

# Summary

## Provisions distributed

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## Summary

### What is profit from the government?

Under the Dutch Constitution, the government is responsible for securing the means of subsistence of the population and achieving the distribution of wealth. The government is also responsible for providing access to employment, social security, public health, housing, education and legal aid. To fulfil these responsibilities, the government has developed a great many arrangements and provisions. To finance these arrangements, the government levies taxes and social security contributions and sometimes asks citizens to make co-payments. Whenever the government pays a benefit or funds a provision, households which receive that benefit or use that provision can be said to derive a 'profit from the government'. When a household pays taxes, contributions or a co-payment, it experiences a 'loss from the government'.

### Primary and secondary income

Many households derive an income from employment and/or from their assets. This is referred to as primary income. However, by no means all households receive a primary income: for example, people who are unable to work due to health problems, old age or economic circumstances, and who have no income from assets. Based on its constitutional task of providing the population with a means of subsistence, the Dutch government is required to provide a safety net for these people. It does this by creating social security arrangements to accommodate subsistence risks (social assistance benefits, child benefits, child-related budget), unemployment risks (Unemployment Insurance Act, redundancy pay), disability risks (Work and Income (Capacity for Work) Act, Sickness Benefits Act) and old-age risks (General Old Age Pensions Act, supplementary pension). Partly in order to fund these arrangements, the government levies social security contributions and taxes on income from employment and assets and on the benefits received. If we add together all benefits, contributions and taxes to the primary income, we obtain the secondary income. Dutch households pay a total of 199.1 billion euros from their primary income in the form of social security contributions, pension contributions, healthcare contributions and income tax. Against this, households receive 110.7 billion euros in the form of benefits to cover subsistence risks, unemployment risks, disability risks, old-age risks and income tax expenditure. All in all, this process involves a pronounced redistribution from households with a high income to households with a low income. The distribution of secondary income is much more even (Gini = 0.374<sup>1</sup>) than that of primary income (Gini = 0.574). In addition, the sum of all secondary incomes is substantially lower than the sum of all primary incomes, because a high proportion of the contributions and taxes go towards public provisions that have no impact on secondary income. On balance, therefore, in the context of secondary income, a substantial amount of money goes to the government.

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**Box 1**      **Income deciles**

When dividing an income distribution into deciles, we first rank all households in order of income, from low to high. The bottom 10% in this ranking of households forms the first decile of the income distribution; in the Netherlands, this represents the approximately 780,000 households with the very lowest incomes. The second 10% in this distribution is referred to as the second decile, the third 10% as the third decile, and so on. Each decile contains approximately 780,000 Dutch households.

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### Arrangements to cover subsistence risks

The majority of social assistance benefits are received by households with a low income, in the first, second and third deciles of the primary and secondary income distribution. Households with a higher income have more children on average than households with a lower income, which means that a substantial proportion of child benefits go to households with a high income. The child-related budget rises towards the fifth decile of the primary and secondary income distribution, after which it falls again. This is because more children generally means a bigger child-related budget (households with a higher income often have more children), whereas the amount of the child-related budget reduces as income rises.

### Arrangements to cover unemployment and disability risks

The majority of unemployment benefits under the Unemployment Insurance Act (ww) are received by households in the third to seventh primary income deciles. This is due to the fact that benefit recipients more often live in a household with a second breadwinner, and the fact that unemployment benefits are linked to the recipient's income before becoming unemployed. Redundancy pay for politicians and government administrators shows a similar distribution. The majority of contributions to fund unemployment benefits are paid by households with high incomes: these contributions show a fairly steep and linear proportional increase from the middle of the income distribution towards the tenth decile. On an annualised basis, therefore, unemployment benefit arrangements lead to a fairly marked redistribution from high to middle incomes. Over the longer term, the redistribution will be less pronounced, because some members of households with high incomes may become unemployed themselves in the future. Receipts in the form of benefits under the Work and Income (Capacity for Work) Act and the Sickness Benefits Act (wia), both of which are forms of incapacity benefit, broadly follow the pattern of unemployment benefits, because they are based on the same system and comparable risks in relation to loss of income.

