

# Some aspects of growth in the Netherlands 1970-1998: an international comparison

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# 15 Some aspects of growth in the Netherlands 1970–98

## An international comparison

*Hugo Hollanders and Thomas Zieseimer*

### Introduction

This chapter presents some information on issues that have some importance for those who try to learn from the economic policy of the Netherlands. In particular we discuss the following questions:

- (i) Does growth in the Netherlands differ from that of other Western European countries?
- (ii) In which branches and sectors is the Gross Domestic Product (GDP) of the Netherlands and Germany produced (share of metal, services, etc.)?
- (iii) What was the impact of wage policy on the innovative capabilities in the Dutch industry?
- (iv) What is the impact of wage moderation on productivity?

Each of these questions is treated in one of the following sections. In the final section a policy view is presented.

### GDP growth in the Netherlands compared to other Western European countries

As some Germans want to learn from the Dutch experience we start with a comparison of German and Dutch GDP growth rates for the years 1970–98 as plotted in Figure 15.1. The whole period is divided into subperiods by vertical lines drawn in Figure 15.1. In the subperiod 1970–5 in some years Dutch growth rates are larger than the German growth rates and in other years it is the other way around. In the period 1976–83 Dutch growth rates are lower throughout. Between the wage agreement of ‘Wassenaar’ (1982) and the German Unification, the Netherlands have higher or equal growth rates with the exception of the year 1988. However, an alternative way of reading the data is to say Dutch growth rates were higher for three years after 1983 and from 1987 to 1990 there is a changing pattern again. From 1993 until 1998 Dutch growth rates are higher. This is the period after Prime Minister Lubbers had shifted more emphasis of Dutch policy towards the reduction of the wage wedge, the difference between gross and net wages. The employers’ part of the wedge has been decreased more strongly than that of the employees.<sup>1</sup> In contrast, they had gone up in Germany after the Unification.

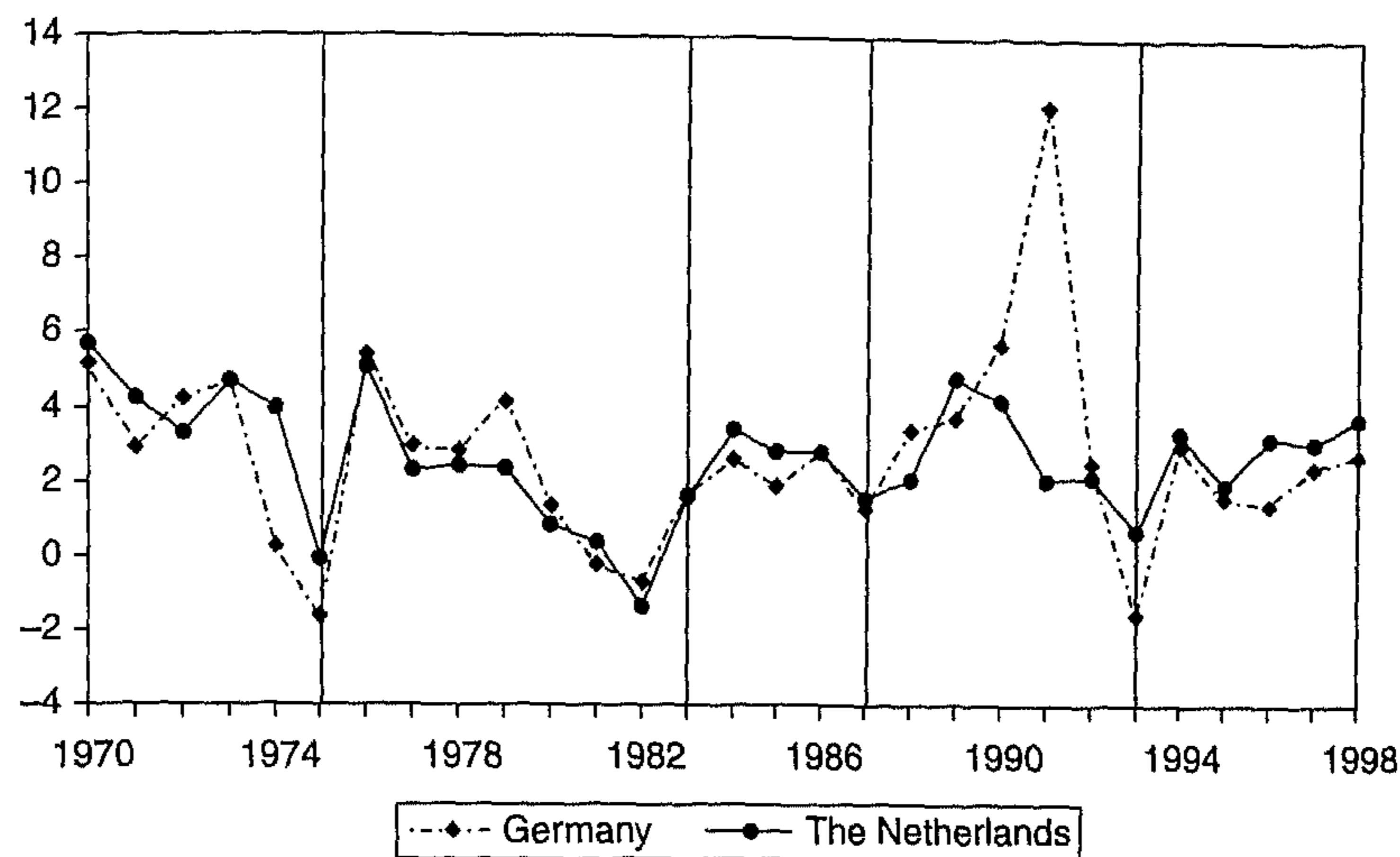


Figure 15.1 Dutch and German GDP growth (%) (1970-98).

For the period after 1983 the question arises whether the higher growth is due to wage moderation or just to the fact that these are the years after the world recession which affected small countries more than large countries. In more drastic words, one could hypothesise that the relatively weak Dutch growth performance before 1983 was due to the weak world economic situation, which affected the small Netherlands more than the large Germany. Similarly, the relatively strong growth after 1983 could stem from the upswing – after the 1982 low of the world economy – affecting the small Netherlands more favourably than the large Germany. If these hypotheses are correct, a comparison of the Netherlands with smaller countries should be less favourable than with the large Germany. This comparison is made in Table 15.1. Table 15.1 considers the GDP growth rate of the country mentioned in the pre-column minus the GDP growth rate of the Netherlands. The bold entries in the table are those where the result is negative, which means that the Netherlands had higher growth. To repeat, the comparison with Germany (denoted GER in the table) yields a negative value for 1984-7 indicating higher Dutch growth after the 1982 recession. The comparison with Belgium and Austria, the country that invented its own form of wage moderation after the Second World War, is only slightly different. The comparison with Denmark, Sweden and Norway is much less favourable. The reason for the latter result, however, is the strong development of the UK, which is well known to have its own business cycle and a strong impact on Denmark. Norway is strongly dependent on oil prices and the value of the US dollar. The comparison with Belgium and Austria therefore seems to be more to the point. It seems impossible to argue that the relative Dutch performance around 1983 was *merely* due to country-size effects. It is also clear that Dutch growth performance after 1983 was less strong

