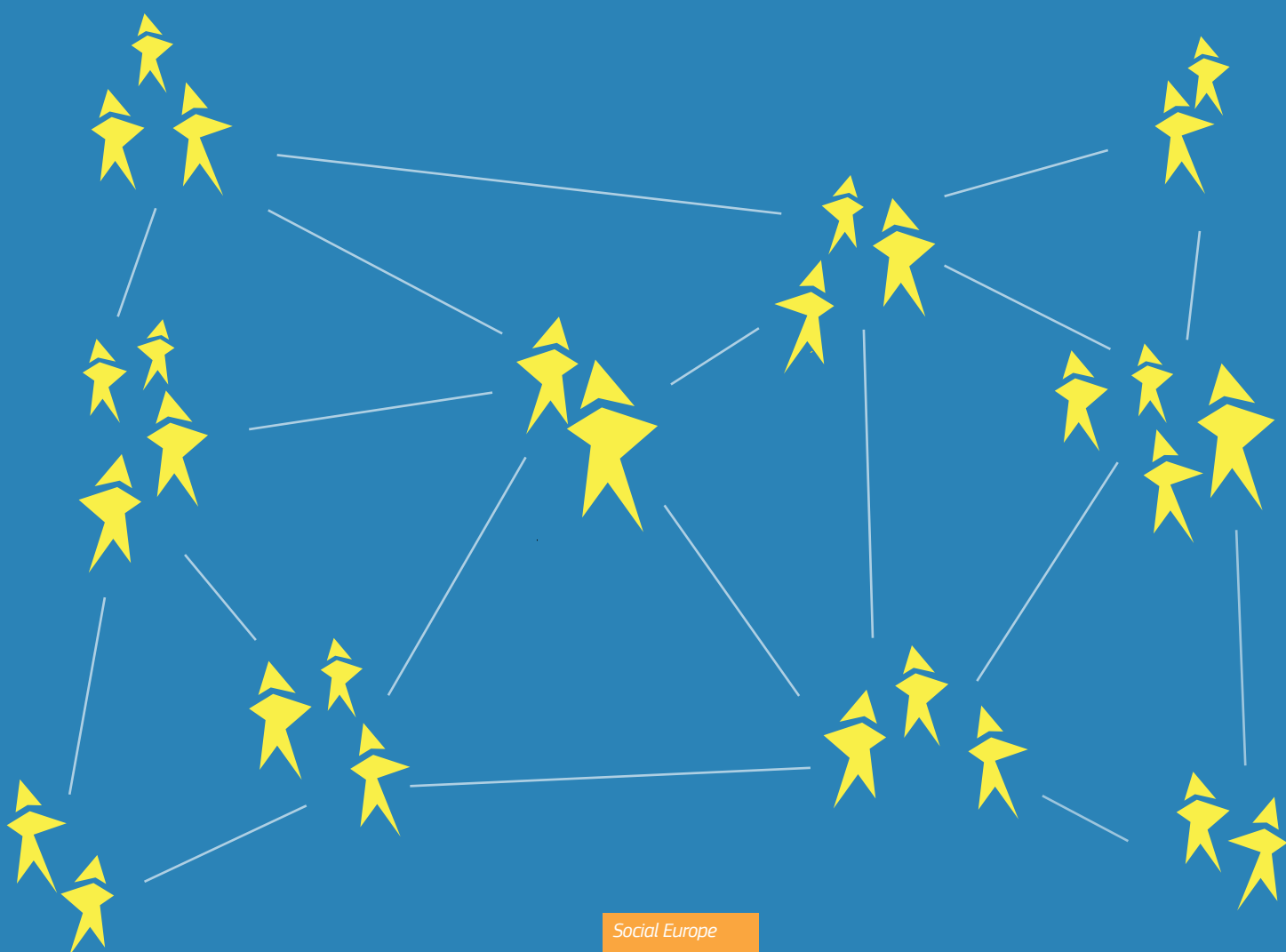




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

# In-work poverty in the Netherlands

Adriaan Oostveen



Social Europe

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**ESPN Thematic Report on  
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## Summary

In this Thematic Report, the issue of in-work poverty<sup>1</sup> in the Netherlands is explored. Our analysis draws mainly on EU-SILC (European Union Statistics on Income and Living Conditions) data, complemented with national data. Compared with the EU average, the level of in-work poverty in the Netherlands is relatively low. However, it increased from 4.6% in 2012 to 6.1% in 2017. During the same period the EU average rate also increased, though by slightly less (from 8.9 to 9.4%). A study by the Netherlands Institute for Social Research (*Sociaal en Cultureel Planbureau*, SCP), which looks at absolute rather than relative poverty, shows a slight decrease between 2013 and 2015 (from 4.7% to 4.5%).

In-work poverty was far more common in 2017 among the self-employed (especially those without employees), at 16.7%, and among employees with temporary contracts. Also, people who worked part time were more often poor (6.7%) than full-time workers (4.3%), although this difference was far less prominent in the Netherlands than in the EU as a whole. Moreover, in recent years we have seen an increase in the level of in-work poverty among these vulnerable groups. Important drivers for the increase in in-work poverty are the increase in the share of self-employed and flexible workers, limited wage increases in recent years and low work intensity (especially during the economic crisis).

Different policies at the national and local level have a direct or indirect impact on the prevalence of in-work poverty. The most important direct policy effect is the statutory minimum wage. This of course does not cover the self-employed, who are also not protected against the risks of sickness and unemployment: they do, however, enjoy several tax advantages, which means they pay less income tax. Finally, municipalities offer income support both to employees and self-employed workers with income from work that is below social assistance level. Under certain conditions, social assistance recipients may keep up to 25% of their earnings from work, for up to six months. This is the only in-work benefit in the Netherlands. Overall, municipalities have limited influence on poverty and they are also not always able to reach the people in need of help. Indirect policy effects include various types of benefits and allowances meant to cover costs such as those for housing, healthcare and childcare. Applying for these benefits, and informing the government about income changes, can, however, be complex. Finally, the extent to which various social transfers help to reduce poverty has decreased in recent years.

In 2018, the government announced several measures to combat in-work poverty that are to be implemented in 2019. Firstly, tax reductions will lead to increased net incomes. Secondly, the government aims to combat bogus self-employment and to impose minimum hourly rates for this group. There has also been some public debate on obliging the self-employed to insure themselves against the risk of sickness, but the minister of social affairs has opted against this. Finally, a new draft law is aimed at reducing the gap in social protection between people on temporary and permanent contracts. However, this is primarily aimed at job security and not at work intensity or hourly wages/income. Hence, it is not expected to contribute much to combating in-work poverty.

Several recommendations can be made to reduce in-work poverty in the Netherlands:

- ensure adequate minimum income protection for the self-employed
- focus on increasing households' work intensity
- provide help to people to meet the costs of childcare
- improve the balance between permanent employment and flexible labour.

Overall, the EU-SILC indicator – combined with two national indicators from Statistics Netherlands (*Centraal Bureau voor de Statistiek*, CBS) and SCP – provides an adequate

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<sup>1</sup> For ease of reading, we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

basis for monitoring trends in in-work poverty. The two national indicators complement the EU-SILC indicator, in the sense that they are based on an absolute income threshold, rather than a purely relative threshold.

# 1 Analysis of population at risk of in-work poverty

## 1.1 Introduction and general trend

In this thematic report, the issue of in-work poverty in the Netherlands is explored. Our analysis draws mainly on EU SILC data, complemented with national data (mainly from a recent study by the Netherlands Institute for Social Research (*Sociaal en Cultureel Planbureau*, SCP) (SCP, 2018a).<sup>2</sup> The EU-SILC definition of in-work poverty is given below.

A person is at risk of in-work poverty if they are in employment and live in a household that is at risk of poverty. A person is 'in employment' when they worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. The income reference year is the calendar year prior to the survey. A household is 'at risk of poverty' (or 'income poor') if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is those aged 18-64.

Generally speaking, paid work is seen as a way to escape from poverty. The incidence of poverty is indeed higher among non-working people than among working people in the Netherlands. However, in 2017, 6.1% of the Dutch working population were at risk of poverty (source: Eurostat, *ilc\_iw01*). Working people thus account for a substantial proportion of adults in poverty: 2 out of 5 Dutch adults living in poverty derive their main personal income from employment, and the number of working poor exceeds the number of people in poverty who are in receipt of unemployment, disability or social assistance benefit (SCP, 2016).

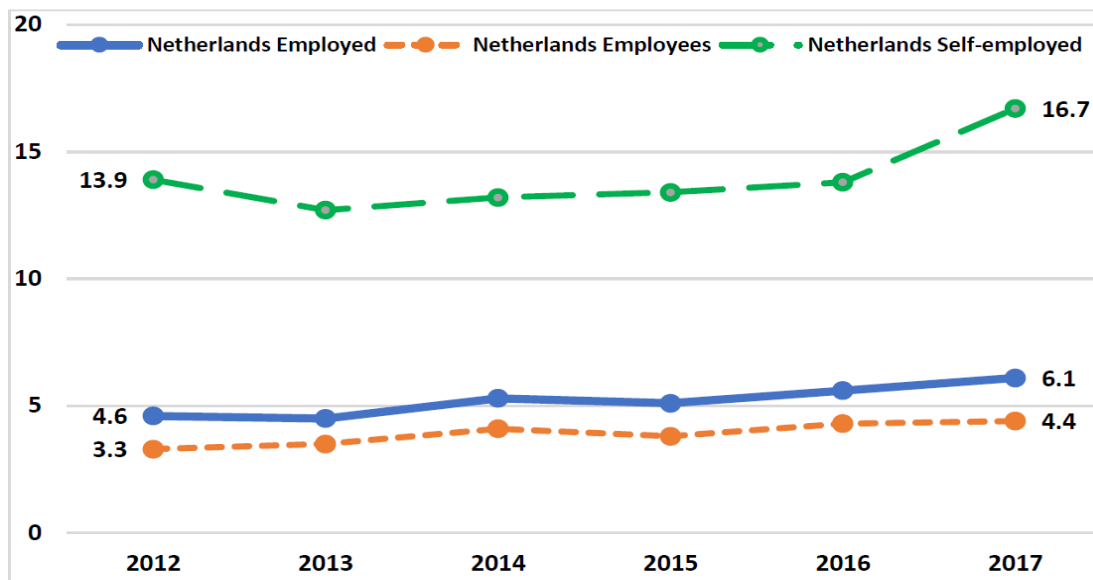
The percentage of people at risk of in-work poverty in the Netherlands increased from 4.6% in 2012 to 6.1% in 2017 (see figure 1). During the same period the EU average also grew, though slightly less (from 8.9 to 9.4%) (see figure 2). Compared with the EU average, the level of people at risk of in-work poverty in the Netherlands was relatively low. In 2016 the Netherlands ranked 7<sup>th</sup> in the EU on the level of in-work poverty. Only Finland, the Czech Republic, Belgium, Ireland, Denmark and Croatia had lower rates of in-work poverty.

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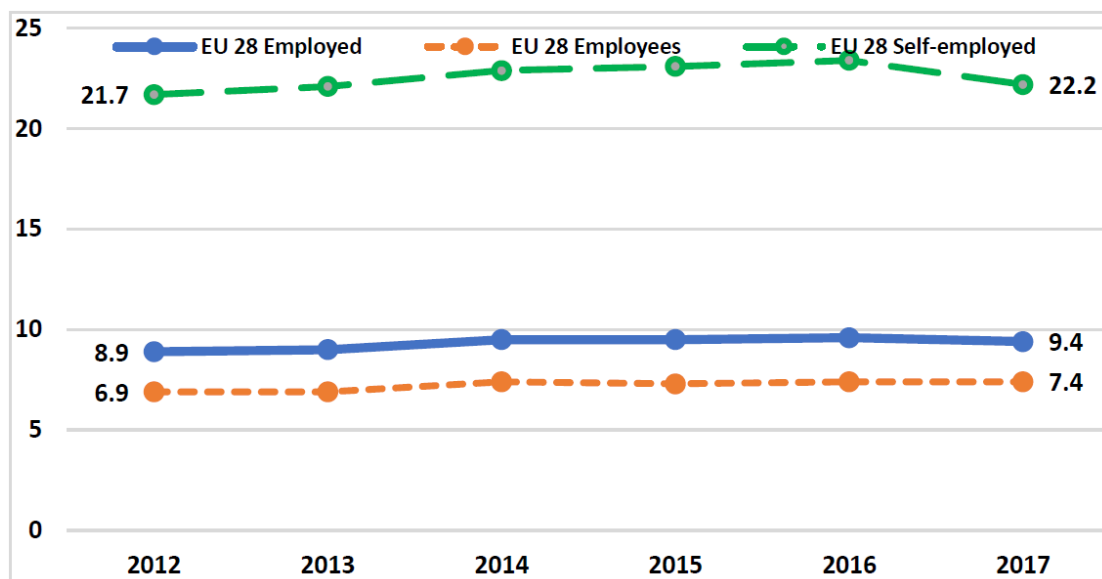
<sup>2</sup> This study was published in October 2018. A more detailed description of this study is given in Section 4. It is important to mention that the report operationalises poverty by reference to the SCP's so-called 'modest-but-adequate' income threshold, which is based on a specific standard of living rather than a relative measure such as the at-risk-of-poverty rate used in the EU.



**Figure 1. At risk of in-work poverty (%) in the Netherlands, for the employed, employees and the self-employed between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 2. At risk of in-work poverty (%) in the EU, for the employed, employees and the self-employed between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



The SCP study on in-work poverty uses a different definition (for a detailed description, please see footnote 1). This measure is not a relative measure (like the EU-SILC indicator) but is rather based on a specific standard of living. Therefore, it better reflects changes in the economic climate.<sup>3</sup> This SCP indicator shows that the in-work poverty rate increased until 2013 (4.7%), and then fell slightly in 2014 (4.6%) and 2015 (4.5%). Please note that the value for 2015 was an estimate, as complete data were not yet available.

<sup>3</sup> When there is an economic upturn but the level of income inequality stays the same, this will not be reflected in the EU-SILC indicator of poverty: in contrast, the SCP indicator will show that more people are able to meet a certain minimum standard of living.

## 1.2 Trends: differences between groups within the Netherlands

To better understand the macro-level trends in in-work poverty, we will now examine differences between various subgroups in the population. These results are all based on EU-SILC, unless another source is explicitly mentioned.

The **self-employed** are about 3 times more often at risk of in-work poverty than people in **employment**, both in the Netherlands and in the EU (see figures 1 and 2). The trend in recent years has been comparable between the two groups, except in 2017, when there was a rather sharp increase in the risk of in-work poverty among the self-employed. The incidence of self-employment is relatively high in the Netherlands (16.7% in 2017) compared with the EU (15.5%) according to the OECD.<sup>4</sup> Hence, self-employment is a major explanation for in-work poverty in the Netherlands. The SCP study (using its own poverty definition) found that 36% of all working poor in the Netherlands were self-employed. Also, they found that in-work poverty was around 1.5 times higher for the self-employed without employees than for the self-employed with employees (SCP, 2018a; p. 26, 29). The self-employed without employees far more often have low hourly income (35%) than employees (10%) and the self-employed with employees (19%) (SCP, 2018a; p. 34). However, data show that the level of material deprivation of the self-employed in the Netherlands was very similar to that among employees up until 2016, after which there was a sudden increase among the self-employed (see figure 14 in the annex). This is contrary to the EU trend, where the level of material deprivation has consistently been much higher among the self-employed than for employees. This may indicate that the self-employed underreport their income in surveys or in their tax returns.

Generally speaking, **young people** are more often working poor than **older people** (see figure 5 in the annex). This is true both in the Netherlands and in the EU (at 10.5% and 12.5% respectively). Between 2012 and 2017, the in-work poverty rate increased most notably among young people in the Netherlands. This trend was not as marked in the EU as a whole.

Looking at **gender** differences, both in the Netherlands and in the EU, men are more often at risk of in-work poverty than women (see figure 6 in the annex). This could have to do with the fact that men are sole breadwinners in the household more often than women, and women are less often in employment than men (SCP, 2018c). Hence, working women more often live in two-earner households and hence are less likely to live in poverty. After 2013 the relative difference in the risk of in-work poverty between men and women decreased in the Netherlands to the point where in 2017, the level was higher for women than for men. This was not the case in the EU.

People with lower levels of **education** are more often at risk of in-work poverty than people with higher levels of education (see figure 7 in the annex). The relative differences between these groups are, however, much smaller in the Netherlands than they are in the EU as a whole. In recent years, the Netherlands saw a relatively strong increase in the risk of in-work poverty among the mid-level education group (from 4.2% in 2012 to 6.8% in 2017).

Considering the **country of origin**, we see that people born in the Netherlands are generally less often at risk of in-work poverty than people who were born abroad (see figure 8 in the annex). This is also true in other EU countries. However, the relative difference between these groups increased substantially in the Netherlands after 2013. In 2013 someone born in a foreign country was twice as likely to be at risk of in-work poverty than someone born in the Netherlands, and by 2017 this had increased to a factor of almost 3.

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<sup>4</sup> <https://data.oecd.org/emp/self-employment-rate.htm>

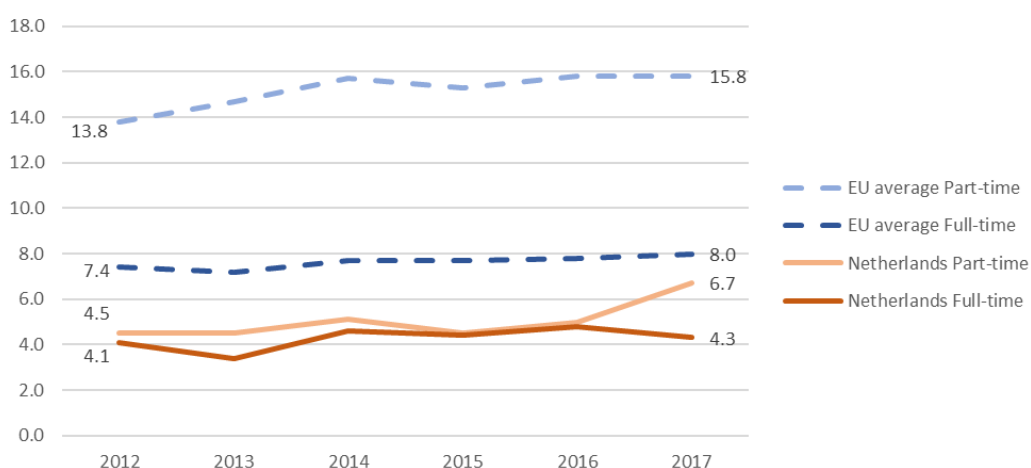
The pattern of in-work poverty as between different **household types** is similar in the Netherlands to that in the EU (see figures 9 and 10 in the annex). Single persons with dependent children show the highest risk levels of in-work poverty, followed by single persons without dependent children. Moreover, the situations of these two groups strongly worsened in the Netherlands between 2014 and 2017. In 2017, they were more likely by a factor of 3 and 2, respectively, to be at risk of in-work poverty than the national average.

