

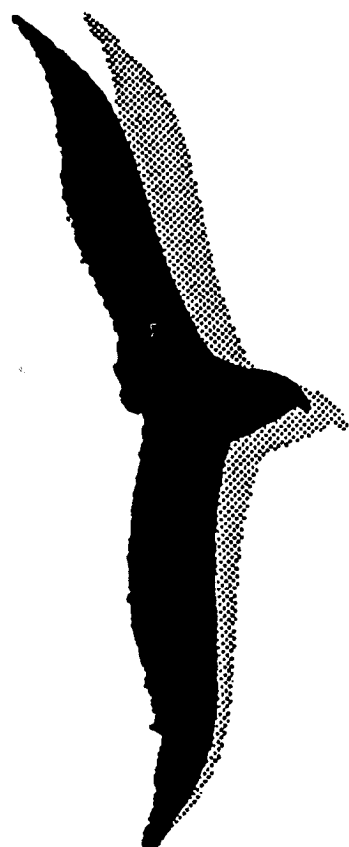
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Dutch experiences in reforming social insurance and implementing active labour market policy in 1987-1995

A.I. Stigter

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Matters of design

Dutch experiences in reforming social insurance and implementing active labour- market policy in 1987-1995

A.I. Stigter*

Samenvatting

Deze studie geeft een overzicht van veranderingen in het socialezekerheidsstelsel en het actief arbeidsmarktbeleid in Nederland in de periode 1987-1995. Daartoe worden achtereenvolgens de beleidsdoelstellingen, -maatregelen en -evaluaties van deze veranderingen besproken. Ook worden nog bestaande problemen geïnventariseerd en nieuwe maatregelen aangedragen. Drie verschillende benaderingen worden daarbij onderscheiden: de stelselherziening van 1987, de herijking van de verantwoordelijkheidsverdeling en de combinatie met actief arbeidsmarktbeleid. Deze strategieën vullen elkaar aan omdat zij gezamenlijk bijdragen aan de toekomstige betaalbaarheid van de sociale zekerheid en de financiële prikkels op de arbeidsmarkt vergroten.

Abstract

The object of this study is to review Dutch experiences in reforming social insurance schemes and implementing active labour market policy in the period 1987-1995. This paper specifically aims at discussing the objectives of the reforms, describing the measures actually implemented, summarizing existing evaluations of the impact of the reforms and highlighting remaining problems with the status quo and the further reforms that may be necessary. The study distinguishes three major policy approaches as to reform social insurance, respectively renovating the social security system (the 1987 system reform), reforming the organisational structure of social insurance, and renewing active labour market policies (integrating benefit-awarding agencies and public employment services). These measures can be seen as complementary as they are elements of an overall policy to safeguard the future viability of social security and to improve labour market incentives.

This review forms part of a comparative study by the International Labour Office that encompasses France, the United Kingdom, Australia and the Netherlands.

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Chapter 1 Labour participation and social security

§1.1 Introduction

Today’s economic policy debate in the Netherlands focuses on the low labour participation and high costs of social security. In its coalition agreement, the current cabinet has proclaimed the shortage of employment to be the key problem of the Dutch economy. Despite rapid job creation in the past decade, large parts of the labour force continue to be non-employable. This is mainly due to the fast growth of labour supply. Until recently the growth of the Dutch labour force has been curbed by earmarking great numbers of workers as ‘non-employable’, i.e., persons who could not be employed at present economic conditions have easily been absorbed by generous and lenient sickness, disability, unemployment and early retirement schemes.’ The increase of labour supply can now largely be explained by three developments: sustained large numbers of women enter the labour market,² substantial parts of the immigrant population join the labour force, and former disability beneficiaries re-entry to labour market activity. With regard to the latter tendency, this is the indirect and combined result of complementary policy measures, such as constricted eligibility conditions, cuts in benefit levels and durations and re-examination of disability beneficiaries.

Compared to other developed countries, Dutch labour participation is indeed low. Table 1.1 summarizes some key OECD figures on participation rates for several European countries. In this inter-country comparison, participation in the Netherlands seems rather low, especially considering that the OECD definition measures labour participation in persons instead of full-time equivalents. However, working part-time is a widespread phenomenon in the Netherlands, well above the EU

Table 1.1 Labour force participation rates in selected European countries 1980-1994

	1980	1985	1990	1994
Belgium	63.0	62.0	62.6	64.0
Denmark	79.2	81.9	81.9	80.9
France	68.4	66.4	66.6	67.3
Germany	68.3	67.4	69.1	69.1
Italy	60.3	59.1	61.3	58.8
Ireland	63.2	62.2	62.3	64.0
Netherlands	57.7	56.0	58.2	60.7
Sweden	80.8	81.6	83.0	76.4
United Kingdom	74.0	74.4	76.7	74.3

Source: OECD (1995). The OECD definition of labour participation measures the labour force divided by the total working-age population, normally restricted to individuals of 16-64 years old.

[1] The concept of ‘non-employability’ derives from the starting-point that these categories are very similar from an economic point of view. Van der Praag & Van Beek (1991).

[2] Traditionally, female labour participation has been very low in the Netherlands. For instance, the participation rate of married women has been as low as 2% in 1947 and 4% in 1960.

Table 1.2 The relation between 'inactives' and 'actives' in selected European countries		
	inactive ratio	inactive ratio excluding old age pensions
Belgium	1.061	0.512
Denmark	0.736	0.353
France	0.835	0.338
Germany	0.884	0.407
Ireland	n.a.	n.a.
Italy	n.a.	n.a.
Netherlands	0.829	0.426
Sweden	n.a.	n.a.
United Kingdom	0.808	0.342

Note: The so-called inactive ratio is defined as the ratio between the number of people receiving benefits and the number of active workers. *Source:* Nederlands Economisch Instituut, in Ministry of Social Affairs and Employment (1995), 11.

average.³ Thus, table 1.1 still overestimates Dutch labour participation.

Since 1970 the volume of social security beneficiaries has doubled from 2.1 to 4.2 million benefit years. Whereas in 1970 a person receiving a benefit had his support paid by two active workers, at present each active worker in the Netherlands almost completely supports another person who receives a benefit. This so-called 'inactive ratio' has increased from 0.44 in 1970 to 0.85 in 1995. The incidence of non-employability is even worse at the lower end of the labour market. For instance, every hundred low-skilled workers have to support ninety sickness, disability or unemployment beneficiaries, apart from other social security benefits.⁴

Until now, the deterioration of the inactive ratio has been primarily the result of the vast increase of the number of social security beneficiaries. In the next decade the ageing population will cause further upward pressures on the development of the inactive ratio. In a recent study on the development of the Dutch economy in the period 1990-2015, two out of three scenarios show that the inactive ratio will deteriorate even further in the next ten years, from 0.86 in 1990 to respectively 1.18 or 0.99 in 2005." In all three scenarios the deterioration of the inactive ratio is mainly due to the increase of the number of aged people. This demographic development will cause considerable additional upward pressures on the social security budget, only to be compensated by cutting down benefit generosity even further or restraining the number of beneficiaries in other social security schemes.

Yet, compared to other European countries, the level of the inactive ratio in the Netherlands is not exceptionally high. Table 1.2 presents figures on the inactive ratio for several European economies. The overall inactive ratio is about average for these countries. Table 1.2 clearly shows that most European countries can be characterized by large income transfers from the active to the inactive population. Similar to the Dutch case, this is the result of two developments: the

[3] In the Netherlands 14% of all men and 63% of all women work part-time, as opposed to for instance 8.4% and 41.3% in Sweden. 6.3% and 45% in the UK, and 2.2% and 30.7% in Germany (data for 1992, see OECD (1995a)).
 [4] Central Planning Office (1991).
 [5] Central Planning Office (1992).

**Table 1.3 Social protection expenditures as a percentage of GDP^a,
in selected European countries 1980-1993**

	1980	1985	1990	1993
Belgium	28.0	29.3	27.0	27.6
Denmark	28.7	27.8	29.8	33.2
France	25.4	28.8	27.7	30.9
Germany^b	28.8	28.4	26.9	27.6
Ireland	20.6	23.6	19.5	21.4
Italy	19.4	22.6	24.1	25.8
Netherlands	30.1	31.7	32.2	33.6
Sweden	n.a.	n.a.	n.a.	n.a.
United Kingdom	21.5	24.3	22.7	27.8

^a At market prices

^b Excluding the new Länder

Note: Social protection expenditures refer to benefits which have been made up of transfers to households to cover social risks. These social risks entail financial costs or loss of income, and include the following categories: sickness, invalidity, disability, occupational accidents and disease, old age, survivors, maternity, family, placement, vocational guidance, resettlement, unemployment and housing. **Source:** Eurostat (1995).

proportional increase in the ageing population and the earmarking of large **parts** of the labour force as non-employable. **Still**, whereas in most countries the population is **already** relatively aged, this has not yet been the case in the Netherlands. Thus, so far the low participation **rate** in the **Netherlands** is primarily due to substantial inactivity among **persons** of working age.

The vast increase of the volume of beneficiaries has **caused** social security expenditures to rise rapidly over the past decades. The further extension of social security acts, liberalized eligibility conditions, rising **benefit levels** and increased maximum **benefit** durations, have **also** contributed to the rise of the social security budget. **Thus**, upward pressures on the social security budget are **caused** both by **price** and volume **components**. **Table 1.3** summarizes the share of social protection expenditures in the gross domestic product. Social protection is **a broad** concept, **covering all** social risks that entail financial costs **or** of loss of income for households. From **inspection of table 1.3**, it emerges that social expenditures take one-fifth to one-third of **GDP**. The Netherlands cannot **be** considered as **a** major outlier, social expenditures being somewhat above **average**.⁶

Taking into account the composition of the social expenditure budget this broad picture **changes** dramatically, at least with **regard** to the Netherlands. **Table 1.4** **surveys** the ratio **between** expenditures on work-related insurance **schemes** and total social protection expenditures. The shares of these **categories** in total outlays **indicate** the program wise variation between countries. Large cross-national differences exist with **regard** to the share of unemployment insurance, probably due to different labour market conditions and diverse benefit levels. **Table 1.4** clearly shows that the share of disability and sickness **benefit** programmes is roughly the same for **all** countries, with one major exception. Disability outlays in the Netherlands account for twice as

[6] Comparing social protection expenditures may be tricky. First, only gross figures are given, but not the net costs (gross versus net payment of benefits). Second, tax expenditures do not appear in the statistics. Third, in addition to the public expenditures one should also take into account the private expenditures by employers and employees.

Tahle 1.4 Disability, sickness and unemployment benefit expenditures as a percentage of total social protection expenditures in selected European countries 1980-1993

	<i>Disability^a</i>		<i>Sickness</i>		<i>Unemployment</i>	
	<i>1980</i>	<i>1993</i>	<i>1980</i>	<i>1993</i>	<i>1980</i>	<i>1993</i>
Belgium	9.6	8.9	21.8	22.9	9.2	10.0
Denmark	8.4	8.4	26.7	18.8	10.8	12.6
France	6.2	5.7	26.2	26.4	4.3	6.8
Germany ^b	8.8	9.2	28.3	27.9	3.1	5.9
Ireland	6.3	6.9	36.6	29.7	8.0	14.5
Italy	7.8	6.9	24.6	22.2	2.3	2.1
Netherlands	24.1	22.4	23.8	22.2	6.1	9.2
Sweden	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
United Kingdom	8.8	11.7	23.0	19.2	8.2	6.1

^a Occupational accidents and diseases excluded

^b Excluding the new Länder

Source: Eurostat (1995).

much as the average share in the other countries. There are no particular reasons *a priori* to expect large cross-national differences in the potential demand for disability insurance, so the question raises why Dutch disability programmes are so expensive, even after successive policy measures to restrain the number of beneficiaries.

In conclusion, the Netherlands can be characterized by low labour participation, substantial non-employability among persons of working age and a high level of public expenditures on social insurance programmes (especially for disability schemes). These eclectic features can be linked by considering the economic effects of social security.

