

PVDA

CHANGING COURSE

THE ECONOMY BACK TO THE PEOPLE

INVESTING IN WORK AND INNOVATION

SUMMARY REPORT

Committee Melkert
November 2013

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This Summary Report is an abbreviated, authoritative version of the full report by the Melkert Committee on the causes and consequences of the crisis and the way 'to the left' towards sustainable recovery, which was presented to the party executive of the Dutch Labour Party on 21 November 2013.*

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DIAGNOSIS

'Financialisation' and short-term thinking stand in the way of more comprehensive and balanced policy thinking in the long term. Economic, social and ecological questions are inextricably linked with one another. By tackling these questions in a coherent approach, a new and more optimistic perspective emerges. Growing inequality slows down productivity and creativity. Unfettered production and consumption undermine earth's resilience. The short-term economic prospects for both the European and the Dutch economy point to a prolonged stagnation.

For more than five years, 'crisis' is buzzing around in living rooms, offices and government buildings: decline rather than growth, the undermining of established economic values, social exclusion, uncertainty about pensions and political protest mobilising the masses. All these urgent issues and questions affecting us all, because the answers have consequences for our daily life, and indeed for our confidence in the future.

The crisis is very serious indeed, and is in many ways a symptom of more fundamental root causes of how the world is functioning. Economic facts, which until recently were considered self-evident are suddenly cause for concern. Growing inequality leads many to be frustrated with the elite representatives of financial capitalism, who seem to be serving themselves rather than serving the common interest. Furthermore the threat of global warming, to be limited if we are to sustain our economies, cultures and communities for our children, looms for us all.

It is far easier to identify a common approach in a period of growth and optimism than in a period of recession and pessimism.

The marching order '**The way to the left out of the crisis**' with which the Dutch Labour Party (PvdA) set the Melkert Committee to work, was by no means an easy task. Rediscovering confidence in the future calls for a willingness to reassess current reality according to our ideals, and to sketch out a perspective based on the same reality that we want to change. By focusing on the medium to long term, the Committee has intended to create sufficient leeway for itself to freely and frankly consider the questions: What exactly is going on? And where do we go from here?

"To the left" does not automatically mean that the left always knows better. It is however the road we wish to follow because for us, a society based on solidarity is point of departure and arrival for political thoughts and actions born from social conviction and economic necessity. Evidence is overwhelming that at the end of the day an open and safe society built on principles of solidarity is in the best interest of us all. Indeed, especially societies with highly-developed collective provisions and relatively well-balanced income distribution score highest in the rankings of most affluent and most competitive countries. The crisis has taught us that adulation of the 'unbounded' individual has resulted in greed and wastage by a small minority that have subsequently passed on the costs for their actions to us all. In that sense, this crisis was born from

'the right'. On the other hand, the 'left' also proved deficient in offering a coherent and cohesive alternative. Such an alternative, however, should not merely become bogged down in expressions of indignation. If we wish to exploit the crisis, new and inspiring ideas are needed to convince people of the unavoidable need for a change in mentality; now is the time for targeted action. But, despite all the problems, there is a real sense of **optimism** within the Committee, that there are sufficient human and institutional capacities to arrive at national and international solutions. The key question is how those capacities can best be applied in the common interest. We in the Dutch Labour party have to uphold a tradition of not taking for granted apparent policy limits, but instead consistently pushing for change to serve society as a whole.

In the spirit of that tradition, the Committee calls for a fundamental review of the relationship between individual and society and between economy and earth. A **new balance** must be found in which playing with 'financial capital' is no longer an all-consuming goal, but in which investing in 'social capital' and ecological management occupies a more prominent position. An economy in which different forms of profit-oriented market creativity are made subject to the creation of social values in the longer term, such as individual empowerment and productivity, social development and strengthening the resilience of planet Earth, both globally and on our own doorstep.

The Committee believes that everyday political decisions should be more consistently assessed against the objective of **longer-term value creation**. As we become more successful in achieving that goal, we will redirect our way of life and our society where growing production and prosperity serve to promote **full and decent employment**, renewed **national and international solidarity** and **sustainable ecological development**. In this way, we will reverse the neoliberal paradigm: employment, solidarity and sustainability will be the primary goals, capable of supporting new and sound growth.

Far reaching changes are needed in how we arrive at decisions in the public and private domain. Many people have a sense of losing all grips on society, politics, their work and their life. The public and private domains are however not separate entities; they are part of the same overall whole, and help sustain one another. Both domains will have to open up more to the fundamental trend towards initiative carried by individual citizens and businesses. We as a political party recognise the value of that trend, and in doing so encourage it and create the space it needs to thrive in. We are convinced that successful initiatives by private parties will broaden the involvement of individuals in society as a whole. That involvement and the resultant greater say over each individual's personal life make it more self-evident to explore the right balance between economic, ecological and social developments. Consequently we view issues that in everyday speech are often wrongly referred to as a contradiction between 'hard' and 'soft', as in fact being complementary; to appreciate optimism, motivation and innovation as the driving forces for recovery; to strengthen voice and participation of stakeholders as a healthy counterbalance to the

dominance of financial interests; and to convert social 'costs' into investments in productivity and participation. In a nutshell, to make quality of life a priority goal, and first and foremost to assess economic growth as a means of achieving that quality, and not the other way around!

If we briefly set aside our everyday concerns about the crisis, we will quickly recognise that the foundations of our society are rapidly eroding. This is reflected in three key issues: economic stagnation, social exclusion and ecological exploitation.

