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## Evaluation of the Effectiveness of the Participation Act in reducing Employment and Income Inequalities in the Netherlands

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**Evaluation of the effectiveness of the Participation Act in reducing employment and income inequalities in the Netherlands**

*Master Thesis*

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## Executive Summary

The increasing fiscal constraints and concerns about the sustainability of the welfare state for future generations puts pressure on governments worldwide to implement retrenchment measures in social policy according to neoliberal ideas. In the Netherlands, the introduction of the Participation Act on January 1, 2015, drastically decentralized government powers with the dual objectives of delivering effective customization for vulnerable groups of welfare recipients and cost savings. This shift reflects a global trend in which governments reduce the welfare state and focus more on active citizen participation in society. Therefore, the central question that arises is how such significant changes in the social security system, combined with austerity measures, effectively reduce inequality in society. By employing a Difference-in-Differences analysis of data from the Dutch Household Survey (DHS), the effects of the Participation Act on employment and income inequality over the period 2010-2022 is examined. Based on statistically significant results, the hypothesis that over this period, the Participation Act failed to improve both the number of employed individuals and the actual hours worked among the target group compared to the general workforce is rejected. The research identifies a worrisome trend in increased inequalities concerning employment in society. However, the results support the expectation that the Participation Act has not been effective in improving income inequalities for the target group compared to non-welfare recipients. The study also reveals concerning outcomes for the income development of the Participation Act's target group, which is on the brink of poverty and has no prospect of an improved situation. Thus, it is concluded that the Participation Act has not had a positive effect on reducing employment and income inequality among welfare recipients. Furthermore, recommendations are made for future reforms and further research on the relationship between the welfare state and social inequality.

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# 1. Introduction

When societal inequality is increasing, there tends to be greater societal demand for governments to expand the welfare state and to redistribute welfare and income more equitably (Schmidt-Catran, 2014). Simultaneously, the European Monetary Unions' Stability and Growth Pact requirements has put pressure on the fiscal discipline of welfare states of developed economies. Governments are constantly striving to ensure sufficient prosperity for everyone, facing a significant challenge in maintaining the fiscal health of public budgets. This puts pressure on the sustainability of welfare states for future generations.

In light of these challenges, research has focused on the relationship between welfare states and inequality. From the literature, no 'one-size-fits-all' explanations can be derived for the existence and mitigation of social inequalities (Vandenbroucke & Rinaldi, 2015). On one hand, studies are focused on exploring cross-national comparative studies on how to effectively address inequalities (Möller et al., 2013). On the other hand, considerable attention is devoted to different welfare state institutions and their strategies that are effective in minimizing inequalities and poverty in Western economies (Korpi & Palme, 1998). Thus, there is an ongoing quest among policymakers to identify which measures are most effective in reducing inequality in labor markets and income. It is therefore of great importance to assess which government policies are successful in promoting equality in society.

The Netherlands also experienced a concerning increase in social inequality in recent years, along with a growing number of individuals on the brink of poverty. This development underscores the need to comprehend the causes of inequality and explore effective measures to reduce it. One potential solution lies in improving the labor participation of people receiving benefits. This transformation of the Welfare State was characterized in the Coalition Agreement of Cabinet Rutte II, introducing the concept of the 'Participation Society'.

Fundamental to this transformation is the decentralization in the area of the Participation Act<sup>1</sup>. This legislative reform had the goal of activation, simplification/harmonization and budget cuts, while guaranteeing a basic income for everyone with insufficient means to maintain themselves. This is aimed at both preventing unemployment and combating poverty in the Netherlands, and it also reduces government spending by reducing the need to pay unemployment benefits & support benefits to the unemployed and people with limited

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<sup>1</sup> Translation of the Participatiewet.

working capacity while also offering better customization of local governments in helping individuals to find work.

A key conclusion from the literature on welfare states is that different instruments vary in their degree of success in improving inequality gaps. Among the concerns of policymakers and academics, the group of unemployed and disabled individuals is particularly prominent (Möller et al., 2013). Therefore, considerable attention is given to social policies aimed at addressing these vulnerable groups with work capacity, especially in the aftermath of the financial crisis of 2008. Through such Welfare-to-work provisions, governments seek not only to manage the budget but also to create an inclusive participatory society (Whitworth & Carter, 2014; Bengtsson & Jacobsson, 2018).

Therefore, the Participation Act may play a crucial role in ensuring income security for the most vulnerable members of society and encouraging the active involvement of those receiving welfare benefits. This legislation's primary goal extends beyond providing financial assistance, but also encompasses a broader vision of actively involving this group in the labor market. Employment not only serves as a source of income but also provides a sense of self-worth, identity and engagement in society (Borstlap et al., 2020). Recognizing that active inclusion in the workforce can enhance individual lives and simultaneously contribute to the reduction of social inequality at a broader level is at the core of this reform.

This forms the foundation of our research, where we will delve deeper into the consequences of measures taken in the Dutch social security system. The objective is to provide insights into the implications of the introduced reforms under the Participation Act. In this way, this study contributes to the literature interested in the effectiveness of welfare state reforms in reducing the inequality gap. To do this, this research raises numerous questions about the effectiveness of this approach. To what extent has the decentralization actually resulted in improved customization and more efficient service delivery? How does the reform of the social legislation influence the quality of social provisions? And what impact does it have on the labor market and income inequality?

The broader perspective of the Participation Act acknowledges that social inequality is not solely a matter of income disparity but also involves access to opportunities, resources, and a sense of societal engagement. Therefore, an examination will be conducted to determine whether the Participation Act, has positively influenced the reduction of disparities in employment and income inequality. In this manner, an assessment will be made to ascertain

whether the Dutch government has contributed to Social Development Goal 10 of the United Nations, which focusses on reducing, among others, social inequalities. The central question guiding this research is: “To what extent has the Participation Act been effective in improving employment inequality and income inequality in the Netherlands since its implementation on January 1, 2015 until 2022?”

To answer the research question, the historical background of the welfare state will first be studied to develop an understanding of various forms of welfare states and the reasons for retrenchment. Subsequently, the theory of fiscal decentralization will be combined with international public administration literature to predict the economic effects of measures in the Participation Act. To address this question, it makes sense to compare the inflow and outflow of the labor market and the (net) income of those recipients in the labor force receiving welfare under the Participation Act with those in the labor force without welfare. The results of the inflow and outflow of the labor market can be linked to equality of opportunities for the target group, while the development of (net) income can be linked to economic equality. Since this is impossible to assess through an experimental research design, this study performs a Difference-in-Differences analysis of Dutch Household Survey data. In doing so, it is possible to measure whether job opportunities and income inequality among participants have increased or decreased due to the Participation Act. Ultimately, the discussion will reflect on the research and provide an answer to whether the decentralization of the Participation Act combined with austerity measures has been effective in reducing inequality differences in the Netherlands. Furthermore, recommendations will be made to learn from the reform of the Participation Act and suggest improvements for future policies focused on reducing inequality in society.

## 2. Historical Background on the Welfare State

### 2.1 Welfare state typologies

There is widespread disagreement among scholars about the exact origin of the welfare state (Esping-Andersen, 1998). While some scholars argue that the welfare state found its origin in the late 19<sup>th</sup> century, by the German chancellor Otto von Bismarck, others argue that the emergence of the welfare state did not happen until the mid-20<sup>th</sup> century, when governments implemented a variety of social policies after the Second World War (Ştefan, 2015). In the post-World War II era, there was a notable increase in public welfare expenditures in Western capitalist democracies, largely driven by the perceived success of Keynesian economic principles in addressing the instabilities inherent in the business cycle (Quadagno, 1987).

Keynes emphasized the role of government intervention. The increased government spending and fiscal policies to stimulate demand, proved effective in stimulating economic growth and reducing unemployment in the post-war period and protect individuals and families from the negative effects of the market forces among Western capitalist democracies (Briggs, 1961; Quadagno, 1987). This fueled the rapid growth in public welfare expenditures, as governments embraced the role of active intervention to achieve economic stability and social progress. Therefore, “what once were night-watchman states, law-and-order states or even repressive organs of totalitarian rule, are now institutions predominantly occupied with the production and distribution of social well-being” (Esping-Andersen, 1990).

Expanding upon the symbiotic relationship between markets and states, the welfare state can be defined as a governmental apparatus wherein organized power is purposefully exerted, through political and administrative means, to actively influence the functioning of market forces (Briggs, 1961). Within the purview of welfare states, various interventions have been implemented with the overarching objectives of (1) ensuring a baseline income for individuals and families, irrespective of the market valuation of their labor or assets, (2) alleviating insecurities by equipping individuals and families to cope with unforeseen circumstances that may give rise to personal or familial crises, and (3) guaranteeing that all citizens are provided with the highest attainable standards of designated social services (Briggs, 1961). In doing so, the welfare state safeguards citizens against the risks posed by rapidly expanding markets by enacting social policies aimed at reducing the exacerbating consequences of economic development on societal inequalities.



The emergence of societal and economic inequalities can be attributed to several transformative developments that have reshaped the global economy. Initially, governments embraced a *laissez-faire* ideology that emphasized limited state involvement in social affairs and placed greater reliance on the market forces (Briggs, 1961). However, over time, various factors such as social upheavals, labor movements, and the recognition of social inequalities prompted a reevaluation of this approach. As societies evolved, the understanding grew that unfettered market forces alone could not adequately address social needs and mitigate the consequences of economic development on inequality. The main drivers of these developments, namely increasing globalization, rapid technological advancements, and the shift from a manufacturing-based economy to a knowledge-based economy, have put the resilience of developed economies and their welfare states to the test (Scholtz, 2010; Thewissen & Rueda, 2019; Walter, 2017; Wren, 2013). Welfare states sought to actively modify the play of market forces and address social issues by implementing social policies to ensure a minimum income, reduce insecurity and provide essential social services to citizens.

Despite the considerable variations in the organization of welfare expenditures across different countries, Esping-Andersen (1990) successfully classified the existing European welfare states into distinct welfare state regime types based on the intricate combination of legal and organizational features that are systematically intertwined (Arts & Gelissen, 2002). Esping-Andersen is recognized as one of the pioneering scholars in the field of classifying different types of welfare states. He proposed the existence of three distinct types of welfare states in developed economies: the Liberal, Corporatist (or Conservative), and Social Democratic welfare states (Esping-Andersen, 1990).

To classify various developed European welfare states into these categories, Esping-Andersen examined the degree of decommodification within the welfare state and its system of social stratification and solidarities. Decommodification refers to the extent to which (social) services are provided as a matter of right and the degree to which individuals can sustain their livelihood without relying on the market (Esping-Andersen, 1990). Social stratification and solidarities encompass the type of social stratification system promoted by social policies and whether the welfare state fosters narrow or broad solidarities among different societal groups (Esping-Andersen, 1990). Taking into account the level of decommodification and the degree of social stratification and solidarities, Esping-Andersen (1990) was able to classify the Netherlands as a social-democratic welfare state.

However, Esping-Andersen's ideal types of welfare state typologies were not universally accepted as definitive. The primary criticisms aimed at Esping-Andersen's ideal types revolved around the limited number of welfare state regimes considered, the presence of "hybrid cases" that do not neatly fit into Esping-Andersen's ideal types, and his narrow focus on a restricted range of social policies that may not easily conform to his welfare regime patterns (Arts & Gelissen, 2002).

According to other research, the Dutch welfare state can be described as such "hybrid case", as various typologies have been proposed to classify it based on different criteria and perspectives. Castles and Mitchell (1993) focused on welfare expenditures, benefit equality, and tax levels, categorizing the Netherlands as a Conservative welfare state. In addition to this, Ferrera (1996) classified European welfare states based on eligibility of welfare programs, benefit formulae, financing regulations, and organizational-managerial arrangements. Ferrera (1996) highlighted the strong link between employment status and social entitlements, benefits proportional to income, financing through contributions, and substantial social assistance benefits and insurance schemes primarily governed by unions and employer organizations.

To add, Bonoli (1997) developed a typology based on the Bismarck and Beveridge models, considering the quantity of welfare state expenditure. According to Bonoli, the Netherlands falls under the Continental welfare state category, relying on Bismarck's principle with high social expenditure as a percentage of GDP. Furthermore, Korpi and Palme (1998) analyzed entitlement bases, the benefit principle, and the governance of social insurance programs. Based on these criteria, they categorized the Netherlands as a welfare state of Basic Security, with entitlements founded on citizenship or individual contributions using the flat-rate benefit principle (Korpi & Palme, 1998).

In summary, different scholars have employed diverse criteria and perspectives to classify the Dutch welfare state, resulting in typologies such as Conservative, Advanced Christian-democratic, Bismarckian, Continental, and Basic Security. These classifications highlight the complexity and multifaceted nature of the Dutch welfare state.

Hence, an alternative typology of welfare states might offer improved functionality, as they examine multiple characteristics and features that define welfare states. For instance, Sapir's (2006) European Social Model is based on the degree of efficiency in social policies and the extent to which social policies foster greater equality within society. Based on this

framework, Sapir identified four distinct European social models. Among these, the Nordic and Anglo-Saxon welfare states were found to be the most efficient, while the Continental and Mediterranean models exhibited lower levels of efficiency. Furthermore, the Nordic and Continental welfare states were found to contribute the most to income equality in society. By considering factors such as the level of social protection expenditures, universal welfare provision, fiscal intervention in labor markets (e.g., through “active” policy instruments), and the strength of labor unions, Sapir was able to categorize the Netherlands as part of the Nordic welfare state (Sapir, 2006).

According to the scholars who have classified different welfare states into ideal types, they all reached the conclusion that the Netherlands has a well-developed welfare state (Arts & Gelissen, 2002). Key components that define the Dutch welfare state and set it apart from other countries’ welfare states include high social expenditure relative to its GDP, benefit entitlements based on contributions and employment history, a significant proportion of social expenditure financed through contributions, and the governance of insurance schemes by unions and employer organizations. However, since the early 1980s, nations, including the Netherlands, have implemented cutbacks and institutional reforms in response to the escalating costs of the welfare state.

## 2.2 Causes for welfare state retrenchment.

Welfare state retrenchment refers to the institutional changes and reforms leading to a reduction of social welfare provisions due to concerns about their fiscal constraints and sustainability with regard to future generations. According to Starke (2006), Welfare state retrenchment “seems rather to be a general recurring theme in the ‘post-Golden Age’ social policy.” Governments have sought to streamline welfare programs, introduce stricter eligibility criteria, adjust benefit levels, and promote greater individual responsibility and self-reliance to have a grip on growing deficits. The process of such retrenchment measures is driven by a multitude of factors that shape government decisions and policies.

Before the existence of the European Monetary Union, European welfare states were able to implement monetary policy themselves. However, since the establishment of the EMU in 1998, only the European Central Bank has the authority to conduct monetary policy. As a result, member states of the Eurozone are no longer able to pursue independent monetary policies to address budget deficits. This limitation on monetary policy autonomy meant that European governments had to explore alternative options to manage their budget deficits

(Swank & Steinmo, 2002). The inability to devalue their currencies or adjust interest rates independently restricted their ability to stimulate their economies or manage fiscal imbalances through traditional monetary policy measures (Bolukbasi, 2009). Consequently, European governments needed to make difficult choices and implement retrenchment measures to address these economic challenges (Swank & Steinmo, 2002)

However, historical Institutionalism and the concept of path dependency highlight the difficulty of changing welfare states. These perspectives emphasize that the current configuration of a welfare state is heavily influenced by past institutional decisions and structures (Pierson, 2000; Skocpol & Pierson, 2002). Moreover, Esping-Andersen (1990) argues that the path dependency of existing institutional arrangements of welfare states are crucial in shaping future trajectories of nations. As a result, altering the welfare state requires overcoming the rules and laws created by these existing arrangements in the past, making it inherently challenging to implement substantial institutional changes. Therefore, Starke (2006) argued that the change of the welfare state is “likely to be incremental and to take place only within existing structural frameworks”.

