

Summary of the Rotterdam Prohef Experiment

Unemployment is partly due to the way the existing social insurance system functions.

'Prohef' (also known as 'The Van Elswijk Plan') is a taxation system for the social security that stimulates economic development and employment. It implies:

- the tax base for social insurance contribution is extended from the labour costs to value added;
- a tax-deduction per employee (for the employer saved the government an unemployment benefit)

In 1996 – 1999 a practical experiment took place in Rotterdam with 12 commercial companies. The Prohef regime was applied without the necessity to change the normal (Dutch) taxation regime. Also, the calculation of the Prohef-tax can be done on base of the existing company-administration. The Prohef-taxation was calculated and the difference with normal taxation was paid to or collected from the company.

The outcomes of this experiment are:

1. Prohef lowers the wage-costs by introducing a tax-deduction per worker. Prohef therefore generates new jobs. On one side by splitting up simple tasks that can be done by a low-educated person who's lowered wage-costs can be earned by the employer more easily. On the other side small employers can afford high-educated employees because of the reduced wage-costs.
2. The present wage taxation and high wage-costs force the employer to fire employees in case of declining commerces. Whereas the Prohef-tax decreases with declining commerces. Therefore it is much easier for the employer to keep his employees (and know-how) during a temporarily decline. This effect has shown up in the experiment.
3. In situation of growing commerces an employer has to invest in new employees whereby the present wage taxation increases the necessary investment and also the employers risc. Whereas the Prohef-tax only has to be paid when the value added is realized. The experiment has shown up that this gives a strong stimulation to investments and innovations. For employers don't look only to investments in capital goods but also to their investments in wages.
4. Prohef benefits training on the job, because unproductive time is not taxed (no added-value).
5. Prohef lowers the labour-pressure without lowering company profit.
6. The governmental costs of the tax-deduction per worker are less than the governmental earnings; these earnings are extra tax-income by economic growth and saving unemployment benefits.

The increase in employment at the participating companies was 17%. This number may not be generalized because of the voluntary participation in this experiment. Nevertheless, a macro-economic figure is available on base of the macro-economical simulating experiment of the CREED institute (University of Amsterdam). This research indicates a possible increase in employment of more than 10%.

A summary of the CREED-experiment is attached.