These economic, ecological and social issues share today a common cause in an overpowering fixation on short-term financial and economic returns. In that sense our society is becoming increasingly 'financialised'. The debt crisis was partly caused by the lure of creating excess of wealth and passing on the long term costs to future generations. On top of that, the short term costs of the failing private market have been passed on to the whole society. In social terms, income inequality has grown, and the likelihood of improving one's social status has fallen in a Europe of towering unemployment figures and a lack of 'decent work' in large parts of the world. The ecological crisis has been caused by the long unabated urge of industrial capitalism to exploit the planet, worsened as a result of the (positive) growth in the 'south', thereby overpowering the boundaries of what the earth's crust and atmosphere are capable of sustaining. These three crises affect the fundamental values that define our choices. We subscribe to the urgent pleas in the WBS¹ report "**Van Waarde**" ("Of Value") to restore our society according to the values of **basic security, decent work, emancipation and bonding**.

Over the past few decades, four developments have taken place that the Committee views as the basis for the crises.

Firstly, the unlimited competition for production and consumer markets is more and more eroding **social and ecological values**, with the bill being imposed firmly upon the community.

Secondly, as a result of this competition, income disparity has increased with an excessive accumulation of property at the top of the social pyramid. The economist Joseph Stiglitz demonstrated convincingly in **The Price of Inequality**², that this has led a massive economic loss.

Thirdly, this trend of growing inequality is casting a shadow over the success of the breakthrough by hundreds of millions of the extreme poor into a life without elementary shortages: **New middle classes** in the 'south' are growing; the **established middle classes** in the 'old west' are stagnating; and it is estimated that two billion children, women and men right across the globe remain or are once again becoming **marginalised**, therefore representing a source of **injustice and social tension**.

The fourth development is that of ever increasing globalisation and its consequences for the capacity for manoeuvre by the nation state. The **centres of financial decision-making** (Ministries of Finance, Central Banks and the IMF) have gained considerable power at the expense of the

¹ WBS is the Dutch Labour Party thinktank, member of the Forum Scholars for European Social Democracy

² Joseph Stiglitz: *The Price of Inequality; how today's divided society endangers our future*, 2012

centres of social order and lobby³ (Ministries of Social Affairs and trade unions) that during the initial post-war reconstruction acquired solid positions. The **breakdown** of government tasks into independently operating organisations has polluted the management of not-for-profit social interests, with an unsuitable profit-driven management culture.

How can we face up to these developments and where needed guide them into the right direction? For us Europeans, it is essential that we thoroughly renovate our own structures. Emerging Portuguese and Spanish emigrants and rebellious Greeks demonstrate negligence on two sides. On the one hand, the governments of those Member States have often failed to take responsibility for necessary adjustments to the demands of the future, despite huge advances their **EU membership has brought**. On the other hand, the Rhineland has been negligent in reinforcing the effectiveness of Europe as a whole.

Is the above diagnosis not too gloomy? Is it not being suggested that we will be climbing out of the recession by the end of 2013 as more and more economic signals are switching to green⁴? Unfortunately, those first swallows do not make a summer. The latest IMF estimates for example summarise the prospects for Europe as “**prolonged stagnation**”.⁵ Once again this year (2013), Europe’s economy is set to decline before a slight recovery (at a level of 1% expected growth) might follow next year. Record levels of unemployment, however, are expected to fall only slightly, if at all. Even in the medium to long term, we will not be seeing more than moderate growth, combined with inflation that remains ‘substantially’ below the medium to long-term objective of the ECB. For the Netherlands, next year (2014) not more than 0.3% growth is expected, while unemployment will rise further alongside the national debt.⁶ In the meantime, the Dutch current account surplus has reached a record level of 10%; the crisis is above all being paid for in the form of falling purchasing power, while business profits remain unchanged; many home owners continue to suffer from negative equity on their mortgage; discussions about pensions are becoming increasingly heated, and we are being forced to pump ever harder in order to stay ahead of rising sea levels. In summary, we must conclude that for the time being, (globally) Europe will continue to trail the pack, with the Netherlands performing below average even in Europe. The question then that emerges is what is a symptom and what is the cause? Are banks, businesses and consumers both willing and able to learn the lessons from the crises, beyond simply expressing the hope that the crisis will soon bypass us?

³ Saskia Sassen: “The problem is not Eurozone discipline but the financialisation of everything” in: Social Europe Journal, May 2013

⁴ Dutch Central Bank President Klaas Knot, 7 October 2013 (NRC Handelsblad)

⁵ IMF, World Economic Outlook, October 2013, p.58

⁶ Centraal Planbureau, Macro-Economische Verkenning 2014, p.11

How can Europe escape from the vicious circle that for at least some time to come keeps us caught with high levels of unemployment, causing debt to rise and keeping expenditure and investment at a low level? Whatever way we look at the situation, the role of Germany is central to re-initiating investments in combination with policy reforms in the Euro zone as a whole. The counterpoint to the huge structural surplus on the current account along the Rhine is unemployment and bankruptcies, elsewhere.⁷ In overcoming this fundamental contradiction, the Netherlands too must take account of the unprecedented low level of investments that will end up costing us a great deal of money instead of sustaining our country.

Of course, decision-makers are not just waiting and seeing, and contrary to the expectations of many, Europe does have the capacity to adjust course and get back up to speed. But frankly, one can not but agree that there is far greater, as yet unused, potential for acceleration, deepening and innovation in Europe, and that the urgency of unemployment is now so great that we must move full steam ahead, with five goals of recovery and investment in mind : full employment, sustainability, innovation, transparency and balance. By aiming for those particular goals, we will emerge from the crisis with a stronger economy, a more just society and a more sustainable ecology.

The Committee recommends urgent action in order to:

- * Eradicate **two deficits simultaneously**: the problems of debt burden and unemployment, in conjunction with maintaining long-term price stability.
- * Initiate **three innovative revolutions** as the essential precondition for higher productivity and greener growth: focused on fundamental and applied research & development; on acceleration of investments in sustainability; and on innovation in our social organisation with an improved combination of work and private time, and full and decent participation on the labour market and in society.
- * Increasingly focus our mental attitude on shared social responsibility and accountability and on **'humanisation' as the alternative to financialisation'** – for human capital is key.
- * Jointly **look forward and outward** to where the opportunities are : working, innovating, sustainable.

