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Discrediting Neo-Liberalism: The Social Democratic Welfare State Of The Netherlands

The majority of workers have no guarantee of stable economic life and live under the incessant threat of unemployment, illness, the loss or reduction of income after retirement, and the burden of debt to buy a car and a small flat for their family. The capitalist market economy has no answer for these unstable and poor economic conditions of life for the majority of workers, while at the same time creating a very uneven distribution of wealth...Thus, in our *fin de siecle* age of the presumed victory of capitalism over socialism, capitalism has also revealed its fundamental limitations and weaknesses as a socio-economic order.

- Makoto Itoh, from *Political Economy for Socialism*.

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I) Introduction

In the last two decades, neo-liberalism has become the dominant force in the world economy. Bolstered by the widespread collapse of communism and by unprecedented economic growth and prosperity in the second-half of the 1990's, the victory of free-market capitalism has become, for many, a foregone conclusion. In the late-1970's and 1980's the welfare states of Western Europe, which had been built in response to the economic collapse of the Great Depression and the destruction of World War II, entered a period of economic crisis. Neo-liberal economists blamed these fiscal troubles on the sizable social welfare programs of these countries, maintaining that they stifled economic growth and reduced productivity. Predicting the eventual demise of the welfare state, neo-liberalism's proponents held steadfastly to the belief that only a free-

market economy could distribute the world's resources as efficiently and fairly as possible.

Twenty years later, those predictions have gone largely unfulfilled. As profitable as the globalization of the world economy has become over the past few years, capitalism's shortfalls have become glaringly apparent. The inequality in the distribution of wealth both within nations and between the industrialized and developing world has increased. Furthermore, contrary to neo-liberalist rhetoric, the welfare states of Western Europe have not only survived, they have flourished. As a recent article in *Newsweek* entitled, "No, Economics Isn't King," said:

A funny thing happened on the way to the *laissez-faire* paradise. Countries began realizing that they had a lot more leeway than they thought. Over the last decade, most European countries have begun to reform their economies. But they have kept (mostly) in place their treasured social safety nets. The size of the state in the industrialized world actually rose in the supposedly libertarian '90's. Finland and The Netherlands maintain this combination of free enterprise and a vast welfare state, and both countries are thriving.

The success of European welfare states contradicts the tenets of neo-liberal economic theory. While the redistributive policies of these welfare states should have led their countries down the path to economic ruin, they have instead prospered without sacrificing their moral commitment to insure that all of their citizens have the opportunity to lead a healthy, dignified life, protected from threats of the arbitrary market economy.

This essay explores how the welfare state has managed to prosper in spite of conventional economic "wisdom". Unlike the United States, which has followed neo-liberal economic policies at the expense of the highest rates of poverty in the

industrialized world¹, European welfare states have guaranteed a generous social safety net without sacrificing economic growth. For my example, I will look specifically at The Netherlands, whose welfare state closely exemplifies the social democratic welfare regime, as defined by Gøsta Esping-Anderson in his book, *The Three Worlds of Welfare Capitalism*. I will begin by defining what exactly a "social democratic welfare regime" is, and will summarize the components and entitlements of the welfare regime in The Netherlands. Next, I will outline neo-liberalism's criticism of the social democratic welfare state and provide a summary of the programs in the liberal welfare regime of the United States. I will then examine the benefits and drawbacks both of The Netherlands' system and the United States' system in terms of poverty reduction and promoting social equality. This will be followed by a comparative analysis of the economic progress of both countries to determine whether the welfare state of The Netherlands has hindered economic growth. Finally, I will look at the adjustments that The Netherlands has had to make in its social welfare program since the 1980's and the prospects for its future viability. I will conclude that the social democratic regime, as exemplified by The Netherlands, is the best possible system for ensuring the welfare of all of its citizens.

II) The Social Democratic Welfare State and Social Insurance in The Netherlands

In order to have a proper comparative discussion on the welfare systems of the United States and The Netherlands, I must first define what distinguishes a social democratic welfare regime from its liberal counterpart. In *The Three Worlds of Welfare*

¹ According to the United Nations Human Development Report 2000, 17% of people in the United States made less than half the median disposable income in 1997, and in comparison to other industrialized countries, the U.S. ranked last - at 18th - on the report's Human Poverty Index (HPI-2) in 1998 (HDR, 34).

Capitalism - highly regarded by social scientists for its detailed comparison of welfare systems - Gøsta Esping-Anderson identifies the social democratic welfare regime as one that strives for equality in the welfare benefits it provides to its citizens. The social democratic model attempts to maximize its citizens' independence from the market and the restrictions of the class system it creates. Therefore, social democrats endeavor to implement universalistic programs² that do not discriminate with regards to income level or social status.

Thus, manual workers come to enjoy rights identical to those of salaried white-collar employees or civil servants; all strata are incorporated under one universal insurance system, yet benefits are graduated according to accustomed earnings. This model crowds out the market, and consequentially constructs an essentially universal solidarity in favor of the welfare state. All benefit; all are dependent; all will presumably feel obliged to pay. (Esping-Anderson, 28)

To be able to do this, the architects of these social democratic welfare states had to bring together the interests of both the working-class and the middle-class. Abandoning socialism's traditional obligation to serve solely the interests of workers, they were able to arouse a sense of solidarity and a broad base of political support among a majority of the labor force for such programs. "This implied, first, that services and benefits be upgraded to levels commensurate with even the most discriminating tastes of the new middle classes; and second, that equality be furnished by guaranteeing workers full participation in the quality of rights enjoyed by the better off" (Esping-Anderson, 27).

This maximization of benefits and participation also entails a maximization of government revenues. Therefore, the tax rate on people's incomes is substantially higher

² A universal program "offers a basic, equal benefit to all, irrespective of prior earnings, contributions, or performance" (Esping-Anderson, 23). An example of such a program is the Dutch child allowance grant. In a means-tested program, eligibility and benefit levels are determined by work performance, income and asset levels, and demonstrable need. The food stamp program is a form of means-tested assistance.

than those found in a liberal welfare regime. In the Netherlands, income tax rates are determined on a sliding scale according to an individual's level of income. In 2000, income tax rates ranged from a low of 33.79% to a maximum of 50% of net taxable income ("MINFIN").

