

# SPECIAL REPORT

**ECONOMIC RESEARCH** 

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# Dutch elections 2012 - where are we heading?

The Dutch political landscape is an intricate one. The new Dutch Parliament will consist of up to 12 parties, according to the latest Polls. The Europe friendly VVD under incumbent Prime Minister Rutte is leading ahead of Mr. Roemer's Euro skeptic Social Party (SP). How the coalitions will be formed is impossible to predict, our best guess would be the "Purple Coalition". The outcome we are rather certain on is the fact that it is nearly impossible to build an Anti – Euro coalition. In addition, we believe whatever coalition is formed it will take a relatively long time to form the government (>100 days) and deficit targets will most likely be missed, unless an unforeseen growth shock hits Europe. Furthermore, the incentivization of the housing market was overdone in the Netherlands and with the pressure of budget consolidation the new coalition will have no choice but push through reforms that will adversely affect the housing market.

### Introduction

On 12 September, also the day Karlsruhe will rule on the ESM and Fiscal Compact in Germany, the Dutch nation will be flocking towards the polls and elect a new government for the second time in 2 years. This election will decide what path the Netherlands will head down on its way towards budget consolidation and from the outset it looks to be a complicated affair.

# How did we get here?

The previous government, led by Dutch Prime Minister Mark Rutte of the VVD (Party for Freedom and Democracy), broke down in April after just 558 days in power. The government was a minority government led by the VVD and the CDA (Christian Democratic Appeal) and supported by, from the outside, the PVV (Freedom Party) led by Geert Wilders. The VVD and the CDA commanded 52 out of the 150 seats in Parliament while the PVV contributed 24 seats from the outside. The results of the 2010 were as follows:

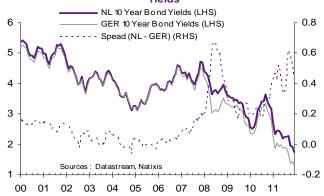
Table 1: Election Results 2010

| Party | %    | Seats |
|-------|------|-------|
| VVD   | 20.4 | 31    |
| CDA   | 13.7 | 21    |
| PVV   | 15.5 | 24    |
| GL    | 6.6  | 10    |
| CU    | 3.3  | 5     |
| D66   | 6.9  | 10    |
| PvdA  | 19.6 | 30    |
| PvdD  | 1.8  | 2     |
| SGP   | 1.7  | 2     |
| SP    | 9.9  | 15    |
| Total | 99.4 | 150   |

As the Netherlands, like every other European country, felt the sting of the financial crisis - followed by the Euro Crisis - reforms were needed to bring the budget deficit to 3% of GDP, for 2013. Due to the fact that the Netherlands were under pressure by the market and rating agencies to reform, reflected by elevated interest rates and warnings that without action the Netherlands would lose its triple AAA status.

Nonetheless, the interest rates were still at a low level compared to the periphery, but judged against the rates Germany was paying, rates were rather high (Chart 1). Furthermore, the Netherlands was known as a budget hawk and thus had to lead by example as their deficit shot over the 3% level for the third consecutive year in 2011. In addition, the CPB (Central Planning Bureau) predicted the Netherlands would make it 4 years in a row in 2012. Thus the government had to act in order to adhere with the Fiscal Compact agreed upon and also pushed for by the Netherlands.

Chart 1: Dutch versus German 10 Year Bond Yields



#### **ECONOMIC RESEARCH**



The VVD and CDA were debating austerity measures with Geert Wilders (PVV) since March 5, in order to submit its budget measures to the European Commission by the deadline on 30 April. A week before the deadline the Government collapsed after the far right politician, Mr. Wilders, stormed out of the talks at the last minute. This was due to the fact he believed the coalition's proposal would harm economic growth and would adversely affect many people's spending power. Furthermore, he believed that through national sovereignty, rather than "bureaucrats in Brussels we can determine our own rules, like who comes into the country, immigration and have our own currency." Due to that stance the minority government fell apart and Mr. Rutte was appointed as the leader of a caretaker government.

### **Caretaker Government & Budget Consolidation**

This caretaker government brokered a deal on proposed budget cuts. These budget cuts amount to roughly 12 billion Euros. The budget cuts would not have been possible without the help of 3 opposition parties: the Green Left (GL), D66 and the Christian Union in collaboration with the original minority government. Together they commanded 77 out of the 150 seats.