Table 15.1 Relative GDP growth in the Netherlands compared to other Western European countries

	<i>AUT</i>	<i>BEL</i>	<i>GER</i>	<i>DNK</i>	<i>FRA</i>	<i>GBR</i>	<i>NOR</i>	<i>SWE</i>
1970	1.43	0.65	-0.55	-3.67	0.04	-3.38	-2.16	0.78
1971	0.89	-0.47	-1.33	-1.56	1.19	-1.52	0.64	-3.28
1972	2.90	2.04	0.90	1.97	2.59	-1.02	-0.17	-1.02
1973	0.20	1.28	0.00	-1.06	0.68	2.93	0.56	-0.72
1974	-0.02	0.21	-3.69	-4.90	-0.73	-4.96	0.59	-0.77
1975	-0.27	-1.35	-1.50	-0.57	0.57	-0.48	2.57	2.64
1976	-0.54	0.55	0.29	1.35	-0.88	-1.34	-1.32	-4.06
1977	2.04	-1.74	0.63	-0.70	0.90	-1.25	-0.05	-3.91
1978	-1.94	0.41	0.42	-0.98	0.89	1.12	1.15	-0.71
1979	2.34	-0.21	1.78	1.17	0.87	-0.26	5.08	1.47
1980	2.15	3.28	0.50	-1.31	0.76	-2.96	7.82	0.81
1981	-1.04	-2.75	-0.57	-2.36	0.80	-1.13	12.09	0.94
1982	3.25	2.66	0.65	4.06	3.79	2.70	1.08	1.73
1983	1.07	-1.35	-0.05	1.11	-1.26	2.22	1.27	0.69
1984	-3.25	-1.15	-0.82	1.11	-1.81	-0.89	4.23	0.37
1985	-0.22	-2.02	-0.97	1.01	-1.28	0.80	0.66	-0.60
1986	-0.86	-1.25	-0.02	1.31	-0.19	1.18	-6.91	-0.64
1987	0.07	0.70	-0.25	-1.28	0.45	3.15	-1.42	1.28
1988	1.30	2.45	1.31	-0.88	2.04	2.90	-3.53	0.31
1989	-0.83	-1.17	-1.05	-4.33	-0.85	-2.51	-1.96	-2.58
1990	0.53	-0.96	1.51	-2.99	-1.77	-3.80	-2.34	-2.78
1991	1.19	-0.50	10.06	-0.66	-1.21	-4.31	0.38	-3.40
1992	-0.63	-0.73	0.35	-1.89	-1.49	-2.34	-2.15	-3.59
1993	-0.23	-2.15	-2.27	0.62	-1.74	1.11	2.15	-3.04
1994	-1.17	-1.04	-0.30	0.74	-0.79	0.78	0.14	0.33
1995	-0.01	0.28	-0.33	0.63	0.12	0.54	2.14	1.45
1996	-1.83	-1.85	-1.79	-0.62	-1.75	-0.74	3.94	-2.02
1997	-1.11	-0.61	-0.66	-0.10	-0.55	0.04	0.68	-1.11
1998	-0.72	-1.03	-0.99	-1.54	-0.65	-1.55	-0.74	-1.06
<i>Average</i>								
1970-82	0.88	0.35	-0.19	-0.66	0.88	-0.89	2.14	-0.47
1983-98	-0.42	-0.77	-0.42	-0.48	-0.80	-0.21	-0.22	-1.03

## Note

Calculated as the growth rate of each country minus the growth rate of the Netherlands.

for some years when a comparison is made with respect to smaller countries. The average of the growth rate difference from 1983 to 1998, however, is exactly the same for Austria as it is for Germany, and for Belgium the result is even more favourable for the Netherlands. This is clear enough to *reject the idea* that the Netherlands might have grown faster because it is a small country affected more strongly by world developments.

What is more impressive though when looking at Table 15.1 is the great difference in relative Dutch growth performance before 1989 and after 1989. After 1989 Dutch growth outperforms that of other countries with only few interesting exceptions. One is the German Unification in 1991. Denmark starts its own policy

of wage moderation in 1993 and has some relatively good years 1993–5. These years, however, are also relatively good years in the UK, which may have pulled the Scandinavian countries. The strongest exception, however, is Norway with five years of stronger growth. Four of these years are years of increasing oil prices.

Kleinknecht (1998, figure 3) presents data showing that from 1984 to 1993 the Netherlands had higher growth rates of GNP than the average of the EU-15 except for two years. Our interpretation of these data is that growth was relatively strongest after 'Wassenaar' (1983) and after the policy against the wedge in the early 1990s. It seems hard to deny that these events have been causal although the differential impact of country size is present after 1983 when the resumption of world economic growth did contribute to small countries' growth more than that of large countries. In the 1990s this aspect of world economic growth seems to be less relevant. After the German Unification the wage wedge is decreased in the Netherlands and increased by the German government.

### **In which sectors and branches is the GDP of the Netherlands and Germany produced?**

It can be seen from Figure 15.2 that the Netherlands does have a higher share of services as a percentage of GDP than Germany, but a lower one than the US. In agriculture<sup>2</sup> the ranking is US, Netherlands and Germany. Industry's share is about equal in the US and the Netherlands, but Germany has a higher one than these countries.

The shares concerning employment<sup>3</sup> are slightly different as can be seen from Figure 15.3. The Dutch share of agriculture in GDP is higher than that of employment. For services and industry the result is the same as it was concerning output.

Overall, the greatest remarkable difference is the share German industry has in GDP and employment compared to these countries. However, we will come back to the development of services later.

When looking at the share of the metal industry in Figure 15.4 it is obvious that it is higher in Germany than in the other two countries. For Germany this share is about twice as large as that of the Netherlands and about 50 per cent larger than that of the US. It is decreasing in Germany only after the Unification. Together with the high export share in production of the metal industry this partly explains the strong position of the metal unions in Germany as far as this is based on market forces. In the Netherlands there are no unions of similar strength. The relative strength of the unions may be an important aspect in explaining the difference in the inclination to agree to a policy of wage moderation when trying to understand the Dutch model. The policy of checks and balances has given relatively little power to unions in the Netherlands – a fact that cannot be ignored when trying to learn from the 'Polder model'. The plots do not show any obvious structural beggar-thy-neighbour impact of Dutch policy on German sectors. The phenomenon seems to be limited to the border regions.

