’. These figures, however, do provide insight into the problem and underscore the urgency for possible further research and policy measures. First of all – this is really a quick win – the government has to look at the way we tax labour. Working more should really pay off.

It is striking that the discussion of more work almost always leads to fierce reactions. From people who have used the corona crisis as a period of reflection and who started to work less because they no longer want to join the ‘rat race’. From people who, for various reasons, are distanced from the labour market and who just can’t find a job and have finally given up discouraged. Or from people who (whether or not under pressure from circumstances) have chosen a particular division between work and care responsibilities.

The Netherlands is a country where you can run a household on 1.5 incomes. That is much more difficult in many countries around us. The Netherlands is a champion of part-time, much more so than other countries, because we can (still) afford it. It’s part of our culture. But in the long run, the cohorts leaving the labour market are larger than those coming into it. So we’re going to have to rearrange it. That’s an idea everybody should get used to.

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# The Netherlands can fill the labour gap by unlocking the potential of the labour market



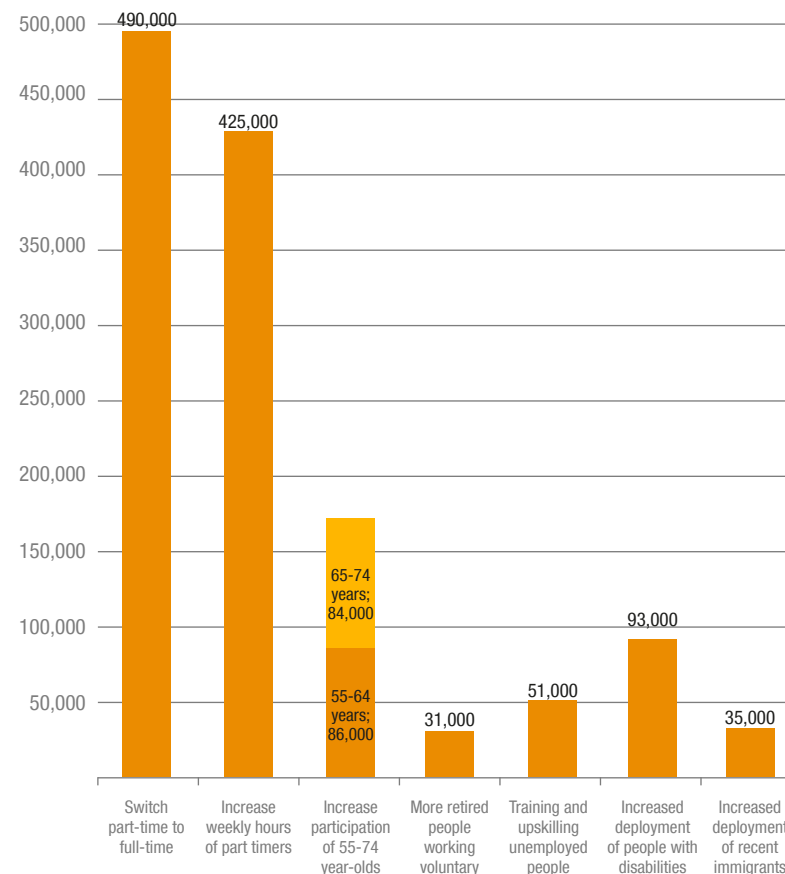
Although there is currently a large labour shortage in the Netherlands and unemployment is historically low, there are also many people who, for a range of reasons, are not working or working much less than they could. In other words: there is a potential labour supply in the Netherlands that is currently not being tapped. Unlocking this potential will be necessary to tackle the labour shortage, which is currently constraining production and therefore limiting growth and further adding to inflation, which negatively impacts the entire population.

In this research we take a look at how big the potential is, and how it is composed. We investigate what the impact would be if the Netherlands were to succeed in deploying a realistic portion of the 'unused potential' of the labour market. For a definition of 'realistic' we compared the Dutch labour market performance to that of other EU countries and the UK and calculated the impact if the Netherlands was to perform on the same level as the best performing countries.

### What we found

- Between 2023 to 2027, the Netherlands is expected to have a labour shortage of roughly **450,000 workers**.
- Although the magnitude differs between sectors, the overall trend of a tighter labour market holds almost everywhere.
- When looking at overall labour market performance, the Netherlands ranks third after Denmark and Sweden, but average working hours for the Netherlands is much below EU average.
- With around half of the employed workforce in part-time, by far the largest impact could be achieved **by increasing the working hours of part-time workers** and their transitions into full-time.
- The required changes are not radical; in the Netherlands, the average part-timer works 21 hours a week. In Romania, Sweden and Belgium (the best performing countries in this context) this average is 25 hours. Incentivizing part-time workers to increase their weekly hours by **four hours** could add around 425.000 FTEs to the labour market, which would solve the labour shortage almost entirely.
- Compared to the ‘best practices’, transitions from part-time to full-time work have even more potential (490.000 FTEs), so this alone could completely fill the labour market gap.
- Fully tapping the potential of older workers, workers from underrepresented groups and the training and upskilling of unemployed people could also add well over 300,000 FTEs to the Dutch workforce.
- We also looked into the potential that could be unlocked by raising productivity, enabling better reconciliation of work and care responsibilities and improving working conditions. These effects are hard to quantify but can also strongly contribute to tackling the shortage.

**Impact on the labour supply (in FTEs) of expanding participation of different groups to the level of the best European performers in each area\***



\* It is important to note here that these bars cannot all be added up since the target groups are not all mutually exclusive.



### The research looks at numbers, not reasons

This report identifies a large untapped potential on the Dutch labour market and multiple areas that policymakers could focus on to tackle the shortage. It does not look into the drivers behind the different performances across the EU in detail. While successful policies of other countries can largely be replicated, the differences between countries' labour habits also depend on cultural norms and preferences, which are much harder to change, at least in the short run.

A next research step could be to look at the drivers behind the results in more detail and see what the best-performing countries are doing differently. Some things might be replicated easily and others will take longer, so policymakers should begin now to create a comprehensive policy plan with both quick fixes for the acute issues at hand and more structural solutions for the longer term.

#### Takeaways for policymakers: make sure making extra working hours pays off

The results clearly show part-time workers as the group with the largest potential for filling the labour market gap in the Netherlands. While there are many reasons to work part-time and not all of them are influenced easily, the first step is to make full-time work more financially attractive, for example through changes in the tax system. It is also necessary to ensure that everyone who wants to work more can do so, for example by enabling better reconciliation of work and care responsibilities and promoting flexible schedules.

Other areas where policymakers can achieve a lot are retirement ages, participation of underrepresented groups in the workforce, and training and education of unemployed people and workers. In all these areas, well-placed financial incentives and active labour market programs can go a long way, although they will not achieve the desired results alone.

#### Takeaways for companies: look at your working conditions

This report focuses on the policy perspective, and potential solutions outside the scope of policy interventions have therefore mostly been left out.

However, considering the tight labour market conditions, individual companies will also need to take action to attract and retain employees from an increasingly smaller pool of candidates.

