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1999

Online at <https://mpra.ub.uni-muenchen.de/5908/>  
MPRA Paper No. 5908, posted 28 Nov 2007 14:17 UTC

# Reforming the Dutch Welfare State: A Scenario Approach

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## Abstract

*The Dutch social protection system has been under reconstruction from the early 1980s. After describing the structure of the current system and addressing recent developments as to the treatment of families and individuals, the paper presents three scenarios that could develop in future years. The first is that of full individualization, in which benefits and conditions are attuned to individual citizens without considering their care for others and the financial means of others in their household. The second scenario is that of a "mini-system", in which statutory benefits are restricted to some minimum level. The third scenario is that of further differentiation of the social minimum by household size, in which benefits are better attuned to the composition and size of household types. These three scenarios are evaluated on the basis of four criteria. The differentiation scenario appears to meet nearly all criteria and seems to offer a new solution for the problem of the weak income position of households with children relative to other household types on the minimum income level. (JEL code: H55)*

## 1. Introduction

From the early 1980s, the Dutch system of social protection<sup>1</sup> has been in a more or less permanent state of reconstruction induced by social, economic, and cultural developments. Changes in household types and course of life, labor market participation and labor patterns, emancipation of women, and opinions on public and private responsibilities have required reforms in the substance and form of the social protection system. Increased regulation has complicated the system and has made it more difficult to administer the system. The growing number of beneficiaries (unemployed, elderly, and disabled) and cost increases (health care) have led to mounting social protection expenditures. Addressing these problems is controversial, because reforming the system may have significant consequences for different household types.

This paper does not provide a blueprint for a large reform of the social security system in the Netherlands. Rather, it is confined to developing three scenarios that could arise. The aim is to clarify the consequences of the different scenarios. The paper is organized as follows. Section 2 briefly explains the structure of the Dutch social protection system. It also addresses recent developments as to the treatment of families and individuals. Section 3 lists three different scenarios that could develop in future years. They are based on an analysis of policies that have been pursued, proposals that have been put forward, and trends that can be observed. In addition, this section presents four criteria that will be applied in judging the different scenarios. Sections 4-6 deal with three scenarios that are possible in the near future. The first scenario is that of full individualization, in which benefits and conditions are attuned to individual citizens without taking into account their care for others and the financial means of others in their household. The second scenario is that of a mini-system, in which statutory benefits are restricted to some minimum level. Although additional insurance is possible in this scenario, government does not provide for it and leaves it to the market. The third scenario is that of differentiation of the social minimum income by household size, in which benefits are better attuned to the composition and size of household types. This scenario envisages introducing parenthood for determining benefit levels, a status not currently considered in the Dutch system. Finally, section 7 presents an evaluation of the three scenarios based on the criteria as described in section 3.

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1. Social protection is a wider concept than social security. Social security pertains to social insurance, which is compulsory and not means-tested. Social protection includes social security and welfare. Welfare is means-tested; only those whose financial resources fall below a certain level qualify for welfare.

## 2. The Dutch system of social protection

In the past, the Dutch social protection system mirrored the fact that most men were breadwinners and most women housewives. Income supplements to low-income breadwinners were designed to support dependent spouses, but not children. From the early 1970s, however, this situation has profoundly changed. Female labor market participation rates in the Netherlands have rapidly risen, particularly in the 1980s, and currently they exceed the European Union average.<sup>2</sup> Two-earner families now form the largest single category of households.<sup>3</sup> The social protection system has changed accordingly by abolishing most of the breadwinner's provisions. As a result, social security compensation has largely been individualized.

Traditionally, the Dutch social protection system is divided into the following arrangements:

1. Social insurance
  - a) Employees' social insurance
  - b) General social insurance
2. Social provisions

*Social insurance* is financed by payroll taxes (or social security contributions), whereas social provisions are financed by general taxes. *Employees' social insurance* is based on the continental (or Bismarck) system. It covers employees rather than the entire population and it is based on the insurance (or *quid pro quo*) principle. There is a relationship between the contribution into employees' social insurance and the benefit received, since the social security compensation depends on the formerly earned wage.<sup>4</sup> Employees' social insurance, therefore, bring about primarily horizontal income redistribution. This refers to redistribution between social groups, for example between employed and unemployed individuals, healthy and sick persons, etc. as opposed to redistribution between income brackets. *General social insurance* is based on the Beveridge (or Anglo Saxon) system. It is universal and covers, in principle, the whole population. Moreover, it is based on the solidarity principle, which implies that higher income brackets pay higher contributions into the system than lower income brackets even though their benefits do not differ. Contributions into general social insurance are a percentage of the income and, thus, income-dependent. However, beneficiaries receive, in principle, equal benefits at the social minimum level. General social insurance, therefore, emphasizes vertical income redistribution, i.e., redistribution between different income brackets.

