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Silent elements of policy change: inflation and uprating mechanisms in the Low Countries

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Abstract

Policy responses to the inflation crisis in Belgium and the Netherlands show great similarities but also significant differences. In both countries responses were quick and substantial. Measures covered prices more than household incomes while universal, not earmarked measures exceeded selective interventions. However, there were also major differences between the two countries. Because Belgium, unlike the Netherlands, could fall back on the mechanism of automatic indexation of wages and social benefits it relied more on existing universal policy instruments while in the Netherlands more targeted ad hoc measures were taken which also allowed for innovation in policy making. These different policy paths have their origins in the 1980s when policy models began to diverge and different legacies emerged.

Keywords: Social policy; inflation; indexation; Netherland, Belgium.

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1. Introduction

Indexation mechanisms of wages and social benefits are silent but essential elements of the architecture of welfare states. In times of low inflation, they are little noticed but when prices rise rapidly, as was the case during the inflation crisis, their importance to protect the purchasing power of individuals and households become apparent to all. Policy responses to the sharp price increases in the aftermath of the COVID-19 crisis and the war in Ukraine have been highly dependent on existing uprating systems. Belgium and the Netherlands are interesting cases in this regard. The Netherlands and Belgium are similar in many respects. Both nations belong to the most developed welfare states in the world. They are a prime example of tripartite corporatism based upon a social partnership between the interests of capital and labour involving collective bargaining between representatives of employers and of labourers mediated by the government at the national level. While the low countries share the same Bismarckian roots, from the beginning, however, there were important differences between the social edifices of both countries. In recent decades the Netherlands and Belgium have undergone additional diverging trends. In Belgium, unlike the Netherlands where the uprating system was thoroughly reformed in the 1980's, the mechanism of automatic indexation of wages and social benefits is still in place. We therefore expect that as a response to the inflation crisis Belgium would rely more on automatic indexation mechanism to respond while the Netherlands would opt for an alternative approaches.

During the COVID-19 crisis, policy responses reflected this pattern of contrast and resemblance: while both countries gave broadly similar responses, there were striking differences. Belgium has to a large extent reverted to existing policy instruments while the Netherlands opted to use more targeted interventions and to set up new policy instruments (Cantillon et al., 2021). In this article we show how policy responses to the inflation crisis reflected the same pattern: where Belgium relied heavily on existing instruments (most notably the automatic indexation mechanism and the social energy tariff), Dutch polices were characterized by more ad hoc interventions which departed from existing paths (most notably the increase of the minimum wage and the introduction of a price cap on energy bills). The paper starts with a description of the diverging policy pathways of the Dutch and Belgian welfare states. It then presents an overview of the measures taken in response to the (energy) prices crisis in both countries. The aim of the paper is not to provide an impact assessment nor to quantify the measures taken. Further research is needed for that.

2. The diverging pathways of the Dutch and Belgian welfare states

Many typologies of welfare states categorize Belgium and the Netherlands in the same groups (Arts and Gelissen, 2002): Esping-Andersen (1990) categorized the low countries in the 'social democratic welfare state' regime. Ferrera (1996) positioned both countries within the group of the "Bismarckian" countries, characterized by a strong link between work (and/or family status) and social rights; benefits proportional to income; funding through contributions and insurance systems regulated mainly by unions' and employers' organizations. With similar characteristics, Bonoli (1997) categorized Belgium and the Netherlands among the continental regime type with the main addition of high social spending as a percentage of GDP. Both countries are sometimes also referred to as belonging to the "Rhineland model" (Albert, 1992).

Although, Belgium and the Netherlands share the same Bismarckian roots, from the beginning, there were important differences between the social edifices of both countries. Focusing on differences in social security systems, Korpi and Palme (1998) grouped them in different regime types. They placed the Netherlands under the "basic security" model where pension entitlements are based on citizenship or contributions and where a lump-sum benefit system is applied, while Belgium was situated under the "corporatist" model where pension entitlements are derived from occupational category and labour force participation and where benefits are income-dependent. Welfare states are, moreover, in constant flux and over time they became more mixed from the side. Especially in recent decades the Netherlands and Belgium have undergone major changes which - to a greater or lesser extent - have given their social edifice some characteristics of both the Anglo-Saxon system and the Scandinavian model. This occurred in both countries but in the Netherlands, these changes went further and involved sometimes large reforms and reversals while Belgian incrementalism is a textbook example of what Lindblom has referred to as "muddling through" (Lindblom, 1959). The successive state reforms causing the Belgian welfare state to evolve into a complex, multi-layered structure which further complicates consensus-building and policymaking has certainly been an important element of divergence.

In all welfare states the inflation crises in the 70's and early 80's, rising unemployment, subsequently growing government deficits and the underlying economic, social and demographic transformations, compelled revisions to the post-war model. Adaptations occurred in several waves, beginning with initial adjustments in the early 1980s. Welfare states found themselves in a critical juncture, marking a long period of significant change which occurred in different ways in different countries producing different legacies. The Netherlands responded earlier, more vigorously and in a more organized way than its neighbouring countries: the transition is said to have begun with the Wassenaar Agreement of 1982, when unions, employers, and the government decided to revitalize the economy through shorter working times, wage moderation, activation, privatization and budgetary restraints. The consensus-based model – which has been referred to as 'responsive corporatism' (Visser and Hemerijck, 1997) – made it possible to reach major agreements on important socioeconomic reforms, such as, for example, abandoning the automatic indexation of wages and social benefits. In Belgium too, the social edifice was subjected to adjustment processes (Hemerijck and Marx, 2010, Hinrichs, 2010): wage replacement schemes, traditionally aimed at status maintenance, were partly reoriented towards minimum income protection, protection shifted towards activation, social insurance contributions were replaced by an increasing share of tax-funding and wage growth was slowed down. Bipartite social concertation ran into difficulties and, along the way, the role of the government as a third partner became more important. This happened incrementally, by small, gradual adjustments involving successive less visible and apparently minor changes to the existing system. The automatic indexation of wages and social benefits is a point in case: the post-war automatic indexation of wages and social benefits remained untouched but through all kinds of smaller interventions in the index mechanisms and in the wage formation, the increase in wages and social benefits was, as in the Netherland, *de facto* slowed down.

