

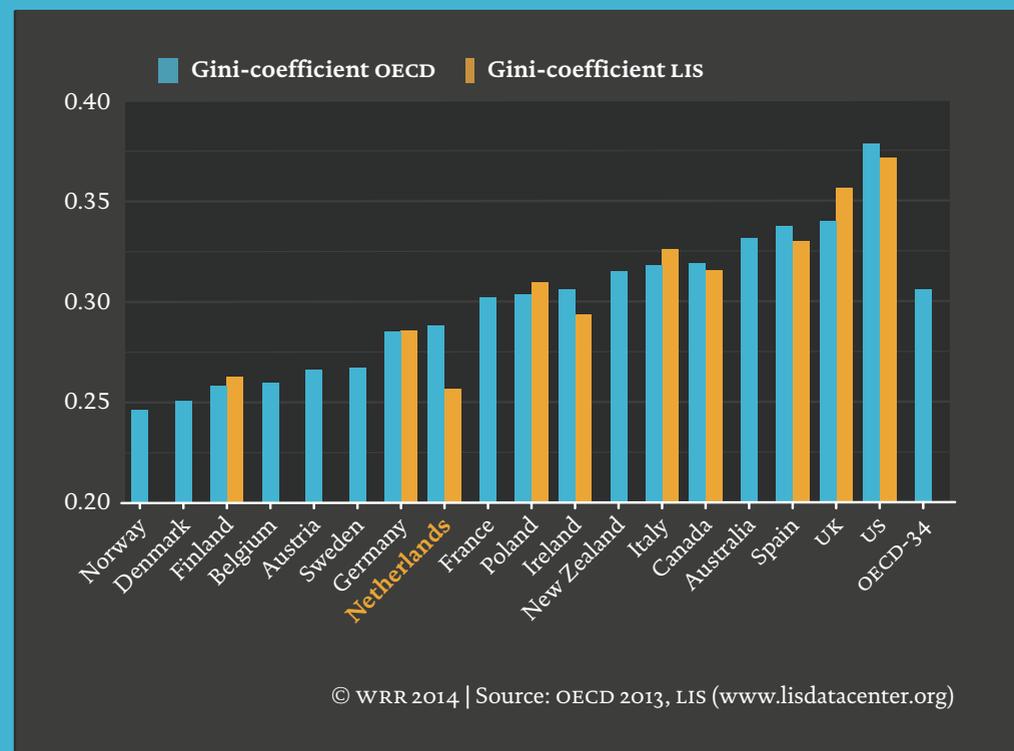


Economic inequality is high on the international political and academic agenda. How does the Netherlands perform in terms of economic inequality and its consequences? And what might be done to improve that performance? These questions are addressed in this factsheet in 8 figures.

1 Compared with other countries, income inequality is relatively low in the Netherlands

The degree of inequality in the income distribution – measured using the Gini-coefficient – varies widely from country to country, as figure 1 illustrates. If we look at the OECD statistics, the Netherlands occupies a middling position in Europe. It is not so unequal as the US or the UK, but is more unequal than countries which the Netherlands often regards as its ‘equals’, such as Denmark or Belgium. If we look at the most recent figures from the leading cross-national data centre Luxembourg Income Study (LIS), income inequality in the Netherlands is relatively low.

Figure 1: Income inequality in different countries: disposable household incomes, measured using the Gini-coefficient, 2010



