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Academic Foresights

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Dutch Political Economy

How do you analyze the present situation of the Dutch political economy?

In the second half of the 1990s the Dutch economy became an internationally discussed model: the 'polder' or 'delta model', named after the geographic peculiarities of the country. Background was the strong increase of the employment rate from just above 50 per cent in the early 1980s to about 70 per cent fifteen years later. It was called a 'miracle', although it was clear that much of the strong increase was due to the rise of, particularly female and juvenile, part-time jobs.

The quick explanation was wage restraint. In the fall of 1982 employers and unions in the coastal place of Wassenaar had agreed to restrain wages in order regain competitiveness, the story run. By this famous Wassenaar Agreement subsequently higher profits, increasing investment and growth as well as more jobs had been realized – still according to the dominant story. This story was internationally popular and foreign delegations went to The Hague to learn about the supposed fruitful and peaceful collaboration of capital and labour in the 'Dutch model'. Apart from a few critical scientists nobody cared that Wassenaar was not an agreement on wage moderation for competitiveness, but to exchange wage restraint against a shorter workweek and almost nobody cared that this agreement until the early 1990s was completely forgotten.

It took a while and a decline of the high growth rates before an alternative view gained strength in the 2000s. This view was that the Netherlands had participated in an international bubble economy the growth of which was fostered by a wealth effect stemming from rapidly rising house prices and, as in the Netherlands, Britain and the US, generous opportunities of tax relief on the interest paid on mortgages. Only a few countries like Austria, Germany and Switzerland did not participate in this bubble, but also became its victim when this and the related financial bubble burst in the 2000s, first slowly and eruptive in 2008. By then, the Netherland had already lost its model image. As the comparative data in Table 1 show, in the 2000s its GDP and job growth was no longer spectacular.

Table 1: Comparative GDP per capita; average annual growth rates 2000 – 2010 in per cent

Austria	Belgium	Denmark	Finland	France	Germany	NL.	Sweden	UK	USA

1,08	0,77	0,18	1,43	0,47	0,98	0,94	1,48	1,12	0,61

Source: OECD, *Economic Surveys: European Union 2012*, Paris, OECD 2012

After 2008 the country had definitely lost its economic momentum. GDP and employment growth was low or even, as currently, declined. Public debt went up, largely above the 3-per cent the EMU allows, which is remarkable in the country that sharply had condemned Mediterranean public finances. Unemployment also rose from 3,1 per cent in 2008 to 5,5 per cent in 2012. The financial crisis had stopped the easiness of receiving mortgages, house prices decreased, but nonetheless private debt, since years at the second highest level in the EU, continued to rise to 250 percent in 2010 (to take a few comparative examples: Denmark 268 per cent; the UK and Sweden almost 150, Germany 89 and Italy 65 per cent; Eurostat 2012).

In your opinion, how will the situation likely evolve over the next five years?

The prospect becomes gloomier by the day. The spring 2012 forecast of the Dutch Bureau for Economic Policy Analysis (CPB) as compared to the fall 2011 forecast of the OECD might illustrate this (see the last two rows of Table 2). The increasing importance of the emerging economies since the turn of the millennium, particularly of China, had changed the Dutch position in the international division of labour. The Netherlands no longer belonged to the lucky countries. Consumption was muffled by the decline of the house price wealth effect, and as exporter the Netherlands does not have so much to offer to China, India and other emerging economies. The country is specialised in services, agriculture-based goods and the transition of goods from its harbours and Schiphol airport to the countries east and south of its border (NRC Handelsblad, 25 February 2012) but hardly in machinery, tools and cars. Furthermore, the Netherlands does not belong to the top innovators in Europe. According to the EU's Innovation Scoreboard this top is made-up of Denmark, Finland, Germany, Sweden and Switzerland with the Netherland only belonging to the group of 'followers' (Pro Inno Europe 2011).

In spite of this development, the Netherlands is still one of the richest and socially least unequal countries in the world. The employment rate is the highest in the EU – even if one has to take into account the huge part-time rate – unemployment is the second lowest (behind Austria) and youth unemployment is the lowest (together with Austria and Germany the Netherlands is the only EU country with youth unemployment rate below 10 per cent – see the OECD sources mentioned in Table 2). The minimum wage remains relatively high (in 2012 monthly € 1450)– although the youth minimum wages, scaled from age 15 to age 22, are exploitatively low –, public pensions (70 per cent) and social benefits are related to the adult (23 years) minimum wage, and income inequality and poverty are below the European average (OECD 2008: 58 and 127).

Perhaps, one should add that international surveys show that the Dutch feel very happy, in this regard only surpassed by the Danish and Norwegians (NRC Handelsblad 11 November 2011).

The recipe to tackle the crisis is a traditional Dutch one and a liberal one. Traditionally Dutch is the idea to improve competitiveness by wage moderation and austerity. The intention is – the negotiations in the governing coalition are not yet conclusive – to freeze public wages and to economise costs in the public sector, perhaps to raise the VAT and to bring down foreign aid as well as the contribution to the EU. The liberal recipe is the liberalisation of the labour market. Since years, this is a hot ideological issue, and the centre and rightist parties sacredly believe that the relaxation of dismissal rules will give a strong push to the economy. The dominant Dutch ideological discourse completely ignores that countries like Sweden, Austria and Germany perform very well with a somewhat higher employment protection (EPL; cf. OECD 2011b).

What are the structural long-term perspectives?

Generally, liberal ideas and policy intention gained considerable strength in the Netherlands during the past two decades. Privatisation and marketization became central goals. The former has been a general feature in European countries, but the marketization of for example health care and the introduction of market principles into education are rather special (see Houwing and Vandaele 2011) – particularly for a country with a strong tradition of corporatism and market regulation (especially in the field of wages). Increasingly, the market is becoming normality in many social fields. A recently published study on the Dutch "market society" by the Scientific Council for Government Policy illustrates this. The market is pivotal, the state has to facilitate, that is the message (WRR 2012, 7, 19f). The context of this development has been favourable in the recent past, mainly because of the decline of the unions. Union density has shrank to a level of 20 per cent, and in 2011 the federal structure of the non-Christian unions broke down and needs to be reorganised. A powerful player looks different.

The prospects: there are many problems, but the country's infra-structural potential in science, education, labour force and traffic is huge, and as long as Germany, where the Dutch economy to a considerable degree depends upon, fares well, the downturn will remain limited.

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