### Arrangements to cover old-age risks

The majority of retirement benefits, both the state pension under the General Old Age Pensions Act (aow) and supplementary pensions, are received by households with a low primary income (first to fourth decile), and are paid for by households with a high primary income (sixth to tenth decile). This is of course due to the fact that older persons are gener-

ally not active on the labour market, whereas those in work pay for the state pension through the pay-as-you-go system. By contrast, supplementary pension benefits received increase across the secondary income distribution, because they are related to the income prior to retirement.

### Income tax and tax allowances

Income tax – excluding state pension contributions and contributions to fund benefits under the Exceptional Medical Expenses Act (AWBZ), which we include under healthcare – shows a very skewed distribution, with around 50% being paid by the tenth decile of the primary and secondary income distribution. This is of course due to the system of income tax bands, and is reinforced by the fact that excluding the contributions referred to above greatly enlarges the difference between the tax rates in the second and third bands. Set against this skewed distribution of income tax are the tax allowances, such as the self-employed persons' allowance and gift allowance, the profit from which also goes mainly to households in the higher income deciles. However, this distribution is much less skewed than the income tax distribution and accounts for only a fraction of the total amount of tax paid.

### Tertiary income

If households use their secondary income to access provisions that are funded wholly or partly by the government, they increase their secondary income by the amount that is funded by the government. Commodity and other special-purpose taxes (e.g. VAT, vehicle excise duty and property tax) reduce household income by the amount paid. What is left over after adding profit from government funding and deducting payments is the tertiary income. In the tertiary income sphere, we distinguish between *provisions* in the fields of healthcare, support, education, housing, sport, culture and recreation, and transport. We also distinguish special-purpose *levies*, such as duties and VAT. The distribution of profit in the tertiary income sphere in the sectors referred to above is set against the secondary income deciles in order to provide an insight into the profit derived by different income groups.

In the progression from secondary to tertiary income, the Dutch government spends 142.9 billion euros on provisions in the fields of healthcare, support, education, housing, sport, culture and recreation, and transport. Households contribute 48.4 billion euros in special-purpose levies. Households with a low income receive a good deal of profit in the distribution from secondary to tertiary income (in the form of healthcare, support and housing), followed by households with a high income (education, sport, culture and recreation, and housing). Middle-income households, in the fifth to seventh deciles of the secondary income distribution, receive considerably less profit. As a result, the cumulative distribution of the profit from all provisions in the tertiary sphere forms a U-shape, and the tertiary income inequality (Gini = 0.329) is not much lower than in the secondary income distribution (Gini = 0.374). This corresponds with the results of the previous edition of *Profit from the government*. However, it is not possible to make a hard quantitative comparison with those

earlier results, because the supply of data has improved considerably and we have adapted our household definition. As a result, profit from the government is defined more accurately in this study and we have been able to attribute more provisions (especially in the field of long-term care).

## Healthcare

Healthcare accounts for 64.3 billion euros, distributed between curative care (Health Insurance Act (Zvw)) and long-term care (Exceptional Medical Expenses Act (AWBZ), replaced in 2014 by the Long-term Care Act (Wlz)), making by far the largest item of public expenditure in the Netherlands. In the first place, healthcare insurance contains an element of risk solidarity: households with a low risk of health problems pay the same level of contributions as similar households with a higher risk. In addition, there is an element of income solidarity: households with a higher secondary income pay a higher income-dependent contribution, while households with a lower secondary income receive a larger healthcare allowance. Together, these forms of solidarity lead to a redistributive effect, from households in the highest four deciles to households in the lowest five deciles. Family solidarity – whereby the government bears the nominal contribution for under-age children – works the other way round, since households with a higher secondary income generally have more children. However, the amount involved with the latter is relatively small.

