

# **The reconstruction of the Dutch social security system 1980 - 2000: retrenchment and modernization**

Wim van Oorschot<sup>1</sup>

## **1. Introduction**

Since the introduction of the first law on work injury benefits in 1901, a social security system has taken shape in The Netherlands, which can be ranked among the most highly developed systems in the world. Even in a Western European context, it is known as all embracing, generous and solid. However, initially in reaction to the economic crisis of the late 1970s and early 1980s, it has been under reconstruction for more than a decade. In this latter the Netherlands does not differ from many other European countries. There are similarities in developments throughout Europe that are seen by Ferge (1997) as indicating the rise of a new welfare paradigm, which she briefly describes as “the individualization of the social”. With the globalization of the economy as its broader context and the “cult of individual responsibility” as its core, this paradigm entails some fundamental transformations of social policy, among which: limiting access to universal protection schemes, social insurance becoming less solidaristic and getting replaced by market-led private insurance, social assistance being targeted more strictly to the truly needy.

In this chapter we will present a description and analysis of the Dutch variant of this common trend. We will start with some notes on the system’s history, outline its main underlying principles, and describe its basic structure. This will be needed as a reference point for our discussion and evaluation of the measures that have been introduced during the period of reconstruction. One of the main conclusions will be that the Dutch social security system has undergone a shift from solidarity towards selectivity.

---

<sup>1</sup> Wim van Oorschot, Tilburg University, Dept. of Social Security Studies

## **2. A history of collective solidarity**

The beginning of the Dutch social security system lies at the end of the nineteenth century. As the social consequences of the industrial revolution became more apparent, the fear arose that they could disrupt society. Together with the increasing claims for poor law support, this gave rise to the conviction that measures protecting people against social risks were necessary. However, as was typical for that time, the idea was that government should intervene as little as possible. Instead of tax-based national schemes (like an old age pension for all), a programme of contributive social insurance schemes was introduced. The government's role was not to organize such schemes, but to stimulate their development and viability by making contributions compulsory. In this way, during the period between 1901 and the Second World War, a number of schemes was introduced covering the social risks of work injuries, invalidity (including old age) and sickness. All these schemes were confined to waged workers. The principle for social security, by then broadly accepted, was the concept of the 'just wage'. This held that wages should also cover situations in which a worker would not be able to work because of factors beyond his or her control. In other words, labour cost increasing contributions for social insurances were seen as a legitimate part of the wage-cost. Compulsory social protection for the self-employed was absent, because of cost and the absence of a sufficiently accepted legitimizing principle.

The pre Second World War schemes were organized at the level of individual (large) companies or separate sectors of industry, not at the national level. The social security system as a whole was patchy and had a limited degree of collectiveness. It also had a limited degree of redistributive solidarity. That is, since the schemes closely followed the logic of private insurance particularly bad risks were excluded and contributions were strongly risk related, resulting in little support of the bad risks by the good risks and of the lesser paid workers by the higher paid workers. 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. Cases not eligible for this support had to rely on churches and charities.

After the Second World War the Dutch social security system expanded rapidly. Inspired by the inadequacies of the pre-war system, hope for a new and better society and, not least, Beveridge's reports the Van Rhijn Commission presented its blueprint for a new system in 1945. Significantly, the legitimizing principle for social security was broadened from the 'just wage' to the idea that 'society, organized 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;4). 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, in the sense that they were designed and controlled by the state, and highly ‘solidary’: bad risks were not excluded and contributions were proportional to income instead of to risk. In specific cases people could claim benefits even if they had never paid a contribution. The new principle also gave way to the construction of a national safety net, or social assistance scheme, which replaced the inadequate poor law. Social assistance became strongly centralized after the first years of its existence revealed that a high degree of local discretion led to unacceptable inequalities in the rights of citizens. With respect to workers’ insurances, it is important to note that the new principle broadened the responsibility of the state. This led 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. As for the first, funds were merged into national funds and schemes were harmonized and ultimately replaced by uniform, national schemes. As for the second, entitlement conditions were broadened resulting in broader, encompassing populations of insured workers; bad risks were not excluded anymore and contributions were levied as a percentage of the wage and no longer related to differences in risk. The new schemes and regulations mostly took effect in the 1950s and 1960s, and created large-scale horizontal, as well as vertical solidarity in the Dutch system of social security. The first means that good risks also paid for the bad risks, the second that higher incomes also paid for lower incomes. In this way different generations, professional groups and social classes and categories were ‘connected’ to each other.

The process of collectivisation and ‘solidarisation’ got a strong impulse in the 1960s when the christian-democrat Veldkamp became Minister for Social Affairs. Possibly encouraged by the economic prosperity of those years, he formulated a new broader legitimizing principle for social security, holding that ‘every citizen has a right to self-realization and to equality of chances’ (TK 1962/63). This principle had its strongest effect on the new disability schemes that were under construction precisely during that period. 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 security as universal and unconditional, and thus lacked the element of reciprocity which formed the basis of Van Rhijn’s legitimizing principle.