The different developments in Belgium and the Netherlands led to significant differences between the Dutch and Belgian social fabrics (see Table 1). The Netherlands stands out with the largest share of private social expenditures, a high proportion of means-tested social benefits, a high employment rate, a high incidence of part-time work and temporary employment. Belgium, on the other hand, still seems to adhere most to the traditional Bismarckian model. Employment rates are relatively low while private insurance and social assistance remained marginal compared to the Netherlands. As a whole, however, the outcomes seem to be very similar: the proportion of households at-risk-of-poverty are comparable in both countries.

Table 1: Public and private social spending, expenditures on means-tested social benefits, share of employment, part time work and the AROP in the Netherlands and Belgium, 2022 or latest available year

	The Netherlands	**Belgium**
Public social expenditure, % of GDP, 2022*	17.6%	29%
Private social expenditure, % of GDP, 2019*	13.1%	1.8%
Expenditures on means-tested social benefits as % of total social protection, 2020**	15.1%	5.3%
Employment rate, 2022***	82.9%	71.9%
Part-time employment, 2022****	38.4%	23%
AROP (at-risk-of-poverty rate, total population), 2022*****	14.5%	13.2%
Budget deficit, % of GDP, 2021******	-0.1%	-3.9%
General government debt, % of GDP, 2022******	54%	104%

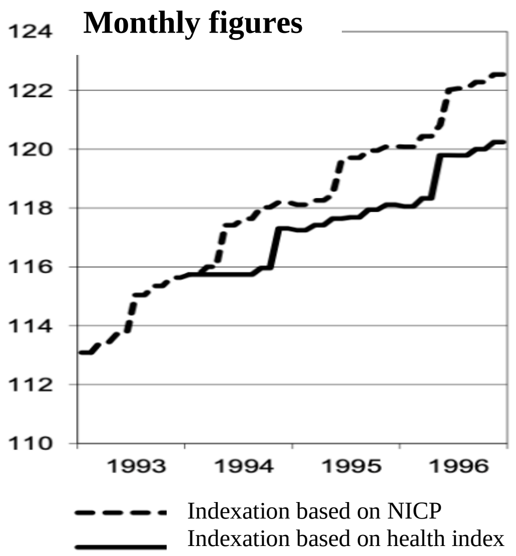
Sources: *OECD (2023): Social Expenditure Database (SOCX), **Eurostat (online data code : SPR_EXP_FTO), ***Eurostat/LFS (online data code: LFSI_EMP_A), ****OECD (2023): Labour Market Statistics, *****Eurostat (online data code: ILC_LI02), EU-SILC and ECHP surveys, ******OECD (2023): General government deficit

3. Wage formation, social benefits and indexing

Indexing is a silent, therefore sometimes forgotten, but extremely powerful policy instrument. Assessing the impact of policies on poverty and inequality in a large number of countries Paulus, Sutherland and Tasseva (2020) found, for instance, that in the first decade of the 2000's the impact of indexing on poverty and inequality reduction was more important than policy reforms(Cantillon et al., 2018, Paulus et al., 2020).

In the context of the inflation crisis, the differences in the Dutch and Belgian indexation mechanisms are of particular interest. Wage indexing in Belgium is done on an automatic basis for all employees working in the private sector, as well as all public sector workers. All social benefits (with the notable exception of the Flemish child benefits[i]) are also automatically linked to the price index. During the past decades this practice has been the subject of vigorous debates: for the trade unions, the system is a major social achievement that can by no means be reversed while employers' organizations and some political parties repeatedly pointed out the system's negative effects on business competitiveness and public finances. While the system has survived to this day, in order to preserve competitiveness and to save on public spending, since the nineties automatic indexation has undergone some non-trivial changes while there have been occasional departures on the uprating. In the 80's, for instance, a few times the index adjustment was restricted to the part of the wage not exceeding the minimum wage, some index increases were skipped altogether while it was decided to use the average change over four months instead of the monthly price changes. Later, the indexing mechanism was more structurally weakened by the introduction of the so called "health index" which was a clever political manoeuvre to circumvent the fierce discussions between unions and employers' organization: the automatic indexing was retained but the impact was somewhat attenuated by removing unhealthy products from the basket of goods and services which forms the basis of the index (NBB, 2012). Until today the smoothed health index is used as the basis for wage and benefit indexations. Figure 1 shows how the slower growth of health index compared to the consumer price index.

Figure 1: Indexation comparison based on NICP (national consumer price index) and health index, monthly figures (index numbers, 1998 = 100)



Source: ADSEI, FPS Employment, Labour and Social Dialogue, NBB

Even with the attenuated index formula, a competitiveness problem arose for Belgian companies because in other countries (including the Netherlands, see below) the system of automatic indexing did not (no longer) exist. In response, in 1996 the federal government decided to install a mechanism – the 'loonnorm' (wage norm) - to align the national wage development with that of the neighbouring countries. The wage norm sets a maximum margin of wage growth, based on the expected wage cost increases in Belgium's neighbouring countries (the Netherlands, France and Germany). The wage norm is set every two years. If the social partners do not agree on the established margin to raise the wages, it is the government that decides. Hence in Belgium, the automatic wage indexation – cherished by the unions as a major post-war social achievement – survived but, in response to demands from the employers' organisations, through a variety of interventions, wage growth was *de facto* decelerated at a rate comparable to wage increases in neighbouring countries (see Figure 2).

