



Case study-Gaps in access to social protection for self-employed without employees in the Netherlands

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EXECUTIVE SUMMARY

In this case study, the situation of self-employed persons without employees (SEWE) in the Netherlands is described with regard to their labour market and socio-economic position and access to social protection. Also, differences in the Dutch tax regime between SEWE and salaried workers and the pros and cons of SEWE for the economy are explored.

In the Netherlands, different from the situation in many other countries, self-employed workers without employees are seen as entrepreneurs rather than as employees.

According to Eurostat the proportion of SEWE has risen from 12 percent of total employment in 2006 to 13.8 percent in 2016. Most SEWE are active in professional and technical activities, health care and construction. Compared to other workers, SEWE are more often men, highly educated and older. SEWE in the Netherlands generally enter into self-employment for reasons such as seeking greater autonomy and working time flexibility rather than 'negative' motives such as unemployment or having no alternative. Only a small proportion (estimated between 3 to 15 percent) can be considered dependent or 'necessity-driven' SEWE.

On average, SEWE earn less than workers in regular paid employment (€33,600 versus €36,000). However, on the household level SEWE tend to combine different sources of income. Also, SEWE households are on average wealthier than salaried-employed-households. The percentage of SEWE that experience income difficulties is similar to that among regular workers in paid employment.

In some regards, SEWE enjoy the same social protection as salaried workers. This applies to health care, long-term care and family benefits. In other areas, SEWE are only partially covered. The maternity benefits for SEWE for instance only go up to minimum wage. Also, SEWE only receive the state pension and are not covered for the risk of sickness and invalidity. However, 26 percent of SEWE don't make additional pension arrangements and 73 percent don't have sickness insurance, mainly because they cannot afford it. This puts them at risk of a loss of income in case of sickness or retirement. Finally, SEWE are not insured for the risk of unemployment, for which no voluntary insurance exists.

The Dutch tax regime contains several considerable tax deductions and exemptions for SEWE, which make self-employment financially attractive compared to salaried employment. For instance, a hypothetical starting SEWE making a profit of €21,709 may end up paying zero income tax in 2017.

The rise in SEWE may result in a more resilient, flexible economy and may provide important labour market prospects for more vulnerable persons in the labour market. However, there has not been a simultaneous growth in labour productivity and innovation levels within firms. This poses serious questions to the fiscal stimulation of SEWE in the Netherlands.

1. INTRODUCTION

1.1 Introduction: the position of self-employed without employees in the Netherlands

It has become a common view: a group of (generally young) people, sitting in an office-style coffee bar or a rented flexible workspace, their laptops in front of them and their mobile phones within reach. One searches for another in the quest for clients. Essentially, this image does not differ much from workers' pictures taken at the beginning of the last century. In those pictures, day labourers gathered at the gate of a factory, a mine or at a wharf looking for work. These workers could not find a permanent job and were hired for only a day or a few days and they went from job to job. Back then, not only the gates of a factory but also coffee houses were well-known gathering places for day labourers. Nowadays, these places are trendy coffee shops or flex offices.

So the phenomenon of self-employed people without employees is not new in the Netherlands. What's new is its rapid growth after many decades of decline in the number of self-employed persons.

The proportion of self-employed without employees in the labour force is growing all over Europe. According to the EC in many Member States this group has less access to social services than regular employees. For the Dutch situation, it is not correct to compare self-employed without employees to regular employees only. In the Netherlands, self-employed workers without employees are somewhere in between entrepreneurs and regular employees.

From a formal point of view, self-employed without employees are entrepreneurs, but in the public discussion they are often seen as (disguised) employees when access to social services is concerned, or as competitors of salaried employees. The fact that self-employment without employees is so popular is undoubtedly due to the fact that the self-employed worker de facto retains more of his earnings than a regular employee (assuming the same wage costs or profit). In case the self-employed worker without employees does not take out insurance for the risks that regular employees are automatically insured for, the difference in net income between the employee and self-employed worker is even larger.

A non-negligible fact is that, certainly during the crisis period from 2008 onwards, a large part of the self-employed without employees had too little income and as a result were unable to take out relevant insurance policies. Part of the self-employed without employees population could be classified as hidden unemployed on the basis of their turnover or acquired income.

1.2 Definition of self-employed without employees

The definition of self-employed without employees differs among different sources/institutions.

The official Dutch definition is: 'a person who works for his/her own account and risk – in an own company or practice (self-employed entrepreneur), or – as an owner-manager, or – as another self-employed person (for example in an independent profession), and – who has no employees.¹ Also included are self-employed workers who are de facto dependent on a single client, or in a contractual relationship with a client'.

The definition of Eurostat² is: 'a self-employed person is the sole or joint owner of the unincorporated enterprise (one that has not been incorporated i.e. formed into a legal corporation) in which he/she works, unless they are also in paid employment which is their main activity (in that case, they are considered to be employees). Self-employed people also include: unpaid family workers, outworkers (who work outside the usual workplace, such as at home), workers engaged in production done entirely for their own final use or own capital formation, either individually or collectively'.

The OECD³ uses another definition: 'those who are self-employed without employees are people whose primary activity is self-employment and do not employ others. The incorporated self-employed are only partly or non-included in the counts of self-employed in several countries'. The World Bank uses the same definitions as the OECD does.

The ILO⁴ does not use the term 'self employed person' but 'own-account workers': 'those who hold self-employment jobs and do not engage 'employees' on a continuous basis' (contributing family workers who hold self-employment jobs in an establishment operated by a related person are not included in the category of own account workers);

We note that the constituent parts of the definition are different per source and are not always explicitly mentioned, as can be seen in the table below.

¹Source (Statistics Netherlands/CBS): <https://www.cbs.nl/en-gb/our-services/methods/definitions?tab=s#id=self-employed-without-employees>

² Source: <http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Self-employed>

³ Source: <https://data.oecd.org/entrepreneur/self-employed-without-employees.htm>

⁴ Source: <http://www.ilo.org/global/statistics-and-databases/statistics-overview-and-topics/status-in-employment/current-guidelines/lang--en/index.htm>

Table 1 Definitions of self-employed in statistics

	Dutch National Statistics	Eurostat	OECD	ILO
Self-employed	Yes	Yes	Yes	Yes
Without employees	Yes	Yes	Yes	No
Unpaid family workers included	?	Yes	?	?
Also if incorporated	Yes	No	Partly	?
Only if primary activity	No	Yes	Yes	?
Including owner-managers	Yes	?	?	?
Including independent professions	Yes	?	?	?
Outworkers included	Yes	Yes	?	?

Unless stated otherwise, in this report the term 'self-employed workers' will refer to self-employed workers who work for their own account and risk (without employees), according to the official Dutch definition.⁵

We point out that in the Netherlands, different from the situation in many other countries, self-employed workers without employees are seen as entrepreneurs rather than as employees. They also benefit from employers' facilities and do not, as a matter of course, have access to employee schemes. This is reflected in the Dutch term for SEWE, '*zelfstandige zonder personeel*' (ZZP) which means: entrepreneur without employees.

⁵ To enhance the readability of this report, we will abbreviate the term 'self-employed without employees' to SEWE.

2. LABOUR MARKET AND SOCIAL SITUATION

In this chapter, the analysis focuses on the main determinants for becoming a self-employed worker without employees. In the second part, we look at how this target group of self-employed workers has developed in the Netherlands over the last decades and we pay attention to its main characteristics. A distinction is made between individuals who have been 'pushed' into self-employment by their employers and self-employed workers who preferred self-employment themselves. Finally, we will present a small review regarding the economic viability of the SEWE-group in the Netherlands.

2.1 Origin and drivers

As mentioned before, in the Netherlands the phenomenon of SEWE has increased substantially in recent decades. Several studies contribute to our knowledge of this kind of entrepreneurial activity in the Netherlands. Although the rise in self-employment is a multifaceted phenomenon, previous studies mainly focus on the role of labour market conditions, fiscal incentives, cultural explanations and the role of technology.

