

Budgetmemorandum 2005

Main outlines of policy

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1. One year one

In May 2003 the current administration took office with the motto “joining in, more work, fewer rules”. This from the conviction that firm progress should be made in solving the problems facing Dutch society. Too many people still do not take sufficient part in the social process. Citizens and businesses are bogged down in numerous and detailed regulations. At the same time the government is often called on to solve a range of social problems. The quality of public services lags behind expectations, resulting in a lack of confidence in government.

Major priorities

The Coalition Agreement for Government Policy set the contours of an ambitious agenda for structural reforms in the Netherlands. Major priorities in this regard are a strong economy, a responsive public sector, a better democracy and a safer society. With this agenda the government recognises the need to improve the quality of our democracy, public services, public safety, education and healthcare. It is becoming apparent in ever more spheres that society is asking for a different kind of public sector. A public sector which is more selective about what it does, but also one which performs better in delivering services to citizens. This calls for a fundamental recalibration of the tasks and responsibilities of government. In some cases this means that citizens and businesses will be given greater scope to take initiatives and responsibility. But in other cases it means that the reins will be tightened and compliance with the rules will be enforced.

Taking stock

In the previous Budget Memorandum the administration fleshed out the reform agenda. We are now just over a year on; a good time to take stock. Is the government on track in terms of implementing the announced policy plans? It is a fact that the economic situation has turned out less favourable than originally thought. On the basis of current figures, the economy was not merely flat in 2003, it actually contracted. This aggravates the problems facing the government, but it also underlines the need for the advocated reforms. This Budget Memorandum outlines the specific steps which will be taken in 2005. The government is convinced that these steps will bring the realisation of major objectives within reach.

2. Hesitant recovery after difficult years

Difficult years

Modest recovery

After a period of strong economic growth at the end of the last century, growth figures are currently very low. Despite the modest recovery evident at the moment, average growth between 2001-2004 will probably come out at only slightly above ½% per year. The year 2003 marked the bottom of the downturn, with the economy contracting by 0.9%. This is by far the worst performance of the Dutch economy in the last two decades. The consequences of this unfavourable development have a direct impact on many citizens. While purchasing power rose sharply at the start of this century, it is now declining virtually across the board. An even more worrying consequence is the rise in unemployment. Within a relatively short space of time, unemployment surged from 252,000 in 2001 to 495,000 in 2004; this is a doubling in only three years. For

large groups of young people it is proving exceedingly difficult to find a paid job. These developments are a cause for concern for the government. Seeking a recovery in employment is not only important for economic reasons. It is also unacceptable from a social perspective that people are cut off from work. After all, people must have a prospect of a paid job, not only to have a secured income but also as a building stone of a society composed of integrated, participating and involved citizens. That is why the government attaches such importance to the structural strengthening of the Dutch economy.

Structural weaknesses

In the Coalition Agreement for Government Policy and the previous Budget Memorandum the government has already set out in detail the causes of the Netherlands's relatively weak economic performance. The analysis presented at those times still essentially applies. The recession of the past period can be attributed in part to external factors. The low growth in world trade and the deteriorating competitiveness of the euro zone due to the strong euro explain to a large extent why the Dutch export sector has been performing poorly. Negative wealth effects, caused mainly by tumbling share prices and the related hike in pension contributions, also explain why private consumption is barely expanding. Yet these developments cannot explain why the Netherlands has dropped out of the leading group of economic performers in Europe. The reason for the unfavourable development compared to our European competitors must be sought in structural weaknesses in the Dutch economy. During the economic boom years we were unable to get all people capable of work to enter the labour market. Most of these unused labour reserves remained, and remain, in the unemployment, occupational disability and early retirement schemes. Hence the available supply of working people and job seekers lagged behind the surge in demand for labour. Moreover, the educational attainment levels of job seekers did not sufficiently match the specific needs of employers. The upshot was a tight labour market, resulting in large numbers of difficult-to-fill vacancies and steep pay increases. Because of these high pay increases and the low labour productivity growth, Dutch competitiveness deteriorated sharply compared to other European countries.

