

Summary

Promising policy for
reducing poverty

Poverty in the Netherlands

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

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

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

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

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

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

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

Trend in poverty with unchanged policy

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

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

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

Analysis of debt policy and municipal poverty policy

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

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

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

Tables

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

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

Table 0.1

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

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

(-) causes deterioration of EMU balance.

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

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

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

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

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

Table 0.2

Measures with a budgetary impact of 0.5bn euros

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

(-) causes deterioration of EMU balance.

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

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

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

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

Table 0.3

Measures with a budgetary impact of 1.0bn euros

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

(-) causes deterioration of EMU balance.

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

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

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

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

Table 0.4

Measures which cannot be extrapolated

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

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

Table 0.4
(cont.)

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

Table 0.5
System changes

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

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

(-) causes deterioration of EMU balance.

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

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