*Social provisions* are also based on the Beveridge system. Like general social insurance, they are universal and cover the entire population. In addition, they are based on the solidarity principle because they offer benefits on the social minimum level that are, in principle, equal to all recipients, whereas progressive taxation implies that contributions into the system increase by income. Thus, social provisions also stress vertical income redistribution.

As of January 1, 1998 the general disability scheme<sup>5</sup> was abolished and replaced with two new arrangements: one for self-employed and one for youths (see also note 7). The mandatory disability insurance for self-employed individuals is a new and hybrid category in the Dutch social security system, since it bears characteristics of both employees' and general social insurance. A characteristic that it has in common with employees' social insurance is that it does not cover the entire population,

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2. In 1979, the female labor force participation rate in the Netherlands amounted to 33.4 per cent (OECD 1988, p. 200). This figure has nearly doubled to 61.3 per cent in 1997, which compares to a female participation rate of 57.7 per cent in the European Union and 54.7 per cent in OECD Europe (OECD, 1998, p. 193). Yet, it is still fashionable to assert that the female labor participation rate is relatively low in the Netherlands (see for example Arents and Olieman, 1998, p. 75).

3. In 1977, single-earner households numbered 51.3 per cent and two-earner households 27.3 per cent of all households. In 1995, however, these figures amounted to 19.7 and 44.3 per cent, respectively (Bos, 1998, p. 18).

4. Though compensation is limited to a certain cap, this does not infringe upon the *quid pro quo* principle, since contributions into the system are tied to the same cap.

5. In addition to the general disability scheme there is an employees' disability insurance, which still exists.

but only a certain well-described group. With general social insurance it has in common that beneficiaries receive equal benefits at the minimum level, though contributions into the system are income-related.

Employees' social insurance and the newly introduced disability insurance for self-employed persons are individualized by their very nature (*quid pro quo*). Employees are protected against the loss of wages caused by unemployment, sickness, and disability. Since wages are payments to individuals, a compensation replacing a wage is also an individualized payment. Disability compensation for self-employed individuals, though less self-evident, is also individualized. General social insurance is based on the solidarity principle, which is consistent with family-based benefits allowing for partners' incomes rather than benefits attuned to formerly earned incomes of individuals. Nonetheless, general social insurance has largely been individualized in the 1970s and 1980s, thereby undermining the solidarity principle. Social provisions, however, which are also based on the solidarity principle, have so far hardly been affected by the trend towards individualization.<sup>6</sup> Notably, the individualization process has been limited to adults. Children are considered dependent and are not autonomously entitled to any social benefit.

Another trend arising in the 1970s and 1980s was the increasing number of couples forming a household without officially being married. The social protection system has responded to this phenomenon by treating couples living together equally, regardless whether they are married and whether they are of different sexes. As a result, unmarried couples and same sex couples living together as if they were married are treated equally with married couples.<sup>7</sup>

The current system guarantees social protection by meeting minimum needs, though the implementation differs across various insurance and social provisions. In the Netherlands, employees' social insurance meets individual needs. General social insurance used to meet household needs, but as a result of the individualization process it now mainly meets individual needs. Social assistance still meets, in principle, household needs. The point of departure with respect to social assistance benefit levels is the net statutory minimum wage. Minimum social benefits, the so-called social minima, are derived from the legal minimum wage. The social minimum for couples equals the net minimum wage. For lone-parent families the social minimum amounts to 70 per cent of the minimum wage plus a supplement of not more than 20 per cent of the minimum wage if they cannot share living costs with other adults. The social minimum for single persons amounts to 50 per cent of the statutory minimum wage plus a supplement of 20 per cent of the minimum wage if they cannot share living costs. Whether or not beneficiaries qualify for a supplement is judged by the local authorities administering the social assistance scheme. In addition, the local authorities have some discretion to grant supplements (of up to 20 per cent of the social minimum) to other single parents and single persons, although these supplements are subject to guidelines.

