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# SECURING EMPLOYEES

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## Dutch Employment Protection in Comparative Perspective

*Thijs Bol\**

EMPLOYMENT PROTECTION IS hot. In the last years, the discussion about a possible loosening of the Dutch employment protection has intensified. In 2007, between October 28<sup>th</sup> and November 28<sup>th</sup>, the five largest Dutch daily newspapers wrote 208 articles on this topic, compared to only 85 articles written in the same period in 2006 and only 35 written in 2005<sup>2</sup>. In 2008, the discussion toned down because of the economic crisis. The core of the debate, and also the central focus of this article, concerns how employment protection relates to economic prosperity. Most of the 208 articles that were found in 2007 are about reforming employment protection. Several parties, such as unions and employer organisations took a position for or against reforming Dutch employment protection. In the Netherlands, the discussion intensified during the summer of 2007. This was after the, at that time new, Minister of Social Affairs, Piet Hein Donner, declared that the Dutch employment protection should be loosened:

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*\* Thijs Bol is M.Sc. in Sociology and is currently working on his PhD-research, which is a contextual study of the education effect on labour market position. The author would like to thank Johan de Deken, Marleen Rademaker, and the participants in the course Institutional Diversity of Modern Capitalism for early comments, and also the reviewers and editors from Amsterdam Social Science who contributed with useful comments.*

2 The five largest daily newspapers are: Telegraaf, Volkskrant, Trouw, NRC Handelsblad & AD. Freely distributed newspapers (e.g. Metro, Spits) are ignored in this research. The data is gathered from LexisNexis, the newspaper database. Search term was 'ontslagrecht'.

*“Employment protection does not secure employees from dismissals. There is no such thing as “the job for a lifetime” anymore. The labour market should become more dynamic, because only then we can get a structurally better economy.”*  
(NRC Handelsblad 2007)

SEVERAL MAIN PARTIES in the debate agree with him. For example, the leader of the largest Dutch employer organisation, VNO-NCW, Bernard Wientjes, states that it is “too hard to fire someone in the Netherlands”<sup>2</sup> (Volkskrant 2007). This is a problem for employers and the economy because it is too hard to dismiss unproductive employees. When there are no longer legal obstructions inherent in the process of firing unproductive employees, labour input and productivity, and correspondingly, market and economic output and prosperity will inevitably rise. Additionally to this argument, supporters of a more loosened employment protection argue that a more dynamic market leads to a decline in unemployment. Less unemployment, just like a rise of productivity, has a positive effect on the welfare of a country.

WHILE THE ADVOCATES argue that we should strive for a more dynamic labour market, in which people change jobs more often, opponents of this loosened employment protection, such as union leader Agnes Jongerius Jongerius, explicate the view that the dynamic of increased mobility within the labour market lead to a power shift from employees to employers (Volkskrant 2007). All employees, not only the unproductive ones, are subject to changes in the employment protection legislation. Opponents also disagree with the idea that a more dynamic labour market would automatically cause more economic prosperity. According to them, a dynamic labour market does not lead to less unemployment. Cultural Planning Bureau director Coen Teulings expresses this opinion, explaining that employees are assumed to work harder (and are presumed to be more productive) when they experience long-term security (Financiële Dagblad 2007).

IN THIS ARTICLE, I address employment protection from a perspective introduced by Hall and Soskice (2001) “Varieties of Capitalism” (VOC). The VOC-approach distinguishes two types of market economies: Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs). The authors argue that different countries can be clustered around these two economic poles. The main inquiries for this article have been framed around this approach, and

can be summarised in the following two lines of inquiry that have guided the subsequent analytical contemplation: (1) How does employment protection relate to economic prosperity? And, (2) can we find a clustering of CMEs and LMEs through identifying this connection?

IN THE FIRST section I introduce the VOC-approach. In the second paragraph, I present a summary of Dutch employment protection and I attempt to connect this to the VOC-approach. The third paragraph will then have ample foundations for my introduction of the selected research methods and the main indicator, specifically, employment protection. In the fourth paragraph, I intend to offer the empirical data, where the relation between employment protection and economic prosperity has been quantitatively calculated through official statistics. I will then try to link the results to the broader VOC-approach. In the final section, my conclusion will attempt to connect the findings to the starting point of this article: the Dutch debate on employment protection reforms.

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## Institutions compensate and reinforce each other

### VARIETIES OF CAPITALISM

IN THIS ARTICLE, I use the “Varieties of Capitalism” approach to study employment protection. Whereas Esping-Andersen (1990) distinguished between types of welfare states, the VOC-approach clusters countries in types of market economies (Hall and Soskice 2001). The ways in which an institutional context influences economic actors (varying from companies to state organizations) gains central relevance with this approach (Touwen 2006). Whereas most research concerning production regimes originates with a focus on the state, the VOC-approach takes the firm as the starting-point and central actor. Thus, research focuses on the impact of the institutional environment in its role to act within, interact among, or enact and perhaps enforce upon relations that ought to feasibly coexist among firms, within firms, and between the firms and the state. By doing this, Hall and Soskice (2001) connect the behaviour of firms to their institutional contexts.

