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# THE TRUE COST OF AUSTERITY AND INEQUALITY

## The Netherlands Case Study

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### Introduction

As the financial crisis began to escalate in late 2008, several Dutch banks and insurance companies needed financial help from the Dutch government. The total amount of capital, guarantees and debt relief provided to them reached almost 30 per cent of Dutch GDP. By the end of 2012, €80bn remained at risk of not being fully paid back, equivalent to almost 15 per cent of GDP.<sup>1</sup>

At first, the Dutch government allowed its budget to absorb the economic shock of the financial rescue measures, falling exports and falling profits. The budget deficit as a percentage of GDP rose to more than five per cent in 2009 and 2010.

The Dutch response to its burgeoning debts has been cautious, with its implementation of austerity measures driven by a national agenda, rather than by international institutions. The Netherlands has chosen a strong emphasis on tax increases as part of its austerity programme, comprising 43 per cent of tax to 57 per cent spending cuts. Tax increases were also introduced, as the government's immediate response to tackling the deficit, before spending cuts. The Netherlands has historically seen comparatively low levels of inequality and poverty. However, the rise in unemployment and the cuts to social security – particularly child-care – suggest a difficult economic road ahead for the poorest sections of society. The number of people living in poverty has started to rise.

### The impact of austerity measures

In 2011, the government began to introduce austerity measures based around several rounds of budget cuts and tax increases. These are scheduled to be implemented between 2011 and 2017, and could represent, on average, €7bn a year, or more than one per cent of GDP, totaling €48bn overall (equivalent to seven per cent of GDP). 2013 is set

to be an especially harsh year with austerity measures amounting to €15bn. Seventy-five per cent of this, €12bn, will come through tax increases,<sup>2</sup> which are likely to weigh most heavily on low-income groups (the average in previous years has been nearer 40 per cent or €3bn of out €7bn of savings).

The Netherlands' national debt as a percentage of GDP had jumped from 45.3 per cent in 2007 to 71 per cent by the end of 2012.<sup>3</sup> The Dutch budget deficit as a percentage of GDP in 2013 and 2014 is predicted to still be above the three per cent threshold agreed with the other Eurozone members. In order to reach that threshold in 2014, fresh austerity measures have been announced worth more than €6bn.

Despite its strong economic position, its record current account surplus and high income and productivity relative to other EU countries, the general mood in the Netherlands is gloomy. Consumer confidence, particularly in relation to personal finances, reached an all-time low in early 2013<sup>4</sup> – much lower than the Eurozone average, and closer to that of countries like Spain, Portugal and Greece.<sup>5</sup>

According to the National Institute for Budget Information (Nibud), almost 45 per cent of Dutch people find it hard to live within their budget. According to Nibud, 'At any given moment people have so little money that they can't pay their bills. Payment arrears then go up and people get into a vicious circle.'<sup>6</sup>

In 2012, 84,000 people applied for debt relief; 11 per cent more than in 2011 and twice as many as in 2008.<sup>7</sup>

An important driver of this has been house prices, which have fallen by more than 20 per cent since August 2008.<sup>8</sup> From the mid-1990s onwards, house prices rose strongly, financed by mortgages that often exceeded the market price of the property by amounts unheard of in other parts of Europe. The legacy of this for the Netherlands is one of the highest private debt-levels in the world. Whereas this debt, to a large extent attracted from abroad by Dutch banks, is fixed, house prices are not. By early 2011, falling prices meant that more than one million homeowners had mortgages higher than the value of their house.<sup>9</sup> These were mostly young people who had bought a house valued at the top of the market.<sup>10</sup>

Dutch citizens have seen their wealth (as invested in their homes) decline, while their debt remains at record levels. At the beginning of 2008, the median household<sup>11</sup> had wealth<sup>12</sup> of €50,000, but by early 2011, this had fallen to €29,000, a drop of more than 40 per cent.<sup>13</sup> Since then house prices have fallen further, by more than eight per cent in 2012 alone.<sup>14</sup>

Having remained at a relatively low level for a long time – under 5.5 per cent since 1997 – unemployment in the Netherlands has recently started to rise dramatically. In the second quarter of 2013, the number of people in employment was 147,000 lower than the same period in 2012, representing a fall of 1.9 per cent, the greatest since 1995.<sup>15</sup> By July 2013, unemployment had risen to 8.5 per cent, up from 7.2 per cent only

six months previously.<sup>16</sup> Bankruptcies have also reached record heights; the three-month average from January to March 2013 stood at 734, the highest number since records began in 1981.<sup>17</sup>