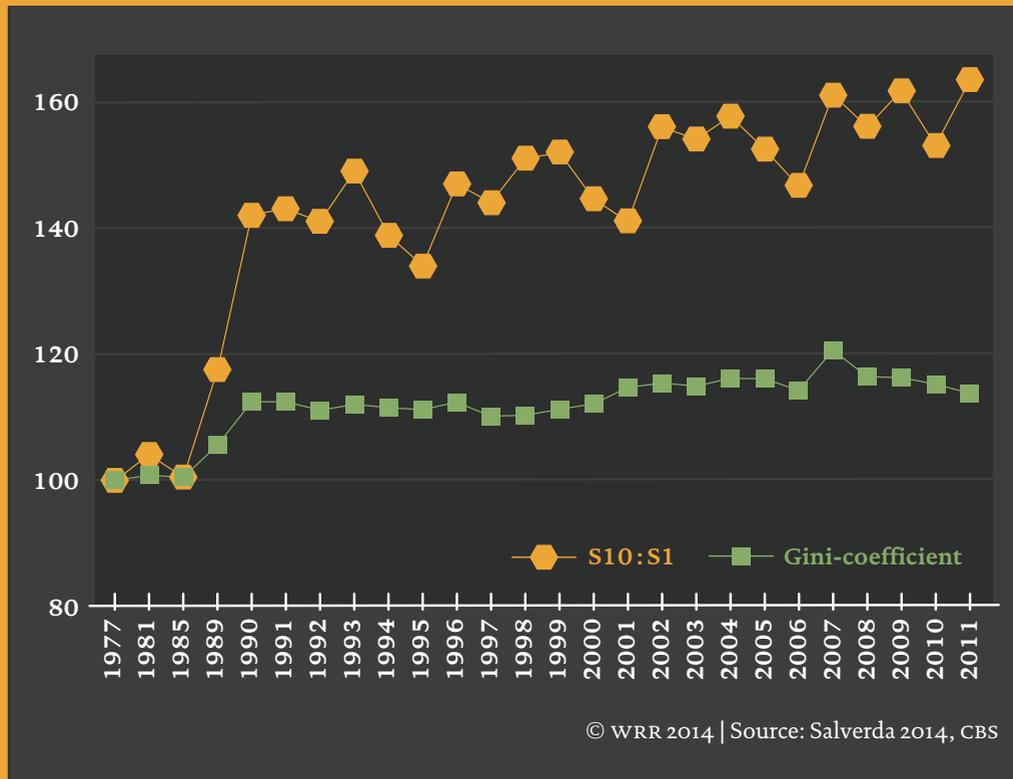
This factsheet is based on the WRR publication *‘Hoe ongelijk is Nederland? Een verkenning van de ontwikkeling en gevolgen van economische ongelijkheid’* (‘How unequal is the Netherlands? An exploration of the development and consequences of economic inequality’), M. Kremer, M. Bovens, E. Schrijvers and R. Went (eds.). Amsterdam: AUP, 2014.
Translation factsheet: Julian Ross, Carlisle, UK.

The Netherlands Scientific Council for Government Policy (WRR) serves as an independent advisory body for the Dutch government. Its task is to provide sound information on developments that may affect society in the long term, to identify obstacles and problems and to provide new perspectives and policy alternatives.

2 But the gap between the top and bottom 10 percent is widening

Measured using the Gini-coefficient, income differentials in the Netherlands widened in the 1980s, after which they stabilised. One limitation of this measure of inequality is its heavy emphasis on changes around the middle. Consequently, income inequality is increasingly compared using other measures, such as the gap between the average income of the highest and lowest 10 percent of the income pyramid. According to calculations by Salverda (2014), this gap has widened in the Netherlands since 1985.

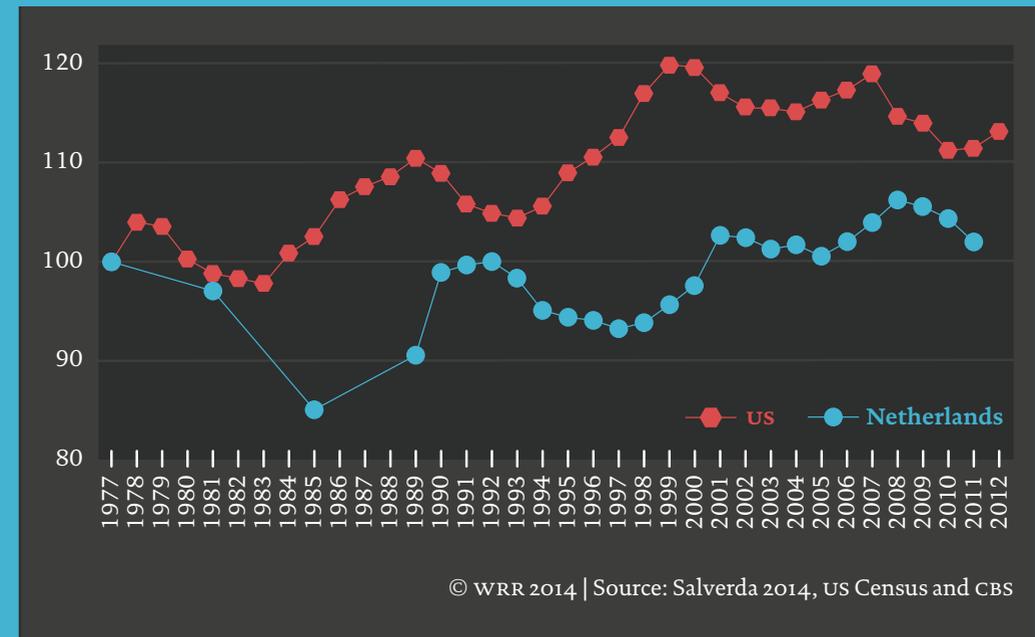
Figure 2: Standardised income inequality: S10-S1 ratio versus Gini-coefficient, The Netherlands, 1977=100, 1977-2011



