

Strategies to fight in-work poverty: enhancing opportunities to earn a decent living

Paul van Kruijning
Peter van Leeuwen
Council for Work and Income (RWI)

Heidi de Bodt
Ministry of Social Affairs and Employment

Strategies to fight in-work poverty from a Dutch point of view

Statistics show that in the Netherlands the labour participation rate is the highest, the youth unemployment rate the lowest, and the average unemployment rate also the lowest in the EU. Judging by these figures the Dutch labour market appears to be doing relatively well in the current economic climate. Poverty in the Netherlands is often a temporary problem for the individuals concerned. Each year about 30-40% of those below the poverty line manage to rise above it. Having a paid job is undeniably the best way out of poverty, but there is also poverty among the people who have jobs. The challenges for member states when it comes to combating in-work poverty vary from country to country due to differing social and economic conditions. There is no single solution to fit every case. In this paper the authors reflect on the common challenges when it comes to assessing the problem of in-work poverty in the Netherlands.

We will give: (1) a brief description of common sense economics, (2) a brief account of the problem of in-work poverty, (3) a brief description of a mixed-policy approach that could improve the perspective of the working poor, (4) the outcome of a policy experiment carried out in the Netherlands comparable to the French negative income tax scheme (RSA), and finally (5) a discussion of possible measures to fight in-work poverty.

1. Common sense economics

The public debate in the Netherlands has been dominated by issues like the ageing work force and other changes in the working population. These are common themes in the European Union, but they apply to varying degrees from one member state to another.

In the Netherlands policies have increasingly targeted the level of labour market participation. More people have to participate in order to keep the welfare state affordable in the global economy. This argument was first used in the Netherlands in the 1980s when unemployment was high. Nowadays the same arguments are used about the affordability of pensions. More people have to participate in the labour market and they have to participate for longer (to a greater age); to exactly what age however is still a matter of debate. The need for people to participate for longer in the work force is a result of the increasing life expectancy of citizens in the Netherlands.

The general hypothesis and one of the pillars of the Lisbon strategy is that investment in labour market qualifications and innovation will eventually lead to more job opportunities. Greater participation and more dynamism in the labour market should tighten up that market, with positive effects on the price and quality of labour.

This will only happen however if there is a fair distribution of accumulated wealth in the form of income. Figure 1 shows the average, standardised income development in the Netherlands up to 2009. We see how personal and household income has risen in recent years. This average, standardised household income is an indication of the development of incomes in general. In this period of course (2000 – 2009) inflation has also risen (cumulative effect +/- 21%), but even after correction for inflation, household incomes still rose substantially.

So the common sense approach to economics seems to be paying off.

Figure 1. Average incomes in the Netherlands

Period	Persons in private households	Mean personal income	Mean standardised household income
2000	15,650	15.6	18
2001	15,785	16.7	19.6
2002	15,864	17.3	20.2
2003	15,905	17.7	20.2
2004	15,954	18.1	20.8
2005	16,006	18.5	21.2
2006	16,034	19.5	22.1
2007	16,090	20.4	23.7
2008	16,186	21.4	24.1
2009**	16,255	21.8	24.4

CBS, Statline 2010.

The Netherlands achieved the targets for labour market participation set by the Lisbon agenda.¹ It did so by investing in in-work qualification schemes, creating legal options to enable the combination of work and childcare, and new possibilities in relation to adapting jobs and labour conditions.

In particular, labour market participation has increased due to the larger number of part time jobs. In the Netherlands part-time jobs are not regarded as a second-rate surrogate for full-time, permanent jobs. Being part of a household can lead to a division between paid and unpaid labour. Having a part-time job may therefore tie in with the division of labour inside households. Part-time jobs are often extra jobs that align the labour demand of employers to the labour supply of workers with a limited number of hours at their disposal. Most part time jobs are occupied by women. Labour participation was remarkably low until the nineties, especially among women. In 1987 for example the participation of females (females in the age group 15-64 years working 12 or more hours a week) was only 35%. In 2009 this percentage increased to 60%. It appears that part-time jobs in the Netherlands have been instrumental in increasing the labour participation of women. Part-time jobs still have the advantage of being a practical instrument for combining work with care. By using the instrument of part-time jobs, ordinary Dutch single-earner households have been replaced by 1.5-earner households at incredible speed. Such households have a lower risk of being (or becoming) working poor than single earner households.

