Paper prepared for the conference 'WORK, POVERTY, AND INEQUALITY IN THE 21st CENTURY', Summer 2008 meeting of the RC28 at Stanford University (California, USA), August 6-9 2008.

Welfare state reform and in-work poverty in the Netherlands

Erik Snel & Jan de Boom (Erasmus University Rotterdam, Netherlands)[*]

Abstract

This paper describes the development of in-work poverty in the Netherlands from 1996 until 2005 and examines whether in-work poverty is related to recent social security and welfare state reforms (a new ideology of an 'activating welfare state' and numerous policy measures to reduce the number of social benefit claimants and to promote work). Using large-scale administrative data (from the Dutch tax services) we found that the in-work poverty risk in the Netherlands was quite constant (fluctuating between 5.3 and 6.6 percent). We expected that because of the social security reforms more individuals with vulnerable labour market positions are pushed into the labour market but are nevertheless unable to escape from poverty. This would result in more working individuals below the poverty line. However, this is not the case. But even with a constant in-work poverty risk the number of working poor individuals increases over the years. As a result, there is a gradual shift within the Dutch poverty population from non-working to working poor. We conclude that in-work poverty – once the typical face of poverty in liberal welfare states such as the USA – also became a familiar phenomenon in the Netherlands. The majority of the Dutch working poor belongs to this category for only one year. However, a limited but significant number of individuals is working poor for three years or more. In-work poverty occurs relatively often after individuals experience a transition from social benefits (particularly social assistance) to work.

Content

[*] Erik Snel, Department of Sociology (EUR), e-mail: snel@fsw.eur.nl. Jan de Boom, Rotterdam Institute for Social Policy Research (EUR), e-mail: deboom@risbo.eur.nl.

1. Introduction: welfare states and in-work poverty

Until recently one could say that different welfare state regimes create different kinds of poverty. The typical face of poverty in liberal welfare states such as the USA is that of the working poor (Esping-Andersen 1990). The combination of marginal social protection and low minimum wages creates a situation in which vulnerable people are often forced to work but remain poor. On the other hand, because of the low wage levels in the U.S., there is ample low-skilled and low-paid work available for those people who depend on this segment of the labour market – jobs that often fail in the developed welfare states of the European continent. As a result, many US citizens work but are nevertheless poor. Moreover, the US working poor often have to combine several low-paid jobs to make ends meet (Newman 1999; Ehrenreich 2002). The typical face of poverty in the European welfare states – especially those on the European continent – is rather different. Continental European or "corporatist" welfare states tend to become "welfare states without work" (Esping-Andersen 1996). The relatively high legal minimum wages in the Continental European welfare states protect the working population but also make labour relatively expensive. As a consequence, low-skilled labour becomes unprofitable and tends to be excluded from the labour market. Because of the higher levels of social security in these countries – mostly in the form of a social net for all citizens – those who do not work or are unable to work can generally rely on social security or means-tested social assistance. The corresponding typical face of poverty in countries like the Netherlands is (or was) that of poor people depending on social benefits.

The risk of these comparisons between welfare state regimes (liberal versus conservative welfare states) is, however, that they tend to be static and often overlook institutional changes within separate countries or regimes. Indeed, Esping-Andersen insists that the characteristics of welfare state regimes are so much anchored in historical institutions that fundamental changes are hardly thinkable (the axiom of "path dependency" or "institutional immobility"; Pierson, 1994; Pierson, 2000; Esping-Andersen, 1996). Others point out changes that take place in contemporary welfare states. Gilbert (2002: 43-47), for instance, points out a transformation of the welfare states in both the USA and Europe, from the traditional welfare state to an "enabling state" that promotes work rather than offering public social protection. The typical example of this is, of course, the repeal of ADFC in the USA. But also in Europe, and indeed in the Netherlands (Visser and Hemerijck 1996), there is a tendency in social politics to opt for work rather than for income protection. Gilbert's argument is *not* that American and European welfare states are converging, but rather that they develop in a similar direction: less social protection, more emphasis on "activating" measures and promotion of work.

This is certainly true for the Netherlands that faced a whole range of social security reforms in the last two decades. In the late 1980s – at the height of the economic crisis – the Netherlands still was a marked passive welfare state providing labour market dropouts with an income, but not with new chances to return to the labour market. As a consequence, the Netherlands had a massive and persistent unemployment (Therborn 1986). The most dramatic example (often referred to as the

"Dutch disease") was the excessive number of incapacity benefits claimants (almost one million on a working population of then six million). But also social assistance claimants often lived in a situation of 'persistent state dependency' (Engbersen 1995). As from the early 1990s, there was a broad consensus in Dutch politics upon the necessity of an "activating welfare state" that considered work more important then income. The interventions in the Dutch social security system started in the late 1980s with a reduction of the level and duration of social benefits. However, it soon became clear that these measures were insufficient to reduce the number of social benefit claimants and to promote work. The following social security measures explicitly intended to create financial incentives for all parties involved (social benefit claimants, employers, social security agencies and municipalities implementing social assistance) to keep vulnerable groups in the labour market and to promote work resumption of social benefit claimants. Van der Veen (1999), therefore, describes the Dutch welfare state reforms of the 1990s as a fundamental transition from a *social right paradigm* to an *incentive paradigm*.