2.1.1 *Labour market conditions*

The first line of reasoning emphasizes that labour market conditions attract people to self-employment. Traditionally, own-account workers are most common in traditional sectors of the economy, such as agriculture, crafts and retail trade (European Foundation 2009). Nevertheless, research suggests that employment shifts between industries result in a further increase of self-employment. More precisely, the transformation from an industrial towards a post-industrial structure of the Dutch labour market resulted in a larger demand for managerial, financial and professional occupations. And these occupations are performed by SEWE in particular (e.g. Van Es & Van Vuuren 2010). Furthermore, some argue that the changes in transitioning towards self-employment increases within countries with more stringent levels of employment protection legislation (e.g. Hevenstone 2010). However, for self-employment in the Netherlands, there has been no significant empirical evidence of a relation between the level of employment protection and the share of self-employment (e.g. Hoekstra et al. 2016).

2.1.2 *Fiscal incentives*

The large share of working people in self-employment in the Netherlands is partly due to the Dutch fiscal system. In the Netherlands, there are various fiscal incentives to become self-employed. For example, there are tax subsidies for start-ups and several tax reliefs regarding personal income taxes (as will be described in detail in section 4.2). Moreover, there are opportunities for people receiving unemployment benefits to start up a business (e.g. OECD 2014). These lower tax rates and fiscal incentives stimulate employers (seeking wage flexibility) and employees (seeking tax deductions) to opt for self-employment instead of 'regular' employment. Several studies suggest that besides sectoral employment shifts, the growth in self-employment can be related to fiscal incentives (e.g. Bosch et al. 2012), although these relationships have not been studied in close detail.

2.1.3 Cultural explanations

In addition to the impact of (changes in) industry composition and financial incentives, some researchers have pointed to socio-cultural explanations. Following this line of reasoning, people in the 21st century demand more from work than before. The Dutch labour market is known for its highly skilled labour force, and more highly-educated workers assess jobs more by their intrinsic job characteristics, such as interesting work, autonomy, the flexibility to combine work and family as well as learning possibilities (e.g. Johnson & Elder 2002). As between 2007 and 2015, the Dutch job market shows decreasing levels of job autonomy and rising levels of job insecurity (e.g. Van den Bossche & Smulders 2016), self-employed workers (with and without employees) are more satisfied with their work than employed persons (e.g. Josten et al. 2014). Prior surveys corroborate this, as they indicate that motives to become self-employed focus on the prospects of independence and the desire to exercise more control over work (e.g. Dawson et al. 2009; IBO 2015). Additionally, the decision to become a SEWE may also depend on some behavioural and personal characteristics. For example, the probability of entering self-employment may be connected to personality traits, such as the higher level of risk tolerance than the wage-employed (Ekelund et al. 2005).

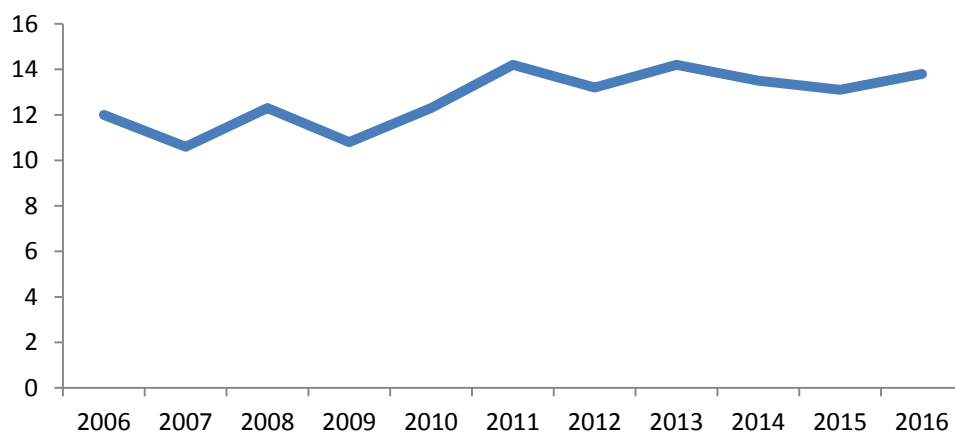
2.1.4 Technology

Finally, one could argue that self-employment is associated with technological change. Technological progress has made it easier to work at home and to match the labour force with work opportunities in less conventional ways. For example, one of the consequences of digitisation is the rise of digital intermediaries and the fast development of the so-called gig economy or on-demand economy. In this gig economy, the internet connects workers and organisations on a global basis. In particular, new online intermediaries and digital platforms make it easier for self-employed workers to offer their activities on apps and platforms whenever they want (ILO 2014). However, while technology may be one of the drivers behind the growing level of SEWE, this relationship is not well documented in the empirical literature.

2.2 Level and trends

After describing some of the underlying factors behind SEWE in the Netherlands, we will present evidence on the level of and trends in self-employment in the Netherlands, followed by some demographic characteristics in section 2.3. The lion's share of the information on SEWE in the Netherlands is collected by Statistics Netherlands (CBS) and Eurostat. According to Eurostat the proportion of SEWE has risen from 12 percent of total employment in 2006 to 13.8 percent in 2016 (Figure 1).

Figure 1 SEWE rates as % of all persons in employment (2006-2016)



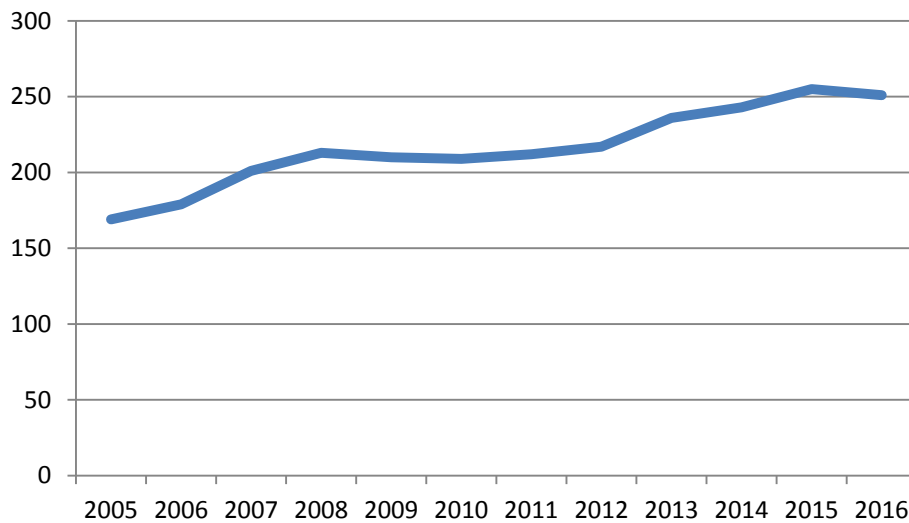
Source: Eurostat

It is interesting that the growth trend remained unchanged during the crisis years since 2008. This indicates that labour market conditions such as a supply surplus do not affect the growth curve.

In total, 78 percent of all SEWE in the Netherlands offer their own services to clients, for example as a consultant or in construction, while 22 percent sell their products directly to consumers (in 2016).

Figure 2 illustrates another interesting development in the Netherlands. More people are combining paid employment with self-employment. They are self-employed on a part-time basis. These workers are so-called hybrid workers and represent 251,000 workers in 2016. These workers are in general more highly educated and younger compared to the group of full-time SEWE. They start working as a self-employed person while still working in a paid job (Mevisen et al. 2013) or they are seeking the best of both worlds (social security and autonomy; e.g. Bierings & Kusters, 2017). Furthermore, there are self-employed workers (with and without employees) with an income from self-employment who also receive a benefit (53,000 persons) or a pension (137,000 persons) (Mevisen et al., 2013; Kremer et al. 2017).