These norms have been established in the past on the basis of budget research (Social Economic Council, 1964),<sup>8</sup> but it is questionable if norms once chosen in a distant past still hold. Consumption patterns change over time, for example, because new products enter the market and because relative prices change. This may affect the income ratios deemed necessary and equitable for different household types.<sup>9</sup> In principle, there are only three norms derived from the legal minimum wage, as mentioned before. For couples the social minimum amounts to 100 per cent of the statutory minimum wage. For single parent households it is 90 per cent of the statutory minimum wage if the maximum supplement is included. And for single persons the social minimum amounts to 70 per cent of the legal

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6. An exception is a new arrangement for disabled youth introduced on January 1, 1998. It offers disability compensation for those who became disabled when they were younger than 18 years old and it is financed from general taxes. This is the only social provision with individualized benefits.

7. This seems to infringe upon vertical equity in that people in unequal positions are treated equally. Unlike an unmarried couple, a married couple is subject to legal obligations as to alimony if their marriage breaks up.

8. The foundation of this methodology has been laid by Houthakker and Prais (1955).

9. Unlike 40 years ago, certain goods - for example a washing machine, a television set, a telephone, etc. - may now be considered necessary goods for people with a social minimum income.

minimum wage if the maximum supplement is included.

This set of norms (all on a net basis) implies that the system hardly considers the presence of children in households. Regardless of their income, all households with children receive the same allowance for each child, that covers roughly 30-45 per cent of the costs - on the social minimum level - of raising the child (Netherlands Family Council, 1997, p. 119).<sup>10</sup> The underlying idea is that parents are largely responsible for the needs of their children. Only in the case of lone-parent families does the presence of one or more children count, since for these households the social minimum amounts to 90 per cent of the legal minimum wage (as opposed to 70 per cent for single persons). However, the number of children does not figure as to the social minimum. Only the child allowance is paid per child, but that holds for all households with children including those with incomes exceeding the social minimum. Since couples with children living on welfare have to spend part of their income supporting their children, they are worse off relative to childless couples and singles, who can spend their entire income on themselves. Couples with children living on welfare are also worse off, though to a lesser extent, relative to lone-parent households on the social minimum level. In the current system, therefore, the income position of households with children living on welfare is inferior relative to other households living on welfare. A comparison of social assistance (excluding net housing cost) in seven other European countries shows that the Netherlands in this respect considerably differs from other European countries. Table 1 displays that the income ratios of households with children living on welfare are exceptionally low compared to those in other European countries.

**TABLE 1**  
**Social Assistance Excluding Net Housing Cost in Eight European Countries, 1994**  
**(Ratios Based on a Childless Couple's Income)**

Country	Single person	Childless couple	Couple with 2 children	One parent family
Belgium	72	100	138	146
Denmark	46	100	153	130
Finland	56	100	178	136
France	71	100	135	130
Germany	55	100	166	143
Netherlands	62	100	119	107
Sweden	60	100	164	124
UK	62	100	178	144

Note: Calculations based on Hansen et al. (1995) and Einerhand (1997).

10. Higher income families spend more on raising their children than minimum income families. If expenditures on children are considered costs of raising them, the child allowance covers a lower share of the costs of raising a child by higher income families relative to minimum income families.

### 3. A scenario approach<sup>11</sup>

This paper develops three scenarios for a new social protection system linking up with proposals that have already been put forward:

1. *Full individualization.* In this scenario, benefits and conditions are attuned to individual citizens without taking into account their care for others and the financial means of others in their household.
2. *A mini-system.* In this scenario statutory benefits are restricted to some minimum level. In the current system, employees' social insurance provides wage-related benefits. As a result, these benefits may exceed the social minimum level. This would not occur in a mini-system, since it limits benefits to the minimum level. Those who consider this insufficient coverage can decide to purchase additional insurance in the market place, but it is also conceivable that employers' organizations and trade unions would negotiate additional private insurance to be included in collective wage agreements.
3. *Differentiation on the minimum level.* In this scenario benefits are better attuned to the composition and size of household types. Effectively, it introduces a new criterion (parenthood) in the social protection system for determining benefit levels.

