

Bachelor Assignment

Comparing Finland And The Netherlands

Ageing And Labour Productivity Problems: Finland And The Netherlands Compared

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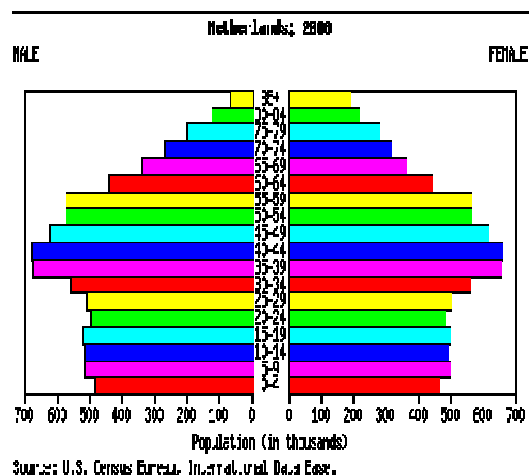
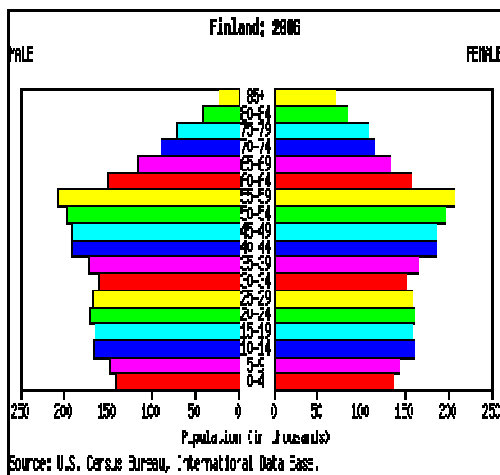
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1. Introduction

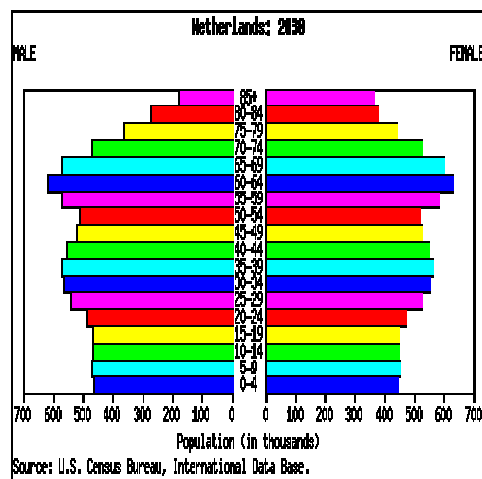
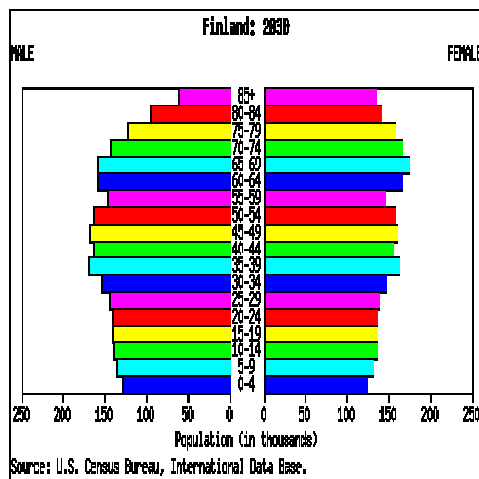
Most people nowadays watch the news on television, read a newspaper, online or the paper version, and what becomes obvious besides the recent coverage on the election programs, the war on terror and the general economy, is that people are ageing in the European Union. This is one of the consequences of the baby boom after the Second World War. Over the years governments became aware of this and at some point in time these baby boomers are going to retire. And because the baby boomers are in great number, this is considered a major political issue. All these people are going to receive pensions and while they age, they are likely to require more health care because people get much older than a few decades ago and this requires more health care, leading to more costs which someone has to pay for. That is why, it is time to for change, each member state should prepare themselves for what is going to happen. It is irreversible. Most countries in the European Union are just beginning to develop policy to cope with the ageing population and the expected increasing costs.

Pressure from Brussels is these days the major factor why the member states will develop policies to cope with an ageing society because the European Union can not become the elderly continent in the world, since powerful countries as India and China and others are becoming stronger every year and can be threatening for the economic position of the European Union.

In this thesis there will be made a comparison between two European Union countries. These countries are Finland and The Netherlands. These countries are positive to have an ageing population.



When looking at these population pyramids, there is indeed a trend that the population of both countries is getting older. Comparing them, shows that Finland has large cohorts of people in their early and late 50s. The Netherlands, in contrast has a considerable group of late 30s and early 40s. Of course, the Netherlands has a lot more citizens than Finland. In the short term, Finland's ageing "problem" begins in 5 years. However, in five years a lot of Dutch people will reach the age of 65 as well, but the large cohorts of late 30s and 40s will become a bigger problem in the future. I am not saying that the Netherlands will not have to deal with the ageing population in five years, let's face it, in five years about 1 million citizens will be 65. This will create a large burden on the "active" citizens. But in about 15 to 20 years the problem seems to be larger than in five years. The next charts will show a prediction whether this might be the case or not.



Indeed, in 2030 the population in the Netherlands is older than in five years. The large cohorts of late 30s and 40s from the present will be retired by then and the active working force is relative smaller than now, so in 24 years the problem is larger than at present time or in five years.

Finland's case is comparable. The number of retired people is going to increase there too, especially men are predicted to become much older in 2030. Both countries are faced with a serious ageing population. Not only the population gets older, the number of the active working force will diminish. Partly because fertility rates are at present much lower than five or four decades ago, so in 2030 and probably later on, the burden of the aged people will be on the a smaller working force. The smaller working force means productivity problems. Productivity is very important for economic development, a working force with high productivity can support more retired people than the opposite.

That comes to the main thing to be compared, the way how these two countries are developing or adjusting their social policies to cope with the problem of an ageing population and the possible consequences of it. These small predictions of the population of both countries show in the future the public expenditure on pensions and health care will increase, so there is definitely an urge for change. The Lisbon strategy, developed by the European Commission, Council and member states, is this urge for change.

In this thesis I only look from the perspective of the ageing population and labour productivity problems. Issues about the increasing costs which are in close relation to ageing and productivity problems will not be taken into consideration in this essay. For that reason I came up with the following questions.

The central research question which will be answered in the essay is: ***How can Finland and the Netherlands cope with problems of labour productivity due to an ageing population?***

The Lisbon Strategy will be the starting point for trying to answer this question.

From this central question, there are three subsidiary questions. These questions will shed more light on the topic, because a charter like the Lisbon strategy is often very good in proposing goals, but to the public, it is often not very clear how these goals are reached and if they will benefit from it.

The first one is: *Which productivity problems due to ageing do Finland and the Netherlands face?* This question is a more general introduction leading to the other sub questions. It will provide what the role of the Lisbon strategy is and how the member states work and comply with the priorities which are made in the Lisbon strategy. The Lisbon strategy is considered to be the innovation charter of the European Commission. The revised Lisbon strategy which is relevant for this essay, is about the innovation, employment and R&D in economy of the European Union. Employment rates did not yet reach the levels which were set by the first Lisbon strategy in 2000.

The second sub question is: *What is the current policy of Finland and the Netherlands to cope with the labour productivity problem due to ageing?* With more and more people going to retire, it is likely that the number of people that works, should become more productive to keep the overall labour productivity on an equal level. In this second chapter there will be made the start with the comparison between Finland and the Netherlands in the sector of employment, productivity and the ageing working force.

The third sub question is: *What kind of innovative changes might be contributing to the already existing policies?* In this question, there will become clear if through policy changes it will be possible to make changes in the social policy. In this chapter, innovation is introduced in the essay. These changes can be very innovative. For most people, innovation is concerned with changes in technology and ICT, probably not with changes in social policies. Innovative use of other social policies might offer something useful for the two member states. For example importing ideas from each other or importing methods used by other countries might be useful to say something sensible about that.

When these questions are answered, then the central question can be answered. In the conclusion at the end, this answer will be given. It might be very difficult to answer the question, because member states are perhaps not very concerned with the issue, maybe they do not have any idea how to reach the Lisbon strategy goals. The structure is that each chapter is a little essay, including introduction, main part and conclusion. At the end the answers to the sub questions will be the basis to answer the central question.

The research for the thesis is merely literature study, there is no field study, or practical data for example interviews or enquires. The literature mainly consists of the Lisbon strategy documents, member state documents like National Reform Programs.

2. The Lisbon strategy and ageing in Finland and the Netherlands

The second chapter is about the introduction of the Lisbon strategy. As aforementioned in the introduction, the Lisbon strategy is a general charter which can be considered a “development” program for the European Union. This general character of the strategy is recognizable by the subjects, namely infrastructure, ICT, innovation, employment, education, internal market and trade.¹ It covers many sectors in the EU, for this essay not all of them will be relevant. The Lisbon strategy is also looking forward in the employment subject. As the population in the European Union, in this essay Finland and the Netherlands, is ageing, there should be concern about what is going to happen in the future. That is why the employment part of the Lisbon strategy is important for the ageing society, improvement of the rate of employment and the creation of more jobs is most important. Productivity is likely to drop when the active workforce declines and therefore there is a change needed to cope with this problem. Of course this seems to be contradictorily, getting more people to work if the active working force declines. But if we concentrate on the percentage of the people that can work, 15 to 64 year olds, then there can still be improvement of the percentage that works. First the essay looks at the Lisbon strategy and then issue of ageing will be introduced to the essay.

2.1

The Lisbon strategy was launched in 2000 as a general development program for the European Union. The name stems from the city where the program was presented and implemented by the Council. The Lisbon strategy provides many goals in different sectors to develop the European Union and the member states. In general these are: internal market, improving of the European infrastructure, jobs, adaptable workforce, investment in R&D etc. For this essay not all of these point are important.² Mainly the creating of more and better jobs and the adaptable workforce are important here.

