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van der Hoek, M. Peter

Erasmus University Rotterdam

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# Reforming the Dutch Welfare State: A Scenario Approach

M. PETER VAN DER HOEK\*

*The Dutch social protection system has been under reconstruction since the early 1980s. After describing the structure of the current system and addressing recent developments as to the treatment of families and individuals, this paper presents three scenarios that could develop in future years. In full individualization, benefits and conditions are attuned to individual citizens without considering their care for others and the financial means of others in their household. In a mini-system, statutory benefits are restricted to some minimum level. In further differentiation of the social minimum by household size, benefits are better attuned to the composition and size of household types. These three scenarios are evaluated based on 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 H55)*

## Introduction

From the early 1980s, the Dutch system of social protection<sup>1</sup> has been more or less in a 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 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. The second section briefly explains the structure of the Dutch social protection system. It also addresses recent developments regarding the treatment of families and individuals. The third section lists three different scenarios that could develop in future years. They are based on an analysis of policies that have been pursued, proposals that

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\*Erasmus University — Netherlands. The author would like to thank David Rasmussen for his valuable comments on an earlier version of this paper.

have been put forth, and trends that can be observed. In addition, this section applies four criteria in judging the different scenarios. The three scenarios that are possible in the near future are:

- 1) Full individualization: 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: 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.
- 3) Differentiation of the social minimum income by household size: 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, the fourth section presents an evaluation of the three scenarios based on the four criteria.

### **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 were homemakers. 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 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 has been divided into social insurance, which includes employee social insurance and general social insurance, and social provisions. Social insurance is financed through payroll taxes (or social security contributions), whereas social provisions are financed through general taxes. Employee social insurance is based on the continental (or Bismarck) system. It covers employees rather than the entire population and is based on the insurance (or *quid quo pro*) principle. There is a relationship between the contribution into employee social insurance and the benefit received since social security compensation depends on the formerly earned wage.<sup>4</sup> Therefore, employee social insurance primarily brings about horizontal income redistribution. This refers to redistribution between social groups (for example, employed and unemployed individuals, healthy and sick persons, and so on) 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 are, thus, income dependent. However, in principle, beneficiaries receive equal benefits at the social minimum level. General social insurance, therefore, emphasizes vertical income redistribution, that is, 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 (also, see Footnote 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 employee and general social insurance. A common characteristic with employee social insurance is that it does not cover the entire population but only a certain well-described group. A common characteristic with general social insurance is that beneficiaries receive equal benefits at the minimum level, though contributions into the system are income related.

Employee 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 wage loss caused by unemployment, sickness, and disability. Since wages are payments to individuals, compensation replacing wages is also an individualized payment. Disability compensation for self-employed individuals is also individualized, though less self-evident. 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. However, social provisions, which are also based on the solidarity principle, so far, have hardly been affected by the trend toward individualization.<sup>6</sup> Note, 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 equally couples living together, regardless of 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, employee 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 regarding social assistance benefit levels is the net statutory minimum wage. Minimum social benefits, or the so-called "social minima," are derived from the legal minimum wage. The social minimum for couples equals the net minimum wage. For single-parent families, the social minimum is 70 percent of the minimum wage plus a supplement of not more than 20 percent of the minimum wage if they cannot share living costs with other adults. The social minimum for single persons is 50 percent of the statutory minimum wage plus a supplement of 20 percent of the minimum wage if they cannot share living costs. Qualification for a supplement is determined by the local authorities administering the social assistance scheme. In addition, local authorities have some discretion when granting supplements (of up to 20 percent 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 the norms once chosen in the distant past still hold. Consumption patterns change over time because, for example, new products enter the market and 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 is 100 percent of the statutory minimum wage. For single-parent households, the social minimum is 90 percent of the statutory minimum wage if the maximum supplement is included. For single persons, the social minimum is 70 percent of the legal 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, roughly covering 30 to 45 percent of the cost (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 single-parent families does the presence of one or more children count since, for these households, the social minimum is 90 percent of the legal minimum wage (as opposed to 70 percent for single persons). However, the number of children does not figure into 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 must spend part of their income supporting their children, they are worse off than 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 single-parent households on the social minimum level. Therefore, in the current system, 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, in this respect, the Netherlands considerably differs from other European countries. Table 1 shows 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: 1994**

Country	Single Person	Childless Couple	Couple with Two Children	Single-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
United Kingdom	62	100	178	144

Notes: Ratios are based on a childless couple's income. Calculations are based on Hansen et al. [1995] and Einerhand [1997].

### A Scenario Approach

This paper develops three scenarios<sup>11</sup> for a new social protection system linked to proposals that have already been put forth:

- 1) Full individualization: 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: Statutory benefits are restricted to some minimum level. In the current system, employee 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 to be insufficient coverage can purchase additional insurance in the marketplace, but it is also conceivable that employer organizations and trade unions would negotiate additional private insurance to be included in collective wage agreements.
- 3) Differentiation of the social minimum by household size: 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 single- and two-parent families and does not differentiate between married and unmarried couples nor between mixed- 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 (normative) criteria applied are:

- 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; and
- 4) the extent of equal opportunities and equal rights and obligations for men and women regarding 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 consider 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 others. 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 for men and women within their household types resulting in equal rights and obligations.