\$1.2 The economic effects of social security

The development of a comprehensive system of social security is essential to the welfare of Western European countries and is therefore often associated with highly developed welfare states.⁷ Social security contributes to an equitable income distribution, reduces uncertainty, promotes social mobility and conduces to macroeconomic stability. Still, social security may cause considerable welfare losses as well, due to behavioural effects on the supply side and the demand side of the labour market.⁸ Social security programmes are largely financed by employer and employee borne contributions, which drive a wedge between gross labour costs for the employer and net earnings for the employee. The budgetary costs of social security therefore directly add to labour costs. The tax wedge also indirectly affects labour costs, since wages are largely negotiated on an after-tax basis. Generous benefits levels, extended coverage and increased maximum benefit

[7] See e.p. Oudshoorn & Vijlbrief (1995).

[8] See Vijlbrief (1992). Jehoe-Gijsbers et al. (1995).

durations reduce job-search and training incentives for beneficiaries, leading to increasing reservation wages and longer unemployment duration. Especially in the lower segments of the labour market, the difference between wages and the minimum guaranteed income is very small, thus leaving semi- and unskilled beneficiaries hardly better off after taking a job. These reduced efforts at self-support are reinforced by income-dependent subsidies and other means-tested welfare programmes.

The welfare losses of social security may be reinforcing, so that in an adverse economic environment a downward spiral may arise, in which both employment and labour participation decrease.⁹ In the Netherlands, social funds are financed on a balanced budget basis. Whenever the number of inactive workers rises, so will social security contributions and gross labour costs for employers. Consequently, more workers are laid off and the demand for social security is trapped into a negative spiral, diverging further and further from equilibrium. This mechanism, which is sometimes referred to as the 'social security trap', is institutionally established by the pay-as-you-go financing system of social security.¹⁰ After adverse shocks, the least productive workers are easily absorbed by social insurance programmes, since eligibility conditions are lenient and enforcement loose. Utilizing disability schemes for redundant workers is in the interest of both employers and workers: the former to circumvent firing costs and to avoid social friction, the latter to safeguard generous and lengthy benefits. Thus, the outflow to social security is biased, contributing to the rise of average labour productivity of employed workers, but leaving redundant workers permanently outside the labour force. Because of increasing social security outlays and diminishing tax and premium revenues, the wedge between gross labour costs and after-tax earnings increases, thus requiring remaining workers to be even more productive and consequently accelerating the number of redundancies among below-average productive workers. Hence, due to inefficient institutional arrangements in social security, adverse shocks may cause a self-sustaining spiral with detrimental and enduring effects on labour demand and labour participation.

This 'downward spiral' has been aggravated by the changing social climate and the failure to devise active policies. Due to massive unemployment, people have become aware of their legal right to demand social security in case they become eligible, so that overall people may have become habituated in obtaining benefits. This practice puts mutual solidarity on the test and erodes the sense of responsibility when applying for social security. Further, active labour market policies have been insufficient so far. Until now, the performance of the Public Employment Service (PES) has been mediocre. The employment agencies and benefit-awarding agencies have failed to collaborate systematically, so that no effective sanction policies have yet been carried out for beneficiaries who fail to meet their obligations. It is therefore unlikely that the PES is able to increase the financial pressure on benefit claimants to seek for a job. Conversely, because of the poor performance of the PES, the positive impact of its counselling activities on the motivation of clients has been underutilized. The result may easily be that people no longer participate in the labour market, lose their skills and see their job prospects fall, leading to a vicious circle of rejection and alienation.

Several policy measures can be devised as to promote labour participation and to reverse the downward spiral. One obvious strategy is to reduce the wedge by cutting down social security

[9] See e.p. Keuzenkamp *et al.* (1993). Den Butter (1993). May & Muysken (1992).

[10] Van der Praag & Van Beek (1991).

contribution rates. The question is whether to reduce employee borne or employer borne contributions.^[11] Policy measures aimed at reducing the employee's wedge stimulates employment directly. Reducing employee borne premiums makes work more attractive and stimulates labour supply. Decreasing employee's contributions is also conducive to wage restraint, as wages are mostly negotiated on an after-tax basis. Still, in the long term the distinction between cutting down the employee's wedge or the employer's wedge disappears. Instead of reducing the overall tax wedge, it may be more effective to focus on the segments of the labour market where economic inactivity is primarily concentrated: the lower end of the labour market. One possibility, which is sometimes referred to as the 'Robin Hood strategy',^[12] is to redistribute social security contributions and income taxes from low- to high-productive workers, e.g. by giving every employee a fixed earned income tax credit or a lump sum tax deductible item.^[13]

Apart from reducing the tax wedge, several other instruments can be devised as to curb the deterioration of the inactive ratio. As of the mid 1980s, various measures have been carried out as to improve the functioning of the labour market. One effective strategy, which has extensively been used in the Netherlands, is wage restraint, so as to stimulate labour demand.^[14] Moreover, the linkage mechanism between wages and benefits has largely been suspended in the past fifteen years, so that wage-benefit ratios have decreased and job-search incentives have been reinforced. Eligibility conditions have been tightened and maximum benefit durations have been reduced. These so-called 'price policies' have been relatively successful, even though the average benefit level is still very high compared to other European countries. Despite the increased demand for social security, the ratio of social security outlays to GDP is now relatively stable.

Still, the beneficiary volume has not been curbed, especially with regard to disability insurance. This is for a large part due to the highly complicated and fragmented character of the organisational structure of the Dutch social security system. The so-called 'social partners' (trade unions and employers' organizations) still play a dominant role in administering and implementing social security programmes. Until very recently, the system of social security has failed to provide incentives at the implementation stage as to have these interest groups pursue active policies as to restrain the number of beneficiaries. Only after several critical evaluations, a broad economic policy debate has been initiated on rethinking the foundations of Dutch social security. As a consequence, it is now widely perceived that the balance between 'passive' and 'active' policies has to be redressed. A reciprocal concept of income-support has been devised. According to this concept, beneficiaries do whatever they can as to provide for their own means of living. Conversely, the government supplies job-search assistance services and re-employment programmes. One way to do so is to have the Public Employment Service and the benefit-awarding agencies work together, so as to increase the favourable effects of active labour market policies and to monitor job-search efforts by unemployed.

[11] See e.g. Hagen (1995).

[12] See Bovenberg *et al.* (1994), Graatland (1994).

[13] As proposed by the Advisory Commission on the Lower Segment of the Labour Market (1994).

[14] Most Dutch economists agree on the beneficial effects of wage restraint on labour demand. See e.g. De Vries (1994) and Bröersma (1995). See Kleinknecht (1994) for a dissident view.

§ 1.3 Aim of this study

The object of **this paper** is to review recent experiences in reforming social insurance schemes and implementing active labour market policy in the Netherlands. This paper aims at discussing the objectives of the reforms, describing the measures that have been implemented and reviewing evaluations on the impact of the reforms. This study further analyzes remaining problems and the government's intentions on future reforms that may be necessary to solve these problems.

The paper is organized as follows. Chapter 2 is a very brief introduction to the current Dutch system of social security. This study distinguishes three major policy approaches in reforming social insurance. The *first* approach is to revise the system of social security. In 1987 seven acts have been implemented which form together the '1987 system reform'. This system reform will be discussed in chapter 3. A *second* approach, to be analyzed in chapter 4, is to revise the organisational structure of social insurance so as to ensure an efficient and effective implementation of these programmes. The *third* policy approach is to redress the balance between active and passive labour market policies. According to this approach, which is discussed in chapter 5, the Public Employment Service and benefit-awarding agencies collaborate, so as to set up an 'integral case assessment' of beneficiaries. Thus, prevention and reintegration are used as active strategies to restrain the number of benefit recipients. Chapter 6 discusses the impact of the reforms so far, analyzes the chief causes of the problems in Dutch social insurance and reviews the cabinet's intentions.

Not all policy approaches have been equally successful. The first policy strategy, the so-called 'system reform', is the oldest and primarily aims at improving the coherence within the system of social security. In line with this approach, retrenchments are particularly the result of reduced price components in the social security budget. By contrast, the other two policy approaches can be characterized as volume-policies. The second approach, reforming the organisational structure, focuses on the implementation stage of social insurance and is therefore a process-oriented policy scheme. The third strategy, redressing the balance between active and passive policies, alters the foundations of social security. According to this approach, reintegrating benefit claimants is just as important as wage replacement and minimum income guarantees. Despite these differences, the three approaches that are distinguished here can be seen as complementary, as they are strategies to safeguard the future viability of social security (at the macro level) and as they are elements of an overall policy to improve labour market incentives (at the micro level).

In the Netherlands, it is not yet customary to evaluate new policy measures.¹⁵ Still, only very recently several (parliamentary) commissions have investigated various social security programmes. A very influential evaluation, which is discussed in chapter 4, is the Parliamentary Inquiry on the implementation of social insurance. Further, in 1989 an extensive research project has been initiated, the so-called 'Project Evaluation of the Revised System of Social Security'

[15] Note that the Ministry of Social Affairs and Employment publishes a biannual *Nieuwsbrief Sociale Zekerheid*, which surveys all publications on social security and labour market policy. All evaluation assignments financed by the Ministry of Social Affairs and Employment are reviewed in the Government Budget (White Papers (1995)). The reports of the Social Security Research Commission, an advisory board to the Ministry, are surveyed by Terpstra (1995).

(PERS), by the Ministry of Social Affairs and Employment, the Social Insurance Council and the Dutch Association of Municipalities. It has not yet **been** completed, and not **all** of the project groups have published their reports, but as far as the PERS results are relevant here, their conclusions **will be** referred to. The functioning of the reorganized **Public Employment Service** has **been** investigated by the 'Commission-Van Dijk'. This **evaluation report** is **discussed** in chapter 5.¹⁶

[16] Other major evaluations, which will not be reviewed here, are the reports by the 'Doelman-Pel-Commission' and the 'Van der Zwan-Commission' on national assistance programmes.

Chapter 2 Brief overview of the Dutch social security system

This chapter provides a brief overview of the current system of social security in the Netherlands. Section 2.1 introduces the main characteristics of the system. Section 2.2 discusses the main functions of social security and the linkage mechanism between wages and benefits. Section 2.3 briefly sketches the administration of social security schemes.

§2.1 Institutional and fundamental characteristics

Table 2.1 summarizes the organization of the social security system in the Netherlands. Within the Dutch system a distinction is made between social insurance and social provisions. Social insurance schemes are divided into employee insurance schemes and general insurance schemes. The division between these two kinds of arrangements is based on the scope of the application: social insurance schemes are national programs covering all residents, whereas employee insurance schemes cover only private sector workers (civil servants have their own schemes). Social assistance programmes are welfare provisions for those who are not able to provide for their own means of living and who are not eligible to social insurance schemes.

The primary difference between social insurance and social provisions lies in their financing and administrative modes. In principle, both employee insurance schemes and general insurance schemes are financed out of mandatory contributions by employees and self-employed. All social insurance programmes (excluding child care allowances) are financed by a pay-as-you-go system, so that contribution rates cover expected risks. By contrast, social assistance provisions are funded by general revenues. Social insurance programmes are administered by industrial associations managed by employers and employees. The administration of welfare provisions is assigned to the Social Security Institute (*Sociale Verzekeringsbank*).

Employees' insurance includes provisions against the loss of income due to unemployment (New Unemployment Benefits Act, *nww*), sickness (Sickness Benefits Act, *zw*),¹⁷ disability (Disability Insurance Act, *waö*) and medical care (Health Insurance Act, *zfw*). General insurance schemes are national programmes that cover the risks of old age (General Old Age Pension Act, *awö*), disability (General Disability Benefits Act, *aaö*) and exceptional health costs that are not covered by health cost insurance (General Act on Exceptional Medical Expenses, *awbz*). In addition, general insurance schemes include child benefits (General Family Allowances Act, *akw*, financed out of general revenue) and provisions for widows and orphans (General Widows' and Orphans' Pensions Act, *aww*).¹⁸

Social assistance composes of unemployment assistance (State Group Regulations for Unemployed Workers, *rww*), public assistance (National Assistance Act, *abw*), supplementary benefits (Supplementary Benefits Act, *tw*), social employment service (Sheltered Employment Act, *wsw*)

[17] Only very recently, Parliament has decided to largely privatize the Sickness Benefits Acts. See section 4.3.

