

Dr. Piet de Vries
Department of Public Management and Public Policy,
University of Twente,
P.O. Box 217, 7500 AE Enschede
the Netherlands
tel.: + 31 53 4893476, fax: + 31 53 4894734
e-mail: p.devries@bsk.utwente.nl

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**A Market for Social Security;
The Reconstruction of the Dutch Social Security System**

Piet de Vries[♦]

Abstract

Firstly, the main features of the Dutch social security system will be presented as it existed midway the eighties. Secondly, some figures will be given about the rise of the magnitude of the social security since 1970. A third section deals with the different reconstruction measures, which appear to resettle the positions between the insurance and the (re)distribution goals of the system. From a different point of view, it is claimed that the reconstruction meets cost reduction as well as modernization exigencies. Some of these considerations will be dealt with in a fifth section. Finally, some effects of the reconstruction will be presented and evaluated from perspectives given in the preceding section.

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1 Introduction

The Dutch economy during the first post-war decades was characterized by full employment and unprecedented economic growth. This economic situation constituted a firm base for the make-up of the social security system in the fifties and sixties. During the seventies the system acquired its perfection. Simultaneously, economic growth was hampered and unemployment increased to 5%. In 1981 the unemployment figure was 9.1% and it reached its record level of 17.3% in 1984. Moreover, in 1980 the number of disablement-beneficiaries has doubled in comparison with 1975 to well over 600,000. Apparently, the Dutch social security system was losing control. Consequently, since the beginning of the eighties the system became a regular item on the political agenda and constituted a recurrent issue in the public debate on economic affairs. In 1987 this discussion resulted in a reduction of the employee-insurance benefits from 80% to 70% of the last-earned salary. During the decade that followed this reduction appeared to be a stepping stone for all kinds of reconstruction measures. The paper at hand deals with the reconstruction of the Dutch social security system during the past ten or more years. This reconstruction has been seen as a search for a market for social security as it entailed market elements such as incentives, individual responsibility and privatization. On the other hand, the figures show the minor success of this reconstruction.

The paper is organized as follows. Firstly, the main features of the Dutch social security system will be presented as it existed in the middle of the eighties. Secondly, some figures will be given about the increase in the extent of the social security system since 1970. This magnitude will be exhibited in a macroeconomic perspective. Moreover, some international comparisons will be made. These may show the vulnerability of the size of the system. A third section will deal with the various reconstruction measures taken. In this respect, some distinctions may be made. On the one hand, it may be shown that a variety of incentive measures have been introduced. On the other, the social security administration has been reorganized. The reconstruction may be looked at from different angles. For example, it may be considered an efficiency-versus-equity trade-off. In this regard, the reconstruction appears to resettle the positions between the

insurance aims and the distribution goals of the system. From a different point of view, it is claimed that the reconstruction meets cost reduction as well as modernization exigencies. Some of these considerations will be dealt with in a fifth section. Finally, some effects of the reconstruction will be presented and evaluated.

2 The Dutch social security system; before reconstruction

This section will summarize the main arrangements of the social security system as it existed in 1984 (VRA, 1984). Besides this summary the section presents the organization of the different parts of the system. Finally, some general features will be identified.

The main arrangement

Social security aims at safeguarding the continuity of labor, income and health (Veldkamp, 1984, 8). The promotion of this continuity is reflected in the three parts of the Dutch social security system (Veldkamp, 1984). These three parts concern:

1. employee insurance arrangements;
2. national insurance arrangements;
3. social provisions.

1. employee insurance arrangements

The employee insurance arrangements insure employees against sickness, disablement and unemployment, which is reflected in the following Acts.

- The Sickness Benefit Act assures sick employees of an income-replacing benefit. This insurance was privatized in 1996. Since that time employers have been obliged to pay salaries during the first sickness year.
- The Disablement Insurance Act provides income after a year of sickness.
- The Health Act insures against the risk of health service costs.
- The Unemployment Benefit Act insures employees against risks of unemployment.