In addition to the structural weaknesses, the cyclical volatility in the economy has proved greater than expected on the basis of past experiences. During the previous boom some analysts and commentators argued that sharp economic fluctuations had become a thing of the past. All this because of the "new economy" and the revolution in information technology and telecommunications. Nothing could have been further from the truth, however. The economic boom around the turn of the century turned out to be exceedingly strong; and the current trough is exceedingly deep.

Setbacks in the public finances

Deficit below 3%

Because the economic downturn has led to further financial setbacks, the sustainability of the public finances – an important issue given the impending ageing of the population – has come under further pressure. The setbacks were so extensive that the Netherlands was not able to comply with the Maastricht Treaty criteria in 2003. The previous Budget Memorandum had assumed that the EMU deficit would come out at 2.3% of GDP in 2003; it actually came out at 3.2% of GDP, 0.2% above the limit. ECOFIN, the European Council of Finance Ministers, has formally called on the Dutch government to get the deficit below 3% as soon as possible, but by 2005 at the latest, and also to take measures to achieve a balance or surplus in the budget.

The financial setbacks are most evident on the income side of the budget, especially in revenues from corporation tax, wage and salary tax, income tax and value-added tax. Corporation tax in particular is proving far more susceptible to economic

fluctuations than previously thought. However, there are also setbacks on the expenditure side of the budget. These occur in particular in the health service, where sharply higher output is accompanied by rising costs. This underlines the need for the government's policy to counter the relentless cost increases in this sector by strengthening cost awareness among care providers, insurers and patients. Furthermore, the government was also surprised early this year by considerable deficits among the local and provincial authorities. While modest surpluses had been common in previous years, EMU deficits suddenly appeared, shooting up to 0.5% of GDP in 2002 and 0.6% of GDP in 2003.

Economy picking up slowly

Fragile recovery

At the moment the forecast is for a modest recovery in economic growth. The latest estimate assumes a gradually improving economy, with a growth rate of 1¼% this year and 1½% next year. Both exports and national expenditure should contribute to the acceleration of economic growth in 2005. Output in the market sector and employment should also expand again in 2005. But despite this turnaround, unemployment will rise further over the coming year. As yet the economic recovery seems too fragile to absorb the growth of the labour force in full.

Although the latest estimates assume a hesitant recovery, recent experiences again show that forecasting economic growth is a precarious affair. Especially the timing of turning points and the extent of the subsequent downswing or upswing in economic activity are difficult to predict. It is also difficult to interpret the nature of developments. Means of distinguishing between structural and cyclical developments are certainly available, but the outcomes of the calculations are heavily dependent on the method used, the selected time horizon and the point at which the calculation is made. These calculations offer a valuable insights into the underlying nature of developments, but they are not reliable enough to set policy by. That is one of the reasons why the government has opted for a structure-enhancing policy which yields enduring results in both good and bad times.

By strengthening its economic structure, the Netherlands can maximise its benefit from the improving world economy. This also prevents economic developments over the longer term being choked off by economic imbalances, such as those which developed during the previous boom period. Even if the economic recovery takes longer to materialise than is assumed at the moment, it is imperative to ensure that the cyclical, temporary setbacks do not acquire a structural character. Providing an artificial boost at the expense of derailing the public finances is not an option. That is a lesson the Dutch have learned, in particular during the 1970s and early 80s. A structural deterioration of the public finances is best avoided by putting a ceiling on the permitted budget deficit. The government uses the European limit of 3% of GDP, with which the Netherlands has to comply. International experiences, in Japan for instance, also show that excessive financial impulses aimed at reviving the economy are not to be recommended. If anything, such an expansive policy seems to entrench the problems, because essential measures are not taken and it may take years before the public finances are brought back under control.

3. Implementation of policies

Results

Over the last year the government has started energetically with the organisation and implementation of the plans set out in the Coalition Agreement for Government Policy. Improvements are evident in a number of policy areas: waiting lists and waiting times in the health service are coming down, public safety has been enhanced, and the introduction of the Work and Welfare Act (WWB) seems to be having a downward effect on the volume of welfare benefit payments. These results are an incentive for the government to continue with the implementation of previously announced policies in the coming year. A strong and resilient economy, a decisive public sector and sustainable public finances are key elements in this context.

