

Budget practices in the Netherlands

The Budgeting Framework Commission, the Netherlands Bureau
for Economic Policy Analysis and the fundamental expenditure reviews

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Budget practices in the Netherlands: the Budgeting Framework Commission, the Netherlands Bureau for Economic Policy Analysis and the fundamental expenditure reviews.

The Netherlands general election was held on 9 June 2010 to elect the Lower House. Due to the fall of the Dutch government general elections were brought forward by a full year. The following four reports serve as important sources of information in the build-up to the elections and for the formation of a new coalition government:

1. the Macro Economic Outlook of the Netherlands Bureau for Economic Policy Analysis (CPB);
2. the Fundamental Expenditure Reviews;
3. the report of the Budgeting Framework Commission;
4. the report of the Advisory Group on the Tax System.

Summaries of these reports are included in the annex. Instead of translating all expenditure review reports, different parts of a selection of reports (on Housing, Children and Higher Education) have been made available in English. The different parts selected for translation recur in each report and provide a useful insight into how the Dutch expenditure review reports are structured. First however, the roles of the Budgeting Framework Commission and the Netherlands Bureau for Economic Policy Analysis are explained. Additionally, some remarks are made on how and why the government has published the fundamental expenditure reviews.

1. The Dutch fiscal framework and the role of the CPB

In this section, two major features of the Dutch fiscal framework are explained: the trend-based fiscal framework with real net expenditure ceilings for the whole term of government and the role of independent organisations such as the Netherlands Bureau for Economic Policy Analysis (CPB).

The Dutch fiscal framework

One of the major features of the current Dutch fiscal framework is the trend-based fiscal framework with multi-annual expenditure ceilings. The essence of the Dutch trend-based budget policy is that the budget balance is allowed to fluctuate within certain limits. Those limits are determined by what deficit is allowed for the medium-term (trend-based). Even though consecutive governments have relied on trend-based budget policy for the last decades, few adjustments have been made. Present-day trend-based budget policy for example, is characterised by the use of realistic economic premises, a strict separation of revenues and expenditures, a fixed multi-annual expenditure framework and one principle moment of decision-making on next years' budget.

Two reasons for introducing a system of strict separation of revenues (taxes and contributions) and expenditure (net of non-tax revenues) are the cyclical nature of revenues and the inherent procyclical bias in politics. In addition, revenues are much more vulnerable to economic fluctuations than most expenses. Consequently, the Dutch system does not allow windfalls on the revenue side of the budget to be used for additional spending. On the other hand, when revenues fall short of expectations, cutbacks on expenditure are not required. At the same time, the level of expenditure is fixed for the duration of the government term. This way the government is only allowed to allocate additional funds to one policy area when this is compensated elsewhere.

To ensure sound public expenditure the Government subjects itself to an expenditure framework that fixes the overall level of expenditure during the government term. The framework is usually drawn up in the first Budget Memorandum of the new government. The framework is based on multi-annual expenditure estimates, which are in turn derived from the cautious economic development scenario presented by the Netherlands Bureau for Economic Policy Analysis (CPB). The CPB estimates are extrapolations of current expenditure levels as a result of policies already in place. For the expenditure framework effects of new policies that are laid down in the Coalition Agreement of the new government are included. The expenditure framework is calculated in real terms. Each year, the framework is adjusted by the latest index for the development of prices and wages, resulting in a nominal expenditure 'ceiling' (the price of National Consumption, pNC is used for this). The pNC adjustment is the only adjustment allowed during the government term.

In addition to the abovementioned characteristics of the Dutch system of trend-based budgetary policy, the Dutch fiscal framework is governed by several rules for budget discipline.

These rules serve as an instrument to ensure that limits set in the expenditure framework are not transgressed. Rules for budget discipline are agreed upon before the government takes up office and all ministers have to respect them. The most important rules are explained in the box below.

Box: Rules for budget discipline

1. In order to avoid exceeding the agreed level of expenditure ministers must seek to prevent impending setbacks by taking measure in good time.
2. In order to signal any excess windfalls and setbacks must be reported to the minister of Finance and the Council of Ministers in good time.
3. In principle, any setback should be compensated for within the Department or sector in which it occurs. If, for example, more students apply to universities than estimated in the budget for education, the Minister of Education may have to decide to reduce students' grants or increase university fees in order to compensate for this setback.
4. In exceptional cases the Council of Ministers may opt for compensation to be found in other ministries or sectors.
5. In principle, windfalls should be 'saved' to compensate for possible setbacks and may not be used to finance new policies. New policies should be paid for by economizing on or abolishing existing arrangements.
6. In exceptional cases windfalls on the expenditure side may be used to finance new policies. In doing so, consideration should be given to the nature of the windfall. Is it a cyclical windfall as a result of favourable economic developments? Or is it a structural, permanent windfall? A cyclical windfall may only be used for temporary expenditure and may not be used for structural expenditure.

In order to safeguard a tranquil budget process, the Dutch trend-based budget policy concentrates decision-making on next years' budget. This means that decisions are made on one particular moment during the year (or actually two: one for expenditure and one for revenues). In spring, decisions are taken with regard to next years' budgetary expenses. In summer, decisions are made regarding the revenue side of the budget (e.g. to correct unfavourable effects of economic development regarding specific groups of society). But a concentrated decision-making process does not only help to safeguard the tranquillity of the budget process, it also enables the government to properly balance the budget according to the different policy objectives (of course: within the limits of the expenditure framework). This means that the government does not have to enter into a debate every time a windfall or setback occurs, or each time a minister puts forward a new policy proposal.

The Netherlands Bureau for Economic Policy Analysis (CPB)¹

The CPB plays an important role in the financial and economic decision-making process in the Netherlands (see also: CPB, 2003b). The CPB's short-term, medium-term and long-term estimates of the Dutch economy and public finance are the backbone of the budgetary process. Before the start of each government term, the CPB publishes a medium-term Macro Economic Outlook on the economy of the Netherlands.

¹ CPB, Document 150, The Dutch fiscal framework, History, current practice and the role of the CPB.

In addition, political parties and the government ask the CPB to analyse economic effects of their election platforms, coalition agreements and budgetary proposals. Last but not least, CPB-studies on specific topics (e.g. the welfare state, education, innovation and health care) have an influence on strategic economic thinking and decision-making processes on major projects (e.g. infrastructure) are guided by CPB-cost-benefit analyses. The CPB is also represented in influential advisory groups, such as the Central Economic Commission, the Socio-Economic Council and the Budgeting Framework Commission.

How should this dominant role of the CPB be understood? What is the logic behind this role? How can the CPB serve as an independent expert, whilst being financed completely by the Dutch government? How can the quasi-monopolistic role of the CPB coincide with high quality estimates and analysis?

The role of the CPB as an advisor and arbitrator fits well in the Dutch tradition of consultation and coalition governments. The CPB originated directly after the Second World War. The need for a joint strategy to secure economic recovery gave a clear role for CPB estimates and analyses. Furthermore, the outstanding qualities of Jan Tinbergen as an economist, a political advisor and a moral authority contributed directly and indirectly to the appreciation of the CPB work. Provided that the CPB is independent and provides high quality estimates and analyses, the dominant role of the CPB can be seen as an efficient solution. Moreover, it avoids unnecessary duplication of work and avoids discussions about which estimate is best. It ensures the continuity that is essential for both producers and users of policy advice.

As a result of the elections being moved forward, there is need of an early insight in the development of the Dutch economy for the next government period. For that reason the CPB published an early version of the Macro Economic Outlook 2011-2015. The focal point of the Macro Economic Outlook is how the Dutch economy will develop after the financial and economic crisis. Considering the insecurity of the present-day economic and financial climate, this Macro Economic Outlook – unlike previous reports – presents only one scenario. This report contains a policy-light scenario, which means calculations only include policy measures that have been approved by parliament.

Furthermore, special attention goes out to the international perspective, production and employment, purchasing power, public finance, development of care and the sustainability of public finances in the long term. At a later date, the CPB will publish on individual subjects such as the development of care expenses and sustainable public finances. In those special reports there is room for deeper analysis and explanation.

2. Fundamental expenditure reviews

On 1 April the Dutch government presented the reports of the twenty (fundamental) expenditure review-taskforces to the Lower House. The (20) reports contain a wide range of policy options to save money on twenty policy areas. The government had the (fundamental) expenditure reports drawn up to prepare political decision-making on future cutbacks. Due to the economic and financial crisis and the deterioration of government finances, severe cutbacks on government spending have become inevitable. The crisis has a major impact on public finances in the Netherlands. The Dutch government has given financial support to banks, private citizens and businesses to help them bear the brunt. The budget surplus rapidly turned into a growing deficit and public debt is rising. In 2010 the budget deficit is expected to reach 5.8 per cent and public debt will be nearly 67 per cent of GDP.

Even if the economy resumes its customary, pre-crisis growth of approximately 2 per cent per year, this will not do much to improve the budget deficit. Moreover, public debt will continue to rise around 30 billion euros each year (CPB estimates a deficit of 29 billion euros for 2011-2015). This is mainly due to lower receipts as long as the economy contracts, increased expenditures (e.g. for unemployment) and increased interest payments (eating up means to achieve policy goals).

It is irresponsible to allow public debt and the contingent interest payments to continue to rise. In fact, the obligations of the Netherlands in the European Growth and Stability pact do not permit this. A structural budgetary deficit is a millstone to society, because annual interest rates take up a growing portion of government funds, leaving less room for other budget items that benefit society more directly. Therefore, the budget deficit must be brought down and the government had to take action to secure healthy public finances for the Netherlands.

The marked deterioration of government finances forces the government to make clear-cut choices. As economic recovery measures are a key priority and task for the government, an initial step towards improving budget finances was made with the supplementary policy agreement of March 2009. When the crisis was at its lowest point, measures aimed at improving public finances in the long term were implemented. This proved to be inadequate and therefore the government decided to carry out expenditure reviews. The (fundamental) expenditure reviews are part of the governments' policy to face up to the financial and economic crises.

The varieties and building blocks provided by the twenty (fundamental) expenditure reviews offer support in making choices to recover public finances. The operation of the expenditure reviews started in October 2009. Every report has at least one policy option leading to savings of 20 per cent on expenditure. Wherever possible, economic and social effects of the options presented have been outlined. In order to offer the taskforces the opportunity to examine all alternatives for cutbacks the government did not interfere or impose any restrictions beforehand.

The following twenty policy fields were subject to the expenditure reviews: 1. energy and climate; 2. living environment and nature; 3. mobility and water; 4. housing; 5. schemes for children; 6. productivity in education; 7. higher education; 8. innovation and applied research (R&D); 9. closing the distance to employment; 10. unemployment; 11. curative care; 12. long-term care; 13. international cooperation; 14. asylum, immigration and integration; 15. public safety and terrorism; 16. tax administration; 17. supplementary benefits; 18. public administration; 19. business intelligence or public sector performance; 20. international security.

The chair of each working group was a current or former top-ranking official from a different policy field. This was purposely done so to encourage creative and detached thinking. So as to secure optimal utilisation of existing expertise, professionals of the line departments concerned took place in working groups covering their subjects. With a view of ensuring overall consistency, every working group had representatives of the Ministry of General Affairs and the Ministry of Finance. Whenever necessary, working groups could call on external experts (e.g. research institutes within the government).

On behalf of the government, the prime minister and the two deputy prime ministers were responsible for the expenditure reviews. Their job was to oversee the process and to ensure that the working groups submitted all relevant information and analyses. After all, this process should facilitate for a well-reasoned political decision-making process in the end, without anticipating on the actual decisions.

Because the general elections have been moved forward to 9 June 2010, the reports have been made available sooner and serve a somewhat different purpose. In his letter of presentation to the Chair of the Lower House, the Dutch Prime Minister Mr. Balkenende explains how the reports will be treated by the government: "given the changed circumstances the government present the reports to the Lower House without formulating a government position. Nor will the government adopt any position on the reports in the next few weeks. Political parties may use the reports in their preparations for the elections."

3. The Budgeting Framework Commission

The Budgeting Framework Commission traditionally draws up an advisory report on the subject of fiscal principles and budgetary targets one year before the next period of government. The new government is not required to follow the advice, but in reality advices drawn up by the Commission have proven very influential. For instance, the current trend-based budget policy was advised on by the BFC. The Commission is made up of high ranking officials from the most involved ministries and the CPB and the Dutch Central Bank as independent institutions. Also in this setting it is the CPB that provides the estimates on the economy and public finances.

The Commission carries out its work independently, that is free from political interference and influences of the government. Therefore, usually the report is sent to the Lower House without a government position.

1 April 2010 the 13th Budgeting Framework Commission published its report. In annex 3 a summary of the report is included. The core message of the report is that the next government should take decisions addressing the challenge of structurally saving 29 billion euros in the long-term, to be able to secure healthy and sustainable public finances. A substantial part of the cutback measures, 18 billion euros, should take its effect in the next government term in order to make up for deteriorating public finances as a result of the crisis and to prevent rising debts and an increasing interest burden. Additionally, the Commission advises to implement a package of at least 1.5 per cent GDP of sustainability measures which generate savings in the long run; structural challenges such as the population ageing demand structural solutions.

The Budgetary Framework also recommends budgetary policy should be sharpened with a view to manage downward risks and to get more security on the realisation of budgetary targets, without sacrificing the tried and tested elements of the trend-based budget policy. All expenses should be controlled under the expenditure ceilings.

Because of the crisis implicit risks have become explicit, the number of government guarantees has increased and it has become clear that there is only so much risk that the government can take over from the market. The Commission advises a more stringent guarantee policy and recommends the government should generate a buffer to absorb future shocks.

4. The Tax System Study Committee

Whilst the work for the fundamental expenditure reviews was carried out, a committee on tax systems was installed to study possibilities for reform of the Dutch tax system. There were several reasons to install the Tax System Study Committee. The crisis is the direct reason for examining if current tax-system is still up-to-date and whether the system helps the government to collect a mix of revenues that is sustainable for the future. Another reason for studying the tax system was the request of the Lower House to carry out a Dutch Mirrlees Review and to analyse results of studies such as the OESO-study Tax en Economic Growth.

The Study Group focused their research on five themes: solidity, solidarity, economic efficiency, simplicity and climate change. The Committee consisted of external experts, civil servants and representatives from the CPB. The committee was chaired by an external advisor. The committee publicised its report in April. The most important conclusion of the report is that several adaptations to the Dutch tax-system are necessary to make it work better for the Dutch economy and public welfare. Nevertheless, fundamental changes do not have to be made.

According to the committee the current trend of broadening the base of tax with a simultaneous reduction of rates should be continued. The tax system will also improve by neutralising it on several places. For example, the committee proposes to gradually abolish excessive tax incentives for homeowners. Additionally, by a gradual conversion of transfer tax on housing to property tax movements on the real-estate market will improve. Another neutralising measure is the harmonisation of VAT-rates. Politically driven tax policy regarding income distribution should take place via an individual payroll tax.

Furthermore, the committee advises to limit stimulating measures regarding foreign investment. To change the current system of over encouragement for financing with debt, the committee proposes to exterminate tax relief on savings for homeownership and introduce a profit tax, including an allowance for equity in the corporate income tax.

The solidity of tax revenue can be increased by raising tax on stable sources of income, such as VAT and a property-tax on real-estate. In addition, the Study Group advises to accelerate the implementation of old-age pension tax.

Finally the commission concludes that national taxes are important in tackling climate issues, but that without a worldwide or at least European approach national taxes can only be of minor importance when it comes to the improvement of climate targets. In annex 4 a summary of the report is included.

ANNEX 1: Summary of the Macro Economic Outlook (CPB)

Crisis affects level of GDP, but does hardly affect growth

For the next government term (2011-2015) the CPB expects an average GDP growth of 1.75 per cent. The estimated actual growth is the sum of the average potential growth and a limited catch-up growth. The estimate for the average potential GDP growth is lower now than it was during earlier government terms. This is mainly due to demographic changes such as ageing and a slower growth in female participation. Nevertheless, the lasting impact on estimated future growth is slight, though neither upward (catch-up growth) nor downward.

The level of GDP on the other hand, is permanently affected by the crisis. Since the beginning of the crisis, consumption, investment and exports have fallen sharply. As a result, actual production has fallen short of expectations at the time of the start of the Balkenende IV government. This loss in the level of GDP is about 5 per cent and it will not be recovered during the next government term. In fact, the total catch-up growth after 2011 amounts to a mere 0.5 per cent of GDP.

The development of the Dutch economy is closely linked to the world economy. Moreover, forecasts for the global economic development coincide with outlooks for the Netherlands (and expectations of international institutions such as the OECD). As a result of moderate catch-up growth, global trade growth will be slightly above the long-term average in the coming period. Ample labour supply (globally) and strong competition (including that from low-wage countries) will keep global inflation subdued.