TWO IDEAL-TYPICAL MARKET economies (which both have a specific method to coordinate the relations between economic actors) evolve: (1) a coordinated market economy (CME) and (2) a liberal market economy (LME). In the coordinated market economy, most clearly exemplified by Germany, the state

plays a dominant role in the coordination of the relational networks of firms. Instead of the principle of the free market as the guiding force behind relations and actions, the equilibrium in CMEs depend on a higher level of coordination, which stabilises through the foundations of trust and more importantly, strategic interactions at each organisational level of network relations: among firms, state organisations and institutions and other economic structures and actors (Hall & Soskice 2001). On the other hand, the market coordinates LMEs. Specifically, the market and its organisational rules of supply and demand coordinate various institutional areas, such as education. In LMEs firms have higher (short term) profits, while in CMEs profits tend to be lower, but more long term, attributable primarily to the difference in interest orientation of the firms: CMEs remain stakeholder-oriented and have a less developed stock market, while LMEs continue to be shareholder-oriented and maintain a highly developed stock market (Hall & Soskice 2001; Heemskerk 2007). Finally, on average, the social arrangements of CMEs tend to be more generous than those from equitable LMEs. The United States, The United Kingdom, Canada and Australia are most frequently characterised as LME countries. The remainder of Europe and Japan are often characterised as CME.

INSTITUTIONS THUS INFLUENCE the relations between firms and other social actors. “Institution” is a widely contested concept (Gallie 1956), but I will divert attention towards this discussion here<sup>3</sup>. Instead, I consistently implement Hall and Soskice’s approach on institutions. Within this article, institutions ought to be conceptualised as entities that alter the outcomes of strategic interaction between firms and other economic actors (Hall & Soskice 2001). Institutional complementarity is a central concept that informs the VOC-approach. This is an institutionally informed and informative “complementarity where components of the whole mutually compensate for each other’s deficiencies in constituting the whole” (Crouch 2005: 359). Institutions compensate and reinforce each other (Hall & Soskice 2001). Institutional complementarity inherently implies that institutional fields can not be studied separately but must always be considered in relation to each other. In the Danish “flexicurity” system, for example, employees have little protection and risk dismissal without too much trouble. This only makes sense in the context of Denmark’s

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3 For a more extensive overview of the different definitions of institutions, see for example Scott (2001), or Duyvendak and Otto (2007).

welfare arrangements. The unemployment protection scheme is very generous; it is Denmark's safety net under the tightrope that Danish employees walk on. According to the VOC-approach, it is therefore wrong to do "institutional LEGO". This term, first mentioned by Amable and Petit (2001), refers to the transposition of one country's institutional arrangement upon the institutional arrangement within another. We see, for example, that in Denmark the low employment protection leads to more productivity among women. So we take this LEGO-block of a loosened employment protection and place it upon the structure of our Dutch LEGO-building. We hope that this one brick will give the same effect as it does in Scandinavia, but often it will not on account of contextual differences. Varieties of Capitalism emphasises the importance of institutional contextual contingency, which includes the idea that institutions should not be studied separately, but only in their institutional context. We can only see the Danish LEGO-block of employment protection in relation to other complementary institutions, in this case the unemployment benefits.

INSTITUTIONAL COMPLEMENTARITY ADDITIONALLY suggests that different institutional fields can reinforce each other. There are two ideal-typical market economies in which institutions reinforce each other most strongly: the LME and the CME. This is remarkable since Hall and Soskice do not advocate either type: both, it appears, can lead to similar amounts of economic prosperity. Market economies that remain distant from either end of the CME-LME continuum profit least from institutional complementarities.

IN THE FOLLOWING section, I shift to focus on research from the VOC-approach and its institutional complementarity. As I address employment protection and its relation to economic prosperity, I work from the proposition thus far: two groups (irrespective of the relation between employment protection and economic prosperity) ought to evolve out of the data: one near the ideal-typical LME, and one near the ideal-typical CME.

### DUTCH EMPLOYMENT PROTECTION

WHAT DOES AN employer have to do to fire someone? That is the question to ask if you want to study the employment protection in a certain country. This section offers a short overview of Dutch employment protection, through the perspective of the VOC-approach.

and Visser 2006). The Centre for Work and Income (CWI), the Dutch public employment service presents the first route to dismissal. They approve or disprove dismissal requests from employers on the forehand. The CWI judges requests and tries to find out if an employer has a fair reason to fire someone. The CWI ideally accounts for the interests of both the employer and employee, as well as the general interest of a company (Nyfer 2000). This procedure can take quite long, but is relatively inexpensive.