Long-term care provisions result in a net distribution from middle and high-income households to households in the second income decile; the biggest source of funding, the AWBZ contribution, is paid for mainly by households in the fourth to tenth deciles, while the recipients of the various types of long-term care are mainly in the second decile. This strong concentration in a low decile is a consequence of the heavy use of these facilities by older persons and the fact that severe health problems among people below retirement age are often accompanied by a low income.

## Support

We divide support into social support (support at home, medical/mobility aids and provisions, supported housing, domestic help), work-related support (sheltered employment, municipal reintegration and the Dutch Employee Insurance Agency (uwv), family support (youth care and childcare allowances), legal support (legal aid) and financial support (special assistance grants, remission of municipal levies). Altogether, these sectors account for public expenditure totalling 16.7 billion euros.

The distribution of social support is virtually the same as that of long-term care discussed earlier: the lion's share of the 'profit' is concentrated in the second income decile.

The profit from work-related support is more broadly distributed. Municipal reintegration programmes, which are clearly linked to social assistance benefits, largely benefit households in the first, second and third deciles. uwv expenditure covers the entire income distribution, just as unemployment benefits did in the secondary income sphere, while the profit from sheltered employment is concentrated in the third decile, around the level of the minimum wage. The fact that the profit from sheltered employment also extends to

the fourth, fifth, sixth and seventh deciles is due to the fact that recipients often live in multiple-person households or earn more than the minimum wage.

The distribution of profit from family support also shows a varying pattern. The profit from residential youth care services is concentrated in the lowest three deciles of the secondary income distribution, while the profit from non-residential youth care is fairly evenly distributed. The profit from childcare allowance follows the distribution of the number of children and therefore rises with household income.

The profit from both legal and financial support is concentrated in the lowest three deciles of the income distribution, reflecting the fact that these schemes have been specifically designed for households with a low income.

### Education

Public spending on education in the Netherlands amounted to roughly 33.3 billion euros in 2014. The profit from primary and secondary education matches the distribution of the number of children of the relevant age fairly precisely. This can be largely explained from the perspective of compulsory education. As households with a higher income generally have more children, the profit from primary and secondary education rises with household income. The profit from special education is fairly broadly distributed between the third and ninth income deciles. If we look at the profit per child we find that, on average, children lower down the income distribution are more often in special education. The profit from vocational education also roughly follows the distribution of the number of children per household, while the profit from higher education rises sharply in line with household income. This is not just because of the higher average number of children in households with a higher income, but also because children of parents with a high income more often follow higher education.

### Housing

The profit from housing, which received government support to the tune of 19.2 billion euros in 2014, can be broadly divided into the profit from renting and the profit from buying. As regards renting, we find that rent protection and housing allowance are concentrated in the lower deciles of the secondary income distribution, decrease with household income, and have almost disappeared in the sixth decile. The profit from the tax breaks for home ownership show the reverse pattern and are concentrated in the higher income deciles, appearing to leave households on middle incomes to fall between two stools in this sector. The fact that households with a high income pay more in property tax, transfer tax and VAT on newly built homes does little to change this picture.

### Sport, culture and recreation

Sport, culture and recreation constitute a relatively small sector, involving government expenditure of 5.1 billion euros. The profit from sport and recreation is slightly greater in the highest deciles of the secondary income distribution. This is not just because households with a higher income are generally bigger (more children), but also because they

make more than average use of sports facilities. The picture is comparable for profit from culture, though here it is striking that the profit from cultural education and public libraries is fairly evenly distributed.

### Transport

Transport is the only provision in the tertiary sphere in which the total taxes paid exceed the profit that is received. This 'loss' falls entirely on car owners. Government spending on trains, cars and regional transport totals 6.9 billion euros, while the income from private motor vehicle and motorcycle tax ('bpm'), parking fees and fuel duties amounts to 9.3 billion euros. The profit in this sector largely falls to households with a high income, partly because of the greater car ownership in these households. As we have seen, however, this is offset by the large remittances they have to make.