Large uncertainty in economic forecasts

The uncertainty in economic forecasts is substantial. That was most definitely the case during the crisis, but also before and after the economic downturn one has to take into account that uncertainties are inherent to economic forecasts. The Central Economic Plan 2010 discusses this uncertainty in a special chapter, addressing the (erroneous) forecasts at times of the Great Recession. CPB forecasts are compared with those of other agencies. The Economic Outlook 2011-2015 illustrates the uncertainty by a range within which average GDP growth over this period will fall (with a probability of two-thirds). This bandwidth is ± 0.75 per cent-point per year, compared with the expected growth of 1.75 per cent. In the pessimistic scenario (with an average GDP growth of 1 per cent per year), the budget deficit in 2015 falls to 4.1 per cent of GDP- well above the 3 per cent deficit ceiling.

Unemployment relatively low

Unemployment will fall by 1.25 per cent-point during the scenario period and will equal 5.25 per cent in 2015. The 2015 unemployment rate will thus still be higher than prior to the crisis. This follows previous experience with financial crises- although the increase in the Netherlands is very modest both in an international and a historical comparison.

Employment reacts with some delay on the economic development and will increase by ¼ per cent per year over the period 2011-2015 (following sharp declines in 2009 and 2010). This projected increase in employment is more than fully realized in the health care sector. Market sector employment is stable, and employment in the government sector will fall by 1 per cent per year following expenditure cuts in 2011 and other policies that have already been implemented.

Small increase in purchasing power

The median purchasing power will rise by 0.25 per cent per year over the next cabinet period. This is significantly less than the average increase over the period 2006-2010 (at 1.25 per cent per year). Moreover, the estimate of 0.25 per cent per annum is based on unchanged policies. If the next government decides to cut spending or increase taxes in order to reduce the budget deficit, this will mean a lower increase in purchasing power. For the coming period, contractual wages (market sector) are projected to increase by 2.5 per cent per year. Projected inflation (CPI) averages 1.25 per cent per year. Inflation is relatively moderate, mainly because production will start out below potential output. The reduction of budget deficits in trading partners will also reduce inflationary pressures from abroad. The prices of oil and other commodities are assumed to remain constant in real prices. Purchasing power is influenced not only by wages and prices, but also by (already implemented) policy measures and by rising health care costs.

Budget deficit will remain high – even in 2015

The Economic Outlook 2011-2015 is based on 'unchanged policy' as of 2012. Based on the economic outlook, the EMU deficit will improve by 18 billion euros in real terms between 2010 and 2015. The increase in public spending (15 billion euros) lags far behind that of the government revenues (32 billion euros). Six and a half billion euros of this increase in government revenues stems from previously implemented policies. Revenues improve mainly because corporate tax receipts are rebounding and automatic tax progression measures are in place. This will increase the tax burden by 1.8 per cent-point over the period 2011-2015. The budget deficit can improve from 6.3 per cent of GDP in 2010 to 2.9 per cent of GDP in 2015. The deficits of both the state and the municipalities and provinces are expected to fall between 2010 and 2015. The overall deficit will improve the most in 2011. This is due almost entirely to the expiry of crisis spending measures and to budget cuts already decided.

Health care expenditure grows faster than GDP: from 7.4per cent GDP in 2000 to 10.9per cent GDP in 2015

The trend in (collectively and privately funded) health care spending is an increase of 4 per cent per year in real terms. This growth is higher than the projected GDP growth, so the costs of health care will claim a growing share of the GDP- even when taking demographics into account. How the increasing costs of health care should be financed is, however, a political decision. The Economic Outlook makes the technical assumption that the growth of health care spending related to GDP growth and demographics (including the increasing share of the elderly) is financed collectively, and that the additional growth is financed privately.

This means that the collectively funded health care portion increases by 3 per cent per year- but it is no longer automatically assumed that higher health care expenditures due to technological developments will also be collectively funded. It is assumed that the additional 1 per cent increase in health care costs will be raised from individual care consumers through higher co-payments. In the projection, the co-payment for health care insurance was therefore increased from 165 euros to 775 euros per person per year, and the private contribution for the AWBZ (the Exceptional Medical Expenses Act) was increased as well. Obviously, it is for politicians to decide whether or not to implement these significantly higher co-payments and private contributions. An alternative could be to raise the collective health premiums, or to cut health care expenditure, otherwise.

Update on the subject of ageing (in *Economic Outlook 2011 – 2015*): We live longer, in better health – but it comes at a cost

The structural position of public finances is unsustainable without changes in policy. The ageing of the Dutch population will increase expenditure on health care and on state pensions (AOW). This increase is only partly offset by the projected higher tax revenues. With a budget deficit of 2.9 per cent of GDP in 2015, a 'sustainability gap' of 4.25 per cent of GDP remains. This means that with the projected budget deficit of 2.9 per cent of GDP in 2015, an improvement of the structural budget balance by 29 billion euros will be needed in order to reach the necessary structural surplus of 1.25 per cent of GDP. A smaller surplus in 2015 implies that after the next cabinet period, additional measures will be needed to make public finances sustainable- be they measures to address the increase of ageing-related costs over the medium- or long term, or to increase revenues over the same period.

The challenge to public finances has grown by 1.5 per cent of GDP since the previous calculations (at the start of Balkenende IV): from a sustainability gap of 3 per cent then to a gap of 4.5 per cent of GDP now. Of this increase, 1.25 per cent-points can be attributed to the worsened starting position due to the crisis. The sustainability gap has increased by 1.75 per cent-points because of higher life expectancy, but decreases by 0.75 per cent-point because we stay healthy for longer. The sustainability measures that were taken in the last period have moderated the increase in the sustainability gap by 0.5 per cent.

The sustainability gap is the structural adjustment in government spending (or revenues) that is required by 2015 in order to make public finances sustainable. Meanwhile, the ageing of population is visibly impacting public finances: the number of people on a state pension will rise by around half a million over the next government term. Any delay in reducing the sustainability gap means that it will increase, because in the meantime interest costs will rise. Postponement also implies that a greater proportion of the burden is to be borne by future generations.

Significant changes in government budget inevitable

The sustainability gap is 4.5 per cent of GDP. This implies that a structural fiscal adjustment to the tune of 29 billion euros is needed (or 1,750 euros per capita). Over the next cabinet period, serious structural reforms will be needed- the severity of which could be compared with those implemented in the nineteen eighties, following the Wassenaar agreement.

Those structural adjustments were at times painful: the public finances were cleaned up, wages and benefits were reduced, and the labour market was made more flexible. But these policies proved very successful. In the 1980s, Dutch unemployment was at the euro area average. Over the next twenty years, it declined from 8.1 per cent in the '80s to 4.9 per cent in the first decade of this century- almost the lowest level in the euro area. However, the current problems are of a completely different nature and require a different response. Nevertheless, the experience of the '80s does hold some lessons for future policy. First of all, it learns that if a good set of measures is chosen (leading to more labour, higher productivity, and an effective government), the Netherlands will ultimately benefit. Second, this does require patience. The fruits of the structural adjustment were only reaped in later government terms.

ANNEX 2: Summary of the fundamental review reports

In October 2009 the government established 20 study groups in key policy areas to review spending and fiscal expenditures in each of the areas. Each of the groups had to come up with proposals how to find structural savings for at least a total of 20 per cent within its area. These proposals are presented in a set of internally coherent policy scenario's per policy area. As the sets of policy scenario's should be useful across the political spectre, the different policy scenario's can be wide ranging in approaches and solutions. Common denominator is that at least one policy scenario's results in 20 per cent structural savings. This annex gives some illustrations of elements of a number of the policy scenario's for a number of areas that are relevant in this Review.

Theme 4 Living

Policy option A

Savings in 2011-2015, in billions of euros

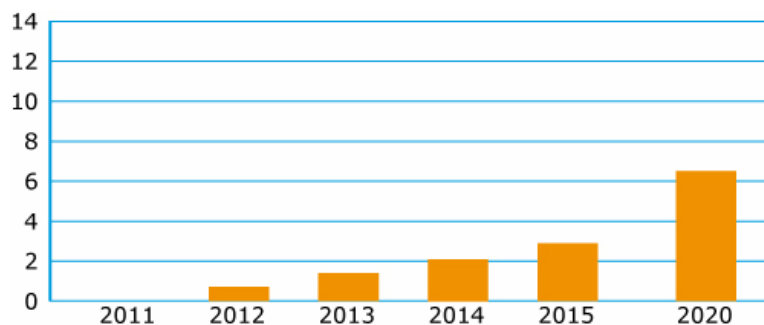
	2011	2012	2013	2014	2015	2020
Version A	0	0.7	1.4	2.1	2.9	6.5

Description option

- Concentrate implicit subsidy of rent regulation on low incomes by imposing maximum rents at a faster rate on tenants with an income above 33,000 euros, who live in rented houses on the regulated Dutch rental market and in areas with a shortage of rented houses. Awarding a maximum of 25 points (Dutch rents are calculated using a 'points'-system, *woonwaardingsstelsel*) on the basis of the value for the purpose of the Dutch Immovable Property Act (*WOZ-waarde*) in the area. Subsidy percentage property rental market decreases from 49 per cent to 40 per cent (2020, in relation to basic path).
- Cutting (fiscal) subsidies to owner-occupied dwellings through annual mortgage interest relief, levelling deduction percentage to 42 per cent, levelling fiscal home acquisition debt to 500,000 euros and discontinuation of exemption capital sum insurance owner-occupied dwellings. Subsidy percentage real estate market decreases from 25 per cent to 19 per cent (2020, in relation to basic path).
- Transforming transfer tax to home ownership tax. Home ownership taxes provide extra rent revenues for the treasury.
- Government calls housing corporations to account regarding their contribution to broadly-based social responsibilities. Investment budget for endangered neighbourhoods, areas with decreasing populations and complex new housing estates instead of present arrangements for urban renewal and location-related subsidies (*ISV/BLS-regelingen*).
- Reconsideration of planned procedures on the basis of measurable objectives.

Savings in 2011-2015

In billions of euros



Foundations and social consequences

- Tenants with higher incomes who live in areas with a shortage of rented housing will receive less subsidies. That way, they will move up the housing ladder sooner, so houses will become available for starters with low incomes in the Dutch housing rental market. Tenants pay more for houses in popular areas than for houses in areas that are less popular. This improves the allocation of houses. Rent measures may lead to a rise in income segregation. Poverty trap close to income limit.
- Home buyers will pay off more of their mortgages and will buy simpler mortgage products.
- House prices will drop by approximately 9 per cent; prices of expensive houses will drop more, of cheaper houses less.
- Rent increase for people with higher incomes and transformation of transfer tax will help these people to move up the housing ladder.
Home buyers who are confronted with residual debt due to increase of the value of houses, will not move up the housing ladder quickly, until the residual debt has been eroded by inflation.
- By addressing housing corporations firmly and by using the investment budget, the quality of living in vulnerable areas may improve.
- Welfare gains from a better functioning housing market amount to approximately 4 billion euros (2020).

Implementation

- The maximum rent increase for households with incomes of 33,000 euros or less will be 1 per cent-point above inflation. For households with incomes over 33,000 euros, maximum rent increase will be 6 per cent-point above inflation.
- Measures have been calculated with a ten-year transition path. Structural savings through annual mortgage interest relief will be achieved in 2042; compared with 2020, this is an extra savings of approximately 3 billion euros. A fixed annual mortgage interest relief will increase the implementation costs; a simpler option could be possible.

Theme 4 Living

Policy option B

Savings in 2011-2015, in billions of euros

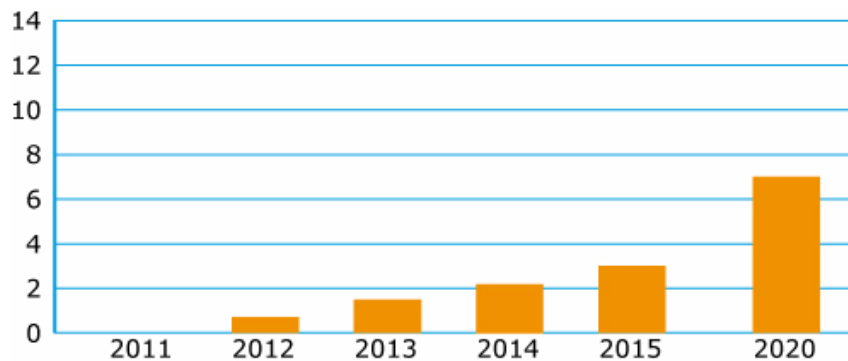
	2011	2012	2013	2014	2015	2020
Version B	0	0.7	1.5	2.2	3.0	7

Description option

- Regulation of rent on the basis of the value of the house for the purpose of the Dutch Immovable Property Act (*WOZ-waarde*). Affordability is secured by development of rent benefit table. Tightening personal contributions of tenants who receive rent benefit that is above (increased) standard rent (*kwaliteitskorting*).
Subsidy percentage rented houses market decreases from 49 per cent to 41 per cent (2020, in relation to the basic path), with strong decrease of implicit subsidies and increase of explicit subsidies (rent benefit).
- Cutting (fiscal) subsidies to owner-occupied dwellings through annual mortgage interest relief and discontinuation of exemption capital sum insurance owner-occupied dwellings. Subsidy percentage decreases from 25 per cent to 21 per cent (2020, in relation to basic path).
- Transforming transfer tax to home ownership tax. Home ownership taxes provide extra rent revenues for the treasury.
- Housing corporations keep their social responsibilities in the neighbourhood, but rent benefit takes over task affordability. Discontinuation arrangements on urban renewal and location-related subsidies (*ISV/BLS-regelingen*).
- Reconsideration of planned procedures on the basis of measurable objectives.

Savings in 2011-2015

In billions of euros



Foundations and social consequences

- Rents will better represent for the attractiveness of the house, improves the allocation of the house. Higher rents in popular areas, doubled rents for the most popular locations. More rent benefit for people on low and middle incomes by development of rent benefit table; not for people on high incomes; this increases marginal pressure.
- Tenants who receive rent benefit will pay for a bigger part of the rent themselves, if they live in a relatively expensive house. May lead to a rise in income segregation.
- Home buyers will pay off more of their mortgages and will start buy simpler mortgage products.
- House prices will fall by approximately 8 per cent.
- Rent increase for people with higher incomes and transformation of transfer tax will help these people to move up the housing ladder. Home buyers who are confronted with residual debt due to decrease of the value of their houses, will not move quickly up the housing ladder, until the residual debt has been eroded by inflation.
- Welfare gains from a better functioning housing market amounts to approximately 3 billion euros (2020).

Implementation

- Maximum rent is 4.5 per cent of the value for the purpose of the Immovable Property Act (*WOZ-waarde*). This 4.5 per cent can be derived from the present rent in peripheral areas and from the commercial efficiency requirement reduced with the effect of property support schemes that push up prices.
Measures have been calculated with a ten-year transition path. Structural savings through annual mortgage interest relief will be achieved in 2042; extra savings of approximately 3 billion euros between 2020 and 2042. A fixed annual mortgage interest relief will increase the implementation costs; a simpler option could be possible.
- Enormous extra rental income and extra rent benefit; transmission of rentals through home ownership tax is crucial for savings.

Theme 4 Living

Policy option C

Savings in 2011-2015, in billions of euros

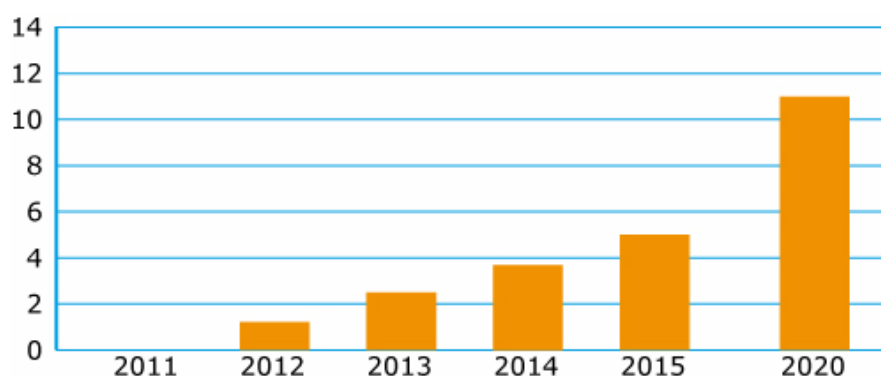
	2011	2012	2013	2014	2015	2020
Version A	0	1.2	2.5	3.7	5.0	11

Description option

- Concentrate implicit subsidy of rent regulation on low incomes by sooner imposing rent on people with incomes above 33,000 euros, who live in rented houses on the regulated Dutch rental market and in areas with a shortage of rented houses. Awarding a maximum of 25 points (Dutch rents are calculated using a 'points'-system, *woonwaarderingstelstel*) on the basis of the value for the purpose of the Immovable Property Act (*WOZ-waarde*) in the area. Tightening personal contributions of tenants who receive rent benefit that is above (increased) standard rent (*kwaliteitskorting*).
Subsidy percentage property rental market reduces from 49 per cent to 40 per cent (2020, in relation to basic path).
- Cutting (fiscal) subsidies to owner-occupied dwellings by shifting from box 1 (taxable income from employment and home ownership) to box 3 (taxable income from savings and investments) and discontinuation exemption capital sum insurance owner-occupied dwellings. Subsidy percentage decreases from 25 per cent to 12 per cent (2020, in relation to basic path).
- Transforming transfer tax to home ownership tax. Home ownership taxes provide extra rent revenues for the treasury.
- Government calls housing corporations into account with regard to their contribution to broadly based social responsibilities. Investment budget for endangered neighbourhoods, areas with decreasing populations and complex new housing estates instead of present arrangements on urban renewal and location-related subsidies (*ISV/BLS-regelingen*).
- Reconsideration of planned procedures on the basis of measurable objectives.