The reforms in the Dutch social security and social assistance systems since the early 1990s are too numerous to describe extensively here (see Teulings et al., 1997; Visser & Hemerijck, 1996; Van der Veen, 1999; Aarts et al., 2002). However, we can give some examples:

- With the new *Social Assistance Act* of 1996, single parents were obliged to find work when their youngest child was 5 years old. Until then, single parents had no obligation to work until their children were 18, which in practice implied that many of them remained depending on social benefits. In 2004, there was again a new social assistance act with the telling name *Act Work and Social Assistance* (Dutch acronym: WWB). According to this new act, any single parent on social assistance, irrespective of the child's age, is obliged to work or to follow an educational trajectory to enhance their labour market chances.
- Both new social assistance act contained new measures to promote work for (often persistent) social assistance claimants. However, the 2004 act did so more radical by giving municipalities implementing social assistance financial incentives to get social benefit claimants back to work. Recent evaluation research that the number of social assistance claimants indeed declined drastically between 2004 and 2006 (Bosselaar et al. 2007).
- From the mid 1990s until 2002, under the so-called 'purple coalition' of Social Democrats and Liberals, there were extensive programs for *subsidized work*. The following, conservative cabinet of Christian Democrats and Liberals ended these programs for subsidized work because – as it was argued – people became dependent from subsidized work without getting a regular job.
- Since the early 1990s, there were numerous measures to reduce the number of incapacity benefit claimants. One measure was to 'privatize' the risk of illness and 'return' it to the employers – first by the differentiation of employer financial contributions to the incapacity scheme (depending on the number of new applicants), and later by repealing collective social protection for ill employees all together. Employers now have to pay wages to sick employees during the first two years of

illness. The idea is that this will make employers more active in stimulating sick employees to resume work, and thus to restrict access to the incapacity benefit scheme. However, when the results were again insufficient the then conservative cabinet of those days introduced a complete new incapacity act, the *Work and Income according to Labour Capacities Act* of 2006 (Dutch acronym: WIA). With the new act, only fully incapacitated persons are eligible for an incapacity benefit. Partially incapacitated individuals are only eligible for income support when working. If not, they have to rely on (means-tested) social assistance. The consequences of this new act are not included in our empirical analysis, since our empirical data only cover the period from 1996-2005.

These were some examples of the drastic social security reforms in the Netherlands since the early 1990s. In this paper we will examine the financial consequences of these reforms in the Dutch social security and social assistance systems for the individuals involved. We assume that the social security reforms have drastic consequences for the character of poverty in countries like the Netherlands. As we argued previously, poverty in the Netherlands used to be concentrated among (persistent) social benefit claimants. We assume that the Dutch welfare state reforms will result in a different kind of poverty: more in-work poverty and relatively less poor individuals living from social benefits. If this is correct, we can also expect not so much a decrease of poverty in the Netherlands but a shift within the Dutch poverty population: less social benefit claimants below the poverty line and more working individuals. In our perception, these developments are a direct result from the social security reforms outlined above. Because of these reforms, social benefit claimants are pushed into the labour market. However, labour market participation not necessarily implies an escape from poverty. Vulnerable categories of social benefit claimants (in terms of employment or household characteristics) are often unable to escape from poverty, even when they work. In this paper we will discuss the following three research questions:

- What is the incidence of in-work poverty and poverty in general in the Netherlands between 1996 and 2005?
- What is the poverty duration of the Dutch working poor?
- How often does in-work poverty in the Netherlands occur after a transition from social benefits to work?

2. Previous research on in-work poverty in the Netherlands

The present paper is a follow-up of an earlier paper on in-work poverty in the Netherlands (Snel et al., 2008). In this previous paper we described the development of in-work poverty in the Netherlands between the mid 1980s and 2000 using survey data from the Dutch Socio-Economic Panel (DSEP). After 2001, this survey was terminated. In the present paper we describe the poverty and in-work poverty development in the developments in a more recent period (1996-2005), using a much larger

and more reliable dataset based not on survey data but on administrative information of the Dutch income taxes. The next section gives more information about the data used in this paper.