WHEN THE CWI disagrees with the dismissal of an employee, the civil court provides an alternative route for the employer to appeal the case. This method has become increasingly popular in big companies; the high expenses of the lawsuits constrain this option for employers with little financial power. Expediency makes this route advantageous and appealing in comparison to the processes and procedures that delay cases brought through the route to dismissal via the CWI. In civil court, employee and employer often settle very soon after negotiations about the dismissal compensation<sup>4</sup>. The important distinction between the institutional procedures concerns the final decisions that are made: the height of the dismissal compensation is always determined at the civil court, whereas the CWI only approves or disproves the actual dismissal request (Nyfer 2000). The amount of money that an employee gets when he leaves is established by the length of job tenure, salary height and a correction factor which takes into account unacceptable behaviour of the employee or the employer. Table 1 (next page) shows the two routes.

WHEN WE LOOK at the Dutch employment protection from the VOC-approach, we see that the government has a relatively large role. Instead of leaving the in- and outflow of employees to the structures and principles of the market, the state actively takes on the role of providing their protection. Whereas countries like the United States do not have legal barriers that constrain processes of firing workers, Dutch employees maintain the strong position, in this regard. But how strong is it in comparison to other countries? In other words, the comparison above is only one relative example, in which the conclusion will become vacuous if it reads to generally, for example

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<sup>4</sup> Mediation has recently become increasingly popular and replaces a part of the dismissals that are brought up in court. However, this is a relatively small part and is not institutionalized. Because of these two reasons it is ignored in this research.



	<i>CWI</i>	<i>Civil Court</i>
Costs of procedure	0	1.316 - 1.883 euro
Total average length of procedure	13,5 weeks	9 weeks
Average height of dismissal compensation	-	16.700 euro
Average total costs	5.826 euro	22.000 euro
Binding decision?	Yes, (although it is contestable through civil court)	Yes
Profile of users	Small and medium companies	Large companies

*Table 1. The two routes of dismissal (Deelen, Jongen and Visser 2006: 67)*

to suggest the arbitrary conclusion that the Netherlands provides strong employment protection. What might more accurately be conveyed through this example requires a simple addition of relational terms of the data, which more precisely presents the information about the Netherlands employment protection, in relation to the specified country. The level of employment protection needs to be distinguished more consistently between countries.

#### MEASURING EMPLOYMENT PROTECTION

IN THE INTRODUCTION to this article, I began with two descriptive questions: (1) What is the relation between employment protection and economic prosperity? And (2) can we distinguish two clusters of market economies? Therefore, in seeking responses to these questions, I turn to descriptive methods in my analysis. The database of the Organization for Economic Co-operation and Development (OECD) provides the official statistics that I have cross-tabulated in charts. One of the general propositions, following the VOC-approach, is that we can distinguish two clusters of countries.

THE KEY VARIABLE in this article is employment protection. I use the Employment Protection Legislation index (EPL), designed by the OECD (1999), as the basis

for incorporating this variable into a substantive and coherent analysis. The EPL offers an index of strictness of employment protection that conducts measurements on three distinct dimensions: 1) The employment protection of regular employees, 2) The possibilities of collective dismissals, and 3) The regulation of temporary jobs, which looks at the amount of fixed term versus temporary contracts. We share Estevez-Abe's (2001) critique on the index: A solid measurement of a country's employment protection should also contain employment protection on company level. Since the three dimensions of the OECD measure only legislated employment protection, non-legislated employment protection, which is built into the governance structure or the dynamics of the industrial relations, is ignored (Estevez-Abe 2001). For this reason Estevez-Abe created a fourth dimension to the EPL-index, which explicates each country's score on the level of company based, non-legislated, employment protection, and I consider this<sup>5</sup> in addition to the three dimensions of the EPL-index.

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**One of the main arguments in the Dutch debate is that less employment protection causes more economic prosperity**

BEFORE I TURN to the relation between employment protection and economic prosperity from a VOC-approach, I first briefly introduce the different levels of employment protection in the countries discussed in this article. Research addresses eighteen countries, mainly from Western Europe. In Figure 1 (next page), the EPL-index reveals a value for each country. As the model illustrates, the 5 countries that are identified to have the lowest employment protection (with the exception of Ireland) correspond to those countries that have liberal market economies. The USA, Canada, United Kingdom, Australia and New-Zealand are all liberal market economies, and they have relatively loose employment protection. The remaining countries have higher scores on the EPL-index and are all CMEs. This is no surprise since CMEs have more dynamic labour markets and, thus, they have more highly regulated employment protection as well, in relation to the LMEs. All other variables (unemployment, productivity,

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<sup>5</sup> Not all four dimensions are weighted equally; employment protection for regular employees is most important (5/12), while the regulation of temporary jobs (3/12), collective dismissals (2/12), and company level employment protection (2/12) are of less importance. For a more detailed overview of this measure, see Bol (2007).