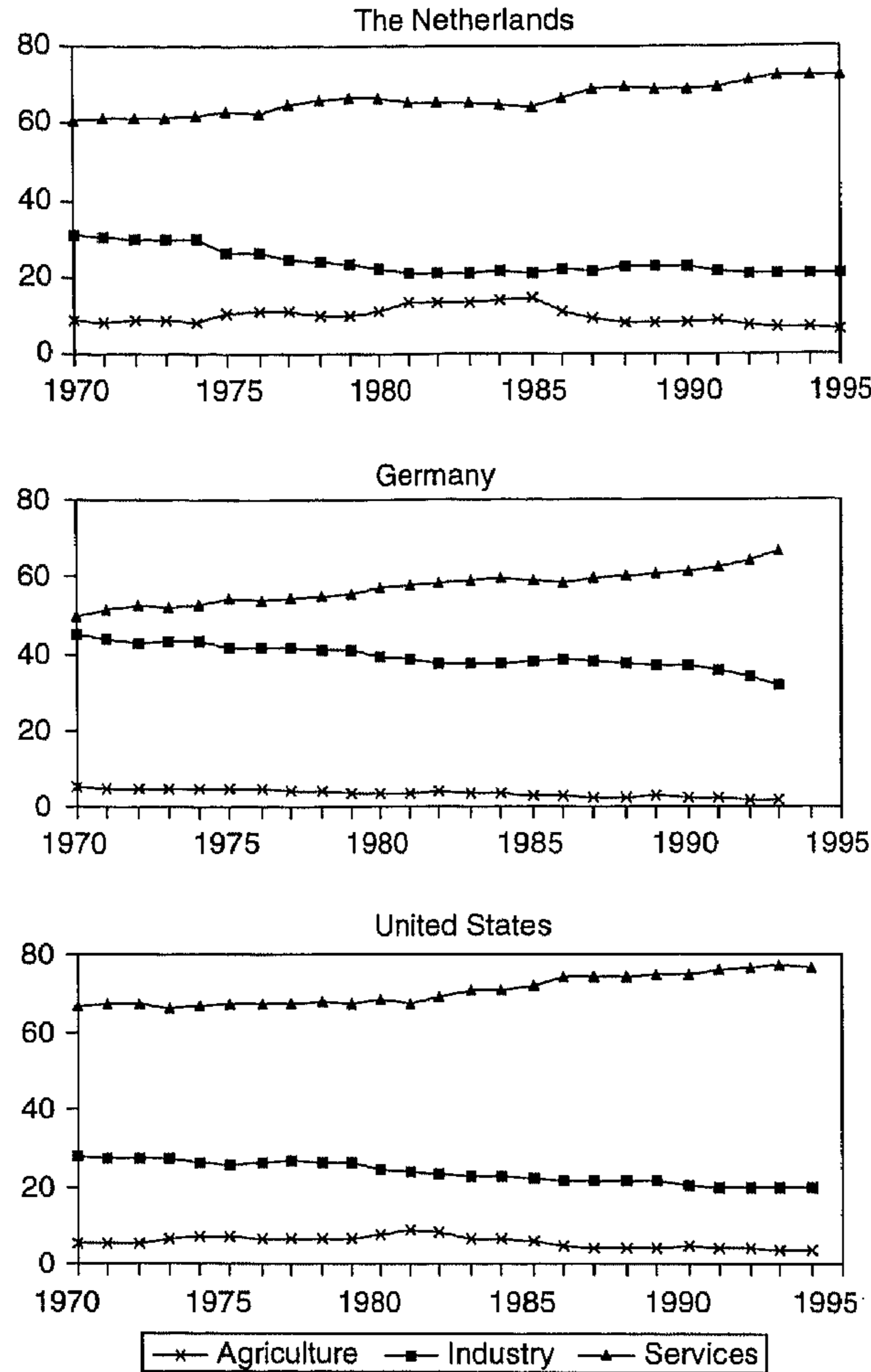


Figure 15.2 Sectoral GDP shares (%) (1970–95).

**What was the impact of wage policy on the innovation capabilities in the Dutch industry?**

Figure 15.5 shows R&D of some sectors as a share of the value-added of that sector. In all four cases shown this share is developing fairly smooth in German industries and until 1983 parallel to the Dutch number with the exception of ISIC 37, the smaller part of the metal industry. But it is getting a strong boost in the Netherlands from 1984 to 1987. Afterwards it is getting back almost to the level of the 1970s for industry as a whole and for ISIC 38.<sup>4</sup> In both of these cases it is going below the German shares whereas in ISIC 37 it is diverging from the German shares in

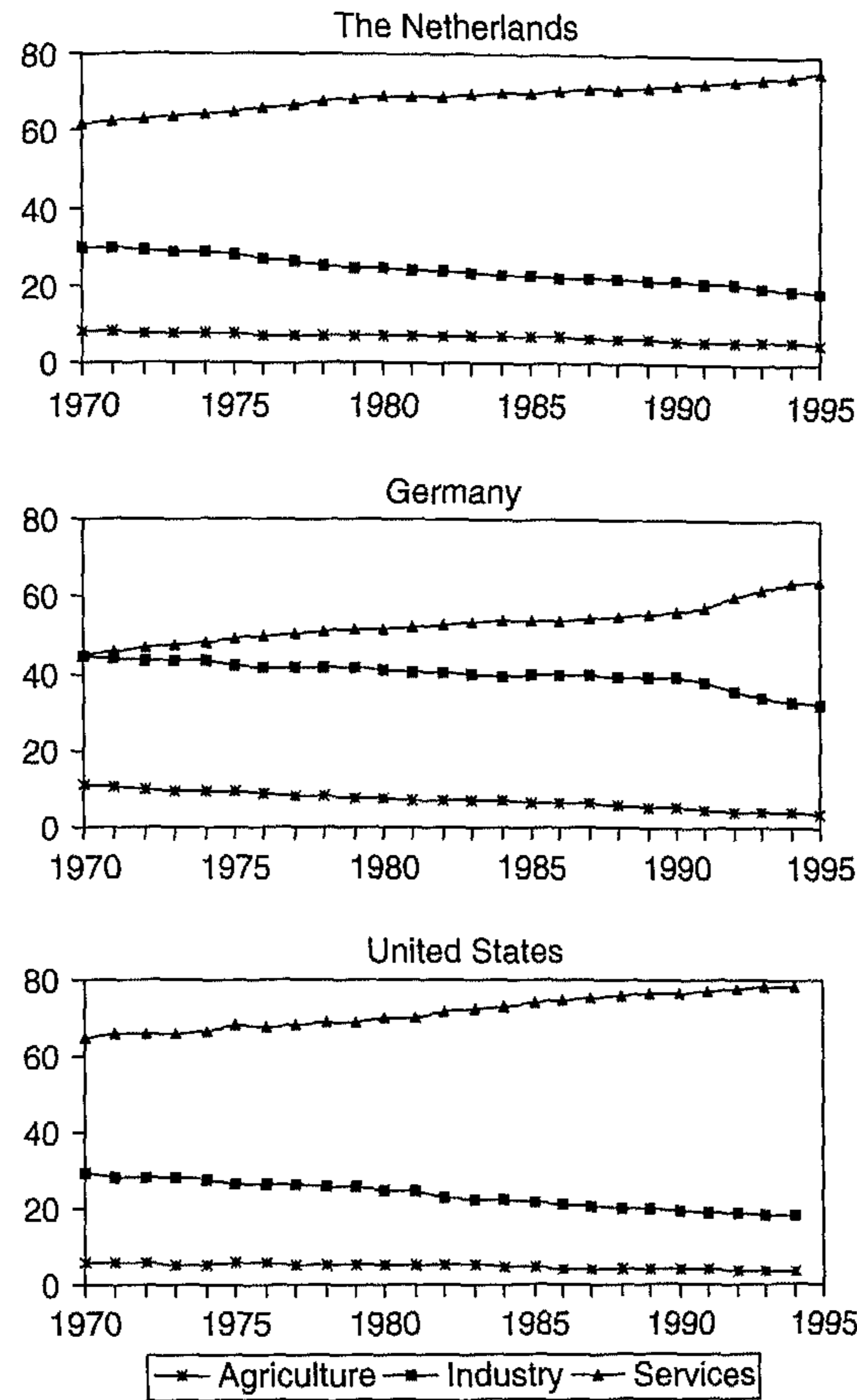


Figure 15.3 Sectoral employment shares (%) (1970–95).

the upward direction. Whereas it cannot be excluded that the early boost is due to 'Wassenaar', it is hard to see how the later long-run *differences between the sectors* can be explained by the early *macro* policy.