Both in the Netherlands and in the EU, people in **temporary jobs** are more often at risk of in-work poverty than people in **permanent jobs** (see figure 11 in the annex). In both cases, the difference amounts to around a factor of 3. Overall, the difference between the groups remained relatively constant in the Netherlands between 2012 and 2017. Additionally, the SCP study (2018a) indicates that on-call workers have an increased risk of being poor.

People who live in households with higher **work intensity** are less often at risk of in-work poverty, both in the Netherlands and in the EU (see figures 12 and 13 in the annex). This is logical, because working fewer hours means that the household has less income from work than working full time. In the Netherlands, people living in low work intensity households are 10 times more often at risk of in-work poverty than people living in high work intensity households. After 2012 the risk of in-work poverty increased for all levels of work intensity, most notably among households with medium and high work intensity.

The patterns of in-work poverty across **part-time** and **full-time** workers are very different in the Netherlands from those at the European level (see figure 3). In the EU, people in part-time work are much more often at risk of in-work poverty than people in full-time work. Interestingly, there is almost no difference between the two groups in the Netherlands. This is most likely explained by the fact that part-time work is much more prevalent in the Netherlands than in other countries, and that part-time work is most common among two-earner households. In 2017, however, there was a rather sudden increase in the risk of in-work poverty among part-time workers relative to full-time workers.

**Figure 3. In-work poverty rate (%) in the Netherlands and across the EU, by full-time/part-time work between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



To summarise, there have been some interesting shifts in the risk of in-work poverty among various subgroups of the Dutch population in recent years. The risk of in-work poverty has increased disproportionately for middle education groups, people born abroad, single persons, people in households with low work intensity and people in temporary jobs. They are mostly the groups who already suffered higher risks of in-work poverty to begin with. Hence, the conclusion is that the increase in the risk of in-work poverty in the Netherlands as a whole is mostly concentrated among the more vulnerable

groups. A recent SCP study, which used a slightly different definition of poverty and used data up to 2014, also found that in-work poverty is higher for on-call workers.

### 1.3 Drivers and challenges

As was described previously in this section, both the self-employed and people working under temporary contracts have an increased risk of being in poverty. Data show that the share of the Dutch working population in flexible employment or self-employment increased from 30.4% in 2012 to 34.8% in 2017. This followed a steady increase from 2003 when it concerned just 21.9%. Hence, the **increase in the use of flexible employment and self-employment** is likely to be an important driver of the increase in the risk of in-work poverty. It has been estimated by the SCP that the increase in self-employment has led to an increase in the percentage of working poor by a few tenths of a percentage point (SCP, 2018a; p. 205).

In the SCP study it was concluded that there are three possible causes underlying in-work poverty: (1) low work intensity in the household; (2) a low hourly wages (and limited other income); and (3) a large household size. Analyses showed that, among households with employees, the most important factor was **low work intensity**. Increasing work intensity requires both the employee and their employer to be willing and able to do so. The SCP study showed that in 2014 31% of the working poor wanted to work more hours, up from 16% in 2006 (SCP, 2018a; p. 33). A plausible explanation for this is that during the economic crisis their employers did not have enough work for them. Among households with self-employed people, however, the SCP study found that the most important cause of in-work poverty was a **low hourly income** (SCP, 2018a; p. 30-33). As is the case with work intensity, the hourly income of the self-employed is closely linked to the economic climate and has decreased during the economic crisis (SCP, 2018a; p. 22).

Despite the currently flourishing economy and increasing tightness in the labour market, there is still **limited wage growth** (as was mentioned in the 2018 European Semester Report, see Oostveen, 2018). A recent analysis<sup>5</sup> by Rabobank pointed out that in 2017 the Dutch economy grew by 2.9%, whereas wage growth in sectors with collective agreements was only 1.4%. Because inflation was at 1.3%, there was hardly any real wage growth. Wage growth was especially limited among the low-skilled (Bakens & Fouarge, 2017) – precisely the group with an above-average incidence of poverty. Wage growth may have increased in 2018, as employers experienced difficulty finding suitable staff.

One would expect that, as a result of the **economic recovery**, in-work poverty would have stabilised (or fallen) rather than increased since 2015. The EU-SILC indicator shows an increase, but as mentioned before, as this is a relative measure of poverty it does not necessarily reflect changes in the economic climate. The SCP indicator of in-work poverty, which is based on a specific standard of living, does show a slight decrease of in-work poverty in 2014 and 2015.

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<sup>5</sup> <https://economie.rabobank.com/publicaties/2018/augustus/acht-redenen-waarom-de-lonen-achterblijven>.

## 2 Analysis of the policies in place

In this section, we will explore the various drivers of the growth in in-work poverty. We will distinguish between:

- direct effects of policies that are specifically aimed at alleviating (in-work) poverty or at the labour market; and
- indirect effects of policies that are not specifically related to the labour market or poverty but can have an effect on them.

### 2.1 Direct policy effects

#### 2.1.1 Minimum wage

One of the most obvious measures to prevent in-work poverty is the statutory minimum wage. The rates of the minimum wage are readjusted (increased) twice a year, i.e. in January and July. As at 1 July 2018, the amount for employees aged 22 or older was €1,594.20 per month.<sup>6</sup> The minimum wage (for a full-time worker) guarantees a minimum acceptable lifestyle. Unemployment benefits and social assistance benefits are linked to the minimum wage. Currently, people aged below 22 do not have the right to a full minimum wage. For instance, people aged 21 currently have the right to 85% of the minimum wage, and people aged 20 to 80% of minimum wage. This might provide part of the explanation why young people are more often working poor. As from July 2019, people aged 21 will also have the right to a full minimum wage, and the levels for people aged 18 to 20 will be increased.<sup>7</sup>

The SCP study on in-work poverty calculated to what extent the minimum wage level in the Netherlands is sufficient to live above the poverty threshold (using their own 'modest-but-adequate' definition) taking into account living expenses and other benefits and allowances. They concluded that the minimum wage is enough for a single person, a single parent with two children, and a couple without children. It is, however, not enough for a couple with two children (SCP, 2018a; p. 25).<sup>8</sup>

#### 2.1.2 Policies regarding the self-employed

As we have seen in section 1, the self-employed (most notably those with no employees) have a very high risk of being in poverty and make up a very significant portion of the working poor in the Netherlands (36%) (SCP, 2018a). Looking at social policies in place for this group, we can identify several areas where they are more vulnerable than employees.

Where employees are (partly) protected from in-work poverty by the statutory **minimum wage**, the self-employed in the Netherlands enjoy no such protection. As a result, the proportion who have an hourly income below 130% of the minimum wage is more than 6 times higher among the self-employed (27%) than among employees (4%) in the Netherlands (SCP, 2018a; p. 32).

Additionally, the self-employed enjoy less social protection than employees. Employees who are **sick** are entitled to continued payment of at least 70% of their salaries for a period of up to two years. The self-employed do not receive continued payment from their clients. They can opt to insure themselves against the risk of sickness (public or

<sup>6</sup> The gross minimum wage rates are stipulated in the provisions of the Minimum Wage and Minimum Holiday Allowance Act (*Wet minimumloon en minimumvakantiebijslag, WML*).

<sup>7</sup> <https://www.rijksoverheid.nl/onderwerpen/minimumloon/verhoging-minimumjeugdloon>.

<sup>8</sup> These calculations are based on several assumptions, such as that the household is not in debt, and has average housing expenses and allowances. In reality, many households do not meet these assumptions.

private), which grants them a benefit in case of sickness. A recent study, conducted every two years, showed that 27.2% of the self-employed have such an insurance policy (*arbeidsongeschiktheidsverzekering*, AOV) (either private or public), versus 72.8% who do not (Lautenbach et al., 2017). The most important barriers to taking out insurance are: (1) the substantial costs of AOV insurance; (2) existing health issues; and (3) having waited an extended period of time since starting self-employment (longer than 13 weeks) before taking out insurance.<sup>9</sup> The average cost of an AOV insurance is €4,050 per year, or €338 per month.<sup>10</sup>

Another important factor to consider is **unemployment**. Employees have compulsory insurance under the Unemployment Insurance Act (*Werkloosheidswet*, WW) against the financial consequences of unemployment. They receive a benefit of roughly 70% of their last earned income (up to a maximum ceiling) for up to two years. Self-employed persons, however, as they are not employees, are not insured, and cannot opt for voluntary insurance. If a self-employed worker (temporarily) does not have sufficient work, they may slide into poverty. Since 2014, the participation law (*participatiewet*) does provide temporary benefits for self-employed people who are (temporarily) facing financial difficulties for up to one year (*bijstand voor zelfstandigen*, Bbz).<sup>11</sup> However, this only supplements their income to social assistance level, and hence does not lift them fully out of poverty. Also, municipalities state that they only reach a small part of these self-employed people with financial difficulties (SCP, 2018a; p. 66).

Aside from these disadvantages of being self-employed, the Dutch tax regime offers various **tax advantages** for the self-employed. Indeed, this is often mentioned as one of the key drivers of the high prevalence of self-employment in the Netherlands. These tax advantages include:

- **self-employed tax deduction** (*zelfstandigenaftrek*): a tax deduction of €7,280 in 2017;<sup>12</sup>
- **starter's tax deduction** (*startersaftrek*): an extra tax deduction for people starting as self-employed of €2,123 in 2017;<sup>13</sup>
- **SME profit exemption** (*MKB-winstvrijstelling*): a tax credit on the profits for the self-employed of 14% in the year 2017; and
- **investment deduction** (*investeringsaftrek*): investments in assets for the business over €2,300 in a given year are partially deductible (28%).

After applying these tax advantages for the self-employed, the remaining profit is taxed using the general income tax rates that apply to all Dutch citizens. The tax advantages of the self-employed are considerable. For example, someone hypothetically starting as self-employed without employees who made a profit of €21,709 in 2017 could end up paying zero income tax in that year.<sup>14</sup> These tax advantages help reduce in-work poverty

<sup>9</sup> In order to have public insurance, the self-employed are required to insure themselves for the risk of sickness within 13 weeks after entering self-employment.

<sup>10</sup> Letter to Parliament – 26 November 2018 (b).

<sup>11</sup> The conditions are that self-employed people without employees must work at least 1,225 hours per year, that the level of income is below social assistance level, that no other means of financing are available and that the company is viable.

<sup>12</sup> Self-employed workers who make a lower figure in profits can only deduct their profits from taxes. Self-employed workers who worked fewer than 1,225 hours in self-employment in that year do not receive the self-employment tax deduction.

<sup>13</sup> This applies if the self-employed person, during the previous five years, was not active as self-employed during at least one year and used their self-employed tax deduction no more than twice.

<sup>14</sup> Based on calculations for 2017 of the following source:

<https://www.ikwordzzper.nl/blogs/geeninkomstenbelasting-tot-een-winst-van-21-107>.



among the self-employed. Data from CBS show that in the year 2014 almost 40% of the self-employed without employees ended up paying zero income tax.<sup>15</sup>

### 2.1.3 Municipal policies

Municipalities in the Netherlands are responsible for social assistance policy and for providing various types of cash benefits and in-kind support to people in poverty. In the SCP study (2018a), municipal policies aimed at the working poor were analysed. The results showed that most municipalities devote little attention to policy specifically aimed at the working poor, assuming that the existing arrangements (such as care or rent allowances) can help everyone with a low income, including those in work. Policies aimed at the working poor are generally aimed at helping people on social assistance who work part time and do not have sufficient income. Their income is supplemented to social assistance level (in 2016, this was €973 for a single person). Also, municipalities may provide extra financing for daycare for children to help parents work more hours. The working poor who do not receive social assistance generally remain off the radar of municipalities. If their situation remains unnoticed for a long period of time, and they do not make use of the available types of support (such as the various allowances), their financial situation can worsen over time, possibly leading to problematic debts. Municipalities do have policies aimed at assisting people in debt, including early signalling of problems with the payment of rent, utilities and health insurance. Although this policy does not combat poverty directly, it can contribute to reducing financial problems for people in poverty.

Aside from social assistance, municipalities offer various cash and in-kind benefits for people in poverty, including the working poor. If a person living in poverty faces high incidental expenses (such as having to buy a new washing machine), they can receive an incidental benefit to cover this (*bijzondere bijstand*). Also, people in poverty may be exempt from paying local levies and taxes and can often receive discounts on public transportation, sports and cultural activities. Finally, in 2017, the government provided €86 million to municipalities to combat poverty among children, mostly through in-kind provision such as participation in sports and cultural activities, birthday presents, and books.<sup>16</sup> A study by the SCP (2017) has shown that around 180,000 to 220,000 children with working parents live in poverty, which concerns 50 to 60% of all children living in poverty in the Netherlands. Hence, these in-kind provisions for children also target children with working parents.

Overall, though, municipalities state that their ability to combat poverty is limited. In their opinion, the level of poverty is primarily the result of national policies. Municipalities focus mostly on correcting the negative impact of national policies at the local level (SCP, 2018a; p. 72).

### 2.1.4 In-work benefits

In-work benefits, as defined by the OECD, are welfare schemes designed to provide an income supplement to needy families or individuals on the condition that they work. They are a specific type of 'make work pay' policy. As was mentioned under 'Municipal policies' (above), municipalities supplement the income of people who earn too little from work up to social assistance level under the participation law (*participatiewet*). This means that, as the income of the person grows, the supplementary benefit decreases by an equal amount. There is an exception; since 2016 recipients who work part time may keep 25% of the income from work, up to a maximum of €196 per month (as of 2019 this has been adjusted to €209) for a duration of six months, under certain conditions. The two main

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<sup>15</sup> <https://www.volkskrant.nl/nieuws-achtergrond/cbs-4-op-de-10-zzp-ers-betalen-geen-inkomstenbelasting-~b878b731/>.

<sup>16</sup> Letter to Parliament – 20 September 2016.

conditions are that it only applies to people who have received social assistance for at least one year, and that the person has to work for at least 10 hours per week.<sup>17</sup> The maximum duration of six months does not apply to people who are past the statutory retirement age and people who cannot work full time for medical reasons.

## 2.2 Indirect policy effects

### Complex system of benefits and allowances

There are many kinds of benefits and allowances at national level that help alleviate poverty in general. Examples are rent allowance, healthcare allowance, child benefits and child-related budgets. Some of these allowances are partly aimed at increasing labour market participation of working people with children.

- **Childcare allowance:** formal childcare is jointly financed by the national government, employers and parents. The government's financial support goes directly to the parents in the form of childcare allowance. Childcare allowance is linked to the number of hours worked by the parent with the fewest working hours, and to the household income.
- **Income-dependent combination tax credit:** parents who have an income from work above €5,000 annually can receive a tax credit of €1,052 or more.

These benefits and allowances can help prevent in-work poverty for people with children, because they lower the net costs of childcare (specifically for people with low incomes) and increase household income. However, one must apply for these allowances, which can be difficult for certain people. And because there are many different allowances, the system is quite complex. Furthermore, these allowances are often paid as an advance, and if the income changes during the year then part of any allowance received may have to be recovered. This can in turn cause people to go into debt (SCP, 2018a; p. 72-73).

### Poverty-reducing impact of social transfers

According to the social scoreboard supporting the European pillar of social rights, the poverty-reducing impact of social transfers (excluding pensions) in the Netherlands fell considerably in 2016 and 2017 relative to 2015. This indicator is calculated as the relative difference in the at-risk-of-poverty rate before and after social transfers (excluding pensions), in percentage terms. Looking more closely, we see that the at-risk-of-poverty (AROP) rate before transfers remained largely constant (at around 22%), but after transfers it increased (from 11.6% in 2015 to 13.2% in 2017). This implies that there was less redistribution from higher-income groups to middle- and lower-income groups resulting from social transfers. Possible explanations are that: (1) expenditure on unemployment benefits decreased due to lower unemployment rates; and (2) the depth of poverty increased, making it increasingly difficult for social transfers to lift people out of poverty. For a more detailed analysis of this, please refer to our 2018 European Semester Report.

## 3 Policy debates, proposals and reforms on in-work poverty and recommendations

### 3.1 Policy initiatives to combat in-work poverty

As is described in section 2 of this report, there are several policies (both at national and local levels) that have a direct or indirect effect on in-work poverty. The measures to combat poverty announced in the Dutch National Reform Programmes are primarily aimed at reducing poverty and combating debt in general, and at helping unemployed or

<sup>17</sup> <https://zoek.officielebekendmakingen.nl/gmb-2016-66660.html>.



inactive people into employment as a means to exit poverty. Few of these measures are targeted specifically at preventing in-work poverty. Hence, the Dutch policy agenda in recent years seems to have devoted little attention to the specific problem of in-work poverty. The working poor were mentioned as a target population for initiatives in fighting poverty and debt in the Dutch National Reform Programmes for 2013 and 2014. This resulted in several measures, including increasing the working tax credit and increasing awareness about municipal benefits for the self-employed (Bbz).<sup>18</sup>

The most important policy measure in place to prevent in-work poverty is probably the minimum wage. However, this measure has been in place since 1968. Since 2012, there have been no notable policy initiatives specifically aimed at reducing in-work poverty.

An important topic of public debate that affects the level of in-work poverty is wage levels. Although there has been a considerable economic recovery over the last few years, we have seen a very limited increase in wage levels. Taking inflation into account, there has hardly been any real wage growth, especially among the low-skilled (Bakens & Fouarge 2017) – which is precisely the group with an above-average incidence of poverty. The government is very much in favour of higher wage growth and has often stated that all citizens should benefit from the current economic prosperity (*Miljoenennota 2019*; p. 47). However, wage growth is not primarily a policy issue; it is determined by the social partners and individual employers.

### 3.2 On-going and planned reforms and policy debate among stakeholders

#### 3.2.1 General tax reforms

Following the recent publication of the SCP study on in-work poverty (2018a), the state secretary responded in a letter to parliament.<sup>19</sup> She recognised the results of the study, and emphasised the government's concern and commitment to combat in-work poverty. To achieve this, the government will reduce the taxation on labour and increase the general tax credit and working person's tax credit. This means that working will be more financially worthwhile. Also, healthcare allowances and child benefits will be increased.