We will start, however, with a brief outline of our findings in the previous paper. We found a steady increase of in-work poverty in the Netherlands in the years under examination. This was shown in two different ways. Firstly, we found an increase in the in-work poverty risk: the share of working individuals in poor households went up from less than 4 percent in the late 1980s to 7,5 percent in 2000. This means that in 2000 not less than one in thirteen of all Dutch working individuals were poor (living in a household with an income less than 60 percent of the median household income in the Netherlands). Secondly, we found a pronounced shift in the composition of the Dutch poverty population. Until the mid-1990s, the majority of the Dutch poverty population was not working but since 1998 at least half (up to 55 percent in 2000) of all poor Dutch adults (individuals in the working age) was actually working. We argued that these figures reveal a significant change in the character of the Dutch welfare state and social security system. Until the late 1980s, the Dutch poor were predominantly non-working poor individuals living from social benefits. Since the mid 1990s, a new face of poverty came up in the Netherlands: working individuals – partly persons they were pushed from social security or social assistance back into the labour market – that are nevertheless poor.

We furthermore described development of the labour market and the individual and household characteristics of the Dutch working poor. Somewhat surprisingly, we found that the rise of in-work poverty in the Netherlands could hardly be attributed to the labour market characteristics examined in our analyses such as the employment status (employed or self-employed) of the working poor, their working hours (small part-time job, large part-time job, fulltime job), and their occupational class. We found that the increase of in-work poverty was not the result of an increasing number of self-employed persons, part-time workers of people in low-skilled service jobs under the poverty line. We argued that this is not surprising after all because there is a fundamental difference between in-work poverty and low-paid work. Poverty is measured at the household level. When low-paid workers have the opportunity of pooling their incomes with those of their spouses, they are not necessarily poor. In other words, the individual and household characteristics of the working poor may be more significant than their labour market characteristics. This indeed appeared to be the case. We found that in-work poverty is to a large extent and increasingly a female issue and strongly concentrated in households of singles and single parents. The most important predictor of in-work poverty was the number of earnings in the household. In-work poverty is strongly and increasingly concentrated in single earners households: either traditional breadwinner families or ‘post-modern’ singles or single parents.

The main conclusion from our previous work on in-work poverty was twofold. Firstly, in-work poverty in the Netherlands is increasing, as it is in numerous other European countries (Andreβ and Lohman 2008). Secondly, individual and household characteristics of the working poor are more important to explain the rise of in-work poverty than their labour market characteristics. We argued, however, that these findings should be understood in the context of institutional reforms of the Dutch

welfare state and social security system in the years under examination (especially in the 1990s). As a consequence of the Dutch social security reforms vulnerable categories of social benefit claimants (single parents and other low-skilled single earners, workers with health limitations and/or limited human capital) were more or less pushed into the labour market. Up to the early 1990s, these vulnerable social categories could often depend on public social protection. However, as our study made clear, labour market participation does not always imply an escape from financial poverty (Snel et al. 2008).

The present study goes in three ways one step further than the previous paper. Firstly, we will examine the development of in-work poverty in more recent years (1996-2005). Secondly, we will not only examine the incidence of in-work poverty in the Netherlands in these years but also the poverty duration of the Dutch working poor. This research question is related to the social policy argument that in-work poverty should not be such a problem as long as this is a passing situation. After all, individuals living from social benefits for many years can hardly expect to escape from poverty straight away after entering the labour market. On the other hand, it is widely seen as unacceptable when working people remain poor over the years. Thus the question is: how long do the working poor remain poor? Thirdly we will examine to what extent in-work poverty is related to individual transitions from claiming social benefits to work. This research question is directly related to our central argument that the rise of in-work poverty is an unexpected consequence of subsequent social security reforms in the Netherlands in the last decade. Our assumption is that the transition from social benefits to work is often followed by a period of in-work poverty.

3. Empirical data and measurements

The empirical data used in this paper are derived from the so-called Income Panel Research (Dutch acronym IPO) of Netherlands Statistics. The IPO describes the composition and distribution of incomes in the Netherlands. The panel size is 85,000 households and around 245,000 individuals living in those households annually. The IPO is not an income survey but derives its information from administrative data, mainly from the Dutch tax administration. An income panel based on administrative data is preferable over an income survey for several reasons: the income information is more reliable since it is the information individuals include in their tax form; a larger number of cases can be included; and perhaps most importantly, an income panel based on administrative data has no panel drop out. For each household in the panel there is one so-called key person. This key person is followed over the years. The only panel drop out occurs when a key person dies or leaves the country or when an individual belonging to a household under observation leaves the household (due to divorce or separation or grown up children becoming leaving the household). In this analysis, we will

use IPO-data from ten subsequent years (1996-2005). In these ten years, the panel contains information over a total of 345.250 unique individuals living in 198.350 households.