Some areas that companies should focus on include working conditions, work environment and culture, planning and schedules, and of course pay. Additionally, companies should actively approach their existing part-time workers to ask whether they would be interested in switching to full-time. Often, people would like to work more but something is hindering them, in which case companies can also play a larger role in enabling the reconciliation of private and working life.

With labour now being a scarce resource, it is time for many employers to rethink their human resource strategies and not only consider which employees they want, but also why employees should want them. Making the most of existing staff and reducing employee turnover will also be key strategies as it becomes more challenging to fill open vacancies.



# The Netherlands stands out in average working hours

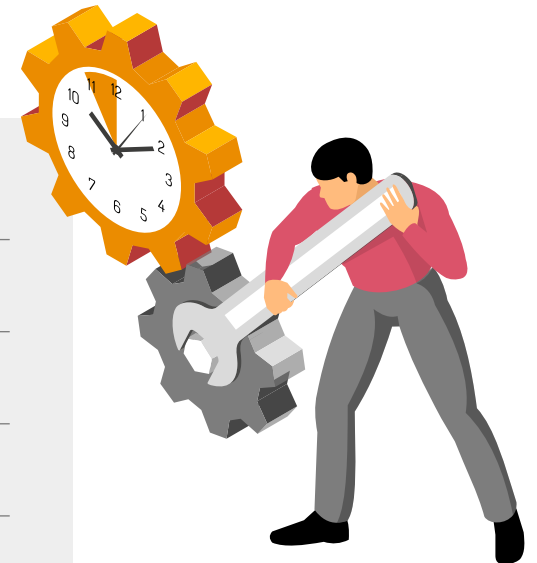
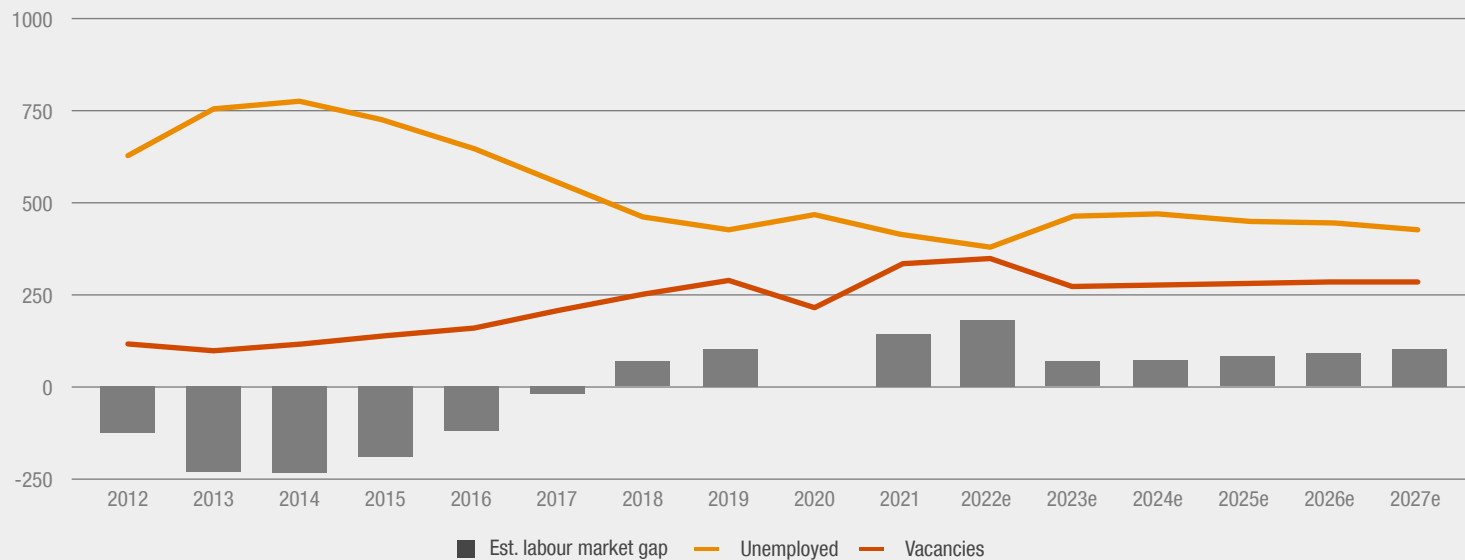
## The starting point: the labour shortage in numbers

To determine the magnitude of the problem, we forecasted vacancies and the expected labour shortage until 2027. The methodology used for these calculations can be found in the appendix.

Our forecast found a total of over 1.4 million projected vacancies between 2023 and 2027, of which nearly 32 percent – 450,000

– are expected to remain unfilled without interventions. This is a shortage of almost five percent of the current labour force. The graph below shows that while the yearly shortage will probably remain below the record-high of this year, labour markets are expected to remain unusually tight, even with the economy cooling off again. Demographics is one of the reasons why scarcity will gradually but surely continue to become more severe over time.

Unemployed, Vacancies and Labour market gap



### The next step: creating a realistic benchmark to define the 'untapped potential'

The foundation of this research are seven categories measuring labour market performance, each comprising multiple indicators with data for all EU countries and the UK. We looked at how the Netherlands is doing in those categories and compared it to the performance of other European countries and the UK. We subsequently calculated how many extra FTEs we would create if the Netherlands catches up to the best-scoring European countries.

Our country selection for the comparison is based on their relatively similar labour markets and shared legal framework within the EU. The comparable circumstances make it a reasonable assumption that anything that other countries from this group have achieved is also possible for the Netherlands if specific efforts in that direction are made.