On a critical note, the first two measures announced in the coalition agreement were accompanied by an increase in value added tax (VAT). This represents a (partial) shift from taxing labour to taxing consumption. Hence, lower income taxation and increased tax credits will be partially offset by increased costs of living. Additionally, most of the measures mentioned above (all except healthcare allowances, which are means-tested) are universal rather than targeted specifically at the (working) poor. Although the working poor will benefit from them, this will probably not be reflected in the relative indicator of poverty used in EU-SILC.

The state secretary also referred to measures that were recently announced on protecting the self-employed in a vulnerable position, which are described below.

The Federation of Dutch Trade Unions (*Federatie Nederlandse Vakbeweging*, FNV) has responded to the recent SCP study on in-work poverty by expressing their concern about the increase in in-work poverty, especially among vulnerable groups. They in turn announced that they will demand more permanent contracts, higher wage growth and higher hourly rates for the self-employed.<sup>20</sup>

<sup>18</sup> Letter to Parliament – 25 November 2013.

<sup>19</sup> Letter to Parliament – 8 November 2018 (a, b).

<sup>20</sup> <https://www.fnv.nl/sector-en-cao/alle-sectoren/flex/nieuws/fnv-reactie-op-scp-rapport-als-werk-weinig-opbrengt>.

### 3.2.2 Policy reforms aimed at the self-employed

In a recent letter to parliament, the minister of social affairs and employment announced that several reforms were being worked out to protect the self-employed in a vulnerable position.<sup>21</sup>

The aim is firstly to combat 'bogus self-employment', which is defined by the minister as: "working people who according to the law should have an employment contract and should be treated as employees in relation to taxes and social security, but who are currently treated as self-employed". The minister aims to combat bogus self-employment by regulating the use of the status of 'self-employed worker', which requires making a clear distinction between self-employed workers and (de facto) employees. Previous measures to achieve this have been unsuccessful. Currently, the minister aims to implement a new instrument (a web-module) to distinguish employment relationships from services provided by self-employed people without personnel. It is important that this instrument gives certainty in advance to the client hiring a self-employed person about whether the service delivered is labelled as an employment relationship or not. If this is not clear in advance, clients will be hesitant to hire self-employed people because they fear that they will later be forced to pay for their social protection. The instrument will look at whether the client has 'authority' over the self-employed worker.<sup>22</sup> This needs to be defined carefully, in order for the instrument to function properly and to prevent fear and uncertainty among clients about hiring self-employed workers. In December 2018, a guideline on determining the 'authority' was published, which consisted of the following four main elements.<sup>23</sup> The web-instrument is scheduled to be finished by the end of 2019.<sup>24</sup>

1. **Instruction and supervision:** if the client can give specific instructions on how tasks should be done, this indicates authority. Conversely, if the worker can decide freely how work is carried out, as long as it meets specified results, this contraindicates authority.
2. **Comparability with employees:** if the relationship between the client and the worker is similar to the relationship between the client and other employees, this indicates authority. Examples are having appraisal interviews, carrying out the same type of work and working under the same rules and guidelines.
3. The extent to which the worker is free to decide on **working times, location, materials and tools**. This is a contraindicator of authority.
4. If workers **present themselves as part of the client's company**, by means of uniforms or company cars with their logos, this indicates authority.

In addition, the minister is planning to impose a minimum hourly rate for self-employed workers below which an employment contract is compulsory,<sup>25</sup> so as to protect self-employed workers who are in a vulnerable position. However, working out this measure is proving to be challenging. The hourly rates of self-employed workers cannot simply be compared with hourly wage levels to determine the minimum hourly rate. After all, hourly rates not only consist of labour costs but also cover material costs, travel costs, costs for equipment etc. Following a study of how self-employed workers determine their hourly rates, the minister proposes a minimum hourly rate between €15 and €18 per hour.<sup>26</sup> A more pressing issue is that labelling a service relationship as an employment

<sup>21</sup> Letter to Parliament – 22 June 2018.

<sup>22</sup> <https://nl.wikipedia.org/wiki/Gezagsverhouding>.

<sup>23</sup> [https://www.belastingdienst.nl/bibliotheek/handboeken/html/boeken/HL/bijlagen-beoordeling\\_gezagsverhouding.html](https://www.belastingdienst.nl/bibliotheek/handboeken/html/boeken/HL/bijlagen-beoordeling_gezagsverhouding.html).

<sup>24</sup> Letter to Parliament – 26 November 2018 (a).

<sup>25</sup> Two more conditions apply; there has to be a long period of work involved, and the self-employed worker needs to be carrying out 'regular work' that would normally be done by an employee.

<sup>26</sup> Letter to Parliament – 26 November 2018 (a).

relationship is in breach of EU labour law, because it can be seen as a limitation on the free movement of labour and freedom of establishment in the EU. The government has had contact with the European Commission regarding this matter. It seems that this will prevent the minimum hourly wage from being implemented, at least for the time being.<sup>27</sup>

If the minister succeeds in combating bogus self-employment and imposing minimum hourly rates, this may contribute to reducing in-work poverty among the self-employed. As we have seen in section 1, the major driver of in-work poverty among the self-employed is a low hourly income. However, there are mechanisms that could prevent this measure from reducing in-work poverty among the self-employed. For instance, if the measures were to lead to a decline in demand for services provided by the self-employed, this would cause more in-work poverty among them in the short term. Of course, if they then moved into employment, they would have better social protection in the long term. Also, self-employed workers may be pressured by their contractors to work extra unpaid hours, to compensate for the higher hourly rate. This would mean that the higher hourly rate would not translate into a higher income.

Trade unions are generally in favour of minimum rates, because they prevent unfair competition between employees and the self-employed without employees.<sup>28</sup> Employers' organisations, and specially organisations representing the self-employed, were initially against the proposed measure to impose minimum hourly rates, because it interferes with their freedom to conduct a business. However, the major employers' organisation (VNO-NCW) and an organisation representing the self-employed (PZO), have agreed to the proposed measure, because it can help solve in-work poverty among certain self-employed people.<sup>29</sup>

### 3.2.3 Policy debate on insurance for the self-employed

As was mentioned in section 2, the majority of the self-employed (72.8%) do not have sickness insurance (Lautenbach et al., 2017). The most important barrier to taking out insurance is the substantial costs involved. In recent years, there has been a lot of debate about whether the self-employed should be obliged to insure themselves. Trade unions have argued in favour of such an obligation, and they were recently joined in this by a major employers' organisation (AWVN).<sup>30</sup> In a recent letter to parliament, the minister stated that a broader debate is being held on future labour law, social security and taxation.<sup>31</sup> The risk of sickness and incapacity to work is part of this broader debate, for which an independent commission of experts has been formed. As a result, the minister will not address the issue of compulsory insurance for the self-employed at this moment. He does, however, aim to increase the percentage of the self-employed that have voluntary insurance. To achieve this, a new programme called 'promoting choice behaviour' will be initiated, which will draw upon behavioural knowledge to encourage the self-employed to insure themselves.

Another issue is that older self-employed workers are sometimes turned down by insurers (especially those in hazardous occupations), because their risk of becoming incapacitated for work is too high.<sup>32</sup> The minister sees no reason to intervene in this, because it would cause insurance premiums to become too high. Instead, he stresses that policies should be aimed at reducing risk in hazardous occupations.

### Policies aimed at employees: flexible vs permanent contracts

<sup>27</sup> Letter to Parliament – 26 November 2018 (a).

<sup>28</sup> <https://nos.nl/artikel/2160454-vakbonden-tariefafspraken-voor-zzp-er-moet-kunnen.html>

<sup>29</sup> <https://www.zipconomy.nl/2018/01/vnoncw-en-pzo-voelen-toch-iets-voor-minimumtarief-zzp/>

<sup>30</sup> <https://www.trouw.nl/home/werkgevers-ook-zzp-er-moet-zich-verplicht-verzekeren-tegen-arbeidsongeschiktheid~a1e8ceaf/>

<sup>31</sup> Letter to Parliament – 26 November 2018 (b).

<sup>32</sup> Letter to Parliament – 26 November 2018 (b).

On 7 November 2018 the minister of social affairs and employment sent a draft law to parliament named the Act on a Balanced Labour Market (*Wet Arbeidsmarkt in balans*, WAB). This law contains a series of measures aimed at reducing the gap between permanent and flexible contracts. As the minister states, employers should base their decision on whether to use permanent or flexible contracts on the nature of the job rather than solely on cost considerations. Also, the negative effects of using flexible contracts should be limited or taxed. The proposed law therefore:

- makes permanent contracts less permanent/costly, by increasing the possibilities for probation periods, making dismissal easier and less costly and reducing employers' contributions for unemployment insurance for employees on permanent contracts;
- makes flexible contracts less flexible/attractive, by improving the legal position of on-call workers, preventing unfair competition through payrolling<sup>33</sup> and increasing employers' contributions for unemployment insurance for employees on temporary contracts.

The minister does not necessarily view the use of flexible contracts as a problem. In his view, it should be possible for employers to consciously opt for flexible contracts to be able to respond to changing market circumstances. Therefore, the maximum period during which someone can work on temporary contracts will be extended from two to three years.<sup>34</sup> This could in fact lead to an increase in the use of temporary contracts. For more information on the views of the social partners on this issue, please refer to our recent Flash report on the Act on a Balanced Labour Market.

Although the Act on a Balanced labour Market may improve social protection for some vulnerable groups (such as on-call workers), it may also lead to more use of temporary contracts. Also, it is primarily aimed at job security and not so much at work intensity or hourly wages/income. Hence, it is not expected to contribute much to combating in-work poverty.

### 3.3 Possible improvements in policy to combat in-work poverty

In the recent SCP study on in-work poverty (2018a), several considerations for national policy are set out.

- **Ensure adequate minimum income protection for the self-employed.** To combat in-work poverty, all workers must be able to earn at least above the poverty threshold for a single person. The statutory minimum wage ensures this for employees, but not for self-employed workers. A minimum hourly rate could provide a solution. As is described in section 2.2, the government is currently drafting legislation to make it possible for self-employed workers without employees who work below a certain hourly rate to be treated as employees. However, this is proving to be difficult, as it is in conflict with EU law.
- **Focus on households' work intensity.** Where people work part time or are unemployed for part of the year, single people and couples can fall below the poverty line. This warrants a policy focus on: (1) promoting full-time employment for single persons; and (2) encouraging higher work intensity among couples, especially if their hourly pay rate is low.

<sup>33</sup> In the Netherlands, payrolling often refers to contractor payrolling, which is when a company outsources the employment and payroll of pre-identified or self-sourced temporary or contract labour.

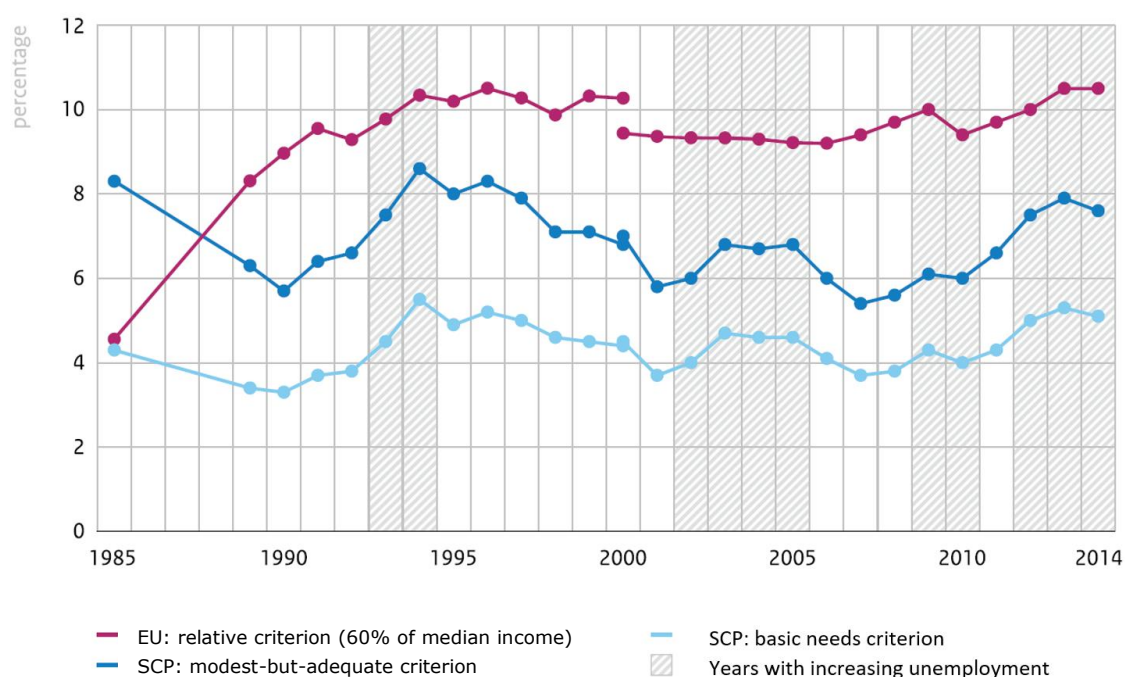
<sup>34</sup> This was in fact already the case until 2014. With the enforcement of the Act on Work and Security (*Wet Werk en Zekerheid*, Wwz) on 1 January 2015, the maximum period during which employers were allowed to hire employees on temporary contracts was reduced from three years to two years. In doing so, the former minister of social affairs and employment aimed to promote the use of permanent contracts. However, this measure is currently being reversed.

- **Focus on the costs of children.** An adequate minimum income for a single person may not be enough to reduce poverty in the entire household. If there are children, the number of unavoidable and highly desirable expenditure items increases. A possible solution is to provide more help to parents to meet the costs of children, particularly for working single-parent families and couples with large families. Germany and Denmark perform better in this respect than the Netherlands.
- **Improve the balance between permanent employment and flexible labour (self-employment, involuntary part-time or temporary work, and people with atypical contract forms).** People in self-employment and on atypical contracts have far higher rates of in-work poverty than employees with permanent contracts. Policy measures could focus on: (1) promoting the use of permanent contracts rather than flexible employment; or (2) better social protection for people in flexible employment. The current Act on a Balanced Labour Market may provide some extra social protection to certain groups (such as on-call workers) but will probably also lead to more use of temporary contracts. Also, the social protection of those on permanent contracts will be reduced slightly. Therefore, appropriate fine-tuning is required.
- **Avoid 'waterbed effects' as a result of policy action.** Policy aimed at reducing in-work poverty could potentially lead to more poverty among those not in work, as a result of lower labour demand and discouraged workers.

## 4 Assessing data and indicators

The most important national study of in-work poverty was published in October 2018 by the SCP (SCP, 2018a). The study was based on national register data up to 2014, combined with interviews among 20 local municipalities. It is important to mention that the report operationalises poverty by reference to the SCP's so-called 'modest-but-adequate' income threshold. This income level is based on a certain basket of expenditure needed for a reasonable standard of living, including highly desirable things such as short vacations and membership of a sports club. For a single person in 2014, this amounted to €1,063 per month; for a couple with two children it was €2,000 per month. By comparison, the Dutch poverty threshold based on the EU-SILC AROP indicator in 2014 was slightly lower at €940 per month for a single person and €1,975 for a couple with two children.<sup>35</sup> The opinion of the SCP is that their indicator measures poverty better because it is based on a specific standard of living, and that a relative measure such as the at-risk-of-poverty rate used in the EU is instead a reflection of inequality. Figure 4 shows that the SCP's indicator generally shows a lower poverty rate, but better reflects economic developments.

**Figure 4. Poverty rate in the Netherlands, entire population, between 1985 and 2014 (source: EU-SILC/ECHP and SCP indicators)**



However, the SCP report also uses the EU-SILC indicator of poverty (AROP) in order to make a cross-country comparison of the prevalence of in-work poverty. Hence, both indicators have their own merits. The EU-SILC indicator enables international comparisons, whereas the SCP indicator allows us to look more closely at how economic circumstances can cause hardship among the working population in absolute terms.

The 2018 SCP report provides a rich insight into the problem of in-work poverty and its drivers, because it is based on more exhaustive administrative data. Prior to this report, no such comprehensive study existed. The SCP carries out a study on poverty in the Netherlands every two years, which is published as a concise digital publication supported by some statistics. The most recent study was published in November 2018

<sup>35</sup>

<https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tessi014&language=en>.

(SCP, 2018b). There is a section devoted to in-work poverty, where the poverty rate is shown by group (e.g. self-employed, employees), but this information is not very detailed.

CBS offers many statistics and indicators via the online portal *CBS Statline*. One of them is the risk of poverty, based on their own 'low income threshold'. This indicator reflects a certain level of purchasing power based on an income level called the 'social minimum', slightly above social assistance level. This is indexed to take into account price fluctuations over time (CBS, 2018). The poverty rates are calculated based on register data. Up until 2009 the results were based on samples of around 2 million households, and starting from 2010 they include all Dutch citizens. In 2016, the low income threshold was €1,030 per month for a single person. By comparison, in the same year the social assistance level was €973 for a single person, and the minimum wage was €1,525. Through the online portal *CBS Statline*, users can generate tables using this indicator, disaggregated by household characteristics such as the main source of income, household composition, age and gender of the main breadwinner, country of origin and house rental/ownership. The data are available for the years 2011 up to 2017. This provides quite a good basis to study trends in in-work poverty over time and between groups. Based on this indicator, CBS publishes an annual report called 'Poverty and social exclusion' (*Armoede en sociale uitsluiting*).

Overall, the EU-SILC indicator (at risk of in-work poverty) – combined with the two national indicators from CBS and SCP – provides an adequate basis for monitoring trends in in-work poverty. The two national indicators complement the EU-SILC indicator, in the sense that they are based on an absolute income threshold, rather than a purely relative threshold. Additionally, the material and social deprivation (MSD) rate sheds extra light on people's living conditions.<sup>36</sup> This is less suitable for making cross-country comparisons (because it depends heavily on the welfare level in a country) but can be useful for analysing differences between groups within countries. It is worth noting that, over time, some elements of the MSD may become unsuitable for measuring poverty.<sup>37</sup>

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<sup>36</sup> The material and social deprivation (MSD) rate is the proportion of people lacking at least five out of the 13 items in the following set:

- **household level:** can cope with unexpected expenses; can afford a one-week annual holiday away from home; can avoid arrears; can afford a meal with meat, chicken or fish every second day; can afford to keep the home adequately warm; have access to a car/van for personal use; and can replace worn-out furniture);
- **personal level:** can replace worn-out clothes; have two pairs of properly fitting shoes; can spend a small amount of money each week on themselves; have regular leisure activities; get together with friends/family for a drink/meal at least monthly; have an internet connection.

<sup>37</sup> For instance, having access to a car is becoming less relevant for people living in heavily urbanised areas with good public transportation, and a growing number of people in the Netherlands are consciously opting not to eat meat or fish for environmental reasons.