In the analysis we examine whether or not individuals are poor and whether or not they are working. Poverty is measured on the household level. In this analysis we use the poverty threshold that is widely accepted in international comparative poverty research. A household is considered to be poor when its equivalized disposable household income is less than 60 percent of the median disposable income of all households in that year. The disposable household income refers to the summed up income of all household members minus income transfers (such as paid alimony), income tax, expenses for income insurances, and so on. To compare the household income of households with different compositions, the household income is equivalized. In our analysis, we used the standard variable 'equivalized disposable household income' in IPO. The equivalence factors used in IPO differ somewhat from those used in other research – namely 1 for the first adult in the household, 0.38 for each additional adult, and 0.15-0.30 for underage children in the household, depending on their age and position in the household.

Before doing any further statistical analyses we selected the relevant population in IPO. Our analyses are limited to all adults in the working age (from 15 to 64 years old). Furthermore we excluded the following categories from our analyses: individuals living in households with a negative disposable household income, students, and individuals living in institutional households. Having a negative household income often occurs among self-employed individuals, but indicate manipulations of tax data. Consistent with most Dutch poverty research both students and individuals living in institutional households are also excluded from the analysis. The reason to exclude students is that many of them will have low incomes (and will thus be considered as poor), although cannot be considered as a poor population category. Students mostly deliberately accept a low income during some years in order to obtain (much) higher incomes later in their lives. Individuals living in institutional households (nursing homes, old people's homes, prisons) are excluded from the analysis because it is impossible to calculate an equivalized household income in these cases.

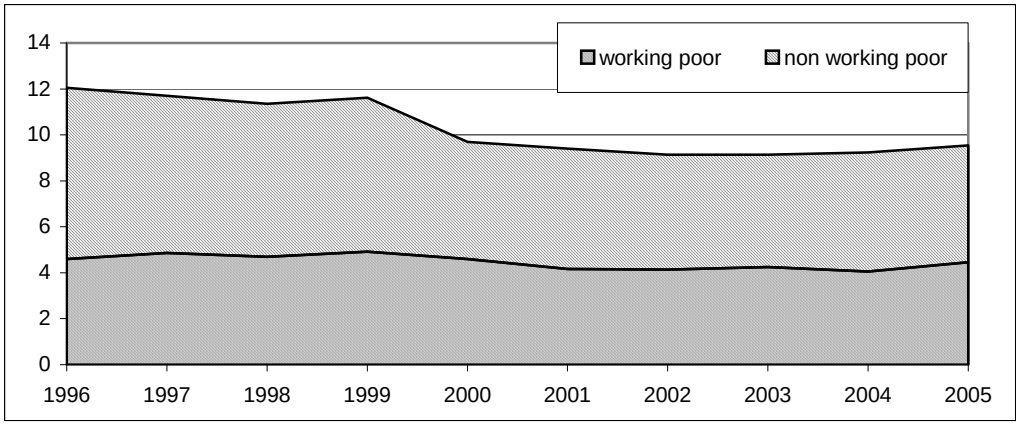
Since IPO is mainly based on tax data, the panel contains little information about what kind of work people are doing (in terms of occupations, occupational sectors, working hours, etc.). The only thing we do know is whether or not an individual has earnings from work (either employment or self-employment). In our analyses, we consider every individual with an income from work as 'working'. We do not know, however, how many hours a week this person is working. We only know whether this person has only income from work *or* whether he or she has other incomes as well (from pensions, social benefits, or other sources such as alimony). This implies that someone who we consider as 'working' may in fact be a social benefit claimant with a few hours of work on the side. Furthermore our database contains some demographic information (gender, marital status, ethnic background, main source of income).

4. Outcomes

In-work poverty in the Netherlands (1996-2005)

Our first research question concerns the incidence of in-work poverty in the Netherlands in the period under examination (1996-2005). During these years the Dutch economy was characterized by two mayor periods. The late 1990s were a very favourable period in the Dutch economic history. After the severe economic crisis of the late 1980s with its large and persistent unemployment, the Dutch economy slowly recovered in the early 1990s and grew rapidly in the second half of the decade. These were the years of increasing incomes, growing labour market participation, low unemployment figures, and so on. In the international literature, this period in Dutch economic history became known as the "Dutch miracle" (Visser & Hemerijck, 1996). This favourable economic development in the Netherlands lasted up to the year 2001, 2002. After that the international economic recession also hit the Netherlands, resulting in economic stagnation, stagnating incomes and rising unemployment. In 2005, the first signs of a new economic recovery presented themselves. Figure 1 shows the consequences of these economic developments for the poverty incidence in the Netherlands in the years under examination.