### What is the impact of wage moderation on productivity?

The major attack on the 'Polder' model has come from productivity analysis. Kleinknecht (1998, table 1) presents data pointing out that

- (i) since 1986 annual percentage growth of value-added per employee is almost half of what it was from 1981–5;
- (ii) it is only 50 per cent of productivity growth of the EU-15 since 1986.

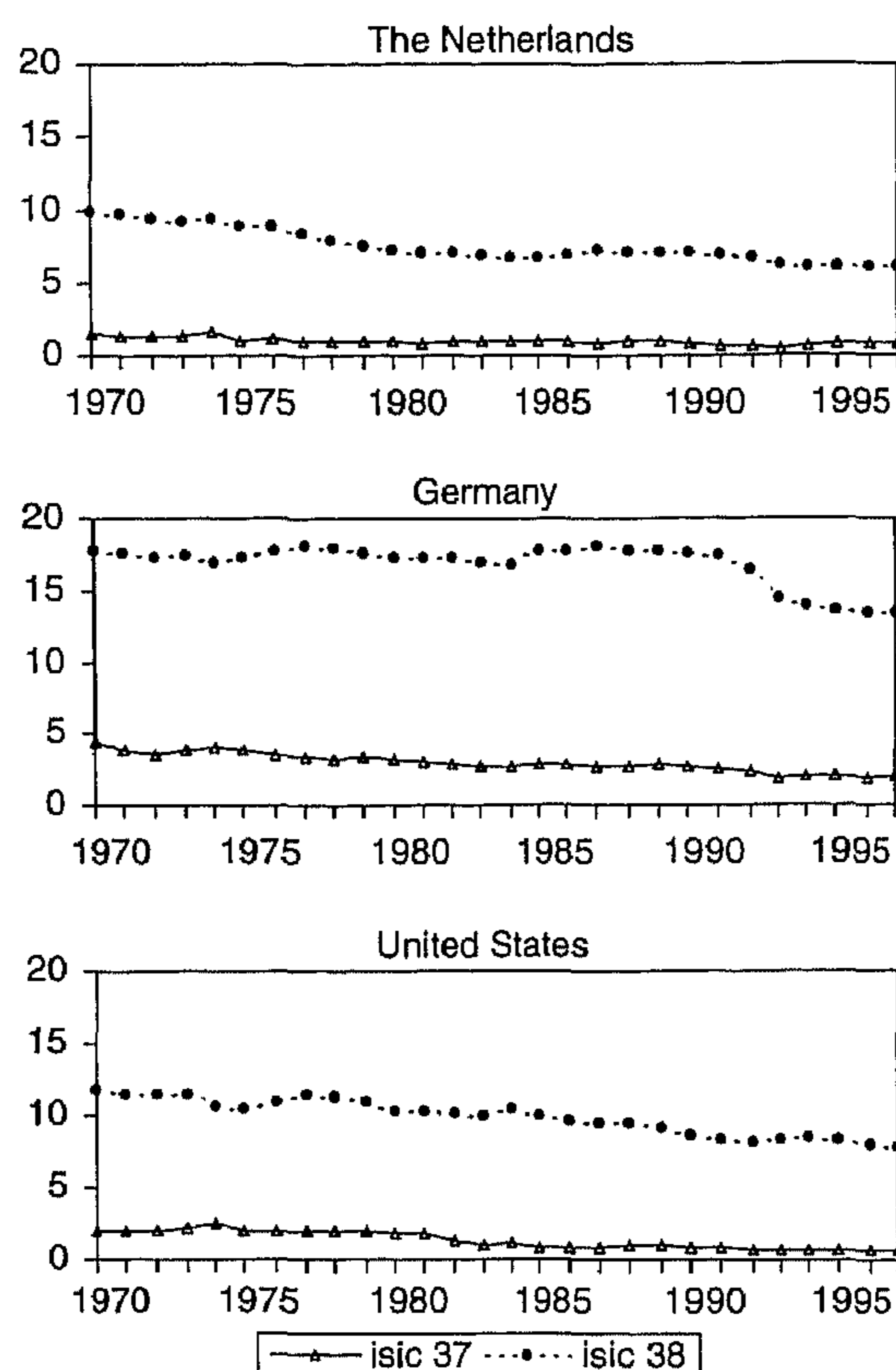


Figure 15.4 Metal industries: GDP shares (%) (1970–97).

Productivity analysis deserves special attention therefore. The major aspect is whether productivity should be measured per employee or per hour. Figure 15.6 presents data on productivity *per employee* (in full-time-equivalents (FTEs)) and Figure 15.7 *per hour*. The upper part of both figures looks at the large countries, the lower part at the small countries.

Productivity per employee is highest in the US in the whole period. All other countries seem to catch up with the US, maybe with the exception of the UK. Among the small countries the Netherlands is the leader in the 1970s, about equal with Belgium from 1980 to 1986 and falls behind Belgium afterwards but remains more productive than the other small countries. Figure 15.6 for productivity *per employee* indeed reflects a slow-down in productivity growth.

When looking at productivity *per hour* one can see from Figure 15.7 that the Netherlands leapfrogs the US in 1983, France does so in 1987 and West Germany catches up around 1991 but Germany as a whole falls behind due to the Unification. Moreover, looking at the slope of the Dutch time-series we see here that the