### Levies

Finally, the Dutch pay approximately 28.7 billion euros each year in VAT, insurance tax, lifestyle taxes, energy and water tax. As a rule, these payments rise with household income, though payment of tobacco duty is concentrated among households with a low income: the lowest five deciles pay 57% of total tobacco duty, whereas only 38% of people aged 18 or over and 37% of those 12 years or older fall into this decile.

### Redistribution in the Netherlands

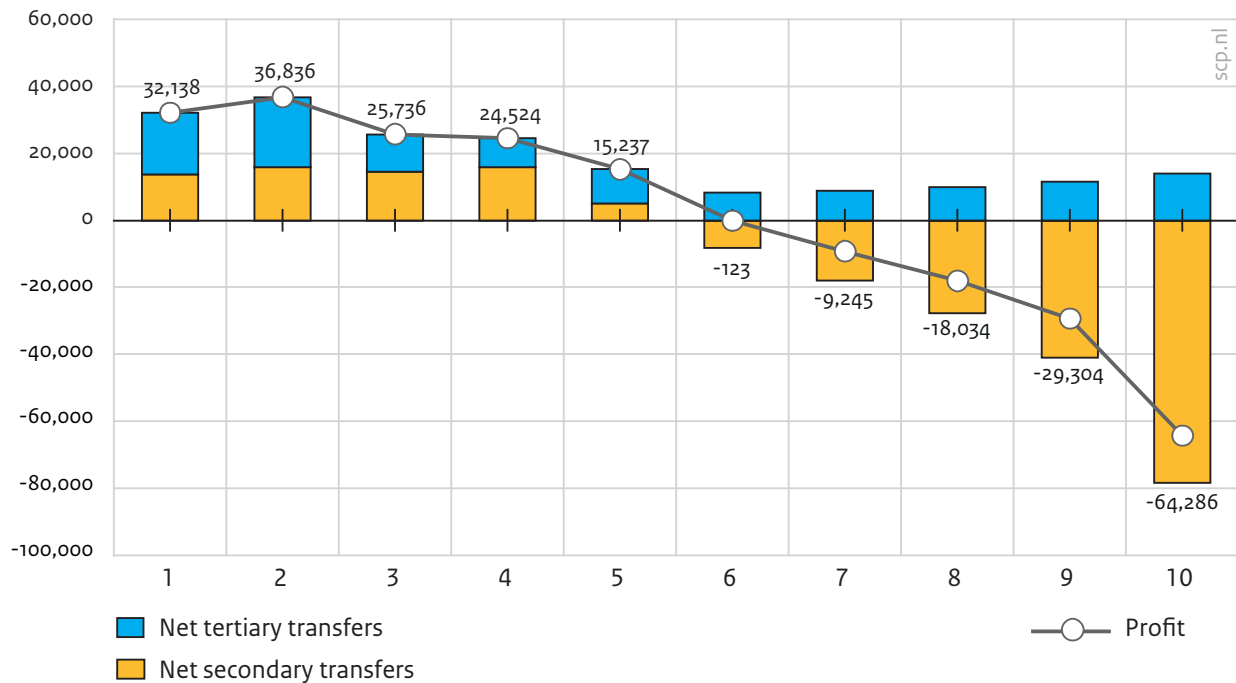
If we add together all transfers in the secondary and tertiary income sphere, we obtain a picture of the total redistribution taking place in the Netherlands. The first thing to note is that the total picture reflects the ability-to-pay principle fairly clearly: as a rule, those on higher incomes pay in more and receive less (Figure S1). This shape of the distribution results almost entirely from transfers in the secondary sphere (Figure S2) because, as stated, the profit distribution in the tertiary sphere is U-shaped (Figure S3).