With the final implementation of the revised disability insurance for all citizens in 1976, the period of expansion, collectivisation and ‘solidarisation’ of the Dutch system came to an end. Veldkamp’s principle already started to lose its appeal after the effects of the first oil crisis were felt. The economic optimism of the 1960s was replaced by caution, followed by pessimism and ultimately by a deep crisis by the end of the 1970s and early 1980s. How government responded to the problems since then will be discussed in the next section. First we summarize the basic features of the Dutch social security system as it resulted from the

period described. This will help us in structuring and interpreting the changes that took place since then.

Basically Dutch social security of the late 1970s contained three schemes. (Whose main structure is still present today, despite all the revisions of the last decade).

First, there are the so called *people's insurances*, covering the demographic risks of old age (AOW), survivors (AWW) and child benefit (AKW), as well as long-term disablement (AAW). These national insurances are all compulsory, contributive, non means-tested schemes to which all citizens are entitled. Waged workers and the self-employed pay contributions that are proportional to income, while benefits are flat rate at subsistence level (which is in effect the level of the statutory minimum wage).

Second, there are the so-called *workers' insurances*, covering unemployment (WW), long-term disablement (WAO) and sickness (ZW). These schemes are also compulsory, contributive and non means-tested, but are confined to all employees (with the exception of civil servants, for whom there are separate schemes). Contributions are paid as a percentage of wages, while benefits are wage-related.

Third, there is the safety net of *social assistance* for all citizens. Social assistance is non-contributive and paid from general taxes. It is means-tested, with tests on assets and incomes of claimants and their partners. Benefits are up to subsistence level.

It is important to note that the level of all non wage-related benefits is linked to the level of the statutory minimum wage, which in turn is adjusted yearly for developments in wages and prices. This ensures that beneficiaries share in growing overall prosperity and are protected against the effects of monetary inflation.

### **3. Reconstruction**

#### ***Reasons and arguments***

The post-war collective and solidaristic system had its heyday between the late 1960s and the early 1980s. Since then it has been under permanent reconstruction. The reasons and arguments for this differ for various types of schemes and their general character has changed in due course. Here we will sketch the main lines.

Of first and crucial importance has been the steady rise in the number of claims for the workers' insurances and for social assistance in the course of the 1970s, followed by an alarming steep increase of unemployment and assistance dependency from 1978 to 1982. As Table 1 shows, the number of people claiming unemployment benefits doubled from 1970 to 1978, and doubled again between 1978 and 1982, while the number of social assistance beneficiaries increased in those first eight years by 100,000, and by more than 250,000 in the next four years. The number of disability claims had a steadier, but by no means less

meaningful, growth. Due to the broad definition of disability, based on Veldkamp's universal principle, the scheme had low access thresholds and attracted many older workers who otherwise, with more stringent entitlement criteria, would have been laid off and become unemployed. In other words, the number of beneficiaries of the disability scheme contains a large 'hidden' unemployment. The number rose steadily from 215,000 in 1970 to 707,000 in 1982.

So, the lesson from the economic crisis was clear: the system could be overloaded and eventually collapse. The initial reaction was to try to keep social expenditures under control by lowering the duration and level of benefits. This reaction was known as 'price' policy, because it was mainly directed at keeping the system affordable. However by 1990, the number of workers' insurance beneficiaries had increased by over 300,000 since 1982 which more than offset the decline in the number of social assistance beneficiaries during this period. Subsequently, the emphasis was put on 'volume' policies which were aimed at reducing the accessibility of schemes and gaining control over the inflow of beneficiaries.

The reconstruction of the people's insurances was not only the result of economic developments. It also reflected changes in Dutch society and culture. Revisions aimed to 'modernize' the schemes by making them consistent with changing role patterns of men and women, particularly the increased participation of women in the labour force. This modernization resulted in equal rights for men and women in all schemes. This meant an improvement of women's rights to the state pension in the 1980s, as well as the 'individualisation' of benefits paid to members of one household (man and wife both were paid 50%, instead of 100% for the man). It also meant that, be it only in 1996, widowers got the same rights as widows to the state survivors' scheme. The process of individualisation has not yet resulted in an 'individualisation' of social assistance, which in effect would imply the abolition of the test on a partner's means. Women's movements are especially in favour of this, but it would mean a drastic increase in social assistance expenditures. Although budgetary and economic arguments were not strong enough to prevent an improvement of rights to pension and survivors benefit for certain categories, they did play a role in further shaping the adjusted schemes. Where the modernization of schemes implied a broadening of the entitled population, there was a conflict with the general aim of cutting back on social expenditures. The solution was that means tests were introduced to keep total expenditure under control.