How well does The Netherlands fit Esping-Anderson's definition of the social democratic welfare regime? In terms of the historical development of The Netherlands' welfare system, it seems to be somewhat of an anomaly, not exactly following the author's expectations, but that point is peripheral to our discussion. When we look at the actual size and breadth of the Dutch welfare state, The Netherlands fits neatly in the social democratic realm. This categorization is determined by examining three aspects of The Netherlands' welfare provisions. The first is the percentage of the GDP that the state spends on non-health related social expenditures. The Netherlands satisfies the expectations of the social democratic regime-type, spending just over 23% of its gross domestic product on social programs in 1998 (Keizer, 46).

The second assessment is the degree of "decommodification" that the welfare regime produces. "Decommodification" is the extent to which the income-replacement levels of a country's social-welfare programs would allow the average person to opt out of the market, if he or she chose to do so. It is possible to score different welfare regimes on their level of decommodification based on three measurements:

...first, the prohibitiveness of conditions for eligibility, such as work experience, contributions, or means tests; second, the strength of in-built disincentives (such as waiting days for cash benefits) and maximum duration of entitlements; and third, the degree to which benefits approximate normal expected earnings levels. (Esping-Anderson, 49)

The "decommodification score" of The Netherlands is firmly within the social democratic realm, closely positioned near such prototypical social democratic states as Sweden and Norway.

The final evaluation is Esping-Anderson's indexing of welfare regime types based on specific information about each country's welfare structures (Gooden, et al., 80-86). Esping-Anderson indexes different welfare regimes into three different regime types: a social democratic type, a liberal type, and a corporatist type, based on aspects of each country's individual social welfare systems. "Indicators of social democracy are 'average universalism' (the proportion of the population covered, across pensions, sickness, and unemployment benefits) and 'average benefit equality' (the difference between basic and maximum benefits across those three programs)" (Gooden, et al., 84). As expected, The Netherlands clearly exemplifies a social democratic regime on this indexing measurement (Esping-Anderson, 75).

1) Cash Transfer Benefits

What specific benefits does the Dutch system provide its citizens? I begin with an overview of cash transfer benefits. Holland's equivalent to Social Security was created in the late-1950's and is called *Algemene Ouderdomswet* (The General Old Age Pension Law), or AOW. Every individual over the age of sixty-five is entitled to 50 percent of the minimum wage, with a supplement of 20 percent for a single person, 40 percent for a single parent with a dependent under the age of eighteen, and 50 percent for a person with a partner under the age of 65.³ For reference, in 1999, the monthly minimum wage for a single, childless adult was \$2350 NLG, or about \$15,000 U.S. per year ("SSA").

³ Social insurance programs in The Netherlands that extend benefits to a recipient's partner, do not distinguish between married, unmarried, opposite-sex, or same-sex partnerships. To be eligible, one must only prove co-habitation.

AOW is financed by a payroll tax of persons under the age of sixty-five, and the tax rate averaged about 15.4% of taxable income in 1996 (Kapeteyn and de Vos, 276). Most retired people also supplement this income with private pension schemes provided by their former employer.

In 1967, the Dutch introduced the *Wet op de Arbeidsongeschiktheidsverzekering* (The Disability Insurance Act) or WAO. Under this scheme, a worker who becomes disabled receives at least 70 percent of his or her former earnings as long as the disability prevents the person from working. Furthermore, the disabled individual's pension rights continue to accumulate while on disability, as if he or she were still on the job (Kapeteyn and de Vos, 277).

Less generous, but still substantial, are unemployment benefits, *Werkloosheidswet*, or WW. WW benefits provides a person who becomes unemployed with an income equal to 70 percent of his or her former earnings for a significant - although limited - duration depending on the amount of time worked before becoming unemployed (Kapeteyn and de Vos, 277-78).

Finally, there is *Algemene Bijstandswet*, or ABW, General Social Assistance. This entitlement provides a monthly payment to all people under the age of sixty-five without any other source of income. This program's benefit levels approximate those of AOW, with a single person receiving 50% of the minimum wage with supplements up to 20%, and rising for couples and parents with dependent children (Kapeteyn and de Vos, 276). In 1998, the average yearly benefit amount for an individual on ABW was 25,200 NLG, or about \$11,000 U.S ("Statistics Netherlands").

In addition to the entitlements outlined above, the Dutch social welfare system also provides cash benefits to families with children. The most basic and universal of these programs is the child allowance. Every family in the Netherlands is guaranteed this allowance, regardless of income. In 1999, the benefit rate for a couple with one child under the age of six was \$1287 NLG, or \$670 U.S. The allowance increases with the number of children, and their respective ages, until the children reach the age of 18 ("SSA"). This can be extended until the age of 27 for dependants who are enrolled students (Gooden, et al., 67). Furthermore, child allowance benefits are substantially higher for single mothers, with or without a source of income. The program is administered by the government and is funded through tax revenue.

Maternity leave benefits are also guaranteed by the Dutch welfare system. Employers are obligated to allow women to take a leave of absence from work during pregnancy. For employed mothers, the government will pay 100% of earnings up to a maximum of \$310 NLG per day for a total of sixteen weeks. For unemployed mothers, the government pays 100% of the minimum wage for a 16-week period. In both cases, if medical complications arise as a result of pregnancy or birth, the coverage can be extended for up to 52 weeks ("SSA").

2) Health Care Coverage

Now I turn to in-kind benefits, looking specifically at health care provisions. In the Netherlands, all citizens are guaranteed access to quality medical care, but what makes the Dutch system peculiar, is its mix of public/private health care financing. Health insurance coverage is managed by private - although highly regulated - for-profit companies. All residents of The Netherlands, regardless of citizenship, have the freedom

to join any health care fund that they choose (Scholtens, 9). These companies are obligated to provide health insurance to any person who applies for it, regardless of their means, or the associated risks implied in their medical histories (47-48). People with adequate means are expected to contribute to their health care provider on a monthly basis, although these payments are regulated by law and are graduated according to income level and family status (51). Though it would seem that these companies would be unwilling to go along with these directives, it works because the Dutch government picks up a substantial part of the companies' costs, through their AWBZ, Zfw, and Wtz financing programs.