[18] As of July 1996, the *AAW* is to be replaced by the a more stringent survivors' benefits act.

Table 2.1 The organisation of the Dutch social security system

	Arrangement	Administration	Supervision
Social insurance (employee insurance)	Unemployment insurance (nww)	Industrial Associations ^a	Supervisory Board for Social Insurance
	Sickness insurance (zw) ^b		
	Disability insurance (wao)		
	Health cost insurance (zfw)	Health Insurance Funds	Health Insurance Council
Social insurance (national insurance)	Exceptional health cost insurance (awbz)	Social Security Institute	Supervisory Board for Social Insurance
	Child care allowances (akw)		
	Old age pensions (aow)		
	Survivors insurance (aww) ^c		
	Disability insurance (aaw)	Industrial Associations ^a	
Social assistance	Supplementary benefits (tw)	Municipal authorities	Minister of Social Affairs and Employment
	Supplementary benefits (ioaw/ioaz)		
	Social / unemployment assistance (abw/rww)		
	Social employment service (wsw)		

^a Coordinated by TICA
^b As of March 1996, the ZW will be largely privatized. See section 4.3
^c As of July 1996, the AWW will be replaced by a new survivors' benefits act

and assistance to senior or **partially** disabled, unemployed or former self-employed **persons** (Act on **Income** Provisions for Older or Partially Disabled, Unemployed Workers, **ioaw**, and Act on **Income** Provisions for Older or Partially Disabled, Former Self-Employed, **ioaz**).

\$2.2 Benefit generosity and the net-net link

The two fundamental **principles** of the Dutch social security system are **mutual** solidarity and the responsibility of the government to **protect** its residents from poverty. From these **principles** the two primary functions of the system **follow**: wage replacement and minimum income guarantee. The former is a form of mutual solidarity among employees and employers as to **protect** the employees' acquired standards of living. The **latter**, which is sometimes **called** the safety net, is a constitutionally established form of **mutual** solidarity between **all** residents. Besides these more traditional functions, it has now **been** widely acknowledged that re-employing and reintegrating beneficiaries into the labour force is an **explicit** function of social security as **well**. The reintegration function expresses the reciprocal character of the relation between the **state** and its citizens. **Only those who** are not **able** to **provide** for their own **means** of living **are eligible** to social security benefits. Those **who** are already in a social security programme have the obligation to search for a job as to re-entry into the labour **market**. Conversely, the state does not only provide

Table 2.2 Beneficiary volume and total expenditures for major social security schemes		
	Number of beneficiaries (x 1000 persons)	Total expenditures (in milliard guilders)
Unemployment insurance (WW)	332	9.0
Disability insurance (WAO/AAW)	894	21.6
Sickness insurance (ZW)	175	5.2
Old age pensions (AOW)	2,152	32.5
Child benefits allowance (AKW)	1,812	6.9
Survivors' insurance (AWW)	194	4.8
Social assistance (ABW)	184	3.9
Unemployment assistance (RWW)	326	6.9
Supplementary benefits (TW/IOAZ/IOAW)	126	1.1

¹ Figures for 1994.

Source: CTSV (1995a), Central Bureau of Statistics.

for benefits, it actively helps beneficiaries by means of job-sarch assistance and rc-employment programmes.

The benefit levels of social insurance programmes and welfare provisions are all related to the after-tax minimum wage. The gencrosity of the Dutch social security system has thercforc primarily been dependent on the Icvcl and development of the statutory minimum wage. This is a consequence of the ‘net-net link’ (*netto-netto koppeling*) between flat-rate benefits and the net minimum wage. Thus, if contract wages in the private sector rise, and the minimum wage increases, so does the generosity of income-support measures. In the past fifteen years this linkage mechanism has mostly been suspended, as to rcdress job-search incentives for beneficiarics and to cut down social security expenditures. Sincce 1992 this practice has bccome law, as the link has legally been made conditional.¹⁹ The net-net link is now only to be applied when wages do not rise excessively and the ratio between the number of social security beneficiaries to employed persons does not exceed a rcfcrence level.

\$2.3 Social security administration²⁰

As pointed out in section 2.1, social security programmes are administrated by two kinds of bodies. Work-related social insurance schemes, including the AAW, are administrated by nineteen industrial insurance associations (*bedrijfsverenigingen*). These associations, which are organized per industrial sector or occupation, are managed by representatives of employers and employees. Bccause of its similarity to the WAO, the AAW is also implcmcnted by the industrial insurance

[19] See Vijlbrief & Van de Wijngaert (1995).
 [20] Sec also chapter 4.

associations. National insurance schemes covering demographic risks are administered by the Social Security Institute, in which formerly **independent** Labour Boards **have been** integrated as regional agencies. Similar to the industrial associations this institute **also** consists of **representatives** of employers and employees. National assistance **programmes are** administered by municipalities, supervised by the Ministry of Social Affairs and Employment. Finally, the **ZFW** and the **AWBZ are both** administered by health insurance funds and designated private health insurance **companies**, under supervision of the Health Insurance Council.

Until recently, the Social Insurance Council (*Sociale Verzekeringsraad*, **SVR**) supervised the industrial insurance associations and the Social Security Institute. Trade **unions**, employers' associations and government appointees **all** had **equal shares** of members in this council. In addition to its supervisory tasks, the **svr has been** an advisory board to the Ministry of Social Affairs and Employment. Informally the insurance associations cooperated in **a** Federation of Industrial Insurance Associations (*Federatie van Bedrijfsverenigingen*, **FBV**). When the new Social Security Organization Act **came into effect**,²¹ the **SVR** and the **FBV have** been abolished. The supervisory tasks of the **svr have been** transferred to the Supervisory Board for Social Insurance (*College van Toezicht Sociale Verzekeringen*, **CTSV**), which has **a** board of three independent members. Most of the coordinating, regulatory and advisory tasks of the former Social Insurance Council are now concentrated in **a** Temporary Institute for Coordination and Tuning (*Tijdelijk Instituut voor Coördinatie en Afstemming*, **TICA**). This institute **can be** regarded as **a** successor of the Federation of Industrial Associations.

[21] See section 4.2

Chapter 3 First approach: Renovating the social security system

As of the late 1970s, the demand for welfare state services rises steadily, and so do public expenditures on income maintenance. Yet, it was not until 1987 before substantial policy measures have been carried out as to curtail the high costs of social security. In 1987 seven bills have come into effect that together form the 'system reform' (*stelselherziening*) in Dutch social security. Section 3.1 briefly describes this reform. Section 3.2 analyzes the system reform and discusses the extent to which its objectives have been attained. Section 3.3 discusses subsequent policy measures and highlights remaining problems.

§3.1 The 1987 system reform

The system reform has been initiated by the center-right coalition government under Prime Minister Lubbers. In 1983 this cabinet had asked the Social and Economic Council and the Equal Rights Council for advice on the revision of unemployment and disability schemes and related social assistance provisions.²² In this mandatory request for advice, the government released a set of concrete proposals to reform social insurance.²³ In its request for advice, the government gave three primary motives for a system reform, namely the need to back the level of public spending, the inability of the current system to cope with the scale and the structural nature of economic inactivity, and the desire to create more individual financial independence within the system. More specifically, the government hoped to achieve four major goals.²⁴ First of all, the government desired to cut back the social security budget, in the interests of economic recovery and as to warrant its future viability. Next, the cabinet favoured to promote coherence within the system and between the system and adjacent legislation. Thirdly, the government wanted to modernize the social security system, among other things by making the system more compatible with new work patterns and extra-marital forms of cohabitation. Fourthly, the government wished to eliminate certain imbalances and inequities within the social security system, such as the unequal treatment of males and females and of long-term unemployed and disabled.

The main features of the 1987 system reform can be summarized as follows. First, unemployment insurance has been drastically revised. The former Unemployment Benefits Act (ww) and the Unemployment Provision Act (wvv) have been replaced by the New Unemployment Benefits Act (nww), so that the arrangements for short-term and long-term unemployment benefits

[22] In case of major revisions of social policy, the Dutch government is obliged to consult several advisory bodies, such as the Social and Economic Council, the Equal Right Council and the Council of State. The Social and Economic Council is the highest advisory body on socio-economic affairs. The Social and Economic Council equally consists of union federations, employers' associations and so-called 'Crown members' (i.e., independent experts, to be appointed by the government). Note that these extensive consultancy procedures are time-consuming and may raise serious institutional barriers to social innovation.

[23] See WRR (1985).

[24] See De Jong *et al.* (1990) and Aarts & De Jong (1992).

have been integrated. Unemployment has been redefined. Employees are now eligible to unemployment benefits if they lose at least five hours or half of their number of weekly work hours. The maximum benefit duration has become dependent upon the work record, and is extended from six months to twelve months (in accordance with the former *wwv*). Voluntary unemployed, who were prior to reform eligible to unemployment assistance arrangements (*RWW*), are now covered by the *nww*. Former conscripts and wilful unemployed, who were in principle entitled to unemployment income provisions, are now fully eligible to unemployment benefits. If benefit claimants do not (fully) meet to all eligibility conditions, industrial associations can impose sanctions, either by refusing (part of) the benefit or by reducing the benefit duration.

With regard to disability schemes, prior to reform the assessment of the degree of disability was not only based on medical factors, but also on labour market conditions. Adjudicators had to take into account the potential difficulties partially disabled may experience in finding employment. This 'labour market consideration' in the disability assessment has been eliminated. Next, the minimum guaranteed income for unemployment and disability beneficiaries has been protected by the introduction of two new laws, a supplementary benefits act (*rw*) and an income provision act for senior and disabled unemployed (*ioaw*). If sickness, unemployment or disability benefits fall below the minimum guaranteed income, supplementary benefits may be applied for. In order to prevent older and partially disabled persons who are unemployed from falling down into means- and wealth-tested social assistance after their unemployment or disability benefit expires, the *ioaw* supplements the total income of these persons and their partners up to the minimum guaranteed income. With regard to the benefit level, after reform benefit-wage ratios for social insurance programmes have been reduced to seventy per cent.²⁵ The 'net-net' link between flat-rate benefits and the net minimum wage has been suspended, and so has the adjustment of the minimum wage to changing costs of living (though only temporarily).

\$3.2 Evaluating the 1987 system reform

The 1987 reform seems to have had little effect on restraining the volume of disability beneficiaries. Table 3.1 illustrates that the number of disability benefit recipients continues to rise after 1987. The abolition of the non-employability provision may not have had the expected impact on the inflow of new disability beneficiaries. Whereas the government estimated the volume of hidden unemployment in the *WAO/AAW* at almost fifty per cent, in the official evaluation report the unemployment component has been adjusted to only about ten per cent of the total disability population.²⁶ One possible explanation is that the remaining working capacity of recent disability beneficiaries may have been overestimated, since disability enrolment had already lost most of its attraction, both in terms of benefit generosity and efficiency.²⁷ Further, the average degree of disability of pre-reform beneficiaries may have increased due to previous attempts as to apply the labour market consideration more strictly. Moreover, the impact of the new ruling on disability assessments may have been overestimated, provided that the responsible administrative bodies have

[25] Note that some of these benefit cuts have already been carried out before 1987.

[26] Ministry of Social Affairs and Employment (1990).

[27] De Jong *et al.* (1990) and De Jong & Aarts (1992). See also Besseling & Sprenger (1991). In the period 1980-1985, modal beneficiaries had already lost 25% of their after-tax purchasing power.