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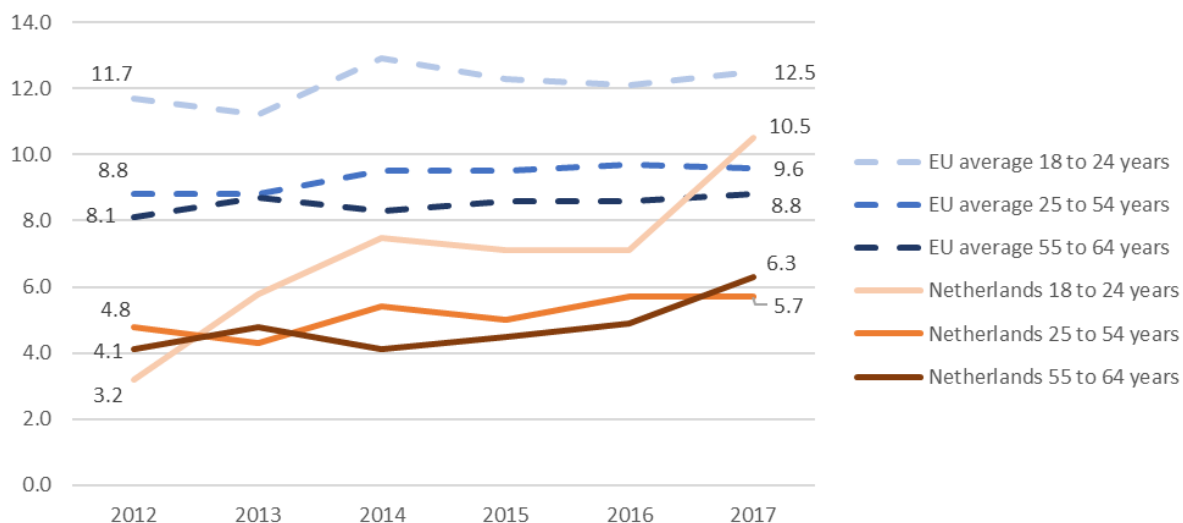
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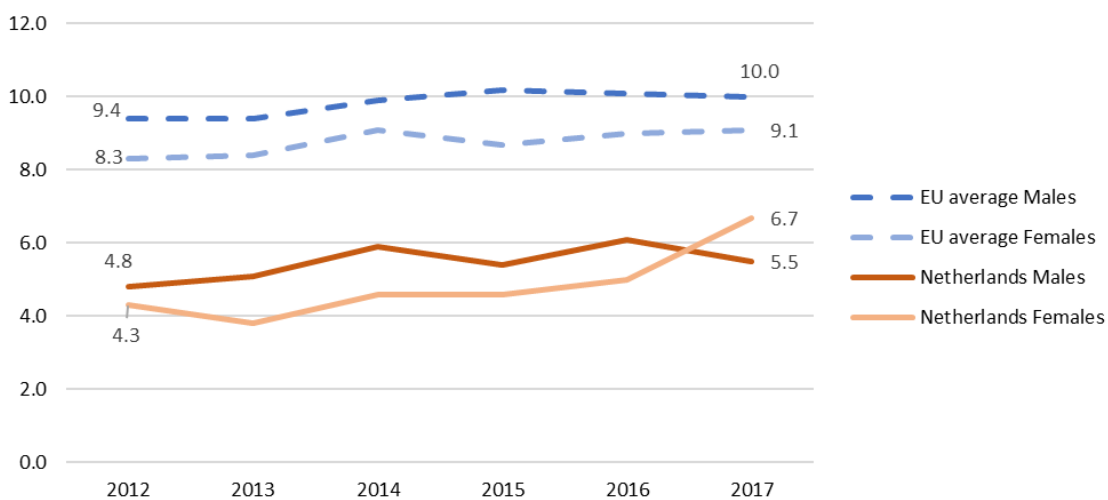
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## Annex

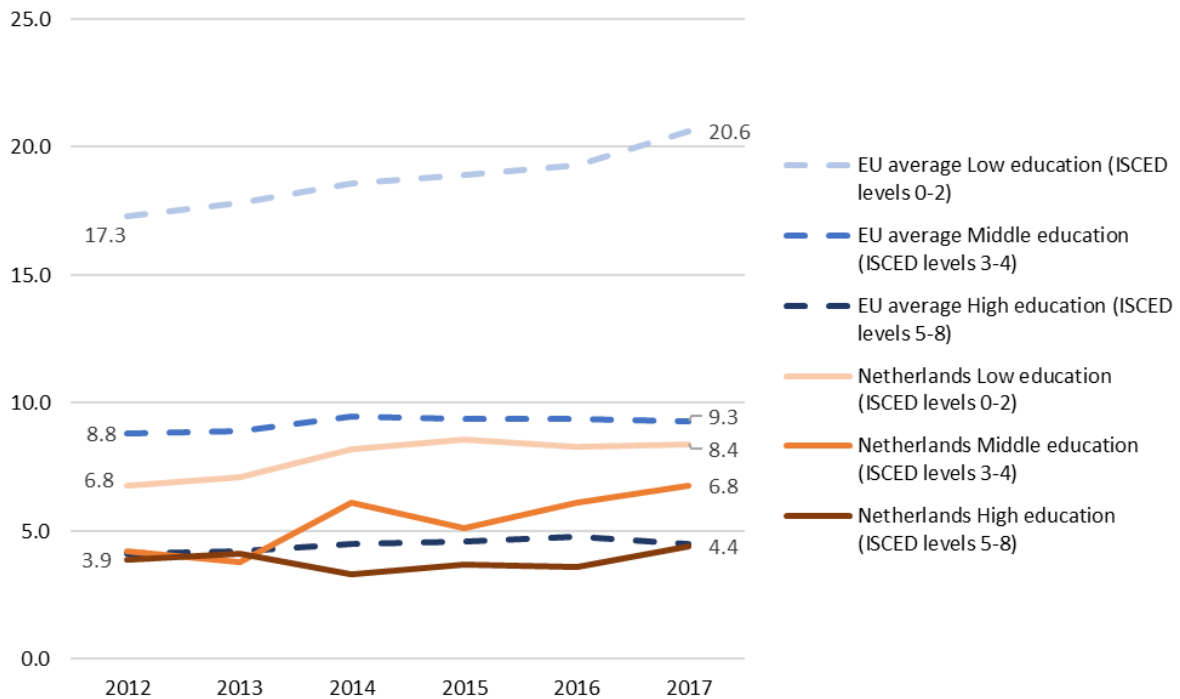
**Figure 5. In-work poverty rate (%) in the Netherlands and in the EU, by age group between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



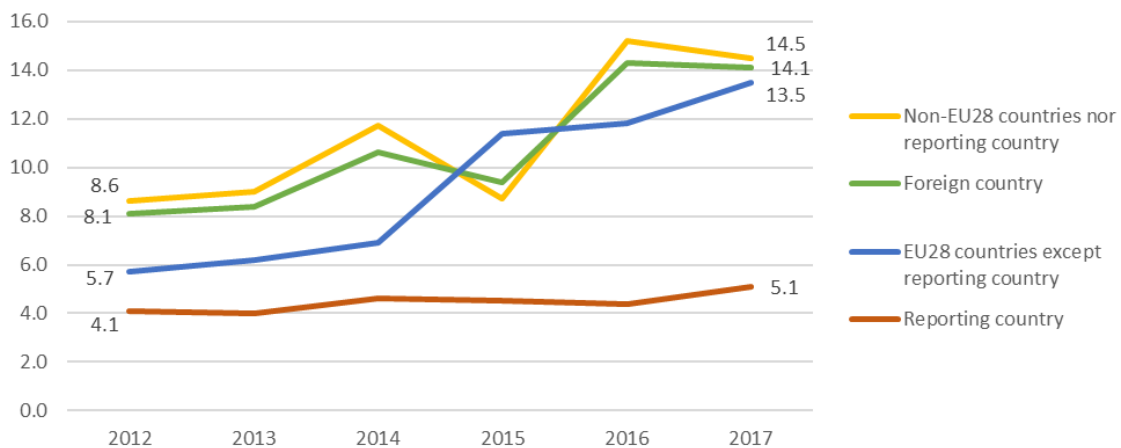
**Figure 6. In-work poverty rate (%) in the Netherlands and across the EU, by gender between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



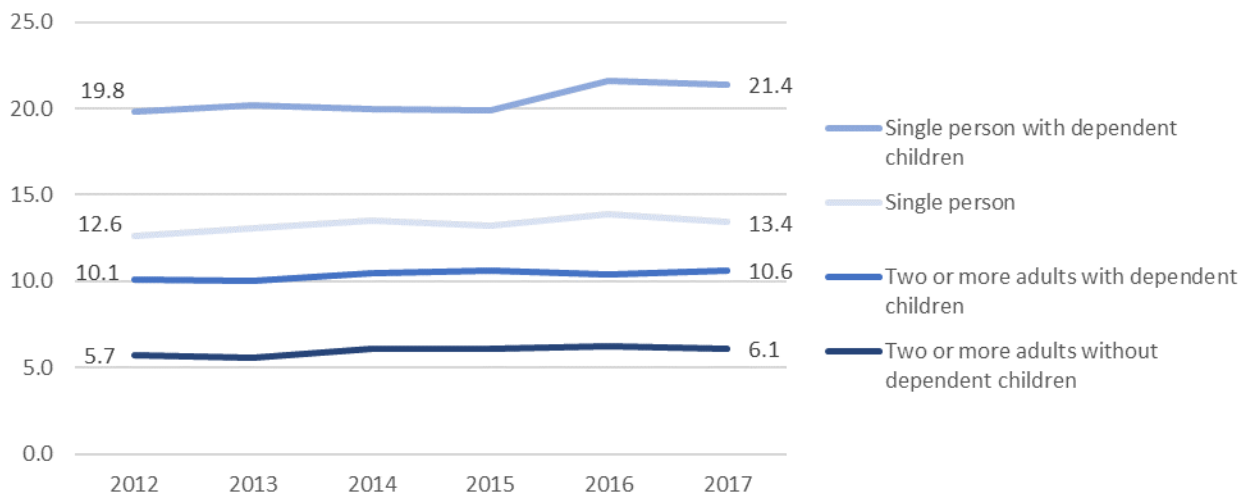
**Figure 7. In-work poverty rate (%) in the Netherlands and across the EU, by level of education between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



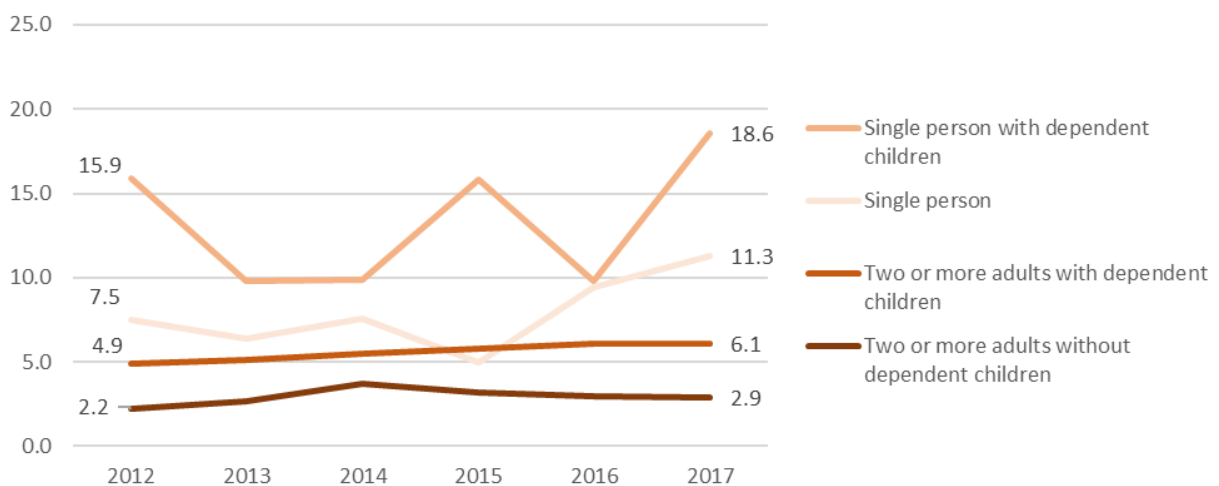
**Figure 8. In-work poverty rate (%) in the Netherlands and across the EU, by country of birth between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



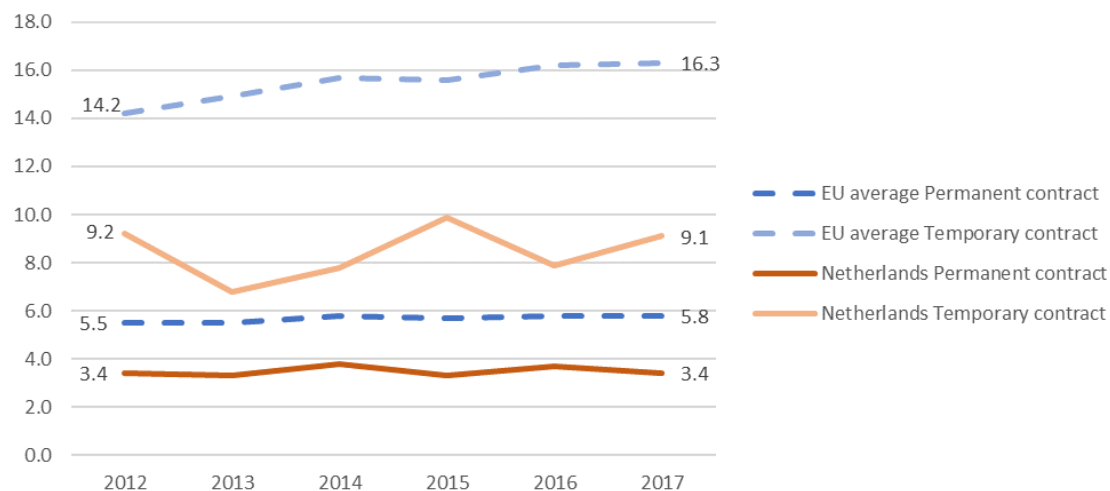
**Figure 9. In-work poverty rate (%) in the EU, by household type between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



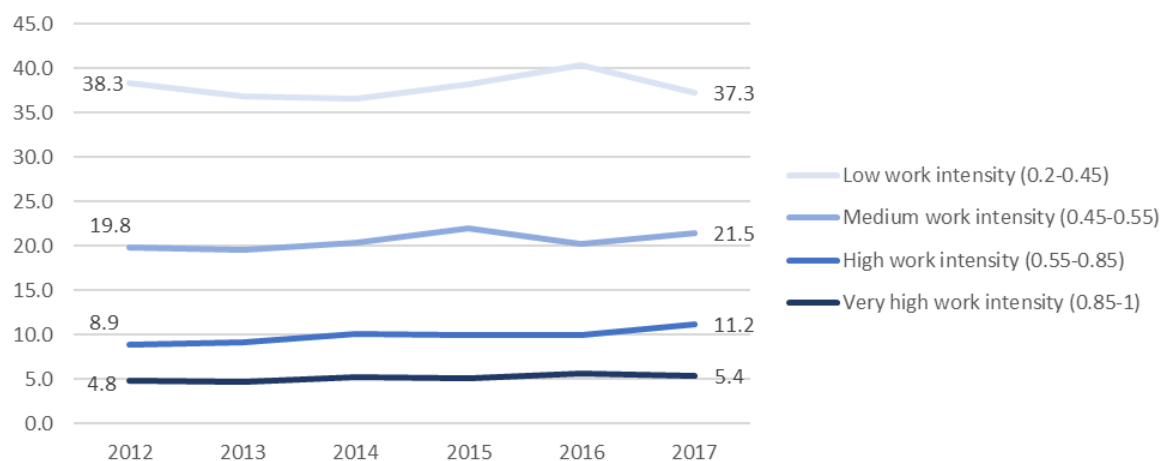
**Figure 10. In-work poverty rate (%) in the Netherlands, by household type between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



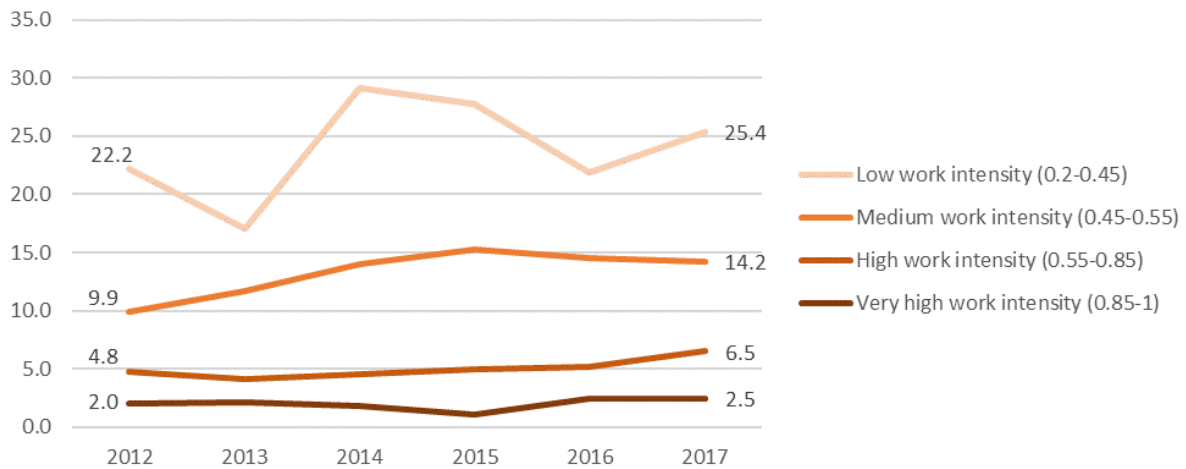
**Figure 11. In-work poverty rate (%) in the Netherlands and across the EU, by work contract type between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



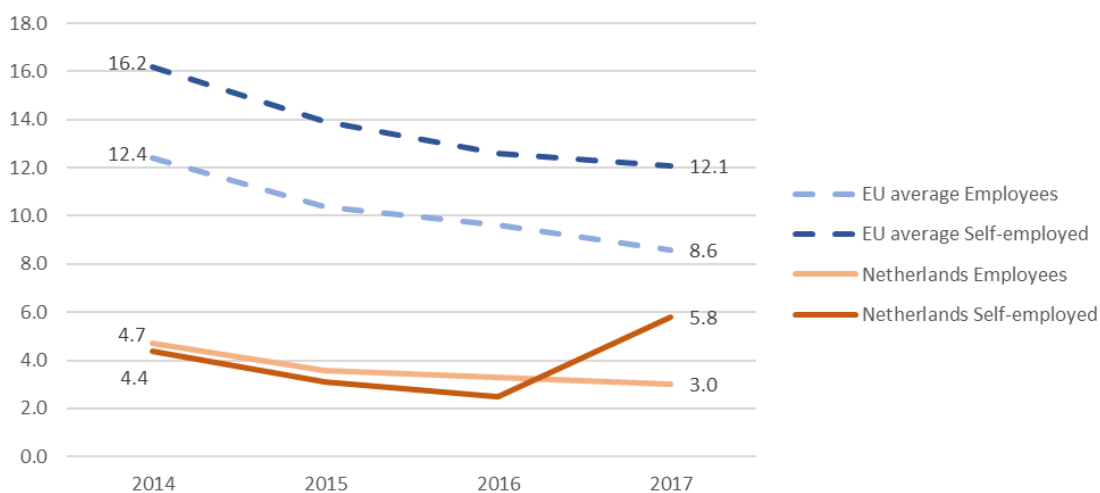
**Figure 12. In-work poverty rate (%) in the EU, by work intensity between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 13. In-work poverty rate (%) in the Netherlands, by work intensity between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 14. Level of material deprivation<sup>38</sup> (%) in the Netherlands and the EU, by employment status between 2014 and 2017 (source: Eurostat, ilc\_iw01)**



<sup>38</sup> The material and social deprivation rate (MSD) is the proportion of people lacking at least five out of the 13 items in the following set:

- **household level:** can cope with unexpected expenses; can afford a one-week annual holiday away from home; can avoid arrears; can afford a meal with meat, chicken or fish every second day; can afford to keep the home adequately warm; have access to a car/van for personal use; and can replace worn-out furniture);
- **personal level:** can replace worn-out clothes; have two pairs of properly fitting shoes; can spend a small amount of money each week on themselves; have regular leisure activities; get together with friends/family for a drink/meal at least monthly; have an internet connection.



