Marketisation of social security in the Netherlands
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Publication date:
1999

Link to publication

Citation for published version (APA):

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Download date: 16. Mar. 2019
MARKETISATION OF SOCIAL SECURITY IN THE NETHERLANDS.
A REVIEW OF THE POLDER ROUTE TO PRIVATISATION OF THE
SICKNESS AND DISABILITY INSURANCE

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TISSER. The second author is senior researcher at Statistics Netherlands. The paper is written on
request of the chief editor of a series on the welfare state prof. John Dixon. It will appear in a volume
to be issued late this year or next year: Dixon, J. (ed.), Marketisation of Social Security in European
Welfare States, Routledge, London
1. THE CONTEXT FOR SOCIAL SECURITY MARKETIZATION

1.1 THE EVOLUTION OF SOCIAL SECURITY AFTER WORLD WAR II

The evolution of the Dutch social security system after the Second World War can be divided into two main stages: a period of expansion until 1977, followed by a period of contraction and reform afterwards. After the war, particularly in the late 1960s and 1970s, the social security system saw a rapid expansion that brought the level of social protection among the highest in Western Europe. Major accomplishments in the 1950s were the introduction of the Unemployment Insurance Act (1952), the General Old Age Pensions Act (1957) and the General Widows and Orphans Act (1959). In the 1960s and 1970s ample new legislation came into force like the General Family Allowances Act (1963), the National Assistance Act (1965), the Disability Insurance Act (1967), the Exceptional Medical Expenses (Compensation) Act (1968) and eventually the General Disability Benefits Act (1976).

The expansion of the welfare state and particularly the evolution of the social insurance schemes in the Netherlands had some typical corporatistic features because of the traditional pillar-structure of the socio-economic institutions. Christians, Protestants, socialists and liberals organised themselves as employee or employer in separate organisations at the level of branches of industries (industrial insurance boards). Their representatives in the decisive tripartite social and political bodies (Sociaal-Economische Raad [Socio-Economic Council], Stichting van de Arbeid [Foundation of Labour]) used their influence and power to affect the form and content of the welfare state arrangements. This pillar-structure characterised the Dutch welfare state up to the early 1980s. The social protection system evolved into a mixed system embodying elements of various ideal-types of welfare states such as the Bismarckian (or Rhineland) model, the Beveridgian (or Atlantic) model and even in some sense the liberal model (Engbersen, Schuyt, Timmer and Van Waarden 1993). Social insurance schemes like the employee benefit schemes were of the Bismarckian type: they were organised through industrial organisations ruled by public law and controlled by the state. They were selective since they covered the working population only (employee insurance or werknemersverzekeringen) and they were based on compulsory contributions levied on earnings. The so-called general insurance schemes like the old age and survivors pensions as well as the family benefit scheme were of the Beveridgian type (flat-rate benefits). The schemes were universal since they cover the whole population, they were financed through compulsory contributions levied on every adult (general insurance or
volksverzekeringen) or through general taxes. The National Assistance Act was inspired by views about the role of the state as being a ‘provider of last resort’ in the case other welfare state arrangements fail to guarantee security of subsistence. Social assistance benefits are financed out of general taxes. The amounts are generally uniform although different to household type (singles, one parent families, couples) and at the minimum level. The benefits are means-tested because of which income from other sources within the household as well as savings and assets are taken into account. These kind of benefits resemble the typical features of a liberal welfare system. Notwithstanding the mixed atypical character of the institutional design of the Dutch system, we might reach a different conclusion when it comes to the outcomes of the social security system. With respect to the tightness of conditions and the generosity of the benefit levels we might conclude that the Dutch system belongs to the social-democratic type (Goodin, Headey, Muffels and Dirven, 1999).

The 1970-1977 period saw the completion of the post-war system. The centre-left government headed by Mr. Joop den Uyl reacted upon the first oil crisis by raising the minimum benefit levels in order to maintain effective demand. Moreover, the government believed that social security was not meant only to compensate for income losses due to social risks but that it should also aim at the redistribution of income based on equity or 'solidarity' principles. The General Disability Benefits Act (1976) is usually considered as the finishing touch of the building up of the social security system during the previous post-war period. It closed the remainder gap in coverage of the income loss due to disability by the self-employed and the non-working population (SCP 1998).

The 1978-1998 period was characterised by major reforms of the social security system. The main reasons for reforming the system were the worsening of the economic situation in the second half of the 1970s. Economic growth went down dramatically, whereas the level of (long-term) unemployment and the burden of payroll taxes tended to increase strongly. The economic recession reached its peak in the years 1981 up to 1983. Economic growth rates and employment rates went down strongly along with strong rising early retirement, unemployment and disability levels. The government responded by retrenchment measures and cuts in public expenditures by lowering the benefit levels and tightening the conditions for entitlement. In these years social security was among the major government sectors suffered by these cutbacks.

This turning point implied a shift in emphasis on the various goals of social security. Whereas, formerly, the focus was on broadening the range of social risks and coverage of the population, from then on economic conditions urged the government to restrict the number of
beneficiaries and to slow down the rise in social security expenditures. The focus changed in so far the principle of efficiency was set on even par with the principles of equity and fairness. As a result of this shift to efficiency, policy measures aimed at tighting the conditions for entitlement (reducing the inflow) or at activation and re-integration into the labour market (increasing the outflow) became more popular. This shift was induced and led by market conform policies of three coalition governments, operating from 1981 to 1993 (the first two liberal-left, the last centre-left), headed by the Christian-democratic leader Mr. Ruud Lubbers. In the early 1990s this resulted into the introduction of elements of privatisation and marketization. The first purple government (coalition of social democrats, liberals and social liberals) headed by the socio-democrat Mr. Wim Kok from 1994 to 1998 made the maintenance and creation of jobs in the labour market and the marketisation of public sector activities even the primary goals of its government.

With reference to the measures taken to achieve these goals, the 1978-1998 period can be subdivided into three main stages (see also SCP 1998: 425-426). These stages differ with respect to the emphasis put on measures affecting the financing of the system, the level and duration of benefits and the conditions for entitlement, respectively:

- 1978-1982: ad hoc measures with an emphasis on safeguarding the funding of the system
- 1983-1989: the first reform of the system ('stelselherziening') with an emphasis on reducing benefit levels and the duration of entitlement (price measures);
- 1990-1998: major reforms of the system with an emphasis on further tightening the conditions for benefit entitlement and on activation and reintegration into the labour market. In this period the privatisation of some social security schemes, particularly the sickness and disability schemes, has been pursued. They implied a fundamental shift in the political views and ideological values underlying the proposals for change of the institutional set-up.

TABLE 1

The final stage of the expansion of the Dutch welfare state and the period of contraction and reform afterwards may be illustrated by figures on the take-up of social protection benefits. Between 1970 and 1985, the number of benefit years provided by the Dutch social security system (including family benefits) increased strongly by 61 per cent (Table 1). Thereafter, the evolution was much more moderate. In the same period, the population grew by 21 per cent only. Huge increases were seen within the social assistance, unemployment and long-term
disability sectors in particular. The evolution of the other sectors was much less dramatic. In recent years, there is a tendency for take-up to decrease somewhat. This is the combined effect of the aforementioned retrenchment policies and especially the growth of employment because of which the inflow is a bit lower and the outflow a bit higher. This occurs within all social security sectors including sickness and disability but with exception of old age (Table 1, Table 2).

TABLE 2

Internationally, the Dutch welfare state is often pictured as having one of the most equitable, generous and comprehensive social protection systems comparable with social protection systems in the Scandinavian countries, particularly Sweden and Denmark. Social security, tax and income policies have produced a high degree of income equality. Social protection expenditure as a percentage of GDP is among the highest in the European Union (Table 3). It is only surpassed by the Scandinavian Member States. Social protection expenditure per capita is also quite high (18 per cent higher than the EU average in 1995). In terms of expenditure, the Dutch welfare state stands out especially with respect to public expenditures for long-term disability. With expenditures for long-term disability of 16 per cent of social protection expenditure, its level is almost twice the European Union average.

TABLE 3

Large numbers of the inactive population in the Netherlands are receiving sickness or disability benefits. The figures are striking particularly when compared internationally. As a proportion of the Dutch labour force, it was 13 per cent in 1995 (16 per cent in 1990). The neighbouring countries, Belgium, Germany and the United Kingdom, have much more moderate rates of 8 per cent (Second Chamber 1998: 103). In terms of benefit years, the incidence of sickness and disability risks is even more striking internationally than it is for unemployment. In 1997, protection for sickness and disability amounts to 1 million benefit years compared to less than 300 thousand benefit years for unemployment protection. Both numbers, however, have shown a strong decrease since 1990. Long-term disability alone surpasses unemployment in terms of expenditure. With 10 per cent of social protection expenditure in 1995, unemployment expenditure was clearly below expenditure on long-term disability (cf. Table 3).
1.2 PRIVATISATION OF SICKNESS AND DISABILITY SCHEMES: A SHORT REVIEW