2. national insurance arrangements

In contrast with employee insurance arrangements, national arrangements have a general nature; they safeguard social security for any citizen. On the one hand, the national

arrangements may have an obligatory and general nature. On the other, a national arrangement may be complementary.

- The General Old Age Pensions Act is a national obligatory insurance for all citizens, irrespective of their nationality. Every citizen of 65 and over receives retirement pay.
- The Child Benefit Act supports families with children allowance.
- The Surviving Relative Act.

3. *social provisions*

The social provisions constitute the completion of the Dutch social security system. It is a last resort. If none of the employee or national insurance arrangements is applicable, it may be one of the social provisions which comes up with a solution. In this respect, the following arrangement is the most important.

- The National Assistance Act or Welfare, which is a kind of final and general last resort. It guarantees every citizen a minimum net income, which equals net social minimum wages.

This survey of the Dutch social security system is confined to its main arrangements. The second and the third part complement the employee arrangements and refine the system.

Organization and funding

It was a typical feature of the Dutch social security system that the administration of the employee insurance arrangements is the result of shared responsibilities between employers and employees. The employers' organizations and the labor unions participated as social partners in industrial insurance boards. These insurance boards execute the employee insurance arrangements; they collected the insurance contributions and took care of admittance procedures for potential claimants. The Social Insurance Council supervised the daily management of the insurance boards.

Obviously, the government was dominantly present in the administration and executive tasks of the national insurance arrangements. The Internal Revenue Service recovered the social contributions. On the other hand, it was the Social Insurance Bank and its agencies that executed the admittance procedures. Both the government and the social partners cooperated in this Social Insurance Bank.

Finally, the national provisions, such as welfare, were funded by domestic taxes. The national government paid the municipal authorities for executing the national provision schemes. The municipalities executed the admittance procedures. They passed on the benefits from national government to claimants.

Some main features

The post-war evolution of the Dutch social security resulted in a system in the mid eighties that might be characterized as follows.

1. The social security policy had eliminated the insurance nature of the system. The insurance nature of a social security system is reflected in three forms of causality, i.e., between contribution and performance, between risk and performance, and between risk and contribution (Veldkamp, 1984: 24). However, these causalities were absent in substantial parts of the system. For example, a national insurance benefit did not normally depend on the contribution paid. The Disablement Insurance Acts reduced the causality between risk and benefit by the extension of the insured risks. Finally, the causality between risk and contribution may be expressed in contribution differentiation. This differentiation was almost lacking in the Dutch social security system of the mid eighties. The elimination of these causalities had considerable consequences for the nature of the system. In this manner, the system had evolved into a universal safeguard for income at a minimum social level. Moreover, this system lacked incentives to limit the number of claimants.
2. The universal nature of the system and the high benefit levels had altered the social security system into an attractive alternative for labor participation.
3. The system was not accompanied by an active labor-market policy.
4. The corporatist organization of the system was reflected in the administration participation of employers' organizations and unions as well as governmental authorities. As a consequence, the social partners shared a responsibility for the social security policy and its administration.

3 The growth of the social security system since the seventies

The growth of a social security system and its extent may be approached from different angles.

A variety of figures and index numbers may indicate the relative significance and impact of social security. The Dutch *Sociaal en cultureel rapport* gives a clear impression of its magnitude and economic significance (SCP, 2000: 332, tabel 10.1).

Table I Social Security numbers 1970-1999

	measured unit	1970	1975	1980	1985	1990	1995	1999
<i>volume in benefit years</i>								
Old age pension	x 1,000 benefit years	1,028	1,159	1,280	1,781	1,956	2,079	2,172
Surviving relative pension	x 1,000 benefit years	151	162	168	171	187	191	142
Disablement benefits	x 1,000 benefit years	196	312	608	698	778	752	769
Sickness	x 1,000 benefit years	234	280	306	257	346	306	337
Unemployment + National assistance	x 1,000 benefit years	128	314	347	832	713	854	649
total	x 1,000 benefit years	1,737	2,2 27	2,709	3,739	3,980	4,182	4,069