There is no doubt that these measures have contributed to putting a halt to the trend towards increasing numbers of beneficiaries and increasing expenditures. The system's collapse was prevented. On the other hand, figures show that at present there is no prospect of a substantial decrease of demand and expenditures. Table 1, for instance, shows that in 1994 only the number of claimants for sickness benefit and social assistance have dropped significantly since 1986. Table 2, showing social security expenditure as a percentage of the net domestic product, confirms that the late 1970s and early 1980s were the years in which expenditures exploded. But it also shows that the decrease of the percentage since then follows

a slow pace. A similar pattern can be seen from Table 3, which shows the so-called I/A ratio: the number of beneficiaries ('inactives') per 100 workers ('actives'). There is a steady increase during the 1970s, with acceleration from 1980 to 1985, but the ratio decreases only slowly after that, even if accounted for by the 'graying' of Dutch society.

Based mainly on these figures, the government has come to realise that its initial 'price' policy and the subsequent 'volume' policy were not enough to reduce social security expenditure substantially, nor to solve the problem of economic inactivity of a large part of its population. Gradually, therefore, it has developed a new concept of social protection, the core of which seems to be a fundamental critique of the model of collective solidarity itself. It is no longer purely for budgetary and economic reasons that changes in the system are proposed and justified, but more and more there is a wish to change the entire nature of it. The new ideas were firstly formulated in a government paper on the distribution of social security responsibilities between state and social partners (TK 87/88). They were elaborated afterwards, e.g. in a strategic policy paper from the Ministry of Social Affairs (SZW 1991) and were again central in the report of a parliamentary enquiry into the administration of social insurances (TK 92/93) as well as in proposals of the Dutch Scientific Council for Government Policy (e.g. WRR 1994).

These sources learn that the main objection of politicians and policy-makers against the model of collective solidarity is its anonymity. The national and collective nature of the system is supposed to undermine individual responsibility and to promote calculative behaviour by all actors involved, be it citizens, workers, employers, unions or companies. The prevention of unemployment, sickness and disability as well as reinsertion or integration of disabled and unemployed workers has been neglected because it is in nobody's interest. This 'modern carelessness' (Schuyt 1995) in fact means that moral hazard, broadly defined, is seen as the core problem of the model of collective solidarity. In this view the main reason for the still high demand for protection and the high expenditures is an obscure and failing structure of responsibilities and obligations allocated to the different actors involved. Based on this diagnosis, market elements are introduced such as freedom of choice and risk differentiation, which in essence are aimed at reintroducing individual responsibility, by way of confronting all actors more directly with the costs of social protection. The diagnosis is also the starting point for 'activation', which comprises extended policies aimed at the (re-) insertion of beneficiaries into paid and even unpaid work.

A second critique of the model of collective solidarity, which is central to the reports mentioned, is that it is inconsistent with modern relations between the state and citizens. Social security is thus touched by a general trend towards a decreasing role of government in society: government should confine its interventions to guaranteeing minimum income protection, while individuals and social groups should organize supplemental protection at the individual or semi-collective level.

So, the new conception prevailing in the Dutch political discourse on social security is not dominated by Veldkamp's universal and unconditional principle any more, but by notions of individual responsibility, conditionality, minimum protection and the logic of market-led private insurance.

In short, the reconstruction of the Dutch system of social security has been led in the first instance by economic arguments and, to a lesser extent, by culturally-based arguments. In recent years measures are increasingly justified by pointing to the fundamental flaws of the model of collective solidarity.

Let us now look in more detail at what happened to the various schemes.

### *People's insurances*

The initially universal state insurance schemes have become more selective, as well as more complex, since the beginning of the 1980s. Implementing equal rights for men and women, under conditions of a decreasing budget for social expenditures, has meant the introduction of means tests in the old age (means of partner) and survivors scheme. Child benefit is still not means-tested, but offers less protection especially for larger families.

#### *Survivors*

The reconstruction of the survivors' insurance scheme AWW began in the second half of the 1980s but only resulted in the new ANW in 1996. The ANW tackles a number of problems of the old AWW, which were increasingly felt due to various socio-cultural developments. The main problem was that AWW was designed for situations, predominant in the 1950s, in which the male partner is the breadwinner. This implied that widowers were not entitled to the benefit (they would always still have their own income in case their partner died) and that it did not contain a means test (all widows would by definition be needy, since none of them would have an income of their own). However, due to changing role patterns of men and women and an increasing labour participation of women the assumption of a male breadwinner was no longer valid. A second problem was that AWW was designed for married couples, which implied that survivors of unmarried couples were not entitled to the benefit. Unmarried cohabitation, however, has become a frequent and fully accepted situation in the Netherlands, resulting in a wish to extend the coverage of the survivors' scheme to unmarried couples.