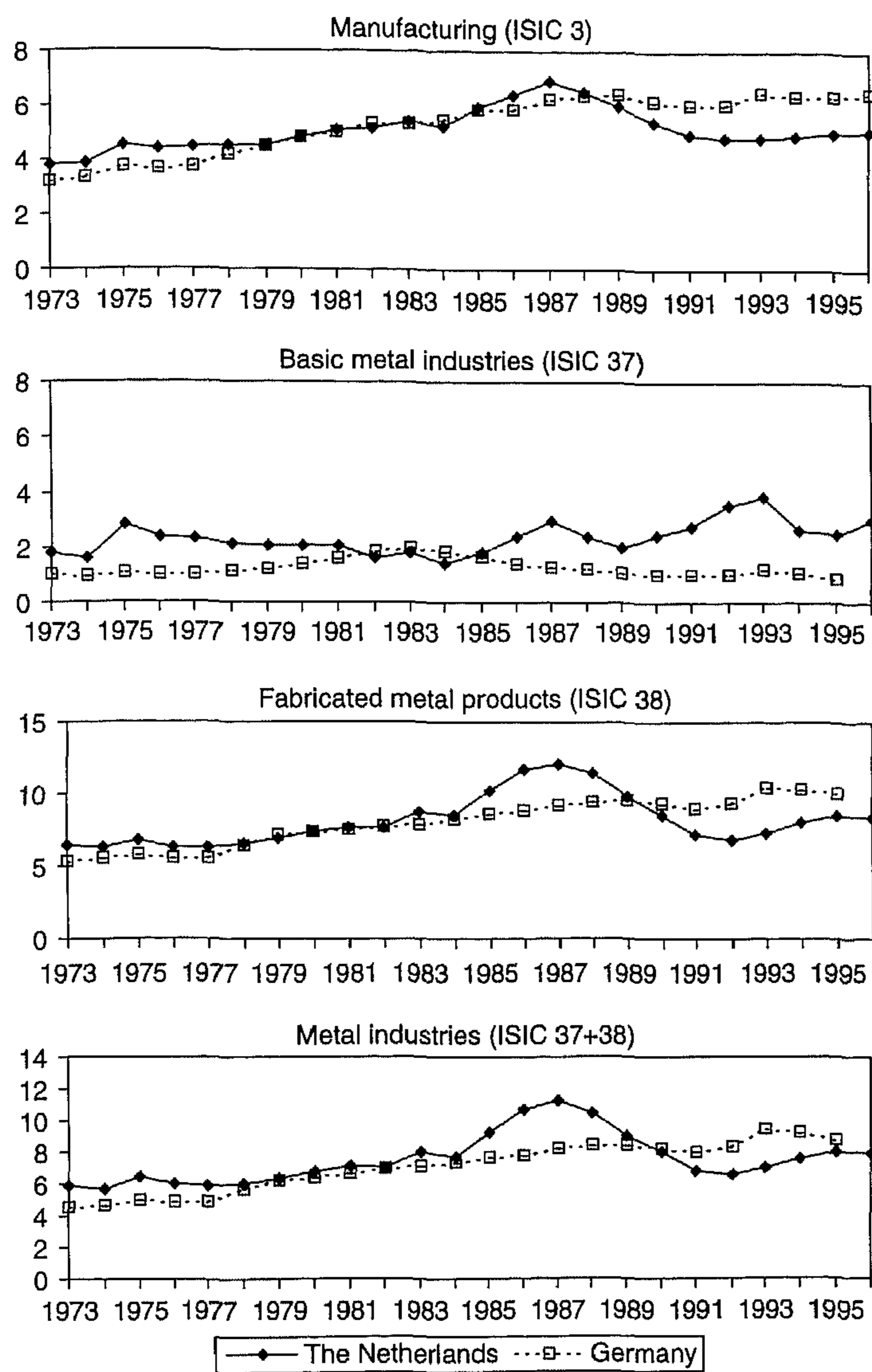


Figure 15.5 R&D intensities (%): Dutch and German manufacturing industries (1973–96).

productivity slow-down is much less, if any, in terms of per hour productivity (see Table 15.2) – in particular the jump from 1993–4. Again with the exception of 1994, Dutch productivity per hour is larger than that of Belgium, which it was not when measuring productivity per employee. The remaining slow-down of productivity per hour is quite natural in the sense that fewer productive people

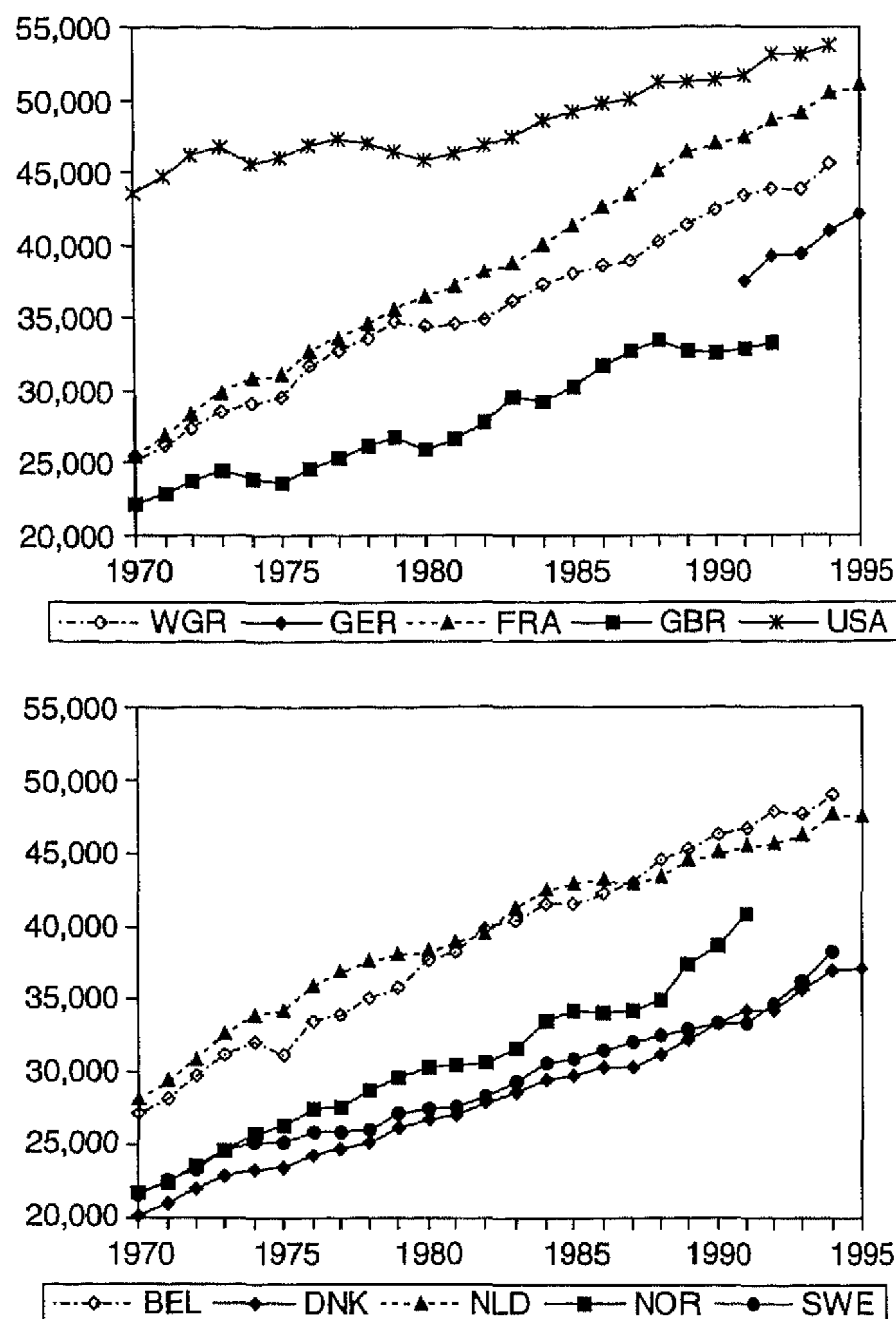


Figure 15.6 Labour productivity (output per employee in 1990 purchasing power parity dollars) (1970–95).

have been reintegrated into the production process after they had been taken out before.<sup>5</sup>