Expenditures								
Total exp. in constant prices (1999)	x billion guilders	50	82	111	111	129	112	103
As a percent of GNP	%	12	17	20	20	20	16	13
Financial supporting base								
no. out of work/no. in work	no. out of work per 100 in work	44	56	66	83	82	78	68
no. out of work (excl. old age pensioners)/no. in work	no. out of work per 100 in work	15	23	31	44	42	39	31
Index numbers standard incomes								
Income employees	Index (1977=100)	-	100	99	94	108	111	113
Income pensioners		-	100	103	99	112	113	119
Other benefit income		-	100	99	83	87	87	89

Source: SCP, 2000: 332.

The various figures show that the explosive growth of the system in the seventies was followed by a stabilization which started in 1985. The financial-support-base index numbers may show the economic vulnerability of the social security system. 'The financial support base for social security was eroded in the period 1970 to 1985. In the early 1970s there were 44 unemployed people for every 100 people employed; 15 years later the ratio was 83:100' (SCP, 2000, 332). It may be claimed that in the long run it was indefensible for such a high ratio to persist. Moreover, demographic trends would have dramatic effects on the unemployed-employed ratio. Without successful social-security-policy measures it was unavoidable that the ratio would be greater than one after the year 2000. At the same time, it must be considered that the public support for the system was declining, as was pointed out in the 1992 Social and Cultural Report (SCP 1992: 113). Moreover, social-security expenditure constituted approximately one third of public expenditure. Consequently, the social security system could not escape reorganization whenever it is deemed necessary to carry out public expenditure cutbacks. In this regard, it may be noted that in 1985 the public budget deficit was approximately 8% of GNP. These (macroeconomic) indicators on the mid-eighties social security system show that the time had come to reconsider.

Finally, an international comparison may underline the need for a reconstruction of the Dutch social security system. For example, in 1978 Dutch public expenditure amounted to over 60% of NNP, whereas in Italy, West Germany and Great Britain this figure was between 45% and 50% (Miljoenennota 1981: 47). This discrepancy must entirely be attributed to the exceptional rise in Dutch social security expenditure (Miljoenennota, 1981: 49, tabel 5.1.1)¹. At the same time, the Dutch economic growth was less than the average economic growth of the OECD countries. For the period 1977-1983 the cumulative Dutch economic growth backlog was circa 9.5% (Miljoenennota 1985: 13). On the other hand, the cumulative consumption growth in The Netherlands was higher than its OECD average; between 1974-1978 it amounted to 5% (Miljoenennota 1985: 14). It may be clear that the relatively substantial Dutch social security expenditures, implying a consumptive focus in the economy, squeezed profits and disrupted investments, harming growth and employment. The excessive social security transfers indirectly caused additional social security transfers, because of unemployment benefits and other crisis

¹ In the period 1965-1978 the Dutch social security transfers rise by 16.2% of NNP. In the same period this figure amounts about 4.5% in Western Germany and Great Britain, and 2.1% in Italy.

related allowances. At the beginning of the eighties the Dutch social security system appeared to be both cause and consequence of the economic crisis and instability.

4 The reconstruction of the system

It was the main purpose of the reconstruction policy to reduce the dramatic magnitude of the system. The size of the social security expenditure may be perceived as a product of price and volume. Therefore, it seems plausible to break up the reconstruction policy into price versus volume measures. However, at least two considerations show that it is problematic to apply this distinction straightforwardly. Firstly, it must be stressed that price measures may have volume effects; benefit cutbacks may induce claimants to leave the system. Secondly, there exists a variety of measures and policy adaptations which in some way cause volume effects. In contrast with price measures, the nature of volume measures varies. Moreover, it may be rather difficult to trace the effects of volume measures. Thirdly, some recent measures do not refer to specific benefits or arrangements, but concern the organization of benefit allowances and an active labor policy aimed at reintegrating labor forces in the production process. These 'general' measures will be dealt with separately. However, there are some straightforward price and volume measures and these will be discussed first. The variety of measures may explain the tendencies in the social security figures since reconstruction started in the mid-eighties. In this respect, it must be said that it is out of the context of this paper to deal in detail with the contribution of the separate measures to these tendencies.