Figure 2 Combination paid employment and self-employment (with and without employees) in the Netherlands x 1,000 (2005-2016)

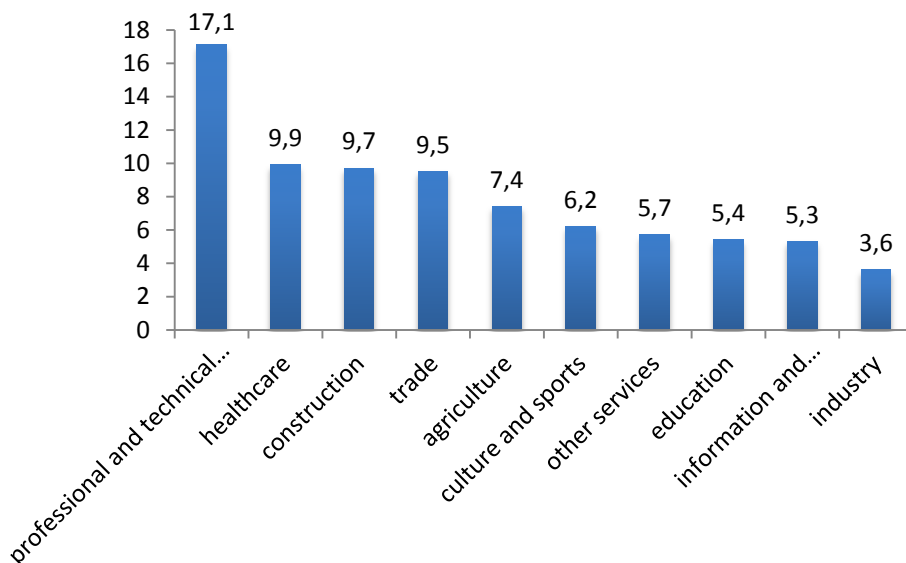


Source: Statistics Netherlands

In fact, being a SEWE is often an intermediate phase between other labour market positions. After five to seven years, 39 percent of all persons who started as self-employed workers are still active as self-employed workers (Mevisen et al. 2013). Other studies show survival rates of around 50 percent after six years (CPB 2011). Most (international) studies find that the self-employed person's age, educational level and ethnicity are important determinants of survival (CPB 2011). Statistics Netherlands (2014) show that most people who stopped as a SEWE became regular employees (again). In 2008, 64 percent of all former SEWE's made a transition into regular salaried employment and 54 percent in 2013. The lower transition rate in 2013 is most likely due to the effects of macroeconomic conditions. During periods of economic downturn there are obviously lower possibilities to obtain regular salaried employment positions.

Most SEWE are active in professional and technical activities (17.1 percent), health care (9.9 percent) and construction (9.7 percent). See figure 3.

Figure 3 SEWE by industry (2015)

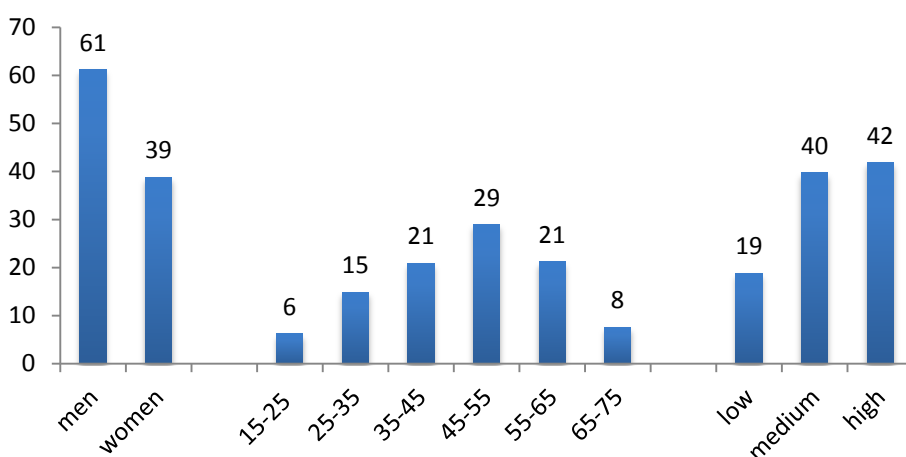


Source: Statistics Netherlands

2.3 Characteristics

The statistics show that most SEWE in the Netherlands are on average older compared to other workers; moreover, they have a higher education level than regular workers and there are more men than women among the Dutch SEWE (Figure 4).⁶

Figure 4 SEWE in the Netherlands: gender, age and education level (2016)



Source: Statistics Netherlands

Interestingly, while the group of solo self-employed workers has some specific characteristics, self-employment is no longer exclusively reserved for men, higher educated workers and people within the 35-65 age group. More younger adults, people

⁶ Non-Western immigrants are relatively less common in the self-employed population than in the working population. The proportion of people with a (long-term) disability in the self-employed population is approximately equal to their share in the working population as a whole.

with lower and medium education levels as well as more women are opting for self-employment in the Netherlands. In short, self-employment is affecting a wider variety of people in the Netherlands (e.g. Dekker 2017).

2.4 Voluntary and involuntary motives for self-employment

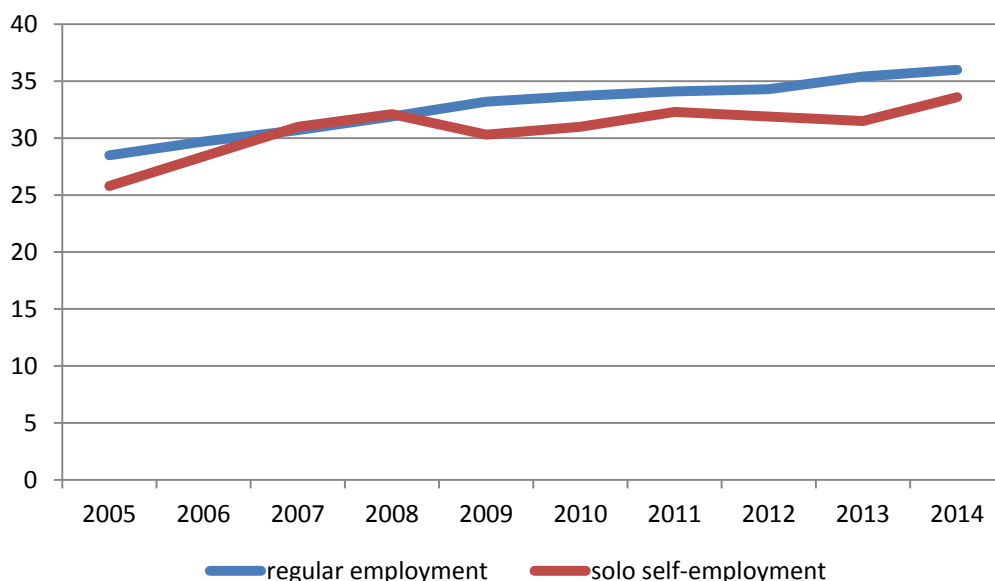
An important issue within policy debates refers to the notion of dependent, involuntary or 'bogus' self-employment. This is related to individuals who have been 'pushed' into self-employment by their employers. It also refers to legal aspects of operating in the large area between an employment relationship and self-employment (e.g. Kautonen et al. 2010). Empirical research in the Netherlands shows that a relatively small proportion of the SEWE have taken the step towards self-employment on the basis of 'negative' motives, such as unemployment or having no other alternative. The majority seems to make the move to self-employment for primarily positive reasons, such as seeking greater autonomy and working time flexibility in their work. In total, 67 percent of all male SEWE and 71 percent of all female SEWE state that seeking more autonomy is a prime motive (Conen & Schippers 2017). Others state that motives to become a self-employed worker have to do with the possibility to develop one's knowledge and skills (e.g. Vroonhof et al. 2008). Accordingly, Hoevenagel et al. (2015) calculated that approximately 12 percent of all the solo self-employed mentioned so-called push-factors as a reason to start their own business. Other research focuses on alternative characteristics of dependent self-employment in the Netherlands, such as the level of integration of the self-employed in the employer's business and the level of autonomy. According to research by TNO (2017), 8,4 percent of all SEWE report that 90 to 100 percent of their turnover stems from one big client. Based on these different characteristics, it can be concluded that 3 to 15 percent of all SEWE can be classified as dependent or 'necessity-driven' SEWE (Zandvliet et al. 2013).