¹ http://ec.europa.eu/growthandjobs/index_en.htm

² http://ec.europa.eu/growthandjobs/areas/fiche08_en.htm

Figure 1 Real GDP growth rate (EuroStat)

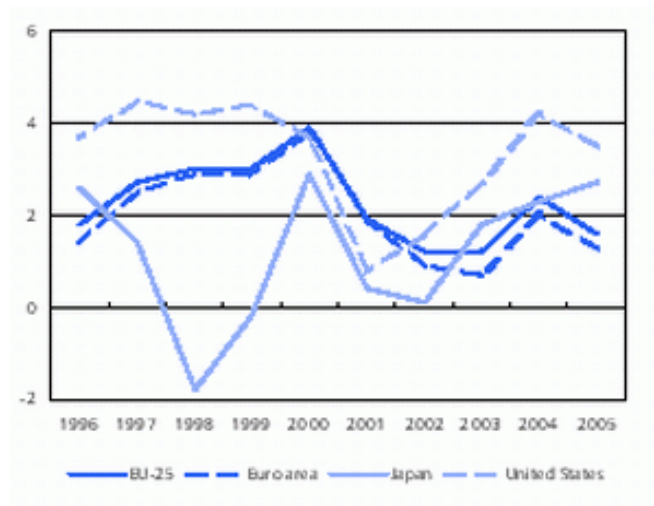


Figure 1 shows the development of the GDP in the European Union, Japan and the USA. Although in 2000 not all the 25 member states from present time, were a member at that time, it is visible that there was a decline in the annual GDP growth in the European Union. One can say that the launch of the Lisbon strategy came a little late and just looking at GDP development does not really seem to have an impact.

The Lisbon strategy in 2000 set a few strategic goals for the European Union. The European Union should, in a period of ten years, so by 2010, *"become the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*.³

But since the productivity of the Europeans is rather low compared to other powerful countries like the USA and Japan, and as figure 1 shows, economic stagnation, the Lisbon strategy should be seen as a serious attempt to increase the overall economic and social development in the European Union. As figure 2 shows (see appendix) there is a slight increase in employment rate within the European Union. Compared to the United States and Japan who are both performing less well as the EU.

Five years later in 2005, The European Council called upon the Commission, Council of Europe and the 25 member states to re-launch the Lisbon strategy. This time the focus should

³ Louis Lengrand cs. , 2002, *Innovation Tomorrow*, PREST (University of Manchester) 2002, p. 8

be on sustained growth and employment in the European Union. Especially since large cohorts of the population are ageing. Therefore it is one of the priorities of the European Union to prepare for this development.⁴ In combination with employment rates, where the ageing population can continue to contribute, the employment of 55 year old and older is at the moment relatively low at 40%.

This led to several guidelines proposed and adopted by the Commission for the period of 2005-2008. From these guidelines the 25 member states developed their own National Reform Programs.⁵ The Lisbon strategy provides a guide for the member states to design their own policy to reach the goals/benchmarks set by the Commission in the renewed Lisbon strategy. It is the goal of the Commission to become a facilitator in the process of developing policy for reaching the goals set by the Lisbon strategy. The member states are supposed to be more involved, by making clear the intentions of the strategy and clearing responsibilities for each actor in the process.

Each member state then will make National Reform Programs. These programs are based on the needs and characteristics of each member state. For example the NRP of Finland does not have to be similar to the one of The Netherlands. But, each of the NRPs should attempt to strive for growth and employment, increases in the number of jobs, getting people back to work who are unemployed etc.

An important question now is, how can the member states reach these goals as set by the Commission?

To begin with the creating of jobs, some of the goals are: overall employment rate of 70% in the EU by 2010 (63% in 2004) and employment rate for workers over 55 should be 50% in 2010. (40% in 2004). According to the numbers, the member states have still a lot of work to do to reach these goals. The Commission thinks to have the solutions (one never knows if these solutions will work beforehand) on both European level and member state level. Most important for the thesis are the member state solutions. Some of these solutions are: reduce the number of early retirements in both Finland and The Netherlands (for all the other member states), increase female participation at the labour market and reduce youth employment.⁶

⁴ *Time To Move Up A Gear*; the new partnership for growth and jobs, 2006, p. 7

⁵ Mededeling van de Commissie aan de Raad en het Europees Parlement; gemeenschappelijke acties voor groei en werkgelegenheid; het communautair Lissabon programma, p. 2

⁶ http://ec.europa.eu/growthandjobs/areas/fiche08_en.htm

The other important goal, the adaptable workforce, also has some key solutions. These are for example the ability to be flexible along with technological changes, training of employees. On the member state level there are some interesting solutions which are in accordance with the four freedoms in the European Union. These are something called the European Health Insurance Card, this card allows workers to take their health care insurance with them to other countries. Another is the portability of pensions, by removing tax barriers. And again the commitment to keep the ageing workers in their workplace.

Though the Lisbon strategy does not say much about social policy. The issue of employment is not by far social policy in itself. Social policy is so much more than employment rates in the European Union. The European Union is not a welfare state as some of the member states. Meaning that citizens of the member states apply for benefits in their native country and not for example in Brussels at one of the European institutions. Though social policy becomes more and more an issue in the European Union, it is not likely that there will be one type of social policy for the whole Union. First, the European institutions do not have the competence and instruments to develop one social policy.⁷ Second, the member states differ too much from one another, not just on economic level, but also on the level of policy development. So, the more wealthy countries in the EU will never agree with such a common policy like there is on many other sectors like agriculture and defence.

2.2 The Lisbon strategy and employment

The Lisbon strategy states some clear points on the employment issue. First, it intends to create more jobs, to get the people participating and keeping them on the job track. Meaning that people who are able to work are not excluded from the labour market. If help is needed, the government should have the possibility to help these people. For example, people who are physically disabled and can still do office jobs, can be employed with governmental help. Second, it intends to modernize the social security systems and make the people and employers more flexible. It is assumed that flexible working conditions in the organizations will lead to an improvement in the overall quality of jobs, improving productivity and support of long life learning.⁸ In addition to that, if jobs in general are more attractive, more people are eager to work, find work and try to keep their jobs, which could also add to the total

⁷ M. Kleinman, 2002, *A European Welfare State? European union social policy in context*, Palgrave, New York, p.82-83

⁸ BESCHIKKING VAN DE RAAD, 12 juli 2005, betreffende de richtsnoeren voor het werkgelegenheidsbeleid van de lidstaten, p. 3, 6

employment rate as one of the major guidelines in the Lisbon strategy.⁹ Of course when talking about creating more jobs, keep the economic level high, the wages of the people can not increase too much every year. In this case the wages can only increase with the general increase of wages, the inflation and the general economic situation. The last guideline to increase the productivity can be investing in human capital. People should finish their education, people should learn their whole life in order to keep up with the changes in the knowledge bases economy. To be able to do that, some people need help to get access to the labour market, make sure they get access to long life learning.¹⁰ If this can be reached in the European Union the labour productivity can be expected to increase. Because if one adds all these guidelines put down in the Lisbon strategy, the employees are expected to become more flexible (on the labour market and in their jobs), able to adjust to the changing needs of services, economies and society in general. Basically the changes needed to increase productivity are largely influenced by the needs of employees, their working conditions etc. The desirable increase in labour productivity might be reached if people are able to adapt to changes in their field of work, if the people can combine their work with their private life, family and spare time.¹¹ So, what the two countries need to increase is the labour productivity. In the next paragraph, we will see the expectations and the countries, and further on, what they are going to do to cope with possible labour productivity problems.

2.3 Ageing in Finland and the Netherlands

To continue this chapter, the Lisbon strategy is also used as a benchmark for the member states to find a solution for the increasing budget expenditure as a result of the ageing population. Demographic changes of the population will cause the member states to think about a further decrease of productivity as a result of less numerous working force. The ageing population will cause a decrease the active workforce. More retired citizens will rely on less active working citizens. That is why one of the priorities of the Lisbon strategy, the employment rates of the member states should increase to keep as much citizens as possible, in the active working force.

To be able to adjust to this development, the Council called for reducing of debt levels at a faster speed. According to the latest budget of the Netherlands this rate is about 48% of the

⁹ Integrated Guidelines For Growth And Jobs 2005-2008, *working together for growth and jobs*, Communication To The Spring European Council, 2005, p. 28

¹⁰ BESCHIKKING VAN DE RAAD, 12 juli 2005, betreffende de richtsnoeren voor het werkgelegenheidsbeleid van de lidstaten, p. 6

¹¹ *Time To Move Up A Gear*; the new partnership for growth and jobs, 2006, p. 26

GDP. Finland is far behind this 48%. Second, the member states should reform labour markets, including tax and benefit systems, should lead to higher employment rates of older people and women. Third, the member states should reform pension systems in order to cope with sustaining public finances and keep a intergenerational balance.¹² This leads to increase the power of the governance of the public pension systems and the encouragement of securing private pensions that can be complementary to the minimum pensions provided by the member states.

Reforms are made and being made to encourage longer working to 65 years of age. This is done by restricting access to early retirement, terminating other roads to early retirement like sickness, financial incentives for the people who work longer. For example, Finland had a pension reform that provides incentives to work longer by providing higher pension rights for older workers, and limiting early retirement schemes.¹³ This idea of encouraging the active people to work beyond 65 on a voluntary basis seems like an utopia. Most people who reached the age of 65 are glad to retire. Just a small number enjoys their work so much that they can continue. Not even to mention physical constraints that will become an issue at higher age, such as in construction work or any other physical work. The idea to allow people to keep working after 65 is good, one can wonder whether society will benefit from it in the long run.