**European Social Policy Network (ESPN)**

**ESPN Thematic Report on  
In-work poverty**

**The Netherlands**

**2019**

*Adriaan Oostveen*



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## Summary

In this Thematic Report, the issue of in-work poverty<sup>1</sup> in the Netherlands is explored. Our analysis draws mainly on EU-SILC (European Union Statistics on Income and Living Conditions) data, complemented with national data. Compared with the EU average, the level of in-work poverty in the Netherlands is relatively low. However, it increased from 4.6% in 2012 to 6.1% in 2017. During the same period the EU average rate also increased, though by slightly less (from 8.9 to 9.4%). A study by the Netherlands Institute for Social Research (*Sociaal en Cultureel Planbureau*, SCP), which looks at absolute rather than relative poverty, shows a slight decrease between 2013 and 2015 (from 4.7% to 4.5%).

In-work poverty was far more common in 2017 among the self-employed (especially those without employees), at 16.7%, and among employees with temporary contracts. Also, people who worked part time were more often poor (6.7%) than full-time workers (4.3%), although this difference was far less prominent in the Netherlands than in the EU as a whole. Moreover, in recent years we have seen an increase in the level of in-work poverty among these vulnerable groups. Important drivers for the increase in in-work poverty are the increase in the share of self-employed and flexible workers, limited wage increases in recent years and low work intensity (especially during the economic crisis).

Different policies at the national and local level have a direct or indirect impact on the prevalence of in-work poverty. The most important direct policy effect is the statutory minimum wage. This of course does not cover the self-employed, who are also not protected against the risks of sickness and unemployment: they do, however, enjoy several tax advantages, which means they pay less income tax. Finally, municipalities offer income support both to employees and self-employed workers with income from work that is below social assistance level. Under certain conditions, social assistance recipients may keep up to 25% of their earnings from work, for up to six months. This is the only in-work benefit in the Netherlands. Overall, municipalities have limited influence on poverty and they are also not always able to reach the people in need of help. Indirect policy effects include various types of benefits and allowances meant to cover costs such as those for housing, healthcare and childcare. Applying for these benefits, and informing the government about income changes, can, however, be complex. Finally, the extent to which various social transfers help to reduce poverty has decreased in recent years.

In 2018, the government announced several measures to combat in-work poverty that are to be implemented in 2019. Firstly, tax reductions will lead to increased net incomes. Secondly, the government aims to combat bogus self-employment and to impose minimum hourly rates for this group. There has also been some public debate on obliging the self-employed to insure themselves against the risk of sickness, but the minister of social affairs has opted against this. Finally, a new draft law is aimed at reducing the gap in social protection between people on temporary and permanent contracts. However, this is primarily aimed at job security and not at work intensity or hourly wages/income. Hence, it is not expected to contribute much to combating in-work poverty.

Several recommendations can be made to reduce in-work poverty in the Netherlands:

- ensure adequate minimum income protection for the self-employed
- focus on increasing households' work intensity
- provide help to people to meet the costs of childcare
- improve the balance between permanent employment and flexible labour.

Overall, the EU-SILC indicator – combined with two national indicators from Statistics Netherlands (*Centraal Bureau voor de Statistiek*, CBS) and SCP – provides an adequate

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<sup>1</sup> For ease of reading, we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

basis for monitoring trends in in-work poverty. The two national indicators complement the EU-SILC indicator, in the sense that they are based on an absolute income threshold, rather than a purely relative threshold.

# 1 Analysis of population at risk of in-work poverty

## 1.1 Introduction and general trend

In this thematic report, the issue of in-work poverty in the Netherlands is explored. Our analysis draws mainly on EU SILC data, complemented with national data (mainly from a recent study by the Netherlands Institute for Social Research (*Sociaal en Cultureel Planbureau*, SCP) (SCP, 2018a).<sup>2</sup> The EU-SILC definition of in-work poverty is given below.

A person is at risk of in-work poverty if they are in employment and live in a household that is at risk of poverty. A person is 'in employment' when they worked for more than half of the income reference year. Employed individuals can be waged employees or self-employed. The income reference year is the calendar year prior to the survey. A household is 'at risk of poverty' (or 'income poor') if its equivalised disposable income is below 60% of the national equivalised disposable household median income. The population covered is those aged 18-64.

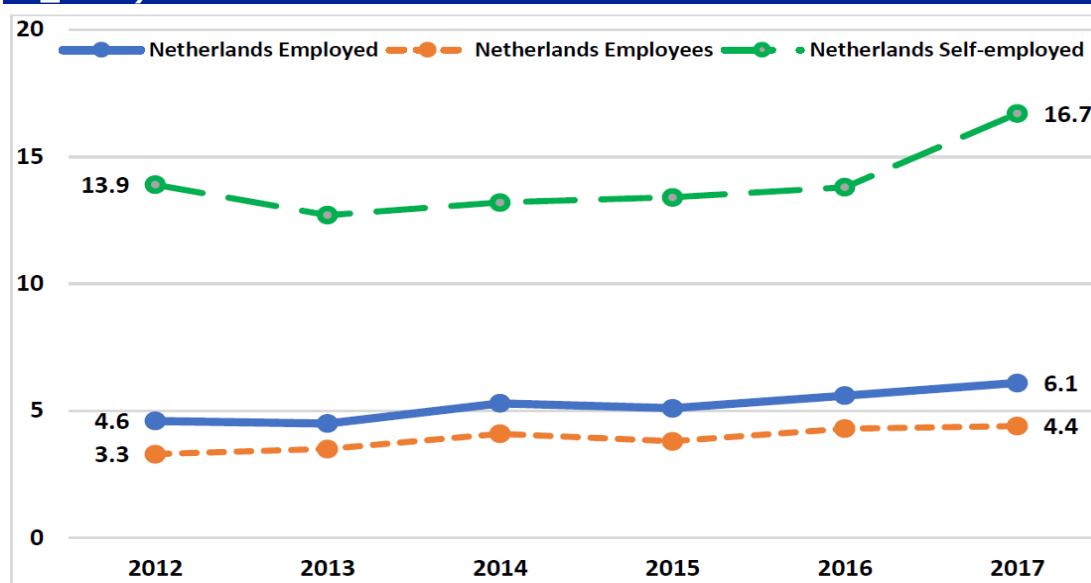
Generally speaking, paid work is seen as a way to escape from poverty. The incidence of poverty is indeed higher among non-working people than among working people in the Netherlands. However, in 2017, 6.1% of the Dutch working population were at risk of poverty (source: Eurostat, *ilc\_iw01*). Working people thus account for a substantial proportion of adults in poverty: 2 out of 5 Dutch adults living in poverty derive their main personal income from employment, and the number of working poor exceeds the number of people in poverty who are in receipt of unemployment, disability or social assistance benefit (SCP, 2016).

The percentage of people at risk of in-work poverty in the Netherlands increased from 4.6% in 2012 to 6.1% in 2017 (see figure 1). During the same period the EU average also grew, though slightly less (from 8.9 to 9.4%) (see figure 2). Compared with the EU average, the level of people at risk of in-work poverty in the Netherlands was relatively low. In 2016 the Netherlands ranked 7<sup>th</sup> in the EU on the level of in-work poverty. Only Finland, the Czech Republic, Belgium, Ireland, Denmark and Croatia had lower rates of in-work poverty.

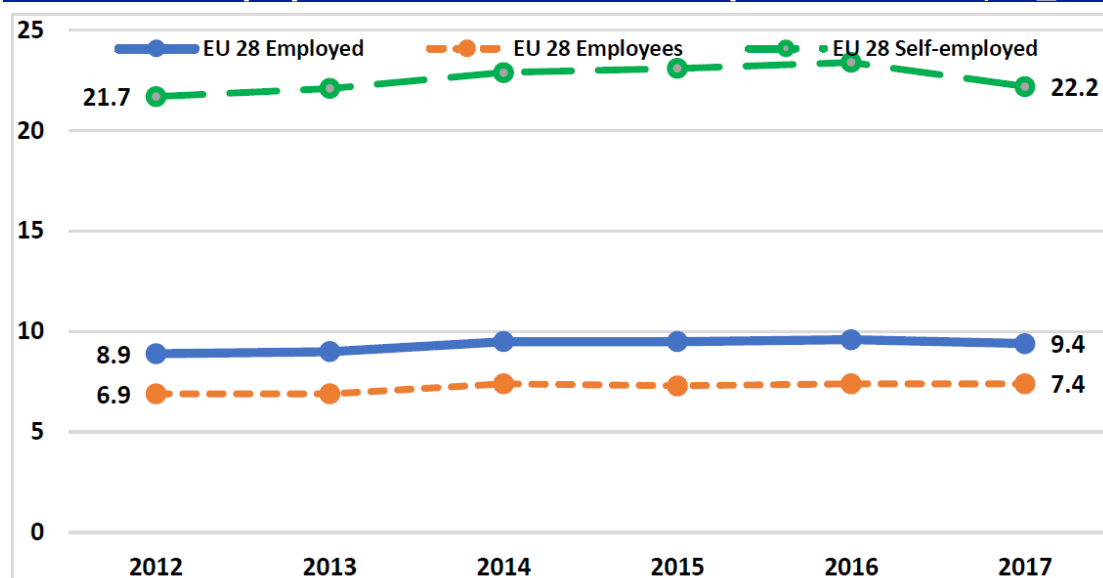
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<sup>2</sup> This study was published in October 2018. A more detailed description of this study is given in Section 4. It is important to mention that the report operationalises poverty by reference to the SCP's so-called 'modest-but-adequate' income threshold, which is based on a specific standard of living rather than a relative measure such as the at-risk-of-poverty rate used in the EU.

**Figure 1. At risk of in-work poverty (%) in the Netherlands, for the employed, employees and the self-employed between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 2. At risk of in-work poverty (%) in the EU, for the employed, employees and the self-employed between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



The SCP study on in-work poverty uses a different definition (for a detailed description, please see footnote 1). This measure is not a relative measure (like the EU-SILC indicator) but is rather based on a specific standard of living. Therefore, it better reflects changes in the economic climate.<sup>3</sup> This SCP indicator shows that the in-work poverty rate increased until 2013 (4.7%), and then fell slightly in 2014 (4.6%) and 2015 (4.5%). Please note that the value for 2015 was an estimate, as complete data were not yet available.

<sup>3</sup> When there is an economic upturn but the level of income inequality stays the same, this will not be reflected in the EU-SILC indicator of poverty: in contrast, the SCP indicator will show that more people are able to meet a certain minimum standard of living.

## 1.2 Trends: differences between groups within the Netherlands

To better understand the macro-level trends in in-work poverty, we will now examine differences between various subgroups in the population. These results are all based on EU-SILC, unless another source is explicitly mentioned.

The **self-employed** are about 3 times more often at risk of in-work poverty than people in **employment**, both in the Netherlands and in the EU (see figures 1 and 2). The trend in recent years has been comparable between the two groups, except in 2017, when there was a rather sharp increase in the risk of in-work poverty among the self-employed. The incidence of self-employment is relatively high in the Netherlands (16.7% in 2017) compared with the EU (15.5%) according to the OECD.<sup>4</sup> Hence, self-employment is a major explanation for in-work poverty in the Netherlands. The SCP study (using its own poverty definition) found that 36% of all working poor in the Netherlands were self-employed. Also, they found that in-work poverty was around 1.5 times higher for the self-employed without employees than for the self-employed with employees (SCP, 2018a; p. 26, 29). The self-employed without employees far more often have low hourly income (35%) than employees (10%) and the self-employed with employees (19%) (SCP, 2018a; p. 34). However, data show that the level of material deprivation of the self-employed in the Netherlands was very similar to that among employees up until 2016, after which there was a sudden increase among the self-employed (see figure 14 in the annex). This is contrary to the EU trend, where the level of material deprivation has consistently been much higher among the self-employed than for employees. This may indicate that the self-employed underreport their income in surveys or in their tax returns.

Generally speaking, **young people** are more often working poor than **older people** (see figure 5 in the annex). This is true both in the Netherlands and in the EU (at 10.5% and 12.5% respectively). Between 2012 and 2017, the in-work poverty rate increased most notably among young people in the Netherlands. This trend was not as marked in the EU as a whole.

Looking at **gender** differences, both in the Netherlands and in the EU, men are more often at risk of in-work poverty than women (see figure 6 in the annex). This could have to do with the fact that men are sole breadwinners in the household more often than women, and women are less often in employment than men (SCP, 2018c). Hence, working women more often live in two-earner households and hence are less likely to live in poverty. After 2013 the relative difference in the risk of in-work poverty between men and women decreased in the Netherlands to the point where in 2017, the level was higher for women than for men. This was not the case in the EU.

People with lower levels of **education** are more often at risk of in-work poverty than people with higher levels of education (see figure 7 in the annex). The relative differences between these groups are, however, much smaller in the Netherlands than they are in the EU as a whole. In recent years, the Netherlands saw a relatively strong increase in the risk of in-work poverty among the mid-level education group (from 4.2% in 2012 to 6.8% in 2017).

Considering the **country of origin**, we see that people born in the Netherlands are generally less often at risk of in-work poverty than people who were born abroad (see figure 8 in the annex). This is also true in other EU countries. However, the relative difference between these groups increased substantially in the Netherlands after 2013. In 2013 someone born in a foreign country was twice as likely to be at risk of in-work poverty than someone born in the Netherlands, and by 2017 this had increased to a factor of almost 3.

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<sup>4</sup> <https://data.oecd.org/emp/self-employment-rate.htm>

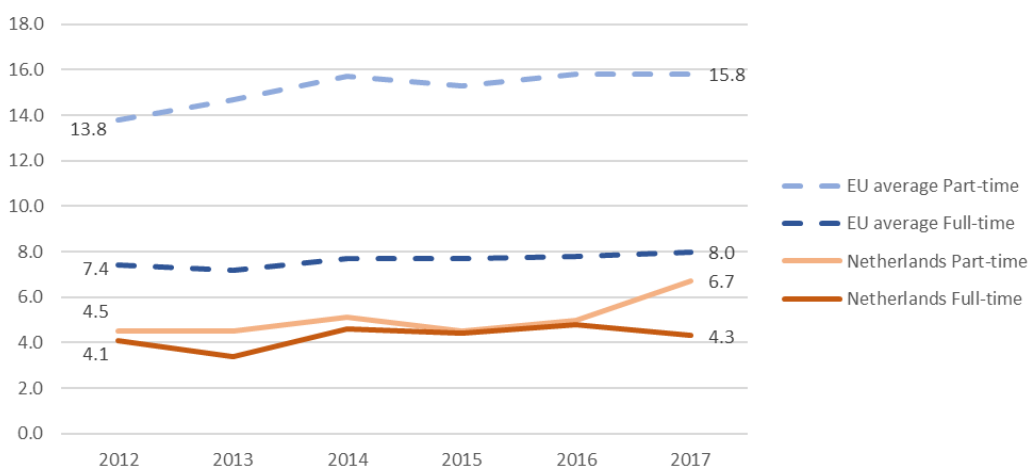
The pattern of in-work poverty as between different **household types** is similar in the Netherlands to that in the EU (see figures 9 and 10 in the annex). Single persons with dependent children show the highest risk levels of in-work poverty, followed by single persons without dependent children. Moreover, the situations of these two groups strongly worsened in the Netherlands between 2014 and 2017. In 2017, they were more likely by a factor of 3 and 2, respectively, to be at risk of in-work poverty than the national average.

Both in the Netherlands and in the EU, people in **temporary jobs** are more often at risk of in-work poverty than people in **permanent jobs** (see figure 11 in the annex). In both cases, the difference amounts to around a factor of 3. Overall, the difference between the groups remained relatively constant in the Netherlands between 2012 and 2017. Additionally, the SCP study (2018a) indicates that on-call workers have an increased risk of being poor.

People who live in households with higher **work intensity** are less often at risk of in-work poverty, both in the Netherlands and in the EU (see figures 12 and 13 in the annex). This is logical, because working fewer hours means that the household has less income from work than working full time. In the Netherlands, people living in low work intensity households are 10 times more often at risk of in-work poverty than people living in high work intensity households. After 2012 the risk of in-work poverty increased for all levels of work intensity, most notably among households with medium and high work intensity.

The patterns of in-work poverty across **part-time** and **full-time** workers are very different in the Netherlands from those at the European level (see figure 3). In the EU, people in part-time work are much more often at risk of in-work poverty than people in full-time work. Interestingly, there is almost no difference between the two groups in the Netherlands. This is most likely explained by the fact that part-time work is much more prevalent in the Netherlands than in other countries, and that part-time work is most common among two-earner households. In 2017, however, there was a rather sudden increase in the risk of in-work poverty among part-time workers relative to full-time workers.