Price measures

Price measures concern a rather straightforward reconstruction policy. The effects of price measures can readily be seen. For example, in the period 1982-1989 two-third of the retrenchment sum (16.5 billion guilders) resulted from price measures (SCP, 1998:430) such as:

- unlinking benefits from wages increases (1982);
- stabilizing child benefits (1983, 1984);

- reducing various employee benefits, such as those referring to the Sickness Benefit Act, the Unemployment Act and the Disablement Insurance Act, to 70% of the former salaries instead of 80% (1985).

Between 1983-1985 the concept of “true minimum” was developed. The true-minimum policy aimed at protecting the lowest incomes against price measures. Consequently, this policy outlined a distinction which is basic for the further development of the system. It is the primary task of the social security system to guarantee a minimum income, and this task should be performed if and only if there is no employee insurance benefit. This basic idea constituted a guideline for understanding the reconstruction measures which followed after the mid-eighties. In this regard, some examples may be given.

- The redefinition of ‘suitable work’ and disability resulted in a minimum benefit for a number of disability claimants, who formerly (before 1994) would have received 70% of their former salary.
- Since 1995 the unemployment benefit will, after some period, result in a follow-up benefit equal to 70% of the minimum wage.
- In 1996 the welfare system was considerably simplified. Just three benefits apply to claimants aged 21 and up: 50% of the net minimum wage for people living alone, 70% for lone parents and 100% for married couples.

Volume measures

In some respect, some volume measures resemble price measures. For example, such a measure is the reduction of the number of claimants by changing the age limit of a social insurance arrangement. This measure will be induced by direct financial results in terms of budget reduction. However, in contrast with price measures, a variety of volume measures are induced by more complex considerations. For instance, the administrative organization of the social security system needed reconstruction because of the vague distribution of responsibilities in the corporatist organization of the social insurance administration. Consequently, it was expected that such a reconstruction would have a volume reducing effect. In this vein back-to-real-insurance considerations fit which restore incentive mechanisms in the social security system. It is expected that such mechanisms, such as a causal relation between

risk and contribution, will cause a volume reduction². On the other hand, a volume policy may imply reducing the demand for social security benefits by limiting the duration of the benefit payments and by raising the threshold for admission to benefit schemes. This variety subsumes the main volume measures in the following three domains: (1) sickness and disablement, (2) unemployment, (3) national assistance³.

(1) During the nineties a number of changes have been made to the *sickness benefit scheme*.

In 1993 differentiated contribution schemes were introduced; employers with high sickness absence figures pay relatively high contributions. Since 1994 employers have been obliged to pay the cost of the initial sickness absence. Further, since 1994 employers have been obliged to provide their personnel with professional occupational medical care. In 1996 the sickness insurance was fully privatized. Since that time employers have been obliged to pay wages during employee's first year of sickness. The disablement act procedures start after a year of sickness.

In order to reduce the number of disablement claimants various measures came into force in 1993. Firstly, the medical definition of disablement was tightened up. Secondly, the definition of 'suitable work' was extended. Thirdly, the duration and level of benefit payments were reduced. Finally, the government introduced a system of regular and one-off reassessment of disablement claimants. Since 1998 employers' disablement act contributions vary; the contribution amount depends on the yearly influx of claimants in the industry concerned.

(2) Since 1981 the terms for an *unemployment benefit* have been tightened up. Firstly, the rights to a benefit were linked more clearly to an individual's working history. Since 1987 one had to have worked for at least 26 weeks in the year prior to unemployment. Secondly, the duration of the benefit became dependent on the entire working history. Since 1991 the working history is calculated according to stricter regulations. The follow-up benefit became a minimum income for a year. Thirdly, the working-history requirements were further tightened up in 1995. Since 1995 it has become really difficult for some groups of people to obtain a salary-based unemployment benefit.