⁷ Martin Wolf in Financial Times, 24 September 2013: "Germany's strange parallel universe"

REMEDIES

I EMPLOYMENT

Growth serving employment and sustainability will help us progress. Policies should be directed by employment indicators alongside financial indicators. Towards a Social Union that guarantees minimum social standards for everyone, everywhere. Full labour participation will support our economic interests, and is a must for society.

Throughout the world, people's greatest concern is employment, employment and employment – for themselves and for their children.⁸ Why then does this area of concern receive so much less attention than the financial sector? Why were governments able to play the role of 'banker of last resort' but were unable to take up the role of '**employer of last resort**'? Unacceptably high levels of unemployment above all in southern and eastern Europe – but also in the Netherlands – are evidence of the limitations of the 'free market'. Flourishing trade is essential to us all and is an integral part of human nature. Nonetheless, market performance should serve social objectives and should as far as possible contribute to achieving full employment. There are both moral and economic arguments in favour of this claim. The guarantee of employment and related rights should apply to everyone and constitute the basis for solidarity in society. When it comes to the quality of service provision in care and education or on the street, we need everyone to contribute. This is an area in which government should not be stepping down but stepping up. Greater coherence is called for between all the core components of socio-economic policy. When the market sets the trend, or when the financial sector commands rather than serves, it is society that loses out.

Assessing the success or failure of policy according to the benchmark of universal access to employment should lead to political correction of free market operation. To the trinity of deficit, inflation and debt, Europe needs to add employment and long-term investment as essential quantitative criteria for supervision by political and monetary authorities. The Committee calls for the establishment of two equivalent standards: a standard for the structural **budget deficit: 3% or lower** and a standard for the structural '**employment deficit: unemployment**'⁹ **5% or lower**. The political relevance of these standards is that if both are not simultaneously fulfilled, a problem arises that calls for a solution requiring the deployment of a mixture of policy reforms, budgetary and/or monetary measures. This in turn requires important institutional reforms. Firstly, **extending the mandate of the European Central Bank**¹⁰ and **De Nederlandsche Bank**¹¹ so that in addition to

⁸ Based on a world-wide survey undertaken in April 2013 on behalf of the International Trade Union Confederation (ITUC)

⁹ As a percentage of the working population in the framework of EU harmonised statistics.

¹⁰ Proposal: change art. 2 of the Statute of the ESCB and ECB into: "*In accordance with Article 127 (1) (ex Art. 105(1) TEC) of the Treaty on the Functioning of the European Union, the primary objective of the ESCB shall be to*

price stability, employment is defined as an objective of monetary policy. This is entirely in line with for example the task of the Federal Reserve System in the United States, with the chairman of the Federal Reserve Bernanke's pledge last year to operate a broader monetary policy ("quantitative easing") with a view to considerably reducing unemployment in the US, with a set target of 6.5%.¹² Secondly, **supplementing the EU Stability and Growth Pact**¹³ with an unemployment target of 5% as the guideline for political action. Any integrated monetary, budgetary and social policy and regulation of the internal market require solid financial foundations capable of enabling the Union to confront setbacks and, in better times, capable of stimulating the economy by investing in innovation, employment and infrastructure. The introduction of **Euro bonds** would provide an instrument for establishing just such foundations.

In collaboration with other European countries, the Netherlands should insist that international bodies such as the IMF and the World Bank also set the approach to full employment as a primary objective of economic cooperation.

'Full employment' stands for 'nobody left out for any length of time'. This does not mean a job guarantee for everyone at any given moment. Indeed, job mobility in a life of working and learning is surely set to grow in future. The essential element is that people must be prepared for this situation, and whenever necessary backed up by a **guarantee of employment participation**: through work, training, work in combination with training, and service provision. Success can only be achieved through the simultaneous deployment of multiple instruments:

First and foremost, it is essential to stimulate investment climate and entrepreneurship. It is a simple fact that the vast majority of jobs are created by the market, and will as far as possible have to be left to market parties, with the government playing an encouraging and facilitating role.

Secondly, more priority must be given to establishing clear ties between labour market training and the necessary breakthrough to 'life long learning'.

Thirdly and crucially: shifting the tax burden currently weighing on labour onto other existing or new bases for levying taxes. By limiting as far as possible the tax burdens on employment – in particular for relatively low-qualified work – and by increasing net wages, the foundation of the labour market will be strengthened.

maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." (as formulated in the US Federal Reserve Act)

¹¹ Dutch Central Bank; proposal: in art. 2,1 of the Dutch Banklaw add after the objective of "maintaining price stability": "*and the promotion of maximal employment*"

¹² New York Times, 12 December 2012

¹³ Proposal: add in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union to art. 3,1,(a) after: "the budgetary position of the general government of a Contracting Party shall be balanced or in surplus": ", *taking into account the objective of achieving full employment, measured by the indicator of a level of unemployment of the labour force representing 5% or less*"

Fourthly , full engagement in the labour market (education, training, internship, trial placement, service provision via the private or public sector) must be guaranteed in the form of individual service contracts, partly financed from savings on welfare benefit payments.

Fifthly: ‘participation’ for people with individual impairments or restrictions who are keen to fulfil an active role in society, compensation is needed for the shortfall in earning capacity and for supervision. The prevailing Participation Act¹⁴ offers the necessary legal framework, but there are still important questions as to whether the resources available are currently and structurally sufficient.

It is also of essential importance that the European Union gains strength in areas of social policy, by drawing up rules that create a **Common Internal Labour Market**, define a basic level of social protection as a standard, and prescribe social rights as an essential precondition for using the economic freedom provided in the various Treaties. The **Social Union** should be based on a political agreement concerning the key conditions for social cohesion and intolerance of poverty, with an more important role for **European Social Dialogue**. In policy practice at the level of the member states’ capitals, the Union should promote among other things equal wages for equal work within a single country, minimum wage rights, access to school and study between the Member States and guidelines and directives for labour inspectorates. The Committee also supports a special role for the European Investment Bank in encouraging investments that raise employment levels and production, and promote sustainability. With relatively moderate levels of public funds, the leverage effect of EIB loans could bring about considerable results. Expenditure through the EU structural funds should also be focused more directly on addressing employment and sustainability issues.