The reforms issued by the member states should encourage to work till 65, which means a possibility of more contribution years to the pension schemes and contributing to the labour productivity. It really depends if the active people of 65 are willing to keep working, depending on financial incentives, physical constraints and job openings. Even then the employer should make the consideration between an old experienced employee and a younger, more flexible employee.

According to the Lisbon strategy and the National Reform Programs, that were developed in line with the Lisbon strategy, at least the following reforms have to be taken into account, in order to realize a sustainable and adequate pension scheme for the member states. For now and in the distant future. Summarizing; encourage older people to work longer, make sure less people retire early. In line with other points of the Lisbon strategy, it is again vital to increase

¹² Commission staff working document,2006, *Joint report on social protection and social inclusion 2006-synthesis report on adequate and sustainable pensions*, p. 4

¹³ Commission staff working document,2006, *Joint report on social protection and social inclusion 2006-synthesis report on adequate and sustainable pensions*, p. 8-10

productivity, because this will lead to more contributions to the pension systems.¹⁴ Furthermore, modernization of pension systems is required to keep it financially payable. For example, more development of private pension systems. In the next chapter the essay will have a look at the priorities and goals of Finland and the Netherlands to cope with low labour productivity as a result of the ageing population. The ageing of the populations is a continuous process, that is why the labour productivity should be increased at the present time, to be prepared for the future when the larger cohorts reach the pension age. As we all know, the employment of the European Union should have been at the 70% level by now. But the European Union failed to reach this target of the first draft of the Lisbon strategy. Employment level percentage is around 63% on average level. With an ageing population, and increasing costs in pensions and healthcare as a result of that, the existing employed people should either work more, or increase their productivity. Going to work more hours, for the same salary, is in most cases out of the question. Labour unions are usually the actor which does not agree to such policies when negotiating with government and other actors in wages developments. So, the increase in labour productivity is the one option left. In the next part I will compare the two outcomes for Finland and the Netherlands, in their efforts to develop policies to increase productivity. From the Lisbon strategy, all of the member states each made a National Reform Program, the policy document containing the guidelines of the Lisbon strategy. These NRPs are the important first test for the European Union that the member states are willing to cooperate in the renewed Lisbon strategy. Although it should be mentioned that the member states were sometimes pressured by deadlines.¹⁵ The member states will get some time to implement their NRP in their existing policies.

2.4 Conclusion

At the end of this second chapter, the conclusion can be drawn from the Lisbon strategy part to the next chapter.

The Lisbon strategy is the benchmark for European development on several sectors. The strategy gives the guidelines to the member states who can wish to execute these guidelines at their own perspective. Although it is not clear what will happen if the goals of the Lisbon strategy are not met. In this thesis, the third chapter is going to focus on the comparison of Finland and the Netherlands in their way of coping with the labour productivity problems due

¹⁴ Commission staff working document, 2006, *Joint report on social protection and social inclusion 2006-synthesis report on adequate and sustainable pensions*, p. 14-16

¹⁵ *Time To Move Up A Gear*; the new partnership for growth and jobs, 2006, p. 13

to the ageing population. The problem of the ageing society will force the member states to make changes in their social policy. These changes should be made rather fast. Over the recent years, there is already a lot discussed about the consequences of the ageing society. Early retirement is something which is not common anymore, the people are expected to work longer instead of early retirement. The increasing costs of pensions, health care and this in combination with many retired people in the next ten years, means also that the younger people are going to carry a heavy burden of sustaining the society. So there should be something done on social policy to make sure that the countries can cope with these changes. The Lisbon strategy acknowledges that it deals with a lot of uncertainties. We do not know what is going to happen in the short and longer future. A lot depends on economic growth in the European Union. In the employment part of the Lisbon strategy it should be clear that ageing will affect the employment goals. The member states should get more people to work, in order to meet the Lisbon strategy goals, but also to cope with the ageing population. Older people should be kept involved on the labour market, to enable older people to keep working, but it is not always easy to find a new job at older age because employers usually prefer younger, cheaper employees. The employment policies of the member states should contribute to needs of employers and employees, to enable people to adapt to their new work and life balance, to enable people to obtain new skills.¹⁶

In the next chapters I will try to find out how the two member states are trying to develop a policy on this issue.

¹⁶ *Time To Move Up A Gear*; the new partnership for growth and jobs, 2006, p. 7

3. Current policy for coping with low labour productivity

*The question **How can Finland and the Netherlands cope with low labour productivity?** is the question in this third chapter. The aging society leads to an increasing number of people who are going to retire. This means that in order to keep the economic situation at a desirable level, it is likely that the number of people that works, should become more productive to keep the overall labour productivity on an equal level. Obviously, because less people should do the work which was originally being done by more people. The Lisbon strategy has some guidelines for how to deal with low productivity, improve the rate of employment and the creation of more jobs. In this chapter the comparison will be made between Finland and the Netherlands. The type of comparison is called a focused comparison.¹⁷In a focused comparison, mostly two countries are compared. A small number of cases, in this case the policies of Finland and the Netherlands on labour productivity, are compared. There are three major comparison methods to compare different countries. There is case study, statistical analysis and focused comparison. Case study is merely focused on one single case which is studied intensively. Statistical analysis compares a lot of countries in a quantitative manner. In such analysis the countries are for example compared on level of democracy with a dependent and independent variable. The focused comparison is about comparing similar phenomena, such as labour productivity problems in this chapter. In this comparison one may speak of a most similar design. This means that the compared countries have many similarities in their culture, political institutions and level of economical development.¹⁸ Finland and the Netherlands have certain things in common, the relevant common things are membership of the European Union, the obligation to develop policies according the Lisbon strategy and National Reform Programs. The ageing population and the decrease in labour productivity are relevant factors which apply for both countries. In previous chapter, the ageing population in both countries was mentioned, and will be further addressed, followed by the labour productivity issues in the European Union. Obviously, for the comparison it is important that the compared countries are slightly similar. Which in this case, one might assume is true. They are not a most similar design as aforementioned, but both are guided by the Lisbon strategy, they both have to implement the goals and priorities of the Lisbon strategy, both are on similar economical level in terms of GDP per capita. This chapter will*

¹⁷ Hague & Harrop, 2001, *Comparative government and politics, an introduction*, Palgrave, New York, p. 73

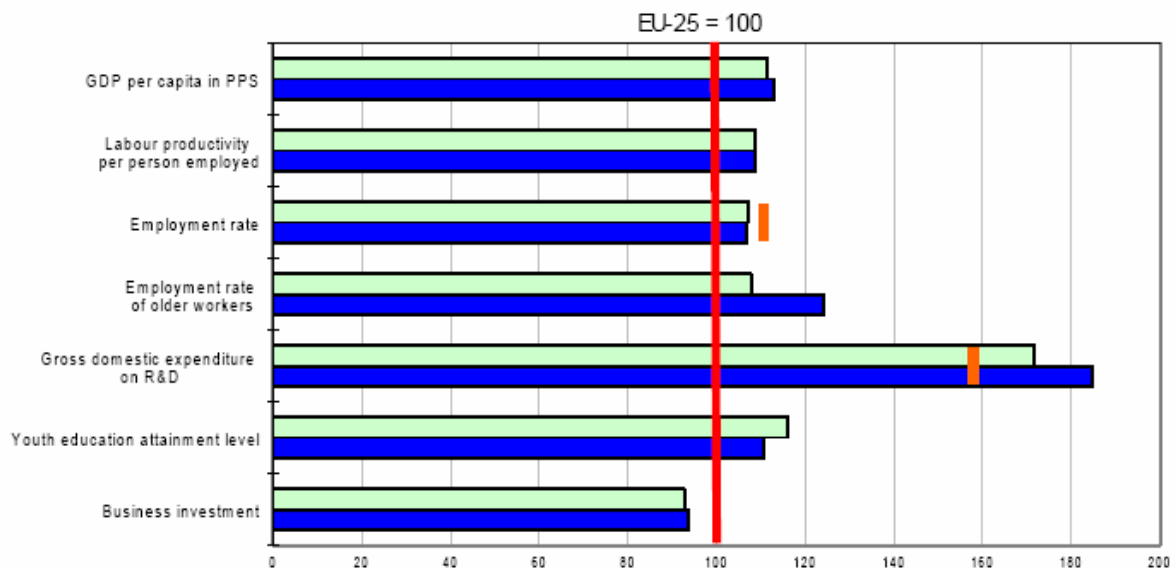
¹⁸ Hague & Harrop, 2001, *Comparative government and politics, an introduction*, Palgrave, New York, p. 73-74

compare both countries on their policy for coping with low labour productivity and is followed by a conclusion.

3.1 Finland

From the Lisbon strategy, Finland has made a National Reform Program (NRP) which is adjusted to the Finnish situation. The comparison will first begin with the NRP of Finland. Finland has been one of the stronger growing countries in the European Union in the past years. The year 2001 was, as for many countries all over the world, Finland's breakdown on the economic growth of the years before 2001. Although Finland remained one of the stronger growing economies in the EU.