The scenarios deal with relative income positions of different household types in the social protection system. The concept of household type pertains to families, childless couples, and single persons. The concept of families pertains to household types consisting of one or two adults living together with one or more children. Thus, the concept of family as applied in this paper comprises both lone-parent and two-parent families and does not differentiate between married and unmarried couples, nor does it differentiate between mixed sex and same sex couples. The scenarios focus on the position of families, but they also pay attention to the position of single persons and childless couples. In addition, the discussion is confined to the structure of cash benefits on the minimum income level. Consequently, the funding and organization of the social protection system are ignored.

In judging the consequences of the different scenarios the following (normative) criteria are applied:

1. The extent to which social protection is guaranteed for all household types.
2. The extent to which the presence of children in household types is taken into account.
3. The extent to which related levels of social benefits for different household types are reasonable.
4. The extent of equal opportunities and equal rights and obligations for men and women with respect to benefits and labor participation.

The first criterion pertains to the benefit level. Guaranteeing some social minimum income is an important function of the social protection system, although determining the absolute level of the social minimum is normative in nature. The second criterion is related to the fact that most social benefits are attuned to rights and needs of adults. Generally, they do not take into account the possible care for children. Admittedly, child benefits supplement family incomes, but in the Netherlands only to a limited extent since they are intended to cover a small part of the cost of raising children. The third criterion pertains to the relative positions of different household types. Some benefits are more favorable for certain household types and less favorable for other household types. For other benefits the reverse may be true. Households with children often prove to have an inferior income position relative to single persons and childless couples, in particular on the minimum income level. The fourth criterion is related to the positions of men and women. They should have equal opportunities to attain financial independence. Furthermore, the system should facilitate a balanced division of tasks over men and women within their household types resulting in equal rights and obligations.

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11. Other approaches are conceivable, such as microsimulation and general equilibrium models (see for example Gelauff and Graafland, 1994). These approaches have not been applied, however, since this paper focuses on systemic features and consequences of the three scenarios considered.

#### 4. The scenario of full individualization

In this paper, individualization of social protection is defined as allocating rights and laying obligations on individual adults regardless of their living situation and household type. This implies that no regard is paid to economies of scale of a common household nor to the presence of a partner with or without financial means. A provocative question is whether children should be allocated autonomous entitlements. In this paper it is assumed that the answer is negative, since children cannot take care of themselves, and even if they could they cannot legally represent themselves. Therefore, even if children were allocated autonomous entitlements, one or more adults (parents or guardians) would have to serve as an intermediary between the children and the body that grants the entitlement.

Further individualization of the Dutch social protection system than so far has been realized, can be achieved in two ways. First, provisions that have already been individualized can be expanded by extending the duration of the benefit and/or by easing the eligibility requirements. Second, non-individualized entitlements can be individualized. Possible variants are:

- Lengthening the duration of unemployment compensation until the retirement age.
- Gradual introduction of individualization by birth cohorts setting entitlements at a minimum level regardless of the partner's income.
- Abolishing the supplements for partners in certain social protection provisions.<sup>12</sup>
- Abolishing the means test for partners.

Individualization implies certain changes in the social protection system which may make further changes necessary. Employees' social insurance is already individualized and, thus, does not need any adjustment. As to general social insurance, however, the supplement in the old age pension for partners younger than 65 and without or with little financial means would be abolished. Also, the increased benefits for single retired persons with dependent children would be abolished. In addition, a survivor's pension would not fit an individualized system, since this benefit is associated with the termination of a household type. Thus, survivors' pensions would be abolished as a result of individualization. Child allowance is meant for households with children (lone-parent and two-parents families). Whether or not the child allowance would remain in existence in an individualized system depends on the allocation of "own" entitlements to children.

Most profound adjustments are needed in this scenario with regard to social provisions. It should be reiterated that social provisions differ from social security arrangements in that the former are financed from general taxes, whereas the latter are funded by social security contributions. Currently, social provisions are means tested against the means of both the beneficiary and the partner. In an individualized system the partner's income would be left out of consideration. Also, social assistance would be independent of the partner's income and wealth. The common wealth of couples should, thus, be imputed in one way or another to both partners individually, which would make social assistance more susceptible to fraud. Generally, all supplements for partners would be abolished, for in an individualized system supplements can only make up to an individual social minimum income.