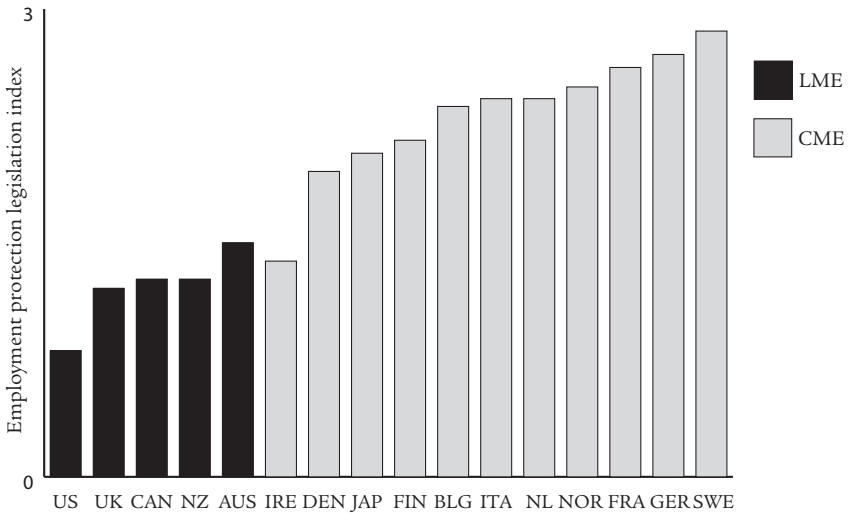


Figure 1. Employment protection legislation in 2003. Source: OECD.Stat

and on-the-job training) are derived from the online Database of the OECD: OECD.Stat.

#### A LOOSENING OF EMPLOYMENT PROTECTION LEADS TO ECONOMIC PROSPERITY: TALE OR TRUTH?

IN THE DUTCH debate on employment protection one of the main arguments is that less employment protection causes more economic prosperity. This argument is theoretically founded on assumptions about labour market regulation (Naastepad and Storm 2004). A looser employment protection leads to a more flexible, less regulated labour market. A flexible market implies more dynamism within the market, since employees change jobs more often and companies thus have a higher turnover rate. Besides this rise in labour market participation, it also leads to a higher productivity: the incentive to work hard increases when the chance of getting fired increases in a parallel correlation. These two mechanisms, more labour market participation (and thus less unemployment) and more productivity, which explains the relation between employment protection and economic prosperity, are schematically visualized below (Figure 2).

EMPLOYMENT PROTECTION AND LABOUR MARKET PARTICIPATION

IN WHAT WAY does employment protection influence the (un)employment of workers? Is it true that in countries with less protection more people are participating in the labour market? Previous research about this topic gives ambiguous results. Heckman and Pages (2000) find that there is indeed more unemployment in countries with strong employment protection and a rigid labour market. They write that “(...) job security regulations have a substantial impact on employment and turnover rates (...) and thus substantially affect the efficiency of the labour market.” (Heckman and Pages 2000: 23).

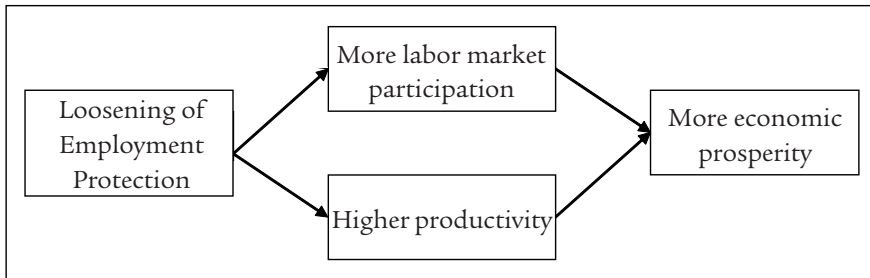


Figure 2. Two mechanisms towards economic prosperity

NICKELL (1997), ON THE other hand, states that we should abandon these common sense explanations for unemployment. According to him, we should distinguish different kinds of unemployment, which have specific characteristics and relate to employment protection in differing ways. Strong employment protection leads to a reduced inflow in unemployment because of the strong position of employees. On the other hand, it causes a reduced outflow out of unemployment, since employers will be more cautious to hire workers. Nickell (1997: 66) explains that “this will almost certainly reduce short-term unemployment (via the reduced inflow) and raise long-term unemployment (via the reduced outflow)”. The OECD (2002, 2005) supports these findings in several publications. While a rigid labour market negatively impacts long-term unemployment, short-term unemployment generally tends to be lower in these economies. In economies with less protection for employees, employee mobility within the dynamic market suggests there will be an apparent trend towards more short-term unemployment on the one hand, and on the other, a corresponding trend of less likely and less frequent long-term unemployment.

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## The higher the employment protection, the higher the long term unemployment

IN THE RELATION between employment protection and unemployment, the VOC-approach predicts that two clusters of countries emerge as such: CMEs and LMEs. We test this for total short-term and long-term unemployment.