Savings in 2011-2015

In billions of euros



Foundations and social consequences

- Tenants with higher incomes who live in areas with a shortage of rented housing will receive less subsidies. That way they will move up the housing ladder sooner, so houses will become available for starters on the Dutch housing rental market with low incomes. Tenants pay more money for houses in popular areas than for houses in areas that are less popular. This improves the allocation of houses. Income segregation may increase as a result of tightening of *kwaliteitskorting* in the rent benefit and rent increase in popular areas. Poverty trap near income limit.
- Home buyers will pay off more of their mortgages and will buy simpler mortgage products.
- House prices will drop with approximately 12 per cent; prices of expensive houses will drop more, of cheaper houses less.
- Rent increase for people with higher incomes and transformation of transfer tax will help these people to move up the housing ladder. Home buyers who are confronted with residual debt due to decrease of the value of houses, will not move up the housing ladder quickly, until the residual debt has been eroded by inflation.
- By addressing housing corporations firmly and by using the investment budget, the quality of living in vulnerable areas may improve.
- Welfare gains from a better functioning housing market is approximately 8 billion euros (2020).

Implementation

- The maximum rent increase for households with incomes of 33,000 euros or less will be 1 per cent-point on top of inflation. For households with incomes over 33,000 euros, maximum rent increase will be 6 per cent-point on top of inflation.
- In the calculations, exemption in box 3 of the first 150,000 euros value for the purpose of the Immovable Property Act (*WOZ-waarde*) and 50 per cent of more has been used, with a ten-year transition path.

Theme 4 Living

Policy option D

Savings in 2011-2015, in billions of euros

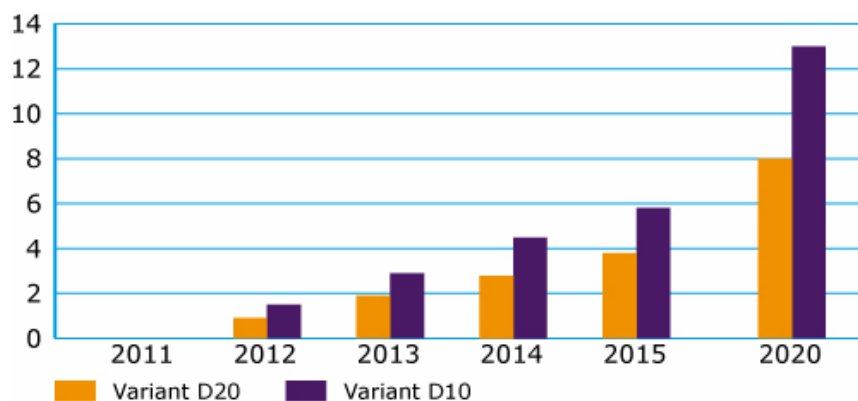
	2011	2012	2013	2014	2015	2020
Version D20	0	0.9	1.9	2.8	3.8	8
Version D10	0	1.4	2.8	4.2	5.6	12.5

Description option

- Regulation of rent on the basis of the value of the house for the purpose of the Dutch Immovable Property Act (*WOZ-waarde*). Affordability is secured by development of rent benefit table. Raising personal contributions of tenants receiving benefit for rent that is above the (raised) standard rent (*kwaliteitskorting*).
Subsidy percentage rented housing market decreases from 49 per cent to 41 per cent (2020, in relation to the basic path), with strong decrease in implicit subsidies and explicit subsidies (rent benefit) increase.
- Cutting (fiscal) subsidy to owner-occupied dwellings by moving from box 1 (taxable income from employment and home ownership) to box 3 (taxable income from savings and investments and discontinuation of exemption of capital sum insurance owner-occupied dwellings in 10 (D10) or 20 (D20) (2020, in relation to basic path).
Subsidy percentage real estate market decreases from 25 per cent to 19 per cent (2020, in relation to basic path).
- Transforming transfer tax to home ownership tax. Home ownership taxes provide extra rent revenues for the treasury.
- Housing corporations keep their social responsibilities in the neighbourhood, but rent benefit takes over task affordability. Discontinuation of arrangements on urban renewal and location-related subsidies (*ISV/BLS-regelingen*).
- Reconsideration of planned procedures on the basis of measurable objectives.

Savings in 2011-2015

In billions of euros



Foundations and social consequences

- By having the rent represent the attractiveness of the house, the allocation of the house will improve. Higher rents in popular areas, doubled rents for the most popular locations. Compensation for people on low and middle incomes by development of rent benefit table; not for people on high incomes; this increases marginal pressure.
- Tenants who receive rent benefit will pay for a bigger part of the rent themselves, in case they live in a relatively expensive house. May lead to a rise in income segregation.
- Home buyers will pay off more of their mortgages and will buy simpler mortgage products.
- House prices will drop with 10 per cent (D20) and 12 per cent (D10).
- Rent increase for people with higher incomes and transformation of transfer tax will help these people to move up the housing ladder. Home buyers who are confronted with residual debt due to decrease of the value of houses, will not move up the housing ladder quickly, until the residual debt has been eroded by inflation.
- Profit for prosperity from a better functioning housing market is approximately 4 billion euros (D20) and 8 billion euros (D10) (2020).

Implementation

- Maximum rent is 4.5 per cent of the value for the purpose of the Immovable Property Act (*WOZ-waarde*). This 4.5 per cent corresponds with the present rent in peripheral areas and with the commercial efficiency requirement reduced with the effect of property support schemes that push up prices.
- Since the extra rental incomes are substantial and extra rent benefit is at the expense of the government, home ownership tax is crucial for the savings in total as an instrument for transforming the extra rental incomes.
- Exemption in box 3 (taxable income from savings and investments) is calculated over the first 150,000 euros value for the purpose of the Immovable Property Act (*WOZ-waarde*) and 50 per cent over the rest, with a ten-year (D10) and a twenty-year (D20) transition path.

Theme 4 Living

Policy option E

Savings in 2011-2015, in billions of euros

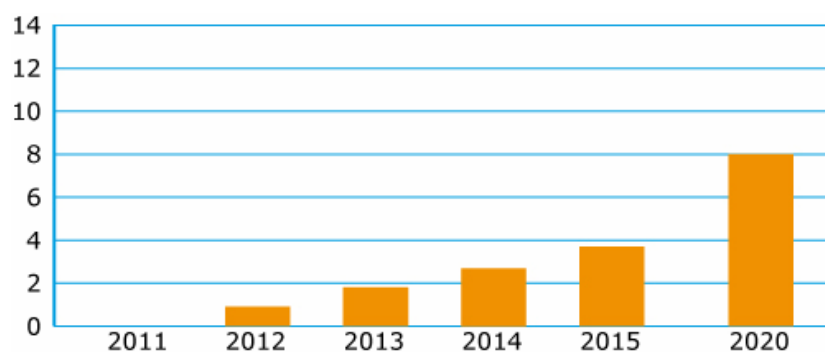
	2011	2012	2013	2014	2015	2020
Version E	0	0.9	1.8	2.7	3.7	8

Description option

- Regulation of rent on the basis of the value of the house for the purpose of the Dutch Immovable Property Act (*WOZ-waarde*). Affordability is secured by development of rent benefit table. Tightening personal contributions of tenants who receive rent benefit that is above (increased) standard rent (*kwaliteitskorting*).
- Subsidy percentage rented houses market decreases from 49 per cent to 41 per cent (2020, in relation to basic path), with strong decrease implicit subsidies and increase explicit subsidies (rent benefit).
- Cutting (fiscal) subsidy to owner-occupied dwellings by removing home ownership and debt from income tax, including discontinuation exemption capital sum insurance owner-occupied dwellings. Subsidy percentage real estate market decreases from 25 per cent to 19 per cent (2020, in relation to basic path).
- Transforming transfer tax to home ownership tax. Home ownership taxes provide extra rent revenues for the treasury.
- Housing corporations keep their social responsibilities in the neighbourhood, but rent benefit takes over task affordability. Discontinuation arrangements on urban renewal and location-related subsidies (*ISV/BLS-regelingen*).
- Reconsideration of planned procedures.

Savings in 2011-2015

In billions of euros



Foundations and social consequences

- By having the rent represent the attractiveness of the house, the allocation of the house will improve. Higher rents in popular areas, doubled rents for the most popular locations. Compensation for people on low and middle incomes by development of rent benefit table; not for people on high incomes; this increases marginal pressure.
- Tenants who receive rent benefit will pay a larger part of the rent themselves, if they live in a relatively expensive house. May lead to a rise in income segregation.
- Home buyers will pay off more of their mortgages and will buy simpler mortgage products. In the course of time, they will reduce their debts and interest charges because of this.
- House prices will drop with approximately 13 per cent.
- Rent increase for people with higher incomes and transformation of transfer tax will help these people to move up the housing ladder. Home buyers who are confronted with residual debt due to decrease of the value of houses, will not move quickly up the housing ladder, until the residual debt has been eroded by inflation.
- Welfare gains from a better functioning housing market amounts to approximately 4 billion euros (2020).

Implementation

- Maximum rent is 4.5 per cent of the value for the purpose of the Immovable Property Act (*WOZ-waarde*). This 4.5 per cent corresponds to the present rent in peripheral areas and with the commercial efficiency requirement reduced with the effect of property support schemes that push up prices.
- Since the extra rental income is substantial and extra rent benefit is at the expense of the government, home ownership tax is crucial for the savings in total as an instrument for transforming the extra rental income.
- The calculations have been made with a thirty-year transition path.

Theme 5 Arrangements for children

Introduction and analysis

1. Arrangements for children in perspective

1.1 Introduction

The birth of a child is one of the most special moments in the lives of parents. When a child is born, the parents immediately face important responsibilities and choices in raising and caring for the child. People have to consider things like how they spend their time and they have to make financial decisions when they have children. There were over 3.5 million children under the age of 18 in the Netherlands in 2009. Many of these children depend financially on the parents or carers who provide for them. These parents or carers pay for their living expenses, their education and their leisure time activities. The government has supported parents for decades in this by giving them all kinds of compensations. Now, the government is reconsidering those primary arrangements for children.

There is rightly a lot of interest in policies that affect children. Children are the future of the Netherlands, have a vulnerable position within society and deserve the government's attention. The working group only has a small task. A major part of the policy that focuses on children, like primary education and youth care, is not part of the working group's task. The working group was asked to present money-saving options on arrangements that provide parents with a financial reimbursement. For that reason, the scope of this report is practical and technical and therefore limited. The working group would like to emphasise that it does not primarily see and experience children as being something practical. Policies that affect children's welfare are not practical matters, so there are numerous perceptions of what is good for children. These perceptions depend on personal experiences, philosophies of life, view of society and many other factors. The working group has made an effort to present multiple possibilities, so politicians can make their own decisions, based on their own points of view.

1.2 The subject of reconsideration

A lot of arrangements, different objectives...

The central government will spend 9.1 billion euros on primary arrangements for children: arrangements that specifically focus on contribution in the expenses for children (Versantvoort, 2009). At this moment, eleven arrangements are responsible for this expenditure of 9.1 billion euros. The main task in the reconsideration of arrangements for children² is to focus on this 9.1 billion euros. Tax arrangements issue 2.1 billion euros to the arrangements for children and 7 billion euros is paid for by special arrangements.

² See the appendixes for the full task description and for the budgetary report.

To reconsider these expenditures, the working group has to make an analysis as to the purpose of these arrangements and their effects in practice.

The primary arrangements for children mainly focus on arrangements for the expenses of children and encouragement of workforce participation. These general objectives can be ambiguous at times. In general, income support can be granted to every family, but it can also be used to support specific target groups. Income support can also be used to facilitate parents who would like to take care of their child at home. It is also possible for different arrangements to have the same objectives.

Participation, for instance, can be encouraged by reducing the marginal strain on the partner with the lowest income or by offering services to working parents.

In addition to income support and workforce participation, there are primary arrangements for children that focus on the development of the child to a lesser degree. This objective can be found in secondary arrangements for children, like the financing of funded education and the policy on preschool and early childhood education (*VVE*).

A complex system as a result of a long history...

Arrangements for children have a long history. The first legislative proposal on child benefit, for instance, was submitted as early as the end of 1938 and has been adjusted many times since then. The long history of the development of child benefit has led to an accumulation of arrangements. Each arrangement can be historically explained, but the system in itself has become complex, arrangements are in conflict with each other and the system does not always connect with the actual context. This is the first time this system is being inspected in full.

This paragraph gives a basic description of the arrangements in the way they are intended to apply in a certain situation. The child benefit arrangement (*kinderbijslag*) is the only arrangement that provides parents with support that is not income-related and that is therefore generic, which reduces the differences in income between households with, and households without children. The child budget (*kindgebonden budget*) is a supplement that is more or less awarded to the same target group, but is income-related and therefore supports low-income and medium-income parents. Additionally, there are three specific arrangements in relation to income. The *TOG* allowance for disabled children living at home is a compensation that is not income-related. It is also a tool for the government to show its appreciation to these parents. The Dutch Fees and Educational Expenses (Allowance) Act *WTOS* is included in the task for the section that relates to children under the age of 18. It is an income-related compensation that pays school fees to make it possible for parents with children under the age of 18 who attend professional training course or unfunded secondary education schools, to financially support their children's school careers. The deduction children's living expenses (*af trek levensonderhoud kinderen*) is a compensation for the expenses of children in specific circumstances. This arrangement concerns taxpayers who are not allowed to receive child benefit and whose children are not allowed to receive student grants. These parents can deduct a lump sum fiscally.

The expenses that are considered when these taxpayers are not in the position to withdraw from these expenses other than with great difficulty and the children (under the age of 30) are supported to a greater extent by these taxpayers.

The tax system further includes a child allowance exemption in box 3 (*kindertoeslag vrijstelling box 3*) that increases the parents' tax-free allowance. Single parents are usually entitled to the arrangements cited above and are also entitled to two other specific arrangements as well. The single-parent tax-credit (*alleenstaande ouderkorting*) is a compensation for single parents with children (until the oldest child is 27 years old). The idea this compensation is that the family of a single parent has more expenses than (half of) a two-parent family. In addition, there is the additional single-parent tax-credit (*aanvullende alleenstaande ouderkorting*) to encourage the workforce participation of single parents with children under the age of 16. There are several arrangements that try to make it more attractive for single parents and partners with low incomes who have children, to take part (more) in the workforce. The income-related combination tax-credit (*inkomensafhankelijke combinatiekorting*) provides a tax credit to the partner with the lowest income.

The parental leave tax credit (*ouderschapsverlofkorting*) is a fiscal compensation with certain conditions, in case of parental leave, that makes it possible for the parent to combine work with care. The childcare tax credit (*kinderopvangtoeslag*) is a contribution to the expenses of childcare, to make it possible for the parents to make it easier to combine work and care. Childcare³ facilities have taken measures, so children can develop their talents. For the children that use childcare, the objective development of the child is included through, for instance, the harmonization of preschool and early childhood education, playgroups and childcare.

...and a lot of other arrangements as well

Primary arrangements for children have been the centre of attention in the reconsideration, but not all collectively financed compensations that are available to parents have been looked at. In addition to these arrangements for children, the government also invests in measures that benefit children and their parents. Secondary arrangements for children, like free health insurance for children as part of the Healthcare Insurance Act (*Zorgverzekeringswet*) and supplementary benefits for single parents who children living at home, are not included in the task. Neither are arrangements for parents to support them when they their children are born (maternity leave, maternity care⁴) and family support policies like youth (health) care, centres for youth and family and youth protection, as well as matters coordinated by local authorities like play groups. Funded education and, for instance, the supply of free schoolbooks are also part of the reconsiderations. Secondary arrangements for children have not been considered in principle in the reconsideration, unless it was very logical to include these arrangements in the result of this version on the basis of the starting points or the analysis.