The Netherlands followed a different path. With the Wassenaar Agreement, workers' and employers' organizations made a deal on wage moderation, working time reduction and job redistribution (Mongourdin-Denoix and Wolf, 2010). Wages were temporary frozen while automatic wage indexation disappeared from virtually every collective agreement. To this day, most wages in the Netherlands are set in a collective agreement that takes inflation into account, but unlike Belgium, there is no automatic indexation. Minimum wages are indexed to the development of wages in the previous six months. Most social benefits are linked to the evolution of the minimum wage. Hence, in the Netherlands, there is no automatic indexation of wages and social benefits but, through the linking of minimum wages to the evolution of negotiated wages (of which price increases are an element of) and the linking of social benefits to the minimum wage, indirectly, wages and social benefits in the Netherlands follows the increase of prices.

While, after a readjustment in the Netherlands during the first years after the Wassenaar agreement, wage developments in Belgium and the Netherlands were very similar (see Figure 2), both countries found themselves in significant different positions to respond to the inflation crisis.

Figure 2: Average wages in Belgium and the Netherlands at constant prices: euro 2021 (1990-2021)

Source: OECD (2023), Average wages (indicator)

4. Inflation and the rise in the cost of living

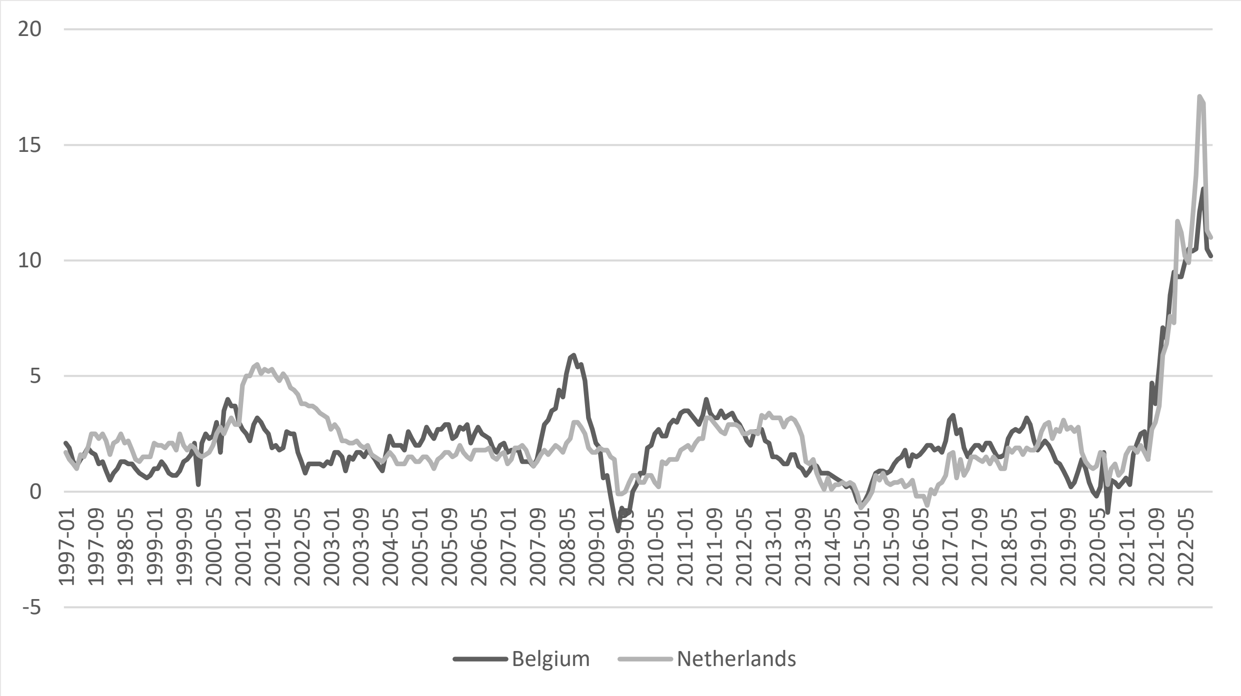
As in other countries fiscal stimulus packages adopted during the pandemic and supply problems that arose in the aftermath of the crisis have contributed to inflation. Russia's invasion of Ukraine, acted as a catalyst for inflation in specific sectors of the Dutch and Belgian economies (de Soyres et al., 2022). In 2021, starting from 0.6% the HICP rose steadily throughout the whole year, ending at 6.6%. In 2022 the average yearly inflation rate was 10.3%. The costs for housing, water and energy increased by 42%

and nutrients and beverages by 13.2%. Electricity (+ 84.7%), gas (+ 130.6%) and domestic fuel oil (+ 62.6%) prices rose very substantially. A few notable subindices had a negative impact on the inflation rate such as housing rent (- 0.7 pp), telecommunication (- 0.47 pp), restaurants and cafes (- 0.44 pp) and clothing (- 0.43 pp).

The trends in the Netherlands were very similar. While in 2020 inflation decreased from 1.7% in January to 0.9% in December, the average yearly inflation rate in 2022 amounted to 11.6%. The highest HICP rate was recorded in September of 2022: it then amounted to 17.1%. As was the case in Belgium, especially the costs of housing, energy (+ 21.8%), nutrients and beverages (+ 16.8%) was rising while communication costs saw a decrease of 2.9% compared to 2021. Most strikingly, due to the abolishment of the COVID-19 related measure which included a temporary reduction of the tuition fees, the education costs rose substantially with 83.5%.

The core inflation, which excludes food and energy components, also rose in both countries, albeit to a lesser extent. Since the start of the COVID-19 crisis, in March 2020, core inflation amounted to 1.7% in Belgium and decreased to 1% in March 2021. In 2022 the average core inflation rate approximated 4.9%. The peak was reached in December 2022 when core inflation amounted to 7.1%. Likewise, the Dutch average reached the peak of 7.3% in December 2022.