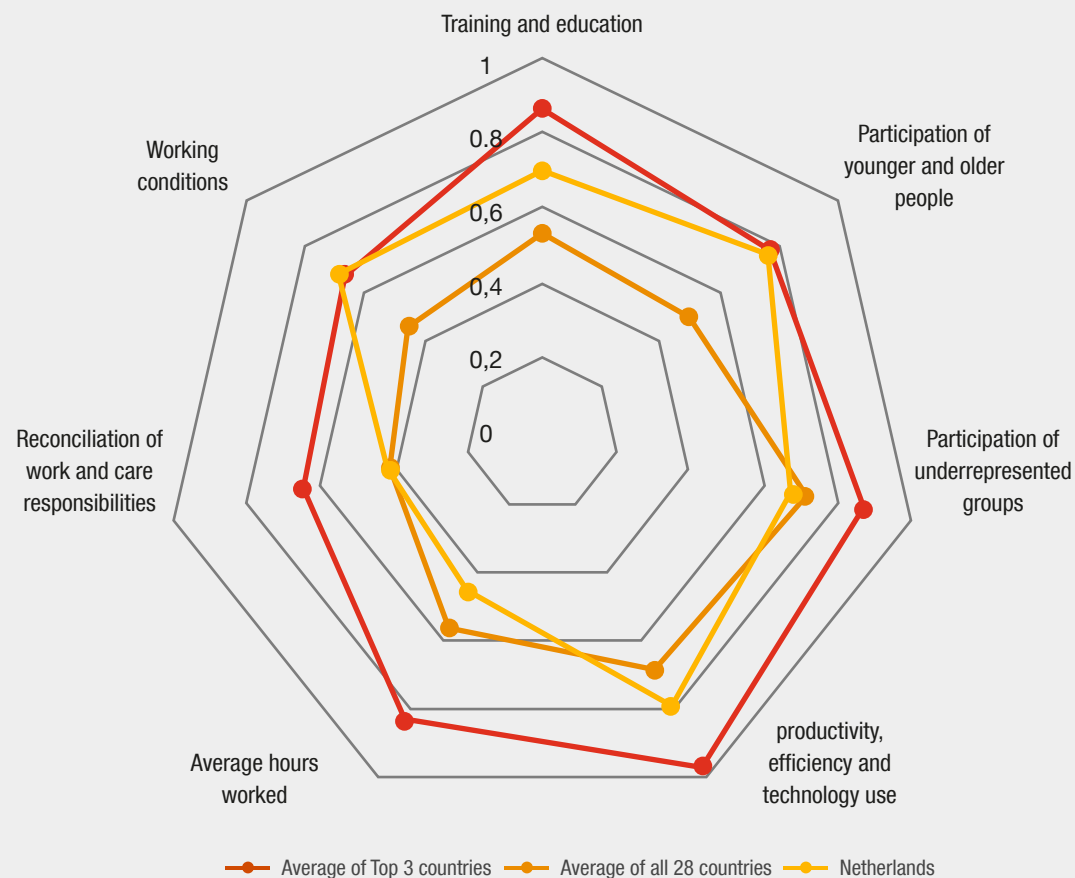
It is however important to note that the seemingly best-performing country in an area is not always automatically the best practice since good results can also be achieved for the 'wrong' reasons, such as late retirement ages due to an inferior pension system. Nonetheless, the top countries can be used as a benchmark for what is achievable and a starting point for further investigation.

There are also some categories where it was not possible to directly quantify the impact on the labour market but where we could nonetheless identify 'hidden potential' compared to other countries and which policymakers should therefore also keep in mind.

Category	Description
Average hours worked	Measures the average weekly hours of workers and the share of part-time contracts to see whether the shortage can be tackled with existing workers
Participation of younger and older workers	Measures the labour force participation and employment of young and old people as well as their motives
Participation of underrepresented groups	Measures the labour force participation and employment of disabled people and immigrants, two groups that are typically underrepresented on the labour market
Training and education	Measures the amount and accessibility of job-related trainings and education offered to both unemployed and employed people to tackle labour market mismatch
Reconciliation of work and care responsibilities	Sees to what extent barriers for the reconciliation of work and care responsibilities might keep people out of the labour force or in part-time
Productivity, efficiency and technology use	Indicates how effectively businesses manage their labour and whether they are able to automate tasks should they not be able to find enough workers
Working conditions	Indicates to which extent the 'discouraged workers' effect might be relevant, with certain jobs not being filled due to low pay, lacking flexibility or bad conditions



### Performance of the Netherlands compared to other EU countries



### The main outcome: compared to other European labour markets, the Netherlands lags behind in average working hours

For each indicator, we calculated an index by setting the best-performing country in that area to one and scoring all others accordingly. Averaging these indices across all categories gives a ranking of the overall labour markets, where the Netherlands are third after Denmark and Sweden. While this is overall a very good result, the Netherlands are still lagging behind in some areas, especially average working hours.

### Main conclusion: catching up on working hours alone could fill the labour shortage

To quantify the potential impacts on the labour market, we compared the Netherlands to the three best-performing countries on each indicator and - if possible - calculated how many additional FTEs would be available if the gap to these countries was bridged. The most important finding is that the category of average working hours alone could theoretically solve the entire labour shortage, through an increase in average weekly hours of part-time workers, more transitions to full-time, or, ideally, a combination of both.

In the next part of this research, we elaborate on the seven categories in detail. We show which countries perform best in each category and - wherever possible - what it would mean in terms of additional FTEs if the Netherlands managed to get to this highest level.