However, this simple description masks a wide array of redistribution variants between and within income groups. Arrangements in the secondary income sphere are closely linked to household income and in many cases therefore considerably reduce income inequality. By contrast, arrangements in the tertiary sphere are often not directly linked to income; as a result, it is quite common where two households have a comparable secondary income for one to make heavy use of provisions whilst the other does not, so that the first household has a substantially higher tertiary income than the second. This selective use is reflected in the tertiary income of vulnerable groups, for example, such as single-parent families in receipt of social assistance benefits and single person elderly households. These groups have a much smaller secondary income than less vulnerable households, but may have an almost comparable or sometimes even higher tertiary income. If it is frequently the case that households with a comparable secondary income have divergent tertiary incomes, this inhibits the ability of the various arrangements to reduce income inequality. We see this happening in the tertiary sphere: since wide use is made of arrangements by specific groups that cannot be readily separated on the basis of their

income, the entire array of tertiary provisions reduces income inequality to a markedly lesser degree than transfers in the secondary sphere.

Figure S1

All attributed transfers and the net profit from those transfers,<sup>a,b</sup> by deciles of the primary income distribution, 2014 (average amount per household in euros)



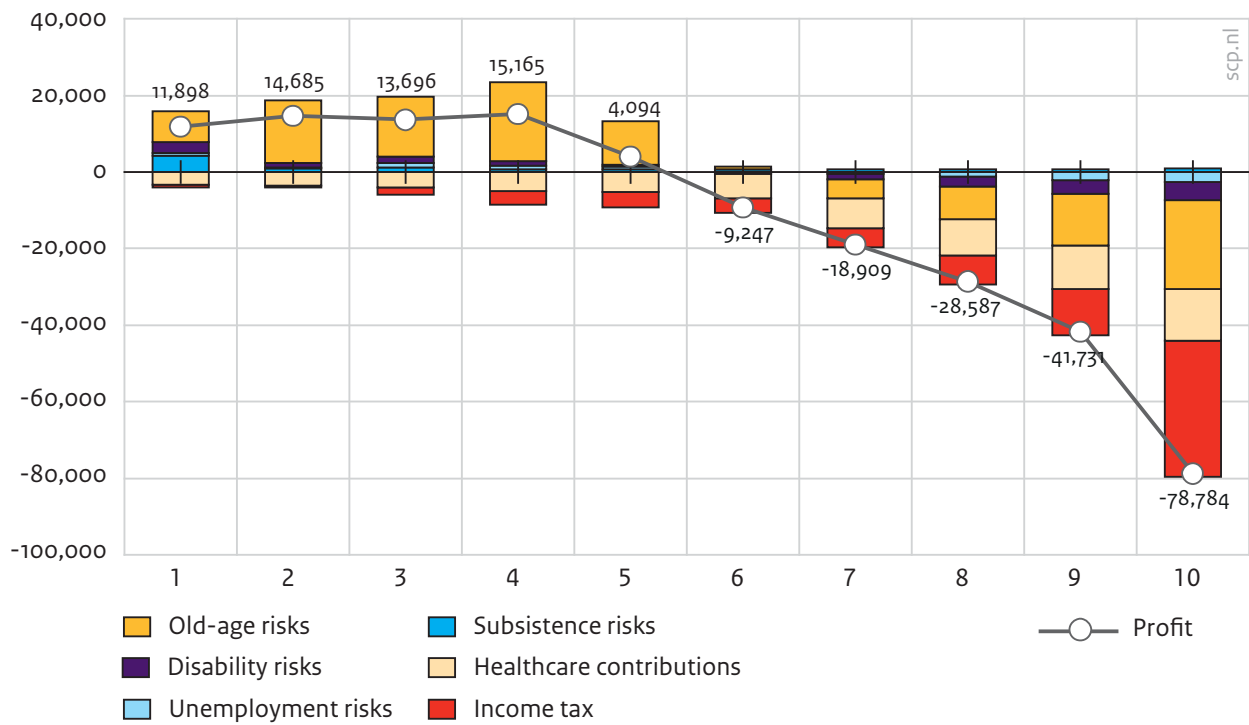
- a The points on the black line show the net profit per decile, i.e. the profit (positive transfers) less the cost (negative transfers). The line joining these points visualises the form of redistribution
- b This figure also incorporates ‘other secondary transfers’. This is not the case in Figure S2.