A strong and resilient economy

To stimulate the growth potential of the Dutch economy, the government has initiated policies aimed at pay restraint, higher labour market participation and faster labour productivity growth. This last objective should be achieved by measures such as reducing the administrative burden, stimulating knowledge and innovation, and encouraging responsible and transparent corporate governance. Following on from the plans set out in the Coalition Agreement, the government presented its "Opting for Growth" policy paper in July 2004. In this paper the government elaborates its ambitions for a future based on economic solid and social solidarity.

International competitiveness

In order to improve the Netherlands's international competitiveness, labour cost trends must be moderated. The surge in unit labour costs over recent years has contributed to the deterioration of the country's competitive position. Employers and trade unions have also recognised the need for pay restraint, as is evident from the declaration by the Labour Foundation in late 2003. At that time the employers' associations and trade unions agreed terms with the government on pay restraint in 2004 and 2005. These agreements have come under pressure, however. Yet multi-year pay restraint across the board is very urgent in light of the desired recovery of employment. In the current situation the government attaches great importance to keeping contractual pay rates unchanged. In the coming period (i.e. from 1 November 2004 to 31 December 2005) it will therefore not make compulsory any collective labour agreements (CAOs) which result in higher contractual pay rates, so that they will not have to be honoured by employers, who are not taking part in the collective labour agreements (CAO's). Even so, the government of course wishes to continue the dialogue with the employers' associations and trade unions, which are major institutional partners in social and economic development. Employers and employees, brought together in umbrella organisations, fulfil a major role in the structuring and development of the socio-economic sphere. They negotiate agreements on terms and conditions of employment which apply at company and industry level. Employers, employees and the government each have their own responsibilities. Coordination of these responsibilities and any joint consideration of general developments and objectives make consultations with the employers' associations and trade unions relevant at national level as well.

Work and Welfare Act

Social security must become more activating: that is to say, people must move more quickly from a benefit recipient situation back into the labour market. The government is therefore strongly committed to a further reform of the social security system,

without losing sight of the fact that a social safety net should be retained for those people who really need it. To this end the Work and Welfare Act (WWB) was introduced this year. This law gives municipalities the powers and the incentives to reduce the volume of welfare benefits. Early indications are that this law is having a positive effect. With tailored advice and assistance, benefit recipients are guided back to the labour market as quickly as possible. Firm measures to ensure compliance and combat fraud also help to restrict welfare benefits to those people who are clearly within the target group.

Occupational disability and unemployment

The coming year will see further reforms of the Occupational Disability Insurance Act (WAO) and the Unemployment Benefit Act (WW). In the new WAO bill, the focus is on employees' ability to work. Not what employees can no longer do, but what they can *still* do will be the guiding principle for a successful reintegration into the labour market. Private insurance companies will be given access to the market for partial occupational disability insurance policies. The government believes that competition in this market will eventually lead to a more efficient administration, greater incentives and (consequently) lower insurance premiums. The introduction of the new WAO scheme and supplementary measures, such as the extension of the employer's obligation to continue wage or salary payments to two years, are intended to reduce the volume of full and permanent occupational disability claimants under the WAO to a maximum of 25,000 per year. The changes to the Unemployment Benefit Act (WW) are intended to accelerate claimants' return to the labour market. With effect from 1 January 2005 the short-term unemployment benefit will be abolished and the eligibility rules for unemployment benefit will be tightened. Supplements paid by employers and redundancy payments will be offset against the benefit payment. These measures will encourage those affected to remain in work or quickly look for another job.