Figure 3: Annual rate of change in HICP in Belgium and the Netherlands (1997-2022)

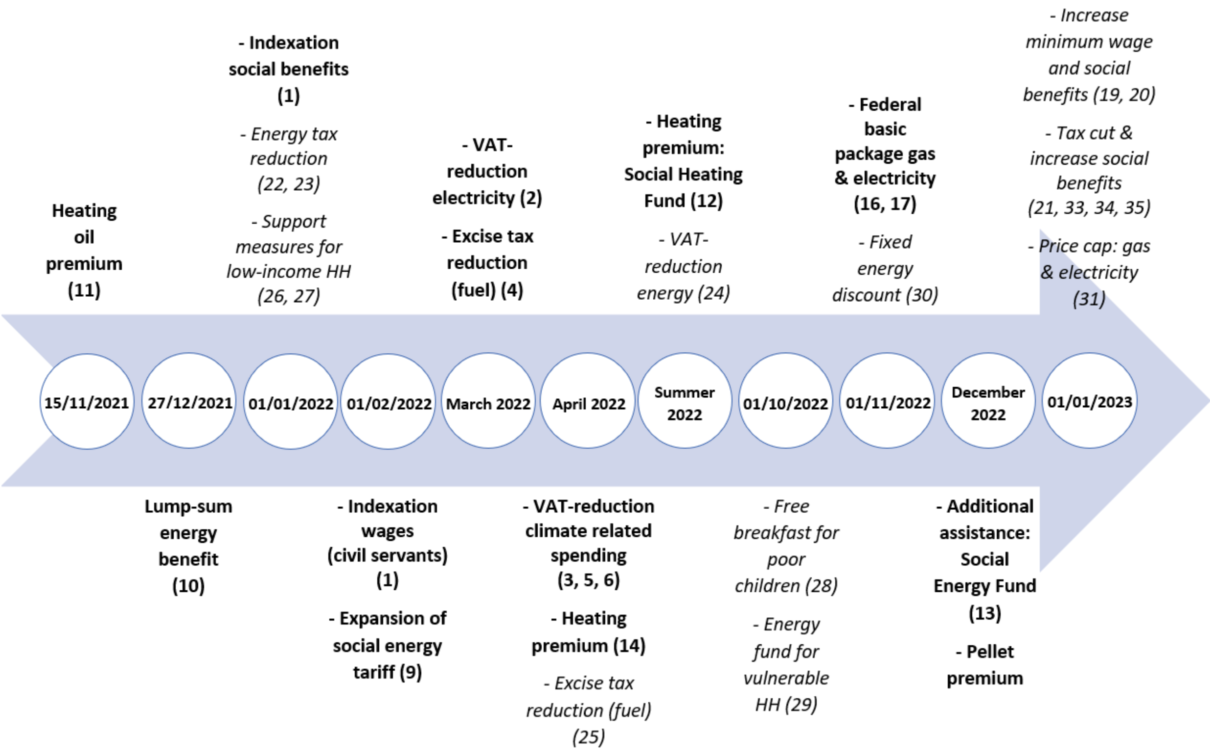


Source: Eurostat

5. Social Policy Responses to Inflation in Belgium and the Netherlands

Policy responses to the inflation crisis where quite different in Belgium and the Netherlands. Both countries found themselves in significant different starting positions in terms of available policy instruments and budgetary capacity: the 2021 budget deficit was -2.61 percent in the Netherlands and -5.56 percent in Belgium. In both countries, however, responses were quick and efforts significant. As in other countries, in Belgium and the Netherlands, the cost of support delivered to mitigate the impact of the inflation crisis on households has been very significant (see OECD (2022) for an overview in OECD countries). The aggregate fiscal cost of measures provided between October 2021 and December 2023 in the Netherlands amounted to 3.03% of the GDP and 1.82% in Belgium (excluding the costs of automatic indexation of wages and social benefits in Belgium and the increase in the statutory minimum wage and social benefits in the Netherlands). In the absence of automatic indexation, the Netherlands had to rely more on ad hoc measures, that were about roughly double the cost of government efforts in Belgium. The automatic indexation mechanism brought many wage increases in Belgium, keeping wages almost fully and directly in line with inflation. OECD and European Commission studies show that real wages and benefits and thus living standards were hardly affected by the inflation crisis, while there was real decline in the Netherlands (European Commission, 2023b, European Commission, 2023a, OECD, 2023c). In Figure 4 we show the timeline of the various measures (more details are given in the appendix: Table A - 1 & Table A - 2).

*Figure 4: Timeline of the energy measures to sustain households' purchasing power**



***Belgian measures are in bold**, *Dutch measures are in italics.*
- See Table A - 1 & Table A - 2 in the appendix for the corresponding numbers

Belgium

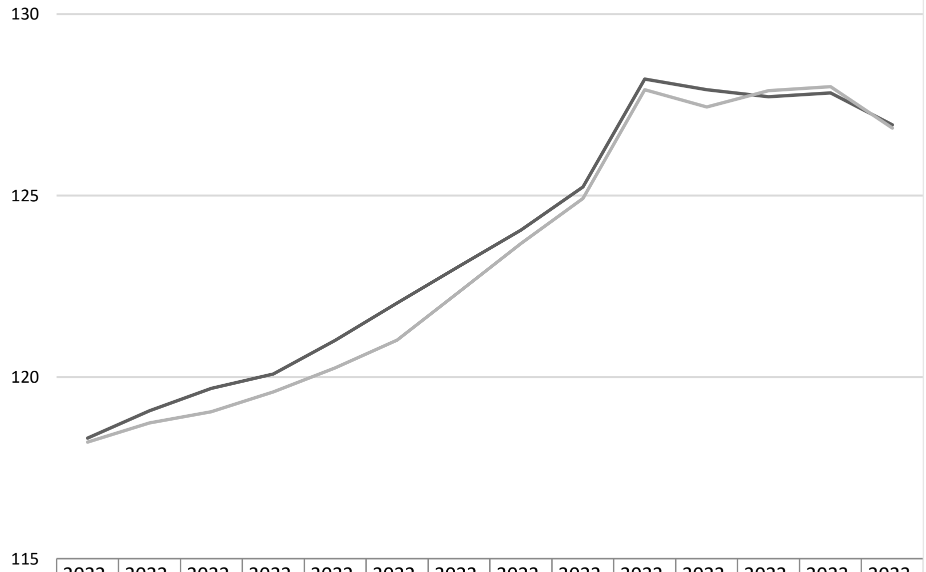
The indexation of wages and social benefits was the automatic response to rising prices. Although, before the crisis, the automatic indexation of wages and social benefits, had been a constant source of political and social struggle, the system now proved a welcome response tool for all. Without much political discussion, in April, July, September and December 2022 the wages of public service employees, all social benefits (except the Flemish child benefits) and the wages of a number of private sector workers were each time increased by 2% (see Figure 4). In the sectors where wages are indexed once a year, the indexing amounted to more than 10% in January 2023. The Flemish child benefits were the only exception. When transferring the competence for child benefits to the communities, the Flemish government decided to no longer automatically link the amounts of the reformed benefits to the index. During the inflation crisis, this gave rise to fierce political debates in which the Christian Democrats wanted full indexation but the other parties in the government argued that this would have been too expensive. In the end it was decided to index only the selective part of the child allowances intended as additional support for poor families. In doing so, Flanders followed the same logic of selectivity as in the Netherlands, where it was decided to index only the minimum wages and related social benefits (see below).

