

## The Dutch are reliable, after all

Ahead of the French and Greek elections, new government majority could provide euro area lessons

by Roel Janssen

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The temporary new centre-left coalition of reformers that has suddenly taken the lead in the Netherlands could provide a positive example to other countries trying to enact fiscal rectitude in economic and monetary union (EMU). General elections on 12 September will show whether this meets the people's approval. But compared with the popular tests taking place in France and Greece this weekend, the Dutch electoral tussle now looks reassuringly tame. Less than a fortnight after what seemed like a deepening of the euro area crisis with the collapse of the government coalition in The Hague, the Dutch have shown that they have not, after all, totally lost their reputation for reliability and orthodoxy. More quickly than expected, the Netherlands has repaired the damage wrought by the fall of Prime Minister Mark Rutte's government on 21 April after a wrangle over budget cuts. In five confusing days, the Dutch political landscape profoundly changed. The balance of power has shifted, with the anti-Islam, anti-immigrant and anti-Europe Freedom Party of Geert Wilders marginalised and compliance with EMU standards of fiscal discipline reinstated. Rutte has been weakened, but has survived. The Social Democrats and the orthodox Socialist Party have been sidestepped. But it has been a close-run thing. On 26 April a new governing majority emerged, with a broad coalition of five political parties agreeing on an austerity package to comply with the European Commission's demands for a lowering of the 2013 budget deficit to 3% of GDP. The new plans were submitted just in time for the Brussels deadline of 1 May. The build-up to the drama began earlier this year when the minority government of Conservatives and Christian Democrats, with parliamentary support from Wilders' Freedom Party, decided that severe budget adjustments were indispensable to bring down a projected deficit of 4.7% in 2013. As a vociferous proponent of stringent budget discipline for EMU's debtor countries, it could hardly afford to be lenient. After seven weeks of behind-closed-door talks and with an agreement in sight, Wilders unexpectedly withdrew support. Required adjustments of €14.2bn were, he claimed, an unacceptable submission to a 'Diktat' from Brussels. Without Wilders' support, there was no parliamentary majority, and Rutte handed in his government's resignation to the Queen. As the budget deadline loomed, not Rutte, but his finance minister Jan Kees de Jager went shopping for support for budget cuts from opposition parties. And within a day and a half, he managed to muster backing for a revised budget package of €12.3bn. Enough to satisfy Brussels and, more importantly, to ensure a small parliamentary majority. The Greens, Liberals and a small Christian party pledged their support to Rutte's minority Conservative-Christian Democratic government. The prime minister, who had boasted in 2010 that his government programme was 'finger-licking rightist', was forced to make a U-turn to the centre-left. A year and a half of increasing embarrassment with the Wilders' maverick Freedom Party had ended. Pet projects of the Freedom Party were instantly dumped, policies that the opposition had resisted in vain were dropped, and structural reforms that had been stalled for years were approved within twenty-four hours. The proposed budget package for 2013 includes a 2 percentage points VAT rise to 21%, a two-year freeze in public servants' salaries, a new tax on banks, a tax on polluting energy, and higher taxes on alcohol and tobacco. More importantly, the tax subsidies on mortgages will be partly abolished, unemployment benefits will be reduced, reforms in health care are pushed through and the retirement age will be raised, not in 2020 as planned, but by two months a year from 2013 onwards.

The net result is that the Dutch have been removed from the list of imminent problems for the health of EMU. All the more will public attention turn to events in Greece and France this weekend.