New coalition in The Netherlands brings clear break with past economic policies

The four-party coalition agreement presented in The Netherlands on Thursday marks a clear change in direction for the Dutch economy, with a risk of continued policy uncertainty. The agreement is explicitly against the gold-plating of EU rules, while in some respects, compatibility with EU treaties is questionable

Dutch party leaders Geert Wilders (PVV), Dilan Yesilgoz (VVD), Caroline van der Plas (BBB) and Pieter Omtzigt (NSC) reached an agreement to form a government this week.

For the economy and business policies, the coalition is somewhat more 'laissez-faire' than the previous one. We see less regulation, lower corporate taxes and lower subsidies as the key elements of the agreement.

Simultaneously, the coalition plans to reduce the number of civil servants in the central government by 22%, stating that lower numbers will come with reduced ambitions, too.

What it means for climate targets

The coalition is sticking to the European climate goals but is changing the policy mix.

It is lowering energy taxes, ending the Dutch carbon tax add-on to the European ETS and lowering subsidies for electric vehicles and solar panels, for example. On the other hand, the coalition is putting funds aside for four rather than two nuclear power plants and increasing taxes on airline tickets.

Previous analysis had shown that existing and proposed measures were unlikely to be sufficient to meet a 55% reduction in emissions by 2030. The agreement states that if climate goals are not met, additional policies will be developed in order to meet the goals. This implies the possibility of adjustments to climate-related policies along the way.

Impact on competitiveness

The agreement leans on lower corporate and energy taxes and less regulation (no add-ons to European regulation).

Employer associations have welcomed the emphasis on stable policies and lower corporate taxes. The tone of voice of the agreement breaks with recent years when ad-hoc policies were often unsupportive towards corporates. On the other hand, innovation subsidies are reduced (the remaining €7bn in the Dutch Growth Fund is cancelled).

The agreement is critical of labour migration and formulates policies that would mostly impact low-wage non-EU migrants. The influx of foreign students will also be lowered.

Whether all of the above adds up to The Netherlands remaining one of the top five countries in terms of global competitiveness scores, with stable and predictable government policies – both explicitly stated aims – is unclear.

Implications for households

The coalition emphasises that "work must pay" and points to "no additional levelling of the income distribution”. There is a significant purchasing power boost of about €6 billion per year, especially for middle-income earners. (See here for an updated analysis, showing lower incomes can expect a larger boost than middle-income households). Cuts are being made to social security, with some measures against poverty to protect some of the poorest households. This is also a shift from previous years where across the political spectrum, households below the poverty line were the centre of attention. The boost in purchasing power, coming from a range of measures like lower costs for health and childcare and lower taxes will be an impulse for household consumption.

Outlook for European cooperation

The agreement does not read as *explicitly* anti-European, but it implies severe tensions with Europe in a number of areas. The coalition for example wants an opt-out on asylum regulation, wants to lower Dutch financial contributions to the EU and renegotiate obligations on nitrogen emissions.

The coalition says it’s ‘highly critical of EU expansion’ and will allow no concessions to the Copenhagen criteria. There is no mention of any ambition to strengthen European economic integration.

All this will have political implications for the Dutch position within the EU, slowing down European decision-making. It may also impact the Dutch public’s attitude on the EU, as over time it will become clear that the coalition’s domestic ambitions cannot be met under European law.

Impact on public finances

An objective assessment of the plans is not yet available. The agreement's figures suggest that the coalition wants to increase public spending, in the short term (especially 2025) even further than the previous government. Over a longer time horizon, spending will decrease somewhat, with more politically painful plans implemented later in the cabinet period.

The targeted government deficit of 2.8% of GDP increases the likelihood that the government will not remain within the European 3% deficit norms, especially in the event of an economic downturn. Also, a sizeable share of the budget cuts seems unrealistic (scrapping 22% of civil servants, reducing the EU contribution, reducing asylum costs). In this case, the coalition states it would make ad-hoc cuts to the budgets on a pro-rata basis. This may strengthen a cyclical economic downturn and could lead to political tensions and policy uncertainty.

Break from the past

Overall, the agreement is a clear change in the direction of economic policies, with different climate mitigation policies and a more supportive stance towards corporates and middle incomes. We see the risk of policy uncertainty remaining high within The Netherlands, for example, because of budgetary tensions. For Europe, the Dutch coalition's attitude will also be a break with the past.

All in all, it remains to be seen whether economic growth will be higher or lower as a consequence.

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