

# THE DUTCH WELFARE STATE: RECENT TRENDS AND CHALLENGES IN HISTORICAL PERSPECTIVE

WIM VAN OORSCHOT\*

## **Abstract**

*This article critically describes and discusses a fundamental shift in the contents and character of the Dutch welfare state from a model of collective solidarity towards one of personal responsibility. It starts with a brief historical sketch of the main lines along which the Dutch welfare state has developed, and ends with a view of its future challenges. Comparative statistics are used to sketch the most recent developments in Dutch welfare expenditures, the actual welfare system is characterised, and recent changes are presented and evaluated in more detail. It shows that in The Netherlands, from the 1980s onwards, welfare retrenchment and restructuring are not merely rhetorical concepts. On the contrary, the picture that emerges is that of an incremental, but systematic and steady process of continuous reform.*

## 1. INTRODUCTION

From a European comparative perspective the Dutch welfare state is usually regarded as a 'hybrid' type, in between Esping-Andersen's regime types of corporatism and social-democracy (Arts and Gelissen 2002). Although Esping-Andersen himself classified the Dutch welfare state as 'corporatist', mainly because of the way in which it was built up along corporatist lines (Esping-Andersen 1990), others are of the opinion

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Wim van Oorschot is Professor of Sociology and Head of the Department of Social and Cultural Sciences at Tilburg University. Address: PO Box 90153, 5000 LE Tilburg, The Netherlands; e-mail: w.v.oorschot@uvt.nl. He is also an Honorary Professor in the Centre for Comparative Welfare Studies at Aalborg University, Denmark.

that, institutionally, the Dutch welfare state comes closer to the 'social-democratic' type, because its social security system contains not only Bismarckian-type social insurance for workers, but also universal 'people's insurances' that cover all citizens, and because its insurance and assistance benefits are comprehensive and relatively generous (Goodin and Smitsman 2000). In our view, the hybrid character of the Dutch welfare state has increased even further in the past two decades (see also Clasen and van Oorschot 2002), with the substantial introduction of liberal elements. That is, the character and contents of social support and social protection arrangements have changed, showing a principled shift from a system based on collective solidarity towards one predominantly based on individual responsibility. In the process, the degree of social spending has decreased significantly.

This article critically describes and discusses this shift. It starts with a brief historical sketch of the main lines along which the Dutch welfare state has developed, and it ends with a discussion of its future challenges. Comparative statistics are used to sketch the most recent developments in Dutch welfare expenditures, the welfare system is characterised, and its recent adaptations are presented and evaluated in more detail. It shows that in the Netherlands, from the 1980s onwards, welfare retrenchment and restructuring are not merely rhetorical concepts. On the contrary, the picture that emerges is that of an incremental, but systematic and steady process of continuous reform, in reaction to various challenges brought about by economic, demographic, social and cultural factors.

## 2. THE DEVELOPMENT OF THE DUTCH WELFARE STATE IN HISTORICAL PERSPECTIVE

The start of the modern Dutch welfare state is usually given as 1874, with the implementation of a law forbidding labour by children under 12 years of age ('Kinderwetje van Van Houten'). National surveys at the end of the 19th century had shown the full extent of the dire situation of large parts of the population. The 'social question' concerning large-scale poverty and misery among the working population was much debated in parliament, but it was not until 1901 that the first social insurance scheme, the law on work injury benefits, was introduced. After this first step and up until the Second World War, further national schemes were introduced, covering invalidity, old age and sickness. As was typical for that time, the idea was that government should intervene as little as possible. Instead of tax-based national schemes (such as an old age pension for all), a programme of mandatory, contributory social insurance was introduced. In the pre-war period all schemes were confined to waged workers, based on the principle of the 'just wage', which legitimised insurance contributions as part of the normal wage-cost. The pre-war schemes were organised at the level of individual (large) companies or separate sectors of industry, as a result of

which the welfare system as a whole was patchy and had a limited degree of collectiveness. It also had a limited degree of redistributive solidarity, since the schemes closely followed the logic of private insurance. Generally, benefits were low and in many cases did not reach subsistence level. Large state contributions to the social insurance funds were often necessary to guarantee a certain benefit level, and there were still many claims for poor law support. People not eligible for this support had to rely on churches and charities.

After the Second World War the Dutch welfare system expanded rapidly. Inspired by the inadequacies of the pre-war system, hope for a new and better society and, not least, the Beveridge Report, the Van Rhijn Commission presented its blueprint for a new system in 1945. The legitimising principle for social protection was broadened from the 'just wage' to the idea that 'society, organised in the state, is liable for the social security and protection against want of all its members, on the condition, that citizens themselves do all that can be reasonably expected in order to acquire such security and protection' (Van Rhijn 1945). This principle opened the door for a system that included all citizens, not just waged workers.

