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Vliet, O.P. van; Caminada, C.L.J.; Goudswaard, K.P.; Lange, S. de; Louwerse, T.; Hart, P. 't;  
Ham, C. van

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# Economic Policy and Politics in the Netherlands\*

Olaf van Vliet, Koen Caminada and Kees Goudswaard

Leiden University

## Introduction

Economic policies are politically sensitive and salient issues. For example, in election debates, financial and economic subjects such as economic growth, unemployment, inflation, budget deficits, taxes and expenditure cuts are popular topics on which to cross swords. Furthermore, in the Netherlands, the new government budget is always presented on a ceremonial day on which the monarch gives a speech, which could be considered the Dutch equivalent of the State of the Union address. In the weeks following this day, the projections of the purchasing power for different groups in society, which to some extent give an indication of the socio-economic outcomes of the proposed policies, are highly debated by politicians, by civil society organizations, and in the media. Against this background, it seems remarkable that scholarly attention to the politics of Dutch economic policy has been rather modest in political science.

In this chapter, we shed light on the politics of Dutch economic policy. To set the scene, we first sketch the main characteristics of the Dutch economy. The Dutch economy can be characterized as a small and open economy. In comparison to the economies of other European countries, it has performed relatively well in terms of conventional economic indicators, particularly after years of economic problems in the 1980s. We provide an overview of the evolution of economic policy since the first Lubbers government which started in 1982. Since then, a range of austerity measures and budget rules have been implemented which have resulted in substantially improved levels of budget deficit and government debt. Whereas fiscal

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policies were politically and economically important in the 1970s and 1980s, structural reforms arguably gained more ground in economic policy at the end of the twentieth and in the beginning of the twenty-first century (Van Sonsbeek et al., 2023). We zoom in on two such reforms, of the housing market and the pension system, which are exemplary for contemporary Dutch economic policy.

Interestingly, the fiscal policy reforms and budget norms which contributed to the stabilization of government finances were implemented by different political coalitions and by prime ministers from different political parties. In the literature on the politics of economic policy, theories describe the role of partisan ideology as one of the key factors for the differences and developments in public expenditure. We discuss these and other theories in a review of the international-comparative literature on the politics of economic policies. Even though the academic interest in the politics of Dutch economic policy has been modest, this literature, particularly the political economy literature on fiscal policy, has flourished in recent decades. Building on this overview of the literature, we conclude this chapter by identifying a number of promising directions for future research in the politics of economic policy. In particular, we highlight the implications of some recent phenomena in the Netherlands, such as increasing expenditure on health care, challenges in the housing market, the ageing population, and the green transition.

## **Developments in the Dutch Economy and Fiscal Policy**

### ***The Dutch Economy***

Over the past few decades, the structure of the Dutch economy has undergone significant transformations. The Netherlands has shifted from a society driven primarily by industrial activities to one dominated by services, where more than 80% of the workforce is employed in the service sector. This shift has propelled the Netherlands into being recognized as one of the most prosperous countries globally (Van Sonsbeek et al., 2023), ranking twelfth in terms of per capita income. Despite its relatively small geographical size, the Netherlands boasts a remarkably high population density and productivity, which has enabled it to emerge as the seventh-largest economy in Europe and one of the top 20 economies worldwide. Foreign trade plays a pivotal role in the Dutch economy. The country's trade volume, both imports and

exports, has consistently accounted for a significant portion of its gross domestic product (GDP), ranging between 40% and 60% in recent years.

### ***Evolution of Dutch Macroeconomic Policy***

The 1980s were marked by high inflation, high unemployment, high interest rates, and high budget deficits, and the government was focused on fiscal austerity measures. The economy experienced steady growth during the 1990s, driven by higher labour supply, increased exports and reforms of social programmes. The bursting of the dot-com bubble caused a slowdown in economic growth in the early 2000s, but economic performance was strong in the mid-2000s, supported by robust domestic demand and rising housing prices. Unemployment reached very low levels. However, the global financial crisis of 2008 had a significant impact on the Dutch economy (as in almost all other countries). The financial sector was in big trouble, housing prices fell sharply, and the economy stagnated. The government responded via financial support to banks, including nationalization and recapitalization of troubled institutions.<sup>1</sup> The financial crisis was followed by the European debt crisis. In the Netherlands, budget deficits and government debt rapidly increased, leading to subsequent efforts to restore fiscal discipline (Ministerie van Financiën, 2023).

