

Budget memorandum 2008

The first Budget presented by this government focuses on the choices and principal measures and provides insight into the financial background. This first Budget also elaborates on the goals set out in the Coalition Agreement. Although the government aspires to sound government finances both now and in the future, it also intends to make targeted investments in the quality and strength of Dutch society, the health of the economy and in a sustainable approach to nature and the environment. The Budget clarifies the financial leeway and rules for the entire government period. A budget surplus of 1.0% of GDP in 2011 defines the parameters within which the government must set its goals – growth, sustainability, solidity and solidarity.

The economic and financial situation in the Netherlands

The economy is thriving and the Netherlands is one of the most prosperous countries in the European Union. The economy is expected to grow by 2³/₄% in 2007. Despite recent financial market turbulence, the economy will remain strong in 2008 resulting in further growth of the already high employment rate. A growth of 2¹/₂% is expected for 2008. Also from an international perspective the Netherlands is doing well.

Government finances have also improved. Following a temporary dip in the budget balance in 2007 (from a surplus of 0.6% of GDP in 2006 to a deficit of 0.4% of GDP in 2007) the budget is once more expected to show a surplus of 0.5% of GDP in 2008. Moreover, in the coming 4 years, the budget will continue to show a surplus resulting in a surplus of 1.0% in 2011. In 2008, the national debt amounts to 45% of GDP and partly on account of the government's policy, this will be further reduced to less than 40% of GDP in 2011, which is the lowest level in more than thirty years. The situation of Dutch government finances is also better than the eurozone average. This applies to both the budget balance (eurozone -0.8% of GDP) and debt (eurozone 65% of GDP).

Taking advantage of our favourable position

The government takes a number of firm measures to reach the goals set out in the Coalition Agreement. Moreover, in addition to the Government Programme it has taken a raft of measures that will contribute to compensating the costs incurred on account of the ageing population – and therefore to the welfare of future generations. The plans also see to it that people on lower incomes will be spared as much as possible and contribute to economic structure enhancement and labour participation. Besides a substantial package of extra investments and lowering of administrative burdens, this also involves a higher tax burden and cutbacks.

The government is seizing opportunities created by the booming economy to instigate a number of less favourable measures in 2008. Many people benefit directly from the strong economy because they find employment or switch to a better job. However, the favourable economic conditions will not immediately result in more cash to spend for everyone. In fact, some groups will even experience a slightly lower purchasing power in 2008. But the choice and composition of intended measures ensure a fair and just distribution of them.

The overall picture for the entire government period is clearly positive: employment and purchasing power will grow across the board and the solidity of government finances will be enhanced.

Generation-conscious government finances

The current financial-economic policy must also provide the conditions required for the well-being of future generations. Because tomorrow's generations not only inherit the financial prerequisites, but also the quality of the provisions, the strength of the economy, the livability of neighbourhoods, the greenhouse gases in the atmosphere and the yield of our investments in education. A major challenge remains the sustainability of government finances as a result of the ageing population. The growing number of older citizens in the Netherlands leads to an increase in government expenditure, in particular as concerns old-age pension and health care costs. Sustainable government finances are achieved by taking the following three-pronged approach:

1. Saving by lowering expenditure or raising taxes.
2. Encouraging labour participation aimed at expanding the financial basis for collective provisions. The more people engaged in employment, the better the distribution of the financial burden.
3. Modifying ageing related provisions (e.g. old-age pensions and health care). The government has opted for a combination of each of these three approaches.

Saving

The government aims to achieve a structural budget surplus of 1.0% of GDP in 2011. As the government is able to show a surplus in all of its budgets, a part of the national debt is paid off, which means that funds are 'saved' for the future. A lower debt means lower annual interest expense payments and thus more room in the budget.

Labour participation

A shift will take place from the burden on environmental pollution, consumption and capital in favor of lowering labour costs. In 2009, the general VAT rate will be raised by 1 percentage point, the imputed income from home ownership [*eigenwoningforfait*] for houses with a WOZ (Valuation of Immovable Property Act) value above 1 million Euros will be adjusted and pension premium deductions will be capped for top-level incomes (higher than 185,000 Euros). At the same time, labour participation will be promoted by lowering employed persons' insurance contributions and the first income tax bracket as of 2008. Labour participation is further promoted by removing financial obstacles and introducing more effective financial incentives to make the transfer from social security benefit to paid employment more profitable, encourage partners earning a lower income to extend their working hours and to encourage employees aged 57 or over to continue working longer (through, as of 2009, the general phasing out of the general tax credit over a period of 15 years, replacing the labour credit by an income-related labour credit and replacing the supplementary combined credit by an income-related combined credit.).