In the years after the Van Rhijn Report a number of so called 'people's insurances' was introduced by the state, which covered old age, death (survivors) and disability for all citizens. These schemes were highly collective, that is, designed and controlled by the state, and highly solidaristic, because bad risks were not excluded and contributions were proportional to income instead of to risk. The new principle also gave way to the construction of a national safety net, or social assistance scheme, which replaced the inadequate poor law and created a national vertical solidarity between richer and poorer people. With respect to workers' insurances, the new principle broadened the responsibility of the state, leading to a national unemployment insurance scheme for waged workers, as well as to a collectivisation and 'solidarisation' of schemes covering the risks of work injury, invalidity and sickness. The new schemes and regulations mostly took effect in the 1950s and 1960s. They created large-scale horizontal, as well as vertical, solidarity in the Dutch welfare system, thus connecting different generations, professional groups and social classes.

The process of collectivisation and solidarisation was given a boost in the 1960s when Veldkamp, the Minister of Social Affairs, formulated a new and broader legitimising principle for social protection, holding that 'every citizen has a right to self-realisation and to equality of chances' (TK 1962/1963). It stressed the general, societal character of social risks and the mutual responsibility citizens therefore have for each other's life chances. It regarded the right to social protection as universal and unconditional, and thus lacked the element of reciprocity, which formed the basis of Van Rhijn's legitimising principle. Alongside income benefits, the post-war years saw the introduction of a national health insurance for people on lower incomes, national school and study allowances, housing benefits for tenants and tax credits for homeowners, etc.

However, with the oil price induced economic crisis of the late 1970s and early 1980s, the period of expansion, collectivisation and solidarisation of the Dutch welfare state came to an end. Since then its history can be characterised as one of retrenchment and of adaptation to a series of challenges, the most important of which are high inactivity rates, changes in male and female role patterns, and population ageing, this all in a context of Europeanisation and globalisation. The emphasis in social protection policies shifted from welfare to work. Income benefits were reduced substantially, while labour market insertion measures and work-care reconciliation arrangements were extended. While initially, in the 1980s, policies were mostly aimed at curtailing benefits for citizens and workers, the focus was moved to employers and administrative bodies in the 1990s. Here it is important to note that a new concept of social protection gradually developed, based on a fundamental critique of the model of collective solidarity. After the economic situation had improved from the mid-1980s onwards, it was no longer purely budgetary and economic reasons that legitimised changes in the welfare system, but a wish to change its nature entirely. The main objection to the model was the moral hazard that is connected to it. The national and collective nature of the system is assumed to undermine feelings of responsibility and to promote calculative behaviour among all actors involved, be it citizens, workers, employers, unions or administrative bodies. Since the collective foots the bill, none of the actors has an incentive to limit the system's use. Based on this diagnosis (which is, for example, comprehensively argued in TK 1992/1993), Dutch governments of various political hues (under the Christian-Democratic presidency of Ruud Lubbers in the 1980s, under the Social-Democratic presidency of Wim Kok in the 1990s, and again under the Christian-Democrat presidency of Jan Peter Balkenende in the 2000s) have tried to redirect responsibilities, and now emphasise that personal responsibility is the first priority (for a recent policy document in which this is stressed, see TK 2004/2005). This has resulted in various policy measures, such as introducing risk differentiation, activation, privatisation and decentralisation. While, in the period after the war, Van Rhijn's reciprocity principle was one-sidedly implemented by focusing on the government's duty to take care of its citizens, at present, the flip side of citizens' responsibility is most strongly stressed.

### 3. THE EVOLUTION OF DUTCH WELFARE EXPENDITURE

The shift in character and contents of Dutch welfare arrangements is described in more detail below. Here we present figures, which show that the restructuring measures have had a strong impact on the level of social expenditure. Welfare reform in the Netherlands clearly goes beyond rhetoric.

Table 1 first of all shows that the Dutch level of total social expenditure has decreased significantly in the past 20 years. While in 1980, at the end of the post-war

period of European welfare state growth, Dutch spending of 26.9% was third in the league table after Denmark (29.1%) and Sweden (28.8%), in the year 2001 the Dutch level fell to 21.8%, while Denmark and Sweden stayed at the top, with 29.2% and 28.9% in 2001, respectively. (Danish and Swedish data are from the same source as the figures in Table 1 below). While in 1980 the Dutch spending level was well above the EU15 average, in 2001 it was considerably below this average.

The downward trend in relative spending is clear with spending on old age benefits, notably spending on disability benefits, and spending on family benefits. Spending on unemployment benefit follows a more varied pattern, reflecting ups and downs in unemployment rates. The early 1980s and early 1990s, particularly, witnessed higher unemployment. From the mid 1990s, however, unemployment decreased strongly, and employment grew, especially among Dutch women (see, on this 'Dutch job miracle', Visser and Hemerijck 1997, and van Oorschot 2002b).