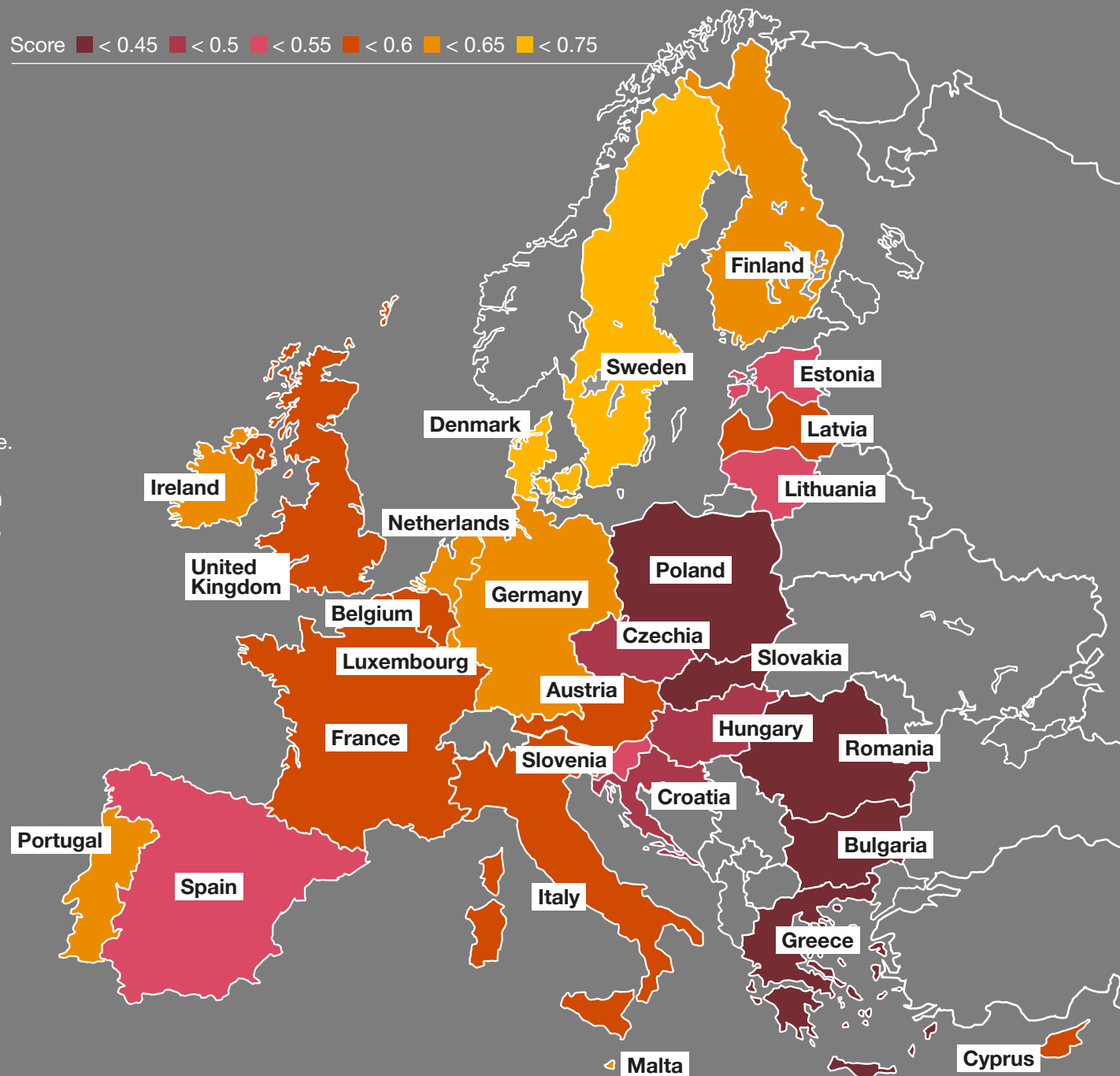


Score ■ < 0.45 ■ < 0.5 ■ < 0.55 ■ < 0.6 ■ < 0.65 ■ < 0.75

### Significant differences between labour markets while none of them are perfect

For each indicator we assigned a score of 1 to the best-performing country and scored the others accordingly on a scale of 0 to 1. As the map shows, there are significant differences between the 28 countries we investigated, with Denmark and Sweden clearly leading the ranks. After some distance, the Netherlands, Finland and Ireland all follow very closely to each other. France lies almost exactly in the middle.

It is interesting to note that even Sweden and Denmark's high scores are far away from the theoretical maximum of 1, meaning that even the labour markets of the most successful countries are far from perfect.



# Areas for improvements and impacts

In this chapter, we look at the performance of the Netherlands in each category from the previous chapter in more detail. We quantify the room for improvement compared to the Top 3 countries. Whenever possible, we calculate the effect: how many extra FTEs (38 hours a week) would be created if the Netherlands was to realise this improvement? For the methodology behind these calculations please refer to the appendix.

## Explanation for barcharts

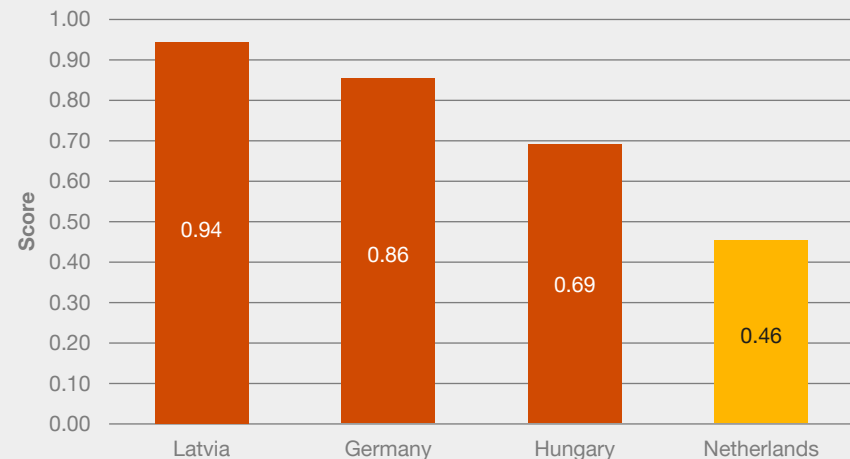
For each indicator we assigned a score of 1 to the best-performing country and scored the others accordingly on a scale of 0 to 1. The score per category is the average of the scores of all indicators within that category, allowing us to compare countries on either individual indicators, categories, or their labour market performance as a whole.

It is important to note that the scores are a result of many political, economic and cultural factors and might not always be replicable. Additionally, the highest scoring country should not automatically be labelled the 'best practice' since it also depends on the drivers behind the score. However, the top countries can be used as a benchmark for what is realistic for comparison and further study.

## • Average hours worked

Since additional labour supply from inactive or unemployed people is limited due to the fact that employment is already unusually high, existing (part-time) workers slightly increasing their average weekly hours or switching to full-time might be the most straightforward and realistic approach to tackle the labour shortage, and there is a lot to be gained from it in the Netherlands.

Best performing countries (top 3) and the Netherlands



## Performance of the Netherlands

Of all seven categories, enabling and incentivizing working more hours holds the largest potential for the Netherlands. The Netherlands ranks 24 out of 28 in this category, with the rate at which workers transition from part-time to full-time being especially low<sup>1</sup>. The Top 3 countries in this category are Latvia, Germany and Hungary, although a careful distinction between highest score and best practice must be drawn due to the possibility of achieving high scores for the 'wrong' reasons, for example because part-time work is simply not widely available, which also pushes people out of the labour force.

<sup>1</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSI\\_LONG\\_E08\\_\\_custom\\_3142221/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSI_LONG_E08__custom_3142221/default/table)

However, access to part-time work does not need to be restricted to increasingly incentivise people to switch to full-time or increase their weekly hours, and this is definitely the area where the impact for the Netherlands could be largest.

*Potential when improved: well over 400,000 FTEs*

- At the moment, roughly fifty percent of Dutch workers are working part-time for an average of 21 hours per week<sup>2</sup>, and if these people increased their average weekly hours to 25, the mean of Romania, Sweden and Belgium, the impact would be equivalent to having an additional 425,000 FTEs. This drastic impact comes from only a moderate increase in weekly hours and without anyone actually transitioning to full-time.
- However, with half of the employed workforce being part-time, that is of course also an important lever to pull. The average probability of any given part-time worker transitioning to full-time in a year is currently three percent in the Netherlands, meaning that many workers stay in part-time for a very long time or even for their whole career while in most other countries, part-time is usually a temporary phenomenon for only a few years. If this percentage can be increased to the average of the Top 3 of 29 percent, this would mean almost 490,000 additional FTEs in the first year.
- This is not a one-time effect but would instead mean that in every single year, around 29 percent of part-time workers transition to full-time, so the long-term impact would be even larger. However, the total pool of part-time workers would shrink with so many people switching to full-time employment each year, meaning that the additional impact will become smaller over time.

*Important for policymakers*

- Persuading or incentivizing people to change their part-time jobs into full-time jobs has the biggest outcome, but cannot be achieved from one year to the next and depends not only on policies and economic factors but also on cultural norms and preferences, which typically change more slowly. Thus, while the specific number of 490,000 should be taken with a grain of salt, the underlying message that this is an area with huge potential for the Netherlands definitely stands.
- Recent CBS data shows that there are currently 505,000 part-time workers in the Netherlands who would like to work more hours and are immediately available for it<sup>3</sup>, and while this survey did not ask about the exact amount by which these workers would like to increase their hours, it does show that alleviating the labour shortage with the help of part-time workers is realistic, even in the shorter term.