Table 3.1 Unemployment, sickness and disability programmes 1986-1995

	average number of benefits (x 1000 persons)			dependency rate ^a (per 1000 persons at risk)			total expenditures (in milliard guilders)		
	ww ^b	ZW	WAO/AAW	ww ^b	ZW	WAO/AAW	ww ^b	ZW	WAO/AAW
1986	68	263	778	1.9	7.2	10.6	1.6	7.0	16.8
1987	129	277	793	3.4	7.3	11.0	3.1	7.3	16.9
1988	172	288	814	4.4	7.3	11.0	3.8	7.7	17.0
1989	173	317	844	4.2	7.6	11.2	3.8	8.7	17.2
1990	163	348	881	3.8	7.9	11.4	4.0	10.2	20.1
1991	175	348	903	3.9	7.7	11.3	4.4	10.5	21.1
1992	208	341	912	4.6	7.4	11.2	5.5	10.6	21.9
1993	269	345	921	5.9	7.4	11.0	7.2	11.0	21.9
1994	332	175	894	7.2	3.x	10.5	9.0	5.2	21.6
1995 ^c	363	173	873	3.7	4.s	10.2	9.2	4.2	20.8

^a Defined as the number of beneficiaries per thousand persons at risk

^b As of 1987 the ww includes former wwv beneficiaries

^c Average of January to November

Source: CTSV (1995a and 1996).

been able to adjust to the new ruling at all.²⁸

Table 3.2 surveys various estimates of the 'hidden unemployment component' in disability programmes. All studies that both refer to the period before 1987 and analyze the inflow into disability schemes²⁹ show that a large share of disability spells (thirty to fifty per cent) can be related to labour market conditions. The only study that uses data after the system reform shows that the labour market related inflow into disability schemes is ten to twelve per cent, in accordance with the official evaluation. Hence, as of 1987 the labour market related inflow into the WAO/AAW may have diminished considerably, and without the system reform the number of benefit claimants may have increased even more.³⁰ Nonetheless, the system reform has failed to tackle the volume of existing beneficiaries. Systematic re-examinations of disability beneficiaries have been restricted to persons younger than thirty-five years, hereby examining only ten per cent of the total disability population.³¹

Because of increased coverage and extended benefit duration, the volume of recipients of unemployment insurance has almost tripled. The inclusion of new categories of workers who have become eligible to the ww has led to a structural increase in the number of beneficiaries of thirteen per cent, of which three-quarters is due to benefit claims by partially disabled.³² The

[28] See De Jong & Aarts (1992).

[29] Thus, all studies except for Westerhout (1995) and Hassink *et al.* (1995). The former analyzes the stock of disability beneficiaries, the latter uses data on 1990.

[30] Of the most recent studies, Westerhout (1995) analyzes the stock of disability programmes and concludes that still half of non-participation due to disability insurance can be characterized as hidden unemployment, whereas Hassink *et al.* (1995), using data on disability inflows, find that only ten to twelve per cent of transitions into disability insurance are due to labour market conditions. Moreover, as of 1987 the fraction of partially disabled steadily rises, causing the magnitude of disability benefits to diminish.

[31] De Jong & Aarts (1992).

[32] Ministry of Social Affairs and Employment (1994b).

Table 3.2 The hidden unemployment component in disability programmes

Author(s)	Data	Conclusions
Van den Bosch & Petersen (1983a)	sectoral data, 1968- 1979	the growth of disability incidence rates is for a large part related to deteriorating labour market conditions
Van den Bosch & Pclersen (1983b)	macro data, 1968-1982	as of the early 1970s, the hidden unemployment component in the WAO steadily rises to 220,000 benefit years (46%) in 1982, see also Van den Bosch & Petersen (1980)
Roodenburg & Wong Meeuw Hing (1985)	sectoral data, 1971-1981	as of the early 1970s, the labour market related inflow into the WAO steadily rises to 36% in 1981
Aarts & De Jong (1992, chapter 5)	micro data on workers, 1980	hidden unemployment component is approx. 30%50% of disability volume
Westerhout (1995)	macro data, 1973-1992	half of total disability benefit years (WAO, AAW and ZW) in the period 1973-1991 can be characterized as hidden unemployment
Hassink et al. (1995)	firm-level data, 1990	10-12% of the outflow to disability is due to redundancy

price component in the **ww** has diminished slightly, among other things as a **result** of the introduction of (lower) follow-up benefits. After reform, the number of imposed sanctions in the **ww** steadily rose from 27,000 in 1987 to **51,000** in **1991**.³³ Half of the sanctions are related to ‘reproachable unemployment’, though large differences between industrial associations exist, primarily **due to branch-specific factors** and interpretation **problems**. The effectivity of sanction policies is severely retarded by two organisational **problems**. Though the **PES** has to inform **industrial** associations **when** beneficiaries do not **meet** their obligations, it **does** not always do so. And, it was not until 1991 that industrial councils have monitored job-search efforts of **beneficiaries systematically**.

With **regard** to the coherence and the transparency of **social** security, the reformed system explicitly distinguishes **between** wage-replacement and minimum guaranteed **income**. By the introduction of the supplementary benefits act the **wage** replacement schemes no **longer** have a safety net **function**.³⁴ Thus contributions to work-related insurance schemes cover expected risks **properly** and equivalence **prevails** in **social** insurance. Whereas prior to reform workers were covered by diverse and multiple programmes, now **all social** insurance programmes in **principle** correspond to different risks. Despite this analytical improvement, the implementation of the **social** security system has become more intricate. In illustration of the increased administrative **complexity**, **after** reform the staff of the industrial associations and other **executive** bodies has expanded considerably (by at least 5.0% in 1987). Administrative **costs** have **also** risen structurally, by approximately 100 **million** Dutch guilders (17.7%) in 1987.” The assessment of eligibility

[33] In 't Groen & Koehler (1993).
[34] Note that the budgetary costs of these new supplementary arrangements has been more or less in accordance with initial expectations. Thus, the impact of changes in the safety net function have been estimated correctly. With regard to social assistance arrangements, here actual costs deviate substantially from original estimates. However, these deviations seem to be due to exogenous developments rather than to the system reform. See Ministry of Social Affairs and Employment (1992 and 1991).
[35] Own calculations, on the basis of svr (1989). Administrative costs of social assistance arrangements seems not to have increased structurally, see Ministry of Social Affairs and Employment (1991).

conditions in the new Unemployment Benefits Act has become more complex, as coverage has become more heterogeneous. Though the elimination of the labour market consideration has disentangled disability and unemployment components in the AOW/AAW, the assessment of 'mixed' benefit levels for partially disabled may have become more complicated as well. As a result of the introduction of supplementary benefits, unemployment and disability beneficiaries may be eligible to two kinds of benefits, thus making administrative procedures more intricate.

Work-related employee insurance schemes are now fully individualized, so that equal rights for men and women are institutionally established in social insurance programmes. Partially disabled and senior unemployed persons are treated more equally. Prior to reform, partially disabled were eligible to full wage related benefits of unlimited duration, whereas older unemployed workers fell down to social assistance after their benefits expired. Since the non-employability provision has been abolished and both groups have become eligible to supplementary benefits, this unequal treatment has largely been removed. The increased importance of the minimum guarantee income has nonetheless not reduced the demand for social assistance schemes, which contain tests on wealth, income and household composition. With regard to equal rights, this situation is peculiar since for supplementary benefit schemes no inherent income and wealth tests apply.

\$3.3 Remaining problems and subsequent policy measures

After the 1987 reform, the safety net function of social security has become more prominent, at the expense of wage-replacement. The share of above-minimum benefit reciprocity in social insurance programmes has diminished considerably, so that more beneficiaries find themselves in the safety net of social security.³⁶ This tendency may entail adverse fiscal externalities.³⁷ Workers have ever been anxious as to reduce their financial risks on the private insurance market, and firms have encouraged supplementary contracts as to avoid resistance of employees after their dismissal. These contracts may generate adverse externalities on the government budget, as it invites 'moral hazard' behaviour. One can observe that successive benefit cuts have at least partially been 'repaired' through collective agreements. Since it is still customary that the Ministry of Social Affairs and Employment legally extends collective labour agreements, the effects of these benefit cuts have partially been nullified. Whether these supplementary contracts have actually caused considerable upward pressures on the government budget is doubtful, but it surely has thwarted the credibility and consistency of social policy. And, if not repaired, the consequent tendency towards the minimum guaranteed income may have fostered the demand for all sorts of income dependent subsidies, such as rent subsidies, child care and home help, causing government outlays to rise indirectly.

Despite many alterations and improvements in the social security system, and more specifically the extension of sanction policies, the 1987 reform does not solve the problem that Dutch social insurance fails to provide incentives for unemployed and disabled to re-entry into the labour force. Though after reform employee benefits have become less lenient and generous, so that job search incentives may have been reinforced, the minimum guaranteed income is still very

[36] De Jong *et al.* (1990).

[37] Van der Ploeg & Teulings (1992).

high. Especially in the lower segments of the labour market, the difference between wages and the minimum guaranteed income is small, thus leaving low-skilled unemployed and disabled hardly better off after taking a job. The inherent income and wealth tests in social assistance schemes, as well as income-dependent subsidies aggravate this failure of the social security system. Further, the reform does not include any measures as to have the Public Employment Service (PES) and benefit-awarding agencies collaborate systematically, so that no effective sanction policy can yet be carried out.³⁸ At implementation stage major differences in imposing sanctions occur, due to diverse interpretations of eligibility conditions in various industries. On balance, the 1987 reform has not really contributed to redressing the balance between active and passive labour market policies.

The most important failure of the system reform is probably that after 1987 the volume of beneficiaries continued to rise steadily. When it became clear that the impact of the system reform on the volume of social insurance fell short of its initial expectations, three new bills have been drafted as to develop more effective volume-policies. These three acts, which have become effective as of 1992, 1993 and 1994, specifically aim at restraining the numbers of sickness and disability beneficiaries, both by providing financial incentives for employers and employees and by tightening the access to social security. Employers have been obliged to pay at least seventy per cent of previous earnings in the first two or six weeks of sickness leave (dependent upon company size).³⁹ Contribution rates for sickness benefits have been differentiated to industry and firm level. Table 3.1 illustrates that these measures have had a tremendous effect on the incidence of sickness leave. Prior to the new ruling, the average number of sickness spells was 300,000. Only two years later, in 1995, the amount of average sickness spells fell to 209,000.⁴⁰ The amount of disbursed benefits fell from 8.7 milliard Dutch guilders in 1993 to 4.2 milliard guilders in 1995.⁴¹

With regard to disability programmes, in addition to the abolition of the non-employability provision in 1987, disability has been redefined again. Under the new ruling, there now must be a straight relation between the impairment and the employment disability. Adjudicators no longer take into account the claimant's education and former occupation. The maximum duration of disability benefits has become dependent upon the employee's age, and so has the level of the follow-up benefit. For new disability claimants this implies that the benefit level is seventy per cent of their previous earnings, after which benefits gradually decline to only seventy per cent of the minimum wage. Those who are already in the scheme will be re-examined and partially disabled are obliged to accept available jobs. A 'bonus-malus' system has been introduced to create financial incentives for employers as to discourage the use of sickness and disability schemes and to stimulate reintegration for people with few job opportunities.⁴²

This package of measures has had a significant effect on the volume of disability beneficiaries.⁴³ Not only is the inflow to disability tightened again, this is the first time that all beneficiaries who are already in the scheme are re-examined systematically, thus tackling the

[38] See section 5.2.

[39] This spring, Parliament has agreed to extend this period to fifty-two weeks. See section 4.3.

[40] Figures for November 1993 and 1995. Source: CTSV (1996). The TZ Act has become effective on January 1st, 1994.

[41] c-rsv (1996).

[42] This 'bonus/malus' system has meanwhile been abolished, mostly because employers find this arrangement unfair: in disability programmes no distinction has yet been made between professional risks and social risks.

[43] See CTSV (1995b).

extraordinary **incidence** of disability **spells** in the **Netherlands**. Whereas in 1993 the **number** of disability benefits amounted to 894,000, this **figure** has dropped to 862,000 in 1995.⁴⁴ This has **been** the very first **time that** the number of disability beneficiaries has diminished since the introduction of the **WAO** in 1967. Further, the disability dependency **rate**, defined as the **number** of beneficiaries **per** thousand **persons** at risk, has declined from 11.0 **per** thousand workers in 1993 to 10.2 **per** thousand in 1995. The total **amount** of **disbursed** disability benefits has decreased with **six** **per cent** in two **years**, from 21.9 milliard guilders in 1993 to 20.6 milliard in 1995.

