Finnish and Dutch Government Budgets in the Eurocrisis: Between fanaticism and belief in fair play

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Eurocrisis in the Press 10/30/2013

By Paul Jonker-Hoffren

Autumn is a time for new plans to be made for the next year in national governments. Usually these new plans follow estimates by the national statistics office or the national central bank. This post compares the reactions of governments of Finland and the Netherlands, two of the remaining triple-A countries in the Eurozone, regarding the need to cut deficits. These two countries have seen similar budget negotiations this year, although their institutional set-up is in many ways quite different. Contrasting these two countries reveals different reactions to both government debt levels and 'breaking the rules' on budget deficits.

Finland and the Netherlands have recently adopted new budgets for 2014. Both countries concluded there is a need for budget cuts, but for decidedly different reasons. The Netherlands is "in the danger zone" in term of its budget deficit and debt/GDP-ratio and already negotiated itself a one year extension to fulfill the budget deficit criteria. Finland, on the other hand, still has one of the lowest debt/GDP-ratios in the Eurozone, and also its budget deficit is within the Maastricht criteria's limits. In Finland, the need to cut budget seems to come from a very strong debt-averseness and a link in public discourse with issues of competitiveness. In short, Finland is very serious about the Maastricht criteria, while the Netherlands is serious but more flexible. It is important to recognize these two different positions, because in particular the current Dutch economic situation may demand more pragmatism in that country's euro-politics.

Budget discussions in the Netherlands and Finland follow their own unique logic and focus. For example, in Finland a major part of budget discussions has been the so-called 'sustainability gap' (*kestävyysvaje*) which essentially means the gap between government income and expenditure and relates to keeping the Finnish welfare state more or less intact. This is a topic of its own, related to an aging population and other 'structural' developments, but it is a central part of budget negotiations, because Finland is very strict about keeping within the limits set by the Maastricht criteria (maximum government debt of 60% of GDP, budget deficit of max. 3%). On top of this, budget negotiations are to some extent tied to labour market negotiations, which sometimes makes for a very complicated 'game' of negotiations. In the Netherlands, it is slightly the other way around, because so-called social agreements are principally intended to create support for reforms and budget cuts. This year, both in the Netherlands and Finland the social partners (labour unions and employers' federations') have behaved 'responsibly' by eventually signing on to agreements that also adversely affect their interests. The social and labour market agreements as such are not the topic of this post, but the way these agreements, and the press, reflect views different views on the Eurocrisis.

To put these countries in context, it is useful to set out some core problems. In Finland, according to the mainstream media and politics the main problem is that the Finnish economy is not competitive enough. This is slightly strange as Finland is very often ranked as one of the most competitive economics in the world, as is the Netherlands (see here). The true meaning of 'competitiveness' here seems to be unit labour costs, and these are indeed higher than in the Netherlands or Germany for instance (but this was not always so). Furthermore, Finland struggles with high structural unemployment, rising unemployment and recently very many redundancies, especially in the ICT-sector. It also faces the big question how to get young people into work (Finland has a youth unemployment of nearly 25%) and how to pay for the welfare state. The Netherlands also has an ageing population, but the Dutch government has been, at least since 2011, working seriously on pension reform, with current changes coming into force in 2014. The Netherlands does however have big problems with its banks and the real estate market (which are inter-related problems) as well as a rapidly increasing unemployment rate. The troubles with Dutch banks and unemployment have led to increasing government debt and government budget deficits.

Since Finland and the Netherlands are, together with Germany, the strict paymasters of the Eurozone, they are seen to have a moral obligation to stick to the EU norms. As Dutch Finance Minister Jeroen Dijsselbloem put it in the newspaper Trouw: “We can’t say to the Portuguese and Greek that they have to reduce their mountain of debt while the Netherlands doesn’t keep to the rules.” Finnish Finance Minister Jutta Urpilainen said in the newspaper Helsingin Sanomat: “In Finland we have lived beyond our means and it is the painful duty of this government to mend the gap.” A significant difference between Finland and the Netherlands nonetheless is that the Dutch government debt is rising fast, from below 55% before 2008 to over 70% at the moment. Finnish government debt has also risen, but its level is still below the 60% level mandated by the Maastricht-criteria.

Both countries feel the urge to limit the growth of government debt, but arguably the reaction is much stronger in Finland, potentially a result of its own banking crisis in the early 1990s. The Finnish news service YLE published a piece on 8-8-2013 with the title “Finnish public debt soon overtakes the monstrous numbers of the recession years in the 1990s.” The context was an estimate by the Finance Ministry on the development of public debt until 2015. In Finland this figure would reach 59,9%. The piece furthermore mentions that Germany has a debt/gdp-ratio of about 81% and “In principle also Germany should be punished, because debt is more than 60% of GDP. In practice this is a dead letter in the Eurogroup: the whip hasn’t been taken up for breaking the 60% limit.”