Since elements of marketization and privatization were mainly introduced in the last decade, the focus in this contribution is on the evolution of the system during the 1990s although the ground for these changes was already established in the 1980s. The 1990 period is particularly characterised by the reform of the sickness and disability schemes. This reform involved a tightening of the conditions for entitlement in order to downsize the inflow into sickness and disability and new activation and reintegration policies to increase the outflow. The government pursued these goals by changing the incentive structure for employers, employees and the executioner's practices. These incentives were first addressed at the employers. In the framework of the 1992 renewal of the activation and reintegration measures within the disability act, a so-called reward-penalty or 'bonus-malus' system was introduced. The employer was obliged to pay a penalty for each worker who become disabled and similarly he got a bonus or allowance (wage subsidy) for each disabled person he hires on the external labour market. In 1995 this ‘bonus-malus’ regime was again abolished after strong criticism of all parties involved, employers organisations and labour unions. At the same time the incentives for the employees were increased by down levelling the benefits for the disabled worker. This was pursued by tightening the conditions for entitlement to a benefit and by limiting the disability benefit to those who are fully or partially disabled for medical reasons only. A substantial part of the measures were therefore addressed at the executioner's practices, in so far strict guidelines for judgement of the right to entitlement by the authorities were introduced. Finally, the measures were aimed at privatisation of the execution of various social security schemes by giving greater room to private organisations. From 1994 on various elements of marketisation in the sickness act were introduced, first by letting premiums vary according to the sickness incidence at employer's level and second by shifting the responsibility of payment to the employer first for short sickness leaves and later on also for long sickness leaves. With respect to the disability act, from 1998 on, a part of the

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2 Before, it was possible for the executioner of the disability act to take the labour market situation of the disabled worker who wants to apply for a disability benefit into account. In such a case people being partially disabled because of health impairments could anyway get a full benefit because of lack of employment opportunities. With the first reform in 1987 the conditions for getting a full benefit in these cases were already limited but in the second stage of the reforms in the early 1990s it was decided that the disabled population of certain age must be subdued to a renewed medical test in which the real degree of disability was assessed without taking notice of the labour market opportunities the disabled person in reality has.
premiums may vary according to the disability incidence at employer's level. Secondly, privatisation of the scheme was attained for by giving employers the opportunity to 'opt out' from the public disability scheme and to cover the risks by their own for the first 5 years of the disability spell. For the years extending the 5-year period the government retained its responsibility (LISV, 1997, 1998). The primary goal of these policy measures appears to be a very practical one. The aim was to limit the increase in sickness and disability benefits to prevent budgetary shortages and to avoid increases in (indirect) labour costs endangering the competitive power of the Dutch economy. The numbers of people drawing sickness and disability benefits had risen up to a level of 1,124 thousand beneficiary-years in 1990 (compared to, e.g., 537 thousand unemployment beneficiary-years). In 1997 this number had dropped only a little to 1,037 thousand beneficiary years (Second Chamber 1998: 151-154). For 1998 a further drop to 953 thousand beneficiary years took place (307 thousand sick persons and 646 thousand disabled). The privatisation of the sickness and disability schemes by definition lowers the number of sick and disabled people drawing benefits from the public schemes. However, the fall is lower than might be expected most likely due to increasing numbers of employed since everything else the same (e.g. the degree of disablement) the number of sick and disabled will rise proportional to the rise in employment.

On the other hand these privatisation measures might be conceived as the search for a policy route towards a social security system in which a new balance is found for the public/private interplay of these social security services. This policy route whether or not purposely aimed at has been set in motion in the 1990s by the first left-liberal purple coalition government. New legislation will most likely come into force in the near future but its direction and scope are hard to predict given the absence of clearly stated political views about the future of social security. Although a debate on the future of social security was foreseen for the first purple cabinet period in the midway of the 1990's, it never took place because of lack of political will at the side of the coalition partners. In the meantime the government was preparing new reform measures aimed at reforming the organisation of the labour market and social security institutions. The headings under which these new measures were proposed and defended were again privatisation, activation and integration of labour market and social security systems.

1.3 SOCIO-ECONOMIC CONDITIONS
The upturn of the economy in the second half of the decade followed the downturn during the first half. In 1998, the economic growth was almost 4 per cent of the gross domestic product. Over the last twenty years, this growth rate was only surpassed by the 1989 and 1990 figures, which were well above 4 per cent. The recession was at its lowest bottom in the year 1993 when economic growth was below 1 per cent. Compared to the previous economic upswing, the current one lasts longer and appeared more stable (Statistics Netherlands 1999).

Internationally, the Netherlands has built up an outstanding economic record. Between 1990 and 1998, gross domestic product per capita increased from 14 800 to 20 800 ECU in 1997 and 21 700 ECU in 1998 a rise of more than 45% in 8 years. While the 1990 figure was 1 per cent below the European Union’s average, the 1997 figure was 8 per cent above (Second Chamber 1998: 95). Over the last three years the average real growth rate of Dutch GDP was more than 1% higher than the average real growth rate of European GDP (Donders, 1999). For 1999 a slower growth rate of 2.25% is forecasted which comes very close to the European average. Current rates of economic growth are close to those of the United States. At the same time, inflation has been rather low. Still, with 1.8 per cent in 1998, it is among the highest in the European Union (Statistics Netherlands 1999a).

The current favourable economic conditions are reflected in the ratio of active to non-active population. In the first half of the 1980s, the ratio increased strongly and then remained at a rather stable level of about 83 inactive people to every 100 workers until 1995. In recent years, it has fallen considerably to 76 in 1998. Although much higher than in the United States, the Dutch figure compares rather favourable to other Western European countries (Second Chamber 1998: 102). The decline of the ratio is a result of rising employment levels on the one hand and a falling number of people on sickness and disability benefits on the other. The decline in the levels of disability, however, is expected to be temporary because currently, the number of people on disability benefit is increasing again (SCP 1998: 453).

During the 1990s, employment grew both in absolute numbers and as a proportion of the working age population. It was, however, strongly affected by the increase in part-time and flexible jobs. In 1990, 61 per cent of the working age population was employed compared to 68 per cent in 1997. The latter was 8 percentage points above the European Union’s average. In full-time equivalents, the increase in the net participation rate was much smaller: from 50 to 52 percent. Mainly due to many women working part-time, these figures are below the Union’s average. The difference, however, has become smaller (Second Chamber 1998: 96-97). Only recently has the number of new full-time jobs surpassed the number of new part-time and flexible jobs.
The unemployment figures nicely went along with the up and downturns of the economic cycle. They increased during the first half of the decade and decreased in recent years. Long-term unemployment which was at a rather high level in the Netherlands in the 1980s and early 1990s remained at that level in the late 1990s. In 1998, the unemployment rate was 4.1 per cent. This was one percentage point below the level at the start of the decade. Currently, the Dutch unemployment rate is half the average of the European Union as a whole (Second Chamber 1998: 100). Long-term unemployment (>1 year) is high in the Netherlands. During the period 1992-1998 long-term unemployment was steadily around 50%. In 1997 and 1998 unemployment went further down whereas long-term unemployment increased slightly to 52% in 1997 and 54% in 1998.

TABLE 3

1.4 POLITICAL FACTORS AND IDEOLOGICAL VALUES

The political context of the Netherlands is characterised by a long tradition of coalition governments. The 1990s saw three coalitions. Firstly, the centre-left Lubbers III government (1989-1994) consisted of christian democrats and social democrats. This government was the third coalition directed by christian democrat Mr Ruud Lubbers who had been Prime Minister since 1982. It was followed by the first ‘purple’ coalition (Kok I government 1994-1998) of social-democratic, liberal and social-liberal parties under the direction of the social democrat Prime Minister Mr Wim Kok. For the first time since the Second World War, the christian democrats were excluded from government. The purple coalition was continued after the elections of 1998 (Kok II government 1998-).

Alarmed by the growing numbers of recipients of disability benefits, Prime Minister Mr Ruud Lubbers stated in 1990 that the Netherlands may be viewed upon as a "sick country". The Lubbers III government therefore launched a variety of measures aimed at lowering the benefit levels and tightening of the conditions for entitlement of the sickness and disability benefits. The government also introduced measures for marketisation of the sickness and disability schemes. The primary goal of these marketisation measures was to reduce the current numbers of people at sickness leave as well as the number of disability recipients and to stabilise it at the level of 1989 (844 thousand).

The measures were reluctantly supported by the social democratic coalition party and continued by the purple coalition. The rationale for the social democrats was that adjustment
of the disability scheme was a precondition for the maintenance of benefit levels in the long run. However, the decisions of the Lubbers III government with respect to disability were strongly opposed by the unions and the organisations of beneficiaries and, eventually, led to the resignation of the social democrat Secretary of State, Ms. Elske ter Veld in 1989.

The main goal of the Kok I government was to create jobs in order to fight the high ratio of non-active to active population. This was considered to be mainly due to high replacement rates, little incentives to search for a job and high levels of taxation. Active labour market policies were already commenced by the Lubbers III government and were intensified during this government by the Minister of social affairs and employment Mr. Ad Melkert. Apart from restructuring the sickness and disability schemes, the policies of the Lubbers III government were also aimed at the introduction of a conditional linkage mechanism because of which annual increases in benefit levels were not automatically linked to the contract wage index but dependent on the socio-economic conditions. The annual increases of the minimum social assistance benefits and the minimum wage depend on the ratio of the non-active to the active population. This makes the social partners co-responsible for the success of employment measures and the decentralisation of the Employment offices. The Kok I government did not change this policy. Moreover, the government put more efforts in making these employment policies more successfully implemented. These included the Job Pool Scheme, the Youth Employment Guarantee Scheme, work experience jobs and four types of so-called Melkert jobs (after the Minister of Social Affairs and Employment, Mr Ad Melkert). Wage restraint, the functioning of the labour market, reducing inflow into the social security system and reinforcing labour market reintegration of social security beneficiaries are also high on the agenda of the Kok I government.