In **short**, despite the unprecedented **drastic** character of the 1987 **reform**, **one can doubt** whether the foundations of social insurance **have been** affected. The institutional and fundamental characteristics of social security **have not been** altered, and the number of beneficiaries has only decreased after successive policy **measures** as of 1992. It may seem more **appropriate** to speak of 'renovating' **rather** than 'reforming' the **system** of social security. Thus, despite its **ambitious** nickname, the 1987 'system reform' now merely **appears** as a cumulation of policy **measures** within an existing system, as has **been pointed out** recently **by a** Parliamentary Inquiry **Commission**.⁴⁵ Moreover, this Parliamentary Inquiry, which has investigated the organisational **structure** of social insurance programmes, shows **that** legislative intentions **can easily** become stranded at the implementation stage. This is the **subject** of the next **chapter**.

[44] (TSV (1996). Figures for 1993 and november 1995. Note that the TBA Act has come into effect as of Augustus 1st, 1993.

[45] See also Lameris & Snijders (1994).

Chapter 4 Second approach: Reforming the organisational structure

The framework of **current** social security **design** has largely been based on the consensual and neocorporatist **nature** of the Dutch economy in the 1950s and 1960s.⁴⁶ Historically-grown power **relations** between **unions**, employers' confederations and government are **still present** in the current administration of **social** security. The dominant **role** of the so-called 'social **partners**' in the organisational structure of social insurance programmes has far-reaching consequences for the functioning of executive bodies, **especially** with regard to the effectiveness of welfare policies. This is for a **large** part **due** to a **lack** of **checks** and **balances** in the **initial** design of social security as **well** as in successive **extensions** and modifications of social insurance programmes, as has recently **been pointed out** by a Parliamentary Inquiry. Thus, the **large demand** for social security provisions **can** at **least** partly be ascribed to its complicated and dispersed organisational structure. **Section 3.1** briefly describes **the attempts** to reorganize the organisational structure and further surveys the **main findings** of the Parliamentary Inquiry. Next, in **section 3.2**, recent efforts as to reform the implementation of social insurance programmes are **discussed**, primarily **based** on the **new Social Security Organization Act**. **Section 3.3** **assesses** remaining **problems** in the *status quo* and **discusses** the intentions of the current coalition government.

§4.1 Parliamentary Inquiry Commission Buurmeijer

The **Social Security Organization Act** of 1950 has been founded on the concept of functional decentralization. According to this concept, **central** authorities have no reason for intervention if the parties concerned are able to **implement** social insurance schemes themselves. Functional decentralisation therefore refers to the devolution of authority to implement social insurance **legislation** to **representatives** of employers and employees. This **appeal** for 'subsidiarity' or 'sovereignty in **one's** own circle' is reflected by the foundation of industrial insurance associations and the **Social Insurance Council**.

Social partners have **always** resisted a dominant **role** for the government in supervising and implementing social security acts. **Already** in 1967, the Minister of **Social Affairs Veldkamp** requested the **Social** and **Economic** Council for **advice** on a new organisational structure. **Veldkamp** suggested that **all** social security schemes were to be administered by one organization. **However**, social **partners** could not **come to an** agreement on this proposal. Twelve years later, the Ministry of **Social Affairs** decided to install **an** advisory commission as to revise the organisational structure of social security. This commission concluded that industrial associations and social services had to be integrated **regionally**, cooperating closely with public employment agencies. The supervision by the **Social Insurance Council** had to become **fully** independent of social partners and the authorities of the Council had to be extended. Not surprisingly, **unions** and employers' associations were very critical of this report. Then, in 1984, **seventeen** years **after** the **initial**

[46] See Walendorp (1995) for a survey of Dutch neocorporatism.

request for advice, the Social and Economic Council finally delivered its advisory report. As was to be expected, the council arrived at the conclusion that social partners were still indispensable in implementing and supervising social insurance schemes.

The government now advocated a gradual revision of the organisational structure of social security. The cabinet acknowledged that this approach, with due to historically grown relations, was needed as to ensure public support and to emphasize the importance of social consensus. Furthermore, pursuing an integral reorganization of all executive organs simultaneously might endanger the quality of services. The first concrete step to a new organisational structure was, in 1989, the mandatory request for advice to the Social and Economic Council on a new Social Security Organization Act. This initiative, which is discussed in the next section, was being welcomed by the Social and Economic Council, though the council did not stop stressing the importance of industrial insurance associations. Meanwhile, the Social Insurance Council had decided to transfer all supervisory tasks to a new Supervision Chamber, in which a (bare) majority of seats had been reserved for independent members.

A step-by-step approach may seem as a solution to the deadlock in renegotiating a new organisational design. However, an incremental reorganization may have been inappropriate in dealing with the scope of problems involved. Dutch labour relations decentralized further, especially as of 1982. Wage bargaining primarily took place at industry and firm level. No longer unions and employers perceived the full costs of social security benefit claims, so that their wage bargaining may entail large adverse fiscal externalities.⁴⁷ In line with this development the significance and legitimacy of advisory bodies such as the Social and Economic Council had crumbled. Stressing the importance of revitalizing neocorporatist institutions seems therefore not in accordance with actual power relations in wage bargaining. Against this background it may not have come as a complete surprise that in 1993, after a critical report by the General Audit-Office on the functioning of the Social Insurance Council, Parliament decided to install a Parliamentary Inquiry Commission as to investigate the organisational structure of social insurance.

This 'Buurmeijer-Commission' (after the name of its chairman) has been the first Parliamentary Inquiry on social security in Dutch post-war history.⁴⁸ The main objective of the Parliamentary Inquiry is to investigate both effectiveness and efficiency of the implementation of social insurance programmes in the period 1980-1992. In addition, the Parliamentary Inquiry Commission is interested in the question whether an adequate monitoring and screening system exists as to safeguard the development of the beneficiary volume. In its final report, the Buurmeijer-Commission points out three major problems in current social security design.

First, despite complex administrative procedures, intricate organisational structures, the implementation of social insurance programmes is equitable, accurate and consistent. In this sense, social insurance administration has been highly biased, as actual implementation is merely confined to assessing and granting benefits. The organisational structure has failed to provide incentives as to restrain the volume of beneficiaries. Hence, social insurance administration has become an immense 'benefits factory', where matters of efficiency and effectiveness play only a minor role. Moreover, little attention had been paid so far as to prevention and reintegration as active

[47] See e.g. Kuzenkamp *et al.* (1993).

[48] Parliament can decide to collect its own information by means of a Parliamentary Inquiry. A Parliamentary Inquiry Commission has far-reaching powers, as it can hear witnesses under oath and imprison witnesses who refuse to testify.

strategies to reduce the number of benefit recipients. Social insurance administration has been widely dispersed, and as a result of this beneficiaries face many different institutions which may, as a whole, form an obstacle to active and reintegrative measures. The administering bodies have failed to collaborate, and have not even been interested in each others problems.

Second, the division of responsibilities between the government and social partners has been indistinct. The interests of employers and branch unions partly coincide with those of industrial insurance associations. No financial link exists between private interests of social partners at the industry level on the one hand and the public interest on the other, since social insurance contribution rates are identical throughout the economy. Disability insurance programmes have been used by employers and branch unions as a generous redundancy scheme and a convenient form of early retirement. This 'extensive use' of disability schemes has been advantageous to unions and employers as to circumvent firing legislation, so as to avoid social conflicts and to secure generous and enduring benefits. Utilizing the WAO/AOW disability schemes for redundant workers has been easy, as eligibility thresholds have been low and specifications and implementation loose.

Third, political and administrative supervision has failed. The Social Insurance Council has not been able to supervise industrial associations effectively. The reason is that the SVR consists of the same interest groups it is supposed to supervise, so that supervision has not been independent of the 'insiders' in the labour market. This situation has been aggravated as social partners inclined to cooperate in the Federation of Industrial Insurance Associations. Although this federation lacks public-law status, it has gradually gained considerable exercising power as it informally deprived the SVR from its tasks. Not only the Social Insurance Council has failed to supervise the organisational structure, the Ministry of Social Affairs and Employment and Parliament have been criticized for their passive and inert role, as both have more been interested in producing social security schemes than in supervising and administering these programmes. Cabinet and Parliament have been very cautious to social partners as to preserve social consensus, while it was in the interest of social partners to keep employee insurance programmes generous and accessible.⁴⁹ Only recently, after 1990, the government and social partners have bothered to redress the balance of active and passive policy, so as to cut down the number of beneficiaries.

In conclusion, the Parliamentary Commission forcefully shows that structural economic inactivity and low labour participation are at least partially due to endogenous institutional elements in the organisational structure of social insurance. Generous and lenient social insurance programmes easily absorb redundant workers, while providing few incentives as to re-entry the labour market. The organisational structure has failed to provide the necessary checks and balances as to prevent that partial interests of trade unions and employers prevail over the public interest, whereas political and administrative supervision has failed. The Buurmijster-report plays an important role in future social policy, as will be demonstrated in the next section.

[49] This might explain why government has awaited the advisory SER report on a new organisational structure for seventeen years. It may also explain why both Parliament and the government have tolerated the 'extensive use' of disability schemes. See Van den Heuvel (1994).

§4.2 Reforming social security administration

As has already been pointed before, the first step to a new organisational design is the government's initiative for a new Social Security Organization Act. This bill provides only a transitional framework that solves the most urgent problems in the prevailing system, until a more definitive organisational design has been developed. A future organisational structure must be organized regionally, as the cabinet has adopted the desire of Parliament as expressed in the 'Wöltgens-resolution'.⁵⁰ The Secretary of State for Social Affairs and Employment motivates the transitional character of the act by pointing out that social security can only be reorganized fully after the political debate on the relation between government and social partners has been crystallized.

The new Social Security Organization Act provides several adjustments in the top of the executive structure. Most notable is the foundation of a national supervisory body and a national coordinating body. The act therefore puts an end to the ambiguous character of the Social Insurance Council, as it separates its coordinating and supervisory tasks. The industrial associations and the Social Security Institute are now to be supervised by a fully independent Supervisory Board for Social Insurance (CTSV), whose board consists of three independent experts. Further, most of the coordinating, regulatory and advisory tasks of the former Social Insurance Council are to be concentrated in a Temporary Institute for Coordination and Tuning (TICA), which can be regarded as a successor of the Federation of Industrial Associations. The board of this institute consists of social partners and an independent chairman. One of its main tasks is to support and to coordinate the transition from a sectoral to a regional organisational structure. Industrial associations are obliged to put out their administration to a designated administrative office, so that managerial and administrative tasks are fully separated. Finally, industrial associations and the PES have to collaborate regionally, supported and coordinated by TICA.

As of January 1997, the new organisational structure has to be completed. In the cabinet's view, all employee insurance schemes will be implemented per region. The regions will coincide with the twenty-eight existing districts along which employment services have been organized. In each region one administrative body is responsible for the 'integral case assessment' (*integrale gevalsbehandeling*) of social insurance beneficiaries. These regional offices will therefore replace the current industrial insurance associations. Regional administering bodies have to operate in close cooperation with the PES, so as to enable front office collaboration (*één loket*, i.e., 'one-desk approach') or back office collaboration (*één dossier*, i.e., working jointly on the same administrative file). These regional offices have to be coordinated by a national administrative body, the future successor of TICA.