Consistent individualization would thus alter the social protection system profoundly. If two individuals living together are entitled to some benefit, the income ratios for single persons, lone-parent families, and couples would become 70:70:140 (percentages of the legal minimum wage). In the current system these ratios are 70:90:100, since the social minimum (including the maximum supplement) amounts to 70 per cent of the statutory minimum wage for single persons, 90 per cent for lone-parent families, and 100 per cent for couples. Couples would benefit from full individualization. Together they would get 140 rather than 100 per cent of the statutory minimum wage, since both partners are entitled to an individualized benefit. Lone-parent families, however, would be worse off. They would get 70 per cent rather than 90 per cent in the current system, since they, too, are entitled to an individualized benefit. As to single persons there would be no change, but their position relative to that of couples

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12. It is possible that someone receives a social benefit that is sufficient if the recipient would be single, but falls short of the relevant social minimum if the recipient has a dependent spouse. Therefore, supplements may be granted to lift the recipient's income to the relevant social minimum, i.e., the social minimum applicable to the recipient's household.

would deteriorate (the ratio of 70:100 would change into 70:140). The loss of income for lone-parent families would imply a deterioration of social protection guarantee as to this category. The paradox of full individualization is, therefore, that it does not affect single persons, but it would make couples better off and lone-parent families worse off.

Individualization seems (indirectly) to further the financial independence of women with a partner. If they do not have a paid job, they are entitled to an individual benefit that is not tested against their partner's financial means. As a result, individualization leads to a considerable increase of social protection expenditure,<sup>13</sup> which must be financed somehow. First, tax rates could be raised. However, this seems politically infeasible, since in Dutch politics there is a consensus that the tax burden should be decreased rather than increased. Second, the number of beneficiaries could be decreased by tightening eligibility rules. It is hard to understand, however, why raising social benefits for couples should lead to the exclusion of certain categories that are currently eligible to some social benefit. Third, public expenditures could be cut. As a result of the Dutch "stringent budget policy", which demands that spending overruns be compensated in the same spending category, cuts would have to be made in social spending rather than other public spending categories (such as national defense, education, etc.). Thus, increased social spending resulting from full individualization would most likely be compensated for by a reduction of benefit levels across the board. In this case, the consequences of full individualization would be a limited income rise for couples and income declines for single persons and lone-parent families, while the latter category would lose mostly (Van der Hoek, 1987, p. 31). This adds to the paradox of full individualization that couples are made better off and single-parent families are made worse off, while single persons are not affected.

## 5. The scenario of a mini-system

The term mini-system refers to a case in which social benefits are organized and financed via the public sector, but are limited to a certain minimum level. Thus, government only retains a clear responsibility with regard to benefits that do not exceed the social minimum. This can be realized in different ways:

1. *A statutory mini-system.* The legislature guarantees benefits on the minimum level fully administered by the public sector.
2. *A system fully controlled by legislation.* The legislature guarantees conditions that have to be met by minimum benefit arrangements established by the private sector.
3. *A system partly controlled by legislation.* The legislature allows arrangements established by the social partners (by sector or possibly by enterprise), if they meet certain statutory conditions. Those sectors that do not establish collective arrangements are subject to a statutory mini-system.

Central to a mini-system is compensation of the loss of income up to a certain level. To be eligible to a minimum compensation one would have to be willing to accept paid work. Like in the current system, general social insurance and social assistance would be means tested, while the benefit level would vary by household type.

General social insurance and social assistance provide benefits on the minimum level. Therefore, they fit, in principle, a mini-system. Though child benefits do not compensate income losses, they may be included, in principle, in a mini-system. Thus, the implementation of a mini-system would only affect the employees' social insurance. Compensation on account of this insurance would be limited to

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13. By individualization nearly two million dependent partners in the Netherlands will qualify for individual social assistance overnight, while the total population amounts to almost 16 million. The consequences on the macro level heavily depend on future possibilities for labor market participation, possible changes in work effort, the level of the individualized benefits, and eligibility requirements. On the basis of the current norm for single persons - 70 per cent of the statutory minimum wage if the maximum supplement is included - net social expenditure would increase by an estimated 11 per cent if it is assumed that work effort does not change as a result of the program. In addition, it is estimated that net social expenditure would increase by 15 per cent if work effort does change (Netherlands Family Council, 1993, pp. 50-53).

the social minimum, for example 70 per cent of the minimum wage. Compensation on account of unemployment, disability, and sickness, which is currently related to the most recently earned wage, would no longer be guaranteed by government insofar it exceeds the social minimum level.