¹ The Lisbon scorecard X. The road to 2020. (2010) Simon Tilford, Philip Whyte. CER London.

At the same time social insurance schemes were made more 'activating'. Entitlements were reduced and citizens empowered to fulfil the demands of the labour market. Benefits were cut if (part-time) jobs were not accepted.

Flexible labour as stepping stone to permanent jobs

In the Netherlands some groups appear to benefit from flexible labour contracts.² The Council for Work and Income conducted a study of the flow of unemployed in 'serving agencies' in the Netherlands. In this longitudinal study, people in contact with serving agencies in the Netherlands were tracked and traced from the moment of intake until the moment of leaving the serving agencies. In cases of job acceptance, data about the nature of the job, the type of household, the type of income support received, the labour income, the kind of welfare-to-work services received etc. were collected and analysed. This study will provide information about welfare-to-work programs, the working poor, the degree of income support, and the degree of success or failure in the labour market (results expected in June 2011).

If we are going to adapt to a more flexible work force, the terms of labour contracts will have to be adapted to the new conditions. By balancing employer and employee risk, the general idea is to adapt to a scheme of 'flexicurity'. In the so-called Flex and Security Law, temporary contracts are generally limited to a series of three within a maximum period of 36 months. This means that after 36 months, a temporary contract will be regarded as a permanent contract. In the context of a collective labour agreement however, other arrangements may be agreed on. For workers under 27 years old, the statutory limit on the number of successive contracts has been raised to four.

Subsequent to the collective labour agreement for temporary employment agencies, such agencies in the Netherlands are obliged to invest in training schemes and to provide pensions to their workers as part of a permanent contract with the agency.

2. Working poor: assessing the causes and the proportion

In 2009 about 3% of Dutch households were classified as working poor. This percentage has remained steady over the last 10 years, according to the Dutch CBS (statistics). Yet the proportion of working people in the total population of the poor grew from 50% in 2000 to 59% in 2009. The main reason for this was the decrease in the number of people on benefits throughout the period³. We may therefore conclude that the problem of in-work poverty in the Netherlands over the last 10 years has not actually changed that much. In-work poverty in the Netherlands is often a result of multiple causes. Most working poor have part time or low paid jobs (67%) and in most cases (53%) the job concerned involved less than 24 hours a week. Other causes of the problem can be found in households with debts (negative income on capital) and/or a large family household (3 or more children).

Being a member of the working poor is not always problematic. There are various reasons why people may want to work for less hours over a certain period of time (family obligations for example). They may also be starting up their own business, with an initial period of large investment and low turn-over. Although some working poor have the skills and qualifications needed to improve their situation and anticipate worsening economic conditions, only a very small

² De Graaf Zijl, van den Berg en Heyma (2009). Stepping stones for the unemployed: the effect of temporary jobs on the duration until (regular) work. *Journal of Population Economics*, p. 107-139.

³ Armoedesignalement 2010. Vrooman et al. SCP/CBS.

proportion actually does so, as recent studies have revealed.⁴ If the working poor are trapped in a situation year after year and unable to improve their situation, they are considered a problematic group. The total number of people in poverty with labour as their main source of income for a period of 4 years or longer, was as follows in 2009: 21.000 entrepreneurs without employees (2.8%) and 25.000 (0.8%) employees.

NB: In the Netherlands there are three ways of assessing poverty. One method is to compare incomes to the indexed, social benefit level of 1979 and its accounted equivalents for various household compositions. This minimum level is most often used when estimating the income level of the working poor. The second method is to develop a budget that is regarded as the minimum necessary to pay for the necessary goods and services for a modest but decent way of life in the Netherlands. The third method is to apply a political minimum. A minimum is defined in various income support policies. These figures do not match the international definition of 60% of the median income.

3. Applying a two-tier policy

Trade unions, employer organisations and municipalities have agreed on a common analysis in combating in-work poverty (Council for Work and Income, February 2011).⁵ Formally speaking, no-one earns less than the statutory minimum wage in a standard, full-time labour contract – thanks to a decent work strategy and the work-must-pay policy (ILO).⁶ The statutory minimum wage in the Netherlands is – in terms of purchasing power – one of the highest in Europe. However, in the case of a household with several members in which only one member is earning the statutory minimum wage, the family may well end up being part of the working poor.