The recent economic and social successes of the Dutch ‘polder model’ may be attributed to the consensus building in the tripartite composed executioner’s bodies in which all parties, government, employers and employees, play a certain role (SCP 1998: 103-104). These parties were committed to a coherent programme of wage restraint, increasing labour market flexibility, the downsizing and reorganisation of the government, the reform of social security legislation and the creation of employment programmes. In recent years, the legitimacy of this programme has strengthened through high economic growth rates, increasing numbers of jobs and decreasing unemployment rates. The favourable economic conditions render further support for the policy route of marketisation and privatisation of social security arrangements of the current government.
2.1 The 1993 Report of the Parliamentary Inquiry Committee Chaired by Mr. F. Buurmeier

The first step on the route to privatisation was set after the issuing of the report of the parliamentary inquiry committee on social security in 1993. The Committee "Buurmeier" called after its chairman Mr. Buurmeier -an elder social-democrat and member of Parliament - discussed the role of the various controlling, advisory and supervising bodies of the social security system. The report was very critical and mentioned extensively the failure of these bodies to downsize the increase in social security expenditures and the rising number of recipients and particularly the rising number of disabled people (Second Chamber, 1993). In general, Buurmeier criticised the corporatist features of the Dutch social insurance because of which in his view the gate watchers of the social security system failed in the execution of their controlling and supervising tasks. He therefore proposed rather drastic changes in the institutional set-up of the system. The bipartite composition of the supervisory body, the SVR (Social Insurance Council) was criticised by Buurmeier and a more independent supervision of the social security system was proposed. This new body became the Ctsv, the Committee for the Supervision of the Social Insurance Institutions. At the same time Buurmeier criticised the lack of managerial competence of the industrial insurance boards to execute the disability act. These boards were again ruled by the bipartite organisation of employers and employees. He therefore recommended the transfer of this responsibility to an independent organisation the later Lisv, the National Institute for the Social Insurance.

He also recommended the transfer of the managerial responsibilities of the unemployment act which were also in the hands of these malfunctioning industrial insurance boards to the so-called Regional Bureaus for the Labour Market Provisions (RBA). The main corporatist players in the field of social security therefore had to transfer their responsibilities to new legislative bodies not ruled by the the two main social parties only but from then on by the state and independent professionals. The role of the main corporatist bodies, the under public law operating industrial insurance boards, was replaced and transferred to social insurance agencies being private executioner’s bodies for the social insurance, the Uvi (Aarts, Jong, Teulings, & van der Veen, 1998). Apart from these institutional changes, Buurmeier also
proposed to increase the financial incentives particularly within the sickness and disability acts by letting the premiums vary according to the disability risks associated with the firm sector. These incentives should downsize the disability figures. Other proposals were the abolishment of the sickness act and the mandatory continuation of the wage payment by the employer in the case of sickness. Especially the sickness act proposals marked the road to privatisation set in motion by the government in the 1990s.

**Opting out**

The proposals of the Committee implied a fundamental reform of the social security institutions and a radical move away from the corporatist set-up of the old system. Although the Committee was not aimed at introducing market-alike elements into the system its proposals meant a radical break away from the state dominance of the old system. Proves for this can be easily found in the transfer of the execution of the employee benefits to private executioner's agencies as well as in the transfer of the responsibility for coverage of the sickness and disability risks to the employers. These employers may either opt to bear the disability risks themselves or to shift the risks forward to private insurance companies. In both cases it means a shift from public dominance to a much larger role for the market. In the case of disability apart from 'opting out' of the public system and shifting the risk forward to private organisations the employer has also the possibility to stay within the public system and to pay the by firm sector differentiated premium costs.

**Controlled liberalisation**

The 'marketisation' of these social security schemes not necessarily implies that the State withdraws entirely from the operation of these schemes. On the contrary, the proposals of the Committee implied surely the introduction of market-alike elements but simultaneously also the transfer of the responsibilities and authority from the social parties to the State. Therefore, it implied also a stronger grip of the Government aimed at the improvement of the control and supervision of the management of the executioner's practices. Most of the proposals of the Committee were taken over by the Government in the years to follow and were transformed into new legislation (see below). Therefore the actual privatisation measures of social security, that came into force after 1992, can therefore best be understood as a controlled liberalisation of the social security market (Van der Veen, 1999). A sketch of these reforms is given in the sequel.
2.2 THE REFORMS OF THE SOCIAL INSURANCE SYSTEM DURING THE 1990S

On 1 March 1992, the so-called TAV-act came into force aimed at the reduction of the number of people drawing disability benefits (TAV: *Wet Terugdringing Arbeidsongeschiktheidsvolume*). Its aim was primarily to increase the financial incentives for both employers and employees for reducing the incidence and duration of sickness and disability benefits. A bonus-malus or reward-penalty system as explained before in section 1.2 was introduced within the Disability Act (WAO). Due to criticism by the employers and employees organisations and after quite some public debate in the media, this system was again abolished in 1995. The main reasons were that for small employers the burden of the wage penalty could easily endanger the employment of the healthy employees. It could also lead to a worsening of the labour market position of handicapped persons since employers because of the penalty will not easily hire employees with a high risk of becoming disabled. In the same spirit employees organisations argued that the reintegration objectives of the government measures could be frustrated by the penalty system. The reward for hiring a disabled person could not counterbalance the risk for a penalty because of which employers are very reluctant to hire people with health impairments.

On 1 January 1993 as part of the TAV-act differential sickness premiums were introduced under the Sickness Benefits Act (*ZW: Ziektewet*). From then on, the premiums differ according to the degree of sickness leave in the firm sector compared to the average level in that branch of industry.

Moreover, on 1 August 1993, in addition to the TAV-act the so-called TBA-act was introduced aimed at a reduction of the claimants of disability benefits (*TBA: Wet Terugdringing Beroep op de Arbeidsongeschiktheidsregelingen*). First, the degree of disability was not related anymore to the labour market situation of the insured people but became more strictly defined in medical terms. This implied that much less people were considered to be fully or 100% disabled and therefore would get the maximum amount of 70% of the previous wage. Many people will have some remaining earnings capacity because of which they were considered partially disabled. For the remainder part that was not covered by the disability insurance the disabled worker has to apply for unemployment insurance or a social assistance benefit which are either shorter in duration or at a lower level. Secondly, the duration and level of disability benefits became related to age and the insured wage level. The disability benefit was split into two separate benefit regimes, the earnings-
related wage replacement benefit for people of 33 years and older (which is 70% of the previous wage) and the consecutive disability benefit at minimum wage level. On top of the consecutive minimum benefit an additional allowance may be received which is 2% of the difference between the actual wage and the minimum wage times the number of years that the person was older than 15 years on the first day of his/her disability spell. For the whole spell period it meant that the benefit levels became more strongly related to age. For younger age the level and duration of the disability benefit was reduced whereas for higher age (50 years and older) the level remained the same but the duration extended. It implied that on average the replacement rate went down because implying that the higher the insured wage level, the lower the disability allowance. For a good understanding one has to keep in mind that he measures apply to new recipients only, whereas ‘old’ recipients of disability could keep their disability rights as they were. Nevertheless, it appears that compared to the previous situation quite some workers became underinsured and were confronted with a so-called ‘WAO-hole’. Research at the end of 1997 showed that 61% of the firms and 82% of all workers appeared capable of repairing the under-insurance due to the withdrawal of the government by closing semi-collective occupational or private arrangements.

Thirdly, a large re-examination of all recipients below 50 years of age had to take place in conjunction with the examination at regular time intervals of the right to draw on disability benefits. This plight to undergo a re-examination test was especially directed to new recipients, herewith stressing the temporary nature of disability benefits. Fourth, the revision of the formal definition of ‘a suitable job’ to which a handicapped person has to apply was a very important element in this respect. This notion of a ‘suitable job’, that was rather strictly defined according to experience level and level of education and pay, got a broader interpretation. To assess the earnings capacity of the disabled worker the labour market expert working with the Uvi looks for three suitable functions on the labour market with which the insured can earn the highest income and where all functions jointly represent at least 30 working places. It is irrelevant whether the insured can or can not get that job. In the assessment procedure the level of pay of the function in the middle category is assumed to represent at best the earnings capacity of the insured disabled person. The reduced benefit levels under the disability act induced employees to establish private arrangements as part of the outcomes of the collective bargaining process to surmount the ‘gap’ in public coverage of the disability risk. Generally, this led to the rise of private insurance that should resolve the earlier mentioned disability insurance gap. Overall, the impact of these measures was much larger than expected beforehand.
The act on the reduction of sickness leave (TZ: Wet Terugdringing Ziekteverzuim) and the act on occupational health and safety (Arbeidsomstandighedenwet) came into force on 1 January 1994. These acts were designed to raise the involvement of the social partners for preventive measures and for resolving the issue of the rising sickness incidence. In co-operation with a commercial occupational health and safety service (Arbodienst), each employer was obliged to examine the disability patterns in his firm and to develop preventive measures. Moreover, in order to increase the incentives for the employers to limit the costs of sickness leaves, part of the responsibility for the coverage of the sickness risks was shifted forward to the employer. During the first two to six weeks of disability (two weeks for small companies and six weeks for larger companies), the entitlement to a sickness benefit which previously was executed by the industrial insurance board (Bedrijfswereniging) was abolished. Employers became obliged to pay their salary at the rate of 70 per cent of the previous wage during this pre-entitlement period and to pay not less than the legal minimum wage. The employers were allowed to reinsure the risk for short-term sickness leaves with private insurance companies. For extended durations of sickness leaves beyond the three months period, the employer became obliged to make a so-called reintegration plan for the disabled employee.