³ For more information, read '*Muis op de creche*', Lucy L. Cousins, June 2009.

⁴ Maternity care is part of the reconsideration of curative care.

In addition to arrangements in the task, the working group also regards *the exception regarding the reduction of the transferability of the general tax credit* for parents with children under the age of 5 as a primary arrangement for children. It is therefore included in the description and the short list. This working group has much ground in common with other working groups because there are so many other arrangements. The key working groups are the working group social assistance supplements, implementation taxes, distance labour market and productivity education.

1.3 Legitimate governmental intervention

The above-mentioned description of the arrangements factually describes the objectives that are pursued by the arrangements. The reconsideration has also considered how government intervention could be legitimate. This paragraph gives an (not exhaustive) outline of how government intervention could be (economically) legitimate. These reasons were probably not considered explicitly when the arrangement were taken into effect or when they were changed, but probably did play a part in the policymaking.

External effects and income support

The government has no explicit policy in the arrangements for children that influence positive external effects (prevent ageing, for instance) or the negative external effects (environmental impact) on macro-level. There is no active population policy in the Netherlands. The government does provide parents with a compensation for the expenses of children, to prevent expenses of children from being a reason not to have children.

Despite the compensations by the government, children will still cost money. With the compensations, generically and specifically, the government helps to prevent children from growing up in poverty. Children in poverty is not only regarded as being unjust, but has negative external effects as well (future governmental costs as a result of poverty) that can be prevented by governmental support. For single parents there is additional specific income support. Single parents relatively more often have low incomes and are on social assistance more often.

...stimulation of participation⁵...

The government also dedicates itself to arrangements that give financial incentives to parents (or the partner with the lowest income) to find employment. Parents have lesser time than people without children to offer their services to the labour market and they have to make more costs for that because of childcare: so, as a result of this, the relative price they have to pay to find employment, is higher for this group, which influences the workforce participation of the partner with the lowest income. It is possible that the government will find it advisable to interfere with this. In addition, the government can interfere to mitigate the negative effects of other policies. The marginal tariff for parents, for instance, where the parent who has the lowest income is the centre of attention, is pushed down to make workforce participation more attractive.

⁵ The concept of participation is extensive and it can also include, for instance, voluntary work. In this report, participation always refers to workforce participation.

Another argument for stimulation of participation is the fact that poverty should be avoided as much as possible. Not only these economical arguments are important in the stimulation of participation, other arguments play an important role too, of course: being part of society, contacts with other people, self-development.

...income support and taking care of children at home...

Income support arrangements make it financially possible for parents to decide that one of them stays at home to take care of the children. One of the reason on which this is legitimized is to help parents to have a choice (in a certain phase) in deciding that one of the parents stays at home with the children, for instance if parents wants to take care of their children in the child's first stage of life. The combination of this measure and the measures mentioned on behalf of workforce participation make it financially possible for parents to make choices in the way they combine working and taking care of their children.

...and the child's development...

Economical efficiency arguments legitimize government intervention on behalf of the child's development. A better education, for instance, results in a job that pays better, which results in more tax revenues and less benefit payments or payments to the justice department. The difference between the social and private outputs and the fact that long-term profits by those who decide individually may not be considered sufficiently, which could be reasons for sub-investments and legitimize government intervention that way. Government measures on behalf of the child's development are based on the vision that all children are entitled to develop and use their talents the best way they can.

...are all arguments, but they are no basis for the degree of intervention

In theory, all the arguments that have been mentioned for government intervention are not clear about the balance between collective responsibilities on the one hand and private responsibilities on the other. Beforehand, the above-mentioned analysis does not provide the optimal way, socially, of government intervention, for instance in the form of financial support. That is something that depends on political choices.

1.4 Expenses are influenced by social developments

In the Netherlands are over 3.5 million children (under the age of 18). The number of births has decreased the past years. In 2007, 181,336 children were born, for instance, which is 25,000 children less than in 2000. The birth rate is expected to continue to fluctuate around the present level⁶. In addition to this, there is an increase in the people who do not have children at all. Due to a lower birth rate, the number of young people (in the ages of 0 till 20) will decrease, according to prognosis by the Statistics Netherlands (CBS) to 3,935,594 (24 per cent) in 2008 to 3,601,149 (21 per cent) in 2005.

⁶ See chart 1 in appendix 5.

It is stated by *CBS* prognosis that the number of deaths will outnumber the number of births and that the only way the population will be growing, is by immigration. Prognosis are, that due to the number of deaths, there will be a shrinking prognosis by 2040 (*CBS*, 2009).

When people have children, it does not mean in the Netherlands that women will give up their paid jobs. Nearly 70 per cent of all women in the Netherlands has a paid job (Portegijs, Keuzekamp, 2008). However, compared with the surrounding countries, the number of hours these women work in the Netherlands is a lot less, whereas the number of hours in other countries increase as the children get older. Because of this, the factual workforce participation of Dutch women, in hours, is the lowest in Europe⁷.

Many parents that work, make use of childcare facilities. Growth in workforce participation increases the use of childcare. Growth in day-care centres is expected to level off in a number of years, which is expected to stabilize in the end, but growth in outside school care is expected to increase. The reason for this is the growing workforce participation, the Van Aartsen-Bos motion⁸ and the affect of the stronger growth in use of day-care facilities in the past years. The Netherlands Bureau for Economic Analysis (*CPB*) estimated in April 2009 that especially the workforce participation of women in the age group 45-49 is increasing. This may lead to a growth in the number of children in the relevant target group for outside school care. A small growth in the age group 35-44 can contribute to this. Further growth in the use of childcare facilities is very uncertain and relates to growth in workforce participation and substitution effects. Expenses for the arrangements for children in the task were 5322 million euros in 2002 (1.1 per cent GDP) and had increased by 2009 to 9495 million euros (1.7 per cent GDP) (see the table below). Internationally speaking, the Netherlands spent a lower percentage of its GDP on 'family spendings in cash' in 2003, according to the OECD, than was the average in the OECD countries⁹ and which means that the Netherlands is positioned in the middle bracket. It should be noted that comparisons like that do not always stand up completely. The OECD, for instance, states that only exclusive compensations for families have been looked at and other forms of support in, for instance, healthcare, have not been taken into account.

⁷ See chart 2 in appendix 5.

⁸ As of 1 August 2007, school managements are responsibly for the organization, either by themselves or by others, of pre-school and after-school childcare, or for offering facilities that third parties can use for that purpose. School managements have to do their utmost to meet these organizational obligations.

⁹ See chart 3 in appendix 5.

Table 1.1 Development of the expenses from the task (X 1 million euros, in day-to-day prices)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Child benefit	3118	3207	3238	3217	3196	3374	3387	3389	3352
Child tax credit*	280	355	475	570	695	645			
Supplementary child benefit**						68			
Child budget							832	1045	940
Childcare***	483	503	685	667	921	2058	2825	2825	2612
Parental leave tax credit****					33	19	28	78	90
Combination tax credit	415	465	740	830	865	980	950	1250	1255
Single-parent's tax credit	440	465	480	475	480	490	540	345	355
Supplementary single-parents tax credit	115	120	115	115	120	130	155	175	175
Supplementary child benefit tax exemption box 3	17	17	18	18	19	20	21	22	22
Deduction children's living expenses	145	160	165	185	200	195	200	200	205
Dutch Fees en Educational Expense (Allowance) Act (school costs allowance 17-)*****	289	295	315	205	197	195	180	106	34
TOG care allowance for disabled children living at home*****	20	25	27	33	38	49	53	60	30
Total	5322	5612	6258	6315	6764	8223	9171	9495	9070

*until 2007, supplementary child benefit after that

**before 2008, but paid out in 2007. Transformed to child budget in 2008

***has been an allowance since 2005. Before mentioned amounts are childcare expenses

****Only as from 2006

*****Largely transformed to child budget as from 2010

*****The TOG care allowance amount in the budget of 2010 deviates from the mentioned amount from the task due to adjustments to regulations. See table 5 in appendix 1 for an explanation.

1.5 What amount do parents receive and what do they spend?

To imagine how the expenses on primary arrangements for children are distributed, this paragraph presents a survey of the expenses and the compensations that different types of households receive. Averages per household category are mentioned that can be different for specific households, depending on choices and circumstances.

A great deal of arrangements for different amounts of users and different compensations...

Table 1.2 presents a survey of the average amounts that are received per household and per child from the different arrangements for children. The numbers are the factual users.

In case a certain arrangement is not used, for instance when the arrangement is unknown to the people who are entitled to it or when people have conscientious objections to an arrangement, the number of claimants will be higher. Table 1.3 shows what the costs of implementation for the arrangements are.

Table 1.2 Budgets (in euros per year) and the number of people that use the arrangement in 2010

Arrangement	Budgetary attachment (x 1 million euros)	Number of households	Number of children	Average per household (x 1 euro)	Average per child
Child benefit*	3,352	1,913,000	3,469,000	1,752	810
Child budget	940	1,100,000	2,200,000	856	427
Childcare allowance	2,612	420,000	691,000	6,219	3,780
Parental leave tax credit	90	65,000		1,385	
Combination tax credit	1,255	945,000		1,328	
Single-parent's tax credit	355	400,000		888	
Supplementary single-parents tax credit	175	180,000		972	
Supplementary child benefit exemption box 3	22	340,000		65	
Deduction children's living costs	205	229,000		895	
Dutch Fees and Educational Expenses (Allowance) Act	34	57,288	59,000	593	576
TOG care allowance for disabled children living at home ¹⁰	30	35,000	37,000	857	811
Transferability general tax credit (AHK) 5 years ¹¹	30	115,000		265	

* In the table the number of children are mentioned you receive child benefit for.

¹⁰ The TOG care allowance amount in the budget of 2010 deviates from the mentioned amount from the task due to adjustments to regulations. This affects the number of users also. See table 5 in appendix 1 for an explanation.

¹¹ Arrangement is not a part of the original task.

...lead to major differences in the compensation amounts compared to the situation with a lump sum budget

The compensation amounts that families receive are very different. A single-income household with a two-year-old child and an income that is 2.5 times the standard income, receives 780 euros a year, excluded transferability of the general tax credit, and a single parent with a two-year-old that uses childcare 4 days a week and who receives on income on the legal minimum wage level, receives 16,490 euros. In comparison, when the compensation for children would be limited to an arrangement that would give parents the same lump sum budget a year for every child, this would amount to approximately 2600 euros per child on a yearly basis. After the intended cutback, only 2100 euros per child would be available a year.

Methodology: factual average child's expenses are determined by attributing costs to family members...

The following amounts for children's expenses in a household are based on a study by *CBS* on equivalence factors. Equivalence factors make it possible to compare disposable incomes of different household types. In the investigation *CBS* has conducted, the household expenditures have been divided into the different household members: breadwinner, partner and children (*CBS*, 2004). So, factual expenditures are meant here and not the expenditures on goods that are absolutely necessary. In addition, the height of the expenditures depends on the allocation that has been used. A part of the goods is specifically used by children or adults (for instance, children's clothes or clothes for adults). Other good are used by both (food) or consumed collectively by the household (for instance the house). On the basis of empirical or exemplary data, the part that accrues to the children, the bread winner and a possible partner, is calculated for every good. The amounts are added up and subsequently provide the average money that is spend on the children.

...both households and income categories are compared...

Table 1.3 shows a survey on the expenditures and compensations of different household types that approximately have the same income. The households have been chosen to make it possible to compare households by the way they are composed (single earners, single parents, double earners). The expenditures and compensations concerning childcare are not in table 1.3, but will be dealt with in table 1.4.

...and the supplementary benefit for single parents who are on social assistance has been included as a compensation

In the subject social assistance is a section (20 per cent) that is specifically meant for single parents. Originally this section was not part of the task, but has been included in the analysis of compensations, since it is meant for the expenses of children. In table a in appendix 5, the relation between compensations and expenses is shown when the section is not included in the subject social assistance.

Compensations are compared to the average expenditures that are highest for single parents and lowest for single earners...

Compared with expenditures, single parents receive the most compensation, then double earners and single earners receive the lowest amount of compensation. In case of a standard income, for instance, and two children, the compensations could be similar to 75 per cent of the expenditures for a single parent, 44 per cent for a single-earner¹² and 50 per cent for double earners.

...because of the compensations for single parents and double earners...

The difference between double earners and single earners is mainly the result of the income-related combination tax credit. The difference between double earners and single earners can especially be explained by the section of social assistance and the single-parent's tax credit and the supplementary single-parent's tax credit. Only the supplementary single-parent's tax credit is orientated towards participation. The section of social assistance discourages only single parents to take part in workforce participation. Due to the multitude of income support measures, these parents are not, or only slightly, better off financially when they take up employment after they have been on social assistance.

Compensations compared to the average expenditures, are lower for higher incomes, because children's expenses strongly increase when the income becomes higher

Compared with expenditures, the compensations decrease as the income becomes higher. For a single parent with two children, for instance, the compensation is 111 per cent of the expenditures when this parent is on social assistance, 90 per cent when the parent has a minimum wage, 75 per cent when he/she has a standard income and 43 per cent when he/she has twice the standard income. This is especially the result of the fact that the expenditures strongly increase as the income increases.

Table 1.3 Arrangements for children: average expenditures and compensations (figures from 2010) in euros a year)

	Average expenditures	Compensations	Average expenditures / compensations
Social assistance			
Single parent with 1 child (2-years-old)	4,220	4,910	116 per cent
Single parent with 2 children (2, 6)	5,550	6,170	111 per cent
Single parent with 3 children (2, 6, 10)	7,310	7,300	100 per cent
Couple with 1 child (2-years-old)	2,940	1,790	61 per cent
Couple with 2 children (2, 6)	4,720	3,050	65 per cent
Couple with 3 children (2, 6, 10)	6,180	4,180	68 per cent

¹² In these percentages the transferability of the general tax credit is not included. The exception of abolishment of the transferability itself increases and parents with children under the age of 5 structurally receive 1987 euros.

Minimum wage			
Single parent with 1 child (2-years-old)	5,250	4,890	93 per cent
Single parent with 2 children (2, 6)	6,810	6,150	90 per cent
Single parent with 3 children (2, 6, 10)	8,880	7,280	82 per cent
Couple with 1 child (2-years-old)	3,490	1,790	51 per cent
Couple with 2 children (2, 6)	5,580	3,050	55 per cent
Couple with 3 children (2, 6, 10)	7,240	4,180	58 per cent
Modal			
Single parent with 1 child (2-years-old)	7,230	5,680	79 per cent
Single parent with 2 children (2, 6)	9,270	6,930	75 per cent
Single parent with 3 children (2, 6, 10)	11,960	8,060	67 per cent
Couple with 1 child (2-years-old)	4,230	1,410	33 per cent
Couple with 2 children (2, 6)	6,720	2,670	40 per cent
Couple with 3 children (2, 6, 10)	8,660	3,800	44 per cent
Double earner** with 1 child (2-years-old)	4,700	2,650	56 per cent
Double earner with 2 children (2, 6)	7,270	3,600	50 per cent
Double earner with 3 children (2, 6, 10)	9,820	4,550	46 per cent
1,5*Modal			
Single parent with 1 child (2-years-old)	9,300	5,100	55 per cent
Single parent with 2 children (2, 6)	11,770	6,040	51 per cent
Single parent with 3 children (2, 6, 10)	15,050	6,990	46 per cent
Couple with 1 child (2-years-old)	5,440	780	14 per cent
Couple with 2 children (2, 6)	8,530	1,730	20 per cent
Couple with 3 children (2, 6, 10)	10,870	2,670	25 per cent
Double earner** with 1 child (2-years-old)	5,940	2,020	34 per cent
Double earner with 2 children (2, 6)	9,150	2,970	32 per cent
Double earner with 3 children (2, 6, 10)	12,300	3,920	32 per cent
2*Modal			
Single parent with 1 child (2-years-old)	11,210	5,100	45 per cent
Single parent with 2	14,190	6,040	43 per cent

children (2, 6)			
Single parent with 3 children (2, 6, 10)	18,140	6,990	39 per cent
Couple with 1 child (2-years-old)	6,650	780	12 per cent
Couple with 2 children (2, 6)	10,470	1,730	17 per cent
Couple with 3 children (2, 6, 10)	13,320	2,670	20 per cent
Double earner** with 1 child (2-years-old)	7,450	2,640	35 per cent
Double earner with 2 children (2, 6)	11,500	3,590	31 per cent
Double earner with 3 children (2, 6, 10)	15,420	4,530	29 per cent
2.5*Modal			
Single parent with 1 child (2-years-old)	12,930	5,100	39 per cent
Single parent with 2 children (2, 6)	16,400	6,040	37 per cent
Single parent with 3 children (2, 6, 10)	21,000	6,990	33 per cent
Couple with 1 child (2-years-old)	7,740	780	10 per cent
Couple with 2 children (2, 6)	12,270	1,730	14 per cent
Couple with 3 children (2, 6, 10)	15,610	2,670	17 per cent
Double earner** with 1 child (2-years-old)	8,820	2,640	30 per cent
Double earner with 2 children (2, 6)	13,640	3,590	26 per cent
Double earner with 3 children (2, 6, 10)	18,280	4,530	25 per cent

**Expenditures and compensations for childcare if necessary are not included in the amounts. Income from arrangements for children includes: child benefit, child budget, income-related combination tax credit, single-parent tax credit and supplementary single-parents tax credit, and the section social assistance for single parent. Dutch Fees and Educational Expenses (Allowance) Act, TOG care allowance for disabled children living at home, exemption box 3, parental leave tax credit, deduction living expenses and the transferability general tax credit 5 years have not been included.*

***The double earners category consists of the following combinations: 0.5 standard+ 0.5 standard; standard+ 0.5 standard; standard+standard; 0.5 standard+standard double earners category.*

The average expenditures per child decrease as the number of children increases...

