BETTER POLICIES FOR BETTER LIVES

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In It Together

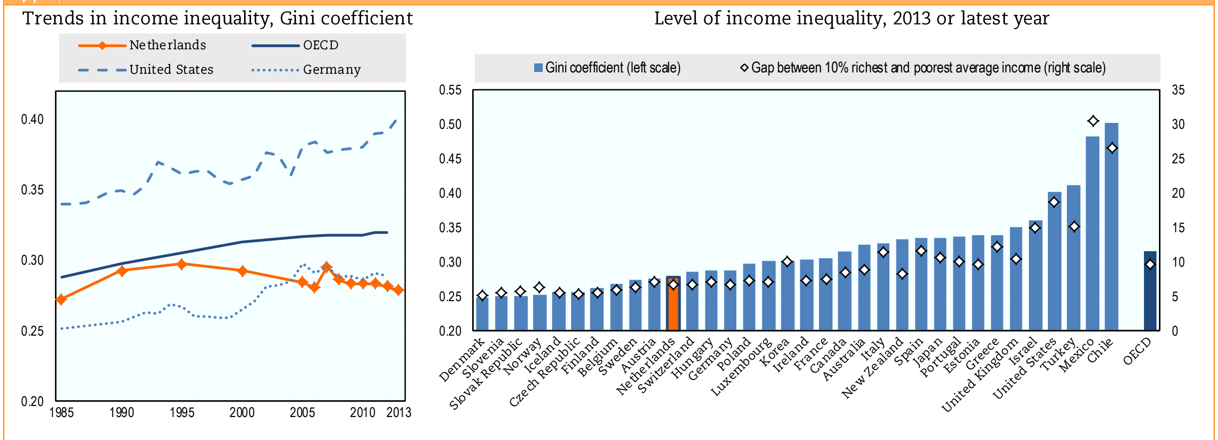
Why Less Inequality Benefits All

...in The Netherlands

What is the issue?

- **Inequality of disposable income** in the Netherlands is relatively low from international perspective, with a Gini coefficient of 0.28 in 2013, compared with 0.32 for the OECD average. Income inequality increased between the mid-1980s and mid-1990s but declined thereafter, also during the years of the recent crisis. The ratio of the income of the top 10% to that of the bottom 10% is also moderate, with a ratio of 6.6, compared with 9.6 on average across OECD countries.
- On the other hand, both **relative poverty and anchored poverty** (poverty related to the median income in 2005), increased in the Netherlands between 2007 and 2011, although at 7.9% and 7% respectively, they remain below the OECD average.
- At the same time**, inequality is high in the Netherlands when measured in terms of household wealth** (property value, savings, private pensions): the top 1% of the distribution owns around 24% of all net wealth and the top 10% owns 60% of all net wealth, while the bottom three quintiles own almost no wealth. The difference in net wealth between the top 5% and the median household, as a share of median wealth, is 44 compared with an OECD average of 20.
- The Netherlands was one of the few OECD countries where **inequality before taxes and transfers decreased between 2007 and 2011**. In addition, redistribution increased and inequality after taxes and transfers declined even further: by close to 2 Gini points during this period. While all groups experienced a fall in real disposable income, the decline was greater for the top 10% than for the bottom 10% of the population.
- In the Netherlands, **income taxes and cash benefits reduce inequality among the working-age population by about 29%** – slightly above the OECD average of 26%. This redistributive effect weakened since 1985 where it was close to 40% but has increased since 2007, up from just under 25%. In the first years of the crisis (2008, 2009), some benefits increased such as the additional child benefit. In addition, social security contributions and taxes increased more for single earners earning above the median, while they declined for those with lower wages.

Figure 1: Trends and levels of disposable income inequality



The Gini coefficient is a common measure of income inequality that scores 0 when everybody has identical incomes and 1 when all the income goes to only one person.

Why is it important for the Netherlands?

About 20% of youth (aged 18-25) experience poverty, which is the 6th higher rate in the OECD. Young people represent the group who experienced the largest drop in income during the crisis years. Social assistance for youth was modified in 2009 with the introduction of work or study requirements for people under age 27 and they are no longer automatically being granted a means-tested benefit, unless they are eligible for youth disability benefits.