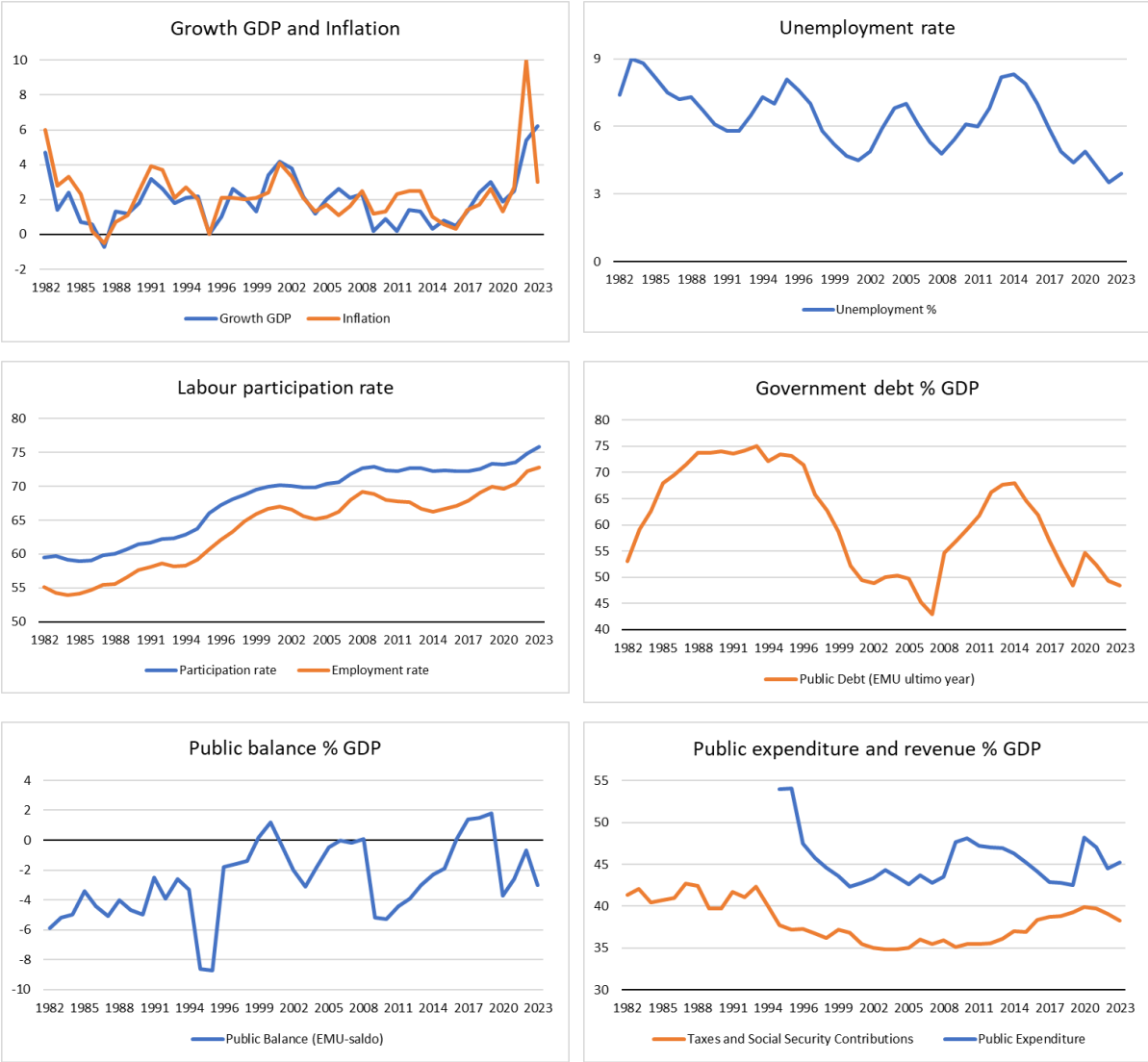
Following the crisis, the Dutch economy gradually recovered, but the Covid-19 pandemic in 2020 and subsequent years caused further substantial problems for the economy. In reaction, the government launched extensive and generous fiscal support programmes that were successful. A meta-study shows that the support measures introduced during the Covid-19 crisis led to between 65,000 and 180,000 fewer dismissed employees in 2020, according to the Netherland Bureau for Economic Policy Analysis (Centraal Planbureau, 2022). The economy had barely recovered from the pandemic at the time the war in Ukraine started. Energy prices, in particular, sky rocketed and inflation boomed. Again, the government implemented large support programmes. Figure 37.1 presents some key statistics on economic growth, unemployment, labour participation, and public finance (e.g. debt, public expenditure and taxes

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<sup>1</sup> In its final report, the committee of inquiry (Commissie Parlementaire enquête naar het Financieel Stelsel - Commissie De Wit, 2012) concluded that the Dutch authorities had made major mistakes in their billion-dollar interventions concerning Fortis/ABN AMRO and ING. Both financial institutions had run into serious problems in the autumn of 2008 due to their own actions, which had jeopardized financial stability in the Netherlands. The Ministry of Finance and the Dutch central bank had not been sufficiently prepared for a crisis of this magnitude. The state had been forced into large-scale rescue operations. The Parliament was often informed too late and incompletely, according to the final report.

as a percentage of GDP) for the period from 1982—the start of Lubbers’ first government—onwards.

Figure 37.1 Evolution of the Dutch economy, key indicators (1982-present)



Source: CPB Netherlands Bureau for Economic Policy Analysis, ‘Verzamelde bijlagen met lange reeksen t/m 2028 (MLT)’

**The Lubbers Governments, 1982–1994**

During this period the economy was characterized by low economic growth, high unemployment, and worsening public finances. The first two of four governments led by prime minister Ruud Lubbers of Christian-Democratic Appeal (CDA) prioritized fiscal discipline to address the high budget deficits and rising national debt. Spending cuts and tax increases were

implemented, to reduce the budget deficit and restore economic stability. Economic policy was characterized by a shift towards market-oriented reforms and a focus on liberalization and deregulation. The Netherlands actively participated in the process of European integration. The government supported the creation of the single European market, which aimed to eliminate barriers to trade and facilitate economic integration among European Union (EU) member states.