In 1995, a new act on the organisation of the social insurance schemes was enacted (OSV: Organisatiewet Sociale Verzekeringen 1995). The changes according to the OSV-1995 followed the recommendations of the aforementioned special parliamentary inquiry committee Buurmeier which report was issued two years back. The Committee Buurmeier held the social partners responsible for the dramatic increase in sickness and disability benefit recipients. The reform proposals following the recommendations of the Buurmeier committee involved the installation of an independent board with supervisory power for the execution of social insurance schemes (Ctsv: College van Toezicht Sociale Verzekeringen). This institute replaced the former bipartite Social Insurance Board (SVR: Sociale Verzekeringsraad). Moreover, according to this act the employers and employees became less directly involved in the execution of the social insurance schemes. This was accomplished by contracting out the administration tasks the bipartite industrial insurance boards (Bedrijfswerenigingen) formerly had to the social security institutions (Uvi or Uitvoeringsinstellingen). This was meant to foster an independent and business-like relationship between the insurance boards on the one hand and the Uvi on the other hand. It should also contribute to increased marketisation. The execution of the sickness and disability insurance used to be under the responsibility of the
industrial insurance boards. All employers within a specific branch of industry were obligatory affiliated to one of these boards. All employees working with these employers were collectively insured with one of these sector insurance boards. The idea of contracting out was aimed at fostering competition. However, because it was agreed that, until the year 2001, the industrial insurance boards would sign a contract with their former social insurance agencies, the 'contracting out' option was hardly of any real significance.

The rise of quasi-monopolies of social insurance
The prospect of increased competition induced the social security institutions to merge with other players in the same market in order to profit from economies of scale. The number of social security institutions decreased from ten in 1989 to only four in 1998 endangering therewith the ideal of a large competitive market. Moreover, many social security institutions searched for private partners to co-operate with such as commercial insurance companies and banks. Some criticasters fear the rise of conglomerates of these players operating as monopolies or quasi-monopolies in the market for social security. In the Netherlands there are many examples of these types of mergers between the social security agencies, the insurance companies and the banks which may support this view. In such a malfunctioning market the price-quality ratio is much higher than it would be in a world of full competition. The consumer of a social insurance product then pays too high prices for too low quality.

Due to the intertwining of the operation on the public and the private market and the fear for false competition, these holdings were subdued to a tight accessibility test according to which the public and private leg activities are examined for their operation according to commonly accepted market-rules. This created two separate circuits within the holdings: the first deals with the assessment and judgement of claims for a benefit and the provision of these benefits (the so-called public A-leg) whereas the other circuit is required to carry out commercial activities such as private insurance (the so-called private B-leg).

On the first of January 1996, the act on the Privatisation of the General Civilian Pension Fund (ABP) came into force since it was decided that the civil servants would be brought under the employee insurance as of 1 January 1998. The act implied that the civil servants became subject to the same contribution regime as the employees in the private sector although the institutional set-up remains unchanged.
On 1 March 1996, short-term disability that used to be covered by the Sickness Benefits Act (ZW: Ziektewet) became privatised. The act was purposeful aimed at extending the obligation of the employer to pay wages during sickness leave (Wulbz: Wet Uitbreiding Loonbedringsplicht bij Ziekte). The own risk period of the employer was extended to 52 weeks. In reality this obligation implies that most employees received a wage of 70% of the previous wage level as a minimum during sickness. Employers may decide to close a contract with a private insurance company to cover the sickness risk but they could opt for staying in the public domain. In real practice about 80% of all employers did opt for covering the risk by their own and to lift the benefit up to 100% of the previous wage. The public Sickness Benefits Act has therewith become a safety-net scheme for specific categories of employees only, such as temporary workers. Because sickness benefits were financed through unemployment insurance and the scheme was virtually abolished the differential contributions that were introduced in 1993, were again abolished.

On March 1997 a new Organisation Act for the Social Insurance (OSV 1997) came into force that was aimed at the introduction of a new institutional organisation of the execution of the social insurances. The characteristics of this new act were:

- greater room for marketisation of the execution of the social insurances (execution on a contractual basis, differentiation of premiums, opportunities to reinsure the risk with private insurance companies)
- judgement of requests for being acknowledged as an Uvi independent of the social parties
- independent supervision of the executioner's practices
- execution at regional level and integration of case treatment

As a result of the OSV 1997 (Haak et. al, 1996) the former temporary institute TICA was replaced by the tri-partite National Institute for the Social Insurance (Lisv: Landelijk Instituut Sociale Verzekeringen). The Lisv/Uvi became responsible for the execution of the social insurance schemes. The industrial insurance boards therewith played no role anymore in the execution of social insurance. They had to be transformed into so-called Sector Councils. These private Sector Councils (‘Sectorraden’), composed of employer and employee representatives, have advisory competencies to the national institute of social insurance, the Lisv. The main task of the Lisv became the reinsertion of disabled people back into the labour market. To achieve that goal, the institute sets the conditions for the social security
institutions to operate in their market and to improve the co-operation of the Uvi on the one hand and the labour mediating agencies such as the regional employment offices and the municipalities on the other. The execution of the social insurance schemes has been commissioned to the Uvi, the social insurance bodies. The OSV 1997 has been heavily criticised since it was clear from the start that the new act did not spread a clear view on the future of the organisation of the social security system. The Ctsv complained about the unclarity in the new act about the steps to be taken to attain a situation of full marketisation. Particularly, it was unclear where to put the demarcation line between the public A-leg and the private B-leg, either within the 'holding' or between the public principal (Lisv) and the private contractor, the Uvi.

In January 1998, the act allowing for the differentiation of the disability contributions across firm sectors and the marketisation of the employee’s disability insurance, the so-called Pemba (Premiedifferentiatie en Marktwerking Bij Arbeidsongeschiktheids-verzekeringen) was enacted. This caused a profound adjustment of the funding system of the disability insurance. Before, contributions were paid jointly by employees and employers but with Pemba all contributions have to be paid by the employer. Moreover, contributions became related to the disability incidence within the company or the firm sector. Employers could decide to let the social insurance agency (Uvi) execute the scheme or to take over that responsibility and to do it at their own risk. In that case, they only pay a flat rate contribution at a much lower level. For the individual firm such behaviour is rational only when the firm’s disability incidence is below average and the employer is at least as efficient in the execution of the disability insurance as the social security institution would be.

As of 1 January 1998 the public disability benefit scheme (AAW) which guaranteed a minimum disability benefit for early handicapped people and self-employed people was replaced by two separate schemes, the WAZ for self-employed people and the WAJONG for young early handicapped people. These schemes were from then on considered to be part of the general social assistance schemes. The creation of these two schemes and the placement under the general social assistance act appears purposefully aimed at making a clear division of responsibilities between the public and private domain in the disability sector. The public domain should then be responsible for the execution of the universal, flat-rated minimum disability benefit schemes and the private domain for all selective and earnings-related disability benefit arrangements on top of these basic benefit schemes.
The market for disability insurance: not a real market

Although the Committee Buurmeier paved the way for the market-conform reform of the social security system by the Government in the five years to follow, the social security system is up to date not functioning as a real market. First of all the market is not a market of producers and consumers. The consumers take no part in the marketisation process because the responsibility for the insurance against sickness and disability risks is entirely shifted forward to the employer. The mandatory contributions are therefore paid entirely by the employer. The producers of social security, i.e. the executioner's bodies (Uvi) are not necessarily the actual executioner's of the various arrangements and programmes. The Uvi operating at regional level may transfer the responsibility for parts of the execution of the sickness and disability schemes to private organisations. Contrary to the situation in a real market where there are numerous employers, there is actually only one in this case. That is the Lisv, the National Institute for the Social Insurances that from 1997 on (before TICA) operates as the principal, the only taskmaster and employer for the Uvi, the executioner's bodies. However, the Government considers the current situation as a transitional period on the road to full marketisation. After the enactment of the new Organisation Act 2001 which currently is in preparation, the situation will change and the Uvi will get more room for competition with other Uvi and for performing market activities. The current proposals of the government are such that at decentralised level numerous contracting agencies and contractors will constitute a market for disability insurance.

The splitting of public and private activities

Another critical issue is the splitting between the public and private activities of the social security institutions which are currently still public since they are controlled by law. As has been stated earlier, the conditions for operating in the social security market by the institutions are very tight. Because of that the executioner’s costs are higher and their competitive power is less than is the case in a real market environment. The principal restriction is that these social security institutions -if they want to combine public and private tasks in a "holding"- must make a clear distinction between the public and private sphere (Algemene Rekenkamer, 1997,1998). The execution of the under public law operating mandatory social insurance (the so-called A-leg) and the activities for the execution of the non-mandatory complementary social security benefits or the purely private (commercial) reinsertion or labour market reintegration measures (the B-leg) must be strictly separated. Although the Government
proposals are aimed at relaxing the criteria for access to the social security market the
government’s concern for efficient and legitimate use of public money will also ask for strong
regulation of the social insurance market after the new proposals will come into force.
Whether the millennium year 2000 will mark a real change in the regulation practice remains
therefore to be seen.

The social security institutions are currently also subject to a very strict accessibility test
carried out by the national Lisv-institute. In this test the Lisv carefully examines whether the
social security agency fulfil the criteria commonly agreed on. These criteria limit the social
security agency in their management of the organisation as a private company because of
which the profitability and attractiveness to operate in this market is substantially mitigated
(Doeschot et al 1998). These restrictions will be relaxed in the new Organisation Act 2001.
One may expect that especially in the domain of the internal organisation and business
operation of the social security institution the government will withdraw and will give greater
room to the social security institution.

Further to that, firms are currently obligatory associated with particular social security
institutions operating in their firm sector since they are forced to close contracts with the
sector-affiliated social security institutions. Real competition would imply that the
executioner’s practices compete with each other in getting contracts for any sector where they
want to be in. In the new proposals, the social security institutions may indeed compete with
each other for contracts in any firm sector.