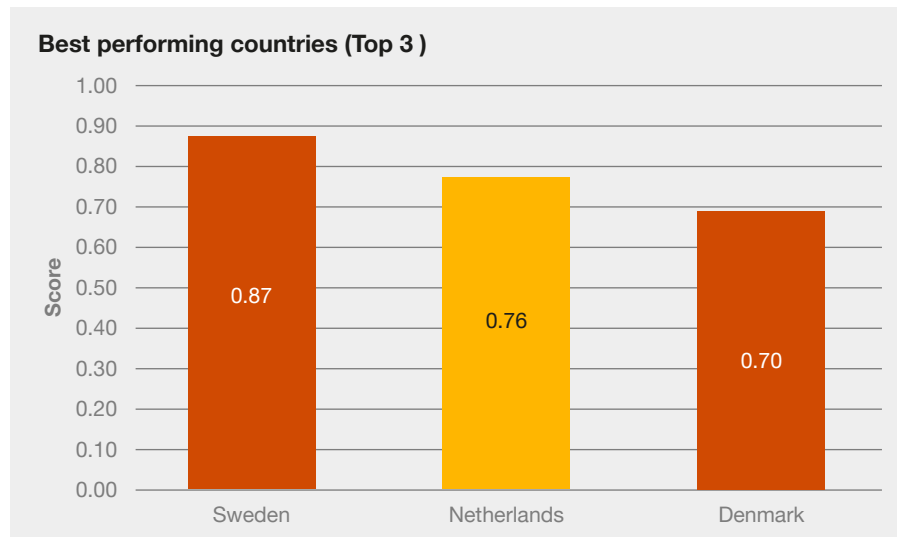


<sup>2</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSQ\\_EWHUN2\\_custom\\_3142327/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSQ_EWHUN2_custom_3142327/default/table)

<sup>3</sup> <https://opendata.cbs.nl/statline/#/CBS/en/dataset/82922ENG/table?dl=6D0EC>

### • Participation of younger and older workers

Youth unemployment is high in many European countries and retirement ages are often low, meaning that the potential of younger and older workers is not fully used. Especially keeping people in the labour force for longer is an important area to not only mitigate the current shortage but also prevent larger problems in the future due to an ageing population. However, it is important to create a labour market where people stay in employment for longer voluntarily and not out of fear of old-age poverty.



### Performance of the Netherlands

Sweden is the clear leader regarding the labour force participation of younger (15-24) and older (55-74) workers.<sup>4</sup> The Netherlands ranks second and leads the board regarding young workers, but there is still plenty of room for improvement when it comes to older workers and retirement ages. Most people do not work until the statutory retirement age of 68 years, and unlike in Sweden, very few choose to work longer than that. On a positive note, the Netherlands has one of the highest shares of workers who stay in employment for non-financial reasons like work satisfaction.

### Potential when improved: 170.000 FTEs

- Our calculations show that increasing the labour force participation of 55 to 64 year-olds (from around 74 to 78 percent) and 65 to 74 year-olds (from 15 to 22 percent) respectively would add an additional 170,000 FTEs to the Dutch labour market, with the effect only increasing over time as the population grows older.
- Achieving this does not require all people in the target populations to remain in full-time employment but instead assumes that the additional workers also work the current average hours of these groups, which are slightly below 33 hours for the 55 to 64 age group<sup>5</sup> and 23 hours for those aged 65 to 74<sup>6</sup>.

<sup>4</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSA\\_ARGAN\\_\\_custom\\_3245899/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSA_ARGAN__custom_3245899/default/table)

<sup>5</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSQ\\_EWHUN2\\_\\_custom\\_3182871/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSQ_EWHUN2__custom_3182871/default/table)

<sup>6</sup> <https://opendata.cbs.nl/statline/#/CBS/en/dataset/85264ENG/table?ts=1661328562334>



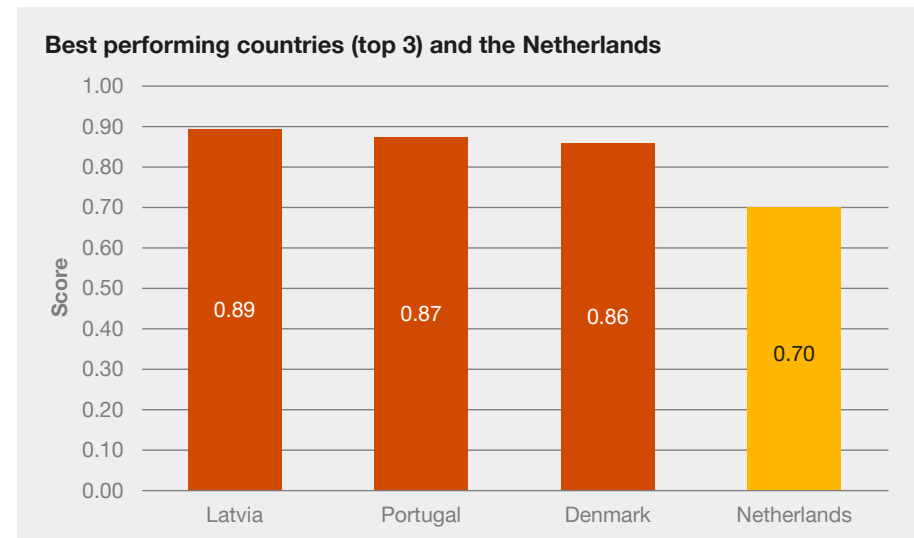
- In the Netherlands, thirteen percent of people who already receive a pension continue to work for non-financial reasons. The average of the Top 3 for this share is 17.4 percent. Bridging this gap would count for 31,000 additional FTEs for the Dutch labour market, again assuming that they work fewer than average hours. This indicator overlaps with the previous two and the impact can therefore not be added up, but here the focus is on the motivation to continue working.

#### *Important for policymakers*

- The decrease in average hours with higher age indicates that an important way to keep people in employment for longer is to enable a slower and more gradual transition from work into retirement through a reduction of weekly hours, which is something many workers want to do.
- Slightly more than half of all Dutch people who keep working while receiving a pension do so for non-financial reasons. This means that the willingness to remain in employment for longer depends to a large extent on job satisfaction, which is generally very high in Sweden and explains the good performance<sup>7</sup>. Opportunities for flexible and part-time working arrangements for a more gradual transition also help and are already quite common in the Netherlands.
- Financial reasons are still the main motivation to continue working for almost half the people who do so, so financial incentives making later retirement more attractive are also necessary.

#### • **Participation of underrepresented groups**

Minorities and people with work limitations often have it harder than others on the labour market and are therefore frequently unemployed or out of the workforce. For this report we looked specifically at people with disabilities and immigrants, which are both underrepresented in the workforce. Focusing on better integrating those groups would both alleviate the labour shortage and create a more equitable and inclusive labour market.



<sup>7</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSO\\_17JSOC\\_\\_custom\\_3142045/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSO_17JSOC__custom_3142045/default/table)



### *Performance of the Netherlands*

While the Netherlands is quite successful at integrating different age groups into the labour market, the performance regarding underrepresented groups is rather poor: The Netherlands ranks 18th, with the scores on both disabled people and immigrants being around average. These groups therefore still have it much harder than the majority to find employment.

### *Potential when improved: 90.000 and 35.000 FTEs*

- The gap in the employment rate between people with and without disabilities experiencing work limitations is more than 25 percent points in the Netherlands<sup>8</sup>. While it might not be possible to close this gap completely due to the fact that some disabilities are severe enough to make work impossible, reducing it to 16.6 percent points, the average of Italy, Latvia and Denmark, would already mean more than 90,000 additional FTEs.
- The share of recent immigrants who are in the labour force currently stands around 69 percent, while the most successful countries have reached an average of almost 83 percent<sup>9</sup>. Bridging this gap would lead to roughly 35,000 additional FTEs.