By **re-allocating taxes in order to promote employment** (the third category of instruments mentioned above), the foundations for the labour market can be further strengthened. A large proportion of tax income represents a burden on the factor labour. The unacceptably high current levels of unemployment and the real threat of structural exclusion from employment in the future make it essential to consider how a radical reduction in taxation of labour could be achieved. Matching supply and demand at the level of lower-qualified tasks would also meet the specific need to address losses of lower qualified employment given the impact of automation and robotisation as a feature of global competition. Reducing tax on labour should therefore be started at the lower end of the labour market, and subsequently be structurally implemented right through to the upper levels where wage tax and social security levies apply.

The wish to reduce tax on labour obliges us to specify how this reduction can be financed, aside from the possibility of easing the tax and premium burden whenever there is room to do so in response to increased growth. The Committee has identified possible sources of financing in:

¹⁴ “Participatiewet”, law that will apply as of 2015 in order to promote job opportunities for people with limited abilities to access the regular labour market

reducing tax breaks under the Corporation Tax; imposing levies on the use of environmental values; gradually increasing and simplifying taxes on consumption; revising and broadening the scope of wealth tax; taxing of financial transactions; revising and gradually levelling of the relative value of (income tax) taxbreaks including pension premiums; as well as equal treatment for employees and independent workers where there is no rationale for existing differences.

II SUSTAINABILITY

Decisively accelerating towards renewable energy supply and a circular economy, with innovations and investments resulting in green growth and employment for many. The higher costs of using environmental goods will easily be compensated by higher profits and quality of life.

In periods of economic crisis, it is difficult to uphold awareness that nature and the environment are essential economic resources for our very existence. Although further CO₂ emission reductions were placed prominently on the political agenda following the climate summit in Bali (2007), the results of the summit in Copenhagen (2009) were restricted to simply underlining the objective of limiting global warming to not more than 2°C. According to many, this objective is Too little too late. The risk is clearly present that **by 2050, temperatures will have risen by 4°C**.¹⁵

In global terms, Europe is ahead of the pack in calling for far-reaching measures for tackling climate change. Nonetheless, falling prices on the energy market have led to a rise in the consumption of coal in Europe.

If we are to sustainably maintain our level of wealth and wellbeing, we must focus maximum attention on sustainable energy supply through the use of renewable energy sources, in combination with converting our economy from a linear economy into a circular economy.

When it comes to renewable energy, the Netherlands still has a long way to go in catching up with the European frontrunners. With the National Energy Agreement in the Social and Economic Council¹⁶ this Summer an important step has been taken, but the sense of complacency with that agreement could effectively form a stumbling block for even greater ambitions. The fundamental changes in energy supply beyond the SER horizon of 2020 in fact demand far more efforts and adjustments. In the context of the crisis, it is important to recognise that innovation in the field of sustainability could help strengthen our economic position and hence promote improved employment. Science, the private sector and government as collaborating parties, are still missing out on a huge potential. A recent report by the Netherlands Environmental Assessment Agency¹⁷ inspires to arrive at a **National Transition Strategy** that elaborates the steps to be taken towards a Dutch contribution to global energy sustainability by 2050. The transition to green growth requires a realistic approach. For the time being fossil fuels are essential for our economy. Changes will therefore have to be achieved in stages, maintaining constant attention for grassroots support, in turn calling for a knowledgeable, actively engaged and predictable government, combined with initiatives by the numerous individual citizens and businesses that are increasingly

¹⁵ "Turn down the heat: why a 4° warmer world must be avoided", World Bank 2012

¹⁶ Social Economic Council (SER), composed of representatives of employers' organisations and unions as well as independents appointed by the Government

¹⁷ [Changing track, changing tack; Dutch ideas for a robust environmental policy for the 21st century, PBL 2013](#)

accepting their responsibility. Headed by the Prime Minister, public-private partnerships and EU coordination will have to be strengthened, in order to find the right track, at the required pace.

The road to renewable energy supply calls for behavioural change by everyone. Politics has a major responsibility in creating broad-based support for such a behavioural change. In that connection, it is essential that ‘sustainability’ takes into account the dimensions of production as well as distribution; and of ecological boundaries as well as social conditions for a society based on solidarity. With that in mind, there is an urgent need for a consistent **adjustment of the price for using environmental goods** through permanent forms of levying liability for the use of environmental values (space, raw materials, water, air) as a collective burden. The increasing imbalance in energy tax that places far higher burdens on households and other small-scale users than on a limited group of economically-important bulk users must be structurally reduced in the framework of a **combination plan** in which a gradual rise in energy prices for industry and agriculture is introduced, in combination with and dependent upon parallel progress on a European scale. Furthermore, within the EU we will have to strive for **harmonisation of fuel taxes** as well as for a **tax on CO₂ emissions**. The CO₂ tax will have to be levied over and above the currently poorly-functioning system of CO₂ emission rights trade. The issuing and pricing of those rights could be placed in the hands of an independent **European Climate Bank**.¹⁸

The government should take the lead in encouraging a bio-based, circular and energy-neutral economy through consistent application of the now well-established principle of ‘the polluter pays’. This will call for thinking more in terms of production chains and producer responsibility. By means of taxation and by charging the actual price including environmental costs or through compulsory collection of residual products, the government could help influence the development of new activities. The use of **green accounting**¹⁹ will be made compulsory for large businesses and government bodies with a view to promoting balanced business operation in which not only profit but also planet and people play an equal role. Corporate **liability** for harmful environmental effects should also be reinforced, in order to promote more targeted preventive action and to avoid future damage and passing on costs to others.