IN FIGURE 3 we see the employment protection and the total unemployment of a country cross-charted. In this first chart we notice that the relation between unemployment and employment protection, forecasted by Heckman and Pages (2000), does not really exist in concert with these unemployment numbers. Unemployment appears slightly higher in countries with high employment protection (Germany, France, Belgium and Finland), although in Norway, Denmark and the Netherlands the total unemployment is lower than in most countries with looser employment protection. While minister Donner is convinced that a less restricted employment protection should automatically lead to lower unemployment, the data do not support this.

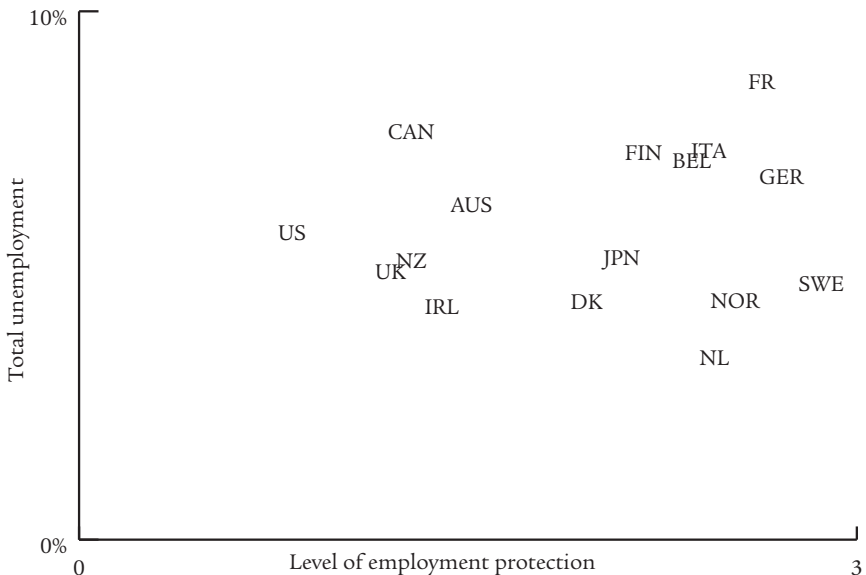


Figure 3. Employment protection and total unemployment in 2007. Source: OECD.Stat

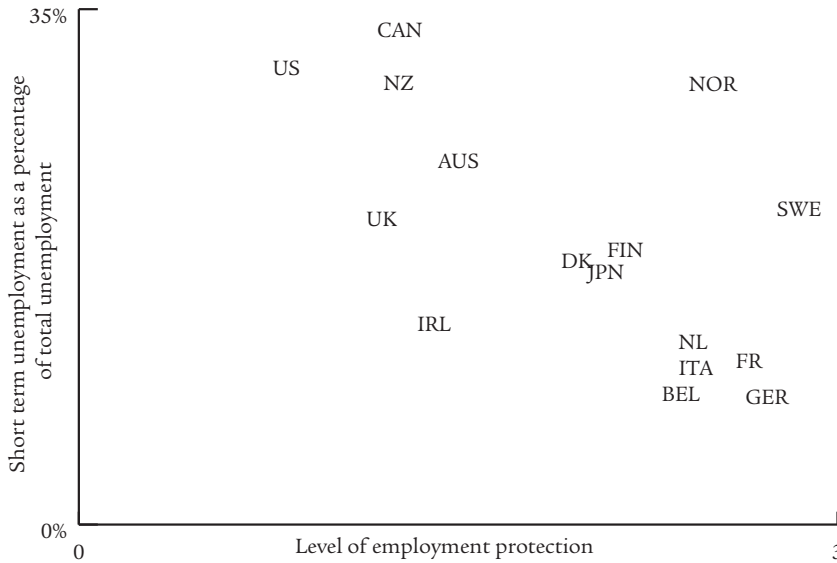


Figure 4. Employment protection and short term unemployment in 2005. Source: OECD.Stat

FIGURE 4 PRESENTS THE relation between short-term unemployment (a maximum of three months of unemployment measured as a percentage of the total unemployment) and employment protection. We can see two things in the figure: First, employment protection indeed correlates with short-term unemployment: the higher the employment protection, the lower the unemployment. This supports the findings by Nickell (1997), as discussed above; second, we can more or less distinguish two clusters of countries: Five LMEs can be found in the upper left, with low employment protection and high short-term unemployment. The CMEs are clustered in the lower right. Ireland is in interesting liminal position, in neither cluster, yet midway between liberal and coordinated economies.