### ***The Kok Governments, 1994–2002, and the Balkenende Governments, 2002–2010***

The economic policy of the ‘Purple’ coalition government of the Labour Party (PvdA), the People’s Party for Freedom and Democracy (VVD), and Democrats 66, led by prime minister Wim Kok was characterized by a continuation of market-oriented reforms (with a focus on the labour market), fiscal discipline, and liberalization. Gaining an international reputation for pioneering the so-called ‘Third Way’ synthesis of centre-right economic and centre-left social policies favored by his contemporaries Bill Clinton, Tony Blair and Gerhard Schröder, Kok’s aim was to ensure sustainable public finances while keeping unemployment at bay (Oudenampsen, 2021). The government supported the introduction of the euro, and European policies and regulations were increasingly incorporated into national economic policy-making.

The four governments led by CDA prime minister Jan Peter Balkenende continued to prioritize fiscal discipline and aimed to further reduce the budget deficit and government debt. The global financial crisis of 2008 had a significant impact on the Dutch economy. In just a few months, the economy shrank by €22 billion, an unprecedented decrease of 3.5%. The national debt was skyrocketing, from 43% of GDP in 2007 via 55% in 2008 to 68% in 2014 (source below Figure 37.1). The government took measures to support the stability of the financial sector. Kickert (2012) describes and analyses in detail how the Dutch government responded to the financial, economic and fiscal crisis. It provided financial assistance and guarantees to banks and financial institutions to ensure their liquidity and solvency and it nationalized several banks. On 4 October 2008, more than two weeks after the fall of Lehman, the Dutch government saved the Dutch part of ABN AMRO from bankruptcy and thus secured the assets of account holders. This smart transaction is generally seen as important in the context of the stability of the Dutch financial system and in preventing contamination spreading to other parts of the financial system with potentially major negative consequences (Houben & Van Rooij, 2016). Additionally, the government implemented measures to stabilize the housing market (see the subsection ‘The Politics of Housing Market Reform’ below).

### *The Rutte Governments, 2010–2023*

Since 2010 the most important aim of the government has been to reduce the budget deficits and government debt, which had rapidly increased during the financial crisis. Both substantial spending cuts and tax increases were implemented by the first two of four governments led by VVD prime minister Mark Rutte. The Organization for Economic Cooperation and Development (2014) concluded that Dutch fiscal policy had accomplished a major adjustment over these years. However, the strong fiscal consolidation had made fiscal policy procyclical because it reduces overall demand in the economy when it is already weak. This policy has been fiercely debated and it has also been criticized by academics. For example, Jacobs (2013) argued that budget cuts and tax increases deepened and prolonged the economic crisis, which caused a substantial loss of economic welfare.

The eurozone crisis, often referred to as the eurocrisis, affected several European countries, particularly those in the eurozone.<sup>2</sup> It was characterized by sovereign debt problems, banking sector weaknesses, and economic challenges in several member states. During the eurocrisis, there were intense negotiations and debates among European leaders regarding the appropriate response. Prime Minister Rutte and Minister of Finance Dijsselbloem, who was president of the of the Eurogroup from 2013 to 2018, were known for taking a firm stance on fiscal matters, emphasizing the need for budgetary restraint and structural reforms to address the economic challenges faced by some eurozone countries, especially southern member states. Their roles in shaping policy responses to the crisis made them hardliners and central figures in the European discussions surrounding the crisis.

Nevertheless, the Dutch economy performed rather well after 2014, until the next crises presented themselves and the Dutch tradition of fiscal prudence gave way to meeting the crisis of the moment with big spending commitments. First, in response to the Covid-19 pandemic, the government introduced a range of policies aimed at providing crucial support to businesses, preserving jobs, and alleviating the economic repercussions of the crisis. The most important programme was the Temporary Emergency Bridging Measure for Sustained Employment, designed to extend wage subsidies to companies experiencing significant revenue declines, particularly in sectors such as transportation, hospitality, tourism, culture, and entertainment.

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<sup>2</sup> Following Kickert (2012) the crisis was managed in countries in three stages. First, the banking crisis, which in 2007 started in the United States and in 2008 led to a global financial crisis in which governments took various measures to save and support the banking system. Second, the economic crisis, which followed the financial crisis, causing governments in 2009 to take economic recovery measures. Third, the fiscal crisis of increasing state debts and budget deficits, which caused governments in 2010 to take fiscal cut-back measures.

This measure greatly helped these companies to maintain their workforce despite the challenging circumstances. Additionally, the government offered tax deferrals, loans, and grants to affected businesses to ensure their viability during this crisis. Secondly, when Rutte's fourth government took office in 2021 and the economy was already recovering from the shock of the pandemic, the energy crisis due to the war in Ukraine occurred. In response, the government provided an additional €20 billion in income support and compensation measures for high energy prices. This higher spending contributed to skyrocketing inflation (>10%) and tightness in the labour market.