Furthermore, globalization creates pressures for welfare state retrenchment. Increased international competition can put pressure on governments to enhance their competitiveness in the global economy. Moreover, increased European integration can further increase economic competition in the Single Market, called the ‘integration effect’ (Genschel et al., 2011). The Efficiency Hypothesis states that governments’ desire to attract foreign investment, stimulate economic growth, and maintain a favorable business environment can lead to reductions in welfare spending (Swank & Steinmo, 2002).

Similarly, Burgoon (2001) argues that increased international competition “can punish producers and countries operating under more generous welfare regimes, which imply a higher tax burden, more regulatory hurdles, labor-market rigidities, and a less docile labor movement”. Governments may therefore view retrenchment measures as necessary to increase labor market flexibility and reduce taxes for businesses, thus making their economies more attractive to investors (Genschel, 2002). To remain competitive in the global market, governments needed to compete for international investments by reducing tax burdens (Swank & Steinmo, 2002).

However, the relationship between globalization, economic competition, and welfare state retrenchment is complex. The pursuit of competitiveness through retrenchment measures

had social consequences and raised concerns about inequality and social protections. That is because greater liberalization and openness in trade and investment also caused significant economic insecurity, volatility, and dislocation for citizens working in sectors exposed to the increased risks of increased openness (Burgoon, 2001). Although reducing welfare spending may disproportionately affect vulnerable populations, exacerbate social disparities, and undermine the social safety net that the welfare state aims to provide, it is seen as necessary in order to put a halt on escalating social security expenditures (Burgoon, 2001).

Additionally, financial crises and long-term fiscal imbalances can exert significant pressure on governments to reduce welfare spending. During periods of economic recession or financial instability, governments face declining tax revenues and increased public debt, which strains public finances and creates budgetary constraints (Stockhammer, 2016). In such situations, there are growing concerns about the sustainability and affordability of existing welfare programs. Such moments of budgetary crisis put pressures on governments and opens possibilities for welfare state reforms (Pierson, 1996). Governments may portray the need for retrenchment as necessary in order for the welfare state to survive moments of financial crisis (Pierson, 1996).

Moreover, demographic changes, such as aging populations pose significant challenges to the sustainability of welfare states. These changes can lead to increased pressure on unemployment insurance, disability insurance, pension systems and healthcare expenditures, as the proportion of elderly individuals grows in relation to the labor force population (Jackson, 2006). To address the rising costs associated with an aging population, governments implement retrenchment measures in welfare programs. These measures can include adjusting retirement ages, increasing contributions or eligibility requirements and reducing benefits to make “them less attractive or generous to the recipients” (Green-Pedersen, 2004). Furthermore, governments may introduce “reforms that indicate structural shifts in the welfare state” (Pierson, 1996). According to Pierson (1996), such structural shifts include “(1) significant increases in reliance on means-tested benefits; (2) major transfers of responsibility to the private sector; and (3) dramatic changes in benefit and eligibility rules.” The aim of such retrenchment measures is to contain the financial burden social security and balance the need with fiscal sustainability of the welfare state.

Political ideologies also have an impact on welfare state retrenchment. According to Esping-Andersen (1990), liberal welfare regimes are more likely to emphasize market-oriented solutions and a reduced role for the state in economic affairs than social democratic

or conservative welfare regimes. Therefore, right-wing governments are more likely to introduce substantial retrenchment measures than left-wing governments (Allan & Scruggs, 2004). Therefore, coalition dynamics are of great importance for the implementation of retrenchment measures. The composition and ideological alignment of left- and right-wing parties in the negotiation process of these coalitions can shape the direction and extent of retrenchment measures (Korpi & Palme, 2003).

According to the Power Resource Theory, Left-parties are considered as representatives of the working-class in the 'democratic class struggle' (Korpi, 1983). Conversely, Right, or Neoliberal, parties place great value in market-mechanisms and are supporters of austerity measures (Pierson, 1996). Coalition dynamics can therefore either facilitate or hinder the implementation of retrenchment measures, depending on the composition and ideological alignment of the coalition partners (Iversen & Soskice, 2006). However, scholars argue that the politics of welfare state retrenchment is about blame avoidance of taking unpopular retrenchment measures, rather than credit claiming, due to the expected electoral losses of the retrenchment measures among concentrated groups of voters (Weaver, 1986; Pierson, 1996; Schumacher & Kersbergen, 2012).

Furthermore, public opinion and labor organization play a significant role in shaping government decisions on welfare state retrenchment (Pierson, 1996; Iversen & Soskice, 2006). As large public social programs have become a big part of the political landscape, there are also dense interest-group networks to keep the welfare state the way it is (Pierson, 1996). Labor unions can strengthen the ideological divide between left-leaning and right-leaning parties. In the context of the power resources approach, labor unions are therefore also regarded as representatives of working-class interests with regard to the democratic class struggle (Korpi, 1983). They play a crucial role in mobilizing their members and collecting in collective bargaining to protect existing welfare provisions and resist cuts to social benefits (Allan & Scruggs, 2006; Yong Kwon & Pontusson, 2010). However, the strength of labor unions depends on the percentage of workers who are union members, also the union density. When labor unions are weak and left parties are underrepresented in politics, the power resources perspective suggests that this provides possibilities for retrenchment measures (Pierson, 1996).

Finally, the transition towards a service economy has had implications for welfare state retrenchment through various mechanisms. As economies undergo a shift from being manufacturing-oriented to service-oriented, the nature of employment changes significantly.

This transition is driven by overarching factors such as technological advancements and globalization. As a result, the composition of the labor market is altered, with a decline in traditional manufacturing jobs and a rise in service sector employment (Iversen & Wren, 1998). Among the challenges of this transition are low economic growth rates regarding the growing service sector and its reduced productivity growth due to Baumol's cost disease (Starke, 2006). Due to the bad transferability of individual manufacturing skills to service specific skills, those with sector specific skills are more likely to fall behind (Iversen & Cusack, 2000). Therefore, the changing nature of the labor market in a service economy can have implications for welfare state policies. This cause a trilemma for governments to choose between fiscal discipline, employment growth and earnings equality (Iversen & Wren, 1998). With increased pressure on the fiscal discipline through European Monetary Unions' Stability and Growth Pact requirements, this will stimulate retrenchment measures.

### 3. The Participation Act

Since the financial crisis of 2008, the government of the Netherlands was facing a significant challenge: getting government finances in order while strengthening the economy (Donner et al., 2010). To achieve this, a compact and effective government is needed. The national government, provinces, municipalities, and water boards must operate coherently as a recognizable entity for citizens, businesses, and societal organizations. This was only possible if tasks, responsibilities, and authorities are not fragmented (Donner et al., 2010). Therefore, the Administrative Agreement 2011-2015 marked a first step of the government into the direction of a more citizen-based approach with more decentralization. This called for policy freedom, appropriate funding, a retreating national government, possible phasing, and sufficient executive capacity. Subnational governments are then able to collaborate effectively with citizens and societal organizations to fulfill the new tasks (Donner et al., 2010).

Although the Administrative Agreement was the first to contemplate decentralization in different policy areas, decisions still had to be made regarding the exact design of these policy areas at the local level. The Coalition Agreement of 2012 between the PvdA & VVD (Rutte II) provided more clarity on this. It became evident that significant decentralizations would take place concerning youth care, social support, and social assistance (Rutte & Samson, 2012). Through the Youth Act<sup>2</sup> (*Jeugdwet*), the Social Support Act<sup>3</sup> (*WMO*), and the Participation Act, the Dutch government shifted service provision in these fields from the government to municipalities.

Furthermore, this change in the government's approach to citizens was further emphasized in the Throne Speech of 2013, where King Willem-Alexander announced, for the first time, the concept of the 'Participation Society' in the Netherlands. Not only would the Dutch welfare state change its focus of service provision to a more tailored approach, the Dutch government would also stimulate the participation of citizens more actively. This shift from the foundational ideas of the welfare state towards the concept of a participating society was deemed necessary to address budget deficits effectively and promote government decentralization, enabling more personalized approaches centered around citizen activation (Donner et al., 2010).

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<sup>2</sup> Translation of the *Jeugdwet*.

<sup>3</sup> Translation of the *Wet Maatschappelijke Ondersteuning (WMO)*.



### 3.1 Decentralizations in the Social Domain

Before January 1, 2015 municipalities already performed tasks of youth healthcare and preventive youth policy. With the Jeugdwet, municipalities will also be responsible for the provincial (indicated) youth care, closed youth care, mental health care for youth, mental health care in the context of youth criminal justice, care for intellectually disabled youth, guidance, personal care, youth protection, and youth probation (CPB, 2013). From January 1, 2015 onwards, The Health and Youth Care Inspectorate<sup>4</sup> will continue to oversee the quality of youth care. In the previous situation however, these various forms of youth care fell under the responsibility of different levels of governance: municipalities, provinces, health insurers, care offices, the Ministry of Health and Welfare, and the Ministry of Security and Justice. By concentrating all tasks related to youth care at the municipal level and granting municipalities a degree of policy freedom in the execution of youth care, a shift from distant care to prevention, support, and local care is intended (CPB, 2013). Additionally, the shift in financial responsibility on municipalities will trigger the incentive for municipalities to decrease expenditures on youth healthcare.

In addition to the decentralization on youth care, the government introduced the WMO. This law introduced a decentralization regarding the long-term care with the aim of enabling people to live at home for as long as possible with the help of appropriate support (CPB, 2013). The Exceptional Medical Expenses Act<sup>5</sup> is transformed into a new national provision in which institutional care for the elderly and people with disabilities (Rutte & Samsom, 2012). The WMO is primarily focused on what people can still do, thus promoting the participation. New clients with a less intensive care need, who would previously have received care in an institutional setting, will now receive care in their own environment. Additionally, extramural nursing care is transferred from the Exceptional Medical Expenses Act to the Health Insurance Act.<sup>6</sup> In accordance with the Coalition Agreement, this transfer of guidance and personal care to the WMO 2015 emphasizes a more home-based care approach (CPB, 2013).

In the WMO 2015, municipalities become fully responsible for the activities related to the support, guidance and personal care of citizens in the region. Before receiving such support, municipalities first look at citizen's own capabilities and those of their immediate

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<sup>4</sup> Translation of the Inspectie Gezondheidszorg en Jeugd (IGJ).

<sup>5</sup> Translation of the Algemene Wet Bijzondere Ziektekosten (AWBZ).

<sup>6</sup> Translation of the Zorgverzekeringswet (Zvw).

social environment. Based on this, municipalities determine the appropriate compensation that an individual deserves, tailored to their situation. This gives municipalities more flexibility to provide support with suitable facilities if necessary. Municipalities will first explore whether a general or collective provision is sufficient. However, for those who cannot be self-sufficient even with support from their own environment, there would always be appropriate support. The most vulnerable groups have the right to appropriate institutional care under the new Exceptional Medical Expenses Act (CPB, 2013).

In addition to the fact that the decentralization in the social domain is accompanied by a cost reduction of over 9 billion euros, the decentralization also brings scale advantages in addressing the multi-faceted issues faced by citizens (CPB, 2013). Consolidating responsibilities at one level can improve collaboration between various professionals working with families. The central idea is that under the principle of subsidiarity, the decentralization, serves citizens in youth care, long-term social support, and the guidance of people with work capacity to sustainable employment at the lowest possible level (CPB, 2013). The coherence with the three decentralizations in the social domain is essential since a robust primary care system can reduce the demand for more expensive specialized assistance and judicial measures (CPB, 2013).

### 3.2 Work Towards Ability Act (Wwnv)

In 2011 the government introduced a plan for the reform of the Work and Social Assistance Act<sup>7</sup> (*WWB*), the Sheltered Employment Act<sup>8</sup> (*Wsw*), and the Work and Income Support for the Disabled Young Persons Act<sup>9</sup> (*Wajong*) into a unified scheme, then referred to as the ‘Work Towards Ability Act’<sup>10</sup> (*Wwnv*) (Borghouts et al., 2015). This legislative proposal was the predecessor of the Participation Act and reshaped several formal laws with the perspective of creating a safety net arrangement for individuals in need of income support. Additionally, the harmonization of these laws prevents the shifting of responsibilities of municipalities between these different laws. This was done, because, in the past, municipalities have shifted recipients of WWB benefits towards the by the central government provided Wajong benefits, in order for municipalities to retain more money in their budget (Roelofs & Van Vuuren, 2011).

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<sup>7</sup> Translation of the Wet Werk en Bijstand (*WWB*)

<sup>8</sup> Translation of the Wet sociale werkvoorziening (*Wsw*)

<sup>9</sup> Translation of Wet werk en arbeidsondersteuning Jonggehandicapten (*Wajong*)

<sup>10</sup> Translation of the Wet werken naar vermogen (*Wwnv*)

Consequently, the Netherlands saw significant increases in the number of disability benefit recipients (Koning & Lindeboom, 2015). This shifting of responsibilities between different levels of government demonstrated that there were opportunities for efficiency gains through decentralization. The harmonization and decentralization of these four laws were intended to be a first step in shaping benefit provision for people with limited work capacity (CPB, 2013). Therefore, by giving municipalities the comprehensive financial responsibility for individuals with a distance from the labor market, the core idea was that municipalities have no incentive to shift recipients from social assistance to disability insurance (CPB, 2013). More importantly, the subsidiarity principle behind the decentralization emphasized that responsibilities that can be organized locally or regionally should not be organized by the central government. This way, services can be better aligned with local or regional conditions, such as the situation in the regional job market (Van Berkel, 2006).

In addition to the harmonization and decentralization of benefit provision, the Wwnv also introduced several new reintegration instruments to offer support and guidance for the target population towards sustainable paid regular employment (Van Echtelt et al., 2019). Municipalities were already fully responsible for the budgets for benefit provision and reintegration of social assistance recipients since 2004 and with the Wwnv they will also be responsible for the benefit provision and reintegration of individuals previously under the Wsw and Wajong. To be able to provide better support towards work for those individuals with only limited working capacity, the Wwnv introduced the new financial instrument of wage dispensation for young disabled individuals with work capacity.

Wage dispensation was an instrument which is used for individuals with only limited working capacity under the Wajong. It is a financial instrument to compensate employers for reduced productivity of workers with a disability (Van Echtelt et al., 2019). With wage dispensation, the government bore the costs of reduced labor productivity. The employer paid the employee with limited working capacity only for the part that the employee was productive. The government supplements this wage under the Wajong with a benefit. A disadvantage was that the employee has two different sources of income. As a result, there was a higher administrative burden on employers (Van Echtelt., 2019).

The Dutch government has emphasized the importance of support and shared responsibility in its decision-making process. By being in close contact with employee and employer organizations, the government wants to gain the sustainable support for the reform of the Participation Act (Pierson, 1996). Because the social partners and municipalities have

expressed a preference for wage subsidy, the government has opted for the use of wage subsidy instead of wage dispensation after conducting several experiments (*Kamerstukken II* 2013/2014, 33161, nr. 108). Wage subsidy has the advantage that the young disabled person has only one source of income, wages are paid according to the applicable collective labor agreement or the minimum wage, and the bureaucracy for employers and municipalities is less extensive compared to wage dispensation (Borghouts et al., 2015).

### 3.3. Cause for the reform

In the late 1970s, the social security framework in the Netherlands expanded significantly, reaching a point where it began to adversely impact the economy and society. The alignment between the social and economic goals of labor regulation became less clear. Consequently, starting in the early 1980s, a series of reforms were initiated. The prevailing idea was that there had been excessive generosity in the expansion of social security. By 1990, the Netherlands had nearly 900,000 occupationally disabled employees, prompting then-Prime Minister Lubbers to declare that the Netherlands was sick. Subsequently, there was a shift in the focus of social security towards austerity, participation, reintegration, and personal responsibility (Borstlap et al., 2020). This led to the abolition of the Dutch national insurance against occupational disability in 1998.

Also notable is that even in the current tight labor market, there are still individuals experiencing prolonged unemployment. Experience indicates that for those unable to secure employment, the likelihood of transitioning out of welfare diminishes with time. After two years on welfare, this chance is reduced to about five percent. Consequently, approximately 70 percent of welfare recipients become long-term dependent on welfare. Within municipal records, a ‘hard core’ has formed, comprising individuals who can only be integrated into the job market with substantial effort (Borstlap et al., 2020). Even if successful, such integration is often temporary, leading them to revert to welfare.