2.3 ACTIVATION AND REINTEGRATION PROPOSALS

Up to now we paid little attention to another major policy development in the 1980s and
1990s which was the shift to activation and reintegration policies in order to prevent people
becoming dependent on social protection by the state. One part of the Buurmeier proposals in
1993 was devoted to the improvement of the activation and reintegration measures in order to
lower the inflow in and to raise the outflow out of the sickness and disability schemes. The
idea was that a more efficient treating of the clients could be attained by integration of social
security executioner's practices and labour market mediation services into one integrated
service-desk where the client is informed about the full service-package of social services and
labour market provision. These activities should be combined into one organisation being the
regional centres for work and income (Cwi). At the top of the Cwi is the National Institute for Work and Income, the so-called Lwi. The Cwi/Lwi proposals play a very central role in the current debate about the extent to which the execution of the disability insurance should be private or public. Some argue that the judgement of the claims for a disability benefit, based on the assessment of the seriousness of the handicap for performing the kind of work one is engaged in, should remain of public concern to be carried out by the Cwi/Lwi. Others, however, prefer the transfer of all execution responsibilities to private social insurance agencies.

The proposals for new legislation
The problems experienced with the privatisation of the sickness and disability acts, particularly the artificial separation of a public A-leg and a private B-leg, rendered new ground for the debate on the public-private interplay in the domain of social security and labour mediation. In 1998 the government asked advice to the Socio-Economic Council (SER) on the future organisation and execution of the employee insurances. A more client-oriented approach aimed at giving a better service to the client was the primary goal but at the same time the goal of improvement of the measures for reintegration into the labour market became more important. In this request to the SER for an advisory report, the government stressed the need to keep the judgement of the disability benefit claim within the public domain. At the same time the government recognised the need to relax the conditions for being acknowledged officially as a social security institution by the Ctv. The very tight application of these criteria in the execution practice meant in reality that hardly any new private organisation got recognition for entering the social security market. Therefore, no real market was evoked. In the second place the government wanted to give greater room to the social security institution to use the 'contracting-out' formula or to execute market-alike activities and to operate in a market-conform way.

On the 19th of June 1998 the SER (SER 1998) issued her advice to the Government stating that the judgement of the benefit claims should be part of the work task of an independent unit (without a profit earmark) within the social security institutions (Uvi) or the holdings. The SER took distance from the government’s view that a separate public organisation being the Cwi should be given the responsibility to carry out the judgement of the benefit claims. However, the Government maintained its view that the claim judgement should be of public concern to be carried out by Cwi-people but working as a pilot or a 'bargee' with the Uvi. In
this bargee-model (in Dutch: loodsmodel) the medical doctors and the labour market experts fulfil their tasks at the Uvi as employees of Cwi/Lwi. The Cwi/Lwi keeps full responsibility for the execution as well as for the policy aspects. The model hinges upon the notion that the management of the retest practices could best be done at the central level of the Lwi which is considered best equipped to collect the information for the improvement of the directives and the protocols to be used in the executioner’s practice.

The road to full marketisation of disability

In view of the Government’s wish to extent the marketisation of the social insurances a new organisation act is in preparation by the Government which should be enacted in the year 2001. Up to date the contours of this new act are not fully sketched since the government let it open which of the two following models will be opted for: 1) the Cwi-plus model, in which a limited number of say 15 to 18 so-called Cwi-plus offices will perform the disability retests or 2) the bargee-model in which initially the disability tests are performed by the Uvi but the secondary (consecutive) disability (re)test are executed by the Cwi in the form of the bargee-model at the Uvi. In the first model the public responsibility for the disability judgement is better reflected whereas in the second model the integration of the reinsertion and re-examination activities are better structured. The bargee or ‘loods' model was proposed by the institute Nyfer in 1998 to avoid the principal agent problem that might arise when the private Uvi has the authority for the claim judgement and therefore has more interest in a strict than a rightful judgement of the benefit claim (Bomhoff et al 1997). In the alternative of the Lisv, the Foundation of Labour (Stichting van de Arbeid) and the Lwi, the public Uvi will get the primary and full responsibility for the execution of the disability judgement. However, the assessment will be submitted to the Cwi for a second examination and for deciding formally on the final decree. The Government’s view was that such a model would give too less room for public interference. But apart from that the Government argued that a model in which the Uvi bears the substantial responsibility and the Cwi the formal responsibility might easily lead to a diffuse distribution of responsibilities with all the risks on malfunction involved. The Government seems to consider the bargee model as very attractive, because of the clear distribution of responsibilities between the public and private players in the field.

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The Suwi-report of spring 1999

In the Suwi-report (the acronym 'SUWI' stands for a new organisational structure on the execution of work and income arrangements) issued in spring 1999 the Government gave a first answer to all criticism reviewed before and it paved the way for a further marketisation of the disability insurance market (Second Chamber 1999). First of all, the role of principal that was handed over to one party being the Lisv will be decentralised to Sector Councils of employers and employees. The compulsory linkage of the employer with the sector-associated Uvi will be abolished and employers will be free to choose for the Uvi providing the best quality for the lowest price in whatever sector of industry that institution is operating. If the negotiations between the principal and the social security institution will not lead to agreement, the standard contract of the national institute Lwi offering a kind of minimum or basic package have to be accepted by either side. Each Uvi is formally obliged to accept any principal for this standard contract.

Competition has further been improved by letting the Uvi compete with each other for acquiring the contracts for execution of the disability insurance. To improve the room for private market activities the very tight criteria for getting access to the disability insurance market were relaxed. The criteria on the consumption of the profits (the profits had to be re-deposit into the safes of the national institute for the social insurance, the Lisv) and the property rights were abolished. The Uvi became also free for contracting out activities carried out in the framework of the execution of the disability insurance. No limitations were set anymore on the mixture or the combination of public and private activities, provided that the Uvi meets the criteria for not violating privacy regulations, for playing fair with respect to competition and for their capability of being subject to supervision by others. Compared to the previous situation this must be seen as a major change in the proposals of the government. The transfer of the claim judgement to the public domain (Cwi) implied that the strict distinction between the public and private leg within the holding of the Uvi could be abolished. This is important because for the Uvi operating in the market the only thing that matters is the marginal gain of each guilder of investment in any activity of the firm either in the public or the private domain. Therefore it is necessary that there is no distinction between the two legs and that private operation of all types of activities can be pursued.

To improve the transparency of the market the social security institutions became obliged to provide insight into their financial results, into the (cost) prices of their products and into the
outcomes of their reintegration efforts. The room for private operation by the institutions became larger because the SUWI proposals also implied an extension of the activities. The Uvi got the responsibility not only for the administration of the disability benefits but also for the administration of the premium calculation and the premium collection.

On the other hand the Government claimed the right to test whether the Uvi fulfil the requirements related to being acknowledged officially as an Uvi. The assessment criteria have to do with the quality of the execution, i.e. the internal organisation and the demands for certification of the contracts closed with the principals. The certification itself is considered to be a private task that can be done by the market itself. Other criteria have to do with the administration and use of the personal data records, the integrity of the board members, the separation of the ‘big’ money flow (the premiums and benefits) from the ‘small’ money flow (the administration and typical insurance connected activities, such as reintegration) and the supervision by the Ctsv.

The major changes in the SUWI proposals compared to the situation before were the transfer of the claim judgement authority to the public Cwi and the abolishment of the compulsory linkage of the employer with the sector-associated Uvi. The latter change will likely have a stimulating effect on the market for disability insurance to operate as a real market whereas the first indicates that also in the future full privatisation of the social insurance schemes is unexpected. On the contrary the public interference with the social insurance sector will be retained. The government will retain its control on the claim judgement, on abuse and fraud and on the supervision of social security institutions. For these reasons the privatisation process can best be qualified as controlled or regulated liberalisation.

Recently, June 1999, the Socio-Economic Council (SER 1999) issued a new advisory report on the institutional set-up of the Social Insurance. In this report the Council criticized the way the government want to transfer the claim-judgement of the privatised Uvi to the public Cwi whereas the social partners already agreed on earlier that the private Uvi should get the full responsibility for the claim judgement. In their view the public Cwi should get a controlling task using test samples of cases treated by the Uvi and the Cwi would have to conduct systematic judgements through certification of test practices of the Uvi. For the execution of the social insurances the creation of the Cwi will in the view of the Council lead to another bureaucratic lawyer in the already complex administrative structure and therefore will not
contribute to achieve the targets of a more client oriented approach and more efficiency. The clients will be confronted with quite a number of so-called transfer moments where they have to move from the Uvi-counter to the Cwi-counter and backwards again at several occasions. The report therefore requests for postponement of the SUWI-proposals and to give greater room to the initiatives taken at the local level for collaboration between the existing labour market institutions and the current public Uvi that already started in 1995. The Council endorsed the proposals for integration of the social insurance and the labour market institutions at the national level being the Lisv and the CBA in a new tripartite institute called the LIWI, the National Institute for Work and Income. The Council in this 1999 report stressed particularly the need for the creation of a more co-ordinated regional labour market policy frame that should also be directed at the elaboration of sector policies. It argued that the government paid too less attention to this particular field of interest.

