

Netherlands

Government faces disgruntled voters

- The currently ruling coalition played a role in the economic turnaround but is languishing in the polls.
- Issues such as EU policy and the environment are likely to influence voters, in addition to usual concerns about the economy and the labour market.
- The far right PVV may win the most seats in the election. As the other parties will be reluctant to work with them, the formation of a new coalition government could be difficult.

Dutch voters go to the polls on 15 March 2017 to elect the 150 members of the Second Chamber of Parliament, the lower house. The political landscape is fragmented and it is expected that at least ten different parliamentary groups will be represented in the next assembly. The electoral system uses proportional representation across one nationwide constituency, meaning that the number of seats allocated to each party is in line with the number of votes received.

The current government is a coalition between the Liberal Party (VVD) headed by Prime Minister Mark Rutte and the Labour Party (PvdA), which won 41 and 38 seats respectively in the 2012 general election (Chart 1). The major opposition parties are far-right Freedom Party (PVV, 15 seats), the far-left Socialist Party (SP, 15 seats), the Christian Democrats (CDA, 13 seats) and the social liberals (D66, 12 seats).

Election campaign issues

Europe

No change in European policies should be expected. Most parties would like to see a strict application of both the “no bail-out” clause and the Stability and Growth Pact for all eurozone countries. The VVD programme is most explicit on this point: it only wants to give temporary support to countries in difficulty if they agree to structural reforms. If member states are unwilling to reform, they should be forced to leave the euro, say the VVD. The party is also firmly against the issuing of eurobonds. The Green-Left party (GL) is the only party calling for more solidarity between eurozone countries.

Environment

The environment might be a critical element in coalition negotiations, especially if the support of GL is needed. With the exception of the PVV, all parties support the Paris Climate Agreement. Other common elements in party manifestos are the greening of the tax base, the improvement of the EU emissions trading system, the closing of all coal-fired power stations and more investment in renewable energy and energy efficiency. On nuclear energy, GL and PvdA would like to see the closure of the only remaining nuclear power station in the Netherlands in Borssele. D66 agrees that nuclear energy cannot be a long-term solution, but does not call for the immediate closure of the plant. Only the VVD would like to keep

The polls suggest a defeat for the coalition

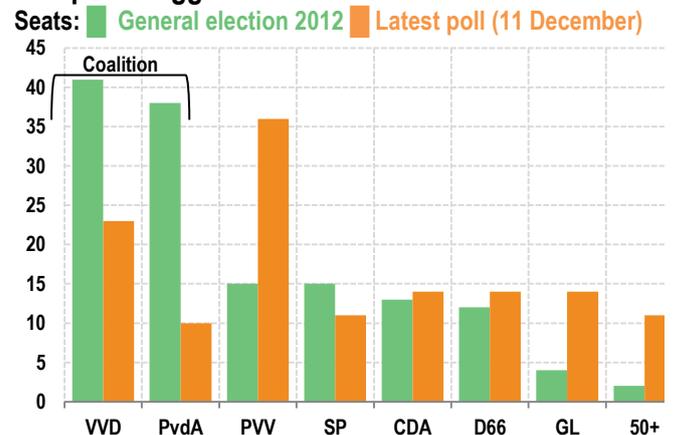


Chart 1

Sources: Kiesraad, Peil.nl

nuclear energy as an option, on condition that it can be produced safely.

Labour market and retirement

Policies concerning the labour market and retirement will probably be the most difficult for a coalition to agree. All parties are concerned about the dichotomy of the Dutch labour market, with well-protected employees on permanent contracts on one side and workers on short-term contracts on the other side; but they differ in their solutions. VVD, CDA and D66 would like to see further easing of employment protection legislation, which is among the strictest in the OECD. In addition, VVD and D66 want to ease rules for freelance workers (ZZP-ers). In contrast, PvdA, GL and SP would like to see higher unemployment insurance contributions by employers for fixed-contract workers. These parties plus CDA would like to limit the growth of ZZP-ers by requiring more protection for them.

In the low interest-rate environment, the liabilities of Dutch occupational pension schemes have substantially increased, which has led to a decline in their funding ratios. The schemes have responded by raising contributions, suspending indexation, and in many cases reducing benefits. Pension reform is high on the agenda. VVD and D66 would like to see a more flexible and individualised pension system. PvdA, SP and GL would like to see a higher discount rate for liabilities, as the current rate is exceptionally low.

Government finances

With the exception of PVV, GL and SP, all parties would like to balance the budget over the cycle, and the current fiscal framework, whereby the coalition partners agree on spending limits at the start of the new government term, is widely accepted. In general, the main parties want to simplify the tax system and lower the tax rate on savings, increase environmental levies and use the proceeds to ease the tax burden on labour.