The indexation of wages and (most of the) social benefits was, however, not considered sufficient. Firstly, because some wages are indexed only after a year, the shock would not be absorbed in time for everyone; secondly, because the percentage indexation does not take into account the fact that the products that increased the most in price - namely energy and nutrients - weigh more heavily for low-income households (Lévay et al., 2021; Blake and Bulman, 2022) and thirdly, because the health index does not take full account of increases of the energy price.

Figure 5 shows the increasing discrepancy between price increases and the evolution of the health index in the months when inflation rose most sharply.

Therefore, additional measures were taken. Figure 3 shows a timeline of these ad hoc measures which in Figure 6 are grouped according to the nature of support (income or price) and the degree to which they were universal or targeted. The top-left panel of the figure shows that these measures were aimed more at price reduction than at income support. The top-right panel shows which energy measures were targeted at vulnerable households (either by status or income level), see the tables in the Appendix for the categorization. The graph shows that even though Belgium has a higher percentage of targeted measures (23.4% of the total amount of energy measures or 0.4% of the GDP) than the Netherlands (17.6% of the total amount of energy measures or 0.5% of the GDP), which is mainly explained by the expansion of the social tariff, the non-targeted price cap in the Netherlands almost entirely explains the lower percentage of targeted measures in the Netherlands. Especially when you only consider the income measures (bottom-right panel), we clearly see that the Netherlands have a higher percentage of targeted income measures out of all the income measures (more than 50% or 0.5% of the GDP) in comparison with Belgium (6.1% of total income measures or less than 0.1% of the GDP). In Belgium we see that the largest expenditures related to measures with an universal coverage (most notably the VAT reductions and lump-sum payments to households). These measures accounted for almost 80% of total spending. The main measure to support low-income households related to the existing (but extended) social energy tariff accounting for more than 20% of total spending.

Figure 5: Evolution Consumer Price Index (CPI) and health index in Belgium (2022-2023) (2013 = 100)



	2022-01	2022-02	2022-03	2022-04	2022-05	2022-06	2022-07	2022-08	2022-09	2022-10	2022-11	2022-12	2023-01	2023-02
CPI (2013 = 100)	118.32	119.07	119.69	120.09	121.01	122.04	123.05	124.05	125.24	128.21	127.92	127.72	127.83	126.95
HEALTH INDEX (2013 = 100)	118.21	118.74	119.05	119.59	120.25	121.02	122.35	123.68	124.92	127.92	127.44	127.89	128	126.86

Source: Statbel

The universal measures consisted of: (1) a reduction of VAT-percentages to 6% for energy, solar panels and heat pumps (and a reduction of the excise taxes on gasoline); (2) a one-off lump-sum benefit of 100 euros for all households, independent from which heating source is used; (3) a benefit of 250 euros for households who predominantly use pellets as a heating source; (4) a lump-sum benefit of 300 euros for households using heating oil of propane between November 2021 and March 2023 and (5) a federal basic package for gas (270 euros) and electricity (122 euros) for the months of November and December 2022 (which was later extended to the period from January 2023 until March 2023 and elevated to 405 euros for gas and 183 euros for electricity). These amounts of the federal basic package were either withheld from the respective energy bills or deposited to the beneficiary bank accounts.

The targeted energy-related measures included: (1) the extensions of the so-called ‘social tariff’ (which helps welfare beneficiaries and social tenants in the payment of the energy bills) to all low income households (regardless of their social security or tenant status); (2) a one-off lump-sum benefit of 80 euros for households eligible for the extended social tariff and (3) an increase in the heating premium of the Social Heating Fund, linked to the rising prices in heating oil, for vulnerable households experiencing financial difficulties. The extension of the social tariff proved to be very impactful, which was reflected in the large increase of eligible households and the total amount of governmental expenditures spent on this measure (1885.1 million euros). In total, 400,000 extra Belgian household became eligible for the social tariff due to the extension, which was an important resource for low income households in limiting their energy costs (Kelepouris, 2023).

Meanwhile, at the European level, the Belgian federal government advocated for a gas price cap against which the Netherlands opposed[ii]. The cap was eventually adopted by the EU energy ministers on 19 December 2022 to limit excessive gas prices, following months of debate over whether to implement a price cap on imports into Europe. The price cap equates to 180 euros per mWh (or 0.18 euros per kWh). The cap will only be applicable once the gas price is higher than this limit for at least three consecutive days and when the price of liquefied natural gas is minimal 35 euros higher than the global reference price (also for at least three consecutive days). Once these requirements are met, the price cap will be active for a period of at least 20 days.