## **The Politics of Fiscal Policy**

### *Controlling the Deficit, 1982 –1994*

During the early 1980s, unemployment increased sharply and the budget deficit had become uncontrollable, reaching an unprecedented level in 1983.<sup>3</sup> Lubbers' first government decided to change course and it presented a far-reaching restructuring programme ('No-nonsense'). The government decided that the budget deficit had to be reduced from above 8% to below 5% of GDP. Expenditures on social security, welfare, health care and education were drastically reduced. It was agreed to reduce the budget deficit according to an annual timetable. This became the main objective of the new policy (controlling the tax burden was a secondary objective) via cuts in public spending. However, a critical study by Toirkens (1988) shows that over a longer period ministers constantly tried to avoid having to cut their budgets. As a consequence, budget cuts were to a large degree artificial, while austerity policies were often accompanied by unforeseen rises in spending levels.

Fiscal policy was fully focused on actual levels of the budget deficit. The clear disadvantage of this strategy was that fiscal policy often turned out to be procyclical. Substantial spending cuts were made (especially in the early 1980s), which worsened the economic situation. The opposite also happened. At the end of the 1980s, the economy was doing better than predicted. The government used tax windfalls for additional spending. However, due to these expenditures, public finances did not benefit from the improved macroeconomic situation.

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<sup>3</sup> This section draws on Parlement.com (2023), Vos et al. (2013), Clerx et al. (1993), and Ministerie van Financiën (2023).

Deficit management relied on ad hoc measures aimed at meeting short-term targets. Taking office in 1994, Kok's first government implemented a shift towards a less cyclical, trend-based fiscal policy, guided by the recommendations outlined in the ninth report of Budget Space Study Group, an advisory committee on budgetary affairs consisting of top civil servants, entitled 'Towards a Trend-Based Budget Policy' (Studiegroep Begrotingsruimte, 1993).

### ***Trend-Based Fiscal Policy, 1994–2021***

Trend-based budgetary policy integrates both the macroeconomic stabilization function and the technical control function. At the heart of the trend-based fiscal policy are four key elements:

1. An expenditure framework and a tax revenue framework. To ensure prudent financial management and avoid overspending, annual expenditure ceilings throughout the entire term of office are established for three sectors: the national budget, health care and social security and labour market policies. Importantly, the policy prohibits any transfer of funds between the three sectors. This ensures fiscal responsibility and accountability in each area. Additionally, a separate framework is established to govern the income side of the budget.
2. A clear separation between the systems governing public spending and tax income. This separation guarantees that unanticipated fluctuations in tax revenue will not lead to modifications in spending. As a result, this approach has established an inherent mechanism for economic stabilization of the revenue aspect of the budget.
3. A single crucial decision-making event once in each fiscal year. This method guarantees a thorough assessment of what is both desirable and attainable within the predefined framework. As a result, financial decisions should be realistic and achievable within the established budgetary and fiscal framework (i.e. constraints such as revenue projections, spending limits, and fiscal policy).
4. Independent and reliable macroeconomic estimates for the policy-making process to establish sustainable multi-year budgets. These estimates should not be too optimistic because it is easier for governments to allocate windfall revenues rather than deal with the challenges of compensating for economic setbacks.

### ***The Limits of Trend-Based Budgetary Policy, 2002–2017***

The rules of trend-based fiscal policy were followed until 2003. Due to an economic downturn, the expenditure ceiling was exceeded in that year, leading to challenges in maintaining budgetary control. In response to these circumstances, elements of actual balance management

were reintroduced into the policy. The coalition agreement of Balkenende's second government stipulated that 'further measures' would be necessary if setbacks threatened to exceed the budget targets of Economic and Monetary Union (EMU). The trend-based policy proved to be at odds with adherence to the EMU rules. Subsequent governments tried to follow the rules of the trend-based policy, but they were faced with similar problems after the start of the financial crisis. In 2012, Rutte's first government had to take additional measures beyond those outlined in the Coalition Agreement to keep the EMU budget deficit under control. The centre-right coalition parties—including the right-wing populist Freedom Party—could not reach an agreement on these measures, leading to the collapse of the government. In 2013, Rutte's second, centre-left government expressed a commitment to pursue a trend-based budget policy. But this government too was compelled to implement budget cuts and tax increases to ensure compliance with the maximum 3% of GDP EMU deficit norm. The political consequences of these consolidation policies were huge: the social-democratic coalition partner PvdA suffered an unprecedented loss in the next election.

### ***The End of Trend-Based Fiscal Policy, 2017–2021?***

Remarkably, while the Netherlands had a long tradition of sound fiscal policies focused on keeping public deficits and debt under control, the two centre-right governments Rutte III and IV implemented highly expansionary policies at the cost of worsening public finances. The strong economic boom of the late 2010s, which had enabled the realization of a budget surplus, now became an argument for further increasing government spending. Partly because of negative interest rates, the cabinet explored the potential of new large investment funds—financed with loans—to support economic growth and development, resulting in the establishment of the 'National Growth Fund' of €20 billion.