After the press release of the report at the 18th of June some three days later on the 21st of June 1999 the parliamentary debate on the SUWI report took place. The opposition parties (Christian parties, Green and Left parties) but also some of the coalition partners of the Cabinet (Labour Party and the Social Liberal party) criticised the SUWI-report. Their critique was particularly addressed at the privatisation proposals for the Uvi without having any notion, let alone, a clear view on the results and outcomes of the privatisation process. They therefore asked for postponement of the privatisation operation of the Uvi that would have taken place by selling the shares of these Uvi on the private share market. Another advantage of postponement would be that the Uvi could remain public and that there was no need to shift responsibilities of the Uvi to the Cwi. The outcome of the debate in the Second Chamber was that the government agreed to hold the SUWI-proposals a few weeks up until after summertime more is known about the effects of the privatisation proposals. The outcome of this political process remains to be seen, but many guess that the purple coalition will choose for a more gradual and step-wise approach to the marketisation of social insurance and the integration of labour market and social security institutions. The public control and the impact on the marketisation process of the social security system will therefore likely not fall but rise instead.
3. **THE PERFORMANCE OF THE MARKET-DRIVEN ROUTE OF SOCIAL SECURITY**

3.1 **THE REASONS FOR PRIVATISATION**

The Government entered the road to marketisation of the social security system for various reasons. The primary reason was that the Government wanted to downsize the amount of public social security expenditures and particularly the amount of sickness and disability expenditures. A second reason was related to the results of the parliamentary inquiry committee indicating that the operation of the market could gain in efficiency if the institutional set-up was changed considerably. Part of the solution was sought in the market-conform execution of former purely public tasks because of which the efficiency of the execution of the social insurances could be improved. The attention for raising the financial incentives for social insurance agencies, employers and employees that were build into the system had the same reason, improvement of efficiency. A third reason was the Government’s idea that more could be done in preventing people becoming dependent on social security by paying more attention to activation and reintegration into the labour market.

To what extent has the marketisation of the social insurances been succesful? From an economic point of view the question should be phrased in reverse terms since private operation is primate to government operation. Government operation in the social security market can be defended because the market failed in the execution of social insurance either because without government intervention no private insurance would have come up or because the market operation has negative external effects caused by *adverse selection* and *moral hazard* (Bekkering 1994). For low risk groups insurance could lead to a welfare loss because the average premium determined by the insurer who has no information whatsoever on the distribution of risks across the insured population, is too high for them. High-risk groups on the other hand experience a welfare gain because the average premium will be too low according to their risk profile. For these reasons a *negative selection process* will occur that will lead to an unprofitable market. Such a market will under normal conditions not exist very long.

*Moral hazard* will arise when insurance will lead to more risky behaviour than without insurance would be the case. Since the insurer beforehand has no information on the extent of
moral hazard among his insured population he will not take the moral hazard into account for which reason the efficiency on the demand side is also less. But also the risk-avoiding customer does not take the moral hazard component into account when buying an insurance product. Therefore, he will buy less insurance than he really needs according to his risk profile (Aarts and de Jong 1996a, 1999 and Teulings et al 1997).

But government operation can be defended for equity and merit-good reasons as well if market failures would lead to unfair outcomes or underconsumption of valuable social goods (Hoogerwerf 1995). In such cases government operation can be rational and can raise total social welfare. Public operation can also be made more efficient if the government creates a public monopoly by extending the coverage of the insurance, by introducing universal pay-as-you-go systems or by the creation of collective systems with mandatory payment. The fixed costs will then be covered by a much larger number of insured persons, for which reason costs are much lower than a private insurer would have (Teulings 1997). Especially, when the moral hazard component is low as is the case in insurance where the insured risk can be assessed in a rather simple, objective or straightforward way (old-age pensions), the advantages in terms of cost containment are rather big (Aarts and de Jong 1999).

Why then does the government opt for marketisation. If we assume that governments operate rationally the obvious reason should be that the government expects efficiency gains from privatisation. This means that a rational behaving government would expect the welfare losses due to government failures to be larger than the welfare losses due to market failures (Hessel et al. 1998). In other words, the efficiency losses due to government intervention should be considered larger than the efficiency losses due to adverse selection. But is there any evidence that this assumption of the government is true? If it is not true then other reasons than rational ones must be at work such as political ones which might well explain the positions taken during the privatisation processes. First of all let us look at this with respect to the issue of adverse selection.

**Adverse selection**

The various privatisation measures with respect to sickness and disability have caused a shift of the costs of sickness and disability from the collective sector to the employer. The own contributions for the employer were first directed at the first 2 to 6 weeks of sickness, then to the whole first year of the sickness period and finally to the five years following the first sickness year of the disability spell. This holds not only for the employer who wants to
execute the disability insurance at his own risk but also for employers participating in a collective agreement of the sector. They might also be confronted with an increased disability insurance bill, if their disability risk is above average, because of Pemba, causing premiums to vary across firms according to disability risk. Up to date there is quite some evidence that Pemba has induced risk-averse employers to be more critical on hiring workers with health impairments. A survey among the employers in the end of 1997 indicates that about 60% of all employers state that they changed their personnel selection behaviour by taking more notice of the disability risk of future employees (Berendsen et al 1998). If that is to happen in many instances, it is likely that the people having low disability risks will be covered in the private disability insurance and the disabled with high disability risk in the public system. The public share will be growing at the cost of the private share and in the final run most seriously handicapped persons will again be covered in the public system. In that scenario the privatisation policy has failed and a posteriori we might conclude that we better had not started privatisation in the first place. Privatisation has often pay-offs in terms of efficiency gains but also costs in terms of equity losses due to adverse selection and welfare losses due to moral hazard (Berkouwer et al 1996, Garner 1997, Steuerle et al 1997, Donner 1998; Kotlikov, 1998a, 1998b). From what we have stated before, the way privatisation has been strived for in the Netherlands means that there is a real danger for this worst-case scenario to occur.

Privatisation and reintegration efforts

The Pemba act was also meant to increase the financial incentives for employers to devote more attention to prevention and reintegration into work. Evidence from the United States indicates quite clearly that differentiation of premiums increases the efforts of employers in the domain of prevention and reintegration (Aarts and de Jong 1996b). At the same time it appeared that employers, when the costs of reintegration are large and the returns rather insecure, have little interest to increase their reintegration efforts. The Ctsv 1997 survey among employers shows that 50% of them and even a higher percentage in small and medium sized firms, agreed that the differentiation of the premiums according to Pemba became a motive to do more on prevention and reintegration of disabled workers (Ctsv 1998). One might say that in this respect Pemba seems successful. Many employers however cast doubt on the presumption that preventive measures will lead to a strong reduction of disablement. They pointed out that a major part of the inflow in disability is not work-related but associated with a risky life style.
Privatisation and the fear for a two-tier health care system

There was another impact of premium differentiation that was not envisaged. Employers in response to Pemba appeared to start asking for a more efficient treatment of workers in the health care system. They believe that Pemba has learned that there is more reason to shorten the waiting list for treatment, because the longer the waiting time the more time is needed for recovery and the more difficult recovery will be. This will lead to increased inflow in disability and higher costs for the employer because of the increased length of the sickness and disability spell. Because of that the employer’s organisation has requested for a special privileged treatment of workers in the health care system. To avoid the existence of a two-tier health care system with better access to health care for the well-to-do, the time and capacity needed for the special treatment should be on-top of the existing capacity and be carried out in specialised centres of health care. There is ample debate in the media about how to guarantee that the prior treatment of employees is not at the expense of the non-working sick. The situation up to date is that when certain conditions are met, the Minister of health care will approve the creation of these kind of special services for the workers.

Adverse selection through the choice for a principal

With respect to adverse selection problems there is another issue that requires further scrutiny here. Adverse selection may also arise from the choice for a principal (Sector Councils established at the regional level by the social partners) closing contracts with a very strict Uvi or insurer. This means that the Uvi or insurer applies the legal criteria for judgement of the benefit claim in a very strict manner. Together with the choice for a strict Uvi or insurer the employer implicitly also selects healthy personnel because strict executor's are less attractive for people having high disability risks. For that reason, to avoid this type of adverse selection, a kind of minimum level for the scale of the contract is required. The Government therefore decided to allow only firms with 100 workers or more to bear the risks themselves. Another idea was that for small firms, contracts should be established at the sector level (Teulings 1998).

Moral hazard in practice

To what extent the issue of moral hazard is existent is hard to say while there is lack of evidence on this issue. To avoid moral hazard problems the government decided to increase the financial incentives for the employer s well as for the employee. This was pursued first, by the establishment of the Act on the reintegration of disabled people (REA) which came into
force in July 1998. According to this act employers who hire a disabled person may be rewarded in the form of a tax deduction or a wage subsidy. For the employee new opportunities were created for additional allowances in order to make it more attractive to accept a job. The government pursued this goal secondly, by putting a penalty on risky and unwanted behaviour through a system of sanctions, the creation of monitoring devices and the control of all kind of activities. The successes or failures of these reward/penalty systems are hard to assess. In general there is little evidence on the effects of penalty systems on the behaviour of employers. The act is too fresh to have already any evidence available whatsoever of the impact on the re-employment probabilities.

Incentive effects
But, there is some evidence of the effect of the already for a much longer period existing penalty regimes on the supply behaviour of persons receiving social security benefits. This evidence suggests that financial sanctions may be at least partially efficient tools to affect the behaviour of the insured persons in the right direction. The findings of two research projects in the social assistance in 1998 and in the unemployment scheme for employees in 1996, provide some indications that financial penalties have a rather strong positive impact on the re-employment probability of the beneficiaries (Abbring et al. 1996; Berg et al. 1998). However, it appears that the effect is strongly determined by the research methodology. Only if the selectivity of the sanction process itself is taken into account (corrected for differences in motivation to work) these effects could be found. If no account was taken of the selectivity of the sanction process, no effect or even a reverse effect was found. From previous studies in which no account was taken of the selectivity process it appeared indeed that hardly any effects were found for the penalty system on the outflow out of the unemployment schemes (in ’t Groen & Koehler 1993). For the disability act one may doubt whether the effects will be as strong as with the unemployment schemes because the labour market opportunities for disabled people are much worse partly because of the handicap and partly because of their higher age. If there are few opportunities on the labour market the likelihood of return will be very low and the sanctions will have little effect. For this reason one might expect that the measures to raise the incentives for employees and employers might have a small but positive effect on the outflow from disability. In Table 4 some evidence on the inflow and outflow of short and long-term disability is presented. Although the employment grew during this period, the inflow as well as the outflow for long-term disability remained fairly at the same level. A further indication is also given through the average spell length information, which shows that
the average length even became longer in this period. Also the incidence of sickness leaves is likely less affected by the changes in incentive structure than by the changes in the law itself. The percentage of recovered sick people appears to vary a lot across the 1990s likely because of the series of radical reforms of the sickness act. It emerges that there is a strong decline in the number of sick not because of the incentive structure but simply because the employer took over the full responsibility for the sickness insurance. This evidence provides us with some clues that the impact of the sort of incentives as they are built into the Dutch system is not substantial with respect to short and long-term disability.