The main items to bring the government back to the 3% threshold were; a 2% VAT increase (from 19 to 21), a two-year freeze on public sector pay, with the exception of wages for healthcare workers. An undefined reform of the housing incentives and low wage earners will enjoy a lower tax rate in order to alleviate the pain from the other reforms.

Shortly after uncertainty crept in as the parties didn't want to commit to the cuts they agreed on earlier – especially before heading to the polls. Consequently, the uncertainty couldn't be greater with regards to spending cuts and what will actually be implemented post-election.

### **Dutch Parties**

Here we are going to quickly introduce the largest 7 parties according to where they stand in the polls:

- VVD the party of last Prime Minister Rutte. The VVD is very Euro friendly and focused on consolidating the budget.
- Social Party (SP) the party of Mr. Roemer and the biggest winner in the polls compared to the last election. The SP is very Euro skeptic and wants to renegotiate the ESM and Fiscal Compact. Doesn't want to reach the 3% budget threshold until 2015.
- PvdA Labour Party of Mr. Samson positioned in the centre left. Euro friendly but wants more time to consolidate the budget.
- 4. PVV the "Freedom Party" is a far right wing party with regards to Eurozone issues (left wing socially in terms of domestic policy) of Mr. Wilders. Wants to leave the Euro immediately.
- D66 Liberal party but left on social issues is pro Europe.
- 6. CDA The Christian democrats are a middle right wing party that is very Europe friendly, also member of the last minority coalition but biggest loser in the polls so far. The former major party has somewhat lost its identity and is being punished by the voters for accepting a coalition with Mr. Wilder's PVV.
- CU The Christian Union is a left wing party that is neutral versus Europe but does not want a fiscal or

- political union. Was one of the 5 parties that signed the austerity package.
- Green Left (GL) is a left party with its eyes on the environment, very Europe friendly.

#### **Issues in Current Election**

The 5 biggest issues in this election are listed below (and a more detailed overview of the biggest 8 parties and their stance concerning the issues can be found in the Appendix):

- Europe (ESM & Fiscal Compact) and the Economic situation (Austerity Measures)
- 2. Housing Market
- 3. Pension Age
- 4. Healthcare
- 5. Redundancy law

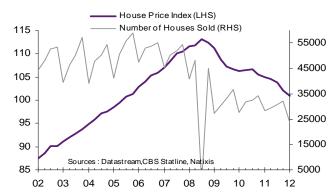
First and foremost the election is on Europe. In the Dutch population there is increased discontent for the Euro. The Dutch believe that it is quite unfair to perform austerity within the own country while other countries cannot bring their deficits down and also having to pay for the periphery via the ESM is very unpopular. This is also reflected by a recent poll that showed only 58% of the voters are in favor of EU membership – down from 76%, at the time of the last election in 2010.

The stance on the Eurozone is very diverse, as to be expected in a 9 to 12 party system (depending on which poll one believes), and ranges from Eurozone exit (PVV) to adhering to all of Brussels rules (CDA) with many different plans in between. Roughly stated the PVV, CU and SP are not Europe friendly, while the CDA, PvdA, GL, D66, 50 plus and VVD are Europe friendly.

Another key issue is the housing market in the Netherlands. The housing market was in the past heavily subsidized with mortgage interest payments being tax deductible. This led to the population investing heavily into real estate (corresponding with a housing boom), but also very high debt levels.

Furthermore, the level of incentivizing buying houses is unsustainable while having to consolidate the budget at the same time and the Euro Crisis raging concurrently. Thus, great uncertainty surrounds the housing market and is keeping prospective buyers away until it is clear what the "rules of the game" will look like post election — this is displayed be the development of the housing prices (Chart 2) and numbers of houses sold.

Chart 2 - House Price Index (2005 = 100) & Number of Houses Sold





The parties with the most lenient plans on altering the housing market schemes are also the parties that are the most Euro skeptic and do not want to consolidate the government budget (PVV and SP), while the VVD (the party of Mr. Rutte) has the most drastic to plans – to scrap the mortgage tax relief, besides for repayment.