Simultaneously, the government has often found it necessary to cut budgets for activation and guidance during economic downturns. For instance, during the last recession, substantial cuts were made to personal services at the Employee Insurance Agency<sup>11</sup> (*UWV*); the budget for activating labor market policies was halved, and municipalities lost two-thirds of their activation and guidance budget (Borstlap et al., 2020). With the introduction of the Participation Act, municipalities are entrusted with the responsibility for benefit provision and

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<sup>11</sup> Translation of the *Uitvoeringsinstituut Werknemersverzekeringen* (*UWV*)

reintegration of partially and non-permanently disabled young disabled individuals. Additionally, they are mandated to provide sheltered employment for those unable to perform regular work. Municipalities are currently already responsible for administering social assistance and the social employment scheme.

In addition, over the past years the Dutch social security system in the Netherlands lost the proactive nature of stimulating individuals in the labor market. The number of individuals not working due to health issues remains high, and part of the explanation lies in the presence of approximately 0.3 million people with a Law on Invalidity Insurance<sup>12</sup> benefit among the mentioned population (Borstlap et al., 2020). These are considered ‘old cases’ unaffected by the policy changes in the 1990s. Despite the significant decrease in sickness absence since then, attributed partly to the mandatory continued wage payment during illness introduced in the 1990s and associated reintegration obligations, there’s still a notable reliance on sickness absence. Efforts have been made to address this behavior through measures, like the STECR<sup>13</sup> working method and NVAB<sup>14</sup> guidelines (Borstlap et al., 2020). However, in practice, it remains challenging for occupational health physicians, who have a central role, to distinguish between genuine health issues and cases of avoidance (Borstlap et al., 2020). It’s not excluded that some individuals might invoke disability benefits without having a valid health condition, which undermines the reciprocity principle fundamental to the social security system.

Another crucial observation is that, despite the robust activation policy since the 1990s, disability benefits often become a final destination rather than a pathway to employment as intended. This results in people who, despite health challenges, can and want to work, missing opportunities for sustainable employment (Borstlap et al., 2020). The Participation Act aims to reduce this shifting of social assistance to the Wajong by placing the comprehensive financial responsibility for individuals with a distance from the labor market in the hands of municipalities. Previously, municipalities could screen their social assistance population for young disabled individuals eligible for the Wajong. This route is largely eliminated in the Participation Act because the barrier between disabled individuals with work capacity and those fully and permanently disabled is clearer. Without the option of shifting from social assistance to the Wajong, the possibility for transition to employment becomes higher (CPB, 2013).

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<sup>12</sup> Translation of the Wet op de arbeidsongeschiktheidsverzekering (WAO)

<sup>13</sup> Refers to the Stichting Expertisecentrum Re-integratie (STECR)

<sup>14</sup> Refers to the Nederlandse Vereniging voor Arbeids- en Bedrijfsgeneeskunde (NVAB) guidelines

### 3.4 The Participation Act, for whom?

The coalition agreement of the second Rutte administration in 2012 announced the replacement of the Wwnv with the Participation Act. This transition was implemented on January 1, 2015, concurrently with the introduction of the Jeugdwet and the WMO 2015. With the introduction of the Participation Act, municipalities became responsible for benefit provision and reintegration of partially or temporarily disabled young people. They are also responsible for benefit provision and reintegration of a completely new target group. This group includes individuals who were previously covered by the WWB, Wajong, WSW, people with a benefit in the General Surviving Relatives Act<sup>15</sup> (*Anw*), the Decree Assistance for the Self-Employed<sup>16</sup> (*Bbz*), the Act on Older and Partially Disabled Unemployed Workers' Income Provision<sup>17</sup> (*IOAW*), the Act on Older and Partially Disabled Former Self-Employed Workers' Income Provision<sup>18</sup> (*IOAZ*), and Non-benefit entitled individuals (Van Echtelt, 2019).

The Participation Act aims to make regulations and support for these individuals with work disabilities or a distance from the labor market as uniform as possible. Since 2015, all these citizens fall under the same scheme and, in principle, have the same rights and obligations. This simplifies the regulations, for which the idea is to increase the chances of employment. With one clear regulation, it should also be easier for employers to hire individuals receiving benefits. The implementation of the Participation Act is the responsibility of municipalities. They are tasked with providing suitable support to individuals. If it proves challenging to help people find employment, these individuals, under certain conditions, may qualify for social assistance (Van Echtelt., 2019).

Municipalities have various tools at their disposal to guide people toward employment. These are the already existing reintegration instruments, such as a trial placement, job coaching, the personal budget, workplace adjustments, no-risk policy, job application training, participation positions and volunteer work. While some are forms of direct support for individuals to get work, others are used by municipalities to bridge the productivity gap and

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<sup>15</sup> Translation of the Algemene nabestaandenwet (*Anw*).

<sup>16</sup> Translation of the Besluit bijstandsverlening zelfstandigen (*Bbz*).

<sup>17</sup> Translation of the Wet inkomensvoorziening oudere en gedeeltelijk arbeidsongeschikte werkloze werknemer (*IOAW*).

<sup>18</sup> Translation of the Wet inkomensvoorziening oudere en gedeeltelijk arbeidsongeschikte gewezen zelfstandige (*IOAZ*).

making recipients ready for the labor market. Besides these existing tools of municipalities, the Participation Act also includes the instruments: wage subsidy and sheltered employment.

### 3.5 Wage Subsidies

The wage subsidy instrument aims to enhance opportunities for regular employment for individuals with work disabilities characterized by reduced productivity but who have the potential for labor force participation. Individuals with work disabilities typically face a productivity trap. This implies that they are not productive enough to cover their labor costs, making it economically unviable for employers to hire them. The instrument is designed for individuals who are incapable of earning the statutory minimum wage on their own. This target group is defined in the law and “refers to individuals as mentioned in Article 7, first paragraph, subsection a, who have been determined not to be capable of earning the statutory minimum wage through full-time employment but do have possibilities for labor participation, as well as individuals as mentioned in Article 10d, second paragraph” (Wetten.nl, 2020).

Employers who hire someone with a work disability are compensated for the loss of productivity. The employer receives a wage subsidy from the municipality and therefore pays less than the minimum wage for employees with a productivity level below 80% of the minimum wage. The employee receives an appropriate allowance according to the collective labor agreement (CAO). The employer pays the wage value determined based on the employee’s productivity. The difference between the wage value of the employee with a work disability and the minimum wage is reimbursed by the municipality. This amount can be up to a maximum of 70% of the minimum wage. However, the employer does pay the difference between the minimum wage and the CAO wage. Nevertheless, with a wage subsidy, it becomes financially more attractive for employers to hire people with a productivity level lower than the minimum CAO wage (CPB, 2013).

### 3.6 Sheltered Work

In addition to wage subsidies, another new tool in the Participation Act to facilitate the inclusion of workers with limited working capacity in the open labor market, namely sheltered work. Employers can apply for funding for workplace adaptation from the municipalities or the UWV. Sheltered workshops are focused on job coaching for new employees. Conform the European Union Social Cohesion Policy, sheltered work supports the inclusion of people with a disadvantaged position on the labor market. Municipalities are

tasked to provide sheltered work for persons with severe support needs, who are not able to work in a regular work environment (Bezzina et al., 2022).

Consequently, individuals with disabilities who were previously engaged in employment inclusion programs under the Wsw continue to follow the existing regulations. However, additional categories have been established for individuals with disabilities entering the workforce anew to facilitate their transition to the mainstream job market: 1) Employment with wage support in sheltered workshops; 2) Placement in sheltered workshops with the option for secondment to private companies; 3) Direct employment in regular companies. Sheltered workshops continue to operate based on the regulations of both the Wsw and the Participation Act. The primary distinction between the two frameworks lies in the potential for transitioning to the open job market (Bezzina et al., 2022).

Individuals with an earning potential of at least 20% are deemed eligible for employment and receive certification for either inclusion in a sheltered workshop or integration into the open job market, though this determination is not binding. For those with a work capacity below 20%, individuals with disabilities are redirected to day care centers funded by the state (Bezzina et al., 2022). Assessments of individuals with disabilities are not grounded in their level of occupational impairment but are instead based on their earning potential and work capacity. The evaluation process is carried out by the UWV.

Having an employment relationship means that the individual is employed by an employer and receives compensation for the work performed over a certain period. The municipality has implementation options to organize the employment relationship. UWV advises the council and simultaneously informs the individual about the content of the advice. If UWV has provided a positive advice to the council, the council determines whether someone has opportunities for labor participation exclusively in a sheltered environment (wetten.nl, 2022). The municipality may not exclude individuals who have received a positive advisory for sheltered employment from UWV from a sheltered workplace, as long as the number specified in the ministerial regulation has not yet been reached.

### 3.7 Tightening of WWB Eligibility Criteria

The Participation Act entails substantial reforms, notably the tightening of eligibility criteria for Social Assistance (WWB) benefits, with the primary objective of activating individuals within the labor market. The revised eligibility criteria encompass several key aspects. Firstly, there is the implementation of a cost-sharing norm, adjusting the level of



social assistance based on the number of adults sharing a household. Additionally, a reduction in financial support for single parents is introduced. The legislation emphasizes work-related obligations for welfare recipients, indicating a shift towards encouraging or mandating engagement in employment or job-seeking activities. Reciprocal Action mandates those receiving welfare benefits to contribute to society through activities such as community service. The transformation of the long-term allowance into an individual income allowance signifies a shift in the nature of specific welfare benefits. Special assistance is provided for individuals or families facing exceptional circumstances, and stricter measures or penalties are instituted for misconduct. These alterations collectively reflect a comprehensive restructuring aimed at fostering greater self-sufficiency and responsibility among welfare recipients.

### 3.8 Financing the Participation Act

The way in which the financing of expenditures is organized is crucial for the success of decentralization. In this regard, the Dutch experiences with the WWB are relevant. With this scheme introduced in 2004, municipalities gained more policy freedom and took full responsibility for budgets for benefit provision and reintegration. This transfer of funds is accompanied by the incentive to limit the volume of benefit recipients as much as possible.

Municipalities receive funds from the national government to facilitate the employment of individuals covered by the Participation Act. These funds are discretionary, meaning that if municipalities save on benefits, they are allowed to retain the surplus and also use it at their discretion. This incentivizes municipalities to focus their efforts on the most promising group within the overall target group.

Furthermore, with the introduction of the Participation Act, the income part will increase for municipalities due to the addition of the budget for wage cost subsidies. The old-style WSW budget will decrease and eventually cease to exist. In its place, there will be a budget for sheltered workplaces. The government has indicated a desire to minimize the ring-fencing of budgets. This means that the Participation Budget, including Wsw/sheltered work and wage subsidies (bundled rehabilitation budget), is combined with the budget for Jeugdzorg and WMO in a sub-fund within the Municipal Fund. Funds are added to the Municipal Fund to cover implementation costs associated with the larger target group that municipalities must serve.

### 3.9 Synergy Possibilities

A portion of welfare recipients faces multiple issues such as debts, relationship problems, language barriers, health issues, challenging children, isolation, etc. This multi-faceted set of problems requires an integrated approach that transcends policy domains. However, this is hindered because the right to support depends on conditions stipulated in different regulations: each aspect of the problem has its own set of rules. The intention behind this is to promote control over rightful use and detect fraud. However, this also has a downside. Over the years, a highly fragmented system has emerged. This creates barriers between different regulations/services. These barriers hinder smooth transitions from one regulation/service to another and impede opportunities to achieve effective tailored solutions through an integrated approach (Borstlap et al., 2020). The decentralization of Jeugdzorg, WMO, and the Participation Act enables the realization of such an integrated approach for individuals facing diverse challenges (CPB, 2013).

### 3.10 Role of Municipalities

The success of the Participation Act largely relies on the willingness of employers to provide job opportunities for individuals in the target group. In the Social Agreement<sup>19</sup> of April 2013, employee unions, employer organizations, and the government agreed to create additional jobs for people with work disabilities. Employers pledged to provide 100,000 additional jobs, while the central government would account for 25,000 extra positions. These supplementary jobs are expected to be available by 2026. If these targets are not met, a quota system will come into effect. Employers will be compelled to make jobs available for the target group. Failure to comply will result in fines.

Additionally, for larger enterprises, the job agreement<sup>20</sup> (henceforth *banenafspraken*) plays a role. The *banenafspraken* aims to create an additional 125,000 jobs. Strictly speaking, this law is not part of the Participation Act. However, it involves relevant adjacent policies. If an insufficient number of disabled workers have jobs, a quota is established, and individual employers face penalties. All individuals covered by the *banenafspraken* are included in a nationwide register established in 2015, called the *doelgroepregister*. With the introduction of the Participation Act, all Wajong recipients with work capacity were automatically included in the register, as well as those on the Wsw waiting list as of December 31, 2014. Other

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<sup>19</sup> Translation of the Sociaal Akkoord.

<sup>20</sup> Translation of the *banenafspraken*.

groups are also admitted to the doelgroepregister, including graduates from special secondary education and practical education. Traditional social assistance beneficiaries often do not fall under the banenafspraak and consequently are not included in the target group register<sup>21</sup> (henceforth *doelgroepregister*). A broader group could potentially be considered for inclusion in the doelgroepregister. However, there is a risk that even within the doelgroepregister, employers engage in “cream-skimming”, meaning they only want to hire individuals with the highest wage potential. For employers, it is financially advantageous to employ individuals from the doelgroepregister compared to other individuals with a distance from the labor market.

### 3.11 Role of the Employee Insurance Agency (UWV)

Although the UWV remains responsible for disbursing a portion of the benefits for people unable to work, its role has changed significantly, now taking on a more facilitating and advisory function regarding sheltered employment and wage cost subsidies.

To qualify for a sheltered workplace, an Advice Indication for Sheltered Employment is required. If municipalities wish to offer someone sheltered employment, they must request this advice from the UWV. Since 2017, individuals can also request advice directly from the UWV. The UWV then examines the client’s possibilities for work and any adjustments and support that may be necessary. If it turns out that the person in question has work capacity but requires support that cannot be expected from a regular employer, the UWV provides the municipality with a positive advice. Municipalities may not exclude individuals with a positive advice from sheltered work as long as the number of positions to be realized, as determined in the ministerial regulation, has not been reached.

Furthermore, the UWV is responsible for the assessment and determination of the wage value for individuals facing constraints in their work capacity. This entails a comprehensive evaluation of the individual’s ability to contribute to the workforce and the subsequent calculation of an equitable wage, considering the specific circumstances and limitations. The UWV plays a facilitative and advisory role in this process, aligning its operations with the overarching goal of promoting labor market inclusion for those with reduced work capabilities. This task of the UWV is of great importance for the integration of individuals

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<sup>21</sup> Translation of the doelgroepregister.

with diverse abilities into the workforce while ensuring fair compensation that reflects their unique circumstances.

The UWV also plays a role in communication between various entities within the Dutch social security framework. In instances where an application for a Wajong benefit is denied, the UWV signals this outcome to the municipality. Similarly, the UWV also transfers cases to municipalities when someone with employment benefit stays unemployed after a maximum of two years. Additionally, the UWV transmits the Citizen service number of individuals included in the doelgroepregister. This exchange of information facilitates coordination and collaboration between the UWV and local authorities, contributing to the effective implementation of social security measures.

## 4. Literature Review

To anticipate the impact of the Participation Act on the development of employment and income equality, we will first delve into the theory of fiscal decentralization and similar activation policies in the labor market. Active Labor Market Policies (ALMPs) will be a focal point since the Participation Act essentially constitutes activation policies for individuals with a distance from the labor market. Subsequently, attention will be directed towards the two instruments specifically introduced for the Participation Act: wage subsidies and sheltered employment for individuals with limited work capacity. Finally, we will examine the literature concerning the tightening of eligibility criteria and their effects on employment and income.