After the generous support programmes in 2020 in reaction to the Covid-19 crisis, Rutte's fourth government introduced a new substantial increase in spending of €75 billion, primarily allocated to climate- and nitrogen-related funds (Jacobs, 2023). During the energy crisis in 2022, an additional €20 billion for income support and compensation measures were spent. The prevailing sentiment led many to believe that the government should or could address (and compensate for) all societal issues. Nevertheless, it became apparent that the cabinet had disregarded the advice of scholars and the official Budget Space Study Group, which had explicitly stated that "there is no room for on-balance [structural] additional expenditure or tax reduction" (Studiegroep Begrotingsruimte, 2020).

## **Structural Policy Reforms**

In order to curb unemployment and inflation, on the one hand, and to manage budget deficits and the government debt, on the other, fiscal policy was an important policy instrument of the government in the second half of the twentieth century. Until the 1980s, industrial policy was used to steer the economy at the micro level (Katzenstein, 1985), but under political pressure in response to mismanagement of subsidies to the declining Dutch shipbuilding industry during the late 1970s, and because of the emergent EU competition policy regime, industrial policy was largely abandoned. In the new millennium, structural economic reforms have become more important. The underlying idea of this approach is that with a better design of policies, institutions and regulation in specific markets and policy domains, the functioning of the economy can be improved in a more sustainable manner. Two typical examples of such policy domains in the Dutch economy are the housing market and the pension system.

Both the housing market and the pension system are strongly entwined with the Dutch economy, and dynamics in these two domains can generate substantial macro-economic effects via channels such as consumption, savings, and inflation. Furthermore, the pension system and the housing market are both directly related to the government budget via the so-called tax expenditures. Moreover, reforms in both policy domains are politically very complex as a large majority of the households are affected by them and reforms are accompanied by major distributive effects.

### ***The Politics of Housing Market Reform***

The Dutch housing market consists of three segments, namely the market for private home ownership, the market for private rental housing, and subsidized and regulated (social) rental housing. The private rental housing segment is the smallest. The reason for this is that it is the only segment in which the demand for housing is not stimulated by the state. In contrast, in the segment of social housing, maximum rents and housing allowances make housing affordable for low-income households. In the case of owner-occupied housing, home ownership is stimulated by a tax deduction through which homeowners can deduct their mortgage interest from their income tax. Consequently, both the social housing market and the home-ownership market are related to the government budget, namely via the housing allowances and the mortgage interest tax deduction respectively.

The combination of the housing market policy instruments and the limited possibilities of increasing the supply of residential construction as a result of strict urban planning rules resulted in severe problems (Commissie Sociaal-Economische Deskundigen, 2010). In the social housing sector, demand exceeded supply by a large margin. In many places this resulted in long waiting lists, which can run up to even five or ten years. In the case of home ownership, it was possible to apply the mortgage interest deduction to the highest income tax rate, which was 52% until 2013. Furthermore, there was a high loan-to-value ratio; buyers could get a mortgage of more than 100% of the price of the house. As a result of the increased demand for owner-occupied housing, boosted by a generous tax regime for mortgage holders, the real house price increased by 80% between 1995 and 2008 (Anderson & Kurzer, 2020, p. 377). In terms of accessibility and affordability, these developments led to problems mainly for middle-income households (Boelhouwer, 2020). On the one hand, their incomes were too high to be eligible for social housing, and on the other hand, owner-occupied housing had become increasingly expensive.

More generally, the tax regime, which allowed mortgage holders to deduct their interest payments, generated significant distortive economic and societal effects. Notably, this tax deduction has contributed to a situation in which the Netherlands has a large national mortgage debt. Between 1999 and 2012, it more than doubled from €298 billion to €665 billion, which equaled the level of the GDP (Boelhouwer, 2017), largely due to the strong growth in mortgages.<sup>4</sup> From an economic perspective, a high mortgage debt makes an economy extra vulnerable to economic shocks. In the case of a high mortgage debt, the negative effects of increases in interest rates on household consumption and the government budget are magnified. Furthermore, high mortgage debts constitute substantial risks in case of declining housing prices or unemployment. From a societal perspective, the mortgage interest deduction also yields distributive effects, since only home-owners benefit from it and people with higher incomes and higher mortgages benefit relatively more. Because of both the economic and the societal effects, economists and others have criticized and debated the mortgage interest deduction for decades (Boelhouwer, 2020; Commissie Sociaal-Economische Deskundigen, 2010).

Even though the problems in the housing market and the related policy instruments have been debated in the political arena, attempts to reform the housing market could be characterized as

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<sup>4</sup> Furthermore, the ratio of the Dutch national mortgage debt to the national income is also very high from an international comparative perspective.

being in deadlock for a long time. In particular, the right-wing *VVD* and the *CDA* blocked reforms of the mortgage interest deduction while the centre-left parties, including the then prominent *PvdA*, blocked reforms of the social housing sector. Both sides of politics therefore defended the interests of their constituencies, which turned housing reform into a political conundrum.