The private sector may offer complementary insurance, but private insurance of social risks is not always possible because of problems such as risk clustering, adverse selection, and moral hazard. Therefore, private insurers set a number of requirements. For example, they demand the possibility of judging risks in order to set an adequate premium per individual. Thus, the market does not always offer a solution for individuals with relatively high risks. Insurers consider unemployment a risk that cannot be privately insured because of unpredictable movements of the business cycle and because the unemployment risk of individuals are to a certain extent correlated. During cyclical downturns, many firms have to dismiss workers, which results in a considerable increase in claims. If government considers the possibility to purchase a complementary unemployment insurance (covering compensation beyond the minimum level) desirable, it has to be provided by government.

Income ratios on the minimum level would remain unchanged, in principle. The use of the three Dutch norms implies, again, that only in the case of lone-parent families the presence of children is taken into account. Thus, a mini-system would not consider the presence of children any more than the current system. With regard to equal treatment of men and women the mini-system seemingly would not differ from the current system. In a mini-system, the guarantee of social protection by government would be limited to the social minimum level. The consequences of this limitation would be relatively small, since the vast majority of social benefits in the current system already are minimum benefits. In 1990, an estimated 86 per cent of all social benefits were minimum benefits (Ministry of Social Affairs and Employment, 1990, p. 59), while in 1994 this estimate amounted to 87 per cent (Ministry of Social Affairs and Employment, 1989, p. 20).

## **6. The scenario of differentiation of the social minimum by household size**

A system of social benefits varying by size and composition of the household offers the possibility to attune the social minimum better to the needs of households. Currently, employees' social insurance aim at meeting the individual needs of beneficiaries. Though old age and survivors' pensions and social assistance differ across household types, the norms used (70:90:100 for, respectively, single persons, lone-parent families and couples with or without children) imply that both the presence and the number of children are hardly taken into account. Though Table 2 shows that in the current system the social minimum increases by household size because of the child allowance, the increases are relatively small. A social minimum that differentiates more by size and composition of households would attune it better to household needs, while the cost of children on the minimum income level could fully be compensated. Effectively, this scenario would introduce a new criterion (parenthood) as one of the factors determining the benefit level.

The idea of differentiating the social minimum according to household size has been put forward in the past by a minority of the Social Economic Council (1986, p. 65), suggesting the norms as presented in Table 2.<sup>14</sup> For the sake of comparison Table 2 also includes the norms as they were effective from April 1, 1998. In addition, Table 2 displays the norms consistent with a differentiation scenario and based on a social minimum that fully compensates for the cost of raising children on the minimum level. For example, the difference between a single person and a single parent with one child amounts to 33 per cent of the legal minimum wage. Adding more children leads to much smaller increases, reflecting economies of scale. The differentiation scenario would lead to different income ratios, but its adoption would not imply an absolute income loss for any household type.

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14. The Social Economic Council took a couple with two children as point of departure (100%). Since in this paper a childless couple serves as starting point (100%), the norms suggested by the Council have been converted to this basis.

**TABLE 2**  
**Minimum Norms as to Household Types (Ratios Based on a Childless Couple's Income)**

Household type	Social Economic Council	Current system <sup>a</sup>	Differentiation scenario <sup>b</sup>
2 Adults	100	100	100
2 Parents and 1 Child	111	106	119
2 Parents and 2 Children	118	112	129
2 Parents and 3 Children	124	119	141
1 Parent and 1 Child	93	96	109
1 Parent and 2 Children	100	102	119
1 Parent and 3 Children	106	109	130
Single person without an independent household	59	50	50
Single person with an independent household	82	70	70

- a. Social minimum (including holiday allowance and child allowance) as a percentage of the social minimum (NLG 1,944.82) including holiday allowance (NLG 104.52) for a childless couple as of April 1, 1998.
- b. Social minimum (including holiday allowance and child allowance) fully covering the cost of children on the minimum level as a percentage of the social minimum (NLG 1,944.82) including holiday allowance (NLG 104.52) for a childless couple.