Interesting aspects are revealed when looking at productivity at the sector level. Figure 15.8 shows that productivity per employee in Germany is higher in services and lower in industry when compared to the total. In the Netherlands and the US this was also the case during the early or middle of the 1980s but then industry and services reverse their positions, which they do not do in Germany. Probably this is an effect supported by wage moderation but clearly setting in much before ‘Wassenaar’ in 1983. The service sectors of the Netherlands and the US have added more and more low-productivity jobs. This is an important aspect because German employers tend to believe that wage moderation would increase the number of jobs in industry. However, general equilibrium effects may induce structural change

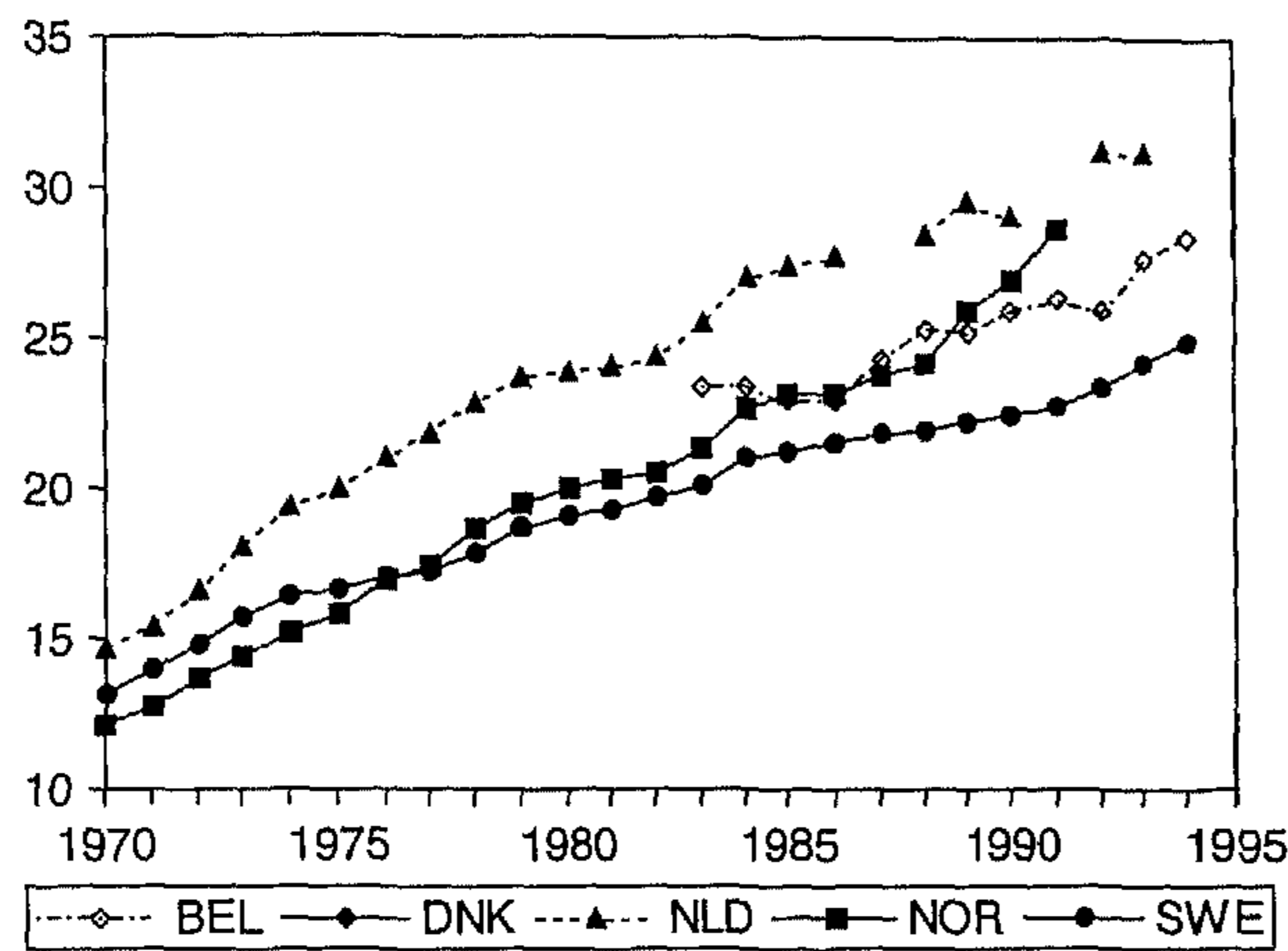
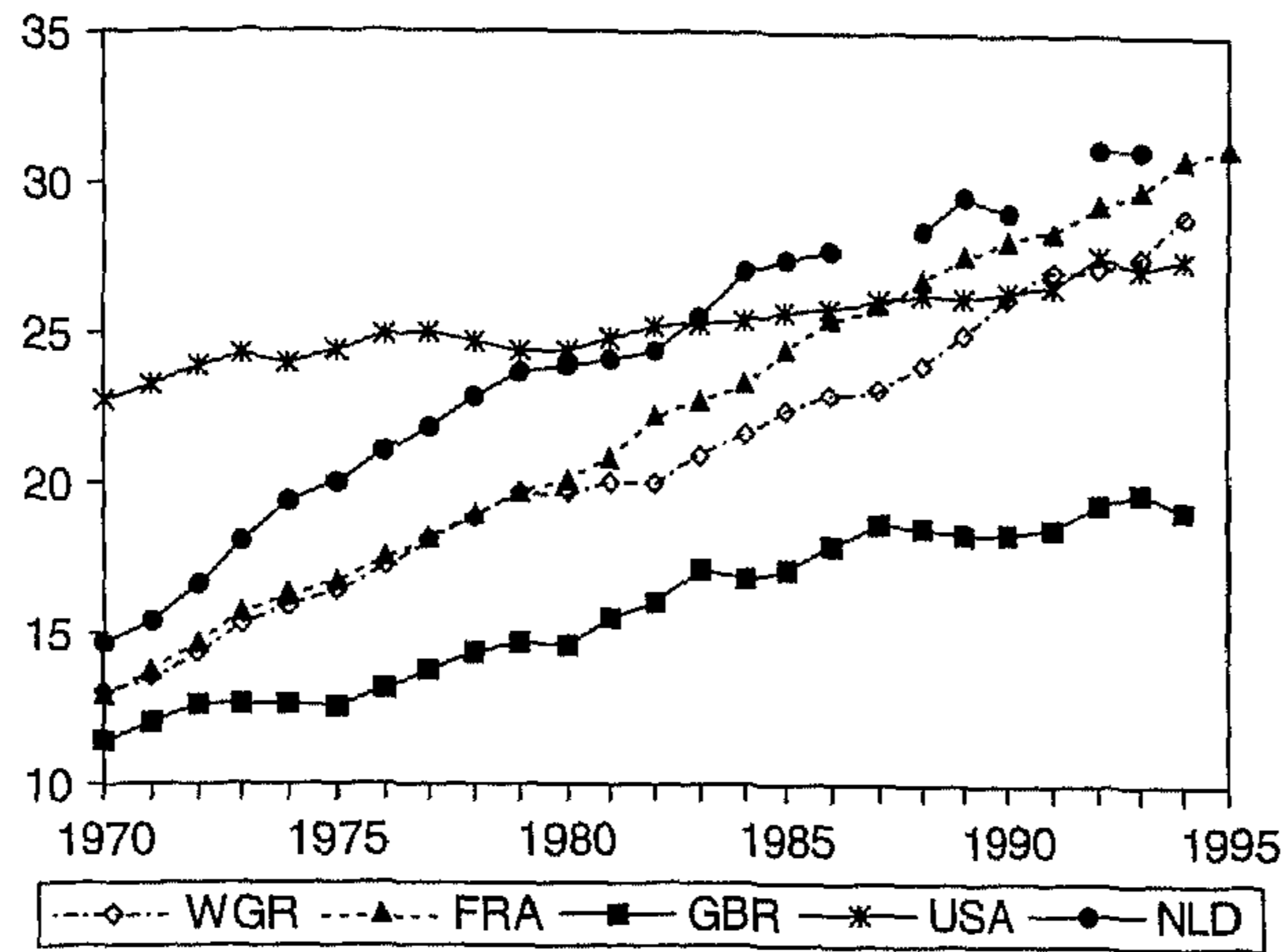