One key instrument for quickly generating additional funds is the establishment of a **National Investment Bank for Sustainable Investments**. With relatively limited start capital, a bank of this kind would be capable of financing a whole raft of investments in sustainable innovations.

¹⁸ Rick van der Ploeg in NRC Handelsblad, 13 September 2013

¹⁹ As for example developed by the “Global Reporting Initiative” or by “True Pricing”

III INNOVATION

Investment in fundamental and applied research & development is the basis for economic, social and ecological ambitions. Life long learning and more productive education are essential preconditions for progress. Better access to credit and investment funds will help accelerate the pace of economic recovery. Social innovations will make the greatest difference, with more women working at the true level of their talent, and priority given to a better combination of 'work and care' tasks. Managed migration will serve both our economy and care standard.

Only an economically and socially innovative society will be able to face up to the world of tomorrow, in which the playing field is demarcated by globalisation and growing competition. In this respect, innovation relates not only to scientific research and technological development, but also to life long learning, the willingness to invest in 'hard' and 'soft' infrastructure, establishing a new balance between flexibility and security in the labour market, and softening the growing tension between professional and private life. Innovation means calling for and providing space for creativity and social innovation in all sectors and strata of society.

From an economic perspective, the task is a relatively simple one. First and foremost, we must **retain existing export markets and conquer new markets**. To strengthen high-end knowledge and to secure personal services, the labour force must be maintained at the required level, also through targeted immigration. It is essential that we create the conditions for green growth in order to avoid environmental degradation and climate problems, and to not miss out on, and indeed to exploit, new markets. Despite growing competition, there are plenty of opportunities for anyone able to invest in innovative talent and the capacity for social change.

The economic malaise in Europe can partly be explained by the self-sufficient character of trade flows within the Union. The recently started negotiations on a Transatlantic Investment and Partnership Programme (TIIP) offer Europe a unique opportunity to face the outside world. That same opportunity could also be utilised to promote global, ecological and social standards.

Broadening the space available for **research & development** is an absolute must. There is room for improvement in coordinating the current far too fragmented public-private partnership organisation. With a little more public funding, considerably more private money could be generated. Within a **ten-year framework** to be agreed between government, research institutes and the private sector, it will be vital that the Netherlands actually signs up to the EU agreement that **3% of GDP** be spent on research and development. A larger proportion of that amount will have to be focused on the knowledge needed to accelerate green growth. Diversity of participation, particularly by women, in the exact and technological sciences must continue to be promoted. In the necessary evaluation of the spending of funds, politicians will have to demonstrate greater patience and recognise that fundamental and applied research are irretrievably intertwined.

Despite a relatively positive score for the Netherlands in international comparisons of **educational performance**, there is still much room for improvement as our competitors are wasting no time. Above all investments in the quality of **teacher training programmes and teachers** should retain the highest priority. We can easily get by with far **fewer specialised study programmes in senior secondary vocational education (MBO), higher professional education (HBO) and university education**. An annual monitor should be used to record whether such intentions are actually put into practice. On the demand side, the centralisation of examination requirements as well as binding recommendations on the continuation of study and **ambitious reference levels** for final attainment demands could contribute to improving quality in order to justify continued priority for collectively financed education expenditure.

For many students, the option of **sandwich programmes combining learning and working** over a longer period is an excellent means of obtaining further qualifications. Investment in the development of craftsman/craftswomanship in senior secondary vocational education is crucial for the fabric of the economy and society. Entry into technical programmes could be made even more attractive by reducing tuition fees.

For the innovative capacity of a society it is almost impossible to overestimate the importance of **life long learning** and of accumulating qualifications. This calls for a broad and varied range of post-school educational programmes, including individual drawing rights from a National Training Fund partly financed from the Education and Training economic sector funds.²⁰ Encouraging people to dare going into business and to invest calls for a dedicated government that contributes to restore issuing of credits to the SME sector so that banks do what they should be doing (and leave well alone what they should be leaving alone). Depending on the results of the ECB 'stress tests', the possibility must be recognised of **establishing a government bank that buys up bad loans of banks** and subsequently, in future, attempts to profitably cash in on those loans. At long last changing bankruptcy legislation in line with what is often common practice in other countries would send a positive signal to the business sector.

One of the main routes to general recovery consists of simultaneously helping the construction sector back onto its feet and rapidly improving the energy-efficiency of existing and new homes and offices. Meanwhile, the Government has introduced new policy measures aimed at ensuring a healthier housing market in the longer term. The Committee supports initiatives for establishing a **national mortgage institution** that will enable pension funds and other investment institutions to invest in mortgages. This also ties in with an **obligation for Dutch pension funds** to invest one third of their equity in our own country, within a growth model. The moment is now upon us for elaborating a **Green Housing Plan**, together with the sector. The plan should invest in new social housing programmes and promote higher energy performance and also create

²⁰ jointly financed by employers and workers on the basis of sector collective bargaining agreements

conditions for investments in more expensive rental housing that is becoming increasingly popular on the market. Partly against that background, housing corporations must not be marginalised in exclusively forming a safety net for only those with the very lowest incomes, as is the intention of the EU; this is an example of the long arm of the EU extending too far. Multiyear agreements will have to be reached on hard infrastructure investments in smart road transport, climate-proof water management and super-fast data traffic. This would guarantee that craftsman/craftswomanship and employment opportunities are not lost and that, in the current difficult circumstances, these types of investments are not undermined in a way that we suffer setbacks at a later date. The relaunch of the Economic Structure Investment Fund,²¹ in a better managed version, would seem to be an obvious opportunity and choice.

‘Soft’ investments can also help strengthen the economy. An administration that is not introvert and is reaching out internationally will be able to acquire additional contracts with investors at home and abroad. Take for example Brainport Eindhoven. The beating heart of economic dynamism lies in urban rings, and administrative organisation must be adjusted to match. In a number of locations, **Economic Development Boards** have demonstrated that shared responsibility by a range of players in partnership with municipal government can result in added value for the community (economic, social and ecological).