The figures indicate more peculiarities of the Dutch welfare state. Initially, that is in 1980, the relative spending on pension and disability benefits was at an equal level. This indicates that the Netherlands had a relatively very high level of disability benefit claimants. Through a series of measures, however, the relative spending on disability benefit has almost been halved, and has come closer to the EU15 average. As we discuss below, this does not mean that the 'battle against disability numbers' (van Oorschot and Boos 2001) has ended. New measures to curtail benefit access have recently been taken. Although spending on family benefits is not a large component of Dutch total social expenditure, table 1 shows that over 20 years it has been more than halved, and reached a level that was half of the EU15 average in 2001. Indicative of a shift towards more activation, Dutch spending on active labour market policies (ALMP) more than doubled in the period at issue. At present it is even well above the EU15 average, and it is higher than Dutch spending on unemployment benefit, a situation that has not occurred in the Dutch welfare state ever before.

Overall, the main picture is that of major expenditure retrenchment in the Netherlands, while the average spending levels in the EU15 countries have increased in the same period. Instead of being in the top region of the European spending league table, the Netherlands is now in the bottom region.

Table 1. Benefit expenditure as % of GDP

	1980	1985	1990	1995	2001
<b>Total expenditure</b>					
NL	26.9	27.3	27.6	25.6	21.8
EU15	20.6	22.9	23.4	25.6	24.0
<b>Old age benefit expenditure</b>					
NL	7.1	7.1	7.8	7.0	6.4
EU15	6.5	7.3	7.9	8.9	8.8
<b>Disability benefit expenditure</b>					
NL	7.1	6.1	6.9	5.3	4.1
EU15	3.1	3.1	3.2	3.1	2.9
<b>Unemployment benefit expenditure</b>					
NL	1.7	3.4	2.5	2.9	1.3
EU15	1.2	1.9	1.5	1.9	1.2
<b>Family benefit expenditure</b>					
NL	2.5	2.2	1.7	1.3	1.1
EU15	2.0	2.0	2.1	2.3	
<b>ALMP expenditure</b>					
NL	0.6	1.0	1.1	1.1	1.5
EU15	0.5	0.8	0.8	1.0	0.9

Source: OECD Social Expenditure Database (SOCX) 1980-2001

## 4. THE PRESENT DUTCH WELFARE SYSTEM

### 4. A GENERAL SKETCH

Despite expenditure retrenchment and reform measures, from a global perspective, the Dutch welfare system can still be characterised, first, by its comprehensiveness. As in other highly developed European welfare states, the government intervenes substantially in many aspects of citizen's wants, needs and well-being. The main policy fields are health, housing, education, work and income. With regard to health, the state has organised an all-embracing system of (semi) public and private health care, with a mandatory, solidaristic health insurance for those on lower and middle incomes, which, as from 2006, also includes those on higher incomes. Dutch housing policy is characterised by the provision of a large stock of 'social housing', and by

housing allowances for tenants, with tax deductibility of mortgage rent for homeowners. The education system is characterised by free or almost free education at primary and secondary level, and a system of mixed flat rate and means-tested study-allowances for students in higher education. All of these areas have been under reconstruction in recent decades. From a social welfare perspective there have been important changes regarding, for example, the inclusion of those on higher incomes in the national mandatory health insurance scheme, the limitation of housing benefit, and the linking of study allowances to student performance. We will not elaborate on these issues here, due to space restrictions. We concentrate instead on the areas of work and income, which are generally seen as the core elements of the welfare system.

A high degree of corporatism is a second main characteristic of the Dutch welfare system (Hemerijck 1992). That is, in all major socio-economic policy areas the government consults social partners, who meet in the Foundation of Labour (*Stichting van de Arbeid*) and in the Socio-economic Council (*Sociaal Economische Raad*). Such consultation is highly institutionalised and prescribed in the standard process of social policy making. Where in other countries, such as Germany, corporatist policymaking seems to inhibit drastic changes, in the Netherlands agreements between the government and social partners (although not always easily reached) have guaranteed a rather flexible adaptation of the Dutch welfare system. An example is the Agreement of Wassenaar of 1982, where the social partners and the government agreed on wage-moderation and stimulation of part-time work in order to fight unemployment and increase overall employment. The agreement allegedly contributed significantly to the so-called Dutch job miracle of the 1990s (see Visser and Hemerijck 1997). Another aspect of Dutch corporatism is that some areas of social welfare are mostly left to collective labour agreement between the social partners in sectors of industry, such as issues of flexible and part-time work, leave schemes for worker-carers, top-ups of disability benefit levels, early exit arrangements, etc. (for details, see van Oorschot 2002a). Typical in this respect is that over 80% of Dutch workers take part in mandatory, capital-funded, occupational pension schemes, which pay out earnings-related pensions. Social partners used to be heavily involved in welfare administration, especially regarding workers' insurance schemes and employment services. This, however, was abolished in recent years, as one part of the government's actions to create an incentive structure less vulnerable to moral hazard.

Fiscal welfare plays a relatively small role in the Dutch system of social welfare. There are tax provisions for working people, especially for those who have children, and there are tax provisions for pensioners. The government also facilitated early retirement schemes by rendering tax deductibility to premiums, but with a view to increasing the labour market participation of older workers, this has been abolished. Institutions of welfare society, such as charities, churches and claimants' movements, also play a very marginal role in the Dutch system.

