

Summary

Promising policy for
reducing poverty

Poverty in the Netherlands

Poverty is a stubborn problem in the Netherlands: depending on the state of the economy, approximately one million people face poverty each year. In 2017, a period when the Dutch economy was performing strongly, 939,000 persons (5.7% of the population) were living in a household with an income below the 'modest but adequate' poverty line as defined by the Netherlands Institute for Social Research (SCP). If we look at poverty by life stage, we see that children are the most badly affected: roughly 8.1% of children in the Netherlands were living in poor households in 2017, compared with 5.6% of adults below state retirement age. The poverty rate is much lower in the older population (3% in 2017); this is explained by the fact that the Dutch state pension provides an income that is above the poverty line.

Analysis of around 60 policy options and three system changes aimed at reducing poverty

This 'Promising Policy' series analyses policy options aimed at reducing poverty in the Netherlands. In this analysis, 38 policy options were extrapolated in the social security and tax domains. The policy options are targeted at different life stages and, where applicable, at specific groups within those life stages. In this joint publication, the Netherlands Bureau for Economic Policy Analysis (CPB) and SCP discuss the likely effects of these options based on models developed by CPB, in conjunction with the scientific literature. Measures aimed at raising employment levels (which could indirectly reduce poverty) fall outside the scope of Promising Poverty Policy and are discussed in other parts of the Promising Policy series.

Over the longer term, poverty can also be reduced by measures taken in other areas, especially the labour market, education and healthcare. Those measures increase the human capital of people in poverty and improve their employability. They also have a preventative effect by reducing the risk that poverty will be passed on through the generations. In this Promising Policy series we discuss more than twenty policy options in those areas, as found in the scientific literature. The size of the effects is less easy to quantify and is therefore described qualitatively.

As well as the individual policy options, CPB and SCP also reviewed the Dutch income support system as a whole. We analyse three system changes which are often cited in this context: introduction of a basic income; simplification of the allowance system; and enabling tax credits to be monetised. It would of course be possible to think of any number of other variants which would radically reform the system of income support and reduce poverty; the three variants analysed in this study provide an illustration of the effects of a larger-scale reform.

Tables 0.1 to 0.5 inclusive summarise the effects of the different policy options and system changes. The individual policy options can be subdivided into measures which have an inherent budgetary impact or a deviating¹ budgetary impact (table 0.1), measures with an imposed budgetary impact of 0.5 billion euros (table 0.2) and measures with an imposed budgetary impact of 1.0 billion euros (table 0.3). Table 0.4 summarises measures which cannot be extrapolated, including measures aimed at increasing human capital, and table 0.5 presents the system changes.

The individual policy options and their impact are discussed in detail in the various chapters of this report. Based on the ‘plusses’ and ‘minuses’ signs assigned to the different social and economic outcomes, readers can form their own opinion on the desirability of the various policy options.

Trend in poverty with unchanged policy

The extrapolated policy options are plotted against a ‘baseline’ pathway, which illustrates the trend in poverty without the deployment of additional policy. The baseline pathway assumes that all the policy currently being gradually phased in (such as curtailing mortgage interest relief) has been fully implemented.

Without the supplementary policy options, poverty reduces between 2017 and 2021. The number of persons in poverty declines by 8% (from 5.7% to 5.3% of the population) as a result of policy already implemented in combination with economic and demographic trends. An important caveat to this forecast is that it takes no account of the coronavirus crisis, which is still in full spate at the time of writing. While the full impact of the coronavirus crisis cannot yet be accurately assessed, it is likely to cancel out, at least partly, the predicted reduction in poverty up to and including 2021, or to reverse the reduction in poverty to an increase. These posited developments make the results of this study all the more relevant.

Policy already deployed leads to an increase of more than a quarter in the number of persons in poverty after 2021 (from 5.3% to 6.8% of the population). A key explanation for this increase is the annual reduction in social assistance benefits (through the phasing out of double tax credits in the reference minimum wage used to calculate social assistance benefits), which continues until 2035. This leads to a sharp increase in the risk of poverty among social assistance benefit claimants.

Analysis of debt policy and municipal poverty policy

In addition to the analysed policy options and system changes, CPB and SEP also performed exploratory analyses of local authority policy on poverty and problem debts. The analyses provide a first insight into the diversity of policy instruments that local authorities have at their disposal to combat and ameliorate poverty, and describe the extent to which problematic debts are associated with having a low income.

A key conclusion is that new, integrated data registers need to be set up in both domains, to facilitate more focused research and enable (even) more targeted policy to be devised.

1 Deviating from the standard measures of 0.5 billion and 1.0 billion euros in tables 0.2 and 0.3.

Tables

In addition to the effects of the measures on poverty, expressed in both persons and euros (measured as the total income shortfall relative to the poverty line), the tables also show the ex-ante budgetary effects and the effects on employment and income inequality.