Whilst at long last consensus seems to have been achieved on the ‘hard’ value of the Rijksmuseum, it is nonetheless important to recognise that the ‘Rijks’ can only represent the best of the best because it is supported by a pyramid of artistic and cultural expressions that over centuries have made the Netherlands such an interesting place for experimentation and commercial exploitation. It is a vital factor for location of investments that must not be left primarily to private funding, however welcome that funding may be. The Committee calls for already announced public budget cutbacks to be reviewed through 3D spectacles, thereby offering a range of cultural sector funds additional space for initiatives in an overarching project for **Innovative Cultural Entrepreneurship**, with new stimuli for young talent that will thereby be offered the opportunity to expose as yet concealed treasures of the 21st century. Art and culture offer both economic added value and immaterial enrichment for us all.

Innovation in the labour market means focusing attention on motivation and training as the basis for high production and service-oriented performance. The abundance of often abusive arrangements that reduce employees to contract workers and which serve to exploit employees and force them into taking on the role of independent worker mainly generate short-term profits at the expense of those who actually do the work. Social security, pension and training must be available,

²¹ The previous “Fonds Economische Structuurversterking”, through which revenues from gas exploitation were earmarked for investments in infrastructure, which was abolished in response to perceived fragmentation of investment targets

subject to reasonable conditions, for all participants on the labour market irrespective of the form of labour contract. It is time for a new agreement with and between employers and employees: **Flexibility and Security II**.²² Within such new agreement the main guidelines for the next ten years should be laid down, in order to create necessary innovation space within the labour organisation in combination with solid buffers for general pension obligations, disability insurance and training rights. In that context also the tax burden on labour and the fiscal treatment of employees as compared to that of independent workers would need to be discussed. Such a framework could bring to an end the misbegotten dichotomy on the labour market that forms a clear hindrance to higher productivity and creativity; at the end of the day, the reliance on 'disposable employees' will eventually be the Netherlands' weak point in international competition that is primarily fought out in the fields of knowledge and innovative capability.

The greatest potential for higher productivity and growth lies in the minds and hands of women who throughout the world are on average better educated than men, but are hardly deployed and remunerated according to their capacities. The introduction of quotas for women in senior positions in government and industry will improve productivity, and will impact positively the often non-binding nature of supporting social arrangements. In our country, the **part-time shackles must be broken** as many women are now being employed, yet often working in 'small' jobs, not unusually below the level of their qualifications. This calls for action at various levels. Especially adjustment of school teaching hours and leave regulations as well as the replacement of existing public care arrangements for small children by a single clear framework for combining child day care and nursery care facilities under primary school responsibility will help create the necessary improved conditions.

Perhaps the greatest potential breakthrough in creating opportunities for growth is the standardisation of a **2x4 combination pattern**, whereby the labour process is organised in such a way that men and women can each participate in the labour process four days a week, whilst businesses and organisations will be allowed to extend their working hours. Working 9 hours a day (in full-time employment) will free up one day that need not be spent in traffic jams and creates time for care tasks (children, parents, elderly single householders). Also by experimenting on a larger scale with 'independent scheduling'²³, it is possible to better integrate labour organisation and society demands. In this way the economic necessity of increasing labour participation could be better harmonised with the day to day reality in which children and ever more elderly people

²² inspired by the nationally and European groundbreaking Flexibility & Security Agreement concluded between employers and workers in 1996 with subsequent legal enactment by the Government

²³ whereby the individual employee has a greater say in scheduling time at work and time at home within his/her contract conditions

demand and deserve attention, because surely therein lies specifically the quality of life that should be the result of our working efforts.

Increasing productivity and improving service provision also demand that we combine immigration in our economy and society, wisely and innovatively. **The free movement of employees within the European Union** can supply us with additional brainpower and pairs of hands, **on condition** that minimum wages, social security and pension and contract rights are regulated at the minimum necessary and acceptable level. Undercutting must not be tolerated. Within the EU, an opt out in these areas should no longer be possible. The establishment of a permanent **Advisory Committee on Managed Migration** in which central government, municipal authorities, trade unions and employers periodically establish quotas for permitted immigration of non-EU employees could clarify our needs in each sector and at each level of qualification, and identify those individuals who are permitted to fulfil those needs by means of temporary or permanent establishment. This could also help in making up the backlog – compared to surrounding countries – in attracting highly skilled migrants.

IV TRANSPARENCY

Visibility enhances control: integrating the financial sector into society, encouraging businesses to report on social objectives, strengthening workers' representation, encouraging social enterprise and allowing stakeholders more influence in public organisations.

Apart from the direct damage suffered by the majority of people in terms of employment or income, the crisis has also exposed the fundamental fact that key centres of decision-making are escaping essential standards of accountability for and supervision over decisions that affect us all. Now is therefore the perfect moment for upgrading, through powersharing and new forms of strengthened participation and voice, the prosperity of individuals and the quality of our natural environment as key objectives for economic and social success. It is the moment to engage trade unions, non-governmental organisations, employees in businesses and institutions, pensioners and numerous involved citizens in a fitting manner in private decisions that affect the public interest – also because the sound organisation of the public domain is essential for the success of private business. Transparency in private-public interaction is a general precondition that will make it possible to restore confidence. Sometimes dialogue and discussion are the best means of moving forwards, without ending up in a tangled web of impossibly enforceable rules. In a number of respects however, with a view to correct and prevent, it will be necessary to arrange for effective control and statutory rules, in particular in order to protect consumers against the small print of greater globalisation (with financial products that are no longer even understood by the big bosses). All that the global financial crisis has revealed serves to underline the fact that the international 'competitiveness' argument about (de)regulation no longer points exclusively to 'less' but more to 'clearer'. Clear regulation will do entrepreneurs and investors a greater service than having to contribute to paying the bill of social and ecological neglect afterwards.