Under the new ANW, males and unmarried couples are entitled to receive benefits, but to account for the increased labour participation of women, the population covered by the scheme was otherwise drastically limited. Most important is that only those persons are entitled now who have been born before 1950 (younger people are supposed to work and have an income). Furthermore, a means test was introduced, both for cutting back on expenditures as well as to account for the fact that widowhood no longer automatically implies need.

Clearly, unlike AWW the new ANW benefit is only intended for those widows and widowers who are not able to earn a living of their own. In future the number of beneficiaries will drop substantially from some 190,000 at present to only some 25,000 in the year 2015. This is mainly due to the age cohort criterion, which implies that by the year 2015 the cohort at issue will be 65 years of age and become entitled to the old age pension.

With its means test and sharp limitations of the entitled population, the ANW deviates strongly from the traditional Dutch idea of a people's insurance, which comprised of universality and the absence of means testing. What is left from the social protection of widows looks very much like a social assistance scheme for a specified category

### *Old age*

The old age insurance scheme AOW of 1957 was a child of its time in the sense that, like the survivors scheme, it was designed for the case of a male breadwinner. Its adjustment in 1985 to the changing role patterns and the increasing labour participation of women was strongly influenced by the Third EC Directive on equal treatment of men and women in social security. In the old scheme, in case the husband reached the age of 65 prior to his wife, he received 100 per cent of the minimum wage as benefit. In the opposite case the woman was not entitled to anything. The benefit level was 70 per cent for single people. In 1985 the right to AOW was 'individualized', holding that partners each had a right to 50 per cent of the level of the minimum wage. (As a result the number of beneficiaries increased substantially, see Table 1.) The new scheme did not discriminate anymore against women who were older than their. In 1987 a further step was made, whereby the scheme was adjusted to take into account that unmarried cohabitation among pensioners had become a well-accepted reality. From then on married and unmarried couples were treated equally. Soon after this, in 1988, a means test was introduced for cases in which the partner is younger than 65. The test is on the partner's income, not on that of the pensioner. For pensioners with partners younger than 65 the level of the individual benefit is at present 50 per cent of the minimum wage, which can be supplemented with a maximum of another 50 per cent, depending on the partner's income.

Due to the 'graying' of Dutch society (prognoses are that by the year 2020 nearly 25 per cent of the population will be over 65) the AOW scheme is still the object of debate, especially the issue of how to tackle the expected high costs in future. There are various proposals, for instance to increase citizens' contributions and/or the pensionable age or to introduce substantial state contributions, but extending means testing to the means of pensioners themselves has proven to be a political taboo.

### *Child benefit*

The child benefit scheme AKW of 1963 has been repeatedly adjusted during the last 20 years in various minor and major 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 and actually resulting in a decrease in benefit expenditure.

In 1986 child benefit for children between 18 and 27 years of age was abolished, and in 1992 the same happened regarding the 16 and 17 year olds who are in a job of the Youth Work Guarantee Scheme (JWG). Until 1983 benefit levels were independent of children's age. From then on benefits were lower for younger (less costly) children. A reduction of expenditures resulted also from the abolishment of the progressiveness of benefits in 1995. Until then the level of benefit per separate child was higher the more children there were in a family. As a result of these measures, the social protection, particularly of larger families, has diminished quite substantially.

### *Workers insurances*

In 1985, soon after the economic crisis of the late 1970s and early 1980s had reached its definite peak, the benefit levels of all workers insurance schemes (unemployment, disability, sickness) were reduced from 80 per cent of previous earnings to 70 per cent. From then on further measures were taken, mainly in two major operations. The first of these took effect in 1987 and encompassed all schemes; the second between 1992 and 1994 concerned sickness and disability schemes.

### *Unemployment*

In 1987 the unemployment insurance scheme WW of 1949 was replaced by a new law, which had as its most important feature that it introduced more stringent work history requirements as a criterion for assessing entitlement to, and duration of, WW benefit. Under the new WW, entitlement requires that one has worked at least 26 weeks (in stead of only 130 days) in the previous 52 weeks, and the wage-related benefit lasts only half a year on principle. After this half year the wage-related benefit is replaced by a non means-tested flat rate benefit of 70 per cent of the minimum wage level for one year. After that the insurance benefit stops and people who are still unemployed by then have to claim means-tested social assistance. Eventually then, all long-term unemployed will end up on social assistance. The half-year period of the wage-related benefit can be extended as a function of work history, i.e. if people have worked for at least three years in the last five years. In 1995, when unemployment figures had increased again (see table 1), work history criteria were made more strict again. From then on entitlement requires a combination of having worked 26 weeks in the last 39 instead of 52 weeks, and having worked at least four out of five years prior to unemployment. The right to the prolonged wage-related benefit now depends on having worked four out of five years, in stead of three out of five.