AWBZ, the Exceptional Medical Expenses Act, is an obligatory public health insurance scheme financed through income tax revenue. Through AWBZ, the state covers the health care costs of people who at any time require substantial and/or long-term medical attention (13). Through this program, the government covers the costs for significant medical treatments: in-patient and out-patient medical and psychiatric care, hospital, residence, and home care for the physically and mentally disabled, prenatal and perinatal care, vaccinations, and abortion services (14-19). Recipients deal with their individual insurance companies, not with a government agency; thus helping to reduce administrative costs for the state (13).

The second form of direct public financing is Zfw, The Health Insurance Act, which is also funded by income tax revenue. Every Dutch resident with an annual income at or below 64,400 NLG - or \$28,000 U.S. (in 2000) - is covered by this program (coverage also extends to the partners and dependants of these people) (27-28). Health insurance companies recover the costs of all health care (including dental) provided to

these individuals from the government, since people with annual incomes at or below 64,600 NLG are not required to pay monthly premiums (28-36). As with AWBZ, individuals covered under Zfw only deal with their personal health care fund.

The final form of public insurance financing is Wtz, The Medical Insurance Access Act. Under Wtz, an individual is reimbursed directly by the government when the cost of various kinds of non-essential medical care and the cost of prescription drugs exceeds a certain level. That level is mainly determined according to the person's income. These patients are expected to pay a certain percentage of the expense, but are reimbursed by the state for the difference. Application for Wtz is made through the individual's personal health insurance scheme.

III) Neo-Liberalism's Critique of the Welfare State

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Neo-liberalists stress the need for a "free-market" system, that is, a market "free" from the control of government institutions. They insist that given a free hand, the market will regulate itself and wealth will eventually trickle down to everyone in due time. Welfare state governments that try to regulate the market economy and distribute its benefits more evenly only retard its economic growth, leading to long-term trouble. In neo-liberal theory, the generous redistributive effects of these social insurance programs hinder economic growth because of "a 'hypothesized chain of causation' linking micro-economic causes to macro-economic consequences" (Gooden, et al., 126). In this chain of events, welfare programs that have a high rate of replacement, providing their beneficiaries with a sizable income outside of the market, create a "powerful disincentive" for these people to work (126). This "work disincentive" effect should create high rates of

unemployment and welfare dependency, slowing the growth of the economy and lowering per-capita income. According to neo-liberals, the problem isn't necessarily that programs designed to help low-income people exist (although Charles Murray would disagree⁴). The dilemma for neo-liberals arises because many of these programs are not means-tested, and therefore are not efficient because benefits are being paid out to those that could be receiving them through the market. "If half the money we transfer to people through welfare programmes goes to people other than those we were trying to help through the programmes in question, then again half the money has seeped away" (Gooden, et al., 125). In general, these are the arguments that neo-liberal economists make against social democratic welfare systems, and these beliefs are reflected in the liberal welfare systems in predominantly free-market countries. To illustrate this, I now turn to the social welfare provisions in the United States.

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IV) The Liberal Welfare Regime and Social Insurance in the United States

The liberal welfare regime of the United States and other predominately Anglo-Saxon countries is on the other side of the spectrum from the Dutch system. These regimes attempt to restrict government intervention in the market by targeting welfare assistance to only those in greatest need. Benefits are means-tested and modest, and universal transfer programs are the exception to the rule. "Benefits cater mainly to a clientele of low-income, usually working-class, state dependants" (Esping-Anderson, 26).

⁴ Murray is the author of the controversial book, *Losing Ground: American Social Policy, 1950-1980*, published in 1984. In *Losing Ground*, Murray erroneously attributes the persistence of poverty in America to what he conceived was an overly generous welfare system. His conclusion recommended abolishing all forms of social assistance programs. Murray's message in *Losing Ground* became canonical for the Reagan Administration, which unsuccessfully attempted to dismantle Great Society programs in the 1980's.

Because of neo-liberalism's confidence that the market should and will be able to provide for most, if not all, who are willing to participate in it, benefits are kept at very low levels to discourage recipients from opting to choose welfare income instead of employment.

As a result, those who rely on welfare are often stigmatized as unproductive and lacking a work ethic.

The consequence is that this type of regime minimizes decommodification-effects, effectively contains the realm of social rights, and erects an order of stratification that is a blend of a relative equality of poverty among state-welfare recipients, market-differentiated welfare among the majorities, and a class-political dualism between the two. The archetypical examples of this model are the United States, Canada and Australia. (Esping-Anderson, 27)

Because the social assistance programs of liberal welfare regimes are highly targeted and provide limited benefits, governmental costs are low. In 1993, the United States spent only 9.79% of its GDP on non-health related social expenditures, lower than every other OECD⁵ country except for Japan (Goodin, et al., 81). Furthermore, in keeping with neo-liberal theory, income tax rates in liberal welfare regimes are also considerably lower than those of a social democratic country. In 2000, tax rates in the United States ranged from 15% in the lowest tax bracket, to a high of 39.6%. The United States is clearly representative of a liberal welfare regime, as defined by Esping-Anderson. I now provide an overview of the social welfare provisions in the United States. Like the Netherlands, the U.S. does provide cash transfers to retirees, the disabled, the recently unemployed, and those without any other means of income. Also, the United States welfare system provides limited health insurance coverage to some of its citizens. Although, it will

⁵ Organization for Economic Co-Operation and Development - An organization of 30 of the World's richest and most industrialized countries, committed to a market economy and pluralistic democracy. OECD was created as a forum to facilitate and develop economic and social policies among the nations.

become clear that all of these programs apportion substantially lower benefits than the Dutch social democratic welfare state.

1) *Cash Transfer Benefits*

The largest and most universal welfare program in the United States is the Old Age, Survivors, and Disability Insurance program (OASDI), established by the Social Security Act of 1935. Although the Social Security Act was originally intended to serve solely as a retirement pension program, it has since been expanded to provide cash transfers to spouses and dependants of deceased or retired workers, and benefits to the disabled. OASDI is funded through compulsory income taxes⁶, and it is administered directly by the federal government, though the retirement benefits and disability benefits – called Supplemental Security Income (SSI), dealt with separately below – are administered through different branches of the Social Security Administration. Everyone who has contributed to the social security program is entitled to receive benefits upon retirement at age 65, although the benefit level is determined by a person's work history and his or her previous earnings. "In 1999, of a total work force of approximately 158.5 million workers, about 151.7 million workers and an estimated 96 percent of all jobs in the United States were covered by social security" ("greenbook"). In December 1996, the average monthly retirement payment was \$703.58 and the average monthly survivor payment was \$637.95 ("SSA").