2.5 The economic position of the SEWE group

With regard to earnings of SEWE in the Netherlands, some data sources may provide information. In general, many self-employed workers are at a greater risk of becoming (long-term) poor than employees with permanent contracts. According to Josten et al. (2014), around 15 percent of all self-employed workers without employees is living below the so-called 'not much but enough level' in 2012. This level defines the sum of minimum expenses necessary for food, clothes, accommodation and social participation as proposed by the National Institute for Family Finance Information (NIBUD). In 2014, the average individual income level among SEWE in the Netherlands reached 33,600 euros, compared to 36,000 among workers in regular paid employment. While the within-group differences among self-employed are quite significant, the average income level among the Dutch solo self-employed is lower compared to other groups in the Dutch labour market (figure 5).⁷

⁷ After 2014, unemployment levels in the Netherlands are decreasing and demand-supply frictions are increasing in several professions and categories of industries. This development in the demand-supply ratio of labour probably will be reflected in a decreasing gap in the average income level between employees and self employed.

Figure 5 Average income levels solo self-employment and employees in regular employment in the Netherlands x 1000 (2005-2014)



Source: Statistics Netherlands

However, while the income levels of the SEWE are generally lower compared to those in regular paid employment, statistics regarding wealth distribution suggest that the SEWE combine different financial resources at the household level. Looking at the household level, the SEWE group seems to be less exposed to poverty. The reason is the availability of financial resources from different sources, such as the partner's income, social security benefits, pensions, savings, investments and housing (IBO 2015). According to Zwinkels et al. (2017), the average wealth distribution among Dutch households in 2012 tends to be much higher among SEWE-households than households that (exclusively) consist of persons in salaried employment. While there is wealth variation within groups, the average wealth level among salaried employed-households is €128.441; among SEWE-households €371.053 and among the combined-households (salaried employment and SEWE) €284.558 in 2012.⁸ As a result, several Dutch researchers conclude that there are not that many differences between employees and the SEWE when it comes to the self-evaluation of their own income situations. Five percent of all SEWE perceive extreme income difficulties between 2006 and 2012, compared to four percent of all regular workers in paid employment (Josten et al. 2014).

⁸ This research analyses wealth accumulation of the Dutch SEWE among people above 35 years. Differences between households are largely attributable to investments in real estate.

3. DIFFICULTIES ACQUIRING SOCIAL PROTECTION RIGHTS⁹

This chapter describes the social protection entitlements which can be used by SEWE. It should be noted that the use of some of them, i.e. health care and long-term care, are independent of employment status, and are thus maintained after transitions in labour market position from SEWE to employeeship and vice versa.

3.1 Health care

The Dutch health care system is based on a (private) health insurance which is mandatory for all citizens (*Zorgverzekeringswet*).¹⁰ All residents are required to purchase a basic health plan covering, among other things, family medicine, maternity care, pharmaceuticals and hospital care. Individuals may choose any insurance company, and can opt for supplementary insurance. The nominal premium rate averaged €1,158 per year in 2016.

The system does not differentiate between different types of workers such as salaried, non-standard employed or SEWE. The only difference is that many employers offer access to discounted collective insurance to their employees, up to a legal maximum of ten percent (*Zorgverzekeringswet*, art. 18, lid 2). Also, for people with lower incomes¹¹, the government provides an income-dependent health insurance allowance (*Zorgtoeslag*).¹²

3.2 Sickness and invalidity benefits

3.2.1 Sickness benefits

Employees who are sick are entitled to continued payment of at least 70 percent of the salary for a period of up to two years. After two years of sickness, they can receive a state benefit on the basis of the Work and Income according to Labour Capacity Act (*Wet werk en inkomen naar arbeidsvermogen*, WIA). People who used to work but who no longer have an employer (such as unemployed and agency workers) are entitled to protection from the Sickness Benefits Act (*Ziektewet*, ZW). They receive a benefit of 70 percent of the last earned wage for up to two years. Both the WIA and ZW are financed through insurance premiums paid for by employers.

SEWE, like employers and entrepreneurs in general, do not receive continued payment from their clients, and do not receive support based on the WIA and ZW. Since they have no employer, no insurance premiums are paid for them and thus they are not insured. They can, however, opt to insure themselves against the risk of sickness, which grants them a sickness benefit in case of sickness.¹³ SEWE can opt for either a public insurance with the Employee Insurance Agency (*Uitvoeringsinstituut Werknemersverzekeringen*, UWV) or for a private insurance.

⁹ Considerable parts of this chapter are based on a thematic report on social protection for SEWE and people working on non-standard contracts, written by Regioplan in 2017 for the European Social Policy Network.

¹⁰ Additionally, costs of health care are financed from income taxation (*Bijdrage Zorgverzekeringswet*) and government funding.

¹¹ To qualify for income-dependent health insurance allowance in 2017, a single person's income has to be below €27,857, and a couple's joint income has to be below €35,116. The level of the monthly allowance depends on the income, and ranges between €6 and €88 for a single person and between €3 and €170 for a couple.

¹²

<http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/privetoelagen/zorgtoeslag/zorgtoeslag>

¹³ <http://www.uwv.nl/particulieren/verzekeren/index.aspx>

- Public insurance (*Ziektewet* and/or *WIA* insurance): a medical examination is not required. However, SEWE are required to insure themselves within 13 weeks after entering into self-employment. There is a maximum wage ceiling for which SEWE can insure themselves.¹⁴ There are two types of public insurance; *Ziektewet* insurance provides an income during the first two years of sickness, and *WIA* insurance provides an income after two years of sickness.
- Private insurance (*Arbeidsongeschiktheidsverzekering*, *AOV*): a medical examination is required. Any existing health issues are not covered by the insurance.

When insuring themselves, SEWE have to choose a daily wage level (*dagloon*) for which they want to insure themselves. This in turn determines their monthly insurance premium and the level of the benefit in case of sickness. This applies to both public and private insurance.

3.2.2 Bread fund

An alternative to an *AOV* insurance is for SEWE to participate in a 'bread fund' (*broodfonds*). This is a new type of social security for SEWE that is slowly emerging in the Netherlands. A bread fund is a voluntary collective of 20 to 50 SEWE who provide each other financial support in case of sickness for up to two years. Each participant contributes a monthly sum into the account of the bread fund, and when one of the participants is sick they receive monthly donations from the other participants.¹⁵ Hence, a bread fund functions as a kind of insurance. Participation in a bread fund is generally much less expensive than a formal or commercial insurance (*arbeidsongeschiktheidsverzekering*, *AOV*), with monthly costs generally between 45 and 90 euros (Fink-Jensen, 2014). As is the case with voluntary *AOV* insurance, the level of insurance that is chosen determines the monthly contribution.

Figure 7 in the annex shows a visual summary of the different types of social protection against sickness (the first two years) and incapacity to work (after two years of sickness). These types of social protection generally only provide a percentage of the income prior to becoming sick.

3.2.3 Costs

The costs of the various types of social protection for SEWE is dependent on several factors, most importantly the insured wage level. To give an indication of the costs, we calculated or estimated the monthly premiums for a SEWE with a monthly gross income of €2,500 in table 2.

¹⁴ The maximum wage ceiling that can be insured is €207.60 per working day, which translates to roughly €4,500 euros when working full-time.

¹⁵ There is usually a waiting period of between two and four weeks, during which sickness is not yet covered by the bread fund (*'ondernemersrisico'*) (Fink-Jensen, 2014).

Table 2 Costs of the various types of social protection for SEWE

Type of insurance	Monthly premium	Benefit in case of sickness
Ziektewet (public)¹⁶	€230	70% of wage (€1,750)
WIA insurance (public)¹⁷	€173	75% of wage during two months 70% of wage from third month onward (€1,750)
AOV (private)¹⁸	Estimated average: €250	Unknown
Bread fund¹⁹	€78.75	€1,750

3.2.4 Take-up

A recent study conducted every two years shows that 27.2 percent of SEWE have a sickness insurance (either private or public), versus 72.8 percent who do not (Lautenbach et al., 2017). The main reasons for SEWE to insure or not insure themselves are listed in figures 8 and 9 in the annex. In these figures, a distinction is made between SEWE who only work as SEWE, and those who also participate in salaried work.

As can be seen in the first figure the reasons for SEWE to opt for a private AOV insurance in general do not differ that much from those of hybrid SEWE (who also work in employment). This is surprising because SEWE in hybrid employment should be automatically insured for their hours worked in employment. Thus, for them, part of the risk of sickness and invalidity is already covered.

As of October 2017, there are 13,200 self-employed people in the Netherlands who participate in bread funds.