The Netherlands

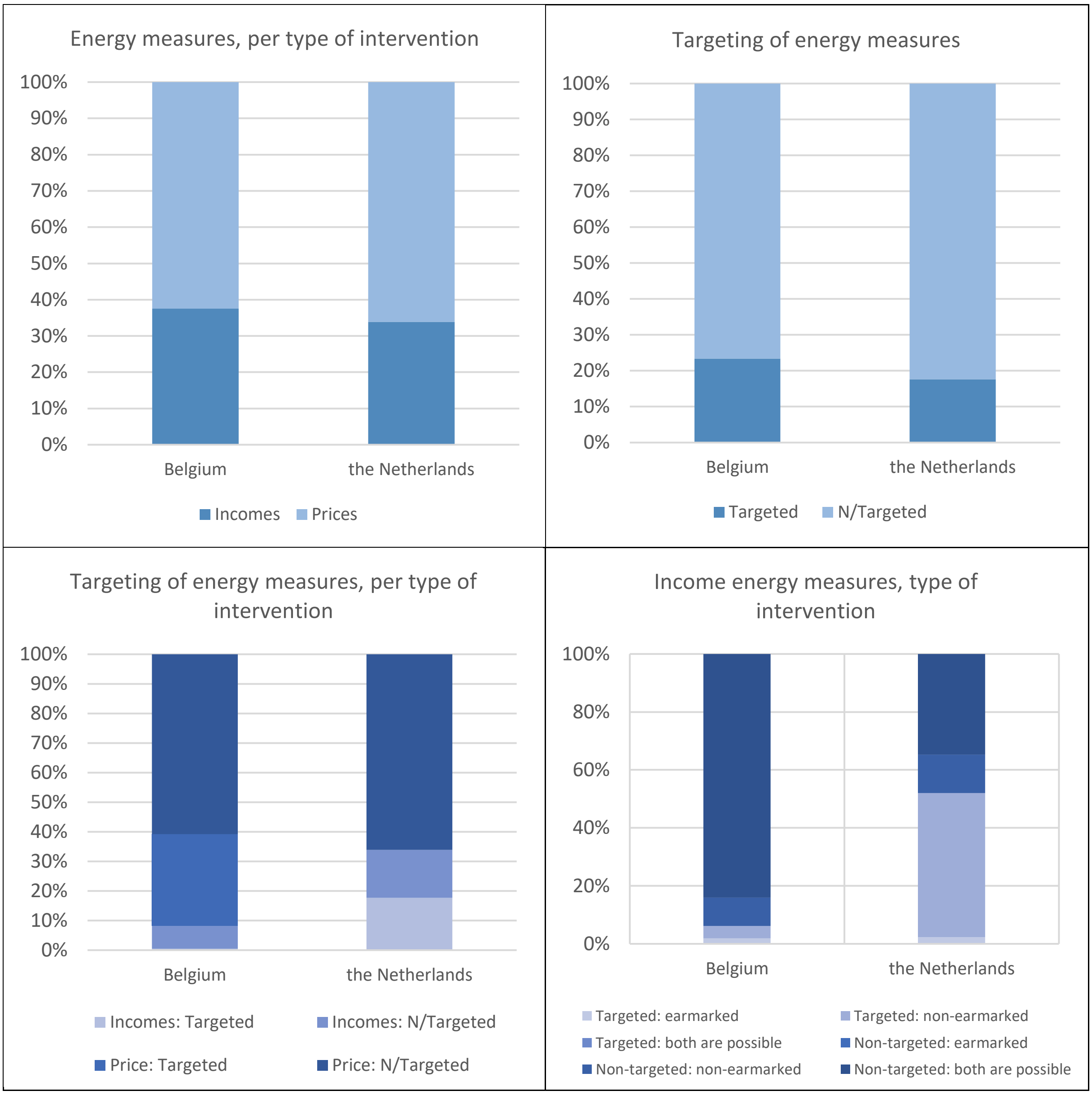
In the absence of an automatic indexation mechanism, the Netherlands had to rely on ad hoc measures such as a tax rebate on energy bills, a reduction of the tax rate on electricity, a one-off lump-sum benefit for energy for people with an income around the social assistance level and support measures for vulnerable households. Later in 2022, many other measures were taken in order to preserve household purchasing power: in order to protect the incomes of those in work, a decrease in taxes for the first income bracket was put in place, as well as an increase in the tax credit. These measures strengthened the policy aimed at increasing work incentives, that was already pursued before the inflation crisis. It was only later that health care allowances, rent allowances and child-related allowances were additionally increased. All these measures were ‘structural’, that is permanent in nature. The increase of the minimum wage would only be effectuated in January 2023. The minimum wage and the related social benefits would then be increased with 8.05% on top of the regular indexation based on the CBA-wages which resulted in a cumulative raise of 10.15%.

There was no political debate regarding the increase of minimum wages. Opposition parties (and the FNV) had been advocating for an increase in the minimum wage since 2021. In the initial plans of the cabinet outlined in the Spring Memorandum 2022, the state pension (AOW) and some other old-age schemes were not linked to this increase and therefore would not rise to the same extent. However, due to motions passed in both the House of Representatives and the Senate, it was eventually decided to link these to the increase as well. Eventually, there has been some revival in the use of automatic price compensation (automatic indexation) in collective labour agreements (CLAs). Last year, labour unions FNV and CNV advocated for its reintroduction. However, employers, as well as entities like De Nederlandsche Bank, dismissed automatic price compensation as risky due to the potential for a wage-price spiral. As a result, this practice hasn't been widely adopted in practice (though it has been included in a small portion of CLAs), and there has been a tendency to opt for higher wage increases and/or one-time inflation compensation in CLAs (NOS, 2022, NOS, 2023, Salaris Rendement, 2023, Ruiter, 2022). Since CLAs are negotiated at different times for various companies, sectors, and industries, a clear overview of general trends is not immediately available. But since the purchasing power crisis, higher wage increases and inflation compensation have become more common. This is also due to increased worker strikes, which have occurred more frequently than usual in the past year.