Figure 15.7 Labour productivity (output per man-hour in 1990 purchasing power parity dollars) (1970-95).

Table 15.2 The Netherlands, labour productivity, average growth

	<i>Per employee</i>	<i>Per man-hour</i>
1981-85	2.28	2.91
1986-90	1.01	1.12
1991-95	1.03	2.47 <sup>a</sup>

Note  
a 1991-3.

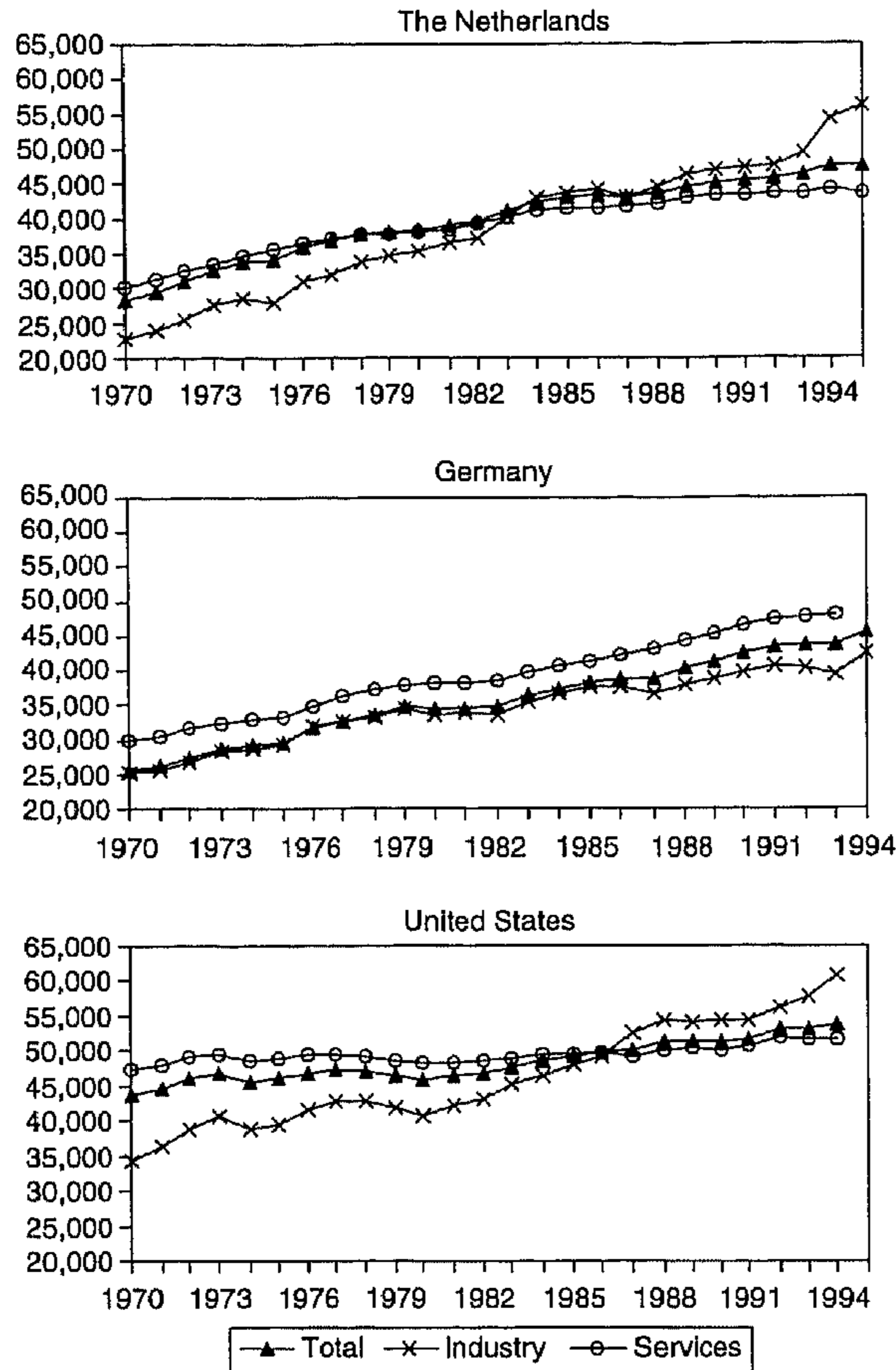


Figure 15.8 Labour productivity (output per employee in 1990 purchasing power parity dollars): industry versus services (1970-95).

creating jobs in services. The reason is that services are relatively labour-intensive and more labour-intensive sectors can be expected to benefit more from wage moderation than less labour-intensive sectors. Clearly, it reduces the incentive for industry unions to agree with wage-moderation policies if new jobs are created in services rather than their own industry.

In particular, all curves are fairly smooth. No kinks are generated by Dutch policies. Beggar-thy-neighbour effects are clearly limited to the border regions. Given the size of the countries this may be different if Germany changes its policy.

### A policy view

There are several aspects, which make it difficult to transfer the Dutch model to Germany. When trying to judge about the feasibility of the Dutch policy for

Germany it seems to be important to be aware of the fact how costly this is. Unit wage costs relative to those of Germany have been decreasing by 35 per cent but net wages show a difference of only about 10 per cent. In more detail, relative unit labour costs fell from 1.05 to 0.7, which is a 35 per cent reduction.<sup>6</sup> The change in the difference of the unemployment rate is 5.7 per cent: the Dutch rate of unemployment has gone from 9.7 per cent in 1983 to 6.3 per cent in 1996, a reduction by 3.4 per cent. For Germany the corresponding numbers are 7.7 and 9.0 per cent, an increase by 2.3 per cent.<sup>7</sup> This boils down to requiring a 6 per cent (35 per cent: 5.7) decrease in relative unit labour costs in order to get a 1 per cent decrease in the difference of unemployment rates. This is a fairly expensive policy. It is even more expensive to the extent that the gains in employment rates possibly have to be attributed to other developments such as world economic growth or labour time reduction.<sup>8</sup> In short, increasing employment through wage cost reduction is very expensive. On the other hand German industries are in markets of high quality. The skills of workers are higher than in other countries.<sup>9</sup> This may justify higher wages. In this sense relative unit labour costs of Germany compared to the Netherlands, which have a value larger than unity, do not necessarily reflect too high wages but rather may reflect skill differences.