To qualify for SSI, an individual must meet certain criteria, determined by a medical or psychiatric examination. To be considered disabled, a person's physical or mental impairment must prevent them from being able to engage in "substantial gainful

⁶ These taxes are deducted from incomes up to a specified level. In 2001, only gross income up to \$80,400 was subject to Social Security taxes - all income above that amount is exempt from this tax ("SSA").

activity."⁷ "Generally, the individual must be unable to do any kind of work that exists in the national economy, taking into account age, education, and work experience" ("greenbook"). The average monthly disability payment in 2000 was \$512 for individuals and \$769 for couples ("greenbook"). Physically and mentally disabled children are also eligible for SSI if they are under the age of 18, meet the impairment guidelines, and if their families' household income is below a specified level. SSI is funded by a combination of income, corporation, and other taxes.

The Social Security Act of 1935 also provided for Unemployment Compensation (UC) to provide involuntarily unemployed workers with a temporary source of income while he or she is attempting to secure another job. UC covered 125 million individuals in 2000, about 97% of all wage and salary workers, or about 89% of the civilian work force⁸ ("greenbook"). UC is basically a program administered by individual states under Federal guidelines and is funded by a combination of Federal and state-level unemployment taxes. Because of the hybrid nature of the UC program, there is considerable variation in the eligibility requirements and benefit levels across the United States. But, "In general there are three major factors used by States: (1) the amount of recent employment in earnings; (2) demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualifications related to a claimant's job separation or job offer refusal"⁹ ("greenbook"). Last year, the average weekly UC benefit ranged from \$156 in Mississippi to \$288 in Massachusetts ("greenbook"). The maximum

⁷ "The test of 'substantial gainful activity' is to earn \$700 monthly in counted income [in 2000], with impairment-related expenses subtracted from earnings" ("greenbook").

⁸ Although UC covers 89% of the civilian work force in the U.S., on average, only 38% of the unemployed were receiving UC assistance in 1999 ("greenbook").

⁹ "In all but a few states, an employee who has been fired or quit is disqualified...In states that do pay benefits to quitters there is a longer waiting period - usually ten to twelve weeks" before UC benefits are available (Handler and Hasenfeld, 136).

duration of UC assistance is usually set at twenty-six weeks (Handler and Hasenfeld, 136).

In 1996, President Clinton signed into law the Personal Responsibility and Work Opportunity Reconciliation Act, replacing the New Deal-era social assistance program, Aid for Families with Dependant Children (AFDC), with Temporary Assistance for Needy Families (TANF). TANF is the closest thing the United States has to the ABW - General Social Assistance - program in the Netherlands, though there are significant differences between the two. TANF is a cash transfer system designed to provide single parents with a temporary source of income. TANF is administered on a state-by-state basis under general Federal guidelines. It is funded by a Federal block grant given to each state, and in turn, each state is expected to supplement the grant with its own funding. In the fiscal year 1999, the Federal government spent just over \$11.3 billion dollars on TANF, out of a combined Federal budget of \$1.8 trillion dollars ("OMB"). Individual states have a fair amount of latitude in determining benefit levels and eligibility requirements. In January 2000, the maximum monthly TANF benefit for a family of three - a mother and two children - ranged from \$164 in Alabama, to a high of \$923 in the state of Alaska ("greenbook"). In general, a state may give TANF assistance to a needy family with a minor child under the age of 18, on the condition that the mothers "cooperate in establishing paternity and in establishing, modifying, or enforcing a child support order" (Burke, 2). Unwed teenage mothers (under the age of 18) and their children are not eligible for TANF, unless they live in the home of an adult relative, and unless the mother is attending school (Burke, 2-3).

The continuation of TANF assistance is conditional on a number of factors. First, because of the fear of welfare dependency in the United States, there is a five-year maximum lifetime limit on TANF benefits, and Federal regulations require that a mother be working after receiving benefits for two consecutive years (Burke, 8). States must provide job search, training, and education programs to TANF recipients, and they have the authority to sanction individuals by withholding benefits to those who refuse to participate in these programs¹⁰.

The food stamp program¹¹ is an income supplement program designed to increase the food purchasing power of low-income families. Eligibility for food stamps, and the allotment of food stamps that a family will receive, are determined by: the household size, the family's monthly income and liquid assets, and the estimated expense of food needed to provide an adequate low-cost diet for the family (determined in the U.S. Department of Agriculture's "Thrifty Food Plan") ("greenbook"). TANF and SSI recipients are automatically considered eligible for food stamps. The food stamp program is administered and funded by the Federal government; and in fiscal year 1999, the food stamp program cost the government \$19.3 billion dollars ("greenbook").

2) Health Care Coverage

Unlike most other industrialized countries, the United States does not guarantee health care for its citizens. True to neo-liberal form, the majority of the citizens in the United States rely on private health insurance coverage. This reliance on the private sector to provide health care in the United States comes at an enormous social cost.

¹⁰ Under the so-called "family cap" clause of the PRWORA of 1996, states have the option to deny aid to children who were conceived and born while their mothers were receiving TANF. States may also deny benefits to people who were convicted of a drug-related felony after 1996 (Burke, 3).

¹¹ Although the Food Stamp program is not technically a "cash transfer benefit," I have included Food Stamps in this category because they are used like money to buy groceries.

According to the U.S. Census Bureau, in 1999, 42.5 million people did not have health insurance, including just over 10 million children ("USCB"). Still, the Federal government does provide health insurance to targeted sections of the population through its Medicare and Medicaid programs. Medicare is a public health insurance program designed to cover the aged and certain disabled persons. The program is divided into two parts, A and B. Part A covers almost all persons over the age of 65, for a portion of the cost of necessary medical treatment: inpatient hospital care, skilled nursing facility care, home health care, and hospice care ("greenbook"). Patients are expected to pay a deductible for services, determined on a sliding scale, according on his or her financial standing. Part B is a voluntary scheme where participants pay a monthly premium - \$45.50 in 2000 - for services and insurance coverage is extended to a wider range of medical services, like doctor's visits, preventative treatments (mammograms, pap smear tests, prostate exams), and the costs of certain vaccines and drugs - although not the cost of outpatient prescription drugs. In general, Part B pays about 80% of covered services in excess of an annual \$100 deductible ("greenbook"). Medicare is a federally funded and administered welfare program, paid for through income tax revenue. In 1999, the Federal outlay for Medicare - deducting for premiums - was \$190.5 billion dollars ("greenbook").