The revisions of unemployment insurance meant that adequate protection against the financial consequences of unemployment became more strictly limited to those workers with

more regular and longer lasting labour market ties. Other groups experience more difficulty in being entitled to a wage-related benefit, especially young people, people with flexible labour contracts and people with repeated unemployment spells. At present about 45 per cent to 50 per cent of the working population cannot meet the combined criteria of 26 weeks out of 39 and four years out of five. In case of unemployment these workers will have to rely on social assistance, at once or following a short period in which they are entitled to the non means-tested flat-rate minimum benefit.

### *Disability*

The disability insurance scheme WAO of 1967 was also revised in the 1987 operation. The most important change here was the abolition of the provision by which disability benefit could compensate for the bad labour market chances of partly disabled workers. Before the revision partly disabled people without a job received a full wage-related disability benefit for as long as their disability lasted, on the basis that their chances on the labour market were nearly zero. It was this system, combined with the unlimited duration of the WAO benefit, which made the WAO much more attractive than the unemployment scheme WW. From 1987 on, partially disabled workers without a job are entitled to a partial, instead of a full, wage-related disability benefit, and for their unemployment part they are entitled to an unemployment benefit WW. For many partly disabled workers this meant a strong reduction of their income.

As Table 1 shows the measures taken could not prevent a further increase in the number of disability beneficiaries. In order to reduce this volume two major laws were implemented in the early 1990s. The first one in 1992, known as the TAV, the ‘law on reducing the disability volume’, aimed at creating greater incentives for employers to prevent claims for disability benefits. It introduced a ‘bonus-malus-system’ under which employers receive a subsidy if they employ a disabled worker for at least a year. In addition to this once-off subsidy, a 20 per cent wage subsidy is also provided. On the other hand, employers have to pay a fine or ‘malus’ if one of their employees gets disabled at work and has to be fired as a result. The fine turned out to be very unpopular among employers and the administrative boards had large practical difficulties in implementing the system. As a result it has been abolished in 1996. In 1993 a second ‘law on reducing disability claims’, the TBA, was implemented, reducing again the difference in attractiveness between disability and unemployment insurance. Firstly, the reference standard for the assessment of the degree of disability is changed. This standard used to be the degree to which incapacitated workers could continue to earn a living with ‘suitable work’, which was defined as work suiting one’s educational level and former type and level of job. The standard was changed into ‘generally accepted work’, which is a broader standard, not connected with educational and former job level. As a result more jobs are regarded as in principle being available for the disabled, thus making it more difficult for any worker to be assessed as incapacitated for work. Second, every existing beneficiary of the WAO benefit younger than fifty years of age had to be re-assessed according to the new standard. In the first

two years after its implementation this rule resulted in a withdrawal of the full WAO benefit in 50 per cent of all reassessed cases. People concerned were declared to be fully unemployed, instead of being (partly) disabled, and had to claim WW benefit, with its limited duration. Third, age was introduced as a criterion for level and duration of the benefit. The WAO benefit is no longer 70 per cent of previous earnings for as long as the incapacity to work lasts, but maximally six years if people are older than 58 years (after which they become entitled to the state pension AOW). There are shorter durations for younger people.

As Table 1 shows these ‘volume’ policies of the early 1990s did not result in a clearly decreasing number of beneficiaries. In a further attempt to get control on the WAO inflow, the 1998 PEMBA law just recently took effect. It aims at influencing behaviour of employers in such a way that they feel an individual responsibility for the prevention of disability as well as for the (re-)insertion of disabled workers. The law introduced two measures, premium differentiation and opting out or privatisation. Before PEMBA contributions for the WAO scheme were not differentiated according to risk, i.e. to the number of disability claims coming from individual firms and sectors of industry. All paid a uniform percentage of wages. Under PEMBA such percentages, and thus the amount of contributions, is differentiated according to risk. As a result, firms and sectors of industry that generate more disability claims have higher costs. They can cut costs by preventing disability claims. This can be done either by an improvement of working conditions, or by adapting work places for disabled employees. PEMBA also offers individual firms the option to leave the collective system and assume responsibility for the disability and subsequent benefits that it generates. (Some large companies have already chosen to ‘opt out’, but the first signs are that only few will follow).