### *Full Individualization*

In this paper, individualization of social protection is defined as allocating rights and obligations to 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. This paper assumes 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 can be achieved in two ways. First, provisions that have already been individualized can be expanded by

extending the duration of the benefit or by easing the eligibility requirements. Second, nonindividualized entitlements can be individualized. Possible variants are:

- 1) lengthening the duration of unemployment compensation until retirement age;
- 2) gradual introduction of individualization by birth cohorts setting entitlements at a minimum level regardless of the partner's income;
- 3) abolishing the supplements for partners in certain social protection provisions;<sup>12</sup> and
- 4) abolishing the means test for partners.

Individualization implies certain changes in the social protection system that may make further changes necessary. Employee 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, with or without 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, survivor pensions would be abolished as a result of individualization. Child allowance is meant for households with children (single- and two-parent families). Whether or not the child allowance would continue in an individualized system depends on the allocation of own entitlements to children.

The most profound adjustments are needed in this scenario regarding social provisions. It should be reiterated that social provisions differ from social security arrangements in that the former are financed from general taxes and 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 not be considered. 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, making social assistance more susceptible to fraud. Generally, all supplements for partners would be abolished because, in an individualized system, supplements can only make up to an individual social minimum income.

Thus, consistent individualization would profoundly alter the social protection system. If two individuals living together are entitled to some benefit, then the income ratios for single persons, single-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) is 70 percent of the statutory minimum wage for single persons, 90 percent for single-parent families, and 100 percent for couples. Couples would benefit from full individualization. Together, they would get 140 percent rather than 100 percent of the statutory minimum wage since both partners are entitled to an individualized benefit. Single-parent families, however, would be worse off. They would get 70 percent rather than 90 percent in the current system since they too are entitled to an individualized benefit. For single persons, there would be no change, but their position relative to couples would deteriorate (the ratio of 70:100 would change to 70:140). The loss of income for single-parent families would imply a deterioration of social protection guarantee in this category. Therefore, the paradox of full



individualization is that single persons are not affected, couples are better off, and single-parent families are worse off.

Individualization seems (indirectly) to further the financial independence of women with a partner. If they do not have a paying 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> So, how can this be financed? First, tax rates could be raised. However, this seems politically infeasible since there is a consensus in Dutch politics that the tax burden should be decreased rather than increased. Second, the number of beneficiaries could be decreased by tightening eligibility rules. However, it is hard to understand why raising social benefits for couples should lead to excluding certain categories that are currently eligible for some social benefit. Third, public expenditures could be cut. As a result of the stringent Dutch 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 in other public spending categories (such as national defense, education, and so on). Thus, increased social spending resulting from full individualization would most likely be compensated 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 an income decline for single persons and single-parent families, while the latter category would lose the most [Van der Hoek, 1987, p. 31]. This adds to the paradox of full individualization that couples are made better off, single-parent families are made worse off, and single persons are not affected.

#### *A Mini-System*

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

- 1) In a statutory mini-system, the legislature guarantees benefits on the minimum level fully administered by the public sector.
- 2) In a system fully controlled by legislation, the legislature guarantees conditions that must be met by minimum benefit arrangements established by the private sector.
- 3) In 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 for minimum compensation, the recipient would have to be willing to accept paid work. As 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, in principle, they fit 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 employee social insurance.

Compensation by this insurance would be limited to the social minimum, for example, 70 percent of the minimum wage. Compensation for unemployment, disability, and sickness, which is currently related to the most recently earned wage, would no longer be guaranteed by government insofar as 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 right to determine 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 somewhat correlated. During cyclical downturns, many firms must dismiss workers, resulting in a considerable increase in claims. If government considers that purchasing a complementary unemployment insurance (covering compensation beyond the minimum level) is desirable, then it must be provided by government.

Income ratios on the minimum level would remain unchanged in principle. Using the three Dutch norms implies, again, that only in the case of single-parent families are the presence of children taken into account. Thus, a mini-system would not consider the presence of children any more than the current system. Regarding 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. Consequences of this limitation would be relatively small since the vast majority of social benefits in the current system are already minimum benefits. In 1990, an estimated 86 percent of all social benefits were minimum benefits while, in 1994, this estimate was 87 percent [Ministry of Social Affairs and Employment, 1989, p. 20, 1990, p. 59].

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

**TABLE 2**  
**Minimum Norms as to Household Types**

Household Type	Social Economic Council	Current System*	Differentiation Scenario**
2 adults	100	100	100
2 parents, 1 child	111	106	119
2 parents, 2 children	118	112	129
2 parents, 3 children	124	119	141
1 parent, 1 child	93	96	109
1 parent, 2 children	100	102	119
1 parent, 3 children	106	109	130
Single person, dependent household	59	50	50
Single person, independent household	82	70	70

Notes: Ratios are based on a childless couple's income. \* denotes social minimum (including holiday allowance and child allowance) as a percentage of the social minimum (1,944.82 in Netherlander guildens (NG)) including holiday allowance (104.52 (NG)) for a childless couple as of April 1, 1998. \*\* denotes 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 (1,944.82 (NG)) including holiday allowance (104.52 (NG)) for a childless couple.