Medicaid is a means-tested program designed to cover the medical expenses of low-income families with dependant children and disabled individuals with limited resources. Eligibility for Medicaid is strict, determined by household or a disabled person's monthly income. The overwhelming majority of Medicaid recipients have incomes near or below the official U.S. Poverty Line - \$13,874 for a family of three in 2000 ("USCB"). The program covers the cost of most necessary and preventative medical

care. Medicaid is administered by the states under Federal regulations, and the program is financed through a combination of Federal and state funding. Medicaid cost the Federal government \$108 billion dollars in 1999 ("greenbook").

V) Poverty Reduction and Social Equality in the U.S. and The Netherlands

Which welfare regime is most successful in reducing poverty and in promoting social equality? The bulk of the data used for this comparison comes from the book, *The Real Worlds of Welfare Capitalism*, by Robert E. Goodin, Bruce Headey, Ruud Muffels, and Henk-Jan Dirven. In *The Real Worlds*, the authors use panel study data, which followed individuals over a ten-year period, and collected a large body of information about the respondents' economic situations every year. Both studies began with samples of at least 10,000 people, and were fashioned to be representative of both countries' populations as a whole, in terms of sex, age, income, education, ethnicity, etc. (Gooden, et al., 104). The American study was conducted by the American Panel Study of Income Dynamics (PSID) at the University of Michigan, and followed the participants from 1983 to 1992 (106). The Dutch study was administered by the Dutch Socio-Economic Panel (SEP) under the Netherlands' Central Bureau of Statistics, and tracked the panel between 1985 and 1994 (107). The results of these studies were weighted to make the panel data as comparable as possible. Thus, the panel studies provide us with a clear, long-term picture of how people from all gender, socio-economic, and ethnic groups in both countries fared over the period in question.

It is also important that I clarify three things. The first is the difference between "pre-government" and "post-government" income. Pre-government income refers to

basically pre-tax "market income" and asset income (154). Post-government income is basically pre-government income after government transfers have been added and taxes have been deducted from the amount (154). Secondly, when referring to the "poor" I mean "the proportion of individuals in the population who have less than 50 percent of median equivalent disposable (post-government) income"¹² (153). Finally, "short-term poverty" refers to one year in poverty, "medium-term poverty" refers to five years, and "long-term poverty" refers to ten years in poverty. Having defined our terms, I now turn to the results of the comparison.

1) Overall Poverty Reduction

When looking at the rates of pre-government poverty in the United States and The Netherlands, the results are similar and surprisingly high - around 20% in both cases. For the most part, they remain so over the long-term. In both contexts, the market leaves a considerable amount of the population without sufficient monetary resources. But, when we look at the rates of post-government poverty in these countries, the influence of the Dutch welfare system is striking. "Even just on an annual basis, the proportion of the population of post-government poor in the US is on average around 18 percent;" in the Netherlands, the percentage is just above 5% (154). Over time, the differences between the two are even more dramatic. Dutch post-government poverty rates drop to 1% over a five-yearly period, and virtually disappear over the entire ten-yearly period (154-155). In the U.S., rates of post-government poverty over a five-year period drop to 15%, and over the period of a decade, it persists at 13% (154-155). When we look at certain at-risk

¹² In the United States, poverty is defined by the official U.S. Poverty Line. This is an absolute standard established by taking the income necessitated by the USDA's Thrifty Food Plan (referred to above) and multiplying it by three. The United States is the only industrialized country in the World that does not define poverty as having less than 50% of the net median income.

segments of the population, the Dutch welfare system still outperforms that of the United States. Post-government poverty among elderly Americans remains significant over the ten-year period, while post government poverty among the aged Dutch population starts at 2% and is virtually eliminated over the course of the decade (157). Also, The Netherlands' social democratic welfare system virtually eliminates post-government poverty among children and single-parent families over the long-term, a claim that the U.S. cannot make (157).

2) Depth and Duration of Poverty

In any assessment of poverty, it is pertinent not only to know the extent of poverty in a society, but we must also know the actual depth of this poverty, and the duration of poverty spells. The depth of impoverishment is measured in terms of the 'poverty gap' - how far below the poverty threshold the average poor person is found. In *The Real Worlds*, the "deep poor" are considered to be those with less than 40% of the median disposable income (158). "More than 10 percent of Americans remain in deep poverty annually even after government transfers," whereas fewer than 5% of Dutch citizens remain in deep post-government poverty on a yearly basis (158). Over the ten-year period, the rates of post-government poor in the U.S. remain at 8%, while in The Netherlands, that rate drops to 1% over five years, and disappears over the long-term (158). How long do post-government poverty spells last in these countries? In the U.S., 60% of post-government poverty spells last over a year. Just over a third of post-government poverty spells last over a year in the Netherlands, and 90% of post-government poverty spells end by the fourth year - in the States, nearly 30% are still experiencing post-government poverty by this time (282).

3) *Recurrence of Poverty*

Turning to the recurrence of poverty among the population, we can see that welfare regime of the United States continues its unfavorable performance. Under 8% of the Dutch population experiences post-government poverty in two or more years out of the ten, while in the United States, almost 27% of the population experiences post-government poverty in two or more years during the decade (161, 283). And, "Virtually no one experiences post-government poverty in seven or more years out of ten in the Netherlands, whereas in the US fully 10 per cent do" (161).

4) *Conclusions on Poverty Reduction*

From the results provided above, it should be obvious that the social democratic welfare regime of The Netherlands does much more than United States' to reduce poverty among the population. Even more, when looking at the high rate of pre-government poverty in both countries, it is obvious that the government needs to step in to help those whom the market has failed to provide for.

If they had to live on their pre-government income alone, almost a third of the population in [both] countries would be poor for two or more years out of ten. In any given year, pre-government poverty would strike about 20 per cent of the population in [both] countries, and pre government poverty would remain around 15 per cent in even the best-performing country. (Gooden, et al., 163).

This is a contingency that the liberal welfare regime of the United States does not take into account, leaving a significant part of the population suffering from the effects of poverty. And, the threat of falling into poverty is not minimal in many circumstances, even for those whom we would consider to be in the safest socio-economic position.