IF WE LOOK at the long-term unemployment (Figure 5, next page) we get a completely different picture. Long-term unemployment, a minimum of one year without a job measured as a percentage of the total unemployed, occurs more often in CMEs. A clear relation exists between the two: the higher the employment protection, the higher the long term unemployment. The LMEs

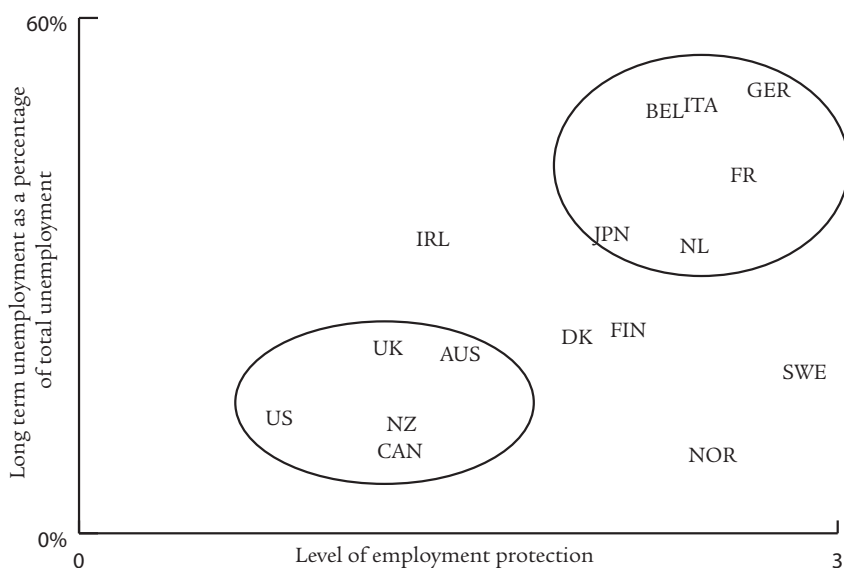


Figure 5. *Employment protection and long term unemployment in 2005. Source: OECD.Stat*

are close to each other and can be clustered easily. The CMEs, on the other hand, are more widespread. Certain Scandinavian countries clearly do not appear to fit into the expected pattern. Still, we can make the CME/LME distinction here.

THE THEORY IMPLIES that due to the strong employment protection in CMEs there is more long-term unemployment, which will especially harm certain groups. With a strong protection for employees, employers will think twice when they hire someone – your decision better be good or it is going to cost you. According to Naastepad and Storm (2007), this has negative effects for specific groups of outsiders. Job starters, for example, have a hard time entering the labour market if older workers have more stable positions. They tend to lack experience and tend to remain in this position of unemployment for longer periods of time. The elderly form another group of unemployed outsiders. The additional expenses that accompany elderly employees lead to their vast group unemployment, as opposed to a lack of experience the other outsiders. Besides the higher starting wage, elderly employees inherently present higher risks that directly concern their ability to work (e.g. serious illness). This makes the

elderly, as a group, less attractive to hire.

#### EMPLOYMENT PROTECTION AND LABOUR MARKET PRODUCTIVITY

THE SECOND MECHANISM that could lead to more welfare in a country is productivity. A looser employment protection is supposed to be more than the key to less unemployment: it is, according to some, also the key for a higher productivity of employees. I define labour market productivity as the efficiency of the worker. In other words, labour market productivity refers to how much one worker produces within a certain time and at a certain cost. This argument has, in the Dutch debate about employment protection, been brought forward by both minister Donner and Bernard Wientjes. With a loosened employment protection, employers can eliminate unproductive jobs. By filtering jobs based on productivity, only the productive ones remain, and this will lead to a higher average productivity. Although this argument derives from the Dutch debate, the same mechanism could be studied elsewhere.

IN ONE OF their recent publications the OECD (2005) indeed finds this negative relation between employment protection and productivity: the higher the level of employment protection, the lower the productivity. Other research confirms this: "...dismissal protections raise firm's adjustments costs. Consequently, firms will find it optimal not to hire workers whose short-term marginal product exceeds their market wage and will choose to retain unproductive workers whose wage exceeds their productivity" (Autor, Kerr and Kugler 2007: 190). Because of the strictness of employment protection, employers have less possibility to change employees. Another argument suggests that employers mainly hire according to demand, as opposed to the continued employment under strong employment protection, by which employees remain employed in times of less demand (Kessing 2006). This so-called hold-up problem (Malcomson 1997) leads to less productivity of this group of people who are employed even during times with no labour for the employed productive force. To summarize: a rigid employment protection negatively impacts on the productivity of workers.

ALTHOUGH IT SOUNDS convincing, not everyone agrees with this line of reasoning. I present several arguments that contradict this idea to show that a stronger position of employees, in fact, leads to more productivity. The first states that employment protection gives employees a more secure feeling about their position in a firm. Since they do not have a daily fear of getting fired, employees are inclined to work harder, and thus they are more productive.



Recent studies confirm this argument and state that a loosening of employment protection does not automatically lead to a growth in productivity: “The loosening of employment protection is presented as the panacea against the lack of innovative dynamics and growth of productivity [...] The loosening of employment protection [...] will probably cause a decrease in productivity” (Storm and Naastepad 2007: 519)<sup>6</sup>. Buchelle and Christiansen (1999) agree with this statement, although they argue that productivity is hard to calculate. In the measurement of productivity, a great amount of authors give too much importance to individual characteristics of workers, while productivity includes and relies on more than that.