The financial crisis is, almost as a matter of course, associated with bonuses and excesses at banks, businesses and semi-government organisations. In response to those abuses, supervision in the Netherlands and Europe is being or has been considerably strengthened. Nonetheless, the risk is still present that the rules will too much be defined by those most closely involved. An ever smaller government also represents a threat to the quality of supervision. Expertise that is necessary for passing sound judgements on 'power' and 'countervailing power' in the market is being lost.

In just a short time, considerable progress has been achieved in words and acts that place the 'utility' function of the financial sector under stricter societal supervision. Whether this is sufficient to prevent a repetition of events is very questionable. A **second phase of cleaning up the banking sector is needed**, in which the ECB faces the tough task of arriving at consistent evaluation of the solvency of the banks in the Member States. This in turn requires that the standards for banking and supervision in Europe be clearly regulated. This is crucial for the future of the

European Union. On the other side of the 'big' market, the interests of the 'small' consumer must be guaranteed through the introduction of a common **European deposit guarantee scheme**. This will increase confidence in the system itself, and in one another. Transparency at all levels, also in Brussels, is the keyword in this respect.

To protect society against the risks in the activities and dealings of the financial sector, it is essential to ring fence the risks of corporate banks such that in case of emergency the utility component can be extracted from the content, leaving shareholders and other providers of capital to cover the debts. As concerns the 'system banks'²⁴, there is an urgent need to **codify the influence of government in the formal structure of the companies in question**. This can be achieved in several different ways (golden share, permanent supervision, covenants), the main message of which should be that the government will only be able to provide back-up for banks that admit the community to their system of decision-making. This should be the question that is more on our minds than how quickly banks, which had to be kept afloat by society, can return to the stock exchange.

While purchasing power has fallen for five years in a row, company profits in general have remained at a favourable level (notwithstanding major problems in certain sectors and in the SME sector). This reveals that the classic buffer function of profit and assets has for a large part been lost. Today, it is human capital and government financing that must bear the brunt. Anyone who thinks that company profits alone improve competitiveness will end up being deceived. Employees are often the best sources of innovation in the organisation. 'Intrapreneurship' (entrepreneurial behaviour from within an organisation or institution) is an important source of strength.

In line with the Anglo-Saxon 'model' the immediate interests of shareholders in Europe, too, have become increasingly important in the taking of corporate decisions. In European and Dutch practices this has led to an increased focus on shareholder yield in the short term. Long-term value creation, in particular through innovation, has suffered as a consequence. In turn, this has pushed back the primacy of the interest of the enterprise as a whole – protecting those interests is a legal task of supervisors and/or boards of supervisory directors – an evolution that has become all too clear particularly in the banking sector. In order to arrive at more socially responsible value creation, therefore, it is essential that within our 'own' **corporate structure regime of the Rhineland 'model'** an explicit link be established between the profit objective and corporate social responsibility, including in the European context. In this regard rewarding long-term retention of shares ('loyalty shares') could be promoted as well.

Within the Dutch variant of the Rhineland model of corporate governance, special positions are reserved for two bodies, the Board of Supervisory Directors and the Works Council. These positions should at the very least be protected against the influences of the Anglo-Saxon model.

²⁴ 'System banks' are assumed as being 'too big to fail' because the damage caused by their bankruptcy would seriously disrupt the entire economy

Within the ‘two-tier’ management system²⁵ existing in our country, the Board of Supervisory Directors occupies a position that is more independent in respect of the directors of the company than in a ‘single-tier’ system. However, the single-tier system has been recently introduced and permitted in The Netherlands. Within the single-tier system, non-executive supervisory directors have a greater share in the business decisions. This might limit their supervisory and control functions, as was revealed in the run-up to the financial crisis. The Committee believes that the **two-tier system** offers the best chance of honouring a system of ‘checks and balances’ within the company, and that this model should have a leading role in European regulations.

The position of the Works Council is stronger in our country than elsewhere (partly thanks to the authority of Works Councils to propose some supervisory directors) but even here its position is not particularly strong when essential issues have to be dealt with and when the Works Council merely has a right to be consulted. If the company board deviates from the advice given, the Works Council may appeal to the Trade and Industry Appeals Tribunal, but for any Works Council this is a time-consuming and costly procedure. In many cases, Works Councils therefore refrain from appealing to court. It would be better if for essential questions (e.g. takeovers, sales, refinancing, setting of dividends) a **right of approval** were to be introduced. As the situation arises, it would then be up to the board of directors of the company to initiate an appeal procedure.

In the field of corporate governance and transparency, the (“Thirteenth”) Directive on Takeover Bids introduced in 2004 plays an important role. In this Directive, the position of shareholders is strengthened and the space for establishing **protective barriers** against takeovers is reduced. In the current procedure to revise this Directive, it is important that under certain conditions, in the interests of the continuity of the company and related employment, unwanted (hostile) takeovers can be opposed.

In the framework of **corporate social responsibility**, it is important that larger businesses be required to report on their performance in respect of social and sustainability issues. The clear need for a different orientation by business is for example reflected by the increasingly numerous initiatives in ‘social enterprise’ practice. Within this approach, businesses are focusing on social and/or sustainability objectives, while still meeting normal requirements of profitability. Greater advocacy in support of this approach would be appropriate.

In terms of supervision and authority, our attention should not be focused exclusively on private business but should also be aimed at **semi-public institutions** such as housing corporations, care institutions and large educational institutions. Although their services could perhaps be better organised at arms length from government, they are still considered to operate entirely at the service of the public interest. This calls for behavioural change and a recognition of

²⁵ In a two-tier model, the Board of Supervisory Directors operates as a separate body. Within the single-tier model, Supervisory Directors (non-executives) work together with senior management (executives) in one and the same body

norms and standards by the managers of the institutions, and also for clear rules of the game in respect of remuneration. Stakeholders should have influence via public administration reports, and should be heard in Supervisory Boards.