Gooden and his colleagues looked at the percentage of prime working-age (25 to 59 years old) white males who were in the top half of the pre-government income distribution in

the first year of the panel studies that experienced pre-government poverty and post government poverty at sometime over the course of the ten-year studies. In the U.S., 7.8% of these workers experienced pre-government poverty, and 10.3% of these men experienced post-government poverty over the course of the decade. In The Netherlands, 7.4% of these men experienced pre-government poverty, and 6.1% of these men experienced post-government poverty at least once over the course of ten years (284). These results make it clear that no one is totally safe from the threats of the market, and this only reinforces that fact that an adequate social safety net is needed. Now, let us see how the two welfare regimes perform in promoting social equality.

5) *Social Equality*

From the panel study data available, we can look at three different indicators of social equality among the Americans and the Dutch: (1) equality in labor market incomes across the population; (2) equality in amount of hours worked in paid employment among households; and, (3) the universality in the distribution of welfare benefits.

To measure inequality in incomes, three measurements are used. One is the mean logarithmic deviation index of inequality, called the Theil-0 index. "The Theil-0 index is particularly sensitive to variations at the lower end of the distribution. The lower the Theil-0 statistic, the more equal the distribution" (174). The second index of inequality is the Gini index. Like the Theil-0 index, the lower the Gini score, the more equal the distribution. By the very nature of its calculation, the Gini index is most sensitive to the variations among the middle of the income distribution. This poses the biggest drawback of the Gini, for we are most concerned in the inequality between the top and bottom of the income scale. Still, the Gini is a useful tool for gauging inequality in a given

population (175). Finally, there is the '90/10 ratio,' "that is, just the income (or wealth or whatever) of the ninetieth percentile, divided by that of the tenth percentile. The larger the 90/10 ratio, the richer the rich are compared to the poor, and hence the more unequal the distribution" (175).

To get the clearest picture of income inequality from the data, Gooden and his colleagues only looked at the incomes of individuals whose households were headed by a person less than 60 years old. This was done because households headed by persons older than 60 are most probably relying on pension benefits as their primary source of income, and therefore, their income is not coming from the market.

6) *Pre-Government Income Equality*

Beginning with pre-government market incomes of individuals, we see that income inequality is high in both of these countries on a yearly basis, with a Theil-0 index of 0.294, and Gini of 0.396 in The Netherlands; and, a Theil-0 index of 0.439, and a Gini of 0.435 in the U.S. (292). Over the long term, pre-government income inequality in both countries is reduced but still remains high, with a Theil-0 index of 0.173, and Gini of 0.334 among the Dutch; and, a Theil-0 index of 0.212, and Gini index of 0.389 in the United States (292).

7) *Post-Government Income Equality*

The beneficial effect of the social democratic welfare regime of The Netherlands becomes clear when we look at post-government income inequality on a yearly basis, and even more so when we look at this inequality over the long term. On a yearly basis, post-government income equality is low in The Netherlands, with a Theil-0 index of 0.085, and a Gini index score of 0.257. In the U.S., inequality is much higher on an annual basis,

with a Theil-0 index of 0.166, and Gini of 0.365 (293). Over the long-term, The Netherlands does even better, with a Theil-0 index of 0.046 and Gini of 0.196. Compared to a Theil-0 index of 0.137 and the Gini index at 0.327 in the U.S. (293).

8) 90/10 Income Equality

When we look at the inequality between the top and the bottom of the income distribution, using the 90/10 ratio, we again see the redistributive effect of the Dutch welfare state. In the U.S, the post-government income of the ninetieth percentile is 5.5 times that of the tenth percentile, and over ten years, the ninetieth percentile's post-government income is still 4.6 times that of the tenth percentile (293). In the Netherlands, the post-government income of the 90th percentile is only 2.8 times that of the tenth percentile on an annual basis, and that multiple is reduced to 2.35 over the decade (293).

9) Overall Effects on Income Equality

When we look at the picture over all, by determining the percentage reduction in Gini coefficients of income inequality from pre to post-government income, the results are astounding. On a yearly basis, the social democratic welfare regime of The Netherlands reduces pre to post government income inequality by 35% on a yearly basis and by 41% over the course of the decade (296). On the other hand, the welfare regime in the U.S. reduces this income inequality by only 16% on a yearly basis and by 15.8% over a decade (296). The social democratic welfare state does a tremendous amount to reduce the income inequality that the market produces. The liberal welfare regime, on the other hand, does little to alleviate this imbalance of wealth, allowing for greater socio-economic stratification.

10) *Equality in Hours of Paid Labor*

For the inequality in the number of hours worked in paid labor Gooden et al. compare seventy-fifth percentile of households and the twenty-fifth percentile of households¹³ (179). The total number of hours worked in paid labor by everyone in the household is counted, because other people in the household usually try to compensate for the unemployment of the primary earner, so this gives us the clearest picture of inequality (179). Also, the authors focused only on households headed by people of prime working age (25-59) to avoid bringing retired households into the calculation. When the data are calculated, in The Netherlands, on a yearly basis, the households in the 25th percentile work 1.7 times more than those in the 75th percentile on an annual basis. Over the decade that multiple is 1.5 times (294). In the United States, households in the 25th percentile work more - 1.95 times more - than the 75th percentile on a yearly basis. The former still work 1.65 times more than the latter after ten years (294). Although those in the lower 25% of the income distribution in both countries works more than the top 75%, overall, they work much less in The Netherlands than in the United States.

11) *Universality of Transfers*

Finally we consider what proportion of the population received welfare state benefits over the course of the panel studies. Because old-age pensions and child allowances (at least in The Netherlands and other European welfare states) are standard universal benefits received by most of the population at one point in their lives, these are

¹³ "We use a 75/25 ratio rather than the 90/10, because the tenth percentile of households sometimes has no hours in paid labour, and it is of course impossible to calculate the ratio with zero in the denominator" (Gooden, et al., 179).

ignored¹⁴. The authors of *The Real Worlds* focused on welfare benefits other than pensions and family allowances to see how many people received public transfers over the ten-year period. In the U.S., a quarter of the people received public transfers other than pensions or AFDC benefits in one year, and nearly 60% of the people had received a non-Social Security or AFDC public transfer after ten years (296). Nearly 40% of the Dutch had received public transfers other than pensions or the child allowance in a given year, and at the end of the decade 100% of the Dutch had received this type of public transfer.