Figure 2 Key figures Finland



The NRP has three main guidelines coming forth from the Lisbon strategy. These are the following; keeping the public finances within the stability pact, improve on competitiveness and productivity. The third point is improving the functioning of the labour market. These three major points are detailed in eleven macro, micro and employment priorities.¹⁹ The Finnish NRP is very much in relation to the Lisbon strategy. Most of the points NRP are originated from the strategy and adjusted to the Finnish situation. Targets which are the most obvious are an annual increase in labour productivity of 2,5% as minimum till 2010. The

¹⁹ Annual Report *Finland 2006*, p. 1

creation of 100.000 jobs should push Finland over the 70% employment rate by 2007 and this should increase to 75% in 2011 according to the NRP. It seems as achievable targets according to the Commission.²⁰ The NRP is composed by several actors. The Prime Minister, the ministers of the involved ministries, led by a Director General of the Finance ministry composed the document. Of course, other actors were consulted in the process. These include the social partners, other ministries, local governments and independent NGOs. Keeping public finances in balance is one of the key priorities in a changing society, where in a couple of years expenditure on pensions and health care is likely to increase. To create a more positive, at least not negative, balance, there are some changes needed in the current policy. They sounds obvious, make less people dependent on the government, in other words increase the employment rate. Another important priority is completing the pension reforms and health care reforms, which are the possible biggest expenditures in the future. And the last point would be an increase in productivity, already discussed a few times, but one of the key factors which should be concentrated on.²¹

These last two points are interesting here; the improvement of competitiveness and productivity and improving the labour market. The improvement of competitiveness is important in Finland because consumer prices are highly above EU average, which is likely due to lack of competition on the several markets. In relation to this, Finland has a low percentage of newly established businesses each year. In contrast other member states, Finland has better circumstances for creating businesses.²² So, this a bit of paradox, because the Finnish are known for their innovative solutions and people, and yet the number of newly established businesses is low. Improvement of this number would almost automatically lead to the creation of new jobs, which would make the ambitious number of 100,000 new jobs in the next year, 2007, a more plausible goal. The government acknowledges that the point just made, really depends on the development of new businesses. The government cooperates closely with the private sector to make a business policy program which aims at a stable and attractive business environment. The goal is to make Finland a very attractive business environment, the R&D innovations are well facilitated in Finland, now it is just a matter of establishing new businesses.²³

²⁰ Annual Report *Finland 2006*, p. 1

²¹ NRP 2005-2008 Finland, p. 13

²² Annual Report *Finland 2006*, p. 2

²³ NRP 2005-2008 Finland, p. 39

The NRP shares the opinion of the European Commission on the labour productivity. In Finland, there is also a relatively low productivity.

Over the past ten years, productivity is falling behind the level of productivity in the United States. And there is no sign that this will change shortly.²⁴ If the situation is as bad as implies, then Finland has a serious task to complete. It sounds so easy, just establishing new businesses, make it easier to begin an own business by removing restraints, but there is a lot more to it. For example, Finland has a compared to the Netherlands a much smaller internal market and the country is not a import/export country as the Netherlands. A small internal market does not appeal much for starters who want to begin their own businesses, simply because the market will be satisfied rather fast.

The NRP states as well that improvement of working conditions are a major requirement for further increasing the productivity, and along with that, the overall employment rate in the country. To achieve this improvement, Finland has programs implemented that also add the life long learning guideline of the Lisbon strategy. Furthermore Finland aims at a competitive Finnish market in the near future, the implementation of the Services Directive would contribute to this goal of more efficiency in the companies together with an increase in productivity. This Services Directive could indeed help Finland, because it will make in easier for Finnish companies to go abroad and offer their services in an easier way to customers. On top of that, Finland has a special relationship with Russia when it comes to doing business. The blossoming Russian economy could mean a lot for Finland.

What does Finland plan to do to change the labour productivity? Finland acknowledges that the major productivity problem arises in the service sector. The ICT sector is performing surprisingly well, when it comes to productivity growth over the past years. ICT has been a stable contributor to the productivity growth of Finland over the past years, it was always well above the country's average. (see appendix) In the service sector (mainly public sector) there is a problem with low productivity. The public sector's productivity has to be increased by transforming service departments and agencies into unincorporated state companies and private businesses. This leads to a more private sector orientated public sector where services are purchased from the government, these privatized companies can focus more on specialization, make more efficient use of ICT and improve overall efficiency because they have to work as a private sector company, where larges deficits will eventually terminate the

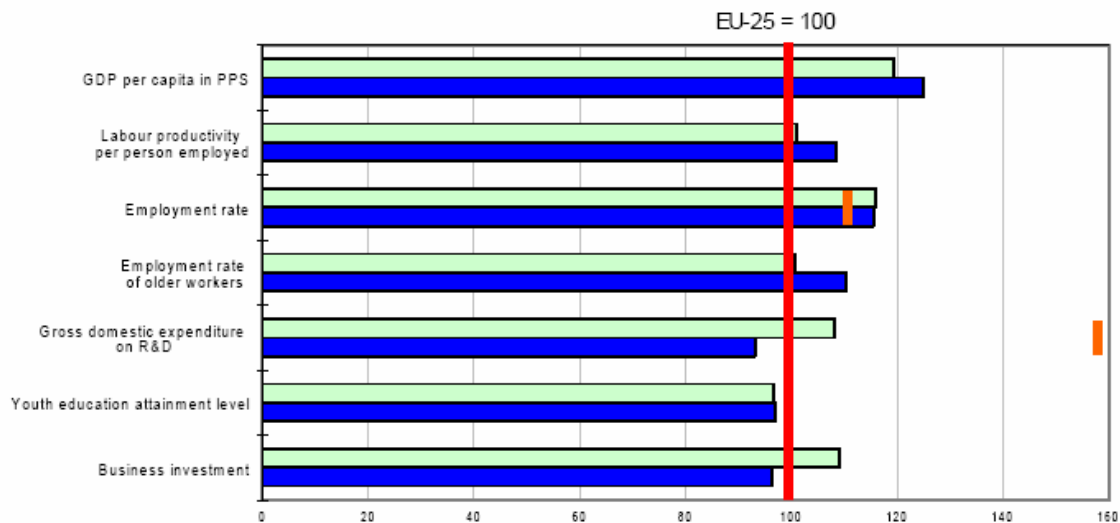
²⁴ *Creating An Innovative Europe*, 2006, p. 12

company.²⁵ Further changes in the public sector were the introduction of limits in spending, budgets. These changes came from each ministry. Each ministry had to set up its own plan to increase productivity. Service centres are set up by the ministries to increase efficiency of financial and human resources administration in their departments to coordinate the services and operations in a central manner.

3.3 The Netherlands

Next, the counterpart of the comparison. The Netherlands is famous for its trade dependency in economic growth, and that is why it does not come as a surprise that the Netherlands was also struck during the economic downfall of 2001. Before 2001, the annual economic growth was stable at approximately 3,5 percent. As Finland, the Netherlands has one of stronger economies of the European Union. Although in the recent past, the growth was very small, if there was any growth at all.

Figure 2 Key figures the Netherlands



The NRP of the Netherlands is somewhat similar to the Finnish NRP. The emphasis in the Dutch program is improvement of labour supply, faster growth of labour productivity. More investment in R&D is achieving this growth in productivity. The third priority is increasing the competitiveness of the markets, by containing the labour costs.²⁶ Most of reforms related to the three point are already in progress or announced. For R&D and employment are not

²⁵ NRP 2005-2008 Finland, p. 28

²⁶ Annual Report Netherlands 2006, p. 1

rates discussed in the NRP. The expressed desired increase in R&D has to come from the private sector, the increase is “expressed in relative” to other member states. The Netherlands is already meeting the priority of the Lisbon strategy on employment, the 70 percent benchmark. Though, the number of part-time employees is relatively high in the Netherlands. The NRP is composed by state secretary of the Ministry of economic affairs, the chairman of Central Economic Committee and the social partners where involved as well. The local governments can be involved in implementing certain points of the NRP.²⁷

The Dutch NRP is not implementing many new reforms. Most of them are already in progress. The development of labour costs is agreed with the social partners and laid down in long term policies. This action, combined with reforming the health care system to more market orientated and pension reform should increase the competitive position of the Dutch economy. The major effort to decrease the budget deficit from 3,2 percent to 1,8 percent is also worth mentioning.

The Dutch plan to improve productivity by innovation and R&D. Improve the business climate and more competition are the key issues here. The business climate is expected to be improved by loans, EU directives will be implemented without new national regulations which are holding back the business sector, along with reducing regulatory costs for businesses. Improving of the business climate which is good for companies and indirect also for the employees, was one of the statements of the government. The goal of the government was not reached. Recently the media reported that companies did not benefit from the government’s priority to create a better business climate. The taxes were not quite as low as expected in 2006. Maybe in the future the changes made by the government will take affect. Furthermore, competitiveness of the market will be improved by financial market supervision, laws to protect the market.²⁸ The NRP projects improving productivity by investment in human capital, besides innovation and R&D. Human capital improvement is concentrated on reducing early school leave to 8 percent in 2010 and creating a better link between education and the labour market. Investment in education and the quality of education are expected to be contributors to increasing productivity. This seems like a plausible goal. It is known in the Netherlands that the different education systems do not really connect. For example the pupils going from high school to professional school often have hiatuses in their knowledge and therefore have difficulties to adapt to the higher level of education. Because the employees will be better skilled, they will have less difficulties to get adapted to their work and changes

²⁷ Annual Report Netherlands 2006, p. 1

²⁸ Annual Report Netherlands 2006, p. 3

in the labour market. Combine this with a better division between work en spare time, the Dutch government thinks to have a solution to cope with the labour productivity problem. Day care of children will be partly financed by the government and the people using it.²⁹ The percentage of employees involved in life long learning is relatively high, due to good cooperation between social partners and government and this percentage is expected to increase over the years.

Labour supply will be focused on including older people to start to work again, reducing the length of social benefits and focus on ethnic minorities, to increase their percentage in the labour market.

3.4 Conclusion

In this chapter, first the issue of an ageing population was introduced and related to the problem of low labour productivity. In both countries, low labour productivity is not going to help the problem of an ageing population. Which means a smaller active workforce with more older people. So, the existing problem of low labour productivity will be worse in the future if the countries would not do anything about it.

But, and secondly, the countries are forced by the Lisbon strategy to come up with a plan on productivity problems. The comparison on labour productivity is made between Finland and The Netherlands, while using their NRPs as benchmark, to find out how both countries expect themselves to cope with labour productivity problems. The differences in NRP reforms come from national differences and priorities. For example, Finland is already a high R&D investor, the Netherlands is not. So that might explain why the Netherlands will invest more in R&D in the coming years than Finland, in percentage.