The next issue, pension age, also goes hand in hand with budget consolidation as the Netherlands, like most other continental countries, face an aging population and need to revamp their pension system in order for it to remain viable. 50 Plus and PVV are in favor of leaving things unchanged, while all other parties want to increase the age at one point or another.

Healthcare costs are heavily increasing due to the aging population and again the eyes remain on the strain these costs have on the NL government budget. The PVV once again does not want to change anything while most other parties aim at an increase of the burden paid by the citizens. The left parties want the "rich" (SP, 50 Plus, D66, GL & PvdA) to foot the bill, while the Centre and Right try to spread the burden across everyone.

Lastly there is the redundancy law that has to be reformed due to increased unemployment and wanting to increase the participation rate. Albeit, compared to the EU average still at a very low 5.3% (Eurostat definition) in July - but high for the Netherlands in the historical sense. Here the parties follow their political orientation from left to right.

## Where are we going?

The Dutch political landscape is an intricate one with many parties and even more diverse opinions and political agendas involved. Consequently, it is very difficult to form coalitions and even more complicated to build a lasting one in which every party can identify with the coalition. The thing that further complicates the situation are the latest poll results (Table 2).

Table 2: Latest Poll Results

| Party   | Aug. 17 | Aug. 24 | Aug. 31 |
|---------|---------|---------|---------|
| VVD     | 35      | 34      | 34      |
| CDA     | 14      | 14      | 13      |
| PVV     | 18      | 19      | 20      |
| GL      | 4       | 5       | 4       |
| CU      | 5       | 6       | 5       |
| D66     | 14      | 14      | 14      |
| PvdA    | 23      | 22      | 26      |
| PvdD    | 3       | 3       | 4       |
| SGP     | 3       | 2       | 2       |
| SP      | 29      | 30      | 27      |
| 50 Plus | 2       | . 1     | 1       |

Sources: lpsos Netherlands

The biggest winner compared to the last election is the Euro-skeptic Social Party under Mr. Roemer (27 seats), while the poll leader is the VVD under incumbent Prime Minister Rutte (34 seats). The parties are in opposite political spectrums, left and right respectively, and the chance of a coalition between the two parties is extremely difficult to imagine. Therefore coalition building will be a cumbersome affair as a majority government would need 76 Seats. As such, the new government - if it is to be a majority government - would need to consist of at least 3 or even 4 or 5 parties.

The situation is not simplified by the fact that the original partner in the previous minority government of the VVD, the CDA, is heading towards a disastrous result yielding only 13 seats. While the Social Party is confronted with a similar situation, they are steering towards good results while their preferred partner the PvdA is also heading towards suboptimal results (26 seats). This leaves a potential coalition under the lead of Mr. Roemer with 53 seats and one under Mr. Rutte with 47 seats. Neither party is said to have interest in a coalition with Mr. Wilders PVV (20 Seats), which even further complicates the state of affairs.

An interesting point of speculation is the "Purple Coalition" that ruled the Netherlands from 1994 to 2002 that would consist of the VDD, D66 and the preferred partner of the Social Party – the PvdA. Current polls suggest they would barely miss the 76 seat hurdle (74 seats) but the inclusion of the Green Left (GL) is also a possibility (78 seats).

Mr. Samson of the PvdA has shown a brilliant performance in the two TV debates and has rallied support around him after a weak beginning of the campaign. His party is thought to be the key puzzle piece to forming a coalition. We believe this is a good thing, as they are rather committed to the Euro with one restriction; they want the budget to be consolidated slower. Therefore, whether they form a coalition with the VVD or the SP they will be able to move the political agenda of either party towards the middle.

One has to say that the Social Party's and especially the PVV's agenda are far away from the "mainstream politics". Both parties are not very Europe friendly (in the case of the PVV the Euro should be dropped and the SP will not adhere to the fiscal compact), and thus possibly isolated themselves somewhat in coalition talks.

A frequently hypothesized alternative to the "Purple Coalition" is the "Centre Left Coalition" under the lead of the PvdA, CDA, D66 and GL but this would be a minority government (57 seats) which would have to be supported by the Social Party and thus another unstable minority government would have to be formed. The Social Party would promise support in order for the minority government to include certain points of the party program into the coalition agreement. Such a government would still be pro-European but still would have to gap huge differences, especially with regards to the future government budget.