§4.3 Remaining problems and intended policy

The new Social Security Organization Act provides only some transitional arrangements, so that the political debate on a future organisational structure of social insurance programmes has not

[50] In the subsequent political debate on the Buurmeijer-report, Parliament has concluded that supervision has to become fully independent of social partners and social security administration has to be organized regionally instead of sectorally, in close cooperation with the PES. These proposals are usually referred to as the 'Wöltgens-resolution'.

been concluded. Yet, the coalition agreement of the current government under Prime Minister Kok contains far-reaching proposals as to revise the organisational design of sickness and disability schemes. The Sickness Benefits Acts has to be largely privatized. Parliament has already consented to the government's proposals, and employers are now obliged to continue to pay wages for at most fifty-two weeks of sickness spells. With regard to disability insurance, competition and differentiated premiums are to be introduced. As has already been pointed out in the previous section, the government has adopted the Wöltgens-resolution so that in future social insurance programmes will be organized regionally instead of sectorally. Further, the cabinet emphatically favours an active role for social partners in a future organisational structure.⁵¹

Thus, the intentions of the cabinet can be summarized by four key words: (partial) privatization, competition, regionalization and subsidiarity.⁵² This combination is sometimes referred to as 'parallel privatization', since employers will be free to choose who is to cover sickness and disability risks, industrial insurance associations or private insurance companies. Compared to the current system, employers may decide to 'opt out' of public social insurance. Parallel privatization therefore refers to a dual system of social security in which risks can be covered by either public authorities or designated private insurance companies. In the cabinet's view the differentiation of social insurance contributions and the legal provision to 'opt out' are complementary measures, both aiming at 'market-like' discipline in social insurance. Without competition by private insurance companies, industrial associations have little interest in reintegration and prevention strategies. Only employers perceive incentives as to restrain disability spells. Conversely, opting out without differentiated contribution rates is foolish, because companies would be indifferent to the question whether to opt out or not.

The advantages of privatization are evident. Employers are confronted with the full budgetary costs of sickness and disability spells, so that strong financial incentives emerge as to improve working conditions and to foster other prevention strategies. Since the competition between private and public insurers will focus on premium rates, the assessment of benefit claims will become more strict. Average contribution rates will consequently fall.

Yet parallel privatization brings along various difficulties.⁵³ As to ensure the accessibility to the insurance market, minimum eligibility conditions have to be stated so that adverse selection problems are avoided. But, if private insurers are able to pass large parts of disability costs to public funds, the insurance contracts between insurers and insured invite 'moral hazard' behaviour and unnecessary benefit claims. It is in the interest of both the employee and the employer to conclude supplementary contracts, the former as to reduce the income losses due to work-related risks, the latter as to be able to get rid of redundant workers. Thus, the supplementary insurance market may cause considerable adverse fiscal externalities.⁵⁴

A prominent issue is whether employers will incline to select workers on health risks, provided that these risks are observable. Employers may be induced to select applicants on health

[51] Emphasized once more by the broad character of the request for advice to the Social and Economic Council on the transition to a territorial organisational structure.

[52] The intentions of the government follow the line of arguments of three advisory reports: of the Parliamentary Inquiry Commission (see section 3.1), the Scientific Council for Government Policy (WRR (1994)) and the Social and Economic Council (1995b).

[53] See Bekkering (1994 and 1995), Van Praag (1995) and Petersen (1994).

[54] Van der Ploeg & Teulings (1992 and 1993). See also section 3.3.

risks. For instance, if specific occupational health risks are correlated to age, employers in industries with high health risks **may rule out older workers**, hereby leaving **large** groups of individuals permanently outside the labour force and destroying considerable amounts of **human capital**. From the employers' point of **view**, this **may** be justified as sickness and disability schemes do not distinguish between **professional** and social risks. In combination with liberalized employment security legislation and **flexible** labour **relations**, the **social** and **economic** side-effects of the cabinet's **proposals may** therefore be detrimental, **especially** if **one** takes into account tightened eligibility conditions and reduced benefit generosity.

In **line** with this argument, companies **may** further seek to employ workers on a temporary basis, so that the **costs** of sickness and disability **spells** are reassigned to **public** social insurance. Thus, as an unintended side-effect, parallel privatization **may lead** to an enormous increase in the number of flexible labour **contracts**, causing upward pressures on the social security budget whenever sickness and disability **spells** occur. A related **problem** is the position of the chronically **sick** and **partially disabled**. For those **who** are **already** employed, privatization **may** have positive effects as their employers are stimulated to improve working conditions. But, unemployed outsiders might see their job opportunities shrink even further, since employers are **longer able** to pass the **costs** to **society** at large. Therefore privatization **may** further the **vicious** circle of **rejection** and stigmatization for persons with health problems.

Another problem of privatization is the assessment of benefit claims. The **adjudication** of sickness **spells** is now **carried out** by private working conditions **companies**. Already now, as a **consequence** of the Working Conditions Act, employers **have been** obliged to hire **these** companies **to reduce** the incidence of sickness leave. In **case** of conflict between the employer and the worker, industrial associations **may** provide a **second** opinion. **One can wonder** whether the industrial insurance associations are **fully** independent, as they are involved in both **assessing** claims and granting **benefits**. To circumvent these problems an independent institute **should be** established as **to assess** benefit claims.

Apart from these intrinsic difficulties of privatization, one **may** raise the question to what extent private and public insurers of work-related risks **can** coexist permanently.^[55] The transition to a **dual** system of social security is hampered by a **major difference** in the financing modes of public industrial insurance associations and private insurance **companies**. Whereas industrial associations equalize employee risks by a **pay-as-you-go-system**, private disability insurance schemes are financed by a **capital** funding system. In the cabinet's proposals, firms that **decide** to opt **out** do not only have to **pay** contributions to the insurance company but **pay-as-you-go** premiums for 'old' disability **spells covered** by public social insurance as **well**. The **pay-as-you-go** contribution **rate** gradually declines as the stock of 'old' disability beneficiaries declines over **time**. According to calculations by the Association of **Insurers**, it **takes** eight to **twenty-one** years before it will be profitable for employers to have disability risks insured by private insurers.^[56]

Thus, the stability of a dual system of disability insurance schemes **can** be endangered for two reasons. First, the competition by **private** insurance companies **may be** ineffective, since in the initial years the **capital** funding system is more expensive for firms. **Second**, companies with a

[55] Already now private insurance companies cover disability and sickness risks, since branch unions and employers have repaired previous benefits reductions through collective labour agreements. See section 3.3.

[56] SER (1995).

below average risk profile may decide to leave the public disability schemes first. If this happens, contribution rates for the remaining firms will rise, making even more low-risk firms leave the public scheme. In both cases the insurance market is unstable and the dual system will eventually lapse. To safeguard the viability of a dual system of social security, it is at least necessary to have industrial insurance associations switch over to a capital funding system. Alternatively, private disability arrangements may be limited to a fixed number of years, after which disabled may apply for public follow-up benefits. According to this scenario, the difference in financing modes raises less obstacles to viable competition between private and public insurers.

The cabinet's intentions not only comprise of privatization and competition, but of regionalization and subsidiarity as well. The proposals on regionalization may cause large organisational problems if trade unions and employers are still responsible for the administration and implementation of social insurance programmes.

Regionalization seems practicable as to organize social security. Already now volume policies contains both sectoral and regional elements. Still, a major obstacle to these active policies is that the organisational structure of social insurance and employment services do not yet correspond.⁵⁷ So, it may seem appealing to have employment agencies (which are organized regionally) carry out employee insurance schemes or to have regional offices implement these schemes in close collaboration with the PES.⁵⁸ Such an integral or analogous administration of social insurance programmes and manpower services facilitates the 'one-desk approach', hereby fostering accessibility for social insurance beneficiaries and promoting reintegration.

With regard to the role of trade unions and employers, not only do social partners finance social insurance schemes, their involvement in wage bargaining affects social security in many ways. Trade unions and employers' organizations may therefore claim a joint responsibility in the organisational structure of social insurance. Involving these interest groups may further be conducive to internalizing adverse externalities of wage bargaining. Though the disadvantages of industry-level bargaining and intermediate degrees of corporatism may apply to the organisational structure of social security, differentiating social security contributions may yield strong and sufficient incentives for employers and trade unions to take into account the full costs of benefit claims. Moreover, successive retrenchments have reinforced the importance of sectoral wage bargaining, since branch unions and employers have reintroduced benefit cuts through collective agreements. Differentiating insurance contributions and privatizing disability schemes may therefore be complementary measures to the joint responsibility of government, trade unions and employers' organizations.

However, the transition from a sectoral to a regional organisational structure may be at least partly incompatible with the involvement of trade unions and employers.⁵⁹ The beneficial effects of differentiating premiums might be cancelled out, if regional instead of sectoral bodies take over the administration of social insurance schemes. Sectoral expertise on work-related risks and working conditions, brought in by branch unions and employers, can get lost in a territorial

[57] Enquêtecommissie Uitvoering Sociale Verzekeringen (1993).

[58] As an alternative to a regional organisational structure, municipal authorities (which already now administer social assistance programmes) may take over the implementation of social insurance programmes. Local authorities are equipped to promote labour participation and to assess benefits claims. Already now, a comprehensive policy as to assist recipients of welfare provisions is carried out, whereas public employment agencies are not yet functioning well (see chapter 5).

[59] Cf. SER (1994a). See also the explanatory memorandum to the new bill on the PES.

organisational structure. Conversely, prevention and reintegration as widely recognized labour market instruments may have more success if social insurance programmes are both organized and implemented per industrial sector or occupational group. Further, whereas now the behaviour of branch unions and employers may still be monitored and even coordinated at the national level, it is doubtful whether these actors will let the public interest prevail over their private interests in the new territorial organisational structure. Though sectoral wage bargaining within regions may still be conducive to internalizing adverse wage externalities, the fiscal internalisation effects may be less strong than within current wage bargaining. Thus, the transition to a territorial structure may hamper the effectivity of volume policies, if social partners continue to play a dominant role in administering social insurance. Considering the wish of Parliament to adopt a regional organisational structure, it may therefore be desirable to curtail the administrative powers of unions and employers.

Chapter 5 Third approach: Renewing active labour market policy

Reintegrating and re-employing **beneficiaries** into the labour **force** has now **been** acknowledged as an **explicit** function of social insurance, in addition to the **more** traditional safety **net** and wage replacement functions. This is **a result** of the **report** by the Parliamentary Inquiry Commission and advisory **reports** of the Scientific Council for Government Policy and the Social and **Economic Council**.^[60] Effective reintegration requires **that** benefit awarding agencies and public employment agencies do **collaborate**. Public employment agencies **have** often **been** criticized for lacking the institutional potency **to anticipate** to labour market **dynamics**. **Only** recently, in **1991**, the **PES** was reorganized drastically, towards **a** tripartite, decentralized and demonopolized organisational **structure**. **Section 5.1** briefly surveys the **development** of the new Public Employment Service Act. **Section 5.2** evaluates the reorganized **PES** and **discusses** collaboration **projects** between the **PES** and benefit-awarding agencies. **Section 5.3** reviews the government's intentions on the **PES**.

5.1 A new tripartite Public Employment Service

The purpose of the Public Employment Service is threefold.^[61] Regular employment policy aims at enhancing the efficiency of the matching process of labour **demand** and labour supply, so **that a** given number of job seekers is associated with fewer **vacancies**. Target group policy directs at improving the labour market situation of specific groups and individuals **who have** few job opportunities. Cyclical employment policy aims at clearing the labour market **by** reducing excesses of **supply** and **demand**. Several instruments are available, **such** as labour market information, vocational guidance and counselling, regular employment exchange and placement **services**, **schooling** and training programmes, wage subsidies and subsidised employment.

Until recently, the **PES** has been an exclusive government responsibility, **controlled by** the Directorate-General for Public Employment Service of the Ministry of Social Affairs and **Employment**, and implemented by regional job **offices**. **When** new **PES** Act came effective on January 1st 1991, this situation **came** to an end. The development of this act is **a** long history of bargaining, negotiating and **compromising**.^[62] As early as in 1980, the government had asked the Social and **Economic** Council for **advice** on a Public Employment Service Act. The need for legislation on **PES** was motivated by the **lack** of **a** coherent and **legal** set of instruments. Apart from this technical reason, the **PES** had to be reorganized as **to** solve some urgent social problems. For one **thing**, the programme of employment measures had become highly fragmented. The establishment of an autonomous **PES** plays **a crucial** role in promoting coherence in active labour market policy. Further, because of massive unemployment, Parliament tended **to** spend **large** sums of money on labour market programmes. By integrating these programmes it **may** become possible **to** monitor the quality and the effectiveness of employment measures, so **that** budgetary **control** could be

[60] Enquêtecommissie Uitvoering Sociale Verzekeringen (1993). WRR (1987 and 1990) and SER (1990).