Both member states acknowledge that low labour productivity is a problem, especially in the future as a declining workforce and an increasing number of retirements lead to more pressure on the working people. Compared to the United States, Finland and the Netherlands already have a low labour productivity.

Finland expects to cope with productivity by investing in service sector, to transform it more to a private sector, in which productivity and efficiency are important priorities. Of course, they also see the importance of a balance between work and leisure time.

The Netherlands concentrates on human capital investment and R&D investment to cope with labour productivity problems. Human capital investment means investment in education, life

²⁹ NRP 2005-2008 The Netherlands, p. 45

long learning so that the working people are able to adjust to constant changes in the labour market and their working sector.

Finland	The Netherlands
<i>Labour productivity problem exists</i>	<i>Labour productivity problem exists</i>
Functioning of labour market, improve competitiveness and productivity.	Improving labour supply, faster growth of labour productivity.
Investing in service sector	Human capital investment
Improve business climate	R&D investment

4. Future changes to the existing policies and plans

In this fourth chapter the essay will introduce the term innovation to the subject. Innovation can be a factor in many fields. From industry to ICT and from education to policy development. While defining this term, the essay tries to come up with certain options which might also deal with the problem of an ageing population and low labour productivity. These options might be “borrowed” from other European Union member states or from non EU members. As mentioned before, low productivity and an ageing population share a causal relation. Ageing leads to lower productivity in absolute number. Population pyramids show that in both Finland and the Netherlands that in some years the larger cohorts will retire and smaller active cohorts remain in the active workforce. This confirms the idea of a lower productivity in absolute numbers. Therefore, both EU member states developed a National Reform Program to cope with this, already existing, problem of low labour productivity. The policy plans or reforms are consisting of rough lines and projections. Of course, it seems inevitable that a policy plan on such national level will not be very concrete. But I think the policy plans are vague. Not really in the way of what the plans are supposed to achieve, but more in the way how these goals are supposed to be achieved. I mean, it is one thing to recognize the factors that might contribute to a higher productivity. It is another thing to reach this actual desired increase in productivity, the policy makers can not make a realistic projection of this because the employee’s motivation, private situation can always contribute in a negative or positive way on productivity. So in this chapter the goal is to try to make it clearer if the existing policies can be changed, using for example other country’s policies which might are a little less vague about their policies to improve labour productivity. First defining innovation, for the sake of using innovative solutions in policy. The question to be answered; Is it possible to use innovative solutions to improve the existing policies?

4.1 Innovation

When we talk about innovation, there are different meanings for this word. Innovation is a term often used in the private sector. In the private sector it means as much as the objective to be competitive and dynamic.³⁰ In a sector where changes are always needed to sustain the organization, its important to be able to change fast, thus being dynamic and flexible. But innovation is not necessarily a term to be used strictly in the private sector.

³⁰ Louis Lengrand cs. , 2002, *Innovation Tomorrow*, PREST (University of Manchester) 2002, p. 8

Also in the public sector, or this case European and national level there is the need for change to maintain the position the European Union has in the world. Innovation is a central element in economic performance measurement, it becoming more important in knowledge bases economies like most of those in the European Union. In the comparison, both Finland and The Netherlands are primarily knowledge based economies. Come to the second part of the definition, in the same dimension as the first, innovation is diverse, meaning that it is not only based on research & development, science and technology. Obviously those factors are very important in innovation, but is also depends on organizational, social and economic knowledge.

In governance, regulatory and institutional reform (reform in this case is similar to innovation) is encouraged in the European Union, by means of the Lisbon strategy. Although these reform programs are not always implemented as they were intended. In innovation, we talk about dynamic changes, competitive attitudes. In governance, the process of reform usually takes a lot of time and is not dynamic. Not in every field of governance, innovations in policies are possible. Regulations, laws and the political decision making process can eventually deny changes or slow them down.³¹ Last part of the first definition is concerned with the success of innovation in public policy. Because the way innovations are being used in public policy should contribute to the public benefit, it should be legitimate and the majority of the public should agree with the policy changes. The part of legitimacy is concerned a certain transparency and dialogue. Both transparency and dialogue are aspects for the democratic representation of the EU member states. The Lisbon strategy, however speaks of a fast response which is needed to keep up with the ageing population. On the one hand this a good remark, because it is actually true, but on the other hand a fast response is not an obvious option because member states have their processes of developing policy, find a legitimate support for this policy and eventually the policy can be implemented.

Innovation can be conducted on several levels, business as the most common one. But also in government policy. It sounds very down to earth, but something can be considered innovation when it is something new, brings a large change and obviously this change should be a positive one. In business perspective sense this is very easy. The launch of new products, improving production lines, using new sources etc. all can contribute to a successful innovation. Innovation in government policy is something else. Its about changes in policy, developing new policies. Because of the slow decision making process in politics, the changes

³¹ Louis Lengrand cs. , 2002, *Innovation Tomorrow*, PREST (University of Manchester) 2002, p. 9

are usually small, incremental changes. Innovation is also about solving problems. For example the problem is economic decline is hurting many single mothers. So there could be a policy developed to solve problem, namely day care for their children. It solves the problem of the single mothers, they can go to work, and the society benefits from this too, all because the government created a social policy which helps indirectly a lot of people.

Some more definitions on innovation have a very similar context;

"Innovation . . . is generally understood as the introduction of a new thing or method . . . Innovation is the embodiment, combination, or synthesis of knowledge in original, relevant, valued new products, processes, or services. Luecke and Katz, 2003 (p. 2)"³²

"All innovation begins with creative ideas . . . We define innovation as the successful implementation of creative ideas within an organization. In this view, creativity by individuals and teams is a starting point for innovation; the first is necessary but not sufficient condition for the second". Amabile cs. 1996 (p. 1154-1155).³³

From this information, it is obvious that most authors agree on what innovation is. Therefore innovation can be considered to be an innovative change in public policy which is legitimated by the representatives. Obviously, in politics changes are not made at a high speed, so we can say that on this point public policies do not meet with the general definitions of innovation, but if the ideas for the policy are to be successfully implemented and also for the benefit of the people, we can still talk about innovation of public policy.

4.2 Improving existing policies, borrowing from the other country

How can the existing policies of coping with low productivity be improved? To answer this question a little repetition might be useful.

Finland's NRP is focused on three priorities; keeping the public finances within the stability pact, improve on competitiveness and productivity. The third point is improving the functioning of the labour market. Both improving labour productivity and improving labour market are the specific goals.

³² Luecke, Richard, Ralph Katz, 2003, *Managing Creativity and Innovation*. Boston, MA: Harvard Business School Press., p. 2

³³ T. Amabile, R Conti, H. Coon, et al., October 1996, *Assessing the work environment for creativity*, *Academy of Management Review* **39** (5): 1154-1155.

Finland has its policy mainly focused on improving productivity in the public sector. The public sector's productivity has to be increased by transforming service departments and agencies into unincorporated state companies and private businesses. This leads to a more private sector orientated public sector where services are purchased from the government, these privatized companies can focus more on specialization, make more efficient use of ICT and improve overall efficiency, because they have to work as a private sector company, where large deficits will eventually terminate the company.³⁴ Improving general productivity can be improved by ameliorating the working conditions in almost every sector, introducing life long learning tracks.

Further changes in the public sector were the introduction of limits in spending, budgets. These changes came from each ministry. Each ministry had to set up its own plan to increase productivity. Service centres are set up by the ministries to increase efficiency of financial and human resources administration in their departments to coordinate the services and operations in a central manner.

The Netherlands made some priorities as well; the emphasis in the Dutch program is improvement of labour supply, faster growth of labour productivity.

The Dutch plan to improve productivity by innovation and R&D. Improve the business climate and more competition are the key issues here. The business climate is expected to be improved by loans, EU directives will be implemented without new national regulations which are holding back the business sector, along with reducing regulatory costs for businesses.

The NRP projects improving productivity by investment in human capital, besides innovation and R&D. Human capital improvement is concentrated on reducing early school leave to 8 percent in 2010 and creating a better link between education and the labour market.

Investment in education and the quality of education are expected to be contributors to increasing productivity.

Because the employees will be better skilled, they will have less difficulties to get adapted to their work and changes in the labour market. Combine this with a better division between work en spare time, the Dutch government thinks to have a solution to cope with the labour

³⁴ NRP 2005-2008 Finland, p. 28

productivity problem. Day care of children will be partly financed by the government and the people using it.³⁵

The percentage of employees involved in life long learning is relatively high, due to good cooperation between social partners and government and this percentage is expected to increase over the years.

First, is it possible to import a certain possible solution from each other? This could be possible since both countries cope with low productivity, but maybe the kind of solutions could be not favourable for the other country. Finland's productivity problem could be improved for example by using the ICT facilities which are nowadays used in many municipalities in the Netherlands. Because the public sector needs an increase in productivity according to the Finnish NRP. These ICT facilities are mainly the website where citizens can arrange appointments, register, requesting licenses.

Another example can be for the Netherlands. Clearly stated in their NRP, the use of R&D and innovation in the improvement of productivity, the Dutch might copy parts of the Finnish R&D program, and see if they can use some of their innovative solutions in the business sector for example, which is also in relation with the priority of the Netherlands to ameliorate the business environment in the Netherlands.

Finland could look to the Dutch implementation of life long learning. Because of good agreements, cooperation between government, trade unions and employers this could be a relative easy goal for Finland.

Both countries want to improve the labour market, or labour supply. This can both countries do for example in the way the Dutch already want to do this. But adjusting the education systems to the labour market, what employers want from future employees. Limit the unemployment period between graduation and finding the first job.