### *Sickness*

The revision of the sickness benefit scheme ZW started in 1994. Before that benefits for workers who were ill (for less than a year after which period the disability scheme comes into force) were paid from the collective sickness fund for the full period. The fund was financed by contributions from employers and employees. The relation between degree of sickness absenteeism and costs of insurance was not strong, since contributions were only differentiated between branches of industry. Thus, at the level of individual firms and workers, incentives to prevent sickness were lacking. This changed with the ‘law on reducing sickness absence’ TZ of 1994. Under this law, employers were obliged to pay sick employees at least 70 per cent of their wage for the first six weeks of absence (two weeks for companies with less than 15 employees). Thus, the first weeks of sickness were privatized and did not burden the national sickness fund anymore. Either employers now paid wages for sick employees directly, or like most of them did, reinsured the risk with private insurance companies. Reducing sickness absenteeism was further promoted by a second obligation, which held that every firm has to develop and implement a sickness absence prevention and control policy. In 1994, another revision took place as a result of the earlier mentioned TAV law. This law introduced a further

differentiation of contributions for sickness benefit within industry sectors. Firms with a higher absenteeism than their sector's average pay higher contributions.

The TZ, especially the part concerning privatization of the first weeks of sickness benefit, had an immediate and large effect on the national sickness fund. In 1993, 345,000 sickness beneficiaries were paid compared to only 175,000 in 1994. In 1994 the overall percentage of reported absenteeism dropped from 7 per cent to 4.5 per cent of total labour time and has stayed at that lower level since then (Ctsv, 1995, p.65). Although there is a natural floor to this percentage, central government hoped that a further privatization would result in a further decrease and extended the period in which employers had to pay wages to sick personnel to one year. This measure, known as the WULBZ law that came into effect in 1997, practically implies the abolition of the ZW. ZW still exists at present, since it still covers the sickness risk of specified categories (estimated at 15 per cent of the previously covered population), like pregnant women, (partly) disabled workers, people on temporary contracts and apprentices. But for the largest part of the Dutch workers it is replaced by the employer's duty to keep on paying wages during sickness leave.

The privatization and differentiation of contributions according to risks in both the disability and sickness schemes have had positive effects on the number of benefits paid. The annual growth in WAO disability benefits decreased importantly, as well as the absolute number of sickness benefits (see Table 1). However, these measures also had a negative effect, especially on the labour market chances of people with health problems. Evaluation studies (discussed in SCP 1996) have shown that chronically ill people and (partially) disabled people have more difficulties in (re-)entering jobs, because employers screen new employees more stringently on their health status, and that the chances of workers with a worse health status being fired have increased. It was also found that the number of temporary labour contracts, as a means of prolonging the period of screening employees on their 'sickness leave behaviour', nearly doubled from 1993 to 1995 from 11 per cent to 20 per cent of all labour contracts. Hiring workers via employment agencies, to reduce the risk of sickness pay, rose in the same period from 4 per cent to 9 per cent.

### ***Social assistance***

The social assistance scheme ABW, which took effect in 1965 and replaced the poor law of 1854, introduced state-financed minimum income protection in the Dutch social security system. Since it functions as a last safety net ABW is means-tested. In order to fine tune benefits to individual circumstances a complicated set of national benefit rates evolved over the years. Rates differed according to chances on the labour market, household composition, age, and cause of neediness. Because of the economic crisis, the number of beneficiaries increased rapidly from about 300,000 in 1970 to as many as 740,000 in 1986 (see Table 1). After that, the number of beneficiaries did not decrease as rapidly as it had increased. On the

one hand the revisions of the insurance schemes resulted in an extra demand for assistance (reassessed disabled workers, widows born after 1950, unemployed whose insurance benefit had expired). On the other hand, the social assistance clientele had the least chances on the labour market. In the early 1990s, some alarming figures on abuse and misuse of social assistance led to a parliamentary inquiry into the structure and administration of the scheme. The resulting report contained various critiques, the most important of which were that the system of rates had become too complex to handle for an efficient administration, that there was too little control on cohabitation and the real costs of living, that local differences in the cost of living were not accounted for in benefits paid, and that the administration made too little effort to (re-)integrate its clients into the labour market (TK 93/94).

In 1996, social assistance was revised significantly to meet these critiques. First, the system of benefit rates was simplified into only three rates: all single people get 50 per cent of the level of the minimum wage, all single parents get 70 per cent and all couples get 100 per cent. Single people and single parents can apply for a 20 per cent supplement in which case they have to prove that the basic rate is too low for their specific circumstances (which for one thing means that they have to prove to be single, instead of the administration having to prove that they are not). People younger than 21 can only claim in exceptional cases. If in need, the principle is that they have to accept a job within the Youth Work Guarantee Scheme. Second, 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. Third, beneficiaries have to be 'activated' to participate in the labour market. This policy has been implemented in different ways. Since 1996, every claimant has the duty to find a job, with the only exception being those older than 57.5 years and single parents with children under five. The standard of 'suitable work' has been broadened, implying that clients are expected to accept jobs under their educational level and former job level. For each client with a reasonable chance on the labour market the administration has to design and implement an individual plan for (re-)insertion in close cooperation with the district labour office. And finally, it has been recognized that nearly half of the social assistance beneficiaries have very little real chances of finding a job in the paid labour market. To stimulate the able-bodied among them and to prevent the social isolation of others, municipalities have the possibility of implementing 'social activation' policies; that is, to stimulate clients to do voluntary or community work in exchange for freeing them from the obligation to look for a paid job for a certain period.