Ageing related provisions

To keep the old-age pension scheme (AOW) index-linked in the future, a contribution is requested from older persons earning a relatively high income. This only applies to people born after 1945 (i.e. turning 65 as of 2011). The requested contribution can be made by either working longer or paying an extra levy. Freedom of choice is an important feature of this contribution. The system therefore comprises two elements: a positive incentive encouraging people to work longer and a levy according to people's ability to pay. The government also takes measures in the health care sector to keep future costs under control.

This total package contributes substantially to maintaining the current level of the collective provisions at an affordable price for the benefit of tomorrow's generations.

Investments

The government invests through six pillars in new policies that will contribute to a future-proof Netherlands. During the course of this government period, the investments will rise, both expenditure and burden-wise, to a total of approximately 10 billion Euros.

Expenditure increases (<i>In million Euros</i>)	2008	2011
<p><i>Pillar 1: An active and constructive role of the Netherlands in Europe and in the world</i></p> <p>The government wishes to contribute to international solutions of cross-border problems, e.g. in the field of the environment, the fight against poverty and crime. In 2008, extra funds will be attributed to defence, peace operations, crisis management operations (Afghanistan) and extra investments will be made, as from 2008, into sustainable energy in developing countries.</p>	100	400
<p><i>Pillar 2: Towards an innovative, competitive and enterprising economy</i></p> <p>Various measures are being proposed to enforce innovative power and with that the competitive position of the Dutch economy. Extra money shall be spent in 2008 on matters such as research and social innovation programmes in the field of health care, water management and (sustainable) energy. To stimulate entrepreneurial initiative, extra funds are attributed to, among other things, expanding the innovation vouchers to all small and medium-sized businesses (MKB), granting micro-credits to business starters and rapidly expanding small and medium-sized enterprises, simplifying laws and regulations and improving and expanding public transportation*)</p>	200	850
<p><i>Pillar 3: Sustainable living environment</i></p> <p>The government aims to substantially improve the energy household, the climate and the living environment of the generations to come. In 2008, funds will be reserved for energy-saving instruments and environmental-friendly energy production. Additional measures will be taken in the field of water quality, making the Netherlands climate-proof through e.g. urban planning (and in later years high water protection), facilities for rural areas, animal welfare, landscape and nature /Ecological Main Structure - EHS.*)</p>	215	800
<p><i>Pillar 4: Social coherence</i></p> <p>The government strives to enforce the strength and quality of society. A society in which everyone participates and everyone's talents are put to good use, also functions better. As from 2008, considerable funds will be reserved to increase social coherence by taking measures for, among other things, labour participation, tackling deprived neighbourhoods, the introduction of a child-based budget, improvement of naturalisation programmes, education, the fight against poverty,</p>		

debt rescheduling schemes, encouraging non-professional care, voluntary work and social initiative, tackling educational backlogs, gradual introduction of free school books in secondary education, reducing teacher shortages, introduction of social traineeships, lowering early school leavers' rates, and realising a nation-wide network of Youth and Family Centres (centralised contact points in the neighbourhood for child raising issues and assistance). As of 2008, extra investments will be made to increase the number of nursing staff in care homes, small-scale housing accommodation and resolving bottlenecks in the health care labour market.	1765	3578
<p><i>Pillar 5: Safety, stability and respect</i></p> <p>The government aims to substantially reduce crime rates by preventing social derailment and substantially tackling outbreaks of violence and crime. As of 2008, the government intensifies its investments in the fight against juvenile crime, repeat offending (special campuses and tailor-made behavioural programmes) and after-care for detainees and ex-detainees. Extra funds are also made available to upgrade the fight against organised crime (cyber crime, financial-economic crime and fraud), the fight against terrorism and prevention of radicalisation as well as training extra police officers.</p>	200	700
<p><i>Pillar 6: The Government as an ally and serving the public sector</i></p> <p>In 2008, the government will make available funds for improving services and enhancing the cultural sector, with emphasis on broad accessibility, participation (especially amateur art) and cultural education. Funds will also become available for the benefit of the quality and renewal of the programmes offered by the public broadcasting stations. A National Historic Museum will be founded in Arnhem.</p>	175	600

*) Extra investments from the Economic Structure Enhancement Fund (FES) will benefit the infrastructure, knowledge and the regional economic policy (pillar 2) and energy, water, coastal and air quality (pillar 3), rising from 144 million Euros in 2008 to 518 million Euros in 2011.

Cutbacks

To realise the policy priorities of the government and its objectives of the EMU balance, a substantial package of expenditure cutbacks was agreed on in the Coalition Agreement and in supplementary agreements, up to a total of approximately 6 billion Euros in 2011.