Where applicable, we subdivide the ex-ante budgetary effects into a direct effect (which is relevant for the impact on poverty) and a total effect including first-order behavioural effects (which is relevant for the impact on the public finances).

Table 0.1

Measures with inherent budgetary impact or with a deviating ¹⁾ budgetary impact

		Ex-ante budgetary effect*	Poverty in persons
		€ bn	%
K3	Raise child budget, combination of K1a and K2	- 0.3	- 3.5
K1a	Raise child budget from third child onwards	- 0.2	- 2.5
K2	Raise child budget for single parents	- 0.1	- 0.9
K5a	Allow monetisation of income-related combination tax credit	- 0.1	- 0.1
W3b	Monetise & adjust working person's tax credit	- 2.5	- 6.3
W2	Adjust working person's tax credit to lowest incomes	- 1.2	- 3.1
W3a	Allow monetisation of working person's tax credit	- 0.3	- 0.8
U3	Raise social assistance benefit to state pension level	- 1.4 (- 2.9 _a)	- 20.0
U2	Reverse reduction in social assistance benefit after 2021	- 0.9 (- 1.9 _a)	- 16.7
U1b	Social assistance benefit = 70% of statutory minimum wage per person in household	- 1.8 (- 3.7 _a)	- 10.7
U5b	Raise statutory minimum wage by 5% (effect on linked benefits)	- 3.2	- 4.8
U5a	Raise statutory minimum wage by 2.5% (effect on linked benefits)	- 1.6	- 2.4
O1a	Allow monetisation of older person's tax credit	- 0.8	- 1.7
O3a	Raise care allowance for single older persons by 0.3 billion euros	- 0.3	- 0.4
O2	Increase care costs allowance for older persons	- 0.3	- 0.2
A1d	Allow monetisation of general tax credit + increase by 0.5 billion	- 5.5	- 17.5
A1a	Allow monetisation of general tax credit	- 4.8	- 16.0
A4	Increase care costs allowance	- 0.3	- 0.9

(-) causes deterioration of EMU balance.

1) Deviating from the standard measures of 0.5 billion and 1.0 billion euros in tables 0.2 and 0.3.

a) The amounts between brackets show the total ex-ante effect including behavioural effects

* Measures are filtered by target group based on the reduction in poverty in persons

- Negative employment effects have an (unquantified) upward effect on poverty.

Poverty in euros	Poverty in persons within group	Poverty in euros within group	Relevant group	Employment	Income inequality
%	%	%		%	%
- 1.5	- 9.9	- 4.6	children	0.0	- 0.1
- 1.1	- 7.2	- 3.4	children	0.0	- 0.1
- 0.4	- 2.3	- 1.3	children	0.0	- 0.1
- 0.1	- 0.3	- 0.2	children	0.0	0.0
- 4.7	- 14.0	- 9.3	workers	- 0.2**	- 0.7
- 1.7	- 8.8	- 4.5	workers	- 0.1**	- 0.4
- 0.8	- 1.1	- 1.1	workers	0.0	- 0.1
- 8.8	- 57.0	- 57.1	social assistance benefit	- 0.9**	- 0.9
- 7.3	- 48.0	- 48.3	social assistance benefit	- 0.6**	- 0.6
- 4.3	- 27.3	- 21.3	social assistance benefit	- 1.2**	- 0.5
- 3.8	-	-	-	- 0.2**	- 1.0
- 2.0	-	-	-	- 0.1**	- 0.5
- 2.2	- 10.0	- 14.6	older persons	-	- 0.4
- 0.5	- 2.8	- 4.0	older persons	-	- 0.2
- 0.1	- 1.6	- 1.1	older persons	-	- 0.1
- 20.1	-	-	-	- 0.8**	- 1.3
- 19.1	-	-	-	- 0.8**	- 1.1
- 0.5	-	-	-	-	- 0.1

Table 0.2

Measures with a budgetary impact of 0.5bn euros

		Ex-ante budgetary effect*	Poverty in persons
		€ bn	%
K1b	Raise child budget to 0.5 billion euros (on top of substantive measure K1a)	- 0.5	- 4.4
K4a	Increase child benefit	- 0.5	- 2.3
K6a	Increase childcare allowance	- 0.5 (- 0.9 _a)	- 0.3
K5b	Allow monetisation of income-related combination tax credit and increase further (plus substantive measure K1a)	- 0.5	- 0.3
W1a	Increase working person's tax credit	- 0.5	- 0.4
W7	Increase self-employed person's allowance	- 0.5	- 0.2
U4a	Increase social assistance benefit	- 0.5 (- 1.0 _a)	- 7.2
O3b	Increase care allowance only for older persons	- 0.5	- 1.0
A3a	Increase rent benefit	- 0.5	- 5.2
A2a	Increase care allowance	- 0.5	- 2.8
A1b	Increase general tax credit	- 0.5	- 1.2

(-) causes deterioration of EMU balance.

a) The amounts between brackets show the total ex-ante effect including behavioural effects,

* Measures are filtered by target group based on the reduction in poverty in persons.

