

# 1 MAIN LINES OF POLICY

## 1.1 Taking advantage of strong economic position

Growth, sustainability, respect, and solidarity. These are the key elements of the government's plans. The Budget Memorandum 2008 spells out the goals laid down in the Coalition Agreement. The government is taking firm steps in the coming years to realise the set targets. Not only through a substantial package of extra investments and reduction in the financial burden, but also by implementing additional measures causing higher financial burdens and cutbacks (also affecting government services). In addition, substantial changes in the tax and social security structure are being introduced to stimulate participation in the labour market.

The government seizes the opportunity created by the booming economy to instigate a number of less favourable measures in 2008. These measures are being introduced at a relatively opportune moment: strong economic performance, rapidly rising employment and government policies that will prevent the economy from overheating. Moreover, in 2008, the government will take specific measures to spare people on lower incomes as much as possible. The outlook Prospects for the entire government period is positive: overall employment and general purchasing power are rising and the solidity of government finances is reinforced.

The measures presented in this Budget Memorandum are necessary. The structure of the Dutch economy has improved over the past years; however, there are still major challenges ahead, not only regarding the sustainability of government finances but in many other fields as well. With its financial-economic policy (including the ambitious goal of a budget surplus) set out in this Budget Memorandum, the government is making a concrete contribution to the financial sustainability of the current collective provisions. The national debt will drop to its lowest level in more than thirty years, partly as a result of this policy,

This Budget Memorandum also defines the financial leeway and budgetary rules for the entire government period. This will ensure that the government's ambitions fit within the target of achieving a budget surplus of 1% of GDP in 2011. The first step has already been taken; the budget for 2008 shows a surplus again of 0.5% of GDP.

Sound government finances now and in the future are crucial for an effective government in a flourishing society. But the government's ambitions range further; hence plans to invest – through six pillars – in a future-proof Netherlands.

## 1.2 Challenges for the Netherlands: the six pillars

The government is convinced that the Netherlands still can, and must, do better. A sustainable, innovative economy requires a more intelligent and sustainable approach to nature and the environment. A strong economy leaves no talent wasted. A society marked by strong social coherence performs better than a society in which people only pursue their own interests. These are all reasons why the government's ambitions go further than sound government finances alone. The government aspires to solid and targeted investments in the strength of the economy, in the quality of society and in a sustainable approach towards nature and the environment. Following consultations with municipal authorities, provinces, social partners, social institutions and the public, the government has decided on the substance and distribution of the 'envelopes' – the funds reserved in the Coalition Agreement for new policies (see chapter 3 for further details). These investments contribute to making the Netherlands 'future-proof'.

### *An active international and European role*

The Netherlands is inseparably connected to the rest of the world. This holds true for the economy, where risks and opportunities are largely determined outside the Netherlands. It also holds true for cross-border issues relating to energy, the environment and security. The Netherlands can greatly benefit from international cooperation in areas such as these. In Europe, the revised EU treaty provides a solid basis for close collaboration.

This connection with other nations also creates responsibilities; addressing poverty and security issues is not confined to Dutch soil. The Netherlands' commitment to peace, security and human rights at international level is more than simply an expression of these responsibilities; it is also in the interest of the Netherlands.

### *An innovative, competitive and enterprising economy*

Strengthening the competitive power and productivity of the Dutch economy demands the deployment of all available talent. The government intends to give everyone a chance to explore, develop and use his or her talents. This applies equally to those with lower-secondary vocational training in search of work, and to students for whom only the best university education will do. Therefore, the government invests heavily in the quality of education and research. Improving the collaboration between knowledge institutions and the business community will enhance innovative capacities still further. The government expects that this will facilitate a more effective use of knowledge and innovative entrepreneurship in the resolution of social issues such as the need to develop new health care concepts.

The government will also reduce the administrative burden for companies. These measures form the basis of an innovative economy that provides ample room for talent and entrepreneurial initiatives. An economy that grows because people do what they are good at.