Early retirement and pre-pension

The labour participation rate of older people must be raised further. This requires a cultural change among both employers and employees. With effect from 1 January 2006 the tax breaks for the early retirement (VUT) and pre-pension schemes will be abolished. Thus employees will no longer receive tax breaks to leave the labour market early. Instead they will have an opportunity, on an individual basis and supported by the tax system, to save up to 150% of their annual pay through the saving-for-leave scheme. This scheme can be used by people to combine work and other activities during their working lives or to accumulate leave at the end of their careers. The current tax breaks for the early retirement and pre-pension schemes will continue to apply for employees aged 57 years or older on 1 January 2005. And the 12% annual contribution limit for the saving-for-leave scheme will be waived for employees aged between 50 and 56 years on that date.

The government cannot ask the market sector to accept the above measures without applying them in its capacity as an employer. That is why it is committed to a freeze in contractual pay in the public sector in 2004 and 2005. Benefits will not be raised during this period either. The government is also committed to abolishing the extrastatutory supplementary payments during the second year of illness and in case of unemployment, and to changing the early retirement schemes.

Making work more attractive will stimulate participation at the bottom end of the labour market. That is why the Coalition Agreement provides for an increase in tax credits such as the labour tax credit and the combination tax credit during this term of office. These measures will make it more attractive for citizens to participate in the labour market. A further streamlining of the income-dependent schemes will also contribute to this policy objective.

Knowledge economy

Education, knowledge and innovation are major pillars of economic growth. The quality of the labour supply and hence the level of labour productivity can be improved with a good education system which meets the demands of the workplace.

Furthermore, the application of scientific knowledge is stimulated through more innovation-oriented research and better links between knowledge institutions and the business world. The government established the Innovation Platform in 2003 to stimulate, together with representatives from the business and science communities, initiatives to enhance knowledge development and exploitation. Recently this body has issued a number of recommendations, for instance on how to make the entry of knowledge migrants much simpler and cheaper and on the possibility of experiments with "innovation vouchers" for small and medium-sized businesses. The Innovation Platform is also concerned with non-technological innovation, as in the case of design and marketing and in the culture and media industries. There is no doubt that economic growth depends in part on the presence of a vibrant and pluriform cultural sector, which sparks creativity in the surrounding economic sectors, brightens the business location climate and appeals to high-skilled workers.

Corporation tax

Improving Dutch competitiveness is one of the spearheads of government policy. In order to preserve the country's favourable business location climate, corporation tax (VPB) will have to be changed. Over the short term a reduction of the corporation tax rate is required to attract foreign investments and improve the national business climate. Both the headline and the effective corporation tax rate in the Netherlands are now well above the EU average. The Taxation Plan 2005 includes a package of measures which realign the tax burden for businesses and thus sets the course for a lowering of the corporation tax rate to 30%. To further strengthen the growth potential of the Dutch economy, the government is committed to improving accessibility. Additional funds have been allocated to improve the safety, capacity and reliability of the infrastructure. Road traffic congestion will be tackled directly, for instance with a more effective use of existing motorways and other trunk roads. In the near future the government will present its long-term vision on mobility and infrastructure in a policy paper.

Administrative burden

Highly detailed and sometimes unnecessary or contradictory regulations impede citizens and businesses. To tackle this issue, the government has set itself the goal of reducing the administrative burden by a quarter during its term of office. The action plan presented in April 2004 gives an overview of agreed specific reduction measures. Together these add up to 18% of the administrative burden, which corresponds to an amount of EUR 3 billion. In the meantime the second phase has been launched, in which the European administrative burden, the scope for interministerial cooperation and the deployment of information and communication technology are the main priorities. Further possibilities for reducing the administrative burden are also being considered by the individual ministries. In addition to reducing the administrative burden, the government is also committed to reducing the enforcement costs associated with laws and regulations. The costs arising from the prolonged procedures to obtain permits and licences are a case in point. To this end the government will eliminate unnecessary and contradictory regulations and streamline procedures.

Box 3.1: Macroeconomic effects of reducing the administrative burden

At the request of the government, the Netherlands Bureau for Economic Policy Analysis (CPB) has calculated the estimated macroeconomic effects of reducing the administrative burden by 25%. In the public sector the reduction of the administrative burden will mean less bureaucracy. This will make 24,000 staff who now deal with administrative tasks available for the primary process. More 'hands to the pump' and fewer 'feet under the desk' will thus become a reality. This increases output and raises the quality of public services.