Fiscal decentralization involves transferring responsibilities for collective expenditures to lower governments. The theory of fiscal decentralization is concerned with the question of what the optimal allocation of responsibilities is for decentralized governments. The key consideration is determining which government tasks are best managed at a decentralized level and in what form this decentralization should take place. The initial theories make it clear that, in general, neither a large-scale centralized government nor a fully decentralized government consisting of many small and local jurisdictions will be efficient (Musgrave, 1959; Oates, 1972). The central government should focus on national public tasks, meaning tasks that benefit the entire nation or tasks for which task fulfillment has significant economies of scale, such as income redistribution (Bos, 2012; CPB, 2013).

Under the subsidiarity principle, the delivery of public services, whose benefits are mainly local, should be assigned to local governments. This way, the quality and quantity can be tailored to local preferences and conditions (CPB, 2013). Decentralization can lead to differences in the level of services in different jurisdictions due to the policy freedom granted to local governments. However, policy in the social domain inherently has a redistributive nature, and the theory of fiscal decentralization suggests that redistributive policies are better determined at the central level (Musgrave, 1959; Oates, 1972).

Additionally, the 'agency' and transaction cost theories emphasize the importance of incomplete and asymmetric information in contractual relationships among governmental entities. This theory highlights the pivotal role of financial organization in the decentralization of tasks (Bos, 2012). Moreover, effective implementation of the Participation Act necessitates that the entity executing the policy encounters no impediments arising from divisions between

various budgets. Such divisions could obstruct the selection of the most effective solution (Bos, 2012).

Consequently, fiscal decentralization under the financial conditions of the Participation Act, where municipalities can freely allocate the remainder from the municipal fund, carries the incentive for municipalities to only select and help individuals with the nearest distance to the labor market (Van Echtelt et al., 2019). This is because municipalities can freely allocate the amount they save on social security expenditures. Although the goal of fiscal decentralization was to provide more tailored solutions to activate welfare recipients, this behavior of municipalities leads to the adverse selection of only the low-risk individuals who can be guided towards work with a minimum amount of resources (Van Echtelt et al., 2019). Guiding these individuals towards work, municipalities can save on their benefit expenditures and ultimately increase the freely allocatable remains of the municipal fund.

Fiscal decentralism underscores the differentiation of certain policies for the central and local governments. While local government can more easily address the regional needs of individuals, some policies that apply to everyone, such as redistributive policies are better employed on the central level (Musgrave, 1959; Oates, 1972; Bos, 2012). Moreover, a recent study by Bruch et al. (2018) on the decentralization of social assistance in the United States found consistency in the level of inequality in the implementation of decentralized safety net programs are. The expectation therefore is that municipalities are capable of effectively improving work-chances for the target population, although they tend to neglect individuals with significant distance to the labor market. Furthermore, municipalities are not effective in improving income equality and is therefore dependent on central government led redistributive policies.

Similar to the Participation Act, Sweden underwent a substantial institutional change, raising concerns in a country that generally upholds equality as a central value in its welfare state (Esping-Andersen, 1990). This “new-work strategy” encompassed significant reforms in unemployment insurance and sickness insurance to counteract the growing trend of inequality in Sweden (Bengtsson & Jacobsson, 2018). While Bengtsson & Jacobsson suggest positive effects on the overall affordability of the Swedish welfare state, it has had repercussions on general social equality in Sweden. Kjellberg (2016) notes that it has had a unintended effect, rendering individuals who previously received benefits ineligible to receive them, even though they are heavily reliant on them. The “activation” aspect in tightening unemployment

and disability benefits to activate the workforce during such reforms has thus not resulted in improving employment and income.

Additionally, Active Labor Market Policies are government-led measures aimed at combating unemployment within a country or region. Typically, ALMPs are supply-side policies used by governments to promote employment, growth, and equality (Rueda, 2006). Since the 1990s, ALMPs are focused on the excess amount of low-skilled individuals (Bonoli, 2010). Since then, these activating measures will be recognized as standard policies designed to activate individuals facing disadvantages in the labor market (Bonoli, 2010). Similar to the Participation Act, they focus on activating labor market outsiders and reintegrate them into the labor market (Bonoli, 2010).

Vooren et al. (2018) argue that ALMPs typically consist of four types of measures: (1) training and retraining programs, aimed at developing human capital, (2) subsidized employment, (3) public employment services, and (4) activation measures such as obligations and sanctions/stricter eligibility criteria. While training and retraining programs are not necessarily a central focus of the implementation of the Participation Act, these programs do fall under the re-integration authority of municipalities and are therefore included in this study. However, we will first examine the effects of wage subsidies as a form of subsidized employment, the impact of active counseling and guidance by municipalities in finding employment, and the tightening of eligibility criteria as a form of activation. Bonoli (2010) calls this the ‘workfare approach’ and describes it as policies which “combines placement services with stronger work incentives, time limits on reciprocity, benefit reductions, and the use of sanctions.” Subsequently, we will focus on the impact of retraining programs of the target population.

Wage subsidies are typically used for individuals with a disadvantaged position in the labor market. Baert (2016) conducted a large-scale field experiment on the likelihood of disabled workers being hired by employers with and without wage subsidies. The results indicated that employers are almost indifferent in hiring disabled workers on the basis of the Flemish Supporting Subsidy (Baert, 2016). Moreover, research by Gielen et al. (2018) and Schenderling et al. (2019) align with these findings and further suggest that wage subsidies are considered a prerequisite for employers to hire less productive individuals who are unable to earn the minimum wage on their own. Borghouts et al. (2015) researched the demand-side of the labor market and found that wage subsidies are not able to convince employers to hire

disadvantaged workers, but function as an important condition. Employers hire disabled workers based on their productivity and not with the aim of obtaining wage subsidies.

Additionally, Kaltz (1996) conducted research on the Targeted Jobs Tax Credit implemented in 1978, which focused on young disabled workers in the United States. His study found that from 1979 to 1994, the American wage subsidy for disabled young adults slightly improved both employment and earnings (Kaltz, 1996). Datta Gupta & Larsen (2010) investigated the Danish Flexjob wage subsidy implemented in 1998, which aimed to activate people with long-term disabilities with partial working capacity. Their research revealed that the Danish subsidy increased the likelihood of employment by 33 percentage points for the target group with a distance from the labor market (Datta Gupta & Larsen, 2010). Furthermore, research by Huttunen et al. (2013) on the effectiveness of a Finnish payroll tax subsidy scheme showed that the subsidy did not necessarily increase the likelihood of employment among the target group but did increase the number of hours worked by the target group.

In addition, Jaenichen and Stephan (2011) conducted research on the effect of wage subsidies on hard-to-place workers in Germany. Their research demonstrated that wage subsidies have a positive effect on the employment prospects of individuals with a distance from the labor market (Jaenichen & Stephan, 2011). They showed that such wage subsidies increased the likelihood of regular employment three years after using the subsidies (Jaenichen & Stephan, 2011). Moreover, the aforementioned studies indicated that when the use of wage subsidies was accompanied by government-provided training/reskilling opportunities, it further increased the likelihood of individuals with a distance from the labor market finding employment (Katz, 1996; Datta Gupta & Larsen, 2010; Huttunen et al., 2013; Jaenichen & Stephan, 2011). Therefore, as municipalities are responsible for providing training, it is expected that the new wage subsidy instrument will at least minimally increase employment and the number of hours worked.

However, the literature indicates that the success of wage subsidies in the employment prospects of disadvantaged workers is accompanied by a significant issue at the bottom of the labor market, being job-displacement. Research by Kok et al. (2006) and de Koning et al. (2005) demonstrates that giving priority to disabled workers leads to displacement of other jobs. They argue that despite the positive results in the employment of disabled workers, this will result in a smaller net balance of societal benefits at the macro level. Ultimately, this displacement in the long term will lead to a new influx of welfare recipients, negating the



employment gains (Baily et al., 1977). Hence, the question arises whether the employment growth of the target group will not come at the expense of the job opportunities of others.

Gelashvili et al. (2022) conducted research on sheltered work employment centers in the private sector in Spain. Although the study revealed that employing disabled workers contributes to societal benefits, they concluded that sheltered work is not implemented with the aim of achieving better financial results (Gelashvili et al., 2022). In fact, they found that financial stability and the size of a company are conditions for hiring people with work disabilities (Gelashvili et al., 2022). Facilitating sheltered workplaces by companies is thus not determined by the willingness of employers but rather by the economic performance of companies in Spain.

Furthermore, Cimera (2011) conducted research on the employment and income of disabled workers in sheltered workshops compared to workers without sheltered work. Interestingly, his study found that concerning employment, there is no significant difference between the two groups (Cimera, 2011). Individuals with work disabilities might even have slightly less chance of employment in sheltered work compared to regular work (Cimera, 2011). Moreover, research on Dutch policies regarding the inclusion of disabled people has shown that sheltered and protected work environments serve as preparation for the labor market (van der Torre & Fenger, 2014; Bezzina et al., 2022). Bezzina et al. (2022) also state that this is not the goal of general sheltered work policy but that it focuses on transitioning to the open labor market. Therefore, the expectation is that sheltered work will not lead to more inclusion in the short term but will in the long run. Furthermore, research has shown that sheltered work, combined with the use of government-imposed quotas for individuals with limited work capacity in the workplace, increases the chances of employment growth within the target group (Bezzina et al., 2022).

Regarding income, it was found that disabled workers without sheltered work significantly earned more than sheltered workers (Cimera, 2011). Research by Bezzina et al. (2022) confirms this and further suggests that sheltered workshops do not provide employees the opportunity to maximize their income. Additionally, they found that Dutch welfare recipients lose their entitlement to benefits when they start sheltered work (Bezzina et al., 2022). Whether this plays a role in their decision to start working at all is unknown. However, it is expected that their income, which will be around the minimum wage, will not improve when they start sheltered work (Bezzina et al., 2022).

A significant reform within the Participation Act aimed at encouraging individuals with social security benefits to find employment is the tightening of eligibility criteria. Among other requirements, benefit recipients have an obligation to actively seek employment, and municipalities have the authority to reduce the benefit amount if these criteria are not met. Van der Klaauw and Van Ours (2011) conducted research on the effectiveness of such ‘carrot and stick’ measures in the municipality of Rotterdam. Their results indicated that reducing the benefit amount for noncompliance resulted in more individuals transitioning out of welfare (2011). However, they note that the effectiveness of the stick measure used is subject to bias due to the difficulty of moving the target group towards employment (Van der Klaauw & Van Ours, 2011). Surprisingly however, research by Van den Berg et al. (2021) revealed that applying sanctions involving reductions in benefit volume had a counterintuitive effect of shrinking the labor force. They argue that stick measures can have pervers results that policymakers did not intend (Van den Berg et al., 2021).

Research by Hohenleitner and Hillmann (2019) further demonstrated that the use of sanctions has a negative impact on the quality of work, wages and thus income and job stability of classic welfare recipients. This indicates that the use of sanctions has a negative impact on the income of welfare recipients but is positive for employment. Additionally, Kantarci et al. (2022) conducted research on an in 2006 implemented reform of disability insurance in the Netherlands. By utilizing a difference-in-differences approach, they found that stricter conditions for disabled individuals had a positive impact on overall employment and income of previous recipients of disability insurance ten years after the reform (Kantarci et al., 2022). Both studies indicate that tightening the conditions for benefits has a positive effect on the labor market participation of classic unemployment recipients and individuals with limited work capacity (Hohenleitner and Hillman, 2019; Kantarci et al., 2022). However, the Hohenleitner and Hillman concluded that although sanctions have a positive effect on short-term job entry for welfare recipients, there are adverse effects associated with employment and income in the long run (Hohenleitner & Hillmann, 2019). On the contrary, Kantarci et al. (2021) suggest that tightening the conditions for benefits has a positive effect on the labor market participation of individuals with limited work capacity.

Chasanov (1996) conducted research on groups of workers most affected by eligibility criteria for unemployment benefits. He argues that primarily women, low-wage workers, part-time and temporary workers, and members of two-earning families are the most adversely affected by stricter eligibility criteria (Chasanov, 1996). However, Grubb (2000) argues that

the effectiveness of sanctions is heavily dependent on the institutionalization of sanction legislation. Therefore, since the Participation Act was legally enacted on January 1, 2015, it is expected to have a slight yet positive short-term effect on employment, but is more uncertain in the long term. Additionally, the legal application of sanctions by municipalities is expected to have a negative impact on the disposable income of recipients both in the short and long term.

In conclusion, based on the presented international literature, it is expected that the Participation Act has been minimally successful in promoting income differences and has not been successful in reducing income inequality. Given that the primary focus of the Participation Act is to activate the working-age population, it is expected that the instruments of wage cost subsidies, sheltered employment and the stricter eligibility criteria of the reform only moderately successful is in improving employment. This is supported by various studies conducted on the different labor market instruments specifically used in the Participation Act to activate the unemployed able-bodied workforce. Furthermore, we anticipate a job-displacement effect of an increase in the employment of the Participation group which will come at the expense of the remaining workforce.

Moreover, based on literature of similar social policy measures, supported the theory of fiscal decentralization, this study poses that perverse effects are expected regarding the improvement of income distribution among the population in the Netherlands. Therefore, it is anticipated that the Participation Act has not been successful in promoting income equality for the group that since 2015 falls under the Participation Act compared to the workforce outside of the Participation Act.

## 5. Research Design

This chapter outlines the statistical data, variables, and methods that will be employed to investigate the impact of the Participation Act on employment and income development over the period 2010–2022.

### 5.1 Data

To investigate the effectiveness of the Participation Act in improving employment and income among the target group, a quantitative dataset from the Dutch Household Survey (DHS) was utilized. The DHS comprises random and representative Dutch survey data, which is processed using the statistical program Stata. As the research is interested in changes in the employment and income of the target group, four DHS datasets - *General Information on the Household, Household and Work, Health and Income* and *Assets and Liabilities*- are employed. Since the Participation Act came into effect on January 1, 2015, the available data for the period from 2010 to 2022 has been chosen. The choice was made to start the analysis from 2010 onwards to avoid the results regarding employment and income being influenced by the financial crisis of 2008, which had its in 2008. Taking a period of 5 years before and 7 years after the implementation of the Participation Act will provide a comprehensive understanding of how employment and income have changed due to the reform. These three datasets are merged into one usable panel dataset.

### 5.2 Conceptualization

Since this research is interested in the effect of the Participation Act on creating equal opportunities in the labor market and income for everyone with work capacity, the concepts of inequality is relevant. In the pursuit of comprehending the concept inequality in employment and income we construct a conceptual framework rooted in the definitions of both inequality of opportunities and inequality of outcomes. Inequality of opportunity and inequality of outcomes are two distinct dimensions of inequality that are often conflated. Inequality of opportunity refers to the unequal distribution of chances or opportunities to achieve a certain outcome, while inequality of outcomes refers to the unequal distribution of the actual outcomes themselves.

Both forms of inequality are inherently connected to the broader construct of economic inequality. Economic inequality involves the distribution of economic variables, such as employment opportunities and income, within society. Normally, the Lorenz curve, graphically depicting income distribution, and the Gini coefficient, quantifying societal

inequality, serve as crucial tools in comprehending and quantifying these disparities. In this study however, we are interested in the real effects of the Participation Act on inequality based on real measured effects in employment and income.

To measure inequality of employment and income, it is necessary to explain the definitions of both inequality of opportunities and inequality of outcomes. For this study, we will use the definition of the United Nations regarding the concept of inequality. According to the United Nations (2015), inequality of opportunity arises, among other factors, from unequal access to employment. Additionally, the UN (2015) asserts that inequality of outcomes is based on human well-being, measured by factors such as (net) income.

Furthermore, we build upon the definition put forth by Abras et al. (2013), who conducted a parallel study on inequality of opportunities in the labor market in Europe and Central Asia. This particular definition delves into the roots of inequality of opportunity, stemming from an individual's prospects in the job market. According to this conceptualization, the need arises to draw conclusions about the progression of inequality based on employment statistics. Consequently, the definitions provide a framework for measuring both inequality of opportunities and outcomes.