**Figure 3. In-work poverty rate (%) in the Netherlands and across the EU, by full-time/part-time work between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



To summarise, there have been some interesting shifts in the risk of in-work poverty among various subgroups of the Dutch population in recent years. The risk of in-work poverty has increased disproportionately for middle education groups, people born abroad, single persons, people in households with low work intensity and people in temporary jobs. They are mostly the groups who already suffered higher risks of in-work poverty to begin with. Hence, the conclusion is that the increase in the risk of in-work poverty in the Netherlands as a whole is mostly concentrated among the more vulnerable



groups. A recent SCP study, which used a slightly different definition of poverty and used data up to 2014, also found that in-work poverty is higher for on-call workers.

### 1.3 Drivers and challenges

As was described previously in this section, both the self-employed and people working under temporary contracts have an increased risk of being in poverty. Data show that the share of the Dutch working population in flexible employment or self-employment increased from 30.4% in 2012 to 34.8% in 2017. This followed a steady increase from 2003 when it concerned just 21.9%. Hence, the **increase in the use of flexible employment and self-employment** is likely to be an important driver of the increase in the risk of in-work poverty. It has been estimated by the SCP that the increase in self-employment has led to an increase in the percentage of working poor by a few tenths of a percentage point (SCP, 2018a; p. 205).

In the SCP study it was concluded that there are three possible causes underlying in-work poverty: (1) low work intensity in the household; (2) a low hourly wages (and limited other income); and (3) a large household size. Analyses showed that, among households with employees, the most important factor was **low work intensity**. Increasing work intensity requires both the employee and their employer to be willing and able to do so. The SCP study showed that in 2014 31% of the working poor wanted to work more hours, up from 16% in 2006 (SCP, 2018a; p. 33). A plausible explanation for this is that during the economic crisis their employers did not have enough work for them. Among households with self-employed people, however, the SCP study found that the most important cause of in-work poverty was a **low hourly income** (SCP, 2018a; p. 30-33). As is the case with work intensity, the hourly income of the self-employed is closely linked to the economic climate and has decreased during the economic crisis (SCP, 2018a; p. 22).

Despite the currently flourishing economy and increasing tightness in the labour market, there is still **limited wage growth** (as was mentioned in the 2018 European Semester Report, see Oostveen, 2018). A recent analysis<sup>5</sup> by Rabobank pointed out that in 2017 the Dutch economy grew by 2.9%, whereas wage growth in sectors with collective agreements was only 1.4%. Because inflation was at 1.3%, there was hardly any real wage growth. Wage growth was especially limited among the low-skilled (Bakens & Fouarge, 2017) – precisely the group with an above-average incidence of poverty. Wage growth may have increased in 2018, as employers experienced difficulty finding suitable staff.

One would expect that, as a result of the **economic recovery**, in-work poverty would have stabilised (or fallen) rather than increased since 2015. The EU-SILC indicator shows an increase, but as mentioned before, as this is a relative measure of poverty it does not necessarily reflect changes in the economic climate. The SCP indicator of in-work poverty, which is based on a specific standard of living, does show a slight decrease of in-work poverty in 2014 and 2015.

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<sup>5</sup> <https://economie.rabobank.com/publicaties/2018/augustus/acht-redenen-waarom-de-lonen-achterblijven>.

## 2 Analysis of the policies in place

In this section, we will explore the various drivers of the growth in in-work poverty. We will distinguish between:

- direct effects of policies that are specifically aimed at alleviating (in-work) poverty or at the labour market; and
- indirect effects of policies that are not specifically related to the labour market or poverty but can have an effect on them.

### 2.1 Direct policy effects

#### 2.1.1 Minimum wage

One of the most obvious measures to prevent in-work poverty is the statutory minimum wage. The rates of the minimum wage are readjusted (increased) twice a year, i.e. in January and July. As at 1 July 2018, the amount for employees aged 22 or older was €1,594.20 per month.<sup>6</sup> The minimum wage (for a full-time worker) guarantees a minimum acceptable lifestyle. Unemployment benefits and social assistance benefits are linked to the minimum wage. Currently, people aged below 22 do not have the right to a full minimum wage. For instance, people aged 21 currently have the right to 85% of the minimum wage, and people aged 20 to 80% of minimum wage. This might provide part of the explanation why young people are more often working poor. As from July 2019, people aged 21 will also have the right to a full minimum wage, and the levels for people aged 18 to 20 will be increased.<sup>7</sup>

The SCP study on in-work poverty calculated to what extent the minimum wage level in the Netherlands is sufficient to live above the poverty threshold (using their own 'modest-but-adequate' definition) taking into account living expenses and other benefits and allowances. They concluded that the minimum wage is enough for a single person, a single parent with two children, and a couple without children. It is, however, not enough for a couple with two children (SCP, 2018a; p. 25).<sup>8</sup>

#### 2.1.2 Policies regarding the self-employed

As we have seen in section 1, the self-employed (most notably those with no employees) have a very high risk of being in poverty and make up a very significant portion of the working poor in the Netherlands (36%) (SCP, 2018a). Looking at social policies in place for this group, we can identify several areas where they are more vulnerable than employees.

Where employees are (partly) protected from in-work poverty by the statutory **minimum wage**, the self-employed in the Netherlands enjoy no such protection. As a result, the proportion who have an hourly income below 130% of the minimum wage is more than 6 times higher among the self-employed (27%) than among employees (4%) in the Netherlands (SCP, 2018a; p. 32).

Additionally, the self-employed enjoy less social protection than employees. Employees who are **sick** are entitled to continued payment of at least 70% of their salaries for a period of up to two years. The self-employed do not receive continued payment from their clients. They can opt to insure themselves against the risk of sickness (public or

<sup>6</sup> The gross minimum wage rates are stipulated in the provisions of the Minimum Wage and Minimum Holiday Allowance Act (*Wet minimumloon en minimumvakantiebijslag, WML*).

<sup>7</sup> <https://www.rijksoverheid.nl/onderwerpen/minimumloon/verhoging-minimumjeugdloon>.

<sup>8</sup> These calculations are based on several assumptions, such as that the household is not in debt, and has average housing expenses and allowances. In reality, many households do not meet these assumptions.

private), which grants them a benefit in case of sickness. A recent study, conducted every two years, showed that 27.2% of the self-employed have such an insurance policy (*arbeidsongeschiktheidsverzekering*, AOV) (either private or public), versus 72.8% who do not (Lautenbach et al., 2017). The most important barriers to taking out insurance are: (1) the substantial costs of AOV insurance; (2) existing health issues; and (3) having waited an extended period of time since starting self-employment (longer than 13 weeks) before taking out insurance.<sup>9</sup> The average cost of an AOV insurance is €4,050 per year, or €338 per month.<sup>10</sup>

Another important factor to consider is **unemployment**. Employees have compulsory insurance under the Unemployment Insurance Act (*Werkloosheidswet*, WW) against the financial consequences of unemployment. They receive a benefit of roughly 70% of their last earned income (up to a maximum ceiling) for up to two years. Self-employed persons, however, as they are not employees, are not insured, and cannot opt for voluntary insurance. If a self-employed worker (temporarily) does not have sufficient work, they may slide into poverty. Since 2014, the participation law (*participatiewet*) does provide temporary benefits for self-employed people who are (temporarily) facing financial difficulties for up to one year (*bijstand voor zelfstandigen*, Bbz).<sup>11</sup> However, this only supplements their income to social assistance level, and hence does not lift them fully out of poverty. Also, municipalities state that they only reach a small part of these self-employed people with financial difficulties (SCP, 2018a; p. 66).

Aside from these disadvantages of being self-employed, the Dutch tax regime offers various **tax advantages** for the self-employed. Indeed, this is often mentioned as one of the key drivers of the high prevalence of self-employment in the Netherlands. These tax advantages include:

- **self-employed tax deduction** (*zelfstandigenaftrek*): a tax deduction of €7,280 in 2017;<sup>12</sup>
- **starter's tax deduction** (*startersaftrek*): an extra tax deduction for people starting as self-employed of €2,123 in 2017;<sup>13</sup>
- **SME profit exemption** (*MKB-winstvrijstelling*): a tax credit on the profits for the self-employed of 14% in the year 2017; and
- **investment deduction** (*investeringsaftrek*): investments in assets for the business over €2,300 in a given year are partially deductible (28%).

After applying these tax advantages for the self-employed, the remaining profit is taxed using the general income tax rates that apply to all Dutch citizens. The tax advantages of the self-employed are considerable. For example, someone hypothetically starting as self-employed without employees who made a profit of €21,709 in 2017 could end up paying zero income tax in that year.<sup>14</sup> These tax advantages help reduce in-work poverty

<sup>9</sup> In order to have public insurance, the self-employed are required to insure themselves for the risk of sickness within 13 weeks after entering self-employment.

<sup>10</sup> Letter to Parliament – 26 November 2018 (b).

<sup>11</sup> The conditions are that self-employed people without employees must work at least 1,225 hours per year, that the level of income is below social assistance level, that no other means of financing are available and that the company is viable.

<sup>12</sup> Self-employed workers who make a lower figure in profits can only deduct their profits from taxes. Self-employed workers who worked fewer than 1,225 hours in self-employment in that year do not receive the self-employment tax deduction.

<sup>13</sup> This applies if the self-employed person, during the previous five years, was not active as self-employed during at least one year and used their self-employed tax deduction no more than twice.

<sup>14</sup> Based on calculations for 2017 of the following source:

<https://www.ikwordzzper.nl/blogs/geeninkomstenbelasting-tot-een-winst-van-21-107>.

among the self-employed. Data from CBS show that in the year 2014 almost 40% of the self-employed without employees ended up paying zero income tax.<sup>15</sup>

### 2.1.3 Municipal policies

Municipalities in the Netherlands are responsible for social assistance policy and for providing various types of cash benefits and in-kind support to people in poverty. In the SCP study (2018a), municipal policies aimed at the working poor were analysed. The results showed that most municipalities devote little attention to policy specifically aimed at the working poor, assuming that the existing arrangements (such as care or rent allowances) can help everyone with a low income, including those in work. Policies aimed at the working poor are generally aimed at helping people on social assistance who work part time and do not have sufficient income. Their income is supplemented to social assistance level (in 2016, this was €973 for a single person). Also, municipalities may provide extra financing for daycare for children to help parents work more hours. The working poor who do not receive social assistance generally remain off the radar of municipalities. If their situation remains unnoticed for a long period of time, and they do not make use of the available types of support (such as the various allowances), their financial situation can worsen over time, possibly leading to problematic debts. Municipalities do have policies aimed at assisting people in debt, including early signalling of problems with the payment of rent, utilities and health insurance. Although this policy does not combat poverty directly, it can contribute to reducing financial problems for people in poverty.

Aside from social assistance, municipalities offer various cash and in-kind benefits for people in poverty, including the working poor. If a person living in poverty faces high incidental expenses (such as having to buy a new washing machine), they can receive an incidental benefit to cover this (*bijzondere bijstand*). Also, people in poverty may be exempt from paying local levies and taxes and can often receive discounts on public transportation, sports and cultural activities. Finally, in 2017, the government provided €86 million to municipalities to combat poverty among children, mostly through in-kind provision such as participation in sports and cultural activities, birthday presents, and books.<sup>16</sup> A study by the SCP (2017) has shown that around 180,000 to 220,000 children with working parents live in poverty, which concerns 50 to 60% of all children living in poverty in the Netherlands. Hence, these in-kind provisions for children also target children with working parents.

Overall, though, municipalities state that their ability to combat poverty is limited. In their opinion, the level of poverty is primarily the result of national policies. Municipalities focus mostly on correcting the negative impact of national policies at the local level (SCP, 2018a; p. 72).

### 2.1.4 In-work benefits

In-work benefits, as defined by the OECD, are welfare schemes designed to provide an income supplement to needy families or individuals on the condition that they work. They are a specific type of 'make work pay' policy. As was mentioned under 'Municipal policies' (above), municipalities supplement the income of people who earn too little from work up to social assistance level under the participation law (*participatiewet*). This means that, as the income of the person grows, the supplementary benefit decreases by an equal amount. There is an exception; since 2016 recipients who work part time may keep 25% of the income from work, up to a maximum of €196 per month (as of 2019 this has been adjusted to €209) for a duration of six months, under certain conditions. The two main

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<sup>15</sup> <https://www.volkskrant.nl/nieuws-achtergrond/cbs-4-op-de-10-zzp-ers-betalen-geen-inkomstenbelasting-~b878b731/>.

<sup>16</sup> Letter to Parliament – 20 September 2016.

conditions are that it only applies to people who have received social assistance for at least one year, and that the person has to work for at least 10 hours per week.<sup>17</sup> The maximum duration of six months does not apply to people who are past the statutory retirement age and people who cannot work full time for medical reasons.

## 2.2 Indirect policy effects

### Complex system of benefits and allowances

There are many kinds of benefits and allowances at national level that help alleviate poverty in general. Examples are rent allowance, healthcare allowance, child benefits and child-related budgets. Some of these allowances are partly aimed at increasing labour market participation of working people with children.

- **Childcare allowance:** formal childcare is jointly financed by the national government, employers and parents. The government's financial support goes directly to the parents in the form of childcare allowance. Childcare allowance is linked to the number of hours worked by the parent with the fewest working hours, and to the household income.
- **Income-dependent combination tax credit:** parents who have an income from work above €5,000 annually can receive a tax credit of €1,052 or more.

These benefits and allowances can help prevent in-work poverty for people with children, because they lower the net costs of childcare (specifically for people with low incomes) and increase household income. However, one must apply for these allowances, which can be difficult for certain people. And because there are many different allowances, the system is quite complex. Furthermore, these allowances are often paid as an advance, and if the income changes during the year then part of any allowance received may have to be recovered. This can in turn cause people to go into debt (SCP, 2018a; p. 72-73).

### Poverty-reducing impact of social transfers

According to the social scoreboard supporting the European pillar of social rights, the poverty-reducing impact of social transfers (excluding pensions) in the Netherlands fell considerably in 2016 and 2017 relative to 2015. This indicator is calculated as the relative difference in the at-risk-of-poverty rate before and after social transfers (excluding pensions), in percentage terms. Looking more closely, we see that the at-risk-of-poverty (AROP) rate before transfers remained largely constant (at around 22%), but after transfers it increased (from 11.6% in 2015 to 13.2% in 2017). This implies that there was less redistribution from higher-income groups to middle- and lower-income groups resulting from social transfers. Possible explanations are that: (1) expenditure on unemployment benefits decreased due to lower unemployment rates; and (2) the depth of poverty increased, making it increasingly difficult for social transfers to lift people out of poverty. For a more detailed analysis of this, please refer to our 2018 European Semester Report.

## 3 Policy debates, proposals and reforms on in-work poverty and recommendations

### 3.1 Policy initiatives to combat in-work poverty

As is described in section 2 of this report, there are several policies (both at national and local levels) that have a direct or indirect effect on in-work poverty. The measures to combat poverty announced in the Dutch National Reform Programmes are primarily aimed at reducing poverty and combating debt in general, and at helping unemployed or

<sup>17</sup> <https://zoek.officielebekendmakingen.nl/qmb-2016-66660.html>.

inactive people into employment as a means to exit poverty. Few of these measures are targeted specifically at preventing in-work poverty. Hence, the Dutch policy agenda in recent years seems to have devoted little attention to the specific problem of in-work poverty. The working poor were mentioned as a target population for initiatives in fighting poverty and debt in the Dutch National Reform Programmes for 2013 and 2014. This resulted in several measures, including increasing the working tax credit and increasing awareness about municipal benefits for the self-employed (Bbz).<sup>18</sup>

The most important policy measure in place to prevent in-work poverty is probably the minimum wage. However, this measure has been in place since 1968. Since 2012, there have been no notable policy initiatives specifically aimed at reducing in-work poverty.

An important topic of public debate that affects the level of in-work poverty is wage levels. Although there has been a considerable economic recovery over the last few years, we have seen a very limited increase in wage levels. Taking inflation into account, there has hardly been any real wage growth, especially among the low-skilled (Bakens & Fouarge 2017) – which is precisely the group with an above-average incidence of poverty. The government is very much in favour of higher wage growth and has often stated that all citizens should benefit from the current economic prosperity (*Miljoenennota 2019*; p. 47). However, wage growth is not primarily a policy issue; it is determined by the social partners and individual employers.

### 3.2 On-going and planned reforms and policy debate among stakeholders

#### 3.2.1 General tax reforms

Following the recent publication of the SCP study on in-work poverty (2018a), the state secretary responded in a letter to parliament.<sup>19</sup> She recognised the results of the study, and emphasised the government's concern and commitment to combat in-work poverty. To achieve this, the government will reduce the taxation on labour and increase the general tax credit and working person's tax credit. This means that working will be more financially worthwhile. Also, healthcare allowances and child benefits will be increased.

On a critical note, the first two measures announced in the coalition agreement were accompanied by an increase in value added tax (VAT). This represents a (partial) shift from taxing labour to taxing consumption. Hence, lower income taxation and increased tax credits will be partially offset by increased costs of living. Additionally, most of the measures mentioned above (all except healthcare allowances, which are means-tested) are universal rather than targeted specifically at the (working) poor. Although the working poor will benefit from them, this will probably not be reflected in the relative indicator of poverty used in EU-SILC.

The state secretary also referred to measures that were recently announced on protecting the self-employed in a vulnerable position, which are described below.

The Federation of Dutch Trade Unions (*Federatie Nederlandse Vakbeweging*, FNV) has responded to the recent SCP study on in-work poverty by expressing their concern about the increase in in-work poverty, especially among vulnerable groups. They in turn announced that they will demand more permanent contracts, higher wage growth and higher hourly rates for the self-employed.<sup>20</sup>

<sup>18</sup> Letter to Parliament – 25 November 2013.

<sup>19</sup> Letter to Parliament – 8 November 2018 (a, b).

<sup>20</sup> <https://www.fnv.nl/sector-en-cao/alle-sectoren/flex/nieuws/fnv-reactie-op-scp-rapport-als-werk-weinig-opbrengt>.