The expenditures per child decrease as the number of children in a family increase. The expenditures per child for a single earner with a standard income, for instance, are 4,230 euros when there is 1 child, 3,360 euros per child when there are two children and 2,890 euros per child when there are three children (also see table b in appendix 5). There is a connection between this and the fact that some arrangements grant an amount per family or a lesser amount for extra children.

...there is no explicit rise in expenditures with an increasing age...

With the help of the afore-mentioned equivalence survey, it can be calculated that expenditures for the youngest children up to and including 3 years of age (4,233 euros¹³ a year) are higher than for children from 4 up to and including 11 years of age (3,995 euros). But for children in the age groups 12-15 years and 16-17 years, expenditures are even higher (4,798 euros and 5,366 euros respectively). It should be noted, however, that the survey is based on the period 1995-2005. The costs for (secondary education) school books and tuition fees for 16 and 17-year-olds in this period formed part of the expenditures. This is not the case any longer in 2010 for children in funded secondary education. Considering the level of these expenditures (tuition fees 1013 euros, price level school year 2009/2010; compensation school books 316 euros, price level 2009), the expenditures on children in the age group 12-17 years in the present situation, will be significantly lower and the expenditures for children as from the ages of 12 and 16 as described above, will increase to a lesser extent in practice¹⁴.

...when some of the arrangements do take the expenditures that increase with increasing age

Some arrangements grant higher compensation to older children. Child benefit is 780 euros a year for children from 0 up to and including 5 years of age, 947 euros for children from 6 up to and including 11 years of age, and 1114 euros for children from 12 up to and including 17 years of age. Child budget shows an increase for children from 12 up to and including 15 years of age of 231 euros, and for 16 and 17-year-olds of 296 euros. Compensation developments for child benefit and child budget do not follow the expenditure developments. Simplifying these arrangements by not distinguishing between ages seems possible.

Childcare leads to extra expenditures, but extra compensations as well...

Table 1.4 shows that the use of childcare facilities results in extra compensations too. When formal childcare facilities are used to their full extent during the days that the parents are at work, expenditures become twice or three times as high. The compensations increase substantially as well. Net expenditures are higher for families with higher incomes.

...what increases the expenditures for middle and higher incomes compared to the compensations

Compared with other compensations, the childcare allowance is relatively high for middle and high incomes when it is compared with their expenditures. In the last two columns the proportion between expenditures and compensations with and without childcare are compared.

¹³ For a single earner with standard income and one child.

¹⁴ Since recent equivalence factors are not available, it is not possible to determine exactly what the effects are on the expenditures on children from the age of 12 when tuition fees and school book expenditures are left out.

For the lower incomes, the proportion between expenditures and compensations equals the situation with and without childcare. For higher incomes, the compensations compared with the expenditures are higher with childcare than without childcare.

Table 1.4 Expenditures to childcare and childcare allowance (amount in euros a year)

	With childcare				Without childcare
	Expenditures childcare	Childcare allowance	Net expenditures childcare	Total compensation of expenditures	Compensation of expenditures
Single parent minimum wage (childcare 5 days a week)					
Child 2 years old	11,954	11,273	681	94 per cent	93 per cent
Child 6 years old	7,222	6,718	504	99 per cent	109 per cent
Double earners 1 + 0.5 standard income (childcare 3 days a week)					
Children 0 and 2 years old	17,932	15,457	2,475	66 per cent	29 per cent
Children 2 and 6 years old	13,479	11,192	2,287	63 per cent	32 per cent
Double earners 1.5 + 1 standard income (childcare 3 days a week)					
Children 0 and 2 years old	17,932	13,242	4,690	52 per cent	24 per cent
Children 2 and 6 years old	13,479	8,014	5,465	43 per cent	26 per cent

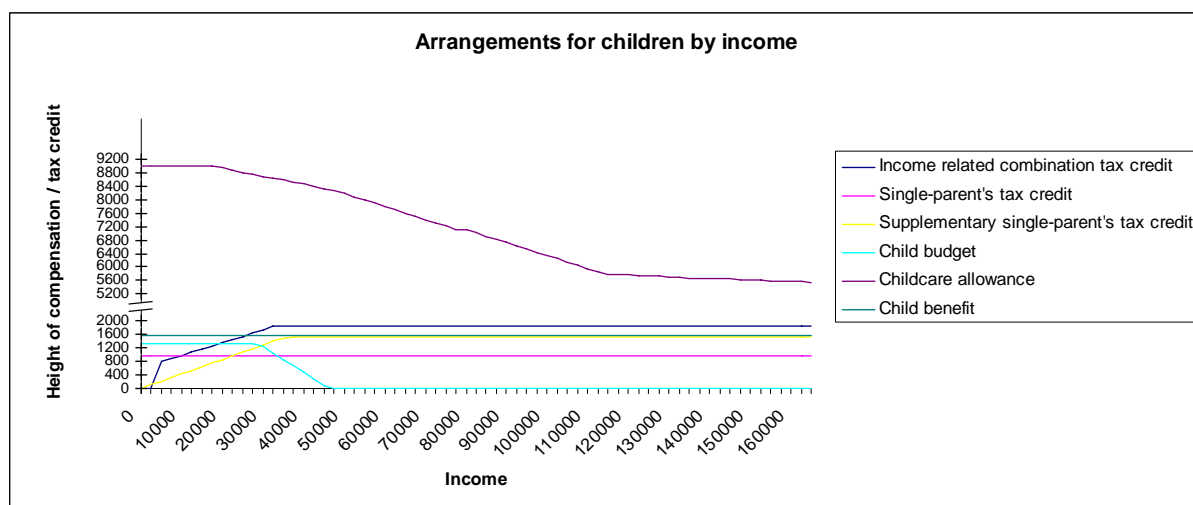
2 Foundations for the presented options

2.1 Overlooking the system: complex and confliction objectives

The system of arrangements for children is complex...

The objectives for the primary arrangements for children are different and sometimes conflicting. As a result of those many objectives, a system with many different arrangements has developed that is reasonably extensive. This has resulted in a system that is very complex to realize, but that is very complex for parents as well. The accumulation of arrangements for certain groups (also see table 1.3), for instance, the different age limits concerning arrangements for children and commencement and expiration of conflicting arrangements are examples of this complexity. The last two points are illustrated in the figures below.

Chart 2.1 Arrangements for children coming together (in a family with two children in the ages of 2 and 4 who attend formal day care 2 days a week)



*A version in colour is available on the website www.minfin.nl.

Table 2.1 Different age limits for the youngest child to benefit from arrangements for children

Child benefit, child budget, tax exemption box 3	till the age of 18
Income combination credit, childcare allowance	till the age of 12
Deduction living expenses	till the age of 30
Single-parent's tax credit	until the oldest child living at home is 27
Supplementary single-parent's tax credit	till the age of 16
TOG care allowance for disabled children living at home	for children in the ages 3-18
Dutch Fees and Educational Expenses (Allowance) Act (<i>WTOS</i>)	till the age of 18 ¹⁵
Parental leave tax credit	till the age of 8

...which makes the system incalculable for civilians...

All these arrangements with their specific objectives make the system very untransparent. The question then is whether civilians can identify with the policy. If the underlying objectives are not clear to the persons who receives the compensations, the main question is whether the policies can be effective.

...simplification can contribute to greater effectiveness.

Simplification of the system could increase the effectiveness of the system, given the different objectives. In addition, simplification would have consequences for the way the system is aiming at its target groups.

¹⁵ Students from the age of 18 can be entitled to *WTOS*, but this is not included in the basis.

The more generic a system is designed, the less specific groups can be reached. This requires political choices. This report allows insight into the consequences that could be the result of certain choices.

A trade-off with workforce participation and income support...

There is a trade-off with income support measures and measures to improve workforce participation. Because of the income effect (receiving an income, but not having to work for it) and marginal pressure, income support measures can have a negative effect on workforce participation. In theory, arrangements that are connected with labour have a positive effect on workforce participation, but they do not improve the income of people to the same extent.

...limits the effectiveness of the separate objectives

When the objectives income support and workforce participation are combined, the result is a limitation of the effectiveness of the separate objectives. More effectiveness of one objective, leads to a limitation of the effectiveness of the other objective.

2.2 Not much information on effectiveness

There is not a lot of information on effectiveness of the arrangements available. It is difficult to measure the effectiveness of the separate arrangements, seeing that some of the arrangements overlap or accumulate. For a number of arrangements it is rather clear which policy efforts are effective and which are clearly not. In a number of cases, the study results oppose each other and in a number of cases there is no information available. Especially because of the wide range of arrangements that have many sub-objectives, it is not easy to compare the arrangements, in addition. It is difficult to compare a generic income support like child benefit with a specific compensation arrangement like *TOG*, although both of these arrangements are part of the wide objective income support. This also applies to childcare allowance and the income-related combination tax credit. Then it is especially important to judge each arrangement by its own merits.

2.2.1 Tools workforce participation

Childcare is complementary to labour¹⁶

Childcare is an effective tool to improve workforce participation, since it complements availability for labour (Corlett-Hague, 1953; Versantvoort, 2009; *CPB*, 2006).

¹⁶ Promotion of informal care and other types of participation are describes in different reconsiderations, like long-term care. The child benefit tax credit that contributes to the expenditures on day care, is an important governmental tool that way to promote workforce productivity by parents.

...but the effectiveness of the child benefit tax is limited because it results in financing informal day care...

Replacing informal day care with formal day care limits effectiveness, because this replacement does not lead to extra participation, but to financing of childcare by friends or family, which limits the cost effectiveness of the tool. Replacement is higher for childminders than for regular day care facilities and is enhanced when the parental contribution is low. (Jongen, 2010; Van Rijn Commission, 2009). At least 50 per cent of the intensifications as from 2005 have vanished as a result of the replacement of informal day care with formal day care (Jongen, 2010).

...an average collective contribution of 80per cent...

Day care is financed by an average parental contribution of 20 per cent, the other 80 per cent is financed with collective means, ranging from 97 per cent for lower incomes to 1/3 for higher incomes for the first child and for more children¹⁷ for all incomes at least 85 per cent. The differences in compensation between lower and higher incomes can partly be explained by the fact that labour market elasticity¹⁸ for lower incomes is relatively higher than for higher incomes (CPB, 2008; Versantvoort, 2009; Regioplan, 2008). It is difficult to determine univocally the optimal percentage of compensations on behalf of participation. There are a lot of private participation advantages. It is expected, given the present parental contribution, that a decrease of these advantages only results in very limited positive participation effects and that a rise of the personal contribution would result in relatively limited negative effects on participation (Jongen, 2010; Van Rijn Commission, 2009). For instance, an increase in the personal contribution of 50per cent results in a decrease in employment in hours of 0.19 per cent point, which is the equivalent of approximately 8300 fulltime jobs. In relation to approximately 450 million euros of savings, this means 54,000 euros per job (Jongen, 2010).

...and the compensation seems never-ending

The childcare tax benefit is an arrangement that is never-ending which limits the budgetary controllability. The budget has more than quadrupled since 2005, partly because of the growth in participation, replacement of informal day care by formal day care and governmental policies. The extent of the financing by collective means partly contributes to the fact that not all extra workforce participation contributes to reinforcement of the budgetary basis (see box 2).

¹⁷ The childcare tax credit regards the first child as the most expensive child.

¹⁸ People's sensitivity for price incentives to take up employment.

There seems to be a limited effect of the fact that the number of hours are not linked...

The childcare tax credit is not linked to the number of worked hours. The Van Rijn Commission puts it that the unintended use (use outside work) seems relatively small, so there is no real necessity or budgetary profit to link the number of hours. The Dutch Tax and Customs Administration is performing an implementation survey that will be ready in the autumn of 2010.

...and the fragmented supply of day care and education is a point of interest

In conclusion, the working group has established as a point of interest that the fragmented supply of day care and education can impede the participation of parents. The Van Rijn Commission established that radical fine-tuning of day care facilities, preschool facilities and primary schools results in a more optimal timetable for young children and supports workforce participation. Day care and educational organizations do not always have the same ideas about offering day-time programmes which can be explained by institutional factors. Attention will be paid in the versions to deal with fragmentation seen from both the workforce participation's point of view as the child's developments point of view. Until now, it is not known to what extent improved facilities will contribute to the participation.

Box 1: Should childcare compensations be different?

Until 2005, childcare was a facility that was to come about between employer and employee, with a role for local authorities, and that government provided a tax credit for. In 2005, the childcare tax credit was imposed. This tax credit is a special kind of arrangement, since it affects the way the childcare market functions. It is possible, for instance, to transform the tax credit into a subsidy on supply - a direct way of financing day nurseries. The government can directly control these day nurseries financially and the Tax and Customs Administration is not involved in terms of tax credits. At the same time, when the budget stays the same, personal contributions from parents to day nurseries are involved, because the governmental contributions from the government to the organizations are not cost-effective. The current tax credit and the parents' personal contributions at the same time, are income-related. Day nurseries (market parties) will have to start registering details concerning income and they will also have to check whether both parents have jobs when direct personal contributions by parents are made to day nurseries. This increases the administrative burden of day nurseries and is more susceptible to fraud than the current system is. An other option is to make the personal contribution income-related. The advantage here is that it will reduce the administrative burden for day nurseries, but the disadvantage is that this option means that subsidies will have to be rebalanced considerably which would affect the income effect to a great extent. Read more about this in the version that the working group on tax credits has produced.

The offering of out-of-school care by schools, for instance, in the version new school, matches a system where care is funded by supply. Changing the benefits for financing the supply of out-of-school care could precede a development path to something like that. The working group indicates that, with reference to the Van Rijn Commission, there have been many changes in the childcare market the last years. First, an investigation into the benefits for a market funded by supply should be conducted.

The fiscal arrangements limit the marginal pressure...

The purpose of the income-related combination tax credit and the supplementary single-parent's tax credit is to improve workforce participation of the partner and/or parent with the lowest income. The arrangements intend to accomplish that employment increases the income of these people. The compensations increase when the income increases. These arrangements fix the marginal pressure that is the result of income-related tax credits and progressive taxes. In other words, in case the marginal pressure is decreased as a result of other policy decisions, like the reduction of income-related tax credits or making the tax system less progressive, these arrangements will not be as necessary.

...but can become more effective when transparency is improved

According to model analysis by the *CPB* based on elasticity of labour supply, these arrangements have a positive effect on participation because they limit the marginal pressure: as the income increases, parents will also receive more compensation. There is no empirical foundation that is explicitly linked to the income-related combination tax credit, since this tool has only recently been introduced. In relation, a lot of people are not familiar with the income-related combination tax credit, so the question is whether the tool really contributes in the decision making concerning participation. It is useful to see whether a different design or a clearer introduction would improve its perceptibility and therefore its effectiveness. The Taskforce Part Time Plus has made a first step by designing a calculation programme that can be used to provide insight into the financial advantages for the parent when he or she takes up (more) employment. Limiting the arrangements can, depending on the design (accrual percentage, flat-rate, and maximum amount), lead to worsening of poverty trap¹⁹ and/or increase in marginal pressure for higher incomes. Single parent need specific attention. A separate paragraph will come back to this.