Additionally, Lefranc et al. (2008) present an intriguing argument, positing that “any level of inequality of outcome can be compatible with equality of opportunity.” However, the distinction lies in the emphasis placed by inequality of opportunities on the social backgrounds of individuals. Therefore, inequality of opportunities will be explored with a lens on social background determinants, examining how factors like education, socio-economic status, and geographical location impact access to employment

### 5.3 Operationalization

To distinguish between individuals who do and do not receive social benefits under the Participation Act, the questionnaire under *Health and Income* is used. Specific attention is given to the variables *IS21*, *IS24*, *IS26*, *IS27*, and *IS28*, which represent the recipients of an ANW, Wajong, WWB, Bbz, and IOAW/IOAZ benefit, respectively. These variables are relevant to our study because recipients of these benefits fall under the Participation Act as of January 1, 2015. A binary variable is created from these variables, named *participate*, where 0 indicates the control group, and 1 indicates the treatment group which is subject to the changes in the Participation Act. This approach allows for the measurement of inequality

between individuals under the Participation Act and those who do not fall under the Participation Act.

Subsequently, the binary variable *after* is created, characterizing the period before January 1, 2015, with the value 0 and the period after the implementation of the Participation Act with the value 1. Finally, a variable indicating the interaction between the variables *participate* and *after* variables is created. This binary variable is named *participateafter*. Regarding this variable, 1 indicates there was an outcome observed in the treatment group and it was observed after the intervention. 0 means this is not the case.

To test the hypotheses regarding inequality of opportunities, two variables have been selected to measure the effect of the Participation Act on employment. The first variable that makes this effect visible arises from question *BZRI* in the *Assets & Liabilities* questionnaire of the DHS dataset. This variable indicates whether an individual has been under contract in paid employment, participated in a partnership or corporation, worked as a self-employed person, or was unemployed in the past year. To accurately measure the progression of employment, this ordinal variable is converted into a binary variable, hereafter referred to as the dependent variable *employ*. Here, 0 indicates that the individual has been unemployed in the past year, and 1 indicates that the individual has had a job in the past year.

Subsequently, a second dataset has been created, where the dependent nominal variable *realhrs* stands central, measuring real employment. This is done through the average number of hours actually worked per week as reported by the respondent, originating from the DHS module *Household & Work*. The Dutch Household Survey in its dataset does not distinguish between missing values and the value 0, indicating that the respondent has worked an average of 0 hours per week. Therefore, to support the reliability of the results, it was chosen to include in the dataset *realhrs* only those respondents who indicated that they have worked a minimum of 1 hour a week on average. However, some respondents have reported working more than an average of 120 hours per week. Since this includes the total number of hours for 5 whole working days, to maintain the reliability and validity of the research, it was decided not to include these households in the dataset. In this way, the variable *realhrs* provides a good indication of the progression of the actual employment of the population. Moreover, specific attention is given to the value of *realhrs* that exceed 32 worked hours, as this indicates the limit that characterizes transition to regular employment (SCP, 2013).

Additionally, two variables are utilized to gain insights into the distribution of earned income among households in the survey. The first set of variables, *IJ161*, *IJ162*, and *IJ163*, originates from the DHS module *Health & Income*. These nominal variables represent the gross annual income earned by an individual from up to three different employers. To obtain a comprehensive understanding of the earned gross income, these variables are amalgamated into a single dependent nominal variable: *inc*.

To draw accurate conclusions about the progression of the population's income, a third independent dataset has been created. Only the gross incomes reported by respondents are included in this dataset. Notably, one respondent has been excluded from this dataset for reporting earned incomes of €999,999 and €999,998 in two specified years. To ensure the reliability and validity of the findings, this respondent has not been included in the dataset.

Furthermore, the distribution of net income is pivotal for understanding the income distributions of the population. We gauge net income using the pre-existing variable in the DHS dataset *Health & Income* called *IN49A*, which measures the total net income of the household over the previous year. This variable indicates the gross annual income for the household after income taxes and national insurance premiums. Henceforth, this variable is considered the nominal dependent variable *netinc*.

To precisely measure this variable, an independent individual dataset focusing on *netinc* is also created. The dataset revealed that two households provided unreliable data. The first respondent is derived from the *netinc* dataset. The second respondent had indicated unemployment but claimed to have earned over €6,000,000 in the past year. To ensure the reliability and validity of the data, this respondent has not been included in the data analysis.

Furthermore, to ensure that the observed effect of the Participation Act on the four dependent variables is indeed a result of their reform, control variables that are expected to influence both ones employment probabilities and (net) income over time will be included in the dataset. Firstly, as an individual gets older, the likelihood increases that one's income may also increase. Conversely, as one gets older, ones chances of staying employed might decrease. Therefore, the first control variable to measure inequality will include the nominal variable *age*. To accurately measure the impact of the Participation Act on employment and income changes, the decision was made to only include individuals aged between 16 and 67 years old all four datasets, since those individuals represent the current workforce in the

Netherlands. Furthermore, because the official retirement age in the Netherlands is set at 67 years old, people older than 68 are not included in the dataset.

In addition, significant disparities may exist in employment and income based on gender. Therefore, the second control variable encompasses the binary variable *gender*, where 0 denotes females and 1 denotes males. Furthermore, an individual's highest attained education with a diploma plays a crucial role in determining employment and income prospects. Therefore, this study will integrate the ordinal control variable *eduwith*. Considering potential disparities in employment and income opportunities based on residential location (rural or urban), the ordinal variable *city* will also be taken into account. Regarding the target group of the Participation Act, an individual's health is a vital determinant of their work and earning potential. Hence, it is crucial to include the ordinal control variable *health* in the analysis, representing the respondent's self-assessed health ranging from 1 to 5.

Additionally, given the new eligibility criteria for the WWB, an individual's employment and income are contingent on whether they share their household with a partner. To measure this, the binary variable *partner* is formed providing information about whether someone has a partner. If someone indeed has a partner, this is indicated with the value 1. Lastly, the type of dwelling can influence an individual's employment and income. Therefore, the decision is made to include the ordinal control variable *accom* in the research.

## 5.4 Methodology

Regarding the effect of the Participation Act on reduced inequalities, it makes sense to examine the inflow and outflow of employment and the development of the (net) incomes of the individuals in the labor force. In both cases, the results of the inflow and outflow can be linked to the economic opportunities of the target group. This allows for an investigation into whether equality of opportunity and equality of outcome has improved among participants since the implementation of the Participation Act on January 1 2015.

Because of the impracticality of conducting the study using a large scale experimental design to assess the impact of the Participation Act on reducing inequalities between both groups, this study employs a Difference-in-Differences (DiD) method. To perform the DiD analysis, the four datasets are tested against several assumptions. First, for all datasets, there are parallel trends between the group subject to the Participation Act and the control group. Thereby, common time effects are present. Additionally, no anticipation effect has been observed in any of the datasets. It is also assumed that there is no exogeneity between the



reform and the dependent variables. As a result, this quasi-experimental approach enables the measurement of differences between the two different groups over the period from 2010 to 2022. Although this method allows us for an accurate measure of the data, caution is needed when interpreting the data.

To execute the analysis, the previously mentioned variable *participate* is used, indicating whether an individual is subject to the changes brought about by the Participation Act. In this manner, the DiD method facilitates mapping out the existence of parallel trends and to visualize the effect of the Participation Act on the outcome variables. The formula for the Difference-in-Differences analysis is as follows:

$$Y_i = \alpha + \beta D_i + \gamma T_i + \delta D_i * T_i + \pi X_i + \varepsilon_i$$

In this equation,  $Y_i$  represents the outcome variable, which corresponds to one of the four dependent variables: *employ*, *realhrs*, *inc*, or *netinc*. Subsequently,  $\alpha$  denotes the constant, reflecting the outcome for the control group in the pre-reform period.  $\beta D_i$  signifies the group effect, representing the estimated impact of the treatment on the treatment group, indicated by the variable *participate*.  $\gamma T_i$  accounts for the time effect, depicting the common difference in outcome for the treatment and control groups in the post-reform period and is denoted by the variable *after*.  $\delta D_i * T_i$  then captures the treatment effect, which is an interaction between the variables *participate* and *after*, indicating the difference in outcome for the treatment and control groups in the post-reform period minus the difference in outcome for the treatment and control groups in the pre-reform period. This treatment effect is characterized by the variable *participateafter*. Additionally, the equation incorporates control variables, denoted by  $\pi X_i$ . Finally, the model corrects for standard errors, represented by  $\varepsilon_i$ .

Additionally, to measure the extent to which the Participation Act and the included control variables determine the outcome variables regression analyses are performed. One binary logistic regression analysis will be performed on *employ*. This analysis illustrates the probability that the Participation Act (and the control variables) have on employment, through odds ratios. This logistic analysis is conducted according to the formula:

$$\ln(odds) = \alpha + \beta_1 X_1 + \dots + \beta_n X_n + \varepsilon_i$$

Moreover, three multivariate regression analyses will be applied to the variables *realhrs*, *inc* and *netinc*. They depict the effect of the Participation Act and other independent variables on the outcome variables. This multivariate regression analysis is conducted according to the formula:

$$Y_i = \alpha + \beta_1 X_1 + \dots + \beta_n X_n + \varepsilon_i$$

To ensure the reliability of the results from the eight regression models, a critical significance level of 0.05 is employed. Additionally, significant values lower than 0.01 and 0.10 are also reported in the regression models.

## 6. Analysis and Results

In this chapter, the data from the Dutch Household Survey is presented. First, this chapter aims to describe the data by five tables are provided with the aim of describing the data. Additionally, a logistic regression analysis is conducted once, and a multivariate regression analysis is performed three times to illustrate the relationship between the independent variables of the Participation Act *participate*, *after* and *participateafter* and the control variables on the four different dependent variables *employ*, *realhrs*, *inc* and *netinc*. This will be represented through a single table with the eight models. Subsequently, these models are interpreted to gain a better understanding of the relation of these variables on the dependent variables. Finally, a difference-in-difference analysis is conducted and presented through five different graphs. The average treatment effect is calculated from this and tested against the formulated hypotheses.

### 6.1 Descriptive statistics

The research focuses on the evolution of inequality of opportunity and inequality of outcomes in terms of the development of employment and income. These are measured using the variables *employ*, *realhrs*, *inc*, and *netinc*, all derived from their respective datasets. Before examining the development of these variables over the period 2010-2022, it is essential to gain a better understanding of these variables. Therefore, these variables are first explored and their key characteristics are discussed, starting with the binary variable *employ*.

Table 1 reveals that the dataset of the outcome variable *employ* consists of 18,778 observations. Of these observations, the average value of *employ* is 0.74, indicating that a majority of respondents reported having had a job in the past year. Additionally, the average age of the respondents is approximately 48 years old, with the youngest measured person being 16 and the oldest being 67 years old. This aligns with the official working-age population in the Netherlands, which is the focus of this research. Furthermore, the variable *gender* has a notable value of 0.5, suggesting an equal distribution of men and women in the population.

Among the respondents, the average value of the ordinal variable *eduwith* is 4.94. This value indicates that, on average, the population enjoys an intermediate vocational education level or an apprenticeship. Given that this is an ordinal value ranging from 1 to 7, it can be inferred that the Dutch labor force population is reasonably well-educated. Furthermore, for the ordinal variable *city*, the average value is around 3. This indicates that the average Dutch

person resides in a moderately urban area. Since this value lies exactly between 1 and 5, it can be asserted that the population is well-distributed across very strongly urban to non-urban residential areas.

**Table 1.**

*Descriptive statistics for Employed*

<i>Variable</i>	<i>Observations</i>	<i>Mean</i>	<i>Std. dev.</i>	<i>Min</i>	<i>Max</i>
<i>Employ</i>	18,778	0.74	0.44	0	1
<i>Age</i>	18,778	47.98	13.17	16	67
<i>Gender</i>	18,778	0.50	0.50	0	1
<i>Eduwith</i>	18,778	4.94	1.42	1	7
<i>City</i>	18,778	2.99	1.33	1	7
<i>Health</i>	18,778	2.15	0.73	1	5
<i>Partner</i>	18,778	0.71	0.45	0	1
<i>Accomm</i>	18,778	1.27	0.48	1	6

Moreover, the overall health of the population seems to be good. Respondents indicated that their personal health falls between ‘good’ and ‘all right’. The binary variable *partner* indicates whether someone shares their home with a partner. Concerning having a partner in life, a majority reported that this is the case. Finally, the ordinal variable *accomm* indicates one’s current living situation. The table reveals that this variable possesses a value of 1.27. This indicates that a majority of the Dutch working age population seems to be homeowners.

In table 2, the descriptive statistics for the variable *realhrs* from data of the respective dataset is provided. The dataset pertaining to the outcome variable *realhrs* comprises 15,662 observations, with an average amount of 34.40 real worked hours per week. This suggests that on average, the Dutch labor force population enjoys regular employment. In addition to this, the average *age* of respondents lies around 48.19, spanning from the youngest individual at 16 to the eldest at 67. This demographic distribution aligns with the official working-age population in the Netherlands. Additionally, the gender variable exhibits a value of 0.5, suggesting an equitable representation of both men and women in the population. Concerning respondents, the average for the ordinal variable *eduwith* stands at 4.94, indicative of a moderately educated level, primarily from Vocational Education (MBO) or apprenticeships. Given the ordinal scale ranging from 1 to 7, it can be inferred that the population possesses a reasonably sound educational background.

**Table 2.***Descriptive Statistics for Real hours*

<i>Variable</i>	<i>Observations</i>	<i>Mean</i>	<i>Std. dev.</i>	<i>Min</i>	<i>Max</i>
<i>Realhrs</i>	15,662	34.40	11.39	1	114
<i>Age</i>	15,662	48.19	12.81	16	67
<i>Gender</i>	15,662	0.49	0.50	0	1
<i>Edwith</i>	15,662	4.99	1.40	1	7
<i>City</i>	15,662	3.00	1.33	1	5
<i>Health</i>	15,662	2.15	0.71	1	5
<i>Partner</i>	15,662	0.72	0.45	0	1
<i>Accomm</i>	15,662	1.25	0.46	1	4

With respect to the ordinal variable *city*, the average value centers around 3, indicating that the typical Dutch individual resides in a moderately urban environment. Given this value falls precisely between 1 and 5, it can be posited that the population is well-distributed across locales ranging from very strongly urban to strongly rural areas. Furthermore, the general *health* of the population appears satisfactory, with respondents characterizing their health almost as good. Concerning partnership status, a majority of respondents affirm having a life *partner*. Finally, the ordinal variable *accomm* presents a value of 1.27, implying that the predominant housing arrangement among Dutch individuals seems to be homeownership.

Table 3 presents descriptive statistics for the variable *income* derived from the corresponding dataset. This dataset, encompasses 10,426 observations, which are slightly less observations compared to the datasets regarding the measurement of employment. However, the dataset provides enough observations for the study to measure the impact of the Participation Act on the development of income from 2010 until 2022. What stands out from the table is that the average gross annual income earned by the population is €38,169.69. Notably, this income, measured over the period 2010-2022, exceeds the Dutch median income for 2022, which was €36,000.00 for private households in the Netherlands (CBS, 2023). What is more, the minimum amount of gross annual income is €0.00 and the maximum amount of gross annual income is €3,200,000.00. However, overall, the descriptive statistics suggest that economically, the population is doing well.

Moreover, the mean age of respondents is approximately 46.30, which is almost two years lower compared to both the employment datasets. What is similar to the other datasets is that the age also aligns with the working-age population in the Netherlands, spanning from 16 to 67 years. Additionally, the gender variable shows a value of 0.43, suggesting there are more women present in the population than men. Concerning the educational qualifications of the respondents, the mean for the variable *eduwith* is 5.25. This value surpasses the certified educational level of the population in relation to the outcome variable *employ* and *realhrs*, indicating a higher proportion of individuals who have completed higher professional education (HBO) or academic education (WO).