The VVD campaigns for lower corporate taxes. Some parties (D66, PvdA and GL) would like to limit how much tax can be deducted from interest payments by companies, to make the tax system more neutral with respect to the financial structure of the company. These proposals may be included in a future coalition agreement. Proposals for a uniform European corporate tax as well as for a limit on mortgage interest relief are unlikely to make it into a coalition agreement.

The imbroglio of forming a new coalition government

The current Rutte government adopted policies which contributed to the economic turnaround. When it came to power in November 2012, the Dutch economy was in dire straits following the financial crisis. In Q4 2012, GDP was close to 3% below its 2008 peak. The government accelerated budgetary consolidation programmes and introduced structural reforms in the labour market, such as raising the mandatory retirement age to 67, which allowed for a fall in occupational pension contributions. The latest quarterly data show GDP in Q3 2016 was 6.7% above the level in Q4 2012 and unemployment had declined by 0.4 percentage points.

Nevertheless, discontent among Dutch voters has grown substantially, as large sectors of society feel they have been disadvantaged. In terms of purchasing power, pensioners were worse off because of cuts in pension benefits (Chart 2). This group was also much affected by the reductions in health spending. Employees fared best because of a fall in pension contributions. However, in return they had to accept an increase of the retirement age to 67. In addition, job insecurity has increased, in particular for older workers. Unemployment among them has remained high, despite a general improvement in labour market conditions (Chart 3). Opinion polls suggest that the Dutch coalition government is in for a drubbing at the general election in March 2017. As the former Luxembourg Prime Minister Jean-Claude Juncker once famously remarked, 'We all know what we should do, but we don't know how to get elected after we've done it'.

The PVV -- cashing on fears about the inflow of refugees, insecurity and costs related to financial support for southern European countries -- currently leads in the polls and is predicted to win more than 30 seats. On the left, the Green-Left party has been making a strong comeback since the last election and could win up to 15 seats (four previously) thanks to the popularity of its youthful leader Jesse Klaver. The party is a refuge for disappointed Labour Party voters who do not share the anti-EU stance of the SP. Support for the elderly party 50Plus has also risen, perhaps to 10 seats (from two), out of concern about the income of the elderly and cuts in the care sector.

Purchasing power since the crisis

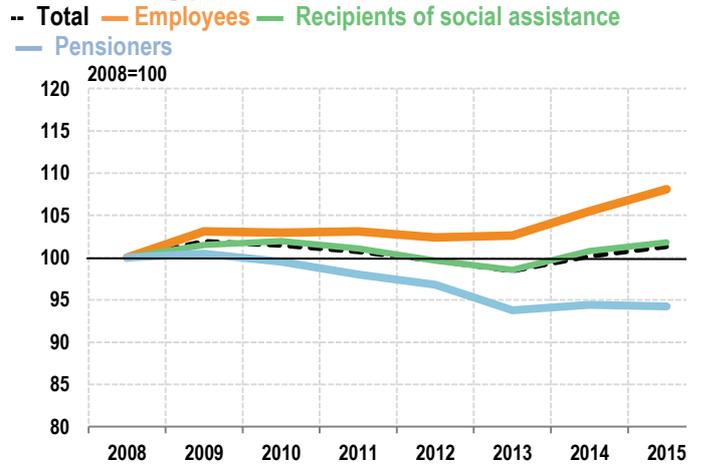


Chart 2 Source: Statistics Netherlands

High unemployment rate for the elderly

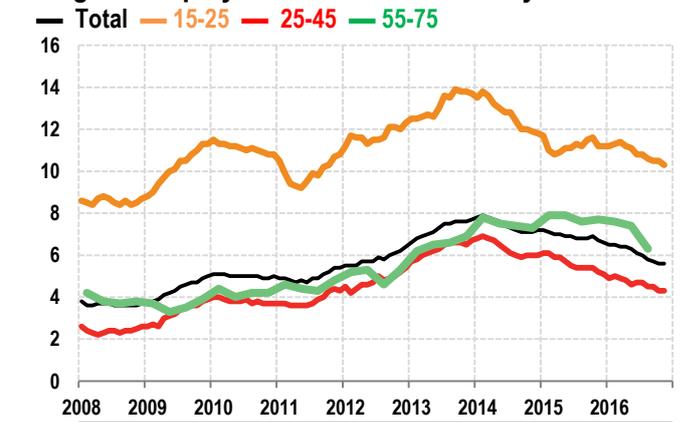


Chart 3 Source: Statistics Netherlands

A new coalition government will be difficult to form. Most parties are unwilling to cooperate with the PVV because of its uncompromising stance on certain issues, such as Islam and migration. A centre-right coalition around VVD, CDA and D66 might only muster just over 50 seats. It could still succeed with the tacit support from GL and some one-issue parties such as 50Plus. Whatever the outcome, it seems likely that a protracted period of negotiation to form a new government is likely.