Combating in-work poverty is complicated. There is no clear target to aim at. The Council says in-work poverty is often caused by labour market dynamics, or dynamics in the household situation that need adjustment as the level of income drops below the poverty line due to loss of work or changes in the household situation.

In order for the working poor to confront these dynamics, a two-tier approach is theoretically possible. One of these tiers would be to raise the income from labour by increasing the working hours, or if no such increase is possible in the current employment contract, to encourage a change of jobs. This approach requires us to focus on job-to-job mobility and the instruments needed to make a successful transition; these are quite different areas of policy to an exclusive focus on inadequate incomes. Here coping with labour market challenges is more a matter of empowering workers and encouraging employers. Policies should be aimed at encouraging longer working hours for example, and more households where both parents have a paid job (the need for childcare, qualifications, competence, matching of skills to labour, etc). Work-work transfers should also be facilitated. In this first tier approach government policies have a facilitating and stimulating role. Another important role is performed by the social partners, who help to realise these policy goals by means of collective labour agreements.

⁴ Zonder werk. De financiële gevolgen van werkloosheid (2010), Nibud.

⁵ Werkende armen. Analyse (Working poor: Analysis (2011)). (Raad voor Werk en Inkomen / Council for Work and Income). www.rwi.nl.

⁶ If in-work poverty is due to illegal working conditions or underpay, fines are put in place and employers making use of illegal labour are prosecuted in order to maintain a level playing field for other players in the market. Fines and penalties for these employers have been raised to 12,000 Euro for the first offence. Increasing amounts and even closure of the enterprise are possible if further violations are registered.

The second tier is to claim - temporarily or when necessary structurally - income supplements. The attractive feature of the French “Revenu de solidarite active” (RSA) is that it seems to reduce the transaction costs of this second tier approach. By having a programme that not only provides income for people out of work, but also a scheme for people making the transition to work, France has an instrument for providing income support to the working poor which reduces transaction costs.

In the Netherlands the working poor have to obtain their income from different sources: income from work, allowances provided by the tax authorities (housing allowance, medical insurance allowance and allowance for child care) and - if desired - an individual welfare supplement which can be claimed at the local government. In cases of partial unemployment, a social insurance benefit can also be claimed. So in theory it is possible to receive a total income approximately equal to the poverty line, or even slightly above it, through these different sources.

One side effect of organising such partial incomes is that people entitled to income supplements are not always informed about, or do not take advantage of, (all) the available options. In the Netherlands, most implementing organisations invest in internet tools to create support systems for potential claimants. In some instances income supplements are provided automatically.⁷

Tax measures for working poor

In the Netherlands, a limited form of IWB (in-work tax benefit) has been incorporated in the tax system for some time now. Annex 1 contains a brief outline of the EITC in the Netherlands.

IWBs (in-work tax benefits) are less effective when the income variations in a country are relatively small. Groups with a marginal income about equal to the minimum level will be confronted by a substantial marginal tax rate, thus reducing the incentive to accept work. This marginal tax rate could discourage job seekers from investing in their human capital or accepting a job for more hours. In the neoclassical paradigm, this type of policy is seen as less effective and more costly. In the Netherlands the replacement rate is one of the highest among OECD countries. This is because of the relatively high level of income support provided to jobless households.

IWBs in continental Europe, including the Netherlands, are primarily directed at making work pay and not at reducing poverty. IWBs are designed to compensate for low individual income, and not low household income as is the case in the US and the UK, so they are not especially designed to fight in-work poverty. Besides this, IWBs in continental Europe (including the Netherlands) are much lower than in the Anglo-Saxon countries.⁸

The neo-classical paradigm, whereby IWBs would and could help by making work pay, is disputed by social economists who have studied the income elasticity of low income persons accepting work. Being on a low income and given all the benefits and provisions, there is ample space for income improvement, often due to a multiple problems situation. Studies show that people on low income are somewhat indifferent to financial incentives, and are more prone to act

⁷ A fine example is the policy of the state agency paying Dutch state pensions and child allowances. If income is under the social minimum, the agency gives additional digital information about what regulations apply for additional income. (www.svb.nl).