The idea of differentiating the social minimum according to household size has been put forth 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 comparison, Table 2 also includes the norms as of April 1, 1998. In addition, Table 2 displays the norms as 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 is 33 percent 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.

This scenario generates income ratios that consider the children factor more so than the current system. This would be done by varying the social minimum according to composition and size of the household. For simplicity and practicality, this does not consider the children's ages while, for the same reasons, the differentiation by size would remain limited to a maximum of three children. This would imply increasing the number

of norms for household types to 9 (from 3 in the current system), as shown in Table 3.<sup>15</sup> Adding child allowance to these norms would result in the income ratios displayed by the last column in Table 2.

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

Household Type	Social Minimum
2 adults	100
2 parents, 1 child	113
2 parents, 2 children	117
2 parents, 3 children	121
1 parent, 1 child	103
1 parent, 2 children	107
1 parent, 3 children	111
Single person, dependent household	50
Single person, independent household	70

In principle, differentiation of the social minimum by household size would not imply any change regarding employee social insurance since this is individualized and unrelated to household type. However, general social insurance does differentiate according to household type. Thus, they would be affected by a larger variation of the minimum income norms that are used. Exceptions would be the newly introduced disability schemes for youth and the self-employed since they offer benefits not related to household type. Child allowances could continue 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.

### **Evaluation**

The current social protection system in those arrangements related to household type uses only three norms and 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 shown in 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 900 million (NG) or 0.5 percent.<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 were observed, this presents a bottleneck since those concerned would have to call on social assistance to supplement their income. In the Netherlands, it is considered undesirable if individuals working full time also needed social assistance. However, if they did, it would seem politically unacceptable to be subjected to the means test. A possible solution to this problem may be a publicly provided wage supplement that is formally no social assistance, thus protecting 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, by determining the social minimum, the needs of households would be better met. The differentiation scenario would perform better than the current system regarding reasonable ratios of social benefits for different household types and social protection for all household types. It would also bring the divergent position of the Netherlands more in line with benefit ratios in other European countries. However, differentiation would not contribute to the furthering of equal opportunities and equal rights and obligations for men and women relative to benefits and labor participation. In this respect, individualization and a mini-system may imply an improvement over the current system. Thus, it seems that there is a trade-off between a more equitable income distribution over households on one hand and equal rights and obligations of individuals on the other.

Table 4 shows these trade-offs. 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.

**TABLE 4**  
**The Scenarios Compared with the Current System**

Criteria	Individualization	Mini-System	Differentiation
Guarantee 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

Notes: - denotes negative effect; 0 denotes no effect; + denotes positive effect; and ++ denotes strong positive effect.

### Footnotes

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. In 1979, the female labor force participation rate in the Netherlands was 33.4 percent [Organization for Economic Cooperation and Development (OECD), 1988, p. 200]. In 1997, this figure nearly doubled to 61.3 percent, compared to the female participation rate of 57.7 percent in the European Union and 54.7 percent 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 comprised 51.3 percent of all households and two-earner households comprised 27.3 percent. In 1995, however, these figures changed to 19.7 and 44.3 percent, 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 is an employee disability insurance, which still exists.

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 through 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 such as 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, washing machines, televisions, telephones, and so on) may now be considered necessary goods for people with a social minimum income.
10. Higher income families spend more on raising their children than minimum income families. If expenditures on children are considered the cost of raising them, then the child allowance covers a lower share of the cost of raising a child by higher income families relative to minimum income families.
11. Other approaches are conceivable, such as microsimulation and general equilibrium models (see, for example, Gelauff and Graafland [1994]). However, these approaches have not been applied since this paper focuses on systemic features and consequences of the three scenarios considered.
12. It is possible that someone receives a sufficient social benefit if the recipient would be single, but it falls short of the relevant social minimum if the recipient has a dependent spouse. Therefore, supplements may be granted to raise the recipient's income to the relevant social minimum, that is, the social minimum applicable to the recipient's household.
13. By individualization, nearly two million dependent partners in the Netherlands will qualify overnight for individual social assistance even though the total population numbers almost 16 million. The consequences on the macro-level depend heavily on future possibilities for labor market participation, possible changes in work effort, the level of individualized benefits, and eligibility requirements. Based on the current norm for single persons (70 percent of the statutory minimum wage if the maximum supplement is included), net social expenditure would increase by an estimated 11 percent, assuming 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 percent if work effort does change [Netherlands Family Council, 1993, pp. 50-3].
14. The Social Economic Council used a couple with two children as the point of departure (100 percent). In this paper, since a childless couple serves as the starting point (100 percent), then the norms suggested by the Council have been converted to this basis.
15. The underlying calculations are available from the author upon request.
16. The underlying calculations are available from the author upon request.

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