Parental leave is more effective when the leave does not last too long and the benefit is not too high

Parental leave can contribute to workforce participation on the one hand, because the distance to the labour market remains small. On the other hand, parental leave also results in loss of working hours. Calculations by the *CPB* (*CPB*, 2002) show that this effect prevails. It seems that when the leave does not last too long (approximately 20 weeks, including maternity leave) and when it is not too highly paid, the effectiveness is the most (Jaumotte, 2003; Ruhm 1998; Roman, 2006). The right to return to work for both parents enhances the chances of return and enhances the preservation of human capital. Parental leave in the Netherlands is 26 weeks and is unpaid, unless collective agreements have made other arrangements. Parental leave tax credit provides income support when there is a strong decrease in income as a result of parental leave. No information is available on the degree of effectiveness of the tax credit itself.

¹⁹ The unemployment trap is the fact that the income of people on social assistance does not increase when these people have paid jobs.

Box 2: Workforce participation: always a positive effect on public budgets?²⁰

As well as supporting friends and family, a paid job is an important way for a lot of people to take part in society. The government tries to improve workforce participation for that reason, for instance by financially supporting it or by making it more attractive. A point of view that has not been discussed, is the net direct budgetary effect of the extra growth in workforce participation for the government that could be evoked by these tools. The example calculation that has been worked out presents the balance of all compensations someone can be entitled to at the most on the one hand, and its effects on the paid taxes and received benefits in total on the other.

The sum therefore does not give insight into macro-economic effect²¹ and effectiveness of the tools. The example calculation below shows that the government, in a number of cases, initially sacrifices in that year when the partner with the lowest income takes up employment and starts using the institutions and compensations that are available at the moment. The compensations for participating parents are high in relation to the taxes they pay. It should be noted, however, that the partner with the lowest income is *not entitled to a benefit* in the initial phase.

The example calculation below in table 2.2 applies to a situation when the partner with the lowest income with 2 children (3 and 7-years-old) who does not work at all, takes up employment 3 days a week. The children will attend childcare facilities then (day care/out-of-school care) for 3 days²². These amounts will be different if the ages of the children and the incomes are different.

Table 2.2 Partial budgetary effect for government per year in euros

Parent with the highest income (works fulltime)	Partner with the lowest income (income in terms of hourly wage 120 per cent of legal minimum wage)
120 per cent legal minimum wage	-7,828
Standard income	-6,947
2 x standard income	-6,059

Assuming that the partner with lowest income *is entitled to a benefit* in the initial phase, the picture is different. When a single parent with 1 child on social assistance accepts a job for 4 days a week and gets paid 120 per cent of the legal minimum wage, the partial effect for the government, when formal day care is used for 3 days a week, is 2,600 euros. These amounts will be different if the ages of the children and the incomes are different.

²⁰ This question has come up in the article '*Grenzen aan het fiscaal subsidiëren van arbeidsparticipatie*'. See literature list for further referral.

²¹ The report does not provide a calculation of the total effects of versions on the EMU-balance.

²² In the calculation all income-related and not income-related arrangements have been included, except rent benefit and mortgage interest relief. All taxes, premiums and tax credits have been taken into account as well.

2.2.2 Income support

Income support can either be income related or not income related

Income support that is *not* income-related, like child benefit, especially contributes to redistribution between people with children and people without children to (partly) limit the effect of having children on financial strength. Arrangements that *are* income-related are for people with lower incomes and add a motive for redistribution from higher to lower incomes that way. The child budget is an example of this.

...when arrangements that have the same course as the income have a greater negative effect on workforce participation...

Selective income support for lower incomes can lead to very limited incentives for participation: extra marginal pressure is introduced by income-related support (higher compensations for lower incomes). Arrangements that are not income-related can limit incentives to seek employment, seeing that people receive an income, no matter if they have a paid job or not. According to some empirical studies, these types of arrangements have a slightly negative effect on the workforce participation of women. Other studies show no significant effect (Versantvoort, 2009). Generally speaking, the income effect is smaller than the replacement effect (CPB, 2006)²³.

...even though workforce participation realizes withdrawal of poverty risk

Providing income support in general has a positive effect on fighting child poverty (Oxlet et al, 2001). This, however, is formally not a policy objective of the present arrangements. Child poverty can be fought more effectively by providing income support to the lowest incomes. Workforce participation in particular has a positive effect on withdrawal from the income risk. Therefore, it is a challenge in fighting child poverty to find a balance by providing direct income support on the one hand, and by retaining incentives for participation as much as possible on the other.

Compensation amounts vary per household...

When the compensations amounts are linked to the factual expenditures on children, it appears that approximately 20 per cent to more than 100 per cent is compensated by government compensations through primary arrangements for children.

²³ The total effect of a price change on the behaviour of people can be itemized into income effects and replacement effects that can influence each other in a normal situation. The income effect of a measure means that given a certain behaviour, the total disposable income of people changes. This could evoke a behavioural reaction: people are likely to give up working hours when they receive a higher amount of child benefit that enables them to have the same income, but do not have to work for it as much. The replacement effect is the effect that changes the *relative* costs of, in this case, labour and leisure time. Only the income effect is a result of an adjustment of child benefit, not the replacement effect. An adjustment of income-related arrangements do result in both income and replacement effect that influence each other (also see appendix 6 for a graphical chart).

Table 1.3 shows that in relation to expenditures, single parents receive the highest amount of compensations and single earners the lowest, which can primarily be explained by the extra compensations single parents receive compared with couples. Paragraph 1.5 shows, in addition, that the costs per child decrease when there are more children in a family and that the expenditures hardly increase per age group. These are aspects the working group has to take into account when mapping the austerity measures. Joining child benefit and child budget together might be an option within the framework of simplicity for implementation and civilians.

...and specific income support to special groups contributes to this as well

There is relatively little information available about the effectiveness of more specific arrangements in certain cost categories. Child benefit exemption box 3 has recently been evaluated and was proven not to be effective, since it costs too much effort and parents hardly notice any advantage. In reality, the advantage amounts to a maximum of 33 euros a year per family. It seems that the deduction of living expenses for children till the age of 18 is mainly used by the parent who has to pay maintenance and not by the child living at home. For the age group 18-30 years there is less information to determine which parent uses the income support. The people concerned here, for instance, are parents whose child is spending a period abroad to study and/or parents whose child lives at home, has no job and receives no income from the student grants and loans system. It can be established that the present tool entitles a mixed group of people to rights when the effectiveness of the arrangement is unclear.

The purpose of the *TOG* care allowance is to give financial support and to show appreciation to parents who take care of a disabled child at home. Approximately 80 per cent of the people who use it, apply for this allowance for financial reasons and approximately 10 per cent because of the appreciation of the situation they are in. The number of users has increased since its introduction. The harmonization of care assessment under the Exceptional Medical Expenses Act (*AWBZ*) will result in a decrease in the number of people who are entitled to it as from 2010 from 60,000 to 37,000. The group of people using the *WTOS* arrangement is diverse, but small and they partly receive compensation for their educational expenditures. Parents who are use the *WTOS* arrangement for children under the age of 17, will receive a maximum of between 325 euros and 650 euros a year. This arrangement intends to remove possible financial obstacles of taking part in the educational process. There have been a lot of changes here over the last few years, such as the integration of part of the *WTOS* arrangements into the child budget. Since many people in the target group did not use the *WTOS* arrangements, changes were made. The Social and Cultural Planning Office (*SCP*) calculated in 2007 that 37 per cent of that group, did not use the arrangements. Information on how many people will use the remaining arrangement is not available at the moment, nor can it be stated whether children would go to school if they did not use the *WTOS* arrangements. See paragraph 3.4 for more information.

2.2.3 Development of the child

The effectiveness on the objective development of the child is relevant within the primary arrangements for children for childcare/childminding schemes, with the emphasis on basic quality standard. In addition, attention is paid to policies concerning preschool and early childhood education (*VVE*) that is adjacent and more specific. *VVE* programmes and/or childcare is good for the development of cognitive skills and the social-emotional development of children with arrears (Dearing et al, 2009; Kok 2008; Versantvoort, 2009). The literature on the wide range of childcare is not univocal. Some studies show that relatively high quality childcare (low ratio professional/teacher and high educational level teachers) can have positive effects on the development and cognitive skills of all children (Foundation for Economic Research *SEO*, 2008; Leseman, 2008; *CPB*, 2008), when other studies do not show these effects or only temporarily (Driessen, 2004; Zorith, 1998; Leseman, 2008). A high educational level and a low ratio professional/teacher indicate the level of quality (de Schipper, Riksen-Walraven and Geurts, 2006). *When* children attend childcare facilities or childminding schemes, higher quality facilities are better for the development of the child. In addition, surveys aimed at the correlation between childcare and the social-emotional development of children, show different results. Some studies show that the social-emotional development might not develop as strongly when children attend formal day care facilities at a (very) early age (*OECD*, 2007; *SEO* 2008; *CPB*, 2008), when other studies show no or a positive effect (Leseman, 2008; Love et al, 2003). The government tries to use the *VVE* policy to reach the pupils who have fallen behind early and to support them to improve their cognitive skills. Empirical studies by the *CPB* and from the US show that this specific *VVE* policy can prevent future expenditures by society and that it can improve the chances of children from disadvantaged home backgrounds to be part of society (Heckman, 2000; Doolaard and Leseman, 2008; *CPB*, 2006). Literature shows that there is a clearly positive relationship between the social-economic situation of parents and the school performances of their children. The government has been supporting the development of children by using playgroups as a tool to achieve this.

2.2.4 Taking care of children at home

The objective taking care of children at home is linked to the objectives workforce participation and development of the child. Parents who work, can not take care of their children at home at the same time. The first six months to one year after the baby is born, individual attention from one and the same person has a positive effect on the further development of these children (*OECD*, 2007; Netherlands Youth Institute *NJI*, 2010; UK Department of Trade and Industry, 2006). Leave arrangements can be very important here. As stated before, parental leave is a tool that, on the one hand, facilitates leave and simplifies the return to the labour market on the other hand.

In addition, exception on phasing out payment of the general tax credit for parents with children up to and including the age of 5 will stimulate the parents to take care of their child at home, instead of participating. In general, incidentally, it should be noted that not every hour that is not spend on labour, automatically results in one hour extra care supply (Versantvoort, 2009).

2.3 Singles with children

De group of single people is more vulnerable than other groups, because care duties can not or hardly be divided between both parents. The trade-off between the offering of income support on the one hand, in addition, and the intention to improve workforce participation is the most patent for this group. Surveys show that children who grow up with single parents, relatively often do that in poverty (CPB, 2009). The reason for this is that single parents often have low incomes. But on the other hand, singles on social assistance receive a lot of compensations in relation to the expenditures on their children. The income for parents on social assistance was a lot rosier than the income for couples on social assistance (CBS, 2008). Accepting a small job is not very interesting for single parents, since their disposable incomes hardly increase and sometimes even decrease. The reason for this is that benefits are relatively very high in relation to the minimum wages. When people accept a job, they will benefit from fiscal deductions, but they will also often lose their social assistance benefit, they will benefit less from income-related arrangements like rent benefit and health care benefit and expenditures on childcare might become reality.

2.4. Conclusions and version

The basic principles of the working group for the formulation of versions are below:

- all versions are restructuring versions. They all yield 20 per cent because of comparability;
- simplifying the system is desirable to enhance the insight and therefore the effectiveness of the system. All versions that the working group presents could contribute to simplifying the system by limiting accumulation of arrangements, where the short list presents points that can contribute to simplicity within the current system;
- the arrangements themselves show inefficiencies that are more or less included in all versions and/or will be explained in paragraph 3.8;
- given the relatively limited knowledge of the effectiveness of arrangements and great coherence between arrangements for children and equalization, the working group will present a great number of versions to endeavour to facilitate political choices. Version 1 gives a technical interpretation of an number of possible simplifications without political reprioritizing of objectives;
- the different objectives that are pursued have resulted in arrangements and effects that counteract. Especially the balance participation and income support/taking care of children at home.

The working group will work up an number of versions (2, 3, 4 and 5) where prioritizing objectives have come up and provides insight into the possible effect when a certain line of approach is chosen;

- the working group reaffirms the observations that the Baker and Van Rijn Commissions have made, namely that greater coordination between education and day care can contribute to the enhancement of the incentive to participate, as versions 2 and 5 show;
- the current system is very strongly focused on the children's parents. Two version have been included (2 and 5) that focus on the child from two different views;
- single parents remain a specific and vulnerable group that versions 2 and 4 give specific attention to, focusing on both fighting the poverty risk and improving perspectives in the labour market.

Theme 7 Higher Education

Appendix 3 Short list with measures

Short list (budgetary proceeds in millions of euros, 'minus' are extra expenditures)

No.	Measure	2011	2012	2013	2014	2015	2020
1	Tuition fees bachelor's programmes +50per cent	25	165	255	345	470	470
2	Tuition fees master's programmes +50per cent	10	70	75	77	80	80
3	Tuition fees bachelor's and master's programmes +50per cent	35	235	330	422	550	550
4	Tuition fees bachelor's programmes +100per cent	55	335	510	690	940	940
5	Tuition fees master's programmes +100per cent	15	90	150	155	160	160
6	Tuition fees bachelor's and master's programmes +100per cent	70	425	660	845	1100	1100
7	Privatizing master's programmes	30	180	280	430	590	590
8	Tuition fees differentiation master's programmes	10	70	110	150	200	200
9	Basic grant income contingent loan system bachelor's programmes	20	25	80	170	380	690
10	Basic grant income contingent loan system master's programmes	0	-5	-20	-10	-30	110
11	Basic grant income contingent loan system bachelor's and master's programmes	20	20	60	160	350	800
12	Supplementary grant income contingent loan system bachelor's programmes	5	10	30	70	110	200
13	Supplementary grant income contingent loan system master's programmes	0	0	0	0	0	20
14	Supplementary grant income contingent loan system bachelor's and master's programmes	5	10	30	70	110	220
15	Abolishing student public transport pass	0	0	80	85	95	720
16	Cutting down on expenditures student public transport pass	0	0	25	40	65	200
17	Cutting costs productivity university of professional education	39	77	116	155	193	193
18	Abolishing deduction supporting children younger than 30 years	120	120	120	120	120	120
19	Investing in course choice advice	-5	-10	-15	-20	-23	-46
20	Investing in master's courses of more that one year	-5	-10	-15	-20	-27	-58
21	Investing in intensive education programme (student-teacher ratio)	-30	-60	-90	-120	-150	-300

Explanation

- The shaded measures are part of versions 7A and/or 7B and/or 7C.
- The measures that apply to tuition fees and the basic grant and/or supplementary grant take effect from academic year 2011/2012. These measures apply to all students (to students as well as intake students).
- The measures that apply to both tuition fees and productivity costs for universities and universities of professional education, will be introduced gradually within 5 years. The structural level of the savings will be reached in 2015.
- The measure that cuts down on expenditures for student public transport pass (16) includes both the introduction of a sort of personal contribution for students and a decrease in the conditional gift phase from seven to five years. Due to contractual obligations with transport companies, savings as a result of measures concerning the student public transport pass, will not be realized sooner than 2013. In addition, upper secondary vocational students are also included in this measure, since this group of students as a whole is included in the current contract with transport companies and it would be unrealistic to suppose that the current contract could be continued for upper secondary vocational students (these students represent 65 million of 200 million euros).
- Basic grants, supplementary grants and the student public transport pass are all part of the performance-linked student grant regime. This means that they will be paid as conditional gifts. Only when the student graduates within ten years, they will be transformed into permanent gifts. This is also the moment that the payments become relevant to the government's spending framework and the EMU-balance. As a result of this budgetary system, the measures under numbers 9 up to and including 16 will only result in structural savings in the long run (2020). The measure under number 10 very clearly shows the effect the performance-linked student grant regime has. When the basic grant is transformed into an income that is based on the income contingent loan system after enrolment in the master's programme, the conditional gift of the basic grant is transformed into a permanent gift (relevant expenditures in the spending framework) when the student has obtained a bachelor's degree. This happens later in the current situation. Students are likely to encounter setbacks in the first years of their study.

Privatizing master's programmes

What does this measure mean?

- In this measure, master's programmes are no longer funded by public means. Tuition fees for master's programmes are no longer the government's responsibility. The government will remain responsible for quality control and the monitoring of market competition. Price regulation can be applied by determining a maximum price. Additionally, by using the student grants and loan system and by loaning students money in other ways, the government can influence the accessibility of master's programmes.
- The list reflects the budgetary proceeds of this measure.