The private sector will also benefit. Production will increase because employment and labour productivity will rise. Because of the improvement in competitiveness, businesses will be able to sell more goods and services. However, because it will take between 5-10 years before the economy can benefit from the reduced administrative burden, unemployment will rise over the short and medium term. The CPB calculates that the measures will add 1.5% to GDP over the long term.

Table 1.3.1: Cumulated effects of reducing the administrative burden

| | 4 years | 15 years |
|---|----------------|-----------------|
| Employment in public sector (person-years) | 0 | 0 |
| Reduction of bureaucracy in public sector (incl. health) (person-years) | 24,000 | 24,000 |
| Labour productivity in private sector (%) | 1.0 | 1.7 |
| Employment in market sector (person-years) | -29,000 | 19,000 |
| Export prices (%) | -0.5 | -0.8 |
| Output in market sector (%) | 0.5 | 2.1 |
| GDP (%) | 0.3 | 1.5 |

Source: CPB memorandum 2004/14

Corporate governance

Effective supervision of corporate governance and an efficient system of company law are very important for economic development. What is more, the incomes and pensions of many citizens also depend on them to some extent. The corporate governance code drafted by the Tabaksblat Commission, which includes what has been dubbed the 'apply-or-explain rule', will be enshrined in law in the near future. New legislation will also be tabled to strengthen the position of the annual meeting of shareholders. To supplement the code, the selective element in the taxation of share options under the wage and salary tax will be abolished. This means that in future senior managers will also be taxed on the real financial gains they have enjoyed. The House of Representatives is also debating legislation aimed at strengthening and modernising company law. These proposals deal with, among other matters, the reform of the legal forms of business partnership and commercial partnership and with the incorporation of a European company. Furthermore, the government will table a bill in the near future to simplify the process of making the law governing private limited companies more flexible.

The need for structural economic reforms has also been recognised at the European level. To this end the EU Council adopted the Lisbon Agenda in 2000. The Dutch reform agenda fits in well with this. Among its major pillars are, for instance, raising the labour participation rate, reforming social security systems, pruning excessive regulations and stimulating innovation. During its EU presidency the Netherlands is giving a high priority to the implementation of the Lisbon Agenda. Before the year end a working group chaired by Wim Kok, a former prime minister, will publish an advisory report as preparation for an interim evaluation of the Lisbon strategy.

A responsive public sector

Better public services

Citizens and businesses are entitled to a responsive public sector: a public sector which concentrates on its core tasks and executes these tasks effectively and efficiently. This basic principle is inextricably linked to citizens taking more responsibility and a greater awareness that the government cannot solve all problems. But those problems for which government and the public sector should be accountable should be tackled energetically. The government takes the view that there is room for improvement in the quality of public services. Major measures are being taken to achieve this, above all in the areas of health, education, integration and safety. At the same time there is a need for a recalibration and reordering of responsibilities among public authorities, businesses and citizens. The government is deliberately taking a step back in a number of areas, and is offering citizens and businesses greater scope and freedom, but also the responsibility, to find their own solutions for identified problems.

The Different Government Programme (PAO) is aimed at improving services to citizens, make the government structure more efficient, and reduce bureaucracy and regulations. In the spring of 2005 the government will publish an analysis which sets out what tasks should be executed by the public sector, how they can best be organised, and which tasks should be given up. The findings of this analysis will also inform the restructuring of the civil service which is planned for the period between the spring of 2005 and the spring of 2006. In 2005 the three constituent countries of the Kingdom of the Netherlands – the Netherlands proper, Aruba and the Netherlands Antilles – will also consider ways of modernising their relations. The Dutch government will enter these discussions with the basic principles of maximum powers for the islands, minimum powers for the countries, and key powers for the kingdom. The central government will also review its relations with the local and regional authorities. Municipalities and provinces have a better grasp of the specific impact of government policies in their areas. That is why the government wants to give the municipalities and provinces greater freedom and responsibility to formulate their own policies. Urban policy is an example of this. The central government agrees targets with the major cities, but how these targets are achieved is left to the local authorities in question. With regard to spatial planning policy, the government will also give citizens and local and provincial authorities more freedom to shape their physical environments. However, the national spatial planning framework will remain the responsibility of the central government. A final example is the Social Support Act (WMO), due to take effect on 1 January 2006. Under this law, the municipalities will in future provide those services under the Exceptional Medical Expenses Act (AWBZ) which are of a more social support nature.