The economic recession following the financial crisis painfully depicted how highly sensitive the Dutch economy was to fluctuations on the housing market. In this period, roughly between 2008 and 2013, housing prices dropped on average by 20% as a result of a lower demand (Centraal Planbureau, 2020). Consequently, a large number of homeowners ended up in a situation in which the value of their mortgage debt was larger than the value of their house. This situation in itself reinforced the dynamic that even fewer houses were being sold and the housing market crisis was complete.

Eventually, the housing market crisis arrived at a critical juncture which paved the way for structural reform. In a so-called ‘housing market agreement’ (Woonakkoord) which was reached in 2013, the *VVD* and the *PVDA* agreed that both the market for owner-occupied housing and the market for social housing would be reformed simultaneously. The agreement contained several measures, but the most important measure directed at the owner-occupied housing market was the phasing out of the mortgage interest deduction. The maximum mortgage interest deduction for those with higher incomes has been scaled down by 0.5 percentage points per year, beginning on 1 January 2014; in 2023 the deduction for mortgage interest was 36.93%.<sup>5</sup> For the social housing market, the most important measure was that rents were allowed to increase by more than before. In the ten years following these reforms, housing prices have risen substantially and affordability of housing has once again become a salient political issue. Nonetheless, mortgage debt as a share of GDP has declined in this period<sup>6</sup>—which is in line with the goals of the reform—and it may decline further as the mortgage interest deduction continues to be phased out.

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<sup>5</sup> An interesting parallel can be observed in the labour market, where attempts to reform a tax deduction for self-employed workers (*‘zelfstandigenaftrek’*) lead to similar political dynamics. As a result of this tax deduction, self-employed workers pay substantially less income taxes than employees with a similar income level. Reforming this tax deduction is politically quite unpopular, as the beneficiaries of the tax deduction are determined to maintain it. For a further discussion of the Dutch labour market, see De Beer (this volume).

<sup>6</sup> [www.dnb.nl](http://www.dnb.nl)

## ***The Politics of Pension Reform***

Another policy domain in which structural reforms have been important for the Dutch economy is the pension system. As in many European countries, the Dutch pension system consists of three pillars. We will concentrate on the first and second pillars, which are by far the most important. The *first pillar* is a pay-as-you-go system and involves a flat-rate public pension benefit for all residents from the (current) statutory retirement age of 66 years and 7 months onwards. The level of the public pension is linked to the net minimum wage (the social minimum) and depends on the number of years that a person has resided in the Netherlands. A full benefit requires that one has lived in the Netherlands for 50 years before the statutory retirement age. Couples each receive 50% of the social minimum, and single pensioners receive 70%.

The statutory retirement age was 65 when the public pension scheme was introduced in 1957. As early as the 1980s many economists and several government committees were proposing to raise the retirement age.<sup>7</sup> The obvious reason for this proposal is the rapidly ageing population, which not only makes the system financially unsustainable, but also causes lower labour supply. For a long time, however, successive governments did not want to risk the electoral fallout of taking such a step.

Under pressure from the financial crisis in 2009, the minister of social affairs and employment launched a proposal to raise the retirement age to 67. It was argued that extending the retirement age would contribute substantially to improving the then dire state of public finances. Predictably, the proposal met with strident opposition from the political left and from labour unions. It was portrayed by some as yet another step in the demolition of the Dutch welfare state, one that would especially affect lower income groups and those in physically demanding occupations. Nevertheless, after years of intense debate and delicate coalition negotiations, in 2013 a step-by-step increase in the retirement age, to reach 67 years in 2024, was legislated. After this initial increase, the retirement age will be adjusted to changes in average life expectancy: a one year higher average life expectancy will be met by an increase of eight months in the retirement age.

This reform has improved the sustainability of public finances, while it also contributes to labour supply and thus to future economic growth (Atav et al., 2019). Public support was initially low, but has gradually increased. Economic conditions—particularly a severe economic

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<sup>7</sup> See for example Commissie Financiering Oudedagsvoorziening (1987).

crisis—have probably contributed to political and societal urgency and a willingness to accept this a highly sensitive structural reform.

The *second pillar* of the Dutch pension system consists of capital-funded occupational pensions, the primary responsibility for which lies with employers and employees. Occupational pensions in the Netherlands are mandatory, and around 90% of all employees have a pension scheme with their employer. As a result, Dutch pension assets amounted to approximately €1,800 billion in late 2021, no less than 235% of GDP. Occupational pensions mainly consist of defined-benefit pension plans, although the number of defined-contribution schemes is growing. Until the beginning of the twenty-first century, most pension plans aimed to pay a pension income of 70% of final gross wage (including the public pension benefit) from the age of 65 onwards if an employee had worked fulltime for at least 40 years. From 2003 onwards, pension funds have lowered their ambition, and they now aim to pay 70% of the average career salary, which is on average roughly 10% lower than the final salary.