Figure 1 Working and non-working individuals (15-64 years) living in poor households as a % of all individuals in the working age (1996-2005)



'Poor'= living in a household with an equivalized household income < 60% of the average equivalized household income

***Source*: Netherlands Statistics IPO 1996-2005 (our own computations)**

Figure 1 shows a gradual decline of income poverty in the Netherlands in the period of economic growth. The poverty incidence (measured on the level of individuals in the working age) decreased from 12.1 percent in 1996 to 9.1 percent in 2002. However, the steep decline of poverty from 1999 to 2000 is also caused by the change of income definitions by Netherlands Statistics. In the following years of economic recession there was a small increase of income poverty in the Netherlands (up to 9,5 percent in 2005). More interesting for our analysis of in-work poverty, however, is the observation that the overall decline of poverty in the Netherlands is completely due to the decreasing number of

non-working individuals. In-work poverty is amazingly constant over the years (4.6 percent in 1996, 4.5 percent in 2005). In our view, this is a rather surprising outcome. Whatever happened in the Netherlands (economic growth and stagnation, a new ideology of an 'activating' welfare state, and the resulting social security reforms), the share of working poor individuals (measured as a percentage of the total population in the working age) appears to be constant.

Possible fluctuations in in-work poverty in a country can be the result of two different tendencies: either a rise or decline of the poverty risk of working individuals *or* an increase or decrease of the labour market participation with an constant in-work poverty risk. Table 1 gives information about both tendencies in the Netherlands.

Table 1. Poverty risks of working and non-working individuals and working and non-working individuals as a % of the overall Dutch poverty population in the working age (1996-2005)

	Poverty risk %		Share of poverty population %	
	Working poor	Non working poor	Working poor	Non working poor
1996	6,4	26,2	38,1	61,9
1997	6,6	25,4	41,6	58,4
1998	6,3	26,1	41,4	58,6
1999	6,5	27,6	42,3	57,7
2000	6,0	22,3	47,4	52,6
2001	5,4	22,8	44,4	55,6
2002	5,3	22,2	45,2	54,8
2003	5,5	21,2	46,4	53,6
2004	5,3	22,0	43,9	56,1
2005	5,8	22,0	46,6	53,4

'Poor'= living in a household with an equivalized household income < 60% of the average equivalized household income

***Source*: Netherlands Statistics IPO 1996-2005 (our own computations)**

Table 1 first shows the poverty risk of working and non-working individuals in the Netherlands. The in-work poverty risk (the number of working individuals living in poor households) declined with almost 10 percent points (from 6.4 percent in 1996 to 5.8 percent in 2005). However, the poverty risk of non-working individuals fell more sharply (with 16 percent points from 26.2 percent in 1996 to 22 percent in 2005). In-work poverty is nevertheless a phenomenon of growing significance in the Netherlands, as appears from the other half of the table. The last to columns of table 1 show a change within the Dutch poverty population. In the mid 1990s over 60 percent of the Dutch poverty population (only Dutch individuals in the working age) were not working. In 2005, the share of non-working individuals in the Dutch poverty population fell to almost 50 percent. In the same period, the share of the working poor within the overall Dutch poverty population increased from less than 40 percent to 47 percent.

These figures show a significant change in the character of income poverty in the Netherlands, also because it is a continuation of previously observed trends (Snel et al. 2008). Until the late 1980s, income poverty in the Netherlands predominantly used to be an issue of non-working individuals and

of households in a situation of 'persistent state dependency' (Engbersen 1995). However, this changed in the early 1990s, up to the situation – as table 1 shows – that almost half of Dutch all adults living in poor households were actually working (at least a few hours a week).[1] The main reason for this shift within the Dutch poverty population is *not* an increasing poverty risk of working people, but the growing labour market participation in the Netherlands as such. With a constant or even slowly declining in-work poverty risk, more people at work almost automatically results in more of in-work poverty. The labour market participation in the Netherlands indeed increased significantly in the period under observation (from 7 million persons in 1996 to 7,8 million in 2005, an increase of 12 percent).[2] The increasing labour market participation is the main cause of the rise of in-work poverty between 1996 and 2005, even when the in-work poverty risk in the Netherlands declined with 10 percent.

Poverty duration of working and non-working poor

Another important question, at least from a social policy perspective, concerns the poverty duration of the working poor. One could argue that in-work poverty is not such problem as long as this situation is temporary. After all, many social benefit claimants have been poor for many years and cannot expect to escape from poverty straight away when they start working. On the other hand, it is widely seen as unacceptable when working people remain poor over the years. Work should pay off, as it is often stated. Table 2 shows how long working and non-working poor people remain poor.