3 Gross median household income is stagnating; new vulnerable groups

The growth in this income inequality is due in part to increasing pay differentials (De Beer 2014). Developments on the labour market, such as increasing use of technology and globalisation, play a role here. These developments mean that, as in the US, gross median household income in the Netherlands, i.e. the income of most households before deduction of tax and social security contributions, is stagnating. In addition, there are new and existing categories of workers in the Netherlands who are at greater risk of ending up at the bottom of the income ladder, such as single earners and a proportion of the 800,000 self-employed workers (Salverda 2014, De Beer 2014).

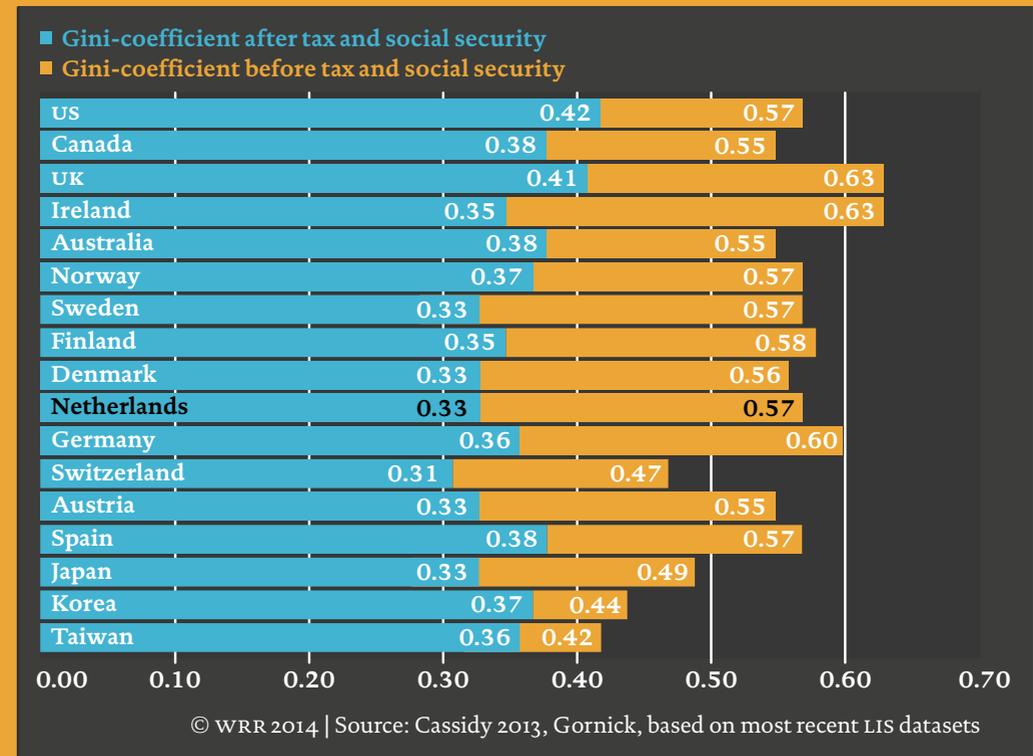
Figure 3: Median gross household income in the Netherlands and the US, 1977-2012



4 Redistribution through tax and social security system largely compensates for (gross) income differentials

Figure 4 shows that, without government intervention, the Gini-coefficient in the Netherlands (in the middle of the 2000s) would have been 0.57, just as high as in the US at that time. However, thanks to the welfare state, the secondary income distribution (the distribution of net incomes) is a good deal less unequal in the Netherlands: the redistributive mechanisms of tax and social security take the Gini-coefficient in the Netherlands down to 0.33 compared with 0.42 in the US.