## 4.2. A BRIEF DESCRIPTION OF INCOME AND WORK ARRANGEMENTS

In our description of welfare arrangements we focus on those areas which have been central to the welfare adaptation process of the past two decades. These are social security benefits, labour market policies and work-care reconciliation. To fully understand the present situation one must refer to the immediate past, because many arrangements have been changed substantially.

### 4.2.1. *Social security benefits*

Basically the Dutch public social security system contains three types of scheme. Firstly, there are the universal, so-called *people's insurances*, covering old age (AOW), survivors' pensions (Anw) and child benefit (AKW). These national insurances are compulsory, contributory schemes covering all citizens. Waged workers and self-employed people pay contributions, which are set percentages of income and function as earmarked taxes. Child benefits are flat rate, old-age pensions are flat rate with a small means-tested component, while survivors' pensions are fully means-tested. The Dutch people's insurances are administered by the Social Insurance Bank (*Sociale Verzekeringsbank SVB*), which is a semi-public administrative body with an independent board of experts and controlled by the Ministry of Social Affairs. Secondly, there are the so-called *workers' insurances*, covering unemployment (WW), and long-term disablement (WAO). Short-term disablement or sickness insurance was part of the workers' insurances, but was privatised in 1997 (see below). The workers' insurance schemes are compulsory, contributory and cover all those working under a labour contract. Contributions are paid as a percentage of wages, while benefits are partly wage-related and partly flat rate depending on claimants' age and work record. Workers' insurances are administered by the Administrative Institute for Workers' Insurances (*Uitvoeringsinstituut Werknemersverzekeringen UWV*), which is an independent body supervised by the Ministry of Social Affairs and Employment. Third, there is the safety net of *social assistance* (WWB), which is available for all citizens who have little or no income from work or other benefits. Social assistance is non-contributory and paid from general taxation. It is means-tested, with tests on assets and incomes of claimants and their partners. Benefits are paid at subsistence level, which equals the level of the minimum wage. Dutch municipalities administer social assistance.

As a rule, Dutch flat rate income benefits (such as the national pension AOW) pay 100% of the minimum wage level to couples (married or unmarried), 70% to single people, and 90% to single parents with children below 18 years of age. Means-tested benefits (like social assistance) top up people's incomes to these same levels. The

earnings related part of workers' insurance benefits (like unemployment and disability insurance) pay 70% of previous gross wages, with a (relatively high) ceiling.

### *People's insurances*

In the process of adaptation the initially universal people's insurances have become more selective, as well as more complex. Implementing equal rights for men and women, induced by the third EU Directive on Equal Treatment, under conditions of a fiscal crisis, has meant the introduction of means tests in the old age and survivors' pension schemes. Child benefit is still not means-tested, but now offers less protection especially for larger families.

### *Survivors' pension (Anw)*

The reconstruction of the survivors' pension insurance was implemented in 1996. The former scheme, dating back to the 1950s and based on a male-breadwinner model, only covered widowhood (not widowers) and married couples. Under the new Anw, males and unmarried couples are entitled to receive benefits, but the population covered by the scheme was otherwise drastically limited. Most importantly only those persons born before 1950 or those who have children under 18, or are disabled are now entitled. Younger survivors are supposed to work and have an income. Furthermore, an income test was introduced, both for cutting back on expenditure as well as to account for the fact that widowhood no longer automatically implies need. With its means test and sharp restrictions on the entitled population, the Anw deviates strongly from the traditional Dutch idea of a people's insurance, which was typified by universality and the absence of means testing.

### *Old age (AOW)*

The male breadwinner-based old age pension scheme AOW of 1957 was adapted in the 1980s. Firstly, it was 'individualised', meaning that partners now each had a right to 50% of the full benefit (instead of 100% for the male partner), married and unmarried couples are now treated equally, and a means test was introduced for cases in which one partner is younger than 65. In such cases the older partner receives 70% of the full benefit, while an additional top-up of 30% depends on the younger partner's labour income. In the context of population ageing the AOW scheme is still the object of debate. There are various proposals for its further adaptation, among which increasing taxes paid by pensioners with additional income seems to have the highest change of being implemented in the near future. With the exception of Ireland and the UK, compared to other European countries, the pension time bomb is a less serious problem for the Dutch national pension, because of the substantial coverage and relatively generous benefits of second pillar occupational, capital funded pensions schemes (Taverne 1995). The Netherlands is second after the USA on the list of

countries with a large proportion of private spending on pensions (Adema and Ladaïque 2005).

#### *Child benefit (AKW)*

The child benefit scheme AKW of 1963 has been repeatedly adjusted in various ways. The overall trend has been a reduction of the population of children for which benefits are paid and a reduction of benefit levels, both aimed at a decrease in benefit expenditure. For instance, in 1986 child benefit for children between 18 and 27 years of age was abolished, and benefits for younger (less costly) children have been reduced. As a result, the social protection, particularly of larger and single parent families, has diminished quite substantially. Such families on low incomes are strongly over-represented in Dutch poverty figures (SCP 2005).