The last potential coalition that could come into play is the coalition that pushed through the government budget – the "Austerity Coalition" - when the PVV exited austerity talks. This coalition would consist of the CDA, VVD, Christen Unie (CU), Groen Links (GL) and D66. However, recent polls suggest that this is nearly impossible as the 5 party coalition would only command 70 seats.

## The effects of possible coalitions on the economy

As we have shown in the previous section there are 3 coalitions we deem possible at this point – nontheless, it wouldn't surprise us the least bit if another coalition is formed when it is all said and done. The exception being an Anti-Europe coalition which we cannot envision while studying the Poll results.

The one thing they all have in common is that they will miss the budget target for 2013, due to stunted growth (we assume only 2.5% growth in World Trade in 2013) and the coalition taking too long to build. After the last election it took



122 days to build a coalition – if this is again the case, which is very realtistic, the coalition wouldn't become operational until 2013.

The question is which coalition would get closest to the 3% goal?

- 1. "Austerity Coalition" the austerity coalition is the 5 party coalition that pushed through the savings package under the lead of the VVD, and is very much so Pro-Europe. If they would get enough seats, which does not seem to be likely at the moment, they could simply implement the package already agreed. But even that does not seem all too likely as their was bickering immediately after the package was pushed through. With regards to the housing market changes would be undertaken that would harm the the price development. The pension age would rise and so would the VAT. In addition public sector pay (except for healthcare) would be frozen for two years.
- 2. "Purple Coalition" The Europe friendly "Purple Coalition" would raise the pension age to 67, looking at the various parties' agendas by latest 2023, as a compromize between the VVD (2018) and the PvdA (2025). The housing market would be hit harder as this coalition would be led by the VVD and they want to scrap most of the mortgage tax relief (could be more drastic than under the austerity coalition), while the other parties just want to reform the tax relief. Regarding healthcare the citizens would face a lot greater "own risk" and thus increased costs. The VVD program envisions budget cuts of €24 bn and this is the most far-reaching package of any party.
- 3. "Centre Left Coalition" This minority coalition under the lead of Mr. Sampson (Pvda) and supported from the outside from the Social Party would be the least Euro friendly and would also have the least motivation to consolidate the budget. This is due to the support from the outside of the Social Party they don't want to change the pension age at all until earliest 2020, they don't want to bring the deficit under 3% until 2015, mortgage tax relief to be phased out over 10 years (only for mortgages above €350k). While the other parties are more inclined to consolidate, the power of the Social Party in a coalition would mirror Mr. Wilder's power in the previous government and could block any serious attempt of budget consolidation.

#### Conclusion

Conclusively, at this point it is impossible to know how this election will play out. The VVD is in the lead and has the easiest route to build a coalition. The Labour Party (PvdA) is rising like a phoenix out of its ashes after Mr. Samson won the past TV debates and could very well be the cornerstone of any coalition that will be formed – they could form a coalition with the right (VVD), the left (SP) or even head their own coalition.

The Social Party looked like the early winner with tough rhetoric towards the Eurozone, yielding excellent early poll results but somewhat fading in August. Nonetheless, they still have a chance to be the winner in the polls – albeit as earlier described it will be tough to form a coalition with them since they are one of the only parties that are totally against budget consolidation (and also the Fiscal Compact and the ESM). In addition to that, they are believed to be not interested in building the coalition with Mr. Wilder's PVV - the only party that wants to completely leave the Euro and as such will have a tough time to build a coalition.

We believe the most likely coalition, if any can be formed, is the "purple coalition" that ruled the Netherlands from 1994 – 2002 which will be a centre-left Euro friendly coalition. More importantly, we cannot envision a result under which the Netherlands would seriously consider leaving the Euro, but the ESM and Fiscal Compact could face headwinds if the Social Party manages to build a viable government.