The financial crisis showed that the Dutch pension system was vulnerable to shocks in financial markets. In addition, extremely low interest rates and higher than expected increases in life expectancy have put the system under pressure. Many pension funds have not been able to achieve their (conditional) indexation commitments, and several funds were even compelled to cut nominal pension rights. Moreover, tax-favoured pension accruals have been reduced. Furthermore, early retirement has been made much less attractive than it used to be some 15 years ago. Despite these measures, pension incomes in the Netherlands are relatively high according to comparisons by the Organization for Economic Cooperation and Development (2017) and by Knoef et al. (2016).

In response to the severe financial shock of the late 2000s, in many cases contributions were raised. But contributions had already reached a very high level, which has contributed substantially to labour costs. Moreover, contributions have often been raised during economic recessions, which has a procyclical effect on the economy. The combination of high mandatory pension savings and a high level of mortgage debt also reduces economic flexibility and increases vulnerabilities, both at a macro-economic level and at the household level.

The defined-benefit character of most pension plans implied that promises were made about the amount of pension benefits people could expect. The financial problems with which pension funds have been faced made these promises hard to live up to. This has caused what has been

called a crisis of confidence among members, and by the end of the 2010s defined-benefit plans were broadly considered to be no longer sustainable.

Another problem is that the pension build-up implies redistribution from younger to older employees<sup>8</sup> This implies that employees who change position in the labour market and leave the pension fund can be faced with substantial consequences for their pensions. For example, an employee who chooses to become self-employed in the middle of their career will suffer a ‘pension gap’ in the sense that their build-up pension rights are relatively low compared to the contributions they have paid. Thus, it has been said that the pension system is no longer compatible with increasing mobility in the labour market.

After roughly a decade of political stand-off on pension policy reform, in 2019 a ‘pension agreement’ (Pensioenakkoord) was reached between government, employer organizations and labour unions. This was a typical example of the Dutch ‘Polder model’: trying to reach consensus on socio-economic policy in consultation with social partners. A new Pension Act took effect in July 2023. The main element of the reform is that the new pension system will become entirely based on contributions (Metselaar et al, 2022; Westerhout et al, 2021). Defined benefits plans will be phased out. Contributions are allocated to individual pension capital as part of the collective pension assets. This implies that accrual is much more transparent, which— it is hoped—should help to restore public confidence. Redistribution between age groups will be stopped. As accrual will be more or less actuarially fair, redistribution from young to old will be stopped and movement to another position in the labour market no longer affect pensions. This makes the system more compatible with changes in the labour market.

In the new system, differences between groups of members can be taken into account, among other things through age-dependent risk allocation (life cycles).<sup>9</sup> It would also be possible in the future, as has been proposed by scholars, to establish a link between pension saving and housing wealth accumulation. This would help to reduce the problem of the long balances in the Dutch economy. Finally, social partners agreed upon more stable contribution rates, which will reduce the procyclical effects of the pension system. Strong elements of the previous

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<sup>8</sup> Younger and older employees receive equal pension rights per euro contribution paid, while the contributions of younger employees can generate returns over a much longer period. This systems, called ‘de doorsneesystematiek’, entails a substantial redistribution from young to old. Part of the contributions paid by young employees is used for pension accruals of older employees in the same pension scheme.

<sup>9</sup> This implies asset allocation is relatively risky for young individuals (a high share of equities), while the share of investments in risky assets is reduced and the share of fixed return assets is increased as the employee approaches retirement.

system, such as mandatory participation and extensive risk-sharing mechanisms, will be preserved.

The pension agreement was not without its critics. For example, the left-wing opposition in parliament argued that the new system provides no solace for the growing group on the labour market—‘flex’ workers and the self-employed—who are facing ‘pension gaps’. This is not only a problem from a social point of view. Big differences in pension arrangements between groups may also hamper the functioning of the labour market, since moving to another position in the labour market may have a substantial impact on pension build-up (Goudswaard, 2021).

### **The Politics of Economic Policy: Existing and Future Research**

The politics of economic policy has been one of the traditional fields of interest of scholars in political economy, both from the side of political science and from the side of economics. In particular, scholars have focused on the politics of fiscal policy. This literature has traditionally been centered around two theoretical strands, namely around the role of timing of fiscal policies in relation to elections and around the role of partisan ideology. In the literature on political business cycles, it is argued that in order to please voters incumbent governments pursue more expansionary fiscal policies in the period before an election than in the years after the election. In the literature on partisan theories it is argued that left-wing governments pursue more expansionary fiscal policies than right-wing governments. The seminal articles in which these hypotheses were developed (Hibbs, 1977; Nordhaus, 1975) are still influential in contemporary research and these hypotheses have been supported by a large body of empirical studies. Later work has paid more attention to the variation in the effects across countries and shows how the effects of political business cycles and partisan ideology are conditional on the economic, institutional and societal context (De Haan & Klomp, 2013; Franzese, 2002).

Over recent decades, the political economy literature on fiscal policy has developed into several directions. Studies have been focused on different elements of fiscal policy such as on the politics of budget deficits (Alesina & Perotti, 1995) and government debt (Alesina & Passalacqua, 2016). One insight from this literature is that institutional standards such as budget norms may play an important role in the fiscal discipline of politicians (De Haan & Hoogduin, 2020). In this chapter we have described how Dutch governments have implemented norms such as expenditure ceilings. Another part of this literature has focused on the politics of

taxation (Swank, 2016). Arguably, the lion's share of this literature has been devoted to the politics of government expenditure.