#### *Workers' insurances*

In 1985, soon after the economic crisis of the 1980s had reached its peak, the benefit levels of all workers' insurance schemes (unemployment, disability, sickness) were reduced from 80% of previous earnings to 70%. From then on further measures were taken.

#### *Unemployment insurance (WW)*

In 1987 the unemployment insurance scheme WW of 1949 was replaced by a new scheme, which introduced more stringent work record requirements as a criterion for assessing entitlement to, and duration of, WW benefit. Under the new WW, entitlement required that one had worked at least 26 weeks in the previous 52 weeks, and the wage-related benefit lasted only six months on principle. This six month period of the wage-related benefit could be extended as a function of work history, i.e. if people had worked for at least three years in the last five years. After termination of the wage-related benefit unemployed people became entitled to a 'follow-up benefit', which was a non means-tested flat rate benefit of 70% of the minimum wage level, for one year. Once this had expired, people had to claim means-tested social assistance. Eventually then, all long-term unemployed people end up on social assistance. In 1995, when unemployment figures had increased again, work history criteria were made stricter. For the short-term benefit one has to have worked 26 out of 39 weeks, and for an extended wage-related benefit one now also has to have worked 4 out of 5 years. The extended period depends on age and lasts 5 years at most. In 2003 the follow-up benefit was abolished.

Because of the revisions, adequate income protection in case of unemployment became more strictly limited to workers with more regular and longer lasting labour market ties. Other groups experience more difficulty in qualifying for wage-related benefits, especially young people, people with flexible labour contracts and people with repeated unemployment spells. They will have to rely on social assistance, instead.

*Disability insurance (WAO/AAW)*

In the recession years of the 1980s the Dutch disability insurance scheme of 1967 (WAO for employees, AAW for self-employed) proved to be too easily accessible and too generous (compared e.g. to unemployment insurance benefit). Employers and employees used it as an attractive route to fire (older) workers, to allow them to exit the labour market on good conditions. From the 1980s onwards various governments have tried to control and limit the inflow into the scheme (for details, see Van Oorschot and Boos 2001). As a first attempt, aimed at making the benefit less accessible and attractive for employees, replacement rates were lowered from 80% to 70%, partially disabled workers were no longer granted full benefits to compensate for their reduced labour market chances, and stricter assessment rules were implemented. The latter was accompanied by a re-assessment of all claimants under 50 years of age, with the result that about a quarter of them lost their disability benefit. Such a re-assessment of younger claimants was repeated in 1993 and in 2004, with comparable results. The duration and level of benefit was made dependent upon age, reducing attractiveness further. In a second stage, in the 1990s, a number of incentives were introduced, aimed at employers. They could get a bonus when employing disabled workers, and a fine when they fired them, and insurance premiums were partly linked to the number of disabled workers companies generated. These measures had no substantial effect on the inflow into the disability scheme, because the increased labour participation of Dutch women and the ageing of the work force compensated for them. However, with the so-called 'Gatekeeper Act' (*Wet Verbetering Poortwachter*) of 2002 disability figures started to decline substantially. The essence of this act is that workers with health problems can only enter the disability scheme if, during the period of sick pay they and their employers show evidence of having tried to prevent such access as much as possible. The decline in claimant inflow is not a reason for the present government to leave the scheme as it is. As from 2006 the WAO-scheme will be replaced by WIA, a scheme that emphasises work capacities instead of incapacities of workers with health problems. Its most important features are that workers with less than 35% incapacity will not be entitled to disability benefit, while only those with incapacity of 80% or over will be entitled to a wage-related disability benefit. Those in between will have the primary duty, together with their employer, of finding and accepting an adapted job in or outside the company. If they succeed, the WIA scheme pays 70% of the difference between the old and the, often lower, new wage. If they do not succeed, the worker may receive a partial disability benefit, on the condition, however, that both parties show that they have done their best to find suitable work. In the process of adaptation the AAW, the national disability insurance for self-employed people, has been abolished, leaving the self-employed to insure their risk privately.

*Sickness insurance (ZW)*

With regard to short-term disability benefits, or sickness pay, the adaptation measures taken have been drastic. In a series of steps, the public sickness insurance scheme (*Ziektewet, ZW*), offering 70% of wages, has been almost fully privatised. The ZW still exists for small categories of workers, including pregnant women, (partially) disabled workers, people on temporary contracts and apprentices. For the majority of over 85% of Dutch workers, however, it has been replaced by the employer's duty to continue to pay wages during sickness leave. Employers now either pay wages for sick employees directly, or, as most of them have done, reinsure the risk with private insurance companies. Reducing sickness absenteeism is now in the employer's interest. The duration of this privatised sick pay was one year, but has been extended to two years, in order to restrict access to long-term disability benefit (*WAO*). In the first year employers may top up the statutory benefit level of 70% to 100% of the wage, but this is not allowed in the second year in order to make sick pay less attractive.