-- Negative employment effects have an (unquantified) upward effect on poverty.

Poverty in euros	Poverty in persons within group	Poverty in euros within group	Relevant group	Employment	Income inequality
%	%	%		%	%
- 2.0	- 12.2	- 6.3	children	- 0.1**	- 0.2
- 1.1	- 6.3	- 3.3	children	- 0.1**	- 0.1
- 0.2	- 0.8	- 0.6	children	0.0	0.0
- 0.1	- 0.8	- 0.5	children	0.0	- 0.1
- 0.1	- 1.1	- 0.4	workers	0.0	0.0
- 0.2	- 1.2	- 0.4	self- employed	0.0	0.1
- 5.6	- 22.2	- 39.9	social assistance benefit	- 0.3**	- 0.4
- 1.1	- 7.9	- 7.7	older persons	-	- 0.5
- 4.1	-	-	-	- 0.1**	- 0.6
- 2.4	-	-	-	- 0.1**	- 0.3
- 0.7	-	-	-	0.0	- 0.2

Table 0.3

Measures with a budgetary impact of 1.0bn euros

	Ex-ante budgetary effect ^a	Poverty in persons
	€ bn	%
K1c Raise child budget to 1.0 billion euros (on top of substantive measure K1a)	- 1.0	- 7.3
K4b Increase child benefit	- 1.0	- 4.2
W1b Increase working person's tax credit	- 1.0	- 0.6
U4b Increase social assistance benefit	- 1.0 (- 2.0 ^a)	- 17.9
O3c Increase care allowance only for older persons	- 1.0	- 1.9
O1b Allow monetisation of older person's tax credit + further increase (on top of substantive measure O1a)	- 1.0	- 1.8
A3b Increase rent benefit	- 1.0	- 11.2
A2b Increase care allowance	- 1.0	- 5.6
A1c Increase general tax credit	- 1.0	- 2.0

(-) causes deterioration of EMU balance.

a) The amounts between brackets show the total ex-ante effect including behavioural effects.

^a Measures are filtered by target group based on the reduction in poverty in persons.

^a Negative employment effects have an (unquantified) upward effect on poverty.

Poverty in euros	Poverty in persons within group	Poverty in euros within group	Relevant group	Employment	Income inequality
%	%	%		%	%
- 3.3	- 19.8	- 10.2	children	- 0.2*	- 0.4
- 2.1	- 10.9	- 6.4	children	- 0.1**	- 0.2
- 0.2	- 1.9	- 0.7	workers	0.1	0.0
- 7.9	- 55.7	- 55.9	social assistance benefit	- 0.7**	- 0.7
- 2.0	- 15.3	- 14.5	older persons	-	- 0.9
- 2.4	- 10.9	- 16.0	older persons	-	- 0.5
- 7.8	-	-	-	- 0.1**	- 1.1
- 4.7	-	-	-	- 0.1**	- 0.7
- 1.3	-	-	-	0.0	- 0.3

Table 0.4

Measures which cannot be extrapolated

	Ex-ante budgetary effect	Poverty in persons	Poverty in euros	Poverty in persons within group	Poverty in euros within group
	qualitative	qualitative	qualitative	qualitative	qualitative
K6b Childcare allowance: increase maximum hourly rate	deterioration of balance	falls	falls	falls	falls
K7 Extra focus on preschool education	deterioration of balance	falls	falls	falls	falls
K8 Extra focus on language, reading and arithmetic skills	deterioration of balance	falls	falls	falls	falls
K9 Extra focus on improving physical health	deterioration of balance	falls	falls	falls	falls
K10 Extra focus on mental health and behaviour	deterioration of balance	falls	falls	falls	falls
W4 Increase statutory minimum wage by 5% without linkage to benefits	- 0.2	falls	falls	falls	falls
W5a Increase income of employees with few working hours via number of hours	unknown	unknown	unknown	falls	falls
W5b Increase income of employees with few working hours via hourly rate	unknown	unknown	unknown	falls	falls
W6 Reduction in employer's costs	no change	falls	falls	falls	falls
W8 Minimum rate for self-employed workers	no change	falls	falls	falls	falls
U1a Abolish cost-sharing norm in social assistance benefit	deterioration of balance	falls	falls	falls	falls
U6 Increase benefits for people with (temporarily) no labour potential	deterioration of balance	falls	falls	falls	falls
U7 Reward working part time whilst receiving benefit	deterioration of balance	falls	falls	falls	falls
P1a Financial support for following	deterioration	variable	variable	variable	variable