In many Western economies, a large share of the government budget is spent on social protection. This has been reflected in the literature, as many studies have analysed welfare state reforms. In this strand of the literature, partisan theories also play an important role, as it is hypothesized that left-wing governments would be in favour of more generous welfare states whereas right-wing governments would be in favour of retrenchments (Hicks & Swank, 1992). This hypothesis has been contested along several theoretical and methodological lines and the results of empirical studies are mixed. Furthermore, other explanations for changes in social policy have entered the equation, such as the role of labour unions in political processes (Kwon & Pontusson, 2010), and the interplay between politics and structural economic changes such as globalization (Rodrik, 1998), technological change (Iversen & Cusack, 2000), European integration (Van Vliet & Koster, 2011) and migration (Soroka et al., 2016).

Another policy field which is becoming increasingly important in the politics of fiscal policy is health care, as public health expenditures are increasing rapidly. In the Netherlands, expenditures on health care have exceeded expenditures on social protection since 2022, which implies that it has become the largest item of the government budget.<sup>10</sup> As in the literature on overall government expenditure and social expenditure, the literature on the politics of health expenditure assesses the role of political factors such as ideology and political business cycles (Potrafke, 2010) as well as the role of structural changes. In the case of health expenditure, these structural changes are mainly the ageing of populations and technological progress (Nghiem & Connelly, 2017). The fact that public health expenditure is increasing not only in absolute but also in relative terms (as a share of the total government budget) has implications for the politics of fiscal policy. Increasing health expenditures may lead to larger budget deficits and crowd out spending on other policies. The Budget Space Study Group has warned about such crowding-out effects (Studiegroep Begrotingsruimte, 2023). These effects may trigger new or stronger political fights over budgets and these dynamics will be food for new research questions for students of the politics of fiscal policy.

Empirical studies of the politics of fiscal policy are predominantly based on international-comparative research designs. From a methodological perspective, an international-comparative approach provides at least two advantages: it increases the variation in institutional

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<sup>10</sup> Kamerstukken II, 2022/2023, 36360. nr. 1.

settings and it increases the number of observations. In the future, quantitative-oriented comparative research in this field could benefit from methodological improvements regarding the measurement of both the dependent and the independent variables. With regard to the dependent variable, advances in the measurement of government expenditure could improve the empirical assessment of the role of political mechanisms. For example, a study by Potrafke (2020) shows how a refinement of public expenditure data by the Organization for Economic Cooperation and Development—arguably the most used data in the field—for different government layers has substantial implications for understanding the role of partisan ideology and political business cycles in fiscal policy. Van Vliet et al. (2021) and Bakker and Van Vliet (2022) show how the reordering of existing data can increase the coverage of time series and improve the consistency in the categorization of expenditure types. With regard to the independent variables, the indicators for government ideology for example are continuously being refined, but this is more related to developments in other sub-fields in political economics and political science.

The downside of the observation that the majority of the studies on the politics of fiscal policy—and the politics of economic policy in general—are based on international-comparative research designs is that scholarly attention to the politics of Dutch economic policy has been scarce in the past two decades. However, two recent developments might change this in the coming decade. The first development is the emerging interest in the role of regions among political scientists and economists. The second development is that high-quality micro-level data are becoming available at a high pace and that these data are often available for one country. When renewed research interest in the politics of Dutch economic policy materializes, scholars may cover new ground by analysing the role of three pressing societal developments.

First, in this chapter we have described how structural economic reforms have become more important in the economic toolkit of the Dutch government. So far, the dynamics of the housing market have been largely neglected as a relevant factor in the analysis of the politics of economic policy. Yet, the housing market is politically highly salient—on its own, but also, for instance, in relation to the debate on (labour) migration. In addition, the economic magnitude of the housing market and its impact on the government budget are substantial. Moreover, given the fact that housing market dynamics shape people’s consumption behaviour, it could be hypothesized that housing market dynamics may also be related to people’s political behaviour, especially in the Netherlands. We do not know much about these dynamics, but see Ansell et al. (2018) for an inspiring example.

With regard to pensions, the recently implemented substantial reforms have already improved the sustainability of public expenditure in the Netherlands. Hence, a more salient effect of the ageing population is that it leads to a shrinking labour force, which triggers debates about labour migration and policies that could foster productivity, such as expenditure on innovation. Given the prominence of this challenge in the Dutch political arena and also in the societal debate, this issue may be a fruitful avenue for students of the politics of economy policy in the Netherlands.

A third development which may gain ground in this literature is the green transition. In September 2023, the Budget Space Study Group has signalled that climate change generates three types of costs: damage as a consequence of climate change, such as drought and flooding; adaptation policies to limit the damage; and climate policies to mitigate climate change (Studiegroep Begrotingsruimte, 2023). The advisory committee indicated that these costs will affect the Dutch economy and fiscal policy. One of the sources of political conflict is the question how the costs will be divided among different groups in society and between different generations. Research on the role of climate change in the politics of economic policy may therefore contribute to finding political solutions for the green transition.

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