³⁵ NRP 2005-2008 The Netherlands, p. 45

4.3 Improving existing policies, borrowing from other countries

Second, there is the option to use the ideas or policies from other countries to deal with the problems of ageing and productivity in Finland and the Netherlands. In this section the essay will have a look in which other countries (OECD countries) plan to cope with the problem aforementioned in the essay. It is recognized that with an ageing population, it becomes necessary for the older active employees to remain working for a couple of more years before retiring.³⁶ Early retirement schemes are generally reduced in OECD countries, just like the measures to be taken to keep older employees on the labour market. These measures are boosting training and productivity. Similar to the priorities of Finland and the Netherlands. Both are OECD countries, so it may not look surprising that these acknowledgements are rather similar. Are there any suitable options for Finland and the Netherlands which are used by other countries? Both have to deal with functioning of the labour market.

Firstly, the OECD report makes an argument which was made earlier in the essay, namely that governments could allow older employees who are willing and able to work, to remain active, possibly beyond the statutory retirement age and companies could accept active retention policies.³⁷

For example, Germany is working towards implementation of measures to raise the retirement age limit. Some systems foresee that the wages for a part-time job are topped up by the companies. The top up is refunded by the state if a replacement is hired.

Another German measure is improving the position of older employees. Allowing them to remain active and keep on working instead of unemployment at higher age. Another example is France, where they are working to the introduction of life long training schemes. Especially Finland could benefit from a similar introduction of schemes since the percentage of life long learning is relatively low, compared to the Netherlands. Other French measures are limiting the early retirement schemes and reforms of pension schemes.³⁸

The employers are usually not very keen on hiring older employees. Therefore incentives could be given to firms that keep older worker employed, for example in the form of a bonus as is the case in Austria. The bonus systems might be topped up by subsidies for training or changes in work organization. Although it might be better to convince employers, that it is in their interest to maintain the older workers in their jobs, disincentives in the form of so called

³⁶ P. Auer & M. Fortuny, 2000, *Ageing of the labour force in OECD countries; Economic and Social consequences*, Employment Paper 2000/2, p. 40

³⁷ P. Auer & M. Fortuny, 2000, *Ageing of the labour force in OECD countries; Economic and Social consequences*, Employment Paper 2000/2, p. 26

³⁸ P. Auer & M. Fortuny, 2000, *Ageing of the labour force in OECD countries; Economic and Social consequences*, Employment Paper 2000/2, p. 31

“malus”(e.g. payment of some month of unemployment benefits as in France and Austria) might be appropriate if companies focus retrenchment on older workers. This money could be used to implement labour market programmes for older workers or simply be given to employers who retain older workers.³⁹

This part concentrated on the ageing population and in which way Finland and the Netherlands could benefit from other countries measures. The countries mentioned (Germany and France) both have some interesting ideas which are somewhat similar to the Finnish and Dutch ideas for coping with an ageing population.

For the problem of low productivity, the essay will have a superficial look at Denmark and Sweden, countries which are expected to be rather similar to Finland and the Netherlands. Productivity in Sweden mainly deals with improving working conditions, focusing on healthy and safe workplaces. Although productivity was not really an issue in Sweden over the past years. Predictions are that productivity will decline a bit.⁴⁰ There is not a specific priority to increase productivity, Sweden appears to be one of the more productive EU member states. In Denmark, productivity is not so much an explicit priority as in Finland and the Netherlands, Denmark is more concerned with increasing employment, although employment is already considerably higher than in the rest of the European Union.⁴¹ Productivity is not explicitly mentioned in the Danish NRP, but for example investment in human capital is an issue. Human capital contributes indirectly to productivity, better education and better health care may lead to higher productivity (Watson, 2002).

The Danish government wants to establish a committee with participation of the relevant actors to analyse the Danish vocational education and training system to evaluate if it is ready for the future. From this evaluation, suggestions to change the vocational education and training system will be presented. In 2005, the government has initiated an action plan based on a statement to the Danish parliament in November 2004 on the recognition of prior learning in the education programmes. Furthermore, adult education is a long way ahead in Denmark compared to other EU countries, the government intended with the reforms in education to create a more flexible and dynamic education system, where the transition from school to labour market is closer connected.⁴²

³⁹ P. Auer & M. Fortuny, 2000, *Ageing of the labour force in OECD countries; Economic and Social consequences*, Employment Paper 2000/2, p. 40

⁴⁰ NRP 2005-2008 Sweden, p. 46

⁴¹ NRP 2005-2008 Denmark, p. 36

⁴² NRP 2005-2008 Denmark, p. 50

4.4 Improving existing policy, from literature point of view

The last part of possible improvements of the existing policies is concentrated on changing the early retirement trends of the past decades. It showed that earning little more money because of continuing to work (assuming the people that keep working after 65) is not a strong incentive for them.⁴³ Furthermore, this article shows that early retirement schemes lead to more retirements. This would mean for Finland and the Netherlands, that plans that are concentrated on keeping people to continue to work after becoming 65 years old, can only work if early retirement schemes are abolished. Since this is already a priority of both countries, there is only the confirmation that the countries and the literature agree on this priority.

Another assumption they make is that early retirement schemes are usually leading to a retiring man, and his wife is likely to follow him in early retirement. Since early retirement schemes will be abolished more and more in the future, it is not clear to what extent this going to happen, the governments of Finland and the Netherlands could develop some kind of policy that will provide incentives for families, so that if the husband retires in the early retirement, that his wife could continue to work, instead of retiring as well. Finland already has a large number of citizens in their 50s could really take a look at this option. They could develop a policy program which could separate the retirements of working couples, for example with a difference of five years. Obviously, some sort of incentive should be awarded for couples who use this option of retirement. For example, tax deductions for the man or woman who continues to work if their wives or husband is retired.

Another option suggested could be expanding the labour supply. Then we should think about women that enter the working force. Since 30 years the participation rates of women increase more and more. With new generations of young women entering the working force and stay involved, after having children for example, then in both Finland and the Netherlands there could really be an increase in the participation rates of women.⁴⁴ The best example is Sweden, where participation rates of men and women are almost equal. Also both Finland and the Netherlands could benefit from this suggestion. Both countries have according to the latest calculations, almost similar participation rates of women in the working force. (66,5%) The growth of this percentage is in both countries stable at 1 to 2 %. The participation rates of older women is a lot lower, which means that both countries, especially the Netherlands at

⁴³ P. McDonald & R. Kippen, 2001, *Labour supply prospects in 16 developed countries, 2000-2050*, Population and Development Review, Vol. 27 No. 1, p. 9

⁴⁴ P. McDonald & R. Kippen, 2001, *Labour supply prospects in 16 developed countries, 2000-2050*, Population and Development Review, Vol. 27 No. 1, p. 10

35% rate, could really benefit from expanding the labour supply of women. Finland has a higher percentage at 53%. (percentages from Eurostat)

This gives an idea of the possibilities suggested in the literature. It is not surprising the such ideas are already partly priorities of the member states. Obviously because these countries have their own expertise and their own specialists in this field.

4.5 Conclusion

Concluding, in search to improve the existing policies of Finland and the Netherlands, both countries have similar priorities, improving labour market, boosting productivity and keeping government expenditure in balance. This means that both countries could benefit from each other's policy to cope with the ageing population. The Netherlands could benefit from the R&D and ICT facilities of Finland. If the Dutch can implement such projects, copy parts of the Finnish R&D program, and see if they can use some of their innovative solutions in the business sector for example, this is linked to the priority of the Netherlands to ameliorate the business environment in the Netherlands.

Finland could look to the Dutch implementation of life long learning. Because of good agreements, cooperation between government, trade unions and employers this could be a relative easy goal for Finland to reach.

Borrowing from other countries might be less easy. Both Sweden and Denmark can not really serve Finland and the Netherlands with useful policy recommendations. Only indirect ideas for improving productivity and functioning of the labour market can be useful. For example the Danish adult education, it can be seen as a life long learning track, where Finland might benefit most, where the level of life long learning is lower than in the Netherlands. The adult education programs contribute to productivity, because the employees are better educated for their jobs, and this a positive contributor to higher productivity.

The literature on the problems of ageing and lower productivity are concentrated on keeping the older citizens longer in the working force. The separation of retirement of both men and women should be avoided, at least to keep some older employees involved in the labour market. Together with the option to increase the percentage of women in the labour force, these options could be useful for both member states. Finland already has an older population, and in the Netherlands a lot of women are employed part-time. If both countries can implement these suggestions, could this contribute to the apparent problem of the ageing

society and low labour productivity? It remains an interesting question, because externalities might play a role and they are hard to predict.

5. Conclusion and recommendations

In this final chapter, the whole essay will be concluded by answering the main research question and try to make some recommendations out of the answers, from the several chapters. From the conclusions in the previous chapters, I will provide an answer to the main research question; *How do Finland and the Netherlands cope with problems of labour productivity due to an ageing population?*

The first chapter gives a general introduction to the problem. The ageing countries Finland and the Netherlands are going face serious problems with an ageing population and a declining workforce. The European Union is aware of this development and encourages its member states to develop a policy to cope with these problems.

The Lisbon strategy is the benchmark for European development on several sectors. The strategy gives the guidelines to the member states who can wish to execute these guidelines at their own perspective. Although it is not clear what will happen if the goals of the Lisbon strategy are not met. There are for example no sanctions comparable to the sanctions for large GDP deficits.

The Lisbon strategy is a general paper for all member states. Each member state made their own NRP, which are suited for each countries. From the general strategy to the specified NRP. Productivity and employment rates are important priorities of the Lisbon strategy, which are also priorities in the NRPs of Finland and the Netherlands.

From the introduction of the Lisbon strategy, the essay continues with the third chapter.

The second question, *How can Finland and the Netherlands cope with low labour productivity?* focused on the comparison in which Finland and the Netherlands try to deal with this problem.