### *Important for policymakers*

- The poor performance regarding people with disabilities can to some extent be explained by a lack of incentives and requirements for employers to hire disabled people. For example, there is no quota for employees with disabilities in place for private companies in the Netherlands, and while there is one for the public sector, it is very low and has nonetheless been missed in most years without any fines being levied<sup>10</sup>.

Most countries which outperform the Netherlands in this area, such as Italy, France or Austria, have much higher and more comprehensive quotas which are actually being enforced, as well as in many cases larger financial incentives for employers to hire people with disabilities<sup>11</sup>.

- Getting immigrants to increasingly enter the labour force starts with simply making it easier, for example by reducing bureaucratic hurdles and requirements, but will in many cases also require specific training or education, especially language courses and integration programs.
- Alleviating the labour shortage with the help of immigrants could also mean selectively encouraging immigration for much-needed occupations.

### • **Training and education**

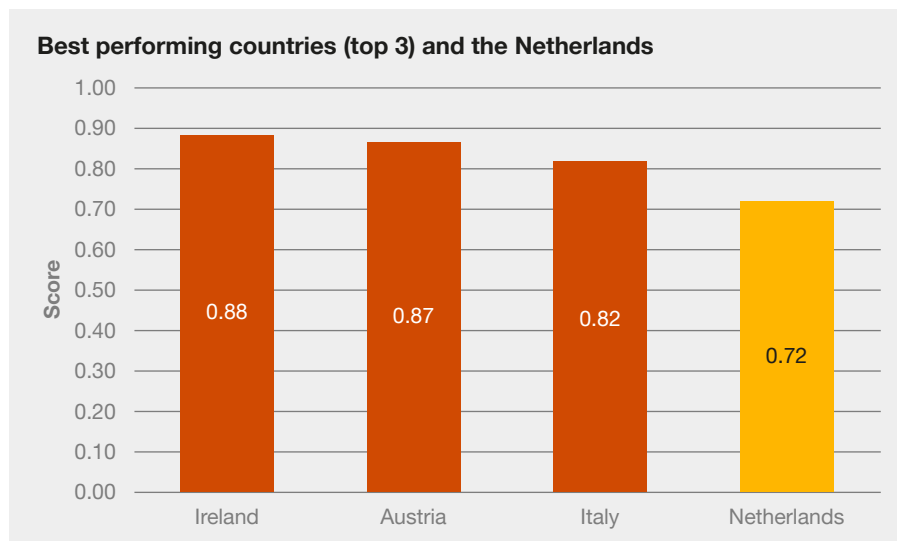
The seemingly most straightforward way of filling open vacancies, namely by employing unemployed people, might be more challenging than expected. We can assume that in a tight labour market, the people who are still unemployed have a good reason for it, such as insufficient Dutch language skills, lacking qualifications or qualifications in the wrong areas. For this reason, improving access to and quality of training and education programs for both unemployed and employed people is key to further reducing unemployment, tackling labour market mismatches and filling the labour market gap.

<sup>8</sup> [https://ec.europa.eu/eurostat/databrowser/view/HLTH\\_DLM200\\_\\_custom\\_3177350/default/table](https://ec.europa.eu/eurostat/databrowser/view/HLTH_DLM200__custom_3177350/default/table)

<sup>9</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFST\\_RIMGANGA\\_\\_custom\\_3141760/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFST_RIMGANGA__custom_3141760/default/table)

<sup>10</sup> [http://www.behindertenanwalt.gv.at/fileadmin/user\\_upload/Tagung\\_EU-Ombudsleute/R05\\_-\\_Inclusion\\_of\\_persons\\_with\\_disabilities\\_in\\_the\\_labour\\_market.pdf](http://www.behindertenanwalt.gv.at/fileadmin/user_upload/Tagung_EU-Ombudsleute/R05_-_Inclusion_of_persons_with_disabilities_in_the_labour_market.pdf)

<sup>11</sup> <https://disabilityin.org/resource/global-directory/>



#### *Performance of the Netherlands*

The Netherlands holds sixth place in this category while Ireland, Austria and Italy score highest. While the Top 3 countries all perform very well on the training of unemployed people<sup>12</sup>, the success of the Netherlands is largely due to the top performance on the training of existing workers<sup>13</sup>. There is still a significant gap to the best practices on the training of unemployed people, so this should be one of the key focus areas.

#### *Potential when improved: 51,000 FTEs*

- Currently, around 118,000 people or 1.26 percent of the Dutch labour force are in labour market programs dedicated to training, and catching up to the Top 3 would give an additional 131,000 un- or underemployed people access to such programs.

- Recent studies have shown that while there is an initial lock-in effect for the duration of the program, approximately 73 percent of unemployed people find a job during or after their training programs, albeit with low average weekly working hours<sup>14</sup>. This has the potential to bring more than 95,000 additional people into employment and add almost 51,000 FTEs.

#### *Important for policymakers*

- Additional measures could aim to lift their working hours closer to the average level, thus further increasing the number of FTEs.
- With the training programs becoming less targeted and instead including most unemployed people, it is possible that their effectiveness decreases or that they become too costly. Thus, it is important to develop a comprehensive plan for future active labour market programs and continuously monitor both their impacts and costs and ensure that they are aimed at occupations and skills which are currently in demand.
- While the training of unemployed people should be the main focus to tackle unemployment and the labour shortage, continuously training existing workers to ensure that their skills do not become outdated and productivity can improve is also very important and frequently neglected. Here, the Netherlands is currently the best in class and should aim to maintain this position.

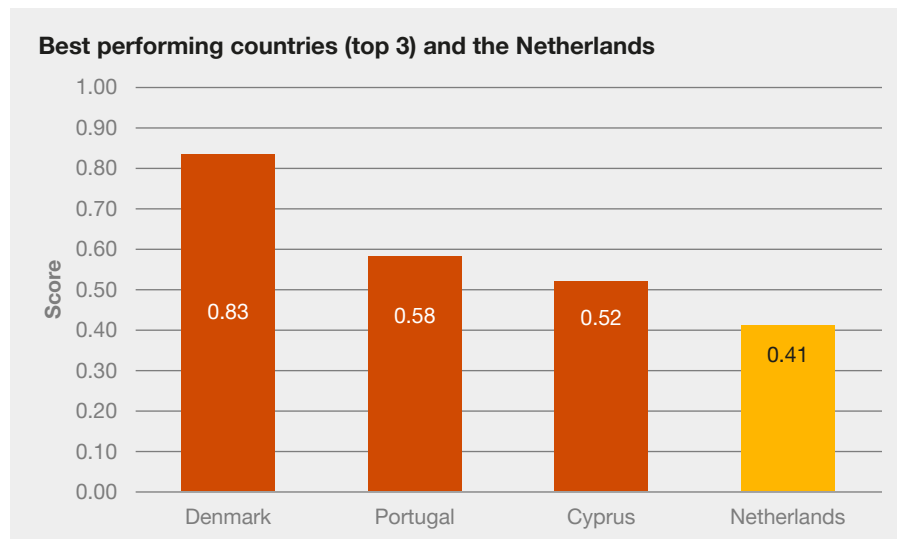
<sup>12</sup> <https://stats.oecd.org/Index.aspx>