3.2.5 Conclusion

SEWE, like all other Dutch citizens, have a mandatory health insurance, and thus have equal access to health care.

SEWE are not entitled to social protection rights regarding sickness benefits. They can, however, opt for voluntary AOV insurance or participation in a bread fund. The most important barriers for them to do this are (1) the substantial costs of AOV insurance, (2) existing health issues and (3) having waited an extended period of time (longer than 13 weeks) before insuring themselves.

¹⁶ <https://www.uvw.nl/werkgevers/werknemer-is-ziek/ziektewet-uitkering/werknemer-is-ziek-ziektewet-uitkering>

¹⁷ <https://www.uvw.nl/particulieren/ziek/ziek-wia-uitkering/tijdens-wia-uitkering/detail/hoer-hoog-is-mijn-wga-uitkering/hoer-hoog-is-de-loongerelateerde-uitkering-lgu>

¹⁸The costs of an AOV are dependent on various factors such as age, type of profession, voluntary 'own risk' period. We offer a rough estimate of the average cost given by a large Dutch insurer: <https://www.centraalbeheer.nl/zakelijk/aov/Paginas/kosten.aspx>

¹⁹ <http://www.broodfonds.nl/hoer-het-werkt?wat-het-kost>

3.3 Maternity leave

SEWE are entitled to 16 weeks of government-paid maternity leave in the case of pregnancy and delivery (*Wet Arbeid en Zorg*).²⁰ During this period they receive a benefit (*Zelfstandig en Zwanger-regeling, ZEZ*) up to minimum wage level.²¹ This is paid by the Employee Insurance Agency (UWV). SEWE who have opted for a voluntary sickness benefit insurance (either public or private) as described in section 3.2, receive benefits supplementing the ZEZ benefit up to the insured level. Private insurances generally require some extra conditions, such as having been insured for at least two years.²²

In 2014 there were 289,000 female SEWE. According to the Employee Insurance Agency approximately 10,000 ZEZ benefits are paid per year.²³

3.4 Old-age pensions

The Dutch pension system is a multi-pillar system consisting of three pillars.

3.4.1 First pillar: state pension

The first pillar is a flat-rate state pension (*Algemene Ouderdomswet, AOW*) that provides a cash benefit to all persons over 67.²⁴ The monthly benefit equals €1,209.71 (gross) for single persons and €834.99 per person for married or cohabitating pensioners. All Dutch citizens who have lived in the Netherlands for 50 years between the ages of 15 and 65 are entitled to receive the full monthly benefit²⁵ (Wolters Kluwer, 2016). Hence, there is no difference in this pillar between salaried employees and SEWE. The pension age is currently 65 years and 9 months and is gradually increasing to 67 years in 2021.

3.4.2 Second pillar: occupational pension schemes

The second pillar is formed by occupational pension schemes that are collectively organised, quasi-mandatory for salaried workers, and solidaristic. These pension schemes may be organised at the firm, sectoral, or professional²⁶ level. The retirement age is 68, and the aim is to provide workers a total retirement income (including the first pillar state pension) of 70 percent of the last earned average wage. For salaried workers, employers typically pay 2/3 of the pension contribution, and employees pay the rest which is tax-deductible.

SEWE generally are not covered by second-pillar pension schemes. There are, however, some ways for them to accumulate second-pillar pension rights:

- Some occupational pension schemes offer people transitioning from salaried employment to SEWE the option to voluntarily continue their pension scheme for up to 10 years (*vrijwillige voortzetting*).²⁷
- Recently, some pension schemes have been created targeted specifically at SEWE.
- Some occupational groups of self-employed without personnel fall under a compulsory sectoral or occupational collective pension scheme. This concerns mainly medical professionals (such as GP's) but also, for instance, self-employed painters.

²⁰ <https://www.juridischloket.nl/werk/zwangerschap-en-werk/zwangerschapsverlof>

²¹ To receive the maximum benefit (equal to minimum wage) the self-employed worker has to have worked for at least 1,225 hours in self-employment in the calendar year before the pregnancy. Fewer hours worked lead to a lower benefit.

²² <https://www.aovergelijken.nl/arbeidsongeschiktheid-zwangerschap>

²³ <https://www.nrc.nl/nieuws/2016/02/29/verlof-ik-werk-gewoon-door-1589193-a596913>

²⁴ The official retirement (AOW) age goes up in the Netherlands to 66 years in 2018 and 67 years by 2021. From 2022, the AOW age is linked to life expectancy. By 2022 the AOW age is 67 years and 3 months. Source: https://www.svb.nl/int/nl/aow/wat_is_de_aow/wanneer_aow/

²⁵ People who have lived in the Netherlands for fewer than 50 years between the ages of 15 and 65 receive a lower benefit. Their benefit is lowered by 2% for each year they have lived outside of the Netherlands.

²⁶ For example, notaries, dentists and other free professions have their own pension schemes.

²⁷ This is the legal maximum. Most pension funds only allow voluntary continuation for up to three years.

Such compulsory pension schemes are only introduced if there is sufficient support within the sector or occupational group.

3.4.3 Third pillar: voluntary individual pension savings arrangements

The third pillar covers voluntary individual pension savings arrangements, such as life insurance or annuities. The first and second pillars are much larger in size when compared to the third pillar, but the third pillar is used more often by the self-employed.

The most widely used types of third pillar pension arrangements are²⁸:

- Annuity (*lijfrente*): is similar to second-pillar pension schemes in the sense that funds are accumulated throughout the working life, and paid out after retirement until death. Annuity premiums are also tax-deductible. Annuity is, however, much more flexible because the moment of retiring and the height of the pension are flexible.
- Fiscal old-age reserve (*Fiscale Oudedagsreserve, FOR*): SEWE are allowed to reserve part of their profits as pension savings. They don't have to pay taxes on this until the moment they retire, at which moment they can choose to use the accumulated savings to purchase a life insurance. There are some conditions for using the FOR, mainly that the SEWE works at least 1,225 hours per year.

3.4.4 Coverage and barriers for SEWE

As stated, all Dutch citizens residing in the Netherlands between the ages of 15 and the official retirement age are entitled to the state pension. However, most self-employed workers are not covered by the second pillar, and participation in the third pillar is voluntary. Hence, the pension coverage for self-employed workers depends on the person.

A recent study conducted every two years shows the pension arrangements made by SEWE, as shown in figure 10 in the annex (Lautenbach et al., 2017). The two most frequently used forms of pension arrangements are firstly savings and investments, and secondly home ownership. More formal arrangements such as pension funds and fiscal old-age reserves or annuities are slightly less frequently used, but are still quite common. Around a quarter of SEWE have made no pension arrangements at all. Their main reason for this (in their own words) is that they cannot afford to make pension arrangements (as shown in figure 11 in the annex).

Pension funds are free to choose whether or not they allow salaried workers who are transitioning into SEWE to continue their pension scheme, and they can formulate their own conditions and requirements. A recent study (Bureau Bartels, 2016) commissioned by the Dutch Ministry of Social Affairs and Employment shows that 85 percent of pension funds provide the possibility of voluntary continuation of the pension scheme for the self-employed. However, very little use is made of this by self-employed workers (only approximately 650 persons nationally). This limited usage does not appear to depend on the specific requirements or conditions set by the individual pension funds. More important obstacles are firstly, the legal requirement that the pension has to be continued immediately after the end of the prior period in employment, and secondly, the required level of the pension contributions.²⁹ Also, this instrument can only provide a solution for workers transitioning from an employment contract to self-employment. Therefore, the State Secretary of Social Affairs concludes that this instrument is not effective in promoting pension accumulation among the self-employed³⁰.

²⁸ <https://www.rijksoverheid.nl/onderwerpen/zelfstandigen-zonder-personeel-zzp/vraag-en-antwoord/zzp-pensioen>

²⁹ The pension premium for self-employed workers who opt for voluntary continuation of their pension scheme is equal to the sum of the employee's contribution and the employer's contribution.

³⁰ Kamerbrief Klijnsma 11 juli 2016 'Vrijwillige voortzetting pensioenfonds voor zzp'ers'.