**TABLE 4**

*Executioner’s costs*

Part of the efficiency gain of privatisation should follow from the reduction in the executioner’s or administration costs. In Table 4 some more evidence on the cost practices are given. An indicator for this is sought in the executioner’s costs per allowance. In Table 4 more evidence is given on the total administration costs and the average costs per allowance for the years 1993 to 1998. It follows from the figures in Table 4 that the total administration costs for short-term disability (sickness act) were indeed reduced but instead raised for long-term disability. The reduction for the sickness insurance can be attributed to the shift of the execution of the scheme from the government to the employer. The rise in administration costs for long-term disability can be explained by reference to the increased activation and reintegration efforts which have to be taken up by the so-called private Arbo (labour conditions)-services who operate on behalf of the Uvi. The picture becomes even more unfavourable if we look at the costs per allowance. There we find that only in 1994 the costs were strongly reduced which has to be attributed to the shift in responsibility of very short stays in sickness for two to six weeks to the employer. These very short-term sickness leaves constituted a large fraction of the sick and therefore a substantial smaller number appeared from then on in the files of the industrial insurance boards (‘Bedrijfsverenigingen’). From 1995 to 1997 the costs per allowance remained fairly stable, which is remarkable given the large drop in sickness cases due to the further shift of the responsibility from the public scheme to the employer in 1996 (Kras et al 1997). The reasons for the administration costs not to fall might be found in the argument brought forward earlier that private firms have higher administration costs for marketing and advertisement and capital formation than public firms have. A further reason might be that their costs are higher because of the tendency of
being selective reducing therewith the number of insured and the spreading of the total costs over a wider clientele. Since the privatisation was only partial and mandatory payment has been continued, it is hard to believe that this is the main reason for the administration costs not to go down. A more important reason is likely that the government did not set the conditions for a more efficient treatment of the social security clientele.

If we consider the evidence in Table 5 we find that, contrary to what we might expect, the sickness leave incidence is higher for employers who execute the sickness act on their own behalf and lowest for firms who did fully reinsure the sickness risk with an insurance company. We would have expected that for firms with lower disability risks it might be interesting not to pay the average risk premium but to operate at their own behalf and to pay lower premiums.

TABLE 5

Since the evidence in Table 5 shows that it is the other way around we might conclude that firms with a higher than average risk does not want to pay the higher price and want to take up their own responsibility to reduce the incidence of sickness leaves.

Activation and reintegration measures
Eventually, we want to look at the success of the activation and reintegration measures. If we look at the findings in Table 4 it is evident that the success of the measures is not yet proved from the incidence and outflow figures on disability. They remained fairly stable. It might of course well be that if the government would have maintained the ‘old’ policy that they would be even more unfavourable but this is hard to prove. Beforehand we have little reason to assume that the policies changed the picture a lot, although employers state, that they have now more interest for activation and reintegration policies. This likely small positive effect must be balanced with the negative effect of increased selection at the entrance gate of the company which effect might well be stronger.
4 THE LESSONS THAT SHOULD BE LEARNT FROM THE NATIONAL EXPERIENCES WITH MARKETISATION

4.1 A NEW ROAD TO SOCIAL SECURITY

The government proposals for a reform of the institutional set-up of the social insurance system during the period 1992-1997 has been characterised as a new road to privatisation of the social security system. From the previous observations it became clear that the privatisation measures for the social insurances were taken without having a clear notion about the future design of the social security system. Maybe that is also the reason why it went wrong and why currently after the 21st of June we are in a new deadlock situation. Probably, the most important lesson to be learnt from the Dutch experience is that to start privatisation and to overturn the system rather drastically without knowing where to go creates the necessary conditions for a serious drawback that might throw the debate again 10 years back in time. However, the 1990s paved the road for a rethinking of our social security system of today in the light of changes going on like globalisation, flexibilisation, individualisation and the ageing of the population. Quite a number of new acts came in this period into force that changed the picture of the public-private nexus of social security considerably particularly in the field of social insurances. To speak of full marketisation as the government did is head covering what is really happening. First of all the privatisation is *incomplete* since only the first five years of disability became subject to privatisation whereas real long-term disability for spells of 5 years or longer remained within the public domain. The privatisation is also incomplete since only parts of the execution practices of social insurance could become private whereas other activities like the disability claim judgement and the premium calculation for most of the firms remained public (Geleijnse 1995). In addition to that, it must be seen that the government kept a strong eye on what is happening in the social insurance sector to avoid that it will be confronted with illegitimate or inefficient operation of the private players in the field (Keuzenkamp, 1997). The government also feared negative publicity in the media that could endanger the policy route set in motion in the early 1990s. For all these reasons it is more justified to speak of *regulated privatisation* with maintenance of a large control of the government for defining criteria for access of Uvi, for defining protocols and for certificating contracts between the Lisv and the Uvi.
Currently, the Dutch reform of the system is considered by the government to be in a transitional period that ends by the end of the year 2001. In 2002 new legislation, that is currently in preparation (the new Organisation Act on the Social Insurances, OSV-2001 that will replace the Organisation Act of 1997) will come into force because of which according to the government, ‘full’ marketisation of social security will be attained by then. By that time the Uvi have had time to get used to the new situation where they have to change their role dramatically from self-administrators and executioner's in the public domain to principals and principal for private companies in the private domain. It implies that they have to disentangle juridically, financially and managerially the administration and execution of benefit schemes, and more particularly the execution of activities in the public and private domain. At the same time they have to get used to compete with all other Uvi, public and private ones at the national level, for getting contracts with the private firms for the execution of social security arrangements.

4.2 THE ROUTE TO PRIVATISATION: CONTRACTING OUT

The marketisation of social security as it took place in the Netherlands from the early 1990s on is featured by a mixed form of non-competitive marketisation and partially-competitive marketisation. The marketisation is non-competitive because with respect to the privatisation of the disability act, the public A-leg of the Uvi operates as a monopolist within the firm sector to which it is associated. At the same time it is ‘partially-competitive’, because on the one hand the private B-leg competes with the public sector offices when the firm has opted for staying in the public scheme. On the other hand the private B-leg competes with other commercial services within the realm of its own firm sector at least when the firm is 'opting out' of the public scheme. In that respect we might conclude that the privatisation took the form of 'contracting out'. In fact the government did create a market for the provision of complementary social security cash benefits and for the labour market reinsertion measures within the sickness and disability schemes. On this market the government permitted commercial providers to operate at least partially (with respect to the B-leg activities) in a competitive environment. But even with respect to the execution of reintegration measures as part of the B-leg activities, it is clear that the public A-leg retained its responsibility for the selection of candidates for reintegration and the application of labour market programmes.
For the way the 'Sickness' Act was privatised in the Netherlands we can speak of 'coverage marketisation'. The government privatised in several steps the sickness act entirely by shifting the responsibility for sickness leaves of short duration (less than one year) in the framework of the Sickness Act to the employer. The employer was then permitted to bear the sickness risk himself or to shift the responsibility to private firms and private insurance companies. The scheme was therefore fully privatised and the public responsibility for the sickness act has in several steps been reduced to none.

The privatisation of the disability and sickness acts can be characterised as a controlled liberalisation of important parts of the social security system. It does not cover the health care sector and also not the social assistance scheme nor the pension system. For the health care sector it holds that it is not considered to belong to the social security system. The other two sectors do belong to the social security sector but privatisation had up to date less significance for these sectors than for the social insurance sector. Nevertheless, the process of privatisation was certainly not limited to the social insurance sector alone. It would however go far beyond the purpose of this paper to address the marketisation of the social assistance and pension system as well in this context.

4.3 **THE EVALUATION OF THE POLDER ROUTE TO MARKETISATION**

If we summarize the effects of the privatisation route in the Dutch case it is rather difficult to make up a positive balance of the pros and cons. There are two main reasons for this negative assessment. The first is that the hybrid structure of the social insurances (the mixture of public and private activities in the same ‘holding’) has had a detrimental impact on the goals of increasing efficiency, downsizing disability incidence and a more client-friendly treatment in the execution process. All these goals are far from attained through the privatisation measures and more than that, they were enacted without much consideration for the risks of adverse selection, arising holes in disability coverage and heightened administration costs. The government made a real choice for neither of the two options, nor for full privatisation, nor for full public operation. The lesson that can be learned for the future is to avoid the ambiguity and hybrid character of the current system. The government should clearly decide which road it wants to follow, either the privatisation road with public control or the public road with private execution of significant parts.
The result now is an ambivalent endeavour to give greater room to privatisation without setting the necessary conditions for a real operation in the market by the Uvi. The attempts to create more room for private operation without losing public control on the execution process was a compromise within the first purple government of the social democrats at the one side and the liberals on the other. The main problem was that the political actors had overlooked to develop some clear notions about the future of the social security for which reason the route to privatisation was paved with unexpected obstacles and without any horizon. Because of that omission the proposals came into force without any clear perception how employers and employees would react and without having a clear idea about where the reform proposals would end up in. For that reason the parliamentary debate ended the 21st of June 1999 in a new deadlock situation since the government under pressure of the Second Chamber had to defer the privatisation proposals and to leave the Uvi under public control. However, not all proposals had to be deferred. The Second Chamber accepted the Cwi-proposals for the integration of labour market and social security institutions and so this part of the reform will be implemented in the years to come.