Figure 4: Income inequality and redistribution via tax and social security in different countries, early to mid-2000s



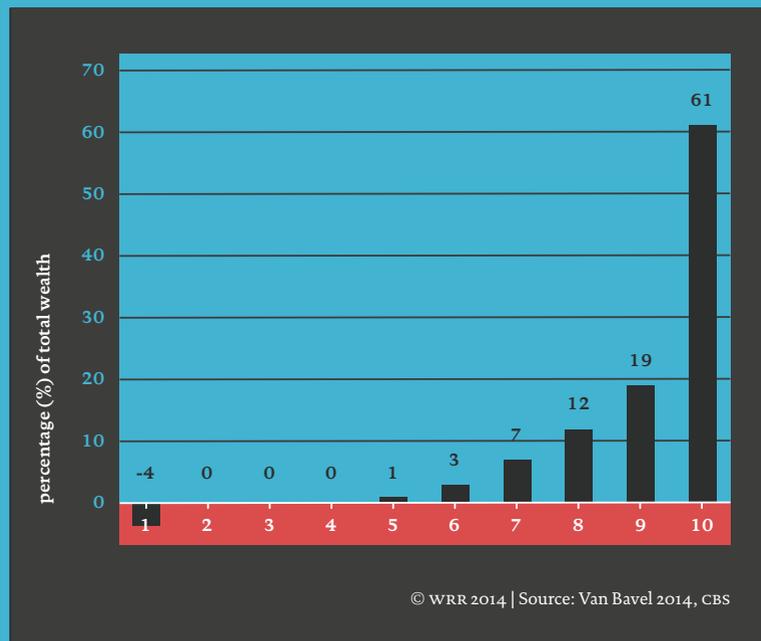
There has been a marked increase in this redistribution in the Netherlands in recent decades (Caminada et al. 2014). In 2012, redistribution through the tax and social security system reduced the primary income inequality by 49 percent, compared with 45 and 41 percent, respectively, in 2001 and 1990. This increase in redistribution is accounted for largely by redistribution of income among the growing group of older persons, aged over 65; the redistributive effect of the state pension system (AOW) is very strong in the Netherlands. For those of working age (15-65 years), redistribution by the government has *not* increased in recent decades.

5 Wealth in the Netherlands: much more unequally distributed than income

Economic inequality concerns not just income, but also wealth. As in other countries, wealth in the Netherlands (the value of people's assets) is more unequally distributed than income. This is illustrated in figure 5.

According to this figure, the wealthiest 10 percent of the population own more than half (61 percent) of the total wealth in the Netherlands. The top 2 percent within this group actually hold no less than a third of that wealth, while the lowest 60 percent of the Dutch population together hold 1 percent (rounded off) of the total wealth. The middle groups in Dutch society have relatively little wealth, partly due to the extensive welfare state, and it is primarily the lowest decile who have debts. In international perspective, wealth inequality in the Netherlands is on the high side (Van Bavel 2014).

Figure 5: Distribution of net household wealth across ten deciles (based on wealth), The Netherlands, 1 January 2012



6 Social consequences of economic inequality: less social and political trust

According to the now famous book *The Spirit Level* by Wilkinson and Pickett (2009), a high level of income inequality has negative effects for *everyone*, not just for the lower income groups. This is because income inequality has psychosocial effects as well as material effects. When there is pronounced inequality, people constantly compare themselves with others, giving rise to 'social evaluation anxiety' (see interview with Wilkinson, Kremer and Schrijvers 2014).