12) Summary of Findings

From the above results we can see that The Netherlands provides many more benefits to its entire population. In terms of attaining the two most important social goals that any welfare system strives for - poverty reduction and social equality - the social democratic regime vanquishes the liberal welfare regime of the United States. In fact, the welfare system in the U.S. does little to alleviate poverty and social inequality. The Dutch system remedies both of these problems to a significant degree. Most neo-liberals will agree that the Dutch social democratic model does have a beneficial impact on these problems but also contend that the redistributive effects of the social democratic welfare state lead to welfare dependency, unemployment, and resultant economic stagnation. Therefore, the negative long-term effects on the economy should outweigh any short-term benefits that the Dutch welfare system can provide to its citizens. These factual claims are mistaken.

¹⁴ Because there is no child allowance grant in the United States, the authors instead exempted those who received AFDC payments during the course of the study to make the comparison as equal as possible.

VI) Comparing Economic Progress in The Netherlands and United States

Neo-liberal economists always discredit the social democratic welfare state by referring to the "trade-off" that countries like The Netherlands have to make in order to maintain such a comprehensive social safety net.

While it is true that liberals want their welfare state to help the poor and only the poor, it is also true that they want it to do so in the most efficient way possible and at least cost to the overall macro-economic performance of the country. That is the "big trade-off" which liberals constantly confront and that is what causes liberals to temper their pursuit of social equity and poverty alleviation. (Gooden et al., 167)

The fear of suffering the economic after-effects of this "trade-off" is reflected in the sub-par welfare system in the United States. Yet, when we make a comparative analysis of the economic progress of the U.S. and The Netherlands, we see a much different outcome than that predicted by neo-liberals.

1) *Growth in Real GDP and GDP Per Capita*

In *The Real Worlds*, Gooden, et al., compared the economic growth of the two countries and came up with surprising results.¹⁵ The growth of the real (adjusted for inflation) gross domestic product of the United States over the period of 1983 to 1992 was 27.8% (266). In The Netherlands, the growth of the real GDP over the period from 1985 to 1994 was 26.5% (266). And, the growth of the real GDP of the U.S. over the same period - from 1985 to 1994 - was only 25.7% (266). In either case, the American economy did not outpace the Dutch economy, as neo-liberals would predict.¹⁶

¹⁵ Because the American PSID study covered the period from 1983 to 1992, slightly before the Dutch panel study which covered the period from 1985 to 1994, the results of the economic performance of the United States is given both from '83-'92 and '85-'94 for the best possible comparison.

¹⁶ "Larger proportions were made better off over the first five years, smaller proportions in the second, in [both] countries - reflecting the effects of the economic downturn that hit [both] countries in the second-half of the decades under study" (Gooden, et al., 129).

A better evaluation of citizens' economic welfare is looking at the rate of real GDP growth *per capita* in both countries. From 1983 to 1992, the growth in real GDP per capita in the United States was 17.2%, and from 1985 to 1994, it grew 15% (266). The Netherlands does much better on this evaluation, as real GDP per capita grew 19.1% from 1985 to 1994 (266). Again, the neo-liberals' expectations of the "big trade-off" seem to be glaringly absent. The Dutch economy did as well as, and in some measure even outperformed the American economy during the course of the panel studies.

2) Increase in Post-Government Incomes

Another assessment of economic performance is "what proportion of the people in each country had a higher real (inflation-adjusted) equivalent [post-government] income¹⁷ at the end of the decade than at the beginning" (129). In the period under study in the United States, from 1983 to 1992, only 51.1% of the people were better off at the end of the decade (265). In The Netherlands, in the decade of 1985 to 1994, 66.5% of people were doing better at the end of the ten-year period (265). Moreover, when we look at the increase of the median individual's equivalent post-government income over the course of the decade we see who really reaped the benefits of each country's economic growth. "While the fruits of economic growth were passed on to the middle income people in...The Netherlands, this did not happen to anything like the same extent in the US" (129-130). The median equivalent income in The Netherlands increased 16.4%, whereas the median equivalent income in the United States increased only 1.4% (265).

¹⁷ Household incomes need to be adjusted by means of an "equivalence scale" reflecting the size of each household - OECD recommends the square root of household size for this scale. "In calculating 'equivalent income' for each household, we first add up all the incomes of all individuals in that household. We then divide that sum by the equivalence scale...That 'equivalent income' is then imputed equally to each member of the household" (Gooden et al., 111).

Since we already know that the poor in the United States were not financially better off at the end of this decade, it could possibly be concluded that the bulk of the economic growth must have profited the richest Americans.

3) *Unemployment*

Now, I turn to the rates of unemployment in both countries. Neo-liberal economists are quick to point out that the generosity of social democratic welfare states lead to higher levels of unemployment, slowing the economy. To determine how much people are working in paid employment in each country, Gooden and his colleagues calculated the so-called, "person-years employment rate." Where,

"person-years employment rate" =

$$\frac{\text{(total annual hours worked by all persons aged 16 - 64)}}{\text{((potential working hours) multiplied by (number of persons aged 16 - 64))}}$$

where, "potential working hours" = 52 x 40 (131).

On this measurement of employment, the United States does perform better than the Dutch. In 1985, the U.S. used 70.4% of its potential "person-years" labor, and it used 72.2% of its potential "person-years" labor in 1990 (267). The Dutch, on the other hand, used only 47.4% of its potential "person-years" labor in 1987, and 47.6% in 1992 (267).

"Thus we see that it is indeed the liberal regime, which purports to care most about economic efficiency, which actually makes most use of the available labour" (133).¹⁸

Even so, we must remember that The Netherlands did not experience damaging macro-economic effects due to this under-utilization of its labor potential, as neo-liberal economists would predict.

¹⁸ "For what it is worth, the US Labor Department reports that over the years 1985-94 rates of unemployment, defined according to US conventions...averaged 6.3 per cent in the Netherlands and 6.4 per cent in the US" (Gooden, et al., 131).