#### *A sustainable living environment*

The choices we make now define our future. The government strives for sustainability by carefully weighing the interests of today's and tomorrow's generations and takes significant steps toward a sustainable energy supply that transcends the current government period. Government initiatives are imperative if drastic climate changes are to be prevented. The government fully embraces this approach, and will make a strong case for an ambitious climate policy at international level. But the government is not solely responsible; consumers and manufacturers are being offered financial incentives to encourage them to find sustainable solutions. The expanding market for innovative and sustainable products which this fosters, offers ample opportunities for trade and industry. Such a strategy allows economy and sustainability to go hand in hand. A sustainable living environment is also promoted by making the spatial planning of our country climate-proof, safeguarding the vitality of rural areas and combating landscape cluttering.

#### *Social coherence*

The government wishes to enhance the vigour and quality of our society. To be involved in society, one must participate in it. However, too many people are currently on the sidelines because they lack qualifications or because their knowledge and skills are no longer up-to-date. People are all too quickly written off as 'no-hopers'. The government aims to reintegrate these people into the workforce. At the participation summit, further agreements were made in this field with municipal authorities and social partners. The government aims to create new perspectives in areas facing accumulated social problems ranging from high unemployment, low incomes, lack of social cohesion, to high crime rates. Both long-established immigrants and newcomers should feel at home in their neighbourhoods and work together towards livability of quality of life. Specifically, this involves tailor-made social provisions, constraining public nuisance, and increased levels of community policing. Involvement in the community and in society takes many forms: informal care, voluntary work and social initiatives. The government stimulates this through policy and funds.

Taking part in society starts in early childhood; the basis lies in the family and at school. Children and young people deserve an upbringing and education that brings out the best in them and encourages them to become active and

committed citizens. The government wants this opportunity to be open to everyone, and invests in children, young people and their parents. One such example is preventing or tackling poor language skills in very young children – and their parents if necessary.

People who are (temporarily) unable to participate due to health reasons must be able to count on adequate and affordable care provisions. The government is investing in a health care sector that offers quality, is accessible and is well prepared for the increased demands that will be made on the health care system.

### *Safety, stability and respect*

Safety is the essence of a livable society. When it comes to safety, the public expects the government to deliver, and rightly so. Society as a whole gains from transparent rules and strict law enforcement. The government aims to radically cut crime rates by preventing the perpetration of offences, coupled with strenuously tackling crime, aggression and violence.

With its *Veiligheid begint bij Voorkomen* (Safety through Prevention) project, the government intends to reduce crime over the period 2008-2010 by 25% compared to 2002. This requires an all-encompassing approach combining preventive, criminal law and administrative measures. Prevention is the watchword. Greater emphasis is put on (juvenile) crime prevention, recidivism and anti-social behaviour. At the same time, the government holds citizens, youths, schools and the public sector accountable for their actions. After-care for (ex) detainees is given priority in the collaboration between the justice system, municipal authorities and care institutions.

### *The government as an ally and a service-focused public sector*

Realising these ambitions requires laws and regulations as formal prerequisites for many economic and social activities. But an overabundance and over-complexity of rules or overly rigid implementing practices may hamper progress in this field. That is why the government aims to further reduce administrative burdens for citizens, private enterprise and professionals in the care and education sectors. Working in tandem with people in the workplace, the government aims to curb complex rules and rigid implementing practices. This approach is based on trust. Hence, firm steps will be taken in cases where trust is breached. To ensure that citizens, professionals and entrepreneurs actually assume responsibility the government will improve the quality of its services.

The government also supports other provisions such as the arts, culture and the media. The emphasis lies on broad accessibility, participation and education. The government envisages a decisive, people-focused government. Agreements have been made with municipal authorities and provinces to realise this. Political reform in the Netherlands Antilles is also geared towards forming an administration, with the Kingdom's partners, to serve the population to the best of its abilities.

## **1.3 Sound financial policy**

Continuing the sound financial policy is essential in achieving the set targets, now and in the future. The financial paragraph of the Coalition Agreement sets out the

financial parameters and rules for this government period; this Budget Memorandum contains an elaboration of this framework. The government aims to realise a structural budget surplus of 1% of GDP in 2011. This goal – which, from a historical and international perspective, can be regarded as ambitious – is anticipated to result in further reducing the national debt to less than 40% of GDP. In addition to the Coalition Agreement, the government has decided to take extra measures that will contribute to improving the sustainability of government finances, greater labour participation and a more balanced purchasing power situation over the whole government period. In this light, the government has decided to intensify the fiscal greening programme, to raise the VAT rate in combination with lower employed persons' insurance contributions, to truncate pension premium tax deductions for top-level incomes and to raise the standard imputed income from home ownership [*eigenwoningforfait*] for the most upscale residences. With the measures from the Coalition Agreement and these extra measures, the government contributes significantly to the compensation of extra costs incurred in relation to the ageing population – and therefore to the welfare of future generations.