Table 2 Poverty duration (number of years in poverty) of working and non-working poor (1996-2005)

		Working individuals		Non-working individuals	
	Years in poverty	As % of total population	As % of all working poor	As % of total population	As % of all non-working poor
Never poor	0	86.2	-	86.7	-
Total at least once poor		13,8	100	13.3	100
	1	7.9	57.5	6.4	48,3
	2	2.9	21.2	2.6	19,5
	3	1.4	10.1	1.5	11,2
	4 or more	1,5	11.2	2.8	21.0

'Poor'= living in a household with an equivalized household income < 60% of the average equivalized household income

***Source*: Netherlands Statistics IPO 1996-2005 (our own computations)**

Table 2 shows the number of years in poverty of working and non-working individuals over a period of ten years time (1996-2005). When starting with working individuals, we see that the large majority (86 percent) of them was 'never working poor' (0 years) in these ten years. The remaining 14 percent of all working individuals was 'working poor' at least once. The majority of the latter category (57,5 percent of all individuals that were working poor at least once, 7.9 percent of all working individuals) was working poor for only one year. These are the cases social policy makers should not worry too much about. On the other hand, there is also a limited but significant category of working individuals that were working poor for three or more years. Ten percent of all individuals that were working poor

at least once were so for three years, another 11 percent were so for four years or longer. When taking both latter categories together, we see that 2.9 percent of all Dutch working individuals was working poor for at least three years. With a total working population of 7.5 million (the average number of working individuals in the years 1996-2005), this means that over the period 1996-2005 not less than 217,500 persons were working poor for at least three years. When looking at the non-working poor, these figures are slightly different. The main difference in the poverty duration of working and non-working poor is that the latter category contains more persistent poor individuals (poor for four years or longer).

The figures in table 2 have two important drawbacks. Firstly, the figures show how many years a person belongs to the category 'working poor' or 'non-working poor' but we do not know whether this is a combined period of time. It makes quit a difference, however, whether someone is working poor for two or more years in a row or in two separate with a long non-poor period in between. Secondly, we have no insight (yet) in the possible overlap between both categories ('working poor' and 'non-working poor'). In other words, we do not know whether someone who was working poor in one year, non-working poor in the next year, and possibly working poor again in the third year. Nevertheless, we may conclude that although in-work poverty is generally a temporary phenomenon, there is also a limited but significant category of working individuals that were working poor for at least three years

'From benefit to work''-transitions and in-work poverty

The final part of our analysis directly relates in-work poverty in the Netherlands to the issue of social security reform. As we mentioned before, social security policies in the Netherlands in the past decade or two are characterized by the rise of new ideologies (the 'activating welfare state') and by a whole range of policy measures that intend to reduce the number of social benefit claimants, among other things by promoting work resumption of social benefit claimants. Recent research shows that the number of social benefit claimants in the Netherlands had indeed decreased in recent years, due to the new policies (xxx 2007). However, the question remains what the financial consequences are when social benefit claimants resume work. Are they also able to escape from income poverty? Or is the transition from social benefits to work followed by in-work poverty? Against this background we examined how often in-work poverty in the Netherlands occurs after a transition from social benefits to work.

To answer this question, we first have to define 'from benefit to work'-transitions. We explore these transitions by examining the source of income of social benefit claimants in two subsequent years. In the Netherlands, three different kind of social benefits are of interest: incapacity benefits, unemployment benefits, and social assistance benefits. To make things more complex, one should realize that individuals or households can have a social benefit as sole source of income *or* a (partial) social benefit complemented with an income from work or some other income. Table 3 shows when

social benefit claimants or partial social benefit claimants of year x experience a transition from benefit to work in year x+1.

Table 3 possible income transitions of social benefit claimants in two subsequent years

Source of income in year x	**Source of income in year x+1**
Social benefit (incapacity, unemployment, social assistance) as sole source of income	- Social benefit as sole source of income (no transition) - ***Only income from work*** - ***Partial social benefit plus income from work*** - Other source(s) of income, no income from work - ***Income from work and other source(s) of income***
Partial social benefit income plus additional income from work	- Partial social benefit plus income from work (no transition) - Only social benefit - ***Only income from work*** - Other source(s) of income, no income from work - ***Income from work and other source(s) of income***
'From benefit to work'-transitions in ***italics***	

As table 3 shows, five different situations can be defined as 'from benefits to work'-transitions or work resumption (in italics in table 3): when a person has only a social benefit in year x and a) only income from work or b) a partial social benefit plus income from work or c) income from work plus some other income in year x+1 *or* when a person has a partial social benefit plus income from work in year x and d) only work or e) income from work plus some other income in year x+1 (for a similar analysis of labour market transitions of Dutch incapacity claimants, see : Snel and Linder [2008]). After defining these 'from benefits to work'-transitions we created new variables in the IPO-database indicating these transitions. Subsequently, we summed up per year and per separate kind of social benefit (incapacity, unemployment or social assistance) all five 'from benefits to work'-transitions. Table 4 shows how often a transition 'from benefit to work' is followed by in-work poverty in the next year.