When one looks at reports on Finnish politics and opinion pieces, the message is not the same everywhere: “the increase of the debt/GDP-ratio must be stopped.” This article by the newspaper Turun Sanomat is typical; it quotes Minister Urpilainen as saying: “The number one priority is stopping the growth of the debt/gpd-ratio; the budget deficit goal is not as central.” The newspaper does not reflect on these goals, it simply restates them uncritically. On the other hand, the Finance Minister also states this elsewhere: “The government takes on debt, because it doesn’t want to worsen the recession.” On discussion forums the message is cruder: “we have to reduce debt, because otherwise we turn into Greece!” – but also opposition politicians say this, again without critical reflection by journalists.

Very briefly, the budget cuts agreed in the budget proposal fall largely on the municipal level, because the government reduces the amount it transfers to that level. At the municipal level, there are also intended restrictions to the use of day-care and other measures which at the same time intend to save money and get more people to work. The policy package is congenially called the Structural Reform Package. A lot of news regarding the budget concerns criticism by different actors – civil society actors and opposition parties alike. The biggest change in policies is that municipal tasks are reduced rather than adding more tasks to the municipal level as was previously done.

Related to the ‘Structural Reform Package’ is the so-called Employment-and-Growth Agreement, which is intended to increase the competitiveness of the Finnish economy. It is related because the Finnish government will only implement certain reforms if this centralized collective agreement is signed by ‘sufficient’ labour unions and employer federations.

The Netherlands, by contrast, is serious about reducing government debt but not fanatical. At the time the Social Agreement was negotiated, it was clear already that the Netherlands would not keep within the 3%-limit. Commissioner Olli Rehn had let it be known that this would not be a problem, because the Netherlands is working on structural reforms. The country also got an exemption of one year regarding the budget norms. Interesting is that the Dutch Finance Minister has been in very active contact with Commissioner Olli Rehn, to gain support for breaking the 3%-norm. According to this article, Rehn accepted this prospect, because Dijsselbloem made clear he didn't want to negotiate ad-hoc budget solutions. Recently the Dutch Finance Minister was praised by Rehn for 'being responsible' during the negotiations of the government budget for 2014. Many Dutch newspapers report this news rather uncritically; they repeat calls by the Finance Minister that it is 'extremely dangerous' to reduce the speed of budget cutting (e.g. here and here.) There are nonetheless also opinion pieces such as this one which criticize the obsession with deficits.

The budget for 2014 in the Netherlands was agreed upon just days ago. The main problem was that the government had committed to 6 billion in *additional* budget cuts, but due to the minority government status, it has to rely on opposition support to get the budget through both houses of Parliament. The Dutch media routinely quotes representatives of all parties on their opinion of issues, and this is no exception. However, various editorial comments and opinion pieces criticize (through experts like Sylvester Eijffinger and others) the Dutch economic policy. The Dutch newspaper Trouw quotes Professor Wijnbergen of the University of Amsterdam: 'The government does everything to slow down growth.' The NRC/Handelsblad newspaper 'Government sticks to six billion – Opposition: all signs red.' The budget agreement was concluded by the government and the opposition parties D'66, SGP and ChristenUnie. This combination has led to the label 'Purple with the Bible', a reference to the 1990s coalition governments of VVD, PvdA and D'66 which were called 'Paars', complemented by the two conservative christian parties. A 'flash' analysis of the Dutch Bureau of Economic Analysis CPB shows that the budget cuts, tax increases and other measures will lead to increasing budget deficits from 2014 to 2017. It will be interesting to see how 'Brussels' reacts to these estimates.

It is not entirely clear what effect these government plans have on the social agreements it concluded earlier; it seems to be a partial change. In June a labour union leader stated that 6 billion extra budget cuts would 'mean the end of the Social Agreement.' Prior to the conclusion of current budget negotiations the D'66 party emphasized that it would speed up implementation of certain aspects of the Social Agreement, in particular the reforms of the unemployment benefit law (WW) and the regulations concerning redundancies/dismissal. But the Dutch labour union FNV is ready for industrial action, because it sees the government unilaterally changed the Social Agreement, and explicitly rejects this speeding up such 'dismissal' reforms.

At present it is too early to say what social effects the budget cuts in Finland and the Netherlands will have, although in Finland a lot of attention is placed on the budget cuts and co-determination negotiations the municipalities have to implement as a result of the Eurocrisis. In the Netherlands it is not clear to what extent the social partners will 'meekly' accept the budget cuts, in particular since Dutch labour unions seem to be very aware of the scientific evidence against 'austerity' measures during a recession.

The difference in reaction to growth in budget deficits and/or government debt ratios is nonetheless very clear: the Netherlands, for all its support of (and by!) Germany, is much more lenient and somehow manages to bend the rules to its liking, at least for the moment. Finland, on the other hand, is extremely averse to any increase in public debt.

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