The problem of SEWE not making pension arrangements has been identified by the Dutch government in 2016, which has been reviewing possible ways to increase the pension coverage for SEWE, for instance by introducing incentives.³¹ However, the recently formed government has not mentioned this in their coalition agreement.³²

Derived social protection rights

There are several ways of gaining access to pension arrangements through derived social protection rights.

- **State survivors' pension:** The government provides survivors' benefits based on the state pension to people whose partners have died (*Algemene nabestaandenwet, Anw*).³³ The conditions are that the late partner lived or worked in the Netherlands, that the beneficiary has not yet reached the AOW pension age, and that the beneficiary is either looking after a child under 18 or is incapacitated to work for more than 45 percent. The level of the benefit is 70 percent of minimum wage, which in 2017 was €1,189.57 (Van Everdingen et al., 2017). The take-up of the state survivors' pension has decreased substantially over the last two decades (from 182,800 in 1998 to 36,000 in 2016).³⁴ This is the result of two law changes in 1996 and 2013 respectively which restricted access to the Anw. Around half (56,4%) of the recipients don't have any other source of income (Van Everdingen et al., 2017).
- **Occupational survivors' pension:** Almost all pension schemes in the Netherlands offer survivors' pensions. However, there is a lot of variation in the conditions, financing and duration of survivors' pensions between sectors and pension insurers (Van Everdingen et al., 2017). Generally speaking, survivors' pensions amount to 70 percent of the accumulated pension entitlements. Also, pension insurers offer voluntary additional insurance to supplement the state survivors' pension, although limited use is made of this (Van Everdingen et al., 2017).
- **Life insurance:** Another way to provide derived income rights is through life insurance. This insurance pays out an income to the family members of the insured person after they are deceased. Life insurances are often taken in combination with mortgages. A study from 2014 shows that 60 percent of people cohabiting with a partner between 25 and 65 years of age have a life insurance. Life insurances taken out in combination with a mortgage on average cover €116,818; other life insurances average €86,000 (Leenheer, Cuelenaere, Elsen & Mulder, 2014). Because SEWE often don't have second pillar pension arrangements, taking out life insurance is extra important to provide income for their partner in case they pass away. Research shows that 43.4 percent of SEWE workers don't have any form of life insurance, compared to 41,0 percent among salaried workers. Hence, SEWE workers seem to be relatively slightly underinsured.

3.5 Unemployment benefits and social assistance benefits

Unemployment benefits and social assistance benefits are governed by separate laws:

The **Unemployment Insurance Act** (*Werkloosheidswet, WW*) insures employees against the financial consequences of unemployment by means of a benefit of roughly 70 percent of the last earned income (up to a maximum wage ceiling) for up to two years. Self-employed persons, however, as they are not employees, are not insured, and cannot opt for voluntary insurance.

The **Participation Act** (*Participatiewet*) offers citizens a benefit as a last safety net if they are not (or no longer) entitled to any other benefits, such as WW. The benefit is means-tested, which means that a person has to be below a certain level of income and

³¹ Kamerbrief Klijnsma 11 juli 2016 'Vrijwillige voortzetting pensioenfondsen voor zzp'ers'.

³² Regeerakkoord 'Vertrouwen in de toekomst 2017 - 2021'

³³ <https://www.svb.nl/int/en/anw/>

³⁴ Source: Statistics Netherlands, 2017.

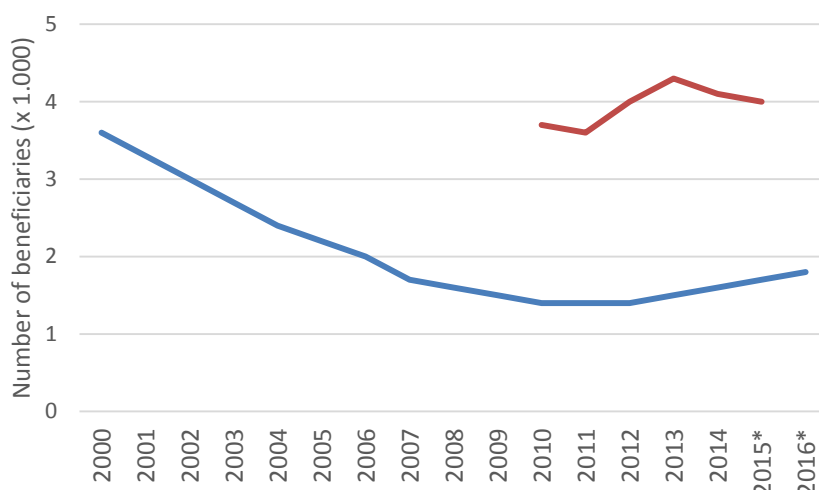
savings.³⁵ Both people in unemployment, salaried employment or in SEWE can receive benefits up to social assistance level (which is below minimum wage). Within the Participation Act there are two types of benefits aimed specifically at SEWE:

- SEWE who are (temporarily) facing financial difficulties can temporarily receive aid in the form of a temporary benefit to supplement their income (up to 1 year) or an interest-free loan (*Bijstand voor zelfstandigen, Bbz*)³⁶. Conditions are that the SEWE has to work at least 1,225 hours per year, that the level of income is below social assistance level, that no other means of financing is available and that the company is viable.
- Older SEWE (55+) who want to stop their business because it does not provide them sufficient income can apply for a benefit to supplement their income to social assistance level (*Wet inkomensvoorziening oudere of gedeeltelijk arbeidsongeschikte gewezen zelfstandigen, IOAZ*).³⁷ A condition is that the SEWE does not have substantial savings.

3.5.1 Take-up rate

As is shown in figure 6, annually about 4,000 people receive Bbz benefits and fewer than 2,000 people receive IOAZ benefits in the Netherlands.

Figure 6: Number of beneficiaries of an IOAZ (blue line) and Bbz (red line) benefit



Source: Statistics Netherlands

3.6 Long-term care benefits

Long-term care in the Netherlands is governed by three main laws:

1. **Social Support Act** (*Wet maatschappelijke ondersteuning, Wmo*): governs care to people who are in need of specific assistance in order to be able to remain in their own homes. This care includes household services and house modifications, personal counselling/support including support for informal care and sheltered housing, day

³⁵ The participation also has a targeted benefit aimed towards older unemployed people (IOAW) and older self-employed people with insufficient income from their business (IOAZ) which does not include requirements regarding savings.

³⁶ <https://www.rijksoverheid.nl/onderwerpen/bijstand-voor-zelfstandigen-bbz>

³⁷ <https://www.rijksoverheid.nl/onderwerpen/uitkering-oudere-werklozen-ioaw-iow-ioaz/vraag-en-antwoord/hoe-hoog-is-mijn-ioaz-uitkering>

care and youth care. Municipalities are responsible for this care. They expect people to be as self-reliant as possible, by depending on informal care from friends or relatives or by paying for care themselves. The municipality assesses the need for this care based on its own criteria and provides the care when necessary (either in kind or through a personal budget). Recipients pay a deductible, which depends on age, cohabitation, household income and the care provided.

2. **Long-term Care Act** (*Wet langdurige zorg, Wlz*): governs care for people who need supervision 24/7 (residential care) and/or will always be in need of care. The care is given in kind, via a personal budget or full packages at home (similar to residential care). The law is implemented by the national government, and the needs are assessed by a national body of needs assessment. All Dutch citizens are insured, regardless of employment situation.
3. **Health Insurance Act** (*Zorgverzekeringswet, Zvw*): governs specific care for people who are in need of specific assistance in order to be able to remain living in their own homes. Supplementary to the Social Support Act, this covers personal care, treatment of sensory-handicapped people, palliative care and intensive child care. The need is assessed by the district nurse after referral by for instance the GP. Care is given in kind or via a personal budget.

All Dutch citizens are automatically insured for the Long-term Care Act and are obligated to have health insurance. The person's employment situation is not used as a criterion by municipalities for the provision of care under the Social Support Act. Hence, there are no differences in the coverage of long-term care between salaried workers and SEWE.