Health

Health and care services have expanded considerably in the last few years. Consequently waiting lists and waiting times have come down for the first time in many years. The downside of this development is that healthcare costs again rose sharply over the last year. To keep health spending manageable, certain measures must be taken as a matter of urgency. With effect from 1 January 2005 the government will introduce the "no-claim refund", a scheme under which people who claim less than EUR 250 on their health insurance in any one year will receive a refund of the difference between the EUR 250 and the actual claim amount. This will heighten citizens' sense of responsibility and stimulate their cost awareness. This scheme will replace the personal contribution scheme announced in the Coalition Agreement for Government Policy. The reform of the health service must be continued. The government is aiming for more demand-driven healthcare. Care users, care providers and care insurers will have greater scope to devise a good, efficient and accessible healthcare system. This year the new health insurance bill will be

submitted to the House of Representatives. This provides for a single standard insurance policy for curative care in the Netherlands. This standard insurance policy will be operated by competing insurance companies. To enable care insurers to negotiate with care providers on products and prices, what are known as “diagnosis/treatment combinations” (DBC’s) will be introduced in the healthcare sector. These will promote a better and more efficient match between the supply of and demand for healthcare.

Education

Educational institutions will have more freedom to decide how to organise the education they provide. This applies to both the contents of the educational programme and its financing. From the start of the 2006-2007 school year, the core objectives in primary and secondary education will be significantly curtailed in terms of number and detail. The funding system for educational institutions will also be changed in the coming years. Schools and other institutions will have, within the financial frameworks, greater freedom to spend their budgets. From September 2005 tertiary education institutions will have the opportunity to experiment with differential tuition fees and student selection. This will help them to improve the quality of their provision. Furthermore, it will become easier to compare the performances of educational institutions. This will involve an improvement and expansion of the “quality cards”. Parents and pupils/students will thus have a better means of assessing the performance of institutions when choosing a school or course.

Integration

The key focus of asylum and migration policy is better integration, a review of admission policy, tackling illegal residents and ensuring the actual return of those not granted residency rights. These spearheads of policy have been outlined in a policy paper on the return of migrants to their home countries. In the coming year the government will continue to implement this policy. However, Dutch asylum and migration policy cannot be separated from the policies pursued in neighbouring countries. Hence a further harmonisation of asylum and migration policy in the EU countries is essential. This is one of the priorities of the Dutch EU presidency.

Safety

The government wants to bring about an immediate and noticeable improvement in the quality of public safety. Within this context, the government wants to achieve a 20-25% reduction in crime and nuisance behaviour in the public sphere by 2008-2010. To achieve this target, the Safety Programme was launched in late 2002. This includes performance targets agreed with the police forces and the judicial authorities. Safety policy is beginning to bear fruit. There are clear improvements in safety in some areas, for instance as a result of reductions in nuisance behaviour and improvements in the physical environments of neighbourhoods. In the early months of 2005 the government will carry out an interim evaluation of the Safety Programme, to see whether it is on course or whether supplementary measures will be needed. Furthermore, in the context of urban policy, “customised agreements” will be concluded between the central government and the big cities in 2005. These agreements will devote special attention to prevention by tackling multiple offenders, nuisance behaviour and high-risk neighbourhoods. Agreements will also be made in the areas of opportunities for young people, social support facilities and domestic violence.