Table 4. In-work poverty after a transition from social benefit to work (1997-2005)

	Working poor (in %) after a transition from:		
	Incapacity benefit to work	Unemployment benefit to work	Social assistance to work
1997	10.3	24.9	35.5
1998	8.1	12.8	39.3
1999	10.7	10.5	39.5
2000	7.4	12.5	31.3
2001	14.8	11.6	37.2
2002	10.2	10.9	40.5
2003	14.6	11.2	40.9
2004	11.2	11.5	39.7
2005	15.6	11.5	41.2

'Poor'= living in a household with an equivalized household income < 60% of the average equivalized household income

***Source*: Netherlands Statistics IPO 1996-2005 (our own computations)**

Table 4 should be read as follows. Of all incapacity benefit claimants of 1996 who experienced some kind of transition to work in 1997, 10.3 percent was working poor in 1997. The same goes for 24,9

percent of all unemployment benefit claimants of 1996 who experienced a transition to work in 1997 and for 35.5 percent of all social assistance claimants of 1996 who resumed work in the following year. The figures in table 4 lead to three conclusions. Firstly, transitions from social benefits to work not always imply an escape from financial poverty. Sometimes people work (or partially work) but are nevertheless poor. Secondly, the chances of remaining poor after a transition from social benefits to work differ per kind of social benefit. These chances are smallest for incapacity benefit claimants that resume work and largest for social assistance claimants that resume work. Thirdly, the chances that a social assistance claimant is still poor in the year he or she experience a transition from benefit to work are considerable and increasing over the years. In 1997, more than one third of all social assistance claimants that experienced a transition to work were nevertheless poor. In 2005 (the year after *Act Work and Social Assistance* [Dutch acronym: WBB] was introduced), not less than 41 percent of all social assistance claimants that experienced a transition to work were still poor. These figures clearly show that resumption of work particularly for social assistance claimants by no means automatically implies an escape from poverty. On the other hand, as we saw earlier, for most persons involved this is a temporary situation since most of the working poor are working poor for only one year.

5. Summary and discussion

This paper described the development of in-work poverty in the Netherlands in the past decade and tried to examine whether in-work poverty is related to recent social security and welfare state reforms (a new ideology of an 'activating welfare state' and numerous policy measures to reduce the number of social benefit claimants and to promote work). The present paper follows upon an earlier paper in which we showed a gradual increase of in-work poverty in the Netherlands between the mid 1980s and 2000 (Snel et al. 2008). Using more recent (and more reliable) statistical data, we found that the in-work poverty risk in the Netherlands was quite constant between 1996 and 2005 (fluctuating between 5.3 and 6.6 percent). This is different from what we expected. We expected that because of the social security reforms more individuals with vulnerable labour market positions are pushed into the labour market but are nevertheless unable to escape from poverty. As a result, we expected an increasing share of working individuals under the poverty line. However, this seems not to be the case.

On the other hand, we saw a shift within the Dutch poverty population. Given the increased labour market participation in the Netherlands in the past decade(s), the total number of working poor went up even with a constant in-work poverty risk. Consequently, the share of the working poor within the overall Dutch poverty population (only individuals in the working age) also increased steadily from 38 percent in 1996 to almost 47 percent in 2005. At the same time, the share of non-working poor within the overall Dutch poverty population fell from 62 percent in 1996 to 53 percent in 2005. This is a significant change in the character of poverty in the Netherlands is so far that in-work poverty – once

seen as the typical face of poverty in liberal welfare states such as the USA – became a familiar phenomenon also in the Netherlands.

We also examined the poverty duration of the Dutch working and non-working poor (measured by the number of years in poverty). We found, not surprisingly, that the large majority of the Dutch working population (86 percent) was 'never working poor' in ten years time. The remaining 14 percent was 'working poor' at least once. The majority of the latter category (57 percent) was 'working poor' for not more than one year. However, a limited but in our perception significant number of working individuals were 'working poor' for several years. Ten percent of all individuals that were working poor at least once were so for three years. Another 11 percent were so for four years or longer. Taking both latter categories together, we found that 2.9 percent of the total working population was 'working poor' for at least three years. With a working population of 7.5 million (the average in the years under examination) this amounts to 217.500 persons. To put things in perspective, this would be the same as when almost three quarters of the total working population of the Dutch city of Rotterdam would be working poor for at least three years![3] Persistent in-work poverty still is the exception in the Netherlands, but it happens more often than policy makers seem to think.