**TABLE 3**  
**Social Minimum Excluding Child Allowance in the Differentiation Scenario**

Household Type	Social Minimum
2 Adults	100
2 Adults and 1 Child	113
2 Adults and 2 Children	117
2 Adults and 3 Children	121
1 Parent and 1 Child	103
1 Parent and 2 Children	107
1 Parent and 3 Children	111
Single person without an independent household	50
Single person with an independent household	70

This scenario generates income ratios that consider the "children" factor more than the current system. This would be done by varying the social minimum according to composition and size of the household. For the sake of simplicity and practicability it would not consider the children's age, while for the same reasons the differentiation by size would remain limited to a maximum of three children. This would imply an expansion of the number of norms for household types to nine (from three in the current system) as is done in Table 3.<sup>15</sup> On top of these norms would come the child allowance resulting in the income ratios as displayed by the last column in Table 2.

In principle, differentiation of the social minimum by household size would not imply any change with regard to the employees' social insurance, since these are individualized and unrelated to household type. General social insurance do differentiate according to household type, however. Thus, they would be affected by a larger variation of the minimum income norms used. The newly introduced disability schemes for youth and self-employed, however, would be exceptions, since they offer benefits not related to household type. Child allowances could continue to exist in their current form. Social assistance arrangements would show more variation according to composition and size of household type. In particular the number of children would play an important role in determining the relevant social minimum.

## 7. Evaluation

The current social protection system uses in those arrangements related to household type only three norms, which considers the presence and the number of children only to a very limited extent (see Table 2). A system with norms that vary by household size meets this criticism. Not surprisingly, income ratios change considerably in a system with norms that differentiate according to composition and size of households, as displayed by Table 2. Though absolute monthly payments to single persons and childless couples would not change relative to the current system, they would decline relative to payments to households with children. The latter payments would increase considerably, both absolutely and relative to payments to other household types. As a result, spending on social protection would increase by an estimated NLG 900 million or 0.5 per cent.<sup>16</sup> Thus, a relatively small increase in social spending would lead to a relatively big increase in equity.

A problem that may arise in the differentiation scenario is that employees (and self-employed persons) with children and an income below or around the social minimum have a lower net monthly income than families on welfare. This could be interpreted as a perverse incentive, since it would pay to quit work and apply for welfare, although the rules do not permit such a behavioral response. Even if the rules would be observed, however, it presents a bottleneck, since those concerned would have to call on social assistance to make up their income. In the Netherlands, it is considered undesirable if individuals working full time would need social assistance. But if they would, it seems politically unacceptable if they would be subjected to the means test. A possible solution to this problem may be the introduction of a publicly provided wage supplement, which is formally no social assistance and, thus, could protect minimum wage workers from being subjected to the means test.

A system of social benefits that vary by size and composition of the household would explicitly consider the presence and number of children. As a result, in determining the social minimum the needs of households would be met better. The differentiation scenario would perform better than the current system with regard to reasonable ratios of social benefits for different household types and social protection for all household types and it would bring the divergent position of the Netherlands more in line with benefit ratios in other European countries. However, differentiation would not contribute more to the furthering of equal opportunities and equal rights and obligations for men and women as to benefits and labor participation. In this respect, individualization and a mini-system may imply an

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15. The underlying calculations can be obtained from the author.

16. The underlying calculations can be obtained from the author.

improvement relative to the current system. Thus, it seems that there is a trade-off between a more equitable income distribution over households on the one hand and equal rights and obligations of individuals on the other hand.

Figure 1 shows these trade-offs schematically. Differentiation of the social minimum by size and composition of households meets nearly all criteria, which is in contrast with individualization and a mini-system. The differentiation scenario, therefore, seems to offer a solution for the problem of the observed weak income position of households with children relative to other household types on the minimum income level.

**FIGURE 1**  
**The Scenarios Compared with the Current System on the Basis of Four Criteria<sup>a</sup>**

	Individualization	Mini-system	Differentiation
Guarantee of social protection for all household types	-	-	+
The extent to which the presence of children in household types is taken into account	-	-	++
A reasonable ratio of social protection payments to household types	-	0	+
Equal opportunities and equal rights and obligations for men and women as to social benefits and labor force participation	+	+/0	0

a. -: negative effect; 0: no effect; +: positive effect; ++: strong positive effect

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