<sup>13</sup> [https://ec.europa.eu/eurostat/databrowser/view/TRNG\\_AES\\_123\\_custom\\_3141388/default/table](https://ec.europa.eu/eurostat/databrowser/view/TRNG_AES_123_custom_3141388/default/table)

<sup>14</sup> <https://www.eumonitor.eu/9353000/1/j9vvik7m1c3gyxp/vl3xq2q3o7zi>

### • Reconciliation of work and care responsibilities

Aside from those people who want to work more and are immediately available for it, there is also a large group of persons who would theoretically like to increase their hours but are currently not available for it for a range of different reasons, with the reconciliation of work and care responsibilities being one of the main factors. In addition to being strongly interrelated with the average hours worked, this is also a matter of gender equity since the vast majority of people reducing or leaving their work to take care of children or other family members are women<sup>15</sup>.



### Performance of The Netherlands

This is another key area for improvement for the Netherlands, which ranks 15th while Denmark is the clear leader, followed after a large distance by Portugal and Cyprus. The share of part-time workers in part-time because of care responsibilities is especially high in the Netherlands, with almost 1.4 million part-time workers reporting this as their main reason<sup>16</sup>, meaning that tackling this issue can also contribute greatly to increasing the probability of part-time to full-time transition. A similarly large number (although there is probably significant overlap between these two groups) had a work interruption of more than one year for childcare reasons. This is to a large extent due to the fact that more than 1.7 million people with childcare responsibilities do not use childcare services, making up almost sixty percent of the total Dutch population with childcare responsibilities<sup>17</sup>. This often not only means that they work fewer hours but that they leave the labour market entirely for multiple years, making it necessary to ensure that everyone has easy and affordable access to high-quality childcare services for children of all ages and that the reintegration into the employed workforce or back into full-time after an interruption is made as easy as possible.

<sup>15</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSO\\_18STLENED\\_\\_custom\\_3142436/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSO_18STLENED__custom_3142436/default/table)

<sup>16</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSA\\_EPGAR\\_\\_custom\\_3142238/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSA_EPGAR__custom_3142238/default/table)

<sup>17</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFSO\\_18CUSELS\\_\\_custom\\_3152669/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFSO_18CUSELS__custom_3152669/default/table)



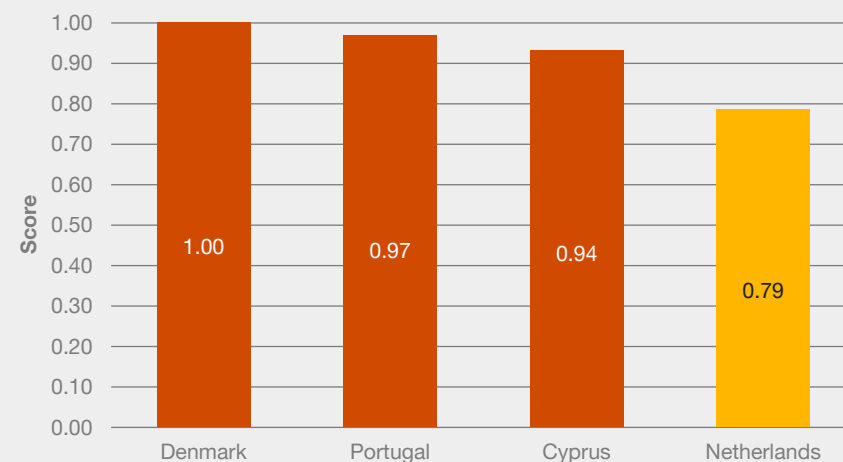
#### *Potential when improved: not quantifiable*

This is a particularly challenging category to tackle since it also depends strongly on cultural norms and preferences as well as on gender roles, which typically take longer to change and cannot be as easily influenced by policy. For this reason we did not quantify the impacts in terms of FTEs here, however, the numbers mentioned above already give an indication that the potential could be huge. While financial incentives alone will not do the trick, comprehensive policy approaches which aim at making the reconciliation of work and care responsibilities easier and increase takeup of childcare services do show effects in other countries. Thus, although it might not be realistic to entirely bridge the gap to the best practices in the near- or medium-term, significant improvements are still possible and necessary.

#### • **Productivity, efficiency and technology use**

Since it might not be possible to close the labour market gap entirely in all sectors, increasing the productivity of existing workers instead might prove to be one of the key solutions to the labour shortage. The potential for productivity gains differs strongly across industries but always exists at least to some extent.

**Best performing countries (top 3) and the Netherlands**



#### *Performance of the Netherlands*

On productivity, efficiency and technology use, small European countries such as Malta, Luxembourg, Ireland and Cyprus lead the ranks while Denmark, Sweden and the Netherlands follow with some distance. While it might be difficult to entirely bridge the gap in this category due to different economic systems and structures, some improvements can definitely be achieved and would help to alleviate the labour shortage in industries where it could prove very challenging to fill the open vacancies.

### *Potential when improved: not quantifiable*

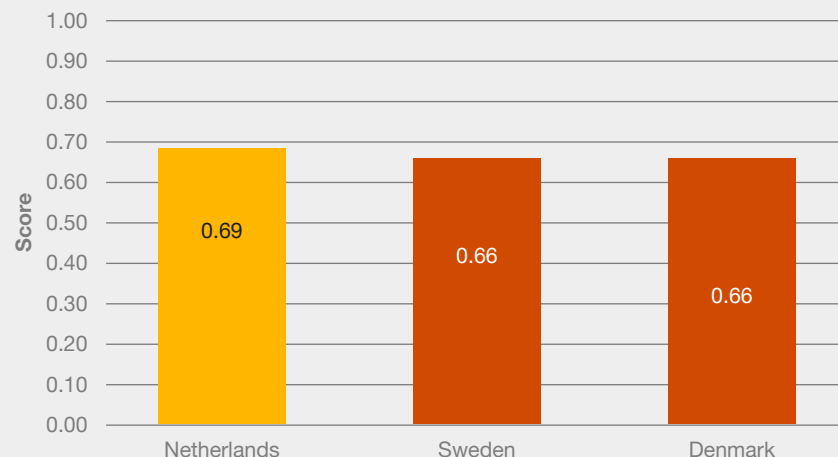
We did not quantify the potential impacts in this category since there is no direct translation into FTEs and because it is very industry-specific and therefore hard to generalise or calculate with. However, especially in sectors which have both a labour shortage and large potential for technology use and productivity gains, this might prove to be one of the main solutions to the shortfall. Once productivity gains have been achieved they are also unlikely to disappear again and if used correctly, technology can even improve working conditions by for instance reducing the strain of manual labour or eliminating boring and repetitive tasks.

### • **Working conditions**

Part of the labour shortage is also due to a so-called ‘discouraged workers’ effect, with workers leaving certain industries due to low pay or bad working conditions, among other things. This is especially true since the pandemic in sectors which were closed down during the lockdowns. While only a small part of the labour shortage is due to this effect, improving working conditions will nonetheless be essential in some sectors which are currently struggling to find workers.