Sustainable public finances

Ageing

In part as a result of higher life expectancy, the Dutch population will age over the coming years. This will lead to additional outlays on the state pension and healthcare, for instance. At the same time ageing will erode the financial foundations of the public services, because compared to the number of older people there will be fewer working people to pay for the costs of those services. This erosion is accentuated by people entering the labour market later and leaving it earlier than in the past. The government wants to turn this looming development in time with policies aimed at raising the labour participation rate, reforming the public services and pursuing a sustainable budgetary policy aimed at paying off the public debt. Together these measures will secure the financing of the public services in the future. Debt repayment therefore does not stand on its own, but forms part of a broader strategy to cope with the implications of ageing.

Financial problems

The deteriorating budgetary situation at the moment puts the sustainability of the public finances under pressure. Without new policies, there is a danger that the Maastricht Treaty's deficit ceiling of 3% of GDP will again be exceeded in 2005. The government has chosen not to pass on the current financial problems to future generations, but to act now. That is why supplementary measures are required.

Table 3.2: EMU balance, 2004-2005 (changes compared to Budget Memorandum 2004, in % of GDP)*

| | 2004 | 2005 |
|---|--------------|--------------|
| EMU balance in Budget Memorandum 2004 | -2.3% | -1.6% |
| Windfalls and setbacks | -1.2% | -1.3% |
| Effect of package of expenditure measures | 0.3% | 0.3% |
| Effect of package of income measures | 0.1% | 0.2% |
| Effect of autumn pay round and other measures | 0.0% | -0.2% |
| EMU balance in Budget Memorandum 2005 | -3.0% | -2.6% |
| Structural EMU balance | -2.1% | -1.4% |

* Totals may not add up due to rounding

The various measures are based on the principles set out in the Coalition Agreement for Government Policy. This means that generic increases in the tax and social security burden and measures that hamper the economic recovery are avoided as much as possible. The emphasis is therefore on structural reforms which strengthen the economy and fit in with the goal of sustainable public finances over the longer term.

Package of measures

On the expenditure side of the budget, the government has opted for packages of measures for each of the three budget discipline sectors (i.e. central government in the narrow sense, social security and labour market, care). Thus a new target for efficiency gains in central government will help to rein in public spending. One measure in the social security sphere is the offsetting of supplementary payments by former employers against the unemployment benefit. This will yield a saving of EUR 150 million over time and promotes labour market participation. In the care sector, the policy of managed growth launched in 2004 will be continued. This means checks on outlays under the Exceptional Medical Expenses Act (AWBZ) in 2005 and future years, but also scope for growth and solving specific problems. This is made possible not least by realising additional output from 2005 within the available healthcare

budget, as laid down in an agreement with care providers. On the income side of the budget, the AWBZ contribution has been increased. This offers some quick relief for the budgetary problems that have developed in recent years. It also emerged this spring that, on the basis of projected economic developments in 2004, purchasing power would increase slightly, so that the AWBZ contribution increase will not adversely affect the situation presented in the Budget Memorandum 2004. From 1 January 2005 the AWBZ contribution increase will be converted into a higher rate for the first two income tax bands. And finally, after discussions in the House of Representatives it has been decided to raise the Occupational Disability Insurance Act (WAO) contribution temporarily instead of abolishing the specific employer contribution credit (SPAK), which had been the government's original intention.

Table 3.3: Policy package in Budget Memorandum 2005, including Spring Memorandum (in EUR billions)*

| | 2004 | 2005 |
|--|-------------|-------------|
| Expenditure measures | -1.6 | -1.3 |
| of which central government in the narrow sense | -1.5 | -0.4 |
| of which social security and labour market | 0.0 | 0.0 |
| of which care | 0.0 | -0.9 |
| Income measures | -0.6 | -1.1 |
| of which increase in AWBZ contributions from 1 July 2004 | -0.3 | |
| of which temporary increase in WAO contribution | -0.3 | -0.3 |
| of which corporation tax liability for NWB and BNG | | -0.1 |
| of which increase in first and second income tax bands | | -0.7 |
| Total package | -2.2 | -2.4 |

* Totals may not add up due to rounding

Local and provincial authorities

The government has also taken measures to monitor and manage the finances of the local and provincial authorities more effectively. A new reporting system was introduced in January 2004 which will give a better grasp of the trends in the EMU balance of these authorities. The correct implementation of the new reporting system requires a considerable effort by the municipalities and provinces. That is why the government will keep a close eye on whether the expected quality improvement will actually transpire. If necessary, supplementary measures will be taken. And on the basis of recommendations by an independent commission, the government is also considering possible measures to improve control over the local and provincial authorities' EMU balance.