### 3.2.2 Policy reforms aimed at the self-employed

In a recent letter to parliament, the minister of social affairs and employment announced that several reforms were being worked out to protect the self-employed in a vulnerable position.<sup>21</sup>

The aim is firstly to combat 'bogus self-employment', which is defined by the minister as: "working people who according to the law should have an employment contract and should be treated as employees in relation to taxes and social security, but who are currently treated as self-employed". The minister aims to combat bogus self-employment by regulating the use of the status of 'self-employed worker', which requires making a clear distinction between self-employed workers and (de facto) employees. Previous measures to achieve this have been unsuccessful. Currently, the minister aims to implement a new instrument (a web-module) to distinguish employment relationships from services provided by self-employed people without personnel. It is important that this instrument gives certainty in advance to the client hiring a self-employed person about whether the service delivered is labelled as an employment relationship or not. If this is not clear in advance, clients will be hesitant to hire self-employed people because they fear that they will later be forced to pay for their social protection. The instrument will look at whether the client has 'authority' over the self-employed worker.<sup>22</sup> This needs to be defined carefully, in order for the instrument to function properly and to prevent fear and uncertainty among clients about hiring self-employed workers. In December 2018, a guideline on determining the 'authority' was published, which consisted of the following four main elements.<sup>23</sup> The web-instrument is scheduled to be finished by the end of 2019.<sup>24</sup>

1. **Instruction and supervision:** if the client can give specific instructions on how tasks should be done, this indicates authority. Conversely, if the worker can decide freely how work is carried out, as long as it meets specified results, this contraindicates authority.
2. **Comparability with employees:** if the relationship between the client and the worker is similar to the relationship between the client and other employees, this indicates authority. Examples are having appraisal interviews, carrying out the same type of work and working under the same rules and guidelines.
3. The extent to which the worker is free to decide on **working times, location, materials and tools**. This is a contraindicator of authority.
4. If workers **present themselves as part of the client's company**, by means of uniforms or company cars with their logos, this indicates authority.

In addition, the minister is planning to impose a minimum hourly rate for self-employed workers below which an employment contract is compulsory,<sup>25</sup> so as to protect self-employed workers who are in a vulnerable position. However, working out this measure is proving to be challenging. The hourly rates of self-employed workers cannot simply be compared with hourly wage levels to determine the minimum hourly rate. After all, hourly rates not only consist of labour costs but also cover material costs, travel costs, costs for equipment etc. Following a study of how self-employed workers determine their hourly rates, the minister proposes a minimum hourly rate between €15 and €18 per hour.<sup>26</sup> A more pressing issue is that labelling a service relationship as an employment

<sup>21</sup> Letter to Parliament – 22 June 2018.

<sup>22</sup> <https://nl.wikipedia.org/wiki/Gezagsverhouding>.

<sup>23</sup> [https://www.belastingdienst.nl/bibliotheek/handboeken/html/boeken/HL/bijlagen-beoordeling\\_gezagsverhouding.html](https://www.belastingdienst.nl/bibliotheek/handboeken/html/boeken/HL/bijlagen-beoordeling_gezagsverhouding.html).

<sup>24</sup> Letter to Parliament – 26 November 2018 (a).

<sup>25</sup> Two more conditions apply; there has to be a long period of work involved, and the self-employed worker needs to be carrying out 'regular work' that would normally be done by an employee.

<sup>26</sup> Letter to Parliament – 26 November 2018 (a).

relationship is in breach of EU labour law, because it can be seen as a limitation on the free movement of labour and freedom of establishment in the EU. The government has had contact with the European Commission regarding this matter. It seems that this will prevent the minimum hourly wage from being implemented, at least for the time being.<sup>27</sup>

If the minister succeeds in combating bogus self-employment and imposing minimum hourly rates, this may contribute to reducing in-work poverty among the self-employed. As we have seen in section 1, the major driver of in-work poverty among the self-employed is a low hourly income. However, there are mechanisms that could prevent this measure from reducing in-work poverty among the self-employed. For instance, if the measures were to lead to a decline in demand for services provided by the self-employed, this would cause more in-work poverty among them in the short term. Of course, if they then moved into employment, they would have better social protection in the long term. Also, self-employed workers may be pressured by their contractors to work extra unpaid hours, to compensate for the higher hourly rate. This would mean that the higher hourly rate would not translate into a higher income.

Trade unions are generally in favour of minimum rates, because they prevent unfair competition between employees and the self-employed without employees.<sup>28</sup> Employers' organisations, and specially organisations representing the self-employed, were initially against the proposed measure to impose minimum hourly rates, because it interferes with their freedom to conduct a business. However, the major employers' organisation (VNO-NCW) and an organisation representing the self-employed (PZO), have agreed to the proposed measure, because it can help solve in-work poverty among certain self-employed people.<sup>29</sup>

### 3.2.3 Policy debate on insurance for the self-employed

As was mentioned in section 2, the majority of the self-employed (72.8%) do not have sickness insurance (Lautenbach et al., 2017). The most important barrier to taking out insurance is the substantial costs involved. In recent years, there has been a lot of debate about whether the self-employed should be obliged to insure themselves. Trade unions have argued in favour of such an obligation, and they were recently joined in this by a major employers' organisation (AWVN).<sup>30</sup> In a recent letter to parliament, the minister stated that a broader debate is being held on future labour law, social security and taxation.<sup>31</sup> The risk of sickness and incapacity to work is part of this broader debate, for which an independent commission of experts has been formed. As a result, the minister will not address the issue of compulsory insurance for the self-employed at this moment. He does, however, aim to increase the percentage of the self-employed that have voluntary insurance. To achieve this, a new programme called 'promoting choice behaviour' will be initiated, which will draw upon behavioural knowledge to encourage the self-employed to insure themselves.

Another issue is that older self-employed workers are sometimes turned down by insurers (especially those in hazardous occupations), because their risk of becoming incapacitated for work is too high.<sup>32</sup> The minister sees no reason to intervene in this, because it would cause insurance premiums to become too high. Instead, he stresses that policies should be aimed at reducing risk in hazardous occupations.

### Policies aimed at employees: flexible vs permanent contracts

<sup>27</sup> Letter to Parliament – 26 November 2018 (a).

<sup>28</sup> <https://nos.nl/artikel/2160454-vakbonden-tariefafspraken-voor-zzp-er-moet-kunnen.html>

<sup>29</sup> <https://www.zipconomy.nl/2018/01/vnoncw-en-pzo-voelen-toch-iets-voor-minimumtarief-zzp/>

<sup>30</sup> <https://www.trouw.nl/home/werkgevers-ook-zzp-er-moet-zich-verplicht-verzekeren-tegen-arbeidsongeschiktheid~a1e8ceaf/>

<sup>31</sup> Letter to Parliament – 26 November 2018 (b).

<sup>32</sup> Letter to Parliament – 26 November 2018 (b).



On 7 November 2018 the minister of social affairs and employment sent a draft law to parliament named the Act on a Balanced Labour Market (*Wet Arbeidsmarkt in balans*, WAB). This law contains a series of measures aimed at reducing the gap between permanent and flexible contracts. As the minister states, employers should base their decision on whether to use permanent or flexible contracts on the nature of the job rather than solely on cost considerations. Also, the negative effects of using flexible contracts should be limited or taxed. The proposed law therefore:

- makes permanent contracts less permanent/costly, by increasing the possibilities for probation periods, making dismissal easier and less costly and reducing employers' contributions for unemployment insurance for employees on permanent contracts;
- makes flexible contracts less flexible/attractive, by improving the legal position of on-call workers, preventing unfair competition through payrolling<sup>33</sup> and increasing employers' contributions for unemployment insurance for employees on temporary contracts.

The minister does not necessarily view the use of flexible contracts as a problem. In his view, it should be possible for employers to consciously opt for flexible contracts to be able to respond to changing market circumstances. Therefore, the maximum period during which someone can work on temporary contracts will be extended from two to three years.<sup>34</sup> This could in fact lead to an increase in the use of temporary contracts. For more information on the views of the social partners on this issue, please refer to our recent Flash report on the Act on a Balanced Labour Market.

Although the Act on a Balanced labour Market may improve social protection for some vulnerable groups (such as on-call workers), it may also lead to more use of temporary contracts. Also, it is primarily aimed at job security and not so much at work intensity or hourly wages/income. Hence, it is not expected to contribute much to combating in-work poverty.

### 3.3 Possible improvements in policy to combat in-work poverty

In the recent SCP study on in-work poverty (2018a), several considerations for national policy are set out.

- **Ensure adequate minimum income protection for the self-employed.** To combat in-work poverty, all workers must be able to earn at least above the poverty threshold for a single person. The statutory minimum wage ensures this for employees, but not for self-employed workers. A minimum hourly rate could provide a solution. As is described in section 2.2, the government is currently drafting legislation to make it possible for self-employed workers without employees who work below a certain hourly rate to be treated as employees. However, this is proving to be difficult, as it is in conflict with EU law.
- **Focus on households' work intensity.** Where people work part time or are unemployed for part of the year, single people and couples can fall below the poverty line. This warrants a policy focus on: (1) promoting full-time employment for single persons; and (2) encouraging higher work intensity among couples, especially if their hourly pay rate is low.

<sup>33</sup> In the Netherlands, payrolling often refers to contractor payrolling, which is when a company outsources the employment and payroll of pre-identified or self-sourced temporary or contract labour.

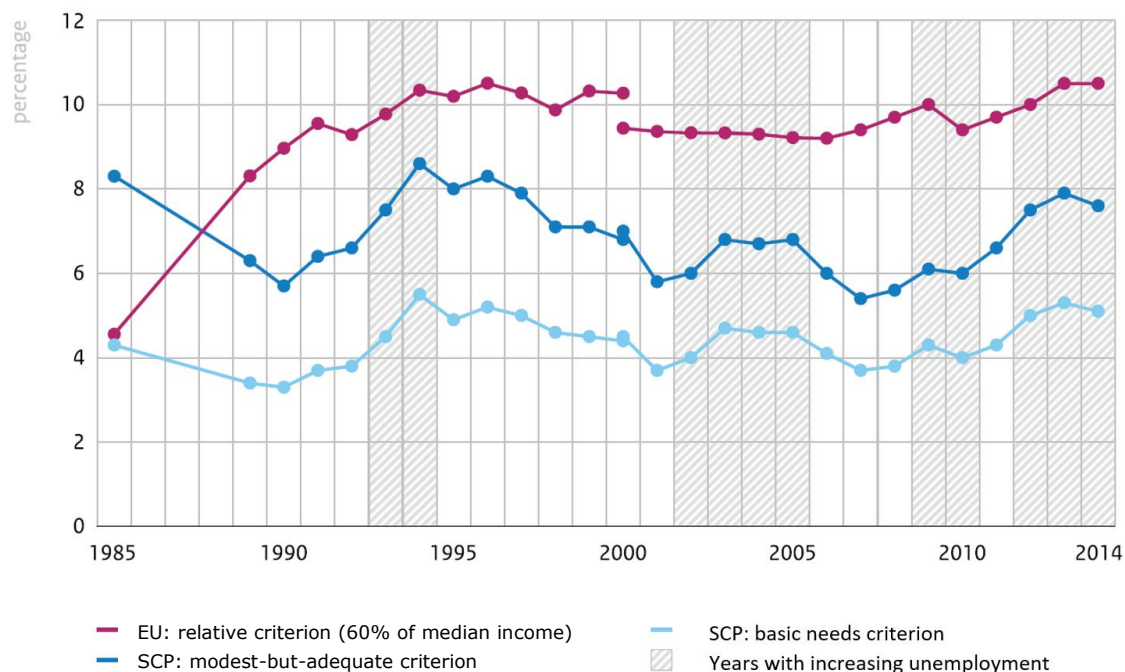
<sup>34</sup> This was in fact already the case until 2014. With the enforcement of the Act on Work and Security (*Wet Werk en Zekerheid*, Wwz) on 1 January 2015, the maximum period during which employers were allowed to hire employees on temporary contracts was reduced from three years to two years. In doing so, the former minister of social affairs and employment aimed to promote the use of permanent contracts. However, this measure is currently being reversed.

- **Focus on the costs of children.** An adequate minimum income for a single person may not be enough to reduce poverty in the entire household. If there are children, the number of unavoidable and highly desirable expenditure items increases. A possible solution is to provide more help to parents to meet the costs of children, particularly for working single-parent families and couples with large families. Germany and Denmark perform better in this respect than the Netherlands.
- **Improve the balance between permanent employment and flexible labour (self-employment, involuntary part-time or temporary work, and people with atypical contract forms).** People in self-employment and on atypical contracts have far higher rates of in-work poverty than employees with permanent contracts. Policy measures could focus on: (1) promoting the use of permanent contracts rather than flexible employment; or (2) better social protection for people in flexible employment. The current Act on a Balanced Labour Market may provide some extra social protection to certain groups (such as on-call workers) but will probably also lead to more use of temporary contracts. Also, the social protection of those on permanent contracts will be reduced slightly. Therefore, appropriate fine-tuning is required.
- **Avoid 'waterbed effects' as a result of policy action.** Policy aimed at reducing in-work poverty could potentially lead to more poverty among those not in work, as a result of lower labour demand and discouraged workers.

## 4 Assessing data and indicators

The most important national study of in-work poverty was published in October 2018 by the SCP (SCP, 2018a). The study was based on national register data up to 2014, combined with interviews among 20 local municipalities. It is important to mention that the report operationalises poverty by reference to the SCP's so-called 'modest-but-adequate' income threshold. This income level is based on a certain basket of expenditure needed for a reasonable standard of living, including highly desirable things such as short vacations and membership of a sports club. For a single person in 2014, this amounted to €1,063 per month; for a couple with two children it was €2,000 per month. By comparison, the Dutch poverty threshold based on the EU-SILC AROP indicator in 2014 was slightly lower at €940 per month for a single person and €1,975 for a couple with two children.<sup>35</sup> The opinion of the SCP is that their indicator measures poverty better because it is based on a specific standard of living, and that a relative measure such as the at-risk-of-poverty rate used in the EU is instead a reflection of inequality. Figure 4 shows that the SCP's indicator generally shows a lower poverty rate, but better reflects economic developments.

**Figure 4. Poverty rate in the Netherlands, entire population, between 1985 and 2014 (source: EU-SILC/ECHP and SCP indicators)**



However, the SCP report also uses the EU-SILC indicator of poverty (AROP) in order to make a cross-country comparison of the prevalence of in-work poverty. Hence, both indicators have their own merits. The EU-SILC indicator enables international comparisons, whereas the SCP indicator allows us to look more closely at how economic circumstances can cause hardship among the working population in absolute terms.

The 2018 SCP report provides a rich insight into the problem of in-work poverty and its drivers, because it is based on more exhaustive administrative data. Prior to this report, no such comprehensive study existed. The SCP carries out a study on poverty in the Netherlands every two years, which is published as a concise digital publication supported by some statistics. The most recent study was published in November 2018

<sup>35</sup>

<https://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tessi014&language=en>.

(SCP, 2018b). There is a section devoted to in-work poverty, where the poverty rate is shown by group (e.g. self-employed, employees), but this information is not very detailed.

CBS offers many statistics and indicators via the online portal *CBS Statline*. One of them is the risk of poverty, based on their own 'low income threshold'. This indicator reflects a certain level of purchasing power based on an income level called the 'social minimum', slightly above social assistance level. This is indexed to take into account price fluctuations over time (CBS, 2018). The poverty rates are calculated based on register data. Up until 2009 the results were based on samples of around 2 million households, and starting from 2010 they include all Dutch citizens. In 2016, the low income threshold was €1,030 per month for a single person. By comparison, in the same year the social assistance level was €973 for a single person, and the minimum wage was €1,525. Through the online portal *CBS Statline*, users can generate tables using this indicator, disaggregated by household characteristics such as the main source of income, household composition, age and gender of the main breadwinner, country of origin and house rental/ownership. The data are available for the years 2011 up to 2017. This provides quite a good basis to study trends in in-work poverty over time and between groups. Based on this indicator, CBS publishes an annual report called 'Poverty and social exclusion' (*Armoede en sociale uitsluiting*).

Overall, the EU-SILC indicator (at risk of in-work poverty) – combined with the two national indicators from CBS and SCP – provides an adequate basis for monitoring trends in in-work poverty. The two national indicators complement the EU-SILC indicator, in the sense that they are based on an absolute income threshold, rather than a purely relative threshold. Additionally, the material and social deprivation (MSD) rate sheds extra light on people's living conditions.<sup>36</sup> This is less suitable for making cross-country comparisons (because it depends heavily on the welfare level in a country) but can be useful for analysing differences between groups within countries. It is worth noting that, over time, some elements of the MSD may become unsuitable for measuring poverty.<sup>37</sup>

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<sup>36</sup> The material and social deprivation (MSD) rate is the proportion of people lacking at least five out of the 13 items in the following set:

- **household level:** can cope with unexpected expenses; can afford a one-week annual holiday away from home; can avoid arrears; can afford a meal with meat, chicken or fish every second day; can afford to keep the home adequately warm; have access to a car/van for personal use; and can replace worn-out furniture);
- **personal level:** can replace worn-out clothes; have two pairs of properly fitting shoes; can spend a small amount of money each week on themselves; have regular leisure activities; get together with friends/family for a drink/meal at least monthly; have an internet connection.

<sup>37</sup> For instance, having access to a car is becoming less relevant for people living in heavily urbanised areas with good public transportation, and a growing number of people in the Netherlands are consciously opting not to eat meat or fish for environmental reasons.