Source: SCP (IAH’14)



Figure S2

Secondary transfers per sector and the net profit from those transfers,<sup>a</sup> by deciles of the primary income distribution, 2014 (average amount per household in euros)

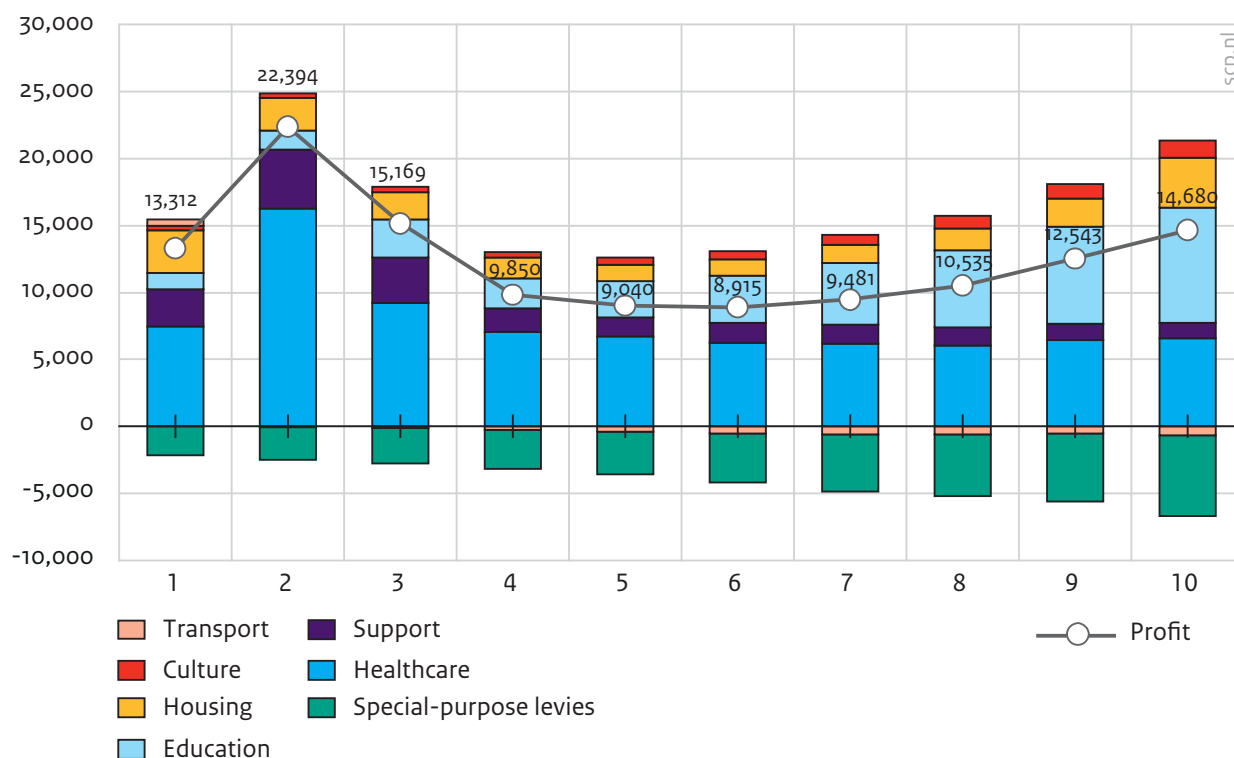


a The points on the black line show the net profit per decile, i.e. the profit (positive transfers) less the cost (negative transfers). The line joining these points visualises the form of redistribution.

Source: SCP (IAH'14)

Figure S3

Tertiary transfers per sector and the net profit from those transfers,<sup>a</sup> by deciles of the secondary income distribution, 2014 (average amount per household in euros)



a The points on the black line show the net profit per decile, i.e. the profit (positive transfers) less the cost (negative transfers). The line joining these points visualises the form of redistribution.