**Table 3.**

*Descriptive statistics for Income*

<i>Variable</i>	<i>Observations</i>	<i>Mean</i>	<i>Std. dev.</i>	<i>Min</i>	<i>Max</i>
<i>Income</i>	10,426	38,169.69	45,143.04	0	3,200,000
<i>Age</i>	10,426	46.30	12.18	16	67
<i>Gender</i>	10,426	0.43	0.50	0	1
<i>Eduwith</i>	10,426	5.25	1.34	1	7
<i>City</i>	10,426	2.92	1.32	1	5
<i>Health</i>	10,426	2.04	0.64	1	5
<i>Partner</i>	10,426	0.72	0.45	0	1
<i>Accomm</i>	10,426	1.22	0.45	1	4

Moreover, the mean age of respondents is approximately 46.30, which is almost two years lower compared to both the employment datasets. What is similar to the other datasets is that the age also aligns with the working-age population in the Netherlands, spanning from 16 to 67 years. Additionally, the gender variable shows a value of 0.43, suggesting there are more women present in the population than men. Concerning the educational qualifications of the respondents, the mean for the variable *eduwith* is 5.25. This value surpasses the certified educational level of the population in relation to the outcome variable *employ* and *realhrs*, indicating a higher proportion of individuals who have completed higher professional education (HBO) or academic education (WO).

Regarding the variable *city*, the average value is 2.92, indicating that the average individual resides in a moderately urban environment. Because the value is slightly closer to 1

compared to the value of *city* from the employment tables, we can infer that there are more urban residents in this population. Additionally, the population demonstrates better health overall. This value is 0.09 lower compared to the indicated average health of the populations in *employ* and *realhrs*. Thus, it is evident that, on average, this population enjoys good health. In relation to partnership status, it is remarkable that this average value of 0.72 aligns with the average of the *realhrs* population, considering the other differences. Lastly, for the variable *accomm*, this value is marginally lower compared to the preceding populations, suggesting a higher prevalence of homeownership in the population measuring income.

The final table of the descriptive statistics of the dependent variables and the relevant control variables are presented in table 4. This table originates from the last dataset, focused on measuring the final outcome variable *netinc* and consists of 9,418 observations. It is notable that this population consists of the fewest number of observations compared to the other datasets. Nevertheless, the number of observations are sufficient to accurately measure the trajectory of the net income for the population over the course of 2010 until 2022.

**Table 4.**

*Descriptive statistics for Net income*

<i>Variable</i>	<i>Observations</i>	<i>Mean</i>	<i>Std. dev.</i>	<i>Min</i>	<i>Max</i>
<i>Net income</i>	9,418	38,130.75	34,024.35	0	1,370,179
<i>Age</i>	9,418	50.73	12.01	16	67
<i>Gender</i>	9,418	0.43	0.50	0	1
<i>Edwith</i>	9,418	5.11	1.41	1	7
<i>City</i>	9,418	2.95	1.32	1	5
<i>Health</i>	9,418	2.11	0.71	1	5
<i>Partner</i>	9,418	0.72	0.45	0	1
<i>Accomm</i>	9,418	1.23	0.44	1	4

What is noticeable is that, similar to the gross income, the net income surpasses the Dutch median income (CBS, 2013). It is also noteworthy that the highest-earned net income exceeds one million. Additionally, the lowest-earned net income is recorded at €0.00.

Moreover, the mean *age* of the respondents is 50.73 years, representing the highest average age among the four populations. This is remarkably high, given that the working-age

population spans from 16 to 67 years old. In contrast to the average age of the population, the variable *gender* exhibits a corresponding value with the income population. Furthermore, the variable *eduwith* indicates that the average educational qualification is Vocational Education (MBO) or apprenticeships, and is slightly lower compared to individuals in the other income populations. Nevertheless, the attained educational level exceeds that of the employment populations.

What is more, the variable *city* shows the population resides in an area that can be characterized as neither urban nor rural. Consequently, the level of urbanization lies slightly lower compared to the income population. Concerning *health*, the population in table 4 reports a somewhat poorer health status than the aforementioned income population, although the indicated average health is better compared to that of the employment populations. Moreover, the variable *partner* also holds a value of 0.72, signifying that a majority in this population shares their household with a partner. Lastly, *accomm* denotes that a majority of the population owns a home.

Although this chapter has thus far exclusively presented descriptive statistics regarding the dependent and control variables, there are three additional variables regarding the Participation Act that play a central role in this study. The first two variables, *participate* and *after*, provide an indication of the group subject to changes in the Participation Act and a temporal indication representing the period before and after the enactment of the Participation Act on January 1, 2015.

To gain a better understanding of the relationship between these two variables and the four outcome variables, a final table is presented before the Difference-in-Differences graphs are performed. Table 5 includes data from the four different variables and their respective datasets. Distinctions are made between two groups subject to the treatment of the Participation Act. This division is indicated by the *participate* variable. Additionally, there is a group that will not experience changes due to the reforms concerning the ANW, Wajong, WWB, Bbz and the IOAW/IOAZ benefits. This group is the control group. Subsequently, the time variable *after* indicates whether the observed values were measured before or after the implementation of the law. This variable *after* takes on values 0 and 1, signifying the situation before and after January 1, 2015. By combining the variables *participate* and *after*, it is possible to make distinctions between four different groups.



**Table 5.**

*Descriptive statistics for the dependent variables and their treatment and control group before and after treatment*

<i>Variable</i>	<i>Observations</i>	<i>Mean</i>	<i>Group</i>	<i>Time</i>
<i>Employ</i>	248	0.27	Participate	Before
<i>Employ</i>	529	0.28	Participate	After
<i>Employ</i>	8,008	0.72	Control	Before
<i>Employ</i>	9,993	0.79	Control	After
<i>Real Hours</i>	147	31.74	Participate	Before
<i>Real Hours</i>	341	30.08	Participate	After
<i>Real Hours</i>	6,504	34.86	Control	Before
<i>Real Hours</i>	8,670	34.28	Control	After
<i>Income</i>	45	16,434.09	Participate	Before
<i>Income</i>	72	11,061.86	Participate	After
<i>Income</i>	4,656	39,389.34	Control	Before
<i>Income</i>	5,653	37,638.44	Control	After
<i>Net Income</i>	109	27,680.68	Participate	Before
<i>Net Income</i>	219	14,352.35	Participate	After
<i>Net Income</i>	4,327	36,450.98	Control	Before
<i>Net Income</i>	4,763	40,989.22	Control	After

Fistly, the table indicates that, concerning the variable *employ*, 248 individuals received an ANW, Wajong, WWB, Bbz, or IOAW/IOAZ benefit before the implementation of the Participation Act. Within this group, 27% were engaged in paid employment, participated in a partnership or corporation, or worked as self-employed individuals. Consequently, a significant majority of 73% did not have a job in the previous year. This contrasts with an unemployment rate of only 28% among the 8,008 individuals who reported not receiving any benefits. Remarkably, there is a substantial pre-existing disparity in employment figures between the two groups before the specified period. It appears that this difference in unemployment rates between the two groups has been one of the significant factors leading to the introduction of the Participation Act.

When comparing the situation before the Participation Act with the situation after January 1, 2015, three observations stand out. Firstly, it appears that the group falling under the Participation Act has increased by 281 observations. While this may seem like a concerning rise, it must be noted simultaneously that it has not had a negative impact on unemployment within this group. Rather it must be noted that these group contain observations from different number of years, with 5 years prior and 7 years after the reform. Furthermore, it seems that more people within the target group have found employment, although this is a minimal increase of 1 percentage point. In contrast, there is a significant

increase of 7 percentage points in employment within the target group that did not experience the effects of the reform. Surprisingly, this represents a relative increase in the number of employed individuals. However, from a first impression of the dataset, it appears that employment within the treatment group has not improved in comparison to the control group. Thus, it seems that despite the success of the Participation Act in enhancing employment within the target group, it has not brought about improved equality of employment chances.

Secondly, with regard to the variable *realhrs*, 147 individuals received an ANW, Wajong, WWB, Bbz, or IOAW/IOAZ benefit before the implementation of the Participation Act. Within this group, the average amount of reported real worked hours per week is 31.74 hours. Consequently, it can be stated that, on average, the treatment group did not enjoy employment on a regular basis (>32 hours) before the reform. Compared to the control group from the same period, this group averages over three hours less per week. Therewith, it appears that a significant majority within the group not subject to changes in the Participation Act has regular employment.

Compared to the situation after the implementation of the Participation Act, it appears that for both groups, the total number of real worked hours has decreased. For the group falling under the reform, it even holds that the number of benefit recipients has increased. However, it should be noted that this increase needs to be controlled for the difference in the number of years recorded prior to the reform, which differentiates by two years. Nevertheless, a first impression of the findings suggest that the Participation Act does not seem to have had the intended effect of increasing employment. Despite the observed decrease in the number of worked hours in the control group as well, it seems that the Participation Act has not been successful in reducing inequality between benefit recipients and non-benefit recipients.

Thirdly, concerning the outcome variable *income*, it is notable that only 45 observations for, and 72 observations of individuals with an ANW, Wajong, WWB, Bbz, or IOAW/IOAZ benefit were recorded. These observations contrast with 4,656 observations before and 5,653 observations after the implementation of the reform. When comparing the situation before and after the reform, a decrease in earned income is observed for both groups. Upon examining the average income of both groups, it is remarkable that the income for the treatment group is significantly lower than that of the control group. The income of the group outside the Participation Act is approximately 2.5 times higher than that of benefit recipients before the implementation. After the implementation, this difference increases to over 3 times. Thus, an

initial impression from the data paints a bleak picture regarding the improvement of income equality within the population due to the reform.

Lastly, concerning the outcome variable *netinc*, a better distribution is evident within this population between the treatment and control groups. Notably, the number of individuals under the Participation Act has increased from 109 to 219 observations. Additionally, it is observed that the net income of €27,680.68 before the reform is significantly higher than the €14,352.35 after. It is noteworthy that the net income has considerably decreased between the two periods. When compared to the situation for the control variable, it is remarkable that there is an increase in net income. Therefore, it seems that the net income for the control group, unlike the treatment group, has risen. Similar to the findings from the data regarding gross income, an initial indication of the net income trend suggests that income equality has not improved due to the implementation of the Participation Act.

## 6.2 Regression analyses on the four dependent variables

Focusing on table 6, this table presents the outcomes of the conducted regression analyses of variables measuring the effects of the Participation Act and the control variables on the four outcome variables. This is done using four different regressions. The outcomes of these regressions are presented in 8 different models, both with and without the control variables. Special attention is given to the values of the variables and their corresponding significance levels. Although the variable *participateafter* is also listed in the table, it will not be discussed as it represents the average treatment effect, which will be addressed later.

The first model presents the results of the logistic regression analysis on the likelihood that someone had paid employment in the past year. It reveals that the variables *participate* and *after* yield significant results, making them good determinants for predicting the likelihood of someone being employed in the past year. However, the constant has a value of 2.5, suggesting that there are missing variables that could better predict employment. Looking at the constant of the second model, despite being significant, it has a value of 46.725. Based on this value, the model is not capable of making statements about the likelihood of improving employment in both the models. However, for this model, except for the variable *participateafter*, all variables indicate a significant value. This suggests that the included control variables are essential for predicting the likelihood of someone being employed in the past year. These variables will later prove useful in predicting the effect of the Participation Act on employment in the Difference-in-Differences model.

**Table 6.**

*Logistical and Multivariate Regression Analyses of the Employment and Income Variables*

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	2.573*** (0.064)	46.725*** (9.407)	34.860*** (0.140)	31.773*** (0.823)	39,389.340*** (865.219)	4,997.646 (4,275.657)	36,450.980*** (456.674)	25,025.970*** (3,572.714)
Participate	0.141*** (0.021)	0.211*** (0.035)	-3.119*** (1.008)	-1.133 (0.957)	-22,955.25*** (2,354.626)	-17,532.570*** (2,430.940)	-17,866.570 (12,436.050)	5,203.198 (12,173.01)
After	1.438*** (0.050)	1.447*** (0.054)	-0.584*** (0.186)	-0.473*** (0.168)	-1,705.905* (950.084)	1,220.656 (939.268)	4,538.240*** (653.500)	5,557.043*** (610.009)
Participate* after	0.759 (0.134)	0.736 (0.145)	-1.078 (1.209)	-1.720 (1.138)	-3,666.322 (2,742.854)	-603.471 (2,978.600)	-18,408.840 (13,312.540)	-17,680.900 (12,372.730)
Age		0.961*** (0.002)		-0.048*** (0.008)		451.203*** (24.794)		-28.773 (31.327)
Gender		0.555*** (0.021)		-8.689*** (0.168)		-14,322.600*** (865.506)		-1,380.494** (635.967)
Edinwith		1.324*** (0.019)		1.442*** (0.067)		6,662.141*** (429.139)		4,154.730*** (300.108)
City		0.958*** (0.014)		-0.155** (0.066)		-1,061.944 (270.101)		-1,217.811*** (261.433)
Health		0.585*** (0.015)		0.327*** (0.127)		-1,819.627** (922.292)		-1,363.568*** (435.497)
Partner		0.865*** (0.039)		-1.520*** (0.197)		335.977 (1,032.228)		12,050.180*** (765.583)
Accommi		0.662*** (0.028)		-1.116*** (0.206)		-7,378.221 (1,725.459)		-8,878.281*** (735.592)
R <sup>2</sup>	0.040	0.157	0.004	0.193	0.004	0.090	0.017	0.099
N	18,778	18,778	15,662	15,662	10,426	10,426	9,418	9,418

Standard error are in parentheses. \*\*\*p<0.01, \*\*p<0.05, \*p<0.10. Models 1 & 2 are based on the variable *employ*. Models 3 & 4 are based on the variable *realhrs*. Models 5 & 6 are based on the variable *inc*. Models 7 & 8 are based on the variable *netinc*. All models contain different sample sizes.

The third and fourth models present the results of a regression analysis on the average amount of real hours worked. In the former, the results indicate a significant value, suggesting it provides a good predictable value for the number of worked hours. The constant indicates that, in the absence of the other variables, the third and fourth models reflect an average of 34.86 and 31.773 hours worked, respectively. It is noteworthy that receiving an ANW, Wajong, WWB, Bbz, or IOAW/IOAZ benefit has a negative effect on the number of worked hours. Remarkably, the third model shows significance for this coefficient, while the fourth model does not. Additionally, both models indicate significance for the variable *after*, suggesting that the period after the implementation of the Participation Act has a slight negative effect on the number of worked hours, with respective coefficients of -0.584 and -0.473.

Furthermore, the fourth model reveals that all control variables significantly contribute to predicting the number of worked hours. Notably, age has a slight negative effect on the worked hours, and women work approximately 8 hours less than men. The level of educational attainment also influences the number of worked hours, indicating that a higher educational level positively impacts the hours worked. Additionally, residents in rural areas work fewer hours. It is noteworthy that individuals reporting poorer health work more hours on average than healthier individuals. Moreover, those sharing their household with a partner work about one and a half hours less per week than individuals without a partner. This suggests that people with a partner may enjoy slightly more leisure time. Finally, one's living situation indicates that people with a housing arrangement other than homeownership work fewer hours per week.

Model 5 reveals that the constant indicates a gross income of €39,389.34. Furthermore, it is noteworthy from the model that the variable *after* does not yield a significant value. Therefore, it is not possible to deduce from the table what the effect of the time variable is on the earned gross income. However, the treatment variable can provide this information and indicates that benefit recipients under the Participation Act have an income that is €22,955.25 lower than individuals not covered by the Participation Act.

Model 6 then illustrates the effect of the Participation Act variables, including the selected control variables. From this model, it is evident that the constant and the variables *after*, *participateafter*, *city*, *partner*, and *accomm* do not show a significant value. Therefore, it is not possible to interpret these results with certainty. The remaining variables do provide coefficients that can be interpreted with sufficient reliability. These results indicate that,

similar to the model without control variables, individuals covered by the Participation Act have a significantly lower income than those outside the Participation Act. Additionally, age seems to have a positive effect, with income increasing by €451.20 per year. Furthermore, it is noteworthy that men earn €14,322.60 more per year than women. Concerning the ordinal variable of educational level, it appears that with each higher level of education, income increases by €6,662.14. Finally, the variable *health* shows that individuals who report having poorer health also receive a lower gross income. This is noteworthy, considering that Model 4 revealed that individuals with poorer health work slightly more hours per week.