*Social assistance (ABW)*

The social assistance scheme ABW, which took effect in 1965 introduced state-financed minimum income protection in the Dutch social security system. Because it functions as a last safety net ABW is means-tested. In 1996, the benefit was adapted. Firstly, the system of benefit rates was simplified into only three rates: 50% of the level of the minimum wage for single people, 70% for single parents and 100% for couples. Single people and single parents can apply for a 20% supplement in which case they have to prove that the basic rate is too low for their specific circumstances. People younger than 21 can only claim in exceptional cases. Secondly, to be able to fine tune benefits to local and personal circumstances, the administering municipalities have to design and implement an assistance supplements policy, comprising the rules under which beneficiaries can claim supplements to their basic benefit, subsidies for training and education, costs related to part-time work, special needs costs etc. Thirdly, beneficiaries have to be 'activated' to participate in the labour market. This policy has been implemented in different ways: the standard of 'suitable work' has been broadened, implying that claimants are expected to accept jobs below their educational level and former job level; for each claimant with a reasonable chance in the labour market the administration has to design and implement an individual plan for (re)insertion. This activation trend in the assistance scheme culminated in the new Act on Work and Assistance (*WWB*), which replaced ABW in 2004. Now municipalities carry the full cost of the benefits, giving them a strong incentive to 'activate' claimants effectively, and exceptions to job seeking obligations are no longer made for client groups such as single parents and older unemployed people. In short, the revision of social assistance has led to a higher municipal responsibility and discretion, as well as to a higher emphasis on getting people (back) into jobs.

#### 4.2.2. *Labour market policies*

With the steep increase in unemployment at the beginning of the 1980s a period began in which labour market policies became part of the central focus points of the Dutch welfare state. As in many other European countries a shift 'from welfare to work' set in. Initially, the high levels of unemployment and the need to cut back on benefit expenditure drove stimulation of the (re-)employment of various groups of job seekers. At present, with lower unemployment levels, active labour market measures are still needed with a view to population ageing, which in the near future will require an adequately productive labour force, as well as with a view to the labour market integration of young unemployed people, older workers and ethnic minorities.

The types and numbers of measures Dutch governments have taken in the course of the last two decades are so numerous that it is not possible here to discuss them in detail (for more on this, see van Oorschoot 2002b). The main lines, however, can be sketched with a distinction being made between macro-oriented and micro-oriented policies. Macro level participation policies aim to create favourable wider economic, social and institutional conditions for labour participation, while micro policies try to influence the qualifications, behaviour and choices of individual actors, be it employers or employees. Among the macro-level policies two stand out for their longer-term impact on the Dutch labour market and labour costs: wage moderation and part-time work policies. At the beginning of the 1980s curtailing wage costs was regarded as the prime effective instrument for stimulating employment. In addition to benefit cutbacks, which resulted in lower contributions and thus in lower wage costs, the main emphasis was on wage moderation. Under the government's threat of a national 'wage stop', the social partners agreed in 1982 on a moderation of wage increases, which would recover the profitability of industries with, in return, a reduction in working hours, for the unions. This so-called Wassenaar Agreement had no immediate effect on unemployment, but it gave the Dutch economy and labour market a head start from the moment the global economy started to improve in the mid-1980s. In 1992 and 1993 again wage moderation agreements were made between the government and social partners. In the eyes of successive Dutch governments, part-time work contributes to several policy goals at once: improving the labour market participation of women, thus contributing to their emancipation and economic self-sufficiency; keeping older employees at work; contributing to a more equal division of paid and unpaid work; and reducing unemployment. Therefore, several governments have actively stimulated the growth of part-time work since the end of the 1970s. With some success, because at present the Dutch labour market shows the highest part-time work rates in Europe, among male workers (about 15%) as well as among female workers (about 60%) (OECD 2004). In the early 1980s, the government paid subsidies to employers and employees for innovatory examples of part-time work. In the 1982 Agreement of Wassenaar the social partners also agreed to

stimulate the redistribution of work, among other things by means of part-time work. In the mid-1980s, the government subsidised employers' initiatives for introducing both part-time work and working-time reduction in their firms on a larger scale. In the same period, working hours and wage level thresholds were removed from social insurance schemes. In 1993, all part-time workers gained a right to the (proportional) legal minimum wage and holiday pay, and since 1994 occupational pension funds were no longer able to exclude part-time workers. In 1996, the equal treatment of part-time and full-time workers was codified in the civil code and in labour law, implying that from then on part-timers have equal rights in collective labour agreements concerning, for example, wage levels, wage supplements, reimbursement of expenses, bonuses, occupational social security and pension schemes and training facilities.

Wage moderation and part-time work, however, were not sufficient to create employment for all jobseekers. In the 1980s and 1990s there were still large segments of younger and older unemployed people, (partially) disabled workers, unemployed people from ethnic minorities and job seeking housewives. To stimulate the employment of such various groups a plethora of micro-level labour market policies have been applied. Some measures aimed at improving the 'attractiveness' of unemployed workers for employers, e.g. by improving their skills and qualifications, or by subsidising wage costs directly, or indirectly through the tax system. Other measures aimed at stimulating unemployed people to search for and accept jobs, e.g. through personal 're-orientation' interviews, a system of bonuses and penalties, lower benefit levels, and extra tax concessions for those in work. And a third type of measure was to create additional labour for specific categories, such as the long-term unemployed (e.g. through 'job-pools') and young unemployed people (e.g. through the Youth Work Guarantee Scheme, JWG). With these measures the activation of beneficiaries and social security entitlements became more closely interlinked, and in the mid-1990s work came to be seen as a better means of social protection than benefits. This 'welfare to work' perspective is very much a characteristic of the present Dutch welfare state.