There are **large wealth disparities in the Netherlands related to age**, with those under 35 years of age owning as little as 10% as much wealth as older workers (compared with an OECD average of just over 22%), as people accumulate more financial and non-financial assets during their life. Low taxation of home ownership and generous mortgage interest deductibility tend to benefit wealthier households. In addition, the recent drop in housing prices has exacerbated wealth inequalities by age, with a wealth declining for the young who have seen the value of their house to drop (while they still have mortgages based on old values).

The sum of household debt in relation to total assets is high in the Netherlands, representing more than 30% of the value of total assets. Liabilities are an important burden for the bottom 40% of the wealth distribution, as they have a sum of total liabilities which is greater than their combined assets (Figure 2), and greater in value than for those at the top.

The Netherlands combines a large fraction of households having debts and a large level of indebtedness. Some 23% of households have debts that are three times greater than their income. Most household liabilities (77%) are mortgages on the purchase of a principal residence and as nominal house prices have dropped by 20% since their peak in early 2008, around 40% of households with mortgage debt have negative home equity. Moreover, because more than 50% of the mortgage portfolio is "interest-only" (the repayment of capital only occurs when the loan matures), there are risks that will not be able to repay the full principal once it will fall due. High levels of debt among such a large population group puts a strain on their investment possibilities.

Figure 2: [Wealth shares of top percentiles of the net wealth distribution, 2010 or last available year]

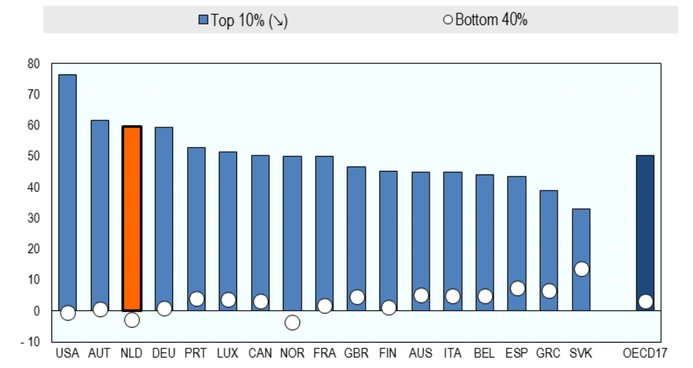
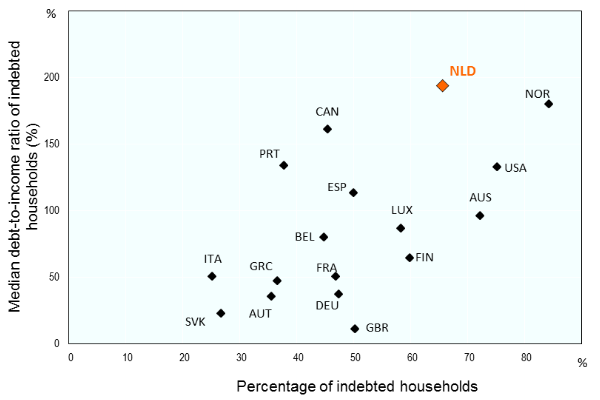


Figure 3: [Depth of indebtness for indebted households, 2010 or latest available year, values in 2005 USD]



What can policy makers do?

To tackle inequality and promote opportunities for all, policy packages are required in four main areas: Helping more women into work, promoting employment and good-quality jobs; strengthening skills and education; and a better design of tax and benefits systems for efficient redistribution. In the netherlands, this would include initiatives such as:

- Improve the transition from school-to-work of vulnerable populations, particularly low-skilled and people with disabilities. Carefully monitor the implementation of the Participation Act in this respect.
- Implement policy measures to reduce household debt and vulnerability to housing price changes. Once the housing market starts to recover durably, accelerate the reduction of mortgage interest relief to increase incentives for amortisation of mortgages and further lower the maximum loan-to-value ratio significantly below 100%.
- Consider higher taxation of real estate to be introduced gradually, for instance through a reduction in the value of the tax deductibility of mortgage interest.