Finally, Model 7 & 8 present the values for the earned annual net income. In both models, the constants have a significant value lower than 0.01, indicating reliable constants. Interestingly, this net income of €36,450.98 is significantly higher than the net income of €25,025.97 from Model 8. Furthermore, both models seem to suggest that income after the implementation of the reform is respectively more than €4.5 and €5.5 thousand higher than before the situation.

Model 8 further reveals that gender has a negative effect of €1,380.49 on income. Additionally, net income, like gross income, steadily increases with higher educational attainment, with a €4,154.73 increase for each higher diploma level. The level of urbanization where an individual resides also impacts net income, decreasing as one moves away from the city. Moreover, individuals with poorer health appear to receive a lower net income. Furthermore, the variable indicating partnership status presents a reliable coefficient, indicating that individuals with a partner in their life have a significantly higher net income of €12,050.18. Finally, there seems to be a significant difference between individuals with a homeownership and those with a different form of housing. For individuals with a rental home, the net income is €8,878.28 lower compared to homeowners. Those with a subleased property have a net income that is €17,756.56 lower, and individuals with a free housing arrangement have a net income that is even €26,634.84 lower compared to homeowners.

### 6.3 Difference-in-Differences analysis

This section evaluates the impact of the Participation Act on the four distinct outcome variables spanning the period from 2010 to 2022. To depict the effect of the Participation Act on the outcome variables, a table displaying the average treatment effects is presented. This table illustrates the average change in the outcome variables for the treated group in comparison to the control group. Subsequently, insights can be derived regarding the

reliability of the DiD figures in portraying the trends in employment and income over the observed period. In these figures, the implementation of the reform is indicated by a vertical line. Moreover, Figure 3 portrays a linear trends model of the variable *realhrs*, chosen for its ability to better capture the impact of the reform on the trajectory of the total number of worked hours for both groups.

**Table 7.**

*Average Treatment Effects*

<i>Model</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ATET	-0.050***	-.056**	-1.078	-1.360***	-3,666.322***	-599.120***	-17,866.570***	-17,401.660***
N	18,778	18,778	15,622	15,622	10,426	10,426	9,418	9,418

Standard error are in parentheses. \*\*\*p<0.01, \*\*p<0.05, \*p<0.10. Models 1 & 2 are based on *employ* and are with and without covariates respectively. Models 3 & 4 are based on *realhrs* and are with and without covariates respectively. Models 5 & 6 are based on *inc* and are with and without covariates respectively. Models 7 & 8 are based on *netinc* and are with and without covariates respectively.

Table 7 reveals that, with the exception of model 3, all models are capable of predicting the average treatment effect of the Participation Act on the outcome variables. As models 2, 4, 6, and 8 all indicate a significance level of less than 0.05, all Difference-in-Differences figures can be interpreted with a high degree of confidence.

For the ATET of the outcome variable *employ*, there is a very slight negative effect on the employment of the treatment group compared to the control group. This suggests a slight growth in inequality differences between the two groups. Regarding the other employment outcome variable, it is notable that from model 4, which the later described figures 2 & 3 are based on, there is a difference in the number of worked hours of slightly more than one hour. Furthermore, inequality seems to have increased based on the number of worked hours. Although this value of more than 1 may seem large, it is important to consider that this is a nominal variable.

Furthermore, models 5 & 6 show a similar effect of increased inequality in terms of gross income. The treatment effect of the Participation Act thus seems to have a negative effect on the income of people under the Participation Act compared to the control group. Remarkable is that there is a significant difference of over €3,000.00 between the model with and without control variables. However, both seem to present a large significant difference.

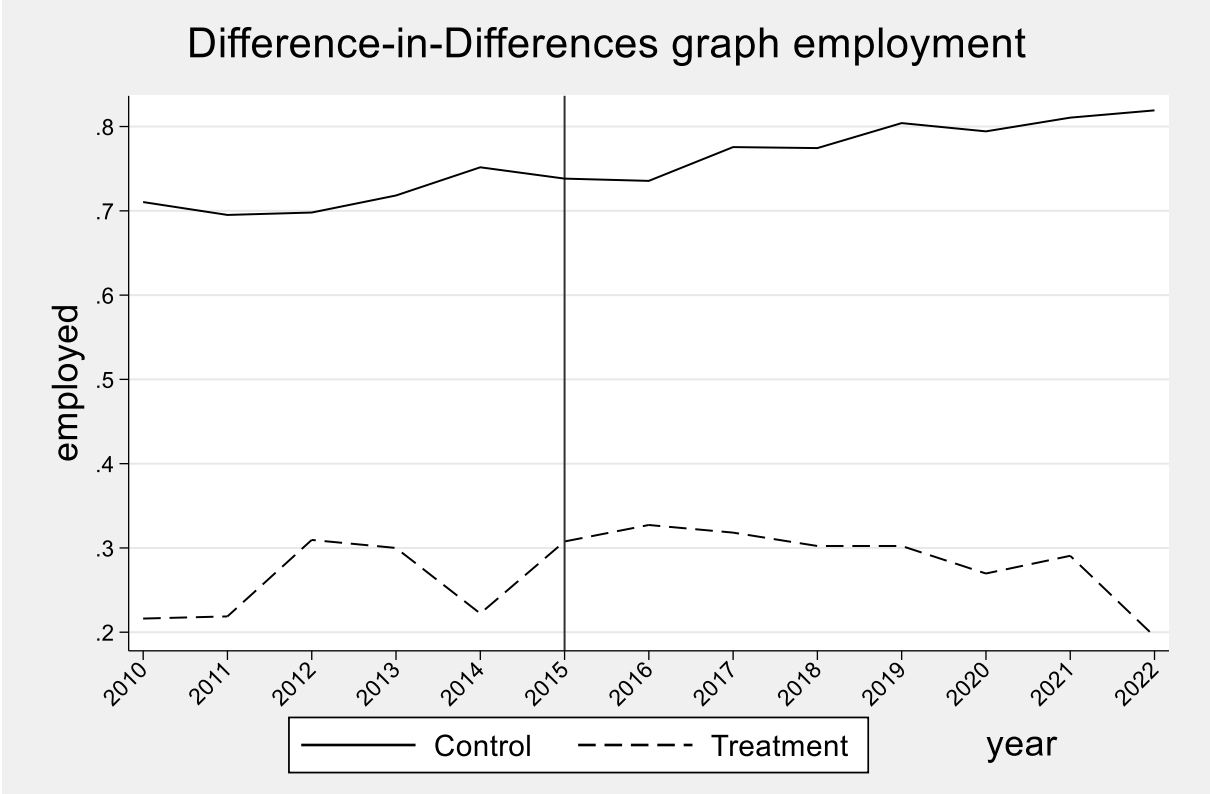
For models 7 & 8, it is also the case that the treatment of the reform of the social security system has a negative and significant effect on net income inequality. A first impression is that the Participation Act does not seem successful in facilitating more equality, both in terms of income and employment in the Netherlands.

Figure 1 illustrates the Difference-in-Differences for the binary variable *employ*, indicating the employment trends of the population. It is evident that at the time of the implementation of the Participation Act, approximately 74% of the control group was employed. From that moment, employment among the control group appears to have a relatively stable upward trend. In comparison, the group subject to the Participation Act showed that only 31% of them reported having paid employment at the time of implementation.

While there seems to be a slight positive effect on employment in the first year after implementation, this effect is nullified after the initial year. Until 2021, there appears to be a slightly declining trend in employment, fluctuating around 30%. Remarkably, after 2021, a shocking decline is observable in the number of people employed within the treatment group. It is concerning that the differences in employment after January 1, 2015, have significantly increased. Although this is mainly evident through the rising employment among people in the control group, the instruments of the Participation Act do not seem to have had the intended effect of improving job opportunities for the target group. This suggests that the decentralization to municipalities for reasons of better customization has not been successful.

**Figure 1.**

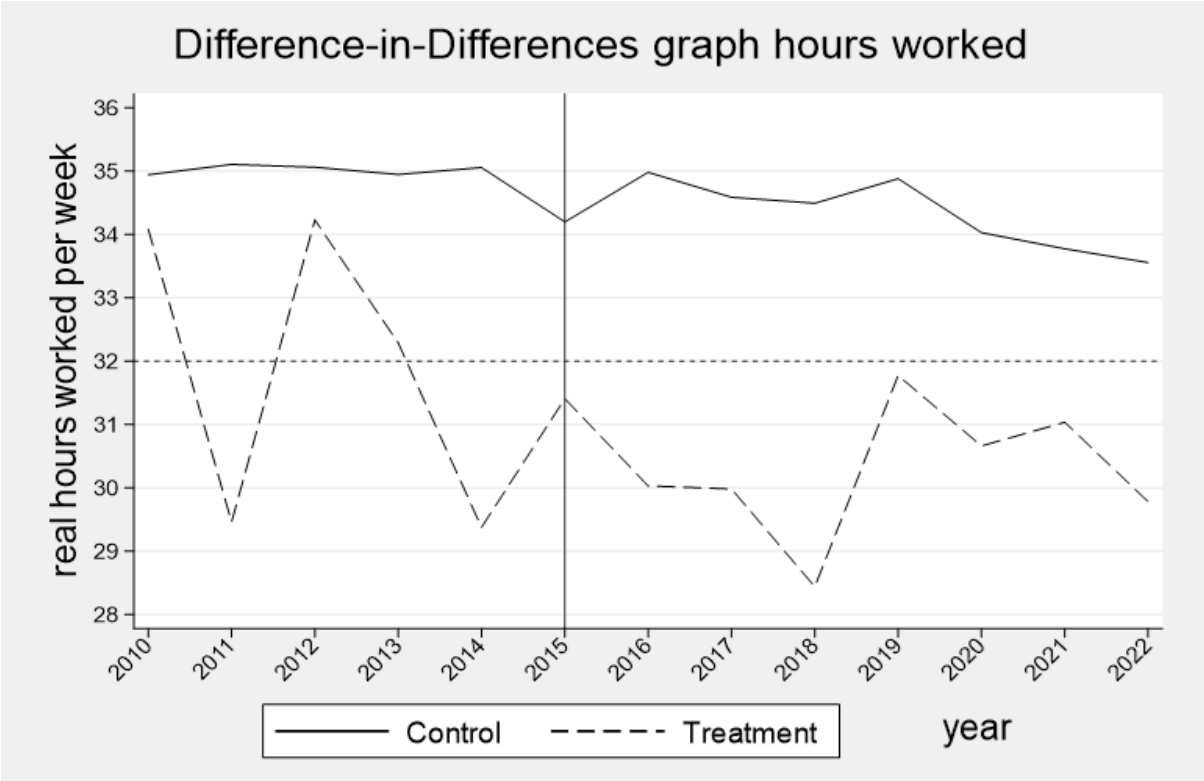
*Observed Means Model employed*





When comparing employment figure 1 with the employment figure 2, that is based on the average number of actual hours worked per week, it is noticeable that nominal values of the variable *realhrs* from the observed means model in Figure 2 show a more turbulent trend. Particularly for the treatment group, there are significant fluctuations in the number of hours worked per year. Here, it is visible that the majority of the observed means after the implementation of the Participation Act lie below the threshold of regular employment. The reform thus appears to have failed in increasing the number of people enjoying regular employment. In the control group, there are fewer fluctuations visible, and the average number of hours worked before the reform is around 35 hours. This number lies well above the threshold of regular employment, as indicated by the horizontal line. Compared to the situation after the implementation, employment remains relatively stable for the first 4 years, followed by a slight decline of about 1 hour of work per week after 2019.

**Figure 2.**  
*Observed Means real hours worked*



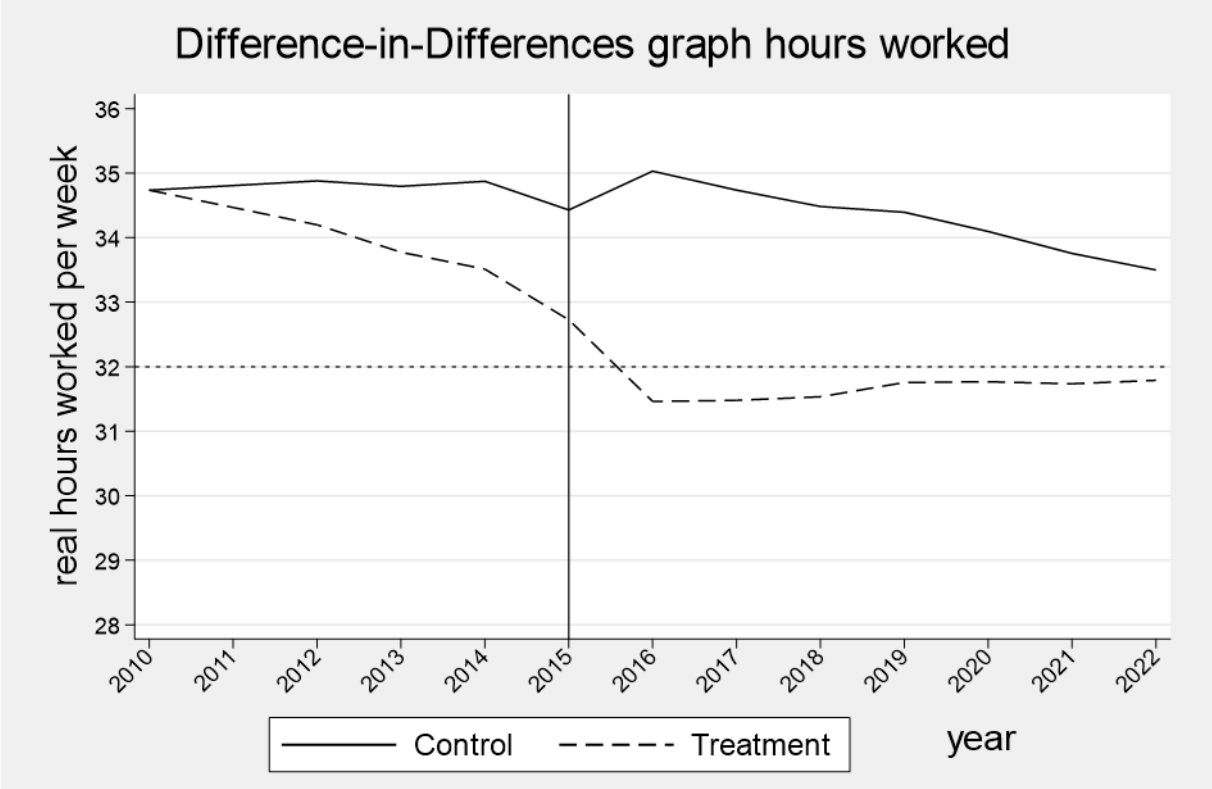
Regarding the inequality between the two groups, it can be stated that for the first 3 years, a reasonably large difference has emerged in the number of hours worked. This is a difference of around 5 hours per week. However, after 2018, this difference seems to be restored considerably. This may be due to the municipalities needing time for the

Participation Act to function fully effective. When the differences between the two groups seem to have been restored, the trend after 2019 reflects a gloomy outlook. However, this applies to both the treatment and control groups after 2019. Therefore, it can be argued that the Participation Act did not achieve the desired effect in improving the labor market participation of benefit recipients.

Because there are many fluctuations visible in the measured values in the observed means model, the linear-trends model in Figure 3 shows the trends of the measured values. These linear trends are measured from the year 2010 and immediately shows that the trends between the treatment and control group are diverging from each other. This indicates that before 2016 there was a trend of growing inequality between the two groups. A year after the reform has taken effect, it appears that this diverging trend has reversed to a more converging trend. Based on this model, it has become visible that the treatment group remains stuck at a stable value. It is noteworthy that this value, like in the observed means model, is below the threshold of regular employment. Nevertheless, it can be inferred from this model that inequality, in terms of the actual number of hours worked, has not worsened due to the Participation Act. However, this seems to be because the control group, on the whole, has worked fewer hours.