EMPLOYMENT PROTECTION CAN also lead to more productivity because employers will see the value of investing in their employees when they hire them for a longer time. Since they engage in a long relation with employees, it becomes more sensible to invest in their skills (Deelen, Jongen & Visser 2006; Anderhub et al. 2003). With more on the job training, workers become more productive. Harcourt and Wood (2007: 146) underline this argument and state:

*“(...) Employment protection creates some expectation that the employment relationship will be long-term. As a result, both parties are likely to invest in skill development over the short term, confident that they will be able to reap productivity and other benefits in the long term.”*

AFTER READING SOME of the literature in the field of productivity and employment protection, it remains unclear if one has an effect on the other. Different theories support different results. Therefore we take a look at the productivity and the growth of productivity over the past five years. Finally, we will take a look at the relation between on-the-job training and employment protection. The argument behind this idea states that stronger employment protection will lead employers to invest more in on-the-job training; and, this employee education will increase workers’ productivity.

IF WE LOOK at Figure 6, which shows the relation between productivity and employment protection, we see no pattern. The countries are widespread, there is no or little relation between employment protection and productivity, and

we can not speak of a clustering in LMEs and CMEs. Productivity is measured as the GDP earned per worked hour in a country, expressed in US dollars. Measuring productivity forms a topic of much discussion (Schreyer and Pilat 2001), and this is one of the most conventional measurements used. If we extrapolated a trend line, it would probably turn slightly up. This projection implies that productivity rises with the level of employment protection. Since the results are not strong enough to make such claims, we conclude that there is no, or little, relation between productivity and employment protection.

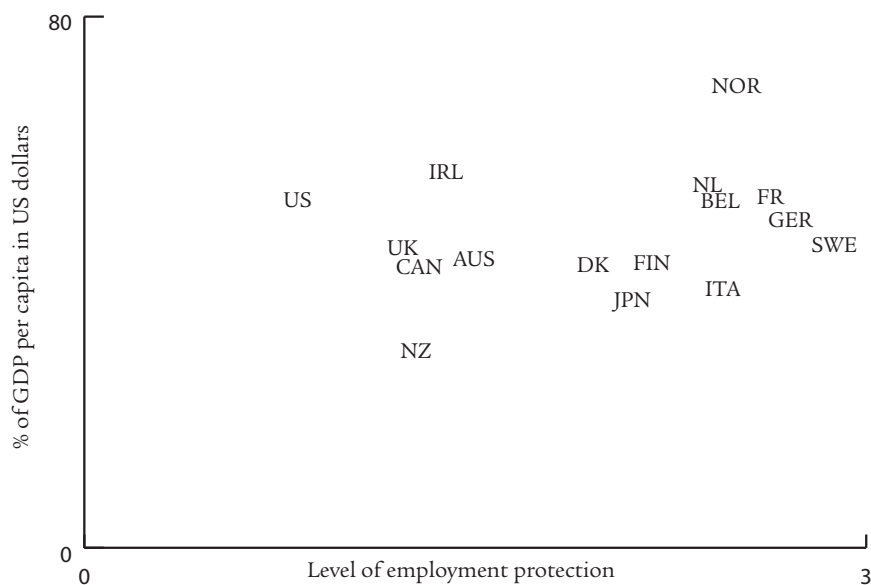


Figure 6. Employment protection and productivity in 2007. Source: OECD.Stat

IN THE SECOND figure that also shows the relation between productivity and employment protection (Figure 7, next page) we used a different measure: the average growth in productivity between 2001 and 2005. With this new measure, we still see little relation. Although there seems to be a more negative correlation between the two (the higher the employment protection, the lower the productivity growth), the number of outliers is too high to speak of a relation. Most Scandinavian countries, as well as Ireland do not fit in the



Figure 7. Employment protection and productivity growth in 2005. Source: OECD.Stat

pattern. Of Ireland, we know that especially during the last decade the economy has proven increasingly successful. Whether the rise or fall in productivity is caused by the level of employment protection remains dubious. Countries have specific characteristics that can lead to a change in productivity. As with all use of country statistics, causality remains hard to prove, and should therefore not be the primary goal in cross-country research. In this case, the research is explorative, and in this exploration we see little evidence for a possible relation between productivity and the employment protection.