Source: SCP (IAH'14)

## Discussion

### The ability-to-pay principle in the secondary sphere

Redistribution in the secondary income sphere strongly reflects the ability-to-pay principle: those who have more, contribute more. In the first place, the ability-to-pay principle has a moral connotation and is a manifestation of solidarity values that are endorsed fairly widely in Dutch society. In the second place, the ability-to-pay principle stems directly from the motives for government intervention in social security. If households have insufficient income and the government wishes to top up that income, in the absence of adequate alternative sources of funding (e.g. natural gas revenues), asking households which do have sufficient income to make a contribution is the only effective funding method: the households requiring support can by definition not finance that support themselves. It should therefore come as no surprise that the total secondary transfers are highly progressive (i.e. help to reduce inequality) and that secondary income is much more evenly distributed than primary income.

### Accessibility and profit of households in the tertiary sphere

If we view the tertiary income sphere in isolation, we see that the cumulative balance of the profit and loss is not in line with the ability-to-pay principle, as reflected by the U-shaped distribution of profit from the government in the tertiary income sphere across the secondary income distribution. This follows from the motives for government intervention in the tertiary sphere, where the government does not have the explicit objective of providing income support, but aims among other things to make healthcare, support, education, housing, sport, culture and recreation and transport accessible to all households that fall into the target groups for those provisions, or in some cases seeks to discourage the use of provisions or products. A more important question than whether the distribution of tertiary profit reflects the ability-to-pay principle is whether the groups targeted by individual provisions and arrangements have good access to them and whether practices that are harmful (to the environment or health) are adequately discouraged. Groups targeted by provisions in the tertiary sphere are often characterised by the fact that they are socially, financially or physically vulnerable or, in the case of education, by having children. Whilst these characteristics bear a relationship to household income, it is far from straightforward. A clear example of the dynamic between vulnerability, income and the profit from public provisions is revealed by a comparison between single-parent families in receipt of social assistance benefits (vulnerable, and with children) and single-person households in waged employment (not obviously vulnerable, and no children). A single-person household in waged employment has a higher median primary income on average than a single-parent family on social assistance benefit (43,170 versus 940 euros), a secondary income that is still higher but with a much smaller difference (23,530 versus 17,260 euros) due to the ability-to-pay principle in the secondary income distribution, and a substantially smaller tertiary income (24,710 versus 48,710 euros) due to the heavy use of provisions by the single-parent family in receipt of social assistance benefits. These figures are averages; within the group of single-person households in waged employment there are households with a substantially higher tertiary income, while among single-parent families on social assistance benefit there are households with a substantially lower tertiary income.

As stated, this report does not contain a close evaluation of the effects of policy. However, based on the distributions of profit considered here, we do see a number of potential focus areas on the housing market, in higher education and in the field of sport, culture and recreation. This is discussed below.

### The middle group

Middle-income households make less use of arrangements for housing, higher education and sport, culture and recreation than would be expected based on the size and composition of these households. From the perspective of the government, it is undesirable for households with a low middle income to derive only limited profit from government interventions in the housing market, given that the motive for those interventions is one of fairness, based on the assumption that households with a low income have limited access to

the housing market, making government intervention desirable. Seen in this way, it is not surprising that low-income households derive relatively more profit than middle-income households, but it is striking that households with a high income enjoy relatively more profit. The implication of this is that low middle-income households pay a higher 'unit price' for housing than higher-income households, something that is difficult to justify based on the fairness principle.

The challenges for government policy are less clear-cut when it comes to education. On the one hand, the fact that middle-income households are overrepresented in secondary education and underrepresented in higher education could lead to a less assertive, less participatory and less healthy population. On the other hand, it is debatable whether the labour market would benefit from having substantially fewer potential workers with senior secondary vocational qualifications and more people with higher education qualifications. It is also not clear why the middle group is underrepresented in higher education. If this is due to personal preferences or skills, consideration needs to be given to whether this is a problem that government could or should address. If the limited participation is a result of financial constraints, on the other hand, there is a role for the government in improving accessibility. Further research will be needed to ascertain whether this is the case.