In short, the revision of ABW has led to a higher municipal responsibility and discretion, as well as to a higher emphasis on getting people (back) into jobs.

## 5. Conclusions

The Dutch system of social security expanded rapidly after the Second World War. The protection against the financial consequences of social risks developed along two main lines of collectivisation and 'solidarisation'. The first meant that separate social insurance funds, organized locally or within sectors of industry, were merged into national funds, and existing schemes covering diverse risks were harmonized and ultimately replaced by one uniform, national scheme. The second meant that entitlement conditions were extended resulting in broader, encompassing populations of covered workers and citizens, bad risks were not excluded, and contributions were levied according to financial capacity, not according to differences in actuarial risk. The collectivisation and 'solidarisation' mostly took effect in the 1950s and 1960s, and created large scale horizontal solidarity (good risks also pay for the bad risks), as well as vertical solidarity (higher incomes also pay for lower incomes). To ensure its functioning, participation in the collective and solidaristic system was made compulsory for all actors involved.

However, with the economic recession of the late 1970s and early 1980s a thorough reconstruction of the system was initiated. Partly as an explicit aim, but certainly as an overall result of measures taken, the system has taken on a much more selective character. This was partly the result of the introduction of means testing in the old age scheme AOW and the survivors' scheme ANW. But in a broader sense, the limitation of covered populations in the survivors' scheme ANW (introduction of 1950 as the decisive year of birth) and in the unemployment and disability schemes (introduction and sharpening of work history criteria) made the system more selective. This higher selectivity of the insurance schemes meant that the role of means-tested social assistance increased compared to that of the other schemes. 'New' classes of claimant among the assistance clientele are young widows, reassessed former disabled workers and former flex-workers. The chance that benefit dependency implies being dependent on means-tested social assistance, instead of on a non means-tested insurance benefit, has increased for every beneficiary under 65 years of age.

The revisions as a whole have had as a consequence that old relations of solidarity are dismantled. Ties of solidarity between good and bad risks, as well as between higher and lower incomes, have become less strong and less numerous. The system not only has lost part of its solidaristic character; it also has become less collective. Limiting covered populations, benefit levels and duration of benefits, as well as privatisation, 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 the insurance schemes) and citizens in general (who nearly lost protection against the financial consequences of partner death completely). The system also lost part of its collective character in that social assistance policy has been extensively decentralized from central to local government.

All in all, a shift has taken place from inclusive solidarity towards the direction of exclusive selectivity, from collective responsibility towards the direction of individual responsibility. With this 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 companies and industrial sectors social partners have agreed, after trade union demands, to undo the consequences of limiting the duration of the wage-related disability benefit. Companies or sectors will supplement eventual flat rate benefits from the collective system to 70 per cent of the previous wage. For nearly 80 per cent of all workers, the 'WAO-gap' has thus been repaired. 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 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 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, and beneficiaries who have little chance of returning to the labour market, such as pensioners, disabled workers, long term unemployed and single parents. The total effect of the revisions is recognized by the present central government and it has inspired it to declare 'work, work, and again work' (a popular slogan often used by Prime Minister Kok and his cabinet members) as the central aim of its socio-economic policy. It sees social protection of citizens as best guaranteed by their labour market participation. In this respect two opposing views are regularly expressed in the Dutch media. The pessimistic view, held mostly by anti-poverty lobbyists and strong left, says that our society will never again need its full labour force to produce its wealth, due to the ongoing rise in labour productivity which results from international competition and technological development. Inactivity of a large part of the labour force is, in this view, seen as a structural feature of future society, leading to problems of how to organize social participation, inclusion and (re-) distribution of wealth other than by means of the labour market. In the optimistic view, held by political middle and right, however, it is believed on demographic grounds that, within the next twenty years, The Netherlands will have a serious labour shortage: the post-war birth wave will retire and make place for the much smaller younger generations.

We will have to wait and see what happens. At present, for the first time in many years, Dutch political parties compete again publicly with each other on their 'positive social image', in stead of on their proposals for cut backs on social expenditures. To what degree this means a real break with the recent history of a retrenching welfare state, or whether it is just a manifestation of the fact that 1998 is an election year, is another thing the future will reveal.