A whole range of excesses have emerged from the crisis. Apart from strengthening supervision and stakeholders participation, the role of parliament could be strengthened by appointing an **Investigation Chamber** elected by the Dutch Lower House, and mandated to organise hearings under oath into current relevant societal issues, based on decisions by the Lower or Upper Chamber.

V BALANCE

Growth should result in employment and sustainability, and is necessary to counter the current threat of financial and economic stagnation. The Netherlands should also assume responsibility for green growth and social balance in Europe. More integrated policy thinking instead of 'financialisation'. Leaving the beaten track by creating space for social and emotional development and creativity.

There was much discussion within the Committee on the necessity of stimulating growth. From the perspective of sustainability for example, is it not in fact attractive that less new cars be sold? On the other hand, redistribution is easier in a situation of growth than in a situation of decline. This applies to the Netherlands but even more so globally, where large groups of people still live in bitter poverty. Fortunately, the demand for a more social and more sustainable approach does not necessarily imply stagnation or even negative growth, on the contrary. The more growth the better, but that growth must place social interests above individual interests. Green growth that results in greater economic, social and ecological productivity is in that sense in fact a precondition for a more just world.

At both European and global levels, it is essential that the growth and work agenda be given a more prominent position at the table. Ministers of Finance have their own tasks to fulfil and must certainly continue to do so. Their decisions, however, must be placed in a broader context and with a view to improved balance. It would therefore be a good thing at suitable moments to have **Ministers of Employment participate in decision-making within the Euro group** and to strengthen powers of the "Commissioner for the Social Union", while social partners should also be fully involved in social consultation on the macro-economic frameworks of EU policy.

On the world stage, a **Global Economic and Social Coordination Council**²⁶ could do good work, with a broader view than that normally offered by mainly the IMF and World Bank. Such a Council could also make a contribution whereby after the first fifteen years of the Millennium Development Goals, a balanced post-2015 development agenda is established, focused on tackling income inequality in both rich and poor countries and as laid down in a **Universal Social Contract**. Balanced consideration requires integrated policy planning. To examine in more detail the relationship between the economic, social and ecological dimensions of policy, regular **integrated "Plan" reporting** by the Central Planning Office,²⁷ the Social and Cultural Planning Office²⁸ and the Netherlands Environmental Assessment Agency²⁹ could contribute to an analysis based on more than purely financial values.

²⁶ Jose Antonio Ocampo and Joseph Stiglitz (2011): *From the G20 to a Global Economic Coordination Council*, Columbia University, New York

²⁷ CPB (Centraal Plan Bureau), independent government agency for economic analysis

²⁸ SCP (Sociaal Cultureel Planbureau), independent government agency for social and cultural policy analysis

²⁹ PBL (Planbureau voor de Leefomgeving), independent government agency for environmental policy analysis

This will also assist in reducing national debt on the basis of common sense. As we are seeing, this cannot be successfully achieved now within the frameworks of the EMU Stability and Growth Pact, even as slightly more time has been granted to Member States to meet the 3% budget deficit standard. However, it will take more than just a few years to repair the flaw in thinking that a fixation on a static and undifferentiated percentage should be replaced by a movement towards a **structural reduction**, in conjunction with striving for nominal growth which could create more employment, higher tax income and in turn the possibility of accelerating the repayment of the national debt. The Netherlands has the highest '**sustainable financial balance**'³⁰ in Europe, given the tax claim embedded in the capital held by the pension and insurance funds. This offers a certain degree of leeway now and in the future, not for unbridled expenditure, but for investments that generate productivity and growth in terms of employment, sustainability and innovation. In this way, we can avoid gross domestic product falling even lower as a consequence of cutbacks and the deficit (expressed as a percentage of that same GDP) remaining too high, while employment numbers and purchasing power fall even further. To find a sound balance, at specific moments, the Euro group could be extended to include the Ministers of Employment and possibly even the social partners. The crisis must be tackled simultaneously on all fronts, as a shared responsibility.

It is sometimes necessary to leave the beaten track in order to arrive at new solutions. The financial crisis has for example taught us that decisions by directors were not only based on rational, administrative considerations, but at times were in fact based on plain personal interest and short-sightedness. In hindsight no one had all the answers, and in response we must relativize 'expertise' of insiders, and revalue long-term thinking.

A great deal has already been achieved in terms of emancipation. The road towards achieving this goal never ends. By focusing greater attention on the **social and emotional development** of individuals, we could take the next step. Our society is broadly rationally-oriented, while in fact individual people are very highly emotionally-driven. People who have learned to better recognise, to understand and to deal with their emotions will as a consequence be better able to understand others, and in turn perform more effectively from a social point of view.

Changes in our life course and career impose ever higher demands on our capacity to function socially. We will be increasingly often required to switch jobs, sometimes because the work itself has changed or even disappeared, and sometimes because upon reaching a certain age, we start a second career. This too imposes demands on our capacity to make this change from a social and emotional point of view. It is therefore essential even at a young age to assess the social and emotional development and skills of pupils in education, and to help develop those skills. Society calls not only for language and arithmetic skills, but would eventually also benefit, in

³⁰ "A commonly-used approach considers government finances sustainable if the current collectively financed provisions are predicted to grow alongside general prosperity, without taxation having to be raised in order to achieve that goal.", R.A. Mooij, Tijdschrift voor Openbare Financiën, 2009

response to the combined economic, social and ecological challenge, from creative minds with the capacity to seek cooperation, having learned on the basis of their own emotions to reserve a place, in thought and action, for the importance of society. After all a fulfilled life, alongside basic security and equality, also offers the chance to realise freedom, to acquire unselfish knowledge and to create beauty.³¹

By correctly assessing the value of these aspects and by creating conditions that will provide opportunities for everyone to share and participate, we will be able to advance rather than remain trapped in traditional recipes for recovery.

Working, innovating, sustainable:

searching **added value in social capital** is finding (leading?) the way out of the crisis.

³¹ George Steiner, De Idee Europa, Nexus Instituut 2004