Measures

- A more efficient implementation of government policy resulting in the loss of almost 13,000 jobs in the public sector during the coming government period.
- Efficiency measures taken within the public sector as regards material expenditure, in particular through a more sober information and communication policy.
- A more efficient implementation of social security schemes, for instance by merging work reinstatement and labour participation budgets at municipal authorities, aimed at reducing the number of income support applications.
- Reduction of administrative costs incurred by municipalities.

- Introduction of a compulsory work/education programme up to the age of 27. As a result, youths will no longer qualify for income support but will receive an offer to continue their education or engage in employment or a combination of these two.
- Savings in health care expenditure by, among other things, efficiency measures and introduction of benchmark competition between hospitals, increasing the share of health care for which tariffs are negotiated between care providers and care insurers, further lowering of the costs of medication, measures aimed at limiting the growth of care provided under the General Exceptional Medical Expenses Act (AWBZ) and quality improvements in prolonged care.
- Increasing the own contribution rates payable under the AWBZ by persons on higher incomes.
- Stepping up the Directive on suitable employment. (In the framework of work reinstatement, people receiving unemployment benefit are compelled to accept passable employment instead of suitable employment.)
- Other cutbacks such as: limiting subsidies, tackling fraud and raising fines and catching up the capital surpluses of the provinces.

Financial burden measures

Given the flourishing economy the government deems it proper to take firm measures at this moment, to realise the ambitions and goals of the Coalition Agreement. In 2008, the financial burden will be increased by 5.3 billion Euros of which 3.1 billion Euros apply to citizens and 2.2 billion Euros to businesses. This increase in burden (in figures) does not necessarily correspond with the perception of the public and the business community. This is also because expenditure measures are taken that are not expressed in the burden figures but nevertheless result in a relief of financial burden for people and businesses. For example, the introduction of free school books, child-related budget and labour costs subsidies. In 2008, the additional financial burden is mainly caused by the increase of the health care premiums. Since the introduction of the new health care system, the health care insurance premiums have covered the health care expenditure. As the care expenditure is expected to continue to increase over the coming years, this will also apply to the health care premiums. The other measures have been mainly taken to support reaching the government's goals in the field of energy and the climate (the greening package from the Tax Administration Contingency Plan 2008).

The measures result into a slight drop in purchasing power for a number of categories. In total, the burden increase over the whole government period will be on balance 6.8 billion Euros. However, the purchasing power development over the whole government period will be positive.

Additional financial burden measures 2008

- Increase of the health care premiums.
- Two new taxes will be introduced: one on packaging and one on flight tickets.
- Existing taxes, such as the diesel fuel excise duty and the Private Motor Vehicle and Motor Cycle Tax (BPM), will be raised or further differentiated in proportion to the environmental effects (uneconomical cars will be heavier taxed).
- Excise on cigarettes and rolling tobacco will be increased.
- The Exceptional Expenses Regulation (BU) will be replaced by a regulation more geared towards chronically ill and handicapped people. Pending the repeal, the current regulation will be sombered down.
- Housing corporations will become liable to company tax just as other business enterprises.

Besides measures resulting in an increase in the burden there will be measures to relieve the burden. The measures proposed in the Coalition Agreement and the additional measures aimed at relieving the financial burden, focus on encouraging labour participation and purchasing power support for groups of people that really need this support. In addition, funds will be made available for measures to enhance economic structure.

This means that over the whole government period, the financial burden will not increase any further than previously announced in the Coalition Agreement.

Measures to relieve the financial burden in 2008:

- The labour credit will be increased.
- The older persons' credit will be increased.
- The rate of the first income tax bracket will be lowered.
- Unemployment Benefit (WW) contribution for employees will be lowered in 2008 and reduced to zero in 2009.
- The Promotion of Research and Development Act (WBSO) will be extended.
- The health care benefit will be increased to compensate for the increase of the health care premiums.

Budgetary rules

Budgetary rules are in fact rules by which governments and political parties commit themselves in advance to a responsible financial policy. In the first place the rules provide a transparent framework within which the extensive political wishes need to be embedded. After all, each Euro can only be spent once. Secondly, with the budgetary rules firmly set at the start of the government period, the government clearly explains the budgetary route to be followed.

The budgetary rules build on the rules of the index-linked budget policy developed over the past 12 years. However, the government has introduced a number of improvements. The changes focus among other things on the possibility to intervene even at an earlier stage in the unlikely event that the government finances should deteriorate. In this government's period, the point of departure is a realistic estimate of its leeway for new policy.