The effectiveness of the micro-oriented policies is subject to debate. Various evaluation studies are quite critical where they point to 'creaming off' practices by work re-insertion institutions; to the fact that few people on subsidised additional jobs flow into regular paid work; to the substitution effects of subsidised work; and to the fact that the measures do not succeed in creating equal labour market chances for traditionally vulnerable groups like younger and older unemployed people, people from ethnic minorities and single parents (SCP 1992; NEI 1999; SCP 2000). In the case of (partially) disabled workers, the conclusion that measures taken are ineffective and even counter-productive can be drawn without much reserve. The privatisation of sickness benefits and premium differentiation in the disability insurance scheme have created a considerable tension between the intended activation impact of these measures and their actual effects, as the incentives for employers are set so that they

profit from having a workforce with a minimal disability and sickness risk (CTSV 1996, Van der Giezen and Jehoel-Gijsbers 1999, and Schoenmakers and Merens 2000).

#### 4.2.3. *Work and care reconciliation*

With the increasing labour market participation of Dutch women in the 1990s the Dutch welfare state has expanded in the area of facilitating citizens to combine work and care tasks. In 1994 the government adopted a 'combination' scenario as its aim for future policies. This scenario describes a situation in which each of two partners works for 30 to 35 hours a week (thereby gaining economic self-sufficiency and independence) and carry out caring tasks for 20 to 25 hours a week. The government aims to achieve this situation by 2010. At present, it is doubtful whether the scenario will materialise. Most working women still have smaller part-time jobs, especially those with children, and there is no substantive trend among men to switch to more care work (Keuzenkamp *et al.* 2000, and SCP 2004).

Nevertheless, the government has supported the development of childcare facilities, and it recently introduced a broader framework Act on Work and Care which combines several existing and new measures.

#### *Childcare*

The Dutch government encouraged the development of public childcare facilities in the early 1990s by providing subsidies to municipalities, which are responsible for creating public childcare places. In 1995 the government also introduced a tax concession for parents and employers who make use of or create childcare places, and recently the government allocated further subsidies to Dutch municipalities in order to increase the number of available day-care places. In 1999 the government expanded a scheme subsidising childcare for single parents who are looking for a job, have started working or are following training to improve their labour market position. These stimulation measures have increased the number of day-care places considerably. Availability of after-school care for older children, however, is still very limited with less than 1% of children using this kind of care. All in all, The Netherlands has been relatively late in introducing and promoting public childcare facilities (Den Dulk *et al.* 1999).

#### *Work and Care Act (WAZO)*

The 2001 Work and Care Act (WAZO) is the centrepiece of the government's aims concerning the combination scenario (TK 1999/2000). It combines existing and newly introduced measures. In the preamble to the proposal, the government clearly states that the reconciliation of work and care is a shared responsibility of government, social partners and individuals, which emphasises that most of the measures do not aim to enforce, but to facilitate, matters. As a consequence, much room is left for employers

and employees, and collective labour agreements now are important instruments for the extension of standard national arrangements.

The existing measures that are incorporated into the new law were mostly introduced in the 1990s and include a part-time leave arrangement for parents of young children, a limited career break scheme, and a measure which gives employees the legal right to adapt their working hours, upwards or downwards. Evaluation studies have shown that the take-up of the parental leave scheme is low, especially among men, as well as among women who work in sectors where collective labour agreements do not provide them with (partial) wage payment during the leave (Grootscholte *et al.* 2000).

The Work and Care Act also added new measures, such as the legal formalisation of maternity and emergency leave (both of which were granted in practice by collective labour agreements), a short-term care leave and a leave savings plan. Recently, government introduced a personal leave savings scheme (*Levenslooplegeling*), which allows workers to save, tax-free, up to 12% of their annual wage per year. The savings can be used to finance care leave, educational leave and/or early retirement.

### 4.3. AN ANALYTICAL EVALUATION

The main consequence of the revisions of the Dutch welfare state has been that traditional relations of solidarity were dismantled. Ties of solidarity between good and bad risks, typical for its Bismarckian type of workers' insurances, as well as between higher and lower incomes, typical for its universal people's insurance, have become weaker and less numerous. The system has not only lost part of its solidaristic character, it has also become less collective. Limiting covered populations, benefit levels and duration of benefits, as well as privatisation of schemes and labour market (re)insertion, resulted in a higher degree of individual responsibility for all actors involved. This is the case for employers (who have new responsibilities with regard to sickness pay and the prevention of disability), workers (who are less protected by insurance schemes) and citizens in general (for whom entitlements to child benefits, survivor pensions and disability benefits were reduced substantially). All in all, a shift has taken place towards a more liberal welfare policy, a shift from inclusive solidarity towards exclusive selectivity, from collective responsibility towards individual responsibility. Initially, this was the unintended outcome of measures taken under the constraints of fiscal austerity, but it gradually turned into the explicit aim of Christian-democratic and social-democratic dominated coalition governments alike.