The need for a fundamental debate about substance and organisation

The second reason is that the government refused to start a fundamental and public debate about the substance and content of the social security system. It wanted to leave the level of the benefits out of the political debate because of its controversial nature. For that reason the focus shifted to the creation of a more efficient and less bureaucratic system which is not vested on corporatist grounds but on modern management practices. However, the route to privatisation set in motion in 1993 by the parliamentary inquiry committee, headed by Flip Buurmeier and followed up by a series of privatisation measures, marked the road to a new on neo-liberal grounds vested social security system.

It is certainly true as many authors have stated that a modern social security system will be very different from the 'old' one that was build on the working conditions and life styles of the foregone 20th century (Lazar et al. 1998). The new system should not only be more efficient and less bureaucratic, it should also be better equiped to deal with the changes in work (working times, work contracts, work location) and changes in household composition, earnership and life styles. A sustainable system needs to be much more flexible to cope with the fundamental trends and challenges of the 21st century as there are globalisation, flexibilisation, population ageing and individualisation (WRR 1997).
In the meantime the Dutch social security system changed implicitly and evolved into a sort
of three pillar system with flat-rate social assistance benefits operating as a safety net for the
un(der)insured, occupational, earnings related benefits on top of that and purely private
arrangements at the highest end. In the Dutch pension system this distribution of
responsibilities between the state and the citizens has nearly been realised, but less so in the
social insurance and health care system. But such a clear-cut division of tasks between the
public and the private and leaving the state just to provide a safety net for the poor might be
the best option for the pension system but not necessarily for the social security system. It
does not resolve the adverse selection problem and also not the moral hazard issue since low
incomes will choose for more insurance coverage than they really need. It might lead to
overinsurance because it makes no sense for low incomes to bear a high own risk when the
burden of the income loss is nearly entirely covered by the government (Teulings 1997). It is
clear that a privatised system cannot work efficiently and rightly without public intervention.
As we saw before, the debate on the most appropriate public-private nexus ended up into a
deadlock situation. New impulses are therefore required which may come from a new state
committee in the same vein as ‘Van Rijn’ in 1948 with the assignment to design the contours
of a modern, flexible and sustainable social security system and to organise a societal debate
about the future of the welfare state and its arrangements.
Table 1: The evolution of social security, 1970-1998 (x 1,000 benefit years)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Old age</td>
<td>1028</td>
<td>1159</td>
<td>1280</td>
<td>1781</td>
<td>1956</td>
<td>2079</td>
<td>2127</td>
<td>2150</td>
</tr>
<tr>
<td>Widowhood and orphanhood</td>
<td>151</td>
<td>162</td>
<td>168</td>
<td>171</td>
<td>187</td>
<td>191</td>
<td>182</td>
<td>149</td>
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<tr>
<td>Long-term disability</td>
<td>196</td>
<td>312</td>
<td>608</td>
<td>698</td>
<td>778</td>
<td>752</td>
<td>742</td>
<td>646</td>
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<tr>
<td>Sickness and short-term disability</td>
<td>234</td>
<td>280</td>
<td>306</td>
<td>257</td>
<td>346</td>
<td>306</td>
<td>295</td>
<td>307</td>
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<td>a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Unemployment b)</td>
<td>58</td>
<td>197</td>
<td>235</td>
<td>652</td>
<td>537</td>
<td>675</td>
<td>293</td>
<td>262</td>
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<td>Social assistance c) d)</td>
<td>70</td>
<td>117</td>
<td>112</td>
<td>180</td>
<td>176</td>
<td>164</td>
<td>463</td>
<td>429</td>
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<td>Family allowances e)</td>
<td>1927</td>
<td>2100</td>
<td>2174</td>
<td>2165</td>
<td>1809</td>
<td>1814</td>
<td>1809</td>
<td>1805</td>
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<tr>
<td>Total (excl. family allowances)</td>
<td>1737</td>
<td>2227</td>
<td>2709</td>
<td>3739</td>
<td>3980</td>
<td>4167</td>
<td>4102</td>
<td>3943</td>
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<tr>
<td>Index (1970 = 100)</td>
<td>100</td>
<td>128</td>
<td>156</td>
<td>215</td>
<td>229</td>
<td>240</td>
<td>231</td>
<td>227</td>
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<tr>
<td>Total (incl. family allowances)</td>
<td>3664</td>
<td>4327</td>
<td>4883</td>
<td>5904</td>
<td>5789</td>
<td>5981</td>
<td>5911</td>
<td>5748</td>
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<tr>
<td>Index (1970 = 100)</td>
<td>100</td>
<td>118</td>
<td>133</td>
<td>161</td>
<td>158</td>
<td>163</td>
<td>161</td>
<td>157</td>
</tr>
<tr>
<td>Population (x 1 million)</td>
<td>13</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Index (1970 = 100)</td>
<td>100</td>
<td>105</td>
<td>108</td>
<td>112</td>
<td>115</td>
<td>118</td>
<td>121</td>
<td>122</td>
</tr>
</tbody>
</table>


Notes: ¹ Estimated figures for 1998, see Social Report 1999: 153-154
a) Benefit days divided by 261.
b) Including unemployment assistance until 1995.
c) Persons below 65 years of age not living in institutions.
d) The 1997 and 1998 figures include beneficiaries formerly receiving unemployment assistance.
e) Number of households.
Table 2: Sickness and disability in percentage of the population, 1990 and 1995

<table>
<thead>
<tr>
<th></th>
<th>Sickness</th>
<th>Disability</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>7.1</td>
<td>5.2</td>
<td>8.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.8</td>
<td>3.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.1</td>
<td>3.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Denmark</td>
<td>4.4</td>
<td>6.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Germany</td>
<td>5.0</td>
<td>4.5</td>
<td>3.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.6</td>
<td>3.4</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Affairs and Employment, Report 1999
Table 3: Social protection in the Netherlands and the European Union, 1995

<table>
<thead>
<tr>
<th></th>
<th>Netherlands</th>
<th>European Union (EU-15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social protection expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of GDP</td>
<td>31.6</td>
<td>28.4</td>
</tr>
<tr>
<td>Per capita (PPS)</td>
<td>5473</td>
<td>4623</td>
</tr>
<tr>
<td>Social benefits (% of total expenditure)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sickness/health costs</td>
<td>28.9</td>
<td>27.6</td>
</tr>
<tr>
<td>Long-term disability</td>
<td>15.5</td>
<td>8.4</td>
</tr>
<tr>
<td>Old age</td>
<td>32.0</td>
<td>39.0</td>
</tr>
<tr>
<td>Widowhood and orphanhood</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Family</td>
<td>4.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Unemployment</td>
<td>10.1</td>
<td>8.4</td>
</tr>
<tr>
<td>Housing</td>
<td>1.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Social exclusion</td>
<td>2.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

*Source: Eurostat, 1998*
### Table 4. Administration costs and flow percentages for the sickness and long-term disability insurance for The Netherlands 1993-1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sickness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration costs in mln Dfl.</td>
<td>917</td>
<td>668</td>
<td>519</td>
<td>334</td>
<td>199</td>
<td>257</td>
</tr>
<tr>
<td>Costs per allowance (in 1000 Dfl.)</td>
<td>162</td>
<td>639</td>
<td>467</td>
<td>488</td>
<td>426</td>
<td>n.a</td>
</tr>
<tr>
<td>Incidence in %</td>
<td>6.2%</td>
<td>4.9%</td>
<td>4.9%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>n.a</td>
</tr>
<tr>
<td>% recovered</td>
<td>27.5%</td>
<td>39.2%</td>
<td>49.8%</td>
<td>32.2%</td>
<td>64.0%</td>
<td>n.a</td>
</tr>
<tr>
<td><strong>Disability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration costs in mln Dfl.</td>
<td>1.334</td>
<td>1.344</td>
<td>1.402</td>
<td>1.367</td>
<td>1.484</td>
<td>n.a</td>
</tr>
<tr>
<td>Costs per allowance (in 1000 Dfl.)</td>
<td>627</td>
<td>580</td>
<td>1.258</td>
<td>1.324</td>
<td>1.505</td>
<td>1.512</td>
</tr>
<tr>
<td>Incidence in %</td>
<td>11.0%</td>
<td>10.5%</td>
<td>9.9%</td>
<td>9.8%</td>
<td>9.7%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Inflow in % insured population</td>
<td>n.a</td>
<td>1.2%</td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Outflow in % disabled population</td>
<td>9.2%</td>
<td>10.5%</td>
<td>11.0%</td>
<td>9.4%</td>
<td>8.6%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Average length of spell in # years</td>
<td>2.4</td>
<td>2.2</td>
<td>3.6</td>
<td>3.7</td>
<td>3.3</td>
<td>n.a</td>
</tr>
</tbody>
</table>

Table 5. Incidence of sickness leave by insurance type, 1998

<table>
<thead>
<tr>
<th>Insurance type</th>
<th>Sickness leave in % of total working time</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Executioner at own risk</td>
<td>5.3%</td>
</tr>
<tr>
<td>- Sickness partially re-insured (stop-loss) with insurance company</td>
<td>4.4%</td>
</tr>
<tr>
<td>- Sickness fully re-insured with insurance company</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

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