A LAST RELATION that might offer insight deals with a potential correlation between on-the-job training and employment protection. One argument posits that in countries with a rigid employment protection, employers are more willing to invest in employees in the form of training and education. Since this probably leads to higher skills, it would automatically lead to more productivity. It follows that in the end, this leads to more economic prosperity in a country. Firm-specific skills, the skills that inhibit specific knowhow of the company with which one is employed, are the most productive ones. These

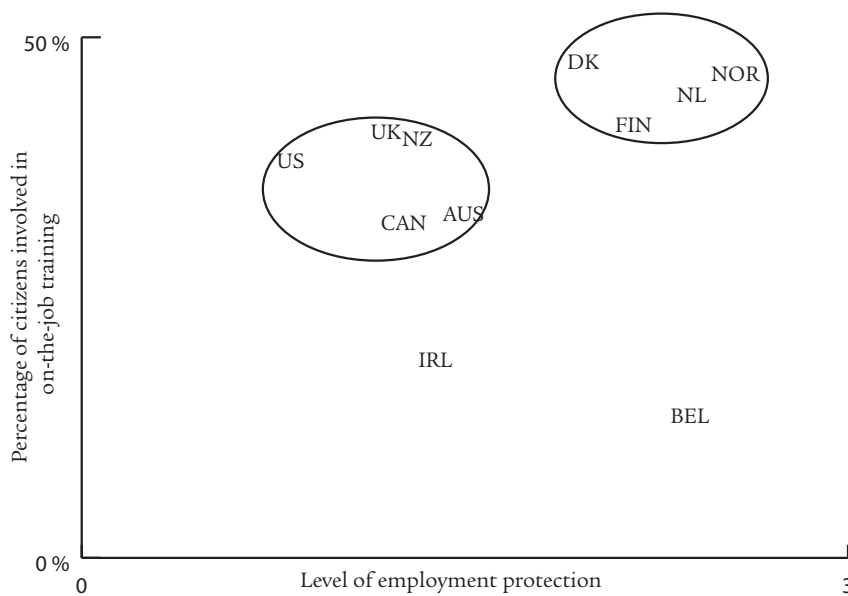


Figure 8. Employment protection and training in 2003. Source: OECD.Stat and OECD (2007)

skills are only gained if the employee stays at a certain company for a longer time. With all the dubious measures of productivity, it might prove better to look at this indirect effect of productivity via on-the-job training of specific skills. The assumption follows that in countries with a more rigid employment protection, employers will invest more in training their employees; thus, these better trained and more skilled employees are, logically, more productive.

BECAUSE OF LIMITED data availability, Figure 8 only shows statistics for eight countries for which the relevant data has been collected. There seems to be a slight difference between LMEs and CMEs when it concerns on-the-job training. In countries with a more rigid labour market and a relatively high level of employment protection, training for employees seems to occur more often. Although the differences are small, one can argue that because of the longer relationship between employers and employees in CMEs, the employer identifies some value in a greater investment in the employee. Research must inquire into the value of this employer's investment in the employee's training, productive but that is another discussion, and should be researched more thoroughly.

## CONCLUSION

EARLIER IN THE article I introduced the concept of institutional LEGO. The question that we asked here did not generally ponder the value of institutional LEGO, but we asked if a particular LEGO-block, the rigid employment protection, should be exchanged for another block, which was more flexible, in certain ways. We attempted to assess the validity of claims that are made in the Dutch public debate: Is it true that a rigid labour market causes less economic prosperity than a looser one?

THE AMBIGUITIES SURROUNDING our results leave these topics prime for further research, and the statistics we present remain open to different interpretations. Employment protection seems to correlate to a high extent with labour market participation, or differently formulated, unemployment. In countries where employees have a high level of protection, certain groups of outsiders are excluded from the labour market for a long time, while in countries with a looser employment protection, short-term unemployment occurs more often. This study does not prove the claim that Dutch employment protection should be loosened because this lowers the overall level of unemployment protection; it seems that this will likely cause a shift from one type of unemployment to another. The second claim that we scrutinized concerned the causal relation between unproductive workers and rigid employment protection. For this claim, which was formulated in earlier studies, in both ways (both a loosened and a rigid employment protection are supposed to lead to more productivity) we found no support. The key question, whether a loosening of employment protection offers us more economic prosperity, remains unanswered. The two explaining mechanisms that should cause this rise in welfare did not point in one direction. A second question that I asked was if we could distinguish two clusters of countries: LMEs and CMEs. At the beginning of the article we showed that when we look at employment protection this dichotomy holds well. The other empirical data offer less clear conclusions: while the unemployment data distinctly showed two clusters, the opposite appeared in the productivity data. Future research should be on the relations that we pinpointed in this article in a more in-depth and longitudinal way in order to address the important questions that this research concerns: In what ways have reforms of employment protection caused differences in other economic institutions and, in the end, in the welfare of a country?

with pleas for a reform of the Dutch employment protection. Should minister Donner play institutional LEGO when it comes down to employment protection? Should he take our rigid block of employment protection and replace it with a more flexible, like the block that structures employment protection in the US? This explorative study showed that in playing institutional LEGO you can not construct strong buildings. Loosening of employment protection does not automatically lead to more economic prosperity. The individual blocks, and even the buildings will not stand without the foundations and organisations that are built into the framework of the institutional context.

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