[61] Aarts & De Jong (1994). Cf. Boot (1994).

[62] See for an excellent overview Van Gestel (1994).

improved. Not only a coherent and consistent policy framework was to be designed for employment policy, very little efforts had been put so far in coordinating and integrating public employment agencies, industrial insurance associations and organizations related to public health and working conditions.⁶³ Moreover, new legislation enabled central government to supervise and regulate local and regional initiatives by municipal authorities and private interest groups. No wonder that the government was severely criticized before, not in the least place by union federations and employers' associations.

In the initial request for advice, the PES is still considered as an exclusive responsibility of the government, in spite of the political and social tendency to diminishing involvements of central government. The final advisory report of the Social and Economic Council, issued in 1985, substantially deviates from the initial proposals of the government. In its report, the Social and Economic Council concludes that the PES has to become the joint responsibility of trade unions, employers' organizations and the government, as to promote social consensus on employment measures. Under this central board operate regional boards as to anticipate to regional labour market dynamics. The formal government's monopoly on placement services has to be abolished, so that licensed private employment agencies can be initiated. With regard to social security, the Social and Economic Council concludes that the authorities of the public employment agencies and the industrial associations have to be demarcated clearly. Thus cooperation between executive bodies that are involved in either employment measures or social insurance is ruled out.

The coalition government under Prime Minister Lubbers largely agrees with the advisory report of the Social and Economic Council, and now an interdepartmental project team has been established as to prepare a bill on the employment service. Though initially Parliament is very critical of this bill, it eventually passes the PES Act in 1989. The new PES Act serves three objectives, in line with the advisory report of the Social and Economic Council: tripartite management, decentralization and demonopolization. An independent statutory body has been established, the new Public Employment Service. This organization is governed by a Central Board of Public Employment Service (CBA). In the CBA trade unions, employers and central government are equally represented. Under the central board twenty-eight Regional Boards (RBA) operate, which are comprised of regional representatives of trade unions, employers' organizations, municipal and provincial authorities. Up to a certain extent these RBAs are autonomous in carrying out their own policy. If licensed by the CBA, temporary work agencies and private counselling agencies are permitted.

Decentralization and demonopolization seem both logical strategies towards a market oriented approach of the PES. The obvious advantage of territorial decentralization is that a regionally oriented executive structure enables the PES to anticipate to regional labour market conditions. Decentralization therefore contributes to reducing mismatches in regional labour markets. Decentralization further anticipates to fully decentralized labour relations, already initiated in the 1982 'Wassenaar-agreement'.⁶⁴ Though previously the government had not allowed private employment exchange agencies as to avoid exploitation and preferential treatment of job-seekers, the introduction of a licence system is a first step to a complementary role of the PES. The PES thus offers services, such as labour market information and placement services,

[63] For instance, a small-scale experiment of eight Regional Coordination Commissions (RCC), initiated in 1980 and aimed at encouraging local and regional contacts and cooperation, has failed.

[64] See Van de Wijngaert (1994).

which are not provided by other private agencies. This implies that the PES will not serve the labour market at large, but concentrates on specific groups and individuals with a poor prospect of finding a suitable job.⁶⁵ Apart from providing public services, the PES has to coordinate private intermediaries as well.

The far most important innovation is the introduction of tripartite management, in both the CBA and the RBAS. A tripartite PES has several potential advantages for all parties involved.⁶⁶ For one thing, including social partners in the PES is conducive to reaching a social consensus tackling unemployment and economic inactivity. Whereas previous efforts of government have sometimes been thwarted by social partners, in a tripartite organisational structure trade unions and employers are at least passively responsible to employment measures. Moreover, social partners may be inclined to intensify their own placement services and to internalize adverse wage externalities. Social partners have often criticized the government for lacking the institutional potency to anticipate adequately and flexibly to labour market dynamics. From the government's point of view, involving social partners in the PES pleasantly incorporates their continuing criticism.⁶⁷ Conversely, for both union federations and employers' associations the unsatisfactorily functioning of the PES is a primary motive to participate in a tripartite organisational structure. In addition, employers welcome their potential influence on job offices and hope to gain influence on vocational education. For trade unions, participating in the PES emphasizes their attachment to employment measures.

§5.2 Evaluating the reorganized Public Employment Service

In 1994 the PES Act has officially been evaluated.⁶⁸ The Evaluation Commission Public Employment Service Act, in short the 'Van Dijk-Commission' after the name of its chairman, has investigated the labour market results of the new PES in the period 1991-1994 and the extent to which these results can be attributed to the monopolized, decentralized and tripartite organisational structure of the PES. Despite the innovative character of the act, the evaluation commission severely criticizes the functioning of the new PES.

The new PES has adopted the 'slipstream mechanism'. According to this mechanism, employment agencies primarily concentrate their efforts at clients who are likely to benefit from their support, rather than to focus on persons with labour market problems. By its market share and its contacts with employers, the PES hopes to serve the interests of 'hard-to-place' clients as well.⁶⁹ The PES therefore considers the number of successful placements as the primary output indicator. Table 5.1 provides some figures on the number of direct placements, i.e., successful matches between registered job-seekers and registered vacancies, which can be attributed to the direct

[65] See section 5.3.

[66] See Van Gestel (1994) and REA (1995).

[67] From a historical perspective, a tripartite and relatively centralized PES is attractive to the Ministry of Social Affairs and Employment, as to exclude the ambitions of the Ministry of Economic Affairs and the Ministry of Home Affairs. See Van Gestel (1994).

[68] See Commissie Evaluatie Arbeidsvoorzieningswet (1995). Two preliminary investigations have been published separately as BEA (1995) and De Koning et al. (1995). See also Ernste (1995) and De Koning (1995).

[69] See e.g. OECD (1990), Dercksen (1994).

Table 5.1 Direct placements^a by the PES in 1988-1994

	Numbers (x 1000 persons)			Index figures (1988=100)		
	PES ^b	HFR ^c	CBS/HJSS ^d	PES ^b	HFR ^c	CBS/HJSS ^d
1988	123	87	39	100	100	100
1989	131	81	28	107	93	72
1990	128	77	36	104	89	92
1991	129	64	28	106	74	72
1992	147	81	41	120	92	105
1993	147	83	54	120	96	138
1994	173	85	41	141	98	105

^a The number of successful matches between registered job-seekers and registered vacancies, which can be contributed directly to the efforts made by the PES. Note that job-seekers may overestimate their own efforts and underestimate the efforts by the PES, so that the HJSS surveys cannot be compared directly to the CBS statistics.

^b Source: PES, revised for one RRA

^c Same: *How do firms recruit?*, measured as the market share of the PES times the total number of vacancies

^d Source: Central Bureau of Statistics (up to and including 1991), *How do job-seekers search?* (as of 1992).

Source: De Koning *et al.* (1995), table 3.3.

mediation efforts of the PES.⁷⁰ From inspection of table 5.1, it emerges that the tripartite PES has performed **very well**, despite the decline of **vacancies** as of 1990. The successive increases in the number of successful placements have **caused** the **market share** of the PES to improve considerably. This tendency is **also** illustrated by table 5.2. Table 5.2 surveys market penetration **rates** and market shares of the PES in several European countries. Market penetration **rates** and **market** shares are defined as the proportion of **notified vacancies** or successful placements in **all** hirings, thereby considering hirings as a proxy of the flow of **vacancies** in the **economy**. In the period of 1991 to 1994, the market share of the Dutch PES has doubled, though the market penetration **rate** has **been** relatively stable. **However**, the growth of the market share is primarily due to increased **unemployment**. In recessions less people change jobs, so that the share of unemployed in total job-seekers increases and the market share of the PES **tends** to rise. From inspection of table 5.2, it emerges that the quantitative output of the Dutch PES is **still** modest compared to other European **countries**.⁷¹

A more sophisticated method to **evaluate** the performance of the Employment Service is to measure the impact of the PES on labour market efficiency. For this purpose, the Van Dijk-commission has compared matching-functions in different **RBA** regions. From this **analysis** no indications **can be** derived as to conclude that the PES has fostered the efficiency of the matching **process** significantly. **Still**, the equity in the labour market **may** have improved somewhat, though it is not clear to what extent the PES **can be** credited for this. Despite the disproportionate **inflow** of **women** and ethnic minorities into the labour force, the proportion of unemployed **among these**

[70] Thus, excluding the indirect effects of labour market instruments such as schooling and training programmes. Note that the number of placements does not reflect the mediation efforts made by the PES very well, since not every placing has the same value. Moreover, serious doubts can be raised as to the reliability and comparability of placement figures. See De Koning *et al.* (1995).

[71] The low market share of the Dutch PES may be due to the dominant role of private temporary work agencies in the Netherlands.

Table 5.2 Market penetration rates and market shares of the PES in several countries

Country	Year	Market penetration ^a	Market share ^b
Netherlands ^c	1990	21%	9%
	1991 ^d	20%	8%
	1992	18%	10%
	1993	20%	14%
	1994	22%	16%
Austria	1991	9-32%	3-10%
Denmark	1989/1991	14-21%	10-15%
Germany	1990	33%	22%
Norway	1988	± 55%	± 11%
Spain	1989	23%	5%
Sweden	1988	27%	20%
Switzerland	1991	± 90%	22-43%
United Kingdom	1988	± 50%	± 30%

^a Vacancies registered by the PES as a percentage of all hirings
^b Placements by the PES as a percentage of all hirings
^c Based on the IIFR surveys (see table 5.1).
^d The tripartite organisational structure of the Dutch PES has come into effect as of 1991.

Note: Inter-country comparison is severely hampered by differences in national definitions and measurement methods.
Sources: Norway, Spain and the UK: OECD (1993b), tables 5 and 6; Netherlands: *How do firms recruit*, revised by Nederlands Economisch Instituut; all other countries: Austrian Bundesministerium für Arbeit und Soziales.

See De Koning et al. (1995), tables 3.4 and 8.7.

target groups has not increased. Labour market prospects of ethnic minorities, older and long-term unemployed have improved slightly, compared to the average unemployed. Although there is some empirical evidence that these disadvantaged groups may have benefited by the increased market share of the PES and the intensified contacts with employers, other factors are of greater importance to their labour market position.

The evaluation commission judges that the new PES has focused too much at serving the labour market at large. So far, the PES has defined target groups very broadly. Eighty-five per cent of all registered unemployed falls within one or more of the target groups. In the view of the Van Dijk-Commission, the Public Employment Service should concentrate its efforts primarily on disadvantaged groups instead of attempting to cover as large a part of the labour market as possible. In this sense, the Van Dijk-commission favours a complementary role for the PES to private employment agencies. Private employment agencies can provide most of its current services, especially for persons whose general labour market prospects are relatively good.

Though the evaluation commission does not reject the tripartite character of the PES as such, it concludes that the new organisational structure has not performed very satisfactorily, especially on the national level.⁷² Similar to the findings of the Parliamentary Inquiry on social insurance, the Van Dijk-Commission finds that private interests of social partners often prevail over the public interest. In the CBA, social partners have primarily represented their own interests and have not

[72] See also REA (1995) and Ernst (1995).

been focused at reaching social consensus. This situation has been aggravated by the asymmetrical relation between government and social partners, because central government has played four roles: as legislator, financier, administrator and supervisor.

Still, regional boards have functioned reasonably. Here, the three parties have been more or less equivalent. Representatives of trade unions and employers have operated more independent than their counterparts in the CBA. Decentralization and tripartite management have led the PES to anticipate flexibly and timely to local and regional labour market conditions, in accordance with initial expectations. Though the expected conjunction of employment measures and collective agreements is not yet a widespread phenomenon, the number of sectoral covenants on training programmes and work experience arrangements has increased substantially. With regard to the abolition of the government's monopoly on placement services, the license system has not yet functioned very well, and RBAs have chosen to compete with private intermediaries (with reference to the slipstream mechanism). Due to a lack of central authority, large differences exist between regions, so that the coherence and transparency in employment measures have not improved so far.