4) *Welfare Dependency*

As I have noted, in neo-liberal economic theory, generous welfare entitlements with a high level of income replacement create a work-disincentive effect that results in high levels of welfare dependency. Focusing once again on individuals of prime-working age, we see that in The Netherlands just over a quarter of these people relied on public transfers as their primary source of income at least once over the decade, whereas only 17.5% did the U.S. during this period (267). The United States also outperforms The Netherlands when we look at the frequency at which people relied on public assistance as their primary source of income. In both countries, the number of people who depend on transfers in four or more years is cut in half, and "the proportion depending upon public transfers in eight or more years is halved yet again" (135). By the end of the decade, rates of dependency in both countries are low and nearly equal, with 2% of the Dutch population and 1.5% of the American population receiving welfare for more than nine years (167).

5) *Welfare Spells*

We can obtain a broader view of welfare dependency when we look at the duration of "welfare spells" of those on public assistance. In this regard, The Netherlands and U.S. are quite similar, with 85% of welfare spells lasting a year or more and 97% of welfare spells ending by the eighth year (137). But, in The Netherlands, welfare spells tend to last longer on average, with two-thirds of welfare spells ending by the third year in the United States, while it takes five years for the Dutch to reach that percentage (137). In total, the Dutch welfare system does seem to encourage people to rely on public transfers as their primary source of income for a longer period of time. However, this is

no indication that the generous benefits available from the Dutch welfare system sustain a large, permanent "welfare class," since in both countries the percentage of people who relied on welfare for the entire decade was under 3% (138). And, "one never knows just how high welfare dependency rates would have been in the US had it not been for the stronger incentives to work provided there by relatively less generous welfare provisions" (140).

6) *Conclusions on Economic Progress*

There is much in this section that neo-liberal economists would like to fix on. In terms of efficiency, the liberal welfare regime of the United States has outperformed the Dutch on many of these measurements, especially in terms of employment, welfare dependency, and the duration of "welfare spells." But, these figures do not tell the whole story. To place this economic data in the proper context, we must look at the expansive changes that have occurred within the Dutch economy since the early-1980's.

In 1982, the Dutch found themselves in a serious economic recession. The real GDP had declined for the second year in a row, GDP per capita had reached below the 1978 level, many businesses were barely making a profit, unemployment had reached 8.5% (a 5% increase over the previous three years), and the fiscal deficit had reached to 9.5% of the GDP (Watson, et al., 1). To combat this downturn, the Dutch government had to implement a number of reforms to boost the economy, some of which can help explain the disparities noted above.

First, the benefit replacement rates of many social insurance programs were cut towards the middle and late-1980's. Individuals' pension (AOW) and unemployment (WW) benefits were cut from 80% of former earnings to the current level of 70%, and general social assistance benefits were cut from 80% of the minimum wage to 70% of the

minimum wage (Watson, et al., 26-27). Disability benefits (WAO) were also reduced from 80% to 70% of former earnings, and the eligibility for WAO was tightened (Watson, et al., 26). Eligibility became more restrictive because for older, middle-aged men,

...the relatively generous disability insurance scheme offered an attractive way to retire before age sixty-five...In...the 1980's, when the Netherlands faced periods of rapidly increasing unemployment, the disability route to retirement for older employees became a very popular alternative to general layoffs. (Kapteyn and de Vos, 271).

Because the eligibility guidelines for disability benefits were lax and because layoffs are legally quite difficult for companies to invoke, employers often encouraged these workers to seek public transfers. This tendency helps to explain why it seems that the United States utilized much more of its potential labor capacity over this period.

Second, the philosophy of labor unions changed in face of the recession. "An enduring consensus on wage moderation emerged - helping to restore the profitability of firms and thus setting the stage for economic revival" (Watson, et al., 1).¹⁹ Also, in 1982, the central organizations of industries and the unions agreed to shorten the average number of hours worked per week, in order create more job openings to help reduce unemployment (this is similar to the 35-hour work week just implemented in France) (Schuyt, 30). Therefore, Dutch workers, in general, engage in fewer hours of paid labor per week than their American counterparts, again helping to explain the gap in labor efficiency.

In addition to these changes, the Dutch made substantial cuts in deficit spending and carried out an overall reduction in market regulations aimed to increase domestic

¹⁹ On the other hand, the Reagan Administration was engaging in serious deficit spending to pay for the substantial increase in the defense budget during this period - a legacy that we are still dealing with today.

competition (Watson et al., 1). Strengthened by a massive increase of women into the labor market in the 1970's and '80's, these measures helped to generate what has been called the "Dutch economic miracle." Although neo-liberals will point to the United States' superior performance on some of the measurements in this section, they haven't had the macro-economic effects predicted.

At the end of the day...those intermediate inefficiencies do not really seem to matter in so far as the bottom line is economic growth and prosperity. [Both of] these welfare regimes produce about the same sort of economic growth and prosperity for their citizens. (Gooden, et al., 151)

When we look at the growth of real GDP, GDP per capita, and increase in post-government incomes of both countries, The Netherlands meets, and in some cases exceeds the economic performance of the United States - the World's foremost promoter of a free-market economy. Moreover, the Dutch economy has thrived in the decades since the crisis of 1982. Employment expanded 32% over the period of 1983-98, higher than in the United States (Watson, et al., 10). As of 1999, the United States had a higher rate of unemployment than The Netherlands (Watson, et al., 11). The fiscal deficit was cut from 10% to 1% of the GDP by 1997 (Watson, et al., 1). In 2001, the Dutch economy has become a model for other countries to follow. As we can see, the Dutch have guaranteed a generous and comprehensive social democratic welfare state to ensure the health and well being of all of their citizens - without sacrificing economic growth. Neo-liberal economists said it couldn't be done - The Netherlands proves it can.

VI) Conclusion

As a firm believer in social democracy and a substantial social safety net, my purpose in this essay has been to question the prevailing reliance on neo-liberal economic

theory. And, in this case at least, I believe I have been able to bring those tenets into doubt. I most definitely believe - and the data supports the fact - that a balance can be reached in the economy. We can fulfill our obligation to make sure that all people's needs are met, without sacrificing economic growth necessary to ensure long-term prosperity. In light of this, we are now confronted with moral questions. Are we willing to allow our fellow citizens to fall through the cracks, as long as our taxes stay low? Is the social marginalization of millions of Americans an acceptable price to pay for a more efficient economy? The United States is the richest, most powerful nation on Earth and yet, we have the highest rates of poverty in the industrialized world. What does that say about our nation and its ethos? Have we fulfilled our moral obligation to help those in need? Can we fulfill this obligation while continuing to maintain the structures we now have in place?

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