Solid budgetary rules ensure that the preset policy priorities and targets can also be achieved in the event of unexpected (economic) developments. This government continues the index-related budget policy of previous governments while upgrading this policy on some points. Strict expenditure parameters prevent having to reconsider priorities each time there is an unforeseen development. The separation of income and expenditure serves the same purpose: because the expenditures have been set in advance and are not revenue-dependent, they will not immediately be affected by windfalls or setbacks in tax revenue or gas proceeds. The budgetary rules are worked out in detail in chapter 3. This chapter also presents - for the first time - the income and expenditure framework for this government period. The framework therefore reflects the government's policy priorities for the entire government period.

#### **1.4 The economy and government finances in 2008**

Consolidation of government finances takes place in economically prosperous times. The Dutch economy is booming and the Netherlands is one of the richest countries of the EU<sup>1</sup>. In 2007, the Dutch economy is expected to expand by 2¾ per cent. The economy will also remain strong in 2008, although this forecast is more uncertain than usual given the recent unrest in the financial markets. Moreover, the

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<sup>1</sup> Source: Statistics Netherlands (CBS)

persisting boom will result in a further rise of the already high employment rate. The Netherlands is also performing well from an international perspective: In 2008, Dutch economic growth will exceed that of the eurozone.

Many people will directly profit from the flourishing economy: unemployed people will re-enter the labour market following the economic recovery and people in employment may switch to better jobs. However, the favourable economic circumstances will not immediately improve everyone's financial situation – many will even face a slight reduction of their purchasing power in 2008. In this regard, it should be noted that the effects of finding a new or better job or receiving a pay rise have not been taken into account. To ensure that the greatest burden will fall upon those most able to afford it, the government has introduced a number of additional measures such as raising the older persons' tax credit and old-age pension compensation, raising the child-related budget and lowering the rate of the first income tax bracket (see chapter 3 for further details). Additional measures - lowering unemployment benefit contributions and raising the labour credit and supplementary combined credit - have been taken to not only improve purchasing power but also promote participation in the workforce.

According to the most recent predictions, the budget balance will result in a deficit of 0.4% of GDP for 2007. Although this is considerably worse than the surplus of 0.6% of GDP in 2006, it is still slightly better than forecasted in the spring. For 2008 – the first budget of the government – a surplus on the budget is expected again of 0.5% of GDP. With this, the budget for 2008 meets the target to improve the EMU balance every year compared to the previous year. The prospects for the remainder of the government period are also favourable as table 1.1 illustrates. It shows that the target of a structural surplus of 1 per cent in 2011 is feasible.

**Table 1.1 EMU balance 2007-2011 (in 1% of GDP)**

	2007	2008	2009	2010	2011
<b>EMU balance, actual</b>	<b>- 0.4</b>	<b>0.5</b>	<b>0.6</b>	<b>0.7</b>	<b>1.0</b>
Idem, structural	- 0.3	0.4	0.8	0.9	1.1

## **1.5 Conclusion**

The government has made clear choices in its first budget. Its commitment to sound financial policy and transparent budgetary rules is unambiguous. The other policy choices from the Coalition Agreement have been concretized in this Budget Memorandum (see chapter 3). As a result, the Budget Memorandum 2008 is not just a statistical overview but also a logical follow-up to the Coalition Agreement and the Policy Programme.

The measures outlined in this Budget Memorandum are instrumental in reinforcing our flourishing society. A society that offers people the scope to make their own decisions and to take responsibility – for themselves and for each other. A society that not only encourages people to get the best out of themselves, but actually challenges them to do so and provides support when needed. A society that will take corrective action if necessary. This scenario opens up a vista of opportunities – the prospect of growth, sustainability, respect and solidarity – for the greatest possible number of people.