Figure 6: Social and political consequences of income inequality

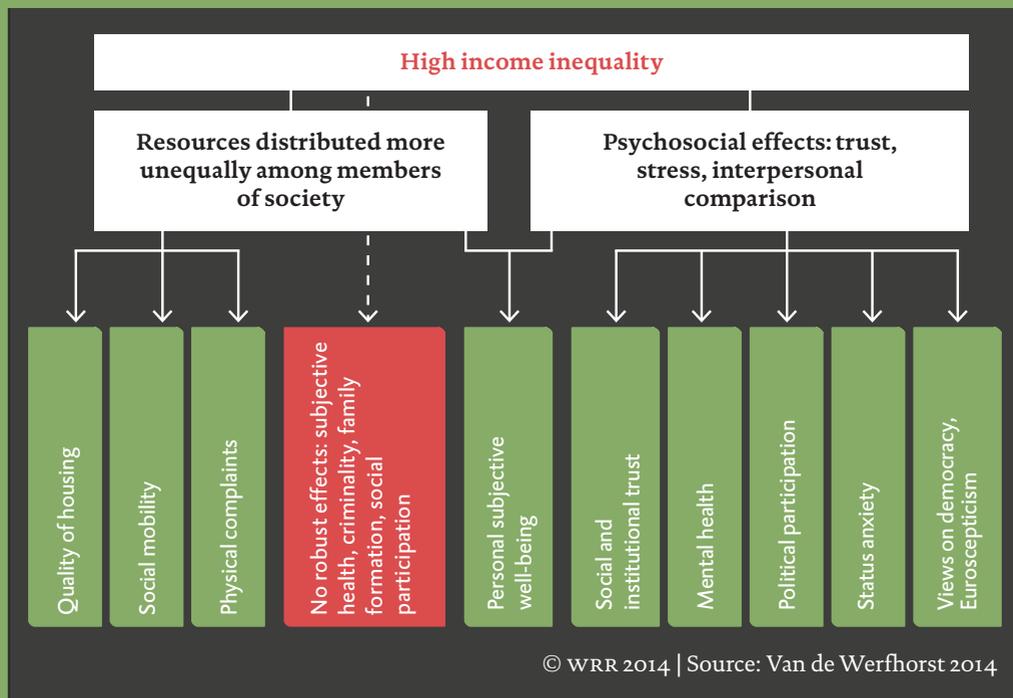


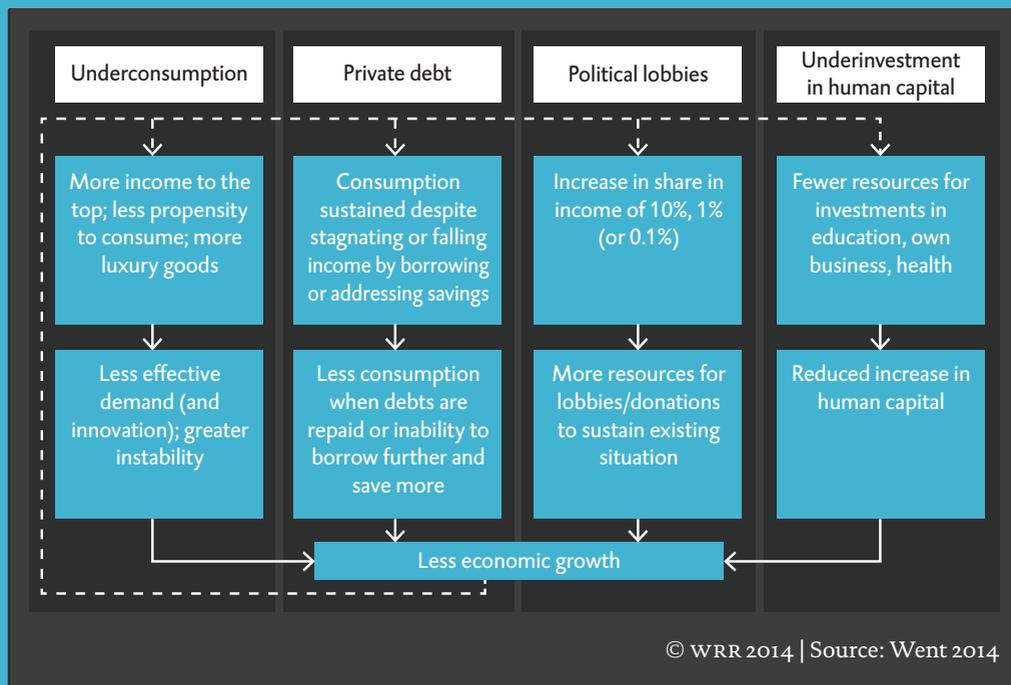
Figure 6 shows that not all the social consequences found by Wilkinson and Pickett remain intact after extensive (European comparative) research: high income inequality does not have an immediate adverse impact on criminality or social participation, for example. High income inequality does however lead to reduced upward social mobility and less social trust: greater economic distance also implies greater social distance. Moreover, trust in political and other institutions declines across the whole population, and especially trust in constitutional democracy and parliament. It is striking to note that this process is more pronounced at the upper end of society than in the lower echelons (Van de Werfhorst 2014).

7 Economic consequences of inequality: less growth?

There are indications that high economic inequality also has a negative impact on economic growth. Several mechanisms have been identified which *could* plausibly cause income inequality to hold back economic growth, though there is as yet no consensus on this among economists. Figure 7 contains a schematic representation of four mechanisms which are cited in the international literature as means by which high income inequality could impede economic growth.