The standard argument in favour of employment policy is that an increase in employment can be considered to be a Pareto improvement, saying that everybody *can* be made better off. The crucial question in negotiations is whether everybody *is actually* made better off. Going to Dutch net wages would imply a reduction of wages in spite of the fact that a large part of the reduction in Dutch wage costs has been achieved by a reduction of the wedge rather than net wages. This actually means that going to Dutch net wage levels German workers would not benefit from the policy (although they could if a Pareto improvement could be achieved). Instead of participating they would pay the bill. It seems fairly clear that there will be no employment gains in Germany if the negotiators are not able to make sure that everybody gains. This requires a reduction of the wedge that is large enough to decrease wage costs and increase employment without a reduction in net wages.

In Germany from the 1960s to the 1980s there were wage increases for low-skilled workers, which were often higher than productivity increases. In all likelihood this policy is responsible for a lot of low-productivity jobs that have been lost or not created. Dutch policy has created a similar problem during the wage moderation policy. Wage increases have been moderated partly irrespective of the skills and the Dutch have a pertinent shortage of high skills and are unwilling to solve this by wage policy.<sup>10</sup> The most recent variant of this policy was to ask wage-earners in industry for solidarity with those in the government sector. The reason was that the latter should not get higher wages according to the plans of the Dutch government in spite of the fact that the Netherlands have come close to very low unemployment and, of course, workers have now to participate in the gains from productivity enhancement. This shortage of high skills may be part of the explanation of the slow-down of productivity growth. It is also clear that if there will be any wage moderation in Germany it will not take place in the segments of scarce skills. Germany may prefer going to a differentiated labour market policy

above a policy that tries to reduce wages in labour-market segments where there is actually scarcity – however unpopular this may be at the moment.

What might the compromise look like? Employers get lower gross wage costs and offer more employment. The government gets more employment and decreases the taxes for the low-skill, low-wage workers. Employees get higher net wages and more safe jobs but lower wage increases to the extent that their labour-market segment has higher unemployment. As most of the jobs can be created in the low productivity, low-skills sectors, wage moderation policy will probably be concentrated in the services sector.

The role of the service sector seems to be somewhat under-emphasised in the *Bündnis für Arbeit* (Employment Pact) until now. This implies that *before* wage moderation is used, other parts of the economic system like taxes and maybe barriers to entry for firms have to be adjusted because they slow down the level or growth of vacancies if they are unchanged. If these adjustments are not implemented, the necessary wage decreases (or slow-down of increases) to get a certain amount of additional employment are unnecessarily high. This may be the reason why unions have kept wage agreements out of the *Bündnis für Arbeit*. This is another example where sequencing of policy measures matters.

Labour markets could be differentiated according to the unions' and employers' federation responsible, skills offered and required, scales of salaries, regions and other things. Differentiation according to firms, however, seems to be a non-viable concept. It creates problems of asymmetric information about costs and revenues of the firm. Even accountants working for the unions will have the same problems and are no way out. This is well known from the profit-sharing debate. All types of unanimity problems have to be expected under asymmetric information. Statistics from the labour office do not suffer from this disadvantage and seem to be a better basis for the differentiation.

The major change in the responsibilities will be that the government takes over responsibility for issues of equality and justice from the Labour unions, which they were not willing to leave to the previous government. Another implication of the concept is that in labour markets with unemployment gross wages decrease, and net wages do not increase, whereas in labour markets without unemployment gross and net wages are increased in accordance with productivity enhancement, inflation correction and some necessary modifications.

It is obvious that government financing of this concept leaves little room for other expansive measures like expansive family policies, reduction of high-tax brackets and shorter working hours. The government will have to postpone other expenditures until the policy creates more jobs and more taxpayers, which will partly compensate for the tax reductions. Moreover, labour time shortages could be conflicting with financing old-age insurance. It should be kept in mind that in the Netherlands the highest tax rate of 60 per cent<sup>11</sup> is applied at a taxable income of about fl. 130,000. This means that the rate is higher than in Germany. It is applied to lower incomes than the top taxes in Germany are. And it is simply not true that Germany has the highest income taxes in Europe. High tax rates are essential in financing employment policies.

Finally, ideas in Germany to stimulate employment by more innovation<sup>12</sup> and in the Netherlands on stimulating innovation at the cost of employment<sup>13</sup> provoke the following comments. It is clear that innovation should not be pushed by high wages at the cost of creating unemployment. Moreover, R&D policy should not be expected to create many jobs. R&D expenditures are no more than 2 or 3 per cent of GDP. *Changes* in them cannot be expected to reduce the unemployment problem, which has an order of magnitude of about 2 or 3 per cent of GDP itself.<sup>14</sup> Returns of innovation policy could be stretched over decades of years. A solution of the unemployment problem in Germany should not take that long.

### **Acknowledgement**

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### **Notes**

- 1 See van Veen (1997), ch. 6.
- 2 Defined as ISIC 1 (agriculture, hunting, forestry and fishing) and ISIC 2 (mining and quarrying).
- 3 Defined in full-time-equivalents (FTEs).
- 4 ISIC 38 is 'Manufacture of fabricated metal products, machinery and equipment'. ISIC 37 is 'Basic metal industries'.
- 5 See de Neubourg and Slabbers (1992) for the effect of taking out less-productive employees. Pomp (1998) argues that reintegration in the second half of the 1980s has reduced productivity.
- 6 See Muysken (1999).
- 7 See Hassel (1998).
- 8 CPB (1991) provides calculations saying that 400,000 jobs have been created by wage moderation and between 30,000 and 40,000 by labour time reduction.
- 9 See Cörvers (1999, ch. 6).
- 10 See Gelauff (1998). He argues that labour time reduction has reinforced the scarcity of highly skilled labour.
- 11 From 2001 onwards this will be 52 per cent because the value-added tax goes up by 2 points and tax-deduction allowances get more limited.
- 12 For example, by Chancellor Schröder.
- 13 For example, in the debate on suggestions made by Professor Kleinknecht.
- 14 Assume that unemployment goes from 10 per cent to 5 per cent. With a labour elasticity of production of 0.7 this would create an increase in GDP of 3.5 per cent. Taking into account that the newly employed have a lower productivity, one gets an order of magnitude of 2 per cent or 3 per cent. However, if low-skilled labour has an elasticity of production of only 1/3 as in Mankiw *et al.* (1992) the effect is only 1.7 per cent.

### Data sources

OECD, Analytical Business Enterprise Research and Development (ANBERD).  
OECD, International Sectoral Database (ISDB).  
OECD, Main Science and Technology Indicators (MSTI).  
OECD, Structural Analysis Database (STAN).  
The labour productivity data in Figure 15.7 are updated for Belgium (1983–94), the Netherlands (1988–90, 1992–4) and the UK (1993–4) using de Neubourg (1998).

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