Considerations on the measure

- Privatization of master's programmes substantially increases the costs of obtaining a degree. When the budgets for the departments stay the same, the student will have to pay an average of at least 6000 euros a year, on top of the present tuition fees of 1620 euros.
- It is difficult to determine beforehand how departments will handle the underlying costs per degree course. The prices will probably be partly based on the actual costs, but the departments will also include the advantages for the student for obtaining a master's degree in determining the price. In case the tuition fees are guided by the costs, the fees for a medical education will be approximately 60,000 euros a year, for a technical education approximately 20,000 euros a year and approximately 6000 euros a year to obtain a grade-one teaching certificate (two-year training course).
- With regard to accessibility and the intake of students into the master's programmes, the effects fall into two categories: the effects on study choice and master's programme choice on the one hand and the effects on accessibility on the other. With regard to the last category, the conclusions in this report indicate price elasticity and risk aversion for students with parents on lower incomes. The working group expects that in principle the master's programmes will not be strongly affected by that. Measurements to privatize master's programmes, however, are completely different, which means that effects from the past and from abroad can not be applied to the privatization of the master's programmes just like that. Study courses that are relatively cheap and yield high private results (for instance, economical courses) might have little or even a positive effect on the intake of students in the master's programme. Expensive studies or two-year master's programmes that yield low private results (technical courses and research focussed master's programmes, for instance) will become less attractive. This also has consequences for the intake of doctoral students. The tuition fees for medical study courses can even become extremely high, but yield high personal results at the same time. As a result of these considerations, the degree courses that yield high social results will not have as high an intake of students. Especially programmes for teacher-training, technical and medical degree courses encounter these problems.
- Contrary to the bachelor's degree programme from a university of professional education, the university bachelor's degree programme is not regarded (by employers and universities) as a study programme that is of great value to the labour market. Therefore, not many students (an estimated 5 per cent) seek employment after obtaining a university bachelor's degree. Due to the privatization of the master's programmes, students will have to consider more often whether they are going to enter the labour market after they have obtained their university bachelor's degree. This calls for a change in the demand by employers.

- When the master's programmes (and especially the university master's programmes) are no longer funded by the government, a level playing field²⁴ will be created in the Netherlands (not in Europe); to all providers of higher education, the same conditions apply. Only specific (social relevant) master's degree programmes from universities of professional education are funded, other master's degree programmes from universities of professional education are not. Conditions for starting a master's degree programme will be the same when master's degree programmes from universities of professional education or other universities are privatized.
- The Netherlands will become an exception, internationally, when the master's degree programmes are privatized. At the moment, there are no examples available of countries that do not give subsidies to programmes student enrol after obtaining their bachelor's degree. Students from abroad will become less attracted to take up studying in the Netherlands and Dutch students, conversely, will become more attracted to obtaining a master's degree abroad. Experiences from the past show that many of the students who finish their education abroad, will stay there: so a risk of "brain drain" is present.

Abolishing student public transport pass

What does this measure mean?

- The student public transport pass will become a facility that students will have to pay for. The government could consider to offer these students some kind of loan facilities.
- The list includes the budgetary proceeds concerning this measure.

Considerations in regard to this measure

- The student public transport pass can not be made compulsory to students if the pass is not abolished completely and when loan facilities are made available. As a result of this, only students who travel a lot and to whom the costs of the pass are compensated for by their use of it, will accept the pass and students who travel less will probably decide not to accept the pass. It is likely that the price of the student public transport pass will become more like normal public transport rates to an increasing extent, since those students who use public transport to a lesser degree conclude that, relatively speaking, they pay more for the pass than when they pay for their trips themselves. Solidarity in the present contract between students who do not travel much and students who travel a lot will no longer have an effect, which means that there will not be many possibilities available for the agreement in a collective contract. Offering loan facilities would probably mean that the pass will be abolished.
- By not offering students free public transport facilities any longer, a number of the students (especially students who live at home in remote areas) will have to pay a lot more money for travelling to an educational institution.

²⁴ For instance, read Tieben, 2008, *Wegen naar dynamiek in het hoger onderwijs*, SEO Economic Research.

These students might choose a degree programme they do not particularly want to follow or they may decide to live away from home. This measure may hinder students in choosing the highest quality degree programme.

- The student public transport pass has been met with changing appreciation over the course of time. When the pass was introduced, students argued that a travelling facility in kind would limit their spending privileges. At this moment, the pass is regarded as one of the most positive aspects of the student grants and loan system²⁵. The working group, however, does believe that it is just to cut down on expenses for the student public transport pass, since a lot of travelling is done for purposes other than for travelling from home to university and vice versa.
- The pass is responsible for approximately 20 per cent of the turnover of all three transport methods (railway, city and regional). The percentage for urban and regional transport is nearly 25 per cent in travelling kilometres. There are considerable differences here. Student transport is only 16 per cent of all transport by Amsterdam Municipal Transport (*GVB*), for instance, compared to 40 per cent of transport by the regional transport company in Twente. Figures for other rural areas are the same. It is difficult to assess what the consequences will be for the supply of public transport when the student public transport pass is abolished.
- The pass is a form of student grants and loans in kind. This is not uncommon internationally. Examples of student grants and loans in kind in other countries, for instance, include free schoolbooks, free or subsidized housing facilities, student meals, sporting facilities. An earlier study has illustrated if and how other countries meet the travelling expenses of students²⁶. This study compared twenty countries, including the countries that surround us in the Netherlands, Scandinavia, some southern European countries and Australia. The conclusion of the study was that most countries have some sort of collective travelling facilities for students, especially in the form of discounts on public transport rates. On top of that, or instead of that, a number of countries grant individual allowances to students who have to travel a certain distance from home to university and vice versa. In general, students receive a 50 per cent discount on the regular public transport rates, in Belgium and Denmark the discount can be as much as 65 per cent. The Dutch pass is unique in its kind, since the pass allows students to travel anywhere they want during the week or the weekend for 11 months a year.

²⁵ Leren investeren, investeren in leren: een verkenning naar stelsels van studiefinanciering, Commission Vermeend report, 2003.

²⁶ 'Vervoersvoorzieningen voor studerende na 2002', Interdepartmental Policy Investigation (*IBO*), 1999.

ANNEX 3: Summary of “Risk and certainty; the 13th Report of the Budgetary Framework Commission”

1.1. Advice

One of the most important challenges of the next government is to secure government finances for the middle-long term and the long term. Because of the crisis public finances have deteriorated and risks for the government have increased. At present, the budget deficit estimate for 2011 is 5 per cent of GDP and public debt rises to approximately 70 per cent in 2011. Moreover, the sustainability gap has risen to 4.5 per cent of GDP (29 billion euros) due to the unfavourable budgetary position and increased life expectancy. Without government interference there is a threat that existing deficits increase and bills will be passed on to future generations. In other words, the solidity of Dutch government finances and the sustainability of public services are at risk.

1. The government faces a challenge of saving 29 billion euros to secure healthy and sustainable public finances. To address this problem stringent measures and fundamental reforms are imperative. Structural and long term challenges such as increasing life expectancy demand structural solutions. However, it does not suffice to take long term oriented measures only. To prevent further deterioration of public finances (including an ever increasing debt and interest burden) as a result of the crisis, measures to push back the deficit should also have its effect during the next government term. Therefore the Budgeting Framework Commission (BFC) advises the next government to take decisions covering the full long term challenge. However, because public finances should also be secured in the medium-term, a substantial part of these measures should lead to savings in the next government term.

2. The budgetary challenge for the middle-long term will have to meet requirements of the Stability and Growth Pact. In accordance with these requirements a minimum saving of 15 billion euros is required in 2015. This minimum requirement is complementary to increasing contributions and own payments in the health care sector (or alternatives) that are part of the Economic Outlook 2011 - 2015 of the CPB. In the light of the current financial and economic climate and uncertainties and the absence of caution in the economic outlook the BFC deems a package of measures saving 18 billion euros in 2015 more sound. According to the Commission, a package as such offers perspective on a balanced budget on a structural basis.

3. To improve sustainability of public finances the Commission advises a package of sustainability measures amounting to 1½ per cent GDP. Together with the package for the middle-long term the full amount of 29 billion euros will then be addressed. Sustainability measures that generate savings in the period between 2011 and 2015 can be included in the package for the middle-long term.

The BFC points out that the sustainability measures that have already been prepared (including the raise of the legal retirement age) should be implemented, preferably at an accelerated rate. Additional sustainability measures are desirable, for example in the areas of health care, housing, pensions and the labour market. By systematically adapting existing policy arrangements and taking measures to strengthen the economic structure, the government can combine the continuity of public services with budgetary security.

4. Budgetary policy should be sharpened with a view to manage downward risks and to get more security on the realisation of budgetary targets, without sacrificing the tried and tested elements of the trend-based budget policy. To facilitate intermediate adjustment possibilities the Commission advises to use a 'signal margin' of 1 per cent in relation to the budget balance that results after processing of policy measures in the coalition agreement. In addition, all expenses should be controlled under the expenditure ceilings. The expenditure ceiling will be adjusted downward when interest burdens are not as high as expected.

5. As a result of the crisis the risk profile of the Dutch government has changed. Because of the crisis implicit risks have become explicit, the number of government guarantees has increased and it has become clear that there is only so much risk that the government can take over from the market. In other words, to be able to absorb risks and normal economic fluctuation and to be able to keep at a safe distance from the absolute minimum of a deficit of 3 per cent of GDP, the government should generate a buffer. Therefore, the Budgeting Framework Commission advises to aim for a budget surplus for the period after 2015.

1.2. Summary

At the start of the Balkenende IV government in 2007 the Dutch future looked relatively bright. With an economic growth of 3 per cent and unemployment below 4 per cent the CPB estimated an average economic growth of 2 per cent per year for 2008 – 2011. In short, perspectives in the Netherlands were good. However, in 2008 this picture has radically changed. Present estimates are that economic growth for the period 2008 – 2011 is a mere 0.5 per cent GDP per year. The condition of Dutch public finances mirrors this radical change. The EMU-balance²⁷ changed from an expected surplus over the government term to a deficit that is, according to the latest estimates, increased to almost 5 per cent GDP in 2011. Public debt in 2011 will be approximately 70 per cent, whilst in 2007 the debt quote was under 40 per cent.

²⁷ The EMU balance is the difference between the income and expenditure of the government (Central Government, Social Security, Care and local authorities and autonomous administrative authorities [ZBOs]) of a certain country in a certain year. The calculation of the EMU balance is in line with the economic reality.

Table 1 Development of economic growth, EMU-balance, EMU-debt and unemployment in comparison to the Coalition agreement

	2008	2009	2010	2011
Estimate GDP growth Coalition agreement (per cent)	2.5	1.75	1.75	1.75
GDP growth Economic Outlook 2010	2	-4	1.5	2
Estimate unemployment Coalition agreement (per cent)	4	4	4.25	4.5
Unemployment Economic Outlook 2010	3.9	4.9	6.5	6.5
EMU-balance Coalition agreement (per cent GDP)	0.4	0.7	0.8	1.1
EMU-balance Economic Outlook 2010	0.3	-4.9	-6.3	-4.9
EMU-debt Coalition agreement (per cent GDP)	45	43	41	39
EMU-debt Economic Outlook 2010	58	62	67	69

Governments over the world have tried to stimulate the economy and prevent further decline by intervening on the financial market and by a coordinated budget policy approach. The Netherlands contributed by intervening in the financial sector, strengthened automatic stabilisers and by adopting a temporary stimulating package for the crisis years 2009 and 2010. In other words, the Netherlands took to anti-cyclical policy-making. The price to be paid for having this type of policy is a deterioration of public finances that has to be restored in the coming years.

This fiscal position also translates into a bigger challenge for the long term. In spite of government measures of the past few years (to the amount of 0.5 per cent point), the sustainability gap has risen to 4.5 per cent GDP. This is partly due to the deteriorated state of government finances and partly to a further increase of life expectancy. The expected increase in health care costs is limited as a result of the assumption that people live half of their 'longer' years in good health. Nevertheless, the sustainability of future public services is on the line. For this reason the Commission sees the securing of public finances for the middle-long and long-term as the most important challenge for the next government.

1.2.1. Budgetary challenge: 29 billion euros

According to present insights, the challenge to secure sustainable public finances requires savings of 29 billion euros. This can only be realised if stringent measures are taken and fundamental reforms are realised. This will not be without consequences. Moreover, just as the stimulatory measures of the government have supported economic growth, consolidation measures can hamper economic growth. The costs of consolidation should however be measured against the costs of doing nothing that will occur in the medium-term. The solidity of Dutch public finance and the sustainability of public services in the future are on the line. The Commission advises the next government to take decisions addressing the full long-term challenge of 29 billion euros. Because government finances should also be secured in the medium-term, a substantial part of the measures should lead to savings in the next government term.

1.2.2. Towards a structurally balanced budget in 2015...

Increasing debts lead to an increased interest burden. Interest payments either increase deficits or displace more productive government spending. Borrowing money comes at a cost, also for the government. A deficit of 3 per cent per year leads to – as long as debts are not paid off – circa 0.75 billion euros of extra interest payments. An increase in government debt reduces buffers the government has to absorb future shocks. The Dutch advantageous pre-crisis budgetary position made it possible for the government to absorb – for a substantial part – the shocks in both the financial sector and the real economy in public debt. A smaller buffer may lead to an increased risk premium on Dutch state loans, which means that interest expenditure increases even further.

The BFC therefore thinks it does not suffice to take measures that only have its effect in the long term. The budgetary challenge for the middle-long term will have to meet requirements laid down in the Stability and Growth Pact²⁸. The Stability and Growth Pact demands a minimum saving of 15 billion euro. Increasing health care contributions and health care own payments (ca. 7 billion euros) included in the Economic Outlook of the CPB should be taken into account. Alternative solutions for paying for these costs are available, but those do not eliminate the problem. In the light of the current economic and financial climate and uncertainties and the absence of caution in the economic outlook the Budgeting Framework Commission deems a package of measures saving 18 billion euros in 2015 more sound. An effort of this magnitude provides a perspective on a balanced budget on a structural basis. Under the influence of short-term crowding out effects the balance of 2015 will probably be around a deficit of 1 per cent GDP.

1.2.3. ... and at least 1½ per cent sustainability measures

To improve the sustainability of public finance the Commission advises to adopt a package of sustainability measures of at least 1½ per cent GDP. In combination with the package for the medium-term this would address the full challenge of 29 billion euros. Sustainability measures that generate effects in the period 2011-2015 can be included in the package for the middle-long term.

For the implementation of the sustainability package the Commission advises to – by any means – implement sustainability measures that have already been prepared. This means implementing the elevation of legal pension age, measures in curative health care, a gradual limiting of care benefits and the measure on indexing homeowner benefits. Taking into account the current scale of problems, the advice is to sharpen and accelerate measures wherever possible.

Additional sustainability measures are desirable. After all, the Netherlands face a number of challenges that will occur with relative certainty. The growing life expectancy is one of these trends. We know for a fact that the ratio between the employed population and the population drawing old-age pensions is under increasing pressure.

²⁸ In the light of the Excessive Deficit Procedure the European Commission has recommended the Netherlands to push back its deficit with an average of $3 \times \frac{3}{4}$ per cent point for the period 2011-2013. As of 2013, or as soon as the deficit is under the 3 per cent margin, an annual improvement is expected of $\frac{1}{2}$ per cent point GDP on the structural deficit. This annual improvement is to be met until the Netherlands meets its medium term objective (a balance between -0.5 and +0.5). This implies a minimum assignment of $3 \times \frac{3}{4}$ and $2 \times \frac{1}{2}$ per cent = $3\frac{3}{4}$ per cent for the next government term. 1.8 per cent of the assignment will be realised by improvements on the structural balance between 2010 and 2015. What is left of the assignment has to be realised by saving € 15 billion in 2015.

Developments which occur with near certainty such as ageing of the populations require another policy reaction than risks. Saving is not enough: structural challenges ask for structural solutions. Saving also does not increase control over the budget. Budget management does only improve when risks are narrowed down.

Increasing life expectancy brings about extra government expenses for old age pensions and health care and puts the pressure on existing institutional relationships. In addition, more shocks on returns for pension funds are being translated into higher pension contributions as a result of ageing. This has once again an effect on government finances because of the fiscal deductibility of contributions and because of pension contributions for civil servants. In addition there is an interest risk for the government on the outstanding mortgage debt: higher interest rates means higher fiscal deductions.

The modification of this type of arrangements means making the budget more robust for long-term developments. When future trends that can be predicted are addressed - e.g. with measures concerning the housing market, health care, the labour market and pension reform - the consequences of these developments for the government finances in the future become more limited and the underlying economic basis strengthened. As a result more certainty is gained about securing public services in the future.