⁸ Marx, I., *Beleid voor de werkende armen*. Notitie voor de Raad voor Werk en Inkomen, Antwerpen 2010.

on social incentives.⁹ Considering the multiple problems for some groups (debt, addiction, housing, divorce etc.) their financial difficulties may be the least of their worries. On the other hand recent research in the Netherlands shows that 60 – 65 percent of the population receiving social assistance considers an increase in income to be an essential condition for job acceptance.¹⁰

The intellectual dispute is about the scale of the problem. No impact study has been carried out, so it is not clear for which segment of the population financial incentives could be effective, or in which segments people may be indifferent. Obviously there will be a bit of both. All in all, IWBs designed in the way they were in the Netherlands only have the power to alleviate in-work poverty very slightly.

4. A Dutch experiment: in-work income supplement for single parents with dependent children (VAZALO)

In 2007 a law was passed to create an income supplement programme to make work pay for single parents with dependent children (Vazalo). This programme was comparable to the RSA supplement. The difference is that it was only for single parents, and not for all the working poor. However the law was never implemented due to a negative recommendation from the Council of State. Some problems were mentioned in an ex ante evaluation.

- In experiments with the taxonomy of the programme, a lot of criteria had to be met in order to qualify. These criteria turned out not to form a complete match with the social welfare population. Fewer single parents on welfare met the criteria (1-8% of all single parents receiving a welfare benefit met the criteria).
- The supplement was a somewhat local facility and not well coordinated with the tax authorities. The amounts given as a supplement by local government resulted in a lower housing subsidy and a lower child care supplement as a result of the increase in income. The promised increase in income was at best only partially or temporarily realised.
- As the income supplement by local government was designed to be transferred monthly, tax supplements are transferred annually.
- So far, due to the complexity of the different sources of income, this sympathetic idea has led to even more coordination and income management issues.¹¹

An improved plan experimenting with support for single parents with dependent children was put in place. This experiment ended in December 2010 (evaluation in September 2011). A mixed approach was adopted:

1. The possibility of earning an additional income of up to 120 Euro a month depending on hours worked.

⁹ Maatwerk bij meervoudigheid. Domein overstijgende dienstverlening aan mensen met een meervoudige problematiek. SZW, Inspectie Werk en Inkomen, 2010. Armoedebestrijding. SZW, Inspectie Werk en Inkomen, 2010.

¹⁰ Armoedebestrijding, SZW, Inspectie Werk en Inkomen, 2010.

¹¹ Voorbereiding Vazalo verkend. Onderzoek onder beoogde experiment gemeente Vazalo. (2008), R. van Leer, J. E. Soethout, Regioplan.

2. A combination of training/education and work.
3. An additional bonus if courses of training were followed and a sustainable return to work realised.
4. A worker posting scheme was made available to single parents with dependent children. This experiment reflected the mixed strategy of the two tier problem.

5. Discussion and possible measures to combat in-work poverty

Taking the main causes of in-work poverty in the Netherlands as our starting point (limited part-time hours and low-paid work, forming single-parent households, having a large family and/or debts) we see several possible measures to combat in-work poverty.

1. Measures at the national level to reduce the poverty trap, which means making work pay.
2. Additional measures by municipalities to make work pay and help fight debt.
3. Measures encouraging people to work more hours and create more two-earner households (equal access to opportunities and a more equal distribution of labour).
4. Measures to prevent people from dropping out of the labour market and encourage work-work transfers.
5. Measures specifically aimed at single parents.
6. Measures specifically aimed at poor entrepreneurs (without employees).
7. Measures specifically aimed at (poor) large families.

Prospects for the working poor given the political debate in the Netherlands

To overcome the consequences of the financial crisis, measures will have to be taken which could affect the working poor. A decrease in the childcare allowance is under discussion for example, as is the introduction of a cap on income support programmes by local government. Until now there has been no maximum on the income supplements provided by municipalities to those in need. Some municipalities had income support programmes up to 130% of the social assistance level (with an average of 116%). Most of these programmes are in principle also open to the working poor. The current government announced it will cap these programmes to a maximum of 110% of the social assistance level for generic assistance. Only in specific cases can income support be given, as an incentive to persons who have just found a relatively low paying job for example.