Not every mechanism necessarily has the same effect everywhere and at all times (or in the same degree), and the first two mechanisms in the figure (underconsumption and private debt) can also (temporarily) work against each other. There are also indications that lower economic growth is not conducive to stabilising or reducing income inequality, and can therefore exacerbate the effects of the four mechanisms; the dotted line in the figure refers to this process (Went 2014).

Figure 7: How income inequality could hold back economic growth

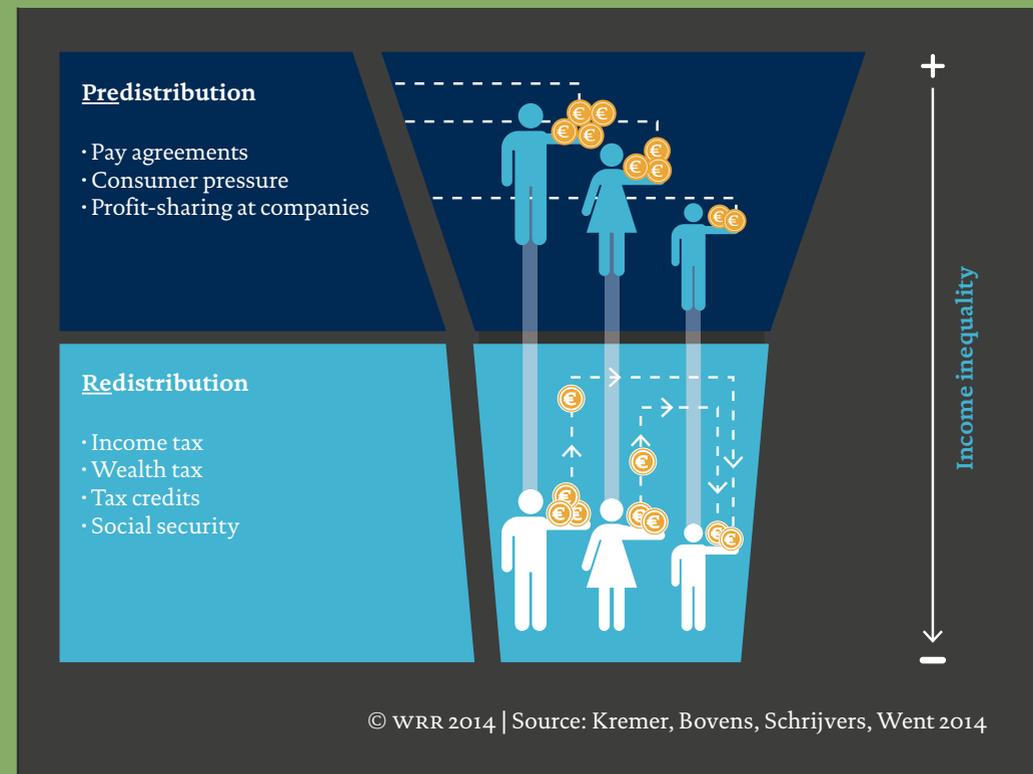


8 Economic inequality can also be reduced through more predistribution

Whether economic inequality is too high or too low is a political judgement. Those wishing to reduce economic inequality generally look at *redistributive* instruments. According to De Beer (2014) and Salverda (2014), for example, existing policy could focus more on the needs of workers at the bottom end of the labour market, such as single earners and (some) self-employed persons, for example via an earned income tax credit. Another example is the suggestion to tax income from wealth more and income from employment less (Van Bavel 2014).

However, more attention could also be devoted to '*predistribution*': an attempt to reduce pay differentials on the labour market, rather than 'repairing' them afterwards through the tax and social security system. Particularly in countries with a strongly redistributive income policy, such as the Netherlands, there are grounds for asking whether it is desirable and effective to compensate even further for a skewed distribution of gross pay through the tax and social security system. Figure 4 above shows that the secondary income differentials (the amount of money people have in their wallets) are the same in Japan as in the Netherlands (both countries have a Gini coefficient of 0.33). However, the differentials in gross pay are less marked in Japan than in the Netherlands (0.49 compared with 0.57), so that less redistribution is needed.

Figure 8: Predistribution and redistribution



In practical terms, predistribution could be achieved through statutory pay regulations (minimum wages and capped top rates of pay) and collective bargaining negotiations (in which representatives of employers and employees play a crucial role), or by reforming companies (for example to create associations and co-operatives), or through consumer pressure (consumers could for example deliberately choose products made by companies with low pay differentials). Economic inequality is thus not only a matter for the government.

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