With the shift the overall level of citizens' social protection has declined. This loss, however, does not affect everybody to the same degree. Part of the decrease in protection offered by the collective system has been 'repaired' for workers in newly bargained collective labour contracts. For instance, in many companies and industrial sectors social partners agreed to undo the consequences of limiting the duration of the

wage-related disability benefit for various age cohorts. Many other losses in protection, however, are repaired through collective bargaining for only small parts of the working population, or are repaired only partly or not at all. In most cases higher paid workers, with permanent jobs and long work histories profit most from the repairs. The loss of collective social protection is also compensated at the household level, as a result of the increased labour market participation of Dutch women, and the accompanying increase in double income households: more often the misfortunes of one partner can be compensated by the other partner's means.

Clearly, however, those who have lost most of their social protection are those people with weaker or no ties to the market for paid labour. These include workers on flexible contracts, young workers, workers with repeated unemployment spells, older workers, and beneficiaries who have little chance of returning to the labour market, such as pensioners, disabled workers, long term unemployed people and single parents. Tragically, the measures taken in the field of short-term and long-term disability have made employers more careful in hiring workers with health problems. For such job seekers labour market access has become more difficult. Due to the retrenchment measures income inequalities have increased in the Netherlands over the last twenty years, and most recently the proportion of poor households has risen, as well as the proportion of the working poor (SCP 2005).

However, a proper evaluation of developments in the Dutch welfare state cannot be done without mentioning that in the field of work-care combination provisions have expanded. Mostly, policies followed demand that increased with the growth in labour participation of Dutch women. Yet, most women are still working part-time. Some see this as proof of what many feel to be the case, which is that there is still a lack of sufficient day care facilities and adequate parental leave schemes. In the area of leave schemes for workers much is still left to collective labour agreement between social partners.

## 5. SOME COMMENTS ON THE FUTURE OF THE DUTCH WELFARE STATE

As with other European countries (Sainsbury 2001), the Dutch welfare state is confronted with major future challenges. In the Netherlands three issues tend to dominate the debate in this respect: globalisation, ageing and migrants.

Due to economic globalisation it is believed that the Dutch welfare state has to be levelled down further. That is, increased international competition forces lower labour costs, for which reducing entitlements to, and thus contributions to, insurance schemes seems to be a good remedy. Such a further dismantling of collectively organised social protection fits in very easily with the dominant idea that modern citizens can and want to take care of their own. There are more double income

households, people have become wealthier, and they have more savings in e.g. occupational pension schemes. However, it is recognised that this does not apply to all groups in society. There is a consensus that protection at the level of a decent social minimum should stay available for all those who are in real need. Thus far, the ultimate consequence of this focus on individual responsibility while keeping the safety net protection – which would mean reconstructing the Dutch welfare state along strictly liberal lines, and turn it definitely into a residual, mostly means-tested welfare state – has not been propagated by many. On the contrary, social democrats in particular increasingly warn against the negative effects such dismantling would have on the social cohesion of overall society. For them, a viable and just welfare state needs the broad middle-class as a major stakeholder.

The ageing of the population is a major concern, which has already led to limiting access to and the generosity of early retirement schemes and their functional alternatives (OECD 2005). Basically, pay-as-you-go pre-pension schemes have been replaced by variants in which pre-pension is paid from people's savings in occupational old age pension schemes. In this way, early retirement is still possible, but at personal cost. In addition, ageing is seen as giving extra impetus to the need for the activation of unemployed people, partially disabled people and older workers, as well as the need for a further increase in the full-time labour participation of Dutch women. All those who can work, should do so, is the leading idea, in order to enlarge the productivity base from which future pensions and care costs have to be paid. There is a pending discussion about increasing taxes paid by pensioners, and about increasing the standard pension age beyond 65. Both topics, however, are problematic when seen from an electoral perspective. When the social-democratic party leader, Wouter Bos, recently stated that an increase of tax levied on pensioners was among the points he was going to argue for in the running up to next year's elections, the party's popularity went down strongly in the opinion polls.

As for migrants, the general idea at present is that Dutch society has been too lax in recognising and dealing with the problems of integrating larger numbers of migrants into society and the labour market. A tougher approach is adopted, generally, which in a welfare state context gives rise to a debate on how the Dutch welfare state can be made 'migration proof' (Entzinger and Van der Meer 2004). This means a welfare state that offers adequate services and benefits to its mainstream citizens, but which, at the same time, is less attractive for new migrants. New types of welfare policies for this still have to be developed, most probably in combination with a stronger focus on selecting higher educated migrants, but it can be expected that in the near future 'newcomers' in dutch society will have to wait longer before getting access to full social citizenship.

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