Special emphasis is needed on the working poor with limited labour capacity. So far the debate has been about employees with a 100% labour participation capacity. With regard to increasing the opportunities for people with limited labour capacity in the Netherlands, the focus is on using the (remaining) labour capacity that already exists. To the extent that this group is participating in paid labour nowadays, the majority of this group participates by using the system of worker postings. Entrepreneurs who hire posted workers have limited liability as an employer. Under these conditions public/private partnerships have increased significantly over the years. In 2006 only 16% of the disabled people in sheltered employment worked in private firms. In 2009 this number had risen to over 50%¹². Thanks to subsidies these groups did not fall below the poverty line. In the current economic climate, these budgets are under pressure.

¹² Branche-informatie sociale werkgelegenheid en arbeidsintegratie 2009. Cedris (2009).

In 2010 experiments were initiated to study different instruments for assessing labour capacity. These instruments are designed to assess real, earned income in the workplace¹³. The idea is that employers be given the legal option of only paying the real, earned income. (Part of) the gap between the income paid in this way by the employer and the statutory minimum wage will be financed by the government. In some cases these experiments involve agreements between government and the employer aimed at the creation of employer programmes to enhance labour capacity through on-the-job courses and training. By monitoring progress, the need for subsidy can be minimised after a period of time. This means labour support can be tailored to the workplace, considering the need for support to enable participation. Such programmes are designed to limit the loss due to dead-weight in the programmes. In these experiments people may receive less than the minimum wage for a limited period, and this should be an incentive to participation. But if people from this group with limited labour capacity – aside from labour market conditions - lack the capacity to enhance participation, there is a risk they may end up as new 'members' of the working poor. Their incomes will nevertheless be higher than if they were not working at all.

¹³ Tweede Kamer (32165), 2010.

Annex 1: EITC in the Netherlands

Provisions in the Dutch tax system for the working poor

The EITC was introduced in the Netherlands in 2001 as part of a major tax reform.

All Dutch inhabitants in work have a general tax credit of EURO 1,976 (2011). Part of the labour income is also exempt from taxes. For the first EURO 9,209 income bracket, the tax credit increases by 1.716%. In the second bracket the tax credit levels off to 12.152% and a maximum amount of EURO 1,574. If the total labour income exceeds EURO 44,126, the tax credit decreases by 1.25% until the maximum deduction of EURO 77 is reached.

The original plan was to develop a higher tax credit for lower incomes and a larger deduction for the second bracket, but due to the economic crisis this instrument did not reach the scale that was originally envisaged. So far it has resulted in a rather marginal implementation in terms of an EITC-scheme. Nor is this tax credit exclusively targeted on the working poor, but on every employee or self-employed person paying taxes.¹⁴

Beyond this tax credit there are also tax facilities aimed at specific groups. There is a tax credit for single working parents with dependent children for example. These tax credits are directed at workers, but not specifically at low income workers, so there is no redistribution specifically aimed at the working poor. There are also other facilities such as child-care allowance. This is an allowance for child care for those in work.¹⁵ Apart from this child care allowance, there is a general, income-independent child allowance and an additional income-dependent child allowance.

The conclusion is that the Dutch tax system provides some instruments, separate from other arrangements in the system. Since these instruments only provide a partial income, impact studies should be carried out to give us a clearer picture of the interaction between the different arrangements.

¹⁴ De Kam, C.A., Een weg omhoog? Inkomensverbetering voor de working poor, Groningen 2010.

¹⁵ See note **Fout! Bladwijzer niet gedefinieerd.**

Annex II: National data on the Netherlands

Source: Employment in Europe 2010

Figures 2009

Unemployment rate (15+)	3.4%
Youth unemployment rate (15-24)	6.6%
Employment rate (15-64)	77%
Employment in services (as a percentage of total employment)	80.5%

Data Ministry of Social Affairs and Employment

Minimum wage	EURO 1424.40
Social benefit	
Couple	EURO 1313.85
Single	EURO 919.70
Single parent	EURO 1182.47