3.7 Family benefits

There are several child-related schemes in the Netherlands:

- The **General Child Benefit Act** (*De Algemene Kinderbijslagwet, AKW*): allowance for the expenses of bringing up and taking care of children (up to the age of 18). The amount of the benefit depends on the age of the child, whether the child lives with the parents or not and on income from work earned by the child. It does not depend in the income of the parents, nor on their employment situation.
- The **Child-related Budget Act** (*Wet op het kindgebonden budget, WKB*): an allowance for the expenses of families earning an income up to a certain level. The limit of this child-related budget is dependent on the income of the parents, contrary to the general child benefit which is not income-dependent.
- **Child care allowance** (*Kinderopvangtoeslag*): this allowance aims to support parents' labour participation. The allowance is dependent on the number of hours worked by the parent with the least working hours, and the household income.
- **Combination tax deduction** (*Combinatiekorting*): Parents with one or more children under 12, who both work, can apply for an income-dependent tax deduction. The amount of combination tax deduction they receive depends on the income of the lowest-earning partner. As he or she earns more, the tax deduction increases.

The eligibility for and level of provision under the schemes mentioned above do not depend on the type of employment situation. Hence, there are no differences between salaried workers and SEWE.

3.8 Summary

Table 3 in the annex provides a brief table summary of the various forms of social protection available to SEWE, and the existing gaps.

4. TAX REGIME AND PROS AND CONS OF SEWE

4.1 Introduction

A substantiated cost-benefit analysis is very complex. This requires researching many different effects which are extremely difficult to quantify. Therefore, in this chapter we describe the Dutch tax regime towards the self-employed in close detail, followed by a concise literature study on the pros and cons of self-employment for the economy, labour productivity and innovation level.

4.2 Dutch tax regime towards SEWE

4.2.1 Types of taxation for SEWE

Most Dutch SEWE workers are legally registered as sole proprietors (*éénmanszaak*). This means that they pay two kinds of taxation:

1. **Revenue tax** (*omzetbelasting*): This involves transferring the VAT paid by clients to the Dutch Tax Administration. It is paid quarterly. VAT in the Netherlands is currently 21 percent on luxury goods and 6 percent³⁸ on certain other goods such as food and certain services.³⁹
2. **Income tax** (*inkomstenbelasting*): This is the taxation on the profit of the SEWE (revenue – costs) paid once per year.

Being considered self-employed by the Tax Administration

Income taxation is different for SEWE than for employees, because SEWE are given several considerable tax advantages. However, not all SEWE are considered self-employed by the Tax Administration. They assess this by looking at several criteria⁴⁰:

- making substantial profits;
- working independently;
- having capital;
- working a substantial number of hours as SEWE;
- having multiple clients;
- investing in commercial exposure;
- bearing risks associated with entrepreneurship;
- being accountable for business debts.

If a SEWE is not seen as self-employed by the Tax Administration, then they still have to pay income tax, but they do not enjoy the tax advantages of being self-employed.

³⁸ This low tariff will be increased to 9% by the newly formed government.

³⁹

https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/btw_berekenen_aan_uw_klant_en/btw_berekenen/btw_tarief/btw_tarief

⁴⁰

https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/winst/inkomstenbelasting/wanneer_bent_u_ondernemer_voor_de_inkomstenbelasting/wanneer_bent_u_ondernemer_voor_de_inkomstenbelasting

4.2.2 Tax advantages of self-employed

If a SEWE is seen as self-employed by the Tax Administration, they enjoy the following tax advantages:⁴¹

- **Self-employed tax deduction** (*zelfstandigenaftrek*): a tax deduction of €7,280 in 2017. SEWE who made a lower figure in profits can only deduct their profits from taxes. SEWE who worked fewer than 1,225 hours as SEWE in that year do not receive the self-employed tax deduction.⁴²
- **Starters tax deduction** (*startersaftrek*): an extra tax deduction for people starting as self-employed of €2,123 in 2017. This applies if the SEWE, during the previous five years, was not active as SEWE during at least one year and used their self-employed tax deduction no more than twice.
- **SME profit exemption** (*MKB-winstvrijstelling*): a tax credit on the profits for the self-employed of 14 percent in the year 2017.
- **Investment deduction** (*investeringsaftrek*): investments in assets for the business over €2,300 in a given year are partially deductible (28%).
- **Various additional tax deductions** exist for the self-employed who are incapacitated to work (*startersaftrek bij arbeidsongeschiktheid*), tax deduction for research and development (*af trek voor speur- en ontwikkelingswerk*) and for the self-employed whose fiscal partner also works in the business (*meewerkaftrek*).

After applying these tax advantages for the self-employed, the remaining profit is taxed using the general income tax rates that apply for all Dutch citizens. The tax advantages of the self-employed are considerable. For example, a hypothetical starting SEWE who made a profit of €21,709 in 2017 could end up paying zero taxes in that year.⁴³

4.3 Pros and cons of SEWE

This section focuses on the role of the SEWE group for the economy. While fiscal policy promotes self-employment through tax benefits, starting subsidies and other government policies, one may ask whether the SEWE group contributes to the overall functioning of the economy and labour market, labour productivity growth and/or innovation levels within firms.

4.3.1 Functioning of the overall economy and labour market

The SEWE group accounts for approximately 12 percent of the Dutch labour force (see chapter 2). Self-employed workers may serve different goals on the labour market and may contribute to the functioning of the economy in general. First, self-employment may lead to very successful employment careers for individual workers and it offers persons a lot of autonomy at the workplace. Second, it offers labour flexibility to the economy and flexibility at the organisational level in order to respond to fluctuations in demand. This may have contributed to unemployment rates remaining relatively low during the economic crisis-years. Third, it gives inactive persons and lower-educated persons an opportunity to collect labour market experience in order to improve their own situation. For example, the chance to quit self-employment within a period of seven to nine years after starting a business is not that different for older workers, people with a disability, unemployed workers and for non-Western migrants compared to the total population of

⁴¹

https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/ondernemen/onderneming_starten/welke_regelingen_gelden_voor_u/welke_regelingen_gelden_voor_u

⁴²

https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/winst/inkomstenbelasting/veranderen-inkomstenbelasting+2017/ondernemersaftrek_2014/zelfstandigenaftrek_2017

⁴³ Based on updated calculations for 2017 of the following source <https://www.ikwordzper.nl/blogs/geen-inkomstenbelasting-tot-een-winst-van-21-107>

SEWE (e.g. Mevissen et al. 2013). To summarise, being a self-employed worker may function as a way to improve one's position on the labour market and it contributes to the level of flexibility at the macro and organisational level.

4.3.2 Labour productivity benefits

Self-employment is also encouraged because of the expected positive external impact it may have on labour productivity growth. While there are different measures indicating labour productivity growth, the contribution of the SEWE seems to be quite small. While the SEWE work on their own account and have, by default, an incentive to work as efficiently as possible, several studies suggest no real differences between employees and SEWE regarding labour productivity levels (e.g. IBO 2015). However, more research is needed in order to generate more conclusive labour productivity estimates for the SEWE.

4.3.3 Innovation benefits

This subsection links the SEWE group to innovation growth at the firm level. According to several research studies, it seems unlikely that the rise of SEWE has positively affected innovation levels (e.g. IBO 2015; Kremer et al. 2017). This is the so-called 'Dutch Entrepreneurship Paradox' (e.g. Stam 2013): a rise in self-employment did not lead to a similar rise in innovation. This is probably due to the large share of non-growth oriented SEWE. The SEWE seem to be responsible for a more flexible functioning of the economy and some fast growing SEWE's clearly contribute to the innovative capacity of the Dutch economy. However, in general, there has not been a simultaneous increase in innovation. In addition, this may be the result of the lower levels of training among the SEWE, because of the lack of resources to invest in updating and expanding their skills and knowledge (e.g. Kremer et al. 2017).

4.3.4 Conclusion

In sum, most researchers believe that the rise of the SEWE has resulted in a more resilient, flexible economy and also provides important labour market prospects for more vulnerable persons on the labour market. On the other hand, most studies so far have provided a rather neutral to negative view regarding the labour productivity growth and innovation levels within firms. This poses serious questions to the fiscal stimulation of SEWE in the Netherlands (e.g. Van Vuuren 2012). In the Dutch coalition agreement of 2012 there were some ideas for lowering fiscal stimulation of the self-employed workers. However, due to a lack of political support these measures have never been implemented.