Lastly, two other important items with regards to this election are that the Dutch politicians manage to build a sustainable government and that it will take less than the 122 days it took to build the coalition after the past election, which we are not too optimistic about. Until then, Mr. Rutte and his caretaker government will remain in power and will conduct Europe friendly politics.



|            | CDA - Christian<br>Democratisch   | PvdA - Partij  | GL -Groen  | D66 -   | PVV -<br>"Freedom              | CU -Christen   | SP - "Socialist   | VVD -<br>Volkspartij<br>voor Vrijehid                             |
|------------|---|--|--|---|--------------------------------|--|---|---|
|            | Appel   | van de Arbeid  | Links  | Democrats 66  | Party"                         | Unie   | Party"  | en Democratie   |
| General    |   | Labour Party -   |  |   | Right Wing on immigration Left |  |   |   |
| Political  | Christian Right   | Left Centre  | Green Left Wing  |   | on Social                      | Far Left Wing  |   | Free Market   |
| Agenda     | Centre Party  | Party  | Party  | on social issues  | Issues                         | Party  | Far Left Wing   | Liberals  |
|            |   |  | Pro Europe -   |   |                                | Neutral at best -  |   | Pro Europe -  |
|            |   |  | European   | Pro Europe -  |                                | No EU political  | Anti-Europe -   | but wants an  |
|            |   | For a closer   | referenda to be  | For a strong  |                                | or fiscal union,   | Budget deficit  | annual  |
|            | Pro Europe -  | Europe - Stricter  | introduced and   | federal Europe  |                                | no extension,  | not below 3%  | reduction of  |
|            | Budget Deficit  | Sancetions for   | Budget Deficit   | & a smaller EC  |                                | research into  | before 2015.  | Dutch   |
|            | to be eradicated  | countries that   | to be reduced  | with an elected   | Withdrawal from                | splitting up the   | New treaty  | contributions to  |
| On Europe  | by 2017   | break the rules  | ASAP   | President   | Euro and EU                    | EZ   | needed no ESM   | Brussels  |
|            | Increase to 66  | Increase to 66   | Gradual  | Stepped   |                                |  |   | State pension   |
| Pension    | and 67 by 2015  | and 67 by 2020   | increase to 67   | increase to 67  |                                | To 66 in 2019 &  | No change until   | age to rise to 67   |
| Age        | and 2020  | ,  | by 2023  | in 2020   | No change                      | 67 in 2023   | at least 2020   | in 2018   |
| Housing    | Tax-write off<br>maximized at<br>35% - bonuses<br>for people who<br>pay off their<br>mortgage | New system in<br>2014 for a 30 yr<br>period. All<br>owners entitled<br>to a 30%<br>mortage tax | Mortgage Tax<br>relief will be<br>phased out over                                    | Mortgage tax<br>relieft to be<br>brought down to<br>30% in 22 yrs<br>and "higher<br>earners" in<br>social housing |                                | Mortgage tax<br>relief only if<br>house is paid off<br>within 30 years,                  | above €350k.<br>Maximum   | Mortgage tax<br>relief to be<br>scrapped for all<br>but repayment |
| Market     | quickly   | •  | 25 Years   | to pay more rent  | No Changes                     |  | 42%   | mortgages   |
|            | Basic Insurance package to be revised, greater  | Care Centres in<br>low-income<br>areas,<br>healthcare<br>premium to be<br>made income          | Healthcare own<br>risk to be<br>income relted,<br>extra help with<br>insurance costs | Higher own risk,<br>healtcare<br>costs/family no<br>more than 36%<br>of total avg.                                | No increase in                 | Health premiums to become income dependent, palliative care included in                  | An end to<br>market forces in<br>healthcare, high<br>earners to pay | Basic healtcare<br>package to be<br>reduced, visits<br>to family  |
| Healthcare | the community   | dependant  | to stop  | Income in 2040  | own risk                       | basic package  | more  | payment   |
|            | Law to<br>simplified,<br>employers to<br>pay first 6  | "Proper  | Simplify and shorten   | Fewer rules for<br>employers, first<br>six months of<br>benefits to be  |                                | Employers to<br>pay for first 6<br>months of<br>unemployment,<br>a "talent<br>budget" to |   | Short and simpler   |
|            | months of   | •  | procedures, pay-   |   |                                | increase   |   | redudancy   |
| Redudancy  | unemployment  | against unfair   | offs to be used  | employer but  |                                | chances after  |   | procedures for  |
| Law        | benefit   | dismissial   | to re-training   | less money  | No change                      | dismissal  | No change   | employers   |

Source: Dutchnews.nl, Party Websites



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