Besides structural changes, the Netherlands have also implemented various temporary measures. In October 2021 an extra tax credit was applied to energy bills and a reduction of electricity taxes. This translated to a cost reduction of approximately 400 euros for households with an average consumption. A reduction of the VAT-taxes on energy and excise taxes on fuel oil was implemented. For low-income households a one-off lump-sum energy transfer of 1300 euros was disbursed. In October 2022 a specific measure was announced targeted at children in poverty: for a duration of four months free breakfasts were provided for vulnerable children. One month later, the Dutch government also decided to contribute a maximum of 50 million euros to a private energy emergency fund for vulnerable households. In addition, in November and December 2022, a fixed discount on energy bills was attributed, amounting to 190 euros each month, in anticipation of the temporary price cap which came into force in January 2023. This price cap is set at approximately 2500 euros for households with an average consumption. The cap applies for gas, electricity and district heating for households and other small-scale users. Up to a certain level of consumption, users will not pay more than the set maximum tariff. For most users, the price cap will result in a rebate on their energy bill.

Making abstraction of the indexation of the minimum wage and the related social benefits, the by far largest expenditures related to measures with an universal coverage (most notably the VAT reductions, lump-sum payments to households and the price cap). So conceived targeted measures accounted for only 17.6% of total spending. The picture becomes more nuanced when the indexing of the minimum wage and the related benefits is taken into account: the share of selective measures then rises to around 18.4%. Measures targeted at low-income households, however, were relatively less important in budgetary size: the most expensive measure being the increase in health care allowance (2,1 billion euros) and the one-off lump-sum energy benefit for people with an income around the social assistance level (1,4 billion euros).

Figure 6: Energy measures, 2021-2023, as % of the total amount of energy measures for households*



Source: Sgaravatti et al. (2022); Court of Audit (Belgium); Government of the Netherlands (own calculations)
*Excluding (automatic) indexation of wages/social benefits

6. Was the energy crisis seized to serve the goals of a just green transition?

From the broader perspective of the climate crisis the question arises as to what extent the Belgian and Dutch governments have taken advantage of the challenges posed by the inflation crisis to take steps towards a just, green transition – that is greening the respective societies in a way that is fair and inclusive to everyone (Boone and Elgouacem, 2021). This seems, *prima facia,* not to be the case, although, in 2023, the Netherlands has taken a significant turn in how to intervene in energy prices for families and small businesses. In-depth research is needed to estimate and compare the distributional effects of the policy packages in the two countries (for the Netherlands, see Centraal Planbureau (2023)). Judging purely from the policy interventions, while in both countries special attention was paid to vulnerable populations, universal measures outweighed targeted interventions. Moreover, the price support measures deployed in 2022 were not aimed at incentivizing the reduction of fossil fuel consumption. Many of these measures were not (or only loosely) earmarked and if they were, they were not designed to discourage the use of non-renewable energy. The Dutch support measure of 150 million euros for the insulation of homes belonging to households with high energy bills and/or poorly insulated residences is an interesting example of this. In 2023, moreover, with the introduction of the price cap, the Dutch government does have taken a notable step in that direction. In terms of efforts (11,2 billion euros in 2023) this has also been the quantitative most important measure taken. The cap for gas is set at 1.45 euros per m³ for usage up to 1200 m³, 0.40 euros per kWh for electricity usage up to 2900 kWh and 47.38 euros per GJ (gigajoules) for usage up to 37 GJ for users connected to the heating grid. The price for consumption above these quantities equals the market prices (Rijksoverheid, 2022). Approximately, 50 to 60 percent of Dutch households are estimated to fall below these limits. The Dutch price cap is important to mention because, unlike the VAT reduction and other lump-sum payments to compensate for rising energy prices, it is linked to the volume of energy consumption. The price cap which meets the need, within the framework of the green transition, to reduce energy consumption, may be considered as a policy innovation, not (yet) to be seen in Belgium. The price ceiling was not a subject of significant political debate; however, there remains some uncertainty about the feasibility of an energy price cap in line with Dutch resistance to European agreements for a gas price ceiling, stemming from concerns about market disruption.

7. Conclusion

The above analysis of the policy reaction to the inflation crisis shows that in Belgium and the Netherlands, like in other OECD countries, responses were quick and efforts significant. Both countries used a mix of existing social policies and new measures to mitigate the impact of rising prices on household incomes. Measures to support the purchasing power of private households were more geared towards supporting disposable incomes than towards price reductions while universal, not earmarked measures exceeded selective interventions. However, there were major differences between the two countries stemming mainly from the fact that Belgium, unlike the Netherlands, could fall back on the mechanism of automatic indexation of wages and social benefits. Additional interventions were, therefore, less extensive than in the Netherlands where government spending was significantly higher and income measures also more targeted than in Belgium.

Interestingly, responses to the inflation crisis show similar patterns as at the time of the COVID-19 crisis. This time again, government interventions were fast and substantial. Belgium relied more on existing universal policy instruments while in the Netherlands more targeted ad hoc measures were taken which also allowed for innovation in policy making. Most notably, with the introduction of the energy price cap, the Dutch government, in contrast with Belgium, took a notable step in the direction of implementation of policy measures to discourage the use of non-renewable energy needed for the green transition. These different policy paths, which have their origins in the 1980s when policy models began to diverge and different legacies emerged, might put both countries in different positions in the face of the climate crisis that now needs to be addressed.

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Appendix

Table A - 1: Energy measures in Belgium

	MEASURE	LEGISLATIVE BASIS	PRICE-SUPPRESSING /INCOME-SUPPORTING MEASURES	EARMARKED/NOT-EARMARKED	TARGETED/NOT-TARGETED MEASURES	ESTIMATED COSTS (2022-2023)
1.	Automatic indexation of wages and social insurance benefits	- Law of the 2nd of August 1971 - Law of the 1st of March 1977	Income	Not-earmarked	Not targeted	/
2.	VAT-reduction on electricity (01/03 until 30/06) - Extension (01/07 until 30/09) - Extension (01/08 until 31/12) - Extension (01/01 until 31/03)	- RD 05/02/22 - RD 23/03/22 - RD 27/06/22 - Law “miscellaneous tax provisions” of the 21st of December 2022	Price	Earmarked	Not targeted	1338,8m
3.	VAT-reduction on gas (01/04 until 30/09) - Extension and expansion (01/08 until 31/12) - Extension (01/01 until 31/03)	- RD 23/03/22 - RD 27/06/22 - Law “miscellaneous tax provisions” of the 21st of December 2022	Price	Earmarked	Not targeted	876m
4.	Reduction of excise taxes on gasoline	RD 16/03/22	Price	Earmarked	Not targeted	1041,9m
5.	VAT-reduction on solar panels and heat pumps	RD 27/03/22	Price	Earmarked	Not targeted	37m
6.	VAT-reduction on demolition and reconstruction of residences	RD 27/03/22	Price	Earmarked	Not targeted	406m
7.	Aid to enterprises: reduction of	RD 11/10/22	Price	Earmarked	Not targeted	137,8m,