**Best performing countries (Top 3)**



### *Performance of The Netherlands*

Here, the Netherlands is overall the best among the 28 countries, followed by Sweden and Denmark. The share of workers working from home is highest in the Netherlands<sup>18</sup>, which adds to flexibility and autonomy, while the low pay incidence, meaning the share of people earning less than 2/3 of the median earnings, is the third lowest after Portugal and Italy. However, the Netherlands has one of the worst scores on risk factors that might negatively impact physical health at work, with almost 82 percent of Dutch workers currently reporting exposure to such risks<sup>19</sup>.

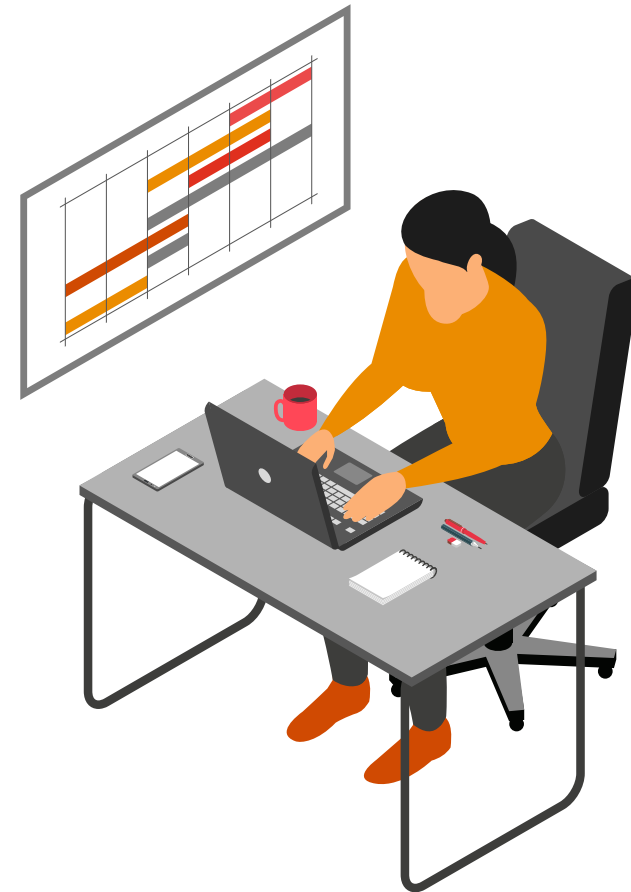
<sup>18</sup> [https://ec.europa.eu/eurostat/databrowser/view/LFST\\_HHWAHCHI\\_\\_custom\\_3141991/default/table](https://ec.europa.eu/eurostat/databrowser/view/LFST_HHWAHCHI__custom_3141991/default/table)

<sup>19</sup> [https://ec.europa.eu/eurostat/databrowser/view/HSW\\_EXP6B\\_\\_custom\\_3142356/default/table](https://ec.europa.eu/eurostat/databrowser/view/HSW_EXP6B__custom_3142356/default/table)

Tackling this issue through stricter regulations regarding workplace safety to reduce the share to 40 percent, the average of Germany, Denmark and Lithuania, could make over 3.7 million Dutch workers feel safer at their job and thus significantly improve working conditions. Achieving this would make people more likely to (re)enter the labour market, especially for those occupations which currently entail many health risks. This is particularly important in light of the COVID-19 pandemic, which led many older and at-risk workers to leave the labour force due to health concerns. If any country wishes to bring these people back into employment or prevent additional people from leaving for health reasons, it is essential to improve in this area.

*Potential when improved: not quantifiable*

Since it is not possible to get a sufficiently precise estimate of how many people this would motivate to enter or stay in the workforce, we also did not calculate impacts in terms of FTEs for this category. However, especially with the 'discouraged workers' effect it is clear that working conditions must not be neglected, particularly in occupations with many health risks, low pay or long or difficult working hours.



# Appendix

## 1. Forecasting vacancies in the Netherlands

The expected number of vacancies until 2027 is based on our own regression model of the effect of the unemployment rate and real GDP growth on the number of vacancies over the last ten years based on quarterly data from IHS and CBS, which found a very tight correlation between these variables. The resulting regression equation, in combination with IHS projections for unemployment and real GDP growth until 2027, was used to forecast the number of vacancies.

## 2. Defining and estimating ‘not immediately employable’ unemployed people

To arrive from total vacancies at the labour market gap, we also need the share of unemployed people who are not immediately employable, which we define as every person who has been unemployed for more than three months. This definition has been chosen because the current high number of vacancies leads to most people only being unemployed for a very short duration in between jobs, and it can therefore be assumed that in the case of people who have been unemployed for more than three months, there is usually a good reason for it, such as a strong field of study or qualification mismatch. They will therefore normally require some assistance or intervention to get back into work, which is why we consider them not immediately employable. The number we found for this share of not immediately employable persons is around 56 percent, which is the average value of the last five years, so we are assuming that this share will fluctuate around a similar average in the next five years as it did in the past.

## 3. Estimating the labour market gap

The labour market gap we are discussing in this report is given by the expected number of vacancies minus the number of unemployed people who are immediately employable without the need for prior interventions.

Thus, the labour market gap is the number of vacancies which are expected to remain unfilled in a ‘business-as-usual’ scenario without

any interventions, and this number is therefore larger than just vacancies minus unemployment. In the second quarter of 2022 for instance there were around 465,000 vacancies and 330,000 unemployed people, but the shortage at that point was roughly 280,000 workers. It is important to note that these are not supposed to be exact forecasts, but rather to indicate the rough magnitude of the labour shortage in the coming years. They are conservative estimates based on the most recent and reliable information available, but especially during turbulent times, some deviations are to be expected.

## 4. Estimating the potential impact of each intervention

To find the potential impact of each indicator on the labour market, we compared the current performance of the Netherlands to the average of the Top 3 countries (to mitigate the effect of individual outliers) and then calculated how many full-time equivalents (FTEs) the Netherlands could gain by bridging the gap to the average of the top three best practices. One FTE is defined as 38 hours per week for this report. In some cases, such as for indicators relating to the quality of work, it is not possible to calculate the precise impact in terms of FTEs, but it is nonetheless clear that these indicators are essential to improving both access to the labour market and the motivation and productivity of workers.

To give an example, 73.8 percentage of Dutch 55 to 64 year-old people are currently in the workforce, which is around 1,730,000 people. The highest share we consider realistic to achieve is the average of the Top 3 countries, in this case Sweden, Estonia and Denmark, which is 78.1 percent. Bridging this gap by increasing the labour force participation of this age group by 4.3 percentage points would get roughly an additional 100,000 people onto the labour market. We then use the current unemployment rate of the group in question, in this case 3.3 percent, as well as their average weekly hours, here 32.6 hours, to arrive from the additional labour force at additional FTEs, which for this indicator is roughly 86,000. This is the final impact on the labour market if the Netherlands manages to bridge the gap to the performance of the Top 3.



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