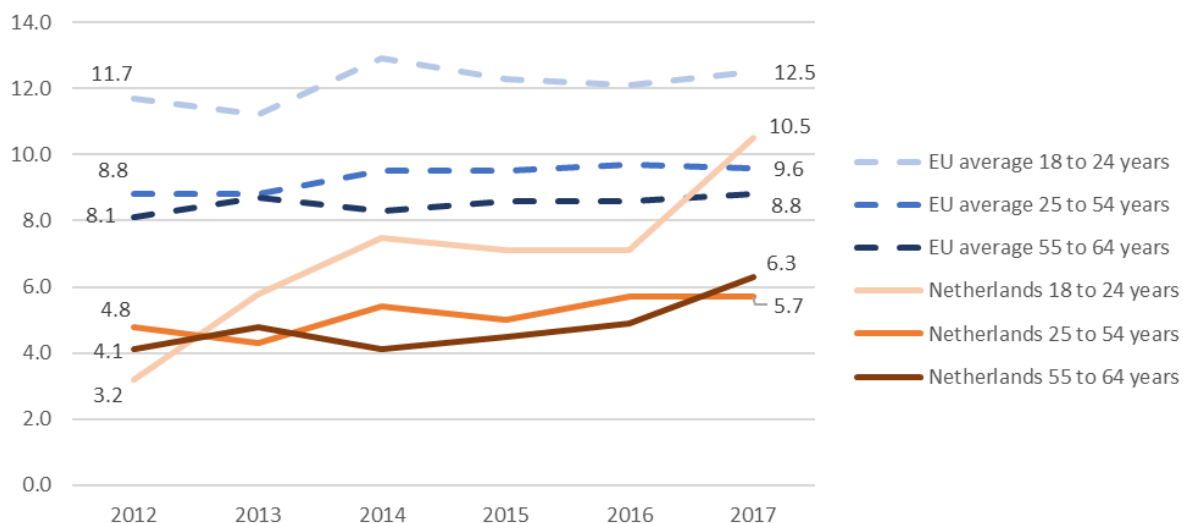
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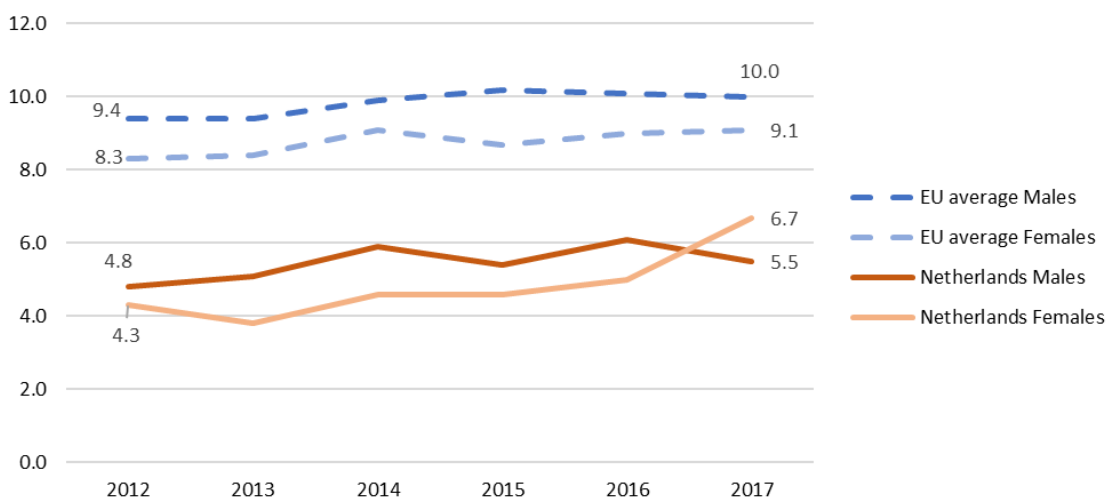
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## Annex

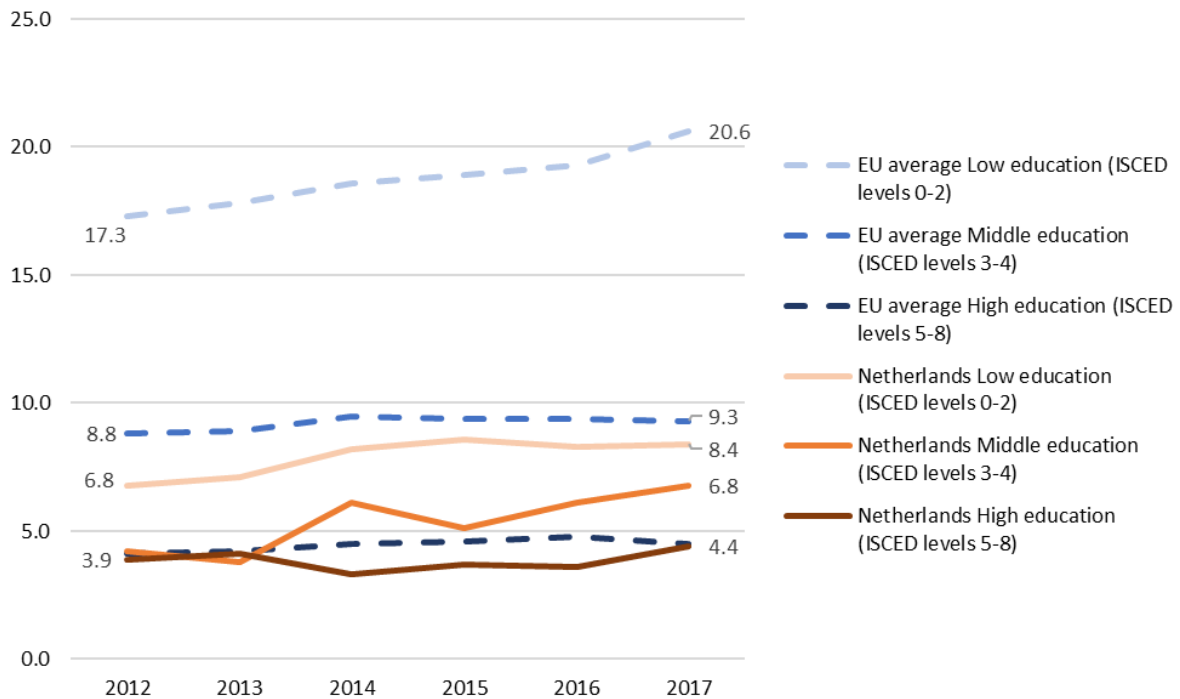
**Figure 5. In-work poverty rate (%) in the Netherlands and in the EU, by age group between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



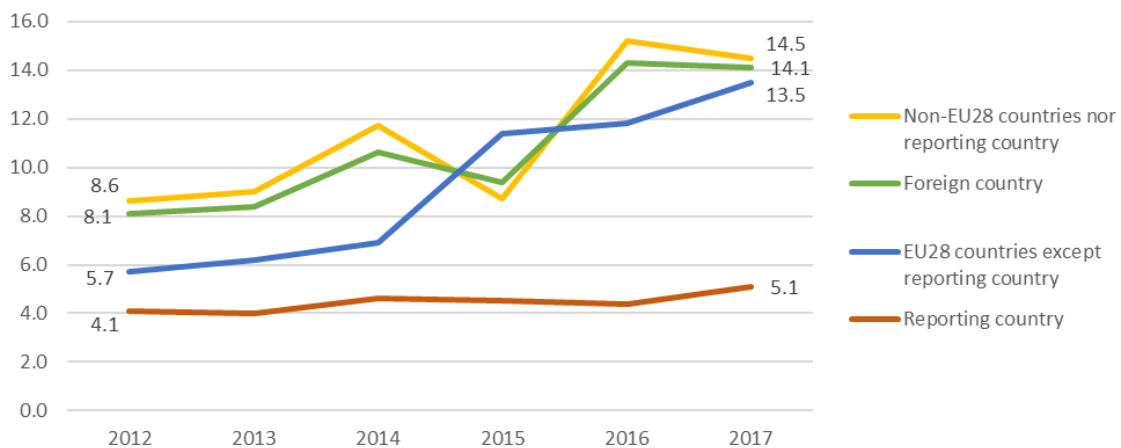
**Figure 6. In-work poverty rate (%) in the Netherlands and across the EU, by gender between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 7. In-work poverty rate (%) in the Netherlands and across the EU, by level of education between 2012 and 2017 (source: Eurostat, ilc\_iw01)**

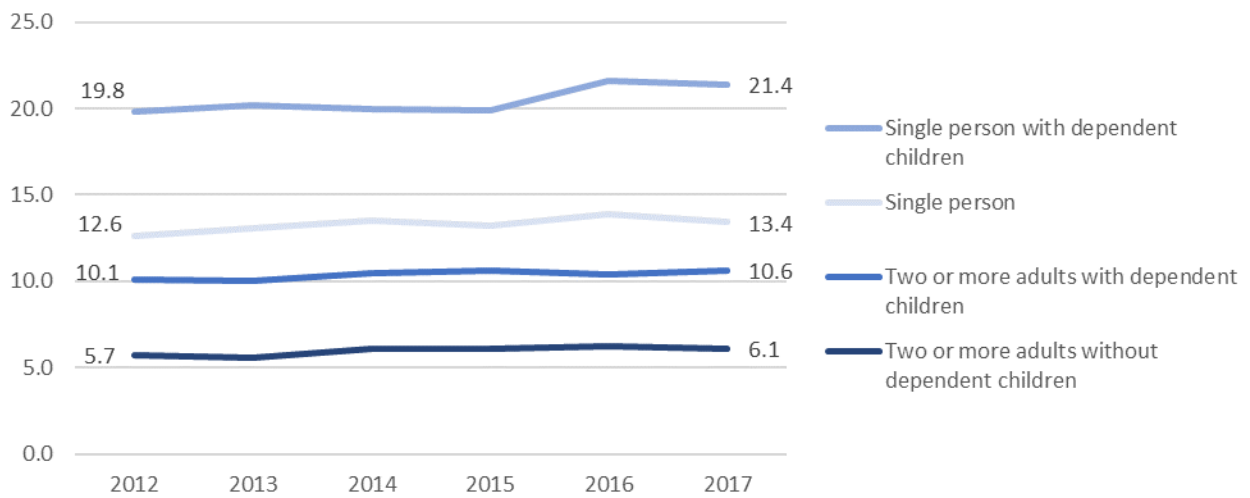


**Figure 8. In-work poverty rate (%) in the Netherlands and across the EU, by country of birth between 2012 and 2017 (source: Eurostat, ilc\_iw01)**

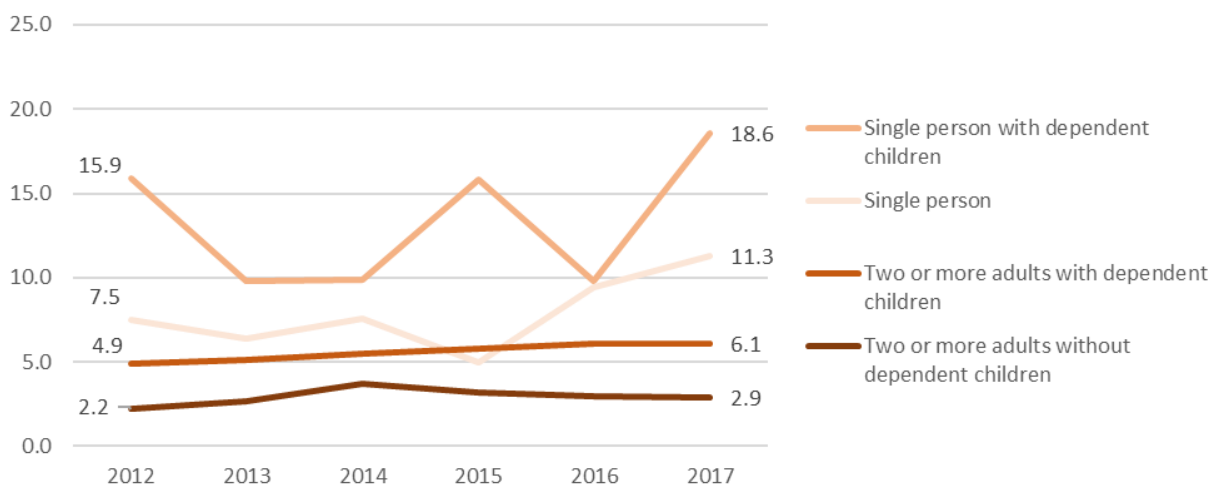




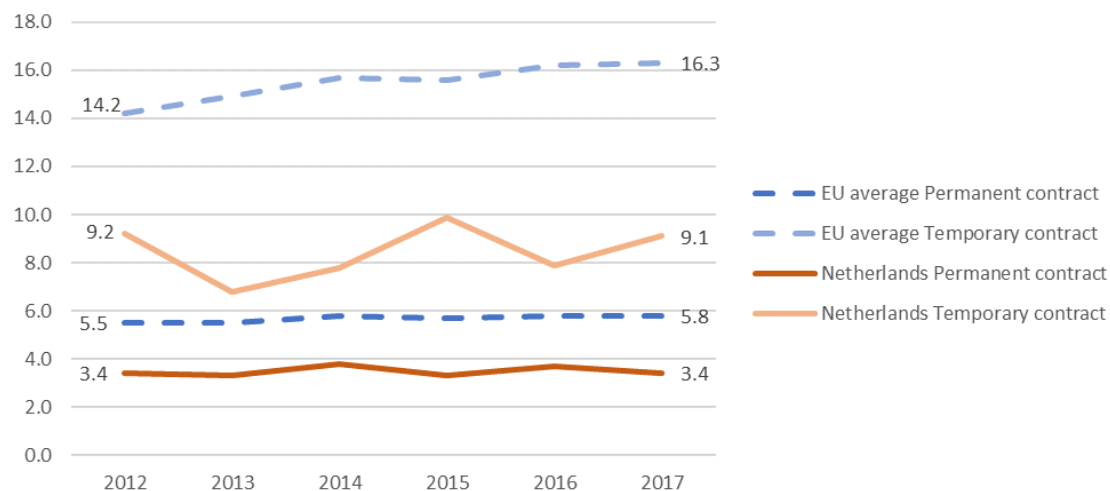
**Figure 9. In-work poverty rate (%) in the EU, by household type between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



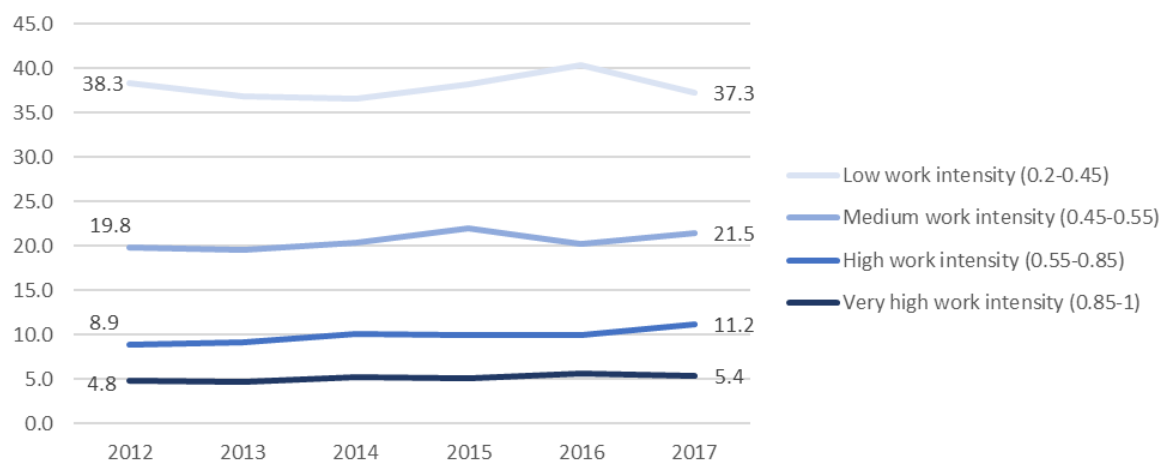
**Figure 10. In-work poverty rate (%) in the Netherlands, by household type between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



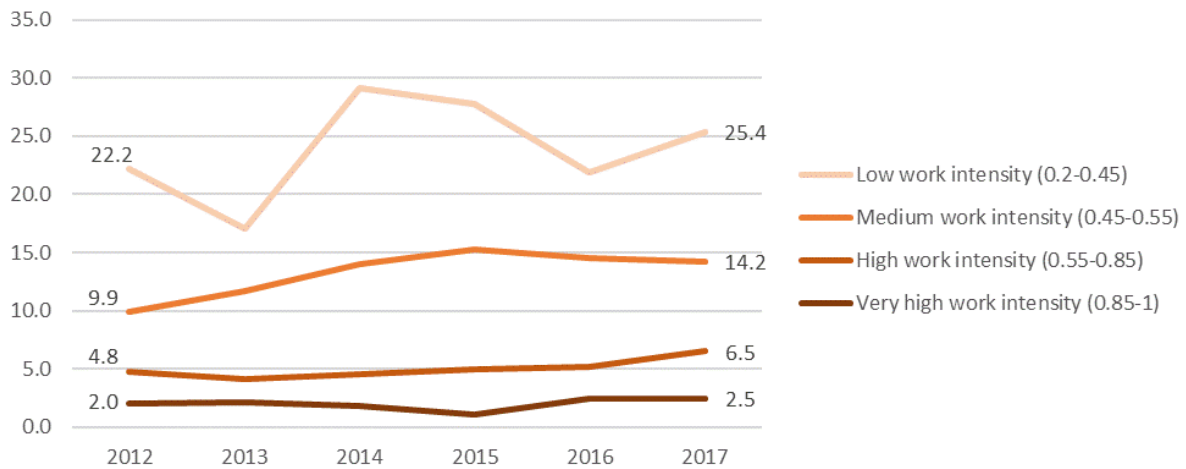
**Figure 11. In-work poverty rate (%) in the Netherlands and across the EU, by work contract type between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



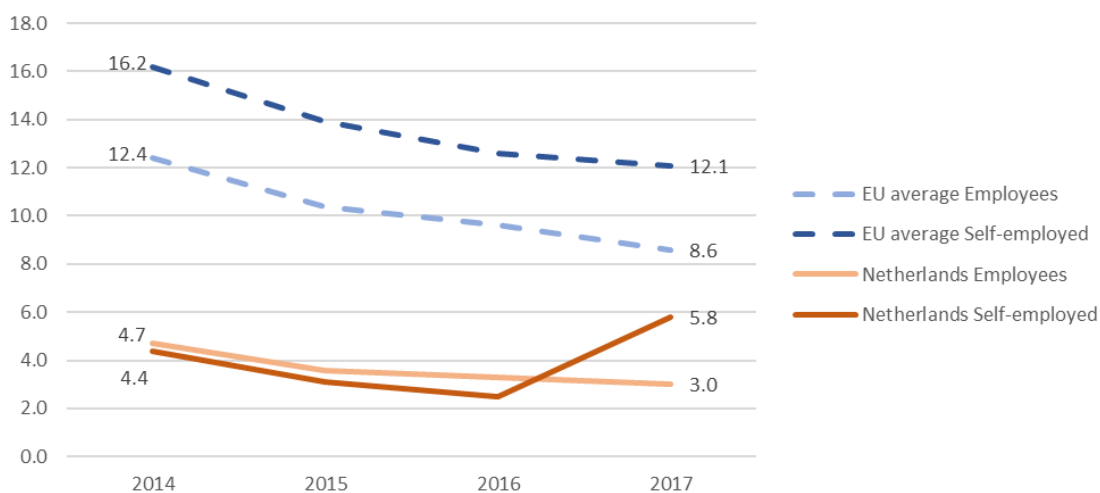
**Figure 12. In-work poverty rate (%) in the EU, by work intensity between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 13. In-work poverty rate (%) in the Netherlands, by work intensity between 2012 and 2017 (source: Eurostat, ilc\_iw01)**



**Figure 14. Level of material deprivation<sup>38</sup> (%) in the Netherlands and the EU, by employment status between 2014 and 2017 (source: Eurostat, ilc\_iw01)**



<sup>38</sup> The material and social deprivation rate (MSD) is the proportion of people lacking at least five out of the 13 items in the following set:

- **household level:** can cope with unexpected expenses; can afford a one-week annual holiday away from home; can avoid arrears; can afford a meal with meat, chicken or fish every second day; can afford to keep the home adequately warm; have access to a car/van for personal use; and can replace worn-out furniture);
- **personal level:** can replace worn-out clothes; have two pairs of properly fitting shoes; can spend a small amount of money each week on themselves; have regular leisure activities; get together with friends/family for a drink/meal at least monthly; have an internet connection.