1.2.4. No business as usual: sharpening budget policy

'Keep the good' is an appropriate adagio for budgetary policy. The evaluation of budgetary policy 2007-2011 has made clear that – intermediate adaptations in spite – the budgetary ceilings have proven useful for controlling regular expenditure setbacks and the tax burden. Therefore the Commission advises to continue the trend-based budget policy, to maintain the strict separation of revenues and expenses and to preserve the tried and tested system of expenditure and revenue ceilings.

The next years however cannot be characterised as business as usual. The condition of Dutch public finance and the uncertainty about economic recovery do not allow any failure regarding the consolidation efforts over the next government term. Trusting the automatic stabilisers does not offer enough comfort on the realisation of desired improvements of the government balance. The Commission therefore prioritises securing public finance over the importance of fully allowing automatic stabilisers to work.

Therefore the Commission advises to sharpen the trend-based budget policy so as to better manage and control downward budgetary risks and so as to gain more security on realisation of budgetary goals and ambitions. The BFC recommends:

1. a healthy ambition for the budgetary target and a certain amount of front loading;
2. the Stability and Growth Pact as an anchor for yearly decision-making;
3. discipline on the expenditure side and asymmetric correction for interest payments;

4. a signal margin of 1 per cent for interim readjustments.

Ad 1. Healthy ambition and front loading

Because of the uncertain prospects for economic recovery, the absence of caution in growth estimates of the CPB and the long-term challenge to save 29 billion euros the Commission argues that a healthy ambition in budgetary target is the best remedy for recovery of government finances. By including ambitious balance targets in the coalition agreement the government commits itself to a substantial package of measures. Expenditure- and revenue ceilings are based on the targeted balance-path, and serve as a starting point for budget policy during the entire government term. A healthy ambition creates a buffer to absorb shocks resulting from the business cycle and from implicit and explicit government risks. A certain degree of front loading of measures can help to increase security regarding the realisation of budgetary targets. The more measures the government takes at the beginning of its term, the sooner balance targets can be realised. This in turn means that the government does not have to respond to every fluctuation in the business cycle.

Ad 2. The Stability and Growth Pact as an anchor for yearly decision-making

The Commission advises to use the Stability and Growth Pact as an anchor for budgetary policy. This means that in 2013 the real EMU-balance should be brought under the 3 per cent margin. In the light of the Excessive Deficit Procedure the European Commission has recommended the Netherlands to reduce the deficit with an average of 0.75 per cent per year from 2011 onwards. After 2013 – and until the structural balance meets the Medium-Term Objective – the improvement of the structural balance serves as a benchmark. This means that the structural deficit is reduced by 0.5 per cent point per year from 2013 onwards. In addition, the European Commission expects increased effort in case of economic windfalls. Looking at the Stability and Growth Pact, the minimum total effort is 3.25 per cent GDP till 2015.

Ad 3. Rules of discipline on the expenditure side and asymmetric correction for interest payments

Better control of downward risks on the expenditure side can be realised by placing as much expenses as possible under the expenditure ceilings. This means that in defining the expenditure ceilings it is important to stay as close as possible to the definition of the EMU-balance. In the view of the Commission this applies also to expenses which are subject to windfalls and setbacks resulting from the business cycle such as unemployment benefits, social security benefits, the real price adjustments of expenditure ceilings and interest payments on the public debt.

The Commission points out that arguments formulated by the twelfth Budgetary Framework Commission to keep expenses on unemployment, social security benefits and real price adjustments of the expenditure ceilings under discipline of the expenditure ceilings, still apply. Unemployment- and social security benefit expenses and the real price adjustments of the expenditure ceilings fluctuate in opposing directions and compensate each other over the years. Furthermore, fluctuations stemming from the business cycle and from structural causes can barely be separated in unemployment estimates.

If ceilings are adjusted there is a risk that no cutbacks are made in response to structural overspending. Therefore, the Commission advises the government cease correcting expenditure ceilings in the next term.

The twelfth Budgetary Framework Commission has also recommended placing interest payments on public debt outside the discipline of the expenditure ceilings. The reason for this recommendation was to strengthen automatic stabilisers and to prevent the government from using interest-related windfalls for extra spending. Another consequence of this recommendation is that exceeding the interest expenditure budget does not call for cutbacks. This government term showed that interest payments are not completely independent from policy. The increase of interest payments was dominated by the effect of government intervention in financial markets. The fact that interest payments are partly policy driven and the wish to control downward risks lead the BFC to recommend replacing interest payments under discipline of the expenditure ceilings. To prevent that interest payment windfalls lead to extra room for expenditure, the Commission recommends that the expenditure ceilings be corrected (lowered) for unexpected interest-related windfalls.

Ad 4. A signal margin of 1 per cent for interim readjustments

Whenever the budget balance does not develop according to the requirements of the Stability and Growth Pact and the desired balance reduction may not be realised (in spite of ambitious goals and extra discipline), additional readjustments are required. Therefore a signal margin of 1 per cent compared to the balance path resulting from augmenting the economic outlook with the coalition agreements, is proposed. Whenever the signal margin of 1 per cent is transgressed extra measures need to be taken to keep ambitions for the end of the government term in sight. The signal margin is transgressed when estimates for the real EMU-balance in the spring Economic Outlook for the next year (t+1) show a downwards deviation of more than 1 per cent compared to the balance-ambition that resulted from the coalition agreement.

Timely intervention implies a certain amount of flexibility in the budget. Flexibility is not obvious however. That is why the Commission advises to set aside funds meant for extra spending or alleviation of the tax burden, and to condition the spending of these funds on the then prevailing budgetary conditions.

1.2.5. Dealing with risk: a surplus to be on the safe side for the period after 2015

Under influence of the crisis risks for the state have increased. Deferred risks have become visible and the government has taken risks on its balance that were, before the crisis, not explicitly appointed to the government. The amount of government guarantees has increased and existing guarantees have been extended. Next to the benefits of have made these choices, for example in the form of preventing distrust in the financial sector, it brings about costs for the national treasury. The government is responsible for costs that were privately carried before.

Therefore, the next government period should be used to transfer these risks back to where they belong: the market.

The altered risk profile of the Dutch government asks for more stringent rules for dealing with guarantees. Government guarantees are not 'free money'. To prevent the current 'no, unless'-policy turning into a 'yes, why not'-policy the Commission advises to increase transparency of guarantees in budget reports, a need to better substantiate the need for guarantees and the introduction of an insurance formula which pools risks and where contributions benefit the public funds (and not the budget of specific departments). In addition, this insurance model should be complemented with – wherever possible – market rate premiums and a substantial, but bearable own risk for responsible line departments. Finally, the Commission recommends a periodic evaluation on the necessity of all guarantees. This also applies for guarantees granted during the crisis.

Some risks will always be for the government in final instance. To be able to bear the burden of this last resort position on risks, a buffer in public finance is imperative. A low debt level is a basic condition for the government to be able to fulfil the role of a last resort. That is why the BFC advises – in addition to the recommendations for the medium- and the long-term - to aim for a budget surplus after 2015. This advice is partly based on the necessity to absorb economic fluctuations without falling into large deficits. This is also how sufficient distance is created from the absolute lower limit of a budget deficit of 3 per cent GDP, stemming from the Stability and Growth Pact.

ANNEX 4: Summary the Tax System Study Committee report

The current economic crisis seems to be over the hump. However, the scars the crisis has left in the international and Dutch economy will not disappear easily. The Dutch economy has lost welfare, about 5per cent of GDP, and the state's budget has been thrown off balance. The crisis is the direct reason for examining if the current Dutch tax system is still up-to-date, also given this changing economic environment. Apart from the crisis, too, it is sensible to find out if the tax system is still tailored to the problems and structural trends that the Netherlands are facing, if improvements can be found that render the system economically simpler, more efficient, more sound and more environmentally-friendly, to examine what the solidarity of the system is and in what way it can be adjusted if so desired by politics. All of this should meet the precondition that the burden of taxation remains unchanged. A challenging task indeed.

The Tax System Study Committee has deduced several messages from its study. The main messages are summarised in the section below.

Much can be improved within the current system

Much has been said in the past few years about possible major system changes, such as a flat tax, a tax on the total payroll or a legal-form-neutral profit tax. The aim of these changes is a more efficient and simpler tax system. These system changes are unnecessary and even have a counterproductive effect:

- with an equal distribution of incomes the current income tax system with several tax rates will always be more efficient than a flat tax, as it is better suited to address the difference in income elasticity. A simplification via broadening of the tax assessment basis does not require a flat tax. This broadening of the tax assessment basis can also be applied under the current system, so that a similar simplification can be achieved;
- a tax on the total payroll will lead to an extra administrative burden for households and higher implementation costs and collection problems for the Tax Authorities. As long as politicians wish to steer the income distribution by means of taxation, an individual payroll tax will be more efficient;
- a legal-form-neutral profit tax deviates from legal reality. Consequently, a complex system is required that will also lead to undesired effects in an international setting (double taxation or no taxation). The Committee presents a proposal for the taxation of profits that keeps the current system and legal reality intact and simultaneously realizes the major part of the tax neutrality desired with the operating profit tax between various types of enterprises.

Broadening the base and reduction of rates

In the last few decades, the base for income and corporate tax was broadened several times with a simultaneous reduction of rates. The committee advises to continue this trend, because it helps to improve economic efficiency of the tax system and will lead to simplification. More specifically, the Study Committee advises to evaluate all deductions and tax rebates with the following line of approach: 'abolish, unless'. In addition, the Committee advises the termination of at least:

- the deduction of donations;
- the life-course savings scheme;
- the salary savings scheme;
- the private pension allowance for the self-employed;
- the pension under one's own management;
- the allowance for children and elderly persons in the taxation of income from savings and investments.

Organising solidarity against lower costs

A flat tax is less efficient and not necessary for the profit on simplicity. On the other hand, a flatter rate structure would be the obvious choice:

- the advantage of deductions and rebates largely accrues to the higher incomes. If the tax base is broadened as proposed in this report, it is obvious that the higher incomes are to be compensated by means of a lower rate. In addition, this will lead to (bigger) positive labour market effects;
- on the other hand, an increase in the top rate mainly has symbolic value; the extra revenue is low and the adverse effects that the increase will have on the labour market are significant in comparison with the low revenue. The inequality of incomes in the Netherlands is smaller than the European average. If further income difference reduction is desirable, measures narrowing the tax assessment basis that have little relation with the labour market and from which primarily the higher income groups benefit, should be scrapped.

Stop over encouraging financing with debt

In several places, the current tax system encourages funding with debt. As the recent crisis has shown, this brings along huge risks in our economic system. These encouragements are to be found mainly in the homeownership dossier and the profit tax for enterprises. These encouragements can be addressed in the following ways:

- reduction of the trend to finance homes with maximum mortgages by abolishing the saving allowance for homeowners;
- by analogy with the additional *loan* scheme, the mortgage debt could be balanced with the base for the taxation of income from savings and investments. This measure includes an incentive for debt settlement, as it prevents enjoying mortgage interest relief while redemption capacity is available in the form of other capital. Another option is that an upper limit is included for the debt amount to be considered;

- introducing an allowance for equity in the corporate income tax. This will lead to more equality between equity and debt, and in combination with an addition for negative capital it simultaneously renders foreign takeovers of Dutch companies with borrowed money less attractive. Furthermore, it creates a better balance in the tax burden of Dutch multinationals and companies in the small- and medium-sized business segment.

A more neutral way is necessary and possible

Taxes disrupt choices. This cannot be prevented, unless a fixed tax amount per resident is opted for. Simultaneously, however, the current system also creates disruptions that *can* be prevented. These disruptions arise from taxation differences for which no adequate foundation is provided. The system can be made more neutral by:

- slowly terminating the excessive subsidies on homeownership, whilst steering towards taxation like other income from savings and investments in combination with an exemption. This will put an end to excessive stimulation of homeownership whilst simultaneously reducing the income tax rates considerably, with a better functioning labour market and an increase in welfare as a result. In addition, there will be a more neutral handling with regard to other assets, so that people will make more efficient choices in their savings behaviour. There will be a simpler tax system as well. The Committee is fully aware that these interventions in homeownership taxation – also in current cases – will have a major impact for the citizens and companies operating in the housing market. This is why the transition should be in stages and should take place very gradually. The system should also be applicable to the existing types of mortgages;
- the gradual conversion of the transfer tax on housing into a property tax or an increase of the notional rental value. The real-estate market and the labour market flows will improve as a result;
- harmonisation of the VAT rates, causing the low VAT rate to disappear. Social welfare will increase. Any undesired income effects can be repaired through income tax;
- the introduction of a new system of profit tax, where the entrepreneur (in income tax) and the director/large shareholder (through his company) will receive an allowance for equity. In exchange, the income tax deduction for the self-employed will gradually disappear. The profit exemption from income tax for small and medium-sized companies will be retained. This system is more neutral with respect to the legal form of enterprise to be chosen, and it is also more neutral between employee and entrepreneur. Simultaneously, it will ensure that the tax benefits for entrepreneurs will be effective where most benefit is to be expected: the creation of capital;
- changing the tax mix, so that less disturbing taxes are given a bigger share, for instance an increase in VAT, taxation of real estate ownership and insurance tax. The revenue is to be used for reducing taxes that have a more disturbing effect, such as the personal income and corporate income tax.

National taxes play a modest role in addressing climate change issues

In principle, taxes are an efficient tool in rendering environmental policy more substantial. With taxes it is possible to internalize the external costs of behaviour that is detrimental to the environment. Justifiably, the instrument has therefore been deployed frequently. Further deployment of this instrument, however, will have to be considered in connection with other instruments. The Committee has found that in the context of the current set of environmental instruments the increase of environmental taxes will only lead to a limited extra reduction of the national CO₂ emissions. This is largely due to the fact that the climate is a world-wide problem and that international instruments, such as the European Emission Trading System (ETS), are already in place. Due to the concurrence with these instruments and 'frontier effects', part of the CO₂ savings due to increases in environmental taxes is undone. The following measures can still be taken, though:

- focusing on European/internationally coordinated actions, such as increasing the minimum rates in the Energy Taxation Directive (these apply to fuel taxation as well), the introduction of a clearer CO₂ element in this directive, broadening the instrument of emission trade and the abolition of international excise duty exemptions for maritime transport and aviation;
- the basis for the low rate for red diesel and LPG has been superseded. Subsidizing polluting behaviour via a lower rate is no longer considered the proper thing to do. These lower rates must be abolished, and this fits in better with the charges for car use;
- increases in energy taxation are possible with the aim of energy savings and the idea of having the polluter pay his share. The CO₂ effects of such increases, however, are slight;
- the differentiation in the car registration tax by CO₂ emission works well. It is therefore wise to retain a substantial part of this tax in the future, also in the event that a price per kilometre is introduced. If no price per kilometre is introduced, another type of car use taxation will have to be found that may replace the road tax;
- new environmental taxes will only be recommended, if they have significant environmental effects against low administrative and implementation costs. The meat tax does not meet this criterion and is therefore advised against. It should be noted that the proposed uniform VAT rate could already cause the price of meat to rise;
- if new environmental taxes are considered, they will preferably have to be implemented on the basis of European legislation, so that bigger environmental effects will ensue.

Ensure sound revenue

Especially in times of growing financing deficits, it is vital that tax revenues are sound. Soundness of tax revenues may increase by:

- a VAT-rate increase in the tax mix, preferably through rate harmonisation;
- an increase in real-estate taxation in the tax mix. This can partly be achieved with the proposals concerning homeownership. A higher property tax may be an option for other real estate;
- acceleration of the policy already started for old-age pension taxation to increase combined rates for the elderly;

- fewer deductions that narrow the tax base;
- indexing of the excise duties on tobacco and alcohol.

In this report the Tax System Study Committee indicates the improvements it considers feasible. Sometimes, these improvements require political daring, but they are also the result of a realistic view on taxation in which the possibilities and impossibilities of the taxation instrument are respected. The reader should bear in mind that the Committee has performed a preliminary study. A blueprint for a new tax system was not the aim, and neither was it feasible within the given time frame that was later even reduced. In addition, the Committee emphasizes that it makes no concrete judgements on the implementation procedure of its proposals. The Committee is not in a position to do so either, as the questions as to which distribution effects are acceptable and which incentives fit in with the objectives of a government are primarily political. In the second place, tax policy choices are part of government policy in a wider sense. Implementation procedures of (sometimes drastic) taxation changes should therefore be considered in the context of this general government policy. The Committee recommends adopting a gradual approach to prevent any shocks. Further follow-up studies will need to be performed as well. Simultaneously, this report shows that many changes, both big and small, are possible that contribute to a better tax system from the perspective of the core themes issued to the Committee: soundness, solidarity, economic efficiency, simplicity and respect for the environment.