Both member states realize that low labour productivity is a problem, especially in the future as a declining workforce and an increasing number of retirements lead to more pressure on the working people. In both countries, low labour productivity is not going to solve the development of an ageing population. Which means a smaller active workforce with more older people. So, the existing problem of low labour productivity will be worse in the future if the countries would not do anything about it. Therefore both countries transformed this problem in some priorities to deal with this problem.

Finland expects to cope with productivity by investing in service sector, to transform it more to a private sector, in which productivity and efficiency are important priorities. Of course, they also see the importance of a balance between work and leisure time.

The Netherlands concentrates on human capital investment and R&D investment to cope with labour productivity problems. Human capital investment means investment in education, life long learning so that the working people are able to adjust to constant changes in the labour market and their working sector.

The fourth chapter concentrates on question; *Is it possible to use innovative solutions to improve the existing policies?*

Innovation is first defined. innovation can considered to be a innovative change in public policy which is legitimated by the representatives. In politics, changes are not made at a high speed, so we can say that on this point public policies do not meet with the general definitions of innovation, but if the ideas for the policy are to be successfully implemented and also for the benefit of the people, we can still talk about innovation of public policy.

Innovative use of policy of other countries might begin with borrowing from each other. For example could be the use of R&D and innovation in the improvement of productivity in the Netherlands. The Dutch might copy parts of the Finnish R&D program, and see if they can use some of their innovative solutions in the business sector for example, which is also in relation with the priority of the Netherlands to ameliorate the business environment in the Netherlands.

Finland could look to the Dutch implementation of life long learning. Because of good agreements, cooperation between government, trade unions and employers this could be a relative easy goal for Finland.

Another option is to look at other countries, like OECD countries. How do these countries plan to cope with the problems aforementioned in the essay. It is recognized that with an ageing population, it becomes necessary for the older active employees to remain working for a couple of more years before retiring.⁴⁵ Early retirement schemes are generally reduced in OECD countries, just like the measures to be taken to keep older employees on the labour market. These measures are boosting training and productivity. Similar to the priorities of Finland and the Netherlands, both are OECD countries.

⁴⁵ P. Auer & M. Fortuny, 2000, *Ageing of the labour force in OECD countries; Economic and Social consequences, Employment Paper 2000/2*, p. 40

For example, Germany is working towards implementation of measures to raise the retirement age limit. Some systems foresee that the wages for a part-time job are topped up by the companies. The top up is refunded by the state if a replacement is hired.

Another example is France, where they are working to the introduction of life long training schemes. Especially Finland could benefit from a similar introduction of schemes since the percentage of life long learning is relatively low, compared to the Netherlands. Other French measures are limiting the early retirement schemes and reforms of pension schemes.⁴⁶

For the last part the essay looked at Sweden and Denmark. These two countries do not really focus on improving productivity in their NRPs. Both other member states can not really serve Finland and the Netherlands with useful policy recommendations. Only indirect ideas for improving productivity and functioning of the labour market can be useful. For example the Danish adult education, it can be seen as a life long learning track, where Finland might benefit most, where the level of life long learning is lower than in the Netherlands. The adult education programs contribute to productivity, because the employees are better educated for their jobs, and this a positive contributor to higher productivity.

Both countries cope with the problem of low productivity and the ageing population. This is the bottom line in the report. Overall, the essay looked at these problems, how Finland and the Netherlands cope with these problems and what might be improved in these plans. These other plans offer little useful things for both member states. The Danish plan for adult education might be useful for both countries, to improve life long learning and contribute to labour supply.

Recommendation is to concentrate both on their own plans, and clarify the ways for reaching the policy goals. There are no clear answers, yet on how to reach the goals. Furthermore, it is unknown what happens if the countries can not reach these goals. Are there going to be consequences, comparable to the GPD deficit violations? And it this reasonable because the policies are dependent on factors like economic growth and perhaps even threat of terrorist attacks. Therefore, once again, the member states can only adapt their existing policies to the NRPs and “hope” that these targets are not too much influenced.

⁴⁶ P. Auer & M. Fortuny, 2000, *Ageing of the labour force in OECD countries; Economic and Social consequences*, Employment Paper 2000/2, p. 31

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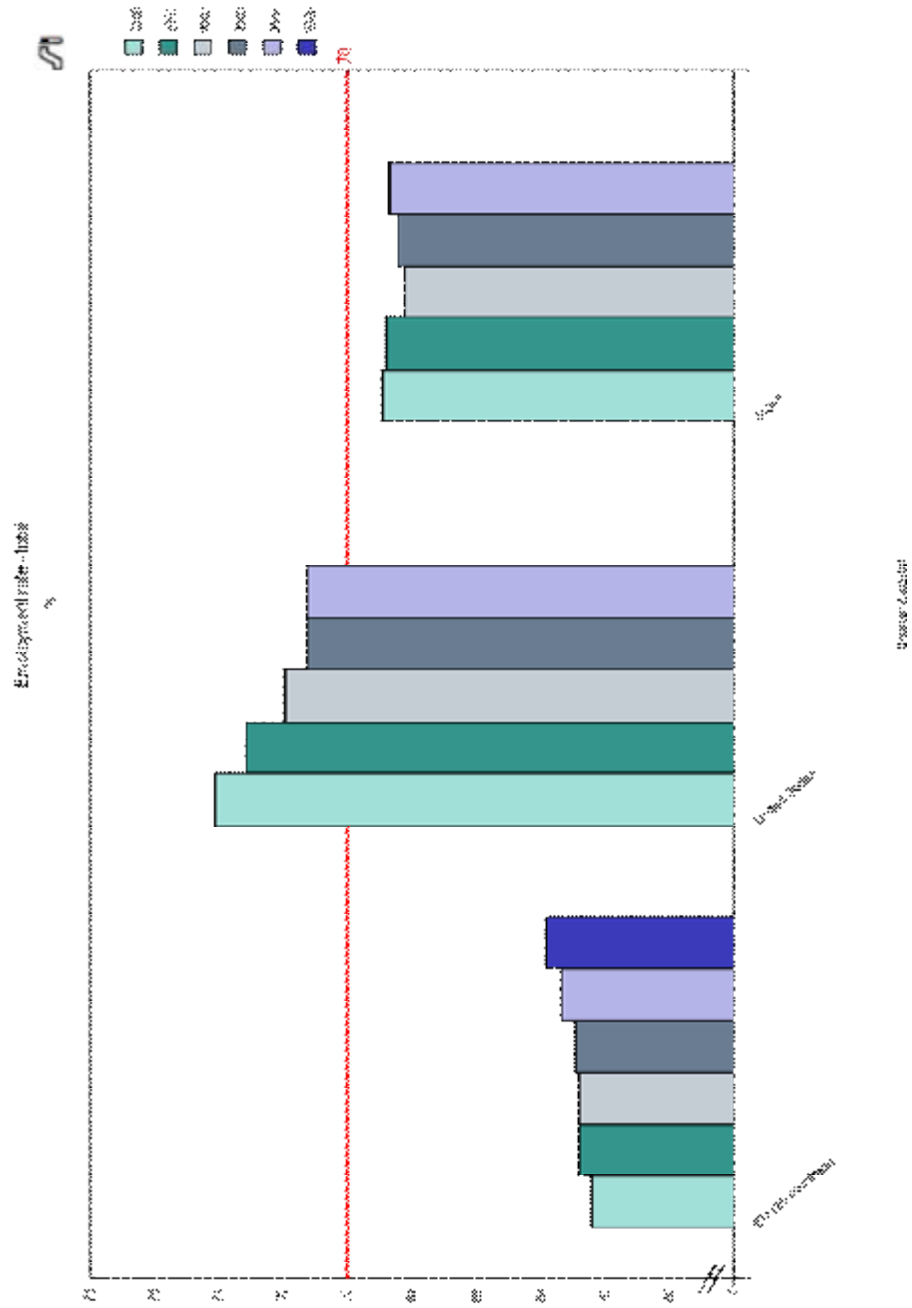
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Figures:

- figure 1: Eurostat; real GDP growth
- figure 2: Eurostat; employment rates

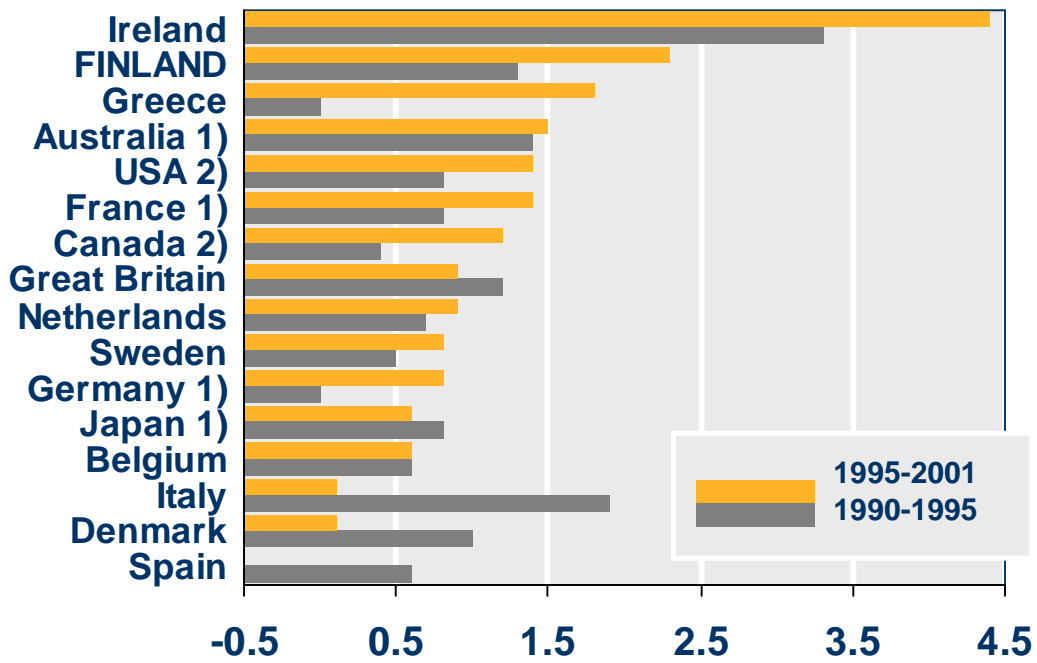
7. Appendices

Appendix 1



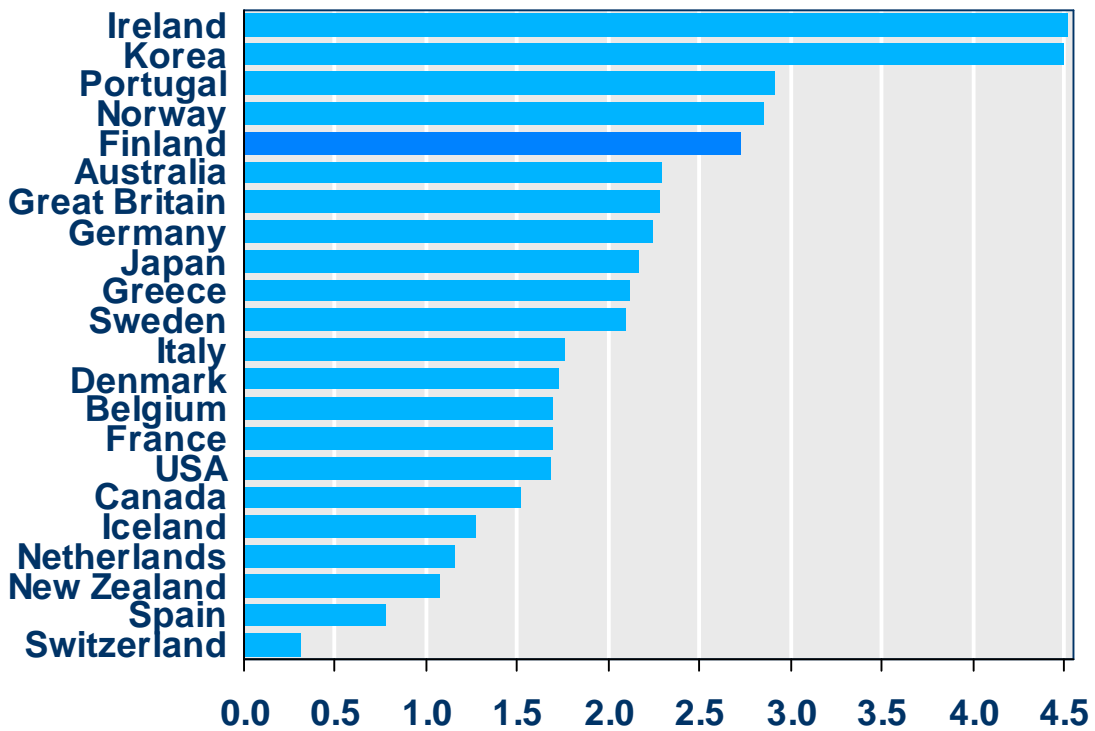
Appendix 2

Average annual growth in percent



Appendix 3

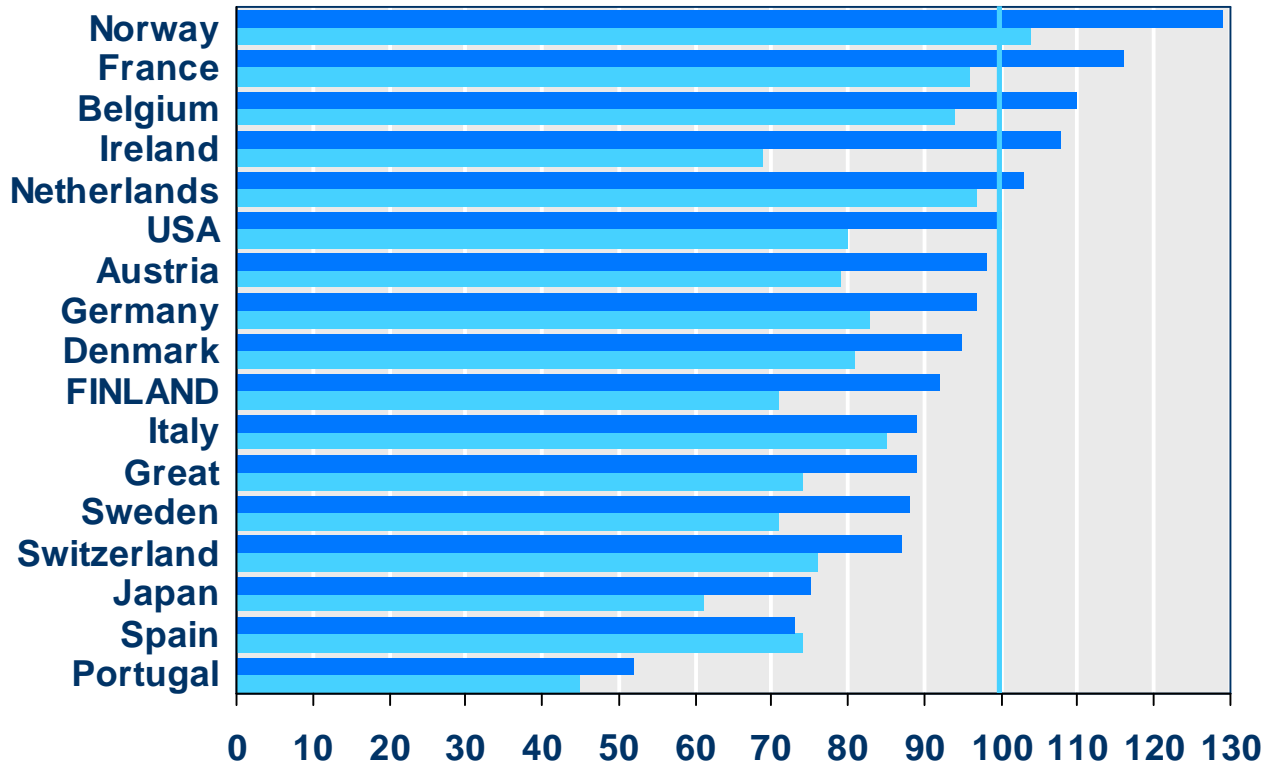
Growth in labour productivity 1990-2002



Appendix 4

Labour productivity

GPD per worked hour, USA=100 (2004)

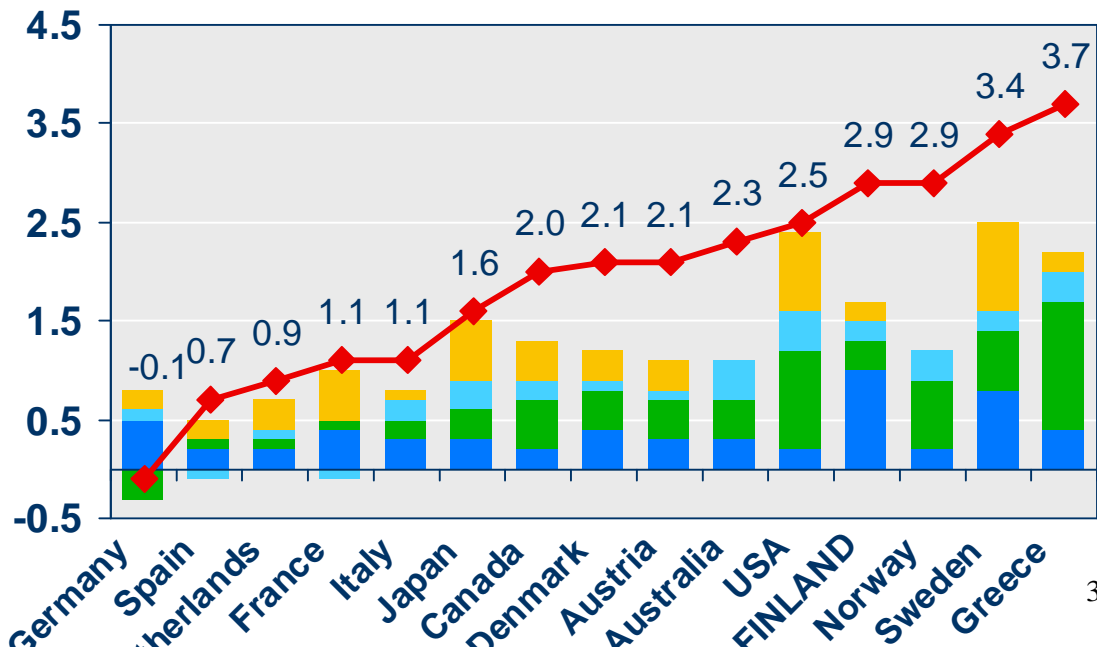


Appendix 5

Contribution of key sectors to labour productivity growth

Contribution to average annual growth rates, 1990-2003

(Non-agricultural business sector)



ICT services and industries

Wholesale and retail, restaurants and hotels

Financial intermediatio

Other high and medium-high technology industries

Appendix 6

NETHERLANDS

	NL							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	119.5	120.2	127.6b	125.9	125.3	125.0		100.0	100.0	100.0	100.0	100.0	100.0	
Labour productivity per person employed	101.0	101.6	107.7b	106.5	107.0	108.6		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	71.7	72.9	74.1	74.4	73.6	73.1	:	61.9	62.4	62.8	62.8	62.9	63.3	70.0
Employment rate of older workers	36.4	38.2	39.6	42.3	44.3	45.2		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	2.02	1.90	1.81	1.72	1.76	1.77p	:	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	72.3	71.7	72.1	73.3	74.5	74.2		74.8	76.3	76.1	76.5	76.5	76.6	