Finally we examined how often in-work poverty occurs after individuals experience a transition from having a social benefit to work. We defined 'from benefit to work'-transitions in a broad sense, including cases of individuals that went from a situation of a full social benefit without work to a situation of receiving a partial social benefit in addition to income from work. In our analysis, we distinguished between three different kinds of social benefits: incapacity, unemployment, and social assistance benefits. We found that transitions from social benefits to work not necessarily imply an escape from poverty. Sometimes former social benefit claimants work (or work partially) but are nevertheless still poor. The odds that this happens differ per kind of social benefit. The chances of becoming working poor are smallest for (former) incapacity benefit claimants that resume work and largest for (former) social assistance claimants that resume work. In 1997, more than one third of all social assistance claimants that experienced a (partial) transition to work became working poor. In 2005, the year after the new *Act Work and Social Assistance* (WWB) was introduced, more than 40 percent of all social assistance claimants that experienced a (partial) transition to work became working poor. These figures clearly show that leaving social assistance for work by no means automatically implies an escape from poverty. On the other hand, as we said earlier, for many persons involved this is a passing situation since the majority of the working poor is so for only one year. Unfortunately we have not obtained income data of the year 2006 yet. That is why we cannot say anything about the financial consequences of the new Act Work and Social Assistance in the longer run.

Notes

[1] As mentioned earlier, the database used in our analyses does not contain any information about how much people are working (including working hours), but only whether or not a person has any income from work. We counted everybody with income from work as 'working', including those cases that have earnings next to a social benefit income.

[2] Information: Netherlands Statistics, Stattline. The figures refer to all working individuals in the Netherlands including those individuals working less than 12 hours a week (international definition working population).

[3] In 2007, the City of Rotterdam had a working population of 299,345 persons (info: www.cos.rotterdam.nl) .

References:

Aarts, L., P. de Jong en R. van der Veen (2002), *Met de beste bedoelingen: WAO 1975-1999, Trends, onderzoek en beleid*. Doetinchem: Elsevier Bedrijfsinformatie.

Andreβ, H.J. and H. Lohman (eds.) (2008), *The Working Poor in Europe*. Cheltenham: Edward Elgar, (to be published in 2008).

Bosselaar, H., D. Bannink, C. van Deursen and W. Trommel (2007), *Werkt de WWB? Resultaten van de ontwikkeling van nieuwe verhoudingen tussen Rijk en gemeenten*. Den Haag: Ministerie van SZW.

Engbersen, G. (1995), The Road to Anomia? Poverty Regimes and Life Chances. In: B. Unger and F. van Waarden (eds.) *Convergence or Diversity*, Aldershot: Avebury, pp. 200-225.

Ehrenreich, B. (2002), *Nickel and Dimed: Undercover in Low-wage America*. London: Granta Books.

Esping-Andersen, G. (1990), *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.

Esping-Andersen, G. (1996), 'Welfare States without Work: the Impasse of Labor Shedding and Familialism in Continental European Social Policy'. In: idem (ed.), *Welfare States in Transition: national adaptations in global economies*, London: Sage, pp. 66-87.

Gilbert, Neil (2002), *Transformation of the Welfare State. The Silent Surrender of Public Responsibility*. Oxford: Oxford University Press.

Newman, K.S. (1999), *No Shame in my Game. The Working Poor in the Inner-City*. New York: Russell Sage Foundation.

Pierson, P. (1994), *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrencement*. Cambridge: Cambridge University Press

Pierson, P. (2000), *Increased returns, path dependency, and the study of politics*. In: American Political Science Review, 94.

Snel, E., J. de Boom and G. Engbersen (2008), The silent transformation of the Dutch welfare state and the rise of in-work poverty. In: H.J. Andreβ & H. Lohman (eds.), *The Working Poor in Europe*. Cheltenham: Edward Elgar, pp. 124-154 (to be published in 2008).

Snel, E. and F. Linder (2008), Back to work after an incapacity benefit: differences between ethnic minority and native Dutch workers. In: *Social Policy & Administration* (to be published in 2008).

Therborn, G. (1986), *Why some people are more unemployed than others. The strange paradox of growth and unemployment*. London: Verso.

Teulings, C., R. van der Veen & W. Trommel (1997), *Dilemma's van sociale zekerheid. Een analyse van tien jaar herziening van het stelsel van sociale zekerheid*. Den Haag: VUGA.

Van der Veen, R. (1999), Institutionele veranderingen, sociale bescherming en sociale ongelijkheid. In: G. Engbersen, J.C. Vrooman, and E. Snel (eds.), *Armoede en verzorgingsstaat. Vierde jaarrapport armoede en sociale uitsluiting*, Amsterdam: AUP, pp. 65-82.

Visser, J. & A. Hemerijck (1996), *A Dutch Miracle: Job growth, welfare reform and corporatism in the Netherlands*. Amsterdam: Amsterdam University Press