Technical extrapolations for 2006 and 2007 suggest that the development of the structural EMU balance in those years may well fall short of the target set in the previous Budget Memorandum. It also seems likely that by 2007 the EMU debt will be higher than at the start of the term of office, whereas a reduction of the debt would be desirable in light of the ageing process. In the spring of 2005 the government will discuss the outlines of the 2006 budget. At that time a substantiated economic growth forecast for that year will be available. On the basis of that forecast the government will consider whether, and if so which, supplementary measures will be required. These will again be based on the budgetary rules set out in the Coalition Agreement.

4. Emerging stronger from the downturn

Ambitious reform agenda

The objectives of a strong economy, a responsive public sector and sustainable public finances do not stand on their own, but are necessary conditions for a dynamic and engaged society. To that end the government wants to put into practice an ambitious reform agenda across a broad spectrum. The aim is to create scope for choice and initiative, to reinforce the appeal to personal responsibility and social solidarity, and to stimulate confidence in one's own ability. This requires security; hence the government's commitment to public safety, a modern social security system and a sustainable use of nature and the environment. This requires cohesion; hence the commitment to a responsive public sector, integration of incomers and respect for values and standards. This requires dynamism; hence the commitment to enterprise, innovation, education and changes in the health service. And it requires freedom of choice; hence the commitment to a sound legal system, fewer regulations and a lighter administrative burden, and on structures which provide a framework for personal choice, such as the saving-for-leave scheme.

The government has made an energetic start on the realisation of its ambitious reform agenda. The first hurdles have been taken, and positive results can be observed in some areas. But that certainly does not justify complacency: much remains to be done. Significant steps will be taken in the areas of social security, administrative reforms, reduction of bureaucracy, the health service and the education system in the coming year as well. Sometimes the measures will have to be far-reaching, and inevitably vested interests will be called into question. It goes without saying that an equitable distribution of the burden, with consideration of the financially most vulnerable groups in society, is a major principle underlying the specific policies and measures.

Prospect of a better future

The government is taking these measures from a conviction that they offer the prospect of a better future. Government and the public sector will take a step back in certain areas, in order to give scope to citizens, businesses and social institutions. This will mean greater responsibility – everyone has to join in – but it also stimulates active participation in the labour market and improves the structure of the Netherlands. A fundamental recalibration of tasks and responsibilities will also give government and the public sector the scope to concentrate on protecting the public realm and improving the delivery of public services to citizens. The government believes that these measures will enhance the credibility of politics and help to regain the confidence of voters. This process will be supported with the modernisation of political and administrative relations, specifically with the introduction of elected mayors and a reform of the electoral system.

As the reform process bears fruit, the Netherlands will be better prepared for the challenges that lie ahead. International competition is becoming ever fiercer owing to the enlargement of the European Union and the rapid growth of the emerging Asian economies in particular. The effects of ageing on the public finances and the labour market will already become increasingly evident in this term of office. The ongoing technological advances are making ever higher demands on employees. These developments will have major implications for the Netherlands and will require the government, employers and employees to be oriented to the future.

Specific measures

What matters now is the actual implementation of the reform agenda. Shirking or fudging in the face of the fundamental problems would be irresponsible in the current situation. Over the coming period the government will vigorously pursue the implementation of the measures set out in the Coalition Agreement for Government Policy. In this Budget Memorandum the government presents the specific measures for 2005. These measures will prevent a “heavy flu” turning into “pneumonia”. The Netherlands has the capacity to be a leader, both in the economic and social spheres. By boosting the country’s economic growth potential now, and by exploiting this potential to the full, this ambition will come within reach.

Ministry of Finance
Central Information Department
PO Box 20201
2500 EE Den Haag
The Netherlands
Internet www.minfin.nl