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ANNEX TABLES AND FIGURES

Figure 7: Social protection against sickness and incapacity to work

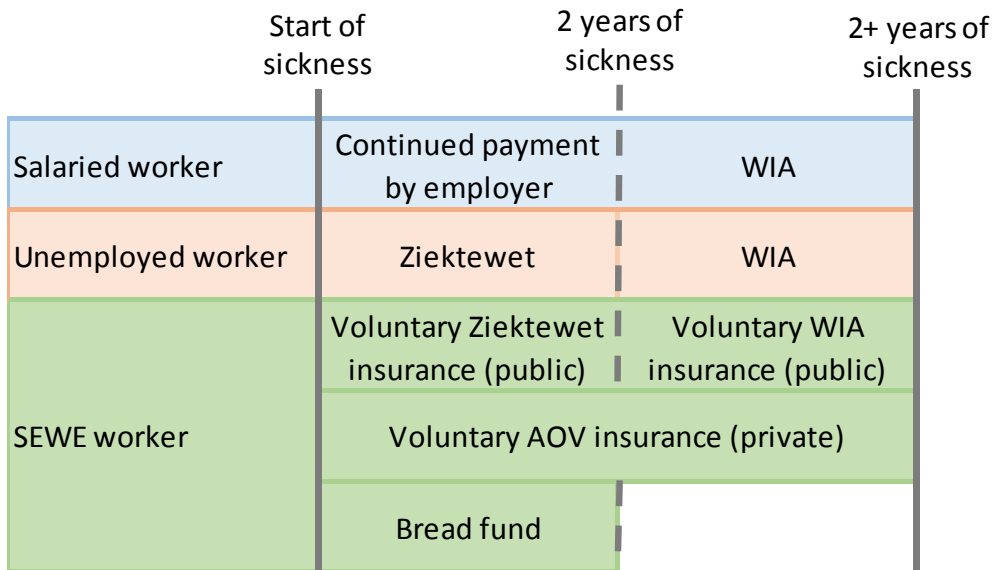
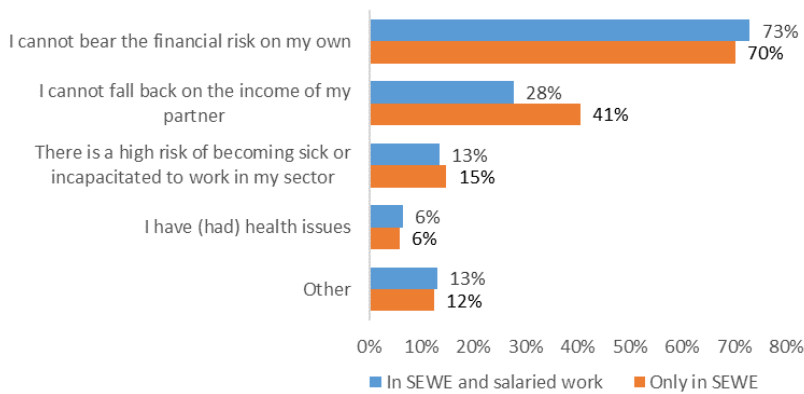
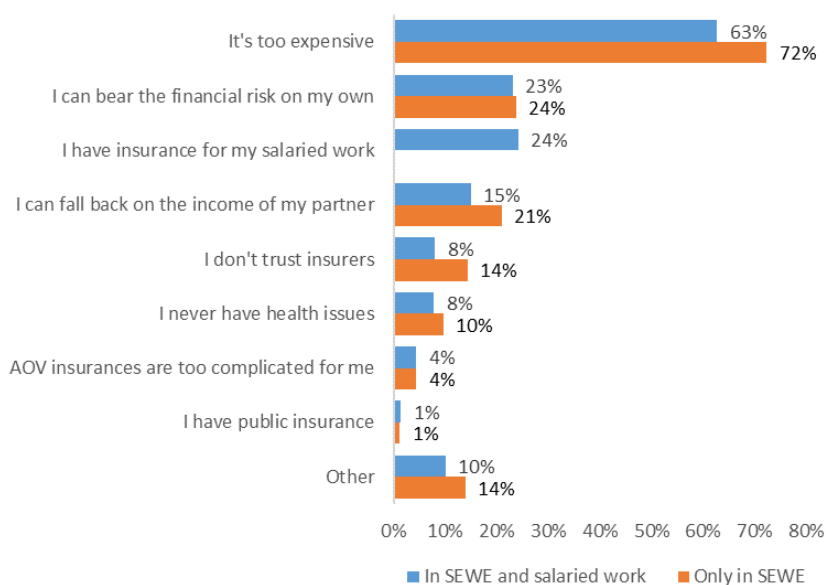


Figure 8: Reasons for SEWE to opt for private AOV insurance (multiple answers possible)



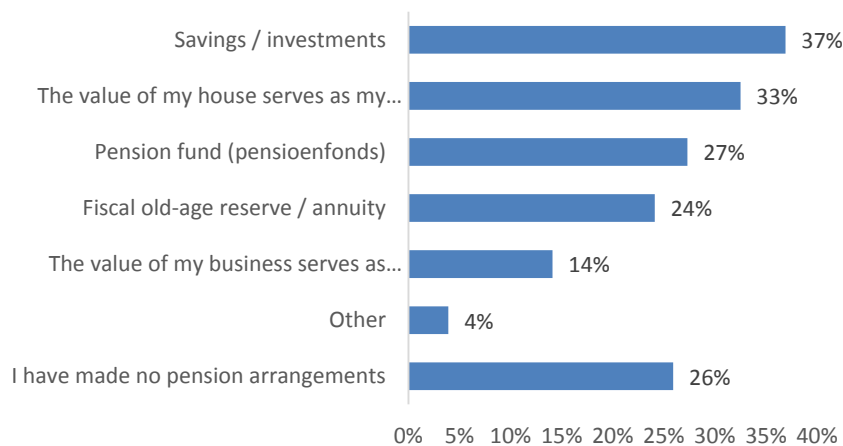
Source: Lautenbach et al., 2017

Figure 9: Reasons for SEWE not to opt for private AOV insurance (multiple answers possible)



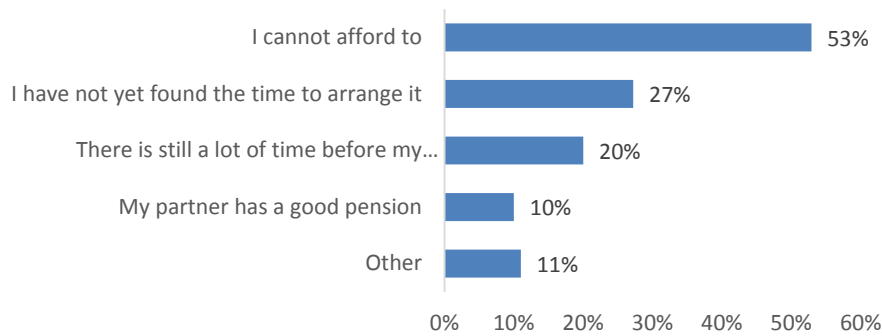
Source: Lautenbach et al., 2017

Figure 10: Pension arrangements made by SEWE (multiple answers possible)



Source: Lautenbach et al., 2017

Figure 11: Reasons for SEWE not making any pension arrangements



Source: Lautenbach et al., 2017

Table 3 Forms of social protection available to SEWE, and existing gaps

	Own protection rights	social rights	Derived protection rights	social rights	Coverage and access by means	and other
Health care	Compulsory insurance providing universal coverage, independent of employment status		No, not necessary		Optional insurance	additional
Sickness and invalidity	No coverage		Not possible		Voluntary insurance (public or private) or participation in bread fund	
Maternity	Maternity benefit up to minimum wage		Not possible		Voluntary benefit provides additional benefits	sickness insurance
Old-age	Universal basic state pension		Survivors' pension and survivors' occupational pension	state possibly occupational pension	Voluntary occupational pension scheme or individual pension savings arrangements	
Unemployment benefits and social assistance	No unemployment insurance, coverage through Participation Act up to social assistance level		Not possible		No possible	insurance
Long-term care	Universal coverage, independent of employment status		No, not necessary		No, not necessary	
Family benefits	Universal coverage, independent of employment status		No, not necessary		No, not necessary	

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