Relevant group	Employment	Income inequality	Notes and additions
	qualitative	qualitative	
children	rises	falls	increases the income of child benefit recipients, likely to lead to higher take-up of child benefit and increased labour participation rate
children now and adults in the future	rises	falls	increases human capital in a receptive phase of development, thereby leading to a higher education level, higher labour participation rate and higher income
children now and adults in the future	rises	falls	increases human capital, thereby leading to a higher education level, higher labour participation rate and higher income
children now and adults in the future	rises	falls	improves health, thereby leading to a higher labour participation rate and a higher income; limits expenditure on care
children now and adults in the future	rises	falls	improves health and the chance of participating in society, leading to a higher education level, higher labour participation rate and higher income
workers	0.0	falls	The effect of the higher wage on poverty cannot be quantified; for the effects of variants with linkage, see U5a and U5b
workers	unknown	unknown	effects depend on precise design of the policy option and on behavioural reactions that are difficult to gauge
workers	unknown	unknown	effects depend on precise design of the policy option and on behavioural reactions that are difficult to gauge
workers	unknown	falls	effects depend on precise design of the policy option and on behavioural reactions that are difficult to gauge, and displacement can also occur at the bottom of the labour market
self-employed	unknown	falls	behavioural reactions and enforcement are difficult to gauge
social assistance benefit	falls	falls	behavioural reactions on the housing market were not studied, but are probably limited
social assistance benefit	no change	falls	determining labour potential can become an issue, potentially leading to people moving onto benefits
social assistance benefit	rises	falls	the positive employment effects have a downward effect on poverty
workers and jobseekers	rises	falls	high <i>dead weight loss</i> ; poverty only falls if training leads to a better-paid job

Table 0.4
(cont.)

	Ex-ante budgetary effect	Poverty in persons	Poverty in euros	Poverty in persons within group	Poverty in euros within group
	qualitative	qualitative	qualitative	qualitative	qualitative
P1b Informing about available education	no change	no change	no change	no change	no change
P1c Regulation of educational participation	unknown	unknown	unknown	unknown	unknown
P2 Active labour market policy	deterioration of balance	falls	falls	falls	falls
P3 Enforcement and sanctions	deterioration of balance	variable	variable	variable	variable
P4 Better availability and quality of paid work	deterioration of balance	falls	falls	falls	falls
P5 Combat discrimination and improve social inclusion	deterioration of balance	variable	variable	variable	variable
P6 Improve health	deterioration of balance	variable	variable	variable	variable
O4 Increase income supplement for older persons to poverty threshold (and reduce non-take up)	limited	falls by 0.5%	falls	falls by 30%	falls
O5 provide supplementary pension in addition to state pension	no change	falls	falls	falls	falls
O6 Assets	no change	no change	unknown	falls	falls
O7 Improve health	no change	unknown	unknown	unknown	unknown

Table 0.5
System changes

	Ex-ante budgetary effect	Poverty in persons	Poverty in euros	Employment	Income inequality
	€ bn	%	%	%	%
Basic income variant 1 (1060 euros net per month for a single person, maintenance of allowances, abolition or set-off of benefits)	0.0	- 45.3	- 62.4	- 6.4*	- 10.0
Basic income variant 2 (1235 euros net per month for a single person, maintenance of rent benefit, abolition or set-off of other allowances and benefits)	0.0	- 60.5	- 62.3	- 8.3*	- 11.7

Negative income tax	0.0	- 14.8	- 19.3	- 0.9	- 2.1
Basic needs allowance	0.0	11.0	13.1	0.6	- 0.7

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--Negative employment effects have an (unquantified) upward effect on poverty.

Relevant group	Employment	Income inequality	Notes and additions
	qualitative	qualitative	
workers and jobseekers	no change	no change	information leads to more familiarity, but not to more use of training schemes
workers and jobseekers	unknown	unknown	no empirical information available
jobseekers	rises	rises	better job as a result of more knowledge and more jobseeking behaviour, but effect is modest
jobseekers	variable	variable	possibly more outflow off benefits, but can lead to acceptance of low-paid, precarious work
social assistance benefit	no change	falls	
social assistance benefit	rises	falls	no observed greater chance of job offer
workers and jobseekers	rises	falls	positive effect on self-worth and feeling of control increases employability
older persons	-	falls	changes in non-take up influence the budgetary impact and effects
older persons	-	falls	Poverty rate falls in the long term, relates to future older persons; effect on poverty will be small; measure requires public support
older persons	-	no change	relates to definition; poor older persons sometimes have free disposable assets
older persons	-	falls	fall in poverty in the short term due to fall in care costs, but long-term effect is not quantifiable