**Figure 3.**

*Linear-Trends Model real hours worked*

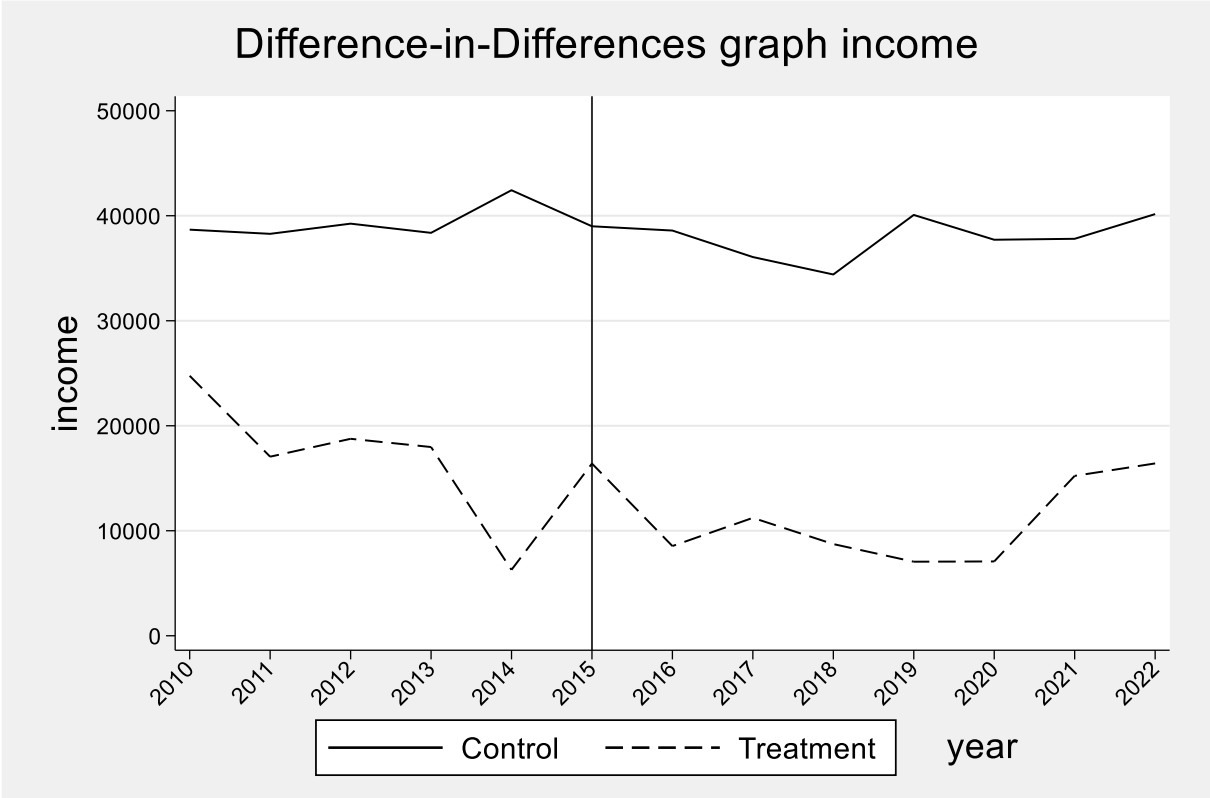


Looking at the graphical impact of the Participation Act on gross income, figure 4 depicts a relatively stable trend between the equality of both groups. The figure reveals that before the reform, there was a clear trend of increasing inequality between the two groups. At first glance, the Participation Act appears to be a successful measure in halting this diverging trend between the two groups, which was visible until 2014. However, the model also indicates that, until 2020, the reform was not successful in reversing this downward trend.

Moreover, it is evident that a significant level of inequality exists between both groups. The difference in gross annual income has grown to over €20,000.00 during this period. Furthermore, it is concerning that the gross annual income falls below €10,000.00. This paints a bleak picture for individuals who were subject to the Participation Act between 2015 and 2020, which shows that the Participation Act has not succeeded in improving the economic situation. For a period of 5 years, a significant group of Dutch citizens lived in poverty. However, the trend depicted after 2020 offers hope for the economic situation and inequality between the two groups. It's important to note that this trend specifically pertains to gross annual earnings. For a comprehensive analysis, it is imperative to consider net income as well.

**Figure 4.**

*Observed Means Model income*

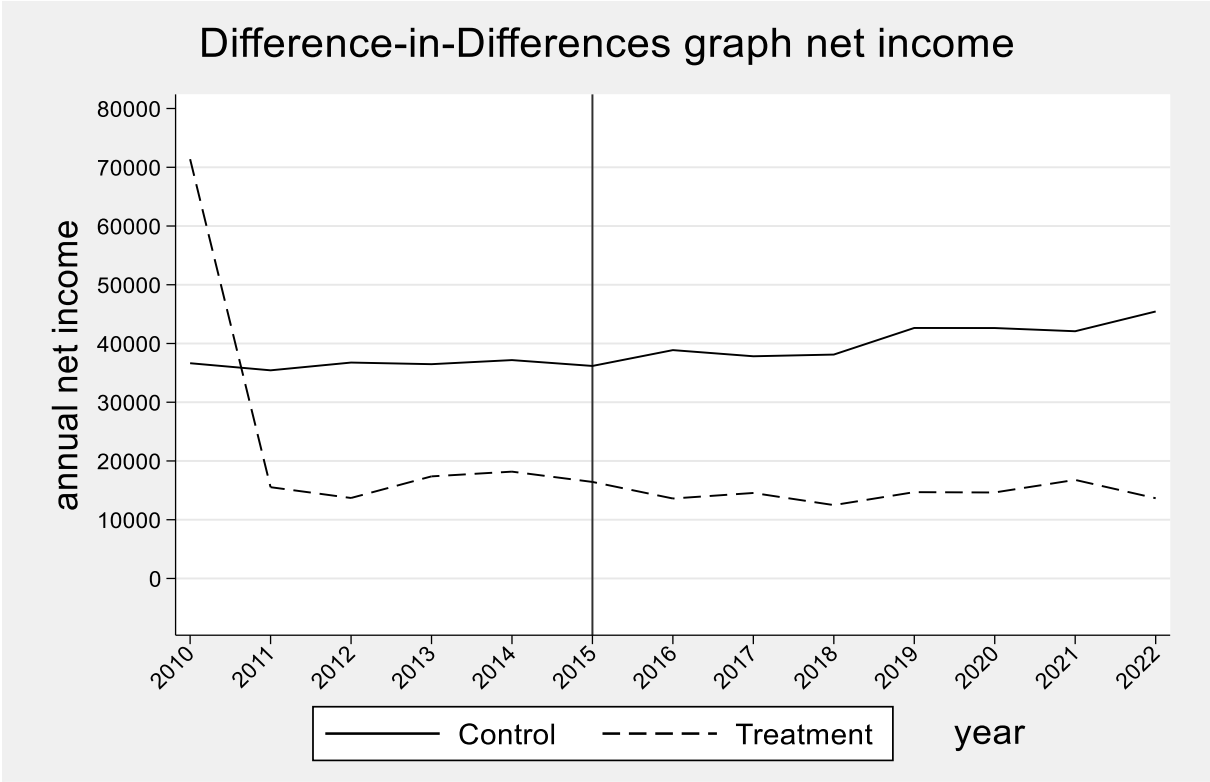


A major contributing factor appears to be the characteristics of the group of benefit recipients. As indicated in the earlier presented multivariate regression analyses, education

level and health proved to be good predictors of gross income. Since the group of benefit recipients is characterized by lower educational attainment and poorer health, these included control variables seem to be the good predictors for the substantial income disparity between both sub-populations.

Finally, figure 5 presents a similar trend in the evolution of net income as was visible for gross income in Figure 4. Although it appears that the average net income had a remarkably high value in 2010, a slightly diverging trend is evident between the two lines after this period. This suggests that there is a slightly increasing trend in inequality between the control and treatment groups, both before and after the implementation of the Participation Act. It must be noted that it seems the net income has not clearly worsened, remaining around €15,000. Similarly to the level of gross annual income, the net income of the Participation Act group is alarmingly low. It is situated close to the poverty line in the Netherlands.

**Figure 5.**  
*Observed Means Model net income*



However, in contrast, the net income of the control group continues to steadily increase. This indicates that the net income of the control group grows over time while that of the treatment group does not. It seems that the net income of Dutch individuals outside the Participation Act is steadily increasing in line with inflation adjustments. Remarkably, this

slightly upward trend is not evident for the group for whom an increase in income seems most necessary. Consequently, a slight increase in income inequality between the two groups is observed. It can be concluded that, with the inclusion of welfare benefits in people's income, the Participation Act has not been successful in improving equality between the groups that did and did not experience changes due to the Participation Act.

## 7. Discussion

In this study, an attempt to answer the question: “To what extent has the Participation Act been effective in improving employment inequality and income inequality in the Netherlands since its implementation on January 1, 2015 until 2022?” To answer this question, this study examined the available international literature on similar reforms that implemented policy instruments of wage cost subsidies, sheltered employment and stricter eligibility criteria.

Previous studies on the various instruments indicated that such policies aimed at enhancing employment only achieved marginal increases in employment (Cimera, 2011; Kjellberg, 2016; Bengtsson & Jacobsson, 2018). Furthermore, from previous studies on the effectiveness of assisting individuals in securing employment through the introduced instruments of wage subsidies for the disabled, sheltered work and tightening eligibility criteria, it was demonstrated that these groups did not experience improvements in their income (Baert, 2016; Datta Gupta & Larsen, 2010; Huttunen et al., 2013). Additionally, the literature on the theory of fiscal decentralization proposed useful insights in the development of income inequality (Bos, 2012; CPB, 2013). This is attributed to their limited labor productivity, which does not enable workers to generate a higher income.

To test the formulated expectations for the effect of the reform on the evolution of employment and income inequality of the Dutch labor force, a statistically significant Difference-in-Difference method on the Dutch labor force was performed. The goal was to capture the development of equality of opportunity and equality of outcomes between the group receiving ANW, Wajong, WWB, Bbz, and IOAW/IOAZ benefits and individuals not receiving benefits was performed.

The analysis revealed that, opposed to the expectations from international studies of the used instruments of the Participation Act have not been successful in improving employment of the target population (Jaenichen & Stephan 2011; Hohenleitner & Hillman, 2019). It is particularly noteworthy that the job prospects of the participation population have not improved in comparison to the general Dutch labor force. Specifically, the negative trend in employment opportunities found after 2021 is alarming.

Despite a recovering trend in the number of actual hours worked per week after the implementation of the reform on January 1 2015, it must be asserted that similar to the

findings of Hohenleitner & Hillman (2019) the goal of the reform to foster more regular employment has not been achieved. Opposed to previous literature by Baert (2016), Datta Gupta & Larsen (2010) and Huttunen et al. (2013) on the effects of such instruments on improved employment the results show an alarming diverging trend in overall employment. Consequently, it can be concluded that the expectation that the instruments of the Participation Act have a successful impact in the stimulation of employment growth compared to the rest of the population is rejected. Moreover, we observe no effects of job displacement. This does not appear to be applicable, as the results demonstrate an absence of employment growth of the Participation group altogether. Therewith, there is no reason to conclude that the decentralization of the Participation Act to offer more customization has been successful in contributing to more equality of opportunity for the target population.

Furthermore, as anticipated from the literature, the instruments of the Participation Act have failed to level the economic differences between those who fell within and outside the reform. In fact, the findings indicate a concerning trend in the (net) income of ANW, Wajong, WWB, Bbz, and IOAW/IOAZ recipients. Alarming is that in some cases, net income of welfare recipients falls below the poverty threshold. These results confirm the expectation that redistribution, according to the theory of fiscal decentralization, is not suited to be regulated at the decentralized level (Bos, 2012; CPB, 2013). It can therefore be concluded that there is no reason to assume that the combination of austerity measures with the decentralization of the Participation Act to provide a more tailored approach have been successful in reducing inequality of outcomes. This study finds no grounds to reject the hypothesis regarding income inequality. Therefore, this study concludes that the policy has not contributed to Social Development Goal 10 of the United Nations of reducing inequalities.

However, there are four implications associated with the study. A first significant implication of the research is that, through the employment variable *employ*, the focus is primarily on individuals engaging in paid work. However, individuals within the target group may also be activated to perform volunteer work through the instruments of the Participatiewet, which was not captured in this analysis. Since a portion of the Participatiewet population may be engaged in volunteer work, it is essential for future research on employment development to include indicators of volunteer work in the study.

Moreover, it is crucial to note that Covid-19 may significantly contribute to the lack of successful outcomes in terms of employment and income improvement for the target group during the observed period. As depicted in Figure 2, there was a substantial increase in the

average hours worked between 2018 and 2019. However, in 2019, the Dutch government strongly advised reducing personal contacts and working from home as much as possible. It appears that this recommendation has been particularly detrimental to the vulnerable group covered by the Participation Act, which often engages in physical labor tasks and thus had limited opportunities for remote work. Therefore, it is essential not to underestimate the impact of Covid-19 on employment and, consequently, gross and net income. For future research, it is recommended to control for the influence of Covid-19 on the trajectory of employment and income.

A third implication may emerge regarding reliability issues related to the data used for the variable *realhrs* in particular. Specifically, this variable represents the respondents' self-reported average number of hours worked. It is plausible that respondents have provided an over- or underestimated amount of the average hours worked. Therefore, the actual number may differ from the reported number of hours worked.

Additionally, Table 5 revealed an imbalance in the number of individuals falling under the Participation Act from January 1, 2015. Although the results of this study are statistically significant and provide useful insights in the development of employment and income, the used data is not entirely proportional to the total Participation Act population. For future research, it is recommended to include a larger treatment group for the comparison of employment and income variables with the total labor force.

Furthermore, there are some important policy considerations for future introductions of extensive social security reforms like the Participation Act. It is important to note that the findings are in contrast to the conclusion drawn by Bezzina et al. (2020) that quotas and sheltered work have a positive impact on employment. This is mainly because the instrument of sheltered employment, the *banenafspraak*, the quota, the *doelgroepregister*, and the occupational day care all target slightly different demographic groups, each with their own target figures and conditions (Van Echtelt et al., 2019). Consequently, the outcomes of employment and income variables may present a distorted picture of the effectiveness of the employed instruments. Therefore, for practicality reasons, it is recommended to focus on one or fewer demographic groups.

Additionally, the success of the Participation Act relies significantly on employers' willingness to hire individuals with limited work capacity. The agreements outlined in the *Sociaal Akkoord* are crucial for improving the work situation for individuals with restricted



work capacity. However, earlier research by Borghouts et al. (2015) revealed that the employed instruments, such as wage cost subsidies, are viewed as essential conditions for employers even to consider hiring individuals. It appears that there is still much work to be done to persuade a sufficient number of employers. For future reforms in the social sphere, it is therefore recommended to extrinsically motivate employers to hire individuals with limited work capacity, instead of in an extrinsic manner.

From the perspective of benefit recipients, stricter eligibility criteria do not seem to serve as a positive incentive to seek employment. On the contrary, similar to the conclusion of Van de Berg et al. (2021) there is a strong indication that such measures have a negative effect on the net income of this group, placing them on the brink of poverty. For future socio-economic policies, it is crucial to distinguish between those who cannot and can work, based on factors such as their health.

In conclusion, The Participation Act constitutes a key component of the comprehensive approach to providing a tailored approach in guiding people with limited work capacity to employment. However, the cost-saving incentives embedded in the discretionary municipality budget of the Participation Act have the unintended effect of only focusing on the most promising group within the target population (Van Echtelt et al., 2019). Individuals within the target group of the Participation Act with a greater distance to the labor market tend to be overlooked by municipalities. Consequently, individuals with a significant distance to the labor market are not involved in society and lose perspective on an improved situation. Therefore, for future socio-economic policies, it is crucial that such reforms, introduced to provide better customization, are not coupled with substantial budget cuts.

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