² For that matter, this example may show that the price-volume distinction is rather artificial. The incentive mechanism concerned may induce citizens to opt for a relatively low-benefit insurance.

³ The following summary of volume measures is partly based on *Sociaal en Cultureel Rapport 1996*, pp. 159-174.

(3) In 1996 a number of amendments to the *national assistance schemes* were introduced.

Firstly, the definition of 'partner' was tightened up. This reduced the number of people who qualify for a single person's allowance. Secondly, youngsters aged between 18 and 21 qualify only in exceptional cases. Thirdly, the definition of 'suitable work' was widened.

General measures

As mentioned, the Dutch social security system could be characterized as corporatist. In this system the social partners, i.e., unions and employers' organizations, shared responsibility for the execution of the social insurance acts. A variety of managing, non-cooperating institutes shifted responsibilities to each other, causing a collective anonymity. Since 1995 a new Social Insurance Supervisory Board is responsible for the coordination and harmonization of the social security system. This board replaced the aforementioned Social Insurance Council. Moreover, the industrial insurance boards have been divided into management and administrative organizations. This facilitates competition in the administration of the social security schemes; management teams of the boards are able to choose to contract out the administrative tasks in an efficient way. Such an administrative organization might be the former administrative organization of the insurance board. However, proposals to implement social security by private, commercial organizations have been dismissed. At this moment, it is intended to form just one overall institution to implement employee insurance (Uitvoeringsorganisatie Werknemersverzekeringen, UWV).

Reintegration

Finally, reintegration is a recent trend in the reconstruction of the Dutch social security system. Obviously, this policy might be perceived as a volume measure. It is its novelty that justifies the singling out of the reintegration policy. Some of the measures taken are:

- A reassessment procedure for some categories of disablement claimants, to consider a reentry into the labor market;
- Since 1994 employers have been obliged to offer professional occupational medical services, in order to drive back sickness absence;
- Since 1996 the social services and manpower services must draw up a plan for any welfare claimant with a chance of finding work. The claimant is obliged to cooperate in such a plan.

- Since 1998 employers are obliged to contribute to reintegrating sick employees during the first absence year. In this respect, the privatized sickness insurance will urge on to this reintegration task.
- Recently, it is an explicit policy to reintegrate welfare claimants, disablement act claimants and otherwise handicapped persons. For example, the 1998 Reintegration Act (Wet Reïntegratie Arbeidsgehandicapten, REA) subsidizes disabled persons reintegrating processes.
- Since 1998 the organizational integration has been started of the different kinds of benefit allowance procedures on the one hand, and social services and manpower services on the other.

5 The reconstruction effects

As mentioned, it is not in the context of this paper to trace the effects of the various reconstruction measures. It is even doubtful that these effects might be unraveled successfully. For instance, the simultaneous nature of the measures will highly complicate such an analysis. Nevertheless, some measures entail effects which may be identified straightforwardly. Some of these immediate effects will be mentioned. This may highlight the more general consequences of the reconstruction process.

- The 1993 changes in the sickness benefit schemes have caused the number of sickness benefit claimants to fall from 341,000 in 1993 to 290,000 in 1994;
- The changes in the disablement benefit schemes caused a decrease in the number of disability benefit claimants in 1995. In 1995 the number fell to 860,000 from 894,000 in 1994. In 1996 the number had further been reduced to 739,500⁴; since 1996 this number is growing and is heading for 1 million claimants in the next future.
- In the period 1990-1998 the national assistance measures have resulted in a budget cut of 1.2 billion guilders, i.e., 7% of the total social security retrenchments in this period.

⁴ These and following figures are based on *Sociaal en Cultureel Rapport 1998*, Chapter 12, pp. 421-500.