## References

This paper is an updated summary of the principal arguments contained in a book *Solidair of Selectief? Een evaluatie van toepassing van het selectieve-marktmodel in de sociale zekerheid* ('*Solidary or Selective? An evaluation of applying the selective-market-model in social security*') by Wim van Oorschot, Cees Boos and Louis Geleijnse, published in 1996 by Kluwer, Deventer, The Netherlands

CTSV, 1995, *Kroniek van de sociale verzekeringen 1995*, College van Toezicht Sociale Verzekeringen, Zoetermeer

Ferge, S., 1997, 'A Central European perspective on the the social quality of Europe' in: W. Beck, L. van der Maesen and A. Walker (eds.) *The social quality of Europe*, Kluwer Law International, The Hague

Rhijn, Van, 1945, *Sociale Zekerheid: Rapport van de Commissie, Deel I en II*, Waterlow and Sons, London

SCP, 1996, *Sociaal en cultureel rapport 1996*, Sociaal en Cultureel Planbureau, Rijswijk

SZW, 1991, *Strategische Verkenningen*, Ministerie van Sociale Zaken, Den Haag

Schuyt, C., 1995, 'De paradox van verzorging en verzekering' in *Economisch Statistische Berichten*, februari

TK, 1962/63, *Arbeidsongeschiktheidsverzekering, Memorie van Toelichting*

TK, 1987/88, *Verdeling van bevoegdheden tussen overheid en sociale partners op het terrein van de sociale verzekering*

TK, 1992/93, *Parlementaire enquetecommissie uitvoeringsorganisatie sociale verzekeringen*

TK, 1993/94 *Rechten en plichten: rapport van de subcommissie Bijstand*

## Abbreviations

<b>AAW</b>	Algemene Arbeidsongeschiktheidswet <i>General Disability Act</i>
<b>ABW</b>	Algemene Bijstandswet <i>General Social Assistance Act</i>
<b>AKW</b>	Algemene Kinderbijslag <i>General Child Benefit Act</i>
<b>ANW</b>	Algemene Nabestaanden Wet <i>General Survivors' Benefit Act</i>
<b>AOW</b>	Algemene Ouderdomswet <i>General Old Age Benefit Act</i>
<b>AWW</b>	Algemene Weduwen en Wezen Wet <i>General Widows and Orphans Benefit Act</i>
<b>PEMBA</b>	Premie-differentiatie en Marktwerking in de Arbeidsongeschiktheidsverzekering <i>Act on Premium differentiation and Market Competition in the Disability Insurances</i>
<b>RWW</b>	Rijksgroepsregeling Werkloze Werknemers <i>Social Assistance for Unemployed Workers</i>
<b>SZW</b>	Ministerie van Sociale Zaken en Werkgelegenheid <i>Ministry of Social Affairs and Employment</i>
<b>TAV</b>	Wet Terugdringing Arbeidsongeschiktheids Volume <i>Act on Reducing the Disability Volume</i>
<b>TBA</b>	Wet Terugdringing Beroep op de Arbeidsongeschiktheidsverzekering <i>Act on Reducing Disability Claims</i>
<b>TK</b>	Handelingen der Tweede Kamer <i>Minutes of Parliament</i>
<b>TZ</b>	Wet Terugdringing Ziekteverzuim <i>Act on Reducing Sickness Absence</i>
<b>WAO</b>	Wet op de Arbeidsongeschiktheidsverzekering <i>Act on Disability Insurance</i>
<b>WULBZ</b>	Wet Uitbreiding Loondoorbetalingsverplichting bij Ziekte <i>Act on Extension of Obligation to Pay Wages in Case of Sickness</i>
<b>WW</b>	Werkloosheidswet <i>Unemployment Act</i>
<b>ZW</b>	Ziektewet <i>Sickness Act</i>
<b>WRR</b>	Wetenschappelijke Raad voor het Regeringsbeleid <i>Scientific Council for Government Policy</i>

## Tables

**Table 1 Number of benefits (x 1000)**

	Peoples insurances			Workers insurances			Social assistance
	pension AOW	survivors AWW	Child benefit AKW	unemployment WW	disability AAW/WAO	sickness ZW	ABW RWW
<b>1970</b>	1061	154	1614	25	215	223	318
<b>1974</b>	1171	162	1734	56	313	261	423
<b>1978</b>	1280	169	1763	48	579	289	419
<b>1982</b>	1376	172	2185	112	707	261	684
<b>1986</b>	1898	173	2113	68	778	263	740
<b>1990</b>	2043	195	1812	163	881	348	530
<b>1994</b>	2152	194	1812	332	894	175	510

Source: Ctsv, 1995, p12

**Table 2 Social security expenditure as % of Nett Domestic Product**

1970	12
1975	16
1980	20
1983	22
1990	18
1994	18

Source: Ctsv, 1995, p15

**Table 3 I/A ratio (number of beneficiaries per 100 workers)**

	Pensioners Included	Pensioners Excluded
1970	46	16
1975	58	24
1980	68	32
1985	84	44
1990	82	42
1995	83	42

Source: SCP, 1996, p150