	excises taxes on gas and electricity					
8.	Special system of temporary unemployment for energy-intensive companies + bridging rights for the self-employed	Law of the 30th of October 2022	Income	Earmarked	Not targeted	9,1m
9.	Expansion of social tariff	RD 24/04/22	Price	Earmarked	Targeted	1885,1m
10.	One-off lump-sum benefit for energy	Law of the 15th of December 2021	Income	Not-earmarked	Targeted	72m
11.	Heating oil premium	Law of the 26th of June 2022	Income	Not-earmarked	Not targeted	308,1m
12.	Heating premium from the Social Heating Fund	RD 06/08/22	Income	Not-earmarked	Targeted	69m
13.	Additional assistance measures – Social Energy Fund	RD 26/12/2022	Income	Earmarked	Targeted	63,8m
14.	Heating premium	Law of the 28th of February 2022	Income	Both possible: decrease of energy bill or deposit on bank account	Not targeted	460,2m
15.	Reduction of NSSO-employer contributions	Program Law of the 26th of December 2022	Income	Earmarked	Not targeted	975m
16.	Federal basic package - gas	- Law of the 30th of October 2022 - Law of the 19th of December 2022	Income	Both possible: decrease of energy bill or deposit on bank account	Not targeted	2355,7m
17.	Federal basic package - electricity	- Law of the 30th of October 2022 - Law of the 19th of December 2022	Income	Both possible: decrease of energy bill or deposit on bank account	Not targeted	
18.	Pellet premium	Program Law of the 26th of December 2022	Income	Not-earmarked	Not targeted	21,5m

Table A - 2: Energy measures in the Netherlands

	MEASURE	LEGISLATIVE BASIS	PRICE-SUPPRESSING /INCOME-SUPPORTING MEASURES	EARMARKED/NOT-EARMARKED	TARGETED/NOT-TARGETED MEASURES	ESTIMATED COSTS (2022-2023)
19.	Increase of the statutory minimum wage and basic pension	Decision 03/10/22	Income	Not earmarked	Not targeted	3625m
20.	Increase of benefits linked to the minimum wage	Decision 03/10/22	Income	Not earmarked	Targeted	1083m
21.	Reduction of first income bracket + increase of labour tax credit	1. Law of the 21th of December 2022 2. Income Tax Law, 2001	Income	Not earmarked	Not targeted	1200m
22.	Tax rebate on energy bill	Parliamentary Papers II 2021/22, 29013, no. 272	Price	Earmarked	Not targeted	1546m
23.	Reduction of the tax rate on electricity	Parliamentary Papers II 2021/22, 29013, no. 272	Price	Earmarked	Not targeted	1664m
24.	VAT-reduction on energy	Law of the 1st of July 2022	Price	Earmarked	Not targeted	1100m
25.	Reduction of excise duty on fuel	Law of the 1st of July 2022	Price	Earmarked	Not targeted	2219m
26.	One-off lump-sum benefit for energy for people with an income around the social assistance level	Participation Act	Income	Not earmarked	Targeted	1400m
27.	Support measures for vulnerable households regarding energy savings	Parliamentary Papers II 2021/22, 29013, no. 272	Income	Earmarked	Targeted	150m
28.	Breakfast for schools educating vulnerable children	Parliamentary Papers VI 2022/23, 36200, no.2	Income	Earmarked	Targeted	5m

29.	Emergency energy fund for vulnerable households	Parliamentary Letter “Launch temporary emergency energy fund” (07/02/23)	Income	Earmarked	Targeted	49m
30.	Fixed discount (€190) on energy bills	Regulation of the Minister for Climate and Energy of 17 October 2022, no. WJZ/22508619	Income	Both possible: decrease of energy bill or deposit on bank account	Not targeted	3154m
31.	Price cap for gas and electricity	Subsidy regulation of the funding of the energy price cap for small-scale users, 2023	Price	Earmarked	Not targeted	11200m
32.	Assistance to energy-intensive SME’s	Regulation of the Minister of Economic Affairs and Climate Policy of 23 February 2023, no. WJZ/22508019	Income	Not earmarked	Not targeted	1761m
33.	Increase in health care allowances	Decision 24/10/22	Income	Not earmarked	Targeted	2117m
34.	Increase in child-related allowances	Law on child budget	Income	Not earmarked	Targeted	797m
35.	Increase in rent allowance	Law on housing benefit	Income	Not earmarked	Targeted	212m

[i] The Walloon and Brussels child benefits follow the above methodology, while the Flemish variant is detached from these indexation rules since January 2020. This has implications for the payout of the child benefit, the study allowance and for the calculations of the income thresholds for the social supplement. More concrete, a yearly indexation of 2% will be applied within the Flemish child benefit system every first of September, regardless whether the central index has been exceeded. However, due to high inflation costs, the Flemish government had decided to not apply this 2% indexation on the base amounts in 2022, but instead conducted a 1% indexation on these base amounts in September 2022 and once again in December 2022. From September 2023 onwards, the normal indexation rule has been adopted once more. In exception to this, all other payouts like the education allowance and the social supplement still received a 2% indexation. Finally, there are a few components that will not receive any indexation whatsoever until the 31st of August 2025, being the age supplements and the highest base amounts (for the third child or later within a family) within the old system of the Flemish child benefits.

[ii] The Netherlands withheld from voting, in fear that the price cap would create unfair competition and shortages on the European market.