In a more general perspective, it can be shown that since a few years social security expenditures have been decreasing. In 1985 the social security expenditures amounted to 20% of GNP, in 1999 this had become 13 %. Since 1995 the volume in benefit years has stabilized, in spite of an increase in the number of old aged pensioners. Simultaneously, there is a fall in the number-out-of-work/number-in-work ratio. As may be seen in table 1 this ratio had doubled from 44 in 1970 to 83 in 1985. Since 1990 it has been decreasing, and the ratio is 68 at the end of 1999. It is the favorable growth of the Dutch economy since 1995 that underpins this positive development of the Dutch social security system. The economic growth is accompanied by a fall in the unemployment benefit volume and offers a conducive climate for the reintegrating programs referred to.

The figures represented may indicate that the reconstruction policy turns out to be successful. At least, in recent years it appears that a substantial progress in the controllability of the system is not impossible. In this respect, two things must be noted. Firstly, new indications announce an increase in the benefit claimant volume; since 1996 the number of disablement benefits has been increasing. As mentioned, this number will exceed 1 million benefit years within the next future.

Secondly, it has not been taken into consideration what the effect of all these reconstruction policies is on the income distribution and the welfare position of people in the lowest income brackets. A recent poverty-research result had shown that in the mid-nineties 4% of the households has an income lower than the social minimum, and that this figure is stable. This might suggest that the reconstruction is successful, within the constraints of social acceptability and equity standards.

6 Some conclusions

The reconstruction period of the Dutch social security system covers almost two decades. It is at the beginning of the eighties that policy makers and political circles recognized that the system might run be getting out of hand. The sudden and serious economic depression of 1981 clearly demonstrated that this impeccable system was unable to offer social security in periods when it was so badly needed. The situation was even worse. The system was a basic cause of

the crisis, while the consequences should have been extenuated by that very system. At that time, the system was plainly generous. The employee-insurance benefits amounted to 80% of the last-earned salary. Moreover, admittance procedures were applied generously. The insurance nature of the system had been eliminated systematically. The system had been turned into a universal certainty of income. Accordingly, the system appeared to lack incentives to limit the number of claimants, and to lack a mechanism to limit its burden on GNP and economic growth. The 1981 crisis was the stepping stone for the reconstruction.

The outset of the reconstruction was constituted by price measures. Price measures displayed a clear effect performance and seemed not to imply a basic reconsideration of the system. Even so, the proliferation of the minimum benefit within the system precluded a fundamental change. The minimum benefit made up a basic element in the (volume) policy which may be called 'a market for social security'. The minimum-benefit concept brought duality into the system. On the one hand, the government now offers a social security system as a minimal social protection. On the other, additional security has become a private affair with private responsibilities. This evolution of the system has been accompanied by the (volume) measures.

The summarized volume measures followed a logical sequence and resulted in a dual, partly privatized system. Firstly, the allowance terms of almost all benefits were tightened up. For instance, the disability definition was narrowed; the definition of suitable work for disabled and unemployed was widened; entry ages for national assistance were limited. Secondly, the insurance nature of (employees) social security was reintroduced. For example, employers are now obliged to pay the cost of sickness absence and the duration of disability has been limited. Such measures induced private additional insurance products. Thirdly, this privatization shift was underlined by a legally enforced reemergence of the causality between risk and contribution. An example is the differentiated contribution schemes, varying with the sickness absence figures per firm. Together these measures brought about incentives both for claimants and employers to reduce the claim on the system. Moreover, privatization reduces the public share in the economy. At the same time, it must be said that the reconstruction features some half-heartedness. For example, there is still no causality between risk and contribution in the Disablement Insurance Act. This main benefit act safeguard employees against the principally unlimited social risk of disablement for invariable contributions.

Finally, the reconstruction has entailed another kind of privatization. The market and competition phenomena have been introduced in the execution of the social security. For example, the industrial insurance boards have been divided in managing and administration organizations. This distinction facilitates competition between administration units. A recent example may be found in the development that private manpower firms may compete with labor services for reintegration schemes. On the other hand, it has been cancelled that social security institutes with implementation tasks should be privatized. In another way, this indicates the half-heartedness of the Dutch reconstruction process.

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