In the sport, culture and recreation sector, where participation by the middle group is also relatively low, it is also uncertain to what extent this underrepresentation is due to financial constraints or to a mismatch between what is on offer and the preferences of this group. In the former case there is a role for policy in making sport, culture and recreation more financially accessible, while in the latter case the available sport, cultural and recreational provisions may perhaps need to be tailored more to the middle group. However, any such change would need to retain the socially relevant nature of sport, cultural and recreational content, because it is these that justify government intervention in the sector.

## Conclusion

In this study we have provided insights into the distribution and redistribution of income in the Netherlands. The first conclusion we can draw is that the Dutch population is more prosperous than we would assume on the basis of disposable income. Dutch households make relatively high contributions in the secondary income distribution, but set against this is a wide and generally accessible system of partially collective provisions. This is important for the well-being of citizens. There is a wide difference between a single-parent family on social assistance benefits which largely has to bear the costs of education and healthcare for the parent and the children, and a single-parent family on social assistance benefits which receives reimbursement for education, youth care services and long-term care, and which is also supported by special (non-recurring, legal) expenditure when needed. It is difficult to quantify this difference, but it will indisputably have an influence on the living conditions of these households.

The differences in welfare measured on the basis of tertiary income are also smaller in some cases than when measured based on disposable income; in some cases, the relative welfare positions actually reverse. This matters for an evaluation of Dutch policy. Although

a good deal of policy in the tertiary sphere has traditionally not been intended as a vehicle for pursuing income policy, citizens will nonetheless evaluate it in part based on its income effects. More broadly, citizens will take into account the utility they derive from certain provisions in forming their opinion on government expenditure.

If we take the foregoing as a starting point, it is tempting to conclude that the support for public provisions is under pressure among households in the middle group. However, apart from noting that we unfortunately have no empirical information on this and that further research is needed, a number of caveats need to be applied to this assumption. First, it is unclear to what extent citizens are aware of the redistribution that occurs in the Netherlands and of the position of their own household within that process. It is not impossible that this awareness is fragmented, and its effect is ambiguous. On the one hand, a limited awareness could lead to greater support for redistribution, simply because people do not know how much they contribute and receive. On the other, a lack of knowledge could mean that people underestimate their profit from redistribution and overestimate their loss, making them more critical than would be expected based on their own profit. The relevance of this study lies largely in making this redistribution more transparent.

Second, the perspective from which citizens view income redistribution is unknown. If the middle group reason principally from the basis of their primary or gross income, they will conclude that, whilst they experience less profit from the government than households with a low income, that profit is higher than for households with a high income. In this case, middle-income households will set off their low profit from public provisions against their profit and loss in the secondary income sphere, and will see that high-income households contribute more in the secondary sphere in exchange for their larger profit from education and government interventions in the housing market. However, if the middle group reason from the basis of their secondary or disposable income and ignore the secondary profit distribution, they may draw the conclusion that they derive disproportionately little profit from the extensive system of public provisions in the tertiary sphere. In that case, the middle group may conclude that lots of money is spent on public provisions of which they themselves make no use.

Third, the apparently disadvantaged position of the middle group in the distribution of tertiary transfers is partly the result of the large transfers to households with a low secondary income; the question is how citizens weigh these tertiary transfers. It is reasonable to assume that, for many citizens, a euro of profit from healthcare carries a different weight than a euro of profit from sport, culture and recreation, or higher education. In fact, it is likely that profit received by citizens from healthcare provisions will in many cases not be seen and felt as an increase in welfare: in many cases, household members will have (possibly severe) health problems, which will not readily be associated with welfare and well-being. Rather than taking this fairly economic view of profit, income and welfare, citizens are also likely to view these aspects on the basis of moral principles and the expectation that the presence of certain provisions can be taken for granted.

## Note

- 1 A Gini of 0 means that the income is distributed completely equally. A Gini of 1 represents maximum inequality; a Gini of 1 would signify that one household receives all the income.