Real disposable household income in the Netherlands fell by 3.2 per cent in 2012, the largest decrease in disposable income since records began in 1982 and the fifth year of decline in a row. This was caused by lower employment, higher taxes, increasing health insurance and social premiums, and rising inflation.<sup>18</sup>

Adding to this, many pensions have not increased in line with inflation in recent years. Sixty-eight pension funds, including some of the biggest in the Netherlands, have, in 2013, cut their benefits by between 0.5 and 7 per cent (on average 1.9 per cent) for 1.1 million pensioners. Further cuts in 2014 may also be necessary.<sup>19</sup>

Poverty has been rising in the Netherlands since 2008. Of the total population, 7.8 per cent are now at risk of poverty.<sup>20</sup> The proportion of children at risk of poverty is considerably higher, at 11 per cent in 2011, up 2 per cent from 2010.<sup>21</sup> Between 2010 and 2011, the number of children deemed to be at risk of poverty rose from 55,000 to 371,000.<sup>22</sup> There is a higher proportion of women among those living in poverty than men (400,000 compared with 367,000), mainly due to their over-representation among single parents and the over-65s.<sup>23</sup>

Currently, 70,000 people get free food from food banks ('Voedselbank'). In 2012, this number increased dramatically; by 60 per cent in Amsterdam and 30 per cent in the city of Tilburg.<sup>24</sup> Due to higher demand and lower supply, as organizations economize on their food waste, the quality of the food available has decreased, even while the number of people on the waiting lists for assistance has grown.<sup>25</sup>

Women have been hardest hit by cuts to child-care services. While there is no reliable data on the number of women that have left the labour market, it is clear that many children are no longer being sent to child-care providers. Apart from the effect this has on the independence of working mothers, particularly single mothers who are especially vulnerable to poverty, child-care also plays a critical role in supporting early education. It is particularly important with language acquisition among children for whom Dutch is not their first language.<sup>26</sup>

In the years to come, budget cuts will fall most heavily on health care and social security. This is where the new Rutte II (second coalition) government will implement most of its €15.75bn austerity programme, with €5bn and €7.25bn respectively to be cut from health care and social security budgets.<sup>27</sup>

Two-thirds of Dutch GPs have seen patients who cannot afford to pay for their prescribed treatments and have opted instead to not take vital medication. Not only have people's real incomes declined, but user fees in the health sector have risen as well. Seventy per cent of GPs state that this is a new phenomenon unheard of until two years ago.<sup>28</sup>

Cuts of €4.6bn have also been made to official development assistance (ODA) spending in 2011. In 2010, the first coalition cabinet (Rutte I) introduced a structural cut of €0.8bn by lowering the percentage of GDP that the Netherlands spends on ODA from 0.8 to 0.7 per cent.<sup>29</sup> The Rutte II government added another structural reduction of €1bn to this. The Netherlands' overseas support fell from 0.82 per cent of GNI in 2009 to 0.75 per cent in 2011.<sup>30</sup> Furthermore, the public costs of international climate policy are now financed from the ODA budget.<sup>31</sup> After the budget cuts of the previous government of €1bn annually, Dutch development spending will be cut by another €1bn annually as of 2014 (of a total budget of €4bn currently). From 2017, cuts will increase to €1.25bn. This is excluding the total Dutch contribution to climate funding that will come out of the remaining aid budget. Costs for climate spending are envisioned to increase to approximately €1.2bn by 2020. This means that Dutch cuts on development aid could amount to over €2bn in 2017, half of the current ODA budget. The Netherlands is about to leave behind its long-respected commitment to spend at least 0.7 per cent of GNP on ODA. With the current cuts, the Netherlands' ODA budget will drop from a 2010 high of 0.8 per cent down to only 0.55 per cent in 2014, and the ODA-percentage will likely plummet even further from 2017.

## **Inequality of impact**

While income inequality, after taxes and transfers, in the Netherlands is less obvious than in other west and central European countries, it is slightly greater than in Scandinavian countries.<sup>32</sup>

Since the 1980s, most OECD countries have seen a slow rise in income inequality; however, in the Netherlands, the growth in inequality has been more pronounced. The OECD-average annual change in income for the bottom decile was 0.6 percentage points lower than that of the top decile (respectively 1.3 per cent and 1.9 per cent). For the Netherlands, this was almost double at 1.1 percentage points (0.5 per cent and 1.6 per cent).<sup>33</sup>

A recent comparison of European countries found that wealth inequality in the Netherlands is markedly higher than in other European countries, with only Poland reaching higher inequality.<sup>34</sup>

# NOTES

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