The Van Dijk-Commission points out that many forms of collaboration exist between employment services, local authorities, industrial insurance associations and other executive bodies. The interests of the PES, social services and industrial associations partly coincide, because these organizations often serve the same clients. From a macroeconomic perspective, collaboration is therefore an important strategy to reduce the number of benefit recipients, so as to safeguard the viability of the system of social security. So far, collaboration projects have not yet been crystallized, not in the least place as a result of the considerable differences in the organisational structure of social insurance programmes, welfare assistance and the PES. Although local authorities and employment offices often cooperate, these forms of collaboration are generally without engagement, despite the participation of municipal authorities in the RBAs.⁷³ Collaboration between the PES and industrial associations is less common. Although these forms of collaboration have not been evaluated broadly yet, a recent survey shows that large intra- and interregional differences exist.⁷⁴

Two main approaches of collaboration can be distinguished. First, collaboration can be aimed at disadvantaged groups or individuals with labour market problems. According to this target group approach, the primary objective is to promote re-entry into the labour force, for reasons of equity and volume control. For instance, the PES and social service may jointly provide intensive job-search assistance services, e.g. for long-term unemployed and persons with disabilities. Other examples of this approach are Youth Work Guarantee Plans and Labour Pools. Second, collaboration projects also may aim at improving efficiency and effectiveness of participating bodies. Well-known examples are joint front offices and joint administrative files. Within these target group-oriented and process-oriented approaches a further distinction can be made between autonomous and integrated collaboration.⁷⁵

[73] See also Boorsma *et al.* (1994). Note that as of 1987, many forms of collaboration between social services and the PES have been initiated as a consequence of the 'reorientation interviews' policy. See Bouman (1992).

[74] Esser *et al.* (1995).

[75] Besides these two main approaches, policy and information collaboration can be distinguished, aimed at either developing collaboration projects or exchanging information.

§5.3 Remaining problems and intended policy

Whereas the PES of 1991, aiming at an efficient and equitable matching between labour demand and labour supply, has initially been set up as to influence the entire labour market allocation, the report of the Van Dijk-Commission clearly shows that the functioning of the PES falls short of its initial expectations and its ambitious purposes. The current Minister of Social Affairs and Employment Melkert has reacted quickly to this critical evaluation report and has recently drafted a new bill on the PES.

In line with the Van Dijk-report, the government acknowledges that the PES has to concentrate its efforts primarily at hard-to-place individuals instead of serving the labour market at large. In the proposed new organisational structure of the PES, several ambiguous responsibilities have been removed. The demarcation of managerial and supervisory tasks have been improved. The most important element of the bill is that central government will no longer take part in the Central Board. This makes an end to the situation that the government has both supervisory and managerial tasks in the CBA. Supervision and budgetary control by the government is to be improved. Representatives of trade unions and employers in the CBA have to meet additional requirements as to ensure their independence. Further, in future private employment agencies can operate without a licence, so that the PES no longer has both executive and supervisory tasks.

Already now, industrial associations and the PES are obliged to cooperate, as a consequence of the new Social Security Organization Act. In line with the revised National Assistance Act municipal authorities have to collaborate with the PES as well. These obligations have been included in the new PES bill as well. Once these forms of collaboration are carried out systematically, for the time being coordinated by TICA, the integral case assessment of social security beneficiaries will be facilitated considerably. Benefit-awarding agencies and employment services have to maintain their independence and administrative authority. The government therefore favours process oriented collaboration as to pursue an integral case assessment of social security beneficiaries. In behalf of assistance to disadvantaged clients, industrial councils and municipal authorities may purchase placement and schooling facilities from either public employment offices or private employment agencies. This potentiality of competition may foster 'market-like' discipline for the PES.

Systematic collaboration between benefit-awarding agencies and employment agencies is conducive to effective 'sticks' and 'carrots' policies. Sanctions may be used as to increase the financial pressure on social security beneficiaries who either decline re-employment programmes or fail to meet legal requirements of availability and willingness-to-work. For an effective sanction policy, it is necessary that sanctions are implemented adequately and have the desired behavioural effects. With regard to the former condition, previous experiences of industrial councils show that large differences may arise in imposing sanctions, mainly due to branch-specific factors.⁷⁶ Recently new stringent guidelines have been issued as to coordinate sanction policies for unemployment assistance arrangements. At implementation stage still large differences exist in applying these regulations, even though these guidelines are well-defined and precise.⁷⁷

[76] In 't Groen & Koehler (1993).

[77] Ministry of Social Affairs and Employment (1995b).

As of the 1987 system reform, sanctions are imposed more frequently. Yet, it is not clear to what extent sanctions affect job-search efforts by benefit recipients. Measuring the effects of sanctions is very hard due to sample selectivity biases. From the few studies that have been conducted so far, sanctions seem to foster re-entry chances of unemployment beneficiaries, but not of recipients of social assistance or unemployment assistance.⁷⁸ One needs to be very cautious on inferring that sanctions therefore not always have the desired behavioural effects, since not all differences between censured and non-censured benefit recipients can be monitored. Further, apart from the question to what extent sanctions affect the behaviour of beneficiaries, the implementation of sanctions may fail, as has been pointed out before. Hence, more stringent and systematic policies on sanctions may still be required to redress the balance between active and passive policies, and comprehensive collaboration between the employment service, municipal authorities and industrial insurance councils seems essential to such policies.

[78] See, respectively, Abbring *et al.* (1995), Ministry of Social Affairs and Employment (1995b) and Angenent *et al.* (1993).

Chapter 6 Conclusions

The security system has not **been** designed to cope with the current **scale** and structural **nature** of **economic** inactivity it **currently** faces. Yet, the problems of the Dutch social security **system** have **been** widely ignored for a **very** long time. The Parliamentary Inquiry Commission on social insurance pin-points the **principal cause** of current problems: **trade unions** and employers' organizations have been **involved** in both developing, executing and supervising social insurance programmes. Thus, **already** in the foundations of contemporary social insurance programmes a potentially **untenable** and unworkable compromise has **been** set up **between** government and these so-called social partners.⁷⁹ Over the past **decades**, Dutch labour **relations** have decentralized considerably. **Wage** bargaining is now **primarily** concentrated at industry and firm level. The organisational **structure** of social insurance programmes has not **been** revised analogously. In **line** with this discrepancy, one **can** observe that **unions** and employers frequently have **let** their private interests prevail over the public interest.

Government and **Parliament** have operated **very** cautiously to social partners as to preserve social consensus. Despite evident signals that the future viability of social insurance schemes **may** be endangered, both government and Parliament have hesitated for a long **time** to undertake **drastic** policy **changes**. Not until recently, and only **after** several evaluation commissions have investigated and severely criticized (the implementation of) (parts of) the system of social security, serious efforts have been made as to reform social insurance programmes.

The first political steps to deal with the **economic** inactivity and the high **costs** of social security have been policy measures as to enhance the **coherence** within the network of different social insurance programmes, without affecting the fundamental and institutional characteristics of the system itself. This is the **ultimate** ineffectiveness of the '1987 system reform' in short. The vast volume of beneficiaries has not been curbed until successive **policy** measures as of 1992. Meanwhile, the political focus has shifted to the role of social **partners** in administering and implementing social insurance programmes. The **Parliamentary** Inquiry of 1993 forcefully shows that the **organisational structure** has failed to **provide sufficient** incentives to these interest groups as to restrain the volume of beneficiaries. The subsequent **debate** on the new **Social Security** Organization Act beneficially fosters the **economy** policy **debate** on the foundations of social insurance. Instead of only absorbing redundant workers, social insurance programmes have to be organized as to reintegrate beneficiaries into the labour market. So, it is now been perceived that reintegration is a distinct and reciprocal purpose of social security.

In its **coalition** agreement, the current **cabinet** under Prime Minister Kok has proclaimed that 1996 **will** be the year in which social security is to **be** examined again, so as to **decide** whether further reforms are necessary. Yet, the cabinet has high expectations of the policy measures that have recently **been** adopted **or** are to be implemented in the near future. The cabinet's intentions **can be**

[79] Note that whereas the Dutch parliamentary system provides constitutional guarantees as to separate powers, no comparable arrangements have been devised for the collaboration between government and social partners.

summarized by four key words: privatization, competition, regionalization and subsidiarity. These proposals **may be** criticized for **three** reasons: the continuing involvement of **trade unions** and employers, the **economic** and social side-effects of privatization, and **the** viability and stability of a dual system of social security.

It seems curious that the government **still bothers to share** its responsibilities, considering previous experiences on the involvement of social **partners** in the administering social insurance **programmes** and **employment** services. **Yet**, partial privatization of social insurance **may** yield **sufficient** incentives as **to** prevent **abuse** of social insurance schemes, since employers and **branch unions** will **be confronted** with the budgetary **costs** of sickness and disability **spells**. Therefore, the proposals on partial privatization and continuing involvement of social **partners may be reinforcing**. **Still**, the transition **to** a regional organisational **structure may** diminish **these** beneficial effects of **industry-level** and firm-level incentives. Taking into account the wish of Parliament to adopt a regional organisational **structure**, one **may therefore** wonder whether the administrative **powers** of social partners do not have to **be** reduced. Curtailing the **role** of **unions** and employers' **associations** in defining social policy **may further be** beneficial to the **democratic** legitimacy of **government policy**.^[80]

With regard to **the** 'parallel privatization' of disability schemes, the advantages of privatization **may be** overshadowed **by** the adverse ex *ante* selection of workers with health problems, leaving **great** numbers of employees permanently outside the labour force. Privatization **may** therefore **be** at odds with reintegration policies. **Further**, **private** and **public** social insurance **schemes may** only coexist if **insurers** operate on **equal terms**. So as **to** safeguard the viability of a dual system of social security, it seems **sensible** to **either** smooth the financing modes of private and public insurers **or** to restrict competition to the first years of disability and sickness **spells**.

Rethinking the design of social insurance programmes further involves the need to anticipate **to tendencies** towards **flexible** and decentralized labour relations and the proportional increase of the ageing population. **Social** insurance programmes **also may be** revised as part of the **future** harmonization of national social security **systems** within the European **Union**.

[80] Consigning public responsibilities to 'social partners' does not relieve the commitment to good government. For this reason, it may be useful to recall that diminishing involvements of central government do not automatically result in reducing steering needs (Advisory Vonhoff-Commission (1981)).

List of abbreviations

Social Security Acts

AAW	General Disahlcment Bencfits Act
ABW	National Assistance Act
AKW	General Family Allowances Act
AOW	General Old Age Pensions Act
AWBZ	General Act on Exccptional Medical Expenscs
AWW	General Widows' and Orphans' Pensions Act
IOAW	Act on Income Provisions for Older or Partially Disabled , Unemployed Persons
IOAZ	Act on Income Provisions for Older or Partially Disabled , Former Self-Employed Persons
nosv	(New) Social Security Organization Act
RWW	Unemployment Assistance Arrangement
T w	Supplemcntary Benefits Act
WAO	Disablcmnt Bcnefits Act
wsW	Sheltered Employment Act
nWW	(New) Unemployment Benefits Act
WWV	Unemployment Provision Act
ZFW	Health Insurance Act
ZW	Sickness Benefits Act

Institutions

CBA	Centra1 Board of Puhlic Employment Service (PES)
CTSV	Supervisory Board for Social Insurance
c o s z	Social Security Research Committee
PERS	Project Evaluation of the Rcvised System of Social Sccurity
RBA	Regional Board of Puhlic Employment Service (PES)
SER	Social and Economic Council
SVB	Social Security Institute
SVR	Social Insurance Council
TICA	Temporary Institute for Coordination and Tuning
WRR	Scientific Council for Government Policy

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